

# Budget and Business Plan 2019/20

Great homes. Great communities. Great people.

great  
places  
HOUSING GROUP



CUBE HOMES

**PLUMLIFE.**



## Overview

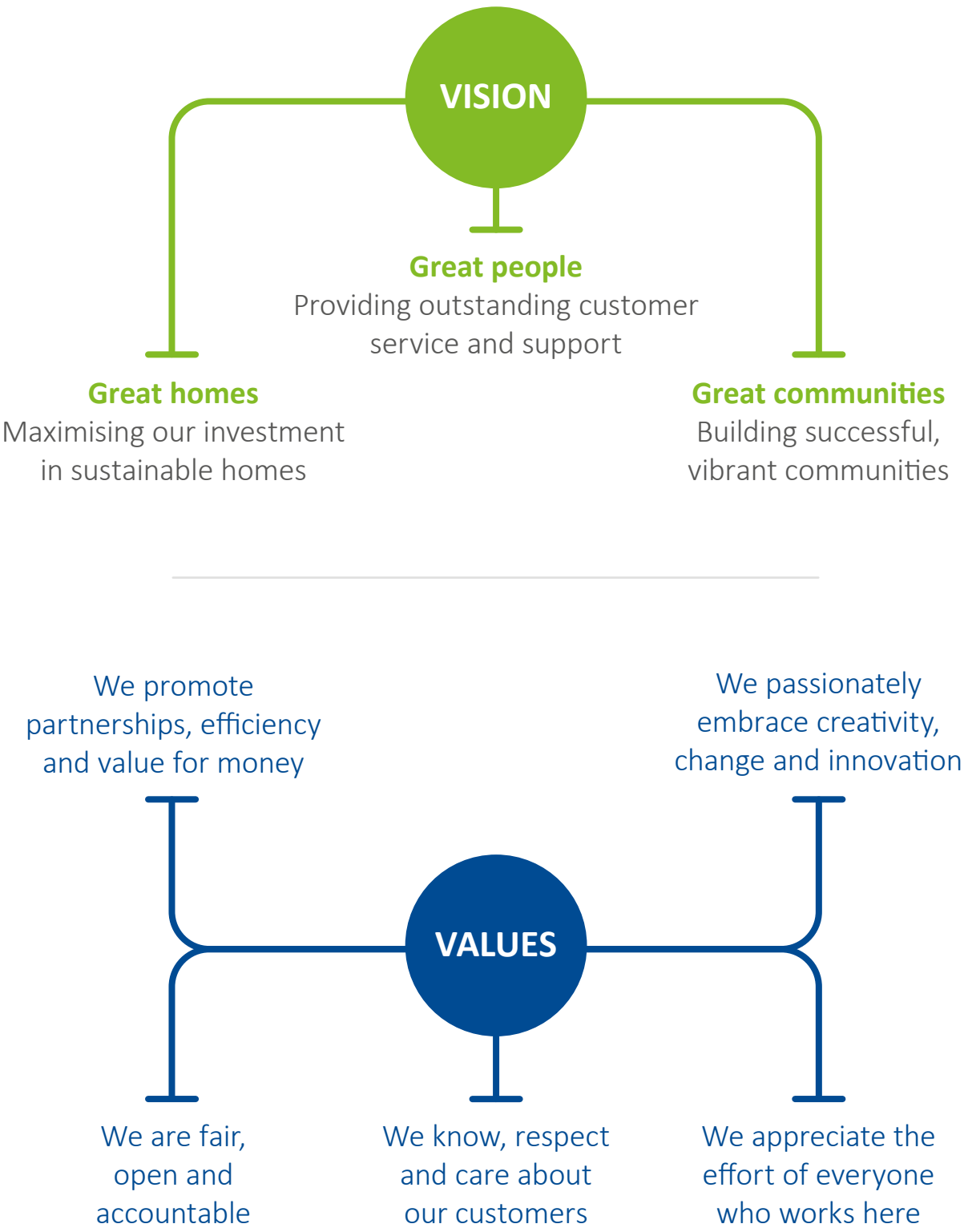
Great Places generated turnover of £109m, exceeding £100m turnover for a fourth consecutive year, and achieved a surplus of £13.7m. Total Comprehensive Income was £1.1m because of non operational movements including a one off charge of £8m for a change in accounting for the Social Housing Pension Scheme. See page 9 for more details, Financial reporting and treasury.

This plan shows that we expect to continue to grow the surplus, reaching £14.0m in 2019/20 and with surpluses growing through the life of the plan.

We received an In Depth Assessment from the Regulator in July 2018 and Great Places once again achieved G1 and V1 ratings. This, alongside the re-affirmation of our credit ratings with both Moody's (A3 stable) and Fitch (A+ stable) shows that we're effectively managing the risks facing our business.

Welfare reform continues and pace of the rollout of Universal Credit (UC) has accelerated in the second half of 2018/19 – something we expect to continue through 2019/20. As at the end of March 2019, we have over 1,800 UC residents (up by 1,000 in the year, compared to the 700 increase we expected). We have reviewed our expectations based on this latest data and have planned for over 3,600 UC residents by March 2020.

This financial plan embodies the principle of “profit for purpose” acknowledging the Group’s vision and values, which underpin all that we are seeking to achieve:



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We are pleased to present a business plan for 2019/20 and beyond that maintains the financial strength and long term viability of the Group, meeting our Golden Rules throughout. This new and fully updated business plan:

- Confirms compliance with the RSH Governance and Financial Viability standard
- Provides specific additional resources to meet the three year targets and 10 year ambitions in our Corporate Plan
- Reflects an increasingly complex, uncertain and ever-changing operating, business, political and economic environment
- Adopts a suite of prudent yet realistic assumptions
- Incorporates our new Homes England Strategic Partnership and
- Demonstrates continuing financial strength whilst achieving steady development-led growth.

The Group business plan is the primary forward planning exercise undertaken in any year – it builds on a volume of work already completed during the year, but also forms the basis for considering future strategic options throughout the following 12 months.

Years one and two of the business 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 then developed in the “Housing Brixx” modelling tool.

Further detail on how the Group meets the requirements of the Regulatory Framework are on page 7 while page 8 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 from page 9, followed by a detailed analysis of the plan assumptions from page 11, including the sales and disposal assumptions and the Group’s development assumptions.

The consolidated Group performance for the 2019/20 budget year and for the subsequent 30 year business plan, including compliance with funders’ covenants are detailed in Our performance, from page 16.

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 16.



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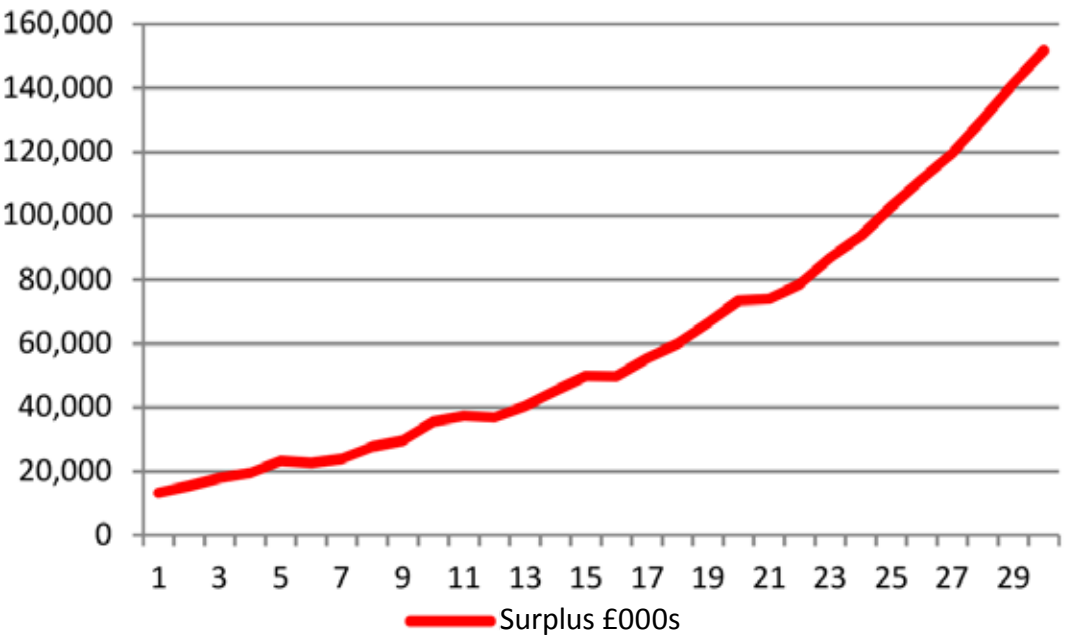
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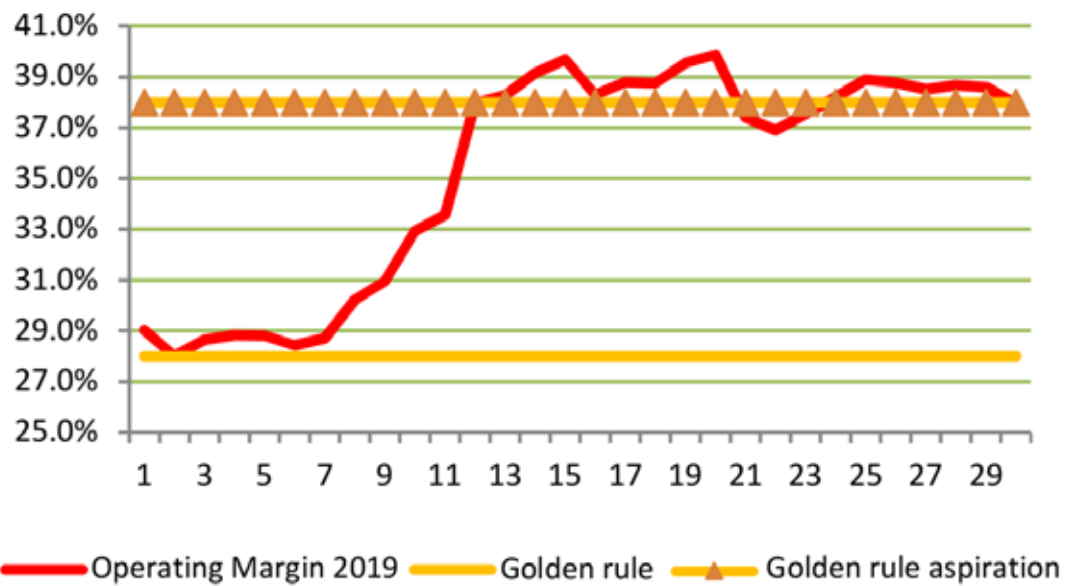
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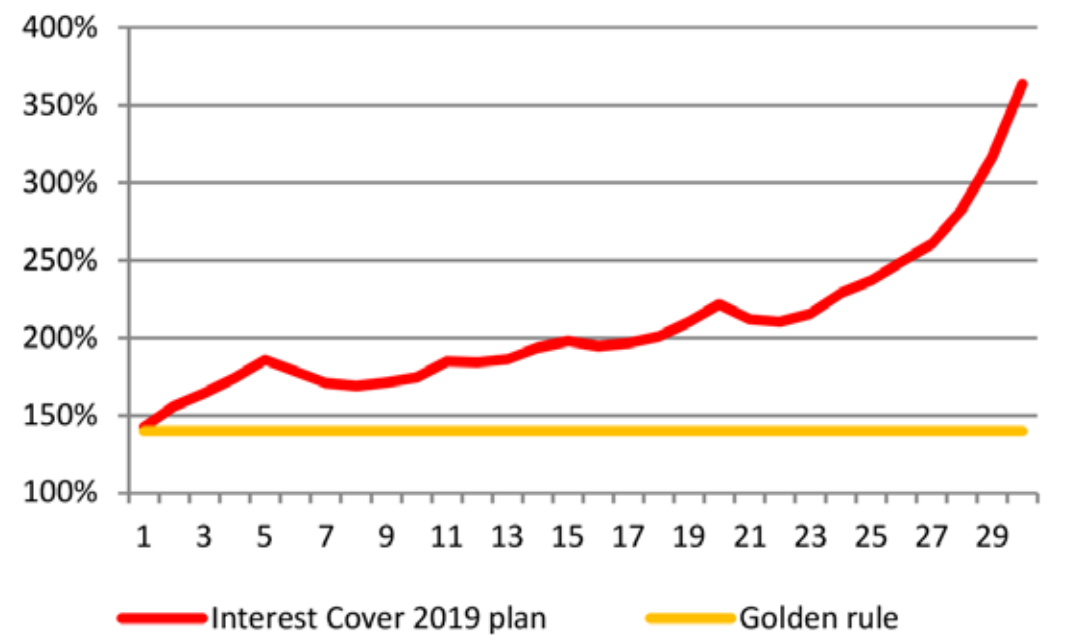
Surplus



