MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

Kānoa
Regional Economic Development & Investment Unit

BRIEFING

Ruapehu Alpine Lifts Limited – Crown Funding Options

Date:	30 May 2023	**Priority:**	High
Security classification:	In Confidence	**Tracking number:**	2223-3988

Action sought		
	Action sought	**Deadline**
Hon Grant Robertson **Minister of Finance** Hon Kiri Allan **Minister for Regional Development**	**Note** the information on the funding implications of the Crown continuing to support ski operators on the Tūroa and Whakapapa ski fields **Note** the preferred funding source is the Provincial Growth Fund (PGF) but PGF funding is not available **Note** using Regional Strategic Partnership Fund (RSPF) funding will create significant opportunity costs with promising proposals being unable to be funded. **Indicate** if you support the inclusion of the RSPF only and/or RSPF and a Pre-Commitment Against Capital Allowances/the Between Budget Contingency.	1 June 2022

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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	Personal safety	✓

The following departments/agencies have been consulted
The Treasury, Department of Conservation, Ministry for Primary Industries, Waka Kotahi, and the Ministry of Transport.

Minister's office to complete:

- ☐ Approved
- ☐ Noted
- ☐ Seen
- ☐ See Minister's Notes
- ☐ Declined
- ☐ Needs change
- ☐ Overtaken by
- ☐ Withdrawn

Comments

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Purpose

To seek your direction on appropriate Crown funding source/s, prior to Cabinet's consideration of options to support ski operations on the Tūroa and Whakapapa ski fields. The briefing also provides an overview of the total impact to Crown funding if no deal is reached.

Executive summary

Kānoa has engaged with priority bidders on options for Crown support for taking on the operations of Ruapehu Alpine Lifts (RAL). The bidders have highlighted several forms of Crown support that they need in order to proceed. These include:

Commercial Information, Negotiations [redacted]

If no deal can be reached, and RAL goes into liquidation with no operators on the mountain, Commercial Information [redacted]

We are seeking your indications on where the further investment of up to $Confidential advice to Gov [redacted] will come from. We have looked into options with the Provincial Growth Fund, the Regional Strategic Partnership Fund and the Pre-Commitment Against Capital Allowances/the Between Budget Contingency (PCCA/BBC). We consider the PCCA/BBC to be the best fit for this proposal.

We are preparing a paper for Cabinet to make final decisions on further Crown support for the RAL operations, to go to Cabinet on 12 June. The decisions made in this paper on funding will be actioned in that Cabinet paper.

Recommended action

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

a **Note** the financial implications to the Crown if no deal is reached on the Tūroa and Whakapapa ski fields

Noted

b **Note** some of these costs (i.e. the write-off of debts owed to the Crown) and the responsibility to remove infrastructure and "make good" the area will fall to the Crown regardless of a deal being reached

Noted

c **Note** that there are significant funding implications for the Department of Conservation if Ruapehu Alpine Lifts Limited is liquidated and there are no new ski field operators on Mt Ruapehu

Noted

d **Note** the funding implications of supporting any new operators on the Tūroa and Whakapapa ski fields

Noted

e **Note** the preferred funding source is the Provincial Growth Fund (PGF), but PGF funding is not available

Noted

f **Note** using funding from either the Regional Strategic Partnership Fund (RSPF) or a Pre-Commitment Against Capital Allowances/the Between Budget Contingency (PCCA/BBC) will create significant opportunity costs and trade-offs

Noted

g **Indicate** if you support the inclusion of the following funding source options to the final Cabinet paper, due to be considered on 12 June 2023:

a. RSPF only

Minister of Finance *Agree / Disagree*

Minister for Regional Development *Agree / Disagree*

AND/OR

b. RSPF and PCCA/BBC

Minister of Finance *Agree / Disagree*

Minister for Regional Development *Agree / Disagree*

h **Agree** to forward to the Minister for Conservation for her information

Minister of Finance *Agree / Disagree*

Minister for Regional Development *Agree / Disagree*

Confidentiality

Robert Pigou	Hon Grant Robertson
Head of Kānoa – Regional Economic Development and Investment Unit	**Minister of Finance**
30 / 5 / 23.	..... / ...... / ......

