

28 September 2021

[REDACTED]

Withheld to protect personal privacy

Dear [REDACTED] Withheld to protect personal privacy

I refer to your request dated 25 August 2021, pursuant to the Official Information Act 1982 (the Act), seeking:

“Hello could I please OIA these briefings from written question reply, thank you very much.

Question: In relation to Reply 29486 (2021), what reports, briefings, memos, aides-memoire, notes or other written advice, if any, did the Minister receive relating to the need to expand Kiwirail's wagon fleet, between 1 October 2020 and 22 July 2021, by title and date?”

“Answer: KiwiRail is currently renewing its existing wagon fleet with shareholder support, much of which is at the end of its useful economic life. This is a renewal of commercial assets which, together with the renewal of locomotives, ferries and other commercial assets, will underpin the commercial self-sustainability of KiwiRail's freight operations and support the conversion of freight to rail, in turn assisting emissions reductions plans. I also refer the member to the Ministry of Transport's website which includes a monthly list of briefings received for the period 1 October 2020 to 30 April 2021. For the period 1 May 2021 to 22 July 2021, I received the following advice from the Ministry of Transport and the Treasury relating to Crown investments in KiwiRail: • Hillside Workshops Event - 25 May 2021, 18 May 2021 (KiwiRail) • Approval of Rail Network Investment Programme, 9 June 2021 (OC210453) • Responding to your comments on the Rail Network Investment Programme, 23 June 2021 (OC210487). The Climate Change Commission in its Advice to the New Zealand Government on its first three emissions budgets and direction for its emissions reduction plan 2022 – 2025 Ināia tonu nei: a low emissions future for Aotearoa, 31 May 2021 recommended increasing the share of rail and coastal freight in New Zealand. The Government will be responding to the Commission's recommendations by the end of the year.”

The table below details the documents that fall within scope of your request and the Ministry's response.

Doc No.	Title	Date	Approach
1	KiwiRail document: Hillside Workshop Event, 25 May 2021	18 May 2021	Refused under s18(d). You previously received this document as part of a request made on 25 May 2021.
2	OC210453 – Approval of the Rail Network Investment Programme	9 June 2021	Released, with personal information withheld under s9(2)(a) and advice under active consideration withheld under s9(2)(f)(iv)

Doc No.	Title	Date	Approach
3	OC210487 – Responding to your comments on the Rail Network Investment Programme	23 June 2021	Released, with personal information withheld under s9(2)(a)

Your request for document 1 is refused under Section 18(d) of the Act. You previously received a copy of this document on 26 July 2021 as part of a request dated 25 May 2021.

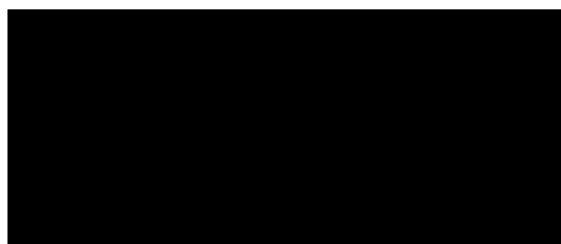
The advice withheld under Section 9(2)(f)(iv) of the Act in document 2, regarding final decisions on the track user charge policy, is still being actively considered. I am satisfied that releasing this advice before final decisions are taken would prejudice the orderly and effective conduct of the decision-making process. Phone numbers of officials are also withheld under s9(2)(a) from documents 2 and 3.

In regard to the information that has been withheld under section 9 of the Act, I am of the opinion that there are no countervailing considerations that make it desirable, in the public interest, to make the information available.

You have the right under section 28(3) of the Official Information Act to make a complaint about the withholding of information to the Ombudsman, whose address for contact purposes is:

The Ombudsman
Office of the Ombudsmen
P O Box 10-152
WELLINGTON

Yours sincerely



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Harriet Shelton
Manager, Supply Chain



Event Briefing

BUDGET SENSITIVE

To	Hon Grant Robertson, Minister of Finance Hon Dr David Clark, Minister for State Owned Enterprises	18 May 2021
Cc	Hon Michael Wood, Minister of Transport Sue McCormack, Acting KiwiRail Chair	
From	Greg Miller, KiwiRail Group Chief Executive	

HILLSIDE WORKSHOPS EVENT – 25 MAY 2021

Key details

Date: Tuesday, 25 May 2021

Time: 11.00am – 12.00pm

Venue: Hillside Workshops, enter site via 29 Neville Street, South Dunedin

Summary

The event recognises the Government's significant investment in Hillside Engineering Workshops through the Provincial Growth Fund and Budget 2021, which is revitalising the historic site.

The event will include detail on the planned refurbishment work (a new workshop, shared rolling stock and network services facilities and a wagon assembly facility), the construction timeline, as well as job creation and broader benefits for Dunedin.

Hillside Workshops background

Rail workshops have existed close to the site of Hillside Workshops since 1875 and at various periods have been used for rail and marine engineering.

At its peak, Hillside employed around 1200 people. However, over time Hillside struggled to maintain a competitive advantage in the market, predominantly due to production delays caused by years of underinvestment.

By 2012, 90 people were employed at the site, mostly working on the manufacture of passenger carriages and infrastructure wagons and other project work for locomotives.

In 2012, KiwiRail investigated potential new markets for heavy engineering and foundry works but these were not realised due to required investment in new machinery and training. Ongoing quality issues and production delays affected the ability to tender for new projects at Hillside and, at the time, there was insufficient work beyond 2012 to support operations in the Workshops.

KiwiRail closed the bulk of the Hillside Workshops in 2012. This reduced the staff on site to seven. In recent years numbers have increased to 27.

Hillside still carries out general refurbishment and ongoing fleet maintenance and project work, including converting 130 existing container freight wagons to carry forestry logs.

Since the Linwood Locomotive Depot in Christchurch suffered earthquake damage, Hillside is the only heavy lifting facility in the South Island and undertakes a range of major component changes and locomotive repair work. However, the heavy lift crane is near end of life and can no longer operate to its full capacity and the traverser is also old.

A second heavy lift facility is being constructed at Waltham and is expected to be operational by late 2023. This site will then become a key maintenance facility for the South Island but heavy lift capacity either by cranes or jacks at Hillside will continue to be a key requirement for other maintenance and project work.

