



Contract No. FP6-2002-SSP-1/502481

HEATCO

Developing Harmonised European Approaches for Transport Costing and Project Assessment

Specific Support Action

PRIORITY SSP 3.2: The development of tools, indicators and operational parameters for assessing sustainable transport and energy systems performance (economic, environmental and social)

Deliverable 5 Proposal for Harmonised Guidelines

Due date of deliverable: 15 December 2005

Actual submission date: February 2006

Start date of project: 29 February 2004

Duration: 27 months

Lead contractor for this deliverable: IER, Germany

Second revision

HEATCO Deliverable 5

Proposal for Harmonised Guidelines

Peter Bickel
Rainer Friedrich
Arnaud Burgess
Patrizia Fagiani
Alistair Hunt
Gerard De Jong
James Laird
Christoph Lieb
Gunnar Lindberg
Peter Mackie
Stale Navrud
Thomas Odgaard
Andrea Ricci
Jeremy Shires
Lori Tavasszy

With contribution from partners.

Contents

0	Summary	S1
0.1	Introduction	S1
0.2	General issues	S2
0.3	Value of time and congestion	S4
0.3.1	Valuation Methodology	S4
0.3.2	VTTS values	S4
0.3.3	Treatment of Congestion	S5
0.3.4	Treatment of Uncertainty in VTTS values	S7
0.3.5	Implementation of VTTS Guidelines	S7
0.4	Value of changes in accident risks	S14
0.5	Environmental costs	S17
0.5.1	Air pollution	S17
0.5.2	Noise	S22
0.5.3	Global warming	S25
0.5.4	Other effects	S26
0.6	Costs and indirect costs of infrastructure investment	S26
0.6.1	Capital costs of the infrastructure investment	S27
0.6.2	Residual value	S27
0.6.3	Optimism-bias	S28
0.6.4	"Costs of maintenance, operation and administration" and "Changes in infrastructure costs on existing network"	S29
0.7	Vehicle operating costs	S32
1	Introduction	1
1.1	Transport appraisal	1
1.2	Transport appraisal within the policy process	3
1.3	The HEATCO guidelines and other supra-national guidelines at a EU level	3
1.4	The structure of these guidelines	7
2	Transport Cost Benefit Analysis	9
2.1	Overview	9
2.2	Scope of CBA	11
2.3	Definition of alternatives	11
2.4	Transport User Benefits	12
2.5	Impacts on Transport Providers and Government	13
2.5.1	Producer surplus	13
2.5.2	Investment costs	15
2.5.3	Maintenance and system operating costs	16

2.5.4	Taxation and government revenue effects	16
2.6	Safety benefits	17
2.7	Impacts on the Environment	17
2.8	Cost Benefit Analysis Parameters	18
2.9	Risk and Uncertainty	18
2.10	Reporting the Cost Benefit Analysis	19
3	General Issues	21
3.1	Non-market valuation techniques	21
3.1.1	Definitions	21
3.1.2	Purpose/role in project appraisal	22
3.1.3	Existing practice at EC and national levels	22
3.1.4	Best practice	22
3.1.5	Recommendations	24
3.2	Value Transfer	25
3.2.1	Definitions	25
3.2.2	Purpose/role in project appraisal	25
3.2.3	Existing practice at EC and national levels	26
3.2.4	Best practice	26
3.2.5	Recommendations	27
3.3	Treatment of non-monetised impacts	27
3.3.1	Definitions	27
3.3.2	Purpose/role in project appraisal	28
3.3.3	Best practice	28
3.3.4	Recommendations	28
3.4	Discounting and intra-generational equity issues	29
3.4.1	Definitions	29
3.4.2	Purpose/role in project appraisal	29
3.4.3	Existing practice at EC and national levels	30
3.4.4	Best practice	31
3.4.5	Recommendations	33
3.5	The project appraisal evaluation period	38
3.5.1	Definitions	38
3.5.2	Purpose/role in project appraisal	38
3.5.3	Existing practice at EC and national levels	38
3.5.4	Best practice	38
3.5.5	Recommendations	39
3.6	Decision criteria	39
3.6.1	Definitions	39

3.6.2	Purpose/role in project appraisal	40
3.6.3	Existing practice at EC and national levels	40
3.6.4	Best practice	40
3.6.5	Recommendations	44
3.7	Treatment of future risk and uncertainty	45
3.7.1	Definitions	45
3.7.2	Purpose/role in project appraisal	45
3.7.3	Existing practice at EC and national levels	45
3.7.4	Best practice	45
3.7.5	Recommendations	47
3.8	The Marginal Costs of Public Funds	47
3.8.1	Definitions	47
3.8.2	Existing practice at EC and national levels	47
3.8.3	Best practice	48
3.8.4	Recommendations	48
3.9	Producer Surplus of Transport Providers	49
3.9.1	Definitions	49
3.9.2	Existing and Best practice	49
3.9.3	Recommendations	49
3.10	Treatment of indirect socio-economic effects in European guidelines for transport appraisal	50
3.10.1	Definitions	50
3.10.2	Existing practice at EC and national levels	50
3.10.3	Best practice	51
3.10.4	Recommendations	51
3.11	Recommended Accounting procedures	52
3.12	Up-dating of values	52
4	Value of Time and Congestion	53
4.1	Purpose/role in project appraisal	53
4.2	Definition	53
4.3	Valuation Methodology	53
4.4	VTTS values	55
4.4.1	Disaggregation	55
4.4.2	Variation of Passenger VTTS with income	57
4.4.3	Variation of Passenger VTTS with journey length	59
4.4.4	Variation of Passenger VTTS by journey purpose	59
4.4.5	Variation of Passenger VTTS by mode, walking, waiting, interchange and service frequency.	60

4.4.6	Variation of Commercial Goods Traffic VTTS	61
4.4.7	Size and sign of time savings	62
4.4.8	Treatment of values of travel time savings over time	63
4.4.9	Uncertainty in the VTTS value	64
4.5	Treatment of congestion	65
4.5.1	Reliability	66
4.5.2	Public transport overcrowding	68
4.5.3	Quality of travel experience	69
4.6	Implementation of VTTS Guidelines	70
4.6.1	Deriving VTTS for use in an appraisal	70
4.6.2	VTTS data requirements	78
4.6.3	VTTS in modelling and appraisal	80
4.6.4	Reporting and equity	80
5	Value of Changes in Accident Risks	81
5.1	Purpose/role in project appraisal	81
5.2	General Approach	81
5.2.1	Accident impacts considered	82
5.2.2	Estimating accident risks	82
5.2.3	Valuing accident costs	84
5.2.4	Recommended values	87
5.2.5	Treatment of values over time	89
5.2.6	Calculation procedure	90
6	Environmental Costs	91
6.1	Purpose/role in project appraisal	91
6.2	General Valuation Methodology	91
6.3	Air pollution	94
6.3.1	Derivation of impact and cost factors per unit pollutant emitted	95
6.3.2	Treatment of values over time	102
6.3.3	Calculation procedure	103
6.4	Noise	103
6.4.1	Noise impact assessment	104
6.4.2	Monetary Valuation	105
6.4.3	Treatment of values over time	115
6.4.4	Calculation procedure	115
6.5	Global warming	115
6.5.1	General approach	115
6.5.2	Monetary values	116
6.5.3	Treatment of values over time	117

6.5.4	Calculation procedure	117
6.6	Other effects	118
7	Costs and Indirect Costs of Infrastructure Investment	119
7.1	Introduction	119
7.2	Whole life costing	119
7.3	Capital costs of the infrastructure investment	120
7.4	Residual value	123
7.4.1	Justification/motivation	123
7.4.2	Recommendation	123
7.5	Optimism-bias	125
7.5.1	Justification/motivation	125
7.5.2	Recommendation	126
7.6	"Costs of maintenance, operation and administration" and "Changes in infrastructure costs on existing network"	129
7.6.1	Justification/motivation	130
7.6.2	Recommendation	130
8	Vehicle Operating Costs	135
8.1	Purpose/role in project appraisal	135
8.2	Definition	135
8.3	Valuation Methodology	136
8.3.1	Core Issues	136
8.3.2	Road vehicle operating costs	137
8.3.3	Train operating costs	137
8.3.4	Ship and aircraft operating costs	138
8.4	Implementation of vehicle operating cost guidelines	138
8.4.1	Deriving vehicle operating costs for use in an appraisal	138
8.4.2	Vehicle operating cost data requirements	139
9	References	141
	Overview of Annexes	149

List of Tables

Table 0.1	Recommended valuation methodologies.	4
Table 0.2	Reliability ratios (Source: Hamer <i>et al.</i> (2005), Kouwenhoven <i>et al.</i> (2005a)).	6
Table 0.3	Estimated VTTS values – work (business) passenger trips (€ ₂₀₀₂ per passenger per hour, factor prices)	9
Table 0.4	Estimated VTTS values – non-work passenger trips (€ ₂₀₀₂ per passenger per hour, factor prices)	10
Table 0.5	Estimated VTTS values – freight trips (€ ₂₀₀₂ per freight tonne per hour, factor prices)	11
Table 0.6	Estimated VTTS values – work (business) passenger trips (€ ₂₀₀₂ PPP per passenger per hour, factor prices)	12
Table 0.7	Estimated VTTS values – non-work passenger trips (€ ₂₀₀₂ PPP per passenger per hour, factor prices)	13
Table 0.8	Estimated VTTS values – freight trips (€ ₂₀₀₂ PPP per freight tonne per hour, factor prices)	14
Table 0.9	Recommendation for European average correction factors for unreported road accidents.	15
Table 0.10	Estimated values for casualties avoided.	16
Table 0.11	Cost factors for road transport emissions* per tonne of pollutant emitted in € ₂₀₀₂ (factor prices).	19
Table 0.12	Cost factors for road transport emissions* per tonne of pollutant emitted in € ₂₀₀₂ PPP (factor prices).	20
Table 0.13	Impact factors for road transport emissions* (lost life expectancy in years of life lost per 1000 tonnes of pollutant emitted).	21
Table 0.14	Cost factors for noise exposure for Finland (€ ₂₀₀₂ , factor costs, per year per person exposed; to derive € ₂₀₀₂ PPP the values below are divided by the Finish PPP adjustment factor of 1.12). For values for all countries see main text.	23
Table 0.15	Impact indicator for noise exposure: percentage of adult persons highly annoyed per person (all ages) exposed – based on functions given in European Commission (2002), assuming 80% of population are adults.	24
Table 0.16	Shadow prices based on Watkiss <i>et al.</i> (2005b), converted from £2000/t C to € ₂₀₀₂ (factor prices) per tonne of CO ₂ equivalent emitted – no PPP adjustment necessary as values are not country specific.	26
Table 0.17	Lifetimes by mode and group of components (road and rail).	28
Table 0.18	Applicable capital expenditure uplift (average cost escalation)	29
Table 0.19	Classification of cost categories into short run fixed costs and short run variable costs - Road and rail.	30
Table 0.20	Possible allocation factors for the allocation of variable costs to cost drivers.	31
Table 1.1	DG Regional Policy Guidelines, TINA, RAILPAG, HEATCO: a comparative overview.	5
Table 3.1	Example Distributional Matrix for a Transport Project Appraisal.	32
Table 3.2	Net present value (NPV) versus benefit cost ratio (BCR)	41
Table 3.3	The labelling of noise as costs or benefits determines the ranking list	41
Table 4.1	Recommended valuation methodologies.	54
Table 4.2	Recommended level of disaggregation for travel time savings.	57
Table 4.3	Reliability ratios.	67
Table 4.4	Approximating the underlying willingness-to-pay of traffic on the TEN-T.	71
Table 4.5	Recommended source for deriving passenger VTTS (based on 2004 survey of EU member states appraisal methodology).	72
Table 4.6	Estimated VTTS values – work (business) passenger trips (€ ₂₀₀₂ per passenger per hour, factor prices)	73

Table 4.7	Estimated VTTS values – non-work passenger trips (€ ₂₀₀₂ per passenger per hour, factor prices)	74
Table 4.8	Estimated VTTS values – freight trips (€ ₂₀₀₂ per freight tonne per hour, factor prices)	75
Table 4.9	Estimated VTTS values – work (business) passenger trips (€ ₂₀₀₂ PPP per passenger per hour, factor prices)	76
Table 4.10	Estimated VTTS values – non-work passenger trips (€ ₂₀₀₂ PPP per passenger per hour, factor prices)	77
Table 4.11	Estimated VTTS values – freight trips (€ ₂₀₀₂ PPP per freight tonne per hour, factor prices)	78
Table 4.12	Use of local data or benefit transfer procedures.	79
Table 5.1	Recommendation for European average correction factors for unreported road accidents.	83
Table 5.2	Estimated values for casualties avoided (€ ₂₀₀₂ , factor prices).	88
Table 5.3	Estimated values for casualties avoided (€ ₂₀₀₂ PPP, factor prices).	89
Table 6.1	Health and environmental effects for which exposure-response functions are established (source: European Commission, 2005).	95
Table 6.2	Cost factors for road transport emissions* per tonne of pollutant emitted in € ₂₀₀₂ (factor prices).	97
Table 6.3	Cost factors for road transport emissions* per tonne of pollutant emitted in € ₂₀₀₂ PPS (factor prices).	98
Table 6.4	Cost factors for electricity production emissions* per ton of pollutant emitted in € ₂₀₀₂ (factor prices).	99
Table 6.5	Cost factors for electricity production emissions* per ton of pollutant emitted in € ₂₀₀₂ PPS (factor prices).	100
Table 6.6	Impact factors for road transport emissions* (lost life expectancy in years of life lost per 1000 tonnes of pollutant emitted).	101
Table 6.7	Impact factors for electricity production emissions* (lost life expectancy in years of life lost per 1000 tonnes of pollutant emitted).	102
Table 6.8	Categorisation of effects and related impact categories (source: De Kluizenaar et al., 2001).	104
Table 6.9	Cost factors (Central values) for noise exposure (€ ₂₀₀₂ , factor costs, per year per person exposed). High values and results for the new approach see Annex E.	106
Table 6.10	Cost factors (Central values) for noise exposure (€ ₂₀₀₂ PPP, factor costs, per year per person exposed). High values and results for the new approach see Annex E.	110
Table 6.11	Impact indicator for noise exposure: percentage of adult persons highly annoyed per person (all ages) exposed – based on functions in European Commission (2002), assuming 80% of population are adults.	114
Table 6.12	Shadow prices based on Watkiss et al. (2005b), converted from £ ₂₀₀₀ /t C to € ₂₀₀₂ (factor prices) per tonne of CO ₂ equivalent emitted.	117
Table 7.1	Lifetimes in years by mode and group of components (road and rail).	124
Table 7.2	Example 1: "No re-investments" (million €)	125
Table 7.3	Example 2: "Re-investments" (million €)	125
Table 7.4	Ideas to reduce uncertainty/cures to optimism-bias.	126
Table 7.5	Applicable capital expenditure uplift (average cost escalation)	128
Table 7.6	Classification of cost categories into short run fixed costs and short run variable costs - road and rail.	131
Table 7.7	Possible allocation factors for the allocation of variable costs to cost drivers.	132
Table 8.1	Approximating the underlying resource costs for operating vehicles on the TEN-T.	140

List of Figures

Figure 6.1	The Impact Pathway Approach for the quantification of environmental costs.	92
Figure 7.1	Whole life costing approach	120
Figure 7.2	Definition of optimism-bias uplifts within a certain class. Source: Based on the British Department for Transport (2004b, page 11)	128

Abbreviations

ATOC	Association of Train Operating Companies
BCR	Benefit-Cost Ratio
CBA	Cost Benefit Assessment
EIA	Environmental Impact Assessment
ESA	Equivalent standard axles
FYRR	First Year Rate of Return
GWP	Global Warming Potential
HGV	Heavy Goods Vehicle
IFI	International financing institution
IPA	Impact Pathway Approach
IRR	Internal Rate of Return
IVT	In Vehicle Time
LGV	Light Goods Vehicle
MS	Member States
NPV	Net Present Value
PDFH	Passenger Demand Forecasting Handbook (UK)
PPP	Purchasing Power Parity
PVB	Present Value of Benefits
PVC	Present Value of Costs
RNPSS	Ratio of NPV and Public Sector Support
VOC	Vehicle Operating Costs
VSL	Value of a Statistical Life
VTTS	Value of Travel Time Savings
WTP	Willingness to Pay
YOLL	Years of Life Lost

0 Summary

0.1 Introduction

The objective of this document is to propose harmonised guidelines for project assessment for trans-national projects in Europe. This includes the provision of a consistent framework for monetary valuation based on the principles of welfare economics, contributing in the long run to consistency with transport costing. These guidelines have been developed within the EC funded research project HEATCO, based on latest research results on the different aspects of transport project appraisal and on an analysis of existing practice in the EU countries and Switzerland.

The review of existing practice documented in Odgaard et al. (2005) and further analysed in Bickel et al. (2005a) has shown considerable variation. In the context of selecting and financially supporting TEN-T projects, the need for consistent appraisal methodology arises. Thus, a consistent methodological framework for project appraisal has been developed and is described here. Apart from being used for TEN-T projects, it might also be used for other trans-national projects to ensure consistency across borders and the application of the state of the art methods. It is not the intention of HEATCO's proposal for harmonised guidelines to stipulate methods and values for national projects, however in the long run these guidelines might help to achieve a more harmonised approach also for national appraisal methods.

This summary gives an overview of the recommendations for harmonised guidelines for infrastructure project appraisal covering the following elements:

- General issues (incl. non-market valuation techniques, benefit transfer, treatment of non-monetised impacts, discounting and intra-generational equity issues, decision criteria, the project appraisal evaluation period, treatment of future risk and uncertainty, the marginal costs of public funds, producer surplus of transport providers, the treatment of indirect socio-economic effects),
- Value of time and congestion (incl. business passenger traffic, non-work passenger traffic, commercial goods traffic time savings and treatment of congestion, unexpected delays and reliability),
- Value of changes in accident risks (incl. accident impacts considered, estimating accident risks, valuing accident costs),
- Environmental costs (incl. air pollution, noise, global warming),
- Costs and indirect impacts of infrastructure investments (incl. capital costs for project implementation, costs for maintenance, operation and administration, changes in infrastructure costs on existing networks, optimism bias, residual value).

Country-specific fall-back values are suggested for application in cases where no state-of-the-art national values are available for valuation of

- time and congestion,
- accident casualties,
- damage due to air pollution, noise and global warming.

0.2 General issues

When carrying out a Cost-Benefit Analysis (CBA), we recommend the following 15 general principles:

1. Appraisal as a comparative tool. To estimate the costs and benefits of a project, one has to compare costs and benefits between two scenarios: the ‘Do-Something’ scenario, where the project under assessment is realised, and a ‘Do-Minimum’ scenario, which needs to be a realistic base case describing the future development. If there are several project alternatives, one has to create a scenario for each alternative and compare them with the ‘Do-minimum case’.
2. Decision criteria. We recommend the use of NPV (net present value) to determine, whether a project is beneficial or not. In addition, depending on the decision-making context respectively the question to be addressed, BCR (benefit cost ratio) and RNPSS (ratio of NPV and public sector support) decision rules could be used.
3. The project appraisal evaluation period. We recommend the use of a 40 year appraisal period, with residual effects being included, as a default evaluation period. Projects with a shorter lifetime should, however, use their actual length. For the comparison of potential future projects, a common final year should be determined by adding 40 years to the opening year of the last project.
4. Treatment of future risk and uncertainty. For the assessment of (non-probabilistic) uncertainty, we consider a sensitivity analysis or scenario technique as appropriate. If resources and data are available for probabilistic analysis, Monte Carlo simulation analysis can be undertaken.
5. Discounting. It is recommended to adopt the risk premium-free rate or weighted average of the rates currently used in national transport project appraisals in the countries in which the TEN-T project is to be located. The rates should be weighted with the proportion of total project finance contributed by the country concerned. In lower-bound sensitivity analyses, in order to reflect current estimates of the social time preference rate, a common discount rate of 3% should be utilised. For damage occurring beyond the 40 year appraisal period (intergenerational impacts), e.g. for climate change impacts, a declining discount rate system is recommended.
6. Intra-generational equity issues. We recommend, at minimum, that a “winners and losers” table should be developed, and presented alongside the results of the monetised CBA. Distributional matrices for alternative projects might be created and compared amongst each other. Additionally stakeholder analyses should be undertaken as well. It is recommended to use local values to assess unit benefit and cost measures.
7. Non-market valuation techniques. If impacts in transport project appraisals cannot be expressed in market prices, but are potentially significant in the overall appraisal, we recommend that – in the absence of robust transfer values – non-market techniques to estimate monetary values should be considered. We recommend that the choice of technique used to value individual impacts should be dictated by the type of impact and the nature of the project. However, Willingness to Pay (WTP) measures is preferable to cost-based measures. Values should be validated against existing European estimates.
8. Value Transfer. Value transfer means the use of economic impact estimates from previous studies to value similar impacts in the present appraisal context. Value transfers can be used when insufficient resources for new primary studies are available. The decision as to

whether to use unit transfers with income adjustments, value function transfer and/or meta-analyses will depend on the availability of existing values and experience to date with value transfers related to the impact in question.

9. Treatment of non-monetised impacts. We recommend, at a minimum, that if impacts cannot be expressed in monetary terms, they should be presented in qualitative or quantitative terms in addition to evidence on monetised impacts. If only a small number of non-monetised impacts can be assessed, sensitivity analysis may be used to indicate their potential importance. Alternatively, non-monetised impacts may also be included directly in the decision-making process by explicitly eliciting decision maker's weights for them vis-à-vis monetised impacts.
10. Treatment of indirect socio-economic effects. We recommend that if indirect effects are likely to be significant, an economic model, preferably a Spatially Computable General Equilibrium (SCGE) model, should be used. Qualitative assessment is recommended, if indirect effects cannot be modelled due to limited resources (high costs for the use of advanced modelling), insufficient availability of data, or lack of appropriate quantitative models or unreliable results.
11. Marginal Cost of Public Funds. Our recommendation is to assume a marginal cost of public funds of 1, i.e. not to use any additional cost (shadow price) for public funds. Instead, a cut-off value for the RNPSS of 1.5 should be used when relevant.
12. Producer Surplus of Transport Providers. We recommend to estimate (changes in) the producer surplus generated by changed traffic volumes or by the introduction and adjustment of transport pricing regimes.
13. Accounting procedures. a) Factor costs should be the adopted unit of account. This requires measures expressed in market prices - which include indirect taxes and subsidies – to be converted to factor costs. b) We recommend to convert all monetary values into € with a price level for a fixed year. In this report, monetary values are given as €₂₀₀₂, i.e. with 2002 as base year. However, the monetary values should be adjusted with the Purchasing Power Parity (PPP) as explained in Annex B, which also contains a table with PPP adjustment factors. However, these factors are only available for past years, whilst future PPP factors are likely to change as the economic growth rates differ amongst countries. As we assume, that income and prices grow faster in Member States with currently low income, PPP factors will tend to converge closer to 1 in the future. Therefore, we recommend that two calculations are made – one with and one without PPP adjustment – assuming that the true value will lie between the two results. c) Monetary values, i.e. preferences, for non-market goods like reduced risk of getting ill or reduced damage to the environment will increase with increasing income; thus we recommend increasing monetary values based on GDP growth – a table with possible country-specific GDP growth is given in Annex B.
14. Up-dating of values. The unit values supplied in this report represent the state-of-the-art for the individual impacts addressed. Nevertheless, all values will be subject to change as new empirical evidence becomes available and methodological developments take place. As a consequence, we recommend that values are reviewed and up-dated on a regular basis e.g. after three years at maximum.
15. Presentation of results. As far as possible, impacts should be expressed in both physical and monetary terms. The results of the sensitivity analysis and the non-monetised impacts should be reported together with the central monetised results.

0.3 Value of time and congestion

0.3.1 Valuation Methodology

The underlying principle in the VTTS (value of travel time savings) guidelines is that local values should be used wherever possible, provided that they have been developed using an appropriate methodology. If no such local values exist then ‘default’ or ‘fallback’ values derived from international meta-analyses of value of time studies should be used. These fallback values are set out in Table 0.3, Table 0.4 and Table 0.5.

Economic theory suggests that different methods of valuation for VTTS should be used for passenger trips during work, that is to say on employer’s business, for passenger-non-work trips, that is for commuting, shopping and leisure purposes, and for commercial goods traffic. As set out in Table 0.1 for each of these purposes we recommend a minimum acceptable methodology for the valuation of time savings. The cost saving approach for employer’s business and commercial traffic is based on a theoretical argument regarding the marginal productivity of labour. Such an approach assumes no utility impact on the worker and that all travel time savings can be transferred to productive output. The more sophisticated Hensher approach (Hensher, 1977) allows for the fact that not all travel time is unproductive and not all savings are transferred to extra work. Willingness-to-pay surveys are based on either the revealed or stated preferences of individuals.

Table 0.1 Recommended valuation methodologies.

Trip Purpose	Minimum approach¹	More sophisticated approach
Passenger – work	Cost saving	Hensher approach
Passenger – non-work	Willingness-to-pay	
Commercial Goods traffic	Cost saving	Willingness-to-pay

¹ In the absence of sufficient resources to survey VTTS using the minimum approach the mathematical relationships derived from the HEATCO VTTS meta-analysis should be used.

0.3.2 VTTS values

Disaggregation

At a minimum, VTTS values should be disaggregated between passenger-work, passenger-non-work and commercial goods traffic. This is recommended because different valuation methods are used to calculate VTTS values for each of these purposes. Furthermore, due to the very different functions served by the various transport modes when transporting freight, commercial goods traffic should be disaggregated by mode at a minimum. For more sophisticated appraisals passenger VTTS could be disaggregated by mode and/or distance. A more data intensive and refined level of disaggregation would be to disaggregate by trip purpose, income, journey length and modal comfort. Disaggregation by income is strongly recommended for major infrastructure projects or projects that involve some form of user charging (tolled motorways, high speed rail, etc.). In such cases, consistency between values used in demand modelling and appraisal is required.

Walk, wait and interchange

In the absence of local data on travel time savings for walking, waiting and interchange, in-vehicle time should be weighted in order to reflect the additional willingness-to-pay for time savings. In-vehicle time should be weighted by 2 for walking time and 2.5 for waiting and interchange (or transfer) time.

Average waiting times for public transport services will vary systematically with the headway of the services. At high frequencies passengers arrive at random and the average idle time is half the headway. It is recommended that the modelling exercise explicitly models average waiting periods associated with the different service frequencies, and this time should be included in the appraisal weighted with a factor of 2.5. At lower frequencies arrival rates are not at random and average waiting times do not fully capture all the costs or benefits of a change in frequency. More complex appraisals may consider surveying values for these disbenefits which are often termed 'inconvenience' or 'scheduling' cost.

Sophisticated techniques exist for modelling and valuing the impact of travel times on many of the attributes associated with public transport (e.g. provision of information, seating whilst waiting, etc.). If the impact of such measures are to be modelled and valued the practitioner is referred to country appraisal manuals such as the Passenger Demand Forecasting Handbook (PDFH) in the UK (ATOC, 2002). It is outside the scope of these guidelines to provide such detailed advice.

Treatment of small time savings and sign of time saving

We recommend that a constant unit value for VTTS (i.e. per hour, per minute, per second) should be applied irrespective of the size or algebraic sign of the time saving. However, given the potential for errors in the measurement of small time savings within a transport model, we recommend that the proportion of the economic benefits derived from time savings attributable to small time savings (less than 3 minutes) is assessed.

Treatment of VTTS over time

For the estimation of future values of VTTS, we recommend to adjust the VTTS using an adjusted per capital growth rate of GDP. For the adjustment - in the absence of local data - a default inter-temporal elasticity to GDP per capita growth of 0.7 is recommended, with a sensitivity test at 1.0 (for all passenger travel purposes, work and non-work and also for commercial goods traffic).

0.3.3 Treatment of Congestion

Congestion can affect the performance and quality of the transport system in a number of ways: increased travel times; overcrowding in public transport; deterioration of the 'driving experience' with stop-start conditions; and reliability problems. The understanding is limited of people's preferences and the ability to model the effects brought about by a change in the transport system on many of these characteristics (except for increased average travel times). The technical challenge posed by modelling changes in reliability with existing methods and software cannot be overstated. At least a modelling system with a representation of space and time is required - congestion usually only affects certain parts of the transport network at

certain times of the day. The detailed representation of space and time within a modelling system can sometimes be at odds with the modelling simplifications necessary to analyse long distance (cross-European) trips that would be associated with the TEN-T.

Given the ready availability of data and tools to model the impacts of congestion it is felt that an appraisal should at least include changes in average travel times as a consequence of changing levels of congestion. More sophisticated appraisals, however, should consider the other impacts of congestion if data allow for.

Broadly speaking, there are two mutually exclusive approaches to modelling and appraising the reliability and quality impacts of congestion:

- Bottom-up approach- where each of the impacts is modelled separately. With this approach we recommend using:
 - Reliability: the standard deviation of the travel time can be used as the definition of reliability. Table 0.2 sets out the reliability ratios, which we recommend using in the absence of local data.
 - Quality: For public transport we recommend that a value of 1.5 times that of standard in-vehicle-time is used for passengers on public transport who have to stand in overcrowded conditions. There is insufficient evidence on the individual components that comprise quality of the driving experience in congested conditions to make a recommendation on such values.
- Top-down approach – where an aggregate transport indicator is used to reflect a variety of reliability and quality conditions. Within this approach we recommend using:
 - Road: if the volume to capacity ratio for a link is in excess of 1.0 then travel time could be valued at 1.5 times standard in-vehicle-time. Such a value represents a conflation of reliability and quality impacts.
 - Public transport: an alternative to explicitly modelling public transport reliability is to value average ‘delay’ or ‘lateness’ of services. In this situation we recommend using a VTTS value that is equivalent to that of waiting time (i.e. 2.5 times in-vehicle-time). Quality impacts associated with overcrowding are additional effects and therefore can also be included in the appraisal if this approach is adopted.

Table 0.2 Reliability ratios (Source: Hamer *et al.* (2005), Kouwenhoven *et al.* (2005a)).

Journey purpose	Mode	Reliability ratio*
Commuting (passenger)	Car	0.8
Business (passenger)	Car	0.8
Other (passenger)	Car	0.8
All (passenger)	Train	1.4
All (passenger)	Bus/tram/metro	1.4
Commercial Goods Traffic	Road	1.2

*The reliability ratio is the ratio of the value of one minute of standard deviation (i.e. value of reliability) to the value of one minute of average travel time.

There is little data on the value of congested conditions in airports, in train stations, on board airplanes and on board ships. If such conditions are considered important to the appraisal, it is recommended that local values are surveyed as part of the study.

0.3.4 Treatment of Uncertainty in VTTS values

Section 1.2 above identifies the recommendations for managing risk and uncertainty in an appraisal. As part of that analysis a number of sensitivity tests need to be undertaken. The following sensitivity tests for VTTS are recommended:

- VTTS values
 - *Local willingness-to-pay survey*: if VTTS values for the appraisal are derived from a local willingness-to-pay survey, then the appraisal results should be sensitivity tested to the upper and lower limits of the 95% confidence interval of the local VTTS values or +/- 10% whichever is larger.
 - *National VTTS values*: if the appraisal is conducted using values set out in the national appraisal guidance then the appraisal results should be sensitivity tested using values +/-20% of national VTTS values.
 - *Benefit transfer*: if the VTTS values have been derived from some form of benefit transfer procedure – such as the HEATCO meta-analysis – we recommend sensitivity testing the appraisal using values +/-40% of the benefit transfer values.
- Treatment of VTTS over time: uncertainty regarding the elasticity of GDP/capita growth implies that growth in VTTS over time should be sensitivity tested to elasticity to GDP/capita growth of 1.0.
- Small time savings: given the potential for errors in the measurement of small time savings within a transport model, the appraisal should be sensitivity tested by excluding time savings (positive and negative) below 3 minutes.

0.3.5 Implementation of VTTS Guidelines

The underlying principle regarding the implementation of the above guidelines is that values of travel time savings used in an appraisal should:

- (i) be developed according to the minimum standards set out above; and
- (ii) reflect the underlying willingness-to-pay (WTP) of the users of the transport network in the vicinity of the scheme and on the parts of the transport network(s) affected by the scheme.

The implication of this is that users of the transport system should be allocated a willingness-to-pay that reflects incomes, journey lengths and trip purposes. This may result in attributing national VTTS values. Obviously a trade-off exists between sophistication and the practicality of implementing a sophisticated approach in any particular country. Additionally, the effort which the analyst endures to obtain values that represent the underlying willingness-to-pay should also reflect the scale of the scheme: Obviously greater efforts should be made for large schemes with significant capital costs than for small schemes, where reasonable approximations to the underlying WTP maybe made. Some EU countries have well developed appraisal frameworks with large quantities of data available to the analyst whilst others do

not. In the latter situations it is unrealistic to expect scheme promoters to survey all the relevant data, therefore some values may have to be approximated and some may have to be imported from elsewhere. Appropriate assumptions will also have to be made in order to approximate the VTTS if the nationality or origins and destinations of traffic are unknown.

The calculation of the economic benefits associated with travel time savings is very straightforward. In essence it is the product of the five items of data:

- (i) **Demand** - the number of passengers/vehicles/goods traffic making a particular origin-destination trip in the Scenario “Do Minimum” (D_0) and in the Scenario “Do Something” (D_1);
- (ii) **Time saving** – the time saving experienced by the users making that particular origin-destination trip (T_0-T_1); and
- (iii) **VTTS** – the value of the travel time saving (for that segment of traffic)

The travel time saving element of the consumer surplus for that origin-destination trip is calculated using the rule of a half (see Chapter 4):

$$\frac{1}{2}(D_0+D_1)*(T_0-T_1)*VTTS$$

The total user benefit from travel time savings is the sum of all time saving related consumer surpluses for all origin-destination movements.

Some vehicle operating cost models for commercial goods vehicles and business traffic include the time elements of the journey (e.g. driver and crew wages). Care should be taken in such situations to avoid double counting this component in both time and vehicle operating cost benefits, both in modelling and appraisal.

It is our recommendation that modelling and appraisal values should reflect the same underlying willingness-to-pay of the transport users and should only differ in their unit of account. Basing values of time within an appraisal on underlying willingness-to-pay has implications for the equitable treatment of people with different incomes within the appraisal framework. It is therefore recommended that the analyst in addition to reporting the aggregate monetised travel time savings benefits also reports the absolute time savings and the income brackets of the users to whom they accrue.

Table 0.3 Estimated VTTS values – work (business) passenger trips (€₂₀₀₂ per passenger per hour, factor prices)

Country	Business		
	Air	Bus	Car, Train
Austria	39.11	22.79	28.40
Belgium	37.79	22.03	27.44
Cyprus	29.04	16.92	21.08
Czech Republic	19.65	11.45	14.27
Denmark	43.43	25.31	31.54
Estonia	17.66	10.30	12.82
Finland	38.77	22.59	28.15
France	38.14	22.23	27.70
Germany	38.37	22.35	27.86
Greece	26.74	15.59	19.42
Hungary	18.62	10.85	13.52
Ireland	41.14	23.97	29.87
Italy	35.29	20.57	25.63
Latvia	16.15	9.41	11.73
Lithuania	15.95	9.29	11.58
Luxembourg	52.36	30.51	38.02
Malta	25.67	14.96	18.64
Netherlands	38.56	22.47	28.00
Poland	17.72	10.33	12.87
Portugal	26.63	15.52	19.34
Slovakia	17.02	9.92	12.36
Slovenia	25.88	15.08	18.80
Spain	30.77	17.93	22.34
Sweden	41.72	24.32	30.30
United Kingdom	39.97	23.29	29.02
EU (25 Countries)	32.80	19.11	23.82
Switzerland	45.41	26.47	32.97

Table 0.4 Estimated VTTS values – non-work passenger trips (€₂₀₀₂ per passenger per hour, factor prices)

Country	Commute-Short Distance			Commute-Long Distance			Other-Short Distance			Other-Long Distance		
	Air	Bus	Car, train	Air	Bus	Car, train	Air	Bus	Car, train	Air	Bus	Car, train
Austria	11.98	5.78	8.03	15.40	7.42	10.32	10.05	4.84	6.73	12.91	6.22	8.65
Belgium	11.44	5.51	7.67	14.68	7.07	9.84	9.59	4.62	6.43	12.31	5.93	8.26
Cyprus	11.83	5.70	7.93	15.18	7.32	10.18	9.92	4.78	6.65	12.74	6.14	8.53
Czech Republic	8.57	4.13	5.75	11.00	5.31	7.38	7.19	3.46	4.82	9.23	4.45	6.18
Denmark	12.64	6.09	8.48	16.23	7.82	10.88	10.60	5.11	7.11	13.61	6.56	9.12
Estonia	7.44	3.58	4.99	9.55	4.60	6.40	6.24	3.01	4.18	8.01	3.86	5.36
Finland	11.31	5.45	7.58	14.52	7.00	9.73	9.48	4.57	6.36	12.17	5.87	8.16
France	16.34	7.87	10.95	20.97	10.11	14.06	13.70	6.60	9.18	17.58	8.47	11.79
Germany	11.99	5.78	8.04	15.40	7.42	10.32	10.05	4.85	6.74	12.91	6.22	8.65
Greece	10.34	4.98	6.93	13.28	6.40	8.90	8.67	4.18	5.82	11.14	5.37	7.46
Hungary	7.53	3.63	5.05	9.68	4.66	6.48	6.31	3.04	4.23	8.11	3.91	5.44
Ireland	12.51	6.03	8.39	16.07	7.74	10.77	10.49	5.06	7.04	13.48	6.49	9.03
Italy	15.16	7.31	10.16	19.47	9.38	13.04	12.71	6.12	8.52	16.32	7.86	10.94
Latvia	6.79	3.27	4.55	8.72	4.20	5.85	5.69	2.74	3.82	7.31	3.52	4.90
Lithuania	6.62	3.19	4.43	8.49	4.09	5.69	5.55	2.67	3.72	7.12	3.43	4.77
Luxembourg	17.77	8.60	11.91	22.82	11.00	15.30	14.90	7.18	9.99	19.13	9.22	12.83
Malta	9.73	4.69	6.53	12.50	6.02	8.37	8.17	3.93	5.47	10.48	5.05	7.02
Netherlands	11.59	5.59	7.77	14.88	7.17	9.97	9.72	4.68	6.52	12.48	6.01	8.37
Poland	7.36	3.55	4.94	9.46	4.56	6.34	6.17	2.97	4.14	7.93	3.82	5.32
Portugal	9.97	4.81	6.69	12.81	6.18	8.59	8.36	4.03	5.61	10.74	5.17	7.20
Slovakia	6.87	3.31	4.60	8.82	4.25	5.91	5.76	2.78	3.86	7.40	3.57	4.96
Slovenia	12.00	5.78	8.04	15.40	7.42	10.33	10.06	4.85	6.74	12.92	6.22	8.66
Spain	12.72	6.12	8.52	16.33	7.87	10.94	10.66	5.13	7.15	13.69	6.59	9.18
Sweden	12.24	5.90	8.20	15.71	7.57	10.53	10.26	4.94	6.88	13.17	6.35	8.83
United Kingdom	12.44	5.99	8.34	15.97	7.69	10.70	10.43	5.02	6.99	13.39	6.46	8.98
EU (25 Countries)	12.65	6.10	8.48	16.25	7.83	10.89	10.61	5.11	7.11	13.62	6.56	9.13
Switzerland	16.74	8.06	11.22	21.49	10.36	14.41	14.03	6.76	9.40	18.02	8.69	12.08

Table 0.5 Estimated VTTS values – freight trips (€₂₀₀₂ per freight tonne per hour, factor prices)

Country	Per tonne of freight carried ¹	
	Road	Rail
Austria	3.37	1.38
Belgium	3.29	1.35
Cyprus	2.73	1.12
Czech Republic	2.06	0.84
Denmark	3.63	1.49
Estonia	1.90	0.78
Finland	3.34	1.37
France	3.32	1.36
Germany	3.34	1.37
Greece	2.55	1.05
Hungary	1.99	0.82
Ireland	3.48	1.43
Italy	3.14	1.30
Latvia	1.78	0.73
Lithuania	1.76	0.72
Luxembourg	4.14	1.70
Malta	2.52	1.04
Netherlands	3.35	1.38
Poland	1.92	0.78
Portugal	2.58	1.06
Slovakia	1.86	0.77
Slovenia	2.51	1.03
Spain	2.84	1.17
Sweden	3.53	1.45
United Kingdom	3.42	1.40
EU (25 Countries)	2.98	1.22
Switzerland	3.75	1.54

¹ Value per tonne of freight carried and not for the maximum load of the vehicle or the weight of the vehicle.

Table 0.6 Estimated VTTS values – work (business) passenger trips (€₂₀₀₂ PPP per passenger per hour, factor prices)

Country	Business		
	Air	Bus	Car, train
Austria	37.50	21.85	27.23
Belgium	36.94	21.53	26.82
Cyprus	32.92	19.18	23.90
Czech Republic	36.59	21.31	26.57
Denmark	33.05	19.26	24.00
Estonia	31.76	18.52	23.07
Finland	34.61	20.17	25.13
France	36.57	21.31	26.56
Germany	34.53	20.12	25.07
Greece	34.07	19.86	24.74
Hungary	34.05	19.84	24.72
Ireland	35.43	20.65	25.73
Italy	36.91	21.51	26.81
Latvia	31.79	18.53	23.09
Lithuania	33.31	19.39	24.17
Luxembourg	46.14	26.88	33.50
Malta	36.99	21.56	26.85
Netherlands	36.13	21.06	26.24
Poland	32.34	18.85	23.48
Portugal	34.91	20.34	25.34
Slovakia	38.67	22.54	28.09
Slovenia	34.98	20.38	25.40
Spain	35.74	20.83	25.95
Sweden	35.24	20.54	25.59
United Kingdom	35.56	20.72	25.82
EU (25 Countries)	32.80	19.11	23.82
Switzerland	31.87	18.57	23.14

Table 0.7 Estimated VTTS values – non-work passenger trips (€₂₀₀₂ PPP per passenger per hour, factor prices)

Country	Commute-Short Distance			Commute-Long Distance			Other-Short Distance			Other-Long Distance		
	Air	Bus	Car, train	Air	Bus	Car, train	Air	Bus	Car, train	Air	Bus	Car, train
Austria	11.49	5.54	7.70	14.76	7.11	9.89	9.63	4.64	6.46	12.37	5.96	8.30
Belgium	11.18	5.38	7.50	14.35	6.91	9.62	9.37	4.51	6.28	12.03	5.80	8.07
Cyprus	13.41	6.46	8.99	17.22	8.29	11.54	11.25	5.42	7.54	14.44	6.96	9.68
Czech Republic	15.97	7.70	10.70	20.49	9.88	13.75	13.38	6.44	8.98	17.19	8.28	11.51
Denmark	9.62	4.64	6.45	12.35	5.95	8.28	8.07	3.89	5.41	10.36	4.99	6.94
Estonia	13.37	6.44	8.97	17.18	8.28	11.52	11.22	5.41	7.52	14.41	6.95	9.65
Finland	10.10	4.87	6.77	12.96	6.25	8.69	8.47	4.08	5.68	10.87	5.24	7.29
France	15.66	7.55	10.50	20.11	9.69	13.48	13.13	6.33	8.80	16.86	8.12	11.30
Germany	10.80	5.20	7.23	13.86	6.68	9.29	9.05	4.36	6.07	11.62	5.60	7.79
Greece	13.18	6.35	8.83	16.92	8.16	11.34	11.05	5.32	7.41	14.18	6.84	9.51
Hungary	13.77	6.64	9.24	17.69	8.52	11.86	11.54	5.56	7.74	14.83	7.15	9.94
Ireland	10.78	5.19	7.23	13.84	6.67	9.28	9.04	4.36	6.06	11.61	5.59	7.78
Italy	15.86	7.64	10.63	20.36	9.81	13.64	13.29	6.40	8.91	17.07	8.23	11.45
Latvia	13.37	6.44	8.96	17.17	8.27	11.51	11.21	5.40	7.52	14.39	6.93	9.65
Lithuania	13.81	6.66	9.25	17.73	8.54	11.88	11.58	5.58	7.76	14.87	7.17	9.96
Luxembourg	15.66	7.57	10.50	20.11	9.69	13.48	13.13	6.33	8.80	16.86	8.12	11.30
Malta	14.03	6.76	9.40	18.01	8.68	12.07	11.77	5.66	7.89	15.11	7.28	10.12
Netherlands	10.86	5.24	7.28	13.95	6.72	9.35	9.11	4.39	6.11	11.70	5.64	7.84
Poland	13.44	6.48	9.01	17.26	8.32	11.56	11.27	5.43	7.55	14.48	6.97	9.71
Portugal	13.07	6.30	8.77	16.79	8.10	11.26	10.96	5.29	7.35	14.08	6.78	9.43
Slovakia	15.61	7.52	10.46	20.04	9.66	13.44	13.09	6.32	8.78	16.81	8.11	11.26
Slovenia	16.21	7.82	10.87	20.82	10.03	13.96	13.59	6.55	9.11	17.45	8.41	11.70
Spain	14.77	7.11	9.90	18.96	9.14	12.71	12.38	5.96	8.30	15.90	7.66	10.66
Sweden	10.34	4.98	6.93	13.27	6.40	8.89	8.66	4.17	5.81	11.12	5.36	7.46
United Kingdom	11.07	5.33	7.42	14.21	6.84	9.52	9.28	4.47	6.22	11.91	5.74	7.99
EU (25 Countries)	12.65	6.10	8.48	16.25	7.83	10.89	10.61	5.11	7.11	13.62	6.56	9.13
Switzerland	11.75	5.66	7.88	15.08	7.27	10.11	9.85	4.74	6.60	12.65	6.10	8.48

Table 0.8 Estimated VTTS values – freight trips (€₂₀₀₂ PPP per freight tonne per hour, factor prices)

Country	Per tonne of freight carried ¹	
	Road	Rail
Austria	3.23	1.33
Belgium	3.22	1.32
Cyprus	3.10	1.27
Czech Republic	3.83	1.57
Denmark	2.76	1.14
Estonia	3.41	1.40
Finland	2.98	1.22
France	3.18	1.30
Germany	3.01	1.24
Greece	3.25	1.34
Hungary	3.64	1.49
Ireland	3.00	1.23
Italy	3.29	1.36
Latvia	3.50	1.43
Lithuania	3.67	1.50
Luxembourg	3.64	1.50
Malta	3.64	1.50
Netherlands	3.14	1.29
Poland	3.51	1.43
Portugal	3.39	1.39
Slovakia	4.24	1.74
Slovenia	3.39	1.39
Spain	3.30	1.36
Sweden	2.98	1.22
United Kingdom	3.04	1.25
EU (25 Countries)	2.98	1.22
Switzerland	2.63	1.08

¹ Value per tonne of freight carried and not for the maximum load of the vehicle or the weight of the vehicle.

0.4 Value of changes in accident risks

The recommendations given in the following, focus on a consistent set of monetary values for assessing accident risks and of factors for correcting underreporting for accident risks based on accident statistics. We assume that procedures for estimating accident risks for fatalities, severe and slight injuries have been established in the project planning process and are thus available for the appraisal.

We adopt a modified accident impact definition based on EUNET (Nellthorp et al. 1998)

- Fatality: death arising from the accident.
- Serious injury: casualties which require hospital treatment and have lasting injuries, but the victim does not die within the fatality recording period.
- Slight injury: casualties whose injuries do not require hospital treatment or, if they do, the effect of the injury quickly subsides.
- Damage-only accident: accident without casualties.

A 30 day period restriction for fatalities, as given in the original definition, is a pragmatic simplification for accident reporting, because it would be quite demanding to observe all severely injured persons for a longer time period, say e.g. 60 days. As there is evidence for considerable under-reporting due to the 30 day limit, we recommend correcting the available statistical data to include all fatalities due to accidents (see below).

It would be appropriate to distinguish at least between serious injuries entailing permanent invalidity and serious injuries where victims virtually recover entirely. However, often the necessary data are not available. Thus due to data limitations we recommend to use the EUNET definition as default.

Underreporting of road accidents is a well recognized problem in official (road) accident statistics. Therefore, the official figures underestimate the true number of accidents. Based on a literature review, we conclude that underreporting of accidents is only relevant for road transport. We recommend to apply the correction factors for unreported accidents (= ratio all accidents / reported accidents) as given in Table 0.9. The correction factor given for fatalities of 1.02 should be applied in all countries alike, since here the problem is not underreporting, but that some victims die after expiry of the recording period of 30 days.

Table 0.9 Recommendation for European average correction factors for unreported road accidents.

	Fatality	Serious injury	Slight injury	Average injury	Damage only
Average	1.02	1.50	3.00	2.25	6.00
Car	1.02	1.25	2.00	1.63	3.50
Motorbike/moped	1.02	1.55	3.20	2.38	6.50
Bicycle	1.02	2.75	8.00	5.38	18.50
Pedestrian	1.02	1.35	2.40	1.88	4.50

The valuation of an accident can be divided into direct economic costs, indirect economic costs and a value of safety per se. We recommend using values as follows:

- a) Value of safety per se: WTP for safeguarding human life based on stated preference studies carried out in the country concerned.
- b) Direct and indirect economic costs (mainly medical and rehabilitation cost, administrative cost of legal system, and production losses): cost values for the country under assessment.
- c) Material damage from accidents: cost values for the average damage caused by accidents in the country under assessment.

If such values are not available for a) and b) the values provided in Table 0.10 may be used. The split into value of safety per se and economic costs is given in the main text. The values expressed in PPPs, show a much smaller range.

Since the uncertainties in estimating the value of safety per se are comparably large, we recommend carrying out a sensitivity analysis for this value. Based on European Commission (2005) we recommend using $v/3$ as lower boundary and $v*3$ as high boundary of the sensitivity analysis (with v = value of safety per se).

Wherever possible, the values used in demand modelling and valuation of effects should be consistent. If the values used in demand modelling comply with the requirements above, these should be used for valuation. If this is not the case the values, given in Table 0.10 should be used for demand modelling.

Table 0.10 Estimated values for casualties avoided.

Country	Fatality	Severe injury	Slight injury	Fatality	Severe injury	Slight injury
	(€ ₂₀₀₂ , factor prices)			(€ ₂₀₀₂ PPP, factor prices)		
Austria	1,760,000	240,300	19,000	1,685,000	230,100	18,200
Belgium	1,639,000	249,000	16,000	1,603,000	243,200	15,700
Cyprus	704,000	92,900	6,800	798,000	105,500	7,700
Czech Republic	495,000	67,100	4,800	932,000	125,200	9,100
Denmark	2,200,000	272,300	21,300	1,672,000	206,900	16,200
Estonia	352,000	46,500	3,400	630,000	84,400	6,100
Finland	1,738,000	230,600	17,300	1,548,000	205,900	15,400
France	1,617,000	225,800	17,000	1,548,000	216,300	16,200
Germany	1,661,000	229,400	18,600	1,493,000	206,500	16,700
Greece	836,000	109,500	8,400	1,069,000	139,700	10,700
Hungary	440,000	59,000	4,300	808,000	108,400	7,900
Ireland	2,134,000	270,100	20,700	1,836,000	232,600	17,800
Italy	1,430,000	183,700	14,100	1,493,000	191,900	14,700
Latvia	275,000	36,700	2,700	534,000	72,300	5,200
Lithuania	275,000	38,000	2,700	575,000	78,500	5,700
Luxembourg	2,332,000	363,700	21,900	2,055,000	320,200	19,300
Malta	1,001,000	127,800	9,500	1,445,000	183,500	13,700
Netherlands	1,782,000	236,600	19,000	1,672,000	221,500	17,900
Norway	2,893,000	406,000	29,100	2,055,000	288,300	20,700
Poland	341,000	46,500	3,300	630,000	84,500	6,100
Portugal	803,000	107,400	7,400	1,055,000	141,000	9,700
Slovakia	308,000	42,100	3,000	699,000	96,400	6,900
Slovenia	759,000	99,000	7,300	1,028,000	133,500	9,800
Spain	1,122,000	138,900	10,500	1,302,000	161,800	12,200
Sweden	1,870,000	273,300	19,700	1,576,000	231,300	16,600
Switzerland	2,574,000	353,800	27,100	1,809,000	248,000	19,100
United Kingdom	1,815,000	235,100	18,600	1,617,000	208,900	16,600

Notes: Value of safety per se based on UNITE (see Nellthorp et al., 2001): fatality €1.50 million (market price 1998 – €1.25 million factor costs 2002); severe/slight injury 0.13/0.01 of fatality; Direct and indirect economic costs: fatality 0.10 of value of safety per se; severe and slight injury based on European Commission (1994).

