

Godstone Parish Council

(incorporating the Villages of Godstone, South Godstone and Blindley Heath)

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Council Report on the Purchase of the Parish Office ‘The Bounty’ and the case for a Loan application to Public Works Loan Board (PWLB) for £63k

Background

Godstone Parish Council (the ‘Council’) set up the Parish office in the rented building known as ‘The Bounty’ in 2002 when it investigated and established that the Bounty would provide a suitable and much needed Parish office. A lease arrangement was agreed with the 1st Godstone Scouts (the ‘Scouts’) who own the property and this agreement also met with the aspiration of the Scouts to ensure that the Bounty remained in community use. The lease agreement was subsequently renewed with a term from July 2016 – July 2041.

In March 2021 the Scouts wrote to the council informing them that in light of the rent review scheduled in the lease they intended to increase the rent from £625 per quarter (£2,500 a year) to £1,100 per quarter (£4,400 a year). This would be for the next 5 years 2021 - 2025, when another rent review would fall due. The rent review* was effectively an increase of 15% for each of the 5 years before the next rent review.

Rent per qtr of £625 x 15% = £93.75
£93.75 x 5 (for each year until the next rent review) = £468.75
Rent £625 + increase £468.75 = £1,093.75, then rounded up to £1,100

However, the increase proposed meant an immediate 76% increase on the current quarterly rental amount to be paid from August 2021.

The terms of the lease affecting the situation include:

- There is no scale agreed for rent increases in the current lease agreement
- The lease has an agreed 5 yearly rent review clause
- There is not a termination clause in the lease for the council to serve notice to quit the premises
- The Parish council has an obligation under the current lease terms to pay rent until 2041

Having a suitable premises for the Parish office still remains relevant, but for the rent to potentially increase in the same way every 5 years the Councils review of the situation concluded and proposed buying the property The Bounty from the Scouts.

The proposal to purchase the Bounty will provide a long-term benefit of a Parish office and ability to better plan the Councils’ future financial commitments. A fixed term loan will enable the amount of precept required to cover the cost of the Parish office to be fixed and predictable, rather than a potential increase every 5 years on the precept to accommodate any proposed rent increases.

If the purchase does not proceed the Council will continue to rent the property and there will need to be a budgeted amount for rental payments until 2041. There will be another four rent reviews/increase during the term of the lease. Without a scale agreed for the rent increases detailed in the Lease the difficulty

estimating future potential costs has always been a factor and an improvised estimate was considered, see Appendix A.

The proposal was discussed with the Scouts and in March 2022 and an offer of £100,000 by the Council to purchase the property was agreed and accepted. The source of funding proposed was a loan from the Public Works Loan Board.

Due Diligence

To ensure that the Councils obligations as a statutory body and ensure that the appropriate processes and due diligence was completed for the transaction, of purchasing a property, a valuation survey was carried out by an appointed surveyor.

The Scouts, obliged to follow guidelines set out in the Charities Act 2011 when considering disposing of charity assets had also appointed a surveyor for a property valuation.

The valuation reports produced different valuation amounts for the property which led to the council challenging the original purchase offer amount. The matter became a stale mate whilst the differences of opinion of the two independent surveyor reports were considered and differences within the reports evaluated.

Whilst both parties worked to ensure they were fulfilling the obligations, it remained that both felt the transaction was appropriate to proceed and in the best interest of both organisations and in June 2023 a new purchase price of £93,000 was agreed.

Confirmation of the provision to meet the loan costs.

The Parish council have always proposed meeting the cost of the loan repayments, as far as possible, using the funds allocated in the budget to pay rent, to instead pay the loan repayment and as following the purchase, rent will no longer be payable.

During the length of time that the discussions have taken place in relation to the purchase of The Bounty, the councils' commitments to other projects has evolved and the council's Finance Committee reported it was currently a viable option to consider the use of reserves as part of the transaction.

The following options of £ of reserves to use and loan amount to borrow were considered:

