

Our performance

1 July 2017 to 30 June 2018

The Productivity Commission aims to provide insightful, well-informed and accessible advice that leads to the best possible improvement in the wellbeing of New Zealanders.

Annual Report

Our performance: 1 July 2017 to 30 June 2018

Presented to the House of Representatives pursuant to section 150 of the
Crown Entities Act 2004

The New Zealand Productivity Commission

Te Kōmihana Whai Hua o Aotearoa¹

The Commission – an independent Crown entity – completes in-depth inquiry reports on topics selected by the Government, carries out productivity-related research and promotes understanding of productivity issues. The Commission aims to provide insightful, well-informed and accessible advice that leads to the best possible improvement in the wellbeing of New Zealanders. The New Zealand Productivity Commission Act 2010 guides and binds the Commission.

Copyright ©

This copyright work is licensed under the Creative Commons Attribution 3.0 license. You are free to copy, distribute, and adapt the work if you attribute the source of the work to the New Zealand Productivity Commission (the Commission) and abide by the other license terms.

To view a copy of this license, visit <http://creativecommons.org/licenses/by/3.0/nz/>. Please note that this license does not apply to any logos, emblems, and/or trademarks that may be placed on the Commission's website or publications. Those specific items may not be reused without express permission.

ISSN 2324-5719 (Print)

ISSN 2324-5727 (Online)

Contact details

Administration	T: (04) 903 5167 E: info@productivity.govt.nz	Website	www.productivity.govt.nz
		Twitter	@nzprocom
		LinkedIn	NZ Productivity Commission

¹ The Commission that pursues abundance for New Zealand.

Our year at a glance

- Our inquiry work focused on two inquiries: ***Measuring and improving state sector productivity*** and ***Transitioning to a low-emissions economy***. Both were finished in August 2018, just after the end of the reporting year.
- Public engagement is critical to our inquiry process. For our *Low-emissions economy* inquiry, the team completed over **120 engagement meetings, 34 conferences/events and received 403 submissions** – the highest number received to date.
- Evaluations of our work outputs continues to inform our work. To facilitate accessibility of our reports to different audiences, this year we trialled **two slim final report volumes** for our *State sector productivity* report and **two 2-minute videos** for the *Low-emissions economy* inquiry.
- Our **previous inquiries continue to have an impact** with, for example, a recommendation from our 2014 ***Boosting services sector productivity*** inquiry to undertake market studies being enacted in law and our 2014 ***Regulatory institutions and practices*** report informing the Local Government Regulatory Systems Amendment Bill.
- Our Economics & Research team published **research papers** on a range of topics, including **innovation and the performance of Kiwi firms, residential construction, who benefits from productivity growth, and education sector productivity**. The team published an article in the International Productivity Monitor: ***Can the Kiwi Fly? Achieving productivity lift off in New Zealand***.
- We continued to support and facilitate the **Productivity Hub**, including jointly funding **research on competition**, running an active **seminar series for Longitudinal Business Database researchers**, and holding the third biennial **Productivity Symposium**, our most attended symposium to date with **230 attendees**.
- We **presented at events across New Zealand and overseas to promote understanding of productivity-related issues**. This included the opening address at the *Government Economic Network Conference*, six presentations at the *New Zealand Association of Economists Conference*, and two presentations at the Productivity Research Network Conference in Singapore.
- The extent of media coverage suggests **our work continues to receive public attention**. In 2017/18 there were **741 news items** with mentions of the Commission across all media channels (online, print, blogs, speeches, media releases), up from 234 items in 2016/17.
- Our Commissioner, Professor Sally Davenport, received a **Member of the New Zealand Order of Merit medal** from the Governor-General for her distinguished services to science.

Contents

Our year at a glance.....	i
Board’s message.....	1
Who we are.....	3
Progress against our outcomes framework.....	6
Ongoing inquiries into productivity.....	17
2017/18 Financial performance summary.....	18
Statement of responsibility for the year ended 30 June 2018	20
2017/18 Statement of performance.....	25
2017/18 Financial statements.....	35
Statement of accounting policies	38
Governance and management	49

Board's message

The Commission aims to lift New Zealand's productivity and, as a result, lift the wellbeing of New Zealanders. After eight years of operation, the Commission has an established place in New Zealand's public policy infrastructure. We play a valuable and valued role, filling gaps that have opened in New Zealand's policy capability. These gaps include integration, system-wide analysis of policy issues, and providing evidence-based advice developed after extensive consultation with stakeholders. Continued success as an independent entity depends on our ability to fill these gaps and bringing a distinctive approach to policy dialogue and decision-making processes.



This has been a very full year at the Commission with our inquiry work focusing on two very different topics but both critical to the wellbeing of New Zealanders: *Measuring and improving state sector productivity* and *Transitioning to a low-emissions economy*. While both were completed after the end of 2017/18 they formed the core of our work programme during the year and as such this report includes performance evaluation work completed on these inquiries prior to publication of this annual report.

It was encouraging to see the high quality of submissions and engagement from a very broad and diverse audience for these inquiries. High levels of engagement and consultation are critical in developing well-informed evidence-based policy recommendations.

The Commission has now completed 12 final reports containing a total of 528 policy recommendations. The Government has formally responded to eight of these completed inquiries. Overall half of our recommendations have been accepted in full or in principle by the Government which helps add to the credibility and influence of our work. However, it would be unrealistic, and probably undesirable, to expect all inquiry recommendations to be accepted. As an independent organisation with a strong focus on the public interest, the Commission sometimes needs to push the boundaries on complex issues, without fear or favour. Anecdotal evidence suggests that our impact is also evident in ongoing discussions and analysis of our findings and recommendations generally, including those that are not accepted by Government. This "slow burn" effect means that it may be years before we see a material impact that can be attributed to the Commission's recommendations.

Beyond inquiries, we continued our journey to provide insights and new evidence to improve understanding of New Zealand's productivity performance. The Commission published research papers on a range of topics, including *Can the kiwi fly? Achieving productivity lift-off in New Zealand* to help extend understanding of New Zealand's productivity dynamic. We continued to work with our partners in the Productivity Hub, aiming to bring a concentrated collective effort to a single prioritised programme of research on productivity and related policy issues. We jointly fund that effort and also use the Hub as the vehicle to convene workshops and conferences on productivity-related matters. Increasing the quantity and quality of our research and promotion of productivity will remain a focus for next year.

We continue to subject our work to a rigorous and independent evaluation and are pleased that our independent reviews continue to show that we are producing high-quality relevant material. We have recently reviewed our evaluation programme to ensure it remains fit-for-purpose and as a result made some changes to our impact indicators to provide even greater focus on the evidence of our impact. We will begin to report on this in 2018/19.

The 2017/18 year ended with an operating deficit – the first such financial result for the Commission. The Commission’s funding has been fixed in nominal terms since our inception. Accordingly, we have long anticipated that by now we would be pressing hard against our funding limit. The Board is currently discussing funding levels and desired outputs with the Government.

The Board is pleased to present this Annual Report and its commentary on our performance and progress during 2017/18. We are excited about building on this progress and thank the Commission’s staff for their commitment, energy and insight.



Murray Sherwin
Chair

Who we are

Our work

The Commission provides evidence-based, high quality analysis and advice about ways to improve productivity in New Zealand. Our role is advisory and educational – we aim to contribute to lifting productivity and the wellbeing of New Zealanders as well as increase the public and political understanding of productivity related issues. Improving productivity is essential to raising wellbeing and ensuring sustainable economic growth in New Zealand.

Our work programme is delivered across two output areas: inquiries and research. This work considers whether laws, policies, regulations and institutions that affect New Zealand’s productivity can be improved.

Inquiries into productivity

The Government chooses inquiry topics to ensure our work is relevant to them. Once an inquiry topic is set, we are required to act independently. Our work is based on our own analysis and judgement.

Inquiries generally take 12 -15 months. The time allowed recognises the importance of research and the Commission engaging extensively with interested parties. This ensures we are exposed to all points of view, get the best available information, understand different perspectives and test ideas (via our draft reports).

Research into and promotion of productivity

In addition to inquiries, we self-select research on, and promote understanding of, productivity-related matters. Our research aims to extend the understanding of productivity issues with the aim of improving the wellbeing of all New Zealanders.

We convene and chair the Productivity Hub - a coordination and collaboration vehicle which helps to inform the research choices of each participating agency, and advance collaborative research projects. The Hub also engages with a wider research community outside government.

Governance

The Commission is governed by a Board that is accountable to Parliament and reports to a Responsible Minister within Government, currently the Minister of Finance. The Chair and Commissioners are responsible for the effective governance of the Commission which includes the appointment and performance of the management team, setting and monitoring strategic direction, delivery of and conformance with accountability documents, integrity of processes and the overall health, wellbeing and sustainability of the organisation (including oversight and management of reputation and risk).

The Chair and Commissioners also oversee the delivery of the substantive work programme and outputs, shaping the scope, content, balance, quality and presentation of work.

Our people

The quality of our people is critical to our success, in particular their research and analytical skills, and ability to undertake high-quality analysis and shape that into influential policy advice. We need to attract and retain people who are strong performers in their field, or who have significant potential to contribute to our research or inquiry work. Once with us, we place high importance on supporting our people, including investing in their development.

Our overall approach to resourcing is to employ people who can add significant value supplemented by secondments, fixed-term contractors and, as required, use of specialist consultants to bring experience and fresh perspectives. Across all those options, we typically employ about 20 people.

Capability report

Our work demands a high level of capability in areas such as sourcing information, analysis, process management, engagement, and communications and influencing. These key capabilities are measured indirectly through our performance measurement processes and inform our internal priorities for capability development. We also think about our capability in terms of the reputation we aspire to as an organisation. This, in turn, is linked to how we make a difference. A summary of the Commission’s capability and purpose is set out below.



Assessing progress on building our reputation

- **Deep productivity knowledge.** Feedback during our first eight years of operation suggests that we continue to build the necessary knowledge and experience to deliver influential work, but we must continue to pursue improvement in areas highlighted through our performance evaluation exercises.
- **High-quality, evidence-based analysis.** The on-going development of our analytical capability remains a priority to further enhance our overall performance. High quality skills and experience in economics remain a core requirement for the Commission. But our mandate is broad indicating the importance also of intellectual and experiential diversity within our team.
- **Skilful communications.** We continue to develop our communication approach and tools, using multiple channels to extend our reach and influence. It is important that messages are clear and accessible, so the presentation of our reports and dissemination of key messages remains an important focus. We are currently updating our website to improve navigation and accessibility and better communicate what we do and why we do it in a credible, compelling and transparent way.
- **Participative processes.** Our engagement processes are often highlighted as a strength and a distinguishing feature of our approach relative to core government agencies – particularly our ability to seek and bring together a broad range of perspectives on important issues for New Zealand’s future. We are committed to continuous improvement and will refine our engagement model as and when we identify new ways to reach interested parties.
- **Even handed, non-political approach.** We actively engage with a wide range of individuals and organisations to ensure we are exposed to all points of view, get the best available information and understand different perspectives. We are committed to providing independent advice.
- **Workable advice.** Overall feedback to date indicates we are credible and influential through the quality and emerging impact of our work. It is critical that we remain focused on providing relevant and workable advice, and recommendations that can, with political will, be successfully implemented.

Being a good employer

The Commission is committed to being a good employer. We aim to create a culture where employees feel valued, engaged and inspired to enhance productivity and employee wellbeing. We maintain a clear focus on leadership, workforce development, management of people and performance, and engagement with our employees.

Our employees are two-thirds male, one-third female, and bring diverse skills, disciplines and backgrounds to benefit the organisation. Our staff are employed on a mixture of permanent and shorter, fixed-term contracts. We also take advantage of expertise across the public sector through secondments. A Principal Advisor from the Ministry of Social Development was seconded to the *State sector productivity* inquiry team and a Senior Advisor from the Ministry of Environment worked with the *Low-emissions economy* inquiry team.

The table below summarises our achievements against the seven key 'good employer' elements:

Elements	Initiatives
Leadership, accountability and culture	Our managers are either engaged in, or have completed, specifically targeted management and leadership development programmes. Our managers aim to provide a structure that is supportive and equitable to all staff.
Recruitment, induction and selection	We strive to attract and retain high-calibre people. This includes making recruitment decisions that enable us to be well placed for the future. Our recruitment, selection, and appointment processes are shaped on those ambitions.
Employee development, promotion and exit	We take an organisation-wide approach to training programmes and opportunities in line with our capability priorities and this is supplemented with a targeted development programme for individuals. As part of our capability development process all employees have a development plan, which is reviewed and agreed annually.
Flexibility and work design	We support flexible working arrangements where possible and appropriate. Important in our approach to flexible working arrangements is the provision of tools (e.g., IT infrastructure, laptops, and other devices) to support remote and flexible working.
Remuneration, recognition and conditions	We adhere to Government expectations on employment relations in the state sector. Our remuneration approach is reviewed annually to ensure it supports our recruitment and retention strategies and is affordable within our budgeting assumptions.
Harassment and bullying prevention	Discrimination, harassment and bullying behaviours can be a risk in an environment where internal debate and challenge are valued. The Commission strives to provide an inclusive culture in which people are valued, treated equitably and respectfully and in which diverse opinions are welcomed and tested without rancour.
Safe and healthy work environment	The Commission provides a healthy and safe work environment, where designated individuals are responsible for health and safety. We have initiatives in place that support wellness in our workplace and are always looking at the currency of our initiatives in this area.