Much of the Hillside site had been leased to other parties, including to [REDACTED]

[REDACTED]

[REDACTED] The other site buildings are vacant.

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There are significant issues around building condition, site services and historic contamination at the site.

As part of the planned Hillside redevelopment, which includes managing asbestos contamination during demolition and construction, KiwiRail is developing a communications plan to ensure households and businesses are aware of the timing of the construction phases.

Government investment in Hillside

\$20m PGF Investment

In 2019, KiwiRail received nearly \$20 million through the Provincial Growth Fund to begin the Stage 1 refurbishment of Hillside. This included demolishing some unused buildings and replacing the main workshop with a fit-for-purpose building.

Fit for purpose means the building is earthquake resilient, has modern electrical and fire safety systems, and creates more flexible working areas for maintenance and new projects.

The master plan for Hillside also includes re-developed shared offices and workshop facilities, enabling existing network services staff to move to Hillside from KiwiRail's Cumberland St site.

This then frees up Cumberland Street for potential redevelopment. Industrial land is limited in the area and there is sense in using that site for rail-aligned businesses, such as rail-served warehousing for freight partners. KiwiRail is exploring options for a joint venture development of that site.

Work at Hillside so far:

- Two unused buildings on the north-eastern end of the site were demolished in mid-2020
- Master planning and concept design for the site has been completed
- Detailed design of the new maintenance building is near completion (Stage 1 of the refurbishment).

Wagon Assembly (Budget 2021)

The \$85 million from in Budget 2021 delivers a Labour manifesto commitment. It enables KiwiRail to build a wagon assembly facility and integrate this with the workshop funded from the PGF investment, to create a single site for railway project

and repair work for Dunedin and the lower South Island. Funding will be provided through a Section 7 Funding Agreement to be drafted by the Treasury.

Some funding from the related \$722.7 million Budget 2021 initiative for replacing freight locomotives and wagons will be used to purchase wagon components overseas. All assembly of wagons and ongoing maintenance will be carried out in New Zealand.

Mechanical plant (Crown and KiwiRail)

There will be new heavy-lift capability and other mechanical equipment in the main workshop, some of which (two electric shunt vehicles, cranes, wagon lifting jacks) is funded from money allocated for general mechanical plant upgrades in previous Budgets.

KiwiRail's Rolling Stock business is contributing [REDACTED] to replace the traverser and a set of locomotive lifting jacks.

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Mechanical plant required for the wagon assembly facility is funded from the \$85m Budget 2021 allocation.

Please see Appendix I for a detailed build/mechanical funding breakdown.

Job creation/economic benefits

Construction:

- Building the main workshop (Stage 1) - expected to support around 100 civil construction jobs.
- Building shared offices and workshops (Stage 2) + building wagon assembly facility (Stage 3) – expected to support a further 150 construction jobs.

KiwiRail staff:

- 27 existing Rolling Stock staff, including 3 apprentices, currently work at Hillside and a further 32 Network Services staff will move to the site.
- The new workshop is expected to enable some growth in the rolling stock team, network services staff numbers will also likely increase, and wagon assembly itself will create about 45 new jobs.
- KiwiRail is aiming for around 10 per cent of new jobs to be apprentices.
- In total, more than 100 people will be working from Hillside in the years ahead.

Wider regional benefits:

- Over the last decade an estimated 910 niche engineering and manufacturing industry jobs (e.g. Fisher & Paykel, Cadbury, Milneq) have been disbanded in Dunedin. An injection of capital to upgrade Hillside provides opportunities for talent in the area to be brought to use again.
- Employment as a result of Hillside investment instigates a ripple effect of supply-chain opportunities in Dunedin and helps create transferrable skills to complement a wider pipeline of up and coming development projects in the region (Dunedin Hospital, Dunedin City Waterfront Project, etc).

Project Timeline

Stage 1 (Workshop building replacement):

- Detailed design expected to be completed in July 2021, immediately followed by tender to the construction market.
- Demolition to begin by August, with construction expected to start in January 2022.
- New workshop building expected to be completed/operational by June 2023.

Stage 2 (shared offices and small workshops) + Stage 3 (wagon assembly facility) to be built simultaneously with a timeline involving overlapping design and construction, necessitating partnerships with the construction market and a close relationship with consenting authorities:

- Design for offices/workshops underway, design for wagon assembly facility commencing immediately.
- Construction targeted to begin in 2022.
- Aiming for completion of Stage 2 & 3 mid-late 2023.
- Wagon assembly expected to begin in late 2023.

[REDACTED]

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Messages

Investment:

- Hillside is an important asset for rail in the South Island and has a long history in Dunedin.
- It is in a poor state, with asbestos contamination, unfit buildings and outdated, unsafe and broken machinery.
- The Government investment is revitalising Hillside – creating modern facilities, operational resilience and rebuilding expertise.
- The facility build will support around 250 construction workers and create business for local material supply companies.
- The investment is creating around 45 KiwiRail jobs, including apprentices, in wagon assembly alone.
- These are all people living and spending in the local community, and these are young people being upskilled for the benefit of Dunedin and New Zealand.

Skills:

- The investment allows Hillside to become a multi-purpose site that is capable of further routine maintenance projects and can expand into new activities like rolling stock upgrades and wagon assembly. These activities will create new skills.
- It also creates the right environment to bring on more apprentices, making an important contribution to introducing a new generation of local young people to a career in rail.
- It will bring KiwiRail's Dunedin staff into one place.
- The investment in Hillside also benefits Dunedin's wider engineering community, helping to counter engineering and manufacturing job losses over the last decade and create transferrable skills that would benefit other major developments in the region (e.g. Dunedin Hospital, Dunedin City Waterfront Project, etc).

Event Information

The event will be held in the main workshop at Hillside (see Appendix II – map). Work on site will be stopped for the duration of the event.

A screen next to the stage will show an animated flythrough of the new Hillside (with a focus on Stage 1 & 2).

There will also be a physical model of the new main workshop, banners with information about the benefits of the wider Hillside revitalisation, and screens around the periphery of the event showing videos about other work KiwiRail is undertaking nationally.

