



**Harper Adams  
University**

Diversification opportunity for P & E Frick and Sons

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## **Executive Summary**

This report presents a possible diversification opportunity for P & E Frick and Sons, located in Lincolnshire. The business has experience outside the farming enterprise, running a successful caravan site as part of the Caravan Club, and has instructed for an additional diversification option to be explored. The family has suggested the potential of entering the health and fitness industry if this meets local demands.

## **Market Research**

The pandemic had a significantly negative effect on the fitness industry. Despite this, 70% of individuals believe that COVID-19 has improved their awareness of the importance of their physical health. Additionally, over 55's are the largest growing demographic looking to increase their physical activity through low-impact workouts such as pilates.

Market research has shown the following to be key customer requirements:

- Provision of high-quality facilities and equipment.
- Ability to exercise outdoors where possible, in a scenic location.
- Sustainability and accessibility of the site.

Furthermore, there are limited gyms locally with private hire fitness rooms, resulting in village halls being used. This coupled with the rise in fitness class attendance, suggests a unique selling point absent from the local market. Therefore, this should be the critical form of penetration to ensure that business gains access to the sector.

Local competition is high with two established gyms within 2 miles of the proposed site. Both are indoor gyms with high-quality equipment, but lack space for expansion and have no provision for an outdoor gym, other than this taking place in the car park during summer, leading to Health and Safety concerns.

## **Proposed Diversification**

It is recommended that the outdoor gym, one private hire fitness room, and a small inside gym are constructed initially, with the opportunity for expansion of the gym based on performance. The site will be sustainable utilizing surplus energy from the farm's solar panel and battery system.

## **Construction Costs**

The initial capital costs have been estimated at £97,232, with the largest expenditure on the building itself (60ft x 30ft) and the gym equipment. A contingency of 10% for any overspends gives a total capital cost of £107,000. The business has the capability of funding £75,000 of the investment utilising cash reserves with a requirement of a maximum 7-year payback period. Therefore, a loan of £32,000 is required to be borrowed over 10 years at 4% interest.

## **Marketing strategy**

The customer profile is consumers in the age bracket 16-64, who have a greater level of disposable income with high image consciousness and passion to exercise regularly, particularly outdoors where possible. These consumers expect high quality sustainable equipment and facilities that provide value for money.

A professional website, social media accounts and flyers should be created with high quality photographs, concise messages, and clear membership instructions. The use of a catchy slogan such as “Feel Fricking Fantastic” at Frick’s Farm Fitness, is recommended to be used for marketing purposes.

The following pricing strategy, with no joining fee, was determined:

- Hourly rate for hire of the fitness room: £25.00
- Student and concession membership: £35 per month
- Adult Membership: £40 per month

#### **Other considerations:**

1. Full detailed planning permission is required for this proposed diversification.
2. The business should register as a limited company to ensure protection of personal possessions however, solicitors should be consulted with to ensure sound business structure.
3. Public liability, product liability, cyber risk insurance and employee liability insurance are required.
4. The fitness and leisure industry will remain dependent on disposable income and health-related trends therefore these should be monitored closely.
5. The exit strategy for the gym would be relatively simple, with gym equipment holding a good re-sale value and the design of building allowing for multi-purposes such as weddings and events.

#### **Considerations for the core business**

The business should employ a cleaner for the facilities. Management of memberships and marketing is agreed to be taken on in-house, fitting into the existing routine.

#### **Financial Viability**

The proposal is based on membership and class attendance rates kindly provided by Miss E. Beebe from Earn Your Fizz, a personal trainer at local competition. On average the business is forecasted to have 180 members (46 adults and 124 student or concession members) and will hire out the fitness room 12 times a week.

Once fully operational, profit before tax is forecasted at £43,745 with an internal rate of return of 8% over 5 years, with payback occurring in year 5. The business should arrange a bank overdraft of £10,000 to cover peak recordings in Years 1 and 2.

The sensitivity analysis highlighted the critical success factors to be closely monitored during start-up and beyond to reduce impacts on viability:

1. **Retaining members.** If sales are below the forecasted level during start-up, consider adapting the marketing strategy to utilise the most successful platform.
2. **Hire of the fitness room** has the greatest impact on an average year, therefore this should be monitored closely and marketed regularly.

P & E Frick and Sons should continue with the diversification into the fitness sector, with the unique selling point of the outdoor gym and fitness room however retaining members will remain a key long-term success factor for the business.

## 1.0 Introduction

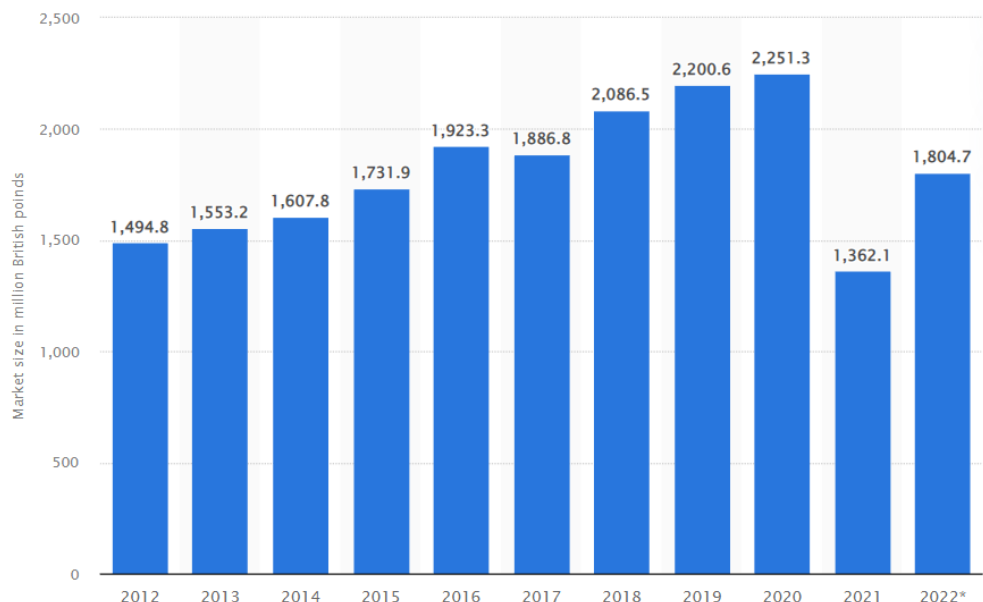
Research shows that in England 68% of farm businesses have diversified into non-farming activities, improving economic viability whilst providing benefits such as additional job opportunities<sup>1</sup>.

P & E Frick and Sons have instructed for the most suitable diversification option, potentially within the health and fitness industry to be explored. The business has the capability of funding £75,000 of the investment utilising cash reserves but has a total upper limit on the expenditure of £150,000 with a requirement of a maximum 7-year payback period.

## 2.0 Market Overview

### 2.1 UK Health and Fitness Market Research

Figure 1 shows the negative impact of the coronavirus pandemic in 2020-21 on the market share of UK gym, health, and fitness industry<sup>2</sup>. During the pandemic home fitness increased from 47% to 64% however, 25% of these consumers have now returned to the gym. Further research shows that 70% of individuals believe that COVID-19 has improved their awareness of the importance of their long-term physical health and fitness<sup>3</sup>.



(Source: Statista, 2023)

**Figure 1: Total market size of the UK gym, health and fitness industry 2012 - 2022**

<sup>1</sup> (UK Government, 2022)

<sup>2</sup> (Statista, 2023)

<sup>3</sup> (Intel, 2021)

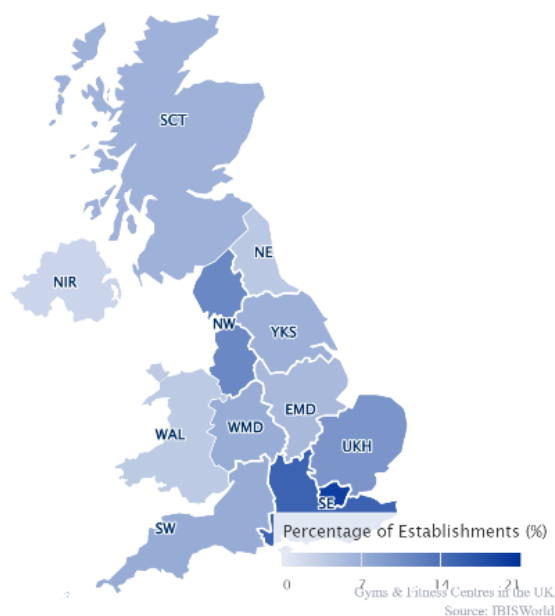
The rising obesity levels with approximately 64% of adults being overweight or obese in 2019 has stimulated the government to develop campaigns and initiatives to promote regular physical activity such as The Health Incentives Scheme supporting those with obesity to move towards a healthier weight<sup>4 5</sup>. Furthermore, the PHE Better Health campaign was led by the government to help people to lose weight, eat healthier and get active<sup>4</sup>.

Research states that the role of technology will increase within the fitness industry over the next five years<sup>6</sup>. This is due to technological advances such as the ability to seamlessly sync data from gym equipment to consumers' phones and wearable technology such as fitness watches<sup>5</sup>.

Additionally, 60% of under 25-year-olds and adults explained that environmental considerations had become a priority for them since the pandemic, suggesting an increasing future trend<sup>3</sup>.

## 2.2 Gyms in the UK

Figure 2 shows that the distribution of gyms mirrors the spread in population and incomes across the Nation. Urban areas have a larger proportion of established fitness businesses due to a higher population density and fewer exercise alternatives, however, they are often limited by space resulting in many being located on the outskirts of towns and cities<sup>7</sup>.



