



Business Plan 2017/18

April 2017

Registered Office:

Town Hall, Royal Tunbridge Wells, Kent, TN1 1RS

Registered in England and Wales under company number 9477122

Tunbridge Wells Property Holdings Limited

Business Plan 2017/18

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Contents	Page
1 Executive Summary – Overarching Principles	2
2 Introduction and Context	3
3 The Council's Aims and Objectives	3
4 Governance	4
5 Funding	4
6 Taxation	5
7 Risk and Mitigation Strategies for discussion	5
8 Exit Strategies and Termination	6
9 Review of performance against Company Business Plan 2016/17	7
10 Projected Management Strategy 2017/18	7
11 Projected Budget Financial Year 2017/18	7
Appendices	
A List of Assets held by the Company	8
B Projected Budget Financial Year 2017/18	9

1 Executive Summary

Tunbridge Wells Property Holdings Limited has been set up to manage Tunbridge Wells Borough Council dwellings which are privately let.

The Council is utilising Sections 24 – 26 of the Local Government Act 1988 to provide privately let housing on assured short-hold tenancies at market rents. The formation of the company enables existing and new residential properties to be held.

The Company is wholly owned by the Council. By leasing the dwellings to the company, the company is able to provide assured shorthold tenancies, allowing flexibility for tenants and better management for the Council that will meet local demand for privately let housing. Most private lets attract considerable interest in the borough and the local market is fairly buoyant. These benefits apply to the Council's existing property portfolio and the Council will review which properties may be appropriate to lease to the company in the future.

By managing the properties through a separate legal entity, risks associated with management of the dwellings is minimised, especially where the property letting is outsourced and the use of a company will help to ensure transparency of the costs of operation.

This Business Plan covers the overarching management of the properties under a lease of 22 years for the identified properties. The Council will provide the Company with a loan facility should the need arise. Initially the Council will directly provide all management and maintenance services to the Company.

2 Introduction and Context

This overarching business plan describes how Tunbridge Wells Property Holdings Limited will manage and operate its business. This business plan will be a dynamic document, reviewed twice a year by the Board to ensure that objectives remain relevant to prevailing conditions in the market and within the locality.

This business plan should be read in conjunction with the Operational Agreement, Facility Agreement, Articles of Association and related documents.

The Company does not have a maximum life but will be entering into a lease with Tunbridge Wells Borough Council to take on the responsibility and management of specified properties for a 22 year period within the Council's ownership, and additional opportunities delivered by or for the Council.

The Council is entering into the arrangement in its capacity as landowner and investor but expressly not in its capacity, nor to otherwise fetter its discretion, as Local Planning Authority.

3 The Council's Aims and Objectives

On 18 September 2014, Cabinet delegated approval to the Deputy Chief Executive, Section 151 Officer and Head of Legal Partnership in consultation with the Leader of the Council and the Portfolio Holder for Finance and Governance to investigate whether there would be advantages to establishing a company wholly owned by the Council to progress some or all the aspects of the John Street Car Park development.

One of the ways in which local authorities have been mitigating the significant reductions in local authority funding has been to make better use of property assets. This facilitates the Government's wish to make local authorities more self sufficient. The use of a company in connection with local authority property assets is not unusual.

By utilising Sections 24 – 26 of the Local Government Act 1988 to provide privately let housing on assured short-hold tenancies at market rents, the formation of a company which can hold existing and new residential properties is required.

It was subsequently recommended that a company (wholly owned by Tunbridge Wells Borough Council) was established for the purpose of providing privately let housing, utilising existing Council owned residential assets and future developments

The Councils Stated objectives for the Company are:

- To provide assured shorthold tenancies, allowing flexibility for tenants and better management for the Council that will meet local demand for privately let housing. These benefits will also apply to the Council's existing property portfolio and Officers would be able to review which properties may be appropriate to lease to a company.
- To manage the properties through a separate legal entity, to minimise the risks associated with management of the dwellings, especially where the property letting is outsourced and the use of a company will help to ensure transparency of the costs of operation.
- The company would also be able to apply for planning permission for developments of an appropriate nature addressing the issue of planning permissions that are personal to the Council.

