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| **Step 7:** | **Analyse and justify the cost-drivers: depth analysis** |

##### **Step 1: Measure your unit costs**

In order to undertake an economy analysis you will need to measure the average unit cost for each of your key cost drivers. You should measure the *actual costs* (*actual spending*) rather than those originally budgeted for. This should be done either on a year-by-year basis (at the end of each year) or at mid-term evaluation stage, and then finally at evaluation stage.

The average unit cost is measured **by dividing the total costs by the units of** **goods or services purchased**, or employees hired. For example, if you have hired10 engineers over two years for the total cost of £100,000, then your cost per engineer is £100,000 divided by 10, which gives you £10,000 per engineer hired for two years. You can then convert this figure into a yearly or monthly average wage: that is, £5,000 per engineer per year (£10,000 divided by 2), or £417 per engineer per month (£10,000 divided by 24 months).

##### **Step 2: Find previous unit costs to compare your unit costs against**

Once you have calculated your unit costs, you will need to compare them with the cost of previous programmes (projects) or budget. This can be done either by using information from **previous programmes, the programme budget** or from other **external data sources**. If your countryoffice already has data on unit costs for similar expenditures from previous programmes, you can also use this information. For example, if you have hired engineers for a previous programme you can use the unit costs of the previous programme to benchmark your current unit costs.

##### **Step 3: Adjusting unit cost figures to account for inflation**

Once you have obtained previous unit costs for your benchmark, you will need to express your programme’s unit costs and external ones in the same base year. For example, if your unit cost is expressed in 2016 prices, and the benchmark unit cost in 2012 prices, then you will need to **use an inflation calculator** (such as the Bank of England’s calculator) to express all figures in prices of 2016 (or alternatively in prices of 2012, by deflating your 2016 unit cost).

##### **Step 4: Comparing figures**

Once you have expressed all figures in line with the same year’s baseline prices, you are ready to do the **comparison**. You should indicate in a table format, for ease of comparison, if it is evident that that your programme includes differences that are not included in the programmes against which you are benchmarking your unit costs. For example, you may be working in more remote areas or in areas with greater security requirements, which means that your costs are likely to be higher.