Cairngorm Mountain Resort

Future operating model option appraisal exercise for Highlands & Islands Enterprise

11 July 2012

Ernst & Young LLP

Ernst & Young

Ernst & Young LLP
G1
5 George Square,
Glasgow
G2 1DY

Tel: 0141 226 9095
www.ey.com/uk

Private and confidential
Susan Smith
Head of Business Development
Highlands & Islands Enterprise
Cowan House
Inverness Retail and Business Park
Inverness
IV2 7GF

11 July 2012

Dear Susan

Cairngorm Mountain Resort: option appraisal exercise

In accordance with your instructions, this report sets out the methodology and results of the options appraisal exercise to identify a preferred structure for the operation of the Cairngorm Mountain Resort.

Scope and nature of our work

The scope and nature of our work, including the basis and limitations, are detailed in our scope of services letter dated of May 2012. Our work in connection with this assignment is of a different nature to that of an audit. Our report to you is based on our review of data and information received from you and other third parties. We have not sought to verify the accuracy of this data or the information.

Purpose of our report and restrictions on its use

The report was prepared on the specific instructions of Highland and Islands Enterprise solely for the purpose set out in the report and should not be relied upon for any other purpose. Because others may seek to use it for different purposes, this report should not be quoted, referred to or shown to any other parties unless so required by court order or a regulatory authority, without our prior consent in writing. In carrying out our work and preparing our report, we have worked solely on the instructions of Highland and Islands Enterprise and for its purposes.

Our report may not have considered issues relevant to any third parties. Any such use third parties may choose to make of this report is entirely at their own risk and we shall have no responsibility whatsoever in relation to any such use. This report should not be provided to any third party without our prior approval and any third party should recognise in writing that we assume no responsibility or liability whatsoever to them in respect of the contents of our deliverables.

Yours sincerely

[redacted]

[redacted]

Director, Ernst & Young LLP

Contents

1. Executive summary

1.1 Introduction

Ernst & Young LLP (“Ernst & Young” or “EY”) has been engaged by Highlands and Islands Enterprise (“HIE”) to undertake an option appraisal exercise to identify a preferred structure for the future operation of the Cairngorm Mountain Resort (“CMR” or “the Resort”). This report sets out the findings and conclusions from this exercise and suggested next steps.

1.2 Background

The Resort is currently operated by CairnGorm Mountain Ltd (“CML”), a wholly owned subsidiary of HIE. It is Scotland’s busiest ski resort and accessed by the only funicular railway in the country. The Resort has significant tourism value, but the snow sports business is highly weather-dependent and fluctuates from year to year, while the primarily summer season funicular visitor numbers have been declining for several years.

The uncertainty of the winter business, falling funicular visitor numbers and a need for capital investment has necessitated HIE to ‘take stock’ of how the Resort is currently operated and what alternative viable options are available. Capital investment is remedial in nature rather than investment to improve the facilities and the visitor experience, particularly during the summer months. There also appears to be untapped potential in areas such as the retail and catering offering. Spend per head is low amongst the summer tourist visitors.

Review of historical financial data indicates that financial performance is poor, with significant operational surpluses only achieved in particularly good ski seasons. If the current trend of a decline in non-ski income continues, the Resort is likely to be deficit-making on a regular basis, exposing HIE to the risk that it will need to subsidise operations on a recurring basis.

This risk is compounded by the need for capital investment in order to generate new income streams and diversify the revenue base. Currently HIE is CML’s primary source of capital funding. However, HIE’s ability to commit to investment is restricted to a three-year basis by the Scottish Government’s funding regime and it is unable to raise external borrowings. Such a short planning window is not well suited to a business model such as CMR where returns on investment can be in the region of 15-25 years. In addition, like most other public sector organisations, HIE’s revenue and capital budget allocations are subject to austerity measures. Such capital issues have necessitated a short term focus on funding remedial repairs under the current operating model.

HIE stepped-in to rescue the Resort in 2008 and assumed full ownership of the funicular and Resort when the operator became financially unviable. This move was seen as a short term measure and HIE’s stated objective at the time was to manage the Resort and funicular with a view to procuring a private sector operator. Outright ownership of these assets is considered not to be core to HIE’s economic development activities.

That said, the Resort makes a significant contribution to the local and regional economy and is a key part of the tourism offering across the region. So alternative options for operating the Resort must align to HIE’s objectives for tourism, job creation and economic growth.

The recent market sounding exercise carried out by EY in April 2012 concluded that there appears to be credible market interest in operating and investing in the Resort. As a result, HIE has instructed this option appraisal exercise with a view to helping inform HIE’s next steps by reviewing potential options to optimise value for money and determine the shape of HIE’s future involvement in the Resort.

1.3 The options

A workshop held with the HIE project team on 25 April 2012 identified five options to be appraised:

- The Base Case, being the current HIE/CML lease and operating model
- The Enhanced Base Case, being the current operating model subject to an additional management drive for improved efficiency
- HIE Direct Control, where the operations are taken under direct management control in-house by HIE
- The Licence option, where following a competitive procurement process, an exclusive licence agreement is granted to an external operator to operate and develop the Resort
- The Joint Venture ("JV"), where HIE competitively procures a JV partner to operate the Resort and HIE would contribute 50% of the necessary capex and share equally in the operational risks and rewards with the private sector operator.

Each option was evaluated against a range of qualitative criteria and with reference to the projected financial impact to HIE. This exercise is summarised below along with the results.

1.4 Qualitative analysis

The options were scored against a range of qualitative evaluation criteria identified at the April workshop in order to reflect those objectives that are not captured in a purely financial evaluation.

The criteria cover qualitative areas to determine how closely the options would fit with HIE's broader objectives. Each criterion was given a percentage weighting to reflect the relative importance to HIE. The project team then awarded a score to each option for each criterion (1 being low and 10 being high) to evaluate how well each option met HIE's objectives.

The results of this qualitative scoring exercise are shown in the table below.

	CRITERIA	Criteria weighting	Maximum possible score per criteria	Base Case	Enhanced Base Case	HIE Direct Control	Licence	JV
1	STRATEGIC FIT	15%	1.5	0.675	0.75	0.713	1.163	0.9
2	CAPABILITY	20%	2.0	1.4	1.4	1.45	1.45	1.60
3	CAPACITY	15%	1.5	0.60	0.75	0.75	1.20	1.05
4	CAPITAL INVESTMENT	15%	1.5	0.60	0.60	0.60	1.20	0.75
5	OPERATIONAL EFFICIENCIES	10%	1.0	0.20	0.40	0.50	0.80	0.70
6	ACCOUNTABILITY & GOVERNANCE	5%	0.5	0.40	0.40	0.30	0.30	0.40
7	REPUTATION & POLITICAL CONSIDERATIONS	5%	0.5	0.35	0.35	0.35	0.20	0.30
8	OPERATIONAL INVOLVEMENT	5%	0.5	0.25	0.25	0.05	0.50	0.15
9	RISK MANAGEMENT	10%	1.0	0.50	0.50	0.60	0.80	0.80
	Total Score		10.000	4.975	5.400	5.313	7.613	6.650
	Percentage		**100%**	**50%**	**54%**	**53%**	**76%**	**67%**

Source: Ernst & Young Qualitative Evaluation model

The Licence option scored highest of the options, reflecting that option's expected ability to draw on the commerciality of a private sector partner, its ability to source external finance, stimulate investment in the Resort and reduce the commercial risk faced by HIE.

The Base Case, Enhanced Base Case and HIE Direct Control options scored less well when compared to the Licence option because under these options HIE is more exposed to the operational risks and is unable to raise finance externally and commit to capital investment funding over the long term. These options did score better in respect of the environmental, community and accountability criteria, reflecting HIE's ability to retain control of these aspects, but this was not enough to outweigh the other aspects of the evaluation.

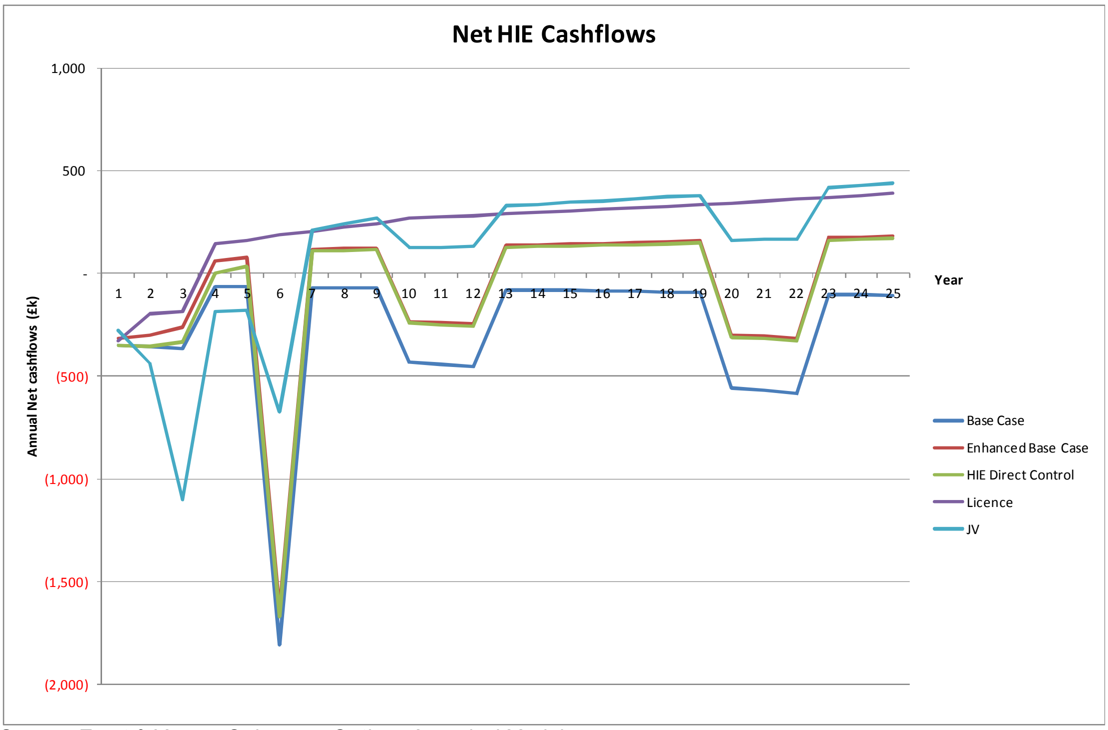
The JV option to some extent represents a point mid-way between the Base Case and the Licence Option. As such, it scored higher than the Base Case, but lower than the Licence option.

1.5 Quantitative analysis

The quantitative evaluation appraised and ranked the options with regard to the anticipated cost or value to HIE. This was measured in terms of capital expenditure required from HIE and any operating deficit support HIE may need to pay to the Resort operator, offset against any income that would be receivable by HIE such as rent.

The projected profile of annual operating costs and income for HIE of each option was based on historical data from CML's management accounts, adjusted to reflect the estimated impact of the operating structure. Capital expenditure assumptions were agreed with the project team to reflect potential investment scenarios under each option. The resulting cashflows were analysed over a 25 year period to generate the net present value ("NPV") of each option.

The analysis produced the following profiles of net cashflows:



Source: Ernst & Young, Cairngorm Options Appraisal Model

These profiles generated the NPVs set out in the table below. For the purpose of the evaluation, each NPV was scored on the basis of the highest NPV being awarded 100%, the lowest 0% and the remainder on a sliding scale between. The results are set out below.

Option	NPV (£k)	Score
Base Case	(4,192)	0%
Enhanced Base Case	(1,833)	37%
HIE Direct Control	(2,162)	32%
Licence	2,110	100%
Joint Venture	(278)	62%

Source: Ernst & Young, Cairngorm Option Appraisal Model

The cashflow projections yielded a negative NPV of £4.2m for the Base Case over the 25 year period, representing a cost to HIE. The Enhanced Base Case and HIE Direct Control options also produced a net cost to HIE of £1.8m and £2.2m respectively. These options yielded an improved position compared to the Base Case due to assumptions relating to achieving operational efficiencies, revenue growth and improved returns from targeted capital investment. The Licence option was the only option to produce a positive return for HIE of £2.1m in NPV terms whilst the JV option was close to a break even position. The Licence option assumes the operating cashflows benefit from the introduction of increased commercial rigour from a new operator in terms of realising greater operational efficiencies, enabling revenue growth and the ability to plan and fund short to long term capital investment.

1.6 The preferred option

To produce a final score for each option, the results of the qualitative and quantitative evaluations were combined. Reflecting the indicative nature of the quantitative assumptions, the evaluation methodology placed greater emphasis on the qualitative factors by applying a weighting of 60:40 in the qualitative evaluation's favour.

The results of the appraisal are shown in the table below.

Option	Qualitative Score		Quantitative Score		Combined
	Unweighted	Weighted 60%	Unweighted	Weighted 40%	
Base Case	50%	**30%**	0%	**0%**	**30%**
Enhanced Base Case	54%	**32%**	37%	**15%**	**47%**
HIE Direct Control	53%	**32%**	32%	**13%**	**45%**
Licence	76%	**46%**	100%	**40%**	**86%**
Joint Venture	67%	**40%**	62%	**25%**	**65%**

Source: Ernst & Young

The combined qualitative and quantitative analysis indicates that awarding an exclusive licence agreement to an external operator to operate and develop the Resort should be considered the preferred option to be taken forward for implementation by HIE.

Whilst the assumptions applied in the quantitative analysis for each option are based on commercial experience, they do bear an inherent risk of inaccuracy and the above results should not therefore be viewed as confirmation that the Licence option will generate a regular return for HIE. To illustrate the risk inherent in the figures, a number of sensitivities were run on the Licence option:

Sensitivity	Change to assumption	NPV (£k)
Licence Option	As modelled in the option appraisal exercise	2,110
Reduced income growth	The base assumption of 2% increases in ski income in years 2, 4, 6, 8 and 10 reduced to 1% in those years, and the 2% increases in non-ski income in years 3-10 reduced to 1% in those years	1,486
Reduced base level of ski income	Ski income in year 1 assumed to be equal to the minimum ski income of the past 5 years (i.e. 857k) rather than the average of those 5 years (£1,806k)	(1,478)
Lower operating efficiencies	Reduced efficiencies in year 2 from 16% to 10% and no additional efficiencies after that	1,037
Increased base level of operating costs	Operating cost in year 1 assumed to be equal to maximum operating costs of the past 5 years (i.e. £4,653k) rather than the average of those 5 years (£3,618k)	(1,062)

Source: Ernst & Young

The sensitivities indicate that adjustments to the assumptions around income growth and operating efficiencies generated by a new operator make relatively small differences to the overall NPV.

However, a change to the base level of income or operating expenditure has a significant impact on the NPV. The sensitivities show that if CML's highest operating expenses or lowest income in the most recent five years were taken as the starting assumption, then the positive NPV generated by the Licence option under the original assumptions would change to a negative NPV. This would mean that HIE may have to provide a net subsidy to the operator across the 25 years, rather than receiving a share of surpluses.

We would expect a commercial operator to be able to manage the risk associated with operating costs; however, it would have less control over income given the Resort's dependency on ski conditions, especially in the early years as it puts revenue diversification plans in place.

The sensitivities should also be considered in the context of the return that a commercial operator would seek to make from its business. Under the assumptions employed in the option appraisal the pre-financing return on investment generated for the operator would be 11.9%. This is in line with the lower end of the return that an operator might expect in the mature PPP market. A higher return may be required for investment in the Resort, but this will ultimately depend on the nature of capital investment and related risk and return.

However, that return falls to 6.7% under the reduced income growth sensitivity and 3.7% under the lower operating efficiencies sensitivity. Under the reduced base level of ski income and increased base level of operating costs sensitivities, no return is generated as the business is loss-making.

In developing proposals for the operating the Resort, potential bidders would consider these commercial risks, their view of their ability to manage them and the return they would expect in view of the risks. If they took the view that the Resort carried a relatively high commercial risk they may decide that they require a greater level of return from operations, which could be achieved through HIE providing the operator with a payment or subsidy to operate the Resort.

HIE should be aware of this risk and should be prepared for the eventuality that the Licence option may have to be let as a concession contract, with the operator receiving some form of subsidy payment from HIE. We recommend that HIE seek legal advice in respect of this.

1.7 Next steps

Section six of this report sets out a summary of actions that we recommend HIE should undertake should it seek to progress with the competitive procurement of a private sector operator under the Licence option.

In overall terms we consider it appropriate that HIE uses the Competitive Dialogue procurement as the preferred public procurement route. This approach should enable a more flexible approach to commercial negotiations with multiple bidders and facilitate the vendor and purchaser due diligence process within the framework of public procurement.

In Section 6.2.3 we have set out an indicative timetable for the procurement process commencing with an OJEU notice being placed in October 2012. The dialogue process might normally be expected to last for 9 to 16 months, depending on the complexity of the procurement; however, if the actions described in Section 6.2.3 are taken and the dialogue is well defined and closely controlled it should be possible to reduce this to 8 to 10 months.

The market sounding exercise highlighted that few potential bidding parties have experience of large scale public procurement or have the resources to pay significant external advisors fees. Some potential bidders have already voiced strong opposition to public procurement processes and their continued interest is predicated on a flexible and streamlined process being in place. HIE should put in place measures to ensure the process does not become onerous and discourage bidders. One way to achieve this is for HIE to engage is an enhanced level of vendor due diligence and ensure bidder information packs are comprehensive. A clear procurement strategy and delivery plan will ensure the process is not overly protracted, reducing the time and cost of the procurement process.

2. Strategic context

2.1 Background

Ernst & Young LLP ("Ernst & Young" or "EY") has been engaged by Highlands and Islands Enterprise ("HIE") to undertake an option appraisal exercise to identify a preferred structure for the operation of the Cairngorm Mountain Resort ("CMR" or "the Resort"). HIE has instructed this exercise with a view to helping inform its next steps and potential options that could be implemented in order to optimise value for money for the Resort and the public sector's input.

The Resort is currently operated by CairnGorm Mountain Ltd, a wholly owned subsidiary of HIE. CMR is Scotland's busiest ski resort and accessed by the only funicular railway in the country. It is a leading tourism development and situated in a National Park boasting a mountain tundra environment that is largely unique in the UK. As such the Resort has obvious tourism value; however, snow sports business is highly weather-dependent and fluctuates from year to year, while the primarily summer season funicular visitor numbers have been declining for several years.

The recent market testing exercise[1] concluded that there appears to be credible market interest in operating and investing in the CMR. HIE has therefore engaged EY to carry out this current option appraisal exercise to determine a preferred structure to take the CMR forward and consider the issues and impact of each option for HIE.

2.2 The Resort

The Cairngorm estate is on the northern slope of the Cairngorm Mountains and covers 1,418 hectares. The estate is owned by HIE with 598 hectares leased to Cairngorm Mountain Limited ("CML"), a 100% subsidiary of HIE, which operates the Resort under a lease and operating agreement.

Opening in 1961, the Cairngorm ski area became the first commercial ski operation in the UK. The site currently includes nine fixed and one demountable ski tows. There are a further two chair lifts in Coire na Ciste which are currently unused but could be brought back into use, although we note that additional capital expenditure would be required to enable this.

