

• latest accounts confirm HIE's financial mismanagement of Cairn Gorm

Description

With the ongoing crisis at Cairn Gorm, the bungled planning applications and the question of the funicular, it's important that people don't forget how Highlands and Islands' enterprise created this pickle. After the decision to build the funicular in the first place, arguably HIE's greatest mistake was the sale of Cairngorm Mountain Ltd to Natural Assets Investment Ltd (NAIL) and through that the appointment of Natural Retreats to maintain and operate the facilities at Cairn Gorm. Neither company they were closely related with shared Directors had any experience of running facilities such as Cairn Gorm, unlike other organisations which bid for the contract, and there are serious questions that remain unanswered about the procurement process ([see here](#)). It was reassuring therefore that in August, after MSPs had raised concerns, Audit Scotland announced it would prepare a further report for the Scottish Parliament for Spring 2020 on the grounds that:

It is important that HIE can demonstrate that its decision to transfer CML to NAIL was robust, that it managed its relationship with CML well and that its decision-making around events leading to the company's administration was robust and well-founded.

The 2018 accounts for both the UK Great Travel Company (the current name for what was Natural Retreats) and NAIL have been published over the last six weeks. They provide further evidence about what HIE got wrong.

What NAIL's 2018 accounts tell us

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REVENUE

Cost of sales

GROSS PROFIT

Administrative expenses

Other operating income

Past parkswatch posts have highlighted how the income the NAIL group has earned has never been sufficient to pay off debt obligations and the net liabilities of the company have increased by Â£5-6m most years since it was set up ([see here for example](#)). The 2018 accounts confirm this picture, with income dropping slightly from 2017 (Â£5,879,367) and an even bigger loss. Two years ago I was warning about net liabilities having reached almost Â£30m. Well in the last year they owned CML they reached Â£41,339,517! Normally the public sector would not contract with companies in such a financial position, its against public procurement rules. HIE, however, argued the company was in its growth phase and would start to earn income eventually. The NAIL groups consolidated 2018 accounts show that that has still not happened.

Moreover, they also show that is now unlikely ever to happen. For the first time the accounts have been separated into 'continuing' and 'discontinued' operations ([see here for explanation](#)). CML went into administration late in 2018 and therefore its contribution to the group's income and expenditure for that year come under the discontinued operations column. The discontinued operations earned significantly more for NAIL (Â£3,487,348) than the continuing operations (Â£2,197,854). While Note 6 to the accounts states that several operations were disposed of in course of year and therefore the discontinued line does not only represent what CML contributed to the group, subsidiary accounts suggest that CML and Yorkshire Dales Ltd were the main income generators for NAIL. Since YDL is still part of NAIL, it looks like CML provided over half the income to the group as a whole. That income is no longer there and the remaining income (Â£2,197,854) is greatly exceeded by the interest payable on loans (3,613,753). NAIL looks ever more broke.

NAIL's sorry performance is confirmed by the Directors report on Key Performance Indicators

KEY PERFORMANCE INDICATORS

The group operates and monitors a range of KPIs covering all the key aspects of its operations including the following:

- Activity level - measured by turnover growth, occupancy levels and ADR's
 - o Turnover decline year on year is 3.3%
 - o Gross Revenue ADR (Average Daily Rate) remained flat
- Profitability - measured by profit/loss before interest, tax, depreciation, amortisation, impairment and one off gains or losses on disposal of assets
 - o Loss has increased 23% year on year
- The group is reliant on long term loans but has maintained a positive cash balance and did not require an overdraft
- Average cost of long term debt was 10% during the year.

If you were an investor reading this, red lights would start flashing 'so why didn't HIE pick up the warning signals six years ago?

There are several references to CML in the accounts. The first is NAIL's account of why it went into administration:

During the year ended 31 December 2018, following the identification of historic issues with the funicular railway at Cairngorm Mountain during the annual safety inspection and after taking advice from experts it became necessary to close the railway. As a consequence of this Cairngorm Mountain Limited, the entity responsible for the resort's operation, suffered a severe cashflow shortfall and was subsequently placed into administration on 29 November 2018.

