Great Places Housing Group Limited

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	A+
Short-Term IDR	F1

Local Currency

Long-Term IDR	A+

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Financial Data

Great Places Housing Group Limited

	31 Mar 15	31 Mar 14
Operating revenues (social housing turnover) (GBPm)	83.5	83.1
Rev. from pub. sector (GBPm)	0	0
Oper. bal. after rev. from pub. sector (GBPm)	28.7	25.5
Total debt (GBPm)	470.8	414.0
Total assets (GBPm)	594.8	516.8
Equity and reserves (GBPm)	79.4	66.0
EBITDA/oper. rev. inc. rev. from pub. sector (%)	44.01	39.06
ROA (%)	1.83	1.78
ROE (%)	13.73	13.94
Total debt/EBITDA (%)	12.69	12.47

Related Research

Fitch Affirms 2 English Social Housing Registered Providers (November 2015)

Fitch: Rent Cuts Negative for UK Social Housing Providers (July 2015)

Registered Providers: Rising Commercial Activity (May 2015)

Fitch: New Right-to-Buy Could Add to Housing Provider Challenges (April 2015)

Registered Providers: Regulatory Considerations (March 2015)

English Social Housing: Registered Providers (February 2015)

Fitch Downgrades 3 English Social Housing Registered Providers (November 2014)

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Key Rating Drivers

Strong Public Support: Great Places Housing Group Limited's (GPHG) ratings reflect the high demand for social housing (SH) in areas where the group operates, and continued cash flow from rented properties. The ratings also reflect the robust cash flow from public funds and the control and regulation provided through the Homes and Communities Agency (HCA).

Business Risks Increasing: The English SH sector was downgraded by one notch in November 2014. This reflected Fitch Ratings' reassessment of registered providers' (RPs) standalone credit strength, which may weaken as the sector expands its non-SH activities and increases its debt. However, this is offset by the high level of direct and indirect public funding now included in the agency's assessment of the standalone profile, rather than in the rating uplift. As a result, Fitch narrowed the uplift to one notch from two.

Strong Cash Flows: GPHG receives SH grants from central government and government subsidies through housing benefit (HB). In the year to end-March 2015 (FY15), 87% of group operating cash flow came from SH lettings backed by HB. Recent changes to HB reduced subsidies, and the group estimates that 21% of its residents, who historically had their rent paid in full through HB, are among those most at risk of running into arrears. SH rents will be reduced by 1% a year for four years from April 2016, which is likely to reduce GPHG's revenue flexibility.

Continued High Demand: GPHG operates in northern England and the Midlands, where demand for affordable housing is strong. The group's average rents are still 72% of equivalent market rents. GPHG reports improving performance on void loss and re-letting times, which are good identifiers of demand. Voids have been between 1.4% and 1.7% since 2009. GPHG has had surpluses since 2008, primarily from core SH activities rather than property development, and has generated efficiencies and value for money.

New Developments, Growing Debt: The group has commenced the 900-unit/GBP17m grant 2015-2017 Affordable Housing Guarantee Programme (AHGP) and completed the 1,300-unit/GBP28m grant 2011-2015 AHGP. The group will also provide the 445-home/GBP11m AHGP2 by March 2018. Sales exposure is about 12%. Debt grew to GBP471m at FYE15 from GBP414m at FYE14 as a result of this development programme. In October 2012, the group issued a GBP150m secured bond and has since raised the rest of its GBP50m retained bonds.

Financial Covenants: The debt repayment profile is long and fairly smooth. Further growth in debt over the life of the business plan (BP) will increase in line with the group's development plan. Interest cover and gearing are the key financial covenants. These were comfortably met in the past and are projected to be met over the next five years of the BP. At FYE15, interest cover was 185%, above the bank covenant of 105%. Gearing was 44% but remained well below the loan covenant requirement of 65%.

Rating Sensitivities

Diversification, Volatility, Increased Debt: Fitch will continue to monitor the following, which may have an effect on ratings: widespread diversification into non-SH activity and in private real estate market, through, in particular, increasing outright sales; increased volatility in operating revenue as a result of higher exposure to development activities and a significant increase in gearing; and sustained weaker operating performance.

Rating History

Date	Long-Term Foreign IDR	Long-Term Local IDR
14 Nov 14	A+/Stable	A+/Stable
30 May 13	AA−/Neg	AA−/Neg
23 Apr 12	AA−/Stable	AA−/Stable

Figure 1

Top 6 LAs by Unit Number

	FY15	FY14
Salford	2,710	2,677
Manchester	2,414	2,415
Oldham	1,893	1,730
Sheffield	1,749	1,678
Blackpool	1,253	1,267
Blackburn	805	953
Total units in 6 LAs	10,824	10,720
Total units in stock	**17,571**	**16,861**

Source: GPHG

Related Criteria

Ratings of Public-Sector Entities – Outside the United States (February 2015)

Revenue-Supported Rating Criteria (June 2014)

Profile and Group Structure

At FYE15, GPHG owned or managed 17,571 properties, of which 89% were owned. Just over half the properties are located in Manchester, Oldham, Salford and Sheffield, but the group is active in 36 local authorities (LAs), with two-thirds of properties concentrated in six LA areas.