We recommend increasing values for future years based on a default inter-temporal elasticity to GDP per capita growth of 1.0. If accident costs prove to contribute an important part of the benefits quantified in an assessment, we recommend sensitivity testing with an income elasticity of 0.7.

Please note that the assumption of linearly growing values clearly requires explicit and careful demand modelling over time. If this is not the case, the results are likely to overestimate benefits from a transport project.

The recommended calculation procedure is as follows:

- Step 1:** quantification of changes in the number of fatalities, serious injuries, slight injuries, and material damage due to a project using local or national risk functions.
- Step 2:** adjustment for underreporting of casualties with national (if available) or European factors.
- Step 3:** preparation of the cost factor table by increasing the cost factor according to the assumed country-specific GDP per capita growth for each year of the analysis.
- Step 4:** multiplication of casualties with cost factors.
- Step 5:** reporting of casualties and costs.

0.5 Environmental costs

Our general recommendation is – wherever possible – to value impacts, not environmental burden (for example value mortality risks caused by PM₁₀ emissions and not the emissions of PM₁₀) and to monetise impacts as far as possible using values based on the WTP concept. To increase transparency and allow for alternative valuations both costs and (key) impacts should be reported.

In the following sections we provide values that can be used if no country-specific state-of-the-art values are available for calculating environmental costs due to air pollution, noise and global warming.

0.5.1 Air pollution

We recommend using country-specific values taking into account local population density and regional climate. Cost factors measured in € per tonne of pollutant emitted in different environments (urban areas, outside built-up areas) are provided below. The list of pollutants should cover

- primary PM_{2.5} for transport emissions (PM₁₀ for emissions from power plants),
- NO_x as precursor of nitrate aerosols and ozone,
- SO₂ for direct effects and as precursor of sulphate aerosols, and
- NMVOC as precursor of ozone.

Project related emissions should be calculated using national emission factors; if such factors are not available, emission factors from international sources can be applied, taking into account national vehicle fleet compositions as far as possible.

Existing research identified damage to human health as the most important effect in terms of quantifiable costs. In particular the reduction of life expectancy in terms of Years of Life Lost (YOLL) contributes to health costs. Therefore, YOLL is a good indicator for physical impacts caused.

Table 0.11 presents the recommended cost factors in € per tonne of pollutant emitted by road and other ground level transport (e.g. diesel trains), Please note however, that the monetary values given do not only assess YOLLs, but include a number of other health impacts and in addition damage to crops and materials. Table 0.13 presents the impact factors. The corresponding values for high stack emissions from electricity production in power plants are given in the main text.

The cost factors are estimated average values based on the spatial distribution of emissions within a country. The impacts and costs may vary within one country, particularly in large ones. The variation in costs due to NO_x , NMVOC and SO_2 between countries is mainly caused by air chemistry (incl. ozone formation) and the population affected. For primary particulates no air chemistry is involved, therefore differences reflect the number of population affected, which is determined mainly by distance to the emission source and the prevailing wind direction.

The PPP adjusted values in Table 0.12 differ from the values in Table 0.11 only for costs due to primary particle emissions. NO_x , NMVOC and SO_2 have virtually no local effects as most of their impact is caused after chemical transformation to other substances (ammonium nitrates and sulphates, ozone); damages occur far from the emission source, mostly in other countries. For keeping modelling effort reasonable trans-boundary impacts are valued at European average values. Rounding masks differences between € and PPP results. In contrast, for primary particles local effects play an important role, therefore the PPP weighted cost factors differ from those expressed in real €.

Table 0.11 Cost factors for road transport emissions* per tonne of pollutant emitted in €₂₀₀₂ (factor prices).

Pollutant emitted	NO _x	NM VOC	SO ₂	PM _{2.5}	
Effective pollutant	O ₃ , Nitrates, Crops	O ₃	Sulphates, Acid deposition, Crops	primary PM _{2.5}	
Local environment				urban	outside built-up areas
Austria	4,300	600	3,900	450,000	73,000
Belgium	2,700	1,100	5,400	440,000	95,000
Cyprus**	500	1,100	500	230,000	20,000
Czech Republic	3,200	1,100	4,100	170,000	61,000
Denmark	1,800	800	1,900	520,000	54,000
Estonia	1,400	500	1,200	100,000	23,000
Finland	900	200	600	400,000	33,000
France	4,600	800	4,300	430,000	83,000
Germany	3,100	1,100	4,500	430,000	80,000
Greece	2,200	600	1,400	210,000	34,000
Hungary	5,000	800	4,100	150,000	54,000
Ireland	2,000	400	1,600	510,000	50,000
Italy	3,200	1,600	3,500	370,000	70,000
Latvia	1,800	500	1,400	80,000	22,000
Lithuania	2,600	500	1,800	90,000	28,000
Luxemburg	4,800	1,400	4,900	590,000	96,000
Malta (O ₃ estimated)	500	1,100	500	170,000	16,000
Netherlands	2,600	1,000	5,000	470,000	88,000
Poland	3,000	800	3,500	130,000	53,000
Portugal	2,800	1,000	1,900	210,000	37,000
Slovakia	4,600	1,100	3,800	110,000	49,000
Slovenia	4,400	700	4,000	220,000	55,000
Spain	2,700	500	2,100	280,000	41,000
Sweden	1,300	300	1,000	440,000	40,000
Switzerland	4,500	600	3,900	640,000	86,000
United Kingdom	1,600	700	2,900	450,000	67,000

Notes: Cost categories included are: human health, crop losses, material damages.

* Values are applicable to all emissions at ground level (e.g. diesel locomotives).

** Estimated values as Cyprus outside of modelling domain.

Table 0.12 Cost factors for road transport emissions* per tonne of pollutant emitted in €₂₀₀₂ PPP (factor prices).

Pollutant emitted	NO _x	NM VOC	SO ₂	PM _{2.5}	
Effective pollutant	O ₃ , Nitrates, Crops	O ₃	Sulphates, Acid deposition, Crops	primary PM _{2.5}	
Local environment				urban	outside built-up areas
Austria	4,300	600	3,900	430,000	72,000
Belgium	2,700	1,100	5,400	440,000	95,000
Cyprus**	500	1,100	500	260,000	22,000
Czech Republic	3,200	1,100	4,100	270,000	67,000
Denmark	1,800	800	1,900	400,000	47,000
Estonia	1,400	500	1,200	160,000	27,000
Finland	900	200	600	360,000	30,000
France	4,600	800	4,300	410,000	82,000
Germany	3,100	1,100	4,500	400,000	78,000
Greece	2,200	600	1,400	270,000	38,000
Hungary	5,000	800	4,100	230,000	59,000
Ireland	2,000	400	1,600	440,000	46,000
Italy	3,200	1,600	3,500	390,000	71,000
Latvia	1,800	500	1,400	140,000	26,000
Lithuania	2,600	500	1,800	160,000	32,000
Luxemburg	4,800	1,400	4,900	730,000	104,000
Malta (O ₃ estimated)	500	1,100	500	240,000	20,000
Netherlands	2,600	1,000	5,000	440,000	86,000
Poland	3,000	800	3,500	190,000	57,000
Portugal	2,800	1,000	1,900	270,000	40,000
Slovakia	4,600	1,100	3,800	200,000	54,000
Slovenia	4,400	700	4,000	280,000	58,000
Spain	2,700	500	2,100	320,000	44,000
Sweden	1,300	300	1,000	370,000	36,000
Switzerland	4,500	600	3,900	460,000	76,000
United Kingdom	1,600	700	2,900	410,000	64,000

Notes: Cost categories included are: human health, crop losses, material damages.

* Values are applicable to all emissions at ground level (e.g. diesel locomotives).

** Estimated values as Cyprus outside of modelling domain.

Table 0.13 Impact factors for road transport emissions* (lost life expectancy in years of life lost per 1000 tonnes of pollutant emitted).

Pollutant emitted	NO_x	NMVOC	SO₂	PM_{2.5}	
Effective pollutant	O3, Nitrates	O3	Sulphates	primary PM_{2.5}	
Local environment				urban	outside built-up areas
Austria	61	0.6	58	5,800	1,080
Belgium	57	1.3	81	6,200	1,470
Cyprus**	8	0.5	8	5,100	400
Czech Republic	50	1.0	58	5,900	1,180
Denmark	29	0.9	28	5,400	680
Estonia	18	1.5	17	5,300	590
Finland	11	0.2	9	5,100	450
France	65	0.8	65	6,000	1,280
Germany	53	1.2	65	5,900	1,220
Greece	20	0.2	20	5,400	670
Hungary	63	0.6	58	5,800	1,080
Ireland	30	0.7	25	5,300	640
Italy	50	0.8	54	5,800	1,120
Latvia	22	0.9	21	5,300	590
Lithuania	29	0.9	26	5,400	690
Luxemburg	70	1.5	73	6,000	1,330
Malta (O ₃ estimated)	8	0.5	8	5,100	400
Netherlands	56	1.1	74	6,000	1,320
Poland	46	0.8	49	5,800	1,070
Portugal	31	0.5	30	5,400	720
Slovakia	57	1.0	55	5,700	1,020
Slovenia	63	0.5	59	5,700	1,020
Spain	34	0.4	33	5,400	720
Sweden	15	0.4	15	5,200	530
Switzerland	68	0.7	59	5,800	1,120
United Kingdom	35	1.0	44	5,700	980

Notes: * values are applicable to all emissions at ground level (e.g. diesel locomotives).

** Estimated values as Cyprus outside of modelling domain.

We recommend increasing values for future years based on a default inter-temporal elasticity to GDP per capita growth of 1.0. If air pollution costs prove to contribute an important part of the benefits quantified in an assessment we recommend sensitivity testing with an income elasticity of 0.7.

Please note that the assumption of linearly growing values over time clearly requires explicit and careful emission modelling over time. If this is not the case, the results are likely to over-estimate benefits from a transport project, as vehicle emissions can be assumed to decrease considerably in the future. Information on the future development of emission factors can be found for instance at <http://www.tremove.org/download/index.htm>.

The recommended calculation procedure is as follows:

- Step 1:** quantification of change in pollutant emissions (NO_x, SO₂, NMVOC, PM_{2.5}/PM₁₀) due to a project, measured in tonnes, using state-of-the-art national or European emission factors.
- Step 2:** classification of emissions according to height of emission sources (ground-level vs. high stack) and local environment (urban – outside built-up areas). Ground level emissions are released from internal combustion engines, high stack emissions are released during electricity production in power plants.
- Step 3:** preparation of the cost factor table by increasing the cost factor according to the assumed country-specific GDP per capita growth for each year of the analysis.
- Step 4:** calculation of impacts (multiplication of pollutant emissions by impact factor) and costs (multiplication of pollutant emissions by cost factor).
- Step 5:** reporting of impacts and costs.

0.5.2 Noise

For noise costs it is suggested to use country-specific values per person exposed to a certain noise level (see Table 0.14). The suggested impact indicator, which should be reported alongside with the monetary results, is the number of persons highly annoyed – see Table 0.15.

We recommend increasing monetary values for future years based on a default inter-temporal elasticity to GDP per capita growth of 1.0. If noise costs prove to contribute an important part of the benefits quantified in an assessment we recommend sensitivity testing with an income elasticity of 0.7.

Please note that the assumption of linearly growing values over time clearly requires explicit and careful emission modelling over time. If this is not the case, the results are likely to over-estimate benefits from a transport project, as vehicle emissions are likely to decrease in the future.

The recommended calculation procedure is as follows:

- Step 1:** quantification of the number of persons exposed to certain noise levels (should be available from noise calculations) for the Do-Minimum case and the Do-Something case.
- Step 2:** preparation of the cost factor table by increasing the cost factor according to the assumed country-specific GDP per capita growth for each year of the analysis.
- Step 3:** calculation of impacts (multiply percentage of highly annoyed persons by number of persons exposed) and costs (multiply cost per person by number of persons exposed) for both cases.
- Step 4:** subtraction of total costs for the Do-Something case from Do-Minimum case
- Step 5:** reporting of costs and impacts (change in number of people highly annoyed).

Table 0.14 Cost factors for noise exposure for Finland (€₂₀₀₂, factor costs, per year per person exposed; to derive €₂₀₀₂ PPP the values below are divided by the Finish PPP adjustment factor of 1.12). For values for all countries see main text.

Finland L _{den} (dB(A))	Central values			New approach			High values		
	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft
≥43	0	0	0	6	3	10	0	0	0
≥44	0	0	0	6	3	11	0	0	0
≥45	0	0	0	7	3	12	0	0	0
≥46	0	0	0	8	4	14	0	0	0
≥47	0	0	0	9	4	15	0	0	0
≥48	0	0	0	10	5	16	0	0	0
≥49	0	0	0	11	6	18	0	0	0
≥50	0	0	0	12	6	19	0	0	0
≥51	10	0	16	13	7	20	23	0	36
≥52	20	0	32	14	7	22	47	0	72
≥53	31	0	47	15	8	23	70	0	108
≥54	41	0	63	17	9	25	93	0	144
≥55	51	0	79	18	10	26	116	0	180
≥56	61	10	95	19	10	27	140	23	216
≥57	71	20	110	20	11	29	163	47	252
≥58	81	31	126	22	12	30	186	70	288
≥59	92	41	142	23	13	32	209	93	324
≥60	102	51	158	24	14	33	233	116	360
≥61	112	61	174	26	15	35	256	140	397
≥62	122	71	189	27	16	36	279	163	433
≥63	132	81	205	29	17	38	302	186	469
≥64	143	92	221	30	18	39	326	209	505
≥65	153	102	237	32	19	40	349	233	541
≥66	163	112	252	33	20	42	372	256	577
≥67	173	122	268	35	21	43	395	279	613
≥68	183	132	284	36	22	45	419	302	649
≥69	193	143	300	38	23	46	442	326	685
≥70	204	153	316	40	24	48	465	349	721
≥71	270	219	388	98	82	106	545	429	813
≥72	287	236	410	106	90	114	575	459	856
≥73	304	253	433	115	98	122	605	489	899
≥74	321	270	456	123	106	130	635	519	942
≥75	338	287	478	132	114	139	665	549	985
≥76	355	305	501	140	122	147	695	579	1028
≥77	372	322	524	149	131	155	725	609	1071
≥78	390	339	546	158	139	163	756	639	1114
≥79	407	356	569	166	147	172	786	669	1157
≥80	424	373	592	175	155	180	816	700	1200
≥81	441	390	614	183	164	188	846	730	1242

Notes: All values include health effects and annoyance. Central values comprise the WTP for reducing annoyance based on stated preference studies (see Working group on health and socio-economic aspects, 2003). For “New approach” annoyance was based on dose-response functions; monetary values were taken from the HEATCO surveys (see Navrud et al. 2006). High values include annoyance valuation based on hedonic pricing as applied in UNITE (see Bickel et al. 2003).

Table 0.15 Impact indicator for noise exposure: percentage of adult persons highly annoyed per person (all ages) exposed – based on functions given in European Commission (2002), assuming 80% of population are adults.

L_{den}	Road	Rail	Aircraft
dB(A)	%	%	%
≥43	0.4	0.1	0.3
≥44	0.8	0.3	0.6
≥45	1.1	0.4	1.0
≥46	1.5	0.5	1.4
≥47	1.9	0.6	2.0
≥48	2.2	0.7	2.5
≥49	2.6	0.8	3.2
≥50	2.9	1.0	3.9
≥51	3.3	1.1	4.6
≥52	3.7	1.3	5.4
≥53	4.2	1.5	6.3
≥54	4.6	1.7	7.2
≥55	5.1	2.0	8.2
≥56	5.6	2.3	9.3
≥57	6.2	2.6	10.4
≥58	6.8	2.9	11.5
≥59	7.5	3.3	12.7
≥60	8.3	3.8	14.0
≥61	9.0	4.3	15.3
≥62	9.9	4.8	16.7
≥63	10.8	5.4	18.1
≥64	11.9	6.1	19.6
≥65	12.9	6.8	21.2
≥66	14.1	7.6	22.7
≥67	15.4	8.5	24.4
≥68	16.8	9.5	26.1
≥69	18.2	10.5	27.8
≥70	19.8	11.6	29.6
≥71	21.5	12.8	31.5
≥72	23.3	14.1	33.4
≥73	25.2	15.4	35.3
≥74	27.2	16.9	37.3
≥75	29.4	18.4	39.4
≥76	31.7	20.1	41.5
≥77	34.1	21.9	43.6
≥78	36.7	23.8	45.8
≥79	39.4	25.8	48.0
≥80	42.3	27.9	50.3
≥81	45.3	30.1	52.6

0.5.3 Global warming

The method of calculating costs due to the emission of greenhouse gases (usually expressed as CO₂ equivalents) basically consists of multiplying the amount of CO₂ equivalents emitted with a cost factor. Due to the global scale of the damage caused, there is no difference how and where in Europe the emissions of greenhouse gases take place. For this reason, we recommend to apply the same values in all countries. However the factor proposed is dependent on when (in which year) the emission takes place.

The CO₂ equivalent of a greenhouse gas is derived by multiplying the amount of the gas by the associated Global Warming Potential (GWP). The GWP for methane is 23, for nitrous oxide 296, and for CO₂ it is 1.

In high altitudes other emissions than CO₂ from aircrafts have a considerable climatic effect. The most important species are water vapour, sulphate and soot aerosols and nitrogen oxides. In 1999 the Intergovernmental Panel on Climate Change (IPCC) estimated that aviation's total impact is about 2 to 4 times higher than the effect of its past CO₂ emissions alone. Recent EU research results (see European Commission, 2005b, Annex 2) indicate that this ratio may be somewhat smaller (around a factor 2). Accordingly we recommend multiplying high altitude CO₂ emissions by a factor of 2 to consider the warming effect of other species than CO₂.

Recent work has confirmed the assumption that future emissions years will have stronger total impacts than present emissions (see e.g. Watkiss et al.; 2005a). Consequently for transport project appraisals, we need value estimates that include future increases. In a recent report for the Social Cost of Carbon Review on behalf of UK's Defra, Watkiss et al. (2005b) derive shadow price values, taking into account the expected future development of damage costs and abatement costs. This study is the most current and comprehensive exercise providing consistent values for CO₂ emissions for application in project appraisal. Whereas the damage cost estimates do not rely on specific assumptions for the UK, the abatement cost estimates are based on UK government's long-term goal of meeting a 60% CO₂ reduction by 2050 (which is broadly consistent with the EU's 2°C target). On one hand the costs for reaching a domestic reduction of 60% are higher than implementing a more flexible reduction scheme. On the other hand, the abatement costs only influence the cost curve for later years (starting around 2030) when uncertainties are higher. In addition, the damage cost estimates do not include some important risks. We recommend using the guidance value given in Table 0.16 as central estimate, with the lower and upper estimate for sensitivity analysis.

We recommend no additional increasing of the values in Table 0.16 with GDP growth, as we assume that the above mentioned aim (limitation of the temperature increase to 2 K) will not be changed with growing GDP.

Please note that the assumption of growing values over time clearly requires explicit and careful emission modelling over time. If this is not the case, the results are likely to overestimate benefits from a transport project, as vehicle emissions can be assumed to decrease considerably in the future. Information on the future development of emission factors can be found for instance at <http://www.tremove.org/download/index.htm>.

Table 0.16 Shadow prices based on Watkiss et al. (2005b), converted from £2000/t C to €₂₀₀₂ (factor prices) per tonne of CO₂ equivalent emitted – no PPP adjustment necessary as values are not country specific.

Year of emission	Central guidance	For sensitivity analysis	
		Lower central estimate	Upper central estimate
2000 – 2009	22	14	51
2010 – 2019	26	16	63
2020 – 2029	32	20	81
2030 – 2039	40	26	103
2040 – 2049	55	36	131
2050	83	51	166

Notes: Values are for year of emission and were derived combining damage cost and marginal abatement cost estimates. The damage cost estimates are based on declining discount rates and include equity weighting. Some major climatic system events as well as socially contingent effects are excluded. For details see Watkiss et al. (2005b)

The recommended calculation procedure is as follows:

- Step 1:** quantification of change in greenhouse gas emissions (CO₂, CH₄, N₂O; others if data available) due to a project measured in tonnes.
- Step 2:** classification of emissions according to height of emission sources (ground-level – high altitude aircraft). Calculation of CO₂ equivalents of ground level emissions; multiplication of high altitude aircraft CO₂ emissions with a factor of 2 (to consider warming effects of other species).
- Step 3:** multiplication of CO₂ equivalents with cost factor for year of emission.
- Step 4:** reporting of emissions and costs.

0.5.4 Other effects

Air pollution, global warming and noise represent the most important and relevant cost categories that can currently be assessed within a CBA. Environmental impacts such as vibration, severance, visual intrusion, loss of important sites, impairment of landscape, as well as soil and water pollution are difficult to include based on general values, because the impacts are very site specific (e.g. impairment of landscape). Usually such aspects are covered by the requirements for Environmental Impact Assessment and by obligations to meet certain target values. However, even if such standards are met, the remaining burdens lead to external costs, which should be considered. Where monetisation is not (yet) possible, these effects should be reported and considered beside the CBA. However, it is beyond the scope of HEATCO to suggest concrete values or detailed methodologies in these areas.

0.6 Costs and indirect costs of infrastructure investment

This section summarises the recommendations on how to treat the following five elements in a cost-benefit analysis framework;

- Capital costs of the infrastructure project
- Residual value
- Optimism-bias
- Costs of maintenance, operation and administration
- Changes in infrastructure costs on existing network

0.6.1 Capital costs of the infrastructure investment

It is recommended to use the following definition of *capital costs of the infrastructure investment*;

- *Construction costs*, including materials, labour, energy, preparation, professional fees and contingencies
- *Planning costs*, including design costs, planning authority resources and other planning costs
- *Land and property costs*, including the value of the land needed for the scheme (and any associated properties), compensation payment necessary under national laws and the related transactions and legal costs
- *Disruption costs*, e.g. the disruption to existing users to be estimated using the same values of time as are used for travel time savings arising from the scheme.

Furthermore the cost assessment should be based on the following two general principles;

- Costs should be attributed to the project year in which the resources become unavailable to alternative uses.
- It is necessary to distinguish between costs incurred before and after the decision whether to go ahead with the project or not; and retrievable and non-retrievable costs.

As the cost-benefit analysis only concerns costs that will be incurred due to the decision to go ahead with the project, non-retrievable costs incurred prior to the decision should not be included in the cost-benefit analysis.

The implications of these general principles are discussed in section 7.3 for each of the elements of capital costs together with element-specific issues.

0.6.2 Residual value

The residual value is an item in the appraisal which captures the net benefits beyond the formal evaluation period. In the cost-benefit analysis the capital costs of the infrastructure is reduced by the net present value of the residual value of the infrastructure.

We recommend a pragmatic approach for estimating the residual value, which includes:

- Determination of the fixed lifetime of the infrastructure - or its sub-components
- Determination of a depreciation profile

The minimum approach is to use a linear depreciation profile. More advanced approaches are however also possible.

A range of recommended lifetimes is provided in Table 0.17 for road and rail projects. For other modes the recommended lifetimes can be used as inspiration. If the appraiser uses lifetimes outside the ranges presented in Table 0.17, it must be explicitly stated why such an approach is chosen.

Table 0.17 Lifetimes by mode and group of components (road and rail).

Mode	Group of components	Min	Main	Max
Road	Base course	30	45	60
	Wearing course	10	20	30
	Environmental installations	10	20	30
	Drainage	50	75	100
	Retaining walls	50	75	100
	Bridges	50	75	100
	Tunnels	50	75	100
	Land	Infinite	Infinite	Infinite
Rail	Substructures	40	60	80
	Tracks	20	30	40
	Tech. Equip.,	10	20	30
	Power supply	20	30	40
	Environmental installations	10	30	50
	Bridges	50	75	100
	Tunnels	50	75	100
	Land	Infinite	Infinite	Infinite

0.6.3 Optimism-bias

Optimism-bias refers to the systematic tendency for project appraisers to underestimate construction costs. It is recommended that a side-analysis is conducted where optimism-uplifts are applied to the estimated construction costs (including contingencies). Table 0.18 shows the suggested optimism-bias uplifts¹. In case a project includes elements of different categories of project types, the relative size of each sub-project should be identified and the relevant uplift applied before aggregation to establish the total budget.

If the cost-benefit analysis still shows that the project is feasible, the project appraisal process can continue. If the project - which were considered feasible before the uplifts were applied - is 'not feasible' when the uplifts are applied, the group of planners must benchmark the cost estimates applied in the study to the realised costs of similar projects. If it can be documented that the original cost estimates are in line with the realised costs of similar projects, the pro-

¹ See Table 7.5 for more details.

ject appraisal process can continue. If not, the planners must either explicitly justify why the cost estimates are lower and/or revise the construction cost estimates.

Table 0.18 Applicable capital expenditure uplift (average cost escalation)

Category	Uplift
Road	22%
Rail	34%
Fixed links	43%
Building projects	25%
IT projects	100%

Source: based on British Department for Transport (2004b), Mott MacDonald (2002), Flyvbjerg et al (2002)

0.6.4 "Costs of maintenance, operation and administration" and "Changes in infrastructure costs on existing network"

Costs of maintenance, operation and administration are costs accrued during the operating life of the transport infrastructure by the infrastructure owner for the parts of the network which are changed by the project. In line with this, the *existing network* is defined as these parts of the network that are not changed by the project.

It is very complex task to give recommendations on how to include *costs of maintenance, operation and administration* and *changes in infrastructure costs on existing network*, as the countries have different standards of infrastructure, composition of traffic, maintenance practice etc. This means not only that it is impossible to generalise/transfer cost estimates, but also that the possible approach to estimating costs differs between countries. This means that the recommended approach, which is presented below, should only be perceived as a "way of thinking" rather than a recipe for estimating costs. In practice, the approach taken must be modified to accommodate for example data availability.

The **first best option** is to use national default values if they are available. It has to be carefully considered if the national standard figures are applicable to the infrastructure under consideration.

The **second best option** is to use a pragmatic approach based on aggregate cost data which is available in most countries. The approach is outlined here for road and rail, but is also applicable to other modes.

The calculation procedure follows:

Step 1: Distinction between fixed and variable costs

Step 2: Allocation of variable costs to cost drivers

The distinction between (short run) fixed costs and the variable costs (costs that vary with traffic use) are determined on the basis of national accounts/statistics and a general classification of cost categories. Table 0.19 shows the recommended split into fixed and variable costs for road and rail.

Table 0.19 Classification of cost categories into short run fixed costs and short run variable costs - Road and rail.

	Road - cost category	Rail - cost category	Short run Fixed costs	Short run Variable costs
Construction	Land purchase	Land purchase	Yes	No
	Construction of new roads	Construction of new lines	Yes	No
	Enlargement of roads/ adjustment to higher axle loads	Upgrading/enlargement of existing lines	Yes	No
	Replacement investments			
	(1) Major repairs			
	Dressing of thin layers and surfacing	Periodical treatments of route structure	Partly	Partly
	Repairs of bridges, supporting walls and other facilities	Major repairs of bridges, tunnels, switch boxes and platform which are only performed in larger time intervals	Partly	Partly
	(2) Renewal			
	Replacement of layers in underground engineering		Partly	Partly
	Replacement of bridges and other facilities which restores the full utility value	Replacement of bridges, tunnels, switch boxes and platforms (or parts of these) as well as replacement of tracks and other facilities which restores the full utility value.	Partly	Partly
	Construction maintenance			
	Removal of pot-holes, spilling of joints		No	Yes
	Minor repairs	Minor repairs	Partly	Partly
	Pavement renewal	Ballast cleaning, compression	No	Yes
Ongoing maintenance and operation	Operation, servicing and ongoing maintenance ¹⁾			
	Winter maintenance (snow sweeping)	Winter maintenance (thawing of switches, snow sweeping)	Yes	Partly
	Street marking		Yes	Partly
	Cleaning, cutting	Cleaning, cutting	Yes	No
	Check of facility Condition	Check of facility condition (route servicing, swithes)	Yes	Partly
	Servicing of bridge beddings, traffic lights for general safety reasons	Servicing of bridge beddings, signalling, telecommunication facilities for general safety reasons	Yes	No
		Operation of signalling/telecommunication facilities, switch towers (staff, electric power)	Mainly not	Yes
		Traction current	No	Yes
Administration	Over head	Overhead	Yes	No
	Police/ traffic control	Police	No	Yes
		Time tabling, train planning	No	Yes

Source: Link et al (1999)

The fixed costs of maintenance, operation and administration for the parts of the networks which are changed by the project can be determined on the basis of this classification. Remaining tasks include to estimate:

- The variable costs of maintenance, operation and administration for the parts of the networks, which are changed by the project
- The changes in infrastructure costs of the parts of the networks, which are not changed by the project (i.e. the existing network).

In order to estimate these costs it is recommended - for pragmatic reasons - to assume that:

- The marginal costs per vehicle can be approximated by the average variable costs
- Average variable costs/marginal costs are constant (and not for instance increasing with traffic).

Given these assumptions, the unit costs per vehicle type can be estimated on the basis of:

- Total variable costs
- Traffic data (number of vehicles per year by vehicle type for the infrastructure, which the cost data refers to)
- Information on which costs each vehicle type incurs.

A possible allocation procedure is outlined in Table 0.20 for the cost categories which were categorised as 'variable' or 'partly variable' in Table 0.19.

Table 0.20 Possible allocation factors for the allocation of variable costs to cost drivers.

	Variable cost category	Possible allocation
Weight dependent	Major repairs	Axle weight
	Renewal	Axle weight
	Construction maintenance	Axle weight
Non-weight dependent	Operation, servicing and ongoing maintenance	Vehicle kilometres
	Police	Vehicle kilometres

Source: Simplification of table in Link et al (1999)

A possible approach to allocation according to axle weight is to use equivalent standard axles (ESAs)². The ESA factors by vehicle type differ across countries due to for example different compositions of the fleet and different load factors.

As a minimum the classification for vehicle types should include:

- Passenger cars
- Heavy goods vehicles (>3.5 t max gross weight)

Ideally, the classification for vehicle types should include:

- Motorcycles
- Passenger cars
- Buses
- Light goods vehicles (<3,5 t max. gross weight)
- Heavy goods vehicles (>3.5 t max gross weight)

Trains should be classified according to wagon weight and speed, as these are the cost drivers. As a minimum the classification for trains should include:

- Freight trains (wagon load, combined transport, rolling road)
- Passenger trains (High speed trains. Euro-/Intercity and other long distance trains, regional trains, urban rail)

² See for example Transport and Road Research Laboratory, 1998.

Ideally, these categories could be sub-divided according to the following criteria:

- Operating requirements (number of stops, required distance to other trains)
- Construction standards (speed)
- Weight (axle weight)
- Number and type of wagons

0.7 Vehicle operating costs

Operating costs are clearly dependent on the prices of goods within a region (e.g. price of fuel, vehicle spare parts, etc.). However, operating costs can also be influenced by the regulatory and institutional characteristics of the environment in which the transport industry operates. This is particularly the case for the rail, shipping and air sectors. Operating cost relationships for road vehicles are far more generic and transferable between countries. Off the shelf models and computer software exists for the calculation of such road vehicle operating costs, however, these models require to be populated with some local data (e.g. fuel costs). It is therefore recommended that local country specific data on prices and relationships for modal operating costs should be utilised in project appraisal.

Whilst we recommend that local relationships and prices are used in the calculation of vehicle operating costs, we recommend that the following cost components are included in that model (see also Nellthorp *et al.*, 1998):

Standing cost components

- Depreciation (time dependent share)
- Interest on capital
- Repair and maintenance costs
- Materials costs
- Insurance
- Overheads
- Administration

Operating cost components:

- Personnel costs (if not included in travel time savings – see Chapter 4 of these guidelines);
- Depreciation (distance related share)
- Fuel and lubricants

In the absence of local relationships for road vehicle operating costs the generic relationships in the Highway Design Model (HDM) model can be used (HDMGlobal, 2005). This model is also recommended for World Bank funded road projects. The HDM model needs to be populated with some local data reflecting road and vehicle characteristics (including the price of replacement parts). There is no equivalent model to HDM for the rail, air and maritime sec-

tors and as such the operating costs for trains, aircraft and ships should be developed in collaboration with the specialists working in these sectors.

The calculation of the economic benefits (costs) associated with vehicle operating costs varies by mode due to variation in vehicle operating cost relationships between modes. In essence three types of data area required:

- Demand - the number of vehicles making a particular origin-destination trip for the Do-Minimum and the Do-Something cases;
- Vehicle kilometres – the change in vehicle kilometres induced to the traffic on that particular origin-destination trip for the Do-Minimum and the Do-Something cases; and
- The unit cost of a vehicle kilometre – this in turn will require data on:
 - the transport network characteristics (e.g. gradient)
 - vehicle characteristics (e.g. vehicle type, speed, cost of replacement parts and maintenance, load, etc.)
 - vehicle utilisation

Each of these characteristics may vary between the Do-Minimum and Do-Something.

As with travel time savings the user benefit associated with vehicle operating cost savings is calculated at an origin-destination pair level using the rule-of-half (see Chapter 2) and then summed over all origin-destination pairs. Care should be taken to avoid double counting time related cost elements that are included in the values of time (e.g. driver and crew wages).

Ideally, all data for the appraisal should be local. However, it is possible to transfer relationships and prices from other countries, though this is most appropriate for road vehicles rather than rail, air or water modes.

1 Introduction

1.1 Transport appraisal

Transport appraisal is the assessment of value for money of transport projects and policies. This statement implies many questions – assessment by whom, for whom, from which perspective, at what stage. One of the features of transport decisions is that they typically impact on many parties – transport operators, individual transport users, shippers, local residents and businesses, land and property owners, national and local taxpayers. Each of these stakeholders will seek to assess the impact of a project from the perspective of his/her own interest. But the overarching perspective of transport appraisal needs to be a *social* one, that is, one which takes account of significant impacts of the project or policy *whoever is affected*. So the key question which appraisal seeks to address is:

Is a project or a policy intervention worthwhile from an overall social point of view?

Most of this document is concerned with the technical aspects of trying to answer this question. We recommend the use of a framework approach containing at its core a cost-benefit analysis of those elements which can justifiably be valued in monetary terms, but with additional reporting of environmental impacts, wider economic impacts and other impacts on broader policy issues. The cost-benefit analysis and the broader environmental and policy indicators need to be brought together in a coherent, logical way in order to produce the overall assessment.

Before coming to the technical issues, it is worth making a few observations about the context within which the social appraisal of transport projects takes place.

First, technical appraisal by the professional community of engineers, planners, economists and modellers, is an input into a broader political decision-making process. It is not possible at the technical level to put a value on the psychic benefit of helping to create a united Europe. So, there are boundaries to technical appraisal which need to be recognised, and technical appraisal needs to speak to, aid and inform political decision-makers. It cannot replace them.

Secondly, appraisal is a process. The gestation period for transport infrastructure in Europe is typically long – say ten to twenty years from conception to delivery. Several stages in the project cycle may be identified:

- The initial definition of a project or policy for feasibility study
- Sifting/screening from a large number of possible projects or project options to a manageable set of alternatives for full appraisal
- Final project selection including accept/reject, choice between alternatives and prioritisation.

A well-known paradox is that whereas decisions are most open to influence at the early stages in the cycle, appraisal results are frequently not available until the very end. Appraisal needs to be integrated more securely into the project cycle. Clearly at the initial stage of project conception and also at the sifting/screening stage, it will not be cost-effective to develop the

appraisal to the level needed for final project selection. But the indicators used at the earlier stages of the project cycle should relate to the criteria by which the final decision will be taken. Even if the signpost is a very simple one, it should be pointing in the right direction.

Thirdly, the technical appraisal itself is likely to be multi-dimensional. As well as the overall social value for money we are likely to be interested in questions such as the pattern of the gains and losses by stratum of society and/or location, the financial viability of the project and impact on relevant stakeholders (who pays, who gains), the practicability of the project and barriers to implementation (will it fly?).

Some characteristics of transport appraisal may be noted:

- Appraisal is a comparative tool. It considers the difference between alternative states of the world (scenarios, such as Do-Something against Do-Minimum) and the cost and benefits of a project or policy intervention. A Do-Something scenario is one in which the project/policy is included in the transport system. A separate Do-Something scenario is required for each alternative tested. The Do-Minimum scenario needs to be a realistic base case against which the project/policy options are assessed. Therefore, appropriate definition and selection of the alternatives for consideration is crucial.
- Appraisal relies on data, modelling and forecasting. Without the straw of basic data on demand and supply, an economic model (which may be very simple) and a way of rolling forward from the base year into the future, the bricks of the appraisal cannot be made. The phrase ‘garbage in, garbage out’ applies if the economic appraisal is based on weak data inputs, then the appraisal itself will be fragile.
- Appraisal should reflect human behaviour and be evidence-based as far as is reasonably possible. So knowledge of the factors which drive behaviour, and the way in which transport improvements are likely to impact is important. In practice there is a trade-off between the cost and time to acquire data and the need for local evidence to support the appraisal. In any case, local data on key parameters such as the values of time will need to be benchmarked against wider evidence reviewed here.
- Appraisal needs to be holistic in nature, that is to say, it needs to cover economic, social and environmental impacts of projects and policies in a coherent and consistent manner.
- Appraisal needs to respect capital budgeting rules, dealing with costs and benefits over the life time of the project/policy and representing risk and uncertainty.
- Appraisal needs to be in scale with the size of the project and the risks involved. The economic appraisal treatment of a new bridge or tunnel across an estuary needs to be more sophisticated than the appraisal of the re-design of a junction because more public resources are at stake, the risks are greater, and the effects are likely to be far-reaching. The estuary crossing probably requires a purpose-built transportation and economic model, while the junction re-design problems might rely on standardised data and forecasting procedures.

To summarise, appraisal needs to be fit for a purpose:

- Timely and cost-effective in relation to the resources at stake
- Provide evidence on project impacts on society as a whole and from the perspective of individual agents or social groups; and

- Support the decision against the key tests of social value for money, financial sustainability and practicability.

1.2 Transport appraisal within the policy process

The core aim of transport appraisal must be to get a good measure of the primary impacts of the project on travel patterns, journey times and costs, and hence on user benefits, revenues and costs. This needs to be complemented by an environmental assessment of transport infrastructure and operations. Consideration of wider impacts on the economy and society **may** be required in particular cases (e.g. project with significant ‘opening-up’ or generative effects).

1.3 The HEATCO guidelines and other supra-national guidelines at a EU level

The review of existing practice documented in Odgaard et al. (2005) and further analysed in Bickel et al. (2005a) has shown considerable variation. In the context of selecting and financially supporting TEN-T projects, the need for consistent appraisal methodology arises. However, it is not the intention of HEATCO’s proposal for harmonised guidelines to stipulate methods and values; it might also be used as a support for achieving a consistent appraisal practice for other national and trans-national projects in the European context. National values are not to be replaced by uniform European values. Comparability of appraisal results, however, calls for a consistent methodological framework to derive (country-specific) values. This is the aim of the work presented in this document, which is open for discussion.

The HEATCO guidelines are the most recent of a series of guidelines/manuals/handbooks for project appraisal which have been promoted in the last years by the EC and/or other international financing institutions (IFIs).

Looking at the more recent ones (TINA, DG REGIO, RAILPAG), differences in e.g. sectoral coverage, level of detail of guidance to cost calculation, etc. are evident (see Table 1.1 for a detailed assessment). Despite differences in approaches and methodologies, promoting the performance of high quality project appraisals procedures for projects eligible for international co-funding (EC and other IFIs) seems to be the common rationale behind them. This could allow on one side to promote a virtuous cycle of penetration into national practices of robust appraisal techniques (especially valuable for those countries with a poorer appraisal experience) and on the other to rationalise decision making at a supra-national level, allowing funding institutions to allocate their (limited) budget over a number of projects assessed in a broadly comparable way.

In addition to this, the evolution of EU transport policy in relation with cohesion and development policy implies that an increasing number of infrastructure projects have a trans-national relevance, either in terms of their geographical location (e.g. cross-border projects), or in terms of the location of the costs/benefits they generate. This raises concerns as to how these questions can be correctly dealt with from a methodological point of view and on how problems of delays in decision making due to low coordination between two or more member states (MS) sharing the interest for an infrastructure can be avoided. Table 1.1 below provides

a comparative overview of the approach of the guidelines mentioned above with the one suggested in HEATCO. It has to be mentioned that the guidelines issued by the EC-DG Regional Policy have a broader range of application than the others, covering all sectors eligible for Structural Funds, Cohesion Funds and the Instrument for Structural Pre-Accession Aid (ISPA). Guidelines on how to adapt the general approach to the transport sector are however provided. TINA, RAILPAG and HEATCO are instead focused on the transport sector.

RAILPAG and HEATCO move from the work done in TINA, innovating in different directions. RAILPAG focuses on the rail sector, proposing solutions on how to extend the CBA approach in such a way that the features of this rapidly changing sector can be properly taken into account. The critical issues of appraising rail infrastructure projects are highlighted (multiplicity of stakeholders, need for a multimodal approach to capture integrated effects, interoperability, etc.), and the approach suggested is an “extended” CBA (quali/quantitative) complemented by a distributional analysis. The identification of possible trade-offs in the allocation of costs and benefits between stakeholders through a disaggregated CBA is at the core of RAILPAG proposal. RAILPAG is planned to be regularly revisited in order to provide an updated guidance on specific appraisal procedures.

HEATCO is not mode-specific, and innovates in several aspects with respect to existing guidelines:

- It starts from a recognition of national appraisal practices, identifying best practices;
- It provides a comprehensive guidance to costs and benefits calculation, proposing both basic appraisal procedures and more sophisticated ones: this allows higher usability of the guidelines especially for those countries with less sophisticated appraisal traditions and poorer data availability.

Table 1.1 DG Regional Policy Guidelines, TINA, RAILPAG, HEATCO: a comparative overview.

	DG Regional Policy 2003	TINA 1999	RAILPAG 2005	HEATCO 2006
Target user	EC officers in charge of evaluating projects for funding; Project promoters (MS) applying for EC funds.	Project promoters: as a benchmark for quality of project definition and appraisal. IFIs: to promote the adoption of a common approach based on TINA guidelines.	Practitioners, project promoters: as a benchmark for quality of project definition and appraisal. The purpose is facilitating project promoters to obtain funds from EC and other IFIs.	Practitioners, project promoters: as a benchmark for quality of project definition and appraisal.
Focus	Project appraisal in the framework of Structural funds, Cohesion funds, ISPA. Applicable to all sectors eligible for the above funds.	Project appraisal in the framework of TEN-T investments. Especially directed to countries applying for ISPA funds.	Focus on large investments in the rail sector. Not specific for project screening, rather suitable for well identified projects with several alternatives.	Project appraisal in the framework of TEN-T and other transnational investments. The framework also applies to national investments.
Approach	“Framework approach”: socio-economic CBA including all <i>monetisable</i> impacts, MCA for all <i>quantifiable but non monetisable</i> impacts. Political judgement as a final synthesis.	“Framework approach”: socio-economic CBA (<i>monetisable</i> impacts), all other impacts (<i>quantifiable but non monetisable</i> and <i>non quantifiable</i>) must be taken into account. No methodologies suggested on how integrate these aspects, decision is a political deliberation over the two components.	“Extended CBA”: comprehensive socio-economic CBA including all <i>monetisable</i> impacts, complemented by a distributional analysis (see below). <i>Non monetisable</i> impacts introduced in the disaggregated CBA as indicators (“markers”). MCA excluded.	The same as TINA. In addition, it is suggested that the final political deliberation should also be backed by <i>switching values</i> as a threshold for non-monetised impacts.
Treatment of monetised impacts	Socio-economic CBA (use of accounting/shadow prices). Indications on how to calculate cost/benefit categories are provided. The various options to calculate external costs are shortly described.	Socio-economic CBA includes economic efficiency and safety. Indications on how to calculate cost/benefit categories are provided. External environmental costs are not included in CBA: mitigation measures considered within investment costs, for other impacts reference is made to EIA procedures.	Refers to TINA for the basic financial and socio-economic appraisal procedures. Describes in detail only complementary and/or railways specific aspects. Detailed description of procedures for cost/benefit calculation is currently under development.	Comprehensive and detailed guidance for the calculation of all cost/benefit categories. Suggested methodology for external costs is IPA.

	DG Regional Policy 2003	TINA 1999	RAILPAG 2005	HEATCO 2006
Treatment of non-monetised impacts	Included in MCA	Quantitative (non monetised) and/or qualitative assessment.	Quantitative (non monetised) and/or qualitative assessment. CBA extends “qualitatively” to highlight the presence of such effects into the SE matrix. Switching values can be calculated to give order of magnitude of these impacts.	Quantitative (non monetised) and/or qualitative assessment. In case non-monetised impacts are small, sensitivity analysis suggested. In case they are relevant, eliciting decision maker’s weight for them vs. monetised impacts.
Treatment of indirect socio-economic effects	Not included.	Not included.	General equilibrium models suggest estimating e.g. economic growth or job creation.	Qualitative assessment at a minimum. Use of Spatially Computable General Equilibrium Models if possible.
Equity (intra-generational)	Either included in CBA (through shadow prices) or in MCA (quantified e.g. through statistical measures such as Gini index). No disaggregation of impacts between stakeholder categories.	Disaggregated results of CBA (per type of user, public vs. private, etc.).	Disaggregated results of CBA through Stakeholders-Effects Matrix (SE Matrix).	Winners and losers tables at minimum, distributional matrices as a more sophisticated approach.
Treatment of future risk and uncertainty	Sensitivity analysis Scenario analysis Risk probability analysis	Sensitivity analysis Scenario analysis	Not widely treated yet. Sensitivity analysis suggested	Sensitivity analysis at minimum, Monte Carlo simulations as a more sophisticated approach.
Decision criteria	Economic Rate of Return (ERR) Economic Net Present Value (ENPV) Benefit-Cost Ratio (BCR)	Internal Rate of Return (IRR) Net Present Value (NPV) Benefit-Cost Ratio (BCR)	Internal Rate of Return (IRR) Net Present Value (NPV) Benefit-Cost Ratio (BCR)	Various indicators are provided, according to the aims of the analysis: Net Present Value (NPV) Benefit-Cost Ratio (BCR) Ratio of NPV and Public Sector Support (RNPSS) First Year Rate of Return (FYRR)

MS: Member States

IFIs: International Financing Institutions

EIA: Environmental Impact Assessment

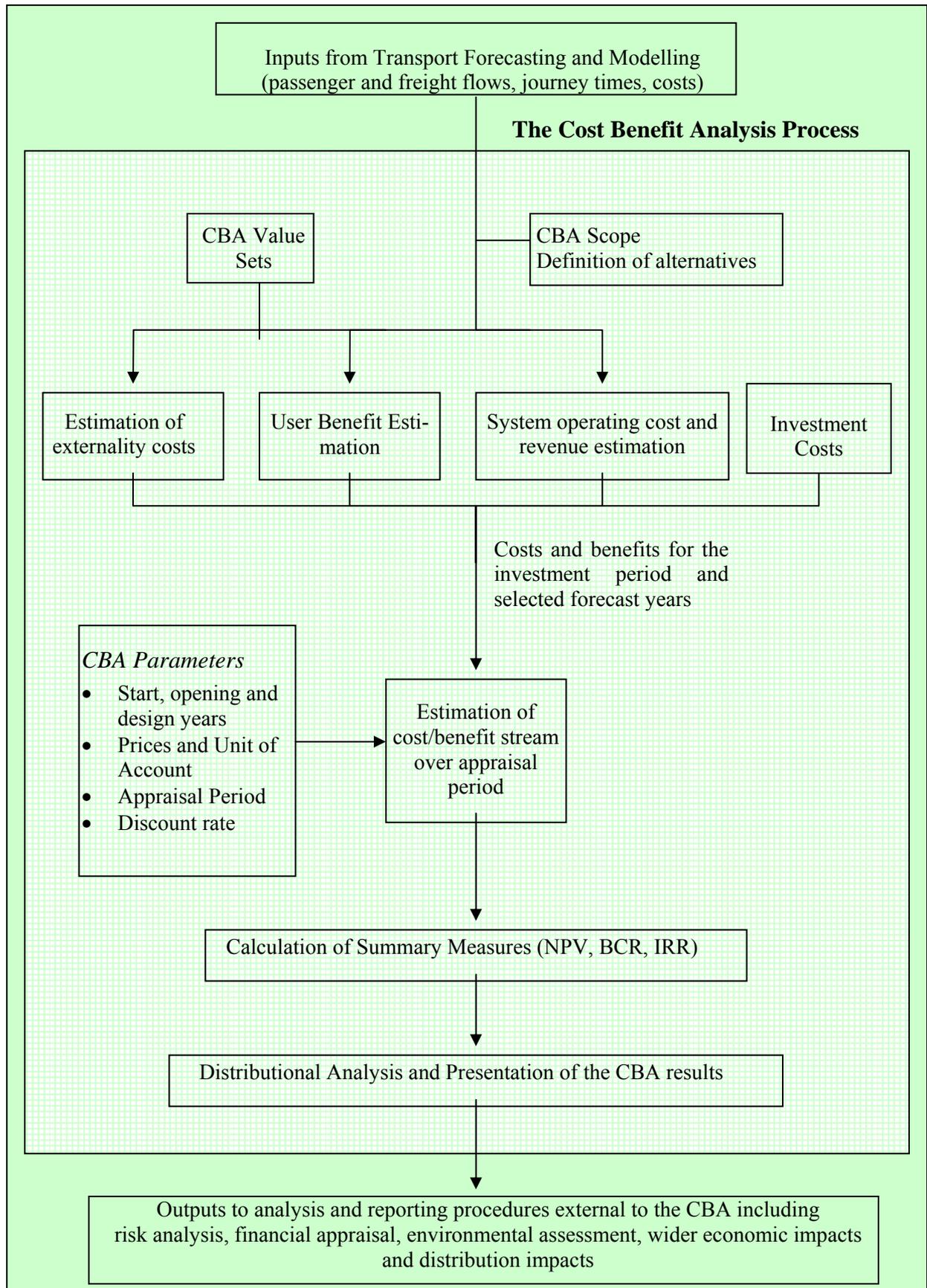
IPA: Impact Pathway Approach

1.4 The structure of these guidelines

Chapters 2 and 3 set the context of the project appraisal framework and give recommendations for the treatment of general issues. In chapter 4 suggestions for valuing time and congestion are made. Chapter 5 deals with the valuation of changes in accident risks, whereas chapter 6 focuses on the valuation of environmental costs due to air pollution, noise and global warming. Chapter 7 gives recommendations for the broad area of the costs and indirect impacts of infrastructure investment. Finally chapter 8 explains how vehicle operating costs should be valued. Country-specific fall-back values are suggested for application in cases where no state-of-the-art national values are available for valuation:

- time and congestion,
- accident casualties,
- damage due to air pollution, noise and global warming.