Progress against our outcomes framework

How we make a difference: Our outcomes framework

The Commission seeks to influence two outcomes: to **lift New Zealand’s productivity** and, as a result, **lift the wellbeing of New Zealanders**. Through our inquiry reports and research outputs the Commission:

- explores the causes of New Zealand’s weak productivity performance
- identifies the barriers to higher productivity and wellbeing, and
- recommends policies to overcome those barriers.

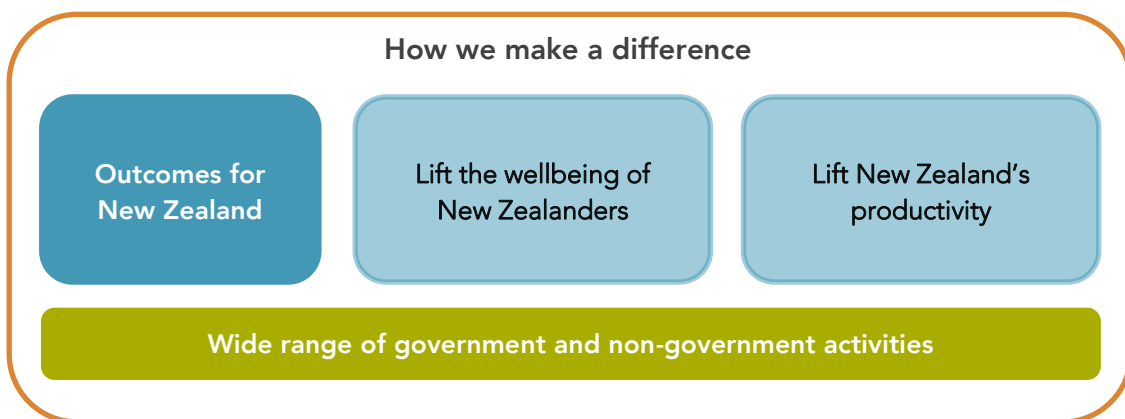
In producing and publicising these reports and outputs, the Commission aims to inform the public and decision-makers, promote debate and encourage the adoption of policies that contribute to lifting productivity and the wellbeing of New Zealanders. To do this effectively, the Commission must be rigorous, open, trusted and a skilled communicator.

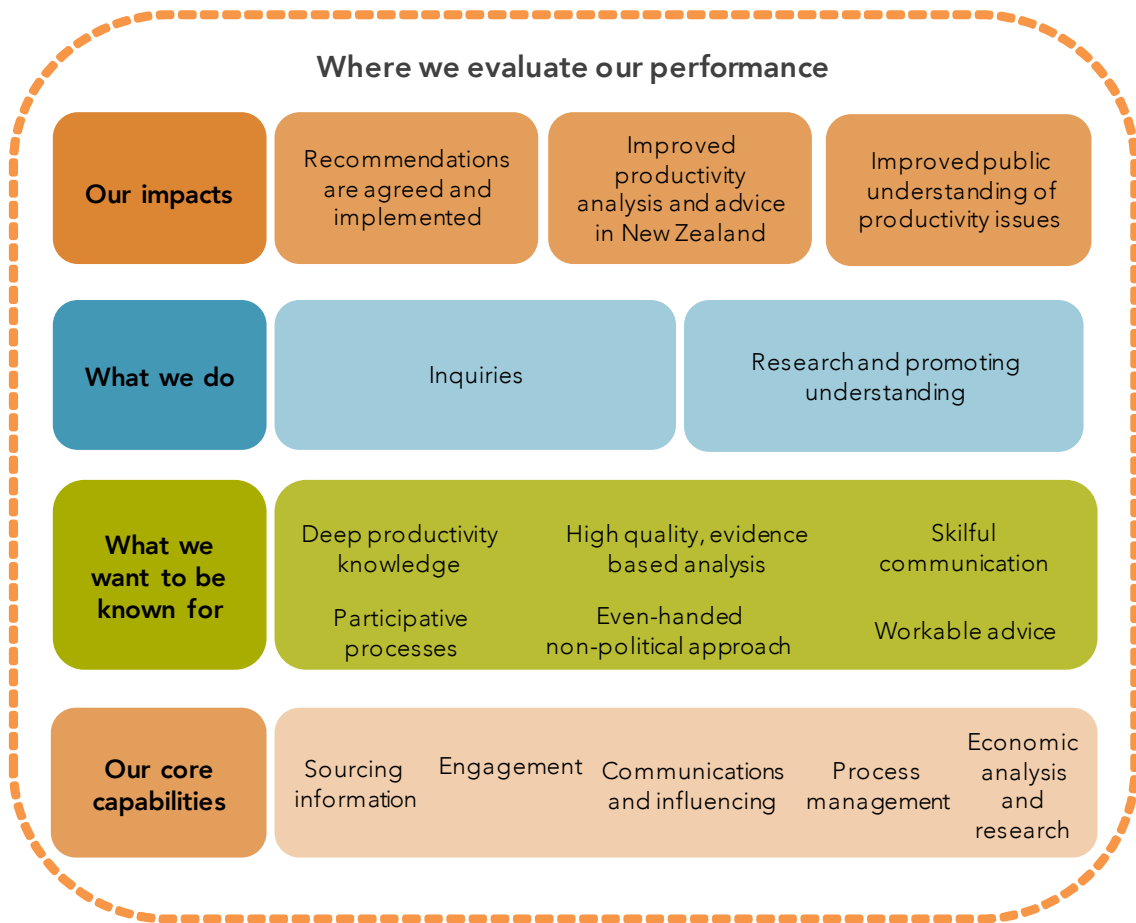
Central to our impact and influence is the Commission’s comprehensive public engagement process. During each inquiry, the Commission engages widely with a diverse group of interested parties. For the *Low-emissions economy* inquiry, for example, there was significant interest. The inquiry team completed over 120 engagement meetings (including overseas), attended 34 conferences/seminars and received 403 submissions.

The participative nature of our inquiries means that stakeholders can have a direct input and influence on the Commission’s recommendations – both draft and final. The Commission can meaningfully engage with interested parties on specific policy issues and test ideas for improvement. Identifying areas in which policy settings can be made better to enhance productivity and wellbeing is at the heart of the Commission.

The diagram below illustrates how we expect to make a difference, along with the core capabilities and the reputation we wish to develop.

Figure 1: Productivity Commission’s outcomes framework





How we measure progress against the framework: A strong evaluative focus

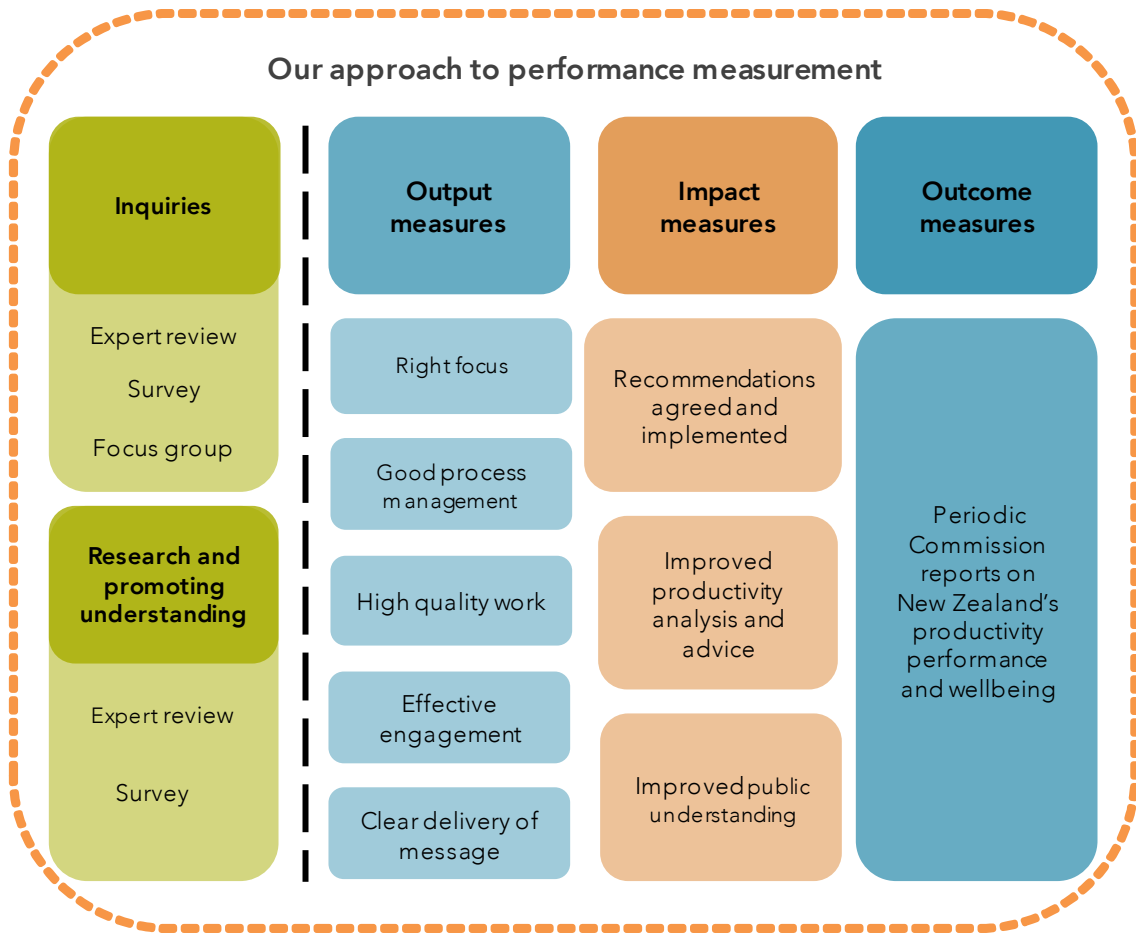
The topics we work on, the types of analysis we conduct, and the range of community and industry groups we need to engage with change significantly from year to year. It is difficult to capture this diversity of work and effort in fixed quantitative targets, so the Commission has taken a strong evaluation-based approach to measuring our performance.

Ultimately, the Commission’s ability to make an impact depends on the quality of our work. To be influential, our advice must be both accessible and compelling. Our inquiry and research outputs are subject to rigorous, independent evaluation to ensure that our work is robust, relevant, clear and of value.

Scope of evaluation

- | | |
|---|---|
| <ul style="list-style-type: none"> • Intended impacts – what happens because of our work • Right focus – the relevance and materiality of inquiry and research reports • Good process management – the timeliness and quality of work • High-quality work – the quality of our analysis and recommendations | <ul style="list-style-type: none"> • Effective engagement – quality of engagement with interested parties • Clear delivery of message – how well our work is communicated and presented • Overall quality – the overall quality of the work considering all factors |
|---|---|

Figure 2: Performance management



Reporting on our outcomes: how we make a difference – lifting the wellbeing of New Zealanders and lifting New Zealand’s productivity

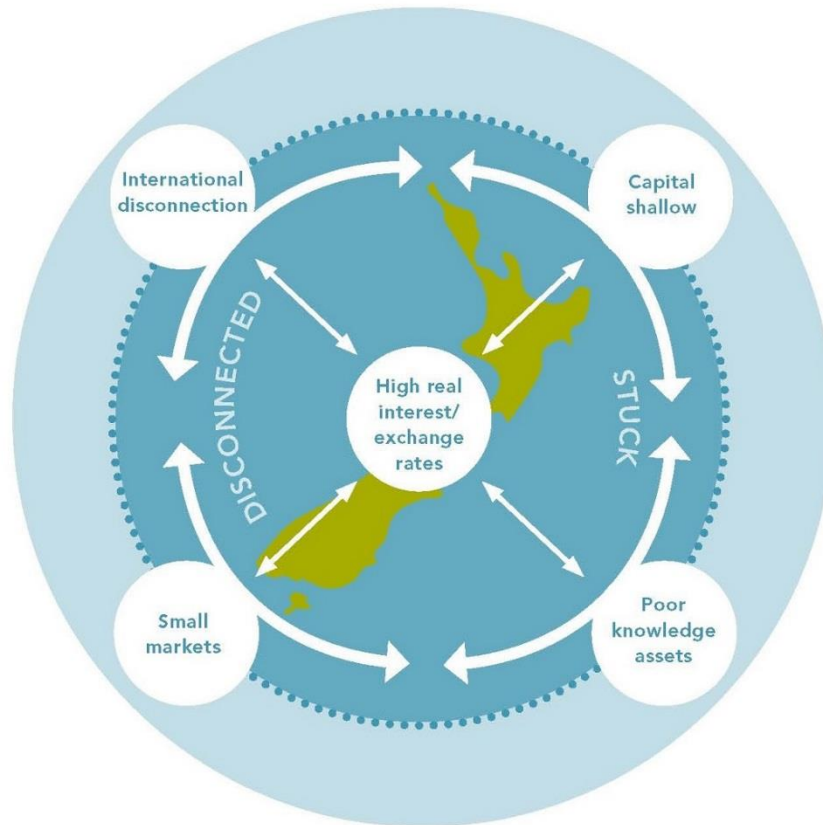
Improving productivity is central to lifting living standards and fostering inclusive, sustainable economic growth. For instance, when productivity growth is stronger real wage growth is stronger too. This may mean, in turn, more families can have decent incomes without having to work long hours. Stronger productivity growth is also central to efforts to protect our natural environment and provide services to an ageing population within sustainable fiscal settings. Yet for many years New Zealand’s productivity performance has been mediocre and has left us now some distance behind our usual peers.

