BUSINESS PLAN AND BUDGET

2014 - 2015

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Approved by the GPHG Board 3 April 2014

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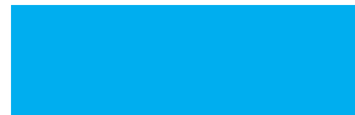


1. EXECUTIVE SUMMARY

1.1. 2013/14 was a demanding, but ultimately successful, year for Great Places. Record turnover, record surplus, and a productive return to the capital markets for our retained bond were the financial highlights, but were combined with some well documented governance lowlights that saw our HCA Governance rating downgraded to G2 in July 2013. Our proactive and robust response saw a significant shake up in Governance arrangements and Board composition, to the extent that we hope that the HCA will soon be able to reinstate our G1 status.

1.2. Taking account of a range of existing and new challenges, the Group is pleased to present a business plan for 2014/15 and beyond that confirms and enhances the financial strength and long term viability of the Group.

This new and fully updated plan:

- Reflects the completion of our 2011-15 affordable rent development programme, and the commencement of our 2015-17 affordable rent guarantee programme, and also incorporates the continuation of a significant programme going forward;
- Identifies the current impact of welfare benefit reforms and makes prudent assumptions as its various elements are rolled out;
- Utilises the new CPI+1% rent formula (as predicted in last year's plan) and considers the risk associated with divergence between RPI and CPI going forward;
- Incorporates the Group's measured move into the market rented sector;
- Builds in conservative assumptions around the increasing proportion of our portfolio where rents are driven by market factors;
- Features a funding strategy that builds upon the Group's success in the Capital Markets, but also taking advantage of other products whenever they are made available;
- Continues to be un-reliant on property sales activity to achieve surpluses or meet any covenants;
- Maintains assumptions to reflect of continuing deep cuts to Supporting People income streams and ongoing procurement challenges;
- Demonstrates the Group's strategic commitment to become financially stronger.

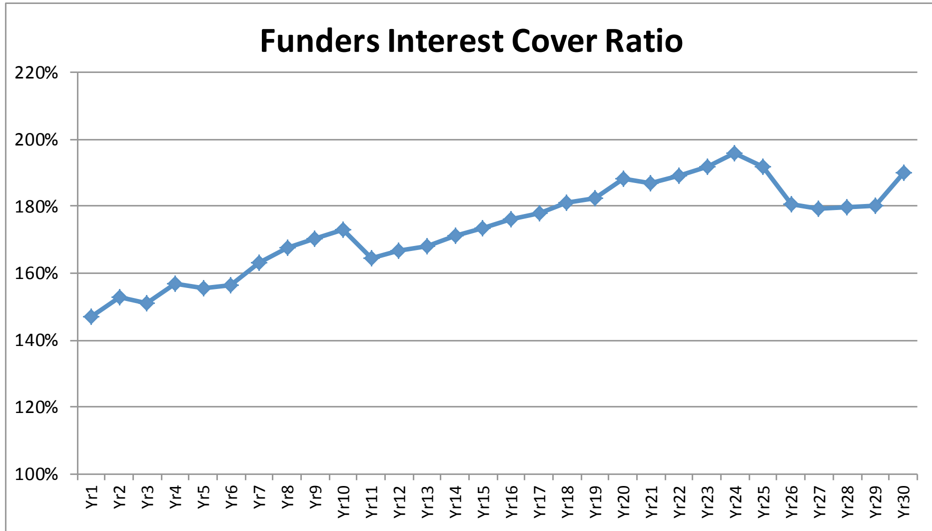
1.2 2013/14 saw significant change with a new Chief Executive, a new Chair and several new Board members. In April Matthew Harrison took over as Chief Executive having previously been Director of Development and Deputy Chief Executive, and so he brings a deep understanding of what makes Great Places special, and will balance the need for change with continuity. Tony Davison became the Group's new chair in September 2013 and brings a wealth of senior commercial experience to the Board along with 5 new colleagues.

1.3 Our hugely successful bond issue in November 2012 was followed by an equally successful return to the markets in November 2013 to access over £30m more of retained bonds. We have worked cooperatively with our Credit Rating Agencies, Fitch and Moodys during the year and this plan demonstrates heightened consideration of some of the key ratios considered by the two agencies as we recognise the importance of protecting, maintaining and improving our credit rating.

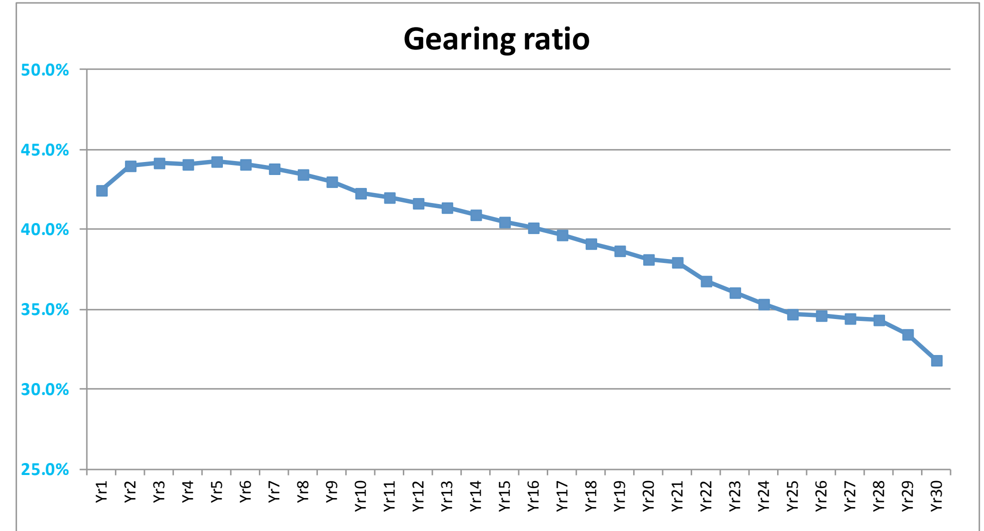
1.4 Financial viability is most clearly demonstrated by achievement of, and ongoing improvement in, the key ratios considered by our investors, funders and credit rating agencies, as well as the rating itself.

Matthew Harrison,
Great Places' new chief executive

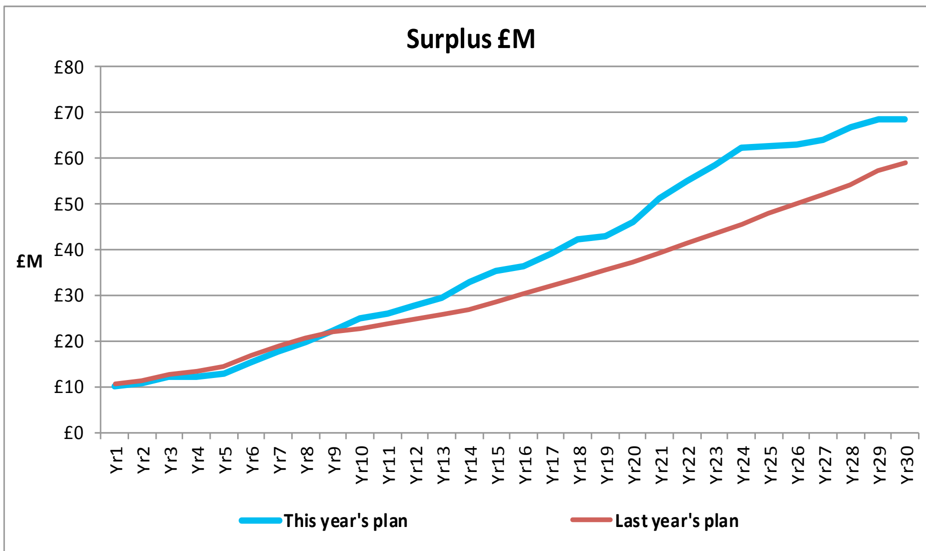
Graph 1: INTEREST COVER RATIO



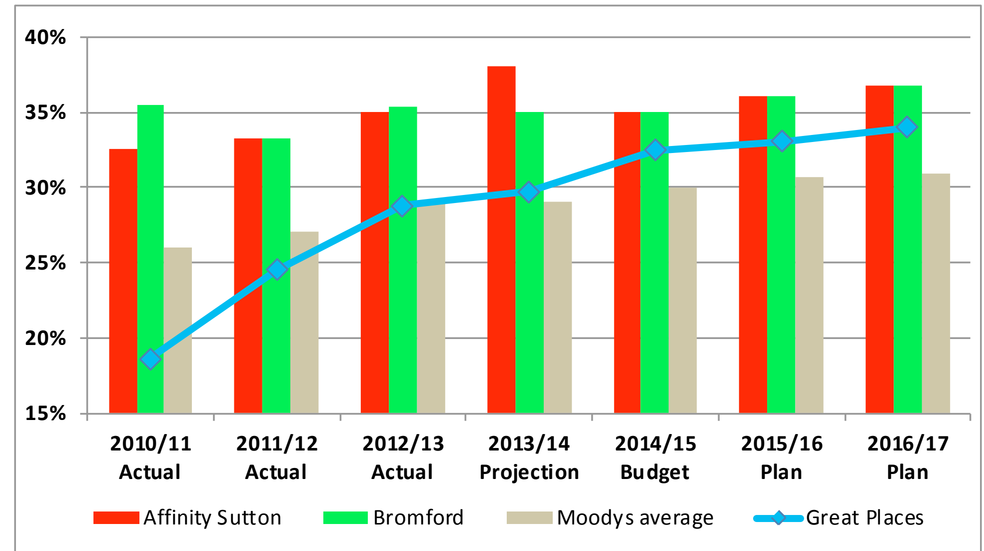
Graph 2: GEARING



Graph 3: SURPLUS PROFILE



Graph 4: OPERATING MARGIN



These graphs demonstrate the Group's increasing financial strength - they are explained in detail in section 6.

greatplaces HOUSING GROUP

2 REGULATION AND GOVERNANCE

2.1 The Group has always sought to use this business plan document as a means of explaining to the regulator how we are meeting a range of regulatory requirements, and in doing so again this year, we also recognise the importance of demonstrating how well we deliver in the critical areas of value for money, governance and risk management.

2.2 In July 2013 Great Places was downgraded from G1 to G2 by the HCA. The reasons for the downgrade were explained clearly in the regulatory judgement issued at the time, but that document also identified how the Group had effectively embraced the principles of co-regulation. Since the downgrade the Group has set out on the journey to regain its G1 assessment and has:

- Completed a wide ranging externally supported Governance review;
- Appointed a new Chair and 5 other new Board Members;
- Introduced an updated Code of Governance based on the NHF “Excellence in Governance” document;
- Revamped the terms of reference for the Audit and Assurance Committee;
- Created a new, more focussed Remuneration and Appraisal Committee;
- Established the “Customer Service Voice” to monitor all aspects of Great Places performance and to provide a “critical friend” to the Executive team;
- Commenced recruitment of an enhanced scrutiny panel designed to fit with other forms of involvement and the structure of existing active residents groups;
- Produced a totally revised suite of probity policies;
- Appointed new external auditors;
- Undertaken a comprehensive Regulatory Gap Analysis to ensure compliance with all aspects of the regulatory framework.

2.2.1 As a result, the Group expects to be able to report that it is fully compliant with its Code of Governance and is hopeful that the HCA will be able to reassess the Group as G1 in the near future. This will accompany the V1 viability rating that the HCA confirmed in January 2014.

2.3 Having already totally renewed the Group’s Governance arrangements in the last 12 months, the next 12 months will see the Group refresh its approach to risk management.

2.3.1 Over the last 3-4 years the Group’s risk map and risk register has reported on around 16 key risks, which are regularly re-assessed in terms of impact and likelihood, and with each key risk being fed by a multitude of sub risks. During the year Zurich Insurance were commissioned to carry out a full advisory audit of the Group’s strategic risk management approach. Zurich concluded “there is clear evidence that work has been undertaken in terms of embedding a robust/ mature risk management framework in Great Places and there is a consensus and willingness to build on the excellent work already undertaken.” Alongside positive feedback, there were areas for improvement identified and these are being factored into our ongoing review.

2.3.2 The new approach is currently being developed, but will definitely include:

- Improved identification and monitoring of high level risks and mitigating actions;
- Enhancing the scoring system – particularly around impact;
- Reviewing the number of high level risks identified and the relationship between them;
- Undertaking more sophisticated stress-testing of the business plan looking at multi-variants with greater input from Board members;
- Ensuring the Corporate risks register builds up from newly developed departmental risk registers.

2.3.3 The new approach will take into account the HCA’s 2013 sector risk profile analysis which places risk into four broad headings of Assets, Liabilities, Income and Costs, and which also stresses the need for RPs and their Boards to understand the risks related to particular schemes, contracts or markets that they decide to commit to.

2.3.4 The revised risk approach will be supported by the enhanced comprehensive range of sensitivity analysis included in section 7 of this document, which helps the Group to understand the impact of changes to key economic and business variables.

