



## **Oakley Parish Council Application for Public Works Loan**

### **Report To Council/Business Case**

July 2021

#### **Purpose of the Report**

This report is to provide Oakley Parish Council with the final details on the purchase of the Chandos Arms Public House, lay out the resolutions for approval by the council and seek the agreement of the Secretary of State for borrowing a Public Works Loan to fund the purchase and improvements to facilities of the pub for the community of Oakley.

#### **Background**

Oakley is a small village based on the Buckinghamshire/Oxfordshire border in the United Kingdom. It is made up of ~450 houses and has a small number of essential local services remaining – a primary school, a garage, a village hall and a pub called the Chandos Arms.

The building that houses the Chandos Arms dates from the early 18<sup>th</sup> Century and is one of only 14 listed buildings within Oakley. It was first recorded as a public house in 1756 – initially known as the Three Horseshoes and, from 1829, renamed The Chandos Arms. The Chandos Arms is a Class II listed building (reference 42514), it is partly thatched and has a central location, within 10 minutes' walk for all residents.

The Chandos Arms is at the heart of the community providing both daytime and evening activities, beverages, a restaurant and takeaway service as well as facilities for a well-established Aunt Sally team. The Pub hosts the village Mummers Play; a traditional amateur play performed annually. The pub provides events, live music, fortnightly quiz night and is a focal point for the community at important occasions in village life such as bank holidays, Christmas and New Year.

Punch Partnerships Ltd placed the Chandos Arms on the market in late 2019. Unsurprisingly given the Covid pandemic and associated uncertainties, the company received little interest from buyers. In April 2021 it was announced that Punch Partnerships Ltd planned to apply to delicense the pub. This was during the third Covid-19 'lockdown' which precluded a village meeting until lockdown restrictions had been eased in May.

Given the local importance placed on the pub as a part of village life, the Parish Council re-applied for it to be listed as an asset of community value as set out in the Localism Act, affording it a special protected status.

Through research, the Parish Council identified that most successful local pubs are those owned by and managed through the Community. The Parish Council successfully bid for specialist support from the Plunkett Foundation, who have expertise developing community businesses.

Ultimately, through consultation with the village, there was overwhelming support for the proposition that the Parish Council should give notice of the community's intent to purchase the pub.

On that basis, negotiations commenced with Punch Partnerships Ltd to agree terms under which the Parish Council would purchase the Chandos Arms.

The only terms which could be agreed with Punch Partnerships Ltd involved an extremely aggressive timetable (exchange of contract within eleven weeks from agreement date of 30<sup>th</sup> June 2021). The Parish Council had to agree to purchase the pub, to appoint a solicitor by 30<sup>th</sup> June, to place the application for the Asset of Community Value status on hold and the pub would be closed by Punch Partnerships until the transfer was complete.

Punch Partnerships Ltd also insisted that failure to deliver to their timetable, or failure to agree to their terms, would result in them removing the pub from the market and the immediate de-licensing application being made to Bucks Council. The Parish Council believe that these terms are extremely unreasonable, however the saving of the pub as a community asset is paramount and the council have had to agree to them in order to have the opportunity to purchase and preserve the pub.

## **Proposal**

The Parish Council's ambition is that the Chandos Arms will be a sustainable community pub owned entirely by the Community.

The Parish Council has worked with legal, tax and business planning advisors to determine the optimal legal structure within which to operate. The option decided upon is that the pub will be wholly owned by the Parish Council with a 99-year lease granted to a Community Benefit Society (CBS<sup>1</sup>).

The management of the pub will be the responsibility of the CBS, reporting back to their members and the wider community.

However, as owner, the Parish Council will be represented on the Community Benefit Society Management Group and will be able to provide additional assurance to the community on the way that things are being managed.

## **Operating Model**

Oakley Parish Council will purchase the land and building associated with the Chandos Arms, with a loan from the Public Works Loan Board of HM Treasury, if approved by the Ministry for Housing, Communities and Local Government (MHCLG). The loan will allow the Parish Council to purchase the

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<sup>1</sup> Advice is being taken as to whether it is beneficial to use the existing Community Benefit Society (Oakley Village Stores Limited) set up for the purposes of the village Community Shop project or to create another new Community Benefit Society.

site at a reasonable price from the Pub Chain, and undertake the necessary work for its successful operation as a public house and to re-vitalise the residential accommodation.

