

# Questions & Answers Arising From the SOS Meeting

## September 10<sup>th</sup> 2021

1. Does your estimated purchase price of the pub include VAT? Will planning permission be needed for proposed changes?
  - VAT will be charged in addition to the sale price of the pub; however, we plan to VAT register the Community Benefit Society legal entity and recover the VAT paid from HMRC.
  - Current thinking is to renovate the Sarn, updating areas such as the toilets and upstairs accommodation, and carry out necessary repairs. We plan to consult with the community regarding any remodelling of the pub. Planning permission is not anticipated to be necessary to complete the work identified within the refurbishment budget.
2. You say the purchase price for the pub will be negotiated down from the £180,000 offer known to have been accepted by Admiral. However, your website states a purchase price of £250,000, leaving only £70,000 for refurbishment. Why is there a discrepancy between these two figures?
  - We have reviewed the SARN (SOS) website. Please go to the section entitled *“How Can We Raise the Necessary Money.”* It states:  
  
*“At this stage, we estimate that a target sum of £320,000 is needed to secure the purchase of the pub and undertake the necessary refurbishment. This means that we, the community, would need to raise in the region of £160,000.”*  
  
There has never been a reference on the website as to a purchase price of £250,000 for the Sarn.
3. There are some concerns about protection of the investment. Where does the cost of surveys etc. come from? How can we expect a profit from investment if there is an asset lock in place?
  - Although there are very few investments, if any, that are guaranteed to be 100% secure, we believe an investment in the Sarn Community Benefit Society to be very secure because:
    - Investor commitment for transfer of £ funds will be conditional on approval of the Community Ownership Fund Government grant application. If the joint funding is not approved there will be no investment commitment.
    - Because of the joint funding grant it is expected that the refurbished building will have a value at least double the sum invested; that means every £1 invested in shares has the security of another £1 in property value. So, the additional value of the refurbished pub building provided by the funding grant means your investment is likely to be low risk.

- The pub will be a free house, meaning trading stock can be bought by the landlord at market prices, not the inflated prices paid by tied landlords. This makes the pub business substantially more profitable, making the Sarn very desirable for a new long-term landlord.
- The government grant does allow for additional funding to cover pre-acquisition costs such as surveys. However, that would only be paid following approval of the grant. We hope we can defer the timing of the survey. However, if it is necessary to undertake the structural survey prior to grant approval we would need to accept the risk that the cost could be lost if the grant is denied. We think it would be reasonable to ask the community to share this risk with the Sarn Steering Group.
- The asset lock dictates that any profit on sale of the property after distribution of their original investment back to shareholders is utilised for the benefit of the community.

The Community Benefit Society (CBS) legal regulations allow for an asset lock. It is not obligatory, however, which means that we could operate without the asset lock and distribute the share of all net proceeds of an eventual sale back to shareholders.

However, the acceptance criteria of the Community Ownership Fund Government grant states:

*“We will only invest in projects which demonstrate how the asset will be protected for the long-term benefit of the community. Organisations must show this through their charitable purpose and/or an asset lock within their governing documents.”*

We believe therefore we will be unsuccessful in the grant application without an asset lock arrangement.

- At the decision of the elected Management Committee interest will be payable to members on the value of their investment as and when sufficient financial reserves have been built up within the CBS. Barring any unforeseen catastrophe we expect this can be paid annually.
- Due to the above mentioned asset lock being required for joint funding approval no capital gain on share investment is anticipated. However, in addition to the benefit of having access to a welcoming local community pub, independent research shows that having a thriving local pub in your village increases property values.

4. Is the interest going to be paid from profit? Will the business take out loans to pay interest? Is the rent going to be fluctuating?

- The payment of interest will be the decision of the elected Management Committee.
- The pub business is planned to be owned by the landlord tenant who will pay the CBS a market rent for the business premises and accommodation. If the

Management Committee decides to do so, interest will be payable to shareholders from the surplus in funds after accounting for costs associated with the fabric of the property and the setting aside of prudent financial reserves.

- There is no plan for the business to take out loans to pay interest on investment.
- The rent will be set by contractual obligation. The terms of the rent will be market related but with a view to attract the best available long-term tenant landlord. At this early stage we have not determined the specific contract terms. A common option is to include a combination of fixed rental and a share of trading turnover which would cause the rental to fluctuate.

5. How do you value shares in future? How do we get our money back?

- The likely requirement by the Community Ownership Fund Government grant for an asset lock would result in any future repayment of share investment at a maximum value equal to the original sum invested.
- We anticipate the pub will be a successful business that could well attract a future offer from a commercial organisation to buy the property and business. If this hypothetical offer was accepted by the elected Management Committee and shareholders it would result in a repayment to all shareholders at a maximum value equal to the original sum invested.
- We intend to explore options for interim refund of original investment out of financial reserves or perhaps from a waiting list of new investors.

6. Is the level of rental going to cover the financial viability of the community pub?

- As the pub will be a free house we anticipate the new long-term landlord will, supported by community patronage, have a successful and thriving business. We intend to charge a market rent for the business premises and accommodation. Although detailed financial projections have not been completed at this early stage, consultation with the previous landlord regarding the previous tied-business finances has provided confidence in the financial viability of the CBS.

7. What is the viability of the market rent? Does it make the pub work?

- Yes. Initial financial projections, conducted with support from the previous landlord, have provided strong evidence that the pub business (owned by the landlord) will be profitable and financially viable. The resultant market related rental is expected to provide the CBS with sufficient funds to meet its obligations, including payment of shareholder interest. Remember we are receiving rental for a £320,000 asset but paying interest to shareholders on only half of that. The remaining funding is planned to come interest free and non-refundable from the Government grant.

8. Is there any other option of raising money for purchase?

- We are consulting with the Plunkett Foundation, a long-established charitable organisation devoted to supporting the saving of assets at risk of

loss to the community, such as the Sarn. They provide free access to information including availability of alternative funding and also potentially provide access to free business consultancy. At this early stage we have not identified any alternative funding grants to the Government Community Ownership Fund that have sufficient funding to make the project viable.

9. What will the rent be set at?

- At this early stage we have not determined the tenant landlord contractual rental terms. However, we believe the pub business (owned by the landlord) will be profitable and have the financial viability to allow us to negotiate a market rent which will meet the financial requirements of the CBS.

10. Is Admiral still interested in selling pub?

- Everything points to Admiral wanting to sell the pub. Having initially advertised for a new tenant, they changed their approach and engaged three sets of agents to try and sell it – and we know that they accepted an offer from at least one interested party which is clear evidence of their intention to sell. Ultimately, we can never be absolutely sure that they will sell unless, or until, they accept an offer, either from us or somebody else. However, everything indicates that they want to sell the pub and this is the basis upon which we intend to proceed. At the end of the day, Admiral are a property company and there is no logic in them holding on to a property that is not earning them money.