



PROVINCIAL GROWTH FUND ADVISORY BOARD

Briefing: Ruapehu Alpine Lifts Alpine Aerial Tram proposal

Date:	9 March 2018	Priority:	High
Security classification:	Sensitive	Tracking number:	PGF18 - 002

Action sought	Deadline
<p>Discuss the Ruapehu Alpine Lifts Alpine Aerial Tram proposal at your first board meeting on 13 March 2018.</p> <p>Note that Ruapehu Alpine Lifts is proposing the development of an Alpine Aerial Tram (gondola) at Whakapapa Ski Field, and is seeking \$10m of Government funding.</p> <p>Note that the Minister for Regional Economic Development has requested that this funding request be evaluated by the Provincial Growth Fund Advisory Board.</p> <p>Note that we are providing you with a brief overview of the proposal in this briefing, attaching a selection of key documents as annexes, and listing other resources available to you on request to support your work.</p>	13 March 2018

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
John Doorbar	Regional Economic Development Director	Privacy of natural persons	Privacy of natural persons	✓
Andrew Beaufort	Senior Policy Advisor, Regional Economic Development Policy	Privacy of natural persons		

The following departments/agencies have been consulted					
<input type="checkbox"/> Treasury	<input type="checkbox"/> MoJ	<input type="checkbox"/> NZTE	<input type="checkbox"/> MSD	<input type="checkbox"/> TEC	<input type="checkbox"/> MoE
<input type="checkbox"/> MFAT	<input type="checkbox"/> MPI	<input type="checkbox"/> MfE	<input type="checkbox"/> DIA	<input checked="" type="checkbox"/> TPK	<input type="checkbox"/> MoH
		<input type="checkbox"/> Other:			

PFG Advisory Panel to complete:

Recommend

Decline

Further action required

Comments:



Background

Alpine Aerial Tram proposal – the opportunity

1. Ruapehu Alpine Lifts (RAL) proposed Alpine Aerial Tram will be the biggest aerial ropeway of its kind in New Zealand. It will traverse striking terrain within the backdrop of the Dual World Heritage listed Tongariro National Park. It will whisk passengers in enclosed 10 person cabins from an altitude of 1650m to the Knoll Ridge Café at over 2000m in 5 minutes. It will have capacity of up to 2400 people per hour. It will enhance the upper mountain offering at Whakapapa and enable it to become a year-round destination dramatically reducing 'closed days' because of its stable performance in high winds and alpine weather.
2. The opportunity sits in a broader context of increasing the number of visitors to Ruapehu District. There has been considerable work put into a visitor development plan for the Ruapehu and surrounding areas. This has involved local government, the private sector, tourism sector experts, The Ministry of Business, Innovation and Employment (MBIE), Tourism Industry Aotearoa, and the Department of Conservation (DoC).
3. RAL's proposal for the construction of an Alpine Aerial Tram at Whakapapa could be transformative for the Ruapehu and Taupō Districts. The project may lead to increased numbers of visitors, new business opportunities, new jobs and further economic and social development opportunities for residents.
4. The construction and operation of the aerial tram would lead to an estimated Commercial full-time equivalents (FTEs) positions and cost around \$Commercial in total to construct and install.
5. The Alpine Aerial Tram is forecasted to generate Commercial Information additional visitor days by 2025. Visitor use is estimated to grow from Commercial Information non-skiers per year use of existing facilities in 2016/17 to more than Commercial Information users within three years of opening of the new facility. Additional visitor expenditure at \$Commercial per user, per day may be \$Commercial in 2025. An estimated extra Commercial Information FTE jobs will be created in the medium term.
6. The Alpine Aerial Tram may assist to change domestic versus international split of users and generate more high-yield visitors. RAL believe it will provide a base for expansion of the RAL local employee training / ski development programmes to cover Commercial staff. They intend to offer guided walks and other associated visitor sector experiences from the Knoll Ridge café. It is expected there will be a longer and 'de-risked' ski season with less weather affected days. It will also allow for RAL to offer visitors' non-snow related offerings during summer.
7. RAL is seeking \$10m from central government towards the project.
8. This briefing aims to give you a short high level summary of those considerations, a selection of key documents associated with the project, and a list of other salient material and resources we can provide on request.
9. Beyond this, the MBIE or the Manawatū-Whanganui Senior Regional Official (SRO) is happy to appear in person, investigate matters at your direction, or coordinate the same from other relevant Agencies (such as DoC) and stakeholders (such as RAL and Ruapehu District Council).

