



Growing the Heart in our Community

Slains Community Enterprise Project

Options Appraisal - Opex



Growing the Heart in Our Community Slains Community Enterprise Project Options Appraisal – Opex

INTRODUCTION

This Options Appraisal describes why the project is needed and outlines the associated outcomes as a precursor to discussing three operating scenarios that will achieve different levels of sustainability. The assumptions for each scenario are described and the rationale for choosing one for the business plan and the full application to the Big Lottery Fund is explained.

BACKGROUND INFORMATION

Our project has arisen because of the need for:

- Increased sustainable community space
- Improved community care both locally and in North East Scotland
- Improved and more inclusive access to services
- Performing and visual arts space in the Formartine area
- Managing community resources in an environmentally and socially responsible way

Further details of these needs are given in the separate [‘Options Appraisal – Needs’](#) document.

The outcomes that the project will deliver in addressing the above needs are:

- *Increased financial and social sustainability*
- *Improved quality of life* of both the local and wider community in North East Scotland

- *Increased skills, knowledge and confidence* within our community
- *Improved access to services* for vulnerable and isolated people within the community

Further details about these project outcomes can be found in [CASCT Business Plan, Chapters 4 and 5](#).

Operating Scenarios

The activities associated with meeting the needs and delivering the outcomes involve use of the new facilities. Use of the facilities will generate income. The income generated must be balanced against the potential negative impact of increased numbers of visitors. We have examined three scenarios with different levels of sustainability that cover the likely range of facilities use and income generation.

The scenarios are as follows:

- **Scenario 1 – Worst Financial Case**
Minimal use, lowest income, risk of not meeting outcomes
- **Scenario 2 – Likely Financial Case**
Acceptable use and income to deliver outcomes
- **Scenario 3 – Best Financial Case**
Maximum use, highest income, risk of negative impact on community

For each scenario, we provide a description of the underlying assumptions for the key income streams (e.g. rental of accommodation units) and items of operating expenditure (e.g. staff and salaries). The assumptions are based on market research and consultation with the community.

Scenario 1 – Worst Financial Case

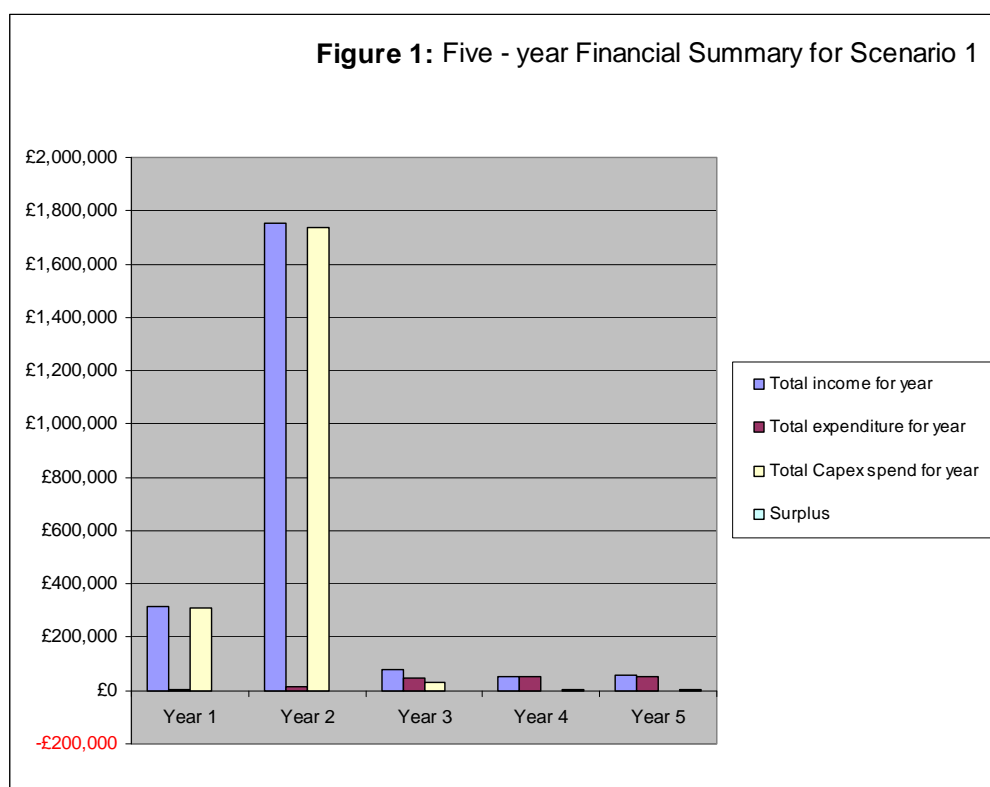
This scenario involves minimal use of the new facilities and as a result does not adversely impact the local community. Operating costs are scaled back in line with use of the facilities, margins on some income streams and rental rates are set at pessimistic levels and provision for reserve funds are significantly lower than may be needed. Even though this scenario achieves sustainability with a surplus of just over £5,000 (Table 1 and Figure 1; [Supporting Documents SD.47](#)), it struggles to meet the project outcomes as there is little growth in community participation in activities and in the social enterprise. With operating grants and excluding reserve funds, the project reaches break even point in June 2012. Without the operating grants and excluding reserve funds, break even point is estimated to be mid 2018.