Box 1: Transport Economic Appraisal



Box 1 summarises the steps involved in carrying out the cost-benefit analysis for transport infrastructure projects and illustrates that it comprises of a number of distinct stages and that a range of internal inputs are required. The rest of this chapter is structured around the elements in Box 1, and many of the subsequent chapters are clearly linked to this structure.

2.2 Scope of CBA

At the start of the CBA process, a view will need to be taken on the scope of the analysis. This is often made simultaneously with the decision regarding the type and scale of the demand forecasting approach, as the two processes are inter-related. Ideally, the CBA process should include all impacts of the investment, no matter how small that impact is. However, setting such a broad scope for a CBA will result in extensive data collection and analysis that may well be expensive in terms of cost but also in terms of time required to complete, both will affect the ability to deliver the project. Given that the purpose of the CBA is to firstly ensure that a project is economically beneficial and secondly to aid the choice between alternatives, the scope of the CBA is in practice often narrowed by excluding minor or insignificant impacts as long as the exclusion of these impacts will not bias the appraisal. Key issues that require addressing in defining the scope of a CBA include:

Impacts: the measurement of changes in producer and consumer surplus requires the measurement of benefits, revenues and costs to transport operators and users. At a minimum these should include the investment cost and changes in infrastructure and system maintenance and operating costs, vehicle operating costs, journey times, safety, user charges and operator revenues.

Mode of transport: typically the modes of transport that are considered should include both those that will use the new infrastructure (e.g. a road) and those from which demand may be abstracted (e.g. rail).

Study area: should be the smallest area that allows for the development of robust results. It should therefore be large enough to capture network effects that include firstly the abstraction of demand from other routes and modes and secondly the impact of competing and complementary schemes that in combination with the project in question may comprise the country's development strategy. If cross-border impacts are expected (e.g. from transit traffic associated with land locked countries) then the study area should be defined so as to incorporate both domestic and international travel.

2.3 Definition of alternatives

A transport investment project is normally proposed as part of a planning process to solve a set of specific problems or to achieve certain objectives. As such there is usually a range of solutions or alternatives that require appraising. These alternatives are termed "Do-Something" scenarios. To ensure that the different scenarios can be compared against each other it is important to undertake the appraisal against a single reference case scenario which is termed the "Do-Minimum".

The Do-Minimum scenario is defined as the scenario which involves carrying out the investment and maintenance necessary to keep the system working without excessive deterioration. The implication is that the Do-Minimum includes a maintenance and renewal programme. The Do-Minimum is therefore very different from a do-nothing situation. This is because a do-nothing situation does not include a maintenance programme and therefore in the long term would not be able to even meet existing demand levels. The Do-Minimum scenario may result in very different traffic levels compared to those foreseen with the project implemented. This is expected. It is not there appropriate to take the Do-Minimum alternative to be the minimum level of investment required to provide for expected 'normal' traffic growth. Such an alternative (sometimes referred to as 'avoided investment') forms one of the Do-Something scenarios.

The Do-Something scenarios are easier to define as they represent the 'transport solutions' designed to solve existing transport related problems or to achieve a set of local, regional, national or supranational objectives. Some complexity can occur in their definition when several inter-linked projects are proposed. This is often of particular importance in rail appraisals (e.g. development of a high speed rail network). As set out in the RAILPAG guidelines one of the ways of handling such cases is to carry out appraisals of the bunched investment and of each of its individual components, to reach an optimal project selection and implementation programme. In practice this can be a challenging task as it is important to avoid double counting the 'network' benefits of the bunched appraisal in each of the individual appraisals. As such transport models with a wide geographic coverage are often required.

2.4 Transport User Benefits

The essential measure of benefits to users is consumer surplus, that is, the excess of consumer willingness to pay over the cost of a trip. Normally, we are interested in the change in consumer surplus resulting from some change in the cost of travel brought about by an improvement in transport conditions. Operationalising this in transport poses some practical problems. For most consumer goods the cost of the good (to the consumer) is its price. When it comes to transport, prices and money costs are only a proportion of the composite cost of travel, which in principle also incorporates the time spent by the individual, access times to public transport, discomfort, perceived safety risk and other elements. Therefore price alone is not an appropriate measure of either the cost of travel or the consumer's WTP, instead generalised cost is used. Generalised cost is an amount of money representing the overall cost and inconvenience to the transport user of travelling between a particular origin and destination by a particular mode. In practice, generalised cost is usually limited to a number of impacts which when summed comprise the components of user benefit:

- (i) Time costs (Time in minutes * Value of Time in €/minute);
- (ii) User charges (e.g. fares/tolls); and
- (iii) Operating costs for private vehicles (VOCs).

It is important to note that the components of generalised cost tend to vary by mode. Public transport users (bus, coach, train, air and ferry) will pay a money fare and give up time in order to travel to their destination. Car users and own-account freight users give up time may be asked to pay an infrastructure access charge or toll, and pay for their own fuel and VOCs. Therefore there is a fundamental difference in the reported user benefits for users of different modes. Additionally, it is important to recognise that Values of Time vary between individuals and even for the same individual, depending on for example trip purpose. There is no unique willingness-to-pay for travel time savings. This has consequences for modelling and appraisal, especially for toll roads or urban mass transit, where suitable market segmentation is needed.

Box 2 describes the concept of consumer surplus measure of user benefits. The light shaded area in Figure 1 is known as the Rule of a Half measure of user benefits, for reasons discussed in Box 2. The Rule of a Half can also be applied separately to each of the user benefit impacts to provide a disaggregation by time, money costs and user operating cost savings. Such a disaggregation will most likely be required for presentation of the cost benefit analysis results.

Clearly the computation of generalised cost needs a calculation of the benefits of time savings and vehicle operating costs. This is discussed in detail in chapters 0 and 8.

2.5 Impacts on Transport Providers and Government

Although the user benefit analysis will often be the most testing part of the cost-benefit analysis, it needs to be undertaken alongside an analysis of revenues and costs which impact on both the transport providers and the government.

2.5.1 Producer surplus

Cost-benefit analysis is concerned not only with consumer surplus, but with total social surplus. This includes producer surplus (PS) as well as consumer surplus. The greatest scope for changes in producer surplus arises from public transport projects or toll road projects, which can affect operators' revenues without having an equal and offsetting effect on operating costs. Producer surplus is defined simply as total revenue (TR) minus total costs (TC):

$$PS = TR - TC \quad \text{and therefore} \quad \Delta PS = \Delta TR - \Delta TC$$

It should, however, be noted that there is an implicit assumption here that if the additional demand for this service is associated with reduced consumption of some other goods or services elsewhere in the economy, those goods and services are being priced at marginal cost, so that there is no offsetting or additional change in producer surplus elsewhere. This assumption is a facet of the partial equilibrium approach adopted, as discussed earlier, and whilst usually made is worth making explicit in the interests of transparency. Producer surplus is discussed further in section 3.9.

Box 2: Consumer Surplus and the Rule of a Half

In Figure 1 an improvement in transport supply conditions, such as an investment in the road infrastructure between locations i and j is shown. The fall in transport costs have effects on two groups of users:

- (i) Existing users – these gain the benefit of the cost change $(C^0 - C^1)$ each, or area C^0AEC^1 .
- (ii) New users – these gain a benefit equal to the excess of their willingness to pay over their cost of travel, or area ABE.

User benefits are the sum of (i) and (ii) and can be written:

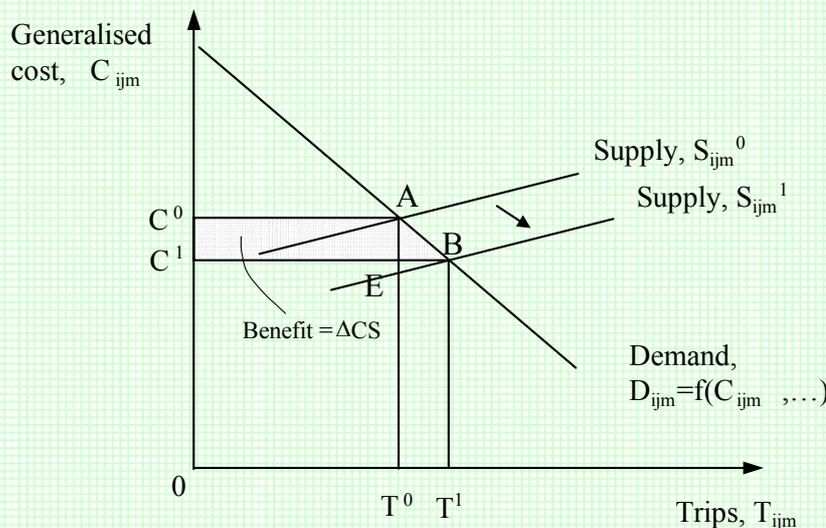
$$(C^0 - C^1) T^0 + \frac{1}{2}(C^0 - C^1)(T^1 - T^0)$$

or

$$\frac{1}{2} C^0 - C^1) (T^0 + T^1)$$

This is rule of a half measure of user benefits. It can be extended to treatments of networks with simultaneous changes in costs on links and across modes.

Figure 1: User benefit (=change in consumer surplus) in the do-something scenario compared with the do-minimum



The rule of a half formula assumes the demand curve is linear between points A and B. Therefore, it is only an approximation to the true benefit – the more convex (or concave) the demand curve, and the larger the cost charge, the less accurate the approximation will be. Given the many sources of error in practical appraisal work, the rule of a half is considered acceptable except in cases such as estuary or mountain crossings, where cost changes may be considered “large” relative to base cost levels.

Revenue forecasts depend on traffic forecasts, and both depend on pricing policy. Therefore it is essential in appraisal that the price policy assumptions on which the traffic and benefit estimates are based are consistent with those used for revenue forecasting. The size of the revenue and user benefit effects, as well as their distribution, depends upon the pricing policy. Although this seems obvious, in many practical situations, the appraisal may be undertaken before the details of the toll or price regime have been finalised, so that provisional assumptions made for the appraisal can turn out to be wide of the mark.

Revenue forecasts will be needed both for the Cost Benefit Analysis and for the assessment of financial sustainability of projects. There may be a trade off in tariff-setting between the desire to maximise social benefits from the project and the imperative to satisfy budgetary constraints.

2.5.2 Investment costs

Typically the investment costs for transport infrastructure projects will be derived from engineering design studies and estimates. A number of adjustments, however, may have to be applied to these engineering cost estimates before they can be included in the appraisal. These adjustments are as follows:

- The cost of *mitigation measures* required by the environmental impact assessment;
- Conversion of the engineering costs to the correct price base and unit of account (discussed in section 3.11). This will include adjustments for:
 - Taxation (including import duties);
 - Inflation (between year of the engineering cost estimate and price base of the appraisal);

No adjustment is made for the manner in which the project is financed. That is the investment costs used in the appraisal are the same whether or not the project is financed directly by the government or financed through some form of private sector involvement (such as through public private partnerships (PPP or 'lease-back' arrangements). This is because the costs of financing under PPP or 'lease back' arrangements represent a transfer payment from the public to the private sector. As a transfer payment, the profit element of the costs of financing the project will not affect the project's overall economic value (Net Present Value). However, the method of financing will have financial and distributive impacts. It is therefore important that a financial appraisal, comparing the costs and revenues of procuring the project by different methods, is undertaken.

Additionally, whilst not forming part of the investment costs, it is important that user benefits reflect any travel time and cost delays during construction. In the case of public transport projects, bitter experience suggests a need to allow for the effect on traffic and revenues of any disruptions to existing service quality while new schemes are constructed. The treatment of user delays during construction within the appraisal is similar to the treatment of user delays during routine maintenance.

The direct costs of the infrastructure investment are discussed in more detail in chapter 7.

2.5.3 Maintenance and system operating costs

Proper estimates are also needed of the costs of operating both the infrastructure and the services, which are mode and country-specific. The main items will typically be:

- The costs of infrastructure operation (e.g. signalling/traffic control);
- Maintenance costs (cleaning, minor repairs, winter servicing);
- Costs of renewals (road/rail reconstruction)⁵; and
- Changes in the vehicle operating costs of public transport services.

Maintenance costs from an important component of the definition of the Do Minimum scenario (the without project scenario) and should always be included in the definition of that scenario. Additionally, any disruption to transport users that occurs during periods of routine maintenance should be reflected in the appraisal as a user benefit impact. Chapter 7 discusses maintenance and system operating costs further.

2.5.4 Taxation and government revenue effects

A project can lead to change in government surplus by altering tax receipts, principally through changes in indirect taxation (fuel duty and VAT). It is important to include such a change in tax revenue in a cost-benefit analysis as the distortion effects of indirect taxation mean that an economic surplus is experienced by the government. When a project leads to a shift in demand between private and public transport, the implications for government tax revenue may be significant because private transport is often relatively heavily taxed and public transport is often relatively lightly taxed. These changes in indirect tax revenue to the government should be shown in the cost-benefit outputs. The two principal effects are:

- (i) An increase in private and commercial goods vehicle kilometres on roads will increase the amount of fuel consumed, thereby increasing fuel duty receipts to government;
- (ii) An increase in transport expenditure that is not subject to VAT (e.g. increased expenditure on public transport fares, road tolls, on-street parking fees) will decrease government tax receipts – as less money is spent in the general economy that is subject to indirect taxation.

Some large infrastructure projects in areas of high transport costs can be associated with employment gains at a national or supranational level. If such increases in employment are truly additional (i.e. do not occur as a consequence of job losses elsewhere) then the increase in tax revenue associated with the additional income tax receipts should also be included in the cost benefit analysis.

⁵ One aspect in the context of infrastructure maintenance and renewal is the burden on future budgets caused by a project: As transport infrastructures in Europe are ageing large scale investments will be necessary in future to keep up present levels of service. The increasing need for reinvestments will put severe constraints on future recurrent household budgets and hence limit the degree of freedom to use the funds adequately for needed investments. Therefore, present transport investments will have impacts on future recurrent household budgets and restrict future transport options.

2.6 Safety benefits

By convention, safety is treated differently from the other components of user benefit. Rather than being included as a component of generalised cost per trip, accidents and casualties are typically treated as random, occasional costs arising from the transport system, which can be evaluated by applying unit values per accident and per casualty, to forecast data on accident and casualty numbers by mode. The calculation is a simple multiplication of forecast accident numbers (by severity) with the costs of accidents (by severity). This treatment is akin to that of externalities (e.g. the environment (see below). Chapter 5 discusses safety benefits in more detail.

2.7 Impacts on the Environment

The environment of a transport project includes the surrounding objects and conditions (natural and man made) as well as the circumstances of human society in that area. This is a broad definition and includes amongst others:

- Health and safety impacts (i.e. the human costs of pollution and accidents, the latter of which has been discussed above);
- Involuntary re-settlement;
- Impacts on the natural environment; and
- Impacts on the man made environment (e.g. cultural heritage).

The directive 85/337/EEC as amended by 97/11/EC regulates the procedure to appraise the environmental consequences of a project (Environmental Impact Assessment, EIA). This procedure is designed in order to ensure that environmental impacts are adequately taken into account before the decision to go ahead with a project is taken: the directive identifies project categories subject to EIA, procedure (including public consultation) and content of the assessment.

It must be recognised, however, that the current state of the art regarding the valuation of environmental impacts is such that these impacts are handled via a mixture of qualitative, physical and monetary measures. Therefore within the economic appraisal it is considered that the key objectives with respect to environmental impacts are to:

- Firstly, ensure that all environmental impacts are considered within the Environmental Assessment; and
- Secondly, to assign an economic cost to quantified impacts if that cost represents a reasonable proxy for the *Total Economic Value*.

The treatment of environmental impacts that can be monetised are set out in chapter 6. The inclusion of non-monetised impacts in the decision making process is discussed in section 3.3.

2.8 Cost Benefit Analysis Parameters

So far the first six boxes of the CBA process detailed in Box 1 have been dealt with. These together give us the investment costs and the operating costs, revenues and user benefits for the base year. In developing a CBA it is important to move consistently from a single year to the valuation of the project over its whole life. This involves explicit treatment of forecasting growth over time, accounting issues such as the treatment of inflation and the unit of account, and capital budgeting issues such as discounting. Chapter 3 sets out guidelines on all these issues and also considers the summary indicators of value for money.

2.9 Risk and Uncertainty

One statement that can confidently be made about almost any transport project is that the costs and benefits are uncertain. This is because many of the elements of the NPV estimation are subject to error. It is therefore important to analyse the sensitivity of the calculated net benefit indicators to ranges in individual parameters (capital cost, traffic growth rate, etc.). The treatment of risk and uncertainty within the economic appraisal is discussed more extensively in section 3.7.

Indirect socio-economic effects

When transport investments are made, changes are expected to occur to distribution and production patterns, market areas served and labour market catchment areas. These impacts are often termed indirect socio-economic effects or wider economic impacts. However, as discussed at the outset of this chapter, the cost benefit analysis process does not start by attempting to estimate these wider impacts; instead the CBA measures the benefits in the transport market. This is appropriate provided that transport using sectors of the economy are competitive (so that surpluses are passed on to final users) and that there are no significant scale economies in production which a narrow transport sector analysis would fail to take into account.

From an appraisal point of view, the issue is not whether transport projects produce wider economic impacts, since that is one of their purposes. Instead, the issue is

- (a) whether and in what circumstances the absolute final economic impacts may exceed the initial transport impacts – so-called *additionality*; and
- (b) where the incidence of the final impacts is more (or less) socially beneficial than the incidence of the transport impacts. Even if there is zero *additionality*, are there *distributive effects*?

The presence of *additionality* depends on the presence of imperfect competition in the goods market, the land market or the labour market. The source of any additional benefits is to be found in divergences between prices and marginal social costs in relevant markets. In such cases, reductions in transport costs feed through to some extent into reductions in final goods prices and increases in output. Whereas under perfect competition, the price of this output reflects the marginal cost of production, in imperfect competition a correction is required to

allow for the fact that price exceeds marginal cost. The size of this benefit depends on the size of the output effect, and the price: marginal cost margin. The measurement of the additional benefit due to imperfect markets is difficult due to the risk of double counting benefits. Section 3.10 discusses how to incorporate indirect socio-economic effects into an appraisal.

In addition to measures that indicate the overall economic impact of a project a key output from a social cost benefit analysis is the distribution of those impacts. That is which sectors of society are expected to gain and which sectors will experience a negative impact. Such distributive information is important for policy making, as investments are often targeted at improving socio-economic conditions within a particular area or for a particular group of people. It is therefore important from a policy perspective to know whether the targeted area or group is receiving the benefit.

It is possible to disaggregate the components of benefit by impact group; transport users (by mode), operators and providers (including the government), as discussed earlier. This disaggregation process is an important first step to understanding distributional impacts. Ideally, transport user benefits should also be segmented by socio-economic group if the data allows, however, impacts by mode will give some information regarding those members of society who are set to gain by the investment. Such information should be presented in a distributional matrix as illustrated in section 3.4 of these guidelines.

The impacts detailed in the cost benefit analysis table are transport impacts, and do not necessarily represent the distributive implications of the final economic impacts. To determine if the incidence of the final impacts is more (or less) socially beneficial than the incidence of the transport impacts two steps are required.

First, the impact on the distribution of economic activity needs to be forecast. It is essential to avoid jumping to conclusions. The fact that accessibility from a peripheral area to a regional centre is improved is no guarantee that economic activity will migrate to the periphery. Low transport costs are a centralising force, so if anything, improved transport facilities are more likely to cause migration to the regional centre. This is the 'two way road' effect. In pure production terms perhaps the most important requirement is that the region should hold natural or cost advantages for a reasonable range of economic activities in which transport is a significant input. Primary products are a relevant example of where improved transport may permit exploitation of assets fixed in location.

If market conditions are favourable for a displacement of economic activity, then the second question is whether there is a net social advantage from the redistribution of economic activity. Is the gaining region a target area for economic development? Is activity being displaced from more prosperous locations or from even more acute problem locations?

2.10 Reporting the Cost Benefit Analysis

As discussed in the introduction to these guidelines, the cost benefit analysis results have to be read alongside other components of the decision process including the environmental assessment and wider planning issues such as distributional and poverty impact analyses,

financial sustainability, risk analyses and a consideration regarding whether or not there are social or technical barriers to implementation. The cost benefit analysis framework described within this document can be an important source of information regarding many of these wider issues.

To aid the decision process described above it is important to present the cost benefit analysis results in a clear and concise form. The key information that should be reported will be:

- Initial assumptions and scenario definitions;
- CBA parameters including:
 - Start Year, Opening Year;
 - Discount rate
 - Price base/accounting units
 - Shadow pricing assumptions
 - Summary Measures of social value;
- Disaggregated CBA results, highlighting the following distributional issues within the overall costs and benefits:
 - Users' benefits versus net impact on operators;
 - Shares of user benefits by mode;
 - Composition of user benefit by item of benefit (Time, VOCs, etc);
 - Shares of time savings made up by personal travel (in non-working time) and business travel including freight and personal travel in working time;
 - Shares of international traffic versus domestic traffic in user benefits;
 - Shares of operator costs and revenue by mode;
 - Investment costs by group (that is, private operators, national government, financial institutions).

This disaggregated information could be presented in a range of different formats, some of which are more suitable than others for particular uses of the appraisal outputs.

3 General Issues

Cost-benefit analysis (CBA) has been identified (Odgaard et al. (2005)) as the most widely used appraisal methodology with regard to transport projects in the EU25. Guidance relating to CBA is therefore the focus of these guidelines. This section of the guidance outlines background detail – definitions, purpose in project appraisal, existing and best practice - and specific recommendations relating to the principal generic issues that modern transport cost-benefit analysis needs to consider. The usual starting point in CBA is an identification and monetisation of the components that are incorporated in the formula:

$$NPV = \sum_{n=0}^N \frac{(b_n - c_n)}{(1+r)^n}$$

where: b = project benefits; c = project costs; n = the year(s) in which the benefits and costs occur; r = discount rate; NPV = Net Present Value.

The generic issues we address, together with an indication of how each relates to the CBA equation, are listed below. They include:

- Non-market valuation techniques. This relates to components b and c in the formula
- Value transfer. This relates to components b and c in the formula
- Non-monetised impacts. This relates to impacts that are not included in b or c.
- Discounting and intra-generational equity. This relates to the value of r and additional weightings that might be given to b and c.
- Project appraisal evaluation period. This relates to N.
- Decision criteria. This relates to the use of NPV which is only one of a number of decision rules.
- Risk & Uncertainty. This relates to the uncertainty involved in estimating b and c.
- Marginal cost of public funds. This relates to component c.
- Producer surplus. This relates to measurement of b.
- Indirect socio-economic effects. This relates to the definitions of b and c.
- Accounting procedures. This relates to components b and c.

3.1 Non-market valuation techniques

3.1.1 Definitions

Non-market valuation is a technical term used to describe the idea that a number of welfare components in transport (and other sectoral) project appraisal do not have the value of that welfare expressed in a market price. For example, environmental goods and services generally have characteristics⁶ that make it difficult or even impossible for markets for these services to

⁶ Non-excludability and non-rivalry in consumption are typical characteristics of environmental services, such as air quality and noise. These are also characteristics of public goods.

function. The public good feature of environmental services leads to market failure in the sense that individuals are not free to vary the level of the services they consume, independently of others (Freeman, 2003). They are therefore unwilling (and unable) to pay for their own consumption of the environmental services given that it may impact on others' consumption. A private market does not, therefore, operate.

As a result, non-market valuation techniques are necessary to estimate monetary values of welfare changes in consumption of environmental services. Two examples of non-market values include the welfare effects from i) changes in health status as a consequence of changes in pollution caused by the introduction of a transport project, and ii) of time-savings that the project allows. In neither case are the goods/services traded in a market but it is recognised that there is a welfare change. In order to represent these types of welfare changes in project CBA, project analysts therefore have to adopt non-market valuation techniques to measure them.

3.1.2 Purpose/role in project appraisal

In the TEN-T context, the primary purpose of estimating monetary values associated with goods or services not tradable in markets is their use in CBA where all costs and benefits associated with a given policy or project are required to be expressed in monetary terms. A number of externalities associated with transportation projects, such as air quality and noise impacts, or changes in traffic safety, as well as time savings, do not have market prices. Hence, non-market valuation techniques are needed to account for these impacts in monetary willingness-to-pay (WTP) terms.

3.1.3 Existing practice at EC and national levels

Odgaard et al. (2005) present the results of a survey of European transport ministries regarding the use of non-market valuation in transport-related project appraisal. The results show variable use of non-market valuation techniques in this context, perhaps reflecting the fact that such techniques are relatively resource intensive to administer and that there remains some uncertainty about the level of robustness that can be attached to the results of such studies. The description of best practice below outlines the principal individual valuation techniques currently used.

3.1.4 Best practice

Production function approaches

Production function approaches estimate the value of a given non-market good/service from the measurement of changes in marketed output as a consequence of changes in the provision of (usually environmental) inputs in the production of the output. In the **dose-response**, or exposure-response, method the physical output change as a result of a change in environmental quality is multiplied by the market price of the affected good to estimate an economic (use) value of the good. An example is the impact of low-level ozone caused by road transport on crop yields. Assuming that the loss of yield can be quantified using an exposure-response function, the quantity of crop lost can be multiplied by the market price of the crop. The great

advantage of this method is that it relies on the use of market prices to derive values rather than having to infer values through indirect means.

The *replacement or restoration cost* method assumes that the economic cost of a non-market good can be estimated by the market price of a substitute market good that can replace or restore the original quantity or quality level of the non-market good. For example, a habitat may be disturbed in the construction of rail infrastructure, but its original condition may be restored by expenditure on the import of certain plant species. This expenditure may therefore be seen as a proxy for the value of this aspect of the habitat. If the expenditure is made it is, at best, a lower bound on true willingness to pay (WTP). If the expenditure is not made, it may be seen as an upper bound on true WTP.

Indirect revealed preference techniques

These techniques use models of relationships between marketed goods/services and the non-market good/service of interest, assuming that there is some kind of substitute or complementary relationship between the two goods. The advantage of this group of techniques is that they make use of information about people's actual behaviour and related personal preferences. Their principal disadvantage is that the statistical models used to isolate the value of interest from other influences are sensitive to the specification and functional form assumed. A number of econometric issues are generally involved in the estimation of the value of the desired attribute and it is a resource intensive exercise to make these estimates. Note that WTP values should be derived from individual's decisions and preferences rather than using those values derived from policy decisions since this would imply assuming that the policy decision is optimal (welfare optimising).

The *travel cost* method estimates recreational use values through the analysis of travel expenditures incurred by consumers to enjoy recreational activities.

Avertive/abatement costs, or defensive/preventive expenditures, assumes that individuals spend money on certain activities that reduce their risks (e.g. impact of pollution, risks of accidents) and that these activities are pursued to the point where their marginal cost, (i.e. the expenditure on the last unit purchased), equals their marginal value of reduced impact. Averting goods related to pollution include e.g. air filters, water purifiers, and noise insulation, while averting goods that reduce risks of death may include seat belts and fire detectors.

Hedonic price analysis refers to the estimation of non-market values by deriving prices for individual attributes of a market commodity that are implicit when environmental goods/services can be viewed as attributes of a market commodity, such as properties or wages. Thus, the hedonic price model provides the basis for deriving welfare change measures from observed differences in properties' prices or wages offered in the job market. For example, differences in ambient noise levels in two areas, and the values individuals place on these, may be reflected in relative house prices in the two areas.

Stated preference techniques

Stated preference is a generic name for a variety of techniques including the contingent valuation and choice experiments including contingent ranking, contingent choice and conjoint analysis. Using these techniques, researchers pose contingent or hypothetical questions to

respondents, inducing responses that trade off improvements in public goods and services for money. From the responses, preferences for the hypothetical good or the value of changes in provision of the hypothetical good can be inferred. Values are derived from preferences made in relation to (hypothetical) prices, or via trade-offs with other attributes. The major advantage of the technique is that the questions put to respondents can define exactly what needs to be valued. The main limitation is that the method provides hypothetical answers to hypothetical questions, which means no real payment is undertaken, so that no real commitment is made.

A belief that increased uncertainty is attendant to the values derived from techniques that move from production function approaches, through revealed preference approaches to stated preference in the UK has led the UK public sector appraisal guidance to recommend that, as data and resources allow, analysts should consider the use of the former approaches before considering the latter. In Switzerland, stated preference techniques are preferred to abatement and replacement costs. Other existing guidelines e.g. those of DG Regional Policy are not as prescriptive (EC DG Regional Policy (2002)). These guidelines recommend that the most satisfactory valuation technique should be used, this being determined by the type of project, the types of impact being considered, and on the wider socio-economic and political context. Stakeholder validation of the resulting values is also suggested.

3.1.5 Recommendations

The best practice section above reflects the fact that there is no consensus in current guidance as to how non-market values should be derived and used. In UK, the guidance is prescriptive in recommending e.g. revealed preference techniques over stated preference techniques. EC DG Regional Policy is more flexible and responsive to the specific context, perhaps reflecting the fact that sectoral analytical expertise differs between countries. In the light of this our recommendations are similar to those of DG Regional Policy.

Recommendations for use of non-market valuation are:

- To undertake non-market valuation studies i) where the impact to be valued is likely to be significant in determining the outcome of the CBA, and ii) where the possibilities for robust value transfer (see next section) are limited.
- To select non-market valuation techniques on the basis of available expertise and previous experience in the EU relating to the specific impact.
- To use WTP measures in preference to cost-based measures such as abatement and replacement costs.
- To validate resulting non-market values through comparison with the values from other EU studies

3.2 Value Transfer

3.2.1 Definitions

Increased use of cost-benefit analysis (CBA) in the transport, environment, energy, health and cultural sectors has increased the demand for information on the economic value of environmental and other non-market goods by decision makers. Due to limited time and resources available to decision makers, new non-market valuation studies often cannot be performed. In this case decision makers must rely on transfer of valuation estimates of similar changes in non-market good quality from previous studies. This procedure is often termed benefit transfer, but since damage estimates can also be transferred a more appropriate term would be value transfer.

3.2.2 Purpose/role in project appraisal

Value transfer increases the uncertainty in the estimated value since the time and/or place of the original study (the study site) will be different from the new decision making context. Thus, a crucial question becomes: What level of (in) accuracy is acceptable in CBAs? Results from validity tests of value transfer procedures have shown that the uncertainty in spatial and temporal benefit transfer can be quite large. A consequence is that the analyst needs to take particular care when using value transfer in cost-benefit analysis in the instances where present value costs and benefits are very closely balanced.

There are two main approaches to benefit transfer: *Unit Value Transfer* with, and without, income adjustments; *Function Transfer* including Meta analysis.

Unit value transfer

Simple unit transfer is the easiest approach to transferring value estimates from one site to another. This approach assumes that the well-being experienced by an average individual at the study site is the same as will be experienced by the average individual at the policy site. Thus, we can directly transfer the value estimate, often expressed as mean WTP per household per year, from the study site to the policy site.

The simple unit value transfer approach may not be appropriate where transfer between countries with different income levels and costs of living is intended. Instead, *unit transfer with income adjustments* may be applied. Since most non-market valuation studies to date have been conducted in developed countries, this has become the general practice when conducting CBAs of infrastructure projects in developing countries, which rely on these studies. This is the case, for example, for the transfer of travel time unit values where cross-sectional evidence suggests the use of specific income elasticities in transfer between countries.

However, it should be noted that even if adjustment for differences in income and cost of living in different countries are made, these will not account for differences in individual preferences, initial environmental quality, and cultural and institutional conditions between countries (or even within different parts of a country). New evidence relating to noise valuation (Navrud et. al. forthcoming) suggests that for noise impacts, other factors additional to income may be significant or dominant.

Function transfer

With the value (or benefit) *function approach*, an empirical relationship (function) between WTP and characteristics of the affected population and the resource being assessed is specified. For a CV study, the benefit function can be written as:

$$WTP_{ij} = b_0 + b_1 G_j + b_2 H_{ij} + e \quad (1)$$

where WTP_{ij} = the willingness-to-pay of household i at site j , G_j = the set of characteristics of the environmental good at site j , and H_{ij} = the set of characteristics of household i at site j , and b_0 , b_1 and b_2 are sets of parameters and e is the random error.

Transferring the entire *value function* is conceptually more appealing than just transferring unit values because more information is effectively taken into account in the transfer. Instead of transferring the benefit function from one selected valuation study, results from several valuation studies could be combined in a meta-analysis to estimate one common benefit function. *Meta-analysis* has been used to synthesize research findings and improve the quality of literature reviews of valuation studies in order to come up with adjusted unit values. In a meta-analysis, several original studies are analysed as a group, where the result from each study is treated as a single observation in a regression analysis. If multiple results from each study are used, various meta-regression specifications can be used to account for such panel effects.

3.2.3 Existing practice at EC and national levels

Value transfer is widespread in CBA of transportation projects at the EC and national levels due to the widespread use of “unit values” for non-market impacts such as e.g. time costs, noise, accident costs (mortality and morbidity), and in some instances also local air pollution impacts. This means that EC or national values are assumed to be constant for the whole EC or country (which implicitly means extensive use of “unit value transfer with no adjustments for differences in e.g. wealth, ecological conditions, health status etc. within the relevant geographical area). Between countries an income adjustment is often used to transfer values.

3.2.4 Best practice

Based on a review of value transfer studies and validity tests of transfer, Brouwer (2000) proposes a seven-step protocol, as a first attempt towards good practice for using value transfer techniques in CBA for environmental values.

Step 1 involves the identification of the relevant functions of the goods and services under consideration, and their importance for sustaining ecosystems and hence human systems. Step 2 focuses on identifying beneficiaries of the functions/services preserved or forgone, and is interdependent with Step 3, which identifies values held by different stakeholder groups in order to be able to sketch out the reasons why they value the good/service under consideration. Step 4 assesses the scope, acceptability and legitimacy of the valuation process(es): monetary and/or deliberative. In step 5 appropriate studies are selected, and study quality

assessed by looking at their internal and external validity. Step 6 looks at the research design of the selected studies, and tries to assess comparability between them, and what kind of adjustment may be chosen to account for differences in design/approach for each chosen study. In step 7 values as obtained through the previous six steps are discussed with (representatives of) stakeholders, before they are extrapolated over the relevant population affected by the change under consideration. Finally, the economic aggregate is included in a CBA.

3.2.5 Recommendations

The steps outlined in the best practice section above emphasise the need for inclusiveness in the value derivation process, without being prescriptive about the precise transfer method to be adopted. Given the wide variation across Europe in the availability of impact specific study values for transfer this is likely to be a sensible principle to adopt in our recommendations for TEN-T project appraisal.

Recommendations for use of value transfer are:

- To use the following 7-step procedure:
 - Define the value(s) to be estimated at the policy site
 - Conduct a literature review to identify relevant valuation data
 - Assess the relevance of the study site values for transfer to the policy site
 - Assess the quality of the study site data
 - Select and summarise the data available from the study site(s)
 - Transfer value measures from the study site(s) to the policy site
 - Determine “market” over which value estimates are to be aggregated
- To select the transfer method most appropriate to the availability of study site values and findings of previous experience in value transfer related to the specific impact (see e.g. section 4.4.2 for unit value transfer recommendations relating to travel time).

3.3 Treatment of non-monetised impacts

3.3.1 Definitions

To the extent that the impacts of projects can be expressed in the same (monetary) terms the difference between the costs and benefits (i.e. the net cost or benefit of the project) provides a valid measure of the aggregate ‘worth’ of that project. However, there are instances where it is not possible to monetise impacts and this is most frequently the case in relation to impacts on ecosystems, species and biodiversity more generally. In these instances, appropriate quantitative data are either not available, thereby making economic valuation extremely difficult, if not impossible, or, given state of the art of economic valuation, it will not be possible to cost certain impacts even where quantitative data are available. These impacts are called non-monetised impacts.

3.3.2 Purpose/role in project appraisal

The lack of a monetary estimate for specific impacts does not mean that those impacts can be overlooked in any decision-making process. In order to ensure the inclusion of the non-monetised impacts, the analyst has to find a way of representing these non-monetised impacts in, or alongside, the cost benefit analysis.

3.3.3 Best practice

The principal method for representing non-monetised impacts within the decision-making into which CBA feeds is by presenting these non-monetised impacts alongside the monetised impacts in either qualitative or quantitative terms. Based on consideration of all the effects of the project – monetised and non-monetised ones – the decision maker then has to decide whether to approve the project. Hence, the decision is the outcome of a (political) deliberation of the (monetised and non-monetised) effects of the project.

To make the weighting of the different effects more transparent, the analyst can also undertake a sensitivity analysis. A sensitivity analysis simply shows what value the unvalued impacts must take in order to make:

- an ‘unfavourable’ NPV ‘favourable’; or
- a ‘favourable’ NPV ‘unfavourable’.

Once the magnitude of the unvalued impacts necessary to switch the estimated NPV from positive to negative, or vice versa, has been estimated it is possible for the decision-maker to make a judgement as to whether the unvalued impacts are likely or not to amount to this value. It therefore simply makes explicit the weighing up process that the decision-maker would undertake when considering the presentation of non-monetised impacts alongside the monetised impacts. The limitation of this method is that it becomes increasingly cumbersome when the number of non-monetised impacts increases.

3.3.4 Recommendations

Best practice as described above indicates that there are a number of increasingly involved variants for incorporating non-monetised impacts into project appraisal. Our recommendations for the treatment of non-monetised impacts are:

- At a minimum, to present evidence on non-monetised impacts in qualitative or quantitative terms alongside evidence on the monetised impacts. In any case, it is suggested that as far as possible, all impacts considered in an appraisal should be expressed in both physical and monetary terms.
- In the instance where a small number of non-monetised impacts are relevant, sensitivity analysis can be used to help make explicit the potential importance of non-monetised impacts in the CBA.
- Where a large numbers of non-monetised impacts are relevant, the non-monetised impacts can also be included directly in the decision-making process by explicitly eliciting decision maker’s weights for them vis-à-vis monetised impacts.

3.4 Discounting and intra-generational equity issues

3.4.1 Definitions

Discounting is the technique used to compare costs and benefits that occur at different points in time. The discount rate is the rate at which costs and benefits that occur in the future are discounted to the present. It is important to distinguish the discount rate used for purely financial project appraisal in contrast with the discount rate used in economic assessments. The former is usually referred as the financial discount rate while the latter is known as the social discount rate. The financial discount rate can be defined as the opportunity cost of capital, which represents the maximum rate of return of capital obtained from alternative investment projects. It is based on the market interest rate which is determined by the preferences expressed by lenders and borrowers in financial markets.

The social discount rate is the discount rate that is most appropriate to use in public policy. It is determined by time preference, therefore depending on the rate of pure time preference, on how fast consumption grows and, in turn, on how fast utility falls as consumption grows. The social rate of time preference is given by:

$$i = z + n \times g, \quad (1)$$

where

z is the rate of pure time preference (impatience – utility today is perceived as being better than utility tomorrow) plus catastrophe risk;

g is the rate of growth of real consumption per capita;

n is the percentage fall in the additional utility derived from each percentage increase in consumption (n is referred to as the elasticity of the marginal utility of consumption).

With no growth in per capita consumption therefore, the social rate of time preference would be equal to the pure time preference rate, z . Market imperfections generally dictate that the discount rate derived from the opportunity cost of capital differs from that derived from the social time preference rate.

One might regard the determination of the discount rate for distant time periods one which has equity implications, in the sense that in the process of discounting, assumptions about the utility future generations will place on their consumption are being made. Thus, discussion of long term discount rates overlaps with consideration of inter-generational equity in cost benefit analysis. The other equity-related issue that is addressed in cost benefit analysis is that regarding the spread of impacts on the present generation, i.e., distributional impacts and intra-generational equity. We therefore discuss the role of discounting and distributional issues in the context of transport project appraisal alongside each other in this section.

3.4.2 Purpose/role in project appraisal

Discounting

The purpose of discounting is to express in present values the flow of costs and benefits involved in a project lifetime – or a determined appraisal period. Once the set of future values

are expressed in present values they are comparable and therefore determine if the overall welfare gain arising from a project is worth its costs.

The present value of the future cost (or benefit) streams can be expressed as:

$$PV = \sum_{t=0}^T C_t \times \frac{1}{(1+r)^t} \quad (a)$$

where,

PV is the present value of the stream of costs from year t to year T ,

C_t is the cost incurred in year t ;

r is the rate of discount.

Distributional issues

Consideration of intra-generational equity relates to how a project affects different social groups disproportionately in terms of income distribution e.g. lower income groups may be found to bear a disproportionately higher cost burden relative to higher income groups. Similarly, social groups defined on the basis of gender, race, age, health, skill or location may experience differential impacts as a result of a given project being implemented, and these distributional issues may or may not be correlated with income.

3.4.3 Existing practice at EC and national levels

Discounting

As reported in Odgaard et al. (2005), the variation in the discount rates used by national transport ministries within the EU can be explained partly on the basis of differential opportunity costs of capital in countries, and partly on the basis of the fact that some countries incorporating project risks in the discount rate. Nine of the 25 surveyed countries use a discount rate that includes a risk premium, whereas 13 countries (of which four also include a risk premium in the discount rate) use scenario analyses. It cannot be concluded that countries that include a risk premium in the discount rate on average use a higher discount rate. However, it can be concluded that the discount rates used in general exceed the recommendation of other pan-EU transport appraisal guidance. The EC Research project, UNITE, recommended a rate of 3% whilst EC DG Regional Policy (2002) suggests the use of a European social discount rate equal to 5%.

Distributional issues

Treatment of distributional issues is not addressed directly in Odgaard et al. (2005). However, it is recognised that those countries that use Multi-Criteria Analysis as an appraisal tool may include distributional effects of a proposed project as one of the criteria on which the decision-making is based. Additionally, a number of other sets of (not necessarily transport-specific) guidelines on CBA from national governments and DG TREN tend to recommend that a “winners and losers” table should be constructed, at a minimum alongside the results of the monetised CBA.

3.4.4 Best practice

Discounting

Discount rates are generally based on either the social opportunity cost of capital or the social time preference rate, though there remains disagreement as to which is most appropriate in the project appraisal context. The disagreement centres on whether the former measure based on observed behaviour should be used over the latter which is based on ethical consideration as to how future preferences should be valued. At present, it seems the case that the majority of EU countries adopt the social time preference rate measure.

Other controversial issues include the role of pure time preference, z , particularly in inter-generational assessments (e.g. the context for climate change impacts). In particular, arguments exist against permitting pure time preference to influence social discount rates, i.e., the rates used in connection with collective decisions. For example, it has been argued that public policy should reflect collective, not private, interests (Sen, 1982). The associated ethical argument is that to bring about intergenerational equity, impartiality implies that the well-being of one generation should not be counted differently from that of any other. There are therefore arguments for paternalism.

An alternative reason for re-examining the appropriateness of the standard discount rate is given by Weitzman (1998). He argues that for any period, the real rate of interest is determined by the marginal opportunity cost of capital and for the distant future it is the same. By applying constant discount rates, economists are implicitly assuming that the productivity of investment will be the same in the distant future as in the recent past. Weitzman does not see fundamental reasons why this should not be so. But, the distant future is totally uncertain. Uncertainty about future interest rates provides a strong generic rationale for using certainty-equivalent social interest rates that decline over time. This effect does not begin to operate until beyond the range of near-future, in which we can be fairly confident today's rates will prevail. The certainty-equivalent discount rate can be found by taking the average of the discount factor, rather than the discount rate itself. One such set of certainty-equivalent social interest rates has been adopted by the UK Government.

Distributional issues

Three approaches are typically used to incorporate distributional concerns within or alongside cost benefit analyses: (i) **income weighting**; (ii) the formulation of a **distributional matrix**, and (iii) **stakeholder analysis**. The first approach involves the use of income distribution weights to account for costs and benefits that affect individuals from different income classes. In this case changes in income are converted into changes in welfare, and it is assumed that an addition to the welfare of a lower income person is worth more than that of a richer person. This can be expressed in a formula:

$$\frac{\partial W}{\partial Y_i} = SMU_i = \left[\frac{\bar{Y}}{Y_i} \right]^\varepsilon$$

where W is the social welfare function, Y_i is the income of individual i ; ε is the elasticity of the social marginal utility of income (or inequality aversion parameter); \bar{Y} is the average per

capita national income; SMU_i is the social marginal utility of a small amount of income going to group i relative to income going to a person with the average *per capita income*. The values of SMU_i are therefore the weights to be attached to costs and benefits to groups i relative to costs and benefits to a person with average income and those are determined by the analyst.

An issue closely related to that of income weighting is that of treatment of different unit values that exist in different countries where more than one country is impacted by the proposed transport project. In this case, the choice is likely to be between a) the adoption of country-specific values and b) values weighted to an average of county values. Whilst the use of country-specific values is in accordance with the efficiency-based foundations of cost benefit analysis in the theory of welfare economics, multi-country average values may be more acceptable from a political perspective.

The distributional matrix involves separating the costs and benefits of different alternative projects (columns) by income percentiles of the population affected by the projects (rows). The decision-maker is therefore able to consider the results of this matrix and decide, whether the inequalities of the burden sharing of each project are acceptable. For example, in a situation where all the projects that are being considered achieve the same benefits, but that whilst one alternative is the most cost-effective option, those costs are borne disproportionately by lower income groups it may be that an alternative, less cost-effective, project may be preferred in order to meet the equity criteria of the decision-maker. An example of a distributional matrix is presented in Table 3.1.

Table 3.1 Example Distributional Matrix for a Transport Project Appraisal.

Income Quintile	Transport Project Option					
	Option 1		Option 2		Option 3	
	(€'000)	(% of total)	(€'000)	(% of total)	(€'000)	(% of total)
> €50,000	12,000	19	6,000	10	10,000	9
€28,000 - €49,999	14,000	22	8,000	14	18,000	16
€16,000 - €27,999	15,000	23	12,000	21	25,000	22
€8,000 - €15,999	13,000	20	14,000	24	28,000	25
< €8,000	10,000	16	18,000	31	30,000	27
Total Net Cost	64,000	100	58,000	100	113,000	100

It should be noted, however, that this technique is demanding in terms of its data requirements. For this reason it is rarely used in practice. A simpler, more practical, means of presenting information on distributional impacts is to map out a matrix of winners and losers from the project. Various categories may be used, such as those based on geographical location, ownership (public or private) etc. A good example of such a matrix is provided by the UK transport appraisal guidelines (WEBTAG - http://www.webtag.org.uk/webdocuments/2_Project_Manager/7_Transport_Appraisal_Green_Book/). It is provided in three tables, given as exemplars, below. For TEN-T project appraisal each table should be disaggregated so that each box is completed for every individual country involved.

Distributional analysis also needs to incorporate the fact that the acceptability of a project may be dependent on the relative influence of the different stakeholder groups who are bearing the benefits and costs of such project i.e. the winners and losers. Thus, the judgement as to the acceptability of what the distributional matrix reveals about each project is made more explicitly with the views of stakeholder groups. A method of assessing this – stakeholder analysis – aims also to more systematically identify organisations or individuals whose interests are affected by the project, and to assess the potential influence they may have on the decision problem⁷.

3.4.5 Recommendations

The issue of use of common or local values in multi-country transport project appraisal does not have an obvious solution, and it is clear that using either rule results in inconsistencies. These inconsistencies include those introduced in relation to decision-making protocols using in other economic sectors, as well as the differences in values used in transport demand/traffic models and those used in CBA. Our recommendations therefore reflect a pragmatic response to this issue. Recommendations for treatment of equity related issues are:

- In line with the recommendation to adopt local values, for TEN-T projects, to adopt the risk premium-free rate or weighted average of the rates currently used in national transport project appraisal in the countries in which the TEN-T project is to be located. The weighting will be determined by the proportion of total project finance contributed by the country concerned. A common discount rate regime across EU countries should be used in sensitivity analysis. For lower-bound sensitivity testing, a rate of 3% may be used and can be derived from using values for the components of the social time preference rate, substantiated by current empirical evidence of: $z = 1.5$; $n = 1$; $g = 1.5$. This rate is in line with the rate used by some EU national governments. It should, however, be recognised that use of this rate may result in not all projects with positive NPV being financed due to limited public resources. In this case, use of the decision criteria outlined in section 5.6 below becomes important.
- To adopt a declining discount rate profile for longer time periods in sensitivity analysis, where the countries concerned have such profiles existing in their appraisal guidance.

⁷ It should be noted that the accounting procedure recommendation in section 3.11, to use purchasing power parity exchange rate as well as nominal exchange rate Euro, also has implications for the practical treatment of equity, in the sense that use of PPP better reflects real current purchasing power levels in a country and so gives a different weighting to values used for that country. Use of PPP however cannot be seen as a form of equity weighting since there is no a priori expectation of the way in which use of PPP values will differ from nominal values.

- To adopt local values for unit benefit and cost measures. Local values may be interpreted to mean national or sub-national level, as data allow.
- At minimum, to construct a winners and losers table, to be presented alongside the results of the monetised CBA. As data allows, distributional matrices for alternative projects should be evaluated by the decision-maker. Stakeholder consultation could also be used to inform this process. Where it is felt to be useful and worthwhile in terms of resource use sensitivity analysis may impose income weighting regimes.

Example Distributional Matrix - Table 1 (Source: WEBTAG)

Economic Efficiency of the Transport System (TEE)

Consumers	ALL MODES	ROAD	BUS & COACH	RAIL	OTHER	
<i>User benefits</i>	TOTAL	Private Cars and LGVs	Passengers	Passengers		
Travel time						
Vehicle operating costs						
User charges						
During Construction & Maintenance						
NET CONSUMER BENEFITS		(1)				
Business						
<i>User benefits</i>		Goods Vehicles	Business Cars & LGVs	Passengers	Freight	Passengers
Travel time						
Vehicle operating costs						
User charges						
During Construction & Maintenance						
Subtotal		(2)				
<i>Private sector provider impacts</i>					Freight	Passengers
Revenue						
Operating costs						
Investment costs						
Grant/subsidy						
Subtotal		(3)				
<i>Other business impacts</i>						
Developer contributions		(4)				
NET BUSINESS IMPACT		(5) = (2) + (3) + (4)				
TOTAL						
Present Value of Transport Economic Efficiency Benefits		(6) = (1) + (5)				

Notes: Benefits appear as positive numbers, while costs appear as negative numbers.
All entries are discounted present values, in 2002 prices and values

Example Distributional Matrix - Table 2 (Source: WEBTAG)

Public Accounts

	ALL MODES TOTAL	ROAD INFRASTRUCTURE	BUS AND COACH	RAIL	OTHER
Local Government Funding					
Revenue					
Operating Costs					
Investment Costs					
Developer and Other Contributions					
Grant/Subsidy Payments					
NET IMPACT					
Central Government Funding					
Revenue					
Operating costs					
Investment Costs					
Developer and Other Contributions					
Grant/Subsidy Payments					
Indirect Tax Revenues					
NET IMPACT					
TOTAL Present Value of Costs (PVC)					

(7)

(8)

(9) = (7) + (8)

Notes: Costs appear as positive numbers, while revenues and 'Developer and Other Contributions' appear as negative numbers.
All entries are discounted present values, in 2002 prices and values

Example Distributional Matrix - Table 3 (Source: WEBTAG)

Analysis of Monetised Costs and Benefits

Noise		
Local Air Quality		
Greenhouse Gases		
Journey Ambience		
Accidents		
Consumer Users		
Business Users and Providers		
Reliability		
Option Values		
Present Value of Benefits ^(see notes) (PVB)		
Public Accounts		
Present Value of Costs ^(see notes) (PVC)		
OVERALL IMPACTS		
Net Present Value (NPV)		$NPV = PVB - PVC$
Benefit to Cost Ratio (BCR)		$BCR = PVB / PVC$

Note: This table includes costs and benefits which are regularly or occasionally presented in monetised form in transport appraisals, together with some where monetisation is in prospect. There may also be other significant costs and benefits, some of which cannot be presented in monetised form. Where this is the case, the analysis presented above does NOT provide a good measure of value for money and should not be used as the sole basis for decisions.

