



BRIEFING

Initial options for draft Cabinet paper: Ruapehu Alpine Lifts Limited (in liquidation) (RAL) - options for government support

Date:	18 August 2023	Priority:	Medium
Security classification:	In Confidence	Tracking number:	2324-0549

Action sought		
	Action sought	Deadline
Hon Kieran McAnulty Minister for Regional Development	Discuss the contents of this briefing with officials at your convenience.	25 August 2023

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	Privacy of natural persons	✓
Josh Hercus	Principal Advisor to the DCE and Head of Kānoa	Privacy of natural persons	

The following departments/agencies have been consulted
DOC, DPMC (PAG)

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Withdrawn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

To provide you with an overview of officials' initial options for government support to be included in the RAL Cabinet paper to be considered by Cabinet on 18 September.

Executive summary

Since entering liquidation on June 2023, RAL was provided with a \$5 million loan from the government to continue operation during the 2023 ski season to allow time for liquidators to decide on the purchaser or purchasers of the business and its assets. Bids to take over the operation and assets of RAL and requests for government support are expected to be received by 31 August.

The Government's decision to support RAL is impacted by a range of complex issues including the commercial sustainability of a future operator, the cost and benefits of continued investment into the local regional economy, the Crown's obligations to Māori, the Department of Conservation's legislative requirements to undertake a robust concession process, and how long RAL can continue to operate based on current projections.

Kānoa is at the early stages of developing the following options for the future of RAL, which will be considered by Cabinet in September: provide crown support in-principal to the preferred bidder (or bidders) with Cabinet to make final decisions in February 2024, provide funding to RAL's liquidators to provide additional time for a market solution to be found, or withdraw government support.

These options are indicative and may change substantially. Officials would like to discuss the content of this briefing with you at your convenience.

Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

- a **Note** that Kānoa is developing a Cabinet paper to provide options on the next steps for Ruapehu Alpine Lifts Limited (in liquidation) (RAL).

Noted

- b **Note** that the options presented in this paper are indicative and may change substantially between now and the final Cabinet paper.

Noted

- c **Note** that there are a complex range of factors that will impact the government's options to support RAL.

Noted

d **Discuss** the contents of this briefing with officials at your convenience.

Yes / No

e **Forward** this briefing to the Minister of Conservation.

Yes / No

Privacy of natural
persons

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

18 / 08 / 2023

Hon Kieran McAnulty
Minister for Regional Development

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Background

1. Ruapehu Alpine Lifts Limited (In Liquidation) (RAL) entered Voluntary Administration on 11 October 2022, owing creditors an estimated \$45 million at the time. The government has invested \$23 million into RAL as at the June 2023.
2. On 12 June 2023, Cabinet agreed to a package for Pure Tūroa Limited (PTL) and Whakapapa Holdings Limited (WHL) to purchase RAL's assets and continue operating the ski fields on Mt Ruapehu. The package includes an additional \$^{Commercial Information} of government investment from Kānoa's Regional Strategic Partnership Fund (RSPF).
3. A watershed meeting of RAL creditors was held on 20 June to vote on the company's future, which resulted in a stalemate. On 21 June, the High Court ordered that RAL be put into liquidation. This meant that the support deal agreed to by Cabinet could not be progressed. The \$^{Commercial Information} agreed to be used for PTL and WHL package is ringfenced in the RSPF and remains available.
4. The former Minister for Regional Development announced on 26 June that the government would provide RAL with an additional \$5 million to continue to operate in the 2023 ski season and to allow time for liquidators to decide on the purchaser or purchasers of the business and its assets.
5. A third proposal to purchase and operate both ski fields, put forward by Te Ariki Tā Tumu Te Heuheu on behalf of Ngāti Tūwharetoa (Ngāti Tūwharetoa proposal), is to be considered by the liquidator. This proposal will be considered alongside the existing proposals by WHL, to operate Whakapapa ski field, and PTL, to operate Tūroa ski field.
6. In mid-August, RAL's liquidators wrote to prospective bidders to request that they submit their bid to take over RAL's assets and operations by 31 August. Kānoa has also written to the bidders to submit any requests for Crown support to be considered as part of their bid. These processes are being run in parallel to provide sufficient information for Cabinet's planned consideration of government support on 18 September 2023.
7. Kānoa is at the early stages of developing options for the Cabinet paper. Officials are seeking views on these options from Ministers and government agencies early given the tight timeframes between the end of the bid processes and the development of a final Cabinet paper. The options outlined in this paper are not final as they are subject to a significant level of uncertainty.

