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## **Report 02.270**

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Report to the Policy, Finance and Strategy Committee  
From Dr D J Watson, Divisional Manager, Transport

## **Refurbishment of English Electric Urban Rail Carriages**

### **1. Purpose**

- To provide the Committee with information on a possible accelerated refurbishment programme for the English Electric (EE) urban rail carriages.
- To recommend the inclusion of the accelerated refurbishment programme in the 2002-2003 Annual Plan and Long Term Financial Strategy (LTFS) update.
- To outline the Annual Plan and LTFS funding options that are available to the Committee.

### **2. Background**

The 14 May 2002 meeting of the Policy, Finance and Strategy Committee resolved that the Council:

*“- Advises Transfund New Zealand that it accepts in principle the offer of a one off additional \$3m contribution to rolling stock refurbishment over the next two years.*

*- The proposal be reviewed in the context of finalising the 2002/03 Annual Plan/LTFS update.”*

Tranz Rail Limited advises that there are 18 EE carriages on the Johnsonville line and 15 EE carriages on the remainder of the network. Of the 33 EE carriages operating two of them have already been refurbished at Tranz Rail's own cost. There are two

further EE carriages that are not operational but that could be returned to service if refurbished.

Tranz Rail has advised that the estimated cost of refurbishment is \$300,000 per carriage and has indicated its willingness to comply with the conditions laid down by Transfund New Zealand. Tranz Rail made a contribution to the Ganz Mavag refurbishment programme of about half the cost. However it is not prepared to fund any of the cost of the EE refurbishments.

Mr Ross Hayward of Tranz Rail has attended recent Council and Passenger Transport Committee meetings to talk about the state of the English Electric carriages and present his views on the refurbishment and replacement programme of all Wellington urban rail carriages over the next ten year period. The clear message from his presentation is that Tranz Rail want to see a committed and early refurbishment of the English Electric carriages. This message seems to be contradicted by Tranz Rail's unwillingness to invest in what is, after all, its own property.

The proposed 2002-2003 Annual Plan and LTFS update already incorporates an urban rail carriage refurbishment programme at an expenditure of \$1.4 million per year, for each of the next three years, a total of \$4.2 million. Approximately \$300,000 of the 2002/03 year's amount relates to the Council's contribution to the last Ganz Mavag unit (two carriages). This leaves a total of \$3.9 million over the next three years for EE carriage refurbishment, which is expected to be sufficient to refurbish 13 carriages. Transfund New Zealand will be contributing its 60% funding share as part of the baseline funding already incorporated into the LTFS.

Transfund New Zealand is due to announce its National Transport Programme (NTP) on 27 June and it is anticipated that the NTP will contain funding of up to \$3m for carriage refurbishment in the Wellington region over the next two years. If the Council wishes to take up this funding it will need to spend a total of \$5 million, of which \$2 million will be the local share. This will enable a further 17 carriages to be refurbished. Therefore a total of 30 carriages could be refurbished (13 + 17) over the next three years if the additional funding is made available by Transfund, leaving one carriage currently operating and the two carriages not in service to be refurbished at a later date.

### **3. Possible Effects on the LTFS**

The current LTFS was not based on the majority of the EE carriages being refurbished over the next few years. Rather, it was based on a major replacement programme in 2005/06. It is, however, difficult to make any adjustments to the existing LTFS figures at this time because there are several unknowns.

Tranz Rail has presented a new carriage refurbishment and replacement programme to the Passenger Transport Committee, but this has yet to be formally discussed by the Committee. If the Council's joint venture company proposal matures there will be a new Tranz Metro Wellington owner, with no doubt a different view of future rolling stock requirements. Additional services and hence rolling stock will result from the extension of the electrification to Waikanae and improvements in service frequency to Masterton. Decisions on further refurbishment or replacement of Ganz Mavag carriages are also pending. All these will need to be considered during the development of the next long term financial plan and appropriate assumptions agreed.

Consequently it is proposed not to amend the remainder of the LTFS even if the Council decides to include additional funding over the next few years to accommodate an accelerated EE refurbishment programme (other than making allowance in the next three years for the accelerated refurbishment programme).

#### **4. Is Refurbishment the Right Step?**

Purchase of new carriages is not a realistic option in the short term and the Council has planned to fund the refurbishment of 13 EE carriages over the next three years, as set out in the proposed Annual Plan. Officers anticipate that refurbishment of these carriages will add between 10 and 15 years onto their useful life. The key question for this report is how urgent and necessary is it to refurbish the remaining carriages? Advice from Tranz Rail is that it will withdraw carriages without the accelerated refurbishment programme. Any reduction in operational EE carriages over the next few years will result in reduced peak commuter rail services. As many peak services are currently operating close to physical capacity any service reduction will result in overcrowding of carriages or people being left waiting at stations. Refurbishment of the majority of the EE carriages is therefore seen as necessary and urgent if the Council wishes to retain a quality passenger rail service for the region.