3.5 The project appraisal evaluation period

3.5.1 Definitions

The evaluation period consists of the sum of two project phases: the planning and construction phase and the operational phase. The duration of the planning and construction phase is estimated in every project. To this the operational phase is added. Sometimes the operational phase is called the evaluation period (although the evaluation also contains the costs and benefits associated with the planning and construction phase). We will follow this convention below.

3.5.2 Purpose/role in project appraisal

The evaluation period determines the period of time considered in the project appraisal. Therefore it determines the time period in which costs and benefits are taken into account and thus also for which a forecast of benefits and costs is needed.

3.5.3 Existing practice at EC and national levels

In Odgaard et al. (2005) it is shown that the evaluation periods currently in use vary between 20 years and infinity.

3.5.4 Best practice

In theory, the time horizon of the project appraisal should equal the lifetime of the infrastructure to capture the full benefits of the project. However, the lifetime of a project can often not be easily determined. Moreover, the lifetime might be high – possibly 100 years. Furthermore, it is very hard to predict traffic demand for such a long time period. Therefore, the evaluation period is often limited to the period over which demand can be foreseen with reasonable accuracy. Experience suggests that changing parameter values with any confidence for periods over 40 years in to the future is very difficult to apply, though the use of longer time spans to cover all benefits might often be useful.

If the evaluation period is longer than the lifetime of a certain part of the infrastructure (e.g. road surface), reinvestments are necessary. If the evaluation period is shorter than the lifetime of another part, the residual value of this part has to be taken into account. In addition, the residual values of reinvestment should be included in the CBA. The treatment of residual value is discussed in more detail in Section below, though the general recommendation is a pragmatic one – that the value should be calculated according to the expected fixed lifetime of the infrastructure - or its sub-components. The default assumption is that a linear depreciation profile should be adopted, though alternative profiles may be used where more appropriate (e.g. convex functions in the case of rolling stock).

3.5.5 Recommendations

The recommendations that relate to the evaluation period are:

- To adopt an evaluation period of 40 years for TEN-T project appraisal (i.e. planning and construction phase plus 40 years of operational phase), as a default evaluation period. Projects with shorter lifetimes should, however, use their actual length. Consideration of periods longer than 40 years introduce too much uncertainty to give rise to meaningful values. Moreover, in general one would expect that whilst the precise NPV will change with longer evaluation periods, the sign will not, so that answers to questions as to whether to invest, and in which alternatives are likely to remain robust.
- If a project (or project variant) is compared to other projects (project variants) with different opening years, a common final year for all projects should be used. Thus, in all projects, costs and benefits are considered up to this common final year. The common final year is determined by adding 40 years to the opening year of the last project to be opened. Thus, projects which are started earlier are rewarded, because they start to generate benefits sooner.
- To estimate residual values according to the lifetimes of the assets involved and apply a linear depreciation profile. Alternative profiles may be used where more appropriate (e.g. convex functions in the case of rolling stock).

3.6 Decision criteria

3.6.1 Definitions

In a cost benefit analysis, when all costs and benefits have been valued, a decision has to be taken as to whether or not the project should be built, which project variant should be built, or which projects out of several independent projects should be built. Therefore a decision criterion has to be applied which helps inform the decision. A number of decision rules that can be applied within a cost-benefit framework have been developed:

- **Net present value (NPV):** The NPV is the difference between the discounted benefits and the discounted costs. A project is recommended if the NPV is positive.
- **Annuity:** Converts the NPV into annual values, i.e. average net benefits per year during the evaluation period. A positive annuity means that the project can be recommended.
- **Benefit cost ratio (BCR):** Ratio of the discounted benefits and the discounted costs. If the BCR of a project is greater than 1, the project can be recommended.
- **Internal rate of return (IRR):** The IRR is the discount rate that equates the discounted benefits of a project to the discounted costs. The IRR can also be defined as the discount rate that makes a project's NPV equal to zero. A project is recommended if its IRR is greater than the usual discount rate.
- **Pay back period:** The pay back period is the amount of time needed until the initial investment can be paid back. A project can be recommended if the pay back period is shorter than the evaluation period.

- **Ratio of NPV and public sector support (RNPSS):** The RNPSS is the ratio between the NPV of the whole project and the financial costs which have to be paid out of the state budget. This decision criterion is used when the state wants to select between different recommended projects but, operating with a constrained budget, cannot finance all of them.
- **First year rate of return (FYRR):** The FYRR is the ratio of the benefits in the first year of operation of a project and the investment costs of the project. This decision criterion cannot be used to say whether the project should be recommended or not. Instead it is used to determine the optimal year to start construction.

The treatment of non-monetised impacts is as outlined in sub-section 3.3. Multi-Criteria Analysis, as outlined above, provides a further decision-making tool which can either be developed formally by the analyst, for use by the decision maker, or be used implicitly by the decision-maker when weighing up all the evidence relevant to the decision.

3.6.2 Purpose/role in project appraisal

The choice of a certain decision criterion may have a decisive role in project appraisal. The outcome of the application of a given decision criterion is guiding the final decision: Should the project be built? Which variant of a project should be built? Which projects out of several projects should be built? Should the project be built now or later on?

3.6.3 Existing practice at EC and national levels

Odgaard et al. (2005) reports on the current use of the different decision criteria in the EU 25 and Switzerland. The results show that all countries, except Finland and Sweden, use more than one decision rule for evaluating the costs and benefits of a project. The net present value and the benefit/cost ratio are the most widely used, followed by the internal rate of return. Other decision criteria currently in use include, for example, the pay back period (the Netherlands, Czech Republic and Slovak Republic) and the ratio of NPV and public sector support (UK, Switzerland).

3.6.4 Best practice

Net present value (NPV)

When evaluating a project the NPV should be determined first. All projects with a positive NPV are worthwhile, in principle. Projects with a negative NPV cannot be recommended and are therefore likely to be deleted in more detailed considerations (unless there are positive effects not included in the CBA which might make the implementation of the project worthwhile despite the negative NPV).

After deleting non- positive NPV projects, the remaining project variants have to be put in a ranking list. To build a ranking list the NPV is not suitable, because the NPV favours large

projects. Instead the BCR should be used.⁸ This statement is illustrated with the example of the following table: Project 1 is only better when the BCR is considered. Several projects similar to project 1 with the same total costs as project 2 would have much higher benefits than project 2. The ranking list is based on the ratio of NPV and public sector support (RNPSS) and is currently used in the UK, the EC and Switzerland.

Table 3.2 Net present value (NPV) versus benefit cost ratio (BCR)

Project 1	cost	= 2	NPV = 3 (= 5 - 2)
	benefit	= 5	BCR = 2.5 (= 5 / 2)
Project 2	cost	= 40	NPV = 20 (= 60 - 40)
	benefit	= 60	BCR = 1.5 (= 60 / 40)

Furthermore, the NPV depends on the year for which the NPV is calculated (one year later the NPV is higher by a factor $1 + \text{discount rate}$). The BCR, in contrast, is independent of this year (because the factor $1 + \text{discount rate}$ is both above and below the line and therefore cancels out).

Benefit cost ratio (BCR)

As shown above the BCR is well suited to the comparison of different project variants. The problem, however, is that the BCR can be manipulated if costs and benefits are not clearly defined. There is a certain danger that effects are labelled costs or benefits arbitrarily. This can lead to the fact that the ranking list looks different depending on the labelling of the effects. This is illustrated with the example in the following table. If the additional noise is taken to be part of costs, project 3 is preferable. In contrast, project 4 is preferable, if noise is looked at as a reduction of benefits.

Table 3.3 The labelling of noise as costs or benefits determines the ranking list

Project 3	costs	= 5	noise = costs	BCR = 2.0 (= 12/(5+1))
	benefits	= 12	noise = reduction of benefits	BCR = 2.2 (= (12-1)/5)
	noise	= 1		
Project 4	costs	= 7	noise = costs	BCR = 1.9 (= 19/(7+3))
	benefits	= 19	noise = reduction of benefits	BCR = 2.3 (= (19-3)/7)
	noise	= 3		

Hence, a clear definition of costs and benefits is necessary. The following definition is recommended (where costs and benefits are always the NPV of costs and benefits).⁹

- Costs are the resource consumption of the operator (rare resource gains of the operator are included as negative costs, except for the revenues).

⁸ Department for Transport (2002), The Application of COBA, p 1/1, European Commission et al. (1999), Transport Infrastructure Needs Assessment, p. 23, EWS (1997), Kommentar zum Entwurf Empfehlungen für Wirtschaftlichkeitsuntersuchungen an Strassen EWS, p. 12, European Commission (1996), Cost-benefit and multi-criteria analysis for new road construction, p. 72 and Abay (1984), Kosten-Nutzen-Analyse für Verkehrsinvestitionen, p. 112.

⁹ This definition is taken from the Swiss Norm SN 671 810 (2005), Kosten-Nutzen-Analysen im Strassenverkehr and from Ecoplan (2005), Bewertungsmethode für die Priorisierung von Projekten im Schienenverkehr, p. 78.

- Benefits are the resource gains of users and third parties (resource consumptions of users and third parties are negative benefits) and the revenues by the public transport or road operator.

Thus costs are indicators such as investment costs, costs of maintenance, operation and administration (especially for public transport). Reductions in maintenance costs on old roads, where there is now less traffic, are negative costs.

The benefits include indicators such as time savings, vehicle operating costs (not for public transport projects), safety, all environmental indicators etc. and revenues by the (public transport or road) operator.

Ratio of NPV and public sector support (RNPSS)

The decision maker might be also confronted with the problem that he has to select a number of projects out of a bundle of projects, but has not enough financial resources to finance all profitable projects (with a positive NPV). In this case a further decision criterion is used which ensures that the constrained budget is allocated optimally. The ranking list is in this case based on the ratio of NPV and public sector support (RNPSS). The RNPSS is currently used in the UK, Scotland, the EU and Switzerland.¹⁰

To calculate the RNPSS the public sector support is defined as the NPV of the costs which are financed out of the constrained budget. This is often more or less equal to the investment costs (including taxes, which do not have to be considered in the CBA as they are only transfers). The RNPSS is a kind of a cost benefit ratio with a clear definition of the numerator (“cost”) and the denominator (“benefits”). However, in the RNPSS the public sector support is contained in the numerator and in the denominator. Hence, the RNPSS for a profitable project is greater than 0 (not greater than 1 as the BCR).

With the RNPSS, projects can be put in a ranking list. Starting with the best project the projects can be financed until the budget is used up. Since the scarce resource – the constrained budget – is in the denominator of the RNPSS, this procedure ensures that the budget leads to the highest possible economic benefit.

If a project is partly privately financed, this eases the burden on the constrained state budget. In the RNPSS we nevertheless use only the public sector support in the denominator¹¹ because the aim is to reach a NPV as high as possible with the constrained budget. Hence, private money allows the government to use its own money for other profitable projects. Thus partly privately financed projects are favoured. But even partly privately financed projects should

¹⁰ ECMT (2001), *Assessing the Benefits of Transport*, p. 28, Odeck (2000), *Valuing the Cost and Benefits of Road Transport*, p. 29, European Commission (1996), *Cost-benefit and multi-criteria analysis for new road construction*, p. 73 and 385, Scottish Executive (2003), *Scottish Transport Appraisal Guidance*, p. 5-12 and Swiss Norm SN 671 810 (2005), *Kosten-Nutzen-Analysen im Strassenverkehr*. In Scotland public sector support is defined a bit broader. See also Bonnafous und Jensen (2004), *Ranking Transport Projects by their Socioeconomic Value or Financial Interest rate of return?*

¹¹ Odeck (2000), *Valuing the Cost and Benefits of Road Transport*, p. 29, Bonnafous und Jensen (2004), *Ranking Transport Projects by their Socioeconomic Value or Financial Interest rate of return?* and Ecoplan and Metron (2005), *Comments on Kosten-Nutzen-Analysen im Strassenverkehr*, p. 138.

only be constructed when the NPV is positive and when the ratio of the NPV and the remaining public sector contribution is high enough compared to other projects. If the project is completely privately financed, it should be implemented, if the NPV is positive.¹²

If several countries or one or several countries and the EU are contributing to the costs of a (large) project, there are probably several constrained budgets: that of the EU and that of the different countries. In this case the RNPSS has to be calculated for each country and the EU separately where only the costs and benefits to the individual country or to the EU are included, respectively. This might lead to the situation in which one country wants to build the project, but another country does not. In this case another allocation of the costs between the countries might solve the problem.

The problem with RNPSS might be that at the time of evaluation it is sometimes not yet known who will be paying how much. However, the RNPSS also allows an understanding of when the state should contribute or how the costs of the project can be fairly distributed.

Internal rate of return (IRR)

The normal conclusion that a high IRR is preferable holds only true when the costs are incurred initially and the benefits occur afterwards – as is normally the case with infrastructure investment projects. If in contrast the benefits arise before the costs, a low IRR is preferable, because with a high IRR the initial benefits increase with the high IRR over time and can eventually be used to pay for the final costs. If periods with net costs and net benefits follow each other, interchangeably (as is the case if reinvestments are necessary), the interpretation of the IRR can become somewhat difficult. Furthermore, there is a possibility of multiple solutions or no solution for the IRR. Moreover, the IRR gives the same ranking list as the benefit cost ratio (BCR), on principle.¹³ The BCR may therefore be favoured over the IRR.^{14 15}

So far we have proceeded as if there was no uncertainty. In reality, however, we have to include the results of the sensitivity analyses in the decision. If the results of the sensitivity analyses are not the same as in the basic scenario, there is no simple decision rule.

So far we have only considered the optimal decision based on CBA-results. If non-monetized effects are also relevant, the decision becomes more complicated as this decision involves a value judgement which cannot be determined by science. Hence, a discussion of (monetized and non-monetized) costs and benefits is necessary. The ensuing decision is of course also a political one that takes account of, and weighs up, all evidence and interests.

¹² Odeck (2000), Valuing the Cost and Benefits of Road Transport, p. 29 and Ecoplan and Metron (2005), Comments on Kosten-Nutzen-Analysen im Strassenverkehr, p. 138.

¹³ ECMT (2001), Assessing the Benefits of Transport, p. 28. Nevertheless, it is possible that the BCR and the IRR do not lead to the same ranking list (Abay 1984, Kosten-Nutzen-Analyse für Verkehrsinvestitionen, p. 110-111).

¹⁴ This conclusion is often found in the literature: See European Commission (1996), Cost-benefit and multi-criteria analysis for new road construction, p. 73, EWS (1997), Kommentar zum Entwurf Empfehlungen für Wirtschaftlichkeitsuntersuchungen an Strassen EWS, p. 11, and Lee (2000), Methods for evaluation of transportation projects in the USA, p. 48.

¹⁵ The advantage of the IRR is that no discount rate has to be set in advance.

To facilitate the political discussion the analyst summarizes the effects covered in the CBA, for example in the NPV. In addition, (s)he may describe the non-monetised effects alongside the CBA in quantitative or qualitative form. Based on these findings, the decision-maker then has to decide whether or not the proposed project is worthwhile.

Non-monetized effects are thus taken into account last. This is not because they are least important, but because they make value judgements necessary and because the ranking list based on the CBA-results can be derived without value judgements.

3.6.5 Recommendations

Ultimately the decision as to which projects will be put into action is a political one. The CBA can only guide this decision and give the decision makers information on which they can base their decision and perhaps help to prevent clearly wrong decisions. When taking the decision, the limits of the CBA must be kept in mind, i.e. that the CBA does not include non-monetised effects and that criteria other than economic efficiency may be important to the decision maker. Also, within the CBA framework, the decision criterion to be used depends on the decision to be taken. These points are reflected in the recommendations presented below.

Recommendations that relate to decision-making criteria are:

- Where the decision is whether or not to build a project with only one variant, the project can be recommended if the net present value (NPV) is positive.
- Where the decision relates to which variant of a project should be built, the variant with the highest benefit cost ratio (BCR) should be implemented (if its BCR is above 1). To calculate the BCR the benefits and costs are defined as follows: costs are the resource consumption of the operator, benefits are the resource gains of users and third parties and the revenues by the public transport or road operator.
- Where the decision relates to which projects or project variants should be included in a construction program, where a constrained public sector budget exists, the ratio of NPV and public sector support (RNPSS) should be used to determine the ranking list.
- Where the decision relates to determining the optimal opening year of a project the first year rate of return (FYRR) should be used.
- When interpreting the results of the CBA, the outcomes of sensitivity analyses of key variables should be included.
- Non-monetised impacts should be considered alongside the CBA. The weighting of non-monetized impacts should be left to the decision maker as this involves value judgements. If the decision maker asks for it, the implications of alternative weighting regimes applied to the project impacts can be presented to the decision-maker.

3.7 Treatment of future risk and uncertainty

3.7.1 Definitions

The future outcome of a project is not known with certainty. We define the situation where the analyst has poor knowledge of the probability of an event being realised and the magnitude of the likely consequences arising from this event, as *uncertainty*. Where the analyst is reasonably confident of the probability of an event, we define the problem as being one of *risk*. Techniques exist for dealing with these aspects in a project appraisal.

The main probabilistic (risk based) techniques are those such as Monte-Carlo simulation that result in expected values.

Where the decision-maker does not have an estimate of the probability distribution s/he will have to define alternative possible futures for the variable under consideration using non-probabilistic ways. In this case sensitivity analysis or scenario analysis may be appropriate techniques.

3.7.2 Purpose/role in project appraisal

The expected net present value is an important indicator when assessing and comparing projects, when the probability of occurrence of each possible outcome is known. When the probabilities are not known we may then generate a range of NPVs determined by the use of sensitivity analysis relating to key variables, and/or using scenario analysis. Since these estimates essentially determine the choice of the 'best' project, the decision-maker will want to know, in general, how sensitive the future estimates are to the input data and modelling approach used by the analyst, as well as the key assumptions adopted.

3.7.3 Existing practice at EC and national levels

Odgaard et al. (2005) indicate that the vast majority of European countries have explicitly formulated basic principles to undertake sensitivity analyses for project appraisal in the transport sector. Risks are either evaluated through their incorporation in the discount rate and scenario analysis. Additional methods for treatment of risk and uncertainty are used in a number of countries.

3.7.4 Best practice

A number of techniques exist for analysing the key factors that underpin the estimated outcomes in a decision problem. Chief amongst these are:

Sensitivity analysis (non-probabilistic approach). Sensitivity analysis (sometimes known as "side-analysis") focuses on alternative assumptions that have a significant effect on the study's results (for example NPV or benefit cost ratio). It can be applied in all cases in which anticipated costs and benefits are quantified. The purpose of sensitivity analysis is to show how large the risks of a project are and in particular to show whether a favourable project becomes unfavourable (or vice versa) if some assumption is changed. The importance of

sensitivity analysis is borne out by the consideration of the optimism bias phenomenon relating to capital costs, and discussed in further detail in Section 7.5 below. Scenario analysis is a variation of sensitivity analysis involving the construction of alternative visions of how the future might look, and the implications of these on the key variables in the analysis.

While in sensitivity analysis only one assumption is changed at a time, in scenario analysis several assumptions are altered. An extension of this idea is interval analysis. Interval analysis simply involves taking the (absolute) lower value of the range of estimates for each model input, and combining them to define the *lower bound* of the final result; likewise, the (absolute) upper value of the range of estimates for each model input can be combined to define the *upper bound* of the final result. Lower bound and upper bound are also called worst and best case. In other words, interval analysis identifies the extreme lower and upper estimated outcomes for a given set of input variables, modelling assumptions *etc.* When undertaking interval analysis, we must be aware that the worst and best cases are both highly improbable since it is not likely that all assumptions take the worst or best values at the same time.

A further extension of the principle of sensitivity analysis is the use of switching values. A *switching value* may also be calculated in the following way. If, under base case assumptions, a positive Expected NVP (ENPV) is calculated, the switching value shows the percentage increase in a specific cost item (or equally, the percentage decline in a specific benefit item) required for the ENPV to become zero. The switching value is itself a percentage – basically, the percentage change in a variable required for the estimated ENPV to change sign. If the switching value is relatively high, a very substantial change in the variable is required before the ENPV changes sign. Conversely, if the switching value is relatively low, a small change in the variable is required to change the ENPV sign.

Monte Carlo Simulation (probabilistic). In Monte Carlo simulation typically computers are used to draw a large number of random samples assuming an underlying probability density function, calculate outcome descriptors, and record them. This is repeated a large number of times until an accurate picture of the distribution of possible outcomes has been built up. The resulting frequency distribution provides information about both the expected outcome (i.e. the mean value) and how far it is likely to deviate from the mean (i.e. the standard deviation). These two measures can be used to make statistical inferences, e.g. to identify the probability that the outcome will fall below some value.

The Monte Carlo analysis has two main drawbacks compared to the sensitivity analysis. First, it is more complex than sensitivity analysis and its findings cannot be explained to decision makers as easily. Second, Monte Carlo simulations are, themselves, based on probability distributions of several assumptions (for example, a probability distribution of the GDP growth rate). These distributions are not known, so that assumptions made by the analyst are still necessary. The result of the Monte Carlo simulation therefore heavily depends on these assumptions. In sensitivity analysis, however, only a lower and upper value of each input are required, and no data are needed on the probability density functions of each model input. Furthermore, in a Monte Carlo simulation we can easily change the assumptions of the valuation model, but we cannot easily incorporate the traffic model. Thus, different results from the traffic model can only be considered in a way which resembles the sensitivity analysis: we can calculate the traffic model for a set of different cases, but not for all the Monte Carlo

simulations. Thus the advantage of the simulations is somewhat diminished – especially when we consider that the uncertainties may well be much larger in the traffic model than in the valuation model.

3.7.5 Recommendations

Treatment of risk and uncertainty is dictated by data availability, resources, and whether or not probabilistic distributions of variables are known. Experience in the context of transport project appraisal suggests that the issue of resources (modelling time, person-days etc.) is critical to what analysis is done, and that variables to be tested should therefore be prioritised. This constraint is recognised in the recommendations.

The recommendations that relate to the treatment of risk and uncertainty are:

- To undertake sensitivity analysis for the following assumptions: the discount rate; investment cost (optimism bias); valuation of safety; climate change impact costs; value of travel time saving; growth of real GDP and of real wage rates; and traffic growth. The latter four assumptions – value of travel time saving and the different growth rates – are also important inputs into the traffic model. Hence, for large projects the models should be re-run. Additional variables should also be explored as determined by the specific project context. The precise specifications of the sensitivity analysis will be determined by the analyst, according to context.
- To undertake Monte Carlo simulation analysis, if resources and data allow.

3.8 The Marginal Costs of Public Funds

3.8.1 Definitions

The financing of transport infrastructure projects through taxation may impose a cost on society greater than the pure cost of funds. The reasoning is the following: by causing agents to alter their behaviour as a result of the tax — consumers buy less, for example — the tax lowers welfare by more than it collects in revenue. The difference, often referred to as a “deadweight loss”, leads to the marginal cost to the economy of raising one € of public funds being more than one €. Conversely, if the tax acts to internalise an externality, efficiency may be improved and – other things being equal - the marginal cost will be less than one.

3.8.2 Existing practice at EC and national levels

Odgaard et al. (2005) shows that four of the 21 countries for which the information is available take distortion effects from tax financing into account. Some of these countries only include distortion effects for some transportation modes. In Denmark and Slovenia 20% is added to the net costs financed through public funds. Sweden uses a similar approach by adding 30% on the resources from the general budget. In Greece no specific value is given, though the issue is acknowledged in their project appraisal guidelines.

3.8.3 Best practice

To evaluate the true cost of public funds it is necessary to recognise that each source of finance – taken as it is from a different tax base - will have its own marginal cost. Thus, there is unlikely to be one value for the whole tax system. Current estimates of average national shadow costs of capital are: 1.56 for the USA and 1.28 for the European Commission (IPCC TAR WGIII p. 479). Further estimates based on empirical research give larger intervals spanning from 0.62 to 1.75. (see e.g. rates gathered for all OECD countries by Kleven and Kreiner (2003).

As recognised by a majority of EU national transport project appraisal guidelines, there are several reasons not to include the marginal costs of public funds:

- The large uncertainty about how large the marginal costs of public funds are (0.62 - 1.75) speaks against inclusion.
- The marginal costs of public funds are normally not considered when evaluating public projects outside the transport sector. Thus, inclusion in the transport sector would bias decisions against transport.
- In practice, the question of the inclusion might not be as important as it might seem. Because only the best projects get financed, these projects tend to have a high BCR or RNPSS. In Germany almost 70% of built road and inland waterways projects and 40% of the rail projects reached a BCR above 3. In the UK the accepted projects (37 out of 68 projects, i.e. 54%) reach a BCR of 3, at least.

Conversely, it may be that in the evaluation of public-private transport infrastructure initiatives a bias against private participation is introduced if the MCPF is not considered. However, it has been suggested that this problem may be in part surmounted by using a cut-off value for the Ratio of NPV and public sector support (RNPSS) of e.g. 1.5 since it effectively requires a higher return on the public funds used.

3.8.4 Recommendations

The high degree of uncertainty in the estimates of the marginal cost of public funds that are currently available, combined with the fact that use in transport appraisal would lead to a distortion effect on the allocation of public finance more generally, suggests that use of a marginal cost would not be justified.

The recommendation that relates to the treatment of the marginal cost of public funds is:

- To assume a marginal cost of public funds of 1, i.e. not to use any additional costs for public funds.
- To use a cut-off value for the RNPSS of 1.5 when applying decision criteria.

3.9 Producer Surplus of Transport Providers

3.9.1 Definitions

Producer surplus is the change in total producer revenue less the change in producer costs. The greatest scope for changes in producer surplus arises from public transport projects or toll road projects, which can affect operators' revenues without having an equal and offsetting effect on operating costs.

3.9.2 Existing and Best practice

Mackie et. al. (2003) reminds us that revenue forecasts depend on traffic forecasts, and both depend on pricing policy. Therefore it is essential in appraisal that the price policy assumptions on which the traffic and benefit estimates are based are consistent with those used for revenue forecasting. The size of the revenue and user benefit effects, as well as their distribution, depends upon the pricing policy. Since the appraisal may be undertaken before the details of the toll or price regime have been finalised, it should be noted that provisional assumptions made for the appraisal can turn out to be inaccurate. Sensitivity testing of the price regime at the appraisal stage is therefore often valuable.

Sometimes revenues of the operator are not included in the appraisal since it is argued that this is only a transfer from users to the operator which is not relevant for the economy as a whole. However, this reasoning is only valid for the existing traffic, but not for the newly generated traffic. For the newly generated traffic the additional revenues of the operator are a measure of the additional benefits of the additional traffic and must therefore be included in the evaluation.

3.9.3 Recommendations

Changes in producer surplus, along with changes in consumer surplus, comprise a measure of the welfare change that can be expected to result from a transport project. As highlighted above, the principal context in which changes in producer surplus are likely to be significant is when transport pricing regimes are changed, or introduced.

The recommendations relating to producer surplus are:

- To estimate (changes in) the producer surplus in the context of changed traffic volumes, (including situations of generated traffic) and possibly of the introduction and adjustment of transport pricing regimes.
- In the cases where producer surplus is estimated, sensitivity analysis of this variable should be undertaken.

3.10 Treatment of indirect socio-economic effects in European guidelines for transport appraisal

3.10.1 Definitions

In the presence of imperfect factor and/or goods markets total final economic impacts are likely to exceed those impacts measured directly in the transport sector i.e. there is additionality. (Note that sub-additionality is also possible). Since imperfect competition generally exists, it is important in transport project appraisal to distinguish direct and indirect economic effects in order to avoid the possibility of double-counting and generating an incorrect outcome of the CBA appraisal. Results from the FP5 IASON project provide a useful typology of this distinction (Tavasszy et al. 2004):

- **Direct effects:** effects on behavioural choice within the transport system, (route choice, mode choice, departure time choice and destination choice), by users of that part of the network to which the initiative applies (e.g., the number of users of a newly planned road).
- **Direct network effects:** effects on behavioural choice within the transport system transferred by network flows to other users of the network who are not themselves users of the part of the network to which the initiative applies (e.g. the change in train use in the area where the new road is planned).
- **Indirect effects:** effects outside the transport market as the result of a transport initiative, typically including changes in output, employment and residential population at particular locations (e.g. households moving to a city because it has better connections to their work due to a new road).
- **Indirect network effects:** effects on the transport network of choices made in other markets (land and property markets, the labour market, product markets and the capital market), as a result of changes in generalized cost brought about by a transport initiative (e.g. the changed traffic flow within a city due to more households locating in the city because of a new road).

The degree to which indirect effects are additional to direct effects differs widely in the literature; the general consensus, however, is that the additional effects are significant. Bröcker et al. (2003) find average indirect additional effects of +20% for the Trans-European Networks. This was established as a number for the whole European study area (outliers for individual regions were observed of up to 80%) and without considering the effects of reducing imperfections in the labour market. Other recent studies with models that do take into account labour market effects have found indirect impacts of up to 38% (see Elhorst et al. 2005). One of the conclusions of this latter paper is that “the use of a uniform ‘additional economic benefits to direct transport benefits’ ratio to approximate these additional benefits must be rejected”.

3.10.2 Existing practice at EC and national levels

Odgaard et al. (2005) survey a total of 26 countries regarding their methods of assessment of indirect effects in transport appraisal. The effects covered, regardless of the method for assessment used (MCA, CBA or QM) include: land use, economic development, employment (short term and long term), cohesion (national and EU level), urbanisation, network effects,

effects on state finances, equity. The most frequently included indirect effects are the effects on employment and state finances. The inclusion of cohesion effects are mainly used in new EU countries such as Hungary, Czech Republic, Poland and Malta.

3.10.3 Best practice

To avoid double counting, the sources of genuine additionality to direct effects need to be distinguished (Mackie et al. 2001, p. 18). The starting point of the analysis may be to assume that a context exists comprising of markets with perfect competition (constant returns to scale, no externalities) without borders. In this situation no indirect effects exist. As in the real world markets are imperfect, additionalities exist. To handle this one can then introduce some realism in a model by incorporating market imperfections such as monopoly, monopsony, increasing returns to scale, externalities, information asymmetry, etc., as appropriate.

For the best assessment of indirect effects resulting from market imperfections, it is preferable to combine the advantages of different models rather than applying just one model since existing models do not feature standardised, complete inclusion of indirect effects. For example, a modelling approach used to assess urbanisation effects is different from the modelling approach used to assess labour market effects. It is therefore advisable to adapt the choice of model(s) to the type of effect likely to be most significant. If indirect effects can be expected to be large, we recommend the use of a Spatially Computable General Equilibrium Model (SCGE). Alternative models can be considered, although these do not follow CBA accounting principles as naturally as do SCGE models. The IASON project discusses some relevant alternative approaches (Land Use Transport Interaction models, Regional Production Function models, System Dynamics models and Macro-economic model). In order to gain an understanding of indirect effects across borders, models need to operate at the European level. At the moment the only available SCGE model at the European level is the CGEurope model (Bröcker et al, 2003). If indirect effects cannot be modelled due to high costs (of the use of advanced modelling), insufficient availability of data, lack of appropriate quantitative models or unreliable results, a qualitative description of expected impacts is recommended.

3.10.4 Recommendations

The gap between theory and practice is large. It can be bridged, in part, by harmonising and clarifying the concept of indirect effects and constructing models that more completely include indirect effects. However, in the meantime, these limitations inform our recommendations.

The recommendations relating to treatment of indirect effects are:

- At a minimum, qualitative assessment should be used to provide an indication to the decision-maker of the potential size of the additionalities. This assessment would be based on the findings of previous quantitative analyses undertaken in comparable contexts.
- To use an economic model, preferably a Spatially Computable General Equilibrium (SCGE) model, to estimate indirect effects, where indirect effects are likely to be significant.

3.11 Recommended Accounting procedures

It is important to illustrate how monetary data can be expressed in a way such that all monetary inputs into the TEN-T project appraisal process are expressed in consistent forms with each other. This consistency can be brought about by adopting

- a common unit of account (to account for taxes and subsidies)
- a common price base year for prices and values
- a common currency

The recommendations relating to accounting procedures are:

- Factor costs should be the unit of account. This requires measures expressed in market prices - which include indirect taxes and subsidies – to be converted to factor costs.
- All unit values should be expressed in a common price base year of 2002 but that this base year should be adjusted regularly, according to data availability in future years. This entails conversion from current prices to constant prices.
- In order to convert current price measures to constant price the price index for construction costs (PIC) should be used for construction costs whilst the consumer price index (in the EU measured by the HICP) should be used for user benefits and externalities.
- Changes in prices relative to changes in the general price level should be 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 value of a resource should be fully reflected in the unit value(s) related to that resource, on the basis of national GDP growth rates.
- Unit values should be expressed in base year nominal exchange rate € and in purchasing power equivalents. Where use of nominal € and PPP-equivalent € give different recommendations using the CBA decision-rule, the choice of which exchange rate to use will be dependent on the preference of the decision-maker.
- In order to retain consistency between project appraisals, the appropriate conversions should be made in the sequence order:
 - 1) to a common unit of account
 - 2) to a common base year
 - 3) to a common currency
 - 4) to projections of future unit values

A detailed presentation of the procedures including detailed examples and tables with data is given in Annex B.

3.12 Up-dating of values

The unit values supplied in this report represent the state-of-the-art for the individual impacts addressed. Nevertheless, all values will be subject to change as new empirical evidence becomes available and methodological developments take place. As a consequence, we recommend that values are reviewed and up-dated on a regular basis e.g. after three years, at maximum. Clearly, at any time when the guideline user is aware of new evidence becoming available this should be reviewed in terms of its quality and status in relation to the existing evidence on which the current unit values are based, and values should be adjusted accordingly.

4 Value of Time and Congestion

4.1 Purpose/role in project appraisal

There are countless examples in everyday life of people's willingness-to-pay to save travel time - think of a tolled bridge over an estuary, or the premium fare that a high speed train service attracts. Clearly therefore time savings have value. However, the apparently simple question as to what the value set is, has to be answered using many areas of economic thought including that of labour supply, home production and transport. The pioneering work of Becker (1965), Oort (1969), De Serpa (1971) and Evans (1972) considered these issues and has since led to some degree of consensus being developed. In essence changes in welfare occur when individuals transfer time from intermediate activities (such as travel) to leisure or work activities and vice versa. Along with changes in other elements of user benefit (e.g. out of pocket costs and vehicle operating costs), changes in travel time can manifest themselves in the wider economy as changes in land rents, wages, employment and output. The potential for double counting economic benefits through the inclusion of all these 'final' impacts means that travel related user benefits (of which the majority are travel time savings) are used in cost-benefit analysis as a proxy for these final impacts.

4.2 Definition

There is a high degree of consensus between the EU-25 countries plus Switzerland as to what constitutes a saving in travel time (Odgaard *et al.*, 2005). Whilst not all national appraisal guidelines include a definition of time savings the approach adopted across the EU typically takes any change in the door-to door journey time to constitute a change in travel time. The *change in door-to door journey time* is therefore the definition adopted in the HEATCO guidelines. This definition means that travel time is a composite of in vehicle and out of vehicle time.

4.3 Valuation Methodology

Economic theory suggests that the welfare impacts of savings in travel time for work and non-work trips occur through different mechanisms. The welfare benefits of travel time savings made during the course of work is related to the marginal product of labour, whilst that made in non-working time is not – instead it is a function of personal preferences. The very different nature of passenger and goods traffic also makes it reasonable to distinguish between these traffic types. It is therefore recommended that different valuation methodologies are used for the following three broad categories of trips: (i) passenger-work, (ii) passenger-non-work and (iii) commercial goods traffic. Commercial goods traffic is traffic whose primary function is the delivery of goods and products; business passenger traffic is traffic where the driver or occupants are travelling on behalf of their employer; and non-work related passenger traffic is the remainder. As set out in Table 4.1 for each of these traffic types we recommend a minimum acceptable methodology for the valuation of time savings. Clearly, more sophis-

licated techniques would also be appropriate for use in an economic appraisal – and such techniques have been identified.

Table 4.1 Recommended valuation methodologies.

Trip category	Minimum approach¹	More sophisticated approach²
Passenger – work	Cost saving	Hensher approach
Passenger – non-work	Willingness-to-pay	
Commercial Goods traffic	Cost saving	Willingness-to-pay

¹ In the absence of sufficient resources to survey VTTS using the minimum approach the mathematical relationships derived from the HEATCO VTTS meta-analysis should be used.

² The more sophisticated approaches are for illustration.

The cost saving approach is based on a theoretical argument regarding the marginal productivity of labour. Such an approach assumes that there is no utility impact on the worker and that all travel time savings can be transferred to productive output. For business travellers (passenger-work) the more sophisticated Hensher approach (Hensher, 1977) allows for the fact that not all travel time is unproductive and not all savings are transferred to extra work. For commercial goods traffic a pure willingness-to-pay approach has also been used. Theoretically such an approach encapsulates all the cost savings that can be utilised by the firm from a reduction in the time associated with the transportation of goods – including vehicle operating costs and whether or not the time saved can be transferred to other productive output. Whilst this WTP approach may seem more appealing than the cost saving approach a key issue in underlying its reliability is a robust survey design. This is because it is absolutely critical that interviewees have a complete overview of the total impact of time savings, within the logistics chain, on the overall operations of the business. This is a challenging requirement and therefore the WTP approach is more sophisticated than the cost saving approach for deriving a value of travel time savings (VTTS) for commercial goods traffic. For an application see de Jong *et al.* (2004a).

There is no economic basis for saying that non-work passenger time savings vary directly proportionately with the wage rate. Consequently the minimum recommended approach to valuing non-work passenger time savings is some form of willingness-to-pay survey drawn from revealed and/or stated preference.

The valuation methodologies set out in Table 4.1 are those that should be adopted if a survey of the valuation of travel time savings is to be undertaken. Clearly such surveys are very resource intensive. In the absence of values derived using the methods recommended in Table 4.1 the relationships derived from the HEATCO meta-analysis should be used. This meta-analysis is based on 77 studies from 30 countries for passenger transport, and 33 studies from 18 countries for freight. These relationships are set out in Annex A in Tables A17, A18 and A19 for passenger work, passenger non-work and freight trips respectively.

4.4 VTTS values

4.4.1 Disaggregation

Since economic theory suggests that different methods of valuation for VTTS should be used for passenger-work, passenger-non-work and commercial goods traffic we recommend that at a minimum VTTS values are disaggregated in this manner.

Passenger-work (business) VTTS

Theory informs us that passenger-work (business) VTTS varies with the wage rate of the traveller (i.e. the income) - a proxy for the wage rate may be job/skill type. Appraisals that go beyond the minimum level of disaggregation can take this variation into account. For applications such as toll motorways or high speed rail at premium fares, segmentation by income group and journey purpose is essential. However, accounting for income is only possible if the traffic and transport modelling that underpins the appraisal is detailed. Even if the modelling is coarse, it may still represent travel by different modes of transport. Given that different modes of travel offer different levels of service (speed, journey length, comfort) for different prices we find that travellers with certain VTTS will typically choose to travel by a certain mode. As VTTS for work travellers is related to the wage rate, we find that the average incomes of travellers differ by mode. Thus disaggregating passenger-work VTTS by mode is a more sophisticated approach than having a single value for all passenger-work time savings, but is not as sophisticated as disaggregating by income.

Passenger non-work VTTS

Economic theory and evidence informs us that passenger-non-work VTTS may vary by:

- Journey purpose (commuting, shopping, leisure, other, etc.)
- Income of traveller;
- Socio-economic status (e.g. retired, child, etc.)
- Length of journey (e.g. long distance or short distance)
- Mode of transport (i.e. varies with comfort of travel)
- Congestion (i.e. varies with conditions under which travel is made)

Sophisticated appraisals should therefore disaggregate VTTS beyond the minimum standard to account for this variation. Similar arguments to that set out in the discussion on disaggregating business VTTS also apply to non-work VTTS. The ideal scenario is to disaggregate VTTS by journey purpose, income, distance and modal comfort. However, where the transport modelling does not support such a level of disaggregation average values by mode should be used. In such situations the modal VTTS values will reflect a conflation of the average income and journey length characteristics of the travellers (by mode) in conjunction with the comfort qualities associated with that mode.

Typically journeys, particularly public transport journeys, involve some elements of walking, waiting and interchange. For reasons of comfort and convenience the VTTS of these elements of a trip are viewed differently (and therefore valued differently) from the time spent in the vehicle (in-vehicle-time - IVT). Often public transport models distinguish between these

different elements of a trip and therefore it is usually reasonably practical to disaggregate non-work VTTS in this manner as well.

Children and retired people typically exhibit lower non-work VTTS than do adults. This arises due to a mixture of lower incomes and lower resource values of time (arising through for example less onerous time constraints). Ideally VTTS should disaggregate between children, retired people and adults. However, the practicalities of obtaining travel demand data within a modelling system that disaggregates between these groups of travellers suggests that such a level of disaggregation is not practical within an appraisal. This does raise questions of deriving a suitable average from surveys which may be biased towards economically active sections of the population.

The above discussion relates to the VTTS value of passenger travel. Often road traffic models contain data only on the travel time saving per vehicle. In such instances it is necessary to use a VTTS value per vehicle in an appraisal. VTTS values per vehicle should reflect average vehicle occupancies. Additionally values may differ by vehicle occupant (car driver, car passenger, child, retired person). Average values for vehicles should reflect vehicle composition - if data reflecting the relative valuations of car drivers and passengers are available. In the absence of such data the same value for all occupants could be used.

Commercial goods traffic VTTS

The VTTS of commercial goods traffic relates to the anticipated cost saving that a reduction in journey time may give to the firm. Given the fact that the drivers and crews of different transport modes are paid different amounts, crewing ratios (e.g. per tonne of good transported) vary by mode and that time related vehicle costs can vary by mode and vehicle type, the minimum level of disaggregation for commercial goods traffic is mode. Cost savings due to journey time savings may also be a function of the type of good that is being transported – high value, just-in-time delivery, perishable food, etc. However, as only the most detailed of studies will have information on the type of goods being carried VTTS is not often disaggregated in this manner. Instead a suitable proxy for disaggregation for more sophisticated appraisals is whether or not the good is containerised.

Table 4.2 Recommended level of disaggregation for travel time savings.

Trip Category	Minimum level of disaggregation	More sophisticated level of disaggregation¹	Further level of sophistication level of disaggregation¹
Passenger – work (includes work- ing drivers) Units: €/person-hr or €/vehicle-hr	None	Mode	Income or job/skill type
			IVT vs. walk, wait and interchange time [only if used in conjunction with Hensher Model]
Passenger – non-work (includes non-working drivers) Units: €/person-hr or €/vehicle-hr	None	Journey purpose (commuting and other)	Journey purpose (commuting and other)
		Mode	Income
			Socio-economic status (children, working age adults, retired people)
		Distance (long, short) Modal quality/comfort	
		IVT vs. walk, wait and interchange time	IVT vs. walk, wait and interchange time
Commercial Goods traffic Units: €/tonne-hr or €/vehicle-hr	Mode (Road, Rail, Sea, Inland waterway, Air)	Road vehicle (LGV, HGV, HGV with trailer) Rail category (containerised, bulk, wagonload) Maritime category (containerised, other) Inland waterway category (containerised, other) Air	Road vehicle (LGV, HGV, HGV with trailer) by goods value (high/low) by goods perishability (high/low) Rail category (containerised, bulk, wagonload) Maritime category (containerised, other) Inland waterway category (containerised, other) Air

¹ The more sophisticated approaches are for illustration only.

Table 4.2 summarises the minimum level of disaggregation and more sophisticated approaches. Clearly, the principal determinant in the level of disaggregation of VTTS is dictated by the transport modelling system. If the disaggregation of the modelling system is coarse then the VTTS disaggregation will be coarse. As it can be very resource intensive to develop a model with the most sophisticated level of disaggregation, such a level may only be achieved for the largest of TEN-T projects to be appraised.

4.4.2 Variation of Passenger VTTS with income

Undoubtedly passenger VTTS varies across the population with income and there is strong theoretical and empirical evidence of this. Theoretically we expect VTTS to vary with in-

come as for time savings made during the course of work VTTS is related to the wage rate and, for time savings during non-work time VTTS is related to the marginal utility of income.

On the basis of empirical evidence two countries (Switzerland and the Netherlands) explicitly disaggregate non-work passenger VTTS by income. The recent UK value of time study found a cross-sectional elasticity to before tax household income of 0.36 (commuting trips) and 0.16 (other non-work trips) and recommended that for large transport infrastructure projects in the UK non-work VTTS should be disaggregated by income (Mackie et al., 2003). The Swedish and Norwegian national value of time study found similarly low cross-sectional elasticities of non-work time to income of 0.23 to 0.46 to before-tax individual income in Sweden and something similar for Norway (Algers et al., 1996; Ramjerdi et al., 1997). The HEATCO value of time meta-analysis also found that VTTS varies with income with an elasticity of 0.7. In contrast to these studies Fosgerau (2005) using the dataset from the Danish national value of time study has, however, found a cross-sectional (after-tax) income elasticity that is not significantly different from 1.0 for non-work travellers. Clearly the elasticity to income is sensitive to the units of income (before or after tax, individual or household). However, on balance it appears that there is considerable evidence suggesting that the non-work VTTS elasticity to income is less than unity.

The most common tradition for business passenger VTTS has been to assume that the income elasticity of VTTS is unity. This is based on the theory of the firm. Thus, for example, recommended business VTTS by mode used in the UK are directly proportional to the average incomes of the business travellers (by mode). However a number of studies and authors have cast doubt on the assumption of an elasticity to income of unity (e.g. Gunn et al., 1996; Hensher and Goodwin, 2004). The weight of evidence from the meta-analysis also supports a lower elasticity to income of between 0.4 and 0.5 for work (business) VTTS. These findings have important practical implications for the treatment of business VTTS in an appraisal where VTTS is allowed to vary with income. An elasticity to income of less than unity for business travellers may arise as the VTTS for work trips is also influenced by the valuation of the traveller as well as the firm (the Hensher model). Another possibility is that the true income elasticity is close to unity but that in-vehicle time becomes progressively more usable, valuable and comfortable with income (in-vehicle entertainment, mobile phones, lap-tops on trains etc). For example, those on higher incomes may have access to facilities that improve the journey experience. Higher paid 'white-collar' business travellers may reflect on a business meeting or a project whilst driving a car - which is a productive use of time - whilst lower paid manual workers may not be able to undertake any productive work whilst travelling.

On balance and weighing the available evidence we recommend a cross-sectional elasticity to before-tax income of 0.5 for passenger work trips and 0.7 for passenger non-work trips to be used in the absence of local data. We also recommend that the appraisal is sensitivity tested using a cross-sectional elasticity to income of 1.0 for work (business) trips.

The main objection to disaggregating VTTS by income is policy related and due to reasons of equity. Advocates for disaggregating non-work VTTS by income suggest that an incorrect measure of the economic benefit of a transport infrastructure project will result from the use of 'standard' values. This in turn could lead to a misallocation of resources. On the other

hand those who argue for the use of a standard value in appraisal suggest that without a social weighting scheme that re-weights the costs and benefits of the project according to who they accrue to, the use of non-work VTTS values that vary by income will favour projects that serve those with higher incomes. The recent move to disaggregate VTTS by income (e.g. Switzerland and the recommendation by Mackie et al. for the UK) has been accompanied by improvements in the reporting of cost-benefit analysis through the use of a benefit incidence table (see section 3.4 on the treatment of distributional issues). Whilst a benefit incidence table is not a social weighting scheme it can make clear to the decision-maker who the beneficiaries of a scheme are and from which income groups they derive. This and the fact that the EC is not intending to compare projects between different parts of the EU (e.g. comparing a project in a low income part of the EU with a project in a high income part of the EU) means that we recommend that where possible VTTS should vary with income – particularly for major infrastructure projects or projects that involve some form of user charging.

4.4.3 Variation of Passenger VTTS with journey length

Economic theory informs us that VTTS could increase with journey length for one of three reasons. Firstly it could increase if the marginal disutility of travel increases, as long journeys become more tedious or fatiguing; secondly if the time constraints bind more tightly than budget constraints, as in cases where there is a desire to complete a round trip in a day; and finally if the mix of journey purposes varies with journey length. France, Sweden and Switzerland all use VTTS values that vary with journey length. However, the UK recently and controversially rejected varying VTTS with journey length. Whilst there appears to be significant empirical evidence indicating that a distance effect exists there is still some uncertainty regarding the scale of that effect – certainly in the context of the UK roads sector.

The HEATCO meta-analysis found for commuting and other non-work purposes that longer distances have a somewhat higher VTTS per time unit than shorter distances. This most likely reflects the different mix of purposes within non-work travel (e.g. more holiday trips and less shopping and commuting trips for longer distances) together with an increasing disutility of long trips (travellers getting tired and/or bored). For business travel and freight there was no significant difference between long and short distances in the unit value of time.

These guidelines are primarily intended to objectively appraise TEN-T projects that the EC will co-fund. As such long-distance trips are an important part of the market that will be served by the transport infrastructure projects that these guidelines will be applied to. It is therefore recommended that where the data allows non-work trips are disaggregated by distance and different VTTS values are applied to long-distance and short-distance trips. In the context of the HEATCO meta-analysis long distance trips were classified as inter-urban trips. In the absence of other data the HEATCO meta-analysis results for commuting and other travel (see Table 4.6 and Table 4.7) can be used – long distance trips have a VTTS value 30% higher than short distance trips.

4.4.4 Variation of Passenger VTTS by journey purpose

As discussed above we expect VTTS to vary between work related and non-work related trips. Additionally, for non-work trips VTTS may also vary by journey purpose (e.g. com-

muting, shopping and leisure trips). We expect this because scheduling constraints – the need to undertake activities at certain times – in conjunctions with penalties for being late and the inconvenience of arriving early can affect the VTTS (Small, 1982).

Guidance values for non-work VTTS are disaggregated by journey purpose in nine EU countries. Typically they are disaggregated into ‘commuting’ and ‘other non-work’ trip purposes, though two countries (Switzerland and Latvia) further disaggregate into shopping and leisure. With the exception of Latvia, commuting VTTS are higher than other non-work trip purposes in all instances. There is however no fixed relationship between the VTTS of different trip purposes. Nevertheless, it does appear clear that the VTTS of other non-work trip purposes lies somewhere between 50% and 100% of the commuting value. The HEATCO meta-analysis identified that the VTTS for other non-work trip purposes is 84% of that for commuting trips (see Table 4.6 and Table 4.7).

4.4.5 Variation of Passenger VTTS by mode, walking, waiting, interchange and service frequency.

Given that different modes serve different market segments (e.g. long distance, short distance) we would expect the average VTTS of travellers using a particular mode to vary with the mode used. This is because average modal values will reflect a conflation of values associated with modal quality, the traveller’s income, the trip length and the traveller’s journey purpose. It is difficult to provide firm guidance on the relative values of such average modal values as the functions of the different modes varies across the EU. The recommendation is therefore to either use local average modal values or preferably to disaggregate by trip purpose, journey length and income. If the latter approach is taken there may be a need to allow explicitly for modal comfort differentials; it is not just time which explains modal choice for long-distance journeys, for example. Notwithstanding that the HEATCO meta-analysis has identified modal values, which could be used in the absence of local data (see Tables Table 4.6 and Table 4.7). It was found that the VTTS for air travellers is higher than that for other travellers (1.4 and 1.5 times the value of car VTTS for business and non-work respectively), whilst that for bus travellers was lower (0.8 and 0.7 times the value of car VTTS for business and non-work respectively). We expect that these differences are mainly caused by differences in the user groups of these modes (incomes, journey lengths, etc.), rather than the intrinsic time quality characteristics of the modes (modal comfort).