Attendees

Around 100 people will be invited to the event on Thursday afternoon (20 May), once Budget 2021 is announced.

Guests invited will include local Mayors, Otago Regional Council, the RMTU, local engineering firms, KiwiRail property development contacts and KiwiRail customers.

KiwiRail's Hillside staff will also attend the event.

Local and national media will also be invited, and the redevelopment flythrough will be released on the day for media use.

Run sheet for Hillside event

10.40am	Guests begin arriving
10.50am	Minister Robertson and Clark arrive Met at their car by KiwiRail Group Chief Executive Greg Miller
11.00am	MC welcome + housekeeping MC hands over to Greg Miller Greg Miller – welcomes guests Animated fly through of the new Hillside plays Greg introduces Minister Robertson
11.15am	Minister Robertson speaks
11.20am	Greg introduces Minister Clark Minister Clark speaks
11.25am	Greg speaks
11.30am	MC closes proceedings Waiata MC invites people to refreshments Kai blessed Media interviews with Ministers
11.50am	Ministers depart
Midday	Event ends

KiwiRail Contacts

Greg Miller - Group Chief Executive

[REDACTED]
[REDACTED]

Britton Broun - Senior Government Relations Advisor

[REDACTED]
[REDACTED]

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BUDGET SENSITIVE

APPENDIX I:

Detailed Hillside spending breakdown (Commercial in Confidence)

Stage	Activity		Cost \$m	Funding source
Stage 1 – New workshop facility 100 construction jobs supported	Demolition of 4 existing buildings – 2 already demolished; large disused workshop and small building at front of site to be demolished.			PGF
	Project Management & Design			PGF
	Earthworks and infrastructure for new workshop facility			PGF
	Workshop facility build			PGF
		Structure		
		Cladding		
		Services		
	New workshop plant/equipment			
		1 new Traverser		KiwiRail funding - Rolling Stock business (RSAS)

		1 set of locomotive lifting jacks		KiwiRail RSAS
		3 sets of wagon lifting jacks		Budget mechanical upgrade funding
		2 Electric Shunt Vehicles to move locomotives and wagons		Budget mechanical upgrade funding
Stage 2 & 3a – Shared offices/small workshops; wagon assembly facility 150 construction jobs supported	Demolition of existing main workshop/office building			Budget 21
	Construction of offices/small workshops and new wagon assembly building	Wagon assembly includes: hard stand, bogie workshop, wagon component storage and amenities		Budget 21
	Construction of supporting infrastructure	Roading, rail tracks, weighbridge, and other supporting infrastructure		Budget 21
	Procurement, installation and commissioning of wagon assembly equipment	Assembly line includes: stands, rotators, shifter, mobile crane, guide vehicles, jacks, lifting beam		Budget 21

	Contingency			Budget 21
Stage 3b – Wagon assembly operation	Wagon assembly setup and operation	Wagon assembly labour		Budget 21
45 KiwiRail jobs created				
		Establishment/oversight labour: project management, technical and staff training		Budget 21
		Utilities, maintenance and consumables		Budget 21
		Domestic freight costs (moving wagon components from port to Hillside)		Budget 21
		Contingency		Budget 21

APPENDIX II: Hillside Map - 29 Neville St, South Dunedin (Directions for drivers)





Ministry of **Transport**
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BRIEFING

9 June 2021

OC210453

Hon Michael Wood
Minister of Transport

Action required by:
Monday, 14 June 2021

cc Hon Grant Robertson
Minister of Finance

Hon Dr David Clark
Minister for State Owned Enterprises

APPROVAL OF RAIL NETWORK INVESTMENT PROGRAMME

Purpose

Update you on the process for approving the inaugural Rail Network Investment Programme (RNIP) before 1 July 2021.

Key points

- You have received the inaugural RNIP from KiwiRail for your consideration and approval. Under the rail amendments made to the Land Transport Management Act 2003 (LTMA) KiwiRail is required to prepare the RNIP for your consideration by 1 July 2021.
- It is critical that the RNIP is considered and approved by 1 July 2021 to ensure that KiwiRail has continuity of funding between financial years and an approved programme in place to deliver.
- The new legislation sets out two requirements before you can approve the RNIP:
 - You must consider Waka Kotahi's advice on the RNIP
 - You must consult KiwiRail's shareholding Ministers.
- You have received advice from Waka Kotahi recommending approval of the RNIP under section 22B of the LTMA, up to maximum NLTF contribution of \$1,351.7 million over three years. You are also being asked to approve funding for rail activities within the RNIP under section 22F of \$1,270.7 million. You will also be asked to consider the remaining funding requests for metropolitan rail activities during the 3-year period of the NLTF 2021-24.
- This briefing (which includes Treasury comment), the RNIP and Waka Kotahi's advice has also been forwarded to Shareholding Ministers to enable the consultation process.

- The Ministry and the Treasury support the approach Waka Kotahi has taken to its advice on the RNIP, and following consultation with Shareholding Ministers, recommend you approve the RNIP and the funding requested.

Recommendations

We recommend you:

- | | | |
|---|--|----------|
| 1 | note that this briefing (including Treasury comment), the Rail Network Investment Programme, and Waka Kotahi's advice, have been copied to the Minister of Finance and the Minister for State Owned Enterprises for consultation under section 22B(3)(a) of the Land Transport Management Act | Yes / No |
| 2 | note that Waka Kotahi has provided you with advice on the Rail Network Investment Programme | Yes / No |
| 3 | approve the Rail Network Investment Programme, under section 22B of the Land Transport Management Act, following consultation with Shareholding Ministers and consideration of Waka Kotahi's advice | Yes / No |
| 4 | note that KiwiRail has developed the Rail Network Investment Programme on the assumption that the ten-year forecast outlined in the document (total of \$4,440.4 million) will be fully funded in later years, this will require further funding from the Crown and National Land Transport Fund than what is committed now | Yes / No |
| 5 | approve the proposed three year funding request for the Rail Network Investment Programme under section 22F of the Land Transport Management Act, following consultation with Shareholding Ministers and consideration of Waka Kotahi's advice | Yes / No |
| 6 | note that KiwiRail is putting in place a continuous improvement plan that will be reported back to you later this year | |
| 7 | direct officials to prepare letters to KiwiRail and Waka Kotahi to confirm your approval of the Rail Network Investment Programme and associated funding | Yes / No |
| 8 | note that KiwiRail is continuing to make minor editorial changes to the Rail Network Investment Programme prior to its publication. | Yes / No |

