Great Places Housing Group Limited

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	AA−
Short-Term IDR	F1+

Local Currency

Long-Term IDR	AA−

Outlooks

Long-Term Foreign-Currency IDR	Negative
Long-Term Local-Currency IDR	Negative

Financial Data

Great Places Housing Group Limited

	31 Mar 14	31 Mar 13
Total units	16,861	16,574
Total units owned	15,355	15,152
Total turnover (GBPm)	83.1	79.2
Surplus on sale of properties (GBPm)	2.8	0.7
Total debt (GBPm)	414.0	384.3
Management cost per unit (GBP)	881	841
Operating surplus/operating revenue (%)	30.0	28.7
Debt/reserves and housing grant (%)	69.5	66.8
Interest paid/EBITDA (%)	22.6	20.3
Voids on general housing stock/turnover (%)	1.7	1.6
Current rent arrears (%)	3.6	3.5

Related Research

Promising Developments for Social Housing Sector in England (July 2014)

Social and Affordable Housing (September 2013)

English Social Housing: Registered Providers - Sector Credit Factors (August 2012)

English Registered Social Housing Providers: Strongly Government-Monitored and Regulated Sector (May 2012)

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Key Rating Drivers

Strong Public Support: The ratings of Great Places Housing Group Limited (GPHG) reflect the high demand for social housing 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 Negative Outlook reflects the outlook for the English social housing sector, which faces more exposure to business risks due to an expansion into non-social housing and increasing development activities. Although public funding and regulatory oversight are still strong supports for the ratings, in Fitch Ratings' view they are not as robust as they were. Fitch will be reviewing the sector outlook before end-2014.

Strong Cash Flows: The group receives social housing grants from central government and government subsidies through housing benefit. Up to 81% of group operating cash flow comes from social housing lettings backed by housing benefit. Recent changes to housing benefit reduced subsidies, and the group estimates that 21% of its residents, who historically had their rent paid in full through housing benefit, are among those most at risk of running into arrears.

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 top-quartile 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 and has generated efficiencies and value for money. Surpluses come from core social housing activities rather than property development.

New Developments, Growing Debt: The group has a significant development programme of over 2,000 units in the 2011-2015 and 2015-2017 HCA allocations, supported by GBP50m of HCA grant. The group will provide 1,281 affordable rent properties over 2011-2015. Debt grew to GBP414m at FYE14 from GBP384m at FYE13 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 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 business plan. At FYE14 interest cover was 186%, above the bank covenant of 105%. Gearing was 41% but remained well below the loan covenant requirement of 65%.

Rating Sensitivities

Grant Cuts, Increased Debt, Volatility: A downgrade could result from material increases in rent arrears resulting from the changes in housing benefit. A downgrade could also result from a further loosening of regulation, a significant increase in non-social-housing activities leading to increased volatility in operating revenue, and a large increase in gearing.

Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
29 May 14	AA−/ Negative	AA−/ Negative
13 Dec 13	Revision IDR	Revision IDR
30 May 13	AA−/Negative	AA−/ Negative
23 Apr 12	AA−/Stable	AA−/Stable

Figure 1

Top 6 LAs by Unit Number

	FY14	FY13
Salford	2,677	2,673
Manchester	2,415	2,346
Oldham	1,730	1,683
Sheffield	1,678	1,587
Blackpool	1,267	1,285
Blackburn	953	991
Total units in 6 LAs	10,720	10,565
Total units in stock	**16,861**	**16,548**

Source: Great places

Related Criteria

Ratings of Public Sector Entities Outside the United States (March 2014)

Revenue-Supported Rating Criteria (June 2014)

Profile and Group Structure

At FYE14 GPHG owned or managed 16,861 properties, of which 91% were owned. These are primarily in Greater Manchester, Lancashire and South Yorkshire, but the group is active in 37 local authorities, with two-thirds of properties concentrated in six local authority areas.