(Source: IBISWorld, 2022b)

**Figure 2: Percentage of gym and fitness establishments across the UK in 2022**

<sup>4</sup> (UK Government, 2021)

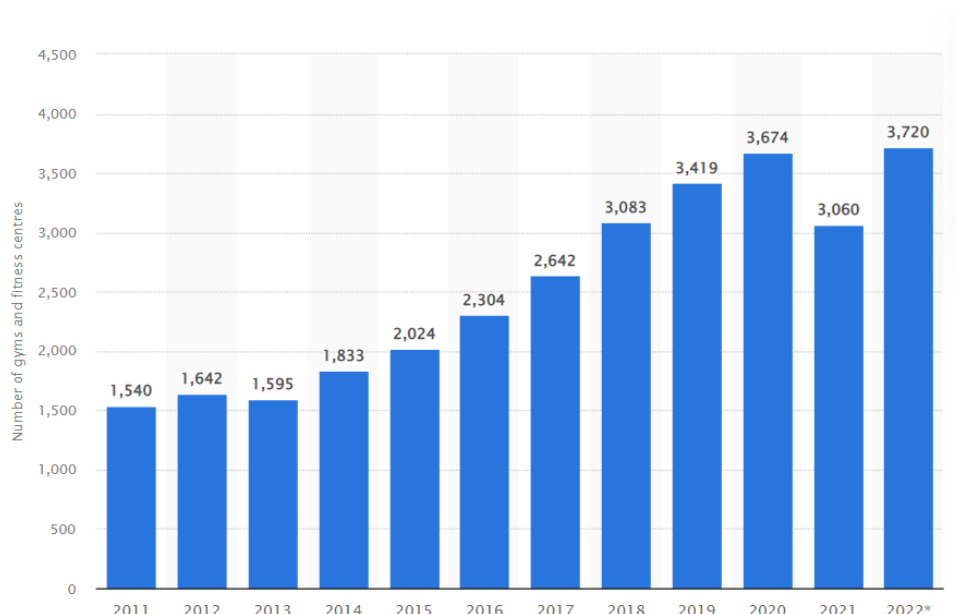
<sup>5</sup> (Statista, 2022a)

<sup>6</sup> (IBISWorld, 2022a)

<sup>7</sup> (IBISWorld, 2022b)



From 2011-2020 the total number of gyms in the UK has more than doubled, highlighted in Figure 3, indicating the booming fitness market<sup>8</sup>. Despite the negative impacts caused by the pandemic, the number of fitness businesses in 2022 has risen above pre-pandemic levels<sup>8</sup>. Furthermore, over the next 5 years to 2023, the industry revenue is forecasted to reach £2.4 billion, increasing by an annual rate of 5.5%<sup>7</sup>.



(Source: Statista, 2022b)

**Figure 3: Total UK number of gyms and fitness centres 2011-2022.**

Group fitness classes are predicted to continue to rise in popularity due to the benefits of improved motivation and confidence when exercising with a group of similar individuals<sup>7</sup>. Additionally, over 55's are the largest growing demographic in the fitness industry, looking to increase their physical activity through low-impact workouts such as pilates<sup>7</sup>. Since the pandemic more individuals are looking to exercise outdoors in a scenic location where possible<sup>7</sup>.

### 2.3 Local Development Plans in Lincolnshire

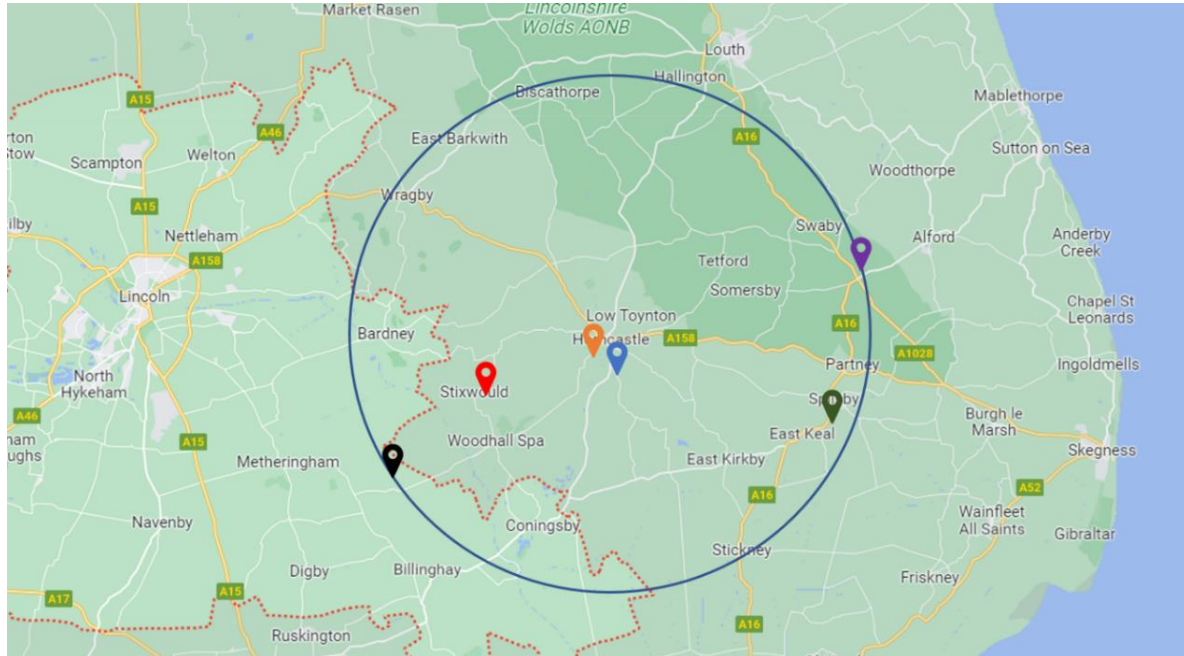
Lincoln, (22 miles from the proposed site) falls into the worst 10% nationally for problems with poor health, anti-social behavior, and crime. Consequently, Lincolnshire's Local Development Plans aim to reduce health inequalities by promoting regular physical exercise, particularly in open spaces<sup>9</sup>. The plans state that fitness and leisure facility proposals that deliver high-quality sustainable services utilising green infrastructure to minimise climate change effects and positively contribute to the local economy are likely to gain full support<sup>9</sup>.

<sup>8</sup> (Statista, 2022b)

<sup>9</sup> (East Lindsey District Council, 2018)

## 2.4 Competition with other gyms

Research from a large sample size (n=10,381) shows that UK consumers will travel up to 45 minutes for high-quality gym facilities<sup>10</sup>. Further research states that on average people would travel 20 minutes (approximately 10-15 miles) to a gym<sup>11</sup>. Therefore, local competition has been considered within a 15-mile radius, shown in Figure 4.



(Source: Google, 2021)



**Figure 4: Competition of other gyms within a 15-mile radius of the proposed site.**

Table 1 summarises the local competitors, for further information see appendix 1. Appendix 2 shows direct competition in a broader area.

<sup>10</sup> (Mattioli, Anable and Vrotsou, 2016)

<sup>11</sup> (Sammur *et al.*, 2021)

**Table 1: Summary of competitors within a 15-mile radius of the proposed site.**

Name and Distance	Pricing Structure	Features					Additional Comments
		Indoor gym	Outdoor gym	Private hire fitness room	Wi-Fi	Open 24/7	
The Gym Horncastle (2.0 miles)  Shown in Figure 4: 	Day Pass: £5  Weekly Pass £15  Monthly Membership £25  24/7 Monthly Membership £35	✓	X	X	✓	✓	Good location on the industrial site.  Card scanning system allows easy entry, improving customer experience.
Metheringham Gym (15 miles)  	Day Pass: £6  Weekly Pass £10  24/7 Monthly Pass: £35  Concession: £28  Junior: £10	✓	X	X	✓	✓	Free induction and training plan. Unlimited online classes for gym members.

(Sources: The Gym Horncastle, No date; Metheringham Gym, No date; Authors own, 2023)

The critical success factors identified in the market research are shown in Table 2. Metheringham Gym is maintaining a competitive advantage. New entrants need a sustainability-led strategy to gain a competitive advantage. Appendix 3 shows further details.

**Table 2: Analysis of the main competitors within a 15-mile radius of the proposed site.**

Critical Success Factor	Importance (I)	Competitor A- The Gym Horncastle		Competitor C – Metheringham Gym	
		Rating (R) 1=Poor 10= Excellent	Score (IxR)	Rating (R) 1=Poor 10= Excellent	Score (IxR)
Facilities – indoor	3	7	21	8	24
Location	2	8	16	7	14
Cleanliness	2	8	16	8	16
Value for money	1	7	7	7	7
Sustainability	1	3	3	3	3
Website	1	7	7	8	8
<b>Total</b>			<b>70</b>		<b>72</b>

(Source: Authors own, 2023)

## 2.5 Market Penetration

Within the local area, the market is currently growing, therefore a penetration strategy is recommended to ensure success of the investment<sup>7</sup>.

Market research has shown the following to be key customer requirements:

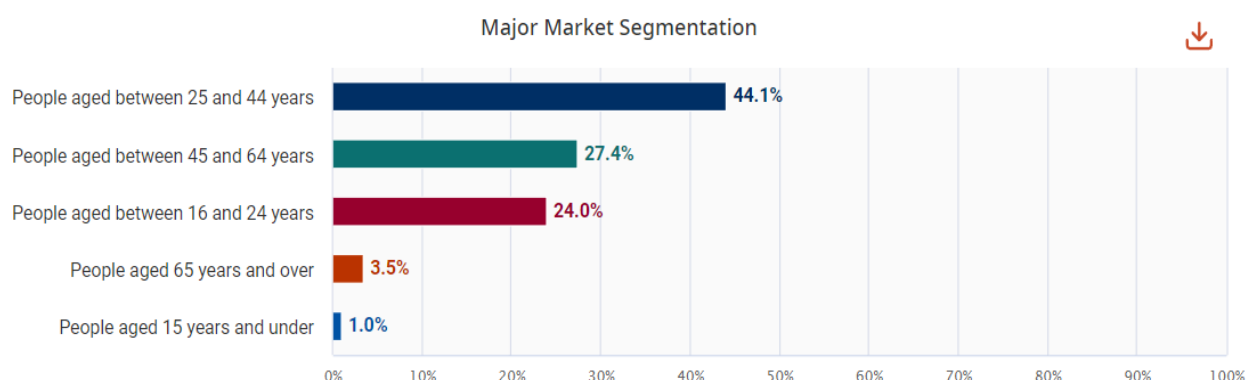
- Provision of high-quality facilities and equipment.
- Ability to exercise outdoors where possible, in a scenic but accessible location.
- Sustainability of the site.

