

Office of the Minister for State Owned Enterprises
Office of the Minister of Finance
Office of the Minister of Transport
Office of the Minister for Regional Economic Development

Chair
Cabinet Economic Development Committee

THE FUTURE OF RAIL AND INVESTMENT TO SUPPORT A RESILIENT AND RELIABLE RAIL SYSTEM

Proposal

1. This paper seeks agreement to make changes that will support the delivery of the Government’s vision for heavy rail (rail) as a key enabler of economic, social, and environmental benefits to all New Zealanders.¹ These changes are fundamental and necessary if rail is to be a sustainable part of the transport network.
2. This paper sets out the overall programme of change and seeks agreement to a set of initial decisions. Early decisions are sought as implementation of the programme will need to be delivered at pace.
3. We ask this Committee to note the set of investments outlined in this paper to rehabilitate the freight rail network and KiwiRail’s freight and ferry business, which has been considered as part of Budget 2019. The Budget 2019 investment totals \$1.042 billion and represents the first instalment of funding to ensure rail is sufficiently resourced to deliver the transport and wider outcomes the Government seeks.
4. We seek this Committee’s in-principle agreement to:
 - 4.1 move rail into a new planning and funding framework, which will see investments in road and rail infrastructure being taken on a more mode-neutral basis



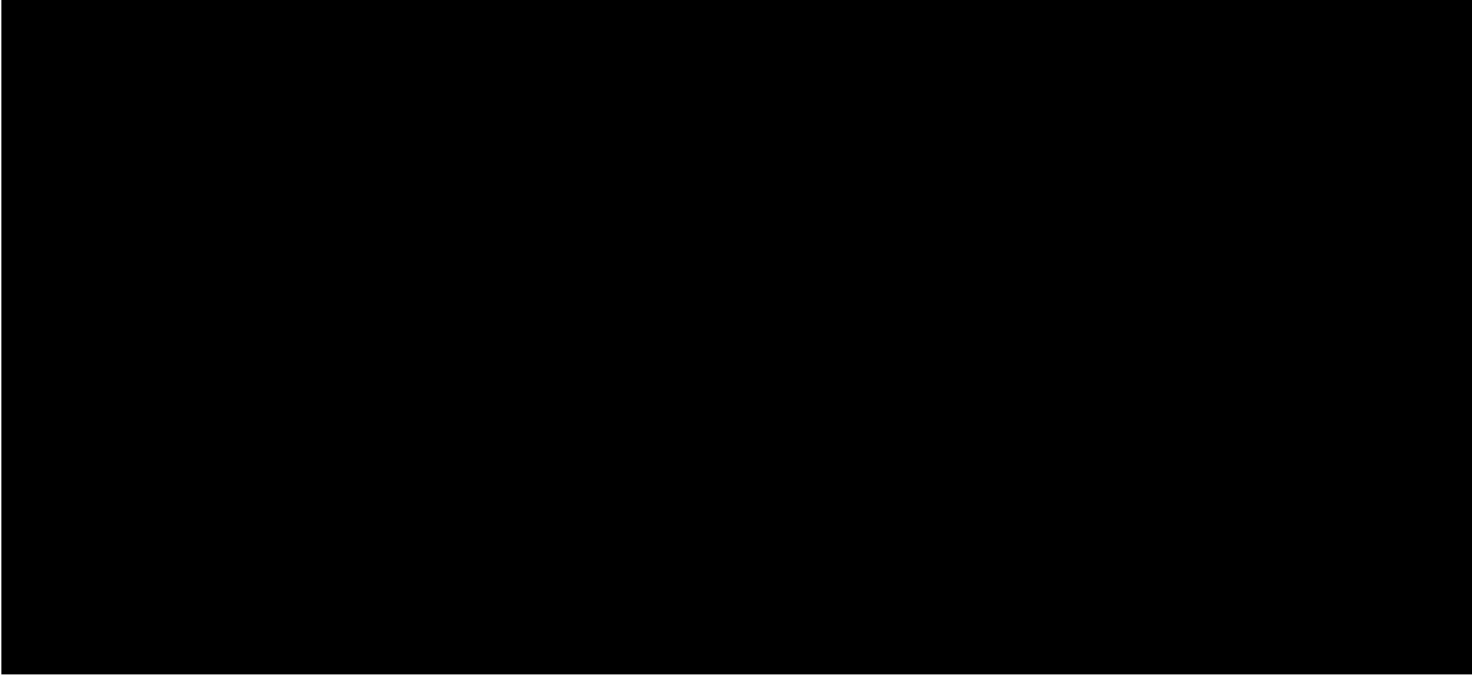
Withheld to maintain the constitutional conventions which protect the confidentiality of advice tendered by the ministers and officials (advice still under active consideration)

Sequencing of advice to this Committee

1 Heavy rail refers to the rail network and rail services (freight, tourism and metro) operating on track and supporting infrastructure owned and operated by KiwiRail. Light rail is outside the scope of this paper.

2 The rail network includes “below rail” assets such as track and formation, bridges and tunnels. In contrast, “above rail” refers to assets such as locomotives, carriages, wagons and ferries.

- 5. This paper:
 - 5.1. summarises the Future of Rail review findings, which inform the recommendations contained in this paper
 - 5.2. outlines the rationale for ongoing rail investment and a baseline investment portfolio for rail
 - 5.3. summarises the first instalment of funding through Budget 2019 to support the resilience and reliability of rail



Executive summary

Withheld to maintain the constitutional conventions which protect the confidentiality of advice tendered by the ministers and officials (advice still under active consideration)

Rail contributes to national and regional economic growth

- 8. Rail is a major contributor to national and regional economic growth. It reduces emissions and congestion, reduces road deaths and injuries, facilitates wider social benefits, and provides resilience and connection between communities.
- 9. Rail is part of place-making in both cities and regions. It is needed to support mass transit and effective freight movement in urban areas, and provides a portal from the regions to cities and ports. Rail achieves this at a low environmental cost - moving freight off trucks and on to diesel trains likely achieves an emissions reduction of two-thirds. Organisations involved in rail activity and their spheres of influence are outlined in Table 1 below.

Table 1: Key organisations involved in freight, metro, and interregional passenger rail

<p><u>Councils (Auckland and Wellington):</u> Above rail:</p> <ul style="list-style-type: none"> - plan, specify, purchase and operate metro rail services in their regions - own and manage passenger rolling stock and railway stations - own and provide rail stations and intermodal interchanges³ 	<p><u>KiwiRail (State-Owned Enterprise):</u> Above rail:</p> <ul style="list-style-type: none"> - owns, operates and maintains rolling stock (locomotives and freight wagons) and ferries - moves freight - provides tourist services - operates interregional passenger service <p>Below Rail:</p> <ul style="list-style-type: none"> - owns, operates and maintains the rail network (track and supporting infrastructure) - its rail network enables commuter journeys
--	---

10. In addition, the New Zealand Transport Agency (NZTA) plays a major role in the rail sector through its role as the rail safety regulator, and alongside Auckland and Wellington as a major funder of metro rail services, metro rolling stock and metro assets like rail stations and intermodal interchanges. The NZTA is also a significant funder of level crossing work where the road and rail networks intersect.
11. Significant central and local government investment has been provided to metro rail in the past 10 years. The Government recently provided investment to support metro rail through the Transitional Rail Activity Class in the Government Policy Statement on Land Transport (GPS). \$815 million has been committed to support metro and interregional rail services that assist passengers accessing major employment and housing areas.⁴ This is in addition to the existing mix of funding for metro rail received through farebox revenue, rates, and the Public Transport Activity Class in the GPS.
12. However, investment in the freight-related heavy rail has not matched investments in metro rail.
13. In addition, the current planning and funding framework for the rail network as a whole:
 - 13.1. provides short-term funding decisions through the annual Budget process, which are inadequate for a long-lived asset
 - 13.2. isolates road and rail infrastructure decisions from each other, making coordination and the other delivery of a land transport investment programme difficult.