2.4 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 means there is no leakage of public assets;
- Meets all of its funding covenants and is not reliant on sales to achieve this;

- It continues to achieve 100% compliance with the decent homes standard and consistently achieves 100% gas safety compliance;
- It has achieved rent convergence on the 10,000+ General Needs properties within the rent envelope, with a rent plan that considers affordability, sustainability and competition;

2.4.1 Having strengthened its Governance arrangements and extended the range of stress testing provided by the sensitivity analyses considered by the Board, the Group is keen to explore with the regulator its proposals for developing a recovery plan ("living wills").

2.5 VALUE FOR MONEY (VFM)

2.6 Seeking to make the best use of the Group's resources is nothing new for Great Places and the steady improvement in financial performance and quality of service delivery over recent years is prime evidence of success in that regard. VFM can be interpreted as a sign of good governance in action.

2.7 It is clear that the HCA has a renewed focus on value for money and whilst the Group is delighted to have fully complied with the new VFM standard, as measured by the HCA in the VFM self assessment included in the Operating and Financial Review section of the 2012/13 statutory accounts, it is obvious that the sector as a whole needs to continue to up its game in this area.

2.8 The Group has adopted a more strategic and structured approach to ensuring VFM is embedded throughout Great Places that will include:

- Clearly defining VFM in the context of the Group's purpose and objectives;
- Explaining the strategic approach to VFM and quality;
- Explaining how strategic decisions have been driven by, and have impacted on, VFM;
- Reporting strategic achievement measures such as operating margin, SAP rating and environmental impact
- Providing an understanding of costs and outcomes including key financial indicators, performance against target and trend analysis;
- Explaining the return on assets measured in terms of financial performance, customer satisfaction and environmental impact;
- Ensuring performance management helps deliver assurance and drives out waste;
- Identifying successes and opportunities including a register of the top ten areas for savings;
- Ensuring that factors generating social value are maximised and measured including apprenticeships, financial inclusion and debt advice;
- Setting long term targets and them monitoring and reporting progress in a transparent, realistic and accessible way.

2.9 During 2013/14, notable VFM successes included:

- Reprocurement of the fixed line telephone contract delivering annual savings of c30%/£60k;
- Renegotiation of our gas servicing generating savings of approaching £100k for the forthcoming year;
- Creation of a framework for legal services which will generate annual savings in excess of £100k, and with a significant reduction in the number of firms being used and much more robust contract management arrangements;
- Reprocurement of the Group's mobile communications services including implementing new technology that will reduce the requirement for "dongles" saving around £30k per annum;
- Continuing to fine tune our Treasury management and investment activities to achieve the best possible returns on our surplus cash whilst still only accepting a minimal level of counterparty risk;
- Retendered the external audit service – not least to meet best practice, but with the welcome side effect of generating cost savings of c£20k per annum, creating a more comprehensive tax advisory service and reducing the charges faced by the Group's leaseholders;
- Implementation of a brand new approach to understanding the performance of our property portfolio, taking into account measure of effectiveness and efficiency, allowing a more informed method for identifying the relative sustainability of different neighbourhoods and a more targeted approach to investment and dis-investment/disposals;
- Completing a significant stock rationalisation with another RP. Around 80 properties located in the middle of a large estate belonging to a local RP were transferred in order that the other RP could expand the neighbourhood service already provided across the estate. The mutually beneficial disposal allowed the other RP and its new residents to reap economies of scale, whilst Great Places realised a sales receipt in excess of existing use value which will be reinvested into other communities where the Group does have scale and influence;

- Delivering group-wide, tailored refresher training on Customer Service, using enthusiastic, committed trained staff rather than through external consultancy has saved around £50k;
- The Group's "toolbox" employment and training initiative creates opportunities for young people and the long term unemployed, as well as helping contractors to deliver on their social responsibility requirements. 28 apprentices were supported and 10 apprenticeships created, 19 young people and 3 graduates gained work experience and, in a six-month period, 73 people secured employment;
- The Financial Inclusion team continued its excellent work – targeting support to people most affected by welfare reform, and putting over £1m into the pockets of tenants by helping with access to affordable credit, basic bank accounts, cheaper energy tariffs and insurance, financial education and debt advice. As a result, despite welfare reform, rent collection performance is better than 12 months ago;
- Rolling out a programme of carbon literacy training sessions with the aim of reducing the carbon footprint of the Group as a whole and also of the staff as individuals;

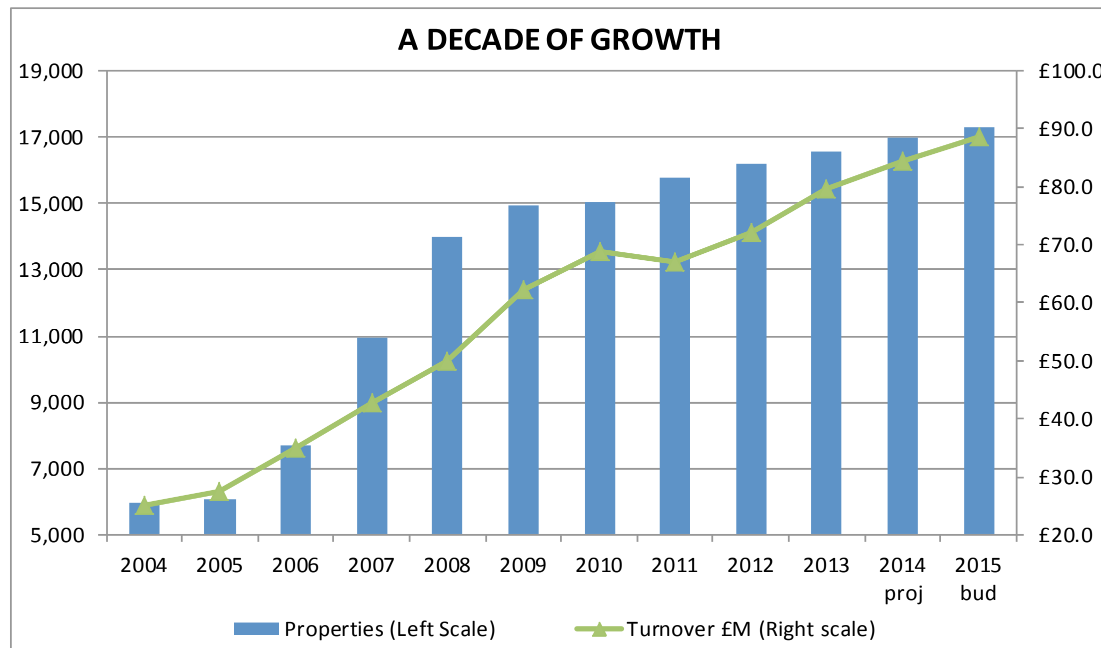
2.10 In 2014/15 Great Places is planning a range of VFM actions including:

- Reprocuring our insurance arrangements with a targeted 10% real price cost saving;
- Heating investment reprocurement which will result in at least a 7% saving on a spend of around £1M;
- Establishing a new VFM Working Group to accompany the "Great Value" team already in place;
- Seeking further efficiencies in the in-house repairs team, particularly in the areas of scheduling, productivity and materials;
- Reviewing the structure and resourcing of a number of key functions including health and safety, procurement and fleet management, to ensure these services are delivered in the most effective and efficient manner;
- Reviewing and then reprocuring the consultancy support for, and the Investment programme itself;
- Reprocurement in a number of other areas including external decorating, servicing, recruitment and furniture;
- Looking for further Treasury Management initiatives that could allow the Group to lock in long term interest cost savings or certainty;
- Taking forward a major review and reprocurement of facilities management activities, most notably cleaning of schemes, communal facilities and offices;
- Renegotiating service provision at our Keyworker schemes.

3 ACHIEVEMENTS AND FUTURE STRATEGY

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 2013/14 the Group exceeded for the first time 17,000 properties owned or managed.

3.2 This graph demonstrates the scale of growth achieved by the Group over the last decade. From under 6,000 units in 2004 (which itself was almost double the 3,200 units in 2002), to what will be almost exactly 17,000 by March 2014. Turnover has grown from £25M to nearly £90M during the same period.



Whilst the pace of growth may have slowed a little, the Group continues to add around 500 more properties every year.

At the same time, selective asset management disposals have improved the stock profile, whilst either release or acquisition of properties previously only managed means the portfolio is increasingly in full ownership.

3.3 The Group's well established vision is summarised as Strong, Bright and Real:

Strong: Bold, energetic and forceful – we have sound finances and solid roots.

Bright: Innovative, fresh, new, intelligent and stylish.

Real: Our feet are firmly on the ground. We're customer-focused, we know where we come from, we're realistic and there's real substance to what we do.

3.4 During 2014 the Group's vision and values are to be reviewed by the Board to ensure they are still relevant and appropriate.

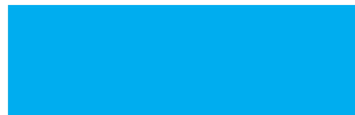
3.5 Great Places has two overarching Corporate Objectives, Increasing Customer Satisfaction and Becoming Financial Stronger. This section of the business plan demonstrates how the Group plan to continue delivering against those two objectives going forward.

3.6 BECOMING FINANCIALLY STRONGER

3.6.1 In 2013/14 Great Places will achieve a record surplus of over £8M and this plan shows that growing further to over £10M in 2014/15. Growing the surplus, and hence growing the amount of cash generated from the core business allows a greater proportion of the Group's development expenditure to be funded without reliance on debt.

3.6.2 Having issues £32M of retained bonds at a spread of 104bps and an all-in cost of 4.57%, the Group will continue to seek opportunities to lock in funding at rates better than assumed in the business plan, whilst keeping the risk profile unchanged.

3.6.3 The Group will continue the strategy of achieving economies of scale through growth with 790 new handovers in 2014/15 required in order



to complete the Great Places 2011-15 HCA development allocation.

3.6.4 The Group will ensure it prepares carefully for the implementation of IFRS and takes action to minimise any adverse implications.

3.6.5 A review of pension arrangements will be scheduled to coincide with the next SHPS triennial revaluation.

3.6.6 The Group will implement the findings of the review of procurement carried out early in 2014, with a view to delivering sustainable procurement savings and enhanced value for money across a range of supplies and services.

3.6.7 During 2014/15 the Group will see the first properties developed by the Group's in-house construction team. This innovation has been in preparation for some time and is now approaching the point of going live.

3.6.8 Cube will be the delivery vehicle for low risk diversification, with projects now close to launch for outright sale and for market rent. Additionally the Group will investigate opportunities for developing linkages between housing and health, particularly for the elderly.

3.6.9 A new asset management approach will be a theme for 2014/15: This will combine ongoing work on neighbourhood sustainability, targeted disposals and stock rationalisation with other RPs, with new initiatives to ensure that maintenance issues that are not normally seen as a high priority by customers (mainly external factors) are identified by staff and tackled promptly, with a preventative maintenance approach.

3.6.10 New freedoms to switch rent to homebuy properties into affordable rent arrangements should help improve relet times within that market.

3.6.11 The Group will seek to secure long term stable revenue streams from opportunities that might arise from public sector reform;

3.7 INCREASING CUSTOMER SATISFACTION

3.7.1 The Group remains of the belief that a key factor in delivering great customer satisfaction is an engaged workforce. After sustained success in the Sunday Times Best Companies survey, the Group switched to the "Great Places to Work" survey in 2013 and was delighted to be rated the 7th best large workplace in the UK.

3.7.2 Having implemented an in-house repairs service, this year will focus on aligning service delivery within the investment, compliance and responsive teams, refining the supply chain arrangements and improving work scheduling, productivity and performance management systems. The health and safety compliance framework will be reviewed and strengthened.

3.7.3 In tandem with these changes, the early part of 2014 will see the implementation of the Group's upgraded customer relationship management (CRM) system and the interlinked repairs management system.

3.7.4 The Group has well-advanced plans to improve the customer access arrangements with proposals for updating telephony and customer contact technology currently being considered.

3.7.5 The continuing impact of welfare reform is addressed through further elements of the income management review and also the tenancy support review.

3.7.6 The Housing Services team will roll out its "cleaner, greener, safer" initiative that will include enhancements to the caretaking service and all of the facilities management services. That team will also consider options for furthering the Group's social investment offer.

3.7.7 Above all, having rolled out "achieving customer excellence" and "customer service excellence" staff training programmes across the Group in recent years, a new programme "beyond customer excellence" will be introduced for front line staff, together with revised Investors in Excellence and Investors in People submissions.

4 FINANCIAL REPORTING ISSUES

4.1 There will be significant changes to financial reporting that will be brought about by the introduction of International Financial Reporting Standards (IFRS). Financial Reporting Standard 102 (FRS 102) has been published and we will very soon see a new Statement of Recommended Practice (SORP) which will identify in more detail the changes required.

4.2 Whilst the deadlines for introducing IFRS might seem some way off, because it will involve restating prior years, preparatory work is now well under way. The Group has established a project team, including two new posts, which is working through a detailed project plan.

4.3 The plan identifies the major areas for change including:

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

4.4 The project team is working closely with our new External Auditors. BDO replaced Grant Thornton for the year ending March 2014, following an OJEU compliant tender process that completed in November 2013.