Table 1: Five year Financial Summary for Scenario 1

Financial year starts Aug 09	Funding period 55 months					Total for period
	Year 1	Year 2	Year 3	Year 4	Year 5	
Total income for year	£315,705	£1,751,877	£78,133	£52,116	£57,419	£2,255,250
Total expenditure for year	£3,770	£15,631	£46,726	£49,817	£53,157	£169,101
Total Capex spend for year	£312,355	£1,737,582	£31,194	£0	£0	£2,081,132
Surplus	-£420	-£1,337	£213	£2,300	£4,262	£5,018
Total Opex grants per year		£6,946	£17,332	£11,946	£4,107	£40,332
Real surplus	-£420	-£8,283	-£17,119	-£9,647	£155	-£35,314
Maintenance accrual	-	£1,000	£3,000	£3,000	£3,000	£10,000
Operating accrual	-	£1,000	£3,000	£3,000	£3,000	£10,000
						£25,018

Notes

- 1 This is the actual operating surplus based on receiving operating grants of 75% for first 12 operating months reducing to 50% for the next 12 operating months and finally to 25% in the final 12 operating months
- 2 This is the surplus minus the operating grants to show the real position if it was not for the grants
- 3 This accrual is already included in the expenditure so is an addition to the surplus and represents a contingency to fund any major repairs
- 4 This accrual is also included in the expenditure so is an addition to the surplus and represents a contingency to fund cash flow and adverse economic impacts
- 5 This shows actual cash at hand at the end of the fifth year in a reserve account



Accommodation Units for Rent

In this scenario we adopt a longer term letting strategy with minimal management and support costs. One of the 2 bedroom accommodation units will be let at a discounted rate to a care agency or local authority. It is envisaged that the agency or local authority will provide the care for any service users, not CASCT. The other 2 bedroom unit is let on a residential basis for only six months in the first year, and the studio flat is let periodically to artists in residence, bird watchers or as holiday lets.

The number of monthly or weekly lets in Scenario 1 is given in Table 2.

Description	Type of rental	Rate (£)	Year 1	Year 2	Year 3	Year 4	Year 5
Flat - monthly	Internal	200	0	0	0	0	0
Flat - monthly	Respite	350	0	0	10	12	12
Flat - monthly	External	400	0	0	6	11	11
Studio flat - weekly	Standard	300	0	0	6	13	21

Table 2: Number of monthly or weekly lets assumed in Scenario 1

Play Group

It is envisaged that play group would pay a nominal fee of £50 per week for the exclusive day-time use of the facility. Whilst initial discussions have taken place, the fee has yet to be agreed with play group. It should be noted, however, that CASCT would have to bear the cost of undertaking maintenance of and repair to the fabric of the play group space. In that context, the proposed fee is seen as being very reasonable. The play group would continue to operate as a business in its own right preserving an existing job.

Rental of facilities

The utilisation of the hall and meeting room has been based on a minimal model. The number of events anticipated per year is shown in Table 3.

Description	Type of rental	Rate (£)	Year 1	Year 2	Year 3	Year 4	Year 5
Meeting room - evening	Internal	5	0	24	48	48	48
Meeting room - evening	External	20	0	3	9	12	12
Meeting room - day	Internal	10	0	0	0	0	0
Meeting room - day	External	75	0	1	3	5	5
Hall - evening	Internal	20	0	1	2	3	4
Hall - evening	External	40	0	1	2	2	4
Hall - all day	Internal	50	0	0	2	0	3
Hall - all day	External	100	0	1	2	6	11

Table 3: Number of events occurring in the new facilities in Scenario 1

In terms of community impact, this scenario involves hosting a maximum of 1 external day-time function a month in the hall and only 3 external evening functions a year in the hall. This level of utilisation is considered to have no adverse impact on the local community.

