



## COVERSHEET

<b>Minister</b>	Hon Stuart Nash	<b>Portfolio</b>	Economic and Regional Development
<b>Title of Cabinet paper</b>	Government support for an alternative solution for continued operation of the ski field at Mt Ruapehu	<b>Date to be published</b>	28 February 2023

<b>List of documents that have been proactively released</b>		
<b>Date</b>	<b>Title</b>	<b>Author</b>
October 2022	Government support for an alternative solution for continued operation of the ski field at Mt Ruapehu	Office of Minister for Economic and Regional Development
31 October 2022	Government support for an alternative solution for continued operation of the ski field at Mt Ruapehu DEV-22-MIN-0477 Minute	Cabinet Office

### **Information redacted**

### **YES / NO**

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for the reasons of Commercial information and Confidential advice to Government.

**In Confidence**

Office of the Minister for Economic and Regional Development

Cabinet Economic Development Committee

**Government support for an alternative solution for continued operation of the ski field at Mt Ruapehu**

**Proposal**

- 1 This paper seeks that you note my 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. I also seek 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).

**Issues Identification**

- 2 RAL entered into Voluntary Administration on 11 October 2022, owing creditors an estimated \$45 million; including \$15 million in loans from the Crown, approximately \$13 million to ANZ, \$14 million to various community trusts, iwi organisations and local government authorities, and further debt to smaller, unsecured creditors.
- 3 Without intervention, and in the absence of a long-term proposal from the voluntary administrators, it's likely RAL will be put into liquidation with most parties losing their investments.
- 4 However, this paper presents an opportunity for the Government to support an outcome that benefits the community, without providing significant additional funding by proposing that Kānoa – RDU lead negotiations with the major creditors of RAL to negotiate a potential resolution.

**Relation to government priorities**

- 5 Regional Economic Development (RED) is a key focus for the Government's economic vision of a high wage, low emissions economy that provides economic security in good times and bad. Kānoa – RDU delivers RED by providing catalytic investment from the Regional Strategic Partnership Fund and other funds under its management into projects that directly contribute to the Government's strategic economic objectives (such as transitioning to a high wage low emissions economy, Industry Transformation Plans, Fit for a Better World; He Kai Kei Aku Ringa: The Crown-Māori Economic Growth Partnership; the Māori Economic Resilience Strategy; and the Just Transitions Partnerships) aligned with regions' economic development priorities.

- 6 The ski field is a key contributor to the economies of the Ruapehu and Taupō districts, with many people and businesses relying on the visitors the ski field attracts.

## Background

### *Ruapehu Alpine Lifts Limited (RAL)*

- 7 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 Department of Conservation to operate, and relationship agreements with 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.

- 8 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. **Commercial Information**

- 9 The ski field is a key contributor to the economy of the Ruapehu district, with tourism making up 8.5 per cent of the regional gross domestic product (GDP) in 2021 (and 13.6 per cent of regional GDP in 2019)<sup>1</sup>. Related businesses, such as accommodation and food service businesses, and rental and hiring businesses, rely on patronage from visitors to the ski field.

- 10 The winter months represent a significant proportion of domestic tourist spending in Ruapehu, compared to the level of domestic tourist spending during winter in the rest of New Zealand. From 2018-2021, approximately 42 per cent of domestic Tourism Electronic Card Transaction<sup>2</sup> spend over the year happened in the winter months in Ruapehu, compared to 23 per cent of transactions occurring during winter at the national level. It is unlikely that activities other than skiing would generate this winter business.

### *Provincial Growth Fund (PGF) loan facilities*

- 11 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. **Commercial Information**
- The Sky Waka gondola was completed in 2019 and has been in operation since.

<sup>1</sup> Source: *Regional Economic Profile - Ruapehu*. Infometrics. Retrieved 25 October 2022, from <https://ecoprofile.infometrics.co.nz/Ruapehu%2bDistrict/Tourism/TourismGdp>

<sup>2</sup> The Tourism Electronic Card Transactions present the measured electronic card transactions attributable to tourism as they are based almost exclusively on physical electronic card transactions, and do not include any other form of spending such as cash, pre-purchases or online spend.