There are a complex range of factors that will impact the government's options to support RAL

8. The Government's decision to support RAL can be broadly considered through three overlapping areas:
 - a. Ensuring a sustainable, commercially viable future operator of infrastructure on Ruapehu and its impact on the local economy;
 - b. The Crown's obligations to Māori, including engagement arising from Treaty Settlement Acts, pending treaty negotiations over Tongariro National Park and to ensure the Conservation Act requirement to give effect to the Treaty principles is met during the consideration of a concession application to operate on Mt Ruapehu; and
 - c. Timeframes and sequencing of decisions, including when a commercial deal and Department of Conservation's (DOC) concession process can be completed
9. The following section provides additional detail on factors that should be considered in conjunction as part of final decisions by Cabinet.

Potential impact on the regional economy around Ruapehu

10. Government support for RAL to date has largely been premised on a desire to avoid negative economic impacts on the region and job losses. Minister may wish to consider whether additional support from government would have a cost-effective impact on the regional economy.
11. RAL is economically important to the Ruapehu District. An analysis by economic consultancy Infometrics found that RAL accounts for 5 per cent of Ruapehu's jobs and is a key part of the wider tourism sector that contributed \$99 million per annum to the local Ruapehu economy.
12. These figures suggest that if the ski fields were to cease operation, it is likely that it would have a negative impact on the local economy. Both directly through loss of direct investment in the area and for businesses in the area that rely on visitors to the region for their revenue (such as shops and cafes).
13. However, the government has already provided significant investment in RAL to date. \$28 million of support has been provided, including the most recent \$5 million loan to allow the liquidators of RAL to run the 2023 ski season, represents nearly a third of the estimated GDP of the local economy per annum. If a bid is supported by government, this support could increase to around \$50 million.
14. Since additional funding will likely be required to support a commercially viable bid, there needs to be careful consideration of whether funding to date represents a sunk cost, would benefit from additional funding, and if additional funding represents an acceptable return on investment. There is also an opportunity cost of providing additional funding to RAL when there are other cost pressures across government.

Bids that seek government support need to be sustainable and commercially viable

15. To sufficiently support Ruapehu's local economy, any bid that seeks government support is expected to meet a minimum threshold for its long-term commercial viability. This is to ensure that the government can have a level of confidence that a future operator is unlikely to end up in the position that RAL is currently in, which may result in obligations for the Crown concessions to run the ski field being surrendered to DOC (additional details provided in the next section).
16. Kānoa expects to receive bids for support by the end of 31 August 2023, which will be considered by its commercial team in the first week of September 2023 and assessed on long-term commercial viability. To ensure consistency, officials will use the same criteria to assess bids that was used to recommend the PTL and WHL package that Cabinet agreed to previously [CAB-23-MIN-0240].
17. While officials cannot pre-empt the current processes, Kānoa will provide you with an update in early September on the number of bids received and early indications of their viability. Until this process is completed, officials will not know the content of the bids. Therefore, there is no guarantee at this stage that the bidding processes will produce a clear or acceptable result.
18. Any commercially viable bid is still at risk from other external factors such as weather effects relating to climate change, volcanic activity, and other potentially significant economic event (such as a decline in visitors experienced during COVID-19).

