

Living Standards and Sustainable Business

Speech delivered by Tim Ng, Deputy Secretary to the Treasury,
at the Hugo Group CEO Retreat, Queenstown

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Tēnā koutou.

Ngā mihi nui ki a koutou katoa.

It's a great pleasure and privilege for me to be here in this room full of successful and committed leaders, from the business sector and elsewhere. I know, from the fact that you're all here, that you're all highly curious and want to challenge yourselves and your organisations on how you can make a difference in New Zealand and globally. I very much want to do that too, from my spot in the Treasury.

So I'm really pleased to be able to share with you some thoughts on the Treasury's work on the Living Standards Framework (LSF), what we are doing to support the Government's Wellbeing Budget, and most importantly, why you should care about these things and what you might like to think about doing in this connection when you get back to the office.

Glancing through the programme gives a really clear sense that this is a time for leadership from all sectors, perhaps more than ever before. We live in an environment of both amazing technological opportunities and ever more complex collective action problems. Just as a little sample from the programme, we have such things as digital transformation and large-scale bio-information harvesting, nanoscience and gene editing, tectonic demographic shifts and a fracturing global order... all mixed together.

Our collective challenge is to lead, and make strategic investment choices, through all that. Government, business, academia and others all have a role. In the rest of this talk I'm going to try to give you a flavour of how we're seeing the creative space between our different sectors, through the lens of the LSF. I hope to encourage you to think about the opportunities that might present for you.

I want to do three things in the rest of my time, and then allow some time of course for questions, observations and discussion.

First, I'd like to outline where this living standards work came from, what it's for, and what you can expect to see in coming months with the Government's Wellbeing Budget.

Second, I'll talk a bit about the relevance that we see for those outside the core public sector, in terms of the strategic planning that everyone in this room is charged with doing.

Finally, I want to talk about the longer term development of this work, and how the New Zealand leaders in every sector can contribute along the way – if you so desire. And I do think that there are heaps of opportunities for productive dialogue, and possibly even working together.

Origins of the LSF and the state of play

The Treasury's LSF work was first publicly introduced in 2011. It was part of an effort to improve the way the Treasury performs its core roles of providing economic and financial – that is, value for money – advice. It was, and is, about being more explicit about the role of government policy and action in supporting a multi-dimensional concept of living standards and intergenerational wellbeing.

The LSF concepts motivate a role for government that goes beyond lifting incomes and financial performance, even though these have, of course, always been and always will be very important functions of government policy.

Governments have to make choices and prioritise with the limited resources at their disposal. The LSF is very much about helping frame those choices more transparently, and in a way that makes the trade-offs and dependencies involved much clearer.

And this is very much to strengthen our response to the environment of increasing complexity and multidimensionality of contemporary policy problems. Think of trends like climate change, the changing nature of work, and digital disruption that are set to challenge us over many years.

The theoretical underpinnings of the LSF draw from a range of thinking in economics and moral philosophy, as well as from the actual practices of policy agencies and international policy institutions such as the OECD. Basically the idea is that a good government is there to enhance the freedoms and capabilities of citizens, households, families, whanau and communities – current and future – to be able to live life to the full as they would wish, and to be what they want to be.

In the framework, these capabilities derive from a number of dimensions of wellbeing such as health, education, safety and security, social connectedness, an environment conducive to flourishing life, incomes, housing and so on. The *sustainability* of wellbeing is represented by the idea of four capitals, which are the sources of future wellbeing – physical and financial (the most familiar), human (skills, knowledge and health), natural (clean air and water, biodiversity and so on) and social (trust in each other and in the institutions of the state).

This structure frames the trade-offs and dependencies between the dimensions of wellbeing *now*, that is, between housing and education for example, or between incomes and the quality of the environment, as well as between current and *future* wellbeing, i.e. the sustainability or otherwise of running down the capitals in order to fund increases in current wellbeing.

One obvious example of this kind of thinking comes from the familiar debate about the sustainable debt objectives of the government. Those objectives express decisions about the trade-offs between the wellbeing of current generations and the wellbeing of future generations, who will have to bear the burden of debt – but may also enjoy the fruits of any assets the debt is funding.

By design, the framework is intended to accommodate a wide spectrum of contemporary political stances. The Treasury is, of course, a policy adviser – it is elected governments who ultimately have to make the specific prioritisation and trade-off decisions. You could think of those decisions as the result of the relative values that the government of the day places on the various dimensions.

What's important in that for the Treasury, and for the design of the framework, is that the framework and indicators should be as technically credible and evidence-based as possible. This is so it is seen as independent from any particular government, can outlast political cycles, and develop and mature over the many years that we expect will be needed for development.

So what are you going to see in the near future emerge from this work programme? As you probably all know by now, a major milestone will be the “Wellbeing Budget” in 2019. To support the Wellbeing Budget, the Treasury has just finished public consultation on a proposed Dashboard of indicators to support priority setting across the different dimensions and capitals, and the first version of the Dashboard will be released at the end of 2018.

To give you a sense of how the Government is intending to use this framework, probably the most informative thing I can do would be to quote from a speech by the Minister of Finance back in February this year:

“At the moment the LSF is transitioning from the theoretical to the practical. As the LSF is refined into a robust tool it will help us answer questions about:

- The health of the four capitals – natural, human, social, and physical/financial - and whether or not they are growing and likely to be sustained
- Social and demographic inequalities in wellbeing, how the flow of current benefits affects long-term outcomes and
- How resource allocation decisions affect [the] capital to improve current or long-term wellbeing.”