³ There are some exceptions to this, for example KiwiRail owning the Wellington Railway Station.

⁴ Further metro rail investments will be considered as part of future GPS deliberations. Both Auckland Transport and Greater Wellington Regional Council advise that additional metro-related commuter rail investments are not optional, but required to be addressed in future GPS's to cater for passenger and freight growth (and in Auckland's case, to realise the benefits of the City Rail Link).

- 14. Previous efforts to make the rail network a sustainable part of our national infrastructure have not succeeded. Officials advise that investment alone will not address the challenges for rail. Remedial investment will need to be accompanied by substantial change in existing planning and funding frameworks. Heavy rail as a mode needs to be better integrated into the wider land transport system if it is to fulfil the outcomes for transport that the Government seeks.

KiwiRail is a State Owned Enterprise (SOE)

- 15. In addition to the wider benefits that rail provides for NZ, KiwiRail also has a primary commercial imperative. As an SOE, KiwiRail is expected to operate as a successful business and be as profitable and efficient as comparable businesses.
- 16. However, the age and condition of below rail infrastructure and rolling stock has meant that the full potential of commercial returns has not been able to be realised. As the rail network has not generated sufficient cashflows to cover the full cost of required investment, this has resulted in impairments of assets, meaning that KiwiRail has reported an overall net deficit in recent years.
- 17. Despite these challenges, the continued commercial disciplines and focus of KiwiRail are necessary to support efficiency in asset management, and to drive commercial returns from the provision of freight, property and tourism operations.
- 18. Shareholding Ministers continue to expect KiwiRail to operate in accordance with the requirements of the SOE Act. The letter of expectations for KiwiRail for 2019/20 supports this continued focus on business profitability and reiterates the Minister for SOEs overarching objective for KiwiRail to operate as a successful business.

- 19. 

Withheld to maintain the constitutional conventions which protect the confidentiality of advice tendered by the ministers and officials (advice still under active consideration)

The Future of Rail review and programme for change

- 20. The recommendations in this paper have been informed by the findings of the Future of Rail review,⁵ led by the Ministry of Transport and working closely with KiwiRail, the Treasury and the NZTA.

5 The Future of Rail Review is governed by a Terms of Reference and a Steering Group. The Steering Group members comprise the Chief Executives of the Ministry of Transport, KiwiRail, and the New Zealand Transport Agency, the Deputy Secretary of the Treasury, the General Secretary of the Rail and Maritime Trade Union, and two independent expert advisors.

21. The programme of change we seek in this paper will enable rail to be planned for in a mode neutral way and be funded sustainably. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Withheld to maintain the constitutional conventions which protect the confidentiality of advice tendered by the ministers and officials (advice still under active consideration)

26. The overall change in programme will require a significant commitment from all parties involved in the rail activity, particularly from the Ministry of Transport, KiwiRail and the NZTA where the change will be most pronounced. We expect officials to develop an implementation plan and report to the Minister of Transport, Associate Ministers of Transport, and shareholding Ministers on a regular basis, including any mitigations in place to manage potential risks arising.

Seeking a resilient and reliable rail system

27. This paper asks this Committee to note a series of baseline rail freight capital investments to support a resilient and reliable rail system including:

27.1. upgrading sections of the national rail network (rail track and supporting infrastructure) that are in a state of managed decline

27.2. replacing locomotives and wagons that are at the end of their usable life (for example, 68 percent of the locomotive fleet are over 35 years old)

27.3. upgrading maintenance facilities

27.4. replacing KiwiRail's ferries, which are also at the end of their usable life.

Withheld to maintain the effective conduct of public affairs, through the free and frank expression of opinions

28. Indicatively, a [REDACTED] The majority of this investment will need to be funded by the Crown in some form, however, KiwiRail will also contribute. [REDACTED]

[REDACTED] The level of KiwiRail contribution to capital requirements would be expected to increase over time as a result of investment in resilient and reliable assets. Relates to negotiations being carried out without prejudice or disadvantage

29. This investment will enable a rail system that can efficiently and safely provide the current mix of freight and tourism services and provide a platform for investment to support expected growth in those services. It will help rail to deliver on a wide range of public benefits, including reduced congestion and emissions, and improved safety and resilience across the land transport system. Combined with recent investments in metro rail through the GPS, the investment provides the necessary platform to support further investments to develop and grow:

29.1. KiwiRail’s heavy rail network and freight business to support a mode neutral freight system

29.2. metro rail and regional passenger rail

29.3. tourism.⁶

30. These baseline investments are a critical first step to address historic underinvestment in rail outside Auckland and Wellington. It builds on the Government’s investment provided to metro rail through the GPS and the City Rail Link, and regional rail initiatives through the Provincial Growth Fund (PGF).

31. Through Budget 2019, Cabinet has agreed to provide a total of \$1.042 billion as the first instalment for rail investments across the next decade. This includes \$741 million to support a resilient and reliable rail system [add Cab Min reference once known], with further funding requests to support rail expected in subsequent Budgets. Cabinet also agreed on \$1 million operating funding to support the implementation of the Future of Rail review. In addition, \$300 million for regional rail will be provided from the PGF.

32. Providing funding through substantial funding instalments, while signalling the Government’s support for long-term investment, is also expected to help drive commercial efficiency within KiwiRail. It will enable the Government to evaluate the results of the investments to inform the next instalment. This approach provides appropriate incentives that enables KiwiRail to achieve greater resilience and reliability as a commercial enterprise and to deliver better transport outcomes and other benefits for New Zealanders, while ensuring the right commercial incentives are in place to deliver value for money.

⁶ Further funding would be required to enable any transformational rail investments such as significant electrification or an introduction of regional passenger rail services.

Future of Rail – informing the investment portfolio for a resilient and reliable rail system

Key problems identified through the Future of Rail review

33. The Government is committed to rail and the wide-ranging benefits it can deliver to New Zealand. However, realisation of these benefits have been hampered by:
- 33.1. the current state of the rail network, owned and operated by KiwiRail, which is facing a state of managed decline due to long-term underinvestment
 - 33.2. short-term funding arrangements for the rail network through the annual Budget process, which are inadequate for a long-term network asset.
34. Historically, the outcomes the Crown has been seeking through its freight rail network investment have been unclear. In effect, Crown funding has been used to meet the shortfall between the minimum investment needed to support the rail network and the profits that KiwiRail can generate from its rail operations. However, the appropriate balance has not been clear between:
- 34.1. what revenue should be collected from rail customers; and
 - 34.2. what level of investment should be provided by Crown funding:
 - 34.2.1. in its role as owner; and
 - 34.2.2. its desire for rail to deliver other outcomes.
35. In addition, there is a lack of integration between road and rail network investments, which has been a long standing concern in New Zealand.⁷ Rail and road investment takes place in quite different decision-making frameworks making strategic alignment difficult.
- 35.1. Rail capital investment largely takes place through annual Budget funding, recognising that over recent years a commercial return model has been in place. While the services which use roads, such as freight transport, are commercial, investment decisions for road infrastructure are made within the statutory planning and funding framework of the Land Transport Management Act 2003 (LTMA).
 - 35.2. The LTMA prioritises national benefits over commercial returns and provides for arms length decision making. Under the LTMA, roading and public transport activities are assembled by the NZTA into a NLTP, with those activities funded or subsidised from the NLTF. The NLTF includes fuel excise tax and road user charges on diesel and heavy vehicles.⁸

⁷ For example, in 2012 the Productivity Commission (as part of its inquiry into international freight services) recommended the Government take steps to improve the coordination of its decision-making for investment in road and rail.