There are limited local gyms with private hire fitness rooms meaning classes are held in local village halls, with inappropriate slippery flooring. Additionally, there is a lack of provision for outdoor gym sessions within 15 miles of the proposed site, caused by the shortage of space of the existing establishments. This, coupled with the rise in fitness class attendance, suggests a key unique selling point absent from the local market, to be utilised by the business as the critical form of penetration.

## 3.0 Potential Diversification Option Size and Scale

### 3.1 Potential Customers

Figure 5 shows that consumers between the ages of 16 and 64 make up approximately 96% of the gym market segment due to higher levels of disposable income and image consciousness<sup>7</sup>. Furthermore, research from Statista indicates that this category of consumers has on average £9,706 more disposable income than those over 65<sup>12</sup>.



(Source: IBISWorld, 2022b)

**Figure 5 The market segmentation of the gym and fitness industry in 2022.**

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<sup>12</sup> (Statista, 2022c)

Towns within a 15-mile radius of the proposed site are Horncastle, Woodhall Spa, Tetford and Spilsby with a total of 16,612 residents<sup>13141516</sup>. Of this total, 9222 consumers are in the target market age (16-64) categories. Approximately 15% of the UK population holds a gym membership, therefore the target group is approximately 1,383 individuals. Gyms should have enough equipment for 15% of their total number of members to use at any given hour<sup>7</sup>. Therefore, it is inferred that local competition has approximately 270 members due to having approximately 40 fitness stations. Considering local competition along with typically poorer health in the area, the available target market is approximately 300 members.

### 3.2 Proposed Diversification Option

The outdoor gym, one private hire fitness room (similar to Figure 8), and a small inside gym should be constructed initially, with the opportunity for expansion based on performance. Further research shows the recommended space in a gym is 10 square feet per person. Therefore, to accommodate for on average 180 members, a 60ft by 30 ft buildings is required<sup>7</sup>. To achieve this, extensive site works including utility connections need to be carried out.

The gym will have Wi-Fi, showers, and toilet facilities.



(Source: Beaver Fit, 2023)

**Figure 6 Outdoor Farm Gym equipment similar to the proposal**

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<sup>13</sup> (Census, 2021a)

<sup>14</sup> (Census, 2021b)

<sup>15</sup> (Census, 2021c)

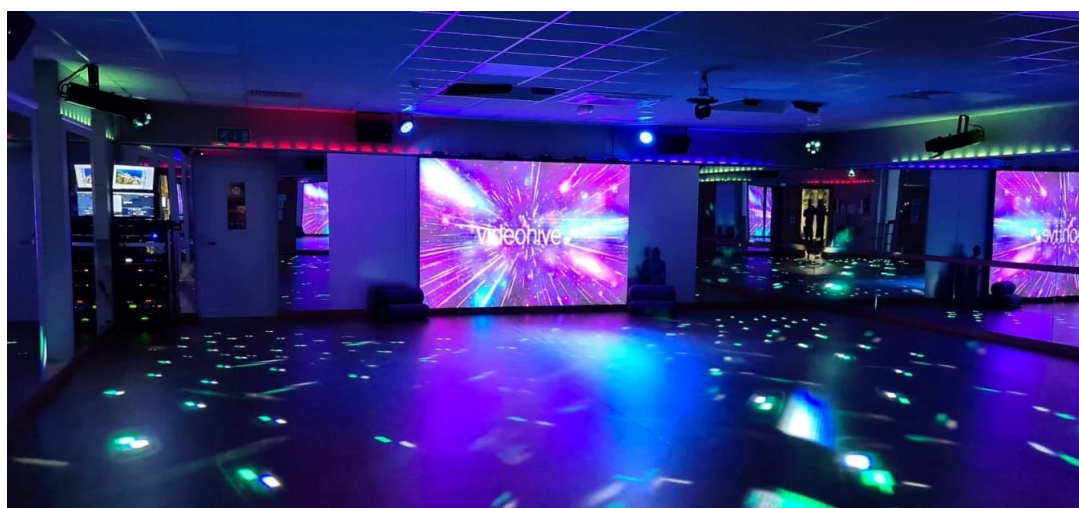
<sup>16</sup> (Census, 2021d)





(Source: Farm Fitness 2022)

**Figure 7 Inside view of building and gym equipment similar to the proposal**



(Source: Wickwoods Country Club, 2021)

**Figure 8 Inside view of an exercise/ fitness room similar to the proposal**

### 3.3 Capital Costs

The initial capital costs of the proposal have been estimated at £97,232 as shown in table 3. Further breakdown of the equipment costs are shown in Table 4. Appendix 4 shows further details.

**Table 3: Capital cost for a gym at the proposed site location**

<b>Item</b>	<b>Total Cost</b>
Building (gym including fitness room)	£25,000
Concrete and flooring	£2,540
Fencing	£3,000
Landscaping, drainage, and access	£10,000
Electricity	£6,000
Water Installation Connection	£3,100
Planning Permission	£3,000
Website, marketing and keyless entry	£3,000
Gym Equipment	£41,592
	<b>£97,232</b>

**Table 4: Breakdown of the capital costs for the gym equipment**

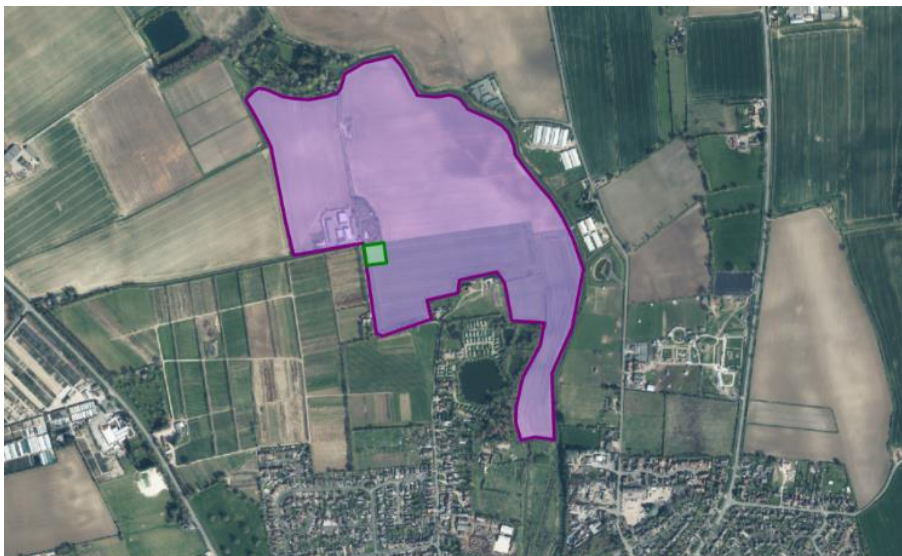
<b>Equipment</b>	<b>Cost</b>	<b>Quantity</b>	<b>Total Cost</b>
Treadmill	£1,645	4	£6,580
Rowing machine	£812	3	£2,436
Bike	£1,062	3	£3,186
Cross trainer	£1,995	2	£3,990
Stair master	£4,000	2	£8,000
Leg press	£2,599	1	£2,599
Bench	£495	2	£990
Olympic bar	£195	2	£390
Olympic weights	£472	2	£944
Olympic rack	£1,345	2	£2,690
Olympic collars	£20	2	£40
Dumbbell rack	£1,000	1	£1,000
Barbell set	£749	1	£749
Outdoor multi-use frame and bars	£2,999	2	£5,998
Disco lights and speakers	£2,000	1	£2,000
		<b>30</b>	<b>£41,592</b>

### 3.4 Human Resources Costs

Human labour will be required to manage the social media and website accounts, which has been accounted for in the budget. Management has agreed for this to be taken on in house fitting into the existing routine. The business should outsource a part-time cleaner to work 16 hours a week. Based on similar jobs offered in the area the business should pay approximately £9.50 an hour<sup>17</sup>.

### 3.5 Location

Access is provided by the tarmac road leading up to the business, easily cyclable and walkable being less than a mile from Horncastle. The recommended location for the site (0.3 acres) is highlighted in green on figure 9 due to the practicality of access and utilities.



(Source: Digimap, 2023)

**Figure 9: Proposed site for the diversification is highlighted in green, with the farm boundary highlighted in purple.**

## 4.0 Marketing Strategy

This diversification is based on a high-quality indoor and outdoor fitness experience, in a scenic location, with the opportunity to hold group fitness classes. Retaining membership is critical therefore, customers must feel welcomed, included and motivated through exceptional customer service.

### 4.1 Customer Profile

The customer profile has been identified as consumers in the age bracket 16-64, who have a greater level of disposable income with high image consciousness and passion to exercise regularly particularly outdoors where possible, with high quality sustainable facilities.

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<sup>17</sup> (Indeed, 2023)



## **4.2 Brand Building**

Building a brand around promoting improved health and well-being by exercising as a group with the option of a quality outdoor gym in a scenic location, is a key penetration area to stimulate initial membership levels.

A professional website and social media account should be utilised with high quality photographs, concise messages and clear membership instructions. The business should also distribute flyers at local village halls where fitness classes currently take place.

The use of a catchy slogan such as “Feel Fricking Fantastic” at Frick’s Farm Fitness, is recommended to be used for marketing purposes.

## **4.3 Sustainability**

Consumers are driven by sustainability and will choose ‘greener’ methods of fitness now and in the future<sup>18</sup>. Marketing the advantages of exercising outdoors utilising upcycled farm resources such as tyres, along with the benefit of the indoor gym being powered by the surplus energy from the farm’s solar panels, is essential.

## **4.4 Membership options and hire of the fitness room**

The website should allow fitness instructors to book out the group fitness room, or full use of the outdoor facilities at their convenience. Consumers should be able to view the range of membership options and pay for any of these online, following clear instructions.

