



Better Business Case

**KiwiRail Palmerston North Regional
Economic Growth Hub**

August 2018

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Executive Summary

This Business Case - the Palmerston North Regional Growth Hub Business Case - explains the rationale for capital investment of \$40 million for the acquisition of approximately [REDACTED] hectares (**ha**) of land in the North East Industrial Zone (**NEIZ**), in Bunnythorpe, Palmerston North, to better service Central New Zealand's growing freight demands and support the country's wider regional transport, economic development and supply chain strategies. The figure of [REDACTED] ha is based on preliminary design for an intermodal, operational rail and road transport interchange and hub and associated services.

INVESTMENT REQUIREMENTS	COSTS
Phase 1a: Site identification, designation, master- planning and concept design	\$ [REDACTED] ^{Commercial}
Phase 1b: Land acquisition	\$ [REDACTED] ^{Commercial}
TOTAL	\$40M

Securing a site in the NEIZ to develop an upgraded, future-proofed Regional Economic Growth Hub, would best position KiwiRail and its freight partners to efficiently and sustainably deliver on New Zealand's growing freight demands for the next 50 - 100 years.

The NEIZ has been developed as a key location for New Zealand's rail freight in central New Zealand taking freight from north, south, east and west, supporting planned roading infrastructure in the area and its proximity to airfreight and complementing overall regional transport initiatives. The Government Policy Statement on land transport for 2018/19 to 2027/28 (**GPS**), highlights the importance of mode neutrality, with all transport modes to be considered when making transport planning and investment decisions.

According to a Transport Agency freight study¹, the flow of inter-regional freight reflects:

- The central distribution location in relation to the large North Island import ports;
- The region's relative proximity to the Wellington regional population (491,000 residents as at June 2014); and
- The flow of import goods south through the North Island (from Auckland to Wellington).

In the Ministry of Transport's National Freight Demand Study 2014, the New Zealand freight task at the time was 236 million tonnes and was expected to grow to 373 million tonnes by 2042 (an increase of over 60%). Furthermore, NZTA's Accessing Central NZ Strategic Case 2016 report, specifically identified the Manawatū-Whanganui region and Palmerston North as being a key enabler for economic growth and recognised the area as a key freight and distribution location for New Zealand. KiwiRail's freight handling business needs to remain relevant in central New Zealand and deliver on supporting the country's national distribution requirements.

KiwiRail needs to secure and protect strategically-placed land to enable it to deliver to the region(s), sustain its capacity to meet increasing freight demands and ensure rail remains an integral part of central New Zealand freight flows.

¹ NZ Transport Agency, 2009, Central Region Freight Analysis Final Report

New Zealand consumers are increasingly looking to businesses to lead initiatives to tackle sustainability issues² including developing a lower-carbon economy. Rail plays a key role in driving and enhancing the country's ability to deliver goods and people sustainably, as every tonne of freight carried by rail has 66% fewer carbon emissions than heavy road freight.

EY's The Value of Rail in New Zealand report in 2016 found rail also increased safety on New Zealand roads, and reduced road maintenance costs. By investing in future rail solutions, the Provincial Growth Fund (PGF) will be contributing to a cleaner, safer, more sustainable New Zealand distribution economy.

KiwiRail's Strategic Land Use team is focussed on leading a group-wide development programme to improve the quality, location and layout of its operational yards and terminals, creating a more efficient and dependable network for the future. The programme seeks to optimise KiwiRail's operational layouts, using improved technologies, automation and new operating models to ensure the provision of safe, reliable and efficient, services and terminals.

This Growth Hub project forms an integral part of a wider transportation package where a number of interrelated transport initiatives for the region have been designed collaboratively. It works in synergy with Palmerston North's 2018 City 10-year Development Strategy, the Manawatū Gorge Replacement Proposal and it [REDACTED] Commercial Information [REDACTED]. It would complement a business case from NZTA for a Manawatū-Palmerston North Regional Ring Road, strategically positioned on the outer area of Palmerston North and connecting into Bunnythorpe within the NEIZ. The vision for this ring road is to increase agribusiness exports from \$1.9 billion to \$3.8 billion by 2025³ through improving efficiency.

KiwiRail's Palmerston North Freight Yard, which was initially established in 1964 on the city outskirts, is now surrounded by urban development. Remaining on this site will not allow for expansion⁴ to accommodate predicted national freight growth, and does not align with Palmerston North City Council's (PNCC) strategic rezoning plans or vision for the city. KiwiRail's location needs to be fully aligned with broader regional development plans. Freight distribution services will be more resilient if a synergistic, multi-modal solution is considered in conjunction with the regional transport strategies mentioned above. The key objective is to provide central New Zealand with a long term, dependable intermodal freight distribution solution.

What was deemed adequate to service freight needs in 1964 has changed considerably, and KiwiRail in conjunction with key stakeholders must adjust accordingly. A new greenfields location would enable KiwiRail to consolidate, modernise and reconfigure its operations, integrating its plans into the city's wider development strategy and away from residential dwellings.

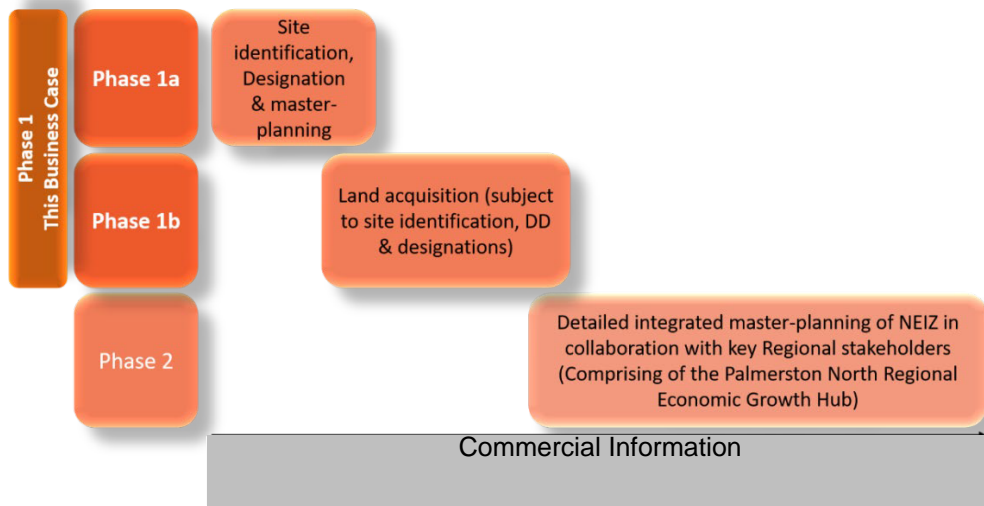
This Business Case is comprised of a **Phase 1a** and a **Phase 1b** process; jointly referred to as **Phase 1**. The Phases are broken down as follows:

² Ministry of Environment, Zero Carbon Bill - Discussion Document, June 2018

³ Accelerate 25: Draft Manawatu-Whanganui Economic Growth Action Plan

⁴ Refer to item 1.1 of this Business Case for further context

Figure 1: Business Case phases



Phase 1a involves the master-planning to identify a new site in the NEIZ zone and the designation of the site.

Phase 1b involves land acquisition. This would commence subject to Phase 1a meeting assessment requirements.

KiwiRail has undertaken an assessment of land shapes and sizes which meet demonstrable future operational requirements. Land acquisition phase 1b is based on an approximate land parcel area of [redacted] ha. Valuation advice of the capital required is \$ [redacted]. Due to the need for an early stage assessment of the overall suitability of site options, the exact configuration and location could change. Specific site details will be determined when assessments are completed.

Investment from the Provincial Growth Fund (PFG) would enable KiwiRail to enact **Phase 1**; to acquire approximately [redacted] ha in the NEIZ, Palmerston North.

Figure 2: Six Key Investment Objectives

Palmerston North Regional Economic Growth Hub Business Case

Six Key investment objectives

1	Increase Economic Benefits for Central NZ
2	Improve National and Regional freight efficiency
3	Accommodate predicted freight growth
4	Grow intermodal terminals and capability to further leverage freight distribution
5	Facilitate an integrated region wide transport solution through key stakeholder collaboration
6	Support and enable Palmerston North's Strategic Plans for the City

This Business Case supports the following two PGF key investment tiers:

1. **Enable Infrastructure Projects:**

- i. By supporting predicted growth in New Zealand's freight demands;
- ii. By providing employment opportunities in the Manawatū-Whanganui Region;
- iii. By boosting productivity for existing and emerging markets in the regions, with a strategically positioned Regional Economic Growth Hub;
- iv. By enabling the region to develop stronger resilience and dependability to deliver on national distribution demands, underpinned by modernised, smart assets and improved operational efficiency.

2. **Regional Projects and Capability:**

By being a key enabler of PNCC's 2018 City Development Strategy which seeks to;

- i. Create improved traffic flows, by diverting load-bearing trucks away from the CBD and surrounding residential suburbs, enabling a safer and more environmentally friendly City through reduced carbon emissions and road safety improvements.
- ii. By potentially unlocking the Palmerston North Freight Yard, so activities on the site could be improved and enhanced from an urban infrastructure perspective opening up the potential to:
 - Increase tourism connections (station) and metro patronage for economic gain to the region;
 - Provide further employment opportunities through space for potential development and improved CBD accessibility.

KiwiRail acknowledges and respects Rangitāne o Manawatū ('**Rangitāne**') as mana whenua and its people's relationship to the area. In collaboration with PNCC, and other key stakeholders, KiwiRail is committed to prioritising engagement and working together on solutions with local iwi throughout this project.

In the future, Māori will make up a significant proportion of the City workforce. In 2013, 34.6 % of Māori in Palmerston North City were aged under 15 years. KiwiRail intends to contribute to the future economic success of Māori through enabling employment opportunities and working together with mana whenua as part of a synergistic, mahi tahi approach.

Options for engagement include, but are not limited to:

- Early and proactive engagement during site identification, master-planning and concept design
- Standard protocols that take full consideration of mana whenua throughout the project
- Cultural and spiritual consultation, including ceremony
- A Māori-focused approach to the project using KiwiRail's Te Kupenga Mahi (TKM) Maori network.

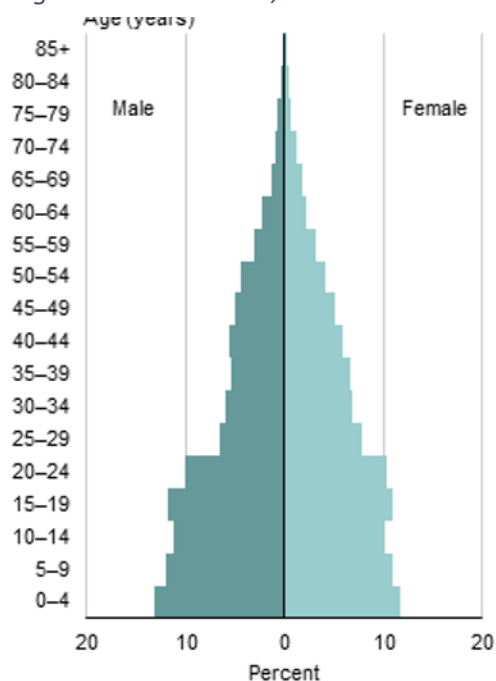
TKM representatives will, as part of a collaborative engagement process, ensure smooth communication channels and transparency for all parties. KiwiRail is committed to fostering and strengthening its partnership with Rangitāne and respects the importance of creating a sustainable environment for the future of Māori in the Region.

In order for KiwiRail to remain relevant in central New Zealand and deliver on supporting the country's national distribution requirements, it needs to secure and protect strategically placed land for rail freight use. The Manawatū-Whanganui area is a key staging point and distribution centre for high value imported and domestic freight in central New Zealand.

This business case supports a long-term strategic approach to infrastructure development ensuring a 50-100 year view which enables KiwiRail to continue to deliver to central New Zealand.

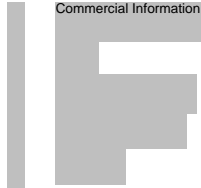
Age and sex of Māori Palmerston North City

Figure 3: 2013 Census, Palmerston North



Source: Statistics New Zealand

This Palmerston North regional economic growth hub business case follows the New Zealand Treasury's better business cases guidance and is organised around the five-case model⁵.

<p>Strategic Case</p>	<p>KiwiRail is a major stakeholder in the freight supply chain for central New Zealand and the lower North Island.</p> <p>KiwiRail's future growth strategy aims to protect the active rail portfolio for current and future freight and tourism growth. By creating a modernised, strategically connected Regional Growth Hub, KiwiRail can boost productivity for existing and emerging markets by servicing the regions through increased freight flows.</p> <p>KiwiRail's Strategic Land Use Team is focussed on overseeing a group-wide rail development programme to create a more efficient and dependable network for the future. The program seeks to optimise operational layouts, using improved technologies, automation and new operating models to ensure the provision of safe, reliable and efficient, services and terminals.</p> <p>To enable KiwiRail to deliver on tomorrow's freight demands it needs to secure land today to allow for the creation of a modern and efficient freight handling facility.</p> <p>Investment in a new site aligns KiwiRail with several national and regional strategies. These include but are not limited to:</p> <ul style="list-style-type: none"> ▪ NZTA, Accessing Central New Zealand Strategic Case, 2016 ▪ Accelerate 25: Manawatū-Whanganui Economic Action Plan, 2016 ▪ Horizons Regional Land Transport Plan: 2015 -2025 ▪ Horizons DRAFT Regional Land Transport Plan: 2015 -2025 (2018 review) ▪ Joint Manawatū-Palmerston North Transport Strategy (JTS), 2010 ▪ Government Policy Statement on Land Transport (GPS) 2018 ▪ Palmerston North City Council Integrated Transport Strategy ▪ Palmerston North City Council 10 Year Strategy ▪ Palmerston North, 2018 City Development Strategy ▪ Government Regional Growth Study ▪ 2011 Wanganui District Council (WDC), Urban Transportation Strategy ▪ Safer Journeys Strategy: New Zealand's Road Safety Strategy 2010-2020 <p>KiwiRail has been engaging with key stakeholders to ensure its goals and visions for the region are aligned. Key stakeholders include, but are not limited to:</p> <ul style="list-style-type: none"> ▪ Rangitāne o Manawatū ('Rangitāne') ▪ Palmerston North City Council, Mayor ▪ NZTA, Chief of Region ▪ KiwiRail key freight partners: <div style="text-align: center;">  </div> <ul style="list-style-type: none"> ▪ Horizons ▪ Accelerate 25 <p>Formal letters of endorsement are shown in the appendices of this business</p>
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⁵ <http://www.treasury.govt.nz/statesector/investmentmanagement/plan/bbc>

	<p>case.</p> <p>Key stakeholders also recognise the need for KiwiRail being included in strategic planning of the new Palmerston North Ring Road and the Manawatū Gorge replacement road.</p> <p>Investment in a regional growth hub in the NEIZ, Palmerston North directly aligns with two of the PGF's key investment tiers:</p> <ol style="list-style-type: none"> 1. Enabling Infrastructure Projects 2. Supporting Regional Projects and Capability <p>NZTA's Accessing Central New Zealand Strategic Case 2016 report has specifically identified the Manawatū-Whanganui region and Palmerston North as being a key enabler for economic growth and a regional surge location for freight distribution in New Zealand. In collaboration with local iwi, KiwiRail intends to support New Zealand's freight requirements by using sustainable and environmentally friendly rail distribution methods.</p> <p>With the combination of KiwiRail relocating to the NEIZ and the potential for economic abundance of the region, the overall attractiveness of the area would be enhanced and the capacity to deliver on growth enabled, creating significant opportunity for Māori in the area.</p>
<p>Economic Case</p>	<p>The economic case for the use of land is as important today as it was 40-50 years ago when the Palmerston North Freight Yard was established in its current location.</p> <p>In the 1960s, the current rail yard at Tremaine Avenue was on the outskirts of Palmerston North City. As Palmerston North City has expanded out and around the rail yard and buildings it has restricted KiwiRail's capacity to expand and rationalise its operations.</p> <p>Lack of connectivity to new industrial areas, double handling, rail infrastructure restraints on train sizes, and an inability to meet some time critical requirements currently limit rail freight handling capabilities at the site. Furthermore, future constraints by PNCC on planning and consenting for rail purposes in the CBD may inhibit any extensions to the yard and new buildings consents for freight-related businesses typically located adjoining rail. If these constraints are not resolved it will be increasingly difficult to keep pace with growing demand and to remain a key player in the region's freight distribution.</p> <p>The aged facilities are not only inefficient and unreliable due to a combination of wear and tear, out-dated technology and historical breakbulk facilities, but are also not performing to current sustainability and environmental standards. As freight demands continue to increase, KiwiRail will find it increasingly difficult to reliably meet New Zealand's growing distribution requirements without modernising to increase capacity and efficiency. However, redeveloping the current yard while it continues to operate would be disruptive and costly. Furthermore, it is likely to only deliver a short term, constrained solution that would not service future needs.</p>

The Manawatū-Whanganui region's economic success relies heavily on supply chain and logistics due to its significant agriculture and manufacturing industries. Studies show that increased, dependable connectivity services have a direct impact on increasing productivity⁶.

The logistics sector earnings in Palmerston North increased 119% between 2000 and 2013⁷, much higher than the 74% increase in national logistics sector earnings⁸.

Freight remains the biggest income earner for KiwiRail and contributes 58%⁹ of total operating revenue. A fully-laden 40 wagon train can have 40 40 foot containers. A truck is limited to one 40 foot container. The rail mode is approximately twice¹⁰ as efficient as the road mode in terms of fuel consumption and CO2 emissions. By enabling a modal shift from road to rail, an enlightened transport strategy could make deep cuts in New Zealand's fossil fuel dependence and carbon emissions.

Creating an integrated rail and logistics hub away from the city centre would spark alternative economic growth opportunities within Palmerston North and support both existing customers and potential new markets currently not connected to rail. For a fully integrated intermodal hub zone to be established, it is important to have road, rail and air freight all in close proximity.

Enhancing freight hub services would have an immediate impact on regional economic development through construction activity and a boost in confidence. Operational partners and allied businesses would also benefit from an uplift in handling capacity and efficiencies.

It is key to note that KiwiRail has been actively engaging with PNCC regarding the wider transport strategy for the Manawatū-Whanganui Region, central New Zealand and the NZ Inc logistics and distribution chain.

Confidentiality endorses the Palmerston North Regional Economic Growth Hub project concept and agrees that the NEIZ land will be well supported by planned roading infrastructure and its proximity to airfreight customers; complementing the overall integrated regional transport initiative.

Aligning multimodal transport strategies would achieve best long-term economic results for a connected Central New Zealand distribution hub. However, timing is key if KiwiRail is to position itself in the NEIZ zone, before alternative development occurs.