Erin Wynne
Director Rail Transformation

..... / /

Hon Michael Wood
Minister of Transport

..... / /

Minister's office to complete:

☐ Approved

☐ Declined

☐ Seen by Minister

☐ Not seen by Minister

☐ Overtaken by events

Comments

Withheld under s9(2)(a)

Contacts

Name	Telephone	First contact
Joanna Heard, Principal Advisor	[REDACTED]	
Erin Wynne, Director Rail Transformation	[REDACTED]	✓

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APPROVAL OF RAIL NETWORK INVESTMENT PROGRAMME

You have received the inaugural Rail Network Investment Programme (RNIP) from KiwiRail for your consideration and approval

- 1 As the Minister of Transport, you must decide whether to approve the RNIP under section 22B of the Land Transport Management Act 2003 (LTMA). You must make reasonable efforts to make a decision before the start of the first financial year to which the programme applies.
- 2 KiwiRail is seeking your approval before 1 July 2021. It is critical that the RNIP is considered before 1 July 2021 to enable funding to flow to KiwiRail and to enable KiwiRail to commence delivery at the start of the next financial year. Otherwise, this will create a funding gap for KiwiRail and potentially slow delivery of the RNIP.
- 3 You are being asked to approve the RNIP under section 22B of the LTMA, up to a maximum NLTF contribution of \$1,351.7 million over three years. You are also being asked to approve the majority of funding for rail activities within the RNIP under section 22F of \$1,270.7 million now.
- 4 You will be asked to approve the remaining funding up to the maximum contribution through the 3-year period of the RNIP. This funding is for further metropolitan rail activities that are at business case development stage.
- 5 Approval of the RNIP and funding for rail activities are two separate legal processes under the LTMA, but they can also be undertaken at the same time as the process is largely the same.
- 6 Before deciding to approve the RNIP and the funding for the activities within it, you must:
 - 6.1 consult KiwiRail's shareholding Ministers; and
 - 6.2 consider Waka Kotahi's advice.
- 7 You may refer a programme back to KiwiRail with a request that KiwiRail reconsider one or more aspects of it. However, it is KiwiRail's programme, so you cannot amend it without asking KiwiRail to reconsider it.
- 8 The New Zealand Rail Plan and Government Policy Statement on Land Transport guide the development of the RNIP and its investment activities.

Waka Kotahi has recommended approving the RNIP up to a maximum NLTF contribution of \$1,351.7 million

- 9 Waka Kotahi has recommended approving the RNIP up to a maximum NLTF contribution of \$1,351.7 million over three years.
- 10 The RNIP is made up of eleven activities:
- 10.1 three activities for freight network (\$1,200.4 million); and
 - 10.2 eight activities for the metro network (\$151.3 million).
- 11 Waka Kotahi has recommended you approve funding for rail activities up to \$1,270.7 million now.
- 12 In terms of the activities for the national rail network, Waka Kotahi has noted that it has had difficulty fully assessing the efficiency and effectiveness of all rail activities for funding (required under section 22G of the LTMA). This is because this is the first RNIP, and therefore KiwiRail still has a range of work ongoing to improve its asset management maturity.
- 13 Given the asset management work is ongoing, Waka Kotahi has recommended that KiwiRail is asked to report back on its asset management continuous improvement programme to Waka Kotahi and Ministers in October this year.

The Ministry and the Treasury also agree with Waka Kotahi's recommendation to approve the RNIP and funding of rail activities

- 14 The Ministry and the Treasury have also considered the RNIP and Waka Kotahi's advice. We are aware that Waka Kotahi's advice is based on engagement with external experts and consideration of KiwiRail's asset management approach and procurement strategy. This was intended under the new framework. The Ministry and the Treasury have not engaged their own external rail or engineering experts.
- 15 The Ministry and the Treasury agree with the approach taken in Waka Kotahi's advice, and consider the assessment provides a fair representation of the key issues.
- 16 We note and agree with two ongoing risks highlighted by Waka Kotahi:
- 16.1 Deliverability of the programme given the stretch on KiwiRail's resources, with the risk of some activities being delayed and/or costing more to achieve.
 - 16.2 Uncertainty around costs of delivering RNIP activities and robustness of the 10-year forecast with the potential for substantial changes in cost estimates – more likely to increase than decrease.

- 17 We recognise that there are some limitations in the analysis given the timeframes involved in preparing this RNIP. We also note the significant work KiwiRail is undertaking on its asset management approach, to gear up to deliver on the Government's expectations in the Rail Plan with increased funding and expectations to achieve a resilient and reliable rail network.
- 18 Accordingly, we are supportive of the approach of KiwiRail developing a continuous improvement programme and reporting back to Ministers on the programme. More generally, monitoring and reporting on implementation of the RNIP will be a key area of focus in order to manage and mitigate risks. Officials are also working to establish appropriate ongoing reporting between KiwiRail, the Treasury, Waka Kotahi, the Ministry and Ministers as required.
- 19 Given the cost and investment profile risks that Waka Kotahi has highlighted in its assessment, the Treasury's current position is that RNIP funding should be reconsidered annually on a rolling three-year basis through the budget process. This would provide KiwiRail with certainty of three years' funding, while allowing for improvements and better information to be incorporated progressively.
- 20 The Ministry will consider further advice on the funding approach following receiving the continuous improvement programme.
- 21 Overtime the Ministry considers there are real opportunities for Waka Kotahi and KiwiRail to work closer together on procurement and asset management assessment approaches to encourage better efficiency and achieve greater value for money. We acknowledge that this is already underway at a programme level and has been occurring well through joint programmes like the NZ Upgrade Programme. We expect both KiwiRail and Waka Kotahi to continue to learn from each others' systems and processes over the course of delivering this RNIP and preparing the next.
- 22 The Ministry also expect Waka Kotahi will continue to make changes to the way it approaches the NLTP and assesses projects against each other. Given this is the first RNIP and rail is only partially integrated into the LTMA we consider this is good first step towards greater integration. The funding sought over the three-year period fits within the Crown and existing NLTF revenue sources. As you know, to support delivery of the freight network activities the Crown is injecting \$834.4 million into the NLTF into the Rail Network Activity Class. KiwiRail will also be paying a TUC into the NLTF of up to [REDACTED] in total over three years.
- 23 KiwiRail has noted that the RNIP has been prepared on that basis that funding for the full ten-year forecast period will be allocated. This means that further Crown and NLTF funding will be requested in line with this in later years.