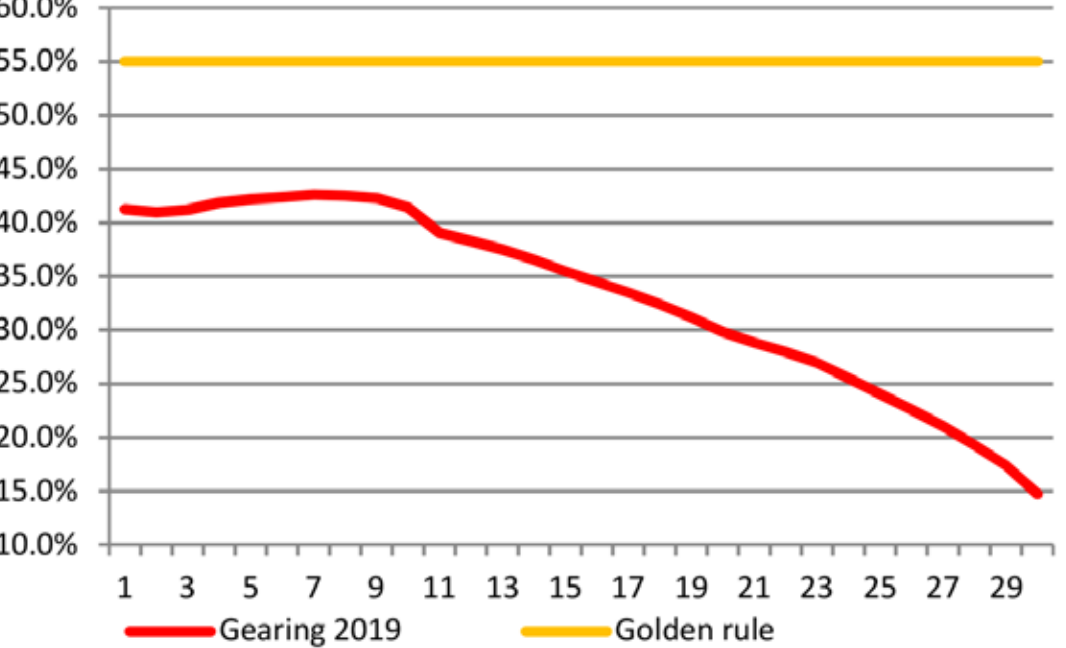
Operating margin



Interest cover ratio



Gearing



## Background

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

### EU exit

There are still no certainties around “Brexit” and the impact it will have on the economy and the housing market. The Bank of England (BoE) has based its stress tests on the following outcomes in the event that we end up with no deal:

- 33% decline in house prices over 5 years;
- Unemployment increasing to 9.5%; and
- UK base rate increasing to 4%\*.

\* This is actually lower than our long term assumption for 3 month LIBOR which is 5%, demonstrating the prudence inherent in our business plan.

If we move to World Trade Organisation (WTO) tariffs for importing goods, we could see a 5% increase on construction materials. Almost 18% of construction labour in the UK currently comes from the EU, and over 22% of UK construction workers are over the age of 50, so we need to plan for changes to this workforce, hence our in-house and Modern Methods of Construction Corporate Plan targets.

Due to the uncertainty over the EU exit, a letter was received from RSH warning about key risks. Great Places continues to prepare for all scenarios. The Executive and Directors’ team have considered Brexit implications and understand what our key risks are – notably construction labour, supply chain and the availability/cost of colleagues, particularly in Independence and Wellbeing. The Ministry of Housing, Communities and Local Government issued guidance providing practical information on the legal requirements that would be required in a no deal scenario (updated February 2019).

### Regulation

The Regulator published an updated ‘Regulating the Standards’ document on 28th March 2019 which sets out the approach it will take to regulation, what Great Places can expect of the regulator, and how it ensures that standards are being met. The main changes are:

- From April 2019, they will carry out In Depth Assessments (IDAs) for the largest and/or most complex providers on a biennial basis instead of the current period of once every three to four years. Great Places could therefore expect another IDA in 2020. The Regulator will also programme a structured update meeting with these providers in the intervening non-IDA year;
- They have reinforced their expectation that Boards take ownership of their organisation’s stress testing and ensure that Boards understand the impact of economic cycles as well as one-off shocks on their businesses;
- They have listed the different scenarios where they may issue an interim Regulatory Judgement where a provider undergoes what the Regulator considers to be a significant constitutional change or group restructure, including a change in ownership or other change of control.

As at May 2019 there have been 24 Regulatory Judgments issued since the beginning of 2019 (12 resulting from IDAs and 12 following stability checks). Two received Governance downgrades, six received Governance upgrades and one received a viability regrade V2 to V1, the remaining 15 were unchanged.

Welfare Reform

As of 12th December 2018, the full digital service of Universal Credit (UC) has been rolled out for new claimants and also for any change in circumstances for those claiming any one of the six legacy benefits now included in UC. The DWP plans to start testing the processes to enable the managed migration of benefit claimants from Housing Benefit to UC during 2019. The national pilot will test different approaches on a cohort of 10,000 claimants, and at this time it is unclear whether the testing will include any customers in our geographical footprint. This pilot will inform a plan for managed migration which will start in 2020 to be completed by December 2023.

The Housing Market

As of January 2019 the average UK house price was £228,147 and nationally property prices have risen by 1.7% during 2018. In the North West the average house price is £160,811 and prices have risen by 3.4% compared to the previous year. The average price of a new build house in the North West is £218k and new build property prices have grown by around 6% compared with the previous year (in the South East the growth is only 3%). The Office for Budget Responsibility (OBR) has downgraded its house price inflation forecasts, with a likely near term fall in house prices of 0.3%.

The volume of property sales in the North West (Land Registry) is also increasing, with a three month rolling average showing approx 8,500 sales per month in April 2018 rising steadily to over 9,500 by February 2019 with August 2018 unsurprisingly showing a peak at almost 11,000 sales in that month.

Funding and Investors

Recent funding transaction include Home Group, one of the UK’s largest housing associations, who raised £350m via a bond deal – its 24-year secured bond was priced at an effective fixed rate of 3.24%, with a “spread” of 1.7%. Bradford-based Incommunities raised £250m at an all-in rate of 3.25% with a 1.57% spread over gilts. Metropolitan Thames Valley raised £100m at 3.24% and a spread of 1.75%, and Future Housing Group raised £310m at 3.375% with a spread of 1.68%.

At this time last year, Optivo issued a similar bond at 1.4% over gilts but at a similar all in cost to the more recent issues above. Great Places achieved the same spread and similar all-in cost at that time. This suggests that despite Brexit uncertainty, there appears to be little impact on the supply of funding from the Capital markets, and whilst spreads do appear to have risen by c0.30%, the overall cost of funds is largely unchanged.

Last year, the credit ratings agency Standard & Poor’s (S&P) downgraded five housing associations over increased sales risk. It is also important to note that as of the 20th February 2019 Fitch has decided to put the UK sovereign rating on negative watch in light of the continued uncertainty surrounding Brexit.

The Spring Statement

The March 2019 statement saw the Government announce “a new £3bn Affordable Homes Guarantees Scheme, to support the delivery of around 30,000 affordable homes” where the government has agreed to “stand behind” housing associations who borrow money through this scheme. The Government will launch a bidding process to identify a company to run the scheme. This is a similar scheme to the £50m of AHF loans accessed by Great Places in 2014.



## Regulation and Governance

The Business Plan is one of the primary means of demonstrating 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 show how the Group complies with the RSH Governance and Financial Viability Standards and in developing the plan we have considered the future performance against the RSH Value For Money 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 G1/V1 rating was re-affirmed following an In Depth Assessment with the RSH in July 2018.

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 meeting our Golden Rules throughout the life of the plan;
- It incorporates prudent assumptions that have been benchmarked against other RPs 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 includes a CPI+1% rent increase only for the period 2020–2025, and then assumes long term rent increases 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;
- Annually the Board receives a diverse activities report on the status of all joint ventures and other similar complex arrangements;
- It continues to achieve 100% compliance with the decent homes standard and consistently achieves 100% gas safety compliance, a four year 100% compliance rate; and
- It charges rent in accordance with the relevant regulations, with a rent plan that considers affordability, sustainability and competition.



## The Corporate Plan: 10 year ambitions, 3 year targets and 1 year Critical Success Factors

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

In April 2018 the Group Board approved the Corporate Plan, “Building Greatness” 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 that 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).

In response to the four year rent reduction the Group chose to thoroughly review its operating processes and the cost base through our “Building Greatness” programme which we define as:

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

The majority of the Group’s activities have been reviewed through this programme and have delivered significant sustainable savings. As the programme continues through the remaining areas of the business, those that have already been reviewed will benefit from a process of continuous improvement. The business plan assumes that all of the expected Building Greatness efficiencies will be realised. These savings reach close to £9m per annum by the end of this financial year (compared to the baseline 2015/16 business plan), with the majority of that figure already secured by the end of 2018/19.

There are some bold 10 year ambitions in the new Corporate Plan, and this business plan shows strong progress towards those ambitions, compared to last year’s business plan.

- The plan shows total fixed assets at the end of the 10-year period at over £1.7bn, against the target of £1.8bn, demonstrating that the Group’s ambition is well within reach
- The plan shows a net increase in homes owned of approaching 4,000 which when added to the current 19,300 homes owned and managed again demonstrates that the Group’s ambition of 24,000 is within reach
- The plan sees turnover in 2028 at almost £190m with operating surplus at £29m, meeting the 10 year ambitions of £170m and £25m respectively
- There is a provision to help bring all of our homes up to an Energy Efficiency Performance rating of C, which will also lower the running costs for our customers and potentially reduce fuel poverty. This provision could also be used to address the potential new Decent Homes II standard



Financial reporting and treasury

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

The Pensions Trust are now able to provide sufficient information to individual employers for the March 2019 year end. The change in accounting created an additional liability of more than £8m. Our banking covenants were amended post FRS102, and the change in accounting treatment does not impact the calculations of those covenants. The business plan does not currently make any provision for increases or decreases to the pension deficit or associated payments, except where these are known and communicated. Great Places’ total deficit contributions under the new recovery plan from 1st April 2019 will be c£1.7m pa increasing by 2% pa until 2026 – a total of £13.7m compared to £7.6m prior to the revaluation.

It is worth noting that the current basis for calculating interest rates (LIBOR) is to be replaced by SONIA (Sterling Overnight Index Average) as the benchmark for sterling variable rate loans and derivatives by the end of 2021. The change is because LIBOR (London Interbank Offered Rate) will cease to exist from 2021.

The Group remains in a very strong funding position with March 2019 cash balances of around £60m plus the remaining undrawn NatWest long term facility of £38m (almost fully secured), the undrawn Santander long term facility (£50m fully secured), and the new revolving facility (£30m fully secured) coupled with the ability to go back out to market for the £70m of retained bonds (of which £15m is already secured). These facilities will meet our current expected funding needs for four years.

