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Highlands & Islands Social Enterprise Zone

**Feasibility Study with Optional Appraisal on community purchase of
the Police Station, Lairg for
Lairg and District Community Initiative (LDCI)
June 2018**

A report by HISEZ CIC with CH Architecture



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Executive summary:

- This study was commissioned by Lairg and District Community Initiatives (LDCI) to assess the suitability of conversion of the former police station in Lairg to an 18-bed tourist hostel and to gauge community support for the idea. The findings are intended to help LDCI form a decision on whether to submit a formal asset transfer request for the transfer of the building under the Community Empowerment Act.
- The police station has been empty since 2011 and is one of 53 properties Police Scotland has identified for potential disposal subject to community consultation. Approval was given to dispose of 49 properties. However, at the time of writing this report, Lairg is not listed for closure as there is some community support from the consultation that the property should be retained. Police Scotland therefore intends carrying out more detailed local engagement with the local community in respect of Lairg and report back to the Scottish Police Authority in September 2018.
- Attracting visitors to the Heart of Sutherland area has, historically, been a challenge. The closure of both Carbisdale Castle, a SYHA hostel (now a private home), and the Falls of Shin was a significant economic blow. However, the re-opening of the Falls of Shin and the impact of North Coast 500 (NC500), which is widely cited as the main driver in attracting an additional 29,000 visitors to Highland, have real potential to strengthen the visitor market in Lairg. In anticipating further growth, NC500 is now designing and marketing itineraries specifically for cyclists which would take them off the main A9 route and directly through Lairg.
- Consultation with the community was carried out for just over three weeks from 16 April to 9 May. The methods used were a survey delivered to 400 households in Lairg (excluding holiday homes) and which was also available online using Survey Monkey. There were 161 responses and strong community support – 81% - for community purchase of the police station and converting it to a tourist hostel. 82% of respondents also said Lairg would benefit from additional tourist accommodation. Interviews with tourism providers indicate cyclists and walkers are an important market.
- Concerns that hostel accommodation would present a displacement issue were minimal with 3 responses stating a hostel would present competition for other tourism businesses. It should also be noted that currently there is no accessible, self-catering hostel accommodation in Lairg, which is the LDCI proposal. In addition, the hostel would also provide bike storage and a small retail outlet selling bike spares to cater for the current and anticipated growth in cycling tourism.
- Market research shows clear and important changes in the tourist hostel market. Private rooms and ensuite are replacing the traditional dormitories and there is a growing expectancy from visitors to be able to book accommodation using mobile devices. Visit Scotland's Scottish Accommodation Occupancy Surveys, which are published quarterly, provide a useful snapshot of how different accommodation providers across Scotland (serviced accommodation, hotels, guesthouse/B&B, self-catering, hostels, camping and caravan) are performing. Bed occupancy figures for hostel accommodation in the Highlands and Islands in 2017 show improved performance in three quarters – April to June, July to September and October to December – from the previous year. It is worth noting that along with Edinburgh and the Lothians, hostels in the Highland and Islands returned a higher occupancy rate than other parts of Scotland.
- LDCI will need to consider the most suitable operational model. The business case in this report is based on the assumption that LDCI sets up a trading company as a wholly owned

subsidiary to run the hostel (a similar model is used by Rum Community Trust to run a bunkhouse). The trading company would qualify for 80% business rates relief and profits made returned to LDCI as the parent charity

- Based on this model trading profits for Yr 1 are estimated to be £2,381 based on 154 days (5 months) trading and a 40% occupancy rate. Profits are forecast to grow in Yr 2 to £23,978 based on 243 days (8 months) trading and 46% occupancy rate. There is potential for further growth in Yr 3 with profits of £37,594 based on 243 days (8 months) trading and 56% occupancy level.
- The findings of both the study and architect's initial assessment suggests that conversion to a tourist hostel would be an appropriate re-use of the building. A well-equipped, accessible and modern tourist hostel with self-catering facilities will meet a current gap in the tourist accommodation provision in area.
- The next immediate step for the LDCI board, in consultation with staff, is to decide on whether to pursue the tourist hostel idea, and submit a formal asset transfer request for the transfer of the building under the Community Empowerment Act.
- If the decision is made to go ahead, then early consultation with Police Scotland is recommended to inform the 3-month extended consultation period.

