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OFFICE OF THE MAYOR
Palmerston North City Council

10 July 2018

Peter Reidy
Chief Executive
KiwiRail
PO Box 593
WELLINGTON 6140

Dear Peter

KiwiRail Regional Intermodal Hub Business Case | Mayoral Endorsement

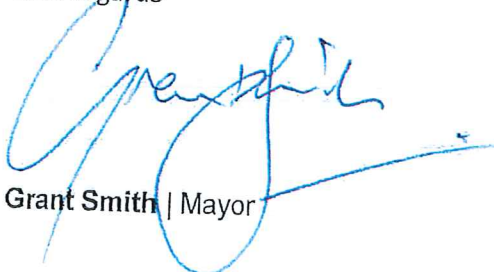
Thank you for making the time to meet with our team to discuss KiwiRail's Regional Intermodal Hub Business Case for Palmerston North. The purpose of this letter is to provide my Mayoral endorsement of the business case for this Regional Hub. My view is that this is an exciting economic opportunity for not only both the City and the Manawatu-Wanganui Region, but also Central New Zealand and our place in the NZ Inc logistics and distribution chain.

KiwiRail's proposal aligns well with the Council's vision, goals and strategic planning for the City. The proposal will give effect to large parts of our Strategic Transport Plan, City Development Strategy and Economic Development Strategy.

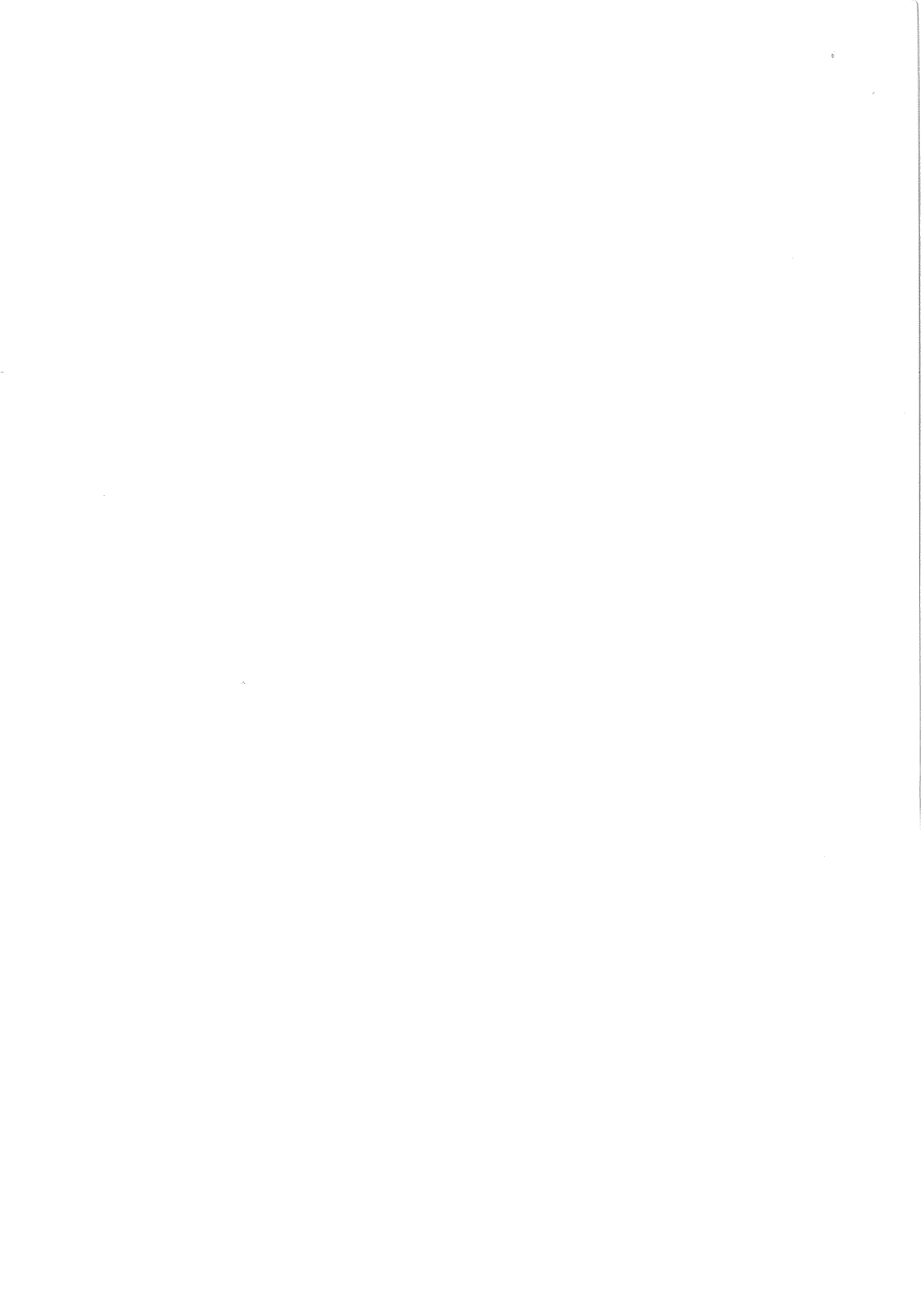
The City is well positioned to provide for the Intermodal Hub. We have greenfield industrial land zoned in the location you have identified and have capital programmes and funding in place to provide infrastructure to support this Intermodal Hub and the co-location of industrial development as well as roading infrastructure and airfreight in this location.

The Council looks forward to working with and supporting KiwiRail through the various processes required to bring this exciting opportunity to fruition.

Kind regards



Grant Smith | Mayor





Better Business Case

**Kiwirail Palmerston North Regional
Economic Growth Hub**

August 2018

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Executive Summary

This Business Case - the Palmerston North Regional Growth Hub Business Case - explains the rationale for capital investment of \$40 million for the acquisition of approximately [REDACTED] hectares (ha) of land in the North East Industrial Zone (NEIZ), in Bunnythorpe, Palmerston North, to better service Central New Zealand's growing freight demands and support the country's wider regional transport, economic development and supply chain strategies. The figure of [REDACTED] ha is based on preliminary design for an intermodal, operational rail and road transport interchange and hub and associated services.

INVESTMENT REQUIREMENTS	COSTS
Phase 1a: Site identification, designation, master- planning and concept design	\$ [REDACTED]
Phase 1b: Land acquisition	\$ [REDACTED]
TOTAL	\$40M

Securing a site in the NEIZ to develop an upgraded, future-proofed Regional Economic Growth Hub, would best position KiwiRail and its freight partners to efficiently and sustainably deliver on New Zealand's growing freight demands for the next 50 - 100 years.

The NEIZ has been developed as a key location for New Zealand's rail freight in central New Zealand taking freight from north, south, east and west, supporting planned roading infrastructure in the area and its proximity to airfreight and complementing overall regional transport initiatives. The Government Policy Statement on land transport for 2018/19 to 2027/28 (GPS), highlights the importance of mode neutrality, with all transport modes to be considered when making transport planning and investment decisions.

