

COVER SHEET

1. PGF Investment in Rail	Noting
Background & context:	Recommendation(s):
<p>The Government is committed to investing in rail to strengthen its role in New Zealand's transport and logistics system, and to support other objectives such as transitioning to a low carbon economy. The extent and nature of the Government's investment in rail will be determined through the Future of Rail review, which Ministers will consider in November 2018, with investment underway from 2019/20 onwards.</p> <p>In the meanwhile, the Government agreed that the Provincial Growth Fund (PGF) will make investments in KiwiRail to strengthen connectivity in the regions in order to lift the productivity potential of the regions. It has committed to a number of specific investments in 2017/18 and 2018/19 to achieve this and it is committed to making further investments to support this over the life of the PGF. An Aide Memoire has been provided to RED Delegated Ministers which outlines the following.</p> <p>KiwiRail sought \$300m through Budget 18 to undertake long term procurement programmes to strengthen the rail asset base. It received \$^{Comme cia In} from the Crown to provide it with sufficient certainty to enter into these procurement processes. The Government is considering whether programmes within the remaining \$^{Comme cia In} would fit with the PGF. The total track related costs within the \$300m is \$^{Comme cia I}, of which ^{Comm} per cent are in the regions and support freight movement.</p> <p>Officials have been working with KiwiRail to identify further potential PGF investments in rail. The potential areas for investment include:</p> <ul style="list-style-type: none"> • Tourism • Intermodal logistics hubs • Forestry • Northland rail. <p>Looking across the potential areas for investment in terms of their contribution to PGF objectives, we have identified three potential packages within the lifetime</p>	<p>We recommend that the IAP:</p> <p>a) Discuss the attached RED Ministers aide memoire on PGF Investment in Rail</p>

of the PGF.

Package 1 – focuses on durability of rail in all regions across the New Zealand rail network with \$ [Commercial] committed to long term procurement, \$ [Commercial] on the North Auckland Line, and the remainder focused on developing tourism opportunities on the West Coast and three distribution hubs for freight.

Package 2 – has some focus on durability of rail in all regions across the New Zealand network and an increase focus on tourism opportunities in the South Island.

Package 3 – has minimal investment in durability of rail, and is focused on the most deleterious rail track requirements across New Zealand to support the network. The main focus is on investment in tourism and distribution hubs. Additional funds spent on forestry and tourism (the amount spent on forestry would relate to more wood based processing and industry).

Following discussions by RED Delegated Ministers, a Cabinet paper on the PGF's rail investment strategy is proposed. This would cover:

- Fit with wider work on the Future of Rail review
- Rail investment choices for Ministers
- Recommendations on overall quantum for the PGF's investment in rail.

The purpose of this discussion is to:

Supporting proposal:

