



Our performance

1 July 2014 to 30 June 2015

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 2014 to 30 June 2015

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

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Contact details

Productivity Commission
Level 15, Fujitsu Tower (PO Box 8036)
141 The Terrace
Wellington 6143
New Zealand

+64 4 903 5150
info@productivity.govt.nz
www.productivity.govt.nz
Twitter: @nzprocom
Linkedin: NZ Productivity Commission

Our year at a glance

- The final report of our inquiry into **Regulatory institutions and practices** was released in July 2014. The Government formally responded to this inquiry at the end of July 2015, accepting 19 recommendations in full and 25 in part.
- Early in the year the Government formally responded to the **Towards better local regulation** inquiry (July 2014) with all but two of our recommendations accepted.
- We released two draft reports for our current inquiries into **More effective social services** (April 2015) and **Using land for housing** (June 2015). Both inquiries will be completed in the coming year.
- Feedback on our approach to **stakeholder engagement processes** continues to confirm that we have good processes for ensuring participation, and the ability to see the big picture across **complex systems or sectors**, including to **bridge typical government agency and stakeholder boundaries**.
- In addition to our inquiries, we published **six research papers**. The independent evaluation of this work (discussed later in the report) provides a strong endorsement of our own research programme and our impact on generally raising the quality and quantity of research into productivity-related matters.
- During the year we also began presenting our thinking on the causes of New Zealand's disappointing productivity performance. We intend to use this **'productivity narrative'** as a basis for public engagement to discuss New Zealand's productivity challenges in the coming year and to assist in guiding future research priorities.
- Our work to support and facilitate research via the **Productivity Hub** continued, both via our own research but also hosting or contributing to a number of seminars and events on productivity-related research from academics and departments, some of which were open to the public.
- We continued a **speaking and presentation programme** designed to **promote understanding of productivity-related issues**. This programme ranges across both our inquiry and non-inquiry work.
- The Commission celebrated its **fourth birthday** in April 2015. Given we are now well advanced from our initial phase of establishment it is important that we continue to focus on improving our **organisational capability** and refine our **reputation for high-quality, useful work** as the foundation for future high performance.

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Board's message

This is our fourth Annual Report and I'm pleased to report that during the 2014/15 year the Commission has made further positive progress since our establishment in 2011. We continue to receive a range of positive commentary on our work. Some of this comment has focused on the significance of our reports in informing public awareness and policy discussion. That is a good space for the Commission to be in – and one that gives us satisfaction – but it is not something we can ever take for granted.



During the year we have continued to focus on lifting the Commission's capability, building on strengths and key areas for improvement that our evaluation work has identified. We are committed to substantive evaluation of our work – through surveys, focus groups and expert reviews – an approach that has been welcomed by stakeholders. The gift of robust, honest and insightful feedback is what every organisation needs to continually improve.

In July 2014 we released our findings on an inquiry focused on regulatory institutions and practices. While just outside the 2014/15 year, we did receive a formal Government response to this inquiry at the end of July 2015. We were pleased to note that this work has had an impact with the Government accepting 19 of our recommendations in full and 25 in part. The Minister for Regulatory Reform commented that the Commission's report "will continue to be a valuable reference for regulators and other interested parties well into the future". Some of the key actions taken in response to our recommendations include the establishment of a Legislation Design and Advisory Committee to improve the quality and effectiveness of legislation and a new Government Regulatory Practice Initiative to lead and contribute to collective capability initiatives that help develop a professional community of compliance professionals.

Also in July 2014, the Government responded to another of our inquiries on improving local government regulation, where all but two of our recommendations were accepted.

The bulk of our inquiry work during the year, however, focused on two ongoing mandates. The first of these is looking at how the commissioning and purchasing of social services by government could be improved. We released our draft report on this topic in April 2015 and have received a record number of submissions on our draft findings and recommendations from interested parties. Our final report was released on 15 September 2015. The other ongoing inquiry is looking into the processes that New Zealand's fastest growing councils use to provide land for housing (including planning, zoning and the provision of infrastructure such as roads, parks and water pipes). This inquiry released its draft report in June 2015 and the final is expected to be publicly released in October.

We are pleased to see our work taken seriously by Ministers, their departments and the wider community which gives us confidence that our analysis and communications material is hitting the mark. Given the nature of the Commission's role, and the types of inquiry topics it is given, it would be unrealistic and probably undesirable to expect all inquiry recommendations to be accepted. By this we mean that, 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. Nevertheless, of the inquiries to which the Government has formally responded, only a small proportion of recommendations have had no further action taken on them.

It has also been pleasing to see our research work – outside the inquiries requested of us by the Government – further advance, including through the publication of research papers and our leadership role of a multi-agency group, the Productivity Hub, which aims to improve the contribution of policy to productivity growth and the relevance of economic research for policymaking. The independent evaluation of this work (discussed later in the report) provides a

strong endorsement as to the quality of the papers and our impact on raising the quality and quantity of research into productivity-related matters.

During the year we also began presenting our work that diagnoses the causes of New Zealand's disappointing productivity performance. We intend to use this 'productivity narrative' as a basis for public engagement to discuss New Zealand's productivity challenges in the coming year and to assist in guiding future research priorities.

Throughout our inquiries, and more generally, we continue to place a high premium on engaging with people interested in our work. Being well-connected to knowledge and networks – both domestically and internationally – is essential to our influence and success. Feedback on our inquiry stakeholder engagement continues to acknowledge our strong participative processes, along with our ability to look across complex systems or sectors, including bridging typical government agency and stakeholder boundaries.

As the Commission is an advisory body, and does not run or implement any policies or programmes itself, we rely 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 and public consideration of our work). Further, the topics we work on, the types of analysis we have to conduct, and the range of community and industry groups we need to engage with, change significantly from year to year. Given this operating context it is difficult to capture this diversity of work and effort in targets, so the Commission has taken a strongly evaluation-based approach to measuring our performance.

Ultimately the Commission's ability to make an impact depends on the quality of its work. To achieve the level of quality we aspire to, we subject our inquiry and research outputs to rigorous, regular and independent evaluation, to ensure that our work is robust, relevant, clear and of value to key stakeholders. The results of these evaluative activities are discussed later in the report.

Our achievements during the year reflect great team work at the Commission by a relatively small group of people, who are all passionate about improving the wellbeing of New Zealanders.

I am grateful to my fellow Commissioners, Dr Graham Scott and Professor Sally Davenport, along with all of our staff, for their commitment, energy and enthusiasm for our work.



Murray Sherwin
Chair

Who we are

Our work

The Commission exists to provide recommendations on ways to improve productivity and to increase understanding of the issues affecting productivity. The overall goal of our work is to contribute to creating more options for lifting the wellbeing of New Zealanders. Our work programme is delivered across two output areas: Inquiries and Research. This work considers whether laws, policies, regulations and institutions that affect New Zealand's productivity can be improved.

Output: Inquiries into productivity

The Government chooses inquiry topics to ensure our work is relevant, and that our advice pertains to issues the Government has an interest in addressing.

Once topics are set, we are required to act independently as we go about our work. Inquiries are big pieces of analysis, generally taking 12 months (although not linked to the annual financial cycle).

The time allowed recognises the importance of engaging extensively with those who have an interest in the topics, to ensure we are exposed to all points of view, get the best available information, understand different perspectives and test ideas.

Research into and promotion of productivity

In addition to inquiries, we undertake research on, and promote understanding of, productivity-related matters on areas that we select.

As part of our collaboration, we work with other government agencies through the "Productivity Hub", which we convene and chair. The Hub is a coordination and collaboration vehicle which helps to inform the research choices of each participating agency, and advance collaborative research projects.

The Hub also engages with a wider research community outside government.

Governance of the Commission

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

The Chair and Commissioners are also 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).

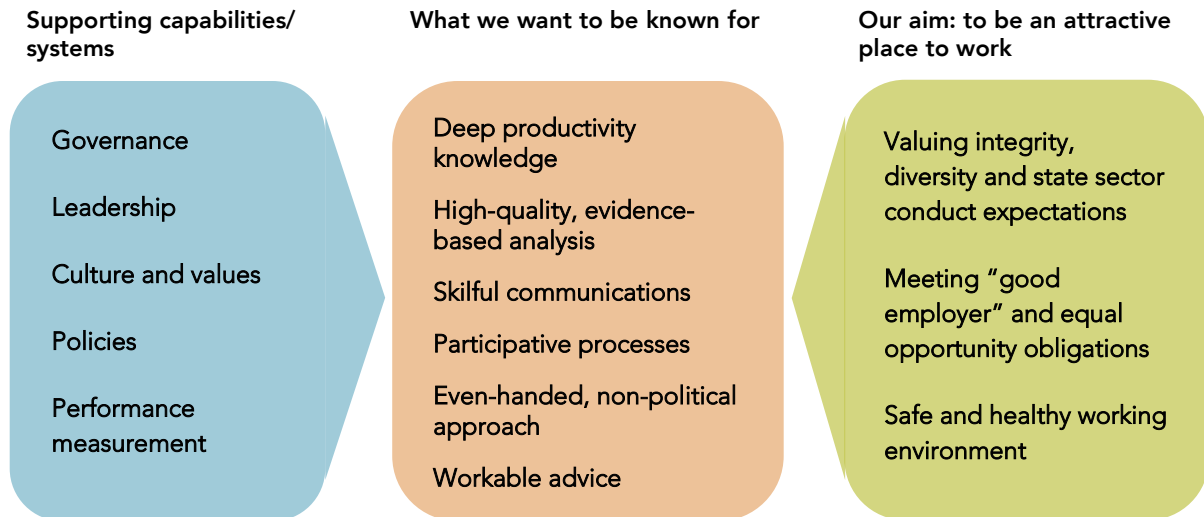
Our people

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

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

Capability report

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



Assessing progress on building our reputation

- **Deep productivity knowledge.** Feedback during our first four years of operation suggest that we are building the necessary knowledge and experience to deliver influential work but we must continue to consider highlighted areas for improvement that come through our performance evaluation exercises.
- **High-quality, evidence-based analysis.** Progressively extending our analytical capability remains a priority to help further enhance our overall performance. We must also continue to look at our intellectual and experiential diversity to recognise that different issues require different approaches and skillsets.
- **Skilful communications.** Feedback to date has highlighted that our communications processes are usually effective and well accepted. As our work programme has developed we have refined our communication products and tools. It is often challenging to strike the right balance between providing guidance versus being prescriptive, and we continue to develop our abilities in this regard.
- **Participative processes.** Feedback continues to suggest that our inquiry processes are respected and allow for a broad range of perspectives to be shared on important issues for New Zealand's future. As a small agency we must continue to refine processes for efficiently managing what is often a resource intensive engagement model so that we can continue to find new ways to reach people who may be interested in our work.
- **Even-handed, non-political approach.** We actively engage with a wide range of different people to ensure we understand different perspectives. A reputation for independence is ultimately earned through the quality and objectivity of our work and its presentation and we continue to remain aware of this requirement.
- **Workable advice.** Overall feedback to date suggests we are steadily developing our credibility and influence through the quality and emerging impact of the work we have done but we remain focused on providing workable, real-world advice, recognising that government agencies can risk being out of touch with business and community perspectives.

