

CONDUCTING A COST-BENEFIT ANALYSIS:

Step 1: Define the Scope or Perspective of the Analysis - The first step is to describe the alternative(s) to be evaluated, and determine whose perspective will guide the evaluation. A narrow cost analysis might look only at the monetary costs and benefits to the individual participant or target of services, or to a particular funding source. A broader perspective might attempt to look at a wide range of costs and consequences (intended and unintended, direct and indirect) for society as a whole.

A program that is not cost-effective from the perspective of a particular agency within its limited mission and budget may well be cost-effective from the perspective of society, because it saves expenses or prevents problems in other areas. Because different stakeholders may have different values and priorities, mixing different viewpoints is likely to result in "confused specifications and overlapping or double counting." Whether we like it or not, the perspective chosen for cost evaluation may have political implications. Therefore, while there are limitations to any one perspective, it is important for the evaluator to clearly state his or her position.

Step 2: Conduct Cost Analysis - The next step is to identify and estimate the monetary value of all resources used, not just the budgetary costs. Some costs, such as salaries of direct service staff, rental of office space, or program supplies, are obvious and simple to determine. Indirect costs of supervision and administration need to be included as well.

Other resources and costs may go well beyond the items that are usually included in a budget. Sometimes "overhead" (like office space or supervision) is provided as an in-kind service, but since there are probably some additional demands made, these should be figured into the "real" cost. What about the value of the time of program volunteers (what would you have to pay them if they weren't volunteering their services)?

Step 3: Estimate Program Effects - This is where more traditional impact or outcome evaluation methods come in. If we don't know that there is a significant beneficial effect of the program, there is little point in asking how much it costs to get the effect, or whether it is more cost-effective than another kind of program. Data on similar programs may already exist and be used to estimate program effects.

Step 4: Estimate the Monetary Value of Outcomes - This is one of the most difficult and controversial aspects of conducting a cost-benefit analysis, and it may require the help of consultants. Some cost-savings are easier to estimate than others.

Step 5: Account for the Effects of Time - One of the trickiest and most technical aspects of cost-benefit analysis, especially for longitudinal studies that follow clients or outcomes over a period of years, is discounting of costs and calculating rates of return for alternative uses of the money (such as investing it).

This includes taking into account the effects of inflation on the value of the dollar over time, or figuring the depreciation in the value of things like buildings and other capital equipment. Similar issues apply in estimating the value of benefits over a period of time. For example, if we want to look at the projected life-time earnings of a teenager who stays in school due to a drop-out prevention program compared to one who does not, we need to make projections about wages. If we want to look at whether the government will eventually recover its investment in the drop-out program through the taxes he or she will pay on the increased income, we need to make projections about future tax rates as well. These projections all require assumptions.

Step 6: Aggregate and Apply a Decision Rule - If you are looking at the costs and benefits on several outcomes (which is often the case), how will you decide which has priority? If a program for pregnant teenagers results in healthier babies (and lower hospital costs), but not in fewer repeat pregnancies, which outcome is more important?

Step 7: Describe Distributional Consequences - This is related to choosing your perspective of analysis. It involves specifying who gains and who loses under different conditions (because in some cases, one party's benefit is another party's loss). This may be a highly controversial and political step in the process.

Step 8: Conduct Sensitivity Analysis - This step involves identifying the assumptions behind your cost estimates, and considering how critical they are to your calculations. If one of your assumptions turns out not to be accurate, or if conditions change during the time of your study (for example, the minimum wage goes up, affecting salary costs), will that change your whole conclusion, or is the effect strong enough that there is some leeway?

Step 9: Discuss the Qualitative Residual - Since there are almost always some things that can't be quantified or given monetary values, it is important that your report include some discussion of these issues. A frank description of some of these qualitative issues in your report can help round out your conclusions, and reduce the chances of your study being used inappropriately.