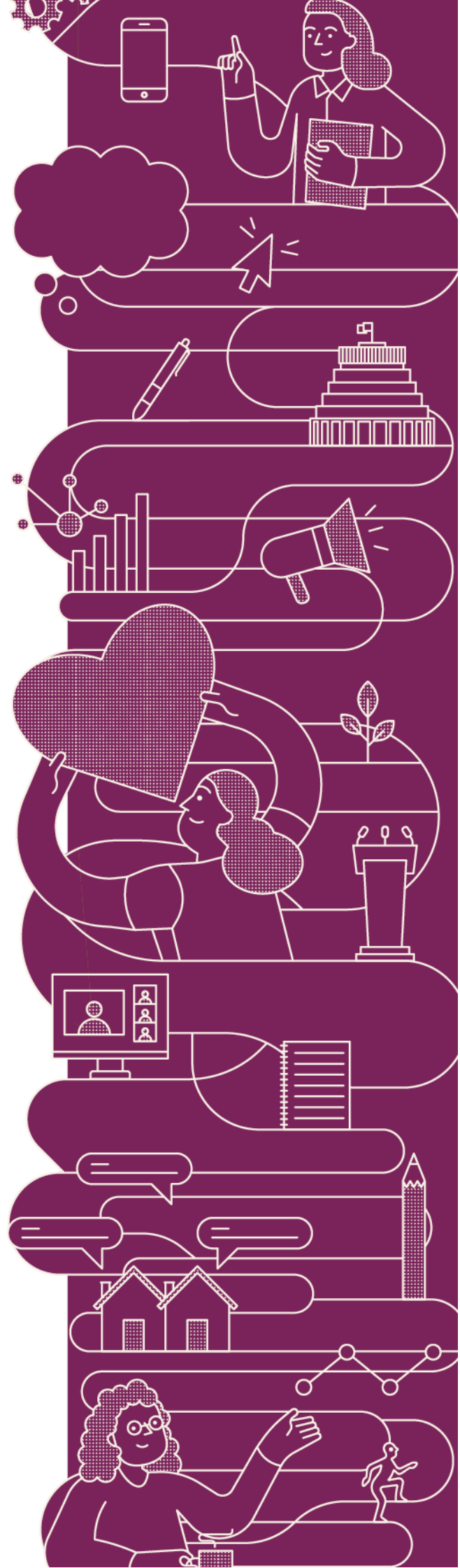


What is the value of a policy proposal?

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TAKEN FROM THE TREASURY WEBSITE

Cost-benefit analysis is an important component of good policy advice, setting out not just what a proposal will cost, but the value it will achieve. Cost-benefit analysis helps identify the benefits of a policy, quantify them (put numbers against them), and monetise them (describe them as a dollar value). CBAX is a tool created by Treasury to conduct cost-benefit analysis. The text below is from a blog post by Kirsten Jensen on the Treasury website.

Why broad and rigorous cost benefit analysis matters

“What is the value of a proposal?” is a simple policy question. The answer is not so straightforward. However, in public policy advice it is critical to ask – and answer – this question, particularly when using public money. New Zealand has an excellent track record of managing the money part of value for money; to calculate value for money we also need to quantify the ‘value’ part of the equation.

Wellbeing means a broader sense of value

A key role of the public sector is to improve people’s lives through policies that create value. ‘Value’ is defined much more broadly than fiscal impacts for government and economic growth. In thinking about value, we consider people’s multi-dimensional wellbeing, which can include income, stress, job satisfaction, and reduced leisure time – and these are just some of the possible employment impacts. Impacts are societal, long term and cross sectoral.

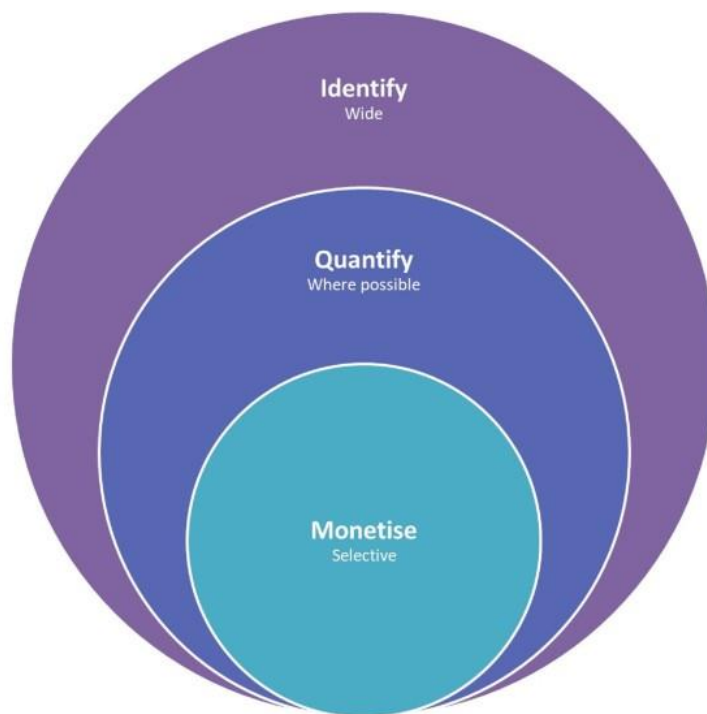
We can consider this broader notion of value more robustly. The Treasury is developing new tools, such as its Living Standards Framework dashboard, to tell us about how well we’re doing as a country and highlight our wellbeing challenges and opportunities. Budget 2019 priorities were informed by such measures. To assess options for achieving high-level wellbeing priorities, we can use cost benefit analysis



(CBA), an established economic tool, to measure the value of specific public policy and spending proposals.