## **4.5 Pricing Strategy**

Analysis of the pricing strategy of competitors in appendix 1 and 2 has allowed calculation of competitive prices:

- Hire of the fitness room: £25.00 per hour.
- Student and Concession membership: £35 per month.
- Adult Membership: £40 per month.
- No joining fee.

It would be advisable to revisit this pricing strategy every 6 months, particularly considering the cost-of-living crisis. Once established, the business could look at introducing day/week passes for the gym to encourage new members.

Typically, a boost in membership sales is received every January, whereby many gyms offer discounted rates<sup>7</sup>. Potential to create campaigns rather than discounting membership rates otherwise consumers who were willing to join at full price may then only join during the discounted rate period, causing a loss in revenue.

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<sup>18</sup> (FAO, 2018)

## 5.0 Other considerations

### 5.1 Planning requirements

Full detailed planning permission is required for this proposed diversification due to changing the use of the land from Agricultural purposes<sup>19</sup>. Lincolnshire County Council should be consulted before the installation work as they support farm diversifications through LEADER funding grants of up to £100,000<sup>20</sup>. For the purpose of this appraisal the grant has not been included. Appendix 5 provides further planning information.

### 5.2 Amenities (Electricity, Water and Groundwork)

The following quotes are all subject to VAT:

- Electricity, to connect the proposed site to the farm's solar panels and battery storage system (using 3-phase): £6,000. The core business generates surplus electricity and at peak times on the farm, there is sufficient surplus electricity to run the gym at maximum capacity, off grid.
- Water supply installation: £3,100.
- Groundworks (including all materials, acquired labour, septic tank installation, landscaping, and drainage work): £10,000.

Further details can be found in appendix 6.

### 5.3 VAT Considerations and the Business Setup

The proposal will not exceed £85,000 in total turnover therefore the business should be set up as a separate non-VAT registered business<sup>21</sup>.

The business should register as a limited company to ensure protection of personal possessions however, solicitors should be consulted to ensure sound business structure<sup>22</sup>.

Business rates would apply however, retail, hospitality and leisure relief would be applicable<sup>23</sup>. Contact East Lindsey District County Council, to confirm eligibility.

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<sup>19</sup> (UK Government, No date, a)

<sup>20</sup> (LODDON Test, 2023)

<sup>21</sup> (UK Government, No date, b)

<sup>22</sup> (UK Government, No date, c)

<sup>23</sup> (UK Government, No date, d)

## 5.4 Public Liability and Insurance

When designing the site, consult with insurers to address any potential issues early in the planning process.

The business must have:

- Public liability due to inviting consumers onto the site and protect against any damage to themselves or their belongings<sup>24</sup>.
- Product liability to protect the business against the cost of compensation for personal injury caused by any faulty products.
- Employee liability insurance for anyone employed to clean the site<sup>25</sup>.
- Cyber risk insurance.

## 5.5 Future Considerations and Competitors

Future-proofing can be achieved by performance monitoring and as the fitness industry will remain dependent on disposable income and health related trends, these should be monitored allowing the business to adapt accordingly<sup>7</sup>. The exit strategy for the gym would be simple, with gym equipment holding a good re-sale value (depending on their condition) along with the building design allowing for multi-purposes such as: weddings and events.

## 6.0 Core Business Considerations

### Physical impacts:

The 0.3 acres of medium productive agricultural land (the headlands) being taken out of production will not significantly impact the business.

### Traffic and Noise Considerations:

The core businesses specialises in contracting and works from other yards during busy times of the year (harvest) and therefore would not be impacted by the noise impact and increased volume of road traffic.

### Impact on human resources:

The business will employ a regular cleaner. Therefore, as budgeted for, this would not impact the human resources greatly, with management of the memberships being taken on in-house, fitting into the existing routine.

### Financial impact:

This proposal will use some existing cash reserves, £75,000, with the business seeking to borrow £32,000. The business should seek legal advice to ensure terms of contract are drawn up.

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<sup>24</sup> (Savills, 2023)

<sup>25</sup> (UK Government, No date, e)

## 7.0 Financial Viability

### 7.1 Financial viability of the core business

Strong equity percentage of 79% and gearing ratio of 6%, reinforces the strong financial position of the core business. See appendix 7 for further analysis.

### 7.2 Sales Forecast for the gym

Membership numbers, shown in Table 5 and number of classes held per week, shown in table 6 have been adapted from data kindly given from Miss E. Beebe from Earn Your Fizz, from her first year of trading. Further details shown in appendix 8 and 9.

In the local area 72% of consumers are students or concession and the remaining 28% are adults<sup>13</sup>. Therefore, an assumption has been made that of the 95 members joining in the first year, 25 will be using an adult membership (£40 per month) and 70 will be either student or concession membership (£35 per month).

**Table 5: Sales forecast for Year 1 until an average year of trading**

	Year 1		Year 2		Year 3		Average Year	
	Total number of members		Total number of members		Total number of members		Total number of members	
	A	St+C	A	St+C	A	St+C	A	St+C
January	0	0	29	81	54	146	46	134
February	0	0	32	88	52	143	46	134
March	0	0	35	95	50	140	47	138
April	0	0	38	102	48	137	47	138
May	8	22	42	113	48	137	46	134
June	16	44	46	124	46	134	46	134
July	19	51	50	135	46	134	46	134
August	22	58	53	142	46	134	46	134
September	23	62	54	146	46	134	46	134
October	24	66	55	150	46	134	46	134
November	25	70	55	150	46	134	46	134
December	25	70	55	150	46	134	46	134
Total number of members at year ending	95		205		180		180	

**KEY:**

A=Adult

St= Student

C=Concession

**Table 6 Sales forecast for the hire of the fitness room for classes**

	Yr 1	Yr 2	Yr 3	Average Year
Number of classes per week	4	9	12	12
Number of classes per year	139	468	624	624
Price to hire the room per hour	£25	£25	£25	£25
Total sales	£3,470	£11,700	£15,600	£15,600

### 7.3 Finance Requirements

Contingency of 10% on initial capital costs shown in table 3, gives total capital costs of £107,000.

The business is willing to invest £75,000 into the project. Therefore, a loan of £32,000 is required to be borrowed over 10 years at 4% interest.

### 7.4 Profit and Loss Account

Table 7 shows that the business will have a loss of £18,292 in the first year and then an average profit of £43,745.

Although the forecast sales in table 5 shows a greater number of total members in year 2, the increase in profit is seen in year 3 due to the assumption of more members joining in the summer of the second year (seasonality of the outdoor gym) and retaining membership for a year before returning to their old gym, meaning the cumulative number of members is greater at the start of year 3 than year 2.

There are no electricity running costs due to being off-grid. Further assumptions are shown in Appendix 10.

**Table 7 Profit and Loss account during start-up and an average year.**

		Year 1	Year 2	Year 3	Average Year
<b>Membership sales</b>					
	January	£0	£3,995	£7,270	£6,530
	February	£0	£4,360	£7,085	£6,530
	March	£0	£4,725	£6,900	£6,710
	April	£0	£5,090	£6,715	£6,710
	May	£1,090	£5,635	£6,715	£6,530
	June	£2,180	£6,180	£6,530	£6,530
	July	£2,545	£6,725	£6,530	£6,530
	August	£2,910	£7,090	£6,530	£6,530
	September	£3,090	£7,270	£6,530	£6,530
	October	£3,270	£7,450	£6,530	£6,530
	November	£3,450	£7,450	£6,530	£6,530
	December	£3,450	£7,450	£6,530	£6,530
	<b>Total</b>	<b>£21,985</b>	<b>£73,420</b>	<b>£80,395</b>	<b>£78,720</b>
<b>Hire of fitness room</b>					
		£3,470	£11,700	£15,600	£15,600
		<b>£3,470</b>	<b>£11,700</b>	<b>£15,600</b>	<b>£15,600</b>
<b>Total Sales</b>		<b>£25,455</b>	<b>£85,120</b>	<b>£95,995</b>	<b>£94,320</b>
<b>Costs</b>					
<b>Property</b>	Electricity	£0	£0	£0	£0
	Water	£2,000	£3,000	£3,000	£3,000
	Wi-Fi	£200	£300	£300	£300
	Heating	£664	£1,000	£1,000	£1,000
	Equipment repairs and maintenance	£2,000	£2,000	£5,000	£5,000
<b>Labour</b>	Labour/PAYE /NI	£20,464	£27,404	£27,404	£27,404
<b>Other</b>	Insurance	£4,667	£7,000	£7,000	£7,000
	Music PPL license	£706	£706	£706	£706
	Website	£175	£175	£175	£175
<b>Finance</b>	Loan interest	£1,280	£1,174	£1,063	£640
	Bank interest	£480	£416	£0	£0
<b>Depreciation</b>		£11,111	£9,252	£7,765	£5,350
<b>Total</b>		<b>£43,747</b>	<b>£52,427</b>	<b>£53,413</b>	<b>£50,575</b>
<b>Net Profit</b>		<b>-£18,292</b>	<b>£32,693</b>	<b>£42,582</b>	<b>£43,745</b>

Table 8 shows that the business is unviable in year one. Assumption that the business will not re-invest during start-up due to all equipment being under guarantee (except essential pollution control). Investments to be made in year 5, due to the predicted lifespan of the equipment, shown in the investment appraisal.

Assumption that the business will pay corporation tax at 19% due to being a limited company with small profit rates<sup>22</sup>. Detailed assumptions shown in appendix 11.

**Table 8 Viability assessment if the business operates at forecasted levels**

<b>Viability Assessment</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Average Year</b>
Profit excl. Depr	-£7,181	£41,945	£50,347	£49,095
Private Drawings	£0	£10,000	£10,000	£10,000
Corporation Tax	£0	£6,212	£8,091	£8,312
Repayments	£3,936	£3,936	£3,936	£3,936
Reinvestments	£0	£0	£0	£0
<b>Viability</b>	<b>-£11,117</b>	<b>£21,798</b>	<b>£28,320</b>	<b>£26,847</b>

## 7.5 Cashflow

Table 9 summarises the net cashflow with a full breakdown shown in Appendix 12, 13, 14, 15 and 16. An overdraft of 10,000 must be arranged to cover the peak recording in Years 1 and 2.

