Orleton Parish Council

Paper on options for securing the future of the shop and PO in Orleton

Last updated: 9 January 2022

1.0 Background

In early 2021, the parish council was made aware that the village shop and Post Office might be sold or close. Cllrs. Liz Mackay and Mark Simmons, together with two members of the community formed the 'Save Orleton's Shop' (SOS) group to identify how the future of the shop might best be secured for the community.

In April 2021, following a survey undertaken by the SOS group which indicated that there was local support for retaining the shop, the parish council donated £1,000 to support the work of the group, including determination of the shop's value.

2.0 Current position

By November 2021, the SOS group was looking at two main options for a community purchase of the shop:

1. establishing a Community Benefit Society and generating the money to buy the shop through shares for private purchase, or;
2. requesting the Parish Council to buy the shop and post office on behalf of the community.

The two options were discussed at a village meeting called by the Save Orleton's Shop group on 15 November 2021. According to the report from the SOS group, this meeting voted to ask the Parish Council to purchase the shop (of 79 attendees, 74 voted to ask the Parish Council; 5 abstained, two of whom were parish councillors who were unable to vote). This vote, coupled with the lack of realistic alternative options for raising sufficient funds for a purchase as reported by the SOS group, prompted a formal request to the parish council to explore the purchase of the shop.

At the parish council meeting held on 18 November 2021, it was agreed in principle to support the request for a community purchase subject to due diligence, survey reports and consultation with the parish. At an extraordinary parish council meeting held on 9 December 2021 the commissioning of a valuation survey and enquiry to NALC to understand whether the parish council might have the power to purchase the goodwill as well as the bricks and mortar of the business was agreed. The Vice Chairman also kindly offered to introduce the parish council to a local accountancy business to help scope the value of business goodwill.

In response to requests made by members of the public on 9 December this paper sets out to review the options that are believed to be available currently to the parish council to help secure the future of the shop and PO in the village.

3.0 Advantages to retaining a shop in the village

There appears to be consensus that there is a significant value to the community in retaining a shop and Post Office in the village which is listed as an asset of community value. This includes:

- the short-term financial benefits, given the cost of travelling to Ludlow or Leominster for shop or PO facilities;
- the long-term financial benefits, given the likely increase in local house prices as a result of having a shop in the village (and consequent decrease were the village to lose the shop);

- the environmental benefits of fewer car journeys to other shops or post offices;
- the social benefits of the shop as a place for social interaction;
- the wellbeing benefits of the shop as a reason for people to retain a routine that involves leaving their houses and interacting with others.

4.0 Outline of Parish Council approach at present

The parish council is currently looking at a purchase of the bricks and mortar of the business and taking legal advice on whether there is the power to purchase business goodwill. An alternative is to wait to see whether the shop sells privately.

4.1 <u>Option 1: The Parish Council attempts to purchase the shop, Post Office and residential flat as soon as a loan can be secured.</u>

4.1.1 Knowns

- An indicative value of the 'bricks and mortar' is available through the work undertaken by the SOS group. However, the parish council will need to commission its own valuation to raise funds. A valuation is scheduled for 17 January 2022.
- The parish council has received an initial report on the business from a local accountancy business, which has yet to be considered. Ultimately, the test of any business valuation is what can be achieved in the market. The key issue for the parish council is whether it has the power to purchase goodwill, and if not, then whatever the goodwill may or may not be, will be moot as it will not be possible for the parish council to purchase it (HALC).
- According to the SOS business case, current profits are around £38-50k, depending on whether pre-Covid or post-Covid figures are used, as verified by independent accountants.
- If it is necessary to pay additional staff to run and manage the shop, this profit drops to £14,000-£22,000, according to the SOS group (including £6,800 for rental profit (£7,800 income minus £1,000 landlord expenses)).
- Once loan repayments are included, the SOS group has advised there is a risk of an operating loss or only a small profit (-£10,000 to +£10,000 depending on the term of the repayment).
- Rents can be structured to increase over time to help the new tenants get started. According to the SOS group, if the rent for both flat and shop were capped at, for example, £12k, a tenant who worked equivalent hours to the vendors (and therefore would not need to pay additional staff) might obtain an income of £38,000 plus free accommodation. The SOS group have advised that this is the only way currently envisaged that a private tenancy model could be made to work

4.1.2 Unknowns

The viability of this option is dependent upon:

- the negotiation of a mutually acceptable price between the parish council and the current owners;
- a village survey and/ or parish poll which shows support for a parish council purchase via a loan;
- the identification of suitable tenants (and negotiation with said tenants, who according to the SOS group would also need to find ca. £20k to purchase the stock, subject to negotiation, and an estimated £10k for operating capital). A credible business plan from the tenant is required as well to secure a contract

with the Post Office. The business plan can also be assessed by the parish council when considering a purchase of the bricks and mortar (and possibly goodwill);

- whether there are sufficient volunteers for a community interest company to be formed and step forward to become the tenants. The shops in Wigmore and Yarpole were established and operate through volunteers with a management committee that is separate to the parish council;
- the future of the business which takes on the shop and PO. Growth will mean higher profits, and in time rents which accrue to the parish council. The reverse will be the case should the business underperform;
- planning permission for change of use is not certain. The SOS group reports positive conversations with Herefordshire Council indicating that subsequent changes of use to the building would be supported by them, should this be shown to be the preference of the community.

