

Chair  
Cabinet Economic Growth and Infrastructure Committee

## METROPOLITAN RAIL OPERATING MODEL

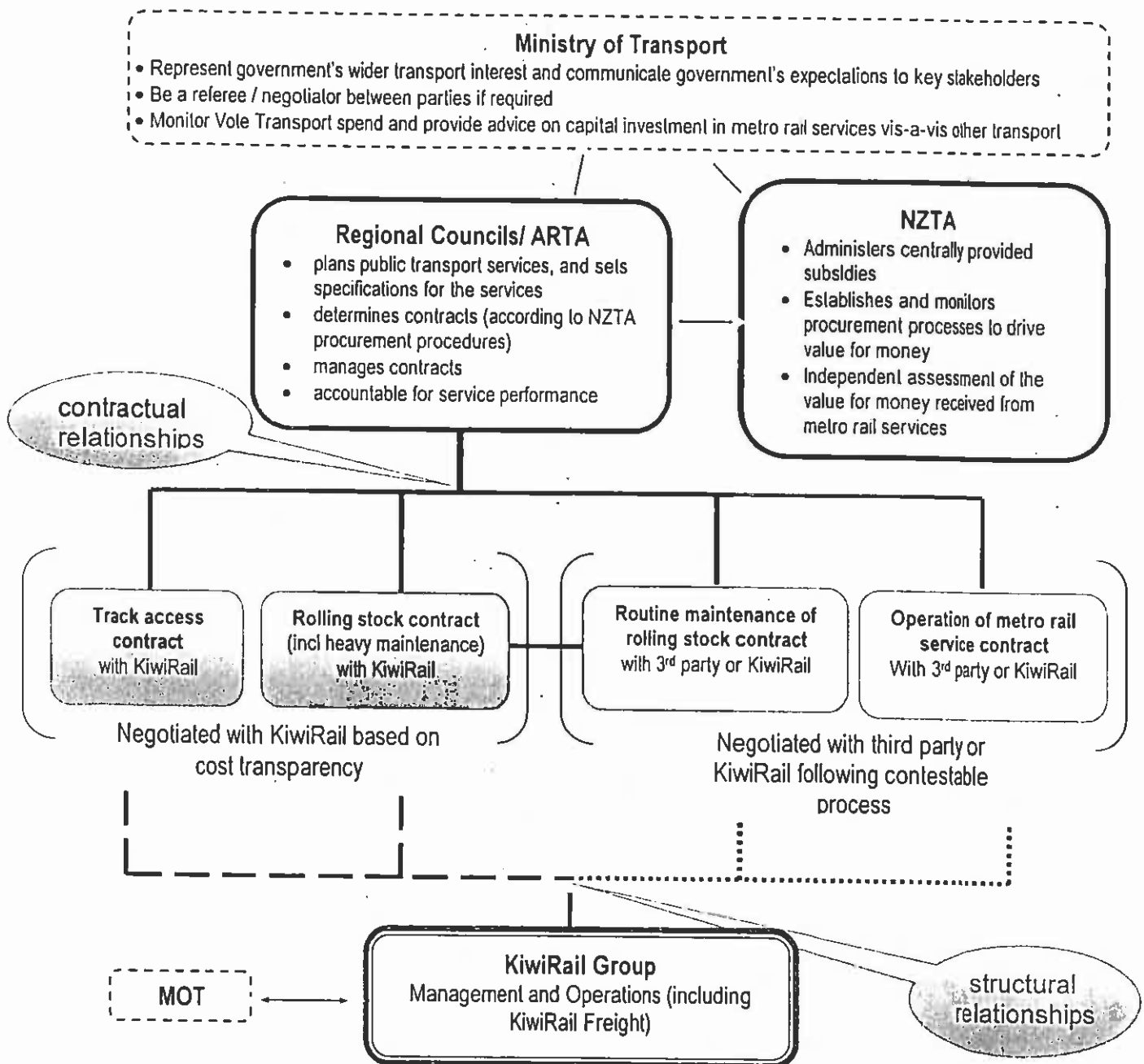
### Proposal

1. This paper responds to Cabinet's invitation to report to the Economic Growth and Infrastructure Committee on the funding of Wellington metropolitan rail services, the funding and ownership of Auckland metropolitan rail services, and the option of tendering out the metropolitan rail service operations [CAB Min (09) 8/11-14 and CAB Min (09) 11/10]. Work is continuing on issues such as ownership of metro rail rolling stock.
2. Through the paper, I am seeking Cabinet's agreement to:
  - 2.1. the policy framework upon which the future development of metropolitan rail service (metro rail) operations in Wellington and Auckland should be based
  - 2.2. the key features of a metropolitan rail operating model that build on the policy framework
  - 2.3. a two-stage process for making progress towards an improved way of operating metro rail services.

