

FUTURE OF DUNEDIN RAILWAYS LTD - 9 YEAR PLAN 2025-34

Department: Civic

EXECUTIVE SUMMARY

- 1 In April 2020, Council instructed Dunedin City Holdings Ltd (DCHL) to hibernate Dunedin Railways Ltd (DRL) as a result of the impacts that COVID-19. In November 2021, Council directed DCHL to fund maintaining and operating DRL using the KiwiRail line and Taieri Gorge line to Hindon until 30 June 2024.
- 2 A decision on the future of DRL was to be made in time for the 10 year plan 2024-34, however, with the deferral of the 10 year plan, Council resolved, at its meeting on 12 March 2024 to defer the proposed decision on the future of DRL to the 9 year plan 2025-34.
- 3 In the non public part of the 10 December 2024 Council meeting, DCHL presented to Council an update report on DRL and progress that has been made on developing a forward plan. At that meeting, Council resolved that the retention of DRL, its operations and the track through to Middlemarch is its preferred option.
- 4 This report requests under Standing Order 23.6, that three resolutions that were passed at the 12 March 2024 Council meeting are revoked. These resolutions related to the preparation of an options assessment of rail, cycling and walking, governance options, and liaison with various groups interested in the future use of the rail corridor as part of the 9 year plan.
- 5 This report requests that DCHL fund \$2 million per annum, towards the renewals of the Taieri Gorge Line rail corridor.

RECOMMENDATIONS

That the Council:

- a) **Revokes** resolution CNL/2024/034, c), d) and e) as follows:

Revokes the direction to staff to prepare an options assessment of rail, cycling and walking in advance of the 9 year plan 2025-34, including the requirement to provide governance options that would align with any proposals in the Council's Draft Investment Plan, and the direction to liaise with various groups interested in the future use of the rail corridor.
- b) **Directs** Dunedin City Holdings Limited to fund up to \$2 million per annum to Dunedin Railways Limited, to fund the renewals of the Taieri Gorge Line rail corridor.
- c) **Notes** that the dividend from Dunedin City Holdings to Council will be reduced by \$2 million for two years.

BACKGROUND

- 6 In April 2020, Council resolved to instruct DCHL to hibernate DRL because of the impact that the Covid-19 pandemic had on the business. Since that time there has been a history of decisions made on DRL, and these decisions, up to January 2023, are provided at Attachment A.
- 7 At its meeting on 12 March 2024, Council considered a report to defer the decision on the future of DRL to the 9 year plan, and direct DCHL to continue funding up to \$2 million per annum to maintain and operate DRL using the KiwiRail line and Taieri Gorge line to Hindon until 30 June 2025. Council resolved as follows:

Moved (Cr Andrew Whiley/Cr Sophie Barker):

That the Council:

- a) **Defers** the proposed decision on the future of Dunedin Railways to the 9 year plan 2025-34.
- b) **Directs** Dunedin City Holdings Limited to continue to fund up to \$2.0M per annum for maintaining and operating Dunedin Railways Limited using the KiwiRail line and Taieri Gorge line to Hindon until 30 June 2025.
- c) **Directs** staff to prepare an options assessment of rail, cycling and walking in advance of the 9 year plan 2025-34.
- d) **Notes** the report would also include governance options and will align with any proposals in the Council's Draft Investment Plan.
- e) **Notes** this work would include liaison with various groups interested in the future use of the rail corridor.

Division

The Council voted by division

For: Crs Bill Acklin, Sophie Barker, David Benson-Pope, Christine Garey, Kevin Gilbert, Marie Laufiso, Cherry Lucas, Mandy Mayhem, Steve Walker, Andrew Whiley and Mayor Jules Radich (11).

Against: Crs Lee Vandervis and Brent Weatherall (2).

Abstained: Nil

The division was declared CARRIED by 11 votes to 2

Motion carried (CNL/2024/034)

- 8 At its meeting on 10 December 2024, DCHL provided an update to Council on DRL, the change in management and governance, and the progress that has been made on developing a forward plan. At that meeting, Council resolved the following:

Moved (Mayor Jules Radich/Cr Cherry Lucas):

That the Council:

- a) **Notes** the Dunedin City Holdings Ltd update report on Dunedin Railways Ltd.

- b) **Approves** the retention of DRL, its operations and the track through to Middlemarch as its preferred option.
- c) **Requests** that the report on the future of Dunedin Railways Ltd for the January 2025 meeting is prepared on that basis.

Division

The Council voted by division

For: Crs Sophie Barker, David Benson-Pope, Christine Garey, Kevin Gilbert, Carmen Houlahan, Marie Laufiso, Cherry Lucas, Mandy Mayhem, Lee Vandervis, Steve Walker, Brent Weatherall, Andrew Whiley and Mayor Jules Radich (13).