Use CBA to analyse value with more rigour, but don't monetise all impacts

CBA analyses value by bringing all societal impacts into a common metric, measuring value quantitatively and, where possible, monetising impacts using dollar values to calculate discounted present values. These impacts are not limited to fiscal impacts. For example, overall societal value includes impacts for individuals, families and communities. Some impacts cannot (and should not) be monetised. But before thinking about whether to monetise impacts, they first need to be identified and quantified.



CBA Steps	1. Identify impacts - Comprehensive - Unquantified	2. Quantify impacts - To extent/where possible - Quantified but un-monetised	3. Monetise impacts - Selective - Quantified and monetised
Analysis	<ul style="list-style-type: none"> • Problem/opportunity and intervention logic • Counterfactual and options • Broad range of impacts: positive/negative, people, wellbeing domains, sectors, government/non-government, total economic value • Qualitative judgements 	<ul style="list-style-type: none"> • Assumptions relative to counterfactual: Who are affected? In what way? To what extent? When? For how long? • Transparent quantification • Evidence base • Quantitative, e.g. could be used in cost-effectiveness (one main objective) or cost-utility analysis 	<ul style="list-style-type: none"> • Monetise key impacts • Sensitivity analysis • Discount future impacts • Calculate overall net present value (NVP) across all monetised impacts and benefit/cost ratio (BCR) • If evidence is weak, use reverse CBA analysis
In practice	<ul style="list-style-type: none"> • Minimum analysis to give a sense of whether an option is doing some good • Check whether too narrow • Other perspectives? 	<ul style="list-style-type: none"> • Difficult and time consuming • Involves research / modelling • Start with what you know • Stronger evidence base gives more confidence 	<ul style="list-style-type: none"> • Model present value (PV) • Focus on PVs for key impacts, less on summary measures • CBAX tool includes database of monetary values
Measures	<ul style="list-style-type: none"> • Multi-dimensional wellbeing such as Living Standards wellbeing domains • Safety/Health: "Reduced road deaths" 	<ul style="list-style-type: none"> • Quantified assumptions and evidence base • Marginal "number of prevented road deaths", types, settings etc. 	<ul style="list-style-type: none"> • PV of impacts in dollar terms, using quantified analysis and impact values in modelling • Summary measures: NPV, BCR, and return-on-investment

DIAGRAM 1. CBA ANALYSIS OF IMPACTS – ONLY A SUBSET OF THE IMPACTS ARE MONETISED

In practice, New Zealand agencies conduct limited CBA. A 2018 [review](#) of CBA advice to support budget initiatives indicates that agencies have doubled the quality of CBAs in budget initiatives since the introduction of [CBAX](#), Treasury's CBA tool. In our experience, CBAX prompts people to identify and quantify impacts more robustly; for example, to develop the intervention logic, broaden the range of impacts, and produce more rigorous information about the effectiveness relative to the current policy. Mathematising impacts in a standard model creates internal consistency, leads to better thinking about relationships, enables hypothesis testing, and describes influences more succinctly. CBAX enables transparent assumptions and better conversations about impacts. CBAX has evolved, and the revised framing reflects the Living Standards Framework with the associated wellbeing domains supporting wellbeing analysis.



We measure value in different ways – there is no one right way

In the lead-up to Budget 2019, there was some public debate about the robustness of the CBAX impact values. Comparisons were made between values in the CBAX database that monetise different things; for example:

- Avoided costs of diabetes: \$3,916 (fiscal saving to the government).
- Contact with neighbours: \$8,572 (subjective wellbeing value to an individual).

Policy and spending decisions include implicit or explicit valuation of the impacts of those decisions. Monetised impacts makes assumptions about value. For ease of access and consistency, the CBAX database includes publicly-available values for many types of impacts, derived using a variety of valuation methodologies. Each type of non-market valuation has advantages and disadvantages, and no one type is “right”.

- Most of the values in the CBAX database are **fiscal values**, financial impacts for government. CBAX classifies these as “government”. This helps agencies to think long term and access values outside their immediate sector. Avoided cost of diabetes is an example.
- Most **non-government financial values** relate to income, included in public statistics and already expressed in dollar terms. CBAX makes it easier and more standardised to access these.
- We have few monetised values for the **impacts on people's lives**. Examples include: quality-adjusted-life-years and statistical value of life. These are more difficult (and expensive) values to develop. Agency research can use non-market valuation methodologies to calculate value, including revealed preferences through hedonic modelling, or use survey data to calculate stated preferences for willingness to pay.
- CBAX includes **subjective wellbeing values** developed by Housing New Zealand based on the New Zealand General Social Survey. An example is “contact with neighbours”. This is a new field, and there is potential for the public sector and academia to further develop this methodology to generate more such values for New Zealand.

All of these types of impact valuations can help monetise impacts. If a narrower focus is sufficient, this is simpler to do. In taking a broader wellbeing approach, in most cases a narrow focus is not sufficient. Quantified and unquantified impacts are considered alongside monetised impacts in CBAs. CBA encompasses a broader



range of different impacts compared to a purely financial analysis, cost-effectiveness analysis, or cost-utility analysis.

The Treasury encourages agencies to take a wider, cross-sector, multi-dimensional wellbeing perspective over a longer term. The Treasury expects agencies to provide fit-for-purpose CBA to support policy proposals, for example in the Budget 2019 wellbeing analysis (see [budget guidance](#)).



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