### Executive summary

3. An even more immediate priority than finalising funding and ownership arrangements for metro rail services is to determine the basis on which metro rail services should be delivered. Addressing how metro rail services should be delivered is a priority because improving value for money and rail-service quality is most likely to be achieved through changes to the procurement processes and delivery arrangements.
4. In this paper, I seek Cabinet's agreement to the policy framework for the development of metro rail services and propose an improved operating model for metro rail services based on that framework.
5. Improvements to the operation of metro rail services would be achieved by:
  - 5.1. clearly defining the **roles** of the various parties involved in the provision of metro rail services
  - 5.2. introducing **contestability** into the delivery of metro rail services through the financial and physical separation of key metro rail service functions
  - 5.3. using **performance-based contracts** with appropriate transfer of risks to clearly identify service level expectations, monitor performance, and allocate responsibilities
  - 5.4. improving **transparency** so that costs, accountability, and who pays can be clearly identified.

6. The following diagram indicates how the proposed operating model would look when fully implemented, including the broad roles stakeholders would undertake.



7. To put in place the proposed operating model, I recommend a two-stage process. Stage one would focus on the building blocks for clearer accountability and contestability. Stage two would focus on using the prospect of improved contestability to encourage further efficiency and better service.

8. If you support the proposals contained in this paper, I propose that, as a first step, Greater Wellington Regional Council (GWRC), Auckland Regional Council (ARC), Auckland Regional Transport Authority (ARTA), KiwiRail, the NZ Transport Agency (NZTA) and the Auckland Transition Agency be formally advised of the government's decisions.

9. The paper has been prepared on the basis that the current ownership of metro rail rolling stock remains unchanged. Separate work is being done on future rolling stock options,

including accountability for the performance of metro rail rolling stock assets and, therefore, this assumption may not apply in the future. It is likely that any of the options for the future ownership of metro rolling stock will be consistent with the proposed operating model for metro rail services and, therefore, are not pertinent to the decisions being sought.

## **Background**

10. On 9 March 2009, Cabinet agreed to a broad ownership and delivery structure for metro passenger rail.
  - 10.1. Ownership of metro rail rolling stock to revert, in principle, to the New Zealand Railways Corporation (KiwiRail), and KiwiRail's capital requirements to be funded with debt and equity.
  - 10.2. Existing funding mechanisms for providing public transport operating subsidies would continue, with subsidies administered by the NZTA and paid to regional councils.
11. Cabinet invited me to report to the Economic Growth and Infrastructure Committee on the funding of Wellington metro rail and the funding and ownership of Auckland metro rail (ie the metro rail operating model) [CAB Min (09) 8/11-14].
12. On 30 March 2009, Cabinet also invited me to include, in my advice on the metro rail operating model, the option of tendering out metro rail service operations [CAB Min (09) 11/10].
13. Since March it has become apparent that an earlier priority than finalising funding and ownership arrangements is the need to clarify how metro rail services should be procured and delivered. Addressing procurement and delivery matters is key to achieving value for money and improving customer service. This paper specifically addresses matters relating to:
  - 13.1. the policy framework for the development of a metro rail operating model
  - 13.2. the key features of the metro rail operating model, which should be formally communicated to the regions, KiwiRail and the NZTA
  - 13.3. issues that need to be addressed if metro rail operating contracts are to be contestable and the metro operating model is to function successfully
  - 13.4. a two stage process for implementing the new metro operating model.

