



NEW ZEALAND COUNCIL OF TRADE UNIONS  
*Te Kauae Kaimahi*

**Submission of the  
New Zealand Council of Trade Unions  
Te Kauae Kaimahi**

**to the**

**Productivity Commission**

**on the**

**Draft Report on Measuring and Improving State  
Sector Productivity**

**P O Box 6645**

**Wellington**

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### Summary of recommendations

- 1.1. The CTU’s recommendations in response to the Issues Paper stand in response to the Draft Report:
  - 1.1.1 Measurement and improvement of productivity should be studied and implemented in the context of broader attention to performance against outcomes and the drivers of productivity, including worker engagement.
  - 1.1.2 Productivity measurement should be adopted in a flexible manner at the level of work-groups as part of close engagement with public sector workers.
  - 1.1.3 Aggregate measures of public sector productivity should not be published in isolation or used as a proxy measure for performance.
- 1.2. In light of the government’s declared focus on developing outcome-based measures of state effectiveness, the Commission’s report should be re-drafted to make a contribution to developing methods for measuring outputs and efficiency that are context-sensitive, consultative, and well aligned to outcomes.

### 2. Introduction

- 2.1. This submission is made on behalf of the 30 unions affiliated to the New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU). With 320,000 members, the CTU is one of the largest democratic organisations in New Zealand.
- 2.2. The CTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Rūnanga o Ngā Kaimahi Māori o Aotearoa (Te Rūnanga) the Māori arm of Te Kauae Kaimahi (CTU) which represents approximately 60,000 Māori workers.

- 2.3. The CTU supports the submissions of our affiliate unions the New Zealand Nurses' Organisation (NZNO) and the Public Service Association (PSA) on the Issues Paper and Draft Report.
- 2.4. In our comment on the Issues Paper, the CTU expressed concern about the Commission's interpretation of the terms of reference for the inquiry, in particular the narrow definition of productivity in terms of technical efficiency. We argued that even if the report were to be focused on measures of technical efficiency, this needed to be situated within a broader framework of outcome-based performance measures. We suggested that the link between outputs and outcomes should not be neglected, because 'increases in technical productivity only contribute to better performance where measured outputs are well matched to desired outcomes.' Further, we argued that the choice and development of productivity measures needs to be done in close consultation with frontline workers. In the terms used by the Commission, we suggest that the value added by technical efficiency is conditioned by allocative efficiency (choice of the best outputs to achieve outcomes) and dynamic efficiency (choice of the best ways of working together towards outcomes, including how to best measure output).
- 2.5. We acknowledge that the draft report shows some effort to engage with our concerns. The draft report recognises that technical efficiency is only one component of broader measures of productivity and effectiveness. The draft report also acknowledges the need to implement productivity measurement with the involvement of the workforce. However, the draft report continues to treat these considerations as afterthoughts to a core standard of technical efficiency that is assumed to be objective and well-defined.
- 2.6. We remain concerned that the Commission has not adequately considered:
- 2.5.1 the cost of implementing increased measurement of outputs, including the opportunity costs of prioritising data collection within already overburdened public services
  - 2.5.2 evidence of how specific measures will contribute to effectiveness, including the potential for negative effects and perverse incentives
  - 2.5.3 detailed practical guidance on designing output measures with the involvement of workers, that are appropriate in context, and contribute to improvement of outcomes

- 2.7. The draft report does not make a convincing case for more widespread adoption of either output-level measures, or aggregate productivity measures based on counting outputs across the state sector. Instead, the draft report assumes the value of technical efficiency measurement in advance and proceeds to make highly negative assumptions about the motivations and competence of state sector agencies and individuals for a perceived failure to adopt output-counting or technical efficiency measures (including under the heading “The poor state of productivity measurement and understanding” at p3). The arrogance of this approach results in a missed opportunity to make the case for how, and under what conditions, well-designed productivity measures can contribute to improved practice and outcomes.
- 2.8. The new government has signalled an interest in developing outcome-focused measures of wellbeing as high-level indicators of state-sector performance.<sup>1</sup> There is an opportunity for the Commission to use the development of its final report to consider how its work can support the development of a broader model of outcome-based performance measurement signalled by government.