According to a Transport Agency freight study¹, the flow of inter-regional freight reflects:

- The central distribution location in relation to the large North Island import ports;
- The region's relative proximity to the Wellington regional population (491,000 residents as at June 2014); and
- The flow of import goods south through the North Island (from Auckland to Wellington).

In the Ministry of Transport's National Freight Demand Study 2014, the New Zealand freight task at the time was 236 million tonnes and was expected to grow to 373 million tonnes by 2042 (an increase of over 60%). Furthermore, NZTA's Accessing Central NZ Strategic Case 2016 report, specifically identified the Manawatū-Whanganui region and Palmerston North as being a key enabler for economic growth and recognised the area as a key freight and distribution location for New Zealand. KiwiRail's freight handling business needs to remain relevant in central New Zealand and deliver on supporting the country's national distribution requirements.

KiwiRail needs to secure and protect strategically-placed land to enable it to deliver to the region(s), sustain its capacity to meet increasing freight demands and ensure rail remains an integral part of central New Zealand freight flows.

¹ NZ Transport Agency, 2009, Central Region Freight Analysis Final Report

New Zealand consumers are increasingly looking to businesses to lead initiatives to tackle sustainability issues² including developing a lower-carbon economy. Rail plays a key role in driving and enhancing the country's ability to deliver goods and people sustainably, as every tonne of freight carried by rail has 66% fewer carbon emissions than heavy road freight.

EY's The Value of Rail in New Zealand report in 2016 found rail also increased safety on New Zealand roads, and reduced road maintenance costs. By investing in future rail solutions, the Provincial Growth Fund (PGF) will be contributing to a cleaner, safer, more sustainable New Zealand distribution economy.

KiwiRail's Strategic Land Use team is focussed on leading a group-wide development programme to improve the quality, location and layout of its operational yards and terminals, creating a more efficient and dependable network for the future. The programme seeks to optimise KiwiRail's operational layouts, using improved technologies, automation and new operating models to ensure the provision of safe, reliable and efficient, services and terminals.

This Growth Hub project forms an integral part of a wider transportation package where a number of interrelated transport initiatives for the region have been designed collaboratively. It works in synergy with Palmerston North's 2018 City 10-year Development Strategy, the Manawatū Gorge Replacement Proposal and it [REDACTED] Commercial Information [REDACTED]. It would complement a business case from NZTA for a Manawatū-Palmerston North Regional Ring Road, strategically positioned on the outer area of Palmerston North and connecting into Bunnythorpe within the NEIZ. The vision for this ring road is to increase agribusiness exports from \$1.9 billion to \$3.8 billion by 2025³ through improving efficiency.

KiwiRail's Palmerston North Freight Yard, which was initially established in 1964 on the city outskirts, is now surrounded by urban development. Remaining on this site will not allow for expansion⁴ to accommodate predicted national freight growth, and does not align with Palmerston North City Council's (PNCC) strategic rezoning plans or vision for the city. KiwiRail's location needs to be fully aligned with broader regional development plans. Freight distribution services will be more resilient if a synergistic, multi-modal solution is considered in conjunction with the regional transport strategies mentioned above. The key objective is to provide central New Zealand with a long term, dependable intermodal freight distribution solution.

What was deemed adequate to service freight needs in 1964 has changed considerably, and KiwiRail in conjunction with key stakeholders must adjust accordingly. A new greenfields location would enable KiwiRail to consolidate, modernise and reconfigure its operations, integrating its plans into the city's wider development strategy and away from residential dwellings.

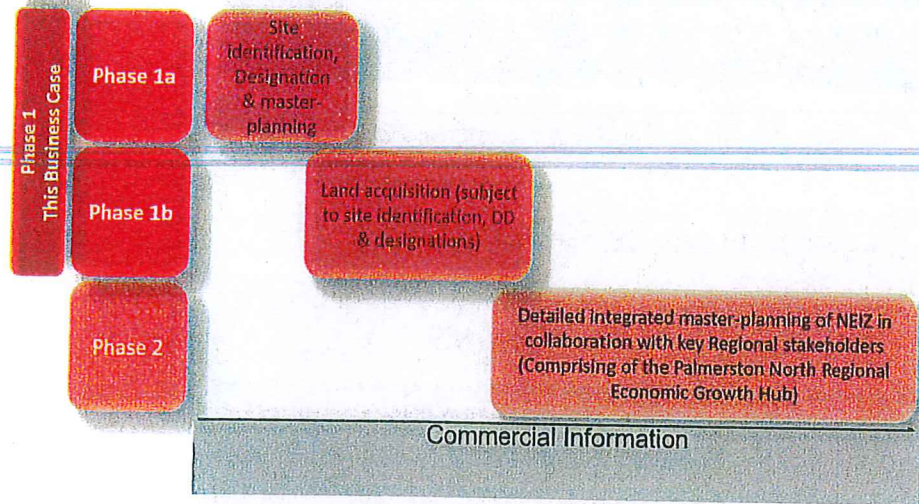
This Business Case is comprised of a **Phase 1a** and a **Phase 1b** process; jointly referred to as **Phase 1**. The Phases are broken down as follows:

² Ministry of Environment, Zero Carbon Bill - Discussion Document, June 2018

³ Accelerate 25: Draft Manawatu-Whanganui Economic Growth Action Plan

⁴ Refer to item 1.1 of this Business Case for further context

Figure 1: Business Case phases



Phase 1a involves the master-planning to identify a new site in the NEIZ zone and the designation of the site.

Phase 1b involves land acquisition. This would commence subject to Phase 1a meeting assessment requirements.

KiwiRail has undertaken an assessment of land shapes and sizes which meet demonstrable future operational requirements. Land acquisition phase 1b is based on an approximate land parcel area of [REDACTED] ha. Valuation advice of the capital required is \$ [REDACTED]. Due to the need for an early stage assessment of the overall suitability of site options, the exact configuration and location could change. Specific site details will be determined when assessments are completed.

Investment from the Provincial Growth Fund (PGF) would enable KiwiRail to enact **Phase 1**; to acquire approximately [REDACTED] ha in the NEIZ, Palmerston North.

