Business plan and budget
2017/2018

great places HOUSING GROUP

Great homes. Great communities. Great people.

Content

Executive Summary and Context	3 - 8
Regulation and Governance	9
The Three-Year Corporate Plan – Year 3	10 - 11
Financial Reporting Issues	12
Assumptions	13 - 18
Group Financial Performance	19 - 27
Sensitivity Analysis	28 - 31

Restrictions on use

This business plan has been prepared in good faith, but responsibility for verifying its contents lies with the addressee.

No liability is accepted for errors or omissions.

The document may not be reproduced in whole or in part without the express authority of the company.

Executive Summary and Context

1.1 | 2016/17 has seen Great Places grow to almost 19,000 homes owned or managed. We expect to exceed £100m turnover for a second year, with a record year for first tranche sales and continuing market sales through Cube. We will again produce a surplus before tax of around £12m. This plan shows that we expect to continue that level of surplus for 2017/18. The contextual analysis that follows below shows that we are operating in a period of unprecedented uncertainty and change.

1.2 | Economically and politically the last year has been dominated by the historic Brexit vote, followed by the election of Donald Trump in the USA. We have already seen:

- Uncertainty and volatility – demonstrated all too clearly by the calling of a snap general election for June
- The value of sterling depreciate, resulting in import led inflation
- A reduction in interest rates.

Amongst many potential issues, we may yet experience:

- An impact on the UK Labour market caused by changes in patterns of immigration, with the effect on the construction industry being of particular importance to Great Places' development plans
- A community cohesion impact exacerbated by Trump's election and a rising tide of nationalism across the US and Europe.

1.2.1 | Government policy has seen a slight change of emphasis since the selection of Theresa May as the new Prime Minister. The Housing White Paper, published in February 2017, was broadly encouraging to the RP sector with some dilution of the previous pure home ownership approach. There is now more focus on building houses and less on tenure. The white paper acknowledged that RPs could have a significant role in tackling the continuing undersupply of new homes and recognised the role RPs could play in expanding the private rented sector.

1.2.2 | However, the four year period of rent reductions has been continued, and from April 2017 is extended to supported and sheltered housing. The extension of the Local Housing Allowance (LHA) 'cap' to the RP sector will still be implemented, effectively introducing a further rental constraint, particularly since LHAs are to be frozen for four years. The LHA regime will also apply to supported and sheltered housing, and whilst there is a new mechanism to help protect funding in this area, there are no guarantees as to how well this will operate.

1.2.3 | The white paper alluded to what will happen to rents following the four years of rent reduction, recognising that rent levels have a direct impact on the ability of the sector to deliver increased housing supply. Great Places is contributing fully to the NHF's rent freedom agenda.

1.2.4 | The March 2017 budget announced an additional £2bn for social care provision in the period 2017/18 to 2019/20, but it was noted that the 'austerity' profile remained relatively unchanged.

1.2.5 | Welfare reform has continued although again there is a hint of a slightly softening approach, with the Chancellor announcing a small reduction in the Universal Credit taper rate, meaning the benefit is withdrawn slightly more slowly as claimants move into work. Other welfare reform changes include:

- The pace of the rollout of Universal Credit (UC) remains slow. We have approaching 500 UC residents (up from 252 at the end of March 2016). We had expected to reach around 700 by March 2017. We are now expecting to reach 1,100 by March 2018
- In practice, UC is proving to be hugely complex to administer;
- A resident receiving UC has arrears of c£600, which is about treble that of a typical resident
- Currently 150 UC claimants have Alternative Payment Arrangements (APAs – where rent is now paid directly to Great Places) and just over 100 UC claimants have Third Party Deductions (through which we are recovering arrears);
- Restricting HB entitlement for the under 35s to the shared room rate from 2019, and the removal of all HB entitlement for 18-21 year olds
- We have also seen the reduction of the benefit cap to £20k (for couples/single parents) outside London. We expect around 270 families to be impacted.

1.3 | Political and demographic change will be a major influence on how, what and where Great Places will deliver its services in the future:

- Devolution, both in Greater Manchester (GM) and the Sheffield city region will become increasingly important. In GM, devolved funding for heath and social care is expected to generate some innovative solutions, with GM housing providers hoping to play a key role. The health and social care sectors are both acknowledged to be at breaking point, exacerbated by the ageing society which will put intensive pressure on these services, yet they rarely work closely together
- The erosion of public services such as refuse collection and police services, and an increasing number of vulnerable residents of all ages, further exacerbate the fragile situation
- This is likely to lead to an exploration of the underlying relationship with our customers, as the Group comes under pressure to fill those public service gaps, whilst not creating over-dependency and at the same time seeking to move towards an increasingly digital service
- House prices in England grew by 7.2% in the year to the end of December 2016 (albeit the growth being weaker in the second half of 2016) according to the new UK House Price Index (a Gov.uk website that combines ONS and Land Registry data). Whilst this is good news for housebuilders, it is increasingly bad news for those trying to get on the housing ladder. Not only are we not building enough new homes, there is increasing obsolescence of some segments of the older housing stock
- Owner-occupation has fallen (though might creep up again slightly due to RTBs and high value council house sales). A growing, often poor quality private rented sector is housing a larger number of poorer households.

1.3.1 | Following the ONS decision to reclassify the sector as 'Public Sector', a number of de-regulatory actions are being enacted in an attempt to reverse the decision. Many of these come into force from April 2017, including a relaxation of the consent regime. Whilst the full implications are still to be worked through, there are Governance implications that need to be properly considered as the HCA will be expecting Boards to fill any 'gaps' created by its diminished powers.

1.3.2 | One potential impact of deregulation could be to change the details underpinning the valuation methodologies that apply to the Group's housing properties.

1.3.3 | We also expect to see the creation of a fully independent Social Housing Regulator to coincide with the HCA being rebranded as "Homes England". Having been part of the HCA's pilot In Depth Assessment (IDA) programme in 2015, the Group is ensuring it is ready for a full IDA should that happen in 2017.

