

# Statement of performance expectations

2019/20

Presented to the House of Representatives pursuant to section 149 of the Crown Entities Act 2004

## **New Zealand Productivity Commission**

Te Kōmihana Whai Hua o Aotearoa<sup>1</sup>

### **Statement of performance expectations 2019/20**

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

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<sup>1</sup> The Commission that pursues abundance for New Zealand.

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## The Commission at a glance

- We are an **independent Crown entity** that provides evidence-based, high quality analysis and advice about productivity-related matters.
- Established under the **New Zealand Productivity Commission Act 2010**, we are a small, skilled group of analysts, economists and support staff guided and governed by three part-time Commissioners.
- **Our analysis, advice and research is focused on improving New Zealand's productivity** – at an individual, business and institutional level. The goal is to contribute to a more prosperous, secure and healthy society. **By lifting productivity, average incomes can increase and, as an associated outcome, the wellbeing of New Zealanders can be further lifted.** Wellbeing is a wide concept that includes economic, social, cultural and environmental benefits of living in New Zealand.
- Our independence means we are **neutral in our approach and can work across government agencies and policy portfolios** to give advice on difficult and often politically sensitive topics.
- We **engage deeply and meaningfully** on complex matters where core agencies are often constrained in their ability to engage.
- **Our work style is collaborative** – we work with and across agencies and organisations to ensure our work is relevant, useful and contributes to an improved understanding of productivity.
- The **collection and analysis of information is central to grounding our work in evidence** which enables us to frame the productivity story in a meaningful and constructive way.
- To date we have **completed twelve inquiries, a narrative about New Zealand's productivity and a large collection of research** about productivity-related matters. We are scheduled to complete to further inquiries during the 2019/20 year, one focused on **local government funding and financing**, and another on **technology and the future of work**.
- In addition to inquiry work, we also **self-initiate research on the factors influencing New Zealand's productivity**. This involves working closely with other government agencies and New Zealand and overseas academic researchers.
- We are also focused on **promoting understanding of productivity-related matters and issues**. These activities can take many forms, including communications activity supporting inquiry and research work, regularly speaking about productivity issues to different stakeholders, and using multimedia and social media to engage with different audiences.
- Our work has contributed to significant reform and we will continue to look for opportunities to **influence, promote and raise the quality of public policy and debate** that underpins wider discussions on lifting New Zealand's overall economic performance.

## Statement of responsibility

This document constitutes our Statement of Performance Expectations as required under the Crown Entities Act 2004.

The descriptions of our purpose, role and functions are consistent with the New Zealand Productivity Commission Act 2010. The Statement covers a one-year period between 1 July 2019 and 30 June 2020. It should be read in conjunction with the Commission's Statement of Intent 2017-2021.

The Board is responsible for the content of this Statement, which comprises the reportable outputs and the Prospective Financial Statements for the year, including the assumptions on which they are based, and for the judgements used in preparing them.

The Prospective Financial Statements have been prepared in accordance with generally accepted accounting practice in New Zealand.

In accordance with the Crown Entities Act the Commission has consulted with the Minister of Finance in the preparation of this Statement.



**Murray Sherwin**  
Chair  
June 2019



**Professor Sally Davenport**  
Commissioner & Assurance Committee Chair  
June 2019

## Chair's message

Our *Statement of performance expectations* details how we will demonstrate progress, during the 2019/20 year, towards achieving our strategic objectives of lifting productivity and the wellbeing of New Zealanders. It accompanies our current *Statement of intent 2017-2021* which provides further information on the overall direction of the Commission and our strategic objectives.



We now have eight years of operations now behind us. Our output over that time includes 12 completed inquiries, additional substantive reports (such as the recent report on "Growing the digital economy in Australia and New Zealand" completed jointly with our Australian counterparts) and a swathe of published reports and research notes from our small Economics and Research team.

With that experience to draw on, we have lately been contemplating our operating model to ensure it remains fit for purpose.

From the outset, the primary focus of our efforts has been the conduct of inquiries into issues identified by Ministers as of high interest to them. That particular focus was not some casual choice on our part. At our formation, Ministers made it clear that what they wanted from the Commission was high quality, evidence-based policy analysis exploring tightly defined issues and producing specific, actionable recommendations. To that end, our initial funding came in two output classes, with 90% of our appropriation directed to the inquiry function.