Being a good employer

The Commission is committed to being a good employer. In doing this we maintain a clear focus on leadership, workforce development, management of people and performance, and engagement with our employees. As a small organisation, it can be difficult to ensure workplace diversity across multiple dimensions. Our employees are roughly 2/3 male, 1/3 female, and bring diverse skills, disciplines and backgrounds to benefit the organisation. Our staff are employed on a mixture of permanent and shorter, fixed-term contracts. Length of service and turnover reporting is less relevant for an organisation that has only been in existence for just over four years, however, the majority of our staff have been with the Commission for most of our four years of operation and we have had very low turnover levels since establishment. The table below summarises our achievements against the seven key 'good employer' elements:

Elements	Initiatives
Leadership, accountability and culture	The majority of our managers are either engaged in, or have completed, specifically targeted management and leadership development programmes. We have also identified suitable training and development opportunities for high potential staff.
Recruitment, induction and selection	We continue to ensure we 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 modelled on good practice public sector policies.
Employee development, promotion and exit	We are focused on organisational capability and the Board and managers regularly consider a number of enduring organisational capability factors that are based on the reputation to which we aspire to in carrying out our functions. 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 agreed annually.
Flexibility and work design	We continue to accommodate and support flexible working arrangements where possible and appropriate.
Remuneration, recognition and conditions	We adhere generally to the Government's expectations for Pay and Employment Conditions in the State Sector. Our remuneration approach is reviewed annually to ensure it supports our recruitment and retention strategies.
Harassment and bullying prevention	Our values, together with our Code of Conduct are the primary basis for detailing expected behaviours. We have a zero tolerance for harassment and bullying.
Safe and healthy work environment	We have processes in place that ensure the Commission provides a healthy and safe work environment, including an induction programme and positions that are responsible for health and safety. We also have initiatives in place that support wellness in our work place and are always looking at the currency of our initiatives in this area.

Progress against our outcomes framework

How we make a difference: Our outcomes framework

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

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

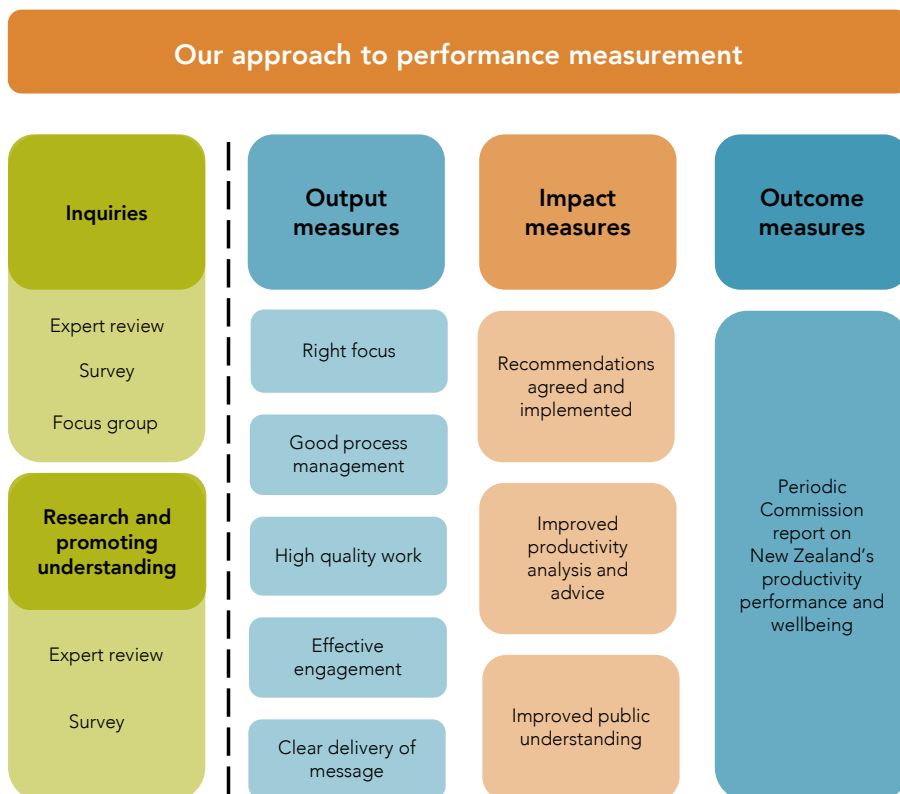
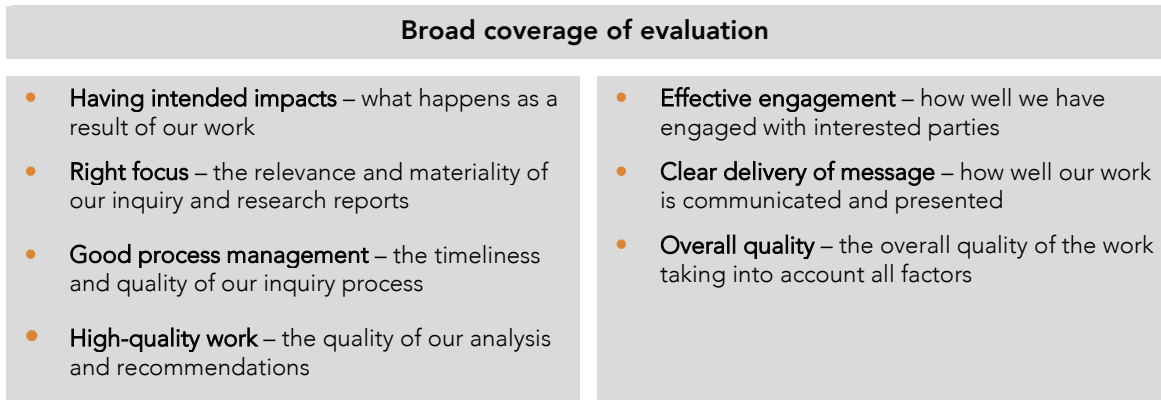
In producing and publicising these reports and outputs, the Commission aims to inform the public and decision-makers, promote debate and encourage the adoption of policies that contribute to the achievement of our outcomes. To do this effectively, the Commission must be rigorous, trusted and a skilled communicator. The diagram below illustrates how we expect to make a difference, along with the core capabilities and the reputation we wish to develop.



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

The topics we work on, the types of analysis we have to 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 targets, so the Commission has taken a strongly evaluation-based approach to measuring our performance.

Ultimately, the Commission’s ability to make an impact depends on the quality of its work. The Commission therefore ensures that our inquiry and research outputs are subject to rigorous, regular and independent evaluation, to ensure that our work is robust, relevant, clear and of value to key stakeholders.



Reporting on our outcomes: Developing a *Productivity Narrative*

Through our research work outside the inquiries, the Productivity Commission has learnt a great deal about why the New Zealand economy generally underperforms from a productivity perspective. While valuable in its own right, this work also forms the basis for the Commission's "Productivity Narrative". The Narrative was still in the developmental stage at year end but has already been presented to a number of audiences as work in progress.

The Commission's Narrative pulls together our non-inquiry research to outline the broad reasons why New Zealand has struggled to lift productivity. As well as assessing the reasons for New Zealand's poor productivity performance, the Narrative also looks at the drivers of future productivity growth in the New Zealand context and explores the connection to domestic policy settings.

While sketching out the broad policy issues that are important to lifting New Zealand's productivity performance, the Narrative does not go into the detailed specifics of the very wide range of policy issues considered. This more detailed analysis is the 'bread and butter' of our ongoing inquiry work. As such, the Narrative provides a valuable perspective on possible future inquiry topics. It also identifies numerous important gaps in our understanding of the New Zealand economy and is an important input into our future non-inquiry research agenda.

The Commission intends to use this Productivity Narrative as the basis for public engagement to discuss New Zealand's productivity challenges in the coming year and to assist in guiding future research priorities. The thinking developed in the Narrative can be summarised as follows:

Productivity growth is the key to wellbeing

Productivity is about creating more value by making better use of our resources.

The global economy is rapidly changing with new technologies and ideas becoming more important as drivers of prosperity.

Higher productivity is the best way of raising our incomes, which has a direct bearing on the wellbeing of New Zealanders.

Small domestic markets and weak international connections hinder New Zealand's productivity growth.

New Zealand's distinctive features

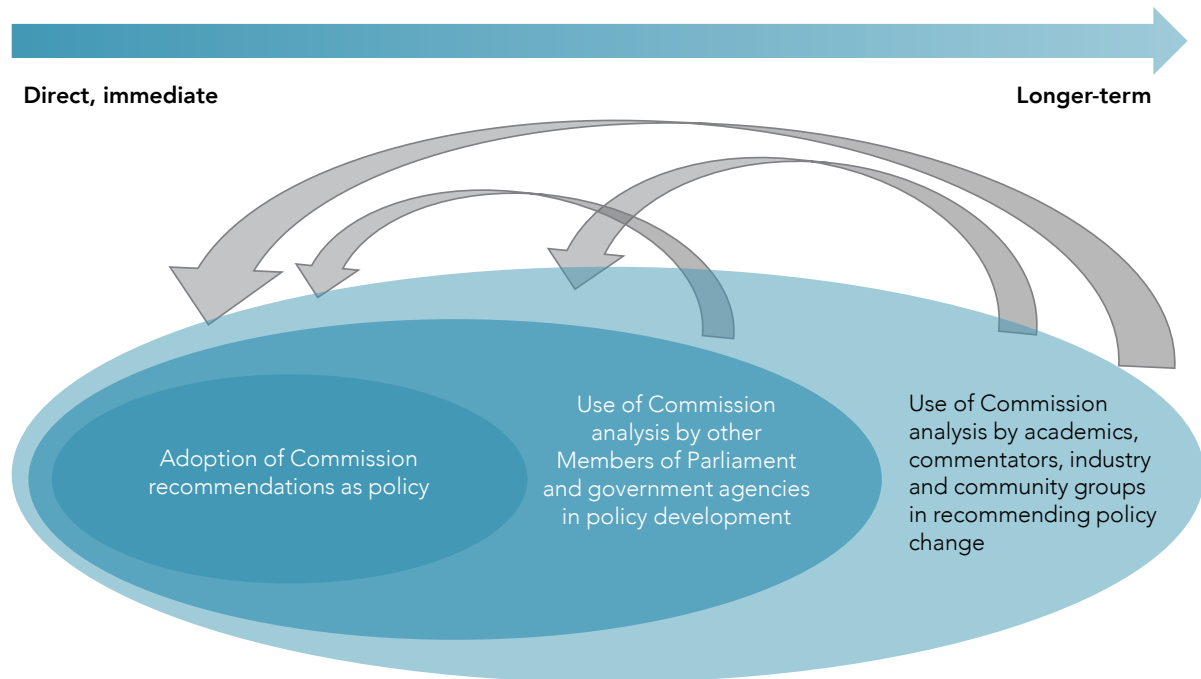
- Because firm size often reflects the size of their market, New Zealand firms struggle to achieve scale and markets suffer from a lack of competitive intensity.
- New Zealand firms don't grow much and there are a lot of small old firms consistent with a lack of "up or out" dynamics.
- Financing costs and the price of capital are high in New Zealand, while wages are relatively low. So investment is low, including in some knowledge-based assets that can have a strong impact on productivity growth. The quality of management is also mixed.
- The New Zealand experience is one of weak international connections and low investment in the assets necessary to benefit fully from changes in the global economy.