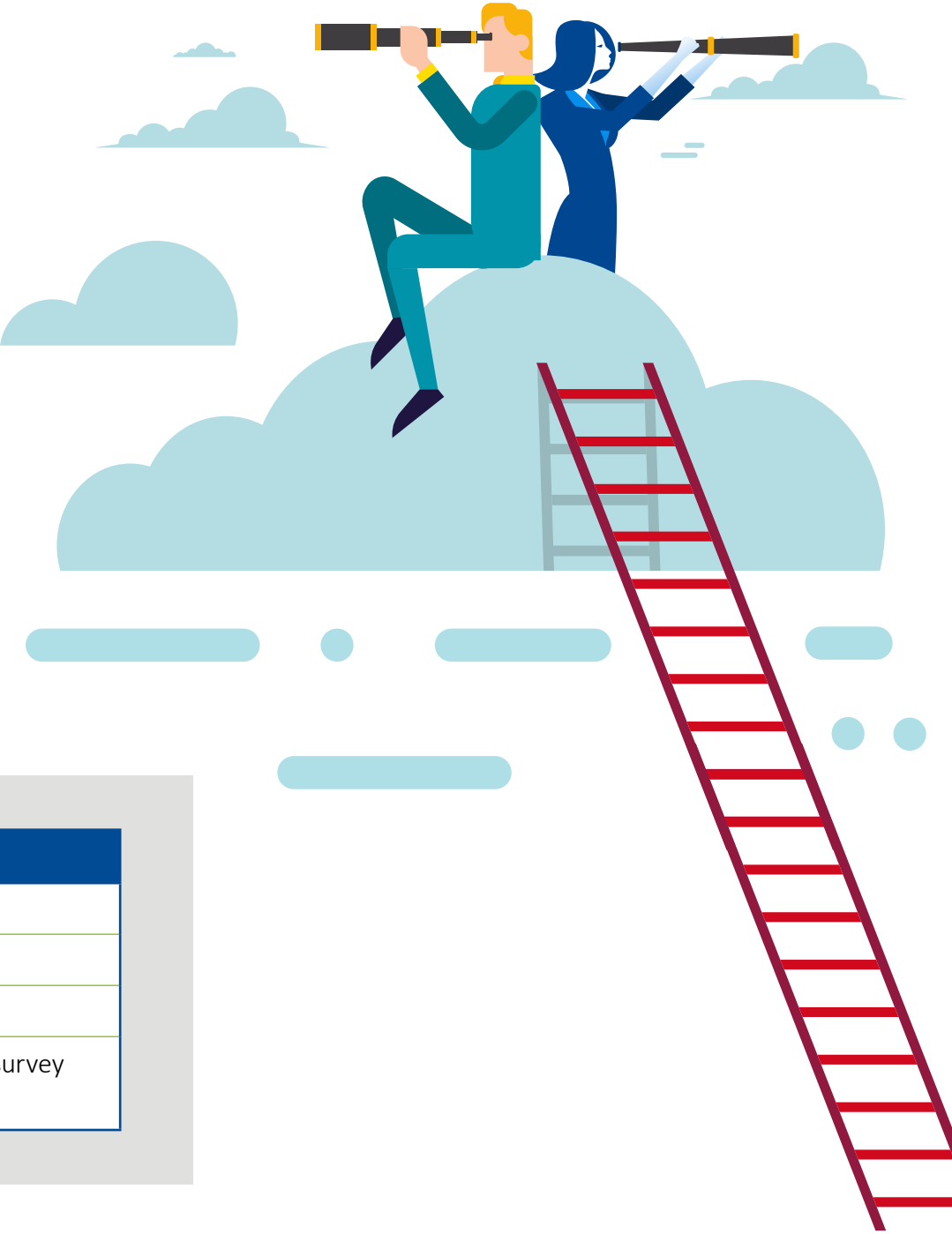


We undertook our annual update of our Treasury Strategy in July 2019, reflecting in particular the 5-10 year funding requirements of this plan and a clear focus on counterparty risk given the higher than normal cash balances both now, and when the retained bonds are sold. Great Places and the Bond Trustee have agreed that the £70m retained bonds, issued on 19th March 2018, which previously had an obligation to cancel the bonds on 19th March 2020, can now be sold at any time.

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 ratings with Moody’s and Fitch were re-confirmed.

The Group has adopted a suite of “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 from this analysis that the proposed plan satisfies the golden rules throughout.

Golden Rule	Description
Operating margin	Operating margin to be a minimum of 28% and targeted to grow towards 38%
Interest Cover	Interest cover should not fall below 140% (covenants range from 105% to 110%)
Gearing	Gearing should not increase above 55% (covenant 65%)
Major repair expenditure	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

Assumption	Budget 2018/19	Budget 2019/20	Year 2	Year 3	Year 4	Year 5	Years 6 to 30
Target: Surplus before tax	£12.2m	£14.2m	£16.3m	£19.0m	£20.4m	£24.3m	From £23.9m
		(was £14.3m)	(was £16.6m)	(was £17.3m)	(was £21.2m)	(was £25.8m)	
3 month LIBOR	1.90%	Rising to 2.50%	Rising to 3.25%	Rising to 3.75%	Rising to 4.25%	Rising to 4.75%	Rising to 5.00%
Margin on short term debt	Per facilities	Per facilities	1.40%	1.40%	1.40%	1.40%	1.40%
30 year gilt rate	Rising to 2.40%	Rising to 2.6%	3.00%	3.25%	3.50%	3.75%	3.90%
Spread on new long term debt	1.40%	1.70%	1.80%	1.85%	1.85%	1.85%	1.85%
Future fixed rate debt	3.80%	4.30%	4.80%	5.10%	5.35%	5.60%	Rising to 5.75%
Interest rates – receivable	0.40%	1.13%	1.75%	2.25%	2.75%	3.25%	3.50%
General needs rents	-1.00%	-1.00%	CPI+1.0%	CPI+1.0%	CPI+1.0%	CPI+1.0%	CPI
CPI	2.75%	2.50%	2.25%	2.25%	2.00%	2.00%	2.00%
RPI	4.00%	3.75%	3.50%	3.50%	3.25%	3.25%	3.25%
Earnings inflation	3.00%	CPI+1.5%	CPI+1.75%	CPI+1.75%	CPI+1.75%	CPI+1.5%	CPI+1.5%
Universal Credit customers	1,500	3,641	6,291	8,716	10,794	12,541	12,541
Bad debts	Rising to 1.10%	1.40%	2.00%	2.50%	3.00%	3.00%	3.00%
Repairs inflation	CPI+0.5%	CPI+1.0%	CPI+1.0%	CPI+1.0%	CPI+1.0%	CPI+1.0%	CPI+0.5%
Major repairs inflation	CPI+1.0%	CPI+1.5%	CPI+1.5%	CPI+1.5%	CPI+1.5%	CPI+1.5%	CPI+0.5%
1st tranche sales	180	130	275	187	188	230	230 (Years 6-9) then 200
Staircasing sales	39	50	50	50	50	50	50
Voluntary sales	55	41	41	42	42	42	42
Construction price inflation	CPI+2.0%	CPI+2.0%	CPI+3.0%	CPI+3.0%	CPI+3.5%	CPI+2.5%	CPI+1.5%
Land price inflation	CPI+1.5%	CPI+2.0%	CPI+2.0%	CPI+2.0%	CPI+2.0%	CPI+2.0%	CPI+1.5%
Property price inflation	CPI+0.5%	CPI+0.5%	CPI+0.5%	CPI+0.75%	CPI+1.0%	CPI+1.0%	CPI+1.0%

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- 1.1.

Target Surplus before tax: The target surplus shown is based on the surplus achieved in the last approved business plan following the Homes England Strategic Partnership. It has been adjusted in year one for delays in the commencement of the new Partnership and also some investment items deferred from 2018/19.
- 1.2.

The interest rate assumptions have a substantial impact on the Group’s surplus. We assume 3 month LIBOR rising to 2.50% by the end of March 2020, then rising steadily to 5.00% over five years. These rates are prudent and should provide some headroom in the business plan in the earlier years.
- 1.3.

3 month LIBOR is only one element of the cost of funding. Assumptions are also needed around bank margins, gilt rates and capital market spreads. The margin on short term debt assumption is unchanged at 1.40%. Industry feedback is that short term debt is still very much available at competitive terms.
- 1.4.

Gilts have only slightly risen since 2017, possibly due to the fairly low interest rates and modest increases forecast. The key 30 year gilt was c1.70% in March 2019. The rate is assumed to rise over the next few years to just under 4%.
- 1.5.

The average spread in the sector is now 160 to 170 bps (1.6% to 1.7%), we are recommending an assumed prudent rate of 180bps rising to 185bps.
- 1.6.

The cost of future fixed rate debt is the sum of the gilt rate and the spread (from section 6.5).
- 1.7.

Our interest receivable assumptions rise in relation to the assumed increasing 3 month LIBOR rates.
- 1.8.

Rents were reduced by 1% in April 2019, as we entered the final year of the rent cut. Going forward rents are CPI-linked, with CPI+1% in years two to five, and CPI only for the remainder of the plan. Shared ownership rent increases will be in line with the lease terms (which are typically RPI linked).
- 1.9.

Our business plan assumptions are aligned with the expectations of independent advisors and the Bank of England’s 2% inflation target.
- 1.10.

The majority of our costs are assumed to be driven by CPI inflation. The inflation assumptions maintain a long term wedge between CPI and RPI of 1.25%. This is in line with prior year business plans, although the wedge has been typically under 1.0% for the past two years.
- 1.11.

The Office for National Statistics (ONS) data for wage growth produced in January 2019 showed the year on year three month average was 3.4%. The Bank of England forecasts that over the next few years, whole-economy wage growth is projected to rise to 3.75% per annum by 2021 as productivity growth rises slightly and the tightness of the labour market puts upward pressure on wages.
- 1.12.

The roll out of Universal Credit (UC) continues and the new Full Digital Service is now operational across all of our geographical footprint. We have seen an increasing number of customers claiming UC, in part driven by any change in circumstances of one of the six legacy benefits now triggering an automatic claim for UC. We have made assumptions around the rate of continued increase and impact on rent arrears. The managed migration of existing benefit claimants on to UC is to start with a national pilot during 2019 which will test migration processes on a cohort of 10,000 legacy benefit claimants. At the time we are unclear whether any of our footprint (and customers) will be impacted. At March 2019 there are currently 1,831 Great Places customers on UC (over double this time last year) with average arrears of £848.

- 1.13. Our key welfare reform assumptions have proven thus far to be very prudent, and are:
- Arrears: To double over 5 years:
  - Bad debts – to increase from c1% to 3% over 3 years: The position at March 2019 was c1.1%.
- 1.14. A large proportion of Great Places’ R&M costs are operatives’ earnings which have already been considered in the wage growth assumptions above. However, due to Brexit-related currency inflation and potential interruption to the trade of materials, we have set the inflation factor for repairs and maintenance at CPI+1% in years one to five, reverting back to CPI+0.5% from year six onwards.
- 1.15. Major repairs expenditure for Great Places is mainly undertaken by external contractors. For this reason, the plan assumes CPI+1.5% in years one to five to reflect increasing cost pressure in this industry sector, reverting back to CPI+0.5% from year 6 onwards. The expenditure will be at a level that fully meets the requirements of the Group’s stock condition survey with additional provision made for future costs relating to new developments and a specific provision to meet the Corporate Plan energy efficiency ambitions.
- 1.16. The Group has over 1,400 shared ownership homes, providing a large pool of potential staircasing sales. First tranche sales will be based on the approved development programme where we expect to see 130 sales completions in 2019/20, around 280 in year two and then 190 in year three.

- 1.17. The staircasing assumption has been retained at 5% per annum in line with historic experience, with staircasing for new developments commencing in the sixth year following the first tranche sale.
- 1.18. Voluntary sales remain a key element of the Group’s asset management strategy. This year’s assumptions have reduced slightly from previous years with a target of 40 sales per annum for the duration of the plan, the reduction being partly due to current political pressures in some Local Authorities. Preserved right to buy volumes are assumed to continue at current low levels (3 in Sheffield, 1 in Knutsford) throughout the life of the plan, despite the high level of discounts available.





## Development

Great Places future development programme is made up of two Homes England allocations; 866 units through the 16-21 Shared Ownership Affordable Homes (SOAHP) programme and 750 units through the Strategic Partnership 2018-2023. The Strategic Partnership allowed a rebalancing of the overall programme to one that has a greatly reduced proportion of shared ownership, reducing sales risk.

In July 2017 the Board approved additional development of 300 units for affordable rent over and above the SOAHP allocation, and so far 54 of the 300 units have successfully achieved a grant allocation as part of the 16-21 SOAHP programme. Discussions are ongoing with Homes England regarding funding of the remaining 246 units.

Looking beyond current programmes, from 2021/22 the business plan assumes that Great Places will continue to have a substantial programme of development, with a medium term programme to 2028 of 630 homes per year of which 400 will be for social or affordable rent and 230 for shared ownership (this effectively assumes we will operate at Strategic Partnership volumes for a ten year period. After 2028, development is assumed to be an ongoing programme of 500 homes per year of around 200 shared ownership properties and 300 rented properties.

The table below provides some further analysis of the programme, and when added to the 281 units delivered in 2018/19 shows that we are making good progress towards our Corporate Plan ten year ambition to build 8,000 new homes, with current plans already supporting approaching 7,000 more homes.

The Cube business plan assumes an ongoing programme of outright (market) sales and/or Private Rented Scheme (“PRS”) units for the first 10 years only of the plan. The Cube plan is focused on surplus rather than property numbers, aiming for c£2m before tax and gift aid. The Cube Board have set itself a more demanding plan, but these targets are not included within the overall Group plan to ensure that the Group plan is not predicated on riskier outright sales receipts.

The Cube plan assumes total contributions of around £6m to the Greater Manchester and Sheffield City Region Joint Ventures, with expected returns also included.



