Budget and Business Plan 2018/19

Great homes. Great communities. Great people.

great places HOUSING GROUP

cube. a great places company

PLUMLIFE.

Overview

2017/18 has seen Great Places grow to over 19,000 homes owned or managed, and exceed a £100m turnover for the third consecutive year.

Our budgeted surplus for the year was £12.2m and we ended the year at £12.2m, however during the year we recognised the need to recycle approximately £3.5m on two large scheme disposals (Rodney Street and Spinners Hall), the impact was softened by operational efficiencies and revaluation gains. We expect to achieve a surplus of £12.2m for 2018/19 and continue to see surpluses grow through the life of the plan.

Welfare reform is continuing to roll out, although the pace of the rollout of Universal Credit (UC) remains slow. As of the end of March 2018, we had almost 800 UC residents (up from 504 at the end of March 2017) but well below the 1,100 we had expected to reach by March 2018. We have reviewed our expectations based on the new roll out timetable, and are expecting to reach 1,500 by March 2019.

This financial plan embodies the principle of ‘profit for purpose’, acknowledging that the Group’s vision and values (which were reaffirmed by the Board in March 2018) underpin all that we are seeking to achieve:

- We know, respect and care about our customers
- We passionately embrace creativity, change and innovation
- We promote partnerships, efficiency and value for money
- We appreciate the effort of everyone who works here
- We are fair, open and accountable

We are pleased to present a business plan for 2018/19 and beyond that maintains the financial strength and long term viability of the Group, and also reflects many of the ambitions as outlined in the new Corporate Plan. This new, fully updated plan:

- Confirms compliance with the RSH Governance and Financial Viability standard
- Complements the 10 year ambitions in our new Corporate Plan
- Reflects an increasingly complex, uncertain and ever-changing operating, business, political and economic environment
- Adopts a suite of prudent yet realistic assumptions
- Demonstrates continuing financial strength while achieving steady development-led growth

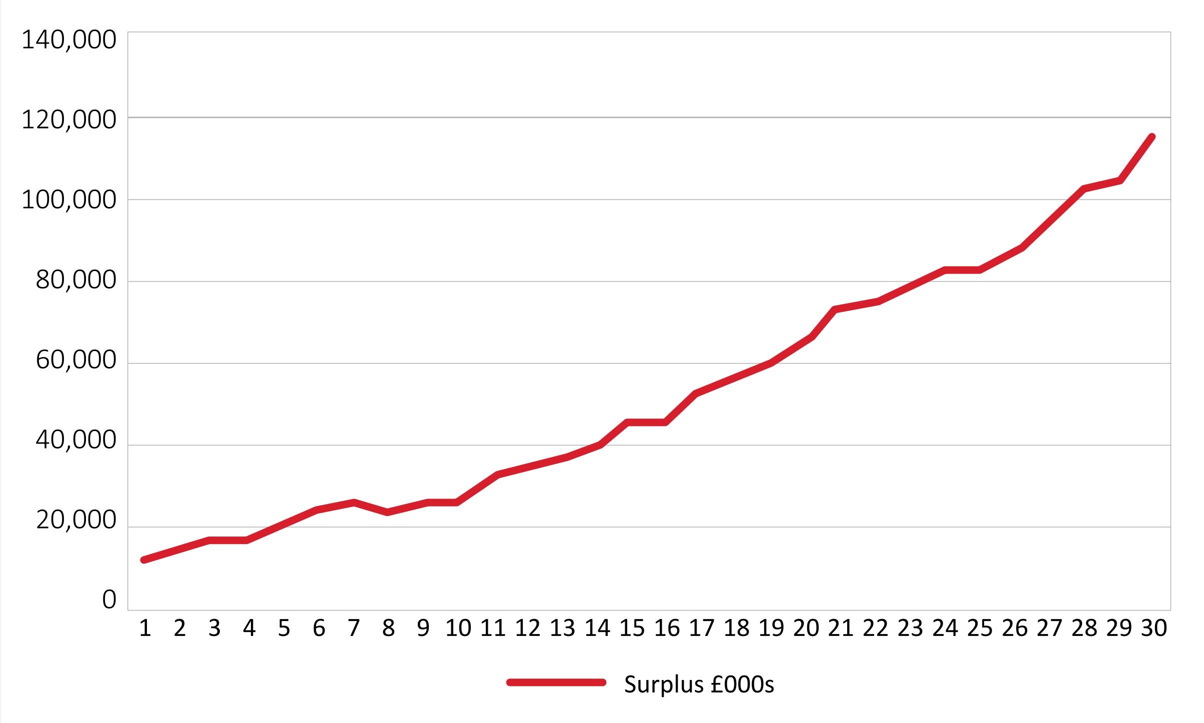
Years one and two of the plan are based on a comprehensive budget process, which successfully combines bottom up detail and top down overview and challenge. The business plan itself is more centrally driven: using the submitted budgets, known changes for future years, approved assumptions and developed using the 'Brixx' modelling tool. Further detail on how the Group meets the requirements of the Regulatory Framework are on page 8 while page 9 highlights the key elements of the Corporate Plan.

A brief assessment of how financial accounting changes and treasury management will affect the reporting of Group performance is provided on page 11, followed by a detailed analysis of the plan assumptions from page 13, including the sales and disposal assumptions and the Group's development assumptions.

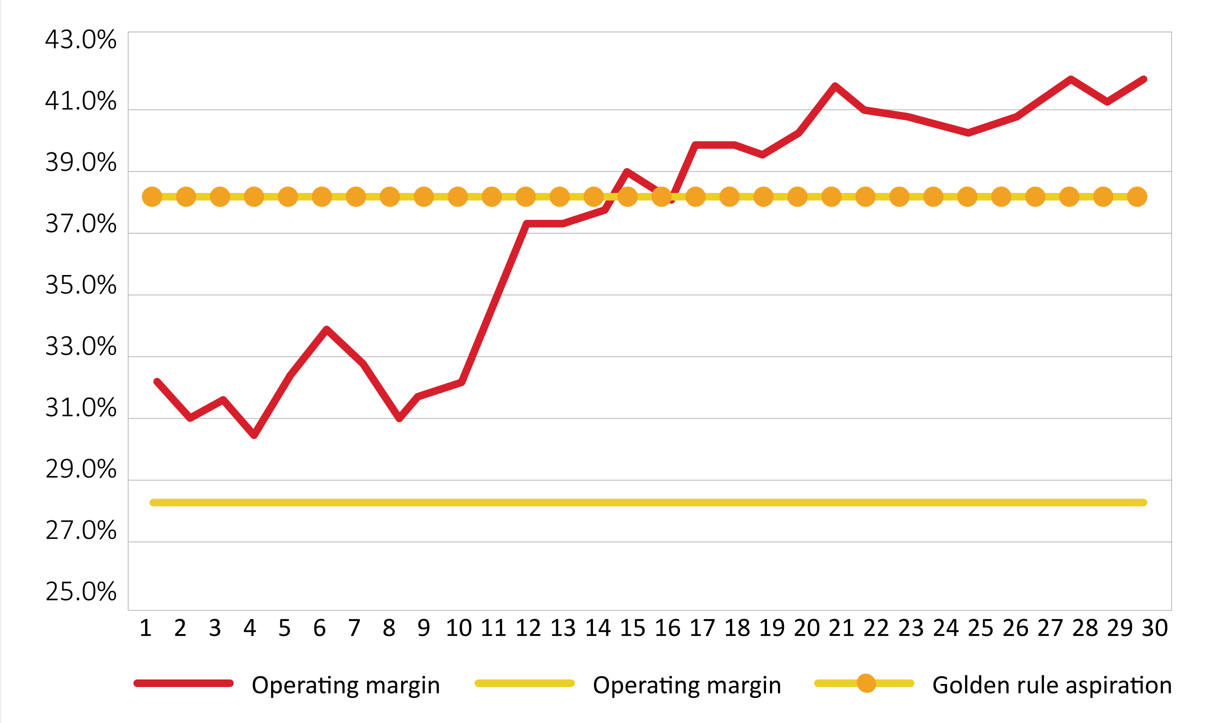
The consolidated Group performance for the 2018/19 budget year and for the subsequent 30 year business plan information, including compliance with funders' covenants are detailed in pages 18-27.

The headline key performance charts (surplus, operating margin, interest cover ratio and gearing) are shown overleaf, with full detail and analysis being provided from page 18.

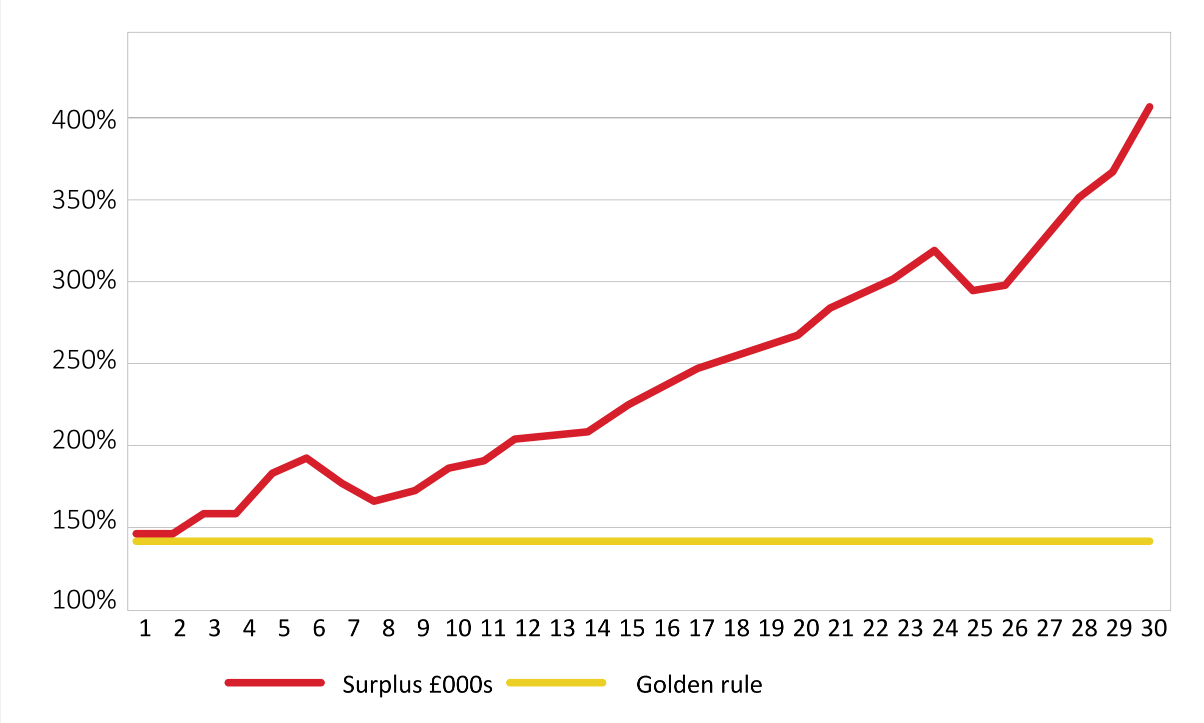
Graph 1: Surplus (see page 18)



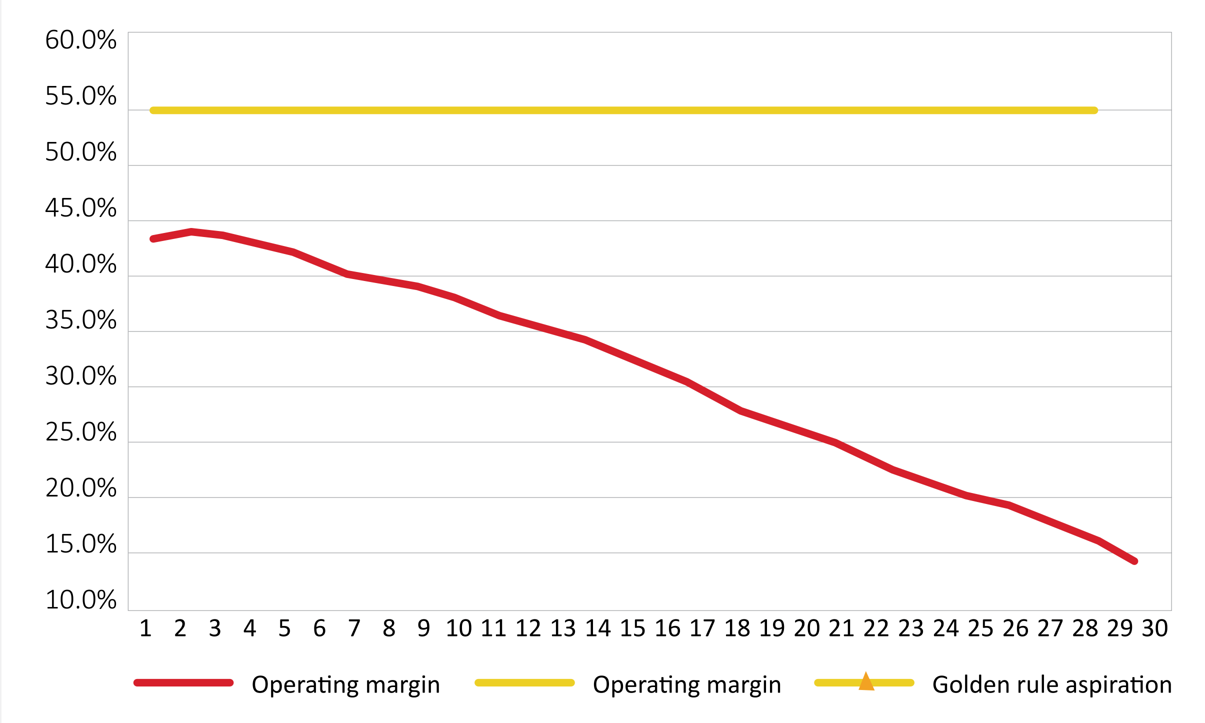
Graph 2: Operating margin (see page 19)



Graph 3: Interest cover ratio (see page 20)



Graph 4: Gearing (see page 21)



Background

The contextual analysis that follows shows that we are still operating in a period of unprecedented uncertainty and change.

