

The financial cost of HIE outsourcing Cairngorm to Natural Retreats

Description

BY SUSY MACAULAY

The beleaguered Cairngorm mountain resort has been hit by a health and safety headache that will likely leave tows out of action as the first snow of the season arrives.

Health and Safety Executive (HSE) inspectors have slapped three improvement notices on the Aviemore snowsports operation, stipulating two of the nine tows on the hill cannot be used until they are fixed.

HSE blasted now-defunct operator Cairngorm Mountain Ltd for poor safety standards at the drive stations operating the West Wall Poma and Coire na Ciste tows, and said overall maintenance practices need improving.

Campaign group Save the Ciste (STC) raised the alarm to HSE and operator Highlands and Islands Enterprise about the maintenance issues in November last year.

Alan Bratney of STC said: "A consultant engineer had detailed maintenance issues in reports compiled in 2015, 2016 and 2017 and we had become aware that the necessary corrective



Cairngorm tows shut due to health and safety fears

● Inspectors slap improvement notices on snowsports operation

BLASTED: Concerns have been raised over poor safety standards at the drive stations operating the West Wall Poma and Coire na Ciste tows

actions had not been taken and public safety could potentially be put at risk."

HIE has until February 8 to remedy the problems – but with snow forecast for the coming days and the funicular railway still out of

action, the resort needs as many ways of getting skiers up the hill as possible.

An HIE spokesman said: "HIE subsidiary, Cairngorm Mountain (Scotland) Limited (CMSL), inherited responsibility for resolving the notices when it took over operations on December 14.

"The company is providing HSE with assurances regarding maintenance arrangements to all other

tows, which are ready to be used in the event of snow. It is also addressing the issues raised with regards to the West Wall and Coire na Ciste, neither of which will be used until the work has been approved by HSE."

He added: "While the funicular is out of service, uplift on Cairngorm this winter will be limited compared to previous years.

"When planning a visit, we would encourage people

to check the CMSL website and Cairngorm Operations Facebook page, where they will find regular updates on uplift and conditions."

Mike Dearman of Aviemore and Glenmore Community Trust, a community organisation whose long-term goal is to take over the running of the mountain, said: "We need a new model for Cairn Gorm because clearly what we've been doing for the

last 10 years is not working. That's why we're pushing hard with our plans for an overall vision for the hill which involves new lifts and new infrastructure to try and make it an asset for the area instead of this liability."

Meanwhile HIE says it will "soon" release an executive summary of the long-awaited engineer's report on the condition of the funicular railway.

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HIE has tried to deflect responsibility for the shutting of the ski tows to the new Cairngorm Mountain Scotland Ltd but it was HIE who was responsible for supervising the lease with Natural Retreats and ignored repeated warnings about the state of the infrastructure

Following my post ([see here](#)) on the flawed and unfair procurement process which resulted in Cairngorm Mountain Ltd being sold off to Natural Assets Investment Ltd, I have started to work out the costs to the public purse to date of that disastrous decision. The HIE Board should be doing this that would mean them investigating their current Chief Executive, Charlotte Wright, who back in 2014 was the Project Manager responsible for the disaster (see above). Given its failure to look critically at its longstanding history of mismanagement at Cairngorm, the chances of HIE initiating any investigation is low. The alternative is an investigation by Audit Scotland or preferably the Scottish Parliament. This post sets out the evidence I have collected so far about the financial issues related to Cairngorm being outsourced to Natural Retreats from May 2014 till November 2018.

The sale of Cairngorm

HIE sold Cairngorm Mountain Ltd to Natural Assets Investment Ltd for Â£231, 239. Evidence for how this valuation came about was included in NAIL's accounts to 31st March 2015:

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20 PURCHASE OF SUBSIDIARY UNDERTAKINGS

On 11 June 2014 the company purchased the entire issued share capital of a subsidiary company for a total consideration of £231,239. This has been accounted for using the following figures:

| | Book value £ |
|--------------------------|-----------------|
| Net assets acquired: | |
| Tangible fixed assets | 471,958 |
| Stocks | 37,125 |
| Debtors | 193,574 |
| Cash at bank and in hand | 238,212 |
| Creditors | (439,915) |
| Pension asset | 114,000 |
| | <u>614,954</u> |
| Negative goodwill | |

Discharged by:

Cash consideration

Balance to be re-paid included in other debtors

Following the actuary's review of the pension scheme it was agreed that the company should contribute £53,729.

The NAIL figures raise several questions:

- The sale price of £231,239 was derived by deducting £323,444 “negative goodwill” from the value of the fixed assets. Goodwill is an accounting term that expresses the intangible value of a company’s worth, such as its brand and customer base. Negative goodwill expresses the opposite and, as Investopedia puts it “implies a [bargain purchase](#) and the acquirer immediately records an extraordinary gain on its income statement. For the purchased company, negative goodwill often indicates a distressed sale, whereby unfavorable sale conditions lead to a depressed sale price.”
- Why then did HIE sell CML to NAIL for a bargain price (and loss to the public purse) when there was no pressing need to do so and they had unfairly excluded a sound local company, Cairngorm Snowsports, from the tender process?
- CML’s audited accounts to 31st March 2014, just two months before HIE sold off the company, record Tangible Fixed Assets as being valued at £615,562. Two months later they had reduced to £471,958. It appears that some of CML’s assets were sold off at a late stage in the negotiations with Natural Retreats. Why and what were they?
- Then there is the role of Ernst and Young, who were CML’s auditors but had also been engaged by HIE to conduct the tender process, creating a potential conflict of interest. Were Ernst and Young involved in determining the revised valuation and if so on what basis did they agree to a very different evaluation to that included in the accounts?

