

Key project information

Area office / group:	Strengthening Communities and Place
Applicant name:	HIE – At our own hand
Project title:	Cairngorm Mountain – Full Business Case
Estimated completion date:	February 2022

2. Staff Responsible

Project Officer:	Sandra Dunbar/Elaine Hanton
Project SRO:	Douglas Cowan
Delegated Authority for approval:	HIE Board

3. Project Summary

Following detailed consideration, the HIE Board agreed the following:

- To endorse the preferred option (Option 3a) recommended in the FBC, that being to reinstate the funicular, support the continuation of funding for the operating company and high priority capital investments.
- To note the wider capital and revenue investment profile which would be the subject of separate business cases.
- All costs are subject to full additional funding from Scottish Government. This also assumes, as previously confirmed by the Scottish Government, that £8.5m proceeds from the sale of a HIE asset will be made available to support Cairngorm activity in addition to normal business as usual capital spend of £300k per annum.
- Decisions in relation to in-year revenue funding to CMSL continue to be delegated to HIE Leadership Team, noting the need to provide funding assurance to CMSL prior to the audit of their accounts to 31 March 2020 being finalised and agree that we wait until Scottish Government approval before providing this.
- Decisions in relation to other high priority capital investments require to be considered on a case by case basis under normal delegated authority (including to the HIE Board if appropriate).
- Sign off on all construction contractual matters including design related issues and consideration of risk be delegated to HIE Leadership Team.
- The costs associated with the recommended option being:
 - £16.16 million in capital funding to support funicular reinstatement;
 - £4.35 million in capital funding to support high priority capital investments
 - A range of between £9.76 million and £14.57 million revenue cost to support the operating company over a 5-year period from 2020/21
 - A HIE revenue cost of £1.88 million associated with internal project management
 - A CMSL project management revenue cost of £0.27 million
- Note the arrangements for other non-high priority capital costs to be considered at a later date with the decision making process to be agreed with the HIE Board and to include, where appropriate, alignment with the outcome of the masterplan.

1. Strategic Context

Cairngorm is a unique asset for Scotland. It is a place of outstanding natural beauty. As a mountain resort, it is also a key driver of the economy of Strathspey and Badenoch, at the heart of the Cairngorms National Park. Cairngorm has an opportunity to both support and draw from the success of the National Park and Aviemore as a summer destination and smooth out the seasonality to become a significant contributor to the area's appeal as a year-round family adventure destination.

HIE is long-term owner and custodian of Cairngorm Mountain Estate (CME) on behalf of Scotland. This comes with responsibilities to ensure there are effective arrangements in place to manage and maintain the mountain environment and provide a stable operating environment for the resort business. Work by international consultants the SE Group in 2018 and updated in 2019 confirmed the immense potential of Cairngorm as a tourism destination and economic driver for the wider area. It also highlighted the importance of the funicular as a major asset for the resort¹.

HIE is seeking to unlock that potential through a three-phase approach, aligned with partnership actions to develop the wider area economy, described below in section 3.

Consultation with other mountain resorts in Scotland has highlighted that Cairngorm is a high-profile attraction for the sector and, in order for the whole industry to benefit, Cairngorm needs to be operating effectively to grow and manage demand.

Successful implementation of the proposed investment at CME will support the recovery of the tourism sector in Scotland (post Covid-19), stabilise operations at CMSL and enhance visitor experiences. Importantly, it will address the current liability associated with the funicular and it will help create the conditions where future opportunities aligned to the current masterplan activity might be realised.

This paper presents a Full Business Case (FBC) in relation to the funicular, operating company and associated costs. It updates the findings of the Outline Business (OBC) which were endorsed by the HIE Board on 18 February 2020.

The FBC demonstrates a potentially significant economic benefit from reinstating the funicular which, under the current operating model, would require an ongoing subsidy. Subsequent phases will look at longer-term strategy and masterplan, including ownership and operating models and consideration of whether and to what extent, private sector funding might be attracted and secured and to optimise community involvement. This FBC sits within a wider programme of interdependent activities and is inherently complex and high risk.

2. Background

The funicular has been a unique asset at Cairngorm since 2001, providing ski uplift in winter and all abilities access to the mountain environment all year round. Since September 2018, however, it has been out of operation pending a solution being found to resolve the engineering issues identified and a supportable business case being agreed for its reinstatement.

The previous operating company went into administration in November 2018. HIE created a new subsidiary company Cairngorm Mountain (Scotland) Limited (CMSL) to acquire the business and assets out of administration in December 2018, safeguarding employment and securing continuity of operations. Since that time, HIE has sought to stabilise the operating company and support it to enhance the customer offer.

Resource decisions relating to Cairngorm need to be set in the context of wider considerations such as:

- opportunity cost related to competing investment choices across the Highlands and Islands and Scotland. It should be noted that there is not a "no cost" Do Nothing option available in the context of the funicular, as the minimum required is removal. As the programme proceeds beyond the enabling phase, where appropriate, opportunities for private sector funding will be pursued actively;
- requirement to balance economic opportunity and business need with environmental sustainability;
- climate change impact and weather and snow uncertainty impacting business viability; and
- intense interest and scrutiny from media and other interested parties into all activities at Cairngorm.

¹ Report published November 2018 and Addendum, July 2019, available online at <https://www.hie.co.uk/our-region/regional-projects/cairngorm/cairngorm-mountain-freedom-of-information/>

HIE has consistently stated its intention is to reinstate the funicular and bring it back into operation, subject to the finalised options appraisal, Business Case, funding availability and securing the necessary consents and approvals. Planning approval for works to strengthen the infrastructure was granted by Cairngorms National Park Authority in May 2020.

3. Approach

HIE has adopted the following approach to the Cairngorm project.

a) Stabilisation phase

This has included the establishment of the operating company and appointment of a Board, putting in place an Operating Agreement and associated governance arrangements, funding strategy, grant supporting a summer diversification plan and investing in capital equipment for winter operations.

b) Enabling phase

In this phase we are focusing on improving the operational efficiency at CMSL, undertaking an options appraisal, the detailed design for the funicular reinstatement option, statutory consents in terms of safety case and planning and contractor procurement to enable reinstatement works to commence quickly assuming that option is adopted. Engagement with Cairngorm Mountain (Scotland) Ltd (CMSL) staff, management team and Board, along with other strategic partners and communities has also been a feature of this phase. The instigation of a masterplanning exercise will include a considerable level of stakeholder engagement.

Finally, the development of the Business Case is a major component of this phase of activity.

While masterplanning and Business Case development is running in parallel, every effort has been made to ensure alignment and to avoid prejudicing the outcome of the masterplan. It should be noted that the masterplanning, which is expected to complete in September 2020, will likely result in future Business Cases for further developments and investments.

c) Future investment opportunity

This will include building on the opportunities identified in the masterplanning process, creating a compelling investment prospectus setting out potential benefits to investors, and identifying and targeting potential investors - considering specifically whether, or to what extent, private sector funding might be attracted and secured.

As part of this phase we will also review and consider options for future ownership and operating models. This will include options for a future exit by HIE, and community involvement going forward.

d) Wider area alignment

Alongside other phases, we are working to ensure a cohesive partnership approach is taken to design and implement complementary strategies and programmes related to e.g. the Cairngorms National Park Authority; the Inverness and Highland City-Region Deal and local strategic and community planning and programme activity in Strathspey and Badenoch.

4. Full Business Case

The findings of the OBC were presented to the HIE Board on 28 February 2020. At that time the HIE Board was asked to:

- endorse the strategic direction of travel recommended in the OBC, that being to reinstate the funicular, continue to fund the operating company and fund certain additional capital/revenue investments, all subject to full additional funding from Scottish Government. It assumed, as previously confirmed by the Scottish Government, that £8.5m proceeds from the sale of a HIE asset (the Centre for Health Science, Inverness) would be made available to support Cairngorm activity.
- the costs associated with this option were identified as:
 - £14.6 million capital funding to support funicular reinstatement
 - £5.2 million capital funding to support additional capital investments
 - A range of between £9.1 million and £14.4 million revenue cost to support the operating company over a 5-year period from 2020/21, and
 - A HIE revenue cost of £1.8 million associated with the OBC.

Since Board endorsement of the direction of travel, HIE has been working with external advisers, RSM, to develop the FBC for the project. The FBC builds on the work completed at OBC stage, incorporating updates to information to reflect the passage of time and further detailed appraisal of costs, benefits and risk/uncertainties – including the impacts of COVID-19.

In keeping with the OBC, the FBC complies with HMT Green Book 5 case approach, and lessons learned (by both HIE and externally) have been considered and applied.

Table 3.1 provides a summary of the key areas of change reflected within the FBC when compared to the OBC.

Table 3.1: Key areas of update / amendment to the FBC

FBC Section	Area of Development	Updates / amendments reflected in the FBC
Strategic Case	Assessment of Strategic Context	The Strategic Context has been updated to include policy responses by the Scottish and UK governments to COVID-19. The latest Scottish tourism strategy, which was produced after the OBC, has also been included.
	Socio-economic Needs	Socio-economic data has been updated (where applicable) and research on the impact of COVID-19 has been included.
Economic Case	Monetary Costs and Benefits	<p>The monetary analysis has been updated to include an assessment of short-to-medium term options for the operation of facilities / services in response to COVID-19 and lockdown restrictions. Baseline operating and financial data has been updated to reflect changes to the operating company following a review by CMSL in May 2020.</p> <p>Capital costs have been updated to reflect:</p> <ul style="list-style-type: none"> • Updated construction estimates; • Updated professional fees; • Revised optimism bias estimates; • Updated capital spend profile for additional capital; and • Addition of CMSL project management support / resourcing during and post-construction.
	Non-monetary Costs and Benefits	The approach to the assessment of non-monetary costs and benefits has been revised to incorporate a short term and medium-to-long term assessment of qualitative factors, reflecting the impact of COVID -19 on the project catchment area.
	Risks and Uncertainties	The option risk analysis has been amended to include additional areas of risks, to reflect a current appraisal of potential probability and impact of each risk factor and to recalculate risk exposure by option.
Commercial Case	Procurement Framework	Updated commercial case narrative to reflect latest developments in the procurement process.
Financial Case	Affordability	Updated financial model to reflect updates as described in the economic case.
Management Case	Project Plan	Updated project plan to reflect adjustments made in response to the outbreak of COVID -19.
	Risk Register	The risk register has been updated to reflect the change in context in relation to COVID -19 and its subsequent impacts.
	Benefits Realisation	A Benefits Realisation Plan has been developed and incorporated within the Management Case.
	Monitoring and Evaluation	A monitoring and evaluation plan has been developed and incorporated within the Management Case.