At the Conservative Party Conference in October 2017, the Prime Minister committed an additional £2bn for affordable housing, including new homes for social rent, and confirmed a five-year rent settlement of CPI +1% from 2020. The Government also decided not to apply the Local Housing Allowance (LHA) cap to the social housing sector. The Budget in November 2017 also contained a number of announcements relating to housing:

- The headline announcement was undoubtedly the changes to the operation of Universal Credit, including advance payments and the removal of the seven-day waiting time, which will slightly soften the impact to the thousands of tenants struggling on Universal Credit (subsequently, in March 2018 the 18-21 year old removal of Housing Benefit was cancelled);
- The Chancellor also announced details of the Government's housing programme, which included £15.3bn of new investment and support, and a renewed focus on ensuring the planning system supports the delivery of the new homes needed; and
- The Government's intention to proceed with a large-scale regional pilot of the Voluntary Right to Buy scheme in the Midlands was also confirmed through this budget.

This Budget was delivered against a backdrop of economic and political uncertainty. This is reflected in the Office for Budget Responsibility (OBR)'s assessment of the health of the economy and its forecasts for future economic performance:

- The devaluation of sterling in the wake of the EU referendum result continues to contribute to higher than target inflation. CPI inflation has risen from 2.3% in February 2017 to 2.7% in February 2018. The increase has primarily been driven by a rise in goods price inflation. The OBR expects CPI inflation to fall from the current 2.7% to 2.4% during 2018 and 1.9% in 2019, before stabilising at 2.0% from 2020 onwards;
- The Office for National Statistics (ONS) assessed that the UK economy grew by 1.8% in real terms in 2016, and has subsequently slowed in 2017, with expected growth for the year revised down to 1.5%. Service and production output in Q3 2017 increased by 0.4% and 1.1% respectively, whereas construction output decreased by 0.9%. The OBR has revised its growth forecast down for every year to 2022, expecting GDP growth to fall from the 1.5% to 1.3% in 2019 and 2020 before increasing slowly to 1.7% by 2022;
- Household consumption and business investment has also been revised down since the forecast delivered at the Budget 2017;
- The employment rate was 75.0% in the three months to September 2017 and the unemployment rate currently stands at 4.3% – the lowest since 1975. The forecast has changed little since November 2017; and
- Productivity was again identified as one of the key challenges facing the UK economy. In 2016, UK output per hour grew by 0.2%, well below the pre-crisis trend of 2.1% in the decade before 2008. In the first two quarters of 2017 productivity actually fell, before rising in Q3 due to lower total hours worked. The OBR expects productivity to remain flat in 2017, before increasing by 0.9% in 2018 and 1.0% in 2019. Productivity growth is then forecast to increase to 1.3% in later years, a significant downward revision of the 1.7% included in the Spring Budget 2017 forecast.

The February 2018 Bank of England quarterly inflation report noted:

- An increase in expected GDP growth from 2018 through to 2020 at 1.75% (almost 0.5% higher than the OBR);
- Forecast unemployment expected to continue to fall a little further from the current 4.3%; and
- Inflation forecasts likely to remain above the 2% target in the second and third years of the forecast period.

The subsequent Spring Statement 2018 had some revised forecasts for growth from the OBR which suggest GDP to be at 1.5% from 2022.

Devolution, both in Greater Manchester and the Sheffield City Region will become increasingly important. In Greater Manchester, devolved funding for Heath and Social Care is expected to generate some innovative solutions, with Greater Manchester Housing Providers (GMHP) playing a key role. The GMHP Delivery Plan was published in February 2017 and some key deliverables include:

- Consistent delivery of at least 2,000 new homes per annum and over 12,000 new homes by 2021, with an ambition to deliver more;
- Increased numbers of customers working and in training;
- Drive social enterprise and social value;
- Collaboration with statutory and government departments and services to provide what GM needs;
- The expansion of GMHP support for place based integration (PBI) by supporting new models of delivery and reducing demand on public sector services;
- To embed new approaches within public service reform, one team approach to service delivery asset based community development;
- The consistent approach to working with individuals with complex dependencies; and
- To develop a workforce equipped to meet the changing needs of the sector and wider public service reform.

In March 2018, the Government announced plans for 227,200 homes in the Greater Manchester region working in partnership with the Greater Manchester Combined Authority.

The fire at Grenfell Tower in June 2017 brought about heightened focus on the role of housing associations in providing safe, compliant homes for their residents. Great Places has always taken compliance and health and safety very seriously – demonstrated by achieving 100% gas inspection results continuously for over 150 weeks. Whilst we have an interest in 14 buildings of 6 storeys or more, none are clad with Aluminium Composite Material (ACM). We have chosen to await the final recommendations from the Hackitt review before reacting to this tragedy and have made provisions in the next two years totalling £1.8m to undertake remedial work as necessary. We have also ensured all of our Fire Risk Assessments are up to date.

As of January 2018 the average house price in the UK is £226k; property prices have risen by 4.9% compared to the previous year. The average sales price in the North West is now £156k having risen by 4.3% compared to the previous year. Whilst this is good news for housebuilders, it is increasingly bad news for those trying to get on the housing ladder, especially with wage growth just about keeping up with CPI. Comparing the three months to January 2018 with the same period in 2017, real average weekly earnings were unchanged, compared with a 0.1% fall in the three months to December 2017.

Owner-occupation rates remain unchanged for the fourth year in a row with more outright owners and fewer mortgage applications. This coupled with the drop in 25-45 year old owner occupiers suggests that it is the older generation using equity to purchase new homes outright.

From 6 April 2017, the de-regulatory measures of the Housing and Planning Act 2016 came into force. This meant that there was no longer the need to have to obtain the regulator's consent to undertake disposals, restructures, and certain constitutional changes. For disposals there is still a requirement to gain consent to write off any grant under the grant recovery rules and a notification regime remains in place. In November 2017, the ONS concluded that Registered Providers of Social Housing in England are private, market producers and as such reclassified them to the private non-financial corporations sub-sector for the purpose of national accounts and other economic statistics, reversing the decision of October 2015.

We have also seen the creation of a fully independent Regulator of Social Housing (RSH) and it is anticipated that the organisation will be legally established on 1st October 2018, although the RSH is now fully operational. The remaining investment functions are being rebranded as Homes England. In the interim they both function legally as the HCA but they will operate with separate corporate identities. The Group is currently in the process of receiving an In-Depth Assessment from the RSH.

The RSH has continued to be proactive as a regulatory force, with six Governance downgrades in the last 12 months (Feb 17 to Feb 18), matched by six Governance upgrades in the same period. Since last September, 19 housing associations have had their viability rating changed from V1 to V2. The regulator is keen to classify many of these alterations as ‘regrades’, rather than downgrades due to poor performance– and there are likely to be more, with the RSH suggesting the number of V2s across the sector will increase by 50%, recognising organisations’ development risk profiles need to increase to meet the Government’s push to build more homes.

The new VfM metrics have now been published and will be effective from 1st April 2018 allowing for better performance comparisons across the sector and providing more assurance to those outside the sector of the efficiency agenda.
Within the Registered Provider sector, we have seen some significant changes. While mega-mergers have stumbled, there is growing consolidation among medium-sized associations:

- DHA and Knightstone have legally merged to form 36,000-home Liverty resulting in the largest Housing Association in the South West;
- Shareholders at Notting Hill Housing and Genesis have voted to confirm their support for the 64,000-home merger between the two organisations;
- Flagship Group and Victory Housing Trust have announced discussions “to consider working in partnership”. The structure of the new 28,000 home organisation is still being decided. If successful, this would make the merged landlord the East Anglian region’s largest;
- London housing associations Metropolitan and Thames Valley Housing have begun formal talks to form a partnership which would see them manage or administer more than 57,000 homes between them in London, the South East, the East Midlands and the East of England; and
- Nearer to home, Torus and Liverpool Mutual Homes are in talks over an amalgamation to create a social landlord with 38,000 homes which would create the largest North West landlord, and Adactus and New Charter recently completed their merger, creating a new organisation, Jigsaw Homes Group, with more than 33,000 properties.

The funding market has been very buoyant with a number of high profile issues in recent months:

- The Housing Finance Corporation issued a £60.5m bond tap – issuing at 1.43% over gilts;
- Optivo (previously Amicus Horizon) issued a £250m bond priced at 1.40% over gilts the week before Great Places’ tap of £145m, also pricing at 1.40% over gilts;
- L&Q issued two £250m bonds (one 10 year and one 35 year) and priced at 1.18% and 1.35% over gilts respectively;
- Watford Community Housing completed a £65m facility from asset manager M&G; and
- Sanctuary borrowed £200m from North America based investors in a Private Placement deal.

The credit rating agencies are taking a neutral view of changes in the sector, with two recent examples: The merger of DHA and Knightstone has received A2 rating (DCH, the largest of the pair, previously had an A2 rating with a stable outlook) and Optivo was given an A2 credit rating by Moody’s ahead of the bond issuance.
The business plan has been prepared taking account of this changing and uncertain environment

Regulation and governance

The Business Plan is one of the primary means of explaining to the regulator how we are meeting the full range of regulatory requirements, and in producing this plan we have carefully considered the Regulatory Framework. This plan helps demonstrate how the Group complies with the RSH Governance and Financial Viability Standard. The Group's previous VfM self assessments can be found at www.greatplaces.org.uk but the new Value for Money Standard which came into force on 1st April 2018 and removes the need to produce the self assessment, with the focus being more on the suite of VfM metrics.

The Group is fully compliant with its Code of Governance, which is an enhanced version of the most recent NHF Code. The Group's Code of Governance was amended and approved by the board in December 2017 following a positive triennial Governance review, which was completed in April 2017. The Group's G1/V1 rating was re-affirmed following an annual stability check in November 2017 and we are currently going through our In Depth Assessment with the RSH. Great Places will continue to actively demonstrate to the Regulator that it meets the Governance and Financial Viability standard because:

- This business plan demonstrates ongoing financial strength and incorporates prudent assumptions that have been benchmarked against others in the sector (the benchmark group includes Midland Heart, Vivid, Onward, Orbit, Salix, and WM Housing). In virtually all cases, our assumptions are more cautious than the peer group;
- The plan has absorbed the impact of the rent reduction announced in the July 2015 budget, includes the CPI+1% increase only for the period 2020-2025, and then assumes long term rent increase are at CPI only;
- It is a well run business with limited diversification and a simple structure that helps ensure the protection of social housing assets;
- It meets all of its funding covenants and is not reliant on sales to achieve this;
- The approach to risk management remains strong with the continued use of the "watch list" to accompany the risk register and the revised risk appetite statement;
- The Group has a comprehensive register of assets and liabilities. This includes title details for the Group's housing properties and records of other assets, as well as records of all loans, bonds, leases and other liabilities. The register also incorporates information around key contracts, key suppliers and general business continuity;
- It reports annually to the Board on the status of all joint ventures and other similar arrangements;
- It continues to achieve 100% compliance with the decent homes standard and consistently achieves 100% gas safety compliance; and
- It charges rent in accordance with the relevant regulations, with a rent plan that considers affordability, sustainability and competition.

The new corporate plan – 10 year ambitions, 3 year targets and 1 year objectives

Great Places is a successful organisation with an impressive track record. We have achieved steady growth of turnover, surplus and properties, whilst continuing to be innovative and achieving ongoing improvements to customer satisfaction, despite the impact of the rent reduction and the volatility of sales driven income.

In April 2018 the Group Board approved the new Corporate Plan, which articulates a 10 year ambition to continue to be a vision-driven and values-led organisation, and to be a growing and improving organisation. In order to achieve our ambitions we have a strong set of operating principles which include: Financial strength; Good governance; Quality; Innovation; Value for money; and Equality and Diversity.

This business plan should be read in conjunction with the Corporate Plan, as we have strived to ensure consistency between the things we want to achieve and the financial and other resources required to deliver them. The Corporate Plan considers the external factors affecting Great Places, and also explains how the Vision and Values fit together with our Critical Success Factors (CSFs).

However, while still seeking to deliver the objectives set out in the Corporate Plan, the rent reduction and other adverse changes means the Group has chosen to thoroughly review its operating processes and the cost base. The Group is now well underway with the delivery of "Building Greatness" which we define as:

"Our values-led journey of change, to ensure that we are always efficient and effective in delivering our vision".

Building Greatness was a measured and well thought through response to the July 2015 budget, which built on the solid foundations that were already delivering step change improvement in repairs and asset management, supported housing and business systems. The outcome was clearly laid out in a revised business plan produced in October 2015, which demonstrated how the £10m per annum shortfall in rental income, due to the rent reduction, would be mitigated. Building Greatness comprises seven work streams each with its own programme of deliverables: People; Leadership, Corporate structures, external engagement and communications; Data and performance; Investment in systems; Procurement and contract management; Growth; and Business transformation. We remain on target to achieve the savings with some of the notable achievements including:

- The Business Transformation work stream will analyse all aspects of the Group's front line and back office services, seeking to drive out waste, inefficiency, duplication and non value-adding activities, increasing efficiency, effectiveness and value for money. During 2018/19 we expect to realise all of the benefits from the newly structured Independence and Wellbeing service (formerly known as Supported Housing), to implement new ways of working within the General Needs Housing Service and launch our revamped Communications team. Transformation work has begun in repairs and finance and is planned to commence in investment and other head office functions throughout 2019 and 2020. Business Transformation is critical to ensuring that services are redesigned and costs eliminated in a sustainable manner;
- We have restructured our Executive and Leadership teams. A smaller Executive team with broader, more strategic portfolios is now supported by an expanded and strengthened Directors team who focus on the operational running of the business;
- We recognise the challenges of ensuring we attract and retain a high quality workforce with the right skills and with high levels of engagement. Our people strategy is designed to meet those challenges and key deliverables in 2018/19 include continuing the substantial investment in our Leading Greatness programme, supporting our new ways of working models, and introduction of graduate and

apprenticeship programmes;

- The investment in systems work stream aims to ensure we fully embrace modern technology and goes hand in hand with the Business Transformation work. During 2018/19 we will complete the roll out of a fully agile mobile working solution for both Independence and Wellbeing and General Needs. Together with our new website and customer portal, this will assist us to move to a more digital service provision, whilst retaining alternatives for customers for whom digital is not yet an option. We will also look at how best to provide solutions for some of our back office functions, including a new purchase to pay system and a new intranet.
- The data work stream is seeking to improve many aspects of our data, including data quality, data quantity (customer data and property data, reflecting the importance of "big data"), data protection and data retention. This is in part to respond to the new General Data Protection Regulation (GDPR) requirements, but mainly to ensure our decisions are made with the full facts in hand. Linking closely with the investment in systems work stream, we will also focus on enhancing our data analysis and analytics, and fully implement our Geographical Information System.