1.4 | Within the RP sector, we have seen some significant changes:

- The rise of the 'mega merger' including those between Affinity Sutton and Circle, creating the 125,000 home/£800m turnover Clarion Group, and L&Q/East Thames, which will own around 90,000 properties. Both mergers have stated publically that they will significantly increase their development output as a result. Other significant mergers include those between Peabody/Family Mosaic, and Spectrum/Sovereign both of which create groups with in excess of 50,000 homes
- There have been some high profile mega mergers that have not gone ahead including those involving Genesis/Thames Valley, and Sanctuary/Housing & Care 21
- The 'rescue' type merger has continued, notably Derwent Living joining Places for People
- In the North West we have seen Crewe-based Wulvern join the Guinness Partnership, Mosscare and St Vincents joining together and also the proposed merger between Adactus and New Charter
- There have been several examples of large RP Groups collapsing 'washing line' type structures, including Symphony, Together, and Thirteen, with the Symphony collapse made more interesting by the decision of one of the Group members, Cobalt, to 'demerge'. This situation is mirrored by Derwent & Solway Housing demerging from Your Housing Group
- Also notable on the Regional scene is the Development Joint Venture between Trafford Housing Trust and L&Q;
- We have recently seen the L&Q acquisition for c£500m of the Gallagher property company which includes a significant land bank, and also the £250m investment by Your Housing Group in a £2.5bn Chinese Investment in modular construction facilities
- The HCA has continued to be proactive as a regulatory force, with several downgrades in the year, including a continued focus on compliance activities, particularly gas servicing and also on financial controls, complex funding and Governance structures
- The HCA has issued unit cost data to reinforce the drive for delivery of VFM and a sector wide performance scorecard may help provide more assurance to those outside the sector of the efficiency imperative

- The funding market has been very quiet with virtually no public issuance. There have been some lower scale private placements and some limited refinancing activity, although the L&Q/East Thames merger mentioned above did involve a £2.6bn refinancing package
- The credit rating agencies have taken a generally negative view of changes in the sector, with a perception of increasing reliance on risky market sales activity and the worries about the potential impact of Brexit. Both L&Q and Clarion were downgraded to A2 by Moody's following their mergers. Great Places is delighted to have been confirmed at A2 by Moody's in February 2017.

1.5 | Within Great Places there has also been some significant achievement and change:

- Financial performance in 2016/17 has been strong, with an expected surplus in excess of £12m and projected achievement of all four of the financial golden rules
- The Group is on track to deliver the cost savings and efficiencies to counteract the four year rent reduction and the budget for 2017/18 also demonstrates that we will continue to meet our 'Building Greatness' targets. We define Building Greatness as our "Our values-led journey of change, to ensure that we are always efficient and effective in delivering our vision". This is explained more in section 3
- The Group has received an allocation of c£18m of HCA grant to deliver 872 new homes under the 2016-2021 Shared Ownership Affordable Homes Programme (SOAHP). Around two thirds of the allocation is for Shared Ownership, with the remainder including affordable rent, supported and rent to buy homes.

1.6 | Taking account of this changing and uncertain environment, the Group is pleased to present a business plan for 2017/18 and beyond that absorbs the additional adverse factors identified above, yet still maintains the financial strength and long term viability of the Group. This new and fully updated plan:

- Confirms compliance with the HCA Governance and Financial Viability standard
- Reflects an increasingly complex, uncertain and ever-changing operating, business, political and economic environment
- Adopts a suite of prudent yet realistic assumptions; and
- Demonstrates continuing financial strength whilst achieving steady development-led growth.

1.7 | This financial plan embodies the principle of 'profit for purpose' acknowledging that the Group's vision and values, which were reaffirmed by the Board in March 2017, underpin all that we are seeking to achieve:

VISION:

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

Great homes

Great communities

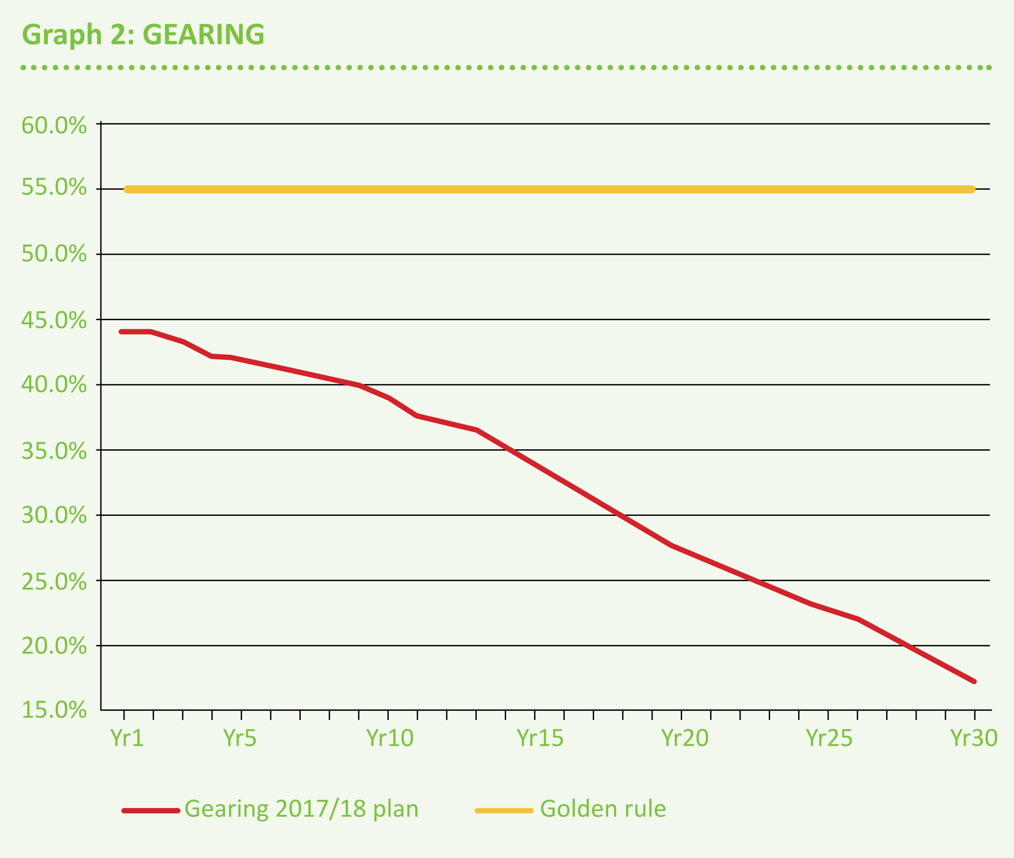
Great people

1.8 | It has been a relatively quiet year for funding activity, with the only notable transaction being the drawdown of the remaining £29m of Santander funding in December 2016, prior to that facility expiring.