Consequently, our capacity to undertake wider ranging, "macro-oriented" research into the nature, sources and characteristics of New Zealand's long-standing productivity malaise has been very limited.

We have concluded that is a weakness in our set up.

We think that inquiries continue to deliver highly valuable insights and opportunities to enhance the wellbeing of New Zealanders. But we also think there is an opportunity to gain greater impact from our inquiry work by teaming it with well researched macro-level analysis. The choice of inquiry topics could be better shaped within a stronger sense of the likely sources of the New Zealand's weak productivity performance. Also, the lines of investigation within an inquiry could be better focused within a framework of understanding of influences on our productivity performance.

This is not to say that these matters are not considered in our current inquiry work. It's more a case of believing we could do better by wrapping our inquiries in a stronger macro-research effort.

To bring this about, we face pretty clear choices. Either we scale back our inquiry work to create more space for a targeted research effort, or we seek an increase in funding.

Of course, we wouldn't be the Productivity Commission without being very focused on what should be the core strategy for any organisation. We constantly look to increase our own productivity – produce more with less. That we have been doing over the course of our existence. Our annual appropriation today is unchanged from our beginnings in 2011. Productivity gains have enabled us to absorb eight years of cost increases. But productivity gains won't create the space we require to

lift our research effort and provide a stronger understanding for decision-makers across the economy of how we can boost the wellbeing of New Zealanders.

The demand for our inquiry work remains strong. So while we remain open to the possibility of reducing inquiry output to create more space for research, that may not be an option favoured by our stakeholders. We will continue to pursue productivity gains in our work, but after eight years of operation on unchanged funding, we are now facing hard calls about what outputs should be dropped. We will continue to discuss with Government the nature, mix and volume of outputs they wish to see from the Commission and what scale of funding is required to deliver that scale of programme.

During the 2019/20 year there will be some changes to the Commission's Board. Commissioner Dr Graham Scott retired from the Board at the end of May 2019 and we expect to welcome new Commissioners during the year. I acknowledge Dr Scott's outstanding service as an establishment Commissioner and as Chair of our Assurance Committee. He has made an enormous contribution to our work. It has been a privilege for all of us at the Commission to have had Dr Scott as a colleague and friend. We wish him well for his future endeavours.

**Murray Sherwin**



Chair  
June 2019



## 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 increasing productivity and in doing so, provide greater choices and enhanced wellbeing for all New Zealanders.

Our annual work programme focuses on undertaking inquiries into and research on, and promoting public understanding of, productivity-related matters. This work considers whether laws, policies, regulations and institutions that affect New Zealand's productivity can be improved.

### Undertaking inquiries

- 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.
- The Commission consults with the referring Ministers on the terms of reference and, once set, we are required to act independently.
- Inquiries are big pieces of analysis, generally taking 12 months to complete. 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.

### Undertaking research and promoting understanding

- In addition to inquiries, we self-initiate research on the factors influencing New Zealand's productivity. This involves working closely with other government agencies and New Zealand and overseas academic researchers.
- Promoting understanding of productivity-related matters and issues can take many forms. As well as our communications activity to support inquiry and research work, we regularly speak about productivity issues to different stakeholders and use multimedia and social media to engage with different audiences.