From an urban development perspective, PNCC believe growth will be unlocked in Palmerston North's CBD area through industrial businesses relocating to the outskirts of town. On top of this, positioning a regional growth hub in the NEIZ, where its long-term expansion requirements can be delivered on , would create

⁶ The economic impacts of connectivity, February 2017, NZ Transport Agency research report 608

Commercial Information

⁸ Statistics New Zealand

⁹ KiwiRail's Annual Integrated Report 2017, page 18

¹⁰ NZTA report 497, Freight transport efficiency: a comparative study October 2012

Confidentiality

	<p>greater employment opportunities, thereby contributing to increased residential investment in Ashurst and Bunnythorpe in its own right.</p> <p>Acquiring land for a freight hub site in the NEIZ enables KiwiRail to efficiently increase its capability and secure its regional freight business.</p> <p>Funding from the PGF would enable KiwiRail to secure the land required to design and build a fully integrated greenfield Regional Growth Hub allowing for automation, efficient layout, fit for purpose design and enable it to be best prepared for long-term future regional freight growth.</p>
<p>Commercial Case</p>	<p>Timing is key in when it comes to the commercial element of this business case.</p> <p>If KiwiRail is to continue to deliver distribution services at the current predicted growth rate of the industry (over 60% by 2042¹²), it needs to modernise, expand and be strategically positioned for the future.</p> <p>KiwiRail’s objective is to increase freight on rail to 20% Net Tonne-Kilometres (NTK) by 2030. (Recorded at 16% in 2016).</p> <p style="text-align: center;">Commercial Information</p> <p>[Redacted]</p> <p>A lack of adaptability and foresight planning can produce costly and difficult-to-resolve issues in the long run; resulting in greater disruption. Palmerston North City has already expanded to what used to be its outer fringe; as the key distribution stakeholder of the region, KiwiRail needs to prepare structurally and strategically for the next 50 -100 years.</p> <p>Investing in land in the NEIZ would enable KiwiRail to develop modern, efficient infrastructure capable of supporting New Zealand’s growing freight demands, at today’s price, consequently enabling the long-term sustainability of the distribution supply chain.</p> <p style="text-align: center;">Commercial Information</p> <ul style="list-style-type: none"> ▪ Commercial Information ▪ Commercial Information <p style="text-align: center;">Commercial Information</p> <p>[Redacted]</p> <p>Ultimately, the Regional Economic Growth Hub will be able to fully accommodate all facilities currently provided at the Palmerston North Freight Yard. Capital could then be released from that site and reinvested to support future rail investment requirements, aligned to best advantage New Zealand’s economy.</p>

¹² Ministry of Transport’s National Freight Demand Study 2014

Commercial Information

[Redacted]

	<p>Moving from the current yard could provide long-term benefits to Palmerston North City and the surrounding regions:</p> <ul style="list-style-type: none"> ▪ it supports various transport strategies seeking to move heavy load bearing vehicles away from urban roads; enabling PNCC’s environmental, health & safety and the city’s future strategic development plans to be realised. ▪ It provides an opportunity for the current station to be improved and enhanced from an urban infrastructure perspective, opening up the potential for increased patronage and connections for tourism. <p>This would unlock a range of financial benefits to the city through increased accessibility and employment opportunities.</p> <p>Funding from the PGF would enable KiwiRail to acquire a site on the outer fringe of Palmerston North, removed from close-proximity residential dwellings and connected to a future ring road, Commercial Information.</p> <p>A new freight facility in the NEIZ would be fully integrated with air, road and ports, improved automated technology, efficient layout, fit-for-purpose and safety-focussed design and with ample capacity to support New Zealand’s predicted freight growth demands.</p>
<p>Financial Case</p>	<p>Based on current estimates, the anticipated capital investment for preliminary master-planning and Resource Management Act 1991 (RMA) processes (Phase 1a) is \$ Commercial Information. The land acquisition phase (Phase 1b) would only commence upon requirements in phase 1a being met. A greenfield site in the NEIZ of approximately Comm ha suitable for a regional economic growth hub is estimated to cost \$ Co mercial ormati.</p> <p>If funding is secured through the PGF, the master-planning and site assessment would commence as soon as possible to enable KiwiRail to secure a site option and configuration. Due diligence, designation and land acquisition would take between 18 and 36 months to complete – with some processes being aligned or compressed.</p> <p>The request for funding is to acquire land only and does not contemplate detailed design, or physical works. The \$40 million financial request includes land acquisition costs for the provision of compensation in accordance with the compensation methodology set out in the Public Works Act 1981 (PWA) being; land value and improvements, disturbance costs, solatium and other Crown acquisition costs. Due diligence costs include, master-planning, preliminary design, technical reporting, and site designation.</p> <p>Commercial Information</p> <p>Commercial Information</p> <p>Based on this assumption, the cost to</p>

Commercial Information

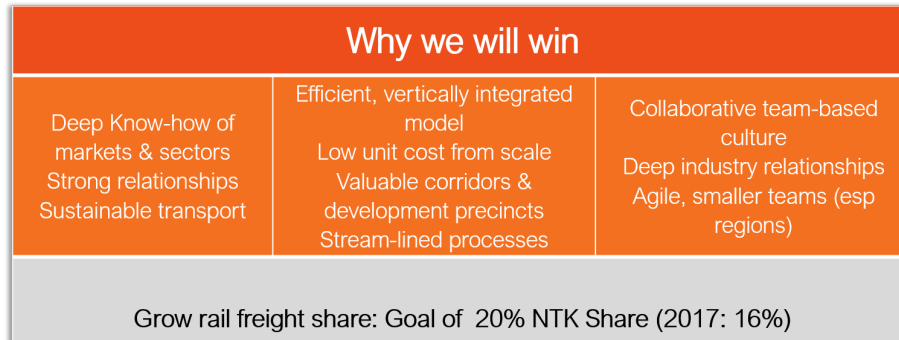
	<p>acquire a site of this size ([redacted] ha) and location is estimated to be approximately \$ [redacted] in [redacted].</p> <p><i>Master-planning:</i> the estimated cost for master-planning is \$ [redacted] over the period [redacted].</p> <p><i>RMA:</i> the estimated cost for RMA initial assessment and associated reports is \$ [redacted] over the period [redacted].</p> <p><i>Land Acquisition:</i> the estimated cost for land acquisition, valuation fees, and agents' fees including contingency is \$ [redacted] over the period [redacted].</p> <p>The property transaction will be headed by KiwiRail's Strategic Land Use Team and a consulting firm is to be appointed as lead acquiring advisor, including accredited PWA land agents, external legal support, RMA planning advisors and a multi-disciplinary team of consultants.</p> <p style="text-align: center;">Commercial Information</p> <div style="background-color: #cccccc; height: 100px; width: 100%;"></div>
<p>Management Case</p>	<p>KiwiRail's objective is to enable freight growth by becoming an integral part of the Central New Zealand growth strategy and wider regional development. KiwiRail therefore needs to develop a regional economic growth hub to:</p> <ul style="list-style-type: none"> • enable KiwiRail to significantly increase its operational capacity to meet regional and national freight growth demand • be well integrated with other transport modes • enable the delivery of sustainable and efficient hub operations <p>Helping to grow rail to 20% Net Tonne-Kilometres (NTK) by 2030 would alleviate environmental impacts caused by heavy vehicles, improve road safety as well as optimising KiwiRail's operating model.</p> <p>Relocation within the region ensures rail stays relevant for an integrated transport model (road, rail and air). Meeting KiwiRail's and Central New Zealand's future freight demands will be under pinned by the development of a 'fit-for-future' facility in Palmerston North.</p> <p>KiwiRail is one of New Zealand's largest employers with 3,400 employees¹⁶ across the country. It moves 18 million tonnes of freight each year and transport around 25% of New Zealand's exports.¹⁷ It is critical that KiwiRail is viewed as an employer of choice if it is to continue meeting New Zealand's distribution demands. People are vital to the success of the organisation and a productive and engaged workforce requires support from management to provide a fit-for-purpose work environment that values safety and promotes staff well-being.</p>

¹⁶ KiwiRail Annual Integrated Report 2017

¹⁷ KiwiRail Annual Integrated Report 2017

By acknowledging that KiwiRail will find it increasingly difficult to deliver a sustainable distribution service from the current Palmerston North Freight Yard, and by taking measures to invest (with support from the PGF) in a modernised, ‘fit-for-future’ regional growth hub near Bunnythorpe, a strong message is delivered to KiwiRail employees – New Zealand values KiwiRail and ‘we value you’.

Figure 4: ‘Why we will win’



KiwiRail has implemented a graduate programme, which focuses on recruitment and retention of a younger workforce. Through providing modernised facilities designed to sustain and deliver on New Zealand’s future needs, KiwiRail will give new recruits confidence in embarking on a career in rail.

KiwiRail’s strategic approach recognises the wider NZ Inc importance it has in:

- connecting communities;
- driving improved environmental outcomes for New Zealand; and
- collaboration with Government agencies;

These all play a key part in supporting New Zealand’s logistics and distribution chain. Furthermore, New Zealand consumers are increasingly looking to businesses to lead initiatives to tackle environmental and sustainability issues. Rail plays a key role in driving and enhancing the country’s ability to deliver on more eco-friendly transport options. By investing in rail solutions, the PGF will be contributing to a cleaner, safer, more sustainable New Zealand distribution economy.

In order for KiwiRail to remain reliable, sustainable and valuable to New Zealand, the regions and its employees, it needs to invest in premises that will complement delivering distribution services in the most sustainable and collaborative way possible. Securing land in the NEIZ for a regional growth hub, in conjunction with National and Regional Transport initiatives, will enable this.

The timeline for Phase One is approximately 2-3 years.

The timeline for Phase Two is approximately Commercial Information.

KiwiRail management suggests Phase One should commence as soon as funding is confirmed.

1. Introduction

This Business Case explains the rationale for investment of \$40 million from the Provincial Growth Fund (PGF) to enable KiwiRail to enact **Phase One**; to acquire approximately ha in the NEIZ, for the purposes of developing a Palmerston North Regional Economic Growth Hub for Central New Zealand.

This Business Case is comprised of a **Phase 1a** process and a **Phase 1b** process; jointly referred to as **Phase 1**. It is the **first phase** of a two phased approach.

Table 1: Phase 1a and 1b

Phase 1a	Phase 1a involves the master-planning to identify a new site in the NEIZ and Designation of the site.
Phase 1b	Phase 1b, involves land acquisition. This phase would commence subject to a satisfactory Phase 1a process being complete and requirements being met following assessment of the site.

Phase 2 will involve detailed design and development of the site into a ‘fit-for-future’ Regional Economic Growth Hub in collaboration with wider national and regional strategies and key stakeholders.

Efficient freight distribution has a significant positive impact on New Zealand’s economic well-being. Strategically located, resilient infrastructure is required to move goods to market efficiently and on time.

Acquiring land now unlocks the opportunity to develop a strategically positioned Regional Economic Growth Hub in Palmerston North, enabling a number of the Government’s PGF objectives to be achieved, including:

- enhancing economic development opportunities;
- creating sustainable employment;
- building resilient communities; and
- helping New Zealand to meet its climate change targets.

The Minister of Transport recently released the Government Policy Statement on land transport for 2018/19 to 2027/28 (GPS 2018). GPS 2018 includes the theme of mode neutrality – which means that all transport modes are considered when making transport planning and investment decisions. The GPS and the Future of Rail Review are both expected to consider opportunities to increase investment in rail, so it can fully contribute to the transport system New Zealanders want.

The GPS assessment criteria ¹⁸are outlined as follows:

- Safety
- Access
- Environment
- Value for money

¹⁸ Government Policy Statement on Land Transport, 2018/19 and 2027/28

Smart transport technology is changing the way logistics providers interact with customers, goods and people. Big data, Artificial Intelligence and automation provide fertile ground for improvements in safety, energy efficiency, customer service and the sustainability of organisations like KiwiRail.

While heavy trucks can increase in size to reduce operating costs, they do not have many options for increasing service speed; once the Roads of National Significance have been bypassed, passing through town bottlenecks inhibit the vehicles' speed.

Of all the transport modes, rail has, in recent years, demonstrated the ability to make sharp improvements in speed, cost, capacity and emissions. It is the logical sustainable way forward in a growing economy. KiwiRail is continuing to monitor and explore technological developments closely, and is investing in infrastructure, and technology to advance operational and safety performance, deliver better customer outcomes, and enhance the efficiency of services.

1.1 Background

In the Ministry of Transport's National Freight Demand Study 2014, the New Zealand freight task at the time was 236 million tonnes and was expected to grow 373 million tonnes by 2042 (an increase of more than 60%). This large increase takes the total freight task to the equivalent of about 67 tonnes each year for each person in New Zealand. Strong tonnage growth is predicted in the regions, showing that there is a very strong case for improving transport infrastructure linking major population centres with inland and coastal ports.

KiwiRail's current yard and buildings, are located in Palmerston North's CBD, in Tremaine Avenue and shared with multiple freight partners, split across various buildings.

The layout of the yard and its buildings is fragmented and disjointed, and they are also nearing the end of their useful life. Significant investment is required to improve their efficiency, to create modern fit for purpose amenities and to upgrade the overall environment to today's improved standards.

Redeveloping the current yard while continuing to operate would be disruptive and costly; furthermore, it would only deliver a short term, constrained solution. As freight demands continue to increase, KiwiRail will find it increasingly difficult to reliably meet New Zealand's growing distribution requirements without modernising to increase capacity and efficiency. KiwiRail has considered a range of options to enable it to meet this future demand. A new location away from the city centre offers significant advantages and opportunities.

Given the anticipated national freight growth (60%¹⁹) and the long-term plan to create a national integrated logistics hub for the region, this Business Case takes a 50-100 year view to enable KiwiRail's ability to deliver to Central New Zealand. Sustaining freight capacity to deliver on increasing demands and ensuring rail remains an integral part of New Zealand's freight flow economy are key drivers of this Business Case.

Physical limitations on expanding at the Palmerston North

KiwiRail first established its current Palmerston North Freight Yard in 1964. It was designed on a method of 'breakbulk' in which the loading and unloading of freight took place within the yard. Today it has evolved to a more containerised approach to the movement of freight which means that the design layout of the current yard is not operationally efficient.

¹⁹ Ministry of Transport's National Freight Demand Study 2014

In 1964, the ‘industrial zoned’ area was on the outskirts of central Palmerston North and well removed from CBD activity.

Fifty years on, the central city has expanded and the current yard and buildings, once removed from urban development, are now predominantly surrounded by residential dwellings. Consequently, the existing location is unlikely to be able to accommodate predicted national freight growth due to physical limitations on expanding the current land holdings.

The long-term vision of relocating KiwiRail to the NEIZ has broader context than freight distribution alone. History has taught KiwiRail the importance of planning for large infrastructure projects with a 50-100 year view. Increased density in a city enables it to reap the economic benefits that a greater population generates. By investing in Bunnythorpe KiwiRail is improving connectivity options and consequently unlocking economic potential both in the centre of Palmerston North and the NEIZ.

PNCC’s strategic vision for the city does not support long-term rail operations remaining at the current site, with economic growth pitched towards the North East (NEIZ). Future planning and consenting constraints may also act to inhibit freight partner extensions to the yard.

The current yard has limitations in terms of heavy load-bearing vehicles disrupting urban roads which creates both environmental and health and safety effects on neighbouring land owners and road users.

Figure 5: KiwiRail’s current Palmerston North Freight Yard is surrounded by residentially zoned land and restricted for expansion due to consenting obligations



Note: The information displayed here is indicative only

Legend

- KiwiRail Landholding
- Fringe Business
- Industrial
- Residential

Disjointed layout at Palmerston North Freight Yard

On top of the external constraints limiting KiwiRail from optimising the existing yard, it was developed over a long time period, in an ad hoc manner. Consequently, this has resulted in an ineffective site layout, with poorly positioned buildings spread over the site.

Operationally, this fragmented layout impacts on KiwiRail's ability to efficiently connect both internally and with key customers.

The ad hoc development of the yard over many years, has contributed to poor traffic flows, created safety concerns about yard operations and affects connections onto the local roading network.

In continuing to function with this ineffectual layout it will become increasingly difficult for KiwiRail to support economic growth through streamlined freight distribution in an expanding freight market. Significant investment would be required to rationalise existing buildings and facilities on the site.

Figure 6: The current Palmerston North Freight Yard layout is inefficient



Legend

□ KiwiRail Land ■ Leased sites

The key above, indicates the blue areas as leased, highlighting the fragmented nature of the operational layout.

Out dated facilities at current Palmerston North Freight Yard

The current facilities are out-dated and inefficient due to their 'breakbulk' design. Inefficiencies have accrued over history; whereby over 40 small buildings are scattered in an ad hoc manner, severely impeding a cohesive working environment. Rail freight distribution has come a long way since 1964, having moved to a more intermodal distribution-based model as opposed to manual handling of individual cargo, which manifests itself in containers and bulk freight (e.g. Logs, milk powder, paper etc.)

Investment in the existing buildings, as opposed to investing in a sustainable future-focused site, doesn't address the inherent difficulties arising from this location, size and orientation.

The current yard and buildings are nearing the end of their useful life and maintenance requires significant investment. However, investment within the current configuration is unlikely to provide 'fit-for-future' work environments for KiwiRail's employees and would not be capable of accommodating increased demand.

If KiwiRail is to deliver on its objective to create a diverse and engaged workforce and remain as an attractive employer, having modern work environments which promote innovation and collaboration across the business, and with other sectors, is critical to that success.

Figure 7: Palmerston North Rail Yard, 4 June 1964



North East Industrial Zone (NEIZ)

The NEIZ presents an opportunity to consolidate and reconfigure and this Business Case is an integral part of the wider transport strategies for the Manawatū-Whanganui Region connecting multi-transport modes, linking ports, road, rail and air in an integrated fashion.

The Palmerston North-Manawatū Regional Ring Road is intended to better enable economic growth and productivity through targeted transport investment. The vision for this Ring Road is to increase agribusiness exports from \$1.9 Billion to \$3.8 Billion by 2025²⁰ by improving efficiency. By strategically positioning itself in the NEIZ, which connects into the planned Manawatū-Palmerston North Regional Ring Road, KiwiRail will be aligned with these growth and economic productivity objectives.

A large proportion of the region's primary product makes its way in and out of the region for either export overseas or to be redistributed to other parts of New Zealand. Palmerston North and

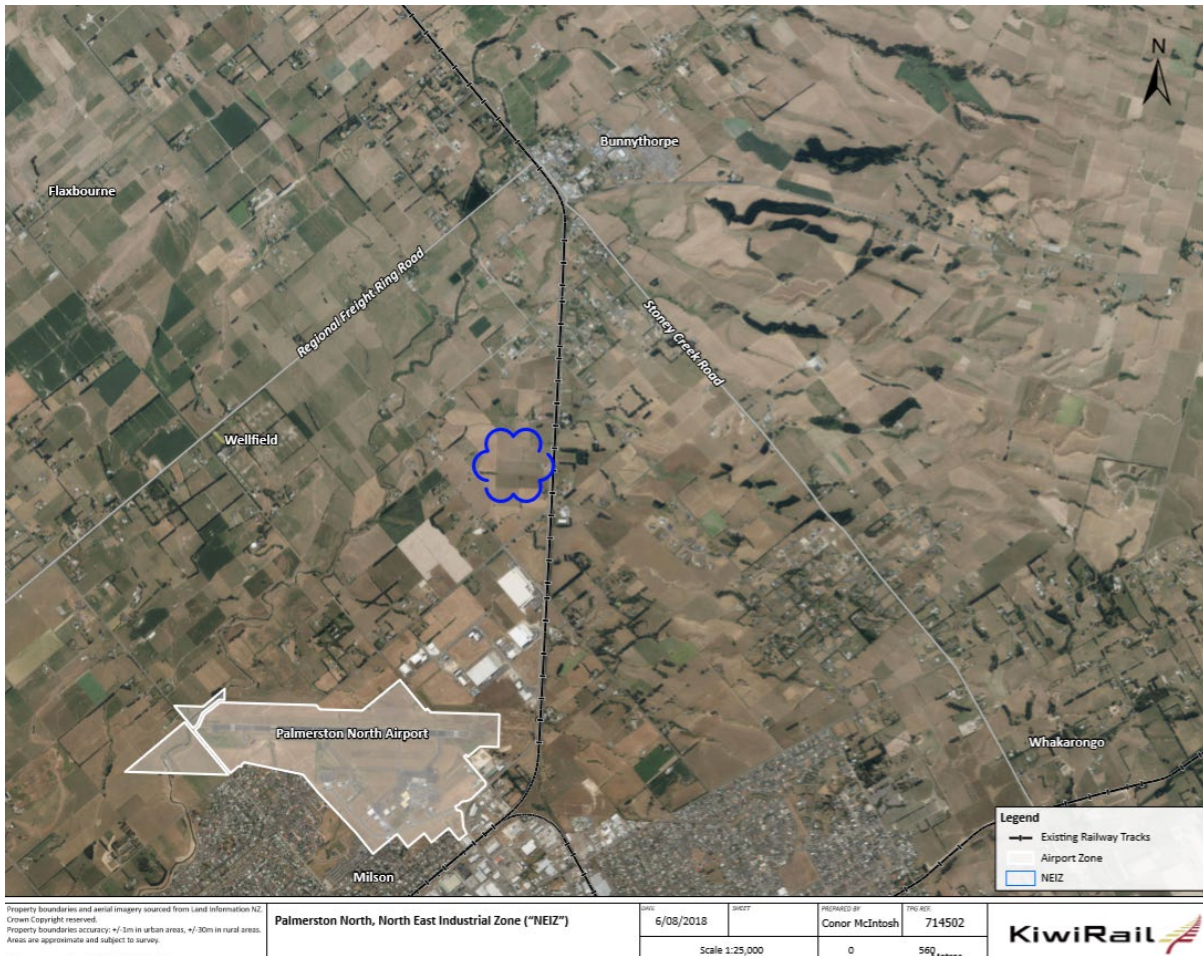
²⁰ Accelerate 25: Draft Manawatu-Whanganui Economic Growth Action Plan

Manawatū are now recognised as the centre of the growing freight distribution industry. Their location in Central New Zealand connects to the surrounding regions of Taranaki, Hawkes Bay, Waikato and Wellington via the State Highway, rail and air networks.

The **Confidentiality** endorses the approach of a regional economic growth hub being positioned in the NEIZ, being supported by planned roading infrastructure in the area and its proximity to airfreight, complimenting overall regional transport initiatives.

Aligning multimodal transport strategies will achieve best long-term economic results for a well-connected Palmerston North regional growth hub.

Figure 8: NEIZ area



Proposed NEIZ land

KiwiRail’s aim is to create a future-focused freight environment linked to the wider regional transport and supply chain strategies and which supports PNCC’s drive to divert heavy vehicles out of the city, reducing congestion and minimising impacts from large trucks through the CBD.

Acquiring an NEIZ site would give KiwiRail the ability to relocate rail to the new industrial precinct in Bunnythorpe whilst supporting wider regional development objectives and ensuring rail remains an integral part of the Central North island freight flows.

Confidentiality

The area is connected to the planned Manawatū-Palmerston North Regional Ring Road, approximately 6km from the city's airport, while surrounded by undeveloped green space.


Unlike the current Palmerston North freight yard, operations would be less inhibited by residential surroundings on a greenfields site. Environmental and health and safety risks will be assessed as part of due diligence for this project. It is anticipated that a future greenfields location would have improved accessibility when compared to a CBD site.

Land purchased will be held for rail purposes and be able to generate a holding income from interim leasing while master-planning, layout and the operating delivery mechanism are established.

At this stage land in Bunnythorpe is largely underdeveloped. This is the most strategic time to acquire the land in the NEIZ which will be an integral part of integrated road and airfreight strategies for the Region.

