

**SOS POLITICAL SCIENCE AND PUBLIC
ADMINISTRATION**

MBA HRD –406(a) Optional Paper

**SUBJECT NAME: COUNSELING SKILLS
FOR MANAGERS**

UNIT-I

**TOPIC NAME: ECONOMIC CHANGES AND
CHALLENGES**

Economic change

is a shift in the structure of an economic system. This results in changes to societies, cultures and everyday life on a global or national basis. Economic change caused by technology, politics and progress is a regular feature of history. The following are illustrative examples of economic change.

Economic Systems

Changes in an economic system such as a shift from a centrally planned economy to a free market system.

Politics

Political shifts such as the formation of the European Union that created the world's largest single market system in 1999.

Economic Policy

Changes in economic policy such as the end of the gold standard and introduction of a system of pure fiat money initiated by the United States in 1971.

Social Change

Social change such as the entry of more women into the workforce. This is a long term trend that accelerated after WWII in many countries.

Demographics

Changes to the demographics of a nation such as an aging population.

Legal

Legal changes in areas such as business regulations and property rights. For example, environmental laws could create new industries and destroy old ones if they can not adapt.

Technological Change

Technology can lead to changes in productivity, efficiency and employment demand. For example, the use of digital computers by businesses beginning in the 1960s led to some productivity improvements and many new industries. Historically, it is common for predictions of technology driven economic change to be overly dramatic.

Development

The development of the soft and hard infrastructure of a nation. For example, a country that builds institutions, transportation systems, technology infrastructure and resilient cities that make its economy more efficient.

Markets

Structural changes to markets or the introduction of new markets. For example, ecommerce is a relatively new market for goods and services.

Supply

Shifts in supply such as a shortage caused by a war. Supply can also suddenly increase due to technological advancement.

Demand

Demand shifts such as changing consumer needs and preferences. For example, refrigerators cause a shift in food consumption patterns when they are adopted by consumers in a developing country.

Trade

Shifts in trade such as the long term trend towards more international trade known as globalization. On the flip side, a trade war can cause a sudden reduction in trade.

Disasters

A disaster or war can result in sudden change such as a severe shortage of raw materials, parts and goods.

Economic Problems

Economic problems such as a depression or hyper inflation can permanently change the structure of an economy.

Business Models

A business model is a way of capturing value. The global economy is mostly based on a handful of business models. As such, new business models or shifts in business models can have a significant impact. For example, many advanced economies are experiencing a shift towards service industries as a greater percentage of economic output.

Challenges facing the public sector

Delivering effective and efficient public services in a fiscally constrained environment

Since the global recession, reduced public revenue and increased levels of national debt have become part of our broader environment. At the same time, the recovery and rebuilding of Christchurch, our second-largest city, will require an extraordinary amount of human endeavour and financial support as the implications of the disaster work their way through the lives of individuals, and through New Zealand's business and financial institutions.

Public debt is expected to continue to rise, reducing the net worth of the Government. Maintaining a financial buffer over time is necessary for the Government to absorb future shocks to the wider economy, such as those arising from the recent recession and the Canterbury earthquakes.

Infrastructure and asset management

Good management of the Government's physical and financial assets will be beneficial to the long-term fiscal position and the performance of the economy. Raising the standard of infrastructure and asset management is a key part of the Government's economic growth agenda. The Organisation for Economic Co-operation and Development has noted that investment in infrastructure seems to boost long-term economic output more than any other kind of physical investment. In addition, the World Economic Forum has identified New Zealand's inadequate investment in infrastructure as a particular problem, second only to inadequate access to finance as a barrier to doing business.

Our State sector manages more than \$220 billion worth of assets, which are forecast to grow by \$30 billion in the next five years. Around half of these assets are physical assets, on which the Government spends about \$6 billion a year. In addition, it will invest \$7.5 billion in new capital infrastructure spending during the next four years.

Local government is expected to spend \$30 billion in the next 10 years, mainly on infrastructure.

Fundamental shift for public sector

The Government wants a fundamental shift in the way the public sector goes about its business. This amounts to embedding a focus on effectiveness, efficiency, and innovation as a priority, and developing an expectation that achieving value for money in the public sector is business as usual and not an exception or a one-off objective. The Government has been looking at improving public sector productivity by doing the same tasks in new ways, learning from the private sector and overseas experience.