No

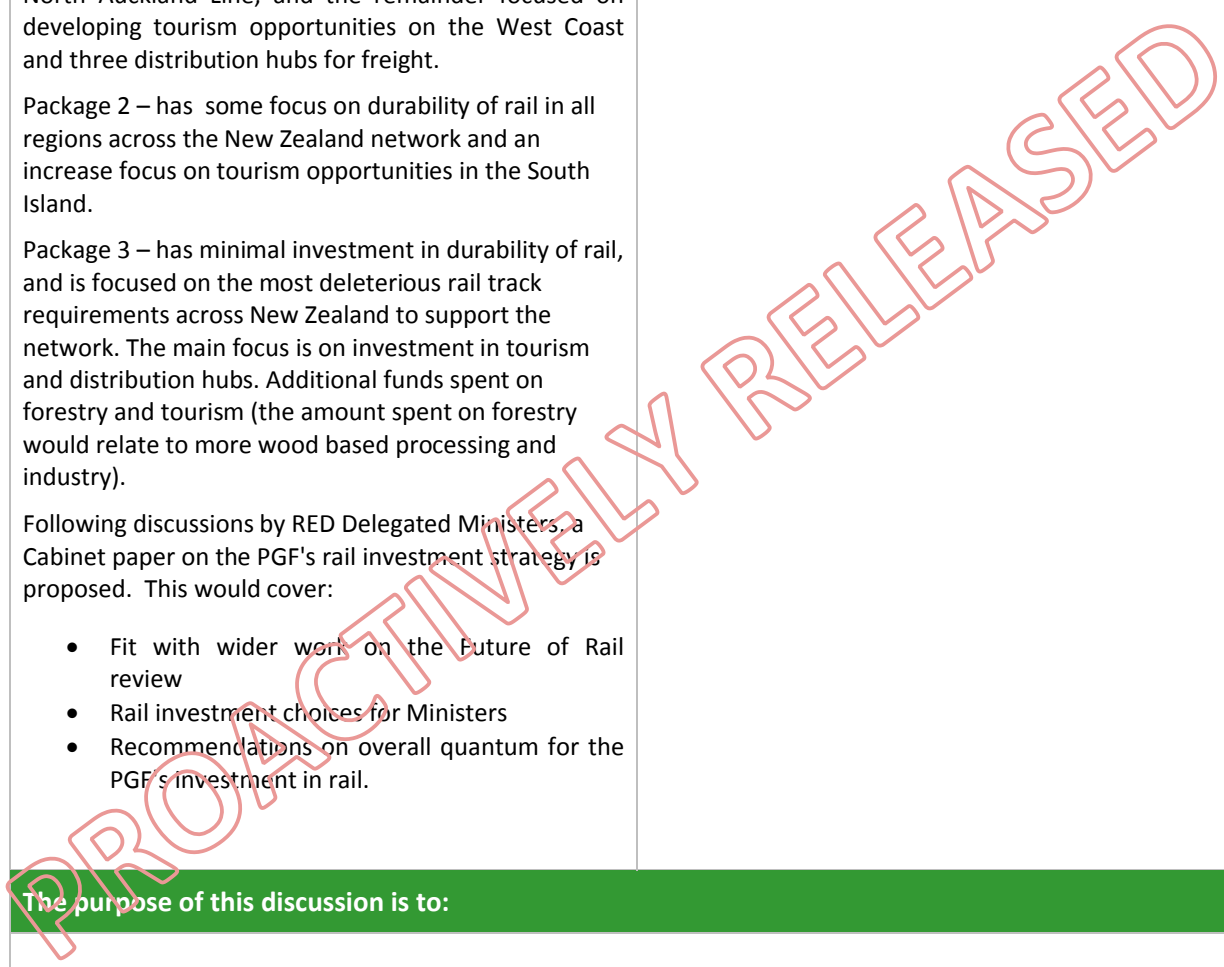
Appendices:

No

Sponsor(s):

N/ A

Manager/Author of paper:





**PROVINCIAL
DEVELOPMENT
UNIT**

AIDE MEMOIRE

PGF Investment in Rail

Date:	8 August 2018	Priority:	High
Security classification:	In Confidence	Tracking number:	0536 18-19

Information for Minister(s)

Hon Shane Jones
Minister for Regional Economic Development

Hon Phil Twyford
Minister of Transport

Hon David Parker
Minister for Economic Development

Hon Grant Robertson
Minister of Finance

Fletcher Tabuteau
Parliamentary Under-Secretary to the Minister for Regional Economic Development

Contact for telephone discussion (if required)

Name	Position	Telephone	1st contact
Robert Pigou	Head of Investment Management	Privacy of natural persons	✓
Jared Humm	Senior Policy Advisor, Strategy and Governance	Privacy of natural persons	

The following departments/agencies have been consulted

Ministry of Transport, Treasury, KiwiRail

Minister's office to complete:

Approved

Noted

Seen

See Minister's Notes

Declined

Needs change

Overtaken by Events

Withdrawn

Comments



AIDE MEMOIRE

PGF Investment in Rail

Date:	8 August 2018	Priority:	High
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Purpose

The Government is committed to investing in rail to strengthen its role in New Zealand's transport and logistics system, and to support other objectives such as transitioning to a low carbon economy. The extent and nature of the Government's investment in rail will be determined through the Future of Rail review, which Ministers will consider in November 2018, with investment underway from 2019/20 onwards.