An eighth work stream was temporarily added to reflect the importance of the new head office relocation, which was successfully completed in September 2017. This involved the relocation of our existing head office staff and also the Manchester and Salford teams (over 300 staff in total) into our newly modernised, spacious accommodation, whilst also delivering significant cost savings due to the closure of our Salford office. We also implemented new ways of working removing traditional barriers to collaborative working, with investment in new technology, provision of agile and breakout areas and facilities that can be used for team activities and briefings.

So far, Building Greatness has realised approximately £7m savings (against the 2015/16 business plan) with further expected savings of £5m in 2018/19, and a further £1m-£1.5m in future years. There are some bold 10 year ambitions in the new Corporate Plan, and this Business Plan has built in many of the opportunistic elements within the Corporate Plan.

The sector scorecard metrics show the Group in a favourable light. The Dynamic Purchasing System (DPS) for repairs materials is now up and running with 40 suppliers registered and is delivering significant cost savings. Great Places has been successful in winning a bid to supply repairs materials to Trafford Housing Trust which will build on the success of the Distribution Centre and the DPS, allowing greater utilisation of the Distribution Centre, economies of scale and bulk purchasing opportunities.

Financial reporting and treasury

The financial statements produced at the end of the 2017/18 financial year were all produced in line with International Financial Reporting Standards (IFRS) through Financial Reporting Standards 100-105 (FRS 102) and where applicable in line with the Statement of Recommended Practice (SORP) 2014.

A recent HMRC ruling found that gift aid payments are a distribution of profits and should be accounted for as such. A gift aid payment will not be recognised in the financial statements until either an actual payment is made or where a deed of covenant exists and has been approved by the Board. Going forward for Cube and Terra Nova, if we wish to include gift aid in the financial statements then the actual payment must be made in that financial year, and this is what we have done for the year ended 31st March 2018.

Accounting changes are anticipated for the March 2019 year end for the Social Housing Pension Scheme (SHPS) defined benefit pension scheme. In the past The Pensions Trust have been unable to provide "sufficient information" to individual employers to enable them to account for their own share of the assets and liabilities of SHPS. The scheme has therefore been accounted for as a defined contribution scheme with the Group recognising a liability for the past deficit funding payments.

The Pensions Trust is in the process of implementing systems that will enable them to provide sufficient information to individual employers ready for the March 2019 year end. At the point this information becomes available we will need to account for the SHPS scheme as a defined benefit scheme and recognise the full liability, which would include the past deficit funding payments already recognised. This could result in having to report additional liabilities of anything up to £10m. The business plan does not currently make any provision for increases or decreases to the pension deficit or changes to the repayment schedule, nor does it try to anticipate changes as a result of changing accounting practice. Our covenants were amended post FRS102, and it is expected that this change in accounting treatment will not impact the covenant calculations.

The benefit of moving to defined benefit accounting for SHPS is that the 3 year cycle of valuations would no longer lead to a triennial spike in charges to the income and expenditure account. The movement on the liability would also move to within the other comprehensive income section of the Statement of Comprehensive Income and not directly impact reported surplus.

It has been a successful year for funding activity, with the repayment of an expensive, highly securitised Building Society loan, a £145m tap of our existing bond (with £70m retained) and the renegotiation of two loans, one to extend the availability period, and one to allow for repayment and redrawing at a later date. We are also in the process of agreeing terms on a new £30m revolving cash facility to replace the £60m Royal Bank of Canada (RBC) facility that expires in November 2018.

This means that the Group remains in a very strong funding position with current cash balances plus the remaining undrawn NatWest (rebranded from RBS) long term facility of £38m (still to be secured and drawn), the undrawn Santander long term facility (£53m fully secured), the new revolving facility (£30m which will be fully secured when in place) and the ability to go back out to market for the £70m of retained bonds. It is likely that these facilities could meet our current expected funding needs for the next seven years. We will undertake our annual update of our Treasury Strategy in the forthcoming months, reflecting in particular the 5-10 year funding requirements of this plan and a clear focus on counterparty risk given the higher than normal cash balances.

Financial viability is most clearly demonstrated by achievement of, and ongoing improvement in, the key ratios considered by our investors, funders and credit rating agencies, as well as the rating itself. During the last year our rating with Moody's (along with around 40 other Moodys rates RPs) dropped one notch from A2 to A3 as a result of a Sovereign downgrade. We retained that rating during the annual review which was confirmed in December 2017. Our Fitch A+ rating was maintained in June 2018 and both ratings were unchanged as a result of the Bond tap.

The Group has adopted "Golden rules" which set thresholds above or below which the Group will ensure it remains throughout its business plan. The golden rules are set at levels that are more difficult than the equivalent funding covenant, to ensure headroom is maintained at all times. These have been clearly set out in the table below. It is clear that the proposed plan satisfies the golden rules throughout.

Operating margin golden rule

Operating margin before interest to be a minimum of 28% and targeted to grow towards 38%

Interest Cover golden rule

Interest cover should not fall below 140% (covenants range from 105% to 120%)

Gearing golden rule

Gearing should not increase above 55% (covenant 65%)

Major repair expenditure golden rule

The business plan provisions will fully meet the requirements of the stock condition survey over the life of the plan. All major repairs are funded from operating cash flows

Assumptions

The key business plan assumptions are presented in the table below. These are based on latest market information and projections from a wide range of sources including the Bank of England (BoE), the Office of National Statistics (ONS), the Office of Budget Responsibility (OBR), our Treasury Advisors Link, Savills plus various funders. Budgets have been submitted at April 2018 prices using local cost-specific information and for each assumption some analysis and explanation is provided following the table.

Assumptions	Budget 2018/19	Year 2 2019/20	Year 3 2020/21	Year 4 2021/22	Year 5 2022/23	Years 6-30	Note
Target: Surplus before tax	£12.2m	£14.3m (was £13.3m)	£16.6m (was £13.4m)	£17.3m (was £14.8m)	£21.2m (was £16.1m)	£25.1m (was £17.0m)	1.1
CPI	2.75%	2.25%	2.25%	2.00%	2.00%	2.00%	1.2
RPI	4.00%	3.50%	3.50%	3.25%	3.25%	3.25%	1.3
Earnings inflation	3.00%	CPI+1.0%	CPI+1.0%	CPI+1.5%	CPI+1.5%	CPI+1.5%	1.4
Construction price inflation	CPI+2.0%	CPI+2.0%	CPI+2.0%	CPI+2.0%	CPI+2.0%	CPI+2.0%	1.5
Land price inflation	CPI+1.5%	CPI+1.5%	CPI+1.5%	CPI+1.5%	CPI+1.5%	CPI+1.5%	1.5
Repairs inflation	CPI+0.5%	CPI+0.5%	CPI+0.5%	CPI+0.5%	CPI+0.5%	CPI+0.5%	1.6
Major repairs inflation	CPI+1.0%	CPI+1.0%	CPI+1.0%	CPI+1.0%	CPI+1.0%	CPI+1.0%	1.7
Property price inflation	CPI+0.5%	CPI+0.5%	CPI+0.5%	CPI+0.5%	CPI+0.5%	CPI+0.5%	1.8
General needs rents	-1.00%	-1.00%	CPI+1.0%	CPI+1.0%	CPI+1.0%	CPI from 2025	1.9
Supporting people income	0.0%	0.0%	CPI	CPI	CPI	CPI	1.10
Shared ownership rents	RPI	RPI	RPI	RPI	RPI	RPI	1.11
Bad debts	Rising to 1.10%	Rising to 2.40%	Rising to 2.70%	Rising to 3.00%	3.00%	3.00%	1.12
Affordable rent conversions	120	120	120	0	0	0	1.13
3 month LIBOR	1.90%	2.75%	3.25%	4.00%	4.25%	5.00%	1.14
Margin on short term debt	Per facilities	1.50%	1.50%	1.50%	1.50%	1.50%	1.15
30 year gilt rate	Rising to 2.40%	3.15%	3.65%	3.90%	4.00%	4.35%	1.16
Spread on new long term debt	1.40%	1.40%	1.40%	1.40%	1.40%	1.40%	1.17
Cost of future fixed rate debt	3.80%	4.55%	5.05%	5.30%	5.40%	Rising to 5.75%	1.17
Interest rates – receivable	0.40%	1.75%	2.25%	3.00%	3.25%	4.00%	1.18
1st tranche sales	180	190	150	180	180	180	2.1
Voluntary sales	55	50	50	45	45	40	2.2

1.1. The expected surplus before tax for 2018/19, based on year 2 of the previous business plan was £12.7m. In December 2017, Board agreed to reduce the surplus and hold a contingency for sprinklers (or other changes in regulations) of £1.8m (with £0.5m in 2019/20), and in March 2018, Board agreed to push back some of the Sheffield VAT shelter expenditure into 2019/20, therefore the revised surplus target for 2018/19 is now £12.2m. Future surpluses show increases over the levels achieved in the 2017/18 plan, primarily due to the CPI+1% for the next four years, the bond and strong cost control.

1.2. The long term assumption for CPI has been maintained at 2.00%. CPI rose to a five and a half year high of 3.1% in October, and was almost at the point of triggering an early warning flag internally. It has remained steady at 3.0% and finally came down in February 2018 to 2.7%.

1.3. The long term RPI assumption is 3.25%, generating a wedge (the difference between RPI and CPI) of 1.25% which is in line with OBR projections.

1.4. With a salary bill of around £20m (including pension and national insurance contributions), the earnings increase assumption is among the most critical. The figures for the budget year incorporate a 3.0% earnings increase, incorporating an across the board pay rise of a minimum of 2.2% for April 2018, plus some additional budget to ensure our commitment to performance based pay progression and salary benchmarking is maintained. Over the next two years the assumption is that earnings growth can be constrained to CPI+1%, whilst the assumption from year 4 is CPI+1.50%, which equates to c3.5% annually – very consistent with longer term ONS, OBR, LGPS and SHPS assumptions. A key challenge will be to control salary costs and to establish a sustainable linkage to CPI.

1.5. Building and land price inflation have previously been set at CPI+1.5% in years 2/3 of the plan, reflecting the potential costs pressures post Brexit. RICS issued a warning that price falls are expected with growth over the coming year predicted to be the slowest since June 2016, when Brexit prompted suggestions of falling values however the Building Cost Index (BICS) has growth at 4% in February 2018. Building price inflation is hence assumed at CPI+2% whilst maintaining land price inflation at CPI+1.5%.

1.6. The interim Output Price Index (OPI) for all repair and maintenance increased 1.6% in the year to December 2017, with the housing repair and maintenance sector showing the largest increase of 1.8%. A large proportion of Great Places' repairs costs are earnings, inflation for which has already been considered above. Based on this, the business plan will assume other repairs and maintenance costs increase at CPI+0.5%.

1.7. Major repair expenditure for Great Places is mainly undertaken by external contractors. For this reason, the plan will assume CPI+1% to reflect the increase in these costs. The expenditure will be at a level that fully meets the requirements of the Group's stock condition survey with additional provision made for ongoing acquisitions. This ensures that our fourth Golden rule is achieved.

1.8. Property price inflation has been set at CPI+0.5% on an ongoing basis – revised down from last year's assumption of CPI+1%. The Housing Price index for the North West has inflation at 4.30% as at January 2018. However, forecasts from Savills show North West house price inflation at 12% over the next five years, roughly equating to annual growth of 2.25% per annum, and roughly the same as our CPI assumption.

1.9. The predominant factor in calculating rents is the 1% rent reduction to be applied for one more year. The Government has announced a return to the CPI+1% formula for the five years April 2020 to April 2025. It is proposed that after the five year CPI+1% increases, the plan assumes that rents will then only increase by CPI for the remainder of the business plan term reflecting concerns that ongoing above inflation rent increases will impact affordability. This would apply to general needs, assured and affordable homes, mortgage rescue, rent to home buy and supported housing.

1.10. The budgeted income for Independence and Wellbeing will again be built up on a scheme by scheme basis and will incorporate all known or expected income reductions. There has been huge progress on Business Transformation in this area, and the budget will be based on the revised structures for staffing costs. Having learned through the Business Transformation process, any local authority cuts will look to be met with reduction in costs, or a specific business case to invest in the service, at that time. The most recent Local Authority tender has seen contract values remain at the same financial level, so it would be prudent for the business plan to assume only CPI growth in income, from year 3 after two years of no increases.

1.11. The majority of shared ownership rents increase by the November 2017 RPI figure of 3.90% and are contractually tied to RPI increases in subsequent years, although a small number increase by RPI+0.5% and a smaller number use other months as the RPI basis.

1.12. As at the end of February 2018, we have approaching 800 Universal Credit (UC) residents (up from 504 at the end of March 2017) but nowhere near the 1,100 we had expected to reach by March 2018. We have reviewed our expectations based on the new roll out timetable, and are expecting to reach 1,500 by March 2019. We will only ever see 85% of Housing Benefit customers transfer over to UC due to the exclusion of pensioners. The initial, and acknowledged to be very prudent, welfare reform assumptions adopted many years ago were:

- Arrears – to double from c£4m to around £8m over 5 years: Assumption maintained.
- Bad debts - to increase from c1% to 3% over 5 years: Assumption maintained

1.13. As part of our Shared Ownership and Affordable Housing Programme contract with the Homes England, there is an ability to convert rents from social rent to affordable rent. Whilst the recent contract is no longer prescriptive on the number of conversions, Homes England will allow Great Places to continue to convert rents on re-let during this contract period. Based on current performance, the business plan will assume 120 conversions per annum for the remainder of the term (to 2021), whilst ensuring affordability remains a key consideration.

