

BUSINESS PLAN FOR OPENING A COMMUNITY PUB AT THE COCK INN IN STOCKING PELHAM

Submitted by STOCKING PELHAM PARISH COUNCIL

December 2018 (updated January 2019)

Summary

This business plan presents a proposal from Stocking Pelham Parish Council (SPPC) for the purchase and lease to a tenant of the Cock Inn, Stocking Pelham as a community-owned pub, without involving an increase to the parish precept.

SPPC's proposal is to apply to the Ministry of Housing, Communities and Local Government (MHCLG) for a loan of £600,000 to buy the Cock Inn as a freehold public house from the owner, Top Co Stocking Pelham Ltd and to complete the necessary building work in order for the pub to be 'tenant-ready' to open for trade. Should the application to MHCLG be successful, the loan will not be drawn down unless the owner is willing to sell the site to SPPC at an independently assessed market value. Following purchase of the pub, SPPC will appoint a professional 'live-in' tenant with the experience and skills to run the pub as a profitable and successful business for the benefit of the community and other users.

The rent charged by SPPC will be set at a level that gives the tenant the opportunity and incentive to run a profitable pub business. We intend to select a tenant who has a proven record of establishing and running a food-led pub thereby giving us the greatest confidence that a successful business will be established in the pub. This will provide the revenue for us to service and repay the loan, and in due course if cash reserves and surpluses permit, to improve the facilities.

Our objective is to have a friendly and welcoming village pub that serves guest and local beers and sensibly priced freshly prepared food. Planning permission for six letting rooms on the first floor could provide additional income. SPPC also believes that the Cock Inn has the potential to be 'more than a pub', and we propose to support the introduction of a range of amenities that will promote the social, physical and cultural wellbeing of both individuals and groups within community and to explore other initiatives as the business involves.

CONTENTS	PAGE
1. Background	2-3
2. Demographics	4
3. Community Support	5
4. Vision	5
5. Proposed operating model	6
6. The property	6-8
7. Acquisition of the property	9
8. Repayment of the loan	10-11
9. Tenancy arrangement and business forecasts	12-16
10. SWOT analysis	17-18



Draft Street Elevation of the Cock Inn, Stocking Pelham by Hertford Planning Service on behalf of Winchmore Developments (previous owners of the pub)



Photograph of Cock Inn showing rebuilt exterior shell, when it was offered for sale by Christie & Co on behalf of Winchmore Developments (photograph taken in June 2017)

1. BACKGROUND

- 1.1 The former historic thatched Cock Inn was a listed building and the sole pub in the village of Stocking Pelham. It burnt down in 2008 and the building was subsequently de-listed. The publican sold the site to Winchmore Developments Ltd, with planning permission for the erection of a public house alongside two dwellings as enabling development. This planning permission was subject to a Section 106 agreement to ensure that a public house would be built to an 'operational state'. 'Operational State' is defined in the Cock Inn 106 agreement as follows; *... until such time as the public house has been constructed and put into a state where it is capable of being granted a licence under Part 3 of the Licensing Act 2003 to the reasonable satisfaction of the Director (of Planning).*
- 1.2 The building was constructed in shell form and although the kitchen, toilets and cellar were not in an operational state, a premises licence (PL 1067) was secured on 9th September 2013. The premises licence was not renewed the following year. In January 2016, the Director of Planning at East Herts Council confirmed in writing that the 106 agreement had been fulfilled to his satisfaction and that both dwellings which had been permitted as 'enabling development' could be occupied.
- 1.3 The present owner Top Co Stocking Pelham Ltd, bought the public house and car park site on 1st December 2016 for £300,000 from Winchmore Developments (common director Shaun Savage). On 29th July 2016 SPPC received notice of a planning application for change of use of the unfinished building to a 5-bedroom dwelling. This was refused by the East Herts Council (EHC) on 6th October 2017 and an appeal was dismissed by the Planning Inspectorate in May 2018.
- 1.4 A second application, for conversion to a shop and four dwellings has recently been dismissed after an appeal to the Planning Inspectorate, decision dated 16th November 2018.
- 1.5 Stocking Pelham Parish Council has a remit to protect parish assets. The Cock Inn has been a thriving and much-valued local amenity for more than 300 years. It is the view of SPPC, strongly supported by the local community, that a public house at the site of the Cock Inn is a viable business opportunity and has the potential to flourish as a valuable community asset and a successful commercial venture which supports local employment. If SPPC purchase the Cock Inn, the pub will become a SPPC asset and will be subject to the rules and conditions of the council. If the Cock Inn cannot be saved, there will almost certainly never be another pub in Stocking Pelham and without such an amenity, growth of the community will be unsustainable.
- 1.6 With many letters of support from the community, Stocking Pelham Parish Council successfully nominated the Cock Inn as an Asset of Community Value (ACV). The decision to list the Cock Inn as an ACV was later upheld by East Herts Council (EHC) following an appeal. The owner has since given notice that the property is on the market and that SPPC has first option to buy it, as specified by the ACV. The six-month moratorium period during which SPPC must make an offer for the pub ends on **5th January 2019**.
- 1.7 A pub viability report with reference to the Cock Inn was commissioned by EHC in December 2016. This was provided by Mr A J Wheeler of Fleurets Chartered Surveyors (Appendix 1). Mr Wheeler gave careful consideration to the future viability of the Cock Inn as freehold pub in terms of its trading potential and the profitability for the operator. He concluded that subject to a willing seller and a willing purchaser reaching an appropriate agreement on price, the Cock Inn represents a viable business proposition for use as a public house for freehold owner occupation.

