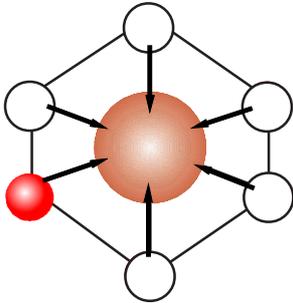


## SOCIAL COHESION AND INCLUSION



*Social cohesion facilitates the smooth functioning of relationships and transactions*

Achieving and maintaining a sense of social cohesion and inclusion is an important aspect of welfare in the broadest sense. Not only is it valuable in its own right – something that helps define our identity and can enhance our living standards – but social cohesion is also part of the oil that facilitates the smooth functioning of relationships and transactions. In this way, it links to a country’s economic performance and to the ability of Governments to win popular consent for, and successfully implement, their policies.

People are, for example, far more likely to invest, to pay their taxes, to perform jury service, to vote or to meet work testing requirements when they feel they can trust the framework or the institutions governing those activities, and when they feel those frameworks are working well and treating people fairly.

They are far more likely to get involved in community work or the local board of trustees when they feel a stake in those institutions. And they are more likely to stay in New Zealand, investing their skills and resources in the country’s future, when they share a sense of identity and purpose.

Social cohesion is an important but elusive concept. In a pluralistic society, it needs to include tolerance for diversity in cultural values, religious beliefs, tastes and preferences. It is strong when there is a widespread sense of belonging and an acceptance of the social institutions and their processes. Key elements are likely to include respect for laws and obligations, and an emphasis on fairness. Fairness to all parties involved extends both to the processes by which things are done and to the outcomes themselves.

Social cohesion is low when individuals or groups feel marginalized, or when trust in key institutions is weakened by corruption (or a perception of corruption) or by their failure to deliver what is expected of them, whether that is justice, security, protection of rights or fair outcomes. In addition, the way we regard and reward the most successful of our citizens – in sport, culture, business and community leadership – is also potentially part of a system of values that influences social cohesion.

*Fair outcomes encompass many aspects of life*

### **Material well being and social cohesion**

Fair outcomes encompass many aspects of life including health, education, employment and earnings. Despite long-term improvements across the population according to these indicators of material well being, and some

*Protecting the living standards of the disadvantaged is a prerequisite of social cohesion*

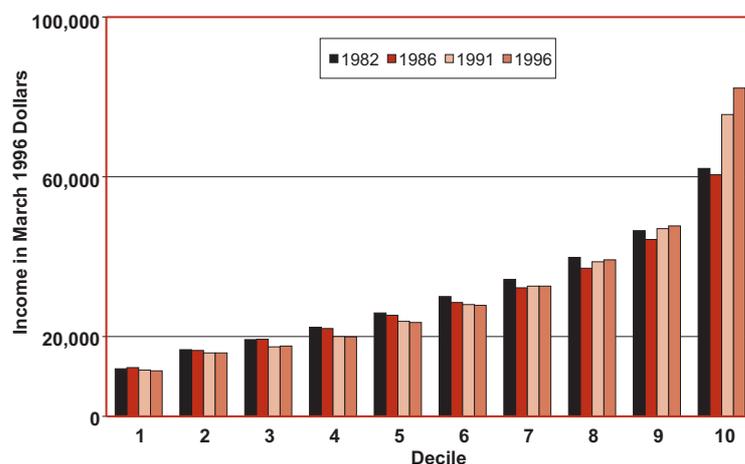
narrowing of the gap between Maori and non-Maori, significant disparities remain. Some of these disparities widened in the last decade (for example, in the health of middle-aged Maori men).

Maori were disproportionately affected by the economic restructuring of the 1980s and suffered relatively greater adjustment costs than non-Maori. Most recently, however, there have been some encouraging signs of relative gains for Maori, particularly in qualifications and employment. Resources transferred to Maori through Treaty settlements are enabling Maori to develop increasingly significant commercial opportunities.

Protecting the living standards of those families who are most disadvantaged is a prerequisite to achieving social cohesion. Over the 15 years 1982-1996, the real income levels of families at the lowest end of the income distribution were broadly maintained (see graph, decile 1). It is likely, however, that some lower-income families in 1996 had lower real post-housing incomes than comparable families had in 1982.

Since the early 1980s, the spread between high and low annual incomes has been widening, though much less so in the 1990s. A similar pattern of widening incomes is seen whether one looks at the earnings of individuals, the market incomes of households, or the disposable incomes of households.