A range of initiatives designed to improve the efficiency of public expenditure is under way. This includes structural changes to public sector agencies (including merging some agencies), preparing and implementing alternative approaches to delivering services (such as providing single points of entry), as well as making greater use of the private sector and the not-for-profit sector, such as using public-private partnerships.

Local government: Productivity, efficiency, and governance

Local government must also operate within this constrained economic environment. The challenge for local authorities is to balance demand for sustained first-world levels of service with affordability. To do this, local authorities are looking at their modes of service delivery and assessing what influences their costs. This includes seeking productivity and efficiency gains through shared services, such as the proposed Local Government Funding Agency, as well as smaller localised initiatives.

Auckland is recognised as being important to New Zealand's economic development, and there is much for the Government and the new Auckland Council to do to help Auckland achieve its potential and its contribution to the national economy.

Auckland Council is a new model of local government for New Zealand. The Auckland reform has increased the profile, powers, and influence of the Mayor and Chief Executive of Auckland Council. It will change how local government interacts with some central government entities – for example, the Ministry of Transport. Auckland's share of the national population and its growth rate are both unusually high in international terms.

Raise awareness of risks that can arise from change and how to manage them

We plan to focus on work that supports awareness of the risks that might undermine efficiency initiatives and adversely affect service results, and to provide assurance that key risks are being managed. We want to understand the effects of the Government's change and improvement programme on the capability and capacity of public entities. This will include understanding whether the change initiatives are being well governed and managed, so that entities deliver effective and efficient services during the medium term.

We intend to carry out development work through our annual audits and our other work as follows:

The increased interest in, and the emergence of, the first large-scale public-private partnership will allow us to identify and report on the use of better practice in establishing and co-ordinating project partnerships and, in the longer term, on contract management, service delivery, and realisation of benefits.

The public sector's enhanced focus on asset and financial management will be complemented by our annual audit work, which we will be strengthening to enhance our analysis of asset management and financial results in key public entities and sectors.

Encourage better use of information to support good decision-making

One of the keys to meeting the challenge of delivering effective and efficient public services in a fiscally constrained environment is to get better information about performance and then use that information to make better decisions and hold people accountable. Using good performance information underpins many of the initiatives under way to raise State sector performance. It is important that service performance information is useful and used, and that there are significant benefits for agencies, Ministers, and Parliament in making this a reality. As public entities look for ways to cut costs, it is more important than ever that they have the information necessary to inform those decisions.

Through our annual audit interaction with public entities about their financial and performance statements, we are working to support the use of performance information to assess and enquire into effectiveness and efficiency. We are also liaising with government departments, Crown entities, and local authorities to help them improve their performance information and to use this information, alongside their financial information, to consider effectiveness and efficiency, and to better understand and manage their key financial and performance drivers.

Provide insight into local government

The amalgamation of eight local authorities into one council in Auckland on 1 November 2010 was a complex exercise with implications for the whole country and local government in particular. We have made good progress on our audit approach to the local government reform in Auckland. We will build on this in 2011/12, including formalising the changes that follow the reform and embedding the changed practices in decision-making and service delivery. We plan to review those changes through our annual audit work and report our findings to Parliament.

Local government in the Canterbury region has been severely affected by the earthquakes on 4 September 2010 and 22 February 2011. The full nature of the government response is being developed and will have far-reaching medium and long-term effects on local and central government and, in particular, how they work together to deal with the recovery. We plan to ensure that we carry out our role in these arrangements appropriately, including providing any insights to local government and Parliament.

Provide good analysis and reporting of information about the transport sector

We have large amounts of data and knowledge that we can use much better to inform our audit work and to share with others. We plan to get the best from what we know and improve our understanding and reporting. In February 2011, we started an initiative to improve the way we share knowledge within our own organisation. This initiative consolidates and expands on our previous work, which focused on helping us to better understand and use our knowledge about individual public entities, various sectors, and the public sector as a whole. This new initiative will extend our ability to be flexible, agile, and adaptive. We will work on two pilot projects in 2011/12, in the transport and tertiary education sectors, focusing on better analysis and reporting of sector information. The transport sector pilot is already under way.

In recent years, our transport work has focused more on specific public entities and issues. For example, we have previously examined the maintenance and renewal of the rail and state highway networks, aspects of maritime and aviation safety, regulation of the taxi industry, and truck crashes. Our annual audits in the transport sector, including local government transport-related assets, have examined the valuations of major assets, contract management, procurement, and service performance information.