1.14. The interest rate assumptions are amongst the most critical in the plan and have an immediate and substantial impact on the Group's surplus particularly in the early years of the plan. The plan assumes 3 month LIBOR rising to 1.90% by the end of March 2019 and then increasing by between 0.50% and 0.75% annually to reach 4.25% by the end of 2022/23 and 5.40% by the end of the plan. This has been benchmarked against other RPs assumptions and sits in the upper part of the range. These assumptions for interest rates have been assumed with reference to the OBR, and Treasury advisor forecasts. These rates are prudent and should provide some headroom in the business plan in the earlier years.

1.15. Coupled with these LIBOR rate rises, the plan also assumes that margins on future short/medium term bank debt will be 1.50%, providing some comfort over the rates suggested by our latest intelligence of the bank funding market and rates recently negotiated. The proportion of fixed debt will be maintained at a minimum of 75% fixed in line with the 2017 approved Treasury policy.

1.16. The key 30 year gilt is currently around 190 basis points (1.90%). The rate is assumed to rise steadily over the next few years to over 4.0%. The longer term assumption is based on Capital Economics data.

1.17. The spread on long term debt has been assumed based on the recent bond tap rate of 140 bps over gilts. This is only one element of the cost of funding. Beyond year 6 of the plan, where the funding source is less obvious, the all-in cost of long term future debt is assumed to be around 4.5% rising to 5.75% by the end of the plan.

1.18. The weighted average interest earned on investment balances in the last financial year was 0.61%. This represented a good rate of return in the current very low interest rate environment. Interest receivable rises in line with the assumed increase in LIBOR, and, despite the material cost of carry, cash balances are to be held at a minimum of £20m to protect against market liquidity risk. This minimum cash balance is indexed annually to reflect increasing construction costs, which are the main driver of liquidity risk.

Sales and disposals assumptions

2.1. The Group has over 1,300 shared ownership homes, providing a large pool of potential staircasing sales. Using trend analysis over the previous five years, the plan will assume 35 sales each year, plus a further 4 repossessions. First tranche sales are based on the approved development programme and will be around 150 sales completing in 2018/19 and then at 180 per annum in line with future development assumptions. Having sold over 300 units in the two year period 2016-18 we believe this is comfortable. The 150 sales are spread across 20 different schemes, across the full Great Places geography, hence spreading the sales risk.

2.2. Going forward we would also expect these new properties to gradually staircase (at around 5% per annum from the 6th year after initial sale) in addition to the underlying 35 staircasing sales annually. Sales in subsequent years follow the development programme assumptions set out in section 0. Going forward we would also expect these properties to staircase over a 20 year period from the sixth year after initial sale.

The Group's Asset Management Strategy and associated programme of disposals has changed slightly for year one to allow for a review of the Divestment Strategy, the operational processes and to develop a more sophisticated, efficient approach to asset use which will incorporate any regulatory changes that might adversely impact the Group surplus like we have seen in 2017/18. The assumptions are to target 55 voluntary sales (primarily of voids) reducing down to 40 over the next five years and remaining at that level for the remainder of the plan. We only assume a £28k per unit surplus on these voluntary disposals. Preserved right to buy volumes are assumed to continue at current low levels of 4 per annum throughout the life of the plan. We are expecting only 7 preserved RTBs to eligible transfer tenants in Knutsford and Sheffield each year.

Any tenanted disposals (perhaps in pursuit of geographical stock rationalisation) would need Board approval and tenant consultation. The plan assumes two large scheme disposals during 2018/19, and these were approved by the Group Board before the end of the 2018 financial year, and have therefore already been written down to their net realisable value.

The voluntary right to buy (VRTB) scheme could have a significant impact on Group cash flows both in terms of sales receipts and the costs of replacement properties, and is therefore an important assumption. There are still a large number of unknowns around the scheme with key parameters such as the start date, eligibility criteria and exemptions yet to be finalised. The Government announced plans in the Autumn budget for a regional pilot in the Midlands, which will build on the initial pilot run by five housing associations. Consequently we have not assumed any VRTB sales in our plan, although we will include a specific sensitivity to show the impact of VRTB.

Development assumptions

The business plan fully reflects existing Homes England allocations and will see 153 affordable rented properties (the remaining units from the 2015-17 and the 2015-18 programmes) hand over by March 2019.

The plan also reflects a Development programme for 1,172 new homes comprising an allocation under the 2016-21 Shared Ownership and Affordable Homes Programme (SOAHP) for 872 units and Board approval to proceed with submissions during this period under the continuous market engagement facility (CME) for a further 300 units. The programme has an estimated total scheme cost of £156.3m with £28.1m grant receivable and comprises:

- 582 shared ownership;
- 530 affordable rent; and
- 60 supported.

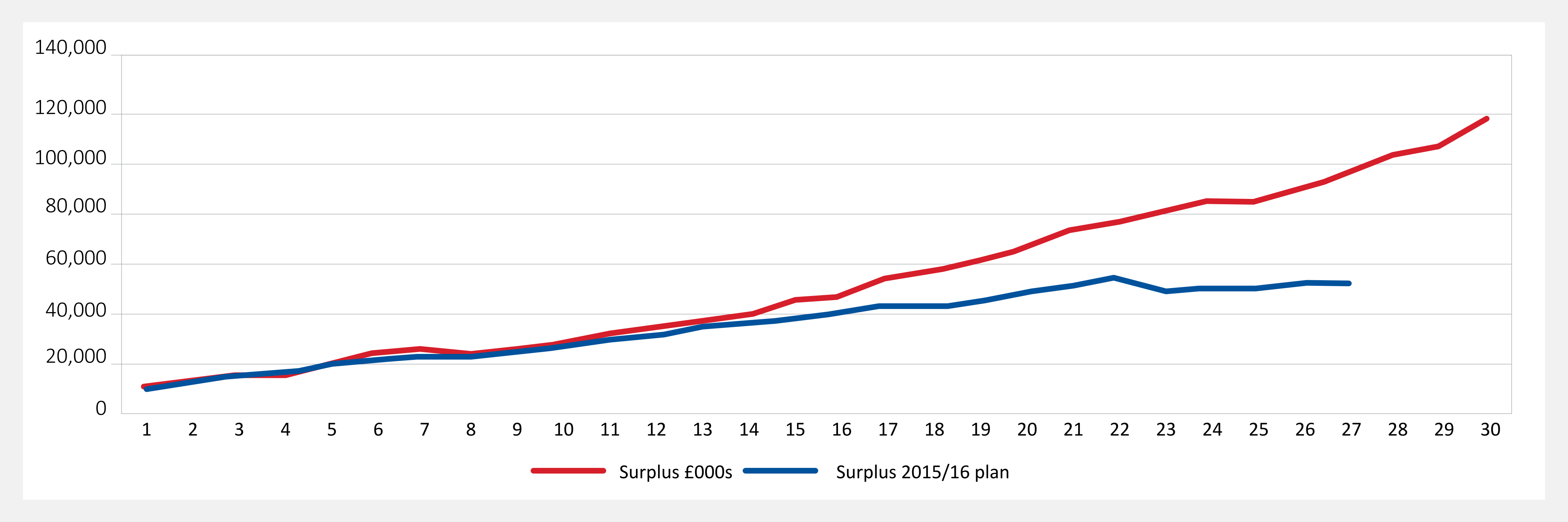
Looking beyond 2021 the business plan assumes that Great Places will continue to have a substantial programme of development, exceeding the c400 units built annually over the last decade. This will include the following:

- An annual programme of 380 homes, currently comprising 180 shared ownership properties and 200 rented properties, but subject to change in line with shifting Government policy;
- The rented properties will include grant funded units (20% grant rate assumed), as well as units funded through s106 arrangements, recycled grant and internal subsidy;
- The majority of the shared ownership properties will be Homes England grant funded (grant rate assumed 20%) with the remainder including potential VRTB replacement or s106 arrangements; and
- Scheme costs per unit range from £110k (some s106 arrangements) up to £130k for shared ownership homes;

The Group will also deliver around 100 properties per year for outright sale and market rent development through Cube.

Group financial performance and achievement of group financial targets and covenants

SURPLUS

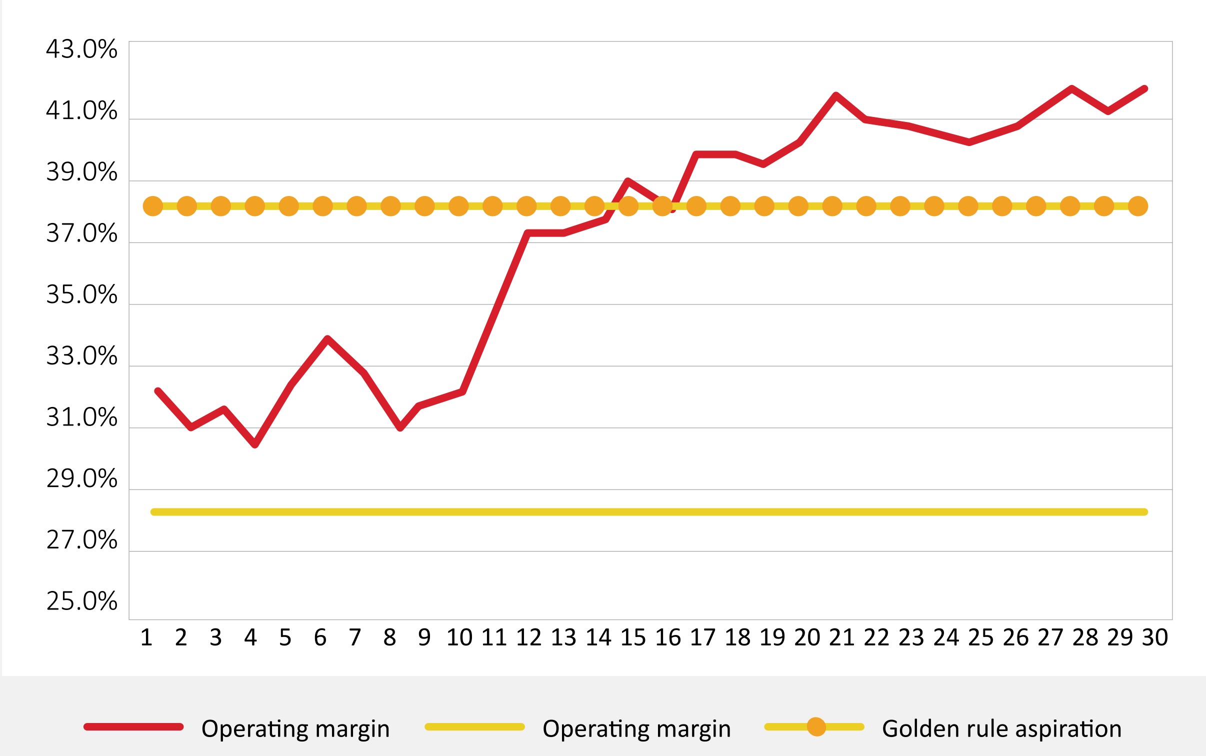


The chart shows the profile of surplus generated over the life of the plan. The trend is similar to trends over the last four years' plans, showing how we have successfully protected the surplus despite the rent reduction.

The annual surplus achieved in this plan (red line) grows steadily from £12m in 2018/19 to just over £120m by the end of the plan. The trend is very similar to that achieved in the 2015/16 plan that was approved prior to the four year rent reduction (blue line). The £10m per annum rent loss has been largely offset by the operational and transformational cost savings that are being delivered through "Building Greatness".

It should also be noted that the 2018/19 plan shows increases in the levels of surplus because of the return to CPI+1% for rent increases for the period 2020 to 2025, then returning to CPI only inflation whilst always remaining aware of the impact of rent increases on affordability.

Operating margin



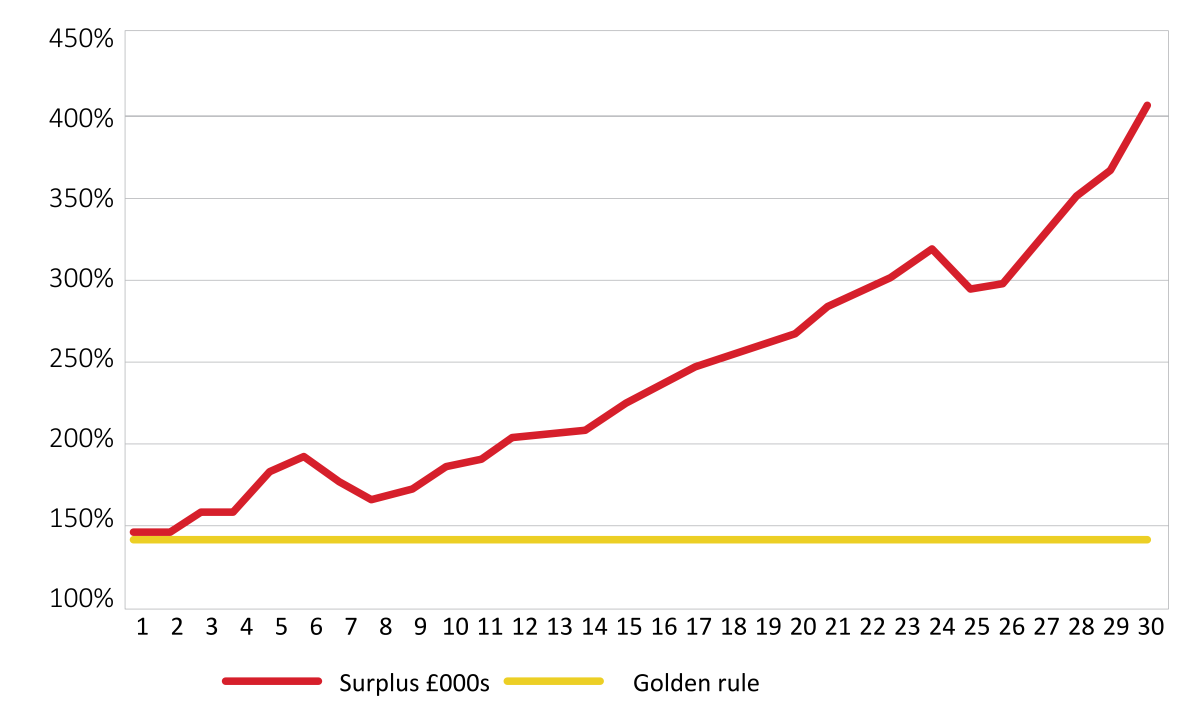
The chart above left shows the Group's recent performance on profitability, measured by operating margin (surplus before interest as a proportion of turnover – effectively a measure of profitability) for the Group, and a Moody's peer group comparison. The margin was just c18% in 2010/11 and is now established at above 30% (the dip in 15/16 was largely due to a one off pension cost). Since then, we remained slightly ahead of the Moody's peer group and are forecast to exceed the peer group in the coming year.

