

POSITION STATEMENT ON THE COST-BENEFIT ANALYSIS OF THE PROPOSED REGULATION FOR ACCESSIBLE HOUSING



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Melbourne Disability Institute Position Statement on the Cost-Benefit Analysis of the Proposed Regulation for Accessible Housing

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The Melbourne Disability Institute (MDI) welcomes the decision by Building Ministers on 31 April 2021 to incorporate mandatory accessible housing standards into the National Construction Code (NCC) at the Silver level from 2022 and to include the Gold Standard as a technical referral. This will lead to major improvements in the quality of life for Australians living with disability and facilitate older Australians being able to age in place. It will make Australia a more inclusive and equal society.

Our aim now is to ensure **all jurisdictions** adopt the NCC as soon as practicable, so that **all Australians** benefit and there are maximum economies of scale and minimum transition costs.

Given that the decision of Building Ministers was not unanimous we are pleased to provide *Position Statements* on the CIE *Final Report* from Mr Andrew Dalton, Emeritus Professor Rob Carter and Associate Professor Ilan Wiesel for Ministers and the Australian Building Codes Board (ABCB) in support of the decision by a majority of Ministers.

In brief:

- Mr Dalton and Professor Rob Carter remain concerned that the CIE *Final Report* continues to distort the **economic merits** of the proposed regulation. Their *Position Statement* reaffirms that when symmetry between costs and benefits is achieved, consistent with Office of Best Practice Regulation guidance, **the benefits of mandatory accessible standards do exceed the costs**. Their *Position Statement* also highlights that important benefits remain unquantified and/or undervalued in the CIE *Final Report* (e.g., benefits to the general population, productivity impacts, ongoing value of all housing space, value of a statistical life year). These weaknesses are compounded by the failure to present a succinct summary of all the qualitative evidence, aspects of which are fundamental to a balanced cost-benefit analysis.
- Associate Professor Wiesel in his *Position Statement* has reaffirmed that important **qualitative factors** have not been included in the cost-benefit analysis of mandatory accessible housing standards. His earlier report provided the most comprehensive survey results on the impact of inaccessible housing ever undertaken in Australia, including 1,187 survey responses and the results from 40 in-depth qualitative interviews. However, the CIE deemed that many critical qualitative factors were too difficult to quantify and monetise and so were not accounted for in their estimated 'benefits', while all 'costs' were monetised and included in their conclusion.

Furthermore, a synthesis of the qualitative factors deemed difficult to monetise was not presented in the report's conclusions and weighed against the quantitative result. The failure to provide a synthesis of the qualitative evidence makes it far more difficult for decision makers to give these qualitative factors the consideration they warrant as recommended by the Office of Best Practice Regulation. These voices and thousands more must be recognised and included when assessing the full benefits as well as the costs of accessible housing standards.

MDI therefore reaffirms its earlier advice in support of mandatory accessible housing standards and believe that Building Ministers have made a decision that is strongly supported by the best available quantitative and qualitative evidence. This decision will future proof Australian housing and we look forward to working with and supporting the implementation of this decision for the benefit of all Australians as quickly as possible.

Position Statement on the Cost-Benefit Analysis of the Proposed Regulation for Accessible Housing

Emeritus Professor Rob Carter, Deakin University
(former Alfred Deakin Professor and Foundation Director, Deakin Health Economics)

Andrew Dalton, Director AdHealth Consulting
(former Associate Professor, Deakin Health Economics, Deakin University)

Summary

We stand by our conclusions that the benefits of accessible mandatory standards significantly exceed the costs, as set out in submissions from the Melbourne Disability Institute (MDI) during the consultations by the Australian Building Codes Board (ABCB) on changes to the National Construction Code (NCC). Further, the decision by Building Ministers on 31 April 2021 to introduce mandatory accessible standards at the Silver level and include the Gold standard in the Code as a technical referral is strongly supported by our analysis and recommendations.