Before Xmas I asked for a list of all assets, including intellectual assets such as reports, transferred by HIE at the point of sale and, a week ago, received a response. The information provided consists entirely of vehicles, including piste machines:

| | | | | | | | | | | | | |
|--------|----------|------------|----------|---|--------------------|----------|---------|-------|---|--------|----|------|
| FA5 | Vehicles | Kässbohrer | PB 0700 | Piste groomer machine with all associated attachments | WK081300001 011876 | £90,000 | £27,422 | 0.0% | | £0 | £0 | £0 |
| FA6 | Vehicles | Kässbohrer | PB1000 | Piste groomer machine with all associated attachments | | | | 0.0% | 1 | £0 | | £0 |
| FA8 | Vehicles | Kässbohrer | PB 300 | Piste groomer machine with all associated attachments | WC962511063 k3000 | £300,000 | | 0.0% | 1 | £0 | | £0 |
| FA4 08 | Vehicles | Land Rover | Defender | EO5TWGD | | £0 | £9,100 | 25.0% | 2 | £3,680 | | £920 |
| FA4 09 | Vehicles | Land Rover | Pickup | K 119 MAS | | | £2,393 | 25.0% | 2 | £1,348 | | £336 |
| FA4 15 | Vehicles | Honda | | YR 350 Dk ATV trailer | | | £465 | 25.0% | 2 | £88 | | £22 |
| FA4 16 | Vehicles | Kässbohrer | | Accessories | | | £6,158 | 25.0% | 2 | £184 | | £46 |

Extract from asset list that formed Schedule 9 and the Share Purchase Agreement with some of the price data and explanation of the columns missing

The FOI response states “this is the only information HIE holds relevant to your request”. It does not cover the ski and snowboard equipment, recorded under tangible fixed assets in the accounts, or stocks both of which are recorded in CML’s account before and after transfer. One assumes that

stocks, from restaurant equipment to staff clothing, will have been included in the sale and it appears staggering HIE of no record of this. Surely, Ernst and Young must have vetted such lists in order to respond to "due diligence" checks by NAIL on the value of the company?

What assets have returned to public ownership?

According to CML's accounts the tangible fixed assets owned by the company, after depreciation and disposals, increased from £471,958 in May 2014 to £1,283,230 in December 2017. Whether any of those assets were sold before CML went into administration and whether any have been subsequently sold to meet money owing to creditors are moot questions. Natural Retreats' most obvious new investment at Cairngorm was in new snow fencing and HIE is likely to have paid something to get this back so that the Administrator could pay off creditors.

HIE has not yet made public what it paid to buy back CML or the fixed assets and stocks included in the purchase. How many of the assets originally sold by HIE, both major and minor, together with any replacements have returned to public ownership and in what state? What if any additional investment will HIE now need to make to plug the gaps?

How much was owed to creditors when CML went into administration?

The final cost to local and other companies is not public. I have obtained, however, through FOI a list of CML's rent payments to HIE ([see here](#)). This shows that £139,985.01 (or c £100k if you adjust for the rent due the day CML went into administration) was owing to HIE on 29th November.

| Date | Period start | Period end | Description |
|-----------|--------------|------------|--------------------------------------|
| 13-Aug-18 | 01-Apr-18 | 31-Mar-19 | Insurance |
| 28-Aug-18 | 28-Aug-18 | 27-Nov-18 | 01 Quarterly Rent in Advance |
| 17-Oct-18 | 01-Apr-18 | 31-Mar-19 | Insurance-Terrorism |
| 17-Oct-18 | 01-Apr-18 | 31-Mar-19 | Insurance-rolling stock |
| 22-Oct-18 | 11-Jun-17 | 10-Jun-18 | 01 Additional rent, 2017 rent review |
| 22-Oct-18 | 11-Jun-18 | 27-Nov-18 | 01 Additional rent, 2018 rent review |
| 28-Nov-18 | 28-Nov-18 | 27-Feb-19 | 01 Quarterly Rent in Advance |

If rent apportioned to 28/11/18

If insurance apportioned to 29/11/18

Natural Retreats kept up with rent payments almost to the very end. Perhaps they knew that so long as HIE were receiving rent they would not ask too many questions about matters such as maintenance ([see here](#))?

HIE only issued the insurance invoices (the costs of which under the lease it paid for and then claimed back from the tenant) between August and October and this accounts for most of the money owed. The non-payment of these invoices, however, should be recoverable by HIE from the former Directors of CML and ultimate owner, David Michael Gorton. In September, one of the Directors on their behalf, signed ff the company as a going concern ([see here](#)). They should not have done so if there was any question of CML being unable to pay invoices or go into administration. The question is will HIE try and recover the money and will they raise concerns with Companies House about what has happened?