Key findings of the FBC are as follows:

- the outcome of the FBC has confirmed that the preferred option identified within the OBC remains the preferred option;
- that is “to reinstate the funicular, continue to fund the operating company and fund certain additional capital / revenue investments”, all subject to full additional funding from Scottish Government;
- this assumes, as previously confirmed by the Scottish Government, that £8.5m proceeds from the sale of a HIE asset would be made available to support Cairngorm activity;

- the updated costs associated with this option being:
 - £16.16 million in capital funding to support funicular reinstatement
 - £4.35 million in capital funding to support additional capital investments
 - A range of between £9.76 million and £14.57 million revenue cost to support the operating company over a 5 year period from 2020/21
 - A HIE revenue cost of £1.88 million associated with internal project management
 - A CMSL project management revenue cost of £0.27 million

Table 3.2 provides a summary of the variance in costs of the preferred option as presented within FBC when compared to the OBC.

Table 3.2: Preferred option costs – FBC compared to OBC

	Cost presented in FBC (£'s)	Cost presented in OBC (£'s)	Variance (£'s)	Rationale
Funicular capital costs	£16.16 million	£14.6 million	£1.56 million	This reflects an increase in construction costs following a revised assessment based on the detailed designs (Balfour Beatty – July 2020), inclusion of CMSL project management resource during the capital phase and updated professional fees.
Additional Capital costs	£4.35 million	£5.2 million	£-0.85 million	This reflects the prioritisation of additional capital expenditure.
Operating company revenue costs (30 years)	£141.35 million	£142.8 million	- £1.45 million	This reflects a change in the operating model in the short term in response to COVID-19 (i.e. site closure and extension of the capital phase).
HIE revenue costs	£9.80 million	£9.6 million	£0.2 million	Updates to reflect revised estimates of HIE revenue costs.
CMSL project management revenue costs (30 years)	£2.55 million	-	£2.55 million	Additional resource has been included based on the findings of the lessons learned review.
Total	£174.21 million	£172.2 million	£2.01 million	

Table 3.3 presents a summary of the capital and revenue costs associated with the preferred option - selected through the analysis contained in this paper.

Table 3.3: Summary of Costs (preferred option)

Option	2019/20 Year 0	2020/21 Year 1	2021/22 Year 2	2022/23 Year 3	2023/24 Year 4	2024/25 Year 5	Total Cost (£)
Funicular Reinstatement							
Optimism Bias							
Performance Bond							
Professional Fees							
HIE Internal Project Mgt (capital)							
CMSL Project Mgt							
Subtotal							£16.16 million
High Priority Additional Capital Investments							
Optimism Bias							
Total Capital							£20.51 million
Revenue Funding (worst case)							£14.57 million
Revenue Funding (weighted average)							£9.76 million
HIE Internal Project Mgt (revenue)							£1.88 million
CMSL Project Mgt (revenue)							£0.27 million

Note: in the table above, the worst case reflects a scenario wherein 9,000 skier days per annum are achieved each year and CMSL's operating model assumptions are applied, the weighted average reflects a scenario wherein 30,000 skier days per annum are achieved and RSM's revised operating model is applied. These sensitivities have been applied in order to present a reasonable range of the potential revenue funding required.

In addition to the high priority capital investments identified above, Option 3a includes other additional capital investments that will be subjected to further analysis to test value for money prior to approval. The anticipated expenditure profile for these other investments is detailed below.

	2019/20 Year 0	2020/21 Year 1	2021/22 Year 2	2022/23 Year 3	2023/24 Year 4	2024/25 Year 5	Total Cost (£)
Other Additional Capital Investments							
Optimism Bias							

4. Strategic case

The strategic case articulates the case for investing in the proposed project and provides an assessment of the following:

- the strategic and policy context within which the proposed investments exists;
- the socio-economic profile and tourism performance of the project's catchment area;
- the need and rationale for the project;
- complementarity with other planned investments;
- assessment of potential displacement;
- market failure and additionality; and
- the project's aims, objectives and constraints.

A review of the project's strategic fit with the following strategies and policies has highlighted that the project has the potential to contribute to a range of policy areas. The review adopts a 'top-down' approach - starting with Scottish Government Policy followed by policies specific to the HIE and Cairngorm Mountain Estate (CME) area. The review includes the key strategic and policy documents outlined in Table 4.1.

Successful implementation of the proposed investment at CME will help the tourism sector in Scotland to recover from the outbreak of Covid-19, stabilise operations at CMSL and enhance visitor experiences. By improving its offer and attracting increased numbers of visitors, it will provide a vital support to the tourism sector at a local, regional and national level, as it recovers from the impacts of the COVID-19 pandemic. Importantly, it will also address the liability associated with an inoperable funicular and it will help create the conditions where future opportunities aligned to the current masterplan activity might be realised. It will also help provide a context in which further enhancements to the mountain resort's offering could be considered and additional benefits could be generated for the local economy and its communities.

Relevant strategies are highlighted below under the headings of: tourism development; economic development; health and physical activity; social and cultural development; energy; education and skills; and environmental conservation. Though this is primarily an economic development project, the longer-term impacts and benefits of the project would be cross-cutting.

Table 4.1: Key Strategy / Policy Documents

Policy Area	Document
Programme for Scotland	The Government's Programme for Scotland – 2019/20
Highland Council	Delivering for Today, Investing for Tomorrow, The Government's Programme for Scotland 2018-19
	The Highland Council Programme "Local Voices / Highland Choices" (2017-2022)
	The Highland Corporate Plan (2019-22)
Economic Development – National	Scotland's Economic Strategy (2015)
	The Scottish Rural Development Programme (SRDP) (2014)
	A new blueprint for Scotland's rural economy: Recommendations to Scottish Ministers – National Council of Rural Advisers (September 2018)
	Scotland's Economic Action Plan (2018-2020)
	No One Left Behind – Review of Employability Services – Scottish Government (2018)
Economic Development – Highland Council / HIE	The Highland Council (2019-2022) – Development and Infrastructure Service Plan
	Highland Community Planning Partnership (HCPP) – The Highland Outcome Improvement Plan (2017-2027) – Working Together to reduce inequalities in Highland
	Highlands and Islands Enterprise 2019-2022 Strategy
	Highlands and Islands Enterprise – Operating Plan 2018-2019
Economic Development – Cairngorms	The Cairngorms National Park Partnership Plan 2017-2022
	Proposed Cairngorms Economic Action Plan 2019-2022
	Cairngorms Local Development Strategy 2014-2020
	Cairngorm National Park Authority Working Principles- Cairngorm Mountain (2019)
Tourism – National	Tourism Scotland 2020 – A Strategy for Leadership and Growth
	Tourism Scotland – Our Vision for the future Beyond 2020 (Draft Report 2019)
	Scotland Outlook 2030 – Responsible Tourism for a Sustainable Future
Tourism – Cairngorms	Tourism: Action + Change – Tourism Action Plan for the Cairngorms National Park 2017-2022
	Cairngorms National Park: 2020 – Delivering the National Tourism Strategy – Tourism Action Plan
Conservation	The National Parks (Scotland) Act 2000
	Cairngorms National Park – Cairngorms Nature – Action Plan 2018-2023
Health / Physical Activity	A More Active Scotland: Scotland's Physical Delivery Plan – Scottish Government (2018)
	Highland Community Planning Partnership + NHS Highland – Active Highland Strategy (2017)

Policy Area	Document
	Active Cairngorms Snowsport Scotland Strategic Plan 2018-2022
Education and Skills	Out to Play: Practical guidance for creating outdoor play experiences in early learning and childcare (2018) Play Strategy for Scotland: Our Vision (2013) Curriculum for Excellence through Outdoor Learning (2010) Skills Development Scotland: Jobs and Skills in Scotland (2017) Enterprise and Skills Board - Working Collaboratively for a Better Scotland – Strategic Plan (2018)
Energy	Scottish Energy Strategy: The future of energy in Scotland (2017) Scottish Government: Climate Change Plan: third report on proposals and policies 2018-2032
Response to COVID -19	Scottish Tourism Emergency Response Group - COVID-19 National Action Plan - 23 June 2020 Scottish Government: Advisory Group on Economic Recovery -Towards a robust, resilient wellbeing economy for Scotland – June 2020

The socio-economic review highlights that:

- Cairngorm Mountain is a significant natural asset for the Highlands and Islands area and is essential in maintaining the tourism industry in Badenoch and Strathspey;
- the local economy, represented by the Badenoch and Strathspey area, is highly dependent on the tourism and hospitality industry. Based on the 2018 Business Register and Employment Survey (published in September 2019), 25% of Badenoch and Strathspey's workforce was found to be employed in the accommodation and food services sector – this is more than twice the percentage of those employed in this sector in Inner Moray Firth and the Highlands and Islands area. The proportion of the Badenoch and Strathspey workforce employed in the arts, entertainment, recreation and other services sector (13.3%) is nearly three times as large as the proportion of the workforce employed in that services sector in Inner Moray Firth (4.9%) and Highlands and Islands (4.6%)²;
- the number of international visitors to Scotland and the Highlands and Islands has been growing – 2018 data on trips from international visitors to Scotland identified a 42% increase since 2008. The Highlands and Islands area experienced a 21% increase over the same period³;
- the domestic tourism market has been performing well and in 2018, 26% of all domestic trips in Scotland were in the Highlands and Islands area (3,033,000 trips in total)⁴;
- there is a concern that the ongoing COVID-19 pandemic will continue to have a serious impact on tourism in Scotland. The Scottish government's Advisory Group on Economic Recovery provisionally estimate that there was a 33% drop in GDP in Scotland for the months April and May 2020, with a 51% fall in GDP for the Arts, Culture & Recreation Services sector. Despite this, however, it should be noted that there is a desire for domestic tourism. In the June edition of 56 Degrees Insight's Scottish Tourism Index (a monthly survey established to measure impacts on Scottish tourism of COVID -19), showed that Scottish people are more likely to engage in domestic tourism (a score 68 out of 100) than go to either the rest of UK (41) or the rest of the world (40). 54% of the 503 people surveyed in June stated an interest in visiting the Highlands when restrictions ease (with 6% stating the Aviemore / Cairngorm area in particular). This shows a high level of desire for a Scottish "staycation," an opportunity that could be advantageous to the tourism industry in the Highlands and Islands area.