Summary

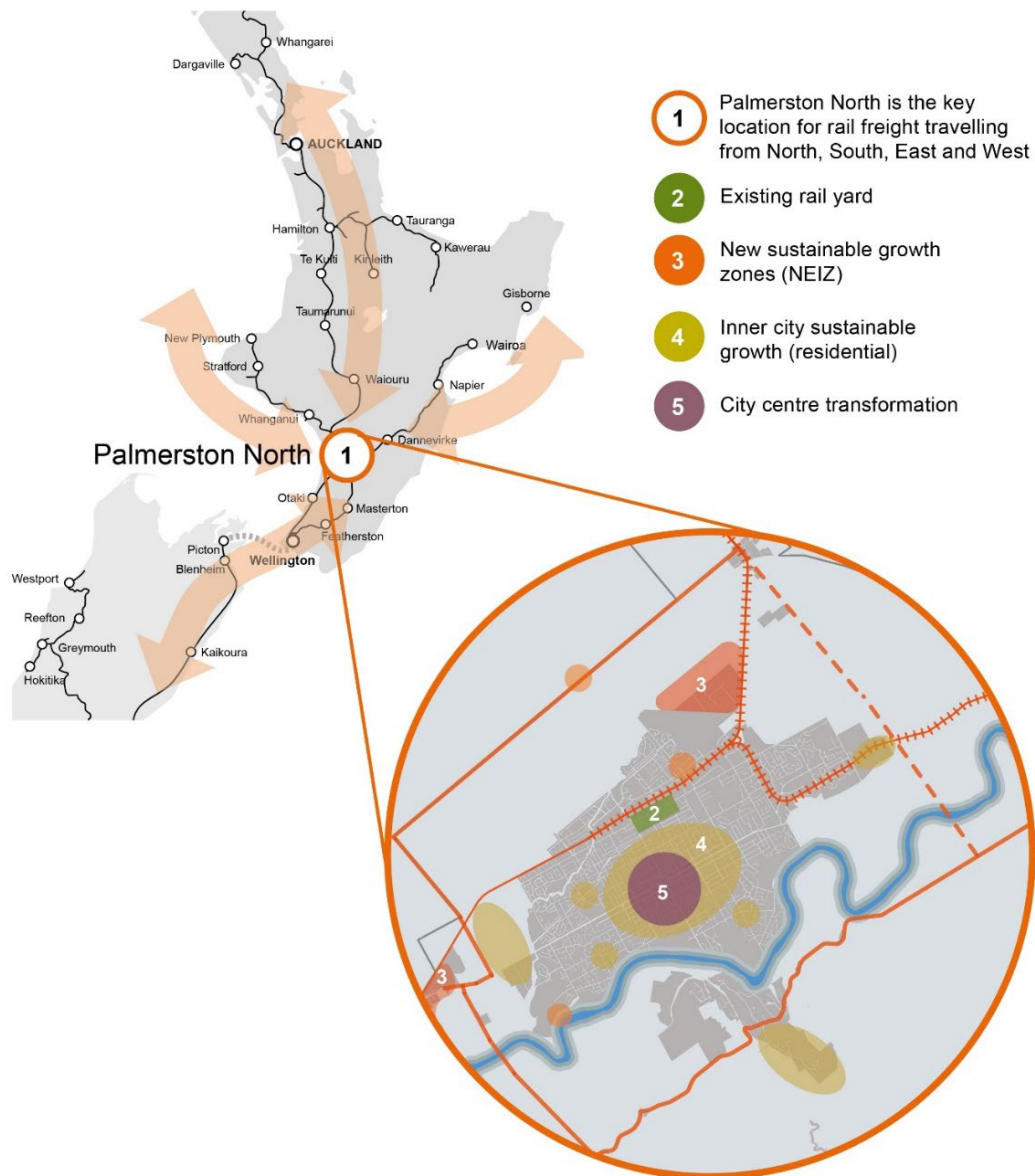
Funding from the PGF will enable KiwiRail to acquire a new site on the outer fringe of Palmerston North, removed from residential dwellings, connected to the Manawatū-Palmerston North Regional Ring Road and within close proximity to Palmerston North Airport. A new location away from the city centre offers significant advantages and opportunities.

A site of approximately  ha in the NEIZ would enable a new rail freight facility to be fully integrated with air and road, improved automated technology, efficient layout, 'fit-for-future' safety focussed design and with ample capacity to support New Zealand's predicted freight growth demands.

Growth must be accommodated through collaborative strategic planning; considering past, present and future. Through building on lessons learnt from the past, and understanding patterns of development, the City can plan for future generations.

Critical infrastructure such as roads, rail and airports are key examples of areas in cities that require planning and investment in order to respond to the needs of future populations.

Figure 9: Location of current site versus the NEIZ area



Should KiwiRail not be funded to acquire a new greenfields site with sufficient connectivity and space for expansion it will:

- Be less able to sustain the national and regional growing freight demands;
- Not align with the PNCC growth Strategy;
- No longer be able to meet the growing needs of their customers or achieve growth in terms of tonnage and revenue for the freight business;
- Not unlock the potential to lift productivity and grow employment in the region;
- Create an impediment to PNCC's ideas of urban development; and
- Face limitations at the existing site restricting freight growth strategy.

The current availability of undeveloped land in the NEIZ is expected to reduce over time, resulting in greater complexity in the acquisition process and a longer process to acquire it should delays occur.

2. Strategic Context

The strategic context provides an overview of KiwiRail's key strategic objectives. It also provides an overview of other organisations who would benefit from investment in a Regional Economic Growth Hub in Palmerston North.

Table 2: Alignment with key stakeholders

Integrated Alignment with this Business Case	
Partners	Aligned Focus Areas
Mana Whenua	<ul style="list-style-type: none"> Economic development for Māori with consideration to the overall environmental, cultural and sustainability of the Region as well as full consideration and respect of Mana Whenua.
NZ Transport Agency	<ul style="list-style-type: none"> Safe, efficient and resilient transport infrastructure implementation to support a productive, sustainable economy, which aims to minimise greenhouse emissions.
Accelerate 25	<ul style="list-style-type: none"> Accelerating economic growth in the Manawatu-Whanganui Region through strategic integrated transport planning.
Horizons Regional Council	<ul style="list-style-type: none"> Resilient, efficient and safe multi-modal transport links that maximise the strategic advantage of the Central NZ location for <u>hubbing</u> to benefit and grow the City.
Palmerston North City Council	<ul style="list-style-type: none"> 'Small City Benefits, Big City Ambition': enabling opportunities for employment and growth and providing infrastructure and a transport system that links people and opportunities.

2.1.1. Organisational Overview

KiwiRail owns, operates and optimises rail and ferry transport and supply chain networks to facilitate the efficient movement of freight and passengers within New Zealand²². It currently transports 18 million tonnes of freight each year²³.

KiwiRail's Strategic Land Use Team is focussed on overseeing a group-wide rail development programme to improve the quality, location and layout of its operational yards and terminals, to create a more efficient and dependable network for the future. The program seeks to optimise its operational layouts, using improved technologies, automation and new operating models to ensure the provision of safe, reliable and efficient, services and terminals.

A future site in the North East Industrial Zone (NEIZ) of Palmerston North, will support KiwiRail's key objectives to:

- Support New Zealand's export growth
- Provide resilience to the national freight transport system
- Reduce New Zealand's carbon footprint
- Reduce congestion and make roads safer
- Improve operational layout and optimise rail management

The key strategies that KiwiRail uses to deliver the above are to Simplify, Standardise and Invest.²⁴

²² KiwiRail's Statement of Corporate Intent 2018-2020 'Reshaping and Delivering'

²³ KiwiRail's Annual Integrated Report 2017, page 7

²⁴ KiwiRail's Annual Integrated Report 2017, page 10

Reliability for freight customers remains KiwiRail's core strategic focus. KiwiRail implemented a number of improvements under the strategy during 2017 to simplify train plans, improve network reliability and invest in new rolling stock. Reliability can only be achieved if there is the required infrastructure in place to deliver on New Zealand's growing freight demands.

KiwiRail also strive to achieve a number of non-commercial imperatives as outlined in the Company's Statement of Corporate Intent, including: Safety outcomes (Zero Harm), Customer Engagement and Operating Performance Standards²⁵.

Strategic land acquisition is underpinned by KiwiRail's Commercial Property Strategy 2017-2020, which is focussed on protecting the active rail portfolio, by creating key distribution hubs to enable the wider business through increased freight flows.

KiwiRail recognise the urgent need to re-look at existing requirements at this crucial stage where PNCC and NZTA are contemplating how the region's roads and the City plan would best be planned and reconfigured.

KiwiRail's freight strategy is to:

- Grow regional intermodal terminals;
- Accommodate predicted freight growth; and
- Ensure rail remains linked to wider transport, regional and economic development plans.

In order for KiwiRail to best deliver on supporting New Zealand's national distribution requirements, it needs to secure and protect strategically placed land to enable its ability to deliver to the regions and to sustain increasing freight demands.

KiwiRail needs the facilities to keep up with growing freight demands and as part of its 'Active Rail Corridor' initiative, aims to develop key a Regional Economic Growth Hub to help support the wider business and Central New Zealand through predicted freight growth.

Investment in a Regional Economic Growth Hub in the NEIZ, Palmerston North will:

- Enable a more resilient freight network to accommodate predicted national and regional freight growth;
- Result in improved linkages to other regions;
- Provide employment for anticipated population and economic growth in the Palmerston North area;
- Contribute to the future economic success of local Māori by way of enabling employment opportunities and working together with mana whenua as part of a synergistic, mahi tahi approach;
- Support PNCC's strategy to move excess freight traffic away from the city centre, aiding improvements to road safety in the city; and
- Mitigate negative environmental effects in central Palmerston North caused by heavy load-bearing vehicles, by diverting them away from the CBD.

²⁵ EY 2016 Report 'The Value of Rail in New Zealand' prepared for the New Zealand Transport Agency

KiwiRail Customer Insights Programme

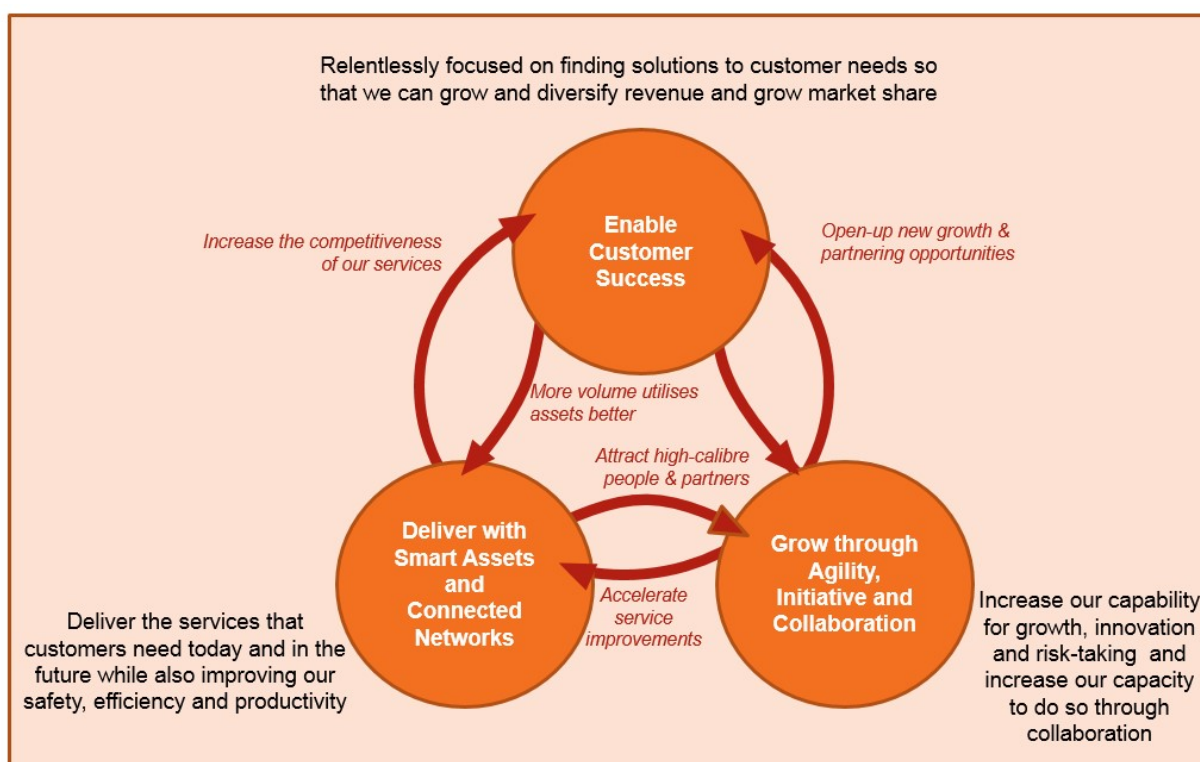
In late 2017, KiwiRail launched a strategic customer insights programme named Project Wā Heke. This internal project provided insight on the future of the New Zealand transport and tourism markets through the eyes of key industry players and influencers.

Inherent in the universal customer feedback received, was that KiwiRail needs to play a more central role in the modern transformation of New Zealand's regional economy. Consequently, KiwiRail is seeking to redefine its business away from traditional boundaries and behaviours, shifting its focus from being sales-driven to customer-focussed.

The combination of a well-positioned, expanded, modernised intermodal freight hub, will complement a series of strategic partnerships and packages which will aim to lift service levels and support the customer-focussed business model.

Project Wā Heke's strategy diagram provides a summary of the key focus areas and how these are interlinked.

Figure 10: Project Wā Heke Key focus areas



Proceeding to acquire NEIZ land in order to develop a Regional Economic Growth Hub would directly support the three strategy initiatives:

1. Deliver with Smart Assets and Connected Networks

- a. Changing from a historic breakbulk facility to a modernised Regional Growth Hub, would improve efficiency, reduce costs and through improved design would promote better safety whilst reducing double handling.
- b. Through being closer to its freight partners (well connected in the NEIZ) efficiency and operating costs would be improved.
- c. Designing a bespoke regional economic growth hub means that KiwiRail can implement the latest innovations in technology enabling enhanced communications

channels throughout New Zealand; improved energy efficiency, storm water and water quality.

- d. This aligns with creating a 'fit-for-future' regional economic growth hub that would enable and support Manawatū and the greater regions, linking road, rail and air as part of a broader better connected network. Wellington, Napier and Taranaki will also gain from the improved connection and capability.

2. *Grow through Agility, Initiative and Collaboration*

- a. Designing a bespoke Regional Economic Growth Hub would enhance communication channels throughout New Zealand, contributing to a more connected national distribution network.
- b. KiwiRail will specifically be engaging with local iwi, PNCC, Horizons Regional Council, NZTA, its freight partners and the local ports to ensure an aligned synergised approach is planned.
- c. The general nature of infrastructure related projects requires a long-term planning perspective (50-100 year); essentially KiwiRail are investing in the long term future of rail freight in Central New Zealand.

3. *Enable Customer Success*

- a. With a more efficient design KiwiRail will be able to achieve improved speed, connectivity, capacity, reduce double handling and will have a more integrated transport connectivity network.
- b. A regional economic growth hub will unlock opportunity for growth in the NEIZ and create momentum for businesses to move away from more dense and expensive urban areas in the country i.e. Wellington, Auckland.
- c. Implementation of a Regional Economic Growth Hub reinforces KiwiRail's ability to provide 24 hour distribution coverage to the major markets in New Zealand (Auckland and Wellington), where in its current CBD location, it is inhibited due to residential surrounds.

2.1.2. Alignment to Existing Strategies

The following table explains the relevance of KiwiRail's strategies to the Regional Economic Growth Hub Business Case.

Table 3: Alignment to KiwiRail Strategies

Organisation & Strategy Identified	Description	Relevance to this Business Case
KiwiRail Group Statement of Corporate Intent 2018 -2020	Over the next three years KiwiRail's focus will be on delivering a reliable and sustainable business, meeting shareholders' expectations, empowering its people and ensuring KiwiRail plays its role in an integrated transport system fit for New Zealand's future needs. KiwiRail will continue to drive its	KiwiRail's network is an integral part of New Zealand's transport infrastructure and requires a location that will ensure its future success with growing national freight demands. A new site would not only provide space to develop a freight infrastructure to accommodate current demands, but also the

Organisation & Strategy Identified	Description	Relevance to this Business Case
	strategy of 'simplifying our business, standardising our assets, and investing in our people to support our customers' growth while delivering financial and operational results.	capacity to expand in the future. KiwiRail can only support the growth of its customers if it has the facilities to enable it to do so; a new the site provides this opportunity.
KiwiRail Freight Strategy (Drafting for completion, August 2018)	KiwiRail's Freight strategy is to: <ul style="list-style-type: none"> ▪ Grow intermodal terminals; ▪ Accommodate predicted freight growth; and ▪ Ensure rail remains linked to wider transport and regional development plans. 	Investing in land for a 'fit-for-future' intermodal freight hub in the NEIZ would: <ul style="list-style-type: none"> ▪ Allow KiwiRail to expand its facilities; ▪ Enable KiwiRail to deliver on the growing demands of the National freight economy; and ▪ Will be well positioned in the NEIZ part of Palmerston North, thus complimenting wider transport and regional development plans.
KiwiRail Property: Commercial Strategy 2017-2020	KiwiRail's Property Strategy looks to strengthen the alignment between its property assets and its core business objective: to move freight and people. The 2017-2020 strategy focusses on protection of the active rail portfolio, optimisation of the yard and terminal assets and maximising the release of capital from non-active rail land. It also considers the disposal of land outside of its active rail portfolio for re-investment into its future rail business. As part of KiwiRail's "Active Rail Corridor" initiative, it aims to develop key freight hubs to help support the wider business through predicted freight growth. KiwiRail's Strategic Land Use team have been mandated with over-seeing a group-wide rail development programme that	Ensuring that KiwiRail is prepared for future National freight growth, by investing in strategically placed locations with suitable functionality is key for its preparedness to best service the country. A new intermodal growth hub will support the opportunity to develop: <ol style="list-style-type: none"> a) an expanded Intermodal Freight Hub, capable of managing the increasing demands of predicted regional freight flow; b) a modernised Hub facility where suitable design layouts to support maximum efficiency can be implemented; c) an opportunity for improving the overall quality of the working environment; the current Palmerston North Freight Yard is nearing the end of its useful life and is being maintained to keep it at a basic operational standard.

Organisation & Strategy Identified	Description	Relevance to this Business Case
	aims to improve the quality, location, layout and efficiency of the operational yards and terminals.	
KiwiRail Group Project Wā Heke	<p>Project Wā Heke is an internal project which is enabling KiwiRail to consider the future of the New Zealand transport markets through the eyes of key players and influencers.</p> <p>Inherent in the feedback from KiwiRail's customers was the feedback that KiwiRail needs to play a more central role in the modern transformation of New Zealand's regional economy.</p> <p>The project has highlighted a range of insights and opportunities. Now KiwiRail needs to convert these into imaginative and actionable commercial opportunities.</p>	<p>To support Project Wā Heke's agenda to deliver on a customer focussed model, KiwiRail needs the facilities to keep up with growing demands.</p> <p>Purchasing an NEIZ site provides the opportunity to develop an Intermodal Freight Hub capable of keeping up with the demands of New Zealand's transforming economy and increasing freight growth demands.</p> <p>The combination of a well-positioned, expanded, modernised intermodal freight hub will compliment a series of strategic partnerships and packages which will aim to lift service levels and support the customer focussed business model.</p>

KiwiRail's Palmerston North Regional Economic Growth Hub Business Case also aligns with several national and regional strategies relating to freight transportation in general.

NATIONAL STRATEGIES

An investment in a regional economic growth hub in the NEIZ aligns with a number of national strategic plans for the country.