Great Places' acclaimed regeneration scheme in Park Hill, Sheffield

Fallowfield Triangle - Best Regeneration award winning project 2014

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 assumptions are drawn from a variety of sources including advisors (notably our retained advisors Capita, but also other advisors to the sector), forecasters (such as Capita economics), HM Treasury, Bank of England, Office of National Statistics, Office of Budget Responsibility (OBR), funders (particularly RBC, RBS and Santander), the NHF and HCA.

5.2.1 Budgets have been submitted at April 2014 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.

5.2.2 During 2013, it was announced that rents in the sector would be tied to CPI rather than RPI (the long established RPI+1/2% formula being replaced with CPI+1% for at least the next ten years). This has provided welcome certainty around rental income, but has increased the importance of the differential ("Wedge") between CPI and RPI.

5.2.3 There is clear evidence from the OBR that the wedge will grow over time, due to a combination of the difference in the underlying formula, housing and mortgage interest costs. The current wedge is 0.6%, but this is expected to grow. The long term RPI assumption therefore grows from 2.5% in the budget year, to 3.25% over the next 3 years, generating a wedge of 1.25% which is in line with OBR projections.

This higher level of RPI, compared to previous years' plans, together with higher real price indexation for repairs and building costs, has pushed up costs significantly with no income benefit.

Assumptions	Budget 2014/15	Year 2 2015/16	Year 3 2016/17	Year 4 2017/18	Year 5 2018/19	Years 6-30	Note
Consumer Price Inflation (CPI)	Budgets submitted at April 2014 prices	2.00%	2.00%	2.00%	2.00%	2.00%	5.2.1
Retail Price Inflation (RPI)		2.75%	3.00%	3.25%	3.25%	3.25%	5.2.3
Building inflation		RPI	RPI+1/2%	RPI+1/2%	RPI+1/2%	RPI+1/2%	5.6
Land price inflation		RPI	RPI	RPI	RPI	RPI+1/2%	
Maintenance inflation		RPI	RPI	RPI+1/2%	RPI+1/2%	RPI+1/2%	5.4
Earnings inflation	See note	RPI+0.50%	RPI+1.0%	CPI+1.5%	CPI+1.5%	CPI+1.5%	5.3
GN assured rent increase	See note	CPI+1.00%	CPI+1.0%	CPI+1.0%	CPI+1.0%	CPI+1.0%	5.7
Affordable rents conversions	424	400	400	400	0	0	5.7.3
Affordable rent increases	RPI+1/2%	CPI+1%	CPI+1%	CPI+1%	CPI+1%	CPI+1%	5.7
Supported and Agency rents	Per rent plan	CPI+1%	CPI+1%	CPI+1%	CPI+1%	CPI+1%	5.7.4
Supporting people income	As submitted	RPI-15%	RPI-15%	RPI	RPI	RPI	5.7.5
Property price inflation	Nil	Nil	RPI	RPI	RPI	RPI+1%	5.11.6

Assumptions	Budget 2014/15	Year 2 2015/16	Year 3 2016/17	Year 4 2017/18	Year 5 2018/19	Years 6-30	Note
Voids	Built up by budget holders	Improvements in working practices will drive improvements, however the impact of welfare benefit reform will offset these improvements and the overall rate will be steady					5.8
Bad debts	Increasing to 1.5% by end of year	Increasing to 2.5% by end of year	Increasing to 3.0% by end of year	Increasing to 3.5% by end of year	Increasing to 4.0% by end of year	4.0%	5.9
Final tranche staircasing units	Plumlife 3 GPHA 12	Plumlife 3 GPHA 12	Plumlife 3 GPHA 12	Plumlife 3. Existing GPHA portfolio 12. Current and future development assumed to staircase at 5% per annum from sixth year after completion.			5.11.4
Voluntary Sales/CPOs	40	40	40	40	40	40	5.11.1
Affordable rent disposals	25	20	20	20	0	0	5.11.2
Base rate (3 month LIBOR)	Rising to 1.50%	2.25%	3.25%	4.25%	5.00%	5.00% rising	5.12.3
Margin on new short term bank debt	Per arrangements with RBC, RBS and Santander		1.80%	1.80%	1.80%	1.80%	5.12.4
Proportion of new debt:	75% fixed, 25% variable (with +/- 10% tolerance) unless otherwise approved						5.12.5
30 year Gilt rate	3.75%	4.00%	4.00%	4.25%	4.25%		5.12.8
Spread on new bond debt	1.00%	1.00%	1.00%	1.00%	1.00%		5.12.8
All in cost of future fixed rate debt						5.50% rising to 6.00%	5.12.8
Interest rates – receivable	0.50%	1.50%	2.50%	3.50%	4.50%	5.00%	5.12.6

5.2.4 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 close to £20m (including Pension and NI contributions), the earnings increase assumption is among the most critical. The figures for the budget year will incorporate the approved pay increase for April 2014 and also includes the impact of autoenrolment (around 150 Great Places staff have joined the pension scheme as a result) and also an increase in the mileage rate paid. In 2015/6 the assumption is that earnings growth can be constrained to RPI+0.5%, but this then gradually rises and the assumption from year 4 onwards switches to 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 years 2 and 3 as we have assumed that some limited efficiencies can be gained 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. It is recognised that in an economy that may be beginning to pick up there could be inflationary pressure on some materials and trades but we feel this can be managed in the short term.

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 The building inflation assumption is RPI only for year 2 of the plan, then RPI+1/2% for the remainder of the plan. The efficiency here is the result of the benefits of the new in house construction management service. It should be noted that this year's plan assumes again a cost per unit of £120k, which compares to a 2015/17 bid cost of nearer £110k, and hence which gives some comfort. The assumption in the 2010/11 plan, four years ago, was £126k per unit, which shows the significant downward cost pressures that have existed in recent years although we do now expect to see upward cost pressure.

5.7 The Group's income stream is primarily driven by the September inflation figure. The April 2014 rent increase is based on the September 2013 RPI of 3.2%, to which 0.5% is then added. Once further adjustments are made to ensure convergence with target rents, and to "catch up" the second half of the 1.6% "discount" awarded to our residents in the April 2012 increase, the average rent increase is around £3.80 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 10 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 refreshed many of these figures during 2012 and 2013. 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 2015, affordable rents will be guaranteed a CPI+1% increase, although they do reset to 80% of market levels on relet.

5.7.3 424 rent conversions are budgeted in 2014/15, with 400 planned in each of the following 3 years. 700 conversions were included in both of the 2015/16 and 2016/17 HCA contract years, but this now looks too high. The bid for 20017/18 will include a further 400 conversions. The expected uplift on conversion is c£12 which is slightly lower than estimated in the 2011/15 HCA contract.

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. The budget year income has been built up in scheme by scheme detail and then builds in a further c£150k income reduction in anticipation of bad news not yet received. Going forward, we have assumed further very significant reductions in SP income (RPI-15%) in 2015/16 and 2016/17. The impact of these assumptions is that SP income will have reduced from over £4M in 2010/11 to c£2.5M by 2017/18 – a 50% real reduction. We have assumed that costs remain largely unchanged. Whilst our plan prudently reflects this situation in the long term, it is recognised that the Group will not tolerate this position beyond the short term, and is currently investigating various strategic and operational responses to the situation. It is also recognised that the Group has outperformed the SP assumptions adopted in the last two business plans.

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 Welfare Benefit reforms are now well established and we are beginning to see an impact on arrears as a result of the bedroom tax. However this impact is not yet as great as we expected, and the future impact of the benefit cap element of Welfare

Reform also appears to be likely to be less severe than our initial thinking. However, other changes, like harsher sanctioning policies and also the impact of changes to council tax benefit are having bigger impacts.

5.10 So whilst the impact to date is not as bad as feared, it remains likely that Universal Credit will create a significant adverse impact on arrears and bad debts.

As a result the level of arrears across the Group is 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. We still feel this is a more pessimistic assumption than many have adopted across the sector. 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 higher bad debts, although there is an obvious linkage.
Great Places performance on voids has been very good in recent years, and we do not see a slight deterioration in 2013/14 as a start of a long turn trend. However, it will become increasingly difficult to improve performance in this area and the Welfare Benefit reforms may also have an adverse impact, hence future reductions in void loss have not been assumed.

5.11 SALES AND DISPOSALS ASSUMPTIONS

5.11.1 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 40 disposals per annum throughout the plan. We assume only a £18k per unit surplus on the disposals.

5.11.2 Additionally, as part of our commitment under the Affordable Rent development regime, we have committed to sell an additional 20 properties per annum to existing tenants, either as outright sales, shared ownership or shared equity.

5.11.3 The Group has a relatively small pipeline of shared ownership properties currently unsold or on-site, having achieved the budgeted 48 sales in 2013/14. The assumption of 52 first tranche sales in 2014/15 has been based on careful analysis of that programme, and as in 2013/14, we now assume that all will sell and we will not need to convert any to a rent to homebuy product. Going forward we would also expect these properties to staircase over a 20 year period from the sixth year after initial sale.

5.11.4 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 15 sales annually (12 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.

5.11.5 The Group also has a portfolio of over 250 "rent to homebuy" properties. These are unsold shared ownership units, which have been let on the basis that they are expected to convert to shared ownership 3-5 years later. Many of these are now approaching five years since that first let. This is very much 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 sort of pick up in housing activity. This gives the Group over £30m of potential sales income that has been deliberately excluded from the plan.

5.11.6 Property price inflation has once again been assumed at modest levels – prices being flat for two years, increasing only by RPI for the following 3 years and then increasing by RPI+1% for the remaining life of the plan.

5.12 INTEREST RATES AND DEBT ASSUMPTIONS

5.12.1 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.

5.12.2 We have now had five years of a record low base rate at 0.50%, with 3 month LIBOR at around 0.65%. The next rate movement will certainly be upward, but the timing is up for debate. The new Bank of England Governor Mark Carney has tried to suggest that rates will continue at low levels for some considerable time, but his attempt at forward guidance backfired when unemployment fell more quickly than expected towards his 7% trigger point, and markets priced in rises far sooner than

he wished. The BoE's February Inflation Report switches the emphasis to a broader measure of spare capacity within the economy rather than focussing on a single numeric value. Governor Carney has re-emphasised that the UK economy is still smaller than it was before the 2008 crisis, and stated that at present the recovery is neither sustained nor balanced. In response the markets are now predicting the first rate increases in mid 2015 and then gently rising to 2% by 2017.

5.12.3 To ensure prudence, our plan therefore assumes 3 month LIBOR rising steadily to 1.50% by the end of 2014/15 and then continuing at 2.25% in 2015/16, 3.25% in 2016/17 and 4.25% in 2017/18. Rates are then assumed to rise to 5.00% by year 5 and gradually rise to 6.00% by the end of the plan. These assumptions, particularly in the early years, are more prudent than most forecasters are showing. 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 also has some headroom in the medium to long term.

5.12.4 Coupled with these LIBOR rate rises, the plan also assumes that margins on future short term bank debt will be 1.80%, in line with previous assumptions, though perhaps not fully reflecting the continual gradual easing of the bank funding market.

5.12.5 The proportion of fixed debt will be maintained at a long term average of 75% (+/-10%) in line with the latest approved Treasury policy.

5.12.6 Interest receivable rises in line with the assumed increase in LIBOR, and, despite the material cost of carry, cash balances will be maintained at a minimum £10m to protect against market liquidity risk.

5.12.7 The Group has put in place funding facilities that will last until November 2018, though new funding will almost certainly need to be in place by July 2017. The Group's long term undrawn facilities include RBS £60M, Santander £55M and also the publically announced (but not yet legally completed) Affordable Housing Guarantee Programme funding of £50M. In addition the Group has a £60M revolving facility with RBC revolver that does not expire until November 2018.

5.12.8 Future funding is most likely to be sourced initially through taps on the bond, with a £60m tap assumed in December 2018. 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 even tighter than the 104bps spreads achieved on the November 2013 retained bond issue. The all-in cost of long term future debt is assumed at 5.50% gradually increasing to 6.0%, with gilt rates and spreads rising steadily from current levels.

5.13 DEVELOPMENT ASSUMPTIONS

5.13.1 The business plan fully reflects the completion of the 2011/15 Affordable rent programme as contracted with the HCA and also includes the completion of the 922 unit allocation from the HCA for 2015/16 and 2016/17. In addition a small number of schemes outside of the HCA programme have been approved and are built into the plan. This includes section 106 schemes in the Ribble Valley and the Fylde Coast.