By the early 1990s the primary chairlift was regularly closed during peak season due to high winds and a funicular railway was proposed as a more resilient facility. The funicular plans were met with environmental challenge and, as a result, planning consent and supporting Economic Regional Development Funding ("ERDF") was subject to a number of mountainside access restrictions for passengers outside of the ski season. This 'closed system' did not allow non ski access to or from the funicular other than within the closed confines of a visitor centre and viewing station.

Since the funicular's completion in 2001, access restrictions have been relaxed to some extent, including allowing hillwalkers off the mountain via the funicular and guided walks to and from the top station. Surveys have indicated that these restrictions are not regarded as a substantial issue by visitors; however, there may be potential to enhance the attractiveness of the facility to visitors were the restrictions to be relaxed further.

The Resort currently has three primary visitor facilities. Situated at the bottom of the railway, the Base Station has limited café and retail/hire facilities. The midstation Shieling building has potential retail and café space, but currently has a very limited income generating role and provides space for skiers to bring their own pack lunches. The primary commercial focus is the Ptarmigan at the terminus of the funicular. This offers the highest altitude restaurant in the UK, a tourist shop, exhibition area and space for events including regular ceilidhs. While

[1] Ernst & Young report *Cairngorm Mountain Resort: Market Sounding,* 2 April 2012

suitable for the snow sports market, the centre is the primary experience for tourists reaching the top via the railway, as egress from the top building onto the mountain is prohibited outwith the ski season unless on a Ranger-guided walk.

2.3 Economic context

Tourism is one of Scotland's largest business sectors, employing around 200,000 people with visitors spending more than £4bn every year.[2] It is one of the key sectors in the Government Economic Strategy for Scotland and a key area of focus and growth for HIE.

An economic impact report of April 2011 estimates the employment impact of CMR to be 272 full time equivalent posts in the Badenoch and Strathspey area and 240 full time equivalent posts in the HIE area.[3] These employment numbers have shown an increase since the update report of 2008/09 primarily through two very good ski seasons.

With the downturn in the economy the market for visitor attractions in the UK has grown during the past five years.[4] This is a combination of the increase in domestic tourism and the continuing growth in numbers of overseas visitors. Consumers are more inclined to take short breaks and day trips rather than longer holidays.

As a consequence, the popularity of UK visitor attractions is expected to continue to grow in the short to medium term. However, as household incomes are squeezed, there is less to spend on leisure activities. There is competition from free attractions, but reductions in public subsidies means the offering from this type of attraction is often reducing in quality for example through staff cuts and reduced opening hours. Surveys show that this adversely impacts on visitor numbers[5].

Within this context there is potential to diversify and increase income at CMR from tourism and reduce reliance on unpredictable winter sports revenues. This potential to increase visitor numbers at the Resort will in turn increase employment at the local and regional level and increase gross value add ("GVA") for the Scottish economy. Job creation and increasing GVA are key objectives for HIE.

2.4 Resort ownership

As owners of the Cairngorm Estate, HIE provided financial support to the CML, the operating company for the CairnGorm Mountain Limited Trust, to build a funicular railway. In addition to replacing obsolete and weather vulnerable chair lifts, the funicular provided a visitor attraction that would potentially diversify the Resort's reliance on winter snow sports income. HIE provided £19.42m of more than £26m spent on the delivery of the railway.

When the operator became financially unviable in May 2008, HIE stepped in to assume full ownership of the funicular and the Resort. This followed agreements reached with Bank of Scotland Corporate and CairnGorm Mountain Trust on substantial debts owed by CML, with Highland Council also agreeing to write off a £1m loan to CML.

This step-in was seen as a short term measure and HIE's stated objective at the time was to manage the Resort and funicular with a view to procuring a private sector operator.

Ownership of CML is considered not to be core to HIE's economic development activities. In addition the Resort ownership exposes the organisation to commercial risk, and in recent years the Resort is generally loss making unless the number of skier days is particularly high.

[2] Scottish Government website, *http://www.scotland.gov.uk/Topics/Business-Industry/Tourism*

[3] Westbrook,S, April 2011, *Cairngorm Mountain, Updated Impact Analysis for Highlands and Islands Enterprise*

[4] Mintel Group Ltd, October 2011, *Visitor attractions – UK, October 2011*

[5] Scottish Government website, *http://www.scotland.gov.uk/Topics/Business-Industry/Tourism*

2.5 Investment opportunities

More so than Scotland's other resorts, a large proportion of Cairngorm's visitors will stay more than one day, using local accommodation primarily in the ski resort of Aviemore. Consequently, Cairngorm's market position is very much in competition with continental ski resorts. In comparison with these competitors the resort offering is considered limited and HIE considers that significant investment is required in the income generating potential of the Resort's retail and catering.

The Resort has peak visitor numbers during the summer; however, spend per head of this footfall is low. This may be due to the current offering being geared towards catering for snow sports rather than providing a credible tourist visitor experience. Again, significant investment could provide a dedicated visitor attraction, increasing summer footfall from its generally downward trend while providing greater scope for enhanced visitor spend.

While sub tundra, the Resort experiences substantially variable winter snowfalls and a series of poor winters can threaten the commercial viability of the Resort's current operating model. As with all ski resorts, an increasing emphasis has been placed on diversification away from reliance on snowsports and the funicular's peak usage is now for summer tourism.

Despite this, summer footfall has been subject to a decline for a number of years and the lack of dedicated visitor experience at the Resort means financial spend per head is currently £7.26, compared to skier spend per head of £19.42.

In January 2011 King Sturge carried out a full condition survey of the Resort[6] and provided indicative costs of necessary modernisation. However, while health and safety is a critical consideration of CML and HIE, spending on infrastructure such as ski tows has been remedial in nature rather than looking to make significant reinvestment.

There are opportunities to expand the offering of the Resort through increased use of the exhibition space and café of the Ptarmigan by reconfiguration to provide a dedicated visitor experience. There is also potential to diversify the overall sporting offering, for example with mountain bike trails. However, we note that such additional sporting offerings would require significant capital expenditure and need to comply with environmental and planning guidelines.

Some respondents to the recent EY market testing exercise of April 2012 suggested that current operations were inefficient when compared to comparable Scottish ski resorts. A commercial operator could make operational efficiencies at the Resort through application of commercial experience and economies of scale.

Significant investment is required in order to generate new income streams and diversify the revenue base. However, HIE is not in a position to commit to this investment given that it is funded on a restricted three-year basis by the Scottish Government and is unable to raise external borrowings.

[6] King Sturge *Report on Maintenance and Repair Models and Procurement Options for the Appointment of the Operator of Facilities at Cairngorm Mountain,* 21 February 2011

3. Current financial position

CML faces the challenge faced by most ski resorts – weather dependency. Financial performance is to a large extent, linked to snowfall. In years of harsh winter with a lot of snowfall and sustained periods of low temperatures, the number of skiers and the Resort's income increases. Conversely, in milder winters there are fewer skiers and reduced income.

3.1 Recent financial performance

CML's management accounts for the most recent five years are reproduced at Appendix A and clearly demonstrate the relationship between the severity of the winter and CML's financial performance. Income is analysed in the table below.

Table 3.1 – CML income analysis 2008 to 2012

Year ended	**31 Mar 2008 £000s**	**31 Mar 2009 £000s**	**31 Mar 2010 £000s**	**31 Mar 2011 £000s**	**31 Mar 2012 £000s**
Funicular sales	918	910	929	859	928
Uplift ticket sales	753	1,016	2,183	2,180	608
Season ticket sales	-	-	-	274	365
Catering sales	736	729	927	1,024	684
Shop sales	428	386	431	441	368
Hire income	143	160	249	315	128
Other income	22	28	94	74	6
Total income	**3,000**	**3,229**	**4,813**	**5,167**	**3,087**

Source – CML Management Accounts

The winters of 2009/10 and 2010/11 were exceptionally severe and provided a significantly extended ski season, the financial consequences of which were to provide the Resort with unusually high income in those years, generating income of £4,813k and £5,167k, with income from uplift ticket sales and ski hire in the region of £2,500k in both years.

Conversely, the snowfall in 2011-12 was poor and CML suffered as a result, with uplift ticket sales and hire income falling to £736k. Catering sales were also significantly lower.

Such swings in income have a significant impact on CML's profitability, as demonstrated in the operating surplus/deficit for the year:

Table 3.2 – CML Operating surplus / (deficit)

Year ended	**31 Mar 2008 £000s**	**31 Mar 2009 £000s**	**31 Mar 2010 £000s**	**31 Mar 2011 £000s**	**31 Mar 2012 £000s**
Total income	3,000	3,229	4,813	5,167	3,087
Total costs	(2,986)	(3,195)	(4,018)	(4,736)	(3,422)
Surplus / (deficit)	**14**	**34**	**795**	**431**	**(335)**

Source – CML Management Accounts

In 2010 and 2011, CML generated a surplus. However, in 2012, the poor winter revenue contributed to a loss-making year. In the more average years of 2008 and 2009, CML made a very small operational surplus.

The weather dependency of CML's results indicates the commercial risk borne by HIE as it stands behind CML and subsidises the company's operations in years of poor financial performance.

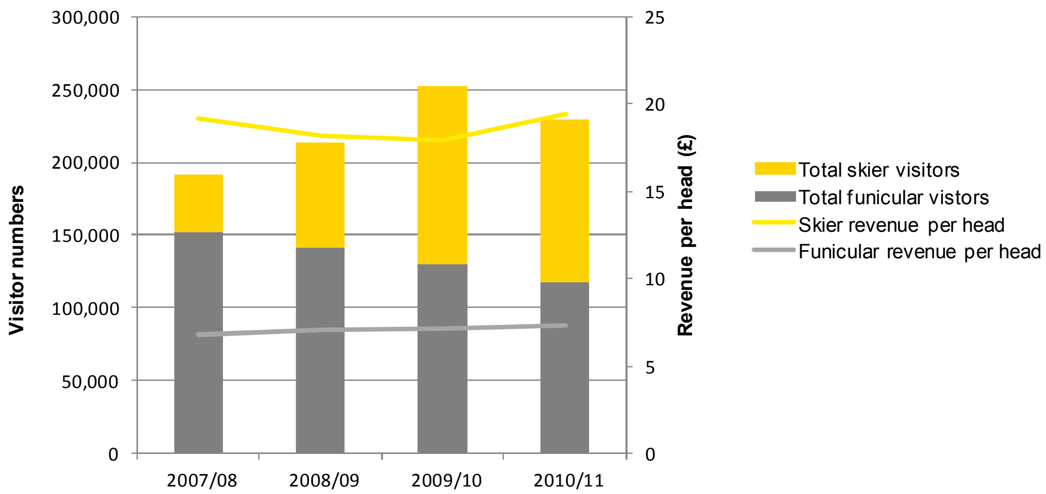
3.1.1 Non-ski income

The unpredictable nature of winter sports income has led many ski resorts to seek to diversify and attract summer visitors in order to generate income that is less weather dependent.

On the face of it, CMR is in a relatively strong position to exploit this market as over 70% of visitors to the Resort are non snow sports related, with visitor numbers peaking in the summer months.

However, non-skiers' spend per capita is low compared to that of skiers and in recent years non skiing visitor numbers has generally declined both proportionally and in absolute terms.

Figure 3.1 – Total visitor numbers between 2008 and 2011



Source – CML Management Accounts

If this trend were to continue, we would expect CML regularly to generate a deficit, except in years with particular good ski seasons, further exposing HIE to commercial risk.

This fall could be arrested through additional capital investment in the assets in order to attract a more diverse range of visitors and to encourage summer visitors to spend more during their visits.

3.2 Capital investment

HIE is exposed to commercial risk in respect of the capital investment required by CML. We understand that capital investment in CML is 100% funded by HIE from the capital budget allocated to it by the Scottish Government.

This budget is allocated on a three year basis, meaning that HIE is unable to plan an investment programme with a greater time-window than three years. Such a short planning window is not well suited to a business model such as CMR where returns on investment can be in the region of 15-25 years. To compound matters, HIE is not permitted by the Scottish Government to borrow from external sources, such as commercial lenders.

There is a need for capital investment in the Resort; however, the lack of access to capital has necessitated a focus on funding remedial repairs. Over the past few years, CML has only been undertaking a basic maintenance regime. The King Sturge February 2011 Report[7] found that this approach has been adequate in maintaining the assets to an appropriate standard. Condition surveys indicated that the funicular railway was being regularly maintained to a reasonable standard and that the tows were being maintained to a safe standard. However, it also noted that the buildings and the ski tows and infrastructure will require significant additional investment in the coming years.

HIE has identified £845k of essential capital investment (set out at Appendix B) to be made in the next three years. This essential investment represents funds to be spent to bring the current assets to an acceptable standard. It does not represent any additionality (e.g. investment in new summer sport facilities) that might be expected to generate new sources of income. The money for new investment or reinvestment will have to be found from HIE's capital budget.

This capital investment requirement, combined with CML's poor profitability in all but exceptional snow years, suggests a long-term trend of CML making deficits, except in the event of exceptional ski seasons.

[7] King Sturge *Report on Maintenance and Repair Models and Procurement Options for the Appointment of the Operator of Facilities at Cairngorm Mountain*, 21 February 2011

4. Option appraisal

4.1 The options

A workshop was held with the HIE project team on 25 April 2012 to define which options should be considered for the future operation and development of the Resort. The workshop identified three options based on the existing operating model:

- The Base Case, being the current lease and operating model in place between HIE and CML

- The Enhanced Base Case, being the current CML/HIE operating model subject to an additional management drive for improved efficiency

- HIE Direct Control, where the operations are taken under direct management control in-house by HIE.

Two models involving external operators were also proposed. These were:

- The Licence option, where following a competitive procurement process, an exclusive licence agreement is granted to an external operator to operate and develop the Resort

- The Joint Venture ("JV"), where HIE competitively procures a JV partner to operate the Resort and HIE would contribute 50% of the necessary capex and share equally in the operational risks and rewards with the private sector operator.

The April EY market sounding exercise indicated that both of these options might be attractive to at least some of the market. The Licence option was a structure unanimously accepted by interested parties and would provide access to commercial expertise and funding, while potentially limiting HIE's commercial risk exposure. The JV option would be palatable to some of those parties declaring an interest in the market sounding exercise; however, we note that many of the operators stated full commercial autonomy as a prerequisite for involvement in any competitive procurement exercise.

For the purposes of the option appraisal, it is assumed that under all options the primary service specification would remain the same. This base level represents the continued provision of all year round funicular services, with a core winter ski sports offering and a tourism-based offering outwith the ski season.

4.2 Evaluation

In order to select a preferred option, the five options shortlisted in the workshop were evaluated both qualitatively against pre-defined criteria and quantitatively. This process and results are set out below.

4.3 Qualitative analysis

4.3.1 Evaluation criteria

In order to evaluate the options in a qualitative manner, a range of evaluation criteria were identified at the April workshop to reflect those objectives that are not captured in a purely financial evaluation. The agreed criteria covered the areas of:

- Strategic fit with HIE's broader objectives

- Capability to take CMR forward in a commercial, environmentally sensitive and community-facing manner

- Capacity to deliver improvements by being able to fund the requisite capital investment
- Ability to drive operational efficiencies
- Appropriate accountability and governance arrangements can be established
- Reputational and political impact of the option
- Level of HIE's operational involvement
- Risk management.

For further granularity, the criteria of strategic fit and capability were made up of sub-criteria.

Each criterion was given a percentage weighting to reflect their relative importance to HIE, with capability being the most important criteria, valued at 20% of the overall potential score.

The criteria and weightings are set out in full in Appendix C, together with an indicator as to what would generate a high or low score under each option.

4.3.2 Scoring

The project team awarded a score of 1 (low) to 10 (high) for each option against the criteria, recording the rationale for the scoring. The score sheets for each option are attached at Appendix D.

4.3.3 Results

The results of the qualitative analysis are shown below:

Table 4.1 – Qualitative Evaluation results

Cairngorm Options Appraisal - Qualitative Evaluation Criteria

				Options				
	CRITERIA	Criteria weighting	Maximum possible score per criteria	Base Case	Enhanced Base Case	HIE Direct Control	Licence	JV
1	STRATEGIC FIT	15%	1.5	0.675	0.75	0.713	1.163	0.9
1a	HIE Objectives	3.75%	2.50	0.15	1.25	1.50	2.00	2.00
1b	HIE Business Model	3.75%	2.50	0.08	0.50	0.25	2.50	0.25
1c	Tourism	3.75%	2.50	0.15	1.25	1.00	2.00	2.00
1d	Environment	3.75%	2.50	0.30	2.00	2.00	1.25	1.75
2	CAPABILITY	20%	2.0	1.4	1.4	1.45	1.45	1.60
2a	Commerciality	5.00%	2.50	0.20	1.00	1.25	2.50	2.00
2b	Environmental	5.00%	2.50	0.40	2.00	2.00	1.50	2.00
2c	Community	5.00%	2.50	0.40	2.00	2.00	1.25	2.00
2d	Health & Safety	5.00%	2.50	0.40	2.00	2.00	2.00	2.00
3	CAPACITY	15%	1.5	0.60	0.75	0.75	1.20	1.05
4	CAPITAL INVESTMENT	15%	1.5	0.60	0.60	0.60	1.20	0.75
5	OPERATIONAL EFFICIENCIES	10%	1.0	0.20	0.40	0.50	0.80	0.70
6	ACCOUNTABILITY & GOVERNANCE	5%	0.5	0.40	0.40	0.30	0.30	0.40
7	REPUTATION & POLITICAL CONSIDERATIONS	5%	0.5	0.35	0.35	0.35	0.20	0.30
8	OPERATIONAL INVOLVEMENT	5%	0.5	0.25	0.25	0.05	0.50	0.15
9	RISK MANAGEMENT	10%	1.0	0.50	0.50	0.60	0.80	0.80
	Total Score		10.000	4.975	5.400	5.313	7.613	6.650
	Percentage		100%	50%	54%	53%	76%	67%

Source: Ernst & Young Qualitative Evaluation model

The Licence option scored highest of the options, reflecting that option's expected ability to draw on the commerciality of a private sector partner, its ability to source external finance, stimulate investment in the Resort and reduce the commercial risk faced by HIE.

The Base Case, Enhanced Base Case and HIE Direct Control options scored more poorly because under these options HIE remains exposed to the operational risk and is unable to raise finance externally. These options did score better in respect of the environmental, community and accountability criteria, reflecting HIE's ability to retain control of these aspects, but this was not enough to outweigh the other aspects of the evaluation.

The JV option to some extent represents a point mid-way between the Base Case and the Licence Option. As such, it scored higher than the Base Case, but lower than the Licence option.

4.4 Quantitative analysis

The quantitative evaluation of the options appraised and ranked the options with regard to their anticipated cost or value to HIE.

The costs to HIE of each option reflect the capital expenditure it would fund and any deficit support it would need to pay to the Resort operator (either CML, in-house or external), offset against any income that would be receivable by HIE, whether surpluses generated by an in-house operator or profit-share received from operations under the Licence and JV options.

The projected profile of annual cost/income for HIE of each option was analysed over a 25 years and the net present value ("NPV") of each compared to determine which option offered best value to HIE.