### **3. Situating productivity measures in relation to outcomes**

- 3.1. We welcome the acknowledgement on page 1 of the draft report that the concepts of technical, allocative, and dynamic efficiency overlap and that: ‘A system focused on delivering public value needs to be concerned with all three.’ However, we suggest that the implications of this statement need to be further developed in the final paper to more fully explore how technical efficiency measures can fit within broader outcome-based frameworks of state sector performance measurement and improvement.
- 3.2. The final report needs to acknowledge that measures of technical efficiency are one component of a model (or models) of performance measurement. The report should begin by outlining, at least in general terms, how measures of technical efficiency fit within a public value model of performance measurement. Later sections of the report should develop these connections.
- 3.3. The Commission could usefully review guidance on data gathering for evaluation previously developed by SUPERU, which includes discussion of aligning evaluation measures to outcomes (See <http://www.superu.govt.nz/current-projects/using->

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<sup>1</sup> See for instance, Grant Robertson. 2018. ‘The Future of Work: Adaptability, Resilience, and Inclusion.’ Speech to The Productivity Hub, 13 February 2018. Wellington.

[evidence-impact/collecting-evidence](#)) as part of broader performance measurement processes.

- 3.4. It would also be useful to consider how output-based productivity measures can contribute to tracking and reporting performance against outcomes, including under the Living Standards Framework developed by Treasury.
- 3.5. The discussion of designing productivity measurement with the involvement of workers to complement outcome measures (p77-79 of the draft report) should come earlier and be developed as a more central focus of the final report.

#### **4. Quality measures**

- 4.1. In our submission on the Issues Paper, the CTU cautioned against including measures of output quality in calculations of productivity.
- 4.2. The draft report displays the Commission's confidence in the potential for technical productivity statistics to incorporate quality measures in an objective fashion.
- 4.3. However, the productivity measurement case studies produced by the Commission contradict this conclusion. For each of the case studies presented in the online annexes to the draft report, a section on assessing output quality is included. However, each of these sections consists only of hypothetical speculation on possible proxy measures for output quality. No data is presented and no calculations are attempted.
- 4.4. A further case study on assessing output quality in tertiary education goes further in attempting to gather data and make calculations, but in doing so demonstrates the difficulties involved. As the authors note, the results of their calculation of output quality differ dramatically depending on methodological choices:

Across a variety of methods for adjusting productivity (both teaching and research) quite different trends emerge such that the choice of specific quality adjustment adopted can be important for outcomes.<sup>2</sup>

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<sup>2</sup> Norman Gemmill, Patrick Nolan and Grant Scobie. 2017. Estimating Quality-Adjusted Productivity In Tertiary Education: Methods and Evidence for New Zealand. Working Paper. VUW Business School. [https://www.productivity.govt.nz/sites/default/files/WP\\_17\\_2017\\_Estimating\\_Quality-Adjusted\\_Productivity\\_in\\_Tertiary\\_Education\\_Methods\\_and\\_Evidence\\_for\\_New\\_Zealand.pdf](https://www.productivity.govt.nz/sites/default/files/WP_17_2017_Estimating_Quality-Adjusted_Productivity_in_Tertiary_Education_Methods_and_Evidence_for_New_Zealand.pdf)

- 4.5. In attempting to promote a single-number objective measure of productivity that incorporates quality measurement across the public sector, the Commission is chasing a chimera. The Commission would be better to focus on more carefully defining the case for productivity measures in specific contexts, as one component of performance measurement and improvement processes that would separately include indicators of output quality.

## **5. Worker Engagement**

- 5.1. As noted above, we welcome the acknowledgement in the draft report of the value of engaging staff in the development of productivity measures. We would like to see this aspect of the report introduced earlier and developed more fully as a core component of the Commission's recommendations.
- 5.2. Incorporating discussion of the value of staff engagement in the development (and not just implementation) of productivity measures would also help the report to approach productivity measurement as an activity to be developed in context to fit the specific purposes of organisations, rather than defined in advance by abstract principles of economic theory to meet the needs of statisticians.

## **6. Conclusion**

- 6.1. In developing its final report, the Commission should give a more central focus to offering practical guidance for developing context-appropriate measures of output and productivity in the public sector, with the full involvement of workers and with the purpose of contributing to improvement in outcomes.
- 6.2. The Commission should avoid assuming that single-number measures of output and productivity are desirable, but instead should promote the collection of a range of appropriate data, including data on service quality and satisfaction that can be considered alongside output measures as part of a broader process of monitoring the performance of public agencies.