The group was formed in April 2006 when Manchester Methodist Housing Group and Ashiana Housing Association merged. GPHG is an RP that has operated for a number of years and was not the result of a large-scale housing stock transfer from a local council. Until 2009, the group grew mainly through small-scale acquisitions and mergers; since then, it has grown via organic growth through development. GPHG is a non-charitable RP and parent company of two other RPs: Great Places Housing Association (GPHA) and Plumlife Homes Limited (Plumlife). Both are asset owning, and are industrial and provident societies, GHPA being charitable and Plumlife non-charitable. GPHA also has two active third-tier subsidiaries: Cube Great Places Limited (Cube) and Terra Nova Developments Limited (Terra Nova), both limited by shares.

Plumlife complements GPHA's development business as it delivers growth through properties available for rent on the private market. It also manages intermediate and shared-ownership properties and undertakes leasehold management for the group. Plumlife also delivers a number of private management contracts. Cube, set up in 2007, develops properties for outright sale to generate surpluses to support the group's core activities. Terra Nova, set up in 2004, was created to minimise the group's VAT liability on construction projects, and all surpluses generated are gift-aided back to GPHA.

Corporate Governance and Regulatory Judgement

GPHG's executive team consists of the chief executive (CE) and five directors covering finance, housing services, development, property services and organisational development. Matthew Harrison has been CE since April 2013. He had previously been director of development since 1993 and deputy CE since 2002. The Customer Services Voice and the Tenant Scrutiny Group support the voice of the tenant to the board.

The board has eight members plus the CE. A governance overhaul commenced in 2013 and by September 2014, the group's original board of 12 had been fully replaced by a new board of eight members plus the CE. This smaller board is more professional and consists of more highly skilled members than previously.

GPHG, GPHA and Plumlife have had the same board since September 2013, to streamline the governance structure. Cube and Terra Nova still have different boards. The group has adopted a new code of governance and reported full compliance with this in its FY14 accounts. The group re-procured its external audit services in November 2013 and its auditors are now BDO. No significant concerns were raised on the FYE15 unqualified accounts. The internal auditors were also replaced by PwC from 1 April 2015.

Most Recent Regulatory and Viability Judgements

GPHG's latest regulatory judgement was published in May 2014. The V1 viability grading was affirmed, and the governance grading was raised to G1. The latest viability rating from February 2015 affirmed the V1 rating. GPHG is also currently undergoing an HCA in-depth assessment. This will replace its annual viability review. The quarterly survey will focus on liquidity and cash flow and aims to give a better early warning sign of problem cases.

GPHG's short- and medium-term strategic plans are explained in the new 2015-2018 Corporate Plan, which presents the group's vision, values and corporate priorities. In FY15, GPHG undertook a significant review of the strategic direction of the organisation in terms of value for money. A new vision has been introduced and a three-year corporate plan has been produced with new values and revised corporate priorities. The evaluation was based on delivering core objectives, on becoming more economical, efficient and effective, on openness and transparency, and on reacting to key challenges faced. FY15 was a successful year and included a record surplus and profitability, increases in customer and repairs satisfaction, improved arrears performance, and record numbers of new homes built. Major procurement exercises for investment works, development contractors and consultants, the vehicle fleet and scheme and office cleaning will be carried out over the next year.

Fitch assesses the credit profile of RPs on a standalone basis, but also factors in the strong quality of the cash flow, through HBs and government-supported funding for capex investments (housing grants). In addition, the strong regulatory oversight and potential for extraordinary support provide a one-notch uplift to the standalone assessment. In November 2014, Fitch downgraded the ratings of English SH RPs to reflect the reassessment of their standalone credit strength. Fitch considers that this may weaken as the sector expands its non-SH activities and increases its debt.

Figure 2

Social Housing Units

	FYE15	FYE14
General needs/affordable	12,662	12,049
Supported housing	1,140	1,259
Shared ownership	1,097	1,090
Managed for others	676	726
PFI properties	633	425
Leasehold	584	558
Sheltered housing	300	299
Key worker	243	245
Extra-care housing	180	134
Managed by others	56	76
Total	**17,571**	**16,861**

Source: GPHG

Operations

Social Housing Stock Profile

GPHG manages and develops general needs social and affordable housing for rent, supported housing and extra care properties and low-cost home ownership, and manages key worker accommodation, leased and privately owned. The group is also involved in the regeneration of communities and neighbourhoods, and provides related services such as financial inclusion and social enterprise activities. GPHG is keen to continue its involvement in supporting housing activity, particularly as local authority budgets are under strain due to past and expected cuts. Although some of these schemes have reduced surpluses, the group will in the short term subsidise some of these if necessary. Two supported housing schemes were closed in 2014 as they had become unviable, but there are a number of schemes the group chooses to subsidise. These are reviewed regularly.

