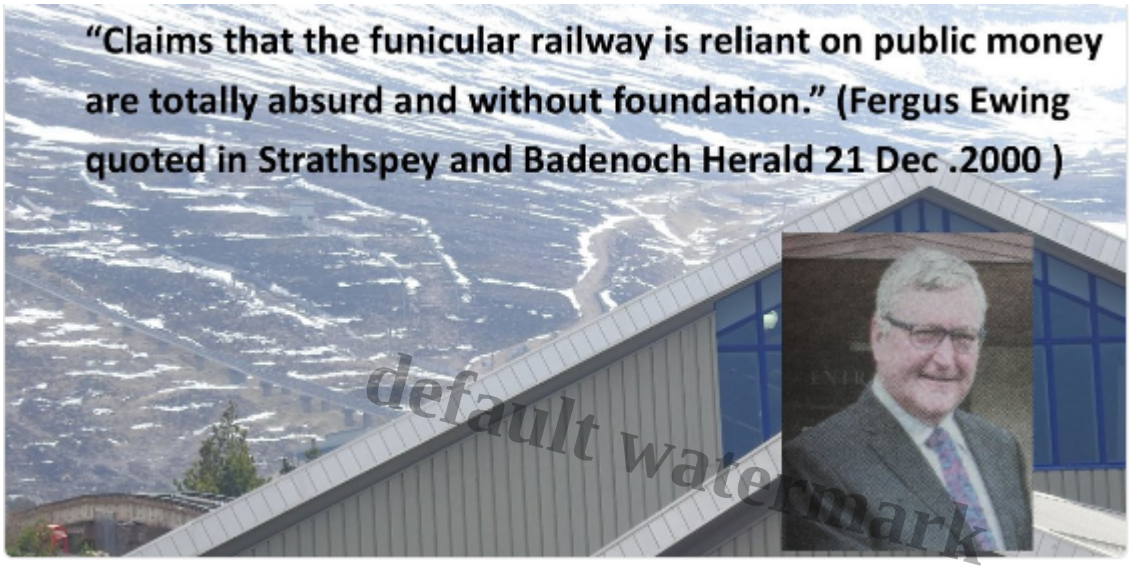
Natural Retreats, HIE and the financial disaster at Cairngorm

Description



The funicular railway at Cairngorm has always been a white elephant, HIEâ??s white elephant, but at least it brought some benefit to the local community. The latest accounts of the companies now involved in operating Cairngorm were published on the Companies House website at the beginning of October. These shows that the amount of money Cairngorm Mountain Ltd, the company that operates the ski area under the Natural Retreats brand, is paying to Natural Retreats UK Ltd for services has increased significantly while investment in the mountain has not.

Cairngorm Mountain Ltd (CML) accounts

Its the first six lines of the accounts which are most important for understanding what is going on a Cairngorm. In comparing what has happened in the latest year to December 2016, its important to appreciate the previous financial year, was only 9 months, from April â?? December 2015, as Natural Retreats brought the financial years of all the companies it operates into line. For full accounts (see here).

Turnover	
Cost of sales	
Gross profit/(loss)	
Administrative expenses	
Other operating income	
Operating loss	
Interest receivable and similar income	
Interest payable and similar expenses	4
Loss before taxation	
Taxation	
Loss for the financial year	
Other comprehensive income net of taxation	
Actuarial loss on defined benefit pension schemes	

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Total comprehensive income for the year

The accounts show turnover was significantly up. This was because 2016 was a good ski season:

> The nine month prior period of 2015 excluded January, February
> Cairngorm Mountain Limited. This equates to £2.7m in revenue a
> 2016 from winter operations this has made a significant contributi
> loss from this asset.

Extract from Natural Assets Investment Ltd (the parent company) accounts 2016

Natural Retreatsâ?? Directors do not provide a commentary in the CML accounts on what is really happening at Cairngorm (as used to happen in the past â?? see below) but it appears likely that increase in the Cost of Sales line, by well over Â£1m, reflects recruitment of temporary staff to operate the ski tows. Nothing wrong with that â?? assuming they were properly paid. It appear too that it was the good ski season which was also responsible for the turnaround in gross profit to Â£1,090,146. Indeed because the previous financial year was only 9 months and excluded the ski season while making a loss of Â£308,607, it appears reasonable to conclude summer operations at Cairngorm have not been turned around since Natural Retreats took over and its still skiing which determines whether or not CML makes a gross profit. This is important for the debate on the future direction of Cairngorm.