The Commission aims to provide insights and new evidence on which to base advice that can improve New Zealand’s productivity performance. The goal is to facilitate a move, from an economy that grows by adding more labour and more hours of work, to one where productivity plays a greater role in driving economic growth – essentially, working smarter, with greater financial and knowledge capital employed per worker. Our research programme has explored a wide range of productivity issues and allowed us to build on traditional explanations for New Zealand’s productivity performance – such as industry structure, geography and business culture.

A key theme of our firm-level research (discussed for example in *Can the kiwi fly? Achieving productivity lift-off in New Zealand*) is that the processes of knowledge and technology diffusion and resource allocation from lower to higher productivity firms, generally do not work as well as they could in New Zealand. Our leading or ‘frontier’ firms tend to operate at a margin behind the international frontier in terms of productivity performance. The performance gap from domestic frontier firms to the domestic ‘laggards’ is generally large and persistent. Too many of our firms are

not well connected internationally and due to our isolation we tend to experience relatively low intensity of competition. As a consequence, domestic laggard firms tend not to catch up to the domestic frontier, and resources are able to persist in laggard firms for extended periods of time despite their low productivity performance. Of course, there are some very successful New Zealand firms also. But too few.

Figure 3: Firm-level productivity



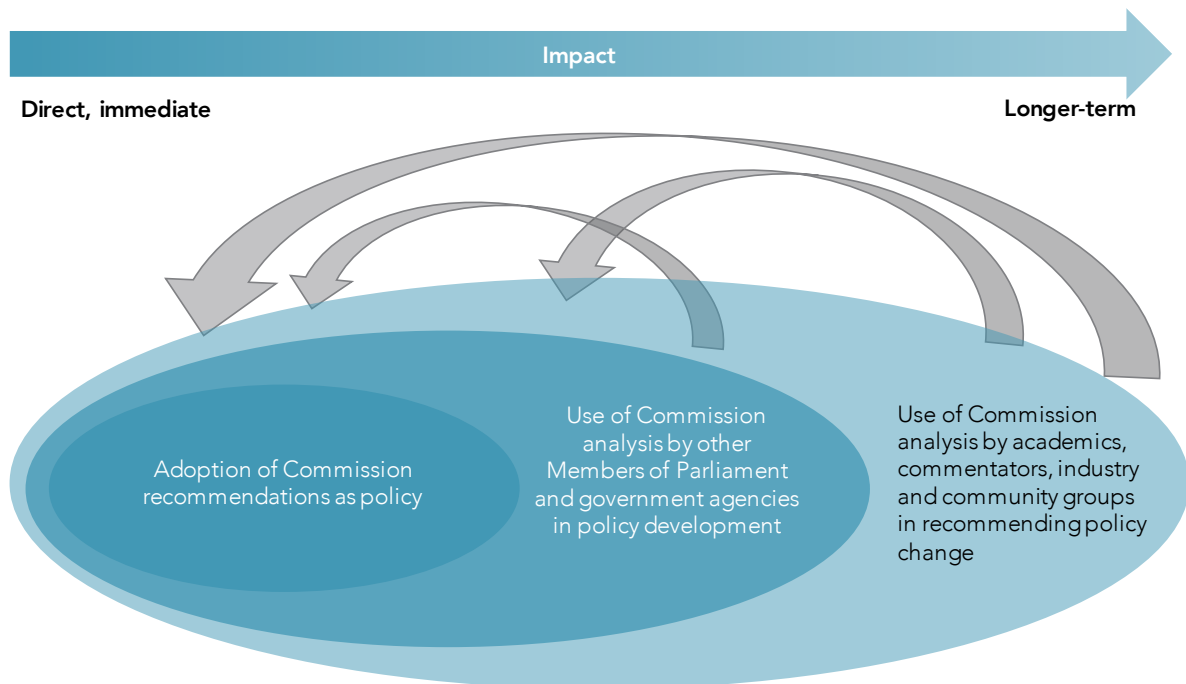
The paper *Can the kiwi fly? Achieving productivity lift-off in New Zealand* provides pointers to the sorts of policy reforms that could help close the income and productivity gaps with the rest of the world. It also identifies a number of policy issues where on-going work and analysis is required. The paper builds on our earlier narrative – *Achieving New Zealand's productivity potential*. Recommendations in *Can the kiwi fly?* include prioritising trade in services and digital products in New Zealand's trade strategy; encouraging the education system to be more adaptive and responsive to labour market demands; focusing immigration policy on lifting the skill composition of the workforce; making investment easier and more effective, including addressing differences in the taxation of different forms of savings (e.g., business assets and housing); and enhancing New Zealand's competition policy framework. This agenda also presents a significant challenge for the New Zealand public sector and will require improvements in policymaking capability (including the use of monitoring and evaluation) and the delivery of services.

Similar themes have emerged from the Commission's inquiries. At the heart of a high productivity environment is continuous innovation. The international literature highlights the role of competition policy in fostering innovation, especially within the private sector. But, depending exactly on how we choose to categorise some workers, between a quarter and one third of New Zealand's workforce is employed within the public sector, where competitive tensions are generally limited or non-existent and where workplace innovations often face quite high barriers to implementation.

Through our next inquiries and research agenda for 2018/19, the Commission will continue to develop its understanding of New Zealand's productivity performance and to identify the changes necessary for lifting productivity and the wellbeing of New Zealanders.

Reporting on our impacts: where we evaluate our performance

The Commission is an independent research and advisory body and does not run or implement any policies or programmes. The Government is under no obligation to implement Commission recommendations or to respond to our reports. We rely solely on the power and communication of our ideas and analysis to influence and shape policy. This influence may be direct and immediate (e.g., through the acceptance and adoption of our recommendations) or it may occur over longer periods after academic, community and public consideration of our work.



As our impact is critical to the achievement of the Commission's outcomes, our annual reports discuss the performance and impact of the Commission in the context of three broad categories:

- our **recommendations** will contribute to better decision-making on improving productivity
- our work will **improve understanding of productivity-related issues**, and
- our work will contribute towards **improving productivity analysis and advice**.

How our recommendations are received and implemented by the Government

The most direct measure of the Commission's impact is the proportion of our inquiry recommendations that are implemented by the Government. The Government is under no obligation to implement Commission recommendations or to respond to our reports however, in practice, the Government has issued formal responses to inquiry reports, specifying which recommendations it agrees with and will implement.

It would be unrealistic and probably undesirable to expect all inquiry recommendations be accepted. As an independent organisation with a strong focus on the public interest, the Commission sometimes needs to push the boundaries on complex issues, without fear or favour. Done well, our inquiry reports should spark a recalibration of thinking within relevant agencies and other stakeholders. The Commission puts difficult issues on the agenda and encourages discussion and

action on topics that may have been considered 'off limits'. The Commission has and will continue to test ideas and challenge the status quo in the interests of improvement. Our focus is on providing the best advice rather than the most palatable.

Impact indicator: recommendations agreed and implemented

The Commission has now completed 12 final reports containing a total of 528 policy recommendations. The Government has formally responded to eight of these completed inquiries. Overall half of our recommendations have been accepted in full or in principle by the Government which helps add to the credibility and influence of our work.

Our inquiry recommendations continue to have an impact. For example, we noted the following in 2017/18:

- A recommendation from our 2014 *Boosting services sector productivity* report to enable the Commerce Commission, under direction, to undertake market studies was enacted in law.
- A recommendation from our 2014 *Regulatory institutions and practices* report informed the Local Government Regulatory Systems Amendment Bill.
- A recommendation from our 2012 *International freight transport services* report to incorporate a new regime for shipping was included in the Commerce (Cartel and Other Matters) Amendment Bill.

While the number of recommendations agreed and implemented is one measure of impact, influence may also be seen in more subtle ways. Our reports often 'seed' ideas, analytical techniques or debate. We are aware of, without being able to specifically measure, the extent of such influence and do note the extended lag between our work in some fields and the emergence or enactment of policy ideas that can be sourced in inquiry report of years earlier.

What we have done to improve productivity analysis and advice

The Commission contributes directly to better productivity analysis and advice through its inquiry reports, and its research outputs and partnerships. We currently evaluate our performance through three primary mechanisms:

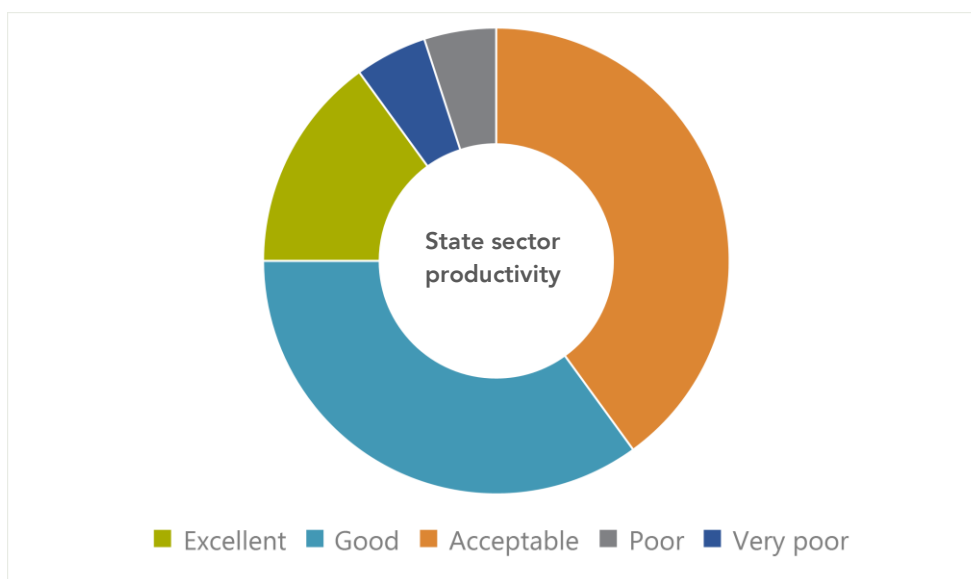
1. Independent expert review	
By an expert with significant policy and/or productivity research experience, who is sufficiently familiar with our role and functions.	<p>A review occurs after every inquiry.</p> <p>A review is held every two years for our research function.</p>
2. Survey of external participants	
To provide both quantitative and qualitative data covering multiple aspects of our work e.g., the quality of our analysis and clarity of our communication.	<p>A survey occurs after each inquiry.</p> <p>A survey takes place every two years for our research function, with a focus on the Productivity Hub.</p>
3. Stakeholder focus group	
A group of 6-10 attendees from different organisations, independently facilitated without Commission attendance.	<p>A focus group is held after every inquiry.</p> <p>Focus groups are not suitable for our research work, so instead the expert reviewer talks to some key stakeholders in forming their views.</p>

Inquiry reports

The Commission completed its final reports for the *Low-emissions economy* inquiry and *State sector productivity* inquiry in August 2018, with the evaluation completed for the latter in September. Given that these inquiries were the sole focus for our inquiry teams for 2017/18, this report includes the evaluation completed to date for the *State sector productivity* inquiry.

The results for this inquiry continue the Commission’s strong record of providing high-quality relevant policy reports. External participants have scored the overall quality of the inquiry well (15% of respondents rated the overall quality as excellent, 35% good and 40% acceptable).

Figure 5: External participant survey responses on the overall quality of the State sector productivity inquiry



The independent expert review by Dr Murray Horn stated that the Commission produced an “important and high-quality contribution to our understanding of state sector productivity... it has identified a few practical, achievable and necessary recommendations that, if implemented, would go a long way to improving state sector productivity.”

Specific comments within the evaluations are a useful insight into the ongoing quality and relevance of our advice. These evaluations also provide an opportunity to highlight areas for improvement and refine our processes to ensure maximum impact and influence.

