

Chair
CABINET

BUDGET 2007: FUNDING FOR RAIL DEVELOPMENT

Proposal

1. I propose that Budget 2007 provide authority for the Crown to contribute to several key improvements to the rail system:
 - a) The electrification of Auckland's urban passenger network *[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]*;
 - b) Improvements to Wellington's urban passenger network *[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]*; and
 - c) Continuation of upgrades to the national track system for freight (\$50m).
2. The present intention is that the *[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]* funding for Auckland's electrification be raised via government infrastructure bonds.

Auckland Rail Electrification

3. The total cost of electrifying Auckland's passenger rail network is currently estimated to be over \$1 billion (*[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]* for infrastructure and *[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]* for rolling stock). The actual cost will not be known until tendering and contracting have been completed.
4. Discussions are under way with the Auckland Regional Council over how electrification should be funded. Currently, the ARC has proposed that it would fund the rolling stock via debt repaid and serviced by a Regional Fuel Tax. I have proposed that the infrastructure should be financed from Government Infrastructure bonds, the interest of which would also be serviced by the Regional Fuel Tax. The principal would remain a Crown liability. Although no agreement with Auckland has yet been reached, I propose that the Budget provide authority for the infrastructure costs so that electrification can proceed without delay if a satisfactory agreement with the ARC can be reached over the funding. (In initial discussions with ARC officials, they have indicated that they are not prepared to contribute to the below track costs from the Regional Fuel Tax).

5. I have investigated whether the implementation of electrification could be accelerated so that electric trains could be running in time for the Rugby World Cup in 2011. My strong advice is that this would be both risky and costly.
6. Rolling stock could not be obtained for 2011 unless competitive tendering is abandoned, a premium is paid and stock is accepted that is not designed for the Auckland network (for example, floor level may not be consistent with platform heights). Even then, only around five electric trains would be available by 2011, and there would still be a significant risk of slippage beyond the target date with events beyond the agencies' control (such as overseas production problems or industrial issues). There would also be greater disruption to services between now and 2011 during the infrastructure construction, with large parts of the network needing to be closed during the weekends and evenings.
7. We must ensure two fundamental objectives are met:
 - a) There must be a well functioning public transport system to support the Rugby World Cup, which means that ARTA must proceed to purchase additional interim diesel trains regardless of when electrification is completed; and
 - b) Electrification must provide Auckland with the optimal network and trains to serve its public transport needs for the next thirty years and beyond. That requires careful planning and project management.
8. While the electrification project should be completed as soon as possible, in the interests of obtaining the right kind of rolling stock, risk management and cost containment it is important that it follows proper processes.
9. I will report further to Cabinet once the details of an agreement with ARC have been settled.

Wellington Urban Passenger Rail Upgrade

10. Wellington's urban passenger rail network is the busiest in the country. As a result of past under investment, it is stretched both in terms of infrastructure and rolling stock. I am already proposing in Budget 2007 to provide assistance by way of a loan to the Greater Wellington Regional Council for the purchase of interim rolling stock. I now propose that the government also provide for improvements to the network infrastructure, similar to those currently underway in Auckland.
11. The projects include replacing infrastructure (particularly electrification and power signalling) which is old and prone to failure; double tracking in some areas where currently there is only a single track; enlarging the tunnels on the Johnsonville line; and improving capacity at the North-South Junction and at the entrance to the Wellington rail yards.
12. I propose that we make a start on these improvements by providing *[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]* over the next four years. As not all of these projects have been scoped or fully costed, I recommend that the release of funds be subject to the approval of ONTRACK's shareholding Ministers upon receipt of a business case from the ONTRACK board. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

National Track Improvements

13. Budget 2004 provided \$100 million for track improvements nationally as part of the Government's commitments when it acquired the track from Toll NZ Ltd. Approximately

\$61 million is still available for this purpose, so I do not consider new funding is required for 2007/08. However, to maintain our commitment to rail as a major transport alternative to roading, I propose that Budget 2007 should make provision for additional investment of \$25 million a year on track improvements in 2008/09 and 2009/10. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

14. Again, I recommend that the release of this additional funding be subject to the approval of ONTRACK's shareholding Ministers upon receipt of a business case from the ONTRACK board.

