

DUNEDIN RAILWAY - FUTURE OPTIONS

Department: Enterprise Dunedin

REASONS FOR CONFIDENTIALITY

Grounds: S48(1)(a) - The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.

Reason: S7(2)(h) - The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities.

S7(2)(i) - The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).

EXECUTIVE SUMMARY

- 1 In November 2021 Council requested a report on the options for the long-term operation and governance of Dunedin Railways Limited in time for the 10 year plan 2024-2034. This initial report responds to that resolution.
- 2 The report recommends that Council retains a train service through the Taieri Gorge and presents options on how best to deliver the service.
- 3 Further reports will be required depending on the decisions made by Council on the future operations of the train service. The timing of this report is such, that any additional reports which may be required can be provided in time to inform decisions in the 2023/24 Annual Plan and next 10 year plan 2024-34.

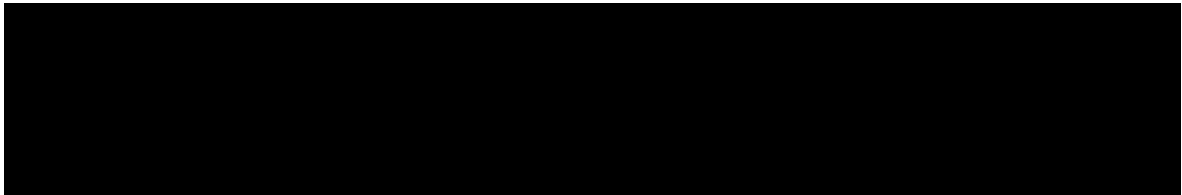
RECOMMENDATIONS

That the Council:

- a) **Approves** the retention of a train service through the Taieri Gorge.

If the staff recommendation is approved, then the further recommendations are:

That the Council:



- d) **Notes** that staff will provide further updates to Council on these matters in time for the 10 year plan 2024-34.

BACKGROUND

- 4 In 1979 the Otago Excursion Train Trust (OETT) operated the first public excursion train from Dunedin to Cromwell. In December 1989, the Minister of Railways announced that the Dunedin to Cromwell rail line would close. In January 1991 the Dunedin City Council (DCC) obtained the lease on the line from Wingatui to Middlemarch which allowed the OETT to continue to operate rail excursions (Attachment A: Taieri Gorge Map).
- 5 The Taieri Gorge Railway Limited (TGRL) was created in 1995. DCC and the OETT each transferred their existing railway assets to TGRL in exchange for a shareholding (72.03% DCC and 27.97% OETT). As a Council Controlled Organisation TGRL had independent directors and was overseen by Dunedin City Holdings Ltd (DCHL). Railway operations were supported by OETT volunteers.
- 6 On 1 December 2017, TGRL changed its name to Dunedin Railways Limited (DRL) to reflect the range of additional services offered including rail trips north of Dunedin along the coast on *The Seaside*.
- 7 DRL passenger numbers were significantly affected by the impact of Covid-19 for both domestic and international visitors. The outlook for international travel with border closures indicated there was little chance of near-term reprieve. DCHL noted in their 2020 Annual Report that the business was facing insolvency and required immediate action.
- 8 On 6 April 2020 DCHL presented a report to Council recommending the sale of DRL due to the impact of Covid-19 on domestic and international visitors. Council instructed DCHL to hibernate DRL and re-deploy DRL employees made redundant across the DCHL group.
- 9 Hibernating the company allowed its assets to be retained while potential sustainable options for the future were identified and evaluated. In April 2020 DCHL became the sole shareholder in the company after purchasing OETT's 27.97% shareholding.
- 10 At its meeting held 23 November 2021, Council resolved the following:

Moved (Cr Sophie Barker/Cr Steve Walker):

That the Council:

- a) **Directs** Dunedin City Holdings Limited to continue to fund up to \$2.4M per annum for maintaining and operating Dunedin Railways Limited using the KiwiRail line and Taieri Gorge line to Hindon until 30 June 2024.
- b) **Approves** Dunedin City Holdings Limited incurring a one-off cost of \$400k in 2021/22 for developing an alternative storage and workshop facility for Dunedin Railways Limited.
- c) **Notes** that staff would continue supporting the Otago Central Rail Trail Trust to develop a feasibility study on the possible options for the Otago Central Rail Trail between Middlemarch and Wingatui.
- d) **Notes** that staff would report back to Council on options for the long-term operations and governance of Dunedin Railways Limited as part of the 10 year plan 2024-34.

