

Good Morning,

I would firstly like to acknowledge the Gadigal peoples of the Eora Nation as the traditional custodians of the land we are meeting on today, and I pay my respects to their elders past and present.

I would like to welcome you to the 2nd annual CBA forum jointly presented by the Economics Society of Australia, NSW Branch, and the NSW Department of Industry, Skills and Regional Development. The theme of this year's forum is CBA – who is benefiting?

It is a great pleasure to open today's CBA forum. Firstly, I would like to acknowledge today's speakers and express my appreciation for the time and effort they have given to participate in today's forum. Today's participants span across a number of government agencies, industry and academia. We are privileged to have with us today a number leading minds in the application of Cost Benefit Analysis and economic analysis more broadly.

From the halls of academia, these include Professor Jeff Bennett. Jeff holds the position of Professor of Environmental Management at the Crawford School of Public Policy, Australian National University. Jeff is one of Australia's leading minds in the application of non-market valuation of environmental goods and environmental CBAs. Today, Jeff will be discussing the flexibility of CBA. We also have Professor John Rose from the Institute for Choice at the University of South Australia. John's expertise is in, among other things, transport economics and choice modelling. Aligning with his expertise in choice modelling, John's presentation today is about 'Measuring what people value'.

We are also privileged to have Associate Professor Kristy Muir from the University of New South Wales. Kristy is a widely recognised expert in social policy and is currently the Research Director (Social Outcomes) at the Centre for Social Impact. Today, Kristy will be discussing social impacts and how they can be included in Cost Benefit Analysis. And finally, we have Professor Peter Dixon from Victoria University. Peter is a world pioneer in Computable General Equilibrium modelling, which he first started working on in the 1970s. Peter's talk today will answer the age old question 'when should we use Computable General Equilibrium modelling?' Given Peter's background I suspect that the answer will be 'always'.

We also have a strong contingent from the public service including a previous colleague of mine from the Department of Premier and Cabinet, Mr Simon Draper. We also have Brenden Leary from NSW Treasury, Sam Sangster from Health Infrastructure and Hugo Hamstorf from IPART. I think you will agree, a strong program and an impressive list of speakers.

CBA is increasingly being applied to major public projects as well as being adopted as a decision aid by government in relation to program and policy selection. And this is a positive thing. One of the strengths of cost benefit analysis is its ability to be understood by politicians, policy makers, the media as well as the average person alike. This is not to say that the methodology is less technical or less robust than alternate assessment methodologies, just that it has achieved rare status among economic analysis techniques. It is both accessible and robust. This accessibility comes from the fact that it is intuitive. We weigh the pros and cons of some action; we compare the good and the bad; the positives and negatives. The costs and the benefits. This level of accessibility, and dare I say understanding, of cost benefit analysis is revealed in quick Google search of news articles. We see calls for Cost Benefit Analysis of rural migration by a national peak body, it was breaking news that a CBA hadn't been conducted for a new office tower in Queensland, the WA Chamber of Commerce criticises rail planning in Western Australia because a CBA was not undertaken.

So what does this mean for practitioners and policy makers?

At the heart of Cost Benefit Analysis is the concept that we are assessing whether a project, or projects, are likely to make a community better off. And this is what communities want to know. Are the actions of Governments making them better off? Are the benefits of the project worth the costs? Is there transparency in decision making?

The advantage of cost benefit analysis is that it can be used to consider all costs and benefits experienced by the community, it explicitly accounts for costs and benefits that occur over time including those that accrue to future generations, it can even account for those costs and benefits that do not have a market price.

We have values for threatened species, values for native fish, values for bushland, values for all types of pollution and even values for human life, which are important in determining the net benefit of life saving measures. Not only does Cost Benefit Analysis allow us to consider all of these things, it presents the outcome in one easily understood and comparable metric, the net present value.

It is the ability to reduce a project's impact to the referent group, such as the people of NSW, to a single metric that allows us to compare the relative merits of competing projects. The relative merits of projects that would otherwise be incomparable. We can compare the widening of a highway to a new wing on a cancer ward to the opening of a new art gallery, and estimate with some confidence, which project is likely to make the community better off. In the presence of budget constraints, where we cannot undertake all projects, this is critical information for decision makers.

It is precisely because CBA is so accessible, that it can be easily understood by the average person, its ability to incorporate a wide range of costs and benefits as well as the ability to inform decision makers about competing projects means that Cost Benefit Analysis offers an opportunity to be transparent in decision making in a way that no other methodology provides. In his 2008 working paper, *A Century of Australian Cost Benefit Analysis*, Leo Dobes calls for a more open approach, including the publication of the results of Cost Benefit Analyses. Since the publication of Dr Dobes' paper, there has been the publication of a range of Cost Benefit Analyses, including studies on bushfire mitigation, the National Broadband Network and freight corridors. This is not to say that we have achieved complete transparency in the publication of Cost Benefit Analysis results, just that there has been progress, and it is a journey that needs to be continued and supported.

A forum on Cost Benefit Analysis is particularly relevant to the current environment. The NSW Government has recently announced its "Rebuilding NSW" initiative which involves the long term partial leasing of the state's electricity distribution and transmission assets. The net proceeds from the lease of the poles and wires, interest earned on these proceeds (while they are held by NSW Government) and payments from the Commonwealth (under the Commonwealth asset recycling incentive scheme) are expected to total approximately

\$20 billion. The NSW Government has adopted the recommendations in the “2014 State Infrastructure Strategy” proposed by Infrastructure NSW. The strategy reserves:

1. An additional \$1.1 billion to invest in the northern and southern extensions to WestConnex
2. An extra \$7 billion for Sydney Metro
3. \$1 billion for schools (\$700m for Future Focused Schools and \$300m for Regional Schools Renewal program).
4. \$1 billion for health (\$600m for Hospitals Growth Program, \$300m for Regional Multipurpose Facilities and \$100m for Care Co-location Program)
5. \$4.1 billion for regional transport
6. \$1 billion for the Regional Water Security and Supply Fund
7. \$300 million for the Regional Environment and Tourism Fund.
8. \$1.2 billion for Sports and Cultural infrastructure.

This is likely a once in a generation program for the residents of NSW. And likely a once in a generation opportunity for policy makers and Cost Benefit Analysis practitioners like yourselves. This is an opportunity to ensure that decision makers have sufficiently robust advice to ensure that these investment decisions increase the welfare of the residents of NSW.

No doubt a program of this scale will raise questions in the community around value. This is a question that can be answered by Cost Benefit Analysis and practitioners will have a crucial role in ensuring the credibility and acceptability of CBA. However, it will also raise questions about transparency, and this is a question for the bureaucracy and government.

With that I ask that you enjoy today’s forum, question and challenge yourselves and I look forward to meeting and discussing these issues with you throughout the day.