⁸ The GPS allows the Minister of Transport to establish how much of the NLTF should flow to particular activities, such as local road construction and maintenance. In putting together the NLTP, the NZTA must make sure the programme as a whole contributes to the purpose of the LTMA and gives effect to the GPS.

Key recommendations of the Future of Rail review

36. The Future of Rail has identified a suite of changes to:

36.1. provide a 10-year investment programme for rail to rehabilitate the rail network and KiwiRail’s freight and ferry assets, and ensure it is sufficiently resourced to deliver the transport and wider outcomes the Government seeks

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Withheld to maintain the constitutional conventions which protect the confidentiality of advice tendered by the ministers and officials (advice still under active consideration)

37. The 10-year investment programme and integrated planning will be delivered through:

37.1. the establishment of a purpose statement for rail in the form of a New Zealand Rail Plan (the Rail Plan)

37.1.1. The Rail Plan would provide greater clarity on the Government’s intentions for rail, and as a public statement it would provide a useful means to continue to build a greater awareness of rail.

37.1.2. The Rail Plan should have a 10-year horizon and set out a range of matters, including:

- (a) the Government’s longer-term strategic vision for rail
- (b) the planning and operating environment for rail
- (c) a 10-year programme of indicative investments and benefits
- (d) roles and responsibilities for the entities involved
- (e) funding sources and principles
- (f) a plan to monitor the performance of rail against the Government objectives.

37.1.3. The Ministry of Transport and KiwiRail should lead the development of the Rail Plan. The NZTA and the Treasury should all be closely involved. Other stakeholders, such as Auckland

38. Taken together, these changes would be very significant for rail and the transport system. They are necessary if rail is to be a sustainable part of a reliable and resilient transport network that delivers for New Zealanders.

39. [Redacted]

Relates to negotiations being carried out without prejudice or disadvantage

Recommended investment programme for rail

Why should the Government invest in rail?

40. Rail plays a significant role in New Zealand’s transport system. In general, it offers congestion, safety and emissions benefits over road transport, and often provides a lower cost option for freight services. The Government also invests in rail as a shareholder of KiwiRail.

41. We describe the purpose of rail as: *Rail enables access and mobility, transporting people and goods to where they need to go, supporting productivity and business growth, reducing emissions, congestion and road deaths, and strengthening social and cultural connections between communities.* These outcomes contribute to wellbeing and are further discussed in paragraphs 65 and 67.

42. Table 2 outlines rail’s strengths in the passenger and freight markets.

Table 2: Role of rail in passenger and freight

Passenger		
<p>Metro / Urban Metro rail is essential in Wellington & Auckland. It reduces congestion, improves commute time and therefore social mobility. More capacity is needed in the future.</p>	<p>Inter-Regional Rail may help anchor population growth, improve access to housing and grow towns. There is one active service (Capital Connection) and one in development (Hamilton-Auckland). Other services would require high subsidies.</p>	<p>Tourism Tourist services bring opportunities to regional communities and disperse tourists. It generates revenue to re-invest. Rail tourism is growing by 10% per year.</p>
Freight		
<p>Metro / Urban Freight rail reduces congestion and emissions in cities. It is essential to the operation of ports in cities. These city ports are through points to the regions, and 25% of NZ’s export products travel by rail. Regional investments need to take account of network effects.</p>	<p>Inter-Regional Bulk-distance and intra-regional routes contribute to reduced congestion on highways, safer roads, and reduced emissions. They need high tonnages to be fully commercially viable. Only Auckland to Tauranga has the potential for this currently, but other routes may have potential longer term.</p>	<p>Regional Regional freight rail reduces emissions (by 66%) and improves road safety. Certainty can build business confidence. However, success is dependent on several other factors (e.g. volume and types of goods to move, and how far from the rail they are).</p>

43. Graph 1 summarises the overall benefits of rail quantified by Ernst & Young (EY) at \$1.5 billion per annum in 2016. A significant proportion of these benefits accrue from

the metropolitan metro networks – predominately in Auckland, but in Wellington as well.

Graph 1: Value of Rail



- 44. Rail connects with New Zealand’s ports and hubs, and metropolitan rail is growing, carrying:
 - 44.1. around 85,000 passenger per day with 27.5 percent growth in passengers projected by 2025
 - 44.2. bulk freight movements, accounting for around 16 percent for total freight by tonne-kilometres which is expected to rise as the freight task grows (approximately 20 percent growth of overall freight volumes by 2027/28).¹⁰

The investment scenarios

- 45. The Future of Rail review identified four generic investment scenarios for rail to address its historic underinvestment, meet rail customer needs, and capture rail’s contribution to transport and wider benefits that the Government seeks. The four scenarios are:
 - 45.1. Status Quo: managed decline of the rail network and services
 - 45.2. Resilient and Reliable: providing a strong, stable platform for mode shift from road to rail
 - 45.3. Capacity and Growth: leveraging greater opportunities to pursue passenger and freight growth
 - 45.4. Additional Opportunities: projects to support other goals, including stimulating regional economic growth.

¹⁰ *Transport Outlook: Future State Model Results* (<https://www.transport.govt.nz/mot-resources/transport-outlook/transport-outlook-future-state-model-results/>).