Café

The figures for café use are based on a conservative model of approximately 2,000 users per year with each spending about £5. The number of users is based on 10% of the annual visitors to the Forvie National Nature Reserve (which is adjacent to the village of Collieston) or 40% of visitors to the Stevenson Centre (which is within 400 metres of the new facility and has no café – see [Supporting Documents SD.25](#)). The margin applied to this activity is 25% and within the cost model we have also allowed for the employment of a part time shop/café assistant.

Art and Gallery

The new facilities will provide a superb Art Exhibition and Gallery space to showcase the work of local and Scottish artists, photographers and crafts people. We have had limited exhibitions in the past and the income is based on historical figures.

Staff and salaries

The staffing levels are matched to the predicted activities. In this minimal use scenario, staff costs are low. It is expected that staff positions will be filled by people from within the local community. The rates of pay applied are in line with the current Aberdeenshire rates for similar positions. For performances, the costs relating to ad hoc staff have been built into the costs of the event, so do not appear in the salaries section of the financial model.

VAT

As the operating turnover does not meet the trigger point of £68,000 for VAT registration, we do not envisage having to register for VAT. However, if in the future, the operating turnover exceeds the trigger, the CASCT's trading subsidiary will register for VAT.

Operating costs

The basic operating costs include utilities, insurance, maintenance, fire inspections, PAT testing, etc. and are based on research from a range of similar halls. The cost of utilities is based on the Buro-Happold energy model for the new facilities and is in line with figures for similar halls (see [Capital Grant Check List 3, Chapter 7](#)). The running costs for the flats will be met by the occupants.

Professional fees

We have estimated £1,500 per year for an accountant to carry out the annual review of the accounts. Preparation of interim financial reports will be carried out by the nominated director with support from the Treasurer.

Scenario 2 – Likely Financial Case

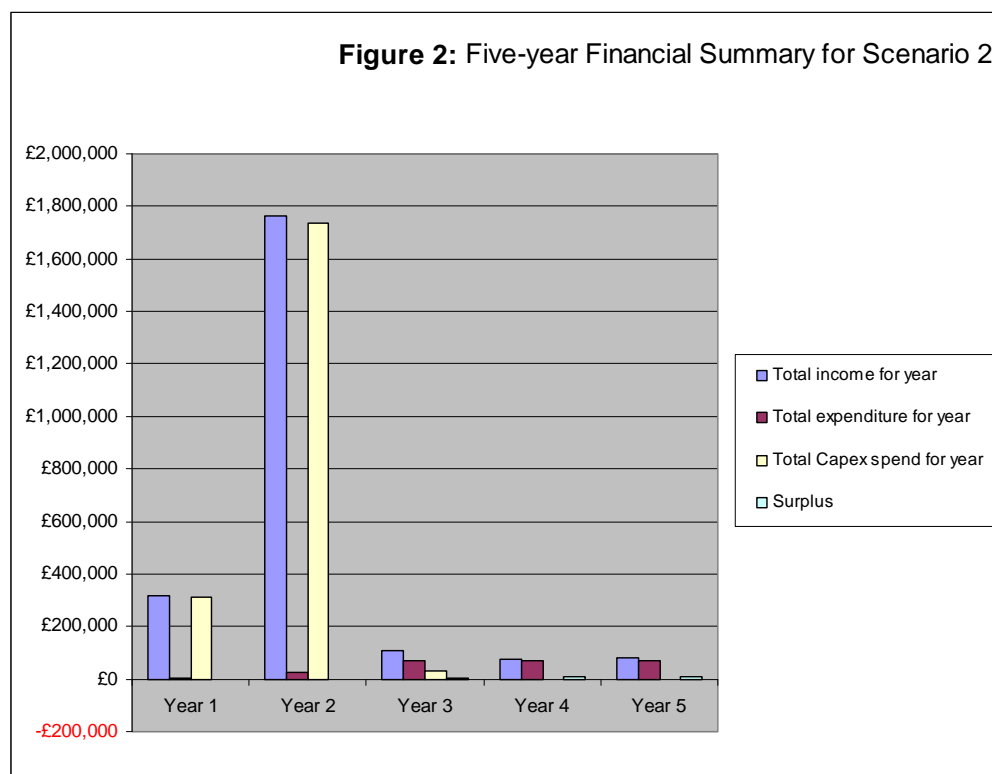
In this scenario, facilities use reflects greater participation in community-based activities than is currently the case. As a result, we will grow the heart in the community and deliver the project outcomes. The potential for this level of use to adversely impact the local community is not considered significant. Operating costs are proportional to facilities use, and margins on income streams and rental rates are based on market research and considered reasonable. Table 4 and Figure 2 show that in this scenario, the project has accumulated a surplus of approximately £17,000, whilst building up reserve funds to cover the risks of any major repairs or extraordinary cash flow problems. With operating grants in place and without building up reserve funds, the project breaks even in April 2012. Without the operating grants and without reserve funds, break even point is March 2016. In the fourth year of operations, we expect to reinvest a minimum of 50% of the annual operating surplus back into the community. Further details of this scenario are given in [CASCT Business Plan, Apx. BP.1](#).

