

# BRIEFING

## Ruapehu Alpine Lifts Limited

<b>Date:</b>	4 October 2022	<b>Priority:</b>	Urgent
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	2223-1216

Action sought		
	Action sought	Deadline
Hon Grant Robertson <b>Minister of Finance</b>	<b>Note</b> that RED Ministers approved an investment of \$15 million across two Provincial Growth Fund (PGF) loans to Ruapehu Alpine Lifts Limited (RAL or Company).	6 October 2022
Hon Stuart Nash <b>Minister for Economic and Regional Development</b>	<b>Note</b> that RAL is facing insolvency and is seeking further financial support from the Crown.	
	<b>Note</b> that, should this eventuate, a significant portion, if not all, of the Crown Regional Holdings Limited (CRHL) investment in RAL will be written off.  <b>Agree</b> that no further funding from Kānoa – RDU be provided to RAL.	

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Robert Pigou	Deputy Chief Executive and Head of Kānoa – Regional Economic Development & Investment Unit (Kānoa – RDU)	Privacy of natural persons	✓
David van der Zouwe	Head of Investment, Kānoa – RDU	Privacy of natural persons	
Murray Beatson	Investment & Risk Director, Investment Management, Kānoa – RDU	Privacy of natural persons	

The following departments/agencies have been consulted

Minister's office to complete:

 Approved

 Declined

 Noted

 Needs change

 Seen

 Overtaken by Events

 See Minister's Notes

 Withdrawn

Comments

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### Purpose

This briefing provides an update on the current financial situation of Ruapehu Alpine Lifts Limited (RAL). RAL is facing imminent insolvency and is currently operating under a standstill agreement in relation to its funding facilities with ANZ Bank New Zealand Limited (ANZ). RAL has made an urgent request for additional Crown funding.

### Executive summary

On 23 September 2022 Kānoa – RDU received a letter from RAL with an urgent request for Crown funding assistance, together with a Restructuring Proposal from RAL, prepared by RAL’s advisers PwC. RAL has requested Crown funding of between \$<sup>Comme</sup> and \$<sup>Comme</sup> million. RAL advised that if funding was not provided by the Crown, then a formal insolvency process was inevitable. Kānoa – RDU has worked with RAL and ANZ to extend the deadline (originally 30 September 2022), in relation to the ANZ support funding, and for the Crown to consider the RAL funding request, to 7 October 2022.

The range of funding requested by RAL has been assessed by PwC in relation to 2 operating options for RAL:

- Status Quo - continuing to operate both Whakapapa and Tūroa (funding of \$<sup>Comme</sup> million);
- Whakapapa Only - closing of the unprofitable Tūroa ski field and relocating any moveable assets from Tūroa to be used on Whakapapa (\$<sup>Comme</sup> million – which includes \$<sup>Comme</sup> million for “above ground” remediation costs for Tūroa).

RAL also indicated that the existing debt funders, including the PGF loans held by Crown Regional Holdings Limited (CRHL), ANZ, holders of “Tourism Bonds” used to fund the construction of the Sky Waka gondola at Whakapapa, and the Ruapehu District Council, will all need to agree to write off a significant proportion of their debt with RAL. Without a material reduction in its existing debt, RAL will continue to struggle to service its debt obligations.

Kānoa – RDU has been in ongoing discussion with RAL, and has engaged Chapman Tripp (Lawyers) and Calibre Partners (restructuring and business advisory specialists) to assist with assessment of the RAL proposal, risks and options. Voluntary Administration has been proposed by Kānoa – RDU’s advisors as a potential option and an alternative to liquidation. This would likely require joint funding in some form from the Crown, and potentially ANZ. It is estimated that the operating costs of the business through to end December 2022 would be approximately \$<sup>Comme</sup> million and the Voluntary Administration costs (including legal costs) approximately \$<sup>Comme</sup> million.

If neither the Crown nor ANZ are prepared to provide further financial support it appears inevitable that the directors will declare RAL insolvent, with the appointment of a Liquidator the most likely outcome.

In a liquidation, there is a significant likelihood that the Crown will be required to write off most if not all of the \$15 million in loans. Further, the Crown may ultimately incur costs related to the rehabilitation of the ski fields as required under the Department of Conservation (DOC) concession (should RAL go into liquidation and be unable to undertake this remediation). The costs have not been fully assessed and a rough estimate is \$<sup>Comme</sup> million.

