# BUSINESS PLAN AND BUDGET 2015/2016

GREAT HOMES GREAT COMMUNITIES GREAT PEOPLE

# CONTENTS


1. Executive summary 3

2. Regulation and Governance 5

3. The new three-year Corporate Plan 6

4. Financial reporting issues 7

5. Assumptions 8

6.Group Financial Performance 14

7. Sensitivity analysis 20



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# 1. EXECUTIVE SUMMARY

1.1 2014/15 has seen Great Places grow to well in excess of 17,000 homes owned or managed, generate record surplus, and re-establish its G1 Governance rating. Solid foundations have been laid so that step change improvement in repairs and asset management, supported housing and business systems are well underway and a new corporate plan sets out the priorities for the next three years.

1.2 Taking into account a range of existing and new challenges, the Group is pleased to present a business plan for 2015/16 and beyond that confirms and enhances the financial strength and long term viability of the Group.

This new and fully updated plan:

- Confirms compliance with the Governance and Financial Viability standard;
- Reflects the resourcing requirements of the Group's new three-year Corporate Plan;
- Considers increasingly complex operating, business, political and economic environments;
- Adopts a suite of prudent yet realistic assumptions; and
- Demonstrates continuing financial strength whilst achieving steady development-led growth.

1.3 During the latter half of 2014/15, following extensive internal and external consultation, involving over 300 staff and over 600 customers, the Group's vision and values were updated by the Board.

**VISION:**
**Great homes. Great communities. Great People.**

**Great homes:**
**Maximising our investment in sustainable homes.**

**Great communities:**
**Building successful, vibrant communities.**

**Great people:**
**Providing outstanding customer service and support.**

**VALUES:**
**We are fair, open and accountable**

**We know, respect and care about our customers**

**We appreciate the effort of everyone who works here**

**We promote partnerships, efficiency and value for money**

**We passionately embrace creativity, change and innovation**

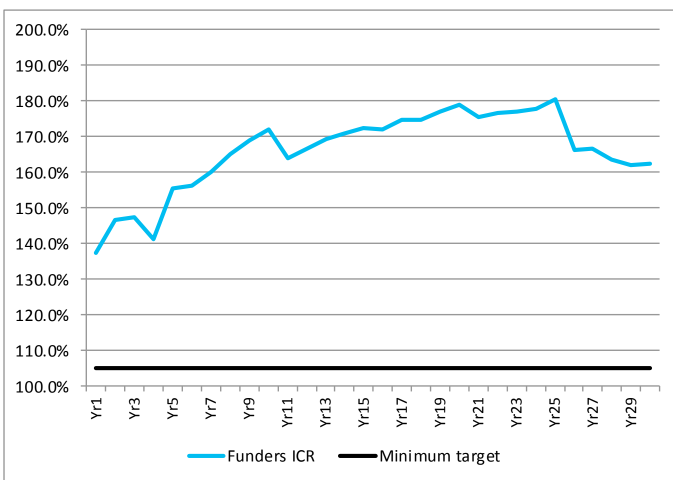
1.4 Funding achievements in the last 12 months include: in October 2014 the Group made its third successful transaction on the capital markets, accessing the final £18.2m of the retained bond at an all in cost of marginally over 4% and a spread of just 102bps. Earlier, in May 2014, the Group accessed £20.5m of Affordable Housing Guarantee Programme Funding (AHGP) at a cost of slightly under 3.8%.

This additional funding means that the Group remains in a very strong funding position with four years of funding in place through our RBS and Santander long term facilities, the remaining element (£29.5m) of the AHGP funding and the RBC revolving facility.

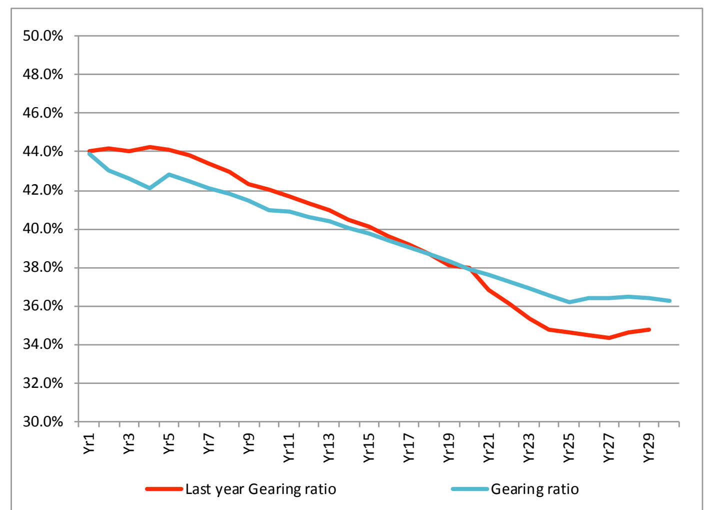
1.5 Financial viability is most clearly demonstrated by achievement of, and ongoing improvement in, the key ratios considered by our investors, funders and credit rating agencies, as well as the rating itself. Success in this area was highlighted by the improvement to the Group's underlying Moodys baseline credit assessment (BCA) from Baa2 to Baa1 in January 2015.

**Matthew Harrison**
**Chief executive**

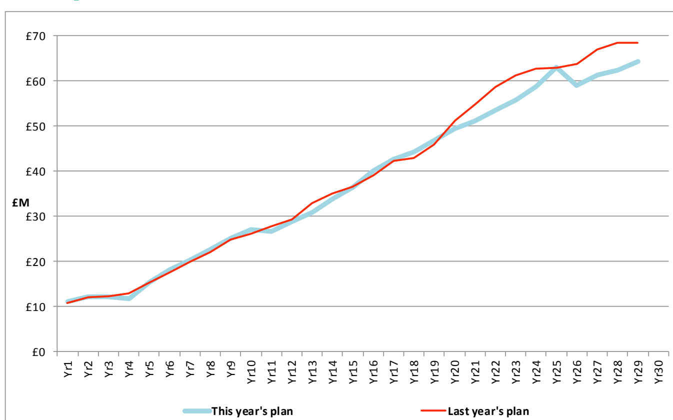
## Graph 1: INTEREST COVER RATIO



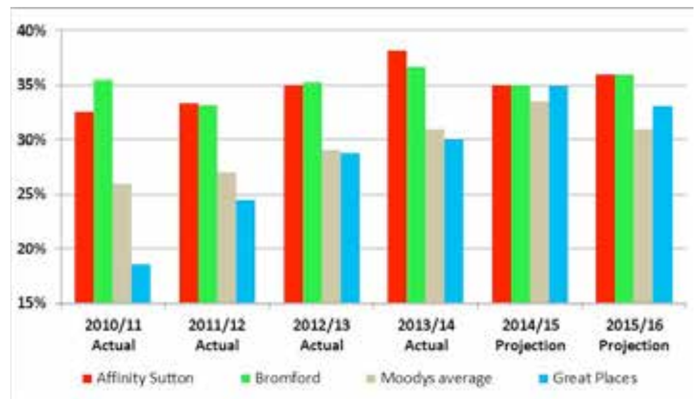

## Graph 2: GEARING




## Graph 3: SURPLUS PROFILE




## Graph 4: OPERATING MARGIN



# 2. REGULATION AND GOVERNANCE

2.1 The Business Plan is one of the primary means of explaining to the regulator how we are meeting the full range of regulatory requirements, and in producing the 2015 Business Plan we have carefully considered the new Regulatory Framework, incorporating the updated Governance and Viability Standard and the associated new Code of Practice that take effect from April 2015.

2.2 This plan helps demonstrate how well the Group delivers in the established critical areas of value for money (the Group's VFM self assessment can be found on the **Great Places website**), rents, governance and risk management. However, the new standard makes reference to wider requirements including the protection of social housing assets, access to liquidity, stress testing and maintaining a thorough, accurate and up-to-date register of assets and liabilities. This plan illustrates the Group's progress on those matters too – for example our historic cash liquidity buffer has been doubled from £10m to £20m, whilst the usual section of the plan that considers sensitivity analysis is now supplemented by a separate document that considers more complex and challenging stress testing scenarios.

2.3 The Group's governance rating was revised back to G1 in June 2014, following completion of a rigorous governance action plan. The Group's current Code of Governance will be updated to reflect the publication in February 2015 of the new NHF Code of Governance 'promoting Board excellence for housing associations'. The Group's V1 rating was re-confirmed in February 2015.

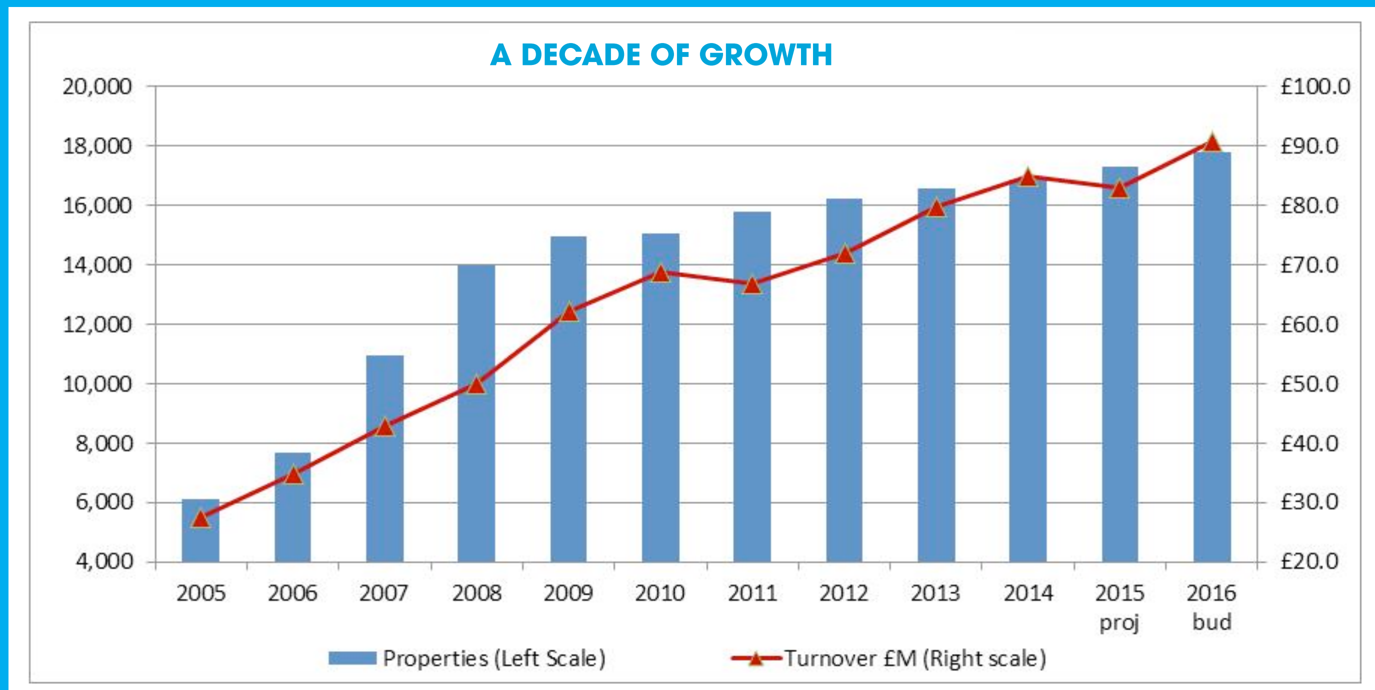
2.4 All the members of the co-terminous Boards of GPHG, GPHA and Plumlife have been appointed in the last 18 months, with a smaller, more professional and more highly skilled group of Board members. Cube's Board is headed by a fully independent chair, whilst effective Audit and Assurance, and Remuneration and Appraisal Committees with clearly defined terms of reference support the work of the Board.