#### **5. Funding Options**

##### **5.1 Annual Plan programme adjustments**

One option is to consider reductions in other expenditure to fully or partially fund the proposed accelerated EE programme. This is not an easy option; the Council has to select projects, while desirable, are not more desirable than accelerating the EE refurbishment programme. The possible candidates relate to other infrastructure improvements.

Project	Rating Impact 2002/03	Rating Impact 2003/04
• Waikanae Electrification	\$250,000	750,000
• Real Time Information	\$150,000	450,000
• Petone Station	\$276,000	-
• Car Park Improvements	\$216,000	
• Car Park Security	\$132,000	340,000

Some of the above projects would need to be deferred for at least two years to provide a sufficient annual rate contribution (\$1m a year) to fund the accelerated EE programme without an additional rate increase. Deferral of only some of these projects would require the remaining funds for the refurbishment programme to be funded through an increase in rates.

##### **5.2 Pay as you go**

The Council funded the Ganz Mavag refurbishment on a “pay as you go” basis. That refurbishment programme was over eight years. Transfund funding was on the same basis, as they provide their contribution after the expenditure has been incurred. Applying the “pay as you go” approach to the proposed accelerated EE programme would see additional expenditure of \$2.5m (or \$1m in Council rates) in the 2002/03 and 2003/04 years, an additional rate increase of 1.94% each of those two years.

### **5.3 Loan fund**

The Council’s current policy on loan funding does not extend to assets not owned by the Council, nor does it anticipate loan funding of refurbishment programmes. Current legislation of course, does not allow the Council to own public transport assets. Even if the law were to be changed it is difficult to see the Council owning the rolling stock assets to be refurbished under this proposal. They are likely to be owned by the rail operator, currently Tranz Rail, notwithstanding that the Council may wish to attach certain caveats to the refurbishment programme so as to protect the Council’s investment for as long as the carriages remain operational.

## **6. Conclusion**

The Council has been offered by Transfund New Zealand a funding windfall of up to \$3 million over the next two years. The Council can decide not to take up the offer and refurbish the EE Carriages over an extended period as is currently the plan, with 13 EE carriages scheduled for refurbishment over the next three years. This might have operational consequences if, as a result, a number of EE carriages start to be withdrawn from service.

If the Council accepts the offer it essentially has three alternatives to raise the required local funding contribution of \$2 million:

- it can defer some other expenditure that is sufficient to release \$1 million a year for two years to the refurbishment project
- it can increase its transport rate by \$1 million per year for two years
- it can fund the \$1 million required by deferring some expenditure and increasing the transport rate by a lesser amount.

## **7. Communications**

If the Council proceeds with the accelerated refurbishment programme it will provide a significant improvement in service quality and reliability on the Johnsonville and Melling lines. These potential improvements need to be given appropriate publicity.

## **8. Recommendations**

*That the Committee recommend to Council that it:*

1. *Receives the report and notes its contents.*

2. *Approve the accelerated English Electric urban rail carriage refurbishment programme over the 2002/03 and 2003/04 years and include such a programme in its 2002/03 Annual Plan and updated Long Term Financial Strategy, conditional upon:*
- a) *Transfund New Zealand funding 60% of the total cost of the programme subject to the following conditions imposed by them:*
- *the Regional Council will be required to contribute 40% of this refurbishment expenditure, and will not be able to pay its share using existing or future patronage growth payments*
  - *a guarantee that any up-front public investment to refurbish rail rolling stock will be applied directly to the nominated asset, and not be redistributed away from the public transport service by way of sale, retirement of the relevant service or asset, or appointment of a new operator*
  - *the whole of life costs of rolling stock will be incorporated in any future contracts once contracts are negotiated with new provider*
  - *the service provider will agree to provide the Regional Council with full disclosure of all relevant costs and revenues associated with the service. These will specifically include depreciation, maintenance, and refurbishment costs*
  - *the Regional Council and service provider shall agree to independent review of refurbishment costs (including the benchmarking of these costs to comparable international results, and/or to appropriate statistical indices) where the service provider is the sole supplier of a service.*
- b) *Tranz Rail accepting the terms and conditions set by Transfund New Zealand and ratified by them through a capital investment contract with the Council in consultation with Transfund New Zealand*
- c) *The Council's investment in rolling stock refurbishment being appropriately protected for as long as the value of that investment remains.*
3. *Confirms that all future carriage refurbishments be subject to the conditions set out under recommendation (2).*

4. *Decide on one of the following options to fund the accelerated English Electric refurbishment programme:*
  - a) *Deferring for two years a project or projects currently in the proposed 2002/03 Annual Plan/LTFS update selected by the committee with the residual (if any) being funded by a transport rate increase in the 2002/03 and 2003/04 years.*
  - b) *Increasing the 2002/03 and 2003/04 transport rates by \$1 million.*

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