**Checklist:** Best practice checklist for cost-benefit analysis

This checklist will help you to assess the quality of a cost-benefit analysis and specify the requirements for a commissioned cost-benefit analysis. You may need to seek technical guidance to assess some of these characteristics.

Before undertaking a cost-benefit analysis

| **Step** | **Ideal characteristics** |  |
| --- | --- | --- |
| Pre - CBA | *Timing*  The cost-benefit analysis is being undertaken before a public commitment has been made (if not, establish the purpose of the CBA) | 🞏 |
| *Proportionality*  The effort involved in undertaking the cost-benefit analysis is proportional to the size or extent of the investment | 🞏 |

The cost-benefit analysis

| **Step** | **Ideal characteristics** |  |
| --- | --- | --- |
| Options assessment | *Base case*  The base case is clearly defined and credible | 🞏 |
| *Options*  A reasonable set of alternative options has been incorporated | 🞏 |
| There is a comprehensive description of alternative options | 🞏 |
| The base year is common to all options being considered | 🞏 |
| *Assumptions and data*  Details of underlying assumptions have been clearly articulated | 🞏 |
| Sources of key input data and parameter values have been provided | 🞏 |
| The demand forecasting method is appropriate (seek technical advice if required) | 🞏 |
| Forecasts have been based on comparable projects or policies (where possible) or from robust publicly available research | 🞏 |
| Impact identification | All the important benefits and costs for each alternative have been identified | 🞏 |
| There is a description of all costs and benefits | 🞏 |
| All the potentially affected parties have been considered | 🞏 |
| Externalities have been considered | 🞏 |
| Non-market impacts have been considered | 🞏 |
| Significant option or existence values have been considered | 🞏 |
| Cost and benefit valuation | *Quantifying costs and benefits*  Costs and benefits are valued credibly (seek technical advice if required) | 🞏 |
| Methods for estimating costs and benefits are described | 🞏 |
| Costs and benefits have been described incrementally against the base case | 🞏 |
| Costs and benefits have been valued at their market or economic value where possible, based on reasonable and verifiable assumptions (seek technical advice if required) | 🞏 |
| The values of all costs and benefits have been adjusted for real price variations over time | 🞏 |
| Opportunity costs have been considered | 🞏 |
| There is a list detailing cost and benefit streams | 🞏 |
| *Qualitative costs and benefits*  Non-quantifiable costs and benefits have been discussed in qualitative terms | 🞏 |
| *Evaluation period*  The evaluation period is based on the economic life of the investment/decision (e.g. 10 years for a regulation) | 🞏 |
| A residual value has been incorporated if the economic life of the project exceeds the evaluation period of the project. | 🞏 |
| Discounting | Costs and benefits have been adjusted for the different times at which they occurred (i.e., discounted) | 🞏 |
| The discount rate follows the appropriate guidelines (e.g., Section 6 of DTF’s [Economic Evaluation for Business Cases Technical Guidance](http://www.dtf.vic.gov.au/sites/default/files/2018-03/Economic%20Evaluation%20-%20Technical%20Guide.doc) if seeking state funding, or Section 10.4.2 of Infrastructure Australia’s [Assessment Framework Detailed Technical Guidance](http://infrastructureaustralia.gov.au/policy-publications/publications/files/IFA_Infrastructure_Australia_Assessment_Framework_Refresh_v26_lowres.pdf) if seeking national infrastructure funding) | 🞏 |
| Addressing risk and uncertainty | All major areas of risk and uncertainty have been considered | 🞏 |
| Appropriate sensitivity testing has been conducted | 🞏 |
| There is a discussion of how alternative assumptions may affect outcomes | 🞏 |
| Identifying the preferred option | *Decision criteria*  The results of the assessment and measures of economic worth (i.e., NPV, BCR and IRR) are clearly presented | 🞏 |
| There is an explanation of why a decision criterion was chosen over others (i.e., NPV, BCR or IRR) | 🞏 |
| *Identifying the preferred option*  The results have been ranked based on initial results | 🞏 |
| The results have been ranked based on sensitivity testing | 🞏 |
| The results of different approaches were easy to compare | 🞏 |
| A preferred option has been identified that takes into account the initial assessment, sensitivity testing and all qualitative factors | 🞏 |
| There is a comparison of the preferred option with other options | 🞏 |
| Presentation of results | The structure and presentation of the CBA allows for easy interpretation and validation of the information and data provided | 🞏 |
| The results of different assessments are easy to compare | 🞏 |
| Supplementary analysis | The details of any supplementary analysis (e.g., multi-criteria analysis, assessment of distributional and/or equity impacts) have been provided | 🞏 |

After the cost-benefit analysis

| **Step** | **Ideal characteristics** |  |
| --- | --- | --- |
| Post-CBA | *Timing*  The cost-benefit analysis has been updated as the project has evolved | 🞏 |
| *Objectivity*  The cost-benefit analysis was undertaken by an objective third party | 🞏 |
| *Quality of analysis* (seek technical advice if required)  The depth of analysis offers assurance that results are credible | 🞏 |
| The information and data provided in the cost-benefit analysis are internally consistent | 🞏 |
| An appropriately detailed and tailored methodology has been applied | 🞏 |
| Double-counting of benefits has been avoided | 🞏 |
| *Transparency*  The cost-benefit analysis has been made available for public scrutiny (unless there are good reasons for not doing so) | 🞏 |