Table 4: Alignment to National Strategies

Organisation & Strategy Identified	Description	Relevance to this Business Case
Ministry of Transport <i>Safer Journeys Strategy: New Zealand's Road Safety Strategy 2010-2020</i>	<p>This document is designed to guide New Zealand's efforts to improve road safety for the next 10 years. It sets out the direction and actions MIT will take to reduce the number of deaths and injuries on New Zealand's roads.</p> <p>Specifically, in its "Safe Roads and Roadsides" actions, it supports</p>	<p>Improving rail freight connectivity and capacity, will be an important facet of reducing the impact of more trucks on the road. Crashes involving trucks are usually more serious than those involving lighter vehicles because of their greater size and weight.</p> <p>By creating a Regional Economic</p>

	<p>“Better integrate road safety into land-use planning”. Furthermore, MIT’s findings show a rapidly growing Freight market in New Zealand.</p> <p>Freight is predicted to double by 2040 and the largest share of it is likely to continue to be transported by road.</p> <p>Growing international demand for oil – it is predicted that demand for liquid fuels will grow by 32 percent by 2030. If fuel prices rise, then the way people choose to travel may also change. This could have positive and negative impacts for road safety.</p> <p>Environmental: Addressing climate change commitments – over the next decade it is anticipated that measures will be taken to reduce transport emissions. These measures are likely to influence people’s choice of transport. An increase in public transport, motorcycling, walking and cycling may be seen. It will be important to address the safety needs of all modes of transport.</p>	<p>Growth Hub in the NEIZ as an alternate to the CBD located yard, heavy vehicles would be diverted out of central Palmerston North, reducing congestion and impacts from large trucks through the CBD. This outcome directly compliments MIT’s strategy to consider and integrate road safety into land-use planning.</p> <p>The NEIZ area, compliments wider transport and regional ring road development plans.</p> <p>There are significant road safety and carbon emission benefits to be achieved by establishing an intermodal freight hub on the outskirts of central Palmerston North, as opposed to remaining at the current Palmerston North Freight Yard. For both freight and passenger transport rail performs well against both road and aviation in terms of carbon dioxide (CO²) emissions. KiwiRail’s performance to date has seen a 10% improvement in carbon intensity of rail freight since 2010.</p> <p>KiwiRail’s Integrated Annual Report 2017 has identified that for every tonne of freight carried by rail, there is a 66% emission saving over road.</p> <p>Further, an Economic Growth Hub in the NEIZ supports MIT’s initiatives on road safety and land-use planning by enabling the distribution of various products throughout the country by rail as opposed to road.</p>
<p>New Zealand Transport Agency</p> <p>Government Policy Statement on Land Transport (GPS) 2018</p>	<p>The Government Policy Statement on Land Transport (GPS) 2018 helps guide investment in transport by providing a longer-term strategic view of how the transport network is prioritised and why.</p> <p>While the GPS provides a national picture of land transport funding,</p>	<p>Land acquisition and intermodal growth hub development aligns with GPS’ national land transport objectives and the long term results the Government wishes to achieve by:</p> <ul style="list-style-type: none"> ▪ Addressing future freight demands

	<p>the specific detail of how funding is invested is the responsibility of the NZ Transport Agency. The NZ Transport Agency's investment in the land transport system is implemented through the Fund. The Fund is the main central government funding source for the land transport system²⁶.</p> <p>The GPS takes into consideration a range of government policies, including Regional Economic Development, whose focus is supporting productive, sustainable and inclusive growth in regional New Zealand through the recently established Provincial Growth Fund (PGF).</p> <p>GPS has a new focus that prioritises improving New Zealanders' access to economic and social opportunities. The increased focus includes: supporting nationally important freight connections that are safe, efficient, resilient and reduce greenhouse gas emissions.</p> <p>The four strategic priorities are:</p> <ul style="list-style-type: none"> ▪ safety ▪ access ▪ environment ▪ value for money. 	<ul style="list-style-type: none"> ▪ Developing a reliable and resilient intermodal freight hub to service the countries distribution needs ▪ Would divert load bearing trucks away from the Palmerston North CBD, contributing to a safer inner-city transport infrastructure ▪ Mitigates the effects of land transport on the environment. <p>As signalled in the GPS 2018, the Government is shifting towards a mode neutral approach to transport planning and investment decisions.</p> <p>Over time, this will mean that the scope of the GPS is likely to expand to investigate enabling funding for alternative transport modes, such as rail and coastal shipping, where it would improve resilience of the transport network²⁷. Increased accessibility may reduce other costs such as greenhouse gas emissions and deaths and serious injuries²⁸.</p> <p>A new and improved intermodal freight hub will improve productivity potential in the regions; GPS 2018 endorses the initiative of such developments from the planning stage to delivery.</p>
<p>Budget 2018</p> <p>Budget at a Glance: Foundations for the Future</p> <p>Minister of Finance</p>	<p>The Budget 2018 overview makes significant investment in the Coalition Government's key priorities, building on the 100-Day Plan. Included in its top five priorities is 'Promoting economic development and supporting the regions'.</p> <p>Budget 2018 invests in economic development and productivity with a focus on supporting regional economies to deliver shared</p>	<p>This Business Case aligns with the Budget 2018 objectives in a number of direct ways.</p> <p>Developing a Regional Economic Growth Hub would enable KiwiRail to deliver on the continuing freight demands of the country, supporting the economy, whilst providing employment to the surrounding Palmerston North area.</p> <p>The Budget specifically includes that</p>

²⁶ <https://www.transport.govt.nz/assets/Uploads/Our-Work/Documents/Draft-GPS-2018.pdf>

²⁷ <https://www.transport.govt.nz/assets/Uploads/Our-Work/Documents/Draft-GPS-2018.pdf>

²⁸ <https://www.transport.govt.nz/assets/Uploads/Our-Work/Documents/Draft-GPS-2018.pdf>

	<p>prosperity for all.</p> <p>The package supports \$1.1 billion of capital funding to 'Infrastructure, productivity and the regions'. It specifically states that it will provide funding to invest in KiwiRail to support a modern rail network.</p> <p>The Budget 2018 aims to boost productivity to the regions through the Provincial Growth Fund and enable 'our businesses to operate more efficiently'.</p>	<p>it intends to invest in KiwiRail initiatives.</p> <p>In alignment with the '2018 Budget' approach, KiwiRail group is looking to boost its productivity, enabling opportunities for the region through the support of the Provincial Growth Fund. With PGF's backing, a more efficient, 'fit-for-future', Regional Economic Growth Hub would ensure success in keeping up with growing national freight demands.</p>
<p>NZTA</p> <p>Accessing Central NZ Strategic Case</p> <p>2016 report</p>	<p>The NZTA, Accessing Central New Zealand, Strategic Case 2016 report acknowledges the importance of the Manawatū-Whanganui Region and Palmerston North as being a key enabler for economic growth in New Zealand from a freight hub perspective.</p> <p>It has identified the need for improved distribution services in the area and the urgent need for investment in these to accommodate freight growth.</p>	<p>This aligns with creating a 'fit-for-future', Regional Economic Growth Hub that would enable and support Manawatū and the greater regions; linking road, rail and air as part of a broader better-connected network.</p> <p>Wellington, Napier and Taranaki will also gain from the improved connection and capability.</p>

REGIONAL STRATEGIES

KiwiRail's intention to invest in the NEIZ aligns with a number of regional strategies and development plans.

Table 5: Alignment to Regional Strategies

Organisation & Strategy Identified	Description	Relevance to this Business Case
<p>Palmerston North: Consultation Document</p> <p>2018 – 2028, 10 YEAR PLAN</p>	<p>The 10 Year Plan outlines the PNCC's 'big picture'. It includes the projects and services that they are planning to deliver over the next ten years.</p> <p>Two of the top priorities PNCC is focused on, are as follows:</p> <ol style="list-style-type: none"> 1. Ensuring that they have the land and essential infrastructure for sustainable growth in population and 	<p>PNCC recognises that KiwiRail is a key part of the transport supply chain and is a major enabler of freight in their region and across the Central New Zealand.</p> <p>An expanded, 'fit-for-future' Regional Economic Growth Hub in the NEIZ, supports the City's goal to enable its ability to cater for future predicted growth in distribution and logistics</p>

	<p>jobs; and</p> <p>2. Creating a more vibrant city centre which will in turn attract and retain business investment that will deliver further benefits to the people of Palmerston North.</p> <p>Palmerston North's Sustainable Growth Catalyst Projects aim to support a Regional Freight Ring Road, Rail and Airport (multi-modal) infrastructure to enable industrial growth in the area.</p>	<p>industries.</p> <p>Land acquisition and a Regional Growth Hub development will deliver the essential infrastructure required for KiwiRail to run a sustainable freight business. This will consequently provide employment opportunities to those in the city and surrounds. It will also align with preparing for predicted population increase in Palmerston North, unlocking the current land for more strategic city planning.</p>
<p>Palmerston North</p> <p>2018 City Development Strategy: small city benefits, big city ambition</p>	<p>To fulfil Palmerston North's vision of 'small city benefits, big city ambition' the PNCC supports two key priorities:</p> <ol style="list-style-type: none"> 1. Creating and enabling opportunities for employment and growth; and 2. Providing infrastructure to enable growth and a transport system that links people and opportunities <p>PNCC supports the initiative for industrial land being made available to the north-east of the city, earmarking it for large-format freight services.</p> <p>It recognizes the strategic importance of rail forming a significant intermodal freight and distribution hub and has identified how traffic flows compromise the industrial land adjacent to the rail corridor at Tremaine Avenue.</p>	<p>Bunnythorpe land, situated in the NEIZ, is well located to support the City priorities with a Regional Economic Growth Hub.</p> <p>By the PGF enabling KiwiRail and its freight partners to take this opportunity, rail will be enabled to form a key part of future freight, distribution and logistics activities for Central New Zealand.</p> <p>A greenfields site will enable KiwiRail to deliver on increasing freight demands, consequently providing employment growth and opportunities to the Manawatū-Whanganui area.</p> <p>KiwiRail see this strategic land as supporting the City's future economic growth and complimenting the key objectives that PNCC are setting out to achieve.</p>
<p>Palmerston North</p> <p>Economic Development Strategy: 2018 (PN EDS)</p>	<p>The Economic Development Strategy has been developed alongside the City Development Strategy. It focuses on five key priorities outlined as follows:</p> <ol style="list-style-type: none"> 1. Create and enable 	<p>Land acquisition and development of a Regional Growth Hub, either directly or indirectly supports all five key priorities included in the PN EDS.</p> <p>Logistics is recognised as a priority</p>

	<p>opportunities for employment and growth</p> <ol style="list-style-type: none"> 2. Provide infrastructure to enable growth and a transport system that links people and opportunities 3. Diversify the economy to reduce reliance on traditional industries 4. Support an 'innovation economy' to underpin growth into the future 5. Transform the economy to a low carbon economy 	<p>sector in the region that will help determine the city's future economic wellbeing.</p> <p>A Regional Growth Hub supports the PNCC's goal to grow the freight sector.</p> <p>For KiwiRail to be equipped to become a sustainable, reliable freight distribution centre, it needs to be in an area that is well connected, will accommodate our expansion goals (to deliver on the country's freight needs) and will allow it the facilities to upgrade and modernise. A site in the NEIZ would satisfy these objectives; enabling KiwiRail to contribute positively to local and national economic goals.</p>
<p>Palmerston North Strategic Transport Plan: 2018 – 2021 (PN STP)</p>	<p>The purpose of the Strategic Transport Plan is to provide infrastructure to enable growth and a transport system that links people and opportunities, and provides amenity, safety, interconnectivity, accessibility, resilience and reliability.</p> <p>It recognises that increasing connectivity is a key factor in Palmerston North's future prosperity. It has also identified that the road link to the Palmerston North Freight Yard terminal is under increasing pressure from congestion.</p> <p>PN STP programmes include:</p> <ul style="list-style-type: none"> ▪ Developing a plan, in collaboration with Kiwi Rail, to ensure rail forms a key part of future freight, distribution and logistics activities and interconnections in the north-east industrial zone ▪ Develop a plan to provide resilient and reliable 	<p>A number of PNCC's specific programmes to enhance the City's transport resilience align directly with this Business Case.</p> <p>By acquiring a site at the NEIZ, KiwiRail and its freight partners will be able to expand and upgrade their facilities to support Central New Zealand's future freight growth.</p> <p>The current Palmerston North Freight Yard is nearing the end of its useful life and is unable to expand due to being constrained by residential surrounds.</p> <p>The PN STP does not support the rail terminal on Tremaine Avenue remaining where it is, as it is inconsistent the PNCC's strategic plan for the City.</p> <p>In addition, PNCC is highly supportive of KiwiRail providing resilient and reliable intermodal rail distribution services to the regions.</p> <p>KiwiRail moving out of the city</p>

	<p>intermodal, road and rail connectivity for industry (by end of 2020/2021).</p> <ul style="list-style-type: none"> ▪ Investigate and recommend options for re-location of the rail terminal on Tremaine Avenue (by end of 2020/2021). 	<p>centre and into the NEIZ aligns with PNCC objectives.</p>
<p>Palmerston North: Eco City Strategy 2018</p>	<p>Palmerston North's Eco City Strategy outlines the goals and approach for the city to achieve its ambition of creating cleaner energy, lowered carbon emissions and reduced ecological footprint for the city.</p> <p>It notes the importance of effective planning of infrastructure and the protection, maintenance and enhancement of our natural and built environment. It also specifies the goal for the city to become a low carbon economy.</p>	<p>Contaminants such as those from vehicle tyres, brake pads, oil and grease and the wear of bitumen from road surfaces can all end up in the Region's air, water and land.</p> <p>By supporting the case to invest in a reliable intermodal Growth Hub outside of the CBD, load bearing traffic can be diverted away from the inner city.</p> <p>A more efficient and strategically located Growth Hub will provide New Zealand with a more sustainable, environmentally friendly transport method enabling it to meet carbon emission targets whilst still delivering on freight demands.</p> <p>By unlocking the current Palmerston North Freight Yard, the PNCC will have the opportunity to introduce public transport infrastructure that enables city dwellers and visitors to make low carbon transport choices.</p> <p>Furthermore, the Ministry of Business, Innovation and Employment (MBIE) forecasts the number of people visiting New Zealand to increase by approximately 38% over the next six years (increasing from 3.7 million in 2017 to 5.1 million in 2024)²⁹. By KiwiRail moving to the NEIZ, it will unlock PNCC plans for its City and enable the City to</p>

²⁹ <http://www.mbie.govt.nz/info-services/sectors-industries/tourism/tourism-research-data/international-tourism-forecasts/2018-2024-forecasts>

		benefit from passenger rail and tourism potential.
<p>Integrated Transport Strategy for Palmerston North (PN ITS)</p> <p>November 2015</p>	<p>The Integrated Transport Strategy supports transport choices as part of an easy to use and efficient transport system that meets the needs of people, businesses and the environment.</p> <p>There are three main drivers that the Palmerston North ITS is focused on:</p> <ol style="list-style-type: none"> 1. Optimise Use, Access and Movement 2. Build resilience 3. Encourage walking and cycling <p>The PN ITS has recognised that while rail transport is more environmentally sustainable, a lack of connectivity to new industrial areas, double handling, rail infrastructure restraints on train sizes, and an inability to meet some time critical requirements, limit its capabilities.</p> <p>It has been identified that growth in freight transport, particularly truck traffic volume and size, is contributing to road safety issues and areas of tension in the city.</p>	<p>By moving to a NEIZ site, KiwiRail would be better connected to a planned regional Ring Road; supporting moving traffic flows away from the City centre and increasing accessibility to the freight Hub.</p> <p>Rail distribution services can only build resilience if they are well-equipped, modernised and located in an area where it can expand to cater for an increase in freight volumes. Relocating to the NEIZ will support these goals.</p> <p>PN ITS initiatives for a more pedestrian friendly city would be supported by moving KiwiRail's yard out of central Palmerston North. The roads will be safer with fewer load bearing trucks using inner city streets to access the Palmerston North Freight Yard and the current site would be unlocked for a potential city metro connection hub for public use.</p> <p>The PN ITS vision supports an increase in rail freight volumes, but also supports an increase in pedestrian counts in the CBD. KiwiRail and its freight partners relocating their operations to the NEIZ would enable both these goals.</p>
<p>Palmerston North City Council</p> <p>Sustainable City Strategy</p>	<p>The PNCC's vision, is for the city to be recognised as being vibrant, caring, innovative, sustainable and prosperous city.</p> <p>The Sustainable City Strategy includes a driver of 'sustainable energy use to get about the city' and sub-drivers to:</p> <ul style="list-style-type: none"> ▪ Increase the use of public transport 	<p>Securing land in the NEIZ for a Regional Economic Growth Hub, would enable heavy vehicles to be directed away from the Palmerston North Freight Yard and onto arterial routes. This would improve the safety of inner-city streets and encourage and accommodate cycling and walking as an alternative means for transport due to improved road safety.</p>

	<ul style="list-style-type: none"> ▪ Encourage walking and cycling ▪ Focus heavy traffic onto arterial routes ▪ Decrease the need for travel 	<p>Relocation from the Palmerston North Freight Yard would provide the opportunity to regenerate the site to achieve increased tourism rail patronage.</p>
<p>Horizons Regional Land Transport Plan: 2015 - 2025</p>	<p>The Horizons Regional Land Transport Plan sets out the strategic direction for land transport in the Manawātū - Wanganui region over the next 10 years.</p> <p>It describes what their Region is seeking to achieve for the land transport system and how this will contribute to an effective, efficient and safe land transport system in the public interest as required under the Land Transport Management Act 2003 (LTMA).</p> <p>Its findings show that the regional economy is largely based on the production of primary industries, and because of this, the Region’s economy is reliant on the land transport network in transporting product from its point of origin to its destination. A large proportion of the Region’s primary product eventually makes its way out of the Region for either export overseas or to be redistributed to other parts of New Zealand.</p> <p>The Horizon Plan has recognized the Palmerston North- Manawātū sub area is now a major freight hub and has superseded Wellington in importance as a distribution center. This is as a result of two important commodity flows:</p> <p>1. Palmerston North has become a key staging point for high-value imported and domestic freight between Auckland and</p>	<p>The Palmerston North - Manawātū sub area is now recognised as the hub of the growing freight distribution industry because of its Central New Zealand location, connecting to the surrounding regions of Taranaki, Hawke’s Bay, Waikato and Wellington, via the State Highway, rail and air networks.</p> <p>As the Region’s economy is reliant on the land transport network for export or redistribution, it is critical to New Zealand’s economy that the transport links are resilient.</p> <p>PNCC have recognised growth expanding in the area and the requirement to future plan for this. A 126 ha extension of the NEIZ was introduced in 2015 through its Sectional District Plan review process to accommodate expected growth in the zone.</p> <p>KiwiRail plays a major role in supporting the Region’s distribution of freight throughout New Zealand. Establishing a Regional Growth Hub in the NEIZ, would support New Zealand’s national and regional requirements to support an expanding freight market.</p> <p>In line with Horizon’s Strategy, the NEIZ is slated to play a large role in supporting the country’s freight distribution needs through being better connected to key transport modes.</p> <p>The NEIZ area is well connected to</p>

	<p>Wellington or between Auckland and the South Island; and</p> <p>2. Palmerston North has good access to hinterlands that produce New Zealand export commodities and provides the staging point for export of these out of the ports in Napier, New Plymouth and Wellington, or even Auckland and Tauranga.</p> <p>Further to the above, the following Policies³⁰ are intended to guide and direct decisions and planning that needs to occur to support the Region.</p> <p>Policy 2.3 supports the efficient and effective movement of freight within and through the Region.</p>	<p>roads and PN City's airport, enabling it to protect and enhance New Zealand's growing distribution economy.</p>
<p>Horizons: Draft Regional Land Transport Plan 2015-2025 (2018 Review)</p>	<p>This plan is the result of a three-yearly review of the 2015-25 Plan. It sets out the strategic direction for land transport in the Horizons Region.</p> <p>It states the regional priorities for the next ten years and outlines the proposed land transport activities in the next six years that seek to contribute to these priorities and secure and guide investment in the Region.</p> <p>Included in its findings, it recognises the Palmerston North - Manawatū sub-area as the hub of the growing freight distribution industry because of its location in the central part of the lower North Island. It has identified that it is critical to the economy of the Region, that transport links are resilient and efficient (which includes a high level of connectivity).</p> <p>The latest Review has identified a</p>	<p>Palmerston North's significant and growing freight distribution industry and the strategic network in and around the city will need to cater effectively for this now to be better prepared for the future.</p> <p>KiwiRail recognise that the key for future preparedness is ensuring that future growth of the North East Industrial Zone is planned for via an efficient road and freight network, consequently providing good access locally to Palmerston North and regionally to the rest of the North Island.</p> <p>'Distribution and Transport' has been identified as a key enabler in unlocking potential economic growth for the Region. Further, it has been recognised that Palmerston North has:</p> <ul style="list-style-type: none"> ▪ become a key staging point for high value imported and domestic freight between Auckland and Wellington or

³⁰ **Horizons Regional Land Transport Plan: 2015 – 2025, Policy 2.3**

	<p>key list of objectives as contributing to an effective, efficient, and safe land transport system in the public interest.</p> <p>These include:</p> <ol style="list-style-type: none"> 1. An optimised road, rail and public transport network that provides efficient, reliable access and movement for people and freight to and from key destinations, within and outside the region. 2. Maximise the strategic advantage of central New Zealand through efficient and well serviced hubbing and freight distribution activities, including better utilisation of rail corridors. 3. A safe land transport system increasingly free of death and serious injury. 4. A reliable multimodal transport system with less modal conflict, including walking and cycling, that mitigates potential environmental effects and improves environmental outcomes. 5. A resilient transport network with secure inter and intra-regional routes, that can perform following an unplanned event. 	<p>between Auckland and the South Island; and</p> <ul style="list-style-type: none"> ▪ has good access to hinterlands that produce New Zealand export commodities. <p>An enhanced, modernised, strategically positioned Regional Growth Hub in the NEIZ will support the Palmerston North - Manawatū sub-area as the centre of Central New Zealand's growing freight distribution industry.</p>
<p>Joint Manawatū-Palmerston North Transport Strategy (JTS), 2010</p>	<p>The JTS was developed in 2010 in collaboration with PNCC, Manawatū District Council, Horizons Regional Council and the NZ Transport Agency in response to poor strategic alignment.</p> <p>The JTS identified a series of road improvements to give effect to an evidence-based strategic network hierarchy, connecting key</p>	<p>Time is criticality important in freight distribution. A key component of ensuring suppliers meet time critical deadlines is an efficient road transport network.</p> <p>Acquiring and developing a Regional Economic Growth Hub in the NEIZ in Bunnythorpe, will provide better linkages into the Regional Freight Ring Road; as opposed to using the inner-city</p>

	<p>transport nodes over the next 30 years.</p> <p>A key aspect of the JTS has been the development of a 'Regional Freight Ring Road', vital to unlocking the Region's distribution and logistics potential and reducing large commercial traffic volumes on local roads as well as providing fluid connectivity.</p>	<p>Palmerston North Streets to access its existing yard.</p> <p>Positioning the freight hub in the North East Industrial Zone, will compliment aligning its base and routes with improved connectivity, resilience and safety of strategic routes to and from key destinations.</p>
<p>Ministry of Business, Innovation and Employment; and the Ministry for Primary Industries</p> <p>Regional Growth Programme 2017</p>	<p>The Ministry of Business, Innovation and Employment and the Ministry for Primary Industries, lead central government's contribution to the Regional Growth Programme.</p> <p>The programme will investigate ways to prioritise investment and economic growth opportunities for all districts within the Region over the next 30 years.</p> <p>The Government wants all New Zealanders to benefit from economic growth. Ensuring our regions are as productive and innovative as they can be will not just improve regional living standards but lift our national exports and increase wealth throughout New Zealand³¹.</p>	<p>Transport is a key enabler of growth.</p> <p>By investing in a new 'fit-for-future' economic growth hub, potential growth for the region will be unlocked providing employment and greater resilience in a growing freight economy.</p> <p>Ensuring that KiwiRail and its freight partners are best equipped and positioned to deliver efficient distribution services will support the country's overall economic wealth.</p>
<p>2010 Palmerston North- Manawatū Strategic Transport Study</p>	<p>In 2010, at the same time as developing the Regional Land Transport Strategy, PNCC, Manawatū District Council, the Transport Agency and Horizons Regional Council undertook the Palmerston North-Manawatū Strategic Transport Study (referred to as the JTS).</p> <p>The intention of the JTS was to confirm a roading hierarchy for the Palmerston North-Manawatū sub area that would identify improvements and develop a</p>	<p>A 'fit-for-future' Regional Growth Hub will enable unlocking economic growth and development opportunities that will benefit the entire Region.</p> <p>By facilitating its development through strong and effective transport links, freight efficiency will be greatly improved opening up additional economic opportunities across the Region.</p>