Hon Kiri Allan

Minister for Regional Development

..... / ...... / ......

Background

1. Ruapehu Alpine Lifts Limited (**RAL**) was put into voluntary administration on 11 October 2022, at the request of its directors, owing creditors an estimated $45 million including $15 million in loans from the Provincial Growth Fund (**PGF**), and around $Commercial Information in unpaid concession fees and other debts to the Department of Conservation (**DOC**).

2. RAL holds several concessions that allow it to operate in the Tongariro National Park, and which generate income for DOC. These concessions also include a provision requiring RAL to remove and "make good" any infrastructure on Mt Ruapehu.

3. Since RAL entered voluntary administration, the Crown has provided bridging finance totalling $8.0 million, consisting of $2.0 million from the Multi-Year Capital Allowance, through the PGF, in November 2022 [CAB-22-MIN-0477 refers] and $6.0 million from the Regional Strategic Partnership Fund in December 2023 [CAB-22-MIN-0561 refers]

4. This bridging funding provides the RAL Administrators with sufficient funding to maintain business functions until 30 June 2023.

5. An Expression of Interest (**EOI**) process for the purchase of RAL assets and business has been run. Four EOIs were received (briefing 2223-3590 refers). All four EOIs requested some government support.

6. On 22 May 2023, Cabinet directed Kānoa to negotiate a deal within specific parameters, including a funding envelope of $Confidential advice to Government, and noted that a potential alteration to the concessions may be that the "make good" provisions relating to existing RAL infrastructure will not be borne by the new operators. [CAB-23-MIN-192 refers].

7. Kānoa continues to negotiate with Pure Tūroa and South Island Office (**SIO**) to determine the potential deals that the Crown might contribute to. Currently negotiations are exploring a total Crown contribution between $Confidential advice to Government, and funding options such as Commercial Information or Commercial Information, as well as equity and loans.

8. The Voluntary Administrator (**the VA**) is due to hold a creditors meeting (the Watershed meeting) on or around 13 June 2023. At that meeting, creditors will vote on the resolution put forward by the VA. The resolution/s must be accepted by

   a. 50 per cent of creditors by number; and

   b. 75 per cent of creditors by value of debts.

9. The Minister for Regional Development intends to take a paper to Cabinet on 12 June 2023, seeking Cabinet agreement for Crown funding to support the ongoing operations of the ski fields at Mt Ruapehu. The Minister for Regional Development intends to outline the total potential impact from the Crown of agreeing to commit funds and of not agreeing the commit funds, and the source of funding for any Crown contribution agreed by Cabinet.

10. This briefing seeks an indication of support for the two funding sources identified (Regional Strategic Partnership Fund (RSPF) and/or a Pre-Commitment Against Capital Allowances/the Between Budget Contingency (PCCA/BBC)) prior to the drafting of the paper for Cabinet on 12 June 2023.

Crown Financial Implications If No Deal Is Reached

11. If no deal is made, either through a decision by Cabinet to decline to provide funding, or because a resolution is not passed by Creditors at the Watershed meeting, it's likely that RAL will enter liquidation. This will have an impact on the Crown accounts, specifically:

   a. the existing debts owed to the Crown will need to be written off (this will apply regardless of a deal being reached).

   b. the responsibility to remove infrastructure and "make good" the area will fall to the Crown in the immediate (this will apply regardless of a deal being reached, however should a successful deal be reached, this impact will be delayed to an unknown time).

   c. DOC will not receive income from the concessions.

Writing off Existing Crown Loans/Other Crown Debt

12. Commercial Information, Negotiations [redacted]

13. However, it seems unlikely that any deal with the new operators would include the transfer of obligations owed to the Crown. This includes the debts to the Crown of:

Commercial Information, Confidentiality [redacted]

a. $15.00 million of current PGF loans, plus incurred interest. This has previously been noted by Cabinet [CAB-22-MIN-0477 refers],

b. $8.00 million of bridging loans from the PGF and the RSPF.

c. $1.00 million in unpaid concession fees and other debts owed to DOC.

d. $270,000 in unpaid GST, PAYE and Fringe Benefits Tax owed to Inland Revenue (**IR**).

