ESA

The Economic Society
of Australia

Professor Percy Allan AM

Chair, Evidence Based Policy Research Project
www.evidencebasedpolicy.org.au

Welcome Address

Cost Benefit Analysis Forum

Tuesday 19 July 2022

Why is CBA becoming more relevant?

Federal and state pork barreling scandals have shown that political cost/benefit analysis is overriding public cost/benefit analysis in community grant allocations, e.g.,

- Federal $660m Commuter Car Park Fund (A/G Report)
- Federal $184m Safer Communities Fund (A/G Report)
- NSW $252m Stronger Communities Fund (Parlt Inquiry)
- NSW $250m Bushfire Local Economic Recovery Fund (Parlt Inquiry)

Both Auditors General and Parliamentary Inquiries have recommended greater integrity, transparency and accountability in making such grants.

Why is CBA becoming more relevant?

Public CBA is the best answer to addressing pork barreling. Having an integrity commission is not enough if it does not have CBA data to inform its inquiry.

Public polling shows government integrity, transparency and accountability are becoming an important consideration for voters. (See next page)

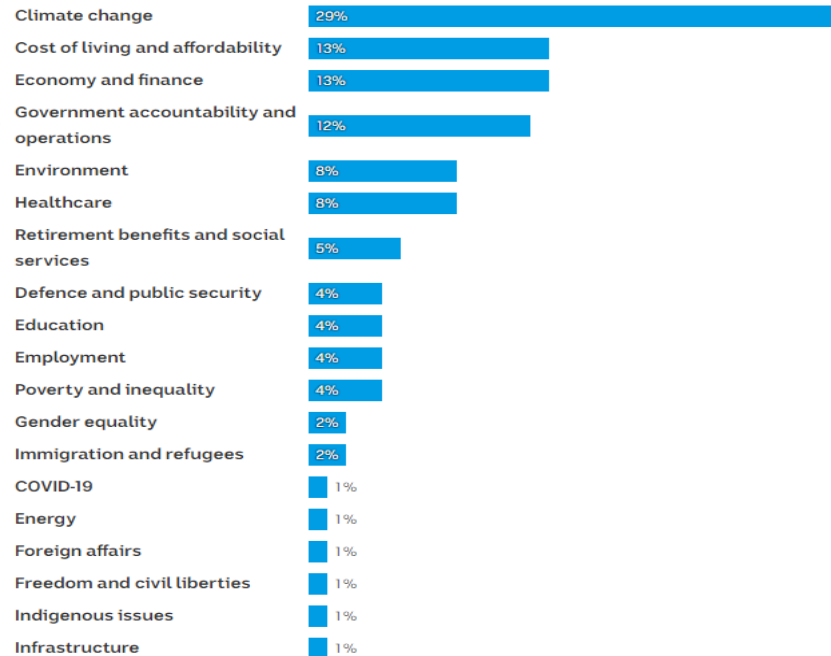ESA | The Economic Society of Australia

Why is CBA becoming more relevant?

Of the 97,159 participants in the ABC Vote Compass survey in April 2022, **12% said government accountability and operations was the most important issue**. This placed it fourth after climate change, cost of living and economy/finance.

Answers to open-text question: "What issue is most important to you in this election?"

Issue	%
Climate change	29%
Cost of living and affordability	13%
Economy and finance	13%
Government accountability and operations	12%
Environment	8%
Healthcare	8%
Retirement benefits and social services	5%
Defence and public security	4%
Education	4%
Employment	4%
Poverty and inequality	4%
Gender equality	2%
Immigration and refugees	2%
COVID-19	1%
Energy	1%
Foreign affairs	1%
Freedom and civil liberties	1%
Indigenous issues	1%
Infrastructure	1%

The findings are based on 97,159 respondents who participated in Vote Compass from April 11, 2022 to April 17, 2022
Source: ABC Vote Compass / Get the data

Source: https://www.abc.net.au/news/2022-04-22/vote-compass-federal-election-issues-data-climate-change-economy/101002116

COAG Best Practice Regulation Principles

"COAG has agreed that all governments will ensure that regulatory processes in their jurisdiction are consistent with the following principles:

1. Establishing a case for action before addressing a problem;

2. A range of feasible policy options must be considered, including self-regulatory, co-regulatory and non-regulatory approaches, and their benefits and costs assessed;

3. Adopting the option that generates the greatest net benefit for the community;

Source: COAG (2007) Best Practice Regulation: A guide for Ministerial Councils and National Standards Setting Bodies, October 2007, p.4.