This means that the Group remains in a very strong funding position with current cash balances plus the remaining undrawn RBS long term facilities (£50m still to be secured and drawn) being sufficient to meet our funding needs for the next two and a half years. In addition, the fully secured £60m RBC revolving facility is due to expire in November 2018, and that facility if extended, or a replacement facility put in place, will provide funding for a further two years. We will undertake our annual update of our Treasury Strategy in the forthcoming months, reflecting in particular the 3-10 year funding requirements of this plan.

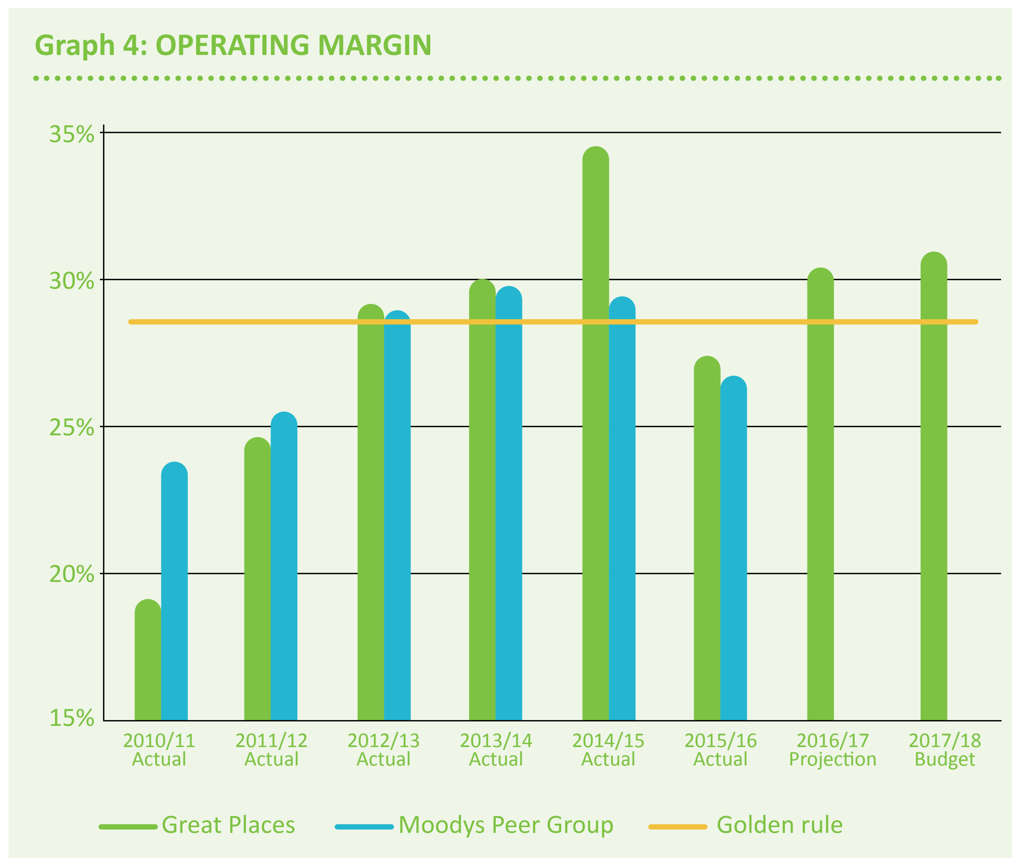
1.9 | Financial viability is most clearly demonstrated by achievement of, and ongoing improvement in, the key ratios considered by our investors, funders and credit rating agencies, as well as the rating itself. During the last year we have retained both our Moody's A2 rating (February 2017) and our Fitch A+ rating (November 2016). This is a good achievement as there have been several downgrades in recent months, and we now have the same Moody's ratings as L&Q and Clarion who were both downgraded following their respective mergers.

1.9.1 | Graph 1 shows our primary funder's covenant, interest cover. As clearly demonstrated, this plan remains comfortably ahead of (ie higher than) the 140% minimum determined by our golden rule, with a steady improvement through the life of the plan.



1.9.2 | Graph 2 shows the second funder's covenant, gearing. Again the plan remains comfortably better (ie lower) than the 55% maximum that is the golden rule. This also shows a steady improvement though the plan period as debt increases relatively slowly. This is due to a more sales based development programme, with higher levels of shared ownership activity in GPHA and outright sales in Cube. Sales activity brings sales risk, but requires far less long term debt, hence causing the gearing to reduce.

1.9.3 | Graph 3 shows the profile of surplus generated over the life of the plan. The trend is very similar over our last four plans, showing how we have successfully protected the surplus generation from prior to the rent reduction.



1.9.4 | Graph 4 shows the Group's recent performance on profitability, measured by operating margin, both in real terms and comparatively. The margin has improved significantly from c18% in 2010/11, moving from a position that was worse than the Moody's peer group to one that is ahead of that peer group. Whilst the operating margin reached a peak of c34% in 2014/15, it did drop back to c27% in 2015/16 due to some changes in accounting rules and a one-off pension impact. Despite this decline, we remained slightly ahead of the Moody's peer group.

Section 6.1 of this document assesses how the operating margin changes going forward.

1.10 | Section 2 of this business plan explains how the Group meets the requirements of the Regulatory Framework whilst section 3 sets out the highlights of the Group's three year Corporate Plan.

1.10.1 | A brief assessment of how financial accounting changes will affect the reporting of Group performance (section 4) is followed by a detailed analysis of the plan assumptions, including the economic environment and the Group's development assumptions (section 5).

1.10.2 | Section 6 considers the consolidated Group performance for the 2017/18 budget year and for the subsequent 30-year business plan information, including compliance with our funders' covenants. Section 17 looks at sensitivity analysis.

