“Natural Retreats” goes bust – HIE’s legacy for Cairngorm Mountain and the Highlands

Description

Just 14 months after Cairngorm Mountain went bust, the company that operated it and got away scot free has gone into administration. That should come as no surprise to anyone who has followed the Natural Retreats saga in the Highlands. This post takes a look at the latest financial losses attributable to Highland and Islands Enterprise’s promotion of Natural Retreats.

Events leading up to Natural Retreats entering administration

On 9th January 2020 Matthew Spence, Ewan Kearney, and Anthony Wild, the Directors of Cairngorm Mountain Ltd before it went into administration in November 2018 (see here), resigned from no less than 20 subsidiary companies belonging to Natural Assets Investment Ltd (NAIL). These companies included John of Groats Highland Ltd and NA Lews Castle Ltd, both of which have received significant financial assistance from HIE (JOG Highland £1.8m and Lews Castle £1.7m). HIE sold Cairngorm Mountain Ltd to NAIL in 2014, only to buy it back out of administration for twice the price in November 2018, just after its ultimate owner, the hedge fund manager David Michael Gorton, had certified it as a going concern for another year in September 2018 (see here).

It was clear from the Director’s resignations something serious was going on, but what?

Humbert’s, another company owned by Spence, Kearney and Wild, went into administration in December 2019. This “Heritage” Estate Agency, had been bought by the trio in May 2018. Press publicity in 2018 had suggested that Humbert’s had been taken over by the “Natural Retreats” group and the two were “*a perfect fit and there will be mutually beneficial crossovers”* (see here). Spin! Interestingly, I can find NOTHING on the Companies House website to suggest there were any legal connections between the two companies in terms of ownership. According to the statement from the Administrator (see here), in the 18 months they were responsible for running the company Spence, Kearney and Wild ran up debts of £897,773 to HSBC and £517,303 to HMRC while the UK Government appears to be left with picking up the redundancy tab of £383,845. 96 people appear to have lost their jobs (see here).

Following this, on 11th February 2020, the UK Great Travel Company, the new name for the company previously known as “Natural Retreats”, went into administration. HIE had appointed NR/UKGTC to run Cairngorm Mountain Ltd but without any contract, hence why it was able to get away from Cairn Gorm scot free. It had the same three Directors, Spence, Kearney and Wild.

The Administrator for the UKGTC subsequently published their account of what led to the administration and their proposals for winding up the company, on 24th February (see here). It confirms some of the concerns expressed on Parkswatch about how HIE outsourced and managed

Cairngorm Mountain Ltd but also contains a new bombshell of much wider significance for the Highlands.

HIE’s mismanagement at Cairn Gorm

When recommending that Natural Retreats should take over Cairngorm Mountain, HIE staff claimed they had *“Demonstrable management experience in operating, marketing and growing resorts”* (Board Paper Feb 2014). The fanfare of press coverage announcing the appointment referred to Natural Retreats having experience in US ski resorts. The truth is that Natural Retreats had almost no experience of running resorts, were in fact a holiday lettings company (whose US arm appears to have operated some ski chalets) and a very new one at that:

1 Introduction and Background

1.1 The Company was incorporated on 22 April 2010 and originally operat Natural Retreats (rebranded as Together Travel in February 2019) operate high end self-catering holiday accommodation, providing full c owners of properties in this part of the leisure sector. The Company a property owners in return for a management fee for carrying out the f

- Marketing the property for holiday rentals;
- Sales – both online and over the telephone;
- Site operations, managing all the guest stay and changeover of
- Technology for the whole process;
- Finance;
- HR.

Introduction from Administrator’s Statement

This confirms Natural Retreats NEVER should have been considered as a suitable company to take over Cairn Gorm.

The Administrator’s statement also re-inforces the suspicions,first voiced on parkswatch over three years ago [(see here)](), that “Natural Retreats” used Cairngorm Mountain Ltd (CML) as a cash cow:

1.14 However, in September 2018, the Company lost its largest con approximately one third of its management fee revenue. Additionally a significant bad debt which caused further cash flow issues.