*Household equivalent disposable income by decile from 1982 to 1996*



This trend has also been observed in other countries, and it is hardly surprising that it has occurred to a greater extent in New Zealand. Policies aimed at making the country more responsive to competitive pressures would be likely to lead to some widening in the distribution of market incomes as a way of identifying skill shortages and rewarding valued talent.

The gains in income have occurred in the top ten percent, although these are not always the same people over time – there is income mobility.

Similarly, many families on low incomes in 1982 will have improved their situation since. For example, a study of families with children growing up in Christchurch around this time showed that, for most of the 45 percent who had experienced low incomes at some stage during their childhood, this had been temporary.

*Cohesion may be reduced if inequalities are seen as excessive or unfairly generated*

Increasing income inequality itself does not necessarily create a problem for social cohesion if people regard the distribution of incomes as fair. To the extent that income is seen as a just reward for talent, time invested in education or extra hours at work, it will not threaten cohesion. However, cohesion may be reduced if inequalities are perceived to be excessive or unfairly generated. And there may be consequences for other social outcomes if socioeconomic disparities widen.

For example, evidence from affluent countries suggests the rate of increase in average life expectancy appears to be associated with the difference between the top and bottom of the income distribution in each society, irrespective of the level of poverty. Not surprisingly, the explanation for this association is hotly contested. In education, by contrast, evidence from the United States suggests that overall attainment is not adversely affected by the level of income inequality.

#### **Issues for government**

A weak level of social cohesion will show up in lower trust between groups and towards institutions. But trust cannot be imposed; it has to be earned. This means that government should make its decisions transparently, explain them clearly and manage the resultant processes of change as carefully as the original decisions.

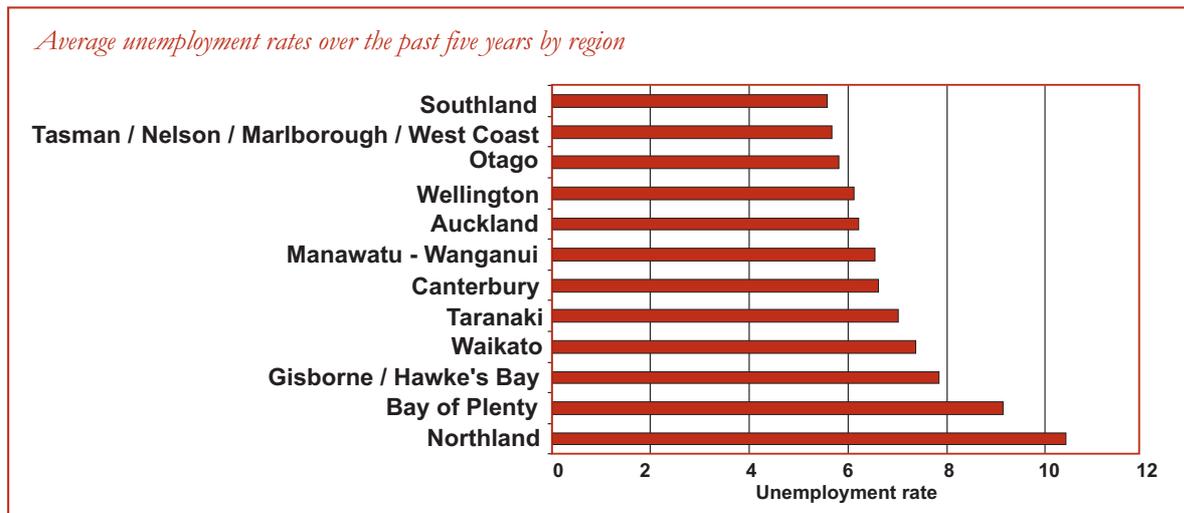
The shared perception of fairness, which underlies social cohesion, is relevant to the provision of both universal and more targeted public services. New Zealanders are all, at different times, reliant on universal and targeted services. Nonetheless, government has continuously to balance the interests of citizens as payers and citizens as consumers of public services. If payers view transfers as excessive, or if consumers regard the administrative framework as capricious or oppressive, policies may not be sustainable.

*A cohesive society is more likely to build a consensus on major issues*

A cohesive society is better able to engineer consensus over major issues and to agree on policies that can endure. Policy instability creates costs, particularly in areas where families, communities and businesses are making long-term decisions. Superannuation policy, for example, tests the ability of successive Governments to create frameworks for decisions that are seen to be reasonable, attract consensus and are sustainable over long periods.