In FY15, just under 1,000 new homes were brought into management through development and the Oldham PFI contract. 150 units were disposed of, handed back to landlords, staircased or subject to mortgage rescue syndication, and 115 supported housing units were disposed of. This led to net growth of 4.2% or 710 units. GPHG aims to dispose of about 60 units every year over the next three years, mainly through the disposal of voids. The group has a stock sustainability database that ranks all properties in terms of long-term contribution, which helps determine which properties should be targeted for disposal or reinvestment.

Development Programme and Partnerships

The group has commenced the 900-unit, GBP17m grant 2015-2017 AHGP. This has an approximate cost of GBP101m. It has completed the 1,300-unit, GBP28m grant 2011-2015 AHGP with a total cost of GBP158m. GPHG obtained GBP50m of guarantee funding comprising a GBP20.5m Affordable Housing Finance bond, transacted in May 2014, and a European Investment Bank (EIB; rated AAA/Stable/F1+) loan for GBP29.5m, which was drawn in September 2015. The group will also provide 450 homes with GBP12m as part of the AHGP2 by March 2018 with a total cost of about GBP60m.

GPHG should benefit from wider development procurement with partners that will be developing a greater number of units. The group has taken on additional Section 106 deals with house builders for non-grant-funded schemes and since end-2011 it has acquired over 150 properties. GPHG has a rolling annual provision of GBP5m set aside to fund these opportunities. Funding for the development is covered by first-tranche sales, operating surpluses, loan facilities and HCA grants. Nevertheless, GPHG can scale back the development plan if required without affecting the group's finances. At FYE15, first-tranche sales were 4% of total income generated, while developments for sale accounted for less than 1% of total income.

Figure 3
Total Stock and Development Track Record

	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Total owned & managed	13,858	14,781	15,045	15,798	16,147	16,574	16,861	17,571
Units developed	360	442	481	626	705	520	497	730
(%)	2.6	3.0	3.2	4.0	4.4	3.1	2.9	4.2

Source: GPHG

GPHG has two joint ventures. The group is an equity partner in the Sheffield Local Housing Company. Delivery of around 2,500 homes over 15 years has begun, with 500 of these for affordable housing or home ownership. By FYE15, 300 properties had been delivered, with another 500 to be developed up to FY19. GPHG is also an equity investor and delivery partner in the Inspiral consortium. The Oldham PFI project allows the group to extend its services and take advantage of economies of scale. The group now provides housing management services (not maintenance services) to 650 properties on four sites. GPHG is responsible for delivery of housing management services, but not for construction, maintenance or lifecycle works.

Cube has sold 40 market sale properties through two sales schemes and will be increasing this activity using GBP25m additional intergroup funding. By May 2015, there will be 76 properties across five schemes with potential sales revenue of over GBP12m during 2015-2017. In terms of market rent, GPHA owns 101 market rent properties, which since April 2014 have been operated under Plumlife. Another 37 units had been added to the portfolio by FYE15.

The group has around 1,600 properties eligible for right to buy (RTB), mainly in Sheffield and some from stock transfers from Manchester City Council and Blackpool. Individuals get a discount on the market value of their home if they qualify for RTB, capped at a maximum of GBP77,000 outside London.

The proposed extension of RTB could have significant financial consequences for all RPs, but it is too early to know the pace and depth of take-up. GPHG has carried out work around the impact of RTB on the group. If the RTB discount is funded by the government, the impact will be minor and almost beneficial for the group. In terms of replacing stock, as GPHG plans to develop 400 homes annually over the next few years, the replacements would be included in these numbers, and the group would not add to their development programme. Nevertheless, there are still many uncertainties, such as what will happen if there are no council homes available for sale in the areas where tenants want to exert their RTB.

Figure 4
Demand Indicators FY15 (%)

	GPHG	Median group quartile
Rent loss through voids	0.78	0.88
Average re-let times (days)	28	27
Tenancy turnover (%)	9.6	10.2

Source: GPHG

Demand Indicators and Rent Increase

According to HCA figures from April 2014, over 120,000 people (equivalent to 4% of the local population) are on LA waiting lists in North-West England. The HCA estimates that 122,000 new households will be created in the area in 2014-2021, equivalent to 17,000 a year. In FY13, 13,000 dwellings were completed in the North-West, of which 500 were built by GPHG.

