COMMUNITY OWNERSHIP SUPPORT SERVICE

Development Trusts Association Scotland

4

MODULE FOUR: FINANCIAL PLANNING

COMMUNITY ASSET TRANSFER

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The Scottish Government
Riaghaltas na h-Alba

The Community Ownership Support Service is funded by the Scottish Government to support the sustainable transfer of public assets into community ownership. This advisor-led service provides communities and public bodies with advice and support on every stage of the asset transfer journey.

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SECTION 1: Contents and Introduction

1.2 Summary

This module aims to provide participants with an understanding of financial planning in the context of community asset transfer and considers:

- Costs/expenditure
- Sources of income
- Preparing financial projections
- Investment appraisal
- Financial stakeholder relationship management

1.3 Financial planning and asset transfer – an overview

Financial planning is the process of identifying financial goals and budgets. There are three components in the financial planning process (See figure 1.1):

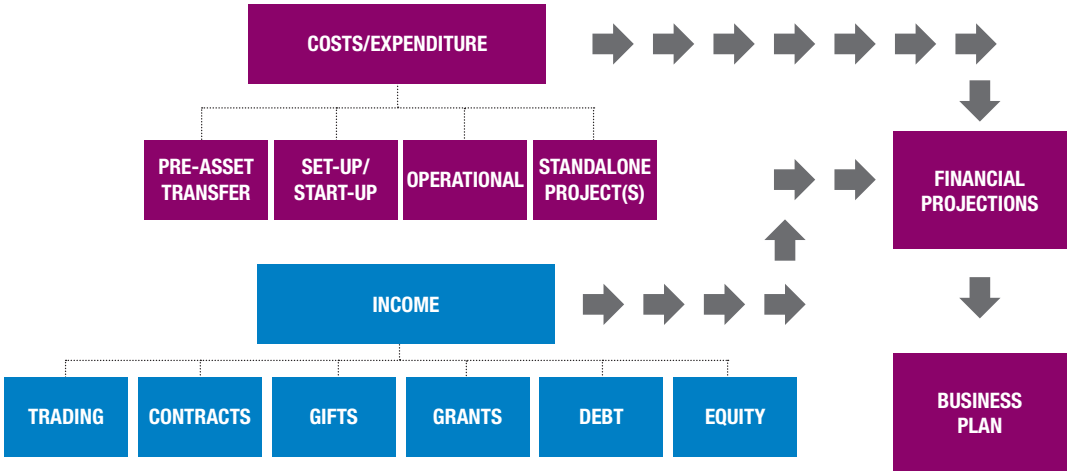
- Estimating costs
- Identifying income
- Preparing financial projections

If preparing a business plan, the financial projections are included in the appendices, and summary financial projections and assumptions are incorporated in the main body of the plan. Financial planning should be rigorous and robust and professional advice should be sought. Importantly, the timeframe for asset transfer financial planning should be beyond the normal 3–5 years, as it should take into account costs associated with the whole of life of an asset. Also, consider the impact of factors such as the changing funding environment, interest rates, inflation and the implications of VAT and tax. Bear in mind that financial planning is an ongoing process and must be continued after an asset has been acquired.

In community asset transfer, financial planning is important for a number of reasons:

- Costing, budgeting and forecasting purposes
- Identifying how much funding is required
- Helping to identify the potential implications of VAT, business rates and other taxes
- Contributes to effective cost control
- Helping to ensure the optimum cash flow position is achieved
- Reducing risk and increases the chances of successful asset transfer
- Helping to make informed decisions
- Establishing if the asset transfer is viable/sustainable
- Understanding the different options for the asset and the implications on the business model. It is often an iterative process in order to establish the interconnection between the asset and the trading model (for example the design and fit-out of a building can have a significant impact on activities and income generation)

Fig 1.1: Financial planning process



1.4 Where asset transfer projects go wrong or experience difficulties

Asset transfer projects can be complex and face many challenges. Understanding those that have been experienced by other projects (see below) and the related financial implications can help avoid or manage these risks. It is therefore important to understand how these may apply to your own project.

- The original business case was not robust or realistic and therefore once the project has been completed it was not financially or operationally viable
- Cost estimates may have become out of date and/or not sufficiently reliable
- Unrealistic project plans and timescales, often not factoring in planning permission, contract negotiation, financing and seasonality
- Risks not effectively understood or mitigated
- Ineffective governance and project management arrangements set up and leading to overspends, uncontrolled project changes and delays
- The legal structure not being appropriate or having sufficient controls (such as an asset lock) and hence impacting funding and the transfer itself
- Liability rather than asset transfer
- The need for a building not properly understood, researched or evidenced
- Lack of effective contracts, agreements, negotiations and controls with contractors may lead to higher than expected costs and disputes
- Business models and stakeholder needs not effectively integrated into building designs and alterations
- Unclear or ineffective accounting and reporting arrangements as well as lack of understanding of accounting treatment and rules for capital projects
- VAT issues not properly understood and incorrect assumptions made
- Financing assumptions often too simplistic and not realistic
- Project forecasts often do not effectively look at the implications for other parts of the organisation (e.g. where there are existing operations) for the period during and after constructions. Examples include impact on board, management and staff time, closures during construction, cash flow etc
- Lack of experience and expertise in the management and control of capital projects including amongst trustees
- Over-specification and ambition for the project such as energy-saving designs that often have considerable upfront and operational costs and do not always deliver

► SECTION 2: Asset Transfer Costs

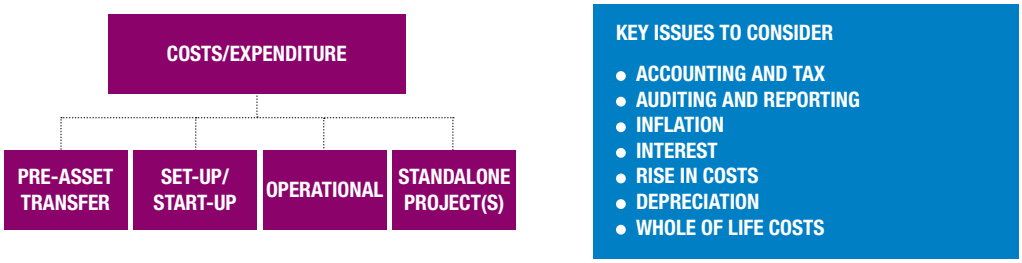
► 2.1 Introduction to asset transfer costs (or expenditure)

The main types of costs (or expenditure) associated with asset transfer (see figure 2.1) are:

- Pre-asset transfer costs
- Set-up or start-up costs
- Operational costs

In addition, there may be costs related to a 'standalone' project(s) set up within an asset, e.g. a café, a gym or a training suite. In this manual, these are considered separately to the asset and are dealt with in section 2.5. However, it may be the case that the asset is the project, e.g. a library, and therefore all costs are dealt with together. The tables used in this manual can be tailored to suit your asset transfer project. When estimating costs, take into account issues such as VAT, tax, accounting, auditing and reporting. Also, consider potential cost increases, as well as the impact a change in inflation or interest might have. Importantly, allow for the depreciation of equipment and 'whole of life' costs of the asset.

Fig 2.1: Asset transfer – costs/expenditure



Pre-asset transfer: the pre-asset transfer stage involves evaluating the feasibility of taking on the asset and ascertaining the costs involved in acquiring and managing the asset. Typical costs incurred at this stage are feasibility studies, options appraisals and planning fees (see section 2.2 for more information about pre-asset transfer costs).