A review of the Scottish ski industry highlights that:

- it contributes over £30 million in GVA to the Scottish economy and provides employment to 634 people yearly⁵;
- there has been a long-term trend of decline in skier days in Scotland. Therefore, whilst mountain resorts are hopeful that the skiing industry in Scotland will remain viable in the coming years, focus also needs to be on developing a sustainable year-round offering that means resorts (including Cairngorm) are less exposed to the volatility of winter weather conditions.

Consultation with other mountain resorts in Scotland has highlighted that Cairngorm is the high-profile attraction for the sector and in order for the whole industry to benefit, Cairngorm needs to be operating effectively to grow and manage demand.

² Nomis (ONS), Business Register and Employment Survey, September 2019

³ Visit Britain, Inbound nation, region & county data (Scotland, Highland & Islands region-specific), <https://www.visitbritain.org/nation-region-county-data>

⁴ Visit Britain, Great British Tourism Survey 2018, August 2019

⁵ Snow Factor, Scottish Ski Industry Strategic Review, May 2019

A review of infrastructure and operational needs highlight that:

- a range of issues have been identified with the infrastructure at CME, the most significant being the closure of the funicular, but also ski tow uplift which is old and inefficient, both operationally and from an energy perspective. A solution to this issue is necessary to ensure that CME can offer integrated, year-round access to the mountain and continue to attract visitors to the Badenoch and Strathspey area, supporting the wider local economy;
- additional capital enhancements have been identified in response to the other issues, these investments are needed to improve the visitor experience at the site and to expand their summer offering; and
- to ensure that the CME can be operated effectively, CMSL needs to be stabilised to provide the opportunity to build upon the current assets of the company. Providing reassurance of CMSL's future funding will enable the Board to focus on addressing operational issues.

Successful implementation of the proposed investment at CME will support recovery within the tourism sector following the Covid-19 pandemic. It will also provide an opportunity for Scotland's tourism sector and ski industry to benefit further from an anticipated increase in "staycations" following Covid-19. The project has the potential to deliver positive impact across a range of policy areas, including:

- tourism development;
- economic development;
- health and physical activity;
- social and cultural development;
- energy;
- education and skills; and
- environmental performance and conservation.

5. Impact case

The economic case sets out the options to be considered for the project and the economic appraisal of those options to identify a preferred option for delivery. The appraisal of options includes:

- monetary analysis;
- non-monetary analysis; and
- risk assessment.

The analysis of potential options assesses the proposed project against a 'do minimum' option, which is consistent with Treasury guidance. This provides the base case against which all other options are evaluated. The section concludes with the selection of the preferred option.

N.B. the original planning consents relating to the development of the funicular indicate there are obligations with respect to decommissioning the funicular under non-use conditions and consequently, the pursuit of a no cost 'do-nothing' option in the case of the funicular is not possible.

Identification of options

This section presents the process used for developing a long list of options and the subsequent shortlisting of options. In developing the long list of options, three key factors and associated variations in approach have been considered. These factors and associated variations are summarised in Table 5.1 and described in further detail below.

Table 5.1: Long list of options / variations

Principal factor under consideration	Potential variations in approach
The approach used to address issues relating to the funicular railway	<ul style="list-style-type: none">i. removal of the funicular, with the natural landscape restored and reinstated to its original conditionii. removal of the funicular and use/ replacement of existing infrastructure for uplift (i.e. largely old / inefficient / poor user experience but well-maintained surface lifts)iii. removal and replacement of the funicular with either (a) chairlift; (b) mono-cable gondola; or (c) dual-cable gondolaiv. reinstatement of the funicular
The level of funding provided to the operating company	<ul style="list-style-type: none">i. no funding provided to CMSLii. part funding provided to CMSL, thereby requiring further costs reductions to be madeiii. provision of full level of funding to sustain CMSL operation
The level of additional capital investment allocated	<ul style="list-style-type: none">i. no additional investmentii. partial additional investment (selected items)iii. investment in all identified items

The process of eliminating options involves testing the feasibility of each potential combination of factors.

In considering 'additional capital investments', a schedule of proposed investments was reviewed against the following criteria:

- whether or not the investment was a regulatory obligation or essential to the operation of CMSL;
- whether or not the investment resulted in increased operating revenue or reduced operating cost; and
- whether or not the investment would improve the visitor experience and has the power to enable further development, without compromising the masterplanning exercise.

As a result of this process, a number of proposed investments were excluded from the business case, as they did not meet the specified criteria. Tables 5.2 and 5.3 identify the resulting range of additional capital investments that have been included within the business case. These investments have been divided into two categories, namely:

- high priority additional capital investments – i.e. operationally or regulatory essential expenditure; and
- other additional capital investments.

Table 5.2: High Priority Capital Investments

Cost Item	2020/21	2021/22	2022/23	2023/24	2024/25
Life extending - Day lodge *					
Building improvements / upgrades - Ptarmigan					
Dilapidations					
Existing tow infrastructure					
Energy Efficiency audit					
Electrification of snow cannons					
Groundworks					
CCTV for Buildings					
Garage Facilities for Kassbhorers / Cannons					
Ticket Machines & barrier					
Paths					
Resurface & Draining at the Cas Car Park					
Total construction cost					
Contingency (10%) **					
Subtotal					
Optimism Bias					
Total			£4,350,000		

* this is an upper estimate for costs which may be incurred in the event of failure of any M&E equipment within the buildings.

** contingency of 10% was applied to groundworks, car park and electrification of snow cannons; 5% was applied to ticket machines; 5% for the remainder.

Note: all figures have been rounded to multiples of £10,000.

Table 5.3: Other Capital Investments

Detail	2020/21	2021/22	2022/23	2023/24	2024/25
Energy					
New Electrical Capacity for Mountain					
Renewable energy study					
Renewable energy (onsite generation)					
Renewable energy - further feasibility studies					
Snow making					
Snowfactory Relocation & Groundworks					
Snowmaking Masterplan / Strategy					
Existing Infrastructure					
New Floor for Café					
New Furnishings for Café					
New Activity					
Floodlighting for Evening Skiing					
Magic Carpet & Groundworks (Beginner Area)					
2 x Coffee Machines					
More Tubing Slides					
Zip Wire Slide					
Mini Kassbhorer					

Detail	2020/21	2021/22	2022/23	2023/24	2024/25
Mountain Bike Pump Park (Trial)					
New Infrastructure					
New Day Lodge					
Access Track - behind day lodge					
CMSL Capital					
Sage Payroll					
Online Booking System					
Replace Computers					
Total construction cost					
Contingency – Variable*					
Sub Totals					
Optimism Bias					
TOTAL			£4,320,000		

*■ % was applied to groundworks, car park and electrification of snow cannons; ■ % was applied to ticket machines and tubing slides; ■ % for the remainder.

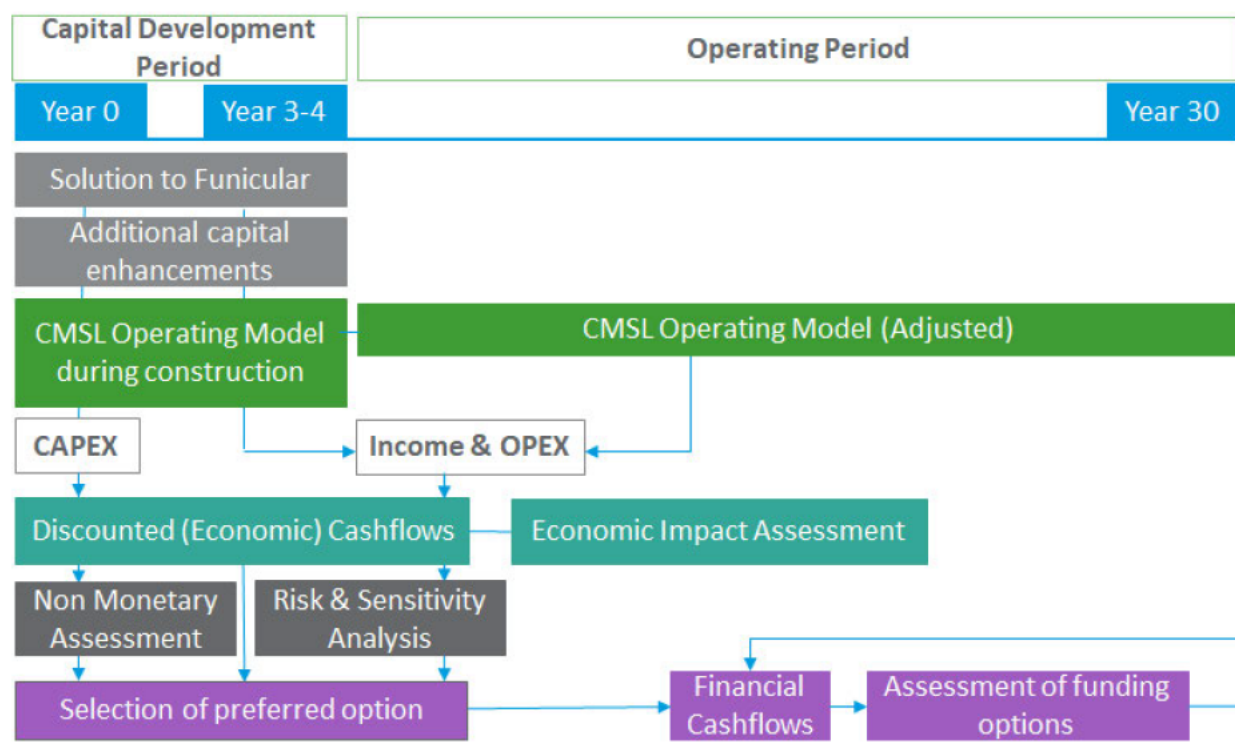
Following the review of the feasibility of all long list options, a short list of options has been developed. Note: “partial investment funding” refers to the remaining investments proposed by CMSL following the appraisal exercise:

- Option 1a: Do Minimum (removal of funicular, no CMSL funding or additional investment). This assumes that the operating company ceases trading;
- Option 1b: Removal of funicular, maintain / replace existing uplift infrastructure (fund CMSL and fund selected additional capital investments) – this option assumes that the current employment at the site is maintained;
- Option 2a: Remove and replace the funicular with a dual-cable gondola, fund CMSL and fund selected additional capital investments. This assumes an increase in visitor numbers and subsequently staff at the operating company;**
- Option 2b: Remove and replace funicular with a dual-cable gondola, fund CMSL but do not fund proposed additional investments. This assumes an increase in visitor numbers and subsequently staff at the operating company; **
- Option 3a: Reinstate funicular, fund CMSL and fund selected additional capital investments. This assumes an increase in visitor numbers and subsequently staff at the operating company; and
- Option 3b: Reinstate funicular, fund CMSL but do not fund proposed additional investments. This assumes an increase in visitor numbers and subsequently staff at the operating company.