Division

The Council voted by division:

For: Crs Sophie Barker, David Benson-Pope, Rachel Elder, Doug Hall, Carmen Houlahan, Marie Laufiso, Mike Lord, Jim O'Malley, Jules Radich, Chris Staynes, Steve Walker, Andrew Whiley and Mayor Aaron Hawkins (13).
Against: Cr Lee Vandervis (1).
Abstained: Nil

The division was declared CARRIED by 13 votes to 1

Motion carried (CNL/2021/195)

DISCUSSION

- 11 The Taieri Gorge Rail corridor, bridges and tunnels are owned by the New Zealand Railways Corporation (NZRC) who lease them to KiwiRail, who in turn sublease the corridor to DCC for \$1 per annum. The sublease between KiwiRail and DCC is assigned to DRL. DRL has responsibility for maintenance of the corridor, bridges and tunnels. DRL owns the railway track, sleepers, and other railway infrastructure (fastening, ballast, poles, pylons, and signalling equipment).
- 12 The current lease between DCC and KiwiRail is for 40 years (less one day), with one right of renewal for another 40 years (less one day). Subject to renewal on 31 December 2030 the lease has a final end date of 30 December 2070.
- 13 DRL Annual Reports summarise the passenger revenue and before tax profit for the period 2017 to 2021. In the financial year to June 2017 the company had a \$172K profit before tax on a turnover of \$6.939M. This turned to a \$122K loss in 2019 and a \$6.606M loss in 2020, the year the company was placed in hibernation.

Year	2017	2018	2019	2020	2021
Total Revenue – \$000	6,939	7,547	9,219	6,515	1,347
Profit \$000 (\$loss):	172	(260)	(122)	(6,606)	(236)

DRL's contribution to the wider economy

14 DRL is an important anchor product to the Dunedin visitor economy. In the past, DRL has supported tourism businesses through combined rail and city tours and connection to the Otago Central Rail Trail. While Covid-19 impacted tourism operators in Dunedin, DRL referrals from the Tourism New Zealand website remained strong and second only to Lanarch Castle in the 12 months to March 2021.

15 [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

The Return of Cruise

17 In 2019 cruise ships contributed approximately 25% of all DRL passengers. New Zealand reopened its border to all visitors on 1 August 2022 enabling the return of cruise ships to Dunedin. Currently 111 cruise ships are booked for 2022/23 compared with 121 ships in the last full cruise season (2018/19) and 112 visits for the shortened 2019/20 cruise season.

18 DVML has continued to operate train services through the Taieri Gorge under a hibernated model throughout the period of travel restrictions due to Covid 19. Even in this constrained environment, DVML has operated a charter model for the 2022/23 season with Pounamu Tourism Group Ltd resulting in passenger numbers trending towards the medium to high visitor recovery forecasts developed by Mr Patterson.

Product Development Review, Dunedin Destination Management Plan and Opportunities

