

Our performance

1 July 2018 to 30 June 2019

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 2018 to 30 June 2019

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.

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¹ The Commission that pursues abundance for New Zealand.

Our year at a glance

- The **State sector productivity** and **Low-emissions economy** inquiries concluded during August 2018. We then started two new mandates into **Local government funding and financing** and **Technological change and the future of work**.
- Our inquiries continued to provide for extensive public input and feedback. For the *Local government* inquiry, the team completed over **70 engagement meetings, received 271 submissions, and released a draft report with 67 preliminary findings and 30 recommendations**.
- For the **Technological change and the future of work** inquiry, a **FutureworkNZ blog** was launched to share and encourage views on related topics. Promoted by social media and e-campaigns, the blog successfully **reached an international audience** with, for example, posts republished in London School of Economics Business Review.
- In February 2019, we completed a joint research study with the Australian Productivity Commission into **Growing the digital economy in Australia and New Zealand: Maximising opportunities for SMEs**. Progress was noted on a number of the joint report's findings at a meeting of Australian and New Zealand Ministers to advance the Single Economic Market agenda in September 2019.
- Our Economics & Research team published **research papers** on a range of topics throughout the year, including **firm dynamics and job creation, innovation in primary healthcare, and the tax-benefit interface**. The team also contributed to a special productivity issue of **Policy Quarterly: Assessing and enhancing New Zealand's productivity** with New Zealand and international contributors.
- The Commission started an important annual series of reporting **Productivity by the numbers**, analysing the productivity performance of the total economy, sectors and individual industries in New Zealand compared with OECD countries.
- Given resource constraints we were no longer in a position to facilitate the **Productivity Hub** nor provide support to the Government Economics Network. We continued to work closely with agencies active in productivity research, including serving as the external member of **MBIE's Strategic Policy advisory group**.
- **Our work continued to receive public attention**. In 2018-19 there were **1 297 news items** with mentions of the Commission, **up 75% from the previous year**, with the final report for the *Low-emissions economy* inquiry achieving the highest monthly coverage in September 2018.
- One of our establishment Commissioners, **Dr Graham Scott**, retired from the Board in May 2019 and we welcomed two new Commissioners: **Andrew Sweet** in June 2019 and **Professor Gail Pacheco** in July 2019.

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Board's message



The Productivity Commission now has eight years of operations behind us. Most of our effort has been devoted to undertaking “deep-dive” inquiries into a wide range of topics as assigned to us by Ministers. We aim to provide high-quality policy analysis drawn from the best evidence we can find and, based on that, to provide policy recommendations intended to lift productivity and the wellbeing of New Zealanders.

In 2018-9, we completed our inquiries into *Measuring and improving state sector productivity* and *Transitioning to a low-emissions economy* providing 88 evidence-based policy recommendations to the Government. The Commission completed a joint study into *Growing the digital economy in Australia and New Zealand* with our Australian counterparts and we started two new inquiries into *Local government funding and financing* and *Technological change and the future of work* that will conclude in 2019-20.

Understanding New Zealand’s productivity performance, and how best to improve it, requires practical insights into the New Zealand economy. During the year, our output also included a number of reports from our small Economics and Research team, where we sought to provide useful and timely research to develop the productivity evidence base.

New Zealand is not a typical OECD economy and our research seeks to help identify the paths to success that may differ to that of larger and more centrally located economies. Our research this year explored issues which enabled us to build on traditional explanations for New Zealand’s productivity performance. For example, we explored the challenges of knowledge, technology diffusion and resource reallocation from high to low productivity firms in New Zealand and how that differs from other countries. Benchmarking New Zealand’s productivity performance against other OECD countries is critical to help our understanding. To this end, the Commission started an annual series of reporting *Productivity by the numbers*, where we analyse the productivity performance of the total economy, sectors and individual industries in New Zealand compared with OECD countries.

This year our operating model came under review to ensure it remains fit for purpose. The Treasury has been assisting Minister Hon Grant Robertson in reviewing the Commission’s work and our working model. That review is generally supportive of our work. However, a number of very constructive suggestions for improvement have emerged. In particular, there is a suggestion that inquiry topics should be more directly relevant to New Zealand’s “macro-productivity” challenges – especially in the tradeables sectors. It has also been suggested that the Commission should have greater capacity to undertake wider ranging productivity-relevant research, exploring the nature, sources and characteristics of New Zealand’s poor productivity performance.

Our capacity for such research remains limited. When first established, our funding was delivered in two output classes, inquiries and research, with research limited to just 10% of our total budget. That constraint has now been removed and our funding is received in one bucket. But our capacity to pull resource away from our inquiry teams is quite limited. To provide more research output requires either an increase in funding or a reduction in inquiry outputs.

Whilst our inquiries continue to deliver highly valuable insights and opportunities to enhance productivity and the wellbeing of New Zealanders, we agree that our work could be enhanced by teaming it more closely with macro-level productivity analysis. The choice of inquiry topics and terms of reference for an inquiry are an important component in achieving that end. In 2019-20 we will be

engaging further with the Government on the nature, mix and volume of outputs they wish to see from the Commission and funding levels for the future.

The 2018-19 year ended with an operating deficit of \$98 000, our second successive year with a deficit. The Board has been acutely aware that with rising costs, especially from remuneration costs, and an appropriation unchanged since the Commission commenced operations in 2011, we would eventually reach a point where spending would run ahead of our appropriation. In early years, our budgets provided for surpluses in order to build a small buffer of reserves. But we clearly face a decision about reducing costs and outputs should our business case for additional funding be unsuccessful. Decisions on funding will take place within the context of the review of our operations.

During the 2018-19 year there were some changes to the Commission's Board. Commissioner Dr Graham Scott retired from the Board at the end of May 2019. Graham made an enormous contribution to our work and we sincerely thank him for his outstanding service as an establishment Commissioner and as Chair of our Assurance Committee. Following his departure, the Minister of Finance appointed two new Commissioners to our Board, Andrew Sweet and Professor Gail Pacheco, who we welcomed in June and July 2019 respectively.

The Board is pleased to present this Annual Report and its commentary on our performance and progress during 2018-19. We are excited about the year ahead and would like to thank the Commission's staff for their high-quality work, passion and insights.

A handwritten signature in blue ink, appearing to read 'Murray Sherwin', with a long horizontal flourish extending to the right.

Murray Sherwin
Chair

Who we are

Our purpose

The Commission's purpose, as embodied in the New Zealand Productivity Commission Act 2010, is to provide advice to the Government on improving productivity in a way that is directed to supporting the overall wellbeing of New Zealanders, having regard to a wide range of communities of interest and population groups in New Zealand society.

The overall goal of our work is to contribute to increasing productivity and in doing so, provide greater choices and enhanced wellbeing for all New Zealanders.

Our work

The Commission provides evidence-based, high quality analysis and advice about ways to improve productivity in New Zealand. Our role is both 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 annual work programme focuses on undertaking inquiries into and research on, and promoting public understanding of, productivity-related matters.

Undertaking inquiries

Inquiries are big pieces of analysis, typically with a 12-15 month timeframe. The time allowed recognises the importance of engaging extensively with interested parties to ensure we can be exposed to all points of view, get the best available information, understand different perspectives and test ideas. The Government chooses inquiry topics to ensure our work is relevant, and our advice pertains to issues they have an interest in addressing. Once topics are set, we are required to act independently.

During 2018-19, we completed the **State sector productivity** and **Low-emissions economy** inquiries and started two new mandates focused on **Local government funding and financing** and **Technological change and the future of work**. Both inquiries will conclude in 2019-20.

Publishing research

We self-select research and publish papers to provide new insights and evidence on which to base advice that can improve New Zealand's productivity performance. We work closely with agencies who are active in productivity research, including serving as the external member of MBIE's strategic policy advisory group.

During 2018-19 we completed a joint study with the Australian Productivity Commission into **Growing the digital economy in Australia and New Zealand** as well as published several research papers on a diverse range of topics such as **firm dynamics and job creation**, **innovation in primary healthcare**, and **productivity by the numbers**. Our research team also contributed to a special productivity issue of **Policy Quarterly – Assessing and enhancing New Zealand's productivity**.

Promoting understanding

Promoting understanding of productivity-related matters takes many forms besides our communications activities around inquiries and research. We regularly host and contribute to **presentations on productivity-related research** from **academics and government departments**. We speak about productivity issues to a diverse range of sectors and use **multimedia** and **social media** to engage with different audiences.

How we assess our performance

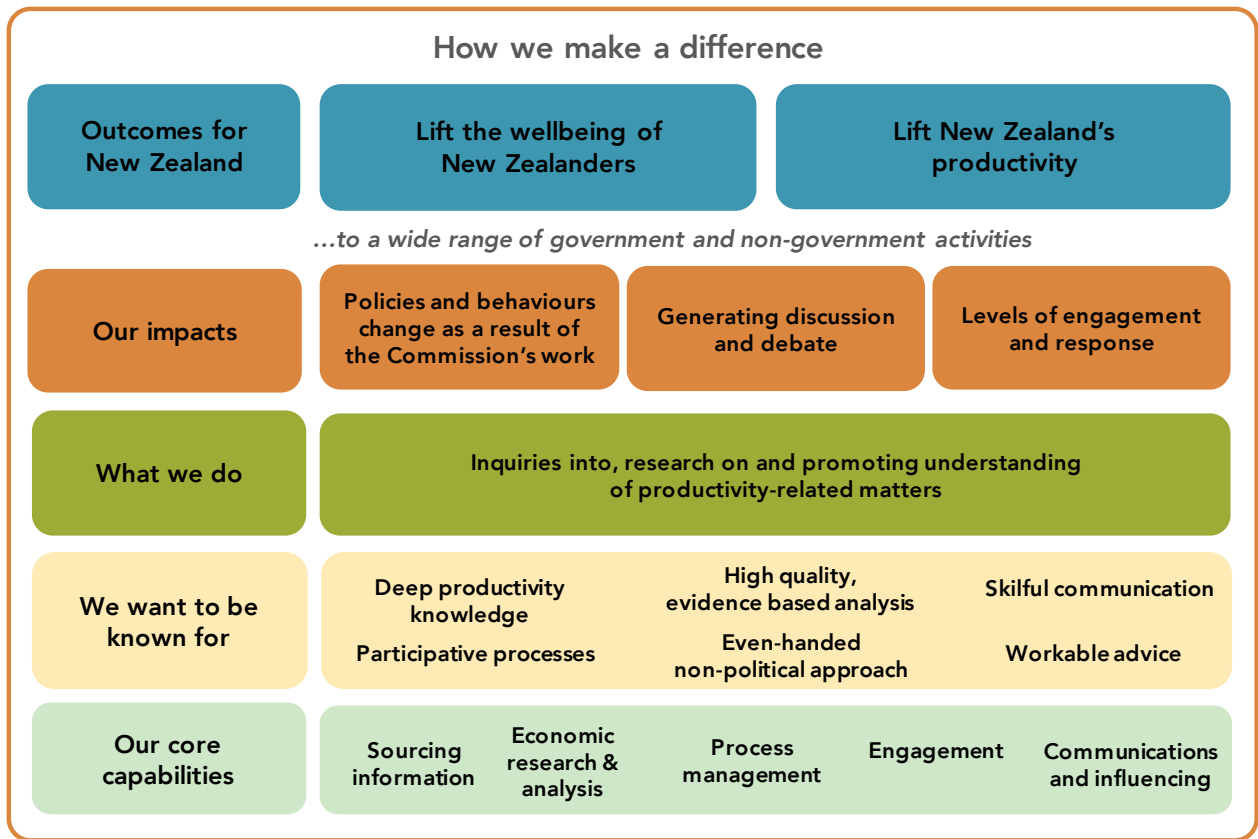
Our outcomes framework

Ultimately we seek 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.