## How we will measure our performance

### Our outcomes framework

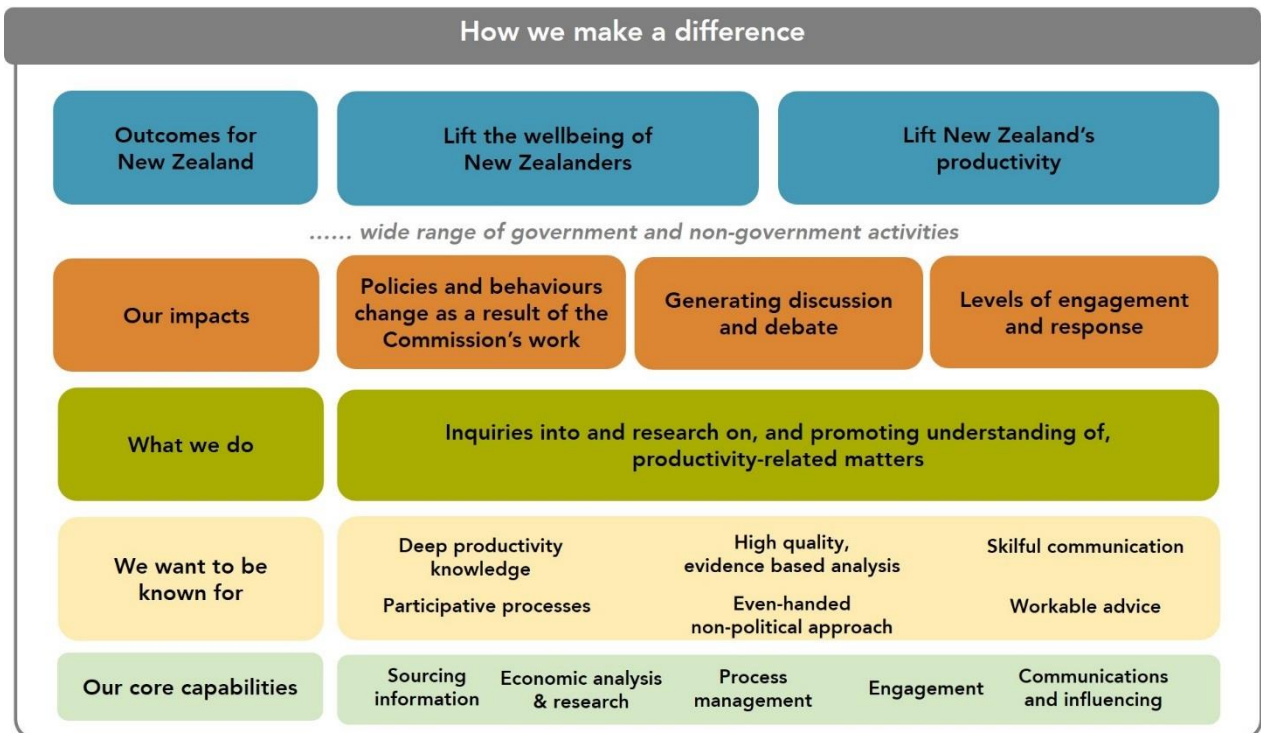
Ultimately we seek to influence two outcomes: to lift New Zealand’s productivity and, as a result, lift the wellbeing of New Zealanders.

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

Our framework, therefore, envisages that our work will contribute to policy and behavioural change as a precursor to having an impact or influence on our two main outcomes. There are a number of indicators that we will explore to determine if this is occurring such as the level of discussion and debate around our work, whether and how key influencers are responding to our work and engaging us in discussion; and, whether our work is widely used by people who are providing commentary or input to policy and is cited in their discussions.

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

Figure 1: Outcomes framework



## How we will measure progress against the framework

### Strong focus on evaluation, not targets

Given the challenges around identifying and attributing impact from our work, our measurement approach tends to focus on whether our work is reaching a high-quality standard. We also measure the impact we are having by distilling the reactions to our work from inquiry participants and stakeholders, and through formal Government responses to our work.

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

- **Independent expert review** by someone with significant policy and/or productivity research experience, who is sufficiently familiar with our role and functions.
- **Surveys 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.
- **Stakeholder focus groups** of about 6-10 attendees from different backgrounds, independently facilitated without Commission attendance.
- **Monitoring** external feedback and workflow processes internally to consistently capture, share and evaluate feedback received as well as other sources of information relevant to our work (e.g. national-level productivity and wellbeing indicators), and, external responses to our work in the media, Parliament, and other relevant fields of activity.

### Common dimensions of performance applied across the evaluation programme

To ensure comparability, the expert review, participant survey, and stakeholder focus group consider our performance using the same performance dimensions (while ensuring flexibility for other feedback to be provided). The dimensions are:

