

## AIDE MEMOIRE

### Proposed Talking Points for Cabinet oral item: *Update on RAL and report back to Ministers on questions raised at Monday 28 November CAB*

<b>Date:</b>	2 December 2022	<b>Priority:</b>	Urgent
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	2223-2058

<b>Information for Minister(s)</b>
Hon Stuart Nash <b>Minister for Economic and Regional Development</b>

<b>Contact for telephone discussion (if required)</b>				
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	

<b>The following departments/agencies have been consulted</b>
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 Withdrawn           |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 *an update on RAL and report back to Ministers on questions raised at Monday 28 November CAB* on 5 December 2022.



Robert Pigou

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

Ministry of Business, Innovation and Employment

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### Executive Summary

1. The Ruapehu Alpine Lifts (RAL) Life Pass Holders have not provided sufficient levels of financial support for a restructured RAL under a new entity (NewCo).
2. The expressions of financial support given to the Voluntary Administrator (VA) from their separate survey to non-RAL Life Passholders, while significant, have yet to be fully tested and Kānoa – Regional Economic Development & Investment Unit (Kānoa – RDU) takes only limited comfort from these.
3. The VA has not been able to elicit any meaningful indications of interest in RAL and/or its assets from parties with the ability to conclude a transaction quickly. Commercial Information  

4. The VA currently only has sufficient funding from Crown Regional Holdings Limited (CRHL) and ANZ Bank New Zealand Limited (ANZ) to operate through until the end of December 2022. Commercial Information  

5. In the absence of any further bridging funding from the Crown, the VA has confirmed that liquidation in December 2022 is the only course of action open to him.

6. RAL being placed in liquidation would see the staff critical to the maintenance of the assets on the mountain, and enable it to operate next winter, released. The hiring of staff for any future operations would be problematic, and they would be unlikely to have the necessary skills required (and potential Health and Safety issues).
7. RAL being placed in liquidation is also expected to have a significant detrimental impact on the economies of local communities especially Ohakune.
8. There are two options for consideration; both carry risk:
  - a. Further bridging support from the Crown to allow the establishment of NewCo, preparation of a Funding Proposal, and procurement of funding from the Life Pass Holders and others.
  - b. No further support and RAL is placed into liquidation.
9. The remediation costs on the mountain are significant, and under a liquidation scenario, are unlikely to be assumed by any party prepared to take over a part, or all, of the RAL operations on the mountain. This would ultimately see the liability falling back on the Crown, via the Department of Conservation (DoC). The timeframes for this are not certain but are unlikely to be immediate.

## Background

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*The level of support from Life Pass Holders is less than required to set up a new entity*

10. On behalf of the Cabinet, on 18 November 2022, Kānoa – RDU requested the RAL VA to conduct a survey of the RAL Life Pass Holders to ascertain whether they would be prepared to participate in raising funding for a new entity. That NewCo would be established to continue running the RAL operations on Mt Ruapehu.
11. Kānoa – RDU's estimate is that \$15 to 20 million would be required to establish NewCo with sufficient cash to attract capable directors, address deferred maintenance and restart the skiing business and SkyWaka gondola at Mt Ruapehu. Life Pass Holders were asked if they would pay a transfer fee of \$2,500 to use that Life Pass to ski on Mt Ruapehu under the operation of NewCo. In order to raise the necessary funds, this would require a positive response from at least 6,000 Life Pass Holders (or a little over half of the estimated 11,000 active Life Pass Holders).
12. The survey of RAL Life Pass Holders closed 24 November 2022. On Monday 28 December 2022 you updated Cabinet that the results of the survey indicate the level of support from Life Pass Holders is considerably less than hoped for:
  - 4,494 Life Pass Holders responded to the Kānoa – RDU Life Pass Holder Support Form.
  - 2,937 indicated that they would support a new entity operating the Turoa and Whakapapa ski fields, including the SkyWaka gondola, by paying a \$2,500 transfer fee to be able to use their life pass to continue skiing on Mt Ruapehu, under the operation of the new entity.
  - 2,614 Life Pass Holders indicated that they would pay a future levy of up to \$250 per year for two or three years to fund ongoing capital maintenance and development. This would amount to \$0.65 million per annum of funding for a new entity if the commercial transaction was implemented.