Our outcomes framework in Figure 1 summarises how we envisage our work influencing our ultimate outcomes of lifting productivity and wellbeing.

Figure 1 Outcomes framework



Due to the complex nature of productivity issues, the influence of our work will only emerge over long timeframes. As such it can be challenging to attribute changes in productivity performance or wellbeing that can be directly linked back to our work as distinct from the many other factors that influence productivity performance.

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. 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.

How we measure progress against the framework

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 takes a strong evaluative-based approach to measuring our performance. The key elements of this approach include:

1. **Independent expert review** by someone with significant policy and/or productivity research experience, who is familiar with our role and functions.
2. **Survey of external participants** using a broad set of questions covering multiple aspects of our work, such as the quality of our analysis and the clarity of our communication.
3. **Stakeholder focus group(s)** of about 6-10 attendees from different backgrounds, independently facilitated and without Commission attendance.
4. **Monitoring external feedback and internal workflow processes** to capture, share and evaluate feedback received and obtain other relevant monitoring data (eg, national-level productivity and wellbeing indicators), and external responses to our work in the media, Parliament, and other relevant fields of activity.

To ensure comparability the expert review, participant survey, and stakeholder focus group use the same performance dimensions (while ensuring flexibility for other feedback is provided), including:

- Intended impacts** – what happens because of our work
- Right focus** – the relevance and materiality of our inquiry and research reports
- Good process management** – the timeliness and quality of our work
- High-quality work** – the quality of our analysis and recommendations
- 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

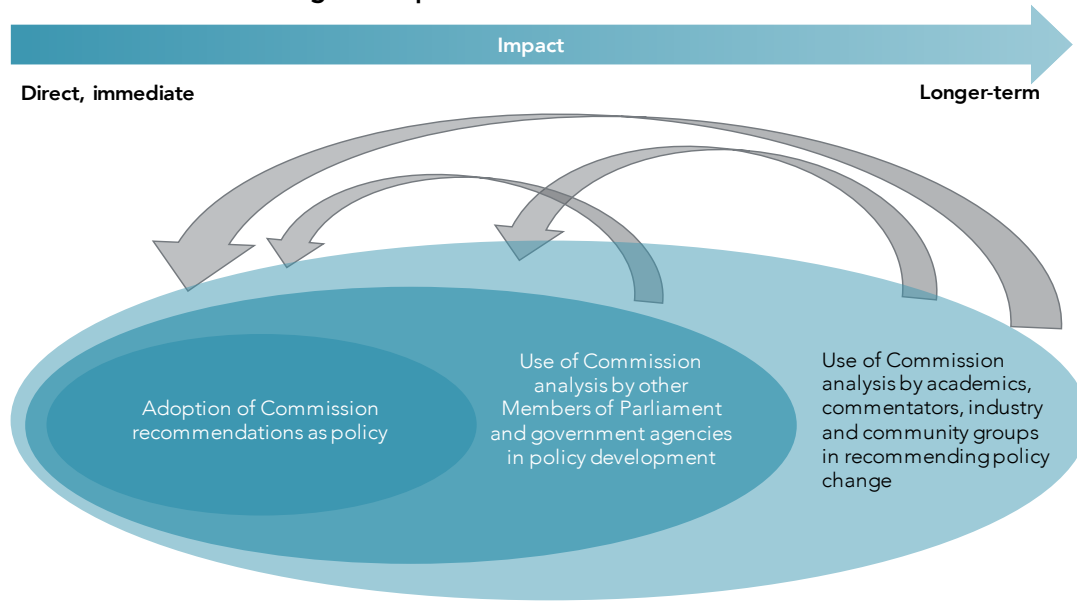
An independent expert review takes place after each inquiry has been completed. For our research work, a review takes place every two years and evaluates work during that period. No focus groups are convened as they are not as well-suited to evaluating our research work.

The survey of external participants for inquiries focuses on aspects of the inquiry's performance, whereas the bi-annual research survey assesses perceptions of the Commission's research performance by our research community.

Where we evaluate our performance

The Commission is an independent research and advisory body and does not run nor implement any policies or programmes. The Government is under no obligation to implement Commission recommendations nor 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 (eg, through the acceptance and adoption of our recommendations) or it may occur over longer periods after academic, community, public and political consideration of our work. Figure 2 illustrates our direct, intermediate and longer-term impact.

Figure 2 Understanding our impact

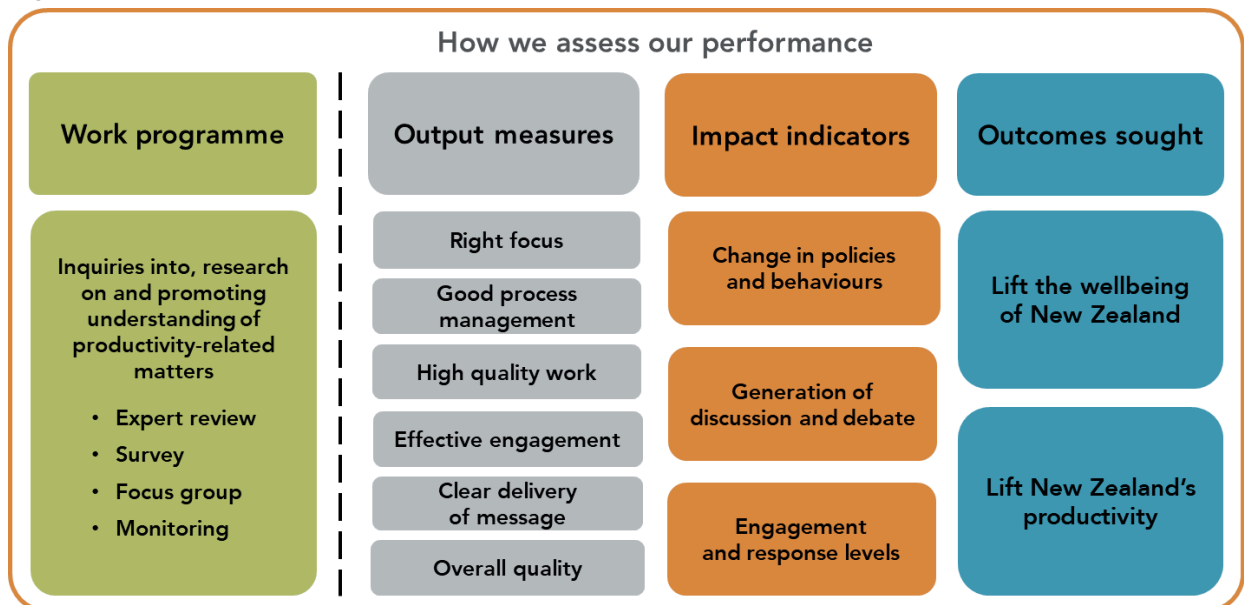


It is not enough for the Commission to simply produce reports. The analysis and commentary in them must be disseminated, understood and should influence policy and other behaviours so that, in the long term, productivity improves. It is within this context that we discuss the impact of our work across three broad performance indicators:

1. **Policies and behaviours change as a result of our work.** We believe that a greater understanding of our work will see a better uptake and understanding of our recommendations. This in turn will contribute to better decision-making on the policies and programmes that could lead to improved productivity and wellbeing.
2. **Discussion and debate is generated from our work.** We would like to see increased and wide ranging discussion and debate by diverse voices. Our reporting looks at evidence of our work being used by influencers, particularly those providing commentary on, or input into, policy and how and where our work is cited in those discussions.
3. **Levels of engagement with, and responses to, our work.** We particularly look at feedback indicating that our work plays a role in increasing the quality of analysis and advice overall on the topics of, and issues involved in, our work.

Given all of the above, our approach to performance measurement can be summarised as follows:

Figure 3 Performance framework



Our performance this year

Reporting on our outcomes: lifting the wellbeing of New Zealanders and lifting New Zealand's productivity

We noted earlier the challenge for the Commission of identifying changes in New Zealand's productivity performance and attributing that directly to our work. As an advisory body, we do not run nor implement policies or programmes. The influence of our work on lifting wellbeing and productivity levels may only emerge over long timeframes, so reporting on our outcomes will focus on our contribution to understanding New Zealand's productivity challenges.

This year the Commission has learnt much about why productivity matters, what affects productivity in New Zealand, and what policy options could improve productivity performance. We explored a wide range of productivity issues that allowed us to build on traditional explanations for New Zealand's productivity performance.

New Zealand's poor productivity performance has been a persistent problem over decades and turning this around will require consistent and focussed effort over many fronts and for many years. There is no simple quick fix, but our research shows that candidates for reform include competition policy, infrastructure, science and innovation, and education and the labour market. Firms' management practices and ability to learn (absorptive capacity) need improvement, and there are challenges facing the public sector eg, regarding policy-making capability, regulatory design and practice, and the delivery of services in the health and education sectors. These insights will continue to be represented in periodic Commission reports that comment on New Zealand's productivity performance and its implications for wellbeing.