Table 4: Five year Financial Summary for Scenario 2

	Year 1	Year 2	Year 3	Year 4	Year 5	Total for period
Financial year starts April 2010						
Total income for year	£315,955	£1,761,342	£107,783	£76,678	£78,068	£2,339,826
Total expenditure for year	£4,920	£25,546	£70,342	£70,462	£70,162	£241,430
Total Capex spend for year	£312,355	£1,737,582	£31,194	£0	£0	£2,081,132
Surplus	-£1,320	-£1,786	£6,247	£6,217	£7,906	£17,264
Total Opex grants per year		£13,735	£26,838	£16,228	£5,618	£62,419
Real surplus	-£1,320	-£15,521	-£20,592	-£10,012	£2,288	-£45,155
Maintenance accrual	-	2,167	£6,500	£6,500	£6,500	£21,667
Operating accrual	-	1,667	£5,000	£5,000	£5,000	£16,667
						£55,597

Notes

- 1 This is the actual operating surplus based on receiving operating grants of 75% for first 12 operating months reducing to 50% for the next 12 operating months and finally to 25% in the final 12 operating months
- 2 This is the surplus minus the operating grants to show the real position if it was not for the grants
- 3 This accrual is already included in the expenditure so is an addition to the surplus and represents a contingency to fund any major repairs
- 4 This accrual is also included in the expenditure so is an addition to the surplus and represents a contingency to fund cash flow and adverse economic impacts
- 5 This shows actual cash at hand at the end of the fifth year in a reserve account



Accommodation units for Rent

In this scenario we adopt a realistic approach to the utilisation of and rates for the accommodation units ([Supporting Documents SD.49](#)). One of the 2 bedroom accommodation units will be let at a market rate to a care agency or local authority. It is envisaged that the agency or local authority will provide the care for any service users, not CASCT. The other 2 bedroom unit is let at market rates on a residential basis and the studio flat is periodically let to artists in residence, bird watchers or as holiday lets.

The number of monthly or weekly lets in Scenario 2 is given in Table 5.

Description	Type of rental	Rate (£)	Year 1	Year 2	Year 3	Year 4	Year 5
Flat - monthly	Internal	200	0	0	0	0	0
Flat - monthly	Respite	400	0	0	10	12	12
Flat - monthly	External	500	0	1	12	12	12
Studio flat - weekly	Standard	330	0	0	6	16	25

Table 5: Number of monthly or weekly accommodation lets in Scenario 2

Play Group

It is envisaged that play group would pay a rental fee of £75 per week for the use of this exclusive facility. The fee is based on the Play Group's current and expected turnover (see [Supporting Documents SD.18](#)) and the requirement for CASCT to undertake maintenance and repairs to the fabric of the play group space. Consequently, the fee is considered realistic, and while initial discussions have taken place, the fee has yet to be agreed with play group. Play group would continue to operate as a business in its own right preserving an existing job.

Rental of facilities

The utilisation of the hall and meeting room is based on a realistic growth in participation in community-based activities and in the number of external users. Table 6 shows the number of events per year taking place in the facilities.

