

The looming financial crisis at CairnGorm mountain – what will HIE do?

Description

Highlands and Islands Enterprise sold Cairngorm Mountain Ltd (CML) to Natural Assets Investments Ltd in 2014. The ostensible thinking behind the sale was that the Natural Retreats group of companies would bring new investment to Cairngorm and make it a profitable business. HIE probably also saw this as an opportunity to recover some of the losses it had incurred from backing the funicular.

HIE incorporated this thinking into its long lease agreement ([available here](#)) with the new Cairngorm Mountain Ltd. Initially the lease effectively allowed for a payment holiday, presumably to assist Natural Retreats' investment and delivery of the new Day Lodge which was supposed to transform CairnGorm. That plan, however, collapsed pretty quickly, with HIE first announcing they would lend Natural Retreats £4 million to do the work before abandoning the idea completely and replacing it with the current proposals for an artificial ski slope and new Ptarmigan – again to be financed by HIE in the form of a loan. The reason for this change in approach is pretty clear, the Natural Retreats group of companies appear to have little available cash and their liabilities considerably exceed their assets (which would make any funding from a bank, for example, very difficult to obtain).

With the public sector funding a large proportion of what little investment has taken place at Cairngorm, the problem now for Natural Retreats is that their payment holiday at Cairngorm is coming to an end. The terms of the lease require CairnGorm Mountain, as tenant, to pay significantly increased rent and infrastructure investment payments from next year. After a disastrous season, in which they lost significant market share to the other ski operators, the question is will it have the finances to do so and if not what will the consequences be?

Rental Payments due to HIE

There are 3 components to the rent under the lease, Fixed Rent, Base Rent and Turnover Rent.

Fixed rent. This was set at £120k a year, payable quarterly, from the date of entry on 11 June 2014. Rent is increased annually by the rate of inflation (RPI) as measured for the month of May in the preceding year. The June 2015 increase, for example, is based on the RPI figure published for May 2014. This formula allows you to work out current rent:

<u>Year</u>	<u>Rent</u>	<u>RPI for May</u>
2014	£120,000	2.4%
2015	£122,880	1.0%
2016	£123,003	1.4%
2017	£124,725	3.7%
2018	£129,340	3.3%

2019 Â£133,608

Base rent. This is worked out by multiplying Turnover by 0.01 (i.e rent would be Â£40,000 on a Â£4m turnover) and starts to become payable from 1 April 2019, ie next year.

Turnover Rent. This was payable from the date of entry, the threshold is Â£4m and Turnover Rent is due on all Turnover in excess of this at a rate of 5% for the first 15 years [to 2029] and 8% thereafter. We do not know what Turnover Rent rate may have been due to date with any certainty because annual accounts appear in arrears and HIE has refused to divulge it claiming commercial confidentiality.

Capital investment payments due

There are 3 funds that Cairngorm Mountain Ltd, as the tenant, is required to set up and make payments into in order to maintain the assets leased to them by HIE in favourable condition. Until 2029 the money from all three of these funds can only be spent with HIE agreement:

An Asset Replacement Fund. Payments into this were due to start on 31 March 2016 with Â£11,000 deposited and then increase each year as follows: 2017 â?? Â£27,000; 2018 â?? Â£42,000; 2019 â?? Â£59,000 and then increasing thereafter by Â£3000 each yearable every year till 2034 except 2029

A Buildings Sinking Fund used to meet the Building Obligations set out in the lease. Annual payments of Â£100,000 are due to commence 31st March 2019 and payable every year till 2034 except 2029.

A Fixture and Fittings Sinking Fund to meet the obligation set out in the lease to maintain the Fixtures and Fittings as set out in the lease. Annual payments of Â£100,000 are due to commence 31st March 2019 and payable every year till 2034 except 2029.

Now in theory all of this is very welcome. The start of capital payments could provide a much needed source of funds to improve the fabric at Cairngorm and provide HIE with the opportunity to pin down their tenant and ensure adequate maintenance regimes are in place ([see here](#)). The big question is will they?

The impending issue is how Natural Retreats will be able to meet its payment obligations when three new types of payment become due in March 2019:

- Base rent. We can only estimate what this will be but say Â£28k based on Turnover of just under Â£3m
- Buildings fund Â£100k
- Fixture and fittings fund Â£100k

Given the losses recorded in their accounts, the disastrous ski season in 2017 and loss of market share this year currently it would appear Natural Retreats will be unlikely to meet these payment conditions without further loans. The works on the artificial ski slope and to extend the Ptarmigan would, if granted planning permission, cause disruption which would be likely to result in further short-term loss of

income and then add a further Â£200k to the payments Natural Retreats have to make HIE annually (to pay off the new loan). In effect Natural Retreats appear to have been gambling that this Â£4m loan from HIE will enable them to generate a further Â£400k a year of income after costs. With the workplan now over a year behind schedule Natural Retreats will have no new source of income before the increased rent payments become available

As a consequence there appears a very high likelihood that Natural Retreats will be unable to meet their financial obligations under the lease next year. HIE are apparently currently renegotiating their lease with Cairngorm Mountain Ltd. While some of that is needed â?? with the abandonment of plans to replace the Day Lodge the clauses relating to that are redundant â?? any relaxation in the current requirements of Natural Retreats to invest significant sums of money in Cairngorm from next year would be a public scandal. If Natural Retreats cannot find a way of meeting its lease obligations and invest in Cairngorm then HIE should terminate the lease, take back the assets its owns at Cairngorm and start discussions with the Aviemore and Glenmore Community Trust about an alternative plan for Cairngorm.

Category

1. Cairngorms

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1. Governance
2. HIE
3. natural retreats

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