

APPENDIX B

Financial projections and viability

(Extracts from the Business Plan v.5b June 2009)

Operating cash flow

It is fundamental that the cash flows generated once the shop and café are open are sufficient to defray routine operating expenses with a balance which is sufficient to repay any loans incurred during the capital phase and to repay the loan bonds purchased by villagers. (Item 3.1)

First, we must deal with likely turnover and profits. The Village Retail Services Association (ViRSA) collects statistics from over 600 community owned and operated shops. These cover the percentage of a community's population which actually use the shop, the number of visits per week from each household and the amount spent on each visit. (Item 3.2)

There is, of course, the possibility that an individual community such as Seavington may not conform to any broad usage statistics of this sort. Thus, certain information from the 2006 Seavington Shop Survey have been compared with ViRSA's more global figures; for obvious reasons this survey could not determine actual spends. (Item 3.3)

ViRSA's statistics say that, in any community, 60% of households will use a community shop. The responses to the Seavington survey show an intent of 83% of households using the shop. Further, ViRSA's figures show that, the 60% using the shop will use it between 3 and 4 times per week, spending between £3.50 and £5.50 per visit (2007 figures). (Item 3.4)

Further, ViRSA has figures for the proportion of residents who may use the shop for larger "shops" and the amount spent. The responses and detail obtained in the Seavington survey does not allow a precise comparison but does indicate that the ViRSA usage figures are likely to be reached or exceeded; as noted in the previous paragraph, the survey could not determine projected spend. (Item 3.5)

The committee therefore feels fully justified in making annual turnover projections for the Seavington shop on the basis of the ViRSA statistics. The figures presented below have been calculated on the low estimate

The "Low" estimate is based on the assumption that 60% of households visit the shop at ViRSA's lower rate of 3 times weekly and spend at ViRSA's lower rate of £3.50 per visit. Further, using ViRSA's figures it has been assumed that 20% of the 60%, i.e. 12% of households will make a larger weekly "shop" of £50.

Table 1 below shows the summarised income, operating expense and allocation of profit projection for the "Low" estimate. Detailed figures for both revenue & profit and operating expenses are given in the Business Plan v.5b which is available from the Community Development Officer upon request. (Item 3.7)

Table 1 - Income, expense & allocation – ViRSA “Low” estimates

Line		ViRSA “Low” sales estimates £K				
		Year 1	Year 2	Year 3	Year 4	Year 5
1	Total sales	88.0	110.0	115.7	121.3	121.3
2	Cost of Sales	67.4	84.2	88.4	91.7	91.7
3	Revenue contribution from PC	1.0	1.0	1.0	1.0	1.0
4	Gross Profit	21.6	26.8	28.3	30.6	30.6
5	Utilities – Elec, Tele, Water	4.8	4.8	4.8	4.8	4.8
6	Repairs, renewals etc	2.5	2.5	2.5	2.5	2.5
7	Business rate & ground rent	1.6	1.6	1.6	1.6	1.6
8	Other	2.8	2.8	2.8	2.8	2.8
9	Total operating expenses	11.7	11.7	11.7	11.7	11.7
10	Repayment of loan	5.3	5.3	5.3	5.3	5.3
11	Surplus	4.6	9.8	11.3	13.6	13.6
	Allocation of surplus					
12	Additional investment	2.5	2.0	2.0	0.0	0.0
13	Bond repayment reserve	0.0	5.2	6.0	7.9	7.9
14	Equip. replacement reserve	2.1	2.6	3.3	5.7	5.7
	Total Allocated	4.6	9.8	11.3	13.6	13.6

NB It has been assumed that sales in Year 1 will be 20% below the estimate obtained using ViRSA’s figures. By year 2 the ViRSA figure has been achieved and years 3 & 4 have a 5% increase in turnover due to marketing and development of services not included in ViRSA’s figures (e.g. dry cleaning & shoe repair agencies etc). Year 5 is identical to Year 4, representing stability.

The figures in Table 1 represent the key test of the proposed Seavington Community Shop's financial viability. They demonstrate that using the lowest possible validated sales figure from ViRSA's statistics, it is possible to repay association members' loan bonds and the £40,000 loan required to create working capital. (Item 3.8)

There is, of course, also the question of whether ViRSA's anticipated sales figures, based on experience elsewhere in England, might be replicated in the Seavingtons. Taking Year 2, the first year in which ViRSA's projected turnover is expected to be achieved the £110,000 per annum in Table 1, represents only £10 weekly spend for each Seavington Household or £4.23 for each inhabitant, figures which are clearly realisable with "casual" shopping. (Item 3.9)

It will be noted that line 14 of Table 1 shows an accumulated replacement reserve at the end of five years of £18,400 which is sufficient provision to deal with likely contingencies. (Item 3.10)