

# The Treasury

## Budget 2011 Information Release

### Release Document

June 2011

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## WELLINGTON METRO RAIL PACKAGE

### Proposal

1. To inform Cabinet of the emerging elements in the Wellington Metro Rail Package which have financial implications for the Crown, and authorise me to continue negotiations and report back to a sub-committee of Cabinet.

### Executive Summary

2. The Wellington commuter rail network has been allowed to decline over a long period of time. The network has been upgraded in recent years, but it requires further work to make it functional and reliable on an ongoing basis.
3. Greater Wellington Regional Council (GWRC) has put forward a package proposal (the package) which shares responsibility for the remaining upgrade work and operation of the system among the various stakeholders. Under the package:
  - 3.1. GWRC would hold the metro trains in a rolling stock ownership company (ROSCO) and fund the upgrade of the Ganz Mavag units. It would also take full responsibility for the funding of future maintenance and renewal of the network infrastructure and for above rail assets.
  - 3.2. KiwiRail would continue to provide the rail network infrastructure and services, and continue as train operator for metro passenger services at a price that meets their costs, subject to a contract review in mid-2011.
  - 3.3. The Crown would retain ownership of the Wellington metro rail network infrastructure (ie track, signals, power supply etc) and be responsible for future investment to bring the network to a functional, reliable and sustainable standard.
4. GWRC needs to include the funding requirements of the package in its draft Annual Plan, if it is to advance the elements of the package in 2011/12. This plan will become public on 3 March 2011.
5. Because the Crown's involvement in the package will become public on 3 March 2011, with the release of the GWRC draft Annual Plan, I am seeking the authorisation of Cabinet to proceed with the negotiation of the package. Continuing negotiations will, in effect, commit the Crown to additional capital funding which will need to be confirmed in the Budget 2011 process.

## Background

6. The Wellington commuter rail network has been allowed to decline over a long period of time. This has been characterised by reliance on now very old and degraded rolling stock, problems with traction (the overhead power supply), signalling and track infrastructure.
7. The Wellington Regional Rail Plan 2010–2035 provided for a number of stages in the development of the passenger rail network. The first stage is the 'base case' which provides for a functional, reliable, and sustainable network.
8. The previous government allocated \$125 million for improvements to the Wellington metro rail network infrastructure. \$258 million was also provided initially through the National Land Transport Fund (NLTF), and replaced by Crown appropriation (Budget 2009), when this government honoured part of its commitment to greater roading infrastructure spending by moving rail capital out of the NLTF. The total government investment in the Wellington regional rail project (WRRP) is nearly \$400 million. Other funding came from GWRC and the New Zealand Transport Agency (NZTA).
9. This government funding paid for most of the following.

<b>WRRP project description</b>	<b>Value \$ m</b>
Double tracking to Waikanae	84
Kapiti Coast stations and train storage	15
Third track at entry to Wellington Station	40
Johnsonville tunnel improvements	10
Renewals	34
Platforms and stations upgrades	19
New EMUs (Matangi units)	236
Matangi network compliance	74
New EMU depots and storage areas	35
Project management	4
<b>Total</b>	<b>551</b>

10. The expenditure to date has largely completed the 'base case' with the exception of some additional capital upgrade to the network and the refurbishment of the Ganz Mavag units. The expenditure has enabled the introduction of the Matangi electric units, but has not achieved a functional, reliable, and sustainable network.
11. GWRC intended that the completed 'base case' would be the first of up to five stages. The second stage known as Rail Scenario 1 (RS1) was to commence in 2011/12, including:

- 11.1. 14 new cars (7 x 2 car EMUs)
  - 11.2. double tracking Trentham to Upper Hutt
  - 11.3. network changes for reliable frequency (installing signalling and track turnbacks and passing loops)
  - 11.4. station and park and ride upgrades.
- 12. Further stages were to proceed if there were supporting levels of demand (stage three was indicatively to commence in 2014/15, with stages four and five following in 2017/18).
  - 13. With the change of fiscal climate, GWRC accepts that further network enhancements are unlikely in the foreseeable future. Focus has turned to what is required for a modern functional network that provides good service reliability.