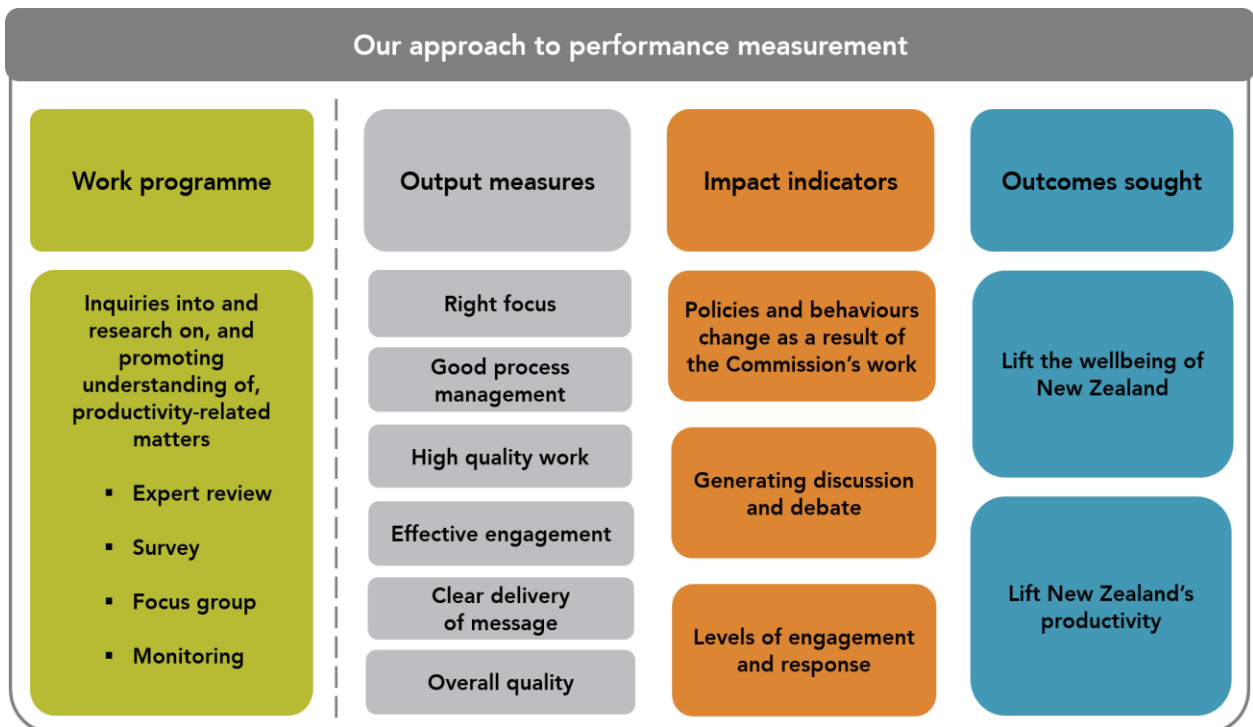
- **Right focus** – the relevance and materiality of our inquiry and research reports
- **Good process management** – the timeliness and quality of our inquiry process
- **High-quality work** – the quality of our analysis and recommendations
- **Effective engagement** – how well we have engaged with interested parties
- **Clear delivery of message** – how well our work is communicated and presented
- **Overall quality** – the overall quality of the work considering all factors

### Differences in measurement approach between inquiries and research

There are some differences in how we approach performance measurement between inquiries and research. The first is that the independent expert review takes place for each inquiry once complete, but for our research work a review will take place two-yearly and will evaluate work across that 24-month period. Secondly, we do not convene focus groups for our research evaluations as they are not well-suited to this aspect of our work, but the expert research reviewer will talk to some key stakeholders in forming their views. Finally, the inquiry participant survey focuses in-depth on aspects of the inquiry’s performance, whereas the bi-annual research survey will contact the Productivity Hub’s research community to assess perceptions of the Commission’s research performance, not evaluate the performance of the Hub itself.

Given the above our approach to performance measurement can be summarised, at a high level, as below:

**Figure 2: Performance measurement**



## Reporting on outcomes

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

Understanding New Zealand's productivity performance, and how to best improve it, requires practical insights into the New Zealand economy. New Zealand is not a typical OECD economy and our path to success will differ to that of larger and more centrally located economies. It is necessary to understand the role played by features of the economy such as industry structure, distance from trading partners, availability of capital, and small size of domestic markets. Through our inquiry, research and outreach functions the Commission plays a key role in developing such an evidence base.

We noted earlier the challenge for the Commission of identifying changes in New Zealand's productivity performance and attributing that directly to our work. As an advisory body, we do not run or implement policies or programmes. Rather, we rely on the credibility and effective communication of our ideas and analysis to influence and shape policy. This influence may be direct and immediate (through accepting and adopting our recommendations) or it may occur over longer periods (after academic, media and community consideration of our work). Given our role, therefore, the influence of our work on lifting wellbeing and productivity levels may only emerge over long timeframes.

