

Dr **Ulrike Hotopp**, Chief Economist, Defra

User Needs for Valuation.

**Improving decisions at the food, water, energy and
environment nexus: Values and valuation**

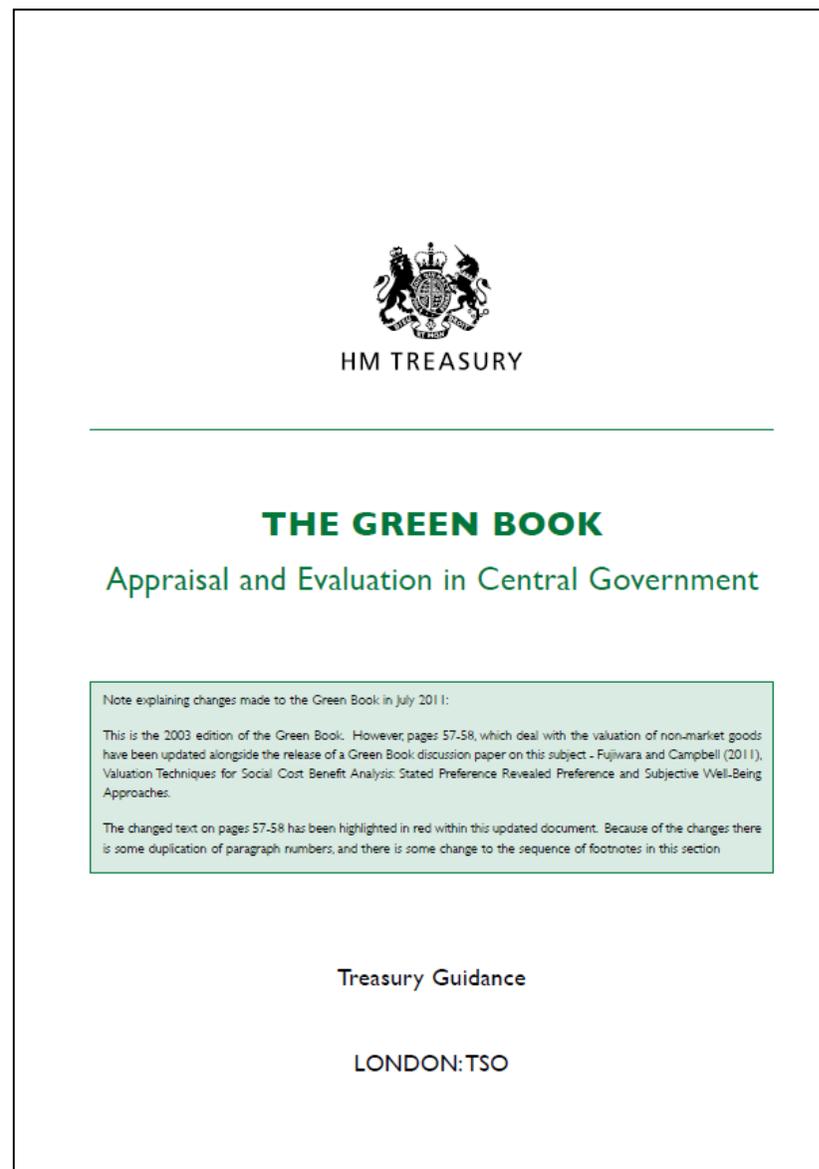
Friday 28 November 2014



User Needs for Valuation

Economic Appraisal: What we value and how

28th November 2014



- Different types of economic appraisal (business cases, impact assessments etc.) have common information requirements
- The principle approach is cost benefit or cost effectiveness analysis requiring the monetisation of impacts where possible
- Information can be difficult to obtain and multidisciplinary so we need to be proportionate



What we can value

- Economic costs which are financial as they are based on existing market price data
- Benefits such as cost savings or direct financial gains
- However, the quality of costs and benefits rely on the quality of the assumptions which may be scientific
- Data on who is affected by a policy option and their size in terms of numbers and economic output are usually available



What is not so straightforward



One Business
through strategic alignment
ONE Business Evidence

- Costs and benefits that have no direct market e.g. biodiversity
- Cumulative and non-linear impacts linked to system interdependencies and thresholds
- Wider social values and impacts e.g. happiness
- However the price is more than meets the eye