Description	Type of rental	Rate (£)	Year 1	Year 2	Year 3	Year 4	Year 5
Meeting room - evening	Internal	10	0	20	81	94	114
Meeting room - evening	External	25	0	4	21	27	36
Meeting room - day	Internal	20	0	1	7	7	15
Meeting room - day	External	100	0	0	6	8	12
Hall - evening	Internal	30	0	1	5	7	10
Hall - evening	External	50	0	1	11	14	18
Hall - all day	Internal	60	0	0	2	3	6
Hall - all day	External	150	0	1	4	15	19

Table 6: Number of events occurring in the new facilities in Scenario 2

In terms of community impact, this scenario involves hosting 1-2 external day-time and evening functions a month in the hall. These external events are not thought to create a significant adverse impact on the local community. The level of internal use is considered realistic in terms of delivering project

outcomes and reflects greater community participation in communal activities and in the social enterprise.

Café

The figures for café use are based on a realistic model of approximately 3,000 users per year with each spending about £5. The number of users is based on 15% of the annual visitors to the Forvie National Nature Reserve (which is situated next door to the village of Collieston) or 60% of visitors to the Stevenson Centre (which is within 400 metres of the new facility and has no café – see [Supporting Documents SD.25](#)). We regularly have over 100 visitors to the village on weekend days and during school holidays when the weather is suitable. There are also numerous groups that use the village as a start or end point for walks along the coastal path. The margin applied to café operations is 30% and within the cost model we have also allowed for the employment of a part time shop/café assistant.

Retail outlet

The retail outlet of the enterprise would serve both the local community and visitors now that the shop has closed. It is also likely to host the outreach post office service. It will be a focal point for the sale of local arts, crafts, cards, calendars and local produce.

Art and Gallery

The new facilities will provide a superb Art Exhibition and Gallery space to showcase the work of local and Scottish artists, photographers and crafts people. We have had limited exhibitions in the past and our income is based on historical figures and adjusted for structured growth to capture the full potential of the facilities.

Staff and salaries

The staffing levels are matched to predicted activities. It is expected that all staff positions will be filled by people from within the local community. The rates of pay applied are in line with the current Aberdeenshire rates for similar positions. For performances, the costs relating to ad hoc staff have been built into the costs of the event, so do not appear in the salaries section of the financial model.

VAT

As the operating turnover does meet the trigger point for VAT registration (£68,000), we will take expert advice on how best to manage VAT issues as a social enterprise. We expect that our trading subsidiary will register for VAT.

Operating costs

The basic operating costs include utilities, insurance, maintenance, fire inspections, PAT testing, etc. They reflect higher utilisation of the facilities and are based on research from a number of similar halls. The cost of utilities is based on the Buro-Happold energy model for the new facilities and is in line with figures for similar halls (see [Capital Grant Check List 3, Chapter 7](#)). The running costs for the flats will be met by the occupants.

Professional fees

We have estimated £2,500 per year for an accountant to carry out the annual review of the accounts and to obtain expert VAT advice. Preparation of interim financial reports will be carried out by the nominated director with support from the Treasurer.

