

Cairn Gorm – what the SE Group report tells us about HIE’s mismanagement of snow sports?

Description

In my post about how Highlands and Islands Enterprise (HIE) and Cairngorm Mountain Scotland Ltd (CMSL) have – all the gear, no idea – (see here), I mentioned that as far as I know there is only one person in Scotland with the necessary qualifications to operate a ski resort. I then decided to have a look at the qualifications of the SE Group team who had produced a report on the future of snowsports at Cairn Gorm in 2018 (see here), followed by an addendum (see here) in July 2019 after the funicular was declared unsafe for an unspecified time. I needn’t have bothered as their experience, some of which can be seen in the screenshot below, is impeccable:

- The 2000s marked the beginning of a new era. In 2001 Sno.engineering became **SE Group** expanded to include **detailed landscape architectural planning and design** for mountains.
- SE Group expanded its environmental services to include **public lands projects and per**
- SE Group provided planning for the 2002 and 2010 Olympic Winter Games.
- SE Group continued its **international mountain planning** presence, with substantial projects in Iceland, Norway, and Turkey, where our planning was used for the 2011 Universiade Winter
- **2008: SE Group celebrates 50 years!**
- Also in 2008, SE Group received the New England Ski Museum’s **Spirit of Skiing Award**. personality from the sport of skiing who represents the memorable saying by Otto Schnie *sport, it is a way of life.*”

Sixty four years involvement in the snow sports business, 1958-2022, including helping plan for two winter Olympics, compared to four years for the current CEO of Cairngorm Mountain Scotland Ltd.

BUT, I also came across this (see here):

CAPITAL SUGGESTIONS

It takes money to make money, but it takes smart planning to spend it well. With interest rates low and cap-ex plans evolving rapidly in the wake of Covid, we asked three experts for advice and counsel.

BY RICK KAHL



Capital planning is the dose of reality that makes resort master plans real—and keeps the power on for day-to-day operations. Yes, figuring out where the money will come from for expansion and maintenance projects can seem a burden. It's essential work, though, and it can require as much creativity as the most imaginative master plan itself. For any resort to succeed long-term, it must choose its expenditures wisely.

And that takes some careful thought. "I've heard it said, 'We are in a high-risk, capital-intensive, weather-dependent business. And in many cases, the federal government is our landlord.' How messed up is that? You've got to have the right mettle to be in this industry," says Kent Sharp, president and CEO of resort planning firm SE Group.

To help us grasp the concept of capital planning, Sharp joined Rick Kelley, former GM of Loon Mountain and COO of Eastern operations for Boyne Resorts, and Steve Rice, of Mountain Advisors, Inc. and a veteran of Intrawest and CNL Lifestyle Properties, to explain it all.

The rest of the article, link above, is worth reading.

Let's start with the basics. Resort expenditures fall into three main types: ongoing expenses (staff, electricity, F&B supplies), maintenance expenditures (replacing lift tower sheaves, repairing snowguns, and maintaining grooming vehicles), and growth expenditures (buying a new lift, expanding the base lodge). The trick to staying in business is to have enough income to pay for expenses and maintenance, with enough left over to help fund those long-term dreams.

Here's the advice our experts offered:

How does capital planning figure into long-term planning?

Rick Kelley: They are sort of hand in glove, in that a good long-range plan has capital iterations every year. And hopefully those capital expenses roll up to a goal of where the resort wants to be. As you're doing things, you have the eye toward where you'd like to end up, whether it's a five-year plan or a 10-year plan, and you're adding incrementally as you go along.

Kent Sharp: Resorts that strategically, and even serially, continue to make capi-

tal investments in the facility continue to grow, or at least maintain market share. And then those that don't, don't—they start to lose net operating income and start to then lose the ability to make those capital investments in the facility.

Steve Rice: Extending the useful life of your existing assets is your first and foremost responsibility. You have to do that or you'll end up in life safety issues, let alone a raggedy-appearing mountain that doesn't serve the present needs of your guests. Your guests must have total belief that you care about them as evidenced by the upkeep of your resort and its perceived safety.

Beyond that, you have to change as the market changes. You have to discern those changes as best you can, and then make sure capital expansionary investments are serving those needs.

What are examples of growth expenditures and maintenance expenditures?