Which Governments have CBA Guidelines?

.

C/w (2020) - https://obpr.pmc.gov.au/resources/guidance-assessing-impacts/cost-benefit-analysis

NSW (2017) - https://www.treasury.nsw.gov.au/finance-resource/guidelines-cost-benefit-analysis and https://www.treasury.nsw.gov.au/sites/default/files/2019-01/TPP19-01%20-%20Guide%20to%20Better%20Regulation.pdf

Vic – Google Word Docs – (Undated) Guidance on Undertaking Economic Assessment, Economic Evaluation for Business Case Technical guidelines, (2014) Victorian Guide To Regulation - Toolkit 2: Cost Benefit Analysis,

Qld (2021) - Confined to infrastructure - https://www.statedevelopment.qld.gov.au/__data/assets/pdf_file/0013/55030/further-guidance-04-cost-benefit-analysis-guide.pdf

Which Governments have CBA Guidelines?

SA (2014) - https://www.treasury.sa.gov.au/__data/assets/pdf_file/0007/515293/ti17-guidelines-part-b.pdf

WA – Nothing

Tas – Nothing

ACT – Nothing

NT – Nothing other than a detailed business case template which falls short of CBA

NZ (2015) - https://www.treasury.govt.nz/sites/default/files/2015-07/cba-guide-jul15.pdf

Which Governments have RIA Guidelines?

C/w (2020) - https://obpr.pmc.gov.au/sites/default/files/2021-09/user-guide.pdf

NSW (2019) - https://www.treasury.nsw.gov.au/sites/default/files/2019-01/TPP19-01%20-%20Guide%20to%20Better%20Regulation.pdf

Vic (2016) - https://www.vic.gov.au/how-to-prepare-regulatory-impact-assessments

Qld (2019) - https://s3.treasury.qld.gov.au/files/guide-to-better-regulation.pdf

SA (2011) - https://www.dpc.sa.gov.au/documents/rendition/B18801

NZ (2020) - https://www.treasury.govt.nz/sites/default/files/2020-06/guide-cabinet-ia-requirements-june2020.pdf and (2017) https://www.treasury.govt.nz/sites/default/files/2018-03/ia-bestprac-guidance-note.pdf

To what extent does Government use CBA?

Of 72 C/w and State Government Bills examined by the EBP Research Project between 2018 and 2021, only 8 had used CBA, 6 may have used it and 58 had not done so.

In other words, the proportion of bills that used CBA was only 11%. With a benefits of doubt interpretation another 8% may have used CBA. So, at best less than one in five bills used CBA.

Why did so few bills use CBA?

Possible Explanations:

1. **Loopholes** - Requirements for CBA are too narrow or are easy to avoid.

2. **Censorship** - CBA results might exist but are not disclosed because they don't vindicate a bill.

3. **Discretion** - Politicians prefer to use political cost benefit analysis than public CBA.

4. **Difficulty** - CBA takes time and effort. Also, not all benefits and costs can be quantified.

To what extent does Government use CBA?

By jurisdiction, the proportion of bills that used CBA was roundly 20% in Qld, 13% in NSW, 11% in C/w, and 7% in Vic. Including bills that "may have used CBA", the results are 27% in Qld, 20% in Vic, 19% in C/w and 13% in NSW.

In 2020, the EBP Research Project reviewed 8 C/w and State Bills related to emergencies associated with bushfires and the pandemic. Because there was not time for governments to do CBA, we examined instead whether mathematical modelling supported a chosen policy. Only one C/w emergency bill did so, and no state bill relied on modelled data.