³¹ Regional Growth Programme, page 2

	programme of works to give effect to the road hierarchy over a 30-year planning horizon.	
Wanganui District Council (WDC) Urban Transportation Strategy: 2011	In 2011, the Wanganui District Council (WDC) adopted an Urban Transportation Strategy that sets the direction for future transportation investment over the following 30 years in the District. One of the major themes of the Strategy is to improve the efficiency and effectiveness of freight movement.	A 'fit-for-future' Regional Economic Growth Hub in Bunnythorpe will directly impact on the efficiency and effectiveness of KiwiRail and its freight partners being able to better accommodate predicted future freight growth in New Zealand.
Accelerate 25 Manawatū-Whanganui Economic Action Plan [August 2016]	This Action Plan is the practical 'road map' to accelerate social and economic growth in the Manawatū-Whanganui region through to 2025. The source document for this plan is the 2015 Growth Study. It explains the interconnectedness between the sub-regions, and that if they are integrated strategically this will have a tangible and resounding impact on the New Zealand economy. The Plan has identified the importance of infrastructure connection between people, goods, services and markets on economic success. Some of the future network requirements it has identified are as follows: <ul style="list-style-type: none"> ▪ Efficient and well-served hubbing. ▪ Scalability of operations. ▪ Palmerston North is a major intersection requiring more investment in streamlined transport movement. 	A Regional Economic Growth Hub in the NEIZ will support Central New Zealand's needs by providing KiwiRail and its freight partners greater capacity to efficiently deliver on increasing distribution services. The NEIZ is well connected to the airport and a planned regional Ring Road. Creating a Regional Growth Hub in a greenfields NEIZ site will enable KiwiRail and its freight partners to meet their own strategic objectives while also working with the City and surrounding regions to deliver efficient, reliable freighting services around New Zealand; contributing to economic benefits for the country as a whole.
Manawatū-Palmerston	There are currently plans in	An NEIZ located site will better

<p>North</p> <p>Regional Ring Road</p> <p>Key investment opportunity / Business Case</p>	<p>action for a Manawatū-Palmerston North Regional Ring Road (Rural Ring Road) to allow heavy through traffic to bypass Palmerston North's city centre).</p> <p>This is expected to enable growth not just for the Manawatū-Whanganui region, but growth for the betterment of the entire country.</p>	<p>connect with the planned regional ring road and will have easier airport access due to not having to cross CBD streets</p> <p>By the various transport strategies in the region being aligned, an integrated multi-modal approach can be created, enabling a more resilient distribution system for New Zealand to rely upon.</p>
<p>NZTA</p> <p>SH3 Manawatū Gorge Replacement Route</p> <p>March 2018</p>	<p>The proposed SH3 Manawatū Gorge Replacement Route aims to provide a safe and reliable, high quality road between Manawatū, Taranua District, Hawke's Bay and Northern Wairarapa.</p> <p>Essential for the economic wellbeing of New Zealand and our communities it would be complementary to and support the development of the Regional Freight Ring Road.</p>	<p>KiwiRail establishing within the NEIZ zone would align with the Ashurst to Palmerston North element of the SH3 replacement route.</p> <p>Connectivity in the region will be enhanced if road and rail strategies are implemented in a synergized way, to achieve best interconnected transport results.</p>
<p>NZ Transport Agency, 2009, Central Region Freight Analysis Final Report</p>	<p>According to the NZTA 2009, Central Region Freight Analysis Final Report, the Palmerston North's importance as a major distribution and logistics hub for the Central North Island is growing.</p> <p>The study reports that a flow of inter-regional freight reflects:</p> <ul style="list-style-type: none"> ▪ The central distribution location in relation to the large North Island import ports ▪ The region's relative proximity to the Wellington regional population (491,000 residents as at June 2014) ▪ The flow of import goods south through the North Island (from Auckland to Wellington). 	<p>KiwiRail needs to prepare itself to deliver reliable distribution services to New Zealand's growing freight economy. KiwiRail can only achieve this if it is strategically located and connected with wider regional transport initiatives. Its services will be optimized if road, rail and air are able to work in harmony for best results.</p> <p>An acquisition of land in the NEIZ would enable KiwiRail to establish a facility where it can be well connected with the main transport modes in the Region, leveraging itself and key stakeholder with synergized multi-modal supply chain.</p> <p>KiwiRail are aware that Palmerston North is a key area for Central New Zealand freight distribution requirements.</p>

		At the current Palmerston North Freight Yard, expansion is restricted; consequently, there would be limitations on servicing New Zealand's predicted growing freight demands.
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Regional Integrated Transport Planning Approach

KiwiRail intends to partner with key stakeholders in the Region including local iwi, PNCC, NZTA, Accelerate 25 and Horizons to develop a high level integrated regional transport master-plan as part of Phase 2. KiwiRail would collaborate on design to support wider regional objectives and best business outcomes, taking full consideration of mana whenua protocols throughout.

This Business Case compliments a number of other connected transport projects. The PNCC is supportive of this collaborative approach to intermodal transport planning. Cooperating with key stakeholders will ensure that future connectivity by way of air, road, rail and ports is synergised, complimentary and efficient. This will ensure delivery of a best overall regional outcome, aligned with rail objectives, and creating the maximum capacity to deliver a dependable multimodal transport network for Central New Zealand's future.

An overview of how the phasing for this Business Case fits into wider transport initiatives in the Region is summarised below.

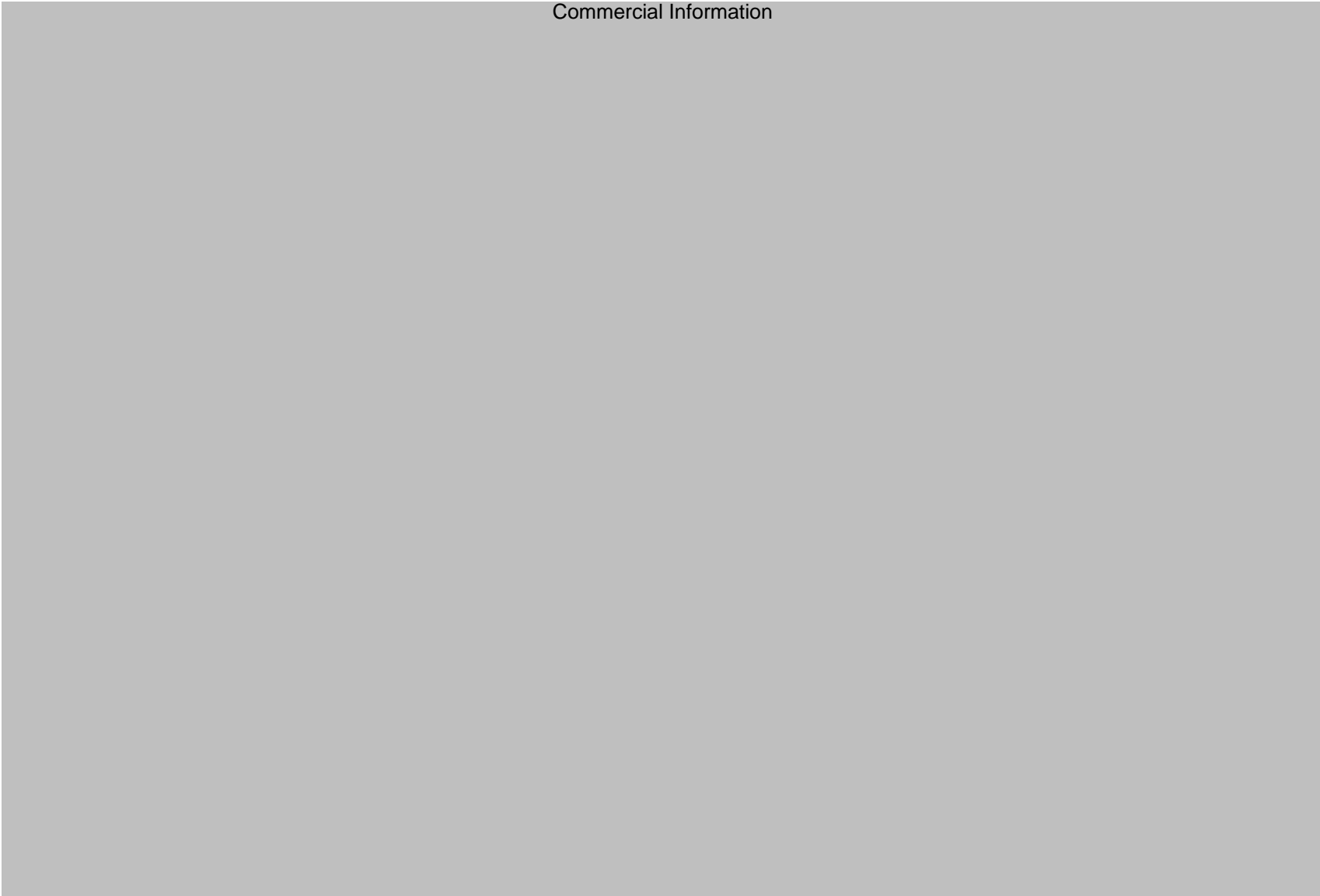
Table 6: Integrated Intermodal Transportation Master-Plan Overview

Phase of work	Explanation
Phase 1a	<ul style="list-style-type: none"> This Business Case: Site identification, master-planning, designation and due diligence.
Phase 1b	<ul style="list-style-type: none"> This Business Case: KiwiRail acquisition of a NEIZ greenfield site (subject to satisfactory Phase 1a requirements being met).
Phase 2a	<ul style="list-style-type: none"> Detailed integrated design and construction of a Palmerston North Regional Economic Growth Hub. KiwiRail's former Palmerston North Freight Yard is rezoned for uses aligned with PNCC strategic plan. Main passenger line stays with appropriate rail corridor for future inner-city metro hub.
Phase 2b	<ul style="list-style-type: none"> Planning for several new rail spurs to connect to new businesses, distribution centers and manufacturing plants which connect to existing North East Industrial Zone. <p><i>Note: This is to happen in parallel with the new Palmerston North Regional Growth Hub development.</i></p>
Phase 3	<ul style="list-style-type: none"> Manawatū-Palmerston North Regional Ring Road and planned route Business Case is submitted by PNCC for funding, linking into the North East Industrial Zone plan.

Phase of work	Explanation
Phase 4	<ul style="list-style-type: none"><li data-bbox="448 230 1348 383">▪ The Palmerston North Airports Jet Logistics, Distribution and Airfreight Plan is submitted linking into:<ol style="list-style-type: none"><li data-bbox="496 320 1082 349">1. Palmerston North Regional Growth Hub; and<li data-bbox="496 353 1142 383">2. Manawatū-Palmerston North Regional Ring Road.
Phase 5	<ul style="list-style-type: none"><li data-bbox="448 432 1348 528">▪ Palmerston North Airport's International Freight & Runway Extension Business Case is completed as part of the integrated regional transport strategy.

Figure 11: Integrated Plan

Commercial Information



2.2 Investment Objectives, Existing Arrangements and Business Needs

2.2.1 Investment Objectives

The investment objectives for this proposal are:

1. Increase economic benefits for Central New Zealand
2. Improve National and Regional freight efficiency
3. Accommodate predicted freight growth
4. Grow intermodal terminals to improve freight network productivity
5. Facilitate an integrated region wide transport solution through key stakeholder collaboration
6. Support Palmerston North City Council (**PNCC**) strategic plans for the City

2.2.2 Existing Arrangements and Business Needs

Table 7: Investment Objective 1

Investment Objective 1	Increase economic benefits for Central New Zealand
Existing Arrangements	<p>KiwiRail's Palmerston North Freight Yard has constraints which mean that it would be difficult to achieve the uplift in performance that is needed to increase freight capacity.</p> <p>The aged facilities, first established in 1964, are not only inefficient and unreliable due to a combination of wear and tear and out-dated technology but cannot be expanded where they are due to being surrounded by residentially zoned land. Furthermore, constraints by PNCC on planning and consenting for rail purposes in the CBD inhibit any extensions to the yard and new buildings being approved. Improvements need to be made at the current yard if they are to perform to current sustainability and environmental standards</p> <p>Lack of connectivity to new industrial areas, double handling, rail infrastructure constraints on train sizes, and an inability to meet some time critical requirements currently limit rail's capabilities in its current location</p>
Business needs	<p>NZTA's Accessing Central New Zealand Strategic Case 2016 report, has specifically identified the Manawatū-Whanganui region and Palmerston North as being a key enabler for economic growth, recognising the area as a key freight and distribution location for New Zealand.</p> <p>KiwiRail proposes a collaborative transport planning approach where road, rail and air are aligned to deliver an efficient multi-modal supply-chain.</p> <p>The logistics sector earnings in Palmerston North increased 119% between 2000 and 2013, strongly ahead of the 74% increase in national logistics sector earnings (Statistics NZ).³² Acquiring a</p>

³² Palmerston North Integrated Transport Strategy, page 27, figure 10

	<p>greenfield site in the NEIZ is a key option for KiwiRail to deliver sustainable economic development of the regions.</p> <p>The Manawatū-Whanganui region’s economic success relies heavily on supply-chain and logistics due to its significant agriculture and manufacturing industries. Studies show that increased, dependable connectivity services have a direct impact on increasing productivity³³.</p> <p>Establishing a regional growth hub in the NEIZ, would not only support KiwiRail’s ability to deliver distribution services to the country, but will also have an immediate impact on regional economic development through infrastructure construction activity. In the long term, the operational site will provide increased capacity and efficiencies, working in a more stream-lined way with surrounding customers and key stakeholders.</p> <p>Moving to a NEIZ site would provide indirect long-term economic drivers. Unlocking the Palmerston North freight yard, would allow opportunity for the Yard to be improved and enhanced from an urban infrastructure perspective, opening the potential for increased patronage and connections for tourism, all contributing to the areas’ economic well-being.</p> <p>A range of economic benefits to the city and general surrounds will be realised through increased accessibility and employment opportunities.</p>
<p>Alignment with Provincial Growth Fund priorities</p>	<p>The current Palmerston North Freight Yard will not easily sustainably deliver on the region’s predicted future distribution demands.</p> <p>A strategically connected, more efficient, modernised regional economic growth hub would enable KiwiRail and its freight partners to support predicted growing National freight demands.</p> <p>Funds acquired through the PGF would enable KiwiRail to invest in NEIZ land, which would unlock several positive contributions to New Zealand’s economy; enabling integrated regional intermodal infrastructure development projects to come to fruition.</p> <p>Furthermore, KiwiRail would be able to contribute to the future economic success of Māori in the region by way of enabling employment opportunities and working together with mana whenua as part of a synergistic, mahi tahi approach.</p>

³³ The economic impacts of connectivity, February 2017, NZ Transport Agency research report 608

Table 8: Investment Objective 2

Investment Objective 2	Improve freight efficiency
Existing Arrangements	<p>The Palmerston North Freight Yard requires significant investment to improve efficiency and create modern 'fit-for-future' facilities. KiwiRail is currently constrained by a combination of: the number of tracks at the current site; PNCC's restriction on increasing the volume of large heavy vehicles using interconnecting CBD roads³⁴; zoning restrictions on development; out dated technology; and a fragmented operational layout.</p> <p>What was deemed adequate to service Central New Zealand's freight needs in 1964 is very different today and KiwiRail in conjunction with key stakeholders needs to adjust accordingly.</p>
Business needs	<p>For KiwiRail to keep up with the demands of a growing freight economy, greater efficiency is required. Efficiencies will predominantly be achieved by considering the following:</p> <p><i>Strategic Positioning:</i> The NEIZ is well connected to the airport, and major roads including a planned regional ring road. It will allow for bespoke design integrating KiwiRail's customers and itself in an efficient layout for speed of delivery, less double handling and better accessibility. For KiwiRail to remain a reliable and resilient freight distribution provider it needs to adequately prepare itself for the future. By investing in a strategically located site, KiwiRail would be preparing itself to be relied upon by New Zealand's expanding freight needs for the next 50-100 years.</p> <p><i>Improved Technology:</i> To keep up with growing demands, new innovations need to be implemented at KiwiRail for improved connectivity, less double handling and greater automation services. A greenfield site will allow the space for a bespoke modernised regional growth hub of the future to be set up and KiwiRail will consequently be more efficient at meeting growing distribution demands.</p> <p><i>Collaborative Transport Planning:</i> This business case is part of a wider picture which includes rail, road and air as well as ports. By planning for the region's future distribution needs in a collaborative way, KiwiRail will be able to deliver on greater overall transport and supply-chain efficiencies.</p>
Alignment with Provincial Growth Fund priorities	<p>By investing in this business case (Phase 1), the PGF will support one of its key investment objectives: <i>Enable Infrastructure Projects</i>. This will provide KiwiRail with the means to support predicted national and region-wide growing freight demands through developing modern, expanded, well-connected, efficient facilities to better service New Zealand's distribution requirements.</p>

³⁴ Palmerston North: Economic Development Strategy 2018 and 2018 City Development Strategy

Table 9: Investment Objective 3

Investment Objective 3	Grow intermodal terminals to improve freight network productivity
Existing Arrangements	<p>After many years since first establishing itself at the current Palmerston North Freight Yard (1964), KiwiRail and its freight partners are now surrounded by residentially zoned land.</p> <p>PNCC, NZTA and Horizons are just a few of the bodies who have recognised the negative impact that heavy load-bearing vehicles are having on the city's streets. This is affecting central Palmerston North from a safety, road wear and tear, environmental and accessibility perspective. Palmerston North's Strategic Transport Plan 2018-2021, and Palmerston North's Integrated Transport Strategy 2015, does not align with KiwiRail continuing to operate at the central city yard. One of the plans specifies an objective outlined as follows:</p> <ul style="list-style-type: none"> ▪ Investigate and recommend options for re-location of the rail terminal on Tremaine Avenue (by end of 2020/2021³⁵). <p>The Palmerston North Freight Yard is nearing the end of its useful life and requires significant investment to improve efficiency and create modern 'fit-for-future' facilities. The current yard layout is fragmented and disjointed; this ad-hoc design will find it increasingly difficult to support future freight network productivity or efficiencies as they are. Furthermore, it due to consenting constraints, it cannot be expanded.</p>
Business needs	<p>KiwiRail's freight strategy is to grow intermodal terminals, accommodate predicted freight growth and ensure rail remains linked to wider transport and regional development plans.</p> <p>KiwiRail will not be able to support and contribute to the predicted 60% increase in freight growth expected to be realised by 2042³⁶ unless its intermodal terminals are expanded. KiwiRail's customers cannot expand at the current Palmerston North Freight Yard in the CBD.</p> <p>Moving to the NEIZ would allow KiwiRail to be prepared and best positioned for future freight growth by expanding the intermodal terminals as New Zealand's economy grows; consequently, giving KiwiRail and its freight partners the ability to deliver on an expanding freight market and improve supply-chain network productivity.</p>
Alignment with Provincial Growth Fund priorities	<p>Enabling the growth of KiwiRail's intermodal terminals directly aligns with the PGF's key priority to 'enable infrastructure projects' in New Zealand.</p> <p>Investing in this key priority will:</p> <ul style="list-style-type: none"> ▪ Support predicted growing National and Regional freight demands. ▪ Provide future employment opportunities to the Region.