2.5 The Group's risk management approach is currently being reviewed, taking into account a wide range of expertise and experience, not least from within our Board, our new Internal Auditors (PWC were appointed with effect 1 April 2015), our external auditors , BDO, our Insurers Zurich and many others. There are many valid approaches to risk management and the work currently underway will ensure that we pick the most appropriate for Great Places.

2.6 Great Places will continue to actively demonstrate to the regulator that:

- 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;
- It has an appropriate register of assets and liabilities, including title details for over 12,000 properties, comprehensive records of all loans, bonds and leases, and reports annually to the Board on the status of all joint ventures and other similar arrangements;
- It continues to achieve 100% compliance with the decent homes standard and consistently achieves 100% gas safety compliance;
- It charges rent in accordance with the Rent Standard and the government's direction to the regulator of May 2014, with a rent plan that considers affordability, sustainability and competition.

# 3. THE NEW THREE-YEAR CORPORATE PLAN




3.1 Great Places Housing Group is a successful organisation with an impressive track record. We have achieved steady growth of turnover, surplus and properties, whilst continuing to be innovative and achieving ongoing improvements to customer satisfaction. During 2014/15 the Group grew to in excess of 17,000 properties owned or managed and by March 2016 that figure will be close to 18,000.

3.2 The Group has produced a Corporate Plan covering the period 2015 to 2018 which details what we want to achieve over that time frame for our customers, colleagues, partners and other stakeholders, and is the final outcome of the exercise to revisit the organisation's vision, values and corporate priorities. We see the Corporate Plan as the route-map to delivering great performance and great customer service.

3.3 The Corporate Plan should be read in conjunction with this Business Plan as we have striven 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), our key corporate strategies and six underpinning priorities.

3.4 For more details – please see our Corporate Plan which can be found on the **Great Places website**.

# 4. FINANCIAL REPORTING ISSUES

4.1 2014/15 has seen significant preparation for the highly complex changes to financial reporting that will be brought about by the introduction of International Financial Reporting Standards (IFRS) through Financial Reporting Standard 102 (FRS 102) and a new Statement of Recommended Practice (SORP).

4.2 A training session was held for the Board in late 2014 to explain the primary changes to the Group's financial statements and to help understand the financial impacts and the likelihood of increased volatility in reported performance. The Group has established a project team, properly resourced including two new positions, which has created a detailed project plan and is progressing well to ensure that the 2014/15 financial year can be restated in the IFRS format to ensure the appropriate comparatives are available.

4.3 We know that the major areas for change include:

- Accounting for Grant
- Financial Instruments (in particular the treatment of stand alone derivatives and cancellable instruments
- Treatment of pension costs in multi-employer schemes
- Impairment
- Investment properties

4.4 The work undertaken to date has identified relatively little impact on the key financial covenants (interest cover and gearing) and we will shortly commence discussions with our funders to confirm what, if any, changes might be required. The likely impact on interest cover is primarily one of volatility rather than a systemic improvement/worsening to the ratio. Gearing is likely to be slightly adversely impacted on an ongoing basis.

4.5 This plan has been produced in a pre-IFRS format and later in the year, following production of the 14/15 financial statements, we will look to update the plan in an IFRS compatible format.

# 5. ASSUMPTIONS

5.1 The key business plan assumptions proposed are presented in the table below. For each assumption some analysis and explanation is provided following the table.

5.2 The key business plan assumptions are presented in the table below. These are based on latest market information and projections from a wide range of sources including the Bank of England, the Office of National Statistics (ONS), the Office of Budget Responsibility (OBR), the CBI, our Treasury Advisors Capita, other advisors including Canaccord, Centrus and Savills and various funders including RBC, RBS and Santander.

5.2.1 Budgets have been submitted at April 2015 prices using local cost-specific information. The long term assumption for CPI has been retained at 2.0%, in line with the Bank of England target, however for 2016/17, 2017/18 and 2018/19 the figure is lower, as currently and widely predicted, and represents the CPI figure for the previous September, which drives the rent increase.

| Assumptions | Budget 2015/16 | Year 2 2016/17 | Year 3 2017/18 | Year 4 2018/19 | Year 5 2019/20 | Years 6-30 | Note |
|---|---|---|---|---|---|---|---|
| **Retail Price Inflation (RPI)** | Budgets will be submitted at April 2015 prices | 2.00% | 2.75% | 3.00% | 3.25% | 3.25% | 5.2.3 |
| **Consumer Price Inflation (CPI)** | | 0.50% | 1.60% | 1.80% | 2.00% | 2.00% | 5.2.1 |
| **Building inflation** | | RPI+1% | RPI+1% | RPI+1% | RPI+1% | RPI+1% | 5.6 |
| **Land price inflation** | | RPI+1/2% | RPI+1/2% | RPI+1/2% | RPI+1/2% | RPI+1/2% | |
| **Repairs and Asset Management inflation (excluding staff costs)** | | RPI | RPI+1/2% | RPI+1/2% | RPI+1/2% | RPI+1/2% | 5.4 |
| **Other cost inflation** | | CPI | CPI | CPI | CPI | CPI | |
| **Earnings inflation** | See note | CPI+2.0% | CPI+1.5% | CPI+1.5% | CPI+1.5% | CPI+1.5% | 5.3 |
| **Assured, affordable, mort. rescue and rent to home buy rent increase** | See note | CPI+1% | CPI+1% | CPI+1% | CPI+1% | CPI+1% | 5.7 |
| **Affordable rent conversions** | 250 | 250 | 250 | 0 | 0 | 0 | 5.7.3 |
| **Supported rents** | See note | Per rent plan, target rents increase by CPI+1% | | | | | 5.7.4 |
| **Supporting people income** | See note | CPI-10% | CPI-10% | CPI | CPI | CPI | 5.7.5 |
| **Shared ownership rents increase** | RPI | RPI | RPI | RPI | RPI | RPI | 5.7.6 |
| **Property price inflation** | See note | RPI+2% | RPI+2% | RPI+2% | RPI+1% | RPI+1% | 5.10.5 |
| **Other income assumptions** | CPI+1% | CPI+1% | CPI+1% | CPI+1% | CPI+1% | CPI+1% | |
| **Voids** | See note | Future performance targets to be considered separately | | | | | 5.8 |
| **Bad debts** | See note | Rising to 2.5% by end of year | Rising to 3.0% by end of year | Rising to 3.5% by end of year | Rising to 4.0% by end of year | 4% | 5.9.1 |
| **First tranche sales** | The assumption is that all shared ownership properties sell with 6 months of completion | | | | | | 5.10.2 |
| **Final tranche staircasing properties** | GPHA 20 Plumlife 3 | GPHA 20 Plumlife 3 | GPHA 20 Plumlife 3 | GPHA 20, Plumlife 3. AND Current and future development to staircase at 5% pa from sixth year after completion | | | 5.10.3 |
| **Voluntary Sales** | 60 | 60 | 60 | 40 | 40 | 40 | 5.10.1 |
| **Base rate (3 month LIBOR)** | 0.50% - 1.50% | 1.50% - 2.50% | 2.50% - 3.50% | 3.50% - 4.50% | 4.50% | 4.50% rising to 6.00% | 5.11.3 |
| **Margin on new short term debt** | Per existing arrangements | | 1.50% | 1.50% | 1.50% | 1.50% | 5.11.4 |
| **Proportion of new debt:** | 75% fixed, 25% variable (+/- 10% tolerance unless otherwise approved) | | | | | | 5.11.5 |
| **30 year gilt rate** | 3.00% | 3.50% | 4.00% | 4.00% | 4.00% | | 5.11.8 |
| **Spread on new long term debt** | 1.20% | 1.20% | 1.00% | 1.00% | 1.00% | | 5.11.8 |
| **All in cost of future fixed rate debt** | | | | | | 5.00% rising to 6.00% | 5.11.9 |
| **Interest rates – receivable** | 0.50% | 1.50% | 2.50% | 3.50% | 4.00% | 4.0% to 5.0% | 5.11.6 |
| **Development** | Assume new annual programme from April 2018 of 360 rented homes (20% grant rate) and 40 shared ownership homes (14% grant rate), let on affordable rents, £130k per unit build cost | | | | | | 5.12 |

5.2.2 The new rent standard, which ties rents in the sector to CPI+1%, rather than RPI+1/2% until 2022 has provided welcome medium term certainty around rental income, but has already exposed the sector to the risk of low CPI (the April 2015 rent increase is based on a CPI of only 1.2%), but has also increased the importance of the differential ('Wedge') between CPI and RPI.

5.2.3 It is widely acknowledged that the wedge will grow over time, due to the difference in the 'basket of goods' included in the two measures as well as a difference in the underlying formula. However the wedge has grown more quickly than might have been expected and the formula means that once the wedge exceeds 0.5%, the sector is worse off than if the old RPI+1/2% formula had been continued. The wedge is currently 0.8%. The long term RPI assumption therefore grows from a low of 2.0% in the budget year, to 3.25% by year 5 and thereafter, generating a wedge of 1.25% which is in line with OBR projections.

5.2.4 As discussed briefly in last year's business plan document, and as has been demonstrated in several insightful articles published since, this adds a new stress to the plan since currently many costs are assumed as being RPI related and there will be a challenge to 'rebase' costs so that CPI forms the basis for indexation. In addition the rate of growth of the wedge introduces an additional risk into the plan, which is further considered in the sensitivity analysis section of this document.

5.3 With a salary bill of almost £20m (including Pension and NI contributions), the earnings increase assumption is among the most critical. The figures for the budget year incorporate a 2.5% earnings increase, reflecting the results of a comprehensive salary benchmarking exercise. The year two figures will reflect our future pension plans, designed to increase cost certainty. In 2016/7 the assumption is that earnings growth can be constrained to CPI+2%, whilst the assumption from year 3 is CPI+1.50%, which equates to c3.5% annually – very consistent with longer term ONS, OBR, LGPS and SHPS assumptions. A key challenge will be to control salary costs and to make the predicted move towards a stronger linkage to CPI.

5.4 The long term assumption for repairs and maintenance inflation, and major repair inflation is RPI+1/2%, but with RPI only in year 2 as we have assumed that some efficiency can be obtained from our in-house team, the ongoing benefit of asset management disposals and enhanced procurement activity. Around 40% of repairs and maintenance expenditure relates to staffing costs which we can control through earnings constraint and driving up productivity.

5.5 Major repair expenditure will be at a level that fully meets the requirements of the Group's stock condition survey with additional provision made for ongoing acquisitions.

5.6 Development costs for the next couple of years are firmly established with the 15-17 programme fully contracted, so there is no price risk in that period.

Subsequently the plan assumes a cost per unit of £130k, which is up by £5k on last years plan and reflects the tender price inflation we have seen in recent months. The building inflation assumption is RPI+1% throughout the plan.

5.7 The Group's income stream is primarily driven by the September inflation figure. The April 2015 rent increase is based on the September 2014 CPI of 1.2%, to which 1.0% is then added. This means the average rent increase for our properties will be around £2.00 per week.