We have, however, learnt much about why productivity matters, what affects productivity in New Zealand, and what policy options could improve productivity performance. These learnings will continue to be represented in periodic Commission reports that comment on New Zealand's productivity performance and its implications for wellbeing. Such reporting is an important part of our research work over time while also helping to 'join the dots' between different inquiries and research projects.

More detail on our approach to measurement at the outcome level is provided below:

Outcome(s)	Measure	Assessment method <i>Survey, Expert Review, Focus Group, Monitoring</i>
Lift the wellbeing of New Zealand; and, Lift New Zealand's productivity	Volume and quality of <b>formal research output</b> (e.g. inquiry reports, research working paper series); and, Volume and quality of <b>informal research output</b> (e.g. broader commentary on trends in New Zealand's productivity and wellbeing)	Periodic expert review of the volume and quality of formal and informal outputs

## Impact indicators

As highlighted earlier our outcomes framework envisages that our work will contribute to policy and behavioural change as a precursor to having an impact or influence on our two main outcomes. In addition, we will also look for evidence of impact in a range of other indicators such as the level of discussion and debate around our work, whether and how key influencers are responding to our work and engaging us in discussion; and, whether our work is widely used by people who are providing commentary or input to policy and is cited in their discussions.

Impact(s)	Measure	Assessment method <i>Survey, Expert Review, Focus Group, Monitoring</i>
Policies and behaviour change as a result of the Commission's work	Commission recommendations explored, agreed, and implemented <ul style="list-style-type: none"> <li>How many inquiry recommendations were agreed and implemented?</li> <li>How fully were the recommendations implemented or actively explored by the relevant policy makers?</li> </ul>	<b>Monitoring</b> and review of formal Government responses to inquiries and Cabinet Minutes, and ongoing follow-up with implementation agencies
	Understanding of productivity-related matters increases <ul style="list-style-type: none"> <li>% of inquiry participants surveyed who considered the inquiry had increased their understanding of the topic at least a little</li> <li>Expert review and focus group commentary on whether the inquiry increased understanding of the topic</li> </ul>	<b>Survey %</b>  Summary comments from <b>Expert Review</b> and <b>Focus Group</b>
Generating discussion and debate	Third party commentary on reports in the media: <ul style="list-style-type: none"> <li>Nature of comment (favourable, unfavourable, informed)</li> <li>Who commented</li> <li>How many people/groups commented</li> </ul>	Media (including social media) <b>monitoring</b> for a period of 2 weeks following the release of significant Commission reports (e.g. inquiry reports)
	Citing of the Commission's work in Parliament, Select Committees, or in academic or other literature	<b>Monitoring</b> of <i>Hansard</i> , Select Committee reports & citation tools
Levels of engagement and response	Productivity analysis and advice improves: <ul style="list-style-type: none"> <li>% of inquiry participants surveyed who agreed or strongly agreed that the inquiry helped to set or lift the standard in New Zealand for high quality analysis and advice on [the topic]</li> <li>% of inquiry participants surveyed who agreed or strongly agreed that they will use the inquiry report as a resource and reference in the future</li> </ul>	<b>Survey %</b>  <b>Survey %</b>
	Expert reviewer and focus group commentary on the quality of analysis and advice in the inquiry and if they will use the inquiry report as a resource and reference in the future	Summary comments from <b>Expert Review</b> and <b>Focus Group</b>
	Expert reviewer commentary on the extent to which the research work: <ul style="list-style-type: none"> <li>Helped set or lift the standard in New Zealand for high quality analysis and advice on [the topic]</li> <li>Contributes to future work on [the topic] being better focused and use resource more effectively</li> </ul>	Summary comments from <b>Expert Review</b> and <b>Focus Group</b>  Summary comments from <b>Expert Review</b> and <b>Focus Group</b>

## Output-level measures

Below are the specific measures that we will use to assess our performance at the work programme level. As with the impact level above, the table shows how results will be reported and sets out all the measures that will be applied to the relevant work areas.