1. Background:

This feasibility study was commissioned by Lairg and District Community Initiatives (LDCI) to assess the suitability of conversion of the former police station in Lairg to a tourist hostel and to gauge community support for the idea. The study also includes an assessment of the condition of the building and a concept design for optimal conversion. This is provided as a separate report from CH Architecture.

LDCI's intention is to use the findings of this study to help assess whether to proceed with a formal asset transfer request for the building under the Community Empowerment Act to Police Scotland.

1.2. The Police Station

The police station, situated on Main Street, Lairg has been empty since 2011, with only occasional use by officers when on patrol, for example, for refreshment breaks. The nearest police station is in Golpsie which is 18.3 miles from Lairg.

The station is one of 53 properties, which Police Scotland has identified for potential disposal subject to consultation with local communities, partners and stakeholders.

Police Scotland ran a three-month public consultation, which closed 31 January 2018. Approval was given to dispose of 49 properties; however, at this stage this does not include Lairg as there is community support from the consultation that the property should be retained. It is worth noting the results were close with 23.6% of respondents favouring disposal of the building with only 24.1%, not in favour.

Police Scotland now intends on carrying out more detailed local engagement with the local community in respect of Lairg and will report back to the Scottish Police Authority in September 2018. Any market valuation of the property will be taken only if a decision is made to close the station.

The building covers 284m² and has been extensively refurbished. The site consists of the station itself, separate garage and a small parking area suitable for up to 6 vehicles. The fabric of the building is in very good condition and the robust finishes of the doors, windows and wall linings appear to be suitable for reuse as a tourist hostel. The external works also appear to be in good condition.

Latest available running costs for the building, which have been provided by Police Scotland, are £23,679.13 per annum and include:

- £15,488 non-domestic rates
- £4,393.71 electricity
- £295.49 water and sewerage
- £20.52 fixtures and fittings
- £3,222.82 repairs

2. About Lairg and District Community Initiatives (LDCI)

LDCI is a company limited by guarantee (SC230960) with charitable status (SCO33349). It was set up in 2002 to deliver projects to improve the Parish of Lairg and secure much needed economic development for the benefit of the community and its visitors. It has a board of 7 trustees, a full-time development officer and 76 members.

Recent successes include acquiring the Sutherland Arms Hotel site on 2nd February 2018 as the first step in its plans for a Care and Wellbeing Centre for the area.

Other achievements include

- Running a Winterfest during November's run up to Christmas attended by over 1000 people from across the Highlands.
- Opened a mini-public exhibition in the Ferrycroft Visitor Centre aimed at explaining the impact of one of the largest asteroids to hit the earth as it struck Lairg 1.2 million years ago. LDCI have ambitions for a permanent exhibition of the event, which is now known as the 'Lairg Asteroid'.
- Significant restoration work to the Church Hill path improving access to the viewpoint for locals and visitors.
- Scoping report into the demand and need for a Community Broadband service for the area.

2.2 Finance

LDCI's income currently comes from a portfolio of different funders (£54,298 in 2017) and which includes funding for the post of the development officer. The group's aspirations are for projects which generate trading income.

2.3 Staffing levels and capacity

LDCI has one full time development officer and it is important to assess their capacity to take on such a project along with all the other activities.

While the benefits of community ownership of assets can be significant, it must be recognised that the costs to individuals running assets can be high and it is essential that this is not left to the few.

Experience from elsewhere suggests that projects of this scale require strong leadership at board level. The board will need to assess whether, in the light of a potentially significant development project, it has the appropriate skills amongst the existing directors to help lead the organisation through this important next stage. Proven experience in areas of strategic planning, business development, HR and finance will be beneficial.

3. The local context

Lairg is Central Sutherland's largest settlement. It sits next to the attractive man-made Little Loch Shin and is at the gateway where the far North Rail Line which links Inverness in the south with Thurso and Wick in the north meets cross-County roads.

Figures from the 2011 census show Lairg has a population of 997, a rise of 10% from the 2001 census.

According to the Scottish Neighbourhood Statistics (2011 figures), the area has a relatively older population than the Highland and Scottish averages, with 54.90% residents of working age, compared with 60.10% for Highland, and 62.79% for Scotland as a whole, and 30.87% residents of pensionable age, compared with 22.39% for Highland, and 19.83% for Scotland as a whole. The area has a significantly lower number of children than elsewhere in Highland and Scotland (14.23%, compared with 17.51% and 17.38% respectively.)

