



# Measuring and Improving State Services Productivity – Draft Report

Submission to the New Zealand  
Productivity Commission

February 2018



**For a better working life**

New Zealand Public Service Association  
Te Pūkenga Here Tikanga Mahi

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## About the PSA

The New Zealand Public Service Association Te Pūkenga Here Tikanga Mahi (the PSA) is New Zealand's largest trade union with over 64,000 members. We are a democratic organisation representing members in the public service, the wider state sector (the district health boards, crown research institutes and other crown entities), state owned enterprises, local government, tertiary education institutions and non-governmental organisations working in the health, social services and community sectors.

The PSA has been advocating for strong, innovative and effective public and community services since our establishment in 1913. People join the PSA to negotiate their terms of employment collectively, to have a voice within their workplace and to have an independent public voice on the quality of public and community services and how they're delivered.

The PSA is an affiliate of the New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU) and supports the submission of the CTU on the draft report. As an affiliate the PSA has discussed its submission with the CTU and so the Commission may note points of similarity.

## PSA response to the Draft Report

### 1. "If all you have is a hammer, everything looks like a nail"<sup>1</sup>

New Zealanders rely on public services to create the conditions needed to thrive. It is vital that those making decisions about public services – from those at Ministerial level, to chief executives, to frontline managers and public servants – base their policy, strategic and day to day decisions on good and rich information.

In the PSA's view the Draft Report does not establish a convincing case that productivity measurements,

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<sup>1</sup> Maslow A, The Psychology of Science 1966

even as adjusted by the range of possible methodologies discussed in chapters 3 to 5 of the Draft Report, will provide good information or will realise the very sensible set of principles set out in finding 6.7.

The Commission has been ham-strung by the Inquiry's terms of reference which require an unhelpfully partial frame. Terms of reference that enabled more broad-ranging and integrated advice to government and agencies on what is needed to achieve progress across the State services system on outcomes for New Zealanders, and what information is needed to monitor this, would have been more helpful and timely.

In our view, requiring agencies to measure more in order to provide the data needed to generate productivity calculations will create compliance issues and divert energy and resources (which the Terms of Reference note are scarce) from other work supporting innovation and other aspects of performance.

In the PSA's view there would be greater gains to be had from a review of how the Public Finance Act, State Sector Act, Crown Entities Act and State Owned Enterprises Act contribute to and hinder performance, innovation and achievement of outcomes by and across the state services system.

## 2. Response to selected questions and findings

### *Chapter 3 – measuring and improving state sector productivity*

**Chapter 3**, at p46 concludes that “some of the outputs produced by the state sector are relatively straightforward to measure – these include “transactional” services...”. We do not agree that services such as the payment of benefits can properly be defined as transactional in their quality. There is a significant relational aspect to this particular service that will in some part determine whether or not someone receives their full entitlement to income support, and so the contribution of that income support to outcomes sought by governments of the day of agencies across the State services system.

### *Chapter 8 – Encouraging state sector productivity improvement*

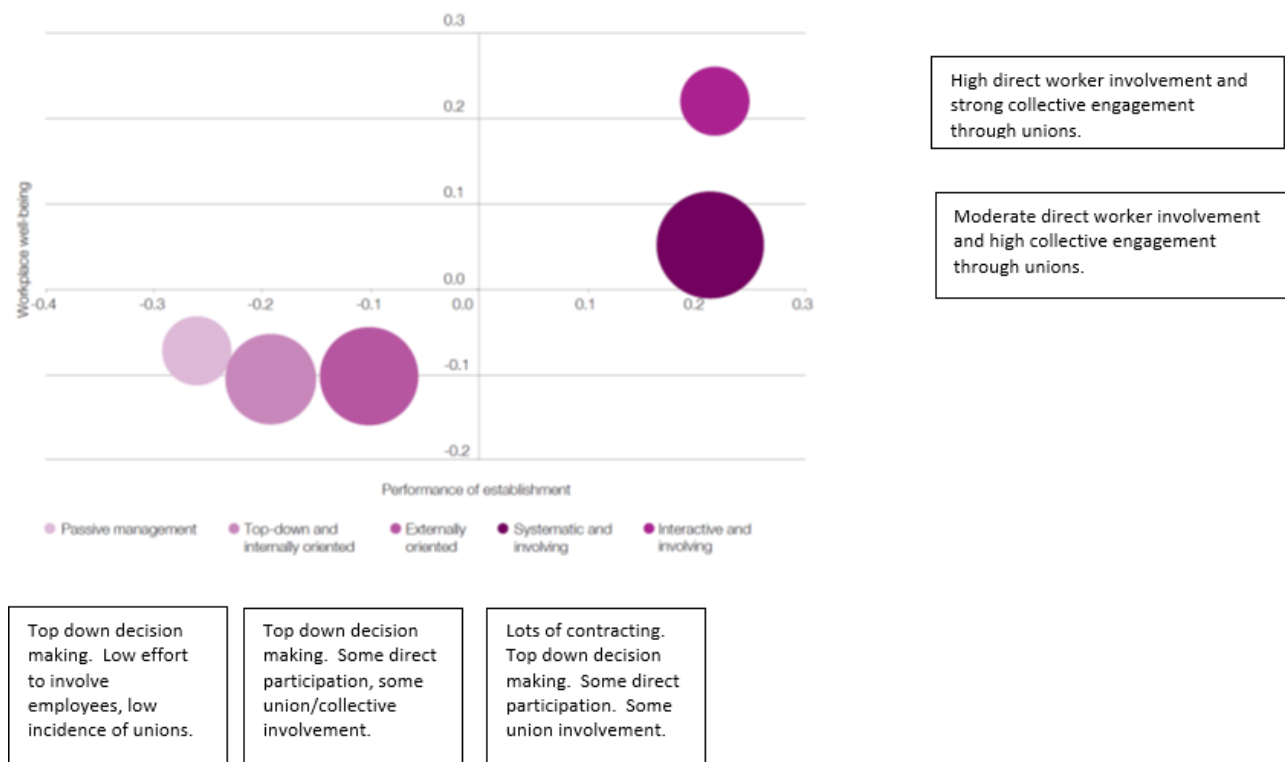
**Question 8.7** asks how human resource management practices can support public sector efficiency. We touch on this in our responses to other questions from Chapter 8 below.