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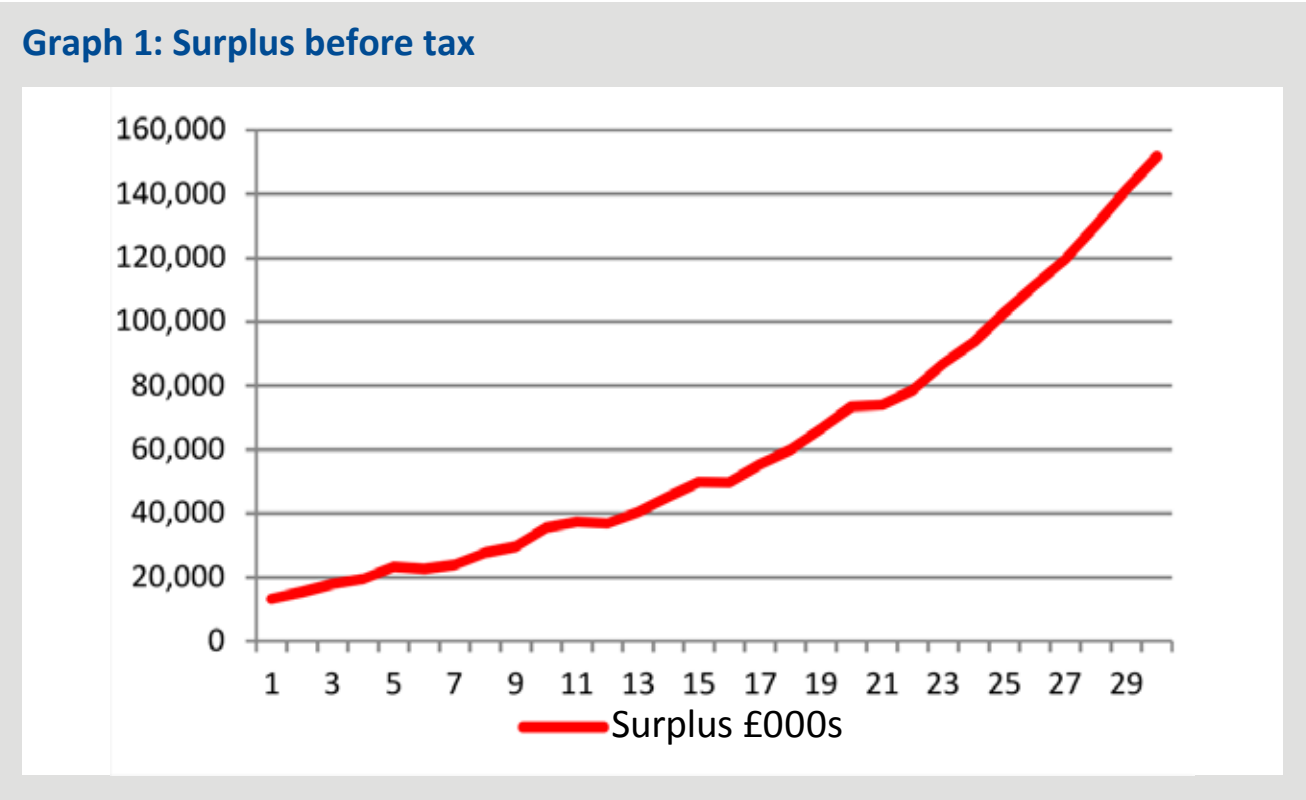
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	Shared Ownership	Affordable rent	Supported housing	Social rent	Market Sales	Private rented	Total
Other programmes inc CME	11	25			78	27	141
SOAHP	119	77	20				216
Strategic Partnership		37					37
2019/20 (year one)	130	139	20	0	78	27	394
Other programmes inc CEM		28		10	90		128
SOAHP	211	131					342
Strategic Partnership	64	122	34				220
2020/21 (year two)	275	281	34	10	90	0	690
Other programmes inc CME	14	81			100	20	215
SOAHP	155	13	20				188
Strategic Partnership	18	119		38			175
2021/22 (year three)	187	213	20	38	100	20	578
Other programmes inc CME		149					149
SOAHP		13	20				33
Strategic Partnership	68	198		52			318
2022/23 (year four)	68	360	20	52			500
Years 4-9 – annual assumption	230	360		40	100	20	750
Year 4-9 – total assumption	1,380	2,160		240	600	120	4,500
Total years 2-9	2,040	3,153	94	340	868	167	6,662
Year ten onwards	4,200	6,300					10,500
Total development in the plan	6,240	9,453	94	340	868	167	17,162

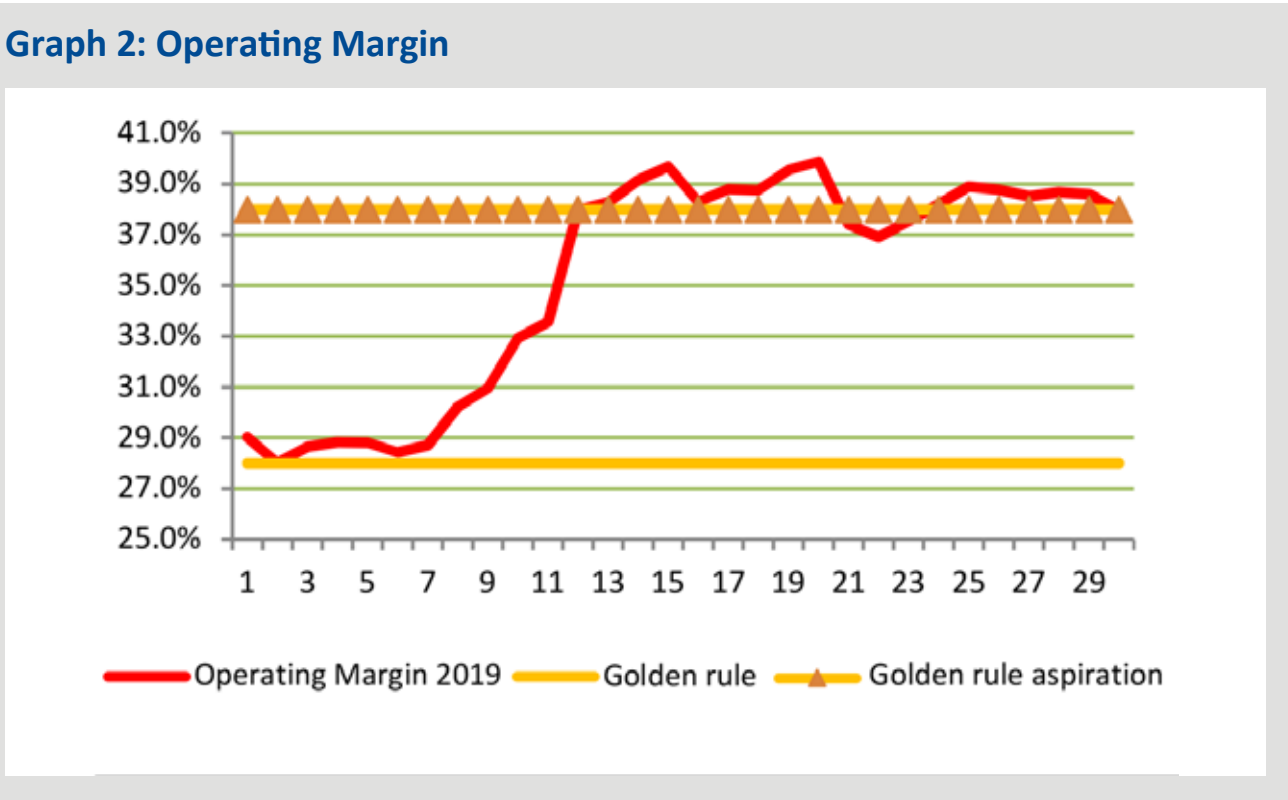
Group financial performance and achievement of financial targets and covenants



Graph 1 shows the profile of surplus generated over the life of the plan. The trend is similar to the last four years’ plans, showing how we have successfully protected the surplus despite the rent reduction.

The annual surplus achieved in this plan grows steadily from £14m in 2019/20 to just over £150m by the end of the plan, with the additional surpluses in the later years reflecting real income growth and delivery of new development.

Graph 2 shows the Group’s operating margin (surplus before interest as a proportion of turnover – effectively a measure of profitability). The importance of maintaining the operating margin 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%.



The margin has reduced compared to last year in the early years of the plan, largely due to an increase in the scale of market sales activity in Cube, where the margin is under 20% ( a “relatively” low margin, but of course a very profitable business stream). In year 10 there is a sharp increase, depicting the point at which the plan assumes this market sales activity ceases.

Surplus and operating margin are easily understood measures of financial strength, but neither is actually a financial covenant. The interest cover ratio and gearing as shown in the graphs overleaf are financial covenants.