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

1.12 | Year one of the Business Plan is based on a comprehensive budget process which successfully combines bottom up detail and top down overview and challenge. The business plan is more centrally driven; using the submitted budgets, known changes for future years, approved assumptions and then developed in the 'Brixx' modelling tool.

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 this plan we have carefully considered the Regulatory Framework.

2.2 | This plan helps demonstrate how the Group complies with the HCA Governance and Financial Viability Standard – see 2.4 below. The Group's VFM self assessment can be found at www.greatplaces.org.uk.

2.3 | The Group's Code of Governance was updated in February 2015 to reflect the new NHF Code 'Promoting Board excellence for housing associations'. At 31 March 2017 we were fully complaint with that code, and this has been confirmed by an independent triennial review of our governance arrangements. The Group's G1/V1 rating was re-affirmed following a HCA annual stability check in November 2016.

2.4 | Great Places will continue to actively demonstrate to the Regulator that it meets the Governance and Financial Viability standard because:

- This Business Plan demonstrates ongoing financial strength, incorporating prudent assumptions that have been benchmarked against others in the sector
- The plan has absorbed the impact of the rent reduction announced in the July 2015 budget and has also built in long term rent increase assumptions that are below the CPI+1% expected at that time
- It is a well run business with limited diversification and a simple structure that helps ensure the protection of social housing assets
- It meets all of its funding covenants and is not reliant on sales to achieve this
- The Group is fully compliant with its Code of Governance, which is an enhanced version of the most recent NHF Code, and this has been confirmed in the independent triennial Governance review that has just been completed
- The Group's approach to risk continues to develop. We have introduced a 'watch list' to accompany the risk register to identify awareness of emerging issues and we have revised the risk appetite statement. We have also introduced a new assurance map strengthening the links between the corporate risk register and the internal control framework across the three lines of defence
- The Group has a comprehensive register of assets and liabilities. This includes title details for the Group's housing properties and records of other assets, as well as records of all loans, bonds, leases and other liabilities. The register also incorporates information around key contacts, key suppliers and general business continuity
- It 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 relevant regulations, with a rent plan that considers affordability, sustainability and competition.

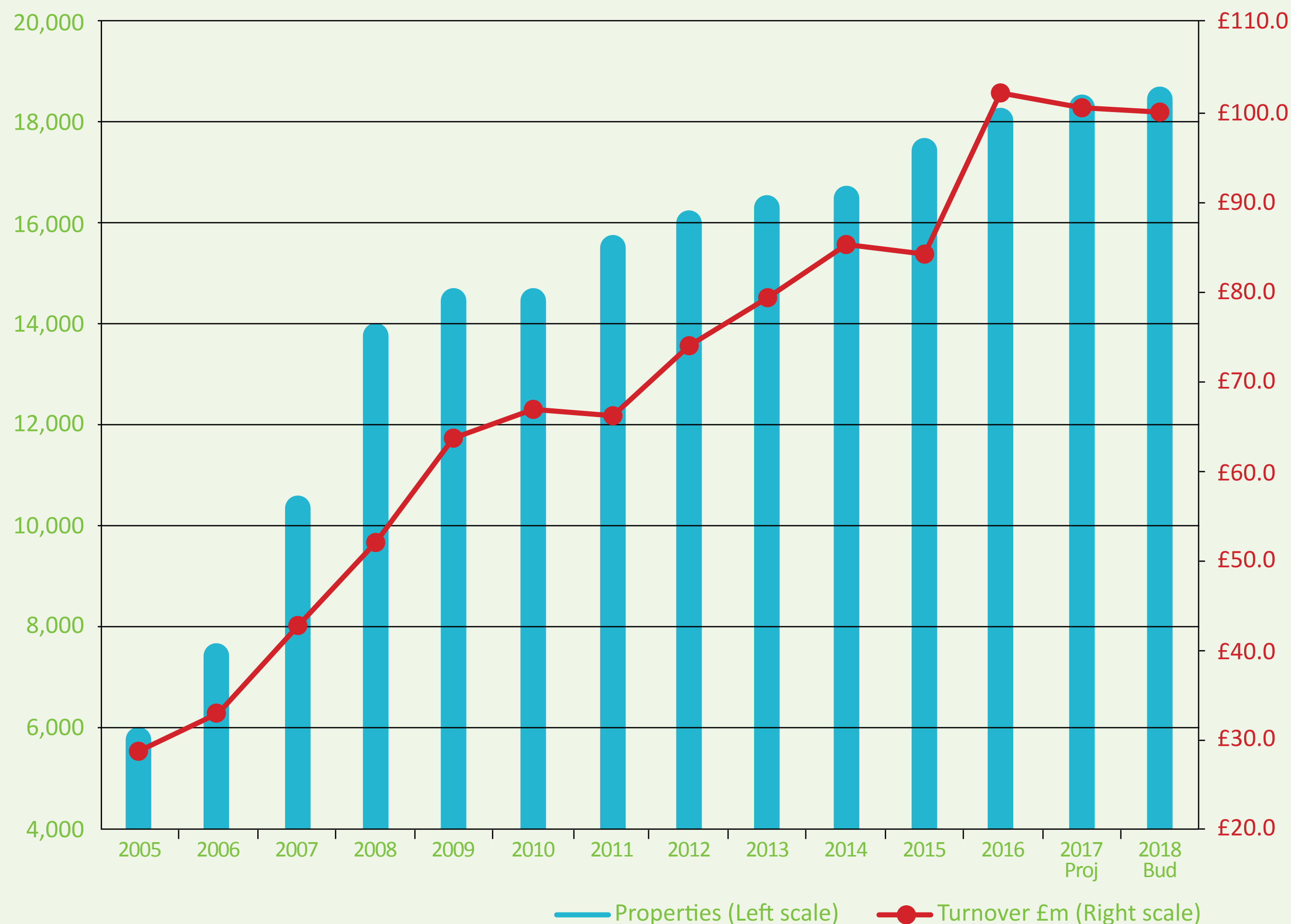
The Three Year Corporate Plan – Year 3

3.1 | Great Places 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. By March 2017 the Group will own or manage approaching 19,000 properties. Turnover will remain in excess of £100m, despite the impact of the rent reduction and the volatility of sales driven income.

