

Weston on the Green Parish Council

Report by the Finance Advisory Group on the Purchase of the Playing Field and Spinney by the Parish Council

1. Proposal for the purchase of the playing field and spinney by the Parish Council

The Parish Council would like to purchase the playing field and spinney, located off Church Lane in Weston on the Green, for a sum of £30,500¹.

The land is currently rented from the Duchy of Cornwall for an annual rent of £738.35. There is a £500 grant for fence works due to the Parish Council from the Duchy of Cornwall, therefore the proposed net price for the land is £30,000.

The land is currently registered with Cherwell District Council as an Asset of Community Value and notice has been provided to the community of the Duchy of Cornwall's intent to sell the land.

2. Purpose of the purchase

The purchase of the playing field and spinney by the Parish Council would protect it for future generations for its community leisure uses which include a playground, sports ground and woodland/stream area. With ownership the Council will be able to make its own decisions regarding facilities for the field which could include the provision of water, electricity, changing rooms, a pavilion, an area for older children, a nature trail.

The purchase of the field will bring value to the village. It will enable the development of leisure activities for all age groups and would provide increased opportunities to rent the facilities to provide additional income for the village. It will also ensure the protection of the area from commercial developers.

In the future the Parish Council may wish to develop some additional affordable housing on either the existing Sanctuary site or extend into the playing field. The Duchy of Cornwall have highlighted that there would be overage payments if there were any housing developments in the future. The Parish Council have requested further clarification from their solicitors on the conditions attached to this clause².

3. Proposal to apply for a Public Works Loan Board Loan

English town and parish councils require a borrowing approval from the Ministry of Housing, Communities and Local Government (MHCLG) in order to borrow. The approval, obtained through our County Association of Local Councils, must be in place before loan applications can be made to the Public Works Loan Board (PWLB).

Security for Loans - Under the provisions of the Public Works Loan Acts of 1965 and 1967, loans from HM Treasury are secured by an automatic charge on the revenues of the council and not on the council's property.

¹ See Annex 3, Map highlighting area to be purchased

² See Annex 2

Types of Loan - There are two types of loans available from the PWLB lending facility:

- (a) Fixed rate loans, on which the rate of interest is fixed for the life of the loan.
- (b) Variable rate loans, on which the rate of interest is variable at one, three or six monthly intervals.

Method of Repayment - There are two repayment methods:

Annuity: half yearly payments where each payment is of a constant amount inclusive of principal and interest (available on fixed rate loans only).

Equal Instalments of Principal (EIP): half yearly payments where each payment consists of a constant instalment of principal plus a diminishing amount of interest, calculated on the balance of principal then outstanding.

The Finance Advisory Group met on the 15th August 2020 to discuss these matters and recommend that the Parish Council apply for a fixed rate loan, with an annuity method of repayment, from the Public Works Loan Board. This standard approach to loan taking is appropriate for a public body such as the Parish Council, taking a fixed rate loan offers certainty of future costs which aligns well with the Council's annual budgeting process.

4. Financial Considerations of the Purchase

4.1 Current costs and income associated with the land

The playing field and spinney (excluding the playground) currently costs the Parish Council £1,133 per annum. This is broken down in the table below:

Item	Total Cost (£)	Comments
Current annual rent (2020/21)	£738.35	Budget line (2020/21) of £670.00. Rent review in January 2020 increased rent to £738.35
Maintenance budget lines (2020/21)	£645.00	Includes budget for playing field, spinney, hedge and mower maintenance *
Annual rental income from Ardley Utd FC	-£250.00	This has been agreed on an initial 3-year agreement. but income is not guaranteed as agreement can be terminated
Total Current Cost to Parish Council of Renting Land	£1,133.35	Assuming all budget lines are utilised fully

* playground budget lines not included

4.2 Costs associated with the purchase of the land

The estimated purchase costs associated with the land is broken down in the table below:

