Stanway Lakelands Centre

Forward Projections of Impact on Precept

October 2022

Summary

- Stanway Lakelands Centre ('SLC') is a significant long-term commitment for Stanway Parish Council (the 'Council') and carries with it materially significant financial risks.
- In three of the past five years (including the current year) the Council relied on cash reserves to fund its day-to-day operations. As a result, it is faced with committing to a new long-term liability in volatile economic conditions without the benefit of a strong financial foundation.
- The Council will need to secure a loan or other fixed term finance — which itself carries liabilities — to fund the capital expenditure of the fit out. Without it, the Council cannot afford to complete SLC to a sensible standard.
- All Cost Centres consistently operate at or over budget; consequently, savings elsewhere cannot realistically be expected to fund SLC. In the long-term, the Council could sell assets (such as some or all of the estate at Villa Road) which will produce both income and cost savings; however, that is beyond the remit of the analysis.
- Although SLC might eventually generate as much as £90,000 in revenue, none of the real-world scenarios indicate it will ever achieve sufficient income to cover its costs thereby becoming self-sufficient.
- The amount required to fund SLC depends on many factors, some of which are beyond the Council's control; however, the amount of funding will be at least £60,000 and perhaps as much as £120,000 per year.
- Over the next five years, and for the foreseeable future it will be necessary to increase the precept from current levels to fund the day-to-day operations of SLC.

Capital Expenditure (‘CapEx’)

The Councill will incur significant CapEx to fit out SLC. Although the landlord will hand over a completed superstructure, many aspects of the internal fixtures and fittings are the Council’s responsibility. Furthermore, the Council will have to buy furniture, white goods and other items to make the space habitable.

This CapEx will be around £70,000 which includes £30,000 the Council has already committed to contribute to additional parking spaces.

Funding Capital Expenditure

Loans

The CapEx may be financed entirely by a new loan from the Public Works Loan Board (‘PWLB’). The immediate impact on the Council’s finances will be lessened if a loan is approved and secured. However, this is a long-term liability, which the Council should not underestimate. It commits the Council to repayments for the duration of the loan irrespective of all other factors, including the success of otherwise of SLC as a source of revenue.

Grants

Alternatively, grants may be secured for specific items of CapEx. Grants do not carry repayment obligations; however, this method of funding has not been explored and is not included in the illustrations.

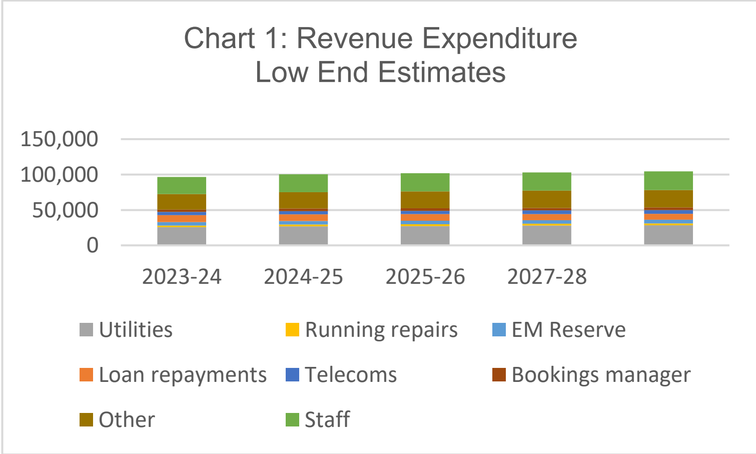
Ongoing Revenue Expenditure

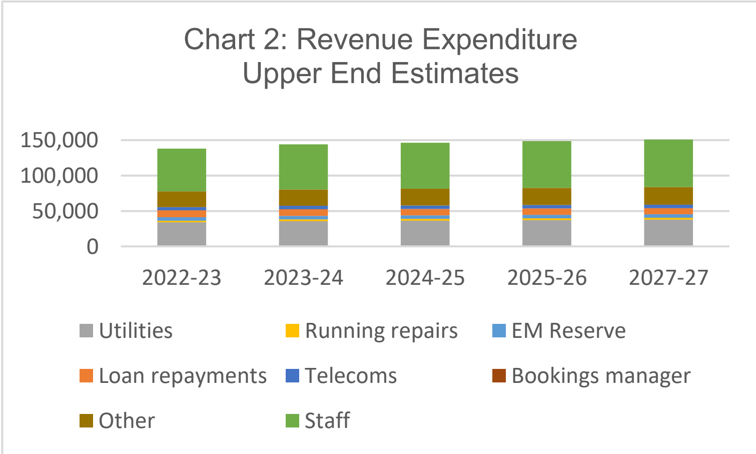
Operating SLC will incur ongoing revenue expenditure for the duration of the lease.

Chart 1 provides a ‘best case’ scenario. Chart 2 shows a ‘worse case’ scenario. The main difference relates to Staff Costs and the associated requirement for a third party bookings management service.

A following is a rough breakdown of the year one costs for each scenario. Projections for future years are based on predicted annual inflation of 5pc in 2024—25 and 2pc thereafter.