3.2 | In the spring of 2015 the Group published a Corporate Plan covering the period 2015 to 2018 which detailed what we were seeking to achieve over that time frame for our customers, colleagues, partners and other stakeholders. 2017/18 will therefore represent the final year of that plan and we are now commencing the process of developing a new plan that will cover the period April 2018 to March 2021.

Despite significant political and economic change since the plan was agreed, we continue to see it as the route-map to delivering great performance and great customer service.

This business plan should be read in conjunction with the Corporate Plan, as we have strived to ensure consistency between the things we want to achieve and the financial and other resources required to deliver them. The Corporate Plan considers the external factors affecting Great Places, and also explains how the vision and values fit together with our critical success factors (CSFs) and our key corporate strategies and six underpinning priorities.



The Three Year Corporate Plan – Year 3

3.3 | However, while still seeking to deliver the objectives set out in the Corporate Plan, the rent reduction in particular, and other adverse changes has meant the Group has been required to thoroughly review its operating processes and the cost base to an extent not identified in the Corporate Plan.

3.4 | The Group is now well underway with the delivery of what we call 'Building Greatness' which we define as:

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

Building Greatness comprises seven work streams each with its own programme of deliverables:
People
Leadership, Corporate structures, external engagement and communications
Data and performance
Investment in systems
Procurement and contract management
Growth
Business transformation

We have, as a short term measure, added an eighth work stream, to reflect the importance of the new head office relocation (see below).

Building Greatness was a measured and well thought through response to the July 2015 budget, which built on the solid foundations that were already delivering step change improvement in repairs and asset management, supported housing and business systems. The outcome was clearly laid out in a revised business plan produced in October 2015 which demonstrated how the £10m pa eventual shortfall in rental income due to the rent reduction would be mitigated.

We remain on target to achieve this with some of the notable achievements including:

- The Business Transformation work stream will analyse all aspects of the Group's front line and back office services, seeking to drive out waste, inefficiency, duplication and non value-adding activities, increasing efficiency, effectiveness and value for money. During 2017/18 we expect to complete the review process within our Supported Housing activities and make significant strides within many elements of the General Needs Housing Services function. Transformation work will also commence in repairs, investment and some head office areas during 2017/18. Business Transformation is critical to ensuring that services are redesigned and costs eliminated in a sustainable manner
- We have restructured our Executive and Leadership Teams. A smaller Executive Team with broader, more strategic portfolios is now supported by an expanded and strengthened Service Delivery Leadership Team who focus on the operational running of the business
- We recognise the challenges of ensuring we attract and retain a high quality workforce with the right skills and with high levels of engagement. Our people strategy is designed to meet those challenges and key deliverables in 2017/18 include continuing the substantial investment in our Leading Greatness Programme, the roll out of a pay progression process and introduction of graduate and apprenticeship programmes
- In late 2016 we purchased a new head office close to our existing Southern Gate base in South Manchester. The new office will allow us to relocate the entire Manchester workforce and also the Salford team (over 300 staff in total) into more modern facilities, whilst also delivering significant cost savings due to the closure of our Salford office. The relocation will complete in the summer of 2017.
- The Investment in systems work stream aims to ensure we fully embrace modern technology and goes hand-in-hand with the Business Transformation work. During the first half of 2017/18 we will complete the redesign of the Great Places and Plumlife websites, implement new contact centre technology and introduce a fully agile mobile working solution. This will assist us to move to a more digital service provision, whilst retaining alternatives for customers for whom digital is not yet an option. The world of IT moves rapidly so we will be revisiting our Business Systems Strategy earlier than originally scheduled to ensure we are moving in the right direction
- The data work stream is seeking to improve many aspects of our data, including data quality, data quantity (customer data and property data, reflecting the importance of 'big data'), data protection and data retention. Linking closely with the investment in systems work stream we will also focus on upgrading our protection against cyber threats, enhancing our data analysis and implementing a geographical information system
- Better procurement and stronger contract management will help deliver and sustain cost savings and ensure value for money is achieved across the Group. Whilst GPHG is showing as top quartile in the HCA units cost data, we are far from complacent. This is reinforced by the drive to improve the operating margin (see 1.9.4 above)

Financial Reporting Issues

4.1 | The financial statements produced at the end of the 2015/16 financial year were the first to be produced under the new regime of International Financial Reporting Standards (IFRS) through Financial Reporting Standards 100-105 (FRS 102) and a new Statement of Recommended Practice (SORP).

4.2 | This marked the implementation of the most significant changes to financial accounting methodologies and reporting in recent years. The main changes seen in the March 2016 financial statements included:

- £470m of grant is now shown as a creditor rather than a deduction shown against tangible fixed assets, with an annual amortisation charge of c£5M recognised in the Statement of Comprehensive Income
- A new treatment of financial instruments (in particular the treatment of our stand alone derivatives) with a £47m cash flow hedge reserve shown in the balance sheet
- A revised treatment of pension liabilities within multi-employer schemes, particularly any historic deficits, with a £10.6m provision for liabilities shown in the balance sheet
- Investment properties now shown at value of £14m within tangible fixed assets.

4.3 | The accountants Smith and Williamson have been engaged by many of the sector funders to identify a consistent and fair approach to determining what covenant changes might be required as a result of FRS102 and we are close to agreeing the necessary changes to ensure that the impact is fair to all parties.

4.4 | The financial statements shown in this plan now reflect the new IFRS reporting regime. The presentation has not only changed, but the I&E account is now titled the 'Statement of Comprehensive Income' and the balance sheet is called the 'Statement of Financial Position'. We have also adopted the HCA reporting format, which is used by funders and the credit rating agencies. We have made neutral assumptions around some of the areas of ongoing volatility such as pension deficits and Mark to Market exposure.

No.1 Christie Fields

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.