Dimension	Measure	Assessment method <i>Survey, Expert Review, Focus Group, Monitoring</i>
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### OUTPUT MEASURES - *Right focus:*

Relevance and materiality of final <b>inquiry reports</b>	Inquiry participants surveyed who agreed or strongly agreed that: <ul style="list-style-type: none"> <li>The Commission sourced all relevant research and information</li> <li>The Commission engaged with the right people</li> <li>The final report/research paper(s) focused on the issues most significant to [the topic]</li> <li>The final report went into sufficient depth on the issues it covered</li> </ul>	<b>Survey %'s</b> ; Summary comments from <b>Expert Review</b> and <b>Focus Group</b>
Relevance and materiality of paper(s) within the <b>research work</b> reviewed	The extent to which: <ul style="list-style-type: none"> <li>The Commission sourced all relevant research and information</li> <li>The Commission engaged with the right people</li> <li>The paper(s) focused on the issues most significant to [the topic] and went into sufficient depth on the issues it covered</li> </ul>	Summary comments from <b>Expert Review</b>

### OUTPUT MEASURES - *Good process management:*

The extent to which <b>inquiry</b> issues papers, draft reports and final reports, and paper(s) within the <b>research work</b> reviewed were delivered to schedule	All external milestones communicated in the Commission's process planning are achieved: <ul style="list-style-type: none"> <li>Inquiry processes</li> <li>Research processes</li> </ul>	<b>Monitoring</b> of milestones
Participant satisfaction with the <b>inquiry</b> process	Inquiry participants surveyed who agreed or strongly agreed that overall, they were satisfied with the Commission's inquiry processes	<b>Survey %'s</b> ; Summary comments from <b>Expert Review</b> and <b>Focus Group</b>
Satisfaction with the Commission's management of <b>research</b> processes	Productivity Hub participants surveyed, and reviewer commentary, who agreed or strongly agreed that overall, they were satisfied with the Commission's research management processes	<b>Survey %'s</b> ; Summary comments from <b>Expert Review</b> and <b>Focus Group</b>

Dimension	Measure	Assessment method <i>Survey, Expert Review, Focus Group</i>
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### OUTPUT MEASURES - *High-quality work:*

Participant confidence in the Commission's <b>inquiry</b> findings and recommendations	Inquiry participants surveyed who considered the following aspects to be of good or excellent quality: <ul style="list-style-type: none"> <li>The inquiry's analysis of information</li> <li>The findings and recommendations</li> </ul>	<b>Survey %'s</b> ; Summary comments from <b>Expert Review</b> and <b>Focus Group</b>
	Inquiry participants surveyed who agreed or strongly agreed that: <ul style="list-style-type: none"> <li>The Commission's recommendations followed logically from the inquiry analysis and findings</li> </ul> <p>The Commission's recommendations would, if implemented, materially improve performance in [the topic area]</p>	<b>Survey %'s</b> ; Summary comments from <b>Expert Review</b> and <b>Focus Group</b>
The degree of reviewer confidence in <b>research</b> findings and conclusions	Reviewer commentary indicates the following aspects to be of good or excellent quality: <ul style="list-style-type: none"> <li>Information analysis of research papers</li> <li>Findings of research papers</li> </ul>	Summary comments from <b>Expert Review</b>
	Reviewer agreed or strongly agreed that: <ul style="list-style-type: none"> <li>Conclusions followed from analysis and findings</li> </ul>	Summary comments from <b>Expert Review</b>

### OUTPUT MEASURES - *Effective engagement:*

Participant perception of the quality of engagement by the Commission	<b>Inquiry</b> participants surveyed who agreed or strongly agreed that: <ul style="list-style-type: none"> <li>There was ample opportunity to participate in the inquiry</li> <li>The Commission was approachable</li> <li>The Commission communicated clearly</li> <li>The Commission understood their views</li> </ul>	<b>Survey %'s</b> ; Summary comments from <b>Expert Review</b> and <b>Focus Group</b>
	Productivity Hub participants surveyed who agreed or strongly agreed that: <ul style="list-style-type: none"> <li>The Commission's facilitation of the Hub was a positive contribution toward improved levels of coordination and collaboration in productivity <b>research</b></li> </ul>	<b>Survey %</b> ; Summary comments from <b>Expert Review</b>
Engagement meetings held	Number of parties the Commission engaged with during the <b>inquiry</b> , as noted in the final report appendix	# of parties engaged with
Submissions received	Number of parties who made a submission during the <b>inquiry</b> , as noted in the final report appendix	# of parties who made a submission