Underemployment is a significant issue in the area. The number of people in the 16 – 24-year age group claiming Key Benefits is significantly higher than average, with 22.40% compared with 13.70% for the Highlands and 14.30% for Scotland as a whole. Likewise, the number of people in the 25 – 29-year age group claiming Key Benefits is higher than average, with 16.70% compared with 13.70% and 14.30% respectively.

3.1 Tourism in the area

Closure of two important visitor attractions in the area, Carbisdale Castle Hostel in 2011, which meant a loss of 12,500 bed nights per annum and was popular with families, walkers and cyclists, and the Falls of Shin in 2013 due to a fire was a significant economic blow to the area with the loss of 20 jobs. The Caithness and Sutherland Local Development Plan due to be adopted in Summer 2018 cites support of additional tourist facilities as one the 'placemaking priorities' for Lairg.

However, in the last three years there have been two significant tourism developments, which have the potential to strengthen the tourism market in Lairg.

- The re-opening of the Falls of Shin in 2016. The centre has been closed temporarily for the last few months but is due to re-open, with a new operator, in late June 2018.
- The creation in 2015 of the North Coast 500 route. It is cited as the main driver in attracting an extra 29,000 visitors to the Highlands, and an additional £9 million spend in the first year, with the area experiencing a 26% annual rise in visitors compared to a 6% increase across the rest of the region. It also led to an increase of 15-20% in trade among accommodation providers. Since then the numbers to the NC500 have risen steeply and lack of accommodation on the route means that people are looking inland for accommodation with many others deciding to go 'off route' along the quieter roads to explore these areas. According to the NC500 Business Survey in June 2017, the route has been responsible for the creation of an estimated 200 jobs, with 57 of the businesses surveyed saying they would hire more staff. And, importantly, NC500 is now encouraging visitors to explore off the main route. Lairg is ideally positioned to take advantage of this.
- Ferrycroft Visitor Centre reports a rise in visitor numbers. The past two years have seen 20,000 visitors between mid-March and the end of November.