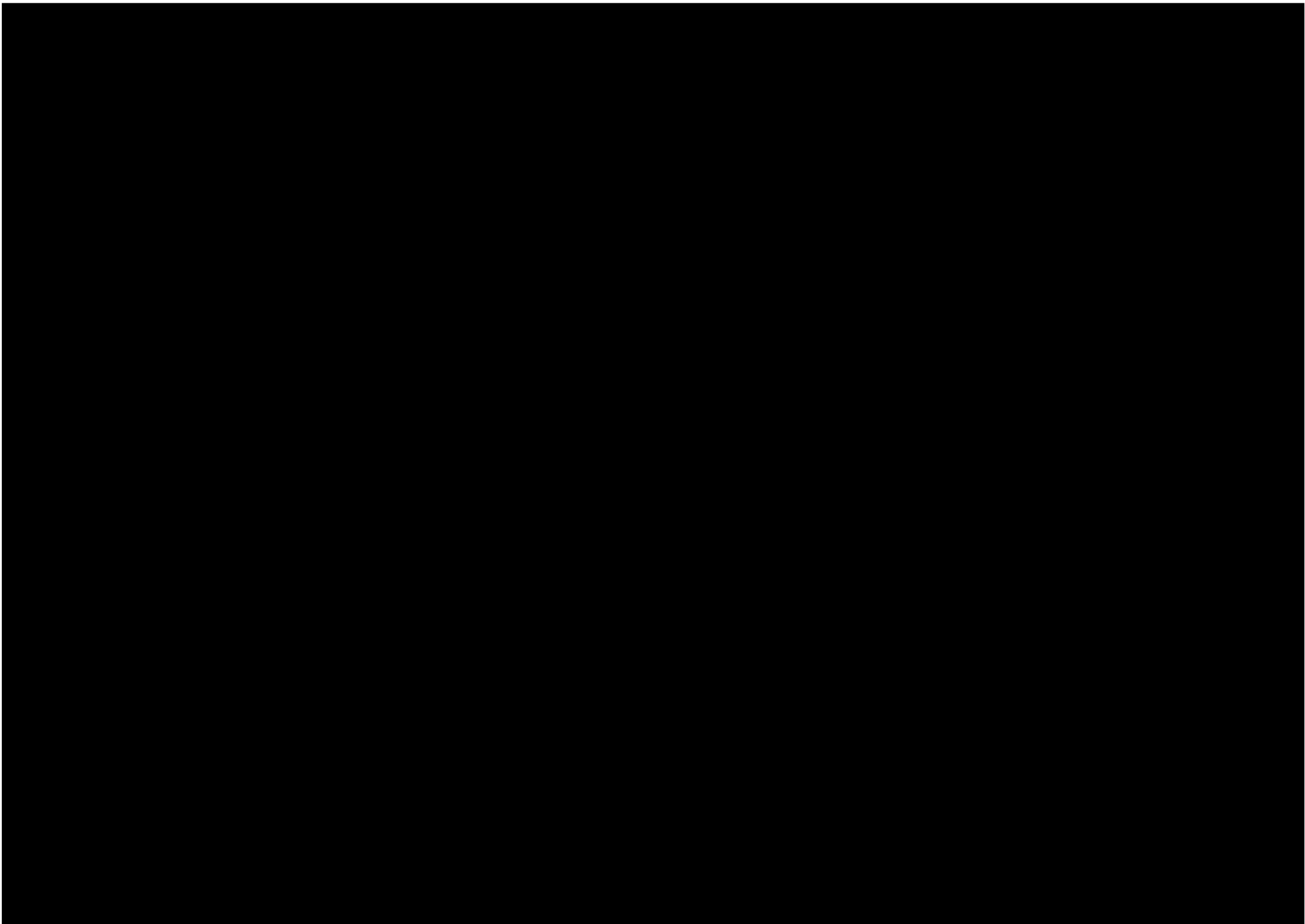
Relates to negotiations being carried out without prejudice or disadvantage

46.



47. It is important to note that each scenario builds on the investment made in the previous one. This is predicated on the need to build resilience in core rail infrastructure before investing in rail for further capacity and growth.

Pages 13-14 withheld as they relate to negotiations being carried out without prejudice or disadvantage





48. Scenario 1 the Status Quo is not recommended. It does not deliver the minimum level of investment rail needs to operate effectively in its part of the freight and tourist markets. It will not deliver the minimum level of investment in track infrastructure to mitigate ongoing asset decline and operational restrictions on the rail network. It does not provide the investment needed to replace key assets at the end of their life – for example, South Island locomotives, wagons and KiwiRail’s Cook strait ferries – resulting in a significant loss of rail and ferry services.
49. Investments in Scenario 2 and 3 allow KiwiRail to position rail to better service its share of the freight market and extend its ability to attract further freight and tourist customers. These scenarios also factor in the investments to support metro and interregional passenger services / capacity.

Investing in a resilient and reliable rail network is the critical first step

50. We ask this Committee to note Investment Scenario 2, Resilient and Reliable is intended to rehabilitate rail and position KiwiRail and regional councils to pursue further investments to support both capacity and growth in freight and metro passenger movements.

51. This investment will support rail’s ability to continue to deliver on the transport outcomes and wider benefits the Government seeks, including economic growth in cities and regions, reduced carbon emissions and stronger connections for a better New Zealand. These investments provide the necessary baseline to support further investments and benefit realisation in the future.

52. We note that there is potential for further commitments to rail initiatives outlined in Investment Scenarios 3 and 4 subject to business cases. We note that metro passenger rail initiatives outlined in Scenario 3 will need to be considered in future GPSs.

53. The bulk of the investment sought in Investment Scenario 2, Resilient and Reliable relates to the national network and rail freight. The Government has already provided significant investment to support this scenario to date through the PGF and the GPS. For example:

53.1. the GPS has committed \$815 million to passenger rail, supporting metro and interregional rail services that assist passengers accessing major employment and housing areas¹²

53.2. the PGF has committed around \$183 million to a range of rail projects to date¹³

53.3. the Crown funding commitments to the City Rail Link.

¹² Further metro rail investments will be considered as part of future GPS deliberations. Both Auckland Transport and Greater Wellington Regional Council advise that the metro-related commuter rail investments in Scenario 3, Capacity for Growth, are not optional, but required, to be addressed in future GPSs to cater for passenger and freight growth (and in Auckland’s case, to realise the benefits of the City Rail Link).

¹³ Appendix 4 lists the rail projects that have been funded from the PGF to date.

Relates to negotiations being carried out without prejudice or disadvantage

54. Therefore, the remaining funding estimated to support Investment Scenario 2, Resilient and Reliable [REDACTED] will be primarily directed to KiwiRail to:

- 54.1. upgrade sections of the national rail network (rail track and supporting infrastructure) to bring them up to an acceptable level (Crown funded)
- 54.2. replace locomotives and wagons that are at the end of their usable life (for example, 68 percent of the locomotive fleet are over 35 years old)
- 54.3. upgrade maintenance facilities
- 54.4. replace KiwiRail’s ferries, which are also at the end of their usable life.

55. The estimates of the 10-year investment required for a resilient and reliable network are being refined to finalise the new planning and funding framework, and will inform the NZ Rail Plan and the Rail Network Programme (RNP). The RNP will outline the programme of rail infrastructure maintenance, renewals and improvements.

56. Investment Scenario 2, Resilient and Reliable also provides a stable foundation for intergenerational investment needed in rolling stock and network infrastructure to support New Zealand’s forestry sector. [REDACTED]

57. [REDACTED]

58. We are advised that Investment Scenario 2, Resilient and Reliable supports the initial findings of the Working Group tasked with delivering the Government’s Upper North Island Supply Chain Strategy work.¹⁴ A report on the findings of this work was provided to this Committee on 3 April 2019 [DEV-19-MIN refers]. We note the interim report concludes that: “One consistent and overarching theme coming through stakeholder engagement is the need for a national, connected and well-functioning rail system. There was unanimous support, including from the road transport and coastal shipping groups, for a fully function rail freight system.”

Benefits of investing in a resilient and reliable rail system

59. Investment in a resilient and reliable rail network, rolling stock and ferry assets will provide a range of benefits including:

- 59.1. increased reliability, lower failure rates, and reduced disruptions, improving schedule reliability of the national rail network
- 59.2. customer satisfaction and enhanced reputation

¹⁴ Stakeholders consulted included Ports and Port Company shareholders in the Upper North Island, the Road Transport Forum, Shipping Industry representatives, freight forwarders, Tainui Holdings Limited, and exporters including Talley’s Group and AFFCO Holdings.