Getting policy right is a challenge

- New Zealand's economic features amplify the impact of poorly developed policy. So getting policy right is a challenge in New Zealand. This calls for better-quality policy and impact analysis, more robust monitoring and evaluation of regulatory regimes, and better ways of determining regulatory costs
- Future policy challenges include ongoing rapid technological change, increasing environmental pressures and a tendency for the share of national income accruing to workers to fall.
- Success in the face of these challenges requires an emphasis on: skills, flexibility, openness and receptiveness to new technology.
- This has implications across a range of policy areas, including trade, infrastructure, services sector regulation, innovation, savings, minimising skills mismatch and social policy.

Reporting on our impacts

The Commission is an advisory body, and does not run or implement any policies or programmes itself. 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 and public consideration of our work).



As our impact is critical to the achievement of the Commission's outcomes, our annual reports focus on performance against our impact measures. Over the coming year, we will be working to extend and enhance measurement and evaluation of our impact. Across our work we aim to have impacts in three broad categories:

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

How our recommendations have been received by the Government

Perhaps the most direct measure of the Commission's impact is the proportion of our recommendations that are implemented. Many of our recommendations are made to the Government. The Government is under no obligation to implement Commission recommendations or to respond to our final reports. Under the New Zealand Productivity Commission Act 2010, the responsible Minister for the Commission¹ is only required to present a copy of our final report to the House of Representatives "as soon as practicable after the Minister receives it." [section 13(2)]. In practice, however, the Government has issued formal responses to Commission inquiry reports, spelling out which recommendations it agrees with and will implement.

¹ Our responsible Minister is currently the Minister of Finance, the Hon Bill English.

To date, the Government has formally responded to five of the Commission's inquiries. During the 2014/15 year, the Government responded to the *Towards better local regulation* inquiry report and in July 2015, the Government responded to the *Regulatory institutions and practices* inquiry report. To date there has been no Government response to the *Boosting productivity in the services sector* report (May 2014).

Impact indicator: recommendations agreed and implemented

Inquiry	Highlighted performance
Housing affordability response (Oct 2012)	23 of the 33 recommendations were agreed to in full, or in principle. The Government noted that six recommendations would be addressed through current or future policy work. No action was taken on four recommendations.
International freight transport services (Dec 2012)	The Government agreed to 13 of the 26 recommendations, either in full or in principle. A further two recommendations were noted. The remaining 11 recommendations were being addressed through current or planned future policy work.
Trans-Tasman joint study (May 2014)	25 of the 32 recommendations were jointly supported, supported in part, or were identified as being addressed by existing government arrangements. The Australian and New Zealand governments identified the remaining seven recommendations as requiring further consideration.
Local government regulation (Jul 2014)	All recommendations, with the exception of two, were accepted by the Government.
Regulatory institutions and practices (Jul 2015)	19 recommendations were accepted in full. The remaining 25 recommendations were accepted in part. [We note the formal Government response came slightly after the conclusion of the 2014/15 year]

In responding to the *Regulatory institutions and practices* report, the Minister for Regulatory Reform commented that the Commission's report "will continue to be a valuable reference for regulators and other interested parties well into the future." The Minister also said that

The Government accepts that there is a need for the different agencies involved in designing and administering regulation, and monitoring how effectively it is functioning, to lift their game. The system as a whole also needs to work more coherently, to secure real improvements in regulatory outcomes. The Productivity Commission's report will be used as a catalyst to achieve this change.

The actions taken in response to the *Regulatory institutions and practices* report include:

- Establishment of a Legislation Design and Advisory Committee to improve the quality and effectiveness of legislation.
- On 7 March 2015, the Chief Executives of the major regulatory agencies and departments agreed to set up a new Government Regulatory Practice Initiative to lead and contribute to collective capability initiatives that help develop a professional community of compliance professionals.

The nature of the Commission's role, and the types of inquiry topics it is given, mean that it would be unrealistic and probably undesirable to expect all inquiry recommendations to be accepted. As an independent organisation with a strong focus on the public interest, the Commission sometimes needs to push the boundaries on complex issues, without fear or favour. Nevertheless, of the inquiries to which the Government has formally responded, only a small proportion of recommendations have had no further action taken on them.

Figure 0.1 Breakdown of Government responses to Commission inquiries



The Commission also makes recommendations to organisations and institutions other than central government. For example, a number of recommendations in our *International freight transport services* and *Towards better local regulation* final reports, and *Using land for housing* draft report are directed to local government. The Commission does not currently measure the extent to which these other recommendations have been adopted by their recipients, but is considering the best means of doing this for future annual reports.

What we have done to improve productivity analysis and advice

The Commission contributes directly to better productivity analysis and advice through its inquiry reports, research outputs and partnerships. We currently measure the quality and relevance of our work through three primary mechanisms.

Three types of measurement and evaluation

Independent expert review by someone with significant policy and/or productivity research experience, who is sufficiently familiar with our role and functions.

Survey of external participants in our work with a broad set of questions covering multiple aspects of the work, such as the quality of our analysis and the clarity of our communication. These surveys provide both quantitative data and narrative feedback.

Stakeholder focus group of about 6-10 attendees from different backgrounds, independently facilitated without Commission attendance.

Differences between inquiries and research

The independent expert review takes place for each inquiry once complete, however, for our research function a review will take place once a year and evaluate work from across that year.

At this point we use only limited survey data for our research function.

Focus groups are not as well-suited to our research work, but the expert reviewer would talk to some key stakeholders in forming their views.

Inquiry reports

Through its inquiry reports, the Commission delves deeply into particular issues or sectors, to understand the underlying circumstances and conditions and make recommendations to improve productivity and wellbeing.

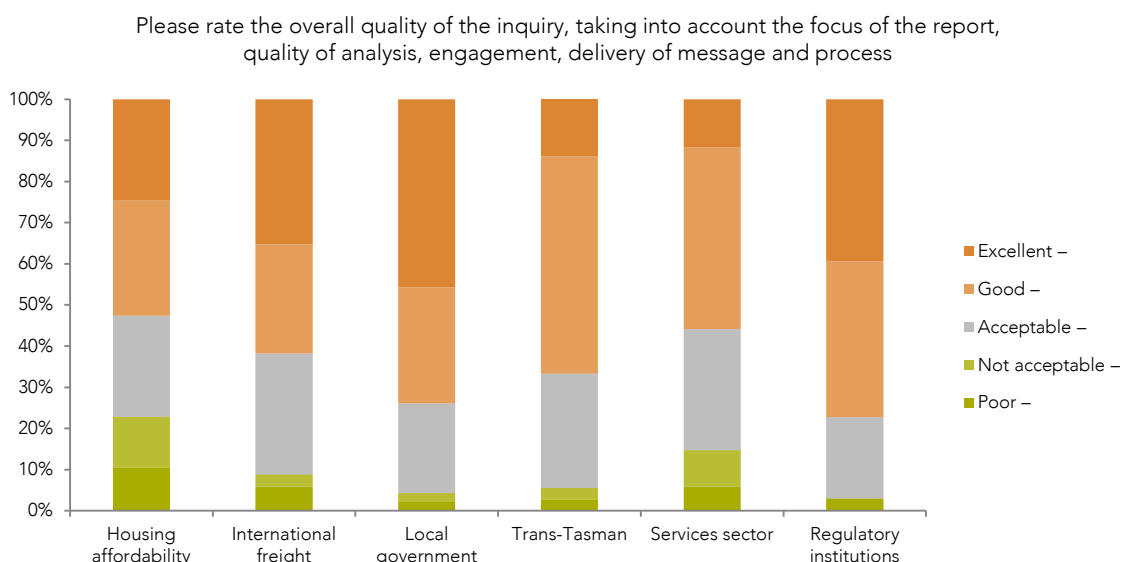
The Commission released one final inquiry report, and two draft reports, during the 2014/15 year, i.e. the final report of the *Regulatory institutions and practices* (publicly released on 16 July 2014); and draft reports on *More effective social services* (released on 28 April 2015) and *Using land for housing* (released on 17 June 2015). External feedback on the *Regulatory institutions and*

practices report was positive, citing its thoroughness and the breadth of evidence drawn upon. There is more detailed reporting on this inquiry in the 2014/15 Service Performance section later in the report.

Measure	Highlighted performance
Our inquiry reports have helped set or lift the standard in NZ for high-quality analysis and advice on productivity issues	<p>The independent external evaluation of <i>Regulatory institutions and practices</i> described the report as</p> <p>“a landmark survey of the theory and practice of regulation well focused on the New Zealand system. It will be a useful resource for future development at a system level and in particular sectors.”</p> <p>The stakeholder focus group commented that</p> <p>“The Commission should be pleased with the report.” “This reports adds to the Commission’s credibility.” “Overall the Commission is doing a fantastic job.”</p>

The results for the *Regulatory institutions and practices* inquiry continue the Commission’s strong record of providing high-quality, relevant policy reports. External participants have consistently scored the quality of Commission inquiries highly.

Figure 0.2 External participant survey responses on the overall quality of Commission inquiries



Research outputs

Since its establishment, the Commission has sought to raise the quantity and quality of research into New Zealand’s productivity performance, both through our own efforts and through collaborative ventures with others. The Commission published six research papers itself in 2014/15, exploring:

- The experience of retirement savings reform in the United Kingdom
- How and why the benefits of productivity improvements have been shared between labour and capital in New Zealand between 1978 and 2010
- Which industries made the greatest contribution to New Zealand’s productivity performance over 1978-2011
- The birth, life and death of firms in New Zealand, and the contribution of small businesses to employment growth
- The innovative activity of New Zealand firms, and
- The extent to which lower-productivity firms in New Zealand close the performance gap with their higher-productivity counterparts.

As noted earlier, during 2014/15 Commission staff also began presenting our work that pulls together lessons and insights from a range of sources that diagnoses the causes of New Zealand's disappointing productivity performance.

As with its inquiry final reports, the Commission undertakes regular independent evaluations of its research function. Feedback on the package of research work undertaken during 2014/15 was very positive and cited the overall quality of the papers, and noted that the evidence-based findings of the papers would be capable of underpinning recommendations and policies designed to improve New Zealand's productivity performance and future economic wellbeing. There is more detailed reporting on the independent evaluation of our research function in the 2014/15 Service Performance section later in the report.

Measure	Highlighted performance
<p>Our research has helped set or lift the standard in NZ for high-quality analysis and advice on productivity issues</p>	<p>The independent external evaluation of our research function described the package of research papers undertaken during 2014/15 as follows:</p> <p>“During 2014/15, the Productivity Commission’s small Economics & Research Team (ERT) of five have published six applied research papers of commendably high quality and relevance.”</p> <p>“The overall performance of the five-person ERT in the above three areas has been very impressive.”</p>

Partnerships

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

- **Connecting people** – establishing a vibrant community for people across academia, public, private and voluntary sectors with an interest in productivity research to make the best use of knowledge and research.
- **Sharing research** – providing a platform where research, data and analysis can be exchanged; for example, through events and by creating a storehouse for research (analysis, evidence and data).
- **Shaping research agendas** – creating opportunities to collaborate on research work programmes to improve their quality and efficiency. Identifying a number of key productivity-related research areas and facilitating work across agencies will reduce duplication and help agencies make the best use of scarce resources. This includes how current and future work is prioritised, coordinated and funded. The Hub released a joint research programme in May 2014, called the Forward-Looking Agenda for Research (FLARE). The Hub has also established a Research Partnership with Motu Economic and Policy Research to collaborate on this agenda.

