

Highlands and Islands Enterprise

Management of Cairngorm Mountain and Funicular Railway



AUDITOR GENERAL 

Prepared by Audit Scotland
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Auditor General for Scotland


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Audit team

The core audit team consisted of: Graeme Greenhill, Derek Hoy, Laura Nelson and Lucy Ross with support from other colleagues and under the direction of Gordon Smail.

Links

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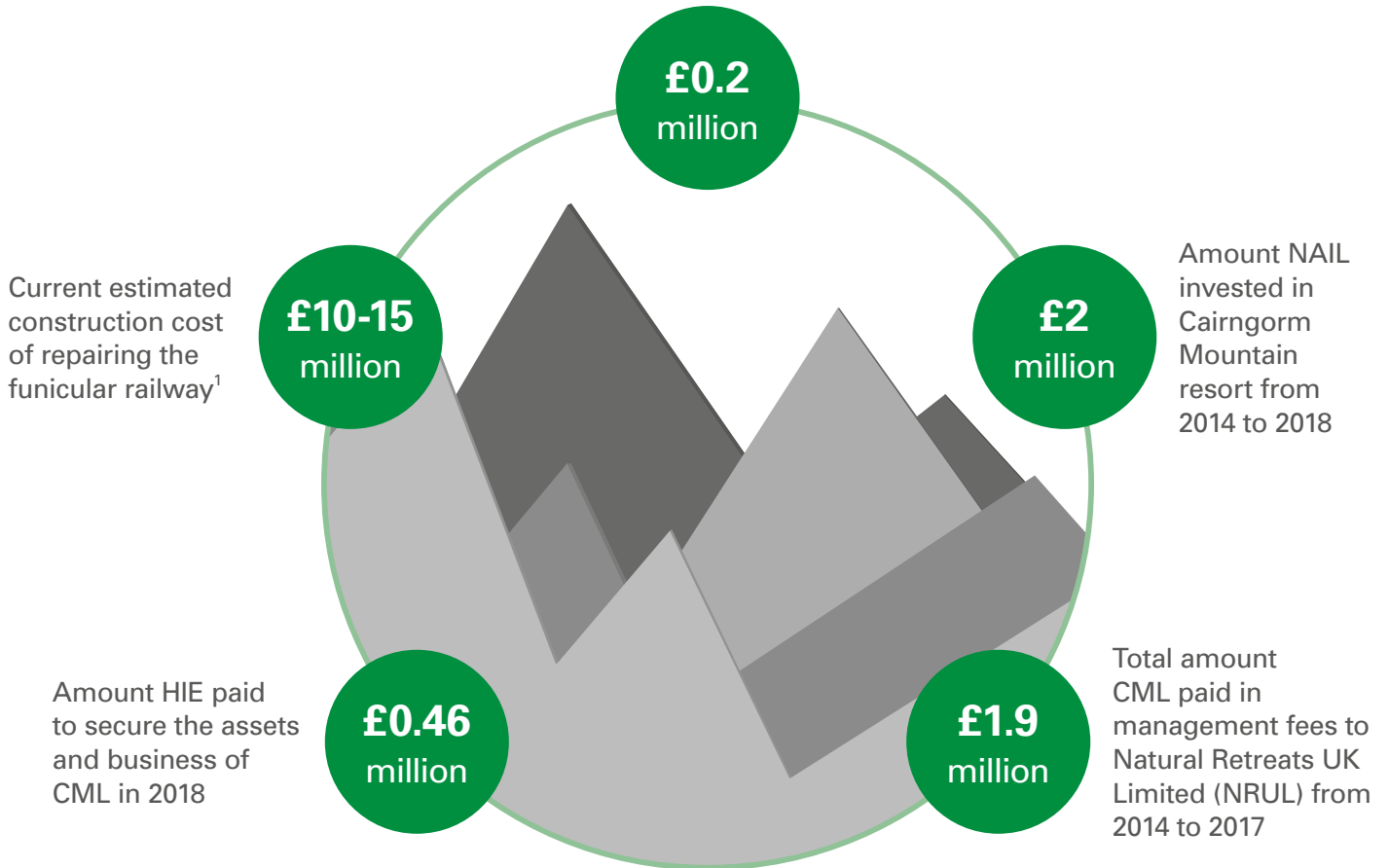
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Key facts



Amount Natural Assets Investments Limited (NAIL) paid Highlands and Islands Enterprise (HIE) for Cairngorm Mountain Ltd. (CML) in 2014



Note: 1. These costs are currently subject to review in light of COVID-19 interruption, and subject to the business case being progressed.

Summary



Key messages

- 1** Highlands and Islands Enterprise (HIE) has been responsible for the management of the Cairngorm Mountain environment for nearly 50 years. The private sector has operated the ski area for much of this time via a lease agreement, although HIE's subsidiary Cairngorm Mountain Ltd. (CML) held this responsibility between 2008 and 2014. HIE always intended this to be a temporary measure and sold CML to Natural Assets Investments Limited (NAIL) in 2014 because it considered this would maximise the economic benefits for the area. HIE's process for selecting a new operator was appropriate. It carried out due diligence and took steps to protect its decision to transfer CML to NAIL through financial guarantees.
 - 2** The contract agreed between HIE and CML in 2014 set out the responsibilities of each party. Monitoring arrangements were in place and HIE assured itself that CML had appropriate maintenance and repair procedures in place to meet its obligations. Given the financial risks HIE identified before the transfer of CML to NAIL, it would have been in HIE's interests to review NAIL's financial standing on an ongoing basis. This could have left HIE better placed to react had NAIL been unable to continue supporting CML.
 - 3** HIE was aware that CML was facing financial and operational difficulties in the summer of 2018 and was able to act quickly when CML went into administration in November 2018. Its actions were effective in securing the assets and business activities at Cairngorm Mountain. HIE's current preferred option is to reinstate the funicular railway by completion of remedial structural work at an indicative cost of £10-15 million. This is subject to completion of an objective options appraisal and final business case, and HIE Board and Scottish Government approval. HIE is considering the impact of the current COVID-19 pandemic on costs and timescales while making its final decision.
 - 4** HIE is working to stabilise the business and reinstate the funicular railway while putting long-term plans in place for the wider mountain estate. This continues to put a strain on HIE's staff and finances. HIE and the Scottish Government face tough decisions on how to secure a sustainable and affordable operation at Cairngorm Mountain, taking account of the wide-ranging interests of stakeholders.
-

Recommendations

This is the second time in ten years that HIE has had to step in to save the Cairngorm Mountain resort after external operators ran into financial difficulties. It is vitally important that HIE determines a long-term sustainable future for the mountain. Any future decisions, including public subsidies that are necessary to continue operations, must take into account not only the economic benefits that the resort can bring to the wider area but also their community, social and environmental impact. Against this background, we recommend:

HIE should:

- consider fully the options available before deciding on a new operating model for Cairngorm Mountain and draw on its experiences from the past 20 years. It should carefully consider the views of stakeholders and communities and show how those views are fed into its decision-making
- consider carefully the long-term sustainability and affordability of potential operating models and identify what financial support it will need to provide and how that cost will be met. It should consider this alongside its wider spending priorities
- identify the operational and financial risks associated with the appointment of any future operators, and make sure effective monitoring arrangements are in place to mitigate those risks throughout the contract
- put in place contractual agreements with new operators that clearly set out the obligations and responsibilities of all parties. It should also closely monitor future operators to check that they meet their obligations and responsibilities and take remedial action if this is not the case
- consider carefully the impact of any decision on the operation of Cairngorm Mountain on its wider activities, finances and staff.