Examples of our work on discerning trends in New Zealand's productivity and wellbeing

During the year our research programme explored a wide range of productivity issues that allowed us to build on traditional explanations for New Zealand's productivity performance – such as industry structure, geography and business culture.

We continued to use a firm-level database (the Longitudinal Business Database) to investigate firm and labour market dynamics to better understand the processes of knowledge and technology diffusion and resource allocation from lower to higher productivity firms in New Zealand (eg, *Firm dynamics and job creation*). We worked with researchers overseas to develop a cross-country picture (eg, *Productivity in developed Asia-Pacific*) and provided ongoing support for the OECD's Global Forum on Productivity. More recently we have invested in better understanding the regional implications of the changing nature of work and the role that factors like house prices could play in influencing worker mobility.

We also continued to produce work aimed at connecting different inquiries and research projects. In particular, we edited a special edition of *Policy Quarterly* on assessing and enhancing New Zealand's productivity. This contained eight articles, with contributions from the New Zealand and Australian Productivity Commissions, OECD, Ministry of Business, Innovation and Employment and Victoria University of Wellington. Topics included: moving on from New Zealand's productivity paradox, transitioning to a low-emissions economy, productivity measurement in the digital age, and health and education sector productivity.

We have also begun a regular programme of reporting on national productivity performance and how this compares with other countries in our *Productivity by the numbers* report. This report showed that labour productivity growth has slowed in the 10 years since the Global Financial Crisis (averaging 1.4% between 1996 and 2018 but 1.0% since 2008) and that if this recent slowdown was to become permanent then by 2059-60 real GDP would be around 18% smaller than otherwise. This work could help shape public debate in a broader way and is consistent with us enabling legislation to promote public understanding of productivity-related matters. This reporting will not replace our existing inquiry and research work but gives us a chance to draw together emerging themes and outline the overall direction of travel.

Overall, our independent research has shown that while many aspects of New Zealand's performance are positive, there are important areas where the economy continues to underperform. New Zealand is, for example, just one of a small number of OECD countries who have had both low levels and growth of labour productivity since 1996. Our labour productivity stubbornly remains around 20 per cent below the OECD average, which translates into below average incomes (even with high labour utilisation) and comes at a real cost to living standards.

Reporting on our impact indicators

Impact indicator 1: Policies and behaviours change as a result of our work

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 nor to respond to our reports however, in practice and in most cases, 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.

The Commission has now completed 12 final reports containing a total of 528 policy recommendations. The Government has formally responded to 10 of these completed inquiries. Overall three-quarters of our recommendations have been accepted in full or in principle/partly agreed by the Government which helps add to the credibility and influence of our work.

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 reports of years earlier.

Examples of our recommendations being explored, agreed, and implemented during the year

The Government's Response to the **State sector productivity** inquiry was released on 27 February 2019. The Response notes agreement, or partial agreement, to eight of the Commission's recommendations while three were rejected.

The Response highlights some of the Commission's key messages that "the Public Service is not working well for everyone and struggles in responding to complex needs and issues, and the longer-term opportunities and risks facing New Zealand. It has created incentives for risk aversion, inhibited innovation, reduced the ability to respond rapidly, fostered silos through vertical accountability and created a focus on the short-term". To address these issues the Response notes the intent of the Government's reforms to the public management and finance system, including changes to the State Sector Act 1988 and the Public Finance Act 1989, that "are working towards the common objective of a modern, agile, flexible, innovative and joined-up Public Service to improve intergenerational wellbeing".

Following this inquiry our work has continued to look at ways in which government services can be improved. In our **Growing the digital economy** report we highlighted that "digital technologies can make interactions with government – and the operation of governments overall – more efficient, effective and user-friendly. This can save time, effort and expense for firms and governments and result in higher productivity and a more efficient allocation of public funds". On 13 September 2019, Australian and New Zealand Ministers met to advance the Single Economic Market (SEM) agenda and they noted progress on a number of the joint report's findings. They are working together to establish a trans-Tasman innovation ecosystem and will collaborate more closely on the innovative and responsible development of emerging technologies, including those underpinning Artificial Intelligence.

The Government's Response to the **Low-emissions economy inquiry** was released on 3 August 2019 with Minister for Climate Change Hon James Shaw advising action already being taken on many of the report's recommendations: "For example, work is well underway to fix the Emissions Trading Scheme and establish an independent Climate Change Commission, reduce the price of electric cars, and require big businesses to report their climate-related financial risks...". The Response notes that Cabinet agreed to 43 of the Commission's recommendations; agreed to investigate a further 33 recommendations; and, rejected one recommendation.

A key part of the Response was the Government's announcement of a Climate Action Plan. The Action Plan provides detail of the Government's response to the Commission's recommendations and sets out a cross-government work programme committed to reducing emissions. The Government Response forms a core part of the development of New Zealand's nationally determined contributions under the Paris Agreement.

The Commission looks for evidence of our work increasing understanding of productivity-related matters. We consider this a precursor to better uptake and understanding of our recommendations that will ultimately lead to better decision-making on the policies and programmes that could lead to improved productivity and wellbeing. We mainly look for this evidence via surveys of participants in our processes (particularly inquiry processes), by gathering commentary from our independent expert reviews and focus group evaluations, and also by observing data around our connection and communication with audiences interested in our work.

Examples of where our work increased understanding of productivity-related matters

Over 80% of participants in the **Low-emissions economy inquiry** considered that it had increased their understanding of issues such as transitioning to a low-emissions economy and the challenges, opportunities, benefits and costs of alternative transition pathways. Further, the independent expert review of the inquiry noted that it “... will likely be the benchmark against which other contributions on this topic are assessed...” while the inquiry’s Focus Group participants noted “... the Inquiry had successfully lifted the standard of debate and general understanding of the issues. In government, this was expected to translate into better advice to Ministers and government decision making”.

Commentary on our **Productivity by the Numbers** report released in June 2019 suggested the Commission had “starkly laid out” New Zealand’s “big and stubborn productivity problem” [*New Zealand Herald*, 13 June 2019]. Other commentators noted how the report “highlights the cost of the country’s poor productivity performance” [voxy.co.nz, 7 June 2019]. IT industry observers noted that the **Growing the digital economy** report “highlighted challenges and opportunities presented by the digital economy”. [voxy.co.nz and istart.co.nz, 28 February 2019]

Impact indicator 2: Discussion and debate is generated from our work

Where our work generates discussion and debate we are interested to see the diversity of voices in that debate, how our work is being used by people (influencers), particularly those providing commentary on, or input into, policy and we aim to highlight how and where our work is cited in those discussions. This includes looking at third party commentary on our reports in the media.

Examples of our work generating discussion and debate, including in the media

Media monitoring of responses to, and feedback on, the final report of the **Low-emissions economy** inquiry in the two weeks following its public release on 4 September 2018 identified a total of 127 news items related to the final report across print, broadcast, and internet media sources. Coverage tended to be favourable or neutral (ie, did not express a particular view). The report also generated 26 154 Twitter impressions which in turn generated 389 engagements (ie, ‘likes’, re-tweets, replies), 2 978 impressions on LinkedIn, and, 2 023 YouTube views of a two-minute video with an animation explaining the findings and recommendations of the inquiry.

Other reports also garnered extended media interest: **Productivity by the Numbers** generated 24 305 Twitter impressions and 74 engagements; the final report(s) of the **State sector productivity** inquiry generated 6 696 impressions and 128 engagements; the Issues Paper for the **Technological change and the future of work** inquiry generated 68 926 impressions and 34 engagements; and, the **Growing the digital economy** report generated 5 694 impressions and 53 engagements.

... as well as where and how our work is cited in Parliament by MPs and select committees, departments, Ministers, and by academics or industry-specific commentators...

Examples of our work being cited in Parliament, by Ministers, departments, academics, or industry-specific commentators

The Commission and our work was widely referenced in parliamentary debate in 2018-19 with 691 mentions of the Productivity Commission.

Some of the key findings and recommendations related to transitioning to a low-emissions economy generated in-depth comment, discussion, and debate, including:

- The Economic Development, Science and Innovation Committee describing an “extensive inquiry process” focused on “how New Zealand can best make the transition to a low-emissions economy...”
- The importance of a longer-term view, and stable thinking on key policies and institutions, was highlighted in the Ministry for the Environment’s June 2018 consultation document - *Our Climate Your Say: Consultation on the Zero Carbon Bill*; and, by Minister for Climate Change, the Hon. James Shaw, who noted that:

“... it’s their report, more than anything, that I think alerted us to the significance of the next 10 years and the scale of what needs to happen at an industry level and a government policy level... [the report] took us from a fairly academic conversation around temperature thresholds

and targets and all that kind of stuff to the rubber hitting the road of what we will actually do about it. That's one of the reasons why I thought it was such a good report..." [*Carbon News*, 10 December 2018]

- The role of emissions prices as part of the transition to a low-emissions economy was referenced by the Tax Working Group in its February 2019 *Future of Tax: Final Report Volume I – Recommendations*; by Motu Economic and Public Policy in *Outfitting the NZ ETS in Post-Paris Style: "Top Ten" List for 2019*, Motu Note #34 – May 2019; and, by NZIER in its June 2018 report on *Economic impact analysis of 2050 emissions targets*.

... and we also consider what our performance evaluations say about the ability of our work to generate discussion and debate.

Examples of our performance evaluations commenting on the ability of our work to generate discussion and influence debate

The independent expert review of the **Low-emissions economy** inquiry noted the final report would provide "a major contribution to the debate about New Zealand's approach to emissions reduction". Participants in the inquiry's focus group noted it had successfully lifted the standard of debate: "The debate has been changed for the better... The report would have real consequences for the public... the Commission was able to raise issues officials and politicians simply were not able to raise, and this was a great value and spoke to their credibility... the emissions reduction debate was now being conducted using the language of the Commission."

Impact indicator 3: Levels of engagement with, and responses to, our work

Our impact reporting is also interested in the levels of engagement with, and responses to, our work over time – particularly in regard to feedback indicating that our work plays a role in increasing the quality of analysis and advice overall on the topics of, and issues involved in, our work.

Examples of where our work improved analysis and advice

Our survey data indicated that over 70% of inquiry participants agreed that the work of the **Low-emissions economy** inquiry had helped to set or lift the standard for high quality policy analysis and advice on transitioning to a low-emissions economy, and that, as a result of the inquiry, future analysis and advice on transitioning to a low-emissions economy will be of a higher standard. 79% of inquiry participants also rated the overall quality of inquiry as acceptable or better.