1.15 As a result of this significant loss of revenue, the Company had to qui base and make several redundancies, whilst also securing an overdraft to assist with cashflow. Once the Company had drastically reduced its cost to the business to fund the redundancies, utilising the bank ove profitable and it secured some new contracts to increase its rev increasing its cost base.

1.16 Unfortunately, this coincided with the decline in relationship with customer which further adversely affected the position.

Para 1.14 can only be a reference to CML though that company went into administration in Novembe

The importance of the income from CML is shown by the fact that Natural Retreats had to “restructure” and take out a loan of £400k once it had gone. The final paragraph appears to be a reference to NAIL, which owned most of the properties which the “Natural Retreats” holiday lettings business then let out. The suggestion that NAIL, however, was an (independent) customer is far from the truth, as Spence, Kearney and Wild were also Directors of all these NAIL companies. Effectively, the claim in the Adminstrator’s statement appears to be that the three Directors fell out with themselves! Smoke and mirrors! Rather it appears they fell out with NAIL’s owner, David Michael Gorton, hence the resignations.

The Administrator’s Statement then reveals that at the very beginning of February 2020 the UKGTC sold off most of their assets to a company called Archibo for £38K. This effectively finally cut the Directors’ ties with NAIL:

1.26 Subsequently, the major customer via Archibo, an associated company by director of the Company, put forward an offer in the sum of £38,000 includir assets, goodwill & IPR, the transfer of all employees except the directors a book debt ledger at a rate of 50 pence in the pound. RKA considered the of following:

- Archibo has a good working relationship with the major customer and there continue to work with Archibo and retain a large proportion of turnover;
- 44 staff would be transferred to Archibo eliminating the majority employee unsecured claims;
- The completion of a pre-packaged sale in Administration is considered to sig book debt collections due to the continuity of supply to customers;
- No further offers were received from third parties.
- The offer received was far in excess of the anticipated realisations should th to trade and be placed into Liquidation.
- The offer represented the best outcome for creditors;

1.27 Therefore, RKA recommended acceptance of the offer received from Archib instructed Knights Solicitors ("**Knights**") to prepare the sale and purchase ag

1.28 On 3 February 2020, EK signed the Notice of Appointment ("NOA") and the by both parties on the same date with the purchaser depositing the funds February 2020. Once the SPA was finalised, the NOA was filed in Court on t the pre-packaged sale to Archibo was completed immediately following the

Archibo appears to have been a shell company, which was owned by NAIL's owner David Michael Gorton through a company called Moore Place Holdings Ltd (see here). One of its Directors is Timothy Dennis, who was a Director of the UKGTC until January 2017, and is a Director of many of NAIL's subsidiary companies, including John O Groats Highlands and NA Lews Castle. This sale was therefore to a "connected company". That is important because under the Insolvency Act 1986 selling of assets to a connected company just before going into administration is normally unlawful (see here). This raises further concerns about the fitness of Spence, Kearney and Wild to act as company directors. It will be interesting to see if the Adminstrator investigates further or whether HIE submits evidence about how it was conned at Cairn Gorm!

The financial impact of the UKGTC going into administration in Scotland

Having sold the assets for £38k, the Administrator's Statement reveals that UK Great Travel Company was left owing **£963,844** to other parties, including HSBC which had bankrolled some of NAIL's acquisitions.   A number of small Scottish Companies were affected, including for example Highland Laundries £248.76 and Quintfall Forest Products £206.16. However, after from HSBC, the organisations that have been hit hardest are Public Authorities in Scotland:

- Cairngorm Mountain Ltd is owed £5052.13. This amount appears never to have been collected after CML went into administration in November 2018.   How CML could have been owed money by the UKGTC, a company that was supposed to be servicing it, is worthy of further investigation. It provides evidence to support the suspicion that money ,may have been siphoned out of Cairngorm by Natural Retreats.
- Highland Council is owed £6,011.56. Its not clear at this stage what this money is for.
- The "site owner" of John O Groat's Scotland is owed £2,257.78. It is not clear who this might be but some of the site occupied by JOG Scotland appears to be leased from Highland Council.