Scenario 3 – Best Financial Case

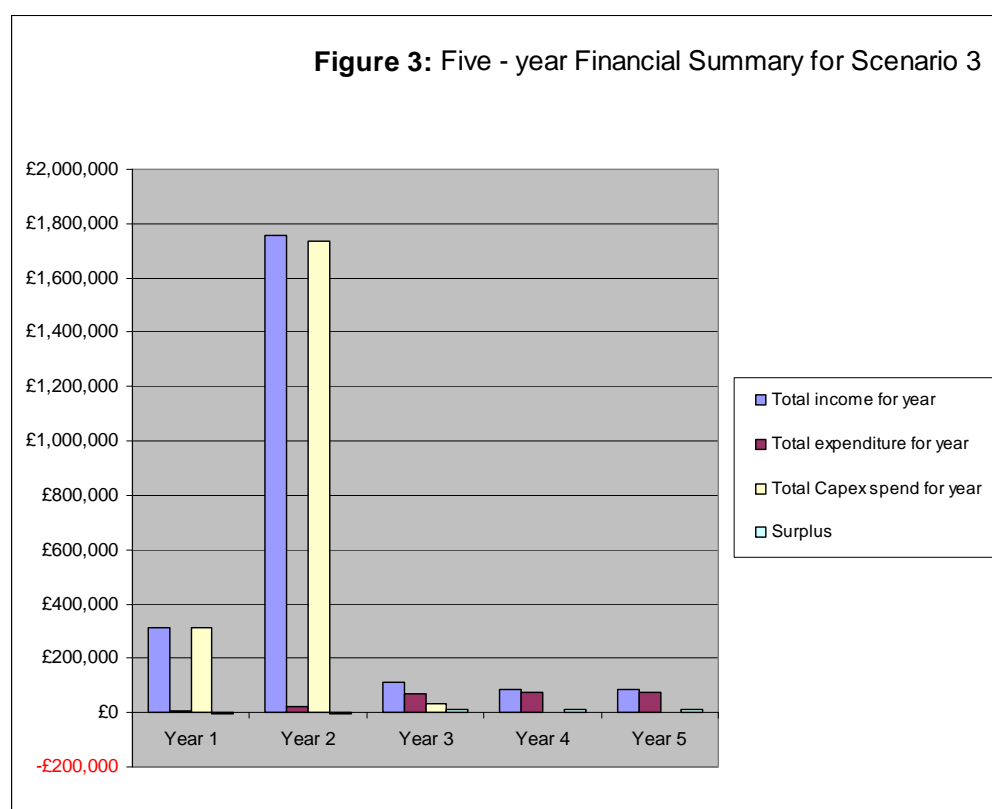
This scenario is judged to be optimistic in terms of growing community participation in activities and in the social enterprise. Less control is exercised over the level of external use, and as such there is a risk that this will adversely affect the local community. Table 7, Figure 3 and [Supporting Documents SD.48](#) show that in this scenario, the project has accumulated a surplus of approximately £25,000, whilst building up contingency funds to cover any major repairs and to mitigate against any extraordinary cash flow issues or adverse economic factors. In the fourth year of operations, we anticipate being able to reinvest a minimum of 50% of the annual operating surplus back into the community. With operating grants in place and excluding reserve funds, the project breaks even in April 2012. Without the operating grants and excluding reserve funds, break even point is February 2015.

Table 7: Five - year Financial Summary for Scenario 3

Financial year starts Aug 09	Year 1	Year 2	Year 3	Year 4	Year 5	Total for period
Total income for year	£314,205	£1,758,544	£111,706	£84,817	£87,587	£2,356,860
Total expenditure for year	£3,910	£22,774	£71,596	£75,710	£76,535	£250,525
Total Capex spend for year	£312,355	£1,737,582	£31,194	£0	£0	£2,081,132
Surplus	-£2,060	-£1,813	£8,916	£9,108	£11,053	£25,203
Total Opex grants per year		£10,328	£25,422	£17,362	£6,037	£59,150
Real surplus	-£2,060	-£12,141	-£16,506	-£8,255	£5,015	-£33,947
Maintenance accrual	-	2,167	£6,500	£6,500	£6,500	£21,667
Operating accrual	-	1,667	£5,000	£5,000	£5,000	£16,667
						£63,537

Notes

- 1 This is the actual operating surplus based on receiving operating grants of 75% for first 12 operating months reducing to 50% for the next 12 operating months and finally to 25% in the final 12 operating months
- 2 This is the surplus minus the operating grants to show the real position if it was not for the grants
- 3 This accrual is already included in the expenditure so is an addition to the surplus and represents a contingency to fund any major repairs
- 4 This accrual is also included in the expenditure so is an addition to the surplus and represents a contingency to fund cash flow and adverse economic impacts
- 5 This shows actual cash at hand at the end of the fifth year in a reserve account



Accommodation units for Rent

In this scenario we charge optimistic rates for the hire of our accommodation units. One of the 2 bedroom units will be let at a strong market rate to a care agency or local authority. It is envisaged that the agency or local authority will provide the care for any service users, not CASCT. The other 2 bedroom unit is marketed and let as respite accommodation where possible otherwise it is let on a residential basis. The studio flat is marketed and let for such activities as holidays, short term lets for artists in residence and bird watchers. The number of monthly or weekly lets in Scenario 3 is given in Table 8.

Description	Type of rental	Rate (£)	Year 1	Year 2	Year 3	Year 4	Year 5
Flat - monthly	Internal	220	0	0	0	0	0
Flat - monthly	Respite	440	0	0	10	12	12
Flat - monthly	External	550	0	1	12	12	12
Studio flat - weekly	Standard	360	0	0	6	16	24

Table 8: Number of monthly or weekly accommodation lets in Scenario 3

Play Group

It is envisaged that play group would pay a rental fee of £75 per week for the use of this exclusive facility. The fee is based on the Play Group's current and expected turnover (see [Supporting Documents SD.18](#)) and the requirement for CASCT to undertake maintenance and repairs to the fabric of the play group space. Consequently, the fee is considered realistic, and while initial discussions have taken place, it has yet to be agreed with play group. Play group would continue to operate as a business in its own right preserving an existing job.