The independent expert reviewer of the **Low-emissions economy** inquiry also commented, at some length, on the quality of the inquiry:

... a comprehensive and pivotal statement on what needs to be done to transition the New Zealand economy to a low emission one while maximising the benefits and minimising the cost.

... a rigorous piece of investigation which has produced an ambitious but credible strategy to transform the New Zealand economy into a low emissions economy.

... a seminal study for emissions reduction in New Zealand of value to all stakeholders.

Similar sentiments were highlighted by the inquiry's focus group with one member commenting that "The history of New Zealand's journey to lower emissions would recognise the significance of this Inquiry".

During 2018-19 we continued our approach to raising the quantity and quality of research into New Zealand's productivity performance, through our own efforts and through collaborative projects with others. The Commission published a number of research papers exploring a wide range of issues.

Examples of the diverse nature of research reports released

- *Getting under the hood: Insights from recent firm-level productivity research in New Zealand*, July 2018
- *Assessing and enhancing New Zealand's productivity*, *Policy Quarterly*, August 2018
 - *Moving on from New Zealand's productivity paradox*
 - *Measuring health sector productivity*
 - *Quality adjusting data on education sector productivity*
 - *Transitioning to a low-emissions economy*
- *A note on construction worker migration to New Zealand 1962-2018*, November 2018
- *Productivity in developed Asia-Pacific: A firm-level perspective*, December 2018
- *The tax-benefit interface*, February 2019
- *Innovation in primary healthcare*, February 2019
- *Firm dynamics and job creation: Revisiting the perpetual motion machine*, February 2019
- *Growing the digital economy in Australia and New Zealand: Maximising opportunities for SMEs*, February 2019
- *Productivity by the numbers: 2019*, June 2019

Given resource constraints, we were no longer in a position to facilitate the Productivity Hub and provide support to the Government Economics Network. The final Productivity Hub project on competition and productivity was completed in August 2019. This project illustrated the value of a Hub approach, with the outputs of this project including necessary "foundational work" (eg, updating the productivity dataset), technical measurement work, a companion report for analysts without a background in competition economics, a short accessible summary of the material, and a data visualisation tool. Although the Productivity Hub has now been disestablished we continue to work closely with agencies who are active in productivity research, including serving as the external member of MBIE's Strategic Policy advisory group.

In 2018-19, we hosted and contributed to presentations on productivity-related research from academics and government departments which were open to the public. During the year, 300 people attended 12 Productivity Hub roundtables and lectures on diverse subject areas. The number of events was reduced from previous years due to resource constraints and the Commission is no longer facilitating networking sessions for Longitudinal Business Database researchers.

Examples of opportunities to connect with our productivity-related research

- The living standards dashboard: Draft discussion paper on financial and physical capital, 11 July 2018
- Muffin session for LBD researchers: Update of the productivity dataset, 24 July 2018
- Workshop on measuring state sector productivity, 25 July 2018
- Labour market impacts of technological change: evidence from linked employer-employee data, 13 September 2018
- Efficiency of New Zealand's District Health Boards at providing hospital services: A stochastic frontier analysis, 18 September 2018
- Business innovation in New Zealand: findings from a qualitative study, 21 November 2018
- Impact of spatial proximity on manufacturing total factor productivity, Great Britain, 1984-2016, 27 November 2018

- The strengths and limitation of the Strengths and Difficulties Questionnaire as a social work practice and outcome evaluation tool, 13 December 2018
- Productivity of housing construction: A literature discussion and scoping exercise, 14 February 2019
- Ambition: What New Zealanders think and why it matters, 15 March 2019
- The impact of the Performance-based Research Fund on research at New Zealand universities, 16 April 2019
- Informal discussion with the OECD on research priorities using firm-level data, 17 June 2019

Our work generates significant public interest and engagement. In 2018-19 we received many invitations to speak about specific work and about productivity more generally. Our *Low-emissions economy* inquiry, in particular, generated significant public interest and many opportunities to engage with new audiences. Events the Commission presented at during the year include:

Examples of engaging with a range of audiences through our speaking programme

- The CEO Forum, Auckland, Murray Sherwin presented on climate change – 20 July 2018
- Red Meat Sector Conference, Napier, Murray Sherwin presented on New Zealand's transition to a low-emissions economy – 30 July 2018
- Environmental Defence Society Green Light Conference, Auckland, Murray Sherwin took part in a panel discussion on 'Tinkering, throwing it in the bin, and everything in between' – 1 August 2018
- Auckland Tourism Events & Economic Development, Auckland, Paul Conway explained New Zealand's productivity story, our performance and the potential for change – 17 August 2018
- Xero, Auckland, Paul Conway presented on how to achieve productivity lift-off in New Zealand and discussed the role Xero is planning to take and could take in the future to play its full potential in influencing change – 17 August 2018
- New Zealand Institute of Economic Research Annual Dinner, Murray Sherwin presented on our low-emissions economy inquiry – 28 August 2018
- U3A, Wellington, Murray Sherwin presented on 'Productivity: what is it and why it matters' – 31 August 2018
- Electricity Authority board's strategy day, Wellington, Murray Sherwin presented on the role of the electricity industry in transitioning to a low-emissions economy – 5 September 2018
- Forest Call series on Face TV, Murray Sherwin was interviewed by Don Carson from the Forest Owners Association on how to achieve carbon neutrality by 2050 – 5 September 2018
- Ministry of Business, Innovation and Employment, Wellington, Paul Conway presented on how to lift productivity in New Zealand and drive policy agendas – 13 September 2018
- EIANZ Symposium, Amelia Sharman presented on New Zealand's transition to a low-emissions economy – 14 September 2018
- Financial Services Federation AGM, Amelia Sharman and Sally Davenport presented on New Zealand's transition to a low-emissions economy – 18 September 2018
- EECA Business Large Energy Users Forum, Auckland, Graham Scott presented on the Low-emissions economy report and its message to large energy users – 26 September 2018
- Narodowy Bank Polski Conference, Poland, Murray Sherwin presented on 'The mystery of low productivity growth in Europe' – 1 October 2018
- Productivity Insights Network Conference, Sheffield UK, Murray Sherwin presented on 'In pursuit of productivity institutional form and practice' – 13 March 2019
- Labour, Employment and Work Conference, Wellington – our research team delivered presentations on the future of tax in New Zealand, the labour income share, spatial productivity analysis, and an agenda for firm-level research – 29 November 2018
- Pacific Skills Summit, The University of the South Pacific, Fiji – Terry Genet contributed to the plenary session on the changing nature of work, implications for the Pacific – 25 June 2019

Observing levels of audience engagement through our communications and media mentions is another area where we monitor engagement and response levels.

Examples of our audience reach and engagement

Across 2018-19 there were 1 297 news items with mentions of the Commission across all media channels (ie, online, print, blogs, speeches, media releases), up 75% from 2017-18, with the final report for the *Low-emissions economy* inquiry achieving the highest monthly coverage in September 2018.

We used social media to reach and engage with a wide audience. On *Twitter* we now have 2 386 followers, up 11% from 2017-18. We launched a FutureworkNZ blog in May 2019 for the *Technological change and the future of work* inquiry. The blog has generated regular and engaging content for social media posts and achieved engagement across the world. Our first tweet in May 2019 launching the blog achieved 64 565 impressions and 45 engagements.

Equally, content about New Zealand's productivity performance has proved popular, with a tweet about our report *Productivity by the numbers: 2019* achieving 72 221 impressions and 77 engagements in June 2019.

Our stakeholder database continues to grow and includes 4 014 individuals, up 22% from 2017-18. Our quarterly newsletter to all of our database contacts achieves an average of 38.5% open rate and a 10.3% click rate, both of which are above industry averages for government campaigns.

Ongoing inquiries into productivity

Following the conclusion of the *State sector productivity* (mid-August 2018) and *Low-emissions economy* inquiries (end-August 2018) we worked on two new inquiries in 2018-19 and will continue to work on these mandates in 2019-20. These include:

- **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. We released an issues paper in November 2018 and a draft report in July 2019. The final report is scheduled to be presented to referring Ministers by 30 November 2019.
- **Technological change and the future of work.** In February 2019 the Government asked the Commission to examine how New Zealand can maximise the opportunities and manage the risks of disruptive technological change and its impact on the future of work and the workforce. We released an issues paper in April 2019 and a series of short draft reports on different areas related to the wider brief are being released between September and December 2019. The inquiry is scheduled to present its final report to referring Ministers by 31 March 2020.

Recently the Government has initiated the process to commission new mandates for 2019-21. We have consulted with them on potential topics and expect our new inquiries to be formally referred later in 2019.

Our people: governance and capability

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.

In 2018-19, we saw some changes to the Commission's Board. One of our establishment Commissioners, Dr Graham Scott, retired from the Board at the end of May 2019 and we welcomed a new Commissioner, Andrew Sweet, in June 2019. Another new Commissioner, Professor Gail Pacheco, was appointed early in the new financial year in July 2019.

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. Our 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. Once with us, we place high importance on supporting our people, including investing in their development.

Across all those options, we typically employ about 20 people. Just under half of these (44%) are female. Our staff bring diverse skills, disciplines and backgrounds to benefit the organisation and are employed on a mixture of permanent and shorter, fixed-term contracts. Where possible we also take advantage of expertise from across the public sector through secondments. For example, in 2018-19 we had the benefit of a Principal Advisor from the Ministry of Social Development being seconded to the *State sector productivity* team. In the same way, one of our Principal Advisors from the *Low-emissions economy* inquiry was seconded to the Secretariat to the Interim Climate Change Committee.

The Commission engages with Victoria University of Wellington and jointly provides a scholarship for an undergraduate student. In 2018-19, the student's work contributed to the *State sector productivity* inquiry and the Commission's work on understanding New Zealand's productivity performance.

Our capabilities

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. Our capabilities and purpose are illustrated in Figure 4.

