

The Scottish Parliament, Cairngorm Mountain and the funicular railway

Description

On Thursday the Scottish Parliament's Public Audit and Post-Legislative Scrutiny Committee – a mouthful of a name! – questioned Audit Scotland about their report ([see here](#)) on “Highland and Islands Enterprise: management of Cairn Gorm Mountain and funicular railway” which they published in June. The session, which lasted just over an hour, can be viewed on Scottish Parliament TV ([see here](#)).

Considering the large range of matters they have to cover, I thought MSPs on the Committee asked Audit Scotland some very good questions which were helpful in clarifying the main issues. MSPs didn't, however, always follow through the implications of the answers they received and it is not clear if they intend to subject the decision of whether or not to repair the funicular to further scrutiny. The evidence from the session suggested that MSPs' understanding of the issues at stake is much greater than that of Audit Scotland and that they should.

Key points from the Committee hearing

- The current estimated cost for repairing the funicular is still £15m and this was stated to be a little more than the cost of removing it.
- Audit Scotland stressed they had not audited HIE's estimate of the £15m repair cost. MSPs recognised that given the past history of escalating costs at Cairn Gorm the figure might be a considerable underestimate. No-one questioned Audit Scotland about the removal costs but presumably these haven't been audited either.
- MSPs did pick up on the question of why invest in the repair of the funicular when Cairngorm Mountain has lost money for a decade or more. Indeed, Alex Neil explicitly stated that he thought the funicular would need ongoing public subsidy.
- Audit Scotland revealed that the secretive HIE Board – it hasn't even published redacted minutes of meeting for over a year – had considered and apparently approved the business case for repairing the funicular at their meeting in July. Given MSPs scepticism about HIE's ability to operate Cairngorm, the argument for that business case being subject to further parliamentary scrutiny before any decision is made appears very strong.
- MSPs generally appeared to endorse Audit Scotland's view that it was not HIE's role to operate businesses like Cairngorm Mountain (hence the various failed attempts to outsource it). They didn't follow up on the implication, why then does HIE still own the Cairn Gorm Estate?
- MSPs supported Audit Scotland's criticisms of HIE's ongoing failure to consult properly and asked questions about stakeholder involvement in the decision to outsource Cairngorm Mountain to Natural Retreats. Their questioning confirmed there no consultation. The debacle, therefore, was entirely HIE's responsibility and the organisation appears to be about to make the same mistake with their proposals to repair the funicular.
- MSPs questioned where the repair money will come from. Audit Scotland were not in a position to provide the answer but some MSPs picked up that spending £15m on repairs will be at the

expense of investment elsewhere in the Highlands (and that includes Speyside).

- Mr Greenhill from Audit Scotland informed MSPs that *“I’m led to believe that negotiations with a contractor to carry out the work are at an advanced stage.”* How this fitted with the statement from his boss, Stephen Boyle, in his opening remarks that it crucial HIE consider the full range of options and consult stakeholders going forward is not clear. I can find no trace of the £15m repair contract having been advertised on the Scotland Contracts Portal and it seems extraordinary that negotiations can be at such an advanced stage before the repair has even been signed off by Scottish Ministers.
- Audit Scotland concurred that even if the repair approved it is likely the funicular will remain out of action for another two years (during which time most of the remaining ski uplift will be inaccessible)..
- It was confirmed that HIE is still taking legal action to recover money from Natural Assets Investment Ltd, who bought Cairngorm Mountain Ltd, and its owner, David Michael Gorton, on the basis that both had given guarantees that the company would meet its contractual obligations. This constrained the Committee’s ability to scrutinise Audit Scotland’s findings about the way HIE had managed its contract with CML (post on this to follow)..

MSPs scrutiny of the procurement process

Having previously argued that Audit Scotland’s findings on the outsourcing of CML to Natural Retreats was a whitewash ([see here](#)), I was particularly interested to see what MSPs would ask about the procurement process.

It quickly became apparent from MSPs questions that Audit Scotland’s understanding of procurement is very limited, despite the fact that a year ago it had published a document on red flags in procurement ([see here](#)). For example, asked by Colin Beattie MSP the meaning of the Competitive Dialogue process used to select Natural Retreats, the Auditor General couldn’t answer. Eventually a member of Audit Scotland’s staff explained that it is a selection process that involves negotiation with potential providers. What wasn’t made clear is that such processes are used where a purchaser isn’t certain about what it wants and requires providers who have the skills and knowledge to design solutions.

Think about that a moment, HIE and its predecessor HIDB had owned the Cairn Gorm estate since 1971 and after over 40 years still had little idea about the solutions to the problems it had created. What has now changed so that HIE is so confident repair of the funicular will solve the problems at Cairn Gorm?

For the Competitive Dialogue process to work, those who respond need to have the right expertise. MSPs rightly asked how, after market testing identified nine suitable companies, this got whittled down to two. Only four companies responded to the initial tender, two of whom had appropriate expertise, but one of these dropped out. The other, a local company with lots of expertise, was rejected on the basis of low turnover in one financial year. At this point, HIE should have ascertained that Natural Retreats, a company which had only been set up three years previously, had no expertise to offer Cairn Gorm and the whole process stopped to enable a procurement re-think. Unfortunately, the Auditor General, while admitting to Colin Beattie MSP that Natural Retreats had no experience in snowsports, obfuscated the issue by claiming they had experience in leisure services. He was not picked up on this. In truth Natural Retreats was just a holiday lettings company. Proceeding with the contract at this

point was utterly reckless.

