



Research Note 8: AFP economic and social goods 2003-04

Summary

Based on economic evaluations commissioned by the AFP, it is estimated that the AFP returned \$920.9 million to the community for the \$315.1 million invested in Investigation and Protection Services in 2003-04. This represents a Net Present Value of \$605.8 million and a Return on Investment of at least \$2.90 for every dollar invested. In addition, and included within the above costs, the AFP produced a range of social goods which are of equal if not more importance to the Australian community.

Economic goods

The Australian Federal Police produce a range of social and economic goods in return for the funds invested in it by the Government and the community. Economic goods are those which are quantifiable in dollar terms.

A good example is fraud investigations. A successful fraud investigation may result in the return of fraudulently acquired funds and the imposition of a monetary penalty. Both these amounts are easily quantified in dollar terms. The successful fraud investigation might also result in the cessation of an ongoing fraud and perhaps deter other individuals from attempting similar criminal actions in the future.

These effects can also be estimated in terms of dollar values although with a lower degree of assurance than in the case of monies recovered or penalties imposed. In short, economic benefits can accrue either directly or indirectly to the Government, the community or both.

Although the current report summarises AFP research into the economic benefits of its activities, it is important to note that not all benefits can be assessed in economic terms.

Social goods

Social goods are also the result of law enforcement activities. Social goods embrace a wide range of outcomes. The community might feel more secure. Democratic rights might be protected. Community values might be confirmed.

A few examples of AFP involvement will illustrate the wide range of social goods that can be produced. The AFP is responsible for the protection of Australian and foreign high office holders.

The fact that Australia has relatively few incidents of politically inspired violence against such persons contributes to Australia's image as a secure, democratic nation and presumably provides the community both with a greater sense of personal security and with greater trust in the

operation of the democratic process.

The AFP is also responsible for the investigation of trans-national sex offences, including paedophilia. The successful prosecution (or preferably the deterrence) of such crimes reinforces core social values regarding the way we protect and nourish our children.

Finally, the AFP has provided peace monitoring services to a number of overseas countries including Cyprus, East Timor and the Solomon Islands. These services promote greater recognition of Australia as a responsible member of the international community as well as being of direct benefit to the countries themselves.

In the long term, it may well be that many of the social goods relating to law enforcement are far more important to the community than the more easily defined economic ones.

Economic evaluation

Benefit-cost analysis is a quantitative method of assessing the costs and benefits of public and private sector programs. The results of such an analysis can be used for a number of purposes including deciding the level of investment in a program, assisting in the selection and maintenance of programs, and determining the optimal benefits of a given budget. As part of its program of reporting its performance to the Government and the wider community, the AFP has commissioned a number of economic evaluations of key functions (see over).

Technical terms

There are a wide range of measures that economists use in evaluating the economic value of a given project or function. Two widely used measures are net present value (NPV) which is the difference between the costs and benefits of a program – its 'profit', in other words, and return on investment (ROI) which is the number of dollars returned by a program for every dollar invested.

Table 1. Economic benefits and costs associated with Investigations & Protection

		(\$ million)	
		Benefits	Costs*
Output 1 Investigations	Drug investigations	409.8	
	Fraud investigations	149.3	
	Proceeds of crime	81.4	
	Sub-total	640.5	249.5
Output 2 Protection	Protection	280.4	
	Sub-total	280.4	65.6
Outputs 1 & 2	Total	920.9	315.1
	Net Present Value	605.8	
	Return on Investment	2.9	

*Cost is equivalent to Departmental appropriation.

Fraud investigations

An internally conducted economic evaluation (McFadden & Mwesigye, 2002) estimated the NPV, for the \$63 million invested by the AFP in fraud investigations over the two years since June 1999, was \$298 million. The ROI for the same period was estimated at 6.0.

Drug investigations

Another internally conducted economic evaluation (McFadden, Mwesigye & Williamson, 2002) addressed the economic benefits associated with drug law enforcement. The benefits associated with the seizure of drugs during 1999-00 and 2000-01 were estimated at \$1,189 million. In terms of costs, an estimated \$231 million was invested in illicit drug law enforcement over the two years. These figures suggest an estimated NPV of \$959 million and a ROI of 5.2.

Protection Services

The Centre for International Economics (2004) was commissioned by the AFP to conduct benefit cost analyses of its Protection Services programs, namely Close Personal Protection (CPP) and Protective Security Intelligence (PSI).

CPP is responsible for providing officers to protect Australian and foreign high office holders. PSI is involved in the collection of intelligence in support of the Commonwealth's threat assessment process for high office holders and high profile events. The study found that the CPP and PSI programs, on a conservative estimate, provided around \$4 in benefits to every \$1 invested.

Proceeds of crime

The Proceeds of Crime Act 2002 has greatly strengthened Commonwealth laws for the confiscation of proceeds of crime. Each year in Australia, drug trafficking, money laundering, fraud, people-smuggling and other forms of serious crime generate vast sums of money. From a law enforcement perspective, it is not the actual amounts seized or forfeited that are of primary interest but rather the disruptive effect that such seizures have on the criminal enterprise's ability to carry on its business. In the short term, however, the actual amount seized can serve as a surrogate for the value of the disruptive effect.

Economic benefits 2003-04

The results of the previously reported economic evaluations provide a basis for monitoring ongoing AFP performance in economic terms. For those services that are quantifiable, it is estimated that in 2003-04, Investigations and Protection Services returned a 'profit' to the community of \$605.8 million which represents a return of at least \$2.90 for every dollar invested. In addition to these economic benefits, the AFP produced a range of social goods whose costs of production have been included in the Output costs above, but whose benefits though real cannot be quantified economically. These services include investigations and intelligence relating to:

- Terrorism
- People smuggling
- Transnational sexual offences
- Intellectual property
- Environmental crime

Details of specific achievements in relation to the above matters are available in the AFP's Annual Report. Finally, it should be noted that while it was possible to include all costs relating to AFP activities in 2003-04 in our calculation, the quantifiable benefits identified were doubtless a subset of those that further research could reveal and an even smaller proportion of all benefits both economic and social. For the future, the AFP will continue its program of economic evaluations to inform its management policy and to meet its accountability requirements to the Government and Australian community.

FURTHER READING

Centre for International Economics (2004), *Protection Services: A benefit cost analysis*, Report prepared for the Australian Federal Police, Centre for International Economics, Canberra.

McFadden M & Mwesigye S-E (2002), *Fraud investigations: A case study in economic evaluation*, Policing: An International Journal of Police Strategies & Management, 25, 4, 752-761.

McFadden M, Mwesigye S-E & Williamson G. (2002), *Pricing outputs: A case study in law enforcement*, Australian Journal of Public Administration, 61, 4, 80-88