Table A

| | | PWLB FIXED RATE LOANS ESTIMATED | | | | | Current amount in Budget for | |
|----------|---------------|---------------------------------|--|------|-----------|-------------|------------------------------|----------|
| | | REPAYMENT COSTS | | | | | Rent/Repayments | |
| | | Annuity | | | | | £4,900 | |
| | | Over 25 not over 25½ | | | | | | |
| | | Rate % | | | | | | |
| | | ½ Yearly | | | | | | |
| | | Total Cost | | | | | | |
| | | Annual Loan | | | | | Budget amount minus | |
| | | Repayment Cost | | | | | annual repayment | |
| Option A | From reserves | £20,000.00 | | | | | | |
| | Loan amount | £73,000.00 | | 5.63 | £2,713.62 | £138,394.62 | £5,427.24 | -£527.24 |
| Option B | From reserves | £25,000.00 | | | | | | |
| | Loan amount | £68,000.00 | | 5.63 | £2,527.76 | £128,915.76 | £5,055.52 | -£155.52 |
| Option C | From reserves | £27,000.00 | | | | | | |
| | Loan amount | £66,000.00 | | 5.63 | 2,453.41 | 130,811.43 | £4,906.82 | -£6.82 |
| Option D | From reserves | £30,000.00 | | | | | | |
| | Loan amount | £63,000.00 | | 5.63 | 2,341.89 | 119,436.39 | £4,683.78 | £216.22 |
| Option E | From reserves | £35,000.00 | | | | | | |
| | Loan amount | £58,000.00 | | 5.63 | £2,156.03 | £109,957.53 | £4,312.06 | £587.94 |
| Option F | From reserves | £40,000.00 | | | | | | |
| | Loan amount | £53,000.00 | | 5.63 | £1,970.16 | £100,478.16 | £3,940.32 | £959.68 |

Options A – C would require the council to consider funding the remaining balance, options D-F would use reserves and the current budgeted amount will cover the full cost of the loan repayments.

The estimated potential cost for the duration of the Lease shown in Appendix A is higher than that of the Total cost of a Loan shown in Table A (Options A-F).

The council review of the proposal considered Option D to be the most appropriate, £30,000 of reserves be used and a loan application for £63,000 be made.

A summary of estimated costs

| Fee Item | Details | 2022 | 2023 |
|---|--|-------------|-------------------|
| Agreed Sale Price | | £100,000 | £93,000 |
| Surveyors Fees | £1,150 plus VAT | £1,150 | ** |
| Legal Fees (Council) | £2,500-£2,950 estimate plus VAT | £2,950 | £260.42 |
| Solicitors Money Laundering Search fees | £5.50 + VAT and £10 + VAT fee per clir x 2 | £31 | ** |
| Certification of documents | £5 per document | £10 | ** |
| Solicitors Search fees | £550-£600 estimate as per letter - £600 on account requested | £600 | ** |
| Land Registry Fees | £40 as per solicitors' letter | £40 | ** |
| PWLB Fee | For Fixed rate loans 35p for every £1,000 or part of £1,000 | £28 | £22.05 |
| Update electrical supply | UKPN (pre dug by another contractor) estimate £1,352 | | |
| Update electrical supply | UKPN (dig carried out by UKPN) estimate £3,318 | £3,318 | £3,318 |
| Scouts legal fees | Amount agreed | £1,500 | ** |
| | | | £96,600.47 |

** Paid during FY22-23 from funds designated to cover the transaction

| | |
|------------------------------------|------------------|
| Total to be covered by Loan | £63,000 |
| Total Reserves to be used | £30,000 |
| Remaining Designated Funds | £3,928.42 |
| Remaining Balance | £327.95 |

Financial planning

Funding Resources for Loan

| | |
|---|---------|
| Agreed Sale Price | £93,000 |
| Fund to be used from Reserves | £30,000 |
| PWLB - Proposed Loan application amount | £63,000 |
| Increase of precept to fund the borrowing | 0% |

Funding the Loan repayments

| | |
|--|-------------------------------------|
| Estimated Annual Loan Repayment Amount | £4,683.78 |
| Amount from Rent budget to be used to cover loan repayment | £4,900.00 |
| Budget amount – Over/Under following loan repayment | £216.22 would be left in the budget |
| Additional amount to be found to meet the repayment amount | £0 |

The Parish council will meet the cost of the loan repayments estimated as £4,683.78, by using the funds allocated in the budget to pay rent, to instead pay the loan repayment as if the purchase of the parish office is successful rent will no longer be payable. The money allocated in the budget sufficiently covers the estimated loan repayment amount and the council will not need to use funds from another income source.

Options to mitigate the risk for not being able to afford the loan repayments

Due to the council's obligation under the lease agreement there is a financial risk providing a council office and that this is a necessary and unavoidable risk whether it is a rental or a loan payment that is required.

The council accept there is a cost to providing an office, but in terms of limiting the risk to the council in the long term, purchasing the Bounty will enable the Council to stabilise the amount required to cover the cost of the Parish office. A fixed loan repayment would not require the council to then consider how long-term Quinquennial increases would be covered, either by increase to the precept or other incomes received, that would need to be included if the Council continued to rent The Bounty. This will allow the council to have a more controlled risk of a fixed annual amount of a loan repayment amount.

