

4 Pillars of SUSTAINABILITY
- Economic Sustainability
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Can I start by saying I am not an economist, but have studied (suffered?) Economics at tertiary level on the road to gaining qualifications in Social Work and Town Planning. 10 years ago I strayed from the path of true light and virtue (ie community services) and have since then managed Economic Development Units in three Metropolitan Local Governments in Melbourne. As penance I have to do a brief presentation on the Economic pillar of Sustainability.

My first dilemma is the notion that Economics and Sustainability are compatible concepts. Financial sustainability I understand. I am more suspicious about Economic Sustainability. Take for example the Exxon Valdez disaster in Alaska which I understand added a few percentage points to the Gross State Product of the Alaskan economy in terms of clean up costs.

I will talk today about or rather critique cost benefit analysis as the major tool used in economic evaluation and then touch on briefly, “what is sustainable local economic development”.

My key messages are firstly, be very suspicious or critical in an academic sense, of cost benefit or economic analysis that seeks to attribute a monetary value to things such as human life, amenity or the environment and;

Secondly, community capacity building and community development principles applied by community services professionals in their day to day practice in the social and cultural realms, are equally and just as importantly applied in the economic development realms.

Cost Benefit Analysis

The easy bit of cost benefit analysis is the element that is purely financial. It involves understanding what financial inputs are required to deliver a certain output in terms of programs, services and facilities. Regard has to be had for capital versus recurrent inputs and an understanding of direct, indirect and overhead costs. Other important analysis includes depreciation rates and net present value for infrastructure related projects. The outcome of such a financial analysis ought to be that it is going to cost X dollars in start up costs and Y dollars in recurrent costs to deliver a service or program that establish or maintain or program that delivers outputs defined as a certain quantum of service at a certain standard.

The tricky bits come in relation to how to draw the link between outputs and outcomes? For example has 100 participants in a business planning training program contributed to more sustainable local businesses? How has it done so? To what extent?

Key issues to consider in answering this are;

- How well defined the outcomes and outputs are
- What work has been done to try and draw how the two are linked
- The capacity to undertake evaluation work over a period of time
- The capacity to establish control groups, acknowledging this is very difficult in our line of work

- The importance of valuing the views of the beneficiaries of the output or service and asking them whether the output contributed to achieving a certain outcome.

So, in the case cited above, ask the program participants whether they believe the business planning training program has made a contribution to making their business more sustainable. If it is possible, track them over time.

The second tricky bit that I want to refer to, is how do you place a monetary value on human life or the environment?

In relation to this, I am more sceptical about, even if it can be done, whether it is meaningful to do so.

It is done **BUT** I don't think it is always meaningful or helpful;

- It reinforces that economics/monetary value is the pre-eminent paradigm in triple bottom line reporting or debates about the four pillars of sustainability.
- It tends to be based on assumptions that are value laden/untestable and debatable. Further, different assumptions result in vastly different outcomes.

A most recent example of some of the problems with this type of economic evaluation is a publication forwarded by the Commonwealth Department of Health and Ageing to all CEO's across Australia in June of this year. The document was titled "Guidelines for Economic Evaluation of Environmental Health, Planning and Assessment" produced by the Dept of Health and Ageing, and Health Council.

The document canvasses what cost benefit analysis is and then includes four case studies, three of which I will make reference to. There were Cost Benefit Analyses on safety fencing of swimming pools in NSW, Water quality in Wallace Lake NSW and the control of Legionnaires disease in Victoria.

The document runs through concepts such as Net Social Benefits, Quality Adjusted Life Year, Quality Of Life, Value Of a Life Year, Value Of Statistical Life. The document then discusses the estimated value of life, what is used in Australia, particularly by road authorities and what's been done in the USA and the UK. The US EPA suggests the Value of a Statistical Life ranges from \$0.7m to \$16.3m and suggests using an average figure of \$6.1m. The UK Department of Environment uses a figure of £850,000 which would translate into a figure of \$2.5m Australian in 2001 prices and concludes that experts have determined that this is a realistic figure for the Value Of Statistical Life in Australia. To be fair the document acknowledges that experts question these assumptions on theoretical and empirical grounds.

In relation to valuing environmental benefits the document makes reference to valuing environmental and amenity attributes via seeking to understand where property owners will pay a price premium for a certain type of environmental amenity. In doing so, the concentration is on such things as "it looks good", "it doesn't smell bad", and the productive use of land and water for things such as grazing and fishing free of contaminants and pollution. As such it is a very limited basis for valuing and ignores highly valued environmental matters such as biodiversity.

So What is the outcome?

Well firstly, as a brief aside the use of this methodology by Road Authorities in Australia to prioritise Black Spot Funding is neither socially nor politically sustainable. Residents and politicians incredulously ask "you mean somebody has to die before this traffic hazard will be fixed", resulting in Victoria in the introduction of a "potential" black spots funding program.

Back to the case studies. In relation to the water quality in Wallace Lake, pollution of an oyster farm resulted in 422 cases of Hepatitis A in which many people were hospitalised and one elderly man died. Analysis of the cause of the Hepatitis outbreak was inconclusive but included examining sewerage leachate into the lake, and water quality being affected by run off by agricultural lands. Analysis was done in relation to morbidity effects, impact of water pollution on loss of oyster production, loss of tourism and degradation of the ecosystem of the lake. A number of strategies were put in place to address this in particular reticulated sewerage, better sewerage treatment, better testing of oyster production. This was assumed to result in increased oyster production, increased tourist trade, better residential amenity and more a sustainable ecosystem in future years. The outcome in cost benefit terms having plugged in the value of life and the value of all these other matters together with the costs of undertaking all these actions to address the concerns raised, was that the costs over 23 years were estimated at \$14m and the benefits \$13M, i.e the costs outweighed the benefits.

