



21 February 2020

Ref: DOIA 1819-0887

Tim Frank

fyi-request-9185-df726966@requests.fyi.org.nz

Dear Tim Frank

The Ministry of Business, Innovation and Employment has reassessed the information which was provided in response to your request for the following information:

Recently, government ministers announced funding under the Provincial Growth Fund for service upgrades of the TranzAlpine and the Coastal Pacific passenger train services.

Can you please provide information on what the funding for these service upgrades will be applied to.

Can you please release documentation on the TranzAlpine and Coastal Pacific service upgrades, including a detailed breakdown of costs.

Please find attached the updated documentation which relates to your request; further information has been released to you as negotiations have progressed. However, some information is still withheld under the following section of the Official Information Act:

- 9(2)(a), to protect the privacy of natural persons, including that of deceased natural persons;
- 9(2)(b)(ii), to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information; and
- 9(2)(j), to enable a Minister of the Crown or any department or organisation holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).

I do not consider that the withholding of this information under section 9(2) is outweighed by public interest considerations in making the information available.

You have the right to seek an investigation and review by the Ombudsman of our decision to extend the timeframe. Information about how to make a complaint is available at www.ombudsman.parliament.nz or freephone 0800 802 602.

Yours sincerely

Kate Styles
Manager, Regional Development
Provincial Development Unit



Better Business Case

Tourism Provincial Rail Growth

October 2018

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Quality Assurance

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Executive Summary

This revised Provincial Rail Growth business case provides an alternative affordable investment which supports regional economic development in the surge region of the West Coast.

The Ministry of Business, Innovation and Employment (MBIE) forecasts the number of people visiting New Zealand to increase by approximately 38% over the next six years (increasing from 3.7 million in 2017 to 5.1 million in 2024)¹.

The popularity of KiwiRail's Scenic rail journeys is continuing to increase but due to insufficient rolling stock and a lack of fleet resilience we are no longer able to reliably meet growing passenger demand or ensure the resilience of existing services.

KiwiRail requires investment in new rolling stock and its supporting infrastructure (i.e. platform upgrades and IT reservation system) to take advantage of expected tourism growth, support sustainable economic development in the regions in which we operate, unlock our current capacity constraints, attract higher yield tourists with premium services and generate greater revenue for the regions.

The original Provincial Rail Growth Business Case explained the rationale for capital and operating investment of \$144.4m - \$185.4m². This revised business offers an alternative affordable proposal \$80m.

This revised business case enables KiwiRail's existing scenic rail business to procure additional rolling stock to generate regional rail growth, develop Premium services for TranzAlpine (West Coast) and Coastal Pacific (Marlborough), which supplies tourists to TranzAlpine and unlock capacity constraints.

This business case provides regional growth by:

- Providing sustainable activity that is diverse and high value – almost **doubling employment and regional tourism spend**
- Aligning with regional tourism sector programmes
- Infrastructure development to support sustainable growth
- Decreasing carbon emissions

Investment requirements of Revised Business Case

INVESTMENT REQUIREMENTS – Proposed Investment Option 2	COSTS
10 Carriages and support carriages i.e. café car, van etc	s 9(2)
Premium: 3 refurbished carriages	s 9(2)(b)(ii)

¹ <http://www.mbie.govt.nz/info-services/sectors-industries/tourism/tourism-research-data/international-tourism-forecasts/2018-2024-forecasts>

² Original Business Case was submitted in August 2018

³ A capital investment range for rolling stock has been provided to reflect the differences of quotes received from two suppliers; s 9(2)(b)(ii) in late 2016.

5 SASD carriages refurbishment	s 9(2)(b)(ii)
6 Platform upgrades	
New IT reservation system	
Project Costs	
Capital Subtotal	
Opex - Increased marketing costs (FY21 / 22)	
TOTAL	\$80m

Investment requirements of Original Business Case

INVESTMENT REQUIREMENTS – Growth Option 1	COSTS
Additional Rolling Stock: 24 carriages and support carriages i.e. café car, van etc	s 9(2)(b)(ii)
Premium: 6 carriages (3 refurbished AK carriages and 3 new carriages)	s 9(2)(b)(ii)
1 locomotive	s 9(2)(b)
15 Platform upgrades	s 9(2)(b)(ii)
New IT reservation system	s 9(2)(b)(ii)
Project Costs	s 9(2)(b)(ii)
Capital Subtotal	s 9(2)(b)(ii)
Opex - Increased marketing costs (FY21 / 22)	s 9(2)(b)(ii)
TOTAL	\$144.4m - \$185.4m

⁴KiwiRail will also investigate the feasibility of manufacturing additional AK carriages, at KiwiRail’s facilities, instead of refurbishing SASD carriages. Due to complexity of this feasibility assessment, work will be ongoing after submission of this business case, considered only if it met the outlined budget request.

⁵ A capital investment range for rolling stock has been provided to reflect the differences of quotes received from two suppliers; s 9(2)(b)(ii) in late 2016.

Our rail journeys support the regions of:

- Auckland, Waikato, Ruapehu, Manawatu, Wellington (Northern Explorer)
- Marlborough, Kaikoura, Hurunui and Christchurch (Coastal Pacific)
- Christchurch, Selwyn and the West Coast (TranzAlpine)

The original business case provided additional capacity and Premium services. By 2026 an additional 279,000 passengers would have been able to experience our rail services, spending an additional \$273m in the regions. By 2026, the original business case would have doubled the number of tourism jobs from 880 (in FY18) to more than 1,906 through increasing its tourism services across the country.

The revised business case provides resilience, additional capacity and Premium on TranzAlpine and Coastal Pacific. By 2026 an additional 228,000 passengers will be able to experience our rail services, spending an additional \$191m in the regions. By 2026, the revised business case will nearly double the number of tourism jobs from 883 (in FY18) to more than 1,626 through increasing its tourism services across the country.



The revised business case provides a marginally negative NPV for KiwiRail of $s\ 9(2)(b)(ii)$ using a 40 year model and a WACC of 8%.

Both business cases will help the core Scenic rail journeys to become self-sustainable thereby reducing our reliance on Crown funding.

This business case is for Tourism Provincial Rail Growth and Premium supporting the surge region of the West Coast. KiwiRail is also participating in a PGF feasibility study for a Hokitika to Westport route.

Nov 2018

KiwiRail to commence Feasibility Study for Hokitika to Westport route. Expressions of interest have been received from vendors who will prepare the feasibility study.

Oct 2018

KiwiRail to submit Business Case: Tourism Provincial Rail Growth and Premium rail service

This business case follows the New Zealand Treasury's Better Business Cases guidance and is organised around the five-case model⁶.

<p>Strategic Case</p>	<p>KiwiRail has a long and proud history of connecting visitors to places via our Interislander ferry, TranzAlpine, Coastal Pacific and Northern Explorer rail experiences⁷. KiwiRail's rail network is an integral part of New Zealand's integrated national tourism transport infrastructure and tourism is a key growth area for KiwiRail.</p> <p>Investment in Provincial Rail Growth aligns with a number of national and regional strategies relating to tourism. These include but are not limited to:</p> <ul style="list-style-type: none"> - Tourism Industry Aotearoa's strategic vision and growth goals 'Tourism 2025 Growing Value Together, Whakatipu Uara Ngatahi, Two Years On - Tourism Aotearoa' - Tourism New Zealand 2023 Plan (\$1b regional growth by 2023) - MBIE Tourism Strategy: Enriching New Zealand Through Sustainable Tourism Growth August 2018 (5 A's Framework) - Strategy for Nga Haerenga, the New Zealand Cycle Trail - Department of Conservation Visitor Strategy - Ruapehu District Council Regional Visitor Development Plan - Marlborough District Council Coastal Cycle Trail <p>We are working closely with local authorities and other regional stakeholders to understand their needs and how we might be able to help them achieve their aspirations for their regions.</p> <p>KiwiRail's Tourism strategy has traditionally been 'point to point'; we are now shifting to a strategy that is focused on 'packages and partnerships'. The closer we work with the regions, the better we can collectively create regional economic growth. Transport shapes how our cities and regions develop. KiwiRail is an enabler of regional development.</p> <p>Both business cases align with the Government's system level priorities for Tourism in New Zealand. These priorities⁸ include regional interventions and investments that contribute to:</p> <ul style="list-style-type: none"> - Attracting visitors from high value markets and market sectors - Making New Zealand more attractive as an off peak visitor destination - Diversifying our visitor markets - Attracting visitors who want to go to less visited regions
<p>Economic Case</p>	<p>KiwiRail's scenic rail business currently only provides the following services:</p> <ul style="list-style-type: none"> • TranzAlpine between Christchurch and Greymouth (a daily return service from Christchurch) • Coastal Pacific between Picton and Christchurch (offline since the 2016

⁶ <http://www.treasury.govt.nz/statesector/investmentmanagement/plan/bbc>

⁷ <https://www.greatjourneysofnz.co.nz/about/kiwirail/>

⁸ MBIE Tourism Strategy: Enriching New Zealand Through Sustainable Tourism Growth August 2018 (5 A's Framework)

	<p>Kaikoura Earthquake, due to be back online in late 2018; previously only ran six months of the year)</p> <ul style="list-style-type: none"> • Northern Explorer between Auckland and Wellington, alternate day service (only departs from Auckland on Monday, Thursday and Saturday) <p>The attractiveness of KiwiRail's Scenic rail journeys is year round as its journeys are suitable for peak, shoulder and off peak tourism experiences. KiwiRail showcases New Zealand's landscapes throughout the different seasons and transports visitors to less visited regions.</p> <p>Both passengers and the wholesale tourism market have advised that the inconsistency of our Coastal Pacific and Northern Explorer services make it difficult for visitors to plan itineraries or a connected rail journey using those routes. We cannot meet increasing passenger demand on the TranzAlpine. Delivering a full year Coastal Pacific service will increase tourists on the TranzAlpine to the West Coast.</p> <p>We do not have any fleet resilience and we do not have enough rolling stock to create additional services on any of our existing routes. This makes it difficult for tourists and commercial tourist operators to leverage our services. Without consistent services due to a lack of resilience, the regions are foregoing revenue and we are unable to provide a satisfactory tourism experience⁹.</p> <p>An internal working group at KiwiRail has reviewed and costed a range of service options and growth opportunities on our existing routes. When reviewing the options, we considered a broad range of critical success factors including:</p> <ul style="list-style-type: none"> - Does it help deliver consistent reliability for customers? - Does it reduce complexity and cost? - Does it deliver regional economic growth? - Does it meet customer experience expectations? - Does it improve commercial performance? - Will it help grow the business? - Does it diversify visitor markets? - Does it improve safety? - Will it reduce Carbon Emissions? <p>Our preference is for investment in additional rolling stock to address resilience and enable additional and new premium services to be created on existing routes in a relatively low risk way.</p>
<p>Commercial Case</p>	<p>Our preference is to purchase new rolling stock.</p> <p>Rather than refurbish or build the carriages locally (which may increase the risk profile of the revised business case), KiwiRail would prefer to leverage the core competencies of global suppliers in carriage manufacturing, allowing for through life support, including warranty and reliable supply of inventory.</p> <p>The market for second hand rolling stock is limited. A total of \$5.5ASD carriages</p>

⁹ Alignment to Government Tourism Strategy, using levers to protect and enhance the quality of experience that New Zealand's regions offer to visitors.

	<p>are available for purchase from Auckland Transport (KiwiRail require 5 under this revised business case). The quality of the refurbishment will be critical for KiwiRail - our rail experiences have a high price point as they offer a high-quality tourism experience.</p> <p>If investment is secured, KiwiRail will finalise our new rolling stock requirements and will then develop an open Request for Proposal (RFP) document to be distributed to a list of global suppliers via GETS. The procurement process will be managed by KiwiRail and it will align with the Government's procurement policies. Specific project managers will be assigned and Individual Strategic Procurement Plan(s) will be developed.</p> <p>If refurbished carriages are required, the refurbishment will be completed by KiwiRail or a third party. Existing design knowledge and skills will be leveraged across the refurbished carriages regardless of whether it is delivered by KiwiRail or a third party. Refurbishment work will be undertaken at KiwiRail's Hillside or Woburn facilities.</p> <p>KiwiRail will also investigate the feasibility of manufacturing additional AK carriages, at KiwiRail's facilities, instead of refurbishing carriages. Due to complexity of this feasibility assessment, work will be ongoing after submission of this business case, considered only if it met the outlined budget request.</p> <p>KiwiRail is an experienced procurer of rolling stock assets i.e. 63 locomotives and more than 1000 wagons have been procured over the last 10 years. There are a number of stages and payment milestones which KiwiRail will require from suppliers. For example - deposits, design sign off, pre-shipping review, performance testing</p> <p>Consideration will also be given to:</p> <ul style="list-style-type: none"> - Maintenance - Guarantee and warranty periods and provisions - Options to procure additional rolling stock - Spares and inventory (consignment) - Obsolescence - Interoperability
<p>Financial Case</p>	<p>Our estimates in the revised business case suggest that an investment of \$80m will be required to unlock capacity constraints and enable growth for the regions by way of new services on our existing routes.</p> <p>Unlocking regional growth with additional services delivers a marginal financial return, however when combined with regional benefits it is compelling.</p> <p>The investment costs of additional rolling stock are likely to be staggered, with part payment required to start manufacturing. The remainder of the payments will be on agreed milestones and on completion. This of course will be subject to contractual agreement with a supplier. The procurement process will be managed by KiwiRail and a Strategic Procurement Plan will be developed.</p> <p>KiwiRail's connected journeys are linked to New Zealand's wider tourism goals.</p>

	<p>The revised business case investment in TranzAlpine & Coastal Pacific routes shows profitable growth for KiwiRail, with the Coastal Pacific moving into a positive contribution by 2027. It is expected that there will be immediate impact on regional economic development as a result of increased passenger numbers. The revised business case does not address Northern Explorer which will continue to make a loss.</p> <p>We estimate that scenic rail passengers spend \$715 per person, per day in the regions. Ruapehu District Council has calculated visitor spend of \$500 per person, per day which correlates to our estimated spend of scenic rail passengers. Every additional passenger on Scenic's rail services is critical and valuable to the economic growth of the regions that we service.</p>
<p>Management Case</p>	<p>A specific Project Manager will be assigned to each of the key projects related to this business case i.e. purchasing new rolling stock, platform upgrades, IT reservation system and refurbishment of carriages.</p> <p>The timeline for the carriage refurbishments and new carriages to be manufactured and commissioned is approximately 2 ½ years. If funding is secured for this new rolling stock by November 2018 and KiwiRail will prepare an open Request for Proposal then issue it global suppliers via GETS.</p> <p>If the manufacturing and commissioning of the new rolling stock proceeds as planned then we would expect that reservations for the services would open in 2020 with the first new services to run December 2021, with Premium following in June 2022. Once commissioned and online, this additional rolling stock will be managed and maintained by KiwiRail's Rolling Stock Asset Services team.</p>

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Economic Growth for the Regions and KiwiRail

Investment Tier	Regions		
	Waikato, Ruapehu, Manawatu Northern Explorer	Marlborough, Kaikoura, Hurunui Coastal Pacific	West Coast TranzAlpine
Revised Business Case Regional Projects & Capability 2027 Impact	<i>Organic growth no investment</i> 42 additional jobs created +24% Tourist spend \$28.9m p.a. +37% Tourists 19,500 p.a. +27%	410 additional jobs created +136% Tourist spend \$82.5m p.a. +142% Tourists 84,600 p.a. +103%	290 additional jobs created +72% Tourist spend \$80.3m p.a. +74% Tourists 118,900 p.a. +45%
Original Business Case Regional Projects & Capability 2027 Impact	296 additional jobs created +165% Tourist spend \$55m p.a., +165% Tourists 37,000 p.a. +131%	430 additional jobs created +143%: Tourist spend \$84.7m p.a. +143% Tourists 87,000 p.a. +102%	297 additional jobs created +74% Tourist spend \$81m p.a. +74% Tourists 120,000 p.a. +45%
Sector	Enables international itineraries Supports RAL PGF initiative & seasonality Key enabler for Ruapehu Visitor Development plan Target High Net Worth Individuals with premium	Enables international itineraries Supports proposed Cycle trail & seasonality Supports proposed DOC Great Walks Target High Net Worth Individuals with premium	Enables Tourism West Coast objectives Supports PGF initiatives Punakaiki, Old Ghost Road, Wilderness Cycle Trail Supports DOC dispersal Target High Net Worth Individuals with premium
Infrastructure	Development of a resilient national transportation system connecting surge regions Tourist Rail provides regional certainty and confidence Reduction of carbon emissions – environmentally sustainable economic growth Improved road safety Creates sustainable employment		

KiwiRail's Provincial Rail Growth Business Case meets the three investment tiers of the PGF¹⁰:

- **Regional projects and capability**

Investment in additional rolling stock for KiwiRail's scenic business will unlock capacity. This additional capacity will enable KiwiRail to carry a greater number of passengers which in turn will drive regional economic development and build skills, capability and capacity in the regions that we operate.

- **Sector investment**

KiwiRail's scenic business is a key stakeholder in New Zealand's high value tourism sector. Our services and connected journeys are a key part of New Zealand's tourism transport infrastructure. The regions have come to rely on our rail services.

The revised business case is aligned with and supporting initiatives including, but not limited to, the Coastal Cycle Trail in Marlborough (PGF application), Punakaiki (West Coast PGF), Wilderness Cycle Trail (West Coast PGF) and DOC's Great Walks.

- **Enabling infrastructure projects**

By increasing the frequency of our services, we will provide more certainty to the regions allowing new tourism ventures and supporting services, such as food and accommodation businesses, to be established.



Transport shapes how our cities and regions develop. KiwiRail is an enabler of regional development.

With secured investment from the Crown's Provincial Growth Fund, within the three years of the fund, KiwiRail's Scenic business will:

- By December 2021 at the earliest; procure, build, commission and introduce new carriages into the Scenic fleet:
 - o The timeline for new carriages to be manufactured and commissioned is approximately 2 ½ years
 - o The commission and testing time cannot be reduced as safety cannot be compromised
 - o If funding is secured for this new rolling stock by November 2018; sufficient time is allowed for a Request for Proposal to be developed and issued; and construction and commissioning of the new rolling stock proceeds as planned we expect core services would be online by December 2021, with premium following in June 2022.
 - o From July 2021 with refurbished rolling stock¹¹ we would expect to introduce:
 - A year-round, daily service on the Coastal Pacific
 - Additional carriages / capacity on the TranzAlpine and the Coastal Pacific
 - o From June 2022 with refurbished AK carriages we would expect to introduce:
 - A premium service on the Coastal Pacific
 - A premium service on the TranzAlpine

¹⁰ <http://www.mbie.govt.nz/info-services/sectors-industries/regions-cities/regional-economic-development/pdf-image-library/provincial-growth-fund.pdf>

¹¹ Our preference is to purchase new rolling stock. Refurbishing or building the carriages locally may create jobs but would increase the risk profile of the revised business case.

- In late 2018 we will start recruiting up to 20 Locomotive Engineers:
 - o Without Locomotive Engineers a rail service cannot operate
 - o Recruitment for these roles will need to commence in late 2018 as we must allow two and half years for LE's to be trained prior to the introduction of the new rolling stock and commencement of the additional services
- In 2019 we will launch "packages" enabling tourists to plan and book experiences /activities and accommodation connecting them into regions.
- In 2019 we intend to begin marketing our new rail services: a year-round Coastal Pacific service, and Premium services on the TranzAlpine and Coastal Pacific. This will be two years in advance of the carriages being introduced so we can build our international and domestic markets. International marketing will be essential to drive passenger growth into the regions.
- In 2020 our reservation system will have been upgraded, increasing conversion and incorporating Premium services. Bookings for new services will open.
- Prior to the rolling stock being online in 2021, PGF investment in additional rolling stock will allow us to create a number of new jobs at KiwiRail:
 - o 
 - o 
 - o By 2026, the KiwiRail scenic services will enable the number of tourism related jobs in the regions to almost double - from 880 (in FY18) to more than 1626 - through increasing our tourism services across the country¹².
- With a greater number of services and longer trains, we have identified that we also need to lengthen platforms to accommodate longer trains, enabling safety and accessibility of our regional platforms
 - o KiwiRail's Scenic rail journeys are regarded internationally as some of the best in the world. However, due to lack of investment, the regional platforms our passengers disembark onto do not reflect the high quality of service delivered on board.
 - o We have an opportunity to improve safety standards as well as create a welcoming gateway to the region.
 - o Essential platform upgrades at 6 regional platforms¹³ on our core routes:
 - TranzAlpine - Greymouth, Arthurs Pass, Christchurch
 - Coastal Pacific – Blenheim, Kaikoura, Picton

¹² (Total tourism spend in New Zealand (\$26.7b as at March 2017) / Total Tourism employment (231,000 as at March 2017) = For every \$116,000 of tourism spend creates one job in the tourism industry - source of data MBIE's Monthly Tourism Estimates

¹³ Platform cost estimates s 9(2)(b)(ii) Estimates and does not include the construction of any new platforms. Upgrades of existing platforms only.