5.7.1 In future years, rent increases will be based on the September CPI figure, plus 1.0%. There are no other allowable adjustments to this increase as there have been in recent years. This formula is guaranteed for the next nine years, but is assumed to apply throughout the life of the plan.

5.7.2 A growing proportion of the Group's properties will have rents tied in some way to the open market (or to be strictly correct, 80% of open market rents). This includes our Rent to Homebuy properties, mortgage rescue properties, conversions and new lets made under the affordable rent regime. We established prior to the commencement of the affordable rent regime, through independent professional advice, the market rent levels for all of our stock, and have fully refreshed all of these figures during 2014. The result showed that increases in market rents were varied across the Group's geography with little movement in market rents in many of our areas of operation. From April 2014, affordable rents are guaranteed a CPI+1% increase, although they do reset to 80% of market levels on relet.

5.7.3 250 rent conversions are budgeted in each of the three years 2015/16 to 2017/18. This is lower than previously planned and lower than has been included in our HCA contracts. The expected uplift on conversion is c£12 which is in line with current performance.

5.7.4 Supported housing rents are built up on the basis of the rent plan and adopt the new CPI+1% formula in future years.

5.7.5 Supporting people income continues to come under huge pressure with Local Authorities taking ever more devastating steps to balance budgets that have been severely constrained by their Central Government funding settlements, and in 2014 the Group saw the loss of two contracts in Blackpool that generated c£1/3m SP income. The budget year income has been built up in scheme by scheme detail and then builds in a further c£100k income reduction in anticipation of further reductions. Going forward, we have assumed further very significant reductions in SP income (CPI-10%) in 2016/17 and 2017/18 – extending the reductions for a further year compared to the last business plan.

The impact of these assumptions is that SP income will have reduced from over £4M in 2010/11 to c£2.2m by 2017/18 – a 50% real reduction. We have assumed that costs remain largely unchanged. However, the Group is currently embarking on a programme of service redesign and staffing restructuring as responses to the situation.

5.7.6 Shared ownership rents increase by the November RPI figure of 2.0% and are contractually tied to RPI increases in subsequent years.

5.8 The budget for voids is built up at local level by managers, taking into account the key components of void loss – the number of relets (tenancy turnover) and average relet times – in order to calculate the void loss percentage. Relet numbers and relet times subsequently become key performance targets for the year.

5.9 The roll out of Welfare reform has been much slower than originally envisaged, and the impact of the bedroom tax and the benefit cap not yet as great as we expected. At the point of writing this document, GP had only 25 Universal Credit (UC) claimants, which is not material at this stage, but we do expect this figure to grow exponentially (particularly since the North West is rolling out UC in advance of the rest of England) and we are also extremely aware that rent collection rates of c85% are being reported locally. Given the full impact of UC is still to come, and threats to further reduce the benefit cap, and also taking into account the increasing impact of harsher sanctioning policies and changes to council tax benefit, it remains likely that there will be a significant adverse impact on arrears and bad debts.

5.9.1 As a result the level of arrears across the Group is again assumed to double over the next three years from c£4m to £8m. Consequently, bad debts for our existing general needs properties are assumed to rise from just over 1% currently to around 4% by year 5. These assumptions effectively push back by a year the assumptions made last year. Again, we are not making a statement that we expect arrears and bad debts to rise so significantly, but aim to ensure that our plan shows we are financially strong enough to absorb the worst scenario. We would very much expect to out-perform these levels. An initial increase in arrears need not necessarily result in additional bad debts in the long term, although there is an obvious linkage.

## 5.10. **SALES AND DISPOSALS ASSUMPTIONS**

5.10.1 The Group's Asset Management Strategy and associated programme of disposals has been developed following the implementation of the PIMSS asset management system and associated stock condition survey. We are targeting 60 disposals per annum in the first three years of the plan and 40 thereafter. The additional 20 for three years ties in with our HCA development contracts. We assume only a £23k per unit surplus on the disposals.

5.10.2 The Group's pipeline of shared ownership properties is such that there are 79 first tranche sales budgeted in 2015/16, which is higher than in recent years (we expect to sell 55 first tranches in 2014/15, having sold 48 in 2013/14)). The 79 sales are spread across 13 different schemes, spreading the sales risk. In subsequent years sales numbers reduce back to around 40 per annum. Going forward we would also expect these properties to staircase over a 20 year period from the sixth year after initial sale.

5.10.3 The Group now has over 1,000 shared ownership homes, presenting a large pool of potential staircasing sales. Given recent market conditions, the plan assumes only a modest volume of sales annually (20 in GPHA, 3 in Plumlife) from this pool of existing properties. This is a very slight increase on last year's assumption as we begin to see some limited pick up in the housing market.

5.10.4 The Group also has a portfolio of over 250 'rent to homebuy' properties, which were originally unsold shared ownership units, subsequently let on an affordable rent, on the understanding that they should eventually convert to shared ownership. This remains an untested market, so the plan prudently assumes no sales at all going forward, although realistically we would expect to see sales if there is any sustained pick up in housing activity. This gives the Group over £30m of potential sales income that has been deliberately excluded from the plan.

5.10.5 Property price inflation has once again been assumed at modest levels – assumed at RPI+2% for years two-four of the plan and then RPI+1% thereafter. The Group does not wish to be in any way financially dependent on sales activity.

## 5.11. **INTEREST RATES AND DEBT ASSUMPTIONS**

5.11.1 The interest rate assumptions are amongst the most critical in the plan and have an immediate and substantial impact on the Group's surplus particularly in the early years of the plan.

5.11.2 We have now had six years of a record low base rate at 0.50%, with 3 month LIBOR at around 0.56%. There is almost unanimity amongst forecasters that the next base rate movement will be upward, but the timing is certainly up for debate. Some commentators expect a first 25bps rise in the Autumn of 2015, others suggest Spring 2016.

5.11.3 To ensure prudence, our plan therefore assumes 3 month LIBOR rising steadily to 1.50% by the end of 2015/16, then to 2.50% by the end of 2016/17, 3.50% by the end of 2017/18 and 4.50% by the end of 2018/19. Rates are then assumed to gradually rise to 6.00% by the end of the plan. The BoE Monetary Policy Committee has suggested that the 'resting level' for the bank rate once the economy is back at full capacity will be lower than the pre-crisis average of 5.0%, meaning the plan has some headroom in the medium to long term.

5.11.4 Coupled with these LIBOR rate rises, the plan also assumes that margins on future short/medium term bank debt will be 1.50%, reflecting the gradual easing in the bank funding market.

5.11.5 The proportion of fixed debt will be maintained at a long term average of 75% (+/-10%) in line with the 2014 approved Treasury policy, although it is expected that the 2015 update to the Treasury Policy will amend this to "a minimum of 75% fixed".

5.11.6 Interest receivable rises in line with the assumed increase in LIBOR, and, despite the material cost of carry, cash balances have been increased to a minimum of £20m (previously £10m) to protect against market liquidity risk.

5.11.7 The Group has put in place funding facilities that will last until June 2019. The Group's long term undrawn facilities include RBS £50m, Santander £55m, and the Affordable Housing Guarantee Programme £29.5m. In addition the Group has a £60m (£50m undrawn) fully secured revolving facility with RBC that does not expire until November 2018.

5.11.8 New funding options will be considered during the early part of 2016/17 to give at least a year's planning headroom. Future funding is most likely to be sourced initially through the capital markets (a 'tap' on the bond). The plan assumes the underlying 30 year gilt rate increases swiftly to 3.00% and subsequently to 4.25% in the first five years of the plan. The assumption around short to medium term funding costs reflects the current spread on the Great Places bond in the secondary market, which is trading around 120bps.

5.11.9 Beyond year six of the plan, where the funding source is less obvious, the all-in cost of long term future debt is assumed at 5.00% gradually increasing to 6.00%.

## 5.12. **DEVELOPMENT ASSUMPTIONS**

5.12.1 The business plan fully reflects the 922 unit allocation from the HCA for 2015/16 and 2016/17 and also the 445 unit allocation for 2017/18.

5.12.2 Looking ahead, the key development assumptions are:

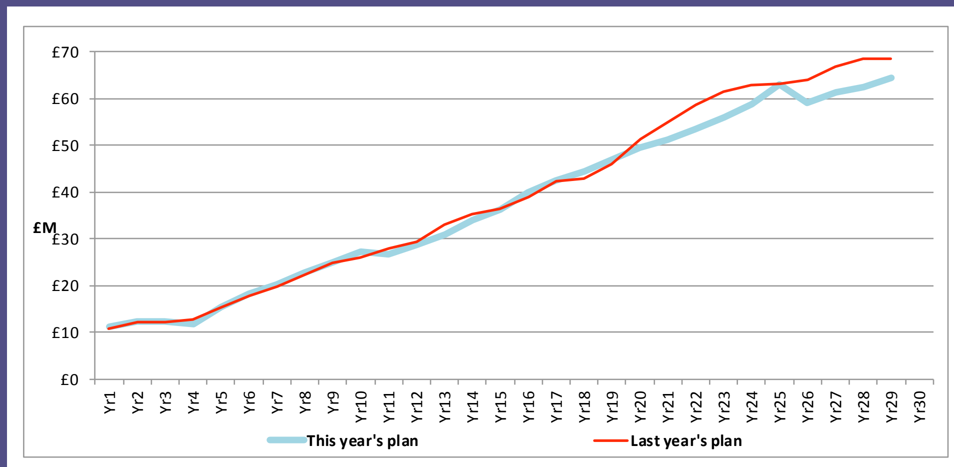
- A continuing annual programme of 400 homes, comprising 360 rented and 40 shared ownership properties.
- Properties to be let at affordable rents.
- Conversions to continue through to 2017/18 but no further.
- Average total scheme cost of £130k per unit.
- An assumed grant rate of 20% for rented units (£25k pu) and 14% for shared ownership units (£18k pu) – broadly in line with our recent allocations.
- In addition a small number of schemes outside of the HCA programme are built into the plan. These include section 106 schemes often in higher value areas such as the Ribble Valley, Fylde Coast and Cheshire East and are a mix of affordable rent and shared ownership properties.

The cost assumption of £130k per unit is £5k higher than last year's plan reflecting contractor price inflation in the last 12-18 months. However, the inclusion of low cost s106 agreement properties also helps push down the average scheme cost.

5.12.3 The Group will deliver a modest outright sales programme and market rent portfolio through Cube. More details are included in the Cube Business Plan.