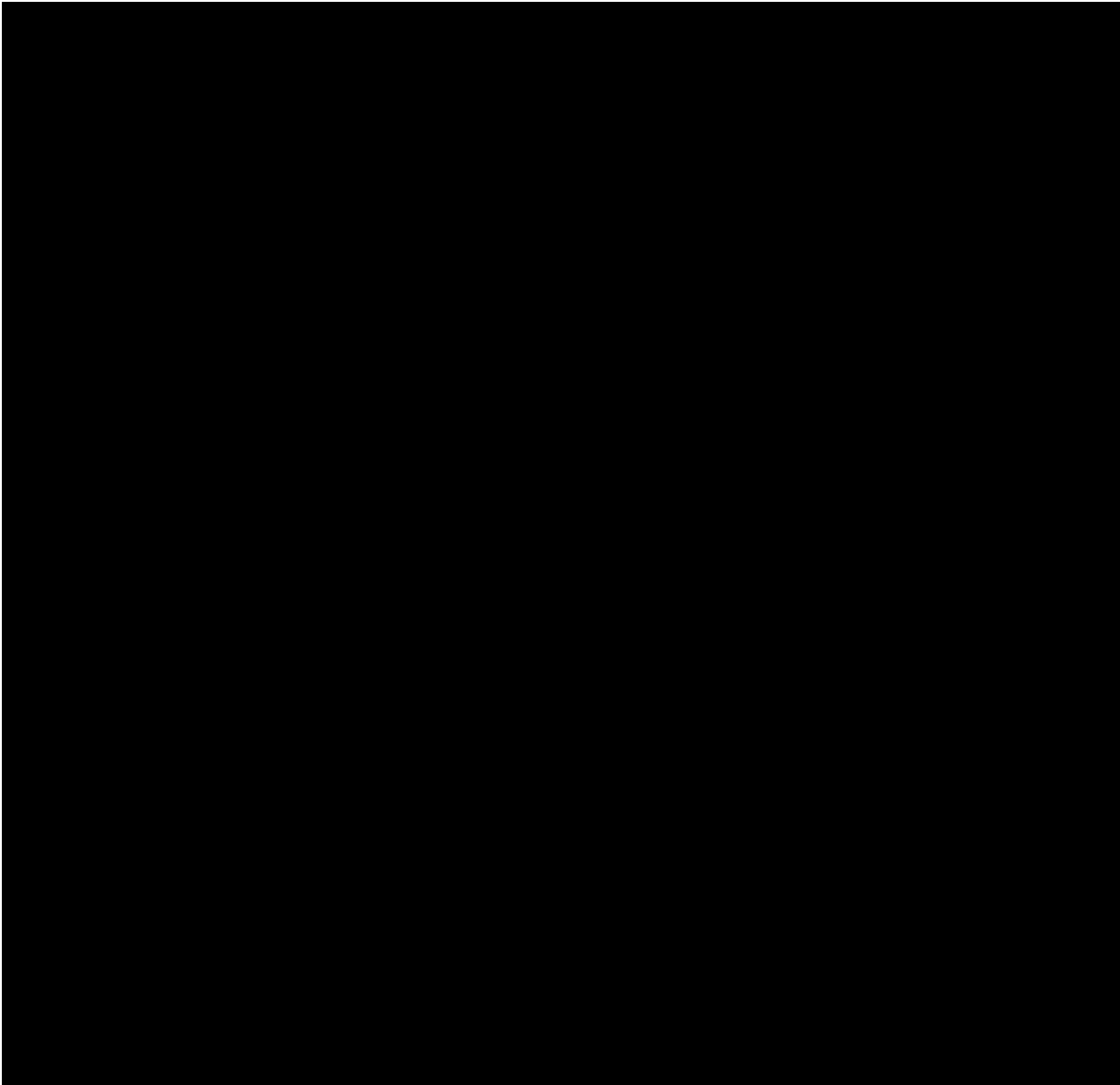
19 In March 2022 Enterprise Dunedin commissioned a Product Development Review (PDR) to identify opportunities for new products and services. History, heritage, accessible outdoors, wildlife, and food were noted as important reasons to visit Dunedin. The PDR noted that new

products could be developed in relation to DRL and posed opportunities for private sector operations.