Certain social policy interventions can be seen as both helping to improve social outcomes *and* contributing to social cohesion. For example, reciprocal obligations for those receiving benefits, if widely regarded as fair, can

contribute to social cohesion. Others may appear to contribute to social outcomes and cohesion, but conceal complex tradeoffs between cohesion and other outcome goals. For example, uniform levels of cash benefits wherever people live in New Zealand may be seen as fair. However, they may discourage people from living in areas where there are more jobs and, typically, higher living costs, thereby reducing the success of policies designed to help people into work.



In an increasingly pluralistic society, social cohesion cannot mean uniformity or the assumption by government that everyone has the same pattern of needs, which has implications for service provisions.

Social cohesion can be derived from the internal strength and wider societal recognition granted to distinctive groups in society. Particularly important in this regard is the resolution of Treaty claims. Although successive Governments have established a credible and consistent approach to managing historical claims, the sustainability of this process may be threatened in future by the rapid accumulation of 'contemporary' Treaty claims, the cost of claims and the time and resources required to resolve them. As in the case of any policies involving substantial transfers of resources between sections of the population, all parties have to see the process and underlying rationale as fair.

*Focus on the dynamics of persistent disadvantage rather than temporary difficulty*

### **Disadvantage**

Irrespective of broad distributional issues, all governments will be concerned with the most disadvantaged. Disadvantage is statistically associated with a variety of factors: income, ethnicity, health, disability, age, family status, gender, educational attainment, work experience, region – it is not simply a matter of low income. As far as possible, governments need to focus on the dynamics of persistent disadvantage, rather than temporary difficulty.

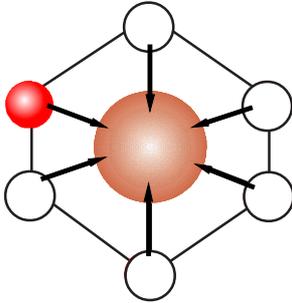
The most serious disadvantage is often multi-dimensional, and often persists through time and across generations. The causes of poor outcomes are complex and poorly understood, making them difficult to resolve. There is a need to ensure a focus on effectiveness and to test interventions robustly, modifying them in the light of experience. Examples include new organisational forms (e.g. ‘wrap-around services’) and pilot programmes such as *Family Start*. A more experimental approach will require discipline and courage on the part of both ministers and officials – to acknowledge that some programmes have failed and to ditch them.

### **Next steps**

- establish systems to assess the effectiveness of new initiatives
- investigate the adequacy of post-housing income for low-income people in different locations and housing
- give priority to developing a durable policy for retirement incomes
- give priority to progressing the settlement of historical grievances and developing ways to manage the Crown’s ongoing relationship with Maori.



## INNOVATIVE AND EFFECTIVE PUBLIC SECTOR



New Zealand's public sector is a big and important player in the economy. Whether we're talking about government departments, state-owned enterprises, high schools, hospitals or local authorities, the sector accounts for a significant proportion of economic activity, and its performance impacts on the behaviour and performance of all other aspects of the economy.

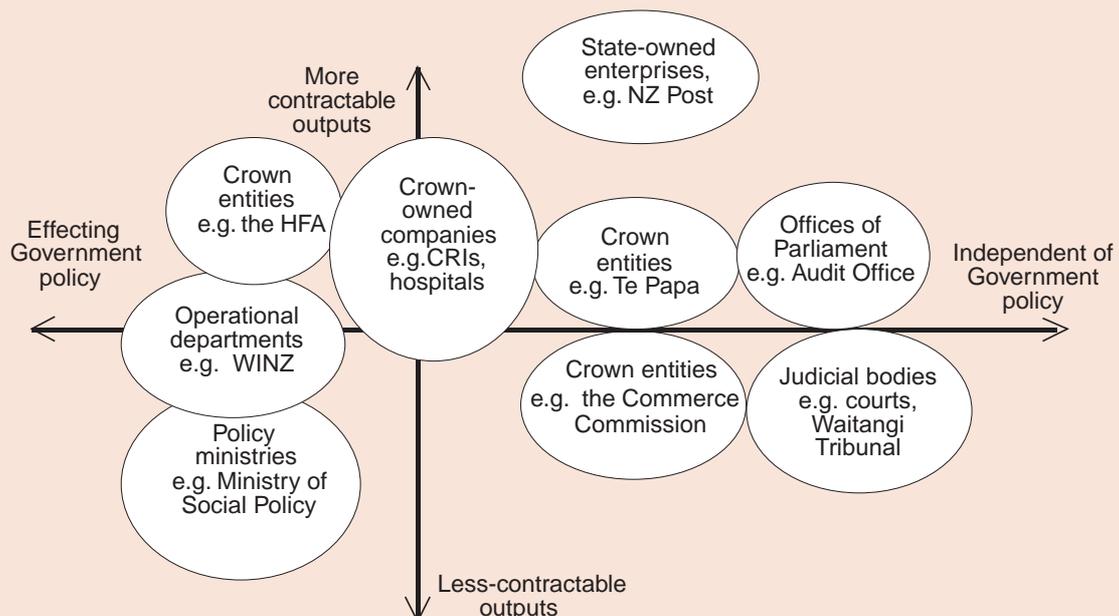
Over the last 14 years, the winds of change have blown through the corridors of the public sector with at least as much force as through the rest of the economy. That change has been disruptive but it has also brought with it important gains.

