



AIDE MEMOIRE

Proposed Talking Points for Cabinet paper: Government support for an alternative solution for continued operation of the ski field at Mt Ruapehu

Date:	28 October 2022	Priority:	Urgent
Security classification:	In Confidence	Tracking number:	2223-1544

Information for Minister(s)

Hon Stuart Nash
Minister for Economic and Regional Development

Contact for telephone discussion (if required)

Name	Position	Telephone		1st contact
Robert Pigou	Head of Kānoa – Regional Economic Development & Investment Unit (Kānoa – RDU)		Privacy of natural persons	✓
Isabel Poulson	GM, Strategy, Planning & Performance	Privacy of natural persons	Privacy of natural persons	

The following departments/agencies have been consulted

The Treasury, Department of Prime Minister and Cabinet (Policy Advisory Group), Department of Conservation

Minister's office to complete:

- | | |
|---|--|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Declined |
| <input type="checkbox"/> Noted | <input type="checkbox"/> Needs change |
| <input type="checkbox"/> Seen | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn |

Comments



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Purpose

To provide you with suggested talking points for your presentation of the paper *Government support for an alternative solution for continued operation of the ski field at Mt Ruapehu* at Cabinet on 31 October 2022.

Privacy of natural persons

Isabel Poulson

General Manager, Strategy, Planning and Performance

Kānoa – Regional Economic Development & Investment Unit, MBIE

28.10.22

Background

1. You are taking a paper directly to Cabinet on 31 October 2022. The paper is seeking that Cabinet note the proposal that Kānoa – Regional Economic Development & Investment Unit (Kānoa – RDU) lead negotiations with the major creditors of Ruapehu Alpine Lifts Limited (RAL) to negotiate a potential resolution that will ensure the continued operation of the ski field at Mt Ruapehu and protect the investment of Bondholders. The paper also seeks agreement to establish a one-off loan of up to \$2 million in short-term bridging finance for RAL.
2. We have provided a set of talking points at **Annex One**. This includes general introductory talking points and further talking points on the proposal to ensure the continued operation of the ski field at Mt Ruapehu.



Annex One: Talking points

- I am seeking you note the proposal that Kānoa – Regional Economic Development & Investment Unit (Kānoa – RDU) lead negotiations with the major creditors of Ruapehu Alpine Lifts Limited (RAL).
- I am also seeking your agreement to establish a one-off loan of up to \$2 million in short-term bridging finance for RAL to ensure RAL continues to operate, while sufficient time is available for negotiations between the major creditors to conclude and the proposal to be considered by the Voluntary Administrators (the VA).

Background

- RAL has faced significant financial challenges over the last three years due to COVID-19 restrictions, domestic travel restrictions (in 2020 and 2021), a structure which makes raising funding difficult, and a very poor 2022 ski season due to unfavourable weather conditions. These adverse trading conditions have severely impacted RAL's financial position.
- 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, and on 17 August 2020 approved an additional \$5 million loan for RAL operating expenses. These loans have been fully drawn down.
- Additional major creditors of RAL are ANZ (approximately \$13 million), and the Bondholders (\$14 million collectively):
 - Tuwharetoa (\$9.5 million),
 - Taupō District Council (\$1 million),
 - Bay of Plenty Community Trust (\$1.5 million),
 - Māori Investments (\$1 million),
 - Atihau-Whanganui Inc (\$500,000) and;
 - Ruapehu District Council (\$500,000 loan).
- The ski field is a key contributor to the economy of the Ruapehu district. Related businesses, such as accommodation and food service businesses, and rental and hiring businesses, rely on patronage from visitors to the ski field.
- On 5 October 2022 delegated RED Ministers declined a request from RAL for additional Crown funding of between \$^{Commerc} and \$^{Commerc} million, based on advice from Kānoa – RDU officials that RAL was not commercially viable in its current form.
- RAL entered into Voluntary Administration on 11 October 2022, owing creditors an estimated \$45 million.
- The Voluntary Administrators (the VA) has proposed that the Crown provide RAL with further funding, around \$^{Commerc} million until 1 March 2023. This funding makes no provision for the ongoing operations of the ski field past the summer maintenance season. The VA has made no proposal regarding the long-term operation of the ski field.