The Scottish Government should:

- work with HIE to identify what financial support will be needed for Cairngorm Mountain and how this cost will be met
 - examine the long-term sustainability of the snow sports industry in Scotland and consider any future financial support in the light of its wider economic priorities.
-


Introduction

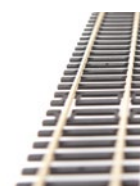
1. Highlands and Islands Enterprise (HIE) is the economic and community development agency for the north and west of Scotland. HIE is the owner and custodian of Cairngorm Mountain. It is responsible for ensuring the effective management of the mountain environment and for providing a stable environment for operating visitor facilities. As custodian of the mountain estate, HIE must balance commercial operations with nature conservation. Cairngorm Mountain is the largest of five snow sports centres in Scotland but attracts a diverse range of visitors such as hill walkers, mountaineers and conservationists. It is an important component of the Badenoch and Strathspey economy and Scotland's winter sports industry and has benefitted from significant public investment.

2. As part of its wider strategy to regenerate the Aviemore area, HIE installed a funicular railway at Cairngorm Mountain in 2001. At that time, Cairngorm Mountain Ltd. (CML) operated the business under a lease agreement with HIE. CML suffered financial difficulties and in 2008 HIE took CML into public ownership. HIE did not intend to remain as the operator in the long-term but took this step to protect its investment and the business at Cairngorm Mountain.

3. In 2014, HIE transferred the operation of Cairngorm Mountain to Natural Assets Investments Limited (NAIL). NAIL took full ownership of CML, which continued to operate Cairngorm Mountain until 2018. In September that year, CML closed the funicular railway after a routine inspection revealed structural issues. In November 2018, CML directors placed the company into administration. HIE again stepped in to take over the business, securing the assets and setting up Cairngorm Mountain (Scotland) Limited (CMSL) as a new subsidiary company to operate the mountain resort.

4. HIE is currently engaged in two legal cases connected with Cairngorm Mountain. One relates to financial guarantees provided by NAIL and its majority shareholder when CML transferred to NAIL in 2014. The other concerns design and build aspects of the funicular railway. We have set out the facts as we understand them and do not offer any views or judgements which might affect proper process.

5. In 2009, the Auditor General for Scotland published a [Review of Cairngorm funicular railway](#) . The report focused on the decision to install the funicular railway, its construction and whether the expected benefits had been realised. It was critical of HIE for not reviewing the business plan for the funicular railway after there were significant changes in the early stages of the project. It also concluded that the cost of building the funicular railway was over budget, but that the intended employment and wider benefits had been realised. The report's recommendations are set out in the [Appendix \(page 31\)](#).














Review of Cairngorm
funicular railway
October 2009 


Exhibit 1

Timeline of key events at Cairngorm Mountain

The public sector has supported winter sports activities at Cairngorm Mountain for nearly 60 years.

1961		The Forestry Commission for Scotland owns the Cairngorm Estate. The first chairlift opens, operated by the Cairngorm Chairlift Company.
1971		The Cairngorms estate is transferred to the Highlands and Islands Development Board (superseded by HIE in 1991) after it was decided that it was no longer needed for forestry. This was to enable the controlled and proper development of winter sports in the area and proper provision for maintaining the estate.
1971 –2001		The Cairngorm Chairlift Company operates the ski centre with HIE as its landlord.
2001		HIE opens the funicular railway and the Cairngorm Chairlift Company becomes Cairngorm Mountain Ltd. (CML).
2001 –2008		CML suffers regular financial losses.
2008		HIE takes CML into public ownership to protect the investment and business on Cairngorm Mountain.
2008 –2014		HIE stabilises CML and looks at options for the operating model.
2014		HIE transfers CML to Natural Assets Investments Limited (NAIL) and CML agrees a new 25-year lease with HIE.
2018		CML closes the funicular railway because of structural issues and enters administration. HIE acquires the assets of CML and creates a subsidiary, Cairngorm Mountain (Scotland) Limited (CMSL) to operate Cairngorm Mountain.
2018- present		HIE works to stabilise the business and make plans for the long-term future of Cairngorm Mountain.

About this audit

6. In August 2019, the Auditor General for Scotland published [*The 2018/19 audit of Highlands and Islands Enterprise: Cairngorm Mountain and funicular railway*](#)  under section 22(3) of the Public Finance and Accountability (Scotland) Act 2000. This was published alongside the 2018/19 audited annual report and accounts for HIE. The section 22 report drew attention to the circumstances relating to HIE's establishment of CMSL to take over the operation of the Cairngorm Mountain resort, including the funicular railway. This report, prepared under section 23 of the 2000 Act, fulfils the commitment made in the section 22 report to undertake a more detailed examination of the events leading up to CML entering administration and HIE's decision-making and actions. The report focuses on the period from our previous report in 2009 to the present time. It covers HIE's decision to transfer CML to a private operator, its relationship with CML during that period, CML's administration and how HIE is planning for the future of Cairngorm Mountain.



The 2018/19 audit of Highlands and Islands Enterprise: Cairngorm Mountain and funicular railway

August 2019 

7. The report has three parts:

- **Part 1 (page 10)** looks at why HIE decided to transfer CML to a private operator and whether the process it used to do so was appropriate and its decision-making well informed.
- **Part 2 (page 15)** looks at how HIE managed the contract with CML during NAIL's ownership, including whether HIE monitored CML adequately and was fully aware of issues at Cairngorm Mountain.
- **Part 3 (page 24)** looks at how HIE reacted to the closure of the funicular railway and CML entering administration, whether the decisions it made were reasonable and what plans it is making for the future of Cairngorm Mountain.

8. Our findings are based on:

- a review of key documents and HIE Board papers
- interviews with officials from HIE, the Scottish Government and other stakeholders
- focus groups with wider stakeholders.

Part 1

HIE's decision to transfer CML to NAIL




Key messages

- 1** HIE's decision to move to a new operating model for Cairngorm Mountain was consistent with its overall approach and role. HIE examined the options and tested the market before deciding that a private sector operator was the preferred option. HIE tendered to find a new operator, assisted by external expert support.
- 2** On completion of the tender process HIE decided to transfer CML to NAIL. NAIL outscored the only other remaining bidder across a range of assessment criteria, showing it as the clear preferred bidder. HIE acknowledged that NAIL's financial standing was subject to some risk. It took reasonable steps to gain assurance before awarding the contract, including negotiating guarantees with NAIL and its majority shareholder. A decision not to award the contract would also have carried ongoing financial and operational risks to HIE.
- 3** Some stakeholders have questioned HIE's decision to transfer CML to NAIL. While it is right that these negotiations were subject to commercial confidentiality, providing more information to stakeholders may have given more insight into the choices HIE faced and the decisions it took.