The Commission regularly hosts and contributes to presentations on productivity-related research from academics and government departments, which are open to the public. During 2014/15 around 600 people attended presentations in such diverse topic areas as highlighted below:

- | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • Firm-level international revenue growth • Commercial services exports • The implications of an aging workforce • The Treasury's perspectives on New Zealand's economic challenges and opportunities • Investment in children • Boosting the productivity of professional services | <ul style="list-style-type: none"> • The contribution of minerals to rural economies • Cost-benefit analysis • New Zealand's population projections • The Māori economy • The impacts of increased digitalisation of production • High performance work practices |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Better public understanding of productivity issues

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

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

Effective communication is integral to our ability to share information about our role and work. We are committed to using fresh, innovative approaches to engage effectively with our audiences. Our website and external relations work are critical to promoting understanding of productivity. We have also expanded our social media presence with tools such as videos on YouTube, presentations on Slideshare, Twitter, LinkedIn and webinars. These all provide additional opportunities to share information and receive feedback.

To underline the importance of our website as a primary communications tool, total downloads from the Commission's website in 2014/15 were 21,803, up 45% from the previous year. These were overwhelmingly related to inquiry reports and summary material, as well as research papers.

Another indicator of public interest in the Commission's work and its potential influence is the extent of media coverage and sector feedback. The extent and depth of coverage is likely to vary depending on the inquiry topics given to the Commission. During the 2014/15 year, Commission reports received considerable coverage, including a number of favourable editorials and opinion pieces:

- John Armstrong said that the Commission's *Using land for housing* draft report
 "should be compulsory reading for every politician, both inside and outside Auckland"
 (Weekend Herald, 20 June 2015)
- Bernard Hickey commented on the *Using land for housing* draft report that:
 "This week's Productivity Commission report on housing is the bureaucratic equivalent of a forensic science TV show that rips apart the victim's body to identify the murderer....It dissects the decisions by a self-interested minority of ratepayers and property owners that have cost the economy billions." (Herald on Sunday, 21 June 2015)
- When discussing the *Using land for housing* draft report The Dominion Post editorial of 20 June 2015 said that:
 "The commission understands the scale of the problem – when housing shortages pump up prices, there are 'invidious social and economic harms that hurt the wellbeing of individuals, families, communities and the nation'. Its prescriptions are wide-ranging and they defy pigeon-holing into Left and Right...this is a serious attempt to get at the scale of the problem."
- On the Commission's *More effective social services* draft report, the National Business Review's editorial commented
 "Any investigation is worthwhile into improving how \$34 billion of taxpayers' money is spent on health, education and social services. The Productivity Commission's draft report on effective social services takes the debate many steps forward."

Speaking programme

Our work is generating significant public interest and debate. We get a number of invitations to speak at events – about specific work and about productivity more generally – which is indicative of widespread interest in finding ways to increase New Zealand's productivity and wellbeing (and of the Commission's role). The research papers about New Zealand's productivity story and the reasons for the gap with other countries have increased interest in the inquiry reports among a wider audience. Commissioners and Commission staff members regularly speak to a range of audiences about productivity, our research outputs and inquiries.

Ongoing inquiries into productivity

During the 2014/15 year we worked on two inquiries: *More effective social services* and *Using land for housing*. While both of these inquiries will conclude in 2015/16 they formed the central part of part of our 2014/15 inquiry work programme:

More effective social services

In June 2014 the Government asked the Commission to look at ways to improve how government agencies commission and purchase social services.

These include how agencies identify the needs of people who use social services, how they choose organisations to provide the services, and how the contracts between agencies and providers work.

We released a draft report at the end of April 2015 and the final report was publicly released on 15 September 2015.

Using land for housing

In September 2014 the Government asked the Commission to look into the processes that New Zealand's fastest growing councils use to provide land for housing (including planning, zoning and the provision of infrastructure such as roads, parks and water pipes).

We were also asked to identify examples of good processes from within New Zealand and overseas.

We released our draft report in June 2015. The final report was delivered to the Government by the end of September and will be released publicly during October 2015.

2014/15 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 operated within our funding, with a \$76,000 operating surplus.

With the benefit of four full years of operation we have significantly increased our understanding about the costs, and allocation of costs, needed to run the Commission in a sustainable manner over the longer-term. Our 2014/15 financial results still reflect that learning and provide another useful yard-stick to guide the composition of our future budgets.

	Actual 2015 \$000	Budget 2015 \$000	Actual 2014 \$000	Budget 2014 \$000
Financial performance				
Revenue from Crown	5,030	5,030	5,030	5,030
All other revenue	50	39	44	20
<i>Total revenue</i>	<i>5,080</i>	<i>5,069</i>	<i>5,074</i>	<i>5,050</i>
Personnel costs	(2,701)	(2,670)	(2,413)	(2,400)
All other expenses	(2,303)	(2,399)	(2,394)	(2,650)
<i>Total expenses</i>	<i>(5,004)</i>	<i>(5,069)</i>	<i>(4,807)</i>	<i>(5,050)</i>
Net surplus/(deficit)	76	-	267	-
Financial position				
Cash and cash equivalents	1055	847	981	700
Property, plant and equipment and intangible assets	269	225	361	397
Other assets	185	25	61	40
<i>Total assets</i>	<i>1,509</i>	<i>1,097</i>	<i>1,403</i>	<i>1,137</i>
<i>Liabilities</i>	<i>(666)</i>	<i>(597)</i>	<i>(636)</i>	<i>(637)</i>
Equity	843	500	767	500

Output funding and costs

The Commission's summary of output funding and costs include those direct and indirect costs associated with delivering our services (i.e. **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. Key assumptions relating to our annual forecasts include that we will be running 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 2015 \$000	Budget 2015 \$000	Actual 2014 \$000	Budget 2014 \$000
Inquiries				
Revenue	4,445	4,435	4,567	4,545
Expenses	(4,274)	(4,435)	(4,296)	(4,545)
<i>Net surplus/(deficit)</i>	<i>171</i>	<i>-</i>	<i>271</i>	<i>-</i>
Research and promoting understanding				
Revenue	635	634	507	505
Expenses	(730)	(634)	(511)	(505)
<i>Net surplus/(deficit)</i>	<i>(95)</i>	<i>-</i>	<i>(4)</i>	<i>-</i>
Total outputs				
Revenue	5,080	5,069	5,074	5,050
Expenses	(5,004)	(5,069)	(4,807)	(5,050)
<i>Net surplus/(deficit)</i>	<i>76</i>	<i>-</i>	<i>267</i>	<i>-</i>

Statement of responsibility for the year ended 30 June 2015

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 service 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 service performance fairly reflect the financial position and operations of the Commission for the year ended 30 June 2015.

Signed on behalf of the Board:



Murray Sherwin
Chairman



Graham Scott
Chair, Assurance Committee

29 September 2015

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 2015**

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

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Commission on pages 36 to 51, that comprise the statement of financial position as at 30 June 2015, 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 that include accounting policies and other explanatory information; and
- the performance information of the Commission on pages 10 to 22 and 26 to 35.

In our opinion:

- the financial statements of the Commission:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2015;
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity (PBE) Standards.
- the performance information:
 - presents fairly, in all material respects, the Commission's performance for the year ended 30 June 2015, including:
 - for each class of reportable outputs:
 - its standards of performance achieved as compared with forecasts included in the statement of performance expectations for the financial year;
 - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year;

- 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 29 September 2015. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Commission's financial statements and performance information 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.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the appropriateness of the reported performance information within the Commission's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and the performance information; and
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

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

Responsibilities of the Board

The Board is responsible for preparing financial statements and performance information that:

- comply with generally accepted accounting practice in New Zealand;
- present fairly the Commission's financial position, financial performance and cash flows; and
- present fairly the Commission's performance.

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

The Board is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error. The Board is also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with, or interests in, the Commission.



Phil Kennerley
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

2014/15 service performance

Assessment of inquiry process and report Regulatory institutions and practices

Dimension: Impact measures

Impact Measure	Result
<p>The Commission's recommendations are agreed and implemented</p> <ul style="list-style-type: none"> Recommendations agreed Recommendations implemented <p>[From review of Cabinet minutes and follow-up with implementing agencies]</p>	<p>The Government formally responded to the inquiry on 28 July 2015 and accepted 19 recommendations in full and 25 in part.</p> <p>Key actions taken in response to the inquiry to date include establishing a Legislation Design and Advisory Committee and a Government Regulatory Practice Initiative to lead and contribute to collective capability initiatives that help develop a professional community of compliance professionals (established by the Chief Executives of the major regulatory agencies). The detailed Government response to the inquiry can be found at: www.treasury.govt.nz/regulation/nzpcresponse</p>

Dimension: Impact measures

Impact Measure	Participant Survey Result	Independent expert review: Rob Laking, Independent Consultant	Focus group evaluation: Kathy Spencer (facilitator), Independent Consultant
<p>Improved productivity analysis and advice in New Zealand</p> <p>Inquiry participants surveyed who agreed or strongly agreed that:</p> <ul style="list-style-type: none"> The inquiry helped set or lift the standard in New Zealand for high-quality analysis and advice on productivity issues ¹. As a result of the inquiry, future work on [the topic] will be better focused and use resources more effectively ². 	<p>75%</p> <p>81%</p>	<p>"Generally the report has been well received. There is some early indication that its guidance on regulatory design will be influential.</p> <p>It is too early to say much about the uptake of specific recommendations. A lot will depend on the government's commitment to providing incentives and support to recommendations in specific regulatory regimes and to accommodating the necessary changes in law and regulation that follow."</p>	<p>"Since the report was pitched at a system-wide level with many of the recommendations being quite generic, there were a number of comments made about what would happen next", including "the report is a starting point", "the government will need to do a synthesis", "the government could go ahead and produce the guidance documents recommended in the report, however if that was all that happened, there is a risk it would make no difference whatsoever".</p> <p>The "...observations were all suggestive of a considerable amount of work still to be done. This could be difficult for Treasury and the other agencies involved as they have not been immersed in the inquiry like the Commission's team."</p>

¹ Note the survey question asked respondents whether "the inquiry has helped to set or lift the standard for high quality analysis and advice on regulatory design and practice in New Zealand."

² Note the survey question asked respondents if "I will use the inquiry report as a resource and reference in the future."

Assessment of inquiry process and report Regulatory institutions and practices

Dimension: Impact measures

Impact Measure	Participant Survey Result	Independent expert review: <i>Rob Laking, Independent Consultant</i>	Focus group evaluation: <i>Kathy Spencer (facilitator), Independent Consultant</i>
<p>Promotion of public understanding of productivity-related matters</p> <p>Inquiry participants surveyed who considered that the inquiry increased their understanding of the following at least a little:</p>			
<ul style="list-style-type: none"> The inquiry increased their understanding of [the topic]¹. 	85%	<p>"Despite the limits on the scope of the report, the Commission considers that its guidance 'equally applies to a broader range of regulatory interventions'.</p> <p>Some of the discussion on accountability, rules vs discretion and professional decision-making is certainly relevant to social regulation."</p>	<p>"It was felt that the Commission had successfully 'sold the idea that the system is not performing very well'. That in itself was very useful in starting debate and discussion and potentially leading to the government making a step change in how it manages regulation and regulatory agencies."</p>
<ul style="list-style-type: none"> The inquiry increased their understanding of productivity more generally². 	88%		

¹. Note the survey question asked respondents if the inquiry increased their understanding of "the topic" in the following related areas: "the important role of regulation", "regulatory practice", "regulatory design", and "the regulatory system overall". The survey result recorded here is the average across these areas.