The Council has leased 15 residential units to the Tunbridge Wells Property Holding Company to date. These units are let to private tenants through managing agents.

Other residential properties in need of repair and refurbishment and future residential developments may be added.

4 Governance

The Company is a wholly owned subsidiary of the Council. The Company will carry on its business in accordance with the terms and conditions of the Operational Agreement. The proposed corporate structure for the Company is as set out in the Operational Agreement. This includes:

- Three Directors of the Company appointed by Tunbridge Wells Borough Council.
- The Director posts are unpaid.
- The role and authority of the directors is to manage within a Business Plan agreed annually by the Council.
- Conduct and quorum of meetings which will be at least quarterly
- The quorum for meetings will be two directors.
- The company may be supplied with services through agreement by Tunbridge Wells Borough Council at market rates.
- Reserved matters (ie significant decision which are reserved to Tunbridge Wells Borough Council).

The three Directors of the Company are:

David Candlin	Managing Director
Councillor Beverley Palmer	Non-Executive Director
Councillor Tracy Moore	Non-Executive Director

5 Funding

The existing 15 residential units and any additional dwellings in the future will be let to the TWPH on a 22 year lease.

TWPH receives rents which are forecast to be £124,000 for 2016/17. These rents are gross and deducting, Council lease costs, Kings management fees, repairs and voids, are forecast to produce a net rent of £16,000. Once other costs such as audit fees are deducted the forecast outturn for 2016/17 is a loss of £26,000. The voids have been higher in 2016/17 as new properties have been leased to the company, and took a little time to rent, so this should reduce for 2017/18.

The forecast for 2017/18 provides a gross rent of £168,000 and an overall loss of £8,000 for the year. The small losses will be controlled as much as possible within year and cashflow will be managed through the timings of settlements of Council invoices. Small losses during set up periods for companies are normal and efforts will be made to at least break even during 2017/18. A schedule of the forecast for 2016/17 and 2017/18 is attached.

The Company employs Kings as managing agents to manage the properties and they are monitored by TWBC.

Residential rents are exempt from VAT so all input VAT is irrecoverable.

Rental growth of 8% pa has been assumed but rents will be reviewed 3 yearly upwards or downwards to Market Rents.

The net rental income will transfer to the Borough Council under the terms of the lease.

Capital sums need to be budgeted for internal decorations 3 yearly at an average cost of £1,500 per property, external decorations 5 yearly at average cost of £1,500 per property and internal refurbishment including upgraded kitchens and bathrooms at year 11 at an average cost of £11,000. The first budget will be in 2018/19.

The Borough Council will provide a loan facility if required to fund the revenue and capital payments as appropriate. Interest will be charged on the loans at a commercial rate.

6 Taxation

Value Added Tax (VAT)

The lease to the Company will be for more than 21 years, meaning that the development cost of the dwellings, paid by the Council prior to transfer, will mainly be Zero Rated for VAT and the property supply to the Company will be zero-rated.

Administration costs will be incurred by the Council and recharged as a management fee to the Company with Standard Rated VAT. Most maintenance and repair costs will be incurred directly by the Company but could also be recharged through the Council. Again these invoices will be charged including Standard Rated VAT. The Company will not, however, be able to recover this VAT as any supply of the Company relating to these dwellings will be exempt from VAT.

Corporation Tax

The Company will have to pay corporation tax on any profits / gains. The Company will act reasonably and adopt lawful but tax efficient mitigation strategies where available and appropriate.

Stamp Duty Land Tax

As a company limited by shares and wholly owned by the Council, the Company will be able to benefit from Group relief for Stamp Duty Land Tax (SDLT) on the transfer of the dwellings to the company, meaning that no SDLT would be due. This is on the proviso that the Company and Council are not de-grouped within 3 years of the transfer.