HIE's decision to transfer CML to a private operator was well founded

9. When HIE took over CML in May 2008, its intention was to stabilise the company and assess options for a new operating model. HIE considers its role as facilitating and supporting businesses rather than running them, and it sought to find the best operating model to maximise the regional economic benefits of Cairngorm Mountain. HIE began considering its options soon after taking over CML. It appointed consultants to identify potential sustainable business models and they reported in September 2009 that a private sector-led solution was the best option.

10. In 2010, HIE appointed consultants to assess the ways in which it could attract a new operator. The consultants also carried out a condition survey of the infrastructure and equipment at Cairngorm Mountain to determine the cost of bringing it into satisfactory condition, and how future maintenance could be best managed. The consultants' conclusions were reported to the HIE Board in April 2011:

- HIE should retain ownership of the mountain infrastructure and lease this to an external operator, with responsibility for repair and maintenance transferring to the operator. This should be based on a strict operating agreement and maintenance regime, underpinned by effective monitoring.
- HIE should seek a model in which the operator is encouraged to invest to develop the business and increase income, with a proportion of that being used to cover repair and maintenance costs.
- Procurement should follow the **competitive dialogue process**  often used to achieve the best market-led option.

11. Based on the consultants' conclusions, the HIE Board agreed that an initial market testing exercise be carried out to determine what interest there might be in taking on the operation of Cairngorm Mountain. In April 2012, external financial advisers reported that nine potential operators had responded, giving HIE assurance that there was enough interest to proceed with procurement.

12. The same advisers then carried out a more detailed options appraisal on behalf of HIE. This looked at five options in detail, with each option being assessed against a range of financial and non-financial criteria. The options ranged from continuing with the existing business model, through HIE directly running operations, to bringing in private sector operators either as the sole operator or as part of a joint venture.

13. The appraisal confirmed that a private operator was the preferred option. Over a 25-year period, it was expected to achieve the lowest cost and highest income for HIE, and it was the only option projected to deliver a positive financial return. Although HIE recognised that poor weather conditions could reduce turnover, any losses were still projected to be lower than that of the other options. A private operator was also expected to provide improved operational capability and access to external finance for investment in the resort and to reduce HIE's commercial risk.

NAIL scored highest across a range of criteria during the tender process, but HIE had to seek assurances on NAIL's finances

14. HIE embarked on a competitive dialogue procurement process to find a new operator. This puts significant emphasis on negotiation with a small number of candidates to enable the best market-led option to be found. HIE started the process in March 2013 by inviting interested bidders to complete a pre-qualification questionnaire (PQQ) to determine whether they would progress to the competitive dialogue phase. The PQQ comprised a compliance test and minimum financial standing test.

15. The minimum financial standing test included in the PQQ was made up of three parts:

- A minimum turnover threshold of £0.5 million. This was a pass/fail test based on the previous year's turnover. HIE set the threshold at £0.5 million on the basis that at that time CML's annual lease payments were £0.1 million, and it considered that lease costs should be no more than 20 per cent of a tendering body's turnover.



Competitive dialogue

Public-sector procurement process that allows the contracting body to negotiate with bidders to arrive at the best solution for the body.

- A minimum financial standing threshold for each bidder, as set out in the financial evaluation methodology. This required bidders to score at least 8.5 out of 17 marks to pass, using factors such as financial performance over the previous three years, as well taking the auditor's annual report into consideration.
- A qualitative moderation. Bidders were asked to disclose other supporting information that could be considered in the event of failing to meet the minimum financial standing score. Where relevant, this information could be taken into account in a revised financial standing threshold assessment.

16. Four companies submitted a PQQ, one of which did not meet the minimum turnover threshold, ruling it out of further consideration. After passing the PQQ stage, another bidder later decided to pull out from the process, leaving HIE with NAIL and one other bidder.

17. NAIL did not meet the minimum financial standing threshold because of concerns over levels of debt and operating losses at the company and its subsidiaries. But under the qualitative moderation part of the test, NAIL submitted additional information that emphasised that the debt was mostly owed to its majority shareholder and should effectively be treated as equity. It claimed that the operating losses were due to the company being in an acquisitional phase as it looked to develop and grow. This additional information allowed NAIL to pass the minimum threshold and achieve an overall score that meant it could progress to the competitive dialogue stage. HIE obtained professional advice and concluded that the approach taken was appropriate.

18. During the competitive dialogue stage, HIE assessed both remaining bidders against a range of criteria, including the financial strength of the bid, the operational capability of the operator and planned maintenance arrangements. NAIL outscored the other bidder across most of the evaluation criteria. HIE recognised NAIL's inexperience in the snow sports industry as a potential issue. But it took assurance that the existing technical expertise within CML would transfer to the new operator. Based on the scoring and further work by HIE to test estimated visitor numbers, HIE named NAIL as the preferred bidder in February 2014.

19. Before finalising the contract, HIE appointed consultants to carry out an economic impact assessment of NAIL's proposal for Cairngorm Mountain. This concluded that NAIL's proposal would see only a modest increase in employment and income at Cairngorm Mountain arising mainly from improvements to the day lodge and the Ptarmigan Restaurant, rather than from the direct impact of the new operator. Those improvements were to be funded by a £4 million loan from HIE to CML, once CML had transferred to NAIL. The loan had been agreed with both bidders during the competitive dialogue phase.

HIE identified risks in relation to NAIL's financial situation and took steps to mitigate these before awarding the contract

20. The additional information provided as part of the qualitative moderation exercise made it clear to HIE that NAIL was dependent on loan support from its majority shareholder. HIE recognised this as a risk in its assessment of NAIL's financial standing, as reliance on one individual leaves a company vulnerable to changes in the circumstances of that individual, or that individual deciding to withdraw support.


21. To mitigate this risk, HIE negotiated a parent company guarantee with NAIL and a personal guarantee with its majority shareholder. HIE expected that these guarantees would allow it to recover funds from NAIL or its majority shareholder if CML did not meet its contractual obligations. HIE satisfied itself that funds were available to support the guarantees. This demonstrates that HIE understood the risk that came with awarding the contract to NAIL and acted to protect itself from that risk.

22. HIE took steps to engage with stakeholders and put information in the public domain, but stakeholders we spoke to questioned HIE's decision to transfer CML to NAIL. With access to NAIL's annual accounts but without full insight into the steps HIE had taken, stakeholders were concerned about the appropriateness of awarding the contract to NAIL. During commercial negotiations, it is right that parts of the process remain confidential, but there is an opportunity for HIE to learn from this and consider the best way to provide transparency and openness into how future decisions are made in light of the choices available.

23. Although HIE recognised that there were risks in the appointment, NAIL outscored the other bidder across a range of assessment criteria and HIE sought to protect its interests through parent company and personal guarantees. HIE acknowledged the risks in proceeding with NAIL and took steps designed to mitigate the risks. HIE also recognised the ongoing risks to its finances and the operations on Cairngorm had the existing arrangements continued.

NAIL paid £0.2 million to take ownership of CML, and HIE committed to further investment as part of the deal

24. NAIL paid HIE £0.2 million to take ownership of CML, based on an asset valuation of £0.642 million and liabilities of £0.442 million. The valuation of CML's assets and liabilities was agreed between HIE and NAIL, with HIE's advisers leading the negotiations.

