



Capital Project Appraisal Presentation Board Report

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1.0 Executive Summary

As a small family business located in rural North Wales, we have identified an investment opportunity, that requires a structured review, if implemented this project may have a paradigm effect on the current business operation.

Last year, company profit was more than £70,000, potentially Project Alltwen Bach could significantly improve turnover and add a further 20% to the bottom line.

Findings will include Outcomes of using financial appraisal tools and will highlight why utilising excess funds (Savings) from the business is the best method of financing the project.

2.0 Introduction

This report sets out to provide an outline of Project Alltwen Bach, the report will include:

- Timeline
- Implementation Issues
- Costs & Benefits and
- Financial Appraisal
- Advantages and Disadvantages of Financial Appraisal methods.

This will be supporting evidence to determine, whether the project is commercially viable for PR Ltd.

3.0 Purpose

This project has been developed to provide a new and innovative revenue stream for the company.

Essentially, constructing a self-catering holiday let from a dis-used garage and developing a complimentary garden area with a summer house to maximise the luxury aspect of the venue and its sunny aspect.

Alltwen Bach is situated in a rural location with views towards the Snowdonia mountains and the Clwydian Hills.

This makes it an ideal base for tourists exploring the North Wales countryside and those who participate, in the ever-expanding local adventure tourism sector

As the garage is part of the company estate there would be no expenses, involved in, land or property purchases, potentially making the project a relatively low-cost investment but, with a potentially high return.

3.1 Timeline

This project has been planned to complete, within six months, from concept to completion. Trading is set to begin in April 2023. Bookings from pay guests could be taken as early as January/February 2023, when promotion of Alltwen Bach would commence. Agents to be confirmed through further research.

Six clear stages have been identified during this development:

Stage 1: Involving Architectural planning, with a four-week window to design, draw and begin the costing process. A working relationship with a local firm has previously been established, a fixed quote has been provided and they are willing to accept the commission, in the timeframe. They

architect's company has a construction division and has agreed to cost building and materials, within the timeframe. (Exc. Electrics and Gas/Plumbing).

Stage 2: The next four-week period would allow time to finalise and commit to prices, again because of its core business PR Ltd has an advantage, due to receiving favourable trading terms with several enterprises in North Wales within the construction industry. This pricing process (quotes) would not be exclusive, other recommended tradesmen would be given the opportunity to quote, to optimise costs.

Stage 3: The next four-week period would allow for the evaluation and awarding of contracts.

Stage 4: Would see the commencement of the building phase; Start to first fix, taking approximately 6 weeks to complete.

Stage 5: Allocation of the next six weeks, would be for the completion of second fix, internal decorating and fitting out.

Stage 6: During the process of building associated research will be undertaken to assess the most suitable OTA's (Online Travel Agents) in terms of value. e.g., Best ROI for the business.

The time frame to start receiving paying customers is 26 weeks – hopefully in time for the Easter holidays – which is traditionally the start of the tourist season in Wales, bookings should steadily increase towards the summertime, peaking in July/August.

3.2 Implementation issues

Issues identified that require further investigation prior to undertaking this project

- Specialist advice will be sought through, an Architect to ascertain if any Planning Requirements or Building Regulations would be required.
- Additional building insurances to be investigated.
- Liability insurance collected from any contractors, prior to commencement.
- A contingency plan would be required to cover all eventualities, if any threat was identified to the project funding.
- On completion of the project, a management system, will be required run the facilities – It is anticipated that no new employees would be required, by the organisation, and any new roles would be absorbed in house.
- A CRM to collect customer data, in support of return visits, would require set-up.
- Fortuitously, due to the building's location, no disruption is envisaged to either builders, neighbours, public or the current business operation.

3.3 Pricing

Building:

After a preliminary Pre-project costing exercise involving suppliers, costs are anticipated to be in the region of £20k for building works and a further £10k in fit out costs including outdoor works and construction of a summerhouse.

A pre-project Income projection, investigation has been conducted using a combination of reliable sources. Inflation and supply chain cost increases have been assessed, prior to planning the budget.

Income - OTA's (Online Travel Agents):

Sykes Cottages (Targeting luxury) a respected and leading UK self-catering accommodation supplier, indicate, that using their modelling, could earn £15k pa. (How much could I earn with Sykes, 2022)

But interrogating data from the Welsh government Tourism reports for 2021 and local pricing information from Air BnB (How much does Airbnb charge hosts, 2021) the potential income may be more than £20k. (Jen Velu, 24th Jan 2022)

However, for the purpose of appraising the financial returns, it is prudent to use a target income of £15k

Operating Costs:

Annual operating costs are currently estimated to be £3k but this is using the assumption that all employee costs will be met under current staffing levels by making efficiencies elsewhere in the business.

A cashflow has been completed and is included in the appendices.

4.0 Financial Appraisal

A financial appraisal of the project has been undertaken to measure potential returns from the investment in this venture. (See appendices)

The term for the project is initially 5 years. ROI will be evaluated after this period to discover is this is the best use of the building.

Financial techniques have been used to evaluate the project.