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s9(2)(f)(iv)

- 24 The Ministry notes that the proposed RNIP funding is in line with the GPS and Rail Plan proposal to achieve a resilient and reliable rail network. However, we would like to draw your attention to the following:

24.1 *Funding for metropolitan capacity for growth projects* - there is \$21.6 million in funding allocated for business case development for metropolitan rail projects that are for capacity for growth projects. These go beyond the Rail Plan resilient and reliable scenario. We agree that it is sensible to start the development of these projects at this time. But we will be looking to Waka Kotahi's further advice on these projects as they come up for funding at a later stage.

24.2 *Renewal of the Northland and Napier to Wairoa lines* – this funding has been brought within the RNIP (at the cost of \$7 million over three years. It is expected to be higher particularly for Northland in future RNIPs. This funding was not part of the original resilient and reliable scenario as those lines were not open at the time of that work. We recognise that now those lines are part of the national rail network their ongoing renewal will need to be factored in. These costs are also important to be aware of when considering new lines and the cost pressures they may create in outyears.

24.3 *iRex Rail connections* - funding for the iReX rail connections have not been costed into KiwiRail's first RNIP. These should be considered through the iRex business case. To the extent, if any, that iReX rail elements are brought into future RNIPs that may create cost pressures in outyears.

- 25 You will also be aware that other Government programmes that are currently considering rail elements will also impact on KiwiRail's future forecasts and have not been factored in at this time. Key examples of this are CRL ongoing operational maintenance and renewal costs and the NZ Upgrade Programme, in particular the construction of the Marsden spur.

- 26 We note that KiwiRail has projected a potential increase in market share 12% today to 14% in 2030. This is a 2% mode-shift to freight rail based on the overall package of resilient and reliable rail investments, and other commercial changes KiwiRail is making. [COMMERCIAL IN CONFIDENCE]. This is a significant step up for the rail network. Officials will work with KiwiRail to review the assumptions behind these freight projections and will be monitoring the outcomes.

- 27 We note that this does not meet the Climate Change Commission's proposal of 4% freight mode shift. This level of mode-shift will require investment beyond the agreed Rail Plan resilient and reliable scenario, in particular for additional rolling stock fleet of locomotives and wagons to service the growth on the network. This will need to be considered further as part of any response to the Climate Change Commission's proposals.

Next steps

- 28 Once you have approved the RNIP, the Ministry, in consultation with Treasury, will prepare letters for you to send to KiwiRail and Waka Kotahi noting the approvals. As part of those letters we will include expectations around how the RNIP implementation occurs, in particular the development of a continuous improvement programme as outlined in Waka Kotahi's advice.
- 29 KiwiRail and Waka Kotahi are required to publish the RNIP on their respective websites once it is approved.
- 30 We will work with your office around appropriate communications around the RNIP, prior to publication.
- 31 KiwiRail, Waka Kotahi, the Ministry, and Treasury are also working together to ensure the right ongoing reporting is put in place around the RNIP and the Rail Plan. We will report back to Ministers as appropriate on this.

GPS amendment

- 32 In order to support the RNIP approval we will brief you separately on a technical amendment to GPS 2021, under section 90 of the LTMA. As we have previously discussed with you, we recommend you make a minor and non-significant amendment to the rail activity class.
- 33 The changes will take into account the additional Crown funding into the NLTF, through Budget 2020 and 2021, to enable the RNIP to be fully funded over the next three years.

Risks

- 34 If the RNIP is not approved by 1 July 2021, this will create uncertainty over the delivery programme and a funding gap for KiwiRail. As noted you are required to make the best endeavours to approve the RNIP prior to the start of the financial year.
- 35 Waka Kotahi has also highlighted a range of risks highlighted earlier, including around the limitations of its analysis in its advice. There are also potential forward cost pressure risks within this RNIP and the future forecasts beyond the three years. These will need to be considered and any funding required on a case-by-case basis.
- 36 We expect there will continue to be communication risks around the NLTF funding rail activities. As you know the Crown and TUC will also contribute to the NLTF to offset this. As noted above, we will work with your office on a communications approach for the RNIP publication.

**Ministry of Transport**

TE MANATŪ WAKA

BRIEFING

23 June 2021

OC210487

Hon Michael Wood
Minister of Transport**Action required by:**
Monday, 28 June 2021cc Hon Grant Robertson
Minister of FinanceHon David Clark
Minister for State Owned Enterprises

RESPONDING TO YOUR COMMENTS ON THE RAIL NETWORK INVESTMENT PROGRAMME

Purpose

Responds to your comments, and comments from Shareholding Ministers, on the inaugural Rail Network Investment Programme (RNIP) submitted by KiwiRail (OC210453 refers).

Key points

- You and Shareholding Ministers recently provided feedback on the RNIP. KiwiRail has made changes to the RNIP to address your feedback. KiwiRail's proposed changes are attached in annex 1. This briefing contains officials' advice on your feedback.
- KiwiRail has also separately submitted the RNIP to your office. We have attached the updated RNIP to this briefing for your convenience.
- If you are comfortable with the proposed changes to the RNIP, and following consideration of officials' advice, you need to approve it or refer the RNIP back to KiwiRail.
- You need to determine whether you consider the changes made to the RNIP are significant. If you consider the changes to be significant, you are required to consult again with Shareholding Ministers and seek further advice from Waka Kotahi New Zealand Transport Agency.
- The Ministry, KiwiRail and Waka Kotahi do not consider the changes being made to the RNIP are significant. This is as the changes do not change the overall funding required for the programme or the activities proposed for funding.
- However, the Treasury considers the change made to bring forward the business case for the Wellington network capacity improvements to be significant, because of potential fiscal implications from the eventual work required to undertake capacity

upgrades on the Wellington network (i.e. undertake network upgrades and purchase new rolling stock).

