

Highland and Islands' business case and the decision to repair the funicular

Description

There is, of course, a case for repairing the funicular railway. Our consumer society fails to repair far too many things before abandoning them. A terrible waste. And the funicular has attracted some visitors, even if significantly fewer than predicted, who have enjoyed the experience and brought some benefit to the economy on Speyside. In a world where the Scottish Government controlled money and taxes and was willing to direct investment to where it was needed, repairing the funicular could form part of a coherent set of investment projects in the Highlands.

But we don't live in such a world and the current SNP Scottish Government shows no signs of wanting to lead us there. The decision ([see here](#)) to approve to invest a total of £32.42m on repairing the funicular (£16.16m on repair, £4.35m on other capital investment, £9.76m on annual subsidy over the next five years and a further £2.15m on further internal project management costs) comes at the expense of other choices. At a time when the economy in the Highlands is reeling from the corona crisis, it is not difficult to think of ways to invest £32.42m that could generate far more economic benefit across the region as a whole, including Strathspey and Cairn Gorm.

This post takes a critical look at Highland and Islands Enterprise's business case ([see here](#)) that underpins the Scottish Government's decision to repair it.

Repair or remove?

The business case considers six options, the first of which (option 1a) is simply to remove the funicular. Audit Scotland had recently confirmed to MSPs at the Audit and Scrutiny Committee ([see here](#)) that they understood removal was cheaper than repair. It appears they were misinformed because HIE's business case claims removal would cost £16.92m, up £1.32m on the original estimates. How this or the £16.16m cost of repair was worked out is not explained.

The methodology behind the comparison, however, is completely wrong. If one accepts HIE's claim that the funicular would need to be completely removed when decommissioned, that cost would still have to be met some day as the funicular will not last for ever. In that case, the £16.92m costs of removing the funicular should have been added to the £32.42m costs of repairing it. That doesn't look quite so good.

In truth, however, the funicular is unlikely ever to be completely removed. While the original planning consent required this, that was long ago and we have now left the EU whose grant aid stipulated that the land at Cairn Gorm should be fully restored. There is now no material left to re-fill the holes that would be left by the removal of the concrete pillars that support the funicular. It is therefore likely that removing them completely would cause even more damage to the hillside (as the repairs threaten to do). A far more sensible option would be to level the pillars to just below ground height and allow vegetation to grow back over them. HIE applied that very technique to removal of the Coire na Ciste lifts and it cost a princely total of £267k. The funicular, of course, has far more pillars, but it appears

likely the funicular could be removed for a few Â£million. The staff at HIE must know this but failed to say so.

Option 1b, costing Â£36.77m includes HIE's cost for removing the funicular and other, unspecified capital investments. These could include some or all of the new lifts proposed in the report HIE commissioned from the SE Group ([see here](#)). Bizarrely the Business Case does not state what Option 1b includes, so there is no way of evaluating the sense of what was being considered. What Option 1b does show, however, is that if the funicular was only partially removed, an alternative plan could have been developed for Cairn Gorm that would have been significantly cheaper than repairing the funicular.

Funitel or funicular?

Both Options 2a and 2b involve replacing the funicular with a dual cable gondola or a funitel at a staggering cost of between Â£52.05 and Â£60.71m. The reason why HIE decided to compare the funicular repair costs to a funitel is not explained but they were far more expensive to construct than chairlifts which were the option recommended in the SE Group to HIE. The SE Group's proposals and costings are nowhere considered in the Business Case.

Funitels are a very niche type of overhead cableway. They appear to use two cables but actually use a complicated system of bull wheels doubling over a single haul rope, hence the term 'dual-mono cable'. The upshot of the dual-mono cable system is that the drive and return stations require huge plant space, which on Cairn Gorm would necessitate a new Base Station and new Ptarmigan. The manner in which the stations function, prevent a turning station on a single through line. Therefore to follow the funicular route, two independently driven funitels would be required and, if through cabin travel was required, a unique, huge and very expensive mid-station would also be needed. Hugely expensive compared to the former Car Park and White Lady Chairlifts,

If challenged by politicians, HIE will no doubt argue they chose to consider a funitel for reasons of wind tolerance. But in that case a cost benefit study comparing options should have been undertaken. A mono-cable gondola would cost a fraction to build and operate, with modern gondolas able to function in 55-60mph cross winds. There would be no business case for putting a funitel in to nudge that limit up towards 70mph. Moreover, not only would a funitel cost vastly more to build, the ongoing upkeep costs of servicing the running gear would be more than double, with twice as many sheaves, four times as many grips on the cabins, more bull wheels etc.

A funitel would also use far more power, negating the balanced system approach inherent in a mono cable gondola or for that matter the funicular. Despite that, HIE's Business Case records the operating costs for the funitel **is lower** than the Funicular. Since operating costs for a mono-cable gondola are significantly less than a funitel, that tells you they would be far less than the funicular, but this is not considered in the Business Case.