Figure 5.1 presents an overview of the process of analysis. NB appraisal of the CMSL operating model has included an assessment of potential operating models in response to COVID-19 lockdown restrictions. This assessment, which included an assessment of monetary and non-monetary costs/benefits and risks concluded that CMSL facilities should reopen in mid-July 2020, which is consistent with Scottish Government’s (July 2020) guidance on the lifting of restrictions for the tourism sector and the CMSL Board’s decision to reopen, on a phased basis, from 15th July 2020 (as is currently underway).

**Following publication, it was noticed that references to a dual cable gondola in the options appraisal were incorrect. The type of gondola that was considered for options 2a and 2b was in fact a single mono cable model. We apologise for this error.

Figure 5.1: Process of analysis



Capital Costs

The total capital costs associated with each option are presented in Table 5.4, providing a breakdown of construction costs, additional capital investments, optimism bias⁶ (OB) and professional fees (inclusive of HIE's internal project management costs during the capital development phase). Table 5.5 details the capital costs presented within the FBC and how they vary from those presented within the OBC.

Table 5.4: Total Capital Costs per option

Option	Construction Cost (Funicular Solution)	Additional Capital Investments	Construction OB	Professional Fees (including HIE Internal Project Mgt)	Total Construction Cost
Option 1a					£16.92 million
Option 1b					£36.77 million
Option 2a					£60.71 million
Option 2b					£52.05 million
Option 3a					£24.82 million
Option 3b					£16.16 million

Note: Capital expenditure estimates are inclusive of construction inflation. The additional capital investments are split between high priority investments and other, as per tables 5.2 and 5.3 above. Only the costs contained within table 5.2 are subject to the budget request as part of this Full Business Case.

⁶ Optimism Bias has been calculated for individual options using the Mott MacDonald optimism bias calculator as recommended in the HM Treasury Green Book.

Table 5.5: Variance in Capital Costs between FBC and OBC

Option	Cost presented in FBC (£'s)	Cost presented in OBC (£'s)	Variance (£'s)	Rationale
Option 1a	£16.92 million	£15.6 million	£1.32 million	Increase in optimism bias to reflect the added uncertainty due to COVID -19 and an increased in capital cost to reflect additional risk contingency (BAM – June 2020). This also reflects additional costs in relation to CMSL project support / resourcing.
Option 1b	£36.77 million	£31.5 million	£5.27 million	This reflects the additions detailed for Option 1a; however, this also includes an increase in the capital cost of the additional capital investments (HIE – July 2020).
Option 2a	£60.71 million	£45.3 million	£15.41 million	This reflects the changes detailed in Option 1a and an increase in the capital cost of capital investments (HIE – July 2020). This also reflects an increase in capital expenditure relating directly to construction of the buildings and site preparation required for the gondola (Pick Everard – June 2020).
Option 2b	£52.05 million	£40.1 million	£11.95 million	As per Option 2a, excluding the additional capital investments.
Option 3a	£24.82 million	£19.9 million	£4.92 million	This reflects revised capital expenditure based upon the completion of the detailed designs for reinstatement (Balfour Beatty – July 2020). As per the options above, this also reflects an increase in the capital costs of capital investments, inclusion of CMSL project support / resource, revisions to professional fees and a reduced level of optimism bias.
Option 3b	£16.16 million	£14.7 million	£1.46 million	As per Option 3a, excluding the additional capital investments.

Table 5.6 presents a summary of the total capital costs per annum.

Table 5.6: Capital Costs per annum

Option	2019/20 Year 0	2020/21 Year 1	2021/22 Year 2	2022/23 Year 3	2023/24 Year 4	2024/25 Year 5	Total Construction Cost
Option 1a							£16.92 million
Option 1b							£36.77 million
Option 2a							£60.71 million
Option 2b							£52.05 million
Option 3a							£24.82 million
Option 3b							£16.16 million

The business case has examined the whole life costs for each option, including the ongoing maintenance and replacement costs. The total lifecycle costs are outlined in Table 5.7.

Table 5.7: Lifecycle Costs

Option	Lifecycle Costs
Option 1a	£0
Option 1b ⁷	£0
Option 2a	£6.07 million
Option 2b	£6.07 million
Option 3a	£5.68 million
Option 3b	£5.68 million

Operating Costs

Table 5.8 presents a summary of the CMSL operating costs and HIE's internal project management costs (revenue). An appraisal was undertaken of the short term CMSL operating models, developed in response to the outbreak of COVID-19. The operating model that reflects reopening in mid-July 2020 following a period of closure is reflected in all options below.

Key areas of change in operating costs within the FBC, when compared to the OBC, are detailed in Table 5.9.

Table 5.8: Revenue & operating costs per option

Option	Operating Costs (CMSL)		HIE Internal Project Management Costs		CMSL Project Management Costs		Total	
	Total £m (30 Years)	Steady State ⁸ £m	Total £m (30 Years)	Steady State £m	Total £m (30 Years)	Steady State £m	Total £m (30 Years)	Steady State £m
Option 1a	£0.40	£0	£0	£0	£0	£0	£0.40	£0
Option 1b	£106.34	£3.56	£9.73	£0.32	£2.37	£0.91	£118.44	£3.97
Option 2a	£137.43	£4.76	£9.73	£0.32	£2.37	£0.91	£149.53	£5.16
Option 2b	£137.43	£4.76	£9.73	£0.32	£2.37	£0.91	£149.53	£5.16
Option 3a	£141.35	£4.80	£9.80	£0.32	£2.55	£0.91	£153.70	£5.21
Option 3b	£141.35	£4.80	£9.80	£0.32	£2.55	£0.91	£153.70	£5.21

Table 5.9: Variance in Operating Costs between FBC and OBC

	Cost presented in FBC (£'s)	Cost presented in OBC (£'s)	Variance (£'s)	Rationale
Option 1a	£0.40 million	£0	£0.40 million	There is a slight reduction in CMSL operating costs reflecting the impact on the short-term operating model in response to COVID-19. However, operating costs increase overall due to the additional inclusion of CMSL project support revenue costs and a slight increase in HIE revenue costs.
Option 1b	£118.44 million	£116.5 million	£1.94 million	
Option 2a	£149.53 million	£147.6 million	£1.93 million	
Option 2b	£149.53 million	£147.6 million	£1.93 million	
Option 3a	£153.70 million	£152.5 million	£1.20 million	
Option 3b	£153.70 million	£152.5 million	£1.20 million	

Income

Table 5.10 presents a summary of the projected income per option and the assumptions relating to visitor numbers. Table 5.11 identifies variances between the OBC and FBC in relation to CMSL income.

⁷ The lifecycle costs for Option 1b are reflected within annual repair and maintenance provision

⁸ Steady State refers to the level at which the figure remains constant over the remainder of the appraisal period

Table 5.10: Visitor and income per option

Option	Steady State Visitors per annum				CMSL Income	
	Skier Days	Non-ski Winter	Summer	Total	Total (30 Years)	Steady State
Option 1a	0	0	0	0	£0	£0
Option 1b	30,000	12,142	26,197	68,340	£39.60 million	£1.33 million
Option 2a	30,000	36,060	70,171	136,231	£65.24 million	£2.32 million
Option 2b	30,000	36,060	70,171	136,231	£65.24 million	£2.32 million
Option 3a	30,000	45,075	87,714	162,789	£77.22 million	£2.67 million
Option 3b	30,000	45,075	87,714	162,789	£77.22 million	£2.67 million

The figures presented above are exclusive of financial costs (e.g. inflation).

Table 5.11: CMSL total income per option as presented in FBC and OBC

Option	Total CMSL income (30 years)		Reason for Variance
	FBC	OBC	
Option 1a	£0	£0	-
Option 1b	£39.60 million	£40.0 million	Reduction in income in Y1 to reflect closure due to COVID-19
Option 2a	£65.24 million	£65.6 million	Reduction in income in Y1 to reflect closure due to COVID-19
Option 2b	£65.24 million	£65.6 million	Reduction in income in Y1 to reflect closure due to COVID-19
Option 3a	£77.22 million	£79.1 million	Reduction in income in Y1 to reflect closure due to COVID-19 and Y2 to reflect extended capital development phase for the funicular
Option 3b	£77.22 million	£79.1 million	Reduction in income in Y1 to reflect closure due to COVID-19 and Y2 to reflect extended capital development phase for the funicular

Economic Impact

This project has three key channels of economic impact:

- capital development phase at the site;
- operating company; and
- tourism spend resulting from visitors to the site.

