

AIDE MEMOIRE

Proposed Talking Points for Cabinet oral item: Update on Government support for the continued operation of the ski fields at Mt Ruapehu

Date:	25 November 2022	Priority:	Urgent
Security classification:	In Confidence	Tracking number:	2223-1954

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	General Manager, Strategy, Planning & Performance	Privacy of natural persons	Privacy of natural persons	

The following departments/agencies have been consulted
Department of Prime Minister and Cabinet (Policy Advisory Group), Department of Conservation, Te Arawhiti

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 Withdrawn |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 oral item at *Cabinet Update on Government support for the continued operation of the ski fields at Mt Ruapehu* on 28 November 2022.

Privacy of natural persons



Robert Pigou

Deputy Chief Executive and Head of Kānoa – Regional Economic Development & Investment Unit

Ministry of Business, Innovation and Employment

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Background

1. On 31 October 2022, Cabinet agreed to Kānoa – Regional Economic Development & Investment Unit (Kānoa – RDU) leading 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 fields at Mt Ruapehu and protect the investment of Bondholders. You were invited to report back to Cabinet following initial discussions to seek decisions on the final form of the deal [CAB-22-MIN-0477 refers].
2. Kānoa – RDU officials have undertaken discussions regarding the potential solution with the major creditors, ANZ Bank New Zealand Limited (ANZ) and the Bondholders, as well as with iwi that have connections to Mt Ruapehu.
 - a. ANZ responded within 24 hours, agreed to follow the Crown’s lead and also forego the debt owed to it by RAL.
 - b. The Bondholders were appreciative of the proposal and supportive.
 - c. Tūwharetoa (Bondholders) – the Head of Kānoa – RDU spoke with the Chief Executive Officer of the Tūwharetoa Māori Trust Board, as a representative of the Trust which hold the Bonds, who expressed his appreciation for the proposal from

the Crown. Tūwharetoa was keen to work with Kānoa – RDU as alternative commercial arrangements were progressed.

- d. Ngāti Rangī (Bondholders) – the Head of Kānoa – RDU spoke with the Chief Negotiator for Ngāti Rangī, who appreciated the update and was keen to be informed as developments unfolded.
 - e. Ngāti Ueunuku and Ngāti Hauā (not Bondholders) – appreciated being informed about the Government support for the local community before it was made public.
3. Kānoa – RDU understands that the Voluntary Administrator (the VA) has received expressions of interest from third parties. Kānoa – RDU officials are not certain if these parties have expressed interest in purchasing the RAL entity to operate the existing ski field as a going concern or making a purchase for the assets only. The identity of these parties is not fully known by Kānoa – RDU, **Commercial Information**
 4. Kānoa – RDU officials wrote to the VA on Thursday 17 November 2022 to identify the extent of support from Life Pass Holders for the proposal. The VA sent Life Pass Holders a survey on Friday 18 November 2022. The Head of Kānoa – RDU spoke to and left messages for representatives from iwi that have connections to Mt Ruapehu, and the two local Mayors prior to the survey being made public.
 5. At the deadline of close of business on Thursday 24 November 2022, 4,494 of the estimated 11,000 active Life Pass Holders who received emails from the VA had responded to the survey. Of those, 65 per cent (2,937 Life Pass Holders) responded that they were willing to contribute \$2,500 now and a further 2,614 Life Pass Holders responded that they were willing to contribute \$250 per annum in the next two or three years. This represents a potential \$7.34 million now and \$0.65 million per annum of new funding from Life Pass Holders.
 6. Additionally, the VA ran a parallel survey which was sent to over 100,000 people and open to the general public, testing the willingness of respondents on capital raising initiatives, such as purchasing a life pass membership, purchasing a discounted five-year season pass or making a donation to a new entity. As at 5pm Thursday 24 November 2022, around 10,000 responses had been received, with 7,404 individuals indicating a willingness to invest in some way, representing a potential \$18.6 million¹. Additionally, ten of the forty-seven ski clubs on the mountain have made offers of contributions totalling \$0.5 million.
 7. The survey results have not yet been released publicly, but PwC will likely release the results early next week. Kānoa – RDU officials believe the headline result of the survey will be that there is sufficient financial support from Ruapehu stakeholders to “save the mountain”.

¹ 1612 people indicated they were willing to purchase a new life pass for \$5750, (total \$9.27 million); 333 LPHs indicated they would pay \$3000 to transfer an existing life pass to a family member (total \$1 million); 3716 people indicated they were willing to buy a discounted 5 year season pass for \$2000 (total \$7.43 million); and 1743 people indicated they would be willing to make a donation to a new entity (total \$0.89 million).



8. You will update Cabinet on Monday 28 November 2022 on the proposal to date and the response from ANZ, Bondholders, iwi and Life Pass Holders. An oral item gives you the flexibility to update Cabinet on the emerging situation, given the short period of time between the deadline for responses Life Pass Holders and the Cabinet meeting.
9. You intend to provide Cabinet with a comprehensive report back in December, when the structure of the final deal emerges (for example third parties have expressed interest in obtaining shareholdings in the new company).
10. Kānoa – RDU officials have provided a set of talking points at Annex One. This includes general introductory talking points, talking points on the proposal to ensure the continued operation of the ski fields at Mt Ruapehu, the survey response from Life Pass Holders and the general public, next steps and information about the options to reduce the Crown's liability in the event a new entity is unable to meet the "make good" provisions.

