

EXELBY GREEN DRAGON COMMUNITY PUB LTD - FORWARD CAPITAL PLAN 2019

JUNE 2019

Purpose

The purpose of this paper is to identify/approve the next phase of investments in the pub.

When finalised it should be published as an addendum to the business plan and shareholders informed.

Business plan scenarios

The original business plan contained three financial scenarios based on the different levels of share income that might be achieved.

- Option 1 was deemed not viable
- Option 2 envisaged a total income of £340,000 with share capital of £250,000 and a repair/set up fund of £135,000.
- Option 3 envisaged a total income of £395,000 with share capital of £300,000 and a repair/set up fund of £195,000.

The purchase was agreed based on a revised version of option 2. See capital strategy

Phase 1 renovations works

We have followed the business plan (annex A) and the capital investment plan that was in place when the purchase was agreed.

Most of the phase 1 works have been completed to:

- General works to get the pub open
- Kitchen
- Cottage
- Toilets
- Shop/cafe
- Emergency repairs

Additionally, the restaurant heating has been updated. This was funded within the refurbishment budget and now negates a possible future longer-term repair item to insulate the restaurant roof. The revised heating arrangement (together with a smaller area) has improved comfort levels which was the objective.

The budget figures are:

	Original proposal	Option to proceed	May 2019
General works	15,000	12,000	12,322
Kitchen	35,000	17,000	16,024
Upstairs	20,000	20,000	20,000
Cottage	30,000	30,000	39,508*
Toilets	20,000	20,000	22,500*
Shop/Café	10,000	4,000	11,650*
Car Park	12,500	Delete	
Flat roof	8,000		

Main roofs	12,000		
Windows	10,000		
Restaurant ceiling	2,000		
Restaurant heating			1,800
Bar	15,000	Delete	
Emergency repairs		10,000	10,000
Contingency		16,650	8,158
Fees		16,240	14,200
Capital to revenue			3,500
Total	190,000	145,890	159,662

*additional non share holder income to support over budget costs

Actual expenditure has followed the budgets (with some virements between headings) or there has been underspend.

	May 2019	Likely final commitment	Difference
General works	12,322	12,322	0
Kitchen	16,024	15,818	-206
Upstairs	20,000	40,000	+20,000
Cottage	39,508	32,980	-6,528
Toilets	22,500	21,767	-733
Shop/Café	11,650	10,320	-1330*
Restaurant heating	1,800	1,792	-8
Emergency repairs	10,000	2,268	-7,732
Contingency	8,158	777	-7,381
Fees (PM, Legal, Recruitment)	14,200	6,261	-7,939
Capital to revenue	3,500	3,500	0
Total	159,662	147,805	-11,587

*subject to final claim from Pub is the Hub

The main underspends have arisen due to savings on project management costs, labour and trades management. In addition, there has only been a small call on both the emergency and contingency funds. Grants have also helped to meet the budget commitments particularly where additional costs have arisen.

There are small works to be completed across several budget headings, but the following are the main works which remain outstanding:

- External decoration – some work was completed before winter weather set in and Roger had to stop. Although some frontal decoration was undertaken for the Tour de Yorkshire to all intents the woodwork is to be completed. Decision on this is linked to replacing the windows or not. There is some masonry painting to be undertaken to the rear elevations and the cottage rear yard.
- Electrics – additional works have been undertaken to rationalise the main consumer units. This is still in progress as the electrician's availability allows. A full certificate will be sought post the works to the upstairs rooms.
- Fire alarm – This is not working, and a specialist firm is to be engaged to service/repair the system.
- Upstairs rooms – planned start August 2019.

- Cottage – there is a potential problem with salt staining on the common wall with the pub fireplace. This is being monitored.
- Toilet area floor – this is lifting in places – thought to be dampness in the floor but Calverts have still to return to determine resolution.

Apart from the small items listed the condition survey for the ‘ground floor’ can be completed and T&B notified of formal handover.

As budget areas are closed balances can be transferred to contingencies.

Upstairs rooms

It is envisaged that three quality B&B rooms will be created. A budget has now been put together of £38,441 (say £40,000) which is £20,000 above the original provision. The difference is largely based on knowledge of the pub since taking ownership, the standard to be achieved including the need to provide a central heating system based on its own heating circuit (as with the restaurant) and sound proofing (provisional cost included whilst assessing options and costs) between the pub and rooms. Fire safety requirements are still being studied and are not yet incorporated into the estimate if additional works are required.