The group was formed in April 2006 when Manchester Methodist Housing Group and Ashiana Housing Association merged. GPHG was not the result of a large-scale housing stock transfer from a local council but is a registered provider (RP) that has operated for a number of years.

The group is growing through a combination of small-scale acquisitions or exchanges of stock, and organic growth through development. GPHG is a non-charitable registered provider 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 has five directors covering finance, housing services, development, and property services. In April 2013, the chief executive, Stephen Porter, retired after 22 years and was replaced by Matthew Harrison, who had been director of development since 1993 and deputy chief executive since 2002. The new director of development was appointed in April 2013 and has worked for GPHG since 1999. In December 2013 a new interim director of property services joined the executive team. The previous position of director of performance and innovation will be replaced by the end of the year by a Director of Organisational Development.

The board consists of 12 members. In September 2013 the chair retired having reached the maximum length of service, and six new members were appointed as part of a governance overhaul. Of the 12 board members, five retired in September 2014 and have been replaced by two, with the aim of making the board more cohesive. Therefore, between 31 March 2014 and September 2014 all board members changed. This is partly due to a maximum tenure of nine years and partly to the HCA's governance downgrade in July 2013 (see below).

GPHG, GPHA and Plumlife have all had the same board since September 2013, to streamline the governance structure. The group has adopted a new code of governance and reported full compliance with this in its FY14 accounts. The previous external auditors, Grant Thornton, raised no significant concerns on the FYE13 unqualified 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 FYE14 unqualified accounts.

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 raised to G1. The governance was downgraded to G2 at end-July 2013. This was due to the board having exercised weak governance when agreeing executive contracts and severance payments to an outgoing executive.

GPHG had already taken remedial action with the assistance of independent advisers to strengthen its governance arrangements. Since then it has made longer-term changes, including to both the executive team and the board. The upgrade to G1 in May 2014 followed a period of regulatory engagement, and the regulator now has assurance that GPHG's governance arrangements are fit to control the organisation and enable it to continue meeting its objectives.

The latest viability report was published in January 2014. The viability judgement affirmed the grading of V1. GPHG has fully complied with the new Value for Money standard. Its self-assessment was adequate, but it will continue to work on efficiencies and more effective working practices.

Fitch assesses the credit profile of RPs on a standalone basis, but also factors in the strong quality of the cash flow, through housing benefits and the importance of government-supported funding for capex investments (housing grants). In addition, the strong regulatory oversight and potential for extraordinary support provides a two-notch uplift to the standalone assessment.

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.

Figure 2
Social Housing Units

	FYE14	(%)	FYE13
General needs/affordable	12,049	71	11,730
Supported housing	1,259	7	1,284
Shared ownership	1,090	6	1,086
Managed for others	726	4	710
Leasehold	558	3	519
PFI properties	425	3	381
Sheltered housing	299	2	299
Key worker	245	1	353
Extra-care housing	134	1	134
Managed by others	76	0	76
Total	**16,861**		**16,574**

Source: Great places

GPHG is keen to continue 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.

The group added over 600 units to its total stock in the financial year to end-March 2014 (FY14) and completed almost 500 new development properties, of which 90% were for rent. Apart from completing the 700 properties in site the group will also bring into management the final 200 homes being constructed as part of the Oldham PFI project. It also aims to dispose of about 40 units every year, mainly through the disposal of voids. Over the 2011-2015 HCA development programme period, now extended to 2017, 100 properties will be disposed of through outright sale and shared ownership to existing tenants.

Development Programme and Partnerships

The group has a significant development programme of over 2,000 units in the 2011-2015 and 2015-2017 HCA allocations, supported by a GBP50m HCA grant. The group signed a contract with the HCA for Affordable Rent Development of 1,281 properties over 2011-2015, with a total cost of GBP158.4m, supported by a grant of GBP29.6m. The contract included only 119 shared ownership properties, 9% of the total, leading to reduced sales exposure. GPHG is the lead partner in the Bloc partnership, through which it is developing these units. Most properties will be two- or three-bedroom houses.