As concerning as all this is, given the HIE connections at CML and JOG Scotland, by far the largest sum of money is owed to Scottish Canals, the public authority responsible for the canal infrastructure in Scotland:

CS01	Scottish Canals	Canal House, 1 Applecross Street, Glasgow, G4 9SP
CS02	Scottish Hydro (SSE)	PO Box 13, Havant, PO9 5JB
CS03	Scottish Water	PO Box 5749, Inverness, IV1 9DU
CS04	Sensation Group	Rose Cottage, Abersoch, Pwllheli, Gwynedd, LL53 7DS
CS05	Shine On Window Cleaning	Ellen Upper Flat, Corpach Basin, Fort William, Highlands, PH33 7JH

Extract showing money owed to Scottish Canals and three other Scottish companies

The Scottish Canals bombshell

A key section of the Administrator's report is about "Natural Retreats" and Scottish Canals. In 2017 "Natural Retreats" were granted a lease for 17 holiday properties owned by Scottish Canals. They then apparently failed to rent from late 2018 (I say apparently as the figures suggest this might have been earlier). As a result Scottish Canals instigated court proceedings in October 2019 and it was as a consequence of this that Natural Retreats/UKGTC went into administration:

1.17 In 2017 (just before the separation from the US investors), the Company h
lease with Scottish Canals ("SC") for over circa 17 properties. This leas

Company to trade holiday rentals from these properties whilst paying SC a payment under the terms of the lease. Unfortunately, this contract proved to the Company and losses were incurred.

1.18 Therefore, despite best efforts, for the following two years the Compan enough revenues from operating these properties to cover its costs and p and consequently, from late 2018 and throughout 2019, the Company fell i rent payments to SC and it did not have the free cash flow within the rest fund these rent payments, meaning that significant arrears accrued. The Co to renegotiate the terms of the lease with SC in order to find a mode sustainable. However, this proved to be unsuccessful.

1.19 In October 2019, SC instigated court proceedings for collection of the ren Company did not have the available funds to pay. This along with the large breakdown in relationship with the major customer meant that the Comp financial distress.

1.20 As a result, EK and AW attended a meeting with Jason Mark Elliott (**"JME** Cowgill (**"BC"**) of Cowgill Holloway Business Recovery LLP (**"CHBR"**) on 7 **N** discuss the options available to the Company.

1.21 Following the meeting, the directors spoke to SC to try and negotiate a deal the Company being placed into a formal insolvency process. The basis o settlement agreement was reached with SC, but after considering the position of the Company including large overheads and the uncertainty o due to the erosion in the working relationship with the major customer, it w interests of the Company to accept the offer from SC.

This significant financial loss by Scottish Canals doesn't appear to have been reported in the media. That is not surprising as there appears to have been no news release and Scottish Canals, like many of our secretive undemocratic Scottish public authorities, fails to publish Board Papers routinely, only agendas and minutes. An item entitled "Holiday Cottage Portfolio Update and Recommendations Report" was presented to the Scottish Canals Board in January. You would never know from this that SC had entered into a disastrous lease with Natural Retreats.

My suspicion is the loss will be significantly greater than £142,506 as "*All responsibility for the fabric of the properties and the holiday customers sit with the tenant, Natural Retreats".* Natural Retreats/UKGTC have had a history running down properties in Scotland, not just Cairn Gorm (see here for example)

, but also according to local reports passed on to parkswatch, John O' Groats.

This came as a bombshell. I had first discovered that Scottish Canals had decided to lease their properties to Natural Retreats in May 2018 and I asked them then about the basis for that decision because I was so concerned about their mismanagement at Cairn Gorm I then received a series of evasive and contradictory answers:

- First I was told that *"Our properties are leased to Natural Retreats through a commercial property lease and they operate their own holiday letting business"* (email 19th June)
- Then when I asked why the outsourcing of the canalside properties had not been advertised on the Scotland Contracts Portal I was told that: *"There are no goods purchased or service provision in this instance so it does not fall under the regulations or remit of procurement."* (email 5th July 2018)
- When I queried this I received the following response "*Natural Retreats do not operate any business on behalf of Scottish Canals or provide us with any service"* (email 26th July 2018).
- I then asked why, if this was the case, Scottish Canals had a link on their website (now gone of course) which stated "*Book your canalside cottage with Natural Retreats today*".