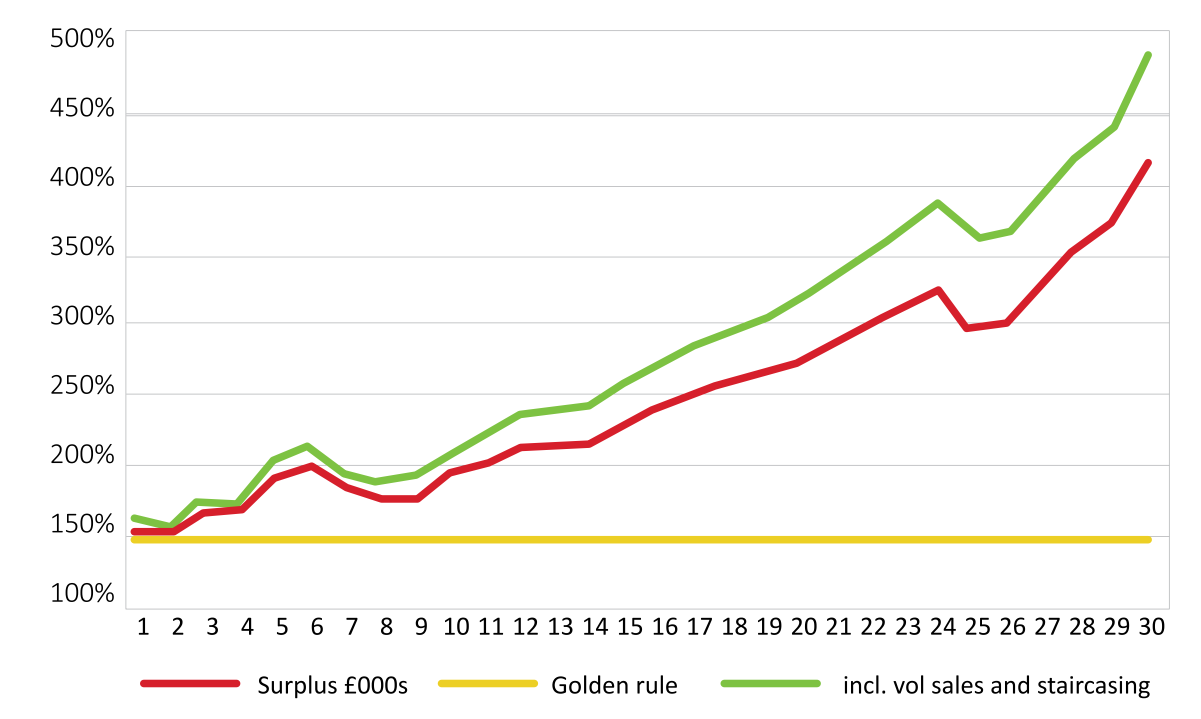
The importance of maintaining profitability is demonstrated by the adoption of this measure as one of the four golden rules, with a minimum acceptable level of 28% and a target to move towards 38%. In previous years, the calculation has been modified to strip out the effect of accounting changes. The graph top right has been produced using a strict operating surplus (as defined in the Financial Forecast Return) divided by total turnover, thereby including the volatility in market sales activity. The dip at years 7 and 8 relate to increased major repairs in those years, while turnover continues to grow.

Based on this volatility, the operating margin will decline slightly over the next few years (as predicted by Moody's for all RPs), with the sharp increase at year 10, depicting the end of the Cube business plan, where a higher proportion of "relatively" low margin (but of course very profitable) open market sales undertaken dilutes the Group's operating margin in the earlier years.

Interest cover

Surplus and margin are easily understood measures of financial strength, but neither is a financial covenant. The interest cover ratio as shown in the graph below is a financial covenant – it is an accounting not a cash based measure.





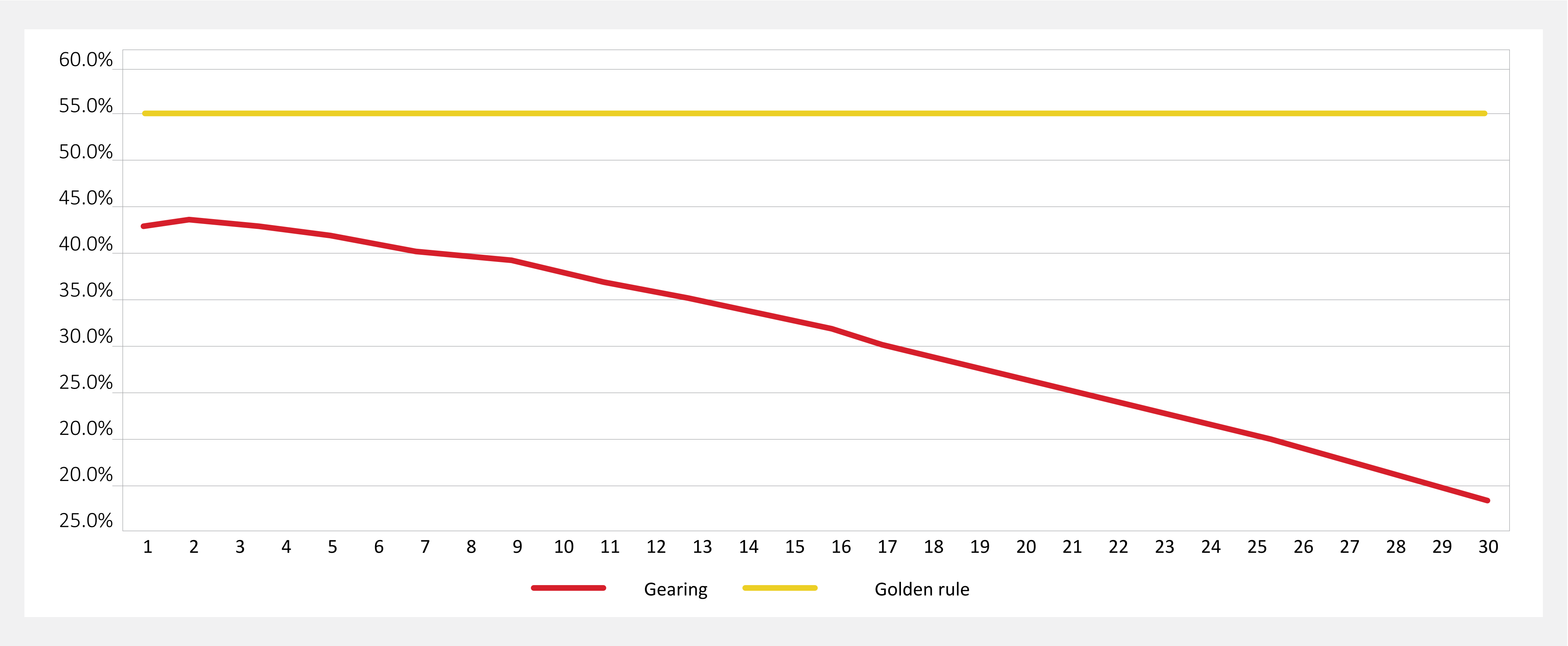
The chart on the left shows our primary funder's covenant, interest cover but excluding all property sales surpluses. As demonstrated, this plan remains comfortably ahead of (i.e. higher than) the 140% minimum determined by our golden rule, with a steady improvement through the life of the plan. This in turn provides significant comfort above the tightest loan covenant of 120%.

The right hand graph shows the same red line as the left graph (i.e. interest cover excluding all property sales), but also shows interest cover where "sales in the ordinary course of business" are included in the result (green line). This is the wording of our bank covenant and means that property sales such as voluntary sales and stair-casings can be included. First tranche sales and outright sales are excluded. The dip at year 6 relates to increased major repairs in that year, and the dip at year 24 is due to the refinancing of the Bond.

Historically, the red and green lines have not diverged as much as shown in the right hand graph, but the increased proportion of shared ownership sales in the development programme will inevitably lead to much greater volumes of staircasing in the later years of the plan, hence pushing up the green line.

Gearing

The Group’s other key financial covenant is gearing, shown on the graph below.



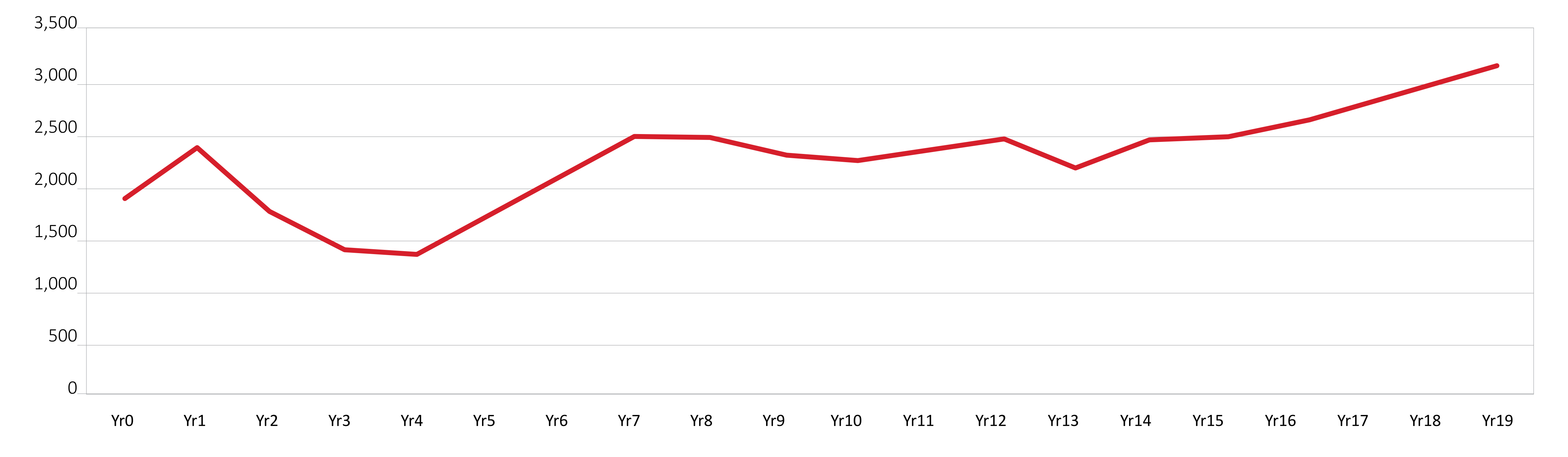
The gearing ratio compares the Group’s debt net of cash to the asset base (measured as housing properties at cost) and has a funding covenant maximum of 65%, and a golden rule set at 55%.

Again the plan remains comfortably better (i.e. lower) than the 55% golden rule. This also shows a steady improvement through the plan period as debt increases relatively slowly. This is due to a more sales based development programme, with higher levels of shared ownership activity in GPHA and outright sales in Cube. Sales activity brings sales risk, but requires far less long term debt, hence causing the gearing to reduce.

The cash flow from sales receipts (shared ownership first tranche sales and outright sales through Cube) means debt grows quite slowly and gearing steadily declines. A strong operating margin, combined with cash flows from asset management disposals means the core business generates significant levels of cash which also benefits the gearing ratio. The effective gearing ratio on new affordable rented development property is c80%, and for market rent is c100%, so additional rented development would clearly see the gearing ratio increase.

Security exhaustion

The Group's position in respect of unencumbered assets has long been recognised as a constraint on the business, particularly on the scale of development deliverable. The existing use value and market value subject to tenancy valuation methodologies have meant that in a low grant regime, every new build property built requires two properties of security in order to access the debt required. In addition all work in progress requires securing, and the work in progress itself cannot be used as security (unlike project based development finance).



The graph above shows how the business plan impacts on the unencumbered assets of the Group. The Group currently has approximately 1,800 unencumbered properties and this grows in year 1, as £60m security is released from the RBC revolving facility (around 1,600 properties) and only £30m of it is needed for the new NatWest £30m revolving facility. After that, there is a steady reduction through the next four years as properties are charged against the NatWest £38m facility (approx. 700 properties), and the retained bond of £70m (approx. 1,000 properties) in two tranches.

The future position remains fairly stable as the business plan indicates that there are sufficient new properties, coupled with the release of properties due to capital repayments, to use as security for future funding requirements. The repayment of the Nationwide loan also released security which wasn't being utilised efficiently.

The full revaluation exercise of around 10,000 properties at the end of 2017 has provided additional headroom (approx. an additional £25m loan supportable on Barclays and Lloyds mainly). This exercise also increased the value of the bond stock by £42m, and meant that the Group only needed to pledge around 800 additional properties (those released when repaying the £20m Nationwide facility) to secure the £75m bond tap in March 2018. Over the next 18-24 months, work will be undertaken to release properties which contribute to any particular loan being over-securitised, so that these properties are available for charging as and when required.