4.1.3 The advantages of this approach are that it would:

- remove the risk of a significant gap in service were the shop to cease trading (see Appendix 1);
- provide flexibility for a re-location of the shop should that be considered beneficial;
- provide scope for alternative options for the existing shop and Post Office to be explored in a managed way, e.g. re-sale as residential or an alternative retail use in order to pay off the loan, or further development of community facilities (such as a remote working hub, as an example that there may be alternative uses for the space).

4.1.4 The disadvantages are that it would:

- require funding a significant capital purchase backed by the precept (the maximum impact on householders is estimated to be around £1.30 per week per Band D property, or in total £25,000 per year, in the event that there was no rent to make loan repayments for 12 months);
- include the purchase of residential letting accommodation with all the attendant legal and regulatory costs, obligations and risks (e.g certificates for electrical, gas, legionnaires' disease and fire safety, agents' costs, legal costs associated with tenancy agreements and eviction etc.); the residential element might also require capital investment as this premises has not previously been let as separate residential accommodation (e.g fire doors, separation of energy supplies, telephones, upgrades to services etc.);
- incur up-front costs (e.g. valuations, structural surveys, scrutiny of accounts, electrical, gas and fire reports);
- be subject to a current business climate that is highly volatile due to inflation, Covid, and supply issues. The parish council might undertake this purchase and assume the associated risks in what may the least predictable trading environment for many years (albeit one which has seen an increase in support for the shop and post office).

4.1.5 Implications for funding other village groups

The borrowing power of the parish council is derived primarily from the precept, which is why consultation is so important. If, in time, the purchase of the shop and PO generates additional revenue from rents then potentially there is more funding available to support the local community. There is no formal limit on the parish council's ability to borrow funds from the public works loan board other than to be able to demonstrate community support for the project.

4.2 Option 2: The parish council withdraws its interest and recommends to the current owners that they market for a private sale.

If this transpires, the parish council still has an option to return to Option 1 at a later date.

4.2.1 Advantages

If a private sale were to happen and the shop and post office maintained, this would have the benefit that the parish council (and wider community) would not have to raise the funds to purchase the shop, and that an owner may be more motivated to invest in developing and improving the business (especially the fixed assets) than a tenant.

4.2.2 Disadvantages

If a private sale were to fail, there is the potential for the parish council to review and make an offer to purchase the property.

However, the risk would remain that either the current owner or a future owner could choose or be forced by circumstance to close. Closure could result in a hiatus of some months in service provision in the village (see Appendix 1), which may reduce the customer base and the social and community value of the asset.

5.0 Alternative options for locating the shop and Post Office

The parish council is strongly advised not to look at requests for an alternative location/ shop unless the existing premises has been purchased by the community or the shop is no longer trading for some reason. To do otherwise could be seen as anti-competitive, as the existing shop would likely be adversely affected should the parish council decide to make plans to fund/ support an alternative building. For this reason, and the fact that the shop and Post Office is listed as an asset of community value, and the six month window to purchase the asset has been triggered, there are no further options provided in this paper. Speculation regarding another location could be seen as unfair to the current owners of the shop.

6.0 Questions for the Parish Council to consider and next steps

As of today, the parish council has two options:

1. Undertake negotiations with the current owners to buy the current premises, subject to valuation, community consultation, survey, and critically, identify credible tenant(s) able to sustain/ build a business and pay the rent.
2. Decide to take no further action at this point and see what happens. This option may clearly be forced if a suitable price cannot be agreed, or if the community survey does not indicate support for a purchase. If the shop is closed for some reason, it will still be possible to make an offer to purchase the building with the closed shop and/ or consider purchasing an alternative community building.

Appendix 1: Timescales for potential hiatus if the shop were to close, and the parish council steps in to re-open a premises

The following table based on those provided by the SOS group suggests that it might take 13-14 months before a new shop/Post Office building funded by the parish council could be opened. Some activities might be undertaken consecutively to reduce the number of weeks.

Activity	**Time required**
Parish Council agrees to proceed in principle	2 weeks (meeting notified, agenda, papers prepared)
Commission valuation on shop as a closed premises, or if unavailable explore options for a possible alternative	4-6 weeks
Negotiate price	2 weeks
Draft and agree consultation documents	2-3 weeks
Print and distribute consultation documents	1 week
Formal consultation period and/or parish poll lead time	4 weeks (advised by the clerk/HALC)
Parish council consider consultation responses/ outcome of parish poll	2 weeks (meeting notified, agenda, papers prepared)
Commission structural survey/ obtain planning permission (as appropriate or required), identify and explore options with credible potential tenants and hold informal discussions with the Post Office to obtain sufficient reassurance to borrow funds from the PWLB, complete the PWLB application form	6-12 weeks
HALC review PWLB application	3 weeks
Decision of Secretary of State, DCLG on PWLB loan	4 weeks
Legal purchase, including searches	12 weeks
Contingency	5 weeks
Total	**56 weeks**

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