Assumptions	Budget 2017/18	Year 2 2018/19	Year 3 2019/20	Year 4 2020/21	Year 5 2021/22	Years 6-30	Note
Interest cover golden rule	**Interest cover should not fall below 140% (covenants range from 105% to 120%)**						5.2
Interest cover golden rule - result	**ACHIEVED - the minimum leavel achieved is 152% in 2020/21**						
Gearing golden rule	**Gearing should not increase above 55% (covenant 65%)**						
Gearing golden rule - result	**ACHIEVED - Gearing peaks at 44.2% in year 2 of the plan and reduced steadily thereafter**						
Operating margin golden rule	**Operating margin before interest to be a minimum of 28% and be targeted to grow towards 38%**						
Operating margin golden rule - result	**ACHIEVED - operating margin is between 28% and 34% throughout most of the plan**						
CPI	2.50%	2.50%	2.25%	2.00%	2.00%	2.00%	5.2.2
RPI	3.25%	3.50%	3.25%	3.25%	3.25%	3.25%	5.2.2
Construction price inflation	Budgets submitted at April 2017 prices	CPI+1.5%	CPI+1.5%	CPI+1.5%	CPI+1.5%	CPI+1.5%	5.2.6
Land price inflation		CPI+1.5%	CPI+1.5%	CPI+1.5%	CPI+1.5%	CPI+1.5%	5.2.6
Earnings		CPI+1%	CPI+1%	CPI+1.5%	CPI+1.5%	CPI+1.5%	5.2.3
Maintenance inflation		CPI	CPI	CPI	CPI	CPI	5.2.4
Property price inflation		CPI	CPI	CPI	CPI	CPI+0.50%	5.6.5
General needs & supported rents	-1.00%	-1.00%	-1.00%	CPI	CPI	CPI	5.3
Affordable rent conversions	150	125	125	125	0	0	
Supporting people income	See note	CPI-15%	CPI	CPI	CPI	CPI	5.3.1
Bad debts	See note	Rising to 2.10% by end of year	Rising to 2.40% by end of year	Rising to 2.70% by end of year	Rising to 3.00% by end of year	3.00%	5.5
Voluntary sales	60	60	60	60	60	40	5.6.2
Major repair expenditure golden rule	**The Business Plan provisions fully meet the requirements of the stock condition survey over the life of the plan and all major repairs are funded from operating cash flows. THIS IS ACHIEVED.**						
Margin on new short term debt	Per existing loans with RBC & RBS		1.20%	1.20%	1.20%	1.20%	5.7.6
3M LIBOR	1.25%	2.00%	2.75%	3.50%	4.25%	4.25% - 5.00%	5.7.5
30 year gilt rate	2.00%	3.00%	3.50%	3.75%	4.00%	4.00%	5.7.10
Spread on new long term debt	1.40%	1.40%	1.40%	1.40%	1.40%	1.40%	5.7.10
Hence cost of future fixed rate debt	3.40%	4.40%	4.90%	5.15%	5.40%	5.40% rising to 5.80%	5.7.11
Interest rates - receivable	0.40%	1.00%	2.00%	2.75%	3.50%	3.50% to 4.50%	

Assumptions

5.2 | The Group's four 'golden rules' essentially set thresholds above or below which the Group will ensure it remains throughout its Business Plan. The golden rules are set at levels that are more difficult than the equivalent funding covenant, to ensure headroom is maintained at all times. These have been clearly set out in the table on page 13. It is clear that the proposed plan satisfies the golden rules throughout.

5.2.1 | The key business plan assumptions 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 and funders.

5.2.2 | Budgets have been submitted at April 2017 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 2018/19 and 2019/20 the figure is higher, driven by rising import prices caused by the deterioration in Sterling. With a few exceptions, CPI is the primary inflation factor used in this plan. The long term RPI assumption is 3.25%, generating a wedge (the difference between RPI and CPI) of 1.25% which is in line with OBR projections.

5.2.3 | 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, incorporating an across the Board 1.5% pay rise for April 2017, plus some additional budget to ensure our commitment to performance based pay progression and salary benchmarking is maintained.
Over the next two years the assumption is that earnings growth can be constrained to CPI+1%, whilst the assumption from year 4 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 establish a sustainable linkage to CPI.

5.2.4 | The assumption for maintenance inflation is CPI only, reflecting opportunities to improve efficiency through improving the productivity and effectiveness of our in-house team, increased use of the Distribution Centre and better procurement and contract management of the investment programme. Around 40% of repairs and maintenance expenditure is staffing costs, and these costs are indexed by the higher earnings inflation assumption explained above and which we can control through pay constraint and driving up productivity.

5.2.5 | 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. This ensures that our fourth Golden rule is achieved.

5.2.6 | Development costs in the short term are firmly established with the remaining 2015-18 programme entirely on site. For the 2016-2021 Shared Ownership Affordable Homes Programme (SOAHP), costs are based on a mix of up-to-date cost estimates, tendered prices and agreed cash flows, which take into account latest construction prices. In subsequent years the plan assumes a total scheme cost per unit of £130k. The building inflation assumption is CPI+1.5% throughout the plan. The land cost inflation assumption is also CPI+1.5% throughout the plan. (see also section 5.8).

5.3 | General Needs and Supported Housing rents are assumed to reduce by 1% in April 2017, April 2018 and April 2019. In theory the rent increases between April 2020 and April 2024 will revert to the original CPI+1% formula, and as a sector we should still be pushing for that to be the case. However we are now prudently assuming that the increase will be CPI only for that period as well as for the remainder of the business plan period. This revised assumption, which is in line with most other RPs, introduces five additional years of CPI only rent increases which takes a further c£4m per annum from the rental stream by 2026.

5.3.1 | Supporting People (SP) income continues to come under huge pressure. Most Local Authorities are remodelling existing services which means many of our current schemes are facing significant changes, including adapting to new client groups, revised delivery arrangements, alternative funding streams and increased partnership working.
We have assumed a further reduction in SP income (CPI-15%) in 2018/19. We have seen SP income reduce from over £4m in 2010/11 to around £1.8m in 2017/18 – in excess of a 60% real reduction.

5.3.2 | The majority of Shared Ownership rents increase by the November 2016 RPI figure of 2.0% and are contractually tied to RPI increases in subsequent years, although a small number increase by RPI+0.5% and a smaller number use other months as the RPI basis.

Assumptions

5.4 | The budget for voids is built up at a 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. The resulting general needs void loss budget is 0.55% which is better than the top quartile figure of 0.6% published by the HCA in the December quarterly survey analysis.