- The Ministry, KiwiRail and Waka Kotahi do not agree, as the business case was already proposed for funding in year three of the RNIP. We consider that decisions on the funding of the actual projects resulting from the business case, will be separate decisions that are not being sought through the RNIP. Further advice on this issue is outlined in the briefing.
- Nevertheless, officials have copied this briefing to Shareholding Ministers for their information and Waka Kotahi's views are included in this briefing and in annex 2.
- Under the LTMA you are required to make reasonable efforts to approve the RNIP before the start of the financial year (i.e. before 1 July 2021).

Recommendations

We recommend you:

- | | | |
|---|--|----------|
| 1 | agree that KiwiRail's proposed amendments to the Rail Network Investment Programme address your feedback. | Yes / No |
| 2 | agree that the changes to the Rail Network Investment Programme are not significant and therefore further consultation with shareholding Ministers or advice from Waka Kotahi is not required (section 22B(6) of the Land Transport Management Act 2003). | Yes / No |
| 3 | approve the revised Rail Network Investment Programme from KiwiRail under section 22B of the Land Transport Management Act 2003. | Yes / No |
| 4 | approve the proposed three-year funding request for the Rail Network Investment Programme under section 22F of the Land Transport Management Act 2003. | Yes / No |
| 5 | direct officials to prepare letters to KiwiRail, Waka Kotahi and the Minister of Finance to confirm your approval of the Rail Network Investment Programme and associated funding. | Yes / No |

Withheld under s9(2)(a)



Harriet Shelton
Manager, Supply Chain

.22. / .06. / .2021.

Hon Michael Wood
Minister of Transport

..... / /

Minister's office to complete:

☐ Approved

☐ Declined

☐ Seen by Minister

☐ Not seen by Minister

☐ Overtaken by events

Comments

Contacts

Name	Telephone	First contact
Joanna Heard		✓
Zac Neill		

Withheld under s9(2)(a)

You have recently received the inaugural Rail Network Investment Programme (RNIP) and provided feedback for KiwiRail to consider

- 1 You recently received the inaugural RNIP for your approval (OC210453 refers). We have received your feedback on the RNIP and have referred it back to KiwiRail. We have treated your comments as referring the RNIP back to KiwiRail under section 22B(4) of the Land Transport Management Act 2003 (LTMA).
- 2 This briefing outlines how KiwiRail is responding to your feedback in the RNIP. It also outlines the Ministry's advice.

You provided feedback on the RNIP

- 3 Your office informed officials that you are supportive of the continuous improvement work and reporting outlined in the RNIP.
- 4 However, you and Shareholding Ministers both asked for further consideration of emissions reduction. You also asked:
 - 4.1 for the Wellington network capacity improvements business case to get underway straight away, with funding granted and clarity this includes consideration of commuter expansion to Levin.
 - 4.2 about the limited ambition of maintaining freight volumes in years one to three, notwithstanding the current focus on rebuilding.
- 5 Your office also passed through a question as to how over and underspends in the RNIP would be dealt with following Waka Kotahi's advice. Each of these points are discussed further below.
- 6 In addition, you noted the need to now reference the Marsden spur following the announcement in the NZ Upgrade Programme. KiwiRail is making this change.
- 7 We also understand that you wish to add some introductory comments. We will work with your office about the best approach to this and how the communications package for the RNIP will be released.

Freight rail's response to emissions reduction

- 8 The Ministry noted in its briefing on the RNIP that the investment being made in the network and the corresponding above rail investments being considered by the Crown are projected to lift rail modal share by 2% over the next decade. You asked for further analysis to achieve 4% modal shift as recommended by the Climate Change Commission's draft report. Shareholding Ministers also requested that in the approval letter back to KiwiRail that it be noted that Ministers expect climate aspects to be addressed by KiwiRail in its above rail activities.

Officials' Response

- 9 The RNIP is designed to give effect to the NZ Rail Plan, which focusses on the reliable and resilient scenario agreed by Cabinet in 2019. The funding that has been set aside through Budgets 2020 and 2021 and in the Government Policy Statement on Land Transport 2021, reflects what is needed for the resilient and reliable scenario

over the next three years. Following that further funding will be required for the RNIP to ensure the resilient and reliable investment programme can be delivered.

- 10 The NZ Rail Plan focus on the resilient and reliable scenario does not preclude the Government undertaking further investments to support growth in rail or climate change priorities.
- 11 KiwiRail has projected a 2% increase in rail freight modal share over the decade from the RNIP and other Rail Plan investments. This assumes the investment profile outlined in the RNIP for the 10-year period is fully funded (this will require additional Crown funding for out-years). This level of mode shift is a significant step-up for the rail network – it will mean 22% network-wide growth in freighted tonnes, from 19.6 million tonnes to 23.7 million in 2030.
- 12 Since the RNIP was first submitted to you the Climate Change Commission has released its final advice. The Commission does not recommend a percentage mode shift. However, its demonstration path includes a 3% modal shift from road to rail and coastal shipping by 2030.
- 13 The Climate Change Commission recommends, in the first Emissions Reduction Plan, the Government commit to creating options to decarbonise heavy transport and freight by 2050. This includes developing a national low-emissions freight strategy, which the Commission considers should set clear targets to increase the share of rail and coastal shipping (amongst other things).
- 14 The pathways modelled in Hīkina te Kohupara all assume a higher level of modal shift to rail and coastal shipping than in the Climate Change Commission's demonstration path. However, further work will be undertaken on the emissions reduction pathways as we consider feedback on Hīkina te Kohupara. The feedback will be used to inform the Government's Emissions Reduction Plan later this year.
- 15 We suggest that the role that rail needs to play in responding to the Climate Change Commission's report and achieving a net zero carbon transport system by 2050 are aligned through this process and the development of the New Zealand Freight and Supply Chain Strategy. The Freight and Supply Chain Strategy will also be a vehicle to support the Climate Change Commission's recommendation to consider a strategy to reduce overall emissions from the freight sector.
- 16 If, as expected, rail freight needs to play a greater role in emissions reduction, then further funding will need to be considered through either the GPS or the Crown. It may also require other Government intervention to achieve these targets, such as regulatory interventions or through broader supply chain analysis. Once this work is undertaken it could be reflected in the next version of the New Zealand Rail Plan and GPS, as required, and included in the next RNIP.