# 6. GROUP FINANCIAL PERFORMANCE

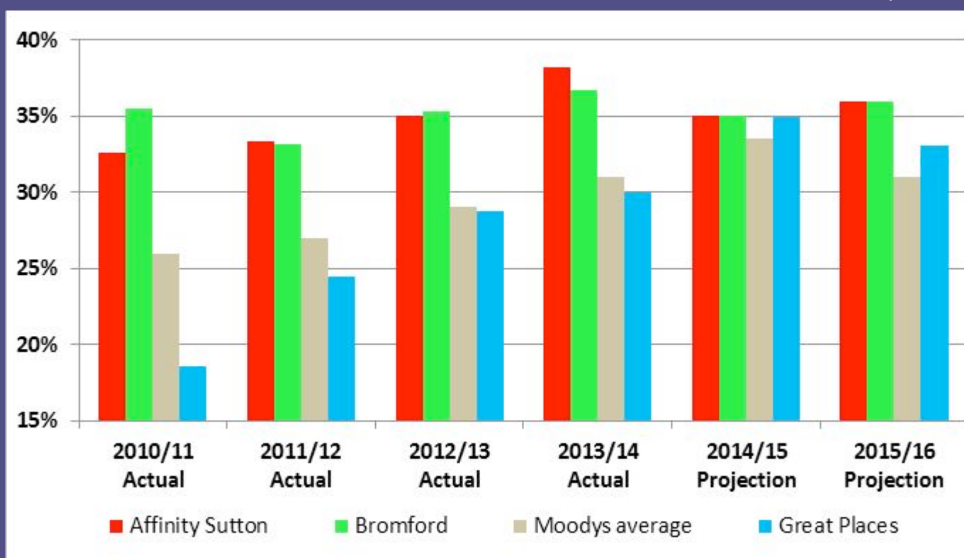
## 6.1 ACHIEVEMENT OF GROUP FINANCIAL TARGETS AND COVENANTS

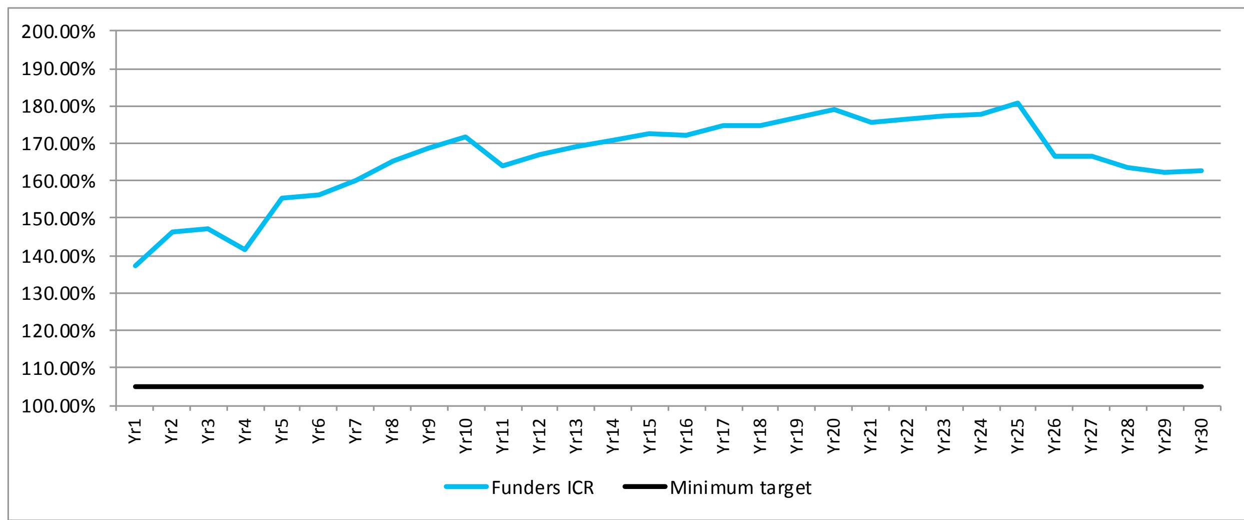



The graph (above) shows that the surplus achieved throughout the new 30 year plan (blue line) is very similar to that achieved in last year's plan (red line). There is some slight deterioration seen in the last 10 years of the new plan, and the impact of the often lumpy profile of stock investment expenditure is more marked between years 25 and 26. The rate of growth of surplus over the first four years of the plan is relatively slow, as the surplus is constrained by c£0.4M of additional pension and NI costs from year 2.

The graph (bottom left) shows the historic and projected operating margin for the Group (surplus before interest as a proportion of turnover – effectively a measure of profitability), and also some comparative data for Bromford Group and Affinity Sutton (the two RPs that Moodys rate most highly), plus the average for all of Moodys rated RPs.

Great Places has significantly improved this measure, both in real terms and comparatively. The margin has moved from c18% in 2010/11 to almost 35% in 2014/15, whilst during the same period the average of all Moodys rated RPs has increased from 26% to 34%. The two highest rated RPs, Affinity Sutton and Bromford, had operating margins almost double that of GP in 2010/11, but by 2014/15 their margins will be very similar to that of GP.






6.2 Surplus is an easily understood measure of financial strength, but is not a financial covenant. The interest cover ratio (ICR) as shown in the graph above is a financial covenant – it is an I&E not cash based measure, and the results shown in the graph below also excludes all sales surpluses (sales in the ordinary course of business are permitted).

There are several definitions of interest cover, the one shown in this graph (above) being the one applying to the Group's main loan facilities.

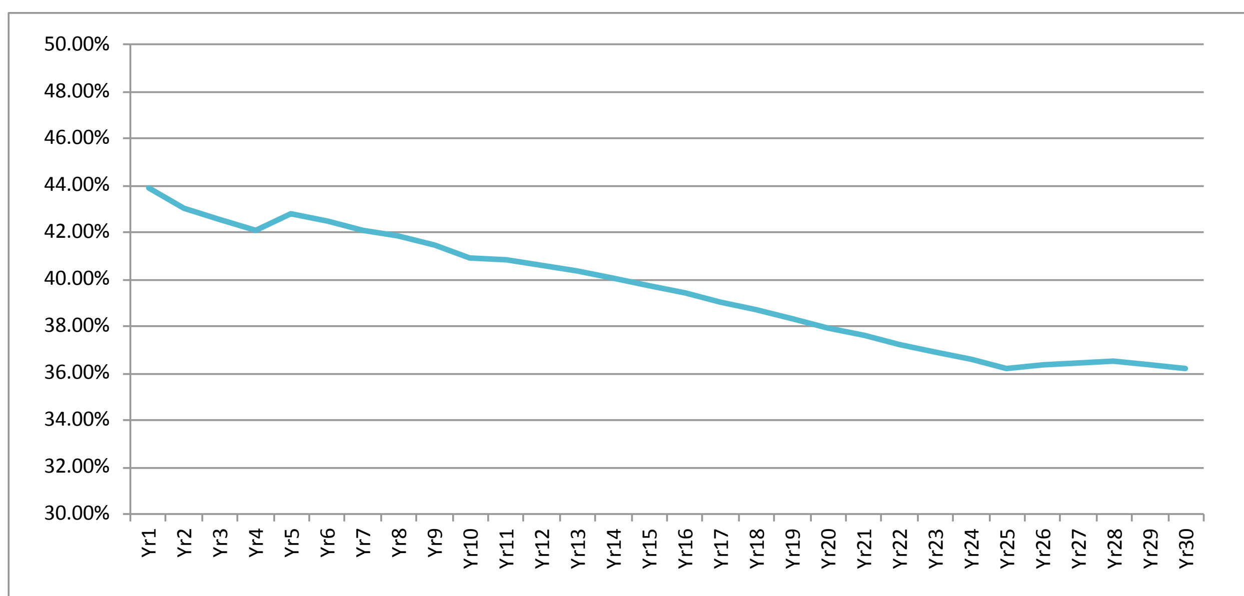
The graph shows gradual improvement in the first 25 years of the plan, before dipping a little in the last five years due to a peak of stock investment expenditure required. The covenant minimum of 105% is comfortably achieved throughout.

Other interest cover ratios, such as social housing lettings interest cover, recurrent cash interest cover and the HCA favoured EBITDA (MRI) HCA ratio also exist, but there is no covenant minimum applicable.

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

The gearing ratio applying under the Group's main funding arrangements considers the Group's total debt compared to its housing properties at cost (excluding work in progress), and applies a 65% maximum.

This is shown by the blue line on the graph and it demonstrates that the Group remains comfortably below the threshold with a gradually improving result throughout the plan.



