

## By email

2 July 2024

Hon Simeon Brown  
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Tēna koe Minister

## Metropolitan Rail Funding

This letter responds to your letter received by email on 31 May 2024 [your ref OC240529] regarding Metropolitan Rail Funding.

Greater Wellington agrees that the value of rail to Wellington is significant. In 2023, we had 11.3 million passenger boardings (20,000 per day at peak) representing those in the Wellington region that use rail to get to work and school, and for hospital appointments, recreational activities and events. Our data shows that 40% of jobs in Wellington are in the CBD and that rail is 22% of all peak journeys into the city.

We are pleased the Government has committed funds of \$107.7m next year to continue to lift the rail infrastructure condition acknowledging decades of under-investment in this critical Crown asset. Thank you. We are working with KiwiRail on the Wellington allocation of this funding.

We also support and are actively engaged in the current review of the Metropolitan Rail Operating Model (MROM) to clarify accountabilities, funding pathways, and monitoring. As you state, one-off funding bids and year-on-year budget allocations without long-term certainty are not conducive to a delivering a reliable and resilient metro rail service, giving Wellingtonians a transport choice and taking pressure off the constrained roading network.

This letter is a useful opportunity to provide the local government perspective on the current funding situation. I summarise below the key aspects of the current MROM and the Crown's funding of backlog and capacity.

## **Current MROM**

The current funding model is articulated well in the Metro Funding Framework briefing paper (2010) attached for your reference. To summarise:

- the current model acknowledges the Crown's role as the infrastructure owner and the need to make equity injections to bring the network up to an agreed standard of serviceability (based on the agreed timetable in 2010, which remains unchanged).
- Users are not charged for depreciation or any capital charge on the Crown's investment in the network infrastructure.
- The cost of maintaining the network infrastructure to the agreed standard is recovered from the users via a Track Access Charge (TAC). This cost includes both routine maintenance and Renewals Services ('replacing life-expired Wellington Network assets at the optimum time with a modern equivalent asset so that the safe and efficient operation of the Wellington Network is sustained'. Also referred to as 'steady state' renewals).
- The access rights and obligations (including the budgets for the ongoing costs) are set out in the Wellington Network Access Agreement between KiwiRail and Greater Wellington.
- Any proposal to upgrade the network further is considered on a case-by-case basis based on merits in terms of wider transport and economic benefits.

## **Crown funding for backlog and capacity**

In establishing MROM in 2010, acknowledging the degraded state of the rail network, the Crown agreed to provide investment to bring the network up to a functional, safe and reliable standard with ongoing maintenance to be funded by user charges.

To begin to uplift the network standard, the Crown and KiwiRail identified some complex infrastructure enhancements and 'deferred renewals' as seven separate programmes of work. This became the Wellington Metropolitan Upgrade Programme (WMUP).

Crown funding for rail has also been provided directly to KiwiRail through the Rail Network Improvement Programme (RNIP) and New Zealand Upgrade Programme (NZUP).

Most of these catch-up renewal programmes are still in progress, and KiwiRail confirms these programmes are insufficiently funded to resolve the decades-old backlog renewals. Through a significant uplift in asset management maturity, KiwiRail has identified it will require approximately \$750m over the next 15 years to achieve the original intent of the WMUP by addressing renewals of assets that are well beyond their life expectancy.

KiwiRail has been open about this backlog situation for many years. However, rather than securing the necessary Crown investment, it has been using the Renewals Services budget to address that backlog not covered through the WMUP. This practice has meant asset health continues to decline. Operational costs have escalated significantly as assets fail and require unplanned corrective maintenance.

Greater Wellington has escalated this situation many times to both KiwiRail and the various funding agencies, but to date here has been no change in approach. In fact, the situation has been compounded by KiwiRail unilaterally using the Renewals Service budget to pay for the escalating insurance costs for Greater Wellington, leaving only a minimum for renewals work. We have repeatedly challenged this practice.

Through the MROM review we will look to ensure Greater Wellington has greater autonomy over deployment of its funding, particularly with respect to achieving value for money from its investment. Such value is not achievable if KiwiRail continues to use Greater Wellington funds to pay for the ever-increasing backlog, which according to MROM, should be funded by the asset owner (the Crown).

### **Operating costs and funding gap**

Greater Wellington is committed to ensuring value for its ratepayers and we are looking to ensure the funding is applied appropriately to the objectives we need to collectively achieve, including meeting at least the current timetable.