Figure 2: Six Key Investment Objectives

Palmerston North Regional Economic Growth Hub Business Case
Six Key investment objectives

- 1 Increase Economic Benefits for Central NZ
- 2 Improve National and Regional freight efficiency
- 3 Accommodate predicted freight growth
- 4 Grow intermodal terminals and capability to further leverage freight distribution
- 5 Facilitate an integrated region wide transport solution through key stakeholder collaboration
- 6 Support and enable Palmerston North's Strategic Plans for the City

This Business Case supports the following two PGF key investment tiers:

1. Enable Infrastructure Projects:

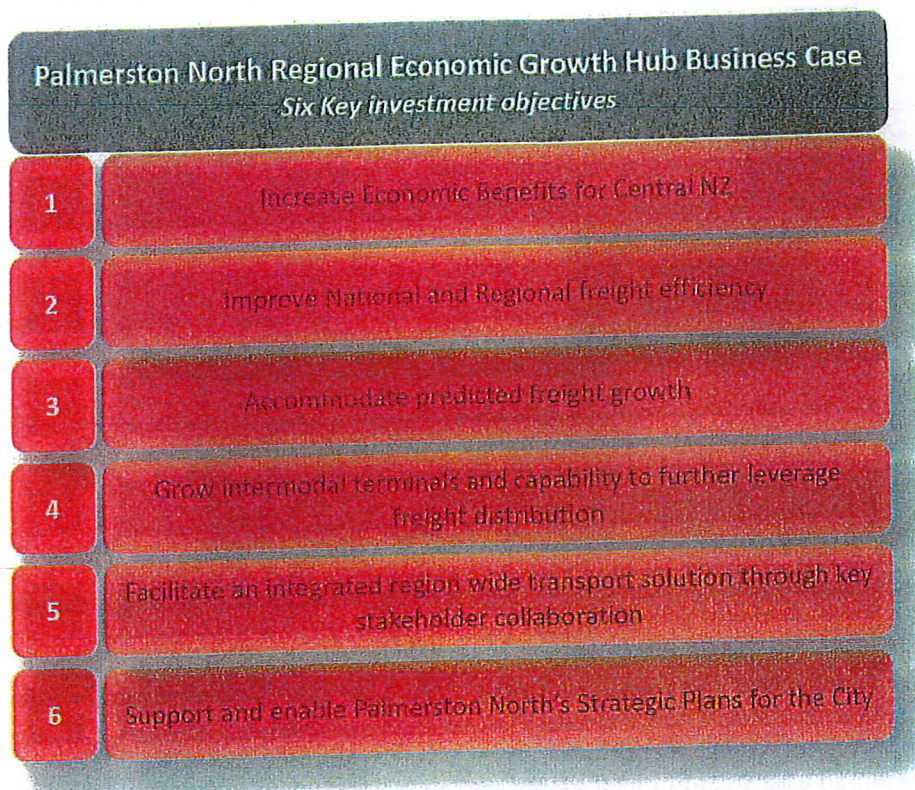
- i. By supporting predicted growth in New Zealand's freight demands;
- ii. By providing employment opportunities in the Manawatū-Whanganui Region;
- iii. By boosting productivity for existing and emerging markets in the regions, with a strategically positioned Regional Economic Growth Hub;
- iv. By enabling the region to develop stronger resilience and dependability to deliver on national distribution demands, underpinned by modernised, smart assets and improved operational efficiency.

2. Regional Projects and Capability:

By being a key enabler of PNCC's 2018 City Development Strategy which seeks to;

- i. Create improved traffic flows, by diverting load-bearing trucks away from the CBD and surrounding residential suburbs, enabling a safer and more environmentally friendly City through reduced carbon emissions and road safety improvements.
- ii. By potentially unlocking the Palmerston North Freight Yard, so activities on the site could be improved and enhanced from an urban infrastructure perspective opening up the potential to:
 - o Increase tourism connections (station) and metro patronage for economic gain to the region;
 - o Provide further employment opportunities through space for potential development and improved CBD accessibility.

KiwiRail acknowledges and respects Rangitāne o Manawatū ('Rangitāne') as mana whenua and its people's relationship to the area. In collaboration with PNCC, and other key stakeholders, KiwiRail is committed to prioritising engagement and working together on solutions with local iwi throughout this project.



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- iv. By enabling the region to develop stronger resilience and dependability to deliver on national distribution demands, underpinned by modernised, smart assets and improved operational efficiency.

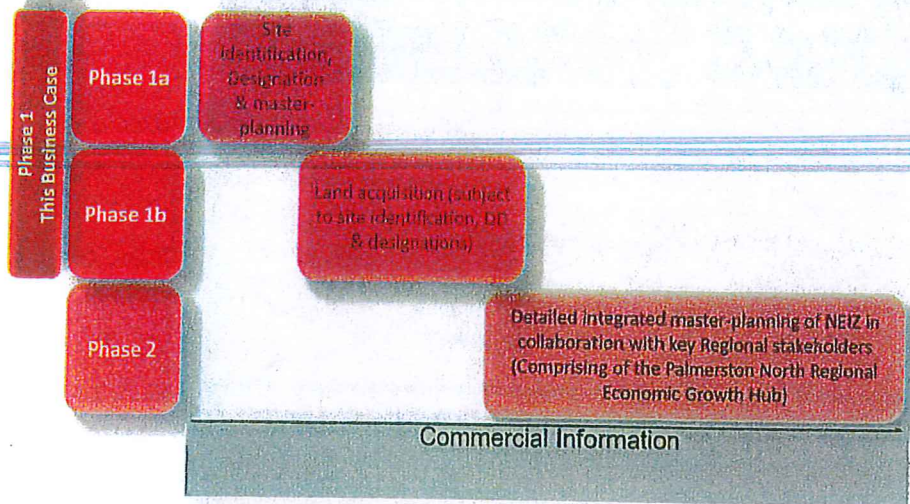
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Figure 2: Six Key Investment Objectives

In the future, Māori will make up a significant proportion of the City workforce. In 2013, 34.6 % of Māori in Palmerston North City were aged under 15 years. KiwiRail intends to contribute to the future economic success of Māori through enabling employment opportunities and working together with mana whenua as part of a synergistic, mahi tahi approach.

Options for engagement include, but are not limited to:

- Early and proactive engagement during site identification, master-planning and concept design
- Standard protocols that take full consideration of mana whenua throughout the project
- Cultural and spiritual consultation, including ceremony
- A Māori-focused approach to the project using KiwiRail’s Te Kupenga Mahi (TKM) Maori network.

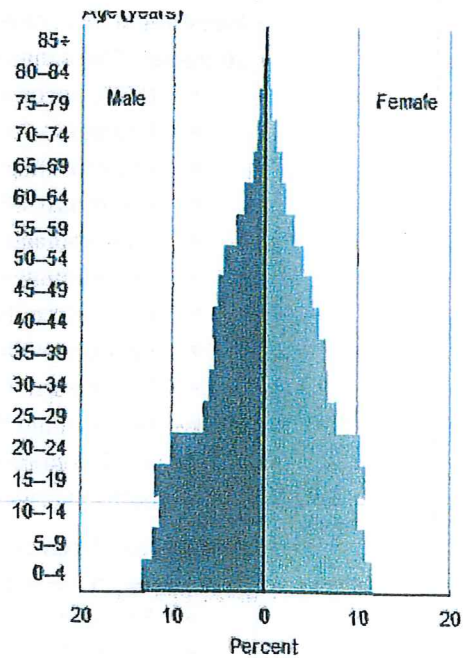
TKM representatives will, as part of a collaborative engagement process, ensure smooth communication channels and transparency for all parties. KiwiRail is committed to fostering and strengthening its partnership with Rangitāne and respects the importance of creating a sustainable environment for the future of Māori in the Region.