Payback Period (PP) – Using net cash inflow (income minus expenditure) payback modelling indicates it will take 2.5 years to recoup, the investment cost, of Project Alltwen Bach. (Investment appraisal techniques, 2022)

However, this simple form of modelling and does not consider the time value of money i.e., money in future years, will be worth less than today. (Investment appraisal techniques, 2022)

Discount Rate or Weighted Average Cost of Capital (WACC) for the purpose of illustration on alternative ways to finance the project, funding appraisals have been run with 0% WACC for the use of internal funding and a 10% WACC to illustrate borrowing costs have on the project returns. WACC is the blended cost of the anticipated payment for financing the asset. (Troy Segal, 2022)

Net Present Value (NPV) Is showing a positive value of cash over the period of 5 years. @ +£15k with 0% WACC & +£15k with 10% WACC. Although, these are predictions, it will be wise to hold a contingency fund for any unexpected building and maintenance issues, which could impact this. (Investment appraisal techniques, 2022)

Internal Rate of Return (IRR) (Investment appraisal techniques, 2022) The IRR metric is estimating profitability of the project over 5 years at 28.65%. At over 25% this is a good level of profitability for use of the money being invested, particularly, when compared with Bank saving rates at this time, which are on average lower than 5%. (Money saving expert, 2022)

Profitability Index (PI) The profitability index shows at 1.6% with 0% WACC and 1.27% with 10% WACC. Over 1% is considered a good measure of attractiveness for an investment. (Investment appraisal techniques, 2022)

With both the NPV and PI showing positive outcomes, this supports decision making to proceed with the project investment.

Benefit-Cost Ratio (BCR) The net present value is 1 with a 0% WACC and .52 with a 10% WACC, normally an investment is considered a good investment if over 1. (Investopedia, 2022) However, it could be that the project will need to run longer to provide this benefit and mitigate risks of increased spend through good maintenance and management.

From a total investment perspective, the **Accounting Rate of Return (ARR)** also known as Return on Investment (ROI) and Return on Capital Employed (ROCE) (Investment appraisal techniques, 2022) the project would offer a return of 40%. Which again suggests the project fulfils the purpose providing an additional revenue stream.

5.0 Funding

When examining funding options, utilising financial reserves, offers a better option than seeking finance.

Investing in the estate has the potential to increase the overall asset value. Which according to Zoopla, has the potential to increase the value of the property by 15%. (Ellie Issac, 2022)

6.0 Conclusion & Recommendation

All appraisal methods indicate that this project will make a credible return on the original investment. The clearest picture established from using the financial appraisal tools comes from IRR, Payback and ARR. These are clear and easy to use calculations.

Based on the calculations it is recommended that the Project proceeds, through the utilisation of internal capital from company cash reserves.

Appendix 1 – Cashflow projection outlining operating costs and profit

Project Alltwn Bach Cashflow Forecast 2023															
		Pre Start	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Receipts	Capital introduced		0	0	500	1500	2000	2000	2000	2500	2000	1500	500	500	15000
	Bank Loan														0
	Total Funding		0	0	500	1500	2000	2000	2000	2500	2000	1500	500	500	15000
	Cash Sales														0
	Credit Sales														0
	Total Revenue														0
	Total Receipts (A)		0	0	500	1500	2000	2000	2000	2500	2000	1500	500	500	15000
Payments	Materials / Parts / Ingredients														0
	Cleaning				75	150	200	175	175	175	175	150	100	75	1450
	Wages & NIC's														0
	Drawings														0
	Rent														0
	Rates														0
	Water	0	0	5	5	5	5	5	5	5	5	5	5	5	50
	Gas / Electricity	0	0	35	35	35	35	35	35	35	35	35	35	35	350
	Postage / Stationery														0
	Telephone / Mobile														0
	Web Services			35	35	35	35	35	35	35	35	35	35	35	350
	Repairs / Maintenance			15	15	15	15	15	15	15	15	15	15	15	150
	Tools / Equipment														0
	Fuel														0
	Vehicle Repairs / Maintenance														0
	Insurance				20	20	20	20	20	20	20	20	20	20	200
	Accountancy														0
	Bank Charges / Interest														0
	Advertising / Promotion														0
Commission	0	0	15	45	60	60	60	60	75	60	45	15	15	450	
VAT														0	
														0	
														0	
														0	
Total Payments (B)		0	0	200	305	370	345	345	360	345	305	225	200	3000	
Balance	Net Casflow (A-B)		0	0	300	1195	1630	1655	1655	2140	1655	1195	275	300	12000
	Opening Balance			0	0	300	1495	3125	4780	6435	8575	10230	11425	11700	
	Closing Balance	0	0	300	1495	3125	4780	6435	8575	10230	11425	11700	12000		

Appendix 2 – Project Alltwn Bach Financial Appraisals using 0% WACC

Project Alltwn Bach with 0% WACC		Year				
		1	2	3	4	5
Investment	(30,000)	12000	12000	12000	12000	12000
Present Value						

Payback	2 Yrs 6 mths	Manually Calculated
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Discount Rate (WACC)	0.00%	From Present Value Table				
Denominator	1.00	1.000	1.000	1.000	1.000	1.000

Future Value	(30,000)	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00
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NPV	30,000
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NPV (Excel Calculated)	0
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PI	1.60
BCR	1.00

IRR (Excel Calculated)	28.65%
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$$\text{ARR / ROI} = \frac{12,000}{30,000} \times 100 = 40\%$$

(Total Investment Basis)

Appendix 3 - Project Alltwn Bach Financial Appraisals using 10% WACC

Project Alltwn Bach 10% WACC		Year				
	Investment	1	2	3	4	5
Present Value	(30,000)	12000	12000	12000	12000	12000
Payback	2 Yrs 6 mths	Manually Calculated				
Discount Rate (WACC)	10.00%	From Present Value Table				
Denominator	1.00	0.909	0.826	0.751	0.683	0.621
Future Value	(30,000)	10,909.09	9,917.36	9,015.78	8,196.16	7,451.06
NPV	15,489					
NPV (Excel Calculated)	(15,919)					
IRR (Excel Calculated)	28.65%					
ARR / ROI	12,000 x 100 =		40%			
(Total Investment Basis)	30000					

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