



1 March 2018

File Ref: S&OP 3/1

New Zealand Productivity Commission
PO Box 8036
The Terrace
Wellington 6143

Tēnā koe,

Draft report: *Measuring and improving State sector productivity*

As Chief Executive of Te Puni Kōkiri, I am mindful of my kaitiaki responsibilities which encompass taking steps to improve the overall productivity of what Te Puni Kōkiri delivers. That extends to our function to take a view of the productivity of State services in supporting whānau, hapū and iwi to achieve improved Māori outcomes.

This makes the work on State sector productivity by the Productivity Commission very important and I welcome the opportunity to provide input to the Productivity Commission's draft report *Measuring and improving State sector productivity*.

In summary, Te Puni Kōkiri encourages the Commission to:

- broaden its focus beyond technical efficiency as one way to look at productivity and to have a greater focus on overall productivity (including system improvements and the connection of inputs to outcomes), recognising that technically efficient delivery may not necessarily deliver effective benefits.
- increase its focus on population segmentation, to help build a more constructive understanding of how the public sector engages with and delivers benefits to Māori, recognising that Māori needs are often complex and intergenerational. An allocative and dynamic efficiency lens on the productivity challenge is needed to understand State sector productivity as it relates to services to improve Māori outcomes.
- reinforce the need for agencies to consistently measure their impact to be able to measure efficiency and effectiveness for Māori as basis to understand productivity.

Broadening the focus

The key productivity lens used by the Commission in its draft report is technical efficiency (i.e. production/value of outputs relative to the quantity/value of inputs). Te Puni Kōkiri considers this focus to be too narrow.

Systems may demonstrate technical efficiency but not deliver desired outcomes or outputs of value. To be of value even this approach to thinking about productivity needs to move beyond a simple quantity of outputs and inputs approach, to one that prices or values the outputs. A focus on technical efficiency is also unlikely to highlight the opportunities and barriers as they relate to target groups or cohorts, including Māori. Efficiency needs to be seen across the State sector and it is only relevant if it delivers the outcomes that are valuable to the community.



I encourage the Commission to take a wider view of productivity, incorporating elements of allocative efficiency and dynamic efficiency, in a move towards a greater emphasis on overall 'improvements' and shifts in outcomes as measures of the value of the outputs delivered.

Each year, considerable amounts of funding and investment are directed through the State sector. Improvements in productivity have the potential to deliver meaningful additional benefits for all New Zealanders, including Māori. These gains are most likely to be realised where the assessment of productivity spans the full intervention process (i.e. a whole system), rather than one element in isolation. Particularly a narrow view of costs with insufficient attention to the value of outputs, as well as the outcomes delivered.

An external evaluation of the Te Puni Kōkiri cadetship programme, for example, highlighted that while the initiative had delivered the intended benefits for both employers and cadets, it had also been the catalyst of broader behavioural changes. Specifically, some large companies found the way they engaged with the cadets was also beneficial in engaging more generally, including with other Māori staff. In short, they adopted modified corporate values and adopted practices relevant to Māori because they delivered wider benefits. Understanding these unintended, wider benefits required a system view.

Population segmentation

The Commission states that productivity measures should take into account differences or changes in an organisation's operating environment, including the characteristics of the clients of the services, the size and scope of an organisation, and the market structure. Failure to take into account differences in an organisation's operating environment can result in misleading data in terms of operating performance. Te Puni Kōkiri supports this view.

The continued difference in outcomes for Māori highlight the need to shift thinking away from any assumption that all clients' needs are similar or respond in similar ways.

Te Puni Kōkiri believes it is important, when measuring productivity performance, for agencies to segment their client base (age, ethnicity, social economic background, pre-existing status, support networks, geographical location, and assistance to access services) to account for the varying client needs. Failure to do this will result in an 'averaged' productivity measure which may inadvertently disguise poor productivity performance for particular groups, such as Māori. This is especially true in situations where client service needs are more complex.

Average outcomes can be improved in a number of ways, including overall increases, which do not necessarily narrow existing gaps, or lifting the top half, without significant improvement for the rest. Māori are over-represented in a number of negative indicators and it is important to understand whether or how outcomes for Māori, as a cohort, are shifting relative to others.

Caring for vulnerable children is just one area where segmentation is relevant. Approximately 60% of the children Oranga Tamariki engages with are Māori. Understanding their context, their circumstances, and the potential responses, as a Māori cohort, is crucial to finding durable solutions.

Measuring what counts

Measuring outcomes or developing new indicators is often not straightforward and can be costly. However, with additional support and better incentives, more can be done to capture and analyse data, to better understand issues of causality and attribution.

In this regard, Te Puni Kōkiri agrees with the Commission that public sector financial management systems could be improved. The annual budgeting process is based on

a cost plus approach with the focus largely on new funding, instead of zero-based approach (line-by-line review of the effectiveness of current initiatives). The automatic 'roll-over' of baseline funding does not encourage agencies to reflect on the effectiveness of their current work programmes, or to consider alternative innovative approaches that may yield more effective outcomes for the clients they serve.

Te Puni Kōkiri also supports the idea of a productivity measurement guide to help inform the State sector, principally as a means of furthering broader understanding and use of segmentation approaches.

Ngā mihi



Michelle Hippolite
Toihautū | Chief Executive