The Parish Council will be an owner of the site but will not be involved in the day-to-day pub business. The CBS will hold a premises licence and take the role of commercial landlord for the site, letting the property to a tenant who will operate the public house.

The Parish Council will enter into a declaration of trust/partnership agreement with the CBS defining the ongoing relationship. This will include payments to be made to the Parish Council under the lease.

The CBS will secure enough rent from a tenant to service the payments to the Parish Council and to maintain a fund for any future maintenance and improvements to the property that are not part of the tenant's obligations.

The acquisition of the pub will have no effect on the council precept.

The existing landlord of the pub has agreed to re-open the pub for us immediately following completion of the purchase. It is proposed that this will be on the basis of a tenancy at will for a period of approximately 4 months whilst a new long-term tenant is secured and any plans for refurbishment are crystallised. This will provide the benefit of an having an operational pub in the village again over the autumn and winter period and also gives the security of an immediate flow of rental income.

The tenancy agreement with the long-term tenant will be such that it gives the tenant the opportunity and incentive to run a thriving business. The tenant will run the public house as a commercial venture to make a profit. The Parish Council believe such a business model would be in contrast to Punch Taverns' business model which appears to encumber landlords with higher rent, once they become successful - leading to the frequent landlord changes seen over the last ten years.

There is a 2 bedroomed accommodation on the first floor for the tenant to occupy as part of the tenancy agreement. A further benefit to the pub will be the release of 'the tie' to Punch Taverns who supply their range of drinks and snacks at a premium cost. The Chandos Arms will become a free-house, increasing the opportunity to purchase a wider and cheaper selections of drinks and snacks for the tenant (and customers).

To cater for the extremely tight schedule demanded by Punch Partnerships Ltd, the original plan of asking residents of Oakley to contribute funds to buy the Chandos Arms via loans, donations and share issues could not be achieved in eleven weeks and was deemed unmanageable.

The only option for the Parish Council was to buy the Chandos Arms funded by a fixed interest loan from the Public Works Loans Board. The Parish Council owning the entirety of the freehold, rather than a portion, is also considered beneficial in terms of certainty and simplicity. The loan is also intended to cover some initial refurbishment works identified to bring the property up to a lettable standard and allow for the creation of a fund for future refurbishment works.

Future maintenance, changes and development of the pub and site will come from rent payments, public subscription through share offers or fund-raising campaigns and often using local volunteer tradesmen, under the auspices of the CBS. The Parish Council's 'sinking fund' will, where appropriate, assist in the funding of such undertakings. Oakley Village Hall is similarly maintained in this manner. However, the creation of the CBS also allows for the levying of fund raising from the village for specific project as and when required.

## **Rationale**

The Parish Council's support for this project should be considered within a number of policy contexts. Councillors should also be aware of views of the community and the powers and rights of Parish Council's in considering the proposal.

### Community Engagement and Support

For the Parish Council, this has always been a community led project. Throughout the consultation process (see accompanying Consultation Summary document for full details), there has been a consistent and vocal message of support from the community.

Information was provided to every household in the village through open meetings, paper and online leaflets, Frequently Asked Questions, as well as face-to-face engagement around the village.

The message from the community was clear - the community wished the pub to be saved and expected the Parish Council to work tirelessly to achieve this, borrowing funding if required.

### National Policy

The Localism Act provided for a number of community rights, many of which are actionable by Parish Council's to support the retention of locally important services and facilities. The national perspective on the use of these powers was clarified on 3 November 2011 by Local Government Minister Grant Shapps:

*"The village shop, pub or post office is often the beating heart of a community. So, when one is threatened with closure, often for a reason as simple as the shop owner or pub landlord retiring, I would expect the local Parish Council to pull out all the stops to keep it going.*

*Some have done this brilliantly, but many have watched local amenities close when the power to save them was within their grasp. This is not about propping up failing businesses; it is often about providing temporary financial assistance or putting new community-run facilities in place, so vital services that people rely on are maintained.*

*So, if an important local business is struggling, I would urge the Parish Council to sit down with their community and explore every option to keep it running for the benefit of local people."*

### Local Policy

The messages from the community in 2021 are consistent with the longer-term priorities for Oakley set by residents. In the ACORN report (the most successful village appraisal in Buckinghamshire for a village of Oakley's size at the time with a very high response) published in 1999 found 60% of respondents to the village survey used and valued the pub (of which there were two at the time).