At FYE14, over 600 properties had been completed, and all the remaining allocation is on site. Of the grant, GBP21m had been received. The contract signed for the 2015-2017 Affordable Rent Programme was for 922 properties, with a total cost of GBP100.7m and supported by a grant of GBP17m. The contract includes 142 shared ownership properties (15% of the allocation). The schemes are now beginning to go on site. GPHG obtained GBP50m of guarantee funding comprising a GBP20.5m Affordable Housing Finance bond, transacted on 22 May 2014 and a European Investment Bank (EIB) loan for GBP29.5m available to be drawn between September 2014 and September 2015. The bonds issued on 22 May benefitted from the sector's cheapest-ever yields, priced at 37bp over gilts at an all-in cost of 3.76%. The transaction was 2x oversubscribed.

GPHG should be able to 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 130 properties. As well as the HCA grant, funding for the development is covered by first tranche sales, operating surpluses and loan facilities. Nevertheless, GPHG can scale back the development plan if required without affecting the group’s finances.

The group has been selected as a partner to 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. In FY14 the company delivered about 100 properties for sale, of which about 30 were acquired by GPHG for affordable rent.

The group has around 1,600 properties eligible for right to buy, 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 right to buy, up to a maximum of GBP75,000.

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 local authority waiting lists in northwest England. The HCA also estimates that 122,000 new households will be created in the area between 2014-2021, equivalent to 17,000 a year. In FY13 about 13,000 dwellings were completed in north-west England, of which 500 were built by GPHG.

In April 2014 rents rose by an average 4.54% or GBP3.79 a week, based primarily on the September 2013 retail price index (RPI) figure of 3.2% (plus the 0.5% add-on established by the HCA) plus further adjustments to ensure convergence with target rents. A GBP4/week cap was applied to the increase for some of the larger properties facing the "bedroom tax". During 2013, the government announced that rents in the sector would be tied to CPI rather than RPI and the long-established RPI+0.5% formula would be replaced with CPI+1% for at least the next 10 years, providing certainty regarding rental income.

Figure 3

Demand Indicators FY13 (%)

	GPHG	Median group quartile
Rent loss through voids	0.8	0.82
Average re-let times (days)	26	27
Tenancy turnover (%)	9.8	10.2

Source: Great places

GPHG's overall average weekly rent in April 2014 was GBP87.26, 72% of the equivalent average market rent of GBP121.78. GPHG also now has 1,600 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 increased during FY14, although routine and planned maintenance costs decreased. The total cost per unit including management and maintenance increased by 2% year on year. It established an in-house maintenance team in September 2011, and by FYE13 all properties were maintained through this team.

Figure 4

Development of GPHG's Structural Costs

	FY09	FY10	FY11	FY12	FY13	FY14
Management cost per unit (GBP)	682	724	854	810	841	881
Routine & planned maintenance cost per unit (GBP)[a]	637	687	607	651	610	601
Total cost per unit (GBP)	1,319	1,411	1,461	1,461	1,451	1,482

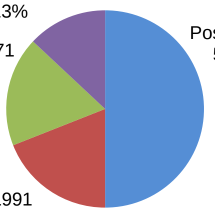
[a] Includes routine maintenance and planned maintenance but not major repairs
Source: Fitch, Great Places Housing Group Limited

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.

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 is fully funded within the business plan. The expected costs of keeping all properties to the DHS over the next 30 years is incorporated in the business plan. The relatively young stock profile has helped limit structural costs.

Figure 5

GPHG: Build date of Stock Profile



Source: GPHG

Housemark data shows GPHG compares well on demand indicators across a sample of 21 similar RPs in northern England (see Figure 4). 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 FY14 and FY13 were 3.5% compared to 4.1% in FY12, 4.4% in FY11 and 5.3% in FY10, showing that there has so far been no detrimental effect on arrears from the changes to universal credit. Eviction is a last resort and in the last four years on average 0.4% of tenants were evicted. Evictions are not always rent related but may also relate to anti-social behaviour. A GPHG financial support coordinator is located in each region to ensure residents optimise benefit take-up.