The Business Case also rests on the funicular attracting something around 27,000 more visitors per annum than the funitel. This is pure conjecture with no evidence to back it up. A funitel would have much greater capacity than the Funicular and, in summer, most people would be able to get a seat, get a significantly better all round view and carry equipment like bikes. The point is that the far cheaper mono-cable gondola, which HIE fails to consider, would be a far stronger and appealing option.

HIE's case for repairing the funicular

Options 3a and 3b both involve re-instating the funicular, marketing speak for repairing it. The first option is with additional capital investments, the second without.

Table 3.3: Summary of Costs (preferred option)

Option	2019/20 Year 0	2020/21 Year 1	2021/22 Year 2	2022/23 Year 3	2023/24 Year 4	2024/25 Year 5	Total Cost
Funicular Reinstatement							
Optimism Bias							
Performance Bond							
Professional Fees							
HIE Internal Project Mgt (capital)							
CMSL Project Mgt							
Subtotal							£16.16 m
High Priority Additional Capital Investments							
Optimism Bias							
Total Capital							£20.51 m
Revenue Funding (worst case)							£14.57 m
Revenue Funding (weighted average)							£9.76 m
HIE Internal Project Mgt (revenue)							£1.88 m
CMSL Project Mgt (revenue)							£0.27 m

Note: in the table above, the worst case reflects a scenario wherein 9,000 skier days per annum are achieved each year and CMSL's operating model assumptions applied, the weighted average reflects a scenario wherein 30,000 skier days per annum are achieved and RSM's revised operating model is applied. These sensitivities have been applied in order to present a reasonable range of the potential revenue funding required.

While almost all key financial information is redacted from the Business Case for the repair, there are two entries in the final column that tell you something. The first, £9.76m, which is misleadingly titled "Revenue Funding (Weighted Average)", is the loss that HIE expects over the next five years if 30,000 snowsports enthusiasts a year come to Cairn Gorm. The entry above that, "Revenue Funding -Worse Case", is the loss that HIE expects if skier numbers drop. The £14.57m loss is just for the first five years. The losses if skiers don't come back to Cairn Gorm are astounding, almost £60m over 20 years.

And this is without taking account of what happens if the projected number of summer visitors fail to materialise. In the table above there is no "worst case scenario" for summer visitors. Instead the assumption is that there will be 162,789 visitors a year of whom 132,789 will be non-skiers:

Table 5.10: Visitor and income per option

Option	Steady State Visitors per annum				CMSL Income	
	Skier Days	Non-ski Winter	Summer	Total	Total (30 Years)	Steady State
Option 1a	0	0	0	0	£0	£0
Option 1b	30,000	12,142	26,197	68,340	£39.60 million	£1.33 million
Option 2a	30,000	36,060	70,171	136,231	£65.24 million	£2.32 million
Option 2b	30,000	36,060	70,171	136,231	£65.24 million	£2.32 million
Option 3a	30,000	45,075	87,714	162,789	£77.22 million	£2.67 million
Option 3b	30,000	45,075	87,714	162,789	£77.22 million	£2.67 million

The figures presented above are exclusive of financial costs (e.g. inflation).

As Alan Bratley showed two years ago ([see here](#)), before HIE ceased publishing regular figures, in the five years till 2015 non-skiing visitors averaged 124,222 a year, having dropped by almost 50,000 a year since the funicular opened. While one might expect a small bounce in numbers when the funicular re-opens, particularly if the Ptarmigan is refurbished, which might make 132,789 a reasonable assumption for a year or two, after that the long-term downward trend is likely to continue. The reason is that the funicular always was a poor visitor attraction, even before Covid-19. Cramming older people into a train carriage with restricted views to take them up into the clouds was never a good idea. The repair case ignores these fundamentals. It also fails to explain whether the numbers are based on the current Section 50 Agreement, that prevents summer visitors leaving the Ptarmigan, or not. These omissions appear an act of gross financial negligence.

It is worth noting also that the actual costs of reinstatement are left blank in the table above are those estimated by Balfour Beatty. The Business Case reveals that company was appointed as preferred contractor without any competitive process:

Procurement of Works Contractor

HIE considered that Early Contractor Involvement (ECI) in the design process was an important factor for a variety of reasons, including the preparation of the Safety case for the Department for Transport and the submission of the planning application to Cairngorms National Park Authority.

- ECI enables a contractor to work collaboratively with the client and the design team to input into the design process;
- ECI into the design to try and ensure that the designer comes up with the best solution for the works;
- early procurement of the contractor avoids potential delays to programme assuming design and costs can be agreed timeously;
- a certain amount of cost certainty, risk reduction as the contractor has been involved in the design process;
- potential for early purchase of long lead items such as bearings, etc;
- an opportunity for the contractor to mobilise early to maximise the length of the season;
- an opportunity for the contractor to undertake enabling works ahead of the works commencing;
- opportunity for the contractor to influence the design process to see if it is possible to shorten the on-site activities; and
- the contractor undertook a feasibility study, at no cost to HIE. This delivered a study detailing programme, construction methodology and a cost estimate based on partial market testing and based on the concept design produced by COWI as part of their report on Strengthening Extents.