## GPHG CONSOLIDATION I&E ACCOUNT

| Year ended 31st March | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 | 2030 | 2035 | 2040 | 2045 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 10 | Year 15 | Year 20 | Year 25 | Year 30 |
| | £000's | £000's | £000's | £000's | £000's | £000's | £000's | £000's | £000's | £000's |
| **Social Housing Lettings Income** | | | | | | | | | | |
| General Needs | £58,788 | £60,604 | £62,015 | £63,643 | £65,547 | £74,173 | £84,125 | £95,365 | £108,347 | £122,360 |
| New Developments | | £4,327 | £6,707 | £7,290 | £9,194 | £25,449 | £46,512 | £73,536 | £108,156 | £150,976 |
| Elderly Services | £2,338 | £2,366 | £2,428 | £2,496 | £2,578 | £2,980 | £3,455 | £4,005 | £4,656 | £5,382 |
| Supported Housing | £1,834 | £1,824 | £1,871 | £1,924 | £1,987 | £2,297 | £2,663 | £3,087 | £3,589 | £4,149 |
| Agency Managed | £1,529 | £1,435 | £1,472 | £1,514 | £1,563 | £1,807 | £2,095 | £2,429 | £2,823 | £3,264 |
| Keyworker | £1,087 | £1,094 | £679 | £311 | £321 | £371 | £430 | £499 | £580 | £670 |
| Shared Ownership | £2,241 | £2,329 | £2,342 | £2,361 | £2,392 | £2,491 | £2,559 | £2,579 | £2,535 | £2,382 |
| Plumlife rents | £2,055 | £2,076 | £2,125 | £2,179 | £2,245 | £2,565 | £2,936 | £3,360 | £3,853 | £4,393 |
| Service Charge Income | £6,702 | £6,852 | £7,065 | £7,219 | £7,446 | £8,945 | £10,571 | £12,440 | £14,582 | £17,036 |
| **Gross Rental Income** | **£76,574** | **£82,907** | **£86,704** | **£88,936** | **£93,273** | **£121,079** | **£155,346** | **£197,298** | **£249,120** | **£310,613** |
| Less Voids | -£1,176 | -£1,213 | -£1,176 | -£1,138 | -£1,183 | -£1,453 | -£1,784 | -£2,184 | -£2,673 | -£3,249 |
| Management Charge Income | £610 | £619 | £635 | £653 | £672 | £811 | £941 | £1,091 | £1,264 | £1,466 |
| **Net Rental Income** | **£76,008** | **£82,313** | **£86,162** | **£88,451** | **£92,763** | **£120,437** | **£154,503** | **£196,205** | **£247,711** | **£308,830** |
| Other Income | £3,698 | £3,376 | £3,430 | £3,466 | £3,499 | £3,863 | £4,266 | £4,709 | £5,146 | £5,681 |
| **Social Housing Lettings Turnover** | **£79,706** | **£85,689** | **£89,593** | **£91,917** | **£96,262** | **£124,300** | **£158,768** | **£200,914** | **£252,857** | **£314,511** |
| Management costs | £19,703 | £20,282 | £20,657 | £21,276 | £21,654 | £25,061 | £28,646 | £33,854 | £40,007 | £46,994 |
| Supported housing costs | £647 | £884 | £877 | £873 | £904 | £1,074 | £1,275 | £1,514 | £1,799 | £2,029 |
| Service Costs | £6,652 | £6,769 | £6,797 | £6,815 | £6,958 | £8,230 | £9,691 | £11,367 | £13,154 | £15,337 |
| Routine Maintenance | £6,603 | £7,017 | £7,393 | £7,603 | £7,909 | £10,606 | £14,122 | £18,921 | £25,083 | £32,963 |
| Planned Maintenance | £2,368 | £2,416 | £2,469 | £2,556 | £2,652 | £3,100 | £3,701 | £4,450 | £5,231 | £6,146 |
| Gross Major Repairs | £14,900 | £13,392 | £14,874 | £16,047 | £13,955 | £19,155 | £30,922 | £38,240 | £50,232 | £82,759 |
| Capitalised Major Repairs | -£10,334 | -£8,277 | -£7,900 | -£8,805 | -£7,235 | -£11,256 | -£18,052 | -£22,835 | -£28,501 | -£45,803 |
| Net Major Repairs | £4,567 | £5,116 | £6,974 | £7,242 | £6,720 | £7,900 | £12,870 | £15,405 | £21,732 | £36,956 |
| Bad Debts | £754 | £1,482 | £2,071 | £2,379 | £2,788 | £3,538 | £4,235 | £5,065 | £6,068 | £7,224 |
| Depreciation Of Housing Properties | £9,216 | £10,338 | £9,613 | £9,935 | £10,436 | £13,362 | £15,992 | £21,131 | £26,478 | £35,033 |
| **Social Housing Lettings Operating Costs** | **£50,510** | **£54,303** | **£56,852** | **£58,680** | **£60,020** | **£72,869** | **£90,533** | **£111,707** | **£139,551** | **£182,681** |
| **Social Housing Lettings Surplus** | **£29,196** | **£31,386** | **£32,740** | **£33,236** | **£36,242** | **£51,431** | **£68,235** | **£89,207** | **£113,306** | **£131,830** |
| **Social Housing Other activities** | | | | | | | | | | |
| Supporting people income | £2,766 | £2,503 | £2,293 | £2,334 | £2,381 | £2,629 | £2,902 | £3,204 | £3,538 | £3,906 |
| Oldham PFI management fee | £681 | £705 | £735 | £768 | £805 | £1,015 | £1,280 | £1,614 | | |
| PV Panels | £413 | £415 | £422 | £429 | £438 | £484 | £534 | £589 | | |
| Development Allowances | £2,468 | £2,533 | £2,400 | £2,553 | £2,819 | £3,388 | £4,073 | £4,896 | £5,886 | £7,075 |
| **Social Housing Other activities Income** | **£6,328** | **£6,156** | **£5,850** | **£6,084** | **£6,442** | **£7,515** | **£8,789** | **£10,304** | **£9,423** | **£10,981** |
| Oldham PFI costs | -£499 | -£508 | -£521 | -£536 | -£552 | -£640 | -£742 | -£862 | £0 | £0 |
| Supported Housing SP costs | -£3,667 | -£3,538 | -£3,508 | -£3,493 | -£3,616 | -£4,294 | -£5,100 | -£6,057 | -£7,194 | -£8,117 |
| Development costs | -£1,910 | -£1,908 | -£1,920 | -£1,981 | -£2,047 | -£2,414 | -£2,848 | -£3,361 | -£3,969 | -£4,688 |
| **Social Housing Other activities Expenditure** | **-£6,076** | **-£5,954** | **-£5,950** | **-£6,010** | **-£6,214** | **-£7,347** | **-£8,690** | **-£10,280** | **-£11,163** | **-£12,805** |
| First tranche sales income | £4,664 | £5,273 | £2,199 | £2,406 | £2,413 | £3,634 | £4,373 | £5,262 | £6,331 | £3,809 |
| First tranche sales costs | -£4,052 | -£4,730 | -£1,972 | -£2,248 | -£2,092 | -£3,365 | -£4,049 | -£4,872 | -£5,862 | -£3,527 |
| **First tranche sales surplus** | **£613** | **£543** | **£227** | **£158** | **£321** | **£269** | **£324** | **£390** | **£469** | **£282** |
| Other property sales income | £4,600 | £4,157 | £4,351 | £3,239 | £3,373 | £4,137 | £5,078 | £6,237 | £7,664 | £9,421 |
| Other property sales costs | -£3,101 | -£2,548 | -£2,537 | -£1,832 | -£1,825 | -£1,788 | -£1,751 | -£1,714 | -£1,677 | -£1,641 |
| **Other property sales surplus** | **£1,499** | **£1,609** | **£1,814** | **£1,407** | **£1,549** | **£2,350** | **£3,327** | **£4,523** | **£5,986** | **£7,780** |
| Staircasing income | £1,344 | £1,346 | £1,355 | £1,423 | £1,483 | £3,720 | £5,449 | £7,523 | £10,679 | £14,468 |
| Staircasing costs | -£1,196 | -£1,104 | -£1,013 | -£1,009 | -£1,006 | -£2,227 | -£2,827 | -£3,475 | -£4,463 | -£5,555 |
| **Staircasing surplus** | **£148** | **£242** | **£343** | **£414** | **£478** | **£1,493** | **£2,622** | **£4,048** | **£6,216** | **£8,913** |
| **Social Housing Other activities surplus** | **£2,512** | **£2,596** | **£2,283** | **£2,054** | **£2,575** | **£4,279** | **£6,372** | **£8,984** | **£10,932** | **£15,151** |
| **Non social housing activities** | | | | | | | | | | |
| Outright sales Income | £2,511 | £9,877 | £4,739 | £4,976 | £5,187 | £6,387 | | | | |
| Outright sales Costs | -£2,190 | -£8,857 | -£4,262 | -£4,420 | -£4,595 | -£5,501 | | | | |
| **Outright sales Surplus** | **£321** | **£1,020** | **£477** | **£556** | **£592** | **£887** | | | | |
| Market Rental Schemes Income | £780 | £1,204 | £2,105 | £2,257 | £2,523 | £2,885 | £3,302 | £3,782 | £4,336 | £4,893 |
| Market Rental Schemes Operating Costs | -£269 | -£406 | -£705 | -£786 | -£872 | -£990 | -£1,127 | -£1,284 | -£1,465 | -£1,488 |
| **Market Rental Schemes Surplus** | **£511** | **£797** | **£1,400** | **£1,471** | **£1,651** | **£1,895** | **£2,175** | **£2,498** | **£2,871** | **£3,405** |
| **Non social housing activities surplus** | **£832** | **£1,818** | **£1,877** | **£2,027** | **£2,244** | **£2,782** | **£2,175** | **£2,498** | **£2,871** | **£3,405** |
| **Surplus Before Interest and Tax** | **£32,540** | **£35,800** | **£36,900** | **£37,317** | **£41,060** | **£58,492** | **£76,782** | **£100,689** | **£127,108** | **£150,386** |
| Interest receivable | £257 | £331 | £647 | £1,059 | £932 | £901 | £951 | £1,001 | £1,001 | £1,051 |
| Interest Payable | -£23,724 | -£25,417 | -£26,556 | -£27,988 | -£28,222 | -£34,685 | -£44,316 | -£55,901 | -£69,911 | -£91,371 |
| Capitalised Interest | £2,085 | £1,534 | £1,236 | £1,333 | £1,692 | £2,449 | £2,960 | £3,768 | £4,784 | £5,724 |
| **Interest Payable Total** | **-£21,639** | **-£23,884** | **-£25,320** | **-£26,655** | **-£26,530** | **-£32,236** | **-£41,356** | **-£52,133** | **-£65,127** | **-£85,647** |
| **Surplus Before Tax** | **£11,158** | **£12,247** | **£12,227** | **£11,720** | **£15,463** | **£27,157** | **£36,378** | **£49,557** | **£62,983** | **£65,791** |

## 6.4 GPHG CONSOLIDATED I&E COMMENTARY

6.4.1 Total Income, including development allowances and all sales income, will reach £99.9m in the budget year. However, it is only in year 2 that the Group will 'officially' be able to recognise Turnover of £100m. Having taken 40+ years to get to £100m turnover, the Group will probably hit £200m within another 16 years.

It is noticeable that the total rental income from new development properties will reach parity with the rents on the existing stock by year 25 of the plan, when both will be £108m.

6.4.2 Keyworker rents drop noticeably between years two and four as the Rotherham arrangements are terminated.

6.4.3 Bad debts quadruple between years one and five, this being the assumption around the outcome of welfare reform.

6.4.4 Oldham PFI activity ceases at the end of the 25 year contract (year 23 of this plan) and the income from PV panels is also assumed to cease after 25 years in line with the expected life of the panels. The investment budget includes provision for PV panel replacement, but the income stream is still assumed to cease as there is nothing to guarantee that the feed in tariff regime will still exist by that time.

6.4.5 Similarly, as has been the case with previous plans, outright sales activity in Cube is assume to cease after 10 years. This is to prevent an over-reliance on riskier market sale surpluses. In reality these schemes will continue as long as suitable opportunities can be found.

6.4.6 Surplus before tax is relatively flat over the next four years, rising to just over £12m in 2016/17 before dipping back to £11.7m in 2018/19. This is partly due to the lumpy profile of the major repair programme which has not been "smoothed" in the plan.

6.4.7 The figures shown exclude any Corporation tax charge – careful use of gift aid will minimise the taxable profits within the non-charitable parts of the Group. Whilst the charitable status helps minimise tax on surpluses, it should be remembered that the Group (and sector) is treated in a way that is highly VAT inefficient and in 2015/16 Great Places will incur c£3M of unrecoverable VAT.