Kelley: There's always a little bit of a gray area, whether an expense is growth capital or maintenance capital, or is it going

•??It takes money to make money, but it takes smart planning to spend it well.â•

Oh how true and how unlike how snowsports at Cairn Gorm are being managed. With a new winter season here, the overall impression being given out by HIE and CM(S)L is the complete opposite. A completely disjointed and therefore unsustainable approach to progress the snow sports business. Their pre-occupation is in getting the funicular up and running again with apparently no thought of any of the improvements in the SE Group reports that were bought and paid for, again by the taxpayer, at a cost in the region of Â£120k.

The following is an extract from the addendum written in the light of the funicular breakdown:-

â??The revised concept continues to focus on the investments with the greatest potential impact and creating a more desirableâ??and competitiveâ??experience for visitors. This will facilitate greater revenues, through the increase in visits.

All the proposed upgrades at Cairngorm are designed to work together as part of a new and sustainable business model for the ski area. Infrastructure improvements are expected to drive additional skier visits. The installation of a snowmaking system will create a more consistent snowpack and improve the quality of the skiing and riding surfaces. Reliable snow conditions, along with a modern aerial lift to service the ski terrain will encourage skiers to plan trips to Cairngorm and visit more frequently throughout the seasonâ?•

Our projections estimate the upgrades will increase annual winter visits to 130,000 consistently, with higher numbers during a peak year. This increase in visits is expected to increase overall revenues. At the same time, labour and other operating expenses are expected to decrease as a result of the new lift scheme and other improvements.â?•

I suspect the figure of 130,000 skier days (s.d.), (**used in est.1 below**) is over-optimistic. Since 2004 there are only three years in which the skier days exceeded 100,000:

(1) 2010â?!.145,000,

(2) 2011â?!.121,000, and,

(3) 2013â?!.113,000.

In fact the average skier days over the 15 year period 2004 â?? 2018 was 72,076 p.a. However, that was with the funicular rather than modern uplift and a lot better than the figures HIE and CM(S)L are now promoting, 30,000 (**see est. 2**)!

But letâ??s compare the maximum ticket revenue from those two estimated figures using CM(S)Lâ??s day ticket price of Â£38.00 for this season:-

(Est. 1) 130,000 s.d. x Â£38 = Â£4,940,000,

(Est. 2) 30,000 s.d. x Â£38 = Â£ 1,140,000.

And now some real figures for actual skier days and potential income at that same Â£38 for a day ticket :-

(1) 2004 â?? 2008 5 year ave. 53,928 s.d. x Â£38.00 = Â£1,049,264

(2) 2009 â?? 2013 â?? 102,043 s.d. x Â£38.00 = Â£3,877,634, &

(3) 2014 â?? 2018 â?? 60,258 s.d. x Â£38.00 = Â£2,109,030.

Average p.a over 15 years 72,076 s.d. x Â£38.00 = Â£2,738,888.

I have not taken into consideration the number of discounted sales as I donâ??t have those figures so the income figures will therefore be more than the actual figures, BUT, what it does show is quite

different to HIE's Financial Business ([see here](#))! Also presumably CM(S)L will be using the actual figures when working out the business plan for the 2023/2024 season!

The following screenshot is for an employment opportunity for a funicular attendant from the CM(S)L website of 03/11/2022.

Cairngorm Mountain Resort covers 1,418 hectares and can attract over 120,000 skiing and snowboarding. The Resort is an internationally renowned area of scientific interest. Cairngorm Mountain and surrounding area wildlife protected by EU legislation.

It would appear from the job advert that either there is a severe breakdown in communication between HIE and CM(S)L in their forecast of skier days for the coming seasons or CM(S)L is deliberately overstating the skier days trying to attract staff especially when the skier day numbers were only over **120,000** for **two seasons** from 2004 to the present?

Conclusion

It has been said before that HIE were deliberately understating the skier day forecast in their Financial Business Case, i.e. 30,000, so that if that figure was exceeded, which by the 15 year average it almost certainly will, they could use that to claim the business is more successful than they predicted, all down to the funicular repairs!

The fact is, however, that in NOT following the SE Group's recommendations there will be far fewer visitors and far fewer jobs on Speyside than there might have been. It says something that Susan Smith, with such limited experience of snowsports, appears to have effectively binned a report produced by people with so much accumulated expertise.

The Scottish Government needs to bring HIE, an organisation giving the appearance of being totally out of control, to heel before millions of more pounds of **public** money is wasted on the unsustainable, uneconomic business that is the Cairn Gorm ski resort.

It takes money to make money, but it takes smart planning to spend it well.

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