## **Policy framework**

14. In 2008, almost complete ownership of both rail infrastructure and rail services reverted to the New Zealand government. KiwiRail is now a vertically integrated statutory state-owned enterprise with a strong monopoly on the delivery of rail services. However, it struggles to compete with non-rail transport services, and to date has remained reliant on financial assistance from the government to continue operating. Further, most public transport (commuter) services require ongoing public subsidy, and metro rail is no exception.

15. The strong monopoly of KiwiRail in the rail sector and its weak position in the wider transport sector are two important factors that a metro rail operating model needs to manage. That is, the risk of KiwiRail monopolising the delivery of metro rail services thereby potentially undermining value for money, and a lack of transparency round the financial assistance required for metro rail services and what the subsidy is used for.
16. International experience and research indicates that there is no one 'right' model for the delivery of metro rail services. There has been a general global trend toward introducing more competition to the delivery of rail infrastructure and services to address concerns about the overall efficiency of rail and the potential for monopoly, but experience to date has been mixed.<sup>1</sup>
17. Against this background, the key public policy transport objectives for the metropolitan rail public transport system should be: to increase economic growth and productivity by reducing congestion on urban roads, and more efficient utilisation of the transport network; to provide transport choices for users; to integrate rail with other modes of transport; and to reduce the environmental impact of the transport system.
18. Achieving these policy objectives for metro rail will require a strong focus on value for money and delivering customer satisfaction. The parties who pay for rail services (ie, rail passengers, taxpayers, road users, ratepayers) should expect value for money and quality services. Customer satisfaction is essential to increase rail patronage and increased rail patronage is important to achieving value for money<sup>2</sup> as well as meeting the key transport policy objectives. The introduction of private sector and competitive elements into the delivery of metro rail services can contribute to generating value for money and improving service levels, and should be incorporated where appropriate.
19. Any operating model should also apply similarly to Auckland and Wellington metro rail services. The operating models for the two metro rail services are very different at present and it is desirable that they become more consistent and less driven by ad-hoc decisions, and that expertise is shared between the two regions.
20. To ensure that regions are able to provide metro rail services, it is important that they have clear rights to access the rail network and metropolitan rail rolling stock. Such rights would need to be negotiated and specified in agreements with the appropriate parties.
21. Finally, in light of the fact that KiwiRail owns and manages almost all rail infrastructure and services, to improve overall transparency and contestability, KiwiRail should ensure that its rail ownership functions and rail service functions be kept financially separate, as far as possible. This would make it easier to identify where subsidies might be required and how they are being used.

## **Metropolitan Rail Operating Model**

22. In my view, the metropolitan rail services operating model should have the following four key features to ensure that the policy objectives can be achieved.

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<sup>1</sup> European Conference of Ministers of Transport (2007) *Competitive Tendering of Rail Services* OECD; Paul Amos (2006) *Railway reform: vertical integration and separation* presentation to EuroMed Transport Project World Bank ([http://www.euromedtransport.org/fileadmin/download/maincontract/ts4/ts4\\_amos\\_day3.pdf](http://www.euromedtransport.org/fileadmin/download/maincontract/ts4/ts4_amos_day3.pdf))

<sup>2</sup> Because rail has high fixed costs that are incurred regardless of how much rail services are used, the more the rail network is used the more fixed costs can be spread over total usage, making it possible to recoup more of the fixed costs from a greater number of users.

- 22.1. All of the parties involved in the purchase and delivery of metro rail services have **clear roles**.
- 22.2. The operation of the metro rail service and routine maintenance of metro rolling stock is **contestable**.
- 22.3. A strong focus on **performance-based contracts** with appropriate transfer of risks.
- 22.4. A strong focus on **transparency**.

*Clear roles*

- 23. I consider that the roles of the various parties should be as follows:
  - 23.1. The Auckland and Wellington regions would be responsible for planning, specifying and purchasing metro rail services. The Land Transport Management Act 2003 requires regions to be responsible for the strategy, planning, part funding and putting forward funding bids to the NZTA, for all transport proposals in a region, including metro rail services (excluding all rail capital items which have recently been largely removed from consideration in the National Land Transport Programme).
  - 23.2. The NZTA has statutory responsibility for administering centrally funded public subsidies for the operation of metro rail services. The NZTA approves (and would also seek to improve) procurement processes, and actively monitor regions' procurement and delivery practices, including projected rail subsidy levels, to assess and drive greater value for money. The NZTA would also continue to be responsible for overseeing rail safety.
 