Legal professional privilege, Confidential advice to Government

19. Legal professional privilege, Confidential advice to Government

20. Legal professional privilege, Confidential advice to Government

[Redacted]

[Redacted]

[Redacted]

Maintaining strong Māori/Crown relations and fulfilling the Crown's treaty obligations

23. Confidential advice to Government [Redacted]
24. Ngāti Rangī has written to you to express their interest in being a part of the decision-making process on the operator of the ski fields. Kānoa is supportive of an inclusive approach to decision making but is seeking advice from Te Arawhiti on how Ngāti Rangī can play a role in decision while maintaining robust and fair processes.
25. Local iwi and hapu have a significant interest in the outcome of the concession process. Kānoa understands that they have a particular interest in:
- a. Concession tenure – potentially want it reduced to less than 30 years and no 'rolling over' provision.
 - b. The "tuku" terrain (an area below the mountains highest peak on the whakapapa side) and how it impacts development on the mountain.
 - c. Business sustainability in a climate change context.
26. There has been considerable engagement with iwi and hapu to understand their views on the changes they want to see in any new concession that differs from the concession RAL currently has.
27. The outcome of the concession process and the terms it imposes could result in terms that are unacceptable to a commercial operator. This may result in them withdrawing their bid. Final terms of the concession are offered at the end of the concession process.
28. This means it is possible that the Crown might support a bid that is commercially viable but ultimately withdraws depending on the outcome of the concession process.

RAL's liquidators are expected to run out of funding by the end of November

29. The liquidator will cease operating if it runs out of funds. Based on current projections, it is likely that RAL will run out of funds before the earliest possible completion of DOC's concession process.
30. RAL's liquidators received a \$5 million loan from the government to operate the ski fields during the 2023 ski season. \$3 million has been drawn down. Of that \$3 million, the liquidators have spent approximately \$2 million.
31. Latest cashflow estimates suggest that the liquidators will run out of funding to operate RAL by the end of November. If a new owner and/or operator is not determined by then or further funding made available, RAL will shut down its operations.

32. Confidential information entrusted to the Government, Commercial Information [REDACTED]
- [REDACTED] It is expected that the liquidators will have sufficient liquidity to pay the remaining funds, which has been included in the cashflow estimates above.
33. Commercial Information [REDACTED]
34. Based on the most recent figures provided by RAL's liquidators and assessed by financial advisory entity Calibre Partners, it is estimated that an additional \$C million in funding would be required to maintain operations from the end of November 2023 to the end of February 2024.
35. \$C million of funding would be required to continue operations from the end of November until the end of May 2024. The primary purpose of extending RAL's operations would be to provide sufficient time for DOC to undertake to complete the concession process.
36. To provide Ministers with the option to fund RAL until the end of May 2024, Regional Economic Development (RED) Ministers will be asked to consider ringfencing \$C million out of the RSPF at their meeting on August 24. You will receive this pack shortly.
37. If RED Ministers do not agree to ringfence the funding, this will limit the options Cabinet will have to extend RAL's operating timeframe.

Initial options for consideration

38. Kānoa has developed the following approaches to frame the options for Cabinet's consideration:
- Provide crown support in-principal to the preferred bidder (or bidders), with Cabinet to make final decisions in February 2024;
 - Provide funding to RAL's liquidators to provide additional time for a market solution to be found;
 - Withdraw government support;
39. **Annex One** provides an overview and description of these options, their potential costs, timeframes, opportunities, and risks. The options presented are indicative and are likely to change significantly depending on the outcome of the existing processes underway.

Next steps

40. Discuss the options at the next officials' meeting or a time that is convenient to you. Kānoa would welcome a discussion at the Regional Development Officials' Meeting on Monday 21 August.
41. Kānoa will continue to provide you with updates the bid process and other matters relating to RAL.