	Low End	Upper End
Staff Costs		
Gross Salaries	17,169	43,625
Employer’s Pension Contributions	4,039	10,165
Employer’s National Insurance	2,584	6,566
Staff Costs Total	**23,792**	**60,355**
Other		
Loan repayments	9,670	9,670
Utilities	25,534	33,839
Telecoms	4,525	4,525
Running repairs	2,400	2,400
Contribution to Earmarked Reserve	5,000	5,000
Bookings manager	3,400	0
All other costs	22,114	22,114
All Other Costs Total	**72,643**	**77,549**
Total Expenditure	**96,435**	**102,360**





Income, Resulting Funding Gap and Impact on Precept

Income

SLC offers the potential to generate income from hiring out the facilities. Once fully operational, the most optimistic projection of revenue is £90,000 per year based on 50 percent occupancy. A more realistic projection forecasts the annual income from all sources will peak at £50,000. However, this will not be achieved in year one.

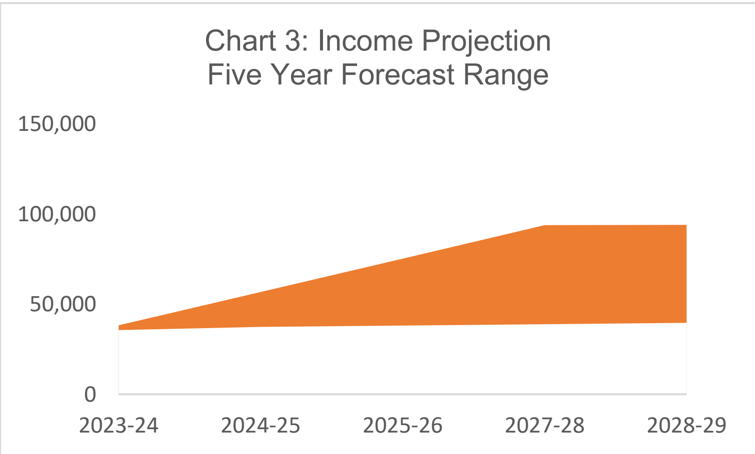
Chart 3 shows the range of projected annual income.

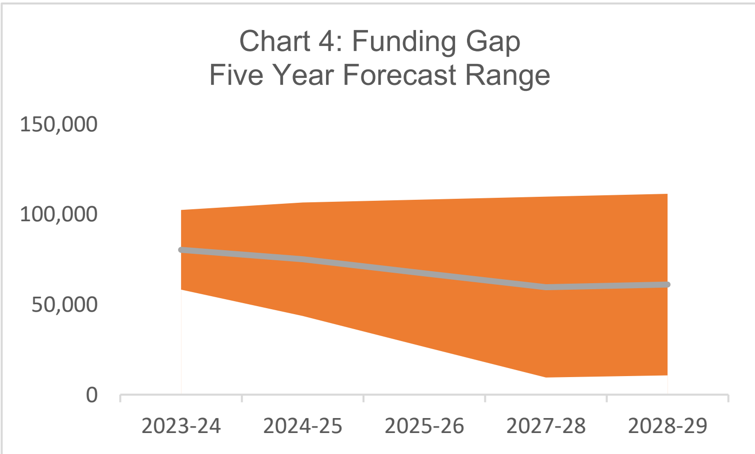
Funding Gap

Revenue expenditure can be met only by revenue income. Taking account of all income and revenue expenditure (i.e. excluding capital expenditure) leaves a funding gap which has to be met by the precept. There are, however, many uncertainties regarding income and expenditure to provide a reliable forecast of the impact. Chart 4 therefore shows the predicted range of potential impacts over the next five years. The mid-point is the grey line.

Impact on Precept

For 2022–23 the precept will need to increase by £80,000 to cover the anticipated gap between income and expenditure. The equivalent for each Band D residence will go from £68.14 in the current year to £86.89. This represents an increase of 28 per cent.

