Cost-Benefit analysis

In a world of scarce resources, an organization’s future well being rests on its ability to successfully assess the benefits and costs of its planned business decisions. Cost-Benefit analysis (CBA) is a process by which an organization can systematically determine if a proposed undertaking (e.g., construction project, policy decision) is a sound venture and compare it to alternatives. Whilst often a requirement for certain federal government involvement—such as grant determination or congressional approval—CBA allows for a reproducible, transparent, and defensible approach to support informed decision making. Conducting a forward looking assessment of prospective projects allows organizations to make decisions based on expected economic benefits and costs of such investments.

Economists in KPMG LLP’s (KPMG) Economic & Statistical Consulting (ES) practice provide private and public sector clients with the experience and technical capabilities to develop defensible CBAs. These professionals have the advanced analytical capabilities and sophisticated critical thinking skills to help clients evaluate opportunities and make data driven business decisions.

Background
CBA has been the foremost methodology to evaluate investments and analyze policies that are typically subject to limited resources and budget constraints. Our professionals are trained in applying the CBA approach to a wide array of subject areas, including but not limited to transportation, public health, and regulatory impact analysis.

Each CBA we conduct is adaptable and tailored to project specific needs. Instances where a CBA is relevant and useful in determining the most efficient path forward include:

**Transportation**
Calculating the benefit assessment typically includes an evaluation of travel time impacts, vehicle cost savings, accident reduction, and air emission impacts, whereas costs are likely comprised of the resources expended on the project (e.g., planning, design engineering, construction).

**Public health**
Assessing the costs of proposed policy interventions and their associated benefits involves an economic evaluation that identifies, measures, and compares health interventions in terms of project costs and expected benefits.

**Regulatory impact analysis**
Providing an economic justification for new or proposed changes in regulations entails an assessment of the potential social benefits and social costs of a regulation, including both the monetized impacts and any tangential effects (e.g., increase in safety).

Experience
With years of pragmatic CBA experience, KPMG economists offer insights to better tackle real world issues. For example, KPMG developed a CBA model that estimated the impact of varying budget scenarios for a leading state transit agency. The CBA included capturing the impacts on user travel time, vehicle operating costs impacts, safety and accident cost impacts, environmental emissions (e.g., carbon impacts on society), and impacts on the reliability of the transportation network. The CBA provided the agency a defensible assessment of the benefits associated with their respective project portfolio and future benefits under various funding scenarios.

Methodology
Our ES professionals utilize the following framework to conduct CBA:

Step 1: Set the analytical framework
Specify the project opportunity/policy change and the existing status quo, along with potential alternatives.

Step 2: Identify and categorize benefits
List the consequences associated with the opportunity/policy change, labelling the benefits and costs as direct, indirect, tangible, and quantifiable.

Step 3: Quantify and monetize effects
Collect the data representing benefits and costs, calculate the effects, and where possible, associate each impact with a monetary value.

Step 4: Perform sensitivity analyses
Identify the main uncertainties and risks, and conduct analyses to understand potential impacts of alternative scenarios.

Step 5: Present results
Relay findings to inform the benefits and costs of planned investment or project.

Contact us
For more information on how our economists can help you with conducting benefit cost analyses, contact your local KPMG adviser:

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