

Heads in the sand about the impending financial disaster at Cairngorm

Description

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Resort still in red but turnover is up

By GAVIN MUSGROVE

CAIRNGORM Mountain remains in the red for its latest reported operating period but pre-tax losses have fallen by more than £1 million.

The accounts for the 12 months to December 31, 2016, show a pre-tax deficit of £216,578 compared to the loss of £1,219,606 in the previous set of financial figures.

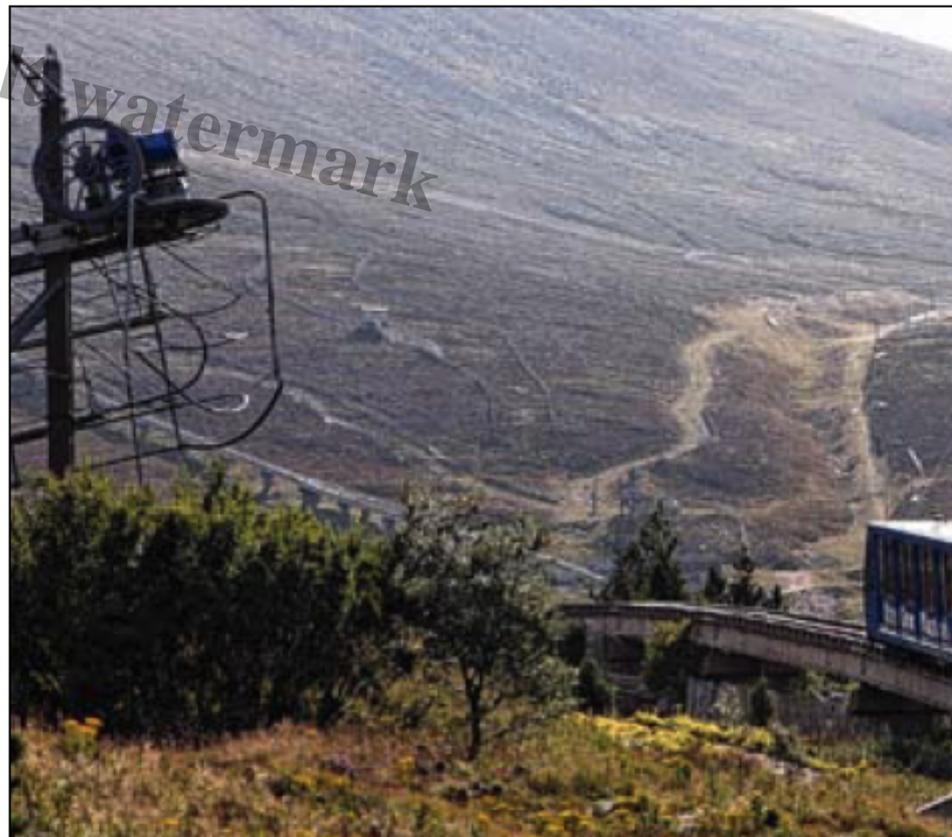
One reason for the fall in losses has been a dramatic increase in turnover at the resort.

The 2015 accounts cover only the nine months from April, when resort owner Natural Retreats brought the financial years of all the companies it operates into line.

However, turnover in 2016 still made a noticeable leap from £2,050,393 at the end of December 2015 to £4,749,982 by the end of the following year.

It followed a much more positive ski season at the resort.

The outgoings include £640,414 for management services to parent company Natural Retreats UK Limited (up from £275,952 in December 2015) and purchase of fixed assets and other services amounting to £175,220 (2015 - £184,479) from the Wilmslow based



LIGHT AT THE END OF THE TUNNEL? Turnover is up and losses down

A Natural Retreats spokeswoman said: "We have worked extremely hard and are delighted we have managed a seasonal business - which is very heavily reliant on the winter season - effectively.

"Overall despite an operating loss the company was cash flow positive requiring no group support or bank intervention."

After taxes are taken into account, the total loss to the year ended December 31, 2016, was £216,578 - a drop of almost £965,000 on the

As a result the directors have "a reasonable expectation" that the company will have sufficient resources available to continue operations "for the foreseeable future".

Fixed rent of £123,000 plus a top up rent of £38,000 was paid by CairnGorm Mountain Limited - which has the operating lease and not Natural Retreats - to owners Highlands and Islands Enterprise for the accounting period.