5.5 | Repeating the message of the last couple of years, the roll out of welfare reform has been much slower than originally envisaged, and the impact of the bedroom tax and the two subsequent tranches of the benefit cap are (so far) not yet as great as we expected. At the point of writing this document, GP had around 500 (last year end was 252) Universal Credit (UC) claimants, but we still expect this to start growing sharply. By March 2018 we expect to have 1,100 UC residents.

5.5.1 | The level of arrears across the Group is again assumed to double over the next four years from c£4M to £8M (rising from c3.5% to c7.0%) – hence getting to the same outcome as we predicted when Welfare Reform was first introduced, but over a longer period than previously assumed.

Similarly, bad debts for our existing general needs properties are assumed to rise from under 1% currently to around 3% by year five. 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.

5.6 | Sales and disposals assumptions

5.6.1 | The voluntary right to buy scheme could have a significant impact on Group cashflows both in terms of sales receipts and the costs of replacement properties, and is therefore an important assumption. There are still a large number of unknowns around the scheme with key parameters such as the start date, eligibility criteria and exemptions yet to be finalised. At the time of writing we have been told that there will be a large scale regional pilot during 2017/18, possibly in the West Midlands. Consequently, we have not assumed any VRTB sales in our plan. We have included a specific sensitivity to show the impact of VRTB (see section 7.3). We are expecting only eight preserved RTBs to eligible transfer tenants in Knutsford and Sheffield each year.

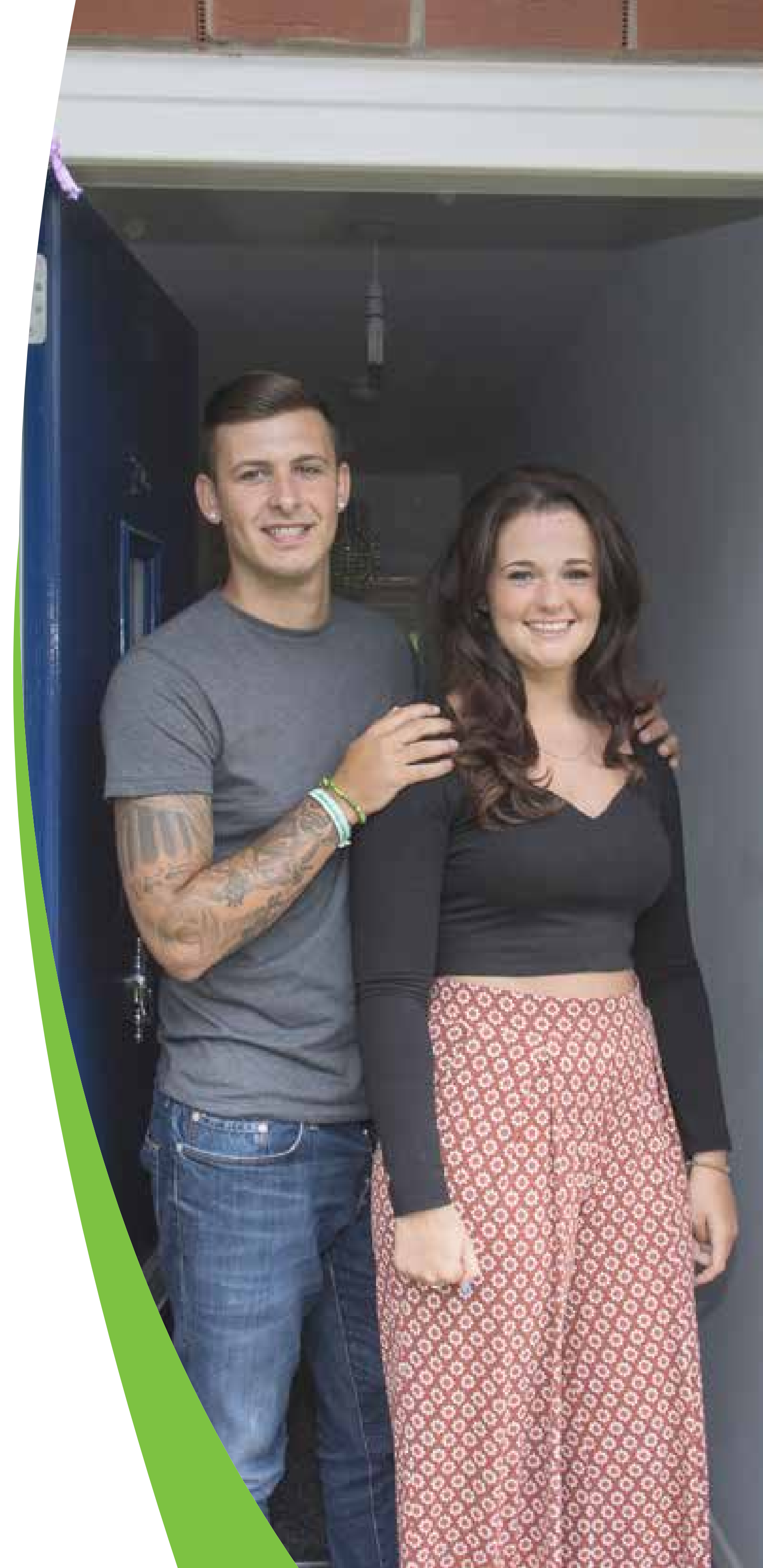
5.6.2 | The Group's Asset Management Strategy and associated programme of disposals continues relatively unchanged: We are targeting 60 disposals per annum in the first five years of the plan and 40 thereafter. These disposals are vacant possession disposals, both within and outside the sector, of older, unpopular or inefficient stock as part of the asset management strategy and/or to improve our return on assets. We assume only a £27k per unit surplus on these disposals. Any tenanted disposals (perhaps in pursuit of geographical stock rationalisation) would need Board approval and tenant consultation (noting that deregulation has removed the HCA consent regime). We are planning two small tenanted disposals totalling 25 units during 2017/18, both being disposals to other RPs.

5.6.3 | The Group's pipeline of Shared Ownership development means that there will be c130 first tranche sales completing in 2017/18. Having sold over 190 units in 2016/17 we believe this is comfortable, having also sold around 120 first tranches in 2015/16. The 130 sales are spread across 19 different schemes, across the full Great Places geography, hence spreading the sales risk.

