

2. SOUTHERNER RAIL SERVICE

Officer responsible The Mayor	Author Jonathan Fletcher DDI 371-1548
---	---

The purpose of this report is to update the Council on the situation regarding a combined Government/Local Authority funded proposal to keep the Southerner operational till February 2002 and during that time undertake a feasibility study of its long-term viability. This report provides supplementary information to that circulated by the Chairman of Strategy and Resources Committee with the Council agenda.

The Ministry of Economic Development (MED) is proposing that it contribute \$140,000 towards the \$240,000 cost of paying Trans Rail to keep the rail service running for four months until February 2002. During that time they would commission a feasibility study into the options for the medium to long-term viability of the service with the focus being on what is required for it to be a self-funded service. If the funding is agreed, the MED anticipates circulating a draft terms of reference for the study in early October and commissioning the study mid to late October.

There are a number of issues that the Council needs to consider in determining whether it wishes to support this initiative.

- 1. Is it worthwhile keeping the trains running while the feasibility study is undertaken.** The current understanding is that Tranzrail intends to stop running the Southerner from early October. The knowledge of that and that the earlier proposal for the local authorities in the region to support the service on an ongoing basis fell through will already have had some impact on the forward bookings over the next four months. It is arguable, that the \$240,000 of public money that is required to ensure that the service keeps running until February is not worthwhile and that it would be better to simply let the service stop in the interim. However, it does seem on balance that if a new service could be commenced in February next year its chances of being successful would be much greater if it picks up an existing passenger base rather than having to start from scratch.
- 2. Rolling Stock.** For the service to be viable into the medium term it needs high quality reliable rolling stock that provides a quality service. It is not known at the moment what the useful life of the existing rolling stock is, nor whether it could be upgraded at a reasonable price. In fact at this stage it is not even clear whether commercial decisions already made by Tranzrail in its negotiations with Western Railway have precluded some rolling stock options that would have helped the viability of the Southerner service. This is one of the many issues that the feasibility study will have to investigate carefully and thoroughly.
- 3. Passenger Growth.** If four months of operation over the summer season for the Southerner requires a 'subsidy' of \$240,000 to be viable (and it is understood that this is a 'no profit' price that Tranzrail is asking) then it appears that the current annual loss is of the order of at least \$700,000. To break even or make a profit in the medium to long term will therefore require a significant and sustained growth in passenger numbers. Achieving this will not be easy and will involve a considerable commercial risk (particularly in the current climate of uncertainty over the future growth in the tourist industry). Showing if and how this growth can be achieved is a key part of the feasibility study.
- 4. Competing with Coach Services.** Not surprisingly road transport passenger service operators are unhappy about the idea that public money may be spent to keep the Southerner operational. Councillors may have seen the article in Monday's paper where the Bus and Coach Association made its opposition to any subsidy crystal clear. This opposition raises several points. Firstly, the intention is not to subsidise the operation in the long term, simply to pay to ensure that the service is not discontinued until after a thorough investigation of ways of keeping the service continuing on a self-funded basis can be completed. Secondly, even on this short-term basis does the Council wishes to be involved in subsidising the rail service?

Thirdly, it appears that there is sufficient capacity within the existing passenger coach service operations to cater for the passengers that would have travelled by rail if the service was available (that is there is no argument for continuing with a rail passenger service to ensure there is sufficient public transport capacity on the routes). Fourthly, the feasibility study should concentrate on showing how continuing a rail service would complement the coach services rather than compete directly with them.