## GROUP CONSOLIDATION – CASH FLOW

| Year ended 31st March | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 | 2030 | 2035 | 2040 | 2045 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 10 | Year 15 | Year 20 | Year 25 | Year 30 |
| | £000's | £000's | £000's | £000's | £000's | £000's | £000's | £000's | £000's | £000's |
| **OPERATING ACTIVITIES** | | | | | | | | | | |
| **Cash Received From Customers** | | | | | | | | | | |
| Rents and other payments | £85,542 | £90,336 | £94,251 | £96,512 | £100,816 | £129,629 | £164,543 | £207,225 | £258,323 | £319,840 |
| First Tranche Sales Income | £4,664 | £5,273 | £2,199 | £2,406 | £2,413 | £3,634 | £4,373 | £5,262 | £6,331 | £3,809 |
| Outright Sales Schemes Income | £2,601 | £9,912 | £4,739 | £4,976 | £5,187 | £6,387 | £0 | £0 | £0 | £0 |
| **Total** | **£92,807** | **£105,521** | **£101,189** | **£103,894** | **£108,417** | **£139,651** | **£168,916** | **£212,487** | **£264,655** | **£323,649** |
| **Cash Paid To Suppliers** | | | | | | | | | | |
| Operational costs | -£31,463 | -£30,851 | -£33,011 | -£33,717 | -£33,828 | -£38,365 | -£45,764 | -£50,431 | -£59,414 | -£75,478 |
| First Tranche Sales Costs | -£3,723 | -£3,344 | -£3,985 | -£3,627 | -£4,908 | -£7,820 | -£13,680 | -£22,059 | -£32,980 | -£39,966 |
| Outright Sales Schemes Costs | -£6,708 | -£1,827 | -£4,162 | -£4,325 | -£4,505 | -£3,611 | £0 | £0 | £0 | £0 |
| **Cash Paid To Suppliers** | **-£41,894** | **-£36,022** | **-£41,158** | **-£41,668** | **-£43,241** | **-£49,795** | **-£59,443** | **-£72,490** | **-£92,393** | **-£115,444** |
| **Cash Paid To Employees** | -£17,553 | -£18,358 | -£18,642 | -£19,029 | -£19,412 | -£22,433 | -£25,725 | -£30,553 | -£35,567 | -£41,575 |
| **Net Cash From Operating Activities** | **£33,361** | **£51,141** | **£41,389** | **£43,197** | **£45,764** | **£67,423** | **£83,748** | **£109,444** | **£136,694** | **£166,630** |
| Interest Collected | £257 | £331 | £647 | £1,059 | £932 | £901 | £951 | £1,001 | £1,001 | £1,051 |
| Interest Charges | -£23,440 | -£25,113 | -£26,255 | -£27,714 | -£27,943 | -£34,388 | -£43,980 | -£55,516 | -£69,464 | -£90,840 |
| **Net Cash From Interest Charges** | **-£23,183** | **-£24,783** | **-£25,608** | **-£26,655** | **-£27,011** | **-£33,487** | **-£43,030** | **-£54,515** | **-£68,463** | **-£89,789** |
| **INVESTING ACTIVITIES** | | | | | | | | | | |
| GPHA Development (exc first tranche sales) | -£64,621 | -£44,505 | -£33,751 | -£29,385 | -£55,688 | -£65,027 | -£78,891 | -£96,066 | -£116,958 | -£135,224 |
| GPHA Capitalised major repairs | -£10,334 | -£8,277 | -£7,900 | -£8,805 | -£7,235 | -£11,256 | -£18,052 | -£22,835 | -£28,501 | -£45,803 |
| Cube Development (exc Outright sales costs) | -£4,964 | -£12,636 | -£2,565 | -£2,667 | | | | | | |
| **Acquisition And Construction Of Properties Total** | **-£79,918** | **-£65,418** | **-£44,216** | **-£40,857** | **-£62,923** | **-£76,283** | **-£96,943** | **-£118,901** | **-£145,459** | **-£181,027** |
| Release of cash collateral | £16,194 | £4,020 | £3,063 | £3,118 | £3,181 | £0 | £0 | £0 | £0 | £741 |
| ICT capital expenditure | -£800 | -£804 | -£817 | -£832 | -£848 | -£937 | -£1,034 | -£1,142 | -£1,260 | -£1,392 |
| Grants | £2,367 | £7,805 | £3,596 | £5,566 | £10,772 | £12,925 | £15,419 | £18,366 | £21,939 | £24,175 |
| Sales Of Properties | £5,944 | £5,503 | £5,707 | £4,662 | £4,857 | £7,857 | £10,527 | £13,760 | £18,343 | £23,889 |
| **Net Cash From Investment Activities** | **-£56,213** | **-£48,894** | **-£32,667** | **-£28,343** | **-£44,961** | **-£56,437** | **-£72,030** | **-£87,917** | **-£106,437** | **-£133,604** |
| **Net Cash Before Financing** | **-£46,035** | **-£22,535** | **-£16,886** | **-£11,801** | **-£26,208** | **-£22,501** | **-£31,312** | **-£32,988** | **-£38,207** | **-£56,762** |
| **FINANCING** | | | | | | | | | | |
| Loan Drawdowns - existing facilities | £43,300 | £29,450 | £25,405 | £37,250 | £0 | £0 | £0 | £0 | £0 | £0 |
| Loan Drawdowns - new facilities | £0 | £0 | £0 | £0 | £25,183 | £35,485 | £45,135 | £48,221 | £49,081 | £60,154 |
| Capital Repayments | -£1,657 | -£3,215 | -£4,983 | -£20,392 | -£11,679 | -£12,984 | -£13,823 | -£15,232 | -£10,875 | -£3,392 |
| **Net Cash From Financing** | £41,643 | £26,235 | £20,422 | £16,858 | £13,504 | £22,501 | £31,312 | £32,988 | £38,207 | £56,762 |
| **Opening Cash** | **£24,804** | **£20,411** | **£24,112** | **£27,647** | **£32,704** | **£20,000** | **£20,000** | **£20,000** | **£20,000** | **£20,000** |
| Net cash flow | -£4,392 | £3,700 | £3,536 | £5,057 | -£12,704 | £0 | £0 | £0 | £0 | £0 |
| **Closing Cash** | **£20,411** | **£24,112** | **£27,647** | **£32,704** | **£20,000** | **£20,000** | **£20,000** | **£20,000** | **£20,000** | **£20,000** |

## 6.5 CASH FLOW COMMENTARY

6.5.1 Cash received in respect of, and paid for, outright sales schemes and shared ownership properties are shown within operating activities. Other development activity is within investing activities. Cube's market rent development programme ceases after year four.

6.5.2 Capitalised major repairs are shown within investing activities, but non component revenue major repairs are within operating activities.

6.5.3 The release of collateral securing derivative mark to market exposure is shown on a line within investing activities, as is cash received from other property sales.

6.5.4 The financing section includes loan drawdown from existing facilities, which last to year four, and thereafter all funding will be from new facilities not yet in place.

6.5.5 Loan repayments in year 4 include £10m repayment of the currently drawn portion of the RBC revolving facility.

6.5.6 The cash flow clearly shows that a £20m minimum cash balance is held at all times. Excess cash in years three and four allows the undrawn Santander and RBS facilities to fully utilised prior to their facility expiry dates.

## 6.6 BALANCE SHEET COMMENTARY

6.6.1 Housing properties at cost reach nearly £1.2bn at the end of the budget year and grow by c£40m to £50m per annum.

6.6.2 Investment properties reach £23.7m by year 4 and then remain at that figure – this is the Cube market rent properties developed.

6.6.3 Current assets includes the work in progress/unsold stock figure for the outright sales being undertaken in Cube and the shared ownership programme being developed by GPHA.

6.6.4 The collateral required as security for the mark to market exposure on the Group's ISDA swaps is also included in current assets, and is assumed to reduce steadily in the early years of the plan as interest rates are assumed to rise.

6.6.5 Outstanding loans will exceed £0.5bn by the end of the budget year.

## GROUP CONSOLIDATION – BALANCE SHEET

| Year ended 31st March | 2016 Year 1 | 2017 Year 2 | 2018 Year 3 | 2019 Year 4 | 2020 Year 5 | 2025 Year 10 | 2030 Year 15 | 2035 Year 20 | 2040 Year 25 | 2045 Year 30 |
|---|---|---|---|---|---|---|---|---|---|---|
| | £ 000's | £ 000's | £ 000's | £ 000's | £ 000's | £ 000's | £ 000's | £ 000's | £ 000's | £ 000's |
| **HOUSING ASSETS** | | | | | | | | | | |
| Housing Properties at cost | £1,194,783 | £1,247,283 | £1,289,149 | £1,328,575 | £1,393,081 | £1,754,363 | £2,213,951 | £2,759,513 | £3,419,700 | £4,242,772 |
| Social Housing Grants | -£461,778 | -£470,770 | -£475,549 | -£481,147 | -£491,956 | -£552,123 | -£623,900 | -£709,557 | -£811,906 | -£931,242 |
| Other Capital Grants | -£78,722 | -£78,722 | -£78,722 | -£78,722 | -£78,722 | -£78,722 | -£78,722 | -£78,722 | -£78,722 | -£78,722 |
| Depreciation | -£88,851 | -£99,166 | -£108,742 | -£118,638 | -£129,024 | -£189,190 | -£264,266 | -£338,849 | -£427,352 | -£519,757 |
| **Net Book Value Of Housing Properties** | **£565,433** | **£598,626** | **£626,137** | **£650,068** | **£693,379** | **£934,329** | **£1,247,064** | **£1,632,385** | **£2,101,721** | **£2,713,052** |
| Other Fixed Assets Tangible | £6,836 | £6,894 | £6,941 | £6,864 | £6,827 | £6,663 | £6,519 | £6,393 | £6,289 | £6,209 |
| Investment Properties | £5,844 | £18,481 | £21,045 | £23,713 | £23,713 | £23,713 | £23,713 | £23,713 | £23,713 | £23,713 |
| Other fixed asset investments | £3,123 | £3,123 | £3,123 | £3,123 | £3,123 | £3,123 | £3,123 | £3,123 | £2,703 | £2,692 |
| Homebuy Loan | £9,700 | £9,700 | £9,700 | £9,700 | £9,700 | £9,700 | £9,700 | £9,700 | £9,700 | £9,700 |
| Homebuy Grant | -£9,700 | -£9,700 | -£9,700 | -£9,700 | -£9,700 | -£9,700 | -£9,700 | -£9,700 | -£9,700 | -£9,700 |
| **Total Fixed Assets** | **£581,236** | **£627,124** | **£657,246** | **£683,768** | **£727,042** | **£967,828** | **£1,280,418** | **£1,665,614** | **£2,134,426** | **£2,745,666** |
| **Current Assets** | | | | | | | | | | |
| Cash | £20,411 | £24,112 | £27,647 | £32,704 | £20,000 | £20,000 | £20,000 | £20,000 | £20,000 | £20,000 |
| Shared ownership schemes work in progress | £3,519 | £1,548 | £2,057 | £1,751 | £2,898 | £3,491 | £4,201 | £5,055 | £6,082 | £0 |
| Outright sales schemes work in progress | £7,998 | £1,388 | £1,437 | £1,492 | £1,552 | £0 | £0 | £0 | £0 | £0 |
| ISDA Swap Collateral | £18,772 | £14,752 | £11,689 | £8,570 | £5,390 | £0 | £0 | £0 | £0 | £0 |
| Other Current Assets | £7,532 | £8,144 | £8,756 | £9,368 | £9,980 | £9,067 | £9,067 | £9,067 | £9,067 | £8,280 |
| **Total Current Assets** | **£58,231** | **£49,943** | **£51,586** | **£53,886** | **£39,820** | **£32,559** | **£33,268** | **£34,122** | **£35,150** | **£28,280** |
| **Current Liabilities** | £28,247 | £28,247 | £28,247 | £28,247 | £28,247 | £28,247 | £28,247 | £28,247 | £28,247 | £28,247 |
| **Total Current Liabilities** | **£28,247** | **£28,247** | **£28,247** | **£28,247** | **£28,247** | **£28,247** | **£28,247** | **£28,247** | **£28,247** | **£28,247** |
| **Total Assets Less Current Liabilities** | **£611,220** | **£648,820** | **£680,586** | **£709,406** | **£738,615** | **£972,140** | **£1,285,440** | **£1,671,489** | **£2,141,329** | **£2,745,699** |
| Outstanding Loan Balance | £515,808 | £542,043 | £562,465 | £579,323 | £592,827 | £711,476 | £866,421 | £1,027,290 | £1,212,808 | £1,501,941 |
| Loan Fees | -£7,024 | -£6,782 | -£6,540 | -£6,298 | -£6,055 | -£4,844 | -£3,633 | -£2,422 | -£1,211 | £0 |
| Other Long Term Creditors | £3,243 | £2,118 | £993 | £993 | £993 | £1,280 | £1,893 | £2,566 | £3,439 | £4,502 |
| **NET ASSETS** | **£99,194** | **£111,441** | **£123,668** | **£135,388** | **£150,851** | **£264,229** | **£420,759** | **£644,055** | **£926,293** | **£1,239,255** |
| **Retained Surplus** | £99,194 | £111,441 | £123,668 | £135,388 | £150,851 | £264,229 | £420,759 | £644,055 | £926,293 | £1,239,255 |
| | **£99,194** | **£111,441** | **£123,668** | **£135,388** | **£150,851** | **£264,229** | **£420,759** | **£644,055** | **£926,293** | **£1,239,255** |