The difference (excluding fire safety) can be met from the overall underspends on project costs to date. This would also leave a combined emergency/contingency fund of £11,500 which would remain prudent at this stage.

Ongoing liabilities

With a full repairing lease there should be few on-going liabilities for the pub as areas are handed over. However, we have always said we would be flexible if anything significant were to occur that is not in the overall plan.

The cottage will need some periodical renewals. The revenue budgets in the option 2 business plan envisaged a repairs and renewal fund being built up to £8500 over 5 years. Bearing in mind the works to date there should not be anything significant cropping up so hopefully this provision will be OK for both pub and cottage.

There is currently a capital contribution to revenue of £3,500 to help with cash flow. It is envisaged this will be paid back at some point. To assist the revenue budget in the short term and subject to funds available at the completion of the first phase renovations and future project requirements when determined, there could be the option of setting aside from capital a sum for repairs and renewals in lieu of building this up from revenue over the first 5 years.

Recommendations:

- Note progress and likely commitments to date
- Complete ground floor condition survey and hand over
- Agree the upstairs accommodation refurbishment budget
- Establish a new combined emergency/contingency budget of £11,500
- Confirm the build up of a repairs/renewal provision in the revenue budget.

Agreed 11th June 2019

- To note progress and commitments
- Completion of ground floor condition survey and handover (GC-L)
- Confirmation of upstairs budget at £40,000 (PS)
- Establishment of a new emergency/contingency budget of £11,500 (PS)
- The build-up of a repairs/renewal fund per the business plan (GP)

- Revisit final funding of the first 5 years renewals budget post completion of the upstairs works.

Phase 2 repairs not funded within the option to proceed to purchase

1. Car park – this was deleted from the plan due to a replacement car park being a condition of the adjacent development. There are two things to consider:
 - We do not yet have a final layout of the car park. We should question capacity to maximise occupancy. There is – subject to final layout – the potential to squeeze another couple of spaces on the right side of the access up to the beer garden – subject to requirements to relocate the gas tank. (Effectively this will be dead space when the car park is finished). If we wanted to do something like this, it is a question of whether we can achieve this through the developer or whether we have to fund. Car parking spaces can be up to £5000 each.
 - Electric car charging points. This has been mentioned on a few occasions but as yet we do not have any costs/detail of grants etc. A provisional figure could be £6,000 for two charging points.
2. Flat roof – the main flat roof is in reasonable condition. The original sum of £8000 would enable some sectional repairs as required but is insufficient for a complete re-roof. If all the shares were sold it is unlikely we would have sufficient resources when a replacement is required. Therefore, we will need to look at an alternative funding model for this when it is required say in the next 10 years and in the meantime make provision for patch repairs if required. The revised contingency should cover this in the meantime.
3. Main roof – these are watertight but will need attention at some point. The budget provision should be retained and some estimates obtained.
4. Windows – the windows are in various degrees of repair and maintaining a decent decorative state will be difficult. They are pretty much beyond patch repairs and provision for replacement should be retained as originally envisaged.

As mentioned above full external decoration is outstanding which would be negated with replacement windows. New windows would also significantly improve comfort levels (noise and energy efficiency) particularly to the upstairs windows which do need to be operable and safe to use for the B&B rooms. Replacement with similar style windows (box sash) to the front elevation and double mullions to the rear (which would allow egress onto the flat roof in an emergency) are recommended. There is then the question of uPVC or wood. The original budget provision envisaged uPVC. Wood would be something like 2 -2 ½ times the cost which is prohibitive. uPVC windows also have better insulation properties and are pretty much maintenance free – both important considerations for the pub.

Aesthetically there is not much difference and there are not really any street scene considerations other than retaining the sash style of windows to the front. If anyone wants to view a front elevation scheme that has been completed – visit the Millings care home in Bedale where new UPVC box sash windows can be seen from the car park.