Focusing on the modal comfort aspect, we expect to find that the least comfortable modes are associated with the highest VTTS. Thus rail travel typically has the lowest ‘modal comfort’ VTTS with walking, waiting and interchange having the highest VTTS. The data used by the HEATCO meta-analysis do not provide information in the variation in VTTS by modal comfort. Thus no conclusions on modal comfort can be drawn from the meta-analysis and we need to look to other sources for evidence.

A number of countries, however, distinguish between time spent in a vehicle (in-vehicle-time, IVT) to time spent walking, waiting or interchanging. Denmark and Sweden¹⁶ weight walk-time the same as in-vehicle-time, but weight wait-time and transfer-time at twice the value of in-vehicle-time. For air trips Sweden values transfer-time at 1.7 times the value of in-vehicle-time. Switzerland also values transfer-time at twice the value of in-vehicle-time but does not give specific guidance on the treatment of walk-time and wait-time components. The UK values time spent walking at twice the value of in-vehicle-time, whilst time spent waiting at 2.5 times the value. The apparent uniformity in the guideline values between countries, however, disguises substantial variation in the results from empirical research. Drawing from Wardman's (2001a, 2004) meta-analysis of 171 British studies Mackie *et al.* (2003) show that walk times can vary from 0.92 to 4.07 of the value of in-vehicle-time whilst wait time varies from 1.84 to 5.28 of the value of in-vehicle-time. Clearly therefore there is theoretical and empirical justification for valuing walk and wait times differently from in-vehicle-time. In the absence of local data we recommend using values from Wardman's meta-analysis. That is in-vehicle time is weighted by 2 for walk time and 2.5 for wait and interchange (or transfer) time.

Average wait times for public transport services will vary systematically with the headway of the services. At high frequencies passengers arrive at random and the average wait time is half the headway. It is recommended that the modelling exercise explicitly models average wait times associated with the different service frequencies, and this wait time is included in the appraisal weighted by a factor of 2.5. At lower levels of frequency arrival rates are not random and average wait times do not fully capture all the costs or benefits of a change in frequency. More complex appraisals may therefore consider surveying values for these additional benefits which are often termed 'inconvenience' or 'scheduling' cost.

Sophisticated techniques exist for modelling and valuing the impact of travel times on many of the attributes associated with public transport passenger travel (e.g. provision of information, seating whilst waiting, etc.). If the impact of such measures are to be modelled and valued the practitioner is referred to country appraisal manuals such as the Passenger Demand Forecasting Handbook (PDFH) in the UK (ATOC, 2002). It is outside the scope of these guidelines to provide such detailed advice.

4.4.6 Variation of Commercial Goods Traffic VTTS

The theory of VTTS for commercial goods traffic usually starts from one of the following two aims:

- (i) to measure willingness-to-pay (WTP) for freight time savings using Stated Preference and Revealed Preference techniques; or
- (ii) to measure the change in freight operators' costs directly associated with freight journey time savings – in particular drivers' wages, associated overhead costs of employing drivers, and the fuel and non-fuel VOCs with respect to journey time.

¹⁶ Appraisal guidelines in Denmark and Sweden also provide values/weights associated with changes in service frequency or headway. However, as changes in such characteristics affect the amount of time spent waiting for a service they are used instead of (not as well as) wait-time values.

We would therefore expect VTTS to vary by mode because driver and crew staffing levels vary by mode, and the types of goods carried by the different modes also vary. Clearly there is also heterogeneity within each mode in terms of the nature of the goods that are carried – perishables, high value freight, etc. Where possible such heterogeneity should be accounted for within the modelling process and the VTTS values used, however, to do so will require quite sophisticated modelling techniques.

In the absence of local VTTS data associated with commercial goods traffic the relationships developed as part of the HEATCO meta-analysis, could be used (see Table 4.8). As the units of the HEATCO meta-analysis VTTS freight values are per tonne it is necessary to have local data on the average load per vehicle to be able to apply these values. An important finding from the meta-analysis is an elasticity of VTTS for commercial goods traffic to GDP per capita of between 0.3 and 0.4. This is much lower than unity. This is attributed to the fact that as transport markets are relatively open, international and competitive markets there is much less variation in freight transport costs or rates between countries than there is in GDP per capita. Therefore differences between countries in GDP per capita only partially translate into differences in VTTS.

4.4.7 Size and sign of time savings

Theory would lead us to expect that the value of time (i.e. the trade off between time and cost) will alter as either the money budget constraint or the time budget constraint bind tighter (i.e. the money or time budgets are close to exhaustion) (see Bates and Whelan, 2001 for a discussion). The implication of this is that VTTS may alter with both the size and the sign of the time saving. However, whilst theory leads us to expect non-linearity in VTTS it cannot inform as to whether the assumption of a constant unit value is a suitable approximation for changes in cost and time of the order of magnitude generated by a transport project (e.g. between +/- 0 and 20 minute time change). This is an empirical question.

The most recent empirical evidence on whether VTTS varies with the sign of time savings is that set out in Bates and Whelan. Once they had corrected for an inertia effect in the stated preference data, they found no evidence for distinguishing between time gains and losses (within the range of +/- 20 minutes). This conclusion was based on the analysis of datasets from the two UK national value of time studies, and is they say, also consistent with findings from the dataset for Swedish national value of time study.

The value of small time savings is often a contentious issue. With the exception of Germany all the EU-25 countries plus Switzerland use a constant VTTS value irrespective of the size of the time saving. The German approach is to discount the value of small time savings on non-work trips by 30%. Previously, such practices had also been adopted in the Netherlands, France and the USA, though they have now been abandoned in favour of the use of a constant unit value (Welch and Williams, 1997). The arguments for and against a 'constant unit value' of VTTS are well rehearsed (see for example Mackie et al., 2001; Fowkes, 1999). The principal objections to the use of a constant unit value for VTTS is that small amounts of time cannot be usefully transferred to any other activity, they cannot be perceived and measurement error may be large in comparison to the size of a small time saving. However, with the

exception of the measurement error problem there are strong counter-arguments to these points which lead us to favour the use of a constant unit value in appraisal for all modes. One pragmatic point is that within the context of incremental upgrades to a route or multiple design options, the aggregation issues associated with non-constant unit values are problematic.

We therefore recommend that a constant unit value for VTTS (i.e. per hour, per minute, per second) should be applied irrespective of the size or sign of the time saving. However, given the potential for errors in the measurement of small time savings within a transport model we recommend that the proportion of the economic benefits derived from time savings attributable to small time savings (less than 3 minutes) is identified.

4.4.8 Treatment of values of travel time savings over time

Theory gives some insight into the manner that VTTS values will grow over time. As the value of passenger business VTTS is related to the wage rate, this would suggest that the value of business VTTS should be related to the value of gross salary costs. 10 of the 12 countries that include growth in the real business VTTS in an appraisal use a function of either GDP/capita or gross salaries, and in all instances an elasticity of 1.0 is used. Unfortunately theory does not give a clear indication as to how the real value of passenger non-work VTTS will alter over time. This is because the rate of change in non-work VTTS will depend on the rate of change in the resource value of time and the rate of change in the marginal value of travelling. Furthermore the latter value is dependent both on the marginal utility of income and the marginal utility of travel.

We might also expect an inter-temporal elasticity of VTTS to growth in income to equal the cross-sectional elasticity to income (as set out in section 4.4.2) if there were no underlying changes in preferences and technology over time. In such a situation each individual simply moves up an income category and adopts the preferences of that higher income category. However, if individuals do not adopt the preferences of their new income category, or preferences alter over time or new technologies affect travel and time budgets then we may expect a growth (could be positive or negative) in the VTTS above and beyond that predicted by a cross-sectional elasticity to income.

The elasticities to income developed as part of the HEATCO meta-analysis principally reflect cross-sectional variations in income across the EU and therefore do not provide empirical evidence on inter-temporal elasticities. We therefore need to look to other sources for evidence. Wardman (2001b) in work undertaken as part of the UK national value of time study found an inter-temporal elasticity to GDP per capita of 0.72 for all journey purposes and modes. The elasticity to GDP/capita for passenger work trips did not vary significantly from this value. The Dutch value of time studies however found that values of travel time decreased over time, though this was offset with a real growth income. The net result being that values of travel time savings remained broadly constant. The possible explanations for lower than unit elasticities are:

- The relationship to gross household income might be close to unity consistently with the relationship to net personal disposable income being less than unity; and
- Lower paid workers may have more constrained time budgets than higher paid workers including less affordability of child care and other activities which must be fitted in.

However, another possibility is that the true income elasticity is unity but that in-vehicle time becomes progressively more usable and valuable with income (in-vehicle entertainment, mobile phones, lap-tops on trains etc) or as in the Dutch situation a reduction in the working week (to 36 hours). This is the same argument as that used for the explanation for a less than unity cross-sectional elasticity to income. However, in the context of inter-temporal growth in VTTS the implication of the evidence might be pointing in the direction of a once and for all shift in the VTTS rather than a lower income elasticity.

As regards the growth of commercial goods VTTS over time, theory would lead us to expect that the value will grow in relation to the main components of time-related costs. In the EU nine countries have explicit methods for updating their values from year to year, with the majority relating it to changes in GDP (with an elasticity of unity). The Netherlands has recently developed a more complex approach which is scenario-based and relates to different structures for international trade, but uses fixed growth rates per annum. Unfortunately, there is no comparable analysis to Wardman's meta-analysis for commercial goods traffic, and the HEATCO meta-analysis principally reflects cross-sectional elasticities of commercial goods traffic VTTS to GDP differences across the EU. As the principal time related cost for commercial goods traffic is driver and crew wages we would therefore recommend in the absence of other data the use of the same inter-temporal elasticity to income growth as used for passenger-work (business) travel.

In summary, weighing all the theoretical and empirical evidence we recommend, in the absence of local data, a default inter-temporal elasticity to GDP per capita growth of 0.7 with a sensitivity test at 1.0 (for all passenger travel purposes, work and non-work and also for commercial goods traffic).

4.4.9 Uncertainty in the VTTS value

Surveyed VTTS values from a population sample are used as estimates of that population's VTTS. As such there is risk that the population's VTTS may differ from that of the surveyed sample. As set out in the section on risk and uncertainty the principal method recommended for assessing the impact of such uncertainty on the appraisal is sensitivity testing (see section 3.7). With respect to making a recommendation for a range of values for use in sensitivity tests it is useful to review the literature to understand the potential uncertainty in VTTS valuations.

Bates and Whelan (2001) report 95% confidence intervals from the UK value of time study dataset of between +/-5.4% and +/-9.3% (journey purpose specific). This uncertainty should however be viewed as a minimum as these intervals relate to a linear model, whilst the preferred model is non-linear and for which no confidence interval is reported. Such a confidence interval would need to be estimated by simulation. De Jong et al (1998) estimated 95% confidence intervals from the first Dutch national VTTS study using simulation. They found standard deviation in the VTTS value by travel purpose and mode between 6% and 24% (i.e. 95% confidence intervals between +/-12% and +/-47%). Lindqvist Dillen and Algers (1998) (cited in Beser Hugosson, 2004) report that the standard error in the Swedish national VTTS study is +/-16%. This implies a 95% confidence interval of +/-31%.

With respect to project specific data (in this case from the Swedish national passenger transport model SAMPERS), Beser Hugosson (2004) reports 95% confidence intervals in VTTS values for Swedish long-distance trips of between +/-16.6% and +/-23% (mode specific) estimated through simulation. Brundell-Freij (2000) also used simulation to estimate standard errors of between 3% and 20% of in-vehicle time - implying 95% confidence intervals between +/-6% to +/-39%.

Clearly the confidence interval associated with a surveyed VTTS value is dependent on the survey design, both in terms of sample size and quality of stated preference questionnaire design. Even with well designed surveys, such as those associated with national value of time studies, we find large confidence intervals and quite a large range in the size of confidence intervals by journey purpose and/or mode. On balance and from reviewing the available literature we therefore recommend:

- *Local willingness-to-pay survey:* if VTTS values for the appraisal are derived from a local willingness-to-pay survey, then the appraisal results should be sensitivity tested to the upper and lower limits of the 95% confidence interval of the local VTTS values or +/-10% whichever is the greater.
- *National VTTS values:* if the appraisal is conducted using values set out in the national appraisal guidance then the appraisal results should be sensitivity tested to VTTS values +/-20% of those national values.
- *Benefit transfer:* if the VTTS values have been derived from some form of benefit transfer procedure – such as the HEATCO meta-analysis – we recommend sensitivity testing the appraisal to values +/-40% of the benefit transfer values.

As identified in the earlier sections we also recommend sensitivity testing:

- *Treatment of VTTS over time:* uncertainty in the elasticity to growth GDP/capita means that growth in VTTS over time should be sensitivity tested to an elasticity to GDP/capita growth of 1.0.
- *Small time savings:* given the potential for errors in the measurement of small time savings within a transport model the proportion of total time saving benefits due to time savings below 3 minutes (positive and negative) should be identified.

4.5 Treatment of congestion

Congestion can affect the performance and quality of the transport system in a number of ways: increased travel times; overcrowding on public transport; deterioration in the 'driving experience' with stop-start conditions; and reliability problems. Theory informs us that a deterioration in travelling conditions, whether that be through increased overcrowding on public transport or stop-start driving conditions, by making travel more onerous will influence the willingness-to-pay for a travel time saving. However, this will in the main only affect non-work VTTS as conditions of travel may have only a little impact on business VTTS and commercial goods traffic (where the cost saving model of valuation dominates). Contrastingly the impact of another facet of congestion – that of reliability or lack of – is considered to

impose a significant cost on business travellers and commercial goods traffic (see for example SACTRA, 1999; McQuaid et al., 2004). Travel time variability and large unexpected delays are two of the consequences of reliability problems.

The number of countries that monetise the impacts of congestion, beyond that of just increased travel time, is however limited. Partly this is due to a scarcity of evidence on the values of the impacts of congestion. Primarily, however, it is due to the difficulty in modelling changes reliability and overcrowding as a consequence of an infrastructure improvement. The technical challenge posed by modelling changes in reliability with existing methods and software cannot be overstated. At the minimum a modelling system with a representation of space and time is required - congestion usually only affects certain parts of the transport network at certain times of the day. The detailed representation of space and time within a modelling system can sometimes be at odds with the modelling simplifications necessary to analyse long distance (cross-European) trips that would be associated with the TEN-T. We would therefore expect only the most sophisticated of TEN-T appraisals to take account of the impacts of congestion (aside from increases in expected travel time). Due to the technical difficulties, even where congestion impacts are accounted for within an appraisal, the approach may still be limited.

4.5.1 Reliability

The recommendations on reliability set in this section are made within the context of what is achievable using the existing knowledge base. Firstly, we need to define reliability or unreliability. There are three main definitions (de Jong *et al.*, 2004b): the standard deviation of the travel time; the difference between percentiles of the travel time distribution; and the number of minutes one will depart or arrive earlier or later than preferred. One could describe the first definition as an analytical or mathematical definition, the second might be appropriate for policy objectives, whilst the third may have the most meaning to the people undertaking the trips. The third approach is also the definition that is most consistent with the behavioural theory (scheduling behaviour) that underlies the valuation of reliability, so ideally would be the preferred definition. However, the nature of traffic and transport models, particularly models of road networks, means that it is much easier (though still difficult) to get data and model predictions on the standard deviation of travel times than for the other definitions of reliability. Additionally, through assumptions on the distribution of travel times there is a theoretical link between the theory on scheduling behaviour and the standard deviation of travel times. With this justification but primarily for pragmatic reasons the standard deviation of the travel time is the definition of reliability that we recommend using.

The reliability ratio is the ratio of the value of one minute of standard deviation (i.e. value of reliability) to the value of one minute of average travel time. The travel time variability literature suggests that there is quite a broad range in observed reliability ratios from 0.35 to 2.4. In a workshop of international experts convened by AVV, the transport research centre of the Dutch Ministry of Transport, some consensus regarding reasonable reliability ratios for passenger transport was reached (Hamer *et al.*, 2005). No consensus on a reliability ratio for commercial goods traffic was reached. Kouwenhoven *et al.* (2005a) have since derived a reliability ratio for commercial goods achieved. This has been derived from the Dutch guidelines on the value of change in the percentage of goods that arrive on time. Table 4.3 sets out

the resultant reliability ratios, which we recommend using in the absence of local data. These reliability ratios could be viewed as conservative, in that they are towards the lower end of the range of empirical results. Given the uncertainty associated with data such a stance seems an appropriate basis on which to recommend reliability ratios for TEN-T appraisal in the absence of local data. Of course if local data (e.g. at national level) were available such data would be used in place of the reliability ratios set out in Table 4.3.

Table 4.3 Reliability ratios.

Journey purpose	Mode	Reliability ratio
Commuting (passenger)	Car	0.8
Business (passenger)	Car	0.8
Other (passenger)	Car	0.8
All (passenger)	Train	1.4
All (passenger)	Bus/tram/metro	1.4
Commercial Goods Traffic	Road	1.2

Source: Hamer *et al.* (2005), Kouwenhoven *et al.* (2005a)

As discussed above it is a far from trivial matter to apply the reliability ratios in practice due to the level of modelling that will be required. Without exception almost all the traffic and transport models that will underpin TEN-T appraisal will have a steady state form. That is they will provide predictions of average demand flows and average (or expected) travel times. They will not provide any predictions of the change in the standard deviation of travel time. Some form of ancillary modelling will therefore be required. It is recommended that this ancillary modelling focuses exclusively on the TEN-T route and excludes the surrounding road network. This will underestimate the total reliability benefits (as it will exclude any benefits associated with the surrounding network); however, it makes the problem more tractable and also focuses attention on the benefits attributable to the traffic using the TEN-T network.

To date three methods have been utilised, which can be grouped into two categories: bottom-up and top-down.

- **Bottom-up:**

- (i) The reliability analysis can be focussed exclusively on the impact of incidents on travel time reliability. For situations where the transport network is operating under-capacity, incidents form the principal cause of travel time variability. An incident based analysis utilises data on the average number of incidents, the type of incident, the duration of incident, the times of day that the incidents occur at and the impact on capacity that such an incident has. Classic steady state queuing theory can then give predictions of the average additional delay associated with each incident type, from which a travel time distribution can be calculated. Such an approach is embodied in the UK's Department for Transport's model INCA (Ahuja *et al.*, 2002). Using the INCA software Ahuja *et al.* attribute substantial proportions of the economic benefit from incident reducing measures (e.g. provi-

sion of a hard shoulder on a multi-lane highway) to reductions in travel time variability - in excess of 50% of the normal journey time benefits.

- (ii) For situations where incidents are not the principal cause of travel time variability or the network is over-capacity a detailed model of the TEN-T route corridor can be developed in a software package that explicitly models travel time variability (e.g. micro-simulation). European commercial road-based micro-simulation packages include DRACULA, Paramics, VISSIM and AIMSUN.

- **Top-down:**

A relationship between travel time variability and traffic demand can be developed for roads of a standard similar to that being appraised. Such an aggregate model has been developed for the Dutch motorway network using data on traffic volumes and spot speeds in the peak period (Kouwenhoven *et al.*, 2005b).

It should be noted that the above three approaches assume that a reduction in variability on the section of the TEN-T route, that is modelled, will lead to the same reduction in variability over the complete journey. That is a reduction in the standard deviation of travel time of say 5 minutes arising from an upgrade to a 100km section of the TEN-T network is assumed to give a 5 minute reduction in the standard deviation of travel time for a 500km international 'through' trip. For this to occur there has to be statistical independence in travel time variability between the sections of the transport network that are modelled and the sections that are not modelled. It is therefore recommended that the proportion of reliability benefits that are attributed to external traffic (i.e. traffic with an origin or destination outside the study area) is identified if one of the above approaches is adopted.

4.5.2 Public transport overcrowding

Clearly overcrowding on public transport makes a journey more onerous. Therefore we expect higher VTTS for travel in congested and overcrowded condition. French guidelines value travel in overcrowded conditions on public transport at 1.5 times the value of standard in-vehicle-time. The UK guidelines distinguish between passengers who sit in overcrowded conditions and those who stand, with the values for those standing far exceeding the values for sitting (ATOC, 2002). For non-work travel the values range from 1.1p/min to 30.8p/min which reflects a range of about 1.1 times in-vehicle-time to 4.5 times in-vehicle-time. The New Zealand value of time study found that values of travel time savings for standing passengers were 39% higher than for passengers with a seat (BCHF, 2002).

In the absence of local data on the VTTS of travelling in overcrowded public transport we recommend that a value of 1.5 times that of standard in-vehicle-time is used for passengers who have to stand. Such a weighting should only be applied to non-work time as business travel is normally valued using the cost saving approach. The weighting should also only be applied to those passengers who have to stand and not to all passengers on the overcrowded service. Clearly the modelling approach that would underpin such an appraisal would need to include data on individual service capacity and loadings, as we would expect only a subset of services to be overcrowded.

4.5.3 Quality of travel experience

Congestion can deteriorate the quality of the journey experience through overcrowding, poor driving conditions, poor public transport punctuality and poor reliability. Some studies have attempted to value the combined effect of all these characteristics and in some circumstances it may be possible to use such results in an appraisal. Clearly, if the individual characteristics of congestion are modelled and appraised separately (e.g. reliability and overcrowding impacts) then it would be inappropriate to also include aggregate values for the combined effects of congestion.

Road travel

With respect to the aggregate effects of congestion on road travel Wardman (2001a, 2004) in his meta-analysis of 143 British studies found that travelling in congested conditions is valued 48% more highly on average than time spent driving in free flow traffic; Eliasson (2004) found similar values (about 1.5) for driving in queues, whilst Steer Davies Gleave (2004) found values ranging from 1.2 times in-vehicle-time (for busy conditions/light congestion) to almost twice in-vehicle-time for 'gridlock' conditions. The UK value of time study found that travel time in congested conditions was about 40% higher than in free-flow conditions for commuters though only just significant at the 95% level, whilst no significant effect was found for the 'other non-work' trip purposes (Mackie *et al.*, 2003). Outside the EU the recent New Zealand value of time study and guidelines suggest that high levels of congestion may lead to values of time savings between 1 and 1.5 times in-vehicle-time depending on the degree of congestion and whether the congestion occurs on urban or rural roads. A value of 1.5 times standard in-vehicle-time would therefore seem a reasonable value to ascribe to congested conditions.

As ever the difficulty comes in applying such a value in an appraisal. What does the term 'congested conditions' mean? And how can this be related to a traffic model with a basis in traffic engineering? In situations where route capacity is determined by the capacity of the road (rather than the capacity of the junctions) – as in many inter-urban routes – the ratio of volume to capacity of the link may be used as a measure of congestion. Volume to capacity ratios in excess of 1.00 are associated with congested conditions (level of service E as set out in the US Highway Capacity Manual (TRB, 1997), whilst volume to capacity ratios below 0.75 are associated with reasonable operating conditions (level of service C)¹⁷. We recommend that if the volume to capacity ratio for a link is in excess of 1.00 then travel time could be valued at 1.5 times standard in-vehicle-time. Clearly such a value includes the costs associated with reliability. Therefore if reliability is to be modelled explicitly some double counting of costs/benefits would occur. The VTTS value should therefore only be weighted if no explicit reliability modelling is undertaken. We also recommend, as with the reliability analysis, that such an approach is confined to the route of the upgraded TEN-T network, with the surrounding network excluded. Primarily this is because of the uncertainty as to what is considered to be congested conditions, particularly for parts of the network which will be influenced by the operation of junctions.

¹⁷ Multilane highways Table 7-1 Highway Capacity Manual (TRB, 1997)

Clearly, even this aggregate approach to all congestion effects is also non-trivial in operation, as the weighted VTTS value can only be applied to links which are congested and it is unlikely that all parts of trip will be undertaken in an over-capacity situation. For each trip the modelling process therefore needs to account for the amount of time that is spent in congested conditions and the amount of time that is spent in uncongested conditions. Only the time spent in congested conditions is weighted by 1.5 times in-vehicle-time.

Public transport

An alternative approach to modelling the reliability of public transport is to value the travel time in excess of that expected (i.e. delay). Denmark and the UK value delays at the same as that spent waiting for public transport (i.e. twice in-vehicle-time for Denmark and 2.5 times in-vehicle-time for the UK). Sweden on the other hand uses a range of values (from 1.6 to 3.71 times in-vehicle-time) depending on the journey purpose (work/non-work) and the mode. The single value mentioned in the UK's guidance disguises a range of values that have been found in UK studies. For example Bates *et al.* (2001) found that the value of a reduction in one minutes delay ranged from between 1 and 5 times the value of in-vehicle-time depending on journey length and purpose. Wardman (2001a, 2004) found values of 'late time' to be over 7 times the value of in-vehicle-time. However, it appears that some of the valuations on which the meta-analysis was based may in fact be capturing reliability costs and therefore this valuation is not wholly due to delays.

As an alternative to modelling and valuing public transport reliability, valuing average 'delay' or 'lateness' of services is an option. In this situation we recommend using a VTTS value that is equivalent to that of waiting time (i.e. 2.5 times in-vehicle-time). Once again there is still a supply side modelling issue, as it is unclear how one would expect a change in capacity to affect average lateness of services.

There is little data on the value of congested conditions in airports, in train stations, on-board airplanes and on-board ships. If such conditions are considered important to the appraisal it is recommended that local values are surveyed as part of the study.

4.6 Implementation of VTTS Guidelines

4.6.1 Deriving VTTS for use in an appraisal

The underlying principle regarding the implementation of the above guidelines is that values of travel time savings used in an appraisal should:

- (i) Be developed according to the minimum standards set out above; and
- (ii) Reflect the underlying willingness-to-pay (WTP) of the users of the transport network in the vicinity of the scheme and on the parts of the transport network(s) affected by the scheme.

The implication of this is that different users of the transport system should be allocated different willingness-to-pay that reflect incomes, journey lengths and trip purposes. This may result in attributing different VTTS values by nationality. Obviously a trade-off exists between sophistication and the practicality of implementing a sophisticated approach in any

particular country. Additionally, the effort to which the analyst goes to obtain values that represent the underlying willingness-to-pay should also reflect the scale of the scheme. Obviously greater efforts should be made for large schemes with significant capital costs than for small schemes, where reasonable approximations to the underlying WTP maybe made. Some EU countries have well developed appraisal frameworks with a lot of data available to the analyst whilst others do not. In the latter situations it is unrealistic to expect scheme promoters to survey all the relevant data, therefore some values may have to be approximated and some may have to be imported from elsewhere. Table 4.4 sets out methods that can be used to approximate VTTS where the nationality or true origins and destinations of traffic may not be known.

Table 4.4 Approximating the underlying willingness-to-pay of traffic on the TEN-T.

TEN-T Project	Passenger traffic	Goods traffic
TEN-T schemes located wholly within a single nation state	The majority of the passenger traffic will be related to trips within that nation state. In such a situation use of that nation's VTTS for all passenger trips may be reasonable.	On TEN-T projects a significant amount of goods traffic may be international: <ul style="list-style-type: none"> • In the (probable) rare circumstances that the nationality of the haulier is known a VTTS value consistent with that nationality should be used. • Where identification of the origins and destinations of the goods traffic can be made (e.g. Milan to Munich) but the nationality of the traffic is unknown (e.g. French or British) a pragmatic option is to use a VTTS consistent with the country of the trip origin. • Where identification of the precise origins and destinations of the goods traffic is difficult and traffic is either classed as international or domestic - domestic goods traffic should be allocated the VTTS of the host nation, whilst international traffic should be given the EU-25 average VTTS.
Cross-Border TEN-T schemes	The majority of the passenger traffic will be related to trips between the nation states. In such a situation use of the respective nations' VTTS for trips that originate in that country maybe reasonable.	As for TEN-T schemes located wholly within a single nation state.

The survey of national appraisal practice reported in Odgaard *et al.* (2005) allows a comparison to be made between the methodologies used to value travel times savings and the minimum recommended standards. Accordingly Table 4.5 identify whether, in the absence of reliable local data¹⁸, the VTTS values set out in the national guidelines should be used or whether values derived from the HEATCO meta-analysis should be used instead. The meta-analysis models have been used to estimate VTTS values for each country (see Table 4.6,

¹⁸ and for the appraisal of TEN-T projects for EC co-funding

Table 4.7 and Table 4.8). The HEATCO meta-analysis for commercial goods traffic has been based on values for road and rail traffic only. Therefore, no values can be recommended by this research for other modes (inland waterway, maritime and air).

Table 4.5 Recommended source for deriving passenger VTTS (based on 2004 survey of EU member states appraisal methodology).

	Passenger VTTS		Commercial Goods Traffic	
	Work	Non-work	Road	Rail
North/West				
Austria	HEATCO	HEATCO	National guidelines	National guidelines
Belgium	HEATCO	HEATCO	HEATCO	HEATCO
Denmark	National guidelines	HEATCO	National guidelines	HEATCO
Finland	National guidelines	HEATCO	National guidelines	HEATCO
France	National guidelines	HEATCO	National guidelines	National guidelines
Germany	National guidelines	National guidelines	National guidelines	HEATCO
Ireland	National guidelines	HEATCO	National guidelines	HEATCO
Luxemburg	HEATCO	HEATCO	HEATCO	HEATCO
Netherlands	National guidelines	National guidelines	National guidelines	National guidelines
Sweden	National guidelines	National guidelines	National guidelines	National guidelines
Switzerland	HEATCO	National guidelines	National guidelines	HEATCO
UK	National guidelines	National guidelines	National guidelines	HEATCO
East				
Czech Republic	HEATCO	HEATCO	National guidelines	HEATCO
Estonia	HEATCO	HEATCO	HEATCO	HEATCO
Hungary	HEATCO	HEATCO	National guidelines	HEATCO
Latvia	National guidelines	HEATCO	National guidelines	HEATCO
Lithuania	HEATCO	HEATCO	National guidelines	HEATCO
Poland	HEATCO	HEATCO	HEATCO	HEATCO
Slovak Republic	HEATCO	HEATCO	National guidelines	HEATCO
Slovenia	National guidelines	HEATCO	National guidelines	HEATCO
South				
Cyprus	HEATCO	HEATCO	HEATCO	HEATCO
Greece	National guidelines	National guidelines	National guidelines	HEATCO
Italy	HEATCO	HEATCO	HEATCO	HEATCO
Malta	National guidelines	HEATCO	National guidelines	HEATCO
Portugal	HEATCO	HEATCO	HEATCO	HEATCO
Spain	HEATCO	HEATCO	National guidelines	HEATCO

Table 4.6 Estimated VTTs values – work (business) passenger trips (€₂₀₀₂ per passenger per hour, factor prices)

Country	Business		
	Air	Bus	Car, train
Austria	39.11	22.79	28.40
Belgium	37.79	22.03	27.44
Cyprus	29.04	16.92	21.08
Czech Republic	19.65	11.45	14.27
Denmark	43.43	25.31	31.54
Estonia	17.66	10.30	12.82
Finland	38.77	22.59	28.15
France	38.14	22.23	27.70
Germany	38.37	22.35	27.86
Greece	26.74	15.59	19.42
Hungary	18.62	10.85	13.52
Ireland	41.14	23.97	29.87
Italy	35.29	20.57	25.63
Latvia	16.15	9.41	11.73
Lithuania	15.95	9.29	11.58
Luxembourg	52.36	30.51	38.02
Malta	25.67	14.96	18.64
Netherlands	38.56	22.47	28.00
Poland	17.72	10.33	12.87
Portugal	26.63	15.52	19.34
Slovakia	17.02	9.92	12.36
Slovenia	25.88	15.08	18.80
Spain	30.77	17.93	22.34
Sweden	41.72	24.32	30.30
United Kingdom	39.97	23.29	29.02
EU (25 Countries)	32.80	19.11	23.82
Switzerland	45.41	26.47	32.97

Table 4.7 Estimated VTTs values – non-work passenger trips (€₂₀₀₂ per passenger per hour, factor prices)

Country	Commute-Short Distance			Commute-Long Distance			Other-Short Distance			Other-Long Distance		
	Air	Bus	Car, train	Air	Bus	Car, train	Air	Bus	Car, train	Air	Bus	Car, train
Austria	11.98	5.78	8.03	15.40	7.42	10.32	10.05	4.84	6.73	12.91	6.22	8.65
Belgium	11.44	5.51	7.67	14.68	7.07	9.84	9.59	4.62	6.43	12.31	5.93	8.26
Cyprus	11.83	5.70	7.93	15.18	7.32	10.18	9.92	4.78	6.65	12.74	6.14	8.53
Czech Republic	8.57	4.13	5.75	11.00	5.31	7.38	7.19	3.46	4.82	9.23	4.45	6.18
Denmark	12.64	6.09	8.48	16.23	7.82	10.88	10.60	5.11	7.11	13.61	6.56	9.12
Estonia	7.44	3.58	4.99	9.55	4.60	6.40	6.24	3.01	4.18	8.01	3.86	5.36
Finland	11.31	5.45	7.58	14.52	7.00	9.73	9.48	4.57	6.36	12.17	5.87	8.16
France	16.34	7.87	10.95	20.97	10.11	14.06	13.70	6.60	9.18	17.58	8.47	11.79
Germany	11.99	5.78	8.04	15.40	7.42	10.32	10.05	4.85	6.74	12.91	6.22	8.65
Greece	10.34	4.98	6.93	13.28	6.40	8.90	8.67	4.18	5.82	11.14	5.37	7.46
Hungary	7.53	3.63	5.05	9.68	4.66	6.48	6.31	3.04	4.23	8.11	3.91	5.44
Ireland	12.51	6.03	8.39	16.07	7.74	10.77	10.49	5.06	7.04	13.48	6.49	9.03
Italy	15.16	7.31	10.16	19.47	9.38	13.04	12.71	6.12	8.52	16.32	7.86	10.94
Latvia	6.79	3.27	4.55	8.72	4.20	5.85	5.69	2.74	3.82	7.31	3.52	4.90
Lithuania	6.62	3.19	4.43	8.49	4.09	5.69	5.55	2.67	3.72	7.12	3.43	4.77
Luxembourg	17.77	8.60	11.91	22.82	11.00	15.30	14.90	7.18	9.99	19.13	9.22	12.83
Malta	9.73	4.69	6.53	12.50	6.02	8.37	8.17	3.93	5.47	10.48	5.05	7.02
Netherlands	11.59	5.59	7.77	14.88	7.17	9.97	9.72	4.68	6.52	12.48	6.01	8.37
Poland	7.36	3.55	4.94	9.46	4.56	6.34	6.17	2.97	4.14	7.93	3.82	5.32
Portugal	9.97	4.81	6.69	12.81	6.18	8.59	8.36	4.03	5.61	10.74	5.17	7.20
Slovakia	6.87	3.31	4.60	8.82	4.25	5.91	5.76	2.78	3.86	7.40	3.57	4.96
Slovenia	12.00	5.78	8.04	15.40	7.42	10.33	10.06	4.85	6.74	12.92	6.22	8.66
Spain	12.72	6.12	8.52	16.33	7.87	10.94	10.66	5.13	7.15	13.69	6.59	9.18
Sweden	12.24	5.90	8.20	15.71	7.57	10.53	10.26	4.94	6.88	13.17	6.35	8.83
United Kingdom	12.44	5.99	8.34	15.97	7.69	10.70	10.43	5.02	6.99	13.39	6.46	8.98
EU (25 Countries)	12.65	6.10	8.48	16.25	7.83	10.89	10.61	5.11	7.11	13.62	6.56	9.13
Switzerland	16.74	8.06	11.22	21.49	10.36	14.41	14.03	6.76	9.40	18.02	8.69	12.08

Table 4.8 Estimated VTTS values – freight trips (€₂₀₀₂ per freight tonne per hour, factor prices)

Country	Freight	
	Road	Rail
Austria	3.37	1.38
Belgium	3.29	1.35
Cyprus	2.73	1.12
Czech Republic	2.06	0.84
Denmark	3.63	1.49
Estonia	1.90	0.78
Finland	3.34	1.37
France	3.32	1.36
Germany	3.34	1.37
Greece	2.55	1.05
Hungary	1.99	0.82
Ireland	3.48	1.43
Italy	3.14	1.30
Latvia	1.78	0.73
Lithuania	1.76	0.72
Luxembourg	4.14	1.70
Malta	2.52	1.04
Netherlands	3.35	1.38
Poland	1.92	0.78
Portugal	2.58	1.06
Slovakia	1.86	0.77
Slovenia	2.51	1.03
Spain	2.84	1.17
Sweden	3.53	1.45
United Kingdom	3.42	1.40
EU (25 Countries)	2.98	1.22
Switzerland	3.75	1.54

Table 4.9 Estimated VTTS values – work (business) passenger trips (€₂₀₀₂ PPP per passenger per hour, factor prices)

Country	Business		
	Air	Bus	Car, train
Austria	37.50	21.85	27.23
Belgium	36.94	21.53	26.82
Cyprus	32.92	19.18	23.90
Czech Republic	36.59	21.31	26.57
Denmark	33.05	19.26	24.00
Estonia	31.76	18.52	23.07
Finland	34.61	20.17	25.13
France	36.57	21.31	26.56
Germany	34.53	20.12	25.07
Greece	34.07	19.86	24.74
Hungary	34.05	19.84	24.72
Ireland	35.43	20.65	25.73
Italy	36.91	21.51	26.81
Latvia	31.79	18.53	23.09
Lithuania	33.31	19.39	24.17
Luxembourg	46.14	26.88	33.50
Malta	36.99	21.56	26.85
Netherlands	36.13	21.06	26.24
Poland	32.34	18.85	23.48
Portugal	34.91	20.34	25.34
Slovakia	38.67	22.54	28.09
Slovenia	34.98	20.38	25.40
Spain	35.74	20.83	25.95
Sweden	35.24	20.54	25.59
United Kingdom	35.56	20.72	25.82
EU (25 Countries)	32.80	19.11	23.82
Switzerland	31.87	18.57	23.14

Table 4.10 Estimated VTTS values – non-work passenger trips (€₂₀₀₂ PPP per passenger per hour, factor prices)

Country	Commute-Short Distance			Commute-Long Distance			Other-Short Distance			Other-Long Distance		
	Air	Bus	Car, train	Air	Bus	Car, train	Air	Bus	Car, train	Air	Bus	Car, train
Austria	11.49	5.54	7.70	14.76	7.11	9.89	9.63	4.64	6.46	12.37	5.96	8.30
Belgium	11.18	5.38	7.50	14.35	6.91	9.62	9.37	4.51	6.28	12.03	5.80	8.07
Cyprus	13.41	6.46	8.99	17.22	8.29	11.54	11.25	5.42	7.54	14.44	6.96	9.68
Czech Republic	15.97	7.70	10.70	20.49	9.88	13.75	13.38	6.44	8.98	17.19	8.28	11.51
Denmark	9.62	4.64	6.45	12.35	5.95	8.28	8.07	3.89	5.41	10.36	4.99	6.94
Estonia	13.37	6.44	8.97	17.18	8.28	11.52	11.22	5.41	7.52	14.41	6.95	9.65
Finland	10.10	4.87	6.77	12.96	6.25	8.69	8.47	4.08	5.68	10.87	5.24	7.29
France	15.66	7.55	10.50	20.11	9.69	13.48	13.13	6.33	8.80	16.86	8.12	11.30
Germany	10.80	5.20	7.23	13.86	6.68	9.29	9.05	4.36	6.07	11.62	5.60	7.79
Greece	13.18	6.35	8.83	16.92	8.16	11.34	11.05	5.32	7.41	14.18	6.84	9.51
Hungary	13.77	6.64	9.24	17.69	8.52	11.86	11.54	5.56	7.74	14.83	7.15	9.94
Ireland	10.78	5.19	7.23	13.84	6.67	9.28	9.04	4.36	6.06	11.61	5.59	7.78
Italy	15.86	7.64	10.63	20.36	9.81	13.64	13.29	6.40	8.91	17.07	8.23	11.45
Latvia	13.37	6.44	8.96	17.17	8.27	11.51	11.21	5.40	7.52	14.39	6.93	9.65
Lithuania	13.81	6.66	9.25	17.73	8.54	11.88	11.58	5.58	7.76	14.87	7.17	9.96
Luxembourg	15.66	7.57	10.50	20.11	9.69	13.48	13.13	6.33	8.80	16.86	8.12	11.30
Malta	14.03	6.76	9.40	18.01	8.68	12.07	11.77	5.66	7.89	15.11	7.28	10.12
Netherlands	10.86	5.24	7.28	13.95	6.72	9.35	9.11	4.39	6.11	11.70	5.64	7.84
Poland	13.44	6.48	9.01	17.26	8.32	11.56	11.27	5.43	7.55	14.48	6.97	9.71
Portugal	13.07	6.30	8.77	16.79	8.10	11.26	10.96	5.29	7.35	14.08	6.78	9.43
Slovakia	15.61	7.52	10.46	20.04	9.66	13.44	13.09	6.32	8.78	16.81	8.11	11.26
Slovenia	16.21	7.82	10.87	20.82	10.03	13.96	13.59	6.55	9.11	17.45	8.41	11.70
Spain	14.77	7.11	9.90	18.96	9.14	12.71	12.38	5.96	8.30	15.90	7.66	10.66
Sweden	10.34	4.98	6.93	13.27	6.40	8.89	8.66	4.17	5.81	11.12	5.36	7.46
United Kingdom	11.07	5.33	7.42	14.21	6.84	9.52	9.28	4.47	6.22	11.91	5.74	7.99
EU (25 Countries)	12.65	6.10	8.48	16.25	7.83	10.89	10.61	5.11	7.11	13.62	6.56	9.13
Switzerland	11.75	5.66	7.88	15.08	7.27	10.11	9.85	4.74	6.60	12.65	6.10	8.48

Table 4.11 Estimated VTTS values – freight trips (€₂₀₀₂ PPP per freight tonne per hour, factor prices)

Country	Per tonne of freight carried ¹	
	Road	Rail
Austria	3.23	1.33
Belgium	3.22	1.32
Cyprus	3.10	1.27
Czech Republic	3.83	1.57
Denmark	2.76	1.14
Estonia	3.41	1.40
Finland	2.98	1.22
France	3.18	1.30
Germany	3.01	1.24
Greece	3.25	1.34
Hungary	3.64	1.49
Ireland	3.00	1.23
Italy	3.29	1.36
Latvia	3.50	1.43
Lithuania	3.67	1.50
Luxembourg	3.64	1.50
Malta	3.64	1.50
Netherlands	3.14	1.29
Poland	3.51	1.43
Portugal	3.39	1.39
Slovakia	4.24	1.74
Slovenia	3.39	1.39
Spain	3.30	1.36
Sweden	2.98	1.22
United Kingdom	3.04	1.25
EU (25 Countries)	2.98	1.22
Switzerland	2.63	1.08

¹ Value per tonne of freight carried and not for the maximum load of the vehicle or the weight of the vehicle.

4.6.2 VTTS data requirements

The calculation of the economic benefit associated with travel time savings is very straightforward. In essence it is the product of the five items of data:

- (i) **Demand** - the number of passengers/vehicles/goods traffic making a particular origin-destination trip in the Do Minimum (D_0) and in the Do Something (D_1);
- (ii) **Time saving** – the time saving experienced by the traffic making that particular origin-destination trip (T_0-T_1); and
- (iii) **VTTS** – the value of the travel time saving (for that segment of traffic)

The travel time saving element of the consumer surplus for that origin-destination trip is calculated using the rule of a half (see Chapter 2):

$$\frac{1}{2}(D_0+D_1) (T_0-T_1) * VTTS$$

The total user benefit from travel time savings is then the sum of all time saving related consumer surpluses for all origin-destination movements.

Some vehicle operating cost models for commercial goods vehicles and business traffic include the time elements of the journey (e.g. driver and crew wages). Care should be taken in such situations to avoid double counting this component in both time and vehicle operating cost benefits, both in modelling and appraisal.

Table 4.12 Use of local data or benefit transfer procedures.

	Local data in all instances	Can be calculated from benefit transfer
Passenger work VTTS	Proportion of passenger journeys that are work trips	Value of work VTTS (from GDP/capita)
	Average vehicle occupancy	Value of work VTTS over time
Passenger non-work VTTS	Proportion of non-work trips that are for commuting and proportion that are for 'other' purposes	Value of non-work VTTS
	Average vehicle occupancy	Relationship between VTTS for commuting and VTTS for 'other' non-work trip purposes
	---	Value of non-work VTTS over time
Disaggregation of passenger VTTS values	Origins and destinations (regions/nationality) of traffic	Elasticity of work VTTS to income
	Income distribution by mode	Elasticity of non-work VTTS to income
	Journey length distribution by mode	VTTS for long distance trips relative to short distance trips (non-work only)
	---	VTTS for walk, wait and interchange relative to in-vehicle time
Commercial goods traffic	Proportions of commercial goods traffic by vehicle type, mode and type of goods	Value of VTTS for commercial goods traffic
	---	Value of commercial goods traffic VTTS over time
Treatment of congestion	Standard deviation of travel times	Reliability ratio
	Number of passengers who have to stand in overcrowded public transport conditions	VTTS of time spent in overcrowded conditions relative to the value of in-vehicle-time
	Percentage of travel time (per trip) spent in over-capacity conditions (road only)	VTTS of time spent in congested conditions relative to uncongested conditions
	Delay or lateness of public transport service (public transport only)	VTTS of time delayed relative to the value of in-vehicle-time

Ideally all data should be local to the appraisal, however, it is possible to use local demand and time saving data and use benefit transfer procedures to derive the VTTS. Table 4.12 sets out in more detail the data needed within an appraisal and whether it should be data local to the project or whether it can be transferred, from for example the HEATCO meta-analysis. We would wish to caveat this table as each scheme should be treated on a case by case basis, and not all the data set out in Table 4.12 will be used in every circumstance.

4.6.3 VTTS in modelling and appraisal

We also need to distinguish between values used for forecasting travel demand and values used in the economic appraisal. Ideally the same basic values should be used in both processes, bearing in mind that the appraisal and modelling will be undertaken using different units of account. An appraisal will be undertaken in either market prices or factor prices, whilst demand forecasts maybe undertaken using behavioural values. The behavioural value for non-working time is market prices whilst that for working time is factor prices. Therefore some conversion of the unit of account between modelling and appraisal values of travel time savings will always be required.

The advantage of using the same underlying values in the modelling and the appraisal (except for unit of account) is that of achieving consistency between the demand forecasts and the economic appraisal. There are of course a number of situations in which the modelling and appraisal values may differ:

- The calibrated modelling values of time may differ from the social value of time (willingness-to-pay value) as a consequence of the functional form of the demand model;
- Where transport projects from regions with very different income distributions are compared within say a national roads programme using only monetised benefits (as the deciding factor between the projects). In such a situation the modelling values should reflect the underlying willingness-to-pay of the users of the local transport system, but the appraisal values may reflect say national averages.

It is our understanding that the HEATCO guidelines will not be used in the manner suggested by the second point (i.e. a transport project in the Czech Republic will not be compared to a transport project in Sweden). It is therefore our recommendation that modelling and appraisal values should reflect the same underlying willingness-to-pay of the transport users and should only differ in their unit of account.

4.6.4 Reporting and equity

Basing values of time within an appraisal on underlying willingness-to-pay has implications for the equitable treatment of people with different incomes within the appraisal framework. It is therefore recommended that the analyst in addition to reporting the aggregate monetised travel time savings benefits also reports the absolute time savings and the income categories of the users to whom they accrue.

5 Value of Changes in Accident Risks

Traffic accidents belong to the most visible and important negative impacts of transport. The reduction of the number of accidents and the associated damages and costs is one of the most important criteria when assessing infrastructure projects.

The recommendations given in the following focus on a consistent set of monetary values and factors for correcting underreporting for accident risks based on accident statistics. We assume that procedures for estimating accident risks for different casualties (e.g. fatalities etc.) are established.

5.1 Purpose/role in project appraisal

Investment projects which improve the transport infrastructure typically lead to reductions in the number of accidents and casualties due to safer design standards relative to the situation without the project. On the other hand, however, projects may induce an increase in traffic and thus more accidents. As a consequence the overall effect is not clear a priori. The value of changes in accident risks represents a part of the user benefit in transport CBA and is an important element when trading off costs and benefits of a transport infrastructure project.

5.2 General Approach

The costs due to accidents can be expressed as

$$\sum_i (r_i * c_i * m) \tag{5.1}$$

with

i = accident impact (fatality, serious injury, slight injury, material damage)

r_i = risk of accident impact type i per vehicle-km

c_i = cost per accident impact type i

m = mileage in vehicle-kilometres

Additional costs may arise from indirect effects such as time losses and increased fuel use due to congestion caused by accidents. These costs are not included here, because general values cannot be given; however indirect effects should be considered as far as possible when assessing a specific project.

From the equation (5.1) above it can be seen that besides the kilometres driven the accident costs are determined by:

- the change in accident risks due to the project, and
- the valuation of the accident risks.

The former includes the model used to predict changes in accident risks due to the project, and the question whether accident risks derived from observed accident data should be adjusted due to underreporting.

For reasons of transparency and accuracy it is preferable to estimate and value clearly defined casualties and the associated risks. In the case of accidents these are

- fatalities,
- different injury severities, and
- material damages.

The quantification and reporting of physical casualties for a certain project alternative (e.g. number of fatalities) gives additional information and offers the opportunity for alternative valuation (e.g. in sensitivity analysis). Furthermore it allows a more precise valuation of the accident costs than the use of average values for predefined accident types.

5.2.1 Accident impacts considered

A central element in assessing accident costs is the definition of accident impacts. Starting point is the accident impact definition adopted by EUNET (Nellthorp et al. 1998), which we modify by removing the 30 day period for fatalities:

- Fatality: death arising from the accident.
- Serious injury: casualties, which require hospital treatment and have lasting injuries, but the victim does not die within the fatality recording period.
- Slight injury: casualties whose injuries do not require hospital treatment or, if they do, the effect of the injury quickly subsides.
- Damage-only accident: accident without casualties.

A 30 day period restriction for fatalities, as given in the original definition, is a pragmatic simplification for accident reporting, because it would be quite demanding to observe all severely injured persons for a longer time period, say e.g. 60 days. As there is evidence for considerable under-reporting due to the 30 day limit, we recommend correcting the available statistical data to include all fatalities due to accidents (see section 5.2.2).

The classification given above is broadly accepted and statistical data are available for many countries. However, this differentiation appears too rough in particular for severe injuries, for which a further differentiation would be desirable. It is estimated “that solely 1 per cent of injuries are actually very serious, and in this regard it would be helpful to draw up a breakdown of injuries in which the term ‘serious’ is not applied to injuries that simply mean that the person involved has to receive hospital treatment.” (ECMT 2000, p. 3).

It would be appropriate to separate at least serious injuries leading to permanent invalidity and serious injuries where victims recover virtually completely. However, often the necessary data are not available. Thus due to data limitations we recommend to use the EUNET definition as default.

5.2.2 Estimating accident risks

In the ideal case specific risk functions depending on infrastructure characteristics, traffic composition and volumes etc. would be used. In practice, however it is expected that such

elaborate risk functions are not available in many cases. Therefore, future accident risks should be estimated using national or local data on accident rates and trends. Changes in infrastructure types and transport mode shares should be taken into account as far as possible when estimating the quantitative change in number and severity of accidents and casualties. There are different international databases providing statistical information on accidents for different countries which can be used e.g. CARE - Community database on Accidents on the Roads in Europe (EU)¹⁹ or IRTAD - International Road Traffic and Accident Database (OECD)²⁰.