In the meanwhile, the Government agreed that the Provincial Growth Fund (PGF) will make investments in KiwiRail to strengthen connectivity in the regions in order to lift the productivity potential of the regions. It has committed to a number of specific investments in 2017/18 and 2018/19 to achieve this and it is committed to making further investments to support this over the life of the PGF.

This note provides an update to RED Delegated Ministers on the work that officials are doing on rail ahead of preparing a package for Cabinet approval. It is informed by discussions between the Provincial Development Unit, KiwiRail, Treasury, and the Ministry of Transport.

Privacy of natural persons

Robert Pigou
 Head of Investment Management
 Provincial Development Unit, MBIE

08 / 08 / 2018

PGF investment in rail

'Future of Rail' review

1. The Future of Rail review will support Ministers to make decisions about the purpose of rail in the context of a multimodal, mode neutral transport system. The review will inform Ministers of the wider economic benefits of rail (including as an enabler of economic growth). It will set out the purposes that rail can contribute to in different contexts (urban, metro, regional) and for different users (passenger, freight and tourism). This includes consideration of how rail can support regional development. Through the review, Ministers will make decisions on the funding, operating models, and ownership arrangements for rail. Following decisions, there will be a long period of implementation, including consideration of how rail funding fits with land transport funding in general.



2. Officials are developing the set of principles that will guide rail funding decisions in the future, which are likely to include:
 - Rail is integrated into the land transport system, meaning that the primary focus is on the corridor, not the mode, and rail is invested in where this suits its particular strengths
 - Rail's funding and revenue sources are used in a transparent and principled way, meaning for the GPS that road, costal shipping and rail funding decisions are made with regard to each other
 - Rail funding and operating models provide long-term certainty for managing long-term rail assets, and for passengers and businesses to be confident in the services they rely upon
 - Rail funding has clear and transparent sources and expectations on what is being bought (both assets and wider benefits).
3. The new Government Policy Statement (GPS) on land transport requires a mode neutral approach be taken in determining the optimum use of available funding for delivering positive social, economic and environmental outcomes, including in the regions. Given the focus on mode neutrality, the funding (and associated ownership structure) for rail will therefore need to support rail to be an effective alternative to other modes. To achieve this, funding arrangements need to:
 - Create medium-term certainty (10-15 years) for providers and users of rail services, where long-term assets are managed in a long-term way. Service reliability and long-term funding certainty are vital for businesses to orient their logistics toward using rail
 - Ensure rail is considered and funded as an essential part of the land transport system. The current and potential value rail provides in conjunction with other transport modes to deliver government outcomes is key
 - Recognise that rail delivers both commercial returns and wider public benefits. The funding model and structural options must deliver this duality transparently - driving commercial returns and targeting government investment to deliver the public benefits sought.
4. Through the review, Ministers will determine the future role of the Crown appropriation and the National Land Transport Fund, as with other revenue streams and sources of funding such as the PGF. In considering their future role, Ministers will consider how well these approaches support the purpose of rail in the context of mode neutrality, and also the Government's specific aspirations for investment in the regions.

Key considerations for PGF investment in rail

5. Given PGF funding is available for only three years it does not meet the review's objectives for achieving sustainable funding for rail. However, it offers a parallel stream of funding to bring forward investments that would otherwise need to wait until this was achieved, to enable the Government to invest now in aspects of the rail network that will bring more immediate benefits to the regions. These investments will be made in a way that is consistent with the longer term objectives for rail and contribute to the overall development of the rail network, but will focus on lifting the productivity potential of the regions.
6. From a PGF perspective, the quantum of funding to be allocated to rail will reflect its contribution to lifting regional productivity relative to other investment priorities of the PGF. This includes investment in transformational sectors and firms, training and development of local



youth and unemployed workers, and other forms of infrastructure. The PGF investment in rail projects will reflect the priorities for infrastructure investment across the surge regions and other parts of New Zealand emerging through discussions with regions. Initial indications are that the areas of infrastructure investments that would have the most significant impact on the regions' productivity potential are as follows:

- **Northland:** port, railway, water storage
 - **Tairāwhiti:** roading
 - **Manawatu-Whanganui:** distribution/logistics hub
 - **Eastern Bay of Plenty:** logistics hubs network connected to Tauranga Port
 - **Hawkes Bay:** water storage, roading
 - **West Coast:** digital connectivity, tourism rail
7. There are other regions with significant infrastructure requirements that the PGF will consider, such as Milford Sound and digital connectivity.
8. The following considerations are being applied to potential PGF investments in rail:
- Meets PGF requirements: contribution to PGF's objectives, additionality, fit with regional economic development priorities, good project management and governance
 - Ensures the durability of rail grows in the regions as a result of investment
 - Can make demonstrable progress on initiatives within the timeframes of the PGF
 - Will have a significant impact on the productivity of the key sectors in the relevant regions
 - Strengthens distribution/logistics hubs that support regions' key sectors and exports
 - Where projects are national in scale, can be started in surge regions to ensure they receive benefits early
 - Prioritises regions where key roading infrastructure (ie state highways) are deleterious and unlikely to receive sufficient funding through the GPS to make substantial improvements to connectivity

PGF investments in rail

9. Rail is likely to be the largest area of infrastructure investment for the PGF, given the importance to the Government of strengthening this transport mode and the high costs associated with rail investment. Officials are working together to develop a rail package for Ministers to consider, proposing a funding envelope and priorities within this for investment that will contribute to the productivity potential of the surge regions and will support the productivity of other sectors.
10. To date, the Government has committed \$91.25m to the following rail investments through the PGF:
- 2017/18: regional projects (\$11.25m):
 - reopening the Wairoa-Napier line for forestry
 - upgrading the Whanganui line



- funding feasibility studies for Kawerau (inland hub), Southland (forestry and containers) and New Plymouth (largely forestry)
- North Auckland Line business case
- 2018/19: investment in Kiwirail to ensure the durability of rail grows in the regions (\$80m).

11. In March 2018, Ministers Robertson and Jones directed officials to provide a breakdown of the expenditure to Ministers' offices so they could identify an appropriate subset for Ministers to discuss.

Further opportunities for PGF investment in rail

Long term procurement

12. KiwiRail sought \$300m for FY2019/20 funding through Budget 18, to undertake long term procurement programmes to strengthen the rail asset base. Budget Ministers were sympathetic to confirming \$300 million of FY2019/2020 funding for KiwiRail through Budget 2018, but that the final appropriation was for \$185 million with an expectation that the PGF would be able to meet some of the remaining \$115 million in relation to KiwiRail investment in the regions.
13. The principle of using the PGF to make up this shortfall was considered appropriate where KiwiRail's activities could be linked to regional development. Of the \$300m, the total track related costs are \$170m, of which 70 per cent are located in the regions and support freight movement. From a PGF perspective, it is important that any support provided will ensure the durability of rail in the regions to support PGF's sector investments.
14. Later in this note, we set out a number of potential investment packages Ministers could choose between for rail. These involve different levels of investment in this long term procurement programme accompanied by varying investments in specific regional economic development proposals.
15. The PGF can contribute a portion of this investment to ensure the durability of rail in all regions across New Zealand, as the physical network (below-rail) is an important element of the total rail proposition. It can also invest in the underlying system in those areas where it will make specific investments in regional economic development initiatives, to ensure the rail network is able to support these initiatives. The options below reflect different levels of emphasis on these national and initiative level investments.
16. If funding levels of less than \$115m are agreed through the PGF, the Government will need to determine whether and how to meet the remaining shortfall through Budget 19. Following the Future of Rail review, funding for locomotives, ferries, rolling stock and track will be met through more permanent transport funding sources.

New initiatives for PGF investment

17. Officials have been working with KiwiRail to identify further potential PGF investments in rail. The potential areas for investment include:
- Tourism
 - Intermodal logistics hubs
 - Forestry
 - Northland rail.



18. The table below sets out key information provided by KiwiRail on the projects, summarising information from business cases that are being developed and will be provided to RED Delegated Ministers for their September meeting. The cost of the four projects will be greater than the PGF can fund, so Ministers will need to make choices between these investments. Officials will provide advice to Ministers to support these choices.

