

# Glossary



LIVINGSTANDARDSNZ

**3-5 December 2013**

## **Adaptive management**

An experimental approach to management, or 'structured learning by doing'. It is based on developing dynamic models that attempt to make predictions or hypotheses about the impacts of alternative management policies. Management learning then proceeds by systematic testing of these models, rather than by random trial and error. Adaptive management is most useful when large complex ecological systems are being managed and management decisions cannot wait for final research results. (New Zealand Biodiversity, n.d.)

## **Affordable housing**

Includes social housing, rental housing and owner-occupier housing. A number of measures are used, generally relating direct housing costs to household income. The usually accepted measure is that housing is considered 'affordable' if the household is spending less than 30-40 percent of net household income on housing costs - with ownership costs tending to be higher than rental costs. (DIA, n.d.)

## **Base Case**

In reference to a financial model, or financial projections. The expected case of the model using the assumptions that management deems most likely to occur. The financial results for your base case should be better than those for your conservative case but worse than those for your aggressive, or upside case. (GoBIG Network, n.d.)

## **Bottom up approach**

Traditionally looks at how existing policy in current spending programmes and revenue affect the aggregate fiscal measures approaches to looking at the future fiscal position. Put simply, carry on as we are, assuming no constraints, and see where it takes us. (Treasury, 2006)

### **Boundary**

When undertaking any form of assessment it is important to define the boundary of the assessment. This requires the analyst to question whether they can describe the boundary of what is being assessed. This is perhaps best amplified by the old adage – like comparing apples to oranges – which means making false comparisons. In contrast comparing apples to apples means we should always be aiming to compare all the benefits, costs and risks of a public policy initiative, comparing things that are similar. For example if we are assessing New Zealand benefits, and decide to include overseas shareholders profits we would also need to include effects such as impacts on New Zealand's international brand. Describing the boundary is critically important when making assessments as it indicates to those using the resulting report that (i) clarity exists over what has been included and what has been excluded (and why) and (ii) that the analyst has worked hard to make sure the information is complete, comprehensive and comparable. (McGuinness Institute)

### **Capital**

In economic terms, capital usually refers to assets that enable future flows of real income. More broadly, any asset that can be built up for future use, including physical, financial, human, social and natural. (Treasury, 2011)

### **Consumer price index**

The consumers price index (CPI) records changes in the prices of consumer items bought by New Zealand households, giving a measure of inflation. The CPI measures price changes for food, housing, personal and health care, recreation and education, transportation, tobacco and alcohol, credit services, household operation, and apparel. (Statistics New Zealand, n.d.[a])

### **Dimension**

Also called the 'five aspects', the dimensions refer to the five points on Treasury's Living Standards Framework: economic growth, reducing macroeconomic vulnerability, sustainability for the future, growing social capital, and increasing equity. In choosing these five, Treasury both believe that they cover the key aspects of the Living Standards framework, and represent the important drivers for improving living standards for New Zealand in today's environment. (Treasury, 2013)

### **Diminishing marginal utility of income**

The concept that every extra dollar earned yields less and less utility (happiness). (McGuinness Institute)

### **District Plan**

A plan created for a district by a territorial authority (city or district council), in order to assist carrying the authority's functions under the Resource Management Act.

(Resource Management Act: For the community, n.d.)

### **Dynamic equilibrium**

The state in which all economic forces are balanced. Quantities will grow at the same rate, hence ratios will remain the same. (McGuinness Institute)

### **Economic growth**

At a very broad level, economic growth is used as shorthand to refer to the level and growth of the average income of New Zealanders. (Treasury, 2013)

### **Ethnicity**

The ethnic group or groups that people identify with or feel they belong to. Ethnicity is a measure of cultural affiliation, as opposed to race, ancestry, nationality or citizenship. Ethnicity is self-perceived and people can belong to more than one ethnic group. (Statistics NZ, n.d.[b])

### **Fiscal drag**

This occurs when increases in nominal incomes result in people moving up the income tax scale, lifting their average tax rate. (Treasury, 2006)

### **Fiscal gap**

Calculates the change in fiscal policy settings needed to achieve a particular debt target at some point in the future. (Treasury, 2006)

### **Fiscal position**

The state of the Government's finances. (McGuinness Institute)

### **Fiscal transparency**

Fiscal transparency is the full disclosure of all relevant fiscal information in a timely and systematic manner. (Treasury, 2006)

### **Foresight**

The ability to anticipate and assess future events as well as to strategise to avert future dangers and grasp future opportunities. (WFS, 2011)

### **Generational accounting**

Examines the effect on different generations of alternative ways of satisfying the government's intertemporal budget constraint. Generational accounting compares the projected net lifetime taxes (the difference between taxes paid and transfers received) faced by newborns born in different years. (Treasury, 2006)

### **Government Debt**

What a government borrows to ensure it can finance all its planned expenditure (and plug its budget deficit). If a government is running a budget surplus, it should not in principle need to increase its debt. A government will normally borrow money by issuing bonds or other securities. (Financial Times Lexicon, n.d.)