# 7. SENSITIVITY ANALYSIS

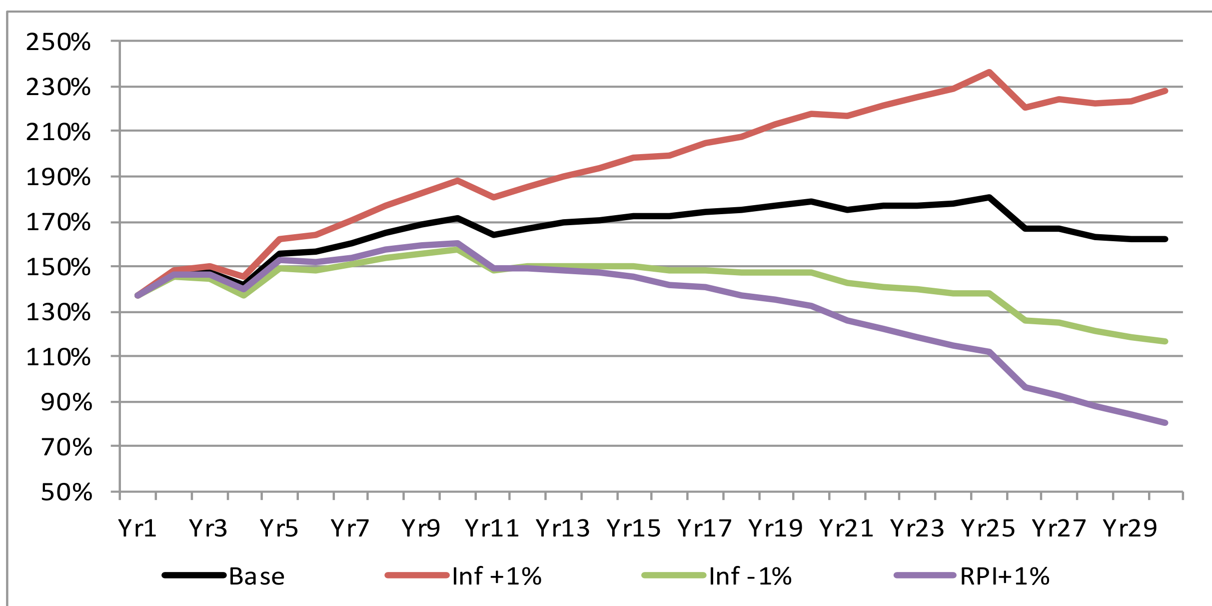
7.1 Sensitivity analysis has for many years been a key part of the business planning process. It helps identify key risk variables, how each of them impact the Group's financial strength, to what scale and how quickly. In recent years the analysis has extended to include multi-variant scenarios. Financial strength has been measured in terms of changes to the Interest Cover covenant which must exceed 105%.

7.2 The move to stress testing is a natural further step. Sensitivity analysis focuses on relatively minor, often incremental and quite foreseeable change. Stress testing takes this much further, considering more extreme situations and combinations of circumstances with a view to establishing 'what would break the business?'

7.3 A seperate stress testing exercise and report has been produced and discussed at a board training session in April 2015

7.4 The range of sensitivity analysis historically undertaken has been scaled back a little (the sensitivity analysis remains very helpful in establishing the elements of a stress scenario.

## 7.5 INFLATION SENSITIVITIES:



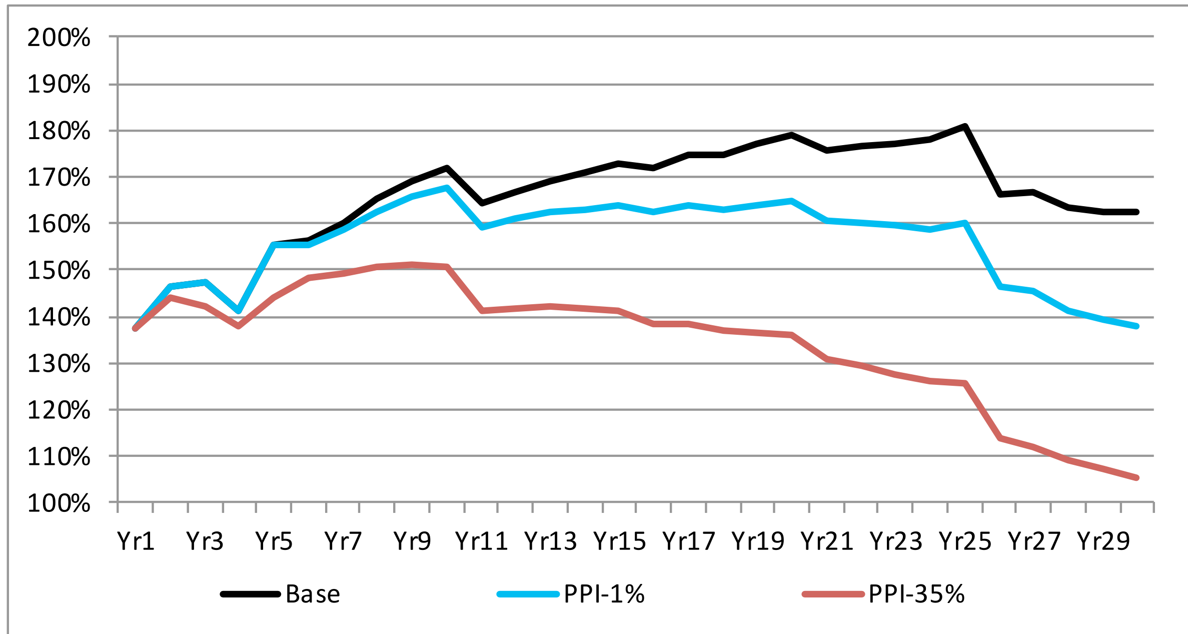

Increasing inflation benefits the Group's income and surplus, whilst eroding the value of debt, so generates an improving interest cover result (brown line).

Reducing inflation has the opposite impact (green line).

However, if RPI cost inflation rises by 1% per annum, whilst CPI inflation remains unchanged (creating a greater 'wedge'), there is a far more obvious impact on interest cover and a potential covenant breach around year 26 of the plan.

This is a factor that stress testing should consider further.

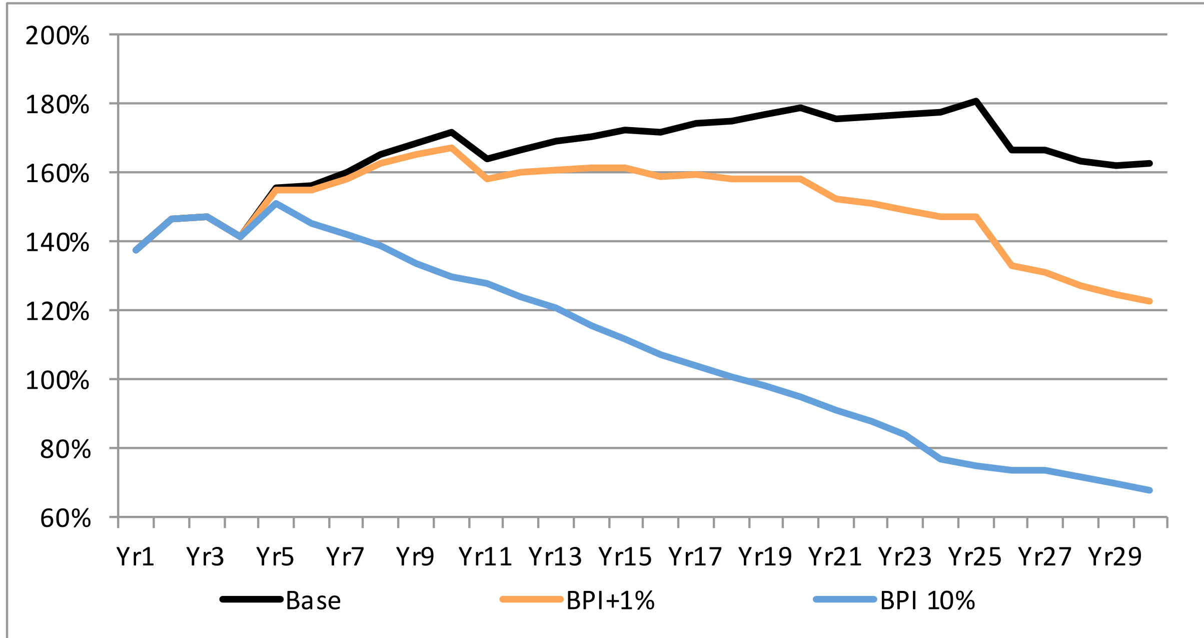
## 7.6 PROPERTY PRICE AND BUILDING COST INFLATION:




Whilst Great Places is determined not to have a business plan dependent on property sales (and the ICR shown excludes all property sales surpluses anyway), the continuing shared ownership programme, an increasing pool of properties available for staircasing, increased numbers of disposals and the ambitions for outright sale through Cube all combine to mean sales do have an impact, particularly in terms of cash generation.

The graph shows that a reduction in ongoing property price inflation has a modest impact (blue line) whilst a sudden one off 35% fall in property prices (brown line) has a bigger impact (though not causing a covenant breach until year 30).

This is also a factor for stress testing to consider.

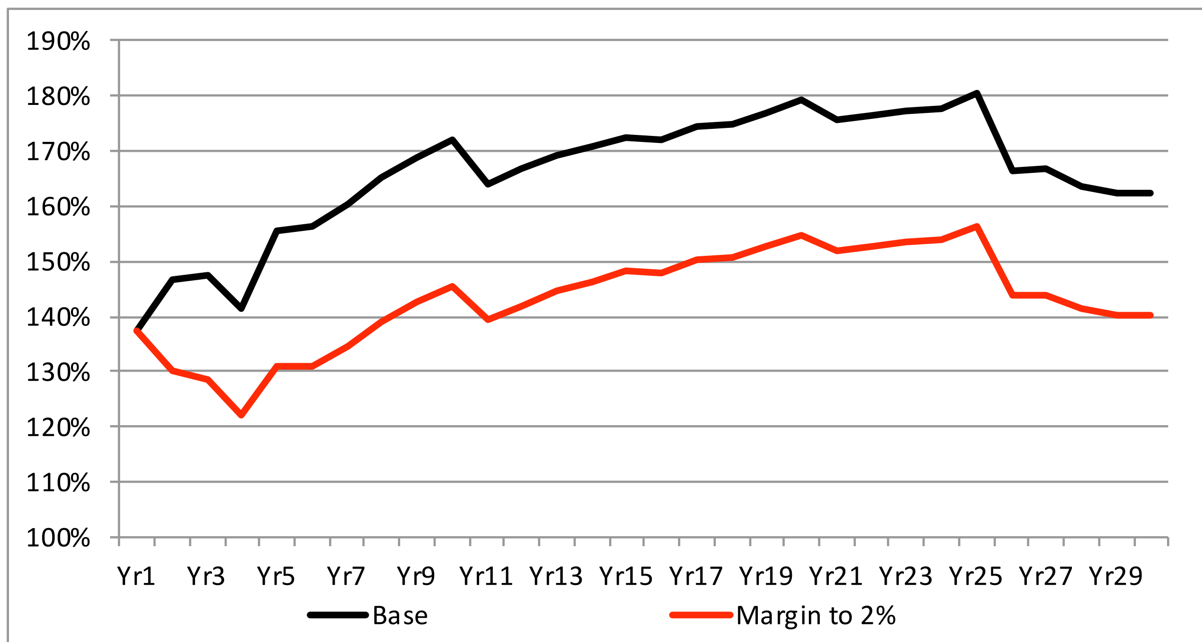



In a similar vein, a small increase in annual building price inflation (has a gradual impact on interest cover as shown by the brown line.