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The Provincial Growth Fund will be able to measure the following post investment success:

- By 2019 we will have developed customisable itineraries connecting tourists to the regions with tourism experiences and accommodation.
- By 2020, the reservation system will have been upgraded, increasing conversion, incorporating Premium and will be open for bookings
- By 2021, we will have upgraded 6 regional platforms¹⁴ to allow for longer trains and to improve safety and accessibility
- By 2021, KiwiRail will have engaged and partnered where possible with local Iwi in each of the regions that we service to develop tourism related ventures and partnership opportunities which will meet the Iwi's social and economic goals
- After five years, an additional 141,000 passengers will have travelled on the Coastal Pacific supporting the Marlborough and Kaikoura regions¹⁵
- After five years, an additional 67,000 passengers will have travelled on the TranzAlpine supporting the West Coast¹⁶ region
- Incremental natural growth of the existing Northern Explorer service will produce an additional 20,000 passengers in five years supporting the Waikato, Ruapehu and Manawatu regions¹⁷
- After five year, KiwiRail estimates that Net Promoter Scores¹⁸ for the regions that we deliver services across will have improved 5-10 points.

After five years with this additional rolling stock KiwiRail will deliver:

- An additional 228,000 passengers to the regions
- Almost double regional tourism spend from \$100m to \$191m p.a.
- Double the number of tourism jobs from 883 to 1626

Economic breakdown by region is included in the Appendix.

¹⁴ Upgrade estimates s 9(2)(b)(ii)

¹⁵ This does not include the passenger impact for Christchurch

¹⁶ This does not include the passenger impact for Christchurch

¹⁷ This does not include the passenger impact for Auckland or Wellington

¹⁸ Net Promoter Score – whether a customer would recommend a service or not.



KiwiRail will double the number of tourism jobs in the regions from 883 to 1626 by 2027



KiwiRail will double regional tourism spend from \$100m p.a to \$191m p.a by 2027

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1. Introduction

This revised business case explains the rationale for capital plus operational investment of \$80m for KiwiRail's Scenic rail business to procure additional rolling stock, extend and improve platforms, reservation system upgrade to facilitate Premium and marketing. The investment is required to enable growth, create resilience, deliver a Premium product for TranzAlpine and Coastal Pacific, maximise revenue for the regions as well as KiwiRail and unlock current capacity constraints.

This investment aligns with our Connected Journeys strategy, which includes investment in new regional tourist routes such as Hokitika to Westport. This will be addressed within a separate business case once the feasibility study has been undertaken.

1.1. Background

Tourism in New Zealand

Tourism is a vital contributor to New Zealand's economic and social wellbeing, generating wealth and supporting jobs in communities around the country. Tourism is New Zealand's largest export industry in terms of foreign exchange earnings. It directly employs 14.5 per cent of the New Zealand workforce and it has the potential to improve the economies of communities around the country¹⁹.

International visitors are delivering \$40 million in foreign exchange to the New Zealand economy each day of the year – one in five export dollars. Domestic tourism contributes another \$59 million in economic activity every day²⁰. Tourism and its contribution is felt at national, regional and local levels throughout the New Zealand economy.

Visa, the credit card company, projects that by 2025, more than 280 million households will be traveling internationally each year. McKinsey & Company estimates that India and China alone will create more than 900 million new members of the global middle and upper classes between 2015 and 2025²¹.

New Zealand is a popular destination with international tourists but one of the key barriers for tourists are the limitations of New Zealand's current transport infrastructure²². This constraint is having a significant impact on New Zealand's ranking on the Travel & Tourism Global Competitiveness Index which relates to New Zealand as an attractive destination²³. There is so much to see and do in New Zealand, but we don't make it easy for visitors to get around our country.

As a key transport provider to the regions, KiwiRail has a responsibility to unlock its infrastructure and supply constraints. With investment in additional rolling stock KiwiRail can help alleviate this issue and get more visitors to the regions.

With additional rolling stock we will be able to provide sustainable economic development to the regions, increase our fleet resilience, meet the needs of a growing passenger base and truly provide connected rail journeys throughout New Zealand which are reliable and offer a high quality tourism experience.

¹⁹ <https://tia.org.nz/about-the-industry/quick-facts-and-figures/>

²⁰ <https://tia.org.nz/about-the-industry/quick-facts-and-figures/>

²¹ McKinsey & Company December 2017 report 'Coping With Success – Managing Overcrowding In Tourism Destinations'

²² Deloitte National Tourism Infrastructure Assessment Tourism Industry Aotearoa March 2017

²³ <https://www.weforum.org/reports/the-travel-tourism-competitiveness-report-2017>

Tourism at KiwiRail

KiwiRail has a long and proud history of connecting people to places via our Interislander ferry and our TranzAlpine, Coastal Pacific and Northern Explorer rail experiences²⁴. KiwiRail's Scenic rail journeys have grown "from humble beginnings"²⁵ to one of New Zealand's most popular attractions with a firm following both nationally and internationally. Our rail journeys have become a must-do for many Kiwis as well as overseas visitors.

Our tourism business has experienced double digit growth in recent years (Appendix) and despite only marketing our rail journeys domestically, we've seen growth across both domestic and international markets, and our peak seasons have spread into our shoulder season²⁶. Visitor arrivals to New Zealand are expected to grow 4.6 per cent a year, reaching 5.1 million visitors in 2024, up from 3.7 million in 2017.

Based on current passenger numbers, KiwiRail has forecasted the following passenger growth on all of its Scenic rail services²⁷:

- FY19 250,000 passengers
- FY20 261,000 passengers
- FY21 271,000 passengers

Tourism New Zealand have confirmed that KiwiRail are a big player in the New Zealand tourism market. By way of comparison - 232,000 people visited Hobbiton in 2014.

The popularity of our rail journeys is continuing to increase but we are no longer able to reliably meet growing passenger demand. This will constrain our availability to support economic development in the regions.

²⁴ <https://www.greatjourneysofnz.co.nz/about/kiwirail/>

²⁵ <https://www.christchurchnz.com/media/newsroom/tranzalpine-scenic-journey-celebrates-30-years/>

²⁶ <http://www.kiwirail.co.nz/index.php?mact=News,cntnt01,detail,0&cntnt01articleid=524&cntnt01returnid=10>

²⁷

Not including Capital Connection passenger numbers

2. Strategic Context

The strategic context provides an overview of KiwiRail. In this section we also provide an overview of other organisations which would benefit from investment in the scenic business.

2.1.1. Organisational Overview

KiwiRail owns, operates and optimises rail and ferry transport and supply chain networks to facilitate the efficient movement of freight and passengers within New Zealand²⁸. In relation to Tourism, the KiwiRail group:

- Supports New Zealand's export growth
- Provides resilience to the national transport system
- Reduces New Zealand's carbon footprint
- Extends SH1 across the Cook Strait
- Reduces congestion and makes roads safer
- Offers world-class tourism experiences

The key strategies that KiwiRail uses to deliver the above are to Simplify, Standardise and Invest.

KiwiRail also strives to achieve a number of non-commercial imperatives as outlined in its Statement of Corporate Intent, including: Safety outcomes (Zero Harm), Customer Engagement and Operating Performance Standards²⁹.

In late 2017 KiwiRail launched a strategic Customer Insights programme named Project Wā Heke. This is an internal project which is enabling KiwiRail to consider the future of the New Zealand transport and tourism markets through the eyes of key industry players and influencers.

Inherent in this universal customer feedback is that KiwiRail needs to play a more central role in the modern transformation of New Zealand's regional economy. KiwiRail is seeking to redefine its business from traditional boundaries and behaviours. This shift in focus will enable the business to move from being sales-driven to customer-focussed.

The customer insights from Project Wā Heke are forming part of KiwiRail's future Tourism Growth Strategy. KiwiRail has a goal to increase the tourism revenue from \$100m to s 9(2)(b) by 2025 of which rail tourism (Scenic) would increase from \$23m³⁰ in FY18 to s 9(2) by 2025³¹. See Tourism Horizons document in Appendix.

KiwiRail's tourism revenue goal of 2025 is expected to be achieved through additional services, packages and Premium. This business case does not include packages and therefore the revenue targets are lower. We anticipate that 40,000 passengers per year will enjoy our premium service, growing to 50,000 per year by 2035.

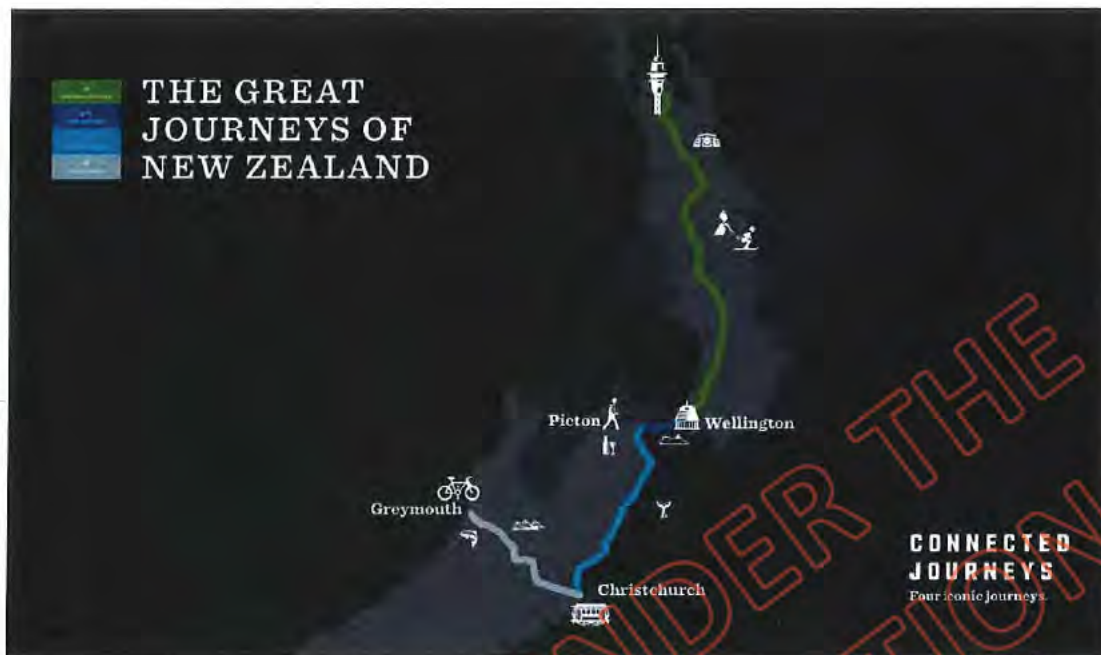
Whilst KiwiRail's currently operates in a low competitor market, interest is growing from international investors. Through partnership or JV these entities could mitigate a competitive threat and/or provide investment.

²⁸ KiwiRail's Statement of Corporate Intent 2018-2020 'Reshaping and Delivering'

²⁹ EY 2016 Report 'The Value of Rail in New Zealand' prepared for the New Zealand Transport Agency

³⁰ \$23m revenue for FY18 does not include the estimated \$6m that would have been generated in FY18 if the Coastal Pacific were online. EBITDA for FY18 does not include Coastal Pacific as it has been offline.

³¹ The balance of growth is generated via the passenger market on the Interislander



KiwiRail's Scenic rail business currently provides rail experiences in the following regions:

TranzAlpine - daily return service from Christchurch to Greymouth, servicing embryonic tourism regions³²

- Christchurch
- Selwyn
- West Coast

Coastal Pacific – daily return Christchurch to Picton usually only runs 6-8 months of the year³³, servicing emerging tourism regions³⁴.

- Marlborough
- Kaikoura
- Hurunui
- Canterbury

³² MBIE – Enriching New Zealand through sustainable tourism growth: Government's tourism strategy

³³ Currently offline due to the 2016 Kaikoura earthquake

³⁴ MBIE – Enriching New Zealand through sustainable tourism growth: Government's tourism strategy
"Emerging tourism regions have existing tourism offers but have capacity to host greater numbers of visitors, given the right conditions and investment".

Northern Explorer – is an alternate day service, only departing from Auckland to Wellington on Monday, Thursday and Saturday, servicing embryonic tourism regions³⁵.

- Auckland
- Waikato
- Ruapehu
- Manawatu
- Wellington

KiwiRail's tourism strategy to date has just been about providing 'point to point' journeys. Our future Tourism strategy will focus on partnerships, packages, consistency of service and truly providing connected journeys throughout New Zealand.

Our Connected Journeys strategy aims to encourage tourists to explore out-of-the way destinations, boosting regional towns and cities. For KiwiRail to be able to provide a truly connected journey, we require investment in the rail network as well as rolling stock to enable same day or daily bidirectional services and year-round services to accommodate international traveller itineraries.

Partnering with local tourism operators and improving our connectivity and service options will enable KiwiRail to bring additional visitors to the regions. More visitors will provide sustainable employment and career development opportunities in the regions, through businesses delivering food and accommodation services as well as cultural and tourism experiences.

Passengers and the wholesale tourism market have advised KiwiRail that the inconsistency of our Coastal Pacific and Northern Explorer services make it difficult to plan a trip using those routes. Our ability to add more services and thereby provide greater support to the regions is constrained by our current capacity and range of services.

KiwiRail is aware of the significant role it plays in developing economic growth in the regions. We are working closely with local authorities and tourism partners to understand their needs and how we might be able to help them achieve their aspirations for their regions. We intend to develop packages and experiences that encourage our passengers to experience the regions they visit³⁶ in more depth. For example, on the TranzAlpine we are seeking to promote and partner with existing and potential new tourism operators on the West Coast including Iwi.

Capital investment will enable us to unlock our capacity constraints and increase tourists into the regions, which will result in greater economic growth. This investment will achieve a neutral NPV for KiwiRail and it will help the core Scenic rail journeys to become self-sustainable thereby reducing our reliance on Crown funding.

³⁵ MBIE – Enriching New Zealand through sustainable tourism growth: Governments tourism strategy "Embryonic tourism regions will require considerable investment and support in order to offer quality experience sufficient to visitors in order to provide a return on investment. Such regions often face economic challenges, when compared to national averages for income, employment and investment".

³⁶ <http://www.kiwirail.co.nz/news/524/78/Record-season-for-KiwiRail-tourism-services/d,news.html>

2.1.2. Alignment to existing strategies

A wide range of New Zealanders share in the benefits brought by tourism. Tourism provides opportunities for development in New Zealand's regions, jobs for those with limited or no qualifications and enables Maori to gain direct value from leveraging their assets³⁷.

The industry-led and government endorsed tourism growth framework, Tourism 2025³⁸ has identified the unrealised potential of tourism to drive regional economic growth.

MBIE's Tourism Strategy³⁹ is consistent with Tourism 2025 and has an overall vision to increase the net economic contribution made by tourism at a national and regional level. The Government acts in three main ways to ensure the Tourism system is able to deliver productive and sustainable growth:

1. Shaping visitor demand
2. Ensuring market can respond effectively to that demand
3. Ensuring the system as a whole, delivers optimal outcomes for visitors and New Zealanders

The strategy outlines the attributes of a successful tourism sector:

- Strong international transport links and world class border services
- High value visitors throughout the year
- Robust tourism related infrastructure
- Sustainable and productive resource use
- A skilled and committed workforce
- A great visitor experience
- Authentic cultural experiences and support for Maori economic aspirations
- Dispersal of visitors across regions
- Seasonal dispersal
- Employment opportunities and career development pathways in tourism

A national tourism strategy requires a national transportation strategy. Providing connected journeys across New Zealand and experiences beyond transportation and commuting is a core part of the KiwiRail future growth strategy.

³⁷ <http://www.mbie.govt.nz/publications-research/publications/mbie-corporate/bim-tourism-2016.pdf>

³⁸ www.tourism2025.org.nz

³⁹ MBIE – Enriching New Zealand through sustainable tourism growth: Governments tourism strategy

The following table explains the relevance of KiwiRail’s strategies to the Provincial Rail Growth business case.

Table 1: KiwiRail Strategic Alignment to Provincial Growth

Organisation & Strategy Identified	Description	Relevance to Provincial Rail Growth
<p>KiwiRail Group</p> <p>Statement of Corporate Intent 2018 - 2020</p>	<p>Over the next three years our focus will be on delivering a reliable and sustainable business for our customers, meeting our shareholders’ expectations, empowering our people and ensuring KiwiRail plays its role in an integrated transport system fit for New Zealand’s future needs.</p> <p>KiwiRail will continue to drive our strategy of simplifying our business, standardising our assets, and investing in our people to support our customers’ growth while delivering financial and operational results.</p>	<p>KiwiRail’s network is an integral part of New Zealand’s integrated tourism transport infrastructure. New Zealand is a popular touring destination for visitors however most touring is done by rail and not road.</p> <p>Just as we are encouraging more freight to be carried by rail rather than road; there are road safety and carbon emission benefits to encourage more visitors to get off the road and experience New Zealand via rail.</p>
<p>KiwiRail Group</p> <p>Strategic Growth Plan</p>	<p>KiwiRail is currently defining its long term Strategic Growth Plan, looking to transform our business by with three strategies to deliver our 2030 goals.</p> <p>KiwiRail have identified the Tourism Business as a key contributor to growth, with the objective of becoming a leader in tourism transport services.</p>	<p>KiwiRail is focused on increasing Tourism growth.</p> <p>The rail network solves barriers to travel in New Zealand, things to see and do, and how to get around. KiwiRail’s rail network is uniquely positioned to drive regional tourist growth.</p>
<p>KiwiRail Group</p> <p>Project Wā Heke</p>	<p>Project Wā Heke is an internal project which is enabling KiwiRail to consider the future of the New Zealand transport and tourism markets through the eyes of key players and influencers.</p> <p>KiwiRail’s customers clearly stated the need and desire for a deeper relationship. Real partnerships are more than just a transaction. Inherent in this universal feedback is that KiwiRail needs to play a more central role in the modern transformation of New Zealand’s regional economy.</p> <p>KiwiRail is seeking to redefine its business from traditional boundaries and behaviours. This shift in focus will</p>	<p>KiwiRail will be encouraging a series of strategic partnerships and packages which will aim to lift service levels and will connect passengers with world class experiences across the regions.</p>

	<p>enable the business to move from being sales-driven to customer-focussed.</p> <p>The project has highlighted a range of insights and opportunities. Now KiwiRail needs to convert these into imaginative and actionable commercial opportunities. Innovation doesn't happen on its own - it needs to become an embedded and dedicated process.</p>	
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KiwiRail's Provincial Rail Growth business case also aligns with a number of national and regional strategies relating to tourism.