Financial Analysis

Income generated from social housing has increased slightly over the years and Fitch expects it to continue increasing over the time of the business plan. The group estimates that 77% of FY14 revenue came from social housing, 4% from supporting people, and 2% from managed properties. Other non-social-housing activity revenue comes from first tranche sales (4%), Homebuy direct (2%), and development (4%). Fitch expects the proportion of developments for sale and first tranche sales in the updated business plan 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 rose to GBP86m in FY14, up 8% from GBP80m in FY13. This was mainly due to growth in property numbers, rental inflation and higher first-tranche sales. Turnover from social housing letting rose to GBP69m in FY14, up from GBP65m in the previous year. The latest business plan projects an increase in social housing turnover to GBP103m by 2018-2019.

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 housing benefit 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 FYE14, 57% of residents paid through housing benefit and 21% have historically had their rent paid in full by housing benefit. The subsidy will be capped and GPHG believes about 2,200 residents will be in the highest-risk category.

At present the group's arrears policy has not changed, but the impact of the welfare reform may mean the policy has to be amended. The roll-out 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 12 established in 2009, which will increase to 16 by March 2015, will work with those affected to help reduce arrears, minimise energy costs and prevent evictions. This team helped residents save over GBP1m a year over 2011-2012 and 2013-2014. GPHG believes only 21% of its residents will be affected by universal credit and direct payment.

The group has calculated that the under-occupancy rules, the "bedroom tax", may affect 1,413 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 GBP116,000 in FY14 as a result of the under-occupancy charge. The financial inclusion team are working with affected residents and will implement trigger points for action.

GPHG has estimated that less than 2% of residents will be affected by the benefit cap. In Oldham only 21 residents are affected, to the extent of GBP1,200 per week. If this is scaled up to a worst-case position of GBP12,000 per week it would represent GBP624 a year, 1% of the rent roll.

Expenditure

The group's operating costs increased in FY14 to GBP60m from GBP57m in FY13. This was primarily due to an increase in management costs for general needs housing and an increase in depreciation of housing properties. The group had an average of 600 employees in FY14 (expressed as full-time equivalents) and about 200 of these work in supported housing schemes. In April 2013 the group granted a 2.75% salary rise and absorbed pension contribution increases. This followed a 3% rise in April 2012 and a pay freeze in April 2011. Staff costs (including national insurance and pensions) were just over GBP20m at FYE14 and are by far GPHG's most significant expense.

During FY12 the creation of an in-house repairs team led to a staff increase of about 50 plus those handling calls, supervision and management. This improved the quality of service delivered and over the longer term will generate cost savings, mainly from avoiding contractors' margins and VAT savings. The focus will be on eliminating waste through improved work scheduling and reducing subcontracted work. All repairs have been in house since 2013. At FYE14 the repairs team had over 60 staff plus call handlers, supervisors and management. Enhancements to IT systems will help 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 of sample of similar RPs on repair responsiveness and void works. Total cost per property of responsive repairs and void works was GBP696 in FY13, slightly below the upper quartile average of GBP690. 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 FY14 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. Development cost efficiencies are being sought through the appointment of a new construction manager to focus on bringing in house certain aspects of construction management.

The final FYE14 surplus before tax was GBP9m, GBP1m better than budget and projection. The main reason for this was the sale of 78 properties to City West Housing Trust on 31 March 2014, generating a surplus of GBP1.3m. Excluding this, year-end results would have been on budget. Key risks identified were that development income came late in the year, as did the sale of Oldham PFI for sale units. Some disposal of general needs properties were not complete at year-end.

