

HIE and the Scottish Government – papering over the financial black hole at Cairn Gorm

Description

While good snow was experienced we were again handicapped by the lack of the funicular railway and thus our uplift and visitor numbers was restricted. This holds back our capacity for snow sports in the winter and for visitors to enjoy the trip up the railway to our Ptarmigan Restaurant which has remained closed.

Extract from Chairman's statement from CMSL's accounts to March 2022

A couple of weeks ago the latest accounts for Cairngorm Mountain (Scotland) Ltd (CMSL), Highland and Island Enterprise's wholly owned subsidiary, were published ([see here](#)). They are a charade but confirm it is not just the financial liabilities created by the funicular which are the problem.

While CMSL describes its principal activity as "the operation of snow and mountain leisure facilities in the Cairngorms" the accounts confirm (see above) little snow sport activity took place. This is attributed to the breakdown of the funicular when the truth is ([see here](#)) and ([here](#)) that the funicular has always been a handicap to snowsports, whether it has been operating or not. The real reason for the collapse in skier days at Cairn Gorm and CMSL's loss of market share has been HIE's focus on the funicular at the expense of all else, including other uplift infrastructure which is sorely needed.

Cairngorm Mountain – an unviable business in its current form

The profit and loss (income and expenditure account) account is little surprise, more activity and revenue as lockdown was eased which resulted in a very much smaller operating ("gross") loss:

Cairngorm Mountain (Scotland) Limited

Profit and loss account

For the year ended 31 March 2022

		2022	2021
	Notes	£	£
Turnover		1,773,454	215,736
Cost of sales		(1,845,523)	(1,170,560)
Gross loss		(72,069)	(954,824)
Administrative expenses		(1,051,636)	(970,387)
Other operating income	3	1,141,927	1,941,082
Operating profit		18,222	15,871
Interest payable and similar expenses	6	(18,222)	(15,871)
Profit/(loss) before taxation		-	-

More significant is the fact that while turnover increased by over £1.5m, almost half of that income went in increased costs of sales (running costs). Add administrative expenses into that and the company would have gone bust were it not for the "other operating income". The notes in the accounts show this other income was mostly government grants.

3 Other operating income

	2022	2021
	£	£
Coronavirus job retention support grant	47,203	289,187
Revenue grant	965,764	1,507,763
Repayable grant income	-	94,375
Release of deferred grant income	-	49,757
Total government grants	1,012,967	1,941,082
Insurance claims receivable	128,960	-
Total other operating income	1,141,927	1,941,082

The statement of Going Concern clarifies that the revenue grant came from HIE. It also provides a useful summary of how their funding of CMSL has changed since HIE set up the company at the end of 2018 as a result of the collapse of Natural Retreats.

1.2 Going concern

The company was incorporated on 26 November 2018 and commenced trading on 17 December 2018. The company began trading while the funicular railway was out of operation and with significant maintenance, upgrading and reorganisation required. It was therefore expected that financial support would be required from the parent company. The initial support provided by Highlands and Islands Enterprise (HIE) was in the form of share capital, loans and a repayable grant. Subsequent funding received from HIE to support the operating costs of the company was in the form of a revenue grant that is 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.

The company is reliant on continuing financial support from its parent undertaking, HIE, to enable it to continue operating and to meet its financial obligations as they fall due. Revenue funding has been agreed with HIE for the period to 31 March 2023 and will be agreed annually going forward. HIE have confirmed that they intend to support the company for a period of at least 12 months from the date of the approval of the financial statements. Such support is of course subject to conditions relating to approval and satisfactory delivery of the business plan and KPI's and approval by HIE of agreed business cases.

HIE's initial funding for CMSL was provided in the foolhardy expectation that it was a viable business and was thus in the form of a repayable grant (£600k), loans (£400k) and shares (£1,060,952). With the funicular forecast to lose up to £73.09m over thirty years when back up and running ([see here](#)), there is no hope of HIE ever getting any of that money back. This has stored up accounting challenges for HIE in the future as it will have to justify writing off the grant and loan and explain the collapse in value of its shares.

Hence the move to revenue funding, but in the form of a grant to maintain the pretence that CMSL bears some resemblance to independent companies funded by HIE. No other ski centre of course would be awarded anything like the financial assistance CMSL has had, whatever their need and circumstances.

Fergus Ewing steps in to save HIE

The Going Concern statement in the accounts is, however, only partially true when it reports "the company is reliant on continuing support from its parent company, HIE". "Reliant on continuing support", yes, but not from HIE.

In August there was media coverage of the response to a Freedom of Information request ([see here](#)) which showed that, since the approval of the Full Business Case to repair the funicular by Fergus Ewing when he was minister, it is no longer HIE but the Scottish Government which has assumed

responsibility for meeting the annual operating losses of CMSL.