². Note the survey question asked respondents if the inquiry increased their understanding of productivity more generally by increasing their understanding of "the regulatory system overall."

Assessment of inquiry process and report *Regulatory institutions and practices*

Dimension: Right focus

Measure	Participant survey result	Independent expert review: <i>Rob Laking, Independent Consultant</i>	Focus group evaluation: <i>Kathy Spencer (facilitator), Independent Consultant</i>
<p>Relevance and materiality of final inquiry reports</p> <p>Inquiry participants surveyed who agreed or strongly agreed that:</p> <ul style="list-style-type: none"> The Commission sourced all relevant research and information The Commission engaged with the right people The final report/research paper(s) focused on the issues most significant to [the topic]¹. The final report went into sufficient depth on the issues it covered 	<p style="text-align: center;">83%</p> <p style="text-align: center;">80%</p> <p style="text-align: center;">89%</p> <p style="text-align: center;">87%</p>	<p>"The report's evidence, analysis, findings and recommendations were all material to the inquiry.</p> <p>The report followed its terms of reference closely, with two main exceptions: the Commission decided not to produce high-level mapping of regulatory regimes and it concentrated mainly on regulation likely to affect economic transactions and productivity, consistent with the Commission's overall mandate. Both of these limits probably assisted the focus of the report overall.</p> <p>The terms of reference limit the analysis to the regulatory system as a whole. Much of the discussion of regulatory practice is therefore at a general level but offers guidance for further more detailed work at the level of regulatory regimes and individual regulators."</p>	<p>"... [the] breadth of the terms of reference... had presented the Commission with ...'a real challenge'."</p> <p>"It was clear the Commission would need to narrow the scope down to make the inquiry manageable...".</p> <p>In regard to the management of scope "... the Commission had traded-off depth in favour of breadth" and "it may have been better for the Commission to identify a few key issues to address in greater depth, rather than cover the ground as widely as it did...".</p> <p>An examples of such an issue was the "funding of regulatory agencies... could usefully have been covered in greater depth"</p> <p>There was "a consensus that people would dip into [the report] for guidance on particular areas and that it was already being used that way by some."</p>

¹ Note "the topic" as expressed in the survey question was described as "regulatory design, practice and system improvement".

Dimension: Good process management

Measure	Participant Survey Result	Independent expert review: <i>Rob Laking, Independent Consultant</i>	Focus group evaluation: <i>Kathy Spencer (facilitator), Independent Consultant</i>
<p>All 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 achieved¹. <p>Satisfaction with the inquiry process</p> <ul style="list-style-type: none"> Inquiry participants surveyed who agreed or strongly agreed that overall, they were satisfied with the Commission's inquiry processes 	<p style="text-align: center;">87%</p>	<p>"The process seems to have been very efficiently managed, a considerable achievement given the magnitude and complexity of the inquiry. The inquiry team stuck to its initial timetable for drafts and final report and along the way managed a very wide range of inputs of evidence, expert commentary, and submissions from and discussions with stakeholders."</p>	<p>There was "general agreement that the Commission manages its inquiries very effectively."</p> <p>"While the Commission had done a lot to facilitate the engagement, and that was appreciated, the lengthy process still posed a challenge." "One member of the group described the process, with its various phases, as exhausting".</p> <p>"The timeframes were good – everyone had enough time to comment", "the process was well-signalled and all up on the website", "the Commission attracted a wide range of submissions, which showed that the process worked for people", "the process supported some serious submission and achieved a good result".</p>

¹ The inquiry Terms of Reference specify submission of the final report to referring Ministers by 30 June 2014, a timeframe that was achieved.

Assessment of inquiry process and report *Regulatory institutions and practices*

Dimension: High-quality work

Measure	Participant Survey Result	Independent expert review: <i>Rob Laking, Independent Consultant</i>	Focus group evaluation: <i>Kathy Spencer (facilitator), Independent Consultant</i>
<p>Confidence in the Commission's inquiry findings and recommendations</p> <p>Inquiry participants surveyed who considered the following aspects to be of good or excellent quality:</p> <ul style="list-style-type: none"> • The inquiry's analysis of information • The findings and recommendations <p>Inquiry participants surveyed who agreed or strongly agreed that:</p> <ul style="list-style-type: none"> • The Commission's recommendations followed logically from the inquiry analysis and findings • The Commission's recommendations struck the right balance between suggesting change and avoiding making change for change's sake¹. 	<p>89%</p> <p>93%</p> <p>89%</p> <p>85%</p>	<p>"Given the complexity of the topic and the difficulty of dealing with regulation as a coherent system, the quality of the analysis was generally very good. It drew on a wide range of sources and wrestled effectively with some complex issues, particularly of institutions and culture in the regulatory system.</p> <p>Recommendations generally follow logically from the findings and are clear on what action is required.</p> <p>Many of the findings themselves give guidance on developing regulatory regimes."</p>	<p>"Group members agreed that the quality of analysis was very good"</p> <p>"Participants felt the Commission's report did not deliver any magic bullet, but that it was unrealistic to expect it to."</p> <p>"Chapters 3-5, covering regulatory practice, regulator culture and leadership, and workforce capability had succeeded in shifting the discussion and been a catalyst for these issues to be taken seriously."</p> <p>"Some felt that the problems with the current set of regulatory regimes were well identified and described. However one person commented that the report lacked a clear definition of regulation and a clear identification of the problem. As a result, they thought it was not as focussed as it could have been."</p>

¹. Note the survey question focused on asking respondents to consider whether the Commission's recommendations had provided system-wide improvements to the operation of regulatory regimes over time.

Assessment of inquiry process and report *Regulatory institutions and practices*

Dimension: Effective engagement

Measure	Participant Survey Result	Independent expert review: <i>Rob Laking, Independent Consultant</i>	Focus group evaluation: <i>Kathy Spencer (facilitator), Independent Consultant</i>
<p>Perception of the quality of engagement by the Commission</p> <p>Inquiry participants surveyed who agreed or strongly agreed that:</p> <ul style="list-style-type: none"> • There was ample opportunity to participate in the inquiry • The Commission was approachable • The Commission communicated its views clearly • The Commission understood their views 	<p>89%</p> <p>89%</p> <p>86%</p> <p>76%</p>	<p>“The Commission received over 100 submissions and met with many interested parties. The report draws extensively on these inputs.”</p> <p>Feedback from stakeholders on the inquiry process and the report itself has been strongly positive.”</p>	<p>“The group was very positive about the way the Commission had engaged in the course of its inquiry.”</p> <p>“The Commission was seen as wanting to engage, offering multiple ways to do it, and being very open and helpful to those wanting to participate.”</p> <p>“One group member commented on the ‘<i>genuine spirit of inquiry</i>’ and the Commission’s welcoming approach to those wanting to engage.”</p> <p>“...the Commission did not seem to have any preconceptions about solutions and the way forward”</p> <p>“... because the terms of reference precluded the Commission from making recommendations specific to any regime, there was less incentive or need for some to engage.”</p>
<p>Engagement meetings held Number of parties the Commission engaged with during the inquiry, as noted in the final report appendix: 113</p> <p>Submissions received Number of parties who made a submission during the inquiry, as noted in the final report appendix: 104</p>			

Dimension: Clear delivery of message

Measure	Participant Survey Result	Independent expert review: <i>Rob Laking, Independent Consultant</i>	Focus group evaluation: <i>Kathy Spencer (facilitator), Independent Consultant</i>
<p>Perception of the effectiveness of the Commission’s presentation of inquiry findings and recommendations</p> <p>Inquiry participants surveyed who agreed or strongly agreed that:</p> <ul style="list-style-type: none"> • The findings and recommendations were clear • The style of writing and language used in the report was clear • The summary material provided was useful 	<p>91%</p> <p>93%</p> <p>91%</p>	<p>“The report’s length, the rich evidence base and the density of its reasoning requires close reading but the structure follows well from the terms of reference...”</p> <p>The argument is supported with a variety of table and graphics and frequent use of examples.</p> <p>The report itself is helpfully supplemented by executive summaries, videos and other presentational material”</p>	<p>“... the infographics on the website, the videos and other summary material... were all very useful”</p> <p>“... a colleague had got a slightly misleading impression of the Commission’s final report from the briefer, punchier material prepared for a more general audience.”</p> <p>“The sheer size of the report meant there was a risk of people feeling that it was inaccessible or intimidating and not using it...”</p> <p>“Developing a wider range of material – something more than ‘cut to the chase’ but less than the whole report – could lead to a wider range of people using the Commission’s work and better pick-up by media.”</p>

Assessment of inquiry process and report Regulatory institutions and practices

Dimension: Overall performance

Measure	Result	Independent expert review: <i>Rob Laking, Independent Consultant</i>	Focus group evaluation: <i>Kathy Spencer (facilitator), Independent Consultant</i>
Independent expert evaluation of the overall performance of the inquiry			
<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 	Report received	<p>"This is a landmark survey of the theory and practice of regulation well focused on the New Zealand system.</p> <p>It will be a useful resource for future development at a system level and in particular sectors."</p>	<p>"The Commission should be pleased with the report."</p> <p>"This report adds to the Commission's credibility."</p> <p>"They are a small organisation with a tiny budget and they should be very proud of what they have produced."</p>
Focus group evaluation of inquiry			
<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) 	Report received	<p>"There are few topics on which the report does not provide at least a platform of principles on which more detailed analysis can be built."</p> <p>"This report brings together the best of current thinking and evidence on a central function of modern governments. Despite its length and complexity, it is a valuable resource for future study of regulation."</p>	<p>"... it will have longevity ... "</p> <p>"It covers the issues and sets the agenda. It is the logical starting place for work going forward."</p> <p>"Overall the Commission is doing a fantastic job."</p>
Participant evaluation of inquiry			
<ul style="list-style-type: none"> Percentage of inquiry participants surveyed who rated the overall quality of the inquiry as good or excellent (taking into account the focus of the report, process, analysis, engagement and delivery of message) 	76% ¹		

¹ Note that 97% of participants rated the overall quality of the inquiry as acceptable, good or excellent – a less demanding standard than the performance measure.