In relation to mandating child proof fencing around swimming pools in NSW, the costs over 25 years were estimated at \$252m and the benefits \$206m. In the case of a package of risk reduction policies and works for controlling Legionnaires disease in Victoria, the costs over 10 years were estimated at \$50m and the benefits \$21.5m.

So in summary what does all this tell us? Not a lot in my view. All of those actions were undertaken because they needed to be having regard to social impacts including illness, loss of life, detrimental environmental impacts. A Cost Benefit Analysis undertaken prior to actions commencing that showed that the costs outweighed the benefits, is unlikely to have stopped or changed the actions.

So in conclusion, in relation to cost benefit or broader economic analysis, the moment it seeks to move beyond financial analysis and place a monetary value on matters social, environmental and cultural is the moment it becomes critical that values and assumptions are challenged, vigorously debated and very transparent. At this point you start to wonder whether you need a cost benefit analysis on actually doing a Cost Benefit Analysis. In discussing all this recently a colleague reminded me very aptly, that the first pillar of sustainability is good common sense, which we all too quickly forget.

Sustainable Local Economic Development

In the few minutes I have left, I will seek to elaborate a little bit on the principles of community capacity building and community development work as being fundamental for sustainable local economic development.

In my experience, Councillors seek election because they want to do something to benefit the local community and often this is enunciated in terms of create more employment, save the local economy, boost the local economy or something similar. It is critical that “do what” is subject to sound analysis and broad community debate. Councils are quick to jump to the conclusion that they need an economic development strategy, but the reasons can be many and varied and I have heard all of the following over the years

- We need to diversify the rate base.
- We need to lower unemployment
- We need to fill the vacant shops in the main street
- We need more local jobs
- We need more industry
- We need to attract industry to buy/lease/build on Council land that we've already rezoned from farming to industrial use.
- We need to help our residents get work

- We need more private sector employment because this is more sustainable than government jobs
- We need to get kids off the street because they are a nuisance
- We need to reinvigorate community spirit,

Having firstly understood the nature of the local economy and trends, past and future, regional and statewide contents, then a community is in a position to undertake some objective setting prioritising of objectives, and determining strategies

Some consistent themes emerged in the three local economies I've worked in;

- The vast majority (ie in excess of 80%) of economic enterprises were small businesses employing less than 10 people
- The biggest local employer by industry was retail trade

We also know that it is significantly easier to retain and grow existing jobs and businesses than create new ones, 80% of small businesses will not survive their first 5 years, and that a key factor in surviving is having a business plan. As a result, the bread and butter of sustainable local economic development strategies is communicating the skills and benefits of having a business plan and programs to support and grow your local retailing activity. More often than not ensuring the survival of your strip shopping centres involves assistance in their capacity to market and compete with hardtop centres via things like special rate marketing schemes.

The setting and prioritising of objectives is critical to determining strategies. For example;

- Is it more important to improve transport access to regional centres of employment rather than seek to create new employment locally
- Is there a gap between skills required for jobs that are reasonably accessible and the skills of local residents, that needs to be addressed via education and training
- If local jobs that don't require high skill levels are critical to this community then should the Council be actively pursuing opportunities for high numbers of jobs eg a prison
- What is the problem with public sector employment such as nursing homes, schools, psychiatric institutions etc

By way of example, I will overview the development of an economic strategy for Melbourne's Outer west. The strategy had 5 key elements which were;

- Labor market programs and skills training
- Main street program
- Business skills development program
- Investment attraction and facilitation, and
- A community pride committee, focussing on building a sense of community worth and pride through events.

In terms of community building and ownership, in addition to an overarching steering committee there was a combination of incorporated associations and Council committees steering all of these key components with the exception of investment facilitation and attraction.

The development of the strategy involved consultation with hundreds of local residents and the continuing "buy in" of upwards of 50 residents and business people involved in the key components.

In relation to investment facilitation and attraction, (all too often in my view seen as the “sexy” part but not strategically thought through) the Council had over a number of years managed to secure land and capital improvements in both commercial and industrial facilities. Its greatest successes were in growing and retaining local businesses and using its resources to move them into larger factories, or offices. Also interestingly, in the office/white collar area, its greatest successes were in attracting a tertiary education institution to the town and growing adult education, labor market support programs and other community support programs such as the Community Health Centre. The Council was also successful in attracting a prison into the municipality and managing that in such a way as to not detrimentally impact on the pride of the community. It is a major generator of employment and is also a recession proof industry.

Again, in conclusion, challenge economic analyses that venture to place a monetary value on human life or the environment, and challenge any local economic development strategy not built on community development principles.

Thank you.

References:

“Guidelines for Economic Evaluation of Environmental Health Planning and Assessment. Volumes 1 & 2. The Guidelines and Case Studies” Commonwealth of Australia (Department of Health and Ageing) 2003.

“Weaving Tapestries – A handbook for Building Communities”
Tim Muirhead, 2003, published by Local Government Community Services Association (WA).