A financial model was built to perform this analysis. Historical data from CML's management accounts for the previous five years (years ended 31 March 2008 to 31 March 2012) was taken as the empirical source data for the options, with the project team taking the view that the following were appropriate base levels for the options:

Item	Base Level	Rationale
Ski income	An average of the previous five years' ski income.	Ski income is largely weather dependent. Taking the five year average diminishes the impact of outlier years (the past five years include two recent very good years and one poor year) to generate a more likely average figure.
Non-Ski income	The minimum value of the previous five years' non-ski income.	The number of non snowsports visitors declined steadily in 2009, 2010 and 2011. 2012 arrested the decline, but it is unclear to what extent the increased non-ski income resulted from the ski season being severely reduced. It was therefore deemed prudent to assume the minimum five year value for non-ski income as the base level.
Operating expenditure	An average of the previous five years' operating expenditure.	Taking the average over five years captures most significant cyclical operating costs in the analysis whilst smoothing the impact of outlier years.

The financial model applied a range of assumptions to the base levels, covering income uplifts, cost adjustments and capital investment costs to generate a projected profile of annual cost/income for HIE and resulting NPV for each option.

The assumptions employed and results generated for each option are set out below, whilst the macro-economic assumptions applied to all options are described in Appendix E.

4.4.1 The Base Case

The Base Case assumes that the current operating structure continues in its existing form. Under this option, HIE would make only essential capital investment, which it would fund directly. No operational efficiencies would be made and there would be no impact on the ski income generated by CMR and no impact on non-ski income.

Assumptions

Item	Assumption	Rationale
Capex	Essential works of £845k spread evenly over years 1 to 3, together with ongoing £100k per annum lifecycle costs and essential lifecycle spikes of £845k spread over years 10 to 12 and again in years 20 to 22. £1,500k investment in year 6 to replace M1 and Cas tows.	This represents the base level of reactive capital investment required to maintain the current level of services. See Appendix B.
Ski income	5 year average.	No change in the facilities or activities from the current position.
Non-ski income	No change from the minimum non-ski income of the past five years.	No additional investment would be made in non-ski activities, so no further income generated.
Operating expenditure	5 year average.	No operational efficiencies are expected to be generated under this option.

4.4.2 Enhanced Base Case

The Enhanced Base Case assumes that the current operating structure continues in its existing form, but with CML management focusing on generating operational efficiencies and increasing income from non-skiers.

As under the Base Case, HIE would make only essential capital investment, which it would fund directly. There would be no impact on the ski income generated by CML, but a small increase in non-ski income and operational efficiencies would be achieved.

Assumptions

Item	Assumption	Rationale
Capex	Essential works of £845k spread evenly over years 1 to 3, together with ongoing £100k per annum lifecycle costs and essential lifecycle spikes of £845k spread over years 10 to 12 and again in years 20 to 22. £1,500k investment in year 6 to replace M1 and Cas tows.	This represents the base level of reactive capital investment required to maintain the current level of services.

Item	Assumption	Rationale
Ski income	5 year average.	No change in the facilities or activities from the current position.
Non-ski income	The minimum non-ski income of the past five years, growing by 1% per annum between years 3 and 7, flat thereafter.	Additional focus made on non-ski income, leading to a small increase.
Operating expenditure	5 year average, reducing by 1% in years 1 to 3, flat thereafter.	Small operational efficiencies made in the early years.

4.4.3 HIE Direct Control

The HIE Direct Control option assumes that HIE brings the management and operations in-house, taking direct control of the Resort operations and works to generate operational efficiencies and employs enhanced marketing through its central resources to drive income generation from non-skiers.

As under the Base Case, HIE would make only essential capital investment, which it would fund directly. No operational efficiencies would be made and there would be no impact on the ski income generated by CMR.

Assumptions

Item	Assumption	Rationale
Capex	Essential works of £845k spread evenly over years 1 to 3, together with ongoing £100k per annum lifecycle costs and essential lifecycle spikes of £845k spread over years 10 to 12 and again in years 20 to 22. £1,500k investment in year 6 to replace M1 and Cas tows	This represents the base level of reactive capital investment required to maintain the current level of services.
Ski income	5 year average.	No change in the facilities or activities from the current position.
Non-ski income	The minimum non-ski income of the past five years, growing by 2% per annum between years 3 and 7, flat thereafter.	Additional focus made on non-skiers, including enhanced marketing through the central resource, leading to an increase in income.
Operating expenditure	5 year average.	No overall operational savings are expected to be generated under this option, as operational efficiencies would be offset by additional costs (e.g. marketing, management time etc.) within HIE.

4.4.4 Licence

The Licence option assumes that an exclusive licence agreement is granted to an operator who would have full commercial autonomy to manage the Resort.

Under this option, HIE would fund the initial £845k essential works to bring the assets up to a minimum operating standard, while the operator would fund all other capital expenditure. This would include £2,515k of desirable enhancements (as per Appendix B), investment in tows, ongoing lifecycle costs and a significant investment to reconfigure the Ptarmigan building.

This investment would allow the Resort to reposition itself as a dedicated tourist visitor experience outside of the snow sports season. There is also an assumption that the operator would actively pursue diversifying the non snow sporting offering, through target markets such as mountain biking, although we note that installation of facilities such as a mountain bike trail would require significant additional capital expenditure. These initiatives would be expected to have a positive effect on both ski and non-ski income.

It is also assumed that the operator would use its sector experience to drive significant operational cost efficiencies.

Under this option, the operator would be incentivised and rewarded in its efforts by being entitled to the major part of the surpluses generated by operations. This has been reflected in the financial model by assuming that the operator retains 75% of the surpluses generated, with HIE entitled to receive the remaining 25%.

The distribution of surpluses needs to be considered in the context of the restrictions placed on the project by the ERDF funding agreement. These are highlighted in the King Sturge February 2011 Report[8] and are discussed further in Section 5.1. For the purposes of this option appraisal exercise, we have assumed that profit share at this level will not breach these restrictions, but we recommend that HIE should seek legal advice in respect of these restrictions.

Assumptions

Item	Assumption	Rationale
Capex	Essential works of £845k, spread evenly over years 1 to 3, funded by HIE. The remaining capex is funded by the operator: ► £1,500k investment in year 6 to replace M1 and Cas tows ► £2,515k of desirable capital enhancements (as per Appendix B) and £1,500k investment in the Ptarmigan building ► Ongoing £100k per annum lifecycle costs and essential lifecycle spikes of £845k spread over years 10 to 12 and again in years 20 to 22.	HIE's investment represents the base level of capital investment required to bring the assets up to a minimum standard Responsibility for the replacement of tows and ongoing lifecycle costs will be passed to the operator, allowing them to put their own preferred asset maintenance regime in place The operator would make the desirable enhancements and improvements to the Ptarmigan building as investments to generate greater income streams from both skiers and non-skiers

[8] King Sturge *Report on Maintenance and Repair Models and Procurement Options for the Appointment of the Operator of Facilities at Cairngorm Mountain*, 21 February 2011, paragraph 4.7.2.2

Item	Assumption	Rationale
Ski income	5 year average, with 2% increases in years 2, 4, 6, 8 and 10, then flat thereafter.	Increases in ski income to reflect a return on the investments made by the operator and the effects of the operator's commercial experience and expertise.
Non-ski income	The minimum non-ski income of the past five years, growing by 2% per annum between years 3 and 10, flat thereafter.	The operator will apply its experience of ski resort diversification to bring additional focus on non-ski income, leading to a significant increase in income.
Operating expenditure	6% increase on the 5 year average in year 1 to reflect the initial costs required in order to generate longer term savings, reducing by 16% in year 2, then 1% cost reductions per annum in years 3 to 6, flat thereafter.	It is expected that the operator will incur costs in the first year in order to make longer term ongoing savings. It will continue to find efficiencies for several years, before reaching an efficient operating model.

4.4.5 Joint Venture

The JV option assumes that a private sector party joins with HIE to work closely in managing the Resort through a JV vehicle.

Under this option, HIE would fund the initial £845k essential to bring the assets up to a minimum operating standard, while all other capital expenditure will be funded equally by both parties. This other capital expenditure is assumed to be the same as that made under the Licence option, that is: £2,515k of desirable enhancements, investment in tows, ongoing lifecycle costs and a significant investment to reconfigure the Ptarmigan building. This would allow the Resort a similar repositioning as under the Licence option, having a positive effect on both ski and non-ski income.

The JV partner would use its sector experience to drive significant operational cost efficiencies, but it is assumed that the efficiencies will be slightly lower than those achieved under the Licence option. Under this option, surpluses would be shared equally between HIE and the JV partner.

As with the Licence option, the distribution of surpluses needs to be considered in the context of the restrictions placed on the project by the ERDF funding agreement highlighted in the King Sturge February 2011 Report and discussed further in Section 5.1. For the purposes of this options appraisal, we have assumed that equal profit share will not breach these restrictions, but we recommend that HIE should seek legal advice in respect of these restrictions.

Assumptions

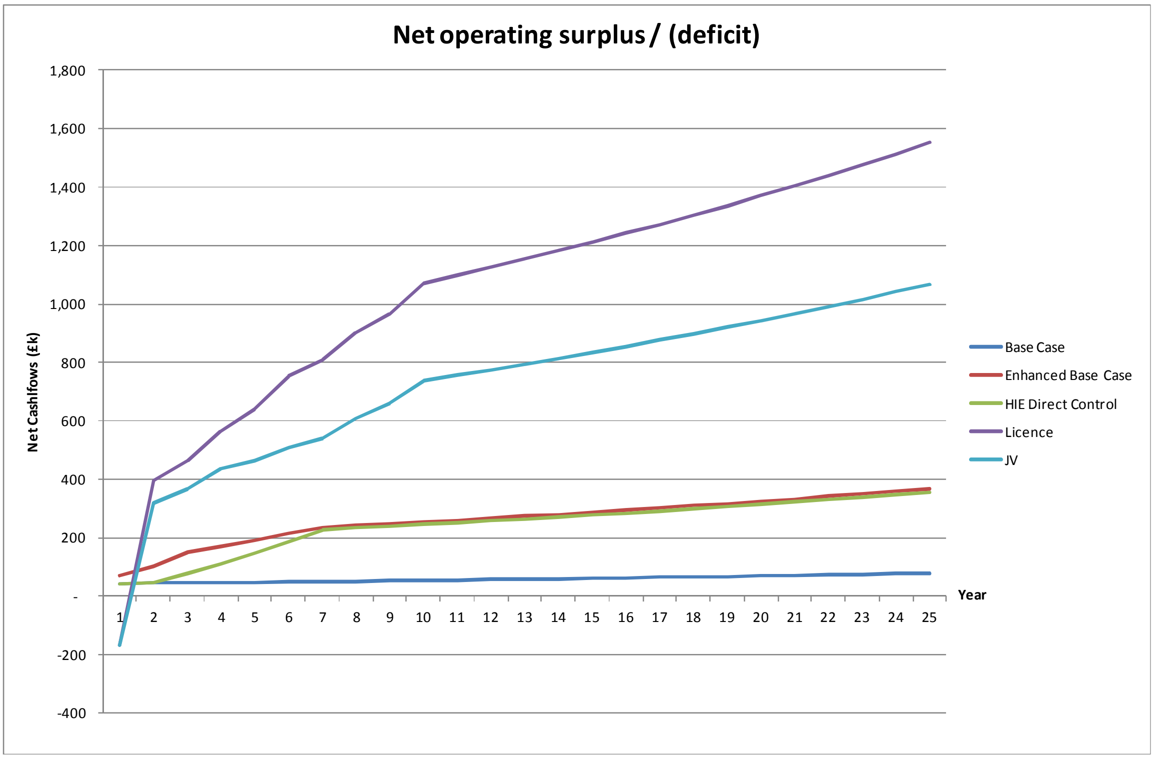
Item	Assumption	Rationale
Capex	Essential works of £845k, spread evenly over years 1 to 3, funded by HIE. The remaining capex is funded equally by HIE and the JV partner:	HIE's investment represents the base level of capital investment required to bring the assets up to a minimum standard
	£1,500k investment in year 6 to replace M1 and Cas tows	The JV would make the desirable enhancements and improvements to the Ptarmigan building as

Item	Assumption	Rationale
	£2,515k of desirable capital enhancements (as per Appendix B) and £1,500k investment in the Ptarmigan building Ongoing £100k per annum lifecycle costs and essential lifecycle spikes of £845k spread over years 10 to 12 and again in years 20 to 22.	investments to generate greater income streams from both skiers and non-skiers
Ski income	5 year average, with 1% increases in years 2, 4, 6, 8 and 10, then flat thereafter	Increases in ski income to reflect a return on the investments made by the JV
Non-ski income	The minimum non-ski income of the past five years, growing by 1% per annum between years 3 and 7, 25 between years 8 and 10, flat thereafter	Considerable additional focus made on non-ski income, leading to a significant increase in income
Operating expenditure	6% increase on the 5 year average in year 1 to reflect the initial costs required in order to generate longer term savings, reducing by 14% in year 2, then 1% cost reductions per annum in years 3 to 4, flat thereafter	It is expected that the operator will incur costs in the first year in order to make longer term ongoing savings. It will continue to find efficiencies for several years, before reaching an efficient operating model

4.4.6 Results

Applying the assumptions set out above to the financial model generated the following net operating surplus/deficit (excluding capex) for HIE under each of the options:

Figure 4.1 – Net operating surplus / (deficit)



Source: Ernst & Young, Cairngorm Options Appraisal Model

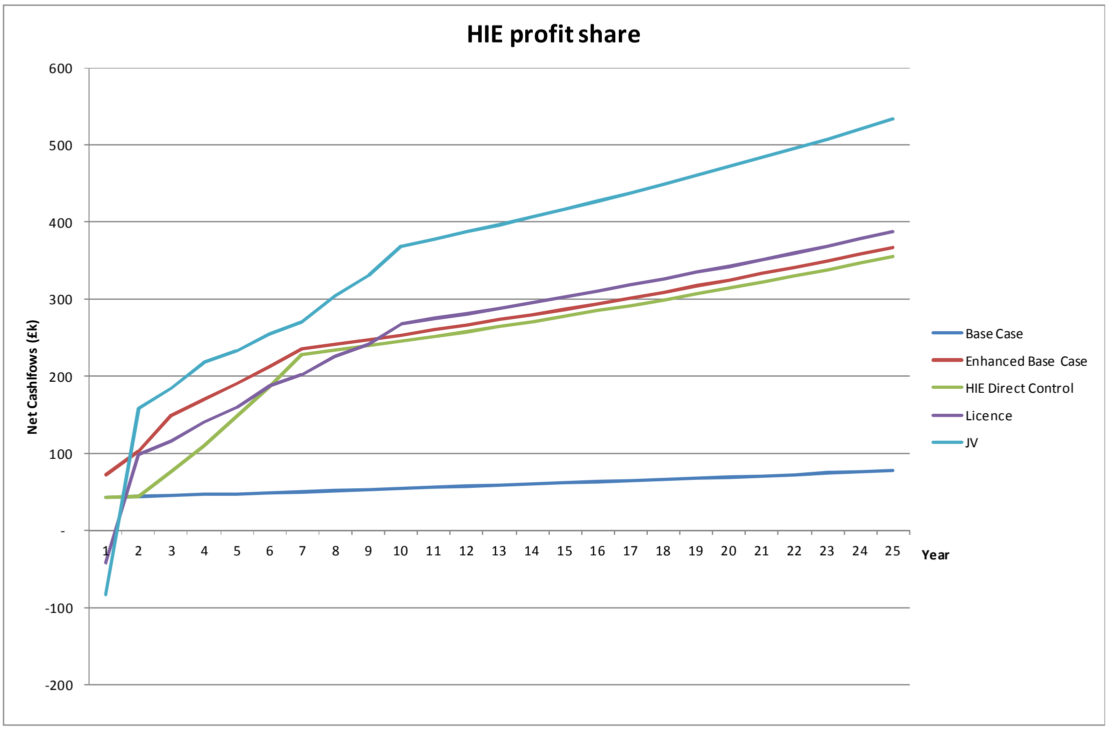
The graph shows that the Base Case makes a small operating surplus of £43k in year 1 and continues broadly at this level (adjusted for indexation) throughout the 25 year period.

The Enhanced Base Case and HIE Direct Control options both show a better performance, with surpluses steadily growing to circa £230k in year 7, after which growth is solely due to indexation. The Enhanced Base Case surplus grows more quickly in early years because it is driven by the assumption that operating expenditure will be cut in years 1 to 3, whereas the HIE Direct Control option surplus movement is driven by increases in non-ski income in years 3 to 7.

The JV and Licence options generate significantly more surpluses than the other options. Both options begin with a deficit in year 1, reflecting the uplift in operating expenditure due to the costs incurred in year 1 in order to make longer term savings but, after that, the combination of income growth and operational efficiencies drive increases in surpluses until year 10. From this point (when the JV option generates a surplus of £737k per annum and the Licence option £1,071k per annum) the surplus increases in line with inflation.