Through its various functions the NZTA would play a pivotal role in making sure that the metro operating model works. Because it provides 60% of the subsidy provided for metro rail services, it has a direct interest in managing regions' requests for funding and metro rail service levels. It is also best placed to assess the relative benefits of spending on metro rail services compared to other public transport activity and the integration of public transport services.
  - 23.3. KiwiRail would be responsible for providing the rail network infrastructure (ie track, signals and platforms), the physical facilities for the stabling and maintenance of metro rolling stock.
  - 23.4. The Ministry of Transport would represent the government's wider transport policy interests and communicate the government's expectations to key stakeholders, be a referee and negotiator between the parties when necessary, monitor Vote Transport capital spending on rail, and provide advice on capital investment in metropolitan rail services. The Ministry would work closely with the Treasury in making capital investment decisions, particularly the Treasury's National Infrastructure Unit.
  - 23.5. The Crown Company Monitoring Advisory Unit, with the Ministry of Transport, would look after the government's ownership interest in KiwiRail.

24. The Crown also has a role, as funder of last resort of activity associated with rail. The extent to which the Crown would be asked to continue to invest in rail capital activity and in particular the \$500 million committed to support the purchase of electric multiple units for Auckland, is the subject of separate work.

### *Contestability*

25. Contestability provides a mechanism to encourage greater efficiency and improved customer service. Contestability ensures that providers can be challenged on price, reliability, punctuality and quality. As the purchaser of metro rail services, regions would need the flexibility to seek an alternative provider of metro services if they are dissatisfied with the existing service.

### Environment for contestability

26. To create an environment that supports contestability:
  - 26.1. the key functions of the metro rail service need to be separated from other rail activity, and their costs and revenue sources earmarked as much as possible
  - 26.2. contractual arrangements for access to the rail network and the use of metro rolling stock need to be clearly specified so that they can be easily transferred from one operator to another
  - 26.3. functions that have been separated can then be combined into one contestable contract
  - 26.4. track access charges and conditions, and rolling stock lease charges and conditions, need to be determined in advance of any decision to tender out the operations of a metro rail service.
27. There are two facets to separating metro rail functions from other rail activity. One facet involves creating financial and accounting separation of the different functions of KiwiRail (ie, freight, rail network, metro services, ferry services, rolling stock etc) to enable the allocation of costs and revenue sources to the different functions. The other facet involves KiwiRail physically separating functions in such a way that a third independent party could deliver key metro rail functions either on behalf of KiwiRail or instead of KiwiRail.
28. The functions associated with metro rail services that should be physically separated (including organisational separation) for contestable purposes are:
  - 28.1. the day-to-day operation of the metro rail service
  - 28.2. the provision of metro rolling stock, including stabling and depot requirements
  - 28.3. routine maintenance of rolling stock.
29. These three functions are critical to the delivery of metro rail services and also represent the functions where the introduction of contestability has the greatest potential to enhance efficiency and customer service. Separation of day-to-day operations has already occurred in Auckland, and the new rolling stock planned for both Wellington and Auckland

will most likely have their own stabling and depots, making it easier to physically separate the metro rolling stock from other rolling stock.

30. While it is theoretically possible to make more parts of metro rail services contestable, to do so would generate a number of additional costs (eg the costs of ensuring different providers can coordinate their separate rail activities on the one rail network) that could outweigh the benefits of increased contestability.<sup>3</sup>
31. Regions should also have the opportunity to combine day-to-day operation of metro rail services and routine maintenance into one contract. Excluding network problems, these two functions are the most common source of problems that affect service delivery. The ability to combine these two functions in one contract allows for one operator to be held accountable for day-to-day problems and to resolve them.
32. Contractual arrangements relating to access to the rail network and use of metro rolling stock need to be easily transferable between providers of metro rail services. The framework for tendering out metro rail service operations should be as neutral as possible, and not appear to favour incumbent operators.
33. One further measure needed for contestability is the need to determine track access charges and conditions, and rolling stock lease charges and conditions, in advance of any decision to tender out the operations of a metro rail service. Because of KiwiRail's control over the track and, to a lesser extent, over metro rolling stock, if there is to be a 'level playing field' for potential tenderers (including Tranz Metro, a subsidiary of KiwiRail) all tenders should incur the same track access and rolling stock lease charges. Tenders would compete on price and other relevant criteria for service delivery.