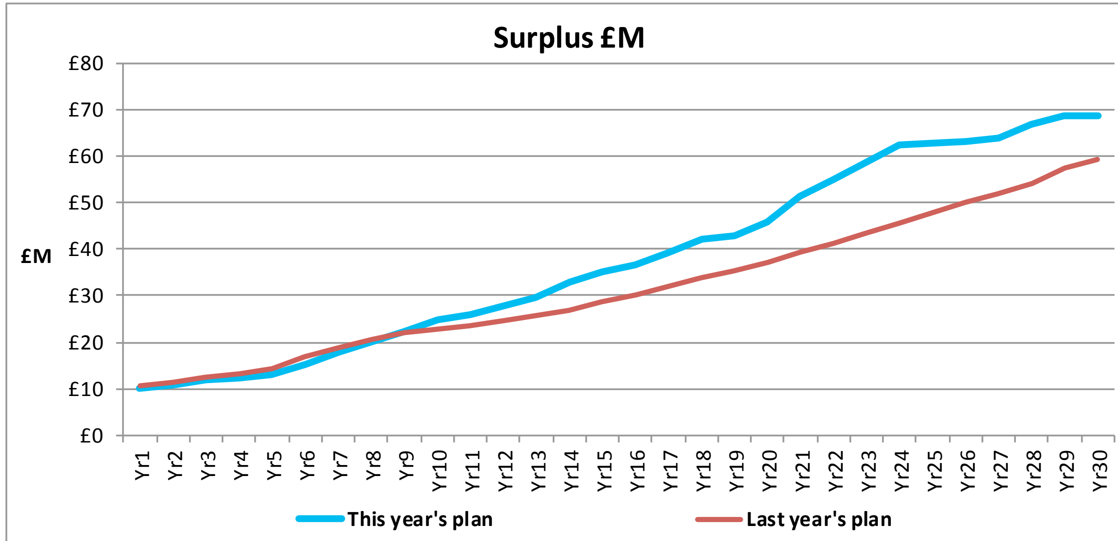
5.13.2 Looking ahead, the key development assumptions are:

- A bid to be submitted as part of the 2015/18 programme, in which we will target 400 properties in the year 2017/18.
- A continuing annual programme of 400 homes thereafter, comprising 360 rented and 40 shared ownership properties.
- Properties to be let at affordable rents.
- Conversions to continue on 2014/15 through to 2017/18 but no further.
- Average total scheme cost of £120k per unit.
- An assumed grant rate of 18% for rented units (£22k pu) and 15% for shared ownership units (£18k pu) – in line with the levels achieved in the 2015/17 allocation.

The cost assumption of £120k per unit may seem challenging; however our last bid achieved an average cost much closer to £110k, so the assumption should therefore be achievable. A higher proportion of low cost s106 agreement properties can also push down the average scheme cost. Our new in-house construction management arrangements are due to go live mid way through 2014/15, and should also go someway to improving on that figure.

5.13.3 The Group will deliver a small scale outright sales programme through Cube and also expects to commence acquisition and development of properties for market rent.

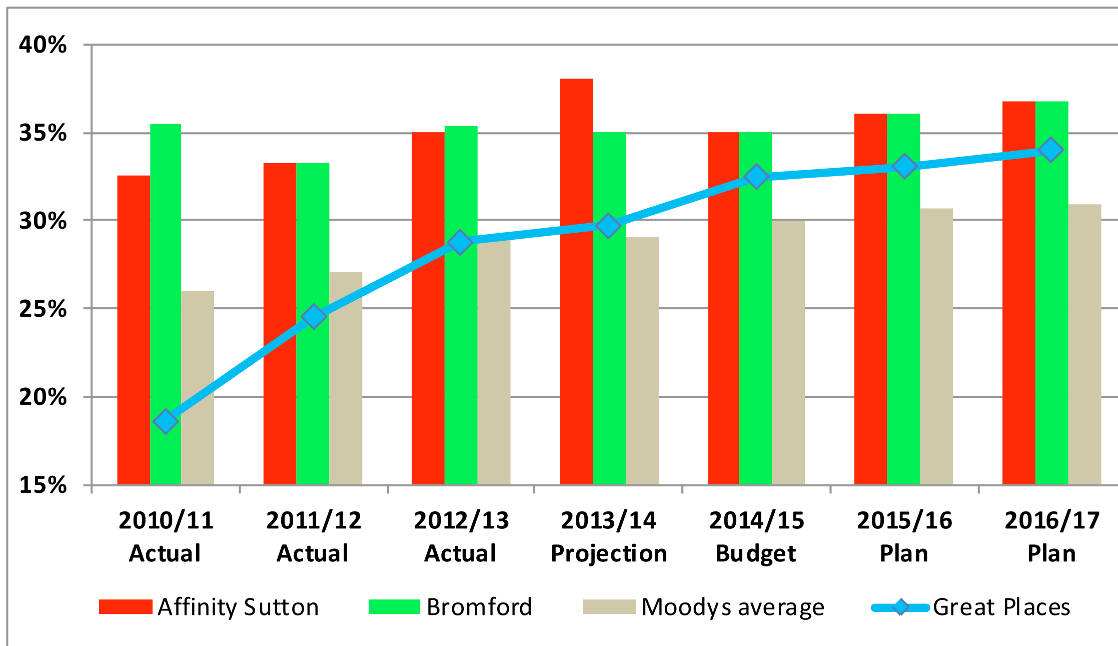
6 GROUP FINANCIAL PERFORMANCE



6.1 ACHIEVEMENT OF GROUP FINANCIAL TARGETS AND COVENANTS

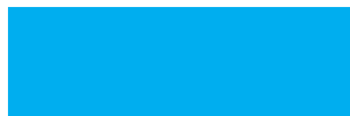
This graph to the left shows the Group's future surpluses for this plan (blue line) and also as we expected in last year's plan (red line).

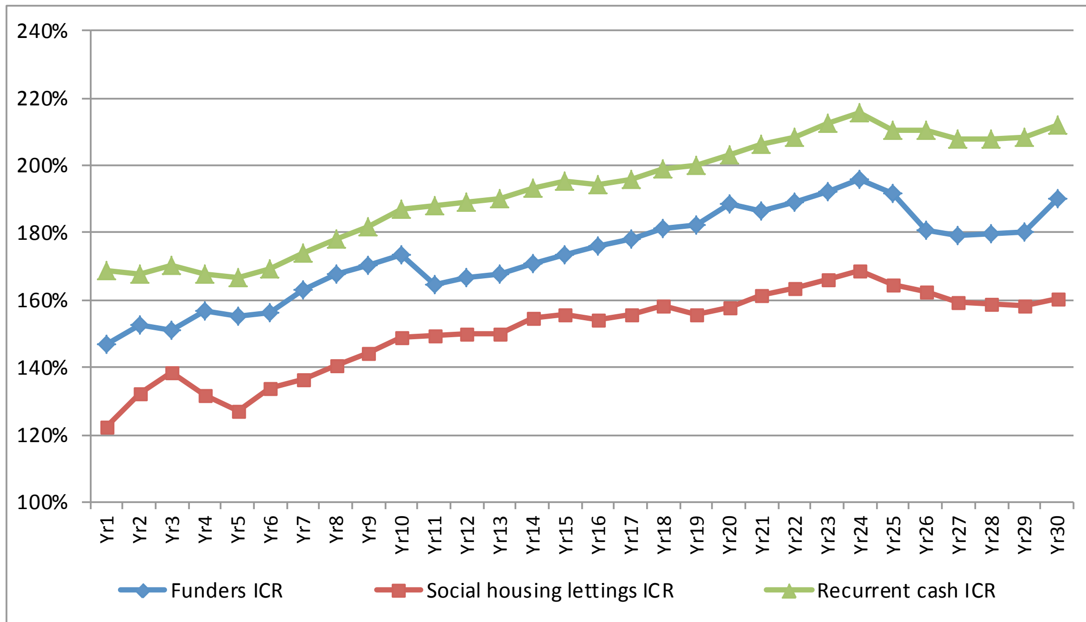
The lines virtually overlap in the early years as the Group is able to absorb some further tightening of assumptions (the RPI-CPI gap being the main factor, but also higher real inflation for repairs and building costs), with a gradually improving position in later years.

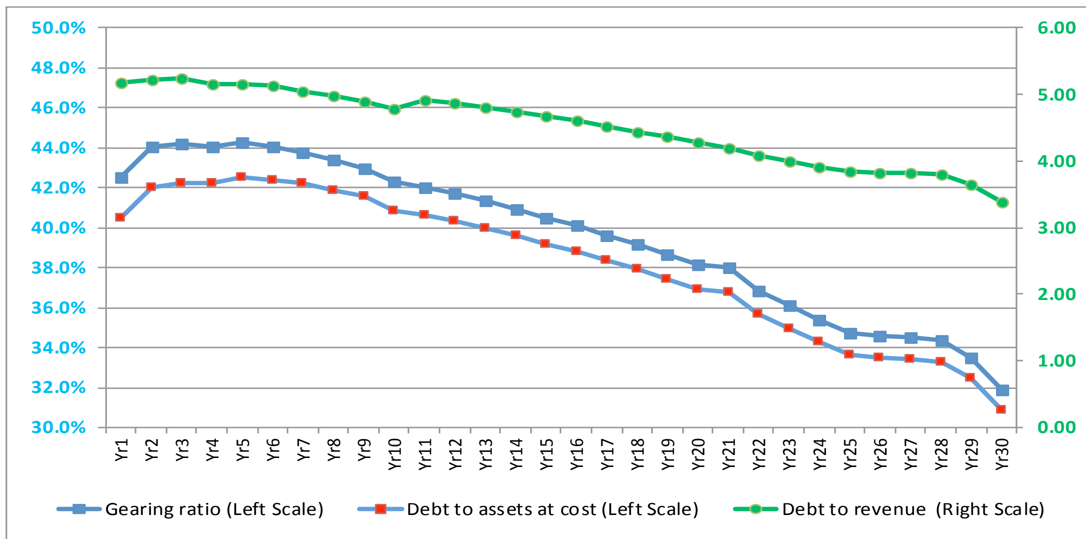


The graph to the left shows the historic and projected operating margin for the Group (surplus before interest as a proportion of turnover – effectively a measure of profitability), and also some comparative data for Bromford Group and Affinity Sutton (the two RPs that Moodys rate most highly), plus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

This shows a significantly improving trend from a position well below the Moody's average to one where we are moving ever close to the top rated pair. Whilst the graph only extends forward 4 years and reaches 34%, the margin does gradually rise to around 37% through the life of the plan.







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 left is a financial covenant.

6.3 The blue line shows our loan covenant ICR, incorporating an adjustment for component accounting, but also adjusted to remove all property sales surpluses. The component accounting adjustment causes the uneven profile (years 11 and 26 being the most obvious) because peaks of component replacement expenditure (such as boilers or kitchens) are not fully smoothed out by capitalisation as it is capped in the covenant calculation.

6.4 Our covenants allow an ICR of 105%, but we set a minimum level of 125% to give operating headroom and this is never threatened in the plan, improving from c140% to over 180% and then maintaining that level.

6.5 The loan covenant definition for ICR allows surpluses or deficits on "property sales in the ordinary course of business" to be included in the calculation – so this would allow first tranche sales, staircasing and small scale asset management and other disposals to be included, but would exclude larger scale disposals (perhaps a bulk sale to another RP) and would also exclude outright/market sales (eg those through Cube). The blue line shown EXCLUDES ALL property sales for prudence – Great Places is determined that, unlike many other RPs, that it will not be in any way dependent on property sales to meet our covenants.

6.6 The red and green ICR lines shown in the graph (lower left) reflect different measures of interest cover sometimes used by the ratings agencies and other third parties (and which have a standard definition rather than being dependent on negotiations with funders). For both measures, social housing lettings interest cover and recurrent cash interest cover, the Group's performance starts at an acceptable level and improves steadily over the life of the plan.

6.7 Whilst the position remains healthy, the importance of the sensitivity analysis presented in section 12 of this document cannot be understated.