2. DEMOGRAPHICS

- 2.1 Although Stocking Pelham is a small rural village with a voting population of 154 (Electoral Register 2017-2018), the former Cock Inn drew regular custom from the wider community in addition to local residents. Just one mile away is the larger village of Berden, with a population of 465, (according to the 2011 Census). There is no pub in Berden and residents have historically considered the Cock as their local. Stocking Pelham is part of a community made up of three 'Pelham' villages. Strong links with both Brent Pelham and the larger village of Furneux Pelham are well-established.
- 2.2 Rural pubs are a popular destination for residents of local towns and the recent significant increase in the number of new houses in the neighbouring market towns of Bishop's Stortford and Buntingford is likely to increase the number of potential visitors to the Cock Inn.
- 2.3 It is anticipated that the proximity of Stansted Airport and of popular tourist destinations such as Audley End House, Thaxted and Saffron Walden could provide regular all-year round business for possible future availability of letting rooms at the Cock Inn.
- 2.4 The site of the Cock Inn benefits from a prime, centrally-located position within the village, at a road junction that sees regular passing traffic. An enclosed pub garden at the front of the building benefits from sunshine all day, making it a desirable destination for much of the year for both local residents and for visitors from regional towns. This is a scenario that has already proved successful at the Catherine Wheel in Albury (which was also rebuilt following a fire).
- 2.5 In a rural area such as Stocking Pelham, which lacks community facilities, a local pub is regarded as 'the hub', vital to social cohesion and to combat loneliness. A new Cock Inn is consequently highly-valued and would be well-supported. In a report commissioned by East Herts District Council to assess the viability of the Cock Inn, it was confirmed that there is a 'pub-culture' in the area and that a pub at this location would be viable. (Appendix 1)
- 2.6 Letters written by members of the community indicate that in the years before the Cock Inn was destroyed by fire it was an extremely popular pub, with a good reputation for food and as a local meeting place. At weekends it was often impossible to secure a table for dinner unless it had been pre-booked. The Cock Inn was in regular use by organisations such as the Cricket Club, Pre-school Group and Young Farmers and also received considerable passing trade from visitors, including many cyclists and ramblers.
- 2.7 There are a number of pubs in the area which have successfully re-opened after a period of closure. The Golden Fleece in Braughing was left derelict after a failed attempt to convert it to a residence. It re-opened for business in 2010 and is now a thriving pub with excellent reviews. The Black Horse in Brent Pelham was destined to become a housing development until a local landowner decided to buy it and appoint an experienced landlord. It re-opened in 2016 and has quickly re-gained a strong customer base and an excellent reputation. The Catherine Wheel in Albury burnt down in 2004 but was rebuilt and re-opened in 2007. Above average levels of trade were soon established and the pub continues to be popular following a recent change in management.
- 2.8 Community-owned pubs have achieved success in this part of the country. In 1991 The Green Man at Thriplow was under threat of being sold as a house. Luckily pressure from locals prevented this and pub was bought as a free house. In 2013, 71 shareholders from Thriplow and surrounding communities contributed varying amounts to ensure the pub would remain the open. It is now an award-winning pub. The STRAP campaign to save The Railway Arms Pub in Saffron Walden as a community-owned pub has reached a £250,000 target via a share-ownership scheme.

3. COMMUNITY SUPPORT

- 3.1 There is a clear demand for the return of a pub in Stocking Pelham, as demonstrated by a previous 320 signature petition and a more recent internet-based petition with more than 2000 names. More than 140 strongly-worded letters were written objecting to the proposal for change of use to a residential dwelling and in support of the nomination of the Cock Inn as an Asset of Community Value (ACV).
- 3.2 A survey was conducted via an email sent out to 160 people (not all of whom reside in the parish) on 8th March 2018, requesting a Yes or No response to the following statement: *I/We support the principle that Stocking Pelham Parish Council purchase the Cock Public House in Stocking Pelham.* It was made clear that the purchase of the pub by Stocking Pelham Parish Council will not affect the annual precept so will have no impact on Council Tax. There were 50 responses from local residents to this survey; 49 were 'Yes' email responses and there was a single 'No' response. (Appendix 2)
- 3.3 Signatures were also collected in person from parish residents on 24th and 25th November 2018, for a petition in support of the following statement: *I am in favour of the Parish council, on behalf of Stocking Pelham, purchasing the Cock Public House. The purchase will be financed with a mortgage from the Public Works Loan Board.* Of the 56 residents (who were available at the time of the survey and did not take part in the earlier email survey) all but two signed the petition. (Appendix 2)
- 3.4 Of the 154 names on the Electoral Register for Stocking Pelham Parish 2017-2018, there were 106 responses, 103 (97% of those that responded) of which were in favour. This means that 66% of the local community have registered their support for the application by SPPC for a government loan in order to purchase the Cock Inn as a community pub.
- 3.5 A 'Pop-up pub' event on 28th September 2018 in the local Village Hall, in support of the Save the Cock Inn campaign was widely advertised, including leaflets delivered to the homes of residents. The event was effectively an open meeting to gauge the level of support for the SPPC plans to purchase the pub. More than 100 members of the community attended the event and declared their support.
- 3.6 Following the success of the Pop-up Pub, a Save the Pub Action Group has been formed to facilitate continued communication and support for the Cock Inn within the community. The group's remit will include setting up a website, carrying out questionnaires, fund-raising and applying for grants.