Table 2: KiwiRail Strategic Alignment to New Zealand Tourism Strategy

Organisation & Strategy Identified	Description	Relevance to Provincial Rail Growth
<p>Tourism Industry Aotearoa (TIA)</p> <p>Tourism 2025 Growing Value Together, Whakatipu Uara Ngatahi, Two Years On – Tourism Aotearoa</p>	<p>The tourism industry, led by the peak industry body, Tourism Industry Aotearoa (TIA), has an aspirational goal of \$41 billion in total annual tourism revenue by 2025. Among the key strategies to achieve this revenue target is to focus on increasing tourist numbers in the shoulder season and to achieve greater regional dispersal. TIA launched the Sustainability commitment in 2017, its vision is Leading the World in Sustainable Tourism.</p> <p>TIA also recognizes and emphasizes the importance of investment in capacity development and infrastructure to achieve their Tourism 2025 goals. "As a nation we are limited in the peak season by capacity in such areas as our roads, port facilities, accommodation, water and sewerage, and public amenities. It is clear that investment in many areas of tourism infrastructure is lagging behind demand, so we need to speed up our planning, decision-making and investment cycles. To achieve this, it is essential that the owners of the infrastructure, whether public or</p>	<p>As a key transport provider, KiwiRail has a responsibility to unlock transport infrastructure, supply constraints throughout the country and sustainability.</p> <p>KiwiRail's intention to add additional carriages to the TranzAlpine and offer a year-round Coastal Pacific service aims to meet the growing demand in the shoulder season. By the nature of train travel, will have benefits of reducing carbon emissions and congestion, whilst improving road safety.</p> <p>Additional rolling stock for our Scenic business will enable KiwiRail to provide consistent services, address resilience issues and ensure a reliable and connected journey, and assist TIA to achieve its goals.</p> <p>"The big advantage of having a daily service each way is the certainty it provides for travellers – they know that there will be a train no matter what day they want to travel, or in what direction. It means the</p>

	<p>private, are familiar with and aligned to the tourism industry and its Tourism 2025 growth aspiration⁴⁰.</p>	<p>Northern Explorer can easily be fitted into their travel plans. Similarly, a full year Coastal Pacific service removes the need to check whether its operating or not. It's the same principle that sees airlines strive to reach daily services to any destination they serve." – Chris Roberts, CEO Tourism Industry Aotearoa</p>
<p>Tourism New Zealand 2019 Strategy</p>	<p>The government's international marketing agency, Tourism New Zealand has confirmed that "growing New Zealand's shoulder seasons has become a top priority for Tourism New Zealand"⁴¹.</p> <p>Tourism New Zealand has three key parts to its 2019 Strategic Plan:</p> <ol style="list-style-type: none"> 1. People and Place – 100% Pure New Zealand 2. Kaitiakitanga – Destination Readiness 3. Inclusive Growth – Grow regions by \$1b by 2023 <p>The focus is on increasing value encouraging tourists to spend more and stay longer.</p>	<p>As a key partner of Tourism New Zealand, through investment in additional rolling stock, KiwiRail can help Tourism New Zealand achieve its goal of increasing regional economic growth by increasing the number of passengers to the regions.</p> <p>The introduction of a Premium Service supports Tourism New Zealand's strategy of increasing value and supporting long term stability for the industry.</p> <p>KiwiRail have the support of the Tourism New Zealand CEO Stephen England-Hall. He is challenging the country to develop more products to highlight nature - without spoiling it.</p> <p>Mr England-Hall would like to see "man-made products that integrate into our natural environment and give visitors greater access to nature with a low footprint, and national itineraries so visitors can explore New Zealand by train"⁴².</p>
<p>Nga Haerenga, the New Zealand Cycle Trail (NZCT)</p>	<p>More than a million people per year use the 22 Great Rides of Nga Haerenga, the New Zealand Cycle Trail⁴³. KiwiRail's Great Journeys of New Zealand is recognised as a key national partner of Nga Haerenga⁴⁴.</p>	<p>KiwiRail's Scenic rail journeys provide visitors an alternative mode to access New Zealand's cycle trails and are an experience that appeals to the group, family and leisure riding markets.</p>

⁴⁰ <http://tourism2025.org.nz/assets/Documents/TIA-T2025-Doc.pdf> (p18)

⁴¹ <http://tourism2025.org.nz/assets/Documents/TIA-T2025-Doc.pdf> (p9)

⁴² Inside Tourism May 24th 2018 (Issue 1,166). Inside Tourism is the only independent weekly source of New Zealand visitor/hospitality industry news and views.

⁴³ <http://www.mbie.govt.nz/info-services/sectors-industries/tourism/nga-haerenga-new-zealand-cycle-trail>

⁴⁴ <https://www.nzcycletrail.com/partners/>

	<p>Ngā Haerenga (NZCT) is a national initiative to develop a connected network of cycle trails throughout New Zealand. The network consists of Great Rides, Heartland Rides and Urban Cycle Trails.</p> <p>The NZCT was one of a number of initiatives established to stimulate jobs to cushion the effects of the global financial crisis in 2009, and to create conditions for businesses to prosper.</p> <p>The intention of NZCT was that the predominantly off-road trails, referred to as the Great Rides, would showcase the environment, landscape, heritage and culture of New Zealand, while generating economic, social and environmental benefits for communities.</p>	<p>Offering combined train and cycle journeys provides a credible alternative to car transport.</p> <p>There are a number Great Rides that align with the scenic rail routes including The Timber Trail and Mountains to Sea in the North Island plus Queen Charlotte Track and the West Coast Wilderness Trail in the South Island.</p> <p>Potential future cycle trails may also align well with the scenic routes such as the proposed 'Coastal Cycle Trail' which will link Kaikoura in northern Canterbury with Picton in the Marlborough region.</p> <p>"NZCT believes that combined itineraries offering cycling plus train experiences is a natural extension to the cycle and stay packages that have sprung up since the project began in 2009. Offering visitors more easy connections between 'green' modes of travel such as trains and bikes will also appeal to more environmentally aware travelers." - Janet Purdey, GM of Ngā Haerenga</p>
<p>Department of Conservation Visitor Strategy</p>	<p>Unprecedented growth in tourism is changing the funding needs and expectations of Department of Conservation (DOC). It is putting pressure on facilities but creating opportunities to increase investment in conservation.</p> <p>DOC intends to develop and implement a visitor strategy with partners (such as KiwiRail), to manage DOC's biodiversity, heritage and recreation facilities to achieve a high level of visitor satisfaction⁴⁵.</p>	<p>DOC is exploring opportunities to expand their network of Great Walks in places where there is local support and where they can showcase other beautiful but lesser-visited parts of the country⁴⁶. Through a public process, many new walk suggestions have been submitted to DOC. A number of the proposed and current walks align with our existing rail journeys.</p> <p>KiwiRail is a key tourism partner for DOC and we have a close working relationship with DOC particularly on the West Coast of the South Island.</p>

⁴⁵ <https://www.doc.govt.nz/Documents/about-doc/role/publications/bim-2017/bim-2017-strategy.pdf>

⁴⁶ <https://www.doc.govt.nz/news/media-releases/2018/new-great-walks-initial-submissions/>

<p>MBIE Tourism Strategy (5 A's Framework)</p>	<p>Commissioned by MBIE and developed by Business and Economic Research Limited (BERL), this framework states that established tourism regions will⁴⁷:</p> <ul style="list-style-type: none"> • be able to be readily accessed by a range of transport modes and gateways • have a range of attractions that encourage visitation • have adequate amenities, including accommodation and public infrastructure, to ensure visitors have quality experiences • enjoy a level of awareness in the market that ensures they attract visitors • Host communities' attitudes towards tourism to enable success <p>KiwiRail is aware that MBIE has classified New Zealand regions into three broad groupings in terms of their development as destinations⁴⁸:</p> <ul style="list-style-type: none"> - Established tourism regions - Emerging tourism regions - Embryonic tourism regions 	<p>KiwiRail's Scenic business aligns with the component of MBIE's 5 A's Framework.</p> <p>Our strategic shift from 'point to point' to package and partnerships will encourage the regions to develop integrated regional accommodation and activities with KiwiRail Scenic rail services.</p> <p>Our network and rail experiences deliver access to the regions. Our online marketing and passenger magazine increases visitor awareness of tourism opportunities and choices in the regions⁴⁹.</p> <p>KiwiRail's Scenic rail services have a long history of regional economic contribution and are viewed positively by the communities we support. Many regions rely on the services we provide.</p> <p>KiwiRail is uniquely positioned to grow the embryonic tourism regions of West Coast and Ruapehu.</p>
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RELEASED UNDER THE OFFICIAL INFORMATION ACT

⁴⁷ <http://www.mbie.govt.nz/about/who-we-are/our-publications/briefings-to-incoming-ministers/2017-bims/tourism.pdf>

⁴⁸ MBIE – Enriching New Zealand through sustainable tourism growth: Governments tourism strategy

⁴⁹ <http://www.ournewzealand.co.nz/page/read-our-emag/>

REGIONAL STRATEGIES

At a regional level, our intention to invest in Provincial Rail Growth aligns with Regional Economic Development plans in each of the regions and districts that we currently provide rail journeys in:

- Christchurch, Selwyn and the West Coast (TranzAlpine)
- Marlborough, Kaikoura, Hurunui and Christchurch (Coastal Pacific)
- Auckland, Waikato, Ruapehu, Manawatu, Wellington (Northern Explorer)

Table 3: KiwiRail’s Relevance to Provincial Growth

Organisation & Strategy Identified	Description	Relevance to Provincial Rail Growth
<p>Tourism West Coast Marketing Plan 2017 - 2021</p>	<p>Tourism West Coast is focused on attracting both Independent Professionals, people aged 25-54 years old and Active Boomers, people aged 55-74 years old to their region. KiwiRail’s TranzAlpine attracts 83,000 tourists to the West Coast, 10% of West Coast visitor arrivals.</p> <p>Tourism West Coast’s objectives are:</p> <ul style="list-style-type: none"> - Increased visitor volumes - Increased tourism expenditure - Increased visitor nights by increasing average length of stay - Increased GDP contribution - Increased tourism employment <p>DOC is underpinning the enablement of this programme.</p>	<p>KiwiRail’s TranzAlpine service is a key tourism transport enabler to get visitors from Canterbury to the West Coast. Any reduction in service would severely impact the West Coast local economy.</p> <p>As the West Coast begins to develop and deliver its cycleways and walkways, those experiences are collectively creating a very attractive offering for visitors to enjoy whilst they are on the West Coast.</p> <p>“West Coast Tourism would welcome investment by KiwiRail to increase capacity on the TranzAlpine service thereby enabling more passengers each year to visit and enjoy our region. We also support the introduction of a premium service on the TranzAlpine route as we consider it will attract more high yield visitors to the region and appeal to a wider market.” – Jim Little, CEO Tourism West Coast</p>
<p>Marlborough District Council Coastal Cycle Trail</p>	<p>The Marlborough District Council are keen to establish a cycle trail between Blenheim and Kaikoura. They consider that the ‘Coastal Trail’ will be unique cycle trail in New Zealand as it will be supported by an internationally</p>	<p>KiwiRail is recognised by the Marlborough District Council and the Coastal Trail Working Group as a key partner in trail construction, marketing and transportation. The prospect of a hop-on hop-off train</p>

	renowned train journey along its entire 450km ⁵⁰ .	<p>service for potential cyclists on KiwiRail's existing Coastal Pacific rail service has been raised with KiwiRail and would provide a niche market opportunity as well as itinerary flexibility⁵¹.</p> <p>The Marlborough Coastal Trail will be reliant on KiwiRail's Coastal Pacific rail service running year-round.</p> <p>"For the many thousands of people who will enjoy the new cycle/ walking trail between Picton & Kaikoura; having the ability to incorporate the Coastal Pacific rail experience within their overall journey will be the icing on the cake" - Dr John Forrest, Coastal Trail Working Group spokesperson.</p>
<p>Marlborough District Council</p> <p>Marlborough Smart and Connected Visitor Economy Growth Plan 2015-2025</p>	<p>Marlborough's Smart and Connected Visitor Economy Growth Plan outlines the vision and direction for Marlborough's visitor economy and looks what is needed for the region to grow earnings from visitor spend to \$446m by 2025. The plan also underpins the marketing activities of the region's tourism agency, Destination Marlborough to position and promote Marlborough as a desirable visitor destination.</p>	<p>A year-round Coastal Pacific service along with our existing Interislander services will be able to help Marlborough build its supply and demand for shoulder and winter season visitation in the Marlborough Sounds.</p>
<p>Ruapehu District Council⁵²</p> <p>Ruapehu Regional Visitor Development Plan</p>	<p>The Ruapehu's Regional Visitor Development Plan⁵³ has been funded by MBIE and the Ruapehu District Council. This plan recognises KiwiRail as a key partner to deliver the objectives of the plan. KiwiRail's Northern Explorer service is deemed a key enabler in the Ruapehu region for tourism and economic growth.</p>	<p>KiwiRail has a close working relationship with the Ruapehu District Council.</p> <p>Ruapehu District Council are currently working with KiwiRail and other local visitor sector operators to further explore the feasibility of establishing end-to-end rail-tourism</p>

⁵⁰ Coastal Cycle Trail Feasibility Study – Final Report 19th September 2017
<https://www.marlborough.govt.nz/repository/libraries/id:1w1mps0ir17q9sgxanf9/hierarchy/Documents/About%20Marlborough/Coastal%20Pacific%20Trail%20feasibility%20assessment%20Final%20Report%20190917.pdf>

⁵¹ Coastal Cycle Trail Feasibility Study – Final Report 19th September 2017

⁵² Although PGF funding will not be directly invested into the growth of the Northern Explorer services, KiwiRail expect through its regional partnerships that some organic growth will occur.

⁵³ 2017 Ruapehu's Regional Visitor Development Plan

	<p>Ruapehu District Council are a big advocate of KiwiRail. They are encouraging the establishment and expansion of the marketing of rail as a reliable means of transport for the Wellington and Auckland domestic and international markets to access the region, its ski fields and other tourist attractions.</p> <p>Ruapehu District Council have assumed that if just ten rail passengers stopped every day at Ruapehu for two nights with the cost of the rail component of this journey at \$125.00, accommodation at \$300.00 and other services at \$100.00 then the contribution to the Ruapehu economy would be close to \$2 million per annum.</p>	<p>experiences centred on the Ruapehu region including connections to appropriate transport hubs, accommodation and Ruapehu experiences.</p> <p>"KiwiRail's Northern Explorer service is a key enabler for the objectives of the Ruapehu Regional Visitor Development Plan to be achieved. We are keen to encourage the expansion of the marketing of rail as a means reliable transport for the Wellington and Auckland domestic and international markets to access the area and its ski fields" - Visit Ruapehu CEO Claire McKnight</p>
<p>Ruapehu Alpine Lifts Limited (RAL) Strategy</p>	<p>In 2016 Ruapehu Alpine Lifts secured a 60-year licence for Whakapapa ski field⁵⁴.</p> <p>To remain competitive and respond to customer expectations, RAL must upgrade the skiing and boarding experience and in particular embark on a programme replacing aged lift infrastructure with modern lifts meeting new safety and comfort standards⁵⁵. Part of the development plans includes a 1.8km, eight-seater gondola, estimated to cost around \$37m⁵⁶.</p> <p>RAL expects the gondola to enhance the recreational values of Whakapapa Ski Area⁵⁷.</p>	<p>Tongariro National Park is a popular destination for passengers travelling on the Northern Explorer.</p> <p>RAL is reliant tourism transport providers like KiwiRail to enable tourists to visit the Ruapehu region.</p> <p>It is proposed to utilise the gondola all year round which aligns with KiwiRail's long term intention to introduce a daily bidirectional service between Auckland and Wellington.</p> <p>RAL has clear aims and aspirations for their ski-fields. A high-quality tourism product that enhances Tongariro National Park and bring strong value to our communities⁵⁸. This aligns with KiwiRail's tourism strategy of quality partnerships in the regions.</p>

⁵⁴ <https://www.stuff.co.nz/travel/snow/84420399/gondola-part-of-100m-ruapehu-plan>

⁵⁵ <https://www.doc.govt.nz/pagefiles/176586/executive-summary-of-gondola-proposal.pdf>

⁵⁶ <https://www.stuff.co.nz/travel/snow/84420399/gondola-part-of-100m-ruapehu-plan>

⁵⁷ <http://www.ruapehudc.govt.nz/our-services/district-plan-and-resource-consents/resourceconsents/Documents/Statement%20of%20Evidence%20-%20Ella%20Tennent,%20Cheal%20Consultants.pdf>

⁵⁸ <https://www.stuff.co.nz/travel/snow/84420399/gondola-part-of-100m-ruapehu-plan>

2.2 Investment Objectives, Existing Arrangements and Business Needs

2.2.1 Investment Objectives

The key investment objectives for this proposal are:

- Increased tourism patronage including high net worth customers
- Increased regional economic benefits
- Increased resilience of New Zealand's rail network
- Offer world class tourism experiences
- Improve national tourism transportation
- Increased seasonal dispersal – peak, shoulder and off peak
- Increased environmental sustainability
- Improve financial sustainability for KiwiRail
- Improve safety for tourists and KiwiRail employees

2.2.2 Existing Arrangements and Business Needs

This investment request has four interlinked components – rolling stock, platform upgrades, IT reservation system and increased marketing. All of them are required as a package to enable and support greater capacity which will in turn drive revenue growth for both the regions and KiwiRail.

ROLLING STOCK

The TranzAlpine is our most popular route in terms of passenger demand and due to its popularity, it is financially self-sustaining. The service has become a New Zealand icon that has been named among the world's top train journeys by publications including the National Geographic⁵⁹.

International exposure and the consistency of the TranzAlpine services has enabled the wholesale market to promote this train journey as a key part of any South Island travel itinerary. Daily services also allow independent travellers the flexibility to experience the TranzAlpine when they wish to.

The TranzAlpine now carries around 80,000 passengers a year to and from Greymouth. During the peak season, we are at capacity on our TranzAlpine services. With greater capacity, KiwiRail will be able to transport more passengers to the West Coast which will provide greater opportunities for businesses and tourism ventures.

The Coastal Pacific has been offline since the Kaikoura Earthquake in 2016 and is due to back online in late 2018. Due to inconsistency of the timetable, the Northern Explorer has been running at a loss. The reason we continue to deliver and wish to further develop Coastal Pacific and Northern Explorer services is that we recognise how important they are for economic growth and social inclusion in the regions. We also recognise KiwiRail's role in providing an integrated tourism transport solution across New Zealand.

Passengers and the wholesale market have advised KiwiRail that the inconsistency of our Coastal Pacific and Northern Explorer services make it difficult to plan a trip using those routes. For example:

- the Coastal Pacific currently only operates six months of the year
- we do not offer a bidirectional daily service on the Northern Explorer

⁵⁹ <http://www.kiwirail.co.nz/news/502/78/KiwiRail-celebrates-30-years-of-the-TranzAlpine.html>

This constraint is having a significant impact on New Zealand's ranking on the Travel & Tourism Global Competitiveness Index which relates to New Zealand as an attractive destination⁶⁰. There is so much to see and do in New Zealand, but as a country, we don't make it easy for visitors to get around our country.

Our future financial modelling shows that investment in additional rolling stock on the TranzAlpine and Coastal Pacific will create immediate returns for KiwiRail.

By increasing the capacity and resilience of the TranzAlpine and Coastal Pacific, we will be able to attract a greater number of passengers. With more certainty of visitor numbers, this will open up opportunities for new businesses and tourism ventures in those regions.

Lack of capacity is also affecting our ability to be resilient. Resilience is a key issue for our business and is putting regional revenue at risk. To run all three services at peak, we require 100% availability of all carriages and vans. Whilst the Coastal Pacific has been offline our capacity and resilience constraints have been hidden⁶¹.

Any critical service failure poses unacceptable operational, financial and reputational risk to KiwiRail and will detrimentally impact regional economies as a result of fewer visitors.

An example of a critical service failure would be if a café car on one of our services is unavailable due to either scheduled or reactive maintenance, the entire train will be taken offline as the service cannot run without a café car. Therefore, we do not have any resilience in our fleet.

Without sufficient resilience, this impacts adversely on the quality of the experiences that KiwiRail can offer and on New Zealand's reputation as a destination. We estimate up to ^{s 9(2)(b)(ii)} of revenue for KiwiRail may be lost due to lack of resilience. This loss equates to approximately ^{s 9(2)(b)(ii)} ^{s 9(2)(b)(ii)}. This lack of resilience decreases potential regional economic earnings. For example, if the TranzAlpine cannot run over 400 passengers will not visit the West Coast.

⁶⁰ <https://www.weforum.org/reports/the-travel-tourism-competitiveness-report-2017>

⁶¹ Coastal Pacific is due to be back online in late 2018

PREMIUM

KiwiRail does not currently offer a Premium service of any kind across the TranzAlpine, Coastal Pacific and Northern Explorer services. KiwiRail's tourism strategy to date has just been about providing 'point to point' journeys. Our future tourism strategy will focus on partnerships, packages, consistency of service and truly providing connected journeys throughout New Zealand – this include the introduction of a Premium service.

Interest is growing from international investors and our customers are requesting a Premium rail services in New Zealand. If competitors like the Antipodean Explorer successfully enter the market, KiwiRail are at risk of losing some of our existing passenger base to competitors⁶². Without a Premium offering, KiwiRail will forgo the opportunity to transport high yield passengers and connect them with our partners in the regions to enjoy high quality packages and experience.

According to Tourism New Zealand's November 2017 Insights Report the luxury travel market is projected to be the fastest growing segment of the travel industry worldwide⁶³. To capture the growing international Premium market, Tourism New Zealand are focusing their attention locally on activities and investments which will increase the number of high-value visitors to New Zealand. KiwiRail works closely with Tourism New Zealand and we have made a concerted effort to align our tourism objectives.