Against: Nil

Abstained: Nil

The division was declared CARRIED by 13 votes to 0

Motion carried (CNL/2024/035)

DISCUSSION

- 9 DRL has been following the direction of Council, working on a plan on how to get back to being a viable business following its hibernation.
- 10 In March 2024, DRL appointed Ms Rebekah Jenkins as General Manager, and in November 2024, DRL appointed Mr Adrian Januszkiewicz as Executive Chairman. Mr Januszkiewicz has a background in leading tourism businesses. Since their appointments, progress has been made in transitioning the business from hibernation.
- 11 DRL is a critical component of Dunedin's tourism industry. It has developed a long term vision that includes the following:
- DRL will be the market leader for tourism, representing the heritage and brand values of the city. This vision includes the Dunedin Railway Station, being an iconic NZ heritage building, and a huge tourism draw for the city.
 - DRL will transition to a position where the business breaks even, excluding track maintenance costs, as soon as feasible.
 - DRL will strive to make a meaningful contribution and be a key part of the Dunedin community. It is committed to working with groups like the Otago Excursion Train Trust and others, to create strategic partnerships such as with the cycling community, to explore the opportunity to link DRL to the Otago Rail Trail.
- 12 Over the next 12 months, DRL will prepare a Strategic Plan to deliver a sustainable model to retain rail services on the Taieri Gorge line, with supporting financial information, delivering on its vision. It will be market led, customer driven, and supported by research.
- 13 Recognising the change in management and governance, and the progress made to move DRL out of hibernation, Council has resolved to retain DRL, its operations and the track through to Middlemarch.

- 14 A commitment of up to \$2 million of funding per annum to DRL is needed for the renewals of the Taieri Gorge Line rail corridor. It is proposed that Dunedin City Holdings Limited provide this ongoing funding. This request will result in a corresponding reduction of dividend from DCHL to Council for two years.

Current situation

- 15 The Taieri Gorge Rail corridor, bridges, and tunnels are owned by the New Zealand Railways Corporation (NZRC) who lease them to KiwiRail. Kiwi Rail in turn subleases the corridor to DRL for \$1 per annum.
- 16 Although NZRC owns the corridor, bridges, and tunnels, 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).
- 17 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 an end date of 30 December 2070.
- 18 Under the current lease DRL is not required to operate a railway. However, NZRC and KiwiRail approval is required for any use of the corridor other than a railway.
- 19 In the year prior to the Covid-19 pandemic, DRL carried 96,000 passengers, generating revenue of \$8.7 million, and EBITDA (earnings before interest, tax, depreciation and amortisation) of \$600,000.
- 20 Preliminary analysis has suggested that DRL can successfully re-engage with its pre Covid customers, and become a financially sustainable business, delivering a return to its shareholders.
- 21 Over the past two years, significant progress has been made on track maintenance, including the re-establishment of the track between Hindon and Pukerangi. A track maintenance plan for the next nine years has been prepared, focusing on proactive asset management and the preservation of critical infrastructure. It addresses safety related maintenance, infrastructure preservation, and passenger experience improvements.
- 22 DRL currently has 11 carriages and four locomotives in service, enabling two trains to operate simultaneously. There are a further three carriages and two locomotives to bring back from hibernation.
- 23 DRL is rebuilding its team over time. In hibernation, there was a team of four staff, and this grown to 18 permanent and 7 casual employees. The team will need to grow further as operations and revenue grow.

Liaison with other groups

- 24 Walking and cycling were considered possible options for the future use of the track, however the changes made to DRL, and communications with interested groups such as the Otago Central Rail Trail Charitable Trust indicate that a well-functioning train service will provide a good outcome for all. This feedback is endorsement for the decision made to retain DRL, its operations and the track through to Middlesbrough.
- 25 A summary of feedback from interested parties is provided below.

Rail and Cycling

- 26 The Otago Central Rail Trail Charitable Trust (OCRT) advised that it has been working with Great Rides New Zealand, to identify three things that would take the Otago Central Rail Trail to the next level. The overwhelming number one response was the reinstatement of the Taieri Gorge train with a timetable that could be integrated with the cycle operators, and that would suit cyclists.
- 27 OCRT has also provided its and the cycle operators views about the Taieri Gorge Train service. A key theme in the responses that OCRT received from the cycle operators was:
- “The train service was a key feature of the overall Otago Central Rail Trail experience and was promoted as such. The jewel is now missing in the crown, and it would again be a world class experience if connected again with the OCRT”.*
- 28 The preference of the cycle operators is to have the train run through to Middelmarsh, as it links the trail with Dunedin, provides for better services, and no extra shuttles would be required. Reinstatement of the service to and from Middelmarsh would also help to stimulate the local economy, and the development of more tourism options and attractions.
- 29 Comments from the survey of cycle operators recently undertaken by OCRT is at Attachment B. A copy of a submission made by OCRT on plans for the Taieri Gorge is at Attachment C.