25. HIE committed to investing £1.7 million in the resort as part of the deal to transfer CML to NAIL. This was agreed during the final negotiation stage of the tender process and followed from the condition survey carried out in 2011. The investment was intended to provide £0.9 million to return infrastructure and equipment to a satisfactory condition, and £0.8 million for enhancements to the ski lifts. None of the investment related to the funicular railway. The original condition survey estimated that £3 million investment was required to meet the **cost of dilapidations**  and ongoing maintenance at Cairngorm Mountain. A further survey, which took into account the prospective operator's plans to replace the existing day lodge, resulted in a revised figure for dilapidations and maintenance of £1.7 million. HIE took the view that starting a tender process with a business model reliant on the operator meeting this cost could jeopardise its chances of finding an operator and committed to meeting this cost as part of the transfer.



Cost of dilapidations

The cost of returning the infrastructure and equipment to a satisfactory condition.

Recommendations

In identifying any future operators for Cairngorm Mountain, HIE should:

- consider the issues faced by previous operators when deciding what type of operator can deliver the best solution, and plan how it can avoid a repeat of those issues
 - identify and assess any risks associated with potential operators and carefully consider whether those risks are worth taking and how they can be managed
 - listen to stakeholders' concerns over how NAIL was appointed and consider how providing more information on future decisions might give a better insight into the choices faced and decisions taken.
-

Part 2

HIE's management of its contract with CML



Key messages

- 1** The contract entered into in 2014 between HIE and CML was governed by a series of legal agreements that outlined the obligations and responsibilities of each party. But there were conflicting views on how aspects of the agreements should be applied in practice.
- 2** HIE monitored the financial and operational performance of CML in line with the 2014 contract and assured itself that repair and maintenance work was satisfactory. Given the financial risks HIE identified during the procurement process it would have been in HIE's interests to review NAIL's financial health on an ongoing basis. This could have left HIE better placed to react if NAIL had been unable to continue supporting CML.
- 3** HIE was aware of growing operational issues with CML as the contract progressed and took measures to attempt to address them. HIE also knew of financial losses at CML before the funicular railway was closed in September 2018. The closure of the funicular railway on top of those operational and financial problems resulted in CML going into administration.

The contract between HIE and CML was governed by a series of legal agreements

- 26.** Four legal agreements governed the relationship between HIE, NAIL and CML:
- The share purchase agreement between HIE and NAIL provided for the disposal of HIE's shares in CML to NAIL.
 - The lease agreement between HIE and CML included a description of the property and assets being leased, the rent to be paid and HIE's rights as a landlord. It outlined each party's responsibilities regarding repairs and maintenance, health and safety compliance and compliance with environmental laws. It also outlined the circumstances in which HIE could terminate the lease.
 - The operating agreement between HIE and CML detailed the services to be provided by CML and the service levels and key milestones it was to achieve.
 - The loan agreement between HIE and CML set out conditions for the use and repayment of a £4 million loan from HIE to CML to rebuild the day lodge at Cairngorm Mountain. HIE agreed to make this loan available to both bidders as part of the competitive dialogue negotiations.

HIE monitored the financial and operational performance of CML but did not keep NAIL's overall financial position under ongoing review

27. The operating agreement required CML to submit monthly reports to HIE detailing its performance in delivering services. Once the contract was under way, both parties agreed that this was not necessary and monitoring moved to a quarterly basis. Monitoring reports included a financial update and income analysis and an update on performance against key performance indicators, such as ski days and visitor numbers. HIE's account manager also met CML's chief operating officer quarterly to discuss these reports and address any other issues that had arisen. Although evidence of challenge on any performance or financial issues in the minutes of these meetings is limited, HIE had regular email contact with CML and raised concerns in that way. This included the HIE property team raising any issues it identified in relation to repair and maintenance.

28. CML also reported its performance against expected service levels set out in the operating agreement every six months – one covering the summer season (1 May to 31 October) and the other covering the winter season (1 November to 30 April). CML also produced an annual service level report. These reports indicate that CML generally complied with the service levels and, if targets were not met, provided explanations for non-compliance. HIE raised the issue of falling visitor numbers with CML in August 2015. In light of poor weather conditions, it agreed in 2017 to revise service level targets for visitor numbers downwards.

29. The HIE Board received regular reporting on Cairngorm Mountain in its quarterly property activity updates, as well as in more detailed annual progress updates. The board generally considered more strategic issues and was kept aware of CML's financial position and performance against six service levels that HIE considered key, as well as HIE's infrastructure investment. HIE's Risk and Assurance Committee also received updates from 2017 onwards. These were usually on issues of risk, governance and internal control.

30. Although HIE received quarterly reports detailing CML's financial performance, it did not request information on a regular basis on NAIL's financial position. As highlighted in [Part 1](#), HIE had concerns over NAIL's finances before finalising the contract and negotiated a parent company guarantee and a personal guarantee with NAIL's majority shareholder. Knowing that NAIL was obliged to support CML if it ran into financial difficulties, it would have been prudent for HIE to monitor NAIL's overall financial situation throughout the contract. This could have made HIE aware of any potential issues and given it more time to prepare its response.

The lease agreement outlined each party's responsibilities and obligations for repairs and maintenance, but HIE and CML did not always interpret the agreement in the same way

31. The lease agreement outlined the roles and responsibilities of HIE and CML in relation to the repair, maintenance and replacement of assets and infrastructure at Cairngorm Mountain. This was a complex and technical agreement and, although HIE and CML generally agreed on their respective responsibilities, there were conflicting views on how aspects of the agreements should be applied in practice. Specifically, there were contrasting views on CML's repair responsibilities in relation to the funicular railway infrastructure. Similarly, NAIL and HIE have differing views on the adequacy of the information HIE provided to prospective operators during the tender process on the condition of the funicular railway

and other infrastructure at Cairngorm Mountain. There is an ongoing legal action ([paragraph 4](#)) involving HIE and NAIL and the financial guarantees highlighted earlier in this report.

32. HIE told us that its property team had regular contact with CML regarding repair and maintenance issues. CML was responsible for health and safety at Cairngorm Mountain and had introduced a new maintenance review regime on taking over operations. HIE took assurance from an independent review it commissioned in 2015, which found that overall an effective safety management system was in place. HIE told us it was satisfied that CML had proper processes and procedures in place and had retained or recruited technical operations staff to implement them.

33. Under the terms of the lease agreement, HIE was able to commission its own review of the maintenance works and inspections carried out by CML on plant and equipment, including all uplift infrastructure. In 2017, consultants reported to HIE that CML had a good and safe maintenance regime in place and that it was meeting its lease obligations regarding maintenance.

Health and safety issues became apparent in 2018

34. The issues that led to the closure of the funicular railway were discovered during a routine inspection in July 2018 ([paragraph 50](#)). HIE is engaged in a further ongoing legal action ([paragraph 4](#)) looking at potential liabilities in relation to these issues. In December 2018, the Health and Safety Executive (HSE) issued CML with three improvement notices relating to issues with ski tows. These notices were not related to any issues with the funicular railway.