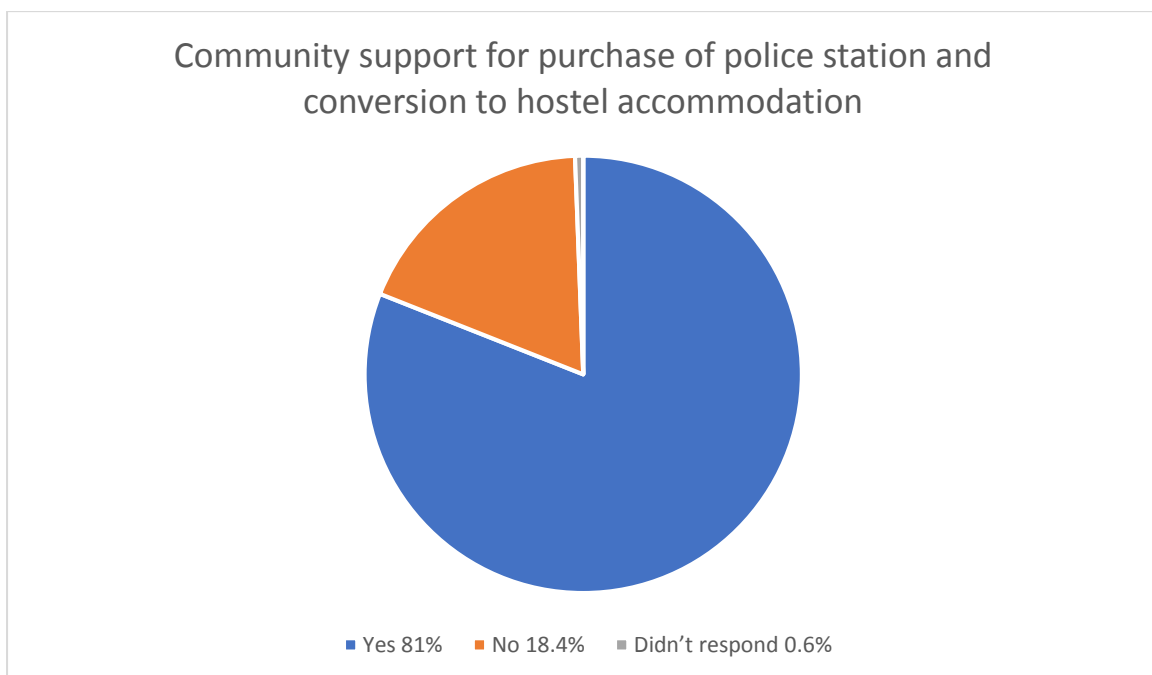
4. Community Consultation

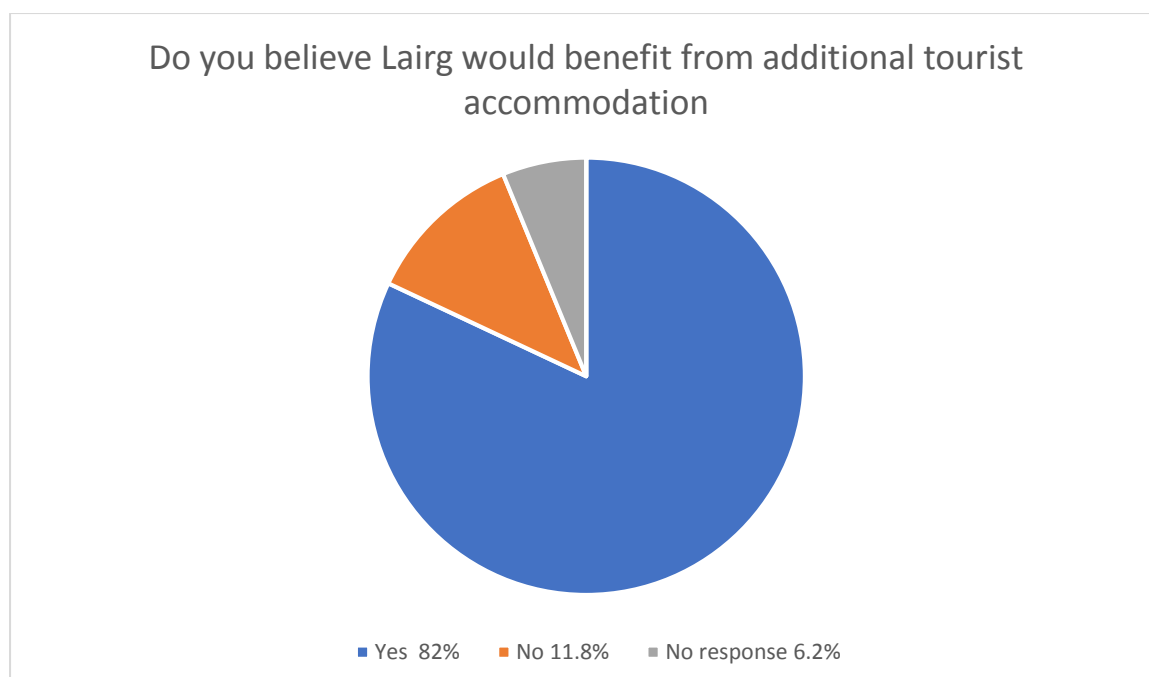
Consultation with the community was carried out for just over three weeks from 16 April to 9 May. The methods used were a survey delivered to 400 households in Lairg (excluding holiday homes) and which was also available online using Survey Monkey. A copy of the survey is provided in the appendices.

Survey Monkey total responses	53
Household survey total responses	108
TOTAL	161

Key findings from the survey are detailed below.

The level of support for community purchase of the police and converting it to tourist hostel accommodation was overwhelming in favour. The community was also asked whether Lairg would benefit from additional tourist accommodation. This too received an equally positive response.





Other key findings;

Water sports, walking and bike trails were the most popular choices for things which would make for a better visitor experience. Improved signage was also singled out as an area for improvement.

When asked about other possible uses for the building, retaining it as a police station was the most popular choice (9 respondents) with the second preferred use (4 respondents) suggesting the building be used for housing/flats/special needs accommodation for local people or business units/offices. Appraisal of the feasibility of either of these options is out with the scope of this report and would require a separate study.

5. Market research and assessment of need

5.1 Hostel occupancy levels

Visit Scotland's Scottish Accommodation Occupancy Surveys, which are published quarterly, provide a useful snapshot of how different accommodation providers across Scotland (serviced accommodation, hotels, guesthouse/B&B, self-catering, hostels, camping and caravan) are performing.