### **Gentrification**

The process of wealthier residents moving to an area, and the changes that occur due to the influx of wealth. As wealthier inhabitants move into an area that is already populated with lower-income residents, the neighbourhood begins to change as well. Often this will spark an urban renewal process, which cleans up the town, but often leads to an increase in rent, taxes, and other items. Sometimes this change means that the previous residents can no longer afford to live in that neighbourhood, which is why gentrification can sometimes be used in a negative context. (Business Dictionary, n.d.[a])

### **Higher Living Standards**

Refers to the Treasury's vision of working toward higher living standards for New Zealanders. Central to this, is the Living Standards Framework which identifies five dimensions that are fundamental to consider when providing policy advice consistent with their vision. (Treasury, 2013)

### **Hindsight**

Understanding of a situation or event only after it has happened or developed. (Oxford Dictionaries.com, n.d.[a])

### **Household debt**

In the 20 years to 2011, total housing and consumer loan debt increased around six-fold in dollar terms. As a ratio of household disposable income, the percentage at June 2011 of 147% is about two and a half times that of 58% at March 1991. Through the mid-2000s, household debt grew strongly, at an average annual rate of over 14% in the five years to June 2007. The rate of growth slowed sharply from 2007, averaging well under 4% per annum in the four years to June 2011. This deceleration in the rate of growth of household debt arrested the growth in the debt to income ratio from 2007. Falling interest rates have been the main driver of falling interest servicing as a percentage of disposable income from 2008. (Reserve Bank of New Zealand, n.d.[a])

### **Human capital**

The stock of health, skills, knowledge, competencies and attributes embodied in individuals. (Treasury, 2011)

### **Income elasticity of demand**

Proportionate change in the demand for a good in response to a change in income. It is reflected in how people change their consumption habits with changes in their income levels. (Business Dictionary, n.d.[b])

### **Increasing equity**

Increasing equity means building the capabilities and opportunities of individuals to participate in society in a way that they value. (Treasury, 2013)

### **Infometrics**

The study of quantitative aspects of information. (McGuinness Institute)

### **Input verses Output frameworks**

In terms of public policy making, frameworks can be divided into those that focus on inputs – ensuring all information is explored and collected before it is analysed- and those that focus on outputs, meaning that the focus is on the decision-making process, in particular who and/or how the decision was made. Both are very valuable frameworks but it is critically important to understand the difference between the two. As general rule, output frameworks go further than input frameworks; they seek to create and explain a way to make a decision. For example the Living Standards Framework is intended to be used as a complementary input to the policy process, rather than an analytical, prioritisation or decision-making tool in its own right. (Treasury, 2011). In contrast, the Ministry for Environment’s Natural Resources Framework is more of an output framework; the goal is ‘to craft robust and resilient policy that promotes the effective stewardship and kaitiakitanga of New Zealand’s natural resources (MFE, n.d.). (McGuinness Institute)

### **Insight**

The capacity to gain an accurate and deep understanding of someone or something. (Oxford Dictionaries.com, n.d.[b])

### **Intertemporal budget constraints**

Budget constraints that are related to past, present and future events or conditions. (McGuinness Institute)

### **Kaitiakitanga**

The customary practices by which iwi and Māori manage the environment and relationships with it, based on a Māori worldview. (Ministry of Environment, 2013)

### **Kyoto Protocol**

The Kyoto Protocol is an international agreement linked to the United Nations Framework Convention on Climate Change. (United Nations Framework Convention on Climate Change, n.d.)

### **Living standards**

Can be defined narrowly as material living conditions or material wellbeing, as achieved by purchasing goods and services (Perry, 2009). More broadly, living standards encompass non-material factors such as participation in social networks, community life, political choices and civil society. (Treasury, 2001)

### **Living Standards Framework**

Treasury describes living standards as much more than just income or GDP: they include a broad range of factors which impact on well-being (such as trust, education, health and environmental quality). The Living Standards Framework identifies 5 dimensions that Treasury thinks are the important factors to consider for achieving the goal of higher living standards. The dimensions include: economic growth, sustainability for the future, increasing equity, social infrastructure and managing risks. (Treasury, 2013)

### **Macroeconomics**

The study of large-scale or general economic factors. (Deverson, T., & Kennedy, G. [Eds.], 2005)

### **Managing risks**

Risk management entails: articulating the appetite or tolerance to risk, identifying and measuring risks to objectives, deciding whether, how and when to 'treat' those risks in order to improve the availability of desired human, social, natural, physical and financial capital measuring the impacts of that treatment, and using that knowledge to continue to improve decision-making. Regarding living standards, it enables policy makers to be better informed about the risks associated with action or inaction, to receive critical input to prioritisation and resource allocation processes, and to target desired levels of resilience. In terms of improving our human, social, natural, physical and financial capital, good risk management is the difference between evidence and knowledge or intuition and luck. (Treasury, 2013)

### **Mixed tenure model**

A small number of sheltered / retirement and extra care housing schemes offer a choice of tenure. Typically you might be able to buy outright, rent, or opt to part buy your property on a 'shared ownership' basis with the provider.

(Housing Care, n.d.)

### **Natural capital**

Natural resources and systems that support life, both renewable and non-renewable.