Investment in Cairngorm Mountain did not take place as planned

35. One of the anticipated benefits of bringing in a private operator to run Cairngorm Mountain was the potential to secure additional investment to develop the business. Under the deal it negotiated with NAIL, HIE expected CML to invest £12 million in Cairngorm Mountain over the 25 years of the lease, funded from three main sources:

- a HIE loan of £4 million to construct a new day lodge
- £1.4 million from NAIL's main shareholder if expenditure on the day lodge exceeded £4 million
- £6.6 million from CML operating surpluses to fund various asset enhancements and replacements ([Exhibit 2, page 18](#)).







36. In June 2016, CML requested a change of use for the £4 million loan after deciding that alternative plans could deliver a better economic return. It asked HIE to approve use of the loan to install an artificial slope, and to make improvements to the Ptarmigan top station, retail and exhibition space. The HIE Board approved the change of use, believing that the overall purpose of the loan remained consistent with HIE's central objective to generate wider economic benefits in Badenoch and Strathspey. Ultimately, planning permission was not granted for the artificial ski slope and a decision on planning permission for the Ptarmigan improvements was not reached before CML went into administration. As a result, the £4 million loan was not drawn down.

37. As part of the lease agreement, CML was to make payments to an asset replacement fund and two sinking funds. The asset replacement fund was intended to pay the costs of relevant replacement and/or upgrade works. The two sinking funds were to pay for maintenance of fixtures and fittings, and to meet buildings maintenance obligations respectively. When CML went into administration in November 2018, it had paid £33,000 into the asset replacement fund comprising £11,000 fixed deposit and £22,000 of variable deposit. The total fixed deposit due by 31 March 2018 was £80,000. The first payments to the sinking funds were not due until 31 March 2019 and so there was no requirement for CML to have paid funds into them at the time it entered administration. In summer 2018, NAIL attempted to renegotiate the terms of the sinking funds, as delays to its planned capital investments meant that its projected income was likely to be lower. This was still being discussed with HIE when CML went into administration in November 2018.

Exhibit 2

Summary of planned investments in Cairngorm Mountain

HIE expected NAIL to invest £12 million in Cairngorm Mountain over the 25 years of the lease

Detail	Investment (£m)	Funding source
 New day lodge	4.0	HIE loan
 Leasehold improvements	1.4	Shareholder loan
 Plant and machinery	0.8	CML surpluses
 Refurbishment sinking funds ¹	3.0	CML surpluses
 Asset replacement fund ²	2.8	CML surpluses
 Total	12.0	

Notes:

1. A refurbishment sinking fund is an account used to deposit and save money to carry out future refurbishment or repair of an asset. It can only be used for a set purpose.
2. An asset replacement fund is an account that is used to deposit and save money to replace a wasting asset in the future. A wasting asset is one with a limited life span that loses value over time, such as plant and machinery.

Source: HIE Board paper, February 2014

During NAIL's ownership, CML invested £2 million in Cairngorm Mountain while HIE invested £3.5 million

38. CML invested £2 million in capital additions over the period 2014 to 31 December 2018. This included £0.773 million on plant and machinery plus other spending on areas such as website development, planning applications and ski equipment.

39. As well as the investment that CML was expected to make, HIE also spent over £3.5 million on Cairngorm Mountain between June 2014 and December 2018 ([Exhibit 3](#)). This included £1.7 million spent on dilapidation works and ski-tow improvements committed as part of the deal to transfer CML to NAIL ([paragraph 25](#)), plus further expenditure of £1.85 million. Over half of this latter amount (£0.985 million) was spent on the purchase of snow-making equipment after the funicular railway closed in September 2018 and following trials of the equipment. HIE fully owns this asset, which enabled some skiing to continue on the mountain, generating revenue of £0.1 million in 2019/20 which would not otherwise have been achieved. None of the £1.7 million spend was related to the funicular railway.

Exhibit 3

HIE's expenditure on Cairngorm Mountain, 2014-18

HIE spent over £3.5 million on Cairngorm Mountain between June 2014 and December 2018.

Project	Investment (£)
Dilapidation works and ski tows	1,725,236
Snow-making equipment	985,115
General repairs/ engineering works	576,945
Review of uplift infrastructure	148,496
Grants to CML	105,617
Miscellaneous spending	11,490
Total spending	3,552,899

Source: HIE analysis of spend

CML maintenance spending was less than that set out in the terms of the lease, but what CML could include in its minimum spend was disputed

40. Under the lease agreement, CML was to spend no less than £0.5 million each year on maintenance costs. CML was to provide a maintenance plan to HIE for approval at the start of each year, demonstrating how it would achieve the minimum spending, and evidence of actual spending at the end of the year. HIE was to confirm if the minimum spending had been achieved and, if not, what the minimum spending would be for the next year.

41. HIE calculated that CML's total maintenance expenditure over the four and a half years the contract operated was £1.88 million, which was less than the minimum expenditure required. Maintenance spending at Cairngorm Mountain could vary annually depending on the maintenance work required, but CML did not meet the minimum spending requirement in any of the four years of NAIL's ownership. HIE expected CML to make progress in addressing the shortfall in 2018 through planned exceptional maintenance of £0.11 million, although closure of the funicular and other factors prevented this happening in full.

42. What CML could include when calculating its maintenance spending against the minimum level agreed became a point of contention between it and HIE, which the lease agreement did not clarify. Based on NAIL's final tender submission, CML considered that maintenance spending should include that on operating vehicles, snow fencing and road clearing. HIE was of the view that these should not be included. HIE eventually agreed to this, noting that it was unfortunate that the categories of asset that were to be maintained under the minimum spending were not more clearly identified in the lease. HIE noted that this could be addressed by a minute of variation, but this had still to be agreed when CML went into administration.

43. Despite this, disagreement continued. In 2017, HIE informed CML that although snow fencing could be included in maintenance costs, vehicle maintenance and road clearing should not. It told CML that it had been a mistake to concede in 2015 that those costs could be included. [Exhibit 4](#) shows HIE's assessment of CML's annual maintenance expenditure from 2014 to 2018 and reflects HIE's view of what items could be classified under maintenance expenditure. Maintenance costs for vehicles, piste machines and salt are therefore not included. We did not seek to verify the amounts or classification. This is the subject of ongoing legal action.

Exhibit 4

HIE's assessment of CML's maintenance spend

HIE considers CML spent £1.88 million on maintenance between June 2014 and when it went into administration.

Period	Expenditure (£)
11 June 2014 to 31 March 2015	260,088
1 April 2015 to 31 December 2015	353,777
1 January 2016 to 31 December 2016	476,861
1 January 2017 to 31 December 2017	394,204
1 January 2018 to 29 November 2018	392,856
Total	1,877,786

Source: HIE Property Team records of maintenance expenditure

CML made an operating loss in every year of NAIL's ownership

44. CML's turnover during the period it was owned by NAIL varied annually ([Exhibit 5](#)). For snow sports to go ahead at Cairngorm Mountain the weather conditions must be right, not just in terms of snowfall, but also wind speed and temperature. In years when the weather conditions were unfavourable, the number of ski days and turnover would naturally be lower. There were two very poor winters for snow sports during CML's tenure. This was not unique to the period that NAIL owned CML and was in line with long-term trends at Cairngorm Mountain. But it highlights the financial vulnerability of any operator when the business is largely reliant on snow sports.