This fails to mention that David Gorton, the owner of NAIL, had in the 2017 accounts for CML, provided written assurances that he could guarantee CML as a going concern for another year. That assurance

was given in September 2018 just two months before CML went into administration. So why did HIE ever trust these people?

That HIE has subsequently taken legal action after Parkwatch had highlighted the broken guarantees is unlikely to make up for the original mistakes. Indeed, the following note to the accounts, which can only be a reference to HIE taking legal action, suggests NAIL are confident of defending the claim:

26. CONTINGENT LIABILITIES

Following the year end a claim was lodged against Natural Assets Investments Limited in respect of alleged damages caused by a former subsidiary undertaking for a breach of the company's guaranteed obligations. This claim is at an early stage and the directors have obtained legal advice and have requested but not yet received additional information to substantiate the claim. The directors will be defending the action and as at the date of signing these financial statements are of the view that no material losses will arise in respect of this legal claim.

Its not possible from the accounts to ascertain the overall profit/loss that NAIL made/incurred through its ownership of NAIL. The accounts do record a loss against amounts due from subsidiaries, which is likely to include CML:

Company

An impairment loss of £948,599 (2017: £2,406,720) was recognised during the year against amounts due from group undertakings.

What's more the Administrator's statement of affairs on winding up the company stated that NAIL had loaned CML £2,294,561. Even though they will get a chunk of that back from the residual assets, ostensibly CML appears to have contributed to NAIL's losses in the last year at least.

What UK Great Travel Company's accounts for 2018 tell us

Set against this ostensibly dismal picture , however, readers may be surprised as I was by the UK Great Travel Company's unaudited financial statements:

	Notes	2018 £	2017 £
FIXED ASSETS			
Intangible assets	4	49,225	51,307
Property, plant and equipment	5	20,811	39,366
Investments	6	-	349,937
		<u>70,036</u>	<u>440,610</u>
CURRENT ASSETS			
Debtors	7	394,012	188,379
Cash at bank		210,854	166,641
		<u>604,866</u>	<u>355,020</u>
CREDITORS			
Amounts falling due within one year	8	(1,091,210)	(1,305,570)
NET CURRENT LIABILITIES		<u>(486,344)</u>	<u>(950,550)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(416,308)</u>	<u>(509,952)</u>
CREDITORS			
Amounts falling due after more than one year	9	-	(84,197)
NET LIABILITIES		<u><u>(416,308)</u></u>	<u><u>(594,149)</u></u>

These don't show income and expenditure but they do show that in the year up to Dec 2018 that the net liabilities of the company reduced, i.e their financial position improved. It appears therefore that the UKGTC wasn't seriously affected by CML going into administration. While, given the level of management fees paid by CML ([see here](#)) its income is likely to be much reduced in future, for 2018 once again it appears that what may have been lent to CML by NAIL was then being taken out of the company by the UKGTC (with both companies sharing the same core group of directors)..

That raises the question of what, if any, level of critical oversight did HIE give to internal group transactions which involved CML?

What needs to happen?

I have consulted a qualified accountant and its very difficult to tell what is really going on from the accounts of NAIL and UKGTC (they provide another illustration of just how inadequate company law is when it comes to ensuring financial transparency). Audit Scotland's investigation of the procurement process and HIE's subsequent management of their contract with CML provides an opportunity, which is not available to the public, to take a much closer look. HIE should, through their contract with CML, have had access to the CML's management accounts. These should show

transactions between the companies in the NAIL group and between NAIL and the UKGTC which are not recorded in the accounts. From these it should be possible for Audit Scotland to get a clearer view of what was really going on and how effectively HIE was managing the contract from a financial perspective.

What the accounts do confirm, however, is that in terms of the financial standing of the company, HIE should never have sold CML to NAIL in the first place.

Category

1. Cairngorms

Tags

1. Governance
2. HIE
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Date Created

October 24, 2019

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