The Need for Valuation

- Valuation in government economic appraisal is here to stay and money will continue to be a main metric
- Although imperfect, in most cases market prices are a good guide to value
- We need to be proportionate and work with the research community to develop valuation products



Example: Marine Conservation Zones

- What we know (with reasonable certainty):
 - Who is affected by the policy
 - Likely costs to business and government
 - What features will be protected by designations
 - Where the features are and their condition (with gaps)



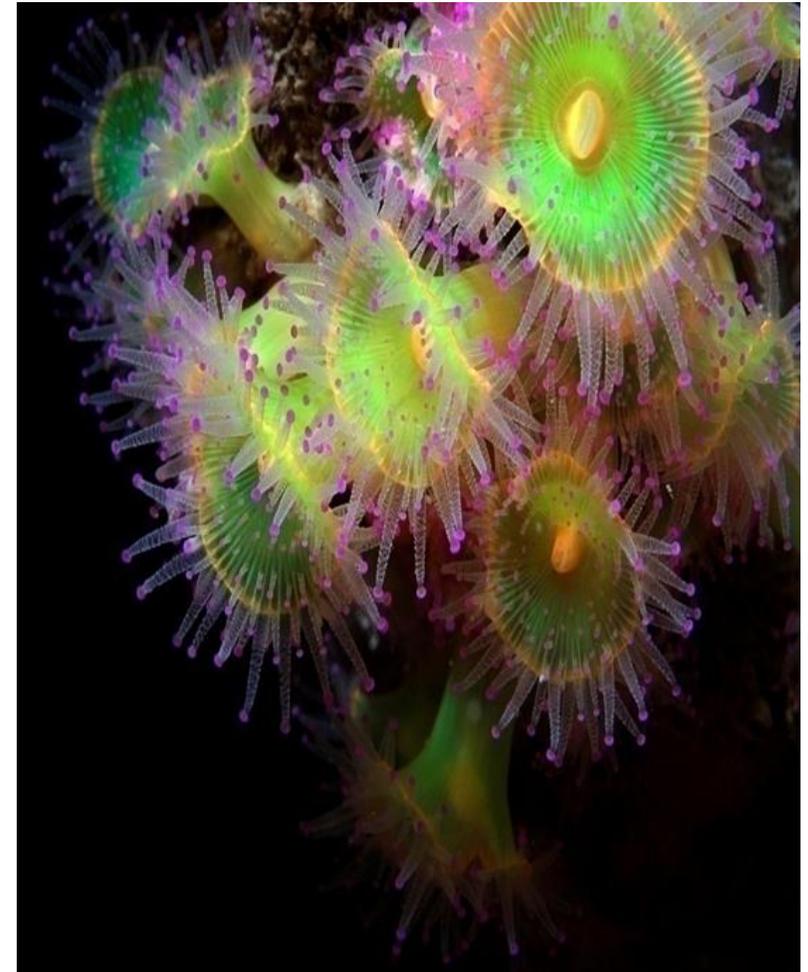
Example: Marine Conservation Zones

- What we struggle with:
 - Valuing the likely benefits including economic (e.g. ecotourism and more robust fish stocks)
 - The social value of the features – they move and very few people get to see them!
 - What is the marginal value of a zone or feature to the network and the ‘optimal’ network



Example: Marine Conservation Zones

- Current approach:
 - Benefits are indicative at best
 - Appraisal framed as what is the most cost-effective approach to meet network and ecological objectives
- Economics currently has little to say on what is the optimal network or if £Xm should be spent on meadows or nurses instead



Conclusions

- Defra works within an analytical framework set by central government requiring monetary valuation
- Market prices do reflect some social preferences and choices and are normally a reasonable guide to value
- Collaboration with the research community is needed to produce usable valuation products
- Further progress needs to be made in some areas such as valuing systemic and social impacts

Government Economic Appraisal Guidance

- The Green Book:

<https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>

- The Better Regulation Framework Manual:

<https://www.gov.uk/government/publications/better-regulation-framework-manual>

- The Magenta Book:

<https://www.gov.uk/government/publications/the-magenta-book>