#### Contestability—requirement to tender out

34. The prospect of competition should drive improvements in performance so I do not consider that tendering out should be mandatory. Subject to any NZTA-approved procurement process, regions are best placed to determine whether or not they need to tender out metro rail operations to improve performance.
35. The net effect of retaining the option of tendering is that regions retain the flexibility to enter into an arrangement that works best for their metro rail services, albeit subject to NZTA-approved procurement processes.

#### *Performance-based contracting*

36. All metro rail operating contracts should be performance based. Performance-based contracts focus on what the purchaser wants from a metro rail service (eg, reliability and punctuality) and lets potential operators determine how best to meet the purchaser's service requirements and at what price. Performance-based contracting is important to clearly identify service-level expectations, monitor performance against expectations, and allocate responsibilities. Through the use of incentives and/or penalties, performance-based contracts can drive service improvements for the duration of the contract.

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<sup>3</sup> Asmild et al (2009) *Railway reforms: do they influence operating efficiency?* *Transportation* (36) pp 617-638, found in relation to European rail reforms that accounting separation appears to be important for improving efficiency, but the impact of other reforms on efficiency, like complete separation of different rail functions, were less marked and may not justify the costs required to implement the reforms.

37. Performance based contracts should ensure that key risks associated with the delivery of a metro service, are allocated appropriately between parties to the contract. That is, risks should be borne by that party who is best placed to manage the risk. The proposed roles for key stakeholders and greater transparency should support the appropriate allocation of risk.

### *Transparency*

38. In light of the monopoly of KiwiRail and the significant investment and subsidies being provided for metro rail services,<sup>4</sup> there needs to be a high level of transparency of the delivery of metropolitan rail services. Transparency is important for identifying costs, assigning accountability and determining who pays. Without greater transparency, it would not be possible to assess value for money, introduce contestability into the delivery of services or assess how much investment should be made in metro rail services relative to other transport investment.

### **Matters that need to be addressed for the delivery of the new metropolitan rail services operating model**

39. There are a number of matters that, if not addressed, would undermine the successful implementation of the metro rail operating model proposed in this paper. Progress can be made in implementing the above four features (role clarification, contestability, performance contracting and transparency), but further work would be required on the following matters.
- 39.1. Clarify the respective access rights to rail infrastructure of metro rail services and freight services.
  - 39.2. Identify the respective costs of providing access to the rail network to metro rail services and freight services.
  - 39.3. Determine who pays for what level of access to the rail network.
  - 39.4. Determine the lease arrangements covering maintenance requirements and appropriate price, for metro rolling stock, including supporting infrastructure, such as depots.
  - 39.5. Determine the appropriate level of renewal activity on the metro rail track network, and how it should be funded.
  - 39.6. Ensure that regional councils' metro rail service requirements are taken into account in the development of KiwiRail's asset management plans, as they relate to the network.
40. A formal process needs to be established to resolve these matters, as they are complex and politically sensitive: Without such a process, it is unlikely that key stakeholders, including those with an interest in rail freight activity, would agree on a resolution to the

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<sup>4</sup> The subsidisation of the operation of metro rail services is almost universal around the world. The small number of cases where metro rail services are almost or fully self-funding, are usually located in very high-density centres (eg, Hong Kong and Singapore) and have elements of cross-subsidisation from other activities to support metro services (eg, metro provider uses property development profits to subsidise metro services).

matters. I have asked the Ministry of Transport to lead on setting up a formal process to address these matters.

