

THE PLOUGH INN LONGPARISH



COMMUNITY SHARE OFFER

EXTENDED TO 6TH DECEMBER 2020
SUPPLEMENTARY INFORMATION



The Plough Inn circa 1910. The sign advertises good accommodation for cyclists and motorists with teas provided.

ACKNOWLEDGEMENTS

This supplementary information to the community shares offer is authorised by the Longparish Community Pub Limited (LCPL) Management Committee, which is grateful for the help, advice and funding, as well as ongoing support, it has received from The Plunkett Foundation, Locality, Longparish Parish Council (LPC) and Test Valley Borough Council (TVBC) during the course of its preparation.



DISCLAIMER

This document contains forward-looking statements, including forecasts relating to the financial position of the Society. The Management Committee believes that the forecasts reflected in these statements are reasonable but will involve unknown risks, uncertainties and other factors which may cause the actual results, financial condition, performance or achievements of the Society, to be materially different from any future results, performance or achievements expressed or implied by those forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in Part 2 Appendix 4 (Risks) set out in the document 'Business Plan' which accompanied the original Share Offer documents. Given these uncertainties, prospective investors are cautioned not to place any undue reliance on those forward-looking statements. The forward-looking statements contained in this document are made on the date of this document, and the Society and the Management Committee is not under any obligation to update those forward-looking statements in this document to reflect actual future events or developments.

INTRODUCTION

The Community Shares Offer to raise the finance needed to support the purchase and refurbishment of The Plough was launched on 26th June 2020, and by 8th August had raised a total of £245,805. (£228,150 in subscriptions for shares and £17,655 in donations).

Based on the successful shares offer, a conditional offer was made to purchase The Plough from its current owner for £395,000, an amount based on an earlier valuation and making some allowance for the unfolding Covid situation. This offer was quickly rejected by the owner, and through further discussions with the selling agents it was clear that the owner's intent was to hold out for his asking price of £550,000 + VAT.

The LCPL Management Committee, with support from LPC commissioned a detailed and up to date professional "Red Book" valuation, regarded as the gold standard when valuing Public Houses, from Fleurets. The new valuation suggested that our earlier valuation had perhaps been a little on the low side, and that the value as a business, taking into account both the market situation and the condition of the buildings was £450,000, still some way below the owner's asking price. Nevertheless, we offered £450,000 but this too was rejected.

Funding for this project will come from three sources:

- LPC will take out a long-term loan from the Public Works Loans Board for £300,000,
- a grant and loan package for £100,000 from the Plunkett Foundation, and
- the balance from community funding via the shares offer and donations.

A significant factor is that the offer from Plunkett is time bound and at the time of the Community Share Offer launch was due to expire at the end of last August. We have since obtained an extension to the end of November, but as the funding programme comes to an end at the end of this year there isn't scope for further extension. This means by the end of this month we will need to have agreed the terms for the sale and have both Exchange and Completion dates set in place, otherwise we will lose that £100,000 portion of our funding.

We re-examined both the business plan and cash-flow forecasts and concluded that if we could raise enough additional funding from the community that we could potentially offer up to £500,000. Accordingly, a final offer was submitted and after further negotiation on the terms of the overage (that will form part of the sale contract), we reached an agreement at £500,000 plus VAT.

Apart from our own need to move quickly to avoid losing the grant package, the owner is seeking a quick sale in exchange for moving on the price.

To go forward with the project as originally outlined in the business plan we now need to secure a further £94,000 from community funding – either as share subscriptions or donations. Alternatively, we have also calculated that, by deferring the planned B&B refurbishment works, the minimum amount needed to proceed with the exchange of contracts would be reduced to £44,000. This would mean the planned B&B refurbishment works would be carried out later and be dependent upon securing other finance/grants once we have acquired The Plough.

Through discussions with some of our existing subscribers, (i.e. potential shareholder/members), we have already received pledges for the £44,000 needed as a minimum to be able to proceed. However, having now agreed a deal with the owner, we believe that even more community investors will be willing to support the plans, and help us to reach the additional £94,000 (i.e. £44,000 + £50,000) needed to fund everything.

If we can reach our original £330,000 Community Shares upper target, this would enable us to fund all the planned refurbishment works and provide some additional contingency funding as well.

As such, LCPL's Management Committee has agreed to extend the Community Shares offer to midnight on 6th December 2020. This will allow us to convert the new pledges we've received into share subscriptions under the same terms as before, and still with the personal tax incentives available under SISR. We also hope this extension, along with news that we have now agreed terms with the current owner to buy The Plough, will attract even more new investments.