14. The Crown may choose to seek to recover these debts (in particular the DOC and IR debts) as an unsecured creditor. However, the pot of money available for unsecured creditors is limited, and any amount the Crown seeks to recover will reduce the overall pot of money available for all other unsecured creditors, which are generally small, local businesses. Kānoa understands ANZ Bank has agreed to write off the debt owing to it.

15. The PGF and RSPF loans are held by Crown Regional Holdings Limited (**CRHL**). CRHL has fully provisioned for the loss of these loans, based on Kānoa and CRHL standard processes[2]. The full value of the loans has been expensed in CRHL's income statement, and this has been fed through to the Treasury. This means writing off these debts will have no impact on core Crown debt.

Confidentiality

16 [redacted]

17. Kānoa officials have not yet discussed the debt relating to IR with IR. However, we will provide advice on this in the final Cabinet paper.

'Make Good' Provisions -Removal of Ski Assets

18. The DOC license to operate the ski field requires that, if the ski field closes, RAL must 'make good' by removing existing structures and remediating the site (including replanting indigenous plants).

19. If RAL is liquidated, they will not be able to 'make good' the ski fields. The obligation to 'make good' could be passed to the new operators, however all four EOIs received as part of this

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[2] CRHL impairs a loan when it is probable that not all of the related principal and interest payments will be collected, i.e. if a borrower is in distress and there are conditions that indicate that the borrower is unlikely to repay the principal and interest of loan when it becomes due.

process noted that they would not be willing to take on this obligation. Therefore, the obligation will fall to the Crown.

20. Estimating the cost of 'making good' obligations is difficult due to the number of operational decisions that would be required (briefing 2223-3590 refers). DOC have completed a desk-top calculation estimating 'make good' costs of $47 million to $88 million.

21. DOC advise there is no obligation on it to fulfil the make good provision within a particular timeframe, or even at all. However, iwi, stakeholders, and the public would expect infrastructure to be removed, so there is a social expectation that this would happen. If it comes to the Crown to remove the infrastructure, DOC expect this should be a programme of work over several years, given the extent of infrastructure and the access issues. DOC would need to start with infrastructure that poses a health and safety risk if not maintained, e.g. lifts that can be damaged by the weight of snow and ice if not running 24/7 in winter. If there is no ski field operator, it's likely additional infrastructure, such as the huts owned by local ski clubs, would also need to be removed.

22. The Treasury has advised that, in its opinion, the inability of RAL to meet its "make good" obligations, and the unwillingness of any other party to take on these obligations mean this cost should be accounted for immediately, and a funding source identified, whether a deal is made for the continued operation of the ski fields or not.

23. Kānoa officials disagree and consider that a deal for the sale of the ski fields assets and business would shift the obligation to an unknown and theoretical future time. It is not possible to account for the fiscal cost of a future event and future Ministers will need to decide on a work programme, cost, and source of funding, if the Crown decides to remediate. Kānoa believes the most appropriate treatment would be a contingent liability noted on the accounts. Even if no deal is made, Ministers will be able to make decisions on the scope and timing of remediating the site, and decisions could be made through Budget 2024 and/or future Budgets.

24. Kānoa officials will work with the Treasury and DOC to resolve our understanding of when this obligation falls due, if any existing, redundant infrastructure requires removal, and how to account for the obligation.

DOC concessions

25. RAL pay DOC a yearly concession fee to use the mountain, that reflects the market value of this activity. This fee is currently Commercial Inf [redacted] per cent of gross revenue. In 2019 this was around

Commercial Information, Con [redacted]. In addition, RAL contribute to community services undertaken by DOC, such as eruption warning systems, at a cost of around Commercial Information, Co [redacted] per year.