In order for KiwiRail to remain relevant in central New Zealand and deliver on supporting the country’s national distribution requirements, it needs to secure and protect strategically placed land for rail freight use. The Manawatū-Whanganui area is a key staging point and distribution centre for high value imported and domestic freight in central New Zealand.

This business case supports a long-term strategic approach to infrastructure development ensuring a 50-100 year view which enables KiwiRail to continue to deliver to central New Zealand.

Age and sex of Māori
Palmerston North City

Figure 3: 2013 Census, Palmerston North



Source: Statistics New Zealand

This Palmerston North regional economic growth hub business case follows the New Zealand Treasury's better business cases guidance and is organised around the five-case model⁵.

<p>Strategic Case</p>	<p>KiwiRail is a major stakeholder in the freight supply chain for central New Zealand and the lower North Island.</p> <p>KiwiRail's future growth strategy aims to protect the active rail portfolio for current and future freight and tourism growth. By creating a modernised, strategically connected Regional Growth Hub, KiwiRail can boost productivity for existing and emerging markets by servicing the regions through increased freight flows.</p> <p>KiwiRail's Strategic Land Use Team is focussed on overseeing a group-wide rail development programme to create a more efficient and dependable network for the future. The program seeks to optimise operational layouts, using improved technologies, automation and new operating models to ensure the provision of safe, reliable and efficient, services and terminals.</p> <p>To enable KiwiRail to deliver on tomorrow's freight demands it needs to secure land today to allow for the creation of a modern and efficient freight handing facility.</p> <p>Investment in a new site aligns KiwiRail with several national and regional strategies. These include but are not limited to:</p> <ul style="list-style-type: none"> ▪ NZTA, Accessing Central New Zealand Strategic Case, 2016 ▪ Accelerate 25: Manawatū-Whanganui Economic Action Plan, 2016 ▪ Horizons Regional Land Transport Plan: 2015 -2025 ▪ Horizons DRAFT Regional Land Transport Plan: 2015 -2025 (2018 review) ▪ Joint Manawatū-Palmerston North Transport Strategy (JTS), 2010 ▪ Government Policy Statement on Land Transport (GPS) 2018 ▪ Palmerston North City Council Integrated Transport Strategy ▪ Palmerston North City Council 10 Year Strategy ▪ Palmerston North, 2018 City Development Strategy ▪ Government Regional Growth Study ▪ 2011 Wanganui District Council (WDC), Urban Transportation Strategy ▪ Safer Journeys Strategy: New Zealand's Road Safety Strategy 2010-2020 <p>KiwiRail has been engaging with key stakeholders to ensure its goals and visions for the region are aligned. Key stakeholders include, but are not limited to:</p> <ul style="list-style-type: none"> ▪ Rangitāne o Manawatū ('Rangitāne') ▪ Palmerston North City Council, Mayor ▪ NZTA, Chief of Region ▪ KiwiRail key freight partners: <div data-bbox="571 1686 758 1877" style="text-align: center;"> </div> <ul style="list-style-type: none"> ▪ Horizons ▪ Accelerate 25 <p>Formal letters of endorsement are shown in the appendices of this business</p>
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⁵ <http://www.treasury.govt.nz/statesector/investmentmanagement/plan/bbc>

	<p>case.</p> <p>Key stakeholders also recognise the need for KiwiRail being included in strategic planning of the new Palmerston North Ring Road and the Manawatū Gorge replacement road.</p> <p>Investment in a regional growth hub in the NEIZ, Palmerston North directly aligns with two of the PGF's key investment tiers:</p> <ol style="list-style-type: none"> 1. Enabling Infrastructure Projects 2. Supporting Regional Projects and Capability <p>NZTA's Accessing Central New Zealand Strategic Case 2016 report has specifically identified the Manawatū-Whanganui region and Palmerston North as being a key enabler for economic growth and a regional surge location for freight distribution in New Zealand. In collaboration with local iwi, KiwiRail intends to support New Zealand's freight requirements by using sustainable and environmentally friendly rail distribution methods.</p> <p>With the combination of KiwiRail relocating to the NEIZ and the potential for economic abundance of the region, the overall attractiveness of the area would be enhanced and the capacity to deliver on growth enabled, creating significant opportunity for Māori in the area.</p>
<p>Economic Case</p>	<p>The economic case for the use of land is as important today as it was 40-50 years ago when the Palmerston North Freight Yard was established in its current location.</p> <p>In the 1960s, the current rail yard at Tremaine Avenue was on the outskirts of Palmerston North City. As Palmerston North City has expanded out and around the rail yard and buildings it has restricted KiwiRail's capacity to expand and rationalise its operations.</p> <p>Lack of connectivity to new industrial areas, double handling, rail infrastructure restraints on train sizes, and an inability to meet some time critical requirements currently limit rail freight handling capabilities at the site. Furthermore, future constraints by PNCC on planning and consenting for rail purposes in the CBD may inhibit any extensions to the yard and new buildings consents for freight-related businesses typically located adjoining rail. If these constraints are not resolved it will be increasingly difficult to keep pace with growing demand and to remain a key player in the region's freight distribution.</p> <p>The aged facilities are not only inefficient and unreliable due to a combination of wear and tear, out-dated technology and historical breakbulk facilities, but are also not performing to current sustainability and environmental standards. As freight demands continue to increase, KiwiRail will find it increasingly difficult to reliably meet New Zealand's growing distribution requirements without modernising to increase capacity and efficiency. However, redeveloping the current yard while it continues to operate would be disruptive and costly. Furthermore, it is likely to only deliver a short term, constrained solution that would not service future needs.</p>

The Manawatū-Whanganui region's economic success relies heavily on supply chain and logistics due to its significant agriculture and manufacturing industries. Studies show that increased, dependable connectivity services have a direct impact on increasing productivity⁶.

The logistics sector earnings in Palmerston North increased 119% between 2000 and 2013⁷, much higher than the 74% increase in national logistics sector earnings⁸.

Freight remains the biggest income earner for KiwiRail and contributes 58%⁹ of total operating revenue. A fully-laden 40 wagon train can have 40 40 foot containers. A truck is limited to one 40 foot container. The rail mode is approximately twice¹⁰ as efficient as the road mode in terms of fuel consumption and CO2 emissions. By enabling a modal shift from road to rail, an enlightened transport strategy could make deep cuts in New Zealand's fossil fuel dependence and carbon emissions.

Creating an integrated rail and logistics hub away from the city centre would spark alternative economic growth opportunities within Palmerston North and support both existing customers and potential new markets currently not connected to rail. For a fully integrated intermodal hub zone to be established, it is important to have road, rail and air freight all in close proximity.