Annex One: Talking points

- On 31 October 2022, Cabinet agreed to Kānoa – RDU officials leading 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 fields at Mt Ruapehu and protect the investment of Bondholders, and invited me to report back to Cabinet following initial discussions to seek decisions on the final form of the deal. [CAB-22-MIN-0477 refers].
- This update covers the proposal to date and the response from Life Pass Holders. I intend to provide Cabinet with a comprehensive report back in December, when the structure of the final deal emerges.

The proposal

- Following Cabinet's agreement, Kānoa – RDU officials moved swiftly to discuss the opportunity with ANZ, Bondholders and iwi.
- Following negotiations, a potential solution emerged which aligns with that discussed at Cabinet on 31 October 2022. The two key elements of the proposal are:
 - Asset transfer – ANZ and Kānoa – RDU (acting on behalf of Crown Regional Holdings Limited (CRHL)) would release their respective securities and consent to all of the related assets of RAL being transferred to a new entity (effectively writing off their combined \$28 million of historical debt provided to RAL). ANZ has agreed to this.
 - Life Pass Holder Support - The new entity would agree to honour the life passes of those Life Pass Holders that pay a transfer fee and agree to pay future levies to fund ongoing maintenance and capital expenditure.
- Life Pass Holder support would be in the form of a transfer fee of \$2,500. This would enable the life pass to transfer to the new entity. Life Pass Holders would also be asked to pay an annual maintenance levy of \$250 for the next two or three years. The annual levy would be enforceable through a standard subscription model. Failure to pay would result in the life pass becoming void.
- The current estimate of funding required to restart the skiing business and Sky Waka gondola at Mt Ruapehu is between \$15 million to \$20 million. This level of funding would ensure the new entity has sufficient funds to continue to operate in the longer term, and to meet outstanding rescue finance costs and deferred maintenance that is required for the business to continue to operate.

Response from Life Pass Holders

- Following discussion and agreements with the other major creditors, Kānoa – RDU officials wrote to the VA on Thursday 17 November 2022 to request a survey to identify the extent of support from Life Pass Holders for the proposal. The survey request was sent to Life Pass Holders on Friday 18 November 2022 and they had until Thursday 24 November 2022 to respond.
- Additionally, the VA ran a parallel survey which was open to the general public, testing the willingness of respondents on capital raising initiatives, such as purchasing a life pass membership, purchasing a discounted five-year season pass or making a donation to a new entity.

- At the close of business on 24 November 2022:
 - 4,425 of the estimated 11,000 active Life Pass Holders who received emails from the VA had responded to the survey.
 - A further 10,016 people had responded to the VA's general survey.
 - Of the Life Pass Holders, 65 per cent (2,937 Life Pass Holders) responded that they were willing to contribute \$2,500 now, and a further 2,614 Life Pass Holders responded that they were willing to contribute \$250 per annum in the next two or three years. This represents a potential \$7.34 million now and \$0.65 million per annum of new funding from Life Pass Holders.
 - Around 10,000 responses had been received, with 7,404 individuals indicating a willingness to invest in some way, representing a potential \$18.6 million². Additionally, ten of the forty-seven ski clubs on the mountain have made offers of contributions totalling \$0.5 million.
 - This represents a total potential commitment of \$26.44 million.
- This level of response indicates there is some support for the proposal amongst Life Pass Holders, and additional support from other members of the public.
- While I am confident that the survey of Life Pass Holders is a fair representation of the genuine response from Life Pass Holders, I am less confident in the survey of the general public. Kānoa – RDU officials believe it will be difficult to confirm the robustness of these results without a formal proposal seeking binding commitments being put to these members of the public.

Potential Next Steps

- The level of support from Life Pass Holders is lower than the amount required. The support from other members of the public could bolster this, but given it is less certain, without further investigation, this cannot be relied on. Therefore, I would like to test your views on next steps. There are essentially two options available:
 - a. Agree to a phased approach that would first ensure the indications of support are a genuine and firm proposal. This would be agreed and submitted to creditors and Life Pass Holders by 16 December 2022. Commitments to fund would be in January and actual cash would not result until March 2023.
 - b. Agree to conclude efforts to support continued operation of the ski fields given Life Pass Holders were not able to raise the amount required. This option would see the VA move to liquidate RAL.

² 1612 people indicated they were willing to purchase a new life pass for \$5750, (total \$9.27 million); 333 LPHs indicated they would pay \$3000 to transfer an existing life pass to a family member (total \$1 million); 3716 people indicated they were willing to buy a discounted 5 year season pass for \$2000 (total \$7.43 million); and 1743 people indicated they would be willing to make a donation to a new entity (total \$0.89 million).