6.8 The Group's other key financial covenant is gearing, shown on the graph (left).

GREAT PLACES HOUSING GROUP CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT (Part 1)

Year ended 31st March	2015	2016	2017	2018	2019	2024	2029	2034	2039	2044
£000s	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20	Year 25	Year 30
General Needs Rental Income	54,868.1	58,836.2	60,409.2	62,194.0	63,937.3	72,976.4	82,706.0	93,952.3	106,684.0	121,138.4
Rents on future developments	0.0	1,330.4	4,640.7	6,903.4	8,386.0	25,279.8	47,134.0	75,289.3	111,072.5	153,356.9
Intermediate rents	113.6	117.3	120.5	124.1	127.9	148.6	171.8	199.2	230.9	267.8
Supported Housing Rents	2,115.9	2,185.3	2,244.7	2,312.1	2,381.4	2,768.3	3,200.4	3,710.2	4,301.1	4,987.7
Elderly Services Rents	2,083.7	2,336.1	2,399.6	2,471.6	2,545.7	2,959.3	3,421.3	3,966.2	4,597.9	5,331.9
Agency managed income	3,265.8	3,365.0	3,460.8	3,568.6	3,679.7	4,296.1	5,001.0	5,830.4	6,797.6	7,926.7
Keyworker rents	1,132.4	1,172.4	1,210.1	1,255.5	1,302.6	1,570.2	1,882.3	2,262.7	2,720.0	3,278.7
Shared Ownership rents	2,147.3	2,222.0	2,243.6	2,284.1	2,326.9	2,553.2	2,771.8	2,999.0	3,221.6	3,440.6
Managed scheme rents received	260.3	268.9	276.2	284.5	293.0	340.6	393.8	456.5	529.2	613.7
Managed schemes - rent passed to partners	-172.0	-87.5	-89.3	-91.1	-92.9	-102.5	-113.2	-125.0	-138.0	-152.4
Plumlife rental income	2,018.8	2,080.2	2,131.2	2,190.1	2,250.6	2,585.3	2,964.6	3,409.2	3,919.5	4,507.0
Rent Receivable Total	67,833.9	73,826.3	79,047.3	83,496.9	87,138.2	115,375.3	149,533.8	191,950.0	243,936.3	304,697.0
Service Charge Income	6,567.7	6,836.0	7,239.7	7,535.2	7,787.1	9,601.9	11,815.1	14,510.0	17,787.0	21,661.1
Management Charge Income	594.7	620.0	663.8	688.2	704.9	873.3	1,103.8	1,421.0	1,858.7	2,435.1
Supporting People Income	3,115.3	2,733.7	2,405.6	2,483.8	2,564.5	3,009.2	3,531.1	4,143.4	4,861.9	5,705.0
Development Income	4,225.3	2,001.1	1,093.1	2,094.1	2,880.8	2,754.2	3,391.4	4,176.0	5,142.1	6,362.0
Cube development fees	188.0	254.2	211.7	273.2	282.1	0.0	0.0	0.0	0.0	0.0
Great Opportunities/Communities income	95.4	154.1	158.7	163.9	169.2	198.6	233.0	273.4	320.8	376.5
Other income	875.7	878.1	927.1	957.2	988.4	1,159.8	1,361.0	1,596.6	1,849.5	2,170.5
PV Panels feed in tariffs	393.2	404.0	416.1	429.7	443.6	520.6	610.8	716.8	267.4	0.0
Oldham PFI management fee	621.4	698.8	740.8	764.9	789.8	926.7	1,087.4	1,276.0	0.0	0.0
Plumlife managed scheme income	292.1	300.1	309.2	319.2	329.6	386.7	453.8	532.5	624.8	733.2
Plumlife fee income	662.3	538.4	187.1	193.2	199.5	234.1	274.7	322.3	378.2	443.8
Less Voids	-1,295.7	-1,308.5	-1,347.8	-1,405.2	-1,458.5	-1,843.2	-2,304.9	-2,870.5	-3,558.2	-4,366.4
Turnover From Social Housing Activities	84,169.3	87,936.3	92,052.4	97,994.3	102,819.2	133,197.2	171,091.0	218,047.5	273,468.5	340,217.8

GREAT PLACES HOUSING GROUP CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT (Part 2)

Year ended 31st March	2015	2016	2017	2018	2019	2024	2029	2034	2039	2044
£000s	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20	Year 25	Year 30
Great Places Housing Group Costs	10,765.3	10,539.0	10,872.3	11,075.2	11,490.5	13,091.1	15,228.1	17,866.2	20,987.3	24,720.6
Great Places Housing Association Costs	14,835.6	15,172.4	15,575.1	16,135.1	16,715.2	19,507.0	22,479.1	26,599.8	30,603.3	36,219.9
Plumlife Homes Costs	955.0	843.6	702.5	726.1	750.6	886.1	1,046.0	1,234.8	1,457.8	1,721.1
Cube Great Places costs	40.2	79.4	81.8	84.4	87.2	102.3	82.7	97.1	113.9	133.6
Management costs for future development	0.0	78.6	262.1	403.4	492.5	1,398.0	2,591.6	4,139.6	6,124.9	8,479.3
Service Costs Total	6,689.9	6,911.5	7,267.8	7,512.9	7,764.1	9,574.9	11,783.4	14,472.9	17,549.8	21,382.8
Routine Maintenance	6,367.5	6,505.9	6,763.4	7,172.4	7,609.7	10,320.9	13,977.3	18,689.9	24,736.5	32,441.0
Planned Maintenance	2,541.8	2,637.6	2,859.8	2,961.4	3,132.8	3,799.1	4,566.8	5,489.8	6,599.3	7,933.0
Major Repairs (net of capitalisation)	4,317.9	5,539.0	4,857.2	7,488.9	8,163.7	8,520.3	11,447.2	17,082.9	21,283.4	37,451.1
Bad Debts Total	925.8	1,321.8	1,913.6	2,308.9	2,705.5	3,541.4	4,338.7	6,035.8	7,558.5	9,353.2
Depreciation Of Housing Properties	8,850.6	9,151.3	9,697.3	10,041.2	10,487.8	13,573.0	17,812.0	24,730.0	32,007.8	41,962.2
Total Operating Costs	56,289.6	58,780.1	60,852.9	65,909.9	69,399.6	84,314.1	105,352.9	136,438.8	169,022.5	221,797.8
Surplus On Social Housing Activities	27,879.7	29,156.2	31,199.5	32,084.4	33,419.6	48,883.1	65,738.1	81,608.7	104,446.0	118,420.0
Other activities										
Market rent turnover	671.1	1,309.2	2,184.1	2,621.1	3,089.2	3,839.8	4,439.2	5,146.3	5,965.9	6,935.1
Market rent costs	-141.7	-344.8	-583.9	-695.2	-810.5	-942.2	-1,092.1	-1,268.7	-1,474.0	-1,716.3
Market rent surplus	529.4	964.4	1,600.2	1,925.9	2,278.7	2,897.6	3,347.1	3,877.6	4,491.9	5,218.8
First tranche sale turnover	2,668.8	2,166.5	3,329.4	1,965.8	2,659.8	3,505.7	4,218.4	5,075.9	6,107.8	7,349.4
First tranche sale costs of sale	-2,132.7	-1,810.0	-2,781.6	-1,642.3	-2,440.2	-3,246.1	-3,905.9	-4,699.9	-5,655.3	-6,805.0
First tranche sales surplus	536.1	356.5	547.8	323.5	219.6	259.6	312.5	376.0	452.5	544.4
Cube Market Sale Turnover	0.0	4,815.0	3,584.4	3,700.9	3,821.2	4,705.2	0.0	0.0	0.0	0.0
Cube Market Sale cost of sales	0.0	-4,340.7	-3,349.9	-3,468.8	-3,602.1	-4,336.9	0.0	0.0	0.0	0.0
Cube Market Sales surplus	0.0	474.3	234.5	232.1	219.1	368.3	0.0	0.0	0.0	0.0
Other Property Sales Income	4,960.0	4,920.0	5,002.4	5,096.5	5,179.0	6,262.4	8,333.8	11,221.4	15,081.5	19,356.8
Other Property Sales Costs	-3,405.3	-3,339.0	-3,272.7	-3,206.4	-3,388.6	-3,404.7	-3,938.0	-4,667.3	-5,585.5	-6,491.9
Other Property Sales surplus	1,554.7	1,581.0	1,729.7	1,890.1	1,790.4	2,857.7	4,395.8	6,554.1	9,496.0	12,864.9
Surplus Before Interest and Tax	30,499.9	32,532.4	35,311.7	36,456.0	37,927.4	55,266.3	73,793.5	92,416.4	118,886.4	137,048.1
Interest receivable	161.8	229.0	371.9	551.7	645.5	527.5	526.5	518.8	500.0	500.0
Interest Payable	22,611.4	23,915.2	25,552.1	27,048.0	28,621.3	35,717.4	45,290.5	55,066.8	67,793.4	78,806.5
Capitalised Interest	-2,067.2	-2,037.6	-1,915.5	-2,321.3	-2,918.3	-4,722.0	-6,114.1	-8,099.9	-11,150.9	-9,801.7
Interest Payable Total	20,544.2	21,877.6	23,636.6	24,726.7	25,703.0	30,995.4	39,176.4	46,966.9	56,642.5	69,004.8
Surplus Before Tax	10,117.5	10,883.8	12,047.0	12,281.0	12,869.9	24,798.4	35,143.6	45,968.3	62,743.9	68,543.3

greatplaces HOUSING GROUP

6.9 GPHG I&E COMMENTARY

6.9.1 The 30 year financial statements take the carefully built up year 1 budget and apply the assumptions set out in section 5 of this document (including the inflationary assumptions) to create a thirty-year profile that can be quite easily followed. Some lines do fluctuate less obviously and these are briefly explained below.

6.9.2 The Income and Expenditure account shows a steady, inflation-led growth of most of the rental income lines, supplemented by the significant development-led growth in the rents on future development, which, by year 30 accounts for more than half of the overall rental income.

6.9.3 The other income lines are also predominantly inflation-led with the following obvious exceptions:

- Cube development fees – which end at year 10 in line with Cube's market sale activities;
- PV panel feed in tariffs – which cease after year 25 in line with the expected panel life;
- Oldham PFI income – which ceases in year 23 when the contract terminates;
- Plumlife fee income - which is significantly higher in years 1 and 2 due to the fees received from the Manchester Housing investment Fund.

6.9.4 First tranche sales income shows a slightly skewed profile with a big peak of income in year 3 (2016/17) and then a big drop in year 4 (2017/18). The sales profile in years 1, 2 and 5 onwards are much more even. This is a consequence of the assumption driven approach and the cross over between differing HCA allocations – 15/17 being a known allocation, 17/18 being still a bid position. The actual profile is likely to be far more even.

6.9.5 The costs show a similar inflation-led trend with the following exceptions:

- Management costs for future development is shown on a separate line (whilst maintenance for new development is included along with existing costs);
- Major repairs, which are shown in the I&E net of components capitalised, are based on the requirements of the Group's stock condition survey;
- Bad debts, which increase significantly in year 1 to 5 reflecting our assumptions around welfare reform.

6.9.6 Other activities demonstrate the growth of market rent activity within Cube and also the 10-year life of the Cube market sale programme.

6.10 GPHG CASH FLOW COMMENTARY

6.10.1 Operating activities - cash received from customers includes first tranche sales income, and the uneven trend shown in years 3/4/5 is the result of the profiling situation as described in 6.9.4 above.

6.10.2 Cash paid to employees demonstrates the significant proportion of operating costs that are salary related, a position that has increased significantly in the last couple of years as the repairs service has been brought in house.

6.10.3 Interest paid in the cash flow is only marginally different to the interest payable (before capitalisation) in the I&E account, this being due to the timing of cash interest payments not falling perfectly into financial years.

6.10.4 The GPHA and Cube development programmes are split out within the Investing activities section and it should be noted that major repair component replacement expenditure is shown in this section too, despite it essentially being a purely operational activity.

6.10.5 The purchase/sale of other fixed assets/ investments mainly includes ICT capital spend, but also includes the dividend returns on the Oldham PFI equity investment. Year 1 of this line is higher as the Group has a £400k investment still to make in the Oldham PFI.

6.10.6 Funding draw down is based on the planned usage of existing facilities plus the announced (but not yet completed) AHF guarantee programme funding stream. The plan has assumed a £60M "tap" on our existing bond in mid-2018/19 which explains the peak in funding and closing cash in that year.

6.10.7 The cash flow also demonstrates that the Group's existing facilities (including the AHF facility) provides sufficient funding through to around September 2018.

GPHG CONSOLIDATED CASH FLOW STATEMENT

Year ended 31st March	2015	2016	2017	2018	2019	2024	2029	2034	2039	2044
GROUP CONSOLIDATED CASH FLOW	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	93,592.3	104,477.4	109,297.3	114,330.9	120,359.5	153,947.6	189,181.9	239,192.5	299,840.0	370,076.4
Cash Paid To Suppliers	-41,616.7	-46,220.7	-45,938.5	-51,072.2	-53,888.3	-60,170.7	-74,945.6	-96,620.0	-121,251.4	-159,836.2
Cash Paid To Employees	-17,443.7	-17,775.8	-18,443.0	-19,088.5	-19,756.6	-22,889.5	-26,471.6	-31,439.9	-36,666.5	-43,548.3
Net Cash From Operating Activities	34,531.9	40,480.9	44,915.8	44,170.2	46,714.6	70,887.4	87,764.7	111,132.6	141,922.1	166,691.9
Financing costs										
Interest Collected	161.8	229.0	371.9	551.7	645.5	527.5	526.5	518.8	500.0	500.0
Interest Paid	-22,224.9	-23,664.6	-25,301.5	-26,797.4	-28,370.7	-35,466.8	-45,039.9	-54,816.2	-67,542.8	-78,555.9
Net Cash From Financing Costs	-22,063.1	-23,435.6	-24,929.6	-26,245.7	-27,725.2	-34,939.3	-44,513.4	-54,297.4	-67,042.8	-78,055.9
Investing Activities										
GPHA Development Programme	-76,675.6	-60,081.6	-44,245.1	-35,441.2	-50,078.6	-60,199.5	-73,034.0	-89,031.9	-108,513.1	-13,422.6
Cube Development programme	-9,793.0	-8,464.0	-5,050.2	-5,238.2	-5,433.3	0.0	0.0	0.0	0.0	0.0
Major repair - component replacements	-9,626.7	-8,314.5	-9,766.7	-7,662.0	-8,252.2	-12,478.8	-20,754.6	-22,204.1	-27,079.8	-51,033.3
Purchase/Sale - Other fixed assets/investments	-1,207.7	-689.0	-691.0	-690.0	-692.0	-698.0	-687.0	-669.0	-700.0	742.6
Grants	17,372.8	5,835.0	7,784.0	6,660.0	9,864.5	11,858.1	14,254.6	17,135.5	20,598.5	2,068.9
Sales Of Properties	4,960.0	4,920.0	5,002.4	5,096.4	5,179.3	6,262.6	8,333.8	11,221.5	15,081.4	19,356.9
Net Cash From Investment Activities	-74,970.4	-66,794.0	-46,966.6	-37,275.0	-49,412.3	-55,255.6	-71,887.2	-83,548.0	-100,612.9	-42,287.5
Net Cash Before Financing	-62,501.7	-49,748.9	-26,980.4	-19,350.5	-30,422.9	-19,307.6	-28,635.9	-26,712.8	-25,733.6	46,348.4
Financing										
Existing facility debt draw down	58,050.0	52,950.0	29,904.9	25,000.0	77,000.0	-3,000.0	-1,500.0	0.0	0.0	0.0
Future facility debt draw down	0.0	0.0	0.0	0.0	0.0	35,753.1	43,412.6	40,963.0	37,321.0	-42,717.9
Capital Repayments	-1,679.1	-1,745.6	-3,310.9	-5,220.5	-10,313.1	-13,445.5	-13,276.7	-14,250.2	-11,587.4	-3,630.5
Net Cash From Financing	56,370.9	51,204.4	26,594.0	19,779.5	66,686.9	19,307.6	28,635.9	26,712.8	25,733.6	-46,348.4
BALANCE BROUGHT FORWARD	18,719.2	12,588.4	14,044.0	13,657.6	14,086.6	10,000.0	10,000.0	10,000.0	10,000.0	10,000.0
INCOME LESS PAYMENTS	-6,130.8	1,455.5	-386.4	429.0	36,264.0	0.0	0.0	0.0	0.0	0.0
CLOSING BANK POSITION	12,588.4	14,044.0	13,657.6	14,086.6	50,350.6	10,000.0	10,000.0	10,000.0	10,000.0	10,000.0