There are also three types of economic impacts generated through the project: direct; indirect; and induced. Direct impacts occur where revenue and spend is generated by the project or employment created. Indirect impacts occur in the supply chain for the project (wherein spending by the project creates an economic impact on its supplier). Induced impacts occur through the spending in the local economy as a result of the wage impacts created or sustained through the project. Table 5.12 presents a summary of the economic impact per option. The figures presented are at a national level, and are reflective of leakage, displacement and multiplier impacts.

Table 5.12: Net economic impact

Option	Gross Value Added (GVA)		FTEs	
	Total (30 Years)	Average per Year	Total (30 Years)	Average per Year
Option 1a	£10.77 million	£0.36 million	32	1
Option 1b	£96.20 million	£3.21 million	528	18
Option 2a	£158.97 million	£5.30 million	897	30
Option 2b	£154.34 million	£5.14 million	889	30
Option 3a	£161.73 million	£5.39 million	1,000	33
Option 3b	£157.09 million	£5.24 million	992	33

Note: the wider economic benefits presented are at a national level

Table 5.13 presents a breakdown of direct, indirect and induced job impacts per option.

Table 5.13: FTEs per option

	Direct	Indirect	Induced	Total FTEs
Option 1a	21	8	4	32
Option 1b	391	85	52	528
Option 2a	669	138	90	897
Option 2b	664	135	89	889
Option 3a	757	143	100	1,000
Option 3b	752	140	99	992

The GVA and FTE figures presented in Tables 5.12 and 5.13 reflect marginal changes compared to the OBC. In the FBC, estimates of GVA and FTEs have increased for all options as a result of the increase in capital expenditure.

Net Present Value

An assessment of Net Present Value (NPV) and the net economic impacts that would be generated per option has been summarised in Table 5.14. Costs and benefits have been profiled over a 30-year appraisal period, following the HM Treasury Green Book approach. The figures presented are **Net Present Values**. If the value is negative, this represents a **Net Present Cost**.

Table 5.14: Net Present Value per option

	Net Present Value (30 Years)	GVA (30 Years)	Total NPV (30 Years)
Option 1a	- £16.03 million	£10.77 million	- £5.26 million
Option 1b	- £76.22 million	£96.20 million	£19.98 million
Option 2a	- £107.80 million	£158.97 million	£51.17 million
Option 2b	- £99.84 million	£154.34 million	£54.50 million
Option 3a	- £73.09 million	£161.73 million	£88.64 million
Option 3b	- £65.13 million	£157.09 million	£91.96 million

Note: the net economic impacts presented are at a national level

For comparison, Table 5.15 outlines the Total NPV figures contained in the OBC and the revised FBC estimates. For all options, the NPV estimates have decreased as a result of the increase in capital expenditure with a smaller gain in GVA. Note: the difference between Options 3a and 3b with Options 1a – 2b has increased in the FBC.

Table 5.15: Net Present Value per option as presented in the OBC and FBC

	FBC	OBC
Option 1a	- £5.26 million	- £4.1 million
Option 1b	£19.98 million	£25.1 million
Option 2a	£51.17 million	£58.4 million
Option 2b	£54.50 million	£60.4 million
Option 3a	£88.64 million	£92.4 million
Option 3b	£91.96 million	£94.4 million

Sensitivity Analysis

A range of sensitivities have been applied to the NPC and WEB assessments. The scenarios profiled are:

- Reduced CAPEX associated with removal (Options 1a – 2b)
- Inclusion of end of life removal costs (Options 3a and 3b)
- Adjusted CMSL financial model (Options 1b – 3b)
- Flexing of winter skier days (Options 1b – 3b)
- Flexing of summer visitor numbers (Options 1b – 3b)

The adjusted CMSL financial model has been generated following a review of the proposed operating model by RSM. This review identified the following changes:

1. **An increase in the projected number of season passes sold to** [REDACTED] (CMSL have forecast [REDACTED] season passes to be sold in 20/21, however, based on prior sales of season tickets, this appears to be a conservative

estimate and [REDACTED] is more reflective of an average year);

2. **An increase in the projected weighted average price of a day ticket to [REDACTED]** (the CMSL forecast uses a weighted average figure of [REDACTED], however, this weighted average is based upon the proportion of season ticket sales and not day tickets. A review of day ticket sales indicates that adult tickets represent a higher proportion, leading to an increase in the weighted price);
3. **A reduction in projected tubing income to [REDACTED]** (the CMSL forecast identifies tubing income of [REDACTED] in 20/21, however, this has been reduced to [REDACTED] due to a lack of evidence to underpin this assumed growth);
4. **A reduction in equipment hire income to 20% of day visitor income** (equipment hire income for 20/21 in the CMSL forecast has been projected at 29% of day visitor income, however, this has been reduced to 20% based on the income data available for prior years);
5. **The removal of the circa [REDACTED]% contingency** within wages and salaries amounting to approximately [REDACTED], including associated employers NIC and pension contributions. This has been removed as the majority of staff are on existing contracts, providing certainty of the cost of wages;
6. **The reduction of exceptional item contingencies by approximately [REDACTED]** to remain in line with the 19/20 budgeted contingency amount; and
7. **Reduction in price of ski tickets and funicular tickets by 20%** to assess what impact a change in price would have across each option.

The sensitivity analysis has produced **no change** in the ranking of options. This analysis includes the impact on net economic impacts.

Non-monetary Assessment

Not all costs and benefits can be measured in monetary terms, as no market value exists for them. In this section we consider the non-monetary costs and benefits associated with each of the short-listed options. A weighting and scoring exercise has been adopted to illustrate in quantitative terms how each option performs against identified non-monetary criteria.

In the OBC, a list of four criteria (contributions to local and national tourism; contribution to environmental performance; increased opportunities for sport; contribution to educational outcomes) were developed and weightings (totalling 100) were allocated. Weightings reflect the relative importance of the associated impacts from HIE's perspective. In the OBC, the weightings were as follows:

- Contribution to the local and national tourism offering (40)
- Contribution to improved environmental performance (30)
- Increased opportunities for sport and health / wellbeing (20)
- Contribution to educational outcomes (10)

Due to the unique economic circumstances in which the FBC has been developed (i.e. following the outbreak of COVID -19 and subsequent lockdown restrictions), a revised approach to non-monetary assessment has been utilised within the FBC. This revised approach considers the first 5 years of the project (Stage One) to have higher weightings for the "contribution to the local and national tourism offering" criteria at the expense of reduced environmental, educational and health and well-being criteria weightings. The rationale for this change in weightings can be justified by the Scottish Government's Monthly Economic Brief (June 2020) which identifies that the impact of COVID -19 on the economy and the labour market has been rapid and severe, and so economic impacts from tourism are considered to be of greater priority than previously calculated. The revised weightings for Stage One are as follows:

- Contribution to the local and national tourism offering (55)
- Contribution to improved environmental performance (25)
- Increased opportunities for sport and health / wellbeing (15)
- Contribution to educational outcomes (5)

Table 5.16 provides a summary of option scores for Stage One.

Table 5.16: Summary of option scoring (Stage One)

Criteria	Weighting	Option 1a	Option 1b	Option 2a	Option 2b	Option 3a	Option 3b
Tourism	55	(2) 110	(4) 220	(7) 385	(6.5) 357.5	(8) 440	(7.5) 412.5
Environment	25	(6) 150	(6) 150	(5) 125	(4) 100	(6.5) 162.5	(5.5) 137.5
Sport, Leisure, Health and Wellbeing	15	(2) 30	(5) 75	(7) 105	(6.5) 97.5	(8) 120	(7.5) 112.5
Education	5	(2) 10	(5) 25	(6) 30	(6) 30	(7) 35	(7) 35
Total	100	300	470	645	585	757.5	697.5
RANKING		6	5	3	4	1	2

After this 5-year period and for the remainder of the 30-year appraisal period, the weightings that had previously been identified in the OBC are restored and calculated as before for Stage Two. Table 5.17 provides a summary of the weightings and option scores for Stage Two.

Table 5.17: Summary of option scoring (Stage Two)

Criteria	Weighting	Option 1a	Option 1b	Option 2a	Option 2b	Option 3a	Option 3b
Tourism	40	(2) 80	(4) 160	(7) 280	(6.5) 260	(8) 320	(7.5) 300
Environment	30	(6) 180	(6) 180	(5) 150	(4) 120	(6.5) 195	(5.5) 165
Sport, Leisure, Health and Wellbeing	20	(2) 40	(5) 100	(7) 140	(6.5) 130	(8) 160	(7.5) 150
Education	10	(2) 20	(5) 50	(6) 60	(6) 60	(7) 70	(7) 70
Total	100	320	490	630	570	745	685
RANKING		6	5	3	4	1	2

To calculate the total non-monetary score for each option, the scores from the two stages have been combined. The scores from Stage One represent 17% of the total score (i.e. 5 years out of 30), while Stage Two represents 83% of the total score (i.e. 25 years out of 30). A final overall score is then given for each option by adding these scores together and dividing by 10 to simplify interpretation. The scores are then ranked. Table 5.18 details the resulting scores and rankings.

Table 5.18: Summary of option scoring (Overall)

Criteria	Weighting	Option 1a	Option 1b	Option 2a	Option 2b	Option 3a	Option 3b
Stage one	17	5.1	7.99	10.97	9.95	12.88	11.86
Stage two	83	26.56	40.67	52.29	47.31	61.84	56.86
Total	100	31.66	48.66	63.26	57.26	74.72	68.72
RANKING		6	5	3	4	1	2

Based on the assigned weightings and scores, Option 3a is ranked first in qualitative terms.

Risk Assessment

Since an appraisal involves making assumptions about the behaviour of various elements of the project there is a degree of risk and uncertainty involved. Within this chapter, the issue of project risk has been assessed qualitatively by the identification of:

- key areas of project risk that vary by option and their associated risk mitigation strategies; and
- the profile of these risks in terms of impact and probability (i.e. option exposure to risk).

The qualitative risk assessment process involves estimating the Probability and Impact of each area of risk as it applies to each option and assigning values to these factors whereby:

- low levels of probability are assigned values of 1–2;
- medium levels of probability are assigned values of 3–4;
- high levels of probability are assigned values of 5–6;
- low levels of impact are assigned values of 1–2;
- medium levels of impact are assigned values of 3–4; and

- high levels of impact are assigned values of 5 – 6.