Figure 4 Our capabilities and purpose

Building our reputation

The Commission is committed to building our reputation and has assessed our key values as follows:

- **Deep productivity knowledge.** Feedback generally suggests that we continue to build the necessary knowledge and experience to deliver influential work, but we must continue to pursue improvement in those areas highlighted through our performance evaluation exercises.
- **High-quality, evidence-based analysis.** The on-going development of analytical capability will always be a priority for our overall performance. While high quality skills and experience in economics and public policy remain core requirements our mandate is broad indicating that intellectual and experiential diversity are also important considerations.
- **Skilful communications.** We are always assessing the relevance and utility of our communications approach and tools. This includes understanding how we can ensure that our messages are clear, accessible, and effectively presented. During the year we updated our website to improve navigation and accessibility and to better communicate what we do and why.
- **Participative processes.** Our engagement processes are often highlighted as a strength and a distinguishing feature of our approach relative to core government agencies. We are committed to continuous improvement and have, for example, operated a different model for the *Technological change and the future of work* inquiry with a series of short draft reports along with a blog that provides an alternative means of gathering views and reaching 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 and an attractive place to work

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 in line with the following seven elements of being a good employer, as set out by the New Zealand Human Rights Commission.

| 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. We have also strengthened our induction programmes to ensure new staff, and our new Commissioners, get up to speed as quickly as possible. |
| 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 (eg, 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 | 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. The Commission has a zero tolerance approach to harassment and bullying. Our organisational values, together with our <i>Code of Conduct</i> and other relevant policies, detail our expected behaviours. |
| Safe and healthy work environment | The Commission's health, safety and wellness framework ensures we maintain a healthy and safe working environment. We have initiatives in place that support wellness in our workplace offering a range of health initiatives, including awareness of staff resilience and mental health. |

2018-19 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 \$97 620 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 2019 \$000 | Budget 2019 \$000 | Actual 2018 \$000 |
|----------------------------------|-------------------------|-------------------------|-------------------------|
| Financial performance | | | |
| Revenue | | | |
| Revenue from the Crown | 5 030 | 5 030 | 5 030 |
| All other revenue | 113 | 2 | 2 |
| <i>Total revenue</i> | <i>5 143</i> | <i>5 032</i> | <i>5 032</i> |
| Expenses | | | |
| Personnel costs | 3 498 | 3 511 | 3 476 |
| All other expenses | 1 743 | 1 521 | 1 661 |
| <i>Total expenses</i> | <i>5 241</i> | <i>5 032</i> | <i>5 137</i> |
| Net surplus/(deficit) | (98) | - | (105) |
| Financial position | | | |
| Assets | | | |
| Total current assets | 1 544 | 1 525 | 1 538 |
| Total non-current assets | 69 | 53 | 115 |
| <i>Total assets</i> | <i>1 613</i> | <i>1 578</i> | <i>1 653</i> |
| Liabilities | | | |
| <i>Total current liabilities</i> | <i>532</i> | <i>360</i> | <i>526</i> |
| Total non-current liabilities | 128 | 80 | 76 |
| <i>Total liabilities</i> | <i>660</i> | <i>440</i> | <i>602</i> |
| Total equity | 953 | 1 138 | 1 051 |

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 2019 \$000 | Budget 2019 \$000 | Actual 2018 \$000 |
|---|-------------------------|-------------------------|-------------------------|
| Inquiries | | | |
| Revenue | 4 500 | 4 403 | 4 403 |
| Expenses | 4 602 | 4 403 | 4 404 |
| <i>Net surplus/(deficit)</i> | <i>(102)</i> | - | <i>(1)</i> |
| Research and promoting understanding | | | |
| Revenue | 643 | 629 | 629 |
| Expenses | 639 | (629) | 733 |
| <i>Net surplus/(deficit)</i> | <i>4</i> | - | <i>(104)</i> |
| Total outputs | | | |
| Revenue | 5 143 | 5 032 | 5 032 |
| Expenses | 5 241 | 5 032 | 5 137 |
| <i>Net surplus/(deficit)</i> | <i>(98)</i> | - | <i>(105)</i> |

End of year reporting requirements as per the Estimates of Appropriations 2019-19 (Finance and Government Administration Sector)

The Commission's appropriation is limited to the undertaking of inquiries into and research on, and promoting public understanding of, productivity-related matters in accordance with the New Zealand Productivity Commission Act 2010.

| Assessment of performance | 2018-19 Budget Standard | Actual 2018-19 |
|---|-------------------------|---|
| Inquiry participants' feedback (via survey) on whether the inquiry helped set or lift the standard in New Zealand for high quality analysis and advice on the topic | New measure in 2018-19 | As reported in the 2018-19 Statement of performance impact measure "Levels of engagement and response with the Commission's work increase" |
| Inquiry participants' feedback (via survey) on whether the inquiry has increased their understanding of the topic | New measure in 2018-19 | As reported in the 2018-19 Statement of performance impact measure "Policies and behaviours changes as a result of the Commission's work" |
| Productivity Hub participants's feedback (via survey) on whether the Commission's facilitation of the Hub was a positive contribution toward improved levels of coordination in productivity research | New measure in 2018-19 | Given resource constraints the Commission was not in a position to facilitate the Hub. Although the Hub has now been disestablished we continue to work closely with agencies who are active in productivity research |
| Productivity Hub participants feedback (via survey) on whether research outputs promote understanding of productivity-related matters | New measure in 2018-19 | As above |

Statement of responsibility for the year ended 30 June 2019

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 2019.

Signed on behalf of the Board:



Murray Sherwin
Chairman



Professor Sally Davenport
Chair, Assurance Committee

Date: 31 October 2019

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 2019

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, including the performance information for an appropriation, of the Commission on his behalf.

Opinion

We have audited:

- the financial statements of the Commission on pages 35 to 47, that comprise the statement of financial position as at 30 June 2019, the statement of comprehensive revenue and expense, 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 7 to 14, 20 and 26 to 33.

In our opinion:

- The financial statements of the Commission on pages 35 to 47:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2019; 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.
- The performance information on pages 7 to 14, 20 and 26 to 33:
 - presents fairly, in all material respects, the Commission's performance for the year ended 30 June 2019, 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
 - what has been achieved with the appropriation; and
 - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
 - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 31 October 2019. 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 is 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 Commission'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 and 1 to 47, 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 2018-19, 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, early in the year. The majority of the performance evaluation material for the *State sector productivity* inquiry was included in the Commission's *2017-18 Annual Report*. Any outstanding performance material has been included in this *Annual Report* as relevant and appropriate (eg, the Government's Response to the inquiry was provided in February 2019). The performance evaluation material for the *Low-emissions economy* inquiry was not available for the previous *Annual Report* and is covered in full in this document.

Our impact for research and inquiries is measured under three broad categories:

- Policies and behaviours change as a result of the Commission's work
- Generating discussion and debate; and
- Levels of engagement and response.

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.

Participant surveys were conducted using SurveyMonkey online survey software, with responses collected anonymously. There were 188 respondents to the *Low-emissions economy* survey out of 727 invitations, making a 26% response rate with a 6% margin of error.

2018-19 Statement of performance

Assessment of inquiry process and report Low-emissions economy

| Impact sought: <i>Policies and behaviour change as a result of the Commission's work</i> | Survey result; Independent expert review; and, Focus Group report |
|---|---|
| <p>Commission recommendations agreed, implemented and explored further</p> <ul style="list-style-type: none"> How many recommendations were agreed and implemented?; and, How fully were the recommendations implemented or actively explored by the relevant policy makers? | <p>The Government's Response to the inquiry was released on 3 August 2019: www.mfe.govt.nz/productivity-commission-report-government-response. The Response notes that Cabinet had agreed to 43 of the Commission's recommendations; agreed to investigate a further 33 recommendations; and, rejected one recommendation.</p> <p>A key part of the Government Response was the announcement of a Climate Action Plan. The Action Plan provides detail of the Government's response to the Commission's recommendations and sets out a cross-government work programme committed to reducing emissions. The Government Response forms a core part of the development of New Zealand's nationally determined contributions under the Paris Agreement.</p> |
| <p>Understanding of productivity-related matters increases</p> <ul style="list-style-type: none"> Survey results: Expert reviewer and Focus group commentary on whether the inquiry increased understanding of the topic | <p>85% of participants considered the inquiry had increased their understanding of "how New Zealand can transition to a low-emissions economy" at least a little; 86% considered that the inquiry had increased their understanding of "possible pathways for New Zealand to transition to a low-emissions economy" at least a little; and, 82% considered that the inquiry had increased their understanding of "The challenges, opportunities, benefits and costs of alternative pathways" at least a little.</p> <p>The expert reviewer (Dr Wendy Craik) noted:</p> <p>It will obviously make a major contribution to the debate about New Zealand's approach to emissions reduction and will likely be the benchmark against which other contributions on this topic are assessed... the post report survey of participants and focus group reports on the Commission's website indicate a generally high degree of satisfaction with the process, with some expressing the view that the report had lifted the quality of debate about climate change in New Zealand.</p> <p>The Focus Group facilitators report (David Pickens) noted:</p> <p>... focus group participants noted the Inquiry had successfully lifted the standard of debate and general understanding of the issues. In government, this was expected to translate into better advice to Ministers and government decision making.</p> <p><i>"The debate has been changed for the better. The report would have real consequences for the public... the Commission was able to raise issues officials and politicians simply were not able to raise, and this was a great value and spoke to their credibility... the emissions reduction debate was now being conducted using the language of the Commission."</i></p> |

[NB: Survey results are based on a sample of 188 respondents.]