The Parish Council is committed to delivering on the long-term priorities of the community and believes that the only way to maintain the sole remaining pub, is to bring it into the ownership of the Parish Council.

### A Sustainable Community Pub

A sustainable community pub is expected to bring benefits to customers and the wider community in Oakley. The CBS is working to define a set of community focused objectives for the pub to carry on business for the benefit of the community.

The operation of the community business is particularly intended to provide a place to meet and socialise in a venue that is welcoming to all ages, offering access to a range of activities and community events that will address cohesion, loneliness and isolation especially for the elderly, disabled and young families in the community. These obligations will be shared with any potential tenants.

Community Benefit is being sought in two ways – benefits from the operation of the pub through the CBS and real financial benefit for the wider Oakley community. The CBS will sit alongside other organisations that support the local community and good causes.

These include the Oakley Shop CBS; Oakley C of E Combined School (who run the annual OakFest); the Gardening Club, (who run the Annual Flower and Produce Show); Oakley WI, Oakley Bowls Club, Oakley Pre-school, Oakley Scouts, Oakley Afternoon Club, the Oakley Relief In Need Charity, Poor's Piece Charity and the Alice Carter Charity.

The declaration of trust / partnership agreement between the Parish Council and the CBS will include provision for an annual payment to support wider community benefit in Oakley. This payment will be made to the Parish Council and may be waived at the Council's discretion. The Council will seek to distribute the payment as a grant to groups within the village. Some of these events may be held at the Chandos Arms putting the money back into the business.

### Community Led

The village runs a range of volunteer led groups and organisations – however there is demand that outstrips the availability of volunteers.

The Parish Council intend that a community purchase of the Chandos Arms will be a springboard for fostering increased community engagement and inspiring a wider pool of the community to volunteer across the village.

Involvement and engagement have been designed into the future operation of the community business. The CBS will have a management committee, elected by shareholders at an annual meeting and the group is exploring other regular gatherings and events for Members to update on progress and new initiatives. This will offer direct personal involvement for those purchasing shares, direct communication on the work of the CBS and opportunities in the community.

### Local Economy

As part of the negotiations with potential tenants, the CBS will have expectations that, where possible, the spending power of the pub will be used to support the local economy. The public house supply chain will include local as well as wider-sourced goods and services and is well placed to take advantage of offerings from local producers and suppliers, thus strengthening the local economy.

A successful community pub will also be a source of permanent, temporary and seasonal employment within the village, creating opportunities for residents and also potential environmental benefits from

green travel options, such as walking and cycling which are more practical to achieve with a local workforce.

## **Powers**

The Parish Council has not yet approved a resolution to use the General Power of Competence and therefore has to act within the traditional legal framework for town and Parish Councils.

Having taken advice, the Parish Council's proposed interpretation of those powers is that it does not include the power to run a pub. This report does not propose that the Council should do so.

The Parish Council has clear powers to purchase land (including building) and to provide facilities for the benefit of parishioners. The Council understands these powers to provide the basis for the action proposed in this report.

In particular S124 of The Local Government Act 1972, provides for the acquisition of land by agreement by parish and community councils for the purposes of (a) any of their functions under this or any other public general Act, or (b) the benefit, improvement or development of their area. The primary objective of the purchase is considered to be for the benefit, improvement and development of the area and thus considered to fall within the functions of the Council.

The benefits are detailed throughout the report including Community Engagement, Community Benefit and Contributions to the local economy. It is considered that the purchase would further the improvement and development of the area as prioritised through the Parish Plan. Secondary uses of the site could be used for Council functions through the provision of community facilities/space.

## **Purchase, Financing & Risk Evaluation**

The Parish Council have negotiated the purchase of the Chandos Arms from Punch Partnerships Ltd, with exchange of contracts anticipated on 16 September 2021 and completion within 4 weeks of that date.

### Value

Punch Partnerships Ltd were marketing the Chandos Arms for £365,000 + VAT. Oakley Parish Council have agreed a purchase price of £350,000 + VAT with Punch.

The Parish Council have commissioned and paid for an independent listed building survey, carried out by Battram Associates. This survey did not identify any major structural issues that would prevent the purchase by the Parish Council. It did identify some key work required on the building, estimated at least £100,000 (based on current prices) over the next 7 years.