As a result of COVID-19, there has been the addition of an “inability to operate within social distancing / lockdown requirements” operational risk added to the risk assessment since the OBC. Other risks that have been identified since the OBC include capital and operational reputational risks, and impact on market presence and brand reputation.

It should be noted that a qualitative assessment of the risk of further outbreaks and resulting social distancing / lockdown measures has been included within the FBC; however, due to the significant uncertainty surrounding this risk and its implications on the project, a monetary value has not been attributed. Transport Scotland were approached for advice in relation to monetising this risk and it was confirmed that in their opinion the financial costs cannot be quantified. Therefore, should it be necessary, HIE would expect to have constructive discussions with Scottish Government on potential solutions, as additional costs cannot be estimated and have not been included in any HIE budget.

Option 2a was identified as the riskiest option, followed by Options 2b and 1b. Option 1a, the “Do Minimum” option, achieved the lowest risk scoring. Unsurprisingly, options involving more complexity and change, have a greater exposure to risk.

Option 3b achieved the second lowest risk score. In relation to Option 3a, the following key differences are noted:

- option 3a has increased capital expenditure, increases its exposure to risks relating to capital expenditure and funding;
- the additional capital investments in Option 3a increase exposure to risk in relation to environmental impacts; however,
- the additional capital investments reduce exposure to weather-related risks as the visitor attraction investments reduce dependency on skiing conditions.

Section 5 details that optimism bias has been revised in the process of updating the business case from OBC to FBC. It would usually be expected that OB would reduce substantially as a result of finalising cost estimates through procurement, however, due to the uncertain health, political, and economic environment associated with COVID -19 and the unique circumstances, it has resulted in the following amendments:

- OB for the removal of the funicular has increased from 30% to 32% to reflect the increased uncertainty;
- OB for the gondola options has increased from 35% to 36%;
- OB for the funicular has decreased from 21% to 19% - however, as noted above, in normal circumstances this would have been further reduced; and
- OB for the additional capital investments has reduced from 32% to 20% to reflect that accurate cost estimates have been further developed in relation to the significant investments.

In addition to the risk assessment per option, a wider programme risk register has been developed. Refer to section 8 for further details.

Selection of Preferred Option

This section of the appraisal assesses the balance of advantage between the options to select a preferred option. In doing so, we reflect on the results of the quantitative (NPV) analysis, the qualitative assessment (non-monetary scoring) and risk assessment.

In terms of quantitative costs and benefits, which have been discounted over a 30-year appraisal period:

- Option 1a produces the lowest Net Present Cost at a project level, however, when wider economic benefits are added, it produces the lowest NPV;
- Option 3b produces the highest combined NPV (i.e. project level NPV plus wider economic benefits) at £91.96 million, followed closely by Option 3a at £88.64 million; and,
- when wider economic benefit is considered in isolation, Option 3a delivers the greatest level of impact i.e. £161.73 million, followed by Option 2a at £158.97 million.

When non-monetary factors are assessed, Option 3a and Option 3b are ranked 1st and 2nd, respectively. Option 3a scores marginally higher than Option 3b as the identified additional capital investments provide some potential to deliver further qualitative benefit in relation to tourism, health and wellbeing and the environment – for example:

- investments in items such as floodlighting for evening skiing, a magic carpet conveyor belt and trial mountain bike pump park provide the potential to contribute to the visitor offer / visitor appeal and will promote use by a greater range of users; and
- investment in renewable energy and energy efficiency provides the opportunity for potential carbon reduction.

When option exposure to risk is assessed, Option 1a (the 'do minimum' option) produces the lowest risk score and is therefore ranked highest in this element of the assessment, however, it ranks lowest in both the quantitative and qualitative analysis. Option 3b and Option 3a are ranked 2nd and 3rd in the risk assessment, respectively. Option 3a has a slightly higher risk score than Option 3b due to increased capital costs / associated capital funding requirements and slightly more complexity associated with project delivery / contract management.

The above highlights that Options 3a and 3b are the best performing options in the quantitative and qualitative assessment and that they have a lower risk profile than all options, except for the 'do minimum' option.

When Option 3a is assessed against Option 3b, Option 3a provides an opportunity to deliver an enhanced level of qualitative (non-monetary) benefit and wider economic benefit, albeit at an additional capital cost of £8.67 million and with a slightly higher risk profile. The additional capital investment associated with Option 3a comprises high priority (operational and/or regulatory essential) items at £4.35 million, as well as 'other' items of capital expenditure at £4.32 million. The 'other' items of capital expenditure will be subject to further analysis to test their value for money (including their displacement effects) on a stand-alone basis. This additional level of analysis will inform any future decision on whether these investments proceed or not.

Therefore, Option 3a, reinstatement of the funicular, funding of CMSL and high priority capital investments is recommended.

6. Commercial case

As part of the options appraisal we have considered the operating company performance and sensitivity relating to this. This is outlined in the sections above. As part of the further detailed review post masterplanning further work will be undertaken on the operating company model.

Procurement

As previously agreed with the HIE Board at its meeting on 3 September 2019, HIE has a procurement strategy for both the contractor and design team for the funicular. HIE is using the Scape Group's Civil Engineering – Scotland framework and Scape's Built Environment Consultancy Services framework, who have appointed Balfour Beatty and Perfect Circle to deliver the relevant frameworks, respectively. Scape Procure Scotland is the dedicated Contracting Authority for Scape Group in Scotland.

The process undertaken to date on the procurement of a contractor has been as follows, predicated on the need, for legal reasons, to restrict publication of the COWI reports.

HIE operates a comprehensive procurement policy and any procurement will be done under the auspices of that policy and department. Table 6.1 summarises the procurement framework, outlining the procurement mechanism per project element.

Table 6.1: Procurement Framework

Key Project Aspects	Procurement mechanism	Start Date	Finish Date
Reinstatement of the funicular	Scape Procurement Framework	October 2019	February 2022 (Return to revenue operations complete December 2021, contract completion February 2022)
Additional capital investment	Open Competitive Process	April 2020	December 2022
CMSL Operating Funding	n/a	n/a	n/a

Procurement of Works Contractor

HIE considered that Early Contractor Involvement (ECI) in the design process was an important factor for a variety of reasons, including the preparation of the Safety case for the Department for Transport and the submission of the planning application to Cairngorms National Park Authority.

- ECI enables a contractor to work collaboratively with the client and the design team to input into the design process;
- ECI into the design to try and ensure that the designer comes up with the best solution for the works;
- early procurement of the contractor avoids potential delays to programme assuming design and costs can be agreed timeously;
- a certain amount of cost certainty, risk reduction as the contractor has been involved in the design process;
- potential for early purchase of long lead items such as bearings, etc;
- an opportunity for the contractor to mobilise early to maximise the length of the season;
- an opportunity for the contractor to undertake enabling works ahead of the works commencing;
- opportunity for the contractor to influence the design process to see if it is possible to shorten the on-site activities; and
- the contractor undertook a feasibility study, at no cost to HIE. This delivered a study detailing programme, construction methodology and a cost estimate based on partial market testing and based on the concept design produced by COWI as part of their report on Strengthening Extents.

Given the benefits that ECI would bring and the need to restrict access to the strengthening report information (at this stage), the choice of a pre-procured framework was deemed the most appropriate route to achieve the ambition of as early a site start date as possible. This would also allow for the greatest overlap between the production of the detailed design and the works contractor. Legal advice provided to HIE on the options outlined above suggested that the SCAPE Civil Engineering Framework was the most suitable option

Subsequently, HIE engaged with BB in October 2019 to provide a feasibility study, which was provided at no cost to HIE. The feasibility study (concluded in December 2019) provided a detailed programme, construction methodology and a cost estimate based on partial market testing, and based on the concept design produced by COWI as part of their report on Strengthening Extents.

Additional capital investment

As a public funded organisation, HIE is required to follow legislative requirements and best practice when undertaking procurement. It must ensure that procurement activity is transparent, fair and delivers value for money for the taxpayer, and that the highest standards of honesty, integrity, impartiality and objectivity are preserved. These requirements have been passed onto CMSL.

The total to fund the proposed additional capital investments is projected to be £8.67 million (including OB), however, no single procurement is expected to exceed £2 million. Therefore, procurement for the additional capital investments is less than the OJEU procurement threshold for works contracts. This means that the procurement route will either be a direct award (non-competitive action) if the value of the contract does not exceed £50,000 or a selective competitive tender process using the Quick Quote facility on the PCS portal if the value does exceed £50,000 or other appropriate competitive tender. Any awards outside of these principles will be agreed with the HIE Chief Executive.

7. Financial case

Options appraisal

As part of our options appraisal we undertook a review of the funding landscape (information to support this is held on file) – public and private. While a number of funding sources were highlighted it was clear that the current infrastructure and operating company issues would require to be addressed to enable these to be progressed. These will be fully explored as part of the next stage i.e. as we consider the output of the masterplan, individual investment decisions and future operating and delivery models.

Funding for this business case will require to be provided from the public sector. It is recommended that it is delegated to HIE Leadership Team to continue to progress discussions with Scottish Government on this to secure appropriate capital and revenue funding provision.

In addition, for the operating company similarly it is recommended that in-year revenue funding decisions be delegated to the HIE Leadership Team. The options criteria to be used for this will be similar to that used for the funding strategy for the year to 31 March 2020 i.e. to consider the following objectives:

- manageable within HIE's budget arrangements with Scottish Government;
- provide CMSL with financial sustainability;
- preserve ability to have recourse to potential legal claims to guarantees or funicular contractor / design team;
- support future delivery, ownership and potential exit strategies;
- allow access to alternative funding; and
- tax efficiency.

State Aid

[REDACTED]

[REDACTED]

Project funding and affordability

Table 7.1 presents a summary of the total costs associated with the preferred option.

Non-cash cost to HIE

Depending on the outcome of the business case options appraisal, the actual cost and value of the assets there may be a non-cash budget cost to HIE, this will be reviewed and assessed against HIE's AME budget provision and any additional requirements discussed with the Scottish Government.

