greater WELLINGTON
THE REGIONAL COUNCIL

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Committee	**Policy, Finance and Strategy Committee**
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Business Case for Wellington Urban Passenger Rail

1. Purpose

To present an economic evaluation of future proposed expenditure on urban passenger rail in the Wellington region.

Based on this economic evaluation to decide whether or not it is appropriate to continue to purchase urban passenger rail services in full or in part.

To make a formal initial application to Transfund New Zealand for funding support to purchase urban passenger rail services.

2. Background

Council members have been kept informed of the work being undertaken by the Rail Group of officers looking at the current and future operations of urban passenger rail services. An important part of that work is the justification for the continuing to purchase urban passenger rail services over other passenger services. This information is also required by Transfund New Zealand as the first part of their Transfund Allocation Process. This report looks only at the economic justification for urban rail services that forms but one part of the formal initial funding application to Transfund New Zealand.

3. The Analysis Process

The Transfund project evaluation manual for passenger transport services requires the calculation of an efficiency ratio (ER). This ER is similar in concept to the better known benefit cost ratio (B/C) that is used to evaluate roading projects.

$$ER = NPV\ (Benefits/\ (Costs\text{-}revenue))$$

NPV is net present value.

Costs-revenue is called the funding gap.

The funding gap will be the subsidy necessary to fund the passenger rail service so as to achieve the benefits resulting for that service.

The benefits are measured in terms of time savings, savings in vehicle operating costs and accident savings for both road users and passenger transport users.

The costs are the operating costs for the service and the cost of capital investments. The revenues are the income from fares and services other than grants and subsidies.

This analysis is required to be undertaken over a 25 year period and use a discount factor of 10%. That means that future costs and benefits are discounted at 10% per annum when calculating the NPV.

This analysis is to look at the incremental benefit of rail over an alternative bus service and to examine this on a line by line basis.

All the benefits used in this analysis are calculated using the Council's transport model.

I do not intend to describe in detail how the model does this calculation. In short the model reallocates trips currently being made on rail to other modes when a part of the rail network is assumed to no longer exist. This enables a calculation of change in travel time and vehicle operating costs.

The funding gap is calculated using the operational costs and capital expenditure proposals recently provided by Toll, but not yet accepted and agreed by the Council. As negotiations with Toll continue these costs will change particularly for the out years, that is from year five onward. The variability of these out year costs will have limited impact on the analysis as these are heavily discounted.

The revenue part of the funding gap assumes current fare levels and so the annual revenue changes as patronage changes due to improvements in service or increases in road congestion. No attempt has been made to review current fares or the fare structure or include fare increases overtime. Fare increases have two basic effects, more revenue thus reducing the funding gap and less overall benefits to users, often these effects will cancel each other out.

4. The Result of the Analysis

At the meeting we will be able to provide the latest ER calculations. These will be based on the latest business plan proposed by Toll and will assume Transfund New Zealand contributes funding support at 60% for new capital expenditure with the remaining 40% funded by the Council through a loan. Work undertaken to date using a number of assumptions around the likely business plan for Tranz Metro Wellington services and the funding options show that overall investment in rail over the long term is economically justified. That the two main lines, Paraparaumu and the Hutt Valley, have strong ERs whilst Johnsonville and Melling have incremental ERs close to one.

The underlying costs cannot be made public at this time as they are the subject of ongoing negotiations with Toll Holdings. If Council members wish, officers can provide this information at the meeting if the Council went into a non-public session. Councillors would then receive the benefits, costs and revenues used to calculate the efficiency ratio and how these were derived.

5. Johnsonville Railway Line

The economic case for the Johnsonville line justifies its continuation in the short term. None of the proposed investment in rolling stock refurbishment or purchase compromises the future role of the line as these investments can be transferred to other lines if the Johnsonville line were to be closed.

An ongoing issue is the sole access rights to the line that Toll holds for the next 69 years. Toll is able to frustrate any alternative use of the line.

The Johnsonville line is likely to remain a marginal service primarily because the market it serves will remain static at best. There is limited opportunity for growth.

The northern suburbs of Wellington are likely to grow over time in keeping with the City Council's northern growth strategy. This alone will trigger a review of passenger transport services in the area.

A local review of all passenger transport service in the northern suburbs, including Tawa appears justified at some point in the future. This review would consider the best mix of services, routes and service frequency. The review is not required to answer the short term rail investment issues. It is proposed that the timing of such a review be considered again one the other programmed review of the other Wellington City passenger transport services has been completed and the Council has completed its review of the Regional Land Transport Strategy.

The same situation exists with respect to the Melling line. The opportunities to consider new bus services from the Hutt will arise once the proposed Petone to Ngauranga HOT lane has been started. A review of passenger transport services in the lower Hutt Valley, in the normal timescale for such reviews, would then consider the best option for bus and rail with that facility available.

6. The Decision Making Process

The initial application to Transfund New Zealand, the business case, is a first step. This identifies that purchase of urban passenger rail services is economically justified. It does not imply that the current business plan provided by Toll is affordable or acceptable. The contractual negotiations yet to be held and the required community consultation process over changes to the adopted LTCCP are two more steps yet to be taken to help answer these questions. If the Council receives the ER evaluation and uses it to make the initial funding application to Transfund New Zealand this action allows these next steps to take place. The Council is not agreeing to the Toll business plan or making any decision at this point to purchase urban passenger rail services for the long term.

7. Communications

When the Council has made further progress on its negotiations with Toll then it will be necessary to undertake a full community consultation regarding the purchase of urban passenger rail services for the long term as this is likely to involve a material change to the adopted LTCCP.

8. Recommendations

1. *That the Committee receive the report and note the efficiency ratios calculated for the urban rail network.*

2. *That the Committee agree to a formal initial application being made to Transfund New Zealand for a continuation of funding support for the current urban rail network.*

3. *That the Committee note that a detailed review of public passenger services in the northern suburbs of Wellington City will be undertaken after the other Wellington City passenger transport review, to determine the most appropriate mix of passenger services, their routes and frequencies in the area.*

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