Exhibit 5

CML's financial performance, June 2014 to December 2018

CML reported losses totalling £2.9 million over the four and a half years of NAIL's ownership.

Financial period	June 2014 to March 2015 £000	April to December 2015 ¹ £000	January to December 2016 £000s	January to December 2017 £000	January to December 2018 ² £000
Turnover	4,332	2,050	4,750	3,547	3,487
Cost of sales	3,352	2,359	3,660	3,136	2,744
Admin expenses less other operating income	1,033	911	1,315	1,202	1,324
Operating profit/(loss)	(53)	(1,220)	(225)	(791)	(581)

Notes:

1. CML changed its accounting year to being based on January-December with effect from 2016. As part of this, it produced nine-month accounts for the period April to December 2015.
2. CML's results for 2018 were extracted from NAIL's consolidated accounts as a discontinued operation.

Source: Audit Scotland analysis of CML's and NAIL's accounts

45. These variations in turnover impacted on CML's financial performance. CML reported operating losses in each year of NAIL's ownership, eventually totalling £2.9 million by the time it went into administration.

46. Included in CML's costs in the period to the end of December 2017 was £1.9 million in respect of management fees. At the start of the contract, NAIL negotiated with HIE that CML would pay an annual management fee to Natural Retreats UK Limited (NRUL), although this was not included in any of the legal agreements. NRUL is an operating company with close links to NAIL, although it is not a subsidiary of NAIL. NRUL generally provides management services for companies within the NAIL group. NRUL provided a variety of services to CML, including sales and marketing, and finance and HR.

47. HIE considered an operator's management fee to be standard practice in the leisure industry. It took external advice and carried out a benchmarking exercise before agreeing the rate for the management fee, which was set at 13.5 per cent of annual turnover. NRUL's management fees represented 12.9 per cent of CML's turnover in the period between June 2014 and December 2017.

HIE was aware of a growing number of issues at Cairngorm Mountain in the run up to CML administration

48. By the summer of 2018, HIE was becoming increasingly concerned about CML's overall position. This arose from several sources:

- CML had reported operating losses over several years ([paragraphs 44–45](#)).
- CML's balance sheet had moved from a position of having net assets of £0.5 million as at end March 2015 to net liabilities of £2.1 million as at end December 2017. Much of this change was due to an increase in the amounts payable to its parent company, NAIL, which rose from £0.3 million as at end March 2015 to £1.9 million as at end December 2017. The accounts stated that CML was reliant on its parent company to cover its working capital requirements.
- CML's maintenance spend was less than the lease agreement required ([paragraphs 40–43](#)). In an email exchange with HIE over maintenance costs in early 2018, CML confirmed it had cut budgets across all activities, including maintenance, to protect jobs due to a lack of snow.
- CML's directors were growing increasingly frustrated with the length of time it was taking to get planning permission for the artificial ski slope and the negative impact this was having on its ability to generate additional revenue ([paragraph 36](#)).

49. HIE was also aware that CML's relationship with the local community had become strained throughout NAIL's tenure. It engaged with CML and NAIL to encourage attempts to improve the relationship. HIE told us that NAIL's directors had become reluctant to engage with the community due to a high volume of negative feedback. Their focus was on their mandate to deliver CML's commercial objectives.

The closure of the funicular railway in September 2018 was the main catalyst in CML entering administration

CML closed the funicular railway in September 2018 after structural issues were identified

50. CML's consultant engineer undertook a routine annual inspection of the funicular railway infrastructure in July 2018. This raised potential safety concerns, resulting in a separate inspection of the sliding bearings that enable movement of the track support structure. This second report, which highlighted a potential issue with the concrete structure supporting the funicular railway, was completed on 29 August 2018 and passed to HIE on 3 September. From that point, CML operated the funicular railway with reduced passenger capacity, at lower speeds and only when weather conditions were favourable.

51. On 10 September 2018, HIE and CML jointly instructed a specialist engineering company to undertake a complete structural assessment. CML closed the funicular railway on 25 September 2018 until the assessment, originally due for 3 December 2018, was complete. The cost of any required remedial works was to be calculated and liability established once the investigation was complete. HIE met the £0.128 million cost of the initial structural assessment.

HIE rejected a £1.8 million working capital loan request from CML

52. With the funicular railway closed for an indefinite period and planning permission for a new artificial ski slope rejected, CML's ability to meet its projected turnover and cover its running costs was greatly reduced. In October 2018, CML requested a working capital loan of £1.8 million from HIE to ensure that winter sports activities would continue while the funicular railway was closed. It warned that without this support, it was unlikely to be able to continue operations.

53. At this point, HIE staff undertook a review of NAIL's accounts. This showed an operating loss of £3.2 million in the year ending 31 December 2017 and net liabilities of £34.2 million. CML's accounts for the same period showed a £0.8 million operating loss and net liabilities of £2.1 million. At its 30 October 2018 board meeting, HIE rejected CML's request because it concluded that CML could not afford to repay the loan and because NAIL was not offering any security if CML defaulted.

Recommendations

HIE should:

- ensure that contractual agreements for any future operators are clear on responsibilities, obligations and payments
 - clearly outline how it will monitor all aspects of future contracts and make sure that monitoring arrangements are implemented and continually reviewed
 - make sure that any risks identified for future operators during procurement are followed through into contract monitoring
 - consider how investment, rent, maintenance spending, and management fees should be structured to mitigate the risk of money being lost from the public purse.
-

Part 3

HIE's response to the closure of the funicular railway and CML entering administration



Key messages

- 1 HIE attempted to secure a smooth exit from its contractual agreement with NAIL after the funicular railway was closed and administration became the likely outcome for CML. HIE was unable to reach agreement on that with CML's directors, but it acted quickly to secure the assets and business of CML, protect jobs and ensure that business continued at Cairngorm Mountain. HIE put in place additional governance arrangements and staff resources to deal with what was a fast moving and complex situation.
- 2 HIE set up a subsidiary, Cairngorm Mountain (Scotland) Limited (CMSL), to take over the operation of Cairngorm Mountain. It quickly set up a board of directors and installed a management team at CMSL, kept these under review and made changes when appropriate. HIE continues to provide financial support to CMSL, which continues to operate in challenging circumstances. CMSL has made progress in addressing some of the issues that arose under CML.
- 3 HIE is currently developing plans for the short and long-term futures of Cairngorm Mountain but decision-making has been affected by the COVID-19 pandemic. Reinstating the funicular is currently the preferred option at an indicative cost of £10-15million. HIE and the Scottish Government face tough choices in choosing a sustainable and affordable operating model that avoids the issues faced by previous operators, deciding what level of public funding to commit and sourcing the money to do that. They also must do so while considering the varied views of a wide range of stakeholders.

HIE acted quickly to ensure that business at Cairngorm Mountain continued but could not secure a managed exit

54. When HIE became aware of financial and operational issues at CML during the summer of 2018, it acted quickly to consider its next steps. At its meeting on 30 October 2018, the HIE Board agreed to set up a sub-group to review and make recommendations on appropriate solutions that would be considered by the full HIE Board. The sub-group met frequently in the months that followed, with the HIE Board and Risk and Assurance Committee also meeting more frequently to deal with the urgent decisions related to Cairngorm Mountain at the time. The sub-group is still in place and continues to meet fortnightly. HIE also developed a dedicated project team to lead its programme of work to deal with Cairngorm Mountain.