However, it should be noted that both of these options are subject to a profit share, so a significant proportion of the surplus (50% under the JV and 75% under the licence) would be retained by the JV partner/operator. When this profit share is taken into account, the results become closer, with HIE receiving most surpluses under the JV option:

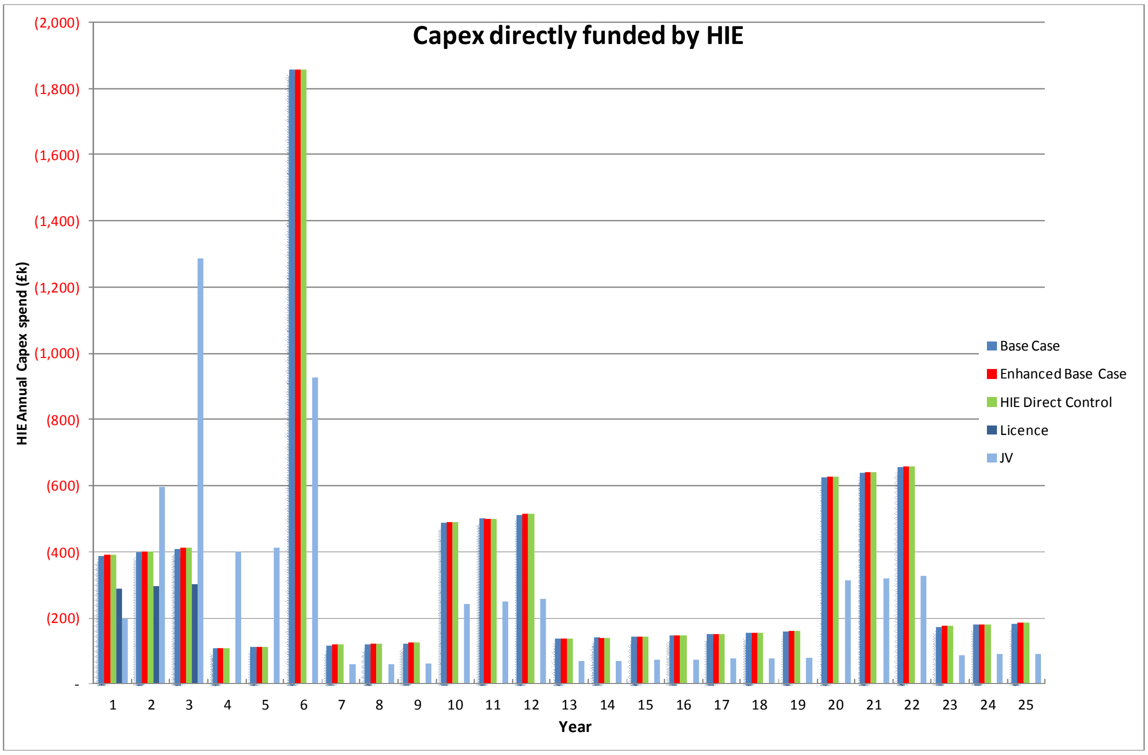
Figure 4.2 – HIE profit share



Source: Ernst & Young, Cairngorm Options Appraisal Model

The other significant cashflow obligation from HIE is capex. The timings and quantum of these are presented below:

Figure 4.3 - HIE direct capital expenditure



Source: Ernst & Young, Cairngorm Options Appraisal Model

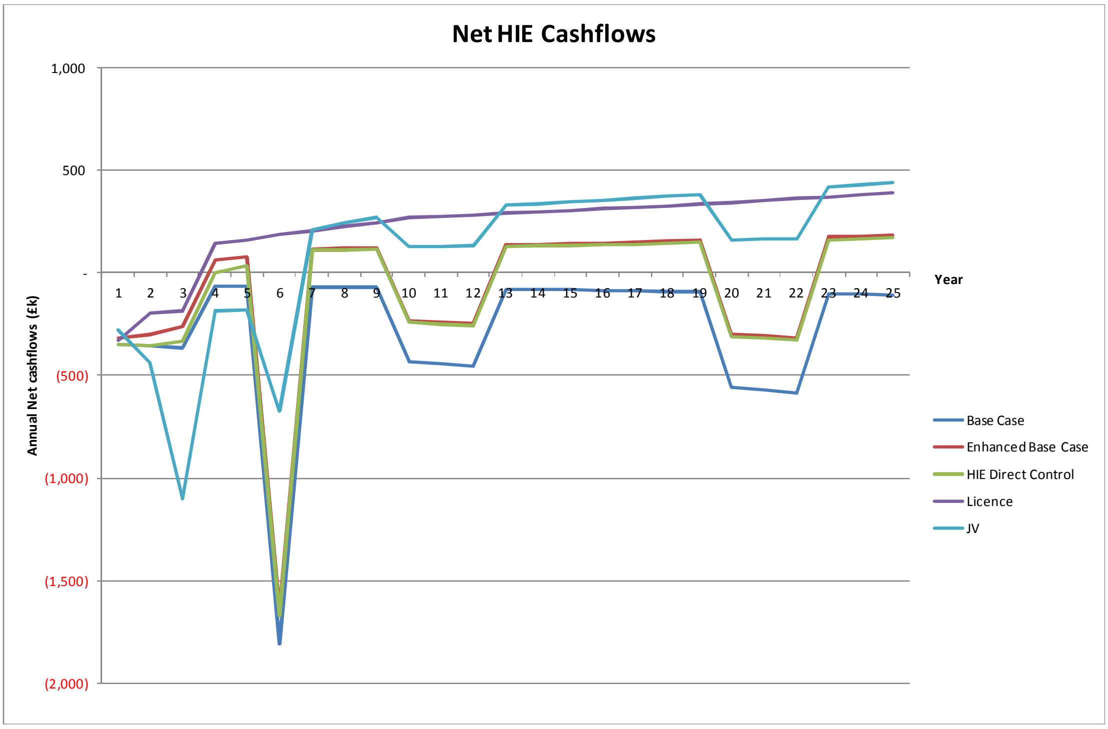
The histogram shows that HIE's commitments in respect of capital expenditure are significant in all options, with the exception of the Licence, under which the operator is responsible for funding all capital expenditure except for the £845k spent by HIE to get the assets to a minimum operating standard.

In addition to the recurring £845k (in real terms) lifecycle spike recurring on a ten-year basis and the £100k (real) per annum lifecycle costs, the Base Case, Enhanced Base Case and HIE Direct Control show a large spike in year 6, representing the replacement of the M1 and Cas tows.

The JV option shows some significant capital expenditure, in years 2 to 5 in particular, which represents the desirable capital expenditure and investment in the Ptarmigan building, but the impact on HIE is reduced by the fact that the responsibility for funding this is shared with the JV partner.

Combining the HIE's profit share and capital expenditure cashflows produces the following net cashflows for HIE:

Figure 4.4 – Net HIE cashflows



Source: Ernst & Young, Cairngorm Options Appraisal Model

The graphs shows that HIE's net cashflows remain in deficit throughout the 25 year period for the Base Case, indicating that this option would require ongoing subsidy.

Both the Enhanced Base Case and HIE Direct Control options alternate between surplus and deficit, with the capex spikes requiring some significant cashflows from HIE.

The JV option requires some significant cashflows from HIE in the early years, as it funds half of the capital investment programme. Thereafter, however, the cashflows show an ongoing surplus for HIE.

The Licence option reaches a surplus position for HIE sooner and, although in peak years HIE's surplus from the JV option is slightly higher, the Licence option provides a more consistent surplus with no dips, as HIE is not responsible for the funding of any capital investment.

The NPV of these cashflows are presented below, together with a percentage score generated by awarding the highest NPV 100%, the lowest 0% and the remainder on a sliding scale between the two extremes.

Table 4.2 – Net Present Value of the options

Option	NPV (£k)	Score
Base Case	(4,192)	0%
Enhanced Base Case	(1,833)	37%
HIE Direct Control	(2,162)	32%
Licence	2,110	100%
Joint Venture	(278)	62%

Source: Ernst & Young, Cairngorm Options Appraisal Model

The quantitative analysis indicates that the Licence option offers HIE the best NPV based on the analysis and assumptions set out in this section.

4.5 Preferred option

To produce a final score for each option, the results of the qualitative and quantitative evaluations were combined. Reflecting the indicative nature of the quantitative assumptions, the evaluation methodology placed greater emphasis on the qualitative factors by applying a weighting of 60:40 in the qualitative evaluation's favour.

The results of the appraisal are shown below:

Table 4.3 – Combined Qualitative and Quantitative results

Option	Qualitative Score		Quantitative Score		Combined
	Unweighted	**Weighted 60%**	**Unweighted**	**Weighted 40%**	
Base Case	50%	**30%**	0%	**0%**	**30%**
Enhanced Base Case	54%	**32%**	37%	**15%**	**47%**
HIE Direct Control	53%	**32%**	32%	**13%**	**45%**
Licence	76%	**46%**	100%	**40%**	**86%**
Joint Venture	67%	**40%**	62%	**25%**	**65%**

Source: Ernst & Young

The combined qualitative and quantitative analysis indicates that awarding an exclusive licence agreement to an external operator to operate and develop the Resort should be considered the preferred option to be taken forward for implementation by HIE.

5. Key commercial issues

In this section we highlight the key commercial issues that will need to be taken into consideration by HIE in taking the preferred option forward.

5.1 Funding obligations

The King Sturge February 2011 Report identified a number of continuing obligations stemming from the ERDF funding agreement in for the construction of the funicular railway. These include:

- The funicular must continue to operate for a period of 25 years after commencement of operations
- The funicular must be used only for the purposes in line with those specified in the original ERDF application
- A number of discounts on season tickets are required to be provided
- The funicular is to be permanently operated as a closed system
- Any profit from the project is to be reinvested in the uplift operation and in the environmental improvement of the area through the creation of an environmental fund.

Failure to comply with these requirements may result in the claw-back of the entire ERDF grant of £2.7m.

The Section 50 agreement relating to the funicular also imposes a number of obligations, including a requirement to purchase a bond to secure the obligations of the agreement in the event of the funicular ceasing to operate. However, we understand that, with the agreement of Scottish Natural Heritage and The Highland Council, this has not been put in place to date. HIE may need to recognise this as a contingent liability.

HIE would retain a vested interest in all assets that would have an expected economic life beyond the lease term. However, HIE would also retain a specific and inseparable interest in the funicular as cessation of the services would require HIE to remove the infrastructure and remediate the mountainside. This presents a significant contingent liability to HIE and must be factored into the procurement process.

It would appear that the majority of these obligations could be addressed by incorporating them in the service specification of any new operator and by placing appropriate incentives upon the operator to ensure compliance. Any operator model would require a strict service specification for hard facilities management and must provide comfort that sufficient expertise is provided by the operator or via sub contractor arrangements. A budget allocation or a sinking fund should be considered to ensure sufficient funds are available to maintain the railway, while HIE should retain step-in rights to inspect the state of the assets and appoint contractors, should it deem work to be required.

One restriction that could not be addressed in this way and that is of particular relevance to this option appraisal exercise is the restriction that any profit from the project is to be reinvested in the uplift operation and in the environmental improvement of the area through the creation of an environmental fund.

At paragraph 4.7.2.2 the King Sturge February 2011 Report notes the restriction attached to the ERDF funding agreement that “Any profit from the project is to be re-invested in the uplift operation and in the environmental improvement of the area through the creation of an environmental fund … no dividends are to be distributed by CML, except to HIE (and even then, restricted to the coupon on redeemable preference shares).”

The report goes on to note that, on the basis of a consultation between [redacted] and the Scottish Government, King Sturge understands that:

- “the profit referred to in this clause is that in the overall ‘project’”
- “a reasonable or minimum profit for an operator established by competitive process would not require to be reinvested”
- “the trigger for reinvestment would be when the revenues from day one exceed the full costs of the ‘project’”; and
- “there will be no need for re-investment until the combined income in rents, sale of ERDF funded assets, profits and charges levied on CML or future operators of the ERDF funded assets (which does not include the ski tows) has reached the value of the original investment to which the ERDF funds contributed plus any interest charges borne by HIE (at least £19m)”.[9]

We note that HIE’s profit share identified in the Licence and JV options amounts to £6,519k and £9,009k respectively in nominal terms over the 25 year period i.e. below the £19 million figure identified by King Sturge. However, we recommend that HIE seek legal advice in respect of this and the other restrictions noted above to ensure that they are not breached through the procurement process and are addressed in the service specification.

5.2 Environmental restrictions

CMR is located in the Cairngorms National Park, which contains many areas of unique natural habitats and wildlife protected by EU legislation. Some of these areas adjoin the ski area.

Whilst the unique and spectacular environment presents opportunities for managed ecotourism for potential operators, it also presents obvious challenges. The environmental impact of any development must be a critical consideration in all future operational decisions of CMR and any future operator would face a number of planning restrictions that may impact its ability to diversify the Resort’s offering to tourists.

The ERDF obligation that the funicular be permanently operated as a closed system restricts what visitors can do around the Ptarmigan building, although the fact that this has been relaxed through increased use of Ranger-guided walks means that there is precedent for reasonable relaxation of this restriction.

However, perhaps more significant would be planning restrictions that might prevent an operator from investment in additional attractions. Planning restrictions in the National Park are more stringent than in other parts of Scotland, and particular focus is placed on protecting the natural and cultural heritage. Combined with the environmentally sensitive location of CMR, this will present a challenge to any operator’s plans to add, for example, a mountain bike trail to CMR’s facilities.

Any proposals for significant developments made by potential operators will need to be considered in light of their likelihood of achieving planning consent.

5.3 Health and safety

One of the advantages of the Licence option is that it would allow HIE to transfer a number of operational risks to a third party operator, including responsibility for health and safety issues, both at the Resort and in respect of the funicular railway. However as long as HIE remains the owner of the land and equipment it will retain a possible residual health and safety risk.

[9] King Sturge *Report on Maintenance and Repair Models and Procurement Options for the Appointment of the Operator of Facilities at Cairngorm Mountain*, 21 February 2011, paragraph 4.7.2.2

This risk should be addressed as part of the procurement process such that HIE takes all reasonable steps to ensure the health and safety of people using the facilities. This could be achieved through, for example:

- Detailing the health and safety duties and responsibilities of the operator in the contract
- Including a health and safety competency requirement as part of the selection process
- Evaluation of bidders' proposed safety system and controls as part of the evaluation process
- Incentivising the operator to maintain appropriate health and safety standards, for example through the payment mechanism.

Once the Licence is awarded, HIE will need to monitor and enforce the health and safety requirements on an ongoing basis.

5.4 Funding capital investment

We understand that CML's current infrastructure investment is designed to maintain the existing service provision and that it has been difficult to justify enhancement investment under the existing operating model. This is compounded by the way HIE is funded by the Scottish Government, with its capital budget being awarded on a three-year basis and HIE's inability to raise commercial debt funding.

A key assumption of the Licence option is that a commercial operator would have access to loan finance and this investment would unlock improved financial return. However, the historic financial performance of the Resort and potentially low asset base of some operators identified may present challenges to raising debt. In pre-empting any potential issues, we would recommend that HIE consider ways of supporting access to commercial debt, for instance guaranteeing elements of the debt or providing a facility to cover debt service shortfalls.

Fundamentally, capital investment by an alternative operator would rely on there being a viable return on investment for the operator. As the capital investment required is relatively large and historic returns low then a long lease tenure of at least 15 years would be required to allow operators to make a return on their investment. To maximise the incentive for investment a 25 year lease tenure has been assumed in the option appraisal, but this assumption should be tested with bidders during procurement to ensure that the lease length offers best value to HIE.

5.5 Staff transfer

HIE will have need to consider its obligations under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) in respect of the employees who would transfer to a new operator. HIE will need to identify which employees would transfer to the new employer and inform and consult with them in relation to the proposed changes in their employment. We recommend that HIE seek professional advice in respect of its obligations under TUPE.

It was apparent in the market testing exercise that potential operators, especially those with specific knowledge of the Resort, felt that the current operations were inefficient and believed the current staff structure to be overly heavy when compared to comparable Scottish ski resorts. As a result, it is not unreasonable expect a new operator to make reductions in headcount in order to improve efficiencies at the Resort.

We understand that a small number of CML employees are members of a defined benefit pension scheme. The TUPE regulations require that transferring employees who are members of an occupational pension scheme be provided with equivalent benefits, subject to a cap. Again, we recommend that HIE seek professional advice in respect of its obligations in regard of this.

5.6 Commercial risks in respect of the assumptions used

The quantitative analysis for the Licence option was based on a series of assumptions around the expected improvements to income and operational efficiencies that might be generated by an experienced commercial operator. Whilst these estimates were based on commercial experience, we note that a detailed review of CML's operational activities, the efficiency of its operations and its income and costs has not been performed as part of this option appraisal exercise and that the estimates applied bear an inherent risk of inaccuracy.

The result of the option appraisal exercise should not therefore be viewed as confirmation that the Licence option will generate a regular return for HIE. The commercial exposure of HIE can only be tested and mitigated through the procurement process.

To illustrate the risk inherent in the figures a number of sensitivities were run on the Licence option and their impact on the resulting NPV are noted in the table below:

Table 5.1 - Sensitivities

Sensitivity	Change to assumption	NPV (£k)
Licence Option	As modelled in the option appraisal exercise	2,110
Reduced income growth	The base assumption of 2% increases in ski income in years 2, 4, 6, 8 and 10 reduced to 1% in those years, and the 2% increases in non-ski income in years 3-10 reduced to 1% in those years	1,486
Reduced base level of ski income	Ski income in year 1 assumed to be equal to the minimum ski income of the past 5 years (ie, 857k) rather than the average of those 5 years (£1,806k)	(1,478)
Lower operating efficiencies	6% increase on the 5 year average in year 1 to reflect the initial costs required in order to generate longer term savings, reducing by 10% in year 2, but no additional operating efficiencies made after year 2	1,037
Increased base level of operating costs	Operating cost in year 1 assumed to be equal to maximum operating costs of the past 5 years (ie, £4,653k) rather than the average of those 5 years (£3,618k)	(1,062)

Source: Ernst & Young

The sensitivities indicate that adjustments to the income growth and operating efficiencies generated by a new operator make relatively small differences to the overall NPV – in both instances the Licence option would still offer a better NPV than the other options. However, a change to the base level of income or operating expenditure has a significant impact on the NPV.

CML's total costs over the past five years have ranged from a low of £2,932k in 2008 to a high of £4,653k in 2010. Such variance is driven to a large degree by the additional costs associated with the busier ski business years. We would expect a commercial operator to be able to manage this operational cost risk.

Over the same period, CML's total income has ranged from £3,000k in 2008 to £5,167k in 2010. An operator would have less control over this, given the Resort's dependency on ski conditions, especially in the early years as it put its diversification plans in place. This may require HIE to agree a financial support package in the early years in order to de-risk this position and in doing so drive improved long term value and return back to HIE.

The sensitivities should also be considered in the context of the return that a commercial operator would seek to make from its business. Under the assumptions employed in the option appraisal the pre-financing return on investment generated for the operator would be 11.9%. This is in line with the lower end of the return that an operator might expect in the mature PPP market.

However, that return falls to 6.7% under the reduced income growth sensitivity and 3.7% under the lower operating efficiencies sensitivity. Under the reduced base level of ski income and increased base level of operating costs sensitivities, no return is generated as the business is loss-making.

In developing their proposals for the operating the Resort, potential bidders would consider these commercial risks, their view of their ability to manage them and the return they would expect in view of the risks. If they took the view that the Resort carried a relatively high commercial risk they may decide that they require a greater level of return from operations, which could be achieved through HIE providing the operator with a payment or subsidy to operate the Resort.

HIE should be aware of this risk and should be prepared for the eventuality that the Licence option may have to be let as a concession contract, with the operator receiving some form of subsidy payment from HIE. We recommend that HIE seek legal advice in respect of this.

We note the high level nature of the assumptions employed in the option appraisal and recommend that a more detailed income and cost forecasting exercise be carried out in order to price the service specification and develop a shadow bid model against which bidders' submissions can be compared.

6. Next steps and suggested actions

In this section we set out the next steps and considerations that we recommend HIE take in order to take forward the Licence as the preferred option for the ongoing operation of the CMR.

6.1 Defining the market proposition

HIE should define a market proposition that is acceptable to the organisation as well as the wider market. The market sounding exercise suggested a licence based agreement would be met favourably by the market. However, the barriers to entry indentified as part of the market sounding would have to be addressed. Some of these were merely perceived barriers and based on misinformation, but they should be addressed in any eventual marketing of the Resort and could be addressed in a vendor due diligence pack.

As part of this process, we recommend that a detailed income and cost forecasting exercise be carried out to price the service specification in order to develop a shadow bid model against which bidders' submissions can be compared.

6.2 Procurement considerations

Competitive dialogue has been proposed as the procurement process to be followed because HIE does not wish to restrict the market's ability to innovate and bring new ideas to CMR. Whilst it brings a number of advantages, the competitive dialogue process requires careful management to ensure an efficient process and positive bidder participation.

6.2.1 Competitive dialogue

Where there is a complex requirement that can be met by a variety of methods, the competitive dialogue process allows the procurement team to assess the most appropriate solution.

The competitive dialogue process can be resource intensive, for both the procuring authority and the bidders. It is important that the correct amount of resource is allocated to the procurement process. Managing the procurement process is a full time job, and it is best practice to appoint a dedicated dialogue manager.