Officials' response to Shareholding Ministers

- 17 In terms of the Shareholding Ministers' comments on ensuring KiwiRail addresses climate aspects in its above rail activities, we are aware that KiwiRail is focused on decarbonisation as part of its strategic capital programme. For example, significant reductions in carbon emissions are expected from the procurement of new rolling stock and replacement of ferries.

- 18 We will highlight in the draft letter from you back to KiwiRail the importance of KiwiRail playing its role to reduce emissions with the funding it is being provided. We will highlight the importance of participating within the transport system to undertake analysis and identify the right pathways to meet the Government's goals.

Wellington network capacity business case

- 19 You asked for the Wellington network capacity improvements business case to get underway immediately, with funding granted and clarify this includes consideration of commuter expansion to Levin.

Officials' response

- 20 Greater Wellington Regional Council are currently leading a business case to consider future interregional rail services for the Manawatu line (to Palmerston North) and the Wairarapa line (to Masterton). This project is known as the Lower North Island Rail Integrated Mobility project (LNIRIM), and is being developed with local government partners, Waka Kotahi, and KiwiRail.
- 21 The business case is well underway and is considering both rolling stock (noting the existing carriage fleet is reaching peak capacity and will reach the end of service life in the next 6-8 years) and any associated infrastructure requirements. The business case will be presented to the Waka Kotahi Board in late 2021. The business case will be influenced by the scale and nature of network investment needed to accommodate the rolling stock.
- 22 The Wellington Network Capacity Improvements (WNCI) business case in the RNIP was initially expected to be funded in year three following rolling stock decisions and would allow KiwiRail to start to progress detailed design for any network changes. Following your request KiwiRail will begin this work in year one to improve the accuracy of the network cost elements as part of the LNIRIM business case.
- 23 Neither the LNIRIM, nor the WNCI business case, are part of the resilient and reliable scenario agreed by Cabinet but do contribute to the New Zealand Rail Plan's strategic investment priority to support growth and productivity in New Zealand's largest cities. Both projects are part of the next decade of growth investments expected under the Rail Plan. Funding for the new rolling stock is yet to be agreed and is expected to be large when ready for consideration (potentially over \$500 million).
- 24 You should be aware that Greater Wellington Regional Council and Horizon's Regional Council do not believe a decision can wait until the next decade and are likely to seek at least a portion of Crown funding for the rolling stock in the next ten years. The previous Minister of Transport had informed the councils that Crown funding would not be provided and that the funding should be considered through their Regional Land Transport Plans. However, we expect the Councils will seek to discuss Crown funding with you further.
- 25 Waka Kotahi agree that the WNCI business case can be brought forward but notes that, if the business case stacks up, it could generate pressure for more funding to bring forward subsequent phases of work in years two and three of the RNIP. The Public Transport Infrastructure activity class, which would be used to fund any subsequent phases, is over-subscribed and it is highly likely that there may not be enough NLTF to fund further work during the RNIP period.

Ambition to maintain freight volumes over the first three years

- 26 You questioned the limited ambition of maintaining freight volumes in years one to three, notwithstanding the current focus on rebuilding the network.

Officials' response

- 27 As noted above, the New Zealand Rail Plan is focussed on enabling the national rail network to come out of a state of managed decline. The RNIP will provide further funding instalments to move towards a reliable and resilient network, which will provide KiwiRail with a platform for future growth. KiwiRail anticipate an uplift of freight volumes when the new rolling stock and ferry assets are commissioned.
- 28 The first three years of the RNIP will be a period of transition as KiwiRail rebuilds the network and replaces its rolling stock and ferry fleets. During this time existing assets will continue to age and therefore the risk of outages remains. In addition, there will be significant work being undertaken on the network.
- 29 KiwiRail's focus during this period is to retain customers and maintain volumes until the new assets are commissioned. While KiwiRail will be seeking commercial opportunities for volume growth where possible, the main opportunities will be when new rolling stock and other replacement assets come on board.

The Ministry's view on Waka Kotahi's underspend/overspend comment

- 30 Waka Kotahi noted that it was unclear how they should be managing under and overspends for RNIP activities across programme years as the total funding is appropriated specifically for that purpose.

Officials' response

- 31 The Ministry is working with Waka Kotahi and KiwiRail around how the new appropriation for the RNIP will be managed and operated in practice, including how drawdowns, payments and reporting will work.
- 32 The Ministry notes that if there is an underspend against the RNIP because individual activities in the RNIP are completed under budget or are not progressed, this could allow you to reallocate some funding back to the NLTF for reinvestment in other activity classes, in the event that it is not required to fund other RNIP activities. The Crown funding for the RNIP could not be reallocated outside of the RNIP to other NLTF activities, as it was appropriated for the RNIP.
- 33 However, in our recent experience what is more likely to occur is that there may be an annual underspend because of a change in the timing or phasing of activities in the RNIP. We would not advise that this should be reallocated to the NLTF activity classes if it is still required within the three years of the RNIP. If a change in timing spans into the subsequent three years this can be reprogrammed into the next RNIP. The necessary funding to complete contracted projects should stay in the RNIP appropriation and be carried forward into the next RNIP. Early forecasting by KiwiRail will be critical to enable this.
- 34 In terms of an overspend (above the RNIP total approved funding), this would require your approval to vary the RNIP as you have approved it and the associated funding (sections 22B and 22F of LTMA). If KiwiRail expected that an overspend beyond the

total amounts approved in the RNIP was likely, then KiwiRail would need to seek your approval to vary the RNIP (section 22D of the LTMA) and the corresponding funding approval (section 22F of the LTMA).