Underreporting of road accidents is a well known problem in official (road) accident statistics. Therefore the official figures for road accidents underestimate the true number of accidents. We believe that unreported accidents should be included in careful evaluations because the true number of injury accidents may easily be the double of what official statistics show. While there is considerable literature on unreported road accidents, to our knowledge there is no – or almost no – literature on unreported accidents for other transport modes. For rail accidents it is sometimes stated that there are no unreported accidents or that only petty accidents – which are negligible – are not reported²¹: Rail traffic accidents are hard to hide because they are often accompanied by (severe) delays of the concerned train and of other trains and because even single accidents are not only observed by only one (car or train) driver but by several people (passengers or rail company workers). Thus it is believed that unreported accidents in rail traffic can be neglected (Ecoplan 2002, p. 32).

For air transport and navigation we could not find any literature at all. It can be expected that for air traffic there are also no unreported accidents (unless perhaps petty accidents) because of the mostly fatal consequences of an accident (even near-accidents are reported). For navigation accidents the lack of literature seems to indicate that unreported accidents are not relevant. Therefore we conclude that underreporting of accidents is a road specific problem.

Table 5.1 Recommendation for European average correction factors for unreported road accidents.

	Fatality	Serious injury	Slight injury	Average injury	Damage only
Average	1.02	1.50	3.00	2.25	6.00
Car	1.02	1.25	2.00	1.63	3.50
Motorbike/moped	1.02	1.55	3.20	2.38	6.50
Bicycle	1.02	2.75	8.00	5.38	18.50
Pedestrian	1.02	1.35	2.40	1.88	4.50

In road traffic we recommend to apply a correction factor for unreported accidents (= ratio all accidents / reported accidents). The number of reported accidents has to be increased by this factor. Correction factors for road transport are likely to be different in different countries. Whenever national estimates for correction factors are available these should be used. However, such factors are only available for 6 countries (Sweden, Denmark, Norway, Switzerland,

¹⁹ http://europa.eu.int/comm/transport/care/index_en.htm

²⁰ <http://www.bast.de/htdocs/fachthemen/irtad/>

²¹ Suter et al. (2001), The Pilot Accounts of Switzerland – Appendix Report UNITE, p. 24.

Germany and UK – for details see Annex C, Table 1). For all other countries we have to transfer values – e.g. the average value derived from the results from these 6 countries. Cautious estimates of the average correction factors for unreported accidents are given in Table 5.1. The correction factor given for fatalities of 1.02 should be applied in all countries alike, since here the problem is not underreporting, but that some accidents victims die only after the first 30 days after the accident. For details on underreported accidents and the derivation of the correction factors see Annex C.

5.2.3 Valuing accident costs

The valuation of an accident can be divided into direct economic costs, indirect economic costs and a value of safety per se. The direct cost is observable as expenditure today or in the future. This includes medical and rehabilitation cost, legal cost, emergency services and property damage cost. The indirect cost is the lost production capacity to the economy that results from premature death or reduced working capability due to the accident.

However, direct and indirect economic costs alone do not reflect the well-being of people. People are willing to pay large amounts to reduce the probability of premature death irrespectively of their production capacity. This willingness-to-pay indicates a preference to reduce the risk of being injured or even die in an accident. In the following this aspect is called the value of safety per se, which has been measured empirically as value of a statistical life (VSL).

Different ways of presenting the components relevant for valuing accident risks can be found in the literature. For instance European Commission (1994) distinguishes the cost categories

1. medical costs
2. costs of lost productive capacity (lost output)
3. valuation of lost quality of life (loss of welfare due to crashes)
4. costs of property damage
5. administrative costs

These however comprise the same effects as considered here (see below), but in a different categorisation. The categories 1, 4, and 5 are part of the direct economic costs, category 2 belongs to the indirect economic costs and category 3 represents what we called the value of safety per se.

Direct and indirect economic costs

In the following we describe the method to estimate the direct and indirect economic accident cost by cost component:

- Medical and rehabilitation cost: The major direct cost of accidents is medical and rehabilitation costs. The cost consists both of the cost the year of the accident and future cost over the remaining lifetime for some injury types. The future cost is expressed as the present value over the expected lifetime of the patient, taken the annual development in hospital efficiency into account.
- Legal court and emergency service cost: The administrative cost of an accident consists of the cost for police, the court, private crash investigations, the emergency service and administrative costs of insurances.

- Material damages: compared to the values for casualties, material damages are of minor importance. We assume that data on costs is available in different countries and that consistency in valuation is less of a problem for material damages and recommend using national values.
- Production losses: The indirect economic cost of accidents consists of the value to society of goods and services that could have been produced by the person, if the accident had not occurred. The (marginal) value of a person's production is assumed to be equal to the gross labour cost, wage and additional labour cost, paid by employer. The losses of one year's accident will continue over time up to the retirement age of the youngest victim. The value of the lost production will grow with a growing economy over time.

Three types of production losses can be found:

- due to premature death,
- due to reduced working capacity and
- due to days of illness.

When adding the value of a statistical life (VSL) to the estimate of accident cost, double counting may occur in relation to gross production losses. It is often assumed that the VSL includes the value of lost consumption of the deceased person. This is also included in the gross lost production. Two possibilities exist to avoid double counting: a) to subtract the deceased person's consumption from the gross lost production and express it as net lost production or b) to reduce the VSL by the amount of lost consumption which results in a so called human value. We recommend the former, using the net lost production.

Value of safety per se

When discussing the value of safety, it is important to note that not the (monetary) value of a life per se is assessed, but the value of a very small change in the risk of dying or getting injured in an accident.

Two basic methods can be used to estimate willingness-to-pay (WTP), *revealed preference* or *stated preference*. The former is based on actual market transactions by the individuals. The most frequent technique used to elicit the value of safety per se is wage-risk studies which estimate the wage premium associated with the fatality risk at work (see Viscusi et.al., 2003). The main disadvantage with revealed preference studies is the difficulty to find a distinctive traffic safety product on the market. However, some studies have derived VSL based on data from the car market (e.g. Andersson 2005).

In its place, stated preference methods have been the preferred method to elicit a value of traffic safety per se. A hypothetical market situation is created in which people are asked to value. A typical study would describe the safety situation on roads and then ask for the WTP of a private product or a public programme that increases the safety by, say, 10%²².

²² This method is referred to as the contingent valuation (CV) method.

Factors that affect the valuation of safety

However, we expect the VSL to vary with a number of characteristics which would imply that it is not possible to define one single European VSL today. The value should vary with population (or sample) characteristics - age and health status, sex, education and income but also possibly culture differences and religion - or type of safety projects considered - initial risk level, risk reduction, public or private measures, dread effect, level of control etc.

The most important factor to consider when transferring values between countries is probably the income. In UNITE it was argued that income elasticity within studies can be around 0.3 (e.g. Persson et.al., 2000), but that income elasticities between countries tend to be higher reflecting culture and social differences. Miller (2000) estimated an 'income elasticity' between studies and countries of around 0.8 and UNITE recommended adjusting the value linearly with GDP/Capita, which implies an elasticity of 1.0. Viscusi et.al (2003) made surveys of mainly wage-risk studies and suggested income elasticity between 0.5 and 0.6.

We follow the UNITE recommendation of using an income elasticity of 1.0 when transferring values between countries.

Reductions in different types of risks could be valued differently. It has been suggested that considerations such as control, voluntariness, responsibility and dread will vary the VSL between different contexts and thus some type of risk may have a premium compared to other types. It has been reported that the WTP for a given reduction in number of deaths can vary by a factor of more than three for different contexts (Mendeloff and Kaplan (1989), Cropper and Subramanian (1995)). Even accidents in different transport modes could have different values for the individuals; reduction in underground accidents has been found to be valued one and a half times the value placed on road accidents (Jones-Lee and Loomes (1995)). They also conclude that this factor is applicable for rail accidents. However, more recent studies suggest that people do not have these strong context dependent preferences Chilton et.al. (2002) found a relation very close to 1:1 between rail and road safety. Viscusi et.al. (2003) recommended against any inclusion of a dread effect.

We recommend waiting with such more advanced differentiations until more evidence on the VSL is available. In other words: we recommend applying the same risk value for all modes.

So far we have discussed safety as a purely selfish problem. The affected individual may have relatives outside the household, and friends who care about his exposure to risk, and consequently have a willingness to pay for his risk reduction. Although only very few studies are aimed at estimating relatives' and friends' valuation a value of around 40% of the selfish value seems to be justified²³. However, based on the argument put forward by Hochman and Rogers (1969) and Bergstrom (1982) no value reflecting relatives and friends valuation should be included for public investments under the assumption of *pure altruism*. The intuition is that a pure altruist would care both for other people's safety, and the lost well-being related to the cost they have to pay to have more safety.

²³ Needleman (1976), Jones-Lee (1992), Schwab Christe and Soguel (1995).

As a consequence, we do not recommend modifying the VSL value to consider WTP for others.

Country-specific or uniform values?

We recommend using country-specific values for assessing risks, although some might argue that it is inequitable to use different values for assessing the same risk in different countries. However, the consequence of using the same (average) value in countries with different per capita incomes would imply a misallocation of resources: the country with low per capita income would invest too much money in safety and this money would be taken from other, more beneficial investments. In the country with high per capita income not enough would be invested in safety. In other words: in a richer country the willingness to pay for a defined risk reduction is higher than in a poorer country as the marginal utility gained by spending this amount for something else is lower. Therefore, both countries would reduce their welfare if they used the same marginal amount for risk reduction.

It should be noted that equity is ensured by applying the same safety standards (e.g. regulations about the features of vehicles, roads etc.) all over Europe.

Non-fatal accidents

ECMT (1998) suggests that the value for severe injuries is 13% and for slight injuries 1% of the VSL of fatalities. The analysis of existing practice in the EU countries as reported in Bickel et al. (2005a) suggests that on average this recommendation seems to be reasonable in absence of more accurate national information.

5.2.4 Recommended values

We recommend using values as follows:

- a) Value of safety per se: WTP values based on stated preferences studies carried out in the country for which they are applied.
- b) Direct and indirect economic costs: cost values for the country under assessment.
- c) Material damages from accidents with material damage only: cost values for the country under assessment.

If such values are not available for a) and b) the values provided in Table 5.2 may be used. The values of safety per se as well as the direct and indirect costs of fatalities are based on UNITE values and assumptions. Direct and indirect costs of severe and slight injuries were estimated using data from European Commission (1994). Table 5.3 presents the values expressed in PPPs, which show a much smaller range.

Uncertainties in estimating the value of safety per se are large, therefore we recommend carrying out a sensitivity analysis for this value. Based on European Commission (2005) we recommend using $v/3$ as low and $v*3$ as high sensitivity (with v = value of safety per se).

Wherever possible the values used in demand modelling and valuation of effects should be consistent. If the values used in demand modelling comply with the requirements above, these should be used for valuation. If this is not the case the values given in Table 5.2 should be used for demand modelling as far as possible.

Table 5.2 Estimated values for casualties avoided (€₂₀₀₂, factor prices).

Country	Value of safety per se			Direct and indirect economic costs			Total		
	Fatality**	Severe injury	Slight injury	Fatality	Severe injury	Slight injury	Fatality	Severe injury	Slight injury
Austria	1,600,000	208,000	16,000	160,000	32,300	3,000	1,760,000	240,300	19,000
Belgium	1,490,000	194,000	14,900	149,000	55,000	1,100	1,639,000	249,000	16,000
Cyprus	640,000	83,000	6,400	64,000	9,900	400	704,000	92,900	6,800
Czech Republic	450,000	59,000	4,500	45,000	8,100	300	495,000	67,100	4,800
Denmark	2,000,000	260,000	20,000	200,000	12,300	1,300	2,200,000	272,300	21,300
Estonia	320,000	41,000	3,200	32,000	5,500	200	352,000	46,500	3,400
Finland	1,580,000	205,000	15,800	158,000	25,600	1,500	1,738,000	230,600	17,300
France	1,470,000	191,000	14,700	147,000	34,800	2,300	1,617,000	225,800	17,000
Germany	1,510,000	196,000	15,100	151,000	33,400	3,500	1,661,000	229,400	18,600
Greece	760,000	99,000	7,600	76,000	10,500	800	836,000	109,500	8,400
Hungary	400,000	52,000	4,000	40,000	7,000	300	440,000	59,000	4,300
Ireland	1,940,000	252,000	19,400	194,000	18,100	1,300	2,134,000	270,100	20,700
Italy	1,300,000	169,000	13,000	130,000	14,700	1,100	1,430,000	183,700	14,100
Latvia	250,000	32,000	2,500	25,000	4,700	200	275,000	36,700	2,700
Lithuania	250,000	33,000	2,500	25,000	5,000	200	275,000	38,000	2,700
Luxembourg	2,120,000	276,000	21,200	212,000	87,700	700	2,332,000	363,700	21,900
Malta	910,000	119,000	9,100	91,000	8,800	400	1,001,000	127,800	9,500
Netherlands	1,620,000	211,000	16,200	162,000	25,600	2,800	1,782,000	236,600	19,000
Norway	2,630,000	342,000	26,300	263,000	64,000	2,800	2,893,000	406,000	29,100
Poland	310,000	41,000	3,100	31,000	5,500	200	341,000	46,500	3,300
Portugal	730,000	95,000	7,300	73,000	12,400	100	803,000	107,400	7,400
Slovakia	280,000	36,000	2,800	28,000	6,100	200	308,000	42,100	3,000
Slovenia	690,000	90,000	6,900	69,000	9,000	400	759,000	99,000	7,300
Spain	1,020,000	132,000	10,200	102,000	6,900	300	1,122,000	138,900	10,500
Sweden	1,700,000	220,000	17,000	170,000	53,300	2,700	1,870,000	273,300	19,700
Switzerland	2,340,000	305,000	23,400	234,000	48,800	3,700	2,574,000	353,800	27,100
United Kingdom	1,650,000	215,000	16,500	165,000	20,100	2,100	1,815,000	235,100	18,600

Notes: Value of safety per se based on UNITE (see Nellthorp et al., 2001): fatality €1.50 million (market price 1998 – €1.25 million factor costs 2002); severe/slight injury 0.13/0.01 of fatality; Direct and indirect economic costs: fatality 0.10 of value of safety per se; severe and slight injury based on European Commission (1994). * no country specific value available in European Commission (1994), therefore estimated from comparable countries. ** Benefit transfer from EU-value of €1.25 million based on GDP per capita ratios (income elasticity of 1.0)

Table 5.3 Estimated values for casualties avoided (€₂₀₀₂ PPP, factor prices).

Country	Fatality	Severe injury	Slight injury
Austria	1,685,000	230,100	18,200
Belgium	1,603,000	243,200	15,700
Cyprus	798,000	105,500	7,700
Czech Republic	932,000	125,200	9,100
Denmark	1,672,000	206,900	16,200
Estonia	630,000	84,400	6,100
Finland	1,548,000	205,900	15,400
France	1,548,000	216,300	16,200
Germany	1,493,000	206,500	16,700
Greece	1,069,000	139,700	10,700
Hungary	808,000	108,400	7,900
Ireland	1,836,000	232,600	17,800
Italy	1,493,000	191,900	14,700
Latvia	534,000	72,300	5,200
Lithuania	575,000	78,500	5,700
Luxembourg	2,055,000	320,200	19,300
Malta	1,445,000	183,500	13,700
Netherlands	1,672,000	221,500	17,900
Norway	2,055,000	288,300	20,700
Poland	630,000	84,500	6,100
Portugal	1,055,000	141,000	9,700
Slovakia	699,000	96,400	6,900
Slovenia	1,028,000	133,500	9,800
Spain	1,302,000	161,800	12,200
Sweden	1,576,000	231,300	16,600
Switzerland	1,809,000	248,000	19,100
United Kingdom	1,617,000	208,900	16,600

5.2.5 Treatment of values over time

We recommend increasing values for future years based on a default inter-temporal elasticity to GDP per capita growth of 1.0. If accident costs prove to contribute an important part of the benefits quantified in an assessment, we recommend sensitivity testing with an income elasticity of 0.7.

Please note that the assumption of linearly growing values clearly requires explicit and careful demand modelling over time. If this is not the case, the results are likely to overestimate benefits from a transport project.

5.2.6 Calculation procedure

- Step 1:** quantification of changes in the number of fatalities, serious injuries, slight injuries, and material damage due to a project using local or national risk functions.
- Step 2:** adjustment for underreporting of casualties with national (if available) or European factors.
- Step 3:** preparation of the cost factor table by increasing the cost factor according to the assumed country-specific GDP per capita growth for each year of the analysis.
- Step 4:** multiplication of casualties with cost factors.
- Step 5:** reporting of casualties and costs.

6 Environmental Costs

6.1 Purpose/role in project appraisal

Transport infrastructure projects and the associated changes in transport use lead to changes in the environmental burden and associated damages. Damages to the environment (incl. human health) cause utility losses and are therefore an important element to consider when assessing the costs and benefits of transport infrastructure projects.

Damages which will almost certainly occur, i.e. with a high probability, should be avoided or compensated as far as possible, e.g. loss of habitats due to constructing a road. Usually, this is ensured by the requirements for carrying out an Environmental Impact Assessment, or by obligations to meet certain target values (e.g. for noise levels) or thresholds (e.g. for airborne pollutants). However, even if such standards are met, the remaining burdens lead to environmental costs, which have to be considered as far as possible in a project appraisal.

The main focus of environmental effects covered in existing national CBA for infrastructure investment is on air pollution, noise and global warming. Other impacts such as vibration, severance, visual intrusion, loss of important sites, resource consumption, impairment of landscape, soil and water pollution are rarely covered by assigning a monetary value. Some of these categories are difficult to assess based on general values, because the impacts are to a high degree site specific (e.g. impairment of landscape). Such effects however are often included in environmental impact assessments, which are part of the project appraisal procedure.

In the following values for environmental costs due to air pollution, noise, and greenhouse gas emissions will be recommended.

6.2 General Valuation Methodology

Environmental costs from transport activities cover a broad range of different impacts, including the various impacts of emissions of a large number of pollutants and noise on human health, materials, ecosystems, flora and fauna. Impacts occur at the local, regional, European and global scale; damages caused by transport activities may be instantaneous, but also extend far into the future - up to several hundreds of years. The methods used to estimate environmental costs must be able to address these different scales, and it is furthermore necessary to select the most important among the large number of pollutants and damage categories for further analysis.

Most of the impacts of transport activities are highly site-specific, as can most obviously be seen for noise: noise emitted in densely populated areas affects many people and thus causes much higher impacts than noise emitted in sparsely populated areas. Furthermore, environmental costs vary considerably with the characteristics of the vehicles, trains, vessels or aircraft. A detailed bottom-up approach is required to be able to consider technology and site specific parameters, and variations of costs with time (e.g. day time versus night time noise).

The so-called Impact Pathway Approach (IPA) was designed to meet these requirements. The general idea of monetising environmental (incl. health) costs resulting from building and use of transport infrastructure based on welfare economics is illustrated in Figure 6.1. A transport activity causes changes in environmental pressures (e.g. air pollutant emissions), which are dispersed, leading to changes in environmental burdens and associated impacts on various receptors, such as human beings, crops, building materials or ecosystems (e.g. emissions of air pollutants leading to respiratory diseases). This change in impacts leads either directly or indirectly (e.g. through health effects caused by air pollutants) to a change in the utility of the affected persons. Welfare changes resulting from these impacts are transferred into monetary values. Based on the concepts of welfare economics, monetary valuation follows the approach of ‘willingness-to-pay’ for improved environmental quality. It is obvious that not all impacts can be modelled for all pollutants in detail. For this reason the most important pollutants and damage categories (so-called “priority impact pathways”) are selected for detailed analysis.

One of the strengths and main principles of the IPA is the valuation of damages (e.g. additional respiratory hospital admissions) and not pressures or effects (e.g. emissions of fine particles). The monetary valuation of concrete casualties (e.g. hospital admissions) is more reliable and transparent than deriving a general willingness-to-pay for reducing air pollution.

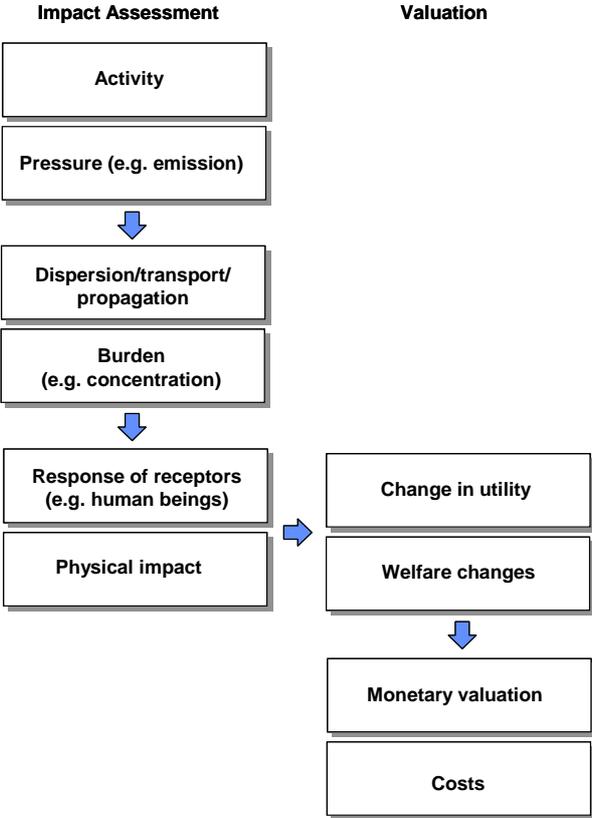


Figure 6.1 The Impact Pathway Approach for the quantification of environmental costs.

The IPA was developed, made operational by providing the models required on each stage and updated for air pollution impacts in the ExternE project series (see e.g. Friedrich and Bickel, 2001; European Commission, 1999 and 2005). Models for assessing impacts from noise were provided in the projects UNITE (see Bickel et al., 2003) and RECORDIT (see Schmid et al., 2001).

Many of the impact pathways include non-linearities, due to air chemistry for example, therefore impacts and costs from two scenarios are calculated: a reference scenario reflecting the base case concerning the amount of pollutants or noise emitted, and a modified scenario, which is based on the reference scenario, but with changes in emissions due to the activity considered. For the marginal analysis this may be an additional vehicle, for the sectoral analysis this may be the emissions from a whole transport sector in one country. The difference in physical impacts and resulting damage costs of both scenarios represents the effect of the activity considered.

This principle of modelling the pressure (e.g. emissions), resulting burden (e.g. pollutant concentration increase), response of receptors (e.g. health damages, annoyance caused by noise) and monetary valuation can and should be applied for all impact categories. The main bottleneck of this procedure is the availability of the models required for the different stages. For instance the assessment of impacts due to climate change is very challenging and damage cost estimates show a high uncertainty range. In this case it appears appropriate to apply a second best approach and to analyse preferences revealed in (political) decisions. The avoidance costs to reach a socially accepted target can be used as a proxy for society's willingness-to-pay to avoid the risks of climate change impacts.

It is important to note, that, although only changes of one specific road or route segment may be considered, the pollutant or noise emissions from all other sources and the background burden influence the change due to non-linearities and therefore have to be accounted for in the framework. If emissions of pollutants and noise that occur in the future (or the past) have to be assessed, scenarios of the emissions and concentrations of pollutants at that time have to be used.

The principle of the Impact Pathway Approach can be applied to all modes. The character of a burden may differ by mode, as e.g. for noise: roads usually cause a rather constant noise level, while noise from railway lines and airports is characterised by single events with high noise levels. Such differences have to be taken into account and the models used on the respective stage have to be adjusted accordingly. The application of the same approach for all modes ensures consistency of the resulting estimates.

Carrying out bottom-up calculations for every potential transport infrastructure project appears unrealistic due to the amount of data and time required. Hence, we suggest to use simplified relationships between environmental costs and the most relevant parameters (e.g. amount of pollutant emission, vehicle mileage, etc.), which should be available in the project appraisal process anyway. These functions or values should, however, be based on the Impact Pathway Approach with consistent sets of dose-response functions and monetary values as given e.g. in European Commission (2005).

Our general recommendation is – wherever possible – to *value impacts, not pressures* and to monetise impacts as far as possible using values based on the WTP concept. To increase transparency and allow for alternative valuations both costs and (key) impacts should be reported.

In the following sections we provide values that can be used if no country-specific state-of-the-art values are available for calculating environmental costs due to air pollution, noise and global warming.

6.3 Air pollution

The valuation of air pollution effects should be based on the damages caused by air pollutant emissions. The types of impacts for which dose-response relationships are established are human health impacts, agricultural and forestry production losses, as well as soiling and corrosion of building materials. Emission height (e.g. close to the ground from a car exhaust pipe or from a high power plant stack), local environment around the emission source, and geographical location within Europe have been identified as main parameters of the damage cost (see e.g. Bickel et al., 2005b). As a consequence, cost factors should take into account these parameters as a minimum. The estimated country-specific fall-back values that can be used if no state-of-the-art values are available were derived using the methodology developed and documented in the EU projects ExternE and UNITE (see e.g. European Commission, 2005 and 1999; Link et al., 2002).

Existing work identified damage to human health as the most important effect in terms of quantifiable costs. In particular losses in life expectancy in terms of Years of Life Lost (YOLL) contribute to health costs. For this reason they are a good indicator for physical impacts caused and impact factors are provided alongside the cost factors.

We recommend using country-specific values taking into account local population density. Cost factors in € per tonne of pollutant emitted in different environments (urban areas, outside built-up areas) are provided below. The list of pollutants should cover primary PM_{2.5} for transport emissions (PM₁₀ for emissions from power plants), NO_x (as precursor of nitrate aerosols and ozone), SO₂ (direct effects and as precursor of sulphate aerosols), NMVOC (as precursor of ozone). The project related emissions should be calculated using national emission factors; if such are not available emission factors from international sources can be applied, taking into account national vehicle fleet compositions as far as possible.

Where available results from detailed exposure modelling (including pollutant dispersion modelling and estimation of changes in the population's exposure to the relevant pollutants) should be used. Besides the local effects (up to ca. 20 km from the emission source) Europe-wide effects should be considered to be consistent with the recommended approach.

6.3.1 Derivation of impact and cost factors per unit pollutant emitted

Country specific impact and cost factors were calculated using the EcoSense software tool developed and applied among others in the EU-projects ExterneE and UNITE (a further description of the models and values is given in Annex D).

Impacts and resulting costs occurring in Europe were calculated for increasing the existing emissions of NO_x, SO₂, PM_{2.5} and NMVOC by 10 percent in each country. Impacts and costs were compared to those calculated for the unchanged reference scenario; the difference between both scenarios is caused by the additional emissions. This procedure is necessary to take into account the pollutant concentrations caused by the background emissions from the reference scenario. This is an important issue, as the air chemistry processes are non-linear and depend on the available concentrations of reactive species in the atmosphere.

For the estimation of impacts and damages on human health in the environment close to the sources, sector and population density specific estimates were used which were derived from a number of calculations and results within former EC projects (Droste-Franke and Friedrich 2003, Link et al. 2001, Preiss et al. 2004, Schmid et al. 2001).

Table 6.1 Health and environmental effects for which exposure-response functions are established (source: European Commission, 2005).

Impact category	Pollutant	Effects included
Public health – mortality	PM _{2.5} , PM ₁₀ ¹⁾	Reduction in life expectancy due to acute and chronic effects
	O ₃	Reduction in life expectancy due to acute effects
Public health – morbidity	PM _{2.5} , PM ₁₀ ¹⁾ , O ₃	Respiratory hospital admissions (Minor) Restricted activity days Days of bronchodilator usage Days of lower respiratory symptoms
	PM _{2.5} , PM ₁₀ ¹⁾ only	New cases of chronic bronchitis Cardiac hospital admissions
	O ₃ only	Cough days
Material damage	SO ₂ , acid deposition	Ageing of galvanised steel, limestone, natural stone, mortar, sandstone, paint, rendering, zinc
Crops	SO ₂	Yield change for wheat, barley, rye, oats, potato, sugar beet
	O ₃	Yield loss for wheat, potato, rice, rye, oats, tobacco, barley
	Acid deposition	Increased need for liming
	N	Fertiliser effects

¹⁾ including secondary particles (sulphate and nitrate aerosols).

Table 6.1 presents health and environmental effects for which exposure-response functions are established and monetary values are available.

Exposure-response functions come in a variety of functional forms. They may be linear or non-linear and contain thresholds (e.g. critical loads) or not. Those describing effects of various air pollutants on agriculture have proved to be particularly complex, incorporating both positive and negative effects, because of the potential for certain pollutants, e. g. those containing sulphur and nitrogen, to act as fertilisers.

When selecting exposure-response functions double counting of effects must be avoided. Two relevant aspects can be distinguished: (i) are different effects associated to one pollutant in different epidemiological studies additive (e.g. losses in life expectancy observed for long-term and short-term exposure)? And, (ii) are effects observed for different pollutants additive (e.g. losses in life expectancy from PM_{2.5} and Ozone)? Answering these questions needs careful consideration of the underlying empirical studies. This effort has been undertaken in the context of the ExternE project series with the conclusion that consideration of all pollutants and effects listed in

Table 6.1 does not imply double counting. Annex D gives the exposure-response functions used in the assessment.

Given the physical impacts, appropriate monetary values are needed to derive damage costs. For material damage and crop losses, market prices can be used. This is not the case for major aspects of health impacts, for which three components of welfare change can be distinguished (see e.g. European Commission 2005):

- (a) Resource costs, i.e. medical costs paid by the health service
- (b) Opportunity costs, i.e. mainly the costs in terms of productivity losses
- (c) Disutility, i.e. other social and economic costs of the individual or others

Components (a) and (b) can be estimated using market prices and are known as "Cost of illness" (COI). The latter must be added to a measure of the individual's loss of welfare (c). This is important because the values for disutility are usually much larger than the cost of illness. They include any restrictions on or reduced enjoyment of desired leisure activities, discomfort or inconvenience (pain, suffering), anxiety about the future, and concern and inconvenience to family members and others. Stated preference methods are seen as the state of the art method for valuing component (c). Cost estimates can be based on the work done in ExternE and UNITE. Annex D presents the values underlying the values presented below.

Table 6.2 and Table 6.4 present cost factors in € per tonne of pollutant emitted by road and other ground level transport (e.g. diesel trains) and power plants (high stack emissions)²⁴. The estimates are based on EcoSense calculations for ground level and high stack emissions respectively, using 1998 background emissions and meteorology. The values include estimates for local effects of PM_{2.5} for transport and PM₁₀ for high stack emissions, the character of the local environment in terms of population density close to the emission source was assumed to be urban and outside urban areas. Table 6.6 and Table 6.7 show the corresponding impact factors in years of life lost per 1000 tonnes of pollutant emitted. Impacts (in years of life lost) and costs (in €) have to be calculated separately, applying the impact factors (Table 6.6 and Table 6.7) and the cost factors (Table 6.2 and Table 6.4) to the amount of pollutant emitted.

²⁴ Table 6.3 and Table 6.5 give the corresponding values in PPP.

Table 6.2 Cost factors for road transport emissions* per tonne of pollutant emitted in €₂₀₀₂ (factor prices).

Pollutant emitted	NO _x	NMVOC	SO ₂	PM _{2.5}	
Effective pollutant	O ₃ , Nitrates, Crops	O ₃	Sulphates, Acid deposition, Crops	Primary PM _{2.5}	
Local environment				urban	outside built-up areas
Austria	4,300	600	3,900	450,000	73,000
Belgium	2,700	1,100	5,400	440,000	95,000
Cyprus**	500	1,100	500	230,000	20,000
Czech Republic	3,200	1,100	4,100	170,000	61,000
Denmark	1,800	800	1,900	520,000	54,000
Estonia	1,400	500	1,200	100,000	23,000
Finland	900	200	600	400,000	33,000
France	4,600	800	4,300	430,000	83,000
Germany	3,100	1,100	4,500	430,000	80,000
Greece	2,200	600	1,400	210,000	34,000
Hungary	5,000	800	4,100	150,000	54,000
Ireland	2,000	400	1,600	510,000	50,000
Italy	3,200	1,600	3,500	370,000	70,000
Latvia	1,800	500	1,400	80,000	22,000
Lithuania	2,600	500	1,800	90,000	28,000
Luxemburg	4,800	1,400	4,900	590,000	96,000
Malta (O ₃ estimated)	500	1,100	500	170,000	16,000
Netherlands	2,600	1,000	5,000	470,000	88,000
Poland	3,000	800	3,500	130,000	53,000
Portugal	2,800	1,000	1,900	210,000	37,000
Slovakia	4,600	1,100	3,800	110,000	49,000
Slovenia	4,400	700	4,000	220,000	55,000
Spain	2,700	500	2,100	280,000	41,000
Sweden	1,300	300	1,000	440,000	40,000
Switzerland	4,500	600	3,900	640,000	86,000
United Kingdom	1,600	700	2,900	450,000	67,000

Notes: Cost categories included are: human health, crop losses, material damages.

* Values are applicable to all emissions at ground level (e.g. diesel locomotives).

** Estimated values as Cyprus outside of modelling domain.

The PPP adjusted values in Table 6.3 differ from the values in Table 6.2 only for costs due to primary particle emissions. NO_x, NMVOC and SO₂ have virtually no local effects as most of their impact is caused after chemical transformation to other substances (ammoniumnitrates and –sulfates, ozone); damages occur far from the emission source, mostly in other countries. For keeping modelling effort reasonable trans-boundary impacts are valued at European average values. Rounding masks differences between € and PPP results. In contrast, for primary particles local effects play an important role, therefore the PPP weighted cost factors differ from those expressed in real €. The same applies for Table 6.5 and Table 6.4 respectively. For the latter, differences are very small as the local share of impacts is much smaller for high level emission sources.

Table 6.3 Cost factors for road transport emissions* per tonne of pollutant emitted in €₂₀₀₂ PPS (factor prices).

Pollutant emitted	NO _x	NMVOC	SO ₂	PM _{2.5}	
Effective pollutant	O ₃ , Nitrates, Crops	O ₃	Sulphates, Acid deposition, Crops	Primary PM _{2.5}	
Local environment				urban	outside built-up areas
Austria	4,300	600	3,900	430,000	72,000
Belgium	2,700	1,100	5,400	440,000	95,000
Cyprus**	500	1,100	500	260,000	22,000
Czech Republic	3,200	1,100	4,100	270,000	67,000
Denmark	1,800	800	1,900	400,000	47,000
Estonia	1,400	500	1,200	160,000	27,000
Finland	900	200	600	360,000	30,000
France	4,600	800	4,300	410,000	82,000
Germany	3,100	1,100	4,500	400,000	78,000
Greece	2,200	600	1,400	270,000	38,000
Hungary	5,000	800	4,100	230,000	59,000
Ireland	2,000	400	1,600	440,000	46,000
Italy	3,200	1,600	3,500	390,000	71,000
Latvia	1,800	500	1,400	140,000	26,000
Lithuania	2,600	500	1,800	160,000	32,000
Luxemburg	4,800	1,400	4,900	730,000	104,000
Malta (O ₃ estimated)	500	1,100	500	240,000	20,000
Netherlands	2,600	1,000	5,000	440,000	86,000
Poland	3,000	800	3,500	190,000	57,000
Portugal	2,800	1,000	1,900	270,000	40,000
Slovakia	4,600	1,100	3,800	200,000	54,000
Slovenia	4,400	700	4,000	280,000	58,000
Spain	2,700	500	2,100	320,000	44,000
Sweden	1,300	300	1,000	370,000	36,000
Switzerland	4,500	600	3,900	460,000	76,000
United Kingdom	1,600	700	2,900	410,000	64,000

Notes: Cost categories included are: human health, crop losses, material damages.

* Values are applicable to all emissions at ground level (e.g. diesel locomotives).

** Estimated values as Cyprus outside of modelling domain.

The variation of the values presented in Table 6.2 to Table 6.7 illustrates the site specificity of the damage caused. Depending on meteorological conditions, background emissions and air chemistry processes, as well as population affected a unit of pollutant emitted may cause very different costs. Costs due to NO_x emissions include damages caused by nitrates (secondary particles), ozone, nitrogen and acid deposition. NMVOC causes damages via ozone formation. For SO₂ damages arise from sulphates (secondary particles), acid deposition and directly on crops. Damages from primary particle emissions are given in the column “PM_{2.5}” and “PM₁₀” respectively.

The numbers provided are estimated average values based on the spatial distribution of emissions within a country. The impacts and costs may vary within one country, particularly in large ones. The variation in costs due to NO_x, NMVOC and SO₂ between countries is mainly caused by air chemistry (incl. ozone formation) and the population affected. For primary particles no air chemistry is involved, therefore differences reflect the population affected, which is determined mainly by distance to the emission source and the prevailing wind direction.

Table 6.4 Cost factors for electricity production emissions* per ton of pollutant emitted in €₂₀₀₂ (factor prices).

Pollutant emitted	NO_x	NMVOC	SO₂	PM_{2.5}	
Effective pollutant	O₃, Nitrates, Crops	O₃	Sulphates, Acid deposition, Crops	Primary PM_{2.5}	
Local environment				urban	outside built-up areas
Austria	4,300	600	4,200	15,000	12,000
Belgium	2,700	1,100	5,700	17,000	14,000
Cyprus**	500	1,100	400	3,000	2,000
Czech Republic	2,900	1,100	4,200	9,000	8,000
Denmark	1,900	800	2,100	9,000	5,000
Estonia	1,400	500	1,200	3,000	2,000
Finland	900	200	800	6,000	3,000
France	4,800	800	4,400	14,000	11,000
Germany	2,800	1,100	4,300	12,000	9,000
Greece	2,300	600	1,200	4,000	3,000
Hungary	5,100	800	4,300	8,000	7,000
Ireland	1,800	400	1,600	8,000	4,000
Italy	3,000	1,600	1,700	9,000	7,000
Latvia	1,800	500	1,500	3,000	2,000
Lithuania	2,600	500	1,900	3,000	3,000
Luxemburg	4,700	1,400	5,200	17,000	12,000
Malta (O ₃ estimated)	500	1,100	400	3,000	1,000
Netherlands	2,600	1,000	5,500	18,000	14,000
Poland	3,000	800	3,800	9,000	8,000
Portugal	2,500	1,000	1,700	6,000	5,000
Slovakia	4,600	1,100	4,000	7,000	6,000
Slovenia	4,400	700	4,200	7,000	6,000
Spain	2,400	500	1,900	6,000	4,000
Sweden	1,100	300	1,000	7,000	3,000
Switzerland	4,600	600	4,200	18,000	13,000
United Kingdom	1,400	700	3,000	13,000	10,000

Notes: Cost categories included are: human health, crop losses, material damages.

* Values are applicable to high stack emissions from power plants.

** Estimated values as Cyprus outside of modelling domain.

Table 6.5 Cost factors for electricity production emissions* per ton of pollutant emitted in €₂₀₀₂ PPS (factor prices).

Pollutant emitted	NO_x	NM VOC	SO₂	PM₁₀	
Effective pollutant	O₃, Nitrates, Crops	O₃	Sulphates, Acid deposition, Crops	Primary PM₁₀	
Local environment				urban	outside built-up areas
Austria	4,300	600	4,200	15,000	12,000
Belgium	2,700	1,100	5,700	17,000	14,000
Cyprus**	500	1,100	400	4,000	2,000
Czech Republic	2,900	1,100	4,200	10,000	9,000
Denmark	1,900	800	2,100	8,000	5,000
Estonia	1,400	500	1,200	4,000	3,000
Finland	900	200	800	6,000	3,000
France	4,800	800	4,400	14,000	11,000
Germany	2,800	1,100	4,300	12,000	9,000
Greece	2,300	600	1,200	5,000	3,000
Hungary	5,100	800	4,300	9,000	7,000
Ireland	1,800	400	1,600	7,000	4,000
Italy	3,000	1,600	1,700	10,000	7,000
Latvia	1,800	500	1,500	3,000	2,000
Lithuania	2,600	500	1,900	4,000	3,000
Luxemburg	4,700	1,400	5,200	16,000	12,000
Malta (O ₃ estimated)	500	1,100	400	4,000	2,000
Netherlands	2,600	1,000	5,500	17,000	14,000
Poland	3,000	800	3,800	9,000	8,000
Portugal	2,500	1,000	1,700	7,000	5,000
Slovakia	4,600	1,100	4,000	8,000	7,000
Slovenia	4,400	700	4,200	8,000	6,000
Spain	2,400	500	1,900	6,000	4,000
Sweden	1,100	300	1,000	6,000	3,000
Switzerland	4,600	600	4,200	16,000	12,000
United Kingdom	1,400	700	3,000	13,000	10,000

Notes: Cost categories included are: human health, crop losses, material damages.

* Values are applicable to high stack emissions from power plants.

** Estimated values as Cyprus outside of modelling domain.

Table 6.6 Impact factors for road transport emissions* (lost life expectancy in years of life lost per 1000 tonnes of pollutant emitted).

Pollutant emitted	NO_x	NMVOC	SO₂	PM_{2.5}	
Effective pollutant	O₃, Nitrates	O₃	Sulphates	Primary PM_{2.5}	
Local environment				urban	outside built-up areas
Austria	61	0.6	58	5,800	1,080
Belgium	57	1.3	81	6,200	1,470
Cyprus**	8	0.5	8	5,100	400
Czech Republic	50	1.0	58	5,900	1,180
Denmark	29	0.9	28	5,400	680
Estonia	18	1.5	17	5,300	590
Finland	11	0.2	9	5,100	450
France	65	0.8	65	6,000	1,280
Germany	53	1.2	65	5,900	1,220
Greece	20	0.2	20	5,400	670
Hungary	63	0.6	58	5,800	1,080
Ireland	30	0.7	25	5,300	640
Italy	50	0.8	54	5,800	1,120
Latvia	22	0.9	21	5,300	590
Lithuania	29	0.9	26	5,400	690
Luxemburg	70	1.5	73	6,000	1,330
Malta (O ₃ estimated)	8	0.5	8	5,100	400
Netherlands	56	1.1	74	6,000	1,320
Poland	46	0.8	49	5,800	1,070
Portugal	31	0.5	30	5,400	720
Slovakia	57	1.0	55	5,700	1,020
Slovenia	63	0.5	59	5,700	1,020
Spain	34	0.4	33	5,400	720
Sweden	15	0.4	15	5,200	530
Switzerland	68	0.7	59	5,800	1,120
United Kingdom	35	1.0	44	5,700	980

Notes: * Values are applicable to all emissions at ground level (e.g. diesel locomotives).

** Estimated values as Cyprus outside of modelling domain.

Table 6.7 Impact factors for electricity production emissions* (lost life expectancy in years of life lost per 1000 tonnes of pollutant emitted).

Pollutant emitted	NO_x	NM VOC	SO₂	PM₁₀	
Effective pollutant	O₃, Nitrates	O₃	Sulphates	Primary PM₁₀	
Local environment				urban	outside built-up areas
Austria	62	0.6	62	210	180
Belgium	57	1.3	84	250	210
Cyprus**	9	0.5	7	60	30
Czech Republic	46	1.0	60	180	140
Denmark	31	0.9	31	100	70
Estonia	18	1.5	18	80	50
Finland	12	0.2	11	70	40
France	67	0.8	67	200	170
Germany	48	1.2	62	180	140
Greece	21	0.2	17	80	50
Hungary	63	0.6	62	160	120
Ireland	28	0.7	25	90	50
Italy	47	0.8	26	140	100
Latvia	22	0.9	22	80	50
Lithuania	29	0.9	28	90	60
Luxemburg	70	1.5	77	220	180
Malta (O ₃ estimated)	9	0.5	7	60	30
Netherlands	55	1.1	81	250	220
Poland	45	0.8	53	170	140
Portugal	25	0.5	27	110	80
Slovakia	57	1.0	57	150	120
Slovenia	62	0.5	62	130	100
Spain	30	0.4	29	90	60
Sweden	14	0.4	14	70	40
Switzerland	70	0.7	64	220	190
United Kingdom	31	1.0	45	180	150

Notes: * Values are applicable to high stack emissions from power plants.

** Estimated values as Cyprus outside of modelling domain.

6.3.2 Treatment of values over time

We recommend increasing values for future years based on a default inter-temporal elasticity to GDP per capita growth of 1.0. If air pollution costs prove to contribute an important part of the benefits quantified in an assessment we recommend sensitivity testing with an income elasticity of 0.7.

Please note that the assumption of linearly growing values over time clearly requires explicit and careful emission modelling over time. If this is not the case, the results are likely to over-estimate benefits from a transport project, as vehicle emissions can be assumed to decrease

considerably in the future. Information on the future development of emission factors can be found for instance at <http://www.tremove.org/download/index.htm>.

6.3.3 Calculation procedure

- Step 1:** quantification of change in pollutant emissions (NO_x , SO_2 , NMVOC, $\text{PM}_{2.5}/\text{PM}_{10}$) due to a project, measured in tonnes, using state-of-the-art national or European emission factors.
- Step 2:** classification of emissions according to height of emission sources (ground-level vs. high stack) and local environment (urban – outside built-up areas). Ground level emissions are released from internal combustion engines, high stack emissions are released during electricity production in power plants.
- Step 3:** preparation of the cost factor table by increasing the cost factor according to the assumed country-specific GDP per capita growth for each year of the analysis.
- Step 4:** calculation of impacts (multiplication of pollutant emissions by impact factor) and costs (multiplication of pollutant emissions by cost factor).
- Step 5:** reporting of impacts and costs.

6.4 Noise

The perception of sound follows a logarithmic scale, which results in considerable non-linearities of the impacts and associated costs due to a change in noise levels (in the following we refer to the equivalent noise level L_{Aeq}). The background noise level plays an important role: whereas in a quiet neighbourhood (40 dB(A)) an additional 40 dB(A), i.e. a doubling of the noise, results in a total level of 43 dB(A), the same noise increment of 40 dB(A) only leads to a total noise level of 60.04 dB(A) in a noisy environment with a background noise level of 60 dB(A). Besides this peculiarity of energetic addition of noise levels the perception, in particular the disturbance caused by changes in the noise level have to be considered. This, together with the very local character of noise makes impact assessment a challenging task; and the models used to quantify noise exposure must be able to map the environment (receptors, buildings), the vehicle technology (PC, HGV etc.) and the traffic situation (e.g. speed and traffic volume) adequately.

The general procedure for taking into account the site and technology specific characteristics is the same as for air pollution: Two scenarios are calculated: a reference scenario reflecting the present situation with traffic volume, speed distribution, vehicle technologies etc., and the case scenario which is based on the reference scenario, but includes the changes due to the project alternative considered. The difference in damage costs between both scenarios represents the noise costs due to the project assessed. It is important to quantify total exposure levels and not only exposure increments, because for certain impacts thresholds have to be considered. For instance, some exposure-response functions for health impacts are applicable only above a threshold of 70 dB(A) (see De Kluizenaar et al., 2001).

Depending on the exposure-response relationships available different noise indicators are required for the quantification of impacts. Examples of indicators that are commonly used are equivalent noise levels for different times of day, e.g. $L_{Aeq}(7.00-19.00)$, $L_{Aeq}(19.00-23.00)$, $L_{Aeq}(23.00-7.00)$ and the compound day-evening-night noise indicator L_{DEN} (see European Commission, 2000 for details on noise indicators). Usually noise levels are calculated as incident sound at the façade of the buildings. Empirical noise propagation models have been established in several member states (see e.g. Nordic Council of Ministers, 1996 or Arbeitsausschuß Immissionsschutz an Straßen, 1990), which can be used to model traffic noise exposure.

6.4.1 Noise impact assessment

Two major impacts are usually considered when assessing noise impacts:

- Annoyance, reflecting the disturbance which individuals experience when exposed to (traffic) noise.
- Health impacts, related to the long term exposure to noise, mainly stress related health effects like hypertension and myocardial infarction.

It can be assumed that these two effects are independent, i.e. the potential long term health risk is not taken into account in people's perceived noise annoyance.

A large amount of scientific literature on health and psychosocial effects considering a variety of potential effects of transport noise is available. For instance, De Kluizenaar et al. (2001) reviewed the state of the art, reporting risks due to noise exposure in the living environment. They identified quantitative functions for relative and absolute risks for the effect categories presented in Table 6.8.

Table 6.8 Categorisation of effects and related impact categories (source: De Kluizenaar et al., 2001).

Category	Measure given	Impacts
Stress related health effects	RR	Hypertension and ischemic heart disease
Psychosocial effects	AR	Annoyance
Sleep disturbance	AR	Awakenings and subjective sleep quality
RR = relative risk; AR = absolute risk		

A more recent study undertaken in Switzerland (Bundesamt für Raumentwicklung, 2004) reviewed additional empirical studies and concluded that for impacts from road and rail noise only few evidence has emerged in addition to De Kluizenaar et al. (2001)²⁵, which was the basis for calculations in the UNITE project (see Bickel et al. 2003).

Existing work has shown that quantifiable health effects are of minor importance compared to the WTP for reducing disamenity and annoyance (see e.g. Bickel et al. 2003). The uncertainty of exposure assessment is expected to be high, therefore no major revision of the UNITE

²⁵ Bundesamt für Raumentwicklung (2004, p. 71)

assumptions and values were undertaken. The resulting values are to be interpreted as indication of possible costs due to health effects.

6.4.2 Monetary Valuation

The principles for monetary valuation have been outlined above in the section on air pollution impacts. These apply equally for impacts from noise. Given its high importance for the results and the challenges in its measurement, the value of annoyance caused by noise requires particular consideration. The main cost component of annoyance is disutility experienced, for which no market exists. Stated preference (SP) and revealed preference (RP) methods have been employed to estimate the economic value of changes in noise levels. The noise valuation literature is dominated by Hedonic Price (HP) studies (most of them old) on road traffic and aircraft noise of varying quality. HP studies analyse the housing market to explore the extent to which differences in property prices reflect individuals' willingness-to-pay (WTP) for lower noise levels. Resulting values seem to be problematic to transfer, however, both theoretically and in practice (Day 2001).

There number of SP studies on road traffic noise is increasing, but only a few present WTP in terms of "euro per annoyed person per year" for different annoyance levels (little annoyed, annoyed and highly annoyed), which correspond to the endpoints of exposure-response functions. Due to the low number of studies that can be used for this approach, a "second-best" alternative was to evaluate the SP studies available with regards to quality (e.g. avoid using studies with scenarios based on changes in exposure rather than annoyance and health impacts), choose the best ones, and calculate a value in terms of "euro per dB per person per year". This was done by Navrud (2002) to establish an EU-value.

To enable the application of the exposure-response functions predicting annoyance reactions on the population level as recommended by European Commission (2002), HEATCO's Work Package 5 carried out stated preference surveys in five European countries (see Navrud et al. 2006). Based on surveys in Germany, Hungary, Norway, Spain, Sweden and the UK, values for application in Europe were derived for the annoyance levels highly annoyed, annoyed and little annoyed. As these values are still subject to peer review, they are recommended for sensitivity analysis ("new approach"). The same is the case for the values based on hedonic pricing studies as applied in UNITE (see Bickel et al. 2003) – the "high values". Besides costs due to annoyance both sets of values consider quantifiable health costs – they are given in Annex E.

The country-specific "central values" per person exposed to a certain noise level given in Table 6.9 (€₂₀₀₂) and in Table 6.10 (€₂₀₀₂ PPP) comprise the WTP for reducing annoyance based on stated preference studies (see Working group on health and socio-economic aspects, 2003) and quantifiable costs of health effects.

The impact indicator suggested is the number of persons highly annoyed (total and by noise band) – see Table 6.11. The underlying functions and monetary values are given in Annex E. Impacts (in number of persons highly annoyed) and costs (in €) have to be calculated separately, applying the impact factors (Table 6.11) and the cost factors (Table 6.9) to the number of person exposed.

Table 6.9 Cost factors (Central values) for noise exposure (€₂₀₀₂, factor costs, per year per person exposed). High values and results for the new approach see Annex E.