***Operating model for the Wellington metro rail network***

- 14. In September 2009 Cabinet approved the Metropolitan Rail Operating Model [EGI Min 09 21/8 refers]. This model is intended to put metro rail on a sustainable basis, allow operating services to be fully contested, and ensure KiwiRail will not be required to subsidise operations of networks for commuter services in Wellington or Auckland.
- 15. Part of the proposed package outlined in this paper involves the transfer of overall responsibility for metro rail ownership and funding to GWRC. This is consistent with the Metropolitan Rail Operating Model, and with international trends where commuter rail systems are now managed with more local control than previously, with local authorities taking responsibility for meeting costs, including track access, setting fare policy, dictating service standards, and requiring accounting transparency from network providers and operators.

***Requirement for further upgrade to produce a functional and reliable network***

- 16. The Wellington metro rail network is substantially more robust than pre WRRP, but in certain areas WRRP intentionally left works that were not essential for the operation of the Matangi trains, but are desirable to achieve network integrity. KiwiRail has advised that additional work is required to provide for the safe and reliable operation of the Wellington metro network.
- 17. For the existing network to provide reliable service for Wellingtonians, there are a number of further issues that need to be progressed. These include:
  - 17.1. the refurbishment of the Ganz Mavag units, at an estimated cost of \$80 million. The Ganz Mavags, which were built in Hungary 29 years ago, are at the end of their operational life. They need refurbishment so they can meet current and future peak demand.

- 17.2. completing the renewal of the rail network infrastructure. It is proposed to undertake the following capital upgrades of the Wellington rail network infrastructure over eight years:
  - 17.2.1. renewal of the remainder of the traction (overhead power) system at a cost of \$56 million
  - 17.2.2. renewal of the signalling system at a cost of \$23 million
  - 17.2.3. renewal of old platforms at a cost of \$9 million.
- 17.3. payment of reasonable track access costs to KiwiRail to meet the costs of maintaining the network infrastructure, so that the network no longer declines over time. This is estimated to cost an additional \$7.3 million a year.
18. Maps showing WRRP work to date on the rail network infrastructure and proposed under the package (traction and stations) are attached at annexes 1, 2 and 3.

#### **Proposed upgrade and operating package**

19. Negotiations are ongoing with GWRC, KiwiRail and the NZTA on a package of funding measures to cement a sustainable funding framework for metro passenger rail in Wellington.
20. The package would provide for the further upgrade of the Wellington metro rail network and ensure the network is functional, safe and reliable over the long term. The package involves the Crown, GWRC, KiwiRail and NZTA. It requires significant policy and financial commitment from all parties. GWRC is willing to accept substantial costs itself.
21. Finalisation of the package will require agreement by the KiwiRail Board, GWRC, NZTA and Cabinet.

#### **Proposed GWRC responsibilities**

22. As the package is currently proposed, GWRC would accept full responsibility for operating the metro rail services, with funding support from NZTA. GWRC's responsibilities would include the following:
  - 22.1. defining the level of service, and meeting associated costs, with support from NZTA.
  - 22.2. paying fair and negotiated track access charges from 2011/12. This would increase from the current \$7.9 million to \$15.2 million in 2011/12, increasing to \$15.8 million by 2013/14. The increased track access charges would meet the costs of maintenance and the regular renewal of track, signals and traction so that the network no longer declines over time.
  - 22.3. being the major shareholder in a Rolling Stock Ownership Company (ROSCO) which owns rolling stock (the Matangi and Ganz Mavag units), accepting

responsibility for maintaining them, and financing the estimated \$80 million refurbishment of the Ganz Mavag units.

- 22.4. meeting the \$22.7 million shortfall from the Crown's \$258 million Budget 2009 appropriation that was outlined as a budget risk in the Vote Transport 4 Year Budget Plan, in return for the ownership of the new electric multiple unit depot.
- 22.5. taking responsibility for maintaining and developing all above-ground facilities on the network, including stations (excluding Wellington station), car parks and over-bridges.
23. GWRC will borrow to meet the costs of the Ganz Mavag upgrade and for the \$22 million shortfall, with principal and interest payments estimated at \$2.9 million a year.
24. GWRC will have to raise rates to meet their side of the package, and they intend to include financial provision for the package in their draft Annual Plan. This plan is to go to the Council on 3 March 2011, and is a public document. The Council is then required to undertake public consultation on the draft plan before final approval of the overall increases on 8 June 2011.