Measure	State sector productivity inquiry performance
Our inquiry reports have helped set or lift the standard in NZ for high-quality analysis and advice on productivity issues	<p>55% of survey respondents agreed (20% disagreed, 25% didn’t know) that the <i>State sector productivity</i> inquiry overall had helped set or lift the standard in New Zealand for high quality analysis and advice on measuring and improving state sector productivity.</p> <p>The stakeholder focus group agreed that the reports met the terms of reference, left nothing out, and could be applied by those working in the public sector. However, some felt the Commission’s recommendations were familiar and didn’t break any new ground and there were several suggestions for improvements.</p> <p>The independent external evaluation stated: the <i>Measuring state sector productivity</i> report (i.e. volume 2 of the inquiry’s two final reports) report was well pitched at a broad audience of potential users and is likely to be useful and used, if the feedback from interviewees is a good guide. On the other hand, for those just interested in applying narrow technical efficiency measures to operational activities, the comprehensive economic approach adopted is unnecessary.</p>

Research outputs

Since its establishment, the Commission has sought to raise the quantity and quality of research into New Zealand's productivity performance, both through our own efforts and through collaborative projects with others. The Commission has produced several research papers during 2017/18 exploring a wide range of productivity issues:

- | | |
|--|--|
| <ul style="list-style-type: none"> • Innovation and the performance of kiwi firms • Effective marginal tax rates in the tax-transfer system • Who benefits from productivity growth – the labour income share | <ul style="list-style-type: none"> • Residential construction and population growth • The ability of firms to learn (absorptive capacity) • Quality-adjusted productivity in tertiary education |
|--|--|

Research papers published include:

- Can the kiwi fly? Achieving productivity lift off in New Zealand. 2018. Paul Conway.
- Effective marginal tax rates: the New Zealand case. 2018. Dr Patrick Nolan.
- The labour income share in New Zealand: an update. 2018. Huon Fraser.
- Absorptive Capacity in NZ Firms: measurement and importance. 2018. Richard Harris and Trinh Le.
- Residential construction and population growth in New Zealand: 1996-2016. 2018. Andrew Coleman and Özer Karagedikli
- The impact of R&D grants on the performance of New Zealand firms. 2017. Simon Wakeman.
- Innovation and the performance of New Zealand firms. 2017. Simon Wakeman and Paul Conway.
- Estimating quality-adjusted productivity in tertiary education: methods and evidence for New Zealand. 2017. Norman Gemmell, Patrick Nolan and Grant Scobie.
- Examining the UK Climate Change Act 2008. 2017. Teresa Weeks.

In June 2018, the Commission published *Can the kiwi fly? Achieving productivity lift-off in New Zealand*. This provides a comprehensive analysis of the factors holding back productivity in New Zealand and puts forward policies to improve our performance, so that we can close the gap between other high-income OECD countries.

Partnerships

The Commission contributes to better analysis and advice not just through its own research, but also by supporting, encouraging and publicising the work of others. The Commission convenes and chairs the Productivity Hub, a group of public sector agencies that aims to improve how policy can contribute to the productivity performance of the New Zealand economy and the wellbeing of New Zealanders. The Hub's core activities include:

- **Connecting people** – establishing a vibrant community for people across academia, public, private and voluntary sectors with an interest in productivity research to make the best use of knowledge and research.
- **Sharing research** - providing a platform where research, data and analysis can be exchanged; for example, through events and by creating a storehouse for research (analysis, evidence and data).

- **Shaping research agendas** - creating opportunities to collaborate on research work programmes to improve their quality and efficiency. Identifying several key productivity-related research areas and facilitating work across agencies will reduce duplication and help agencies make the best use of scarce resources. This includes how current and future work is prioritised, coordinated and funded. The Hub agencies are now investing in a research programme on a firm-level understanding of competition in New Zealand.

The Commission regularly hosts and contributes to presentations on productivity-related research from academics and government departments, which are open to the public. During 2017/18, close to 500 people attended 16 Productivity Hub roundtables and lectures on diverse topic areas, including:

- | | |
|--|--|
| <ul style="list-style-type: none"> • The living standards dashboard: Treasury's discussion paper on financial and physical capital • Small business access to finance • Beyond commodities: manufacturing into the future • Worker flows, entry, and productivity in New Zealand's construction industry | <ul style="list-style-type: none"> • Taking the right risks: working together to revitalise our regions • Qualitative research on firm innovation • Hospital performance analytics • Economic analysis at PHARMAC: 'Pharmacoeconomics 101' |
|--|--|

The independent expert review by Professor Robert Buckle confirmed that our research function has "...played a significant role in the creation and functioning of the GEN Productivity Hub and in generating an agreed work programme for the Hub. Representatives of public-sector agencies interviewed commented on the valuable role of the Hub in bringing agencies together, generating a shared understanding of productivity research priorities, funding research and deepening understanding of New Zealand's productivity performance and characteristics."

Improved public understanding of productivity issues

The adoption of better policies depends on the public understanding the nature of New Zealand's productivity performance, and the need for change. The Commission seeks to promote better public understanding of productivity issues through communicating the findings of our inquiries and research reports to the public, and through our public speaking programme.

Communicating the findings and recommendations of our inquiries and research reports to the public

Effective communication is integral to our ability to share information about our role and work. We are committed to using new and innovative approaches to engage effectively with our audiences. The communication of the findings of our research and inquiries is critical to promoting understanding of productivity and pushing for policy reform.

We listen to feedback from our performance evaluation. This year we produced two slim final reports for our *State sector productivity* inquiry in response to feedback about the size of previous reports. We also developed a 2-minute video animation for the issues paper of our *Low-emissions economy* inquiry to create a more accessible tool that could be disseminated to a wider audience and easily shared via social media. The video has been viewed over 1,100 times.

The Commission's website is our primary communications tool and this year we started a project to improve the navigation and accessibility of our site. Ease of access is a key focus. The new site will move away from our current pdf-heavy approach and put more content into html so that content is readable online and searchable. The new website will be launched in 2018/19 with a refreshed design and better communicate the productivity story and our inquiry process.

We also connect and communicate with our audience through social media. Twitter continues to be a very popular social platform and we have 2,147 followers. From April-June 2018, we had 33,200 impressions, 51 retweets, 64 likes and 74 link clicks. Our top tweet for this period was the *Low-emissions economy* draft report which was seen a total of 12,000 times, compared with 1,134 impressions on LinkedIn.

Our stakeholder database continues to grow and now includes 3,300 individuals. This year we used new campaign monitoring software for our email marketing. It includes an extensive reporting tool to provide insights into how our email marketing is performing and areas for improvement. The design of our e-newsletter was refreshed, and the frequency increased from bi-annually to quarterly as the open rate (37.7% average compared to 24% industry average) showed an engaged audience.

The extent of media coverage and sector feedback is another indicator of public interest in the Commission's work and its potential influence. In 2017/18 there were 741 news items with mentions of the Commission across all media channels (online, print, blogs, speeches, media releases), compared to 234 items in 2016/17. The *Low-emissions economy* draft report received substantial coverage and accounted for 460 items from April-June 2018.

The independent expert review by Professor Robert Buckle of our research function found that we have "continued to be very active in communicating the insights from the research programme" and "have been very effective at attracting commentary in the wider public media". From June 2015 to June 2018, about 90 items appeared in New Zealand newspapers, internet news sites, radio, television, professional magazines and blogs.

Speaking programme

Our work generates significant public interest and debate. We receive many invitations to speak at events – about specific work and about productivity more generally – which is indicative of widespread interest in finding ways to increase New Zealand's productivity and wellbeing (and of the Commission's role).

Commissioners and Commission staff members regularly speak to a range of audiences about productivity, our research outputs and inquiries. Our *Low-emissions economy* inquiry has generated significant public interest and many opportunities to engage with new audiences. Events the Commission presented at this year include:

- Resource Management Reform, Auckland - August 2017
- Environmental Defence Society Conference, Auckland - August 2017
- Service IQ, Christchurch - August 2017
- NZ Planning Institute, Christchurch - August 2017
- Productivity Research Network, Singapore – September 2017
- Government Law Conference, Wellington - September 2017
- Wellington South Rotary Club, Wellington - October 2017
- Auckland Breakfast Club, Auckland - November 2017
- Government Economic Network Conference, Wellington - December 2017
- Productivity Research Network, Singapore – January 2018
- Resource Reform NZ Symposium, Auckland - February 2018
- NZ Wind Energy Conference 2018, Wellington - May 2018
- Energy Management Association of New Zealand Conference, Auckland - May 2018

- Briefing to GLOBE Committee at Parliament - May 2018
- BusinessNZ Energy Council, Wellington - May 2018
- Electricity Networks Association CEO Forum, Wellington - June 2018
- Automobile Association's National Council - June 2018
- New Zealand Association of Economists Conference, Auckland - June 2018

Ongoing inquiries into productivity

In 2017/18, our work programme focused on the *Low emissions economy* and *State sector productivity* inquiries which were started in April and May 2017 respectively. These inquiries were both completed at the start of the new financial year in August 2018.

The Government has provided the Commission with the terms of reference for one new inquiry into *Local government funding and financing* and referred a joint study with the Australian Productivity Commission into *Growing the digital economy and maximising opportunities for small and medium enterprises*.

Local government funding and financing

In July 2018, the Government asked the Commission to undertake an inquiry into the adequacy and efficiency of the existing local government funding and financing framework. Specifically, the inquiry will investigate cost pressures, funding and financing models and regulatory systems.

The inquiry will be an assessment and recommendations of current and alternative funding and financing options for local authorities to maintain and deliver services to their communities into the future. A final report will be presented to referring Ministers by 30 November 2019.

Growing the digital economy and maximising opportunities for small and medium enterprises

In August 2018, the Government asked the Commission to conduct a joint study with the Australian Productivity Commission to examine priority areas for growing the digital economy, in particular opportunities for small and medium enterprises.

The Commission will explore the extent to which institutional and regulatory settings in the two countries support opportunities for the utilisation of digital technology. A joint report will be presented to the referring Minister by the end of January 2019.

We expect to begin another inquiry into *Technological change, disruption and the future of work* in early 2019 after our joint project with the Australian Productivity Commission concludes. The Minister of Finance noted this inquiry in the Fiscal Strategy Report 2018 and we await the terms of reference.

2017/18 Financial performance summary

Summary of financial performance

Our full financial statements and accompanying notes are set out later in this report. As summarised in the table below, we have made a \$105,322 operating loss. Budget appropriation has been fixed since the Commission started. As costs rise, we will not be able to sustain our current level and intensity of activity.

	Actual 2018 \$000	Budget 2018 \$000	Actual 2017 \$000
Financial performance			
Revenue			
Revenue from the Crown	5,030	5,030	5,030
All other revenue	2	10	5
<i>Total revenue</i>	<i>5,032</i>	<i>5,040</i>	<i>5,035</i>
Expenses			
Personnel costs	3,476	3,089	3,340
All other expenses	1,661	1,951	1,505
<i>Total expenses</i>	<i>5,137</i>	<i>5,040</i>	<i>4,845</i>
Net surplus/(deficit)	(105)	-	190
Financial position			
Assets			
Total current assets	1,538	1,526	1,502
Total non-current assets	115	84	159
<i>Total assets</i>	<i>1,653</i>	<i>1,610</i>	<i>1,661</i>
Liabilities			
<i>Total current liabilities</i>	<i>526</i>	<i>488</i>	<i>427</i>
Total non-current liabilities	76	81	78
<i>Total liabilities</i>	<i>602</i>	<i>569</i>	<i>505</i>
Total equity	1,051	1,041	1,156

Output funding and costs

The Commission's summary of output funding and costs include the direct and indirect costs associated with delivering our core services: inquiries, and research and promoting understanding. Dividing our funding in this way allows the Government to determine, at a high level, the mix of our work.

The key assumptions relating to our annual forecasts are that we will run two full inquiries at any point in time (noting there may be overlap of additional inquiries in practice); and the costs of both outputs includes an allocation of common corporate or 'central' costs.

	Actual 2018 \$000	Budget 2018 \$000	Actual 2017 \$000
Inquiries			
Revenue	4,403	4,410	4,405
Expenses	4,404	4,410	4,090
<i>Net surplus/(deficit)</i>	(1)	-	315
Research and promoting understanding			
Revenue	629	630	630
Expenses	733	630	755
<i>Net surplus/(deficit)</i>	(104)	-	(125)
Total outputs			
Revenue	5,032	5,040	5,035
Expenses	5,137	5,040	4,845
<i>Net surplus/(deficit)</i>	(105)	-	190

Statement of responsibility for the year ended 30 June 2018

Under the requirements specified in the *Crown Entities Act 2004*, section 155, the Commission's Board is responsible for:

- the preparation of the Commission's financial statements and statement of performance and the judgements made in them;
- any end-of-year performance information provided by the Commission under section 19A of the *Public Finance Act 1989*; and
- establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the Commission's financial and non-financial reporting.

In the Board's opinion these financial statements and statement of performance fairly reflect the financial position and operations of the Commission for the year ended 30 June 2018.

Signed on behalf of the Board:



Murray Sherwin
Chairman



Graham Scott
Chair, Assurance Committee

Date: 31 October 2018

Independent Auditor's Report

To the readers of the New Zealand Productivity Commission's financial statements and performance information for the year ended 30 June 2018

The Auditor-General is the auditor of the New Zealand Productivity Commission (the Commission). The Auditor-General has appointed me, Andrew Clark, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information of the Commission on his behalf.

Opinion

We have audited:

- the financial statements of the Commission on pages 35 to 48, that comprise the statement of financial position as at 30 June 2018, the statement of comprehensive revenue and expenses, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies and other explanatory information; and
- the performance information of the Commission on pages 6 to 16 and 25 to 34.

In our opinion:

- the financial statements of the the Commission on pages 35 to 48:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2018; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards Reduced Disclosure Regime; and
- the performance information on pages 6 to 16 and 25 to 34:
 - presents fairly, in all material respects, the Commission's performance for the year ended 30 June 2018, including:
 - for each class of reportable outputs:
 - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
 - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
 - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 31 October 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of the Board for the financial statements and the performance information

The Board responsible on behalf of the Commission for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board is responsible for such internal control as they determine is necessary to enable them to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board is responsible on behalf of the Commission for assessing the Commission's ability to continue as a going concern. The Board is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Commission, or there is no realistic alternative but to do so.