Set-up or start-up: before an asset is operational, there may be initial set-up or start-up costs, e.g. external building work, internal work (including fixtures and fittings and equipment) and external landscaping work (see section 2.3 for more information about asset transfer and set-up or start-up costs). It will also be important to establish any potential liabilities or needs taken on with an asset transfer. For example, any repair needs of a building, contractual commitments, restrictions on use or liabilities such as pensions.

Operational: the costs incurred at this stage are those associated with managing and operating the asset, e.g. utilities, administration and insurance (see section 2.4 for more information about asset transfer and operational costs).

Standalone Project(s): if there are project(s), e.g. a café or an exhibition operating within an asset, it may be useful to consider them as cost centres. If applicable, costs relating to managing the asset and the projects can be apportioned accordingly, e.g. administration costs could be shared between operation and project costs (see section 2.5 for more information about asset transfer and individual or standalone project costs).

2.2 Pre-asset transfer costs

The costs incurred at the pre-asset transfer stage are primarily associated with assessing the feasibility of taking on an asset transfer. Use table 2.1 as a template or plan to help identify pre-transfer costs applicable to your asset transfer project (please note, this list is not exhaustive). You should also include the date the expenditure is expected to be made as timescales can be significant between different costs.

Table 2.1: Pre-asset transfer costs

Pre-transfer costs (examples)	Yes	No	Not sure	Date expenditure to be made	Estimated cost
Appraisal/feasibility					
Options appraisal	○	○	○		
Feasibility study	○	○	○		
Cost benefit analysis	○	○	○		
Business plan	○	○	○		
Market research	○	○	○		
Stakeholder analysis	○	○	○		
Risk assessment	○	○	○		
Best practice visits	○	○	○		
Meetings/consultations	○	○	○		
Community consultation	○	○	○		
Other	○	○	○		
				Total:	
Professional fees					
Architect	○	○	○		
Quantity surveyor	○	○	○		
Building surveyor	○	○	○		
Structural engineer	○	○	○		
Mechanical/electrical engineer	○	○	○		
Project manager/CDM co-ordinator	○	○	○		
Consultant	○	○	○		
Solicitor/legal fees	○	○	○		
Accountant/financial advisor	○	○	○		
Other	○	○	○		
				Total:	

Table 2.1: Pre-asset transfer costs (continued)

Pre-transfer costs (examples)	Yes	No	Not sure	Date expenditure to be made	Estimated cost
Other					
Site investigation	○	○	○		
Land acquisition	○	○	○		
Survey costs (e.g. noise)	○	○	○		
Planning	○	○	○		
Building regulations	○	○	○		
Purchase of initial stock/equipment	○	○	○		
Management/administration	○	○	○		
Volunteer support	○	○	○		
VAT (incurred on the whole feasibility stage)	○	○	○		
Other	○	○	○		
				Total:	

Please note that whether or not the VAT can be recovered will depend upon the overall business model for the project and the VAT position of the organisation. Though VAT incurred at a feasibility stage of community projects may not often be recoverable, professional advice should be sought.

► 2.3 Asset transfer set-up/start-up costs

At the set-up or start-up stage, a number of costs may be incurred and these could be categorised under three main headings:

- Building structure (external and internal) (table 2.2)
- Services, fixtures, fittings and equipment (table 2.3)
- External works (table 2.4)
- Project management and pre-operational (table 2.4a)

Estimating costs can be difficult and professional advice may be needed. Experience of other asset transfer projects consistently show that initial costs are often underestimated (optimism bias) and hence it is important to ensure cost estimates are robust and that there is sufficient contingency.

Depreciation and whole of life costs: it is important to allow for depreciation on equipment and buildings. In asset transfer, it is crucial that whole life costs of the asset are considered, e.g. the costs of new doors in 10 years time.

Use table 2.2 as a template or plan to help identify building structure costs applicable to your asset transfer project (please note, this list is not exhaustive). You should include VAT in the costs unless you have specific advice that it is recoverable (and if so, the amount recoverable).

Table 2.2: Asset transfer set-up costs – building structure

Building structure costs (examples)	Yes	No	Not sure	Date expenditure to be made	Estimated cost
External (build and finish)					
Roof	●	●	●		
Drainage	●	●	●		
External walls/cladding	●	●	●		
Windows	●	●	●		
External doors	●	●	●		
External steps	●	●	●		
Disabled access	●	●	●		
External signs	●	●	●		
Fire, health and safety	●	●	●		
Ceilings	●	●	●		
Internal walls/partitions, skirting	●	●	●		
Internal doors	●	●	●		
Toilet cubicles	●	●	●		
Floors	●	●	●		
Railings	●	●	●		
Shelving	●	●	●		
Internal signs	●	●	●		
Stairs	●	●	●		
Internal steps	●	●	●		
Lifts/disabled access	●	●	●		
Other					
				Total:	

2.3 Asset transfer set-up/start-up costs (cont)

Use table 2.3 as a template or plan to help identify services, fixtures, fittings and equipment applicable to your asset transfer project (please note, this list is not exhaustive).

Table 2.3: Asset transfer set-up costs – services, fixtures, fittings and equipment

Services, fixtures, fittings and equipment costs (examples)	Yes	No	Not sure	Date expenditure to be made	Estimated cost
Heating					
Pipe work/valves					
Radiators					
Boilers					
Other					
				Total:	
Ventilation and air conditioning					
Extraction fans					
Air conditioning system					
Other					
				Total:	
Electrical					
Wiring					
Sockets					
Light fittings					
Light switches					
Other					
				Total:	
Draining and plumbing					
Internal drainage					
Cold water services					
Hot water services					
Other					
				Total:	
Protection					
Security system/equipment					
Fire protection					
Lighting protection					
Health and safety					
Other					
				Total:	

Table 2.3: Asset transfer set-up costs – services, fixtures, fittings and equipment (continued)

Services, fixtures, fittings and equipment costs (examples)	Yes	No	Not sure	Date expenditure to be made	Estimated cost
Toilets/sanitary					
Toilets/urinals	○	○	○		
Sink	○	○	○		
Sanitary equipment	○	○	○		
Hand dryers	○	○	○		
Other	○	○	○		
				Total:	
Kitchen/staff room					
Fixtures and fittings	○	○	○		
Equipment	○	○	○		
Other	○	○	○		
				Total:	
Reception					
Reception, desk and seating	○	○	○		
Foyer seating and decor	○	○	○		
Noticeboards	○	○	○		
Vending	○	○	○		
Electronic displays	○	○	○		
Other	○	○	○		
				Total:	
ICT					
Telephones/switchboard	○	○	○		
Internet	○	○	○		
Computers (hardware)	○	○	○		
Computers (software)	○	○	○		
Other	○	○	○		
				Total:	
Other					
	○	○	○		
	○	○	○		

Use table 2.4 as a template or plan to help identify external works applicable to your asset transfer project (please note, this list not exhaustive).

Table 2.4 Asset transfer set-up costs – external works

External works costs (examples)	Yes	No	Not sure	Date expenditure to be made	Estimated cost
Pathway					
Parking area					
Car parking system					
Perimeter fencing					
Perimeter walls					
Gates					
Landscaping					
Other					
				Total:	

Use table 2.4a as a template or plan to help identify project management and pre-asset external works applicable to your asset transfer project (please note, this list not exhaustive). Be aware that project management costs, especially those under the direct control of the organisation acquiring an asset, are often significantly underestimated.