In April 2015, rents rose by an average 2.11% or GBP1.84 a week. This was based on the September 2014 CPI of 1.2% to which 1% was then added. The 2015 UK Summer Budget includes measures that will negatively affect RPs. SH rents will be reduced by 1% a year for four years starting in April 2016, superseding last year's announcement that rent increases would be based on CPI+1% for the next 10 years. The CPI rise is expected to be reinstated after four years. Other measures announced include reducing the cap on the total amount of benefits an out-of-work family can receive, to GBP20,000 from GBP26,000 (GBP23,000 for London). Those aged between 18 and 21 will no longer necessarily receive housing benefit. SH tenants with household incomes of more than GBP30,000 (GBP40,000 in London) will be required to pay market or near-market rent for their housing. Lifetime tenancies in SH will also be reviewed to limit their use. These changes will put further pressure on the ability of tenants to pay their rent and may lead to increased arrears.

GPHG's overall average weekly rent in April 2015 was GBP89.07, 70% of the equivalent average market rent of GBP126.78. GPHG also now has 2,300 affordable-rent properties from new developments and conversions of existing properties on re-let. Both types of property have rents that average an additional GBP12 per week.

Efficiency Indicators

GPHG's focus is to maximise efficiency, both structural and organisational. It has achieved economies of scale by growing without simultaneously increasing overheads. Management costs per unit decreased during FY15, although routine and planned maintenance costs were stable. The total cost per unit including management and maintenance decreased by 4% year on year. It established an in-house maintenance team in 2011, and all properties have been maintained through this team since FYE13.

Figure 5

Development of GPHG's Structural Costs

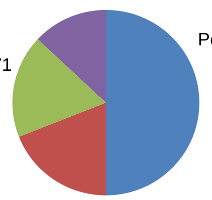
	FY10	FY11	FY12	FY13	FY14	FY15
Management cost per unit (GBP)	724	854	810	841	881	824
Routine & planned maintenance cost per unit (GBP)[a]	687	607	651	610	601	599
Total cost per unit (GBP)	1,411	1,461	1,461	1,451	1,482	1,423

[a] Includes routine maintenance and planned maintenance but not major repairs
Source: Fitch, GPHG

The group expects the new procurement team to have influenced 80% of all spending by end-2016, enabling savings of around GBP2m. On average, GPHG spends GBP14m annually on maintaining and improving properties, including new kitchens and bathrooms, heating systems and energy efficiency works. A photovoltaic panel installation project has brought significant energy cost savings to about 600 tenants, and generated an annual revenue stream of GBP300,000.

Figure 6

GPHG: Build Date of Stock Profile



Source: GPHG

The group complies with the Decent Homes Standard (DHS) and had a 20% stock condition survey in 2009-2010. In-house surveyors continuously check the stock and the value of required works under the stock condition survey, which are fully funded within the BP. The expected costs of keeping all properties to the DHS over the next 30 years is incorporated in the BP. The relatively young stock profile has helped limit structural costs.

Housemark data shows that GPHG compares well on demand indicators across a sample of 21 similar RPs in northern England. In benchmarking, the group has historically compared itself with other RPs based in northern England, but now also does so against other bond issuers in the sector and against the strongest RPs within the UK. Current rent arrears for FY15 were 3.4% compared to 3.6% in FY14, and a high of 5.3% in FY10, showing that there has so far been no detrimental effect on arrears from the changes to universal credit. A GPHG financial support coordinator is located in each region to ensure residents optimise benefit take-up. Eviction is a last resort, and in the last seven years, 40-70 tenants have been evicted a year, under 1% of all tenants. Evictions are not always rent related but may also relate to antisocial behaviour.

Financial Analysis

Income generated from SH has increased over the years, and Fitch expects it to continue increasing over the time of the BP. The group estimates that 87% of FY15 revenue came from SH. In terms of other SH activity, 4% is from first-tranche sales, 4% from supporting people and 2% from properties owned but managed by other organisations. Fitch expects the proportion of turnover from developments for sale and first-tranche sales in the updated BP to remain stable over the next five years. However, the entity is not reliant on sales to achieve surpluses or meet any covenants.

Revenues

Total turnover reduced slightly to GBP84m in FY15, from GBP85m in FY14. This was partly due to GBP0.7m less turnover from the share of joint-venture turnover and due to a change in the treatment of internally generated development income, which represented GBP3.1m in FY14. Instead, GBP3m was netted off against operating costs. Adjusting for this, turnover would have increased by GBP2.4m from continuing growth in property numbers and rental inflation. Turnover from SH letting rose to GBP73m in FY15, from GBP69m in the previous year. The revised BP projects an increase in SH turnover to GBP83m (GBP103m in June 2015 BP) by FY20.