However, a more sudden one off increase of 10% has quite a major impact leading to potential covenant breach around year 17. This would add c£5m of development costs annually, hence pushing up debt requirements and interest costs.

The Group is protected in the first two–three years of the plan because it has fixed price contracts in place for much of its committed development activities, but after that construction costs would increase sharply. Again, this is something stress testing should take into account.

## 7.7 LOAN REPRICING:

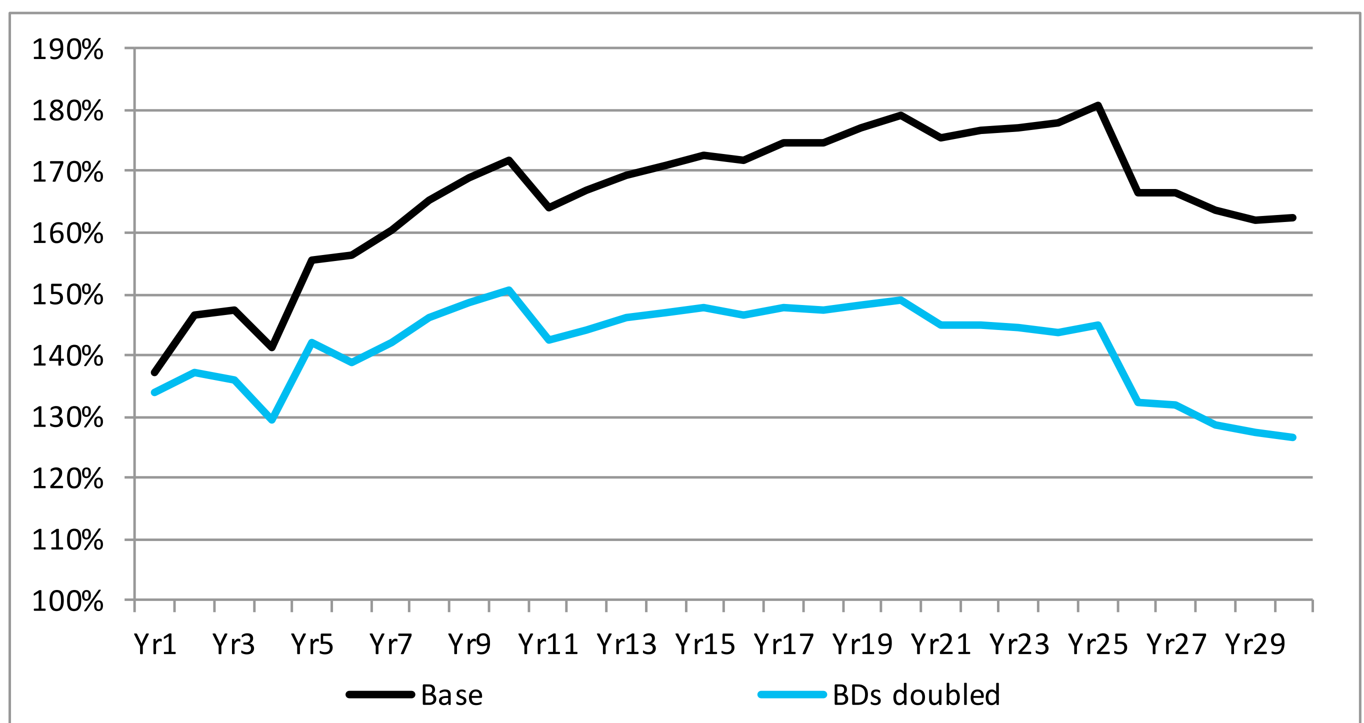



The potential for repricing of the Group's low margin £300m 2007 loan facilities has been recognised as a significant risk for some years. There is a clear immediate impact which grows to generate a 25% reduction in interest cover by year five as the RBS and Santander loans are fully utilised.

Thereafter, the impact is steady as those loans begin to be repaid and form a decreasing proportion of the overall debt portfolio. The sensitivity also considers a re-price to a 2% margin – a little lower than previously considered, as the banking market has eased a little.

There is no covenant breach although in year four the ratio drops to 120% which would need careful management. This is certainly something for stress testing to consider.

## 7.8 BAD DEBTS DOUBLE:

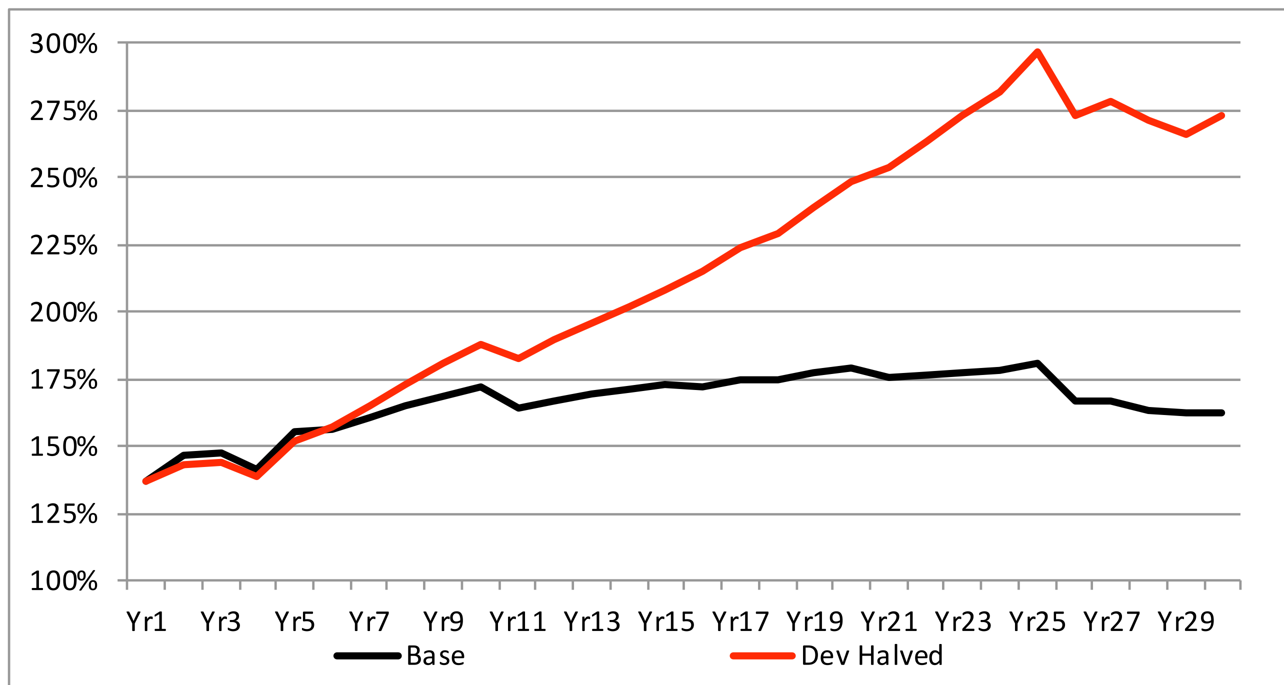



The business plan already incorporates some very prudent assumptions around the impact of welfare reform, including arrears doubling and bad debts rising from around 1% to c4% over the next four years.

This sensitivity assume that bad debts are double even that level, rising to 8% by year five. Given some evidence from the world of Universal Credit is suggesting collection rates of only 85%, then it becomes easier to contemplate such levels of bad debt loss.

The impact is immediate and clearly adverse, though does not generate a covenant breach.

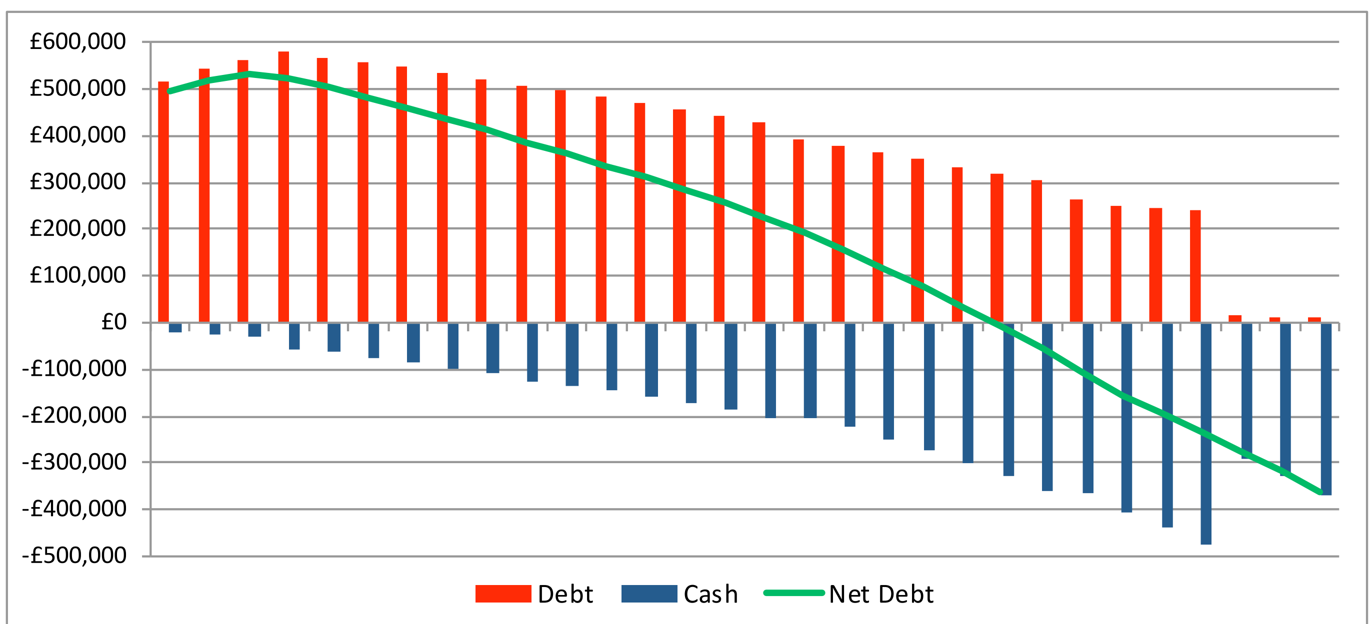
## 7.9 DEVELOPMENT:




This sensitivity has assumed the future development programme (ie beyond the current HCS contracts that extend to March 2018) is halved from 400 units per annum to 200 units per annum.

There is a clear improvement in interest cover, although the benefit really only becomes material only after 10 years.

This suggests that it is likely that reducing development will be a major element of any stress test recovery plan.




This graph shows that if the organisation were to cease development as soon as reasonably possible (which is assumed here as being March 2018, when the Group's existing HCA contractual commitments end), then if would be able to repay its debts in line with the required repayment schedules.

The chart shows a nil net debt position by year 22, with sufficient cash by that point that remaining loan facilities could be paid off early.

7.10 These sensitivities have provided some pointers as to what affects the Great Places business most, and what can be done to mitigate adverse circumstances.

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