Table 2.4a: Project management and pre-completion asset transfer operational costs

Project management and pre-asset transfer operational costs	Yes	No	Not sure	Date expenditure to be made	Estimated cost
Project management					
Professional advice					
Pre-transfer commitments (e.g. around staff, pensions, repairs etc)					
Due diligence*					
Other					
				Total:	

* In the case of asset transfer due diligence can relate to a number of areas from the appraisal of potential service providers to governance arrangements put in place to manage the acquisition and development of the asset.

2.4 Asset transfer operational costs

Once an asset is acquired and up and running, there will be operating costs. These include premises overheads, utilities and staffing. Use table 2.5 as a template or plan to help identify operating costs applicable to your asset transfer project (please note, this list is not exhaustive). If operating costs are apportioned, then also provide details of this. There will often be a phase-in period with some operational costs being incurred before the asset is in use whilst other costs will be incurred over a period of time. It is important to understand such timeframes and factor it into expenditure and cash flow forecasts.

Table 2.5: Asset transfer operational costs (including VAT that is not recoverable)

Operating costs (examples)	Yes	No	Not sure	Date expenditure to be made	Estimated cost
Cost of sales/direct sales/variable sales					
Subcontracted property management fees	○	○	○		
Other	○	○	○		
Other	○	○	○		
Other	○	○	○		
				Total:	
Property overheads					
Rent	○	○	○		
Rates	○	○	○		
Other	○	○	○		
Other	○	○	○		
Other	○	○	○		
				Total:	
Utilities					
Electricity	○	○	○		
Gas/heating	○	○	○		
Water	○	○	○		
Waste disposal	○	○	○		
Drainage	○	○	○		
Other	○	○	○		
				Total:	

Table 2.5: Asset transfer operational costs (continued)

Operating costs (examples)	Yes	No	Not sure	Date expenditure to be made	Estimated cost
Staffing					
Recruitment	○	○	○		
Reception/admin staff	○	○	○		
Porter/security/caretaker	○	○	○		
Other staff	○	○	○		
Volunteer costs	○	○	○		
Training/conferences	○	○	○		
Clothing	○	○	○		
Other	○	○	○		
				Total:	
Administration and office					
Telephone	○	○	○		
Postage, sundries	○	○	○		
Photocopying/stationery	○	○	○		
Admin staff	○	○	○		
Other	○	○	○		
				Total:	
Marketing					
Business cards	○	○	○		
Signage	○	○	○		
Advertising	○	○	○		
Digital marketing	○	○	○		
Website	○	○	○		
Other	○	○	○		
				Total:	
Insurance					
Business continuity insurance	○	○	○		
Land, buildings	○	○	○		
Public liability	○	○	○		
Contents insurance	○	○	○		
Employer liability	○	○	○		
Other	○	○	○		
				Total:	

Table 2.5: Asset transfer operational costs (continued)

Operating costs (examples)	Yes	No	Not sure	Date expenditure to be made	Estimated cost
Maintenance					
Building maintenance	○	○	○		
Equipment maintenance	○	○	○		
Computer maintenance	○	○	○		
Equipment compliance	○	○	○		
Grounds maintenance	○	○	○		
Cyclical decoration	○	○	○		
Internal cleaning	○	○	○		
Window cleaning	○	○	○		
Renewals	○	○	○		
Health and safety legislative checks	○	○	○		
Other	○	○	○		
				Total:	
Professional fees					
Accountancy/auditing	○	○	○		
Bookkeeping	○	○	○		
Legal fees	○	○	○		
Membership/subscriptions	○	○	○		
Other	○	○	○		
				Total:	
Finance charges					
Banking	○	○	○		
Loan (interest and capital repayments)	○	○	○		
Card fees	○	○	○		
Other	○	○	○		
Other	○	○	○		
				Total:	
Vehicle					
Fuel	○	○	○		
Tax	○	○	○		
Insurance	○	○	○		
Maintenance/MOT	○	○	○		
Other	○	○	○		
				Total:	

Table 2.5: Asset transfer operational costs (continued)

Operating costs (examples)	Yes	No	Not sure	Date expenditure to be made	Estimated cost
Other					
Leasing					
Licences					
Performing rights					
Sundries					
Catering					
Car parking					
Tax					
VAT (see note below)					
				Total:	
Contingencies					
Bad debt allowance					
Sinking fund					
Contingency fund					
Other					
Other					
				Total:	

VAT – It is essential to understand the implications and impact of VAT on all phases of an asset transfer project. This can vary between each stage significantly. When looking at operational costs, the business model (i.e. income types) needs to be understood in order that the VAT recoverability (if any) can be calculated. Professional advice should be sought.

Other costs

► 2.5 Asset transfer and standalone project costs

In some cases it may be appropriate to cost a project on a standalone basis. This is particularly applicable where there is a trading activity, e.g. café. Use table 2.6 as a template or plan to help identify standalone project costs associated with your asset transfer project (please note, this list is not exhaustive). It is also important to bring the standalone projects into the overall organisation context so that the impact on the whole company can be seen.

Table 2.6: Asset transfer and standalone project costs

Project costs (examples)	Yes	No	Not sure	Date expenditure to be made	Estimated cost
Cost of sales, cost of goods sold, direct costs/variable costs (e.g. stock)					
	○	○	○		
	○	○	○		
	○	○	○		
	○	○	○		
	○	○	○		
	○	○	○		
	○	○	○		
				Total:	
Overhead/fixed costs/indirect costs (e.g. marketing, staffing)					
	○	○	○		
	○	○	○		
	○	○	○		
	○	○	○		
	○	○	○		
	○	○	○		
	○	○	○		
	○	○	○		
	○	○	○		
	○	○	○		
	○	○	○		
	○	○	○		
	○	○	○		
				Total:	
Capital expenditure (e.g. equipment, tools, vehicles)					
	○	○	○		
	○	○	○		
	○	○	○		
	○	○	○		
	○	○	○		
	○	○	○		
	○	○	○		
				Total:	

2.6 Cost recovery

To be sustainable, organisations need to cover all costs and generate a surplus income (or profit). It is important to fully cost projects so that all costs can be recovered. To do this, many third sector organisations are adopting a full cost recovery model, meaning all costs are covered through an appropriate source of income over the lifetime of a project. There are two key steps involved in estimating the full costs of a project:

- Identify all the costs directly associated with the project
- Apportion other costs (if applicable)

If it is appropriate, allocate a portion of the overheads to the project. Some of the common methods of apportioning overheads are:

- Rent and rates – percentage usage of space
- Heat and electricity – percentage usage of space
- Salaries – time allocated
- Equipment/depreciation – percentage of usage
- Accountancy – income allocation

Table 2.7: Apportioning costs

	A	B	C
Project direct costs	**£15,000**	**£25,000**	**£10,000**
Overhead apportionment			
Rent and rates (sq ft)	£6,000	£2,000	£1,000
Core staff (hours)	£8,000	£12,000	£4,000
Office and admin (%)	£3,000	£5,000	£1,000
Total	**£17,000**	**£19,000**	**£6,000**
Total costs	**£32,000**	**£44,000**	**£16,000**

The appropriate full cost recovery model for asset transfer will depend on the form of the asset transfer, the lifetime of the project and the associated costs. As identified in sections 2.1 to 2.5, the main costs to recover are:

- Pre-asset transfer costs
- Set-up/start-up costs
- Operational costs
- Standalone project costs (if applicable)
- Depreciation
- Whole of life costs of an asset

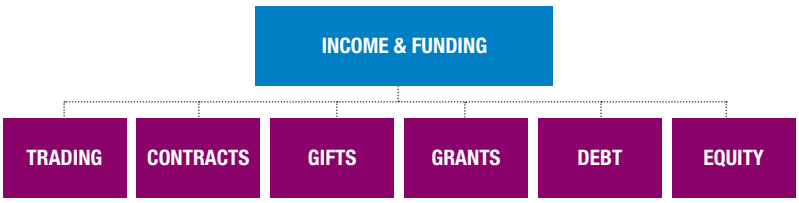
Whole of life costs: with asset transfer, it is important to consider whole of life costs. Therefore, estimate replacement costs such as windows, doors etc. and allow for this in the full cost recovery calculations. A reserve fund can be created to allow for such costs in the future.