Important to note that the financial year starts in January, with costs of loan repayments, interest, and marketing costs being incurred before trading begins in May of Year 1.

**Table 9 Summary of cashflow (beginning in January) for years 1-3 and an average year.**

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Average Year</b>
<b>Total Receipts</b>	£25,455	£85,120	£95,995	£94,320
<b>Total Expenses</b>	£35,292	£62,149	£66,612	£66,524
<b>Net Cashflow</b>	-£9,837	£22,971	£29,383	£27,796
<b>Opening balance</b>	£0	-£9,837	£19,346	£56,820
<b>Closing balance</b>	-£9,837	£19,346	£56,820	£92,928
<b>Peak recording</b>	-£9,837	-£9,517	£23,098	£59,858
<b>Month of peak recording</b>	Dec	Jan	Jan	Jan

## 7.6 Sensitivity Analysis

Table 10 summarises the sensitivity analysis, highlighting the following critical success factors which need to be closely monitored:

**Retaining members** has the greatest impact on viability. Ensuring exceptional customer service will retain members. If sales are below forecasted level during start up, consider the time and frequency of social media posts and the possibility of a fitness campaign.

**Hire of fitness room:** has a greater impact on the average year, therefore this should be monitored closely beyond start up to prevent viability losses of £2,527.

Important to note that the increase/ decrease of the same factors does not have the same impact on viability because of the bank overdraft interest. For further assumptions see appendix 18.

**Table 10 Sensitivity analysis**

Sales Membership sales	Change		Year	Total sales (£)	Total Costs (£)		Impact on Viability (£)
	10%	increase	Year 1	28,375	43,661	+	3006
	10%	increase	Year 2	94,300	52,172	+	7,642
	10%	increase	Year 3	103,855	53,413	+	6,367
	10%	increase	Average Year	102,180	50,575	+	6,367
<b>Membership sales</b>	10%	decrease	Year 1	22,535	43,834	-	3,007
	10%	decrease	Year 2	75,940	52,876	-	7,799
	10%	decrease	Year 3	88,135	53,413	-	6,367
	10%	decrease	Average Year	86,460	50,575		6,367
<b>Hire of Fitness room</b>	20%	increase	Year 1	26,149	43,726	+	715
	20%	increase	Year 2	87,460	52,350	+	1,958
	20%	increase	Year 3	99,115	53,413	+	2,527
	10%	increase	Average Year	97,440	50,575		2,527
<b>Hire of Fitness room</b>	20%	decrease	Year 1	24,761	43,768	-	715
	20%	decrease	Year 2	82,780	52,518	-	1,969
	20%	decrease	Year 3	92,875	53,413	-	2,527
	10%	decrease	Average Year	91200	50,575		2,527



### 7.7 Targets to break even in an average year

Table 11 highlights targets to be achieved in an average year to break-even, highlighting the importance of retaining members, for example the business needs to ensure 26 adult members are paying a monthly membership.

See appendix 19 for detailed assumptions.

**Table 11 Summary of break-even targets to achieve on an average year.**

	<b>Adult</b>	<b>Student + Concession</b>	<b>Hire of fitness room</b>
<b>Price charged (£)</b>	40 per month	35 per month	25 per hour
<b>Breakeven yearly target</b>	308	880	335
<b>Breakeven monthly target</b>	26	73	28 hours of hire

### 7.8 Investment appraisal for an on-farm gym

Table 12 shows that the gym has an internal rate of return (IRR) of 8% over 5 years, which is higher than the 4% interest, meaning this is an acceptable rate of return. Additionally, the payback satisfies the businesses objectives.

See appendix 20 for a full investment appraisal.

**Table 12 Summary of investment appraisal for the gym**

<b>Capital Investment</b>	£107,000
<b>Annual Extra Profit</b>	£39,735
<b>IRR</b>	8.0%
<b>Payback Period occurs in</b>	Year 5


## 8.0 Conclusions




Market research indicates strong trends of continuous growth in the fitness industry, driven by an increase in health consciousness, and sustainability. Local development plans set by East Lindsey District Council are likely to support the proposal and the strong financials of an average net profit of £43,745 and 5-year returns, indicates strong viability. Therefore, P & E Frick and Sons should continue with the proposal however, understanding the capital and working cost implications are essential. The business should continue to monitor market trends and adapt accordingly, seeking professional advice where applicable. Retaining members will be essential for success.



## Appendices


### Appendix 1 All direct competition in terms of location within a 15-mile radius

Within a 15-mile radius to the proposed site, the 6 direct competitors are shown below. Although these competitors do not provide an outdoor gym and only a couple have a private hire gym classes room, they are direct competitors in terms of the location of the businesses competing for the same target audience as the proposed diversification.

The  are used to show the location of the competition on the map in Figure 4.

Name and Distance	Pricing Structure	Features					Additional Comments
		Indoor gym	Outdoor gym	Private hire fitness room	Wi-Fi	Open 24/7	
Horncastle Pool and Fitness Suite (1.6 miles) 	Monthly Student membership £23.50  Platinum membership (access to swimming too): £33.50	✓	X	X	✓	X	Bundle membership available (includes swimming). No additional room for group sessions to take place.
The Gym Horncastle (2.0 miles) 	Day Pass: £5  Weekly Pass £15  Monthly Membership : £25.00  24/7 Membership : £35	✓	X	X	✓	✓	Good location on the industrial site.  Card scanning system allows easy entry, improving customer experience.
Jubilee Park Fitness Suite (7.8 miles) 	Monthly Adult Pass: £37  Senior Adult Pass (60+): £35  Student Monthly Pass: £35	✓	X	X	✓	X	Typically, a smaller gym (max 4 running machines).  Tight spaces crammed together. Lack of resistance

	On top of this 10% reduction is offered for: Armed Forces; Fire Service and NHS.						training machines.  Good to attract student age range with a discount.
VFitness (11.6 miles) 	1:1 Personal training: £30  Monthly Gym only membership £36  Signup fee of £5	✓	X	✓	✓	X	Small additional studio where other fitness classes are held (spinning classes, HIIT, Yoga, Boxing)  Has sunbeds.  Poor website which can only be found through Facebook.  Can't book a day rate or week rate.
Metheringham Gym (15 miles)  	Day Pass: £6  Weekly Pass £10  24/7 Monthly Pass: £35  Concession: £18  Junior (10-15): £10 (must be accompanied by a	✓	X	X	✓	✓	Free induction and training plan. Unlimited online classes for gym members.  Has classes coming soon.

	paying adult member)						
Absolute Fitness (15 miles) 	Per session: £5  Week Pass: £12.50  Monthly Pass: £40  Monthly Direct Debit: £30	✓	X	✓	✓	X	No website is only accessible through Facebook. Has limitations if people are not using Facebook, potentially the older generations.  Also is slightly more expensive than the others. plus sunbeds

## Appendix 2 Related 'on farm' competition providing outdoor gyms.

It is important to note that the related competitors shown below are from a much wider distance in relation to the location of the proposed diversification. This is required because they show examples of outdoor farm gyms, which is essential to analyse a pricing strategy, equipment and facilities provided for the proposed diversification (taking into consideration the effect of location on the prices).

Name and Distance	Pricing Structure	Features					Additional Comments
		Indoor gym	Outdoor gym	Private hire fitness room	Wi-Fi	Open 24/7	
Inshape Gym (16.3 miles)	Rolling Monthly: £37.99	✓	X	X	✓	✓	Good website.  Range of testimonials which suggest a positive customer experience with high quality equipment.
Thorpe Performance (48.3 miles)	2 sessions per week: £45 per month.  Unlimited sessions per week: £65 per month	✓	✓	X	✓	✓	Limitations: can't just buy a membership only for the gym.
BodyTek Gym (74 miles)	Membership: £40 per month	✓	✓	X	✓	✓	Has a concrete pad outside where outdoor training occurs with tyres etc.

The Barn Bootcamp (78.7 miles)	Have to do an initial 6-week challenge (training 3 times a week)	✓	✓	X	✓	X	<p>Old grain storage transformed into a training location.</p> <p>Purpose-built outdoor group training area fitted with a multi-purpose surface.</p> <p>Benefit of getting fresh air during classes.</p>
Farm Fitness (122 miles)	<p>£49 per month (free in body health assessment)</p> <p>£12 two-hour training session.</p> <p>Platinum monthly membership £160 per month</p>	✓	✓	X	✓	X	<p>Outdoor training area, specific monkey bars, tyres and weights for training use. Astro turf for soft landing.</p> <p>Note, the location, just above London, so is likely to be more expensive.</p> <p>Can book variety of classes. Classes range from £10-18. Platinum membership includes unlimited gym use, free t-shirt, and unlimited weekly classes.</p>

Farmer Strong (133 miles)	All class based memberships no access to just the gym £10.00 per class £65 per month for unlimited classes	✓	✓	X	✓	X	<p>Hosted their own fittest on the farm event.</p> <p>Hold kit teams and events.</p> <p>Use of haybales etc to incorporate farm equip/ products into classes.</p> <p>Old farm building. Good reviews. Sand base for outdoor facilities, monkey bars, rope climbing etc</p>
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#### Analysis of the cost of hiring out village halls to hold fitness classes:

Local village halls in the area charge £8-£40 an hour, depending on the size of the room<sup>2627</sup>

Therefore, based on this, for a room of a similar size to the proposed fitness room, it would be advisable to charge approximately £25 an hour to ensure competitive rates.