Another, less than transparent reply prompted me to make an FOI request asking for a copy of the lease and all Board Papers about the decision. The lease turned out to be 25 years, for a fixed rent of £75k PLUS 10% of any profits. The 10% profit mechanism, while similar to that HIE agreed at Cairn Gorm, was extremely naive given that by 2017 it should have been clear to anyone who bothered to look that none of the NAIL/Natural Retreats companies ever made a profit or paid tax. The £75k rental also suggests that Natural Retreats failed to pay rent almost two years before Scottish Canals instigated court proceedings since £142,506.80 was owed. It may be that Natural Retreats failed to pay rent right from the start.

In terms of the Board papers, I was sent a link to a single document, the minute of the Board Meeting of 14th August 2014, which took place AFTER the lease had been agreed:

"7. Quarterly Business Report
The Board reviewed the Q1 Business Report presented in the context of the core themes of financial sustainability; public value; and empowering and motivating people as set out in the Corporate Plan 2017-2020 and as reflected in the Business Plan 2017/18.

<u>The Board noted the positive financial sustainability highlights reported, in particular the lease arrangement agreed with Natural Retreats for the marketing and operation of the holiday cottage portfolio</u> and transactional spend above plan for the quarter at The Falkirk Wheel."

It seems incredible to me that staff could have been allowed to agree a lease that was potentially worth £1,875,000 over 25 years – described as a "positive financial sustainability highlight" – and has caused a loss of at least £142,506.80 without any Board scrutiny or going through a proper procurement procedure. The questions of just how Scottish Canals decided to hand the lease to Natural Retreats, whether their response to the non-payment of rent was timeous and the total loss incurred need to be answered and in public.

A possible explanation of Scottish Canal's folly, however, apart from the neo-liberal thinking that continues to drive outsourcing in Scotland, is what I have heard through campaigners furth of

Scotland. That is that one of the Directors of Natural Retreats had bragged about their lease with Scottish Canals and stated this was granted after they had been given a favourable reference by HIE. I have submitted an FOI to HIE in order to ascertain if this is true or not. If HIE did indeed provide a reference, that raises further serious questions about their judgement and their role in enabling Natural Retreats to win so much business in the Highlands.

Its worth noting here that by August 2017, when Scottish Canals awarded the lease to Natural Retreats, it should have been quite clear to HIE that Natural Retreats were doing a terrible job at Cairn Gorm and that contractually the outsourced Cairngorm Mountain Ltd was failing to meet its maintenance obligations under the lease.

What needs to happen?

I have alerted Audit Scotland to the Administrator's report into the collapse of the UKGTC and the concerns described in this post. While many of these concerns go beyond the scope of Audit Scotland's current inquiry into what has gone wrong at Cairn Gorm, they are I believe relevant to it.

Its time, I believe, for a much wider inquiry into how Natural Retreats, a new company based in Cheshire, won so much business across Scotland in such a short period of time. Some bids/plans never came to fruition (see here) but a surprising number did. One, Comhairle Nan Eilean Saar's award of the Lews Castle contract to Natural Retreats, has already been contested in the Court of Session and highlighted serious procurement irregularities. Add to this HIE's procurement irregularities at Cairngorm Mountain (see here for example) and Scottish Canals award of their property lease to Natural Retreats, and there are now strong grounds for a much wider investigation.

It is surely time too that Highland MSPs, some of whom to their credit asked Audit Scotland to look at what had gone wrong at Cairn Gorm, demand that HIE fully accounts for their role in these disasters across the Highlands and Islands and seeks re-assurances about how both Lews Castle and John O'Groats are now being managed.

The issues are, however, wider than Scotland. "Natural Retreats" was involved in managing several other developments owned by NAIL in England and Wales where things have gone badly wrong, including in the Yorkshire Dales and at Plas Pistyll in North Wales. With none of the companies ever apparently paying corporation tax and the significant cost of paying for redundancies, its time public authorities and our politicians in Scotland asked for a wider investigation by the Inland Revenue and Companies House into how the Natural Retreats/NAIL group of companies has been managed.

Category

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Date Created
March 7, 2020
Author
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