12. As part of the approval of the FBC, funds were committed to support the operation of CMSL over the period of the funicular build. The costs agreed are shown in the table below

	2020/21	2021/22	2022/23	2023/24	2024/25	TOTAL
CMSL Revenue	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Costs						
HIE internal costs	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Costs	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

The actual requirement for 2020/21 was £2.1m. The final amount for 2021/22 is not yet known, and is dependent upon the success of the ski season.

Extract from Briefing to Ivan McKee, Minister responsible for HIE, 26th January 2022

The FOI also shows that the new Minister Ivan McKee was not just concerned about the capital and running costs associated with repairing the funicular, which became public at the beginning of May ([see here](#)), but with the commitment Fergus Ewing had made that the Scottish Governments should meet any other operating losses incurred before 2024/25. (SBR = Spring Budget Revision)

17. For 2021-22 SG's SBR process is currently being finalised however HIE have indicated that there is uncertainty over the total cost of supporting CMSL as this is dependent on the winter season and the impact covid may have. There is also potential slippage across HIE's core activities which may offset an element of the final pressure. Due to these uncertainties over the final value for 2021/22 we are proposing not to transfer budget to HIE at SBR, and rather will continue to work with HIE to understand the final position. Should this result in an overspend on HIE's year-end position will issue a letter to HIE confirming this for audit purposes.

18. This approach will also allow any updated outturns on other resource budget lines to be considered, and if any slippage occurs this could be offset against the CMSL funding.

Extract briefing Ivan McKee December 2021

This extract suggests that Mr McKee decided that instead of the Scottish Government paying HIE annually on the basis of the losses they forecast at CMSL – a blank cheque – he would wait to see the actual losses and use any HIE underspends in other areas to offset them. In other words he appears to have tried to pass some of the responsibility back to CMSL.

While central government has been known to bail out losses and budget shortfalls incurred by public authorities (as it did in Covid), a commitment to do so in advance and for several years must be almost

unprecedented. If that is not enough to raise eyebrows, many of the beneficiaries of this largesse are likely to be residents in Mr Ewing's own constituency. I am referring here not just to the staff at CMSL but those at HIE headquarters in Inverness.

Interestingly, the FOI response includes notes from a meeting with HIE on 27th January 2022 attended by Kate Forbes, Cabinet Secretary for Finance and Mr McKee's boss, which is almost entirely redacted apart from the following statement:

"The Cabinet Secretary commented that Mr McKee was leading on the funicular given her constituency interests".

If Kate Forbes felt and declared she had a conflict of interest in respect to decisions relating to Cairn Gorm, what about Mr Ewing whose constituency is just next door?

What is HIE really spending at Cairn Gorm?

The extract from the FOI response quoted above shows Mr McKee was told the "actual requirement for 2020/21 was £2.1m". If true, one might expect this £2.1m subsidy towards operating costs to appear in CMSL's accounts for 2020/21. There is a figure of £1,941,082 under operating costs in the accounts and note 3 to the accounts breaks this down as follows:

3 Other operating income

	2021 £	2020 £
Coronavirus job retention support grant	289,187	-
Revenue grant	1,507,763	86,259
Repayable grant income	94,375	505,625
Release of deferred grant income	49,757	34,657
Total government grants	1,941,082	626,541
Other income	-	27,618
Rent receivable	-	1,666
Total other operating income	1,941,082	655,825

The 2021 accounts then go on to explain under note 13:

Revenue grant income of £1,775,330 was received from Highlands & Islands Enterprise in the year, of which £1,507,763 is recognised in the profit and loss account and £267,567 has been deferred and will be recognised in future periods.

However you look at this, it doesn't add up to £2.1m. This suggests either that Mr McKee was given the wrong figure or the difference between £2.1m and the money received by CMSL was kept by HIE.

This points to a much wider problem when accounting for what is being spent at Cairn Gorm, with some costs being met by HIE and some by CMSL. This together with the minimalist accounts ("entirely within the rules you understand") make it almost possible to establish what is being spent at Cairn Gorm. A few good people have been trying to reconcile the responses on expenditure provided in FOI responses with the accounts and other financial information provided by HIE and suspect it will need a forensic accountant to get to the truth.

With their operation at Cairn Gorm entirely dependant on funding from themselves and the Scottish Government, it suits HIE to maintain CMSL as a separate company as it helps conceal what is going on. The 2021-22 accounts for CMSL hide as much as they reveal. If Mr McKee is still minded to keep the pressure on HIE he could do worse than insist there is far greater transparency on expenditure at Cairn Gorm and ask his officials to stop redacting financial information from responses to FOIs.

Category

1. Cairngorms

Tags

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