One thing worth emphasising is that I said “first version of the Dashboard” and implicitly this applies to the whole LSF. We're at a very early stage in the development and application of the Framework to core government policy processes – of which the Budget

process is only one. From here, over some years, you can expect the framework to evolve as we learn more from its application, and as we collect more evidence about the specific determinants of wellbeing and where government intervention can make a difference.

Why should you, in the business sector, care?

So if that's what you're going to see, why should you care? Two reasons: One, this kind of thinking is not a million miles from the sort of thinking behind the Integrated Reporting (IR) movement – that I'm sure many of you are aware of, if not actually practicing. IR is in an early, somewhat experimental, stage of development, like the wellbeing frameworks being developed not just in New Zealand but in other countries also. So, that means that we can all learn from the experience of others who are working in similar spaces, whether in the business sector, social enterprises, NGOs or the philanthropic sector.

Second, the LSF is intended to support not just the government business of allocating spending through the Budget process, but all the other things that governments do to support wellbeing as well. Governments directly or indirectly try to promote wellbeing through influencing the economic and social environment by regulation and the tax and benefit system. And both the spending side and the regulatory side of government impact pretty heavily on the business environment that everyone in this room is facing, and trying to make decisions within.

I hasten to add that none of this really changes the core functions of government when it comes to providing a supportive environment for business and other private sector activity. The government will still promote stable economic conditions through monetary and financial stability policies and the automatic stabiliser functions of the tax and benefit system, and in some cases operate directly in certain markets such as infrastructure. It will still engage in the promotion of trade and the innovation system to support productivity growth. It will still operate a range of regulatory and other systems to protect workers and consumers from harms of various sorts, such as those arising from anticompetitive behaviour, and to address externalities or incomplete markets.

The difference really is that these government activities, in time, will also be informed – so we intend – by a more transparent and evidence-informed approach to governments' choices, taking into account all the wellbeing dimensions and long-run impacts.

Coming back to Integrated Reporting, I hope the emerging LSF approach will resonate with the business sector, not just because business has a keen interest in the regulatory component of its operating environment, but also because, increasingly, *social* licence is in some cases just as relevant as regulatory licence as a conditioning factor for strategic planning.

You can interpret Integrated Reporting as a response to a combination of growing *consumer* consciousness about the impact of economic activity on wider dimensions of wellbeing that they care about, and an awareness among parts of the business sector that there are certain social and environmental limits to economic activity that we are starting to rub up against. So, it's back to that complexity again.

As I'm sure you know, the integrated reporting philosophy expresses the idea of business value creation using inputs from *six* capitals. These are not precisely the same as the LSF's four capitals, but the mapping from one to the other is pretty simple. The six capitals are used to generate both current value for the firm, and to support sustainable inputs into future value. For the business it is about both profitability in a financial sense and the wider value created by the firm, for the economy and society. The analogy with LSF principles is pretty obvious.

The connection between Integrated Reporting and the LSF means there is the additional possibility that the LSF dashboard and analysis derived from it could be interesting to the business sector as a summary measure of national progress, along many dimensions that businesses and consumers are increasingly saying that they care about. Just as the business sector monitors macroeconomic data for trends in general business conditions it could do the same for environmental and social conditions. If we all have a joint interest in trends in the various wellbeing dimensions, either because they are becoming relevant for business planning and investment directly, or because one could anticipate or support government action in response to the trends, then the Dashboard could end up being an asset for everyone, not just for the Treasury and its particular policy advice purposes.

What's next?

So, what's next, and what can you do – if you're interested in following or contributing to the story?

I mentioned that we are at early stages of developing the framework, and certainly in applying it. We certainly think there is enough to go on to support the Government's immediate objectives of framing their policy programme around wellbeing. But this doesn't mean that the framework is finished, and if you're interested, this is where you can help.

Further development includes refining the indicators and understanding better the causal relationships between the levers of government, across spending, taxation and regulation, and the ultimate wellbeing dimensions. This is obviously not straightforward, because the other influences on wellbeing, from complex technological, social and environmental forces, are also shifting. The evidence base is patchy and as we apply the framework we will very likely uncover areas where measurement and understanding needs to be improved.

This is where business practice can be informative. We do see businesses increasingly calculating their footprints of various sorts, either within the Integrated Reporting framework or otherwise. So first of all, this experience is worthwhile to share, to inform ways of considering how business decisions can affect wellbeing both nationally and locally, and serve the needs of many constituencies.

Second, almost by definition, understanding and addressing complex problems requires many perspectives. Both within the private sector, and between the private sector and government, we are seeing increasing collaboration across supply chains to understand the interdependencies, not just narrow commercial ones but also the broader business sustainability objectives of the type contemplated by Integrated Reporting. This is a further

area where we can join the dots between individual business and government decisions and outcomes in terms of living standards.

Finally, I mentioned that a key design feature for the framework is that it should be politically neutral. Just like no one questions the actual numbers coming out of StatsNZ on GDP, even though they might question what the numbers mean and who's to blame for the recession, we want to get to a place where the LSF is seen as a useful analytical construct to support policy advice and debate, and not something that is some kind of biased or self-serving political device. That can only really come with increasing analytical usage, which in turn will come from us knowing what is useful to users. So you can help us by giving us that feedback, to the extent that these sorts of indicators and ways of thinking are indeed resonant for your own business purposes.

That's all I have to say for now on this topic of living standards, sustainable business and Wellbeing Budgets. I'm very happy to take questions and comments.

Tēnā tātou katoa.