Otago Excursion Train Trust

- 30 The Otago Excursion Train Trust (OETT), DRL staff and Council staff have engaged positively on the options for retention of the train and the track through to Middelmarsh. OETT had indicated a willingness to operate the train if Council was looking to an alternative operator than DRL. DRL will now continue to work closely with OETT to utilise their skills, experience, and passion for rail, which will add positively to the rail experience.

Other engagement

- 32 In recent days, the Chief Executive and staff have briefed the OETT, OCRT, the Mosgiel Taieri Community Board Chair and the Strath Taieri Community Board Chair on the Council’s decision to retain the train and track, and to resume services to Middelmarsh.

Other potential operators**Pounamu**

- 31 DRL has enjoyed a commercial relationship with Pounamu, who has delivered cruise ship services for DRL.
- 32 Pounamu has had communications with DRL, DCHL and Councillors over recent months, expressing its interest in operating and possibly assuming ownership of DRL. Councillors were aware of Pounamu’s interest when they resolved that DRL was to operate the train.
- 33 Mr Jackson, from Pounamu, will be presenting on this topic at the public forum section of this meeting. A copy of his proposal is at Attachment D.
- 34 DRL has reviewed and assessed the proposal provided by Mr Jackson, and will be at the meeting, to answer questions. DRL notes the following:

- Both DCHL and Pounamu recognise the potential they see in the future of DRL.
- DRL believes, subject to their longer term planning, that the net cost to the city over the 9 year period is likely to be less than what would be incurred if the Pounamu proposal is accepted.
- DRL are committed to ensuring operating losses (excluding track maintenance) are curbed as soon as possible and to see the entity move into a position longer term where it can provide a good contribution towards the track maintenance.
- Council maintains control of the asset with DRL.

Revocation of earlier resolutions

- 35 At its meeting on 10 December 2024, Council resolved that the retention of DRL, its operations and the track through to Middlemarch is its preferred option for the future.
- 36 The resolution passed by Council on 10 December 2024 has negated the need for the work outlined in parts c), d) and e) of resolution CNL/2024/034 passed at the 12 March 2024 meeting, to complete an assessment of the options of cycling and walking and to liaison with various interest groups, as these activities cannot exist on the rail corridor as the train service has been retained.
- 37 To give effect to the resolution passed on 10 December 2024, the Chief Executive is recommending, under Standing Order 23.6, that parts c) to e) of resolution CNL/2024/034 passed at the 12 March 2024 meeting are revoked. Those resolutions are as follows:
- c) ***Directs*** staff to prepare an options assessment of rail, cycling and walking in advance of the 9 year plan 2025-34.
 - d) ***Notes*** the report would also include governance options and will align with any proposals in the Council's Draft Investment Plan.
 - e) ***Notes*** this work would include liaison with various groups interested in the future use of the rail corridor.
- 38 As noted above, Council has liaised with the OCRT and OETT, seeking their views on the future use of the rail corridor. In providing feedback to Council, OCRT has liaised with cycle operators, OCRT Tour Planning Operators, and Great Rides New Zealand in forming its feedback to Council.

OPTIONS

- 39 As Council has decided on its preferred option, there are no options.

NEXT STEPS

- 40 If approved, Council will direct DCHL to provide funding of \$2 million per annum to DRL.
- 41 Council's decision will be included in the 9 year plan consultation document.

Signatories

Author:	Sharon Bodeker - Special Projects Manager
Authoriser:	Sandy Graham - Chief Executive Officer

Attachments

	Title	Page
A	Decisions made on DRL from April 2020 to January 2023	
B	Survey of cycleway operators	
C	OCRT submission on plans for the Taieri Gorge	
D	Pounamu proposal	

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 type="checkbox"/>	<input type="checkbox"/>
Economic Development Strategy	✓	<input type="checkbox"/>	<input type="checkbox"/>
Environment Strategy	<input type="checkbox"/>	<input type="checkbox"/>	✓
Arts and Culture Strategy	<input type="checkbox"/>	<input type="checkbox"/>	✓
3 Waters Strategy	<input type="checkbox"/>	<input type="checkbox"/>	✓
Future Development Strategy	<input type="checkbox"/>	<input type="checkbox"/>	✓
Integrated Transport Strategy	✓	<input type="checkbox"/>	<input type="checkbox"/>
Parks and Recreation Strategy	✓	<input type="checkbox"/>	<input type="checkbox"/>
Other strategic projects/policies/plans	<input type="checkbox"/>	<input 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 which it provides. Dunedin Railways Limited operations also contribute to the social wellbeing strategy by supporting stronger communities.