Roles and objectives have been clarified. Improved information flows have seen outputs better described and costed and managers held accountable for meeting measurable performance objectives. Accrual accounting and the capital charge have helped tell us how much the public sector really costs, purchase agreements tell us what we should expect it to produce and

### *The scope of government*

This diagram illustrates the breadth of the central government sector in respect of two key variables:

- the degree to which the outputs produced are readily contractable
- the degree to which publicly owned bodies act independently of the Crown.



*Performance has improved but  
there is scope for further  
improvement*

chief executive performance agreements and measurement tell us how well it is being done. Better information and clearer relationships have led to better value-for-money for citizens. Focussing the government's trading businesses on commercial objectives has improved performance.

That said, there is still room for efficiency improvements. Better public sector performance can help the government meet its fiscal objectives as well as delivering better quality public services. There remains something of a gap between the sector's performance and public perceptions. WINZ corporate spending and INCIS, and their attendant media coverage, have fuelled concerns that something is rotten in the public sector. These issues are cause for concern, but the fact remains that New Zealand's public sector rates highly in international surveys of ethics and performance. For example, the World Economic Forum rates New Zealand 6th out of 59 countries for the quality of government bureaucracy. The challenge is to address these concerns by building on the sector's strengths – not to limit the risk of failure by stifling opportunities to develop more efficient and effective public services.

This tension between the need to innovate and the need to reduce risk is one of the perennial issues in the public sector. The sector's symbolic role, its relationship with ministers and with the public, make that tension a fact of life. Even so, innovation, with all its potential risks, is important if we are to continue getting better value and better quality out of the public sector.

### *Keeping good company*

The Commerce Ministry's Companies Office is an award-winning example of public sector innovation.

As a result of its on-line project the Companies Office now provides all of its registry services via the Internet. The extra benefits and savings for users are clear from a comparison of the 1995 and 1999 systems.

Features	1995 Manual System	1999 On-line System
Cost of company incorporation	\$200	\$70
Time to incorporate company	2 weeks	30 minutes
Accessibility of search and filing services	Mon-Fri, 9.00-5.00	24 Hours, 7 days a week
Number of staff required to process registry documents	70	20

The Internet-based incorporation service is a world first and won the inaugural 1999 KPMG Innovation Awards. Judging was based on four criteria: innovation, effectiveness, the significance of benefits, and transferability.

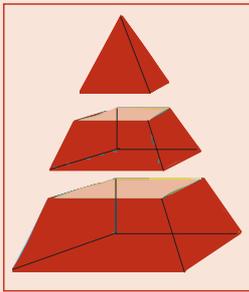
Source: Companies Office of the Ministry of Commerce, "Company Incorporations On-line", 1999.

*For example, in the Crown entities and in managing roading and water*

These tradeoffs are highlighted in work underway in the Crown entity sector. For a range of reasons, the accountability regimes applied to the core of the public service have not been applied consistently to Crown entities. The Crown entities review has already made a lot of progress in identifying the improvements required to clarify and codify the relationships with ministers and accountability arrangements for individual Crown entities. This work needs early endorsement or amendment if momentum is to be maintained. Away from the centre, there is scope for further application of good financial management principles in local government – particularly to managing assets like roading and water.

We can think of the public sector as a pyramid. To date, much of the reform effort has focussed on the bottom layer of this structure, a foundation of output delivery and efficiency gains. Progress has also been made in direction setting – through, for example, the FRA and government priority setting processes.