- Kānoa – RDU officials believe that in the absence of any clear alternative and additional funding, the only option for the VA is the liquidation of RAL. Commercial Information
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Commercial Information

Proposal to ensure the continued operation of the ski field at Mt Ruapehu

- I would prefer for the Bondholders to preserve all, or part, of their capital. The Bondholders are community trusts, iwi organisations and local government authorities. The impact of this debt would be significant for their balance sheets, and the closure of the ski field would likely disproportionately impact their ability to gather revenue.
- Officials believe if ANZ and the Crown, were prepared to write off or compromise a substantial part of the debt owed by RAL, they could table this proposal with the VA on the basis that a new entity acquired the assets of RAL, assumed the obligations owed to the Bondholders and unsecured creditors, and raised new capital from the life pass holders.
- Officials consider there is a realistic chance that ANZ will agree to write off all, or some, of its debt, and that life pass holders will be able to raise the required capital.
- I believe this option represents a genuine proposal to support the continued operation of the ski field at Mt Ruapehu, and the associated community and regional benefits.
- I note that agreeing to this proposal would mean that the Crown, (through asset holding company Crown Regional Holdings Limited), would need to write-off \$15 million in loans to RAL.
- I propose Kānoa – RDU lead the negotiations with the two other major creditors, ANZ and the Bondholders, and then jointly present this proposal to the VA. Kānoa – RDU is best placed to do this because it already has commercial relationships with many of the impacted parties and the need to move with haste is paramount.
- Bridging finance will be required to deliver this outcome. I seek \$2 million (to be equally matched by ANZ) to provide sufficient working capital to retain the RAL management team and conclude this transaction. Kānoa – RDU officials intend to negotiate for the bridging finance (if agreed) to be confirmed by the VA Commercial Information
Commercial Information
- If Kānoa – RDU is unable to get agreement to this proposal from ANZ, then it will not proceed.

Implementation

- Given the fast-moving nature of commercial negotiations, flexibility and speed may be required. I propose that Cabinet agree to delegate the Minister of Finance and the Minister of Economic and Regional Development decision making authority on the final form of the deal.
- If negotiations are not successful, I will update Cabinet on the next steps.



Annex Two: Back pocket talking points

What happens to the ski field if RAL does go into liquidation?

- In a liquidation scenario, a buyer would be sought and they would likely continue operating the ski field as a tourism destination, but with a likely lag between purchase and the operation recommencing, adding pressure on the related businesses and community.
- If no buyer was found, the ski field would cease to operate.

If there's no ski field in operation, who cleans up the infrastructure left behind by RAL?

- An existing concessionary agreement between RAL and the Department of Conservation for RAL to operate on Whakapapa and Tūroa includes a 'make-good' clause.
- If this concession was not extended to any new buyer, or if a buyer was not found, RAL would be responsible for fulfilling the make-good clause, including removing all infrastructure from Tongariro National Park and remediating the land.
- Initial estimates of fulfilling the make-good clause stand in excess of \$^{Commer} million; in the event RAL were unable to fulfil this, this liability may fall to the Crown.

Why should we do this?

- Commercial Information
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- The ski field has, to date, played a significant role in the Ruapehu regional economy, so the liquidation of RAL would mean a significant employer and contributor to the local economy will be lost.
- Commercial Information
Commercial Information This option mitigates the impact to the Bondholders, and helps support the local economy.

Is there a risk that this sets a precedence?

- If this is successful it will be others that refloat the company not the Crown – we are just providing some support for transition.

Was the "Sky Waka" just a massive white elephant?

- All investments made through the PGF, as through other government funds, are subject to a strenuous and rigorous due-diligence process – including the Sky Waka. The Sky Waka was completed in 2019; in 2020 we were facing an international pandemic. It is my hope that, as we see tourism pick up again in New Zealand, the Sky Waka gets the patronage it deserves.
- During 2020 the Sky Waka made a substantial contribution to RAL's revenues.



Why should we continue to prop up a business model that climate change is rendering unsustainable?

- The importance of the ski field to the local community and businesses is undeniable. There is also no question that climate change is impacting weather-dependent businesses, such as ski fields.
- However, the Central Plateau has more to offer than just snow. The Tongariro Crossing has long been considered one of the best one-day hikes in New Zealand. Other hikes and cycle trails in the area offer tourists other fantastic experiences of our great outdoors. For those less able to scale a mountain by foot or wheel, the Sky Waka offers incredible views that cannot be experienced anywhere else in the world.
- While the immediate focus of any new entity formed to take over from RAL may be on the upcoming winter seasons, I would hope that it also looked to how to capitalise on these and other year-around attractions which the maunga offer, so that the benefits of visitors to the mountain can be experienced by the local economy year-round.

Under this option, would Government have any say in how the new entity runs the business?

- Kānoa – RDU Officials have strong relationships with all of the parties involved and are well positioned to continue to offer trusted commercial advice during the proposal process. Under this proposal, the ownership is likely to pass to the Bondholders and life members. The bondholders are community trusts, iwi organisations and local government entities. However, under the proposal the Crown will be totally out of the operations of the new company, meaning that ongoing influence is unlikely