# Budget and Business Plan 2019/20

Overview

Background

Regulation and Governance

The Corporate Plan

Financial reporting and treasury

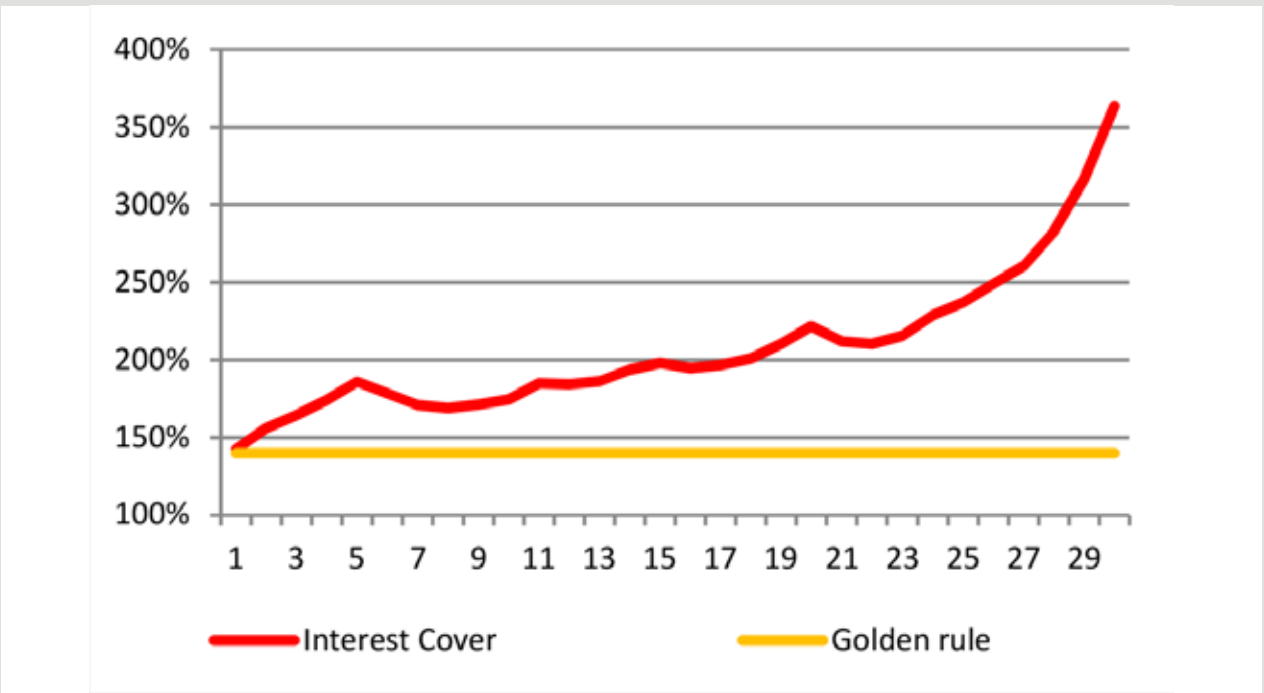
Assumptions

Development

Our performance

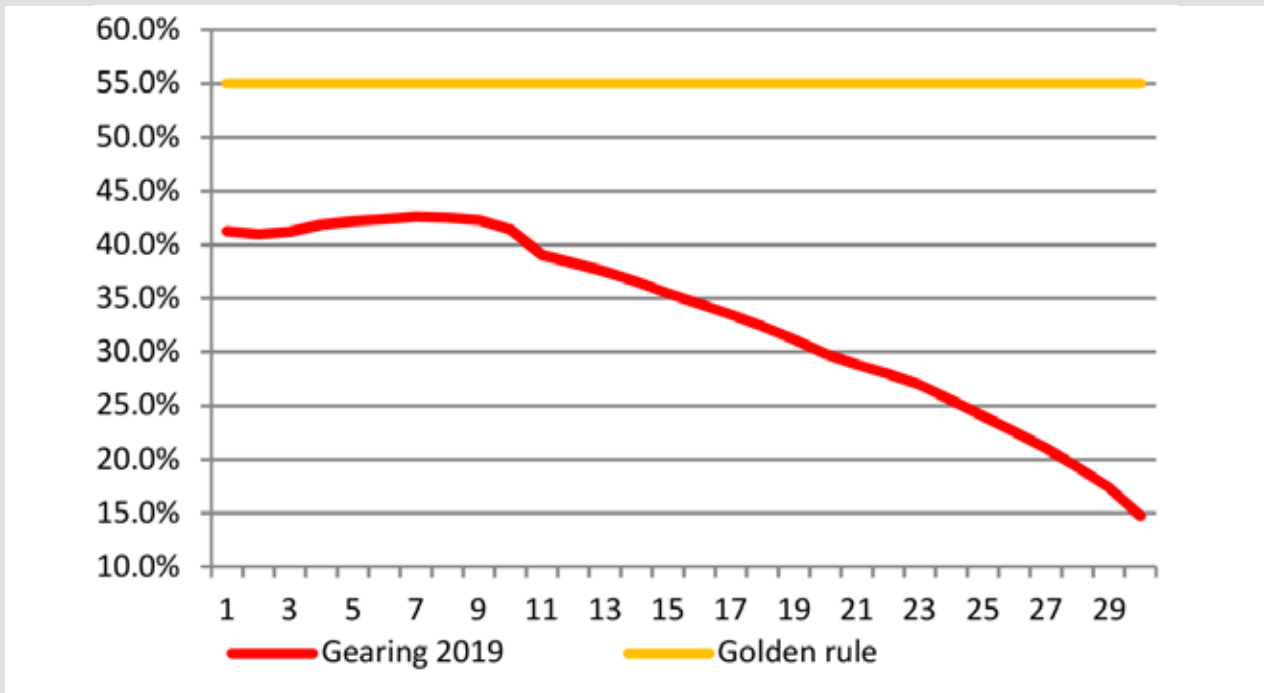
Sensitivity analysis

Graph 3: Interest Cover



Graph 3 shows one of the two primary funder’s covenant: interest cover (the ratio shown here excludes all property sales surpluses, although our covenants do allow voluntary sales and staircasing surpluses). This plan remains comfortably better than the 140% minimum which is set as our Golden Rule, with a steady improvement through the life of the plan. The Golden rule is set at a level that provides significant comfort above the tightest loan covenant of 110%.

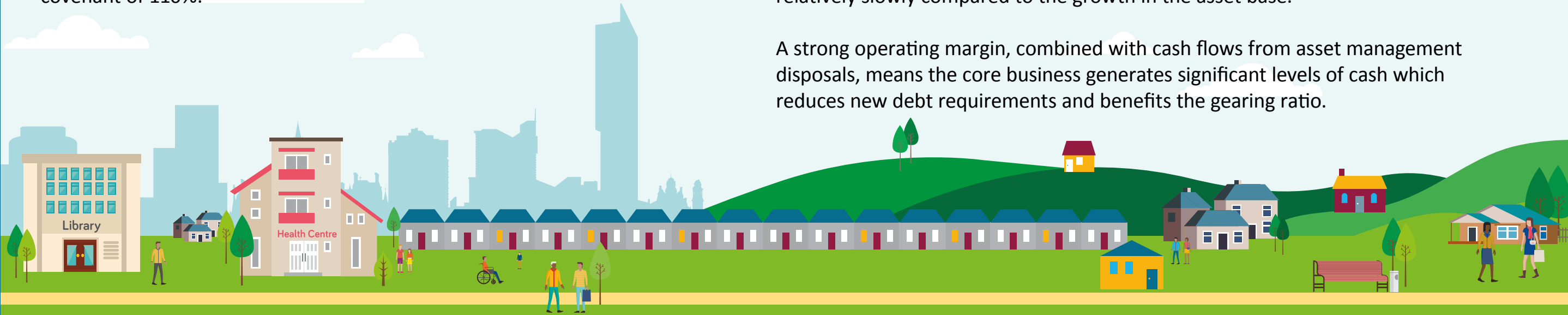
Graph 4: Gearing



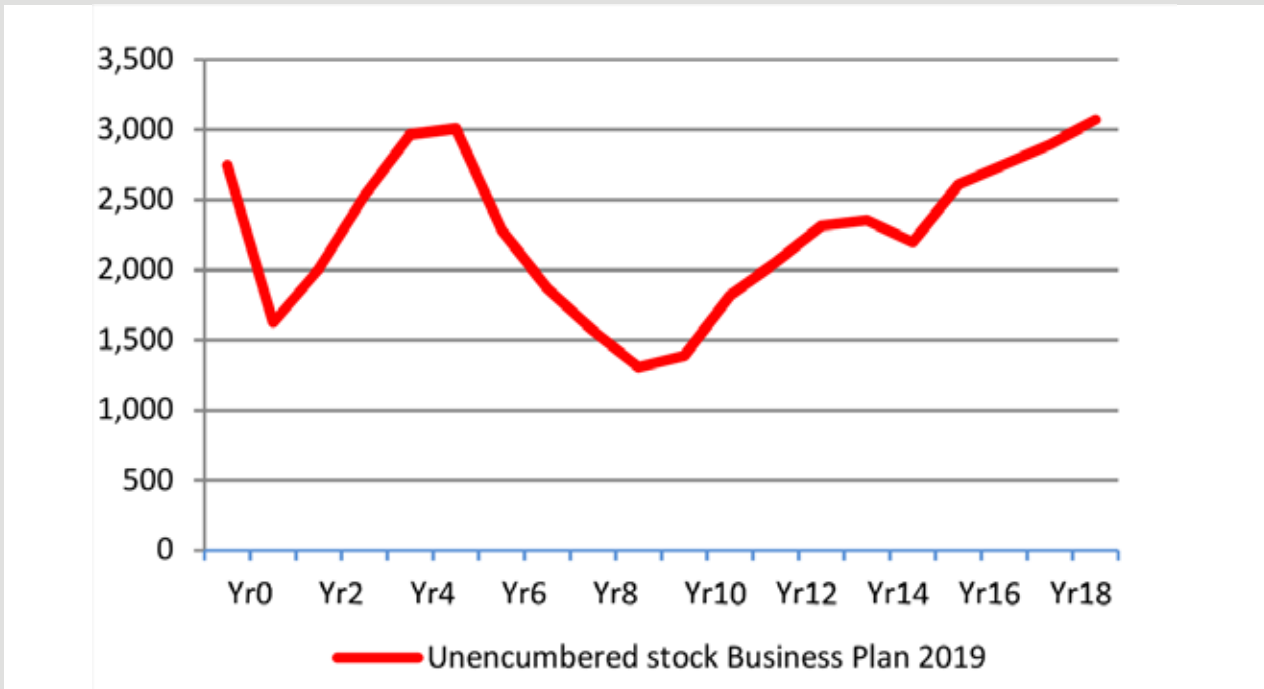
The gearing ratio is the second primary funders’ covenant. Gearing compares the Group’s debt (net of cash) to the asset base (measured as housing properties at cost) and has a funding covenant maximum of 65%, and a Golden Rule set at 55%.

Again the plan remains comfortably better (lower) than the Golden Rule. It shows a steady reduction (an improvement) though the plan period as debt increases relatively slowly compared to the growth in the asset base.

A strong operating margin, combined with cash flows from asset management disposals, means the core business generates significant levels of cash which reduces new debt requirements and benefits the gearing ratio.



Graph 5: Security Exhaustion

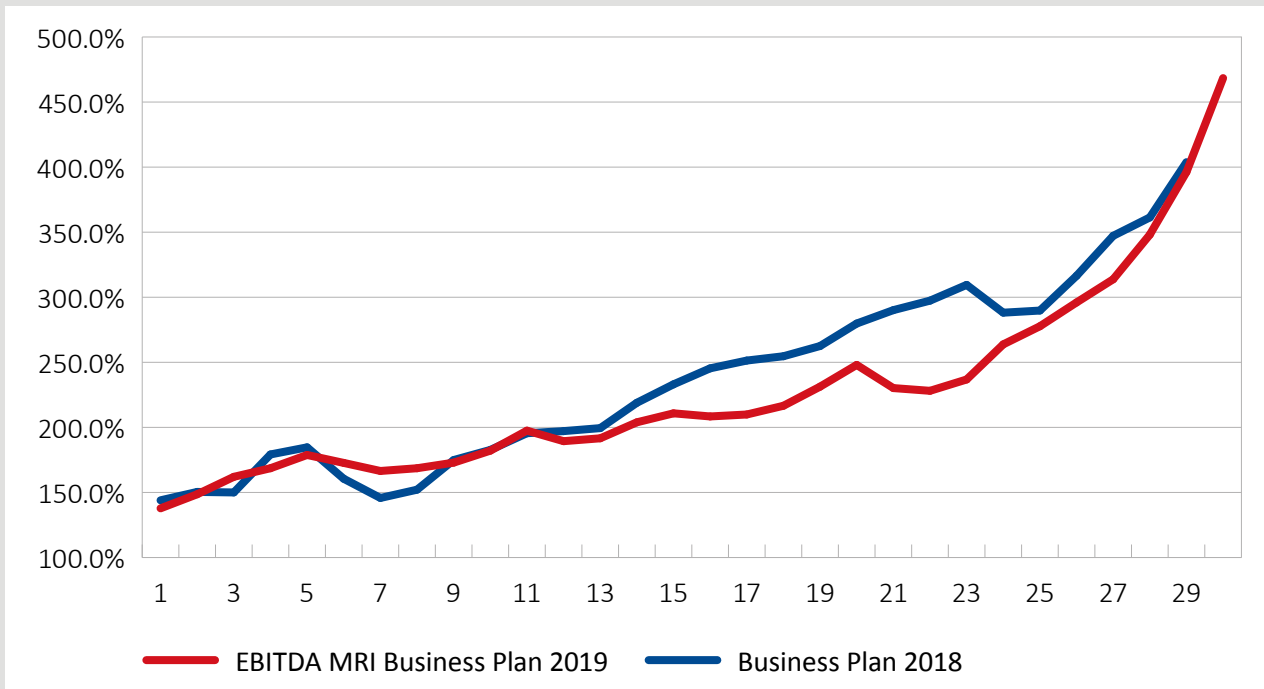


The Group’s position in respect of unencumbered assets has long been recognised as a key constraint on the business, particularly on the scale of new development deliverable. The existing use value and market value subject to tenancy valuation methodologies have meant that in a low grant regime, every new property built requires up to two properties to meet the funding security needed.

In addition, work in progress requires securing in advance of being able to used as security (unlike project based development finance). The improved grant rates achieved in the Strategic Partnership has been beneficial in this respect.

Graph 5 shows the profile of unencumbered assets. The Group currently has approximately 2,500 unencumbered properties. The fluctuating nature of the graph reflects that security is utilised in large tranches as new debt is accessed, whilst the new homes developed and becoming available as security have a different, steadier profile. The release from security of properties following loan repayments and subsequent re-securitisation also contributes to the fluctuating profile.

Graph 6: EBITDA MRI



Graph 6 shows one of the Regulatory Value for Money metrics, Earnings Before Interest, Tax, Depreciation and Amortisation, with Major Repairs included (EBITDA MRI). Compared to the sector our EBITDA MRI is relatively modest: this is as a result of sustained investment in our existing homes and also the higher levels of liquidity required to support a large development programme which create a relatively higher interest bill (for example due to holding the cash raised from the bond tap in March 2018). The graph does show a steady improvement in the metric over the life of the plan.