Enhancing freight hub services would have an immediate impact on regional economic development through construction activity and a boost in confidence. Operational partners and allied businesses would also benefit from an uplift in handling capacity and efficiencies.

It is key to note that KiwiRail has been actively engaging with PNCC regarding the wider transport strategy for the Manawatū-Whanganui Region, central New Zealand and the NZ Inc logistics and distribution chain.

Confidentiality endorses the Palmerston North Regional Economic Growth Hub project concept and agrees that the NEIZ land will be well supported by planned roading infrastructure and its proximity to airfreight customers; complementing the overall integrated regional transport initiative.

Aligning multimodal transport strategies would achieve best long-term economic results for a connected Central New Zealand distribution hub. However, timing is key if KiwiRail is to position itself in the NEIZ zone, before alternative development occurs.

From an urban development perspective, PNCC believe growth will be unlocked in Palmerston North's CBD area through industrial businesses relocating to the outskirts of town. On top of this, positioning a regional growth hub in the NEIZ, where its long-term expansion requirements can be delivered on, would create

⁶ The economic impacts of connectivity, February 2017, NZ Transport Agency research report 608
 Confidential information

⁸ Statistics New Zealand

⁹ KiwiRail's Annual Integrated Report 2017, page 18

¹⁰ NZTA report 497, Freight transport efficiency: a comparative study October 2012

	<p>greater employment opportunities, thereby contributing to increased residential investment in Ashurst and Bunnythorpe in its own right.</p> <p>Acquiring land for a freight hub site in the NEIZ enables KiwiRail to efficiently increase its capability and secure its regional freight business.</p> <p>Funding from the PGF would enable KiwiRail to secure the land required to design and build a fully integrated greenfield Regional Growth Hub allowing for automation, efficient layout, fit for purpose design and enable it to be best prepared for long-term future regional freight growth.</p>
Commercial Case	<p>Timing is key in when it comes to the commercial element of this business case.</p> <p>If KiwiRail is to continue to deliver distribution services at the current predicted growth rate of the industry (over 60% by 2042¹²), it needs to modernise, expand and be strategically positioned for the future.</p> <p>KiwiRail's objective is to increase freight on rail to 20% Net Tonne-Kilometres (NTK) by 2030. (Recorded at 16% in 2016).</p> <p style="text-align: center;">Commercial Information</p> <p>[Redacted]</p> <p>A lack of adaptability and foresight planning can produce costly and difficult-to-resolve issues in the long run; resulting in greater disruption. Palmerston North City has already expanded to what used to be its outer fringe; as the key distribution stakeholder of the region, KiwiRail needs to prepare structurally and strategically for the next 50 -100 years.</p> <p>Investing in land in the NEIZ would enable KiwiRail to develop modern, efficient infrastructure capable of supporting New Zealand's growing freight demands, at today's price, consequently enabling the long-term sustainability of the distribution supply chain.</p> <p style="text-align: center;">Commercial Information</p> <ul style="list-style-type: none"> ▪ Commercial Information ▪ Commercial Information <p style="text-align: center;">Commercial Information</p> <p>[Redacted]</p> <p>Ultimately, the Regional Economic Growth Hub will be able to fully accommodate all facilities currently provided at the Palmerston North Freight Yard. Capital could then be released from that site and reinvested to support future rail investment requirements, aligned to best advantage New Zealand's economy.</p>

¹² Ministry of Transport's National Freight Demand Study 2014

Commercial Information
[Redacted]

	<p>Moving from the current yard could provide long-term benefits to Palmerston North City and the surrounding regions:</p> <ul style="list-style-type: none"> ▪ it supports various transport strategies seeking to move heavy load bearing vehicles away from urban roads; enabling PNCC's environmental, health & safety and the city's future strategic development plans to be realised. ▪ It provides an opportunity for the current station to be improved and enhanced from an urban infrastructure perspective, opening up the potential for increased patronage and connections for tourism. <p>This would unlock a range of financial benefits to the city through increased accessibility and employment opportunities.</p> <p>Funding from the PGF would enable KiwiRail to acquire a site on the outer fringe of Palmerston North, removed from close-proximity residential dwellings and connected to a future ring road, Commercial Information.</p> <p>A new freight facility in the NEIZ would be fully integrated with air, road and ports, improved automated technology, efficient layout, fit-for-purpose and safety-focussed design and with ample capacity to support New Zealand's predicted freight growth demands.</p>
<p>Financial Case</p>	<p>Based on current estimates, the anticipated capital investment for preliminary master-planning and Resource Management Act 1991 (RMA) processes (Phase 1a) is \$ Commercial Information. The land acquisition phase (Phase 1b) would only commence upon requirements in phase 1a being met. A greenfield site in the NEIZ of approximately Commercial Information ha suitable for a regional economic growth hub is estimated to cost \$ Commercial Information.</p> <p>If funding is secured through the PGF, the master-planning and site assessment would commence as soon as possible to enable KiwiRail to secure a site option and configuration. Due diligence, designation and land acquisition would take between 18 and 36 months to complete – with some processes being aligned or compressed.</p> <p>The request for funding is to acquire land only and does not contemplate detailed design, or physical works. The \$40 million financial request includes land acquisition costs for the provision of compensation in accordance with the compensation methodology set out in the Public Works Act 1981 (PWA) being; land value and improvements, disturbance costs, solatium and other Crown acquisition costs. Due diligence costs include, master-planning, preliminary design, technical reporting, and site designation.</p> <p>Commercial Information</p> <p>Commercial Information</p> <p>Based on this assumption, the cost to</p>

Commercial Information

	<p>acquire a site of this size (Commercial Information ha) and location is estimated to be approximately \$ Commercial Information in Commercial Information.</p> <p><i>Master-planning:</i> the estimated cost for master-planning is \$ Commercial Information over the period Commercial Information.</p> <p><i>RMA:</i> the estimated cost for RMA initial assessment and associated reports is \$ Commercial Information over the period Commercial Information.</p> <p><i>Land Acquisition:</i> the estimated cost for land acquisition, valuation fees, and agents' fees including contingency is \$ Commercial Information over the period Commercial Information.</p> <p>The property transaction will be headed by KiwiRail's Strategic Land Use Team and a consulting firm is to be appointed as lead acquiring advisor, including accredited PWA land agents, external legal support, RMA planning advisors and a multi-disciplinary team of consultants.</p> <p style="text-align: center;">Commercial Information</p>
<p>Management Case</p>	<p>KiwiRail's objective is to enable freight growth by becoming an integral part of the Central New Zealand growth strategy and wider regional development. KiwiRail therefore needs to develop a regional economic growth hub to:</p> <ul style="list-style-type: none"> • enable KiwiRail to significantly increase its operational capacity to meet regional and national freight growth demand • be well integrated with other transport modes • enable the delivery of sustainable and efficient hub operations <p>Helping to grow rail to 20% Net Tonne-Kilometres (NTK) by 2030 would alleviate environmental impacts caused by heavy vehicles, improve road safety as well as optimising KiwiRail's operating model.</p> <p>Relocation within the region ensures rail stays relevant for an integrated transport model (road, rail and air). Meeting KiwiRail's and Central New Zealand's future freight demands will be under pinned by the development of a 'fit-for-future' facility in Palmerston North.</p> <p>KiwiRail is one of New Zealand's largest employers with 3,400 employees¹⁶ across the country. It moves 18 million tonnes of freight each year and transport around 25% of New Zealand's exports.¹⁷ It is critical that KiwiRail is viewed as an employer of choice if it is to continue meeting New Zealand's distribution demands. People are vital to the success of the organisation and a productive and engaged workforce requires support from management to provide a fit-for-purpose work environment that values safety and promotes staff well-being.</p>