If KiwiRail are to meet the need of the growing luxury travel market, we need to develop a Premium offering. We expect that our Premium offering will initially be in the form of a hybrid service with a mixture of standard and Premium carriages. However, in time based on demand, we would consider developing a fully dedicated Premium service. Any Premium service that KiwiRail offers will be staggered across existing routes based on demand and return on investment.

We estimate that a total capital investment of \$9(2) will be required to deliver a Premium service on the TranzAlpine and Coastal Pacific. This estimate includes:

- Cost of 3 refurbished carriages to deliver a Premium service in the South Island
 - 1 premium carriage on TranzAlpine
 - 1 premium carriage on Coastal Pacific
 - 1 premium carriage spare in the South Island
- Project management costs will be shared with the additional rolling stock, platform upgrades and IT reservation system projects

⁶² Albeit the extent of any loss will be dependent on the level of Premium offering available.

⁶³ Luxury Tourism, Tourism New Zealand, Insights Report First Edition, November 2017

PLATFORM UPGRADES

As we seek to increase our rolling stock for Scenic and lengthen our trains, capital investment in platform upgrades will also be essential. KiwiRail's Scenic rail journeys are regarded internationally as some of the best in the world, but our platforms do not reflect the high quality of service delivered on board.

Passengers are currently alighting onto regional platforms which are damaged and have pot holes. Starting or finishing a journey on a regional platform which is damaged or has inadequate shelter and/or lighting diminishes the customer experience which is at the heart of our scenic rail business.

On the TranzAlpine we are running our trains at full carriage and van capacity to meet demand however the extended length of the train means that it can no longer fit alongside the platform⁶⁴. Passengers on board are required to travel through other carriages to safely alight the train. Platform quality and heights across the regions can vary so much on our existing routes that KiwiRail even makes it passengers aware of it in the Scenic booking terms and conditions: "Platform heights can vary between stations; this may make boarding the train difficult"⁶⁵.

Wheelchair access is provided via a hoist on each side of the café car to assist passengers to board and disembark. However, if café car is off the platform then we cannot safely access this hoist for passengers with wheelchairs. This is a regular issue during peak season on the TranzAlpine. We have attempted to reconfigure the carriages on the service but passenger feedback regarding to the noise of the generator van has impacted on the current configuration of the carriages and vans on the TranzAlpine.

To allow for longer trains and to improve safety and accessibility we need to invest in high-quality and safe platforms which are of an adequate length with sufficient facilities.

We can work with the communities to create a welcoming gateway to each of the towns that we service. These platforms and station upgrades could potentially be decorated by local artists and carvers and could be a tourism attraction in its own right – such as the Hunterwasser bathrooms in Kawakawa where modern art meets modern convenience⁶⁶. Platform extensions and upgrades are essential to allow for longer trains and improve quality, safety and accessibility.

Initial estimates indicate upgrades will cost between s 9(2)(b)(ii) per platform depending on the level of work required.

⁶⁴ <https://www.odt.co.nz/regions/west-coast/how-tourism-icon-was-set-train>

⁶⁵ <https://booking.kiwirailscenic.co.nz/Documents/TC-Default.pdf>

⁶⁶ <https://www.atlasobscura.com/places/hundertwasser-toilets>

IT RESERVATION SYSTEM

Technology is having a significant impact on the tourism industry. Travel companies, such as Air New Zealand, are lifting the expectation of what an 'experience' with a travel company should be, with technology being an enabler for a customer-centric seamless experience.

Achieving provincial rail growth is also dependent on the rollout of a new IT reservation system. Our current IT platform consists of three legacy booking systems which inhibit growth and customer experience. Problems encountered include but are not limited to:

- A seamless experience from the moment of booking to post travel
- Disjointed communication to customers and lack of connection between our product journeys
- Paper bookings
- Inadequate vendors and technical debt impede routine tasks, such as loading fares, which are resource intensive and costly
- Unable to effectively manage pricing initiatives to improve yield
- Losing customers due to complexity of booking online
- Our systems are unable to facilitate tourist experiences in the regions, we have had to outsource this limiting revenue opportunities
- Limited ability to easily plug-in to tourism wholesaler technology and creates customer frustration.
- Unable to implement productivity initiatives
- A decentralised set of customer data and the inability to record and extract data successfully prevents the business making smart data-driven business decisions to optimise revenue, marketing and product (can't plug into CRM).

To meet the needs of current/future customers and actualise our Tourism Horizons we require a new reservation system and appropriate plugins to enable a longer term digital roadmap. The core areas which require full scoping are:

- A Seamless Digitalised Self-Managed Customer Booking Experience

The goal is to improve the booking flow, self-management and check-in experience for customers, using digital technology as the enabler. This would improve customer interactions with KiwiRail - from booking on the website and self-managing their bookings online (and therefore reducing the need for staff-handling), remote check-in, paperless boarding passes, real-time travel updates, communications before/during/post journey, through to socialising their travel experience.

- Improve Yield (Revenue) Through Product Offerings

An evaluation of the current reservation system is required to assess the ability to deliver some key product offerings, to drive the delivery of passenger and revenue targets.

This includes:

- o The ability to include packages within our own reservation system that enables customers to create itinerary planners, quotes, hold availability and book.
- o The ability to optimise revenue opportunities as set out in the pricing project which would align us to industry best practice.
- o The ability for new product development, such as premium, seat selection, upgrades, priority boarding and new routes to increase our yield.

- o Improve wholesale partnerships through standardised plugins to our reservation system for partner technology

- Improve Conversion Rate For Online Bookings

s 9(2)(b)(ii) (58%) of our tourism business is done through online bookings (run through our reservation systems) and is where the journey begins. The reservation system was out of scope for the new GJNZ website and currently, any required changes to the booking flow are costly, labour intensive and slow to be realised.

Recent studies show the average abandonment rate for e-commerce sites is 71.42% - ours are currently 83.9% for Interislander and 90% for Scenic Trains (FY18 peak). Reduction in our abandonment rate by just 1% for both booking engines would result in an improved revenue of s 9(2)(b) for scenic & s 9(2) for Interislander.

- Customer Service Experience

Over 70% of consumers now use social media networks for customer services queries and this continues to increase. There is an expectation that responses will be available 24/7 in real-time and in a customer's language. KiwiRail currently only provides a phone number (NZ business hours), email (not instant) or Facebook messenger, which is manned by the marketing team during business hours.

We need the ability for customers to talk to us 24/7, in their language and have the option to pay with their local currency.

- Data-Driven Customers Insights

The business requires the ability for the reservation system to accurately record customer data and insights which can then extrapolated for financial reporting, customer insights and journey mapping, customer communication and service management, as well as future customer acquisition.

All this needs to be done with certainty that customer data is managed and stored securely.

- Simplification and Speed to Market

The reservation system does not currently provide the business the opportunity to test, learn and optimise with new products and routes quickly and reiteratively to enable us to get initiatives to market at speed. There is an over reliance on vendors to complete BAU tasks, which slows down go-to-market processes.

Without a new reservation system in FY20 we will not be able to deliver a premium service and will struggle to deliver growth on existing services i.e. packages.

Cost: The estimated project cost for this initiative is s 9(2) Refer to Appendix for cost breakdown

MARKETING COSTS

We estimate that in the two years prior to these new services being available we will require an additional s 9(2) for marketing. We know from previous experience that it can take some time for new services to be widely promoted and for a ground swell of interest to build. The international wholesale market will be critical for our growth success and therefore we need to market to them.

To support the first year of operations an additional s 9(2) is required to capture tourists booking direct through digital channels.

KiwiRail does not currently invest in any international marketing campaigns, outside selected wholesale brochures and Tourism New Zealand Trade Trips. International growth outside our wholesale partners has been achieved by advertising in the domestic market. Domestic advertising has limited reach as tourists often plan their itineraries prior to travel.

Further international exposure is leveraged from travel editorial in international publications like the National Geographic or digital channels, website & social media.

To establish our services as a “must do” travel experience, connecting tourists to regional experiences we must deliver:

- Increased international brand reach aligned to Tourism New Zealand markets
- Increased brand awareness and global reputation of an exemplary tourist rail experience facilitating travel throughout New Zealand
- Showcase iconic regional activities e.g. West Coast: Punakiaki, Oparara Arches
- Target markets with propensity to travel off peak
- Invest in Chinese marketing capability
- Continued investment in digital, adwords & social media
- Increased representation at international trade events
- Continued domestic advertising
- Diversify visitor markets

To achieve our growth targets and provide sustainable economic development for the regions we need to ensure we can fill the available seats (as a result of increased capacity) and generate a sustainable pipeline of tourists. To do this we require funding to deliver targeted international marketing campaigns for our scenic business as well as attend the relevant tourism trade shows to ensure brand reach and conversion.

Detailed below is a summary of the existing arrangements and business need for each of the investment objectives for this business case.

Table 4: Summary of existing arrangements and business needs

Investment Objective 1	Increased tourism patronage
Existing Arrangements	<p>KiwiRail currently delivers significant value to the regions through our existing services circa \$100m. Due to a lack of capacity our passenger numbers are capped, which means our ability to provide revenue growth to the regions is capped.</p> <p>Prior to the Coastal Pacific being offline, our Scenic Rail Freedom Pass⁶⁷ generated \$9(2) sales in 2016. This indicates that although KiwiRail's Scenic services only offer a partially connected journey throughout New Zealand, there are many tourists who are keen to experience New Zealand by rail where our network allows. Inconsistency of services caused by a lack of capacity is also impacting our passenger numbers.</p> <p>Wholesale tourist operators and travel agents are not willing to book their customers onto our services due to the inconsistencies in our services i.e. not all are daily or bidirectional.</p> <p>We do not have enough rolling stock to provide a daily service on the Northern Explorer from both Auckland and Wellington. We do not have enough rolling stock to offer the Coastal Pacific service 12 months of the year. Without consistent services, we are foregoing revenue and we are unable to provide a truly connected journey.</p> <p>Passenger feedback on our rail journeys confirms that we have an opportunity to maximise revenue and better meet the needs of tourists and commercial tourism operators by reviewing our core routes and providing other service options within our existing routes.</p> <p>According to Tourism New Zealand's November 2017 Insights Report the luxury travel market is projected to be the fastest growing segment of the travel industry worldwide⁶⁸. To capture the growing international premium market, Tourism New Zealand is focusing their attention locally on activities and investments which will increase the number of high-value visitors to New Zealand. Our services offer no differentiation of class, we are foregoing revenue and unable to accommodate the luxury market.</p> <p>While it is difficult to quantify the impact of social media, in a world where holidays are now researched and booked digitally we know that negative comments can have significant effects on our</p>

⁶⁷ Scenic Rail Freedom Pass is a flexible 'Book As You Go' travel pass that allows you to travel on New Zealand's Scenic rail services as well as the Interislander. Passes can be booked up to 12 months in advance and are valid for 12 months from date of first travel.

⁶⁸ Luxury Tourism, Tourism New Zealand, Insights Report First Edition, November 2017

	<p>customer service, brand reputation and yield that we are able to charge.</p>
<p>Business needs</p>	<p>KiwiRail's Connected Journeys strategy relies on KiwiRail committing to develop new services such as same day or daily bidirectional services to accommodate international traveller itineraries and thus increasing revenue. We require additional rolling stock to meet our strategic goals.</p> <p>Investment will enable us to strengthen and extend our network and provide economic growth along existing regional routes. With investment described in the revised business case we would be seeking to introduce:</p> <ul style="list-style-type: none"> - a year-round daily service on the Coastal Pacific - extra rolling stock to our TranzAlpine service - a Premium service on Coastal Pacific and TranzAlpine <p>In the future KiwiRail will still seek to deliver a bidirectional daily service on the Northern Explorer supporting the embryonic Ruapehu region. The consistency of a daily bidirectional service will achieve an increase in passenger numbers. This in turn will increase regional economic growth, jobs relating to tourism. A bidirectional daily service on the Northern Explorer would become self sustainable.</p> <p>If KiwiRail are to meet the need of the growing luxury travel market, we need to premium offering. The premium offering may initially be in the form of a hybrid service with a mixture of standard and premium carriages however in time, based on demand, we would consider developing a fully dedicated premium service. Any premium service that KiwiRail offers will likely be staggered across existing routes based on demand and return on investment.</p> <p>To build passenger numbers we need to work with regional partners to create and deliver packages which will improve regional revenues and yield opportunities for KiwiRail. We will also need to work with our channel partners to communicate with an international audience. Developing packages and partnerships within the regions and prioritising the international market will be a critical part of KiwiRail's future tourism growth strategy.</p> <p>To meet the needs of current/future customers and actualise our Tourism Horizons we require a new reservation system to enable Premium, improve our digital conversion rate and customer experience.</p> <p>We require funding to deliver targeted international marketing campaigns to generate a sustainable pipeline of tourists experiencing New Zealand and our regions by train.</p>

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Investment Objective 2	Increased economic benefits to the regions
Existing Arrangements	<p>Scenic currently only offers a limited range of services:</p> <ul style="list-style-type: none"> - Northern Explorer service runs an alternate day service between Auckland and Wellington. It leaves Auckland on Monday, Thursday and Saturday. It leaves Wellington on Tuesday, Friday and Sunday. - TranzAlpine services offers a daily return journey from Christchurch to Greymouth - Coastal Pacific runs daily between Christchurch and Picton but has traditionally only for 6 months of the year. The Coastal Pacific is currently offline due to the 2016 Kaikoura Earthquake, due to be online late 2018. <p>The number of passengers that we can currently transport to the regions is capped, which limits the economic benefits available to the regions.</p> <p>Also, the regions need to create and deliver a range of experiences worth stopping for, particularly given tourists on a premium service have a higher disposable income to spend.</p>
Business needs	<p>Investment in additional rolling stock will enable us to unlock our capacity constraints. With more carriages, we will be able to transport a greater number of visitors to the regions. Without additional rolling stock, we will forego revenue as the revenue will be capped.</p> <p>Without sufficient resilience, this impacts adversely on the quality of the experiences that KiwiRail can offer and on New Zealand's reputation as a destination. We estimate up to s 9(2) of revenue for KiwiRail may be lost due to lack of resilience. This loss equates to approximately s 9(2)(b)(ii) over 10 years. This lack of resilience decreases potential regional economic earnings. For example, if the TranzAlpine cannot run over 400 passengers will not visit the West Coast.</p> <p>Consistent services will provide regions with more certainty as to passenger numbers across a year. A regular Coastal Pacific service will increase tourist numbers to the West Coast via the TranzAlpine.</p> <p>KiwiRail will continue to work with our tourism partners to develop experiences and packages for visitors who choose who visit the regions which we support.</p> <p>More visitors in regional areas will be spending money on food, accommodation and activities. This has a positive knock-on impact to many parts of the region. KiwiRail's Scenic services are</p>

	referenced in many local and regional council documents and are recognised as being a key transport enabler for their region.
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<p>Investment Objective 3</p>	<p>Increased resilience of scenic rail services</p>
<p>Existing Arrangements</p>	<p>While the Coastal Pacific has been offline the capacity and resilience constraints have been hidden. To run all three services at peak, we require 100% availability of all carriages and vans. Any critical service failure poses unacceptable operational, financial and reputational risk to the Tourism business.</p> <p>We will not be able to run a year-round Coastal Pacific service until we have sufficient fleet resilience.</p> <p>An example of a critical service failure would be if a café car on one of our services is unavailable due to either scheduled or reactive maintenance, the entire train will be taken offline as the service cannot run without a generator van or café car.</p> <p>In the last 10 months we have had three service failures, two off peak and one in the shoulder season. The two on peak service failures resulted in a loss of \$ 9(2)(b). The shoulder season failure resulted in a loss of \$ 9(2)(b) over two days. During the same period, on three occasions we went 'right to the wire'. Services were almost cancelled whilst clarity was sought on whether minimum operating standards had been reached.</p> <p>During peak if the TranzAlpine is offline, there is a significant financial impact. For example:</p> <ul style="list-style-type: none"> - Out for 1 day = \$ 9(2)(b) - Out for 1 week = \$ 9(2)(b) - Out for 1 month = \$ 9(2)(b) <p>We don't have sufficient carriages in our fleet to have any redundancy. As our carriages age, their risk profile increases. Our carriages are maintained to manufacturer standards however to ensure that we can deliver a full suite of peak season, carriage maintenance is scheduled for off peak.</p> <p>The current offering is a standard carriage and service and does not cater for the growing luxury travel market.</p>
<p>Business needs</p>	<p>Investment in additional rolling stock and premium carriages will enable us to unlock our capacity constraints, increasing revenue. With more carriages, we will be able to reliably provide rail journeys and cater for the luxury market. More carriages and consistent services will also provide visitors with a definitive modal choice when travelling in New Zealand.</p> <p>Resilience in our fleet is critical for KiwiRail to practically meet its</p>

s 9(2)(b)(ii)

	<p>disruption management strategies. Due to the age of our rolling stock, KiwiRail has implemented a number of operational constraints in order to mitigate any safety concerns with ageing assets. This impacts our ability to consistently deliver services which impacts our revenue and regional economic growth.</p> <p>KiwiRail's Scenic rail services are dependent on delivering a quality customer experience. Lack of resilience leading to cancelled services or refurbished carriages which don't meet the same high standard as existing carriages have the potential to adversely impact the quality of KiwiRail's experience and on New Zealand's reputation as a destination.</p>
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<p>Investment Objective 4</p>	<p>Offer world class tourism experiences</p>
<p>Existing Arrangements</p>	<p>For KiwiRail’s Scenic rail services to truly be considered as a world class tourism experience we need to think beyond just the quality of the carriages.</p> <p>We need to consider the whole journey; from ease of booking, onboard comfort, frequency of services, high quality regional tourism activities and packages, and even the platforms where passengers start and end their journeys.</p> <p>Our platforms do not reflect the high quality of service delivered on board. Passengers are currently alighting onto regional platforms which are damaged and have pot holes. Starting or finishing a journey on a regional platform which is damaged or has inadequate shelter and/or lighting diminishes the customer experience which is at the heart of our scenic rail business.</p> <p>The current offering is a standard carriage and service and does not cater for the growing luxury travel market.</p>
<p>Business needs</p>	<p>With additional rolling stock we will be able to deliver regular daily services on the Coastal Pacific and additional capacity on the TranzAlpine and ensure resilience across our fleet. This consistency and resilience will enable local authorities and tourism partners to work with us to develop packages for our passengers to be able to experience.</p> <p>Investment in an improved digital booking system is essential for the scenic business, particularly if we are to introduce a Premium service on our scenic rail journeys⁷⁰. A Premium product will unlock new markets and segments. We anticipate that 40,000 customers per year will enjoy our Premium service, growing to 50,000 by 2035.</p> <p>We also need to invest in high-quality and safe platforms of an adequate length, with sufficient facilities. These platforms and stations would create a welcoming gateway to each of the towns that we service.</p> <p>They could potentially be decorated by local artists and carvers and could be a tourism attraction in its own right – such as the Hunterwasser bathrooms in Kawakawa where modern art meets modern convenience⁷¹.</p> <p>Platform upgrades are essential to allow for longer trains and improve quality, safety and accessibility.</p>

⁷⁰ Both the reservation system and Premium carriages will be dealt with under a separate business case

⁷¹ <https://www.atlasobscura.com/places/hundertwasser-toilets>

Investment Objective 5	Improve national tourism transportation
Existing Arrangements	<p>New Zealand is a popular destination with international tourists but one of the key barriers for tourists are the limitations of New Zealand's current transport infrastructure⁷². This constraint is having a significant impact on New Zealand's ranking on the Travel & Tourism Global Competitiveness Index which relates to New Zealand as an attractive destination⁷³. There is so much to see and do in New Zealand, but we don't make it easy for visitors to get around our country.</p> <p>KiwiRail's network is an integral part of New Zealand's integrated tourism transport infrastructure. New Zealand is a popular touring destination for visitors however most touring is done by road and not rail. Just as we are encouraging more freight to be carried by road rather than rail, there are road safety and carbon emission benefits to encourage more visitors to get off the road and experience New Zealand via rail.</p> <p>We cannot carry any more passengers without additional carriages. We cannot cater for the growing luxury travel market without additional carriages.</p>
Business needs	<p>As a key transport provider to the regions, KiwiRail has a responsibility to unlock tourism infrastructure and supply constraints.</p> <p>With investment in additional rolling stock KiwiRail can help alleviate this issue and get more visitors to the regions. We will be able to provide sustainable economic development to the regions, increase our fleet resilience, meet the needs of a growing passenger base and truly provide connected rail journeys throughout New Zealand which are affordable and reliable.</p> <p>In areas that we don't provide rail services, we can partner to ensure KiwiRail passengers can enjoy a high quality onward journey. Certainty of increased passenger numbers will enable this.</p>

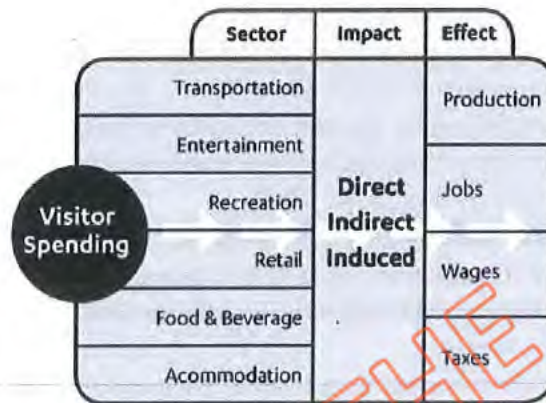
⁷² Deloitte National Tourism Infrastructure Assessment Tourism Industry Aotearoa March 2017

⁷³ <https://www.weforum.org/reports/the-travel-tourism-competitiveness-report-2017>

2.3 Main Benefits

The economic importance of tourism to a destination is commonly underappreciated and extends well beyond core hospitality and transportation sectors.