(Treasury, 2011)

### **NEET (Youth not in employment, education or training)**

The rate is calculated as the total number of youth (aged 15–24 years) who are not in education, employment, or training (NEET), as a proportion of the total youth working-age population. (Statistics New Zealand, 2012[c])

### **New Zealand superannuation**

A fortnightly payment for people aged 65 and over. Recipients of New Zealand Superannuation must be aged 65 or over, be a New Zealand citizen or permanent resident and normally live in New Zealand at application time. They must also have lived in New Zealand for at least 10 years since the age of 20. Five of those years must be since the age of 50. The amount received is dependent on the individual's circumstances. (Work and Income, n.d.)

### **Nominal (value)**

A nominal figure is one that is measured in current dollars. Thus, for example, nominal GDP measures the current dollar value of goods and services produced. A nominal interest rate is simply the interest rate in question with no adjustment made for actual or expected inflation. (Reserve Bank of New Zealand, n.d.[b])

### **Physical and financial capital**

Physical capital is fixed assets used in production processes, while financial capital includes equities, assets and liabilities with a degree of liquidity. Together these form economic wealth. (Treasury, 2011)

### **Policy**

The word 'policy' in its natural and ordinary meaning...represents the course of action adopted or to be adopted by a government on a stated issue. (MoJ, 1996)

### **Policy statement**

A public policy statement should strive to inform, disclose, clarify, illuminate, make certain ... and overall remove doubt. The same thing more simply stated is that interested persons issue, where they stand so as to be able to make their decisions. (MoJ, 1996)

### **Precautionary approach**

In order to protect the environment, the precautionary approach shall be widely applied by states according to their capabilities. Where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing cost-effective measures to prevent environmental degradation. (United Nations, 1992)

### **Price Index**

A price index measures the change in price of a fixed basket of goods and services between two time periods. (Statistics New Zealand, n.d.[d])

### **Private sector**

The part of a national economy made up of private enterprises. It includes the personal sector (households) and corporate sector (companies), and is responsible for allocating most of the resources within an economy. See also public sector. (Business Dictionary, n.d.[c])

### **Public policy**

Anything a Government chooses to do or not to do (Dye cited in Howlett, 2009). Declared State objectives relating to the health, morals, and well-being of the citizenry. (Business Dictionary, n.d.[d])

### **Public sector**

The part of national economy providing basic goods or services that are either not, or cannot be, provided by the private sector. It consists of national and local governments, their agencies, and their chartered bodies. The public sector is one of the largest sectors of any economy; in the US, for example, it accounts for about 20 percent of the entire economy. (Business Dictionary, n.d.[e])

### **Public service**

Employment within a governmental system, especially within the civil service. (The Free Dictionary, n.d.)

### **Regional plan**

A plan created for a region by a regional authority, in order to assist carrying the authority's functions under the Resource Management Act.

(Resource Management Act: For the community, n.d.)

### **Social capital**

The level of trust and ability to work for common purposes in a society. Underpinned by effective public institutions, social cohesion and the guarantee of certain rights and freedoms. (Treasury, 2011)

### **Social housing**

Housing provided for people on low incomes or with particular needs by government agencies or non-profit organizations. (Oxford Dictionaries, n.d.[c])

### **Social infrastructure**

The features of social organisation, such as trust, norms and networks that can improve the efficiency of society by facilitating coordinated actions.

(Treasury, 2013)

### **Stakeholder**

Individuals or groups who are likely to affect or be affected by a proposed action.

(Ministry of Environment, 2013)

### **Stochastic**

Determined by a random distribution of probabilities.

(Deverson, T., & Kennedy, G. (Eds.), 2005)

### **Sustainability for the future**

Sustainability is the capacity to support, maintain or endure over time. There are competing views and theories about sustainability. Achieving a sustainable future state requires us, as to determine which is the crucial decision, and to be able to make informed trade-offs in the present time. (Treasury, 2013)

### **Sustainable development**

Development that meets the needs of the present without compromising the ability of future generations to meet their own needs. (WCED, 1987). Often considered in terms of economy, environment and society.

### **Tax smoothing**

Tax smoothing minimizes the economic costs of raising taxes to finance a varying profile of expenditure. This standard result assumes that expenditure pressures do not vary with the short term fiscal position. In the presence of expenditure creep, however, tax smoothing is no longer optimal tax policy. (Treasury, 1998)

### **Third sector**

Voluntary or non-profit sector of an economy; described by Jim Joseph (President, Council On Foundations) as an intermediary space between business and government where private energy can be deployed for public good. Also called tertiary sector. (Business Dictionary, n.d.[f])

### **Top down approach**

This projection method seeks to impose an overall set of fiscal constraints on the government and then looks at what various combinations of spending and taxes might meet these constraints. (Treasury, 2006)

### **Trade-off**

A situation in which you must choose between or balance two things that are opposite or cannot be had at the same time.  
(Merriam-Webster, n.d.)

### **Utility**

An economic term roughly equivalent to happiness. (McGuinness Institute)

### **Value added**

The amount by which the value of an article is increased at each stage of its production, exclusive of initial costs. (Oxford Dictionaries, n.d.[d])

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