► SECTION 3: Income

► 3.1 Sources of income and financial planning

Figure 3.1 provides an overview of the main sources of finance available. Community asset transfer can contribute to the sustainability of third sector organisations in a number of ways, e.g. it opens up trading opportunities and it can help leverage other sources of funding.

Fig 3.1: Sources of income and funding



When considering sources of finance, some financial issues to take into account are the following:

- **Asset transfer agreement:** the terms and conditions of an asset transfer agreement could impact on sources of income, e.g. it may not allow subletting and it could prevent an asset from being offered as security for debt finance. Unless the asset is a heritage asset likely to attract Heritage Lottery funding (where they will consider supporting projects with leases over 22 years), the main grant funders currently only support asset transfer where the community has ownership of the land and buildings. They do not support lease arrangements no matter how long.
- **VAT and taxation:** the implications for VAT and taxation need to be considered, e.g. is there a need to register for VAT and what is the potential tax liability? This can be highly complex and have significant implications in asset transfers and professional advice should be sought.
- **Legal and regulatory issues:** there are laws, standards and codes of practice that place restrictions on certain income sources, e.g. charitable trading and fundraising.
- **Insurance implications:** certain income sources may require an increase in insurance cover, e.g. contracts.
- **Financial risks:** there may be financial risks associated with income sources, e.g. the impact on cash reserves, losing an asset that's been used as security for a loan that couldn't be repaid, and penalties for not delivering a contract on time.
- **People and skills:** accessing alternative sources of finance will have implications for staffing, e.g. the time required to explore/generate new sources of income, the need to develop new skills (e.g. business and procurement), and commercially focused staff may be required.
- **Balancing financial and social objectives:** a foremost challenge for third sector organisations is the need to balance financial and social objectives. Many fear their social objectives will be compromised in the pursuit of sustainability.
- **Financial stakeholder relationship management:** it is important to build and manage meaningful financial stakeholder relationships (see section 6.1 for more information).
- **Opportunity costs:** consider the opportunity costs of accessing new sources of finance, e.g. what funding opportunities were missed because of the time and effort involved in fundraising?
- **Accounting, governance and reporting:** there may be a need to implement new/revised accounting systems, financial governance and reporting measures to meet the requirements of the new income source.
- **Financial planning:** it is important to carry out robust financial planning as costs are often underestimated and income overestimated. This will help to ensure that the proposed income source(s) is a viable option.

In addition to the general finance factors identified in section 3.1, table 3.1 provides an overview of the sources of income and specific financial factors to take into consideration in the financial planning process.

Table 3.1: Source of income and financial planning factors

Sources of income	Financial planning factors (examples)
Trading • Rent fees and charges • Subletting parts of the asset • Venue hire • Subscriptions/member fees • Café • Vending • Admin services • Social enterprise	• Costing and pricing (see section 3.2) • Sales projections (see section 3.3) • Payment method • No. of days credit provided (debtors) • Suppliers payment terms (creditors) • VAT and tax • Sensitivity analysis • Trading restrictions (charity regulations) • Service level agreements
Contracts • Education/training • Recycling services • Cleaning services • Waste collection • Catering services • Repair and maintenance • Health services	• Costing and pricing (see section 3.2) • Procurement process • Payment terms and conditions • Is payment to subcontractors required before payment is made by the contract supplier? • Is VAT included in the contract price? • Penalties • Contracts and service level agreements
Grants • Scottish Government • Local government • Grant making trusts • BIG Lottery Fund • European Union	• Level of grant required • Application process • Payment timings • Terms and conditions, e.g. clawback policies • Restricted or unrestricted income • Match funding • VAT and tax implications
Gifts • Donations • Crowdfunding • Legacy • Bequests • Fundraising events • Raffles • Sponsorship	• Level of gift funding required • Cost of fundraising • Payment method, e.g. online giving • VAT and tax implications e.g. does the fundraising activity qualify for VAT, tax exemption or Gift Aid? • Financial restrictions • Accounting and reporting • Licences
Debt • Overdraft • Bridging loan • Working capital loan • Acquisition loan • Credit card • Hire purchase • Bonds	• Amount required • Application process • Security/collateral (ensure the asset transfer agreement allows the asset to be used as security) • Cost of borrowing • Capital repayments • Interest payments • Credit rating • Terms and conditions (including default)
Equity • Community shares • Venture philanthropy • Impact investors	• Amount required • Timing of payments • VAT and tax implications • Return on investment • Due diligence

3.2 Setting prices

The majority of third sector organisations incorporate a trading model as part of their asset transfer project, e.g. charging rent, venue hire, setting up a café within the building or contracting services. Setting the right price for such goods and services is critical to sustainability and success. Some key questions to take into account when setting a price are:

- Does the price cover all the costs, including depreciation and whole of life costs?
- If appropriate, are relevant costs from the 'parent' organisation covered, e.g. an allocation for administration, accounting and auditing?
- Will the price provide a profit/surplus?
- Can the organisation be competitive in the marketplace?
- How does the price reflect the organisation's image and positioning?
- What price will customers pay?
- What is the mark-up and margin?
- Does the price take inflation into account?

Pricing methods

There are three main pricing methods – value-based pricing, competitor-based pricing and cost plus pricing. The most appropriate will depend on the marketplace, the type of product or service and the organisation.

Table 3.2: Pricing methods

Pricing Method	Benefits	Limitations
Value-based pricing – Sets prices based on the perceived value a product or service has in the marketplace	• Customers will pay a high price for products or services they perceive as high value • May provide higher profit margins • Takes into account market factors such as demand	• Customers may expect a lower price if a product/ service is provided by the third sector • Customer perceptions can quickly change • Requires extensive research
Competitor-based pricing – Sets prices based on what the competition is charging	• Keeps in line with the competition and the marketplace • Social impact can be used as a way to differentiate from competitors charging the same price	• Requires continuous competitor research • Depends on the competitor(s) adopting a successful pricing strategy • Can create discontent in the marketplace
Cost plus pricing – Involves setting a price by calculating the costs and adding a mark-up for profit	• Ensures costs are covered • Don't have to follow market trends • Industry standards can be used, e.g. industry mark-ups and margins	• Does not take into account market factors • Cost assumptions can be arbitrary • If costs are not accurate then products may be sold at a loss • Difficult to apportion costs correctly

3.3 Sales forecasting

Organisations incorporating a trading model should forecast sales carefully, taking into account factors such as capacity, start-up and seasonality. A sales forecast is a prediction of the expected sales for a given period of time, e.g. weekly, monthly or yearly. The two main methods of sales forecasting are:

- Price x number of units sold (see table 3.2)
- Average customer expenditure x number of customers (see table 3.3).

It is important to record the assumptions behind the figures. These can help to explain the reasoning for each figure and can be reviewed and updated in the future. Funders and lenders will also want to understand such assumptions.