- 20 Research, as part of the development of the Dunedin Destination Plan (DDMP) indicates the value of Dunedin’s cultural, built, and natural heritage. This presents future opportunities through the:
- a) Taieri Gorge’s natural environment and mana whenua history and cultural narrative
 - b) Railway line and built heritage, particularly its world-class examples of Victorian engineering and viaducts.
- 21 Opportunities to enhance any future Taieri Gorge rail operations were tested by a small group that included rūnaka representatives in September 2022. While further work is required, five opportunities were identified:
- a) **A valuable visitor attraction** - enhancing the service offering to provide higher value-added experiences including attracting a wide range of potential customers who share Dunedin’s values, and a broader range of rail experiences. There was a desire to make the experience eco-friendlier and broaden its appeal to eco-tourists.
 - b) **A sustainable business model** - achieving an economically sustainable business model. It was recognised that an enhanced business offer could attract more revenue, but that it would be unlikely to fully compensate the costs of operations as well as maintaining the resilience of the corridor, infrastructure and rolling stock. There was recognition that a range of other public goods could be possible under a future model, including embedding Te Tiriti o Waitangi principles, strengthening connections with the wider region, enabling business growth and development skills and provide opportunities to contribute to the wellbeing of the Taieri catchment. It was also acknowledged that DRL should be mindful of reducing and mitigating its share of Dunedin’s Carbon footprint in-line with the Council’s Zero Carbon Policy.
 - c) **A rich experience** - to showcase more authentic stories and move to more engaging and memorable narratives for visitors to Dunedin.
 - d) **Increased connectivity across Otago region** - to increase access by visitors and the community to a network of touring, cycling and walking trails and experiences. This also encompassed increased connectivity to Central Otago experiences, in particular linking to the Central Rail Trail terminus at Middlemarch.
 - e) **Enhanced Environmental Wellbeing of the Taieri Gorge** - to better reflect the cultural value and historic narratives of Taieri river and mana whenua, improve awareness of the value of the Taieri and to introduce opportunities for additional contributions to environmental well-being (such as financial donations, or non-financial volunteer hours and tree plantings).

Asset Condition Assessment and Costs

- 22 A condition assessment of track and structures was completed by engineering companies Vitruvius and Holmes between 1 – 4 November 2022. The condition assessment was undertaken by Vitruvius employees who have previously held roles of professional head of structures at KiwiRail and professional head of track (also at KiwiRail). The report has been reviewed by the



Other Related Matters

[Redacted]

- [Redacted]

- [Redacted]

- [Redacted]

37

Otago Central Rail Trail Trust (OCRTT)

38 Staff have continued engaging with representatives from OCRTT on the development of a cycle trail feasibility study along the Taieri Gorge. Staff understand this work is still in development and will continue to support OCRTT.

Project Steam

39 Staff have been approached by Richard Emerson as part of Project Steam over the last 12 months. Project Steam is dedicated to restoring and operating locomotives and are interested in accessing the Sutton to Middlemarch section of the track for community purposes.

40 Project Steam is seeking further discussions regarding:

- a) Opportunities to run a train service commencing and ending at Middlemarch, subject to and compatible with, the requirements of any future operators
- b) Accessing the track between Middlemarch and Pukerangi
- c) Potential benefits to the local community of a tourist attraction in Middlemarch.

Kānoa

41 Staff have approached Kānoa (the Government's Regional Economic Development and Investment Unit) regarding the possibility of support through the \$200M Regional Strategic Partnership Fund (RSPF). The RSPF is focused on regional economic development and business development, accelerating Māori economic aspirations and sector transformation and primarily uses debt and equity. Kānoa has indicated that any application to RSPF for [REDACTED] costs is unlikely to meet the funds criteria. [REDACTED]

Post Hibernation Operational Structures

42 If Council resolves to retain the train service, there are two alternatives for the post-hibernation operations. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

44



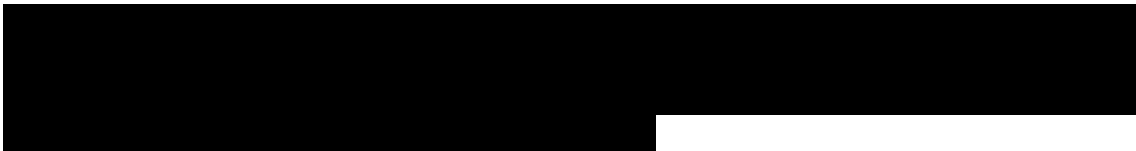
Zero Carbon

- 45 The Zero Carbon Plan (currently in development) will explore approaches to minimise emissions from transport, including those generated by tourism activity. Strategies employed elsewhere to reduce tourism-related emissions include focusing destination marketing on local and domestic markets, promoting travel by lower carbon transport modes to the city, supporting uptake of lower emissions technology by transport service providers (albeit options are limited for some modes), and focussing on low emissions tourism product development.

