



Subject	Release of the NZ Transport Agency's <i>Economic evaluation manual (Volume 1), First Edition, Amendment 0</i> and the <i>Economic evaluation manual (Volume 2), First Edition, Amendment 0</i>
Circulation	All registered holders of the <i>Economic evaluation manual – Volume 1</i> All registered holders of the <i>Economic evaluation manual – Volume 2</i>
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Purpose

To advise all approved organisations of the issue the New Zealand Transport Agency's *Economic evaluation manual – Volume 1* (EEM1) and the *Economic evaluation manual – Volume 2* (EEM2), that are effective from 1 January 2010, and are to be used for activities submitted for funding consideration to the 2009/12 National Land Transport Programme (NLTP) and future programmes.

This general circular is also to inform users of the EEM1 and EEM2 of specific areas where attention is required in light of recent post implementation reviews.

Key changes to EEM1 and EEM2

The key changes to the EEM1, compared to the previous Land Transport New Zealand edition, are:

- sensitivity testing of the discount rate using 4 and 6% for comparison against the base value of 8%
- revised accident analysis procedures
- revised accident benefit values for passing lanes
- revised agglomeration elasticities
- revised cycle demand procedures
- update factors to bring parameter values to July 2009 values.

Release of NZTA edition of EEM1 and EEM2

The NZTA will not be providing hard copies. Electronic copies of the amended manual can now be accessed electronically on the NZTA website:

EEM1 <http://www.nzta.govt.nz/resources/economic-evaluation-manual/volume-1/index.html>

EEM2 <http://www.nzta.govt.nz/resources/economic-evaluation-manual/volume-2/index.html>

Economic evaluation software

The economic evaluation software is currently being updated and the new version should be available by February 2010. In the meantime, the existing EEM software (Version 5.2.6 corresponding to EEM amendment 2) can be used provided the update factors in appendix A12.3 of the EEM1 are applied.

Enquiries

If you have any enquiries about the content of the manual, please direct your correspondence to eem@nzta.govt.nz

Findings from post implementation reviews

The NZTA is required under the Land Transport Management Act 2003, to monitor and review funded activities. As a result we have identified a number of areas where improvements can be made and evaluators and funding applicants need to take note of these findings.

- 1) When applying the economic evaluation procedures, the costs of the proposed activity must be based on the current design. This requires EEM worksheets to be updated with the most up to date and accurate costs at the design and construction stages in line with section E1.4 of the NZTA *Planning, Programming and Funding Manual*. Updated worksheets must be attached to the funding application using LTP online.
- 2) Small cost differences between the do-minimum and option have a large impact on economic evaluation results and the NZTA is seeking robust justification of the cost estimates. Do-minimum costs must not be overstated; the do-minimum includes only the essential costs to preserve a minimum level of service (EEM1 section 2.8). Conversely the option costs must not be understated.
- 3) Future demand estimates must be based upon robust forecasts. In the case of road traffic growth, these need to be based on an adequate traffic count history (as defined in EEM1 section A2.7), validated transport models or the default growth rates in EEM1 table A2.5. High traffic growth rates need to be treated with caution as explained in EEM1 section A2.7.
- 4) Use of incremental BCR analysis is required when the activity scope changes. EEM1 section 2.10 explains the application of the incremental BCR. Changes to scope require approval from the NZTA Programme and Funding Managers.
- 5) Upstream and downstream benefits must be taken into account in all proposed activities regardless of size or cost. In particular we draw your attention to crash migration where road realignment or other accident treatments are proposed on sections of a road. This requires the area of impact to be selected to include adjacent bends and other road obstacles that may be approached faster as a result of a project. We draw your attention to this requirement to ensure no double counting of benefits. If an activity migrates problems further along a route then the evaluation has not been adequately scoped to cover the network effects.
- 6) As outlined in the NZTA *Planning, Programming and Funding Manual* section E5.1 approved organisations must make information available for audit purposes. This includes EEM worksheets and supporting documentation that includes assumptions made during the preparation of economic evaluation and usually contained within the Scheme Assessment Report. These are particularly necessary for post implementation reviews which can be carried out up to 10 years after completion of an activity.