The implications of Cairngorm Mountain Ltd being certified as a “going concern” in September

Description

I have been looking at the most recent audited Report and Financial Statements of Cairngorm Mountain Limited (CML) and its parent company, Natural Assets Investments Limited (NAIL) , both for the year ended 31 December 2017, and signed on behalf of the Directors on 18 September 2018.

These both show heavy losses for the year, and heavily insolvent balance sheets at 31 December 2017, for CML, and for NAIL itself, and similarly for the NAIL group in the consolidated Accounts. The “Total comprehensive income” of CML for 2017 was a loss of £1,006,969, and its “Total equity” was a deficit of £2,099,875. The consolidated “Total comprehensive loss” of the NAIL group for 2017 was £4,848,079, and the Group Total equity was a deficit of £34,228,906. I quote these figures to show that CML and the NAIL group have large losses and deficits, and past Accounts show that these positions have been long-standing.

When a company or group is so consistently loss-making and has such large deficits, the Directors will not be able to carry on operating without some form of financial assurance or support from some party with deep pockets. In particular, before they can prepare and sign the financial statements on a “Going Concern” basis, they will need some assurance that the company and group will be able to meet their debts as they fall due for the foreseeable future, generally taken as being the next year or so.

This is exactly as set out in both sets of Accounts. In the case of CML (see here), the following paragraph appears twice – once in the Directors’ Report, and once in Notes to the Financial Statements, under “Going concern” in the Accounting Policies.:

“The company has support from related parties, including its ultimate parent undertaking, and in turn, from the loan holder (and main shareholder) in the ultimate parent undertaking. The loan holder (and major shareholder) is considered to have adequate capabilities to provide support as required and has formally confirmed that he will support the company and its parent undertaking for at least the next 12 months.”

The breakdown of the funicular, and its need for possibly lengthy repairs, cannot be held to be completely unexpected or exceptional in view of past experience, and falls well within the general range of possible, if unfortunate, events which CML might meet. It does not seem to me to give justification for cancelling a formal letter of support, upon which the Directors, and creditors, will have relied [Note, this corrects the suggestion I made in my post here Ed] . The costs and losses of the repairs and disruption to trading will be fairly high, but well within the scope of the amounts already committed by the principal shareholder, and within his “adequate capabilities”.

It is interesting, if disappointing, that when the Directors set out the main risks facing the NAIL group in their Strategic Report, they mention such matters as interest rate movements, competitive pressures, payment default by customers, and controlling and managing construction costs, and even the risk of a shift in the popularity of areas for UK holidays, but do not appear to have considered the much more direct and active risk of a breakdown to the funicular. This despite the fact that the funicular had not functioned for part of the summer and had ceased operation when the accounts were signed off by the Directors on 18th September 2018.

The Directors will have a formal letter of support, signed by the main shareholder, and the Auditors will no doubt have seen and considered the terms of this letter, and have judged that it could be relied upon to be effective for the next year to September 2019, at least. Yet only ten weeks later, CML was placed into administration. If such a formal undertaking is not worth the paper it is written upon, something is very wrong.

Category

1. Cairngorms

Tags

1. Governance
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Author
tim-ambrose