Consolidated group statement of comprehensive income

	2020 Year 1	2021 Year 2	2022 Year 3	2023 Year 4	2024 Year 5	2029 Year 10	2039 Year 20	2049 Year 30
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Turnover from social housing lettings	£87,281.5	£92,084.8	£97,808.0	£99,293.6	£106,640.8	£138,142.0	£200,517.1	£283,694.3
Other social housing turnover	£7,945.0	£15,017.4	£12,670.4	£12,951.2	£15,195.9	£19,142.9	£23,563.4	£34,376.4
Non social housing lettings turnover	£882.9	£1,126.9	£1,163.8	£1,358.7	£1,416.1	£2,050.5	£2,804.4	£3,842.1
Outright sales through Cube	£17,211.4	£22,711.6	£23,063.4	£25,071.7	£26,026.0	£31,342.7	£0.0	£0.0
Grant amortisation	£5,655.3	£5,788.4	£5,780.4	£6,018.5	£7,547.0	£7,412.1	£9,639.8	£12,721.8
<b>Total turnover</b>	<b>£118,976.1</b>	<b>£136,729.1</b>	<b>£140,486.0</b>	<b>£144,693.7</b>	<b>£156,825.8</b>	<b>£198,090.2</b>	<b>£236,524.7</b>	<b>£334,634.6</b>
Operating costs social housing	(£65,503.2)	(£68,488.0)	(£73,118.5)	(£72,975.5)	(£77,984.9)	(£90,529.5)	(£125,568.5)	(£184,355.3)
Other social housing expenditure	(£4,173.7)	(£8,459.6)	(£7,272.4)	(£6,510.7)	(£8,959.9)	(£12,644.6)	(£15,171.1)	(£21,410.9)
Cost of Sales for outright sales	(£14,170.1)	(£20,775.5)	(£19,107.9)	(£22,687.4)	(£23,866.4)	(£28,621.1)	£0.0	£0.0
Non social hsg lettings expenditure	(£601.0)	(£714.8)	(£739.3)	(£814.0)	(£844.0)	(£1,110.7)	(£1,515.3)	(£2,050.3)
<b>Total operating expenditure</b>	<b>(£84,448.0)</b>	<b>(£98,437.9)</b>	<b>(£100,238.1)</b>	<b>(£102,987.6)</b>	<b>(£111,655.2)</b>	<b>(£132,905.9)</b>	<b>(£142,254.9)</b>	<b>(£207,816.5)</b>
<b>Operating surplus</b>	<b>£34,528.1</b>	<b>£38,291.2</b>	<b>£40,247.9</b>	<b>£41,706.1</b>	<b>£45,170.6</b>	<b>£65,184.3</b>	<b>£94,269.8</b>	<b>£126,818.1</b>
Surplus on fixed asset disposals	£2,027.2	£1,936.6	£2,057.0	£2,180.7	£2,307.8	£6,795.5	£22,978.0	£59,621.2
Interest payable	(£23,715.0)	(£25,908.2)	(£25,901.5)	(£25,868.0)	(£25,342.5)	(£36,802.9)	(£44,781.5)	(£35,928.7)
Interest receivable	£649.0	£1,454.8	£2,074.4	£1,851.4	£1,583.5	£829.8	£1,003.8	£1,223.7
Other	£190.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	(£10.0)
<b>Surplus before tax</b>	<b>£13,679.3</b>	<b>£15,774.4</b>	<b>£18,477.9</b>	<b>£19,870.3</b>	<b>£23,719.3</b>	<b>£36,006.7</b>	<b>£73,470.1</b>	<b>£151,724.4</b>
Taxation	(£434.6)	(£335.6)	(£553.6)	(£390.8)	(£394.2)	(£480.2)	(£77.4)	(£116.4)
<b>Surplus after tax</b>	<b>£13,244.7</b>	<b>£15,438.8</b>	<b>£17,924.3</b>	<b>£19,479.5</b>	<b>£23,325.1</b>	<b>£35,526.5</b>	<b>£73,392.7</b>	<b>£151,608.0</b>

*Consolidated group statement of comprehensive income*

The budget approved by Board in March 2019 showed a surplus target of £14m before tax – this figure excludes pension liability adjustments and fair value adjustments for investment properties and interest rate derivatives. These are included in the business plan, hence the £13.2m surplus shown for year 1 in the table above.

Other social housing turnover includes sales income from 1st tranche sales of shared ownership properties. 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. Surplus on fixed asset disposals is the profit generated on staircasing, right to buy and right to acquire sales, and also from asset management disposals.

Interest payable is shown net of capitalised interest.



Consolidated group cash flow

	2020 Year 1	2021 Year 2	2022 Year 3	2023 Year 4	2024 Year 5	2029 Year 10	2039 Year 20	2049 Year 30
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Total receipts	£111,799.6	£128,632.6	£131,770.2	£135,331.2	£146,189.3	£186,843.9	£221,441.8	£314,391.4
Total payments	(£55,962.5)	(£56,772.5)	(£62,330.5)	(£67,679.8)	(£70,114.6)	(£75,977.9)	(£65,176.2)	(£92,341.3)
Cash paid to employees	(£21,257.3)	(£20,723.5)	(£21,998.8)	(£22,709.9)	(£23,504.7)	(£27,789.6)	(£38,528.2)	(£54,347.8)
Cash flow from operating activities	£34,579.8	£51,136.6	£47,440.9	£44,941.5	£52,570.0	£83,076.4	£117,737.4	£167,702.3
Provisions for tax	(£434.6)	(£335.6)	(£552.5)	(£390.8)	(£394.2)	(£480.2)	(£77.4)	(£116.4)
Purchase of tangible fixed assets	(£59,446.0)	(£72,396.2)	(£73,709.0)	(£96,239.8)	(£98,273.0)	(£95,450.9)	(£135,659.6)	(£169,567.0)
Proceeds from sale of fixed assets	£9,911.4	£6,964.9	£7,079.5	£7,197.5	£7,319.0	£18,193.2	£46,935.1	£93,120.1
Grants received	£14,580.8	£16,911.8	£16,226.5	£23,990.6	£23,737.1	£19,270.3	£28,030.7	£41,287.9
Interest received	£643.9	£1,358.6	£1,951.9	£1,727.9	£1,460.0	£829.8	£1,003.8	£1,223.7
Cash flow from investing activities	(£34,309.9)	(£47,160.9)	(£48,451.1)	(£63,323.8)	(£65,756.9)	(£57,157.6)	(£59,690.0)	(£33,935.3)
Interest paid	(£26,533.6)	(£28,850.2)	(£29,826.5)	(£29,917.9)	(£31,425.6)	(£43,005.8)	(£51,383.8)	(£43,634.1)
New loan drawdown	£77,500.0	£38,000.0	£0.0	£49,617.5	£24,936.1	£67,113.9	£51,383.8	£43,634.1
Repayment of borrowing	(£8,608.5)	(£8,631.8)	(£8,769.3)	(£9,133.0)	(£11,175.0)	(£49,084.5)	(£57,406.7)	(£132,963.9)
Cash flow from financing activities	£42,358.0	£518.0	(£38,595.7)	£10,566.6	(£17,664.5)	(£24,976.3)	(£57,406.8)	(£132,963.9)
Opening cash	£54,605.0	£96,798.1	£100,956.3	£60,797.8	£52,591.1	£23,105.1	£28,164.9	£34,332.9
Cash flow in the year	£42,193.1	£4,158.2	(£40,158.5)	(£8,206.7)	(£31,245.6)	£462.1	£563.3	£686.5
Closing cash	£96,798.1	£100,956.3	£60,797.8	£52,591.1	£21,345.5	£23,567.2	£28,728.2	£35,019.4

*Consolidated group cash flow*

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

Total payments include the cash costs incurred on construction of outright sale properties and 35% of the costs of developing shared ownership homes. It also includes all other operating costs but excludes staffing costs which are shown on the subsequent line entitled ‘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 fixed assets include staircasing, right to buy and other disposal receipts.

New loan drawdowns in the coming year includes the £70m retained element of the bond. In year 2, the drawdown is the £38m remaining NatWest facility before it expires in March 2021. The £50m of Santander loan converted to a revolving facility will be drawn down before its expiry in December 2022.

The report shows amortising loan repayments of £9m-£10m per annum on the Santander, Barclays and Lloyds facilities. Most of these facilities, plus the RBS facility, which were all agreed in 2007, are fully repaid by 2037 (the Barclays loan extends to 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.



Consolidated statement of financial position

	2020 Year 1	2021 Year 2	2022 Year 3	2023 Year 4	2024 Year 5	2029 Year 10	2039 Year 20	2049 Year 30
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Housing properties at cost	£1,278,154.2	£1,352,373.6	£1,426,178.9	£1,525,795.7	£1,624,590.5	£2,142,748.0	£3,166,850.0	£4,624,728.8
less: cumulative depreciation	(£189,698.6)	(£206,998.0)	(£225,335.0)	(£244,889.2)	(£266,295.8)	(£391,011.5)	(£699,561.2)	(£1,095,194.4)
Other tangible fixed assets	£8,391.7	£7,986.7	£7,458.9	£7,252.8	£7,058.0	£6,374.1	£5,041.3	£1,718.1
Fixed asset investments	£47,506.2	£43,537.3	£42,834.9	£39,919.0	£41,517.1	£43,365.7	£41,839.4	£21,434.8
Investment in JVs & associates	£1,106.3	£2,772.1	£2,800.0	£2,801.2	£2,801.2	£10.0	£10.0	£0.0
<b>Total fixed assets</b>	<b>£1,145,459.8</b>	<b>£1,199,671.7</b>	<b>£1,253,937.7</b>	<b>£1,330,879.5</b>	<b>£1,409,671.0</b>	<b>£1,801,486.3</b>	<b>£2,514,179.5</b>	<b>£3,552,687.3</b>
Stock	£34,105.2	£29,261.3	£32,037.9	£38,683.1	£42,119.0	£55,262.3	£49,427.2	£82,988.0
Trade and other debtors	£26,212.3	£27,389.0	£28,578.0	£29,716.1	£30,234.1	£32,983.3	£39,368.1	£47,149.0
Cash and cash equivalents	£96,798.1	£100,956.3	£60,797.8	£52,591.1	£21,345.5	£23,567.2	£28,728.2	£35,019.5
<b>Total current assets</b>	<b>£157,115.6</b>	<b>£157,606.5</b>	<b>£121,413.7</b>	<b>£120,990.2</b>	<b>£93,698.5</b>	<b>£111,812.8</b>	<b>£117,523.5</b>	<b>£165,156.5</b>
Less: creditors due <1 year	(£37,469.4)	(£37,965.7)	(£38,283.9)	(£38,838.7)	(£39,217.1)	(£40,944.3)	(£44,553.9)	(£55,381.9)
<b>Net current assets</b>	<b>£119,646.2</b>	<b>£119,640.7</b>	<b>£83,129.7</b>	<b>£82,151.4</b>	<b>£54,481.3</b>	<b>£70,868.6</b>	<b>£72,969.6</b>	<b>£109,774.5</b>
<b>Total assets less current liabilities</b>	<b>£1,265,106.0</b>	<b>£1,319,312.4</b>	<b>£1,337,067.4</b>	<b>£1,413,030.9</b>	<b>£1,464,152.3</b>	<b>£1,872,354.9</b>	<b>£2,587,149.1</b>	<b>£3,662,461.8</b>
Outstanding loans	(£590,995.4)	(£620,752.3)	(£612,371.8)	(£653,244.6)	(£667,337.8)	(£862,934.3)	(£923,204.9)	(£680,813.9)
Deferred capital grant	(£484,555.4)	(£497,882.7)	(£509,693.2)	(£527,145.4)	(£543,535.5)	(£627,070.1)	(£781,131.0)	(£1,017,094.4)
Pension provisions	(£18,190.8)	(£16,921.3)	(£15,546.7)	(£14,066.5)	(£12,479.9)	(£8,059.4)	(£8,059.4)	(£8,059.4)
Fair value provisions on swaps	(£36,974.3)	(£33,923.5)	(£30,872.7)	(£27,821.9)	(£24,771.1)	(£11,250.7)	£0.0	£0.0
Other long term creditors	(£35,158.9)	(£32,112.2)	(£29,886.6)	(£29,526.0)	(£28,425.6)	(£22,652.2)	(£9,068.5)	(£2,145.7)
<b>Total net assets</b>	<b>£99,231.2</b>	<b>£117,720.0</b>	<b>£138,696.2</b>	<b>£161,226.2</b>	<b>£187,602.1</b>	<b>£340,388.5</b>	<b>£865,685.3</b>	<b>£1,954,348.2</b>
Income and expenditure reserve	£133,885.4	£149,323.4	£167,248.8	£186,728.0	£210,053.1	£349,319.2	£863,365.2	£1,952,028.1
Cash flow hedge reserve	(£36,974.3)	(£33,923.5)	(£30,872.7)	(£27,821.9)	(£24,771.1)	(£11,250.7)	£0.0	£0.0
Revaluation reserve	£2,158.0	£2,158.0	£2,158.0	£2,158.0	£2,158.0	£2,158.0	£2,158.0	£2,158.0
Restricted reserve	£162.1	£162.1	£162.1	£162.1	£162.1	£162.1	£162.1	£162.1
<b>Total reserves</b>	<b>£99,231.2</b>	<b>£117,720.0</b>	<b>£138,696.2</b>	<b>£161,226.2</b>	<b>£187,602.1</b>	<b>£340,388.6</b>	<b>£865,685.3</b>	<b>£1,954,348.2</b>



*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 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.