Budget and Business Plan 2018/19

- Overview
- Background
- Regulation and governance
- The new corporate plan
- Financial reporting and treasury
- Assumptions
- **Our financial performance**
- Sensitivity analysis

Consolidated group statement of comprehensive income

Consolidated Statement of Comprehensive Income	2019 Year 1	2020 Year 2	2021 Year 3	2022 Year 4	2023 Year 5	2028 Year 10	2038 Year 20	2048 Year 30
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Turnover from social housing lettings	£85,013.2	£86,271.3	£90,733.9	£96,127.8	£100,585.8	£121,927.5	£169,963.2	£238,942.8
Other social housing turnover	£8,800.9	£11,360.7	£9,336.2	£8,702.1	£9,951.6	£11,617.0	£17,500.0	£23,937.4
Turnover from non social housing lettings	£872.2	£1,279.4	£1,446.1	£1,611.7	£1,701.8	£2,156.1	£2,894.2	£3,889.0
Outright sales through Cube	£4,994.6	£13,831.8	£15,212.7	£19,558.9	£18,163.2	£21,177.5	£0.0	£0.0
Grant amortisation	£5,514.4	£5,593.2	£5,685.6	£5,802.2	£5,894.3	£6,444.4	£7,538.6	£9,549.4
Total turnover	**£105,195.3**	**£118,336.4**	**£122,414.5**	**£131,802.7**	**£136,296.7**	**£163,322.5**	**£197,896.0**	**£276,318.6**
Operating costs social housing	(£61,875.5)	(£62,785.1)	(£64,609.7)	(£68,689.1)	(£69,314.9)	(£83,246.9)	(£105,438.5)	(£141,261.1)
Other social housing expenditure	(£5,185.9)	(£6,371.3)	(£5,855.4)	(£5,444.4)	(£6,453.1)	(£8,015.4)	(£11,776.4)	(£17,307.2)
Cost of Sales for outright sales through Cube	(£4,062.0)	(£11,852.8)	(£13,122.2)	(£17,155.0)	(£16,008.7)	(£19,129.5)	£0.0	£0.0
Non social housing lettings expenditure	(£511.6)	(£658.4)	(£718.3)	(£779.1)	(£816.1)	(£1,006.3)	(£1,357.7)	(£1,801.3)
Total operating expenditure	**(£71,635.0)**	**(£81,667.6)**	**(£84,305.6)**	**(£92,067.6)**	**(£92,592.8)**	**(£111,398.1)**	**(£118,572.6)**	**(£160,369.6)**
Operating surplus	**£33,560.3**	**£36,668.8**	**£38,108.9**	**£39,735.1**	**£43,703.9**	**£51,924.4**	**£79,323.4**	**£115,949.0**
Surplus on fixed asset disposals	£2,486.9	£2,120.5	£2,312.9	£2,317.3	£2,485.0	£4,701.4	£13,978.4	£23,048.4
Interest payable	(£24,886.7)	(£25,926.5)	(£25,090.1)	(£26,027.9)	(£26,339.4)	(£28,865.0)	(£29,193.5)	(£26,593.6)
Interest receivable	£198.7	£919.8	£1,035.5	£1,195.8	£1,345.8	£954.5	£1,163.5	£1,418.4
Other	£816.9	£530.0	£265.0	£0.0	£0.0	£0.0	£0.0	£740.2
Surplus before tax	**£12,176.0**	**£14,312.8**	**£16,632.4**	**£17,220.4**	**£21,195.4**	**£28,715.5**	**£65,271.9**	**£114,562.5**
Taxation	(£166.1)	(£294.6)	(£351.5)	(£379.1)	(£361.1)	(£344.6)	(£102.7)	(£199.5)
Surplus after tax	**£12,009.9**	**£14,018.2**	**£16,280.9**	**£16,841.3**	**£20,834.3**	**£28,370.9**	**£65,169.2**	**£114,363.0**

Other social housing turnover includes sales income from 1st tranche sales of shared ownership properties and the costs relating to these sales are shown in the line headed other social housing expenditure.

Non social housing lettings turnover is rent from market rent properties in Cube. Surplus on fixed asset disposals is the profit generated on staircasing, right to buy sales and asset management disposals.

Interest payable is shown net of capitalised interest. Other is the return on investment from the Joint Venture with Galliford try through Cube.

Consolidated group cash flow

Total receipts comprises predominantly rental income, but also includes first tranche sales of shared ownership homes (assumed at a 35% share) and outright sales income.

Consolidated Statement of Cash Flows	2019 Year 1	2020 Year 2	2021 Year 3	2022 Year 4	2023 Year 5	2028 Year 10	2038 Year 20	2048 Year 30
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Total receipts	£87,005.4	£98,969.0	£102,521.3	£112,046.8	£114,956.9	£142,034.9	£174,645.1	£250,203.1
Total payments	(£35,849.7)	(£36,583.6)	(£34,292.4)	(£41,231.2)	(£40,626.8)	(£45,968.9)	(£46,366.7)	(£76,353.5)
Cash paid to employees	(£19,187.6)	(£18,532.0)	(£18,107.5)	(£18,763.5)	(£19,420.2)	(£23,065.1)	(£31,850.6)	(£44,928.3)
Cash flow from operating activities	**£31,968.1**	**£43,853.4**	**£50,121.4**	**£52,052.1**	**£54,909.9**	**£73,000.9**	**£96,427.8**	**£128,921.3**
Provisions for tax	(£166.1)	(£294.6)	(£350.4)	(£379.1)	(£361.1)	(£344.6)	(£102.7)	(£199.5)
Purchase of tangible fixed assets	(£58,567.5)	(£67,023.4)	(£59,574.2)	(£55,838.0)	(£55,993.6)	(£72,193.5)	(£109,281.2)	(£143,427.4)
Proceeds from sale of fixed assets	£10,577.0	£7,146.2	£7,333.2	£7,074.1	£7,241.4	£12,943.0	£31,449.5	£51,051.4
Grants received	£11,254.0	£11,025.2	£8,317.6	£10,377.6	£10,784.2	£13,069.9	£19,201.6	£28,218.6
Interest received	£198.7	£919.8	£1,035.5	£1,195.8	£1,345.8	£954.5	£1,163.5	£1,418.4
Cash flow from investing activities	**(£36,537.8)**	**(£47,932.2)**	**(£42,887.9)**	**(£37,190.5)**	**(£36,622.2)**	**(£45,226.1)**	**(£57,466.6)**	**(£62,739.0)**
Interest paid	(£24,556.6)	(£27,088.3)	(£28,452.8)	(£28,538.0)	(£29,664.1)	(£32,607.9)	(£33,313.8)	(£31,957.1)
New loan drawdown	£0.0	£50,000.0	£38,000.0	£20,000.0	£53,000.0	£25,283.2	£20,619.4	£11,730.8
Repayment of borrowing	(£8,688.9)	(£8,718.8)	(£8,749.8)	(£8,895.9)	(£9,258.9)	(£19,636.6)	(£25,592.9)	(£45,059.9)
Cash flow from financing activities	**(£33,245.4)**	**£14,192.8**	**£797.4**	**(£17,433.8)**	**£14,077.0**	**(£26,961.2)**	**(£38,287.4)**	**(£65,286.1)**
Opening cash	**£64,556.0**	**£26,574.6**	**£36,394.2**	**£44,074.6**	**£41,123.1**	**£23,433.2**	**£28,564.9**	**£34,820.5**
Cash flow in the year	(£37,981.4)	£9,819.5	£7,680.4	(£2,951.5)	£32,003.6	£468.8	£571.2	£696.5
Closing cash	**£26,574.6**	**£36,394.1**	**£44,074.6**	**£41,123.1**	**£73,126.7**	**£23,902.0**	**£29,136.1**	**£35,517.0**

Consolidated group cash flow

Total payments include the cash costs incurred on construction of outright sale properties and 35% of the costs of developing shared ownership homes. Note that staffing costs are shown on a separate line ‘cash paid to employees’.

Purchase of tangible fixed assets includes construction of rented homes, development of the unsold proportion of shared ownership properties (65%), capitalised major repairs (component replacements) and IT capital expenditure.

Proceeds from sale of tangible fixed assets include staircasing, right to buy and asset management disposal receipts.

New loan drawdowns in the coming years include the £70m retained element of the bond (currently assumed as £50m in 2020 and £20m in 2022) and the £38m remaining NatWest facility before the rate expires in March 2021. The £53m of Santander loan converted to revolving facility is expected to be drawn down before its expiry in December 2022.

Loan repayments become quite substantial for the next eight or nine years at £9m-£10m per annum on the Santander, Barclays and Lloyds facilities. These facilities, plus the RBS facility all agreed in 2007, are all fully repaid by 2047. The commencement of capital repayments on these facilities does generate an increased reliance on the core business to generate the cash needed to make the required repayments and creates increased refinancing risk.

The minimum cash balance increases from the initial £20m by an indexation factor linked to the costs of construction, which is the primary driver of liquidity risk.

Consolidated statement of financial position

Consolidated Statement of Cash Flows	2019 Year 1	2020 Year 2	2021 Year 3	2022 Year 4	2023 Year 5	2028 Year 10	2038 Year 20	2048 Year 30
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Housing properties at cost	£1,242,558.1	£1,307,024.8	£1,368,759.3	£1,425,687.2	£1,479,978.4	£1,820,482.9	£2,615,803.8	£3,713,082.1
less: cumulative depreciation	(£176,098.3)	(£193,015.9)	(£210,889.9)	(£230,036.5)	(£250,041.3)	(£364,588.6)	(£606,272.8)	(£805,234.4)
Other tangible fixed assets	£8,575.4	£8,610.9	£8,401.5	£8,263.5	£8,062.4	£7,153.8	£5,812.7	£4,635.3
Fixed asset investments	£48,627.6	£46,912.6	£46,209.4	£43,130.3	£43,236.7	£39,269.5	£37,712.3	£32,106.2
Investment in joint ventures and associates	£4,016.5	£6,717.3	£3,871.8	£3,871.8	£3,871.8	£871.8	£871.8	£1,612.0
Total fixed assets	**£1,127,679.3**	**£1,176,249.7**	**£1,216,352.1**	**£1,250,916.3**	**£1,285,108.0**	**£1,503,189.4**	**£2,053,927.8**	**£2,946,201.2**
Stock	£21,571.1	£22,847.7	£20,949.0	£20,092.8	£21,147.7	£21,674.7	£20,579.4	£30,764.8
Trade and other debtors	£10,056.0	£11,258.8	£12,465.0	£13,651.6	£14,841.2	£15,834.8	£18,078.6	£20,440.9
Cash and cash equivalents	£26,574.6	£36,394.2	£44,074.6	£41,123.1	£73,126.7	£23,901.9	£29,136.2	£35,516.9
Total current assets	**£58,201.7**	**£70,500.6**	**£77,488.6**	**£74,867.5**	**£109,115.6**	**£61,411.5**	**£67,794.3**	**£86,722.6**
Less: creditors due within one year	(£25,770.1)	(£27,213.9)	(£27,453.9)	(£28,202.4)	(£28,473.2)	(£29,650.8)	(£31,785.2)	(£38,371.1)
Net current assets	**£32,431.5**	**£43,286.6**	**£50,034.6**	**£46,665.1**	**£80,642.4**	**£31,760.8**	**£36,009.1**	**£48,351.5**
Total assets less current liabilities	**£1,160,110.8**	**£1,219,536.3**	**£1,266,386.7**	**£1,297,581.4**	**£1,365,750.4**	**£1,534,950.2**	**£2,089,936.9**	**£2,994,552.7**
Outstanding loans	(£526,618.8)	(£568,152.3)	(£597,754.8)	(£609,172.2)	(£653,267.4)	(£668,945.5)	(£664,687.2)	(£525,712.8)
Deferred capital grant	(£475,388.1)	(£481,562.5)	(£482,320.9)	(£485,116.1)	(£488,232.3)	(£509,399.8)	(£587,341.9)	(£725,348.6)
Pension provisions	(£1,182.0)	(£1,182.0)	(£1,182.0)	(£1,182.0)	(£1,182.0)	(£1,182.0)	(£1,182.0)	(£1,182.0)
Fair value provisions on swaps	(£38,203.1)	(£35,146.1)	(£32,249.2)	(£29,352.2)	(£26,455.3)	(£13,160.2)	£0.0	£0.0
Other long term creditors	(£34,209.8)	(£31,909.7)	(£32,117.5)	(£32,258.3)	(£32,381.7)	(£34,058.3)	(£42,600.9)	(£53,514.8)
Total net assets	**£84,508.8**	**£101,583.4**	**£120,762.1**	**£140,500.6**	**£164,231.7**	**£308,204.8**	**£794,125.0**	**£1,688,794.5**
Income and expenditure reserve	£120,527.8	£134,545.5	£150,827.2	£167,668.7	£188,502.9	£319,180.9	£791,940.9	£1,686,610.4
Cash flow hedge reserve	(£38,203.1)	(£35,146.1)	(£32,249.2)	(£29,352.2)	(£26,455.3)	(£13,160.2)	£0.0	£0.0
Revaluation reserve	£2,023.0	£2,023.0	£2,023.0	£2,023.0	£2,023.0	£2,023.0	£2,023.0	£2,023.0
Restricted reserve	£161.1	£161.1	£161.1	£161.1	£161.1	£161.1	£161.1	£161.1
Total reserves	**£84,508.8**	**£101,583.5**	**£120,762.1**	**£140,500.6**	**£164,231.7**	**£308,204.8**	**£794,125.0**	**£1,688,794.5**

Consolidated statement of financial position

Housing properties at cost includes work in progress on social and affordable rented schemes. Other tangible fixed assets include primarily the Group's office accommodation, most notably the newly acquired head office.

Fixed asset investments include Investment properties owned by GPHA and market rent properties owned by Cube.

Stock represents unsold shared ownership and outright sales properties as well as work in progress on such properties.

Other long term creditors include any Recycled Capital Grant Fund balances.