Costs and Funding

10. The currently estimated costs for funding the Alpine Aerial Tram comprise the following items:

Costs (excluding GST)	
Item	Amount (\$millions)
Equipment (fixed price design and build contract basis with turn-key delivery)	\$ ^{commercial in}
Other equipment	\$ ^{com}
Construction	\$ ^{com}
Cabin Storage Building	\$ ^{com}
Contingency	\$ ^{com}
Gondola Total	\$ ^{commercial in}
Other related works	\$ ^{com}
<ul style="list-style-type: none"> • Building extension and reconfiguration to Knoll Ridge Chalet - (\$^{commer}) • Services Infrastructure (electrical primarily) - (\$^{commer}) • Demolition and removal of the Waterfall Express Chairlift and remaining components of the National Downhill Chairlift - (\$^{commer}) • Ticketing system, information Screens, Intercom's and other ancillary equipment - (\$^{commer}) 	
Total Cost	\$ ^{commercial in}

11. The current division of funding consists of the following:

Funding (excluding GST)	
Partner	Amount (\$millions)
Ruapehu District Council	\$ ^{commer} loan with nil interest (in principle agreement)
• Taupō District Council	\$ ^{com} (indicative)
• Tuwharetoa Collective	\$ ^{com} infrastructure bond (in principle)
RAL	\$ ^{commer} (committed)
Government	\$ ^{commer} (requested)
Total	\$ ^{com}

Summary of Case for RAL's proposal

12. The Investment Memorandum for Whakapapa Alpine Aerial Tram that RAL presented us with on 8 March 2018 is provided in an Annex One. Agencies have reviewed the project and liaised with RAL on their proposal and from that perspective, offer the following observations about the strengths and weaknesses of the project.

Strengths

Co-investment in the Alpine Aerial Tram could be transformational for the visitor economies of Ruapehu and Taupō Districts

13. The opportunity sits in a broader context of increasing the number of visitors to Ruapehu District and RAL's proposal is a key opportunity identified in the Ruapehu Regional Visitor Development Plan (attached as Annex Two).
14. The plan concluded that the Central North Island represents a potentially significant growth opportunity for the broader tourism sector. The area with its three volcanic peaks has the underlying natural attractions to be a national and international draw card. The area could be positioned as the North Island's premier adventure walking and biking destination building on the iconic Tongariro Crossing extending the visitor offering.
15. What would be required is an integrated investment programme across the private and public sector to develop the area's potential.
16. The gondola has the potential to be the linchpin investment creating the 'must do' attraction around which other investments would work. Working with DoC is integral to this. For example, if the gondola was to proceed, the visitor attraction would be enhanced if DOC were to invest in an existing rough track that could be positioned as one of their recently launched Great Short Walks. This would start at the top of the gondola ride.
17. A combination of investments could generate increased interest in the Central North Island as a visitor destination and more visitors. The suite of investments being considered would also expand the area's offering across seasons and attract more visitors to the area over summer.
18. The expansion of offerings, and increased number of visitors throughout the year would create new and less seasonally affected jobs. It would enable businesses to operate throughout the year with less peaks and troughs.
19. The development of the Aerial Alpine Tram at Whakapapa underpins Commercial Information

There are social benefits to the development – particularly for Ruapehu District

20. Ruapehu District is a small district that has experienced a decline in population, jobs and services.¹ Ruapehu District's population is estimated at 12,500 a decline of more than 17 per cent between 2001 and 2016. Ruapehu District also has a higher than average Māori population (43 per cent versus 16 per cent nationally).
21. RAL have forecasted that Commercial FTE positions would be created in the medium term with opportunities for a further Commercial positions year round through spin-off activities related to the tram. RAL intend to recruit from the local population and already have two well established schemes operating.
22. RAL is proactive in its application of programmes to develop the skills of locals, particularly iwi. This is to ensure they are strong applicants for employment. The Company is committed to local employment and guarantees an interview to local applicants.