OPTIONS

- 46 The options include high level financial estimates as discussed earlier in the report. Depending on the options chosen by Council, further work will be required to firm up the financial implications within this report.

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- 48 There are multiple decisions for Council to consider in this report. The first decision is whether to retain a train service through the Taieri Gorge or not.

Option One – Retain a train service through the Taieri Gorge (recommended)

Advantages

- Retains a high-volume anchor product in the Dunedin visitor industry.
- Meets tourism sector expectations regarding the retention of train services and consistent with the PDR and development of the DDMP.
- Meets community expectations regarding social and cultural connections.
- Opportunity to build a mana whenua narrative into an existing visitor product.
- Does not constrain future decisions on track and rail infrastructure in Taieri Gorge.
- Ongoing contribution to the wider Dunedin visitor economy through additional visitor spending.

Disadvantages

- May reduce other options to use the existing rail corridor and track infrastructure by other transport modes such as cycling.
- Costs beyond 30 June 2024 are unbudgeted.

Option Two – Do not retain a train service through the Taieri Gorge

Advantages

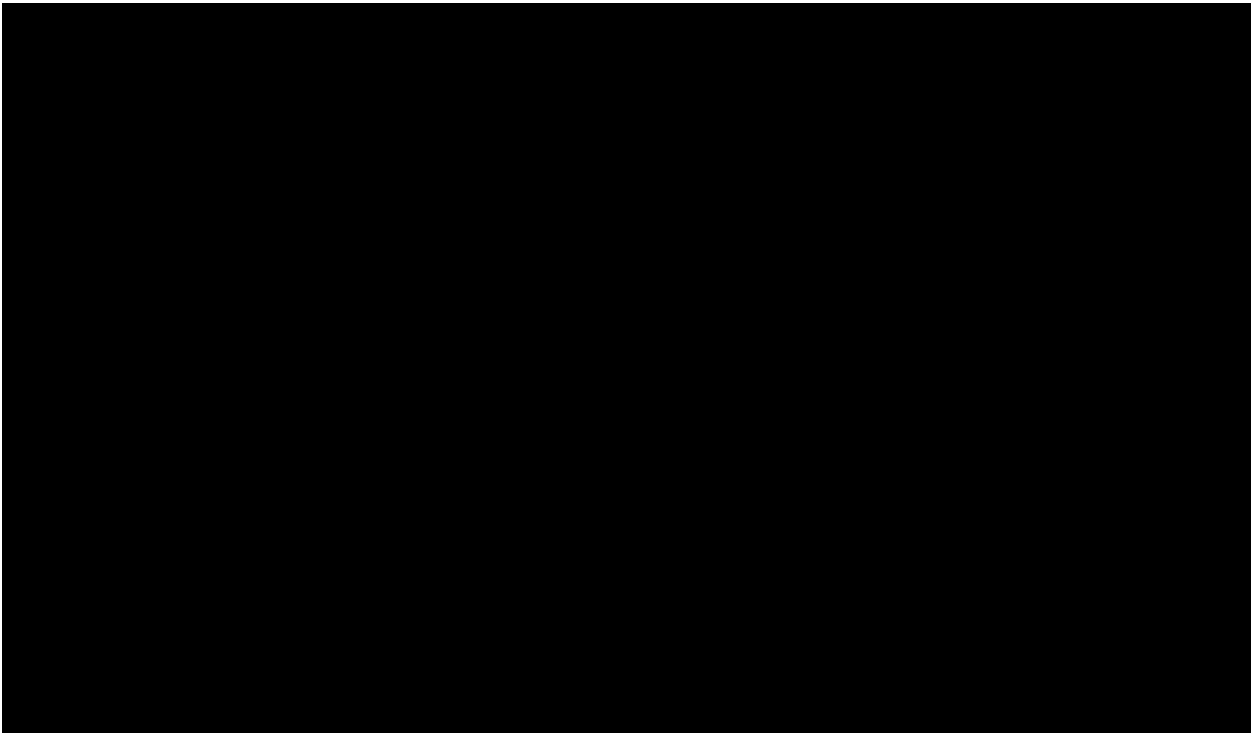
- Infrastructure maintenance costs could be reduced.
- Potential opportunity for the development of other tourism product such as cycleways.