Table 3.3: Sales forecast (price x unit)

Unit	**Price unit**		
Service/product A	**£50**		
Service/product B	**£100**		
Service/product C	**£200**		
Year 1: number of sales			
	April	May	June
Service/product A	20	10	25
Service/product B	8	2	15
Service/product C	12	8	14
Total	**40**	**20**	**54**
Year 1: sales (price x no. of units sold)			
Service/product A	£1,000	£500	£1,250
Service/product B	£800	£200	£1,500
Service/product C	£2,400	£1,600	£2,800
Total	**£4,200**	**£2,300**	**£5,550**

Table 3.4: Average customer spend x number of customers

Unit	Average expenditure		
Segment X	**£10**		
Segment Y	**£15**		
Segment Z	**£25**		
Year 1: number of customers			
	Sep	Oct	Nov
Segment X	60	80	100
Segment Y	40	60	90
Segment Z	10	15	20
Total	**110**	**155**	**210**
Year 1: sales (average sale x no. of customers)			
Segment X	£600	£800	£1,000
Segment Y	£600	£900	£1,350
Segment Z	£250	£375	£500
Total	**£1,450**	**£2,075**	**£2,850**

It is also possible to estimate breakeven sales. The breakeven point is the point at which the total cost and total revenue are equal: there is no net loss or gain. The main purpose of using this analysis is to establish the minimum output that needs to be achieved for the organisation/project to make a profit/surplus. This can be calculated in units and sales revenue (see figure 3.2). To calculate the breakeven point you will need to identify the fixed and variable costs. Fixed costs are those expenses that do not vary with sales volume, such as rent and administration salaries. Variable costs fluctuate directly with sales volume.

Fig 3.2: Sales forecasting – breakeven

BREAKEVEN IN UNITS

FIXED COSTS
SELLING PRICE PER UNIT
- VARIABLE COSTS PER UNIT = **BREAKEVEN IN UNITS**

BREAKEVEN IN SALES/REVENUE

FIXED COSTS
GROSS PROFIT MARGIN = **BREAKEVEN IN SALES/ REVENUE**

Factors that influence sales

- Set-up and start-up period
- Market factors e.g. demand, competition and market trends
- Capacity/productivity levels
- Promotional activities
- Seasonality/time of year
- Macroeconomic factors
- Materials available
- Funding

SECTION 4: Financial Projections

4.1 Introduction to financial projections

A crucial part of financial planning is the preparation of financial projections. The main types of financial projections are:

- **Cash flow forecast:** a projection of receipts, payments and cash flow for a given period, usually 12 months
- **Profit and loss account:** a projection of the profit (or loss) for a specific period of time, usually one year
- **Income and expenditure account:** a projection of the surplus (or deficit) for a specific period of time, usually one year
- **Balance sheet:** a projection of the financial position of an organisation at a particular date

The most suitable financial projections depend on the organisation and the asset transfer circumstance, e.g. a profit and loss account can be used if there is trading activity. Financial projections can be prepared for the asset transfer project in its entirety. However, it may be appropriate to prepare separate financial projections for individual projects within an asset, e.g. a café that is located in the asset but is part of the overall project. Budgets can also be used in financial planning.

You should document the reasoning (assumptions) upon which all figures are based. This will help understand the robustness and level of risk within the financial projections and help future updates and comparisons. Funders and lenders will also want to understand these assumptions.

4.2 Cash flow forecast

A cash flow forecast is a projection of the receipts, payments and cash flow for a given period of time, usually 12 months. It is prepared to estimate the flow of money that will flow into and out of a project, therefore determining the cash flow balance each month. A cash flow forecast is normally divided into four key parts: receipts, payments, net cash flow and opening and closing balances. The payments are subtracted from the receipts to estimate the net cash flow, and then the opening and closing balances are calculated. There are four key steps involved in preparing a cash flow forecast:

Step 1: estimate the monthly receipts, i.e. funding and sales (e.g. rent received from tenants) and add them together.

Step 2: estimate the monthly expenditure (e.g. asset operating costs) and add them together.

Step 3: calculate the net monthly cash flow by subtracting the total monthly payments from the total monthly receipts.

Step 4: calculate the opening and closing balances. The monthly opening balance is the closing balance from the previous month. The monthly closing balance is calculated by adding the opening balance and net cash flow of each month. The opening balance in month one for a new project is normally £0.

When preparing a cash flow forecast, ensure that receipts and payments are included when they are expected to occur and take into account factors such as start-up period, seasonal trends, the resources available and VAT (if applicable). Also, remember that a cash flow forecast only takes into account apportionment if monies are actually paid.

For more complex asset transfer projects a long term cash flow forecast (at least 5 to 10 years) should be prepared. This can help to provide an understanding of the funding and financing needs and the implications over time. For example, the asset transfer project, (including development) may take 2 or 3 years and then the operational model may take some time to become profitable.

Key risks and sensitivity analysis

Financial projections and plans almost never reflect the realities of a major project. Whatever is planned, there are risks of delays, changes to cost estimates, specifications, competition, the economic environment etc. Some of the major risks are shown below.

Risks commonly impacting asset transfer projects:

- Delays in reaching an agreement on the asset transfer and potential changes to the conditions (eg lease length, restrictions, condition of the building and responsibility for identified repairs/upgrades
- Delays in agreeing contracts with professionals and construction companies both in terms of time and scope
- Costs and timescales associated with any required planning consents and/or in relation to heritage building requirements
- Optimism bias including underestimation of costs and overestimates of income and funding
- Overestimation of the performance and contribution of social enterprises, e.g. community cafés are frequently seen in plans as a significant cash and profit generator but in practice this is rare and breakeven would be seen as a relatively good outcome
- Not understanding the impact of tax, especially VAT, can have significant impacts on both the asset transfer project and the operational business model
- Insufficient project management and governance arrangements factored in. These are crucial for the success of any project, however the financial budgets allocated are often minimal (and the assumption is that this is simply led by outside professionals)
- Unexpected issues arising, including community/heritage objections, construction difficulties and obstacles (e.g. asbestos, geological issues)
- The transfer of obligations such as staffing (TUPE), pension liabilities and contractual commitments
- The impact of the project on current operations, e.g. will current activities need to move or close during a period of asset development?

The purpose of **sensitivity analysis** is to consider the impact of one or more of the key risks (such as those above) impacting the project. For example, if construction/redevelopment costs were 25% above the original financial projections, what would that mean in terms of the scope and viability of the transfer? It is important to identify the relevant risks and conduct some sensitivity or 'what if' analysis to see the impact and to work through how such risks could be managed or mitigated.

Some example sensitivities to look at are:

- What if costs are 10%, 20% or 50% above the calculated estimates?
- What happens if the project is delayed 6 months, 1 year or 2 years?
- What if income is 10%, 25% or 50% below the plans?
- What if the VAT recoverable on the capital costs is 0%, 25%, 50% or 100%?