### **Moving toward an improved metropolitan rail operating model**

41. To move toward an improved metro rail operating model, I recommend a two-stage process.
42. *Stage One:* Create the building blocks for clearer accountability and contestability through transparency and better contracts. This gives all parties the opportunity to improve performance and efficiency under existing contracts, and ensures stability in the industry while major capital works are completed and commissioned. In light of current contractual arrangements that the Auckland and Wellington regions have for the delivery of metro rail services and major capital work, including the purchase of new rolling stock, stage one is likely to take two or three years to complete.
43. A key part of stage one would be setting up a formal process to address the matters identified as critical to implementing the proposed operating model (eg, access rights, access costs). An early priority would be to clarify access to the network of different rail services and the network costs associated with delivering those services. Having determined which services generate what costs, the issue of who meets those costs can be resolved.
44. *Stage Two:* At the expiry of the existing contracts,<sup>5</sup> or when the new rolling stock is commissioned, or if performance during stage one falls below specified levels, the regional councils would be able to procure new service contracts in a more contestable environment. Having already revised their present contracts with their existing suppliers they would be better informed to make smart purchases.
45. The prospect of contestability for stage two should be a strong incentive for performance improvements.
46. As a first step in stage one, I would formally advise Greater Wellington Regional Council (GWRC), Auckland Regional Council (ARC), Auckland Regional Transport Authority (ARTA), KiwiRail, the NZ Transport Agency (NZTA) and the Auckland Transition Agency (ATA) about the policy framework for metro rail operations, the key features of a metro operating model and the roles that the government expects each entity to fulfil. This would provide greater clarity and certainty to key stakeholders about the government's expectation of their progress toward an improved way of operating metro rail services.

### **Ownership of metropolitan rail rolling stock**

47. The paper has been prepared on the basis that the current ownership of metro rail rolling stock remains unchanged. Separate work is being done on future rolling stock options, including accountability for the performance of metro rail rolling stock assets and, therefore, this assumption would not necessarily apply in the future.<sup>6</sup> It is likely that any of

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<sup>5</sup> GWRC has a ten-year operating contract with Tranz Metro to 2016 with a mid-term review to be completed by 1 July 2011.

<sup>6</sup> In the case of Auckland, which is in the stage of determining what new metro rolling stock is to be purchased, it is possible that maintenance may be included in the purchase contract with the rolling stock provider.

the options for the future ownership of metro rolling stock will be consistent with the proposed operating model for metro rail services and, therefore, are not pertinent to the decisions being sought.

### **Consultation**

48. The Treasury, Crown Company Monitoring Advisory Unit, the NZ Transport Agency and KiwiRail have been consulted on the development of this paper. The Department of Prime Minister and Cabinet have been informed.

### **Financial implications**

49. There are no immediate financial implications associated with this paper.
50. Existing arrangements for providing operating subsidies for metro rail services from regional councils and the NZTA would continue. The current process for providing operating subsidies for metro rail services under the Land Transport Management Act 2003 is working well, and the NZTA has established evaluation procedures to assess the value of different types of investment.

### **Human rights, gender, and disability implications**

51. This paper has no human right, gender or disability implications.

### **Legislative implications**

52. There are no immediate legislative implications associated with this paper.

### **Regulatory Impact Analysis**

53. Not applicable.

### **Publicity**

54. I will formally advise GWRC, ARTA, ARC, ATA, KiwiRail, and the NZTA of the government's decisions, and I intend to release this cabinet paper.

### **Recommendations**

55. I recommend that the Committee:
- 1) **note** that it is necessary to clarify the basis upon which metro rail services are to be procured and delivered before finalising funding and ownership decisions;
  - 2) **note** that this paper proposes a policy framework to inform the development of metropolitan rail services and, based on that framework, an operating model designed for the New Zealand context;

### *Policy framework*

- 3) **agree** that the key public policy transport objectives for the metropolitan rail transport system would be: to increase economic growth and productivity by reducing congestion on urban roads and by more efficient utilisation of the transport network; to provide transport choices for users; to integrate rail with other modes of transport; and to reduce the environmental impact of the transport system;
- 4) **agree** that private sector and competitive elements be brought in where appropriate to achieve the desired objectives;
- 5) **agree** that the final metropolitan rail operating model apply similarly to Auckland and Wellington metropolitan rail services;
- 6) **agree** that Greater Wellington Regional Council or Auckland Regional Transport Authority (and its replacement under the new Auckland governance structure) have clear rights, specified in negotiated agreements, to access the rail network and metropolitan rail rolling stock for the delivery of metropolitan rail services;
- 7) **agree** that the existing arrangement for providing subsidies for metropolitan rail services from regional councils and the NZ Transport Agency would continue;
- 8) **agree** that rail ownership and rail service delivery be kept financially separated as far as possible;