Visitor spending in a region across any sector can have a direct, indirect and induced impact on tourism economics by way of increased production, jobs, wages and taxes⁷⁴.



Travel & Tourism (T&T) is an important economic activity in most countries around the world. As well as its direct economic impact, the industry has significant indirect and induced impacts⁷⁵.



Figure 1 – Defining the Economic Contribution of Travel and Tourism⁷⁶

Direct:

The direct contribution of Travel & Tourism to GDP reflects the ‘internal’ spending on Travel & Tourism (total spending within a particular country on Travel & Tourism by residents and non-residents for business and leisure purposes) as well as government ‘individual’ spending - spending by government on Travel & Tourism services directly linked to visitors, such as cultural (e.g. museums) or recreational (e.g. national parks).

⁷⁴ <http://www.tourismeconomics.com/economic-impact/tourism-economic-impact>

⁷⁵ World Travel and Tourism Council: Travel and Tourism Economic Impact 2017 World p6

⁷⁶ World Travel and Tourism Council: Travel and Tourism Economic Impact 2017 World p6

Indirect:

- The total contribution of Travel & Tourism includes its 'wider impacts' (i.e. the indirect and induced impacts) on the economy. The 'indirect' contribution includes the GDP and jobs supported by: Travel & Tourism investment spending – an important aspect of both current and future activity that includes investment activity such as the purchase of new aircraft and construction of new hotels
- Government 'collective' spending, which helps Travel & Tourism activity in many different ways as it is made on behalf of the 'community at large' – e.g. tourism marketing and promotion, aviation, administration, security services, resort area security services, resort area sanitation services etc
- Domestic purchases of goods and services by the sectors dealing directly with tourists – including, for example, purchases of food and cleaning services by hotels, of fuel and catering services by airlines, and IT services by travel agents.

The beneficiaries of investing in Provincial Rail Growth includes:

- Regional tourism operators and supporting services (food, accommodation, transport etc) – a greater number of visitors to the region will increase economic growth in the community and will create a positive knock on effect
- Tourists – safe, reliable transport mode
- KiwiRail – increased capacity will enable growth and result in a more sustainable service offering
- Iwi – consistent services will provide iwi opportunities establish and invest in eco-cultural tourism and the provision of niche tourism offerings e.g. iwi focused accommodation and activities
- Environment – rail is a low carbon transport option compared with alternative modes
- Regions - KiwiRail's Scenic rail journeys can be experienced year round as they are suitable for peak, shoulder and off peak tourism experiences
- By 2026, KiwiRail will double the number of tourism jobs from 880 (in FY18) to more than 1,906 through increasing its tourism services across the country.

An analysis of the potential detailed benefits of the investment proposal is provided detailed in the tables below.

Table 5: Potential benefits that can be expressed in monetary terms

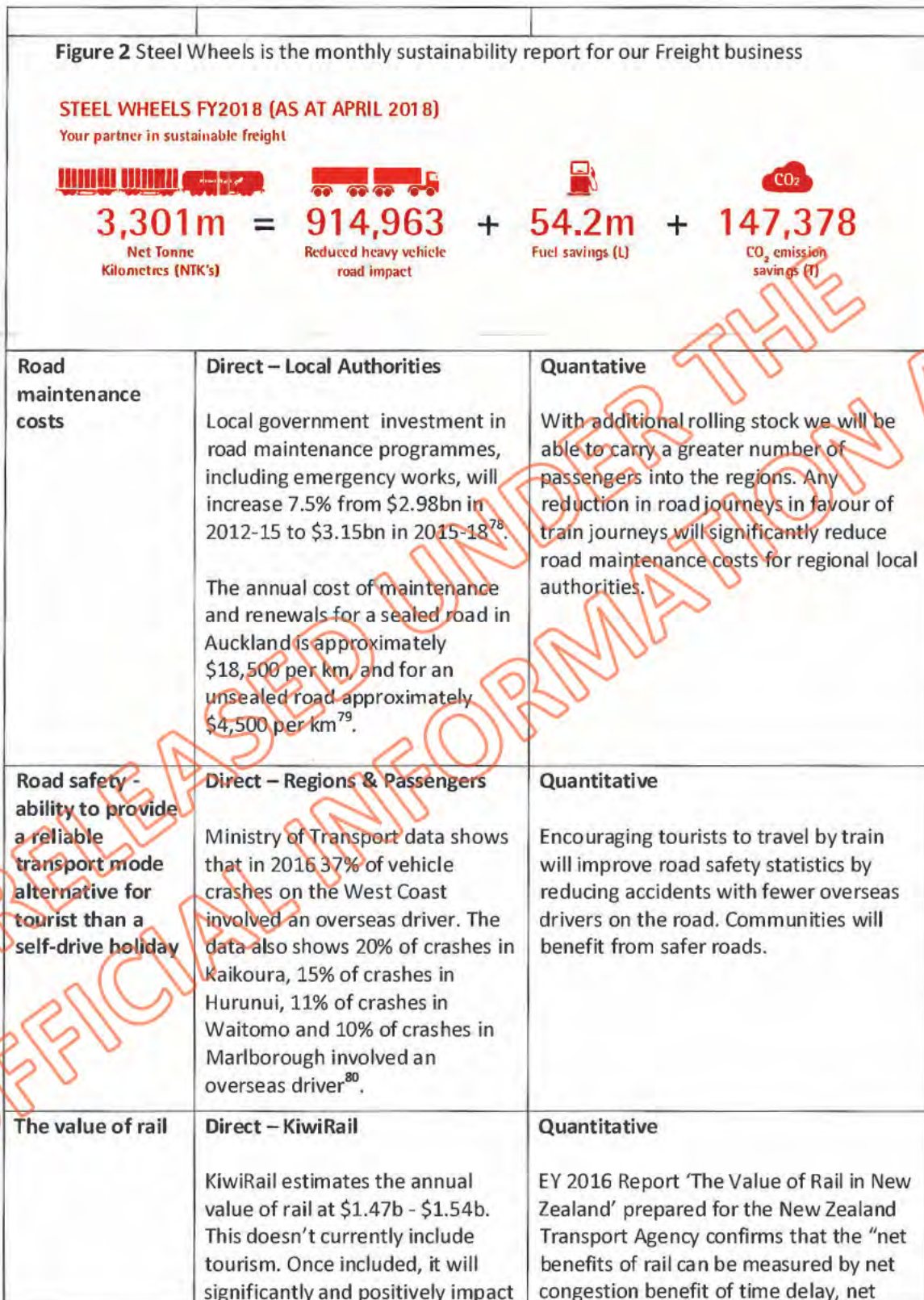
Main Benefits	Description	Who Benefits?
Regional economic development	More visitors in regional areas spending money on food, accommodation and activities. Increased capacity will allow a greater number of passengers to visit the regions.	Regions Regional spend per passenger i.e. our estimates for Ruapehu indicate that passengers who stop in that region spend on average \$715 per person.
Potential to provide a range of services which will meet tourist and wholesale market needs	Additional services to the scenic core routes such as year-round daily Coastal Pacific service and daily bidirectional services on the Northern Explorer will meet the needs of the tourist and wholesale market. Additional	Regions & KiwiRail Greater economic growth for the regions through greater passenger numbers visiting their regions. Additional revenue and additional

	capacity will allow un-met demand to be captured by KiwiRail.	EBITDA for KiwiRail.
Main Benefits	Description	Who Benefits?
Improved resilience as a result of increased capacity	Currently 100% of rolling stock is used and this does not allow for a daily bidirectional service on the Northern Explorer or allow 12-month Coastal Pacific operation – let alone provide any mechanical resilience for the TranzAlpine in peak.	<p>Regions & KiwiRail</p> <p>KiwiRail’s lack of fleet resilience negatively impacts the regions, if we are unable to transport a maximum number of passengers to them.</p> <p>Without additional rolling stock and sufficient resilience, up to \$ 9(2) of revenue for KiwiRail may be lost. § 9(2)(b) § 9(2)(b)(ii)</p>

Table 6: Potential benefits that cannot be reliably expressed in monetary terms

Main Benefits	Who Benefits? Direct or Indirect?	Description and Possible Measures. Quantitative or Qualitative?
Improved environmental sustainability outcomes associated from reduced carbon emissions from vehicle movements instead of trains	<p>Direct – Regions, iwi & KiwiRail</p> <p>We have committed to meet sustainability obligations as a partner of Tourism Industry Aotearoa.</p> <p>Contribution towards achieving New Zealand’s emission reduction targets.</p>	<p>Quantitative</p> <p>Rail is a low carbon transport option.</p> <p>Rail offers improved environmental sustainability outcomes associated from reduced carbon emissions from vehicle movements instead of cars.</p> <p>We will report on our carbon savings in the Tourism business, as we currently do in the Freight business⁷⁷.</p>
Year round experience to embryonic regions	Direct – Regions & KiwiRail	<p>The attractiveness of KiwiRail’s Scenic rail journeys is year round as its journeys are suitable for peak, shoulder and off peak tourism experiences.</p> <p>KiwiRail showcases New Zealand’s landscapes throughout the different seasons and transports visitors to less visited regions</p>

⁷⁷ http://www.kiwirailfreight.co.nz/media/21144/steel_wheels_report.pdf



⁷⁸ <https://www.nzta.govt.nz/planning-and-investment/national-land-transport-programme/nltp-2015-18/2015-18-nltp-investment/national-land-transport-programme-at-a-glance/road-maintenance/>

⁷⁹ <https://at.govt.nz/about-us/asset-maintenance/road-sealing/>

⁸⁰ <https://www.transport.govt.nz/assets/Uploads/Research/Documents/Overseas-drivers2016.pdf>

	the value of rail in New Zealand.	safety benefit, net maintenance benefit, net emissions benefit”.
Social Inclusion	<p>Direct – Regions & iwi</p> <p>Ruapehu District Council has spoken with local kaumātua who noted the over-representation of Māori in a wide array of sub-optimal indicators of social and economic performance. There is a desire by local iwi to bring home whānau by creating real employment opportunities⁸¹.</p>	<p>Qualitative</p> <p>Improvement of iwi social and economic performance indicators.</p>
Jobs and economic development	<p>Direct - Regions & iwi, Communities</p> <p>Ruapehu District Council’s conversations with iwi leaders / kaumātua indicated they had a particular interest in growing the skills of their young people, to enable them to play a stronger role in the provision of guiding and hosting services. They saw this as an opportunity to build a stronger visitor understanding of iwi stories, history, and heritage.</p> <p>MBIE research has clearly indicated international visitors have a particular interest in adding depth to their travel experiences by sharing in iwi perspectives. Additional training and capacity building assistance may be required to assist with this.</p>	<p>Quantitative</p> <p>More visitors in regional areas spending money on food, accommodation and activities.</p> <p>The visitor sector has a ‘reach’ into many other parts of the economy. The definitions applied by Statistics NZ suggest the visitor sector will contribute to jobs in the following sub-sectors: accommodation; food services; passenger transport; scenic and sightseeing transport; travel agency services; vehicle rental; museum operation; gardens, parks and reserves, sport venues and facilities; retailing, education and visitor sector-related products⁸².</p> <p>As the use of highways has increased, we have seen the relative decline of many small towns which were located next to railways. Rail had previously been the source of market opportunities⁸³.</p>
Maori development	<p>Direct – Regions & iwi</p> <p>Our tourism partners, such as the Ruapehu District Council through their Regional Visitor Development Plan, are working</p>	<p>Qualitative</p> <p>Success for Māori enterprise encompasses the integration of social, cultural, economic, environmental and spiritual wellbeing. Iwi consider that</p>

⁸¹ 2017 Ruapehu’s Regional Visitor Development Plan

⁸² 2017 Ruapehu’s Regional Visitor Development Plan

⁸³ <https://www.transport.govt.nz/assets/Uploads/Our-Work/Documents/Strategic-Policy-Programme-Brochure.pdf> (Page 4)

	<p>with local iwi, as investors in tourism, on new ventures in their region.</p> <p>Kaumātua that Ruapehu District Council spoke with noted the importance of building the capacity, skills and talents of iwi to comfortably allow them to play an appropriate role in the visitor sector. They told us iwi have high development aspirations. The visitor sector is a vehicle to achieve these aspirations⁸⁴.</p> <p>Te Pai Tawhiti, the Māori economic development strategy for Manawatū Whanganui⁸⁵, recorded iwi willingness to be involved in the tourism industry and noted wholesale tourism could staircase iwi into tourism at scale.</p>	<p>visitor opportunities exist in the overlap between two intersecting circles – the first representing manaakitanga (hospitality) and the second reflecting kaitiakitanga (guardianship).</p> <p>Iwi also saw opportunities at a local level - for eco-cultural tourism and the provision of niche tourism offerings e.g. iwi focused accommodation and activities, such as guiding and guide training. These activities provide an opportunity for Māori who want to be involved in tourism but may not have the resources to invest in larger scale options⁸⁶.</p>
<p>Improved resilience because of increased capacity</p>	<p>Direct - KiwiRail & Regions</p> <p>KiwiRail and the regions will benefit from improved resilience.</p> <p>Due to the popularity of our services, one day, week, or month without services can have a significant economic impact.</p>	<p>Quantitative</p> <p>Certainty of service irrespective of mechanical outages.</p> <p>No critical service failures due to sufficient resilience in the fleet. An example of a critical service failure would be if a café car on one of our services is unavailable due to either scheduled or reactive maintenance, the entire train will be taken offline as the service cannot run without a café car.</p> <p>In the last 10 months we have had three service failures, two off peak and one in the shoulder season. The two on peak service failures resulted in a loss of s 9(2)(b) The shoulder season failure resulted in a loss of s 9(2)(b) over two days. During the same period, on three occasions we went 'right to the wire'.</p>

⁸⁴ 2017 Ruapehu's Regional Visitor Development Plan

⁸⁵ Te Pai Tawhiti, a strategy for Māori economic development across the Manawatū-Whanganui Region, was launched by Minister Te Ururoa Flavell at Te Pai Tata in Ohakune on Thursday 3 November 2016.

⁸⁶ 2017 Ruapehu's Regional Visitor Development Plan

<p>Ability to provide a range of services which will meet tourist and wholesale market needs (including connected journeys)</p>	<p>Direct – Regions, Passengers, KiwiRail & Wholesale market</p> <p>We do not have the capacity to provide a daily service on the Northern Explorer from both Auckland and Wellington.</p> <p>We do not have the capacity to offer the Coastal Pacific service 12 months of the year.</p> <p>This makes it difficult for tourists and commercial tourist operators to leverage our services. Without consistent services, we are foregoing revenue and we are unable to provide a truly connected journey.</p>	<p>Quantitative and Qualitative</p> <p>We are not sure how much the regions are incurring in lost revenue due to our lack of consistent services.</p> <p>Also, while it is difficult to quantify the impact of social media, in a world where holidays are now researched and booked digitally we know that negative comments can have significant effects on our customer service, brand reputation and yield that we are able to charge.</p>
<p>Ability to create an integrated hub for other tourism providers in the regions</p>	<p>Direct - KiwiRail and Regions</p> <p>A rail hub could create amenity and attraction spokes in the community.</p>	<p>Quantitative</p> <p>This hub and spoke approach would enable increased services, capacity and access. It would establish community confidence in the development of new amenities and attractions.</p>
<p>Safer platforms</p>	<p>Direct - Regions</p> <p>Scenic rail journeys are regarded internationally as some of the best in the world, but our regional platforms do not reflect the high quality of service delivered on board.</p> <p>Passengers are starting or finishing a journey on a regional platform which have pot holes and inadequate shelter and/or lighting.</p> <p>We are running our trains at full carriage and van capacity to meet demand. However, this means that extended length of our trains can no longer fit alongside the regional platforms⁸⁷.</p>	<p>Qualitative</p> <p>Platform upgrades will ensure that the customer experience at all of the regional platforms will equal the high standard of customer experience on board.</p> <p>We could also work with local communities to create a welcoming gateway to the town and develop amenities and attractions which will meet the needs and interest of our passengers.</p>

⁸⁷ <https://www.odt.co.nz/regions/west-coast/how-tourism-icon-was-set-train>

Table 7: Provincial Tourism Rail Economic Impact






Investment Tier	Regions		
	Waikato, Ruapehu, Manawatu Northern Explorer	Marlborough, Kaikoura, Hurunui Coastal Pacific	West Coast TransAlpine
Revised Business Case Regional Projects & Capability 2027 Impact	Organic growth no Investment 42 additional jobs created +24% Tourist spend \$28.9m p.a. +37% Tourists 19,500 p.a. +27%	410 additional jobs created +136%: Tourist spend \$82.5m p.a. +142% Tourists 84,600 p.a. +103%	290 additional jobs created +72% Tourist spend \$80.3m p.a. +74% Tourists 118,900 p.a. +45%
Original Business Case Regional Projects & Capability 2027 Impact	296 additional jobs created +165% Tourist spend \$55m p.a. +165% Tourists 37,000 p.a. +131%	430 additional jobs created +143%: Tourist spend \$84.7m p.a. +143% Tourists 87,000 p.a. +102%	297 additional jobs created +74% Tourist spend \$81m p.a. +74% Tourists 120,000 p.a. +45%
Sector	Enables international itineraries Supports RAL PGF initiative & seasonality Key enabler for Ruapehu Visitor Development plan Target High Net Worth Individuals with premium	Enables international itineraries Supports proposed Cycle trail & seasonality Supports proposed DOC Great Walk Target High Net Worth Individuals with premium	Enables Tourism West Coast objectives Supports PGF initiatives Punakaiki, Old Ghost Road, Wilderness Cycle Trail Supports DOC dispersal Target High Net Worth Individuals with premium
Infrastructure	Development of a resilient national transportation system connecting surge regions Tourist Rail provides regional certainty and confidence Reduction of carbon emissions – environmentally sustainable economic growth Improved road safety Creates sustainable employment		

2.4 Main Risks

Risks result from uncertain events that either improve or undermine the achievement of benefits. The main risks that might create, enhance, prevent, degrade, accelerate or delay the achievement of the investment objectives are identified and analysed below.