*The Management Committee
Longparish Community Pub Limited
16th November 2020*

FAQ'S

Why would we pay more than the professional valuation?

The most recent valuation provided by Fleurets determined that the current value for The Plough is £450,000. This is based on anticipated turnover and profitability for a pub, based on its style, size, location, and current state of repair. It is of course one qualified person's judgement and is focused purely on value of the potential business. It takes no account of the additional potential that the property offers for community hub and ancillary activities that The Plough could offer. The Parish Council and LCPL both believe that the premium of a little over 10% is worth the additional potential value for the community and the opportunity to secure the future of The Plough for future generations.

Why is there a rush to act now? / Can't we just sit this out?

This has always been an option under consideration and may be the only alternative if the current agreed sale should fall through for any reason. Although it might be possible to persuade Test Valley Borough Council to undertake a Compulsory Purchase Order, that could take a long time to arrange, and the legal costs involved would likely be considerably more than the premium we have agreed to pay over market value today. Another significant factor is that the offer from the Plunkett Foundation for a £100,000 combined grant and loan package will expire if we don't act now. That would then require us to find £100,000 from elsewhere, simply to stand still.

What is the deal with the Plunkett Foundation?

The Plunkett Foundation's More Than a Pub programme, supports community ventures like ours seeking to establish a community owned and run pub. Their package is a combined grant and loan, where a grant up to £50,000 is offered to match an unsecured loan from their finance partner Key Fund. So, in total it is £100,000, comprising £50,000 loan and £50,000 grant. We received a conditional offer for this package last January, with an expiry date at the end of March. Since then we have received extensions to the offer ending in June, and now November. However, as the programme funding stops at the end of this year there is no scope to extend the offer any further. A key factor that makes this package attractive to our specific circumstance is that the loan part is unsecured. While we could potentially replace the loan and grant with a commercial loan or mortgage, it is likely any commercial lender would require the loan to be secured on the property. As The Plough will be owned by the Parish Council, and Parish Councils are prohibited from offering security on their assets, this would not be a viable option.

Is the Parish Council still involved?

Yes, very much so. The Parish Council has agreed to borrow £300,000 from the Public Works Loans Board and will buy and own The Plough. LCPL will pay the Parish Council a lease premium to cover their additional purchase costs, and in return receive a long-term lease to operate The Plough and to provide additional facilities. The exact mechanism for this, and terms for the lease, will be drawn up by legal advisors prior to exchange of contracts. The only reason for this not happening already was to avoid incurring significant expenses before we had reached an agreement for the purchase.

How much more money do we need to raise?

To fully fund the purchase of the property, complete all the refurbishment works as outlined in the business plan, provide working capital and contingency will require £740,000. To date with donations and share subscriptions already received we have £646,000 available. That means we will need to secure a further £94,000 to fully fund the project.

However, we could defer the conversion of the first-floor rooms into B&B accommodation, if necessary. The underlying pub business and community hub would remain just as viable, and once we own the property and have the planning permissions that may be required to allow B&B, we will be in a better position to apply for further grants. Deferring the B&B refurbishment work would reduce the total funding needed now to £690,000 and the additional funding required to £44,000. As already mentioned, we have received pledges for further share subscriptions to cover this sum. However, if we can raise the full £94,000 required, we will be in a much stronger position going forward, and we can still apply for further grants to support enhancing the community facilities.

What about the impact of Covid-19, are pubs even viable now?

The impact of Covid on the hospitality industry, and pubs in particular, has been very much in the news recently. Urban pubs, or those without space for dining have been especially affected. Pubs in rural areas, however, with space to accommodate social distancing inside and outdoor space, have been much busier – in many cases busier than would have previously been the case. Working from home has become much more widespread and looks set to continue, meaning that the local area benefits from people looking for local hospitality options. Staycations and local tourism are also likely to benefit rural pubs, especially in the immediate term. More widely communities have become much more aware of the value of community pubs and there is an increased desire to support them. Our business plan has assumed conservative numbers for the first two years of trading, and even allowing for some reduction in capacity to accommodate the need for social distancing, we would expect to maintain a small profit for the first year of trading.

How will we raise the extra money needed?

We have received pledges already from a number of existing subscribers to the Community Share Offer, that give us a high level of confidence in being able to attain the minimum £44,000 additional funding we will need to proceed. Reaching the full £94,000 will no doubt be a challenge, but now that there is a much higher level of certainty that we really can make this happen, we are hoping that new investments both large and small, will help us to reach the higher target amount.