Although the CIE *Final Report* has much to commend it for its detailed consideration of the issues and the clarity of its presentation, the analysis fails to internalise the full breadth and depth of benefits. By comparing all costs to incomplete benefits, the CIE *Final Report* therefore contains an inherent and under-acknowledged bias against building code reform. The inherent bias is compounded by the failure to present a succinct summary of all the qualitative evidence, aspects of which are fundamental to a balanced presentation to guide decision-makers.

These errors arise in addition to a range of technical issues. Unfortunately, the CIE choices of parameter value for each of these technical matters systematically work against adoption of the building code reform. When considered in isolation, amendment of these parameter values does not impact results substantially, but their cumulative impact does substantially alter the results.

Background

The Centre for International Economics (CIE) has now released its *Final Report* on the social cost benefit analysis (CBA) for the regulatory impact statement on accessible housing for the elderly and those Australians with disabilities (1). This CBA was a centrepiece to the Australian Building Codes Board (ABCB) regulatory impact analysis. We note that the CIE has mentioned many of the matters we raised in our submissions in their *Final Report* (2, 3). The CIE report also gives recognition to the needs of those with disabilities and the elderly and acknowledges the importance of equity and social justice. We appreciate their consideration of our economic arguments, support those comments on the importance of equity and social justice and welcome the quality of the overall review process.

That said, we unfortunately remain with major concerns as to the accuracy of the CIE *Final Report* in representing the economic credentials of the proposed regulation. In this brief Position Statement, we have not re-stated our calculations of the cost-benefit results, except to point out that we found both 'Silver' and 'Gold' options to be cost-effective under a range of scenarios (2, 3). Thus, we fundamentally disagree with the CIE.

The CIE *Consultation Report* provided two analyses labelled the ‘problem reduction approach’ and the ‘willingness to pay (WTP)’ approach, respectively. Each of these analyses includes a full estimate of the same costs, but in each case full estimates of costs are only compared to partial estimates of the benefits. This issue is addressed below as a lack of ‘symmetry’ in the measurement of costs and benefits. The CIE *Final Report* provides a single cost-benefit analysis (CBA), but the foundations of the CBA retain the errors identified in the two analyses contained in the CIE *Consultation Report*¹. An important principle in the conduct of any economic analysis is symmetry in the identification, measurement and valuation of benefits and costs, guided by the study perspective. In a social cost-benefit analysis, the perspective is societal, and hence it should be as comprehensive as possible, irrespective of winners and losers. This is very clear in the guidance material from the Office of Best Practice Regulation (OPBR). The CIE acknowledged the importance of this fundamental principle in their assessment of submissions received on their *Consultation Report*. Our concern is that whilst agreeing with the key principle of symmetry that we raised, the CIE has chosen to respond in a way that still seriously distorts the cost-benefit results.

Our key concern – ensure symmetry in the measurement of costs and benefits

In our view, the CIE has developed (*Consultation Report*) and maintained (*Final Report*) an economic analysis, in which all costs are counted but only a portion of the benefits. The CIE has rejected both alternatives we suggested to them to resolve this. They have: 1) refused to apportion costs between those who benefit to achieve symmetry (even though ‘apportionment’ is common in both economic and financial appraisal); and 2) refused to quantify benefits that would match the inclusion/criteria for the costs included. Benefits that would change their CBA results are either allocated to qualitative comment or ruled out under “potential overlap”; an exclusion criterion that has important elements of judgement on which we differ. We note that our Supplementary Submission (3) dealt specifically with the overlap issue.

To illustrate our concerns, the CIE acknowledges that there are significant benefits flowing to the general population from more accessible housing – but action this important benefit only as a qualitative comment in their preferred results – even though they have quantified them in their *Consultation Report* at over \$1 billion. Exclusion of a major class of beneficiary is not consistent with a societal perspective. Further, they acknowledge the importance of likely production impacts in the general economy, state that these benefits could involve “hundreds of millions of dollars”, but again prefer not to quantify them. Calculation of production gains/losses for the paid workforce is common in economic analysis and their exclusion is concerning in a social cost benefit analysis. There is also merit in the inclusion of

¹ The explanation of these errors is complex as there is likely to be a degree of overlap in the benefits captured in each of these analyses. In 2020, these issues were raised with the CIE at an online forum that included ABCB and Departmental Officers. However, due to COVID restrictions this meeting was necessarily online and both the brevity of the actual time allocated for discussion of these issues, and technical difficulties during the online meeting, made communication difficult. It is evident from the CIE *Final Report* that the explanations of these errors were not understood.

domestic production impacts (i.e., housekeeping, caring roles et.al.), particularly for this decision context, but this calculation is less common.