Item	Total Cost incl VAT	Comments
Purchase price of land (net)	£30,000.00	Includes £500 grant for fence works
Parish Council estimated solicitor fees (Spratt Endicott)	£2,580.00	This includes initial £500 solicitor fee, £400 disbursements (estimate), £1250 fee increase to cover overage clause and VAT
Duchy of Cornwall Solicitor Fees	£3,630.00	Estimated figure is at upper end of estimated fees plus VAT and an initial £30 for disbursements
PWLB Loan Fees	£25.00	Minimum fee payable
Total Estimated Purchase Costs	£36,235.00	

Notes:

1. The Parish Council has selected, via a tender process, Andrew Woods from Spratt Endicott to represent them in the purchase of the land.
2. One of the transaction stipulations from the Duchy of Cornwall is that the Parish Council pay the Duchy's solicitor fees. Information from the Duchy solicitors indicates that the legal fees are expected to be in the region of £2,000 - £3,000 plus VAT, with disbursements capped initially at £30. If the matter proceeds swiftly and without material negotiation of the draft documents, the fees may reportedly be at the lower end of the estimated range.

The Finance Advisory Group acknowledge that the Parish Council are required to pay the Duchy of Cornwall's legal fees as part of the purchase. It is also acknowledged that the fees are higher than those of the Parish Council's and that they are currently open ended. The Finance Advisory Group has discussed this issue and believes that these costs are inevitable with a purchase of this kind³. It has put in place mechanisms to increase transparency of cost and control spend associated with the Duchy legal fees⁴.

³ For more information please see Annex 1, Risk Register

⁴ For a more detailed breakdown of controls see Annex 2, Letter to Spratt Endicott

4.3 Parish Council reserves

The following table displays the current reserves held by the Parish Council:

	Identified Pre 01/04/19	Identified End of Financial Year 19/20	Total
Neighbourhood Plan	£4,179.36	£3,000.00	£7,179.36
Traffic Initiatives	£5,000.00	£1,060.00	£6,060.00
Section 106 Reserves for use in Open Spaces	£4,000.00	£0.00	£4,000.00
Transport Initiatives	£1,000.00	£1,196.01	£2,196.01
Donations	-	£995.60	£995.60
OCC Councillor Priority Fund (to be paid to VH & Pantry)	-	£1,865.00	£1,865.00
General Reserves for Village Projects			£8,622.95
3 Months PC Operating Costs for 2020/21 in Reserve	-	-	£10,658.91
Total Parish Council Identified Reserves	£14,179.36	£8,116.61	£41,577.83
Total Unallocated Reserves Remaining			£0.00

The Finance Advisory Group propose that the PWLB loan would cover the purchase price for the playing field and spinney and that Parish Council reserves would be used to cover the additional costs of the purchase e.g. legal fees.

The total sum available from the Parish Council reserves that would be currently accessible to support this purchase would be £12,622.95 (the sum of Section 106 plus General reserves). At this stage the Finance Advisory Group propose to spend £6,235 on the additional purchase costs (currently an estimated figure until solicitor fees confirmed). Additional spend will require approval by the Parish Council should the fees of the Duchy of Cornwall's solicitor exceed an initial agreed level of £2000 + VAT.

4.4 PWLB Loan Options

The Finance Advisory Group has evaluated the multiple options available to purchase the land including borrowing all of the money required (£30,000) over a long term or borrowing some of the money and using reserves to make up the difference.

It is important to note that the shorter the period you borrow for the lower the interest rate so it could be considered more beneficial to take higher repayments over a shorter period than spread the cost over a longer period.

