

The Cairngorm funicular financial disaster and its implications

Description

It turns out that the financial disaster at Cairngorm is going to be even worse than Parkswatch predicted ([see here](#)). Not only are the funicular repair costs increasing but, as Martin Williams revealed in the Herald on Sunday 9 days ago ([see here](#)), there is no money to pay for this, let alone the annual subsidy that will be required to keep it going year on year. The Herald story-line is that officials have considered shutting the funicular but the new minister responsible, Ivan McKee, faced with having to sort out the mess created by his predecessor Fergus Ewing, has decided to continue the repairs as the least worst option. This is despite there being no “additional finance” available.

Unfortunately, it appears that Mr McKee knows little about the history of Highlands and Islands Enterprise’s mismanagement of the funicular: the way the original construction costs doubled; the design consequences of the subsequent cost-cutting; the visitors that never materialised; the write-off of the bank loans and the financial collapse of the former chairlift company; the ongoing subsidy that has been required to keep the operation going; the disastrous attempt to outsource management to Natural Retreats which collapsed with yet more costs; and now the decision to repair the funicular, without HIE ever having explained what was wrong with it in the first place.

A Scottish Government Minister who was half-aware of this sorry history might have been very wary of accepting the recommendation that repairing the funicular was the “least bad option” for Highlands. This post explains why, if the funicular repairs continue to go-ahead, the financial disaster HIE has created at Cairn Gorm can only get worse before taking a look at the potential consequences

The capital costs of repair

Table 3.2: Preferred option costs – FBC compared to OBC

| | Cost presented in FBC (£'s) | Cost presented in OBC (£'s) |
|-------------------------|--|--|
| Funicular capital costs | £16.16 million | £14.6 million |

Extract from Full Business Case FBC = Full Business Case OBC = Outline Business Case

The Full Business Case, approved by the HIE Board and Scottish Government in 2020, estimated that the capital costs of repairing the funicular would be £16.16m with £8.5m of this coming from the sale of the profitable Centre for Health Science in Inverness.

In February an FOI request to the Scottish Government ([see here](#)) – probably submitted by Edward Mountain MSP – revealed the amounts that have been committed to funding the repair of the funicular to date:

| | 20/21 | 21/22 | 22/23 |
|---|--------------|---------------|--------------|
| Funded By (£'000) | | | |
| Centre for Health Science sale receipts | 1,100 | 7,400 | - |
| Ring fenced allocation | 1,220 | 3,900 | 3,000 |
| | | | |
| Total | 2,320 | 11,300 | 3,000 |

This shows HIE has used the £8.5m from the sale of the Centre for Health Science and on top of that the Scottish Government has spent/committed £8.12m, a total of £16.62m. This is about £500k more than the original projected costs but the Herald report reveals that the costs of repair are now “expected to rise by a third from £16m to £21m [and] are feared to be going even higher”.

The Herald also revealed that officials have tried to justify this expenditure by claiming that “costs based on closing the resort” were put at at least £20m. A breakdown of the costs included £16.92m for the removal of the funicular, while some £2.9m in EU grant funding would have to be paid back.” This is highly debatable.

The £16.92m cost of removal, which appeared in the Full Business Case, was based on full re-instatement of the land. This would be a huge operation compared to removal of the infrastructure above ground and one that would be likely to cause even more damage to the ecology of the mountain. It would be better and far cheaper simply to leave the concrete foundations in place, while the funicular tunnel could be left as a monument to HIE’s folly.

Moreover, no-one appears to have tried to negotiate with the EU, whose £2.9m of grant funding was conditional on the funicular remaining in operation. 20 years later and with Brexit, it seems unlikely the EU would be that interested. But if they were, it should be possible to resolve the issues through a bit of horse-trading by Scottish Government Ministers.

The fundamental problem here is that HIE has inflated, and continues to inflate, the likely capital costs of alternative options while comparing these to a fixed figure for repairing the funicular. First this was £16.16m, now it's £21m, but these figures were never realistic. Proof of this can be found near the end of the Full Business Case:

"Note: the dependencies that are not within the control of HIE are: Scottish Government funding sanctions; purification of planning conditions; weather conditions, unknown structural issues, unknown ground conditions; conclusion of checker review and certification and Stage 2 Safety Case sign off from the Department for Transport."

How could HIE estimate the likely cost of repairing the funicular repair without a proper investigation of the structural issues (the COWI report did not explain WHY funicular towers had started to topple) or the ground conditions? They couldn't.

HIE should have factored in the unknowns, which now appear likely to add another £10m to costs, into their Full Business Case. But had they done so, this would have totally undermined the case for repairing the funicular. The minute of the HIE Board Meeting in August ([see here](#)) effectively confirms this:

"Cairngorm budget figures reflect the best estimate prior to the emergence of the design issues set out in the separate paper to the Board."

That paper has not been made public (I have asked for it under FOI) but its existence provides proof that the case for repairing the funicular was based on inadequate investigations of what had gone wrong. As Graham Garfoot highlighted in his series of posts last year on whether the repairs to the funicular would work ([see here](#)), there were numerous reasons to doubt whether they would do so.

Whether HIE was pushed to massage down the cost of repairing the funicular by the former Scottish Government minister responsible, Fergus Ewing, remains a moot question. But, whatever the explanation, the predictable consequence has been a massive financial shortfall and, as the Herald reveals, *"There is no money allocated to pay for this"*.