## Recommended action

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Kānoa – RDU recommends that you:

- a **Note** that on 2 May 2018, Regional Economic Development (RED) Ministers approved a <sup>Comme</sup> Commercial Information loan of \$10 million to RAL from the PGF [briefing 3108 17-18 refers]. RED Ministers also approved a further \$5 million loan to RAL in August 2020 [briefing 2021-0588 refers].  
*Noted*
- b **Note** that RAL’s financial position has been severely impacted by the COVID-19 restrictions and the closure of New Zealand’s borders (during 2020 and 2021) and a very poor 2022 ski season due to unfavourable weather conditions.  
*Noted*
- c **Note** that RAL urgently requires funding of between \$<sup>Comme</sup> million and \$<sup>Comme</sup> million, and if funding is not able to be provided then the Directors will need to consider the appointment of a liquidator.  
*Noted*
- d **Note** that following receipt of the initial request for the funding, RAL also approached Kānoa – RDU for “emergency funding” of up to \$<sup>Com</sup> million within the overall funding requested, to enable it to place orders for its summer maintenance programme and be in a position to open for the 2023 winter ski season.  
*Noted*
- e **Note** that any additional investment via Kānoa – RDU of \$<sup>Comme</sup> million or more will take the total investment in RAL to over \$<sup>Comme</sup> million and therefore any further funding decisions will require Cabinet approval.  
*Noted*
- f **Note** that if additional funding is not provided, RAL consider a formal insolvency process, such as a liquidation, is highly likely.  
*Noted*
- g **Note** that this will create job losses within the Ruapehu, Okakune and Taupo area.  
*Noted*
- h **Note** that Kānoa – RDU has considered Voluntary Administration as alternative to liquidation and estimated the operating costs of the business through to end December 2022 would be approximately \$<sup>Commerc</sup> million, with additional legal and associated costs of approximately \$<sup>Commerc</sup> million.  
*Noted*

- i **Note** that Kānoa – RDU has previously recommended to the CRHL board **Commercial Information** of the \$15 million in loans to RAL and that, even if the option of Voluntary Administration is pursued, prospects are that a significant portion, if not all of the Crown investment in RAL, will need to be written off.
- Noted*
- j **Note** that Kānoa – RDU considers that further investment should not be made as it has no confidence that RAL represents a commercially viable business proposition.
- Noted*
- k **Agree** that the Crown declines the funding request and does not provide any further funding to RAL. **Note:** The Minister for Economic and Regional Development, and the Minister of Finance, agreed with the recommendation
- Agree / Disagree*
- l **Note** that there is potential for the Crown to be liable for remediation costs under the terms of the DOC license unless any purchaser of RAL assets obtains a DOC license to continue to operate the ski fields.
- Noted*
- m **Note** that Kānoa – RDU will continue to engage with RAL and ANZ and will keep Ministers informed of developments.
- Noted*

Privacy of natural persons



Robert Pigou  
**Deputy Chief Executive and Head of  
Kānoa – Regional Economic  
Development & Investment Unit, MBIE**

Hon Grant Robertson  
**Minister of Finance**

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4 / 10 / 2022

Hon Stuart Nash  
**Minister for Economic and Regional  
Development**

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## Background

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1. RAL operates the Whakapapa and Tūroa Ski Areas on Mt Ruapehu and owns the assets of the two ski areas. RAL has a license from the DOC to operate, and “relationship agreements” from local Iwi that cover values, principles, and the approach to protecting Mt Ruapehu. RAL also operates the Sky Waka gondola on Whakapapa. RAL’s core business occurs during winter months, usually operating from early June to the end of October, with snow-related activities.
2. RAL has faced significant financial challenges over the last 3 years due to COVID-19 restrictions and closure of New Zealand’s borders (in 2020 and 2021) and a very poor 2022 ski season due to unfavourable weather conditions.

### Provincial Growth Fund loan facilities

3. On 27 April 2018, delegated RED Ministers approved a \$10 million loan from the PGF to assist with the financing of the \$25 million “Sky Waka” gondola at the Whakapapa Ski-field operated by RAL [briefing 3108 17-18 refers]. Commercial Information [REDACTED]. The Sky Waka was completed in 2019 and has been in operation since. Commercial Information [REDACTED].  
[REDACTED] The “Tourism Bonds” are held by trusts affiliated with Tūwharetoa, and the Taupō and Ruapehu District Councils [briefing 2021-0172 refers].
4. On 17 August 2020, delegated RED Ministers approved RAL’s request for an additional \$5 million loan from the PGF [briefing 2021-0588 refers]. The loan was to ensure that the purchase of key equipment for its general operations and certain non-discretionary maintenance works could occur for the summer 2020/21 maintenance programme.
5. Commercial Information [REDACTED]  
[REDACTED]  
[REDACTED]
6. Both PGF loans were subsequently fully drawn down, and the Crown’s combined loan exposure to RAL is accordingly \$15 million. Commercial Information [REDACTED]  
[REDACTED]