To ensure that the dialogue remains focused, it is important that the elements of the contract that are to be the subject of dialogue are clearly defined, as are the areas of the contract that are not open for discussion. In this way the procuring authority can manage the variations between permitted responses to its specification.

6.2.2 Planning for competitive dialogue

The dialogue phase should be planned carefully in order to maximise the value to be gained for the process and to reassure bidders that the process will be efficiently and effectively run. In this way, it will be important that the following are put in place:

- A clear and transparent timetable
- A code of practice for the conduct of dialogue
- A methodology for ensuring bidders have access to the necessary information, for example the use of a dataroom containing items such as CML's management accounts, the ERDF funding agreement and the Section 50 agreement
- A clear set of evaluation criteria.

As few of the potential bidding parties have experience of large scale public procurement, or have the resources to avoid significant external advisors fees, HIE will have to put in place measures to ensure the process does not become onerous and discourage bidders.

Some potential bidders have already voiced strong opposition to public procurement processes and their continued interest is predicated on a flexible and streamlined process being in place.

One way to achieve this is for HIE to engage is an enhanced level of vendor due diligence and ensure bidder information packs are comprehensive. A clear procurement strategy and delivery plan will ensure the process is not overly protracted, reducing the time and cost of the procurement process.

To set the selection and award criteria, the procurement team will need to understand what the key outcomes are of the procurement to allow specifications and key performance indicators to be communicated and agreed.

Selection criteria should set out in the pre qualification questionnaire ("PQQ") that bidders are required to complete and pass to be invited to progress to the dialogue process. PQQs are employed to ensure that only suppliers with appropriate characteristics in terms of status, profile and capability enter the dialogue process. To facilitate an efficient dialogue period, it is appropriate to restrict the number of bidders taken forward to the dialogue period to three or four.

Under the competitive dialogue process, the overriding award criteria stated is the most economically advantageous tender – that is, the award is made on the basis of a combination of quality score and price. It is essential that the selection criteria are designed with care and the scoring methodology of the award criteria is thoroughly tested prior to publishing. Once a set of criteria and scoring methods are published there is no possibility of changing them. Therefore, unexpected outcomes have been known to occur where proper planning has been absent.

Every effort should be made to ensure that all interested stakeholders, especially those who shall inherit the contents of the contract have been involved in setting the selection and award criteria. In this way the probability of a successful outcome will be increased.

6.2.3 Procurement timescales

A key factor in the cost of procurement and its attractiveness to potential bidders will be the length of the dialogue process. Competitive dialogue has a reputation in the market for involving a relatively long procurement process, resulting from the way in which solutions are developed during the dialogue process.

Careful planning and procurement management can be used to reduce the duration of the dialogue period. We would recommend that HIE consider the following steps to facilitate this:

- Prepare dialogue drafts of all contractual documents
- Clearly define the service specification and the requirements that the operator will have to provide
- Identify the elements of the licence agreement that are open to dialogue (e.g. innovative ideas for diversification, improved service offerings) and those that are fixed; the more limited the areas for dialogue, the quicker the procurement process will be
- Assemble a dataroom containing the full and detailed suite of information that potential bidders will need, for example, the service specification, ERDF funding agreement, Section 50 agreement, historic operating data

- Hold an information day for potential bidders
- Appoint a dedicated dialogue manager.

The dialogue process might normally be expected to last for 9 to 16 months, depending on the complexity of the procurement; however, if the above actions are taken and the dialogue is well defined and closely controlled it should be possible to reduce this to 8 to 10 months. On this basis, the following indicative timescales should be achievable:

Month	Key Stage
October – November 2012	OJEU notice issued
December – January	PQQ Select 4 bidders
February	Commence dialogue
February – April / May	First round of dialogue
May / June	Invitation to Submit Outline Solutions Down-select from 4 bidders to 2 bidders
July / September	Second round of dialogue
September	Invitation to Submit Detailed Solutions
September / November 2013	Final Tender

Source: Ernst & Young

6.2.4 Specifications

Bidders price accordingly to agreed specification. Care has to be taken to ensure that the service specification is detailed in a manner that enables the supplier to be obliged to provide the services in the intended fashion.

It is essential that the individuals or team that will monitor and run the contract have a sense of ownership over it and understand how to operate the contract to their advantage. By preparing the specification in collaboration, any cost of change over the contract lifetime due to poor specification or oversight will be greatly reduced.

A crucial part of defining the market proposition will be developing a robust and detailed specification of the services that the operator will be required to provide.

To some extent, the operator and HIE's goals will be aligned, as it will be in the operator's interests to, for instance, increase tourist footfall and revenue and to grow the business.

However, there will also be some non-commercial aspects that the operator would not carry out without being required to do so in the service specification. These could include the funicular opening hours, links to the community and the Ranger Service operations which are currently provided for HIE by CML on an at-cost basis. These should be carefully defined to ensure that the HIE's objectives and its obligations in relation to the ERDF funding agreement and Section 50 agreement are met.

These obligations can be defined through the use of a payment mechanism, based on key performance indicators (“KPIs”). It is essential that time is taken to model KPIs to ensure that they drive the correct behaviour with the supplier. The regime should be calibrated in such a way that KPIs do not become too great a disincentive by producing an over-punitive regime that frequently yields specific deductions for minor performance failures.

In extreme circumstances persistent and consistent KPI failure can lead to the buyer stepping in and contract termination. Given its ongoing obligations in respect of the assets and the risk of clawback of ERDF funding, HIE should retain step-in rights to inspect the state of the assets and appoint contractors should HIE deem work be required to maintain the assets to an appropriate standard.

A dispute resolution process should also be agreed to allow for even-handed management of any disputes under the contract.

6.3 Summary of actions identified in this report

The following is a summary of the actions identified in this report:

- HIE should seek legal advice in respect of the following:
  - The Licence option may have to be let as a concession contract, with the operator receiving some form of subsidy payment from HIE
  - The restrictions and obligations placed upon HIE as a result of the ERDF and section 50 funding agreements and how to ensure that they are not breached through the procurement process and are addressed in the service specification; this should include the restrictions relating to the distribution of surpluses
  - The options in respect of maintaining the assets’ condition, such as a budget allocation or sinking fund to maintain the railway, and retaining step-in rights in respect of the assets
  - HIE’s obligations under TUPE.
- HIE should also seek appropriate advice to ensure that HIE’s residual health and safety responsibilities are addressed as part of the procurement process, such that HIE takes all reasonable steps to ensure the health and safety of facility users.
- In order to pre-empt any potential funding issues arising from the historic financial performance of the Resort and low asset base of many potential operators identified, we would recommend that HIE consider ways of supporting access to commercial debt, such as guaranteeing elements of the debt or providing a facility to cover debt service shortfalls.
- The dialogue phase should be carefully planned for by:
  - Preparing dialogue drafts of all contractual documents
  - Developing a clear and transparent timetable and code of practice for the conduct of dialogue
  - Clearly defining the service specification and the requirements that the operator will have to provide; ensuring that it addresses the obligations placed upon HIE as a result of the ERDF and section 50 funding agreements and any other services that HIE requires the operator to perform, such as provision of the Ranger Service

- Identifying the elements of the licence agreement that are open to dialogue (e.g. innovative ideas for diversification, improved service offerings) and those that are fixed

- Carrying out an enhanced level of vendor due diligence to provide comprehensive bidder information packs and a dataroom containing the full and detailed suite of information that potential bidders will need

- Holding an information day for potential bidders

- Appointing a dedicated dialogue manager

- Developing a clear set of the selection and award criteria with all interested stakeholders

- Identifying and modelling the KPIs on which a payment mechanism can be based to ensure that they drive the correct behaviour with the operator

- Carrying out a more detailed income and cost forecasting exercise in order to price the service specification and to develop a shadow bid model against which bidders’ submissions can be compared.

7. Appendix A – 5 year financials to March 2012

Cairngorm Mountain Limited
Historical performance

Year ended	31-Mar-08	31-Mar-09	31-Mar-10	31-Mar-11	31-Mar-12
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Income					
Ticket Sales					
Funicular Sales	917,563	910,430	929,406	859,220	928,010
Uplift ticket sales (Seasons not included)	753,143	1,016,098	2,183,184	2,179,570	607,851
Other ticket sales	-	-	10	274,343	365,572
	1,670,706	**1,926,528**	**3,112,600**	**3,313,133**	**1,901,433**
Catering Sales					
Sales - Daytime	578,109	613,878	845,688	914,224	613,622
Sales - Ceilidh	141,449	98,577	17,748	17,711	13,665
Sales - Events	16,427	16,303	63,683	91,835	56,316
	735,985	**728,758**	**927,119**	**1,023,771**	**683,603**
Shop Sales	**427,648**	**385,729**	**431,034**	**441,564**	**367,990**
Hire Income	**143,112**	**159,895**	**248,673**	**315,103**	**128,585**
Other Income	**22,289**	**28,452**	**93,935**	**73,581**	**5,632**
Total Income	**2,999,740**	**3,229,362**	**4,813,361**	**5,167,151**	**3,087,243**
Expenditure					
Wages	1,496,167	1,573,254	1,834,107	2,061,959	1,609,142
Operating Expenses	471,960	568,405	935,514	1,335,264	770,422
Commercial Expenses	549,222	553,179	743,192	796,576	585,438
Overheads	414,761	458,785	455,371	459,633	415,218
Depreciation	44,731	43,673	61,289	102,174	144,551
Misc. Income	9,230	(2,276)	(11,623)	(19,223)	(103,064)
	2,986,071	**3,195,020**	**4,017,850**	**4,736,383**	**3,421,708**
Profit/(loss) for the year	**13,669**	**34,342**	**795,511**	**430,768**	**(334,464)**

Source: Cairngorm Mountain Limited management accounts

8. Appendix B – Forecast capital expenditure

Element	Essential (years 1-3)	Desirable (years 4-5)
Ski Tows		
Replace drive motors and/or invertors	£110k	£100k
Replace Safety Cables	£80k	£80k
NDT regime for older towers	£15k	
Replacement t-bar boxes on 3 tows	£150k	
Replace haul ropes	£40k	£40k
Spares to avoid lengthy downtime if critical component fails	£50k	£200k
Sub-totals	**£445k**	**£420k**
Buildings		
Demolish Ciste building		£30k
Replace Day Lodge with smaller more efficient building		£1,250k
Ptarmigan – updating of interpretation	£250k	
Ptarmigan – internal improvements to restaurant		£350k
Ptarmigan – extended external terrace	£150k	
Heavy maintenance on buildings and infrastructure		£300k
Sub-totals	**£400k**	**£1,930k**
Car Parks		
Parking meters		£65k
Other car park improvements		£100k
Sub-totals		**£165k**
Totals	**£845k**	**£2,515k**

Source: HIE - *CML Investment List 010512.doc and subsequent updates*

9. Appendix C – Qualitative evaluation criteria

Cairngorm Options Appraisal - Selection Criteria			
	CRITERIA	**Rationale for scoring**	**Weighting Factor**
1	**STRATEGIC FIT**		**15%**
1a	**HIE Objectives**		25%
		High – The option delivers the best net economic and social impact for the H&Is	
		Low – The option does not deliver the best net economic and social impact for the H&Is	
1b	**HIE Business Model**		25%
		High - The delivery of the option is aligned to the core operational business model of HIE	
		Low - The delivery of the option conflicts with the core operational business model of HIE	
1c	**Tourism**		25%
		High – The option contributes to the implementation of the National Tourism Strategy	
		Low – The option does not support the National Tourism Strategy	
1d	**Environment**		25%
		High – The option supports HIE's full compliance with the EU Habitats and Wild Birds Directives	
		Low – The option fails to address full compliance with the EU Habitats and Wild Birds Directives	
2	**CAPABILITY**		**20%**
2a	**Commerciality**		25%
		High – The option provides enhanced long-term commercial viability for the visitor attraction, based on skill sets, experience and sectoral understanding	
		Low – The option does not provide enhanced long-term commercial viability for the visitor attraction, based on skills sets, experience and sectoral understanding	
2b	**Environmental**		25%
		High – The option addresses the need for ongoing environmentally sensitive management	
		Low – The option fails to address the need for ongoing environmentally sensitive management	
2c	**Community**		25%
		High – The option provides opportunities to engage with and benefit the wider destination	
		Low – The option provides little or no opportunities to engage with and benefit the wider destination	
2d	**Health & Safety**		25%
		High – The option addresses the need for ongoing compliance with health & safety requirements	
		Low – The option fails to address the need for ongoing compliance with health & safety requirements	
3	**CAPACITY**		**15%**
		High – The option provides the requisite resource to successfully deliver enhanced commercial return, including staff resources and operational involvement from suitably experienced senior management	
		Low – The option does not provide the requisite resource to successfully deliver enhanced commercial return, including staff resources and operational involvement from suitably experienced senior management	

4	**CAPITAL INVESTMENT**		**15%**
		High – The options presents a credible likelihood of being able to fund the requisite capital investment and ongoing maintenance requirements	
		Low – The opportunity presents a substantial degree of uncertainty as to the likely access to capital investment funding and the ability to undertake ongoing maintenance	
5	**OPERATIONAL EFFICIENCIES**		**10%**
		High - The option presents clear opportunities for driving operational efficiencies through expertise of management, economies of scale or strategic partnerships	
		Low - The option presents few opportunities for driving operational efficiencies through expertise of management, economies of scale or strategic partnerships	
6	**ACCOUNTABILITY & GOVERNANCE**		**5%**
		High – The opportunity provides HIE with an appropriate degree of transparency and comfort over the ongoing delivery of the appropriate contractual arrangements of HIE's enduring interest in the visitor attraction	
		Low – The opportunity provides HIE with little transparency and comfort over the ongoing delivery of the appropriate contractual arrangements of HIE's enduring interest in the visitor attraction	
7	**REPUTATION & POLITICAL CONSIDERATIONS**		**5%**
		High -The opportunity is highly unlikely to present materially substantial objections from HIE's stakeholders	
		Low -The opportunity is highly likely to present materially substantial objections from HIE's stakeholders	
8	**OPERATIONAL INVOLVEMENT**		**5%**
		The opportunity requires little or no operational involvement from HIE	
		The opportunity requires significant managerial involement from HIE	
9	**RISK MANAGEMENT**		**10%**
		High - The option provides the best opportunity to manage all significant risks	
		Low – The option fails to provide the best opportunity to manage all significant risks	
	Total		**100%**

10. Appendix D – Qualitative evaluation score sheets

Cairngorm Options Appraisal - Qualitative Evaluation Criteria					
Base Case					
	CRITERIA	**Rationale for scoring**	**Raw Score**	**Weighting Factor**	**Weighted Score**
1	**STRATEGIC FIT**		**4.5**	**15%**	**0.68**
1a	**HIE Objectives**	No change to existing operations - limited diversification leading to continued decline in footfall. No economic or social benefits resulting to H&Is.	4	25%	1.00
1b	**HIE Business Model**	Operation of Cairngorm Mountain Resort is considered non-core to HIE's business	2	25%	0.50
1c	**Tourism**	Current offering does not offer world class facilities. Declining footfall will have knock-on effect to other local attractions.	4	25%	1.00
1d	**Environment**	HIE ownership of CML allows it to manage the risk of any non-compliance with the EU Habitats and Wild Birds Directives.	8	25%	2.00
2	**CAPABILITY**		**7.00**	**20%**	**1.40**
2a	**Commerciality**	No change to existing operations, so no changes in skill sets, experience and sectoral understanding.	4	25%	1.00
2b	**Environmental**	HIE ownership of CML allows it to direct operations in an ongoing environmentally sensitive way.	8	25%	2.00
2c	**Community**	HIE ownership of CML allows it to control operations so that community engagement and benefit is taken into account in the decision making process.	8	25%	2.00
2d	**Health & Safety**	CML currently meets health & safety requirements	8	25%	2.00
3	**CAPACITY**		**4**	**15%**	**0.60**
		No change to existing operations - limited change to resources and operations, meaning limited change to commercial returns	4		
4	**CAPITAL INVESTMENT**		**4**	**15%**	**0.60**
		Capital investment would be funded solely by HIE. HIE cannot raise commercial borrowing to fund investment and cannot provide capital funding on a commercial basis or under a long term plan, given its three year funding window.	4		
5	**OPERATIONAL EFFICIENCIES**		**2**	**10%**	**0.20**
		No change to existing operations - no operational efficiencies expected.	2		
6	**ACCOUNTABILITY & GOVERNANCE**		**8**	**5%**	**0.40**
		HIE ownership of CML provides HIE with transparency and comfort over the ongoing delivery of the appropriate contractual arrangements of HIE's enduring interest in the visitor attraction	8		
7	**REPUTATION & POLITICAL CONSIDERATIONS**		**7**	**5%**	**0.35**
		No change to existing structure, so unlikely to present materially substantial objections from HIE's stakeholders, except for concerns that HIE's originally stated intent on taking over CMR was to procure a private sector owner. No risk of accusations of damaging natural habitat through commercial over exploitation.	7		
8	**OPERATIONAL INVOLVEMENT**		**5**	**5%**	**0.25**
		No change to existing operations - requires some operational involvement from HIE.	5		
9	**RISK MANAGEMENT**		**5**	**10%**	**0.50**
		Risk management would be carried out by HIE/CML. No opportunity to draw on more commercial private sector risk management skills, eg around opex, capex, maintenance, diversification.	5		
	Total Score		**46.5**	**100%**	**4.975**

Cairngorm Options Appraisal - Qualitative Evaluation Criteria

Enhanced Base Case

	CRITERIA	Rationale for scoring	Raw Score	Weighting Factor	Weighted Score
1	STRATEGIC FIT		5	15%	0.75
1a	HIE Objectives	Minor improvements to existing operations - limited diversification leading to small increase in summer footfall. Small economic benefits resulting to H&Is.	5	25%	1.25
1b	HIE Business Model	Operation of Cairngorm Mountain Resort is considered non-core to HIE's business	2	25%	0.50
1c	Tourism	Current offering does not offer world class facilities. Small improvements at CMR unlikely to have knock-on effect to other local attractions.	5	25%	1.25
1d	Environment	HIE ownership of CML allows it to manage the risk of any non-compliance with the EU Habitats and Wild Birds Directives.	8	25%	2.00
2	CAPABILITY		7.00	20%	1.40
2a	Commerciality	No change to existing operations, so no changes in skill sets, experience and sectoral understanding.	4	25%	1.00
2b	Environmental	HIE ownership of CML allows it to direct operations in an ongoing environmentally sensitive way.	8	25%	2.00
2c	Community	HIE ownership of CML allows it to control operations so that community engagement and benefit is taken into account in the decision making process.	8	25%	2.00
2d	Health & Safety	CML currently meets health & safety requirements	8	25%	2.00
3	CAPACITY		5	15%	0.75
		Limited change to resources, staffing and operations, meaning limited change to commercial returns, although some efficiencies made.	5		
4	CAPITAL INVESTMENT		4	15%	0.60
		Capital investment would be funded solely by HIE. HIE cannot raise commercial borrowing to fund investment and cannot provide capital funding on a commercial basis or under a long term plan, given its three year funding window.	4		
5	OPERATIONAL EFFICIENCIES		4	10%	0.40
		No change to existing operations - minor operational efficiencies expected, but no clear opportunities for driving operational efficiencies through expertise of management, economies of scale or strategic partnerships.	4		
6	ACCOUNTABILITY & GOVERNANCE		8	5%	0.40
		HIE ownership of CML provides HIE with transparency and comfort over the ongoing delivery of the appropriate contractual arrangements of HIE's enduring interest in the visitor attraction	8		
7	REPUTATION & POLITICAL CONSIDERATIONS		7	5%	0.35
		No change to existing structure, so unlikely to present materially substantial objections from HIE's stakeholders, except for concerns that HIE's originally stated intent on taking over CMR was to procure a private sector owner. No risk of accusations of damaging natural habitat through commercial over exploitation.	7		
8	OPERATIONAL INVOLVEMENT		5	5%	0.25
		No change to existing operations - requires some operational involvement from HIE.	5		
9	RISK MANAGEMENT		5	10%	0.50
		Risk management would be carried out by HIE/CML. No opportunity to draw on more commercial private sector risk management skills, eg around opex, capex, maintenance, diversification.	5		
	Total Score		50	100%	5.400