L _{den}	Austria			Belgium			Cyprus			Czech Republic			Denmark			Estonia			Finland		
dB(A)	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft
≥51	10	0	16	10	0	15	6	0	9	3	0	5	13	0	20	2	0	3	10	0	16
≥52	21	0	32	19	0	30	12	0	18	6	0	9	26	0	40	4	0	6	20	0	32
≥53	31	0	48	29	0	45	18	0	27	9	0	14	39	0	60	6	0	10	31	0	47
≥54	41	0	64	39	0	60	24	0	37	12	0	18	52	0	80	8	0	13	41	0	63
≥55	52	0	80	48	0	75	29	0	46	15	0	23	64	0	100	10	0	16	51	0	79
≥56	62	10	96	58	10	90	35	6	55	18	3	27	77	13	120	12	2	19	61	10	95
≥57	72	21	112	67	19	104	41	12	64	21	6	32	90	26	140	14	4	22	71	20	110
≥58	83	31	128	77	29	119	47	18	73	23	9	36	103	39	160	16	6	26	81	31	126
≥59	93	41	144	87	39	134	53	24	82	26	12	41	116	52	180	19	8	29	92	41	142
≥60	103	52	160	96	48	149	59	29	91	29	15	46	129	64	200	21	10	32	102	51	158
≥61	114	62	176	106	58	164	65	35	100	32	18	50	142	77	220	23	12	35	112	61	174
≥62	124	72	192	116	67	179	71	41	110	35	21	55	155	90	240	25	14	38	122	71	189
≥63	134	83	208	125	77	194	77	47	119	38	23	59	168	103	260	27	16	41	132	81	205
≥64	144	93	224	135	87	209	82	53	128	41	26	64	181	116	280	29	19	45	143	92	221
≥65	155	103	240	144	96	224	88	59	137	44	29	68	193	129	300	31	21	48	153	102	237
≥66	165	114	256	154	106	239	94	65	146	47	32	73	206	142	320	33	23	51	163	112	252
≥67	175	124	272	164	116	254	100	71	155	50	35	77	219	155	340	35	25	54	173	122	268
≥68	186	134	288	173	125	269	106	77	164	53	38	82	232	168	360	37	27	57	183	132	284
≥69	196	144	304	183	135	284	112	82	173	56	41	87	245	181	380	39	29	61	193	143	300
≥70	206	155	320	193	144	298	118	88	183	59	44	91	258	193	400	41	31	64	204	153	316
≥71	274	222	393	256	208	367	156	127	224	78	63	112	342	278	491	55	44	78	270	219	388
≥72	291	240	416	272	224	388	166	137	237	83	68	118	364	299	520	58	48	83	287	236	410
≥73	308	257	439	288	240	410	176	147	251	88	73	125	385	321	549	61	51	88	304	253	433
≥74	326	274	462	304	256	431	186	156	264	93	78	131	407	343	577	65	55	92	321	270	456
≥75	343	291	485	320	272	452	196	166	277	98	83	138	429	364	606	68	58	97	338	287	478
≥76	360	309	508	336	288	474	206	176	290	103	88	145	450	386	635	72	62	101	355	305	501
≥77	378	326	531	352	304	495	215	186	303	107	93	151	472	407	663	75	65	106	372	322	524
≥78	395	343	554	368	320	517	225	196	316	112	98	158	493	429	692	79	68	110	390	339	546
≥79	412	361	577	384	336	538	235	206	329	117	103	164	515	450	721	82	72	115	407	356	569
≥80	429	378	600	401	352	559	245	216	342	122	108	171	537	472	749	86	75	120	424	373	592
≥81	447	395	623	417	369	581	255	225	355	127	112	177	558	494	778	89	79	124	441	390	614

Table 6.9 continued (Central values for noise exposure in €₂₀₀₂ factor costs per year per person exposed).

L _{den} dB(A)	France			Germany			Greece			Hungary			Ireland			Italy			Latvia		
	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft
≥51	9	0	15	10	0	15	5	0	8	3	0	4	13	0	19	8	0	13	2	0	2
≥52	19	0	29	19	0	30	10	0	15	5	0	8	25	0	39	17	0	26	3	0	5
≥53	28	0	44	29	0	45	15	0	23	8	0	12	38	0	58	25	0	39	5	0	7
≥54	38	0	59	39	0	60	20	0	31	10	0	16	50	0	78	34	0	52	6	0	10
≥55	47	0	73	49	0	75	25	0	38	13	0	20	63	0	97	42	0	65	8	0	12
≥56	57	9	88	58	10	91	30	5	46	16	3	24	75	13	116	50	8	78	10	2	15
≥57	66	19	103	68	19	106	34	10	53	18	5	28	88	25	136	59	17	91	11	3	17
≥58	76	28	118	78	29	121	39	15	61	21	8	32	100	38	155	67	25	104	13	5	20
≥59	85	38	132	88	39	136	44	20	69	23	10	36	113	50	175	75	34	117	14	6	22
≥60	95	47	147	97	49	151	49	25	76	26	13	40	125	63	194	84	42	130	16	8	25
≥61	104	57	162	107	58	166	54	30	84	29	16	44	138	75	213	92	50	143	18	10	27
≥62	114	66	176	117	68	181	59	34	92	31	18	48	150	88	233	101	59	156	19	11	30
≥63	123	76	191	127	78	196	64	39	99	34	21	52	163	100	252	109	67	169	21	13	32
≥64	133	85	206	136	88	211	69	44	107	36	23	56	175	113	272	117	75	182	22	14	35
≥65	142	95	220	146	97	226	74	49	115	39	26	60	188	125	291	126	84	195	24	16	37
≥66	152	104	235	156	107	242	79	54	122	42	29	64	200	138	310	134	92	208	25	18	40
≥67	161	114	250	166	117	257	84	59	130	44	31	68	213	150	330	143	101	221	27	19	42
≥68	171	123	265	175	127	272	89	64	137	47	34	72	225	163	349	151	109	234	29	21	44
≥69	180	133	279	185	136	287	94	69	145	49	36	76	238	175	369	159	117	247	30	22	47
≥70	190	142	294	195	146	302	99	74	153	52	39	80	250	188	388	168	126	260	32	24	49
≥71	252	204	361	259	210	371	131	106	188	69	56	99	332	270	477	223	181	319	42	34	61
≥72	268	220	382	275	226	393	139	114	199	73	60	105	353	291	505	237	195	338	45	37	64
≥73	283	236	403	291	242	414	147	123	210	78	65	110	374	312	532	251	209	357	48	40	68
≥74	299	252	424	307	259	436	155	131	220	82	69	116	395	332	560	265	223	375	50	42	71
≥75	315	268	445	324	275	458	164	139	231	86	73	122	416	353	588	279	237	394	53	45	75
≥76	331	284	467	340	291	479	172	147	242	91	78	128	437	374	616	293	251	413	56	48	78
≥77	347	299	488	356	308	501	180	156	253	95	82	134	458	395	644	307	265	431	58	50	82
≥78	363	315	509	373	324	523	188	164	264	99	86	139	479	416	672	321	279	450	61	53	86
≥79	379	331	530	389	340	544	197	172	275	104	91	145	500	437	699	335	293	468	64	56	89
≥80	394	347	551	405	357	566	205	180	286	108	95	151	521	458	727	349	307	487	66	58	93
≥81	410	363	572	422	373	588	213	189	297	112	99	157	542	479	755	363	321	506	69	61	96

Table 6.9 continued (Central values for noise exposure in €₂₀₀₂ factor costs per year per person exposed).

L _{den} dB(A)	Lithuania			Luxemburg			Malta			Netherlands			Poland			Portugal			Slovakia		
	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft
≥51	2	0	3	14	0	21	4	0	6	10	0	16	2	0	3	5	0	7	2	0	3
≥52	3	0	5	27	0	42	8	0	13	21	0	32	4	0	6	9	0	15	4	0	6
≥53	5	0	8	41	0	64	12	0	19	31	0	49	6	0	9	14	0	22	5	0	8
≥54	6	0	10	55	0	85	17	0	26	42	0	65	8	0	13	19	0	29	7	0	11
≥55	8	0	13	68	0	106	21	0	32	52	0	81	10	0	16	24	0	37	9	0	14
≥56	10	2	15	82	14	127	25	4	38	63	10	97	12	2	19	28	5	44	11	2	17
≥57	11	3	18	96	27	149	29	8	45	73	21	114	14	4	22	33	9	51	13	4	20
≥58	13	5	20	110	41	170	33	12	51	84	31	130	16	6	25	38	14	59	14	5	22
≥59	15	6	23	123	55	191	37	17	58	94	42	146	18	8	28	43	19	66	16	7	25
≥60	16	8	25	137	68	212	41	21	64	105	52	162	20	10	31	47	24	73	18	9	28
≥61	18	10	28	151	82	234	45	25	70	115	63	179	22	12	35	52	28	81	20	11	31
≥62	19	11	30	164	96	255	50	29	77	126	73	195	24	14	38	57	33	88	22	13	34
≥63	21	13	33	178	110	276	54	33	83	136	84	211	26	16	41	61	38	95	23	14	36
≥64	23	15	35	192	123	297	58	37	90	147	94	227	28	18	44	66	43	103	25	16	39
≥65	24	16	38	205	137	318	62	41	96	157	105	243	30	20	47	71	47	110	27	18	42
≥66	26	18	40	219	151	340	66	45	102	168	115	260	32	22	50	76	52	117	29	20	45
≥67	28	19	43	233	164	361	70	50	109	178	126	276	34	24	53	80	57	125	31	22	48
≥68	29	21	45	247	178	382	74	54	115	188	136	292	37	26	57	85	61	132	32	23	50
≥69	31	23	48	260	192	403	78	58	122	199	147	308	39	28	60	90	66	139	34	25	53
≥70	32	24	50	274	205	425	83	62	128	209	157	325	41	30	63	95	71	147	36	27	56
≥71	43	35	62	364	295	522	110	89	157	278	226	399	54	44	77	125	102	180	48	39	69
≥72	46	38	65	386	318	552	117	96	167	295	243	422	57	47	82	133	110	191	51	42	73
≥73	48	40	69	409	341	583	123	103	176	313	261	445	61	50	86	141	118	201	54	45	77
≥74	51	43	72	432	364	613	130	110	185	331	278	469	64	54	91	149	126	212	57	48	81
≥75	54	46	76	455	387	644	137	117	194	348	296	492	67	57	95	157	133	222	60	51	85
≥76	56	48	80	478	410	674	144	124	203	366	313	515	71	61	100	165	141	233	63	54	89
≥77	59	51	83	501	433	704	151	130	212	383	331	539	74	64	104	173	149	243	66	57	93
≥78	62	54	87	524	456	735	158	137	222	401	348	562	78	67	109	181	157	254	69	60	97
≥79	65	57	90	547	478	765	165	144	231	418	366	585	81	71	113	189	165	264	72	63	101
≥80	67	59	94	570	501	796	172	151	240	436	383	608	84	74	118	197	173	275	75	66	105
≥81	70	62	98	593	524	826	179	158	249	453	401	632	88	78	122	205	181	285	78	69	109

Table 6.9 continued (Central values for noise exposure in €₂₀₀₂ factor costs per year per person exposed).

L _{den} dB(A)	Slovenia			Spain			Sweden			Switzerland			United Kingdom		
	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft
≥51	4	0	7	7	0	10	11	0	17	15	0	23	11	0	17
≥52	9	0	14	13	0	20	22	0	34	30	0	47	21	0	33
≥53	13	0	21	20	0	31	33	0	51	45	0	70	32	0	50
≥54	18	0	28	26	0	41	44	0	68	61	0	94	43	0	66
≥55	22	0	35	33	0	51	55	0	85	76	0	117	53	0	83
≥56	27	4	42	39	7	61	66	11	102	91	15	141	64	11	99
≥57	31	9	48	46	13	71	77	22	119	106	30	164	75	21	116
≥58	36	13	55	53	20	82	88	33	136	121	45	188	85	32	132
≥59	40	18	62	59	26	92	99	44	153	136	61	211	96	43	149
≥60	45	22	69	66	33	102	110	55	170	151	76	235	107	53	165
≥61	49	27	76	72	39	112	120	66	187	166	91	258	117	64	182
≥62	54	31	83	79	46	122	131	77	204	182	106	281	128	75	198
≥63	58	36	90	86	53	133	142	88	221	197	121	305	139	85	215
≥64	63	40	97	92	59	143	153	99	238	212	136	328	149	96	232
≥65	67	45	104	99	66	153	164	110	255	227	151	352	160	107	248
≥66	71	49	111	105	72	163	175	120	272	242	166	375	171	117	265
≥67	76	54	118	112	79	173	186	131	289	257	182	399	181	128	281
≥68	80	58	125	118	86	184	197	142	306	272	197	422	192	139	298
≥69	85	63	131	125	92	194	208	153	323	287	212	446	203	149	314
≥70	89	67	138	132	99	204	219	164	340	303	227	469	213	160	331
≥71	119	96	170	175	142	251	291	236	417	402	326	577	283	230	407
≥72	126	104	180	186	153	265	309	254	442	427	351	610	301	248	430
≥73	133	111	190	197	164	280	327	273	466	452	377	644	319	266	454
≥74	141	119	200	208	175	295	346	291	490	478	402	677	337	283	478
≥75	148	126	210	219	186	309	364	309	515	503	427	711	355	301	501
≥76	156	134	220	230	197	324	382	328	539	528	453	745	372	319	525
≥77	163	141	230	241	208	338	401	346	563	554	478	778	390	337	549
≥78	171	148	240	252	219	353	419	364	588	579	503	812	408	355	573
≥79	178	156	249	263	230	368	437	383	612	604	529	846	426	373	596
≥80	186	163	259	274	241	382	456	401	636	630	554	879	444	391	620
≥81	193	171	269	285	252	397	474	419	661	655	579	913	462	408	644

Notes: The central values comprise the WTP for reducing annoyance based on stated preference studies (see Working group on health and socio-economic aspects, 2003) and quantifiable costs of health effects.

Table 6.10 Cost factors (Central values) for noise exposure (€₂₀₀₂ PPP, factor costs, per year per person exposed). High values and results for the new approach see Annex E.

L _{den} dB(A)	Austria			Belgium			Cyprus			Czech Republic			Denmark			Estonia			Finland		
	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft
≥51	10	0	15	9	0	15	7	0	10	5	0	8	10	0	15	4	0	6	9	0	14
≥52	20	0	31	19	0	29	13	0	21	11	0	17	20	0	30	7	0	11	18	0	28
≥53	30	0	46	28	0	44	20	0	31	16	0	25	29	0	46	11	0	17	27	0	42
≥54	40	0	61	38	0	58	27	0	41	22	0	34	39	0	61	15	0	23	36	0	56
≥55	49	0	77	47	0	73	33	0	52	27	0	42	49	0	76	19	0	29	45	0	70
≥56	59	10	92	56	9	88	40	7	62	33	5	51	59	10	91	22	4	34	55	9	85
≥57	69	20	107	66	19	102	47	13	72	38	11	59	69	20	106	26	7	40	64	18	99
≥58	79	30	123	75	28	117	53	20	83	44	16	68	79	29	122	30	11	46	73	27	113
≥59	89	40	138	85	38	131	60	27	93	49	22	76	88	39	137	33	15	52	82	36	127
≥60	99	49	153	94	47	146	67	33	103	55	27	85	98	49	152	37	19	57	91	45	141
≥61	109	59	169	104	56	160	73	40	114	60	33	93	108	59	167	41	22	63	100	55	155
≥62	119	69	184	113	66	175	80	47	124	66	38	102	118	69	183	44	26	69	109	64	169
≥63	129	79	199	122	75	190	87	53	135	71	44	110	128	79	198	48	30	75	118	73	183
≥64	139	89	215	132	85	204	93	60	145	77	49	119	137	88	213	52	33	80	127	82	197
≥65	148	99	230	141	94	219	100	67	155	82	55	127	147	98	228	56	37	86	136	91	211
≥66	158	109	245	151	104	233	107	73	166	88	60	136	157	108	243	59	41	92	145	100	225
≥67	168	119	261	160	113	248	114	80	176	93	66	144	167	118	259	63	44	98	155	109	240
≥68	178	129	276	169	122	263	120	87	186	98	71	153	177	128	274	67	48	103	164	118	254
≥69	188	139	291	179	132	277	127	93	197	104	77	161	186	137	289	70	52	109	173	127	268
≥70	198	148	307	188	141	292	134	100	207	109	82	170	196	147	304	74	56	115	182	136	282
≥71	263	213	377	250	203	359	177	144	254	145	118	208	261	212	374	98	80	141	241	196	346
≥72	279	230	399	266	219	379	188	155	269	154	127	221	277	228	396	104	86	149	256	211	366
≥73	296	246	421	281	234	400	200	166	284	164	136	233	293	244	417	111	92	157	272	226	387
≥74	312	263	443	297	250	421	211	177	299	173	145	245	310	261	439	117	98	166	287	241	407
≥75	329	279	465	313	266	442	222	189	314	182	154	257	326	277	461	123	104	174	302	257	427
≥76	345	296	487	329	282	463	233	200	329	191	164	269	343	294	483	129	111	182	317	272	447
≥77	362	313	509	344	297	484	244	211	343	200	173	281	359	310	505	135	117	190	333	287	468
≥78	379	329	531	360	313	505	255	222	358	209	182	294	375	326	527	142	123	199	348	302	488
≥79	395	346	553	376	329	526	267	233	373	218	191	306	392	343	548	148	129	207	363	318	508
≥80	412	362	575	392	345	547	278	244	388	228	200	318	408	359	570	154	135	215	378	333	528
≥81	428	379	597	407	360	568	289	256	403	237	209	330	425	376	592	160	142	223	393	348	548

Table 6.10 continued (Central values for noise exposure in €₂₀₀₂ PPP factor costs per year per person exposed).

L _{den} dB(A)	France			Germany			Greece			Hungary			Ireland			Italy			Latvia		
	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft
≥51	9	0	14	9	0	14	6	0	10	5	0	7	11	0	17	9	0	14	3	0	5
≥52	18	0	28	18	0	27	13	0	19	9	0	15	22	0	33	18	0	27	6	0	10
≥53	27	0	42	26	0	41	19	0	29	14	0	22	32	0	50	26	0	41	9	0	15
≥54	36	0	56	35	0	54	25	0	39	19	0	29	43	0	67	35	0	54	13	0	19
≥55	45	0	70	44	0	68	31	0	49	24	0	37	54	0	84	44	0	68	16	0	24
≥56	55	9	85	53	9	82	38	6	58	28	5	44	65	11	100	53	9	82	19	3	29
≥57	64	18	99	61	18	95	44	13	68	33	9	51	75	22	117	61	18	95	22	6	34
≥58	73	27	113	70	26	109	50	19	78	38	14	59	86	32	134	70	26	109	25	9	39
≥59	82	36	127	79	35	122	56	25	88	43	19	66	97	43	150	79	35	122	28	13	44
≥60	91	45	141	88	44	136	63	31	97	47	24	74	108	54	167	88	44	136	31	16	49
≥61	100	55	155	96	53	149	69	38	107	52	28	81	119	65	184	96	53	149	35	19	53
≥62	109	64	169	105	61	163	75	44	117	57	33	88	129	75	200	105	61	163	38	22	58
≥63	118	73	183	114	70	177	82	50	126	62	38	96	140	86	217	114	70	177	41	25	63
≥64	127	82	197	123	79	190	88	56	136	66	43	103	151	97	234	123	79	190	44	28	68
≥65	136	91	211	132	88	204	94	63	146	71	47	110	162	108	251	132	88	204	47	31	73
≥66	145	100	225	140	96	217	100	69	156	76	52	118	172	119	267	140	96	217	50	35	78
≥67	155	109	240	149	105	231	107	75	165	81	57	125	183	129	284	149	105	231	53	38	83
≥68	164	118	254	158	114	245	113	82	175	85	62	132	194	140	301	158	114	245	56	41	88
≥69	173	127	268	167	123	258	119	88	185	90	66	140	205	151	317	167	123	258	60	44	92
≥70	182	136	282	175	132	272	125	94	195	95	71	147	216	162	334	175	132	272	63	47	97
≥71	241	196	346	233	189	334	167	135	239	126	102	181	286	232	411	233	189	334	83	68	120
≥72	256	211	366	247	204	354	177	146	253	134	110	191	304	250	435	247	204	354	89	73	126
≥73	272	226	387	262	218	373	188	156	267	142	118	202	322	268	459	262	218	373	94	78	133
≥74	287	241	407	277	233	393	198	167	281	150	126	212	340	286	483	277	233	393	99	83	140
≥75	302	257	427	291	248	412	209	177	295	158	134	223	358	304	507	291	248	412	104	89	147
≥76	317	272	447	306	262	432	219	188	309	166	142	234	376	322	530	306	262	432	110	94	154
≥77	333	287	468	321	277	451	230	198	323	174	150	244	394	340	554	321	277	451	115	99	161
≥78	348	302	488	335	292	471	240	209	337	182	158	255	412	359	578	335	292	471	120	104	168
≥79	363	318	508	350	306	490	251	219	351	190	166	265	430	377	602	350	306	490	125	110	175
≥80	378	333	528	365	321	509	261	230	365	197	174	276	448	395	626	365	321	509	131	115	182
≥81	393	348	548	379	336	529	272	240	379	205	182	286	467	413	650	379	336	529	136	120	189

Table 6.10 continued (Central values for noise exposure in €₂₀₀₂ PPP factor costs per year per person exposed).

L _{den} dB(A)	Lithouania			Luxemburg			Malta			Netherlands			Poland			Portugal			Slovakia		
	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft
≥51	3	0	5	12	0	19	6	0	9	10	0	15	4	0	6	6	0	10	4	0	6
≥52	7	0	10	24	0	37	12	0	18	20	0	30	7	0	11	12	0	19	8	0	13
≥53	10	0	16	36	0	56	18	0	28	29	0	46	11	0	17	19	0	29	12	0	19
≥54	14	0	21	48	0	75	24	0	37	39	0	61	15	0	23	25	0	38	16	0	25
≥55	17	0	26	60	0	94	30	0	46	49	0	76	19	0	29	31	0	48	21	0	32
≥56	20	3	31	72	12	112	36	6	55	59	10	91	22	4	34	37	6	58	25	4	38
≥57	24	7	37	84	24	131	42	12	65	69	20	106	26	7	40	43	12	67	29	8	45
≥58	27	10	42	97	36	150	48	18	74	79	29	122	30	11	46	50	19	77	33	12	51
≥59	30	14	47	109	48	168	54	24	83	88	39	137	33	15	52	56	25	86	37	16	57
≥60	34	17	52	121	60	187	60	30	92	98	49	152	37	19	57	62	31	96	41	21	64
≥61	37	20	58	133	72	206	65	36	101	108	59	167	41	22	63	68	37	106	45	25	70
≥62	41	24	63	145	84	224	71	42	111	118	69	183	44	26	69	74	43	115	49	29	76
≥63	44	27	68	157	97	243	77	48	120	128	79	198	48	30	75	81	50	125	53	33	83
≥64	47	30	73	169	109	262	83	54	129	137	88	213	52	33	80	87	56	134	57	37	89
≥65	51	34	79	181	121	281	89	60	138	147	98	228	56	37	86	93	62	144	62	41	95
≥66	54	37	84	193	133	299	95	65	148	157	108	243	59	41	92	99	68	154	66	45	102
≥67	57	41	89	205	145	318	101	71	157	167	118	259	63	44	98	105	74	163	70	49	108
≥68	61	44	94	217	157	337	107	77	166	177	128	274	67	48	103	111	81	173	74	53	114
≥69	64	47	99	229	169	355	113	83	175	186	137	289	70	52	109	118	87	182	78	57	121
≥70	68	51	105	241	181	374	119	89	185	196	147	304	74	56	115	124	93	192	82	62	127
≥71	90	73	129	320	260	460	158	128	227	261	212	374	98	80	141	164	133	236	109	88	156
≥72	95	78	136	340	280	486	168	138	240	277	228	396	104	86	149	175	144	250	116	95	165
≥73	101	84	144	361	300	513	178	148	253	293	244	417	111	92	157	185	154	264	123	102	175
≥74	107	90	151	381	321	540	188	158	266	310	261	439	117	98	166	196	165	277	129	109	184
≥75	112	95	159	401	341	567	198	168	280	326	277	461	123	104	174	206	175	291	136	116	193
≥76	118	101	166	421	361	594	208	178	293	343	294	483	129	111	182	216	185	305	143	123	202
≥77	124	107	174	441	381	621	218	188	306	359	310	505	135	117	190	227	196	319	150	130	211
≥78	129	112	181	462	401	647	228	198	319	375	326	527	142	123	199	237	206	332	157	136	220
≥79	135	118	189	482	422	674	238	208	333	392	343	548	148	129	207	247	216	346	164	143	229
≥80	141	124	196	502	442	701	248	218	346	408	359	570	154	135	215	258	227	360	171	150	238
≥81	146	129	204	522	462	728	258	228	359	425	376	592	160	142	223	268	237	374	178	157	248

Table 6.10 continued (Central values for noise exposure in €₂₀₀₂ PPP factor costs per year per person exposed).

L _{den} dB(A)	Slovenia			Spain			Sweden			Switzerland			United Kingdom		
	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft	Road	Rail	Aircraft
≥51	6	0	9	8	0	12	9	0	14	11	0	16	9	0	15
≥52	12	0	19	15	0	24	19	0	29	21	0	33	19	0	29
≥53	18	0	28	23	0	36	28	0	43	32	0	49	28	0	44
≥54	24	0	37	31	0	47	37	0	57	42	0	66	38	0	59
≥55	30	0	47	38	0	59	46	0	72	53	0	82	47	0	74
≥56	36	6	56	46	8	71	56	9	86	64	11	99	57	9	88
≥57	42	12	65	53	15	83	65	19	100	74	21	115	66	19	103
≥58	48	18	75	61	23	95	74	28	115	85	32	132	76	28	118
≥59	54	24	84	69	31	107	83	37	129	96	42	148	85	38	132
≥60	60	30	94	76	38	118	93	46	143	106	53	165	95	47	147
≥61	66	36	103	84	46	130	102	56	158	117	64	181	104	57	162
≥62	72	42	112	92	53	142	111	65	172	127	74	198	114	66	177
≥63	78	48	122	99	61	154	120	74	186	138	85	214	123	76	191
≥64	84	54	131	107	69	166	130	83	201	149	96	230	133	85	206
≥65	90	60	140	115	76	178	139	93	215	159	106	247	142	95	221
≥66	97	66	150	122	84	190	148	102	229	170	117	263	152	104	235
≥67	103	72	159	130	92	201	157	111	244	181	127	280	161	114	250
≥68	109	78	168	138	99	213	167	120	258	191	138	296	171	123	265
≥69	115	84	178	145	107	225	176	130	272	202	149	313	180	133	280
≥70	121	90	187	153	115	237	185	139	287	212	159	329	190	142	294
≥71	160	130	230	203	165	291	246	199	352	282	229	405	252	205	362
≥72	170	140	243	216	177	308	261	215	373	300	247	428	268	220	383
≥73	180	150	257	228	190	325	277	230	394	317	264	452	284	236	404
≥74	190	160	270	241	203	342	292	246	414	335	282	475	300	252	425
≥75	201	170	283	254	216	359	307	261	435	353	300	499	316	268	446
≥76	211	180	297	267	229	376	323	277	455	371	318	523	331	284	467
≥77	221	191	310	280	241	393	338	292	476	388	335	546	347	300	488
≥78	231	201	324	292	254	410	354	308	496	406	353	570	363	316	509
≥79	241	211	337	305	267	427	369	323	517	424	371	593	379	332	530
≥80	251	221	351	318	280	444	385	339	538	442	389	617	395	347	552
≥81	261	231	364	331	293	461	400	354	558	460	406	641	411	363	573

Notes: The Central values comprise the WTP for reducing annoyance based on stated preference studies (see Working group on health and socio-economic aspects, 2003) and quantifiable costs of health effects.

Table 6.11 Impact indicator for noise exposure: percentage of adult persons highly annoyed per person (all ages) exposed – based on functions in European Commission (2002), assuming 80% of population are adults.

L_{den}	Road	Rail	Aircraft
(dB(A))	%	%	%
≥43	0.4	0.1	0.3
≥44	0.8	0.3	0.6
≥45	1.1	0.4	1.0
≥46	1.5	0.5	1.4
≥47	1.9	0.6	2.0
≥48	2.2	0.7	2.5
≥49	2.6	0.8	3.2
≥50	2.9	1.0	3.9
≥51	3.3	1.1	4.6
≥52	3.7	1.3	5.4
≥53	4.2	1.5	6.3
≥54	4.6	1.7	7.2
≥55	5.1	2.0	8.2
≥56	5.6	2.3	9.3
≥57	6.2	2.6	10.4
≥58	6.8	2.9	11.5
≥59	7.5	3.3	12.7
≥60	8.3	3.8	14.0
≥61	9.0	4.3	15.3
≥62	9.9	4.8	16.7
≥63	10.8	5.4	18.1
≥64	11.9	6.1	19.6
≥65	12.9	6.8	21.2
≥66	14.1	7.6	22.7
≥67	15.4	8.5	24.4
≥68	16.8	9.5	26.1
≥69	18.2	10.5	27.8
≥70	19.8	11.6	29.6
≥71	21.5	12.8	31.5
≥72	23.3	14.1	33.4
≥73	25.2	15.4	35.3
≥74	27.2	16.9	37.3
≥75	29.4	18.4	39.4
≥76	31.7	20.1	41.5
≥77	34.1	21.9	43.6
≥78	36.7	23.8	45.8
≥79	39.4	25.8	48.0
≥80	42.3	27.9	50.3
≥81	45.3	30.1	52.6

6.4.3 Treatment of values over time

We recommend increasing values for future years based on a default inter-temporal elasticity to GDP per capita growth of 1.0. If noise costs prove to contribute an important part of the benefits quantified in an assessment we recommend sensitivity testing with an income elasticity of 0.7.

Please note that the assumption of linearly growing values over time clearly requires explicit and careful emission modelling over time. If this is not the case, the results are likely to overestimate benefits from a transport project, as vehicle emissions are likely to decrease in the future.

6.4.4 Calculation procedure

- Step 1:** quantification of the number of persons exposed to certain noise levels (should be available from noise calculations) for the Do-Minimum case and the Do-Something case.
- Step 2:** preparation of the cost factor table by increasing the cost factor according to the assumed country-specific GDP per capita growth for each year of the analysis.
- Step 3:** calculation of impacts (multiply percentage of highly annoyed persons by number of persons exposed) and costs (multiply cost per person by number of persons exposed) for both cases.
- Step 4:** subtraction of total costs for the Do-Something case from Do-Minimum case
- Step 5:** reporting of costs and impacts (change in number of people highly annoyed).

6.5 Global warming

6.5.1 General approach

The method of calculating costs due to the emission of greenhouse gases (usually expressed as CO₂ equivalents) basically consists of multiplying the amount of CO₂ equivalents emitted by a cost factor. Due to the global scale of the damage caused, there is no difference how and where in Europe the emissions of greenhouse gases take place. For this reason we recommend to apply the same values in all countries.

The CO₂ equivalent of a greenhouse gas is derived by multiplying the amount of the gas by the associated Global Warming Potential (GWP). The GWP for methane is 23, for nitrous oxide 296, and for CO₂ it is 1.

In high altitudes other emissions from aircraft than CO₂ have a considerable climatic effect. The most important species are water vapour, sulphate and soot aerosols and nitrogen oxides. In 1999 the Intergovernmental Panel on Climate Change (IPCC) estimated that aviation's total impact is about 2 to 4 times higher than the effect of its past CO₂ emissions alone. Recent EU research results (see European Commission, 2005b, Annex 2) indicate that this ratio

may be somewhat smaller (around a factor 2). Accordingly we recommend multiplying high altitude CO₂ emissions by a factor of 2 to consider the warming effect of other species than CO₂.

6.5.2 Monetary values

In the ideal case the cost factor would be calculated as damage cost using the principles outlined in section 6.2 above. However, there is a lack of exact knowledge about the impacts caused by climate change. Furthermore, uncertainties about scenarios of future developments and about the workings of the climate system are tremendous. Models have been developed to assess the impact of climate change on human health, agriculture, water availability, etc., and quantitative estimates of damage costs have been provided. In a review of valuation literature Tol (2005) found a median estimate of €4/t CO₂, a mean of €25/t CO₂ and a 95 percentile of €96/t CO₂²⁶. These figures are conservative in the sense that only damage that can be estimated with a reasonable certainty is included; for instance impacts such as extended floods and more frequent hurricanes with higher energy density are not taken into account, as there is not enough information about the possible relationship between global warming and these impacts. The literature review revealed a trend towards lower values over time, i.e. that more recent estimates tend to result in lower values than earlier estimates.

Due to the uncertainties in damage cost estimates often abatement costs have been used as a second best option (e.g. the cost to reach the Kyoto targets for reducing greenhouse gas emissions) to value costs from greenhouse gas emissions. Abatement costs are inferred from reduction targets or constraints for emissions and estimate the opportunity costs of environmentally harmful activities assuming that a specified reduction target is socially desired.

A European abatement cost of €20 per tonne of CO₂ represents a central estimate of the range of values for meeting the Kyoto targets in 2010 in the EU based on estimates by Capros and Mantzos (2000). They report a value of €5 per tonne of CO₂ avoided for reaching the Kyoto targets for the EU, assuming a full trade flexibility scheme involving all regions of the world. For the case that no trading of CO₂ emissions with countries outside the EU is permitted, they calculate a value of €38 per tonne of CO₂ avoided. It is assumed that measures for a reduction in CO₂ emissions are taken in a cost effective way. This implies that reduction targets are not set per sector, but that the cheapest measures are implemented, no matter in which sector.

However, there is a need to strive for more stringent reduction targets than Kyoto. The EU target of limiting global warming to an increase of 2°C of the earth's average temperature above pre-industrial levels may lead to marginal abatement costs as high as about €95/t CO₂. However it is an open question whether such an ambitious goal with such high costs will be accepted by the general population.

Recent work has confirmed the assumption that emissions in future years will have greater total impacts than emissions today (see e.g. Watkiss et al.; 2005a). Consequently for transport project appraisal we need value estimates that include future increases. In a recent report for

²⁶ Values cited from Watkiss et al. (2005a), p. 29.

the Social Cost of Carbon Review on behalf of UK's Defra, Watkiss et al. (2005b) derive shadow price values, taking into account the expected future development of damage costs and abatement costs. This study is the most current and comprehensive exercise providing consistent values for CO₂ emissions for application in project appraisal. Whereas the damage cost estimates do not rely on specific assumptions for the UK, the abatement cost estimates are based on the UK's government long-term goal of meeting a 60% CO₂ reduction in 2050 (which is broadly consistent with the EU's 2°C target). On the one hand the costs for reaching a domestic reduction of 60% are higher than implementing a more flexible reduction scheme. On the other hand, the abatement costs only influence the cost curve for later years (starting around 2030) when uncertainties are higher. In addition, the damage cost estimates do not include some important risks. We recommend using the central guidance value given in Table 6.12 as central estimate, with the lower and upper central estimate for sensitivity analysis.

Table 6.12 Shadow prices based on Watkiss et al. (2005b), converted from £₂₀₀₀/t C to €₂₀₀₂ (factor prices) per tonne of CO₂ equivalent emitted.

Year of emission	Central guidance	For sensitivity analysis	
		Lower central estimate	Upper central estimate
2000 – 2009	22	14	51
2010 – 2019	26	16	63
2020 – 2029	32	20	81
2030 – 2039	40	26	103
2040 – 2049	55	36	131
2050	83	51	166

Notes: Values are for year of emission and were derived combining damage cost and marginal abatement cost estimates. The damage cost estimates are based on declining discount rates and include equity weighting. Some major climatic system events as well as socially contingent effects are excluded. For details see Watkiss et al. (2005b).

6.5.3 Treatment of values over time

We do not recommend increasing the values in Table 6.12 additionally with GDP growth, as we assume that the above mentioned aim (limitation of the temperature increase to 2 K) will not be changed with growing GDP.

Please note that the growing values over time clearly require explicit and careful emission modelling over time. If this is not the case, the results are likely to overestimate benefits from a transport project, as vehicle emissions can be assumed to decrease considerably in the future. Information on the future development of emission factors can be found for instance at <http://www.tremove.org/download/index.htm>.

6.5.4 Calculation procedure

Step 1: quantification of change in greenhouse gas emissions (CO₂, CH₄, N₂O; others if data available) due to a project measured in tonnes.

- Step 2:** classification of emissions according to height of emission sources (ground-level – high altitude aircraft). Calculation of CO₂ equivalents of ground level emissions; multiplication of high altitude aircraft CO₂ emissions with a factor of 2 (to consider warming effects of other species).
- Step 3:** multiplication of CO₂ equivalents with cost factor for year of emission.
- Step 4:** reporting of emissions and costs.

6.6 Other effects

Air pollution, global warming and noise represent the most important and relevant cost categories that can currently be assessed in CBA. Environmental impacts such as vibration, severance, visual intrusion, loss of important sites, impairment of landscape, as well as soil and water pollution are difficult to include based on general values, because the impacts are very site specific (e.g. impairment of landscape). Usually such aspects are covered by the requirements for Environmental Impact Assessment and by obligations to meet certain target values. However, even if such standards are met, the remaining burdens lead to external costs, which should be considered. Where monetisation is not (yet) possible, these effects should be considered beside the CBA. However, it is beyond the scope of HEATCO to suggest concrete values or detailed methods in these areas.

7 Costs and Indirect Costs of Infrastructure Investment

7.1 Introduction

This chapter focuses on a framework for including costs and indirect costs of infrastructure investment in a cost-benefit analysis framework.

More specifically, this chapter discusses five elements related to the assessment of infrastructure costs of a project:

- Capital costs of the infrastructure project
- Residual value
- Optimism-bias
- Costs of maintenance, operation and administration
- Changes in infrastructure costs on existing network

The recommendations on how to treat each of these elements are set out below, following a short description of the overall framework of "whole life costing".

7.2 Whole life costing

One of the distinguishing features of infrastructure investment is that engineering and system running costs are spread across the lifetime of the scheme. Whilst a large proportion of the engineering costs will be in the form of initial capital outlay, the cost inventory also has to account for those items of expenditure involved in operating the investment over the appraisal period. Some of these may be small items that occur frequently or almost continuously (e.g. cleaning), whilst others will be larger and may happen only in a few specific years over the scheme's lifetime (e.g. road resurfacing). In order to represent all these items of expenditure in the cost-benefit analysis, a whole life costing framework should be used. This allows the full engineering costs of alternative transport investment options to be compared, thereby making explicit any trade-off between the initial capital outlay and the size of maintenance expenditure. An investment strategy with a high initial capital outlay resulting in lower maintenance costs may therefore be preferred to a strategy with lower initial capital costs and high maintenance costs. It is also important to realise that the most 'efficient' investment strategy in terms of total engineering costs may not be the optimum economic strategy due to the impact of construction and maintenance engineering works on accidents, vehicle operating costs and travel time delays.

In summary the principal advantages of the whole life costing approach are²⁷:

- It allows the comparison of projects on the basis of lifetime costs
- It provides greater awareness of the total costs involved
- It allows more accurate forecasting of future expenditure

²⁷ See for example Office of Government and Commerce (2004).

- It allows for a cost trade-off to be made against the attributes of the benefits from the project.

The focus of this section is, as mentioned, on the costs related to the infrastructure.

Figure 7.1 provides the structure for this whole life costing approach. The inputs to the framework are the costs associated with the investment in the new infrastructure (capital and future maintenance costs) plus the changes to the maintenance costs on the existing network over the lifetime of the project. These costs should then be adjusted for uncertainty and risk. Furthermore, it has to be considered whether optimism-bias is an issue.

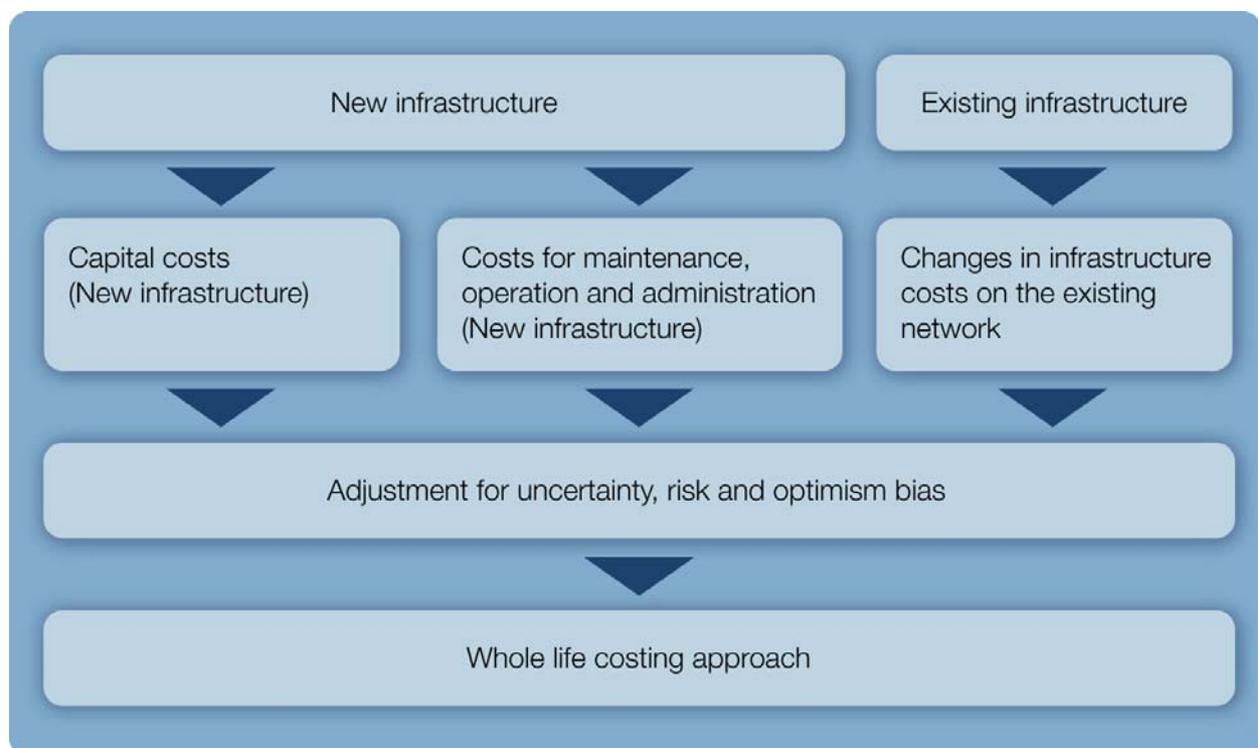


Figure 7.1 Whole life costing approach

7.3 Capital costs of the infrastructure investment

The recommendations on how to treat the capital costs of the investment are presented below. The recommendations are given on the basis of the current practice in EU Member States and general considerations on which costs to include in a cost-benefit analysis.

Recommendation

It is recommended to use the following definition of capital costs of the infrastructure investment:

- *Construction costs*, including materials, labour, energy, preparation, professional fees and contingencies

- *Planning costs*, including design costs, planning authority resources and other planning costs
- *Land and property costs*, including the value of the land needed for the scheme (and any associated properties), compensation payment necessary under national laws and the related transactions and legal costs
- *Disruption costs*, e.g.. the disruption to existing users to be estimated using the same values of time as are used for travel time savings arising from the scheme.

This definition is generally in line with the definition used in the EUNET study and country practice, as documented in Odgaard et al (2005).

General principles

There are two general principles for assessing the *capital costs of the infrastructure project*.

First²⁸, costs should be attributed to the project year in which the resources become unavailable to alternative uses. The year in which the resource becomes unavailable to alternative uses is not necessarily the year in which the resource is purchased or even the year in which the resource is used. This can be illustrated by two examples:

- If agricultural land has been purchased before the construction begins, cattle may graze the land up until the day before the engineering works begin. Under such circumstances the costs of the land should be charged in the cost-benefit analysis when the land is no longer used for grazing.
- If residential property is purchased long before the construction period, but for some reason becomes unsafe for occupation at some time, the value of the property should be included in the year in which it is taken out of use.

Second, it is necessary to distinguish between:

- Costs incurred before and after the decision whether to go ahead with the project or not
- Retrievable and non-retrievable costs.

As the cost-benefit analysis only concerns costs that will be incurred due to the decision to go ahead with the project, non-retrievable costs incurred prior to the decision should not be included in the cost-benefit analysis.

Specific recommendations

The implications of these general principles are discussed below for each of the elements of capital costs together with element-specific issues.

Construction costs are generally incurred after the decision to go ahead with the project and should as such be included in the cost-benefit analysis. In the event that some of the costs have been incurred prior to the decision, a case-by-case judgement has to be made as to whether the costs are retrievable.

²⁸ British Department for Transport, 2004a

Parts of *planning costs* are normally incurred prior to the date of decision whether to go ahead with the project. As these costs are non-retrievable they should not be included in the cost-benefit analysis. This also means that if a cost-benefit analysis is updated, some of the planning costs should possibly be ignored in the new assessment (i.e. the planning costs incurred in the time between the original assessment and the update).

How the *costs of land and property purchase* should be included in the project appraisal was outlined above. However, in some cases it can be relevant to consider the various components of the costs of land and property purchase.

The UK approach to subdividing the costs of land and property purchase seems reasonable.

The UK guidelines refer to four different cost categories:

- Acquisition costs (not necessarily the money paid to the previous owner, but the opportunity costs of the land/property)
- Legal transaction costs which refer to the amount paid to for example estate agents to deal with paperwork etc.
- Property management costs, i.e. the costs of managing and maintaining the land and property before it is used for the scheme (e.g. the costs of renting out farming land prior to the use of the land for the infrastructure project)
- Resale value (only relevant for off-line land and property).

Acquisition costs are normally retrievable, as the land and property can be resold if it is decided not to go ahead with the investment. Hence acquisition costs should generally be included in the project appraisal, even if the purchase has been paid for prior to the appraisal. If the land is used for farming or the property is occupied from purchase to construction, the costs should be included in the cost-benefit analysis at the time when it becomes unavailable to alternative use. If the land/property becomes unavailable prior the decision, the costs should be included at the time of decision at the earliest.

Transaction costs related to acquiring the land/property are generally non-retrievable. Hence, transaction costs should only be included if the land is acquired after the decision on whether to go ahead with the project²⁹. The same goes for property management costs.

The resale value is included in the cost-benefit analysis as a negative cost at the time of resale. In addition to the costs set out above, compensation costs should be included in the project appraisal (for all land/property affected by the project).

The costs of *disruption from construction* may consist of several elements, including:

- Delays to private traffic
- Delays to public transport/scheduled services
- Effect on neighbours (noise, dust etc.)

²⁹ The costs should exclude taxes and stamp duty

- Changes in risk of accidents.

The quantification of these effects has to be made on a case-by-case basis. The valuation of the effects should be made in accordance with the general valuation of time, accidents etc.

7.4 Residual value

In theory, the time horizon of the project appraisal should equal the lifetime of the infrastructure³⁰ in order to capture the full benefits of the project. However, the evaluation period is often limited to the period over which demand can be foreseen with reasonable accuracy (see section 3.5 for a discussion of the appraisal period). Thus, due to uncertainty about traffic, impacts on the environment, safety issues etc., the evaluation period is often shorter than the lifetime of the infrastructure. This introduces the issue of the residual value of the infrastructure.

The residual value is an item in the appraisal which captures net benefits beyond the formal appraisal period.

7.4.1 Justification/motivation

In the cost-benefit analysis the capital costs of the infrastructure is reduced by the net present value of the residual value of the infrastructure.

The examples presented later illustrate that the residual value is often of relatively little importance to the results of the cost-benefit analysis.

The recommended approach is generally in line with country practice, as documented in Odgaard et al (2005).

7.4.2 Recommendation

We recommend a pragmatic approach for estimating the residual value, which includes:

- Determination of the fixed lifetime of the infrastructure - or its sub-components
- Determination of a depreciation profile

The minimum approach is to use a linear depreciation profile. More advanced approaches are however also 'allowed'.

A range of recommended lifetimes is provided in Table 7.1 for road and rail projects. For other modes the recommended lifetimes can be used as inspiration. If the appraiser uses life-

³⁰ In reality the infrastructure consists of several parts with different lifetimes.

times outside the ranges presented in Table 7.1, it must be explicitly stated why such an approach is taken.

For short-lived sub-components reinvestments may be necessary during the evaluation period (see Example 2 below and discussion on the costs of maintenance, operation and administration).

Table 7.1 Lifetimes in years by mode and group of components (road and rail).

Mode	Group of components	Min	Main	Max
General	Bridges	50	75	100
	Tunnels	50	75	100
	Land	Infinite	Infinite	Infinite
Road	Base course	30	45	60
	Wearing course	10	20	30
	Environmental installations	10	20	30
	Drainage	50	75	100
	Retaining walls	50	75	100
Rail	Substructures	40	60	80
	Tracks	20	30	40
	Tech. equip.,	10	20	30
	Power supply	20	30	40
	Environmental installations	10	30	50

Illustrative examples

Two illustrative examples on how to deal with the residual value in a cost-benefit framework are presented below.

Example 1: "No re-investments"

The table below shows the NPV assessment of a bridge. The assessment is based on the following parameters/assumptions:

- Capital costs of the infrastructure project: 150 million € (distributed equally over three years)
- Lifetime of bridge: 75 years
- Linear depreciation profile
- Discount rate: 3%
- Appraisal period: 40 years (operational phase)

After 40 years of operation the residual value can be determined as:

Residual value = (remaining lifetime/total lifetime)*capital costs = (35 years/75 years)*150 million € = 70 million €. As can be seen the capital costs of the infrastructure are reduced by the net present value of the residual value.

Table 7.2 Example 1: "No re-investments" (million €)

Element	NPV	Planning and construction phase			Operational phase			
		1	2	3	4	5	...	44
Construction costs	141	50	50	50	0	0	...	0
Residual value	-19	0	0	0	0	0	...	-70
Total	122	50	50	50	0	0	...	-70

Example 2: "Re-investments"

Consider the same example as above, but in addition the project includes investments in new tracks for 12 million €. The tracks are assumed to have a lifetime of 30 years. This means that the tracks have to be replaced after 30 years in operation. The table below shows the NPV assessment for such a project.

The residual value of the tracks can be assessed on the basis of the formula presented above, i.e.: Residual value = (20 years/30 years)* 12 million € = 8 million €.

Again, the capital costs of the infrastructure are reduced by the net present value of the residual value.

Table 7.3 Example 2: "Re-investments" (million €)

Element	NPV	Planning and construction phase			Operational phase					
		1	2	3	4	...	34	...	44	
Construction costs - bridge	141	50	50	50	0	...	0	...	0	
Residual value - bridge	-19	0	0	0	0	...	0	...	-70	
Construction costs - tracks	11	4	4	4	0	...	0	...	0	
Re-investments - tracks	4	0	0	0	0	...	12	...	0	
Residual value - tracks	-2	0	0	0	0	...	0	...	-8	
Total	136	54	54	54	0	...	12	...	-78	

7.5 Optimism-bias

At the early stages of the project life-cycle the estimates of construction costs are naturally uncertain. This uncertainty is known and should therefore be accounted for in the construction cost estimates.

7.5.1 Justification/motivation

The problem is however that several studies have documented a systematic tendency for project appraisers to underestimate construction costs. For example, Flyvbjerg et al (2003) show that:

- Cost escalation occurs in almost nine out of ten projects
- *Actual costs* are on average 28% higher than *estimated/forecast costs*.

- Cost overrun seems to be a global phenomenon.