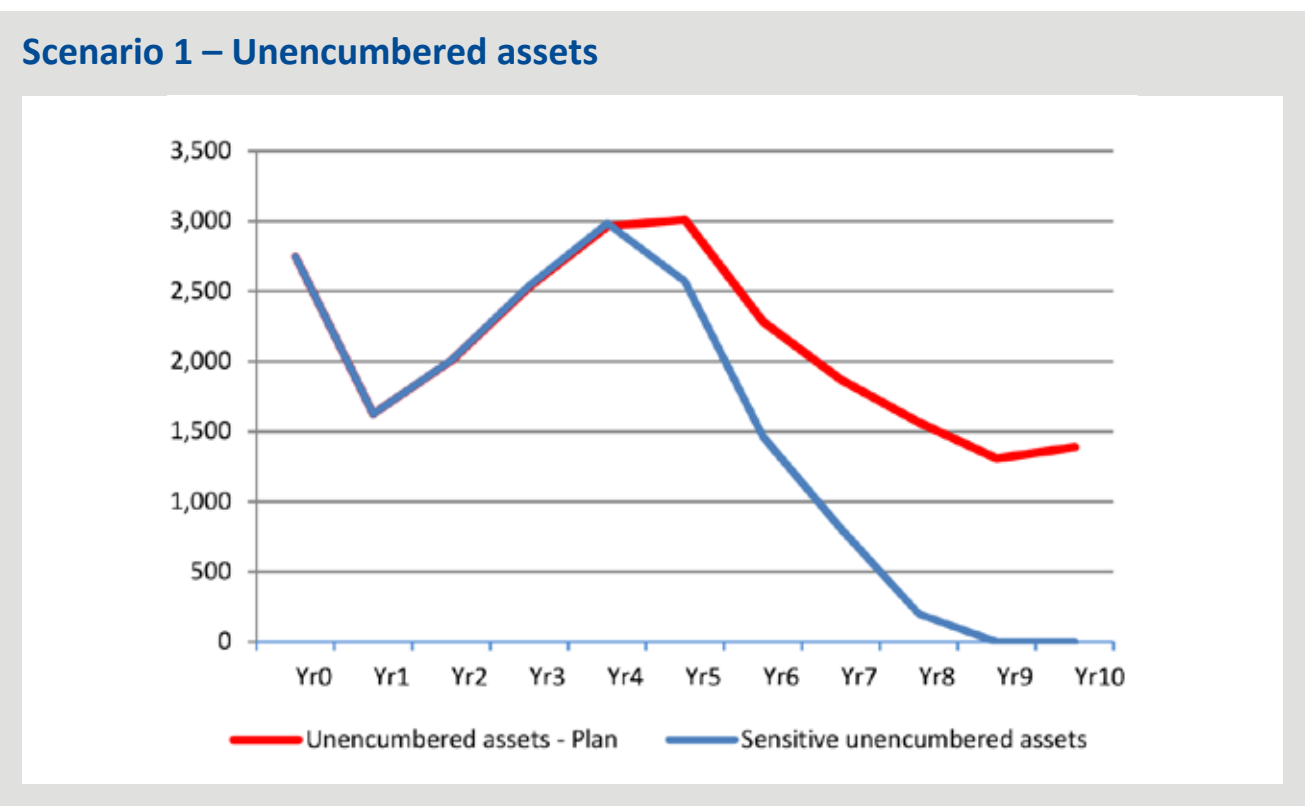
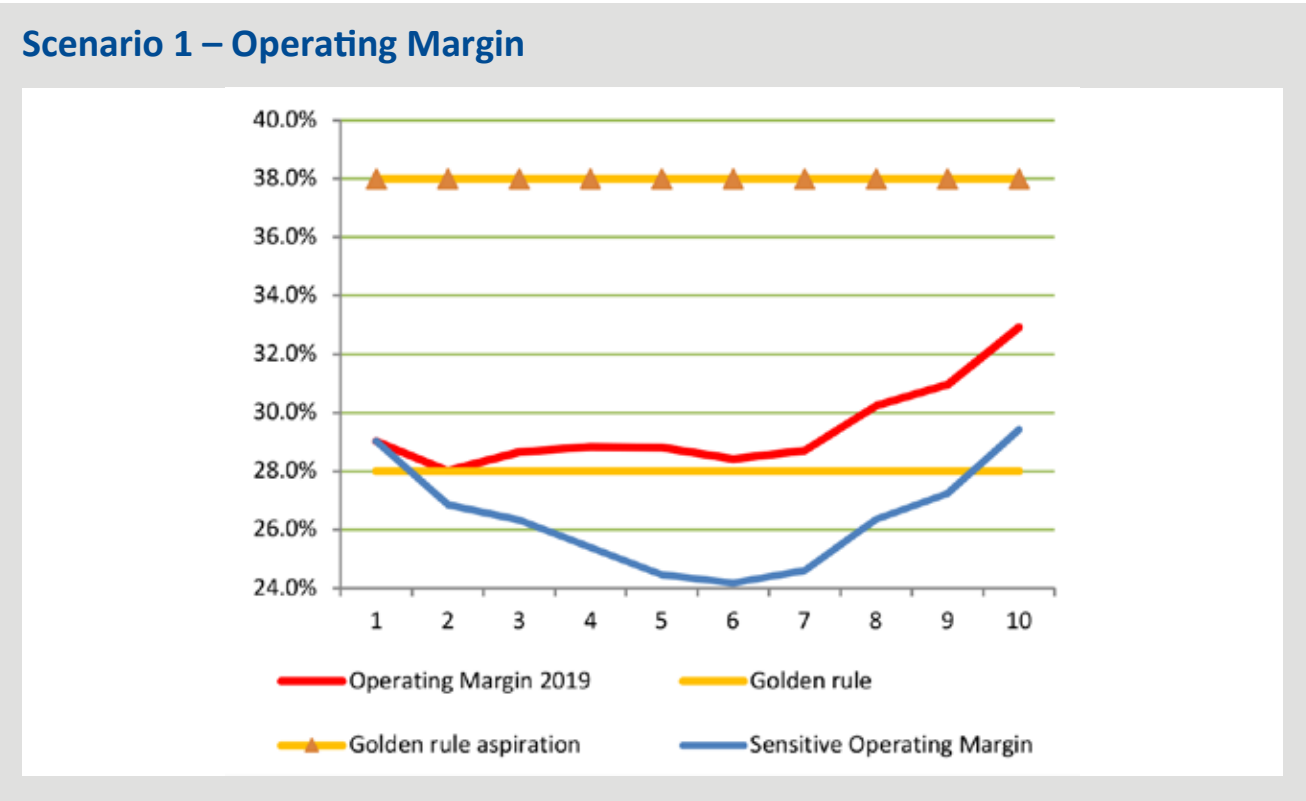
The fair value provision on swaps and the cash flow hedge reserve offset each other and both are assumed to reduce down to nil by the time they mature. Fixed asset investments includes c£19m of cash lodged with counterparties as swap collateral and this reduces over the term of the swaps down to zero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



Sensitivity analysis

A separate stress testing document supplements this business plan document, addressing 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.

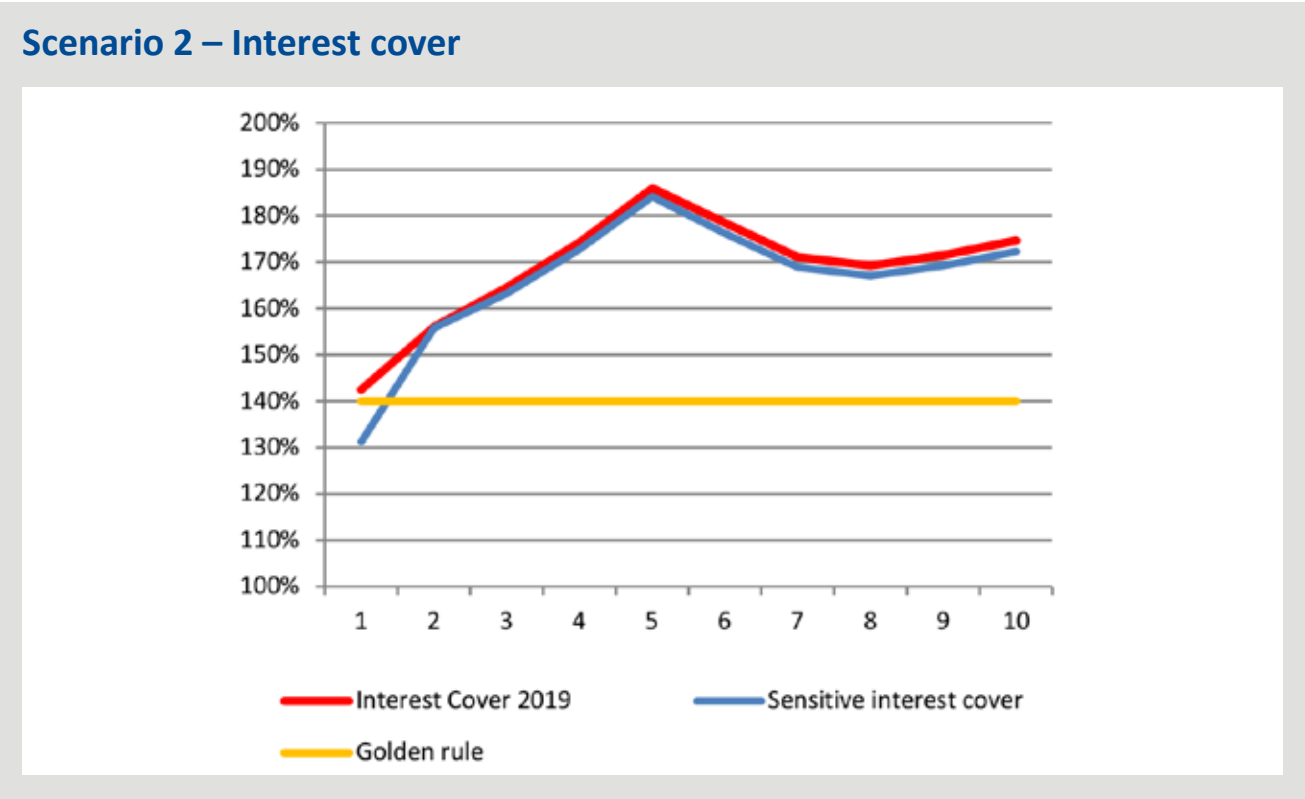
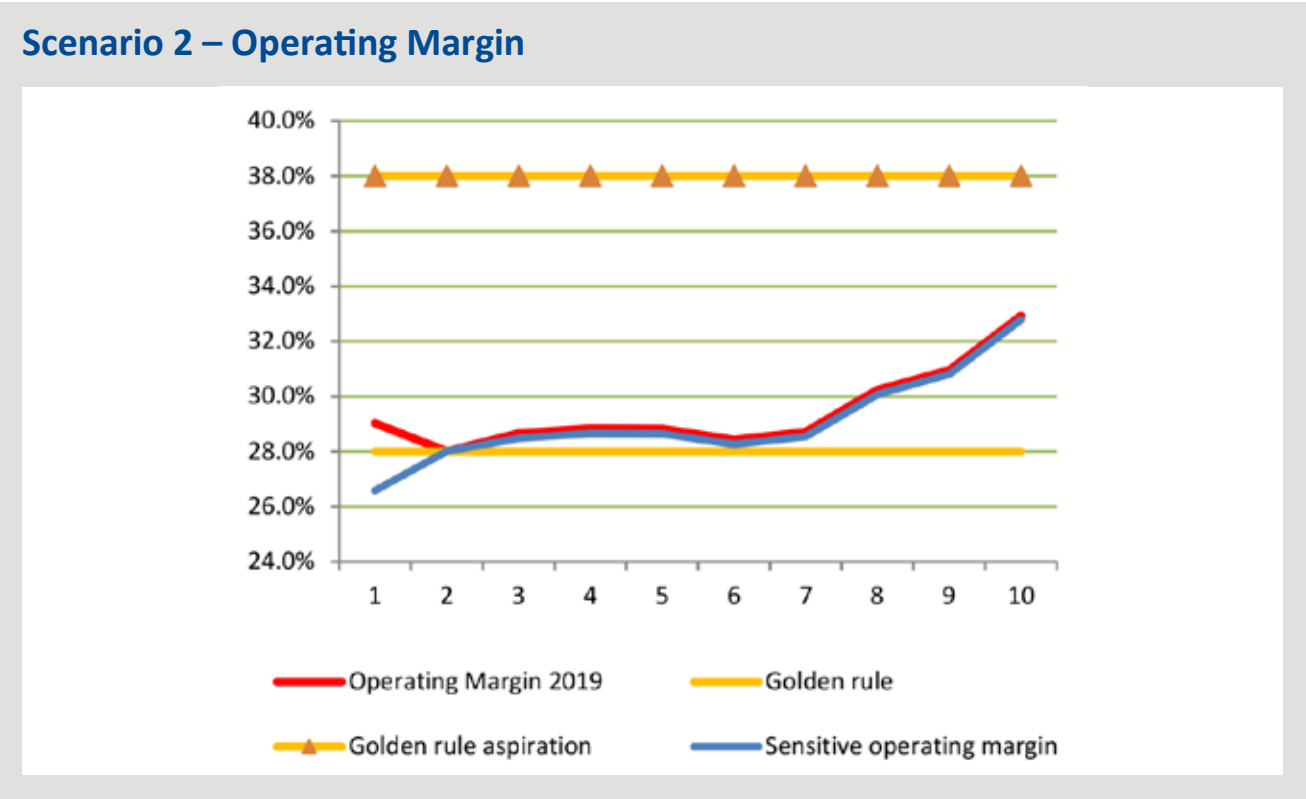
**Scenario 1 – A rent freeze:** The sensitivity is zero rent inflation for the period 2020 to 2024. The blue lines in the graphs show the main effects of this sensitivity on the business plan.