Relates to negotiations being carried out without prejudice or disadvantage

- 59.3. increased fuel efficiency for ships and trains
- 59.4. a safer rail network, which complies with modern rail safety regulations
- 59.5. less freight travelling by road, reducing demand on roading assets and reduced road fatalities
- 59.6. a reduction in overall transportation emissions
- 59.7. enables higher commercial returns to be generated from services.

Withheld to maintain the effective conduct of public affairs, through the free and frank expression of opinions and to prevent unreasonable prejudice to the commercial position of a person

60.

[Redacted text block]

Funding commitments for Rail as part of Budget 2019

- 61. Through Budget 2019, Cabinet has agreed to provide a total of \$1.042 billion as the first instalment for Scenario 2 rail investments across the new decade. This includes \$741 million to support a resilient and reliable rail system [*add Cab Min reference once known*], with further funding requests to support rail expected in subsequent Budgets. Cabinet also agreed \$1 million operating funding to support the implementation of the Future of Rail. In addition, \$300 million for regional rail will be provided through the PGF.
- 62. Providing funding through substantial funding instalments, while signalling the Government’s support for long-term investment, is also expected to help drive commercial efficiency within KiwiRail and enable the Government to evaluate the results of the investments to inform the next instalment. This approach provides appropriate incentives and that enables KiwiRail to achieve greater resilience and reliability as a commercial enterprise, deliver better transport outcomes and other benefits for New Zealanders, while ensuring the right commercial incentives are in place to deliver value for money.
- 63. Funding provided for rail through Budget 19 is summarised below.

63.1. Rail Maintenance Equity Injections

- 63.1.1. Through Budget 2019, KiwiRail received investment of \$332 million for the period of 2019/20 and 2020/21, to predominately invest in track and other supporting infrastructure.

[Redacted text block]

[Redacted]

Withheld to maintain the constitutional conventions which protect the confidentiality of advice tendered by the ministers and officials (advice still under active consideration)

[Redacted]

[Redacted]

[Redacted]

Withheld to prevent unreasonable prejudice to the commercial position of a person

[Redacted]

63.1.4. We note that an additional \$50 million has been agreed in principle through the PGF. This portion of funding is for remedial infrastructure in the regions and rail maintenance on non-commercial lines across New Zealand, including PGF surge regions.

Withheld to prevent unreasonable prejudice to the commercial position of a person

[Redacted]

63.2. Sustainability of Rail - Rolling Stock/Mechanical

63.2.1. Through Budget 2019, the Government has committed \$375 million for rolling stock to support rehabilitation of these assets.

Relates to negotiations being carried out without prejudice or disadvantage

[Redacted] The intention of this investment is to replace assets which have reached or will soon reach the end of their usable life and to upgrade maintenance facilities which are no longer fit for purpose. [Redacted]

63.2.2. The full investment in new rolling stock will enable the replacement of the retiring fleet..

63.2.3. [Redacted]

Relates to negotiations being carried out without prejudice or disadvantage

63.3. Interisland Resilient Connection

63.3.1. Through Budget 2019, \$35 million has been provided to fund the procurement phase for replacing the current ferries and landside assets [Redacted]

63.3.2. [Redacted]

Withheld to prevent unreasonable prejudice to the commercial position of a person

63.3.3. [Redacted]

63.3.4. [Redacted]

Relates to negotiations being carried out without prejudice or disadvantage

63.3.5. [Redacted]

Wellbeing analysis associated with budget bids to implement Investment Scenario 2, Resilient and Reliable

64. Safety and environment are the two main wellbeing domains for these bids. The safety benefits of rail are referenced to the EY Value of Rail Report completed in

2016. Rail eliminates at least 271 safety incidents per year by reducing the volume of heavy transport from the road as well as savings in road maintenance costs.

65. The environmental benefits of rail in the bids also reference the EY Report, which identified that rail helps the environment by reducing Co₂ emissions by 488,000 tonnes per year. Every tonne of freight moved by rail delivers a 66 percent reduction in carbon emissions compared with heavy road freight.
66. The bids also have a social and economic emphasis on social connections, income and consumption and earnings. For example:
 - 66.1. The Interisland Resilient Connection identified that the ferry services are an integral part of SH1 and are a vital social and economic link between the North and South Islands.
 - 66.2. Income and consumption is referenced in the Sustainability of Rail - Rolling Stock/Mechanical Bid, citing the potential to increase more than 9000 freight services delivered (around 16 percent of the total freight task and 25 percent of exports moved in New Zealand by net tonne kilometres). The 18 million net tonnes of freight delivered by KiwiRail in FY18 and the 197,000 scenic rail passengers equates to 1.1 million heavy trucks and 4000 coaches on the road network.
 - 66.3. In addition, all three market segments for the Interisland Resilient Connection are expected to increase rail, and road freight by 2.2 percent per annum,¹⁵ and passenger demand by 3.3 percent per annum to 2023 (with a further longer-term projection of around 2.2 percent).

PGF funding for regional rail initiatives

67. The PGF is intended to provide significant investment in rail. To date, it has provided a total of \$183.38 million for rail investments for initiatives such as reopening the Napier to Wairoa line, improving the tourism offer of rail, and investing towards the much needed upkeep of regional rail infrastructure. Cabinet is indicating through Budget 2019 that an additional \$300 million will be provided for regional rail investments through the PGF.
68. As an example of potential PGF investments in regional rail, Northland rail has been considered through a single stage business case, completed by the engineering firm AECOM with assistance from Deloitte for the economic and financial analysis. This has involved engagement with the Northland community, businesses and iwi to establish a potential interest in improved rail services in the region, and enabling the potential costs and benefits of investing in rail to be determined with greater certainty.
69. The business case concludes that investment in rail in Northland could provide employment, service the forestry, dairy, meat and fertiliser industries, foster employment and economic growth for iwi and the wider community, and support rail to become a viable alternative to road freight.

¹⁵ *Transport Outlook: Future State Model Results* (<https://www.transport.govt.nz/mot-resources/transport-outlook/transport-outlook-future-state-model-results/>).

70. The business case estimates the following funding needs:

70.1. \$470 million to upgrade the NAL from Swanson to Otiria, and Waiotira to Tangowhahine

70.2. \$329 million to build the Marsden spur.

70.3. Rolling stock and further annual capital costs of around \$140 million and \$52 million respectively in Net Present Value terms over 40 years.

71. We are currently considering the findings of the business case. In the interim, the Government has signalled a \$300 million commitment for regional rail initiatives through the PGF over the period of 2019/20 and 2021.

[Redacted]

Withheld to maintain the constitutional conventions which protect the confidentiality of advice tendered by the ministers and officials (advice still under active consideration)

KiwiRail loans

72. Currently, the Crown has three loans with KiwiRail totalling \$174.25 million. The loans have continued to be rolled over due to KiwiRail’s inability to repay them. The loans were initially established to fund capital projects and provide working capital to KiwiRail.

73. Given the continued Crown investment in KiwiRail is required to support a resilient and reliable rail system, the loans are being reviewed through the Future of Rail review. The loans are all due to mature in 2019/20. A technical budget bid has been considered through Budget 2019 which rolled over the loans for up to two years.