## RAL’s Financial position

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7. RAL’s financial performance has varied significantly over the last 5 years. The last 3 years has seen RAL’s trading performance severely impacted by the COVID-19 restrictions and the closure of New Zealand’s borders (in 2020 and 2021) and more recently by a very poor ski season due to unfavourable weather conditions (in 2022). These adverse trading conditions have severely impacted RAL’s financial position. To date, seasonal funder ANZ has effectively carried the cost of funding the poor trading.
8. RAL is forecasting an Earnings Before Interest, Tax, Depreciation and Amortisations (EBITDA) loss of \$<sup>Commercial</sup> million for the year ending 30 November 2022. The company is forecasting Commercial Information position of \$<sup>Commercial</sup> million as at financial year end 30 November 2022.
9. RAL’s total required deferred capital investment to be undertaken over the next 5 years is \$<sup>Commercial</sup> million (\$<sup>Commercial</sup> million at Whakapapa and \$<sup>Commercial</sup> million at Tūroa). RAL considers this expenditure (which would be carried out over summer periods) to be essential if the ski field operations are to continue in the winter 2023 and beyond ski seasons.

10. Kānoa – RDU's assessment is that RAL is currently over leveraged, with a year-end debt balance of ~\$45 million expected as at 30 November 2022. This is forecast to peak at almost \$<sup>Commercial Information</sup> million prior to July 2023 (next winter season) if the status quo of operating on both Whakapapa and Tūroa ski areas is maintained. RAL does not generate sufficient cash flow to service its current level of debt and to undertake the required levels of capital expenditure necessary to maintain and operate the facilities. Further, RAL has advised that, in its view, it is not able to trade out of its current financial predicament.
11. ANZ has indicated that it has no further appetite to increase its lending exposure to cover RAL's costs for next year, with ANZ providing seasonal funding facilities which are intended to be repaid during the winter ski period each year. ANZ's current exposure to RAL is ~\$13.5 million. CRHL's current exposure to RAL is \$15 million.

## Current situation

12. RAL was due to provide ANZ (and Kānoa – RDU) with an investment plan by 31 August 2022, with the plan to set out how RAL intended to undertake a restructuring. <sup>Commercial Information</sup>
13. <sup>Commercial Information</sup>
- a. <sup>Commercial Information</sup>
- b. <sup>Commercial Information</sup>
- c. <sup>Commercial Information</sup>
- d. RAL was to deliver a proposal to RAL's key creditor stakeholders (including ANZ, and Kānoa – RDU) which was to address the short-term liquidity requirements of RAL and includes a proposal for the recapitalisation and/or restructuring of the business and/or capital structure of RAL (the PwC report referred to in this Briefing).
14. On 23 September 2022 Kānoa – RDU received a letter from RAL with an urgent request for Crown funding assistance, together with a Restructuring Proposal from RAL, prepared by RAL's advisers PwC. RAL requested Crown funding of between \$<sup>Commercial Information</sup> and \$<sup>Commercial Information</sup> million. RAL advised that if a funding commitment was not provided by the Crown by 30 September 2022, then a formal insolvency process was inevitable. Kānoa – RDU has worked with RAL and ANZ to extend the deadline, in relation to the ANZ support funding and <sup>Commercial Information</sup>, to consider the funding request to 7 October 2022.

## Proposed funding options put forward by RAL

15. Two funding requests have been put forward to the Crown by RAL:
  - a. Provision by the Crown of a further \$<sup>Commercial Info</sup> million to continue to operate both Whakapapa and Tūroa ski areas (\$<sup>Commercial Information</sup> million) or just the Whakapapa ski area (\$<sup>Commercial Information</sup> million). Included within these amounts is \$<sup>Commercial Information</sup> million (\$<sup>Commercial Information</sup> million at Whakapapa and \$<sup>Commercial Information</sup> million at Tūroa) required for deferred capital investment and considered essential by RAL to take place over the next 5 years to implement (FY23 through FY27) if the ski field operations are to continue. The funding is requested in the form of equity, rather than debt, or

- b. Provision by the Crown of “emergency funding” of up to \$<sup>Com</sup> million, within the overall funding request of between \$<sup>Comme</sup> million and \$<sup>Comme</sup> million, to enable it to place orders for its summer maintenance programme and be in a position to open for the 2023 winter ski season.
16. If neither option for additional funding is taken up, RAL has indicated that the company will move to a formal insolvency process, with liquidation highly likely. RAL has advised that liquidation of the company would result in the company ceasing to operate immediately and incur over 200 job losses.