Main Risks	Consequence	Likelihood	Comments and Risk Management Strategies
Refurbishment of carriages rather than purchasing new			<p>Risk of carriage refurbishment is a poor quality output and/or delays to delivery of service.</p> <p>To ensure that carriages are refurbished to a high quality, KiwiRail itself or a third party i.e. a boat builder needs to have sufficient technical skillsets/capacity able to do the refurbishment. Having suitable facilities able to undertake the refurbishment in New Zealand will be critical. KiwiRail could undertake this work at its Hillside or Woburn facilities.</p> <p>Existing design knowledge and skills will be leveraged across the refurbished carriages regardless of whether it is delivered by KiwiRail or a third party.</p>
Refurbishment of carriages goes over budget			<p>The number of refurbished carriages is known to KiwiRail. There is no exchange rate risk. Based on KiwiRail's experience, the estimated costs are in line with known costs to deliver projects of this magnitude.</p>
Delivery timelines for refurbished carriages could be impacted by other key projects			<p>KiwiRail has finite maintenance facility capacity. If other rolling stock projects e.g. Auckland to Hamilton run over time and schedule, this will impact the delivery of the Scenic carriage's refurbishment.</p> <p>A programme manager will be assigned by KiwiRail to coordinate the entire build and refurbishment projects. The KiwiRail Executive will provide overall governance on delivery and prioritisation.</p>
Procurement Risk			<p>The procurement process for new and refurbished rolling stock will be</p>

			<p>managed by KiwiRail and it will align with the Government's procurement policies.</p> <p>KiwiRail will manage the procurement process and Individual Strategic Procurement Plan(s) will be developed.</p> <p>KiwiRail has recent experience in procuring rolling stock i.e. 65 locomotives and more than 1,000 new wagons over the last 10 years.</p> <p>The refurbishment of carriages will be undertaken in New Zealand, either internally or by a third party. KiwiRail has previously built carriages for its existing services.</p>
<p>Project management risk</p>			<p>KiwiRail has defined project management processes. Project performance is tracked, including:</p> <ul style="list-style-type: none"> • Budget • Programme • Quality • Stakeholders • Risks • Health & Safety and Environmental • Governance – Executive and Board
<p>Insufficient engagement with regional stakeholders could impact KiwiRail's ability to create partnerships and promote packages</p>			<p>KiwiRail has been proactively engaging and communicating with a wide range of stakeholders including the wholesale market, regional tourist operators, DOC, Air New Zealand, and economic development agencies (in Local Authorities) regarding our short and long-term plans for additional rolling stock.</p> <p>To build passenger demand on new services on existing routes and new services on new routes, working with channel partners to communicate with a wider audience and increase our international marketing channels will be particularly important.</p>

<p>Governance risk</p>			<p>KiwiRail has defined project governance processes.</p> <p>A Project Control Group is established and is responsible for producing a single report for the KiwiRail Chief Executive and Board. Membership of the PCG will typically include:</p> <ul style="list-style-type: none"> • KiwiRail – Executive Owner (e.g. Group General Manager) • KiwiRail – Project Sponsor (e.g. General Manager Project Management Office) • Project Director • KiwiRail – Technical representation (TBC) <p>Project performance tracking includes:</p> <ul style="list-style-type: none"> • Budget • Programme • Quality • Stakeholders • Risks • Health & Safety and Environmental
<p>Forecast financial contribution to the regions could be overstated</p>			<p>EY has been engaged by KiwiRail to peer review our regional passenger spend per night calculations. Regional calculations have been verified during engagement with regions during the development of this business case.</p>
<p>Rolling stock performance does not meet required standard</p>			<p>KiwiRail is an experienced procurer of rolling stock assets. There are a number of stages and payment milestones which KiwiRail will require from suppliers. For example - deposits, design sign off, pre-shipment review as well as performance testing.</p> <p>Consideration will also be given to:</p> <ul style="list-style-type: none"> • Maintenance • Guarantee and warranty periods

			<p>and provisions</p> <ul style="list-style-type: none"> • Options to procure additional rolling stock • Spares and inventory (consignment) • Obsolescence • Interoperability <p>Supplier Agreements will be agreed.</p> <p>The rolling stock that we require is already proven, not bespoke – maintenance plans are already in place.</p> <p>KiwiRail to deliver track access (hook & tow).</p> <p>To mitigate any issues with refurbished carriages, a significant amount of time will need to be spent designing the carriages so that they are as alike as the existing Scenic carriages as possible. The Scenic business is renowned for delivering exemplary customer service. The quality of the refurbished carriages needs to be of a very high standard.</p>
<p>Reservation system is not built in time</p>			<p>A new reservation system is a critical path element.</p> <p>The new reservation system needs to be ready at least twelve months prior to the introduction of new and refurbishment carriages so that booking customer experience is improved and a greater number of enquiries will be converted to sales.</p>
<p>Increased tunnel management at Otira Tunnel required if adding additional carriages on the TranzAlpine</p>			<p>Scenic are working closely with KiwiRail's Rolling Stock Asset Service (RSAS) and Zero Harm teams to determine what additional tunnel management will be required.</p>
<p>Some regional platforms are damaged and are of varying heights compared with the train</p>			<p>Passengers are starting or finishing a journey on regional platforms which have pot holes and inadequate shelter and/or lighting. Personal injury risk to passengers is high.</p>

			<p>Due to the longer length of the trains versus the platform, we only allow passengers to alight the train where there is platform access. This is communicated to passengers prior to arriving at the station.</p> <p>Where the platform doesn't align with the length of the train, this causes delays and negatively impacts the customer experience.</p>
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Risk of investment delays

The timing of this investment is critical. Any delays will be detrimental. Delaying the first tranche of new rolling stock will raise the risk of existing rolling stock failing. Delaying the first tranche of new rolling stock will also affect regional economic development. If KiwiRail does not have sufficient capacity in its passenger fleet, then fewer passengers can travel to the regions.

While the Coastal Pacific Scenic service has been offline the capacity and resilience constraints have been hidden. To meet its service commitments and revenue targets KiwiRail attempts to run the maximum number of carriages and vans at peak, which can mean 100% utilisation. Any critical service failure poses unacceptable operational, financial and reputational risk to the tourism business.

An example of a critical service failure would be if a generator van on one of our services is unavailable due to either scheduled or reactive maintenance, the entire train will be taken offline as the service cannot run without electrical power to the carriages. In the last 10 months we have had three service failures, two off peak and one in the shoulder season. The two on peak service failures resulted in a loss of ^{s 9(2)(b)} The shoulder season failure resulted in a loss of ^{s 9(2)(b)} over two days. During the same period, on three occasions we went 'right to the wire'. Services were almost cancelled while clarity was sought on whether minimum operating standards had been reached.

A risk register will be developed and will be progressively updated as more detailed analysis is undertaken. A list of high level risks is available in the Appendix.

2.4.1 Optimism Bias

A list of the financial assumptions that we have used to reduce the effects of optimism bias can be found in section 3.1.1.

2.5 Key Constraints and Dependencies

The proposal is subject to the following constraints and dependencies. These will be carefully monitored during the project.

Table 8: Key constraints

Constraints	Notes
<p>Finance availability and dependence on Government (Shareholder)</p>	<p>KiwiRail does not have sufficient capital to invest in provincial rail growth. This investment will achieve a neutral NPV for KiwiRail and it will help the core scenic rail journeys to become self-sustainable, thereby reducing our reliance on Crown funding. If funding is not secured, s 9(2)(b)(ii)</p>
<p>Critical service failures</p>	<p>While the Coastal Pacific has been offline the capacity and resilience constraints have been hidden. To run all three services at peak, we require 100% availability of all carriages and vans. Any critical service failure poses unacceptable operational, financial and reputational risk to the tourism business.</p> <p>An example of a critical service failure would be if a café car on one of our services is unavailable due to either scheduled or reactive maintenance, the entire train will be taken offline as the service cannot run without a café car.</p> <p>In the last 10 months we have had three service failures, two off peak and one in the shoulder season. The two on peak service failures resulted in a loss of s 9(2) The shoulder season failure resulted in a loss of s 9(2)(b) over two days. During the same period, on three occasions we went 'right to the wire'.</p> <p>Services were almost cancelled while clarity was sought on whether minimum operating standards had been reached.</p>
<p>Cannot reduce commissioning and testing time</p>	<p>The commissioning and testing time is approximately 2 ½ years. New class of carriage must pass a series of paper and physical test prior to be introduced to the network.</p> <p>This testing is undertaken by KiwiRail's network access and control team. The time cannot be reduced due to safety considerations.</p>
<p>Interoperability</p>	<p>Our current fleet are AK carriages. Assessment is required to determine the feasibility of manufacturing AK carriages in New Zealand.</p> <p>Our preference and recommendation is to invest in new passenger carriages as refurbished or New Zealand built carriages are likely to increase risk and delay.</p>

	<p>Additionally, compatibility between new passenger carriages and our existing AK rolling stock may be an issue. Our Rolling Stock Asset Management team needs to assess the risk.</p>
Inconsistency of service	<p>Inconsistency of services is another issue caused by a lack of capacity. A daily service on the Northern Explorer is not available from either Auckland or Wellington. The Coastal Pacific does not run for 12 months of the year.</p> <p>This makes it difficult for tourists and commercial tourist operators to leverage our services. A lack of consistency does not provide the regions with certainty of cash flow when considering the establishment of a new food, accommodation or tourism venture.</p> <p>Without consistent services, the regions are foregoing revenue and we are unable to provide a truly connected journey.</p>

Table 9 Key dependencies

Dependencies	Notes
Finance availability and dependence on Government (Shareholder)	Without funding to invest in additional rolling stock and platform upgrades Scenic will not be able to provide further support to the regions by way of increased passenger numbers, new services on existing routes or partnerships for tourism ventures.
Funding for additional FTEs in the network access and control team	As network access and control services are delivered in house by KiwiRail, it is possible that further delays to the commission and testing timeframe may be incurred due to their very high work load.

3. Economic Case

The critical success factors for this investment proposal have been identified and are described in the table below. This set of factors is used to determine the final preferred option of the shortlisted options.

3.1 Critical Success Factors

A wide range of options for achieving the investment objectives were generated. These are available in the Appendix.

Our investment criteria were:

- Making money go / no go
- Drive tourism growth particularly in the regions
- Long term sustainable profitable revenue for KiwiRail and NZ
- Diversity of revenue for KiwiRail
- Reduced reliance on Crown funding
- Enable delivery of customer value proposition (not volume but high value)
- Public safety and environment

Table 10: Critical Success Factors

Generic Critical Success Factors	Broad Description	Proposal Specific Critical Success Factors
Strategic fit and business needs	How well the option meets the agreed investment objectives, related business needs and service requirements, and integrates with other strategies, programmes and projects.	Does it help deliver consistent reliability for customers? Does it reduce complexity and cost? Does it deliver regional economic growth? Does it meet customer experience expectations? Does it improve commercial performance? Will it help grow the business? Does it diversify visitor markets? Does it improve safety? Will it reduce Carbon Emissions?

		<p>Will it attract high value tourists?</p> <p>Will it drive shoulder and off peak travel?</p>
Potential value for money	How well the option optimises value for money (i.e. the optimal mix of potential benefits, costs and risks).	Refer to Section 5 Financial Case
Supplier capacity and capability	How well the option matches the ability of potential suppliers to deliver the required services and is likely to result in a sustainable arrangement that optimises value for money.	<p>Is the supplier known to KiwiRail?</p> <p>Have we procured from them previously? How did that go?</p> <p>Are they a strategic supplier?</p>
Potential affordability	How well the option can be met from likely available funding and matches other funding constraints.	Does the funding scenario fit within the current funding process?
Potential achievability	How well the option is likely to be delivered given the organisations ability to respond to the changes required and matches the level of available skills required for successful delivery.	Does KiwiRail have the internal expertise within its resources to successfully scope and manage the procurement process?
Customer Value Proposition	What added value can we deliver to our passengers?	Will the investment help KiwiRail create world class experiences?
Integrated regional partnerships	How well KiwiRail develops and promotes regional amenities and attractions.	<p>Does the region have the quality of amenities and attraction to drive regional growth and meet the needs and interests of our passengers?</p> <p>Will the package itineraries encourage regional dispersal?</p>

3.2 Long List Options and Initial Options Assessment

During an internal workshop, KiwiRail developed a long list of growth scenarios and other revenue opportunities for our existing routes.

TranzAlpine

Current service - daily return (Christchurch - Greymouth - Christchurch) – plus premium

Reduced service - daily return (Christchurch - Arthurs Pass - Christchurch) –

Split service with a long train - daily return

- Christchurch - Arthurs Pass - Greymouth – Christchurch (front half of the train)
- Christchurch - Arthurs Pass - Christchurch (back half of the train)

Two train options - daily return

- Train One - Christchurch - Greymouth – Christchurch
- Train Two - Christchurch - Arthurs Pass – Christchurch

Cancel the service (to establish a baseline)

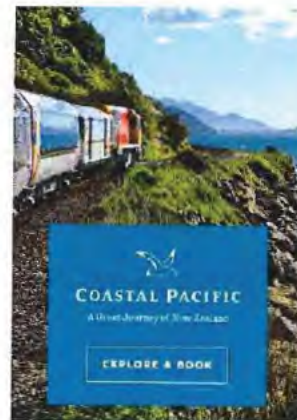


Coastal Pacific

Current service - daily service (at peak the service currently only runs for 6-8 months)

A year-round daily service plus premium

Cancel the service



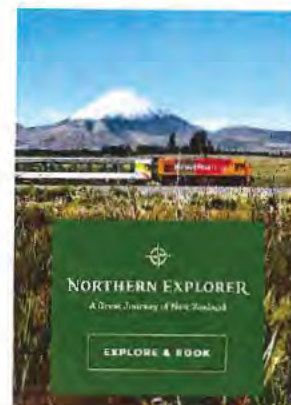
Northern Explorer

Current service - alternate days, alternate directions - one train

Daily service - two trains

- Auckland to Wellington plus premium
- Wellington to Auckland plus premium

Cancel the service



3.2.1 Options identification

Under the five dimensions a comprehensive long list of in-scope options has been identified in the table below.

This table is based on KiwiRail delivering the service, funded by the Government via the PGF.

Table 11: Possible options classified by the five dimensions of choice

Dimension	Description	Options within each Dimension
Scale, scope and location	In relation to the proposal, what levels of coverage are possible?	<p>We currently provide rail journeys in:</p> <ul style="list-style-type: none"> - Christchurch, Selwyn and the West Coast (TranzAlpine) - Marlborough, Kaikoura, Hurunui and Christchurch (Coastal Pacific) - Auckland, Waikato, Ruapehu, Manawatu, Wellington (Northern Explorer) <p>Additional rolling stock will ensure that KiwiRail can reliably provide connected journeys throughout New Zealand and deliver an increased number of passengers to regional areas.</p>
Service solution	How can services be provided?	<p>Additional rolling stock will be manufactured by a known and proven manufacturer. This supplier will be selected via an RFI and RFP process.</p> <p>Procurement process will be managed by KiwiRail.</p> <p>The additional rolling stock will be managed and maintained by KiwiRail's Rolling Stock Asset Services (RSAS) team.</p> <p>Warranty and guarantees will be provided by the rolling stock supplier, but this will depend on the contractual agreement</p>
Service delivery	Who can deliver the services?	<p>Additional rolling stock will be manufactured by a known and proven manufacturer. It is a proven solution, not bespoke assets.</p> <p>A supplier will be selected via an RFI and RFP process.</p> <p>Procurement process will be managed by KiwiRail.</p> <p>KiwiRail has mechanical, infrastructure and operational staff that can deliver these services.</p>
Implementation	When can services be delivered?	<p>A timeline has been provided in the Appendix of expected delivery times and introduction to the network.</p>

Funding	How can it be funded?	Provincial Growth Fund.
		<p>The original Business case requested \$144.4m - \$185.4m in order to deliver growth, resilience and a Premium service across the Northern Explorer, Coastal Pacific and TranzAlpine.</p> <p>The revised business case of \$80m will not deliver the same benefits as the Original business case but provides an affordable option to support surge regions.</p> <p>KiwiRail's Scenic rail journeys business has the potential for the same recognition and economic growth as Canada's internationally acclaimed Rocky Mountaineer train.</p> <p>For KiwiRail to maximise its tourism assets and promote New Zealand's tourism brand, partnering with an international company s 9(2)(b)(ii) s 9(2)(b)(ii) may be considered.</p> <p>This partnership would target high value tourists to New Zealand and would leverage the international customer base of the s 9(2)(b) s 9(2)(b)(ii) service. By the nature of our network, these high value tourists would be travelling and spending in the regions.</p>

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3.2.2 Options Development

The options developed through consideration of the 'dimensions of choice' that will be assessed in this business case are described in the table below.

Table 12: Business Case Options Development

Option Title	Option Description
Do nothing	<p>Do nothing is the status quo. A continuation of the current services with no resilience and no ability to grow will result in the revenue of the scenic business being capped by 2025. In the long run, without investing in our rolling stock, value will be destroyed due to reputational damage and perception of being overpriced.</p> <p>Yield is the only lever of growth available when capacity has been reached. However, we are already undertaking aggressive yield management, therefore gains may be minimal.</p>
Address resilience only (Minimum option)	<p>This option will only address current resilience challenges. It will not aid in significant revenue or regional growth.</p> <p>New carriages are required to address resilience.</p>
Address resilience and enable new services to be created on existing routes plus premium (Preferred option)	<p>This option will invest in platform upgrades and additional rolling stock to address resilience constraints and enable provincial rail growth through new services on existing routes.</p> <p>For example, by introducing daily year-round service on the Coastal Pacific we will address the current service inconsistencies this route which will encourage greater patronage. The Coastal Pacific will also feed the TranzAlpine.</p> <p>Increased capacity will enable more passengers to experience one of our rail journeys and it will provide growth for KiwiRail. By providing a daily service, wholesale operators will be able to reliably offer a rail journey to their customers as an alternative to flying and independent travellers will have the option to travel through New Zealand by train rather than driving.</p> <p>Platform upgrades will improve safety for passengers when boarding and alighting our trains.</p>
Cancel a service and redistribute the carriages amongst the other services	<p>This may be an option to consider if investment in additional rolling stock is not available.</p> <p>It has been assumed that cancelling any of the services is not a realistic option being considered by KiwiRail shareholders.</p>
Joint venture and partnership	<p>KiwiRail's Scenic rail journeys business has the potential for the same recognition and economic growth as ^{9(2)(b)(ii)} internationally acclaimed ^{9(2)(b)(ii)}</p>

	<p>For KiwiRail to maximise its tourism assets and promote New Zealand's tourism brand, ^{9(2)(b)(ii)} 9(2)(b)(ii)</p> <p>9(2)(b)(ii)</p> <p>9(2)(b)(ii) By the nature of our network, these high value tourists would be travelling and spending in the regions.</p>
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3.2.3 Initial Options Assessment

This assessment examines each option against the investment objectives and the five critical success factors. Key advantages and disadvantages of each option are briefly noted.



Investment Objectives

Table 13: Long List options – TranzAlpine

TranzAlpine								
Assessment criteria	Current Route	Reduced Route (CHC-AP-CHC)	Split Route (Front half CHC-GRY-CHC, back half CHC-AP-CHC)	Two Trains (CHC-GRY-CHC) (CHC-AP-CHC)	Current Route alternate days	Reduced route alternate days (CHC-AP-CHC)	CHC to GRY to HKA return	Cancel the service
Route Options - investment objectives								
1. Making money Go / No Go	Pass	Loss of 45,000 passengers GRY to CHC 9(2)	Partially	Partially	Fail	Fail	Partially	Fail
2. Drive tourism growth particularly in the regions	Cap out without investment and capacity	Fail	Partially	Partially	Fail	Fail	Cap out without investment and capacity	Fail
3. Long term sustainable profitable revenue for KiwiRail and NZ (Relevance of KiwiRail as an entity)	Pass	Partially	Partially	Partially	Fail	Fail	Partially	Fail
4. Diversity of revenue for KiwiRail	Pass	Partially	Partially	Partially	Fail	Fail	Partially	Fail
5. Reduce reliance on Crown funding	Reliance won't be reduced with current route	Fail	Two Loco and additional rolling stock required	Two Loco and additional rolling stock required	Fail	Fail	Fail	Fail
6. Enable delivery of customer value proposition (not volume but high value)	Partially	From plans to connect to Whanga, Invercargill, Greyhound	Partially	Partially	Fail	Fail	Fail	Partially
7. Public safety and environment	Reduction in fuel emissions, cars off road	Reduction in fuel emissions, cars off road	Reduction in fuel emissions, cars off road	Reduction in fuel emissions, cars off road	Reduction in fuel emissions, cars off road	Reduction in fuel emissions, cars off road	Reduction in fuel emissions, cars off road	Reduction in fuel emissions, cars off road

Investment Objectives

Table 14: Long List options – Coastal Pacific

Coastal Pacific			
Assessment criteria	Current Service (6-8mths per year)	Year round service (12 months)	Cancel the service
Investment objectives:			
1. Making money Go / No Go			
2. Drive tourism growth particularly in the regions	Cap out without investment and capacity	Cap out without investment and capacity	
3. Long term sustainable profitable revenue for KiwiRail and NZ (Relevance of KiwiRail as an entity)			
4. Diversity of revenue for KiwiRail			
5. Reduce reliance on Crown funding	Reliance won't be reduced with current route		
6. Deliver a high yield KiwiRail tourism experience		Capture tourists outside peak season, regular service	
7. Public safety and environment	Reduction in fuel emissions, cars off road	Reduction in fuel emissions, cars off road	

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Investment Objectives

Table 15: Long List options – Northern Explorer

Northern Explorer			
Assessment criteria	Current Service (alternate days)	Daily service (two trains)	Cancel the service
Investment objectives:			
1. Making money Go / No Go			
2. Drive tourism growth particularly in the regions	Cap out without investment and capacity	Cap out without investment and capacity	
3. Long term sustainable profitable revenue for KiwiRail and NZ (Relevance of KiwiRail as an entity)			
4. Diversity of revenue for KiwiRail			
5. Reduce reliance on Crown funding	Reliance won't be reduced with current route		
6. Deliver a high yield KiwiRail tourism experience		Regular service	
7. Public safety and environment	Reduction in fuel emissions, cars off road	Reduction in fuel emissions, cars off road	

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3.3. The recommended preferred way forward

On the basis of the above initial options assessment, the preferred way forward is to invest in provincial rail growth by way of platform upgrades and additional rolling stock to address resilience and create new services on existing routes.