#### ***The role of KiwiRail and NZTA***

25. KiwiRail will continue to provide, maintain and renew the rail network infrastructure and provide network services (traction, signalling, train control etc). The broad direction of the package has been discussed by the KiwiRail Board.
26. KiwiRail, through TranzMetro, will continue as train operator for metro passenger services, and the existing 10-year contract will be reviewed in mid-2011 to be more performance-based and provide incentives for TranzMetro to perform.
27. KiwiRail will accept the transfer of the Ganz Mavags and above ground assets (except Wellington Station) at a price which reflects their current actual nominal value.
28. NZTA would provide additional funding support to meet the shortfall in operational funding for the metro rail service.

#### ***The role of the Crown as shareholder of KiwiRail Group***

29. The Crown will retain ownership of the Wellington metro rail network infrastructure (ie track, signals, power supply etc) and be responsible for future investment to bring the network to a functional, safe and reliable standard.
30. In terms of the proposed package, the Crown would invest \$88.4 million over eight years to complete the upgrade of the rest of the traction, signalling and platform assets. This investment would get the network up to a functional, safe and reliable standard and enable GWRC to meet the network's ongoing costs through the increasing track access charges.

## **Benefits to the Crown of the Wellington rail package**

31. The benefits to the Crown are as follows:
  - 31.1. the acceptance by GWRC, with assistance from NZTA, of the liability for the future operation, maintenance and renewal of the rolling stock, stations and other assets, and payment for regular renewal of the infrastructure through increased track access charges.
  - 31.2. no requirement by the Crown to fund the Ganz Mavag unit refurbishment (\$80 million), presently owned by KiwiRail, beyond funding the NZTA share through the NLTF.
  - 31.3. fair track access charges for use of the rail network. GWRC will pay significantly more in track access charges to cover the costs of operating, maintaining and regular renewals of the metro rail network. This avoids KiwiRail subsidising the network, with an impact on its commercial performance. It removes the risk of running down the metro network through deferred maintenance and renewals.
  - 31.4. no commitments for further upgrades of the network beyond the proposed traction, signalling and platform renewals. The requirement for GWRC to take clear responsibility for costs will ensure any future development proposals involve realistic plans for matching revenues with costs.
  - 31.5. KiwiRail Group, as a state owned enterprise, is able to concentrate on putting its core freight business on a much more commercial basis.

## **Independent reviews of costs of traction and signalling work**

32. KiwiRail and the Ministry have had independent reviews of the elements of the proposed upgrade programme. Parsons Brinckerhoff and Sinclair Knight Merz (SKM) reviewed the traction proposal. AECOM reviewed the signals proposal. Aurecon reviewed the platforms proposal.
33. The reviews consider that KiwiRail's costing is reasonable. The reviews support the proposed level of investment as a prudent minimum or recommended significant further investment, citing the increased demands on the network once the new Matangi trains are fully operational. The reviews concluded that KiwiRail's investment programme appears to be a reasonable prioritised approach to the upgrade.
34. The Ministry has discussed the proposal in detail with KiwiRail. KiwiRail defends its programme, and states that with its experience, it can keep the network running reliably and effectively with this minimum investment. Based upon the independent advice, the Ministry considers that there are no options for scaling back the \$88.4 million of investment required to bring the Wellington metro network up to a functional, safe and reliable standard.