The Board's responsibilities arise from the Crown Entities Act 2004 and the Public Finance Act 1989.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists.

Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error.

Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Commission's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- We evaluate the appropriateness of the reported performance information within the Commission's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Commission to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board is responsible for the other information. The other information comprises the information included on pages i, 1 to 5, and 17, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Commission in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than in our capacity as auditor, we have no relationship with, or interests, in the Commission.



Andrew Clark
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Our approach to reporting performance

As background to our Statement of performance, our approach to measuring performance is strongly evaluation-based. We believe this method best aligns with the nature of our work. Our inquiries and the associated analysis and groups we engage with change significantly from year to year. Given these factors, it is difficult to capture the diversity of work and effort in targets.

To tell our performance story, we collect qualitative and quantitative information through independent expert evaluations; participant surveys and focus groups. These three sources give us a useful insight into our progress and performance.

During 2017/18, the Commission's inquiry work programme was focused on completing two inquiries: *State sector productivity* and *Low-emissions economy*. Both inquiries were completed in August 2018, just after the end of the 2017/18 year. The evaluation for the *State sector productivity* inquiry was completed in early August 2018 and performance information is included in the following statement and elsewhere in this Annual Report. The later completion of the *Low-emissions economy* inquiry did not allow time for performance evaluations to be initiated in time for this report and we will formally report on these in our *2018/19 Annual Report*.

Our impact for research and inquiries is measured under three broad categories – our recommendations (inquiries only); improved productivity analysis and advice in New Zealand; and promotion of understanding of productivity-related matters. Output measures are grouped under the following five categories:

- right focus;
- good process management;
- high quality work;
- effective engagement; and
- clear delivery of message.

Similar measures were applied across the three sources of feedback to ensure a consistent, broad and complete view of the Commission's performance.

2017/18 Statement of performance

Assessment of inquiry process and report State sector productivity

Impact measures

Impact measure	Survey result	Independent expert review: <i>Murray Horn, Independent Consultant</i>	Focus group evaluation: <i>Kathy Spencer (facilitator), Independent Consultant</i>
The Commission's recommendations are agreed and implemented			
<ul style="list-style-type: none"> Recommendations agreed Recommendations implemented 	At the time of preparing this report the Government had yet to formally respond to this inquiry.		
Improved productivity analysis and advice in New Zealand			
Inquiry participants surveyed who agreed or strongly agreed that:		"The analysis identified the most important barriers to improving productivity in the state sector. The approach to improving productivity was pragmatic and realistic and the recommendations in the <i>Improving</i> report are practical, achievable and necessary (albeit possibly not sufficient) to address the barriers to productivity improvement identified."	"... this was a difficult inquiry because of the narrow definition of productivity... and the wide range of services within its scope... It was therefore very challenging to produce advice on productivity measurement to apply across the board."
<ul style="list-style-type: none"> The inquiry helped set or lift the standard in New Zealand for high-quality analysis and advice on [the topic]¹. 	73%		"There was a degree of frustration and a feeling that an opportunity had been missed to really move the productivity discussion forward..."
<ul style="list-style-type: none"> I will use the inquiry report as a resource and reference in the future ². 	58%		
Promotion of public understanding of productivity-related matters			
Inquiry participants surveyed who considered that the inquiry increased their understanding of the following at least a little:		"The recommendations in the <i>Improving</i> report are practical and implementable and, if accepted, would make an important contribution... While the <i>Measuring</i> report will be voluntarily picked up by a few officials keen on developing better measures, this is unlikely to be either a common or enduring response if the recommendations aimed at strengthening demand for productivity improvement are not adopted by government."	"The Commission could have said more about the Budget cycle and why it isn't always conducive to good decision-making, despite Treasury's best efforts."
<ul style="list-style-type: none"> The inquiry increased my understanding of the measurement of state sector productivity 	85%		
<ul style="list-style-type: none"> The inquiry increased my understanding of opportunities to improve state sector productivity 	85%		

¹ The survey question asked respondents specifically whether "the inquiry has helped to set or lift the standard for high quality analysis and advice on measuring and improving state sector productivity."

² The survey question asked respondents specifically if "As a result of the inquiry, the measurement of state sector productivity, and the resulting analysis and advice about state sector productivity, will be of a higher standard".

[NB: where survey respondents answered "Don't know" these responses are excluded from the results.]

Assessment of inquiry process and report State sector productivity

Output measures: *Right focus*

Measure	Survey result	Independent expert review: <i>Murray Horn, Independent Consultant</i>	Focus group evaluation: <i>Kathy Spencer (facilitator), Independent Consultant</i>
<p>Relevance and materiality of final inquiry reports</p> <p>Inquiry participants surveyed who agreed or strongly agreed that:</p>			
<ul style="list-style-type: none"> The Commission sourced all relevant research and information 	63%	<p>“The reports give relevant and material advice on most aspects of the four areas identified in the Terms. Where the inquiry falls short, it does so because the Terms created a dilemma for the inquiry: the best measures for meeting the three objectives in the four identified sectors are not the narrowly defined technical efficiency measures the Terms require.”</p>	<p>“... the group felt that the terms of reference were too limiting. Trying to have the productivity discussion without a strong connection to outcomes made the Commission’s reports less valuable than they could have been.”</p> <p>“One participant commented on the high quality of the commissioned research, especially the history of efficiency measurement in the NZ health sector and the piece on reflections of senior state sector leaders. They would have liked to see more material from the background research carried through to the Commission’s final reports.”</p>
<ul style="list-style-type: none"> The Commission engaged with the right people 	82%		
<ul style="list-style-type: none"> The final report/research paper(s) focused on the issues most significant to [the topic] ¹. 	74%		
<ul style="list-style-type: none"> The final report went into sufficient depth on the issues it covered 	67%		

¹. The survey question asked specifically if the inquiry “focused on the most significant issues”; [NB: where survey respondents answered “Don’t know” these responses are excluded from the results]

Output measures: *Good process management*

Measure			
<p>All inquiry issues, papers, draft reports and final reports were delivered to schedule (All external milestones communicated in the Commission’s process planning are achieved)</p>		<p>The inquiry Terms of Reference specify submission of the final report to referring Ministers by 30 August 2018. The final reports were delivered ahead of this timeframe and publicly released on 17 August 2018.</p>	
Measure	Survey result	Independent expert review: <i>Murray Horn, Independent Consultant</i>	Focus group evaluation: <i>Kathy Spencer (facilitator), Independent Consultant</i>
<p>Satisfaction with the inquiry process</p>			
<ul style="list-style-type: none"> Inquiry participants surveyed who agreed or strongly agreed that overall, they were satisfied with the Commission’s inquiry processes 	67%	<p>“The draft report was produced in a timely fashion and the final reports were delivered ahead of the deadline set out in the Terms.”</p> <p>“... a high quality process that elicited a good balance of views and evidence. However, the lack of proactive, Ministry-level engagement from most of the identified sectors would have compromised the quality of the process to some degree... This is unlikely to have been caused by the way the Commission managed the process.”</p>	<p>“... generally quite satisfied with the inquiry process... the Commission was very good at keeping in touch and keeping to deadlines. Commission staff were seen as very accessible and their willingness to incorporate points from submissions and discussions into the final reports was appreciated.”</p> <p>“... appreciated the transparent process that the Commission uses to evaluate its performance after each inquiry...”</p>

[NB: where survey respondents answered “Don’t know” these responses are excluded from the results]

Assessment of inquiry process and report State sector productivity

Output measures: *High quality work*

Measure	Survey result	Independent expert review: <i>Murray Horn, Independent Consultant</i>	Focus group evaluation: <i>Kathy Spencer (facilitator), Independent Consultant</i>
<p>Confidence in the Commission's inquiry findings and recommendations</p> <p>Inquiry participants surveyed who considered the following aspects to be of good or excellent quality:</p> <ul style="list-style-type: none"> The inquiry's analysis of information 	79%	<p>"... the <i>Measuring</i> report was well pitched at a broad audience of potential users and is likely to be useful and used, if the feedback from interviewees is a good guide. On the other hand, for those just interested in applying narrow technical efficiency measures to operational activities, the comprehensive economic approach adopted is unnecessary."</p>	<p>"... the Commission had done a good job within the constraints imposed by the terms of reference. The reports met the terms of reference, left nothing out, and could be applied by those working in the public sector."</p>
<ul style="list-style-type: none"> The findings and recommendations <p>Inquiry participants surveyed who agreed or strongly agreed that:</p> <ul style="list-style-type: none"> The Commission's recommendations followed logically from the inquiry analysis and findings 	89%	<p>"There are a few things that I have identified as missing from the analysis and while adding these would have enhanced the final reports, the absence of these elements is not fatal to the analysis, guidance or recommendations in the reports."</p>	<p>"Participants felt that the recommendations were familiar and didn't break any new ground."</p>
<ul style="list-style-type: none"> The Commission's recommendations would, if implemented, materially improve performance in [the topic area] ¹. 	78%		<p>"... the recommendations would have benefited from being less 'conceptual' and more 'specific and actionable.'"</p>
	67%		

1. Note the specific survey question asked respondents to consider whether "The inquiry's recommendations would, if implemented, materially improve state sector productivity and the ability to measure productivity". [NB: where survey respondents answered "Don't know" these responses are excluded from the results.]

Output measures: *Effective engagement*

Measure	Survey result	Independent expert review: <i>Murray Horn, Independent Consultant</i>	Focus group evaluation: <i>Kathy Spencer (facilitator), Independent Consultant</i>
<p>Perception of the quality of engagement by the Commission</p> <p>Inquiry participants surveyed who agreed or strongly agreed that:</p> <ul style="list-style-type: none"> • There was ample opportunity to participate in the inquiry • The Commission was approachable • The Commission communicated clearly • The Commission understood their views 	<p>89%</p> <p>88%</p> <p>100%</p> <p>81%</p>	<p>“Given the well-deserved reputation of the Commission for the quality of its engagement in past inquiries, I was surprised by the very wide assessments of interested parties in the quality of engagement in this inquiry. Some of that variation reflects different levels of unease about where the inquiry might lead and different levels of interest in both the subject (at least as specified in the Terms) and the process.”</p> <p>“While these factors are largely outside the Commission’s control there are some lessons for the Commission. First, some of the issues raised in the initial submissions could have usefully been given more attention. Second, concerns about the way the Commission might use or present what organisations are doing, or not doing, were not addressed (albeit that they may not have been addressable to the satisfaction of those organisations). Finally, narrow measures of productivity are likely to be much more relevant to staff managing operational activity and more could have been done to reflect more of an operational approach in the engagement (including having operational people with experience in using the narrow productivity metrics on the inquiry team).”</p>	<p>“The Commission provided ample opportunity to engage and some of the discussions had been quite robust. People found that the Commission was open to what the agencies were saying but the input from agencies was not always reflected in the Commission’s final product.”</p> <p>“The engagement with agencies over case studies did not always go smoothly. When the Commission approached agencies for case study information, it wasn’t clear what the Commission wanted, and how the material was to be used.”</p> <p>“One agency commented that their discussions with the Commission had been helpful in demonstrating the various methodologies for productivity measurement. The same agency was now revisiting its annual report measures with a view to making them more meaningful.”</p>
<p>Engagement meetings held Number of parties the Commission engaged with during the inquiry, as noted in the final report appendix: 46</p> <p>Submissions received Number of parties who made a submission during the inquiry, as noted in the final report appendix: 31</p>			

[NB: where survey respondents answered “Don’t know” these responses are excluded from the results.]