Business Plan 2014/2015

GPHG's 2014-2015, was approved by the board in early April 2014. The group forecasts annual surpluses, from GBP10m for 2014-2015 rising to GBP13m in 2018-2019, despite welfare reform issues. The strategy is for the group to dispose of about 40 properties a year, which will balance considerations of demand, stock condition, investment requirements and sales receipts and surpluses. The business plan incorporates the expected costs of maintaining all properties to the DHS and includes a five-year cyclical maintenance programme. The plan reflects the 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 and Figure 7 summarises the changes in assumptions since last year's business plan.

The sensitivity analysis included in the business plans now considers a combined scenario that shows the relative importance of some key risks. The analysis shows that the risk of a loan re-price and the risk of much higher long-term interest rates are both significant. The new risk of an increasing gap between RPI and CPI is also significant. The analysis also shows that problems with individual projects can have a significant impact for one or two years, but the group is able to recover fairly quickly.

Figure 6
Development Track Record

	Units developed
2007-2008	360
2008-2009	442
2009-2010	481
2010-2011	626
2011-2012	705
2012-2013	520
2013-2014	497
2014-2015 (HCA contract figure)	624
2015-2016 (HCA contract figure)	136
2016-2017 (HCA contract figure)	786
2017-2018 (HCA contract figure)	445

Source: Great places

Debt and Liquidity

At FYE14, debt had increased to GBP414m from GBP384m at FYE13. 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 GBP12m of inter-group lending from GPHA, which in 2014 was increased to GBP25m. At FYE14, 91% was at fixed rates of interest, 8% at variable rate and 1% indexed. The latest Treasury policy from May 2014 is for a maximum of 75% of drawn debt hedged against a variable interest rate of 25% +/-10% unless specifically approved otherwise. At FYE13 the group achieved 85% due to the bond issue.

Figure 7
Business Plan Assumptions

	2013 Business plan	2014 Business plan
Arrears	To double to GBP8m from GBP4m over next three years	Minimal impact during FY14, but previous assumption of arrears doubling maintained, profiled over an additional year
Bad debts	To rise from about 1% to around 4% over five years	As above with arrears
Transaction costs	To increase to GBP300,000 a year from about GBP100,000 a year	Assumption maintained, but delayed. Slower rollout of direct payment meant costs have increased less swiftly than originally assumed
Staffing	About GBP200,000 of additional resources from April 2014	New staffing built in steadily through FY15
Voids/demand	No adverse impact on demand	Limited evidence of demand issues with two-bed flats in some areas. Historical assumption of improvements in void loss deleted

Source: GPHG

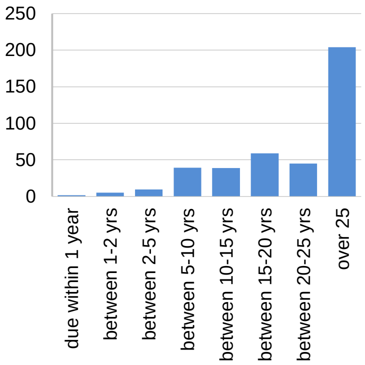
The group only borrows in sterling, and uses standalone interest rate swaps to hedge interest rate risk. At FYE14 fixed-rate debt was 48% bonds, 34% fixed free-standing and 18% of fixed embedded. The group also had a mark-to-market exposure of GBP24m, a reduction from GBP36m at FYE13. GPHG is required to post collateral for the mark-to-market exposure above the unsecured threshold on its stand-alone interest rate swaps. At FYE14 the group had posted collateral of GBP5.2m (GBP12m at FYE13). The average cost of debt rose to 4.55% in FY14 from 4.06% in FY13. It has been budgeted at 5.11% for FY15.

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 over-subscribed. At FYE14 the group had funding facilities that will last until November 2018. In December 2013 GPHG raised GBP31.78m 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 GBP150 initially issued in October 2012. Future funding is likely initially to be through taps on the bond.