Annexes

Annex One: Overview of potential options to be considered in RAL Cabinet paper

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Option	Description	Potential cost	Timeframes	Benefits	Risks
1. Agree to in-principal government support for the preferred bid(s) with final decisions in Feb 2024	<p>Government agrees in-principal to support a package up previous amount agreed by Cabinet of \$15.3m.</p> <p>Final confirmation of the funding to be approved by Cabinet in Feb 2024.</p> <p>Government provides \$^{Com}m to allow the RAL to continue to operate until Feb 2024.</p> <p>\$^{Com}m ringfenced for Cabinet to decide if it should provide additional funding to RAL beyond February, if additional time is required for the concession process and sale and purchase settlement.</p>	<p>Option cost: \$^{Commercial}m</p> <p>Remaining ringfenced funding to be decided by Cabinet in Feb 2024: \$^{Commercial}m</p> <p>\$^{Com}m to be funded in addition to the \$15.3m already ringfenced from reprioritising the RSPF.</p> <p>Total cost: \$^{Commercial} million or ~\$^{Comme} million if a deal is made.</p> <p>Approx \$^{Commercial Information} million in 'make good' costs</p>	<p>Sept 2023:</p> <ul style="list-style-type: none"> Cabinet agrees in-principal to provide preferred bidder(s) with government support AND to provide RAL with \$^{Com}m to run until Feb 2024. RAL's liquidator selects preferred bidder. DOC's concession process begins <p>Feb 2024</p> <ul style="list-style-type: none"> concession process possibly completed. Cabinet to decide whether to continue with funding arrangements. 	<p>Does not fully commit the Crown until there is greater certainty on the outcome of the concession process.</p> <p>Provides a staged process that would allow for additional time for the concession process, if required.</p> <p>Ensures critical off-season maintenance is done to enable opening for winter 2024 season</p> <p>Minimises risk of Crown (DOC) needing to manage closed ski-fields and removal of redundant infrastructure.</p>	<p>Less certainty for potential bidder(s) if Cabinet decide not to proceed with funding. This may lead to commercial operators withdrawing from the process.</p> <p>May result in the concession returning to the Crown and an obligation to 'make good' the mountain.</p> <p>Bidders will need to have confirmation by Feb to enable a new entity to operate with confidence.</p>
2. Extend timeframe to allow RAL's liquidators to explore wider market proposals	<p>Government does not support any bids.</p> <p>Draws down \$^{Com}m of the \$15.3m already ringfenced funding for the liquidators to continue to operate RAL while they decide on a bidder to take over the assets and/or operations.</p> <p>Selected bidder to undertake concession process if required</p>	<p>Option cost: \$^{Com}m drawdown of existing funding.(no new funding)</p> <p>\$^{Commercial} million to be returned to the Crown</p> <p>Total cost: \$^{Comme} million</p>	<p>Sept 2023:</p> <ul style="list-style-type: none"> Cabinet agrees to provide RAL with \$^{Com}m to run until Feb 2024. liquidator selects preferred bid and provides final opportunity for the bid to undertake the concession process. DOC's concession process begins. <p>Feb 2024:</p> <ul style="list-style-type: none"> RAL's liquidator exhausts funding. If no new concession is issued by this time, the concession returns to DOC. 	<p>Reduces the amount of overall spending on RAL to date.</p> <p>Provides a potential operator with a final chance at submitting a bid and some time to go through the concession process.</p>	<p>Likely to result in the concession returning to crown and an obligation to 'make good' the mountain.</p>
3. No further government support	<p>Government does not provide any additional funding and withdraws its previous offers.</p>	<p>Option cost: N/A</p> <p>\$15.3 million to be returned to the Crown</p> <p>Approx \$^{Commercial Information} million in 'make good' costs</p>	<p>Sept 2023:</p> <ul style="list-style-type: none"> Cabinet agrees to provide no further funding. Liquidators continue to operate RAL until November 2023, then closes. 	<p>Provides certainty of decisions.</p> <p>Reduces cost to Crown.</p>	<p>Negative impact on region's economy</p> <p>Negative impact on Māori/Crown relations</p> <p>Concession returns to crown and an obligation to 'make good' the mountain.</p>