Welfare Benefit Reform

The proposed welfare benefit reform presents risks, particularly from rises in arrears and bad debts. GPHG expects arrears to come from direct payment of HB to tenants rather than RPs. Nevertheless, the impact of the changes may be minimised for GPHG as a large proportion of its tenants are exempt as vulnerable, where benefits can revert to direct payment to the RP after eight weeks' arrears. At FYE15, 56% of residents paid through HB, and 21% have historically had their rent paid in full by HB. The subsidy will be capped (at GBP20,000, from GBP26,000), and GPHG believes about 2,200 residents will be in the highest-risk category. At present, the group's arrears policy has not changed. The bad debts provisioning policy has been revised to reflect the view of a likelihood of low arrears level leading to bad debt.

The rollout of universal credit began in four north-west local authorities (including Oldham, where GPHG has 1,000 properties) from summer 2013. This was followed by direct payment of benefit to tenants rather than the landlord. The financial inclusion team of nine established in 2009 has worked with those affected to help reduce arrears, minimise energy costs and prevent evictions. This team has consistently helped residents save at least GBP1m a year. During FY15, three people were added to the team, and another three are expected to be added in FY16. GPHG believes that 25% – or 2,600 – of its residents will be the most at risk to rental income as they have historically had their rent fully paid by HB and will now pay from direct payment.

The group has calculated that the under-occupancy rules, the "bedroom tax", may affect under 1,000 residents. This came into force at the beginning of April 2013 and it is hard to predict whether the expected rise in arrears will be short or long term. Arrears increased by GBP77,000 in FY15 (GBP118,000 in FY14) as a result of the under-occupancy charge. The financial inclusion team is working with affected residents and will implement trigger points for action.

GPHG has estimated that under 2% of residents will be affected by the benefit cap. In Oldham, only 21 residents are affected, to the extent of GBP1,200 weekly. If this is scaled up to a worst-case position of GBP12,000 weekly, it would represent GBP0.6m a year, 1% of the rent roll.

Expenditure

The group's operating costs decreased to GBP56m in FY15 from GBP60m in FY14. This was primarily due to GBP3m of development income being netted off against operating costs instead of it showing in turnover, which reduced by the same amount. This was due to a revised accounting treatment. Staff costs (including national insurance and pensions) were just under GBP20m at FYE15 and are by far GPHG's most significant expense. The average number of full-time equivalent staff in 2014-2015 was stable but rose to 602 in FY15 from 555 in FY13, about 200 of whom work in supported housing schemes. In April 2013, the group granted a 2.75% salary rise and absorbed pension contribution increases that followed a 3% rise in 2012 and a pay freeze in 2011.

The repairs team has been brought in-house, which has improved the quality of service delivered and over the longer term will generate cost savings. The repairs team is of over 60 operatives plus call handling, supervision and management. Enhancements to IT systems have also helped break down costs into labour, travel, distance travelled, material and breakdown, invoicing and administration, which will help the costs analysis of repair work.

GPHG compares well against a sample of similar RPs on repairs responsiveness and void works. Total cost per property of responsive repairs and void works was GBP691 in FY14, in the upper quartile. The group's focus is primarily to get a repair done, to the timescale the tenant requires, and done the first time. It is also key to make appointments that are convenient for the tenants. The group participates in a large framework arrangement (Innovation Chain North West) with two other RPs to help reduce contractor prices. Terra Nova, the group's VAT minimisation vehicle, continues to deliver VAT efficiencies. In 2012, the group also invested to strengthen its procurement team to guarantee the best value for goods and services. In FY13, the group carried out a gas servicing procurement exercise and re-procured the contract. This was followed by a focus on legal costs and cleaning.

Business Plan 2015-2016

GPHG's 2015-2016 BP was approved by the board in April 2015. The group forecasts annual surpluses, from GBP11m for FY16 rising to GBP15m in FY20, despite welfare reform issues. The strategy is for the group to dispose of about 60 properties for the first three years and 40 thereafter, which will balance considerations of demand, stock condition, investment requirements and sales receipts and surpluses. The BP incorporates the expected costs of maintaining all properties to the DHS and includes a five-year cyclical maintenance programme. The plan reflects further very significant reductions in funding for supporting people and has incorporated the potential impact of welfare benefit reforms. The group has taken a conservative approach to welfare reform.

Figure 7

Development Track Record

	Units developed/ completed	Units in development
2007-2008	360	580
2008-2009	442	556
2009-2010	481	882
2010-2011	626	642
2011-2012	705	461
2012-2013	520	513
2013-2014	497	701
2014-2015	730	1,029
2015-2016*	136	
2016-2017*	786	
2017-2018	445	

*HCA contract figure
Source: GPHG

The sensitivity analysis considers various scenarios around inflation, the property market, interest and funding and political factors as well as a combined scenario that shows the relative importance of some key risks and considers more complex and challenging stress-testing scenarios. The consequence of more severe stress-testing has been a greater focus on implementing early warning monitors in order to implement prompt mitigations. Additionally, it has prompted the creation of a contingency plan. Some of the actions include increasing the minimum cash buffer; increasing the minimum of fixed-rate debt; careful management of cash resources; an up-to-date register of assets and liabilities; reviewing the status of all housing schemes; reconsidering the development of 400 units per annum; and re-evaluating the asset management strategy.