Is the business plan still viable without B&B?

Very much so. The first year's trading Profit & Loss forecast in the Business Plan included for only very limited income from B&B lettings, and even less contribution in terms of any increase in profits. A revised P&L is included at the end of this document for the first year of trading without B&B income and starting 3 months later than originally planned. The difference would be less than a £1,500 reduction in net profit for the first year. A detailed cashflow forecast for the two years following completion is also included at the end of this document. That forecast assumes that we would secure a grant towards undertaking the B&B refurbishment works during winter 21/22.

What is the impact if the extra money needed to support creating B&B facilities can't be secured?

Although we believe the impact on the viability of the business to be limited, the terms of the Community Shares Offer provide that, before proceeding on the basis of a revised schedule for the refurbishment, we will contact subscribers to ask if they want to go ahead, or withdraw their application.

Accordingly, alongside this extension to the Community Shares Offer, we will be contacting all the existing subscribers to confirm that they are happy to proceed on the basis that we may need to defer the B&B refurbishment works. Of course, if we are able to secure all of the additional £94,000 funding, we can proceed with the original planned schedule and this question becomes academic.

What is an overage?

Often referred to as an anti-embarrassment provision, overage clauses are often required by a seller in the contract of sale to ensure that should planning permission be obtained at a later date which would significantly increase the value of the property being sold, the seller would receive a proportion of the increase in the value.

What is the potential impact of the overage agreed with the vendor?

The sale terms agreed with the owner include an overage clause that will last for 15 years from the date of the sale. This would only be triggered if planning permission is granted for residential use of either The Plough building itself or the erection of new residential accommodation on part of the site.

This will not include any planning permission that may be required in relation to commercial use, such as B&B, or manager / landlord tenant or staff accommodation. If within the next 15 years the Parish Council were to obtain planning permission for residential use, then a percentage of the increase in value of the property arising only from the granting of that permission would be payable to the current owner.

How will the project affect the Cricketers?

It has always been our stated aim and intention to work closely with the Cricketers to ensure that Longparish can once again enjoy two successful pubs. That will mean ensuring there is differentiation between the two pubs so that they complement each other as much as possible. Longparish has clearly benefitted from the enthusiasm and attention that Matt has brought to the Cricketers since taking over during the first lockdown.

Matt and his team have demonstrated in a short period of time just what can be achieved attracting customers both from within the village and further afield. We continue to believe that both pubs can thrive and even benefit from each other's success as long as they provide a high-quality product that is attractive to customers.

Are there any potential hurdles?

Unfortunately, there are still a few hurdles we need to overcome before we can be sure we have secured the future of The Plough. First of these will be a satisfactory structural survey, which will be undertaken before we exchange contracts. While we anticipate that there will be a huge number of areas that need attention, we need to be sure that the underlying building structure is secure and there are no hugely expensive issues that we are not already aware of. There are also some quite complex legal arrangements to organise between LCPL and LPC, although we are not anticipating any insurmountable problems that would prevent us from proceeding.

What is the expected timeline?

All parties have agreed to use reasonable endeavours to secure both exchange and completion of the sale before Christmas. However, achieving that will be dependent upon how long the various land searches take to come back, which at the moment appear to be taking much longer than usual. Once we have the keys to the property, then we would expect renovations works to start in the New Year, with an aim to be able to open up fully by the end of June, in time to take advantage of summer trade.

If there are any significant delays, or there is still a high level of uncertainty due to Covid, then it could make more commercial sense to delay a full opening of the pub part of the business to early spring the following year. In all cases we aim to start commercial trading with pop-up events as soon as possible. This is important as we will need to complete four months trading before we can apply to HMRC for the tax certificates needed for SITR and SEIS.

Any decision like this would be made by the Management Committee in light of all relevant circumstances at the time.

COMMENTS AND CHANGES AFFECTING THE ORIGINAL BUSINESS PLAN.

(Sections in italics are referring to clauses contained in the original Business Plan)

Our aim is to re-open in Spring 2021, when we hope times will be returning back to normal. But if they aren't, and social distancing is still the rule, we can open in a low-key way, keeping overheads to a minimum and taking advantage of the lovely, large garden.

This is still the plan, although it is unlikely that The Plough will be ready to reopen fully until the end of June, or early July 2021. It is still a possibility, either through delays with conveyancing, or the situation with Covid showing no signs of improvement that a decision could be made by the Management Committee to delay a full opening to early Spring 2022

We will need to raise at least £230,000 through our community share offer to be able to make a fair offer to buy The Plough.