¹⁶ KiwiRail Annual Integrated Report 2017

¹⁷ KiwiRail Annual Integrated Report 2017

By acknowledging that KiwiRail will find it increasingly difficult to deliver a sustainable distribution service from the current Palmerston North Freight Yard, and by taking measures to invest (with support from the PGF) in a modernised, 'fit-for-future' regional growth hub near Bunnythorpe, a strong message is delivered to KiwiRail employees – New Zealand values KiwiRail and 'we value you'.

Figure 4: 'Why we will win'



KiwiRail has implemented a graduate programme, which focuses on recruitment and retention of a younger workforce. Through providing modernised facilities designed to sustain and deliver on New Zealand's future needs, KiwiRail will give new recruits confidence in embarking on a career in rail.

KiwiRail's strategic approach recognises the wider NZ Inc importance it has in:

- connecting communities;
- driving improved environmental outcomes for New Zealand; and
- collaboration with Government agencies;

These all play a key part in supporting New Zealand's logistics and distribution chain. Furthermore, New Zealand consumers are increasingly looking to businesses to lead initiatives to tackle environmental and sustainability issues. Rail plays a key role in driving and enhancing the country's ability to deliver on more eco-friendly transport options. By investing in rail solutions, the PGF will be contributing to a cleaner, safer, more sustainable New Zealand distribution economy.

In order for KiwiRail to remain reliable, sustainable and valuable to New Zealand, the regions and its employees, it needs to invest in premises that will complement delivering distribution services in the most sustainable and collaborative way possible. Securing land in the NEIZ for a regional growth hub, in conjunction with National and Regional Transport initiatives, will enable this.

The timeline for Phase One is approximately 2-3 years.

The timeline for Phase Two is approximately Commercial Information.

KiwiRail management suggests Phase One should commence as soon as funding is confirmed.

1. Introduction

This Business Case explains the rationale for investment of \$40 million from the Provincial Growth Fund (PGF) to enable KiwiRail to enact **Phase One**; to acquire approximately 100 ha in the NEIZ, for the purposes of developing a Palmerston North Regional Economic Growth Hub for Central New Zealand.

This Business Case is comprised of a **Phase 1a** process and a **Phase 1b** process; jointly referred to as **Phase 1**. It is the **first phase** of a two phased approach.

Table 1: Phase 1a and 1b

Phase 1a	Phase 1a involves the master-planning to identify a new site in the NEIZ and Designation of the site.
Phase 1b	Phase 1b, involves land acquisition. This phase would commence subject to a satisfactory Phase 1a process being complete and requirements being met following assessment of the site.

Phase 2 will involve detailed design and development of the site into a 'fit-for-future' Regional Economic Growth Hub in collaboration with wider national and regional strategies and key stakeholders.

Efficient freight distribution has a significant positive impact on New Zealand's economic well-being. Strategically located, resilient infrastructure is required to move goods to market efficiently and on time.

Acquiring land now unlocks the opportunity to develop a strategically positioned Regional Economic Growth Hub in Palmerston North, enabling a number of the Government's PGF objectives to be achieved, including:

- enhancing economic development opportunities;
- creating sustainable employment;
- building resilient communities; and
- helping New Zealand to meet its climate change targets.

The Minister of Transport recently released the Government Policy Statement on land transport for 2018/19 to 2027/28 (GPS 2018). GPS 2018 includes the theme of mode neutrality – which means that all transport modes are considered when making transport planning and investment decisions. The GPS and the Future of Rail Review are both expected to consider opportunities to increase investment in rail, so it can fully contribute to the transport system New Zealanders want.

The GPS assessment criteria ¹⁸are outlined as follows:

- Safety
- Access
- Environment
- Value for money

¹⁸ Government Policy Statement on Land Transport, 2018/19 and 2027/28

Smart transport technology is changing the way logistics providers interact with customers, goods and people. Big data, Artificial Intelligence and automation provide fertile ground for improvements in safety, energy efficiency, customer service and the sustainability of organisations like KiwiRail.

While heavy trucks can increase in size to reduce operating costs, they do not have many options for increasing service speed; once the Roads of National Significance have been bypassed, passing through town bottlenecks inhibit the vehicles' speed.

Of all the transport modes, rail has, in recent years, demonstrated the ability to make sharp improvements in speed, cost, capacity and emissions. It is the logical sustainable way forward in a growing economy. KiwiRail is continuing to monitor and explore technological developments closely, and is investing in infrastructure, and technology to advance operational and safety performance, deliver better customer outcomes, and enhance the efficiency of services.

1.1 Background

In the Ministry of Transport's National Freight Demand Study 2014, the New Zealand freight task at the time was 236 million tonnes and was expected to grow 373 million tonnes by 2042 (an increase of more than 60%). This large increase takes the total freight task to the equivalent of about 67 tonnes each year for each person in New Zealand. Strong tonnage growth is predicted in the regions, showing that there is a very strong case for improving transport infrastructure linking major population centres with inland and coastal ports.

KiwiRail's current yard and buildings, are located in Palmerston North's CBD, in Tremaine Avenue and shared with multiple freight partners, split across various buildings.

The layout of the yard and its buildings is fragmented and disjointed, and they are also nearing the end of their useful life. Significant investment is required to improve their efficiency, to create modern fit for purpose amenities and to upgrade the overall environment to today's improved standards.

Redeveloping the current yard while continuing to operate would be disruptive and costly; furthermore, it would only deliver a short term, constrained solution. As freight demands continue to increase, KiwiRail will find it increasingly difficult to reliably meet New Zealand's growing distribution requirements without modernising to increase capacity and efficiency. KiwiRail has considered a range of options to enable it to meet this future demand. A new location away from the city centre offers significant advantages and opportunities.

Given the anticipated national freight growth (60%¹⁹) and the long-term plan to create a national integrated logistics hub for the region, this Business Case takes a 50-100 year view to enable KiwiRail's ability to deliver to Central New Zealand. Sustaining freight capacity to deliver on increasing demands and ensuring rail remains an integral part of New Zealand's freight flow economy are key drivers of this Business Case.