Financial implications

	Business plan	May 2019
Windows	8,000	10,000
Car Park – additional spaces		?
Car park - charging points		6,000
Main roof	12,000	12,000
Total		28,000

Recommendations

- Establish a priority order of windows, car park and main roof for phase 2 renovation works
- Note future requirement to fund the flat roof renewal

Agreed 11th June 2019

- The priority order of phase 2 works and obtain estimates for the windows and roof.
- To note that the flat renewal cannot be funded from existing resources and contingency funding be used for patch repairs as may be required pending a future funding solution.
- To pursue final layout of the car park, additional spaces and drainage/service duct. (GC-L)

Kitchen

All new equipment was unaffordable at the outset and so reconditioned equipment was used. Professional advice made clear that this entailed a degree of risk as to the life of the equipment and the limited nature of any guarantees. Nonetheless this was the only practicable option at that time

Much of the equipment works well but the combi-oven, deep fat fryer and dishwasher have all given problems. These have supposedly been resolved during the three-month guarantee period (parts only, labour charged). In view of the extent of the problems we had and the poor-quality work at the time of the original fit, the supplier agreed to extend the guarantee until the end of March and has not charged labour. The guarantee period is now long past and further faults are likely for which the supplier will have no liability. Repairing liability falls to Tom and Becci as tenants.

Some relatively low-level difficulties with equipment have continued. It will be difficult, if not impossible, to argue that these are faults that were there at the time of supply or are a direct consequence of poor workmanship by the supplier. For instance, the thermostat on the deep-fat fryer has failed, which it can be argued is something that will happen with second-hand equipment. The repair will cost about £250.

Tom and Becci cannot run a successful pub without a kitchen equipped so that they can provide a reliable and efficient food service. Using second-hand equipment was a compromise to enable us to get up and running. But the evidence to date is that it is unlikely to provide a satisfactory long-term solution. Considering this, we should explore with Tom, Becci and Derek what equipment is most problematic and explore the cost of replacing with new as part of the second phase of our capital strategy.

Dependent on timescales any funding might be a further call on capital or repairs and renewals accruals.

Recommendation

- Determination on future kitchen requirements and funding.

Agreed 11th June 2019

- To pursue kitchen requirements that make fit for purpose the original fixtures/fittings (GP)
- To commit up to £1000 as required from the contingency (GP)
- To ear mark an additional £1000 from the contingency if required. (GP)

Future projects not funded

Bar relocation – this was deleted from the original business plan proposals due to funding constraints but with the improvements undertaken it would be unlikely there would be any support for this.

Recommendation - permanently delete.

Agreed 11th June 2019

- To permanently delete from the business plan.

Outside space (inc. car park).

The main outdoor space we will be left with after the car park improvements is the area occupied by the sheds. Options:

- We do not need to do anything and leave it to T&B to develop this area as they see fit.
- Demolish the sheds and level the ground area. There would also be a need to provide a new boundary fence to the adjacent property – Tentrees – to provide a reasonable level of screening. There has been an offer of free demolition which could be explored from Zeke Deighton. This could be explored more as talking to Zeke the offer is to demolish, take items that are salvageable and leave the rest for us to deal with. Provisional costs £2000
- Demolish and develop the area as a 'camping area'. This would require toilet and shower facilities. As part of the car park development we should ask for a drainage connection to this area and a service duct should this be pursued in any terms in the future. Provisional costs £20,000

There is a potential safety issue to consider which would bring basic demolition into play. Both development options could be done in some form of partnership with T&B.

We also have to consider what is in it for the shareholders as this would be an investment we do not necessarily have to make although the second option may come into play at some point when the sheds are deemed unsafe. That would probably be a grey area as to where responsibility lies with a repairing lease. It could be for example that with the third option there is an opportunity to increase the rent recognising the earning potential of a 'camping' area etc.

Recommendations

- Determine in principle an option to pursue.
- Discuss options with T&B
- Discuss further for decision once upstairs works are complete.

Agreed 11th June 2019

- To open discussions about demolition and tidying the area. (PS)

Share offer

The option to purchase scenario was a variant of option 2. We have now achieved share sales above the option to proceed scenario

There is currently a capital surplus of £28,167 towards future projects. If share sales reach £250,000 (the option 2 scenario) there would be a fund of £46,167 (excl any additional grants that may be available).