Figure 8

Loan Maturity Profile

(GBPm)



Source: Great places

The business plan forecasts key financial covenants to be comfortably met, despite increasing debt. 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) increased to 186% at FYE14 from 178% at FYE13. The internal covenant target is 120%, higher than the current loan covenants 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 bank and in hand divided by housing properties at cost, less properties under construction, less depreciation and impairment) reduced slightly to 41% from 42% at FYE13 and remained well below the covenant requirement of 65%.

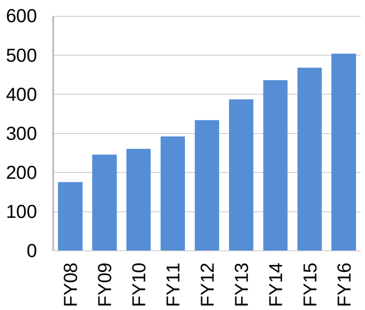
Most of the group's debt is amortising except for two bullet repayments, which include GBP20m of The Housing Finance Corporation EIB facility due in 2031 and GBP182m bond for repayment in October 2042. There is also a GBP60m Royal Bank of Canada revolving facility due for repayment in November 2018, of which none is drawn. Otherwise annual debt repayments are between a low of GBP2m over 2014/2015-2015/2016 and just under GBP20m in 2039/2040. All future stand-alone hedging is to have a maximum maturity of 10 years.

The group had total facilities of GBP680m at FYE14, of which GBP414m was drawn and GBP266m available. Of this, GBP70m was immediately available, and fully secured, and GBP195m 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 16,861 properties at FYE14, a total of 12,050 were secured and another 242 designated to Royal Bank of Canada, although their value was not yet charged. Sixty-three 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 1,972 (GBP91m) of loan supportable properties and expects to draw down GBP58m debt over the next 12 months.

Figure 9

Actual and Projected Debt

(GBPm)



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

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 affordable homes guarantee programme 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 GBP27m in liquid assets at FYE14. 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. In May 2014 the group had sufficient liquidity to fund the 2011-2015 development programme and sufficient cash and undrawn loan facilities available to meet all capital requirements for the next five years.