The cause of the cost overrun is cost underestimation³¹. On the basis of the evidence of cost underestimation, it is recommended that the issue of optimism-bias is dealt with in the project appraisal. Bent Flyvbjerg (2005a) presented 10 points to reduce uncertainty/cures to optimism-bias at the first HEATCO conference in Brussels in April 2005. The 10 ideas are presented in Table 7.4, where they have been grouped into three categories:

- Ideas relating to the content of the *guidelines*
- Ideas relating to the *process of project appraisal*
- Ideas relating to the *organisation of risks/incentives*.

Table 7.4 Ideas to reduce uncertainty/cures to optimism-bias.

Guidelines	Process of project appraisal	Organisation of risks/incentives
<ul style="list-style-type: none"> ▪ Benchmark projects ▪ Use reference class forecasting 	<ul style="list-style-type: none"> ▪ Get independent reviews of all cost and benefit estimates ▪ Engage stakeholders and civil society ▪ Make all documents and other info publicly available, e.g. at website ▪ Make sure guidelines are applied consistently across member states 	<ul style="list-style-type: none"> ▪ Change incentive structure ▪ Make forecasters share financial responsibility for covering cost overruns and benefit shortfalls ▪ Make go-ahead contingent on 1/3 private risk capital, also in subsidised projects ▪ In PPPs, make size of subsidy dependent on accuracy of forecasts

Source: Flyvbjerg (2005a), own categorisation

It is outside the scope of this project to deal with the ideas relating to the process of project appraisal and organisation of risks/incentives. It is however recommended that projects are benchmarked and that reference forecasting is used. The procedure for this is described below. The recommendation draws heavily on the recommendation prepared by Bent Flyvbjerg in association with COWI for the British Department for Transport (British Department for Transport, 2004b), which again draws on Mott Macdonald (2002) and Flyvbjerg et al (2002, 2003).

7.5.2 Recommendation

It is recommended that a side-analysis is conducted where optimism-bias uplifts are applied to the estimated budgets (see below for description on how to apply the uplifts).

- If the cost-benefit analysis still shows that the project is feasible, the project appraisal process can continue.
- If the project - which were considered feasible before the uplifts were applied - is 'not feasible' when the uplifts are applied, the cost estimates applied in the study must be benchmarked to the realised costs of similar projects.

³¹ For a discussion of what causes cost overrun see Flyvbjerg et al (2004).

- If it can be documented that the original cost estimates are in line with the realised costs of similar projects, the project appraisal process can continue. If not, it must either be explicitly justified why the cost estimates are lower and/or the construction cost estimates must be revised.

The main reason why it is 'only' recommended to apply the uplifts in a side-analysis is that part of the estimates on average cost escalation (which are presented below) can be attributed to benefit-generating improvements. This could for example be the costs of upgrading the quality (e.g. safety improvements) of the infrastructure between the time of 'decision to build' and the time of 'completing the project'. An upgrade of the infrastructure is likely to generate additional benefits. Hence, if the figures on the average cost escalation are used as a proxy for the 'level of optimism-bias', then the effect is overestimated. Unfortunately, the data does not allow separating the cost escalation on the effects of optimism-bias and the effect of benefit-generating upgrades.

Applying the optimism-bias uplifts

The basic idea behind the reference forecasting approach is that the "*...information on a class of similar or comparable projects is used to derive information on the extent to which likely - but presently unknown - future events may increase project costs, delay project time schedule or reduce project benefits compared to the base scenario*"³². This means that no attempt is made to forecast specific risks to a project. On the contrary, reference is made to a set of relevant and similar past transport infrastructure projects. The first step is to define a reference class of past transport projects, which can be considered as "similar" to the project under consideration.

When the reference class has been defined, the historically observed budget increase is used to form a probability distribution. An example of such a probability distribution is shown in Figure 7.2 below. The figure illustrates how the information on historically observed budget increases can be used to correct the estimate on construction costs of new projects for optimism-bias.

Given that the probability distribution has been formed on the basis of similar projects, the new project should be placed at the point 'initial budget'. The point 'average construction costs' refers to average realised costs of a 'similar project'. The 'applicable capital expenditure uplift' refers to the uplift necessary to ensure that on average the realised costs will be on budget.

It is recommended here that a side-analysis is made on the basis of the average realised costs of similar projects (initial budget + 'applicable capital expenditure uplift'). The initial budget should include contingencies.

Table 7.5 shows the recommended optimism-bias uplifts for selected reference classes (e.g. fixed links). If a project includes elements of different categories of project types, the relative

³² The British Ministry of Transport (2004, page 8).

size of each sub-project should be identified and the relevant uplift applied before aggregation to establish the total budget.

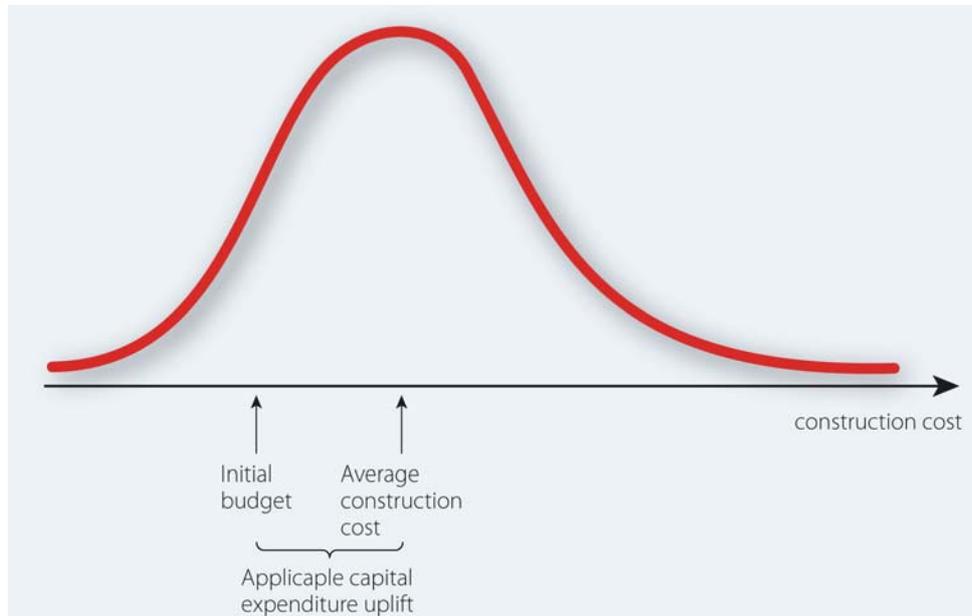


Figure 7.2 Definition of optimism-bias uplifts within a certain class.
 Source: Based on the British Department for Transport (2004b, page 11)

Table 7.5 Applicable capital expenditure uplift (average cost escalation)

Category	Types of projects	Uplift
Roads	Motorway Trunk roads Local roads Bicycle facilities Pedestrian facilities Park and ride Bus lane schemes Guided buses on wheels	22%*
Rail	Metro Light rail Guided buses on tracks Conventional rail High speed rail	34%*
Fixed links	Bridges Tunnels	43%*
Building projects	Stations Terminal buildings	25%**
IT projects	IT system development	100%**

Source: British Department for Transport (2004b), Mott MacDonald (2002), Flyvbjerg et al (2002)

* Based on data for average cost escalation in Europe presented in Flyvbjerg et al (2002)

** Pragmatic estimate based on range given in Mott MacDonald (2002), See British Department for Transport (2004b, page 30-32) for discussion of the figures presented in Mott MacDonald (2002).

It might be the case that the level of optimism-bias depends on the phase of the planning. This is however - due to data limitations - not considered here.

A simple example³³ illustrates how the optimism-bias uplifts can be used in practice. To secure that on average the realised costs will be on budget, the planners should use an uplift of 22% on their estimated capital expenditure budget for a road project. Thus, if the initially estimated budget were € 100 million, then the final budget taking into account optimism-bias would be € 122 million.

7.6 "Costs of maintenance, operation and administration" and "Changes in infrastructure costs on existing network"

Costs of maintenance, operation and administration are costs accrued during the operating life of the transport infrastructure by the infrastructure owner for the parts of the network which are changed by the project.

In line with this, the *existing network* is defined as the parts of the network which are not changed by the project. Changes in costs of the existing network refer to changes in costs due to changes in traffic volumes. Accordingly, non-traffic related costs of the existing network will by definition be identical for the relevant alternatives for the cost-benefit analysis, and can therefore be ignored.

It is a very complex task to give recommendations on how to include *costs of maintenance, operation and administration* and *changes in infrastructure costs on existing network*, as the countries have different:

- Standards of infrastructure
- Composition of traffic
- Maintenance practice
- Approaches to cost accounting
- Climate and topographical conditions
- Classification of vehicles.

This means not only that it is impossible to generalise/transfer cost estimates, but also that the approach to estimating costs differs between countries. This means that the recommended approach, which is presented below, should only be perceived as a "way of thinking" rather than a recipe for estimating costs. In practice, the approach taken must be modified to accommodate for example data availability.

³³ Based on the British Ministry of Transport (2004, page 31).

7.6.1 Justification/motivation

The recommendations are given on the basis of the current country practice (see Odgaard et al 2005), general considerations on which costs to include in a cost-benefit analysis and state-of-the-art considerations.

7.6.2 Recommendation

Definition

The EUNET study defined the related *system operating costs and maintenance costs* as; "*costs consisting of the costs of infrastructure operation (e.g. signalling/traffic control), the costs of maintenance (e.g. cleaning, minor repairs, winter servicing) and the costs of renewal (e.g. road surfacing)*"³⁴. It is recommended to use the same definition here.

A number of methods are used for determining the costs of maintenance, operation and administration. These methods need to both determine what maintenance strategy is required (depending on vehicle use) and how much this will cost for input into the cost-benefit analysis.

Most studies agree that the preferable state-of-the-art technique for assessing running costs entails the estimation of a total cost function. However, this is quite complicated, as not only must the future number of vehicles and type of vehicles be forecast, but the form of the total cost function must also be known. Furthermore, the problem that the chosen time horizon has an impact on the definition/delimitation of cost categories has to be dealt with. Hence, such an approach is in general not feasible for project appraisal. This calls for a more simple approach.

First best

The recommended approach is to use national default values if they are available. This is recommended to secure transparency, even if empirical evidence shows that running costs are highly dependent on circumstances surrounding the observed pieces of infrastructure, and that the variation in costs can be large³⁵. It has to be carefully considered if the national standard figures are applicable to the infrastructure under consideration.

Second best

The second best option is to use a pragmatic approach based on aggregate cost data which is available in many countries. The approach is outlined here for road and rail, but is also applicable to other modes.

The calculation procedure follows:

- Step 1:** Distinction between fixed and variable costs
- Step 2:** Allocation of variable costs to cost drivers

³⁴ EUNET, D9, page 15.

³⁵ See for example DIW et al, 1998

The distinction between (short run) fixed costs and variable costs (costs that vary with traffic use) are determined on the basis of national accounts/statistics and a general classification of cost categories. Table 7.6 shows the recommended split into fixed and variable costs for road and rail.

Table 7.6 Classification of cost categories into short run fixed costs and short run variable costs - road and rail.

	Road - cost category	Rail - cost category	Short run Fixed costs	Short run Variable costs
Construction	Land purchase	Land purchase	Yes	No
	Construction of new roads	Construction of new lines	Yes	No
	Enlargement of roads/ adjustment to higher axle loads	Upgrading/enlargement of existing lines	Yes	No
	Replacement investments			
	(1) Major repairs			
	Dressing of thin layers and surfacing	Periodical treatments of route structure	Partly	Partly
	Repairs of bridges, supporting walls and other facilities	Major repairs of bridges, tunnels, switch boxes and platform which are only performed in larger time intervals	Partly	Partly
	(2) Renewal			
	Replacement of layers in underground engineering		Partly	Partly
	Replacement of bridges and other facilities which restores the full utility value	Replacement of bridges, tunnels, switch boxes and platforms (or parts of these) as well as replacement of tracks and other facilities which restores the full utility value.	Partly	Partly
	Construction maintenance			
	Removal of pot-holes, spilling of joints		No	Yes
	Minor repairs	Minor repairs	Partly	Partly
Pavement renewal	Ballast cleaning, compression	No	Yes	
Ongoing maintenance and operation	Operation, servicing and ongoing maintenance ¹⁾			
	Winter maintenance (snow sweeping)	Winter maintenance (thawing of switches, snow sweeping)	Yes	Partly
	Street marking		Yes	Partly
	Cleaning, cutting	Cleaning, cutting	Yes	No
	Check of facility Condition	Check of facility condition (route servicing, switches)	Yes	Partly
	Servicing of bridge beddings, traffic lights for general safety reasons	Servicing of bridge beddings, signalling, telecommunication facilities for general safety reasons	Yes	No
		Operation of signalling/telecommunication facilities, switch towers (staff, electric power)	Mainly not	Yes
		Traction current	No	Yes
Administration	Over head	Overhead	Yes	No
	Police/ traffic control	Police	No	Yes
		Time tabling, train planning	No	Yes

Source: Link et al (1999)

The fixed costs of maintenance, operation and administration for the parts of the networks which are changed by the project can be determined on the basis of this classification.

What is left is to estimate:

- The variable costs of maintenance, operation and administration for the parts of the networks which are changed by the project
- The changes in infrastructure costs of the parts of the networks which are not changed by the project (i.e. the existing network).

To estimate these costs it is - for pragmatic reasons - recommended to assume that:

- The marginal costs per vehicle can be approximated by the average variable costs
- Average variable costs/marginal costs are constant (and not for instance increasing with traffic³⁶).

Then the unit costs per vehicle type can be estimated on the basis of:

- Total variable costs
- Traffic data (number of vehicles per year by vehicle type for the infrastructure which the cost data refers to)
- Information on which costs each vehicle type incurs.

A possible allocation procedure is outlined in Table 7.7 for the cost categories which were categorised as 'variable' or 'partly variable' in Table 7.6.

Table 7.7 Possible allocation factors for the allocation of variable costs to cost drivers.

	Variable cost category	Possible allocation
Weight dependent	Major repairs	Axle weight
	Renewal	Axle weight
	Construction maintenance	Axle weight
Non-weight dependent	Operation, servicing and ongoing maintenance	Vehicle kilometres
	Police	Vehicle kilometres

Source: Simplification of table in Link et al (1999)

A possible approach to allocation according to axle weight is to use equivalent standard axles (ESAs)³⁷. The ESA factors by vehicle type differ across countries due to for example different compositions of the fleet and different load factors.

As a minimum the classification for vehicle types should include:

- Passenger cars
- Heavy goods vehicles (>3.5 t max gross weight)

Ideally, the classification for vehicle types should include:

- Motorcycles
- Passenger cars
- Buses
- Light goods vehicles (<3,5 t max. gross weight)
- Heavy goods vehicles (>3.5 t max gross weight)

³⁶ This is generally not supported by the empirical evidence.

³⁷ See for example Transport and Road Research Laboratory, 1998.

For rail more research is needed on the cost allocation, as virtually no studies exist. With respect to classification, trains should be classified according to wagon weight and speed, as these are the cost drivers (Link et al, 1999). Link et al (1999) suggest the following classification:

- Freight trains (wagon load, combined transport, rolling road)
- Passenger trains (high speed trains, Euro-/Intercity and other long distance trains, regional trains, urban rail)

Ideally, these categories could be sub-divided according to the following criteria:

- Operating requirements (number of stops, required distance to other trains)
- Construction standards (speed)
- Weight (axle weight)
- Number and type of wagons

8 Vehicle Operating Costs

8.1 Purpose/role in project appraisal

Vehicle operating costs form an element of user benefit (cost) for private road users and form an element of the operating cost of a public transport service. Along with user charges and fares they are one of the handful of components of a cost benefit analysis that have market values, and for which prices do not have to be inferred using non-market valuation techniques. In the EC, which has a well developed transport network of reasonable quality, vehicle operating costs would not typically form a large component of the economic benefit of a new transport project. However, there may be some projects in which the transport network is of particularly poor quality and existing vehicle operating costs are very large (e.g. gravel roads in a mountainous region). In such circumstances the provision of high quality infrastructure may give significant vehicle operating cost savings.

8.2 Definition

There is a high degree of consensus within the EU regarding the definition of vehicle operating costs (Odgaard *et al.*, 2005). Out of 18 countries that have a definition for vehicle operating costs, only two have a definition that is not fully consistent with that recommended by EUNET. Neither of these two countries have a definition that deviates materially from that definition. Therefore, we recommend that vehicle operating costs are defined as *comprising the standing costs, which are invariant with distance, and operating costs, which vary with distance, of the transport vehicle.*

There are two potential ways in which vehicle operating costs can be double counted within a transport cost benefit analysis:

- The first is potential double counting with system operating costs. System operating costs are incurred by the owner of the infrastructure and are described in section 7 of these guidelines. In some situations the owner of the infrastructure may also own the transport vehicle (e.g. a publicly owned and operated railway or port). In such situations it may be simpler to consider vehicle operating and system operating costs simultaneously.
- The second area is the treatment of personnel costs and other time related components of cost within the operation of public transport vehicles and commercial goods traffic vehicles, as this can potentially lead to some double counting of benefits with travel time savings. If the vehicle operating cost model used in the appraisal does *not* include such time related costs then the travel time savings for personnel costs (and time related costs for goods transported) should be included in the appraisal and vice versa.

Clearly all forms of double counting should be avoided.

8.3 Valuation Methodology

8.3.1 Core Issues

Operating costs are clearly dependent on the prices of goods within a region (e.g. price of fuel, vehicle parts, etc.). However, operating costs can also be influenced by the regulatory and institutional characteristics of the environment in which the transport industry in a particular country operates. This is particularly the case for the rail, shipping and air sectors. Operating cost relationships for road vehicles are far more generic and transferable between countries. Off the shelf models and computer software exists for the calculation of such road vehicle operating costs, however, these models require to be populated with some local data (e.g. fuel costs). It is therefore recommended that local country specific data on prices and relationships for modal operating costs should be utilised in project appraisal.

Whilst we recommend that local relationships and prices are used in the calculation of vehicle operating costs, we recommend that the following cost components are included in that model (see also Nellthorp *et al.*, 1998):

Standing cost components

- Depreciation (time dependent share)
- Interest on capital
- Repair and maintenance costs
- Materials costs
- Insurance
- Overheads
- Administration

Operating cost components:

- Personnel costs (if not included in travel time savings – see Chapter 0 of these guidelines);
- Depreciation (distance related share)
- Fuel and lubricants

In the case of all economic appraisals of transport investment projects the key input with respect to operating costs is the change in operating costs with and without the project. However, the nature that this change is brought about will determine whether an incremental or absolute operating cost model is required.

- *An incremental model* will be sufficient for majority of TEN-T projects. Within an incremental model it is expected that unit costs of operation will not alter significantly after the investment.
- *An absolute model*: would be required where the unit costs of operation are expected to alter significantly after the investment. An example would be the replacement or purchase of a new fleet of high speed trains, which may also coincide with an associated expansion of the high speed train network.

Operating costs accrue throughout a project's life and as such should reflect the manner that resource costs will vary during the lifetime of a project. Consideration will need to be given to the derivation of future year resource costs. Comparability should be maintained with the assumptions regarding other future year costs (e.g. value of time – section 4.4.8 - and accident costs – section 5.2.5).

8.3.2 Road vehicle operating costs

Operating costs for road vehicles comprise of those incurred by road users and road service providers (e.g. road haulage firm). The nature of these costs is that they are distance dependent, however, some vary linearly with distance travelled (e.g. fuel costs) whilst others vary in a step like or lumpy manner (e.g. vehicle purchases and maintenance schedules). Road vehicle costs vary by vehicle type, the condition of the road surface, the road gradient and vehicle speed. Road vehicle operating costs are therefore correlated with the proposed road design standard (e.g. bitumen, concrete or gravel surface), the road maintenance strategy, environmental impacts, the composition of the traffic flow and road congestion (through speed).

In the absence of local relationships for road vehicle operating costs the generic relationships in the Highway Design Model (HDM) model can be used (HDMGlobal, 2005). This model is also recommended for World Bank funded road projects. It should be noted that such a model is incremental in nature. The HDM model needs to be populated with some local data reflecting road and vehicle characteristics (including the price of replacement parts).

8.3.3 Train operating costs

The operating costs for a train are those incurred by the service provider. These costs vary as follows:

- Between freight and passenger services
- By the type of freight carried. If the freight is high volume low density than the cost per tonne will be higher than if it is low volume high density (operating costs vary by the number of cars used per train and there maybe weight restrictions that limit freight train sizes).
- By the length of the journey (costs per mile decline with distance)
- By track alignment (it takes more power and fuel to climb mountains than it does to cross flat country)
- By train vehicle utilisation which in turn depends on:
 - operational characteristics (a returning empty freight train costs less per mile than a full outbound train)
 - the physical characteristics of the rail network (including train depot locations);
 - the regulatory and labour market framework between countries (e.g. working time directives); and
 - congestion effects: should the railway under consideration operate at or close to capacity in certain locations delays maybe experienced within the system.

Utilisation rates for the train vehicles will therefore decrease as delays increase thereby increasing unit costs

As with road vehicles, the nature of train operating costs are that some cost items are “lumpy”, such as replacement costs for locomotives, whilst others are proportional to distance (e.g. train fuel costs).

Railway operating cost models derived from existing cost data contain an implicit assumption that the cost base will not be affected by the transport investment proposed. The following situations, however, may result in a change in the cost base:

- The use of a new type of locomotive with unknown operating costs and reliability (an engineering unit cost may have to be used);
- A step change in the level of service provision at a regional level (congestion effects maybe incurred and new infrastructure with different utilisation rates maybe required); and
- Railway reform (e.g. privatisation or commercialisation) may alter the cost base.

8.3.4 Ship and aircraft operating costs

Ship and aircraft operating costs vary in a similar manner to train operating costs. They are heavily dependent on vessel or aircraft type, manner of operation, utilisation and maintenance strategies, as well as the regulatory framework in which the vessel or craft operates.

8.4 Implementation of vehicle operating cost guidelines

8.4.1 Deriving vehicle operating costs for use in an appraisal

As with other components of the cost benefit analysis the underlying principle regarding the implementation of the above guidelines is that vehicle operating costs used in an appraisal should:

- (i) Be developed in a manner that reflects the core determinants of vehicle operating costs as set out above; and
- (ii) Reflect the underlying resource costs associated with operating vehicles on the transport network in the vicinity of the scheme and on the parts of the transport network(s) affected by the scheme.

The implication of this is that, ideally, as different vehicle operating costs are faced by different users of the transport system this should be reflected within the appraisal. Clearly the extent to which this can be undertaken depends on the detail of the transport modelling and the appraisal (e.g. disaggregation by HGV types and train utilisation rates). Obviously greater efforts should be made for large schemes with significant capital costs than for small schemes, where reasonable approximations to the underlying resource costs may be made. Some EU countries have well developed appraisal frameworks with a lot of data available to the analyst whilst others do not. In the latter situations it is unrealistic to expect scheme

promoters to survey all the relevant data, therefore some values may have to be approximated and some may have to be imported from elsewhere. Table 8.1 sets out methods that can be used to approximate vehicle operating costs where the nationality or true origins and destinations of traffic may not be known.

8.4.2 Vehicle operating cost data requirements

The calculation of the economic benefit (cost) associated with vehicle operating costs varies by mode due to variation in vehicle operating cost relationships between modes. In essence three types of data area required:

- (i) Demand - the number of vehicles making a particular origin-destination trip for the Do-Minimum and the Do-Something cases;
- (ii) Vehicle kilometres – the change in vehicle kilometres induced to the traffic on that particular origin-destination trip for the Do-Minimum and the Do-Something cases; and
- (iii) The unit cost of a vehicle kilometre – this in turn will require data on:
 - a. the transport network characteristics (e.g. gradient)
 - b. vehicle characteristics (e.g. vehicle type, speed, cost of replacement parts and maintenance, load, etc.)
 - c. vehicle utilisation

Each of these characteristics may vary between the Do-Minimum and Do-Something

As with travel time savings the user benefit associated with vehicle operating cost savings is calculated at an origin-destination pair level using the rule-of-half (see Chapter 2) and then summed over all origin-destination pairs. Care should be taken to avoid double counting time related cost elements that are included in the values of time (e.g. driver and crew wages).

Ideally, all data should be local to the appraisal. However, it is possible to transfer relationships and prices from other countries, though this is most appropriate for road vehicles rather than rail, air or water modes.

Table 8.1 Approximating the underlying resource costs for operating vehicles on the TEN-T.

TEN-T Project	Passenger traffic	Goods traffic
TEN-T schemes located wholly within a single nation state	The majority of the passenger traffic will be related to trips within that nation state. In such a situation use of that nation’s vehicle operating cost methodology for all passenger trips may be reasonable.	<p>On TEN-T projects a significant amount of goods traffic may be international:</p> <ul style="list-style-type: none"> • In the (probably) rare circumstances that the nationality of the haulier is known a vehicle operating cost value consistent with that nationality should be used. • Where identification of the origins and destinations of the goods traffic can be made (e.g. Milan to Munich) but the nationality of the traffic is unknown (e.g. French or British) a pragmatic option is to use a vehicle operating cost consistent with the country of the trip origin. • Where the identification of the origins and destinations of the goods traffic is unknown all traffic should be allocated the vehicle operating cost of the host nation.
Cross-Border TEN-T schemes	The majority of the passenger traffic will be related to trips between the nation states. In such a situation use of the respective nations’ vehicle operating cost methodology for trips that originate in that country maybe reasonable.	As for TEN-T schemes located wholly within a single nation state.

9 References

- ABAY (1984): Kosten-Nutzen-Analyse für Verkehrsinvestitionen
- AHUJA, S. VAN VUREN, T., PORTER, S. and FEARON, J. (2002): Assessing measures which reduce incident related delays and travel time variability in: Applied Transport Methods, European Transport Conference 9-11 September 2002, Homerton College Cambridge. AET Transport, UK.
- ALGERS, S., DILLEN, J.L. and WILDERT, S. (1996): The National Swedish Value of Time Study in PTRC (1996): The Easthampsted Conference on the Value of Travel Time Savings.
- ANDERSSON, H. (2005): The value of Safety as Revealed in the Swedish Car Market: An application of the Hedonic Pricing Approach. The Journal of Risk and Uncertainty, 30:3; 211-239, 2005.
- ARBEITSAUSSCHUSS IMMISSIONSCHUTZ AN STRASSEN (1990): Richtlinie für den Lärmschutz an Straßen - Ausgabe 1990 - RLS-90. Forschungsgesellschaft für Straßen- und Verkehrswesen, Bonn.
- ASSOCIATION OF TRAIN OPERATING COMPANIES (ATOC) (2002): Passenger Demand Forecasting Handbook (PDFH). 4th Edition, London. Commercial-in-confidence.
- BATES, J. and WHELAN, G.A. (2001): Size and Sign of Time Savings. Working Paper 561. Institute for Transport Studies, University of Leeds, Leeds, UK.
- BATES, J., JONES, P., POLAK, J. and COOK, A. (2001): The investigation of punctuality and reliability in: A report to the Association of Train Operating Companies (ATOC).
- BECA CARTER HOLLINGS and FERNER (BCFH) (2002): Project Evaluation Benefit Parameter Values. A report prepared for Transfund New Zealand.
- BECKER, G. (1965): A theory of the allocation of time in: The Economic Journal Vol. 75, p.493-517.
- BERGSTROM, C.T. (1982): When is a man's life worth more than his human capital? In: Jones-Lee, M.W. (ed): The value of life and safety, North-Holland Amsterdam.
- BESER HUGOSSON, M. (2004): Quantifying uncertainties in the SAMPERS long distance forecasting system, Proceedings of WCTR 2004, Istanbul.
- BICKEL, P., BURGESS, A., HUNT, A., LAIRD, J., LIEB, C., LINDBERG, G., ODGAARD, T. (2005a): State-of-the-art in project assessment. HEATCO (Developing Harmonised European Approaches for Transport Costing and Project Assessment) Deliverable 2. Institut für Energiewirtschaft und Rationelle Energieanwendung, Universität Stuttgart. <http://heatco.ier.uni-stuttgart.de/hd2final.pdf>
- BICKEL, P., SCHMID, S., FRIEDRICH, R. (2005b): Environmental Costs, in: Nash, C. and Matthews, B. (eds.) Measuring the Marginal Social Cost of Transport, Research in Transportation Economics, Volume 14, 185-209. Elsevier Ltd. Oxford, 2005. ISSN: 0739-8859/doi:10.1016/S0739-8859(05)14007-4.
- BICKEL, P., SCHMID, S. (IER), TERVONEN, J., HÄMEKOSKI, K., OTTERSTRÖM, T., ANTON, P. (EKONO), ENEI, R., LEONE, G. (ISIS), van DONSELAAR, P., CARMIGCHELT H. (NEI) (2003): Environmental Marginal Cost Case Studies. UNITE Deliverable 11, Stuttgart 2003. <http://www.its.leeds.ac.uk/projects/unite/downloads/D11.pdf>.
- BONNAFOUS und JENSEN (2004): Ranking Transport Projects by their Socioeconomic Value or Financial Interest rate of return?

- BRITISH DEPARTMENT FOR TRANSPORT (2004a): Economic Assessment of Road Schemes. COBA manual, Vol. 13.
- BRITISH DEPARTMENT FOR TRANSPORT (2004b): Procedures for Dealing with Optimism-bias in Transport Planning. Prepared by Bent Flyvbjerg in association with COWI.
- BRÖCKER, J., MEYER, R., SCHNEEKLOTH, N., SCHÜRMAN, C., SPIEKERMANN, K., WEGENER, M. (2004): Modelling the Socio-economic and Spatial Impacts of EU Transport Policy. IASON (Integrated Appraisal of Spatial economic and Network effects of transport investments and policies) Deliverable 6. Funded by 5th Framework RTD Programme. Kiel/Dortmund: Christian-Albrechts-Universität Kiel/Institut für Raumplanung, Universität Dortmund.
- BRUNDELL-FREIJ, K. (2000): Sampling, specification and estimation as sources of inaccuracy in complex transport models – some examples analysed by Monte Carlo simulation and bootstrap, Proceedings of European Transport Conference 2000.
- BUNDESAMT FÜR RAUMENTWICKLUNG (2004): Externe Lärmkosten des Strassen- und Schienenverkehrs in der Schweiz, Aktualisierung für das Jahr 2000, Bern, Switzerland.
- CAPROS, P. and MANTZOS, L. (2000): Kyoto and technology at the European Union: costs of emission reduction under flexibility mechanisms and technology progress, *Int. J. Global Energy Issues*, 14, pp. 169-183.
- CHILTON, S., COVEY, J., HOPKINS, L., JONES-LEE, M., LOOMES, G., PIDGEON, N., SPENCER, A. (2002): Public Perceptions of Risk and Preference-Based Values of Safety. *The Journal of Risk and Uncertainty*, 25:3; 211–232, 2002.
- CROPPER, M.L. and SUBRAMANIAN, U. (1995): Public choices between lifesaving programs: How important are lives saved? in: Policy Research Working Paper No 1497 Washington D.C.: The World Bank.
- DAY, B. (2001): The theory of Hedonic Markets: Obtaining welfare measures for changes in environmental quality using hedonic market data. March 12th 2001, Economics for the Environment Consultancy (Eftec), London.
- De KLUIZENAAR, Y., PASSCHIER-VERMEER, W., MIEDEMA, H.M.E. (2001): Adverse effects of noise exposure on health – a state of the art summary. TNO report 2001.171, Leiden.
- DEPARTMENT FOR TRANSPORT (2002): The Application of COBA, p 1/1.
- DROSTE-FRANKE, B. and FRIEDRICH, R. (2003): Air Pollution, in: European Commission, An applied integrated environmental impact assessment framework for the European Union (GREENSENSE), Final Report, European Commission DG Research, Brussels.
- DIW, INFRAS, Dr. HERRY and NERA (1998): Infrastructure capital, maintenance and road damage costs for different heavy goods vehicle in the EU. Report commissioned by European Communities, Directorate-General for Transport. Berlin, March 1998.
- EC DG REGIONAL POLICY (2002): “Guide to cost-benefit analysis of investment projects”, http://www.strukturalni-fondy.cz/upload/1082642530guide02_en.pdf.
- EC-DG Regional Policy (2002): Guide to cost-benefit analysis of investment projects. Available at: http://europa.eu.int/comm/regional_policy/sources/docgener/guides/cost/guide02_en.pdf.
- ECMT (2001): Assessing the Benefits of Transport, p. 28.

- ECMT (European Conference Of Ministers Of Transport) (2000): Economic Evaluation Of Road Traffic Safety Measures – Conclusions of Round Table 117, Paris, 26-27 October 2000.
- ECOPLAN (2002): Unfallkosten im Strassen- und Schienenverkehr der Schweiz 1998.
- ECOPLAN (2005): Bewertungsmethode für die Priorisierung von Projekten im Schienenverkehr
- ECOPLAN and METRON (2005): Comments on Kosten-Nutzen-Analysen im Strassenverkehr, p. 138.
- ECOPLAN and METRON (2005): Comments on Kosten-Nutzen-Analysen im Strassenverkehr
- EIB & EC (2005): *RAILPAG. Rail Projects Appraisal Guidelines*, European Investment Bank and European Commission, Luxembourg. Available at: <http://www.railpag.com>.
- ELHORST, P., J. OOSTERHAVEN and W. ROMP (2005): Integral cost-benefit analysis of Maglev technology under market imperfections, downloadable from www.ub.rug.nl/eldoc/som/c/04C22/04c22.pdf
- ELIASSON, J. (2004): Car drivers' valuations of travel time variability, unexpected delays and queue driving, Proceedings of the European Transport Conference, 2004.
- EUNET (1998): Measurement and valuation of the impacts of transport initiatives. Deliverable 9. Project funded by the European Commission. December 1998.
- EUROPEAN COMMISSION (1994): COST 313 Socio-economic costs of road accidents. Final report. Office for Official Publications of the European Communities, Luxembourg.
- EUROPEAN COMMISSION (1996): Cost-benefit and multi-criteria analysis for new road construction.
- EUROPEAN COMMISSION (1998): Fair payment for infrastructure use: A phased approach to common transport infrastructure charging framework in the EU. White paper. July 1998.
- EUROPEAN COMMISSION (1999): ExternE Externalities of Energy. Vol 7 – Methodology 1998 update. A Report produced for the EC – DG XII, Luxembourg, Office of Publications for the European Communities, Luxembourg.
- EUROPEAN COMMISSION (2002): Position paper on dose response relationships between transportation noise and annoyance. EU's Future Noise Policy, WG2 – Dose/Effect. Office for Official Publications of the European Communities, Luxembourg.
- EUROPEAN COMMISSION (2005): ExternE - Externalities of Energy – Methodology 2005 Update. EUR 21951 EN. Office for Official Publications of the European Communities, Luxembourg. ISBN 92-79-00423-9.
- EUROPEAN COMMISSION (2005b): Annex to the Communication from the Commission "Reducing the Climate Change Impact of Aviation" Impact Assessment {COM(2005) 459 final}, Brussels. http://europa.eu.int/comm/environment/climat/pdf/ia_aviation.pdf
- EUROPEAN COMMISSION et al. (1999): Transport Infrastructure Needs Assessment, p. 23.
- EVANS A. (1972): On the theory of the valuation and allocation of time. Scottish Journal of Political Economy. February 1972.
- EWS (1997): Kommentar zum Entwurf Empfehlungen für Wirtschaftlichkeitsuntersuchungen an Strassen EWS, p. 12.

- FLYVBJERG, B. (2005a): Uncertainty in Investment on Large Scale Infrastructure Projects. Presentation at HEATCO workshop, April 2005, Brussels.
- FLYVBJERG, B., M.K. SKAMRIS HOLM and S.L. BUHL (2003): Underestimating Costs in Public Works Projects - Error or Lie? In: *APA Journal*, Summer 2002, Vol. 68, No. 3, p. 279-295.
- FLYVBJERG, B., M.K. SKAMRIS HOLM and S.L. BUHL, (2003): How Common and How Large are Cost Overruns in Transport Infrastructure Projects? in: *Transport Reviews*, Vol.23, No. 1 (January - March 2003), p.71-88.
- Flyvbjerg, B., M.K. Skamris Holm and S.L. Buhl, (2004): What Causes Cost Overrun in Transport Infrastructure Projects? in: *Transport Reviews*, Vol.24, No. 1 (January 2004).
- Fosgerau, M. (2005): Unit income elasticity of the value of travel time savings, *Proceedings of the European Transport Conference*, 2005.
- Fowkes, A.S. (1999): Issues in Evaluation. A justification for awarding all time savings, both small and large, equal unit value in scheme evaluation, in *Accent Marketing and Research*, Hague Consulting Group and the DETR (AHCG) (1999): *The Value of Travel Time on UK Roads*, The Hague Consulting Group, The Hague, Netherlands.
- FREEMAN, A.M. (2003): *The Measurement of Environmental and Resource Values: Theory and Methods*, Washington: Resources for the Future.
- FRIEDRICH, R., BICKEL, P. (Eds.) (2001): *Environmental External Costs of Transport*. Berlin, Heidelberg, New York, Springer-Verlag 2001.
- GUNN, H.F., BRADLEY, M.A. and ROHR, C.L. (1996): The 1994 national value of time study of road traffic in England in: *PTRC (1996): The Easthampsted Conference on the Value of Travel Time Savings*.
- HAMER, R., JONG, G. De, KROES, E.P. (2005): The value of reliability in Transport – Provisional values for the Netherlands based on expert opinion. *RAND Technical Report Series, TR-240-AVV*, Netherlands.
- HDMGlobal (2005): *The Highway Development and Management Model (HDM4)*, [Documentation and Software available on line <http://www.hdmglobal.com>]
- HENSHER, D.A. (1977): *Value of Business Travel Time*. Pergamon Press, Oxford.
- HENSHER, D.A. and GOODWIN, P. (2004): Implementation values of travel time savings: the extended set of considerations in a toll road context, *Transport Policy* 11(2), p.171-181.
- HOCHMAN, H.D. and J.D. RODGERS (1969): Pareto Optimal Redistribution, *American Economic Review*, Vol. 59(4), p.542 – 557.
- http://europa.eu.int/comm/environment/noise/pdf/valuatio_final_12_2003.pdf.
- http://socialcostofcarbon.aeat.com/files/Final%20Report_7.doc
- IPCC (2001) *Climate Change 2001: Mitigation: Contribution of Working Group III to the third assessment report of the Intergovernmental Panel on Climate Change*. Cambridge University Press, Cambridge.
- JONES-LEE, M.W. and LOOMES, G. (1995): Scale and Context Effects in the Valuation of Transport Safety, in: *Journal of Risk and Uncertainty* Vol.11, p.183-203.

- JONES-LEE, M. W. (1992): Paternalistic Altruism and the Value of a Statistical Life. *Economic Journal* 102, 80–90.
- JONG, G. de, D. ETTEMA, H. GUNN, F. CHEUNG and H. KLEIJN (1998): Preparatory research into updating values of travel time in The Netherlands, Proceedings of WCTR, 1998.
- JONG, G.C. de, BAKKER, S., PIETERS, M. and WORTELBOER-VAN-DONSELAAR, P. (2004a): New Values of Time and Reliability in Freight Transport in the Netherlands, Proceedings of the European Transport Conference, 2004.
- JONG, G.C. de, E.P. KROES, R. PLASMEIJER, P. SANDERS and P. WARFFEMIUS (2004b): The Value of Reliability, Proceedings of the European Transport Conference, 2004.
- KLEVEN H.J. and KREINER (2003): The marginal costs of public funds in OECD countries: hours of work versus Labour force participation. CESifo Working paper No. 935.
- KOUWENHOVEN, M., JONG, G.C. de and RIETVELD, P. (2005a): Reliability Ratio's voor het Goederenvervoer, Final report to AVV. RAND Technical Report Series, WR-274-AVV, Netherlands.
- KOUWENHOVEN, M., SCHOEMAKERS, A., van GROL, R. and KROES, E. (2005b): Development of a tool to assess the reliability of Dutch road networks Proceedings of the European Transport Conference, 2005.
- LEE (2000): Methods for evaluation of transportation projects in the USA, p. 48.
- LINDQVIST Dillén, J. and ALGERS, S. (1998): Further research on the National Swedish Value of Time study, Paper presented at the 8th WCTR conference in Antwerpen, 1998. In: *World Transport Research – Selected Proceedings from the 8th WCTR, Volume 3 Transport Modelling/Assessment*, Elsevier.
- LINK H. and M. MAIBACH (eds) (1999): Calculating Transport Infrastructure Costs. Final report of the expert advisors to the high level group on infrastructure charging (Working Group 1). [Available on-line at <http://www.transport-pricing.net/1999reports/FR1.doc>]
- LINK, H., STEWART, L. (DIW), DOLL, C. (IWW), BICKEL, P., SCHMID, S., FRIEDRICH, R., KRÜGER, R., DROSTE-FRANKE, B., KREWITT, W. (IER) (2002): The Pilot Accounts for Germany. UNITE Deliverable 5 - Annex 1, Leeds (UK) 2002. http://www.its.leeds.ac.uk/projects/unite/downloads/D5_Annex1.pdf.
- MACDONALD, Mott (2002): Review of Large Public Procurement in the UK.
- MACKIE, P.J., J. NELLTHORP, J. KIEL, W. SCHADE, M. NOKKALA (2001): IASON project assessment baseline. IASON (Integrated Appraisal of Spatial economic and Network effects of transport investments and policies) Deliverable 1. Funded by 5th Framework RTD Programme. TNO Inro, Delft, Netherlands.
- Mackie, P.J., Jara-Diaz, S. and Fowkes, A.S. (2001) The value of travel time savings in evaluation Transportation Research Part E 37 p.91-106.
- MACKIE, P.J., JARA-DÍAZ, S. R. and FOWKES, A.S. (2001): The value of travel time savings in evaluation. *Transportation Research* 37 E, p. 91-106.
- MACKIE, P.J., WARDMAN, M., FOWKES, A.S., WHELAN, G.A., NELLTHORP, J. and BATES, J. (2003): Value of Travel Time Savings in the UK. A report to the Department for Transport. Institute for Transport Studies, University of Leeds, UK.
- MACKIE, P.J.; NELLTHORP, J.; LAIRD, J.J. and AHMED, F. (2003): Toolkit for the Evaluation of World Bank Transport Projects. The World Bank, Washington DC.

- MCQUAID, R.W., GREIG, M. SMYTH, A. and COOPER, J. (2004): The Importance of Transport in Business' Location Decisions. Report to the DfT. DfT, London.
- MENDELOFF, J. and KAPLAN, R.M. (1989): Are large differences in 'lifesaving' costs justified? A psychometric study of the relative value placed on preventing death, in: *Risk Analysis*, Vol.9, p.349-363.
- MILLER, T.R. (2000): Variations between Countries in Values of Statistical Life, in: *Journal of Transport Economics and Policy*. Vol.34, Part 2, p.169 – 188.
- NAVRUD, S. (2002): The State of the Art on Economic Valuation of Noise. Report prepared for the European Commission, DG Environment. April 14th 2002. <http://europa.eu.int/comm/environment/noise/020414noisereport.pdf>
- NAVRUD, S., TRÆDAL, Y., HUNT, A., LONGO, A., GREßMANN, A., LEON, C., ESPINO, R., MARKOVITS-SOMOGYI, R., MESZAROS, F. (2006): Economic values for key impacts valued in the Stated Preference surveys. HEATCO Deliverable 4.
- NEEDLEMAN, L. (1976): Valuing Other People's Lives, *Manchester School* 44, 309–342.
- NELLTHORP, J., MACKIE, P.J. and BRISTOW, A. (1998): Measurement and valuation of the impacts of transport initiatives. Deliverable 9 EUNET – Socio Economic and Spatial Impacts of Transport. Project funded by the EC RTD Fourth Framework Programme. Marcial Echehique and Partners, Cambridge, UK.
- NELLTHORP, J., MACKIE, P.J. and BRISTOW, A.L. (1998): Deliverable D9: Measurement and Valuation of the impacts of Transport Initiatives. Work pack-age 4- Measurement and valuation of socio-economic development initiatives. EUNET
- NELLTHORP, J., SANSOM, T., BICKEL, P., DOLL, C. and LINDBERG, G. (2001): Valuation Conventions for UNITE. UNITE (UNification of accounts and marginal costs for Transport Efficiency). UNITE Deliverable 5 - Annex 3. Leeds (UK), 2001. http://www.its.leeds.ac.uk/projects/unite/downloads/D5_Annex3.pdf.
- NORDIC COUNCIL OF MINISTERS (1996): Nordic Prediction Method, Road Traffic Noise, TemaNord 1996:525, Rail Traffic Noise, TemaNord 1996:524.
- ODECK (2000): Valuing the Cost and Benefits of Road Transport.
- ODGAARD, T., KELLY, C.E. and LAIRD, J.J. (2005): Current practice in project appraisal in Europe – Analysis of country reports. HEATCO Work Package 3. HEATCO – Developing Harmonised European Approaches for Transport Costing and Project Assessment. Funded by the 6th Framework RTD Programme. IER Stuttgart, Germany.
- OFFICE OF GOVERNMENT AND COMMERCE (2004): Successful Delivery Toolkit. Life cycle costing. Published by the office of Government and commerce.
- OORT, C.J. (1969): The evaluation of travelling time, in: *Journal Transport Economics and Policy* Vol. 3, p.279-286.
- PERSSON, U., HJALTE, K., NILSSON, K., NORINDER, A., (2000): Värdet av att minska risken för vägtrafikskador – Beräkning av riskvärden för dödliga, genomsnittligt svåra och lindriga skador med Contingent Valuation metoden. *Lunds Tekniska Högskola, Institutionen för Teknik och samhälle, Bulletin* 183.
- PREISS, P., GRESSMANN, A., DROSTE-FRANKE, B., FRIEDRICH, R. (2004): Revision of External Cost Estimates. In European Commission: New Elements for the Assessment of External Costs from Energy

- Technologies (NewExt), European Commission DG Research, Energy Environment and Sustainable Development Programme, 5th Framework Programme, Brussels.
- RAMJERDI, F., RAND, L. SAELENSMINDE, K. (1997): The Norwegian Value of Time Study: some preliminary results. Institute of Transport Economics., Oslo, Norway.
- SCHMID, S., BICKEL, P., FRIEDRICH, R. (2001): The External Costs of Road Transport in the Federal State of Baden-Württemberg, Germany. In R. Friedrich and P. Bickel: Environmental Costs of Transport, Springer-Verlag, Berlin.
- SCHWAB CHRISTE, N. and SOGUEL, N. (1995): The Pain of Victims and the Bereavement of their Relatives: a Contingent Valuation Experiment, IDHEAP, University of Lausanne, Switzerland, mimeo.
- SCOTTISH EXECUTIVE: (2003), Scottish Transport Appraisal Guidance
- SEN A. M. (1982): Choice, Welfare and Measurement, Oxford, Basil Blackwell, 1982.
- SERPA, A. de (1971): A theory of the economics of time in: The Economic Journal Vol. 81, p.828-846.
- SMALL, K.A. (1982): The scheduling of consumer activities: work trips, in: American Economic Review, Vol. 72(2), p. 467-479.
- STANDING ADVISORY COMMITTEE ON TRUNK ROAD ASSESSMENT (SACTRA) (1999): Transport and the Economy, London: The Stationery Office.
- STEER DAVIES GLEAVE (2004): Effects of road congestion on rail demand: technical report. A report to the Association of Train Operating Companies (ATOC).
- SUTER et al. (2001): The Pilot Accounts of Switzerland – Appendix Report UNITE, p.24.
- SWISS NORM SN 671 810 (2005): Kosten-Nutzen-Analysen im Strassenverkehr
- TANGUAY M., unknown: Linking fix capacity and economic depreciation: A joint density approach. First draft.
- TAVASSZY, L.A., A. BURGESS, G. RENES (2004): Final publishable report: conclusions and recommendations for the assessment of economic impacts of transport projects and policies, IASON Deliverable D10. Funded by 5th framework RTD Programme. TNO Inro, Delft, Netherlands, March 2004.
- TINA (1999): Socio-Economic cost benefit analysis in the context of project appraisal for developing a trans-European transport network. TINA-Vienna, Austria.
- TOL, R.S.J. (2005): The Marginal Damage Costs of Carbon Dioxide Emissions: An Assessment of the Uncertainties. Energy Policy, 33 (16), 2064-2074.
- TRANSPORT AND ROAD RESEARCH LABORATORY (1998): Overseas Road Note 5 - A guide to road project appraisal. Crowthorne Berkshire, United Kingdom.
- TRANSPORT RESEARCH BOARD (TRB) (1997): Highway Capacity Manual. TRB, Washington D.C. USA.
- UNITE (2000): The accounts approach. Deliverable 2. Project funded by the European Commission. October 2000.
- UNITE (2001): Marginal cost methodology. Deliverable 3. Project funded by the European Commission. April 2001.

- UNITE (2001): Valuation conventions for UNITE. Project funded by the European Commission. April 2001.
- UNITE (2002): Infrastructure cost case studies. Deliverable 10. Project funded by the European Commission. March 2002.
- UNITE (2003): Final report for publication. Project funded by the European Commission November 2003.
- UNITE (2003): Guidance on adapting marginal cost estimates. Deliverable 15. Project funded by the European Commission. April 2003.
- VISCUSI, W. K. and ALDY, J. (2003): The Value of a Statistical Life: A Critical Review of Market Estimates Throughout the World, in: *The Journal of Risk and Uncertainty* 27:5-76.
- WARDMAN, M. (2001a): A review of British evidence on time and service quality valuations, in: *Transportation Research Part E* 37, p. 107-128.
- WARDMAN, M. (2001b): Intertemporal Variations in the Value of Time, in: Working Paper 566, Institute for Transport Studies, University of Leeds, UK.
- WARDMAN, M. (2004): Public transport values of time, in: *Transport Policy* 11, p.363-377.
- WATKISS, P., DOWNING, T., HANDLEY, C., BUTTERFIELD, R. (2005a): The Impacts and Costs of Climate Change. Final Report September 2005. Commissioned by European Commission DG Environment, Prepared as task 1 of the project 'Modelling support for Future Actions – Benefits and Cost of Climate Change Policies and Measures'. ENV.C.2/2004/0088. http://europa.eu.int/comm/environment/climat/pdf/final_report2.pdf
- WATKISS, P., ANTHOFF, D., DOWNING, T., HEPBURN, C., HOPE, CHR., HUNT, A., TOL, R. (2005b): The Social Cost of Carbon (SCC) Review – Methodological Approaches for Using SCC Estimates in Policy Assessment. Final Report November 2005. Research on behalf of UK Defra.
- WEITZMAN, M.L. (1998): Why the far-distant future should be discounted at its lowest possible rate in: *Journal of Environmental Economics and Management* Vol. 36, p. 201-8.
- WELCH, M. and WILLIAMS, H. (1997): The Sensitivity of Transport Investment Benefits to the Evaluation of Small Travel-Time Saving in: *Journal of Transport Economics and Policy* Vol.31, p.231-254.
- WORKING GROUP ON HEALTH AND SOCIO-ECONOMIC ASPECTS (2003): Valuation of Noise. Position paper of the Working group on health and socio-economic aspects.
- WYKOFF, F.C., (2003): Obsolescence in economic depreciation from the point of view of the revaluation term. February 2003.

Overview of Annexes

Annex A

An international meta-analysis of values of time – see word document *HEATCO D5 Annex A (An international meta analysis of vot).doc*

Annex B

Units of account, Base years, and Currency conversion – see word document *HEATCO D5 Annex B (Units of account, Base years, and Currency conversion).doc*

Annex C

Unreported accidents – see word document *HEATCO D5 Annex C(Unreported accidents).doc*

Annex D

Derivation of fall-back values for air pollution impacts – see word document *HEATCO D5 Annex D(Fall-back values for air pollution impacts).doc*

Annex E

Derivation of values for noise impacts– see word document *HEATCO D5 Annex E(Fall-back values for noise impacts).doc*