13. This represents a potential \$7.34 million now, and \$0.65 million per annum of new funding from Life Pass Holders – considerably less than the estimated \$15-20 million needed to restart the skiing business and SkyWaka gondola at Mt Ruapehu.
14. A separate, independent, survey of the general public was also undertaken by the RAL VA. The RAL VA has advised that this survey was sent to over 100,000 other users of the mountain, included in RAL’s email database. Where an individual had answered the Kānoa – RDU survey, their responses have been removed from the Administrators’ survey results. While the separate survey indicates there is possibly potential for additional funding to be raised from this group (who are not existing RAL Life Pass Holders), further investigation would need to be undertaken to assess whether these survey results could be materialised into actual funding commitments and, given the broad nature of the survey, this source is considered less certain to materialise than from the existing RAL Life Pass Holders.
15. The results of the separate survey by the RAL VA were:
- More than 6,500 respondents indicated they would be willing to purchase either a life pass at an indicative price of \$5,750 or a discounted five-year season pass at an indicative price of \$2,000 from a new entity operating the ski fields.
  - Approximately 5,000 people indicated they would be willing to make donations to a new entity to preserve the operation of the ski fields. The VA’s estimate that these could generate a further \$0.9m of funding outside of the Life Pass Holders.

## Commercial Information

16. Commercial Information

17. Commercial Information

18. Commercial Information

19. Commercial Information

20. Commercial Information

*Officials have continued to engage with interested parties*

21. On 30 November 2022, Kānoa – RDU officials met with representatives of Tūwharetoa, together with the VA and RAL CEO, in Taupo.

22. At that meeting, the current position was outlined, and specifically the need from the VA for additional funding if liquidation of RAL, come 16 December 2022 (the VA’s proposed date of the watershed meeting) was to be avoided; Commercial Information

## Commercial Information

23. The Crown's current position regarding funding for RAL was made clear.

24. The response from Tūwharetoa was:

- Commercial Information
- Commercial Information ;
- The importance of Mt Ruapehu to them;
- Commercial Information
- Commercial Information
- It is Tūwharetoa's clear desire to see the Crown involved in any new structure/NewCo.

25. Further time would be needed to explore an avenue for Tūwharetoa and the Bondholders to be involved in any new structure via NewCo. This would require further funding.

26. Commercial Information

### *Further funding is required to avoid liquidation*

27. The RAL VA requires funding of \$<sup>Commercial Information</sup> per month. These costs are to maintain a base level of staff to maintain the assets, electricity and insurance etc., and are currently being funded by way of a bridging loan of \$4 million provided equally by CRHL and ANZ. The Administrators currently have sufficient funding only through until the end of December 2022.

28. The bridging loan was provided to allow time for the Crown's proposal to seek confirmation of the indicated significant interest from RAL Life Pass Holders translating into actual funding commitments, sufficient for NewCo to take over the RAL assets and business operations.

29. Without further funding support to explore a sale or restructuring option for RAL, the VA has indicated they will have no option but to recommend to creditors at the Watershed meeting

that RAL be placed into liquidation. However, it should be noted that legally the VA has until 9 May 2023 to call for and hold the watershed meeting.

30. The RAL VA has indicated the date for the watershed meeting of creditors as being 16 December 2022.

### *Liquidation is likely*

31. While in Voluntary Administration, creditors are unable to enforce their rights (e.g. under security held). However, this changes once in liquidation.
32. Once in liquidation, the liquidator would engage with the secured creditors in relation to action to be taken re their secured assets. **Commercial Information**
33. **Commercial Information**
34. On liquidation, either the liquidator will disclaim the DoC licences that entitle RAL to operate on the mountain or DoC will terminate the licences. On termination of the licences control of the ski fields will fall to DoC. DoC would then need to consider options such as placing the ski fields into a “care and maintenance” regime while it considered its options. **Commercial Information**
35. A significant issue is the remediation obligations under the concessions granted to RAL by DoC. These obligations arise if the concessions are terminated and there is no one operating the ski field assets on Mt Ruapehu. RAL has no ability to meet those remediation obligations, and if the VA places RAL in liquidation then DoC could terminate the concessions or the liquidator could disclaim the concessions, and responsibility for these assets would likely fall back on the Crown, via DoC.
36. DoC have estimated the potential liability as between \$ **Commercial Information** to **Commercial Information** million to fulfil the make good clause.