Dimension	Measure	Assessment method <i>Survey, Expert Review, Focus Group</i>
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### OUTPUT MEASURES - *Clear delivery of message:*

Participant perception of the effectiveness of the Commission's presentation of <b>inquiry</b> findings and recommendations and presentation of <b>research</b>	<p><b>Inquiry</b> participants surveyed who agreed or strongly agreed that:</p> <ul style="list-style-type: none"> <li>• The findings and recommendations were clear</li> <li>• The style of writing and language used in the report was clear</li> <li>• The summary material provided was useful</li> </ul>	<b>Survey %'s</b> ; Summary comments from <b>Expert Review</b> and <b>Focus Group</b>
	<p>Reviewer commentary on <b>research</b> papers indicates that:</p> <ul style="list-style-type: none"> <li>• The conclusions were clear</li> <li>• The style of writing and language used was clear</li> <li>• Paper(s) provided clarity about steps leading on from the research</li> </ul>	Summary comments from <b>Expert Review</b>

### OUTPUT MEASURES - *Overall performance:*

Independent expert evaluation of the overall performance of the <b>inquiry</b>	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	Summary comments from <b>Expert Review</b>
Independent expert evaluation of <b>research work</b>	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	Summary comments from <b>Expert Review</b>
Focus group evaluation of <b>inquiry</b>	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)	Summary comments from <b>Focus Group</b>
Participant evaluation of <b>inquiry</b>	<p>Percentage of inquiry participants surveyed who rated the overall quality of the inquiry as good or excellent (taking into account the focus of the report, process, analysis, engagement and delivery of message)</p> <p>[Note: participants who rated the overall quality of the inquiry positively, as acceptable, good or excellent (a less demanding standard than the performance measure)]</p>	<b>Survey %</b>

## Summary of output funding and costs

The table below sets out our forecast output funding and costs.

We are funded to undertake inquiries into and research on, and promote public understanding of, productivity-related matters.

Earlier in this Statement we described our work programme outputs, what we intend to achieve in regard to these outputs, and how we will measure the performance of our outputs.

Output (years ending 30 June)	Updated forecast	Forecast
	2019 \$000	2020 \$000
<b>Inquiries</b>		
Revenue	4,500	4,403
Expenses	(4,588)	(4,403)
Net surplus (deficit)	<b>(88)</b>	<b>0</b>
<b>Research and promoting understanding</b>		
Revenue	643	629
Expenses	(655)	(629)
Net surplus (deficit)	<b>(12)</b>	<b>0</b>
<b>Total outputs</b>		
Revenue	5,143	5,032
Expenses	(5,243)	(5,032)
Net surplus (deficit)	<b>(100)</b>	<b>0</b>

Our forecasting is based on an assumption of two full inquiries running at any point in time (noting that there may be overlap of additional inquiries in practice) and allocating common corporate costs as appropriate.

# Prospective financial statements for 2019/20

## Introduction

These prospective financial statements have been prepared in accordance with generally accepted accounting practice for public sector public benefit entities. Their purpose is to facilitate consideration by Parliament of the planned performance of the Commission. The use of this information for other purposes may not be appropriate. Readers are cautioned that actual results are likely to vary from the information presented and that the variation may be material.

These prospective financial statements have been prepared on the basis of assumptions about future events that the Commission reasonably expects to occur as at the date the information was prepared. It is not intended that this information will be updated.

## Assumptions

The following assumptions have been used in preparing these prospective financial statements:

- The Commission will continue to operate in its current structure and form.
- The Commission's statutory functions will remain unchanged.
- Revenue from the Crown of \$5,030,000 will be available for the 2019/20 year.
- There will be no change in premises occupancy.
- Externally driven costs will increase by no more than the rate of inflation.
- There will be no unexpected external events (such as a natural disaster) that will require significant operating or capital expenditures to be incurred.

## Statement of Accounting Policies

### (a) 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.

### (b) Statement of Compliance

These prospective 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 prospective 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 these prospective financial statements.

### (c) Measurement base

The prospective 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.

**(d) Functional and presentation currency**

These prospective 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.

**(e) 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 the Crown**

Revenue from Crown transactions is 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 specified in the Appropriation.