### **Kānoa – RDU’s consideration of funding request**

17. Kānoa – RDU has engaged Chapman Tripp (lawyers); and Calibre Partners (restructuring and insolvency specialists) to assist its evaluation of the request and to consider possible alternative options. This includes Voluntary Administration as a short term measure to freeze the Company’s financial position while the administrator and the creditors determine the company’s future.
18. If neither the Crown nor ANZ are prepared to provide further financial support it appears inevitable that the directors will declare RAL insolvent, with the appointment of a liquidator the most likely outcome. In a liquidation, there is a significant likelihood that the Crown will be required to write off most if not all of the \$15 million in loans. Further, the Crown may incur costs related to the rehabilitation of the ski fields as required under the DOC concession (should RAL go into liquidation and be unable to undertake this remediation).
19. Whilst ANZ’s security would enable it to appoint a receiver to RAL, based on Kānoa – RDU’s discussions with ANZ to date this would appear an unlikely option.
20. RAL has advised that liquidation of the company would result in the company ceasing to operate immediately. Further, there would be significant disruption to the local community and associated tourism operators.

#### *Voluntary Administration*

21. As an alternative to the liquidation of RAL Chapman Tripp and Calibre Partners have presented Kānoa – RDU with the option of having RAL enter Voluntary Administration. This would allow for a ‘softer landing’ than an RAL director-initiated liquidation and give more time for creditors to discuss, negotiate, consider, and vote upon a liquidation plan.
22. For example, a Voluntary Administration process would create time and space to consider options around a more orderly sale of assets, give more time to understand the rehabilitation liability and to sort out the full liabilities outstanding with creditors. Although an alternative to liquidation, the prospects of a better outcome for creditors (including Crown payment) remain low.
23. This Voluntary Administration option would also likely require funding, most likely by the Crown, and potentially ANZ. A high level estimation of the costs of a Voluntary Administration for RAL by Calibre Partners puts the cost at approximately \$<sup>Commercial Information</sup>. It is estimated that the holding costs of the business through to end December 2022 would be approximately \$<sup>Commerc</sup> and the Voluntary Administration costs (including legal costs) approximately \$<sup>Commerc</sup>.

#### *Further investment in RAL*

24. While further investment of \$<sup>Com</sup> million to RAL as “emergency funding” or to support a Voluntary Administration process would give time to consider whether the larger \$<sup>Commercial Info</sup> million investment can be justified, any additional investment of \$<sup>Com</sup> million or more will take the total investment in RAL to over \$<sup>Comme</sup> million and therefore any further funding decisions will require Cabinet approval.

25. Kānoa – RDU considers that any further investment should only be made if the Crown can be confident that RAL has a commercially viable business offering. In its current form, Kānoa – RDU considers this highly unlikely.
26. Given the nature of the assets and large number of stakeholders any solution may ultimately require agreement across secured creditors, unsecured creditors, the Crown, life pass holders and other local stakeholders.

## Liability for remediation costs

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27. There is a risk to the Crown if RAL ceases to operate as there is a liability for remediation costs under the terms of the DOC license under which RAL operates, in the event of a closure of either or both of the Whakapapa and Tūroa ski areas. The remediation requirements would include the removal of all structures and other improvements on the ski field. These requirements can be triggered following the issuing of a written notice by DOC under the Concession Agreements.
28. RAL management has advised that estimating the potential cost of remediation with accuracy is difficult, with remediation works required both “above ground” and “below ground”. Real estate services company <sup>Commercial</sup> undertook an insurance valuation (8 June 2022) for RAL that included demolition costs (for the purposes of replacement) of \$<sup>Commercial Information</sup> for Whakapapa and \$<sup>Commercial Information</sup> for Tūroa. This estimate does not include the costs to remove ground improvements, such as piping and concrete foundations, the cost of which could potentially be substantial.
29. RAL do not expect there to be any surplus funds available to unsecured creditors of RAL, including for any remediation costs for the ski-fields. As such, the remediation costs to the Crown are estimated to be at least \$<sup>Commercial Information</sup> plus the below ground remediation costs, which could be substantial.

## Next steps

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30. If Ministers agree to decline the funding request, Kānoa – RDU will continue to engage with RAL and ANZ and will keep Ministers informed of these discussions.
31. You may wish to discuss this briefing with Kānoa – RDU officials.