26. If no operator was to take over the concessions, this would reduce DOCs forecasted revenue[4] by around Commercial Information, Conf [redacted] DOC have advised that this loss in revenue would create cost pressures, and it would look to receive additional Crown funding to cover this pressure. DOC and Kānoa officials consider an exemption appropriate given the circumstances.

27. The Treasury has advised that due to DOC being a "cluster agency", involved in the Natural Resources cluster pilot, no new operating funding can be provided without an exemption from the Minister of Finance.

Crown Financial Implications If a Deal Is Reached

28. Of the four EOIs received, all of the bidders required Crown support to proceed. Additionally, the requested further Crown accommodations, including:

Commercial Information [redacted]

29. To date, Kānoa has not discussed changes to the fee paid on DOC concessions with the negotiating parties and is not aware if they will be seeking a change to the concession or not. This information will be provided in the final cabinet paper.

Crown Funding Options to Support any New Operators

30. Kānoa has identified three Crown funding options from which the maximum $Confidential advice to Gover [redacted] envelope could be funded, if Cabinet agrees to any deal. These are the PGF, the RSPF, and funding from a pre-commitment against capital allowances/the Between Budget Contingency (PCCA/BBC)[5].

31. Kānoa officials have assessed these options using the following criteria:

    a. Certainty – certainty that the option has the funding available

    b. Fit – with the purpose of the fund

    c. Opportunity cost – what opportunities might be lost if money is taken from this fund.

[3] The concession fees were waived in 2020 and 2021 as part of the Government's COVID support.
[4] Including both concession revenue and contribution to operating costs
[5] The BBC would be the source of opex funding and any capex that is required (e.g. for loans and equity) would be funded as a PCCA.

The PGF is a suitable fit, but there is not enough money available

32. PGF underspends would be a suitable fit with the funding requirements for RAL, as the Crown has already funded RAL from the PGF. Supporting the Tūroa and Whakapapa ski fields continues to fit with the PGF purpose of creating jobs leading to sustainable economic development. However, the PGF fund is closed, and all funding has been allocated, with underspends unavailable.

33. Unfortunately, it is highly unlikely that there will be sufficient PGF surplus funds available to fund RAL.

    a. PGF surplus funding was reprioritised to set-up the RSPF $66.110 million April 2021 [CAB -21-MIN-0114] and $22.502 million December 2021 [CAB-21-MIN-0520].

    b. Surplus funding from the PGF is becoming less common, fewer projects have surpluses Commercial Information, Confidentiality [redacted]

34. Kānoa officials have identified two potential areas of projects with surplus funding, but they have high levels of funding uncertainty:

    a. Commercial Information, Confidentiality [redacted]

    b. Commercial Information, Confidentiality [redacted]

i. Commercial Information, Confidentiality [redacted]

35. If agreement was reached to release some of the above funds to fund new ski operators on the Tūroa and Whakapapa ski fields, there would be an opportunity cost as it would reduce options to manage the allocation of funding to cover future cost pressures in the PGF, and new funding may need to be sought for these. The opportunity cost is reduced if the funding ringfenced for regional roading project is used, given the lack of identified projects with cost pressures.

The RSPF is focused on different objectives, which do not neatly fit this proposal

36. The RSPF is not preferred because funding for new ski operators on the Tūroa and Whakapapa ski fields will result in significant opportunities costs, with the RSPF being unable to fund promising pipeline projects not yet considered by Regional Economic Development (RED) Ministers. Additionally, it does not fit well with the purpose of any of the RSPF streams agreed by Cabinet [CAB -21-MIN-006 refers].

37. The RSPF is a regional development fund that came from a manifesto commitment to establish a $200.00 million fund to accelerate the development of local plans by regional economic development agencies. The RSPF is an evolution of regional development delivering local approaches building on regional comparative advantages with coordinated Regional Economic Partnerships.

38. The RSPF is operating well, regions have developed plans and there is a large pipeline of proposals, with the fund on track to be fully subscribed by August 2023. Regional partnerships have strong expectations that the RSPF will assist their region.