LCPL has calculated the total investment needed to acquire and reopen The Plough is £630,000. Funding for this investment will come through a combined loan and grant of up to £100,000 from the Plunkett Foundation's More Than a Pub (MTAP) programme, at least £230,000 from community share funding, plus Longparish Parish Council (the Parish Council) are seeking to borrow £300,000 at very low interest rates from central government.

The original budget figure was based on our offering £395,000 to buy The Plough. We always recognised that we might need to increase our offer to secure the purchase, although to state this publicly before doing so would have significantly weakened our ability to negotiate. Based on the agreed purchase price of £500,000 + VAT, the funding required for the total project is now £740,000. Community Shares funding needed will now be £272,000 / £322,000 as detailed in the introduction section of this document.

"... the present committee will serve until the first full AMM that occurs after the share offer and first year end in April 2020, and will be no later than the end of October 2020. At that meeting, all the existing members of the Management Committee will stand down, although they are eligible to stand for re-election. Any other members of the Society who wish to do so may also stand for election. The members will then elect a new Management Committee from amongst the candidates standing and the newly elected Management Committee will take office." "LCPL's first end of year accounts will be submitted following its first full year end on 30 April 2020."

Due to the Covid crisis the Financial Conduct Authority (FCA) extended the deadline for Community Benefit Societies, like LCPL, to submit accounts and hold their Annual Members Meeting (AMM) until the end of 2020. We had originally intended that the first AMM would have been held in October with a full contingent of new members following the issuing of shares immediately following Exchange of Contracts. As we have only just reached agreement with the owner, and in view of the extension granted by the FCA, the revised plan now is for the existing members (the current Management Committee) to approve the first year's accounts, and publish them later this month to all subscribers to the Community Share Offer.

A first AMM will also be held with the existing members standing down and re-standing for election as required under the societies model rules. A resolution will also be passed for that new committee to stand down at a Special Members Meeting to be held within 3 months of the issuing of shares following exchange of contracts, and for a new committee to be appointed at that time.

“The objective for the initial refurbishment is to undertake essential works required to allow the pub to reopen as soon as possible, and to also complete any works that would be potentially disruptive to trade if carried out after reopening. The intention is to achieve high impact at minimal cost to provide a refreshed, warm welcoming environment for drinkers and diners, and quality B&B guest room facilities on the first floor.”

This is still the intended plan, although the conversion for the rooms on the first floor, and potentially the second floor as well to B&B guest rooms may need to be delayed until sufficient funding is available. The original business plan had assumed the B&B rooms would have only a gradual take-up with limited additional net revenues during the first full year of trading. A revised P&L without any additional revenues from B&B is included in this document.

CAPITAL COSTS (Original Plan)		
	£	£ (Reclaimable)
Purchase Price	£395,000	
VAT		£79,000
Searches	£625	
VAT		£125
Stamp Duty Land Tax	£13,200	
Property Survey	£1,500	
Other Fees	£3,000	
Contingency	£24,000	
Totals	£437,325	£79,125

CAPITAL COSTS (Revised)		
	£	£ (Reclaimable)
Purchase Price	£500,000	
VAT		£100,000
Searches	£900	
VAT		£180
Stamp Duty Land Tax	£19,500	
Property Survey	£1,600	
Other Fees	£6,500	
Contingency	£18,000	
Totals	£546,500	£100,180

FUNDS REQUIRED (Original Plan)	
Capital Costs	£437,325
Start-up Costs	£192,670
Total project funding	£629,995

FUNDS REQUIRED	
Capital Costs	£546,500
Start-up Costs	£192,670
Total project funding	£739,170

“Plunkett has granted a conditional offer under their More Than A Pub (MTAP) loan and grant program for a combined £100,000 grant and loan. This is split 50:50 with the loan part provided by Co-Operative and Community Finance bank at a fixed rate of 8% repayable over a maximum of 7 years. This package would need to be drawn down within the next few months, so is in effect conditional upon LCPL agreeing terms for the purchase with the current owner by the end of June 2020.”

The offer from the Plunkett Foundation has now been extended to the end of November 2020.