## Options

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37. There are two key options:

1. **Option 1:** Crown advances further bridging funding (under the VA there is a cash burn of around \$ **Commercial Information** per month). This funding would enable the VA to maintain the assets, retain the management team, and allow limited operations on the mountain. During this period a detailed Funding Proposal would be produced to go to Life Pass Holders, and others, to raise the minimum of around \$15 million required to provide NewCo with the funding base to operate for the next 12 to 24 months.

A Season Pass campaign, commencing in April, could also be considered which, based on previous campaigns, could raise at least \$<sup>Comme</sup> to \$<sup>Comme</sup> million.

Three months might be sufficient to enable this to be completed. Officials suggest it prudent to plan for up to five months as there are likely to be delays in such a process.

Therefore \$5 to 6 million is recommended to enable establishment of NewCo, the multiple parties needing to be dealt with, and to reflect the Christmas / New Year period when there will be limitations on the ability to consult with iwi, management and professional advisors.

**Commercial Information**

2. **Option 2:** Crown does not advance further bridging funding and liquidation commences on 16 December 2022. This scenario could possibly lead to three possible scenarios:

a) Third parties seek to acquire some of the moveable assets. Secured creditors, especially Bondholders are unlikely to entertain this.

b) **Commercial Information**

c) The Crown (via DoC) assumes control of the remaining assets of RAL (in liquidation).

a. Crown/DoC would be responsible for the care and maintenance costs (amount unknown) to preserve the non-Sky Waka assets.

b. **Commercial Information**

38. Te Arawhiti notes that the Crown is committed to collective negotiations with the iwi with interests in the national park (including Ngāti Tūwharetoa, Ngāti Rangī, Uenuku, Ngāti Hāua). **Negotiations**

39. **Negotiations**

**Risks**

40. Both options carry risk.

41. Remediation costs are a risk in the case of both options. Removal or “make good” costs, are estimated by DoC to be \$<sup>Comme</sup> m to \$<sup>Comme</sup> m. However, this contingent liability may not be activated in the short term even under the liquidation option. **Commercial Information**

## Commercial Information

### *Option 1 – further Crown support*

#### 42. Confidential advice to Government

43. The fundraising process may not be successful. Although the surveys have indicated there is a good level of general support, with 28 per cent of Life Pass Holders responding positively which equated to \$7.2 million but the interest of others has yet to be fully tested.

44. Providing further funding by the Crown could result in an expectation of even further funding come May 2023, if sufficient funding to operate NewCo has not been achieved.

### *Option 2 – Liquidation occurs*

45. DoC becomes responsible for infrastructure on the mountain.

46. Placing RAL in liquidation could well see the loss of key staff with the experience needed for the operations on the mountain.

47. Care and maintenance costs could be greater than the \$5.5 million obligation under Option 1. Commercial Information

48. Commercial Information



## Annex One: Talking points

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### Current Position

- Current “bridging loans” from the Government and ANZ of \$4 million only provide sufficient funding to maintain RAL management team to 31 December 2022.
- Commercial Information [REDACTED]
- Commercial Information [REDACTED].
- The Voluntary Administrator (VA) has not been able to elicit any meaningful indications of interest in RAL and/or its assets from parties with the ability to conclude a transaction quickly. Commercial Information [REDACTED]
- Commercial Information [REDACTED]
- Commercial Information [REDACTED]
- Absent additional bridging funding the VA’s only course of action is liquidation in December 2022.

### Probable Scenario

- The VA (PwC) will call a Watershed meeting (meeting of creditors) for 16 December. The VA will inform the meeting he has no funding to continue running the RAL business and liquidation is the only outcome. But the liquidator (PwC) will still not have funding so will sell available moveable assets;
  - The moveable assets would be snow ploughs, groomers, snow mobiles and the Sky Waka carriages.
  - It is highly unlikely the bondholders will agree to the sale of the carriages.