4. VISION

Our vision is to purchase the Cock Inn for the benefit of the community and to secure its future as a thriving pub that serves a selection of real ales and good pub food.

Our aim is to secure the future of the Cock Inn for the benefit of Stocking Pelham and the wider community as a flourishing, friendly and welcoming village pub. The pub will be a free house that serves local and guest beers and sensibly priced, freshly cooked, good food prepared using locally sourced ingredients. It will be the hub of the village as a place for social gathering, cultural activities, somewhere to meet people and exchange information, and it will promote a cohesive and friendly community in the area. It is our intention that the pub will work closely with and in support of the other community facilities and clubs in the area. We will also work hard to ensure that the Cock Inn becomes a "destination pub" attracting customers from a wide area, including local market towns. There is potential for guest room accommodation offering visitors the benefits of countryside tranquillity and of easy access both to Stansted Airport and to local tourist attractions.

It is envisaged that morning coffee and afternoon teas would be offered as well as the usual lunchtime and evening trade. Both regular clubs/groups and occasional events, such as Classic Car meetings, cycle rides, rambles etc would be organized to boost revenue. With good management, it is envisaged that the Cock Inn will establish an enviable reputation for both food and service, a formula that has proved very successful at The Black Horse in Brent Pelham and at The Green Man in Thriplow.

5. PROPOSED OPERATING MODEL

- 5.1 Stocking Pelham Parish Council will purchase the site with a loan from the Public Works Loan Board of HM Treasury, if approved by MHLCG. The loan will allow the Parish Council to purchase the site at a reasonable price from the developer, finish the work necessary to operate as a public house, re-apply for a premises licence, appoint a tenant and open for business.
- 5.2 The Parish Council will take the role of commercial landlord for the site, letting the property to a tenant who will operate the public house. The Parish Council will secure enough rent from the tenant to service the loan on the property and to maintain a fund for any improvements to the property that are not part of the tenant's obligations. The acquisition of the pub will have no effect on the council precept. The Parish Council will be the owner of the site but will not be involved in the day to day pub business.
- 5.3 The Parish Council will appoint a tenant and enter into a rental agreement with him/her to run the licensed business selling food and drink in our premises, and to pay an affordable but realistic rent to the Council. The rent will be set at a level that gives the tenant the opportunity and incentive to run a thriving pub business.
- 5.4 The tenant will run the public house as a commercial venture to make a profit. There is generous 3-bedroomed accommodation on the first floor for the tenant to occupy as part of the tenancy agreement. Alternatively, there is planning permission to construct six letting rooms on the first floor (with a smaller self-contained apartment for the tenant). This is an option that could be considered by the parish council, should the tenant present a feasible case for this. An application for the six bed & breakfast rooms has already been indicated as acceptable by the local planning authority, East Herts District Council, which needs only to be ratified by a planning obligation called a Section 106 Agreement.
- 5.5 The lounge and dining area are generous and can offer approximately 90 - 100 covers for seated dining, plus a separate bar area for drinks and snacks. There are plans for a conservatory, which would provide additional dining space.
- 5.6 It is envisaged that the public house will be staffed with up to 5 employees, one of whom will be a qualified and experienced chef. The roles will include part-time and seasonal positions, most of which will be filled by members of the local community, some of whom may opt to offer occasional help on a voluntary basis.
- 5.7 The public house supply chain will include local as well as wider-sourced goods and services and is well placed to take advantage of offerings from local producers and suppliers, thus strengthening the local economy.

6. THE PROPERTY

6.1 Condition of the property:

The developer has re-built the Cock Inn in shell form only. A considerable amount of work needs to be done before the Cock Inn can re-open as a public house. Some of the first fix works are incomplete and the second fix has not begun. Although internal walls have been constructed, there are minimal internal fixtures and fittings and the land around the building has not been landscaped. As the property has been vacant for almost 3 years, it is currently showing signs of untidiness and neglect. The completion of the building work is estimated to take six months.