## Other issues

35. The exact shareholding of the Wellington rolling stock ownership company is yet to be determined. GWRC wants to retain at least a 77 percent ownership interest. It may be appropriate for the Crown to hold some ownership interest and this will be explored further.
36. The package will require significantly greater investment over time by GWRC. To fund this, GWRC will increase property rates and fares. With the package, GWRC transport rates are likely to need to increase by 4.5% a year (2% without the package). Fares are planned to rise by 2.6% a year.
37. The package will make it easier for GWRC to tender out the operations of the train services. Introducing competition will incentivise improved services and lower costs compared to the current situation where KiwiRail are the only potential supplier. Moving towards contestable tendering is a key element of the Metro Rail Operating Model.
38. The \$80 million refurbishment of the Ganz Mavag units would provide considerable work over the medium term for the KiwiRail Woburn workshop.
39. The current NZTA financial assistance rate (FAR) for commuter rail needs to be resolved. The FAR is the rate at which the NZTA contributes funding to regional or territorial transport infrastructure and services. Currently the FAR for passenger rail services is 60 %, significantly above the 50 % for other passenger transport services. This is to be resolved as part of the package, probably with a glide path to 50 percent over 7–10 years.
40. The proposed programme of network capital upgrade is outlined below.

\$000	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	Total
Traction Assets	6,720	11,780	8,350	7,200	5,000	5,000	8,225	3,970	<b>56,245</b>
Signals & Telecommunications Assets	682	4,363	1,643	4,393	1,643	4,394	1,613	4,363	<b>23,095</b>
Platform Assets	1150	1,250	1,210	1,250	1,220	1,020	910	1,080	<b>9,090</b>
<b>Total</b>	<b>8,552</b>	<b>17,393</b>	<b>11,203</b>	<b>12,843</b>	<b>7,863</b>	<b>10,414</b>	<b>10,748</b>	<b>9,413</b>	<b>88,429</b>

Note: Totals may not sum exactly due to rounding.

## Decisions needed

41. GWRC needs to include the funding requirements of the package in its draft Annual Plan, if it is to advance the elements of the package in 2011/12. This plan will become public on 3 March 2011. Therefore, Cabinet needs to provide a clear indication of its willingness to continue negotiating the package ahead of the budget process, to take advantage of a partnership opportunity with GWRC.
42. I am therefore now seeking Cabinet's agreement for me to proceed with the negotiation of the final package. Cabinet should note that continuing negotiations will, in effect, commit the Crown to the additional capital funding set out in paragraph 40 above, which will need to be confirmed in the Budget 2011 process.

43. To enable the timely resolution of the package, I ask Cabinet to delegate to a sub committee of the Prime Minister, Minister of Finance, Minister for State Owned Enterprises and me the power to give final approval to the Wellington package, when negotiations are complete.

### **Treasury comment**

44. Treasury supports the policy intent of the proposal. However, the fundamental issue for Ministers to consider is whether the benefits of the proposal can be realised which relies on;
- 44.1. the region assuming ongoing responsibility for metro rail operations
  - 44.2. the region funding metro rail operations without seeking further assistance from the Crown.

45. [6]

46. Treasury notes that allowing the negotiations to proceed implicitly commits the Crown to fund the proposal (without providing the funding to do so). The proposal represents an early call on the Budget 2011 capital allowance which is oversubscribed. Deciding to fund this proposal in advance of assessing all other capital proposals makes it harder for Ministers to prioritise the capital allocation.

### **Consultation**

47. Consultation has taken place with KiwiRail Group and the NZTA. GWRC will need to consult with its ratepayers as part of the requirement to increase its share by rate increases and borrowing.

### **Financial implications**

48. The financial implication of the package for the Crown will be considered as part of the Budget 2011 process. A Budget bid has been lodged with the Treasury for the \$88.4 million network upgrade cost.
49. Other financial implications, which may impact upon the KiwiRail Group's balance sheet, will be explored in the Treasury-led work on the capital structure of the state owned enterprise. This is due to be reported to Cabinet in April 2011.

### **Human rights implications, legislative implications, disability perspective, gender implications**

50. Nil

## **Regulatory Impact Analysis**

51. Not required for this paper.

## **Publicity**

52. A joint announcement by the Government and GWRC, outlining the current state of negotiations, will be made following Cabinet's consideration of this paper. KiwiRail Group and the NZTA will be kept informed.