55. The administration of CML and establishment of CMSL has created significant additional work for HIE. HIE's Board and staff, especially those in leadership positions, have had to devote significant amounts of their time to Cairngorm Mountain. HIE assessed the cost of staff time involved in responding to the situation as £0.262 million up to the end of March 2019. Other costs have also been significant. Since the funicular railway closed in 2018, HIE has engaged:

- legal and financial advisers to help with the process of acquiring the assets of CML and setting up CMSL, at an estimated cost of £0.595 million [*i*](#).
- consultants to assist in the development of a business case to take forward developments at Cairngorm Mountain in 2020/21, for which HIE paid £0.164 million.

56. HIE considered three ways to end the contractual agreement with NAIL and allow business to continue on the mountain:

- Managed exit via a share purchase
- Asset acquisition through **pre-packaged administration** [*i*](#)
- Insolvency of CML without prior agreement.

57. HIE and its legal advisers concluded that a pre-packaged administration was the preferred option, on the basis that it would provide a quick solution, would offer HIE more control over the situation, and would allow it to proceed without taking on all CML's liabilities. The alternative to administration, exit via purchasing CML's shares, would effectively see HIE taking on all CML's liabilities and would entail significant risk.

58. HIE discussed a pre-packaged administration exit with NAIL in early November 2018, but NAIL's directors would not agree unless the HIE Board discharged the parent company and personal guarantees that were put in place at the start of the contract. The HIE Board refused to waive the guarantees and asked staff to do more work on calculating their commercial value. Consequently, HIE offered to agree a pre-packaged administration on the basis that:

- NAIL paid an amount to discharge the guarantees (now the subject of one of the legal cases outlined at [paragraph 4](#))
- amounts that CML owed to NRUL were waived in administration
- NRUL continued to provide interim services for a four-month period following administration.

59. The deadline for responding to the counter-offer passed without CML's directors accepting. CML informed HIE that they were unlikely to be able to continue to trade beyond the end of November 2018. On 29 November 2018, the directors placed CML into administration.



The 2018/19 audit of Highlands and Islands Enterprise: Cairngorm mountain and funicular railway

August 2019 [*i*](#)



Spend on accountancy, legal and professional costs in 2018/19 was £0.244 million



Pre-packaged administration

CML would arrange a deal to sell its assets to a buyer, in this case HIE, before appointing administrators to facilitate the sale.

HIE negotiated quickly and effectively to secure the assets and business of CML

60. HIE agreed a period of exclusivity with the administrator until 13 December 2018 to allow time to carry out due diligence on the options available. During this period, HIE negotiated a price to secure the assets and business of CML. It also worked with the administrator to put in place systems, such as banking, cash handling and booking, to allow business to continue with minimal interruption.

61. The cost of the acquisition to HIE was £0.462 million. This was the price agreed with the administrator for the purchase of the business and assets. Around £0.275 million of the price paid was for the assets, which were mainly plant and machinery. The administrator used part of the remaining funds received to meet ongoing staff and running costs while the purchase transaction was concluded. Although the cost of acquisition was more than the sum NAIL paid HIE to take over CML in 2014, the circumstances were different. NAIL effectively purchased the company and the liabilities that came with it. HIE was purchasing only the assets and taking on none of the liabilities.

HIE set up a new wholly owned subsidiary to take over operations at Cairngorm Mountain

62. After assuming ownership of CML's assets, HIE considered options for a future operating model for Cairngorm Mountain. On 23 November 2018, the HIE Board agreed to create a new 100 per cent owned subsidiary, Cairngorm Mountain (Scotland) Limited (CMSL), as a company limited by shares.

Governance and management arrangements are in place at CMSL

63. HIE initially installed a board consisting of three of its executive directors to run CMSL, but quickly reviewed the governance arrangements and identified external board members to take over. The CMSL Board now has a varied membership, with individuals bringing different strengths and experiences. It continues to review the board make-up and seeks to identify individuals who could further strengthen it.

64. In March 2019, following an initial short-term external appointment, HIE's Board approved the appointment of HIE's project director for Cairngorm Mountain to the role of interim chief executive at CMSL. The CMSL Board supported the appointment. The rationale behind this was based on the speed with which an internal appointment could be made compared with recruiting an external candidate. It was also based on the knowledge and experience of the project director, who had been very close to events at Cairngorm Mountain.

CMSL has made initial progress but continues to face challenges

65. CMSL inherited a business that was facing several challenges but HIE worked with it to establish an implementation plan to address the technical, operational, finance and governance requirements of the new company. An operating agreement between HIE and CMSL has now been established, setting out key performance indicators. Formal monitoring arrangements are also in place to review progress against the key performance indicators.

66. An initial priority for the CMSL Board was health and safety, following the Health and Safety Executive issuing improvement notices in December 2018 ([paragraph 34](#)). The board appointed a new health and safety manager and introduced new measures for reporting health and safety concerns to it.

67. CMSL took over near the start of the winter season in 2018/19, which was another poor snow year with limited ski days. When conditions were suitable for skiing, the number of skiers that could access the mountain was restricted without the funicular railway operating, thereby reducing revenue. Summer footfall was also significantly reduced without the railway operating.

68. As a company wholly owned by HIE, CMSL's financial results are consolidated into HIE's 2018/19 group accounts. CMSL generated income of £0.243 million and expenditure of £0.804 million between its establishment in December 2018 and 31 March 2019, an overall deficit for the period of £0.561 million. CMSL continues to provide monthly management accounts and cash flow projections to HIE for review and discussion.

69. CMSL is still in the stabilisation phase of its development. HIE and the CMSL Board considers that the interim chief executive has done a good job to date in challenging circumstances, and the morale of the 56 staff who transferred from CML to CMSL has improved. The challenge will be to maintain the pace of development and to find a sustainable solution for the future of Cairngorm Mountain.

The COVID-19 pandemic has meant that final decisions on the future of Cairngorm Mountain have still to be made

An outline business case identifies reinstating the funicular railway as the preferred option

70. HIE appointed consultants to help it prepare an outline business case (OBC) to take forward developments at Cairngorm Mountain in 2020/21. The OBC included an options appraisal for the funicular, which considered reinstatement, removal and replacement. It also considered options for the funding of the operating model in its current form while the funicular is out of operation, and other capital investments. The plan assumed that, for this phase, the current operating arrangements would remain in place and there would be continued reliance on public-sector funding.

71. The consultants compared each option against a set of monetary and non-monetary criteria. The former included construction costs, running costs, management costs and additional lifecycle costs for each option. They also included projected visitor numbers, job numbers and likely economic impact. Non-monetary criteria considered included the expected impact of each option on the environment, tourism, education, and sport, health and wellbeing.

72. At its meeting on 28 February 2020, the HIE Board noted the progress that was being made and concluded that reinstatement of the funicular would be its preferred option. The estimated cost of reinstatement is £10-15 million. In comparison, the estimated cost of removing the funicular railway is up to £13.3 million excluding professional fees. The board also agreed that work should continue to develop a full business case (FBC).