Assessment of inquiry process and report *Low-emissions economy*

| Impact sought: <i>The Commission's work generates discussion and debate</i> | Monitoring of responses to, and feedback on, the inquiry |
|---|---|
| <ul style="list-style-type: none"> Nature of comment (eg, favourable, unfavourable, informed); Who commented; and How many people/groups commented | <p>Third party commentary and reporting in the media</p> <p>Media monitoring of responses to, and feedback on, the inquiry's final report of the <i>Low-emissions economy</i> inquiry in the two weeks following its public release on 4 September 2018 identified:</p> <ul style="list-style-type: none"> A total of 127 news items related to the final report across print, broadcast, and internet media sources: 30% presented a favourable view of the report and its findings and 20% were less favourable. 50% of the items were neutral, ie, the findings and recommendations were highlighted without expressing a favourable or unfavourable view; and, 26 154 <i>Twitter</i> impressions (ie, the number of times content related to the report was displayed) which generated 389 engagements (i.e., 'likes', re-tweets, replies); the report generated 2 978 impressions on <i>LinkedIn</i> with 136 clicks through to communications materials; and, 2 023 <i>YouTube</i> views of the two-minute video with an animation explaining the findings and recommendations of the inquiry. |
| <ul style="list-style-type: none"> Work cited by MPs in Parliament, select committees, Ministers, academic or other literature | <p>Citing of the Commission's work in Parliament, Select Committees, academic or other literature</p> <p>Key inquiry findings and recommendations have generated in-depth comment, discussion, and debate on issues related to transitioning to a low-emissions economy, including:</p> <ul style="list-style-type: none"> The importance of a longer-term view, and stable thinking on key policies and institutions, was highlighted in the Ministry for the Environment's June 2018 consultation document - <i>Our Climate Your Say: Consultation on the Zero Carbon Bill</i>; and, by Minister for Climate Change, Hon. James Shaw, who noted that: <ul style="list-style-type: none"> "... it's their report, more than anything, that I think alerted us to the significance of the next 10 years and the scale of what needs to happen at an industry level and a government policy level... [the report] took us from a fairly academic conversation around temperature thresholds and targets and all that kind of stuff to the rubber hitting the road of what we will actually do about it. That's one of the reasons why I thought it was such a good report..." [<i>Carbon News</i>, 10 December 2018] The Economic Development, Science and Innovation Committee described an "extensive inquiry process" focused on "how New Zealand can best make the transition to a low-emissions economy." The role of emissions prices as part of the transition to a low-emissions economy was referenced by the Tax Working Group in its February 2019 <i>Future of Tax: Final Report Volume I – Recommendations</i>; by Motu Economic and Public Policy in <i>Outfitting the NZ ETS in Post-Paris Style: "Top Ten" List for 2019</i>, Motu Note #34 – May 2019; and, by NZIER in its June 2018 report on <i>Economic impact analysis of 2050 emissions targets</i>. |

Assessment of inquiry process and report Low-emissions economy

| Impact sought: Levels of engagement and response with the Commission's work increase | Survey results; Independent expert review; and, Focus Group report |
|--|--|
| <p>Productivity analysis and advice improves</p> <ul style="list-style-type: none"> • Survey results: | <p>75% of inquiry participants agreed, or strongly agreed, that <i>"the inquiry has helped set or lift the standard for high quality policy analysis and advice on transitioning to a low emissions economy"</i>; and, 74% of inquiry participants agreed, or strongly agreed, that <i>"as a result of the inquiry, future analysis and advice on transitioning to a low emissions economy will be of a higher standard"</i>.</p> |
| <p>Expert reviewer and Focus group commentary on the quality of analysis and advice in the inquiry and if they will use the inquiry report as a resource and reference in the future</p> <ul style="list-style-type: none"> • The expert reviewer (Dr Wendy Craik) noted: • The focus group facilitators report (David Pickens) noted: | <p>... a comprehensive and pivotal statement on what needs to be done to transition the New Zealand economy to a low emission one while maximising the benefits and minimising the cost. The positive response of the report evaluations by the Commission following its release underline the value that developing the detailed approach to a low emissions economy is perceived to have had in elevating the quality of the national debate on climate change.</p> <p>... a rigorous piece of investigation which has produced an ambitious but credible strategy to transform the New Zealand economy into a low emissions economy.</p> <p>... a seminal study for emissions reduction in New Zealand of value to all stakeholders.</p> <p>... one person felt the Commission needed to be <i>"congratulated on a magnificent piece of work. The history of New Zealand's journey to lower emissions would recognise the significance of this Inquiry. We couldn't have asked for more."</i></p> <p>Top of mind for workshop participants was what would happen to the report findings and recommendations. One person commented that it was important the final report not be allowed to become just a doorstop as so many other inquiries had.</p> |

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

Assessment of inquiry process and report
Low-emissions economy

| Output performance dimension: <i>Right focus</i> | Survey results; Independent expert review; and, Focus Group report |
|--|---|
| Relevance and materiality of final inquiry reports | |
| <ul style="list-style-type: none"> • Survey results: | <p>76% of inquiry participants agreed or strongly agreed that <i>"the Commission sourced all relevant research and information"</i>; 79% agreed or strongly agreed that <i>"the Commission engaged with the right people"</i>; 76% agreed or strongly agreed that <i>"the final report/research paper(s) focused on the issues most significant to transitioning to a low-emissions economy"</i>; and, 74% agreed or strongly agreed that <i>"the final report went into sufficient depth on the issues it covered"</i>.</p> |
| <ul style="list-style-type: none"> • The expert reviewer (Dr Wendy Craik) noted: | <p>The Commission clearly outlined the task and the global background, took into account the current state of play and New Zealand's distinctive emissions profile, commissioned quite extensive modelling of different scenarios and came up with recommended transformations of high emitting sectors which are significant in both scale and scope in the timeframes envisaged... In such a broad enquiry I appreciate that not everything can be covered but a little more analysis of the political economy of the issue including behavioural and attitudinal change that will be required would have been helpful...</p> |
| <ul style="list-style-type: none"> • The Focus Group facilitators report (David Pickens) noted: | <p>On their focus on what needed to be done to get a good final report: The Commission asked good questions and showed they were very prepared to listen and take on board what was said; The Commission staff demonstrated they were driven by analysis, not who you are; There was no question of the Commission staff's independence; The Commission staff demonstrated they wanted to get it right for New Zealand.</p> |

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

Assessment of inquiry process and report Low-emissions economy

| Output performance dimension: <i>Good process management</i> | Monitoring of milestones; Survey result; Independent expert review; and, Focus Group report |
|---|---|
| <p>The extent to which inquiry issues papers, draft reports and final reports were delivered to schedule</p> | |
| <ul style="list-style-type: none"> • All external milestones communicated in the Commission's process planning are achieved: | <p>The Terms of Reference (ToR) sought a final report by 30 June 2018. The Commission reported at the end of August 2018. The delay in reporting was due to the work programme implications of the new Government extending the scope of the ToR (in December 2017) in regard to emissions targets, additional data modelling requirements, and the need to manage a high volume of submissions.</p> |
| <ul style="list-style-type: none"> • Survey result: | <p>84% of inquiry participants agreed or strongly agreed that <i>"overall, they were satisfied with the Commission's inquiry processes"</i>.</p> |
| <ul style="list-style-type: none"> • The expert reviewer (Dr Wendy Craik) noted: | <p>Given the scope of the initial Inquiry plus the additional work required, a two-month extension to the final report delivery date seems very reasonable ... The Commission appears to have consulted extensively and widely... a generally high degree of satisfaction with the process, with some expressing the view that the report had lifted the quality of debate about climate change in New Zealand.</p> |
| <ul style="list-style-type: none"> • The Focus Group facilitators report (David Pickens) noted: | <p>The focus groups were asked whether the overall process was appropriate for the Inquiry. One person commented the process used to produce the final report was <i>"excellent; open, inclusive, and robust."</i> Another described the process as <i>"transparent and pretty good"</i>. There were no issues identified with respect to the Commission not meeting the original deadline.</p> |

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

Assessment of inquiry process and report
Low-emissions economy

| <p>Output performance dimension: <i>High quality work</i></p> | <p>Survey results; Independent expert review; and, Focus Group report</p> |
|--|--|
| <p>Confidence in inquiry findings and recommendations</p> | |
| <ul style="list-style-type: none"> • Survey results: | <p>58% of inquiry participants considered the inquiry's <i>"analysis of information"</i> to be of good or excellent quality; and, 58% considered the inquiry's <i>"findings and recommendations"</i> to be of good or excellent quality. [Note also that 85% rated the overall quality of the inquiry as acceptable, good or excellent – a less demanding standard than the performance measure.]</p> <p>87% of inquiry participants agreed or strongly agreed that <i>"the Commission's recommendations followed logically from the inquiry analysis and findings"</i>; and, 81% agreed or strongly agreed that <i>"the Commission's recommendations would, if implemented, materially improve New Zealand's transition to a low-emissions economy"</i></p> |
| <ul style="list-style-type: none"> • The expert reviewer (Dr Wendy Craik) noted: | <p>The structure of the report generally leads to a logical flow of analysis with readable explanations of concepts at their introduction, prior to discussions of options and analysis, before leading to findings and recommendations. Given the breadth of the Terms of Reference, the report has excelled in its thoroughness... I would have preferred the discussion on the current state of climate policy in New Zealand to be in the earlier chapter setting the scene as there is an element of information being revealed progressively... Overall, the findings and recommendations are well supported by the preceding arguments.</p> |
| <ul style="list-style-type: none"> • The Focus Group facilitators report (David Pickens) noted: | <p>We got a very good report in the end. The report answered the questions that needed to be answered... People were in particular pleased with the development in thinking shown between the draft and final reports... some felt the report would have benefitted from a greater focus on non-financial drivers of people's behaviour, for example, social marketing campaigns, identifying and overcoming knowledge barriers etc, and that there had been an over reliance on market solutions.</p> |

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

Assessment of inquiry process and report Low-emissions economy

| Output performance dimension: <i>Effective engagement</i> | Survey results; Independent expert review; and, Focus Group report |
|--|---|
| Perception of the quality of engagement by the Commission | |
| <ul style="list-style-type: none"> • Survey results: | <p>88% of inquiry participants agreed or strongly agreed that <i>"there was ample opportunity to participate in the inquiry"</i>; 90% agreed or strongly agreed that <i>"the Commission was approachable"</i>; 94% agreed or strongly agreed that <i>"the Commission communicated clearly"</i>; and, 72% agreed or strongly agreed that <i>"the Commission understood their views"</i>.</p> |
| <ul style="list-style-type: none"> • The expert reviewer (Dr Wendy Craik) noted: | <p>The impressive level of interest expressed by submissions in response to both the issues paper and the draft report... resulted in the Commission preparing a report on the submissions (available on the Commission's web site) indicating that not all comments could be referenced in the report, that there is a lot of useful information in the submissions and that the report on submissions would provide a useful reference to those seeking further information or detail. In the final report there are frequent references to submitter's views, both positive and negative.</p> <p>The Commission clearly made a significant effort to engage a diverse range of stakeholders and succeeded admirably in doing so.</p> |
| <ul style="list-style-type: none"> • The Focus Group facilitators report (David Pickens): | <p>Overall, engagement with stakeholders was described as excellent. There were plenty of opportunities to engage. One interviewee particularly valued the regular communications with interested stakeholders... Most identified no engagement issues, and felt the Commission was open to talking. Some commented they had been proactively sought out by the Commission to engage...</p> <p>One stakeholder asked if the final report was too Wellington centric... One person asked whether there might be value in more actively prompting some key stakeholders to engage... Another person asked whether there might be value in bringing stakeholders with different views together in one room to debate the issues.</p> |
| <ul style="list-style-type: none"> • Engagement meetings held and submissions received: | <p>The Commission engaged with 154 parties and 403 submissions were received.</p> |

