



# Cost Benefit Analysis

## Description

Cost-benefit analysis (CBA) is a technique that “purports to describe and quantify the social advantages and disadvantages of a policy in terms of a common monetary unit”. It is generally looked at from the national perspective (use of ‘social’) - individual cost-benefit analyses are called financial cost benefit analysis (i.e. social replaced by individual).

Cost benefit analyses are now divided into -

- Economic cost-benefit analyses
- Social cost-benefit analyses

Economic cost benefit analyses are traditional CBA, whereas social CBA incorporates trade efficiency and distributional issues of time (consumption and investment) and income.

The aim of CBA is to compare the costs (disadvantages) and benefits (advantages) of a proposal. Such comparison is readily performed when all costs and benefits can be quantified in dollars, but this is usually not the case when viewing a project from a societal perspective. Because costs and benefits typically occur over different time frames, a ‘discounting’ routine is used to express all values at the same ‘point in time’, usually the starting point of the activity. Different parameters such as benefit-cost ratios and Net Present Values (NPVs) can be calculated and used to decide whether a project should proceed or not.

Social cost benefit analyses also commonly include consideration of intangible costs and benefits (estimated using non-market valuation techniques such as [contingent valuation](#) and the [travel cost method](#)).

## How and when the tool is used

Cost-benefit analysis is used primarily by proponents to determine whether a proposal/development is financially feasible. It can also be used in support of resource consent application - and concession applications.

It is always difficult to get the perspective right when looking at cost-benefit analysis for regions. Typically one part gains and another pays. For example, in areas such a sealing of tourist roads the tourists gain and we (New Zealanders) pay. In terms of tourism in general it is common to conclude that environmental degradation is a **cost** to New Zealand and a **benefit** to overseas tourism operators.

Cost-benefit analysis is good for eliminating projects that do not have a net benefit. Where there is net benefit for a tourism project then it is important to look at the distribution of costs and benefits, especially where more than one region is involved. For example, in the case of the proposed Hollyford Road, benefits would go to the West Coast and Milford and the costs would fall on Queenstown.

## Application

Noting the issue of perspective discussed above, the tool can be used as a wide range of levels, that is, locally, regionally and nationally. It can be used to evaluate small activities or large scale projects, as long as the same context is applied to the identification and analysis of all costs and benefits..

## Our evaluation

Financial cost-benefit analysis has the ability to be a useful tool for to be used in conjunction with other tools. It is a comparative tool and is best used to compare options rather than to present a dollar figure.

Most proposed tourism developments will have some kind of CBA associated with them. The perspective adopted (i.e. national, or financial) will depend on who does the CBA, and the outcome will also depend on the objectives of the analyst/proponent. It is always difficult to get the perspective right.

Cost-benefit analysis is good for eliminating projects. However, it is important to think about new benefits, rather than redistribution of benefits from one region (or one activity) to another.