The COVID-19 pandemic has delayed completion of the final business case

73. The HIE Board was expected to consider the final business case at its April 2020 meeting. By this time, the COVID-19 pandemic was at its peak and an update paper to the board outlined that:

- CMSL operations were currently at a standstill and HIE was considering various options based around possible dates for CMSL recommencing operations. It had appointed consultants to provide financial and other advice, including sensitivity analysis on the identified options.
- Most CMSL staff had been furloughed with those able to work from home doing so. The remaining staff on site were focused on safely closing down operations and ensuring regulatory obligations continued to be met. Site security and utility maintenance checks were ongoing daily.
- Structural strengthening of the funicular was unlikely to take place in the period originally planned and a revised programme was being prepared, taking account of factors such as social distancing guidelines and contractors' competing priorities.
- The Scottish Government had agreed in principle to provide £2.9 million budget cover to support CMSL operational losses from within its 2020/21 budget.

74. At the time of writing this report, HIE officials were continuing to work towards preparing a full business case as soon as possible but the planned timetable for this is dependent on COVID-19 related developments. The estimated costs for reinstatement of the funicular are also under review to determine the impact of the COVID-19 pandemic.

HIE has still to develop a long-term plan for the future of the Cairngorm Mountain

75. As well as developing a short-term business case, HIE is working on a masterplan for the long-term future of Cairngorm Mountain. Consultants have been engaging with stakeholders to gather views and opinions on what the future should hold for Cairngorm Mountain. It has held public feedback sessions in the Badenoch and Strathspey area and carried out an online survey to give stakeholders who are not local an opportunity to provide their views. HIE sees the masterplan exercise as a means of giving a wide range of stakeholders the chance to feed into a new vision for Cairngorm Mountain. It hopes to develop Cairngorm Mountain into a sustainable resort with a year-round offering that appeals to a wide range of interest groups.

76. HIE continues to expect the engagement phase of the masterplan to be complete by early summer 2020, which should give it a vision of what stakeholders want for the future of Cairngorm Mountain. Our own engagement with stakeholders suggests there is a wide range of contrasting views on its future. There is strong interest in Cairngorm Mountain from local businesses, the local community, snow sports groups, and environmental and conservation groups. But opinions differ about many different aspects of the mountain, such as what uplift infrastructure should be provided, how to involve locals in operating the resort, and how best to protect the natural environment.

77. It will be difficult for HIE to find a solution that satisfies all stakeholders, but it will be important that they understand how HIE has reached any decision it makes. The Cairngorm Funicular Response Group, which HIE established following the closure of the funicular railway, could have an important role here. The group comprises local business and community representatives and stakeholders from the public sector. Its aim is to ensure that community and local businesses are kept informed of developments affecting the mountain, and to minimise the negative impact of the closure of the funicular.

78. As part of the audit we met with the chair and other members of the group to discuss how they felt it had worked in practice. There was recognition that HIE realised the importance of stakeholder engagement but also frustration that HIE was not utilising fully the local knowledge and expertise. For example, while the group was supportive of the purchase of snow-making equipment for Cairngorm Mountain, some members felt they should have been given the opportunity to feed into what equipment to buy and how best to use it. The group is now reviewing its remit and membership, acknowledging that its purpose has grown beyond communication and stakeholder engagement around the closure of the funicular railway. Its focus is shifting towards considering the wider issues at Cairngorm Mountain and shaping its future, and it will be important for HIE and the group's members to be clear on its role. Members believe firmly that local knowledge and expertise should be used more than it has been in the past.

Determining a financially sustainable future for the mountain is vital

79. HIE must also reflect on the issues that have affected Cairngorm Mountain in the past and learn from them to develop a financially sustainable model. HIE has had to step in to take over operations at Cairngorm Mountain twice in the space of ten years. This raises serious questions about the sustainability of the business operating under the current model. It is a business that is very reliant on weather conditions and any operator is likely to face unpredictable levels of turnover. With Cairngorm Mountain operating in already challenging circumstances, it is even more important that good management and decision-making structures are in place to avoid creating additional difficulties.

80. Local businesses and community representatives we spoke to emphasised the importance of the resort in contributing to an economy that is heavily dependent on tourism. It is vitally important that HIE and the Scottish Government considers carefully the funding requirements for any future operating model, how costs will be met, and the opportunity costs of continued investment in Cairngorm Mountain and the wider snow sports industry. Any future decisions, including whether public subsidies are necessary to continue operations, must take into account not only the economic benefits that the resort can bring to the Badenoch and Strathspey area but also the community, social and environmental impacts of continuing operations.

Recommendations

HIE should:

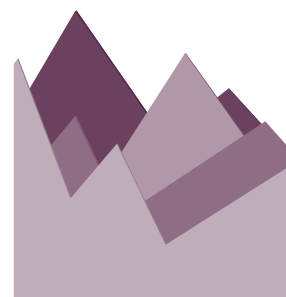
- fully consider the options available before deciding on a new operating model for Cairngorm Mountain and draw on lessons learned from the problems encountered by the two previous external operators
- consider the long-term sustainability of future operating models, what financial support may be required from HIE and how this will be funded
- take into consideration its wider spending priorities in making decisions on future financial support for Cairngorm Mountain
- carefully consider the views of stakeholders and communities in reaching decisions and be open and transparent about why decisions have been made
- carefully consider the impact of any decision on the operation of Cairngorm Mountain on its own finances and staff and put in place arrangements to minimise the impact if future operators fail.

The Scottish Government should:

- work with HIE to identify what financial support will be needed for Cairngorm Mountain, including reinstating the funicular railway, and how this cost will be met
 - examine the long-term sustainability of the snow sports industry in Scotland and consider where any future financial support fits alongside its wider economic priorities.
-

Appendix

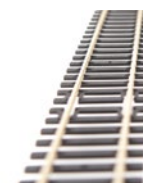
Auditor General for Scotland's 2009 review of Cairngorm funicular railway: Recommendations



The Auditor General for Scotland's 2009 report *Review of Cairngorm funicular railway* made the following recommendations:

In developing a new business model for the funicular railway, HIE must ensure that it:

- fully assesses and manages all the risks and constraints facing the facility
- reviews current performance against capacity
- considers likely demand from different user groups
- develops a clear set of objectives for the business, with measurable outcomes
- provides prospective operators with a detailed analysis of the challenges faced, drawing on experience to date
- considers changes in market, environmental and financial conditions
- creates a sustainable and attractive business opportunity for any new operator.



Review of Cairngorm
funicular railway
October 2009 

When assessing bids for the business, HIE should ensure that prospective operators:

- are aware of the current risks and make adequate provision for them
- will offer activities that have a positive impact on the surrounding area, taking account of possible displacement
- will observe any requirements in place to protect the fragile and unique environment of the area
- have developed a financially sustainable model for the business.


If HIE cannot find a suitable operator for the funicular railway, or is unable to develop a sustainable business model, it will need to decide on an appropriate course of action. HIE should continue to review and update its project appraisal processes to ensure that it is adopting good practice.

Highlands and Islands Enterprise

Management of Cairngorm Mountain and Funicular Railway

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