Bed occupancy figures for hostel accommodation in the Highlands and Islands in 2017 are given below and show improved performance in three quarters – April to June, July to September and October to December – from the previous year. It is worth noting that along with Edinburgh and the Lothians, hostels in the Highland and Islands returned a higher occupancy rate than other parts of Scotland.

Quarter	2017	2016	% change
January – March	35.85%	39.42%	-3.57%
April – June	72.78%	63.66%	9.12%
July – September	78.04%	77.93%	0.11%
October-December	41.37%	31.95%	9.42%

According to Visit Scotland's Scottish Hostel Sector Review, February 2014

- Weekends are the busiest time of the week for the hostel market, with an average occupancy level of 56%.
- 45-54 year olds are the largest age group for hostel use in Scotland by a domestic market.
- The majority of respondents travel alone to hostels, which may validate the belief that hostel consumers use this particular form of accommodation in order to meet like-minded people on similar breaks.
- However, the growth of private rooms, often with ensuite facilities within hostels are also an incentive for the family market as a more obvious level of safety and security is offered to parents.

5.2 The changing face of hostel accommodation

The hostel market is undergoing a transformation to take a larger share of the hospitality market, according to the first Hostel Trend Report published in 2016. Key findings of this report, which looked at the international market, include:

- Private rooms and designer hostels are now the standard (9 in 10 hostels worldwide have private rooms) replacing the dormitory hostel image of the past.
- Growth in the hostel industry has been spurred by millennial travellers (aged 18-35) seeking to spend more money on longer trips and see as much of the world as possible.
- While the highest growth markets for millennial travellers are in places such as South and Southeast Asia and the Middle East the report there remains 'a strong opportunity' for major hospitality markets in Europe
- A growing expectancy to be able to book accommodation using mobile devices.

There are signs that the hostel market in Scotland is adapting to match changing visitor expectations:

- Inchnadamph Lodge (near Lochinver) can accommodate up to 60 people in mixed accommodation but is moving away from dormitory style accommodation. It plans instead to invest in more private rooms suitable for families and couples and to offer ensuite bathrooms. It has seen a noticeable increase in the last two years in stays from families and couples with most coming from the UK or mainland Europe. (www.inch-lodge.co.uk/)
- Callander Hostel, rated as 5 star, has recently been extensively renovated. Dormitories still feature female, male and mixed, but with rooms also suitable for couples or families. All bunk beds are fitted with technologies including a utility board featuring reading lights, plug sockets and USB charging facilities (www.callanderhostel.co.uk). Since opening 3 years ago they have had 15,000 overnight guests.
- Loch Ness Hostel is a luxury purpose-built hostel. All rooms are ensuite and provide a mix of accommodation suitable for couples, families and multi-bedded rooms for up to five people (www.lohnesshostel.org)
- It should also be noted that market demand is for 3 star plus hostel accommodation with 67% of hostels in Scotland graded at 3 or 4 star standard
- Many hostels now have tea and coffee making facilities in each room.

The Isle of Rum Community Trust provides a useful model for community-owned tourist accommodation. It opened Rum bunkhouse in October 2014 in anticipation of the planned closure of Kinloch Hostel in 2015. Construction costs of £219,436 were funded by Highlands and Islands Enterprise (HIE) with two year revenue funding from BIG Lottery Growing Community Assets fund. Rum bunkhouse is operated by Rum Enterprise, a trading subsidiary of Isle of Rum Community Trust.

5.3 The tourism picture locally - potential for growth

Consultation with both the local community and stakeholder groups clearly demonstrated a need for additional tourist accommodation. While there is evidence that some bed and breakfasts have closed, the main reason given is that the owners were elderly and running this kind of seasonal business was proving challenging.

Existing tourism providers in the area report a growing market. Repeat bookings are common and the area is increasingly attractive to cyclists and walkers with many now choosing to cycle through the heart of Sutherland, where the roads are quieter, rather than head north or south on the A9 and which is the main route for NC500.

In recognition of this market opportunity North Highland Initiative has recently added an itinerary to its NC500 website designed specifically for cyclists. The route recommends that cyclists come down the middle of the NC500 route which will take in Lairg to avoid the heavy traffic on some of the A9 roads.