³⁵ Palmerston North Strategic Transport Plan 2018-2021, page 7

³⁶ Ministry of Transport's National Freight Demand Study 2014

	Accommodate a better connected, modernised, more efficient Palmerston North Regional Economic Growth Hub.
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Table 10: Investment Objective 4

Investment Objective 4	Accommodate predicted freight growth
Existing Arrangements	<p>The Palmerston North Freight Yard is restricted for expansion due to being constricted by its current location.</p> <p>It is surrounded by residentially zoned land and remaining here does not align with PNCC's strategic plans for the City. The current yard is fragmented in its layout, has out dated facilities (built in 1964) and due to a combination of these factors is inefficient.</p> <p>Remaining at the current site would make it difficult to support expected National freight growth (more than 60% increase by 2042³⁷) and does not support KiwiRail's ability to provide a robust, reliable distribution service for New Zealand.</p> <p>Keeping up with growing demands will become increasingly difficult to accommodate the longer KiwiRail remain at the outdated yard.</p>
Business needs	<p>The Ministry of Transport's National Freight Demand Study 2014 clearly shows increasing demands from logging, through to large distribution centres.</p> <p>The central location of the Manawatū-Whanganui region and Palmerston North has meant that it has become a key freight and distribution centre in New Zealand. The Central New Zealand location gives it enormous potential to best contribute to meeting these increased demands.</p> <p>An acceleration of growth in the distribution sector in recent times has resulted in problems on the road network affecting access to the Pamerston North CBD. There is concern amongst key stakeholders that the access problems are not only affecting existing efficiency in the freight supply chain but are also limiting the future growth of the freight sector in the region.</p> <p>To support national and regional demands, KiwiRail must strategically position itself at a site that would enable it to develop the necessary infrastructure to service New Zealand's freight needs, while also being aligned with wider transport strategies.</p> <p>An integrated road, rail and air facility would enhance the overall supply-chain success for New Zealand. Positioning a regional economic growth hub in the NEIZ would achieve a synergised transport supply chain to best accommodate predicted freight growth.</p>

³⁷ Ministry of Transport's National Freight Demand Study 2014

	<p>To support KiwiRail's 2017-2020 Property Strategy, there is a need to address optimising the yards terminal hubs to improve the quality, modernisation, efficiencies and fit for purpose layout. Through investment in a strategically positioned Economic Growth Hub, the wider New Zealand freight business will be better prepared for increased freight flows.</p> <p>KiwiRail need to relocate, reconfigure, upgrade and integrate with multi transport modes to meet New Zealand's growing distribution demands.</p>
<p>Alignment with Provincial Growth Fund priorities</p>	<p>By the PGF investing in this Business Case and securing the land for an integrated Regional Economic Growth Hub, it will directly support New Zealand's growing freight economy and overall economic success.</p> <p>Furthermore, it would be enabling opportunities for Māori in the area, who are soon to make up a large proportion³⁸ of the city's workforce-age bracket.</p> <p>The Manawatū-Whanganui Region and Palmerston North has huge potential as an enabler to contribute to New Zealand's distribution economy.</p> <p>By KiwiRail establishing a NEIZ site it will be facilitating economic growth for the area and creating a sustainable environment for the future of Māori in the region.</p>

³⁸ Statistics 2013, Palmerston North, 34.6 % of Māori were aged under 15 years.

Table 11: Investment Objective 5

Investment Objective 5	Facilitate an integrated region-wide transport solution through key stakeholder collaboration
Existing Arrangements	<p>The legacy approach was essentially KiwiRail working in silo with its freight partners without consideration for the wider interconnected transport modes.</p> <p>In 1964, there was very little integrated planning and strategic analysis around wider economic growth and how a synergised approach to connectivity could benefit wider regions or New Zealand as a whole. The current yard is an outcome of short sighted thinking and without wider integrated planning with local and regional councils. The current freight yard is consequently fragmented and disconnected from the wider transport networks.</p>
Business needs	<p>KiwiRail recognises the strength of a collaborative approach to transport planning. To best support New Zealand’s distribution needs, a fully joint approach considering road, rail, air and ports in the wider supply-chain picture is required.</p> <p>Through engaging with PNCC, NZTA, freight partners and Horizons Regional Council regarding the wider transport strategy for the region, KiwiRail are confident this Business Case compliments a number of other connected transport plans.</p> <p>An NEIZ site would link KiwiRail to major roads, a proposed ring road and has easy airport accessibility. Positioning KiwiRail here will support wider transport strategies to deliver on New Zealand’s distribution goals. Through working collaboratively with key stakeholders, the overall solution will be more robust, interconnected and efficient.</p> <p>This integrated approach will ensure delivery of a best overall regional outcome with aligned objectives, and maximum capacity to deliver a dependable multimodal transport network for Central New Zealand’s future.</p>
Alignment with Provincial Growth Fund priorities	<p>An integrated region-wide transport solution directly aligns with the PGF’s key priority to ‘enable infrastructure projects’ in New Zealand. Investing in this key priority will:</p> <ul style="list-style-type: none"> ▪ Support predicted growing national and regional freight demands in an integrated way and by encompassing the wider supply-chain picture. ▪ Provide future employment opportunities to the region; through an interconnected transport model. ▪ Accommodate a well inter-connected, multi-modal, Palmerston North Regional Economic Growth Hub. ▪ Contribute to the future economic success of Māori in the area.

Table 12: Investment Objective 6

Investment Objective 6	Support PNCC's Strategic plans for the City
<p>Existing Arrangements</p>	<p>KiwiRail currently operate a freight yard in Central Palmerston North.</p> <p>Although this was on the city outskirts in 1964, over 50 years, residential dwellings have expanded and now surround the freight yard zone. Due to the City's zoning, KiwiRail's ability to grow and modify the current yard is no longer possible. Expanding does not align with the district plan or PNCC's plan for the City.</p> <p>Furthermore, in order for KiwiRail and its freight partners' vehicles to access the yard, they must use inner-city streets. Various transport strategies are not supportive of heavy load-bearing vehicles disrupting and causing wear and tear on urban roads.</p> <p>There are also public health and safety concerns and environmental factors that are caused by the impact of high volumes of large trucks using city streets.</p> <p>The PNCC's Strategic Plan for its city does not support KiwiRail remaining at the current Palmerston North freight yard.</p>
<p>Business needs</p>	<p>By KiwiRail moving to a NEIZ site it supports PNCC's 2018 City Development Strategy in several ways including:</p> <ul style="list-style-type: none"> ▪ Supporting its drive to divert heavy vehicles out of the City, reducing congestion and minimising impacts from large trucks through the CBD and enabling a safer and more environmentally friendly City. Subsequent to this, the NEIZ is better connected to road and rail as well as providing safer accessibility. ▪ By unlocking the Palmerston North Freight Yard there is opportunity for the current yard and buildings to be improved and enhanced from an urban infrastructure development perspective opening the potential for: <ul style="list-style-type: none"> ○ Increased tourism connections and patronage for economic gain to the region; ○ Further employment opportunities due to potential development space and improved CBD accessibility; ○ A safer and more connected CBD area where reliance on motorised vehicles is not a requirement, thus enabling the City to contribute to New Zealand's climate change and road safety targets; and ○ Supporting improved transport safety and consequently independence to the growing aged population.

<p>Alignment with Provincial Growth Fund priorities</p>	<p>Supporting PNCC's Strategic plans for the City also aligns with the following PGF key investment tiers:</p> <p><u>Enable Infrastructure Projects:</u></p> <ul style="list-style-type: none"> ▪ By providing employment opportunities to the Manawatū-Whanganui region; ▪ By boosting productivity for existing and emerging markets in the regions, with a strategically positioned Regional Growth Hub, that forms part of a wider, more sustainable Central New Zealand, integrated network connection; and ▪ By enabling the region to have stronger resilience and dependability to deliver on nation-wide distribution demands, underpinned with modernised, smart assets and improved operational efficiency. <p><u>Regional Projects and Capability</u></p> <p>Direct benefits to PNCC by enabling its potential to realise its Strategic Plans for the City, including:</p> <ul style="list-style-type: none"> ▪ a safer more environmentally friendly CBD; ▪ increased employment opportunities; and ▪ improved accessibility on inner city streets.
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2.3 Main Benefits

A breakdown of the potential benefits of the investment proposal are provided in the tables below.

Table 13: Potential benefits that can be expressed in monetary terms

Main Benefits	Description	Who Benefits?
<p>More efficient supply chain</p>	<p>The Ministry of Transport's National Freight Demand Study 2014 expects an increase in freight demands of more than 60% by 2042. An integrated supply chain Business Case that considers strategically how rail will best collaborate with other transport modes and regional transport plans, will improve efficiency to deliver on New Zealand's needs.</p>	<p>Freight Partners Regions New Zealand Customers Global import/export markets</p>
<p>Regional Economic Development</p>	<p>Development in the region will support employment opportunities and increased accessibility, contributing</p>	<p>Rangitāne o Manawatū Local Māori Freight Partners Regions</p>

Main Benefits	Description	Who Benefits?
	factors to improved economic success.	New Zealand customers Global import/export markets
Revenue growth for KiwiRail	<p>The Minister of Transport recently released the Government Policy Statement on land transport for 2018/19 to 2027/28 (GPS 2018). GPS 2018 includes the theme of mode neutrality – which means that all transport modes are considered when making transport planning and investment decisions. The GPS and the Future of Rail Review are both expected to consider opportunities to increase investment in rail, so it can fully contribute to the transport system New Zealanders want.</p> <p>The National Freight Demand Study 2014 predicts that by 2042 New Zealand’s freight task will increase by around 58 percent in tonnes, and by 48 percent in tonne-kilometres. That is a large increase, taking the total freight task to the equivalent of about 67 tonnes each year for each person in New Zealand. Strong tonnage growth is predicted in the regions, showing the case for improving transport infrastructure linking major population centres with inland and coastal ports is very strong.</p>	Shareholder
Road maintenance costs	<p>Direct – Local Authorities</p> <p>For local government, investment in road maintenance programmes, including emergency works, will increase 7.5% from</p>	<p>Quantative</p> <p>Any reduction in freight movement by road in favour of rail will significantly reduce road maintenance costs for regional local authorities.</p>

Main Benefits	Description	Who Benefits?
	<p>\$2.98bn in 2012-15 to \$3.15bn in 2015-18³⁹.</p> <p>The annual cost of maintenance and renewals for a sealed road in Auckland is approximately \$18,500 per km, and for an unsealed road approximately \$4,500 per km⁴⁰.</p>	
<p>The value of rail</p>	<p>Direct - KiwiRail</p> <p>KiwiRail estimates the annual value of rail at \$1.47 billion - \$1.54 billion.</p> <p>By 2030 it is expected that the value of rail will increase to \$2.5 billion.</p>	<p>Quantitative</p> <p>EY 2016 Report 'The Value of Rail in New Zealand' prepared for the New Zealand Transport Agency, confirms that the "net benefits of rail can be measured by net congestion benefit of time delay, net safety benefit, net maintenance benefit, net emissions benefit".</p>
<p>Ability to be able to create a Regional Integrated Distribution Hub</p>	<p>Direct - KiwiRail and regions</p> <p>The NEIZ site is well situated to deliver this solution due to its relation to planned ring road accessibility and airport proximity.</p> <p>A specialist Property Acquisitions Team at KiwiRail intends to work with the freight partners and key stakeholders in the region as part of a broader synergised master-planning strategy. The master-planning will include incorporating improved technological capability to enhance productivity, connectivity and efficiency to meet Central New Zealand's growing freight demands.</p>	<p>Quantitative</p> <p>The availability of greenfield land, the improved accessibility of the NEIZ and the physical capacity to master-plan a modernised, 'fit for future', distribution facility would enable KiwiRail and its freight partners to expand its ability to handle increased freight demands with greater efficiency and reliability.</p>

³⁹ <https://www.nzta.govt.nz/planning-and-investment/national-land-transport-programme/nltp-2015-18/2015-18-nltp-investment/national-land-transport-programme-at-a-glance/road-maintenance/>

⁴⁰ <https://at.govt.nz/about-us/asset-maintenance/road-sealing/>

Main Benefits	Description	Who Benefits?
Accessibility improvement	Direct - KiwiRail and Regions The NEIZ is strategically located on the outer fringe of Palmerston North. It is 6km from the City's airport, is removed from residential dwellings and strategically connected to the planned Manawatū -Palmerston North Regional Ring Road as well as a planned road connecting through to Ashurst. The master-planning of the site would be planned in collaboration with key stakeholders involved in strategizing an overall regional transport solution for Central New Zealand.	Quantitative Accessibility routes and the volume of vehicles that play a role in the distribution chain can be measured. The combination of improved accessibility by road, rail and air will improve overall efficiency and outputs of distribution for New Zealand.

It is important to note that the economic benefits for KiwiRail may take longer to achieve than the economic benefits in the region.

Table 14: Potential benefits that cannot be reliably expressed in monetary terms

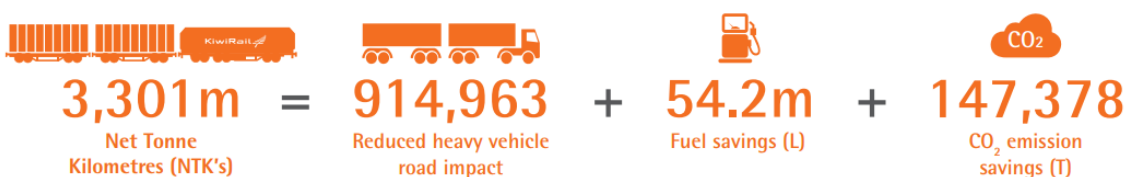
Main Benefits	Who Benefits? Direct or Indirect?	Quantitative or Qualitative?
Jobs and economic development	Direct - Local community and New Zealand economy Through the development of an improved Regional Growth Hub, employment will be provided not only to the local community long term but will also provide various construction and land development opportunities relating to land preparation and development. KiwiRail intends to work in collaboration with local iwi to ensure best economic outcomes for Māori in the area.	Quantitative An expanded Palmerston North Regional Growth Hub will support the wider community with employment opportunities. Construction work required will also provide opportunities for those in the region. Māori will make up a significant proportion of the city workforce: in 2013, 34.6 % of Māori in Palmerston North City were aged under 15 years.
Improved environmental	Direct – Central New Zealand	Quantitative

Main Benefits	Who Benefits? Direct or Indirect?	Quantitative or Qualitative?
<p>sustainability outcomes associated from reduced carbon emissions from vehicle movements</p>	<p>A Palmerston North Regional Growth Hub will eliminate the requirement for trucks to use inner city streets, as the planned Manawatū - Palmerston North Regional Ring Road will be a more direct route.</p> <p>Using inner city streets is known to increase idling, particularly at signalled intersections. Using the Manawatū -Palmerston North Regional Ring Road will result in less idling and consequently a reduction in inner city CO² emissions.</p> <p>KiwiRail establishing itself in the NEIZ will assist in decreasing CO² emissions in Palmerston North city centre, as well as contributing to reduced noise pollution, and heavy vehicle road wear and tear.</p>	<p>Improved environmental sustainability outcomes associated from reduced carbon emissions from vehicle movements instead of trains.</p> <p>For both freight and passenger transport rail performs well against both road and aviation in terms of carbon dioxide (CO²) emissions. KiwiRail’s performance to date has seen a 10% improvement in carbon intensity of rail freight since 2010.</p> <p>While there is no New Zealand comparative figure for road freight, the United Kingdom truck figures suggests that rail is approximately four times more carbon efficient⁴¹.</p>

Figure 12: Steel Wheels is the monthly sustainability report for KiwiRail’s Freight business⁴²

STEEL WHEELS FY2018 (AS AT APRIL 2018)

Your partner in sustainable freight



<p>Maori development</p>	<p>Direct - Māori in the Region</p> <p>KiwiRail acknowledges and respects Rangitāne o Manawatū (‘Rangitāne’) as mana whenua and its people’s relationship to the area. In</p>	<p>Quantitative</p> <p>KiwiRail intends to create an environment that embraces and enhances the Māori network from pre-development through to the full implementation of a</p>
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⁴¹ UK Department for Environment, Food and Rural Affairs

<http://www.ukconversionfactorscarbonsmart.co.uk/>

⁴² http://www.kiwirailfreight.co.nz/media/21144/steel_wheels_report.pdf

Main Benefits	Who Benefits? Direct or Indirect?	Quantitative or Qualitative?
	<p>collaboration with PNCC, and other key stakeholders, KiwiRail is committed to prioritising engagement and working together on solutions with local iwi throughout this project.</p> <p>KiwiRail's Māori network, Te Kupenga Mahi (TKM), helps its employees to reconnect with their whakapapa and advises the business of appropriate ways to implement Māori culture into day to day activities.</p>	<p>Palmerston North Regional Growth Hub.</p> <p>Engagement with local iwi includes:</p> <ul style="list-style-type: none"> • Early and proactive engagement during site identification, master-planning and concept design • Standard protocols that take full consideration of mana whenua throughout the project • Cultural and spiritual consultation, including ceremony
Resilience	<p>Direct – KiwiRail and freight partners</p> <p>A strategically located and improved Regional Economic Growth Hub will provide KiwiRail and its freight partners with the ability to cope with the demands of a growing national freight demand.</p>	<p>Quantitative</p> <p>With improved technology and efficiencies KiwiRail will be able to report on increased freight that passes through the facilities in a more consolidated way.</p>
Social Inclusion	<p>Indirect – The local community</p> <p>Closing the current freight yard will reduce congestion in the CBD and reduce localised noise created by the yard in a semi residential area.</p> <p>Establishing KiwiRail in the NEIZ will enable us to be part of a social industrial community; facilitating the process of trade through creating an economic zone.</p>	<p>Qualitative</p> <p>By moving anti-social load bearing trucks away from the CBD, the inner city will be opened up for greater patronage.</p> <p>Through improved accessibility and connectivity, communication and consequently a sense of community can be achieved; the current freight yard is fragmented and disjointed.</p>
Employment at the hub	<p>Benefits – freight partners/local community</p> <p>Through creating an economic</p>	<p>Quantitative</p> <p>The number of businesses operating in the area and their</p>

Main Benefits	Who Benefits? Direct or Indirect?	Quantitative or Qualitative?
	growth zone, there will be a number of businesses that will co-locate to the area creating momentum to expand opportunities for employment.	employee numbers can be measured.
Employment at KiwiRail	Benefits – KiwiRail and local community Through expanded, modernised facilities KiwiRail’s desirability as an employer will increase as well as the opportunities within it.	Quantitative Employee numbers at KiwiRail can be measured.

2.4 Main Risks

Risks result from uncertain events that either improve or undermine the achievement of benefits. The main risks that might create, enhance, prevent, degrade, accelerate or delay the achievement of the investment objectives are identified and analysed below.

Table 15: Main Risks

Main Risks	Consequence	Likelihood	Comments and Risk Management Strategies
Procurement Risk			<p>The procurement process will be managed by KiwiRail and it will align with the Government’s procurement policies. KiwiRail will manage the procurement process and Individual strategic procurement plan(s) will be developed.</p> <p>KiwiRail has a talented Property Acquisitions team which has a sound knowledge of the processes and legislation around acquiring land in New Zealand.</p>
Project management risk			<p>KiwiRail has defined project management processes and a project management office. Project performance is tracked, including:</p> <ul style="list-style-type: none"> • Budget • Programme • Quality • Stakeholders • Risks • Health & Safety and Environmental • Governance – Executive and Board
Communication with stakeholders			<p>KiwiRail has been proactively engaging with a wide range of stakeholders including local iwi, freight partners, PNCC, Horizon’s Regional Council, and NZTA regarding short and</p>

			long-term plans in the NEIZ.
Governance			<p>KiwiRail has defined project governance processes.</p> <p>A Project Control Group is established and are responsible for the upwards flow of information to the KiwiRail Chief Executive and Board.</p>

A risk register has been developed and will be progressively updated as more detailed analysis is undertaken. A full-risk register is available in the Appendix.

2.4.1 Optimism Bias

A list of the financial assumptions used to reduce the effects of optimism bias can be found in section 3.1.

2.5 Key Constraints and Dependencies

The proposal is subject to the following constraints and dependencies. These will be carefully monitored during the project.

Table 16: Key constraints

Constraints	Notes
Finance availability and dependence on Government (Shareholder)	<p>KiwiRail does not have sufficient capital to acquire a site in the North East Industrial Zone.</p> <p>KiwiRail is reliant on PGF funding to acquire and develop intermodal freight facilities to meet Central New Zealand's growing distribution needs and support the country's economy.</p>
Capacity at the Palmerston North Freight Yard is constrained	<p>KiwiRail's freight strategy is to grow intermodal terminals, accommodate predicted freight growth and ensure rail remains linked to wider national transport and regional development plans.</p> <p>Remaining at the Palmerston North yard will not readily allow for expansion to accommodate predicted national freight growth due to a combination of residentially zoned land surrounding the site, Commercial Information and due to the limitations on accessibility into the CBD for load bearing trucks.</p> <p>KiwiRail can neither meet growing freight demands (373 million tonnes by 2042), by remaining at the Palmerston North freight yard, nor can it expand there.</p>

Table 16: Key dependencies

Dependencies	Notes
Finance availability and dependence on Government (Shareholder)	<p>KiwiRail will initially be seeking funding from the Provincial Growth Fund to commence due diligence and land designation processes for a greenfields site in the NEIZ, Palmerston North.</p> <p>Subject to the site meeting requirements for purpose, funding will be required for acquiring a greenfields site and ultimately developed into a Regional Growth Hub capable of providing for New Zealand's future freight growth.</p> <p>KiwiRail needs certainty about funding the purchase of land prior to embarking on the designation process.</p>

3 Economic Case

This business case recommends that acquiring a greenfields site in the NEIZ, Palmerston North, to provide Central New Zealand with a regional economic growth hub, is the best strategic option for KiwiRail and for sustainable economic development of the regions.

It is key to note that KiwiRail have actively been engaging with PNCC regarding the wider transport strategy for the Manawatū-Whanganui Region, Central New Zealand and the NZ Inc logistics and distribution chain.

The North East Industrial Zone (NEIZ) area was identified, following a detailed analysis of options, by PNCC, as the most suitable area in Palmerston North for future industrial growth.⁴³ Confidentiality endorses the approach of a Regional Economic Growth Hub being positioned in the NEIZ⁴⁴. The area can readily be accessed by road and rail, and proximity to the City's airport means that synergies with varying transport modes can occur with greater ease. However, timing is key if KiwiRail is to position itself in the NEIZ, before alternative development occurs.

A large proportion of the Manawatū-Whanganui Region's primary product eventually makes its way out of the region for either export overseas or to be redistributed to other parts of New Zealand. Palmerston North and Manawatū are now recognised as the centre of the growing freight distribution industry because of their location in Central New Zealand. They are well connected to the surrounding regions of Taranaki, Hawkes Bay, Waikato and Wellington via the State Highway, rail and air networks; a strategic location which cannot be overstated.

