

Economic Appraisal Guidelines - Economic appraisal guidance for government advertising

The NSW Government Guidelines for Economic Appraisal (TPP 07-05) have been updated to provide agencies with economic appraisal guidance for government advertising. The attachment to this circular provides *Economic Appraisal Guidance for Government Advertising* and should be read in conjunction with the original economic appraisal guidelines (TPP 07-05).

Summary:

Supplementary material has been added to the *NSW Government Guidelines for Economic Appraisal* (TPP 07-05) providing economic appraisal guidance for government advertising. The policy is available on NSW Treasury website www.treasury.nsw.gov.au

An economic appraisal assists efficient public sector resource allocation decisions, by systematically analysing all the quantifiable and non quantifiable costs and benefits - economic, social and environmental - of various ways of meeting a service objective.

Economic appraisal (cost benefit analysis; cost effectiveness analysis) is the standard evaluation framework for resourcing decisions. It is applicable to policy evaluation and analysis of recurrent programs as well as capital projects to assist decision making.

Agencies should contact NSW Treasury for advice on issues that should be addressed in the appraisal and to ensure smooth progress when appraisals are subsequently submitted for consideration.

Agencies are responsible for ensuring that economic appraisals are conducted in the appropriate manner and that the organisations or individuals undertaking the appraisals have relevant expertise.

Advice and guidance on economic appraisal is available from the NSW Treasury contact below. This Circular is supplementary to NSW TC 07/10.

Michael Schur
Secretary

Further information: Agencies should contact NSW Treasury for advice on:

- the content of these guidelines contact: Roger Sayers 9228 4641; roger.sayers@treasury.nsw.gov.au.
- submitting appraisals for consideration and all other procedural matters: Abel Son 9228 3274; abel.son@treasury.nsw.gov.au

NSW Treasury website: www.treasury.nsw.gov.au

Annex 6 to TPP07-05

NSW Government Guidelines for Economic Appraisal

Economic Appraisal Guidance for Government Advertising

This Annex contains supplementary material to the *NSW Government Guidelines for Economic Appraisal*.

Under the revised NSW Government Advertising Guidelines, released in June 2010, Government departments are required to produce an economic appraisal or other form of cost benefit analysis for all proposed campaigns with a value in excess of \$1m. This requirement follows the Government's acceptance of a recommendation by the Auditor-General.

The revised Guidelines also require the Department Director General or Agency Chief Executive to certify that the proposed advertising:

- complies with the NSW Government Advertising Guidelines and related financial management and procurement policies
- provides value for money, and
- that the purpose of and need for the campaign has been informed by appropriate analysis and research.

The agency proposing the advertising campaign is responsible for preparing the economic appraisal submission. The economic appraisal should be produced as a separate summary document. Economic appraisals are required for both new and repeat campaigns. Economic appraisals for repeat advertising campaigns will benefit from post campaign reviews of the effectiveness of previous advertising.

The purpose of an economic appraisal is to justify spending on the advertising campaign by quantifying the net economic benefits of the advertising campaign. It is important that the appraisal focus on the incremental benefits of the proposed campaign. The quality of the economic appraisal will be one factor that the Cabinet Standing Committee on Communications and Government Advertising will take into account in determining whether to support the proposed campaign.

Treasury is available to provide guidance on how to prepare an economic appraisal. If an agency would like feedback on their draft economic appraisal then it should be provided to Treasury well in advance of submission to the Cabinet Committee. To allow time to incorporate feedback, Treasury recommends that consultation occur at least one month before the target date for finalising the appraisal.

The *NSW Government Guidelines for Economic Appraisal* provide detailed guidance on the conduct of economic appraisals (cost benefit analysis and cost effectiveness analysis). *Economic Appraisal Principles and Procedures Simplified* provides summary guidance, which non economists in particular may find useful.

While recognising that each case will be different, and that the full content of the above Guidelines may not be applicable in all circumstances, it is good procedure to follow the steps outlined in the publications, as that helps clarify the pertinent issues.

When assessing the proposed advertising campaign, the economic appraisal should address the questions of what quantifiable economic benefits will be obtained from the advertising campaign in return for the financial outlay, and what non-quantifiable benefits and costs arise?

Content of an economic appraisal

Economic appraisals for government advertising proposals should:

- define the objective,
- assess options to achieve the objective,
- calculate costs and benefits, including non quantifiable aspects, of all reasonable options, and then
- consider the best option to achieve the objective.

A particular Government program itself has benefits (and costs), given its successful implementation. This analysis about the case for advertising the program is not an analysis of the program, but is concerned with isolating the additional costs and benefits attributable to the *advertising campaign* itself, compared to the base-case of not advertising.

In considering a decision to embark upon an advertising campaign, an economic appraisal should clarify to what extent the expected benefits could be achieved without the need for advertising. Additionally, the economic appraisal should outline what options other than advertising could be used to successfully implement the program and achieve the program benefits.