5. **Tourism Growth.** A key issue in keeping the Southerner link is that it serves a 'niche' market that is not substitutable for by coach travel and which in many cases will, if it is not available, result in tourists either staying home or travelling on other routes. There is no doubt that there are people who prefer to travel by train and for whom the availability of a train service is a key factor in their destination choice. How many of these there are and whether this market could grow to the benefit not only of the train service but also to the benefit of tourism destinations and services on the Southerner route is a matter that the feasibility study needs to look at carefully.
6. **Rail Viability.** One of the other unknowns in this is the long term viability not just of the passenger service but of the railway line itself. Clearly the loss of the passenger service reduces the viability of the line operation, and makes it more likely that any reduction in rail freight volumes could threaten the future of the line itself (or at least one or more sections of it). The portents are not good if one considers the proposal to increase the maximum loads that trucks may carry, the competition coming from the ports at Port Chalmers, Bluff, Timaru and Lyttelton, and changes in the types of production in the region. The viability of the line is something that the Council may wish to have included in the feasibility study.
7. **Financial Support.** At the time of writing, the Government has committed \$140,000 towards the \$240,000 required by Tranzrail to keep the service running until February 2002, conditional on the Local Government in the region finding the other \$100,000, and has also offered a dollar for dollar contribution to a feasibility study up to a maximum of \$30,000. The Otago Regional Council has resolved to make a \$10,000 contribution to the project available from the Council's regional economic development budget. Based on the earlier consideration of the Councils contributing towards the study, it appears likely that Dunedin City Council and Invercargill City Council will be the other main contributors and that some of the other smaller local authorities in the region might be expected to make small contributions. The Christchurch City Council's 'share' of a regional pool is likely to be of the order of \$25,000 (say \$20,000 towards the subsidy and \$5,000 towards the feasibility study). It is also likely that if the Council agreed to make that sort of contribution it could act as a catalyst towards others rallying round to ensure that the total sum was found.
8. **Legal Consideration.** Having reviewed the relevant legislation the Legal Services Manager is satisfied that the Council can contribute out of its funds to both the feasibility study and the ongoing operation of the train. Section 587 provides:

587 Territorial authority may establish services for conveyance of passengers and goods

(1) *Subject to Part 34B of this Act and to Part 2 the Transport Services Licensing Act 1987, a territorial authority-*

- (a) *May establish, maintain, and regulate services for the conveyance of passengers only or of passengers and goods; or*
- (b) *May contribute out of the general revenues of the district to any such service established or maintained by any person or company or by any other local authority.*

In his opinion the Council can rely on paragraph. (b) as authority of the expenditure of the funds referred to in the report for both the feasibility study and the ongoing operation of the train.

Part 34B and the Transport Services Licensing Act are not relevant for this issue.

- Recommendation:**
1. That the Council decide whether or not it wishes to contribute to a combined regional and central government scheme to continue the operation of the Southerner passenger train until February 2002 and in that period undertake a feasibility study of the medium to long term commercial viability of the service.
 2. If the Council decides to contribute it determine what maximum amount it is prepared to contribute and agrees that this is conditional on:
 - (i) The Director of Business Projects (Ian Hay) being satisfied with the terms of reference of the feasibility study;
 - (ii) The total contributions from all sources being sufficient for the subsidised operation and the feasibility study to proceed.

The Chairman comments:

The report sets out very frankly some of the challenges that lie in way of restoring the southern rail service to viability. The other supporters of the proposal (local authorities and the Ministry of Economic Development) recognise these challenges too, but consider that it is important to conduct a full feasibility study to establish whether these challenges can be overcome. They are prepared to contribute to the cost of the study and operation of the service in the meantime.

The offer of the Ministry of Economic Development to contribute \$140,000 to the operations and \$30,000 to the feasibility study leaves \$130,000 to be contributed by local authorities. Dunedin and Invercargill are intending to contribute \$35,000 each, Otago Region and Timaru \$10,000 each, and other authorities smaller sums. Environment Canterbury has been approached for a contribution of \$10,000. A contribution of \$25,000 from Christchurch would raise the total to \$130,000.

In view of the importance of the rail link to South Island tourism, I consider the Council should support the initiative of the southern local authorities. As this is a genuine contingency, I consider that it should be funded from the Contingency Fund.

Chairman's

Recommendation: That, subject to 2 (i) and (ii) above, the Council agree to contribute \$25,000 towards the retention of the Southerner.