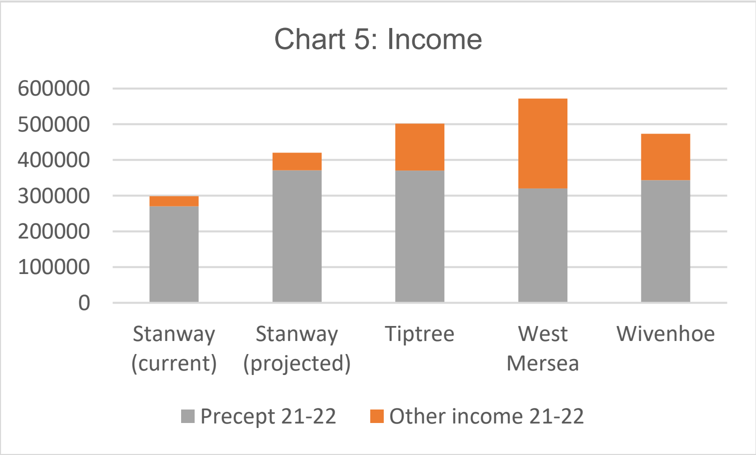


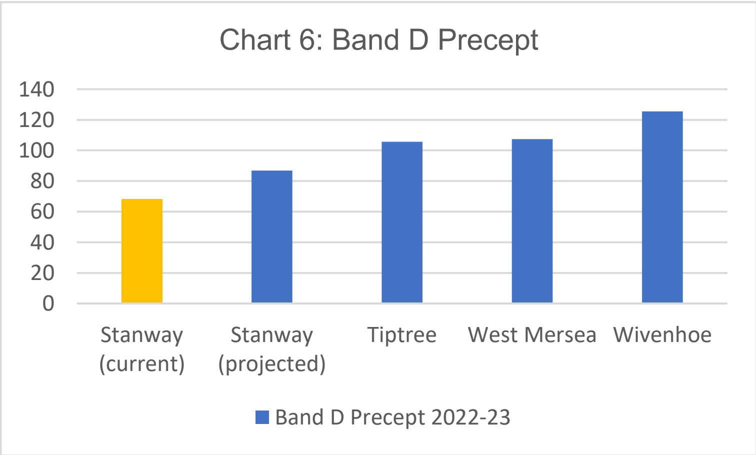


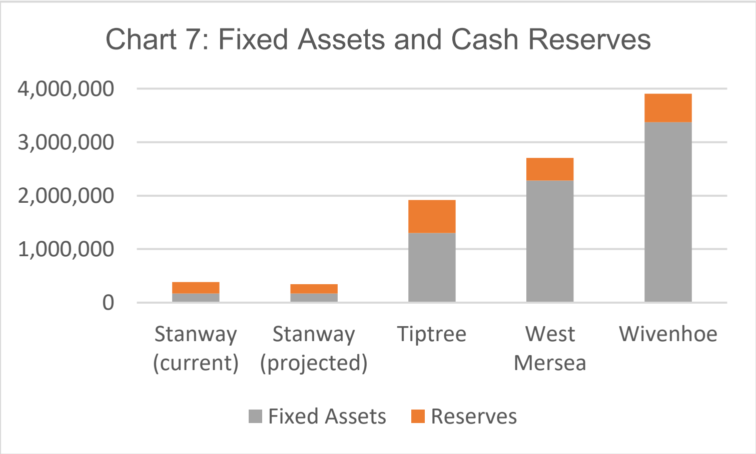
Comparisons to Peer Group

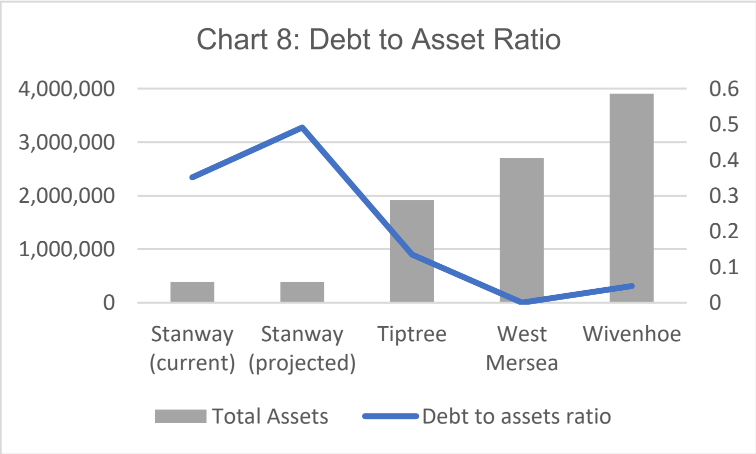
The Council identifies Tiptree Parish Council, West Mersea Town Council and Wivenhoe Town Council as its peers. Taking account of the rise in the precept necessary to cover the running costs of SLC and comparing the overall impact to the published financial information for each parish council shows:

- The Council will have lowest precept in real terms. It also will have the lowest income from other sources and the lowest overall income (Chart 5);
- Even with a 28 per cent increase, the Council will have the lowest precept equivalent per Band D property (Chart 6).
- The Council has the weakest overall financial position, with fixed assets and cash reserves of less than £400,000 compared to a median (mid point average) for the group of £2.3m (Chart 7).
- The Council is (and will continue to be) the most indebted, with a debt asset ratio of 0.49 compared to a median for the group of 0.09 (chart 8).









Notes to the analysis

Limitations and Assumptions

For the purpose of this analysis, it is assumed:

- the Council enters into to a 150-year full repairing lease for SLC commencing 1 January 2023;
- the Council takes out a loan to finance the fit out of SLC;
- the rent is no more than a nominal sum and will remain so for the duration of the lease; and
- annual inflation in 2024—25 falls to 5pc and will be 2pc thereafter.

This analysis does not:

- contemplate the impact of the medium-term or long-term risks related to the lease including risks arising from the building or land — such as, environmental, legal, operational or reputational;
- consider the positive or negative impacts on the Council’s financial position from factors other than SLC;
- identify alternative sources of long-term funding for day-to-day operations;
- consider impacts if the Council does not commit to the lease of SLC; or
- consider the financial position at the end of the lease.

All quoted figures are approximations. For ease of reading, the figures quoted within the body of the report are rounded up to the nearest £1,000.