### *Metropolitan Operating Model*

- 9) **agree** that the metropolitan rail services operating model should have the following four key features:
  - 9.1) the roles of the parties involved in the purchase and delivery of metropolitan rail services are as clear as possible
  - 9.2) the operation of the metropolitan rail service and routine maintenance of metropolitan rolling stock can be contested
  - 9.3) a strong focus on performance-based contracts with appropriate allocation of risks
  - 9.4) transparency so that costs, accountability, and who pays can be clearly identified;
- 10) **agree** that the roles of the various parties responsible for metropolitan rail services be confirmed;
- 11) **agree** that, with the support of the NZ Transport Agency, Greater Wellington Regional Council or Auckland Regional Transport Authority (and its replacement under the new Auckland governance structure) would have the right to tender out a contract to operate metropolitan rail services, including routine maintenance of rolling stock in a contract with a third party;
- 12) **agree** that key functions under the control of KiwiRail that impact on metropolitan rail services (ie, rail network, freight activity, rolling stock, metropolitan rail operations), are financially separated to enable the transparent allocation of costs and revenue to the different functions;

- 13) **agree** that day-to-day operations of metropolitan rail services, metropolitan rolling stock (including necessary stabling and depot requirements), and routine maintenance of metropolitan rolling stock should be physically and organisationally separated from other operations in such a way that they can be readily transferred to another operator;
- 14) **agree** that track access charges and conditions, and rolling stock lease charges and conditions, be determined in advance of any decision to tender out a metropolitan rail operating contract;
- 15) **note** that this paper does not address the ownership of metropolitan rail rolling stock;
- 16) **note** that the proposed policy framework and metropolitan rail operating model put forward is unlikely to be inconsistent with any of the options for the future ownership of metropolitan rail rolling stock;

*Moving forward*

- 17) **note** that a two-stage process involving regions, the NZ Transport Agency, and existing metropolitan rail operators has been identified to create the building blocks for clearer accountability and contestability through greater transparency and better contracts in the future:
  - 17.1) Stage one focuses on putting in place the building blocks for clearer accountability and contestability through improving the transparency of metro rail operations and metro rail contractual arrangements (ie, existing track access and metro operating contracts and preparing for future rolling stock access and maintenance contracts)
  - 17.2) Stage two focuses on the 'prospect' of contestability when existing contracts end, so that regional councils will be able to competitively tender out the metro operating contract in a more contestable environment;
- 18) **direct** the Minister of Transport to formally write to Greater Wellington Regional Council, Auckland Regional Council, Auckland Regional Transport Authority, KiwiRail, the NZ Transport Agency and the Auckland Transition Agency advising them of the decisions outlined in this paper and associated recommendations and the government's expectation that there will be an improvement in rail services delivered under existing operating contracts to begin the implementation of stage one; and
- 19) **agree** that, following formal Cabinet confirmation of the recommendations, this paper be publicly released subject, to the withholding of appropriate information under the Official Information Act 1982.

Steven Joyce  
**Minister of Transport**

Dated: \_\_\_\_\_



# Cabinet Economic Growth and Infrastructure Committee

EGI Min (09) 21/8

Copy No: 35

## Minute of Decision

*This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.*

### Metropolitan Rail Operating Model

Portfolio: Transport

On 23 September 2009, the Cabinet Economic Growth and Infrastructure Committee (EGI):

#### Background

- 1 **noted** that in March 2009, Cabinet invited the Minister of Transport (the Minister) to report to EGI on:
  - 1.1 the funding of Wellington metro rail and the funding and ownership of Auckland metropolitan (metro) rail [CAB Min (09) 8/11-14];
  - 1.2 tendering out of the operation of metro services by the New Zealand Railways Corporation [CAB Min (09) 11/10];
- 2 **noted** that it is necessary to clarify the basis upon which metro rail services are to be procured and delivered before finalising funding and ownership decisions;
- 3 **noted** that the paper under EGI (09) 180 proposes a policy framework to inform the development of metro rail services and, based on that framework, an operating model designed for the New Zealand context;