Cairngorm Options Appraisal - Qualitative Evaluation Criteria

HIE Direct Control

	CRITERIA	Rationale for scoring	Raw Score	Weighting Factor	Weighted Score
1	STRATEGIC FIT		4.75	15%	0.71
1a	HIE Objectives	Minor improvements to existing operations - limited diversification leading to small increase in summer footfall. Small economic benefits resulting to H&Is.	6	25%	1.50
1b	HIE Business Model	Operation of Cairngorm Mountain Resort is considered non-core to HIE's business; however, HIE direct control brings it even closer to HIE.	1	25%	0.25
1c	Tourism	Current offering does not offer world class facilities. Small improvements at CMR unlikely to have knock-on effect to other local attractions.	4	25%	1.00
1d	Environment	HIE ownership of CML allows it to manage the risk of any non-compliance with the EU Habitats and Wild Birds Directives.	8	25%	2.00
2	CAPABILITY		7.25	20%	1.45
2a	Commerciality	Bringing CMR under direct HIE control would bring the opportunity to bring in staff with new skill sets, experience and sectoral understanding. However, unclear if experienced experts would seek to work within a public sector body such as HIE.	5	25%	1.25
2b	Environmental	HIE direct control allows it to direct operations in an ongoing environmentally sensitive way.	8	25%	2.00
2c	Community	HIE direct control allows it to control operations so that community engagement and benefit is taken into account in the decision making process.	8	25%	2.00
2d	Health & Safety	HIE would be confident of meeting health & safety requirements of operations if it took direct control of CMR	8	25%	2.00
3	CAPACITY		5	15%	0.75
		Some changes to management due to change to direct HIE control. Otherwise limited change to resources and operations, meaning resulting change to commercial returns is small	5		
4	CAPITAL INVESTMENT		4	15%	0.60
		Capital investment would be funded solely by HIE. HIE cannot raise commercial borrowing to fund investment and cannot provide capital funding on a commercial basis or under a long term plan, given its three year funding window.	4		
5	OPERATIONAL EFFICIENCIES		5	10%	0.50
		Some potential for driving operational efficiencies through change of management.	5		
6	ACCOUNTABILITY & GOVERNANCE		6	5%	0.30
		HIE direct control reduces the transparency provided by an arms length, externally audited limited company	6		
7	REPUTATION & POLITICAL CONSIDERATIONS		7	5%	0.35
		HIE assuming direct control may lead to concerns that HIE's originally stated intent on taking over CMR was to procure a private sector owner. Risk of complaint from competitors (eg, Lecht, Glenshee). No risk of accusations of damaging natural habitat through commercial over exploitation.	7		
8	OPERATIONAL INVOLVEMENT		1	5%	0.05
		Requires full operational involvement from HIE.	1		
9	RISK MANAGEMENT		6	10%	0.60
		Risk management would be carried out by HIE. An opportunity to bring in more commercial risk management skills, either from within HIE or a new appointment.	6		
	Total Score		46	100%	5.313

Cairngorm Options Appraisal - Qualitative Evaluation Criteria
Licence

	CRITERIA	Rationale for scoring	Raw Score	Weighting Factor	Weighted Score
1	STRATEGIC FIT		7.75	15%	1.16
1a	HIE Objectives	A private sector operator would be expected to move to year-round operation and tourism and diversity of attractions, creating a visitor attraction that will benefit H&Is. A year round approach is expected to deliver more professional full time employment, in line with HIE's goal for economic development.	8	25%	2.00
1b	HIE Business Model	Removes the non-core activity of operation of the CMR from HIE	10	25%	2.50
1c	Tourism	A significantly improved CMR facility, run by a private sector operator with tourism-marketing experience will help promote tourism in the region.	8	25%	2.00
1d	Environment	The use of a private sector operator brings risk of non-compliance with the EU Habitats and Wild Birds Directives; however, this would be mitigated by stringent requirements in the licence agreement and legal requirements, and the operator could be expected to make the environment one of the key touchstones of the Cairngorm Mountain Resort.	5	25%	1.25
2	CAPABILITY		7.25	20%	1.45
2a	Commerciality	A private sector operator would provide enhanced long-term commercial viability for the visitor attraction, as the operator would bring appropriate skill sets, experience and sectoral understanding. Opportunity for market to be forthcoming with most commercial solution.	10	25%	2.50
2b	Environmental	The need for ongoing environmentally sensitive management would be addressed under the licence agreement and associated restrictions.	6	25%	1.50
2c	Community	A private sector operator is likely to seek benefits and opportunities from engaging with wider destination attractions, and requirements to do so could be incorporated in the licence requirements. However, HIE would have less control over ensuring this under this option.	5	25%	1.25
2d	Health & Safety	The selected private sector operator will be required to demonstrate its ability to deliver approporiate health & safety standards	8	25%	2.00
3	CAPACITY		8	15%	1.20
		The operator could be expected to bring the requisite resource to successfully deliver enhanced commercial return, including staff resources and operational involvement from suitably experienced senior management	8		
4	CAPITAL INVESTMENT		8	15%	1.20
		A private sector operator, selected under appropriate criteria through a competitive process, would be expected to be able to fund the requisite capital investment and ongoing maintenance requirements, either through commercial debt raised against a robust business plan for the development or through corporate finance. However, there is a risk that historic performance of the resort hinders the raising of funding.	8		
5	OPERATIONAL EFFICIENCIES		8	10%	0.80
		The private sector partner is expected to bring clear opportunities for driving operational efficiencies through relevant experience, expertise of management, economies of scale or strategic partnerships	8		
6	ACCOUNTABILITY & GOVERNANCE		6	5%	0.30
		HIE will need to seek comfort over transparency and the ongoing delivery of the appropriate contractual arrangements of HIE's enduring interest in the visitor attraction through the terms and conditions of the licence agreement (eg, reporting requirements, rights of inspection).	6		
7	REPUTATION & POLITICAL CONSIDERATIONS		4	5%	0.20
		Offering a licence to a private sector operator is in line with HIE's stated intention on taking over CMR; however, opposition may be received from environmental groups concerned by the effects of any increased and/or different use of the attraction.	4		
8	OPERATIONAL INVOLVEMENT		10	5%	0.50
		No operational involvement required from HIE.	10		
9	RISK MANAGEMENT		8	10%	0.80
		This option brings the private sector operator's commercial risk management capabilities to CMR eg around opex, capex, maintenance, diversification. Experienced operators would be expected to have additional relevant experience, eg environmental management.	8		
	Total Score		67	100%	7.613

	Cairngorm Options Appraisal - Qualitative Evaluation Criteria JV				
	CRITERIA	Rationale for scoring	Raw Score	Weighting Factor	Weighted Score
1	STRATEGIC FIT		6	15%	0.90
1a	HIE Objectives	Bringing in a private sector partner under the JV model would be expected to move to year-round operation and tourism and diversity of attractions, creating a visitor attraction that will benefit H&Is. A year round approach is expected to deliver more professional full time employment, in line with HIE's goal for economic development.	8	25%	2.00
1b	HIE Business Model	The non-core activity of operation of the CMR remains with HIE. Indeed, as JV partner HIE would take an increased role compared to the current model.	1	25%	0.25
1c	Tourism	A significantly improved CMR facility, run with the skills and tourism-marketing experience of a private sector partner will help promote tourism in the region.	8	25%	2.00
1d	Environment	The use of a private sector partner brings risk of non-compliance with the EU Habitats and Wild Birds Directives; however, this would be mitigated by HIE's role and through stringent requirements in the licence agreement and legal requirements, and the operator could be expected to make the environment one of the key touchstones of the Cairngorm Mountain Resort.	7	25%	1.75
2	CAPABILITY		8.00	20%	1.60
2a	Commerciality	A private sector partner would provide enhanced long-term commercial viability for the visitor attraction, as they would bring appropriate skill sets, experience and sectoral understanding. Opportunity for market to be forthcoming with most commercial solution. However, HIE as JV partner may restrict it from exploiting these skills to the full.	8	25%	2.00
2b	Environmental	The need for ongoing environmentally sensitive management would be addressed under the JV agreement and associated restrictions. HIE's role as JV partner would also bring additional assurance.	8	25%	2.00
2c	Community	A private sector partner is likely to seek benefits and opportunities from engaging with wider destination attractions, and requirements to do so could be incorporated in the licence requirements. HIE's role as JV partner would give it a say in this as well.	8	25%	2.00
2d	Health & Safety	The selected private sector partner will be required to demonstrate its ability to deliver approporiate health & safety standards	8	25%	2.00
3	CAPACITY		7	15%	1.05
		A private sector partner could be expected to bring the requisite resource to successfully deliver enhanced commercial return, including staff resources and operational involvement from suitably experienced senior management. Its room to manouevre may be restricted by HIE as JV partner.	7		
4	CAPITAL INVESTMENT		5	15%	0.75
		A private sector partner would be expected to be able to fund the requisite capital investment and ongoing maintenance requirements, either through commercial debt raised against a robust business plan for the development or through corporate finance. However, HIE would be expected to fund 50% of any investment and any such commerical funding would be likely to require some form of indemnity from HIE.	5		
5	OPERATIONAL EFFICIENCIES		7	10%	0.70
		The private sector partner is expected to bring clear opportunities for driving operational efficiencies through relevant experience, expertise of management, economies of scale or strategic partnerships. However, its room to manouevre may be restricted by HIE as JV partner.	7		
6	ACCOUNTABILITY & GOVERNANCE		8	5%	0.40
		HIE will have transparency and comfort over the ongoing delivery of the appropriate contractual arrangements of HIE's enduring interest in the visitor attraction through 50% ownership of the JV.	8		
7	REPUTATION & POLITICAL CONSIDERATIONS		6	5%	0.30
		A JV would be a compromise between the status quo and a licence, so could be viewed as a step towards HIE's stated intention on taking over CMR; however, opposition may still be received from environmental groups concerned by the effects of any increased and/or different use of the attraction.	6		
8	OPERATIONAL INVOLVEMENT		3	5%	0.15
		Operational involvement likely to be required from HIE, but to a lesser extent than under the HIE Direct Control Option.	3		
9	RISK MANAGEMENT		8	10%	0.80
		JV option brings the private sector operator's commercial risk management capabilities to CMR eg around opex, capex, maintenance, diversification. Experienced operators would be expected to have additional relevant experience, eg environmental management.	8		
	Total Score		58	100%	6.650

11. Appendix E – Financial Model – Global Assumptions

This Appendix sets out the global assumptions applied in the Financial Model. Details of assumptions specific to each option are set out in Section 4.4.

Timing

Model start date	01 September 2013
Start of operation	01 September 2013
End of operation	31 August 2038
No of years in operation	25 Years
NPV base date	01 April 2013
RPI Base Date	01 April 2013
RPI Date of first indexation	01 Sept 2013

Macro Economic

RPI Index pa	2.5%
Capex Inflation pa	2.5%
Discount rate for NPV	6.08

Tax assumptions

Corporation tax rate (applied to annual operating surpluses)	23%

Income and Expenditure

Management accounts for the 5 year period from March 2008 to March 2012 have been used for the projection of income and expenditure for the 25 year period. This information was obtained from the Ernst & Young statutory audit team of Cairngorm Mountain Limited. Detailed assumptions related to Income and expenditure are noted below.

Income

- Ski income: Uplift ticket sales and hire income are assumed as Ski Income for the cash flow projections. These are taken up from the ‘Contribution Statement & KPIs’ section of the management accounts.

- Non Ski Income: Non Ski income includes all other income types except uplift and hire income disclosed in the ‘Contribution Statement & KPIs’ section of the management accounts. Non Ski income includes Funicular sales, other ticket sales, catering income from ceilidhs and events, shop income and other income. It should be noted that other income categories such as gain or loss on sale of asset, gain or loss on foreign exchange, Grant Release/Ranger Service and interest receipts are not considered for income projection.

- Daytime Catering income is pro-rated on a per capita basis, based on the skier customer numbers and funicular passenger numbers KPIs.

Expenditure

- Revenue expenditure: Operating expenditure includes wages, commercial expenses and overheads as detailed in the ‘P&L’ section of the management accounts. As the depreciation charge for the year is considered as a non cash flow item, this has been eliminated from the total operating expenditure for the relevant year.

- Capital expenditure: Cash flow projection for the capital expenditure is assumed based on the e-mail received from HIE on 3 May 2012 detailing the assumptions on the attachment named ‘CML Investment List 010512.doc’

12. Appendix F – Financial Model – Base Case Cashflows

Cairngorm Mountain Resort
Options appraisal
ANNUAL CASHFLOW *Case in use: Base Case (CML)*

Annual projected cash flow statement

Annual Period (Number)			**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
Period Start			**01-Sep-13**	**01-Sep-14**	**01-Sep-15**	**01-Sep-16**	**01-Sep-17**	**01-Sep-18**	**01-Sep-19**	**01-Sep-20**	**01-Sep-21**	**01-Sep-22**	**01-Sep-23**	**01-Sep-24**
Period End		**Total**	**31-Aug-14**	**31-Aug-15**	**31-Aug-16**	**31-Aug-17**	**31-Aug-18**	**31-Aug-19**	**31-Aug-20**	**31-Aug-21**	**31-Aug-22**	**31-Aug-23**	**31-Aug-24**	**31-Aug-25**
Operating Cashflows														
	Ski Income	63,229,150	1,851,092	1,897,369	1,944,803	1,993,423	2,043,259	2,094,340	2,146,699	2,200,366	2,255,375	2,311,760	2,369,554	2,428,793
	Non Ski Income	65,341,473	1,912,932	1,960,755	2,009,774	2,060,018	2,111,519	2,164,307	2,218,414	2,273,875	2,330,722	2,388,990	2,448,714	2,509,932
	Total Income	128,570,623	3,764,023	3,858,124	3,954,577	4,053,442	4,154,778	4,258,647	4,365,113	4,474,241	4,586,097	4,700,749	4,818,268	4,938,725
	Operating Expenditure	(126,655,344)	(3,707,952)	(3,800,651)	(3,895,667)	(3,993,059)	(4,092,885)	(4,195,207)	(4,300,087)	(4,407,590)	(4,517,779)	(4,630,724)	(4,746,492)	(4,865,154)
	Maintenance and Lifecycle cost	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Cashflow - surplus / (deficit)		**1,915,278**	**56,072**	**57,473**	**58,910**	**60,383**	**61,892**	**63,440**	**65,026**	**66,651**	**68,318**	**70,026**	**71,776**	**73,571**
Corporation Tax		(440,514)	(12,896)	(13,219)	(13,549)	(13,888)	(14,235)	(14,591)	(14,956)	(15,330)	(15,713)	(16,106)	(16,509)	(16,921)
Total Operating Cashflow - surplus / (deficit)		**1,474,764**	**43,175**	**44,254**	**45,361**	**46,495**	**47,657**	**48,849**	**50,070**	**51,322**	**52,605**	**53,920**	**55,268**	**56,649**
Total Capex		**(8,657,143)**	**(391,208)**	**(400,989)**	**(411,013)**	**(110,381)**	**(113,141)**	**(1,855,509)**	**(118,869)**	**(121,840)**	**(124,886)**	**(488,566)**	**(500,780)**	**(513,299)**
Net cash flow		**(7,182,379)**	**(348,033)**	**(356,734)**	**(365,652)**	**(63,886)**	**(65,484)**	**(1,806,661)**	**(68,799)**	**(70,519)**	**(72,282)**	**(434,646)**	**(445,512)**	**(456,650)**
Share of Cash flows														
Profit share														
	HIE profit share	1,474,764	43,175	44,254	45,361	46,495	47,657	48,849	50,070	51,322	52,605	53,920	55,268	56,649
	Contractor profit share	-	-	-	-	-	-	-	-	-	-	-	-	-
Capex														
	HIE capital expenditure	(8,657,143)	(391,208)	(400,989)	(411,013)	(110,381)	(113,141)	(1,855,509)	(118,869)	(121,840)	(124,886)	(488,566)	(500,780)	(513,299)
	Private sector partner capital expend	-	-	-	-	-	-	-	-	-	-	-	-	-
Net HIE cashflow		**(7,182,379)**	**(348,033)**	**(356,734)**	**(365,652)**	**(63,886)**	**(65,484)**	**(1,806,661)**	**(68,799)**	**(70,519)**	**(72,282)**	**(434,646)**	**(445,512)**	**(456,650)**
	NPV of HIE Cash flows	**(4,192,090)**												

Case in use: Base Case (CML)