The current suite of HR practices have evolved over the past few decades and promised to deliver stronger organisational commitment from employees and increased efficiency and productivity. There is not a strong

evidence base that this has occurred<sup>2</sup>. HR continues to be more of an art than a science. In his 2015 research paper *Beyond HR – Towards the High Involvement Workplace*, Coats notes<sup>3</sup>:

*The most robust results that are consistent over time identify the positive role that can be played by worker participation (both individual and collective) in boosting productivity and organisational performance. These results are consistent with earlier findings that a high trust relationship between workers, their trade union and the employer could have a positive impact on organisational outcomes. There is also evidence to show an association between worker participation in decision-making and the level of incremental innovation in the workplace.*

We would also refer the Commission to the excellent report of the EU funded 3<sup>rd</sup> European Company Survey<sup>4</sup>. The following table from the report illustrates the impact of worker involvement on both organisational performance and worker wellbeing:



<sup>2</sup> P 4. Coats, D. *Beyond HR – Towards the High Involvement Workplace* (full report), Work Matters, 2015

<sup>3</sup> *ibid*

<sup>4</sup> p128, 3<sup>rd</sup> European Company Survey, Eurofound 2015

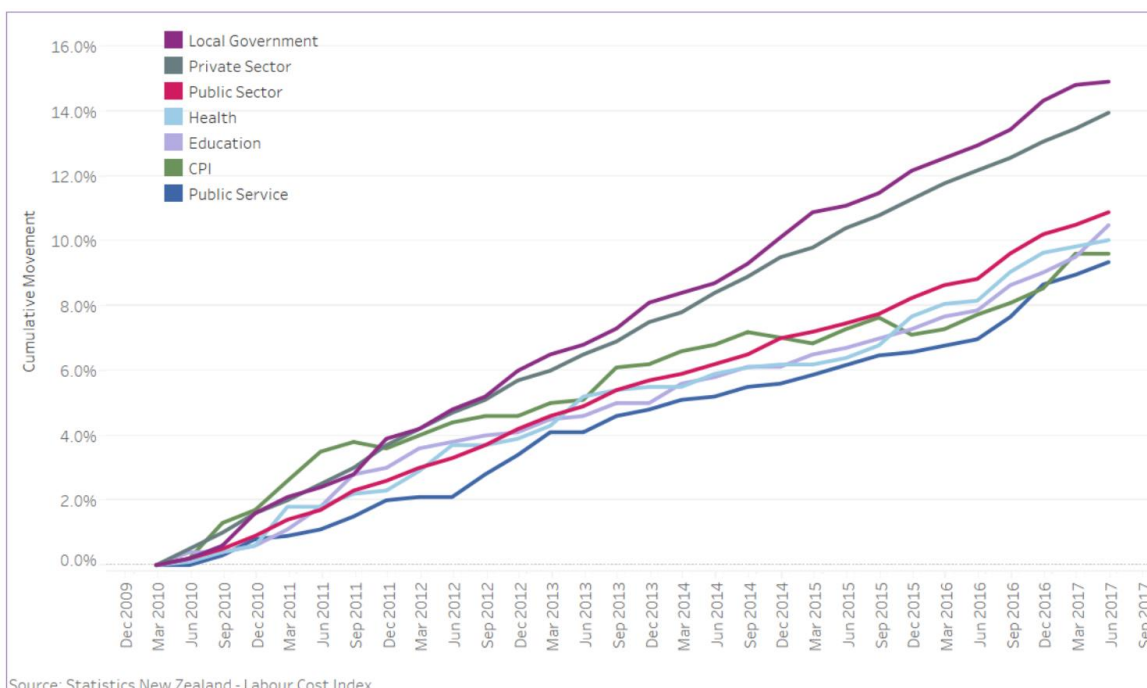
These kind of high involvement, high engagement approaches are relatively new and under-developed in New Zealand but the PSA is strongly of the view that there is much to be gained, in terms of efficiency and productivity in the state services, through moving to HR and management practices that support this.