KiwiRail does not have sufficient capital to invest in this rolling stock.

If the funding is not secured and without investment in additional rolling stock, we will not be able to provide any additional economic growth to the regions we support. In time, if the quality of our scenic services was to decline and therefore impact its popularity, passenger numbers would decline, impacting the economic welfare of the regions even further.

The regions which we largely service are embryonic and therefore do not have the wealth to contribute to this PGF submission.

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Economic Growth for the Regions and KiwiRail

Within the next three years, with investment from the Provincial Growth Fund, KiwiRail's Scenic business will deliver:

- A year round, daily service on the Coastal Pacific (and additional capacity)
- Additional carriages on the TranzAlpine and the Coastal Pacific
- Premium product on TranzAlpine and the Coastal Pacific
- Regional growth through enabling increased tourist spend and sustainable employment

To double tourist spend and employment in the regions, we require more capacity and resilience within our fleet. This will require an investment of \$80m refer below.

Table 16: KiwiRail Investment Requirements

INVESTMENT REQUIREMENTS – Proposed Investment Option 2	COSTS s 9(2)(b)(ii)
10 Carriages and support carriages i.e. café car, van etc	
Premium: 3 refurbished carriages	
5 SASD carriages refurbishment	
6 Platform upgrades	
New IT reservation system	
Project Costs	
Capital Subtotal	
Opex - Increased marketing costs (FY21 / 22)	
TOTAL	\$80m

The timeline for new carriages to be manufactured and commissioned is approximately 2 ½ years. If funding is secured for this new rolling stock by November 2018 and we allow sufficient time for a Request for Proposal to be developed and issued, we would expect that all of these services would be online by December 2021.

In the five years following the commencement of services, we will have transported an additional 228,000 passengers to the regions in which we currently operate.

⁸⁸ A capital investment range for rolling stock has been provided to reflect the differences of quotes received from two suppliers; s 9(2)(b)(ii) in late 2016.

⁸⁹ KiwiRail will also investigate the feasibility of manufacturing additional AK carriages, at KiwiRail's facilities, instead of refurbishing SASD carriages. Due to complexity of this feasibility assessment, work will be ongoing after submission of this business case, considered only if it met the outlined budget request.

Within the next three years we also intend to undertake essential platform upgrades to safety and customer experience at 6 regional platforms on our core routes:

- TranzAlpine - Greymouth, Arthurs Pass, Addington
- Coastal Pacific – Blenheim, Kaikoura, Picton

Scenic rail journeys are regarded internationally as some of the best in the world. However, due to lack of investment in regional rail platforms, the regional platforms our passengers disembark onto do not reflect the high quality of service delivered on board. We have an opportunity to improve safety standards as well as create a welcoming gateway to the regions.

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4. Outlining the Commercial Case

The commercial case outlines the proposed deal in relation to the preferred way forward to invest in additional rolling stock to address resilience and create new services on existing routes.

4.1 The Procurement Strategy

s 9(2)(b)(ii)

If we secure funding, we will finalise our requirements and will then develop an open Request for Proposal (RFP) document to be distributed to a list of global suppliers via GETS. The procurement process will be managed by KiwiRail and it will align with the Government's procurement policies. KiwiRail will manage the procurement process. A specific Project Manager will be assigned to each of the key projects related to this business case i.e. purchasing new rolling stock, platform upgrades, IT reservation system and refurbishment of carriages. Individual Strategic Procurement Plan(s) will be developed for each project.

s 9(2)(b)(ii)

If the Request for Proposal (RFP) or manufacturing programme slips, there will be compounding issues that will impact our scenic rail business and increase operational, financial and reputational risk. If the manufacturing does not occur as per the agreed timeline the scenic business will not have enough capacity for market demand, resulting in revenue lost opportunity and diminished customer experience. Penalties for late delivery will need to be covered.

A Strategic Procurement Plan will be developed which will include business stakeholders. Particular review will be made to health and safety, and risk.

Key dates:

- August 2018 – draft specification for RFP – underway
- November 2018 – confirmation of funding
- April 2019 – issue RFP for rolling stock
- May 2019 – review market response
- June 2019 – agree preferred supplier, place order for new rolling stock
- July 2019 – July 2021 - refurbishment of carriages
- March 2020 – December 2021 – build and commission new rolling stock
- March 2019 – commence marketing
- s 9(2)(b)(ii)

We have included a best-case scenario timeline in the Appendix.

4.2 Required Services

KiwiRail's Scenic rail business requires 10 new carriages and support carriages i.e. café car, generator van etc, 3 Premium carriages (refurbished) and 5 carriages (refurbished) for resilience.

Our recommended rolling stock deployment plan is available in the Appendix.

4.3 Contract Provisions

KiwiRail has learned a lot of lessons during our locomotive procurement process.

There are a number of stages and payment milestones which KiwiRail will require from suppliers. For example - deposits, design sign off, pre-shipping review, performance testing.

Consideration will also be given to:

- Maintenance
- Guarantee and warranty periods and provisions
- Options to procure additional rolling stock
- Spares and inventory (consignment)
- Obsolescence
- Interoperability

4.4 Potential for risk sharing

An initial assessment of how the associated risks might be apportioned between the organisation and potential providers is outlined in the risk allocation table below.

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Table 17: Risk Allocation table

Risk Category	Potential Risk Allocation		
	Organisation	Supplier	Shared
Design Risk	KiwiRail for refurbished carriages	Supplier for new carriages	
Construction and development risk	KiwiRail for refurbished carriages	Supplier for new carriages	
Transition and implementation risk	KiwiRail		
Availability and performance risks			To be confirmed – will depend on performance criteria
Operating risk	KiwiRail		
Variability of revenue risks	KiwiRail		
Termination of risks	KiwiRail		
Technology and obsolescence risks		Supplier	
Control risks	KiwiRail		
Residual value risks	KiwiRail		
Financing risks	KiwiRail		
Legislative risks	KiwiRail		
Warranty and guarantee risks	KiwiRail for refurbished carriages		To be confirmed – will depend on performance criteria

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5 Outlining the Financial Case

The purpose of this section is to set out the indicative financial implications of the preferred way forward – investment in additional rolling stock and platforms to unlock capacity constraints and enable growth in the regions.

5.1 Methodology

A detailed 40-year financial model has been developed to determine the long run Net Present Value (NPV) cash flow ranges of the shortlisted options, with assumption based capital and future earnings profiles.

Future earnings profiles have been developed based on capacity modelling driven off daily capacity on each service over a full season driven by yield and volume growth assumptions using FY19 budget year as the base. Costings have been driven off the changes in activity, mainly number of services and the increases in physical capacity added to each route.

We have included the purchase, refurbishment and operating capital. Purchase and refurbishment capital are the upfront capital cost of carriages. The operating capital is the ongoing capital cost over the assets lifetime to keep the asset fit for purpose. The rolling stock assets are assumed to have a 40-year life.

We have calculated an overall NPV.

The two routes (namely Coastal Pacific and TranzAlpine) have been modelled separately to show the incremental impact of the proposed changes namely:

- Adding an additional standard passenger carriage to the Coastal Pacific plus an additional premium carriage and running it 12 months of the year from FY22 once the refurbished carriages are deployed
- Adding two additional standard carriages plus an additional premium carriage to the TranzAlpine to increase its passenger capacity.

A further calculation has been performed to add additional fleet to the pool of carriages thus enabling resilience in the fleet and protecting the overall earnings provided by the three Scenic services.

5.1.1 Input Assumptions

The following assumptions have been made in determining these initial estimates:

Revenue:

- Volume and yield growth assumptions have been derived from a combination of historical trend information, future Tourism demand estimates (source Tourism NZ).
- Additional revenue added to each service is calculated using daily historical demand data matched against available daily capacity.
- Three revenue scenarios have been developed, depicting:
 - Base view on growth rates
 - Conservative view; and
 - Optimistic view
 - Refer to Appendix for the yield and passenger growth rates that have been applied against each scenario.

Costs:

- P&L costs as per SAP inputs – with reconciliation back to the FY19 budget.
- Hook and Tow – additional activity added into the internal hook and tow calculation for locomotive and driver hire services.
 - Coastal Pacific – 12-month services i.e. 360 return services per year compared to the historical 219 return services plus the additional carriages
 - TranzAlpine – 3 additional carriages from FY22.
- Additional fuel calculated based on the additional activity (GTK's) associated with each scenario.
- Estimated project costs of § 9(2)(b)(ii) for the standard carriages and § 9(2)(b)(ii) for the refurbished carriages) have been included in our calculations – this is based on our recent experience with procuring DLs.
- Access Costs – additional activity added to the internal access agreement charge applied to Scenic services – based on § 9(2)(b)(ii)
- Labour Costs
 - On board crewing levels – added in the additional crew and operating staff required to deliver the increased number and level of services
 - For the premium carriages § 9(2)(b)(ii) additional FTE's are added to each carriage as the level of service is higher than a standard carriage
 - Additional Scenic Corporate Support Costs – With the increase level of scenic services and activity the Scenic Corporate team is assumed to increase in size with, an additional data analyst, additional market team member to focus on the Asia Pacific market, plus an additional revenue management analyst to drive optimal revenue management practices

- Premium Service Costs $\frac{\$ 9(2)}{(b)(ii)}$ of the additional premium yield has been assumed to be consumed by the costs of delivering a premium customer service.
- Marketing Costs
 - Increased growth is reliant on increased international passengers – this will be dependent on KiwiRail increasing its marketing budget to enable marketing campaigns directed at foreign markets. All marketing is currently domestic only.
 - Conservative Case marketing cost of $\frac{\$ 9(2)(b)}{(ii)}$ to deliver the passenger volume assumptions.
 - Base Case marketing cost of $\frac{\$ 9(2)}{(b)(ii)}$ for FY21 and FY22 to deliver the growth passenger volume assumptions, plus an additional $\frac{\$ 9(2)}{(b)(ii)}$ in FY21 and FY22 to deliver the growth on the premium volume assumptions.
 - Optimistic Case \$5m.
- Rolling Stock
 - Increase servicing costs in line with increased activity.
 - Additional rolling stock maintenance costs as a result of increase fleet size and overall kilometres run – cost per km of $\frac{\$ 9(2)(b)}{(ii)}$ across the fleet.
 - It is assumed that the new fleet will have the same average cost per kilometre as the existing AK fleet. Note the final costs will not be known until a solution is selected following a competitive tendering process.
 - The procurement of the additional fleet for resilience will allow for an uninterrupted level of services over the year, including the busy peak season.
 - The capital life cycle costs for the new carriages are assumed to be of the same order as for the current AK fleet. In the absence of information on the new fleet this is considered a conservative assumption.

Asset Deployment – Future Operating Model

- The AK fleet consists of:
 - AK Cars
 - Passenger carriages with 63 seats per carriage –
 - Premium carriages 40 seats per carriage
 - Café Cars
 - Luggage Vans
 - Generator Vans
- When the Coastal Pacific resumes to full service in peak season, all of the current AK carriages will be fully deployed – i.e. there will be no carriages or support carriages (such as luggage, café or generator vans) available if one fails and is removed from service.
- Additional fleet resilience in both islands will also require additional carriages – a spare of each carriage type in each island (assuming all new carriages are deployed in the North Island and all existing carriages are deployed in the South Island – refer below).

- New and old carriages are NOT able to operate together in a single consist – i.e. there is no interoperability of the fleet.
- Therefore, it is assumed that the optimal deployment of the fleet is to have separate fleets in each island namely:
 - All new carriages operate on the Northern Explorer (this is the least capital intensive option to unlock the growth in the South Island services)
 - All existing AK fleet from the North Island will be redeployed on the South Island services, with the South Island fleet being topped up with refurbished carriages to enable the growth in capacity and the resilience needed to enable a 12 month operation of the Coastal Pacific to be achieved
 - Note that under this scenario, allows for premium carriages to be developed by converting existing AK carriages to Premium.

Modelling Results



NPV of investing in \$80m in capital to expand services and create fleet resilience of (\$38.1m) based on a WACC of 8% over a 40 year model.

Commentary

For the Coastal Pacific and Northern Explorer services the additional carriages and being able to operate 12 months of the year (in the case of Coastal Pacific) generates incremental revenues well in excess of the marginal costs associated of generating that revenue. As such the NPV's of these two services is positively contributing to the overall increase in value of the Scenic services.

Consideration was given to closing the Northern Explorer and redistributing its rolling stock assets to the other scenic services, however there are insufficient assets in the Northern Explorer fleet to enable the resilience, growth and premium objectives to be achieved.

An option was considered of procuring additional capital to enable the operation of the Northern Explorer as a bidirectional service. The Northern Explorer currently operates at a loss and converting to a bidirectional service would ultimately address this issue. A bidirectional service would create an initial EBITDA loss of s 9(2)(b)(ii) with the service moving to breakeven in s 9(2)(b)(ii). Therefore, by adopting a growth strategy and adding in additional capacity the Northern Explorer would become a

positive contributor. However, this is not assumed to occur as the capital required to deliver on this is considered too great, therefore status quo is assumed to remain.

An element that has not been included in the above analysis is the additional revenue KiwiRail receives as a result of offering a connected journey offer. As an example of the value of this, prior to the Kaikoura earthquake, approximately s 9(2)(b)(ii) of revenue was generated by the Scenic Rail Freedom Pass⁹⁰ which provided customers with a discounted fare to travel on multiple services.

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⁹⁰ Scenic Rail Freedom Pass is a flexible 'Book As You Go' travel pass that allows you to travel on New Zealand's Scenic rail services as well as the Interislander. Passes can be booked up to 12 months in advance and are valid for 12 months from date of first travel.

5.2 Impact on the financial statements

Based on current estimates, the anticipated cash flows for the investment proposal over its intended lifespan are set out in the table below.

Table 20: Estimated cash flow requirements for Growth, Resilience and Premium

9(2)(i)

5.3 Overall affordability

The capital outlay (excludes additional marketing spend) in FY22 to enable the growth, resilience and premium outcomes is in the order of 9(2)(i). This delivers incremental revenue and earnings growth to the business. The assumed capital profile of the new rolling stock is in line with the AK carriage profile.

Sufficient earnings reserves are generated over time to enable the mid-life overhaul of the carriages to be funded. Each carriage has a capital maintenance spend of approximately \$3.5m - \$5m (comparable to the assets original purchase price) to keep the asset fit for purpose over its life.

5.4 Funding sources

It is proposed that the funding for Provincial Rail Growth will be provided from the Provincial Growth Fund.

9(2)(i)

KiwiRail's Scenic rail journeys business has the potential for the same recognition and economic growth as Canada's internationally acclaimed Rocky Mountaineer train. For KiwiRail to maximise its tourism assets and promote New Zealand's tourism brand, 9(2)(b)(ii)

9(2)(b)(ii)

Such a partnership would target high value tourists to New Zealand and would leverage the international customer base of 9(2)(b)(ii). By the nature of our network, these high value tourists would be travelling and spending in the regions.

6 Outlining the Management Case

6.1 Project Management Strategy and Framework

6.1.1 Project Governance

KiwiRail's existing processes include oversight by an appointed Executive Owner and Project Sponsor.

6.1.1.1 Project Control Group

KiwiRail's existing governance processes include a Project Control Group (PCG) that meet monthly to provide overall project governance and direction to the project team and review project performance and assurance. A PCG specific to the manufacturing and commissioning of this additional rolling stock and platform upgrades will be established and will include Executive Owners and Sponsors. The Project Sponsors are ultimately accountable for the performance of the programme as a whole.

Members of the PCG will be responsible for producing a single report for the KiwiRail Chief Executive and Board. Membership of the PCG will typically include:

- KiwiRail – Executive Owner (e.g. Group General Manager)
- KiwiRail – Project Sponsor (e.g. General Manager Project Management Office)
- Project Director
- KiwiRail – Technical representation (TBC)

6.1.1.2 Project Steering Committee

For larger (>\$10m) high risk projects, KiwiRail's standard process is to establish a Project Steering Committee (PSC) with representatives from key stakeholders and personnel. The PSC meets fortnightly or as required.

The PSC's role is to monitor and support the delivery of the Programme of works. A PSC will be established for the:

- manufacturing and commissioning of additional rolling stock (new and refurbished)
- IT reservation system
- platform upgrades

The PSC will include membership from KiwiRail and key stakeholders including representation from the contractor(s).

Membership of the PSC typically includes:

- KiwiRail - Group General Manager
- KiwiRail - General Manager Project Management Office
- Project Director
- KiwiRail – Technical and Representation (TBC)

6.1.1.3 Governance Reporting

As part of KiwiRail’s project governance and management processes, a Project Status Report (PSR) is prepared monthly by the Project Manager for submission to the PCG. The Programme Director will provide an overarching commentary on progress against key programme milestones focussing on exceptions, risks, impact on interdependent projects and plans to mitigate or manage the impact(s). The PSR provides a dashboard of project performance highlighting areas of key performance including:

- Budget
- Programme
- Quality
- Stakeholders
- Risks
- Health & Safety and Environmental

The PSR provides an opportunity to raise key issues and opportunities. KiwiRail’s existing processes determine that the PSC meets prior to the PCG and provides assurance to the PCG that the issues and opportunities identified in the PSR are being dealt with appropriately or may seek guidance should issues require other senior executive input and/or guidance. The PSR will be reviewed during the planning phase for the manufacturing and commissioning of this additional rolling stock and platform upgrades to ensure reporting addresses the needs of both organisations.

Figure 3: Project Governance structure and reporting



6.1.2 Roles & Responsibilities

6.1.2.1 Owners and Sponsors

The Executive Owners act as vocal and visible champions to their respective Executive Teams and Boards and are the ultimate decision-makers for the project. The Project Sponsors are ultimately accountable for the success or failure of the whole programme. They ensure that the project is focussed on achieving the business objectives and delivering on the forecast benefits.

Throughout the project they are responsible for the business case and need to be able to take a balanced view of the project on behalf of KiwiRail’s interests – that is, maintain a “best for the network and programme” approach to Programme interactions and decision making.

6.1.2.2 Project Director

The Project Director is ultimately accountable for the success or failure of the project and must ensure that the project is focused on achieving its business objectives and delivering the forecast benefits. The Project Director must ensure that the project gives value for money and adopts a cost-effective approach which balances the demands of the business, users and suppliers. Throughout the project the Project Director is responsible for the business case and needs to be able to take a balanced view of the project on behalf of the wider organisation.

Role of Project Director

The Project Director acts as the representative of the organisation, and plays a vital leadership role through:

- Providing 'championship' for the project, selling and marketing the project throughout the organisation
- Providing business expertise and guidance to the Project Manager
- Acting as the link between the project, the business community and, perhaps most importantly, management decision making groups
- Acting as an arbitrator and making decisions that may be beyond the authority of the Project Manager
- Acting as chairperson of the Steering Committee.

Responsibilities of Project Director

Typically, the Project Director will be responsible for:

- Ensuring that the business need is valid and correctly prioritised
- Ensuring that the project is properly launched
- Ensuring that the project remains a viable business proposition
- Ensuring changes to the project are properly managed
- Ensuring risks are managed
- Establishing the project organisation, roles and reporting structure
- Ensuring the project is under control
- Approving key project deliverables
- Initiating project reviews and supporting the process of review
- Resolving issues (typically competition for resources and priority clashes) that are beyond the control of the Project Manager
- Resolving conflict and removing obstacles to progress
- Overall quality of the project, both the methods used to develop it and the end product.

