**State Services Commission submission on the New Zealand Productivity Commission December 2017 draft report 'Measuring and improving state sector productivity'**

The terms of reference for this work set out a specific focus on technical/productive efficiency (minimising input costs and optimising the production of outputs). The reason given for this focus is that progress is already being made across the state sector on the other dimensions of value for money performance, with effectiveness and prioritisation particularly noted as improving in recent years.

The report notes the state sector had a focus on productive efficiency in the 1990s and 2000s. It notes that greater clarity of spending intentions and more managerial freedom for agencies led to considerable productivity gains in this period. Many of these gains were achieved through the redesign of business processes and the report gives examples.

As noted in the report, the focus is now much more on effectiveness and outcomes. The state sector is becoming much better at working across agencies as a system to identify customer needs and deliver connected-up services that make a real difference. Early intervention in particular has the ability to change lives and deliver large financial benefits to the state. We agree with the report that this focus on allocative decisions that change the nature and mix of services being delivered is appropriate and is achieving major benefits. However we recognise that there are opportunities to improve productive efficiency.

A report on state sector productive efficiency should:

- Consider the costs, benefits and uncertainties/risks around using productivity measurement as a public management tool
- Explore where and how productivity measurement is like to be beneficial, and where and how it may be problematic
- Explore methods for mitigating these problems.

We consider a major flaw of the draft report is that it currently provides little analysis on where and how the measurement and management of productive efficiency is likely to be beneficial. The report seems to be based on an assumption that the use of productivity measurement as a public management tool will improve performance in all areas and contexts of state sector services, has no cost, will not result in perverse incentives and outcomes and does not represent an opportunity cost to drive performance through other means. At the moment the report does not justify this assumption or adequately explore the issues it creates.

The report sets out (pages 8 and 9) some of the barriers to measuring and improving state sector productivity and some of the distinct characteristics of state sector services which make it difficult to value them as outputs. Some of the issues this creates are explored in Chapter 5 'Adjusting for operating environments, quality and price'. However this analysis is not carried forward into following sections to discuss where productivity measurement is likely to give positive returns and to give agencies practical advice on managing the issues and risks involved.

The report acknowledges *"Concepts such as "productivity" or "efficiency" have negative connotations for some public service organisations or sectors, especially those that provide non-transactional or more personalised services. Productivity is perceived by some to be in conflict with desired social outcomes, or with professional values"* (page 73). However, the report does not explore why those perceptions may exist, whether there may be merit to those perspectives, possible perverse outcomes of focussing on narrow productivity measures and how to mitigate those perverse outcomes.

There are some state sector transactional services where productivity is a/the major consideration and where a focus on productivity measurement will be beneficial. However a focus on productivity measurement as a public management tool is likely to result in perverse incentives in non-transactional services. Output measures are prone to gaming and, especially in the social sector, tend to have poor fit with improved outcomes for New Zealanders. The report gives an example from the United Kingdom of focusing on decreasing emergency room waiting times which resulted in ambulances parking outside the hospital until a bed became available.

We agree there can be limited understanding of costs in non-transactional services. A better understanding of the costs (and cost drivers) of these services is of limited use in isolation, but may usefully inform policy and programme decisions when combined with effectiveness data that is out of scope for this report. The benefits of measuring cost effectiveness are likely to be significantly larger than that from measuring productivity in the case of non-transactional services, especially in the social sector.

In conclusion, we consider the report as it is currently is not a useful resource for the state sector and will not be a catalyst for positive change. One possible way forward is to focus the report on a case study of a transactional service to demonstrate to agencies where and how productivity measurement and improvement can be useful. Otherwise the report needs to give much greater recognition of the costs and risks of productivity measurement. It needs to provide support to agencies to help them identify where productive efficiency efforts are likely to be beneficial, where they may be problematic and how these problems might be mitigated.