The table below sets out the repayment costs for a **£30,000** PWLB loan:

Period (years)	Annuity			
	Rate %	Yearly Cost (£)	Total Cost (£)	Difference between annual repayment & rent (£)
Over 20 not over 20½	2.27	1,838	37,687	1,100
Over 30 not over 30½	2.58	1,427	43,519	689

(based on 26th September 2020 data)

EIP				
Rate %	Initial Yearly Costs (£)	Reduces by each ½ year (£)	Total Cost (£)	Difference between annual repayment & rent (£)
2.26	2,141	8.27	37,119	1,403
2.56	1,752	6.30	41,904	1,014

The table below sets out the repayment costs for a **£20,000** PWLB loan (using £10,000 of Parish Council reserve funds):

Period (years)	Annuity			
	Rate %	Yearly Cost (£)	Total Cost (£)	Difference between annual repayment & rent (£)
Over 20 not over 20½	2.27	1,226	25,124	488
Over 30 not over 30½	2.58	951	29,013	213

(based on 26th September 2020 data)

EIP				
Rate %	Initial Yearly Costs (£)	Reduces by each ½ year (£)	Total Cost (£)	Difference between annual repayment & rent (£)
2.26	1,428	5.51	24,746	690
2.56	1,168	4.20	27,936	430

On evaluation of all the information the finance group recommends applying for a **£30,000** fixed rate loan to be repaid by **annuity** over **20 years** (scenario highlighted in yellow in the first table above).

It was considered that if the Parish Council applies for a £30,000 loan then the Parish Council could retain some reserves which could be used in part for developing facilities on the playing field. The additional costs for the purchase are already to be taken from Parish Council reserves.

A 20-year loan would benefit from a lower interest rate of 2.27% and a lower lifetime repayment value of £37,687 (compared to 2.58% and £43,519 for a 30-year loan).

The annuity repayment method allows for greater clarity over repayment values each year. It also saves cash flow over the initial few years and the difference in lifetime repayment value is minimal (£568).

The Finance Advisory Group also noted that the value of the land will increase over time whereas the value of the loan will decrease.

Precept Information FY 2020/21 and 2021/22

The difference in annual rent the Parish Council currently pays for the land and the annual repayment on a recommended £30,000 / 20-year annuity repayment loan (based on 26th September 2020 data) is £1,100 more than our current obligations.

The Finance Advisory Group believe that the financing of the loan is manageable within the current budget (FY 2020/21) and can be incorporated within the budget for FY 2021/22 without the need for

a precept increase next financial year. A draft budget has been prepared to reflect the loan repayments and potential maintenance costs.

If the Parish Council were to face any future financial difficulty in the next 3-5 years it would look to use existing reserves for the remainder of the financial year and amend the budget for future financial years in order to honour the new loan repayments. The Parish Council would not wish to increase the precept to cover the loan cost.

4.5 Future annual costs and income following purchase of the land

The following table displays estimated future annual costs and income following the purchase of the playing field and spinney:

Item	Total Cost incl VAT	Comments
Estimated loan repayment	£1,830.00	Exact figure will be dependent on interest rates applicable at time of loan application
Maintenance budget lines (2021/22)	£2,320.00	Estimated costs associated with ongoing maintenance of land including hedges, fences, spinney management, mower maintenance*
Annual rental income from Ardley Utd FC	-£250.00	Assumed ongoing annual rent received
Total Estimated Cost Following Ownership of Land	£3,900.00	

*excludes playground maintenance & grass cutting, RoSPA inspection fees & children's toys/tools

This reflects a £2,766.65 increase in annual costs. The Finance Advisory Group is confident that this money can be found from within the current budgeting arrangements and no rise will be required in precept to specifically fund the annual costs of the playing field and spinney.

5. Risk assessment

The Parish Council has discussed this purchase over the past year with discussion around the benefit and cost of its purchase. There are consistent agreements that this is a considered move forward both in managing recreation and avoiding development on our boundary area.

A risk assessment⁵ has been completed by the Parish Council to assess risks surrounding the purchase of the playing field and spinney and its ongoing maintenance once owned. These risks have been discussed by the Finance Advisory Group and mitigating actions agreed.

⁵ See Annex 1

6. Future governance and controls

The Finance Advisory Group is keen to understand how it can help the Parish Council best manage its future regulatory requirements relating to the purchase and future management of the field. It has therefore commissioned the Clerk to investigate, with our Internal Auditors, what requirements we will need to meet. Once known these will be discussed by the Finance Advisory Group and actions assigned accordingly.