

BOARD PAPER

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Board function:	Setting sector and organisational direction
Subject:	Future of Heavy Rail in New Zealand – Proposals and Implications for NZ Transport Agency

***Future of Rail* is a Ministry of Transport led project to realise Government's vision for heavy rail, which gives heavy rail a greater role in a mode neutral system**

- The Government is looking to the Future of Rail review to:
 - define the purpose of heavy rail in a multi-modal transport system, including the outcomes and objectives that the Government sees heavy rail as being able to support; and
 - provide advice on:
 - placing heavy rail, including ferries, on a more sustainable and long-term funding path;
 - supporting better integration of investment decision-making across road and rail to move toward a more mode neutral land transport system; and
 - addressing concerns raised by the Auditor-General in relation to KiwiRail's status as a State Owned Enterprise and its ability to be a 'commercial' versus 'public benefit' entity

There are four main workstreams under *Future of Rail*

These four workstreams are intended to:

- define the purpose of heavy rail in a multi-modal transport system
- develop ten year investment scenarios for heavy rail, including ferries, to provide Ministers with a sense of the quantum of investment required
- design a planning and funding framework that supports better integration of investment across road and heavy rail
- provide advice on how KiwiRail should be structured that addresses concerns raised by the Auditor-General and supports better integration of road and heavy rail

***Future of Rail* is at the point where the Ministry of Transport is close to finalising advice for Ministers to inform a Cabinet paper for consideration in early 2019**

- The Future of Rail Steering Group has met with the Ministers of Transport and KiwiRail shareholding Ministers twice and have:
 - confirmed the purpose of rail; and
 - secured Ministerial direction in relation to what investment scenarios and planning and funding framework should be developed further
- The Ministry of Transport are to present to the Board on the *Future of Rail* because it has a range of implications for the Transport Agency's operations. For example:
 - Increased funding for heavy rail infrastructure from the National Land Transport Fund
 - Greater coordination of long-term (at least ten years) of investment plans across road and heavy rail

The purpose of heavy rail in a mode neutral transport system is wide and is expected to contribute to a range of outcomes

Rail enables access and mobility, transporting people and goods to where they need to go, supporting productivity and business growth, reducing emissions, congestion and road deaths, and strengthening social and cultural connections between communities

Four ten-year investment scenarios have been developed and Ministers have asked officials to develop an investment scenario combining Scenarios two and three

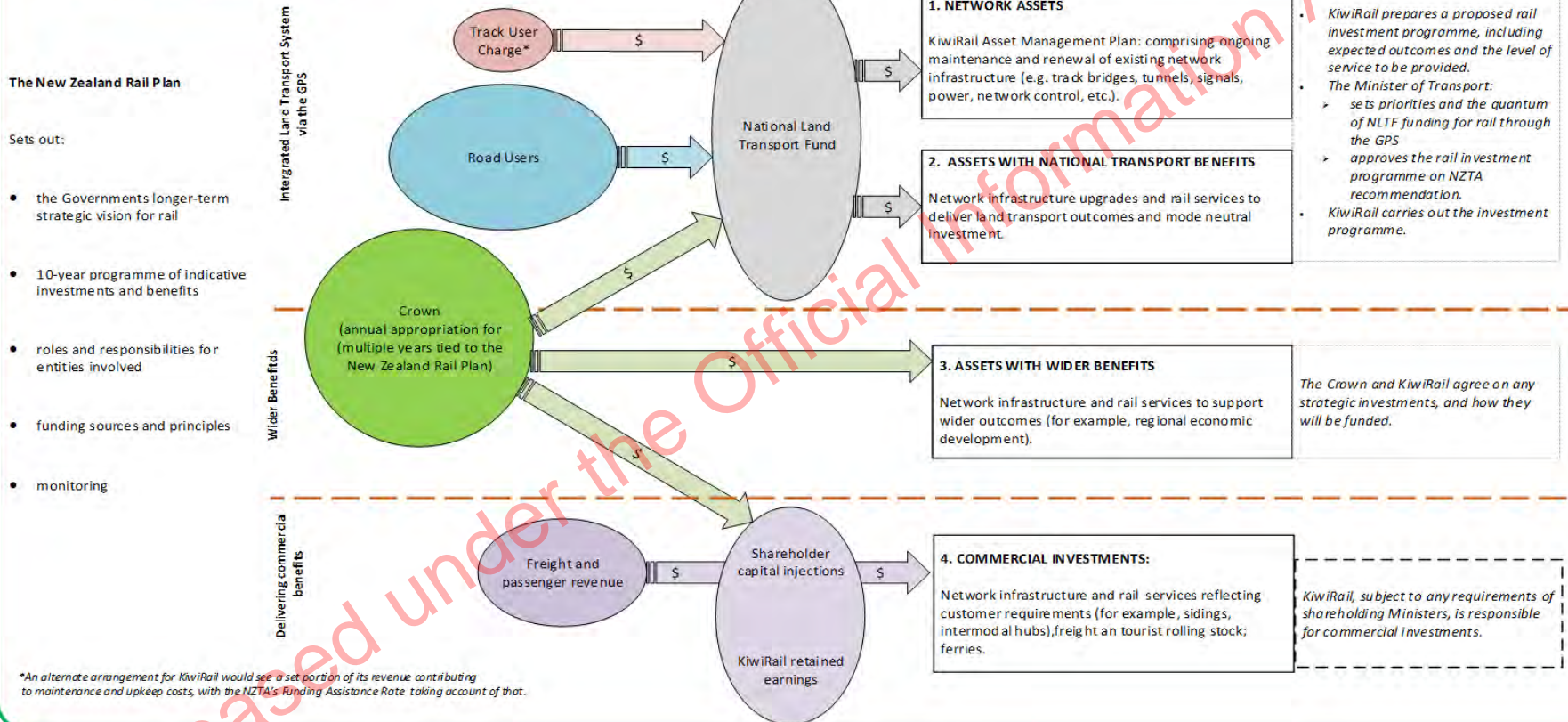
Scenario [#]	(1) – Status quo	(2) Reliability and Resilience	(3) Investment in capacity and growth	(4) Additional opportunities
Description	A state of managed decline of the national heavy rail network and services (including ferries)	Address historical under-investment and bring the heavy rail network and services up to base level of reliability and resilience	Faster and increased investment in heavy rail network and services (freight, tourism and ferries) to support growth and regional initiatives.	Case-by-case investment in 'game changers' like high speed passenger rail or electrification of national heavy rail network and assets.
10 year investment 'gap'*	\$2.2 billion	\$5.1 billion	\$9.8 billion	\$26.7 billion plus
Impact	Continued decline of heavy rail network and ferries. Freight and tourism services run down as unable to provide level of service required and potential loss of service. Metro networks largely unaffected.	Heavy rail's existing share of freight and tourism retained with potential for growth in a small number of selected regions. Metro networks largely unaffected.	Greater opportunity to encourage mode shift (principally freight) onto rail as both reliability and capacity increases. Faster and higher patronage growth on metro networks due to increased capacity and frequencies.	Potential for major mode shift and step change in travel behaviour across passenger and freight.