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<sup>26</sup> (Horncastle Community Centre, 2023)

<sup>27</sup> (Halls Hire, 2023)

### Appendix 3 Analysis of the direct competitors

		<b>Competitor A- The Gym Horncastle</b>		<b>Competitor B - VFitness</b>		<b>Competitor C – Metheringham Gym</b>	
<b>Critical Success Factor</b>	Importance (I)	Rating (R) 1=Poor 10= Excellen t	Score (IxR)	Rating (R) 1=Poor 10 =Excellent	Score (IxR)	Rating (R) 1=Poor 10= Excellent	Score (IxR)
Facilities – indoor	3	7	21	7	21	8	24
Location	2	8	16	6	12	7	14
Cleanliness	2	8	16	6	12	8	16
Value for money	1	7	7	9	9	7	7
Sustainability	1	3	3	2	2	3	3
Website	1	7	7	3	3	8	8
<b>Total</b>			<b>70</b>		<b>59</b>		<b>72</b>

Metheringham gym has achieved a competitive advantage by achieving a higher proportion of the critical success factors, compared to VFitness which may benefit from setting up a professional easy to use website in addition to their social media account.

Overall, the industry is in the growth stage of the life cycle. This is further confirmed by establishment numbers increasing as budget gyms gain popularity with the lower prices attracting consumers who would have typically been disadvantaged due to price constraints of joining a gym<sup>7</sup>.



#### Appendix 4 Construction/Capital costs

Disclaimer: please note all quotes provided below are subject to change, VAT and are valid for 14 days after site visit. For this appraisal, approximate quotes were given over telephone calls based on site descriptions provided.

##### Size of the site: 0.3 acres (1348m<sup>2</sup>):

- Size of the gym building: 10m x 20m = 200m<sup>2</sup>
- Size of the outdoor gym space: 10m x 20m = 200m<sup>2</sup>
- 1 Car parking space: 2.4m x 4.8m = 11.5m<sup>2</sup>
  - 40 Car parking spaces: 11.5m<sup>2</sup> x 40 = 460m<sup>2</sup>
- Roadway between rows of cars: 6m x 15m = 90m<sup>2</sup>
  - Allow for 3 roadways between cars: 90m<sup>2</sup>x3 = 270m<sup>2</sup>
- Entrance space: 7m x 7m = 49m<sup>2</sup>
- Total of the above gives: 1179m<sup>2</sup>. Therefore, size of the site is sufficient, with an extra 169m<sup>2</sup> allowed as margin for error and room for expansion.

##### Capital costs:

- Building: 60ft x 30ft x 10ft (10m x 20m x 3m) insulated steel frame building approx.: £25,000 quotes by Castle Steel Buildings<sup>28</sup>.
- Concrete and flooring: 20m x 10m = 200m<sup>2</sup>  
200m<sup>2</sup> x 0.1m (4 inches thick) = 20m<sup>3</sup>  
20m<sup>3</sup> x £127 = £2540 (quote from Breedon<sup>29</sup>)
- Landscaping, drainage, and access (including car park): £10,000 Quote provided by Mr M Frick.
- Website: £1,000 approximately, quote from Wix (website creator company).
- Keyless entry to the gym: £2,000 using Safeguard keyless entry<sup>30</sup>

##### Equipment costs:

All equipment must comply with relevant laws and regulations and meet minimum commercial equipment standards. Furthermore, the Stationary Training Equipment Standards state the safety requirements of equipment. The business must comply with these<sup>7</sup>.

- Due to aiming for 220 members at maximum capacity, the business requires sufficient equipment for 15% of its members to use at any given hour, therefore approximately 30 pieces of equipment have been chosen.
- All indoor equipment uses average prices from UK Gym Equipment<sup>31</sup>, Best Gym Equipment<sup>32</sup> and Technogym<sup>33</sup>.
- All outdoor gym is based on averages from Beaver Fit<sup>34</sup> and Broxap<sup>35</sup>.

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<sup>28</sup> (Castle Steel Buildings, 2023)

<sup>29</sup> (Breedon, 2023)

<sup>30</sup> (Safeguard, 2023)

<sup>31</sup> (UK Gym Equipment, 2023)

<sup>32</sup> (Best Gym Equipment, 2023)

<sup>33</sup> (Technogym, 2023)

<sup>34</sup> (Beaver Fit, 2023)

<sup>35</sup> (Broxap, 2023)

## **Appendix 5 Additional Planning Permission and Available Grants Information**

### Planning permission details:

Planning permission to convert industrial units into a gym (The Gym Horncastle), was applied for by Mr. J Whanstall in 2017, approximately 2 miles away from the proposed site. This application was passed, and a result provides sufficient guidance on the key considerations by Horncastle Town Council. The council will consider the implications of the access and public highways in relation to the size of the site. Furthermore, the council will ensure there are no adverse visual impacts on the landscape along with all other environmental considerations. Due to the proposed site being located in a rural area sheltered from the public view, and not in any special designation areas, this is likely to have a minimal effect on the application<sup>36</sup>.

Note: there were concerns raised regarding the noise, signage and parking of the sight, so these should be considered carefully by P & E Frick and Sons.

### LEADER Funding:

This is a farm diversification grant programme set up to allow farm businesses to demonstrate entrepreneurial skills to diversify into non-farming- related activities. The program aims to support core farm businesses by bringing in additional income from diversified activities utilizing resources more efficiently and meeting local demands<sup>20</sup>.

The programme supplies grants from £2,500 to £100,000 where a 60% match funding is required. The main consideration to note is that the business must be able to fund 100% of the project, as the business is required to make all purchases before receiving the grant<sup>20</sup>.

The diversification project must fit with local priorities, which can be checked through analysing the Local Development plans for the area. Typically, this proposed diversification satisfies all requirements to be eligible for the grant, therefore it would be recommended for the business to apply in a timely manner. For this appraisal the grant has not been taken into consideration to ensure the business would remain viable without additional support<sup>20</sup>.

Should further advice be required, organisations such as CLA or local land agents including Robert Bell & Company would give expert guidance.

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<sup>36</sup> (Horncastle Town Council, 2017)

## **Appendix 6 Additional information on amenities**

Disclaimer: please note all quotes provided below are subject to change, VAT and are valid for 14 days after site visit. For this appraisal, approximate quotes were given over telephone calls based on site descriptions provided.

### **Electricity**

- Electricity: to connect the proposed site to the farms solar panels system: £6,000. Quote by Western Power.

### **Water**

- Water connection to the site: £3,100 to get connected. Anglian water (2023) Telephone conversation, 18 January 2023.

### **Groundworks**

- Groundworks, approx. £10,000 (includes all materials and acquired labour, access, landscaping, drainage work, and septic tank put in)  
Frick, M. (2023) Telephone conversation with Mr M. Frick, 27 January.

## Appendix 7 Financial viability of the core business

To support a successful diversification option, the core business must have strong balance sheet. Therefore, the following balance sheet indicators have been calculated to ensure the core business (arable and contracting enterprises) are sound financially.

Balance sheet indicator	2020	2021	2022
Percentage Equity (%)	79	81	79
Gearing Ratio (%)	15	12	6
Current Ratio	1.8	1.5	1.2
Liquidity Ratio	1.2	0.7	0.9

**Equity:** Ideal is above 90%. The business has a strong equity percentage.

**Gearing:** <10% is ideal. The business is in a strong position due to the minimal amount of long-term borrowings. Consequently, the business would be able to gain support from the bank to secure a loan if required for the investment.

**Current:** Ideal ratio of 2:1, acceptable is 1:1. The business is in a good position as they could pay off current liabilities with their current assets. Consequently, there is less risk that the business would need to release capital by selling fixed assets or increasing long term liabilities to generate cash to pay for any immediate needs.

**Liquidity:** Ideal ratio is >1:1 is acceptable. Currently, the client cannot meet all of its immediate cash needs (current liabilities) from cash and therefore may have to sell trading stock at the “wrong time”. Although this is not an immediate concern, there is future scope for improvement.

## **Appendix 8 Assumptions to accompany the sales forecast:**

Data kindly provided by Miss E. Beebe (Earn Your Fizz):

- Classes are typically busy all year around, with more people joining in January but fewer people attending at Christmas due to attending other social events.
- In an average year, Miss E. Beebe teaches 13 fitness classes per week.
- Sales are likely to peak in second year of trading due to curious customers and return to average trading the following years.

In the local area, typically 72% of consumers are students or concession and the remaining 28% are adults. Therefore, an assumption has been made that of the 95 members joining in the first year, 25 will be using an adult membership (£40 per month) and 70 will be either student or concession membership (£35 per month).

### Capacity of the proposed gym:

Maximum capacity: 220 members

Year 1: 43%

Year 2: 93%

Year 3: 81%

Average Year: 81%

### Opening times:

It is recommended that the gym is not open 24/7 to reduce costs and focus on ensuring the highest quality service is provided during opening hours. Review this once the business is established.

### Cancellation policy:

Advised that consumers have to give 30 days' notice to end their monthly membership.

If the fitness room has been hired out, and the individual is unable to attend and has to cancel, the individual is still required to pay full price for the room.