GPHG CONSOLIDATED BALANCE SHEET

Year ended 31st March	2014	2015	2016	2017	2018	2019	2024	2029	2034	2039	2044
CONSOLIDATED GROUP BALANCE SHEET	Opening Balance	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	£ 000's
HOUSING ASSETS											
Housing Properties at cost	1,040,159.2	1,124,740.4	1,191,628.0	1,244,119.6	1,286,119.7	1,343,742.5	1,678,837.8	2,122,094.8	2,620,350.5	3,236,824.5	3,852,338.4
Social Housing Grants	-439,227.6	-455,623.8	-461,713.4	-469,372.5	-475,907.6	-486,178.0	-543,308.8	-610,720.5	-690,306.6	-784,501.0	-862,719.6
Other Capital Grants	-78,235.8	-78,235.8	-78,235.8	-78,235.8	-78,235.8	-78,235.8	-78,235.8	-78,235.8	-78,235.8	-78,235.8	-78,235.8
Depreciation	-71,503.0	-80,350.0	-89,491.4	-99,172.4	-109,191.1	-119,658.6	-180,836.8	-261,873.7	-338,429.0	-448,689.0	-552,682.6
NBV Of Housing Properties	451,192.8	510,530.8	562,187.4	597,338.9	622,785.2	659,670.1	876,456.4	1,171,264.8	1,513,379.1	1,925,398.7	2,358,700.4
Other Fixed Assets Tangible	7,383.8	7,214.7	7,001.3	6,826.5	6,770.5	6,669.9	6,331.1	5,992.3	5,653.6	5,314.8	4,934.9
Other Fixed Assets Investments	1,174.7	11,385.7	19,838.7	24,879.8	30,108.1	35,533.4	35,518.4	35,488.4	35,371.4	35,153.4	33,978.7
Total Fixed Assets	459,751.3	529,131.2	589,027.4	629,045.2	659,663.8	701,873.4	918,305.9	1,212,745.5	1,554,404.1	1,965,866.9	2,397,614.0
Cash	18,719.2	12,588.4	14,044.0	13,657.6	14,086.6	50,350.6	10,000.0	10,000.0	10,000.0	10,000.0	10,000.0
GPHG Current Assets	151.8	151.8	151.8	151.8	151.8	151.8	151.8	151.8	151.8	151.8	151.8
Gross Rent Arrears	4,163.1	5,203.9	5,942.8	6,692.2	7,451.9	8,211.7	9,590.7	11,070.0	12,659.8	14,371.9	16,218.7
Bad debt provision	-2,446.4	-3,058.0	-3,492.3	-3,932.6	-4,379.1	-4,825.6	-5,635.9	-6,505.2	-7,439.5	-8,445.6	-9,530.8
Other Debtors	8,480.0	9,240.7	9,674.9	10,115.3	10,561.7	11,008.2	11,818.6	12,687.9	13,622.1	14,628.2	15,445.5
Development - SO schemes	1,463.1	1,919.2	2,829.7	1,631.5	2,440.2	2,801.6	3,367.8	4,052.4	4,876.2	5,867.4	7,060.2
Plumlife Current Assets	736.9	736.9	736.9	736.9	736.9	736.9	736.9	736.9	736.9	736.9	736.9
Cube - work in progress	1,458.1	3,937.7	3,275.1	3,389.8	3,518.7	3,651.2	0.0	0.0	0.0	0.0	0.0
Total Current Assets	32,725.8	30,720.5	33,162.9	32,442.4	34,568.7	72,086.4	30,029.8	32,193.7	34,607.3	37,310.6	40,082.2
Total Current Liabilities	5,830.9	5,354.2	5,608.5	5,888.9	6,198.1	6,523.5	7,202.4	7,952.1	8,779.7	9,693.5	10,702.5
Total Assets Less Curr Liabilities	486,646.2	554,497.6	616,581.8	655,598.6	688,034.4	767,436.2	941,133.2	1,236,987.1	1,580,231.6	1,993,483.9	2,426,993.6
Outstanding Loan Balance Total	415,826.8	472,197.7	523,402.1	549,996.1	569,775.6	636,462.5	710,956.0	855,301.0	990,458.3	1,111,004.1	1,209,066.9
Loan Fees	-7,517.9	-7,267.3	-7,016.7	-6,766.1	-6,515.5	-6,264.9	-5,011.9	-3,758.9	-2,506.0	-1,253.0	0.0
Other Long Term Creditors	3,850.0	4,826.5	4,571.8	4,696.8	4,821.7	4,415.8	2,441.4	1,333.4	1,450.9	3,068.2	6,396.0
NET ASSETS	74,487.4	84,740.7	95,624.5	107,671.9	119,952.6	132,822.8	232,747.7	384,111.6	590,828.3	880,664.5	1,211,530.7
Share Capital	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Retained Surplus	74,487.2	84,740.5	95,624.3	107,671.7	119,952.4	132,822.6	232,747.5	384,111.4	590,828.1	880,664.3	1,211,530.5
	74,487.4	84,740.7	95,624.5	107,671.9	119,952.6	132,822.8	232,747.7	384,111.6	590,828.3	880,664.5	1,211,530.7

6.11 GPHG CONSOLIDATED BALANCE SHEET COMMENTARY

6.11.1 The balance sheet shows that the Group expects to have over £1billion of housing properties at cost on its balance sheet by 31st March 2014. Net of depreciation the figure is £969M. Other assets amount to c£8M and net current assets amount to £27M

6.11.2 This is funded by £517M of grant, £410M of debt and £74M of reserves.

6.11.3 The significant growth in Other Fixed Asset Investments (£1.2M year 1 rising to £35.5M in year 5) reflects the development of a market rent property portfolio within Cube, these property assets being shown on the balance sheet as investments not housing properties (as the new IFRS rules require).

6.11.4 Cash is targeted at £10M minimum throughout the plan, but will be carefully managed to ensure the Group's liquidity policy is achieved.

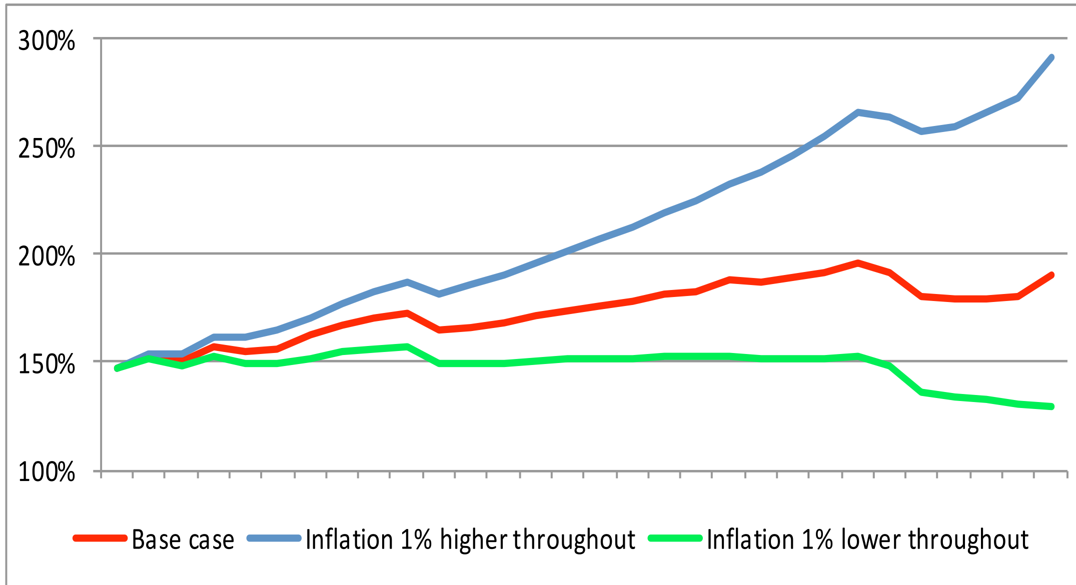
6.11.5 Gross rent arrears can be clearly shown to more than double from an expected £4M at March 2014 to over £10M by the close of year 5, reflecting the welfare reform assumptions applied as well as rental growth.

6.11.6 Cube work in progress reflects the outright sale projects that Cube intends to undertake, with those projects ceasing in year 10, to avoid the Group becoming in any way reliant on the surpluses generated from such activity.

6.11.7 Outstanding loans grow steadily in order to fund ongoing development and hit the £1 billion level in year 18 of the plan.

7 SENSITIVITY ANALYSIS

7.1 Sensitivity analysis is a fundamental element of the Group's risk management activity, flexing the business plan to understand the implications, both in scale and immediacy, of a range of different scenarios. The impact of these different scenarios is measured by consideration of changes to the interest cover ratio (ICR).



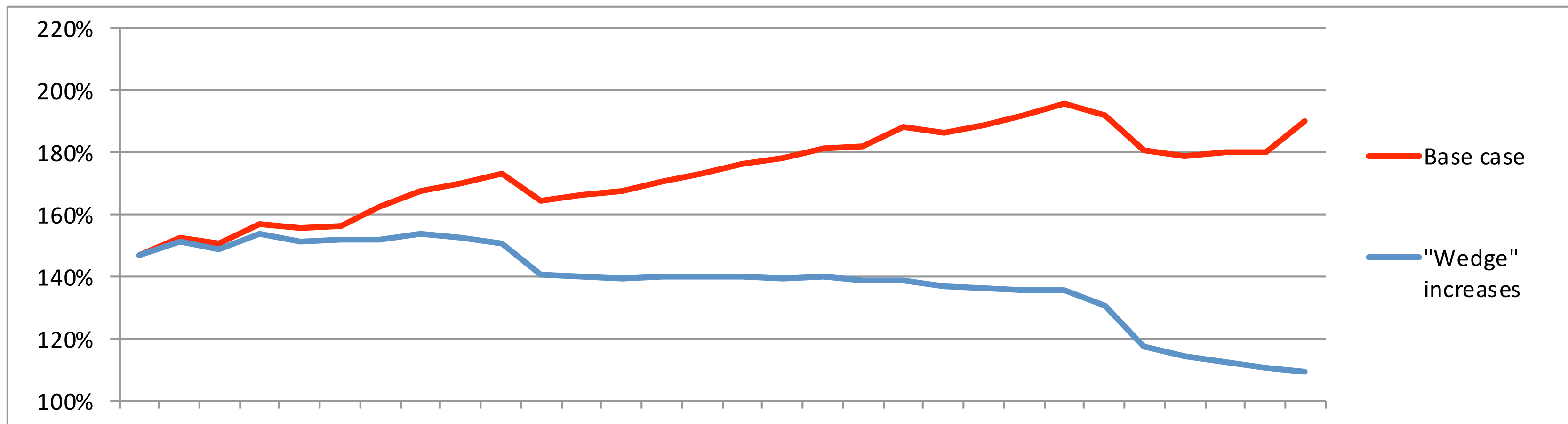
7.2 INFLATION SENSITIVITIES

This result of the sensitivity in the graph on the top left, which considers the impact of changing inflation, is self explanatory.

The higher inflation scenario leads to a steady improvement in ICR as income is inflation linked, whilst the lower inflation scenario has the opposite effect.