[Redacted]

Relates to negotiations being carried out without prejudice or disadvantage

Next Steps

74. This is the first in a series of papers to give effect to the recommendations coming out of the Future of Rail review.

[Redacted]

[Redacted]

Withheld to maintain the constitutional conventions which protect the confidentiality of advice tendered by the ministers and officials (advice still under active consideration)

Consultation

77. The Ministry of Transport has prepared this paper. The Ministry worked closely with KiwiRail, NZTA and the Treasury on the Future of Rail review and the advice contained in this paper. These organisations have been consulted on this paper.

78. In addition, the following departments and agencies have been consulted: the State Services Commission, the Ministry of Business, Innovation and Employment, the

Ministry for the Environment, the Ministry for Primary Industries, the New Zealand Police, WorkSafe New Zealand, Fire and Emergency New Zealand.

- 79. The Department of the Prime Minister and Cabinet has been informed.
- 80. The Rail and Maritime Transport Union of New Zealand, Auckland Transport, Auckland Council and the Greater Wellington Regional Council have also been engaged in the Future of Rail review which has informed the findings in this paper.
- 81. The recommendations in this paper have been informed by the findings of the Future of Rail review, led by the Ministry of Transport and working closely with KiwiRail, the Treasury and the NZTA.

Financial implications

- 82. There are no specific financial recommendations associated with this paper.
- 83. We note that Investment Scenario 2, Resilient and Reliable, proposes [redacted] primarily for the national freight rail network, rolling stock and ferries over the next 10 years. As noted earlier, the Government has already provided some funding through the PGF and GPS to support this scenario. [redacted]

Withheld to maintain the constitutional conventions which protect the confidentiality of advice tendered by the ministers and officials (advice still under active consideration)

84. Funding from Budget 2019 commitments for rail comprise:

84.1. \$741 million in capital funding over the next two years (as well as \$1 million in operating funding), to support Investment Scenario 2. [redacted]

Relates to negotiations being carried out without prejudice or disadvantage

[redacted]

84.2. \$300 million for regional rail initiatives through the PGF over the two years 2019/20 and 2021. [redacted]

[redacted] These are not part of the funding envelope for Investment Scenario 2 that we are recommending.

84.3. \$0.4055 billion in capital funding to cover the Crown’s share of potential cost reforecasts associated with Auckland City Rail Link (this is in addition to the \$1.8 billion that has already been appropriated). [redacted]

[redacted]

Withheld to maintain the constitutional conventions which protect the confidentiality of advice tendered by the ministers and officials (advice still under active consideration)

Accounting treatment of the rail network

85. Currently, in the Whole-of-Government Financial Statements, the metro rail network is reported as an asset-generating public benefits, while the freight rail network is

reported as a cash-generating asset only. In KiwiRail's financial statements, both assets are currently treated as cash-generating only.

[Redacted]

[Redacted]

[Redacted]

Risks Withheld to maintain the constitutional conventions which protect the confidentiality of advice tendered by the ministers and officials (advice still under active consideration) and to prevent unreasonable prejudice to the commercial position of a person

Capacity of KiwiRail and the NZ rail industry to deliver the investment programme

89. This is a major step-up investment for KiwiRail, at a time where the wider infrastructure supplier sectors is already being asked to deliver a range of projects across New Zealand.

90. [Redacted]

Capability and coordination needed to implement the change in programme

91. The change in programme outlined in this paper spans across the transport system, not just to rail and KiwiRail.

[Redacted]

23 Withheld to maintain the constitutional conventions which protect the confidentiality of advice tendered by the ministers and officials (advice still under active consideration) and to prevent unreasonable prejudice to the commercial position of a person

- 92. All agencies will need to operate differently as a result, and we have agreement across agencies to the changed approach. Agencies are committed to making the new planning, investment and funding system work.
- 93. We also expect officials to work closely with the Auckland Transport, Auckland Council and Greater Wellington Regional Council on, among other things, the design of the new planning and funding framework and the interface with the existing planning processes for metro rail.
- 94. We note that the Ministry of Transport will develop an implementation plan to govern the programme and manage its successful delivery. The Ministry will report to the Minister of Transport on a regular basis (including any mitigations in place to manage any delivery risks identified). The plan will also include measures to monitor the performance of rail against the Government objectives.
- 95. The rail maintenance equity injections Budget bid include \$1 million of operating funding for the Ministry of Transport to ensure the successful implementation of the Future of Rail change programme across agencies. This will need to be considered in relation to other capability bids and prioritised accordingly.

GPS-related impacts

■ [Redacted text block]

Relates to negotiations being carried out without prejudice or disadvantage

Human rights, gender implications and disability perspective

- 97. There are no human rights, gender or disability issues or implications associated with this paper.

Legislative implications

- 98. There are no legislative implications associated with this paper. [Redacted text block]

Withheld to maintain the constitutional conventions which protect the confidentiality of advice tendered by the ministers and officials (advice still under active consideration)

Withheld to maintain the constitutional conventions which protect the confidentiality of advice tendered by the ministers and officials (advice still under active consideration)

Regulatory Impact Analysis

99. The regulatory impact statement requirements do not apply to this proposal. [Redacted]

Publicity

100. We expect to make a significant media announcement on the findings of the Future of Rail, the commitment to a resilient and reliable rail system, and the funding secured through Budget 19 in the lead up to Budget day. We are working with officials to finalise key messaging and arrangements to support the announcement.

Recommendations

101. The Ministers recommend that you:

1. **note** that rail contributes to national and regional economic growth and reduces emissions and congestion, reduces road deaths and injuries, facilitates wider social benefits, and provides resilience and connection between communities
2. **note** the findings of the Future of Rail review which recommend:
 - (i) Investment Scenario 2, Resilient and Reliable to rehabilitate the heavy rail network and KiwiRail’s freight and ferry businesses, which is critical to ensure rail is sufficiently resourced to deliver the benefits outlined in recommendation 1

[Redacted]

[Redacted]

2. **agree** in principle to a resilient and reliable rail system to deliver on the outcomes for transport and wider benefits the Government seeks
3. **note** that Budget 2019 is providing the first instalment of funding to meet Investment Scenario 2, with future funding bids expected in subsequent Budgets
4. **note** that Investment Scenarios 2, Resilient and Reliable does not preclude further investments in rail outlined in Investment Scenario 3, Capacity for Growth, and Investment Scenario 4, Additional Opportunities

5. [Redacted]

6.