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Despite what appears a healthy operating profit, once you factor in administrative expenses, CML still made an operating loss in 2016, albeit a much smaller one of Â£224,825 compared to Â£1,219,606 in 2015. The question HIE needs to ask and answer publicly is why have administrative expenses risen so enormously at Cairngorm since Natural Retreats took over. Taking account of 2015 being a 9 month year, and making adjustments for that, real administrative costs increased by Â£100k. Perhaps that does not sound much until one considers where these administrative expenses go.

Under the Related Party transactions (Note 14) the CML accounts show that

> During the year to 31 December 2016 the company received ma
> (2015 - £275,952), purchase of fixed assets and other services
> from Natural Retreats UK Limited. At 31 December 2016 £27,8
> Retreats UK Limited.

So that is over Â£800k going to Natural Retreats UK. Look at the NR UK accounts for 2016 and they state:

	Notes
Turnover	
Cost of sales	
Gross profit	
Distribution costs	
Administrative expenses	
Exceptional item	2
Operating loss	
Interest payable and similar expenses	
Loss before taxation	
Taxation	6
Loss for the financial year	

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The accounts show that the cost of sales for Natural Retreats UK is just one third of the income generated which means that the gross profit on sales is c66%. So, unless CML is being treated differently to other Natural Assets Investment Ltd group of companies, it would appear that out of the Â£800k being paid for services, well over Â£500k of the administrative expenses charged at Cairngorm

is contributing to the gross profit line of Natural Retreats UK. This is money that could be invested in Cairngorm.

What the NR accounts then show is that administrative expenses are almost as much as turnoever and just like at Cairngorm Mountain large amounts are being sucked out of the company leaving a net loss. Natural Retreats UK parent company is Natural Retreats LLC which is registered in Delaware in the USA. This is the US state notorious for its lack of tax transparency. The accounts do not indicate what transactions if any took place with the parent company or the reason for the administrative expenses.

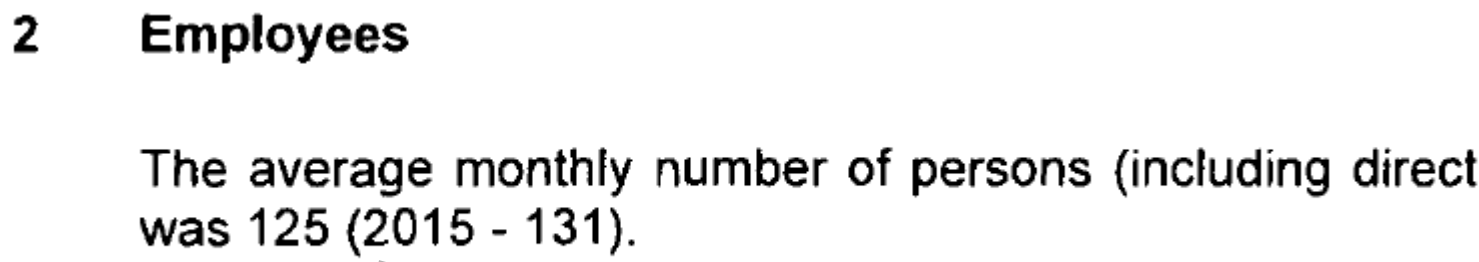
Meantime the CML accounts show the Natural Retreats invested very little in Cairngorm in 2016, certainly nothing like what is needed:

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6 Tangible fixed assets

Cost	
At 1 January 2016	
Additions	
Disposals	
At 31 December 2016	
Depreciation and impairment	
At 1 January 2016	
Depreciation charged in the year	
Eliminated in respect of disposals	
At 31 December 2016	
Carrying amount	
At 31 December 2016	
At 31 December 2015	

The additions column to the Tangible Fixed Assets gives an indication of levels of investment. It shows Â£360,882 was invested. Note how little was invested in ski equipment despite this being an excellent year for skiing. The important thing to remember though is NAIL purchased CML for Â£231,239 â?? far less than the assets are worth (see here) â?? and the only possible justification for this by HIE was that the cheap purchase price would enable NAIL to invest more in the mountain. The accounts show that has clearly not happened and what investment there has been appears to be linked to minimal contractual requirements. HIEâ??s line on this, according to the Susan Smith interview on Out of Doors (see here), is that it is still â??early daysâ?•.