- 12 The Sky Waka gondola is secured separately by Commercial Information [REDACTED]. The Tourism Bonds are held by 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 the Ruapehu District Council (\$500,000 loan) (collectively - the Bondholders).
- 13 On 17 August 2020, delegated RED Ministers approved an additional \$5 million loan from the PGF to ensure that the purchase of key equipment for RAL's general operations and certain non-discretionary maintenance works could occur for the summer 2020/21 maintenance programme.
- 14 Commercial Information [REDACTED]
- 15 Both PGF loans have been fully drawn down, and the Crown's combined loan exposure to RAL is accordingly \$15 million.

#### *RAL Voluntary Administration*

- 16 On 23 September 2022 Kānoa – RDU received an urgent request from RAL for Crown funding of between Commercial Information and Commercial Information million. RAL advised that if a funding commitment was not provided by the Crown, then a formal insolvency process was inevitable. Delegated RED Ministers declined the request for additional funding on 5 October 2022, based on advice from Kānoa – RDU officials that RAL was not commercially viable in its current form.
- 17 On 11 October 2022 RAL announced that PwC has been appointed as the Voluntary Administrator (the VA) following a resolution of RAL's Directors. The role of the VA is to continue to trade the business while determining the most appropriate way to maximise recoveries for creditors. However, without inventory or receivables to collect, the VA does not have cash reserves to use to allow the business to continue.

#### *The VAs proposal*

- 18 The VA has proposed that the Crown provide RAL with further funding, around \$2.500 million until 1 March 2023. The VA will also approach ANZ to contribute a similar amount. This funding will enable the company to continue in operation and undertake summer maintenance in preparation for the 2023 winter season, but makes no provision for the ongoing operations of the ski field past the summer maintenance season.
- 19 Kānoa – RDU officials believe this option would not reduce the likelihood of RAL being placed in liquidation when the summer maintenance period is complete. They believe it does not adequately consider the long-term ongoing operations of the ski field, and simply delays long-term decisions being made.

The VA has made no proposal regarding the long-term operation of the ski field.

- 20 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. Co  
Commercial Information

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

- 21 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.
- 22 Officials have advised a consortium of life pass holders is starting to form, which may be able to raise up to \$20 million and be prepared to take over the operation of RAL.
- 23 Officials believe if ANZ (approximately \$13 million) and the Crown, (through asset holding company Crown Regional Holdings Limited (CRHL), \$15 million), 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 (\$14 million) 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.
- 24 If successful, this proposal would mean the creation of an entirely new entity, made up of Bondholders and life pass holders, completely separate to the current RAL structure. This new entity would be responsible for shaping the future of tourism operations at Mt Ruapehu. The Crown would not have an ongoing role in the operations.
- 25 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.
- 26 I note that agreeing to this proposal would mean that the Crown, (through asset holding company CRHL), would need to write-off \$15 million in loans to RAL.
- 27 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.

- 28 Kānoa – RDU intend to propose a short period of time be offered for the VA (and therefore life pass holders) to accept the offer, around 4-6 weeks.
- 29 It's anticipated that this would be welcomed by the VA, as it represents an outcome where at least some creditors (the Bondholders and the unsecured creditors) are able to retain some value from their debts, and the community retains this vital business.
- 30 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 [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]
- 31 Therefore, I propose that Cabinet agree to provide a \$2 million loan to RAL, as a capital injection from the between Budget contingency.

### Analysis

- 32 If RAL is liquidated, the Crown Commercial Information [REDACTED] stands to lose its \$15 million investment in RAL. At this point and without this alternative, and somewhat innovative proposal, liquidation of RAL is looking like the most likely outcome. This proposal represents an opportunity for the Crown to mitigate the loss to the Bondholders and the community, while ensuring the Crown is in no worse position than if RAL was liquidated.
- 33 ANZ has previously demonstrated a willingness to work with RAL, including Commercial Information [REDACTED]  
[REDACTED] However, if Kānoa – RDU is unable to get agreement to this proposal from ANZ, then it will not proceed.
- 34 The Bondholders will be significantly impacted if RAL is liquidated. These are community trusts, iwi organisations and local government authorities. Given the smaller balance sheets and position in the local community of these organisations, the loss of assets plus potential reduction in revenue is likely to have a significant impact. This proposal, if accepted, mitigates the impact to the Bondholders.
- 35 The ski field has, to date, played a significant role in the Ruapehu regional economy. This is aided by the transition of the site from “ski field” to a year-round tourism destination through the opening of the Sky Waka gondola enabling year-round sightseeing and mountain biking. If the area was no longer operated, the effect on the Ruapehu regional economy would be significant. There would likely be substantial job losses, business closures and emigration. An early indicator can be seen in the reduction of the local population since the COVID-19 period, which is down by more than 20% in