39. The funding remaining in the RSPF is expected to be used up by funding proposals over the next few months. Following funding decisions made by RED Ministers in May $85.75 million remains for future investment decisions across all streams. Kānoa intends to recommend over $30.00 million of proposals to the June RED Ministers Confidentiality [redacted], Confidentiality [redacted] Confidentiality [redacted]. If all these projects are approved, and if Cabinet agrees to use RSPF funds for PGF cost pressures, less than $50.00 million remains for proposals in the August RED

meeting Confidentiality

Confidentiality Initial indications are that there might be up to $45.00 million of proposals for the August RED meeting, with further strong projects remaining in the pipeline.

40. Supporting ski operators does not fit with Accelerating Māori Economic Aspirations stream (as the proposal does not involve a Māori operator) or Supporting Sector Transformations stream (as the proposal does not link with any Industry Transformation Plan).

41. The RAL proposal does not fit well with the Enabling Regional Economic Development stream as the proposal is not one of the priorities in the Manawatu-Whanganui regional economic partnership plans. However, we note the continuation of the ski-fields is significant for Central Plateau communities, in terms of its economic impact in the region.

42. The proposal could be funded from funds unallocated to any stream, which Cabinet agreed to set aside for emerging regional priorities [CAB -21-MIN-006 refers]. Officials note $6.80 million remains in this allocation.

43. Agreeing for $Confidential advice to Gov to come from the RSPF will create a significant opportunity cost with promising proposals being unable to be funded. Regional partners may feel that Kānoa has not meet their expectation of supporting the priority regional projects. Additionally, the quantum of funding represents a significant portion of the $200 million RSPF. $6.0 million of RSPF funding has already been allocated to support RAL. Should the full envelope of $Confidential advice to Gov also be drawn from the fund, 13% of the fund will have been used to support RAL.

We consider that a Pre-Commitment Against Capital Allowances/the Between Budget Contingency (PCCA/BBC) is the best fit

44. Funding from PCCA/BBC is Kānoa's preference (given PGF funding is not available) as it provides certainty and does not create opportunity costs for the RSPF or PGF.

45. Funding for new ski field operators fits the PCCA/BBC criteria in that:

    a. funding is required urgently to ensure the ski field can continue to operate for the 2023 ski season. Funding cannot wait until the next Budget

    b. this funding cannot be met by reprioritisation of lower value activity from RSPF. Using the RSPF will displace higher value projects and may raise concerns from the regions that the government is not meeting its manifesto commitment.

46. Funding for new operators has not been previously considered and declined by Cabinet.

47. The opportunity cost is that it reduces the amount available for the Government to respond flexible to emergencies in the future, not just Regional Development, but across Government. Some of these other currently unknown bids may, once evaluated, be considered higher value to the country than supporting the Tūroa and Whakapapa ski fields.

Treasury comment

Confidential Advice to Government

Confidential Advice to Government

Discussion on Funding Sources

49. Kānoa has identified two viable sources of funding to support the purchase, the RSPF and the PCCA/BBC. Both have significant trade-offs.

50. Treasury's preference is to use the RSPF to fund the entirety of the new investment, up to $Confidential advice to Gov, into the ski fields at Mt Ruapehu.

51. Kānoa's preference is that a combination of RSPF set aside for emerging priorities (currently $6.80 million remaining) and PCCA/BBC be used. Using RSPF funding to fund the entirety of

the ask would mean promising proposals will not funded. Regional partners may then feel that Kānoa is not meet their expectations of supporting regional priority projects.

52. Kānoa is seeking an indication from Ministers about the preference for the source of funding at this stage.

    a. RSPF only.

    b. RSPF and PCCA/BBC.

    c. Include both options in the 12 June Final Cabinet paper for discussion at Cabinet.

Next steps

53. Kānoa will continue to negotiate with the preferred parties.

54. Following your direction, Kānoa and the Treasury to ensure that appropriate recommendations are included in the final RAL paper, due for consideration by Cabinet on 12 June 2023.This will include fiscal implications for DOC.