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

Assessment of inquiry process and report Low-emissions economy

| Output performance dimension: <i>Overall performance</i> | Survey results; Independent expert review; and, Focus Group report |
|--|---|
| <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>The expert reviewer (Dr Wendy Craik) noted:</p> <p>As outlined above, the structure and writing in the report, the clarity, the presentation of complex modelling, the consultation process and use of external material, the thorough analysis of the economy and the impacts of decarbonising it, make this a document on which people can rely. This is critical given the gravity of the recommendations.</p> <p>Low-Emissions Economy is a high-quality report of which the authors should be proud. It is an impressive analysis of transitioning an economy in a major way over a relatively short period and the unprecedented (for the Commission) interest in it and the post report feedback confirm this. It will obviously make a major contribution to the debate about New Zealand's approach to emissions reduction and will likely be the benchmark against which other contributions on this topic are assessed.</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>The Focus Group facilitators report (David Pickens) noted:</p> <p>High level comments on the Inquiry were overwhelmingly positive.</p> <p>On the complexity and importance of the Inquiry, one person commented that this Inquiry was in another league. The breadth and depth of issues covered, stakeholder interest and the politics made it a tremendous challenge, a challenge that was met.</p> <p>Another commented how two years ago commitment and debate on emissions reduction was "a shambles". The thinking had been in silos. Within this context they described the final report as "an exceptional piece of work. The Commission had brought it all together and packaged it well, producing tremendous value. It was 100% what we wanted".</p> |
| <p>Participant evaluation of the inquiry</p> <ul style="list-style-type: none"> Survey result: | <p>63% of inquiry participants surveyed rated "<i>the overall quality</i>" of the inquiry as good or excellent. [Note also that 79% rated the overall quality of the inquiry as acceptable, good or excellent – a less demanding standard than the performance measure.]</p> |

New Zealand Productivity Commission

2018-19 Financial statements

Statement of comprehensive revenue and expense

for the year ended 30 June 2019

| | Notes | Actual 2019 \$000 | Budget 2019 \$000 | Actual 2018 \$000 |
|--|-------|-------------------------|-------------------------|-------------------------|
| Revenue | | | | |
| Revenue from the Crown | 1 | 5 030 | 5 030 | 5 030 |
| Interest revenue | | 2 | 2 | 2 |
| Other revenue | 1 | 111 | - | - |
| <i>Total revenue</i> | | <i>5 143</i> | <i>5 032</i> | <i>5 032</i> |
| Expenses | | | | |
| Personnel costs | 2 | 3 498 | 3 511 | 3 476 |
| Other expenses | 3 | 1 704 | 1 492 | 1 608 |
| Depreciation and amortisation expense | 6,7 | 39 | 29 | 53 |
| <i>Total expenses</i> | | <i>5 241</i> | <i>5 032</i> | <i>5 137</i> |
| Surplus/(deficit) and total comprehensive revenue and expense | | (98) | - | (105) |

The accompanying notes form part of these financial statements. Explanations of major variances from budget are provided in note 18.

Statement of changes in equity

for the year ended 30 June 2019

| | Note | Actual 2019 \$000 | Budget 2019 \$000 | Actual 2018 \$000 |
|--|------|-------------------------|-------------------------|-------------------------|
| Balance at 1 July | | 1 051 | 1 138 | 1 156 |
| <i>Total comprehensive revenue and expense</i> | | <i>(98)</i> | <i>-</i> | <i>(105)</i> |
| Balance at 30 June | 12 | 953 | 1 138 | 1 051 |

The accompanying notes form part of these financial statements. Explanations of major variances from budget are provided in note 18.

Statement of financial position

as at 30 June 2019

| | Notes | Actual 2019 \$000 | Budget 2019 \$000 | Actual 2018 \$000 |
|--------------------------------------|-------|-------------------------|-------------------------|-------------------------|
| ASSETS | | | | |
| <i>Current assets</i> | | | | |
| Cash and cash equivalents | 4 | 1 441 | 1 476 | 1 440 |
| Debtors and other receivables | 5 | 103 | 49 | 98 |
| <i>Total current assets</i> | | <i>1 544</i> | <i>1 525</i> | <i>1 538</i> |
| <i>Non-current assets</i> | | | | |
| Property, plant and equipment | 6 | 59 | 43 | 100 |
| Intangible assets | 7 | 10 | 10 | 15 |
| <i>Total non-current assets</i> | | <i>69</i> | <i>53</i> | <i>115</i> |
| TOTAL ASSETS | | 1 613 | 1 578 | 1 653 |
| LIABILITIES | | | | |
| <i>Current liabilities</i> | | | | |
| Creditors and other payables | 8 | 364 | 230 | 335 |
| Lease incentive | 9 | 5 | - | 5 |
| Employee entitlements | 10 | 163 | 130 | 186 |
| <i>Total current liabilities</i> | | <i>532</i> | <i>360</i> | <i>526</i> |
| <i>Non-current liabilities</i> | | | | |
| Lease incentive | 9 | 53 | 8 | 8 |
| Provisions | 11 | 75 | 72 | 68 |
| <i>Total non-current liabilities</i> | | <i>128</i> | <i>80</i> | <i>76</i> |
| TOTAL LIABILITIES | | 660 | 440 | 602 |
| NET ASSETS | | 953 | 1 138 | 1 051 |
| EQUITY | | | | |
| Contributed capital | 12 | 500 | 500 | 500 |
| Accumulated surplus / (deficit) | 12 | 453 | 638 | 551 |
| TOTAL EQUITY | | 953 | 1 138 | 1 051 |

The accompanying notes form part of these financial statements. Explanations of major variances from budget are provided in note 18.

Statement of cash flows

for the year ended 30 June 2019

| | Note | Actual 2019 \$000 | Budget 2019 \$000 | Actual 2018 \$000 |
|---|------|-------------------------|-------------------------|-------------------------|
| Cash flows from operating activities | | | | |
| Receipts from the Crown | | 5 030 | 5 030 | 5,030 |
| Interest received | | 2 | 2 | 2 |
| Receipts from other revenue | | 111 | - | - |
| Payments to suppliers | | (1 596) | (1 474) | (1 528) |
| Payments to employees | | (3 521) | (3 511) | (3 449) |
| Goods and services tax (net) | | 7 | - | 4 |
| <i>Net cash flow from operating activities</i> | | <i>33</i> | <i>47</i> | <i>59</i> |
| Cash flows from investing activities | | | | |
| Purchases of property, plant and equipment | | (32) | - | (28) |
| <i>Net cash flow from investing activities</i> | | <i>(32)</i> | <i>-</i> | <i>(28)</i> |
| Net increase/(decrease) in cash and cash equivalents | | | | |
| | | 1 | 47 | 31 |
| Cash and cash equivalents at 1 July | | 1 440 | 1 429 | 1 409 |
| Cash and cash equivalents at 30 June | 4 | 1 441 | 1 476 | 1 440 |

The accompanying notes form part of these financial statements. Explanations of major variances from budget are provided in note 18.

Reconciliation of net surplus/(deficit) to net cash flow from operating activities

| | Actual 2019 \$000 | Actual 2018 \$000 |
|--|-------------------------|-------------------------|
| Net surplus/deficit | (98) | (105) |
| <i>Add/(less) non-cash items</i> | | |
| Depreciation and amortisation expense | 39 | 53 |
| Lease make good provision and lease incentive | 39 | 28 |
| Total non-cash items | 78 | 81 |
| <i>Add/(less) movements in statement of financial position items</i> | | |
| Debtors and other receivables | (5) | (15) |
| Creditors and other payables | 81 | 72 |
| Employee entitlements | (23) | 26 |
| Net movements in working capital items | 53 | 83 |
| Net cash flow from operating activities | 33 | 59 |

The accompanying notes form part of these financial statements. Explanations of major variances from budget are provided in note 18.

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 2019, and were approved by the Board on 31 October 2019.

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 2019 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.

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.

Standard early adopted

In line with the Financial Statements of the Government, The Commission has elected to early adopt PBE IFRS 9 *Financial Instruments*. PBE IFRS 9 replaces PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. Information about the adoption of PBE IFRS 9 is provided in note 17.

Standards issued and not yet effective and not early adopted

Standards and amendments, issued but not yet effective, that have not been early adopted are:

PBE IPSAS 41 Financial Instruments

The XRB issued PBE IPSAS 41 *Financial Instruments* in March 2019. This standard supersedes PBE IFRS 9 *Financial Instruments*, which was issued as an interim standard. It is effective for reporting periods beginning on or after 1 January 2022. Although the Commission has not assessed the effect of the new standard, it does not expect any significant changes as the requirements are similar to PBE IFRS 9.

PBE FRS 48 Service performance reporting

PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 and is effective for reporting periods beginning on or after 1 January 2021. The Commission has not yet determined how application of PBE FRS 48 will affect its *Statement of Performance*.

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.

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 2019 \$000 | Actual 2018 \$000 |
|--|-------------------------|-------------------------|
| Salaries and contractors | 2 786 | 2 716 |
| Board fees | 621 | 630 |
| Employer contributions to KiwiSaver defined contribution superannuation plan | 66 | 66 |
| Other entitlements | (23) | 33 |
| Bonuses | 28 | 31 |
| Other | 20 | - |
| <i>Total personnel costs</i> | 3 498 | 3 476 |

Employee remuneration

| | Number of employees 2019 | Number of employees 2018 |
|------------------------|--------------------------------|--------------------------------|
| \$100,000 – 109,999 | 1 | 1 |
| \$110,000 – 119,999 | 1 | 1 |
| \$120,000 – 129,999 | 1 | - |
| \$140,000 – 149,999 | 1 | 1 |
| \$150,000 – 159,999 | 1 | 2 |
| \$160,000 – 169,999 | 2 | 3 |
| \$170,000 – 179,999 | 1 | 1 |
| \$180,000 – 189,999 | 2 | 2 |
| \$190,000 – 199,999 | - | 1 |
| \$200,000 - 209,999 | 2 | - |
| \$210,000 - 219,999 | 1 | 1 |
| <i>Total employees</i> | 13 | 13 |

During the year ended 30 June 2019, one employee received compensation and other benefits in relation to cessation \$43 995 (2018: Nil).