To mitigate the risk if the council could no longer cover the loan repayment amount through the precept or other income (Appendix B) the council have considered that the loan is enabling them to immediately acquire an asset of a building that the council would own following the purchase as the security for money borrowed by a local authority together with any interest on the money borrowed (charged indifferently on all the revenues of the authority).

Therefore, if the council came to the position of not being able to pay the loan repayment, it could consider what of the following options were viable:

- Consider increasing rents or charges to increase Other income
- Let the property in its entirety at an amount suitable to cover the loan repayment amount.
- Let a section of the office to contribute to the cost of the loan repayment.
- Sell the property and designate funds to cover the cost of the loan repayment for the remaining term of the loan.

In consideration of the final option to mitigate the risk, the sale of the property, to ensure that the council is able to execute this option it has been confirmed that as part of the sale agreement, there should be no formal clause that states an obligation that the Bounty remains in Community use.

Value and purpose of all funds

On 31 August 2023 the Councils Current account balance was £140,745.73

| | | | |
|-------------------------------|-------------|------------|-------------------|
| Current Account | £140,745.73 | | |
| Earmarked Reserves | | £41,342.75 | |
| | | | £99,402.98 |
| Precept Reserve | | £36,609.00 | |
| | | | £62,793.98 |
| Proposed Deposit for Purchase | | £30,000.00 | |
| | | | £32,793.98 |
| Estimate Spend for September | | £7,281.00 | |
| | | | £25,512.98 |
| Second installment of Precept | £36,608.50 | | |
| | | | £62,121.48 |
| Estimate Spend for Oct - Mar | | £43,686.00 | |
| | | | £18,435.48 |

Earmarked Reserves

| Account | Current Balance |
|--------------------------------|------------------------|
| DF - Platinum Jubilee | £ 246.00 |
| DF - Children's Playground | £ 1,079.95 |
| DF - Neighbourhood Plan | £ 7,552.33 |
| DF - Professional Services | £ 1,944.32 |
| DF - Path on the Green | £ 2,000.00 |
| DF - Bounty Purchase | £ 3,928.42 |
| DF - Horses on the Green Matte | £ 1,500.00 |
| DF - Defence of Green (Maint) | £ 1,000.00 |
| DF - Blindley Heath-Donated | £ 1,500.00 |
| DF - Recruitment Fees | £ 1,000.00 |
| RF - Memorial Benches | £ 376.02 |
| RF - Pond (GG) | £ 267.99 |
| RF - Donation Jubilee Tree | £ 15.00 |
| RF - Donation Specific Works | £ 311.00 |
| CIL - Blindley Heath - Land | £ 840.00 |
| CIL - Path on the Green | £ 2,379.28 |
| CIL - BH Barrier/CP Works | £ 4,500.00 |
| CIL - Fund 22/23 | £ 10,902.44 |
| | £ 41,342.75 |

The council does not want to use any more general reserve towards the purchase of the Parish office as council is aware of other costs which may demand the use of reserves. Council is currently reviewing Tree works requirements, which costs and quotes to date will exceed the budgeted amount.

APPENDIX A

Rudimentary estimate of potential future rental costs.

| 5 YEAR periods as per lease ¹ | 2016-2020 | 2021-2025 | 2026-2030 | 2031-2035 | 2036-2040 | 2041-2046 ³ | Estimated potential cost for the duration of the Lease |
|--|--------------|--------------------------|-----------------------|-----------------------|-----------------------|-------------------------|---|
| Rent | As per lease | As per proposed new rent | Estimate ² | Estimate ² | Estimate ² | Estimate ² , | |
| Rent per Qtr | £625.00 | £1,100.00 | £1,936.00 | £3,407.36 | £5,996.32 | £10,553.53 | |
| Annual rent | £2,500.00 | £4,400.00 | £7,744.00 | £13,629.44 | £23,985.28 | £42,214.12 | |
| Increase on previous period | | 76% | 76% | 76% | 76% | 76% | |
| 5 Year TOTAL | £12,500.00 | £22,000.00 | £38,720.00 | £68,147.20 | £71,955.84 | £42,214.12 | |

¹ Quinquennial review

²Applying 2021-26 increase of 76% to previous 5-year period amount

³Lease expires 2041

APPENDIX B

Other Income

| Financial Year | Overall Other Income* | of which £ was from Burial Ground, Greens and Commons and Rents |
|----------------|-----------------------|---|
| 2022-2023 | £37.1k | £23k |
| 2021-22 | £44.8k | £17.9k |
| 2020-21 | £35.8k | £22.6k |
| 2019-20 | £20.6k | £17.9k |
| 2018-19 | £30.1k | £25.9k |

**This does not include CIL income or VAT refunds received*