Then there is the issue of the capital value of extra space that would be associated with the minimal standards being implemented. The CIE Final Report assumes that:

- Where the additional space needed to accommodate the building code revisions are incorporated within the design, they would represent a “loss of internal space” whereas they are a clearly a reallocation of space and;
- Where the additional space needed is through purchase of a larger allotment, the full value of the additional space is deemed to be a ‘cost’, but without recognition of the retained value (or value at resale) of the additional space in ‘benefits’. That is, the minimum value of that space to the purchaser must be equal to its re-sale value, even if the value of accessibility from that additional space were deemed to be zero.

The CIE also acknowledges in its *Final Report* the likely impact of the proposed regulation on the costs of existing government policy aimed at providing accessible housing, but this likely cost offset is not assessed as it was considered not in their purview.

Then there are a series of more technical matters, including the value ascribed to key parameters. We mention these only briefly to document our position and because their combined omission significantly biases the results and so their acceptance would all go to improving the economic credentials of the proposed regulation. We acknowledge here that on several matters (e.g., the discount rate) the CIE has sought further guidance from the Office of Best Practice Regulation (OPBR) and appreciate their willingness to do so.

Selected technical matters

There are several parameter values where we provided the most up-to-date values from the health economics discipline, which were either partially or not implemented. These included:

- The value of a statistical life year (VSL) used in the estimation of mortality benefits (e.g., injury prevented). The CIE chose to stay with an older OPBR value, even though Carter and colleagues at Deakin Health Economics have published the most up-to-date systematic review of the international literature in this area (4).
- A more recent value for informal care is acknowledge by the CIE with a minor change, but not the amount we referred to them.
- The discount rate was kept at 7% as per OPBR advice, with 3% in their sensitivity analysis. We understand this decision, but the case for modifying 7% has been strong for some years now. For example, the Council of Economic Advisors in the USA issued a brief in 2017 that advised as follows:

“Current guidance from the Office of Management and Budget requires using both a 7 percent and 3 percent real discount rate in regulatory benefit-cost analyses. Empirical evidence suggests that real interest rates around the world have come down since the last evaluation of the rates, and the evidence supports lowering these discount rates, [to] at most 2 percent while the upper discount rate should also likely be reduced.” (5)

- The CIE argue that in health economics studies generally ignore costs on other than the individuals directly affected – even though there are clear cost categories described in the literature, including in the influential Drummond et.al. textbook (6).

Conclusion

Given the importance of accessible housing to Australian society, particularly for the elderly and those with disabilities, we felt it important to place on public record our positive judgement about the economic credentials of the proposed regulation. We acknowledge the substantive assessment completed by the Centre for International Economics (CIE), but maintain our fundamental disagreement with their conclusions. Given that the decision of Building Ministers to introduce mandatory accessible standards for housing was not unanimous, we are therefore concerned that an important opportunity to improve the health and well-being of many Australians in a uniform way might be lost. We therefore emphasise that our analysis and recommendations strongly support the decision by Building Ministers on 31 April 2021 to introduce mandatory accessible standards at the Silver level and include the Gold standard in the Code as a technical referral.