Māori Impact Statement

There has been no engagement with Māori.

Sustainability

DRL will develop a Strategic Plan to deliver a sustainable model to retain rail services on the Taieri Gorge line.

Zero carbon

The retention of DRL, its operations and the track through to Middlemarch is in alignment with the Zero Carbon Plan, as it provides a lower carbon form of transport for tourism. Restoring services to Middlemarch supports the Zero Carbon Plan transport action area 6 to *Encourage low carbon recreation* as services to and from Middlemarch could promote cycle tourism through further use of the Central Otago Rail Trail, as well as inspiring more tourists cycling the Central Otago Rail Trail to visit and stay in Dunedin.

LTP/Annual Plan / Financial Strategy /Infrastructure Strategy

This decision is being included in the 9 year plan.

Financial considerations

These are discussed in the report.

Significance

This matter will be consulted on as part of the 9 year plan consultation process.

SUMMARY OF CONSIDERATIONS***Engagement – external***

There has been engagement with the Otago Central Rail Trail Trust, Otago Excursion Train Trust, Pounamu, DRL and DCHL.

Engagement - internal

There has been no internal engagement.

Risks: Legal / Health and Safety etc.

There are no identified risks.

Conflict of Interest

There are no known conflicts of interest.

Community Boards

Matters in this report will be of particular interest to the Mosgiel-Taieri and Strath Taieri boards who have a direct interest in future plans for the Taieri Gorge part of the DRL service. Both the West Harbour and Waikouaiti Coast Community Boards also have an interest in the future operation of the train.

History of decisions on Dunedin Railways Ltd, from April 2020 to January 2023

- 1 On 6 April 2020, Council resolved to instruct DCHL to hibernate DRL because of impact that the Covid-19 pandemic had on the business. DCHL were also asked to identify and evaluate potential sustainable options for the future of DRL and its assets, as follows:

Moved (Mayor Aaron Hawkins/Cr Christine Garey):

That the Council:

- a) **Instructs** Dunedin City Holdings Ltd (DCHL) to mothball Dunedin Railways Limited (DRL); and
 - i) *Where possible, redeploy employees made redundant across the DCHL Group and elsewhere; acknowledging that*
 - ii) *Has no view on what a permanent outcome might look like; and*
 - iii) *Will provide up to \$1.05m for the mothballing costs from July 2020 - December 2021, noting that any investment in future options would need to be subject to a separate business case and approval process.*
- b) **Requests** a report from DCHL, as soon as is practicable detailing:
 - i) *Options for DRL's operating and governance structure in the interim.*
 - ii) *An asset management schedule to protect current assets.*
- c) **Requests**, in time for Long Term Plan deliberations; an update report outlining the longer term options for DRL and its assets.

Division

The Council voted by division:

For: Crs Sophie Barker, David Benson-Pope, Rachel Elder, Christine Garey, Doug Hall, Carmen Houlahan, Marie Laufiso, Mike Lord, Jim O'Malley, Jules Radich, Chris Staynes, Steve Walker, Andrew Whiley and Mayor Aaron Hawkins (14).
Against: Cr Lee Vandervis (1).
Abstained: Nil

*The division was declared **CARRIED** by 14 votes to 1*

Motion carried (CNL/2020/001)

- 2 In a report to Council on 23 November 2021, Council directed DCHL to continue to fund up to \$2.4 million per annum for maintaining and operating DRL using the KiwiRail line and Taieri Gorge line to Hindon until 30 June 2024, as follows:

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).

- 3 Following on from this, DRL entered into a charter service agreement with Pounamu Tourism Group. Under this arrangement DRL has operated services through the Taieri Gorge during 2022/23 and 2023/24, targeted to the cruise market. Public excursions have also operated during this period.
- 4 On 31 January 2023 Council resolved to retain a train service through the Taieri Gorge.

Moved (Cr Sophie Barker/Cr Mandy Mayhem):

That the Council:

- a) **Approves** the retention of a train service through the Taieri Gorge.
- b) **Approves** the separation of above-rail operations and below-rail maintenance in any future Dunedin Railways Limited model.
- c) **Authorises** the Chief Executive Officer to seek proposals from potential operators for above and below-rail services along the Taieri Gorge.
- d) **Notes** that staff will provide further updates to Council on these matters in time for the 10-year plan 2024-34.

Division

The Council voted by division.

For: Crs Bill Acklin, Sophie Barker, David Benson-Pope, Christine Garey, Kevin Gilbert, Carmen Houlahan, Marie Laufiso, Cherry Lucas, Mandy Mayhem, Jim O'Malley, Steve Walker, Andrew Whiley and Mayor Jules Radich (13).
Against: Crs Lee Vandervis and Brent Weatherall (2).
Abstained: Nil

The division was declared CARRIED by 13 votes to 2.