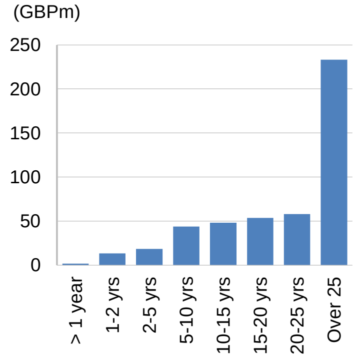
Revised Business Plan October 2015

The revised BP, post July 2015 budget, was approved by the board in October. This is an update to the plan published in April and focuses on GPHG's response to the changes arising from the budget and the direct impact of the rent cuts that have a significant impact on the plan. The impacts on key financial measures are as follows: Interest cover decreases rapidly to under 120% and then gradually to 110% over 20 years, nearing a covenant breach and leaving no headroom. Gearing steadily deteriorates but is still below the covenant of 65%. Security exhaustion occurs at year 6 rather than year 11, meaning commitment to the same scale of development beyond the existing 2015-2018 programme is highly risky. Surplus deteriorates rapidly and after 10 years is just below 45% of its base position. A Business Transformation Project has been established to deliver existing processes and services more effectively in order to achieve the necessary cost savings.

The savings included in the plan have been categorised in three main groups. Potential savings as a result of changes to assumptions start at GBP423,000 in FY17 and reach a peak of GBP2.7m in FY22 and total GBP17.8m over nine years. These exclude RTB sales surplus and cash investment procurement items. The most significant items are changes to bad debt assumptions and interest rates. Operational savings range from GBP680,000 to GBP4.3m in any one year between FY16 and FY22, and total GBP29.3m. The single highest savings are to treasury costs for the AHF and EIB fixed rate being better than planned. Total pre Business Transformation Project savings range from GBP100,000 to GBP1.3m over FY16-22.

Figure 8

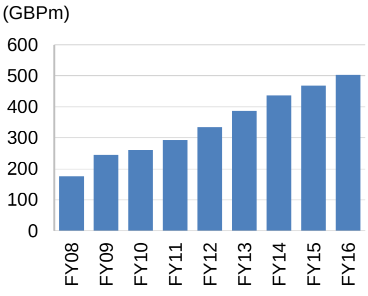
Loan Maturity Profile
Financial debt



Source: Great Places

Figure 9

Actual and Projected Debt
LT debt



FY14: Actual; FY15-FY16: Business plan
Source: Great Places Housing Group Ltd

The proposals to alleviate the pressure lead to more headroom on the covenants. The interest cover ratio from year 15 is significantly better than in the original plan, primarily due to reduced debt as a result of a lower scale of development and increased cash from RTB and shared ownership sales. Gearing also improves and is lower than in the original plan for similar reasons. Debt levels are much lower except until year 4 as GPHG will have to draw down its current facilities with RBS and Santander. Debt to turnover initially worsens due to reduced turnover as a result of rent reduction. Surplus shows a similar trend to the original plan, but is 25% lower. The operating margin will be maintained above 30% but will not be as high as the 40% envisaged in the original plan.

The stress-testing is a single multi-variable stress scenario where: rent increases by CPI only after the four-year rent reductions finish; a cessation of all development grant post March 2018; bad debts double to 6% (as a result of the impact of welfare reform being greater than expected); the GBP315m loan portfolio is repriced at a 2% margin; the assumption of 100 RTBs for three years is double what happens; there is no reduction in mark-to-market exposure with cash collateral returned over a 20-year period; and larger loss-making schemes are converted to intermediate or market rent. The impact of this is that: the interest cover ratio is breached from year 4; the gearing covenant is breached in year 26; the funding facilities only last until June 2019 rather than March 2021; an Income and Expenditure deficit occurs from 2033 onwards; and security exhaustion occurs in year 6/7. The pressure on the above is eased significantly by delivering GBP5m of further savings per annum. This assumes that development would continue at a rate of 300 units per annum.

Debt and Liquidity

At FYE15, debt had increased to GBP471m from GBP414m at FYE14. Most of the group's debt was taken out after 2007 through GPHG, and on lent to GPHA. There is a small amount of direct lending to Plumlife, and Cube has access to GBP25m of intergroup lending from GPHA. At FYE15, 94% was at fixed rates of interest. The latest Treasury strategy approved in July 2015 is for a maximum of 75% of drawn debt hedged against a variable interest rate of 25% +/−10% unless specifically approved otherwise.

The group only borrows in sterling, and uses standalone interest rate swaps to hedge interest rate risk. The group also had a mark-to-market exposure of GBP47m, an increase from GBP24m at FYE14. GPHG is required to post collateral for the mark-to-market exposure above the unsecured threshold on its standalone interest rate swaps. The average cost of debt was 4.59% in FY15, down from 4.97% in FY14.