Withheld to maintain the constitutional conventions which protect the confidentiality of advice tendered by the ministers and officials (advice still under active consideration)

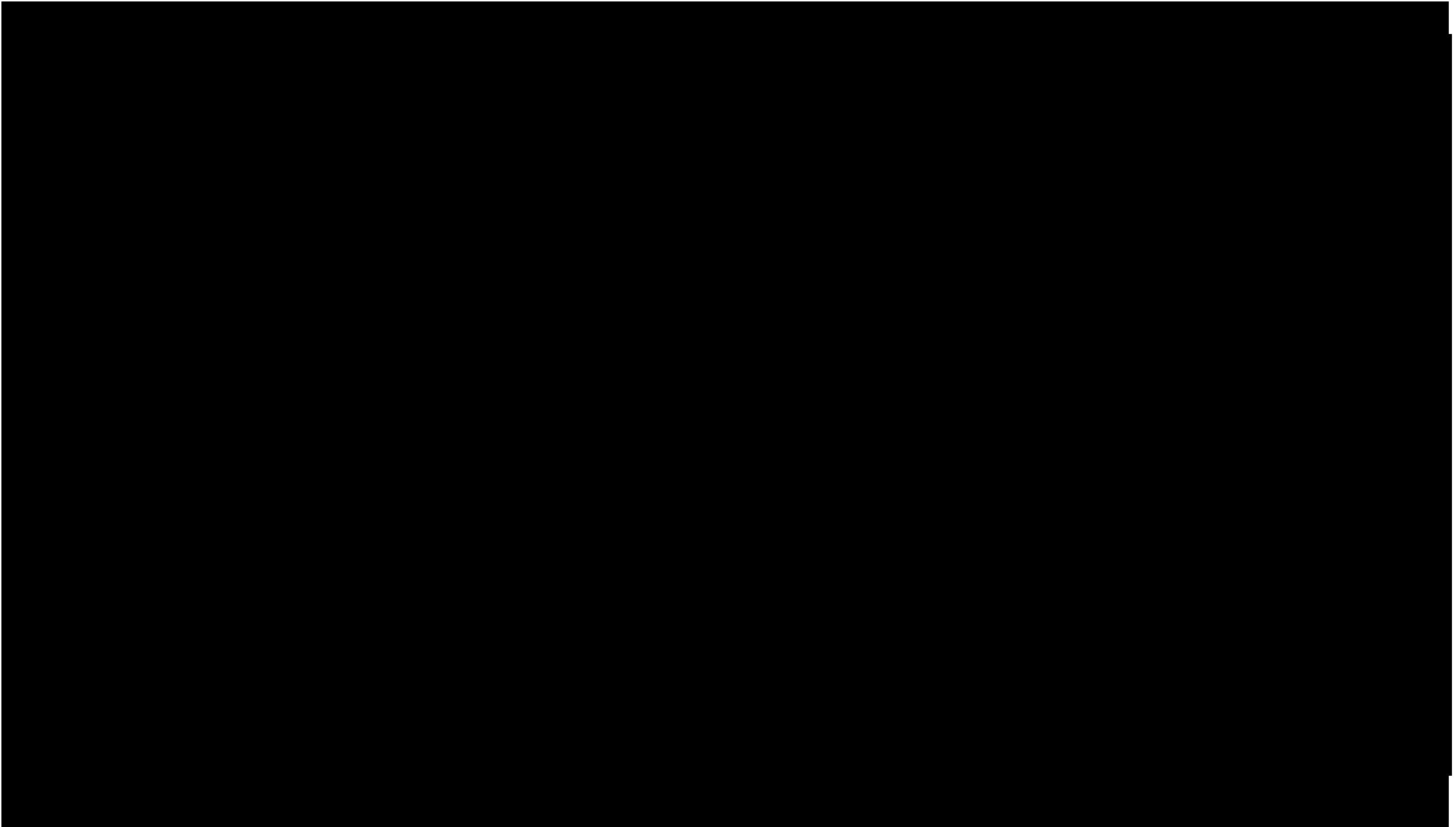
Rt Hon Winston Peters
**Minister for State
Owned Enterprises**

Hon Grant Robertson
Minister of Finance

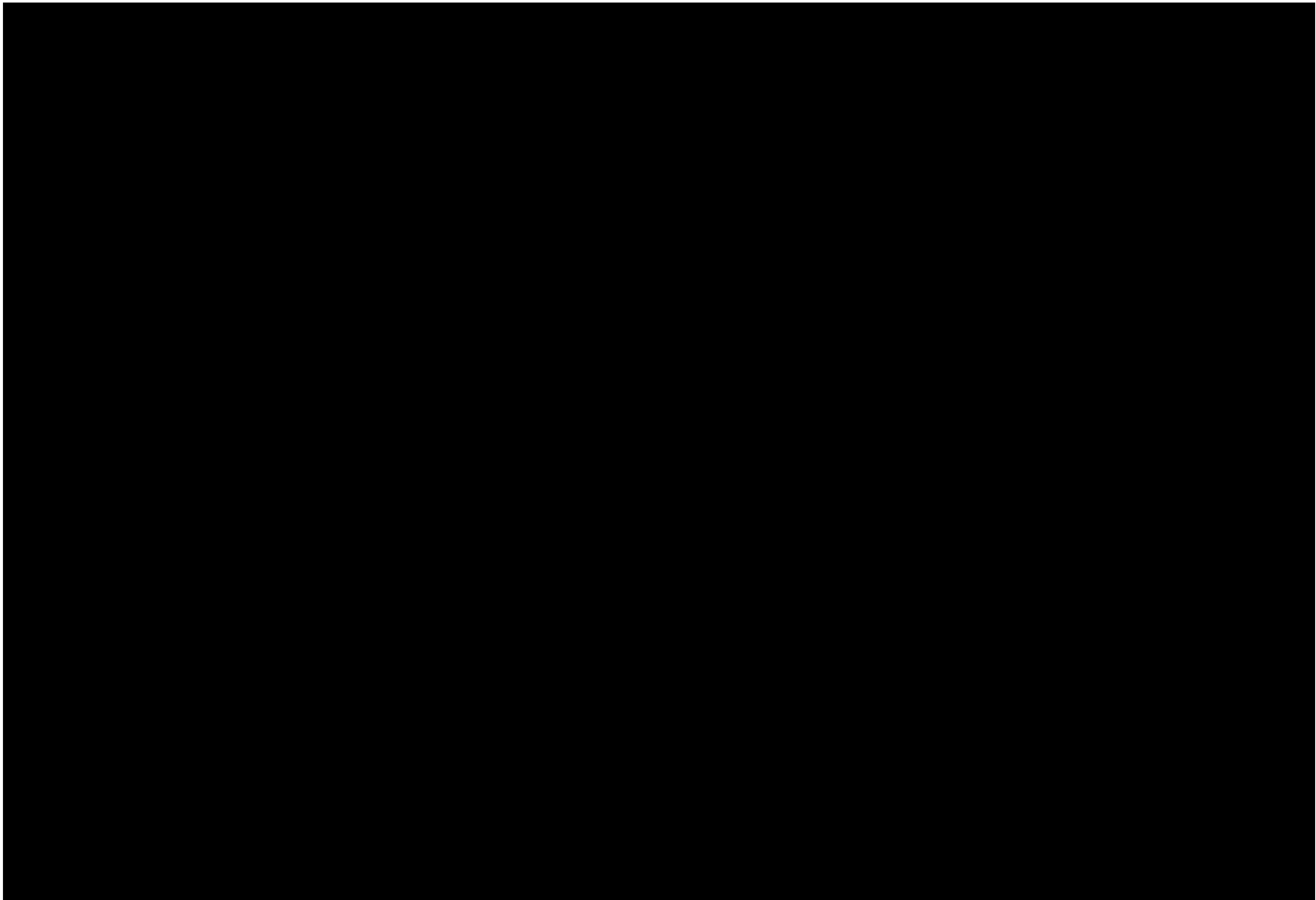
Hon Phil Twyford
Minister of Transport

Hon Shane Jones
**Minister for Regional
Economic
Development**

Pages 27 - 31 withheld to maintain the constitutional conventions which protect the confidentiality of advice tendered by the ministers and officials (advice still under active consideration)











