



Office of Hon Steven Joyce

Minister of Finance
Minister for Infrastructure

23 MAY 2017

Mr Murray Sherwin
Chair
Productivity Commission
PO Box 8036
The Terrace
WELLINGTON 6143

Dear Murray

TERMS OF REFERENCE FOR AN INQUIRY INTO STATE SECTOR PRODUCTIVITY

I am pleased to refer to you the Terms of Reference for a Productivity Commission inquiry into State sector productivity.

This inquiry into *State sector productivity* will seek to provide guidance and recommendations on effectively measuring and improving productivity in core public services with a particular focus on health, education, justice, and social support.

I wish you all the best as you commence this inquiry and look forward to your results.

Yours sincerely,



Steven Joyce
Minister of Finance

Minister of Finance

Terms of Reference - New Zealand Productivity Commission Inquiry into State Sector Productivity

Issued by the Minister of Finance (the “referring Minister”). Pursuant to sections 9 and 11 of the New Zealand Productivity Commission Act 2010, I hereby request that the New Zealand Productivity Commission (“the Commission”) undertake an inquiry into how the New Zealand State sector can effectively measure and improve productivity in core public services, with a particular focus on health, education, justice, and social support.

Context

Improving the productivity of the State sector, the value we are realising from our resources, helps improve the prosperity of the country, and allows for better outcomes to be achieved from scarce tax payer resource.

Recent progress has been made in improving value across the different dimensions of value for money performance. The Better Public Services Results determine priority areas for improvement. Social Investment and other effectiveness work is getting better at identifying where to invest and tracking what the impact of investment is.

A third dimension of performance is efficiency/productivity. For many of the core public services that constitute a large proportion of existing expenditure, there are still opportunities to better understand efficiency and how to optimise inputs/resources in delivering quality products and services. Current gaps in good measures of productivity limit assurance Ministers have on performance and innovation of current delivery models, and Chief Executives ability to understand and improve their business. It also suggests an opportunity to achieve more from current resources, and better engage the State sector workforces on opportunities to do things better.

Public services are often complex covering a range of services, clients, and different mechanisms to achieve a range of desired outcomes. This can make it more difficult than private sector industries to capture performance, and to take actions to improve it. Internationally, there are few common productivity measures that capture quality dimensions in key sectors like education and health. But, there are lessons on how to better understand dimensions like quality in inputs and outputs, leverage innovation and economies of scale, and improve productivity and efficiency in the public sector.

Scope

The Productivity Commission (the Commission) is to consider New Zealand and international public and private sector best practice in understanding and improving productivity. This should focus on the narrower definition of productivity as how efficiently inputs/resources are being utilised to generate quality outputs/services.

The Commission should take account of broader definitions of performance and productivity, in considering how to capture elements like quality, and how efficiency measures can complement dimensions like effectiveness. However, the Commission should not focus advice on the contribution of services to longer-term outcomes, prioritisation of interventions, or other performance dimensions already being developed through social investment or other work programmes.

The inquiry should focus on developing practical guidance and recommendations that consider perspectives and roles of different state sector decision-makers such as Ministers, Chief Executives, and managers, and how these different needs can be balanced.

The inquiry is to focus on guidance that is relevant to decision-makers across the “core” services in the health, education, justice and social development sectors, such as: teaching, hospitals and primary healthcare, policing, courts, corrections, and work and income services.

Having regard to the above, the Commission should undertake an inquiry that considers and provides advice on:

- a) How to measure efficiency/productivity in each of the identified core public service sectors: health, education, justice, social support. This should focus on meso (sector) and micro (function or service) level measures. Guidance should consider key measurement and accuracy issues, and how imperfect measures are most appropriately and usefully employed.
- b) The appropriate role of identified efficiency/productivity measures in public sector performance frameworks, with the goal of improving assurance to Ministers and incentives on agencies for improvement. This should draw on theory and evidence of incentive and disincentive effects of measurement and other performance approaches on different workforces.
- c) Developing the capability, culture and systems that can support agencies to better measure, understand and improve productivity.

The Commission should prioritise its effort by using its judgement as to the degree of depth and sophistication of analysis it applies to satisfy each part of the Terms of Reference; and to the degree of depth in each specific sector, while providing advice on best measures in the identified sectors.

Exclusions

The Commission should not carry out in depth analysis or provide detailed recommendations on specific policies relating to service access or provision in sectors.

The Commission should not duplicate work on issues like where to invest, or service effectiveness, being developed as part of the social investment approach.

Consultation requirements

In undertaking this inquiry the Commission should consult with key interest groups and affected parties relevant to the identified sectors and particular services where efficiency measures are identified. Consultation should include public sector agencies, those in receipt of public services, and private sector agents who may have relevant insights.

Timeframe

The Commission must publish a draft report and/or discussion document, for public comment, followed by a final report that must be presented to the Minister of Finance as Referring Minister by 30 August 2018.