Given the benefits that ECI would bring and the need to restrict access to the strengthening report information (at this stage), the choice of a pre-procured framework was deemed the most appropriate route to achieve the ambition of as early a site start date as possible. This would also allow for the greatest overlap between the production of the detailed design and the works contractor. Legal advice provided to HIE on the options outlined above suggested that the SCAPE Civil Engineering Framework was the most suitable option

What this means is that costs have not been subject to any scrutiny, whether by Audit Scotland who have stated they have not audited the Business Case, or in form of a competitive tendering process. It

will suffice for now to remind readers (Parkswatch will come back to this) that the original construction costs for the funicular almost doubled because of the botched procurement process.

Table 5.16: Summary of option scoring (Stage One)

Criteria	Weighting	Option 1a	Option 1b	Option 2a	Option 2b	Option 3a	Option 3b
Tourism	55	(2) 110	(4) 220	(7) 385	(6.5) 357.5	(8) 440	(7.5) 412.5
Environment	25	(6) 150	(6) 150	(5) 125	(4) 100	(6.5) 162.5	(5.5) 137.5
Sport, Leisure, Health and Wellbeing	15	(2) 30	(5) 75	(7) 105	(6.5) 97.5	(8) 120	(7.5) 112.5
Education	5	(2) 10	(5) 25	(6) 30	(6) 30	(7) 35	(7) 35
Total	100	300	470	645	585	757.5	697.5
RANKING		6	5	3	4	1	2

Table setting out alleged non-financial benefits of repairing the funicular.

No evidence is included in the Business Case to back up the assertions about the non-financial benefits set out in this table. Each entry could be questioned. To take one example, just why the funicular should be better for sport, leisure, health and well being is not explained. There are strong reasons to doubt this. The funicular is the most inefficient way possible to transport snowsports enthusiasts, who are involved in a physical activity that is good for mental well-being, up the mountain. It means fewer snowsports enthusiasts could enjoy the snow than other forms of uplift. Meanwhile in summer the funicular involves endless queuing, standing stationary on the trip up the mountain and a short walk around the Ptarmigan at the top. This stretches credulity. HIE should now release in the public interest all the evidence on which its Business Case was based.

A political decision

The level of redactions and paucity of the Business Case suggests HIE is unlikely to release any information that may underpin it unless forced to do so. The staff who worked on the Business Case for repairing the funicular are not stupid. Whatever else one might think about the Business Case, it is the first time HIE has effectively admitted that the funicular is NOT financially viable and will need ongoing financial subsidy. As I stated at the start, there is a case for such subsidy, but not in the current financial environment where choosing one option precludes another. In the case of Cairn Gorm the decision to repair the funicular will almost certain mean the end of downhill snowsports in what was once Scotland's premier ski resort.

The only way I believe we can understand the Business Case is that it is political and has been designed to support a political decision that was made some time ago. Part of this possibly involves HIE being reluctant to lose face and admit that the funicular has failed to meet expectations from the start. While other organisations might have taken the breakdown of the funicular as an opportunity to change direction, HIE has a record of finding it hard to admit mistakes. In truth, however, it is likely that HIE had very little choice over the matter.

Responsibility for the decision appears far more likely to lie with Fergus Ewing, the Cabinet Secretary responsible for HIE and a local MSP. There appears something very wrong with our system of government in Scotland when a government minister can decide to invest Â£32.42m in their own constituency without any parliamentary oversight. At the weekend it was report that Labour in England is now calling for an investigation into Robert Jenrick, the Communities Secretary, after Â£25m was invested in his constituency. The opposition parties should do the same in Scotland. The Scottish

Government will no doubt counter by stating that the decision was scrutinised by Kate Forbes, the Cabinet Secretary, for finance. But she too is a local MSP.

The political consequences of this decision, however, are far from clear. While it could be a case of turkeys voting for Christmas, I think local voters are far more sophisticated than that. How they respond will partly depend on how many of the temporary construction jobs are created locally. A bigger question is how the burgeoning population on Speyside, many of whom are young and outdoor activities enthusiasts, will react when they realise that the decision to repair the funicular is likely to offer nothing to them. Then there are other questions, like how communities in the Highlands, including Speyside, will react to Â£32.42m being spent on repairing the funicular, when that sum of money could have been used to address many of the deficiencies in tourist infrastructure that have been caused so many challenges in rural this summer. Mr Ewing, has responsibility for rural tourism as well as HIE.

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