Table 7.1: summary of costs

Option	2019/20 Year 0	2020/21 Year 1	2021/22	2022/23	2023/24 Year 4	2024/25	Total Cost (£)
Funicular Reinstatement							
Optimism Bias							
Performance Bond							
Professional Fees							
HIE Internal Project Mgt (capital)							
CMSL Project Mgt							
Subtotal							£16.16 million
High Priority Additional Capital Investments							
Optimism Bias							
Total Capital							£20.51 million
Revenue Funding (worst case)							£14.57 million
Revenue Funding (weighted average)							£9.76 million
HIE Internal Project Mgt (revenue)							£1.88 million
CMSL Project Mgt (revenue)							£0.27 million

Note: in the table above, the worst case reflects a scenario wherein 9,000 skier days per annum are achieved each year and CMSL's operating model assumptions are applied, the weighted average reflects a scenario wherein 30,000 skier days per annum are achieved and RSM's revised operating model is applied. These sensitivities have been applied in order to present a reasonable range of the potential revenue funding required.

In addition to the high priority capital investments identified above, Option 3a includes other additional capital investments that will be subjected to further analysis to test value for money prior to approval. The anticipated expenditure profile for these other investments is detailed below.

	2019/20 Year 0	2020/21 Year 1	2021/22 Year 2	2022/23 Year 3	2023/24 Year 4	2024/25 Year 5	Total Cost (£)
Other Additional Capital Investments							
Optimism Bias							

8. HIE Project management case

Project Plan

The dates for key activities have been outlined in Table 8.1. The following dates will be revised as HIE collect information from the key suppliers and subsequently the programme will be updated and amended until HIE's confidence level is reached to publish what HIE will recognise as an integrated programme. This programme will allow the sign off of contracts for commencing the works with agreed prices and agreed date outcomes.

Table 8.1: Project Plan

Date	Activity
November 2019	Perfect Circle contract award, with COWI as principle designer and Mott Macdonald to be appointed as design checker.
November 2019	COWI commence detailed design work scope which includes certification process with design checker.
December 2019	Feasibility study, programme, construction methodology and estimated project construction cost from Balfour Beatty
January 2020	Project order for pre-construction agreement signed with BB ⁹ .
March 2020	Planning application submitted to CNPA.
April 2020	Sequus submit Stage 1b Safety Case to DfT.
May 2020	Planning consent approved, subject to 11 planning conditions.
May 2020	Detailed design works completed, subject to further site survey work post lockdown, issued construction drawings to contractor.
June 2020	DfT approve Stage 1b Safety Case.
June/July 2020	BB to undertake full tender process and submit formal cost and pre-construction report.
June/July 2020	HIE to review proposed Delivery Agreement, the construction contract with BB.
August 2020	Design check certification concluded.
August 2020	Delivery Agreement signed with BB, with immediate site mobilisation.
August 2020	Planning conditions purified.
September 2020	Construction commences on site.
October 2020	Demobilise site for winter (extend if good weather).
May 2021	Remobilise on site and recommence construction.
November 2021	BB complete strengthening works.
December 2021	Stage 2 Safety case sign off from DfT and funicular returns to revenue operations.
February 2022	BB contract completion

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.

Project management

Capital Phase Management

Within HIE, the Head of Property will lead on funicular reinstatement costs, plans and proposals, the procurement of sub-contractors; liaison with statutory consultees; management of sub-contractors; liaison with CMSL on project delivery. He will also lead on the development of the Masterplan for the Cairngorm Estate.

Perfect Circle will be appointed as project management consultants, cost consultants, principal designer and TAA consultant. They will be responsible for managing BB and will also manage the subcontracted engineering consultants (COWI and Mott Macdonald), the planning consultant Ryden and the ecology consultant Atmos

⁹ To sign this prior to approval of the business case would cost HIE 1.6% of the estimate to walk away should HIE not get sanction from Scottish Government.

consulting. They will collaborate with other specialists HIE may choose to place a contract with to deliver the works. Currently, the only specialist is Sequis (safety case), appointed as cableways safety specialist consultants.

The construction will be managed and delivered by BB (if the submitted price is acceptable to the Scottish Government and HIE) and BB will manage (their nominated) appointed sub-contractors to deliver elements of the works.

Balfour Beatty has submitted a list of subcontractors for HIE's approval and information.

The managed interfaces for the entire programme of works will sit with Perfect Circle. They will prepare and submit progress reports on all stages of the works. They will manage the contracted entities' HSE compliance, Quality Assurance / Quality Control compliance, CDM compliance and review / monitor progress and cost reporting. The update reports to HIE will be managed by HIE's property portfolio manager.

Operating phase

The CMSL Board has been appointed by HIE in order to provide a vehicle for HIE to operate within the interim period. For the set-up of this company, this initially consisted of three HIE representatives and a "turnaround" expert who specialises in transitioning assets from an insolvent company to a newco. In its current iteration, the CMSL board consists of:

- Peter Mearns (Chair) – [REDACTED]
- Douglas Yule – [REDACTED]
- Bill Lobban – [REDACTED]
- HIE Staff Appointee, presently Rachel Mackenzie – HIE Area Manager – Innse Gall. [REDACTED]
- Andy Burgess - [REDACTED]

In addition, Burness Paull LLP acts as company secretary and Susan Smith is the interim Chief Executive Officer.

CMSL will manage the ongoing operations at Cairngorm, during and post the capital development phase. They have been fully sighted on the development of the funicular project and their land manager and health and safety manager have been involved in the planning application, Safety Case and the construction methodology and risk assessments prepared by BB. In addition to this, HIE's Property Portfolio Manager will be responsible for monitoring the following during the operational phase:

- landlord responsibilities;
- dilapidations agreement and oversight;
- oversight of the Ranger Service;
- additional capital investments; and
- support to CMSL's operational team.

The HIE project team will actively manage the relationship with the operating company. This will include monthly monitoring meetings with the Interim Chief Executive, land manager and health and safety manager, regular meetings with the CMSL Board and ongoing operational support and liaison.

Ongoing financial monitoring of the Cairngorm programme activity will be important. Lessons learned from previous experience has highlighted the need for the arrangements and roles and responsibilities relating to this to be explicit. For the current business case the following arrangements will apply:

Operating company:

- an operating agreement is in place to provide a governance framework for the management of CMSL;
- annually a business plan and KPIs are agreed with CMSL – the business plan – there may need to be a more iterative process to agreeing objectives and funding (e.g. to accommodate the period of stabilisation and / or the development of the business case and to adapt to changing circumstances (e.g. COVID -19);
- monthly monitoring meetings with CMSL;
- receipt of monthly financial and operating performance information from CMSL; and
- reporting of issues which need to be escalated on an ongoing basis.

Funicular project:

- regular review of main contractor financial stability by framework contract owner with reports provided for review by the project manager;
- financial monitoring of sub-contractors by main contractor and reporting on any issues to the project manager;
- ongoing project and contractor monitoring - project manager oversight of project delivery with process in place for early warning on any issues;
- clearly defined contractual arrangements in place; and
- ensure clear roles and responsibilities across the project – including appointed project manager Perfect Circle, framework owner (SCAPE), HIE project team, contractor etc.

Note: following preparation of the masterplan, it is intended that the ongoing operating model will be reviewed by HIE.

Project governance / steering committee

The ongoing governance of CMSL is the responsibility of the CMSL Board.

In addition to this, HIE will continue to be involved through a number of workstreams. The roles and responsibilities of HIE staff directly involved in the Cairngorm programme are as follows:

- HIE Senior Directors:
 - Project Senior Responsible Owner, Douglas Cowan- oversight; and lead on all aspects of the programme.
 - Director of Business Improvement and Internal Audit, Sandra Dunbar- stakeholder engagement in relation to governance matters; governance and scrutiny; and the development of the business case.
- Core Project Delivery Team- Property Interests:
 - Head of Property, Dave Macleod - lead on funicular reinstatement costs, plans and proposals; freedom of information requests; procurement of sub-contractors; liaison with statutory consultees; management of sub-contractors; liaison with CMSL on project delivery. lease; and development of the master plan.
 - Property Portfolio Manager, Paul Dzialdowski - landlord responsibilities; dilapidations agreement and oversight; oversight of the Ranger Service; additional capital investments; support to CMSL's operational team.
- Core Project Delivery Team:
 - Project Lead, Elaine Hanton - development of the business case; RSM contract management; management of the account team; compliance issues (legal / financial / procurement); design / contractor legal action energy efficiency / renewable options work; and team management; operating company monitoring.
 - Senior Project Manager, [REDACTED] - ownership / monitoring / management / reporting of the project plan; management of projects and approvals, including reporting and critical path; financial / budget management and control, including reporting; ownership of the risk register ; appointments and arrangements for liaison with HIE for the CMSL Board; payment of claims / grants; and support for the HIE Board sub-group.
 - Project Co-Ordinator (currently vacant) - freedom of information support and tracking; file management; organisation of meetings; and support for HIE input to Audit Scotland reviews.
- HIE Board:
 - Given the high profile and risk of this project, the HIE Board sub-group which has been formed to provide oversight of the Cairngorm programme. The sub-group has met frequently since its establishment but the ongoing need for its oversight will be kept under review.
 - HIE Risk & Assurance Committee will continue to receive updates on all aspects of the Cairngorm programme at each of their quarterly meetings.

The project/programme arrangements will be reviewed post FBC decision to ensure they remain appropriate and aligned with other activity, such as masterplanning, review of operating and governance arrangements, and wider area activity and stakeholder engagement.

Following the closure of the funicular, HIE engaged with stakeholders from the local Badenoch and Strathspey area (including businesses, community groups and public bodies) to create a "Funicular Response Group". This met regularly to allow HIE to advise on progress with the funicular project, the masterplan and CMSL activities, whilst generating invaluable feedback from the stakeholders. This group functions as an advisory group on key matters relating to the future development and implementation at Cairngorm Mountain, without any operational functions. HIE will review this group role going forward to determine what best supports the current activity.