Assuming the phase 1 works in total can be retained within the existing budget – including any additional expenditure on the kitchen - there are sufficient funds now to do the phase 2 repairs (subject to any additional costs on laying out the new car park if additional spaces can be achieved).

This would leave a balance of £18,167 for new projects assuming additional share sales up to a figure of £250,000 in total. The share offer can be reviewed when £250,000 is achieved as our best-case financial projections in the business plan did envisage - and fund dividends based on shareholder income of £300,000.

We have separated the revenue budget from capital for good reason and the same discipline should be applied to the bank balance. It might not be an issue now but as time goes on there are things like repairs and renewals that should be accruing and future dividend payments etc as well as managing revenue cash flow which should not be mixed with capital funds (including grants) so there can be a proper 'cash' reconciliation as may be required from time to time.

There are currently no resources to meet any potential investor wishing to sell shares back to the company in 3 years – other than 'one in one out' once the share total is achieved. Whilst there are no indications of shareholders wishing to sell back shares, we need to consider if and how to build up a small fund to accommodate this potential.

Recommendation

- Confirm future revenue budgets based on a share income total of £250,000
- Maintain the revenue and capital accounts as separate balances
- Determine whether and how to build up a share sell back fund.

Agreed 11th June 2019

- To keep the share offer open to a maximum of £250,000 (JW)
- To confirm future revenue budgets based on a share income of £250,000 (JW, GP, MT)
- To determine how to build up a share sell back fund

June 2019

Annex A - Extract from Business plan

9. Repairs, refurbishments and Improvements to establish a trading asset

It is intended to bring the pub up to a standard such that a tenant can focus on running the pub without concerns about the condition of the building when taking on a fully repairing lease. The pub needs investment to be able to operate and develop as a community venue. A working schedule of improvements and repairs has been drawn up with budget figures of up to a high-end estimate of £190,000 as a working guide.

Until more detailed appraisals have been undertaken (most likely post acquisition), volunteer labour and input determined and confirmed, estimates received etc, it is not known how far the budget provision will meet the aspirations. However, the most essential works will be funded. These are:

- a. Essential repairs to the structure, outside areas, tidying inside and out with a thorough internal clean and redecoration of the public areas
- b. Refurbish the kitchen to be able to operate an appropriate food offering
- c. Refurbish the upstairs rooms as tenants' accommodation. (A temporary static caravan is a possibility as an interim measure if there are no other solutions)
- d. Refurbish the cottage for letting

Ideally the following projects will also be included within a first phase of works:

- e. Relocate the toilets to the right-hand side of the restaurant to give a better customer experience and facilitate renovation of the cottage
- f. Re-establish the shop and create a cafe

The following project areas have been identified to support the trading and development of the pub as funding permits. In initial priority order:

- g. Improve the restaurant with an insulated ceiling to improve the overall energy efficiency of the building. (This would be done as part of the toilet relocation or longer-term repairs)
- h. Longer term repairs to protect the asset e.g. window replacements

The priority order and budget provision would be reviewed in consultation with the tenant before commencing with these projects.

Possible future projects to develop potential further include:

- i. Relocate the bar to the right-hand wall of the pub and establish a cellar in the former male toilets (assuming toilets are repositioned)
- j. Determine the optimum use of the outdoor space (including the sheds) e.g. caravans, lodges, glamping, yurts, community space

Whilst the possible future projects (i to j) are aspirational and are not part of the initial funding proposals they are nevertheless considered to be important as they respond in part to the consultation and they could support the viability and attractiveness of the pub which is our priority. These projects will be reviewed for implementation or otherwise, dependent on progress with other required improvements, repairs and funding availability – whether direct from the asset owner or as joint projects in conjunction with the tenant, for example.

Ideally for the public areas we would like to engage some interior design expertise. Initial thoughts are around a public area layout as follows:

With the proposals as set out it is not felt necessary that the pub should have any prolonged period of closure although this will be kept under review as more detailed assessments of requirements are undertaken. The pub would, in principle, be able to operate from 'Day 1' with wet sales, with the addition of food sales following completion of the kitchen refurbishment to support the development of the pub as a fully trading asset.

An options appraisal is included at Appendix 3. A more detailed schedule of the project areas and likely budget requirement is attached at Appendix 4.