Assessment of inquiry process and report
State sector productivity

Output measures: Clear delivery of message

Measure	Survey result	Independent expert review: <i>Murray Horn, Independent Consultant</i>	Focus group evaluation: <i>Kathy Spencer (facilitator), Independent Consultant</i>
<p>Perception of the effectiveness of the Commission’s presentation of inquiry findings and recommendations</p> <p>Inquiry participants surveyed who agreed or strongly agreed that:</p> <ul style="list-style-type: none"> • The findings and recommendations were clear • The style of writing and language used in the report was clear • The summary material provided was useful 	<p>95%</p> <p>90%</p> <p>85%</p>	<p>“The work is well communicated and presented. This facilitates accessibility by a variety of different audiences. The only way this might have been improved is by adopting more of an operational approach and language in presenting the narrow technical efficiency measures and case studies...”</p> <p>“On the other hand, while the communication and presentation of “barriers to higher state sector productivity” demands attention, it does little to develop the confidence of the existing workforces that they will successfully overcome these barriers. This makes it less likely that the reports will meet one of the aims of the Terms: i.e., ‘to engage the State Sector workforces on opportunities to do things better’.”</p>	<p>“The measurement report contained discussion and examples that showed the complexities involved in measuring productivity... some felt that the Commission had not fully acknowledged these difficulties and had instead presented productivity measurement and productivity improvement as aims that could be fairly easily progressed with more effort.”</p> <p>“... they were disappointed at the way the Commission had depicted the public sector as resistant to productivity measurement. Their own day-to-day experience was of public servants working hard to develop ways to assess effectiveness and deliver services more efficiently. There was a feeling that the very active community of public servants working to improve their measures and analysis was not acknowledged...”</p> <p>“The final report format, being presented in two slim volumes, was appreciated. The reports were well written and accessible, of the right length, and professionally produced. They could also be readily accessed online.”</p>

Assessment of inquiry process and report
State sector productivity

Output measures: Overall performance

Measure	Survey result	Independent expert review: <i>Murray Horn, Independent Consultant</i>	Focus group evaluation: <i>Kathy Spencer (facilitator), Independent Consultant</i>
<p>Independent expert evaluation of the overall performance of the inquiry</p> <ul style="list-style-type: none"> A report evaluating the overall performance of the inquiry from the final inquiry report (taking into account the focus of the report, process, analysis, engagement and delivery of message with recommendations for future improvements) 	<p>Report received</p>	<p>"... the Commission has produced an important and high quality contribution to our understanding of state sector productivity, its measurement and the barriers facing productivity improvement. It has provided useful guidance to officials who are interested in productivity measurement. Perhaps most significantly, it has identified a few practical, achievable and necessary recommendations that, if implemented, would go a long way to improving state sector productivity."</p>	<p>" A wide range of people had contributed to the inquiry and some very useful research had been commissioned."</p> <p>The final report format, being presented in two slim volumes, was appreciated. The reports were well written and accessible..."</p> <p>"The Commission provided ample opportunity to engage and some of the discussions had been quite robust... the Commission was open to what the agencies were saying... input from agencies was not always reflected in the Commission's final product."</p>
<p>Focus group evaluation of inquiry</p> <ul style="list-style-type: none"> Report from a focus group representative of inquiry participants, facilitated by an independent person with significant experience in inquiry-type work with feedback on the inquiry and recommendations for future improvements (taking into account the focus of the report, process, analysis, engagement and delivery of message) 	<p>Report received</p>	<p>"There are a number of factors outside the Commissions control that would have weighed on any inquiry. Despite that, the inquiry has produced an important and high quality contribution to our understanding of state sector productivity, its measurement and the barriers facing productivity improvement. It has provided useful guidance to officials who are interested in productivity measurement. Perhaps most significantly, it has identified a few practical, achievable and necessary recommendations that, if implemented, would go a long way to improving state sector productivity."</p>	<p>"... the Commission had done a good job within the constraints imposed by the terms of reference... [recommendations] could be applied by those working in the public sector."</p> <p>"While happy with the process management overall, some felt that the process around the case studies could have been better."</p>
<p>Participant evaluation of inquiry</p> <ul style="list-style-type: none"> Percentage of inquiry participants surveyed who rated the overall quality of the inquiry as good or excellent (taking into account the focus of the report, process, analysis, engagement and delivery of message) 	<p>50%¹</p>	<p>"There are a number of factors outside the Commissions control that would have weighed on any inquiry. Despite that, the inquiry has produced an important and high quality contribution to our understanding of state sector productivity, its measurement and the barriers facing productivity improvement. It has provided useful guidance to officials who are interested in productivity measurement. Perhaps most significantly, it has identified a few practical, achievable and necessary recommendations that, if implemented, would go a long way to improving state sector productivity."</p>	

¹ Note that 95% of participants rated the overall quality of the inquiry as acceptable, good or excellent – a less demanding standard than the performance

Assessment of research function

Undertaking and publishing research about productivity-related matters

Impact measures

Measure	Independent expert review Emeritus Prof. Robert A. Buckle, Victoria University of Wellington
Improved productivity analysis and advice in New Zealand	
<p>The extent to which the research work reviewed:</p> <ul style="list-style-type: none"> • Helped to set or lift the standard in New Zealand for high-quality analysis and advice on productivity issues • Contributes to future work on [the topic area] being better focused and use resources more effectively 	<p>“The ultimate aim of the ERT’s productivity research should be to inform, influence and improve business practice and public policy, either directly or by informing PC Inquiries, with the ultimate goal of improving New Zealand’s productivity performance. While the art of assessing the impact of public policies or business initiatives is reasonably well developed, identifying what influenced those decisions is more of a challenge...”</p> <p><i>“The impact of R&D grants on the performance of New Zealand firms: Research Note 2017/5... The paper is a valuable contribution to understanding the potential and also the limitations of using the LBD for evaluating the impact of policy initiatives on firm-level productivity performance. The paper is also a valuable contribution toward understanding the types of data that need to be collected for this type of policy evaluation. It is an excellent demonstration of the type of research techniques that can be applied to the analysis of the impact of policy initiatives aimed at improving New Zealand’s productivity performance.”</i></p> <p><i>“Estimating Quality-Adjusted Productivity in Tertiary Education: Methods and Evidence for New Zealand, VUW Working Papers in Public Finance 17/2017... The quality of the research is of a high standard probably at the international frontier in this field. The work would most likely be publishable in a leading international field journal specialising in productivity or the economics of education. Experienced researchers interviewed during this Review concurred with this view and endorsed the ERT support for this type of research. The research produced is an excellent illustration of what can be achieved by the ERT when it concentrates on supporting research on core productivity issues and collaborates with highly experienced external researchers. This work helps underscore the case for further investment in attempting to measure productivity in public services in order to provide a more robust basis for evaluating improvements in public service delivery and impact.”</i></p>
Promotion of public understanding of productivity-related matters	
<p>The extent to which the research work reviewed:</p> <ul style="list-style-type: none"> • Contributes to increased understanding of [the topic area] • Increases understanding of the importance of productivity more generally 	<p>“The judgement of this Review is that, as observed in the previous Reviews, ERT staff have continued to be very active in communicating the insights from the research programme to stakeholders and engaging with the wider research community...”</p> <p>“The ERT staff have been very effective at attracting commentary in the wider public media. During the three years between June 2015 and June 2018, about 90 items have appeared in New Zealand newspapers, internet news sites (such as Stuff.co.nz), radio, television, professional magazines and blogs (excluding PC sites). The frequency of media attention has increased during the last 12 months. Although only a partial indication, these data suggest the work of the ERT is starting to gain wider public attention and impact. The ‘stocktake’ paper is evidently attracting interest from representatives of political parties. It may be useful if the ERT was to maintain an ongoing record of its full range of outreach initiatives through its media engagement, workshops and seminars and engagements with policy community.”</p>

Assessment of research function

Undertaking and publishing research about productivity-related matters

Output measures: *Right focus*

Measure	Independent expert review Emeritus Prof. Robert A. Buckle, Victoria University of Wellington
<p>Relevance and materiality of paper(s) within the research work reviewed</p> <p>The extent to which:</p> <ul style="list-style-type: none"> • The Commission sourced all relevant research and information • The Commission engaged with the right people • The paper(s) focused on the issues most significant to [the topic] • The paper(s) went into sufficient depth on the issues it covered 	<p>“...body of research is highly relevant and material and is strongly supported by stakeholders and is proving valuable to Government policy agencies.”</p> <p>“This shift toward more policy focussed work and productivity measurement was universally supported by representatives of stakeholders who were interviewed. Some expressed the view that if the work of the ERT is to have impact and influence public policy and business practice, it is imperative that this type of work be included in its core work programme.”</p> <p>“... projects that seem to have only a tangential connection with what might be expected to be included in the core research agenda of the ERT and others that may intersect with productivity but do not necessarily shed obvious light on the characteristics or measurement of productivity or the impact of policy on productivity.”</p> <p>“There is scope for a variety of topics relevant to its core role, including providing underpinning research for PC Inquiries. But it should avoid being diverted into projects that are tangential to its core role.”</p>

Output measure: *Good process management*

Measure	Survey result	Independent expert review Emeritus Prof. Robert A. Buckle, Victoria University of Wellington
<p>The extent to which paper(s) within the research work reviewed were delivered to schedule</p> <ul style="list-style-type: none"> • All external milestones communicated in the Commission’s process planning are achieved (Research processes) <p>Satisfaction with the Commission’s management of research processes</p> <ul style="list-style-type: none"> • Productivity Hub participants surveyed, and reviewer commentary, who agreed or strongly agreed that overall, they were satisfied with the Commission’s research management processes¹. 	96%	<p>“The ERT could benefit from several improvements to its processes and management of research. Areas for potential improvement are in: regular medium-term research planning as a basis for identifying research capability requirements, resourcing and research collaboration; the processes and documentation of quality assurance for research projects; stronger expectation of submission of selected completed research projects to top quality peer-reviewed research and policy journals; and improvements to the PC Research web-site and nomenclature for papers published on the web-site. There is also scope to enhance the rate of research production of the ERT by maintaining focus on an agreed core productivity research programme, specifying time-lines for research and effective monitoring of research progress.”</p> <p>“A well-crafted process for preparing its medium-term research programme and prioritising work from year to year would help underpin the realisation of the resourcing needs of the ERT and would make more transparent the consequences of reduced funding, as has occurred in the last two years. Consultation with PC Inquiry staff and Productivity Hub members should be part of this process, but broader consultation, including with academics and other researchers involved in related research, could fruitfully inform the specification of its future research programme. This process would seem critical, especially in an environment of reduced funding. It would assist in identifying the future research skills required by the ERT and in promoting successful collaboration with outside researchers.”</p>

¹. Note the specific survey question asked respondents to consider whether “Research published by the Productivity Hub increased my understanding of productivity related topics/issues [NB: where survey respondents answered “Don’t know” these responses are excluded from the results]

Assessment of research function

Undertaking and publishing research about productivity-related matters

Output measures: *High quality work*

Measure	Independent expert review Emeritus Prof. Robert A. Buckle, Victoria University of Wellington
<p>The degree of reviewer confidence in research findings and conclusions</p> <p>Reviewer commentary indicates the following aspects to be of good or excellent quality:</p> <ul style="list-style-type: none"> Information analysis of research papers Findings of research papers <p>Reviewer agreed or strongly agreed that:</p> <ul style="list-style-type: none"> Conclusions followed from analysis and findings 	<p>The assessment of the quality of the research was limited to what is considered core productivity research, that is, the research papers on firm productivity dynamics, policy evaluation and productivity measurement in the non-market sector. This work is considered to be of a very good standard, and the work on measurement of productivity in the tertiary education sector is assessed to be at the international frontier.</p> <p>“The conclusion of this Review is that for the sample of more recent strictly research papers assessed, the quality achieved previously has been sustained. In particular, the papers on “The impact of R&D grants...”, “Innovation and performance of New Zealand firms...”, and “Estimating Quality-Adjusted Productivity in Tertiary Education...” would be worthy of submission to appropriate high-quality journals. The paper “Achieving New Zealand’s productivity potential” is of a different genre but is also of a very good standard for this type of paper.”</p>

Output measure: *Effective engagement*

Measure	Survey result	Independent expert review Emeritus Prof. Robert A. Buckle, Victoria University of Wellington
<p>Perceptions of the quality of engagement by the Commission</p> <p>Productivity Hub participants surveyed who agreed or strongly agreed that:</p> <ul style="list-style-type: none"> the Commission’s facilitation of the productivity research community was a positive contribution towards improved levels of coordination and collaboration in productivity research 	98%	<p>“... the ERT has played a significant role in the creation and functioning of the GEN Productivity Hub and in generating an agreed work programme for the Hub. Representatives of public-sector agencies interviewed commented on the valuable role of the Hub in bringing agencies together, generating a shared understanding of productivity research priorities, funding research and deepening understanding of New Zealand’s productivity performance and characteristics. This process resulted in foundational work on research techniques to be applied to longitudinal firm data, and on utilising the LBD to understand the importance of factors such as spacial and geographical issues, the propensity for investment in knowledge-based capital investment, and competition, on firm performance.”</p> <p>“Within the Productivity Commission itself, the Inquiry teams have appreciated the opportunity to draw on the economics and research skills of ERT staff. Their familiarity with various New Zealand datasets, technical skills in managing and interpreting data and applying suitable statistical techniques to utilise data contained in for example the LBD, IDI and Sofie databases and other sources have proved to be valuable to Government directed PC Inquiries.”</p>

[NB: where survey respondents answered “Don’t know” these responses are excluded from the results]

Assessment of research function

Undertaking and publishing research about productivity-related matters

Output measure: Clear delivery of message

Measure	Independent expert review Emeritus Prof. Robert A. Buckle, Victoria University of Wellington
<p>The effectiveness of the Commission's presentation of research</p> <p>Reviewer commentary on research papers indicates that:</p> <ul style="list-style-type: none"> • The conclusions were clear • The style of writing and language used was clear • Paper(s) provided clarity about steps leading on from the research 	<p>"ERT staff have been actively engaged communicating its research insights to the policy community, political groups, professional bodies and the New Zealand media. This engagement appears to be changing in emphasis and reaching out to the wider public and business management communities. This is occurring for example, through contributions to professional magazines and increased frequency of public commentary through alternative public media such as radio, television and internet news sites."</p> <p>"Research paper 2016/1 "Achieving New Zealand's productivity potential" is appreciated by Government agencies as a valuable input to the determination of their own work priorities. This and other contributions by ERT staff have been helpful for the preparation of the Productivity Hub's own review of insights from research using firm-level data, gaps in knowledge and the Hub's future priorities..."</p> <p><i>"Achieving New Zealand's productivity potential, Research Paper 2016/1, November 2016.... It is important that the ERT take stock of its research and identify how this work can help guide and inform public policy and strengthen the bridge between the PC and core public policy institutions. This paper was prepared to serve this role... This is not generating original research but it is a valuable synthesis."</i></p>

Output measure: Overall performance

Measure	Independent expert review Emeritus Prof. Robert A. Buckle, Victoria University of Wellington
<p>Independent expert evaluation of research work</p> <ul style="list-style-type: none"> • A report evaluating the overall performance of the package of research work (taking into account the focus of the research work, process, analysis, engagement and delivery of message) with recommendations for future improvements 	<p>"Arising from this Review are several suggestions or recommendations which are offered in the spirit of continuous improvement. They include the following:</p> <ol style="list-style-type: none"> a. Establish a regular medium-term research planning process. This plan should be guided by the agreed core areas of work and form the basis for determining the annual research plan, staff capability planning, and the annual financial budget for the ERT... b. Development of the agreed core areas of future ERT productivity research would benefit from continued consultation with the Productivity Hub members, but the scope of consultation should be broadened to include other researchers and institutions involved in the field... c. Explore opportunities to support the core research programme through access to other funding and increased collaboration with external researchers to enhance the allocation of external contestable funding sources to research on New Zealand productivity... d. Examine the time taken to complete research projects and identify ways to lift the rate of research output on core productivity topics per unit of resource available to the ERT... e. Document the quality assurance process required for each type of research project and publication... f. Review the PC "Research" web site, including the nomenclature for research papers, and the scope to link with related international databases and research sites... g. Explore more effective ways to engage local and international academic researchers in working on the research priorities of the ERT... h. If the recommendations on process improvements are adopted, it would be appropriate to consider reducing the frequency of formal external Reviews of the ERT..."