In anticipation of the potential growth in this market an independent hostel is opening in Golspie offering one-night stays for cyclists. Providing the right kind of accommodation and facilities will be key to benefitting from this market.

The evidence suggests a hostel in Lairg would be well-positioned to take advantage of this opportunity by offering well-equipped, self-catering accommodation at affordable prices, good bike storage, and a drying area. While on tour, most cyclists will be able to repair their own bike, but consideration should be given to providing a place where cyclists could purchase spares and items such as bike cleaning sprays.

The garage at the Police Station, Lairg which could be used as a secure bike storage and drying area.



6. Feasibility appraisal of converting the Police Station into tourist hostel accommodation

Affordability	Income generation	Risk	Operating costs	Social and Environmental Impact	Business model
<p>Approximately £300,000 for conversion to a hostel. It should be noted this is a ballpark figure based on the Highland Council conversion rate which is currently £1,000 per square metre. The police station is 284m²</p>	<p>Year 1 – opening Summer 2019. Five-month trading period (June – October) at an average bed occupancy level throughout the period of 40%.</p> <p>Year 2 – eight-month trading March - October with an average bed occupancy level throughout the period of 46%.</p> <p>Year 3 – eight-month trading period March – October with an average bed occupancy level of 57%.</p>	<p>Limited track record in operating and managing a business.</p> <p>Securing sufficient funding to convert the building.</p> <p>Not achieving occupancy levels so marketing will be important.</p>	<p>Annual running costs provided by Police Scotland-</p> <p>£4,393.71 electricity £295.49 water and sewerage £1500 repairs</p> <p>Business rates, currently £15,488, but with 80% relief takes it £3,098</p> <p>2FTE on a salary of £15,000 per annum.</p> <p>Marketing costs – a good website with online booking capabilities will be important. Allow for £8,000 over three years.</p>	<p>The hostel will be accessible with a ramp at the entrance with level access downstairs to the self-catering kitchen facilities/dining room, bedroom and accessible toilet.</p> <p>Creation of up to 2FTE posts in seasonal employment.</p> <p>Attract more visitors to the area and secure a new income for the community.</p> <p>Opportunity for additional tourism spend in the area.</p> <p>Potential to benefit from growth in cycling tourism and its fit with NC500 plans to develop cycling itineraries.</p>	<p>There are two possible operating models –</p> <p>(1) LDCI own the building but leases it to a trading subsidiary. The trading subsidiary would qualify for 80% discount on business rates. The Highland Council would need to see a copy of the trading company’s governing documents.</p> <p>(2) Lease to an experienced operator. This is the model adopted by Kyle of Sutherland Development</p>

				Any profits, after running and staff costs, would be invested back in to the hostel or in local projects, allowing for expansion and development of the amenities offered.	Trust at the Falls of Shin.
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7. The business model

LDCI's governing documents do not currently specify tourism as one of its charitable purposes. This is likely to make it problematic for the charity itself to be operators of the hostel. Options for the business model that the board should consider are:

- If the charity wishes to operate the hostel then LDCI will need to apply to OSCR, the Scottish Charity Regulator to amend its purposes to include 'community development through the promotion of tourism'. However, if it sets up a trading subsidiary to operate the hostel then no changes to the governing documents will be needed.
- In order to separate risk, set up a separate trading company. The trading company would then run the hostel with any profits given back to the parent charity, which is LDCI. The trading company would qualify for 80% business rates relief. There would need to be a clear assessment of the skills needed to run the hostel.
- Consider leasing the hostel to an experienced, external operator – a model adopted by Kyle of Sutherland Development Trust at Falls of Shin. Finding such an operator with a good track record may prove challenging.

8. Income generation potential

Financial projections in the table below, based on a gradual increase in occupancy over three years and estimated operating costs, indicate that the business would generate a small profit in year one, with profit increasing significantly in years 2 and 3 due to the extend operating period.

Year	Potential income (£)	Operating costs (£) approx.	Potential profit (£)
1	33,264	30,883	2,381
2	60,361	36,383	23,978
3	74,795	37,201	37,594

Assumptions

Non-domestic rates make up a significant proportion of the running costs. These rates, however, may be subject to discount depending on the operating model LDCI adopts. If the decision is to lease the hostel to an external operator, the operator will pay full business rates. If the decision is to set up a trading company, with LDCI as the parent charity and sole shareholder, The Highland Council has confirmed the trading company will qualify for 80% business rates relief.