References

- (1) The Centre for International Economics (CIE), “Proposal to include minimum accessibility standards for housing in the National Building Construction Code – Decision Regulatory Impact Statement”, February 2021. Prepared for the Australian Building Codes Board
- (2) Andrew Dalton and Rob Carter, “Economic advice prepared to assist with responses to the Consultation Regulation Impact Statement on minimum accessibility standards in the National Construction Code”, 18 August 2020. Prepared for the Melbourne Disability Institute, University of Melbourne, and the Summer Foundation.
- (3) Andrew Dalton and Rob Carter, “Economic advice prepared to assist with responses to the Consultation Regulation Impact Statement on minimum accessibility standards in the National Construction Code Supplementary Information”, 6 October 2020. Prepared for the Melbourne Disability Institute, University of Melbourne, and the Summer Foundation.
- (4) Jaithri Ananthapavan, Marj Moodie, Andrew J Milat and Rob Carter. “Systematic review to establish the value of a statistical life for Australia”, *Int. J. Environ. Res. Public Health* 2021, 18(11), 6168. [IJERPH | Free Full-Text | Systematic Review to Update ‘Value of a Statistical Life’ Estimates for Australia \(mdpi.com\)](https://doi.org/10.3390/ijerph18116168)
- (5) Council of Economic Advisers Issue Brief, “Discounting for Public Policy: Theory and Recent Evidence on the merits of Updating the Discount rate”, January 2017, White House USA.
- (6) Michael F Drummond, Mark J Sculpher, George W Torrance, Bernie O’Brien and Greg L Stoddart, *Methods for the Economic Evaluation of Health Care Programmes* 3rd Edition, Oxford Medical Publications, 2005.

Position Statement on the Cost-Benefit Analysis of the Proposed Regulation for Accessible Housing

Associate Professor Ilan Wiesel

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Summary

The invaluable role of qualitative evidence in cost benefit analysis is recognised in much recent literature and the Office of Best Practice Regulation recommends inclusion of qualitative factors even though they are difficult to measure. It is therefore disappointing that qualitative factors were not properly included in the Centre for International Economics (CIE)'s Decision RIS report (CIE, 2021).

The CIE *Final Report* does refer to much of the qualitative evidence on the harms of inaccessible housing presented in various submission into the RIS consultation, including my own report (Wiesel, 2020). This report provided the most comprehensive survey results on the impact of inaccessible housing ever undertaken in Australia, including 1,187 survey responses and the results from 40 in-depth qualitative interviews. However, the CIE deemed that many critical qualitative factors identified in my report and many other submissions were too difficult to quantify and monetise and so were not accounted for in their estimated 'benefits', while all 'costs' were monetised and included in their conclusion. Furthermore, a synthesis of the qualitative factors deemed difficult to monetise was not presented in the report's conclusions and weighed against the quantitative result. This is an important omission that makes it far more difficult for decision makers to give these qualitative factors the consideration they warrant to balance the quantitative evidence.

Given that the CIE *Final Report* was the major output that was meant to synthesise findings from the consultations and present them to decision makers, the discounting of qualitative factors is an injustice to dozens of submissions into the consultation whose voices have not been fully heard. This narrow approach from CIE may be contrasted with the cost-benefit analysis by Ernst and Young in 2018 in support of Changing Places, which took full account of qualitative factors (Ernst & Young, 2018).

The importance of integrating qualitative analysis into CBA

The invaluable role of qualitative evidence in cost benefit analysis is recognised in much recent literature (Bayesky, 2013; Zeeler and Phibbs, 2003; Office of Best Practice Regulation, 2020). Some matters that need to be factored into CBA are methodologically difficult to quantify and monetise, including human dignity, freedom, belonging, and equality. There are several ways to address the challenge that qualitative evidence poses to CBA. One approach is to attempt to fully monetise these qualitative factors using one of the available economic techniques. Another approach is to monetise only those elements which are more amenable to quantification, and against these present a comprehensive synthesis of those qualitative elements that cannot (and some argue should not) be monetised. This involves elucidating in qualitative terms the nature and gravity of considerations such as dignity, freedom, and equality. The CBA can then present a synthesis of the qualitative evidence, alongside the quantitative cost-benefit result, and either offer an assessment of their relative weight (as in Ernst & Young, 2018), or alternatively leave it to decision makers or

the public to make such a determination. As stated by the Office for Best Practice Regulation (2020, p. 5):

“The fact that some impacts may be very difficult to quantify in dollar terms does not invalidate the CBA approach. In such cases, a detailed qualitative analysis will often be most appropriate in place of dollar values. Your qualitative analysis should be supported by as much evidence and data as possible to increase the transparency of the report and to assist the decision maker in choosing between alternative options.”