2017/18 Financial statements

Statement of comprehensive revenue and expense

for the year ended 30 June 2018

	Notes	Actual 2018 \$000	Budget 2018 \$000	Actual 2017 \$000
Revenue				
Revenue from the Crown	1	5,030	5,030	5,030
Interest revenue		2	10	5
<i>Total revenue</i>		5,032	5,040	5,035
Expenses				
Personnel costs	2	3,476	3,089	3,340
Other expenses	3	1,608	1,902	1,439
Depreciation and amortisation expense	6,7	53	49	66
<i>Total expenses</i>		5,137	5,040	4,845
Surplus/(deficit) and total comprehensive revenue and expense		(105)	-	190

The accompanying notes form part of these financial statements. Explanations of major variances from budget are provided in note 17.

Statement of changes in equity

for the year ended 30 June 2018

	Note	Actual 2018 \$000	Budget 2018 \$000	Actual 2017 \$000
Balance at 1 July		1,156	1,041	966
<i>Total comprehensive revenue and expense</i>		<i>(105)</i>	<i>-</i>	<i>190</i>
Balance at 30 June	12	1,051	1,041	1,156

The accompanying notes form part of these financial statements. Explanations of major variances from budget are provided in note 17.

Statement of financial position

as at 30 June 2018

	Notes	Actual 2018 \$000	Budget 2018 \$000	Actual 2017 \$000
ASSETS				
Current assets				
Cash and cash equivalents	4	1,440	1,466	1,409
Debtors and other receivables	5	98	60	93
<i>Total current assets</i>		1,538	1,526	1,502
Non-current assets				
Property, plant and equipment	6	100	69	140
Intangible assets	7	15	15	19
<i>Total non-current assets</i>		115	84	159
TOTAL ASSETS		1,653	1,610	1,661
LIABILITIES				
Current liabilities				
Creditors and other payables	8	335	288	263
Lease incentive	9	5	-	5
Employee entitlements	10	186	200	159
<i>Total current liabilities</i>		526	488	427
Non-current liabilities				
Lease incentive	9	8	13	13
Provisions	11	68	68	65
<i>Total non-current liabilities</i>		76	81	78
TOTAL LIABILITIES		602	569	505
NET ASSETS		1,051	1,041	1,156
EQUITY				
Contributed capital	12	500	500	500
Accumulated surplus / (deficit)	12	551	541	656
TOTAL EQUITY		1,051	1,041	1,156

The accompanying notes form part of these financial statements. Explanations of major variances from budget are provided in note 17.

Statement of cash flows

for the year ended 30 June 2018

	Note	Actual 2018 \$000	Budget 2018 \$000	Actual 2017 \$000
Cash flows from operating activities				
Receipts from the Crown		5,030	5,030	5,030
Interest received		2	10	5
Payments to suppliers		(1,528)	(1,883)	(1,415)
Payments to employees		(3,449)	(3,064)	(3,357)
Goods and services tax (net)		4	-	(2)
<i>Net cash flow from operating activities</i>		59	93	261
Cash flows from investing activities				
Purchases of property, plant, and equipment		(28)	-	(17)
<i>Net cash flow from investing activities</i>		(28)	-	(17)
Net increase/(decrease) in cash and cash equivalents		31	93	244
Cash and cash equivalents at 1 July		1,409	1,373	1,165
Cash and cash equivalents at 30 June	4	1,440	1,466	1,409

The accompanying notes form part of these financial statements. Explanations of major variances from budget are provided in note 17.

Statement of accounting policies

Reporting entity

The New Zealand Productivity Commission (the Commission) is a Crown entity in terms of the *Crown Entities Act 2004*. It was established under the *New Zealand Productivity Commission Act 2010* and its parent is the Crown. The Commission's principal activities are to:

- undertake in-depth inquiries on topics referred to it by the Government;
- carry out productivity-related research that assists to improve productivity over time; and
- promote public understanding of productivity-related matters.

The Commission is a public benefit entity (PBE) for financial reporting purposes. The financial statements for the Commission are for the year ended 30 June 2018 and were approved by the Board on 31 October 2018.

Basis of preparation

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the period.

Statement of compliance

The financial statements have been prepared in accordance with the requirements of the *Crown Entities Act 2004*, which includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

The Commission has applied the suite of Tier 2 *Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS 1 RDR 28-3)* in preparing the 30 June 2018 financial statements. The Commission has expenses of less than \$30 million.

Measurement base

The financial statements have been prepared on a historical cost basis. Cost is the fair value of the consideration given in exchange for assets.

Functional and presentation currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of the Commission is New Zealand dollars.

Changes in accounting policies

There have been no changes in accounting policies during the financial year.

Comparatives

When the presentation or classification of items in the financial statements are amended or accounting policies are changed, comparative figures are restated to ensure consistency with the current period, unless it is impractical to do so.

Standards issued and not early adopted

Standards and amendments issued but not yet effective that have not been early adopted, and which are relevant to the Commission are:

Financial instruments

In January 2017, the External Reporting Board issued *PBE IFRS 9 Financial Instruments*. This replaces *PBE IPSAS 29 Financial Instruments: Recognition and Measurement*. *PBE IFRS 9* is effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. The main changes under the standard that are relevant to the Commission are:

- new financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost.
- a new impairment model for financial assets based on expected losses, which may result in the earlier recognition of impairment losses.

The Commission will adopt *PBE IFRS 9* in the 2018/19 financial year. This is consistent with the Treasury's decision to adopt *PBE IFRS 9* for the *Financial Statements of the Government of New Zealand* in the 2018/19 financial year. The Commission has considered the effect of *PBE IFRS 9* and believes it will not have a significant impact on the financial statement. The Commission has not early adopted any other standards or amendments to standards.

Significant accounting policies

The significant accounting policies which materially affect the measurement of financial performance, position and cash flows have been applied consistently for all reporting periods covered by these financial statements. The policies satisfy the concepts of relevance and reliability ensuring the substance of the underlying transactions or other events is reported. Significant accounting policies are included in the notes to which they relate.

Goods and services tax

All items in the financial statements are presented exclusive of goods and service tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense. The net GST recoverable from, or payable to Inland Revenue (IR) is included as part of receivables or payables in the *Statement of Financial Position*.

The net GST paid to, or received from IR, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the *Statement of Cash Flows*.

Income tax

The Commission is a public authority and consequently is exempt from income tax under *section CW 38 of the Income Tax Act 2007*. Accordingly, no provision has been made for income tax.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in transit, and funds held in the bank accounts. All cash held in bank accounts is held in on demand accounts and no interest is payable to the Commission.

The Commission is only permitted to spend its cash and cash equivalents within the scope and limits of its appropriation.

Foreign currency transactions

Foreign currency transactions are translated into New Zealand dollars (the functional currency) using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

Budget figures

The budget figures are derived from the statement of performance expectations as approved by the Board. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Board in preparing these financial statements.

Performance outputs

Direct costs are charged directly to outputs. Research personnel costs are allocated to outputs based on the time spent. The indirect costs of support groups and overhead costs are charged to outputs based on the proportion of direct costs of each output.

Critical accounting estimates and assumptions

In preparing these financial statements the Commission has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements in applying accounting policies

Management has exercised the following critical judgements in applying accounting policies:

Leases classification

Determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the Commission. Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term, and determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset is recognised in the *Statement of Financial Position* as property, plant and equipment, whereas for an operating lease no such asset is recognised. The Commission has exercised its judgement on the appropriate classification of equipment leases, and has determined that none of the lease arrangements are finance leases.

Notes to the financial statements

Note 1 Revenue

Revenue is measured at fair value of consideration received or receivable. Revenue is derived through the provision of outputs for the Crown, services to third parties and investment income.

Revenue from the Crown

Revenue from the Crown transactions are considered to be non-exchange transactions. The Commission is primarily funded through revenue received from the Crown. The funding is restricted in its use for the purpose of the Commission meeting its objectives as specified in its founding legislation and the scope of the relevant government appropriations. Apart from these general restrictions, the Commission considers there are no conditions attached to the funding.

Revenue from the Crown is recognised as revenue when earned and is reported in the financial period to which it relates. The fair value of revenue from the Crown has been determined to be equivalent to the amounts due in the funding arrangements.

Interest

Interest revenue is recognised using the effective interest method.

Note 2 Personnel costs

Personnel costs are recognised in the period to which they relate.

Superannuation schemes

Defined contribution schemes

Obligations for contributions to KiwiSaver are accounted for as a defined contribution superannuation scheme and are recognised as an expense in the surplus or deficit as incurred. The Commission also operates a 'total remuneration' policy, such that employer KiwiSaver contributions are part of total remuneration and not an additional benefit.

Defined benefit schemes

The Commission does not make employer contributions to any defined benefit superannuation schemes.

	Actual 2018 \$000	Actual 2017 \$000
Salaries and contractors	2,716	2,645
Board fees	630	601
Employer contributions to KiwiSaver defined contribution superannuation plan	66	60
Other entitlements	33	(26)
Bonuses	31	31
Other	-	29
Total personnel costs	3,476	3,340

Employee remuneration

	Number of employees 2018	Number of employees 2017
\$100,000 – 109,999	1	1
\$110,000 – 119,999	1	3
\$140,000 – 149,999	1	-
\$150,000 – 159,999	2	3
\$160,000 – 169,999	3	1
\$170,000 – 179,999	1	-
\$180,000 – 189,999	2	3
\$190,000 – 199,999	1	1
\$200,000 - 209,999	-	1
\$210,000 - 219,999	1	-
Total employees	13	13

During the year ended 30 June 2018, no employees received compensation and other benefits in relation to cessation (2017: Nil).

Key personnel compensation

	Remuneration 2018 \$000	Full-time equivalent Members 2018	Remuneration 2017 \$000	Full-time Equivalent Members 2017
Board members	630	1.7	601	1.7
Leadership team	794	3.8	788	3.8
<i>Total key management personnel remuneration</i>	1,424	5.5	1,389	5.5

Key personnel are Commissioners, General Manager and three Directors.

Board fees

Commissioners are appointed by the Crown and are the Board for the purposes of the *Crown Entities Act 2004*.

	Actual 2018 \$000	Actual 2017 \$000
Murray Sherwin (Chair)	323	303
Dr. Graham Scott	146	142
Prof. Sally Davenport	161	156
<i>Total Board member remuneration</i>	630	601

During the financial year, payments made, or payable to, Elizabeth Hickey, a committee member appointed by the Board, but who is not a Board member, were \$3,750 (2017: \$1,500).

The Commission has not provided a deed of indemnity to Board members for activities undertaken in the performance of the Commission's functions. The Commission has not effected directors' and officers' liability and professional indemnity insurance cover during the financial year in respect of the liability or costs of Board members and employees. No Board or committee members received compensation or other benefits in relation to cessation (2017: Nil).

Note 3 Other expenses

	Actual 2018 \$000	Actual 2017 \$000
Fees to principal auditor for financial statement audit	33	33
Consultancy	735	440
Information technology and telecommunications	306	321
Travel and transport	106	124
Operating lease expense (office rental)	181	180
Communication and engagement	36	80
Training and development	53	75
Other expenses	158	187
<i>Total other expenses</i>	1,608	1,440

Office rental

The non-cancellable operating lease expense relates to the lease of the fifteenth floor of Fujitsu Tower in Wellington. The lease expires in March 2021. The Commission as lessee exercised its right to renew in April 2016. The rental was also reviewed in April 2016 with a rental rebate agreed of \$1,000 (GST exclusive) per month for 24 months from April 2016.

The rental was reviewed again in October 2018. The Commission does not have the option to purchase the asset at the end of the lease term. There are no restrictions placed on the Commission by the leasing arrangement.

As the lessor retains substantially all the risk and rewards of ownership of the leased property, the operating lease payments are recognised in the surplus or deficit only in the period in which they occur.

