

Community Ownership of Langholm Moor

Supplementary Report to the Business Plan for the Langholm Initiative



2nd October 2020

Duncan MacPherson (Community Development Consultant), **William McGhee** (Independent Forester) & **Faye Macleod** (Campbell, Stewart, MacLennan & Co)

Introduction

This document is supplementary to the business plan prepared by the consultants in March 2020 for community ownership of the Langholm Moor. It should therefore be studied in conjunction with that plan.

The Langholm Initiative originally commissioned the consultants to produce a feasibility study to investigate the potential purchase of 10,439 acres of land from Buccleuch Estates. The land comprises 9,062 acres of moorland, 678 acres of pasture, 646 acres of woodland and 9 houses and 3 steadings with 34 acres of ground. The study showed that community ownership and management of the estate would be a viable option and the business plan was prepared with a view to raising £6.8m to cover the cost of purchasing the land and providing the necessary working capital to establish the business. A smaller area (5,206 acres) costing £4.4m was also financially modelled to cover the scenario of LI not being able to raise the purchase price for the whole area.

In September 2020 LI asked the consultants to carry out more in-depth modelling of the smaller portion of the estate with reference to 3 scenarios:

- Purchasing the smaller area with no debt
- Purchasing the smaller area while incurring debt of £500,000 to be repaid over 10 years
- Purchasing the smaller area but excluding the Glen Tarras woodland

Practical Impact of Purchasing the Smaller Area

The smaller area is almost exactly half the area of the whole estate. It incorporates the most productive farmland, existing mature woodland, the land closest to Langholm and approximately half of the moorland. The business plan identified a number of development areas for the estate and the impact of purchasing the estate on each of these areas is considered in turn.

Conservation & Public Access Management

The smaller land purchase would result in LI owning approximately one quarter of the SSI/SPA as opposed to one half if it purchases the larger area. It will still be able to achieve its conservation objectives over the land it owns but would have an increased reliance upon working with neighbouring landowners to deliver benefits across the whole of the designated area. If neighbouring owners did not share LI's conservation objectives it would be more difficult to achieve National Nature Reserve status. It would not be impossible however as LI would still own a large area of moorland hosting significant numbers of important species which could be managed for the benefit of the public. It would still be possible to implement increased public access and learning opportunities over the land closest to Langholm so significant public benefits would still accrue.

Agriculture

LI would not purchase the sheep flock and would not have to employ the existing shepherd which would reduce the risk of redundancy costs if agriculture proves unviable under a new support regime post-Brexit. There would still be an obligation to graze cattle in the summer at Cronksbank under the existing AECS contract. If no agricultural activity takes place on the ground under a new support regime this may have some impact upon payments for conservation related activities. This will not be known until a new support structure is put in place. However, the Scottish Government has committed to placing responses to climate change at the forefront of policy going forward.

Forestry & Woodland Management

There would be no impact on the ability to manage existing woodland and to develop new woodlands as the plans for these are all confined to the smaller purchase area. However, further modelling has been carried out to reflect changed circumstances and new information. This includes bringing forward harvesting in the early years and allowing for significantly higher figures for carbon capture from new planting which have an impact upon the financial benefits arising from a new scheme.

Buccleuch Estate has offered to give LI an option to purchase the Glen Tarras woodland up to 5 years after the initial purchase if it is unable to raise the funds by the deadline of 31st October. LI would lose income from the sale of timber during any period that it did not own the woodland, which would make it more challenging to fund the business. It would also not be able to provide employment related to the forest. A potential alternative is to borrow up to £0.5m to complete the purchase and repay the money from timber sales. The financial impact of these scenarios is considered below.

Business Development

South of Scotland Enterprise (SOSE) has offered £1m towards the purchase of the estate and to finance a Commercial Development Manager position for 3 years. The ability to offer a high salary offers the potential to recruit a higher calibre of candidate to the role of developing the estate's commercial and business assets. This will reduce the risk of LI not delivering in a timely manner those projects which it hopes to develop in the early years.

In the light of an altered income profile, the demand for Staycations likely to rise in the future, and the initial ambition for a campsite being modest, we have modelled for the number of pods to provided rising from 5 to 10.

Since carrying out the initial study LI now has more space available in its own office building in Langholm that could host employees originally marked for working from Broomholmshiels farmhouse. This will still allow the farmhouse to be used for offices for private businesses, with no share of running costs accruing to LI.

Housing

The smaller area would not include Cooms Farmhouse (tied cottage), Tarras lodge (let) and Lodgegill (derelict).

The land that is most suitable for developing housing (including existing steadings) is in the southern part of the estate and therefore will not be impacted by purchasing only the smaller area. The ability to develop housing will be influenced by local demand and resources available to the estate. For the purpose of this report we have modelled the construction of 3 houses as an initial project and a further 2 units in a later project.

Financial Summary

Existing Estate – Smaller Purchase Option

Financial projections covering a 26 year period have been prepared for the purchase of the smaller purchase option by Langholm Initiative. These projections separate out the existing core operation to illustrate what the Estate would generate if continuing to operate on this basis of similar terms for leases as are currently in place.

The projections demonstrate that this would be at least at a break-even position with the average annual net income being just over £2,000 per annum, and just over £53,000 across the 26 year period. This demonstrates that the core Estate purchase would generate a small surplus even if no development work was taken forward by the community.