Rental of facilities

The utilisation of the hall and meeting room is based on a realistic growth in participation in community-based activities and in the number of external users. Table 9 shows the number of events per year taking place in the facilities.

Description	Type of rental	Rate (£)	Year 1	Year 2	Year 3	Year 4	Year 5
Meeting room - evening	Internal	10	0	20	81	94	114
Meeting room - evening	External	25	0	4	21	27	36
Meeting room - day	Internal	20	0	1	7	7	15
Meeting room - day	External	100	0	1	6	8	12
Hall - evening	Internal	30	0	1	5	7	10
Hall - evening	External	50	0	1	14	16	21
Hall - all day	Internal	60	0	0	3	5	8
Hall - all day	External	150	0	1	6	17	23

Table 9: Number of events occurring in the new facilities in Scenario 3

In terms of community impact, this scenario involves hosting two external day-time and evening functions a month in the hall. The level of external utilisation of facilities may reach the threshold for negatively impacting the community. If this proved to be the case, then we would increase rates to curb use.

Café

The figures for café use are based on an optimistic model of approximately 4,000 users per year with each spending about £5. The number of users is based on 20% of the annual visitors to the Forvie National Nature Reserve (which is situated next door to the village of Collieston) or 80% of visitors to the Stevenson Centre (which is within 400 metres of the new facility and has no café – see [Supporting Documents SD.25](#)). We regularly have over 100 visitors to the village on weekend days and during school holidays when the weather is suitable. There are also numerous groups that use the village as a start or end point for walks along the coastal path. The margin applied to café operations is 30% and within the cost model we have also allowed for the employment of a part time shop/café assistant.

Retail outlet

The retail outlet of the enterprise would serve both the local community and visitors now that the shop has closed. It is also likely to host the outreach post office service. It will be a focal point for the sale of local arts, crafts, cards, calendars and local produce. The opening hours would be extended and this in turn will increase both income and expenditure.

Art and Gallery

The new facilities will provide a superb Art Exhibition and Gallery space to showcase the work of local and Scottish artists, photographers and crafts people. We have had limited exhibitions in the past and our income is based on historical figures and adjusted for structured growth to capture the full potential of the facilities. This scenario has the greatest number of exhibitions and the higher turnovers in the retail and gallery areas.

Staff and salaries

The staffing levels are matched to predicted activities. It is expected that all staff positions will be filled by people from within the local community. The rates of pay applied are in line with the current Aberdeenshire rates for similar positions. For performances, the costs relating to ad hoc staff have been built into the costs of the event, so do not appear in the salaries section of the financial model. In order to meet the higher level of activities, staff will be required to work longer hours and this is reflected in higher salary costs.

VAT

As the operating turnover does meet the trigger point for VAT registration (£68,000), we will take expert advice on how best to manage VAT issues as a social enterprise. We expect that our trading subsidiary will register for VAT.

Operating costs

The basic operating costs include utilities, insurance, maintenance, fire inspections, PAT testing, etc. They reflect higher utilisation of the facilities and are based on research from a number of similar halls. The cost of utilities is higher than the Buro-Happold energy model for the new facilities and figures for similar halls (see [Capital Grant Check List 3, Chapter 7](#)). The running costs for the flats will be met by the occupants. This scenario has the highest operating costs in line with the highest level of utilisation.

Professional fees

We have estimated £3,000 per year for an accountant to carry out the annual review of the accounts and to obtain expert VAT advice. Preparation of interim financial reports will be carried out by the nominated director with support from the Treasurer.

Summary

We have opted to use Scenario 2 as the basis of the CASCT Business Plan and full application to the Big Lottery Fund. It is the scenario that represents the best compromise between creating a sustainable social enterprise, meeting all our needs and delivering project outcomes offset by external use that has the potential to adversely impact the local community.

Growing the Heart in Our Community Slains Community Enterprise Project

Supporting Documents Index

SD.18 – Letter of Support from Collieston and District Under 5s

SD.25 – Letter of Support, Scottish National Heritage and Visitor Survey

SD.47 – Financial Model Scenario 1 – Worst Case

SD.48 – Financial Model Scenario 3 – Best Case

SD.49 – Local rental rates for flats