ESA | The Economic Society of Australia

Are RIA/CBA required for policy proposals?

Those jurisdictions that publish RIA and CBA guidelines vary in their requirement for their application, viz:

C/w – Partial or full RIA is required for all Cabinet policy proposals, but full RIA including CBA is only required for a proposal deemed "major" by the OBPR. Major proposals comprise 5% of total proposals. (private correspondence with OBRP).

NSW – All significant Cabinet policy proposals require a RIS (Better Regulatory Statement), but relevant Minister decides whether it is "significant" (page 7). All new capex proposals over $10m require CBA, while new recurrent spending proposals require it on a case-by-case basis decided in conjunction with Treasury (page 3).

Are RIA/CBA required for policy proposals?

Vic - The obligation to prepare an RIA rests with the Minister responsible for the regulation. Agencies should prepare a RIS to support their advice to their Minister (page 10) CBA is needed as part of RIA, but not clear to what extent it is used.

Qld - RIA "should be considered" in developing both legislation and regulations (page 6). CBA is mentioned as a question in RIA (page 8) but not explained in detail. CBA guidelines only apply to infrastructure investment business case proposals (page 6).

SA – All Cabinet regulatory proposals require a RIS, unless they are exempted because they have nil or minor impact, are urgent, are revenue measures or are criminal laws (pages 9-10). Every RIS must contain a CBA (page 21).

Note: Page numbers refer to computer counted pages in relevant documents.

Should RIA/CBA have legislative backing?

The EBP Research Project persuaded the NSW Legislative Council to adopt a standing order for all government bills to be accompanied by a Statement of Public Interest (SPI) that answers the following RIA-type questions:

1.Need
Why is the policy needed based on factual evidence and stakeholder input?

2.Objectives
What is the policy's objective couched in terms of the public interest?

ESA | The Economic Society of Australia

Should RIA/CBA have legislative backing?

3. Options
What alternative policies and mechanisms were considered in advance of the bill?
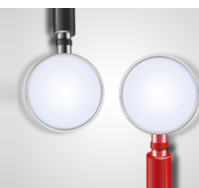
4. Analysis
What were the pros/cons and benefits/costs of each option considered?

5. Pathway
What are the timetable and steps for the policy's rollout and who will administer it?

6. Consultation
Were the views of affected stakeholders sought and considered in making the policy?

State of Policy Making in Australia

The EBP Research Project proposes a SPI for all major public policy decisions.

That's because 80 C/w and State bills reviewed against a RIA style questionnaire between 2018 and 2021 showed an average compliance score of just 57%.

State of Policy Making in Australia

By jurisdiction the results were:

- **Fed:** 54% (32 bills)
- **NSW:** 55% (16 bills)
- **Vic:** 61% (16 bills)
- **Qld:** 62% (16 bills)
- **Weighted Mean Average:** 57% (80 bills)

Case Study Score Ratings
Excellent (9.0 – 10.0), Sound (8.0 – 8.5), Acceptable (7.0 – 7.5), Mediocre (5.0 – 6.5), Unacceptable (below 5.0)
.
Source: https://www.evidencebasedpolicy.org.au/

State of Policy Making in Australia

The media is replete with faulty decision-making processes at all levels of government.

If every major government decision was required to state why it was needed, who was consulted, its public purpose, the alternative options considered, why it was the preferred policy based on CBA, and how it would be administered, the scope for corruption, misallocation and waste of public money would be diminished.

ESA | The Economic Society of Australia

State of Policy Making in Australia

Having auditors-general, integrity bodies and select committees of inquiry rake over failed policies and processes does not fix the underlying problem which is that no government in Australia consistently addresses the above questions when making policy.

The solution is a "statement of public interest" for each major government decision, including discretionary grants, to answers these basic questions.

ESA | The Economic Society of Australia

Welcome Address

Professor Percy Allan AM

Chair, Evidence Based Policy
Research Project

www.evidencebasedpolicy.org.au

Email: p.allan@bigpond.net.au

ESA | The Economic Society of Australia