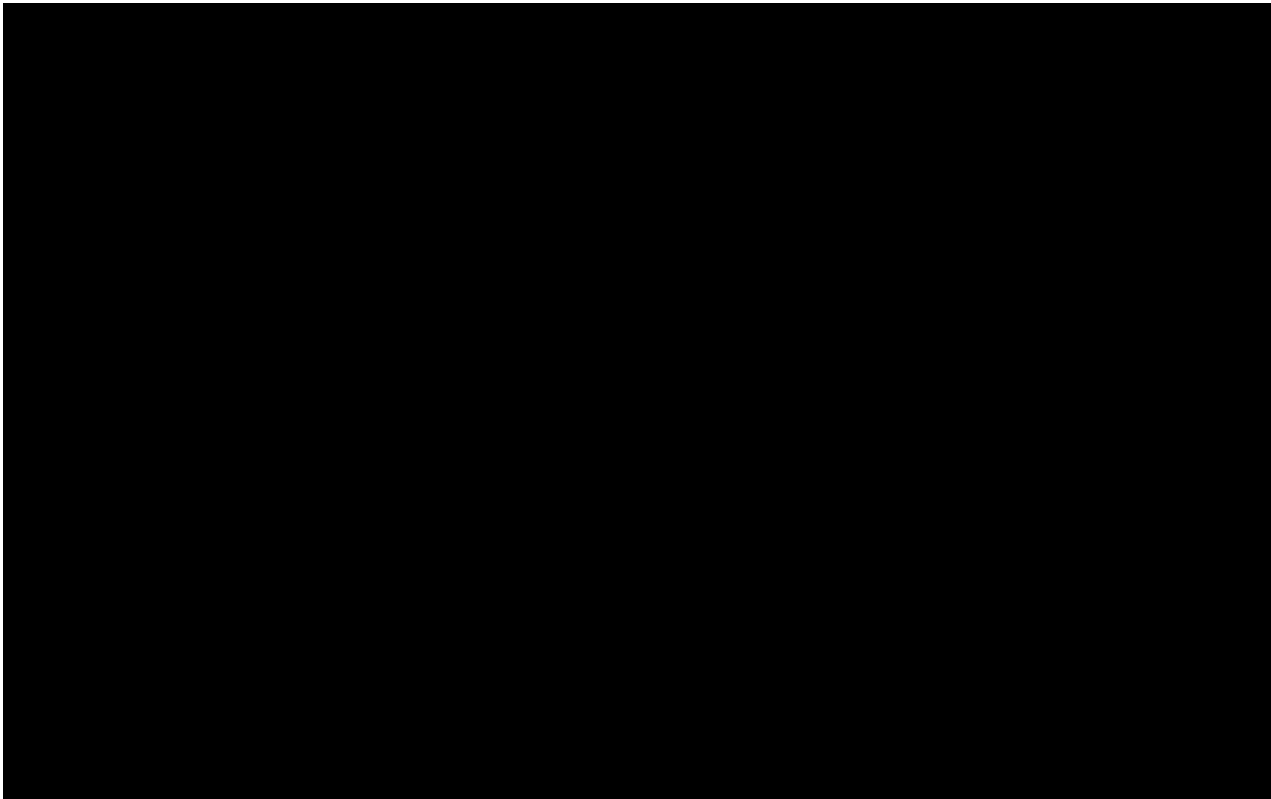
Disadvantages

- Loss of a high-volume visitor anchor product which is unlikely to be replaced in the short to medium term.
- Loss of an opportunity to build a mana whenua narrative into an existing visitor product.
- Loss of DRL's contribution to the wider Dunedin economy though additional visitor spending.
- Likely continuing costs from lease obligations associated with maintaining the corridor.
- Does not meet tourism sector expectations regarding the retention of train services.
- Unlikely to meet community expectations regarding connectivity and linkages to Middlemarch.
- Constrains future decisions on services, track and rail infrastructure in the Taieri Gorge.