In October 2012, GPHG issued a GBP150m secured 30-year fixed-rate bond, with a GBP50m retained element. It achieved a 170bp spread at an all-in cost of 4.81% for 30-year debt. This issuance was 8x oversubscribed. In December 2013, GPHG raised GBP31.8m of the GBP50m retained bonds and achieved an all-in cost of 4.57% and a spread of 1.04%. The final GBP18m of the retained bond was issued on 3 October 2014 at an all-in cost of just over 4% and a spread of 1.02% over the gilt, almost 70bp cheaper than the GBP150m initially issued in October 2012. Future funding is likely to be, initially, through taps on the bond.

Interest cover (operating surplus, add back surplus/deficit on sale of property in normal course of business, add back depreciation, impairment and gift aid/net interest payable) was 185% at FYE15, from 186% at FYE14. The internal covenant target is 120%, higher than the current loan covenant of 105%, which provides operating headroom. Property sales in the ordinary course of business include first-tranche sales, staircasing and small asset management, but exclude large disposals (such as a bulk sale to another RP) or outright/market sales (such as those through Cube). Gearing (measured as total borrowings less cash at banks and in hand divided by housing properties at cost, less properties under construction, less depreciation and impairment) increased slightly to 44% from 41% at FYE14 and remained well below the covenant requirement of 65%. The BP forecasts key financial covenants to be comfortably met, despite increasing debt.

Most of the group's debt is amortising except for three bullet repayments: GBP20m of The Housing Finance Corporation EIB facility due in 2031; a GBP200m bond for repayment in October 2042; and the GBP20m AHGP bond due in 2042. There is also a GBP60m Royal Bank of Canada (AA/Stable/F1+) revolving facility due for repayment in November 2018, of which GBP10m is drawn. Otherwise, annual debt repayments are between a low of GBP2m in 2015/2016 and just over GBP60m in 2018/2019 although at present only GBP10m has been drawn from the RBC revolving facility. All future standalone hedging is to have a maximum maturity of 10 years.

The group had total facilities of GBP669m at FYE15, of which GBP474m was drawn and GBP195m available. Of this, GBP50m was immediately available, and fully secured, and GBP145m was undrawn, not yet secured, and not available immediately. Most facilities are with major UK lenders including Santander, Barclays, Lloyds, Royal Bank of Canada and Royal Bank of Scotland. Of the group's 15,678 properties owned at FYE15, a total of 12,489 were secured, another 194 valued but not yet charged, and another 2,314 not yet valued. Sixty-seven percent of the secured portfolio is valued at market value subject to tenancy, the remaining portfolio at existing use value subject to tenancy. The group has GBP671m of loan supportable properties and has GBP182m of loan available for drawing. GPHG expects to draw down GBP43m debt over the next 12 months, GBP29m in FY17, GBP25m in FY18 and GBP37m in FY19, totalling GBP134m.

In early 2014, eight RPs were approved for GBP400m of government-backed EIB debt. GPHG borrowed GBP50m to build 674 homes in Manchester and the north. This funding is part of the first tranche of the GBP3.5bn AHGP2 under which RPs use the government balance sheet to underwrite debt for 30 years, with the aim of enhancing credit, lowering borrowing costs and reducing the grant requirement.

GPHG had GBP26m in liquid assets at FYE15. The group holds minimum levels of liquidity to cover the forecast net outflow of: liquid funds to cover a month; near-liquid funds to cover six months; short-term funds to cover a year; and medium-term funds to cover all contractually committed liabilities falling due after a year and before three years. At FYE15, the group had sufficient cash and undrawn loan facilities available to meet all capital requirements for the next four years.