July and August 2022, compared to the average across the same months in 2019-2021. I believe this proposal provides the best option for the continuation of tourism activities on Mt Ruapehu.

- 36 While in a liquidation scenario, a buyer would be likely to continue operating the ski field as a tourism destination, there is likely to be a lag between purchase and the operation recommencing, adding pressure on the related businesses and community. This proposal ensures that any transfer is completed swift, giving certainty to the community. Additionally, in a liquidation situation, local ownership is not guaranteed. This proposal would see the Bondholders and life pass holders become the owners.

### Implementation

- 37 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.
- 38 If negotiations are not successful, I will update Cabinet on the next steps.

### Wider Crown risks and liabilities

*RAL liability – potential remediation liability to the Crown* Commercial Information *plus*

- 39 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. The VA have informed DOC officials that RAL do not have the funds to fulfil the make good clause. The Minister of Conservation agreed to waive the personal liability of the voluntary administrators for the make good clause on 18 October for the period of voluntary administration. This decision does not remove RAL's liability for the make good clause.
- 40 If RAL are unable to fulfil the make good clause, the liability to do so will fall to DOC. There will be a strong expectation from iwi and the public that redundant assets are removed from the National Park and the land remediated. The VA have estimated the cost of fulfilling the make good clause to be in excess of Commercial Information million. DOC officials are currently working on their own estimate of this cost. If a new entity takes over RAL's operations, DOC would expect them to take over the liability for removing infrastructure and remediating the land. In the event the new entity is not successful, this liability may fall to the Crown if the entity is unable to fulfil the clause.

*Other concessionaires – potential remediation liability also significant*

41 Other concessions likely to be dependent on RAL's operations with infrastructure in Tongariro National Park include the Chateau, the Skotel, and many of the 54 ski club lodges. Commercial Information

[Redacted]

*Crown revenue from RAL*

42 RAL currently pays Commercial Information per cent of their gross revenue as an annual concession fee. This fee is Crown revenue. Prior to COVID-19, RAL were paying approximately Commercial Information in annual concession fees.

**Financial Implications**

43 I propose that Cabinet agree to provide a \$2 million loan to RAL as a capital injection from the between Budget contingency.

44 \$15 million loan will need to be written off by CRHL. Commercial Information

[Redacted]

**Legislative Implications**

45 There are no legislative implications associated with this proposal.

**Impact Analysis**

*Regulatory Impact Statement*

46 A regulatory impact analysis is not required for this proposal.

*Climate Implications of Policy Assessment*

47 A Climate Implications of Policy Assessment is not required for this proposal as the direct impact on greenhouse gas emissions is unlikely to be equal to or above 0.5 million tonnes CO2-e within the first ten years of the proposal period.

**Population Implications**

48 There are no specific population implications associated with this proposal.

**Treaty of Waitangi Implications**

49 The Tongariro National Park settlement process is yet to be concluded. As part of this work Kānoa – RDU officials will discuss any potential implications with officials from Te Arawhiti.



