

**Treasury Report:** Section 12 Approval for Unappropriated Expenditure:  
Purchase of Rail Infrastructure

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<b>Date:</b>	30 June 2004	<b>Treasury Priority:</b>	<b>Ministerial Deadline</b>
<b>Security Level:</b>	IN-CONFIDENCE	<b>Report No:</b>	T2004/1170

**Action Sought**

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	<b>Action Sought</b>	<b>Deadline</b>
Minister of Finance	<b>Approve</b> proposed expenditure	3pm, Wednesday 30 June 2004
Associate Minister of Finance (Hon Trevor Mallard)	Note	None
Associate Minister of Finance (Hon David Cunliffe)	Note	None

**Contact for Telephone Discussion (if required)**

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<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st Contact</b>

**Enclosure: No**

## Treasury Report: Section 12 Approval for Unappropriated Expenditure: Purchase of Rail Infrastructure

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### Purpose of Report

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1. To seek your approval for un-appropriated expenditure arising from the agreement to purchase the national rail infrastructure from Toll Holdings.

### Analysis

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2. The acquisition of the national rail infrastructure from Toll Holdings is being executed today. You will be asked to sign the Sale and Purchase Agreement and other relevant documents.
3. The cost of the transaction is \$52,649,365.86, made up as follows:

Item	GST Excl. amount	GST	Total
Encumbrances	\$33,539,638.60	\$4,192,454.82	\$37,732,093.42
Tranche 1 Land	\$371,736.00	-	\$371,736.00
Restructuring costs	\$788,038.20	-	\$788,038.20
Pre-Completion Capex	\$13,757,498.24	-	\$13,757,498.24
<b>Total Payment</b>	<b>\$48,456,911.04</b>	<b>\$4,192,454.82</b>	<b>\$52,649,365.86</b>

4. In addition, payments will need to be made in 2004/05 for the surrender of three more tranches of land, once valuations are agreed and the necessary engineering works have been carried out to enable Toll Holdings to vacate the land.
5. The payments today will be met from appropriations in Vote Finance as follows:

Item	Appropriation line item	2003/04 Supp Estimates (\$000)	Actual (\$000)	(Under) Over (\$000)
Restructuring costs	Other expenses to be incurred by the Crown: Track Co establishment costs	4,500	788	(3,712)
Encumbrances & Tranche 1 Land	Purchase or development of capital assets by the Crown: Track Co, purchase of network assets	47,250	38,104	(9,146)
Pre-Completion Capex	Capital contributions to other organisations: Track Co infrastructure development	10,000	13,757	3,757
Totals		61,750	52,649	(9,101)

6. There will be an over-expenditure against the appropriation for infrastructure development. This will be more than offset by the under-expenditure against the item for the purchase of the network assets.
7. The Government has committed a total of \$200 million over the next five years to infrastructure development. At the time the Supplementary Estimates were approved, our best estimate of the maximum amount required in 2003/04 was \$10 million, with \$70 million in 2004/05 and the remainder spread across the next three years.

Hence the over-expenditure of \$3.757 million in 2003/04 is a timing difference, and will result in a saving in the amount required in the out-years.

8. The over-expenditure will require approval under Section 12 of the Public Finance Act. Section 12 approvals can be used for items up to 1% of the total annual appropriations within a Vote. Vote Finance has \$4,366 million of annual appropriations in 2003/04, and one existing over-expenditure item of \$5.688 million (the loss on the sale of the Auckland marinas), so this item can be met from within the 1% limit.

## Recommended Action

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9. We recommend that you:
  - a) **note** that acquisition of the national rail infrastructure from Toll Holdings includes \$13.757 million for capital expenditure completed by Toll Holdings prior to the acquisition date;
  - b) **note** that this figure exceeds the relevant appropriation in Vote Finance by \$3.757 million, but can be met by way of a Section 12 approval;
  - c) **approve** the proposed expenditure in excess of available appropriation of \$3.757 million (GST not applicable) in the 2003/04 financial year;
  - d) **note** that the over-expenditure will be included in the list of Section 12 approvals to be submitted to you for approval in July.

for Secretary to the Treasury

**Hon Dr Michael Cullen**  
Minister of Finance