During the life of any project, business circumstances may change considerably, making it impossible for the Project Manager to carry out his/her job. Examples are such things as changes of policy, adverse business conditions, etc. In such cases the Project Director is responsible for recognising and reacting to any such circumstances.

6.1.2.3 Project Manager

The delivery function of the project will be managed by the KiwiRail Project Management Office, and the Project Manager will report to General Manager of the Project Management Office.

Role of Project Manager

The Project Manager is responsible for developing, in conjunction with the Project Director, a definition of the project. The Project Manager then ensures that the project is delivered on time, to budget and to the required quality standard (within agreed specifications). The PM ensures the project is effectively resourced and manages relationships with a wide range of groups (including all project contributors). The Project Manager is also responsible for managing the work of consultants, allocating and utilising resources in an efficient manner and maintaining a co-operative, motivated and successful team.

Responsibility of Project Manager

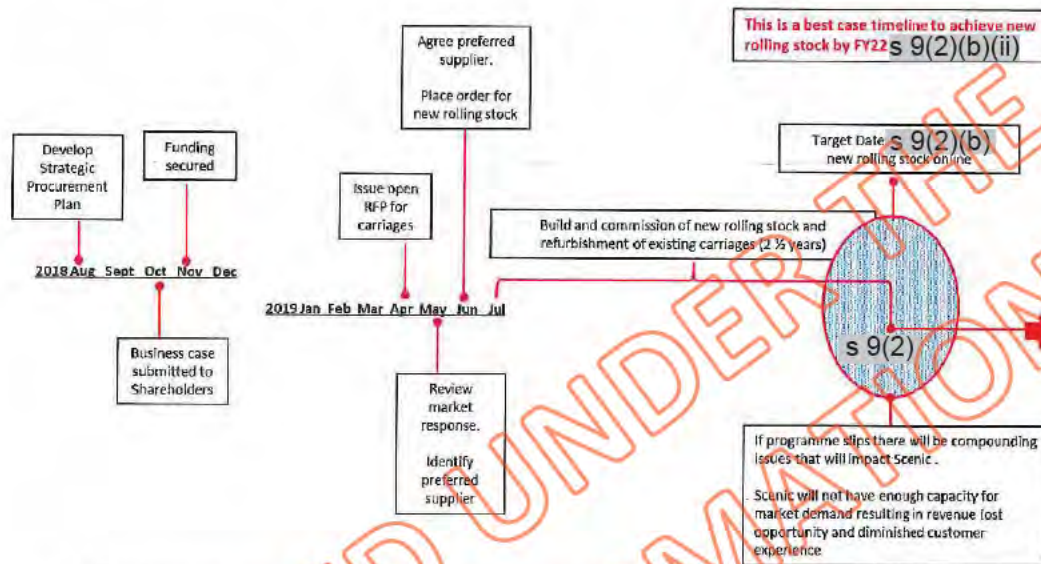
- Managing and leading the project team
- Recruiting project staff and consultants
- Managing co-ordination of the partners and working groups engaged in project works
- Detailed project planning and control including:
 - Developing and maintaining a detailed project plan
 - Managing project deliverables in line with the project plan
- Recording and managing project issues and escalating where necessary
- Resolving cross-functional issues at project level
- Managing project scope and change control and escalating issues where necessary
- Monitoring project progress and performance
- Providing status reports to the project sponsor
- Managing project training within the defined budget
- Liaises with, and updates progress, to project board/senior management
- Managing project evaluation and dissemination activities
- Managing consultancy input within defined budgets
- Manage final approval of the design specification by technical lead(s)
- Working closely with users to ensure the project meets business needs
- Providing regular status reports to the Project Steering Committee

A specific Project Manager will be assigned to each of the key projects related to this business case i.e. purchasing new rolling stock, platform upgrades, IT reservation system and refurbishment of carriages. Individual Strategic Procurement Plan(s) will be developed for each project.

6.2 Outline project plan

Below is a high-level timeline for this project. A detailed project timeline will be established should funding for the project be approved.

Business Case and Rolling Stock Timeline (Best Case)



Note: If other rolling stock projects e.g. Auckland to Hamilton run over time and schedule, this will impact the delivery of the Scenic carriages refurbishment.

Note: A December rollout has been shown in this timeline as it is the earliest that the services could commence however a decision will need to be made as to when the optimal time to commence the new service would be.

6.3 Risk management

The Project Sponsor is responsible for ensuring that arrangements for the management of project risk are in place, together with the appointment of a Risk Manager. The risk register is to be continuously updated and reviewed throughout the course of the project. A Risk Manager has been appointed for this project and a risk register will be created as a part of the project management framework.

6.4 Project and business assurance arrangements

Low risk on the basis of: existing routes, services we are already performing, within our own network, experienced procurer of rolling stock, already at capacity, demand exceeds current supply, international wholesale market is untapped due to lack of marketing, international rail operators are seeking to invest in tourism rail services in New Zealand, poor customer service experience with current booking reservation system

This proposal is also subject to independent quality assurance. EY has been appointed to review the financial model and regional economic benefit calculations.

7 Next Steps

The following table details the proposed next steps following approval of this business case. This best-case timeline assumes funding is secured in November 2018.

Action	Timeframe	Who
Develop a Strategic Procurement Plan	August 2018	KiwiRail
Issue an open RFP	April 2019	KiwiRail
Evaluate RFP responses and select preferred supplier	May 2019	KiwiRail
Formally engage supplier with commercial contract and place an order for new rolling stock	June 2019	KiwiRail
Design, build, test, commission for rolling stock (no locomotives)	July 2019 – s 9(2)(b)(ii)	Suppliers and KiwiRail
Commence commercial operations	s 9(2)(b)(ii)	KiwiRail

Decision Sought

Please approve Provincial Rail Growth business case and Provincial Growth Fund investment request for additional rolling stock for KiwiRail's Scenic rail business to address resilience and enable growth through new services on our existing core routes.

On behalf of the KiwiRail Executive Team

Name: Alan Piper

Signed: *Alan Piper*

Date: 26/10/18

Appendix

1. Risk and Mitigation Table

RISK	MITIGATION
<p>No investment in additional rolling stock will:</p> <ul style="list-style-type: none"> - impact our ability to increase revenue - cap the number of passengers that will experience the journeys / no resilience in the fleet - prevent us from providing a great customer service - prevent us from fulfilling our obligation to grow tourism and support regional economies - impact our customer service reputation if we must turn passengers away. 	<p>Investment in additional rolling stock.</p>
<p>By FY25, 2/3 of services will be full over the 6 summer months under current capacity scenarios during peak.</p>	<p>Investment in additional rolling stock.</p>
<p>Risk of cost, quality and time acquiring new rolling stock.</p>	<p>Working with proven suppliers with known products i.e. carriage design and agreed lead times.</p>
<p>Gradual loss of business value and reduced NPS score by KiwiRail by not investing in additional rolling stock across the TranzAlpine, Coastal Pacific and Northern Explorer.</p>	<p>Invest in rolling stock and new services.</p>
<p>Tourism numbers decline. Decrease in international visitor nights due to a global recession or a natural disaster impacting tourism in New Zealand.</p>	<p>Target domestic market. Will need to diversify our channel market strategy internationally by promoting our services in different countries.</p>
<p>Natural disaster physically impacts route.</p>	<p>Diversification of services will mitigate reliance on one route. Accommodate passengers on other services or refund.</p>
<p>Lack of interoperability will impact service delivery.</p>	<p>Compatibility between new passenger carriages and our existing AK rolling stock may be an issue. Our Rolling Stock Asset Management team needs to assess the risk. Our preference is for consistent, new rolling stock.</p>
<p>Lack of resilience in the current fleet. For example - Café car off line, the whole train is off line. Also, as we don't have sufficient fleet resilience we cannot commence a year-round</p>	<p>Procure additional carriages to allow fleet resilience in each island that can be switch in to ensure the full train consist can operate to plan.</p>

<p>service on the Coastal Pacific without new rolling stock.</p>	
<p>We are at capacity on our existing services over the peak season. In order to run all three services at peak, we require 100% availability of all carriages and vans. Any critical service failure poses unacceptable operational, financial and reputational risk to the Tourism business.</p>	<p>Reduce scheduling to mitigate the risk of 100% carriage availability Invest in additional rolling stock in both islands (carriages and vans) that can be switch in to ensure the full train consist can operate to plan.</p>
<p>Impact of extreme weather events. For example - during Cyclone Gita the TranzAlpine service was cancelled for two days. As it was during peak season, that decision cost KiwiRail s 9(2)(b)(ii) over two days to refund passengers as per cancellation policy and provide a bus replacement.</p>	<p>Early warning system and disruption protocols are in place.</p>
<p>KiwiRail's tourism business is poorly resourced to deliver growth.</p> <p>Our bench strength is a weakness, with our team stretched. We don't have sufficient capability in insight analysis, product development, international branding, customer experience. We do not have sufficient FTE or funding to be able to deliver the growth scenarios.</p>	<p>Forecast the type of roles required to meet demand for Scenic Journeys (data insight analysts, carriage hosts etc).</p> <p>Develop a Learning and Development programme for KiwiRail tourism.</p> <p>Develop a recruitment and retention strategy to support KiwiRail tourism.</p> <p>KiwiRail needs to undertake an updated resource capability matrix. Build bench strength. Attract and develop core inhouse talent to engage with a growing passenger base, data analytics of passenger demand.</p>
<p>IT platform is insufficient – scenic business growth is dependent on the rollout of a reservation system.</p>	<p>Without this system in FY20 we will not be able to deliver a premium service and will struggle to deliver growth on existing services i.e. packages.</p>
<p>Resource constraints are limiting our current and future international sales and marketing reach.</p>	<p>Investment in advertising to promote Scenic Journeys to international visitors. Increasing our international marketing channels will be particularly important to build passenger demand on new services on existing routes and new services on new routes. Work with channel partners.</p>
<p>Timing of Carriage manufacturing and commissioning may impact revenue assumptions.</p>	<p>Align revenue assumption based on accurate timings from manufacturer. Link payments to timeline delivery milestones.</p>

<p>Additional services on existing routes will add congestion to the network particularly in the metro areas.</p>	<p>KiwiRail needs to retain priority slots in key metro areas and work with the timetable committee to ensure new services are well planned and that passenger services receive the desired level of priority.</p> <p>Need to signal planned additional services to Timetable Committee as soon as possible, post a decision to proceed.</p>
<p>Risk and no clear demand statistics for new routes and new products – this information will take time to compile – likely to take up to two years to build demand on new routes.</p>	<p>OPEX investment – advertising, data insights of new routes.</p>
<p>This capital investment estimate does not include any calculations for platform extensions (circa s 9(2)(b)(ii)) or safety upgrades.</p>	<p>Investment in platform extensions and upgrades will need to be included in additional business cases.</p>
<p>Any additional services require passenger certified locomotive engineers.</p>	<p>KiwiRail needs to undertake an updated resource capability matrix. Identify existing locomotive engineers or recruit ones (two-year training programme). Already signalled to HR expected increased in numbers required.</p>
<p>A lot of our investment have a long lead time. The Provincial Growth Funding support is only three years.</p>	<p>Need to invest in financially sustainable initiatives, ones which are commercially viable and can standalone post initial funding.</p>
<p>Resource and Capability.</p>	<p>Need sufficient OPEX to invest in additional FTEs.</p>
<p>International rail operators are seeking to invest in tourism rail services in New Zealand e.g. KiwiRail has entered into an access agreement with Antipodean Explorer New Zealand Limited for them to establish and operate a luxury sleeper train service.</p>	<p>Engage with international rail operators to understand their needs and intentions for investing in the New Zealand market.</p>

⁹¹ Based on 2011 estimate

2. Photos of the Greymouth Railway Station

Passengers are unable to safely use the wheelchair hoist on one of the TranzAlpine café cars as the train is longer than the platform at Greymouth Railway Station.



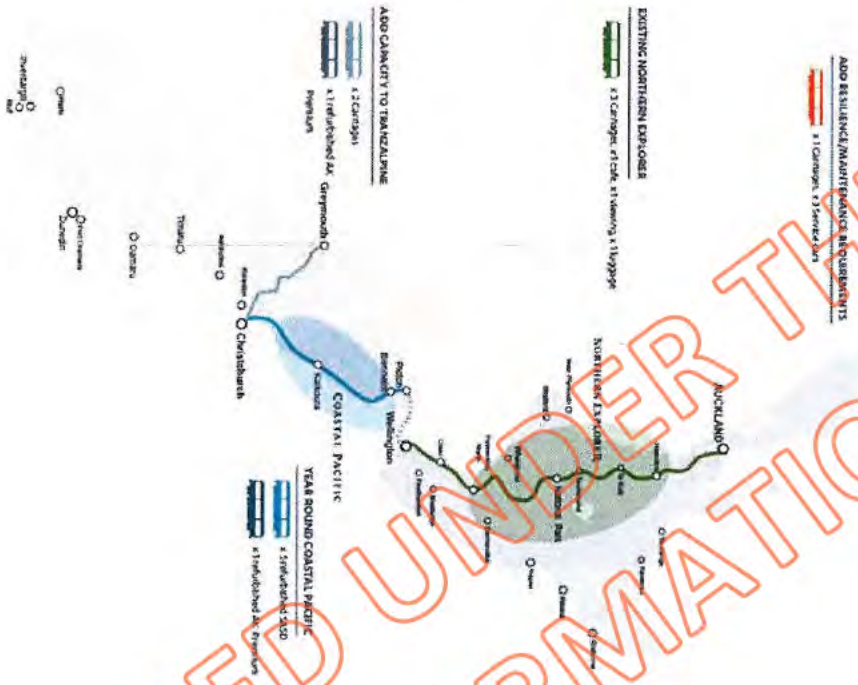
Passengers are unable to directly alight from the TranzAlpine carriages onto the platform at the Greymouth Railway Station as the train is much longer than the platform.



Any passengers in carriages which are not directly in front of the platform are required to walk down the train to a carriage or café car which will enable to safely alight directly on the platform. Despite a request from KiwiRail to all passengers to safely alight from assigned doors onto the platform regularly there are several passengers who attempt and are successful in opening the carriage door where they are and alight from the train regardless of there being a platform below or not. As this photograph above shows, the drop from the train to the ground is significant and could cause a serious injury.

3. Provincial Growth Fund Tourism Opportunities

Revised Tourism Provincial Rail Growth



The concept:

Alignment to Tourism New Zealand's Strategy:

- Solves barriers of travel to New Zealand, things to see and do, along with how to get around
- Package development ensures tourists explore regions
- Accommodates Higher Net Wealth Individuals (HNWI)

Tourism Impact to Regional Growth

Sector	Impact	Effect
Transportation	Direct	Production
Entertainment	Indirect	Jobs
Recreation	Induced	Wages
Food & Beverage		Taxes
Accommodation		

Visitor Spending

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4. Growth Rates, Yield and Passenger numbers by Scenario

Year	Passengers			Yield		
	Base/Mid	Stretch	Conservative	Base/Mid	Stretch	Conservative
2017	4%	4%	4%	3%	3%	3%
2018	4%	4%	4%	3%	3%	3%
2019	4%	4%	4%	3%	3%	3%
2020	4%	6%	3%	3%	4%	2%
2021	4%	6%	3%	3%	4%	2%
2022	3%	6%	2%	3%	4%	2%
2023	3%	6%	2%	3%	4%	2%
2024	3%	6%	2%	3%	4%	2%
2025	3%	6%	2%	2%	4%	1%
2026	3%	6%	2%	2%	4%	1%
2027	3%	6%	2%	2%	4%	1%
2028	2%	6%	1%	2%	4%	1%
2029	2%	6%	1%	2%	4%	1%
2030	2%	6%	1%	2%	4%	1%
2031	2%	5%	1%	2%	3%	1%
2032	1%	5%	0%	1%	3%	0%
2033	1%	5%	0%	1%	3%	0%
2034	1%	5%	0%	1%	3%	0%
2035	1%	5%	0%	1%	3%	0%
2036	1%	5%	0%	1%	3%	0%
2037	1%	5%	0%	1%	3%	0%
2038	1%	5%	0%	1%	3%	0%
2039	1%	5%	0%	1%	3%	0%
2040	1%	5%	0%	1%	3%	0%
2041	1%	4%	0%	1%	2%	0%
2042	1%	4%	0%	1%	2%	0%
2043	1%	4%	0%	1%	2%	0%
2044	1%	4%	0%	1%	2%	0%
2045	1%	4%	0%	1%	2%	0%

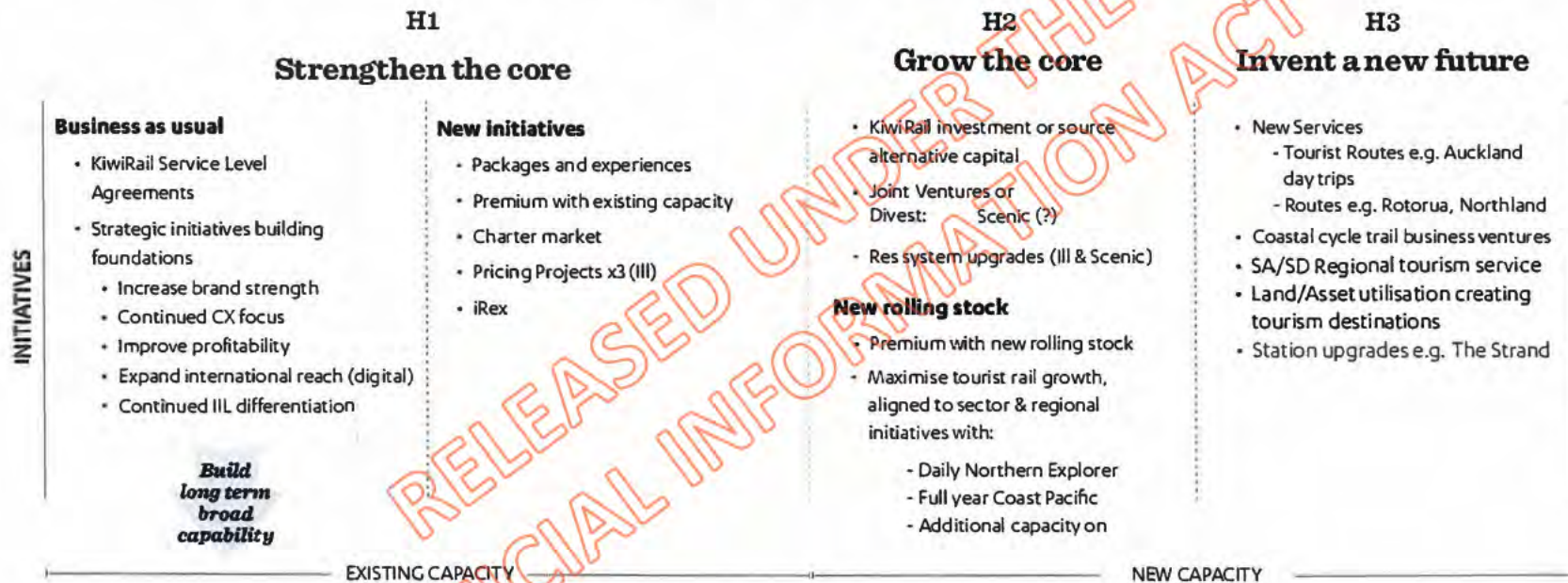
5. Historical Service Statistics – Passengers, Yield, Revenue per annum

s 9(2)(b)(ii)

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6. Tourism Horizons

Tourism Growth Roadmap



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7. Premium Business Case Overview

KiwiRail's Premium Business Case is connected to Provincial Rail Growth Business Case in that the deployment of the new rolling stock.

The new Premium carriages requested for Provincial Rail Growth will be deployed to the South Island only.

We estimate that a total capital investment of ^{s 9(2)}_{(b)(ii)} will be required to deliver a Premium service across the TranzAlpine and Coastal Pacific. This estimate includes:

- Cost of 3 refurbished carriages to deliver a Premium service in the South Island
 - 1 Premium carriage on TranzAlpine
 - 1 Premium carriage on Coastal Pacific
 - 1 Premium carriage spare in the South Island
- Cost to develop and roll out a new IT reservation system for Scenic⁹²
- Project management costs for refurbishment of carriages, new carriages (build and commissioning) and IT reservation system

Our Premium service will be dependent on the availability of a new IT reservation system to replace the existing systems which are cumbersome and do not offer a high level of customer service or experience.

⁹² The existing systems are cumbersome and do not offer a high level of customer service or experience