
CASE STUDY VI

Arthurstone (2)

During the 1990s, Sir William Kiloshake began work on a project that had been a dream that he had wished to realise for many years.

Bill was a keen botanist and environmentalist and had been brought up close to a large country house called Arthurstone, which stood in a 500 acre estate in which there had once been extensive gardens. The house had long since gone into disrepair and the gardens had been untended for around fifty years.

Bill had brought together a consortium of experts to investigate how Arthurstone could be developed into a national educational and tourist facility.

After many years of feasibility studies, market research, soil analyses, and Government grant applications, the project became a reality by 1997. The project would cost £35m to restore the building and re-establish the gardens. This was supported by a National Lottery grant of £17m. It was expected that around 350,000 people would visit Arthurstone every year, mostly during the summer months.

The net project cost investment of £18m (£35m total cost less £17m grant) had been obtained from sponsorship from the private sector. However, the project needed to be self-financing from its first day of opening to the public, which was 1 May 2000. Arthurstone's financial year ends 30 April.

Arthurstone's first two years of operation were successful. During that time, the management team had introduced (or were in the process of introducing) additional facilities for their visitors. These new facilities are:

- **Hotel**
- **Conference/training centre**
- **Gift shop**
- **Restaurant**

The visitors' season lasts from May to August. The following budgets have been prepared for the next season, May to August 2002.

Non-residential visitors

A total of 340,000 visitors (i.e. 340,000 visitor days) are expected during May to August 2001.

Hotel

60 single rooms let on a daily basis.

35 double rooms let on a daily basis at 140% of the single room rate.

Fixed costs are expected to be £45,000 for the year.

Variable costs £8 per single room per day and £13 per double room per day.

Conference/training centre

Clients pay £100 per day for use of the facilities.

Fixed costs are expected to be £25,000 for the year.

Gift shop

An estimated contribution of £1.50 per person is expected from each hotel guest per day plus the same from 30% of non-residential visitors.

Fixed costs are expected to be £162,000 for the year.

Restaurant

An estimated contribution of £2 per person is expected from each hotel guest per day plus the same from 40% of non-residential visitors.

Fixed costs are expected to be £280,000 for the year.

During the season Arthurstone is open seven days a week and the following activity levels are anticipated:

Double rooms fully booked for the whole season.

Single rooms fully booked for six weeks but at only 80% of capacity during the rest of the season.

The conference centre is expected to be booked for 38 days during the year.

Required

(i) Calculate the charges for single and double rooms assuming that Arthurstone wishes to make £20,000 profit for the year on accommodation.

(ii) Calculate the anticipated total profit for Arthurstone's new facilities as a whole for the year.

(iii) Should the Arthurstone management team consider an offer of £250,000 from a leisure management company to operate the new facilities for five years, assuming that Arthurstone use a 10% cost of capital, and operations continue as outlined above over the five years?

(iv) Draft a report on the £250,000 offer from the leisure management company, for discussion by the Arthurstone management team. The report should include the results of the calculations in (i), (ii) and (iii) above and any other analyses considered appropriate. The report should consider the implications of the development of the new facilities and any further facilities, for the business as a whole. The report should also consider the possible impact on the business of the acceptance of the leisure management company's offer.