Project risk

HIE's strategic risk register in relation to Cairngorm outlines a wider range of risk areas. Specific risks in relation to

this Business Case are described in section 5 above. Cairngorm is a high risk project financially, operationally and reputationally and risk management and mitigation will be critical to its success:

- This current business case is being taken forward in parallel with the masterplanning exercise but is designed to ensure it does not prejudice the results of it.
- Costs continue to be incurred at risk to HIE in relation to the funicular reinstatement option in order to maintain the programme and the ability to commence works quickly should that option be adopted.
- Funding strategy for 2020/21 for the operating company was required in advance of the Full Business Case.
- Early costs (e.g. in relation to design and planning) have been incurred by CMSL in relation to additional capital investments (e.g. securing planning consent for a car park entry system, additional tubing slides and regrading works for the nursery slope) at risk to HIE and in advance of Full Business Case.
- The programme for reinstatement remains challenging and is dependent on approval of funding, conclusion of peer reviews and engineering certification, conclusion of contractual negotiations with Balfour Beatty, purification of planning conditions, achievement of critical path for mobilisation in 20/21, finalisation of some detailed design which has been delayed due to COVID-19, supportive weather windows, and obtaining DfT approval for the funicular to return to revenue operations once the reinstatement works have been concluded.
- The Business Case is predicated on a number of key assumptions which have been tested using sensitivity analysis and applying best practice and tailored optimism bias. These assumptions include visitor numbers, impact of climate change and cost optimism bias, amongst others.
- The impact of COVID-19 and ongoing uncertainty and impact on operating arrangements and construction programme.
- Additional costs arising from a worsening COVID-19 situation cannot be predicted. While the programme has included provision for risk and optimism bias the risks and potential costs relating to a worsening COVID-19 situation and potential further lockdown and/or other adjustments required cannot be predicted or provided for. HIE would require to liaise with Scottish Government on any consequences for costs and funding should such circumstances arise.
- HIE requires additional funding from the Scottish Government to take forward this project, against a challenging fiscal environment.
- Given the significant levels of ongoing scrutiny, the reputational risk associated with this project is very high.

Project Monitoring and Evaluation

The facility should be evaluated at the following points:

- initial evaluation:
 - in the first instance, a small scale evaluation should be undertaken after one year to consider a range of short-term benefits.
- full evaluation:
 - a further comprehensive evaluation should be undertaken after three years to consider medium and longer-term benefits.

The evaluations outlined above should seek to identify opportunities to improve the operation of the facility, address any limitations and ensure that all learning points are both acted on and disseminated to anyone else who could benefit from this learning. The following sections set out the key issues that should be evaluated, who should be responsible for evaluating them and what should be done with the findings.

Table 8.2 provides a summary of the proposed budgets for the evaluations.

Table 8.2: Project Evaluation Budgets

Evaluation	Type	Indicative Budget	Duration	Timing
Initial Evaluation	Internal or externally commissioned	£25,000	3 months	1 year post completion
Full Evaluation	Externally commissioned	£50,000	6 months	3 years post completion

Note: the proposed budgets of project evaluation will be reviewed and HIE prior to commission and will be approved by the HIE Board.

Benefits Realisation

The Benefit Realisation Plan in the FBC includes identification of:

- anticipated benefits – the benefits are categorised as follows:
 - direct monetary benefits (tangible) – those benefits that can be quantified and valued in financial terms (including cash releasing and non-cash releasing benefits);
 - direct non-monetary benefits (tangible) – those that can be quantified but are difficult or impossible to value in financial terms; and
 - indirect benefits (intangible) – qualitative benefits that can be identified but cannot be easily quantified.
- the stakeholders that will be affected by each identified benefit;
- outcomes and enablers required for each benefit realisation;
- key performance indicators that will be used to measure benefit delivery;
- the source and timing of baseline data;
- the individual(s) responsible for managing delivery of the benefits; and
- dates for expected delivery of the benefit.

Tables 8.3 and 8.4 identify the potential benefits and disbenefits resulting from the proposed investment, prioritised using the colour coding system outlined overleaf.

Colour code	Priority Level
Red denotes	High priority
Amber denotes	Medium priority
Green denotes	Low priority

Project management will focus resources on benefits and disbenefits identified as being of high and medium priority, to ensure the project is focussed on achieving the greatest positive impact within the resource level provided.

Table 8.3: Project Benefits

Desired Benefit	KPI	Responsible Officer	Target Date
Increased income generation by CMSL	Income from sales	• HIE Project Lead	December 2024
Increased wages for staff employed by CMSL	Number of FTEs employed	• HIE Project Lead	December 2023
Improved environmental performance of operations at CME	Annual cost of energy	• HIE Project Lead	December 2025
Increased visitor numbers to CME	Number of visits per annum	• HIE Project Lead	December 2025
Increased employment within the tourism sector in the Badenoch and Strathspey area	Employment in tourism-related sectors	• HIE Project Lead	December 2025
Increased visitor numbers to Scottish ski resorts	Annual skier days	• HIE Project Lead (informed by: Ice Factor Group (Scottish Ski Review))	December 2025
Enhanced access to CME by physically less abled visitors	Number of visits by physically less abled visitors	• HIE Project Lead	December 2025
Enhanced access and use of CME by new user groups	Number of visits by new groups/ users	• HIE Project Lead	December 2025
Improved visitor experience at CM	Self-expressed levels of visitor satisfaction	• HIE Project Lead	December 2025
Catalytic Impacts	Level of masterplan investment catalysed / unlocked	• HIE Project Lead	December 2025

Table 8.4: Project Disbenefits

Area of Disbenefit	Description	Timing of change	Responsible Officer
Negative environmental impacts at CME	Capital works on site has the potential to cause negative environmental outcomes for the local habitat	February 2022	HIE Project Lead
	Increased footfall at CME has the potential to create negative environmental outcomes (e.g. damage to designated fauna / species)	December 2025	HIE Project Lead

Human Rights assessment

Criteria for Human Rights Assessment	Exempt (Y/N)
Funding Level under £100k	N
Size of Organisation – 2 of the following characteristics – less than: £10.2 million turnover; £5.1 million balance sheet; 50 employees	Y
Organisation entity type	Y

I have undertaken the Human Rights Assessment and CMSL, a subsidiary of HIE, is exempt from further checks.

Project controls, tolerances and delegated authorities

Any disputes, payments and instructions to the contractors including Perfect Circle will be managed and administered by HIE's project manager. Submitted invoices and payments to all parties external to HIE and contracted to the funicular project will be administered by HIE through a project account which will be set up to report costs internally to HIE and also to the funding body, the Scottish Government. All applications for funding increases, as may be required due to adverse or unexpected circumstances, will be managed by the client's project manager through HIE's delegated approval process.

The internal processes for managing and administering the funicular reinstatement budget will be developed. The contractual organisation breakdown structure (identifying resource personnel), is currently being reviewed by HIE. Updates on project progress, costs and any other relevant project matters will be provided to the HIE Board, its sub-group and Risk & Assurance Committee (noting the need for and role of the sub-group will be kept under review).

9. Additional considerations

Conflicts of interest

HIE Innes Galloway Area Manager, Rachel Mackenzie is a Director of CMSL Board. Rachel will not be involved in the HIE decision making process on matters related to Cairngorm.

Susan Smith is a HIE employee seconded to CMSL as interim CEO and likewise Susan will not be involved in HIE's decision making process. HIE due diligence and claims processing will be taken forward by the project team, ensuring HIE processes and procedures are adhered to at all times. The governance and operating controls will assist in managing these conflicts.

Payment release requirements

Appropriate payment release conditions will be applied for any release of any costs relating to the funicular and any associated costs in line with normal HIE procedures. Any specific conditions will be agreed by the HIE Chief Executive or Leadership Team.

Legal agreement requirements

HIE's Legal Agents, Brodies are supporting the preparation of relevant legal agreements.

Obligation period

As above, obligation periods will be subject to HIE Chief Executive or Leadership Team approval.

10. Recommendation

After detailed consideration, the HIE Board agreed the following:

- To endorse the preferred option (Option 3a) recommended in the FBC, that being to reinstate the funicular, support the continuation of funding for the operating company and high priority capital investments.
- To note the wider capital and revenue investment profile which would be the subject of separate business cases.
- All costs are subject to full additional funding from Scottish Government. This also assumes, as previously confirmed by the Scottish Government, that £8.5m proceeds from the sale of a HIE asset will be made available to support Cairngorm activity in addition to normal business as usual capital spend of £300k per annum.
- Decisions in relation to in-year revenue funding to CMSL continue to be delegated to HIE Leadership Team, noting the need to provide funding assurance to CMSL prior to the audit of their accounts to 31 March 2020 being finalised and agree that we wait until Scottish Government approval before providing this.
- Decisions in relation to other high priority capital investments require to be considered on a case by case basis under normal delegated authority (including to the HIE Board if appropriate).
- Agree that sign off on all construction contractual matters, including design related issues and consideration of risk, be delegated to HIE Leadership Team.
- The costs associated with the recommended option being:
 - £16.16 million in capital funding to support funicular reinstatement
 - £4.35 million in capital funding to support high priority capital investments
 - A range of between £9.76 million and £14.57 million revenue cost to support the operating company over a 5-year period from 2020/21
 - A HIE revenue cost of £1.88 million associated with internal project management
 - A CMSL project management revenue cost of £0.27 million
- Note the arrangements for other non-essential capital costs to be considered at a later date with the decision making process to be agreed with the HIE Board and to include, where appropriate, alignment with the outcome of the masterplan.

Successful implementation of the preferred option will support the recovery of the tourism sector in Scotland (post Covid-19), stabilise operations at CMSL and enhance visitor experiences. Importantly, it will address the current liability associated with the funicular and it will help create the conditions where future opportunities aligned to the current masterplan activity might be realised.

11. Authorisation and decision

In recommending this paper for approval/rejection, I confirm that due diligence has been undertaken.

Sandra Dunbar/Elaine Hanton

Print Name: _____ (Project Appraiser)

Signed: _____ Date: 18 August 2020

Douglas Cowan

Print Name: _____ (SRO)

Signed: _____ Date: 18 August 2020

In approving/rejecting this paper, I confirm that due diligence has been undertaken.

Print Name: _____ (Delegated authority)

Approved/Rejected: _____ Date: _____