#### Policy framework

- 4 **agreed** that the key public policy transport objectives for the metro rail transport system be:
  - 4.1 to increase economic growth and productivity by reducing congestion on urban roads and by more efficient utilisation of the transport network;
  - 4.2 to provide transport choices for users;
  - 4.3 to integrate rail with other modes of transport;
  - 4.4 to reduce the environmental impact of the transport system;
- 5 **agreed** that private sector and competitive elements be brought in where appropriate to achieve the desired objectives;

- 6 agreed that the final metro rail operating model apply similarly to the Auckland and Wellington metro rail services;
- 7 agreed that the Greater Wellington Regional Council (GWRC) or the Auckland Regional Transport Authority (ARTA) (and its replacement under the new Auckland governance structure) have clear rights, specified in negotiated agreements, to access the rail network and metro rail rolling stock for the delivery of metro rail services;
- 8 agreed that the existing arrangement for providing subsidies for metro rail services from regional councils and the New Zealand Transport Agency (NZTA) will continue;
- 9 agreed that rail ownership and rail service delivery be kept financially separated as far as possible;

### **Metropolitan operating model**

- 10 agreed that the metro rail services operating model have the following four key features:
- 10.1 the roles of the parties involved in the purchase and delivery of metro rail services be as clear as possible;
  - 10.2 the operation of the metro rail service and routine maintenance of metro rolling stock can be contested;
  - 10.3 a strong focus on performance-based contracts with appropriate allocation of risks;
  - 10.4 transparency so that costs, accountability, and who pays can be identified clearly;
- 11 agreed that the roles of the various parties responsible for metro rail services be confirmed;
- 12 agreed that, with the support of NZTA, GWRC or ARTA (and its replacement under the new Auckland governance structure) will have the right to tender out a contract to operate metro rail services, including routine maintenance of rolling stock in a contract with a third party;
- 13 agreed that key functions under the control of KiwiRail that impact on metro rail services (i.e. rail network, freight activity, rolling stock, metro rail operations), be financially separated to enable the transparent allocation of costs and revenue to the different functions;
- 14 agreed that the day-to-day operations of metro rail services, metro rolling stock (including necessary stabling and depot requirements), and routine maintenance of metro rolling stock be physically and organisationally separated from other operations in such a way that they can be readily transferred to another operator;
- 15 agreed that track access charges and conditions, and rolling stock lease charges and conditions, be determined in advance of any decision to tender out a metro rail operating contract;

### ***Metro rail rolling stock***

- 16 noted that the paper under EGI (09) 180 does not address the ownership of metro rail rolling stock;

- 17 noted that the proposed policy framework and metro rail operating model being put forward is unlikely to be inconsistent with any of the options for the future ownership of metro rail rolling stock;

### Next steps

- 18 noted that a two-stage process involving regions, NZTA, and existing metro rail operators has been identified to create the building blocks for clearer accountability and contestability through greater transparency and better contracts in the future:
- 18.1 Stage One focuses on putting in place the building blocks for clearer accountability and contestability through improving the transparency of metro rail operations and metro rail contractual arrangements (i.e. existing track access and metro operating contracts and preparing for future rolling stock access and maintenance contracts);
- 18.2 Stage Two focuses on the "prospect" of contestability when existing contracts end, so that regional councils will be able to competitively tender out the metro operating contract in a more contestable environment;
- 19 invited the Minister of Transport to write to GWRC, ARC, ARTA, KiwiRail, NZTA, and ATA advising them of the decisions set out in this minute, and the government's expectation that there will be an improvement in rail services delivered under existing operating contracts to begin the implementation of Stage One;
- 20 noted that the Minister of Transport intends to publicly release the paper under EGI (09) 180, subject to the withholding of appropriate information under the Official Information Act 1982.

Reference: EGI (09) 180

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#### Present:

Bill English (Chair)  
 Hon Gerry Brownlee  
 Hon Simon Power  
 Hon Anne Tolley  
 Hon Phil Heatley  
 Hon Kate Wilkinson  
 Hon Maurice Williamson  
 Hon Nathan Guy

Officials present from:  
 Office of the Prime Minister  
 Officials Committee for EGI

Distribution: (see over)