A rent freeze to 2024 would cause operating margin to breach the internal Golden Rule in year two, dipping to 24% by year six but then recovering by year 10.

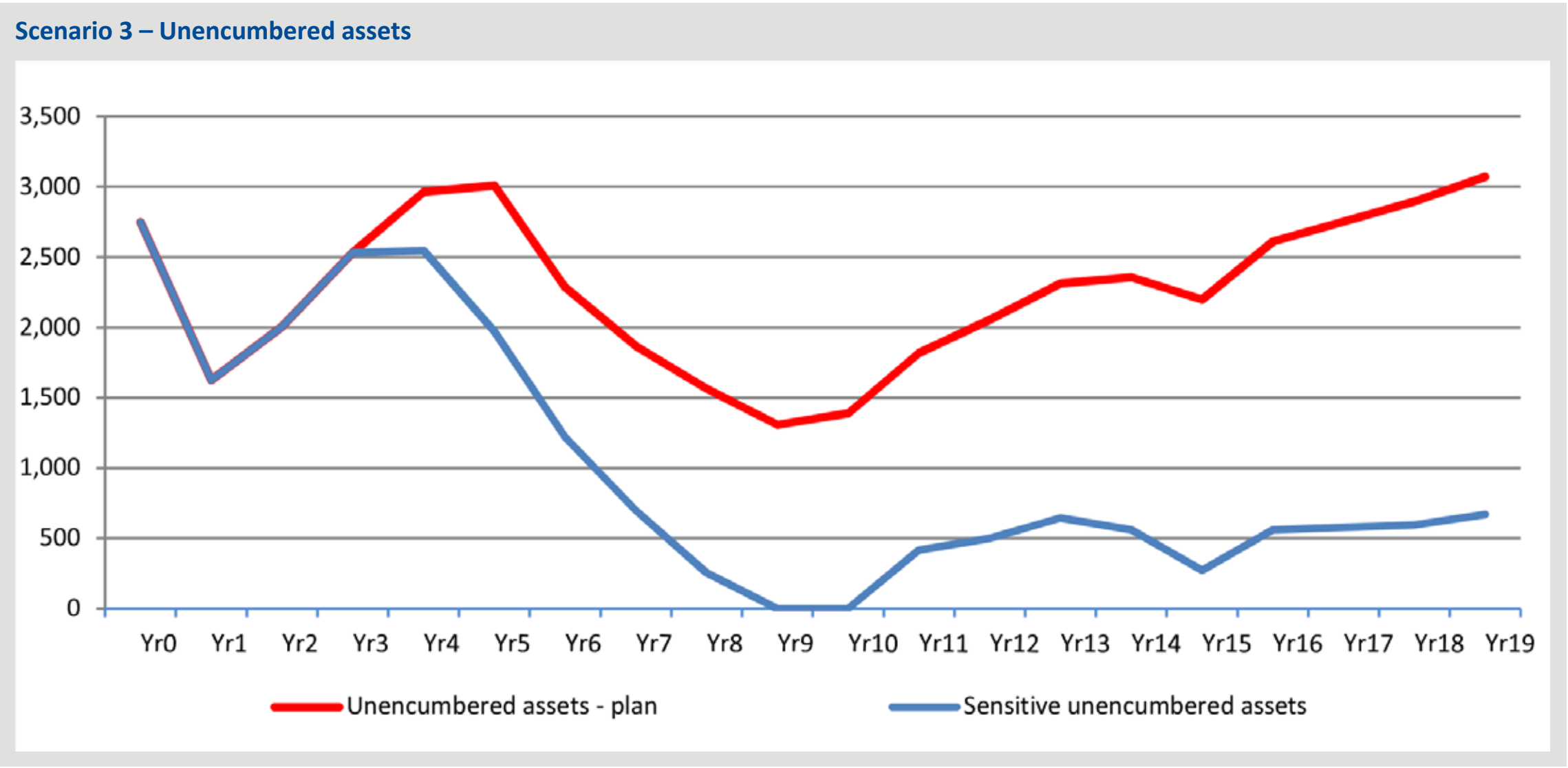
The graph on the right shows that security exhaustion would occur in year eight.

**Scenario 2** – “Building Greatness” 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, but that the savings in the budget year and any future savings are not realised.



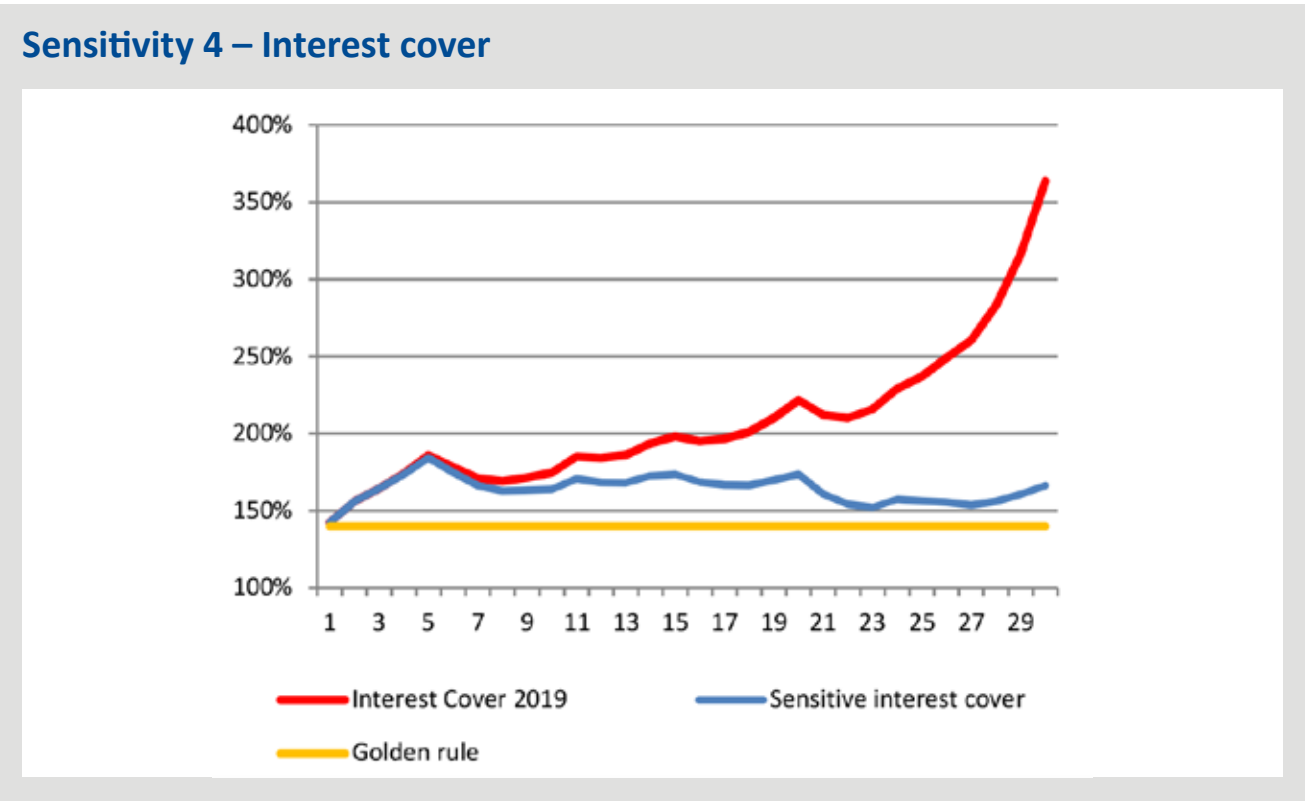
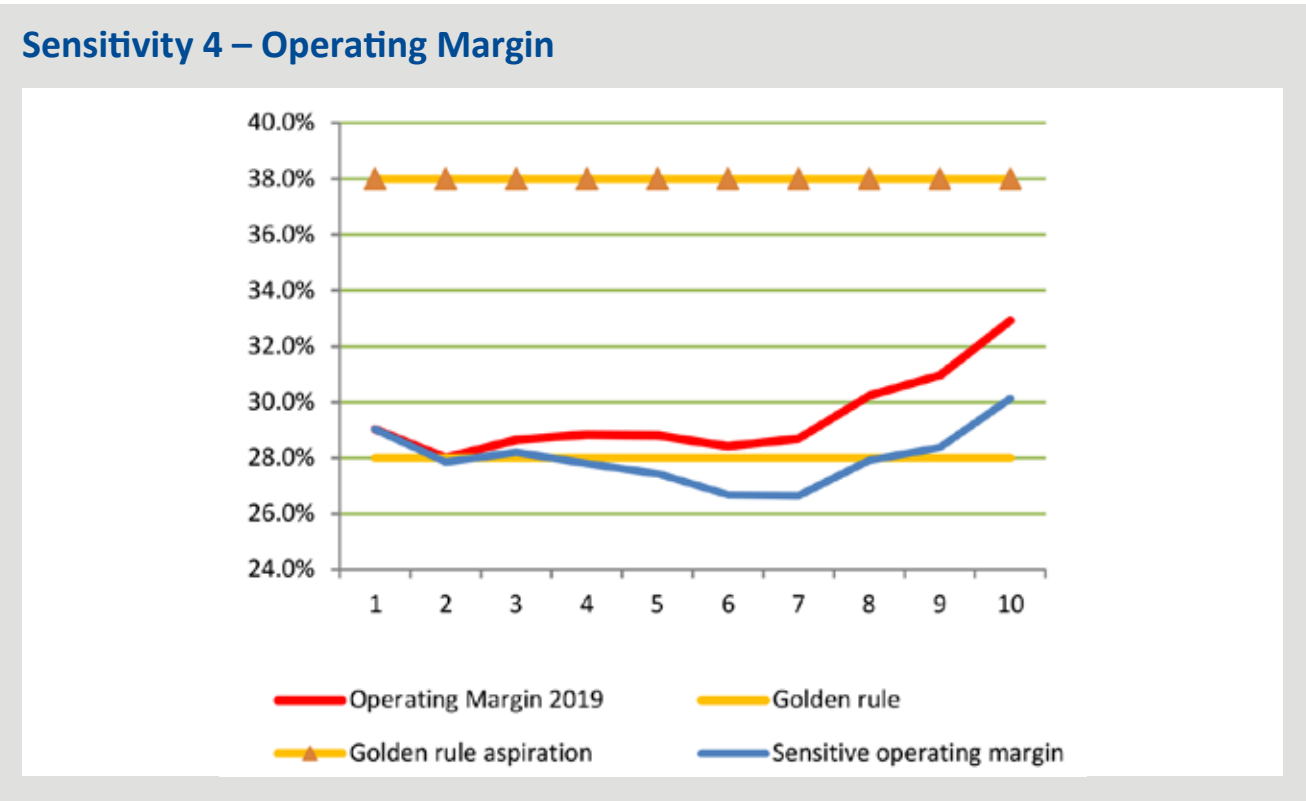
The graphs above show an immediate reduction in interest cover of c10% and also a reduction in Operating margin – with both golden rules breached but for one year only. This shows that delivery of the remaining savings expected from Building Greatness is still important. The impact would be far worse, however 75% of the overall expected savings have already been achieved.

**Scenario 3** – this sensitivity considers the Group’s capacity to further expand the development programme. The scenario models an additional 150 units pa, 100 for rent and 50 for shared ownership. The impact to the surplus and operating margin metrics is not material, but the graph below shows the far more material impact on the unencumbered assets of the Group. There is additional capacity of up to 150 units pa within the plan, but it is extremely tight from a security perspective in the medium term.



Development in the earlier years can be funded from existing facilities but then the position deteriorates as new facilities will need to be put in place and secured. This scale of development is only really sustainable until year six or seven due to this security constraint.

**Scenario 4** – is provided to demonstrate what would happen if sales prices for future shared ownership first tranche sales and subsequent staircasing sales did not benefit from capital appreciation in line with the base plan assumptions (CPI + 0.5% rising to CPI +1%) but instead were 2% lower.



The operating margin suffers the most in this case with the golden rule breached almost immediately but not then showing much further deterioration.

These sensitivity analyses have focussed on relatively minor, often incremental and quite foreseeable change. Stress testing document 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 May 2019.