#### *Public sector management – the business of government*



- direction setting – leadership, outcomes
- policy analysis – effectiveness
- delivery – efficiency, outputs

The pyramid is a symbolic representation of the relationship between Ministers and government agencies, between outcomes, policy advice and outputs. At the peak is the Government which sets out the outcomes it seeks from policy. The second layer represents the policy agencies and their advice. At the base are public services, ranging from schools to tax collection. The question for the incoming Government is, just how effectively are the public sector's outputs contributing to achieving the desired outcomes? The challenge will be to devise programmes and evaluative techniques enabling that to be measured.

*Value-for-money in government activity*

#### **Increase in effectiveness**

Good delivery is one thing. The incoming Government now needs to build on the better understanding of what the public sector does, to continue asking whether it is doing the right things. Are its outputs achieving the outcomes the Government wants?

Policy agencies need to put greater emphasis on understanding the effectiveness of government activity. This is true across the board. It is particularly important in regulation, where government actions can help or hinder growth.

*Defining policy goals ...*

Governments, unlike private agencies, have to maintain a solid base of political support, particularly in a political system based on proportional representation. As a result, they tend to pursue a wide range of goals within each sector of responsibility. These goals may conflict.

In health services, governments typically attempt simultaneously to pursue potentially competing goals such as cost containment, widening access, increased patient choice, improved health outcomes and greater efficiency.

Guaranteed access to services in rural areas may conflict with the highest quality of care, since certain services are more effectively provided when centralised in a few places.

The Government may place a high priority on reducing waiting times for non-urgent operations, but this will have to be weighed against emergency services for life-threatening conditions.

It is easy to say that the health system should improve 'health outcomes', but this phrase can refer to extending life, reducing symptoms, minimising the prevalence of disability or even raising health-related quality of life. The focus may be on responding to those suffering ill-health now or preventing ill-health in the future. Or it may be on raising average levels of health or reducing variations between sub-groups in the population. In each case, the type of intervention and its relative priority will vary.

Policy makers need a mechanism by which politicians and other key interests in the health sector can arrive at more explicit trade-offs between these policy goals.

*... and evaluating policy.*

The Health Funding Authority commissioned an evaluation of the free health care for the under 6's policy. The study was limited to an analysis of routinely available data.

The researchers concluded that:

- the policy had made access to general practitioner services more equitable, particularly for families on below average incomes, but above the Community Services Card income threshold
- the policy had distributed resources equitably, since the majority of the expenditure went to lower income households. This was roughly in proportion to their higher child health needs
- it was impossible to tell whether the 'health gain' of the scheme outweighed its costs.

The evaluation illustrates the limitations and the benefits of policy evaluations that rely exclusively on making creative use of routine data sources rather than purpose-built evaluation processes.

Source: Dovey S, Tilyard M, et al. "Evaluation of the free child health care scheme for under sixes: a report to the Health Funding Authority", 1998.

*More analysis of value-for-money*

And it is important in spending, in, for example, health and education. These account for 34.8 percent and \$12.5 billion of public sector activity. It is obviously useful to know whether that effort and money are achieving the government's aims. The challenge will be to devise programmes and evaluative techniques enabling that to be measured.

At another level though, it is important to recognise that the Government's social policy aims and the problems those are trying to resolve are complex and multi-causal. A better understanding of the effectiveness of what government does can help us determine whether our existing mechanisms are the best possible.

That points to a need for a stronger and clearer system for deciding and articulating the Government's objectives, for deciding how best to achieve those objectives, and for evaluating the public sector's success in achieving those objectives. Devising systems and programmes that enable evaluation will be a challenge for the incoming Government. Building and maintaining capability across the policy agencies is a key concern.

Public sector reform has put an increased premium on innovation. But the innovators have often tripped over rigidities in the existing system. There is a tendency to regard departmental votes as silos, and an understandable tendency for departments and ministers to pursue their goals without reference to Government's wider priorities.

*Budget process design is crucial*

A number of the levers for improving this environment lie in the design of the Budget process. The strategic phase of the Budget process requires the Government to agree its economic, social and political priorities for the coming year, and provides an important opportunity for clearly articulating the Government's wider goals and strategic direction. There is scope for further developing these mechanisms.

Giving Ministerial teams a decision-making role in the Budget process has potential as another useful step in integrating objectives. Using teams can help ministers to consider funding decisions across a broader context and over a longer horizon, and has the potential to enhance ministerial decision making through increased cooperation at ministerial and departmental levels.