Fig 4.1a: Short term/annual cash flow forecast

Year 1 Cash flow forecast - ABC Enterprise													
Month	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**TOTAL**
RECEIPTS													
Funding													
Grant A	£30,000	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£30,000
Grant B	£20,000	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£20,000
Investment	£10,000	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£10,000
TOTAL	**£60,000**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£60,000**
Sales													
Sales received	£1,425	£4,125	£5,750	£6,900	£7,850	£7,850	£7,850	£7,850	£7,850	£7,850	£7,850	£7,850	£81,000
Other	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
TOTAL	**£1,425**	**£4,125**	**£5,750**	**£6,900**	**£7,850**	**£7,850**	**£7,850**	**£7,850**	**£7,850**	**£7,850**	**£7,850**	**£7,850**	**£81,000**
TOTAL RECEIPTS	£61,425	£4,125	£5,750	£6,900	£7,850	£7,850	£7,850	£7,850	£7,850	£7,850	£7,850	£7,850	£141,000
EXPENDITURE													
Revenue expenditure													
Letting fees	£427	£1,238	£1,725	£2,070	£2,355	£2,355	£2,355	£2,355	£2,355	£2,355	£2,355	£2,355	£24,300
Premises overheads	£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£2,400
Utilities	£75	£75	£200	£75	£75	£250	£75	£75	£300	£75	£75	£400	£1,750
Staffing	£1,500	£1,000	£1,000	£1,000	£1,000	£1,800	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£13,300
Admin and office	£250	£100	£250	£100	£100	£250	£100	£100	£250	£100	£100	£400	£2,100
Marketing	£800	£200	£100	£50	£50	£50	£50	£50	£50	£50	£50	£50	£1,550
Insurance	£175	£175	£175	£175	£175	£175	£175	£175	£175	£175	£175	£175	£2,100
Professional fees/ management	£300	£300	£1,000	£300	£300	£1,200	£300	£300	£1,400	£300	£300	£1,400	£7,400
Maintenance/ cleaning	£2,000	£800	£950	£800	£800	£950	£800	£800	£950	£800	£800	£1,600	£12,050
Finance charges	£100	£30	£30	£30	£30	£30	£30	£30	£30	£30	£30	£30	£430
Misc	£200	£50	£50	£50	£50	£50	£50	£50	£50	£50	£50	£50	£750
Loan repayments	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
TOTAL	**£6,027**	**£4,168**	**£5,680**	**£4,850**	**£5,135**	**£7,310**	**£5,135**	**£5,135**	**£6,760**	**£5,135**	**£5,135**	**£7,660**	**£68,130**
Capital expenditure													
Equipment	£2,500	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£2,500
Fixtures and fittings	£40,000	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£40,000
Computers	£3,000	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£3,000
TOTAL	**£45,500**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£45,500**
TOTAL EXPENDITURE	£51,527	£4,168	£5,680	£4,850	£5,135	£7,310	£5,135	£5,135	£6,760	£5,135	£5,135	£7,660	£113,630
Net monthly cash flow	£9,898	-£43	£70	£2,050	£2,715	£540	£2,715	£2,715	£1,090	£2,715	£2,715	£190	£27,370
Opening bank balance	£0	£9,898	£9,855	£9,925	£11,975	£14,690	£15,230	£17,945	£20,660	£21,750	£24,465	£27,180	
CLOSING BANK BALANCE	**£9,898**	**£9,855**	**£9,925**	**£11,975**	**£14,690**	**£15,230**	**£17,945**	**£20,660**	**£21,750**	**£24,465**	**£27,180**	**£27,370**	

Fig 4.1b: 10 year cash flow forecast

10 year Cashflow forecast - ABC Enterprise												
		Current Year	Asset Transfer and Development Period		Future Operational Years							
Month	Note	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
OPERATIONAL RECEIPTS												
Funding												
Restricted Grants	1	£25,000	£25,000	£25,000	£25,000	£25,000	£25,000	£25,000	£25,000	£25,000	£25,000	£25,000
Unrestricted Grants	1	£20,000	£20,000	£20,000	£20,000	£0	£0	£0	£0	£0	£0	£0
Total		£45,000	£45,000	£45,000	£45,000	£25,000	£25,000	£25,000	£25,000	£25,000	£25,000	£25,000
Sales												
Room hire and rental	2	£5,000	£2,000	£0	£25,000	£60,000	£80,000	£80,000	£80,000	£80,000	£80,000	£80,000
Community café	3	£0	£0	£0	£20,000	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000
Service contracts	4	£5,000	£5,000	£5,000	£30,000	£80,000	£80,000	£80,000	£80,000	£80,000	£80,000	£80,000
Other		£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Total		£10,000	£7,000	£5,000	£75,000	£180,000	£200,000	£200,000	£200,000	£200,000	£200,000	£200,000
Total Operational Receipts		£55,000	£52,000	£50,000	£120,000	£205,000	£225,000	£225,000	£225,000	£225,000	£225,000	£225,000
OPERATIONAL EXPENDITURE												
Salaries and staff costs	5	£20,000	£40,000	£40,000	£90,000	£140,000	£160,000	£160,000	£160,000	£160,000	£160,000	£160,000
Premises overheads	6	£200	£200	£200	£1,500	£1,500	£1,500	£1,500	£1,500	£1,500	£1,500	£1,500
Utilities	6	£2,500	£2,500	£2,500	£3,600	£3,600	£3,600	£3,600	£3,600	£3,600	£3,600	£3,600
Café cost of sales	7	£0	£0	£0	£8,000	£16,000	£16,000	£16,000	£16,000	£16,000	£16,000	£16,000
Marketing	8	£200	£200	£1,000	£500	£500	£500	£500	£500	£500	£500	£500
Insurance	6	£800	£800	£800	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000
Professional fees	6	£1,500	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000
Maintenance/cleaning	6	£1,500	£1,000	£1,000	£1,500	£1,500	£1,500	£1,500	£1,500	£1,500	£1,500	£1,500
Project costs	8	£3,000	£3,000	£3,000	£5,500	£10,500	£10,500	£10,500	£10,500	£10,500	£10,500	£10,500
Misc	6	£1,200	£1,200	£1,200	£1,200	£1,200	£1,200	£1,200	£1,200	£1,200	£1,200	£1,200
Irrecoverable VAT	9	£1,313	£1,313	£1,417	£3,094	£4,784	£4,784	£4,784	£4,784	£4,784	£4,784	£4,784
Total Operational Receipts		£32,213	£52,213	£53,117	£117,894	£182,584	£202,584	£202,584	£202,584	£202,584	£202,584	£202,584
Net operational cash flow		£22,787	-£213	-£3,117	£2,106	£22,416	£22,416	£22,416	£22,416	£22,416	£22,416	£22,416
Capital grants and financing												
Capital grant A	10	£0	£200,000	£100,000	£0	£0	£0	£0	£0	£0	£0	£0
Capital grant B	10	£0	£0	£100,000	£0	£0	£0	£0	£0	£0	£0	£0
Loan funding	11	£0	£0	£100,000	£0	£0	£0	£0	£0	£0	£0	£0
Loan repayments	11	£0	£0	£0	-£7,100	-£7,100	-£7,100	-£7,100	-£7,100	-£7,100	-£7,100	-£7,100
Total		£0	£200,000	£300,000	-£7,100	-£7,100	-£7,100	-£7,100	-£7,100	-£7,100	-£7,100	-£7,100
Capital expenditure												
Asset redevelopment	12	£0	£200,000	£220,000	£0	£0	£0	£0	£0	£0	£0	£0
Fixtures and fittings	12	£0	£0	£75,000	£0	£0	£0	£0	£0	£0	£0	£0
IT and other equipment	12	£0	£3,000	£12,000	£0	£0	£0	£0	£0	£0	£0	£0
Total		£0	£203,000	£307,000	£0	£0	£0	£0	£0	£0	£0	£0
Net capital and funding cash flow		£0	-£3,000	-£7,000	-£7,100	-£7,100	-£7,100	-£7,100	-£7,100	-£7,100	-£7,100	-£7,100
Net monthly cash flow		£22,787	-£3,213	-£10,117	-£4,994	£15,316	£15,316	£15,316	£15,316	£15,316	£15,316	£15,316
Opening bank balance		£20,000	£42,787	£39,574	£29,457	£24,463	£39,779	£55,095	£70,411	£85,727	£101,043	£116,359
Closing bank balance		£42,787	£39,574	£29,457	£24,463	£39,779	£55,095	£70,411	£85,727	£101,043	£116,359	£131,675

ABC Enterprises
10 year cash flow assumptions

Note

1 Grants – Unrestricted grants are expected to disappear after Year 3, however the winning of restricted project grants are expected to be achieved.