Annual projected cash flow statement

Annual Period (Number)		**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**	**21**	**22**	**23**	**24**	**25**
Period Start		**01-Sep-25**	**01-Sep-26**	**01-Sep-27**	**01-Sep-28**	**01-Sep-29**	**01-Sep-30**	**01-Sep-31**	**01-Sep-32**	**01-Sep-33**	**01-Sep-34**	**01-Sep-35**	**01-Sep-36**	**01-Sep-37**
Period End		**31-Aug-26**	**31-Aug-27**	**31-Aug-28**	**31-Aug-29**	**31-Aug-30**	**31-Aug-31**	**31-Aug-32**	**31-Aug-33**	**31-Aug-34**	**31-Aug-35**	**31-Aug-36**	**31-Aug-37**	**31-Aug-38**
Operating Cashflows														
	Ski Income	2,489,512	2,551,750	2,615,544	2,680,933	2,747,956	2,816,655	2,887,071	2,959,248	3,033,229	3,109,060	3,186,786	3,266,456	3,348,117
	Non Ski Income	2,572,681	2,636,998	2,702,923	2,770,496	2,839,758	2,910,752	2,983,521	3,058,109	3,134,561	3,212,926	3,293,249	3,375,580	3,459,969
	Total Income	5,062,193	5,188,748	5,318,467	5,451,428	5,587,714	5,727,407	5,870,592	6,017,357	6,167,791	6,321,985	6,480,035	6,642,036	6,808,087
	Operating Expenditure	(4,986,783)	(5,111,453)	(5,239,239)	(5,370,220)	(5,504,475)	(5,642,087)	(5,783,139)	(5,927,718)	(6,075,911)	(6,227,809)	(6,383,504)	(6,543,091)	(6,706,669)
	Maintenance and Lifecycle cost	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Cashflow - surplus / (deficit)		**75,410**	**77,295**	**79,228**	**81,208**	**83,239**	**85,319**	**87,452**	**89,639**	**91,880**	**94,177**	**96,531**	**98,944**	**101,418**
Corporation Tax		(17,344)	(17,778)	(18,222)	(18,678)	(19,145)	(19,623)	(20,114)	(20,617)	(21,132)	(21,661)	(22,202)	(22,757)	(23,326)
Total Operating Cashflow - surplus / (deficit)		**58,066**	**59,517**	**61,005**	**62,530**	**64,094**	**65,696**	**67,338**	**69,022**	**70,747**	**72,516**	**74,329**	**76,187**	**78,092**
Total Capex		**(137,851)**	**(141,297)**	**(144,830)**	**(148,451)**	**(152,162)**	**(155,966)**	**(159,865)**	**(625,405)**	**(641,040)**	**(657,066)**	**(176,461)**	**(180,873)**	**(185,394)**
Net cash flow		**(79,785)**	**(81,780)**	**(83,825)**	**(85,920)**	**(88,068)**	**(90,270)**	**(92,527)**	**(556,383)**	**(570,293)**	**(584,550)**	**(102,132)**	**(104,685)**	**(107,303)**
Share of Cash flows														
Profit share														
	HIE profit share	58,066	59,517	61,005	62,530	64,094	65,696	67,338	69,022	70,747	72,516	74,329	76,187	78,092
	Contractor profit share	-	-	-	-	-	-	-	-	-	-	-	-	-
Capex														
	HIE capital expenditure	(137,851)	(141,297)	(144,830)	(148,451)	(152,162)	(155,966)	(159,865)	(625,405)	(641,040)	(657,066)	(176,461)	(180,873)	(185,394)
	Private sector partner capital expenditure	-	-	-	-	-	-	-	-	-	-	-	-	-
Net HIE cashflow		**(79,785)**	**(81,780)**	**(83,825)**	**(85,920)**	**(88,068)**	**(90,270)**	**(92,527)**	**(556,383)**	**(570,293)**	**(584,550)**	**(102,132)**	**(104,685)**	**(107,303)**

13. Appendix G – Financial Model – Enhanced Base Case Cashflows

Cairngorm Mountain Resort
Options appraisal
ANNUAL CASHFLOW *Case in use: Enhanced Base Case (CML)*

Annual projected cash flow statement

		Total	1	2	3	4	5	6	7	8	9	10	11	12
Annual Period (Number)			**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
Period Start			01-Sep-13	01-Sep-14	01-Sep-15	01-Sep-16	01-Sep-17	01-Sep-18	01-Sep-19	01-Sep-20	01-Sep-21	01-Sep-22	01-Sep-23	01-Sep-24
Period End		**Total**	31-Aug-14	31-Aug-15	31-Aug-16	31-Aug-17	31-Aug-18	31-Aug-19	31-Aug-20	31-Aug-21	31-Aug-22	31-Aug-23	31-Aug-24	31-Aug-25
Operating Cashflows														
	Ski Income	63,229,150	1,851,092	1,897,369	1,944,803	1,993,423	2,043,259	2,094,340	2,146,699	2,200,366	2,255,375	2,311,760	2,369,554	2,428,793
	Non Ski Income	68,264,602	1,912,932	1,960,755	2,029,872	2,101,425	2,175,500	2,252,186	2,331,576	2,389,865	2,449,612	2,510,852	2,573,623	2,637,964
	Total Income	131,493,752	3,764,023	3,858,124	3,974,675	4,094,848	4,218,759	4,346,527	4,478,275	4,590,231	4,704,987	4,822,612	4,943,177	5,066,757
	Operating Expenditure	(123,003,855)	(3,670,872)	(3,725,018)	(3,779,962)	(3,874,461)	(3,971,322)	(4,070,605)	(4,172,370)	(4,276,680)	(4,383,597)	(4,493,187)	(4,605,516)	(4,720,654)
	Maintenance and Lifecycle cost	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Cashflow - surplus / (deficit)		**8,489,897**	**93,151**	**133,106**	**194,713**	**220,387**	**247,436**	**275,921**	**305,904**	**313,552**	**321,391**	**329,425**	**337,661**	**346,102**
Corporation Tax		(1,952,676)	(21,425)	(30,614)	(44,784)	(50,689)	(56,910)	(63,462)	(70,358)	(72,117)	(73,920)	(75,768)	(77,662)	(79,604)
Total Operating Cashflow - surplus / (deficit)		**6,537,221**	**71,726**	**102,492**	**149,929**	**169,698**	**190,526**	**212,459**	**235,546**	**241,435**	**247,471**	**253,657**	**259,999**	**266,499**
Total Capex		**(8,657,143)**	**(391,208)**	**(400,989)**	**(411,013)**	**(110,381)**	**(113,141)**	**(1,855,509)**	**(118,869)**	**(121,840)**	**(124,886)**	**(488,566)**	**(500,780)**	**(513,299)**
Net cash flow		**(2,119,922)**	**(319,482)**	**(298,497)**	**(261,084)**	**59,317**	**77,385**	**(1,643,050)**	**116,678**	**119,595**	**122,584**	**(234,908)**	**(240,781)**	**(246,800)**
Share of Cash flows														
Profit share														
	HIE profit share	6,537,221	71,726	102,492	149,929	169,698	190,526	212,459	235,546	241,435	247,471	253,657	259,999	266,499
	Contractor profit share	-	-	-	-	-	-	-	-	-	-	-	-	-
Capex														
	HIE capital expenditure	(8,657,143)	(391,208)	(400,989)	(411,013)	(110,381)	(113,141)	(1,855,509)	(118,869)	(121,840)	(124,886)	(488,566)	(500,780)	(513,299)
	Private sector partner capital expend	-	-	-	-	-	-	-	-	-	-	-	-	-
Net HIE cashflow		**(2,119,922)**	**(319,482)**	**(298,497)**	**(261,084)**	**59,317**	**77,385**	**(1,643,050)**	**116,678**	**119,595**	**122,584**	**(234,908)**	**(240,781)**	**(246,800)**
	NPV of HIE Cash flows	**(1,832,965)**												

Case in use: Enhanced Base Case (CML)

Annual projected cash flow statement

Annual Period (Number)	**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**	**21**	**22**	**23**	**24**	**25**
Period Start	**01-Sep-25**	**01-Sep-26**	**01-Sep-27**	**01-Sep-28**	**01-Sep-29**	**01-Sep-30**	**01-Sep-31**	**01-Sep-32**	**01-Sep-33**	**01-Sep-34**	**01-Sep-35**	**01-Sep-36**	**01-Sep-37**
Period End	**31-Aug-26**	**31-Aug-27**	**31-Aug-28**	**31-Aug-29**	**31-Aug-30**	**31-Aug-31**	**31-Aug-32**	**31-Aug-33**	**31-Aug-34**	**31-Aug-35**	**31-Aug-36**	**31-Aug-37**	**31-Aug-38**
Operating Cashflows													
Ski Income	2,489,512	2,551,750	2,615,544	2,680,933	2,747,956	2,816,655	2,887,071	2,959,248	3,033,229	3,109,060	3,186,786	3,266,456	3,348,117
Non Ski Income	2,703,913	2,771,511	2,840,799	2,911,819	2,984,614	3,059,230	3,135,710	3,214,103	3,294,456	3,376,817	3,461,237	3,547,768	3,636,463
Total Income	5,193,426	5,323,261	5,456,343	5,592,751	5,732,570	5,875,884	6,022,781	6,173,351	6,327,685	6,485,877	6,648,024	6,814,224	6,984,580
Operating Expenditure	(4,838,671)	(4,959,637)	(5,083,628)	(5,210,719)	(5,340,987)	(5,474,512)	(5,611,374)	(5,751,659)	(5,895,450)	(6,042,837)	(6,193,907)	(6,348,755)	(6,507,474)
Maintenance and Lifecycle cost	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Cashflow - surplus / (deficit)	**354,755**	**363,624**	**372,714**	**382,032**	**391,583**	**401,373**	**411,407**	**421,692**	**432,235**	**443,040**	**454,116**	**465,469**	**477,106**
Corporation Tax	(81,594)	(83,633)	(85,724)	(87,867)	(90,064)	(92,316)	(94,624)	(96,989)	(99,414)	(101,899)	(104,447)	(107,058)	(109,734)
Total Operating Cashflow - surplus / (deficit)	**273,161**	**279,990**	**286,990**	**294,165**	**301,519**	**309,057**	**316,783**	**324,703**	**332,821**	**341,141**	**349,670**	**358,411**	**367,372**
Total Capex	**(137,851)**	**(141,297)**	**(144,830)**	**(148,451)**	**(152,162)**	**(155,966)**	**(159,865)**	**(625,405)**	**(641,040)**	**(657,066)**	**(176,461)**	**(180,873)**	**(185,394)**
Net cash flow	**135,310**	**138,693**	**142,160**	**145,714**	**149,357**	**153,091**	**156,918**	**(300,702)**	**(308,220)**	**(315,925)**	**173,209**	**177,539**	**181,977**
Share of Cash flows													
Profit share													
HIE profit share	273,161	279,990	286,990	294,165	301,519	309,057	316,783	324,703	332,821	341,141	349,670	358,411	367,372
Contractor profit share	-	-	-	-	-	-	-	-	-	-	-	-	-
Capex													
HIE capital expenditure	(137,851)	(141,297)	(144,830)	(148,451)	(152,162)	(155,966)	(159,865)	(625,405)	(641,040)	(657,066)	(176,461)	(180,873)	(185,394)
Private sector partner capital expenditure	-	-	-	-	-	-	-	-	-	-	-	-	-
Net HIE cashflow	**135,310**	**138,693**	**142,160**	**145,714**	**149,357**	**153,091**	**156,918**	**(300,702)**	**(308,220)**	**(315,925)**	**173,209**	**177,539**	**181,977**

14. Appendix H – Financial Model – HIE Direct Control Cashflows

Cairngorm Mountain Resort
Options appraisal
ANNUAL CASHFLOW *Case in use: HIE Direct Control*

Annual projected cash flow statement

		Total	1	2	3	4	5	6	7	8	9	10	11	12
Annual Period (Number)			1	2	3	4	5	6	7	8	9	10	11	12
Period Start			01-Sep-13	01-Sep-14	01-Sep-15	01-Sep-16	01-Sep-17	01-Sep-18	01-Sep-19	01-Sep-20	01-Sep-21	01-Sep-22	01-Sep-23	01-Sep-24
Period End		**Total**	31-Aug-14	31-Aug-15	31-Aug-16	31-Aug-17	31-Aug-18	31-Aug-19	31-Aug-20	31-Aug-21	31-Aug-22	31-Aug-23	31-Aug-24	31-Aug-25
Operating Cashflows														
	Ski Income	63,229,150	1,851,092	1,897,369	1,944,803	1,993,423	2,043,259	2,094,340	2,146,699	2,200,366	2,255,375	2,311,760	2,369,554	2,428,793
	Non Ski Income	71,301,541	1,912,932	1,960,755	2,049,969	2,143,243	2,240,761	2,342,715	2,449,309	2,510,541	2,573,305	2,637,638	2,703,579	2,771,168
	Total Income	134,530,691	3,764,023	3,858,124	3,994,773	4,136,666	4,284,019	4,437,055	4,596,008	4,710,908	4,828,680	4,949,397	5,073,132	5,199,961
	Operating Expenditure	(126,655,344)	(3,707,952)	(3,800,651)	(3,895,667)	(3,993,059)	(4,092,885)	(4,195,207)	(4,300,087)	(4,407,590)	(4,517,779)	(4,630,724)	(4,746,492)	(4,865,154)
	Maintenance and Lifecycle cost	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Cashflow - surplus / (deficit)		**7,875,347**	**56,072**	**57,473**	**99,106**	**143,608**	**191,134**	**241,848**	**295,920**	**303,318**	**310,901**	**318,674**	**326,640**	**334,806**
Corporation Tax		(1,811,330)	(12,896)	(13,219)	(22,794)	(33,030)	(43,961)	(55,625)	(68,062)	(69,763)	(71,507)	(73,295)	(75,127)	(77,005)
Total Operating Cashflow - surplus / (deficit)		**6,064,017**	**43,175**	**44,254**	**76,311**	**110,578**	**147,173**	**186,223**	**227,859**	**233,555**	**239,394**	**245,379**	**251,513**	**257,801**
Total Capex		**(8,657,143)**	**(391,208)**	**(400,989)**	**(411,013)**	**(110,381)**	**(113,141)**	**(1,855,509)**	**(118,869)**	**(121,840)**	**(124,886)**	**(488,566)**	**(500,780)**	**(513,299)**
Net cash flow		**(2,593,126)**	**(348,033)**	**(356,734)**	**(334,702)**	**197**	**34,033**	**(1,669,286)**	**108,990**	**111,715**	**114,508**	**(243,187)**	**(249,267)**	**(255,498)**
Share of Cash flows														
Profit share														
	HIE profit share	6,064,017	43,175	44,254	76,311	110,578	147,173	186,223	227,859	233,555	239,394	245,379	251,513	257,801
	Contractor profit share	-	-	-	-	-	-	-	-	-	-	-	-	-
Capex														
	HIE capital expenditure	(8,657,143)	(391,208)	(400,989)	(411,013)	(110,381)	(113,141)	(1,855,509)	(118,869)	(121,840)	(124,886)	(488,566)	(500,780)	(513,299)
	Private sector partner capital expend	-	-	-	-	-	-	-	-	-	-	-	-	-
Net HIE cashflow		**(2,593,126)**	**(348,033)**	**(356,734)**	**(334,702)**	**197**	**34,033**	**(1,669,286)**	**108,990**	**111,715**	**114,508**	**(243,187)**	**(249,267)**	**(255,498)**
	NPV of HIE Cash flows	**(2,161,538)**												

Case in use: HIE Direct Control

Annual projected cash flow statement

Annual Period (Number)		**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**	**21**	**22**	**23**	**24**	**25**
Period Start		01-Sep-25	01-Sep-26	01-Sep-27	01-Sep-28	01-Sep-29	01-Sep-30	01-Sep-31	01-Sep-32	01-Sep-33	01-Sep-34	01-Sep-35	01-Sep-36	01-Sep-37
Period End		31-Aug-26	31-Aug-27	31-Aug-28	31-Aug-29	31-Aug-30	31-Aug-31	31-Aug-32	31-Aug-33	31-Aug-34	31-Aug-35	31-Aug-36	31-Aug-37	31-Aug-38
Operating Cashflows														
	Ski Income	2,489,512	2,551,750	2,615,544	2,680,933	2,747,956	2,816,655	2,887,071	2,959,248	3,033,229	3,109,060	3,186,786	3,266,456	3,348,117
	Non Ski Income	2,840,447	2,911,458	2,984,245	3,058,851	3,135,322	3,213,705	3,294,048	3,376,399	3,460,809	3,547,329	3,636,013	3,726,913	3,820,086
	Total Income	5,329,960	5,463,209	5,599,789	5,739,784	5,883,278	6,030,360	6,181,119	6,335,647	6,494,038	6,656,389	6,822,799	6,993,369	7,168,203
	Operating Expenditure	(4,986,783)	(5,111,453)	(5,239,239)	(5,370,220)	(5,504,475)	(5,642,087)	(5,783,139)	(5,927,718)	(6,075,911)	(6,227,809)	(6,383,504)	(6,543,091)	(6,706,669)
	Maintenance and Lifecycle cost	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Cashflow - surplus / (deficit)		**343,177**	**351,756**	**360,550**	**369,564**	**378,803**	**388,273**	**397,980**	**407,929**	**418,127**	**428,581**	**439,295**	**450,278**	**461,534**
Corporation Tax		(78,931)	(80,904)	(82,926)	(85,000)	(87,125)	(89,303)	(91,535)	(93,824)	(96,169)	(98,574)	(101,038)	(103,564)	(106,153)
Total Operating Cashflow - surplus / (deficit)		**264,246**	**270,852**	**277,623**	**284,564**	**291,678**	**298,970**	**306,444**	**314,105**	**321,958**	**330,007**	**338,257**	**346,714**	**355,382**
Total Capex		**(137,851)**	**(141,297)**	**(144,830)**	**(148,451)**	**(152,162)**	**(155,966)**	**(159,865)**	**(625,405)**	**(641,040)**	**(657,066)**	**(176,461)**	**(180,873)**	**(185,394)**
Net cash flow		**126,395**	**129,555**	**132,794**	**136,113**	**139,516**	**143,004**	**146,579**	**(311,300)**	**(319,082)**	**(327,059)**	**161,796**	**165,841**	**169,987**
Share of Cash flows														
Profit share														
	HIE profit share	264,246	270,852	277,623	284,564	291,678	298,970	306,444	314,105	321,958	330,007	338,257	346,714	355,382
	Contractor profit share	-	-	-	-	-	-	-	-	-	-	-	-	-
Capex														
	HIE capital expenditure	(137,851)	(141,297)	(144,830)	(148,451)	(152,162)	(155,966)	(159,865)	(625,405)	(641,040)	(657,066)	(176,461)	(180,873)	(185,394)
	Private sector partner capital expenditure	-	-	-	-	-	-	-	-	-	-	-	-	-
Net HIE cashflow		**126,395**	**129,555**	**132,794**	**136,113**	**139,516**	**143,004**	**146,579**	**(311,300)**	**(319,082)**	**(327,059)**	**161,796**	**165,841**	**169,987**

15. Appendix I – Financial Model – Licence Cashflows

Cairngorm Mountain Resort
Options appraisal
ANNUAL CASHFLOW *Case in use: Licence*