Physical limitations on expanding at the Palmerston North

KiwiRail first established its current Palmerston North Freight Yard in 1964. It was designed on a method of 'breakbulk' in which the loading and unloading of freight took place within the yard. Today it has evolved to a more containerised approach to the movement of freight which means that the design layout of the current yard is not operationally efficient.

¹⁹ Ministry of Transport's National Freight Demand Study 2014

In 1964, the 'industrial zoned' area was on the outskirts of central Palmerston North and well removed from CBD activity.

Fifty years on, the central city has expanded and the current yard and buildings, once removed from urban development, are now predominantly surrounded by residential dwellings. Consequently, the existing location is unlikely to be able to accommodate predicted national freight growth due to physical limitations on expanding the current land holdings.

The long-term vision of relocating KiwiRail to the NEIZ has broader context than freight distribution alone. History has taught KiwiRail the importance of planning for large infrastructure projects with a 50-100 year view. Increased density in a city enables it to reap the economic benefits that a greater population generates. By investing in Bunnythorpe KiwiRail is improving connectivity options and consequently unlocking economic potential both in the centre of Palmerston North and the NEIZ.

PNCC's strategic vision for the city does not support long-term rail operations remaining at the current site, with economic growth pitched towards the North East (NEIZ). Future planning and consenting constraints may also act to inhibit freight partner extensions to the yard.

The current yard has limitations in terms of heavy load-bearing vehicles disrupting urban roads which creates both environmental and health and safety effects on neighbouring land owners and road users.

Figure 5: KiwiRail's current Palmerston North Freight Yard is surrounded by residentially zoned land and restricted for expansion due to consenting obligations



Legend

- KiwiRail Landholding
- Fringe Business
- Industrial
- Residential

Note: The information displayed here is indicative only

Disjointed layout at Palmerston North Freight Yard

On top of the external constraints limiting KiwiRail from optimising the existing yard, it was developed over a long time period, in an ad hoc manner. Consequently, this has resulted in an ineffective site layout, with poorly positioned buildings spread over the site.

Operationally, this fragmented layout impacts on KiwiRail's ability to efficiently connect both internally and with key customers.

The ad hoc development of the yard over many years, has contributed to poor traffic flows, created safety concerns about yard operations and affects connections onto the local roading network.

In continuing to function with this ineffectual layout it will become increasingly difficult for KiwiRail to support economic growth through streamlined freight distribution in an expanding freight market. Significant investment would be required to rationalise existing buildings and facilities on the site.

Figure 6: The current Palmerston North Freight Yard layout is inefficient



Legend

KiwiRail Land Leased sites

The key above, indicates the blue areas as leased, highlighting the fragmented nature of the operational layout.

Out dated facilities at current Palmerston North Freight Yard

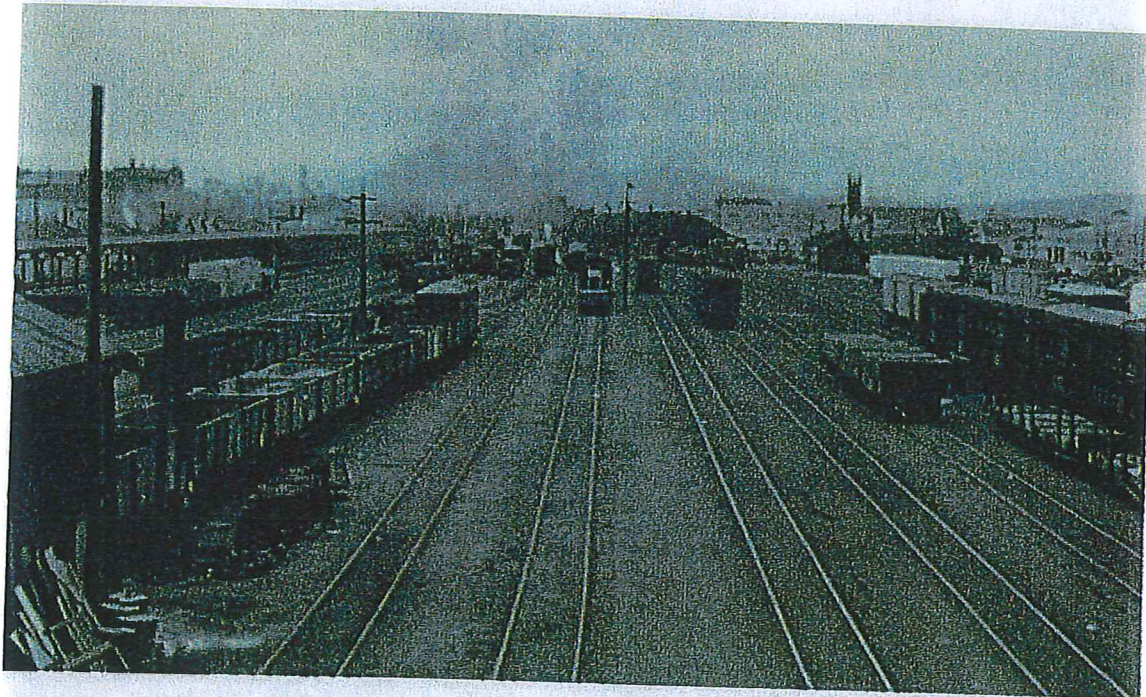
The current facilities are out-dated and inefficient due to their 'breakbulk' design. Inefficiencies have accrued over history; whereby over 40 small buildings are scattered in an ad hoc manner, severely impeding a cohesive working environment. Rail freight distribution has come a long way since 1964, having moved to a more intermodal distribution-based model as opposed to manual handling of individual cargo, which manifests itself in containers and bulk freight (e.g. Logs, milk powder, paper etc.)

Investment in the existing buildings, as opposed to investing in a sustainable future-focused site, doesn't address the inherent difficulties arising from this location, size and orientation.

The current yard and buildings are nearing the end of their useful life and maintenance requires significant investment. However, investment within the current configuration is unlikely to provide 'fit-for-future' work environments for KiwiRail's employees and would not be capable of accommodating increased demand.

If KiwiRail is to deliver on its objective to create a diverse and engaged workforce and remain as an attractive employer, having modern work environments which promote innovation and collaboration across the business, and with other sectors, is critical to that success.

Figure 7: Palmerston North Rail Yard, 4 June 1964



North East Industrial Zone (NEIZ)

The NEIZ presents an opportunity to consolidate and reconfigure and this Business Case is an integral part of the wider transport strategies for the Manawatū-Whanganui Region connecting multi-transport modes, linking ports, road, rail and air in an integrated fashion.

The Palmerston North-Manawatū Regional Ring Road is intended to better enable economic growth and productivity through targeted transport investment. The vision for this Ring Road is to increase agribusiness exports from \$1.9 Billion to \$3.8 Billion by 2025²⁰ by improving efficiency. By strategically positioning itself in the NEIZ, which connects into the planned Manawatū-Palmerston North Regional Ring Road, KiwiRail will be aligned with these growth and economic productivity objectives.