Any lease incentive received or obligations to make good on the condition of the leased premises are recognised in the surplus or deficit over the term of the lease.

The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

	Actual 2018 \$000	Actual 2017 \$000
Not later than one year	185	180
Later than one year and not later than five years	323	495
<i>Total non-cancellable operating leases</i>	508	675

Note 4 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with maturities of three months or less. The carrying value of cash at bank and on hand approximates fair value.

	Actual 2018 \$000	Actual 2017 \$000
Cash at bank and on hand	1,440	1,409
<i>Total cash and cash equivalents</i>	1,440	1,409

Note 5 Debtors and other receivables

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method. The carrying value of debtors and other receivables approximates their fair value. All trade debtors are due within 30 days. Trade debtors have been assessed for impairment and no provisions for impairment have been made.

	Actual 2018 \$000	Actual 2017 \$000
Receivables - exchange transactions		
Debtors and other receivables	19	9
Prepayments	47	48
Receivables - non-exchange transactions		
GST receivable	32	36
<i>Total debtors and other receivables</i>	98	93

Note 6 Property, plant and equipment

Property, plant and equipment consists of the following asset classes: information technology equipment, furniture, office equipment, and leasehold improvements. The capitalisation thresholds are:

- Information technology equipment \$500 and over
- Furniture No threshold
- Office equipment \$500 and over
- Leasehold improvements No threshold

Additions

An item of property, plant and equipment is recognised as an asset only when it is probable that the future economic benefits or service potential associated with the item will flow to the Commission beyond one year or more and the cost of the item can be measured reliably.

Property, plant and equipment is recorded at historical cost less accumulated depreciation and any impairment losses. Depreciation on items of property, plant and equipment acquired in stages does not commence until the item of property, plant and equipment is in its final state and ready for its intended use. Subsequent expenditure that extends the useful life or enhances the service potential of an existing item of property, plant and equipment is capitalised. All other costs incurred in maintaining the useful life or service potential of an existing item of property, plant and equipment are recognised in the surplus or deficit as expenditure when incurred.

Disposals

Gains or losses arising from the sale or disposal of an item of property, plant and equipment are recognised in the surplus or deficit in the period in which the item of property, plant and equipment is sold or disposed of.

Depreciation

Depreciation is provided on a straight-line basis on all asset components to allocate the cost of the asset (less any estimated residual value) over its useful life. The residual values and remaining useful lives of property, plant and

equipment are reviewed annually. This review includes a test of impairment to ensure the carrying amount remains recoverable. Any impairment losses are recognised in the surplus or deficit. The estimated useful lives of the major asset classes are:

- Information technology equipment 3 to 5 years
- Furniture 3 to 10 years
- Office equipment 5 to 10 years
- Leasehold improvements 3 to 10 years

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter. The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

	IT assets \$000	Furniture \$000	Office equipment \$000	Leasehold improvements \$000	Total \$000
Cost or valuation					
Balance at 1 July 2017	173	125	74	341	713
Additions	23	1	4	-	28
Disposals	(10)	-	-	-	(10)
Transfer between category	-	-	-	-	-
Additions - Other	-	-	-	(8)	(8)
<i>Balance at 30 June 2018</i>	<i>186</i>	<i>126</i>	<i>78</i>	<i>333</i>	<i>723</i>
Accumulated depreciation					
Balance at 1 July 2017	128	100	64	281	573
Depreciation expense	30	14	3	1	48
Disposals	(10)	-	-	-	(10)
Reductions - Other ¹	-	-	-	12	12
<i>Balance at 30 June 2018</i>	<i>148</i>	<i>114</i>	<i>67</i>	<i>294</i>	<i>623</i>
Carrying amounts					
At 30 June 2018	38	12	14	39	100
Cost or valuation					
Balance at 1 July 2016	224	115	72	347	758
Additions	2	10	2	3	17
Disposals	(53)	-	-	-	(53)
Transfer between category	-	-	-	-	-
Additions - Other	-	-	-	(9)	(9)
<i>Balance at 30 June 2017</i>	<i>173</i>	<i>126</i>	<i>74</i>	<i>341</i>	<i>713</i>
Accumulated depreciation					
Balance at 1 July 2016	150	83	61	266	560
Depreciation expense	31	17	3	-	51
Reductions - Other ¹	-	-	-	15	15
Disposals	(53)	-	-	-	(53)
<i>Balance at 30 June 2017</i>	<i>128</i>	<i>100</i>	<i>64</i>	<i>281</i>	<i>573</i>
Carrying amounts					
At 30 June 2017	45	25	10	60	140

¹ This relates to the addition/reduction of lease make-good costs on the Commission's leased building.

Property, plant and equipment have been assessed for impairment and no provisions for impairment have been made.

Note 7 Intangible assets**Software acquisition**

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Staff training costs are recognised as an expense when incurred. Costs associated with maintaining computer software are recognised as an expense when incurred. Assets are capitalised if the purchase price is \$5,000 or greater.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each financial year is recognised in the surplus or deficit.

The useful life of intangible assets has been estimated as follows: software 3 to 15 years.

	Acquired software \$'000
Cost	
Opening balance at 1 July 2017	165
Closing balance at 30 June 2018	165
Accumulated amortisation and impairment losses	
Opening balance at 1 July 2017	146
Amortisation expense	5
Adjustments*	(1)
Balance at 30 June 2018	150
Carrying amounts	
At 30 June 2018	15
Cost	
Opening balance at 1 July 2016	165
Closing balance at 30 June 2017	165
Accumulated amortisation and impairment losses	
Opening balance at 1 July 2016	131
Amortisation expense	15
Closing balance at 30 June 2017	146
Carrying amounts	
At 30 June 2017	19

Intangible assets have been assessed for impairment and no provisions for impairment have been made.

* Adjustment to correct the opening balance as at 1 July 2017

Note 8 Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method. Creditors and other payables are non-interest bearing and are settled on commercial terms and conditions, normally 30 days or less. Therefore, the carrying value of creditors and other payables approximates their fair value.

	Actual 2018 \$000	Actual 2017 \$000
Payables - exchange transactions		
Accrued expenses	243	199
Creditors	51	14
Payables - non-exchange transactions		
Taxes payable (PAYE)	38	40
Other	3	10
<i>Total creditors and other payables</i>	335	263

Note 9 Lease incentive

Any unamortised lease incentive received is recognised as a liability in the Statement of Financial Position.

	Actual 2018 \$000	Actual 2017 \$000
Current portion	5	5
Non-current portion	8	13
<i>Total lease incentive</i>	13	18

Note 10 Employee entitlements

At balance date, any unpaid employee entitlements earned by employees for salaries and annual leave are recognised as a liability in the *Statement of Financial Position* and recognised in the surplus or deficit. Entitlements are calculated on an actual entitlement basis at current rates of remuneration. The Commission recognises a liability and an expense for bonuses where it is contractually obliged to pay them, or where a past practice has created a constructive obligation. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave to be taken in future years by employees of the Commission is estimated to be less than the annual entitlement for sick leave.

The Commission does not offer retirement or long service leave benefits to its employees.

	Actual 2018 \$000	Actual 2017 \$000
Accrued annual leave	137	109
Accrued salaries and wages	49	50
<i>Total employee entitlements</i>	186	159

Note 11 Provisions

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The Commission is required at the expiry of the lease term to make good any damage caused to its leased office premises, and to remove any fixtures or fittings installed by the Commission. The Commission has the option to renew this lease, which affects the timing of expected cash outflows to make-good the premises. The cash flows associated with the current portion of the provision are expected to occur in February and March 2021. Information about the leasing arrangement is disclosed in note 3.

	Actual 2018 \$000	Actual 2017 \$000
Lease make-good		
Non-current portion	68	65
Total provisions	68	65

Movements within the provision:

	Actual 2018 \$000	Actual 2017 \$000
Balance at 1 July 2017	65	61
Additional provisions made	3	-
Discount unwind	-	4
Balance at 30 June 2018	68	65

Note 12 Equity

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components:

- contributed capital
- accumulated surplus / (deficit)

The Commission is subject to the financial management and accountability provisions of the *Crown Entities Act 2004*, which impose restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities, and the use of derivatives. The Commission manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments, and general financial dealings to ensure the Commission effectively achieves its objectives and purpose, while remaining a going concern.

	Actual 2018 \$000	Actual 2017 \$000
Balance at 1 July 2017	1,156	966
Surplus/(deficit) for the year	(105)	190
Balance at 30 June 2018	1,051	1,156

Note 13 Contingencies

The Commission has no contingent liabilities, and no contingent assets (2017: Nil).

Note 14 Events after the balance date

There were no significant events after the balance date. (2017: Nil)

Note 15 Financial instruments

	Actual 2018 \$000	Actual 2017 \$000
Debtors and receivables		
Debtors and receivables	98	93
Cash and cash equivalents	1,440	1,409
<i>Total debtors and receivables</i>	1,538	1,502
Financial liabilities measured at amortised cost		
Creditors and other payables (excluding income in advance)	335	263
Lease incentives	13	18
<i>Total financial liabilities measured at amortised cost</i>	348	281

Financial instrument risks

The Commission is party to financial instrument arrangements as part of its everyday operations. These financial instruments include bank accounts, accounts receivable, and accounts payable. The Commission has policies to manage the risks associated with financial instruments. The Commission seeks to minimise exposure from financial instruments and does not enter into speculative financial instrument transactions.

Market risk*Interest rate risk*

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Cash flow interest rate risk is the risk that cash flows from a financial instrument will fluctuate because of changes in market interest rates. The Commission's exposure to fair value and cash flow interest rate risk is limited to on-call bank accounts and short-term deposits, arising from the investment of surplus cash due to the timing of cash inflows and outflows.

Credit risk

Credit risk is the risk that a third party will default on its obligation to the Commission, causing it to incur a loss. The Commission invests surplus cash with registered banks. In the normal course of business, the Commission is exposed to credit risk from cash and term deposits with banks, debtors and other receivables. For each of these, the maximum credit exposure is best represented by the carrying amount in the *Statement of Financial Position*. Westpac Banking Corporation is the Commission's main bank and has a Standard & Poor's rating of AA-.

Liquidity risk*Management of liquidity risk*

Liquidity risk is the risk that the Commission will encounter difficulty raising liquid funds to meet commitments as they fall due. The Commission has a low exposure to liquidity risk as it does not enter into credit arrangements, except for those available from suppliers as part of normal operating agreements. The Commission manages liquidity risk by continuously monitoring forecast and actual cash flow requirements and aims to maintain sufficient funds in current and on-call bank accounts and short-term fixed deposits to meet forecast liquidity requirements.

Note 16 Related party transactions

The Commission is a wholly-owned entity of the Crown.

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that is reasonable to expect the Commission would have adopted in dealing with the party at arm's length in the same circumstances. Further, transactions with other government agencies (for example, Government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions for such transactions.

The Commission purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. This included the purchase of administrative support services from the Inland Revenue, electricity from Meridian Energy, travel from Air New Zealand, postal services from New Zealand Post, data and publications from Property IQ NZ and Statistics New Zealand, and professional development involving Massey University, Reserve Bank of New Zealand and the Treasury. In addition, services were purchased from Victoria University of Wellington (see below). All related party transactions have been entered into on an arm's length basis.

Key personnel

The following transactions were entered into during the year with key personnel:

- Professor Sally Davenport's appointment as Commissioner is through a secondment from Victoria University of Wellington. The Commission purchased services from the University for professional development, library services and a short-term internship. The services were arranged and negotiated by Commission management at market rates.

Commissioners are appointed by the Crown and are the Board for the purposes of the *Crown Entities Act 2004*. In addition to their role with the Commission, Commissioners have other interests and may serve in positions with other organisations, including organisations to which the Commission is related. Potential conflicts of interest are declared in an interests register. No Commissioner was exempted during the year from the requirement to not vote or take part in any decision despite being interested.

Refer to Note 2 for a breakdown of Key personnel compensation.

Note 17 Explanation of major variances against budget

The deficit for the Commission, from 1 July 2017 to 30 June 2018 was \$105,322 (2016-17: surplus of \$190,327). In terms of the deficit, the key area of overspend (relative to budget in percentage (%) terms) was in Flexi Resourcing which was 34% higher than budget. This was mainly due to the complexity of one inquiry which required additional specialist consulting resource (particularly in regard to financial/economic modelling) and also had an impact in regard to bringing in additional temporary staff with specialist skillsets in relevant areas. This overspend was offset by an underspend in Personnel due to delays in recruitment to cover vacancies and the commensurate impact on salaries.

In our 8-year history, this is the first year an overspend has occurred. The Commission's knowledge of its expenditure trends for budgeting and financial management purposes continues to develop, with further improved accuracy expected in 2018/19.

Governance and management

Board



Murray Sherwin, CNZM
Chair



Prof. Sally Davenport, MNZM
Commissioner



Dr. Graham Scott, CB
Commissioner

Leadership team



Daiman Smith
General Manager



Steven Bailey
Inquiry Director



Judy Kavanagh
Inquiry Director



Paul Conway
Director Economics &
Research

NEW ZEALAND
PRODUCTIVITY COMMISSION
Te Kōmihana Whai Hua o Aotearoa