The fixed rent increases by

Extract from this week's Strathy (in which I am quoted)

The financial position of Cairngorm Mountain Ltd

Following my post on the finances at Cairngorm ([see here](#)), a Natural Retreats spokeswoman claimed to the Strathy this week that *“Overall despite an operating loss the company was cash flow positive requiring no group support or bank intervention”*. This is completely misleading, as the Cairngorm Mountain Ltd accounts show:

The company has net current liabilities of £1,693,540 (2015 - £776,328), and is reliant on group support to cover its

Extract from Note 1 to the CML Accounts to December 2016

So, both current and net liabilities increased significantly *“by c30%”* in 2016 and while the spokesperson claimed *“no group support”* was required the accounts say the opposite!

Given that the 2017 ski season was terrible, it should be safe to conclude that CML is now, almost a year later, in an even worse financial position with all the consequences that could have to local businesses, including suppliers. I say *“should”* because the loss in 2016 was created by the large increase in administrative charges paid to Natural Retreats UK *“which HIE needs to explain and could, and should, be reduced.”* I doubt that any bank would intervene to support this business, so why is HIE still supporting it?

CML and Natural Assets Investment Ltd

In this post however I wish to focus on CML's relationship with its parent company Natural Assets Investment Ltd which published consolidated accounts for the group, which includes CML, in October ([see here](#)). Start with the bottom line:

Natural Assets Investments Limited

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	<i>Notes</i>	
Turnover		
Continuing operations	2	
Less: share of joint venture turnover		
Group turnover		
Cost of sales		
Gross profit		
Operating expenses before depreciation, amortisation and impairment		(2,827,2)
Depreciation		(603,4)
Amortisation		(733,1)
Impairment of goodwill		
Operating expenses		
Other operating income	3	
Operating loss before depreciation, amortisation and impairment		

NAIL's loss increased by almost £1.5m compared to 2015 to £6,549,149. This is reflected further down in the accounts in an increase in its net liabilities from £22,831,678 to £29,380,827. Yes, NAIL is almost £30m in the red!

The key point however is that total turnover, i.e income, for the group was £6,536,413 which is less than the loss that was made. The group is in an extremely parlous financial position and can only continue because of guarantees from its owner David Michael Gorton. No bank would lend to a company in this position.

The reason for this deficit is not because the company is investing huge sums:

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13. Tangible Fixed Assets

<i>Group</i>	Freehold Properties	Leasehold Improvements	Assets Under Construction
	£	£	£
Cost			
At 1 January 2016	52,569	414,208	237,117
Additions	-	319,494	206,163
Disposals	-	-	-
	<u>52,569</u>	<u>733,702</u>	<u>443,280</u>
Depreciation			
At 1 January 2016	20,286	206,049	209,117
Charge for the period	1,542	9,981	-
Disposals	-	-	-
	<u>21,828</u>	<u>216,030</u>	<u>209,117</u>
Net book value			
At 31 December 2016	30,741	517,672	234,163
At 31 December 2015	32,283	208,159	28,000

This table shows the group invested just Â£915,917 (second line) in the year across all their businesses of which we know Â£360,882 was at Cairngorm (from the CML accounts) . Moreover, NAIL was apparently not planning to invest anything either:

25. Capital Commitments

There were no capital commitments as at 31 December 2016 or

This account fits with the evidence of lack of significant investment since Natural Retreats took over at Cairngorm, with almost any work that has been done funded by HIE.

The main reason for the losses has nothing to do with trading (the Group made an operating profit of Â£1,800,619) or investment, its down to other expenses. Most notable among these is the amount of debt owed (Â£46,468,212) and interest paid (Â£3,633,498) to its owner, David Michael Gorton, who used anyway to be described as a hedge fund manager:

28. Related Party Transactions

Group

In addition to the related party transactions disclosed above, the Group has entered into transactions with other group entities.

D Gorton

D Gorton is a shareholder and ultimate controller of Natural Retreats Management Limited. At 31 December 2016 other than the amounts disclosed above, D Gorton has no other interests in the Group. No interest is provided on this amount.