**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.

**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.

**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.

### **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 prospective 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)

### **Cash flows**

The prospective 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 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.

## Prospective statement of comprehensive revenue and expense for the year ending 30 June 2020

	Updated forecast 2018/19 \$000	Forecast 2019/20 \$000
<b>Income</b>		
Revenue from Crown	5,030	5,030
Interest revenue	2	2
Other revenue	111	-
<i>Total revenue</i>	<i>5,143</i>	<i>5,032</i>
<b>Expenditure</b>		
Personnel costs	3,562	3,636
Other expenses	34	1,372
Depreciation and amortisation expense	1,647	24
<i>Total expenditure</i>	<i>5,243</i>	<i>5,032</i>
<b>Net surplus/(deficit)</b>	<b>(100)</b>	<b>-</b>
Other comprehensive income	-	-
<b>Total comprehensive revenue and expense</b>	<b>(100)</b>	<b>-</b>

*The Statement of Accounting Policies forms part of and is to be read in conjunction with the Prospective Statement of Comprehensive Revenue and Expense*

## Prospective statement of changes in equity for the year ending 30 June 2020

	Updated forecast 2018/19 \$000	Forecast 2019/20 \$000
Balance at 1 July	1,052	952
<b>Comprehensive revenue and expense for the year</b>		
Surplus/(deficit)	(100)	-
<b>Owner transactions</b>		
Repayment of surplus	-	-
<b>Balance at 30 June</b>	<b>952</b>	<b>952</b>

*The Statement of Accounting Policies forms part of and is to be read in conjunction with the Prospective Statement of Changes in Equity*

## Prospective statement of financial position as at 30 June 2020

	Updated forecast 2018/19 \$000	Forecast 2019/20 \$000
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,359	1,255
Debtors and other receivables	49	49
<i>Total current assets</i>	<i>1,408</i>	<i>1,304</i>
<b>Non-current assets</b>		
Property, plant, and equipment	41	22
Intangible assets	10	5
<i>Total non-current assets</i>	<i>51</i>	<i>27</i>
<b>Total assets</b>	<b>1,459</b>	<b>1,331</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Creditors and other payables	232	229
Employee entitlements	199	150
Provisions	-	-
Surplus payable to the Crown	-	-
<i>Total current liabilities</i>	<i>431</i>	<i>379</i>
<b>Non-current liabilities</b>		
Lease incentive	4	-
Provisions	72	-
<i>Total non-current liabilities</i>	<i>76</i>	<i>-</i>
<b>Total liabilities</b>	<b>507</b>	<b>379</b>
<b>Net assets</b>	<b>952</b>	<b>952</b>
<b>Equity</b>		
Contributed capital	500	500
Accumulated surplus/(deficit)	452	452
<b>Total equity</b>	<b>952</b>	<b>952</b>

*The Statement of Accounting Policies forms part of and is to be read in conjunction with the Prospective statement of financial position*



## Prospective statement of cash flows for the year ending 30 June 2020

	Updated forecast 2019 \$000	Forecast 2020 \$000
<b>Cash flows from operating activities</b>		
Receipts from Crown	5,030	5,030
Interest received	2	2
Receipts from other revenue	130	-
Payments to suppliers	(1,678)	(1,452)
Payments to employees	(3,548)	(3,685)
Goods and services tax (net)	(8)	-
<i>Net cash flow from operating activities</i>	<i>(72)</i>	<i>(105)</i>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(9)	-
Purchase of intangible assets	-	-
<i>Net cash flow from investing activities</i>	<i>(9)</i>	-
<b>Cash flows from financing activities</b>		
Capital distribution	-	-
<i>Net cash flow from financing activities</i>	-	-
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(81)</b>	<b>(105)</b>
Cash and cash equivalents at the beginning of the year	1,440	1,359
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>1,359</b>	<b>1,253</b>

*The Statement of Accounting Policies forms part of and is to be read in conjunction with the Prospective statement of cash flows*

# Governance and management

## Board



**Murray Sherwin, CNZM**  
Chair



**Professor Sally Davenport, MNZM**  
Commissioner

## Leadership team



**Daiman Smith**  
General Manager



**Steven Bailey**  
Inquiry Director



**Judy Kavanagh**  
Inquiry Director



**Dr Patrick Nolan**  
Director Economics & Research



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