For the purpose of this report the assumption is that the hostel will be operated by a wholly owned trading subsidiary of LDCI and will therefore qualify for 80% business rates relief.

Preliminary research suggests that dormitory rooms in hostels/bunkhouses range from £18 -£25 per person per night and double or twin ensuite rooms range from £60 -£80 per night. Because the hostel will have a mixture of twin, double and dormitory style rooms with the majority designed to have an ensuite the average costs per night is based on £30 per person.

Year 1 (5-month trading period)

- Income based on 18 beds x 154 days x £30 = £83,160/40% occupancy rate = £33,264
- Running costs - £4,394 for electricity; £295 for water and sewerage; £1,500 for repairs and maintenance; £3,098 non-domestic rates (based on 80% rate relief on current rates which is £15,488)
- Staff cost – 2FTE on £15,000 per annum (this figure is based on an average salary in the hospitality industry) for 22 weeks = £12,692 and then 1FTE for 17 weeks until March = £4,904. The hostel may, in time require a manager and a salary commensurate with that post.
- Other costs – website development and marketing = £4000

Year 2 (8-month trading period)

- Income based on 18 beds x 243 days x £30 = £131,220/46% occupancy rate= £60,361
- Running costs - £4,394 for electricity; £295 for water and sewerage; £1,500 for repairs and maintenance; £3,098 non-domestic rates
- Staff costs – 2FTE on £15,000 per annum for 35 weeks = £20,192 and then 1FTE for 17 weeks = £4904.
- Other costs – website and marketing = £2000

Year 3 (8-month trading period)

- Income based on 18 beds x 243 days x £30 = 131,220/57% occupancy rate = £74,795
- Running costs - £5,000 for electricity; £295 for water and sewerage; £2,000 for repairs and maintenance; £3,098 non-domestic rates
- Staff cost – 2FTE on £15,000 per annum for 34 weeks = £19,616 and then 1FTE for 18 weeks = £5,192
- Other costs – website and marketing - £2000

Additional income could be generated through ancillary services such as bike repair kits and cleaning sprays but as this is likely to be limited it has not been included in the figures above.

9. Possible funding sources

- a) Scottish Land Fund
- b) Big Lottery Growing Community Assets – capital and revenue funding designed to support communities to take more control and influence over their own future through ownership of assets. These are usually physical assets, such as land, buildings or equipment.

There are no deadlines and applications can be submitted at any time:

<https://www.biglotteryfund.org.uk/global-content/programmes/scotland/investing-in-communities-growing-community-assets>

- c) HIE – it supported the development of the bunkhouse on Rum.
- d) Social Investment Scotland for possible loan funding

There was also an assessment of the Rural Tourism Infrastructure Fund, but applications can only be made by the local authority.

10. Conclusions and recommendations

The findings of both the study and architect's initial assessment suggests that conversion to a tourist hostel would be an appropriate re-use of the building.

A well-equipped, accessible and modern tourist hostel with self-catering facilities will meet a current gap in the tourist accommodation provision in area.

The next steps in taking such a project forward are:

- Board, in consultation with staff, to decide on whether to pursue the tourist hostel idea and submit a formal asset transfer request for the transfer of the building under the Community Empowerment Act.
- If the decision is made to go ahead then early consultation with Police Scotland is recommended to inform the 3-month extended consultation period.
- Early consultation should also be held with Building Control as there are a number of issues which need to be addressed in order to make the conversion of the building from Police Station to Tourist Hostel fully compliant with the regulation.
- Further conversations with HIE for clarity on the eligibility criteria for Scottish Land Funding.
- Production of a detailed business plan giving greater detail on revenue projections for years 1, 2 and 3 for the tourist hostel.
- Assess roles, responsibilities within the organisation. This should include an evaluation of whether existing staff have sufficient skills and capacity to manage such a project. Our experience of other large-scale capital projects is that a project manager is likely to be needed.
- Assessment of skills on the board and whether there is the necessary leadership required to take on such a project. Stability on the board is also important as the time and effort required to deliver a successful project of this scale is extensive.
- Appoint a subcommittee of the board to take forward the recommendations in this report.