If advertising is required, the economic appraisal should identify the likely effectiveness of the *advertising campaign* by quantifying the expected additional costs and benefits that the advertising campaign will generate.

The economic appraisal should form part of the overall submission to the Cabinet Standing Committee on Communications and Government Advertising. Undertaking an economic appraisal should not duplicate the process but should enhance the information provided.

Economic appraisals should address each of the following:

1. Define the campaign objectives.

- e.g. “to promote”... “to inform”... “to create awareness of or enhance awareness of”... “in order to e.g. reduce xyz, improve abc...”
Typically, advertising campaigns are seeking to change behaviour through providing information. The extent to which the desired change in behaviour occurs is usually a key measure of the success of the campaign.
- For example, a road safety advertising campaign may be seeking to reduce the number of road accidents causing death or injury through increased adherence to speed limits. The benefits of the advertising campaign are the additional avoided deaths and injuries that can be attributed to the increase in adherence to speed limits as result of the advertising campaign.

2. Identify the range of alternative options to achieve those objectives

What are the range of reasonable ways in which the service objective could be achieved? Instead of advertising would it be feasible to achieve the objective by direct contact (mail, email, depending on relevance) to e.g. drivers licence addresses, or through doctors, or other points of contact with the audience?

What is the base case that the effectiveness of the campaign is to be compared to - e.g. ‘do nothing’, or business as usual?

Commonly, the analysis will most likely be a comparison of benefits and costs

- (a) with advertising; and
- (b) without advertising.

3. Identify all costs and benefits of each of these options

This should wherever possible and feasible include all costs and benefits to the community (as further explained in the Guidelines documents referred to above) including quantifiable and non-quantifiable costs and benefits.

For example, an advertising campaign for road safety may be estimated to persuade 5 per cent of drivers to drive more slowly, resulting in an estimated 200 fewer road accidents with a financial benefit to the community of \$x million. The campaign may also result in some non-quantifiable or not easily quantifiable costs (such as increased travel times due to slower driving) and non-quantifiable benefits (reduced congestion due to fewer accidents causing bottlenecks).

4. Predict the impacts over a relevant and reasonable time period for each of the options

Some advertising will be short term in nature so costs and benefits for only one or two years may be relevant. Others may be of an ongoing nature, so costs and benefits may be assessed over several years.

Different options could be expected to have different costs and benefits. The purpose of the analysis is to highlight, for example, the degree to which benefits and costs expected from each option compare to others and to the base case of ‘do nothing’ or business as usual.

5. Identify the impacts and select appropriate measurement indicators where some costs and benefits are not quantifiable in dollar values

Consider, for example, the cost of option 1 in relation to reaching say 75% of the target group/s, compared with the cost of option 2 in reaching say 90% of the target. This may help clarify the marginal difference in cost in relation to marginal benefits expected. If aspects are not quantifiable, this should be explained, as the economic appraisal should consider and assist the evaluation of alternative actions.

For example a mail out might reach 80% of people expected through an advertising campaign, but cost 10% of advertising costs. This would be applied to overall expected benefits from reaching the respective numbers, presumably already available – e.g. research has shown that promoting preventative health awareness of x, can be expected to reduce mortalities/hospital admissions by y, resulting in community cost savings of \$z.

6. Discount costs and benefits (as explained in the Treasury Policy Papers) to obtain present values and compute the Net Present Value and Benefit Cost Ratio of each alternative option where possible

Net Present Value and Benefit Cost Ratios should be reported in all economic appraisals where quantifiable costs and benefits are identified.

If the costs and benefits are expected to impact entirely in one year, then discounting will not be required to determine the Net Present Value.

7. Perform sensitivity analysis

Sensitivity analysis is recommended for all appraisals of advertising campaigns because of the inherent uncertainty about the impact of campaigns on behaviour. Sensitivity analysis helps highlight the impact of varying assumptions about the impact of the campaign.

Sensitivity analysis indicates what would happen if a) benefits were not achieved as expected and/or b) costs of the advertising program increased by x%.

8. Draw conclusions and identify recommended option.

The conclusion should identify the preferred advertising option or possibly a non-advertising option, and summarise the quantifiable and non quantifiable costs and benefits.

In summary:

Economic appraisals in support of proposed advertising should cover, but not be limited to the following elements:

- clarify the need to be addressed
- canvass options to achieve the desired outcome

The appraisal should consider and compare the costs and benefits (quantifiable and non quantifiable) of:

- implementing the advertising proposed
- other options to achieve the objective
- do nothing.

The section in the Treasury Guidelines “What Treasury looks for in an Economic Appraisal” should provide further guidance and assistance.

Further information: Agencies should contact NSW Treasury for advice on:

- the content of these guidelines contact: Roger Sayers 9228 4641.
- submitting appraisals for consideration and all other procedural matters: Abel Son 9228 3274.