Initiative (description)	Key sectors and regions impacted	Indicative cost	Time to completion	Demonstrable progress in PGF timeframes
Tourism (additional frequency and capacity on three tourist train services and a premium tourism option)	Tourism in central North Island, Top of the South, Canterbury and West Coast	\$144-185m	Indicative 2027	Station upgrades in surge regions beginning March 2019
West Coast tourism feasibility study	West Coast	\$250k (feasibility study) \$50m (implementation)	Indicative 2027	Feasibility study 2019 start and complete
Intermodal logistical hubs	Bunynthorpe (Lower North Island) Kawerau (Eastern BoP)	\$60m	2021	Shovels in ground once the land is purchased (2019)
Forestry (further hub investment and rolling stock)	Lower North Island and Southland	\$100-120m	2019-21	Bulk completed by 2020
North Auckland Line (NAL) including Marsden Spur Note: dependent on feasibility study and Upper North Island Freight Logistics Study (UNIFLS)	Northland	\$375m (includes \$0.5m for business case already funded)		Marsden Spur decision Decision on UNIFLS early 2019

PGF rail investment packages

19. The table below sets out three illustrative examples of what the PGF's investment in rail could cover. Note that there is already \$185m allocated for KiwiRail's long term procurement from Budget for FY2019/20, so the PGF allocation will be additional to that. Further, decisions on the North Auckland Line (NAL) will be made following the Upper North Island Freight and Logistics



Study (UNIFLS) in early 2019. This funding could theoretically be applied to the projects listed above/options below, including long term procurement.

20. The key variable that changes through the table is the level of contribution the PGF makes to the \$115m long term procurement shortfall outlined above. Under Example 2, \$50m less is contributed towards the shortfall and so \$50m more is available to fund RED initiatives and example 3 repeats this, setting out what RED priorities for investment would be with a further \$50m. The additional elements in each example are in bold.

Example	Summary description	Comment
1.	<ul style="list-style-type: none"> • \$115m – long term procurement (plus \$185m already allocated) • West Coast tourism implementation • distribution hubs including Bunnythorpe, Kawerau and Ngawha • Funding held for decisions on NAL in 2019, including Marsden Point spur 	<p>Focus on durability of rail in all regions across the New Zealand rail network.</p> <p>Distributions hubs are a shared priority from a rail and regional economic development perspective.</p> <p>Tourism, deferred except for West Coast project. West Coast has the greatest need for tourism rail investment.</p>
2.	<ul style="list-style-type: none"> • \$65m - working capital (plus \$185m already allocated) • TranzAlpine and West Coast tourism • Distribution hubs • Funding held for decisions on NAL in 2019, including Marsden Point spur 	<p>Some focus on durability of rail in all regions across the New Zealand network</p> <p>Some investment in the network to support regional economic development investments</p> <p>Additional funds spent on part of the Tourism package to strengthen the West Coast tourism project and extend tourism offering.</p>
3.	<ul style="list-style-type: none"> • \$15m - working capital (plus \$185m already allocated) • TranzAlpine and West Coast tourism • Distribution hubs • Forestry and further contributions to tourism (North Island) • –Funding held for decisions on NAL in 2019, including Marsden Point spur 	<p>Minimal investment in durability of rail – focused on most deleterious rail track requirements across New Zealand to support the network.</p> <p>Main focus of investment on tourism and distribution hubs.</p> <p>Additional funds spent on forestry and tourism (the amount spent on forestry would relate to more wood based processing and industry).</p>

Next steps

21. Following discussions by RED Delegated Ministers, we propose to prepare a Cabinet paper on the PGF's rail investment strategy. This would cover:

- Fit with wider work on the Future of Rail review
- Rail investment choices for Ministers



- Recommendations on overall quantum for the PGF's investment in rail.

22. KiwiRail has noted that in order to make demonstrable progress on any proposals during the lifetime of the PGF, the Government will need to make commitments to projects in 2018/19. This may require pre-commitments against Budgets 2019/20 and 2020/21, depending on the scale of investment in KiwiRail and other priorities for investment by the PGF in 2018/19.

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