Assessment of research function

Undertaking and publishing research about productivity-related matters

Dimension: Impact measures

Measure	Independent expert review: <i>Viv Hall, Emeritus Professor, Victoria University of Wellington</i>
<p>Improved productivity analysis and advice in New Zealand</p> <p>The extent to which the research work reviewed:</p> <ul style="list-style-type: none"> • Helped to set or lift the standard in New Zealand for high-quality analysis and advice on productivity issues • Contributes to future work on [the topic area] being better focused and use resources more effectively 	<p>“In different ways, each paper has provided valuable evidence-based findings capable of underpinning recommendations and policies designed to improve New Zealand’s productivity performance and future economic wellbeing.”</p> <p>“[The Commission] in conjunction with the Productivity Hub, are now producing what no individual Ministry or combination of Ministries had previously been doing”</p> <p>“At this stage, the 2014/15 designated package of research papers must still be seen as early contributions within a well-designed but far from complete jigsaw. It is therefore crucial that the momentum now underway through the Productivity Hub not be lost.”</p> <p>“It is also pleasing to record under this wider impact heading that the quality of the Productivity Hub’s research program and published Working Papers, together with the global network connections of Productivity Hub and Motu individuals has led to the next co-branded Symposium to be held on 1 December 2015. The focus of the Symposium is to be on innovation, and it is a compliment to the globally increasing standing of the Commission and its research output to have confirmed keynote roles from leading European, American and Australian presenters.”</p>
<p>Promotion of public understanding of productivity-related matters</p> <p>The extent to which the research work reviewed:</p> <ul style="list-style-type: none"> • Contributes to increased understanding of [the topic area] • Increases understanding of the importance of productivity more generally 	<p>“... a very valuable contribution towards enhancing New Zealand’s understanding of the full innovation process. Its carefully assembled and described LBD [Longitudinal Business Database] data set, and its comprehensive analysis of the extensive range of input and output innovation measures in the context of firm characteristic measures provide a very important foundation for follow-up specific-issue research...on the extent to which the particular innovation can help generate improved productivity growth.”</p> <p>“...Overall, therefore, the paper provides new research-based evidence...”</p> <p>“That evidence, along with the paper’s concluding thought-provoking implications for public policy, provides valuable input of a partial nature to assist in the formulation of sustainably-effective policy influencing innovation.”</p> <p>“In summary, this paper provides an important early contribution to improving understanding of the role of productivity diffusion at New Zealand sector and industry levels.”</p> <p>“The Hub currently has an ambitious carefully focussed forward research program [for better defining and understanding productivity movements] in the substantial so-called ‘hard-to-measure’ sectors of the New Zealand economy, and in particular for measuring and analysing public sector productivity.”</p> <p>“Recent firm-level Working Papers have concluded with evidence-based thought provoking comments, raising issues and implications for further consideration and wider debate. I commend this recent development as an important further step in assisting wider understanding of the complex network of issues underpinning the productivity improvement process.”</p> <p>“It is also pertinent that, prior to the setting up of the Productivity Commission, quality New Zealand research on productivity had been primarily at aggregate and sectoral/industry levels, with minimal focus on the type of firm-level research potentially of comparatively greater value in providing evidence-based findings to underpin microeconomic level policymaking.”</p>

Assessment of research function Undertaking and publishing research about productivity-related matters

Dimension: Right focus

Measure	Independent expert review: <i>Viv Hall, Emeritus Professor, Victoria University of Wellington</i>
<p>Relevance and materiality of paper(s) within the research work reviewed</p> <p>The extent to which:</p> <ul style="list-style-type: none"> • The Commission sourced all relevant research and information • The Commission engaged with the right people • The paper(s) focused on the issues most significant to [the topic] • The paper(s) went into sufficient depth on the issues it covered 	<p>“...the existence of the Hub has been vital in helping advance the relevance and effectiveness of the [research team’s] research. During 2014/15, this has been especially so for work under the Innovation and Reallocation themes, and in helping guide development of a well-focussed research agenda for 2015/16 and beyond.”</p> <p>“I was also very impressed with the careful exposition of data sources, and the information provided on how information from the LBD was accessed and used. The latter information should be particularly enlightening for those not yet familiar with this very valuable resource...”</p> <p>“None of the 13 persons interviewed expressed concern about either the relevance or the quality of the research produced to date.”</p> <p>“...development and wide dissemination of the Productivity Hub’s FLARE agenda has ensured the Team’s research has gained considerably better focus than previously; in a dynamic world economy, it is crucial that Productivity Hub’s FLARE agenda is regularly updated and further developed;</p> <p>also in the relevance domain, the Productivity Commission and its external stakeholders can take broad lessons from the best international research, but particularly in the context of 92 per cent of New Zealand’s firms being either single employee or sole proprietor, the continuing production of high quality firm-level New Zealand research will remain crucial for assisting evidence-based policymaking...”</p>

Dimension: Good process management

Measure	Survey Result	Independent expert review: <i>Viv Hall, Emeritus Professor, Victoria University of Wellington</i>
<p>The extent to which paper(s) within the research work reviewed were delivered to schedule</p> <ul style="list-style-type: none"> • All external milestones communicated in the Commission’s process planning are achieved (Research processes) 		<p>“The Commission has a sequence of quality assurance procedures which are worked through prior to publication of each ERT Working Paper. These procedures are well understood internally, but do not yet seem to have been formally documented; nor does there seem to be significant awareness externally of those procedures.”</p> <p>“Also under the ‘good process’ heading, small New Zealand units like the ERT and the Productivity Hub are potentially vulnerable to key person risk. Ongoing attention to succession planning for the roles currently performed by each of the individuals within the ERT, the Hub’s Governance Board and the Research Leaders (or expert) Group, will therefore continue to be important.”</p>
<p>Satisfaction with the Commission’s management of research processes</p> <ul style="list-style-type: none"> • Productivity Hub participants surveyed, and reviewer commentary, who agreed or strongly agreed that overall, they were satisfied with the Commission’s research management processes 	93% ¹ .	<p>“In considering the extent to which the [papers] have been ‘delivered to schedule or within assumed planning considerations’, it does not surprise me that five of the six research papers were published during the final two months of the period and that all were published in the second half of the period. This would not be uncommon for fledgling research units, and especially at this stage of the ERT’s development it is important that papers be released only when they have met required quality assurance standards.”</p>

¹ Note that 40% of survey respondents answered “Don’t know” to the question indicating they were perhaps not directly involved with the particular research outputs delivered during 2014/15. These responses were excluded.

Assessment of research function

Undertaking and publishing research about productivity-related matters

Dimension: High-quality work

Measure	Independent expert review: <i>Viv Hall, Emeritus Professor, Victoria University of Wellington</i>
<p>The degree of reviewer confidence in research findings and conclusions</p> <p>Reviewer commentary indicates the following aspects to be of good or excellent quality:</p> <ul style="list-style-type: none"> Information analysis of research papers Findings of research papers <p>Reviewer agreed or strongly agreed that:</p> <ul style="list-style-type: none"> Conclusions followed from analysis and findings 	<p>“Overall, the paper makes a very valuable contribution towards enhancing New Zealand’s understanding of the full innovation process. Its carefully assembled and described LBD data set, and its comprehensive analysis of the extensive range of input and output innovation measures in the context of firm characteristic measures provide a very important foundation for follow-up specific-issue research on firm-level innovation and on the extent to which the particular innovation can help generate improved productivity growth.”</p> <p>“It is further the case that the standard and clarity of write-up of this paper’s research work, and the new findings that it develops for New Zealand firms are such that it could be submitted in the near future for refereeing at a strong quality economics journal.”</p> <p>“...the high quality firm-level research, developed from New Zealand’s exceptionally valuable LBD data base, provides very important but still early-stage building block-type evidence...”</p> <p>“Individual comments on quality from those external to the ERT ranged from a conservatively expressed “comfortable” through to “very, very happy.”</p>

Dimension: Effective engagement

Measure	Survey Result	Independent expert review: <i>Viv Hall, Emeritus Professor, Victoria University of Wellington</i>
<p>The quality of engagement by the Commission</p> <p>Productivity Hub participants surveyed who agreed or strongly agreed that:</p> <ul style="list-style-type: none"> the Commission’s facilitation of the productivity research community was a positive contribution towards improved levels of coordination and collaboration in productivity research 	88% ¹	<p>“Overall, those interviewed were highly complementary about the effectiveness of the ERT’s role in improving coordination and collaboration among public sector agencies working on productivity. Their feedback also provided strong endorsement of the ERT’s ongoing effort to engage with the productivity research community as a whole.”</p> <p>“The ERT has put very considerable time during 2014/15 into its engagement, coordination and collaboration roles, and overall its performance has been outstanding... whether there should continue to be commitment of that amount of time relative to the time required to be spent on undertaking and publishing the Team’s high quality research will need ongoing careful assessment.”</p> <p>“2014/15 has seen the Productivity Commission’s ERT able to move beyond its set up phase, and lead development of the Productivity Hub into a very effective vehicle for engagement, coordination and collaboration.”</p> <p>“Throughout 2014/15, the existence of the Hub has been vital in helping advance the effectiveness of the ERT’s research focus on its designated industry-level and firm-level outputs. This has been especially so for work under the Innovation and Reallocation themes, and in helping guide development of a well-focussed research agenda for 2015/16 and beyond”</p> <p>“...the Productivity Hub and Motu Partnership roles in assisting research relevance and the attainment of high quality outputs have been particularly valuable...”</p>

¹ Note that 23% of survey respondents answered “Don’t know” to the question indicating they were perhaps not directly involved with the particular research and coordination outputs delivered during 2014/15. These responses were excluded.

Assessment of research function

Undertaking and publishing research about productivity-related matters

Dimension: Clear delivery of message

Measure	Independent expert review: <i>Viv Hall, Emeritus Professor, Victoria University of Wellington</i>
<p>The effectiveness of the Commission's presentation of research</p> <p>Reviewer commentary on research papers indicates that:</p> <ul style="list-style-type: none"> • Findings and recommendations were clear • The style of writing and language used was clear • Paper(s) provided clarity about steps leading on from the research 	<p>"I found the standard of presentation of each of the six research papers to be very good. Overall, the Abstracts were concise and clear, and technical methodology was presented succinctly and in a manner that I could assimilate quite quickly. The illustrative Figures were presented to a very high standard and conveyed important messages quite clearly, and there was judicious balancing of Tables of results between in the text and in Appendices."</p> <p>"The effectiveness of communication of messages from the 2014/15 Working Paper and Research Notes is enhanced considerably by the accompanying 'Cut to the chase' and Blog releases that I sighted."</p> <p>"The ERT has carried out and contributed jointly to a particularly impressive range of very well received communication activities during 2014/15."</p> <p>"In this communications context, it can also be noted that while across all events the great majority of attendees were from central government, it is pleasing that there were also significant numbers attending from economic consultancy, education and business organisations."</p> <p>"An ongoing challenge for the Commission, the ERT Director and the [Team] will be to maintain the right balance of time to be spent on production of research, chairing and coordinating Productivity Hub activities and, with the Commissioners, effectively communicating their key research messages."</p> <p>"While the ERT has a primary responsibility to communicate its research findings effectively to the public sector research and policymaking communities, to private sector researchers and decision makers, and to researchers in academia, it also has important roles to play in assisting the Commission to inform and enhance New Zealand's media and the wider public understanding of productivity issues."</p>

Dimension: Overall performance

Measure	Independent expert review: <i>Viv Hall, Emeritus Professor, Victoria University of Wellington</i>
<p>Independent expert evaluation of research work</p> <p>A report evaluating the overall performance of the package of research work (taking into account the focus of the research work, process, analysis, engagement and delivery of message) with recommendations for future improvements</p>	<p>"During 2014/15, the Productivity Commission's small Economics & Research Team (ERT) of five have published six applied research papers of commendably high quality and relevance."</p> <p>"Six is a relatively small number of research publications, but rightly in my view the emphasis has been on producing a small number of high quality, substantially non-overlapping papers rather than running the risk of spreading principal findings and messages too thinly over more papers of somewhat lower quality."</p> <p>"In different ways, each paper has provided valuable evidence-based research findings capable of underpinning recommendations and policies designed to improve New Zealand's productivity performance and future economic wellbeing."</p> <p>"An ongoing challenge for the Commission, the ERT Director and the small Economics and Research Team will be to maintain the right balance of time to be spent on production of research, chairing and coordinating Productivity Hub activities and, with the Commissioners, effectively communicating their key research messages."</p>

2014/15 financial statements and supporting information

Statement of comprehensive revenue and expenses

for the year ended 30 June 2015

	Notes	Actual 2015 \$000	Budget 2015 \$000	Actual 2014 \$000	Budget 2014 \$000
Revenue					
Funding from the Crown	2	5,030	5,030	5,030	5,030
Interest revenue		50	39	44	20
<i>Total revenue</i>		<i>5,080</i>	<i>5,069</i>	<i>5,074</i>	<i>5,050</i>
Expenses					
Personnel costs	3	2,701	2,670	2,413	2,400
Other expenses	4	2,155	2,254	2,264	2,509
Depreciation and amortisation expense	7, 8	148	145	130	141
<i>Total expenses</i>		<i>5,004</i>	<i>5,069</i>	<i>4,807</i>	<i>5,050</i>
Surplus/(deficit) and total comprehensive revenue and expense		76	-	267	-

The accompanying notes form part of these financial statements. Explanations of major variances from budget are provided in note 23.