6.2 Valuation of the Property:

A valuation of the property was conducted by Mr Brien Walker, FRICS Principal for Snow Walker Chartered Surveyors, following a site visit on 29th October 2018 (See Appendix 3).

His valuation of the property as freehold with vacant possession is £140,000. This valuation takes into account the high level of cost anticipated to complete the building works.

Consideration is also given to other country inns in the area. Successful public houses, fully fitted and trade-ready sold freehold, without tie and with established trading and providing existing income, are said to be in the £400,000 to £500,000 price range. As the Cock Inn is not currently trading, it might be expected to be at the lower end of this spectrum.

The Brewery Tap in Furneux Pelham is quoted as a comparable pub in the area. At the time of the valuation of the Cock Inn, the Brewery Tap (recently only operating as wet-trade but with space for 88 covers) was available as a freehold pub for £425,000. It has since been sold and will re-open on 14th December 2018.

The Cock Inn benefits from more passing traffic than the Brewery Tap and the building is more substantial, with the space for a larger dining area and the potential availability of letting rooms. This suggests that a valuation of the Cock Inn as an operational public house is in the region of £450,000.

A comparison of the 2010 and 2017 ratings assessments for the Golden Fleece in Braughing and the Green Man at Thriplow indicate that the viability of these businesses has increased since they reopened as pubs.

Pub	Postcode	Rating assessment 2010	Rating assessment 2017
Golden Fleece	SP11 2PG	28,500	37,000
Green Man	SG8 7RJ	11,350	24,500

6.3 Completion of the building works:

According to the appointed Quantity Surveyor, Mr Ron Davis, (RICS), who visited the site on 29th October 2018, the total estimated costs to complete the Cock Inn are £384,526, exclusive of VAT, (see summary in Table 1 and full costings in Appendix 4).

For the purposes of this business plan, the estimated costs to bring the Cock Inn to an operational state will be a lower figure - £310,000, including VAT. This is because the Parish Council fully expect to make significant savings (approximately £75,000) in some aspects of the building work, by virtue of the goodwill that the project is expected to generate in the form of donations/support from local businesses and through the use of voluntary help for tasks such as decorating. Additional savings can be expected by refitting with second-hand rather than new kitchen and bar equipment.

Table 1: A summary of the estimated costs to complete the Cock Inn (to an operational state)
 Costings as provided by appointed Quantity Surveyor, Ron Davis, October 2018

Item	Work to be done	Estimated cost (excl VAT)
SERVICES		£69,000
	Service connections	£6,500
	Electrical	£35,000
	Heating	£27,500
FINISHING		£102,392
	Plastering	£41,404
	Insulation	£8,850
	Joinery	£24,388
	Floors and walls	£27,750
FIXTURES & FITTINGS (non-trade)		£82,500
DECORATING		£21,634
EXTERNAL WORKS		£110,500
	Clear site and level	£15,000
	Construct entry road and carpark.	£72,500
	Complete patio.	£9,000
	Soft landscaping, fencing, signage, drainage	£17,500
SITE SET UP		£10,000
Total cost		£399,526
TOTAL COST with Credit of £15,000 (or materials on site and work begun)		£384,526 This is exclusive of VAT.

7. ACQUISITION OF THE COCK INN – proposal in detail

Stocking Pelham Parish Council has authority and competence to apply for borrowing approval from the MHCLG for funds from the Public Works Loan Board (HM Treasury) to be applied to purposes identified in schedule 1 to the Local Government Act (2003) to sustain or enhance community facilities. These purposes can include the acquisition of a village pub to retain it as a community asset, once authority to borrow has been secured from the MHCLG.

A sum of £600,000 will provide sufficient capital to purchase the pub, carry out any initial remedial capital works necessary to enable the pub to re-open, cover set up costs, and provide sufficient working capital to purchase a trading inventory and establish an appropriate contingency to meet unforeseen costs.

NOTES:

- A valuation of the property as a freehold pub ready to trade and following a period of three years in which to reach its full trading potential is estimated to be £450,000.
- The total costs involved in making the pub ready to trade are estimated to be £310,000.
- SPPC therefore expect to offer to purchase the pub at a discounted price of £140,000, the sum established by Brien Walker as its existing value.
- A sum of approximately £40,000 is contingency in case of over-budget refurbishment costs and/or a limited period in which there is a gap in the rental income.
- A sum of £35,000* will be recovered by SPPC when the tenant purchases the trading inventory from the SPPC.

Table 2: Loan Calculations

Costs involved in acquisition of property		£173,000
Purchase price of property	£140,000	
VAT	£28,000	
Legal fees	£5,000	
Completion of building work and refurbishment (including design fees and VAT)		£310,000
Services	£70,000	
Finishing – interior	£100,000	
Fixtures and Fittings (non-trade)	£80,000	
Decorating	£20,000	
External	£40,000	
Start-up costs		£40,000
Legal fees for tenancy agreement	£5,000	
Trade Inventory*	£35,000	
Other costs		£77,000
Loan repayments for first year following acquisition	£30,000	
Other costs (inc premises licence)	£7,000	
Contingency	£40,000	
Total cost		£600,000

8. REPAYMENT OF THE LOAN

The Parish Council will use rental income from the Cock Inn to service and repay the loan of £600,000.