Audit Scotland, however, then either batted aside or ignored other pertinent questions by MSPs. When asked about why CML had been sold to a company so heavily in debt, Audit Scotland said HIE had spoken to NAIL and had been given assurances this was because the company was in a development stage, whatever that was supposed to mean. No procurement professional worth their salt would have ever accepted this. NAIL's net liabilities have been increasing by £5-6m a year ever since providing conclusive proof that the assurance was worthless. Asked by Edward Mountain MSP about whether it was appropriate to contract with companies whose accounts are very difficult to understand – he had studied them – the Auditor General avoided answering the question. It was the same when Willie Coffey MSP asked why there had been no legal agreement put in place to cover what services Natural Retreats would provide CML in return for the management fee.

As MSPs focused their attention on what would normally be regarded as red flags, the reasons why Audit Scotland thought it was acceptable that HIE should breeze by all the warning signs became clearer. The first was the assumption that HIE should outsource Cairngorm Mountain to a private provider. However bad the provider, Audit Scotland appears to have accepted HIE's view that this would be better than keeping the operation in-house. The second was Audit Scotland's view that because HIE had followed external legal and financial advice, they couldn't be criticised. That should surely only be the case if the firms that gave the advice were legally liable for its consequences. In any truth anyone with six months experience working in procurement could have told HIE that no good would come from the sale of CML to such companies. The third reason was that because guarantees had been secured from NAIL and David Michael Gorton, even if the whole outsourcing failed disastrously, there would be no cost to HIE.

Whether that is true, remains to be seen. Edward Mountain, the MSP who has taken most interest in what has gone wrong at Cairn Gorm and had asked to attend the Committee, pointed out that any guarantees about a company's ability to meet its contractual obligation should normally be recorded as a potential liability in the company's accounts. Mr Mountain, who said he had looked at a lot of accounts in his time, had been unable to find any reference to such guarantees in NAIL's accounts. He asked Audit Scotland why. They had no answer. The omission suggests that Gorton and NAIL's guarantees could be worthless. The risk now is that HIE will waste yet more public money trying to recover money through its legal action against a company that is effectively bankrupt and a hedge funder owner who almost certainly knows how to protect his own personal financial interests.

I hope I am proved wrong but, unless the money is recovered, Audit Scotland's conclusion in their report that it didn't matter that HIE outsourced CML to a company with huge debts and no relevant experience because they had sought appropriate guarantees will collapse. If HIE fails to recover the money both they and Audit Scotland should be hauled back before the Committee and Audit Scotland should be asked to revise the conclusions of their report.

Snowsports, the funicular and the local economy

Audit Scotland during the session put considerable emphasis on the need for a new masterplan and a new business model for Cairn Gorm, though unfortunately their responses to questions about this obfuscated the key issues.

Anyone reading the coverage of the meeting in the Herald ([see here](#)), would have thought the main issue facing Cairn Gorm is lack of snow. When Graham Simpson MSP asked Audit Scotland if other ski centres had had as many problems, after stating that they had not looked at them, *Graeme Greenhill, senior manager of performance audit and best value at Audit Scotland, told MSPs: "Climate change is having an impact. There's a lot less snow than there used to be. "I think it's highly likely that the other ski resorts are suffering as a result of that, and they're having to think about how they operate in future."*

The truth is that Cairn Gorm is the highest of all Scotland's ski centres but despite this has lost market share to the other four over the last ten years. More CML was not even making money in the good ski years. If climate was the real explanation for Cairngorm Mountain's woes, all the ski areas would now be in a similar situation. All have survived despite receiving far less public support.

The real explanation for Cairngorm performing worse than the other ski centres comes down to the removal of ski infrastructure and the funicular, which has consumed resources for no benefit. Unfortunately, while MSPs appeared to understand the strategic national importance of snowsports in Scotland, they didn't appear to appreciate that the funicular has little to offer in winter ([see here](#)).

Nor did most MSPs appear to appreciate what is happening in the local economy. In response to suggestions that the funicular might help attract visitors back after Covid-19, Audit Scotland staff failed to let MSPs know that this summer Glen More has seen more visitors than ever before. But perhaps they didn't know this and therefore weren't able either to answer Alex Neil MSP who argued that it might be worth supporting a loss making enterprise because of the wider benefits to the local economy.

When Anas Sarwar, the Committee Chair, explicitly asked what assessment there had been of the benefits the funicular might bring to the local economy, Mr Greenhill stated that HIE was in the process of preparing a masterplan. He failed to say that HIE's recent consultation on "Towards a vision and a masterplan for Cairn Gorm" was based on an assumption that the funicular would be repaired and that it contained NO assessment of the potential economic impact this might have ([see here](#)). Audit Scotland should have known that and explained it to MSPs. The truth is that whatever the case in the past the local Speyside economy no longer has any need of the funicular to attract summer visitors.

The key issue at stake therefore is that to attract snowsports visitors back to the area requires investment in new ski lifts. MSPs appeared to recognise that public subsidy might be required to further both the national and local interest at Cairn Gorm but to understand that those interests won't be served by the funicular being repaired. Audit Scotland's responses to MSPs questions unfortunately served to cover up this fundamental point. Taken with their endorsement of HIE's approach to procurement, Audit Scotland appears at best to have been fooled by HIE and at worst to be colluding with them to conceal the truth.

I hope MSPs will now press for HIE and the Scottish Government to publish the business case for repairing the funicular and consult on it before calling for evidence from the various interests in

Committee. If the disastrous decision to build the funicular at Cairn Gorm is not to be followed by the equally disastrous decision to repair it, we need much greater transparency and a democratic decision-making process.

Category

1. Cairngorms

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2. HIE
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