The second element of the projections is to illustrate the additional income and revenue that can be generated by the Estate if taking forward development and forestry projects.

The additional net income and expenditure is projected to generate a surplus of £1.29m across the 26 years illustrated. This surplus will be used to fund the development projects in terms of LI's own contribution and the repayment of loans. In the first 26 years this will amount to £1.05m leaving an overall cash surplus of £292,000 at the end of year 26. This leaves scope for additional development projects to also be considered in addition to those illustrated in these financial projections.

The financial projections illustrate that the Estate purchase is not only a viable purchase from the outset, but will also provide opportunities to take forward significant development and forestry projects which will have a significant impact on Langholm's community and economy as a whole in a sustainable way.

26 Year Projections

Financial projections have been prepared to illustrate how the initial community ownership period might be taken forward. This includes some development grant support for a period of around 3 years to support a Development/Land Manager role and a second Commercial Manager role. This would enable some initial assessment to be undertaken on the Estate to help take forward new forestry development as well as undertaking surveys and assessments of the existing housing stock and exploring new housing opportunities and importantly the potential to create business opportunities and put the Estate itself and Langholm's economic outlook on a sound commercial footing.

Main Assumptions

Income

For the purposes of financial illustrations it is assumed that the existing leases will be renewed and continue on the existing terms and that therefore at least this level of income can be generated.

Sporting Income

There is a low level of income from sporting arising from leases.

It is assumed for the purposes of the base case estate scenario that the income continues at a low level for the first 5 years.

Wayleaves

The Estate is entitled to a share of wayleave income but Buccleuch Estate are unable to provide an income figure for the share that relates to Langholm Moor Estate however and estimate is included in the projections for illustrative purposes.

Timber/Forestry

The Estate already includes some existing woodland planting and there are revenues to be generated from harvesting on an ongoing basis, and these have been estimated by a forestry specialist for the purposes of providing revenue estimates. These projections of existing timber operations exclude the cost of forestry management which it is anticipated would be primarily focused on new forestry development projects taken forward by LI. For the purpose of financial projections, forestry management is included in the new developments, but there would be an element of work undertaken on existing forestry operations as well, and that a part-time role will be funded by this budget allocation.

A new element of income would be generated by the forestry as well in the form of carbon credits which are believed to be a conservative estimate of what could be generated from this source of income.

Development

The projections include the assumption that a permanent Development/Land Manager Post will be created with assistance from a Commercial Manager for an initial period of up to 36 months. These posts will help to kickstart the planned development work required on the Estate. Development costs and the related grant funding are included in the financial projections.

Costs are also included for the consultancy work required to undertake the initial stages of the development projects such as:

- Land management plan
- Creating office space for LI and third party tenants in one of the Estate houses
- Redevelopment of steading buildings for office/workshop space
- Housing developments – renovation of existing housing stock and planned new builds
- Business developments – camping pods

The financial projections also illustrate the capital costs estimated for these projects and how they might be funded through a combination of grant funding, using income generated by the Estate, particularly from the forestry schemes, and some loan funding. The projections include the cost of loan repayments as well for either 25% or 40% loan funding with the balance coming from own resources. There is sufficient surplus being generated that the Estate could still proceed if the grant funding is not as high as currently projected (being 50%) with more of their own funds being distributed into capital projects. Each development project will be subject to its own feasibility study, business plan and financial projections to ensure that the project is manageable from a delivery and sustainability perspective and will not necessarily proceed at the time or costs outlined in these financial projections.

The capital costs of delivering the additional development projects are currently estimated as follows:

	Capital
Housing renovations (incl offices)	200,000
New housing - 2 phases (5 homes)	900,000
Campsite development	160,000
Steading business units (3 phases)	600,000
Total	1,860,000
Funded by:	Funding
Grants	930,000
Loans	465,000
Own contribution	465,000
Total	1,860,000

These development projects are important to the regeneration of the Langholm area in terms of not only creating improved affordable housing, but also in terms of creating new business opportunities through the provision of office and workshop space at a fair rental level. Not only will the community as a whole benefit, but these projects will also enable LI to diversify the Estate from its traditional sources of income.

Smaller Estate Purchase with £500K loan funding

Should the Estate purchase price require the addition of a £500K loan, with say loan interest payable of say £141K, then this would result in a net cash deficit of £348K by then end of year 26. This situation would require a review of the proposed development projects in order to eliminate many of these to be able to repay the debt element of the purchase. This would significantly reduce the impact of the Estate purchase and would call into question the viability of its purchase by the community.

Smaller Estate Purchase with excluding Tarras Woodland

Should the Estate be purchased without the Tarras Woodland, then this would also have a significant impact on the financial position for the purchase with a 26 year cumulative cash deficit of £312K. This situation would also require a review of the proposed development projects in order to eliminate many of these to enable the Estate to cover its own costs. This would significantly reduce the impact of the Estate purchase and would also call into question the viability of its purchase by the community.

Conclusion

The smaller area of land is a viable purchase, in terms of practical management, financial viability and economic, social and environmental outcomes. The most significant loss of opportunity in not purchasing the larger area will be for conservation management purposes. However major conservation benefits can still be delivered over the smaller area.

Reducing the smaller area further by not purchasing the Glen Tarras woodland will make long term viability much more difficult. A similar outcome arises when borrowing is required to make the purchase. The preferred option is therefore to purchase the smaller area with no debt.