Motion carried (CNL/2023/019)



Otago Central Rail Trail Charitable Trust
PO Box 112, Omakau 9376
Email: admin@otagocentrailtrail.co.nz

10 January 2025

The Chief Executive
Dunedin City Council
50 The Octagon
Dunedin City Council

Survey of Cycle Operators – Taieri Gorge Train Service

Dear Sandy

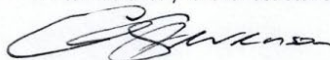
Please find below comments from the Cycle Operators that conduct business on the Otago Central Rail Trail in relation to the Taieri Gorge Train Service as requested.

- 1) Realistically, to be an integral part of the Rail Trail experience a service to / from Middlemarch is required. This would also help rejuvenate the visitor economy in Middlemarch which is desperately needed.
- 2) The Taieri Gorge train is an iconic experience for the lower South Island which is currently being underutilised due to its focus on the cruise ship industry. A service that ran consistently from September to June, or more would be of huge benefit to the tourism industry in Central Otago and the Dunedin areas.
- 3) The train was a key feature of the overall Otago Central Rail Trail experience and was promoted as such. The jewel is now missing from the crown, and it would again be a world class experience if connected with the OCRT along with the other trails that will connect from Queenstown and Wanaka, etc in the future.
- 4) The train schedule needs to be regular and consistent so that operators can effectively integrate a train trip into their itineraries.
- 5) The current train schedule (arrival / departure time in Pukerangi) does not align with the normal itineraries for riders on the Rail Trail making a connection with the train extremely difficult. Departure from Middlemarch as a preference at 2.00 pm.
- 6) We are reluctant to provide shuttle transfers from Middlemarch to Pukerangi due to the additional wear and tear on vehicles on the gravel road. There is really nothing at Pukerangi apart from long drop toilets, Middlemarch has a historic railway station that should be used and would bring financial benefits to the township. We also have a business depot in Middlemarch and would enjoy more patronage from this end of the trail.
- 7) Price (within reason) is not a barrier – customers are happy to pay for the experience (as per the Roxburgh Gorge jet boat transfer as an example).

- 8) The impacts of last-minute cancellation of cyclist bookings due to overbooking cruise passengers was not a sustainable business model.
- 9) We are now choosing to finish at Hyde instead of Middelmarsh. This is due to the train service, along with the lack of accommodation and consistent availability of food. Unfortunately, this has a detrimental impact on overall trail experience and completion of the full 152km, but we do not want to expose our customers to this.
- 10) We would also advertise the Taieri Gorge Train as an attraction to compliment Dunedin Railways Marketing Plan if we could collectively work together.
- 11) A train service that effectively connects with the Rail Trail would be very attractive which would provide connectivity for tourists arriving in Queenstown to cycle to Middelmarsh and then have the amazing train to experience. Dunedin would then become their destination rather than being driven 230 kilometres back to Queenstown or the Dunedin Airport. They could then also ride the trails in the Dunedin area.
- 12) We would prefer to get cyclists to Dunedin, we do transport some by vehicle into the city, but mostly to the airport. The train would change this.
- 13) A workable train schedule would allow for increased patronage on the trail with more cyclists leaving from Middelmarsh which is now only about 15% compared to Clyde at 85%.
- 14) The ability for the Operators to book on behalf of their customers and not being required to pay the full amount at the time of booking would be advantageous.
- 15) As the Operators are marketing and booking the Taieri Gorge train, we should receive a commission which is normal industry standards. We used to receive a commission in the past and our marketing could compliment that of Dunedin Railways.
- 16) Timetables being confirmed as soon as possible would be advantageous to both the Operators and increased patronage on the train as visitors book their ride on the OCRT well in advance, by some 6 to 9 months.
- 17) Operators are finding that the train is sold out in advance which deters visitors from visiting Dunedin, so return to Queenstown.

Thank you for the opportunity to provide the above information on behalf of the Cycle Operators and we also contacted Cycle Tour Operators in Christchurch. The comments as outlined above are consistent amongst all the Cycle Operators.

If I can be of any further assistance, please contact me.



Colin Stevenson

Trust Manager

Otago Central Rail Trail Charitable Trust

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19 February 2024

The Otago Central Rail Trail (OCRT) Trust thanks the Dunedin City Council for the opportunity to present on plans for the Taieri Gorge.

The OCRT Trust strongly supports the development of a better link between the Otago Central Rail Trail and Dunedin. We have between 12500 and 13000 users doing the whole trail annually. User numbers are higher on some parts of the trail depending on local population and landscape features.

