

Attachment 2 – Comments on RIRHT’s Business Plan

The following are comments on some specific aspects in The Trust’s business plan.

1. Revenue

Once Stage 1b (to Summit) is completed then The Trust has assumed 100 return passengers a week between Maymorn and Kaitoke, 800 a week between Maymorn and Summit (36 km return trip), giving an annual revenue of \$2.053M. The number of passengers a year varies between 40,000 and 44,640 in different Trust documents. Effectively, the average income per passenger is \$50. To put this in context, the Tairei Gorge railway that operates from Dunedin station, averages \$64.50 a passenger for a round trip of either 116 or 154km. There were 77,511 passengers in 2010/11.

The Trust provides the West Coast Wilderness Railway in Tasmania as an example of a successful venture, with current adult return fares ranging from AUD129 – 210, children AUD40. This 35km line was reconstructed with a AUD20.45M. grant from the Federal Government and AUD18M. from the State Government. It is currently leased to one of Tasmania’s larger tourist groups. In 2004 61,000 passengers travelled on the railway, in 2010/11 this had dropped to 33,000. No financial performance data is available.

In 2003 BERL economic consultants undertook a feasibility assessment for The Trust. BERL concluded: “We are satisfied that with a professional marketing / launch strategy and operation of the business, the number of 40,000 in the first year of operation is achievable”. BERL then added: “However, we consider the window of opportunity to expand this visitor base and thereby ensure the ongoing viability of the operation to be relatively short. In other words, if little else were in place we consider the scope for repeat visitors to be limited”.

Based on the current information from the Tasmanian railway and the Tairei Gorge railway, 40,000 passengers in the first year for the Rimutaka railway is possible. The number may well depend on just how good the product is perceived by the public and the marketing behind it.

The state of the New Zealand economy at the time of the launch will also influence the number of discretionary dollars the public have to spend. An average fare of \$50 is higher than the Tairei railway but less than the Tasmanian railway converted to a per kilometre travelled. However, it is accepted as being ‘within the ballpark’.

2. Funding and capital structure

The Trust has estimated the Capital required for Stage 1 is \$12.13M. This would increase by the amount required to build a wider walkway than proposed and, in parts, a forestry road, to a standard acceptable to Greater Wellington rather than The Trust’s standard.

Once Stage 1 is completed The Trust estimates an annual cash surplus of \$1.134M before debt servicing. There is no provision for tax as The Trust expects to

continue its charitable status.

Stage 1 is part funded from a loan of \$6M, and The Trust has assumed an interest rate of 8%. This equates to a payment of \$0.48M a year. Hence, the interest is covered by a factor of 2.36 (i.e. \$1,134M / \$0.48M).

As a sensitivity check if the number of passengers is 30,000 instead of 40,000 a year then the revenue decreases by approximately \$0.5M. If the marginal cost is 20% of revenue, then the surplus decreases by \$0.4M. As the only real security for a lender is the business as a going concern, the interest rate in the current economic climate could be 12% or more. Using this rate, the annual interest payment is \$0.72M. Hence the revised cash position is:

	\$M
Original Surplus	1.134
Less surplus from reduced patronage	0.400
	<hr/> 0.734
Less interest payment	0.720
	<hr/> 0.014

Under this scenario the cash surplus is \$14,000. The equity investor of \$4M does not receive a dividend with this situation.

As a comparator, in 2011 the Tairei Gorge railway had revenue of \$5.3M from 77,511 passengers. It is understood to have debt of about \$0.5M. Yet it was only able to make a profit of about \$3,000. Tairei Gorge Railway is 72% owned by Dunedin City Holdings Ltd.

In Tasmania the Wilderness Railway has been equity funded and leased to a tourism operator under terms that have not been published.

Relying on \$6M of debt for the Stage 1 development is an ambitious proposition. No information has been provided that the proposal is bankable.

3. Construction costs

Detailed construction costs have been provided. As noted in the report, the costs will increase in order to provide a wider track / roadway and a flatter grade. Also, provision has to be made for resource consent costs, professional engineering design and contract supervision. It is also likely there would be environmental planting offset costs as a result of the earthworks.

Bridging costs will increase as the bridges or culverts have to be suitable for maintenance trucks and equipment, and in parts logging trucks.

4. Access

Once the four stages are completed the railway would operate from Maymorn to connect with KiwiRail's Wairarapa line near Featherston.

For Stage 1 the route traverses land mainly owned by Greater Wellington. The exception being land at the start of the route at Maymorn. While The Trust acknowledges it has been in discussion and negotiation with a private landowner for 4-5 years, it does not yet have an option to purchase the land or obtain an easement. Rather, at present it is relying on the Upper Hutt City Council (UHCC) acquiring the land as a public reserve and making provision for a railway corridor. The Trust has made a submission to UHCC as part of the Maymorn Structure Plan. If UHCC does not acquire the land and the land-owner will not sell it to The Trust, then the project does not appear to be viable.

Stage 3 involves constructing the railway from Summit to Cross Creek. The section on the east side of Summit tunnel was where the Fell locomotives operated. From a railway enthusiast's point of view, this is probably the most interesting section.

The Fell incline section is on Department of Conservation (DoC) land. So far The Trust has not applied to DoC for a right to reinstate the railway on its land. If it does then DoC will follow a process set out in the Reserves Act to assess the application.

From Cross Creek to the existing Wairarapa railway line the old formation is on several properties. The Trust would have to successfully negotiate with all of them to enable it to take trains to Featherston.

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