**Question 8.9** asks about the lessons from New Zealand’s experience of fixed nominal baselines. In our view the blunt instrument of the fixed baseline has outlived what, if any, use it had as a temporary measure post the global financial crisis.

It could be argued that some baselines now have a somewhat arbitrary element about them, much like the current and previous administrations’ formal and informal rules around the level of government spending and debt. There are of course intended and unintended consequences that flow from this. In our view the lesson is that this blunt instrument has not led to demonstrated significant gains in system performance but rather has contributed to a culture of short term decision making by fixed-term chief executives required to make-do within their tenure.

The introduction of an obligation of stewardship in the 2013 amendments of the State Sector Act, and the requirement to have in place Four Year Plans, are positive moves but in our view these do not overcome the predominant incentive of the fixed baseline and the impact of fixed-term appointments.

Another lesson is that some of the tools available to agencies to manage fixed baselines are to effectively cap numbers of staff and also their terms and conditions, including pay. It is no coincidence that this period of austerity has been accompanied by an apparent growth in the use of contracts for service and pay increases for public servants lower than in any other sector of the economy.



In a 2016 Victoria University of Wellington survey of over 14, 000 public sector workers, only 26.2% agreed that the rate of pay for their job is fair when compared to the rate for other similar jobs in the wider labour market<sup>5</sup>. This comes as little surprise. The PSA is regularly party to remuneration reviews and negotiations where proprietary salary market information is presented and the agency outlines how much below the self-referencing “public service market” or “state services market” (as defined by the company owning the salary information) they propose to pay. The wider labour market is never considered. And nor could it be within departments’ fixed baselines. Gradually, over time the value of public service pay has been eroded. This may well represent a technical increase in productivity but it has other consequences that undermine agency and system performance, and public service careers. This is not sustainable.

Another lesson is that using unfilled vacancies to manage budget pressures within fixed baselines can put unconscionable pressure on the staff that remain and compromise service quality. Again, an apparent increase in productivity but at a cost passed on to people working in public services, and citizens.

**Question 8.10** asks about the Four-Year Plan process. For most agencies the largest cost (or in productivity terms, input) is people. This means that for the Four-Year Plan process to be effective, agencies need to have in place workforce strategies, supported by employment relations strategies, that complement and help achieve the objectives of their Four-Year Plans. In our experience this is as yet under-developed in most agencies.

To make real system-level gains from more effective and strategic use of capability, not only do agencies need to be more actively supported towards more mature approaches to workforce planning and employment relations but more effective measures need to be put in place to enable truly strategic management of capability and careers across the state services system.

**Question 8.12** asks in what circumstances might performance related pay be effective and when is it likely to be harmful and why? The Commission’s own research, summarised on pages 123 and 124, answers this question. Our reading of the literature is that performance pay is only useful in jobs where:

- the task is easily learned and there is little or no dependence on other employees
- it is easy to monitor and measure quality
- employee goals are simple and straightforward.<sup>6</sup>

The evidence on performance pay in public sector contexts for knowledge and service based work is at best mixed.

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<sup>5</sup> P 28, Plimmer et al, Workplace Dynamics in New Zealand Public Services, Victoria University of Wellington, 2016.

<sup>6</sup> P 7, Coats D, Beyond HR, Work Matters, 2015

We should also consider not just the theory of performance pay but how it is experienced in New Zealand's public services. In a 2013 Victoria University of Wellington survey of 16,000 public sector workers, less than a quarter (23.9%) agreed that there is a strong link between how they perform and the likelihood of receiving a pay increase<sup>7</sup>, despite all agencies having performance-based pay systems.

In our view agencies persist with outdated performance elements in their pay systems in the absence of evidence that performance pay contributes to improved organisational performance. In the context of fixed baselines, performance pay systems are used to ration what budget is available for pay increases to higher paid occupations that are perceived as being more valuable to the organisation. Other than that, they add little in value and a lot in compliance activity.

It is of particular concern to the PSA that the use of performance pay persists at a time when the state services are committed to closing the gender pay gap. Performance pay contributes to gender and other pay inequalities. In their 2012 paper, Faber, Grimes and Maré<sup>8</sup> find that within firms the benefit (in terms of amount) of performance pay is confined to high wage workers within firms, and that this effect is apparent only for men.

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<sup>7</sup> P48, Plimmer et al, Workplace Dynamics, Victoria University of Wellington, 2013.

<sup>8</sup> P15, Faber, Grimes and Maré, Motu, Performance Pay Systems and the Gender Wage Gap