From inception the Otago Central Rail Trail Trust has fostered the history and heritage created by the rail link between Central Otago and Dunedin. Trail users used to underpin train trips and were a vital part of the operating model.

The Trust acknowledge the importance of the Taieri Gorge landscape to the wider community and the significant part it has played in the Otago Central Rail Trail experience.

In order to assist DCC in making decisions on the future of the Taieri gorge, the OCRT Trust sought comments from those Business Operators along the Trail who had been including the train experience in their clients itinerary. We did this to ensure that in your planning you understood the businesses needs if they were to continue to support a train service on the line.

The Trust posed the following questions to the OCRT Tour Planning Operators;

1. Would you change your current business model to include the train experience if it were to return?

All operators that responded would change their business model to include the Taieri Gorge train experience. Most Tour Planning operators still receive enquiries from clients who ask if the service is available or when it might be relaunched. It was a popular addition to their itineraries and most felt that it would be very easy to sell the experience to their clients.

2. How often do you think the train would need to run?

All felt that ultimately the train should run a daily return service to prevent the bottlenecks that use to create upstream issues for accommodation along the trail. All agreed 3 – 4 times per week would be a minimum to allow tours to coincide with a pick up or drop off to or from the train. Most felt that a 2pm departure from Middlemarch would be the ideal and the time between arrival and departure should be long enough for their clients to eat and spend some time in Middlemarch.

There was one suggestion that the train run daily for the peak months of February, March and April with a limited service from October through to the end of January.

3. How far up the line do you think the train should come – Middlemarch, Pukerangi or Hindon?

Operators would prefer that the train came all the way to Middlemarch as it links the trail with Dunedin, provides for better services and no extra shuttles would be required. There is still some benefit if the train

came as far as Pukerangi but most agreed that Hindon is too isolated, the road is poorly maintained and they would be unable to support this option.

4. Further comments provided by the Tour Planning Operators

Reinstatement of the service to and from Middlemarch should also help to stimulate the local economy and the development of more tourism options and attractions, perhaps even a visitors centre at the station with interactive AV which tells the story of the Otago Central Railway and utilises elements of the Trust's great educational materials and other archive footage.

If the train were to be reinstated there would need to be more consultation between Dunedin Railways and the Trail operators regarding the scheduling of services to ensure that clients arriving in Dunedin can easily check into their accommodation and find evening dining options in the city as these issues affected bookings for the service.

Creating the train terminus at Hindon would do little to build numbers on the Rail Trail and is unlikely to have any economic benefit for either Trail businesses or the district. Tourists would also miss out on the opportunity to see all that the Gorge has to offer. One operator felt that a change in their business model would only be viable if the train came to Middlemarch.

Middlemarch has lost its vibe since the train has gone so it would be good to get it back. It would also provide accommodation providers with some more business as customers could come up on the train, stay and then start the next day. They'd also have time to visit the salt lake etc.

The Trust reinforces its commitment to the existing Otago Central Rail Trail as a priority. We will work with all parties that are interested in ensuring a regular and affordable connection that complements the Otago Central Rail Trail experience between Middlemarch and Dunedin.

The effect of no train or limited services has negatively affected that connectivity and the trail experience and Middlemarch. If the train is not going to operate in a way that supports connectivity to Dunedin we urge Council to consider a cycling connection.



Tania Murphy
Trust Manager
Otago Central Rail Trail Trust

OFFER 22 January 2025

Background & Introduction

Please find enclosed for distribution to Council and to be appended to the public staff report going to the January 2025 Council meeting.

One of New Zealand's leading rail tour operators has a new operating model proposal for Dunedin City Council for Pounamu to operate Dunedin Railways on a mutually beneficial basis.

Pounamu Tourism Group, an experienced South Island based rail tourism operator which successfully runs New Zealand's most popular multi-day rail tours is prepared to back Dunedin Railways, working closely with Council to achieve key objectives.

Feedback from rate payers, Council and Councillors themselves has been very clear: Council wants Dunedin Railways to continue, with Taieri Gorge widely regarded as a leading catalyst for tourism in the region. Council is prepared to fund deferred track repairs and maintenance; however operating losses cannot be tolerated or sustained going forward and a new operating model will need to demonstrate the clear vision, as well as the experience and means required to achieve financial results and to return compelling economic benefits for the region.

Cruise ship visits to the country are forecast to plummet another 20-30% in 2025/26 season on the back of a 20% downturn this current season. That's a massive reduction in two seasons of 50% overall and a trend which could continue as competition in other international cruise destinations, particularly in Southeast Asia and Australia intensifies. Cruise can no longer be viewed as the main pillar of Dunedin Railways revenue model in future seasons - it just won't sustain an entire business and should be viewed as cream on top of a more robust and visionary business plan.