## Human Rights

50 There are no human rights implications associated with this proposal.

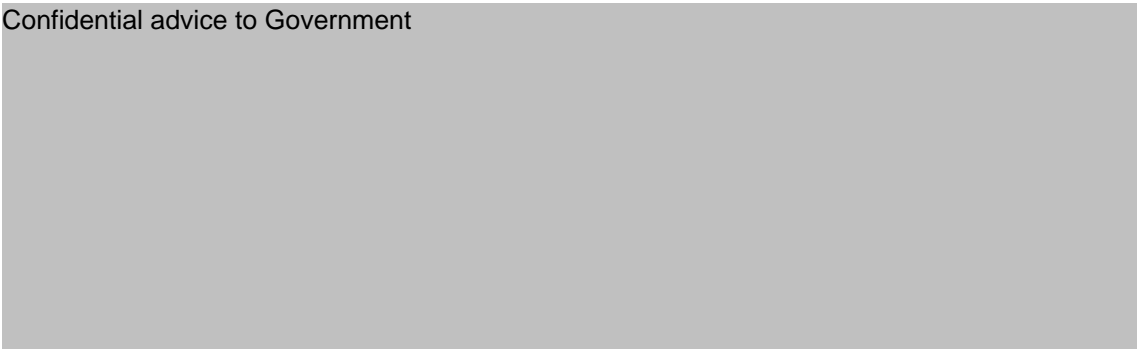
## Consultation

51 The Treasury, Department of Prime Minister and Cabinet (Policy Advisory Group) and Department of Conservation have been consulted.

52 Kānoa – RDU will keep relevant agencies briefed as negotiations proceed.

### *Treasury Comment*

53 Confidential advice to Government



## Communications

54 The details of this proposal are commercially sensitive. I do not intend to make public comment at this time.

55 When negotiations are concluded, it may be appropriate for public comment to be made. I propose the Minister of Finance and the Minister of Economic and Regional Development make decisions on public communications at the appropriate time.

## Proactive Release

56 I intend to proactively release this paper, subject to any redactions necessary to protect the commercial sensitivity of relevant parties, within 30 business days of negotiations with all parties, and any associated transactions being fully concluded.

## Recommendations

The Minister for Economic and Regional Development recommends that the Committee:

- 1 **note** that 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;
- 2 **note** that these loans have been fully drawn down;

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- 3 **note** the importance of the ski field to the local community and businesses;
- 4 **note** that additional major creditors of RAL are ANZ (approximately \$13 million) and the Bondholders (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 the Ruapehu District Council (\$500,000 loan), \$14 million collectively);
- 5 **note** that the Bondholders are community trusts, iwi organisations and local government authorities;
- 6 **note** that on 11 October 2022 RAL announced that PwC has been appointed as the VA following a resolution of RALs Directors;
- 7 Confidential advice to Government
- 8 **note** that Officials believe if ANZ and the Crown, (through asset holding company CRHL), 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;
- 9 **note** 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;
- 10 **note** that this proposal would mean that the Crown (through asset holding company CRHL) would need to write-off \$15 million in loans to RAL;
- 11 **note** that if Kānoa – RDU is unable to get agreement to this proposal from ANZ, then it will not proceed;
- 12 **agree** to pursuing this approach, with Kānoa – RDU leading the negotiations with the two other major creditors, (ANZ and the Bondholders);
- 13 **agree** that bridging finance will be required to deliver this outcome, in order to provide sufficient working capital to retain the RAL management team and conclude this transaction;
- 14 **approve** the following changes to appropriations to give effect to the policy decision in recommendation 12 above, with a corresponding impact on the operating balance and net debt:

	<b>\$m - increase/(decrease)</b>				
	<b>2022/2</b>	<b>2023/2</b>	<b>2024/2</b>	<b>2025/2</b>	<b>2026/2</b>
	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>
<b>Vote Business, Science and Innovation</b>					

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<b>Minister for Economic and Regional Development</b>					
Multi-Category Expenses and Capital Expenditure:					
Provincial Growth Fund MCA	2.000	-	-	-	-
Non-Departmental Capital Expense: Investment through Crown-owned companies					
<b>Total Operating</b>	-	-	-	-	-
<b>Total Capital</b>	<b>2.000</b>	-	-	-	-

- 15 **agree** that the proposed change to appropriations for 2022/23 above be included in the 2022/23 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
- 16 **agree** that that the expenses incurred under recommendation 13 above be charged against the Multi-Year Capital Allowance;
- 17 **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;
- 18 **Direct** the Minister of Economic and Regional Development to report back to Cabinet with next steps, if negotiations are unsuccessful.

Authorised for lodgement

Hon Stuart Nash

Minister for Economic and Regional Development