The survey concluded that:

"We have outlined within this report some defects, and also risks which due to the limitation of our survey, namely our inability to observe the structure over an extended period of time and limitations on access, must remain unresolved.

Providing, however, due thought and consideration is given to these matters and the content of the report we see no reason why from a structural point of view the purchase of this property should not proceed.”

The Parish Council has also commissioned a report from Fields Property (commercial property experts) on the rental potential for the pub in its current condition. The estimated range of rental returns is £21,000 - £25,000 (without any refurbishment work). Our cash flow forecasts take a prudent approach, assuming an initial £20,000 p.a. rental income from long-term tenants, with a subsequent rent review assumed after year 3.

### Project Cost Projections

Overall project cost projections are included in Appendix 1. These include property purchase, professional fees, fixtures and fittings, as well as the required building works identified in the survey.

### Cash Flow Forecast

A 10-year cash flow forecast is included in Appendix 2. Prudence has been applied in its development, taking the low end of the range of rental incomes whilst also building in a contingency to building refurbishment costs.

The timing of works may vary from this cash flow forecast depending on affordability and prioritisation.

### Financing options

As a relatively small parish, the Council does not have hundreds of thousands of pounds tucked away in a bank account with which to purchase the pub.

As part of the on-going management process, Oakley Parish Council maintains “sinking funds” as part of its budgetary process to set aside to fund improvements on the Village Hall, play area and MUGA (Multi Use Games Area).

A new “sinking fund” will be established for the Chandos Arms, in order to save on a regular basis to support the long-term maintenance of the pub.

Current reserves are: Working Capital reserves £34,354 & Village Hall ‘Sinking ‘Fund’ reserve £13,910 (30<sup>th</sup> June 2021).

The primary proposed financing option available for the Chandos Arms purchase is through a Public Works Loan of £490,000. Oakley Parish Council would allocate £10,000 from reserves towards the purchase & associated works. Public Works Loan Board (PWL) loans come with a favourable interest rate and options for long term repayments.

The proposed PWL will be repaid through rental income from the CBS which they will achieve through rental of the pub.

### Summary of Loan request

Loan amount:	£490,000
Period of loan:	50 years
Interest rate:	2.08% (12 July 2021)
Annual repayment:	£16,141.00
1/2 yearly instalment:	£8,070.50
Total repayment:	£807,050

As the loan will be at a fixed rate and paid in annuity, the details above shows the amount and equal annual payments.

The annual £16,141 repayments will be made from receipt of the lease payments from the CBS. The CBS will be expected to maintain a cash reserve of a minimum of one year's payment. These conditions will be included in the declaration of trust / partnership agreement as appropriate.

### Risk and Financial Recovery

Like all businesses there is a level of risk involved that the Council should consider as well as potential mitigations. The Parish Council will need to pay £16,141 a year in two six monthly payments regardless of the pub being opened or tenanted. There are also costs associated with owning the property that will accrue regardless of whether the business is operational. These risks have been carefully considered.

### Minimising Risk

To minimise risk the Parish Council has

- a. Taken specialist Advice and Support
  - i. Plunkett Foundation – including dedicated adviser
  - ii. Spratt Endicott Solicitors – with experience of community pubs
  - iii. David Cadwallader & Co Accountants – with experience of CBS & VAT treatment
  - iv. Fields Property – commercial property experts
  - v. Battram Associates – Chartered Building Surveyor
- b. Best practice and learning from other Parish Councils & the Plunkett Foundation. Learning from this has led to:
  - i. Parish Council requirement for seats on CBS management board
  - ii. VAT advice – connection with an experienced advisor



iii. The Community Benefit Society to hold a full repairing lease and sub-let the pub to the tenant. Where no tenant in place the CBS will be responsible for paying ongoing costs.

iv. A requirement to hold sufficient funds to be able to pay the Parish Council for 12 months, reducing the risk to the Council. The CBS payments cover the repayment and interest on the loan so there is no immediate unbudgeted impact on the precept.

### Financial Recovery

Should the CBS business model fail, there are a number of options available to cover the borrowing:

- a. New tenant / longer term tenant
- b. Rent out property as a dwelling
- c. Sell off part of the land for development
- d. Sell off all the land and buildings
- e. Seek financial redress from the CBS
- f. Absorb the costs into the Parish Council budget
- g. Raise the precept

As set out above, there will be a requirement on the CBS to hold sufficient funds to be able to pay the Parish Council for 12 months, reducing the short-term risk to the Council. Tenancies are expected to last a minimum of three years which may further reduce the short-term risk to the Council..