Palmerston North is:

- A key staging point for high value imported and domestic freight between Auckland and Wellington or between Auckland and the South Island.
- Has good access to hinterlands that produce New Zealand export commodities and provides the staging point for export of these out of the ports in Napier, New Plymouth and Wellington, and Auckland and Tauranga.
- Logistics earnings in the city increased 119% between 2000 and 2013, strongly ahead of the 74% increase in the national logistics sector earnings (Statistics New Zealand). Major distributing centres based in the city that have contributed to this growth include Toyota New Zealand, Ezibuy Ltd, Foodstuffs New Zealand and Countdown⁴⁵.

From an urban development perspective, PNCC believe growth will be unlocked in the CBD area upon industrial businesses relocating to the outskirts.. Enabling industrial development in a position where its expansion requirements can be delivered on for the long-term, will create greater employment opportunities, consequently contributing to increased residential investment in Ashurst and Bunnythorpe in their own right.

⁴³ Palmerston North City Council District Plan, section 12 A, North East Industrial Zone
Confidentiality

⁴⁵ Integrated Transport Strategy for Palmerston North – November 2015

3.1 Critical Success Factors

The critical success factors for this Business Case have been identified and are described in the table below. This set of factors is used to determine the final most suitable option of the shortlisted options.

KiwiRail's investment criteria were:

- Long term sustainable profitable revenue for New Zealand and KiwiRail
- Resilience in supporting Central New Zealand's growing freight distribution requirements
- Resilience in supporting Central New Zealand's export growth demands
- Result in improved linkages to other regions
- Support wider transport and regional and economic development plans
- Contribute to reducing New Zealand's carbon footprint
- Public safety and environmental
- Provide employment for anticipated regional population growth

Table 17: Critical Success Factors

Generic Critical Success Factors	Broad Description	Proposal Specific Critical Success Factors
Strategic fit and business needs	How well the option meets the agreed investment objectives, related business needs and service requirements, and integrates with other strategies, programmes and projects.	<p>Does it help deliver consistent reliability for stakeholders?</p> <p>Does it improve resilience to the freight distribution network?</p> <p>Does it reduce complexity and cost?</p> <p>Does it improve commercial performance?</p> <p>Will it help grow the business?</p> <p>Will it reduce Carbon Emissions?</p> <p>Will it result in improved accessibility and linkages to Central New Zealand?</p>
Potential value for money	How well the option optimises value for money (i.e. the optimal mix of potential benefits, costs and risks)	Refer to Section 5 Financial Case
Supplier capacity and capability	How well the option matches the ability of potential suppliers to deliver the required services and is likely	Does KiwiRail have the expertise to undergo a land acquisition?

Generic Critical Success Factors	Broad Description	Proposal Specific Critical Success Factors
	to result in a sustainable arrangement that optimises value for money.	Have KiwiRail acquired land previously? How did that go?
Potential affordability	How well the option can be met from likely available funding and matches other funding constraints.	Does the funding scenario fit within the current funding process?
Potential achievability	How well the option is likely to be delivered given the organisations ability to respond to the changes required and matches the level of available skills required for successful delivery.	Does KiwiRail have the internal expertise within its resources to successfully scope and manage the procurement process?

3.2.1. Options identification

Under the five dimensions a comprehensive long list of in-scope options was identified for the business case. These are listed in the table below.

Table 18: Possible options classified by the five dimensions of choice

Dimension	Description	Options within each Dimension
Scale, scope and location	In relation to the proposal, what levels of coverage are possible?	<p>New Zealand's freight task is forecast to grow by approximately 60% per cent (from 236 million tonnes in 2012 to over 373 million tonnes) by 2042⁴⁶.</p> <p>Palmerston North's importance as a major distribution and logistics hub for the Central North Island is growing.</p> <p>There is potential to purchase strategically placed land, in the North East Industrial Zone (NEIZ), in Palmerston North (which has been rezoned commercial/industrial by the PNCC).</p> <p>This is a key location for New Zealand's rail freight in Central New Zealand taking freight from North, South, East and West.</p> <p>According to a Transport Agency Freight Study⁴⁷, the flow of inter-regional freight reflects:</p> <ul style="list-style-type: none"> ▪ The central distribution location in relation to the large North Island import ports;

⁴⁶ Ministry of Transport's National Freight Demand Study 2014

⁴⁷ NZ Transport Agency, 2009, Central Region Freight Analysis Final Report

Dimension	Description	Options within each Dimension
		<ul style="list-style-type: none"> ▪ The region's relative proximity to the Wellington regional population (491,000 residents as at June 2014); and ▪ The flow of import goods south through the North Island (from Auckland to Wellington). <p>Investing in a NEIZ site will ensure that KiwiRail and its freight partners can service the regions increasing freight demands for the next 50-100 years.</p>
Service solution	How can services be provided?	The land acquisition and designation process will be managed by KiwiRail's Land Acquisition's Team in conjunction with Commercial Information
Service delivery	Who can deliver the services?	<p>The KiwiRail team comprised of individuals who have many years' experience between them with acquisitions and disposals of land under the Public Works Act 1981 and New Zealand Rail Corporation Act 198, and Resource Management Act 1991 consenting.</p> <p>The team has specialist expertise in Crown land and infrastructure advisory services, delivering technical advice in property consultancy, strategic planning, project management, property negotiation and resolutions and resource management.</p>
Implementation	When can services be delivered?	<p>Transport investments have long lead times, high costs and leave long legacies. Good transport investment therefore requires careful planning that allows for uncertainties to ensure today's transport network will be able to meet New Zealand's future needs.</p> <p>An estimated timeline has been provided at item 6.2 of this Business Case.</p>
Funding	How can it be funded?	Provincial Growth Fund

3.2.2. Options Development

The options developed through consideration of the 'dimensions of choice' that are assessed in this Business Case are described in the table below.

Table 19: Options assessed

Option Title	Option Description
Do nothing – retain current site	<p>KiwiRail and its freight partners remain at the Palmerston North freight yard.</p> <p>Noting the constraints with this option include:</p> <ul style="list-style-type: none"> ▪ An inefficient disjointed layout of yard and buildings impacts on KiwiRail's ability to efficiently connect both internally and with key customers. ▪ Future planning and consenting constraints will act to inhibit extensions to the yard. (Remaining does not align with Palmerston North City Council's (PNCC) strategic vision for the city, furthermore, the area is also predominantly surrounded by residential dwellings). ▪ Accessibility issues for load-bearing trucks in central city streets. ▪ Investment in the existing buildings, noting that doesn't address the inherent difficulties arising from this location, size and orientation. ▪ Redeveloping the current yard while continuing to operate would be impractical, disruptive and costly; furthermore, it would only deliver a short-term, constrained solution. As freight demands continue to increase, KiwiRail will find it increasingly difficult to reliably meet New Zealand's growing distribution requirements without modernising to increase capacity and efficiency. ▪ Remaining doesn't address the environmental and health and safety impacts on neighbouring land owners and road users in terms of heavy load bearing vehicles disrupting urban roads. ▪ Māori will make up a significant proportion of PN City's workforce in the future. Remaining will not enable KiwiRail to support economic employment growth for Māori in the area.
Purchase land in NEIZ, Palmerston North now	KiwiRail acquires land in the NEIZ to support future freight growth for Central New Zealand as soon as practicable and upon satisfactory Phase 1a site identification and

Option Title	Option Description
<p>(MOST SUITABLE FOR MEETING CENTRAL NEW ZEALAND'S FREIGHT DEMANDS)</p>	<p>assessments taking place with the support of the Provincial Growth Fund.</p> <ul style="list-style-type: none"> ▪ Phase 1a: Site identification, Designation and master-planning ▪ Phase 1b: Land Acquisition ▪ Phase 2: Master-planning (in synergy with broader Regional development transport plans) and construction of a Regional Economic Growth Hub. <p>This option would enable KiwiRail to accommodate future predicted freight demands to support New Zealand's economy and enable the wider supply chain strategy.</p> <p>Key regional transport strategies are being planned in collaboration with key stakeholders to ensure a fully integrated multi-modal approach to enhancing Central New Zealand's distribution transport dependability for the next 50-100 years.</p> <p>A location away from the city centre in the NEIZ offers significant advantages and opportunities over remaining in the old Yard and enables the following investment criteria:</p> <ol style="list-style-type: none"> 1. Increase economic benefits for Central New Zealand 2. Improve national and regional freight efficiency 3. Accommodate predicted freight growth 4. Grow intermodal terminals to improve freight network productivity 5. Facilitate an integrated region wide transport solution through key stakeholder collaboration 6. Support Palmerston North City Council (PNCC) Strategic plans for the City
<p>Purchase land in NEIZ, Palmerston North in <small>Commercial Information</small></p>	<p>KiwiRail delays on purchasing land in the NEIZ.</p> <p>Should support from the Provincial Growth Fund not be available at this point, KiwiRail would not be able to secure rail's role in the improvement of freight distribution in Central New Zealand.</p> <p>Should support be granted years from now, land would likely have risen in value and may have been developed by other parties, causing greater acquisition complications, costs and delays.</p> <p>Commercial Information</p> <p style="text-align: right;">Based on</p>

Option Title	Option Description
	<p>this assumption the cost to acquire the site is estimated to be approximately \$^{com}_{ercial}. (Note that this also takes into consideration zoning changes).</p> <p>Note, as freight demands increase, KiwiRail and its freight partners will find it increasingly difficult to support Central New Zealand's distribution demands by remaining at the current central Palmerston North site.</p>

3.2.3 Initial Options Assessment

This assessment examines each option against the investment objectives and the five critical success factors. Key advantages and disadvantages of each option are briefly noted.



Commercial Information

3.3. The recommended way forward

Based on the above initial options assessment, the most strategic way forward is to invest in acquiring land in the NEIZ, Palmerston North for the purposes of developing a regional economic growth hub.

ECONOMIC GROWTH FOR CENTRAL NEW ZEALAND AND KIWI RAIL

Within the next two years, with investment from the Provincial Growth Fund, KiwiRail and its freight partners, would be able to acquire suitable land to deliver on the increasing freight distribution demands for Central New Zealand.

This business case aligns with and is integral to ensuring the success of a number of regional and transport strategies, all of which aim to improve the overall economic development of the Manawatū – Whanganui Region, and in turn support Central New Zealand's economic goals.

The economic case for the use of land is as important today as it was 50 years ago when Palmerston North Freight Yard was first established. In 1964 Tremaine Avenue was on the outskirts of Palmerston North. As Palmerston North city has expanded out and around the Palmerston North freight yard, it has created limitations for KiwiRail to expand and rationalise its operations. Lack of connectivity to new industrial areas, double handling, rail infrastructure restraints on train sizes, and an inability to meet some time critical requirements, currently limits freight distribution capabilities.

The logistics sector earnings in Palmerston North increased 119% between 2000 and 2013⁴⁸, strongly ahead of the 74% increase in national logistics sector earnings (Statistics NZ).

Funding from the PGF will enable KiwiRail to design and build a fully integrated greenfield Regional Economic Growth Hub at Bunnythorpe allowing for automation, efficient layout, 'fit-for-future' design and enable it to be best prepared to support New Zealand's future freight growth.

Developing an integrated rail and logistics hub away from the city centre, will create alternative economic growth opportunities within Palmerston North. It will unlock the city's potential to create a metro transport hub, enhancing public connectivity into the CBD as well as providing direct positive economic advantage through the creation of the Intermodal Freight Hub itself. As the identified site is being developed there will be an immediate impact on regional economic development through infrastructure construction activity, and increased capacity and efficiencies with surrounding partners upon it becoming operational.

Funds gained from disposal of the current Palmerston North Freight Yard will be invested into rail development, contributing to the overall success of this Business Case.

The purchase of NEIZ land will allow KiwiRail to link in with long term regional growth plans from NZTA, PNCC, and Manawatū Gorge replacement projects.

Currently, a substantial proportion of the industrial land supply is located in the city's urban areas and at Ashurst. These areas contain very few large sites, and limitations on 24-hour servicing because of their proximity to residential land. The limited supply of large lot industrial land will not only limit the city's overall economic growth but will also mean that some types of industries which would otherwise find Palmerston North an attractive location, may not be able to locate in the city.

⁴⁸ Palmerston North Integrated Transport Strategy, page 27, figure 10

3.3.1 Indicative costs and benefits

The indicative costs and benefits for each of the options assessed in this business case are provided in the table below. Note, this table is based on the capital cost of land purchase only.

Table 21: Indicative costs and benefits

\$m	Do nothing – retain current site	Purchase land in the NEIZ now (Most suitable for meeting Central New Zealand's freight demands)	Purchase land in the NEIZ in ^{Commercial Information}
Whole of life capital costs	\$0	\$ ^{Commercial Information}	\$ ^{Commercial Informa}
Holding Income i.e. grazing licences	\$0	\$ ^{Commercial Inform}	Comme
Divestment	\$0	\$ ^{Commercial Inform}	\$ ^{Commercial Inform}

^ Takes into consideration some land may currently be zoned rural (based on the concept land configuration)

Commercial Information

** Both options sold in ^{Commercial Information} time once the new site is operational

4 Outlining the Commercial Case

The commercial case outlines the suggested way forward to resolve the current constrictions on KiwiRail and its freight partners being able to deliver sustainable increased freight services to New Zealand in the future.

4.1 The Procurement Strategy

KiwiRail is seeking to purchase approximately ^{Comm} ha of land in the NEIZ, in Bunnythorpe for the development of a Regional Economic Growth Hub to service New Zealand's growing freight demands.

This land will form part of a new industrial precinct – the North East Industrial Zone (NEIZ).

Once funding is secured KiwiRail will commence a due diligence, designation and master-planning concept design process to assess the site suitability for acquisition. This will entail:

1. Appointing a property agent to commence the land acquisition process and commence negotiations with property owners
2. Lodging a Notice of Requirement for the Regional Growth Hub Designation in the Palmerston North City Council Plan.

4.2 Required Services

Proceeding with this business case will entail using the following resources:

- Acquisitions Management

- Legal assistance
- Master-planning drafting expertise
- Due diligence
- Civil/ Geotech construction consultancy
- Designation and technical reporting inputs i.e. Traffic, landscape

4.3 Contract Provisions

KiwiRail is well equipped with the expertise it requires for a NEIZ land acquisition and development project.

KiwiRail has engaged three dedicated internal accredited land agents with combined experience of more than 30 years working on land acquisition and land planning projects.

KiwiRail's Acquisition Team has expertise in the Resource Management Act 1991, Public Works Act 1981 and New Zealand Rail Corporation Act 1981.

A non-exhaustive list of expertise and extensive experience in the team includes: preparing acquisition strategies; landowner negotiations; engaging and managing external suppliers; preparation of agreements and reporting to NZ Transport Agency LINZ and NZRC; planning submissions, iwi liaison and consent management.

Furthermore, its acquisition agents specialise in planning for rail networks and facilities.

4.4 Potential for risk sharing

An initial assessment of how the associated risks might be apportioned between the organisation and potential providers is outlined in the risk allocation table below.

Table 22: Phase 1 Risk Allocation table – Site identification, Designation, master-planning and finally, land Acquisition (subject to Phase 1a being satisfied)

Risk Category	Potential Risk Allocation		
	Organisation	Supplier	Shared
Land owners don't want to sell	KiwiRail		
Land owners or others challenge designation	KiwiRail		
PNCC not supportive of integrated approach	KiwiRail		
Payment terms and conditions	KiwiRail		
Design Risk		Supplier	
Construction and development risk		Supplier	
Transition and implementation risk	KiwiRail		
Availability and performance risks			To be confirmed – will depend on performance criteria
Operating risk	KiwiRail		

Risk Category	Potential Risk Allocation		
	Organisation	Supplier	Shared
Variability of revenue risks	KiwiRail		
Termination of risks	KiwiRail		
Technology and obsolescence risks		Supplier	
Control risks	KiwiRail		
Residual value risks	KiwiRail		
Financing risks	KiwiRail		
Legislative risks	KiwiRail		
Warranty and guarantee risks			To be confirmed – will depend on performance criteria

5 Outlining the Financial Case

The purpose of this section is to outline the timing and costs associated with Phase One of the proposed KiwiRail Palmerston North Regional Growth Hub Business Case and outline the high-level costs for the full project.

5.1 Impact on the Financial Statements

Based on current estimates, the anticipated cash flows for the investment proposal over its intended life span are set out in the table below.

Table 22: Estimated cash flow requirements for a land acquisition in the NEIZ, Bunnythorpe (Phase 1).

\$	Commercial Informatio	Commercial Informatio	Commercial Informatio	Totals
Phase 1				
Master-Planning				
Site Identification	\$ Commercial Inform	\$ Commercial Inform		\$ Commercial Inform
Development of Theoretical Hub Design (for final site selection and RMA Process)	\$ Commercial Informat	\$ Commercial Informat		\$ Commercial Information
Option Analysis		\$ Commercial Inform		\$ Commercial Inform
				\$-
RMA Process				\$-
Landscape/Visual Report	\$ Commercial Inform	\$ Commercial Inform		\$ Commercial Inform
Ecology Report	\$ Commercial Inform	\$ Commercial Inform		\$ Commercial Inform
Inundation issues Report	\$ Commercial Inform	\$ Commercial Inform		\$ Commercial Inform
Earthworks (District) Report	\$ Commercial Inform	\$ Commercial Inform		\$ Commercial Inform
Integrated Transport Assessment	\$ Commercial Inform	\$ Commercial Inform		\$ Commercial Inform
Construction Report	\$ Commercial Inform	\$ Commercial Inform		\$ Commercial Inform
Social/economic Report	\$ Commercial Inform	\$ Commercial Inform		\$ Commercial Inform
Specialist Planning Report	\$ Commercial Inform	\$ Commercial Inform		\$ Commercial Inform
Mana whenua Report	\$ Commercial Inform	\$ Commercial Inform		\$ Commercial Inform
Noise and vibration/Construction and operational	\$ Commercial Inform	\$ Commercial Inform		\$ Commercial Inform
Consultation	\$ Commercial Inform	\$ Commercial Inform		\$ Commercial Inform
Site contamination (preliminary)	\$ Commercial Inform	\$ Commercial In		\$ Commercial Inform
Archaeological Assessment to meet the requirements of the Heritage New Zealand Pouhere Taonga Act 2014/ Built heritage	\$ Commercial Inform	\$ Commercial In		\$ Commercial Inform
Expenses flights etc	\$ Commercial Inform	\$ Commercial Inform		\$ Commercial Informat
Legal Fees	\$ Commercial Informat	\$ Commercial Informat	\$ Commercial Inform	\$ Commercial Informat
KiwiRail Internal	\$ Commercial Informat	\$ Commercial Informat	\$ Commercial Informat	\$ Commercial Informat
				\$-
Land Acquisition				\$-
Compensation		\$ Commercial Information	\$ Commercial Information	

\$	Commercial Informatio	Commercial Informatio	Commercial Informatio	Totals
				\$ Commercial Informatio
Solatium		\$ Commercial Inform	\$ Commercial Informat	\$ Commercial Informat
Landowner Section 66 Fees -Valuation Legal Advice	\$ Commercial Inform	\$ Commercial Inform	\$ Commercial Informat	\$ Commercial Informat
KiwiRail Fees - Valuation	\$ Commercial Inform	\$ Commercial Inform		\$ Commercial Inform
Accredited Agent Fees	\$ Commercial Inform	\$ Commercial Inform	\$ Commercial Inform	\$ Commercial Inform
Comm % Contingency		\$ Commercial Information	\$ Commercial Information	\$ Commercial Information
	\$ Commercial Information	\$ Commercial Information	\$ Commercial Information	\$ Commercial Information

5.1 Input Assumptions

Master-Planning

The master-planning, options assessment and technical reporting will require the development of a theoretical hub layout, including likely operational details and location review. This will enable an assessment of effects as per RMA obligations under s168 RMA. The estimated cost for master-planning is \$ Commercial Information over the period Commercial Information. The master-planning process will assist in determining that the site is fit for purpose.

RMA Process

The development of a maximum sized operational hub master-plan will enable the experts to assess the likely impacts of the proposal on the surrounding area in enough detail to give confidence to site option assessment and the management of any adverse effects through the Designation. Proposed designation conditions (if any) and draft management plans can be developed from the technical assessment reports. The estimated cost for RMA initial assessment reports is \$ Commercial Information over the period Commercial Information.

Land Acquisition

Once the land has been identified the negotiation will be based around voluntary negotiations, centred on the compensatory provisions of the PWA. Discussions with affected parties will be undertaken with a view to agreeing compensation in advance of the requirement. Commercial Information

The estimated cost for land acquisition, valuation fees, and agents' fees including contingency is \$ Commercial Information over the period Commercial Information

5.2 Overall affordability

Whilst the overall master-planning will be completed as part of the phase two process, a high-level cost estimate has been undertaken on the full development based on operational occupation approximately Comm ha. The cost estimate is between \$ Commercial Information and includes tracks within the new freight yard, hard standings, overbridges and mechanical depot. Anticipated allowances for site services, fencing, automation and improved technology has also been included.

It is estimated that the cost of master-planning will be ^{Comm}% of the overall cost of the project and planning will be undertaken in conjunction with NZTA and PNCC with international experts.

Site master-planning would include:

- Consultancy
- Detailed Design
- Stakeholder Management
- Regional consents/construction consents i.e. earthworks, consents for discharges to air during construction, water takes, spoil/disposal sites (the need for these depends on construction methodology) and discharges to land/water
- Outline Plan of Works approvals from PNCC, discharge of designation conditions including certification of Management Plans
- Archaeological Authority under Heritage New Zealand Pouhere Taonga Act 2014 to modify or destroy archaeological site(s) if needed and in consultation with local iwi.
- International best practice for fully integrated mode natural transport solution

5.3 Funding sources

It is proposed that the funding for the Palmerston North Regional Economic Growth Hub Business Case, comprised of Phase 1a and Phase 1b, will be provided by the Provincial Growth Fund.

