

Subject	New NZTA Economic Evaluation Policies
Circulation	All registered holders of the Economic evaluation manual – Volume 1 All registered holders of the Economic evaluation manual – Volume 2 Local Authorities Local Government New Zealand
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Effective date	1 July 2013
Date of issue	17 July 2013

Purpose

To advise of changes to economic evaluation policies and guidelines contained in the NZTA Economic Evaluation Manual.

Background

The NZTA is reviewing the content and structure of the Economic Evaluation Manual (EEM), with a primary focus on the economic evaluation policies and guidelines. The last significant EEM review was seven years ago.

The intent of the review is to retain the basic policy framework of the EEM while incorporating changes to reflect current international best practice, help us better achieve our value for money objective from land transport investments, and align with our adoption of a business case approach to planning and investing decisions.

The EEM review is being carried out in two stages with the current (first) stage of the review to be completed in 2013. Stage one of the review has focused on the framework, ensuring consistency across transport modes, the use of simplified procedures, the correction of minor errors identified since the last issue of the manual, and revised wording where there has been a lack of clarity.

This stage of the review has resulted in policy changes to the discount rate, evaluation period, default traffic growth, values of travel times across modes, and inclusion of additional wider economic benefits. (Please refer to the Policy Updates section for more information about these policy changes.)

We are currently scoping the second stage of the review, which will begin shortly. Areas to be reviewed include the validity of procedures within the evolving assessment framework and the particular values used in the calculations, for example the base value of time, vehicle operating costs and crash costs.

Policy Updates

The NZTA Board agreed to key policy changes at its meeting on 5th July 2013. In summary, these policy changes are:

- A revised discount rate of 6%, along with an extended evaluation period of 40 years;
- The addition of wider economic benefits relating to imperfect competition and increased labour supply;

- Greater emphasis on a multi-modal approach to evaluation, including
 - public transport evaluation periods made consistent with other modes, and
 - equal values of travel time across modes for monetising the total value of travel time benefits;
- Discontinuing the use of default traffic growth rates. Evidence will be required to support any traffic growth assumptions.

The NZTA Board also approved a change to the 2012/15 Investment and Revenue Strategy. The strategic fit criteria will now recognise predicted crash risk in transport safety assessments as one of the components contributing to achieving a *High Strategic Fit*.

Please see the Appendix for more detail on these policy changes.

Timing for Policy Implementation

The updated economic evaluation policies and procedures take effect from 1 July 2013 and will apply to all proposals for the 2015-18 NLTP and may be used for any new proposals in the current 2012-15 NLTP.

For any new proposals in the current 2012-15 NLTP i.e. all existing unapproved projects or project phases included in this NLTP, you will be able to choose to apply in full *either*:

- the existing EEM policies, **or**
- the new policies and procedures outlined above that will be released in the updated manual.

Although we prefer that the new policies come into immediate effect, we recognise compliance costs need to be a key determinant of whether the new policy is applied for proposals in the current NLTP period.

Release of, and Engagement on, the Updated EEM

The updated EEM document will be released for use by our stakeholders in September 2013. The EEM will only be released in electronic (PDF) format and will be available via the NZTA website.

Engagement with stakeholders on the EEM will be through a combination of workshops and written feedback.

- From September 2013 the EEM will be available via our website, along with a form that stakeholders can use to provide feedback directly to our EEM Review project team.
- Following this release, we will also hold a series of Learning Workshops with stakeholders to highlight the changes and how they apply to real-world examples to ensure good practice.

Regional Contact

Please contact your Planning and Investment representative for further information or assistance in implementing these changes into your programme.

You can also find more detailed information on the EEM Review, the policy changes and our upcoming engagement process on [our website](#).



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APPENDIX: Expected Benefits of the Updated Policies and Guidelines

The following outlines the expected benefits from the policy changes:

- *Discount rate/evaluation period* – The discount rate used in the Economic Evaluation Manual is being revised to 6% p.a. and the evaluation period is being extended to 40 years. A discount rate of 6% reflects best practice by other jurisdictions that, like New Zealand, apply the SOC methodology, and is within the range of rates used by these countries. When combined with an appropriate evaluation period of 40 years, this rate provides our decision-making with robustness, responsiveness to long term needs, and greater resilience to handling future uncertainty.
- *Monetising additional wider economic benefits* – New methodologies are being included within the EEM to calculate the wider economic benefits relating to imperfect competition and increased labour supply.
- *Greater emphasis on a multi-modal approach to evaluation* –
 - We have applied equal value of travel time across all modes in order to achieve equal modal treatment for monetising total travel time benefits with the same travel purposes. This adjustment will emphasise those projects that have enduring benefits over time. For some activity classes such as maintenance or emergency works, the change will have limited or no effect. However, for new investments in roading and public transport, the longer lifespan of these activities will be more fully considered for their effect on economic growth and productivity.
 - We have revised the evaluation period for public transport service investments up to 40 years to allow a more consistent, whole-of-network approach to multimodal assessments, ensuring investments in public transport are treated as an integral part of the transport network.
- *Discontinuation of a default traffic growth rate (travel demand predictions)* – The current ‘default’ travel growth rates (1–3%) generally do not accurately reflect the current situation in New Zealand and we are discontinuing these. Funding applications will therefore be required to provide evidence that any assumption of the future growth is realistic.
- *Greater focus on predicted crash risk in transport safety assessments in the strategic fit assessment* – The NZTA Board approved a change to the 2012/15 Investment and Revenue Strategy so that predicted crash risk will now be consistently taken into account when prioritising investment proposals in the strategic fit criteria.

Better crash risk prediction models are now available (the high-risk rural roads guide and the high-risk intersections guide) that provide for a better assessment of future crash risk in the strategic fit assessment. We continue to support the use of prediction models within the EEM and with the changes to strategic fit, anticipate a net improvement in returns on investment in proposals with better estimation of future crash risk rather than relying on historical crash risk.