49 If Council does not approve retaining a train service through the Taieri Gorge, a report will be prepared on next steps and costs.

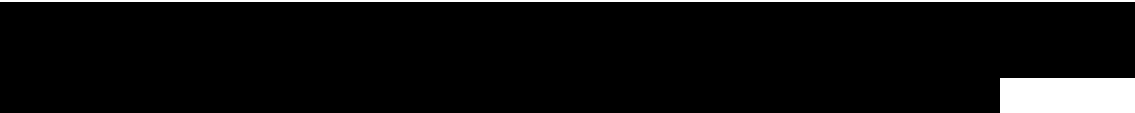
50 If Council approves the retention of a train service through the Taieri Gorge, a second decision is required on the following options.





NEXT STEPS

53 If Council does not approve retaining a train service through the Taieri Gorge, staff will provide a further report to Council on steps required to give effect to that decision.

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56 Staff will prepare any additional reports which may be required in time to inform decisions in the 2023/24 Annual Plan and next 10 year plan 2024-34.

Signatories

Author:	Fraser Liggett - Economic Development Programme Manager John Christie - Manager Enterprise Dunedin
Authoriser:	Sandy Graham - Chief Executive Officer

Attachments

	Title	Page
A	Taieri Gorge Map	
		



SUMMARY OF CONSIDERATIONS

Fit with purpose of Local Government

This decision promotes the social, economic, environmental and cultural well-being of communities in the present and for the future.

Fit with strategic framework

	Contributes	Detracts	Not applicable
Social Wellbeing Strategy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Economic Development Strategy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Environment Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Arts and Culture Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
3 Waters Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Spatial Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Integrated Transport Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Parks and Recreation Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other strategic projects/policies/plans	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

The operation of Dunedin Railways Limited and its assets contributes to the Dunedin 2013-23 Economic Development Strategy theme of a “Compelling Destination” through the tourism service it provides. Dunedin Railways Limited operations also contributes to the Social Wellbeing Strategy by supporting stronger communities.

Māori Impact Statement

Representatives from Te Runaka o Ōtākou and Kati Huirapa Runaka ki Puketeraki have been engaged in discussions and workshops on the project.

Sustainability

Representatives from Council’s Zero Carbon team have been consulted in the preparation of this report.

DRL has developed an emissions reduction action plan. It states that while some operational efficiency savings could be achieved in the use of diesel fuel, this would be minor, and more significant changes would be required to achieve substantial gross emissions reduction. Possibilities include modifying engines to use biofuels, and/or changing engines to more fuel-efficient models (costs and feasibility yet to be investigated).

LTP/Annual Plan / Financial Strategy /Infrastructure Strategy

Staff will report back to Council on options for the long-term operations and governance of DRL as part of the 10 year plan 2024-2034.

Financial considerations

Financial considerations are covered in the main body of this report.

Significance

The decisions within this report have been assessed as being of low significance in terms of the Council’s Significance and Engagement Policy. Further decisions in future reports will be assessed and may trigger a different level of significance.

SUMMARY OF CONSIDERATIONS

Engagement – external

Dunedin City Holdings Ltd, Te Runaka o Ōtākou and Kati Huirapa Runaka ki Puketeraki, Dunedin Railways Limited, Dunedin Venues Management Limited and representatives from the Strath Taieri Community, Pounamu and OETT and Project Steam have been engaged.

Engagement – internal

Finance, Legal, Māori Partnerships, Procurement, Enterprise Dunedin, Zero Carbon and Transport and have all contributed to the development of this report.

Risks: Legal / Health and Safety etc.

Any risks are identified in the body of this report.

Conflict of Interest

There are no known conflicts of interest.

Community Boards

Matters in this report will be of interest to Mosgiel-Taieri, Strath Taieri, West Harbour and Waikouaiti Coast Community Boards.

Appendix A Taieri Gorge Rail Corridor

