

Cost Benefit Analysis (Narrative)

Project Name:
Project Sponsor:
Prepared By:
Date:
Project Contact:
Task Code from ITPP:

Guidelines: *Cost/Benefit Analysis (CBA) is the estimation of tangible and intangible costs and benefits of various project alternatives and the use of Net Present Value and Payback Period to determine the best alternative. The Cost Benefit Analysis is another set of documents in the Project Folder. Where appropriate, reference should be made to supporting material for clarification or to set context or scope.*

The Cost Benefit Analysis document should contain and address each of the sections listed below. If a section does not apply, indicate that the section does not apply so the reader knows that each section was addressed during preparation of the CBA.

Attach any supporting documentation, including the completed Cost Benefit Analysis spreadsheet templates provided.

1. Cost Benefit Summary

Overview of business case, the net present value (NPV) and the Payback Period of the alternative selected. Briefly illustrate the other alternatives examined in the CBA report. Explain the level of detail that is available, and estimate the level of confidence the project team has in the CBA results.

2. Current Process

Everyone involved with the preparation and review of the CBA needs to understand the current process because it is the baseline for nearly all decisions regarding new alternatives. The CBA should include Business Processes, System Capabilities, System Architecture and System Costs. Continuing to use the current process is considered the first alternative where new approaches to meet the same business requirements are alternatives 2 – n.

3. Estimate Future Requirements

Future business requirements determine the system capabilities and architecture, and ultimately affect system costs and benefits. Thus, it is very important to accurately estimate the future capacity requirements, including both average and peak demands. Add examples e.g., # of users, availability, amount of data (disk space allocation required), performance expectations, etc.

4. Identify Alternatives

A CBA must normally present at least three alternatives to the current process. During initial planning, a number of alternatives may be considered. However, the number of approaches analyzed in detail may be limited if only one or two are realistic. Consider the utilization of alternatives for delivery, including:

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- Null alternative or maintaining the status quo (i.e., no change to the present system);
- Deliver with in-house staff;
- Deliver by a contractor or contract staff;
- A hybrid of in-house and contractor staff.

5. Evaluate Alternatives – Repeat For Each Viable Alternative Identified Above

Description of Alternative

Advantages

Disadvantages

Source of Cost Data

Intangible Benefits

While most costs can be quantified in dollar terms, many benefits cannot. As a result, evaluating alternatives cannot always be done using values of the costs and benefits. Explain intangible benefits that affect the business case for each alternative. List all intangible benefits, quantifying them when possible into the following categories (see Preliminary Project Evaluation for examples):

- Better Service Delivery
- Enterprise Approach to Business
- Financial Responsibility
- Innovation
- Operational Excellence
- Partnerships with Other Agencies
- Preparation of Workforce
- Solves a Problem

Sensitivity Factors

Sensitivity analysis provides a final opportunity to test the CBA. During this process, an analyst looks at one or more of the values used in the analysis and determines what would happen if they were maximized or minimized. Sensitivity is measured by how much change in one of these parameters is required to change the outcome of the analysis. Sensitivity analysis adds a level of comfort for both the analyst performing the CBA and the reviewers that the CBA provides a sound basis for making decisions regarding the proposed project.

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The sensitivity analysis process requires three steps:

- 1. Identify input parameters that could have the greatest influence on the outcome*
- 2. Repeat the Cost Benefit analysis for each sensitivity analysis*
- 3. Evaluate sensitivity results*

Assumptions

A CBA often relies on many assumptions, it is important to document all of them, and, if possible, justify them on the basis of prior experiences or actual data. For example, you may assume that the PC hardware and software for a system will need to be upgraded every three years. This could be justified on the basis of the rapid increases in capacity and speed and decreases in cost for PCs over the past 15 years.

This can also be an opportunity to further explain why some alternatives were not included in the detailed analysis. Some alternatives are eliminated in the early stages of a CBA because of a conclusion that it is not feasible. If that conclusion is based on an assumption, the assumption should be clearly explained and justified.

6. Cost Benefit Analysis Comparison

Explain why the recommended alternative was selected.

If possible, include analysis on how this project competes with other proposed projects in priority, payback period and return on investment (both financial and business).

Identify the Cost Center, Project and Function Codes for this initiative.

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Process Evaluation – The following section is intended to elicit your feedback on the tools used to capture information within the IT Investment Process. Your comments will be used to evaluate the effectiveness of the process and tools from the participant's perspective and to identify opportunities for improvement. Please take a few minutes to complete this section when you have completed the rest of the tool. Your feedback is greatly appreciated.

How long did it take you to complete this form?

Did the effort help you in evaluating/planning/managing the project?

What suggestions do you have for changes?