However, the graph below left shows the impact of RPI increasing by 1%, but CPI (and hence rental income) remaining unchanged, with the ICR dipping sharply and being close to a covenant breach by year 25 onwards. This is a new risk that has only come into play since the new rent formula was announced.

This highlights the need for the Group to control costs to levels of no more than CPI+1%, irrespective of how high RPI increases.



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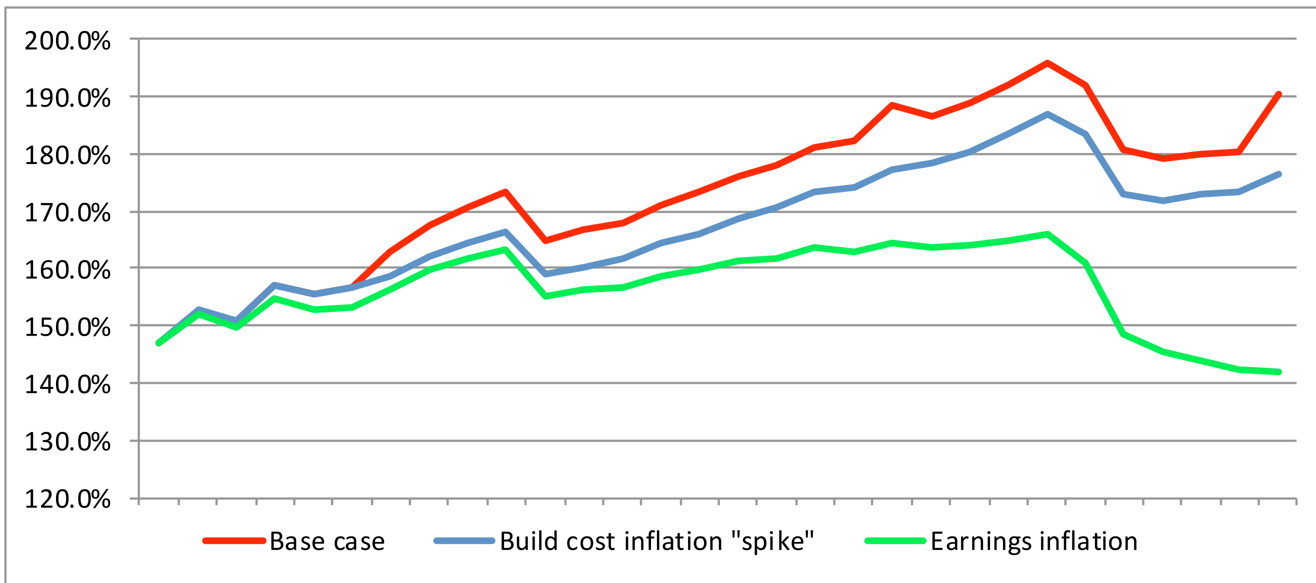
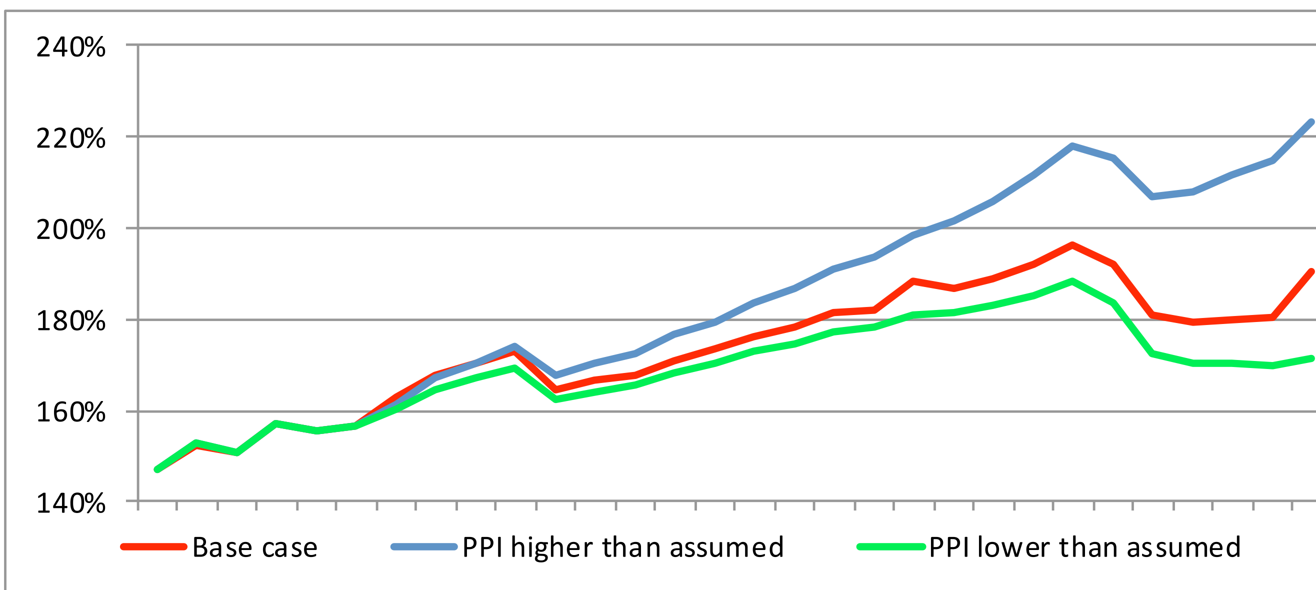


The graph to the left considers two further inflation related scenarios.

Firstly the blue line shows the impact of a one off 10% build cost inflation spike in year 5 – causing a sudden but limited reduction in the interest cover ratio.

The green line shows the more material impact of a continuing 1% increase in earnings inflation over that already assumed.



Changes to property price inflation, as shown in the graph to the right have a limited impact on interest cover. This is because Property sales surpluses are excluded from the ICR calculation.

The impact arises because of the change in the level of cash generated through sales receipts.

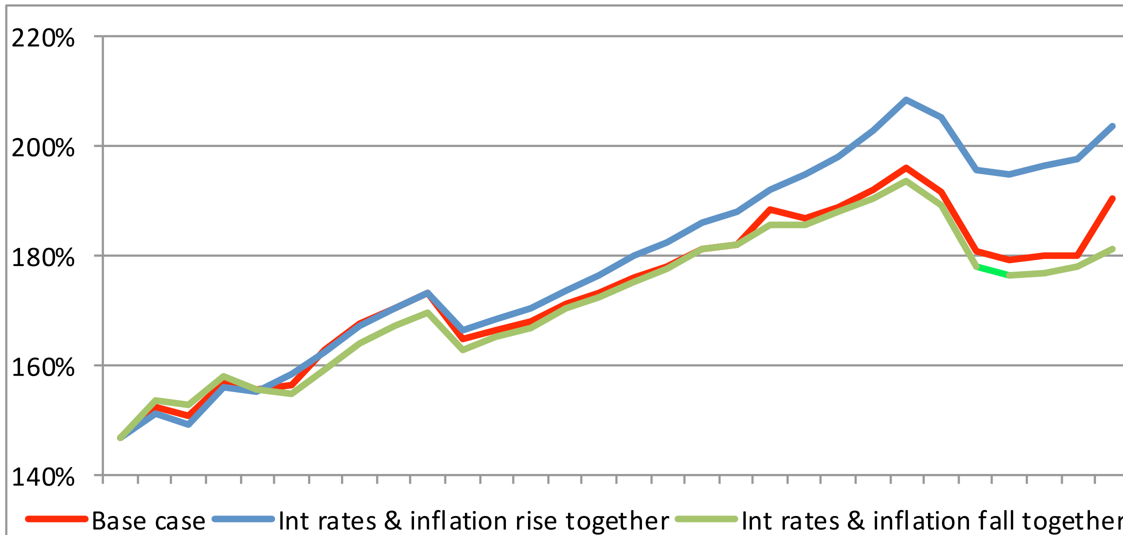
This in-turn changes the debt requirement, the interest charge and hence the Interest cover ratio.

Although ICR changes are quite small, changes in surplus itself are more marked.

7.3 INTEREST RATE SENSITIVITIES

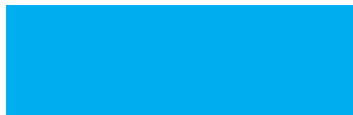
The sensitivity to the left shows the significant impact of interest rates rising to 2% above the levels currently assumed (the blue line shows a covenant breach around year 27).

Alternatively, the green line shows the significant benefit should long term rates peak at 4.5%. Both lines would spread further but are controlled by the large proportion of Group debt that is hedged against interest rate volatility.

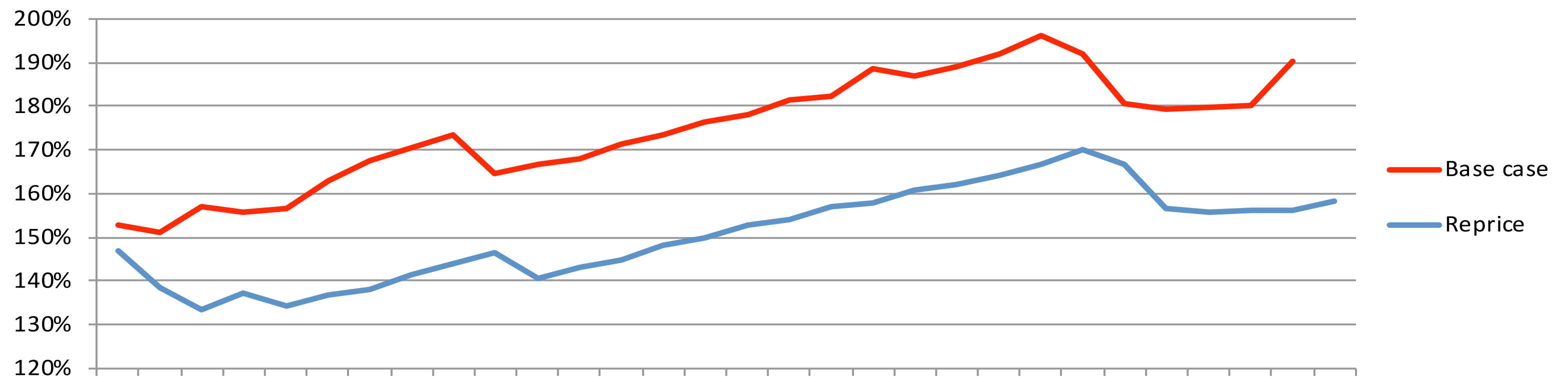


The scenarios shown in the graph to the left consider the impact of interest and inflation rising in tandem, which is generally accepted economic wisdom.

Higher interest costs are offset by increasing net income (or vice versa) dependent on the scenario selected.



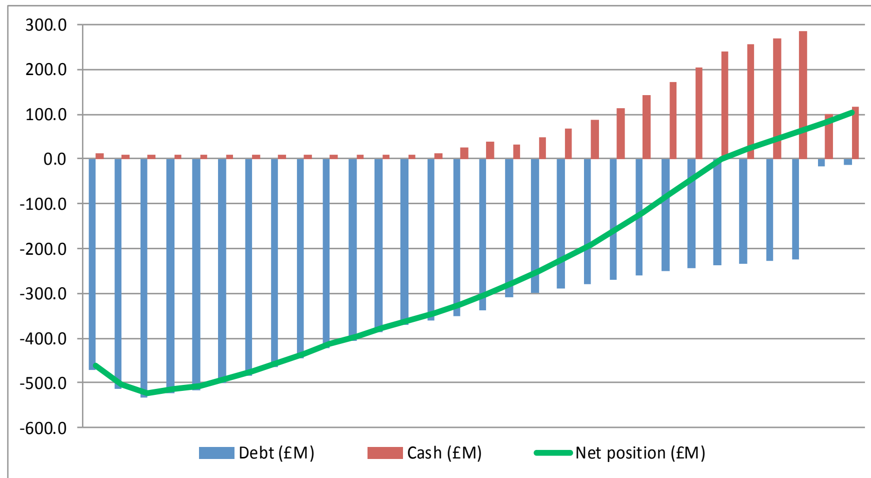
7.3 INTEREST RATE SENSITIVITIES (continued)



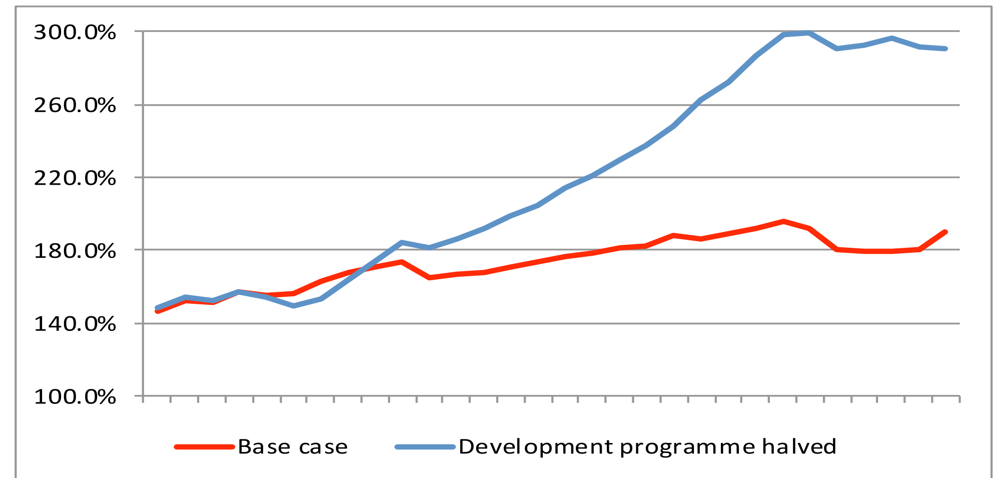
This scenario shows the sudden and significant impact on ICR of a reprice (to a margin of 2.0%) on the Group's 2007 loan facilities.