- 35 Consideration would also need to be given to the funding source for any overspend at that time, i.e. Crown or the NLTF (and may be dependent on the NLTF cash position and level of commitment at that time). Alternatively, you could choose not to provide additional funding and ask that projects are slowed down or scaled back to fit within existing funding sources.
- 36 We expect that, as the majority of the RNIP programme is for an ongoing programme of maintenance and renewal on the network, smaller individual projects that go over (or under) budget will be managed within the overall programme funding limits.

Next steps - KiwiRail are incorporating your feedback into the RNIP

- 37 Attached in annex 1 are the changes KiwiRail has made to the RNIP to reflect your feedback.
- 38 KiwiRail has separately resubmitted the RNIP to you for your consideration and approval. The updated RNIP is also attached to this briefing for your convenience. Under the LTMA (section 22B(2)) you are required to make reasonable efforts to approve the RNIP before the start of the financial year (i.e. before 1 July 2021).
- 39 The Ministry, KiwiRail and Waka Kotahi consider the feedback and changes to the RNIP are not significant as they do not change the overall funding envelope for the RNIP or the activities within it. If you agree the changes are not significant, you do not need to reconsult with shareholding Ministers or seek further advice from Waka Kotahi before approving the RNIP. However, it is your decision under section 22B(6) of the LTMA whether you consider the changes are significant and wish to go through those steps.
- 40 Treasury have noted that it considers the likely fiscal implications of the Wellington network capacity improvements business case being brought forward could be significant and that Shareholding Ministers should be reconsulted. Treasury has also asked whether there is the capacity to bring this work forward, and if it means other things won't be delivered.
- 41 The Ministry, KiwiRail and Waka Kotahi do not agree with the Treasury. We note that the decision is to bring the business case forward does not have fiscal implications as it was already proposed for funding in year three of the RNIP. While funding the eventual work that results from the WNCI business case and the LNIRIM could have fiscal implications, we note that those decisions are not being sought through the RNIP. Decisions on funding of the network upgrades and new rolling stock¹ would be separate decisions for Ministers and/or Waka Kotahi in future. KiwiRail has also confirmed that the WNCI business case could be sensibly phased over years one and two of the RNIP without any capacity concerns.
- 42 Nevertheless, officials have copied this briefing to Shareholding Ministers for their awareness. We have also consulted Waka Kotahi and included their comments in this

¹ Note that the rolling stock would be unable to be funded through the RNIP even in future periods. Rolling stock is not a rail network activity and would be outside of scope of funding through the RNIP. Other funding approaches would need to be considered if the Crown chose to support this project.

briefing, and in annex 2 attached. We also understand that KiwiRail has copied the updated RNIP to shareholding Ministers.

- 43 Waka Kotahi have confirmed that the changes made by KiwiRail to the RNIP do not materially change their advice on the RNIP. Waka Kotahi support moving the WNCI business case into year one, as discussed above.
- 44 If you approve the RNIP, officials will prepare letters from you back to KiwiRail and Waka Kotahi confirming your approval. We will also prepare a letter to the Minister of Finance, seeking confirmation of appropriation changes to enable the NLTF to be used for the RNIP.
- 45 We will work with your office on the appropriate communications package for the RNIP publication.
- 46 We have also provided you with a separate briefing on the amendments required to GPS 2021 to support the RNIP approval.

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Annex 1 – Proposed amendment's to KiwiRail's Rail Network Investment Programme

Addressing Climate Change Priorities

KiwiRail proposes to include the following additional section within the RNIP:

The RNIP forecasts mode share increasing from 12% to 14% over 10 years. The final Climate Change Commission's proposal is for 3% freight mode shift (to rail and coastal shipping) by 2030.

While further mode-shift could be met within existing and planned network capacity in line with the investment programme outlined in this RNIP, it will require additional above-rail investment beyond that planned in the resilient and reliable scenario (in particular for the rolling stock fleet of locomotives and wagons to service the growth). In addition, this may also require the development of additional policies to facilitate the modal shift such as through carbon pricing, incentives or regulations.

KiwiRail is committed to increasing the mode share of rail and will continue to pursue commercial opportunities to achieve this and to work with responsible Ministers and policy agencies to provide options for further investment to accelerate modal shift. KiwiRail is also committed to continued emissions reduction through its strategic capital investment programme.

Wellington network capacity improvements

KiwiRail proposes to bring forward the Wellington Metro Capacity Improvements funding to year 1 (\$0.3m) and year 2 (\$0.7m) and to amend the schedules accordingly.

Announcements on Marsden Spur

KiwiRail propose to update all references to the NZ Upgrade Programme to reflect the most recent announcements (and funding amounts). This includes adding a reference to the Marsden spur project within the RNIP schedules as follows:

In addition, the Government announced in June 2021 that it has allocated \$692m from the NZ Upgrade Programme for the Marsden Point Rail spur and enabling rail works and SH1 roading improvements. KiwiRail will be completing a delivery case to finalise the scope, cost and timelines for these additional rail works. It is expected that it will take up to five years from initiation to completion of the project.

Other Minor Changes

KiwiRail also propose to make minor changes to reflect:

- Finalisation of wording to reflect the approved nature of the document (once approved) and
- Minor editorial and design changes.

Annex 2 – Waka Kotahi comment

Waka Kotahi has had an opportunity to review the amendments KiwiRail have made to the RNIP in response to the Minister of Transport's and shareholding Ministers' feedback.

Waka Kotahi considers that the amendments do not impact the advice and recommendations provided to the Minister by Waka Kotahi on 9 June 2021.

Waka Kotahi supports bringing forward completion of the Wellington Network Capacity Improvements business case to inform the selection of the right type of rolling stock for metro and regional passenger rail services in the Lower North Island. The infrastructure required to support different rolling stock configurations (eg fully electric versus some form of hybrid) could be substantial and is an important consideration.

Waka Kotahi notes that bringing forward completion of the business case may create pressure to bring forward subsequent phases of work if there is a case to proceed. The NLTF and especially the Public Transport Infrastructure Activity Class is over-subscribed and it is highly likely that there will not be NLTF available to fund subsequent phases of work within the 2021-24 NLTP period.

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