Your letter correctly identifies the gap between the funding KiwiRail has requested and the funding Greater Wellington has agreed.

We attach for your information a comparison between what KiwiRail has requested (\$180.3m) and Greater Wellington's contribution (\$148m) over the next three years, the main difference being insurance (\$22.1m), the corrective maintenance charges related to the deferred capital items (\$8m), and the performance fee (\$2m).

To summarise for the 24/25 Financial Year:

- According to KiwiRail's allocation methodology, insurance for the Wellington metro aspect of this Crown asset has increased from \$2m in 2020 to nearly \$12m in 2024 and this escalates to \$14m at the end of the triennium. (This compares with approximately \$2m for Auckland metro). We have agreed to pay \$5.5m and we note the amount requested for Wellington is >25% of the national insurance for the rail network. Given the excess (\$5m) and the maximum payout (\$500m), we believe that this is a poor return on investment, has limited use as a risk management mitigation, and is disproportionately allocated to Greater Wellington when we also must insure our own

assets. This accounts for nearly 90% of the gap between the funding KiwiRail has requested and the amount Greater Wellington has agreed.

- Over the years, KiwiRail unilaterally decided to descope work from capital projects despite our objections to the ongoing operational costs which we must then pay. As such, we have reduced the maintenance portion by the amount directly related to the renewal of those end-of-life assets. Corrective maintenance has uplifted steeply in the last three years and Greater Wellington has no control over the decisions that have led to these costs.
- The WNA includes a performance fee. We have requested KiwiRail cap its performance fee. The current performance metrics do not represent the customer experience and we do not think it appropriate the fee increases with expenditure whilst the network state declines.

The above has led to a deficit of \$7.1m between what KiwiRail has requested and Greater Wellington has agreed to pay, for the next financial year.

The above issues speak to a wider issue – a disconnect between Greater Wellington funding and KiwiRail investment decisions. Greater Wellington is currently making investment payments to KiwiRail with no insight or agreement on what funding is spent on. For the sake of Wellington commuters, this cannot continue. Greater Wellington must be part of the decision-making on the asset upgrade programme.

### **Greater Wellington Contribution**

You have sought assurance from Greater Wellington that we will increase our contribution to the network management plan (NMP) costs in 2025/26, and you have asked how this will be achieved. Over the last year and through our Long-Term Plan 24-34 we have:

- Increased the funding for additional emergency work by \$2.3m in FY24/25; \$1.3m in FY25/26; and \$800k in 26/27. This is a total of \$4.4 million over the next triennium;
- agreed to pay all the steady state renewals/renewals services requested by KiwiRail noting we would require the budget to be spent on such renewals rather than insurance and backlog (we are awaiting confirmation from KiwiRail on this); and
- Discussed with KiwiRail a more equitable methodology to access the performance fee. Due to many exemptions in the KiwiRail's performance KPIs, KiwiRail can easily achieve its targets, and these do not reflect the true performance of the rail network. Greater Wellington has made multiple offers to give KiwiRail the full performance fee (approximately \$2m per annum depending on actual budget) regardless of its performance if it was ring fenced for renewals. KiwiRail has not agreed this focus on renewals.

In terms of how we intend to proceed Greater Wellington is seeking a regime from the MROM review that:

- enables the improvement in the state of the network from 'in decline' to 'steady state' - so we can manage and increase our services.
- allows us greater oversight and decision rights over the significant contribution we make to the costs of network renewals and other operating costs. Currently, we are obliged to pay over 80% of the ongoing costs without the ability to hold KiwiRail to account for delivery or the benefits of the investment.
- provides a complete understanding for all parties of the scale of the backlog and the investment required to bring it up to the 'functional, safe and reliable standard' envisaged in the business cases for the WMUP programme.

We also need to resolve the matter of insurance and a new approach to confirming KiwiRail investment decisions on the Wellington metropolitan network. Ratepayer funding is being used without any local input to investment decisions, and little KiwiRail accountability.

I look forward to working with you to advance these matters and arriving at a mutually agreed and sustainable funding model for our region, that provides this essential service for our economy and our communities.

Nāku, nā



**Daran Ponter**  
Council Chair  
Greater Wellington Regional Council

Encl    WNA Funding requests  
         Rail – Metro funding framework – An Overview