Statement of changes in equity

for the year ended 30 June 2015

	Notes	Actual 2015 \$000	Budget 2015 \$000	Actual 2014 \$000	Budget 2014 \$000
Balance at 1 July		767	500	500	878
<i>Total comprehensive revenue and expense</i>		<i>76</i>	<i>-</i>	<i>267</i>	<i>-</i>
Owner transactions		-	-	-	-
Return of surplus to the Crown for the year		-	-	-	(378)
<i>Total owner transactions</i>		<i>-</i>	<i>-</i>	<i>-</i>	<i>(378)</i>
Balance at 30 June	13	843	500	767	500

The accompanying notes form part of these financial statements. Explanations of major variances from budget are provided in note 23.

Statement of financial position

as at 30 June 2015

	Notes	Actual 2015 \$000	Budget 2015 \$000	Actual 2014 \$000	Budget 2014 \$000
ASSETS					
<i>Current assets</i>					
Cash and cash equivalents	5	1,055	847	981	700
Debtors and other receivables	6	185	25	61	40
<i>Total current assets</i>		<i>1,240</i>	<i>872</i>	<i>1,042</i>	<i>740</i>
<i>Non-current assets</i>					
Property, plant, and equipment	7	232	162	294	303
Intangible assets	8	37	63	67	94
<i>Total non-current assets</i>		<i>269</i>	<i>225</i>	<i>361</i>	<i>397</i>
TOTAL ASSETS		1,509	1,097	1,403	1,137
LIABILITIES					
<i>Current liabilities</i>					
Creditors and other payables	9	317	256	317	353
Lease incentive	10	23	-	30	-
Employee entitlements	11	250	264	193	160
Provisions	12	76	4	3	3
<i>Total current liabilities</i>		<i>666</i>	<i>524</i>	<i>543</i>	<i>516</i>
<i>Non-current liabilities</i>					
Lease incentive	10	-	-	23	52
Provisions	12	-	73	70	69
<i>Total non-current liabilities</i>		<i>-</i>	<i>73</i>	<i>93</i>	<i>121</i>
TOTAL LIABILITIES		666	597	636	637
NET ASSETS		843	500	767	500
EQUITY					
Contributed Capital	13	500	500	500	500
Accumulated Surplus / (deficit)	13	343	-	267	-
TOTAL EQUITY		843	500	767	500

The accompanying notes form part of these financial statements. Explanations of major variances from budget are provided in note 23.

Statement of cash flows

for the year ended 30 June 2015

	Notes	Actual 2015 \$000	Budget 2015 \$000	Actual 2014 \$000	Budget 2014 \$000
Cash flows from operating activities					
Receipts from Crown		5,030	5,030	5,030	5,030
Interest received		50	39	44	20
Receipts from other revenue		-	(1)	29	-
Payments to suppliers		(2,236)	(2,267)	(2,373)	(2,033)
Payments to employees		(2,644)	(2,651)	(2,416)	(2,976)
Goods and services tax (net)		(55)	-	40	40
<i>Net cash flow from operating activities</i>	14	145	150	354	81
Cash flows from investing activities					
Purchase of property, plant, and equipment		(71)	-	(56)	(25)
Purchase of intangible assets		-	-	-	(20)
<i>Net cash flow from investing activities</i>		(71)	-	(56)	(45)
Cash flows from financing activities					
Return of surplus to the Crown		-	(300)	(362)	(378)
<i>Net cash flow from financing activities</i>		-	(300)	(362)	(378)
Net increase/(decrease) in cash and cash equivalents		74	(150)	(64)	(342)
Cash and cash equivalents at the beginning of the year		981	997	1,045	1,042
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	1,055	847	981	700

The goods and services tax (net) component of cash flows from operating activities reflects net goods and services tax paid to and received from the Inland Revenue Department. The net basis of presentation has been used, as the gross amounts do not provide meaningful information for financial statement purposes.

The accompanying notes form part of these financial statements. Explanations of major variances from budget are provided in note 23.

Notes to the financial statements

Note 1 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 2015, and were approved by the Board on 29 September 2015.

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"). These financial statements comply with PBE accounting standards, being prepared in accordance with Tier 2 PBE accounting standards, as a PBE with expenses less than \$30m.

In May 2013, the External Reporting Board issued a new suite of PBE accounting standards for application by public sector entities for reporting periods beginning on or after 1 July 2014. The Commission has applied these standards in preparing the 30 June 2015 financial statements.

These financial statements are the first financial statements presented in accordance with the new PBE accounting standards. There are no material adjustments arising on transition to the new PBE accounting standards.

Measurement base

The financial statements have been prepared on a historical cost basis. Cost is based on the fair value of the consideration given in exchange for assets. Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

Functional and presentation currency

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

Changes in accounting policies

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

Standards issued and not early adopted

There are no new relevant standards and interpretations issued this year and the Commission has not early adopted any new standards and interpretations.

Comparatives

Certain comparative information has been reclassified, where required, to conform with the current year's presentation under PBE accounting standards.

Significant accounting policies

The significant accounting policies which materially affect the measurement of financial performance, position and cash flows have been applied consistently for all reporting periods covered by these financial statements.

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 Crown

Revenue from Crown transactions are considered to be non-exchange transactions.

The Commission is primarily funded through revenue received from the Crown, which is restricted in its use for the purpose of the Commission meeting its objectives as specified in the Statement of Intent. Revenue from the Crown is recognised as revenue when earned and is reported in the financial period to which it relates. The Commission considers there are no conditions attached to the funding.

The fair value of revenue from the Crown has been determined to be equivalent to the amounts due in the funding arrangements.

Other revenue

Other revenue transactions including interest revenue and provision of services are considered to be exchange transactions.

Interest

Interest revenue is recognised using the effective interest method.

Provision of services

Revenue derived through the provision of services to third parties is recognised in proportion to the stage of completion at the balance date. The stage of completion is assessed by reference to surveys of work performed.

Other grants

Other grants transactions are considered to be non-exchange transactions.

Non-government grants are recognised as revenue when they become receivable unless there is an obligation to return the funds if conditions of the grant are not met. If there is such an obligation, the grants are initially recorded as grants received in advance and recognised as revenue when conditions of the grant are satisfied.

Expenditure

All expenditure incurred in the provision of outputs for the Crown is recognised in the surplus or deficit when an obligation arises, using an accruals basis.

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.

Leases

The Commission is party to operating leases as lessee. As the lessors retain substantially all the risk and rewards of ownership of the leased property, plant and equipment, 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. At balance date, any unamortised incentive or outstanding obligation for reinstatement is recognised as a liability in the statement of financial position.

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.

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.

Property, plant and equipment

Property, plant and equipment consists of the following asset classes: information technology assets; furniture; office equipment; and leasehold improvements.

Additions

All items of property, plant and equipment owned are 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.

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the Commission and the cost of the item can be measured reliably. Assets are capitalised if the purchase price is \$2000 or greater. Items (such as chairs) with a lower individual cost are considered to be capitalised by being aggregated into the asset class. Work in progress is recognised at cost less impairment and is not depreciated. In most instances, an item of property, plant and equipment is initially recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at its fair value as at the date of acquisition.

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	5 years
Leasehold Improvements	5 years
Office Equipment	5 years
Furniture	7 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.

Intangible assets

Software acquisition

Acquired 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:

Purchased software	5 years
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Impairment of property, plant and equipment and intangible assets

The Commission does not hold any cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return. Property, plant and equipment and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is determined based on either a depreciated replacement cost approach, restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information. If an asset's carrying amount exceeds its recoverable service amount, the asset is regarded as impaired and the carrying amount is written-down to the receivable amount. The total impairment loss is recognised in the surplus or deficit. The reversal of an impairment loss is recognised in the surplus or deficit.

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.

Employee entitlements

At balance date, any unpaid employee entitlements earned by employees for salaries and annual leave are recognised as a liability in the balance sheet 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.

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.

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.

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 amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position. The net GST paid

to, or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows. Commitments and contingencies are disclosed exclusive of GST.

Income tax

The Commission is a public authority and consequently is exempt from income tax under section CW 38 of the Income Tax Act 2004. Accordingly, no provision has been made for income tax.

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)

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.

Cash flows

The cash flow statement is prepared exclusive of GST, which is consistent with the method used in the statement of comprehensive revenue and expense.

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 finance 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.

Note 2 Revenue from Crown

The Commission has been provided with funding from the Crown for specific purposes as set out in its founding legislation and the scope of the relevant government appropriations. Apart from these general restrictions, there are no unfulfilled conditions or contingencies attached to government funding.

Note 3 Personnel costs

	Actual 2015 \$000	Actual 2014 \$000
Salaries and contractors	2,554	2,242
Employer contributions to KiwiSaver defined contribution superannuation plan	70	60
Other entitlements	41	1
Bonuses	21	38
Other	15	71
<i>Total personnel costs</i>	<i>2,701</i>	<i>2,413</i>

Note 4 Other expenses

	Actual 2015 \$000	Actual 2014 \$000
Fees to principal auditor for financial statement audit	30	31
Board fees	618	560
Consultancy	545	744
Information technology & telecommunications	319	233
Travel and transport	151	102
Operating lease expense (office rental)	149	178
Communication and engagement	119	117
Training and development	52	96
Other expenses	172	203
<i>Total other expenses</i>	<i>2,155</i>	<i>2,264</i>

Note 5 Cash and cash equivalents

	Actual 2015 \$000	Actual 2014 \$000
Cash at bank and on hand	1,055	981
<i>Total cash and cash equivalents</i>	<i>1,055</i>	<i>981</i>

The carrying value of cash at bank and on hand approximates fair value.

Note 6 Debtors and other receivables

	Actual 2015 \$000	Actual 2014 \$000
Receivables - exchange transactions		
Debtors and other receivables	74	40
Prepayments	35	-
Receivables - non-exchange transactions		
Taxes receivable (GST)	76	21
<i>Total debtors and other receivables</i>	<i>185</i>	<i>61</i>

The carrying value of debtors and other receivables approximates their fair value. All trade debtors are due within 30 days. Trade debtors have been assessed for impairment and no provisions for impairment have been made.