The proposal has the support of key iwi

23. The proposal has the support of Ngāti Tuwharetoa and RAL has a close working relationship with Ngāti Tuwharetoa and other iwi in the area.

The project has the support of the wider Manawatū-Whanganui and Bay of Plenty regions

24. The proposal was identified as an opportunity in the Manawatū-Whanganui Accelerate 25 Plan (the region's economic development action plan) and has the support of Accelerate 25 Lead Team (the Plan's governance group) as part of the wider tourism development plan for the region.

¹ Manawatū-Whanganui Growth Study, 2015.

25. Commercial Information
[Redacted]
[Redacted]
[Redacted]

The proposal will reduce the amount of infrastructure on Whakapapa and be constructed in a manner to reduce environmental harm

- 26. The proposed Alpine Aerial Tram will involve RAL removing some existing infrastructure from mountain and will mean that ultimately, there is less infrastructure on the mountain than currently.
- 27. This has been a key factor in gaining the support of Ngāti Tuwharetoa and DoC.
- 28. The infrastructure supporting the Gondola (i.e. pylons) will be installed in a manner that reduces the environmental impact to the surrounding area. RAL have worked closely with regional staff from DoC on this.
- 29. It is also part of a broader set of actions in Ruapehu seeking to reduce the environmental and carbon footprint of tourism.

Weaknesses/Risks

Commercial viability

30. Officials contracted the services of MBIE's Commercial Pool to assess RAL's original feasibility study. The Commercial Pool noted the following things:

- RAL does not have a plan to deal with to major threats identified on page 106 of their feasibility study:
 - i. Not developing appropriate product to satisfy market needs; and
 - ii. Being under capitalised and unable to complete the project, or maintain it until it is fully developed.
- That Commercial Information [Redacted] who conducted analysis as part of the feasibility study noted:

i. Commercial Information [Redacted]

ii. While the Aerial Tram project will increase the Enterprise Value of RAL, Commercial Information [Redacted]
[Redacted]
[Redacted]
[Redacted]

- Commercial Information [Redacted]
[Redacted]
[Redacted]

31. We have asked RAL to address these risks and they have been cooperative in providing further information on mitigations.

The ability of RAL to raise capital through conventional means is limited by their company structure.

32. Founded in 1953, RAL is a limited-purpose public benefit entity (not-for-profit for shareholders) regulated under the Companies Act 1993 and their Constitution. RAL's 4,000 shareholders may not benefit in any way from the company in their capacity as a shareholder. RAL is a company limited by philanthropic shares.

33. RAL's scope of business is focused on provision, promotion and development of amateur alpine sports for the public within the Tongariro National Park.
34. RAL uses all surplus revenues to fund the fulfilment of its principal purpose – that being the provision, promotion and development of amateur alpine sports for the public. All profits generated from the activities carried out by RAL are retained and re-invested in full.
35. RAL's constitution limits RAL's ability to access conventional capital. RAL has in the past raised capital through crowd funding – specifically, through selling life passes which raised a significant amount to allow for reinvestment.

Commercial Information

36. Commercial Information

RAL operates in an abnormal risk environment

37. RAL operates in an abnormal risk environment compared to other businesses. RAL's operations are on the side of an active volcano and are subject to climatic variations.
38. In the past, both volcanic eruptions and climatic events have affected the financial performance of RAL.
39. RAL is mitigating some of these risks through the investment in new snow-making gear and is intending that the Alpine Aerial Tram will reduce weather related closures and open the mountain to non-snow related activities across the year.

Commercial Information

40. Commercial Information

Previous central government funding

41. RAL secured a Tourism Growth Partnership grant in 2017 to complete a feasibility study and that work led on to an application being made for funding support from the former Regional Growth Initiative multi-year appropriation (RGI).

Current Work

42. Currently we are working with RAL to finalise details and address concerns.

Next steps

43. We would be pleased to provide any further assistance you require to undertake your assessment process. You may wish to meet or visit RAL and they have indicated they are very happy to appear before you or host you in Ohakune. The Manawatū-Whanganui SRO is willing to facilitate this.

Annex Five: Briefing to Minister – Ruapehu Alpine Lifts Investment Memorandum for Whakapapa ‘Alpine Aerial Tram’ and Commercial Information

PROACTIVELY RELEASED