Cairngorm Mountain (Scotland) Ltd's Accounts – losses and queries

Description

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The first Accounts of CMSL were published at the end of November (see here). They show losses as expected but raise many questions.

Background – What is CMSL?

When Highlands and Islands Enterprise (HIE) took over the business of the former operator of the Cairngorm skiing area and the (temporarily?) defunct funicular, it did so through a newly formed, wholly owned, subsidiary company, Cairngorm Mountain (Scotland) Limited, "CMSL". The previous operator, named Cairngorm Mountain Limited, owned by Natural Assets Investments Limited, had been placed into administration on 29 November 2018, when its Directors decided that it could not continue trading at a loss after it became clear that the funicular would remain out of action for some considerable time. CMSL bought the business as a going concern from the Administrators, and acquired all the business' plant and equipment, stock, goodwill and intangibles for a price of £447,540 on 14 December 2018, the funds being provided to the new company by way of share capital and loans injected by HIE.

First Accounts of CMSL

CMSL took on all the employees of the business, and started to trade on Monday 17 December 2018. These first Accounts are effectively for the period from then to 31 March 2020, and so they cover almost two winters and one summer season, the first winter being one of the worst on record for snow, and the second closing early because of the Covid pandemic.

Summary of the Results for the period 17 December 2018 to 31 March 2020

CMSL's profit and loss account shows Turnover (income from sales of goods and services) of £1,165,836, against the Cost of those goods and services of £1,846,824, giving a gross loss of £680,988, or 58%. This loss is increased by the cost of the company's Administrative expenses of £972,798, but then reduced by "Other operating income" of £655,825, to leave an operating loss of £997,961, and, after sundry interest and similar costs of £8,858, an overall loss of £1,006,819 for the period.

CMSL's Balance sheet shows share capital injected of £1,060,952, which is almost wiped out by the loss, leaving Shareholder's funds of only £54,133.

This shows a very unhealthy position, but the business has a long history of losses and the Balance Sheet could have looked much worse.

Comments

First, the Turnover is greatly reduced by the continued closure of the Funicular – the Administrator refers to this closure leading to *"a sudden 90% loss in revenue (funicular ticket sales)*" and indeed, the turnover of the business with the funicular operating most of the time in the previous periods was:

1 January 2018 to 29 November 2018 – £3,487,348

1 January 2017 to 31 December 2017 – £3,547,475

1 January 2016 to 31 December 2016 – £4,749,982

These show turnover, when the funicular was operating most of the time, running at least £3.5 million annually, and considerably more in a good year, so a fall to only £1,165,836 for a two winter period is obviously a drastic reduction.

The reason for the gross loss is not explained in the Accounts, but probably arises from the costs of the disruption, and running the facilities at a greatly reduced volume, with perhaps wastage caused by the sudden shut-down in March 2020.

The Administrative costs of £972,798 for the 16 month period apparently compare favourably with those of the previous ownership and operation, which were running at around £1.2 – £1.3 million each year, but it is impossible to be sure quite what is included in this heading, and whether a direct comparison is fair.   Natural Assets took a considerable management charge for various services it provided.

The Other Operating Income of £655,825 is more interesting and is largely explained in the Accounts as being various grants and subsidies from HIE.   As well as its initial share capital and loan stock of £700,000 from HIE, the company received a "repayable grant" of £600,000 from HIE in December 2018 to fund its operating losses.

It would appear that although this grant was repayable in certain circumstances, these circumstances were extremely unlikely (perhaps if the company was thought ever to be in a position to make any repayment from profits?).   The Accounts state that none of the "repayment triggers" had been met at 31 March 2020. It must be inferred that they are considered unlikely to arise as most of the repayable grant has been taken as income received for the period, which obviously assumes that repayment will not be made.   £505,625 of this grant is stated to be included under Other Income**, and this heading also includes £86,360 from another grant made by HIE towards "enhancing the summer visitor experience" as well as £15,355 from an HIE grant to fund the Snow Factory.   These amounts total £607,340, which is most of the £655,825.

The rest may be explained by a somewhat confusing note which justifies why the Directors have considered it right to adopt the "going concern basis of accounting" in preparing these Accounts. This requires the Directors to be confident that the company will be able to continue to meet its obligations over the next 12 months from the date of signing (in this case 18 November 2020).

With shareholder's equity of only £54,133, and underlying annual trading losses far greater than this, not to mention the sizeable capital investments required, how can the Directors be confident the company will be able to meet its liabilities until, at least, November 2021? The short answer is, obviously, because HIE has given a guarantee, backed up by the Scottish Government, that it will continue to pump money in as required.