D Gorton is also the controller of Natural Retreats Management Limited. At 31 December 2016, the Group has a receivable from D Gorton of £3,137,716 (2015 - £2,999,052) due to D Gorton. This amount is repayable in full on 11 June 2022.

Long term creditors include loans amounting to £1,000,000 at various interest rates with an indefinite term for repayment.

During the year interest amounting to £100,000 has been accrued.

What this shows is that despite paying Mr Gorton more than in the previous financial year, the total amount owed to him has also gone up! We can therefore expect that in 2017 payments to Mr Gorton will be even higher. £3,633,498 is a pretty good return on fixed assets which are now valued at £3,596,789 and investment properties which have a net book value of £20,340,101 especially when some of the purchase price of the assets was paid for by a bank loan (c£4m) from HSBC.

The other important thing to note about NAIL's consolidated accounts is that out of the total turnover of £6,536,413, £4,749,982 comes from Cairngorm (figure from CML accounts). What this means is that the NAIL group is almost entirely dependent on operations at Cairngorm for income. Its the only cash cow in the group.

While Natural Retreats UK and Natural Assets Investment Ltd are separate companies, they share many of the same Directors and what's more NAIL has NO employees. Its dependent on Natural Retreats UK to do work and this is reflected in the notes to the accounts:

Natural Retreats UK Limited

The group's directors, E J Kearney, M D Spence and A Wild, to have an interest in Natural Retreats UK Limited. During the year charged expenses amounting to £3,023,240 (2015 - £2,100,474) December 2016 the group owed £356,489 (2015 - £404,998) included in trade creditors and £21,103 (2015- £nil) which is included in others debtors. At 31 December 2016 the group recharged services to Natural Assets Investment Ltd for £1,660,237 (2015 - £1,481,160). At 31 December 2016 the group owes £1,660,237 (2015 - £1,481,160) by Natural Retreats UK Limited which is included in trade debtors and £21,103 (2015 - £nil) included in others debtors.

Extract group accounts

It appears therefore that Cairngorm is being used to keep the whole NAIL group going and that most likely explains the huge increase in administrative costs charged by Natural Retreats UK to Cairngorm Mountain Ltd in 2016.

What needs to happen

Its a public scandal that HIE sold Cairngorm Mountain Ltd for a knockdown price to a company which had no track record and whose net liabilities have increased by about £5m each year since it was incorporated in 2011 and now total a staggering £29,380,827. The risk now is that when Natural Assets Investment Ltd, whose main income comes from Cairngorm, goes into administration as it surely must do at some point that will put both jobs and assets at Cairngorm at risk (at present,

through a charging order the bank HSBC appears to have first call on all assets in the group).

HIE and the Cabinet Secretary responsible, Fergus Ewing, now needs to explain publicly what action it will take to protect the public interest at Cairngorm, including how it will safeguard assets purchased with the public purse and how it intends to prevent monies continuing to drain out of the local area.

Unfortunately, as Minister responsible, Fergus Ewing, appears to have his head in the sand:

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Holyrood Letter
with Fergus Ewing
Strathspye MSP

In our part of Scotland, Cairngorm has been at the heart of the reason why people come to visit, to live and to stay.

Skiing - and more recently snowboarding and other snow pursuits - has been closely associated with the strath.

Many people have made their living from it one way or another. It is essential to the local economy. Even more have developed a lifelong passion for skiing and all that it entails.

I am thinking as I write this of many people who live locally and who care deeply about the hill, the sport, and indeed wider outdoor sports which

are all part and parcel of Cairn Gorm. Since the original campaign to replace the old chairlifts back in the 1990s, I have been an ardent supporter of Cairngorm and I remain one, as does my friend and colleague Kate Forbes MSP.

So the recent controversy about the future of the Hill, and its stewardship has been of great interest and some concern to me.

Over the past year or so I have had a series of discussions with a range of local people, businesses and organisations on many numerous aspects.

The last winter season was of course disappointing. We are all hopeful that this one shall be better.

However, one measure now enabled by modern technology has emerged that can tackle limited snow cover and extend the winter season - the use of Snow Factory snow making facilities.

Piste management has always been a feature of this activity but now snow can literally be made from a machine and applied to the slopes in a way that can endure even when temperatures rise.

Much work has been done over the past months by both Highlands and Islands Enterprise and the operators Natural Retreats to explore the potential use of such equipment on Cairn Gorm.