The Company and the Council will monitor the SDLT requirements and will act reasonably and adopt lawful but tax efficient mitigation strategies where available and appropriate.

7 Risk and Mitigation Strategies for discussion

Throughout the life of the TWPH there will be risks that need to be managed to reduce the likelihood and impact of unwanted outcomes. There should be a risk management strategy for the TWPH that takes account of the wider market context as well as the immediate risks associated with each individual property, and this will be encompassed in the individual development vehicle's business plans.

Risk management is a systematic application of policies, procedures, methods and practices to the tasks of identifying, assessing and managing risk. The process should:

- help prioritise existing management actions in terms of their impact to the project objectives;
- highlight gaps in existing management actions / processes / lack of contingency plans, etc where improvements can be made; and
- provide increased cost & programme certainty

Two key elements of successful risk management are the importance of clearly identifying risks (risk event, cause & effect); and identifying specific responses with (single) risk owners, control actions owners and date(s) for completion of actions.

There may need to be contingency plans and risk allowances (funding and time) allocated to allow for the possibility of (for example) delays. A risk register is a key tool for managing risk, which must be reviewed and updated continually throughout the life of the TWPH.

Responsibility and ownership for managing risks must be assigned to individuals with the authority to take appropriate action on risk.

Some of the key risks identified for the TWPH Company are listed below:

- Strategic
 - Fixed strategy unable to respond to change - outcome doesn't match need
 - Exit strategy not clearly defined
- Political
 - Changes within the Council - introduces uncertainty
 - Legislative Changes
- Social
 - Community perception
 - Focus on physical issues neglect underlying social issues
 - Potential for tenants to claim that they should be consulted on a change of ownership from the Council
- Delivery:
 - Media not managed - negative publicity
- Reputational:
 - Perception of TWPH Company being just another public body
- Economic:
 - Current market conditions adversely affect the Property Company

8 Exit Strategies and Termination

In determining potential exit strategies from the Property Holding Company, the factors that need to be taken into account include;

- maximisation of value arising from the Council's input to the Company,
- ensure as far as possible the financial stability and the retention of the benefits of the assets into the future, and,
- ensure that any transactions taken in respect of termination or exit are carried out tax efficiently.

9 Review of performance against Company Business Plan 2016/17

In the year following the incorporation of TWPH we have worked in the following areas to promote the aims and objectives of the business plan and establish a foundation for future successes.

- Reviewed annual rent increase
- Renewed leases and filled vacant property
- Acquired the lease of 25 Monson Road, TN1 1LS
- Acquired the lease of 32 Crescent Road, TN1 2LZ
- Completed the transfer of Flats 1-5, 2 John Street, TN2 9RU
- Undertaken marketing of the flats at John Street development. All five successfully filled on Assured Shorthold Tenancies (AST).

10 Projected Management Strategy Financial Year 2017/18

TWPH will continue to promote the aims and objectives as detailed in the Business Plan. TWBC consider that the content of the Company Business Plan remains relevant and supports the company's ongoing activities for the year of operation.

During the course of the 2017/18 financial year TWPH will:

- Review managing agents of the portfolio.
- Renew leases and fill any vacant property.
- Review annual rent increase.
- Initiate with the Shareholder the 3 year review of rental growth.
- Discuss opportunities for growth working with the Borough Council on residential development and purchases.
- Formal discussion with Council on lease of part of Dowding House.
- Create a programme of planned maintenance on the properties.
- Assess and prepare properties to ensure meet minimum energy requirements from 1 April 2018.
- Monitor central government policy and implications for residential property management.

11 Projected Budget Financial Year 2017 / 2018

This can be seen in Appendix B but will be updated as opportunities are identified or circumstances change and the programme of planned maintenance is developed.