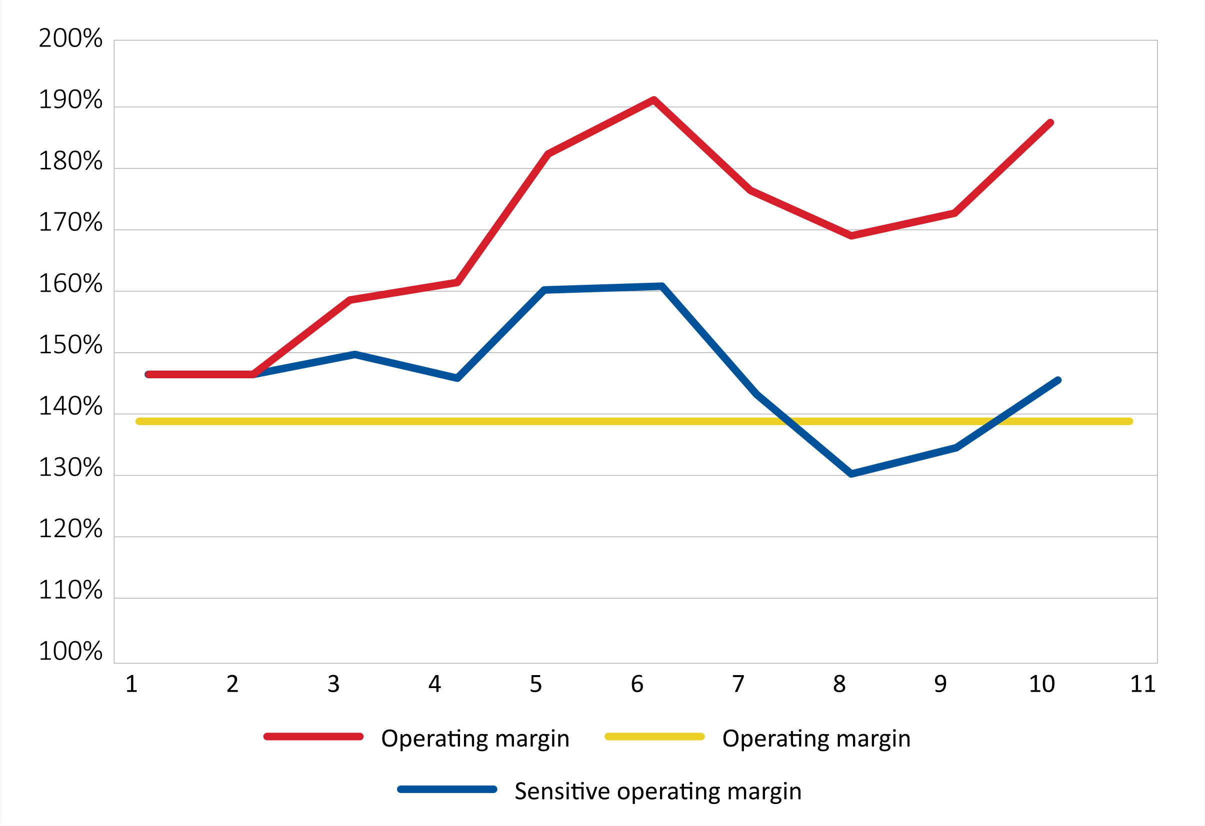
The fair value provision on swaps and the cash flow hedge reserve offset each other and both are assumed to reduce down to nil by the time they mature. Fixed asset investments includes c£19m of cash lodged with counterparties as swap collateral and this reduces over the term of the swap down to zero value.

Sensitivity analysis

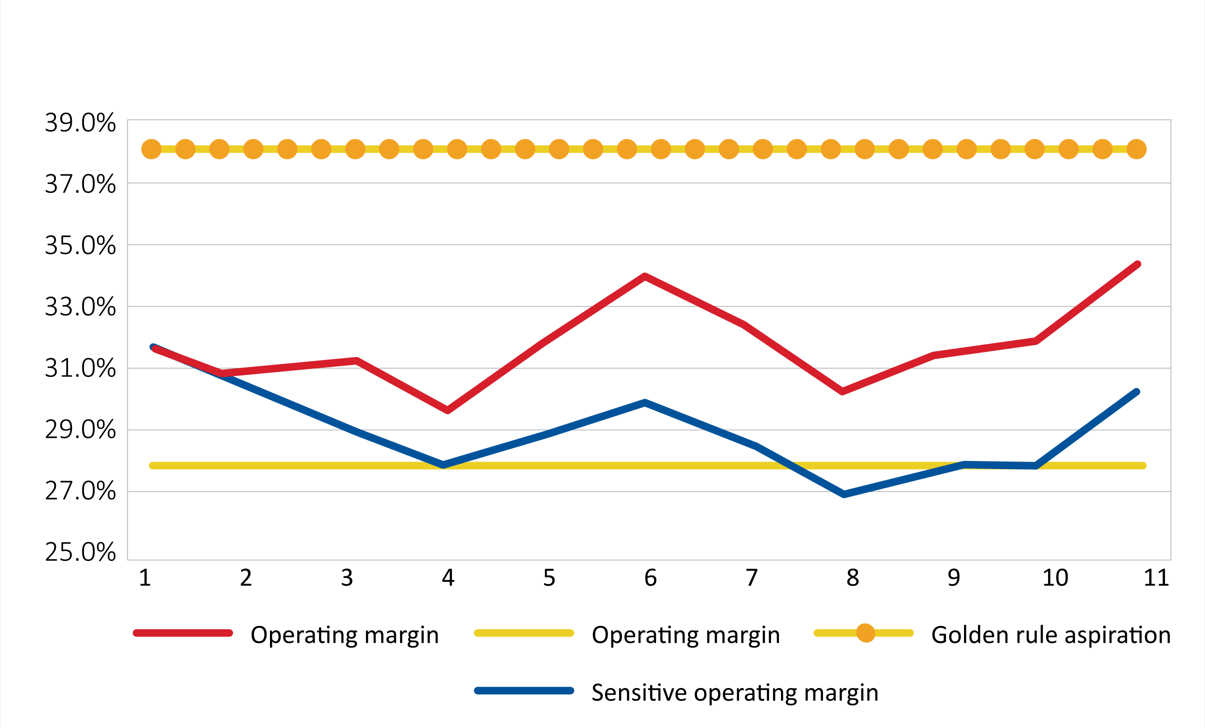
A separate stress testing appendix will be produced to supplement this business plan document, and that appendix will address many of the sensitivity analyses historically included in this section of the plan. Hence this section focuses solely on a small number of specific scenarios.

Scenario 1 – Last year there was a sensitivity around another rent reduction. This year, a sensitivity has been undertaken to assess the impact of choosing not to apply the CPI+1% rent formula in 2020 to 2024 – this is to address the affordability issue.

Interest cover ratio



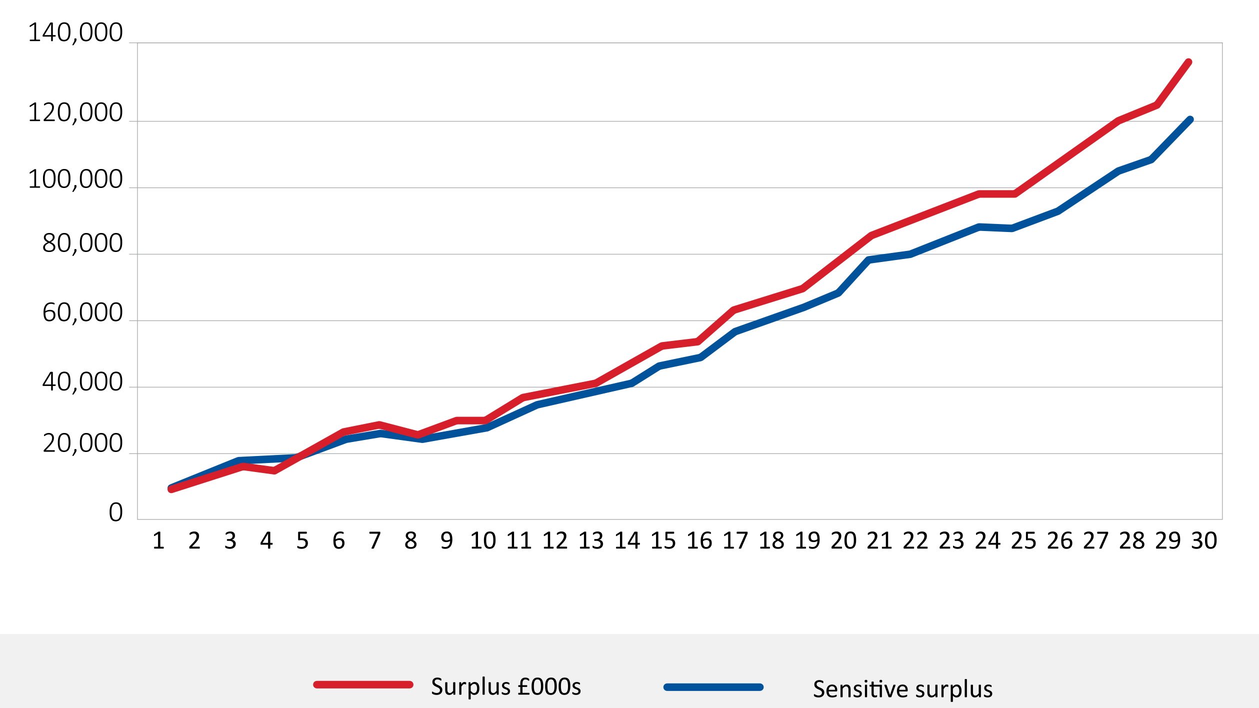
Operating margin



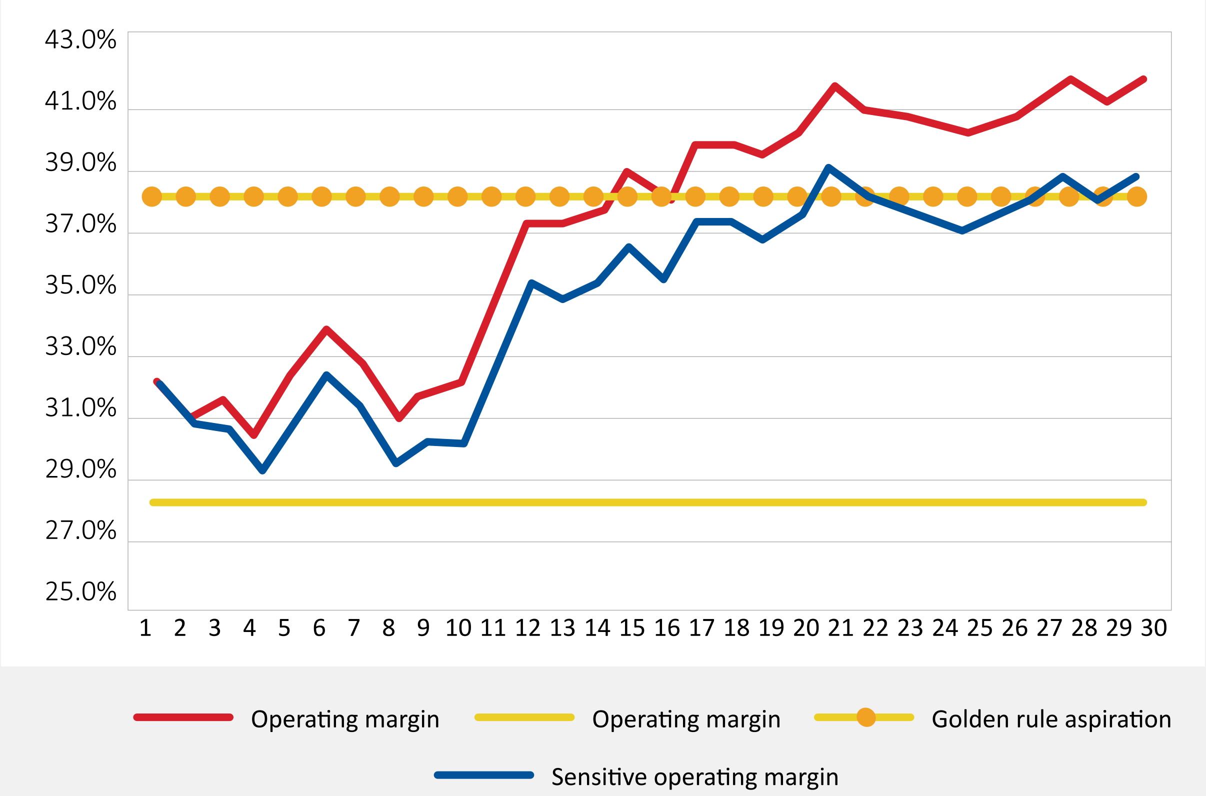
There is very little impact if a CPI only inflation was used (so it's not shown), however, a zero increase in the period 2020-2024, i.e. a freeze, as shown in the blue line in the graphs above would cause operating margin to breach the internal golden rule in year 4, and more crucially, interest cover breach in year 7.

Scenario 2 - The plan does not include any disposals under the voluntary right to buy scheme (VRTB) due to the uncertainty around timing and eligibility, which in turn means any estimate of potential volumes is difficult. This sensitivity assumes 100 VTRB sales in 2019/20, 2020/21 and 2021/2022, and then 30 sales every year thereafter. It is assumed each sale will generate £80k of sales income and £24k of surplus.

