



Tunbridge Wells Property Holdings Ltd

Business Plan 2022/23

Register Office:

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

Registered in England and Wales under company number 947712

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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 lettings 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 Council has leased 19 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	Director
Councillor Beverley Palmer	Non-Executive Director
Councillor Godfrey Bland	Non-Executive Director

5. Funding

The existing 19 residential units and any additional dwellings in the future will be let to the TWPH on a 22 year lease.

The Company employs Bracketts as managing agents to manage the properties and they are monitored by TWBC. The managing agents' contract will be retendered in early 2022.

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

Rental growth of 8% pa had previous been assumed with rents reviewed 3 yearly upwards or downwards to open market rental levels. The rental growth for residential properties has slowed during 2020 due to the current economic uncertainties and due to Brexit creating short-term uncertainty within the market. The significant impact of the COVID-19 pandemic has further adversely affected all areas of the economy and limited rental growth across the portfolio. For these reasons we have adopted a rental growth of 3% pa in leases granted

from 2018. The Company has varied the existing leases to reflect a 3% rental growth to more closely reflect the market.

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 £3,000 per property, external decorations 5 yearly at average cost of £8,000 per property and internal refurbishment including upgraded kitchens and bathrooms at year 11 at an average cost of £12,000.

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.

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 2021/22

In the year 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 Assured Short-Hold Tenancies and filled vacant property.
- Agreement reached with the Shareholder on the 3 year review of rental growth.
- Acquired Packs in the Wood.
- Continued to monitor central government policy and implications for residential property management including the impact and advice related to Covid-19.
- Managed the Covid-19 impacts ensuring tenants remain in properties.
- Carried out planned and responsive maintenance as required to the properties within the portfolio.

TWPH receives rents which are forecast to be £234,185 for 2021/22. These rents are gross and deducting, Council lease costs, Bracketts management fees, repairs and voids, are forecast to produce a net rent of £79,100. Once other costs such as audit fees are deducted the forecast outturn for 2021/22 is £33,553. After adjustments required for accounting under IFRS 16 Leases the net profit for the period is expected to be at £2,181.

10. Projected Management Strategy Financial Year 2022/23

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 2022/23 financial year TWPH will:

- Renew ASTs and fill any vacant property.
- Review annual rent increase.
- Complete acquisition of agreed leases.
- Discuss further opportunities for growth working with the Borough Council on residential development and purchases.
- Assess and undertake appropriate planned maintenance on all properties.
- Continued management of the Covid-19 impacts ensuring tenants remain in properties.
- Undertake retender of the management contract.

11. Projected Budget Financial Year 2022/23

The forecast for 2022/23 provides a gross rent of £258,406. These rents are gross and deducting, Council lease costs, Bracketts management fees, repairs and voids, are forecast to produce a net rent of £91,884 for the year. Once other costs such as audit fees are deducted the forecast outturn for 2022/23 is £46,262. After adjustments required for accounting under IFRS 16 Leases the net profit for the period is expected to be at £12,981.

Rental Growth of 3% is assumed during 2022/23. A budget allowance of £28,500 for repairs has been made during 2022/23. A void period of one month per property has been assumed for the net rental figure for 2022/23.

Appendix A

List of Assets held by the Company

Property

57a The Pantiles, Tunbridge Wells TN2 5TE

59 The Pantiles, Tunbridge Wells TN2 5TE

8 Dudley Road Tunbridge Wells TN1 1LF

- 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

Packs in the Wood, Tunbridge Wells

2 John Street, Tunbridge Wells TN4 9RU

- Flat 1
 - Flat 2
 - Flat 3
 - Flat 4
 - Flat 5
-

Grove Hill House, 21 - 27 Grove Hill Road, Tunbridge Wells TN1 1SA

- Apartment 10
 - Apartment 13
 - Apartment 18
 - Apartment 23
-

Appendix B

Planned Maintenance Programme

Property	2022/23 Planned (£)
57a The Pantiles	£1,900
59 The Pantiles	£1,100
8 Dudley Road – Flats 1 - 4	£1,100
Cemetery Lodge	£1,100
Crematorium Lodge	£1,100
25 Monson Road	£2,000
Packs in the Wood	£1,100
John Street – Flats 1 - 5	£1,100
10 Grove Hill House	£1,100
13 Grove Hill House	£1,100
18 Grove Hill House	£1,100
23 Grove Hill House	£1,100

In November 2019 condition surveys were completed on the assets owned by the Company. The high-level planned maintenance programme set out above is based on industry standards and costs. The Company will develop its planned maintenance programme based on a Risk Management approach. The projected in year works will be reviewed on a case by case basis and reassessed as to viability, taking into consideration anticipated future ownership, urgency of works and budgetary considerations. Risks associated with maintenance will be managed in the following order of priority:

1. Maintenance in respect of health and safety issues;
2. Statutory maintenance requirements; security, fire, gas, electrical and access systems;
3. Structural maintenance for all property; and
4. Building fabric maintenance for all owned building assets.