Preparing Feasibility Studies

This advice note provides information about feasibility studies for community groups and community projects. It covers information about when to undertake a feasibility study, what's involved and some common pitfalls to watch out for.

The feasibility study

A Feasibility Study is arguably the most important stage of any significant project to be undertaken by a community group, because it is designed to prove the value or otherwise of pursuing a given goal. Demanding objective analysis, hard-headed financial sense and cool appraisal, a Feasibility Study forms an essential platform for the preparation of a Business Plan, which need only be written if the study delivers a positive outcome. There is little sense in spending community energy, time and funds on a project that is doomed to failure from the outset by lack of demand, lack of funds, and lack of ability to deliver the necessary elements. On the other hand, a study which cleary proves the social and economic benefits of a project will help to attract funding and raise the confidence of the organising group.

The Study

A feasibility study may be undertaken:

- To assess one or more of the following aspects of a proposal:
  - commercial viability
  - the level of annual subsidy required for ongoing viability
  - economic/community development impact
  - technical feasibility
- To compare different options for achieving a purpose or set of objectives.
- To assess whether there is a viable use for a community asset (e.g. a building).

A particular study may involve more than one of the above. Alternatively, one aspect (e.g. technical feasibility or an outline options analysis) may be undertaken initially, either to determine whether or not a full feasibility study would be worthwhile and/or to determine the terms of reference (aims and contents) for a fuller study.

A full feasibility study will normally incorporate all of the elements below - although some aspects may initially be estimated prior to a definite decision to progress the project. Once a decision has been made to progress the project a fully costed Business Plan must be produced to incorporate more detailed information.

A well-researched and realistic feasibility study normally makes the task of producing a Business Plan straightforward, and the two are often undertaken in tandem. Where the work is commissioned from consultants, however, it is often best to split the two stages to save unnecessary cost if the feasibility study is negative. Indeed, it is often appropriate to carry out an outline feasibility study initially to save further costs if the conclusion is negative or if a serious constraint is identified that should first be tackled.

Assessment of demand:	Identification of markets, quantification of markets, pricing, competition, etc.
Community consultation:	Testing acceptability within the local community, unearthing potential helpers/ supporters.
Marketing:	Means of promoting to target markets, setting a marketing budget, etc.
Assessment of funding sources:	Local community, private sector, public sector, charitable trusts, other bodies, loans, etc.
Physical development costs:	Costs of site development, buildings, equipment, etc. Include contingencies and allowance for inflation, VAT, etc.
Other start-up costs (prior to receiving revenue when project starts):	Marketing, staff recruitment and training, initial stocks, professional fees, etc.

Development cost funding:	Allocation of costs between potential funding sources e.g. private, public, sponsorship.
Projections of annual revenues (yearly takings):	Derived from market projections, normally related to "Year 3", with build-up in Year 1 and Year 2 where markets may take time to develop. Figures may be split up by "profit centre" e.g. figures for a new local museum may cover the following "profit centres" - exhibition entrance fees; tearoom takings; gift shop sales. Add any subsidies, commercial sponsorship, ongoing fundraising, etc if appropriate.
Projections of annual costs:	Related to scale of demand expected, seasonality, etc. Includes staffing costs, purchase of inputs, rates and insurance, power costs, office overheads, marketing, professional fees, maintenance, replacements and renewals, vehicle costs, loan interest and repayments, etc.
Estimate of margin of viability (chances of survival):	Total annual revenue estimate minus project costs. This should also include sensitivity analysis for revenues and costs to indicate what would happen to the final figures if estimated takings or project costs change. Calculation of rate of return on the investment (in financial, economic or "social" terms).
Management and administration;	Type and structure of management, day-to-day management, reporting channels, liaison with other organisations, controls, etc.

Economic impact; community impact; environmental impact (where appropriate)

Longer term potential (including consideration of setting aside any surplus profits for later modernisation, extension, "outreach", etc).

The feasibility study report

The feasibility study report should be written so as to serve different interest groups:

- the project planning group.
- any wider community groups from whom support is required or is desirable.
- the local community as a whole.
- sources of funding (especially relevant public agencies).

Consultation and participation with all of the above will be necessary. This consultation and participation will be different for each project. However, when applications for funding are made, e.g.. to a National Lottery Fund, the feasibility study report will be an important supporting document and the consultation / participation process will be examined.

Timing of the study

The feasibility study should be carried out as early as possible, i.e. as soon as the project has been formulated and any finance required for consultants or other assistance have been obtained. If technical feasibility needs to be established, or "ball park" development cost estimates obtained, this needs to be done first but significant costs should not be incurred on these tasks before an assessment of viability (possibly in outline) is carried out. It may be productive to generate some local publicity about the project before completion of the study, however, expectations in the community should not be raised unduly.

Responsibility for the study

The community should retain a strong role throughout the study if it is carried out for them, i.e. through membership of a study steering group, regular liaison with consultants, and ensuring that the study stays within the community's bounds. Often, the initial research stage of the study will suggest that either the project itself or the study's terms of reference should be modified, and flexibility may thus be required. This may entail consulting with the community at an appropriate point during the study.

Ideally, the community would carry out the study themselves, with professional assistance as required. In practice, however, the community may not have the time or skills to do so - in which case efforts should be made to work alongside the appointed consultants, both to maintain an understanding of the project as it develops and to pick up skills for any future community studies for comparable projects.

Funding bodies often like to see an independent feasibility study, especially where the project is relatively risky or where a large grant contribution is sought. A good feasibility study will help to create funding and operational partnerships while the study progresses, and the pay-off can be considerable. A few thousand pounds spent on an effective study can (i) provide advice that enhances the viability of a project and (ii) open funding doors that can bring in hundreds of thousands or millions of pounds of support.

Technical inputs, e.g. from an architect, engineer or quantity surveyor, are best provided through the study director, who has the wider perspective - whether the director is a consultant or a community representative. In either case, the study director should be an individual, not a group.

Common errors or problems

The average standard of feasibility studies is not very high. The reasons for this can include:

- poor initial briefing or liaison during the study.
- insufficient budget, leading to superficial exploration of key factors.
- insufficient liaison by study contractors with potential funding or implementation partners.
- over-dependence by consultants on a previous study on a comparable project as a model.
- poor financial assessment, based on insufficient primary research of a project's full costs, unrealistic expectations of demand (or market "penetration" rates) or pressure from the originating community group to produce a positive conclusion.
- failure to consider a key accounting feature (e.g.. depreciation), or apply appropriate sensitivity analysis.
- failure to test community acceptability, or to anticipate opposition from a key public agency (e.g.. planning authorities, roads departments, environmental protection bodies).
- poorly presented or argued reports, sometimes showing an obvious bias.
- failure to consider alternatives to the original scheme that might meet the community's objectives more cost-effectively.

Communities, for their part, should be prepared to drop or modify a project if feasibility cannot be demonstrated, and should encourage any consultants used to give fully objective advice, based on the community's (often considerable) experience.

Disclaimer

This Advice Note has been produced on behalf of the Carmarthenshire Community Toolkit to assist community groups to make funding applications. However, it should not be taken as a definitive guide covering all areas of concern and it is recommended that further advice is sought in appropriate circumstances.