Appendix A

Figure 10

Great Places Housing Group Limited

	Year End				
Statement date	**31 Mar 10**	**31 Mar 11**	**31 Mar 12**	**31 Mar 13**	**31 Mar 14**
Income statement					
Operating revenues	65.6	66.0	71.6	79.2	83.1
Staff expenses	(14.9)	(15.5)	(15.4)	(17.3)	(19.4)
Depreciation	(3.1)	(6.9)	(6.6)	(6.9)	(7.7)
Other operating revenues and expenditure	(34.6)	(31.1)	(31.9)	(32.1)	(30.5)
Operating balance before grants and subsidies	13.0	12.5	17.7	22.9	25.5
Revenue from public sector					
Operating balance after revenue from public sector	13.0	12.5	17.7	22.9	25.5
Interest revenue	.1	.1	.2	.2	.2
Interest expenditure	(9.4)	(11.3)	(11.0)	(16.2)	(19.2)
Operating balance after financing	3.7	1.3	6.9	6.9	6.5
Surplus on disposal of fixed assets	.4	1.8	.5	.7	2.8
Non-operating revenue and expenditure	.1	0	0	0	0
Profit (loss) before taxation	4.2	3.1	7.4	7.6	9.3
Taxation	(.2)	(.2)	(.1)	(.2)	(.1)
Profit (loss) after tax	4.0	2.9	7.3	7.4	9.2
Minority interests					
Profit or loss for the financial year	4.0	2.9	7.3	7.4	9.2
Balance sheet					
Assets					
Tangible assets	317.8	326.0	367.5	406.2	449.6
Intangible assets					
Other long-term assets					
Long-term investments	.3	0	0	.7	.2
Stock	9.2	13.4	13.1	14.7	18.6
Trade debtors	1.0	1.9	.7	.4	.5
Other current assets	21.0	18.0	28.1	33.2	20.6
Cash and liquid investments	15.4	10.8	6.3	18.0	27.3
Total assets	364.7	370.1	415.7	473.2	516.8
Liabilities and equity					
Long term liabilities	3.2	2.7	3.5	3.2	5.7
Pension	.2	.2	.2	.3	.3
Long-term debt	254.7	287.8	328.5	376.4	405.7
Trade creditors	1.4	1.4	3.4	1.6	2.0
Other short-term liabilities	36.8	34.3	29.1	33.4	35.6
Short-term debt	2.4	1.6	1.5	1.6	1.5
Equity					
Reserves	66.0	42.1	49.5	56.7	66.0
Minority interests					
Liabilities and equity	364.7	370.1	415.7	473.2	516.8
Debt statement					
Short-term debt	2.5	1.7	1.7	1.8	1.7
Long-term debt	258.0	291.1	332.9	382.5	412.3
Total debt	260.5	292.8	334.6	384.3	414.0
Other Fitch-classified debt					
Total risk	260.5	292.8	334.6	384.3	414.0
Cash, liquid deposits and sinking fund	15.5	10.8	6.3	18.0	27.3
Net risk	245.0	282.0	328.3	366.3	386.7
Contingent liabilities					
Net overall risk	245.0	282.0	328.3	366.3	386.7
Debt in foreign currency (%)	0	0	0	0	0
Issued debt (%)	0	0	0	38.67	43.74
Debt and fixed interest rate (%)	76.01	66.02	62.97	89.98	91.14
Cash flow statement					
Funds from operations	17.1	21.6	26.2	31.1	35.9
Other cash flow movements	(1.6)	8.2	(10.3)	(10.8)	10.5
Changes in working capital	11.7	2.7	(4.0)	9.9	7.9
Cash flow before net capital expenditure	27.2	32.5	11.9	30.2	54.3
Net capital expenditure	(34.4)	(57.9)	(45.7)	(52.9)	(53.4)
Cash flow before financing	(7.2)	(25.4)	(33.8)	(22.7)	.9
New borrowing	17.5	34.3	45.6	176.2	42.9
Other cash financing	(7.6)	(10.1)	(12.4)	(15.1)	(21.4)
Debt repayment	(3.3)	(3.5)	(4.0)	(126.6)	(13.2)
Cash flow after financing	(.6)	(4.7)	(4.6)	11.8	9.2

Source: Fitch

Appendix B

Figure 11

Great Places Housing Group Limited

	Year End				
Statement date	**31 Mar 10**	**31 Mar 11**	**31 Mar 12**	**31 Mar 13**	**31 Mar 14**
Ratio analysis					
Profitability ratios					
Personnel costs/operating revenue including revenue from public sector (%)	21.72	23.17	21.36	21.68	22.82
Revenue from the public sector/operating revenue including revenue from public sector (%)					
EBITDA/operating revenue including revenue from public sector (%)	23.47	29.30	34.40	37.34	39.06
Balance-sheet ratios					
Current assets/total assets (%)	12.78	11.92	11.59	14.01	12.96
Current assets/total liabilities (%)	15.60	13.45	13.16	15.92	14.86
Return on equity (%)	6.06	6.89	14.75	13.05	13.94
Return on assets (%)	1.10	.78	1.76	1.56	1.78
Debt ratios					
Net debt/EBITDA (x)	15.22	14.39	13.24	12.29	11.65
Long term debt/operating revenue including revenue from public sector (%)	393.29	441.06	464.94	482.95	496.15
Total debt/EBITDA (x)	16.18	14.94	13.49	12.90	12.47
Debt/equity (%)	394.70	695.49	675.96	677.78	627.27
EBITDA/gross interest expenditure (x)	1.71	1.73	2.25	1.84	1.73
Debt servicing/operating balance before revenue from public sector (%)	97.69	118.40	84.75	623.58	127.06
Debt servicing/operating balance after revenue from public sector (%)	97.69	118.40	84.75	623.58	127.06

Source: Fitch

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