Financial Implications

15. The cost of my proposals for the Auckland and Wellington urban rail developments is \$600 million over six years. I propose that this be appropriated as a multi-year appropriation to provide flexibility for the projects' management. The indicative spending profile is as follows:

\$million	07/08	08/09	09/10	10/11	11/12	12/13	Total
Auckland electrification							
Wellington upgrades							

[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]

16. The total cost of the national track improvement proposal is \$50 million, with \$25 million in 2008/09 and \$25 million in 2009/10.

Legislative Implications

17. Funding the Auckland rail electrification proposal will require legislation for a Regional Fuel Tax. A separate report is on the agenda of today's Cabinet.

Treaty Implications

18. There are no Treaty of Waitangi implications.

Human Rights Act

19. Provided proper processes are followed by ARTA for the purchase of rolling stock, there are no Human Rights Act implications.

Publicity

20. I propose that the Government's support for Auckland rail electrification and for improvements to Wellington's urban rail network be announced in the Budget. As the details of a funding agreement with the ARC will still need to be agreed, and because the projects will eventually need to be tendered commercially, some caution will need to be exercised in announcing actual levels of government funding support. The supporting Budget documentation will however emphasise the government's support for sustainable public transport and its preparedness to assist with the funding of these projects.

Consultation

21. The Ministry of Transport has been involved in discussions on the Auckland electrification proposal, although due to time constraints it has not seen this paper.

Recommendations

22. It is recommended that Cabinet:

- a) **agree** to the electrification of the Auckland urban passenger rail system, subject to reaching a satisfactory agreement with the Auckland Regional Council over funding;
- b) **invite** the Minister of Finance to report to Cabinet once agreement with the Auckland Regional Council has been reached and to seek Cabinet's approval to the release of funds for electrification;
- c) **note** that the availability of a Regional Fuel Tax would meet the ARC's requirements for an alternative and additional funding source for contributing to the costs of electrification;
- d) **note** that the current intention is that *[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]* for the Auckland electrification will be raised via Infrastructure bonds;
- e) **note** that the intention is to electrify the Auckland rail system as quickly as possible while following proper project processes, which is likely to mean a 2013 introduction date for electric trains;
- f) **agree** to provide for improvements to the Wellington urban rail network infrastructure with *[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]* funding between 2007/08 and 2010/11
- g) **agree** that release of funds for improvements to the Wellington urban rail network infrastructure be subject to the approval of ONTRACK's shareholding Ministers following receipt of a satisfactory business case from the ONTRACK board.;
- h) **agree** to provide for improvements to the national track network after existing funding has been spent with additional funding of \$25 million in 2008/09 and \$25 million in 2009/10;
- i) **agree** that release of funds for upgrades to the national track network be subject to the approval of ONTRACK's shareholding Ministers upon receipt of a satisfactory business case from the ONTRACK board.

Financial Recommendations:

- j) **agree** to establish a new Other Expense to be incurred by the Crown "Urban Rail Development" as a five year multi-year appropriation in Vote Finance, with the scope shown in the Estimates to be "funding for electrification, upgrades and maintenance of the Auckland and Wellington metropolitan rail networks";
- k) **approve** the following changes to appropriations to put into effect the decisions made in paragraphs a and f, with a corresponding impact on the operating balance:

Vote Finance Minister of Finance	\$m – increase/(decrease)			
	2006/07	2007/08 to 2011/12	2012/13	2013/14 & Outyears
Other Expense to be incurred by the Crown: Urban Rail Development (funded by revenue Crown)	-	550	50	-

- l) **note** that the indicative spending profile for the multi-year appropriation above is as follows:

Indicative annual spending profile	\$m – increase/(decrease)						
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Auckland electrification	-						
Wellington upgrades	-						

[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]

- m) **agree** to establish a new Other Expense to be incurred by the Crown “National Rail Network Improvements” in Vote Finance, with the scope shown in the Estimates to be “funding provided for improvements to the national rail network”;
- n) **approve** the following changes to appropriations to put into effect the decisions in paragraph h, with a corresponding impact on the operating balance:

Vote Finance Minister of Finance	\$m – increase/(decrease)				
	2006/07	2007/08	2008/09	2009/10	2010/11 & Outyears
Other Expense to be incurred by the Crown: National Rail Network Improvements (funded by revenue Crown)	-	-	25	25	-

Hon Dr Michael Cullen
Minister of Finance