ICR falls by about 25% throughout the plan. This is one of the Group's primary risks.

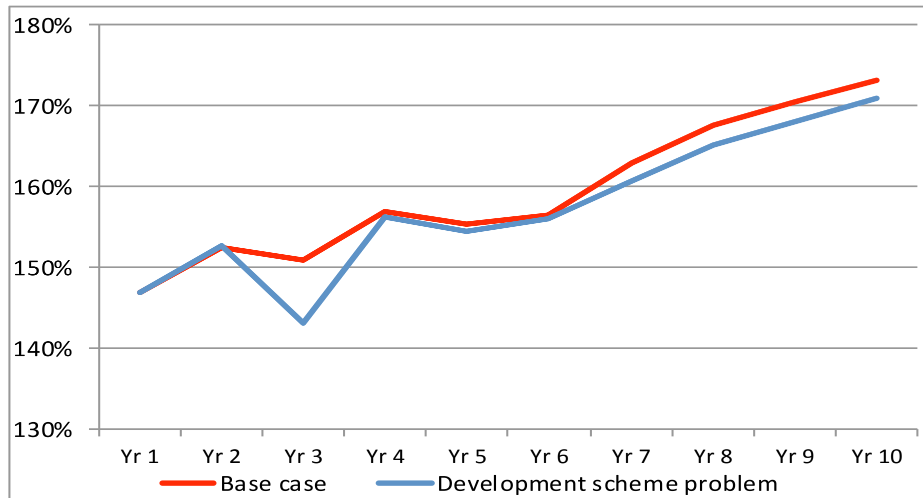
7.4 DEVELOPMENT SENSITIVITIES



The scenario above shows the impact on total debt (blue bars), cash (red bars) and hence net debt (green line) if the Group were to stop developing after the 2015-17 HCA allocation. The graph shows net debt is extinguished by year 26, though in reality debt will remain until the bond is fully repaid in 2042.



The graph above reflects future development being halved. After an initial dip in the ICR due to the drop off in development income and costs taking slightly longer to be reduced, the ICR increases steadily as eventually the reduced development activity can be funded entirely from operating cash.

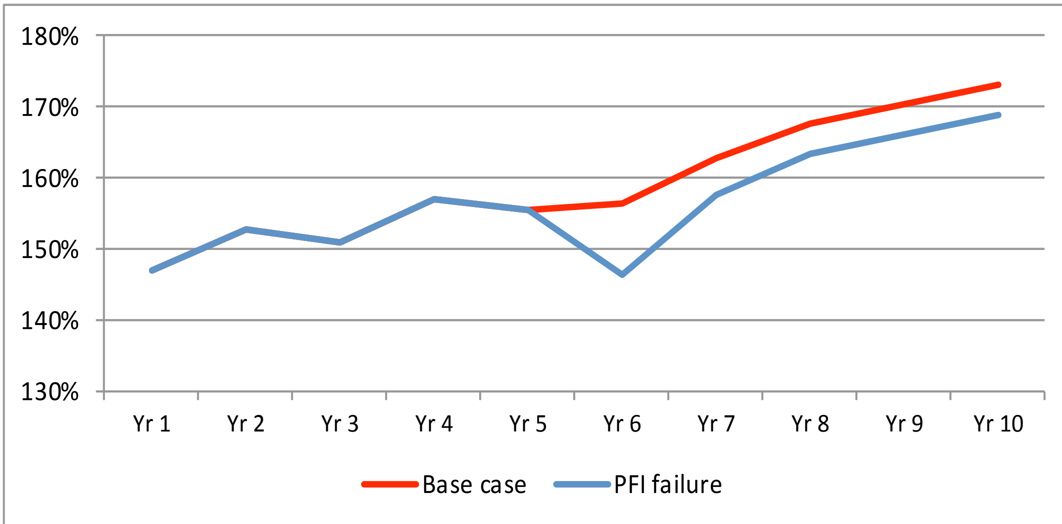


The scenario to the left attempts to show the impact of a theoretical major problem with a development scheme: It considers a scheme of 60 properties, 50 rented, 10 shared ownership – which is as large as anything the Group is currently doing.

There are a number of problems including a £2M overspend (creating an immediate impairment charge). There is a 2 year delay on the rented units being handed over, and £500k of grant has to be handed back. The 10 sales are delayed a year, suffer a £250k reduction in sales income and a further £150k grant is lost.

The problems have an immediate impact reducing ICR by almost 8% in the year, but not to the extent that it gets anywhere near to a covenant breach. After the initial year's impact, the longer term hit on the ICR is less than 2%. Only years 1-10 are shown for simplicity in this scenario.

7.5 OTHER SENSITIVITIES



This scenario is presented to demonstrate the potential worst case scenario that could face the Group if something were to go dramatically wrong with the Oldham PFI contract. It assumes the Housing Management Contract is terminated in year 6 of the plan due to ongoing poor performance.

The maximum penalties are imposed (twice the annual fee receivable) and the Group incurs £500k of extra costs in that year, with the full operating costs incurred all the way through year 7. Only in year 8 is the Group able to cease incurring costs.

The graph shows the immediate 10% hit on the ICR, but which then recovers to be only 3% worse in the long term. As with the previous sensitivity, only years 1-10 are shown for ease.

7.6 COMBINATION SCENARIOS

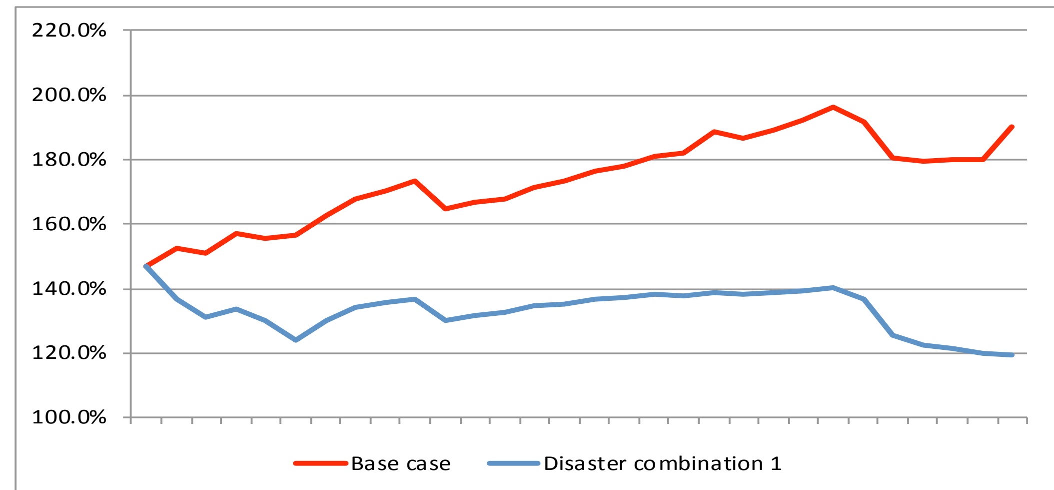
7.6.1 All too often, sensitivities have been considered in isolation. This year, there are a range of combinations of events that have been considered.

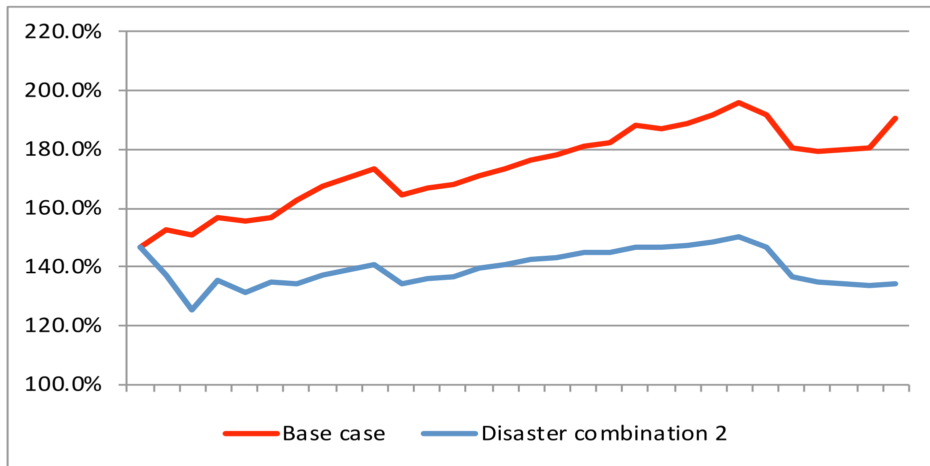
There are clearly a great many such combinations, of which three "disaster combinations" are shown below and overleaf.

The scenario shown to the right combines the Oldham PFI failure as modelled in section 7.5 above, combined with a loan reprice as shown in section 7.3 and also with a 1% increase in earnings inflation.

The earnings inflation scenario shown earlier generated a year 30 ICR of c140% and the reprice scenario generated a year 30 ICR of c160%. The Oldham PFI scenario had little long term impact.

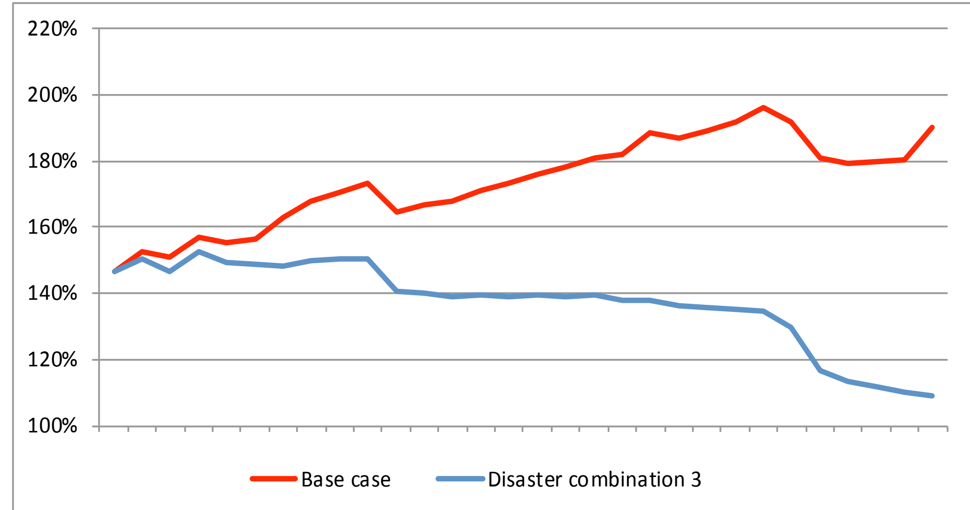
However, in combination these three factors cause the ICR to drop below 120% by year 30 and is clearly a long term threat to that covenant.





The scenario to the above combines the development scheme problem as set out in section 7.4 above, with the loan reprice as shown in section 7.3 above and also the build cost inflation "spike" as modelled in 7.2 above.

Again the combined scenario is much worse than the three issues considered individually, though this combination creates an ICR line that hovers around 140% and as such is not an obvious threat to the covenant.



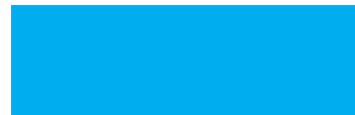
The final combination starts with takes the scenario of an increasing "wedge" (ie the gap between RPI and CPI as already described at 7.2 above.

In addition, this scenario has assumed 1% deteriorations in both void loss and bad debts, perhaps a sign of weakening demand coupled with the impact of welfare reform. The outcome is only very marginally worse than the "wedge" scenario on its own, and whilst the ICR does steadily deteriorate, there is no covenant breach within the 30-year life of the plan.

7.7 In all of the scenarios considered above, there is no assumption that any remedial action is taken to address the issues that arise. Of course in most circumstances the Group will be in a position to take action to mitigate the adverse impact (and even in the case of the small number of scenarios that are beneficial, to take action to lock in the benefits).

7.8 A particular benefit of these sensitivities is that they demonstrate the relative importance of some key risks. This analysis shows that the risk of a loan reprice and the risk of much higher long term interest rates are both significant. The analysis also shows that the new risk of an increasing gap between RPI and CPI is suddenly extremely serious.

7.9 Similarly the analysis shows that problems with individual projects – even a complete disaster on a large development scheme or total failure on the Oldham PFI project – can have a significant impact for one or two years, but the Group is able to recover fairly quickly. It is unlikely, based on this analysis, that a single project, of the scale the Group is used to undertaking, would cause Great Places undue financial stress.



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