Note 7 Property, plant and equipment

	IT assets \$000	Furniture \$000	Office equipment \$000	Leasehold improve- ments \$000	Total \$000
Cost or valuation					
Balance at 1 July 2014	158	116	59	326	659
Additions	58	-	13	-	71
Additions - Other ¹	-	(1)	-	(7)	(8)
<i>Balance at 30 June 2015</i>	<i>216</i>	<i>115</i>	<i>72</i>	<i>319</i>	<i>722</i>
Accumulated depreciation					
Balance at 1 July 2014	65	51	38	211	365
Depreciation expense	37	16	12	53	118
Additions - Other ¹	-	-	-	7	7
<i>Balance at 30 June 2015</i>	<i>102</i>	<i>67</i>	<i>50</i>	<i>271</i>	<i>490</i>
Carrying amounts					
At 30 June 2015	114	48	22	48	232
Cost or valuation					
Balance at 1 July 2013	102	116	59	322	599
Additions	56	-	-	-	56
Additions - Other ¹	-	-	-	4	4
<i>Balance at 30 June 2014</i>	<i>158</i>	<i>116</i>	<i>59</i>	<i>326</i>	<i>659</i>
Accumulated depreciation					
Balance at 1 July 2013	43	35	26	138	242
Depreciation expense	22	16	12	52	102
Additions - Other ¹	-	-	-	21	21
<i>Balance at 30 June 2014</i>	<i>65</i>	<i>51</i>	<i>38</i>	<i>211</i>	<i>365</i>
Carrying amounts					
At 30 June 2014	93	65	21	115	294

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

The total amount of property, plant, and equipment in the course of construction and work in progress is nil (2014 nil). Property, plant and equipment have been assessed for impairment and no provisions for impairment have been made.

There are no restrictions over the title of the Commission's property, plant and equipment, nor is any property, plant and equipment pledged as security for liabilities.

Note 8 Intangible assets

	Acquired software \$000
Cost	
Balance at 1 July 2014	140
Additions	-
Disposals	-
<i>Balance at 30 June 2015</i>	<i>140</i>
Accumulated amortisation	
Balance at 1 July 2014	73
Amortisation expense	30
Disposals	-
<i>Balance at 30 June 2015</i>	<i>103</i>
Carrying amounts	
At 30 June 2015	37
Cost	
Balance at 1 July 2013	140
Additions	-
Disposals	-
<i>Balance at 30 June 2014</i>	<i>140</i>
Accumulated amortisation	
Balance at 1 July 2013	45
Amortisation expense	28
Disposals	-
<i>Balance at 30 June 2014</i>	<i>73</i>
Carrying amounts	
At 30 June 2014	67

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

There are no restrictions over the title of the Commission's intangible assets, nor are any intangible assets pledged as security for liabilities.

Note 9 Creditors and other payables

	Actual 2015 \$000	Actual 2014 \$000
Payables - exchange transactions		
Accrued expenses	153	223
Creditors	117	50
Payables - non-exchange transactions		
Taxes payable (PAYE)	37	35
Other	10	9
<i>Total creditors and other payables</i>	<i>317</i>	<i>317</i>

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.

Note 10 Lease incentive

	Actual 2015 \$000	Actual 2014 \$000
Current portion	23	30
Non-current portion	-	23
<i>Total lease incentive</i>	<i>23</i>	<i>53</i>

Note 11 Employee entitlements

	Actual 2015 \$000	Actual 2014 \$000
Accrued annual leave	136	94
Accrued salaries and wages	114	99
<i>Total employee entitlements</i>	<i>250</i>	<i>193</i>

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

Note 12 Provisions

	Actual 2015 \$000	Actual 2014 \$000
Lease make-good		
Current portion	76	3
Non-current portion	-	70
<i>Total provisions</i>	<i>76</i>	<i>73</i>

Movements within the provision:

	Actual 2015 \$000	Actual 2014 \$000
Balance at 1 July	73	70
Discount unwind	3	3
<i>Balance at 30 June</i>	<i>76</i>	<i>73</i>

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 2016. Information about the leasing arrangement is disclosed in note 15.

Note 13 Equity

	Actual 2015 \$000	Actual 2014 \$000
Balance at 1 July	767	500
Surplus/(deficit) for the year	76	267
<i>Balance at 30 June</i>	<i>843</i>	<i>767</i>

Note 14 Reconciliation of net surplus/(deficit) to net cash flow from operating activities

	Actual 2015 \$000	Actual 2014 \$000
Net surplus/(deficit)	76	267
Add/(less) non-cash items		
Depreciation and amortisation expense	148	130
<i>Total non-cash items</i>	<i>148</i>	<i>130</i>
Add/(less) items classified as investing or financing activities		
(Gains)/losses on disposal of property, plant and equipment	-	-
<i>Total items classified as investing or financing activities</i>	<i>-</i>	<i>-</i>
Add/(less) movements in statement of financial position items		
Debtors and other receivables	(124)	52
Creditors and other payables	(12)	(52)
Employee entitlements	57	(3)
Revenue in advance	-	(40)
<i>Net movements in working capital items</i>	<i>(79)</i>	<i>(43)</i>
Net cash flow from operating activities	145	354

Note 15 Capital commitments and operating leases

Capital Commitments

	Actual 2015 \$000	Actual 2014 \$000
IT equipment	-	4
<i>Total capital commitments</i>	-	4

Capital commitments are the aggregate amount of capital expenditure contracted for the acquisition of IT equipment that have not been paid for or recognised as a liability at the balance sheet date.

Operating leases as lessee

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

	Actual 2015 \$000	Actual 2014 \$000
Not later than one year	117	155
Later than one year and not later than five years	-	117
<i>Total non-cancellable operating leases</i>	117	272

The non-cancellable operating lease expense relates to the lease of the fifteenth floor of Fujitsu Tower in Wellington. The lease expires in March 2021, with a right to renew in April 2016. If the lease is subsequently renewed, rental will be reviewed in April 2016 and October 2018. The Commission does not have the option to purchase the asset at the end of the lease term. There are no restrictions placed on the Commission by the leasing arrangement.

Note 16 Contingencies

The Commission has no contingent liabilities, and no contingent assets (2014 \$nil).

Note 17 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.

For part of the year, the Commission had arrangements with Treasury and MBIE for the secondment of one staff member from each agency.

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 IRD, 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 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:

- Prof 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 two short-term internships. 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.

Key personnel compensation

	Actual 2015	Actual 2014
<i>Board Members:</i>		
Remuneration	\$614,000	\$569,000
Full-time equivalent members	1.7	1.7
<i>Leadership Team:</i>		
Remuneration	\$783,000	\$797,000
Full-time equivalent members	3.9	3.9
<i>Total key management personnel remuneration</i>	<i>\$1,397,000</i>	<i>\$1,366,000</i>
<i>Total full-time equivalent members</i>	<i>5.6</i>	<i>5.6</i>

Key personnel are Commissioners, General Manager and three Directors who report to the General Manager.

Note 18 Commissioner remuneration

The total value of remuneration paid or payable to each Commissioner during the year was:

	Actual 2015 \$000	Actual 2014 \$000
Murray Sherwin (Chair)	305	293
Graham Scott	137	132
Prof. Sally Davenport	150	144
<i>Total Board member remuneration</i>	<i>592</i>	<i>569</i>

Commissioner remuneration amounts paid or payable to Commissioners differ from amounts recorded in note 4 and 17 due to estimation and timing of accruals.

During the financial year, payments made, or payable to, John Selby, a committee member appointed by the Board, but who is not a Board member, were \$2,500 (2014 \$5,000). Also board fee payments made to Elizabeth Hickey (also a committee member appointed by the Board, but not a Board member) were \$1,500 (2014 nil). 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 (2014 nil).

Note 19 Employee remuneration

Total remuneration paid or payable:	Number of employees 2015	Number of employees 2014
\$100,000 – 109,999	-	1
\$110,000 – 119,999	1	-
\$120,000 – 129,999	1	2
\$130,000 – 139,999	1	-
\$140,000 – 149,999	3	1
\$150,000 – 159,999	1	1
\$160,000 – 169,999	2	-
\$170,000 – 179,999	-	1
\$180,000 – 189,999	2	1
\$210,000 - 219,999	1	-
\$220,000 - 229,999	-	1
<i>Total employees</i>	<i>12</i>	<i>8</i>

During the year ended 30 June 2015, no employees received compensation and other benefits in relation to cessation.

Note 20 Events after the balance date

There were no significant events after the balance date.

Note 21 Financial instruments

	Actual 2015 \$000	Actual 2014 \$000
Debtors and receivables		
Cash and cash equivalents	1,055	981
Debtors and other receivables	185	61
<i>Total debtors and receivables</i>	<i>1,240</i>	<i>1,042</i>
Financial liabilities measured at amortised cost		
Creditors and other payables	317	317
Lease incentives	23	53
<i>Total financial liabilities measured at amortised cost</i>	<i>340</i>	<i>370</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

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Commission purchases goods and services overseas which require it to enter into transactions denominated in foreign currencies. As a result of these activities, exposure to currency risk arises. As the level of currency risk is minor it is not actively managed.

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.

Contractual maturity analysis of financial liabilities

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period, at balance date, to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows. The Commission does not enter into derivative financial instruments.

	Carrying amount \$000	Contractual Cash flows \$000	Less than 6 months \$000	6-12 months \$000	Later than 1 year \$000
2015					
Creditors and other payables	317	317	317	-	-
<i>Total</i>	<i>317</i>	<i>317</i>	<i>317</i>	-	-
2014					
Creditors and other payables	317	317	317	-	-
<i>Total</i>	<i>317</i>	<i>317</i>	<i>317</i>	-	-

Note 22 Capital management

The Commission's capital is its equity, which comprises capital contributed and accumulated funds. Equity is represented by net assets. 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.

Note 23 Explanation of major variances against budget

The surplus for the Commission, from 1 July 2014 to 30 June 2015 was \$76,791 (2013/14 \$266,466). The surplus will be retained in 2015/16. In terms of the surplus composition, the key areas of underspend (relative to budget in percentage (%) terms) were Consultancy, Communication and Engagement, Information Technology & Telecommunications and Travel and Transport.

Given the Commission has only been operating for just over four years, the Commission's knowledge of its expenditure for budgeting and financial management purposes has been developing, with further improved accuracy expected in 2015/16.

Governance and management

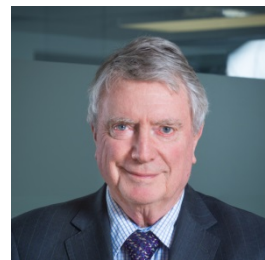
Board



Murray Sherwin, CNZM
Chair



Professor Sally Davenport
Commissioner

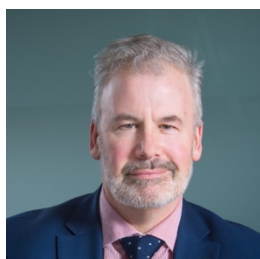


Dr Graham Scott, CB
Commissioner

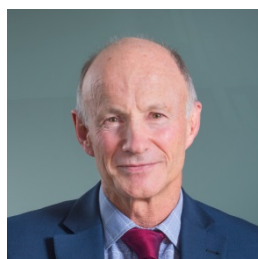
Leadership team



Daiman Smith
General Manager



Steven Bailey
Inquiry Director



Geoff Lewis
Inquiry Director



Paul Conway
Director Economics & Research

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