Surplus



Operating margin

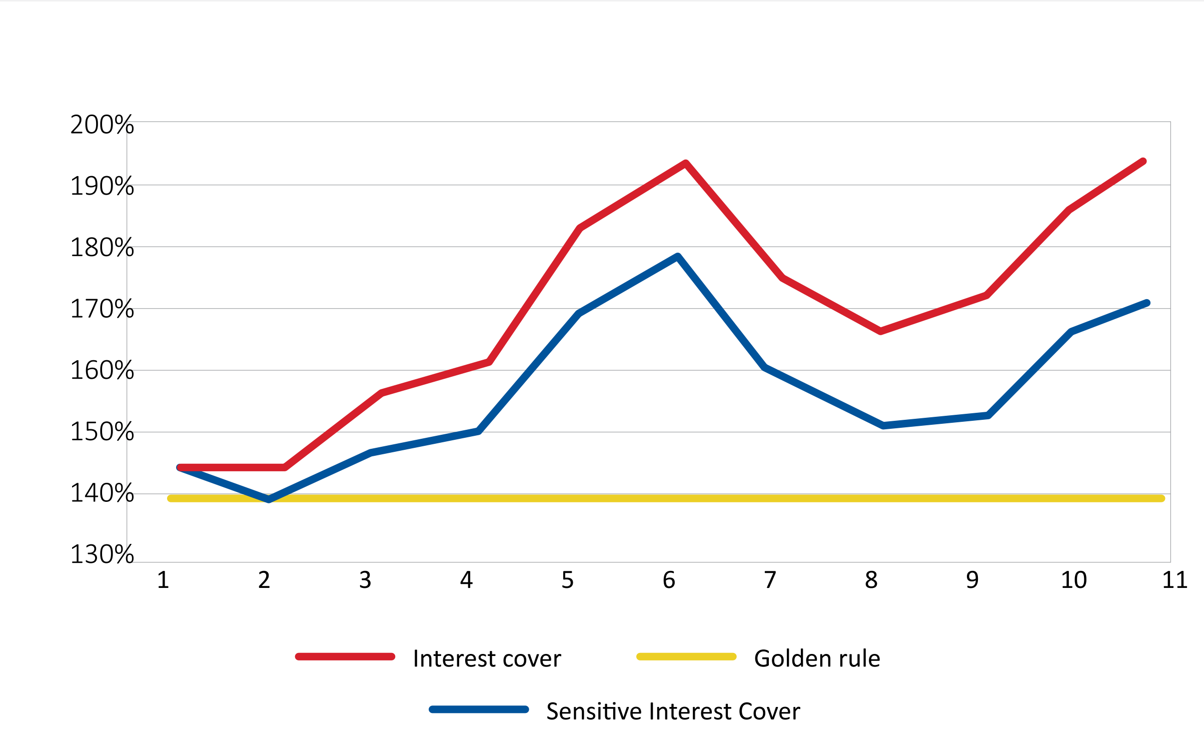


The analysis shows the impact of this scenario is that the three years with higher sales show significant surpluses in those years of around £2m, but the longer term cumulative effect of net rental loss of around £1.2m then outweighs the surplus of around £1m on the fewer sales year after year. This in effect shrinks the core business which has strong operating margins. The surplus deteriorates by up to £13m (12%) by the end of the plan and the operating margin also follows that trend with the margin deteriorating by around 1% in year 3 widening to around 3% by the end of the plan.

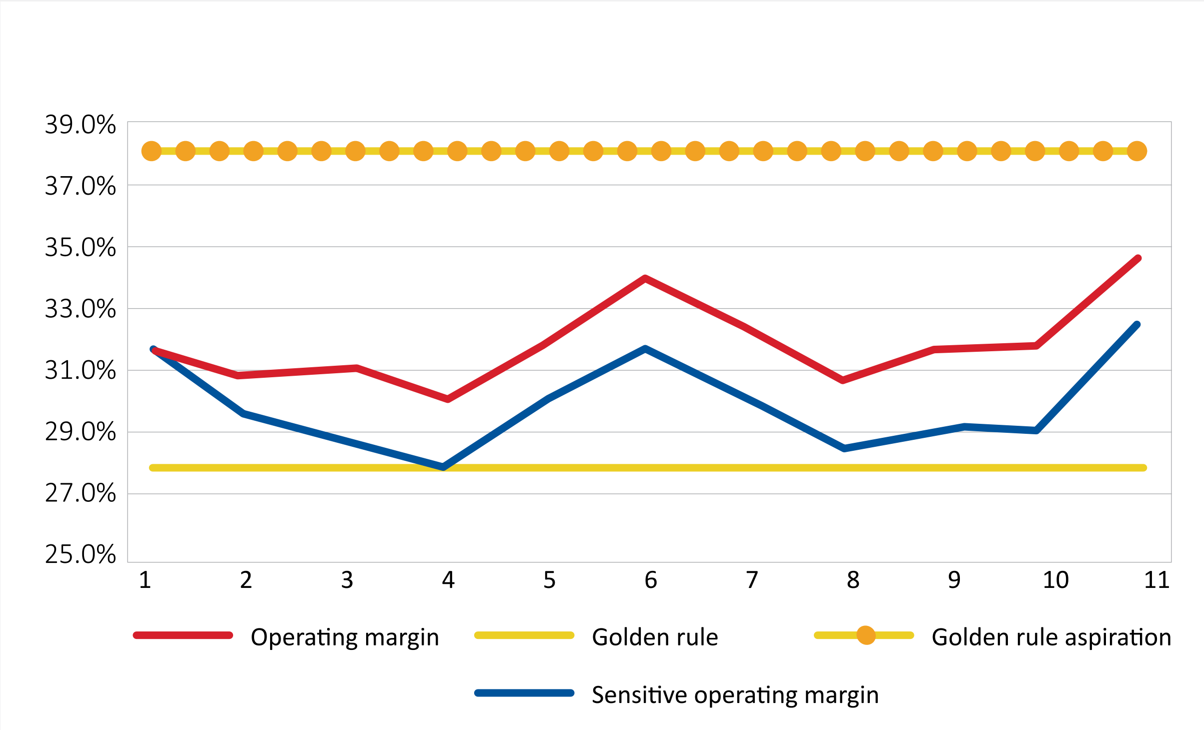
Both gearing and interest cover also deteriorate through the life of the plan. The unencumbered asset position initially deteriorates by c300 properties by year 7 due to the impact of the disposals requiring security replacement, improves slightly over years 8 to 15, but then continues to deteriorate as the reduced surpluses and increase in debt requirements feeds through.

Scenario 3 - The Building Greatness programme is the Group's response to the four year rent reduction and is critical to maintaining financial strength and resilience. This sensitivity considers the impact of failure to deliver future building greatness savings. It assumes that savings already identified are sustained (i.e. year 1 remains achievable), but that the remainder of the savings are not realised.

Interest Cover



Operating margin



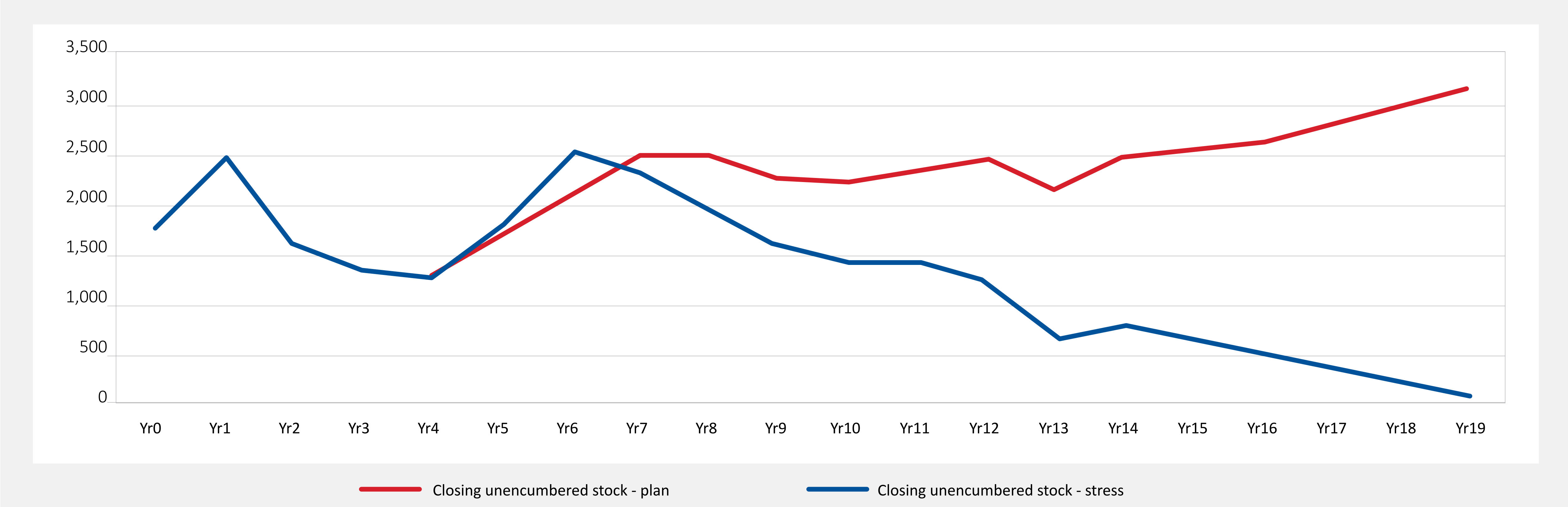
The two graphs above demonstrate the significant impact in the short term on interest cover and operating margin of future non delivery of future building greatness savings. The impact on interest cover is a reduction of c10% by year 4 of the plan – so a significant and relatively immediate impact, which leaves very little headroom over our 140% golden rule in year 2. Operating margin also drops swiftly, to the extent that the 28% minimum target is almost breached in year 4 of the plan. These graphs demonstrate the continued importance of the Building Greatness programme, and the impact would be far worse had the Building Greatness project savings in the year 1 budget not already been achieved.

The other impact to this is the reduction in gearing and corresponding increase in net debt over the longer term, which also has a negative impact on the unencumbered assets, reducing the number down by half by around year 19.

Scenario 4 - This sensitivity looks at the Group's capacity to expand the affordable rent development programme. The scenario modelled reflects the construction of an additional 75 units per annum. The properties are assumed to cost £130k each, take 12 months to build and receive no additional grant but allow Great Places to utilise the Recycled Capital Grant Fund.

The impact on the Group's interest cover is minimal up to year 8, however after that point, the interest cover remains around 180% for the remainder of the plan (as opposed to the growing headroom in the base plan). Surplus and margin are virtually unchanged; gearing worsens by around 18% by the end of plan to around 32% - well within the golden rule.

Unencumbered assets

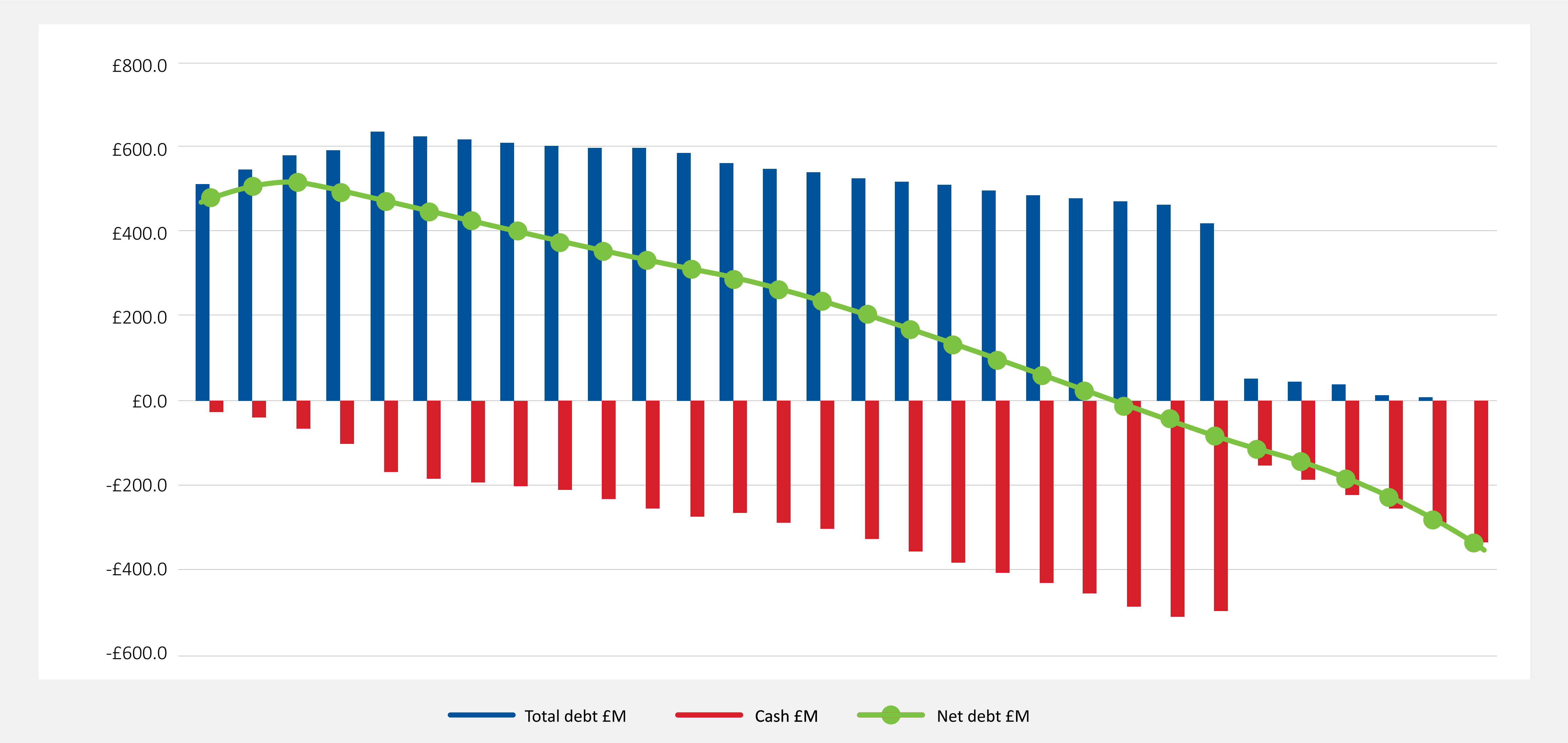


However, the graph above shows the far more material impact on the unencumbered asset of the Group. Development in the earlier years can be met from existing facilities and then deteriorates from the point at which new facilities will need to be put in place. This scale of internally funded development is only really sustainable until year 15, due to the constraint of security to borrow more funds, with around 3 units being required to secure sufficient funds for every new home to be built.

Scenario 5 - The final sensitivity is provided to demonstrate that if the Group were to cease all future, uncommitted development activity, it would be able to repay its debts.

The chart below shows that debt could be repaid more quickly than the contractual amortisation and bullet repayment profiles require, with net debt reaching zero in year 21 of the plan. Excluding the bond, all debt could potentially be repaid by around year 11.

Whilst the group could be debt free by year 21, it would of course still have c£500m of Homes England grant "liabilities".



These sensitivity analyses have focussed on relatively minor, often incremental and quite foreseeable change. Stress testing takes this much further, considering more extreme situations and combinations of circumstances with a view to establishing "what would break the business?". This analysis was undertaken and reviewed by the Board in April 2017.