Based on expected pub turnover of circa £8,000 per week from Year 3 (£400,000 - £450,000 per year) and rent set at 10-14% of turnover, the Parish Council can expect annual rental income to be £40,000 to £50,000 once the pub business is established.

The preferred option for repayment of the loan is the **Annuity method of half-yearly payments**, where each payment consists of a constant amount inclusive of principal and interest. At the time of writing, the Public Works Loan Board quotes a fixed interest rate of 2.76% for a £600,000 loan payable over 30 years.

For a loan of £600,000 repaid over 30 years the annual payments will be £14,614.04 very six months and the total paid at the end of the loan term will be £891,456.44.

For the purposes of this business plan; a loan repayment sum of circa £15,000 every six months (£30,000 per year) payable over 30 years will be quoted.

Following acquisition at a purchase price of £140,000 and allowing six months for the building work to be completed at a cost of £310,000, £150,000 of the £600,000 loan will remain when the pub is ready to open. Loan repayments during pub completion will cost £15,000.

With start-up costs of approximately £40,000, the remaining capital will be in the region of £95,000. A further £15,000 of this will be used to finance loan repayments in the first year of operation. This is so that the tenant can be offered a fixed rate rent at 50% discount for the first year of operation (which is equivalent to a rent-free period of six months). Allowing for VAT and other costs of £35,000, the remaining £40,000 will be a contingency fund.

According to data in 'Running a pub: Cost guide for tenants 2017', by the British Beer Pub Association, a Rural Character Pub might typically have a turnover circa £6,000 per week ie. more than £300,000 per year, (See page 10 of Appendix 5). Figures are also provided for a top-end Rural Character Pub, which could be operating with a turnover of circa £8,000 per week ie. more than £400,000 per year (see page 11 of Appendix 5). Where these figures are to be used in preparing business plans it should be noted that all pubs are unique and that the actual costs incurred will be dependent on the different aims and styles of the business according to the location, the market and the skills of the tenant/lessee. Costs do vary across the country and the size of the business, as well as its focus, will have significant impacts on costs.

The circumstances in which the Cock Inn will re-open are unique in that it has been closed for more than ten years and the new Cock Inn will have a very different architectural style than the former Cock Inn. The starting point will be a public house that is likely to be well-supported by the local community but which will need to build a reputation in order to attract customers from further afield. This growth in the customer base is critical and will be a key consideration in the selection of a suitable tenant. We have assumed that the pub will achieve a reasonable year-on-year increase in turnover until Year 3 at which point the pub will be at a sustainable 'steady-state' level of trade, the tenant having built a good reputation as a dining location and developed an established customer base.

In view of this predicted scenario, this business plan is based on the model of a Rural Character Pub with a turnover of circa £6,000 per week (c £300,000 per year) as a start-up business in Year 1 and on the model of a Rural Character Pub with a turnover of circa £8,000 per week (c £400,000) as a mature business in Year 3, with a business growth phase in Year 2. These models have been adapted to suit a free-of-tie business (wet costs at £35% of sales, not 45% as quoted for tied models). The growth is shown conservatively as even across food and drink sales. However, the expectation is that food-led sales will show more growth than wet sales (mirroring a growth in the reputation of the pub meals and reflected in an increase in the wages costs).

In the pub industry rents are typically 10 -14% of turnover or 35-65% of the net profit. We expect to set our rent at 11% of turnover to promote a sustainable business for the tenant and the community.

On the basis that the rent will be 11% of turnover in Year 2 (subject to negotiation), the rent payable by the tenant will be in the region of £40,000 per year, (assuming the turnover is more than £300,000), rising to £45,000 per year in Year 3, when turnover is expected to be rising to more than £400,000 per year. For years 4 and 5, prior to review, the rent will be fixed at £50,000 per year, reflecting maturity of the business. The profit payable into the Contingency fund for year 4 and 5 will be £20,000 per year.

The tenant of the Cock Inn will need to maintain the assets (land and buildings) to uphold their value and ensure that the pub can operate. With a new build property, the costs of maintaining the building should not be prohibitive. The tenancy agreement specifies that the tenant will need to take out property and contents insurance.

Table 3: Stocking Pelham Parish Council cash flow forecast for years 1-3 of pub in operation

SPPC cash flow	Year 1 (of operation)		Year 2		Year 3	
	Income	Outgoings	Income	Outgoings	Income	Outgoings
Rent	£18,000		£40,000		£45,000	
Loan repayment		**£15,000		£30,000		£30,000
Interest (1%)	0		£380		£480	
TOTAL	£18,000	£15,000	£40,380	£30,000	£45,480	£30,000
SPPC profit	+£3,000		+£10,380		+£15,480	
Trade Inventory	*£35,000					
	+£38,000		+£10,380		+£15,480	
Cumulative Contingency	£78,000		£88,380		£103,860	

*A sum of £35,000 will be recovered by SPPC when the tenant purchases the trading inventory from the SPPC.