## Appendix 9 Sales forecast of the gym

	Year 1						Year 2						Year 3						Average Year					
	Regular		New customers		Total		Regular		New customers		Total		Regular		New customers		Total		Regular		New customers		Total	
	A	St+C	A	St+C	A	St+C	A	St+C	A	St+C	A	St+C	A	St+C	A	St+C	A	St+C	A	St+C	A	St+C	A	St+C
Jan	0		0	0	0	0	25	70	4	11	29	81	51	139	3	7	54	146	43	127	3	7	46	134
Feb	0		0	0	0	0	29	81	3	7	32	88	51	139	1	4	52	143	45	130	1	4	46	134
Mar	0		0	0	0	0	32	88	3	7	35	95	49	136	1	4	50	140	46	134	1	4	47	138
April	0		0	0	0	0	35	95	3	7	38	102	47	133	1	4	48	137	46	134	1	4	47	138
May	0		8	22	8	22	38	102	4	11	42	113	47	133	1	4	48	137	46	134	0	0	46	134
Jun	8	22	8	22	16	44	42	113	4	11	46	124	45	130	1	4	46	134	46	134	0	0	46	134
July	16	44	3	7	19	51	46	124	4	11	50	135	46	134	0	0	46	134	46	134	0	0	46	134
Aug	19	51	3	7	22	58	50	135	3	7	53	142	46	134	0	0	46	134	46	134	0	0	46	134
Sept	22	58	1	4	23	62	53	142	1	4	54	146	46	134	0	0	46	134	46	134	0	0	46	134
Oct	23	62	1	4	24	66	54	146	1	4	55	150	46	134	0	0	46	134	46	134	0	0	46	134
Nov	24	66	1	4	25	70	55	150	0	0	55	150	46	134	0	0	46	134	46	134	0	0	46	134
Dec	25	70	0	0	25	70	55	150	0	0	55	150	46	134	0	0	46	134	46	134	0	0	46	134
Total number of members at yr ending	95						205						180						180					

### KEY:

A= Adult  
St= Student  
C=Concession

	Yr 1	Yr 2	Yr 3	Average Year
Number of classes per week	4	9	12	12
Number of classes per year	139	468	624	624
Price to hire the room per hour	£25	£25	£25	£25
Total sales	£3,470	£11,700	£15,600	£15,600

## Appendix 10 Assumptions to accompany the Profit and Loss Account

The profit and loss account assumes that the forecasted sales shown in Appendix 9 are achieved, using prices of:

- £40 for adult monthly membership
- £35 for student and concession monthly membership

### **Capital budget:**

	£
<b>Capital Available and Released</b>	£75,000
<b>Capital Invested</b>	£107,000
<b>Net Capital Change</b>	-£32,000
<b>Interest @ 4%</b>	<u>£640</u>

Loan interest for the first 3 years is calculated during the investment appraisal shown in appendix 19. Interest for an average year is based on the straight-line method shown above.

Depreciation for the first 3 years is calculated during the investment appraisal and takes into account both building depreciation at 3% and equipment depreciation at 20%. Depreciation used for an average year is based on the straight-line method: using contingency total of £107,000/ 20 years = £5,350 (annual average depreciation)

### **Labour:**

Year 1: Cleaner: £4,864 for 8 months (part-time 16 hrs a week at £9.50 per hour)

: Internal member of staff: £15,600 (£15 x 25 hrs/week for 8 months)

Year 2: Cleaner: £9.50 x 16 hours a week x 52 weeks = £7904

: Internal member of staff: £15 x 25 hours a week x 52 weeks = £19,500

## Appendix 11 Viability test assumptions

<b>Viability Assessment</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Average Year</b>
Profit excl. Depr	-£7,181	£41,945	£50,347	£49,095
Private Drawings	£0	£10,000	£10,000	£10,000
Corporation Tax	£0	£6,212	£8,091	£8,312
Repayments	£3,936	£3,936	£3,936	£3,936
Reinvestments	£0	£0	£0	£0
<b>Viability</b>	<b>-£11,117</b>	<b>£21,798</b>	<b>£28,320</b>	<b>£26,847</b>

Private drawings: none to be taken in first year agreed by the business, then £10,000 to be split between the business. The business has suggested this to be an appropriate level of drawings.

Assumption that the business will pay corporation tax at 19% due to being a limited company with small profits rate<sup>22</sup>.

Repayments: 32000 borrowed at 4% interest over 10 years gives yearly instalments of £3,936



## **Appendix 12 Assumptions to accompany the cashflows**

Financial year runs from January however, the business will not start trading until May.

Transactions fees from online transactions for memberships are included in the website monthly fee.

No electricity running costs due to the business utilising surplus energy from the farm's solar panel and battery system.

Bank overdraft facility at 10% interest.

## Appendix 13 Year 1 Cashflow

YEAR 1													
Receipts	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
	£	£	£	£	£	£	£	£	£	£	£	£	£
Membership sales	0	0	0	0	1,090	2,180	2,545	2,910	3,090	3,270	3,450	3,450	21,985
Hire of fitness room	0	0	0	0	434	434	434	434	434	434	434	434	3470
Total	0	0	0	0	1,524	2,614	2,979	3,344	3,524	3,704	3,884	3,884	25,455
Payments	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
	£	£	£	£	£	£	£	£	£	£	£	£	£
Electricity	0	0	0	0	0	0	0	0	0	0	0	0	0
Water	0	0	0	0	250	250	250	250	250	250	250	250	2,000
Wi-Fi	0	0	0	0	25	25	25	25	25	25	25	25	200
Heating/aircon	0	0	0	0	83	83	83	83	83	83	83	83	664
Equipment repairs and maintenance	0	0	0	0	£250	£250	£250	£250	£250	£250	£250	£250	2,000
Labour/PAYE/NI	0	0	0	0	2558	2558	2558	2558	2558	2558	2558	2558	20,464
Insurance	0	0	0	0	583	583	583	583	583	583	583	583	4,667
Music PPL licence	0	0	0	0	706	0	0	0	0	0	0	0	706
Website	15	15	15	15	15	15	15	15	15	15	15	15	175
Loan interest	107	107	107	107	107	107	107	107	107	107	107	107	1,280
Bank Interest	0	3	6	9	12	39	52	61	68	73	77	80	480
Loan repayment	221	221	221	221	221	221	221	221	221	221	221	221	2,656
Private drawings	0	0	0	0	0	0	0	0	0	0	0	0	0
Tax	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	343	346	349	352	4810	4131	4144	4153	4160	4165	4169	4172	35292
NET CASHFLOW	-343	-346	-349	-352	-3286	-1517	-1165	-809	-636	-461	-285	-288	-9837
OPENING BALANCE	0	-343	-688	1037	-1388	-4674	-6192	-7357	-8166	-8802	-9263	-9548	0
CLOSING BALANCE	-343	-688	-1037	1388	-4674	-6192	-7357	-8166	-8802	-9263	-9548	-9837	-9837
OD Interest	10%	£0	-£3	-£6	-£9	-£12	-£39	-£52	-£61	-£68	-£73	-£77	-£80

## Appendix 14 Year 2 Cashflow

### YEAR 2

<b>Receipts</b>	<b>Jan</b>	<b>Feb</b>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>	<b>July</b>	<b>Aug</b>	<b>Sept</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Total</b>
	£	£	£	£	£	£	£	£	£	£	£	£	£
Membership sales	£3,995	£4,360	£4,725	£5,090	£5,635	£6,180	£6,725	£7,090	£7,270	£7,450	£7,450	£7,450	73,420
Hire of fitness room	975	975	975	975	975	975	975	975	975	975	975	975	11700
<b>Total</b>	<b>4,970</b>	<b>5,335</b>	<b>5,700</b>	<b>6,065</b>	<b>6,610</b>	<b>7,155</b>	<b>7,700</b>	<b>8,065</b>	<b>8,245</b>	<b>8,425</b>	<b>8,425</b>	<b>8,425</b>	<b>85,120</b>
<b>Payments</b>	<b>Jan</b>	<b>Feb</b>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>	<b>July</b>	<b>Aug</b>	<b>Sept</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Total</b>
	£	£	£	£	£	£	£	£	£	£	£	£	£
Electricity	0	0	0	0	0	0	0	0	0	0	0	0	0
Water	250	250	250	250	250	250	250	250	250	250	250	250	3,000
Wi-Fi	25	25	25	25	25	25	25	25	25	25	25	25	300
Heating/ aircon	83	83	83	83	83	83	83	83	83	83	83	83	1,000
Equipment repairs and maintenance	167	167	167	167	167	167	167	167	167	167	167	167	2,000
Labour/PAYE/NI	2,284	2,284	2,284	2,284	2,284	2,284	2,284	2,284	2,284	2,284	2,284	2,284	27,404
Insurance	583	583	583	583	583	583	583	583	583	583	583	583	7,000
Music PPL licence	0	0	0	0	706	0	0	0	0	0	0	0	706
Website	15	15	15	15	15	15	15	15	15	15	15	15	175
Loan interest	98	98	98	98	98	98	98	98	98	98	98	98	1,174
Bank interest	82	79	74	65	53	42	21	0	0	0	0	0	416
Loan repayment	230	230	230	230	230	230	230	230	230	230	230	230	2,762
Private drawings	833	833	833	833	833	833	833	833	833	833	833	833	10,000
Tax	0	0	0	0	0	0	0	0	0	0	6,212	0	6,212
<b>TOTAL</b>	<b>4650</b>	<b>4647</b>	<b>4642</b>	<b>4633</b>	<b>5327</b>	<b>4610</b>	<b>4589</b>	<b>4568</b>	<b>4568</b>	<b>4568</b>	<b>4568</b>	<b>4568</b>	<b>62149</b>
<b>NET CASHFLOW</b>	<b>320</b>	<b>688</b>	<b>1058</b>	<b>1432</b>	<b>1283</b>	<b>2545</b>	<b>3111</b>	<b>3497</b>	<b>3677</b>	<b>3857</b>	<b>3857</b>	<b>3857</b>	<b>22971</b>
OPENING BALANCE	-9837	-9517	-8828	-7770	-6338	-5055	-2510	601	4098	7775	11632	15489	-9837
CLOSING BALANCE	-9517	-8828	-7770	-6338	-5055	-2510	601	4098	7775	11632	15489	19346	19346
OD Interest													
10%	-£82	-£79	-£74	-£65	-£53	-£42	-£21	£0	£0	£0	£0	£0	

## Appendix 15 Year 3 Cashflow

### YEAR 3

Receipts	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
	£	£	£	£	£	£	£	£	£	£	£	£	£
Membership sales	£7,270	£7,085	£6,900	£6,715	£6,715	£6,530	£6,530	£6,530	£6,530	£6,530	£6,530	£6,530	80,395
Hire of fitness room	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	15600
Total	8,570	8,385	8,200	8,015	8,015	7,830	7,830	7,830	7,830	7,830	7,830	7,830	95,995