By comparison, Pounamu Tourism Group as market leaders in rail tours, have rail, cruise and general tourism expertise, already working closely with Dunedin Railways, Steam Incorporated and KiwiRail across the South Island. Few tour operators can claim to have specific rail tourism and rail operations expertise, and our team will add value to the existing team in Dunedin.

Pounamu, if chosen by Council, will in effect, subsidise Dunedin Railways with additional charters from Invercargill to Dunedin, Dunedin to Pukerangi/Middlemarch, and Dunedin to Oamaru/Timaru, and will commit to a staggering 190 charters per annum – more than one every second day by year 3. The introduction of the Pounamu fleet of carriages (which was recently acquired from KiwiRail) has a capacity of 390 seats and is currently under repair at Hillside Workshops, ready for service later this year. This would double the seating capacity of DRL. It is envisaged that the new fleet will service the longer coastal routes whilst the existing and aging DRL fleet focuses on Taieri Gorge. If chosen to operate Dunedin Railways, Pounamu will commit approximately \$30million over 9 years to these charters as an anchor to stabilise the Dunedin Railways business model.

Pounamu will make the unusual step of making the charters non-exclusive so that a portion of each charter train (half of the carriages) can be on-sold to the wider tourism market, including the wholesale and retail tourism trade, the free independent traveller, and the domestic market, effectively at subsidised rates. We will not be running any more empty trains as they will already have New Zealand's leading multi-day rail tour as a base customer.

You cannot expect different or better results than previously experienced, if you plan on doing the same or similar activities that have failed in the previous model - so our proposal and new vision is clearly a step up and clearly backed up by tangible numbers.

The economic impact of Pounamu backed charters will be over \$50million to the Dunedin economy including 67,000 bed nights for the same period. Apart from the hotels, all tours will link into other key

1
CONFIDENTIAL

OFFER 22 January 2025

attractions such as Larnach Castle, Albatross Tours, Dunedin Railway Station, bars and restaurants and much more. The wider economic impact for the same period of the broader Dunedin Railways operation will be more than \$140million if Pounamu is chosen as the new operator. These are significant numbers

Pounamu will operate train trips to/from Pukerangi, Middlemarch, Invercargill and Oamaru/Timaru (and other viable opportunities as they arise) and the frequency of train travel will be optimised.

Pounamu views the Otago Rail Trail as an important link and we will develop this link by immediately deploying a regular shuttle service, including for cyclists, between Middlemarch and Pukerangi to maintain a consistent connection with Middlemarch on days that the train is not operating.

There will also be opportunities to involve OETT and volunteers in community or events trains however the focus will be on operating Dunedin Railways as a sustainable business.

We will plug Dunedin Railways into our global marketing campaign across key international markets and take brand Dunedin with us on international roadshows.

Key points are:

1. Assets will remain in DCC & ratepayer ownership.
2. DCC will fund deferred repairs and maintenance of Taieri Gorge track.
3. Pounamu will sign a long-term operating lease of 9 years aligned to the long-term plan.
4. No more operating losses for DCC or ratepayers - Pounamu will pay for all operating costs.
5. Pounamu will underpin (or subsidise) the business as the anchor customer by committing to a major increase in the volume of charters, across multiple routes and destinations (including, but not limited to Taieri Gorge), and prebooked up to 3 years in advance, to support the new business model.
6. Pounamu will then allocate a portion of each Pounamu charter train for general sales. General sales will be made available to the wider market including wholesale tourism, retail tourism, free independent travellers, and the domestic market.
7. Pounamu will invest in the acquisition and repairs of the additional rolling stock required to expand the current operation, and to support the new business model (new carriages are currently in Hillside workshops where work has already begun).
8. Pounamu will maintain existing DRL rolling stock and other non-track DRL assets (non-Taieri Gorge Line assets) to operational standards throughout the term of the lease.

We are looking forward to discussing more detail with Council and working closely with Council to advance the expectations of Council and rate payers as the ultimate shareholders.

If Pounamu is not chosen as the preferred operator, Pounamu will still support DRL, albeit in a more limited way, by focusing support on Taieri Gorge trips as DRL's main customer.

Whilst a more limited role (as the main customer) will also be significant to DCC/DRL, the much larger and more sustainable gains to DCC/DRL exist from having Pounamu as the DRL operator and with Pounamu subsidising the additional routes mentioned, utilising the new Pounamu fleet of carriages when they come into service in Dunedin.

Term Sheet below.