2 Employees

The average monthly number of persons (including direct
was 125 (2015 - 131).

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Not only that, despite the good ski season, average numbers of employees has gone down. I suspect this reflects a transfer of some basic administrative functions out of CML and thus out of Speyside to Natural Retreats headquarters down in Cheshire.

The CML accounts say nothing about what the companyâ??s management at Cairngorm or about the Natural Retreatsâ?? Group future plans, for example in relation to investment. This contrasts to the information which used to be provided in CML accounts which included transparent information about its relationship with HIE. For example, according to the 2011 accounts, CML paid a turnover commission of Â£385k (see below) to HIE. In the summer I asked HIE under FOI for information on all the payments HIE had received from CML for the lease of the Cairngorm but they refused:

> *It has been decided to withhold any details of the dates of all payments of turnover rent which have been made by Cairngorm Mountain Ltd to HIE since the date of entry in 2014 for the reasons set out below. Having also reflected on the public interest test, my decision is that the public interest does not favour the disclosure of this information.*

HIE need to come clean about whether Natural Retreats have met the lease conditions or not.

CML, when publicly owned, also used to report on what was happening with staff, what they had invested, what they hoped to invest and what they had paid HIE.

CairnGorm Mountain Limited

Chairman's statement for the year ended 27 March 2011

The chairman presents his statement for the period.

The last time that a Chairman was able to report two good consecuti
forecasters are correct we might have three in a row although we nee

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CairnGorm Mountain Ltd has pleasure in reporting a good year. The
year but based on that success, we geared up for this last year. We w
in line with Scottish Government rules and also an exceptional bonu
maintenance on lifts and tows to attempt to catch up on previous yea
(2010: £212k) on tows and £101k (2010: £46k) on buildings. Much

We invested in a new Kassbohrer Piste Machine. The opportunity to
Olympics came from the manufacturer; it has proved invaluable in m
fully supported by Highlands and Islands Enterprise (HIE) our sole s
machine is 20 years old. We have been pleased with the public suppo
areas.

When the snow is here skiing represents the major part of our tradin
fundamental parts of what we do along with our core summer funicu
£1,024k (2010: £927k) and Retail £441k (2010: £431k). In addition
at £315k (2010: £249k).

After paying HIE our turnover commission of £385k (2010: £331k)
£663,152). Such are the vagaries of skiing in Scotland that those of
these two years as a much needed boost which allowed us to maintai
not have succeeded in this without the funicular railway.

Looking forward we are seeking to increase our summer business to

What the CML accounts show is that Natural Retreats has ditched all of that soft information which is so important to help understand what is going on and now only reports the minimum it is is required to be law. This is not in the public interest but HIE unfortunately has been only too happy to go along with this, developing its plans for Cairngorm in secrecy and only coming clean about what its having to spend on the mountain as a result of FOI enquiries.

All of this provides yet more evidence of what is going wrong at Cairngorm and why both HIE and Natural Retreats are unfit to manage it. Cairngorm is now not just a white elephant but a milch cow â?? all courtesy of HIE. The question is when is Fergus Ewing, as the Government Minister responsible, is going to act and stop this? With the creation of a clear alternative, the Aviemore and Glenmore Community Trust, who are seeking that the management of Cairngorm be transferred to the local community, he has no excuse for not doing so.

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In my next post on Cairngorm I will consider how the financial risks associated with Natural Retreats operation of the ski area are increasing day by day and why action is urgently needed.

Category

1. Cairngorms

Tags

1. CNPA
2. HIE
3. natural retreats

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