Investment and the cost of maintenance failures

CML's accounts show that Natural Retreats had invested £1,917,193 in the company in the form of additions between May 2014 and December 2017. This may sound a reasonable amount until you consider that the original cost of fixed assets disposed of in this same period amounted to £1,248,492

CML Assets

| Financial year | Additions | Disposals# | Fixed Assets year end* |
|----------------|------------|------------|------------------------|
| Mar-14 | | | £615,562 |
| Mar-15 | £616,544 | £845,919 | £925,952 |
| Dec-15 | £351,849 | £11,500 | £899,788 |
| Dec-16 | £360,882 | 26,205 | £1,007,089 |
| Dec-17 | £587,918 | 364,868 | £1,283,230 |
| | £1,917,193 | £1,248,492 | |

Disposal recorded as cost price

* Fixed assets are recorded after depreciation

In other words Natural Retreats was scarcely investing enough to replace the assets it had bought at a knockdown price.

While we know that CML installed some new snow fencing, we also know that they failed to maintain infrastructure as required under their lease with HIE ([see here](#)). The cost of putting this legacy of maintenance failures is at present unknown. It is likely, however, that HIE will have already paid for the cost of fixing the serious failings identified by the Health and Safety Executive (see P and J article above). The public need to know how much this cost.

We also don't know yet whether the current safety issues affecting funicular also resulted from lack maintenance.

That there was a serious lack of investment by Natural Retreats at Cairngorm is demonstrated both by HIE's agreement to lend CML £4 million to pay for a new dry ski slope and extension to the Ptarmigan. Its also illustrated by the amount of money HIE have spent at Cairngorm over the last four years:

Cairngorm additions by year

| Year | Additions |
|--------------|---------------------|
| | £ |
| 2008 | - |
| | £ |
| 2009 | - |
| | £ |
| 2010 | - |
| | £ |
| 2011 | - |
| | £ |
| 2012 | 34,455.13 |
| | £ |
| 2013 | 1,742.74 |
| | £ |
| 2014 | - |
| | £ |
| 2015 | 577,332.19 |
| | £ |
| 2016 | 744,584.33 |
| | £ |
| 2017 | 128,194.49 |
| | £ |
| 2018 | 221,813.35 |
| | £ |
| Total | 1,708,122.23 |

List of additions paid for by HIE obtained under FOI â?? the 2018 figure records expenditure till May

What this shows is both the lack of investment by HIE at Cairngorm before Natural Retreats took over and that HIE then invested almost as much as Natural Retreats (Â£1,708,122 compared to Â£1,917,193). That investment was more than double the amount of rent Â£760,989 that HIE was due in the period. (The rent was due to go up significantly from March 2019 â?? after the partial rent holiday designed to help Natural Retreats invest money up front â?? and, as I have commented previously, from the information in the accounts it appears CML could never have paid this).

Most of HIEâ??s actual investment was to improve infrastructure which it owned, such as the installation of new electric cabling to lifts and the Shieling Rope Tow. Although none of this investment should have been lost by CML going into administration, some of it appears to have been wasted because in its new vision ([see here](#)) HIE is now proposing to close these lifts. In addition there remain many of questions about the standard of the works which HIE paid for but Natural Retreats delivered ([see here](#)).

Under the terms of the lease HIE also required Natural Retreats to put money into an Asset Replacement Fund ([see here](#)) which at 31st March should have received Â£100k in contributions. I have asked HIE for what information they hold about how much money was in that fund and how much, if any, had been spent before CML went into administration.

The siphoning of money out of Cairngorm

The lack of investment at Cairngorm by Natural Retreats has to be set in the context of the large increase in administrative charges since they took over ([see here](#)). That is all money that could have been invested in Cairngorm but instead was taken out of the company in operating charges. Despite having brought this and other financial matters to the attention of Charlotte Wright, the Chief Executiveâ??s attention, she has consistently failed to address the issues (as I will detail in another post). That has added to the bill which HIE has now been left to pick up.

The need for an inquiry into HIEâ??s mis-management of Cairngorm

The outsourcing of Cairngorm to Natural Retreats between 2014-18 has represented a catastrophic failure by HIE, both in terms of how it managed the sale and procurement process and in how it then managed the contract with â??Natural Retreatsâ??. This post has tried to show some of the main consequences for the public purse. There is more work to do and I believe this would best be done by a Parliamentary Inquiry.

The need for this is partly so that we can understand more fully what has gone wrong and how similar mistakes can be avoided in future, which has implications for outsourcing across the whole of Scotland (including for Flamingo Land at Balloch). Its also vital, from a cost perspective, that the Aviemore and Glenmore Community Trust which would like to take on Cairngorm understands the full costs of doing

so and does so within an agreed framework of what investment in future is the responsibility of HIE.

Once the report into the causes of the funicular shutdown become public, the case for a public inquiry is likely to become even stronger.

Category

1. Cairngorms

Tags

1. Freedom of Information
2. Governance
3. HIE
4. natural retreats
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