The Note (1.2) in the Accounts reads, in part:

"*The company accordingly budgeted to make losses in this first trading period. The company incurred a loss of £1,006,819 for the 16 months to 31 March 2020. During the period subsequent funding received from HIE to support the operating costs of the company was in the form of a revenue grant that was paid monthly based on cash need. With this support, from that point, on the company's management accounts showed a break even trading position and that has continued into the current year."* (sic)

So we can conclude that at some time in the period under review, CMSL started sending an invoice each month to HIE, requesting funds to make up the month's losses, and to provide cash to pay the month's needs. When did this start? This is not clear from the wording, "*During the period subsequent* ," whatever or whenever that may be, "*from that point, on*", (which point? comma misplaced?) but certainly before 31 March 2020 as "*that has continued into the current year.*" The reader of the accounts is left to presume that this truly loss making business is being heavily subsidised by unquantified amounts from HIE, on top of the various grants, loans and "repayable" (but will never actually be repaid) grants which are individually disclosed.

Company law requires the financial statements to provide a "true and fair view of the state of affairs of the company and of the profit or loss", and this would seem to require a clear statement of the amount and timing of any "revenue grants" which have the effect of eliminating its true trading losses and leaving a apparent break even position. After all, its principal activity is described as being "the operation of snow and mountain leisure facilities in the Cairngorm Mountains", and does not mention the absorption of large subsidies from the public purse of HIE and the Scottish Government.

HIE's view – Higher costs and on-going support

We can get some more idea of the true losses and costs of the Cairngorm Mountain business from HIE's own Accounts.

The 2018/19 Accounts of HIE refer to an authorised resource overspend on its wholly owned subsidiary (CMSL) of £2.0 million (but the good news is that this was within the limit of £2.3 million set by the Scottish Government). They also explain a separate overspend was primarily due to a provision of £9.581 million for the repair of the funicular railway. That is the position up to 31 March

2019.

The latest HIE accounts to 31 March 2020 refer to a resource budget of £2.5 million for the year's anticipated operating losses at CMSL, and a further £1 million for wider Cairngorm spend, as well as a capital budget of £2.1 million to support capital expenditure at Cairngorm.   These figures are obviously very much greater than the losses disclosed in the Accounts of CMSL.

Perhaps unsurprisingly to anyone who has followed over many years the long and unhappy story of the costs of the funicular, before any work has started, HIE's provision for the costs of the repair of the funicular has increased from £9.581 million by £4.962 million to £14.543 million at 31 March 2020 – an increase in expected costs of over 50% in a year.   HIE prudently notes that "Final costs for the works have not been fully identified."

Since 31 March 2020, the Auditor General's report of June 2020 noted that the Scottish Government had agreed in principle to provide £2.9 million to support CMSL's operational losses for 2020/21.

The CMSL Accounts state that on 9 October 2020, Fergus Ewing MSP, a long term supporter of the Funicular and now the Cabinet Secretary for Rural Economy and Tourism, had approved HIE's Business Case for Cairngorm, which provides the framework under which the company will be supported financially for the next five years.

Conclusion

The skiing and funicular business at Cairngorm have been consuming funds and making huge losses for very many years, and these are clearly continuing. The losses shown in the Accounts of the operating company, wholly owned by the Scottish public through HIE, show only part of the true costs of supporting the skiing infrastructure and funicular at Cairngorm. It is to be hoped that the costs will be reported on a clear and open basis, so that the public may be aware of the total costs being incurred on its behalf with public money on one relatively small area of Scottish hillside.

Note

** The note 11 about this £600,000 repayable grant leads to a demonstrable error in the audited Accounts of CMSL, which will be embarrassing to the Directors and Auditors (the eminently respectable firm of Saffery Champness LLP of Inverness).   Part of the "repayable grant" of £600,000 has been deferred, which means that the company does not want to treat it all as income up to 31 March 2020, and so it has carried forwards an amount of £94,375 for probable release to income in the future. The accounts state that this amount has been included in "deferred income in note 9", but note 9 analyses those Creditors falling due after more than one year, and its total of £504,332 is composed of a long term loan of £400,000 from HIE, repayable by 2028, and £104,332 being the deferred part of a separate grant for capital expenditure from HIE, for the summer visitor experience.   So the balance of £94,375 from the £600,000 grant is certainly not included in note 9, and is actually probably included within the liabilities due within one year, a total amount of £388,884 shown in Note 8, and not further analysed.

Category

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