[Redacted]

[Redacted]

KiwiRail revenue, operating costs and potential capital contribution

2. [Redacted]

3. KiwiRail also uses revenue to:

Withheld to prevent unreasonable prejudice to the commercial position of a person

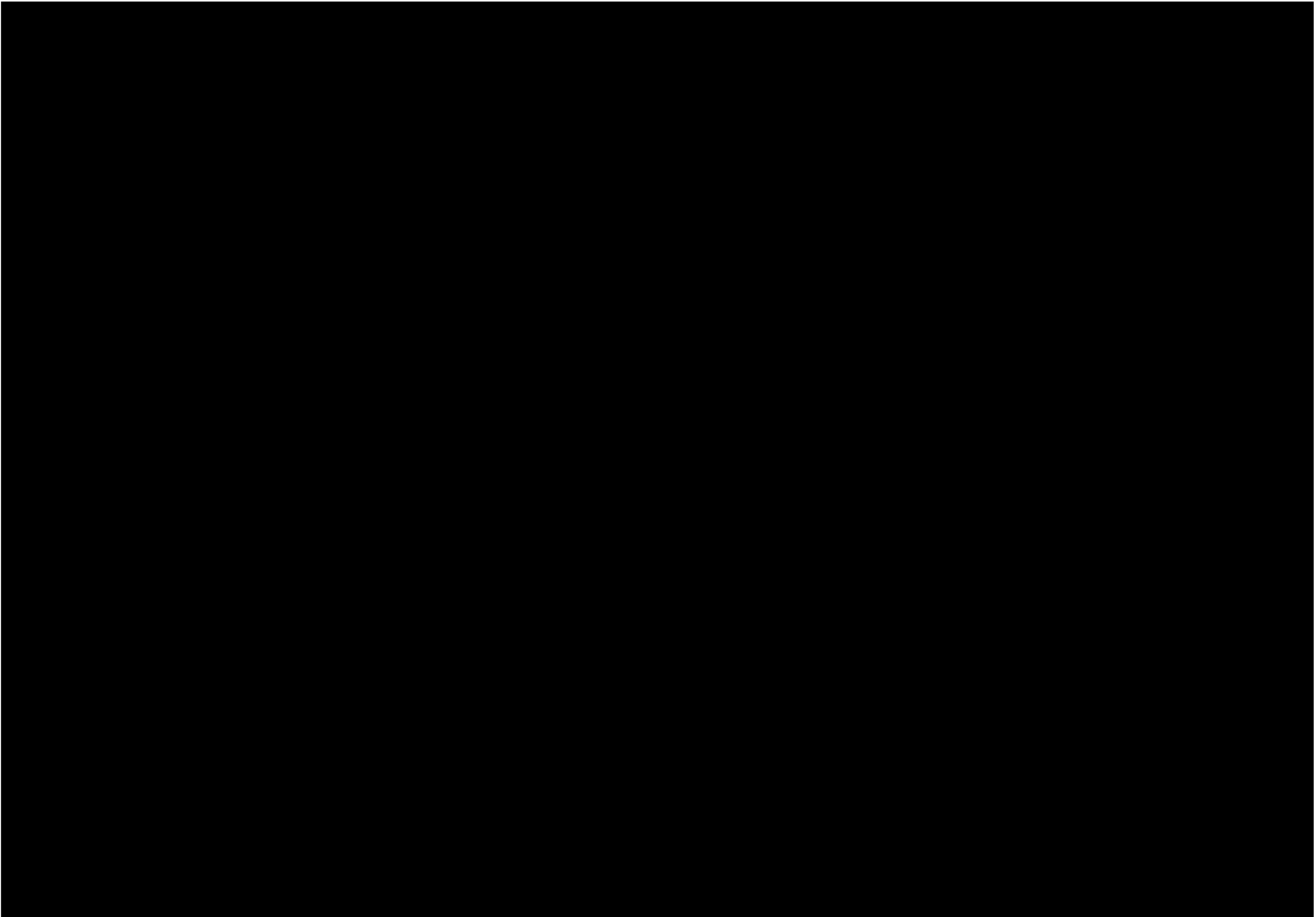
3.1 fund a small portion of depreciation costs associated with the track

3.2 re-invest in its freight, logistics and tourist services.

4. [Redacted] The level of KiwiRail contribution to capital requirements would be expected to increase over time as a result of investment in Resilient and Reliable assets.

5. Under the new planning and funding framework, KiwiRail will be required to cover above rail operating costs associated with its freight, logistics and tourist related services.

6. [Redacted]



7. Both Auckland Transport and Greater Wellington Regional Council advise that the metro-related rail investments in Scenario 3, Capacity for Growth are not optional, but required to be addressed in future GPSs if their regional transport systems are to deliver what is needed to cater for passenger and freight growth (and in Auckland's case, realise the benefits of the City Rail Link).

[Redacted]

[Redacted]

[Redacted]

9. Some additional longer-term metro investment opportunities have been indicatively identified to date, which have not been included in the metro related investment scenarios table above (for example, high speed rail in the Golden Triangle).

Metro-related operating requirements

10. Metro-related operating costs are funded through a combination of farebox revenue, rates funding, and the Public Transport Activity Class in the GPS. Overall funding set aside for metro rail related operating costs in GPS 2018 includes forecasted operating costs for the last 4 years of the ten-year period.
11. With significant investment underway in the metro regions, all parties involved in the provision of and funding for metro rail will need to work together to determine the most sustainable way to fund operating costs long-term, including through the Public Transport Activity Class in the GPS.

Provincial Growth Fund projects for rail

Project name	Location	Funding amount	Description
Wairoa to Napier Railway	Hawke's Bay	\$5,000,000	Repairs to the Wairoa-Napier line
Wairoa to Napier Railway - additional storm damage	Hawke's Bay	\$1,200,000	Supplementary to the above following storm damage.
Rail Freight Opportunities - Whanganui Rail Upgrade	Manawatū-Whanganui	\$3,000,000	
Rail Freight Opportunities - Kawerau/Murupara	Bay of Plenty	\$250,000	
Rail Freight Opportunities - New Plymouth Eastgate	Taranaki	\$250,000	
Rail Freight Opportunities - South Port	Southland	\$250,000	
North Auckland Line Geotechnical works	Northland	\$2,230,000	
Hokitika to Westport feasibility	West Coast	\$250,000	
Rail Tourism Opportunities	Canterbury/ West Coast	\$80,000,000	Improving KiwiRail's tourism offering on the TranzAlpine and Coastal Pacific rail services.
KiwiRail Palmerston North Regional Economic Growth Hub	Manawatū-Whanganui	\$40,000,000	Design and land acquisition for multimodal distribution hub in Palmerston North
The Restoration of the Gisborne to Wairoa Railway Line Feasibility Study	Hawke's Bay / Tairāwhiti	\$225,000	
Tairāwhiti Railway Tourism Feasibility (Steve Breen / Jacque White / Adam Hughes)	Tairāwhiti	\$225,000	
KiwiRail Working Capital	Transport	\$50,000,000	Investment in network maintenance across NZ, including surge regions, as an efficient rail network is essential for regional economic development and productivity. Appropriated under non-departmental capital expenditure.
North Auckland Line Rail Study	Northland	\$500,000	
Regional Rail Investment		\$300,000,000	
Total: \$483,380,000			