A large proportion of the region's primary product makes its way in and out of the region for either export overseas or to be redistributed to other parts of New Zealand. Palmerston North and

²⁰ Accelerate 25: Draft Manawatu-Whanganui Economic Growth Action Plan

Manawatū are now recognised as the centre of the growing freight distribution industry. Their location in Central New Zealand connects to the surrounding regions of Taranaki, Hawkes Bay, Waikato and Wellington via the State Highway, rail and air networks.

The Confidentiality endorses the approach of a regional economic growth hub being positioned in the NEIZ, being supported by planned roading infrastructure in the area and its proximity to airfreight, complimenting overall regional transport initiatives.

Aligning multimodal transport strategies will achieve best long-term economic results for a well-connected Palmerston North regional growth hub.

Figure 8: NEIZ area



Proposed NEIZ land

KiwiRail's aim is to create a future-focused freight environment linked to the wider regional transport and supply chain strategies and which supports PNCC's drive to divert heavy vehicles out of the city, reducing congestion and minimising impacts from large trucks through the CBD.

Acquiring an NEIZ site would give KiwiRail the ability to relocate rail to the new industrial precinct in Bunnythorpe whilst supporting wider regional development objectives and ensuring rail remains an integral part of the Central North island freight flows.

Confidentiality

The area is connected to the planned Manawatū-Palmerston North Regional Ring Road, approximately 6km from the city's airport, while surrounded by undeveloped green space.

Unlike the current Palmerston North freight yard, operations would be less inhibited by residential surroundings on a greenfields site. Environmental and health and safety risks will be assessed as part of due diligence for this project. It is anticipated that a future greenfields location would have improved accessibility when compared to a CBD site.

Land purchased will be held for rail purposes and be able to generate a holding income from interim leasing while master-planning, layout and the operating delivery mechanism are established.

At this stage land in Bunnythorpe is largely underdeveloped. This is the most strategic time to acquire the land in the NEIZ which will be an integral part of integrated road and airfreight strategies for the Region.

Summary

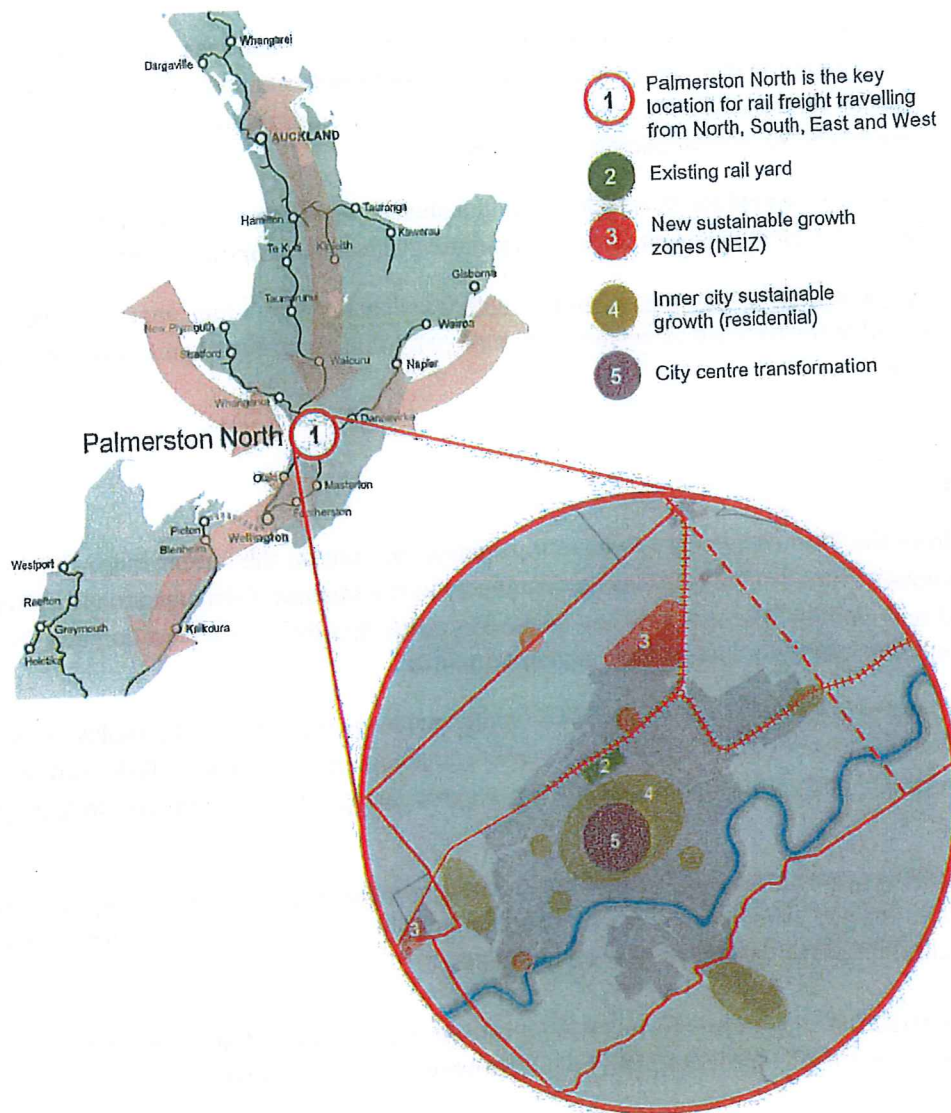
Funding from the PGF will enable KiwiRail to acquire a new site on the outer fringe of Palmerston North, removed from residential dwellings, connected to the Manawatū-Palmerston North Regional Ring Road and within close proximity to Palmerston North Airport. A new location away from the city centre offers significant advantages and opportunities.

A site of approximately 10 ha in the NEIZ would enable a new rail freight facility to be fully integrated with air and road, improved automated technology, efficient layout, 'fit-for-future' safety focussed design and with ample capacity to support New Zealand's predicted freight growth demands.

Growth must be accommodated through collaborative strategic planning; considering past, present and future. Through building on lessons learnt from the past, and understanding patterns of development, the City can plan for future generations.

Critical infrastructure such as roads, rail and airports are key examples of areas in cities that require planning and investment in order to respond to the needs of future populations.

Figure 9: Location of current site versus the NEIZ area



Should KiwiRail not be funded to acquire a new greenfields site with sufficient connectivity and space for expansion it will:

- Be less able to sustain the national and regional growing freight demands;
- Not align with the PNCC growth Strategy;
- No longer be able to meet the growing needs of their customers or achieve growth in terms of tonnage and revenue for the freight business;
- Not unlock the potential to lift productivity and grow employment in the region;
- Create an impediment to PNCC's ideas of urban development; and
- Face limitations at the existing site restricting freight growth strategy.

The current availability of undeveloped land in the NEIZ is expected to reduce over time, resulting in greater complexity in the acquisition process and a longer process to acquire it should delays occur.