### **Alternative Options Considered**

The main alternative would be to lose the village's only pub.

After consideration of a range of models, taking of advice and learning from others, the proposal laid out above is the preferred option for achieving a sustainable community pub and wider community benefit for Oakley.

Significant public support shows that the community of Oakley want to do whatever it takes to maintain our village pub and we seek approval from the Secretary of State for Housing, Communities and Local Government for our Public Works Loan request in order to enable this.

**Recommendation:**

The recommendations to Council are that:

- a. subject to the completion of due diligence, appropriate checks and searches and the advice of the solicitor, the Parish Council purchase the Chandos Arms Public House and surrounding land
- b. the Parish Council enter into a declaration of trust/partnership agreement with the CBS defining the relationship between the two entities and the payments due to the Parish Council
- c. the Parish Council seeks the approval of the Secretary of State for Housing, Communities & Local Government to apply for a PWLB loan of £490,000 over the borrowing term of 50 years for the purpose of the purchase & refurbishment of the Chandos Arms. The annual loan repayments will come to around £16,141. It is not intended to increase the council tax precept for the purpose of the loan repayments.
- d. the Parish Council agrees to use up to £10,000 of reserves towards the purchase of the Chandos Arms
- e. the proper officer and responsible financial officer be authorised to vary the application to reflect any changes in interest rates before borrowing approval is confirmed
- f. the Parish Council reaffirms the authority of the proper officer and responsible financial officer to continue to receive specialist advice on the proposal
- g. the proper officer, responsible financial officer, chairman and vice – chair be authorised to provide instruction to solicitors, sign the required documentation to implement this decision

## Appendix 1: Project Cost Projections

Item	Costs	Notes
Property purchase	350,000	plus VAT on 90% = £63k
Conveyancing	4,000	plus VAT
Stamp duty	10,150	Total purchase price inc VAT = £413k
Land Registry	270	
Property survey	1,520	plus VAT
Rent valuation	200	plus VAT
VAT advice	1,400	plus VAT
Fixtures & fittings	30,000	Existing F&F + catering kitchen upgrade
Stock valuation	300	
Stock purchase	4,000	
Buildings insurance Year 1	3,000	
<b>TOTAL Cost of Purchase</b>	<b>404,840</b>	Assumption is that all VAT is recoverable if we opt to tax and charge VAT on on rent charged
Building Refurbishment costs - within first 7 years	117,394	As identified in property condition survey with costs inflated by 2% p.a. + 10% contingency
Loan repayments in first 7 years	112,987	
Less : rental income in first 7 years	-142,196	Assuming £20k p.a. initial rent achieved
<b>Funding Shortfall</b>	<b>493,025</b>	
<b>LOAN Requirement</b>	<b>490,000</b>	Upto £10k available from parish reserves
Annual Repayment cost over 50 years	16,141	As @ 12 July 2021. Interest rate 2.18%
Property Insurance (annual)	3,000	Recoverable when property is let but PC responsibility if not
<b>Total annual fixed costs</b>	<b>19,141</b>	
Rental income	20,000	
<b>Surplus / deficit</b>	<b>859</b>	

## Appendix 2: 10-year Cash Flow forecast

	Annual Rental income (3 year review)	Loan	Annual Loan Cost (50 years)	Purchase costs	Building refurbs (10% contingency)	Annual surplus/ deficit	Cumulative surplus/ deficit	Notes
Year 1	16,000	490,000	16,141	404,840	55,770	29,249	29,249	Essential refurbs in year 1; part rent only
Year 2	20,000		16,141			3,859	33,108	
Year 3	20,000		16,141		11,719	-7,860	25,248	Other identified refurbs split over next 5 years
Year 4	21,224		16,141		11,953	-6,870	18,378	
Year 5	21,224		16,141		12,193	-7,109	11,268	
Year 6	21,224		16,141		12,436	-7,353	3,915	
Year 7	22,523		16,141		12,685	-6,303	-2,388	Work funded from reserves or deferred until affordable
Year 8	22,523		16,141			6,382	3,995	
Year 9	22,523		16,141			6,382	10,377	
Year 10	23,902		16,141			7,761	18,138	
Assumptions:								
Loan		490,000						
Annual inflation rate		2%						
Initial Rental income		20,000						