Property
57a The Pantiles, Tunbridge Wells TN2 5TE
59 The Pantiles, Tunbridge Wells TN2 5TE
8 Dudley Road Tunbridge Wells TN1 1LF <ul style="list-style-type: none">- Flat 1- Flat 2- Flat 3- Flat 4
Cemetery Lodge, Benhall Mill Road, Tunbridge Wells TN2 5JH
Crematorium Lodge, Benhall Mill Road, Tunbridge Wells TN2 5JH
25 Monson Road, Tunbridge Wells TN1 1LS
32 Crescent Road, Tunbridge Wells TN1 2LZ
2 John Street, Tunbridge Wells TN4 9RU <ul style="list-style-type: none">- Flat 1- Flat 2- Flat 3- Flat 4- Flat 5

Appendix B

		All	PR0001	PR0002	PR0003	PR0004	PR0005	PR0006	PR0007	PR0008	PR0010	PR0011	PR0012	PR0013	PR0014	PR0009	PR0015
Forecast 2017/18		Flat 1	Flat 2	Flat 3	Flat 4	Cemetery	Crem	57A The	59 The	Apt 1	Apt 2	Apt 3	Apt 4	Apt 5	25	32	
		8 Dudley	8 Dudley	8 Dudley	8 Dudley	Lodge	Lodge	Pantiles	Pantiles	John St	Monson	Crescent					
RENT - 1 April to 31 Mar																	
Responsive Repairs	6,000.00	6,000.00															
Rental Properties Fees	12,610.80	0.00	630.00	562.50	625.50	562.50	1,507.50	675.00	787.50	1,080.00	900.00	900.00	855.00	855.00	1,125.00	675.00	870.30
Misc Insurance	2,575.00	0.00	75.00	75.00	75.00	75.00	325.00	105.00	105.00	305.00	205.00	205.00	205.00	205.00	205.00	205.00	205.00
Rents	(168,144.00)	0.00	(8,400.00)	(7,500.00)	(8,340.00)	(7,500.00)	(20,100.00)	(9,000.00)	(10,500.00)	(14,400.00)	(12,000.00)	(12,000.00)	(11,400.00)	(11,400.00)	(15,000.00)	(9,000.00)	(11,604.00)
Gross RENT Income	(146,958.20)	6,000.00	(7,695.00)	(6,862.50)	(7,639.50)	(6,862.50)	(18,267.50)	(8,220.00)	(9,607.50)	(13,015.00)	(10,895.00)	(10,895.00)	(10,340.00)	(10,340.00)	(13,670.00)	(8,120.00)	(10,528.70)
TWBC Rent	116,266.97		21,811.68	0.00	0.00	0.00	20,178.72	0.00	17,962.56	0.00	41,850.00	0.00	0.00	0.00	0.00	6,318.00	8,146.01
NET RENT Income	(30,691.23)	6,000.00	14,116.68	(6,862.50)	(7,639.50)	(6,862.50)	1,911.22	(8,220.00)	8,355.06	(13,015.00)	30,955.00	(10,895.00)	(10,340.00)	(10,340.00)	(13,670.00)	(1,802.00)	(2,382.69)
OCCUPATIONAL RENT CALCULATION																	
Legal Fees	5,000.00	5,000.00															
Planning Application Fees	5,000.00	5,000.00															
Audit & Accounting Fees	5,000.00	5,000.00															
Other Fees	200.00	200.00															
Licences	35.00	35.00															
Promotion	25.00	25.00															
It Software	0.00	0.00															
Misc Insurance	190.00	190.00															
Bank Charges	200.00	200.00															
TWBC Management Fee	14,315.21	14,315.21															
VAT	8,715.20	8,715.20															
Total Cost	38,680.41	38,680.41															
Net Loss/(Income)	7,989.17	44,680.41	14,116.68	(6,862.50)	(7,639.50)	(6,862.50)	1,911.22	(8,220.00)	8,355.06	(13,015.00)	30,955.00	(10,895.00)	(10,340.00)	(10,340.00)	(13,670.00)	(1,802.00)	(2,382.69)