Revenue costs associated with re-instating the funicular

The Herald report also reveals that HIE and Mr McKee *"further agreed that the ongoing subsidy requirements for the resort would need to be revisited once the funicular reinstatement was complete"*. In other words, there is no money for the ongoing subsidy either. That requirement was estimated in the Full Business Case to be £73.09m over 30 years or £2.54m a year. There are now some serious questions about those estimates too and not just because of the impact of Covid.

Unlike with the capital costs of repair, HIE's Full Business case provided a range of figures of the revenue funding needed to keep Cairngorm Mountain Scotland Ltd going over the five years from 2019/20 to 2024/5. The "weighted average" estimate was £9.76m with £14.57m being the worst case scenario *"wherein 9,000 skier days per annum are achieved each year"*.

Cairngorm Mountain Scotland Ltd announced in April ([see here](#)) that this winter “*nearly 5000 people enjoyed snowsports on our lower beginner area*” without revealing the total number of skier days. Given the lack of suitable uplift to the upper pistes, this is likely to have been considerably fewer than the 9,000 worst case scenario. Added to which, income from the beginners area on the artificially created snow will have been less than a full “skier day” income while artificial snow-making will have created further costs. Losses for last year are, therefore, likely to be significantly worse than HIE’s worst case scenario, adding to its financial woes.

Impact of the financial shortfalls

The Herald reveals that at present officials are working on bringing forward HIE’s capital allocation for 22-23 forward but this “*would consume a significant proportion of HIE’s capital allocation*” for that year. Meanwhile, another memo warns that doing this “*would have a disproportionate impact on its budget and significantly impact on its ability to support businesses and communities across the H&Is [Highlands and Islands].*” In other words, the whole of the Highlands and Islands risks being starved of Scottish Government business investment due to HIE’s decision to repair the funicular.

And with no money available to meet the projected £2.54m financial shortfall that is predicted to recur annually for the next 30 years, the financial consequences of pressing ahead with the repair of the funicular are not going to go away.

What has gone wrong?

In my view the basic problem is that HIE is an unaccountable organisation which, since it assumed ownership of Cairn Gorm, has managed it without regard to the needs of skiers, the natural environment or the financial costs .

First it operates in a culture of secrecy, with board papers not published, minutes of meetings published late and large sections redacted (the most recent available on their website are for last September) while commissioned reports are withheld from the public until forced into the open by Freedom of Information requests. ([See here](#) for reports that HIE has been forced to publish by campaigners). This makes any public scrutiny very difficult, particularly when HIE’s normal practice is only to release information AFTER it has made a decision.

Second, senior HIE staff take decisions based on the prevailing culture in the organisation – which in the case of the funicular is that it cannot be allowed to fail whatever the price – whatever the evidence. They then cover this up with a whole lot of management-speak and by outsourcing work to expensive external consultants, which makes it very hard to hold anyone to account. The staff responsible, like Charlotte Wright and Susan Smith who were responsible for the Natural Retreats fiasco, get promoted instead of facing the consequences (Ms Wright became Chief Executive of HIE, while Ms Smith is now Chief Executive of Cairngorm Mountain Scotland Ltd).

Third, the position of Audit Scotland has been compromised through its seat on HIE's audit and risk committee which means that its various investigations into HIE's mismanagement at Cairn Gorm, while containing much useful information, never actually get to the root of the problems.

Fourth, the Board Members of HIE for some reason fail to challenge effectively recommendations from staff or to provide independent advice to the politicians. In respect of the decision to repair the funicular, they also appear to have been somewhat naive: where did they expect the huge and ongoing need for public subsidy to come from? Local Authorities know to their cost that when things go wrong, as for example with the equal pay claim in Glasgow, the Scottish Government expects them to pick up the pieces from their own budgets. Maybe Fergus Ewing, who treated HIE as his personal fiefdom, implied otherwise? But Mr Ewing was not going to stay around for ever and the HIE Board should have foreseen that at some point they would have to face the financial consequences of their decision to repair the funicular.

The one organisation that could have potentially prevented this disaster was the Cairngorms National Park Authority, which has a statutory duty to promote sustainable development. But instead of questioning the decision to repair the funicular – which was clearly financially unsustainable – its planning committee waved it through, perhaps also under pressure from Mr Ewing?

What needs to happen

Unbelievably, the Herald also revealed that *"the minister was told that the Highlands economic development agency had been contemplating the best operating model for the resort going forward, including considering private sector ownership."* This after their disastrous sale of Cairngorm Mountain Ltd to Natural Retreats ([see here](#)). HIE is an organisation that never learns.

The case for some sort of public inquiry, as is being advocated by Edward Mountain MSP and was reported by the Herald, is very strong. But this should not be used to delay three important decisions that the Scottish Government could take now:

- First, that ownership of Cairn Gorm has to be transferred from HIE, either to Forest and Land Scotland or possibly to the Cairngorms National Park Authority;
- Second, that the repairs to the funicular need to be stopped, not just because of the cost but because of new information (that parkswatch is about to publish) which shows they won't work. At the same time HIE needs to be instructed to develop plans to remove the funicular;
- Third, responsibility for the management of the rest of the ski operation and remaining "offerings" at Cairn Gorm should be offered to the Aviemore and Glenmore Community Trust with HIE meeting any liabilities. That would offer some hope to Cairn Gorm.

Category

1. Cairngorms

Tags

1. Cairn Gorm

2. funicular
3. Governance
4. HIE
5. Scottish Government

Date Created

May 10, 2022

Author

nickkempe

default watermark