Payments	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
	£	£	£	£	£	£	£	£	£	£	£	£	£
Electricity	0	0	0	0	0	0	0	0	0	0	0	0	0
Water	250	250	250	250	250	250	250	250	250	250	250	250	3,000
Wi-Fi	25	25	25	25	25	25	25	25	25	25	25	25	300
Heating/ aircon	83	83	83	83	83	83	83	83	83	83	83	83	1,000
Equipment repairs and maintenance	417	417	417	417	417	417	417	417	417	417	417	417	5,000
Labour/PAYE/NI	2,284	2,284	2,284	2,284	2,284	2,284	2,284	2,284	2,284	2,284	2,284	2,284	27,404
Insurance	583	583	583	583	583	583	583	583	583	583	583	583	7,000
Music PPL licence	0	0	0	0	706	0	0	0	0	0	0	0	706
Website	15	15	15	15	15	15	15	15	15	15	15	15	175
Loan interest	89	89	89	89	89	89	89	89	89	89	89	89	1,063
Bank interest	0	0	0	0	0	0	0	0	0	0	0	0	0
Loan repayment	239	239	239	239	239	239	239	239	239	239	239	239	2,873
Private drawings	833	833	833	833	833	833	833	833	833	833	833	833	10,000
Tax	0	0	0	0	0	0	0	0	0	0	8,091	0	8,091
<b>TOTAL</b>	<b>4818</b>	<b>4818</b>	<b>4818</b>	<b>4818</b>	<b>5524</b>	<b>4818</b>	<b>4818</b>	<b>4818</b>	<b>4818</b>	<b>4818</b>	<b>4818</b>	<b>4818</b>	<b>66612</b>

<b>NET CASHFLOW</b>	<b>3752</b>	<b>3567</b>	<b>3382</b>	<b>3197</b>	<b>2491</b>	<b>3012</b>	<b>3012</b>	<b>3012</b>	<b>3012</b>	<b>3012</b>	<b>3012</b>	<b>3012</b>	<b>29383</b>
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OPENING BALANCE	19346	23098	26666	30048	33245	35736	38748	41760	44772	47784	50796	53808	19346
CLOSING BALANCE	23098	26666	30048	33245	35736	38748	41760	44772	47784	50796	53808	56820	56820

OD Interest													
10%	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	

## Appendix 16 Average Year Cashflow

### Average Year Receipts

	Q1 £	Q2 £	Q3 £	Q4 £	Total £
Membership sales	£19,770	£19,770	£19,590	£19,590	£78,720
Hire of fitness room	3,900	3,900	3,900	3,900	£15,600
Total	23,670	23,670	23,490	23,490	94,320

### Payments

Electricity	0	0	0	0	0
Water	750	750	750	750	3000
Wi-Fi	75	75	75	75	300
Heating/ aircon	250	250	250	250	1000
Equipment repairs and maintenance	1,250	1,250	1,250	1,250	5,000
Labour/PAYE/NI	6,851	6,851	6,851	6,851	27404
Insurance	1,750	1,750	1,750	1,750	7000
Music PPL licence	0	706	0	0	705.996
Website	44	44	44	44	175
Loan interest	160	160	160	160	640
Bank interest	0	0	0	0	0
Loan repayment	747	747	747	747	2987.639
Private drawings	2,500	2,500	2,500	2,500	10,000
Tax	0	0	0	8,312	8,312
<b>TOTAL</b>	<b>14377</b>	<b>15083</b>	<b>14377</b>	<b>14377</b>	<b>66524</b>
<b>NET CASHFLOW</b>	<b>9293</b>	<b>8587</b>	<b>9113</b>	<b>9113</b>	<b>27796</b>

## Appendix 17 Year 1 Forecast Profit Reconciliation

		£	£
<b>ANNUAL NET CASHFLOW</b>			<b>-9837</b>
CAPITAL ADJUSTMENT			
	Capital Payments	0	
less	Capital Receipts	0	
		--	0
		----	
LOAN CHANGES			
	Loan Payments	3936	
less	Loan Interest	1,280	
less	New Loans Introduced	0	
		--	2,656
		----	
PERSONAL ADJUSTMENT			
	Personal Payments	0	
	Tax Payments	0	
less	Personal & Tax Receipts	0	
		--	0
		----	
			-----
<b>TRADING NET CASHFLOW</b>			<b>-7,181</b>
VALUATION CHANGE			
	Closing Valuation	0	
less	Opening Valuation	0	
		--	0
		----	
TRADING DEBTOR CHANGE			
	Closing Debtors	0	
less	Opening Debtors	0	
		--	0
		----	
TRADING CREDITOR CHANGE			
	Opening Creditors	0	
less	Closing Creditors	0	
		--	0
		----	
			-----
<b>PROFIT BEFORE DEPRECIATION</b>			<b>-7,181</b>
DEPRECIATION			
less	Machinery Depreciation	11,111	
less	Building Depreciation		
		--	-11111
		----	
			-----
<b>PROFIT/LOSS</b>			<b>-18,292</b>
			=====

## **Appendix 18 Assumptions used in the Sensitivity Analysis**

### **Increase in 10% of membership sales:**

- **YR 1:** Increase in total number of members from 95 to 105 (3 more adult memberships and 7 more student and concession, due to the assumption that 72% of consumers will be student and concession and 28% will be adults. This assumption is applicable for all years).
- **YR 2:** Increase in total number of members from 205 to 226 (6 more adult memberships and 15 more student and concession).
- **YR 3:** Increase in total number of members from 180 to 198 (5 more adult memberships and 13 more student and concession).
- **Average Year:** Increase in total number of members from 180 to 198 (5 more adult memberships and 13 more students and concessions).

### **Decrease in 10% of membership sales**

- **YR 1:** Decrease in the total number of members from 95 to 85 (3 fewer adult memberships and 7 fewer student and concession, due to the assumption that 72% of consumers will be student and concession and 28% will be adults. This assumption is applicable for all years).
- **YR 2:** Decrease in the total number of members from 205 to 184 (6 fewer adult memberships and 15 less student and concessions).
- **YR 3:** Decrease in the total number of members from 180 to 162 (5 fewer adult memberships and 13 fewer students and concessions.)
- **Average Year:** Decrease in the total number of members from 180 to 162 (5 fewer adult memberships and 13 fewer students and concessions).

### **Increase in 20% of hire of fitness room sales**

- **YR 1:** Increase in the number of classes per week from 4 to 5.
- **YR 2:** Increase in the number of classes per week from 9 to 11.
- **YR 3:** Increase in the number of classes per week from 12 to 14.
- **Average Year:** Increase in the number of classes per week from 12 to 14.

### **Decrease in 20% of hire of the fitness room**

- **YR 1:** Decrease in the number of classes per week from 4 to 3.
- **YR 2:** Decrease in the number of classes per week from 9 to 7.
- **YR 3:** Decrease in the number of classes per week from 12 to 10.
- **Average Year:** Decrease in the number of classes per week from 12 to 10.

If sales drop due to another health pandemic, the outside gym should be able to remain open, and this should be marketed appropriately. However, additional and more frequent cleaning will need to be considered.

## Appendix 19 Break-even calculations

	<b>A</b>	<b>St + C</b>	<b>Hire of fitness room</b>	<b>Total</b>
<b>Total sales (£)</b>	22,960	57,435	15,600	<u>94320</u>
<b>Ratio of total sales</b>	0.24	0.61	0.17	
<b>Total Costs</b>	12,311	30,797	8,365	<u>50,575</u>
<b>Price charged (£)</b>	40	35	25	
<b>Breakeven yearly target</b>	308	880	335	
<b>Breakeven monthly target</b>	26	73	28	

The table above shows how the breakeven targets were calculated, based on ratios of the total sales and costs.

Shows that the business needs to have:

- 26 adult members paying a monthly gym membership.
- 73 student and or concession members paying a monthly gym membership.
- Hire out the fitness room for 28 hours in a month.



## Appendix 20 Investment Appraisal of the gym

Year	Capital Investment		Net Cashflow	Calculation of income tax							Salvage value	Annual NCF	Discount rate (%)		NPV	
	Equipment	Gym (Building)		Equipment @ 20%	Gym @ 3%	Total allowance	Interest	Taxable income	Tax paid @ 19%	8			9	8	9	
0	46,476	60,524				0		0	0		-107,000			-107,000	-107,000	
1			-5,901	9,295	1,816	11,111	1,280	-18,292	3,475		-2,425	0.926	0.917	-2,246	-2,224	
2			33,119	7,436	1,816	9,252	1,174	22,693	4,312		28,807	0.857	0.842	24,688	24,256	
3			41,410	5,949	1,816	7,765	1,063	32,582	6,191		35,219	0.794	0.772	27,964	27,189	
4			39,735	4,759	1,816	6,575	948	32,212	6,120		33,615	0.735	0.708	24,707	23,799	
5	9,612		39,735	5,730	1,816	7,545	829	31,361	5,959	22,919	47,083	0.681	0.650	32,064	30,604	
															177	-3,375

Equipment	Cost	Quantity	Total cost
Rowing machine	£812	3	£2,436
Bike	£1,062	3	£3,186
Cross trainer	£1,995	2	£3,990
		<b>8</b>	<b>£9,612</b>

Building depreciation	
<b>Gym</b>	
Capital cost	60,524
Depn %	3%
Annual Depn (£)	1,816

Difference in NPV	3,552
Difference in rate	1%
NPV per 1%	3,552
IRR	8.05%

### Amortisation

Enter Loan Amount (£)		32,000			
Enter Interest Rate (%)		4.00			
Enter Loan Duration (Years)		10			
Year		Yearly Instalment	Interest Payable	Capital Repayment	Capital Outstanding
1		3,936	1,280	2,656	29,344
2		3,936	1,174	2,762	26,582
3		3,936	1,063	2,873	23,709
4		3,936	948	2,988	20,721
5		3,936	829	3,107	17,614

Depreciation calculation					
	WDV	Net capital investment	Subtotal	Depreciation @ 20%	WDV
Year	Opening				Closing
1		<b>46,476</b>	46,476	9,295	37,181
2	37,181	<b>0</b>	37,181	7,436	29,745
3	29,745	<b>0</b>	29,745	5,949	23,796
4	23,796	<b>0</b>	23,796	4,759	19,037
5	19,037	<b>9,612</b>	28,649	5,730	22,919

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