2
CONFIDENTIAL

OFFER 22 January 2025

Term Sheet – Non-Binding Indicative Offer

FOR DUNEDIN CITY COUNCIL (**Company**), LONG TERM LEASE BY AND PARTNERSHIP WITH POUNAMU TOURISM GROUP LIMITED

This document (**Term Sheet**) summarises the indicative and non-binding terms for the proposed transaction between Dunedin City Council (**DCC**) and Pounamu Tourism Group Limited (**Pounamu**).

This Term Sheet will not create any binding obligations on the parties unless and until binding agreements, such as a lease agreement, are signed by all parties.

Party:	Pounamu Tourism Group Limited.
Company:	Dunedin City Council (DCC).
Nature of Transaction:	<p>The Transaction will comprise:</p> <ol style="list-style-type: none"> 1. A long-term lease, by Pounamu, of the DRL Assets and Infrastructure for a term of 4 years plus the option to renew for a further 5 years. 2. A transfer of DRL Staff required by Pounamu. 3. A transfer of all DRL OPEX from DRL to Pounamu. 4. An agreement that Pounamu will uphold the DRL brand standards and implement key messaging according to brand guidelines agreed between the parties and will promote the DRL brand when messaging DRL related operational activities. 5. An agreement that DCC will be responsible for funding the repairs, and maintenance, of the Taieri Gorge Line, including the railway line and all bridges, viaducts, culverts and tunnels. The scope of work and amount of funding required to be mutually agreed. This will include an apportionment of the cost of the services (including the staff required), to conduct the repairs, and maintenance work, on the Taieri Gorge Line, at mutually agreeable rates.
Transaction economics:	<p>Pounamu will:</p> <ol style="list-style-type: none"> 1. Pounamu will provide DCC with an annual payment for the long-term lease of the DRL Assets and Infrastructure, totalling \$5million over the 9-year term of the lease. 2. The risk of further operational losses will sit with Pounamu and will not burden DRL/DCC and the rate payer. 3. Pounamu will underpin the business as the anchor customer by committing to a major increase in the volume of charters (estimated at 190 charters per annum by year 3), across multiple routes and destinations (including, but not limited to Taieri Gorge), and prebooked up to 3 years in advance, to support the new business model. 4. Pounamu will allocate a portion of each Pounamu charter train for general public sales. General sales will be made available to the wider market including wholesale tourism, retail tourism, free independent travellers, and the domestic market. 5. Pounamu will invest in the acquisition and repairs of the additional rolling stock required to expand the current operation, and to support the new business model. New carriages recently acquired from KiwiRail are currently already undergoing repairs at Hillside Workshops.

3
CONFIDENTIAL

OFFER 22 January 2025

	<ol style="list-style-type: none"> Pounamu will employ key required staff from the existing DRL team and will keep as many staff as possible. There will be no disruption to operations. Pounamu will pay for all OPEX required to successfully operate the business. Pounamu will maintain existing DRL rolling stock and other non-track DRL assets (non-Taieri Gorge Line assets) to operational standards throughout the term of the lease.
Conditions Precedent:	<ol style="list-style-type: none"> Completion of due diligence to Pounamu's satisfaction. [DCC to advise on any approval requirements]. Any steps required to ensure the Train Operating License is valid and is maintained by the Company and/or transferred to Pounamu.
Routes & Access	<ol style="list-style-type: none"> Pounamu will operate train trips to/from Middlemarch, Pukerangi, Invercargill and Oamaru, and other viable regional opportunities as they are identified and developed, such as Timaru, Ashburton, and Christchurch. The frequency of train trips will be optimized to ensure a viable business, taking into account the needs of the Dunedin community and Dunedin region. Pounamu will link in with other key Dunedin tourist attractions in sales and marketing initiatives. Pounamu will work constructively to agree any other special services to be operated for the domestic market, such as for train enthusiasts or for special events or them trains. Pounamu will work in good faith with Otago Excursion Train Trust (OETT) to agree some selected annual event charter trains for their promotional use, and on whether there are opportunities for OETT volunteers to participate during selected annual event trains and on cruise ship days. In addition to access for the public and domestic market, Pounamu will open sales to the broader international wholesale and retail travel markets, and the free independent traveller market.
Legal Costs:	Each party will bear its own costs in relation to the Transaction.
Undertakings and Termination:	The parties to this Term Sheet each undertake to act in good faith and use best efforts to facilitate satisfaction of any conditions precedent and completion of the Transaction contemplated by this Term Sheet as soon as practical (including taking all necessary steps that are within their control and that they are legally able to undertake).

4
 CONFIDENTIAL

OFFER 22 January 2025

SIGNED on behalf of Pounamu Tourism Group Limited by:

Signature:

Paul Jackson

Name:

Paul Jackson

Position:

Managing Director

Date:

20th January 2025

SIGNED on behalf of Dunedin City Council by:

Signature:

Name:

Position:

Date:

5
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