Annual projected cash flow statement

Annual Period (Number)			**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
Period Start			**01-Sep-13**	**01-Sep-14**	**01-Sep-15**	**01-Sep-16**	**01-Sep-17**	**01-Sep-18**	**01-Sep-19**	**01-Sep-20**	**01-Sep-21**	**01-Sep-22**	**01-Sep-23**	**01-Sep-24**
Period End		**Total**	**31-Aug-14**	**31-Aug-15**	**31-Aug-16**	**31-Aug-17**	**31-Aug-18**	**31-Aug-19**	**31-Aug-20**	**31-Aug-21**	**31-Aug-22**	**31-Aug-23**	**31-Aug-24**	**31-Aug-25**
Operating Cashflows														
	Ski Income	68,759,030	1,851,092	1,935,316	1,983,699	2,073,957	2,125,806	2,222,531	2,278,094	2,381,747	2,441,291	2,552,370	2,616,179	2,681,583
	Non Ski Income	74,584,545	1,912,932	1,960,755	2,049,969	2,143,243	2,240,761	2,342,715	2,449,309	2,560,752	2,677,267	2,799,082	2,869,059	2,940,786
	Total Income	143,343,574	3,764,023	3,896,071	4,033,669	4,217,201	4,366,567	4,565,246	4,727,403	4,942,499	5,118,557	5,351,452	5,485,238	5,622,369
	Operating Expenditure	(109,429,186)	(3,930,429)	(3,384,099)	(3,434,015)	(3,484,667)	(3,536,065)	(3,588,222)	(3,677,928)	(3,769,876)	(3,864,123)	(3,960,726)	(4,059,744)	(4,161,238)
	Maintenance and Lifecycle cost	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Cashflow - surplus / (deficit)		**33,914,389**	**(166,406)**	**511,972**	**599,654**	**732,534**	**830,502**	**977,024**	**1,049,475**	**1,172,623**	**1,254,434**	**1,390,726**	**1,425,494**	**1,461,131**
Corporation Tax		(7,838,583)	-	(117,754)	(137,920)	(168,483)	(191,015)	(224,715)	(241,379)	(269,703)	(288,520)	(319,867)	(327,864)	(336,060)
Total Operating Cashflow - surplus / (deficit)		**26,075,806**	**(166,406)**	**394,218**	**461,733**	**564,051**	**639,486**	**752,308**	**808,096**	**902,920**	**965,914**	**1,070,859**	**1,097,630**	**1,125,071**
Total Capex		**(13,012,365)**	**(391,208)**	**(1,188,957)**	**(2,572,871)**	**(804,404)**	**(824,514)**	**(1,855,509)**	**(118,869)**	**(121,840)**	**(124,886)**	**(488,566)**	**(500,780)**	**(513,299)**
Net cash flow		**13,063,441**	**(557,614)**	**(794,739)**	**(2,111,138)**	**(240,352)**	**(185,027)**	**(1,103,201)**	**689,227**	**781,080**	**841,028**	**582,293**	**596,851**	**611,772**
Share of Cash flows														
Profit share														
	HIE profit share	6,518,951	(41,601)	98,555	115,433	141,013	159,872	188,077	202,024	225,730	241,479	267,715	274,408	281,268
	Contractor profit share	19,556,854	(124,804)	295,664	346,300	423,038	479,615	564,231	606,072	677,190	724,436	803,144	823,223	843,803
Capex														
	HIE capital expenditure	(887,959)	(288,708)	(295,926)	(303,324)	-	-	-	-	-	-	-	-	-
	Private sector partner capital expend	(12,124,407)	(102,500)	(893,031)	(2,269,547)	(804,404)	(824,514)	(1,855,509)	(118,869)	(121,840)	(124,886)	(488,566)	(500,780)	(513,299)
Net HIE cashflow		**5,630,993**	**(330,310)**	**(197,371)**	**(187,891)**	**141,013**	**159,872**	**188,077**	**202,024**	**225,730**	**241,479**	**267,715**	**274,408**	**281,268**
	NPV of HIE Cash flows	**2,109,825**												

Case in use: Licence

Annual projected cash flow statement

		13	14	15	16	17	18	19	20	21	22	23	24	25
Annual Period (Number)		**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**	**21**	**22**	**23**	**24**	**25**
Period Start		01-Sep-25	01-Sep-26	01-Sep-27	01-Sep-28	01-Sep-29	01-Sep-30	01-Sep-31	01-Sep-32	01-Sep-33	01-Sep-34	01-Sep-35	01-Sep-36	01-Sep-37
Period End		31-Aug-26	31-Aug-27	31-Aug-28	31-Aug-29	31-Aug-30	31-Aug-31	31-Aug-32	31-Aug-33	31-Aug-34	31-Aug-35	31-Aug-36	31-Aug-37	31-Aug-38
Operating Cashflows														
	Ski Income	2,748,623	2,817,338	2,887,772	2,959,966	3,033,965	3,109,814	3,187,560	3,267,249	3,348,930	3,432,653	3,518,470	3,606,431	3,696,592
	Non Ski Income	3,014,305	3,089,663	3,166,905	3,246,077	3,327,229	3,410,410	3,495,670	3,583,062	3,672,638	3,764,454	3,858,566	3,955,030	4,053,906
	Total Income	5,762,928	5,907,001	6,054,676	6,206,043	6,361,194	6,520,224	6,683,230	6,850,311	7,021,568	7,197,108	7,377,035	7,561,461	7,750,498
	Operating Expenditure	(4,265,269)	(4,371,900)	(4,481,198)	(4,593,228)	(4,708,059)	(4,825,760)	(4,946,404)	(5,070,064)	(5,196,816)	(5,326,736)	(5,459,905)	(5,596,402)	(5,736,312)
	Maintenance and Lifecycle cost	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Cashflow - surplus / (deficit)		**1,497,659**	**1,535,101**	**1,573,478**	**1,612,815**	**1,653,136**	**1,694,464**	**1,736,826**	**1,780,246**	**1,824,753**	**1,870,371**	**1,917,131**	**1,965,059**	**2,014,185**
Corporation Tax		(344,462)	(353,073)	(361,900)	(370,948)	(380,221)	(389,727)	(399,470)	(409,457)	(419,693)	(430,185)	(440,940)	(451,964)	(463,263)
Total Operating Cashflow - surplus / (deficit)		**1,153,198**	**1,182,028**	**1,211,578**	**1,241,868**	**1,272,915**	**1,304,737**	**1,337,356**	**1,370,790**	**1,405,060**	**1,440,186**	**1,476,191**	**1,513,095**	**1,550,923**
Total Capex		**(137,851)**	**(141,297)**	**(144,830)**	**(148,451)**	**(152,162)**	**(155,966)**	**(159,865)**	**(625,405)**	**(641,040)**	**(657,066)**	**(176,461)**	**(180,873)**	**(185,394)**
Net cash flow		**1,015,347**	**1,040,730**	**1,066,749**	**1,093,417**	**1,120,753**	**1,148,772**	**1,177,491**	**745,384**	**764,019**	**783,120**	**1,299,730**	**1,332,223**	**1,365,528**
Share of Cash flows														
Profit share														
	HIE profit share	288,299	295,507	302,895	310,467	318,229	326,184	334,339	342,697	351,265	360,047	369,048	378,274	387,731
	Contractor profit share	864,898	886,521	908,684	931,401	954,686	978,553	1,003,017	1,028,092	1,053,795	1,080,140	1,107,143	1,134,822	1,163,192
Capex														
	HIE capital expenditure	-	-	-	-	-	-	-	-	-	-	-	-	-
	Private sector partner capital expenditure	(137,851)	(141,297)	(144,830)	(148,451)	(152,162)	(155,966)	(159,865)	(625,405)	(641,040)	(657,066)	(176,461)	(180,873)	(185,394)
Net HIE cashflow		**288,299**	**295,507**	**302,895**	**310,467**	**318,229**	**326,184**	**334,339**	**342,697**	**351,265**	**360,047**	**369,048**	**378,274**	**387,731**

16. Appendix J – Financial Model – Joint Venture Cashflows

Cairngorm Mountain Resort
Options appraisal
ANNUAL CASHFLOW *Case in use: JV*

Annual projected cash flow statement

Annual Period (Number)			**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
Period Start			01-Sep-13	01-Sep-14	01-Sep-15	01-Sep-16	01-Sep-17	01-Sep-18	01-Sep-19	01-Sep-20	01-Sep-21	01-Sep-22	01-Sep-23	01-Sep-24
Period End		**Total**	31-Aug-14	31-Aug-15	31-Aug-16	31-Aug-17	31-Aug-18	31-Aug-19	31-Aug-20	31-Aug-21	31-Aug-22	31-Aug-23	31-Aug-24	31-Aug-25
Operating Cashflows														
	Ski Income	65,943,512	1,851,092	1,916,343	1,964,251	2,033,491	2,084,328	2,157,801	2,211,746	2,289,710	2,346,953	2,429,683	2,490,425	2,552,685
	Non Ski Income	71,389,799	1,912,932	1,960,755	2,029,872	2,101,425	2,175,500	2,252,186	2,331,576	2,437,663	2,548,576	2,664,536	2,731,150	2,799,429
	Total Income	137,333,310	3,764,023	3,877,098	3,994,123	4,134,916	4,259,828	4,409,987	4,543,322	4,727,372	4,895,529	5,094,219	5,221,575	5,352,114
	Operating Expenditure	(113,883,008)	(3,930,429)	(3,464,673)	(3,515,777)	(3,567,635)	(3,656,826)	(3,748,246)	(3,841,952)	(3,938,001)	(4,036,451)	(4,137,363)	(4,240,797)	(4,346,817)
	Maintenance and Lifecycle cost	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Cashflow - surplus / (deficit)		**23,450,303**	**(166,406)**	**412,425**	**478,346**	**567,281**	**603,003**	**661,741**	**701,369**	**789,371**	**859,078**	**956,857**	**980,778**	**1,005,297**
Corporation Tax		(5,431,843)	-	(94,858)	(110,020)	(130,475)	(138,691)	(152,200)	(161,315)	(181,555)	(197,588)	(220,077)	(225,579)	(231,218)
Total Operating Cashflow - surplus / (deficit)		**18,018,460**	**(166,406)**	**317,567**	**368,326**	**436,806**	**464,312**	**509,540**	**540,054**	**607,816**	**661,490**	**736,780**	**755,199**	**774,079**
Total Capex		**(13,012,365)**	**(391,208)**	**(1,188,957)**	**(2,572,871)**	**(804,404)**	**(824,514)**	**(1,855,509)**	**(118,869)**	**(121,840)**	**(124,886)**	**(488,566)**	**(500,780)**	**(513,299)**
Net cash flow		**5,006,095**	**(557,614)**	**(871,390)**	**(2,204,545)**	**(367,597)**	**(360,202)**	**(1,345,969)**	**421,186**	**485,976**	**536,603**	**248,214**	**254,419**	**260,780**
Share of Cash flows														
Profit share														
	HIE profit share	9,009,230	(83,203)	158,783	184,163	218,403	232,156	254,770	270,027	303,908	330,745	368,390	377,600	387,040
	Contractor profit share	9,009,230	(83,203)	158,783	184,163	218,403	232,156	254,770	270,027	303,908	330,745	368,390	377,600	387,040
Capex														
	HIE capital expenditure	(6,506,183)	(195,604)	(594,479)	(1,286,436)	(402,202)	(412,257)	(927,755)	(59,434)	(60,920)	(62,443)	(244,283)	(250,390)	(256,650)
	Private sector partner capital expend	(6,506,183)	(195,604)	(594,479)	(1,286,436)	(402,202)	(412,257)	(927,755)	(59,434)	(60,920)	(62,443)	(244,283)	(250,390)	(256,650)
Net HIE cashflow		**2,503,047**	**(278,807)**	**(435,695)**	**(1,102,272)**	**(183,799)**	**(180,101)**	**(672,985)**	**210,593**	**242,988**	**268,302**	**124,107**	**127,210**	**130,390**
	NPV of HIE Cash flows	**(277,595)**												

Case in use: JV

Annual projected cash flow statement

		13	14	15	16	17	18	19	20	21	22	23	24	25
Annual Period (Number)		13	14	15	16	17	18	19	20	21	22	23	24	25
Period Start		01-Sep-25	01-Sep-26	01-Sep-27	01-Sep-28	01-Sep-29	01-Sep-30	01-Sep-31	01-Sep-32	01-Sep-33	01-Sep-34	01-Sep-35	01-Sep-36	01-Sep-37
Period End		31-Aug-26	31-Aug-27	31-Aug-28	31-Aug-29	31-Aug-30	31-Aug-31	31-Aug-32	31-Aug-33	31-Aug-34	31-Aug-35	31-Aug-36	31-Aug-37	31-Aug-38
Operating Cashflows														
	Ski Income	2,616,503	2,681,915	2,748,963	2,817,687	2,888,129	2,960,332	3,034,341	3,110,199	3,187,954	3,267,653	3,349,344	3,433,078	3,518,905
	Non Ski Income	2,869,414	2,941,150	3,014,678	3,090,045	3,167,296	3,246,479	3,327,641	3,410,832	3,496,103	3,583,505	3,673,093	3,764,920	3,859,043
	Total Income	5,485,917	5,623,065	5,763,641	5,907,732	6,055,426	6,206,811	6,361,982	6,521,031	6,684,057	6,851,158	7,022,437	7,197,998	7,377,948
	Operating Expenditure	(4,455,487)	(4,566,874)	(4,681,046)	(4,798,072)	(4,918,024)	(5,040,975)	(5,166,999)	(5,296,174)	(5,428,578)	(5,564,293)	(5,703,400)	(5,845,985)	(5,992,135)
	Maintenance and Lifecycle cost	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Cashflow - surplus / (deficit)		**1,030,430**	**1,056,191**	**1,082,595**	**1,109,660**	**1,137,402**	**1,165,837**	**1,194,983**	**1,224,857**	**1,255,479**	**1,286,866**	**1,319,037**	**1,352,013**	**1,385,814**
Corporation Tax		(236,999)	(242,924)	(248,997)	(255,222)	(261,602)	(268,142)	(274,846)	(281,717)	(288,760)	(295,979)	(303,379)	(310,963)	(318,737)
Total Operating Cashflow - surplus / (deficit)		**793,431**	**813,267**	**833,598**	**854,438**	**875,799**	**897,694**	**920,137**	**943,140**	**966,719**	**990,887**	**1,015,659**	**1,041,050**	**1,067,076**
Total Capex		**(137,851)**	**(141,297)**	**(144,830)**	**(148,451)**	**(152,162)**	**(155,966)**	**(159,865)**	**(625,405)**	**(641,040)**	**(657,066)**	**(176,461)**	**(180,873)**	**(185,394)**
Net cash flow		**655,580**	**671,969**	**688,769**	**705,988**	**723,638**	**741,728**	**760,272**	**317,735**	**325,678**	**333,820**	**839,198**	**860,178**	**881,682**
Share of Cash flows														
Profit share														
	HIE profit share	396,716	406,633	416,799	427,219	437,900	448,847	460,068	471,570	483,359	495,443	507,829	520,525	533,538
	Contractor profit share	396,716	406,633	416,799	427,219	437,900	448,847	460,068	471,570	483,359	495,443	507,829	520,525	533,538
Capex														
	HIE capital expenditure	(68,926)	(70,649)	(72,415)	(74,225)	(76,081)	(77,983)	(79,933)	(312,703)	(320,520)	(328,533)	(88,231)	(90,436)	(92,697)
	Private sector partner capital expenditure	(68,926)	(70,649)	(72,415)	(74,225)	(76,081)	(77,983)	(79,933)	(312,703)	(320,520)	(328,533)	(88,231)	(90,436)	(92,697)
Net HIE cashflow		**327,790**	**335,985**	**344,384**	**352,994**	**361,819**	**370,864**	**380,136**	**158,867**	**162,839**	**166,910**	**419,599**	**430,089**	**440,841**

17. Appendix K – Operational efficiencies

This appendix provides information on the evidence base that supports the operational efficiency assumptions applied to the Licence and Joint Venture ("JV") options in Section 4.4.

Assumptions applied

The assumptions applied in respect of the operational efficiencies achieved under the Licence and JV options and what this means in terms of the overall efficiencies achieved are set out in the table below:

Option	Assumption	Overall efficiency saving equivalent to
Licence	6% increase on the 5 year average in year 1 to reflect the initial costs required in order to generate longer term savings, reducing by 16% in year 2, then 1% cost reductions per annum in years 3 to 6, flat thereafter	14.5%
JV	6% increase on the 5 year average in year 1 to reflect the initial costs required in order to generate longer term savings, reducing by 14% in year 2, then 1% cost reductions per annum in years 3 to 4, flat thereafter	10.7%

Basis for the assumptions

It is widely recognised that outsourcing public sector contracts to the private sector can generate operational efficiencies. In developing the above assumptions, it was considered that the granting of an operating licence to a private sector operator would be equivalent to a project that outsourced soft and hard facilities management.

The industry "rule of thumb" in respect of the efficiencies that can be realised in a soft and hard facilities management outsourcing exercise is that savings in the region of 10% to 15% can be expected, rising to 20% in the case of existing operations that are inefficient.

It was apparent in the market testing exercise that potential operators, especially those with specific knowledge of the Resort, felt that the current operations were inefficient, with particular reference being made to the current staff structure being overly heavy compared to comparable Scottish ski resorts. This would suggest the potential for efficiency savings under the Licence option in the 15% to 20% range. However, the assumption was reduced to 14.5% to adopt a prudent approach and to take into account the restrictions on potential savings that might result from the Resort's geography.

It was assumed that the efficiencies generated by the JV would be slightly lower than those achieved under the Licence option as the private sector partner's freedom to make efficiencies would be reduced by the split in control inherent in a JV.

Empirical evidence

Evidence for the 10% to 15% efficiency range generated by outsourcing and more efficient procurement is provided by a McKinsey study[10] of the NHS and the savings generated by 75 projects between 1997 and 2009. The table below summarises the average savings

[10] McKinsey & Company, *Achieving World Class Productivity in the NHS 2009/10 – 2013/14: Detailing the Size of the Opportunity*, March 2009

generated across of a range of services, the weighted average of which McKinsey found to be 13%, ie within the industry “rule of thumb” range of 10% to 15%.

Area	Efficiency saving	Area	Efficiency saving
Microfilming	50%	Cleaning supplies	19%
Waste removal	43%	Office equipment	19%
Employee food discounts	40%	Travel	18%
Filters	35%	Laboratory equipment	17%
Elevator service	34%	Computer equipment	15%
IT maintenance	30%	Capital equipment	15%
Printing	29%	Telecommunications	14%
Clinical engineering	29%	Consultants	11%
Cardiology products	27%	Facility maintenance	11%
Office supplies	26%	Postage	10%
Business forms	22%	Medical and surgical supplies	9%
IT programming	22%	Miscellaneous hardware	8%
Blood products	21%	Contract labour	8%
Electrical/electronic parts	21%	Linen and laundry	7%
Paint	20%	Laboratory supplies	6%
Plumbing services	20%	Orthopedics	1%
Food services	20%		

Sensitivities

It is evident from the table above that, whilst the weighted average saving was 13%, the range of savings across the different services is very wide, from 50% to 1%. From this it is clear that the opportunity for savings depends on the individual circumstances of the project.

Whilst the 15% operational efficiency assumption applied for the Licence option is based on the market’s view that the current operations at the Resort are inefficient, it is important to test the effect of a lower efficiency rate to understand what this would mean for the Licence option.

For this reason, as described at Section 5.6 an operational efficiency sensitivity was run that assumed a reduced level of savings, as set out in the table below:

Option	Assumption	Overall efficiency saving equivalent to
Licence “base case”	6% increase on the 5 year average in year 1 to reflect the initial costs required in order to generate longer term savings, reducing by 16% in year 2, then 1% cost reductions per annum in years 3 to 6, flat thereafter	14.5%
Licence sensitivity	6% increase on the 5 year average in year 1 to reflect the initial costs required in order to generate longer term savings, reducing by 10% in year 2, but no additional operating efficiencies made after year 2	4.6%

The effect of the sensitivity assumptions on operational efficiencies is to reduce the overall efficiency saving from the Licence “base case” of 14.5% to 4.6%. At this reduced level of operational efficiencies, the Licence case still generates a positive NPV for HIE of £1,037k, which is better than the NPV of the other options under consideration.

However, we note that the pre-finance return on investment for the private sector partner under this assumption falls from 11.9% to 3.7%. This is a low return on investment and we would expect the private sector partner to require support, most likely in the form of a subsidy, were operational efficiencies expected to be this low.

Potential bidders would consider this commercial risk in developing their proposals for the operating the Resort. HIE should be aware of this risk and should be prepared for the eventuality that the Licence option may have to be let as a concession contract, with the operator receiving some form of subsidy payment from HIE. We recommend that HIE seek legal advice in respect of this.