6 Outlining the Management Case

6.1 Project Management Strategy and Framework

6.1.1 Project Governance

KiwiRail's existing processes include oversight by an appointed executive owner and project sponsor. These processes have been robustly tested thorough the \$^{Commercial Information} metro upgrade projects and an annual capital replacement project in excess of \$^{Co mercial format}

6.1.1.1 Project Control Group

KiwiRail's existing governance processes include a Project Control Group (PCG) that meets monthly to provide overall project governance and direction to the project team and review project performance and assurance. A PCG specific to the manufacturing and commissioning of this additional rolling stock and platform upgrades will be established and will include executive owners and sponsors. The project sponsors are ultimately accountable for the performance of the project.

Members of the PCG will be responsible for producing a single report for the KiwiRail chief executive and Board. Membership of the PCG will typically include:

- KiwiRail – Executive Owner (e.g. Group General Manager)
 - KiwiRail – Project Sponsor (e.g. General Manager Project Management Office)
- Project Director
- KiwiRail – Technical representation (TBC)

6.1.1.2 Project Steering Committee

For larger (>\$10m) high risk projects, KiwiRail's standard process is to establish a Project Steering Committee (PSC) with representatives from key stakeholders and personnel. The PSC meets fortnightly or as required.

The PSC's role is to monitor and support the delivery of the programme of works.

- KiwiRail - Group General Manager
- KiwiRail - General Manager Project Management Office
- Project Director
- KiwiRail – Technical and Representation (TBC)

6.1.1.3 Governance Reporting

As part of KiwiRail's project governance and management processes a Project Status Report (PSR) is prepared monthly by the Project Manager for submission to the PCG. The Programme Director will provide an overarching commentary on progress against key programme milestones focussing on exceptions, risks, impact on interdependent projects and plans to mitigate or manage the impact(s).

The PSR provides a dashboard of project performance highlighting areas of key performance including:

- Budget
- Programme
- Quality
- Stakeholders

- Risks
- Health & Safety and Environmental

The PSR provides an opportunity to raise key issues and opportunities. KiwiRail’s existing processes determine that the PSC meets prior to the PCG and provides assurance to the PCG that the issues and opportunities identified in the PSR are being dealt with appropriately or may seek guidance should issues require other senior executive input and/or guidance. The PSR will be reviewed during the planning phase for the manufacturing and commissioning of this additional rolling stock and platform upgrades to ensure reporting addresses the needs of both organisations.

Figure 13: Project Governance structure and reporting



6.1.2.1 Owners and Sponsors

The Executive Owners act as vocal and visible champions to their respective Executive Teams and Boards and are the ultimate decision-makers for the project. The Project Sponsors are ultimately accountable for the success or failure of the whole programme. They ensure that the project is focused on achieving the business objectives and delivering on the forecast benefits.

Throughout the project they are responsible for the business case and need to be able to take a balanced view of the project on behalf of KiwiRail’s interests – that is, maintain a “best for the network and programme” approach to Programme interactions and decision making.

6.1.2.2 Project Director

The Project Director is ultimately accountable for the success or failure of the project and must ensure that the project is focused on achieving its business objectives and delivering the forecast benefits.

The Project Director must ensure that the project gives value for money and adopts a cost-effective approach which balances the demands of the business, users and suppliers. Throughout the project the Project Director is responsible for the business case and needs to be able to take a balanced view of the project on behalf of the wider organisation.

Role of Project Director

The Project Director acts as the representative of the organisation, and plays a vital leadership role through:

- Providing 'championship' for the project, selling and marketing the project throughout the organisation
- Providing business expertise and guidance to the Project Manager
- Acting as the link between the project, the business community and perhaps most importantly, management decision making groups
- Acting as an arbitrator and making decisions that may be beyond the authority of the Project Manager
- Acting as chairperson of the Steering Committee.

Responsibilities of Project Director

Typically, the Project Director will be responsible for:

- Ensuring that the business need is valid and correctly prioritised
- Ensuring that the project is properly launched
- Ensuring that the project remains a viable business proposition
- Ensuring changes to the project are properly managed
- Ensuring risks are managed
- Establishing the project organisation, roles and reporting structure
- Ensuring the project is under control
- Approving key project deliverables
- Initiating project reviews and supporting the process of review
- Resolving issues (typically competition for resources and priority clashes) that are beyond the control of the Project Manager
- Resolving conflict and removing obstacles to progress
- Overall quality of the project, both the methods used to develop it and the end product.

During the life of any project, business circumstances may change considerably, making it impossible for the Project Manager to carry out his/her job. Examples are such things as changes of policy, adverse business conditions, etc. In such cases the Project Director is responsible for recognising and reacting to any such circumstances.

6.1.2.3 Project Manager

The delivery function of the project will be managed by the KiwiRail Project Management Office, and the Project Manager will report to General Manager of the Project Management Office.

Role of Project Manager

The Project Manager is responsible for developing, in conjunction with the Project Director, a definition of the project. The Project Manager then ensures that the project is delivered on time, to budget and to the required quality standard (within agreed specifications). The PM ensures the project is effectively resourced and manages relationships with a wide range of groups (including all project contributors). The Project Manager is also responsible for managing the work of consultants, allocating and utilising resources in an efficient manner and maintaining a co-operative, motivated and successful team.

Responsibility of Project Manager

- Managing and leading the project team
- Recruiting project staff and consultants
- Managing co-ordination of the partners and working groups engaged in project works

- Detailed project planning and control including:
 - Developing and maintaining a detailed project plan
 - Managing project deliverables in line with the project plan
- Recording and managing project issues and escalating where necessary
- Resolving cross-functional issues at project level
- Managing project scope and change control and escalating issues where necessary
- Monitoring project progress and performance
- Providing status reports to the project sponsor
- Managing project training within the defined budget
- Liaises with, and updates progress, to project board/senior management
- Managing project evaluation and dissemination activities
- Managing consultancy input within defined budgets
- Manage final approval of the design specification by technical lead(s)
- Working closely with users to ensure the project meets business needs
- Providing regular status reports to the Project Steering Committee

6.2 Outline project plan

Below is a high-level timeline for this project.

Note: KiwiRail intend to collaborate with Rangitāne o Manawatū ('**Rangitāne**') as mana whenua throughout the project cycle.

Figure 14: High level timeline for Phase 1a and Phase 1b (Best Case)

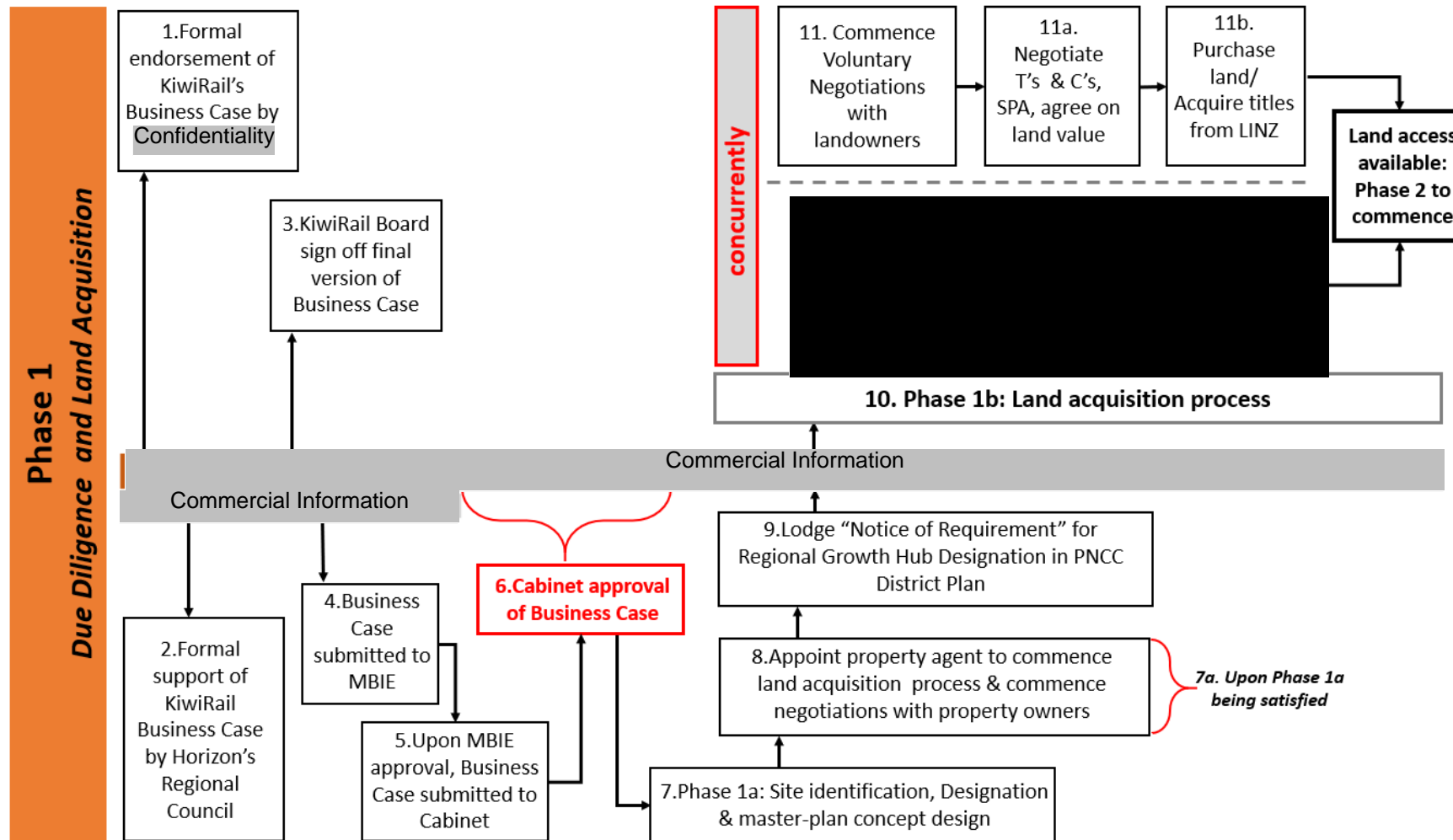
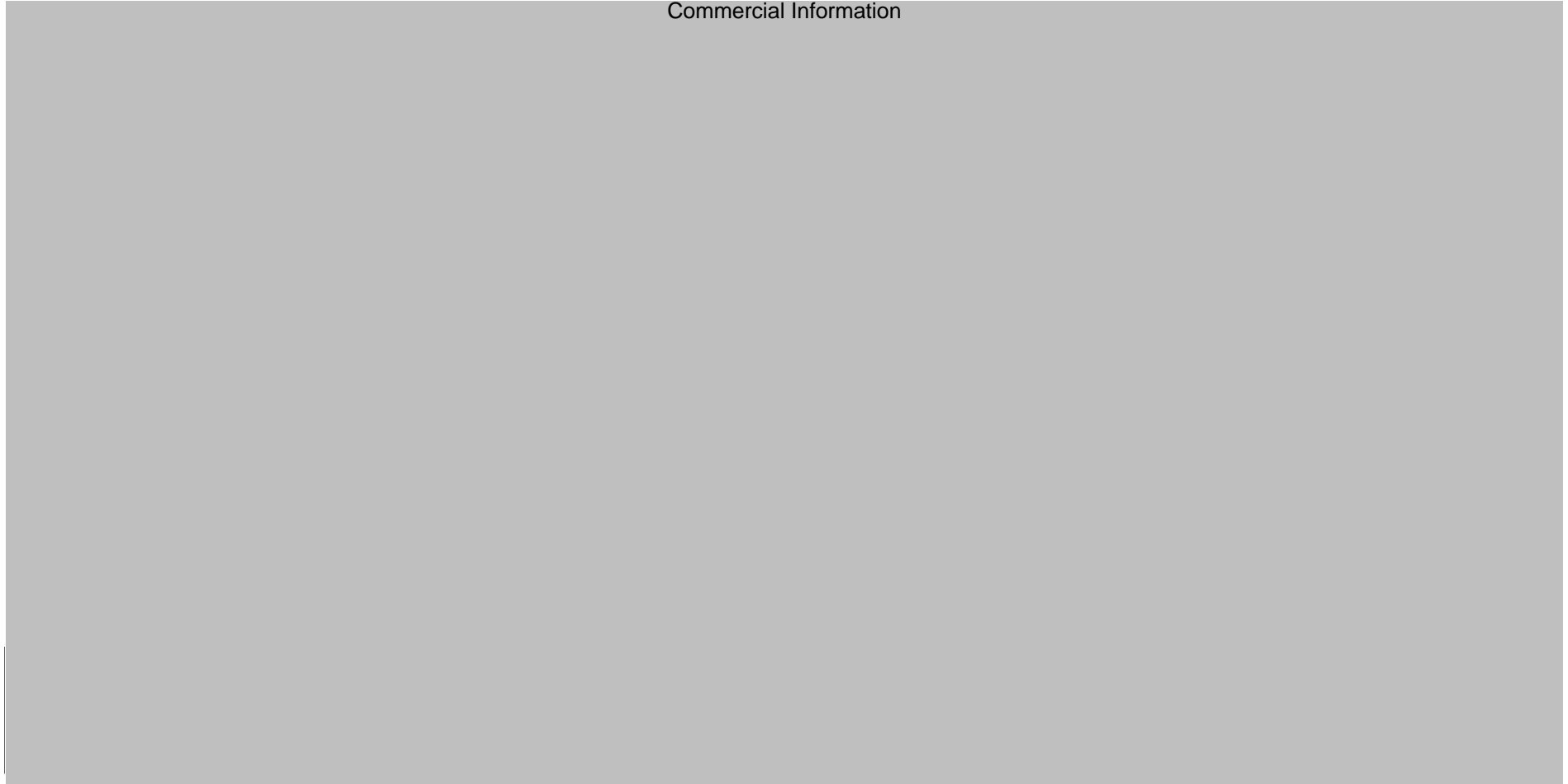


Figure 15: Regional Economic Growth Hub project timeline estimation

Commercial Information



RMA process and Designation

The designation process requires a number of statutory considerations. When considering a requirement and any submissions received, a territorial authority must, subject to Part 2, consider the effects on the environment of allowing the requirement, having particular regard to:

S 171 of the RMA Recommendation by territorial authority

(a) any relevant provisions of—

(i) a national policy statement:

(ii) a New Zealand coastal policy statement:

(iii) a regional policy statement or proposed regional policy statement:

(iv) a plan or proposed plan; and

(b) whether adequate consideration has been given to alternative sites, routes, or methods of undertaking the work if—

(i) the requiring authority does not have an interest in the land sufficient for undertaking the work; or

(ii) it is likely that the work will have a significant adverse effect on the environment; and

(c) whether the work and designation are reasonably necessary for achieving the objectives of the requiring authority for which the designation is sought; and

(d) any other matter the territorial authority considers reasonably necessary in order to make a recommendation on the requirement.

6.3 Risk management

The Project Sponsor is responsible for ensuring that arrangements for the management of project risk are in place, together with the appointment of a Risk Manager. The risk register is to be continuously updated and reviewed throughout the course of the project.

A Risk Manager will be appointed for this project and a risk register will be created as a part of the project management framework.

6.4 Project and business assurance arrangements

This investment proposal has been assessed as low risk based on the following:

- KiwiRail have an experienced land acquisition team;
- New Zealand's import, export and national freight distribution services are increasing;
- Current predicted freight demands exceed what the current rail yard can deliver;
- If KiwiRail is to remain a key player in the freight distribution sector, it must consolidate, modernise, reconfigure and integrate its plans with region wide transport initiatives;
- There are consent constraints on expanding at the current Palmerston North site and relocation Commercial Information is required to support wider PN City strategic plans as well as supply chain accessibility.

This proposal is also subject to independent quality assurance.

7 Next Steps

The following table details the proposed next steps following approval of this Business Case. This best-case timeline assumes funding is secured between Q4 2018 – Q1 2019.

Action	Timeframe	Who	Cost
Phase 1a: master-planning to identify a new site and designation process (in consultation with local iwi)	Commercial Information	KiwiRail	Commercial
Phase 1b: Land acquisition, (Subject to Phase 1a being satisfied)	Commercial Information	KiwiRail	
Phase 2: Detailed design and development of Palmerston North Regional Growth Hub in collaboration with key stakeholders and wider Regional Strategies	Commercial Information	KiwiRail PNCC NZTA HRC Freight Partners	Dependant on final outcome of Phase 1

Decision Sought

Please approve KiwiRail's Business Case request to acquire a site in the NEIZ, Palmerston North for a 'fit-for-future' Palmerston North Regional Economic Growth Hub, noting that this strategy aligns with a number of National, Regional and KiwiRail strategies and supports key Provincial Growth Fund initiatives.

On behalf of the KiwiRail Executive Team

Name:

Signed:

Date:

Appendix A: Risk and Mitigation Table

Risk, Issues and Mitigation Table

KiwiRail have identified a number of high level risks and issues. Where in the Mitigation it is stated 'note' this is to ensure that during further detailed investigation (i.e. the design stage), that these issues and risks are subsequently mitigated through planning and consideration.

Table 23: Risks and Mitigation

	RISK	MITIGATION
1	KiwiRail will not be able to keep up with national and regional growing freight demands, due to lacking the facilities and ability to expand.	By KiwiRail and its freight partners will securing land in the NEIZ expansion and upgrading to world class distribution facilities can be realised.
2	Eventually restrictions on truck accessibility into central Palmerston North will impact on KiwiRail and its freight partners being able to maintain business as usual.	By relocating to a NEIZ site in Bunnythorpe, KiwiRail's trucks will no longer need to enter the CBD roads to access its premises. By setting up in the NEIZ KiwiRail would be connected to the Regional Freight Ring Road and proposed SH3, aligning itself to perform efficiently without impacting the central areas.
4	KiwiRail, will miss the opportunity to secure an ideally located site in the North East Industrial Zone (NEIZ) at its lowest value and reduce the complexity and disruption I likely to result from a later purchase.	That future business cases would have to reflect an increase in price based on historic and capital appreciation of land values.
5	NEIZ site options are purchased by another developer with alternative plans which don't align with the vision of connectivity for freight distribution.	The site could be purchased under the PWA, Commercial Information
6	If the Palmerston North Freight Yard is retained, freight handling growth will be constrained, the stakeholder/customer experience will be diminished, ultimately impacting on KiwiRail's ability to remain as a sustainable business.	KiwiRail would have to redesign and rebuild the yard whilst continuing to provide levels of service during the construction and development stage. Of note, that the current planning rules would potentially restrict the type of development and expansion that could be undertaken.
7	This investment has a long lead time. The Provincial Growth Funding support is only Commercial Information	Steps are broken down as phase one and phase two, demonstrating the commercial viability of the long-term initiative and that it can standalone upon completion. It is generally accepted that the issues around purchasing and developing land on this scale are multi-faceted and there are no 'quick fixes'. Funding approvals, landowner negotiations through to the design phase and construction phase of a project take time to resolve. However, key is identifying the pressures that the current regional land transport network is facing over the lifetime of the plan and

	RISK	MITIGATION
		how the long-term project will help solve these and make for a better prepared distribution and supply-chain economy.
8	Acquisition of land under the PWA and availability of land for construction is a significant risk due to time impacts from both legal and Environment Court challenges.	KiwiRail have factored in the time required to acquire land in the NEIZ should any disputes or challenges arise. Advance engagement with landowners and an opportunity to negotiate for the land in advance of compulsory acquisition is required. Our specialists estimate that Environmental Court challenges could exceed 2 years.
9	Freight partners are not aligned with KiwiRail's proposed relocation to a larger, more fit-for-future intermodal hub solution	KiwiRail has tested the view of its current freight partners, as to whether they would be aligned with consolidating at a future, fit-for-purpose, intermodal hub facility.
10	Negative media is released by current landowners in opposition against the land sale and its future purpose.	Advance engagement with landowners and an opportunity to negotiate for the land in advance of compulsory acquisition is required. Our acquisitions team will be aiming for a collaborative engagement, taking note around the concerns and sensitivities of the landowners needs.
11	Only KiwiRail property acquisitions costs and preliminary master-plan and designation costs have been estimated. All physical project construction costs are excluded from this business case.	Note.
12	Indirectly affected parties may request acquisition of their properties or compensation for affected existing use rights.	Advance engagement with landowners and an opportunity to negotiate for the land in advance of compulsory acquisition is required.
13	KiwiRail are confident the ^{Comm} ha they have the expertise to successfully work through the designation process under the RMA. Risk being the designation area is objected to or conditions attached therefore conditions that could constrain operations.	Note.
14	Reliable costings for the construction phase can only be determined once the detailed design phase is 85-90% complete.	Note
15	KiwiRail estimate the timeline between commencement of land acquisition and relocating operations to a new site to be greater than 10 years.	Note

	RISK	MITIGATION
16	Revenue recognition from the sell down of Palmerston North Freight Yard will not be until the site has been cleared for re-generation, this could be greater than 11 years'.	Note
17	NZTA / Ministry of Transport do not agree with KiwiRail's intention to develop a site in the NEIZ.	KiwiRail are actively engaging with NZTA and MIT and believe that a Regional Economic Growth Hub based in the NEIZ aligns well with both their strategies.
18	KiwiRail does not receive the designation and consents it requires.	The designation process is subject to public notification and approvals must meet RMA acceptance criteria. Risks associated with securing a designation can be significantly mitigated by choosing a location within the NEIZ, and the early purchase of affected sites.