Key personnel compensation

| | Remuneration 2019 \$000 | Full-time equivalent members 2019 | Remuneration 2018 \$000 | Full-time equivalent members 2018 |
|--|-------------------------------|--|-------------------------------|--|
| Board members | 621 | 1.7 | 630 | 1.7 |
| Leadership team | 836 | 4 | 794 | 3.8 |
| <i>Total key management personnel remuneration</i> | 1 308 | 5.7 | 1 424 | 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 2019 \$000 | Actual 2018 \$000 |
|--|-------------------------|-------------------------|
| Murray Sherwin (Chair) | 326 | 323 |
| Dr. Graham Scott | 137 | 146 |
| Prof. Sally Davenport | 146 | 161 |
| Andrew Sweet | 12 | - |
| <i>Total Board member remuneration</i> | 621 | 630 |

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 \$3 000 (2018: \$3 750).

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 (2018: Nil).

Note 3 Other expenses

| | Actual 2019 \$000 | Actual 2018 \$000 |
|---|-------------------------|-------------------------|
| Fees to principal auditor for financial statement audit | 33 | 33 |
| Consultancy | 726 | 735 |
| Information technology and telecommunications | 326 | 306 |
| Travel and transport | 114 | 106 |
| Operating lease expense (office rental) | 197 | 181 |
| Communication and engagement | 48 | 36 |
| Training and development | 33 | 53 |
| Other expenses | 227 | 158 |
| <i>Total other expenses</i> | 1 704 | 1 608 |

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 2025. The Commission as lessee exercised its right to renew in April 2016. The rental was also reviewed in April 2019 with a rental rebate agreed of \$1 031.92 (GST exclusive) per month for 48 months from April 2021.

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 2019 \$000 | Actual 2018 \$000 |
|---|-------------------------|-------------------------|
| Not later than one year | 193 | 185 |
| Later than one year and not later than five years | 888 | 323 |
| <i>Total non-cancellable operating leases</i> | <i>1 081</i> | <i>508</i> |

Note 4 Cash and cash equivalents

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

| | Actual 2019 \$000 | Actual 2018 \$000 |
|--|-------------------------|-------------------------|
| Cash at bank and on hand | 1 441 | 1 440 |
| <i>Total cash and cash equivalents</i> | <i>1 441</i> | <i>1 440</i> |

While cash and cash equivalents at 30 June 2019 are subject to the expected credit loss requirements of PBE IFRS 9, no loss allowance has been recognised because the estimated loss allowance for credit losses is trivial.

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 based on expected credit losses. No provision for expected credit losses have been made as at 30 June 2019 (2018: Nil).

Previous accounting policy for impairment of receivables

In the previous year, the allowance for credit losses was based on the incurred credit loss model. An allowance for credit losses was recognised only when there was objective evidence that the amount due would not be fully collected.

| | Actual 2019 \$000 | Actual 2018 \$000 |
|--|-------------------------|-------------------------|
| Receivables exchange transactions | | |
| Debtors and other receivables | 39 | 19 |
| Prepayments | 39 | 47 |
| Receivables - non-exchange transactions | | |
| GST receivable | 25 | 32 |
| <i>Total debtors and other receivables</i> | <i>103</i> | <i>98</i> |

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.

Note 6 Property, plant and equipment (continued)

| | IT assets \$000 | Furniture \$000 | Office equipment \$000 | Leasehold improvements \$000 | Total \$000 |
|---|--------------------|--------------------|------------------------------|------------------------------------|----------------|
| Cost or valuation | | | | | |
| Balance at 1 July 2018 | 186 | 126 | 78 | 333 | 723 |
| Additions | 32 | - | - | - | 32 |
| Disposals | (3) | - | - | - | (3) |
| Reductions - Other ¹ | - | - | - | (71) | (71) |
| <i>Balance at 30 June 2019</i> | <i>215</i> | <i>126</i> | <i>78</i> | <i>262</i> | <i>681</i> |
| Accumulated depreciation and impairment losses | | | | | |
| Balance at 1 July 2018 | 148 | 114 | 67 | 294 | 623 |
| Depreciation expense | 27 | 3 | 4 | - | 34 |
| Disposals | (3) | - | - | - | (3) |
| Reductions - Other ¹ | - | - | - | (32) | (32) |
| <i>Balance at 30 June 2019</i> | <i>172</i> | <i>117</i> | <i>71</i> | <i>262</i> | <i>622</i> |
| Carrying amounts | | | | | |
| At 30 June 2019 | 43 | 9 | 7 | - | 59 |
| Cost or valuation | | | | | |
| Balance at 1 July 2017 | 173 | 125 | 74 | 341 | 713 |
| Additions | 23 | 1 | 4 | - | 28 |
| Disposals | (10) | - | - | - | (10) |
| Additions - Other ¹ | - | - | - | (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 and impairment losses | | | | | |
| Balance at 1 July 2017 | 128 | 100 | 64 | 281 | 573 |
| Depreciation expense | 30 | 14 | 3 | 1 | 48 |
| Reductions - Other ¹ | (10) | - | - | - | (10) |
| Disposals | - | - | - | 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 | 11 | 39 | 100 |

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 2018 | 165 |
| <i>Closing balance at 30 June 2019</i> | 165 |
| Accumulated amortisation and impairment losses | |
| Opening balance at 1 July 2018 | 150 |
| Amortisation expense | 5 |
| <i>Balance at 30 June 2019</i> | 155 |
| Carrying amounts | |
| At 30 June 2019 | 10 |
| Cost | |
| Opening balance at 1 July 2017 | 165 |
| <i>Closing balance at 30 June 2018</i> | 165 |
| Accumulated amortisation and impairment losses | |
| Opening balance at 1 July 2017 | 146 |
| Amortisation expense | 5 |
| Adjustment | (1) |
| <i>Closing balance at 30 June 2018</i> | 150 |
| Carrying amounts | |
| At 30 June 201 | 15 |

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 2019 \$000 | Actual 2018 \$000 |
|---|-------------------------|-------------------------|
| Payables - exchange transactions | | |
| Accrued expenses | 193 | 243 |
| Creditors | 107 | 51 |
| Payables - non-exchange transactions | | |
| Taxes payable (PAYE) | 58 | 38 |
| Other | 6 | 3 |
| <i>Total creditors and other payables</i> | <i>364</i> | <i>335</i> |

Note 9 Lease incentive

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

| | Actual 2019 \$000 | Actual 2018 \$000 |
|------------------------------|-------------------------|-------------------------|
| Current portion | 5 | 5 |
| Non-current portion | 53 | 8 |
| <i>Total lease incentive</i> | 58 | 13 |

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 2019 \$000 | Actual 2018 \$000 |
|------------------------------------|-------------------------|-------------------------|
| Accrued annual leave | 113 | 137 |
| Accrued salaries and wages | 50 | 49 |
| <i>Total employee entitlements</i> | 163 | 186 |

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 2019 \$000 | Actual 2018 \$000 |
|-------------------------|-------------------------|-------------------------|
| Lease make-good | | |
| Non-current portion | 75 | 68 |
| <i>Total provisions</i> | 75 | 68 |

Movements within the provision:

| | Actual 2019 \$000 | Actual 2018 \$000 |
|--------------------------------|-------------------------|-------------------------|
| Balance at 1 July 2018 | 68 | 65 |
| Additional provisions made | 7 | 3 |
| <i>Balance at 30 June 2019</i> | 75 | 68 |

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 2019 \$000 | Actual 2018 \$000 |
|--------------------------------|-------------------------|-------------------------|
| Balance at 1 July 2018 | 1 051 | 1 156 |
| Surplus/(deficit) for the year | (98) | (105) |
| <i>Balance at 30 June 2019</i> | <i>953</i> | <i>1 051</i> |

Note 13 Contingencies

The Commission has no contingent liabilities and no contingent assets (2018: Nil).

Note 14 Events after the balance date

There were no significant events after the balance date (2018: Nil).

Note 15 Financial instruments**Categories of financial instruments**

The carrying amounts of financial assets and liabilities in each of the financial instrument categories are:

| | Actual 2019 \$000 | Actual 2018 \$000 |
|---|-------------------------|-------------------------|
| Debtors and receivables | | |
| Cash and cash equivalents | 1 441 | 1 440 |
| Debtors and receivables | 103 | 98 |
| <i>Total debtors and receivables</i> | <i>1 544</i> | <i>1 538</i> |
| Financial liabilities measured at amortised cost | | |
| Creditors and other payables (excluding income in advance) | 364 | 335 |
| Lease incentives | 58 | 13 |
| <i>Total financial liabilities measured at amortised cost</i> | <i>422</i> | <i>348</i> |

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 & Poors 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 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 Adoption of PBE IFRS 9 financial instruments

Accounting policies have been updated to comply with PBE IFRS 9. The main updates are:

- Note 5 Debtors and other receivables: This policy has been updated to reflect that the impairment of short-term receivables is now determined by applying an expected credit loss model.
- Note 4 Cash and cash equivalents: This policy has been updated to explain that a loss allowance for expected credit losses is recognised only if the estimated loss allowance is not trivial.

On the date of initial application of PBE IFRS 9, being 1 July 2018, the classification of financial instruments under PBE IPSAS 29 and PBE IFRS 9 is presented in note 15. There have been no adjustments on the carrying amount of financial assets as a result of PBE IFRS 9 adoption.

Note 18 Explanation of major variances against budget

The deficit for the Commission, from 1 July 2018 to 30 June 2019 was \$97 620 (2018/19: deficit of \$105 322). In terms of the deficit, the key area of overspend was in Flexi Resourcing \$151 000 which was mainly due to the complexity of one inquiry which required additional specialist consulting resource and also had an impact in regard to bringing in additional temporary consultancy staff with specialist skillsets in relevant areas. This overspend was offset by additional income of \$111 000 received from a staff secondment.

Our leadership team

Board



Murray Sherwin, CNZM
Chair



Prof. Sally Davenport, MNZM
Commissioner



Andrew Sweet
Commissioner



Prof. Gail Pacheco
Commissioner

Leadership team



Daiman Smith
General Manager



Steven Bailey
Inquiry Director



Judy Kavanagh
Inquiry Director



Dr Patrick Nolan
Economics & Research
Director

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