2 Room hire and rental – Room hire will initially drop from current levels (Year 0) during the redevelopment period. Once the building upgrade is completed then significant extra and enhanced space will be available and expected to be used.

3 Community café – A key feature of the redeveloped building will be a community café. It is expected that its turnover will be around £40k after an initial build-up period. Based on the overall position of the organisation in being below the VAT threshold, there will be no VAT on these figures.

4 Service contracts – The redeveloped building will give the opportunity to take on service contracts. These are expected around providing education and daytime provision for adults and children with disabilities and learning needs. The service contract levels are based on discussion with the council over this needed provision.

5 Salaries and staff costs – As the services of the organisation increase, the levels of staffing will need to increase too. The staff costs include Employer's National Insurance and pensions.

6 Utilities, maintenance and other operational costs – These costs are based on current levels and projections provided by the architect in relation to the redeveloped building.

7 Café cost of sales – Based on 40% of café income. This covers food purchases and other direct costs (but excludes salaries and utilities).

8 Project costs and marketing – Project costs cover non-staff direct costs in relation to the delivery of projects and service contracts. For marketing an enhanced marketing campaign is planned for the building re-opening.

9 Irrecoverable VAT – The projections are based on the organisation not becoming registered for VAT. This is because the contracts fall under 'exempt welfare' provisions whilst rent and room hire are exempt with no 'opt to tax'. Hence the only trading turnover is the café which is well under the current threshold. VAT incurred on expenditure is not recoverable and thus a real cost to the organisation.

10 Capital grants – These are grants that are expected to be received to support the capital redevelopment as part of the asset transfer. The organisation has already reached the second stage of the grant process.

11 Loan funding and repayments – It is anticipated that about £100k of loan funding will be needed to complete the project. The repayments are based on a period of 25 years at 5%.

12 Capital expenditure – The capital costs are based on the architect's costings and include VAT as this is not likely to be recoverable. Smaller capital expenditure will be required in future years.

4.3 Profit and loss account

A profit and loss account is a statement of the profit or loss for a specific period of time, usually one year. It shows both the gross profit and net profit (or loss). The gross profit is the difference between sales and the cost of sales (or cost of goods sold). The net profit is the difference between the gross profit and the expenses. In asset transfer, a profit and loss account is generally only appropriate when there is trading activity. If applicable, it may be useful to take into account any apportioned costs, when preparing a projected profit and loss account.

Fig 4.2 Profit and loss account

Year 1: profit and loss account ABC Enterprises		
TURNOVER/SALES		**£82,000**
Less cost of sales		
Opening stock	£0	
Add purchases	£24,600	
	£24,600	
Less closing stock	£0	
		£24,600
GROSS PROFIT		£57,400
less expenses:		
Premises overheads	£2,400	
Utilities	£1,750	
Staffing	£13,300	
Admin and office	£2,100	
Marketing	£1,550	
Insurance	£2,100	
Professional fees/ management	£7,400	
Maintenance/cleaning	£12,050	
Finance charges	£430	
Misc	£750	
Loan interest	£0	
Depreciation	£11,375	£55,205
NET PROFIT/LOSS		£2,195

Sales (also known as turnover and revenue) is the money received from customers from the sale of goods or services for the period of trading. In a profit and loss, sales may include money that is owed for the trading period, i.e. debtors.

Gross profit is the difference between sales and cost of sales. It is calculated as follows:

sales
- cost of sales

= gross profit

Cost of sales: The cost of sales is the cost of producing the goods or providing the service. It is calculated as follows:

opening stock
+ purchases
- closing stock

= cost of sales

A profit and loss account will include money that is owed to suppliers for the trading period, i.e. creditors.

Net profit is the amount remaining after the expenses have been deducted from the gross profit. It is calculated as follows:

gross profit
- expenses

= net profit

4.4 Income and expenditure account

An income and expenditure account is an accounting report that shows all the income and expenditure of an organisation over a specified period of time, usually one year. It is used by organisations that are considered 'not for profit', such as charities, voluntary organisations and clubs. Charity accounting rules require income and expenditure to be split between restricted, unrestricted and endowment funds.

An income and expenditure account is generally divided into two sections:

Income

The income section shows all the income earned and entitled to in the given time period. Figure 4.3 shows that the income for the XYZ Community Centre came from three main sources: room hire, profit from a dinner dance and a grant.

Expenditure

The expenditure section contains all the relevant expenditure and includes rent, wages and maintenance costs. The total expenditure is then subtracted from the total income to calculate the surplus or a deficit. A not-for-profit organisation may have some trading activity, e.g. a youth club may have a shop or a club may have a bar. If this is the case, a separate trading account can be prepared to show the profit generated from the activity.

In asset transfer projects you should prepare income and expenditure forecasts covering a 5 to 10 year period.

Fig 4.3: Income and expenditure account (simple layout)

Year 1: income and expenditure account XYZ Community Centre		
Income		
Room hire		£30,000
Profit from annual dinner dance		£1,200
Grant		£3,000
Total		**£34,200**
Expenditure		
Rent	£5,000	
Heat and light	£1,000	
Office and admin	£2,000	
Wages	£15,000	
Maintenance	£1,000	
Finance fees	£350	**£24,350**
Surplus		**£9,850**

4.5 Balance sheet

The balance sheet is a statement of the financial position of an organisation at a particular date, usually the last date of an accounting period. It is often referred to as the financial snapshot of an organisation.

A balance sheet is normally split into two parts which should balance:

- A statement of the assets and liabilities of the organisation (net assets)
- A statement showing how the organisation has been financed

Fig 4.4: Balance sheet – ABC Enterprises as at 31/08/20XX

Fixed assets (e.g. equipment) tend to have a lifespan of more than one year. They normally depreciate in value and this is usually reflected in a balance sheet year-on-year.

Current assets are assets that can normally be converted into cash within 12 months, e.g. stock, debtors and cash available.

Current liabilities are debts that need to be repaid within a short period of time (normally 12 months), e.g. creditors, overdrafts and unpaid taxes.

Working capital (also known as net current assets) is the difference between current assets and current liabilities.

Long-term liabilities are debts that are to be paid back on a long- term basis (normally longer than 12 months) e.g. long-term loans.

Net assets are calculated as follows: Fixed assets + working capital – long term liabilities = net assets

Financed by: this section of a balance sheet shows how an organisation is financed and it should balance with the net assets figure. The format of the bottom part of the balance sheet will differ depending on the type of organisation.

Fixed assets	Cost	Depreciation	Net
Equipment	£2,500	£625	£1,875
Improvements to Property	£40,000	£10,000	£30,000
Computers	£3,000	£750	£2,250
	£45,500	**£11,375**	**£34,125**
Current assets			
Stock		£0	
Debtors		£1,000	
Current account		£27,370	
		£28,370	
Less current liabilities			
Creditors		£300	
Overdraft		£0	
		£300	
Working capital			**£28,070**
Long-term liabilities			
Loans			£0
NET ASSETS			**£62,195**
Capital/Funds			
Grant A		£30,000	
Grant B		£20,000	
Investment		£10,000	
Other		£0	£60,000
Net profit/loss			£2,195
			£62,195

Asset transfers are usually shown on the balance sheet at cost. Where the transfer is at nil cost then it will not show, although any improvements will be included at cost.

