



Harmonised European Approaches for Transport Costing and Project Assessment

General Issues

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General Issues consist of...

- Non-market valuation techniques
- Value transfer
- Non-monetary impacts
- Discounting and inter-generational equity
- Evaluation period
- Decision criteria
- Future risk & uncertainty
- Indirect effects of transport investments & policies
- Producer surplus
- Marginal Cost of Public Funds
- Accounting procedures

Structure of General Issues Guidelines

- Definitions
- Purpose/role in project appraisal
- Existing practice at EC and national levels
- Best practice
- Recommendations

Common themes in deriving recommendations

- Recommend:
 - When the guideline is applicable
 - In line with documented best practice
 - “At minimum” plus suggested additions
 - Consistent with general principle of using local values
- General principle: pragmatism, recognising resource constraints

Non-market valuation techniques

- Recommendations
 - To undertake non-market valuation studies
 - i) where impact likely to be significant
 - ii) where the possibilities for robust value transfer limited.
 - To select techniques on the basis of available expertise and previous experience
 - WTP measures preferred to cost-based measures, when measuring benefits.
 - To validate through comparison with values from other EU studies

Benefit Transfer

- Recommendations

- To use best-practice (7-step) procedure:
 - Define the value(s)
 - Literature review
 - Assess the relevance of the study site values for transfer to the policy site
 - Assess the quality of the study site data
 - Select data available from the study site(s)
 - Transfer from the study site(s) to the policy site
 - Determine “market” over which value estimates are to be aggregated
- To select transfer method most appropriate to availability of study site values and findings of previous experience in value transfer related to the specific impact.

Non-monetary impacts

- Recommendations
 - Present evidence on non-monetised impacts in qualitative or quantitative terms alongside evidence on the monetised impacts.
 - Use sensitivity analysis (e.g. switching values) to help make explicit the potential importance of non-monetised impacts in the CBA.
 - Elicit decision maker's weights for non-monetised impacts vis-à-vis monetised impacts and incorporate in presentation of CBA results.

Discounting and intra-generational equity

- Recommend:
 - To adopt a common discount rate regime of 3%.
 - To adopt a declining discount rate profile for longer time periods in sensitivity analysis, where such profiles exist
 - To adopt local values for unit benefit and cost measures.
 - At minimum, to construct a winners and losers table
 - sensitivity analysis may impose income weighting regimes.
 - distributional matrices
 - Stakeholder consultation

Project appraisal evaluation period

- Recommend:
 - To adopt evaluation period of 40 years (i.e. planning and construction phase plus 40 years of operational phase).
 - To estimate residual values according to the lifetimes of the assets involved and apply a linear depreciation profile.
 - If a project compared to other projects with different opening years, a common final year for all projects should be used.
 - common final year is determined by adding 40 years to the opening year of the last project to be opened.

Decision criteria

- Recommend:
 - When only one project variant, use net present value (NPV)
 - Where no. of variants, use benefit cost ratio (BCR).
 - Where constrained public sector budget exists, use ratio of NPV and public sector support (RNPSS)
 - Where the decision relates to determining the optimal opening year of a project, use the first year rate of return (FYRR)
 - sensitivity analyses of key variables should be considered, including non-monetised impacts.

Risk and uncertainty

- Recommend:
 - To undertake sensitivity analysis for the following assumptions:
 - Discount rate;
 - Investment cost (for optimism bias);
 - Valuation of safety;
 - Value of travel time saving;
 - Growth of real GDP and of real wage rates;
 - Traffic growth.
 - Climate change costs
 - Producer surplus (when estimated)
 - To undertake Monte Carlo simulation analysis, if resources and data allow.

Indirect socio-economic effects

- Recommend:
 - qualitative assessment to provide indication of potential direction & size of additionalities.
 - Where these effects appear to be significant: use of economic model, preferably a Spatially Computable General Equilibrium (SCGE) model

Producer surplus & Marginal Costs of Public Funds

- Producer surplus
 - Recommend estimate when
 - changed traffic volumes and;
 - introduction and adjustment of transport pricing regimes, where data projections allow.
- Marginal cost of public funds
 - Recommend not to include shadow pricing
i.e. assume a marginal cost of public funds of 1

Accounting procedures

- Unit of account: Factor costs.
- Common price base year of 2002, adjusted regularly
- Appropriate price indices
- Relative price changes accounted for by adjusting specific prices on the basis of how the long run average trends in these prices differ from the long run trend in the general price level.
- Changes in the future values to be fully reflected, on the basis of national GDP growth rates or impact-specific income elasticities.
- Unit values should be expressed in base year Euro and purchasing power equivalents.
- In order to retain consistency between project appraisals, the appropriate conversions should be made in the sequence order:
 - to a common unit of account
 - to a common base year
 - to a common currency
 - to projections of future unit values

- Above recommendations are “draft final”
- Additional suggestions welcome