Any sale of assets would have to be done with security holder agreement.

- Commercial Information [REDACTED]
- In a liquidation DoC can terminate the Concessions, in which case the assets will come under DoC’s control; or, the liquidator can disclaim the Concessions. In either case the

assets will come under DoC's effective control. And security holders and other interested parties will need to deal with DoC in relation to access to the mountain.

- It is probable that the liquidator will disclaim the concessions.
- DoC/Crown will then be left with the infrastructure assets on the mountain, <sup>Commercial Information</sup>  
**Commercial Information**
- In liquidation, DoC will likely incur care and maintenance costs from the point at which it takes control (either through disclaimer or termination of the Concessions). Those costs are not known. The Crown will have the option of facilitating skiing and investigating (with iwi and other stakeholders) other options for the mountain. If no long term option emerges, then the Crown may come under significant pressure from iwi to rehabilitate.

## Options

- There are two key options:
3. **Option 1:** Crown advances further bridging funding (under the VA there is a cash burn of around \$<sup>Commercial Information</sup> per month). This funding would enable the VA to maintain the assets, retain the management team, and allow limited operations on the mountain. During this period a detailed Funding Proposal would be produced to go to Life Pass Holders, and others, to raise the minimum of around \$15 million required to provide NewCo with the funding base to operate for the next 12 to 24 months.

A Season Pass campaign, commencing in April, could also be considered which, based on previous campaigns, could raise at least \$<sup>Comm</sup> to <sup>C. min</sup> million.

Three months might be sufficient to enable this to be completed. Officials suggest it prudent to plan for up to five months as there are likely to be delays in such a process.

Therefore \$5 to 6 million is recommended to enable establishment of NewCo, the multiple parties needing to be dealt with, and to reflect the Christmas / New Year period when there will be limitations on the ability to consult with iwi, management and professional advisors.

### Commercial Information

4. **Option 2:** Crown does not advance further bridging funding and liquidation commences on or about 16 December 2022. This scenario could possibly lead to three possible scenarios:
  - d) Third parties seek to acquire some of the moveable assets. Secured creditors, especially Bondholders are unlikely to entertain this.
  - e) **Commercial Information**

- f) The Crown (via DoC) assumes control of the remaining assets of RAL (in liquidation).
- a. Crown/DoC would be responsible for the care and maintenance costs (amount unknown) to preserve the non-Sky Waka assets.
  - b. **Commercial Information** [REDACTED]
- Te Arawhiti has asked Kānoa – RDU officials to note that the Crown is committed to collective negotiations with the iwi with interests in the national park (including Ngāti Tūwharetoa, Ngāti Rangī, Uenuku, Ngāti Hāua). **Negotiations** [REDACTED]
  - **Negotiations** [REDACTED]

## Risks

- Both options carry risk:

### *Option 1 – further Crown support*

1. **Confidential advice to Government** [REDACTED]
2. The fundraising process may not be successful. Although the surveys have indicated there is a good level of general support, with 28 per cent of Life Pass Holders responding positively which equated to \$7.2 million, but the interest of others has yet to be fully tested.
3. Providing further funding by the Crown could result in an expectation of even further funding come May 2023, if sufficient funding to operate NewCo has not been achieved.

### *Option 2 – Liquidation occurs*

4. DoC becomes responsible for activities on the mountain.
5. Placing RAL in liquidation could well see the loss of key staff with the experience needed for the operations on the mountain.
6. Care and maintenance costs could be greater than the \$5.5 million obligation under Option 1. **Commercial Information** [REDACTED]

## 7. Commercial Information

- Remediation costs are a risk in the case of both options. Removal or “make good” costs, are estimated by DoC to be \$<sup>C</sup> - <sup>me</sup> million. However, this contingent liability may not be activated in the short term even under the liquidation option.
- Commercial Information

### Next Steps

- Depending on what Cabinet decides today, Officials will draft a Cabinet paper to confirm decisions.