Appendix A

Figure 10

Great Places Housing Group Limited

(GBPm)	FY11	FY12	FY13	FY14	FY15
Income statement					
Operating revenues	66.9	72.1	79.8	85.0	84.3
Staff expenses	-15.5	-15.4	-17.3	-19.4	-19.0
Depreciation	-6.9	-6.6	-6.9	-7.7	-8.2
Other operating revenues and expenditure	-32.0	-32.4	-32.7	-32.4	-28.4
Operating balance before grants and subsidies	12.5	17.7	22.9	25.5	28.7
Revenue from public sector	-	-	-	-	-
Operating balance after revenue from public sector	12.5	17.7	22.9	25.5	28.7
Interest revenue	0.1	0.2	0.2	0.2	0.2
Interest expenditure	-11.3	-11.0	-16.2	-19.2	-20.5
Operating balance after financing	1.3	6.9	6.9	6.5	8.4
Surplus on disposal of fixed assets	1.8	0.5	0.7	2.8	2.6
Non-operating revenue and expenditure	0.0	0.0	0.0	0.0	0.0
Profit (loss) before taxation	3.1	7.4	7.6	9.3	11.0
Taxation	-0.2	-0.1	-0.2	-0.1	-0.1
Profit (loss) after tax	2.9	7.3	7.4	9.2	10.9
Minority interests	-	-	-	-	-
Profit or loss for the financial year	2.9	7.3	7.4	9.2	10.9
Balance sheet					
Assets					
Tangible assets	326.0	367.5	406.2	449.6	500.5
Intangible assets	-	-	-	-	-
Other long-term assets	-	-	-	-	-
Long-term investments	0.0	0.0	0.7	0.2	13.3
Stock	13.4	13.1	14.7	18.6	7.5
Trade debtors	1.9	0.7	0.4	0.5	0.6
Other current assets	18.0	28.1	33.2	20.6	46.6
Cash and liquid investments	10.8	6.3	18.0	27.3	26.3
Total assets	370.1	415.7	473.2	516.8	594.8
Liabilities and equity					
Long-term liabilities	2.7	3.5	3.2	5.7	6.5
Pension	0.2	0.2	0.3	0.3	0.7
Long-term debt	287.8	328.5	376.4	405.7	462.0
Trade creditors	1.4	3.4	1.6	2.0	2.6
Other short-term liabilities	34.3	29.1	33.4	35.6	42.1
Short-term debt	1.6	1.5	1.6	1.5	1.5
Equity	-	-	-	-	-
Reserves	42.1	49.5	56.7	66.0	79.4
Minority interests	-	-	-	-	-
Liabilities and equity	370.1	415.7	473.2	516.8	594.8
Debt statement					
Short-term debt	1.7	1.7	1.8	1.7	1.6
Long-term debt	291.1	332.9	382.5	412.3	469.2
Total debt	292.8	334.6	384.3	414.0	470.8
Other Fitch classified debt	-	-	-	-	-
Total risk	292.8	334.6	384.3	414.0	470.8
Cash, liquid deposits and sinking fund	10.8	6.3	18.0	27.3	26.3
Net risk	282.0	328.3	366.3	386.7	444.5
Contingent liabilities	-	-	-	-	-
Net overall risk	282.0	328.3	366.3	386.7	444.5
% debt in foreign currency	0.0	0.0	0.0	0.0	0.0
% issued debt	0.0	0.0	38.7	43.7	42.8
% debt and fixed interest rate	66.0	63.0	90.0	91.1	94.4

Source: Issuer and Fitch calculations

Appendix B

Figure 11

Great Places Housing Group Limited

(GBPm)	FY11	FY12	FY13	FY14	FY15
Cash flow statement					
Funds from operations	21.6	26.2	31.1	35.9	38.1
Other cash flow movements	8.2	-10.3	-10.8	10.5	-24.1
Changes in working capital	2.7	-4.0	9.9	7.9	6.8
Cash flow before net capital expenditure	32.5	11.9	30.2	54.3	20.8
Net capital expenditure	-57.9	-45.7	-52.9	-53.4	-56.3
Cash flow before financing	-25.4	-33.8	-22.7	0.9	-35.5
New borrowing	34.3	45.6	176.2	42.9	70.9
Other cash financing	-10.1	-12.4	-15.1	-21.4	-22.3
Debt repayment	-3.5	-4.0	-126.6	-13.2	-14.2
Cash flow after financing	-4.7	-4.6	11.8	9.2	-1.1
Ratio analysis					
Profitability ratios					
Personnel costs/oper. rev including revenue from public sector (%)	23.17	21.36	21.68	22.82	22.54
Revenue from the public sector/oper. rev including revenue from public sector (%)	-	-	-	-	-
EBITDA/oper. rev including revenue from public sector (%)	29.3	34.4	37.34	39.06	44.01
Balance sheet ratios					
Current assets/total assets (%)	11.92	11.59	14.01	12.96	13.62
Current assets/total liabilities (%)	13.45	13.16	15.92	14.86	15.72
Return on equity (%)	6.89	14.75	13.05	13.94	13.73
Return on assets (%)	0.78	1.76	1.56	1.78	1.83
Debt ratios					
Net debt/EBITDA (x)	14.4	13.2	12.3	11.6	12.0
Long-term debt/oper. rev including revenue from public sector (%)	435.13	461.72	479.32	485.06	556.58
Total debt/EBITDA (x)	14.9	13.5	12.9	12.5	12.7
Debt/equity (%)	695.49	675.96	677.78	627.27	592.95
EBITDA/gross interest expenditure (x)	1.7	2.2	1.8	1.7	1.8
Debt servicing/operating balance before revenue from public sector (%)	118.4	84.75	623.58	127.06	120.91
Debt servicing/operating balance after revenue from public sector (%)	118.4	84.75	623.58	127.06	120.91

n.a.: Not available
Source: Issuer and Fitch calculations

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.