THE NATA REFRESH: REVIEWING THE NEW APPROACH TO APPRAISAL

RESPONSE FROM FRIENDS OF THE EARTH ENGLAND, WALES & NORTHERN IRELAND

We welcome the opportunity to respond to this consultation.

Summary

Our response covers two main issues:

- The need to ensure integration, rather than trade-off, of policy objectives, focusing on the implications for transport appraisal of the forthcoming Climate Change Act.
- The case for the use of a far higher carbon price in appraisal.

Overall, we would like to see the following issues covered in the revision of NATA:

- Strengthened guidance on the use of appraisal methods such as Multi-Criteria Analysis, to improve comparison of monetised and non-monetised information, and help prevent the trade-off of Government objectives; with a corresponding down-grading of the use of cost-benefit analysis, particularly the headline use of NPV/BCR;
- Assessment of projects against Government policy objectives, rather than business-as-usual scenarios;
- Compulsory assessment and policy determination against non-breachable standards, for example the UK’s forthcoming carbon budgets;
- Using a more realistic carbon price - at least three times higher than in existing guidance;
- Strengthened guidance on distributional analysis, in line with the Treasury Green Book guidance;
- Re-evaluation of the merits of including very small time savings (see Green Alliance response);
- Analysis of the impact on predictions for future traffic (and thence on economic costs and benefits of options) of:
  - strengthened Government policy on demand management
  - strengthened Government policy on climate change (in line with its agreed targets)
  - different predictions on the future price of oil;
- Use of post-scheme analysis to cover the effects of induced traffic.
• Re-evaluation of the merits of the current treatment of tax receipts as a benefit (see Green Alliance response).

Main response

NATA and the Climate Change Act

Even though Appraisal Summary Tables (ASTs) are part of NATA, in practice overwhelming weight is given in decision-making to the simple bottom-line Net Present Value (NPV) and Benefit-Cost Ratio (BCR) figures, in effect a heavy focus on Cost Benefit Analysis (CBA). We have attached as an addendum to this response new academic research which sets out a series of reasons why CBA leads to inherently flawed outcomes. It argues that cost-benefit analysis is "not an almost-perfect methodology in need of a small adjustment. Rather, it is a profoundly mistaken representation of our collective choices, our understanding of economy, environment, and their complex interactions". We believe that there must be a far smaller role for CBA in transport appraisal In this response we focus on two reasons why – CBA's trading-off of objectives and treatment of unmonetised impacts.

Trading off objectives

In practice under NATA if the NPV is positive, then the scheme is deemed worthwhile. We believe this is an unacceptable approach because it downplays and obscures critical issues around distribution – who wins and loses – which need to be transparent and debated openly. Moreover it assumes that it always acceptable to agree to any monetised cost so long as the monetised benefit is larger. Often, this might not be the case. For example, a CBA approach to policy evaluation will not be compatible with the forthcoming Climate Change Act, which will set carbon budgets for the UK economy. This is because a series of, for example, roads proposals which increase carbon emissions could each easily pass a CBA test, and yet lead to an overall major breach of these new carbon budgets. This is not an acceptable trade-off – staying within carbon budgets is a non-negotiable minimum to help avoid a global catastrophe, not something to be deemed dispensable if, say, the sum of millions of motorists' five minute quicker journeys summed over 60 years arrives at a larger figure. CBA's failing is that it would always allow climate change (or any other impact) to be traded off if other benefits were deemed large enough.

Preventing major increases in carbon emissions should be one example of a new set of standards against which trade-offs cannot be made. This "standards" approach is applicable elsewhere in public policy – there is not a cost-benefit analysis for the electrical safety of appliances, or children's toys: these are simple minimum standards which cannot be breached.

We believe that this is a strong reason for a major revision of NATA so that the bottom-line is not NPVs and BCRs, but instead appraisal against Government objectives. Under this new approach, then the carbon budgets in the new Act would be one objective against which to appraise policy. If after the overall carbon budget
and transport sector's sub-budget have been set a new proposed transport scheme did increase carbon emissions, then the overall strategy for delivering cuts in the transport sector's emissions (in line with the overall strategy for the whole UK carbon budget) would need revising to deliver an equivalent level of cuts to the new scheme's increase before the proposal could be allowed.

**Proper treatment of unmonetised impacts**

There is a further reason to down-play the importance of NPVs and BCRs in NATA. It is not possible to adequately monetize all impacts of transport policy. Many impacts remain completely unmonetised, with no prospect of this situation changing in even the medium term. In this situation, the use of NPVs and BCRs in practice means non-monetised impacts are largely ignored, which leads to inefficient policy making. We appreciate the desire to simplify policy appraisal, but reductionist strategies for appraisal reform which allow focus on a single monetized number will lead to extremely poor delivery on Government policy objectives. Given the vast sums of public money at stake, the Government has a responsibility to ensure that appraisal is robust – this means considering qualitative and non-monetised factors equally with monetized impacts. There are two main reforms needed. First, more widespread use of alternative techniques – such as multi-criteria analysis – to ensure non-monetised impacts are properly valued. Second, the monetised value ascribed to carbon needs to be raised by a factor of three at the barest minimum.

On this issue of carbon price, we strongly believe that the current value issued by DEFRA to its "shadow price of carbon" (SPC) is highly inappropriate for meeting the Government's objectives on climate change, and that the DfT should seek to ensure that the current guidance from DEFRA is revised, if the Government is going to be able to meet its climate change goals. The value to be used in appraisal is a major underestimate on two main grounds:

First, it is based on estimates of the "social cost of carbon" (SCC), which are major underestimates because they do not include many of the impacts of climate change – for example damage to eco-systems, and "socially contingent" effects, such as the economic and social impacts of refugees fleeing climate change disasters.

Second, the SPC is based on an assumption that the world will take strong action to tackle climate change, leading to low future climate damage, and therefore a low value for the damage cost of a tonne of carbon. This might be a reasonable thing to do if the world was genuinely on track to do take strong action on climate change, but it is not, and moreover, the use of a low carbon price to determine policy (which is what DEFRA is advocating across all climate change policy) will actively prevent the adoption of the strong climate policies required to ensure that the "low future climate damage" assumption is met. This is circular reasoning of the worst kind, and ensures completely inadequate weight is given to climate change in policy making. If a price is to be used for climate change in appraisal, it should be based on a "business-as-usual" assumption, which can then be reduced as policies actually deliver a low-carbon future. Even with "business-as-usual" social cost figures, policy makers must also explicitly recognize that these values are based on older and conservative science, and will therefore most likely be large underestimates, and
also that many of climate change's impacts are in any case not monetized, and are therefore ignored in current appraisal.

NOTES
i http://www.green-alliance.org.uk/uploadedFiles/Publications/reports/Decision-making%20for%20sustainable%20transport.pdf
ii Ackerman (2008) 'Critique of Cost-Benefit Analysis, and Alternative Approaches to Decision-Making'
http://www.foe.co.uk/resource/reports/policy_appraisal.pdf
iii The SPC is a further underestimate due to low estimates of "uprating" climate damage, inconsistent application of the Stern Review's recommendations on use of discount rates, low valuations for uncertain events, its basis on science now a number of years old, and its assumption of no leadership role for the UK (ie we do no more than Angola or any other developing country).