**£15,000 of initial loan repayment of £30,000. Other £15,000 is included in loan calculations (Table 2)

Table 3 shows that there is potential for the parish council to make a profit. This will be invested (in an interest-generating account) as a Contingency Fund and for future investment in the property.

In case of circumstances that result in an unforeseen period with no rental income such as a gap in the lease, the Contingency Fund will be used to finance loan repayments.

9. TENANCY ARRANGEMENT and BUSINESS FORECASTS

- 9.1 If we are successful in purchasing the Cock Inn we will appoint a tenant with the necessary experience and business ability to make a success of running the pub. We have ruled out operating models such as the community directly running the pub on either a volunteer rota basis or by employing a manager. We believe that these models are impracticable and unlikely to be sustainable in the longer term due to the high level of day-to-day operational involvement they would require from the community. Based on our research, we have taken the view that a tenant model is the operating model that is most likely to be successful and which will expose the community to the least risk.
- 9.2 As part of the selection process we will closely examine each prospective tenant's business plan, their view of what the pub will offer its customers, and their plans for its marketing. In particular, we will want to ensure ourselves that their plans consider and reflect our vision for the Cock Inn as set out in this plan. The pub will be owned and let by SPPC so that we, the community, will have control over how the property is managed and improved. It will also enable us to have a continuous constructive dialogue with the tenant about the community's wishes, and one of the main criteria for selection of a tenant will be their willingness to provide for community needs. Whoever we appoint will need to have the energy and enthusiasm to buy into our vision, and to contribute to its ongoing development. Selecting the right tenant will be absolutely critical in ensuring the success and long term future of the pub.
- 9.3 The appointment of an independent operator will be subject to a suitable contract. This contract will specify the tenant's obligations and entitlements in terms of the accommodation, fixtures, fittings and furnishing.
- 9.4 A Lease agreement will need to cover the following:
- The Lease will be for 15 years with five-year break clauses when a rent review will take place.
 - The lease be assignable after five years with the Freeholders sign off being a pre-requisite to any assignment.
 - The assigning lessee will have an Authorised Guarantee Agreement which makes the Lessee financially responsible should the new lease holder fail.
 - Lease will be inside the Landlord & Tenants Act 1954.
 - Rent reviews / increases to be upwards only based on profitability or RPI, whichever is the greater of the two.
 - The Lessee will be expected to purchase all trade Fixtures & Fittings.
 - Repairs & maintenance are the responsibility of the Lease holder. The lease to be on a full repairing and insuring basis.
 - Lease holder to ensure that all repairs and maintenance of the building cause no detriment nor dilute any heritage criteria the building may have.
 - The Lessee will be expected to re-decorate the pub every 5 years.
 - A dilapidation schedule would be implemented on assignment under which the Lease holder is responsible.
 - A penalty clause/surrender fee may be enforced if early exit of the lease occurs.

The lessee will be able to operate the Cock Inn on a Free of Tie basis, which will include:

- The freedom to purchase all products from any legitimate supplier they so wish, subject to the Freeholder's expressed wish that goods and services be sourced locally wherever possible.
- All discounts given are the property of the Lessee and do not form part of the Freeholder's business interest.
- All purchases are to be legal and ethical.
- Lessee has the scope to manage the business in order to make it profitable but within the confines of the lease.
- Lessee is self-employed, or employed by a company or partnership party to the lease, and acts as employer to those working in their service.
- Lessee is responsible for adherence to all HMRC legal parameters on employment and payment of all staff.
- Lessee is responsible for the payment of all forms of tax relating to the trading pub business to HMRC.

As the freeholder, Stocking Pelham Parish Council has no responsibility to any legal body and/or supplier in terms of payment and terms of engagement.

9.5 We intend that the pub operates as a free house so the tenant will not be tied to buying beer, wine, spirits and soft drink supplies from a single brewery or pub company at non-competitive prices. These factors taken together mean that the tenant should be able to achieve significantly higher profits than in a tied pub, contributing to a financially stable business and a less frequent turnover of tenants.

Our modelling assumes rent of 10-14% of turnover which is an affordable but realistic rent that gives the tenant the opportunity and incentive to run a profitable pub business and has been shown to be at the right level to attract serious applications from experienced tenants. Of course, the actual level of rent set will be subject to negotiation. We expect however to agree a fixed rent at 50% discount for the first year to give the new tenant a level of certainty while they establish and grow the business. Once we move to the 10-14% rental model we will also set a minimum periodic rent that will be payable, so that SPPC can meet its obligations (in particular finance repayments). We have made what we believe is a realistic forecast of future turnover for the pub business in our financial plans, but to some extent this will be a matter for discussion with potential tenants.