HIE staff have visited the European home of a company that provides this kit, and learned about its use and capabilities.

I have been working closely with the HIE team, who are totally committed to supporting snowsports in the Highlands. Every single person that has seen this has become a convert to its use.

I am delighted that all of this groundwork has resulted in the proposal that this equipment be trialled on Cairn Gorm this year.

This is great news. An application for temporary use of this has been submitted to Highland Council.

I gather that they are likely to deal with this promptly, and that the application will not be "called in" by the Cairngorms National Park Authority.

It is, of course, for the planning authorities to exercise their functions, but I certainly hope that we can see this new gear used here. Natural Retreats wish to deploy it to trial it on Cairn Gorm. Credit to them for that.

Evidence it works

Many who know far more than I about skiing believe very strongly that this equipment is game changing. They have seen it and know that its use in ski resorts in mainland Europe has enabled snowsports to continue even when conditions are poor, and when skiing would otherwise not have been possible or very limited.

At my meeting this year with representatives of each of the Scottish ski resorts, very strong support emerged for the deployment of this gear in order to alleviate the problems of potential poor snow cover.

That discussion led to renewed efforts to deploy the equipment in our own Scottish resorts.

So, some of the other four resorts may also plan to use, this season, on

a temporary trials basis, this snow making gear. If it succeeds, then it could indeed be game changing.

There are a number of Government Cabinet Secretaries with an interest in our winter sports tourism and it has been agreed that I take the lead on working with our ski resorts to support them to remain a sustainable and productive part of our rural economy.

So I am determined to ensure that all possible is done to provide both practical help and financial support.

Over the past seven years I have led on this activity, with full support from my colleagues, and have had annual meetings with senior representatives of each of the resorts.

These, of course, include the Lecht, Glenshee, Nevis Range and Glencoe as well as Cairn Gorm mountain.

At my behest, there has been included in these get togethers, the owner of the "Snow Factor" at Braehead, Jamie Smith. He has been enormously helpful in giving expert advice and a forthright advocate for the use of this new gear.

That advice was key in encouraging the take up of the equipment by others.

Indeed his business at Braehead is a great training ground for youngsters in the central belt. They learn how to ski and board there.

Then, armed with newfound skills, the kids want to come to try the real McCoy!

So though based near Glasgow it supports the work of all our resorts and complements them.

These annual meetings have delivered several practical benefits over the years and space does not permit me to describe them all now.

This work has also fostered good relations, and helped to deliver, through HIE and Scottish Enterprise (which covers the Glenshee area) around £5 million of grant support for upgrading uplift equipment.

These investments are mostly now in train.

A rate of 75% grant was secured, bearing in mind the fact that the business is so very seasonal in nature.

That is higher than the normal levels of support but is necessary because the resorts as businesses have to pack in their income to one third or less of the year.

Hats off to HIE and SE for this sterling support for our ski resorts.

Whilst controversy continues, my desire is to chart a way forward together. We should adopt and deploy the best modern technology such as snow making equipment.

With some finance from our enterprise agencies, that investment in our ski resorts will enable generations of our children in Scotland to continue to enjoy the sheer exhilaration that only skiing and snowboarding can provide.

That involves working in partnership with everyone, and looking to devise positive workable solutions.

I am encouraged that so many people locally, in particular our Olympian athletes with world class understanding and experience of the sports, want to contribute to a positive way forward.

**Fergus Ewing is SNP MSP
Inverness and Nairn and Minister
for the Rural Economy and
Connectivity.**



Article from Strathy this week

- No mention of the money being extracted from Cairngorm or the risks posed by Natural Retreats
- No appreciation that Natural Retreats will invest nothing at Cairngorm ?? its HIE staff who have had to go and check out the snow making machines
- Re-writing of history. Since the installation of the funicular HIE has been obsessed with increasing numbers of summer visitor and has just paid for removal of the Coire na ciste infrastructure
- No mention of the Save the Ciste Group or role it has played in making people understanding the importance of winter activities at Cairngorm
- The failure to mention the Aviemore and Glenmore Community Trust and his preference for listening to selected people who he implies represent local opinion.

Category

1. Cairngorms

Tags

1. CNPA
2. HIE
3. natural retreats
4. Scottish Government

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