Phased approach

- Despite the level of support from Life Pass Holders being lower than the amount required to provide all of the capital for a new entity, I believe it may be possible for third parties, either iwi or other interested parties, to fill this funding gap to ensure the new entity has the \$15-20 million required to restart the skiing business and Sky Waka gondola at Mt Ruapehu.
- I believe that a phased approach would be necessary to ensure the indications of support from the general public are genuine and to present a credible, defensible position to Life Pass Holders and other investors.
- The first step would be verifying the level of support from the general public.
- Kānoa – RDU officials could undertake focussed discussions with iwi and Te Arawhiti about the opportunity to invest in the new entity and influence the selection of Directors through shareholdings.
- This phased approach would take longer to transact than originally anticipated, due to the time required to verify the indications of support. Kānoa – RDU officials estimate the transaction (e.g. cash paid by investors) may not be concluded until 31 March 2023.
- The bridging finance provided to RAL [CAB-22-MIN-0477 refers] is expected to only provide sufficient funding until early next year. Without additional funding, the transaction may not be concluded. Kānoa – RDU will work with the VA to ascertain the amount of additional funding that would be required to conclude the transaction, initial estimates are around \$^{Commercial} million.
- I note the importance of the ski field to the local community and businesses, ^{Commercial Information}
Commercial Information
- I believe this option still represents an opportunity to support the continued operation of the ski fields at Mt Ruapehu, and the associated community and regional benefits.

Conclusion of Crown support

- However, Cabinet may decide that no further time or support be provided. There is a risk in this instance that it appears the Government is walking away from \$17 million of citizen funding, after a public commitment to try and find a solution. However, the unreliability of the survey results may make this stance untenable.
- Kānoa – RDU officials understand the VA is permitting third parties who have expressed an interest in investing in the ski fields at Mt Ruapehu to undertake due diligence. The interest (e.g. shareholding or asset purchase) and identity of these parties is not fully known by Kānoa – RDU officials, **Commercial Information**
- It's likely that the next step will be the liquidation of RAL. The VA will handle this process and Kānoa – RDU will have no involvement.
- In a liquidation situation, CRHL will be required to write off all or part of the debt owed by RAL.

- If another operator is not found, Department of Conservation (DOC) will be left with the problem of removing the infrastructure from the mountain. DOC have estimated the potential liability as between \$^{Comme} - \$^{Comme} million to fulfil the make good clause.
- Subject to our discussion over the above, I will report back to Cabinet in December with further information about the process for verifying the survey results and the funding required to conclude the transaction.

Reducing the Crown's liability in the event a new entity is unable to meet the "make good" provisions

- RAL operate the ski fields under two concession agreements granted by the Minister of Conservation. The Whakapapa concession expires in 2046 with rights of renewal of up to 30 years, and the Tūroa concession expires in 2042 with rights of renewal of up to 25 years. Under the terms of the concessions, RAL is responsible for removing all infrastructure from Tongariro National Park and remediating the land (make good clause). The Department of Conservation (DOC) could terminate the concessions, triggering the make good clause, if RAL no longer operates. DOC have estimated the potential liability as between \$^{Comme} - \$^{Comme} million to fulfil the make good clause.
- Kānoa – RDU officials have considered if there are opportunities to mitigate the risk of the make good liability falling to the Crown in the event of a default by the new entity. Kānoa-RDU officials have identified four possible options, however each option has significant drawbacks that are likely to make the current proposal unworkable.
 - Requiring a bond – this could be immediate or built up gradually.
 - Kānoa – RDU officials advise this is likely to make the deal unworkable, given the sensitives around raising capital.
 - In an ideal operating environment, the seasonality of the business, reliance on the weather and high fixed operating costs (e.g. non-discretionary maintenance), mean that a "float" of capital may be required to be retained year-on-year so that the entity can remain solvent during lean years. Therefore, even a gradual build up of a bond is likely to impact the ongoing ability of the entity to remain solvent.
 - Requiring insurance. A new operator may be able to insure the risk that no future replacement operator could be found such that the future make good obligations may be triggered.
 - The DOC commercial team advise there is a "bank surety" product that will provide this insurance (which is used by some mining companies). DOC have been advised the rate of this product is ^{Comm} % of the amount insured.
 - Kānoa – RDU officials note that insurance costs (estimated to be \$^{Commerc} - \$^{Commerc} million per annum, based on DOCs estimated liability of \$^{Comme} - \$^{Comme} million) would reduce the ability of the entity to maintain liquidity.
 - DOC could seek security over the operator's assets. This would enable DOC to control whether the assets are removed or transferred to a new operator.
 - This is likely to have a significant impact on the new entity's ability to raise further capital (such a bank loans), if security is

- unavailable, noting that a major asset (the Sky Waka gondola) is already secured to the Bondholders.
- Require any secured creditor to make good the land when/if it removes a particular asset.
 - As above, this is likely to significantly reduce the new entity's ability to obtain secured finance, and have limited real benefit.
 - There are significant downsides to all of these options, and they are likely to have a detrimental impact on the success of this proposal, or any future alternative proposal.