9.6 We have calculated that an initial annual turnover of £300,000 is achievable (see Table 4 below), and would typically support a rent of approximately £36,000 (i.e. 12% of turnover). Turnover would be expected to rise to more than £350,000 per year in Year 2 and to more than £400,000 in Year 3 (Table 5). Profit and Loss Forecasts for Years 1-3 are set out in Table 6.

TABLE 4: ANNUAL ACCOUNT FORECASTS for Year 1 (start-up business)

Data based on 'Running a pub: Cost guide for tenants 2017', by the British Beer Pub Association; Rural character pub with turnover circa £5,000 - £6,000 per week (£260,000 -£312,000 per year). All figures exclusive of VAT.

INCOME (Year 1)	Per week	Per year	% of sales
Total drinks (wet) sales	£3,000	£156,000	52%
Total food (dry) sales	£2,600	£135,200	45%
Other income	£200	£10,400	3%
TOTAL SALES	£5,800	£301,600	100%

EXPENDITURE (Year 1)	Per week	Per year	% of cost
Cost of drinks	£1,050	£54,600	50%
Cost of food	£1,000	£52,000	47%
Other cost	£60	£3,120	3%
TOTAL COST	£2,110	£109,720	100%

OVERHEADS/OPERATING COSTS	Per week	Per year	% of turnover
Wages (NB no salary for tenant)	c £1,500	c £77,600	22.4%
Rates	£200	£10,400	3.3%
Utilities	£300	£15,600	5.0%
Marketing/promotion	£100	£5,200	1.6%
Consumables	£50	£2,600	0.8%
Waste/cleaning/hygiene	£50	£2,600	0.8%
Insurance	£100	£5,200	1.6%
Other costs	£300	£15,600	4.9%
TOTAL OPERATING COSTS	£2,600	£134,800	40.4%

Gross profit	£3,690	£191,880
Net profit (before rent deducted)	£1,090	£57,080
Rent at 12% of turnover (50%)	£340	£18,000
Profit after rent paid	£750	£39,080

Gross profit margin	63.6%
Wet margin	65.0%
Dry margin	61.5%
Costs as % of sales	36.4%
Overheads as % of sales	44.6%

TABLE 5: ANNUAL ACCOUNT FORECASTS for Year 3 (mature business)

Data based on 'Running a pub: Cost guide for tenants 2017', by the British Beer Pub Association; Rural character pub with turnover circa £8,000 per week (£416,000 per year). All figures exclusive of VAT.

INCOME (Year 3)	Per week	Per year	% of sales
Total drinks (wet) sales	£4,150	£215,800	52%
Total food (dry) sales	£3,600	£187,200	45%
Other income	£250	£13,000	3%
TOTAL SALES	£8,000	£416,000	100%

EXPENDITURE (Year 3)	Per week	Per year	% of cost
Cost of drinks	£1,430	£75,500	50%
Cost of food	£1,400	£72,800	47%
Other cost	£100	£5,200	3%
TOTAL COST	£2,930	£152,500	100%

OVERHEADS/OPERATING COSTS	Per week	Per year	% of turnover
Wages (NB no salary for tenant)	£1,950	£101,150	24.1%
Rates	£240	£12,700	3.3%
Utilities	£310	£16,500	4.2%
Marketing/promotion	£100	£5,500	1.3%
Consumables	£50	£2,500	0.6%
Waste/cleaning/hygiene	£60	£3,300	0.8%
Insurance	£120	£6,250	1.7%
Other costs	£370	£19,500	5.0%
TOTAL OPERATING COSTS	£3,200	£166,400	40.0%

Gross profit	£5,070	£263,500
Net profit (before rent deducted)	£1,870	£97,100
Rent at 11% of turnover	£868	£45,000
Profit after rent paid	£1,002	£52,100

Gross profit margin	63.3%
Wet margin	35.0%
Dry margin	61.5%
Costs as % of sales	36.6%
Overheads as % of sales	40.0%

Table 6: Annual Profit and Loss forecasts for the pub business in Years 1 to 3

A significant growth in turnover is expected in the two years after start-up.

The business is expected to reach a sustainable level at the end of Year 3.

	Year 1	Year 2	Year 3
SALES			
Wet sales	£156,000	£184,500	£215,800
Food sales	£135,200	£170,000	£187,200
Other	£10,400	£11,500	£13,000
Total sales (turnover)	£301,600	£365,000	£416,000
COSTS			
Drinks	£54,600	£64,600	£75,500
Food	£52,000	£64,500	£72,800
Other	£3,120	£4,800	£5,200
Total purchase costs	£109,720	£133,900	£152,500
OPERATING COSTS			
Wages	£77,600	£85,000	£100,250
Other overhead costs	£57,200	£62,500	£66,150
Total operating costs	£134,800	£147,500	£166,400
Gross profit	£191,880	£231,100	£263,500
Net profit (before rent)	£57,080	83,600	£97,100
Rent at 11% or turnover	£18,000	£40,000	£45,000
Site EBITDA	£39,080	£43,600	£52,100
EBITDA as % of sales	13%	12%	12.5%

NOTES:

- *Year 1: fixed rent of £36,000 (at 50% discount to allow for start-up)*
- Costs are shown on the basis that the pub business is directly operated by the tenant or leaseholder and that their income is derived from the profit remaining after operating expenses and rent payable is deducted.
- All other staff costs are included in data. Figures allow for greater staff costs for food-led pubs, given the need for specialist expertise and the greater labour input required in running a food-led operation.
- The assumption is that the lessee/tenant will live in the 3-bedroom apartment on the first floor.
- There is potential for planning permission to be granted, subject to a legal agreement, for the first floor accommodation to be altered to create six letting rooms (with en-suite facilities) and a 1-bedroom apartment for the tenant. Such an alteration to the upstairs accommodation would need to be agreed with the parish council. This would increase the pub turnover but would make the tenant accommodation suitable for a single tenant or married couple rather than for a family.

10. SWOT Analysis

STRENGTHS

- Excellent location at the centre of the village and close to towns (Bishops' Stortford, Buntingford, Saffron Walden)
- Close to tourist destinations – Audley End, Duxford, Cambridge
- A wide base of regular local customers who we anticipate will quickly return to a well-run and welcoming pub.
- Community owned pubs can, and do, attract significant custom for the very reason that they are owned by a community group or Parish Council.
- Various local clubs and groups who will welcome the reopening of the pub.
- The village is on a main cycling route and is often visited by ramblers.
- The commitment of the wide support base who will encourage their friends and family to use the pub.
- A good reputation in the past for good quality food, hospitality and atmosphere.
- There is good outside space for a beer garden at the front of the property
- The business will own the freehold and will not be tied to any brewery and is therefore free to negotiate the best deals for the supply of food and drink.
- The company will appoint an experienced licensee who will be able to live at the pub and will manage the day to day running of the pub.

WEAKNESSES

- The pub has not been open since 2008.
- The premises are new and lack the original features of the former pub.
- No recent trading figures on which to base future turnover predictions.
- Parish Council has limited experience in licensed trade.

OPPORTUNITIES

- To build a new brand and reputation based on quality, community and value.
- Support for local employment and use of locally-produced goods and services.
- To develop new customer bases including walkers and cyclists, (with a "Walks and Rides from the Cock Inn" booklet), people in search of locally sourced, good quality food, and craft beers.
- A spacious bar area which has yet to be fitted out so offers flexibility in bar/dining layout.
- The pub has potential for six letting rooms for bed and breakfast guests.
- To provide additional community amenities and strengthen social cohesion.
- To restore a village pub for future generations and to ensure the sustainability of a rural community.

THREATS

- Unexpected build/repair costs
- Unable to find a suitable tenant to run the pub as a commercial venture.
- Despite all the work and effort, an economic downturn may lead to insufficient use of the pub and the business proves not to be profitable and consequently unviable.

ADDRESSING WEAKNESSES AND THREATS

The pub has not been open for ten years

Emphasis will be placed on regaining former customers and attracting new ones.

We will require that the new tenant's business plan addresses marketing the pub with a well thought out and achievable marketing operation.

Lack of original features

Careful consideration will be given to internal and external design so that the premises is an attractive, comfortable and interesting environment.

No recent trading figures

A careful evaluation of case studies has been used to forecast future turnover.

Parish Council has limited experienced in the licensed trade.

Many organisations exist to assist community pub ventures including Plunkett Foundation, Pub Is The Hub and others.

Unexpected build costs and/or gaps in the lease

A contingency fund of £40,000 has been set aside for unforeseen costs. Rental income over and above loan repayments will be used to maintain a contingency fund.

Unable to find a suitable tenant

Recruitment consultants will be used as well as advertising in relevant journals and by word of mouth, approaching existing local tenants etc.

The business is not viable

Once the pub is owned by the parish council, the commitment to use the pub and to encourage family and friends to use it will be considerable. This has proven to be the case in many instances of community-owned pubs.

We will require that the new tenant's business plan addresses marketing the pub with a well thought out and achievable marketing operation.

Consistent provision of competitively priced good local and guest beers, wine and freshly prepared food using local ingredients, together with reliable opening hours will provide a good basis for re-establishing the reputation of the pub, which should then attract a steady flow of referrals by word of mouth, good TripAdvisor reviews, local newspaper restaurant reviews, etc.

The introduction of regular or social events, such as beer festivals, bike jumble etc will contribute to pub viability.

Profitability

A fair rent and free house will give the tenant considerable scope to run a profitable business. A policy of approaching any rent reviews based on the aim of an ongoing successful community asset rather than maximising the profit for SPPC will ensure the tenant has the incentive to build and operate a great business over the long term.

Unexpected Repair Costs

Given that the building will have recently been completed as a brand new premises, the risk of any unexpected repair costs is minimal. But the financial impact of unanticipated repairs can to some extent be mitigated by using volunteers from the community together with the possibility of grants.

Stocking Pelham Parish Council are grateful for the support provided by Anthony Miller of 'Pub is the Hub' in the completion of this business plan.