## Recommendations

53. I recommend that Cabinet:

1. **note** the broad direction of the Wellington metro rail package as outlined in this paper.
2. **note** the in-principle agreements that have been reached between the Minister of Transport and the Chair of Greater Wellington Regional Council.
3. **note** that further negotiations are taking place between the Crown and Greater Wellington Regional Council officers on resolving key issues.
4. **authorise** the Minister of Transport to proceed with the negotiation of the package.
5. **note** that agreeing to recommendation 4 above will, in effect, commit the Crown to additional capital funding of \$88.4m over a period of 8 years, to invest in KiwiRail Group's rail network infrastructure in the Wellington region.
6. **note** that the additional funding will need to be confirmed in the Budget 2011 process and that Treasury has received a budget bid of \$88.4 million over 8 years.
7. **delegate** to a sub-committee of the Prime Minister, Minister of Finance and Minister for State Owned Enterprises and the Minister of Transport the power to give final approval to the Wellington package, when negotiations are complete.
8. **note** the significant implications for the KiwiRail Group Board, the NZ Transport Agency and Greater Wellington Regional Council, all of which will be responsible for decisions essential to concluding the package.
9. **note** that, to the extent that the package impacts upon KiwiRail Group's balance sheet, decisions on this will come to Cabinet as part of a wider exercise that is being led by Treasury on possible changes to KiwiRail Group's capital structure.
10. **note** that Greater Wellington Regional Council is required under legislation to publicly consult with ratepayers and rail passengers in March 2011, and the Government's communications will be co-ordinated with the Council.

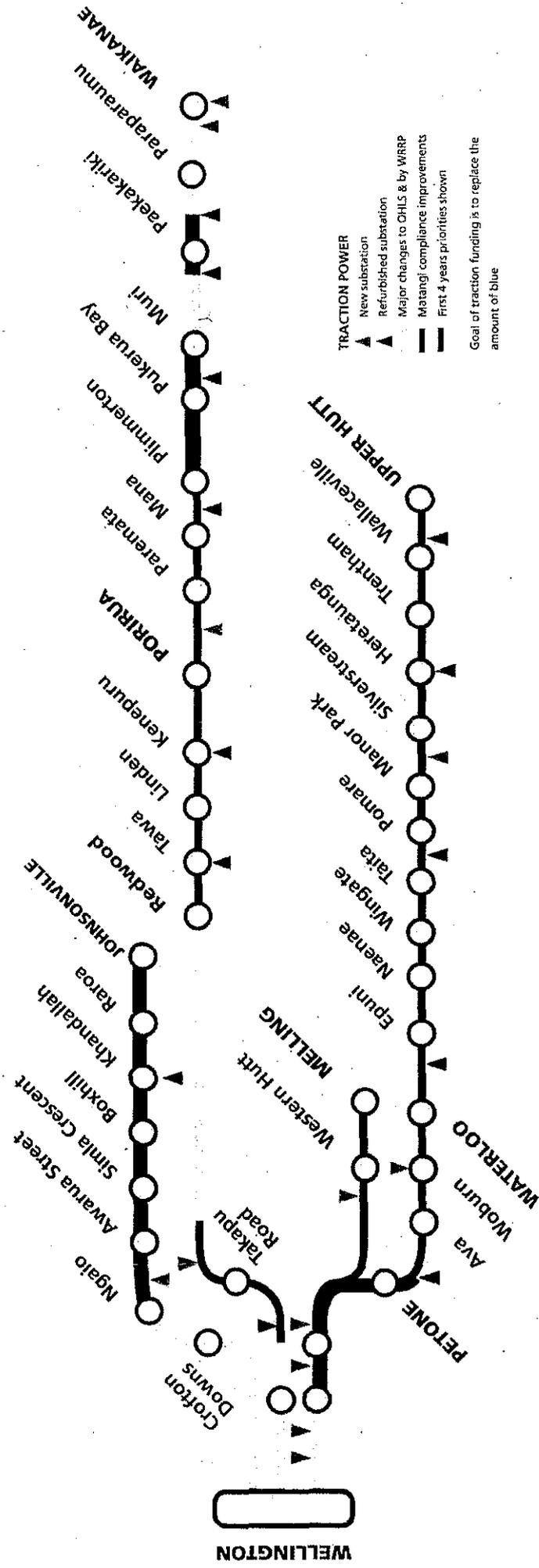
  
Hon Steven Joyce  
**Minister of Transport**

Dated: 16/2/11

### WRRP Network map showing completed / planned work



# Traction Power



# Stations