Each of these approaches has both merits and limitations but maintains some internal consistency. Yet, the CIE has not followed through any of the options outlined above: it did not attempt to monetise all the qualitative factors; it did not attempt to weigh the qualitative elements against the quantitative analysis; and it did not present a comprehensive synthesis of the qualitative evidence in a way that allows decision makers and the public to make such an assessment on their own.

How was qualitative evidence treated in the Decision RIS?

When describing its methodological approach to the CBA, the CIE’s statements on qualitative analysis demonstrate that it was treated as a secondary source of data, only to test the validity of quantitative measures: “Qualitative analysis provides a role in testing the appropriateness of quantitative analysis, what factors could change the results of quantitative analysis, and how likely such changes might be”. (CIE 2021, p. 41)

The CIE attempted to monetise some of the factors identified through qualitative evidence, including loneliness, visitability, mental health and workforce participation. Several other factors, identified qualitatively (i.e., reduced reliance on social welfare, freedom, and empowerment) were treated as overlapping with other factors monetised based on other quantitative evidence. This seems a convenient yet questionable approach. Further, several critical issues raised in the qualitative evidence were not monetised since they were deemed too difficult to quantify, including ‘better awareness of diversity in society’, ‘increased engagement in human rights and social impact’, and ‘a more equitable society’ (CIE 2021, p. 42-3).

The CIE acknowledged that due to the difficulty in quantifying some critical aspects, their report is ‘not the only consideration’ to inform housing ministers’ decision on accessibility standards in the NCC. It suggested that “Decision-makers are best placed to weigh up factors, such as social justice for people with disability supporting more inclusive communities and ageing in place, as well as Australia’s future progress towards international human rights treaties, against the net cost imposed on other members of the community.”

Yet, the report’s executive summary and conclusions offer no synthesis of the qualitative evidence on those difficult-to-quantify factors such as dignity, human rights, diversity and equality, to inform decision makers’ assessment. Instead, qualitative evidence is scattered throughout the report, including individual stories in boxes and general discussion in various sections.

Ultimately the CBA’s conclusion draws only on the quantifiable benefits of accessible housing (Table 2, p.13-4), with no consideration of how this might be balanced against all those qualitative aspects that were deemed too difficult to monetise. In relation to these, the executive summary merely states that “there are some impacts to society from a lack of accessible housing that are not easily quantified and lead to complex distributional

considerations. This RIS explores a number of broader societal impacts including equal access to housing for people with disability, social justice and human rights.” However, no conclusion or synthesis of this ‘exploration’ is presented.

How should qualitative evidence have been integrated in the Decision RIS?

By way of comparison, the Changing Places (Ernst & Young, 2018) report exemplifies a starkly different approach to CBA which presented a comprehensive overview of the qualitative evidence collected through the consultation, with a summary of qualitative results clearly highlighted in the executive summary and conclusions. More importantly, the report fully incorporated the qualitative evidence into its decision, offering an assessment of the relative weight of the qualitative evidence, concluding that “The quantified benefits in all likelihood, represent only a fraction of the total benefits.” (p. 4). The report elaborates:

“While the following chapters discuss quantifiable benefits, it is critical to note that those benefits are just one component of a broader range of benefits. Benefits such as improved quality of life or increased equality for people with a complex disability, for example, are inherently difficult to quantify, and yet were commonly noted by many stakeholders as more relevant to the consideration of this proposal than the quantified benefits.” (Ernst & Young, 2018, p, 21)

Conclusion

In conclusion, it is critical that decision makers using the CIE *Final Report* understand its significant limitations and look beyond it at the qualitative evidence presented in numerous submissions to the RIS on the harms of inaccessible housing for dignity, freedom, wellbeing, loneliness, and equality.

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