- Investment scenarios are cumulative in that each investment scenario incorporates the previous scenario

* - The funding 'gap' is the funding required **in addition** to investment already agreed through Crown Budget and GPS allocations

The proposed planning and funding framework is a first step toward possible full integration of heavy rail under the Land Transport Management Act 2003 (LTMA) framework

PARTIAL INTERGRATION INTO THE LTMA PREFERRED OPTION PRESENTED IN BRIEFING



Continued...

The proposed planning and funding framework is a first step toward possible full integration of heavy rail under the LTMA framework continued

Key features of the framework are:

- Ten year New Zealand Rail Plan that sets out a range of matters, including an indicative ten year investment programme and associated funding streams and defining the roles and responsibilities for the entities involved
- Using the National Land Transport Fund (NLTF) to fund:
 - maintenance and renewal of the existing national heavy rail network; and
 - improvements to network infrastructure and/or investment in rail services where there are identifiable transport benefits that justify investment
- Development of Track User Charge that would flow into the NLTF to ensure the NLTF's contribution to rail maintenance and renewals is fair and transparent

A preferred structure for KiwiRail has yet to be discussed with Ministers and is subject to further development

- In its advice to Ministers, the Ministry of Transport noted that there were several possibilities for the future structure of KiwiRail, but that to date it had yet to identify alternatives to the status quo that are conclusively better
- In finalising its advice on possible future structure of KiwiRail, the Ministry has advised that key matters will be addressed in its advice to Ministers:
 - operation of KiwiRail's above track activities (including tourism, ferries and freight) should continue to be on a commercial basis and subject to commercial disciplines
 - recognition that the heavy rail network (that is, below track) has substantial non-commercial aspects and require some degree of subsidy to operate and that a preferred structure will need to support clear identification and reporting between commercial and non-commercial operations to support transparency
 - the current level of rail safety is not adversely affected by the structure

The Ministry of Transport are to report back to Ministers by the end of the year with a high-level implementation plan including transitional arrangements

- While good progress has been made on developing options for Ministers consideration, there is still a lot of detail to work through
- From a Transport Agency perspective, key matters that have yet to be addressed include:
 - **The Transport Agency's role in shaping a New Zealand Rail Plan**

From an integration perspective there is a strong case for the Transport Agency to be closely involved in the development of the Rail Plan, given its extensive knowledge of the land transport system and ability to shape and influence investment through the National Land Transport Programme
 - **How the metro networks and operations fit within in the proposed planning and funding framework**

To date, most of the focus has been on the national heavy rail network and KiwiRail's businesses, and metro rail matters have yet to be fully canvassed (the Ministry is developing separate advice on changes to the Metro Rail Operating Model and ownership arrangements for the City Rail Link in Auckland, but this is not flowing through to the Future of Rail)
 - **Priority of rail safety under the planning and funding model**

While there is acknowledgement of rail safety as a matter that needs to be considered, it is peripheral at the moment. Given the focus on improving safety across the land transport system, there is a case for placing rail safety at the core of the development of a Rail Plan and implications for prioritising investment