UPDATED FIRST YEAR TRADING P&L (OPENING JULY 2020 WITH B&B)

YEAR 1 – CASHFLOW / PROFIT AND LOSS STATEMENT (GM=60% for Pub Sales) - REVISED													
PLOUGH INN, Longparish													
INCOME	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	1 ST YEAR
<i>Seasonal Revenue</i>	11%	11%	10%	6%	6%	10%	5%	5%	8%	9%	9%	10%	100%
Wet Sales	11,954	12,133	11,196	6,818	6,920	11,707	5,941	6,030	9,793	11,512	11,684	13,177	118,865
Food (Dry) Sales	15,722	15,958	14,725	8,967	9,102	15,398	7,814	7,931	12,881	15,141	15,368	17,331	156,338
B&B Room rental	1,369	1,353	1,218	1,047	877	777	875	1,006	1,257	1,292	1,597	1,711	14,379
TOTAL	29,045	29,444	27,139	16,832	16,899	27,882	14,630	14,967	23,931	27,945	28,649	32,219	289,582
EXPENSES													
Cost of goods sold	11,863	12,029	11,136	7,047	7,041	11,445	6,213	6,353	9,963	11,566	11,853	13,243	119,752
Gross Contribution	17,182	17,415	16,003	9,785	9,858	16,437	8,417	8,614	13,968	16,379	16,796	18,976	169,830
<i>% of Sales</i>	59.2%	59.1%	59.0%	58.1%	58.3%	59.0%	57.5%	57.6%	58.4%	58.6%	58.6%	58.9%	58.6%
Salaries	8,474	8,474	7,933	5,765	5,765	7,933	5,223	5,223	6,849	9,017	9,017	8,295	87,968
Fixed costs	1,365	1,365	1,365	1,365	1,365	1,365	1,365	1,365	1,365	2,115	2,115	2,115	18,630
Rental	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Variable Costs	1,365	1,365	1,911	2,184	3,276	4,095	2,730	2,730	2,730	2,652	1,658	1,658	28,354
COSTS (total)	12,204	12,204	12,209	10,314	11,406	14,393	10,318	10,318	11,944	14,784	13,790	13,068	146,952
Net income before interest	4,978	5,211	3,794	-529	-1,548	2,044	-1,901	-1,704	2,024	1,595	3,006	5,908	22,878
Loan repayments	779	779	779	779	779	779	779	779	779	779	779	779	9,348
Profit / Loss	4,199	4,432	3,015	-1,308	-2,327	1,265	-2,680	-2,483	1,245	816	2,227	5,129	13,530

UPDATED FIRST YEAR TRADING P&L (OPENING JULY 2020 WITH NO B&B)

YEAR 1 – CASHFLOW / PROFIT AND LOSS STATEMENT (GM=60% for Pub Sales) - REVISED													
PLOUGH INN, Longparish													
INCOME	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	1ST YEAR
<i>Seasonal Revenue</i>	11%	11%	10%	6%	6%	10%	5%	5%	8%	9%	9%	10%	100%
Wet Sales	11,954	12,133	11,196	6,818	6,920	11,707	5,941	6,030	9,793	11,512	11,684	13,177	118,865
Food (Dry) Sales	15,722	15,958	14,725	8,967	9,102	15,398	7,814	7,931	12,881	15,141	15,368	17,331	156,338
B&B Room rental	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	27,676	28,091	25,921	15,785	16,022	27,105	13,755	13,961	22,674	26,653	27,052	30,508	275,203
EXPENSES													
Cost of goods sold	11,070	11,236	10,368	6,314	6,409	10,842	5,502	5,584	9,070	10,661	10,821	12,203	110,081
Gross Contribution	16,606	16,855	15,553	9,471	9,613	16,263	8,253	8,377	13,604	15,992	16,231	18,305	165,122
<i>% of Sales</i>	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%
Salaries	8,474	8,474	7,933	5,765	5,765	7,933	5,223	5,223	6,849	9,017	9,017	8,295	87,968
Fixed costs	1,365	1,365	1,365	1,365	1,365	1,365	1,365	1,365	1,365	2,115	2,115	2,115	18,630
Rental	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Variable Costs	1,365	1,365	1,911	2,184	3,276	4,095	2,730	2,730	2,730	2,652	1,658	1,658	28,354
COSTS (total)	12,204	12,204	12,209	10,314	11,406	14,393	10,318	10,318	11,944	14,784	13,790	13,068	146,952
Net income before interest	4,402	4,651	3,344	-843	-1,793	1,870	-2,065	-1,941	1,660	1,208	2,441	5,237	18,170
Loan repayments	779	779	779	779	779	779	779	779	779	779	779	779	9,348
Profit / Loss	3,623	3,872	2,565	-1,622	-2,572	1,091	-2,844	-2,720	881	429	1,662	4,458	8,822