SECTION 5: Investment Appraisal

5.1 Investment appraisal techniques

Investment appraisal is the process of evaluating an investment project to determine whether it is likely to be viable or not. There are a number of investment techniques that can be used to provide a qualitative evaluation of projects. These include:

- Payback period – amount of time it takes to recover these costs of an investment
- Net present value (NPV)/discounted cash flow – the total discounted value of all cash inflows and outflows from an investment
- Accounting/average rate of return (ARR) – expresses the net return of an investment as a percentage of the initial cost
- Internal rate of return (IRR)

The net present value, accounting rate of return and internal rate of return techniques tend to be most commonly used in projects such as community renewable energy schemes or company acquisition where there is significant upfront investment with revenue generation over the longer term. Using a range of investment appraisal tools can not only assist in assessing the viability of a project but can inform decisions on structuring the finance for the project.

Where the acquisition of land and buildings is likely to involve the use of debt finance, it is more likely that funders will pay particular attention to the cash flow of the organisation and the likely loan to value ratio. This highlights whether the organisation is able to service the loan finance and the level of headroom against asset value the lender has. Typically, the lower the loan to value ratio is (i.e. the more deposit a borrower can bring to asset purchase) the less risk there is for the lender and the lower the interest rate the borrower would expect to pay.

Another ratio which debt funders will be interested in is the Debt Service Cover Ratio – this is the ratio of the ongoing cash flow of an organisation to the ongoing debt service costs of the organisation. Again this is an indication of how much headroom there is in a project from a lenders' perspective (this time in terms of debt serviceability) and may impact interest rate pricing.

Whilst it is important to appraise any new project on its own merits, it is also important to conduct an appraisal within the context of the whole organisation. Risk factors that may impact on the financial projections should be understood and used for sensitivity analysis (see section 4.2).

5.2 Measuring Social Value

Capturing the benefits that asset transfer can bring will be important. The majority of Relevant Authorities are likely to use the demonstration of Best Value as highlighted in the Guidance Notes for Relevant Authorities produced from the Community Empowerment (Scotland) Act 2015. Others, including some funders, will welcome the use of other tools to demonstrate the social return of your organisation. There are a number of different approaches that can be used and these are covered in Business Planning Module Three.

SECTION 6: Financial Stakeholder Relationship Management

6.1 Introduction to financial stakeholder relationship management

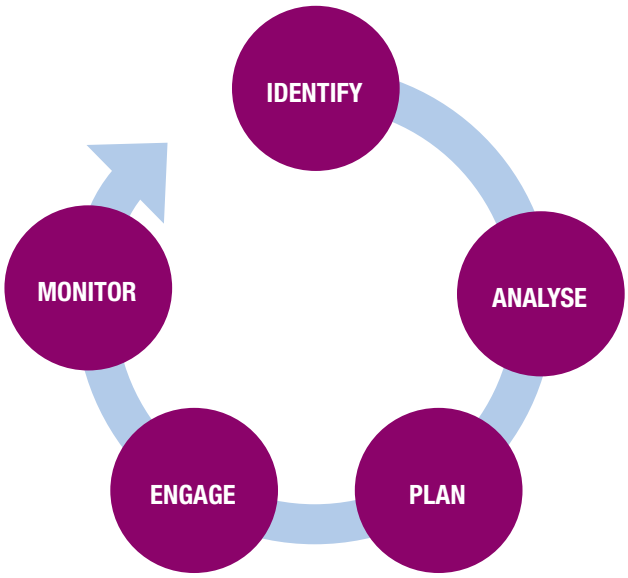
Organisations should make a concerted effort to manage their financial stakeholder relationships. This will provide a number of benefits:

- Builds meaningful relationships with stakeholders
- Helps to build trust
- Provides a better and current understanding of the stakeholder's aims and objectives, needs and expectations
- Enables concerns to be dealt with promptly
- Increases the chances of obtaining financial support
- Helps to mitigate ambiguity

6.2 The financial stakeholder relationship management process

As highlighted in figure 6.1 there are five key steps involved in the stakeholder relationship management process.

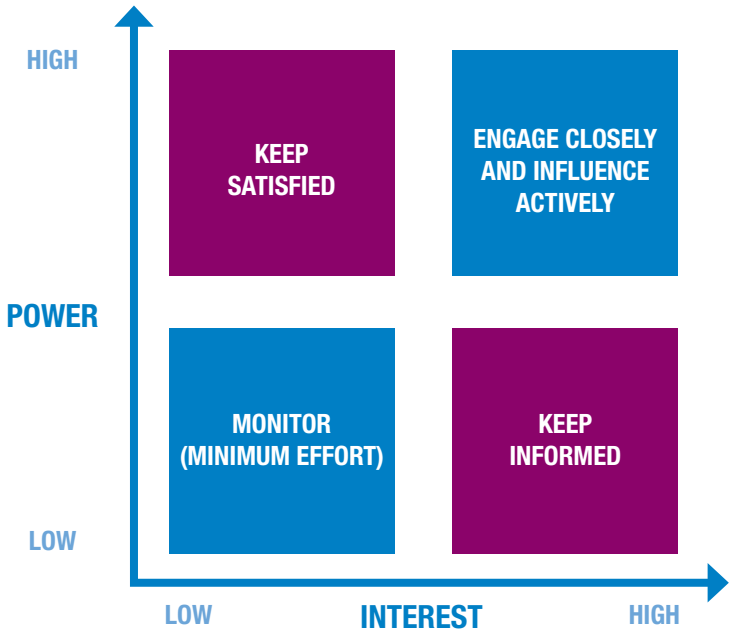
Fig 6.1: Financial stakeholder relationship management process



Identify: because of their diverse sources of income, third sector organisations can have many financial stakeholders, e.g. funders, donors and lenders.

Analyse: it's important to carefully analyse financial stakeholders. Key factors to consider are their aims, objectives, needs and expectations, power and influence, and how best to develop an effective meaningful relationship. Financial stakeholder analysis can be conducted using stakeholder consultations, reviewing financial contracts and documentation, research reports and stakeholder analysis tools, e.g. the Power Interest Matrix.

Fig 6.2: Power Interest Matrix



Plan: planning is key to effective stakeholder relationship and should involve devising a plan of action. This should have:

- Clearly defined aims and objectives
- Appropriate and agreed actions
- Responsibilities for the actions assigned
- A timeframe for implementation
- Allocated costs
- Monitoring and evaluation procedures

Engage: engaging with financial stakeholders should start before funding is received, e.g. by attending information events and consulting with a financial stakeholder during the application process. After funding is received, ensure to meet all reporting requirements, keep funders up to date with the project, disseminate social impact information and ask for help and support.

Monitor: monitoring and evaluating the effectiveness the financial stakeholder relationship is very important and should form a core part of the process.

SECTION 7: Action Plan

7.1 Preparation of an action plan

Please take time to identify key actions/development gaps this module has highlighted and further support that the organisation may require in relation to financial planning in the context of community asset transfer.

Table 7.1: Module action plan

Action	Who	When	Costs

Notes

Notes

COMMUNITY
OWNERSHIP
SUPPORT SERVICE
Development Trusts Association Scotland

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Published 2017