**Long-term challenge**

Innovation and flexibility will enable public sector managers to become more responsive, first to the Government's priorities and second to the two longer-term challenges of demography and technology.

### *Longer term challenges and opportunities*

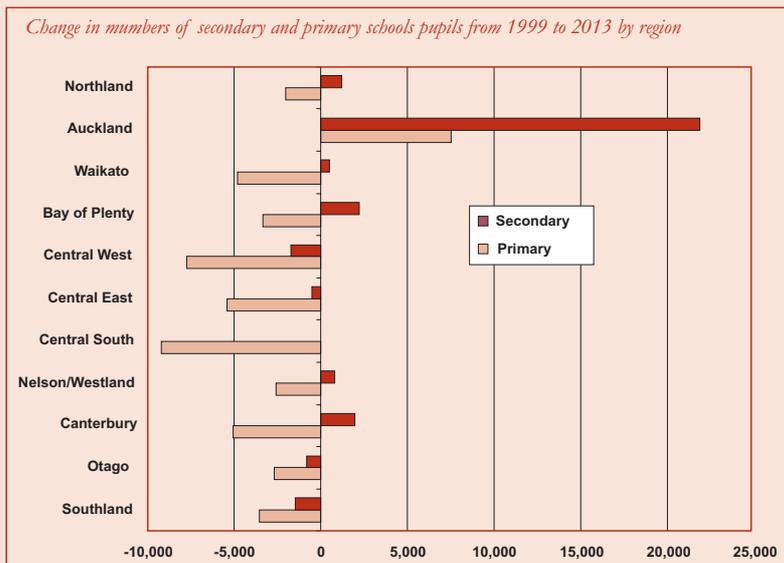
At the delivery end, the public sector increasingly needs to factor in the effects of demographic change. The population is increasingly diverse and there is a greater expectation of choice. Increasingly, programme design and delivery has become more flexible, but there is much more to be done to suit the wider range of requirements within communities. Further out, as the population ages we can expect increasing demand, particularly in the health sector.

Faced with these twin expectations of more and better services, government can become more responsive to community needs and aspirations, and more efficient, by opening up to a greater range of providers and by making better use of information technology – “e-government”.

The second challenge is environmental. Trading businesses, state-owned or not, don't sit still. Talented managers and staff are always looking for new opportunities. Smart owners will be constantly assessing their options. In which parts of this business should the government remain a shareholder? Should it reinvest? What do new technologies – like digital television – mean for it as owner? And, given their importance to the Crown's financial position, how does the government maintain financial discipline and a commercial focus in its trading businesses?

### *Riding the demographic wave*

Median growth projections will place pressure upon the education system to adjust in response.



By 2013, the national primary roll is predicted to be between 35,000 and 45,000 lower than it is today. At current ratios, that represents some 1,800 teachers and 340 schools. The secondary school roll follows the primary school story with a lag. Current funding formulas allow the education spend to follow the pupils. However, meeting these changing demands will raise questions about the size and location of the Crown's current portfolio of school properties (presently valued at \$4.7 billion).

Source: Ministry of Education

For the Government, this means thinking about whether there are risks the taxpayer should or should not be asked to bear and whether policy aims can be met in other ways. Different Governments will come up with different answers to those questions. There will be trade-offs. At times reinvestment will be necessary.

*Good balance sheet  
management can free resources  
for other priorities*

The Governments will have to weigh up the implications of diverting resources into that investment from other policy areas. And it will have to carefully consider the merits of exposing taxpayers to further business risks. The important thing is that the decision is informed: that the reasons for it, and the trade-offs involved, are carefully thought through and just as carefully communicated.

Across the public sector there is a need for thinking and acting smarter. Technology is changing the world and the public sector must keep up. That means re-assessing the effectiveness of our policies and asking whether what we do, and how we do it, still makes sense. The keys to innovative, efficient and effective public sector management will be to build on our good system of accountability for outputs with clearer objectives, better systems for co-ordination – locally and internationally – and improved systems for assessing the effectiveness of Government activity.

### **Next steps**

- address public sector accountability by pushing forward on Crown entity reform
- improve the effectiveness of public expenditure by requiring departments to provide clear evidence of how existing and new initiatives will achieve the Government's goals, and how their on-going effectiveness will be assessed
- use Budget process to encourage ministers and departments to take a sector-wide perspective
- decide on TVNZ's digital television investment proposal when it is received
- maintain and increase the financial disciplines on SOEs to perform by reviewing capital structures and policies.