Sales in subsequent years follow the development programme assumptions set out below. Going forward we would also expect these properties to staircase over a 20 year period from the sixth year after initial sale.

5.6.4 | The Group will soon have over 1,300 Shared Ownership homes, providing a large pool of potential staircasing sales. Whilst market conditions are relatively strong, the plan assumes only a modest volume of sales annually (36 in GPHA and 4 in Plumlife). This is a slight increase on last year's assumption; however, we have also budgeted for six loss making repossessions, as in some areas of the North, for some types of property, prices have not yet recovered to their pre 2007 levels.

5.6.5 | Property price inflation has been revised downward following a review of staircasing activity over recent years. The previous assumption of CPI+1% throughout the plan has been replaced with CPI only in years 1-5 and then CPI+0.50% in years 6-30. The Group does not wish to be in any way financially dependent on sales activity that itself is dependent on significant capital growth.



5.7 | Interest rates and debt assumptions

5.7.1 | 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.

5.7.2 | After over seven years of a record low base rate at 0.50%, the aftermath of the Brexit vote saw rates reduced to 0.25% August 2016. In the subsequent months views were divided as to whether the next movement in rates would be up or down and it remains extremely difficult to forecast how interest rates and bond yields will change.

5.7.3 | The most recent BoE quarterly inflation report noted:

- An increase in expected GDP growth in 2017 from 1.4% to 2.0% and also an increase in 2018 from 1.5% to 1.6%
- Forecast unemployment reduced from 5.0% to 4.5%; and
- Little change in inflation forecasts.

5.7.4 | Last year's plan, prior to the Brexit vote, noted that some commentators were saying that rates might fall, pointing to 5 and 10 year swap rates being at historic low levels. The BoE did indeed decide to reduce the base rate to 0.25% in August 2016, but this was of course triggered by Brexit and the subsequent sharp fall in sterling. Talks of a further reduction have subsided and all commentators agree that the next change will be upward, but with little consensus on timing.

5.7.5 | The plan assumes three month LIBOR at 1.25% throughout 2017/18 (other than where we have loan tranches where we know the variable rate to be charged in the first couple of months of the new financial year) and then increasing by 0.75% annually then to reach 4.25% by the end of 2021/22. This has been benchmarked against other RPs assumptions and sits in the upper part of the range but is far from the highest. Rates are then assumed to gradually rise to 5.00% by the end of the plan.

5.7.6 | Coupled with these LIBOR rate rises, the plan also assumes that margins on future short/medium term bank debt will be 1.40%, providing some comfort over the rates suggested by our latest intelligence of the bank funding market.

5.7.7 | The proportion of fixed debt will be maintained at a minimum of 75% fixed in line with the 2016 approved Treasury Policy.

5.7.8 | Interest receivable rises in line with the assumed increase in LIBOR, and, despite the material cost of carry, cash balances are to be held at a minimum of £20m to protect against market liquidity risk. This minimum cash balance is increased annually to reflect increasing construction costs, which are the main driver of liquidity risk.

5.7.9 | The Group has current cash plus long term funding facilities that meet funding needs until December 2020 (this is through a £50m term facility with RBS which expires in March 2019). The actual funding requirement in December 2020 is less than £1m, and it is only in June 2021 that a material new funding requirement emerges.

In addition the Group has a £60m (undrawn) fully secured revolving facility with RBC that expires in November 2018 will provide 18 months additional liquidity if it is extended, renegotiated or replaced, although this is not assumed to be utilised within this plan. The Cube Business Plan has assumed that £6M of external funding will be sourced in 2018/19, to be secured against a new market rent scheme that Cube plans to develop, but this funding is not critical in the context of the liquidity of the wider Group. The 2017 update to our Treasury Strategy will consider the timing of future funding activity starting with the renegotiation of the revolving facility.

5.7.10 | Future funding could be sourced through the capital markets (a "tap" on our bond). The plan assumes the underlying 30 year gilt rate increases swiftly from current levels of c2.00% to 3.00% and subsequently to 4.00% by the fifth year of the plan. The assumption around short to medium term funding costs includes a spread of 140bps, which gives some headroom over the spread currently reported on the Great Places bond in the secondary market.

5.7.11 | 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 5.30% peaking at 5.75% by the end of the plan.

Assumptions

5.8 | Development assumptions

5.8.1 | The business plan fully reflects the remaining elements of our existing HCA allocations which will see a further 252 affordable rented and 125 shared ownership properties completed by the end of March 2018.

5.8.2 | The plan also reflects the allocation for 872 new homes received by the Group under the 2016-2021 Shared Ownership Affordable Homes Programme (SOAHP). The allocation has an estimated total scheme cost of £114.5m with £18.1m of grant receivable and comprises:

- 560 Shared Ownership
- 102 Affordable rent
- 60 Supported and
- 150 Rent to buy.

5.8.3 | The political environment has changed in the period since our SOAHP bid was submitted and it now looks like there may be the opportunity, through continual market engagement with the HCA to establish a grant funded affordable rent programme. This business plan will form the basis for assessing the Group's capacity and appetite to undertake additional rented development in the next few years and a sensitivity analysis in section 12 considers this further.

5.8.4 | Looking beyond 2021 the business plan assumes that Great Places will continue to have a substantial programme of development, broadly matching the c400 units built annually over the last decade. This will include the following:

- An annual programme of 300 homes, currently comprising 180 shared ownership properties and 120 rented properties, but subject to change in line with shifting government policy
- The rented properties could include right to buy replacement homes funded from VRTB receipts should those happen, as well as units funded through s106 arrangements, recycled grant and internal subsidy. These properties will be let at affordable rents
- The majority of the Shared Ownership properties will be HCA grant funded (grant rate assumed 20%) with the remainder including potential VRTB replacement or s106 arrangements
- Scheme costs per unit range from £110k (some s106 arrangements) up to £130k for shared ownership homes.

5.8.5 | The Group will also deliver c100 properties per year for outright sale and market rent development through Cube.

SOAHP allocation

872 new homes

560 Shared Ownership

102 Affordable rent

150 Rent to buy

60 Supported

£114.5m Total scheme cost

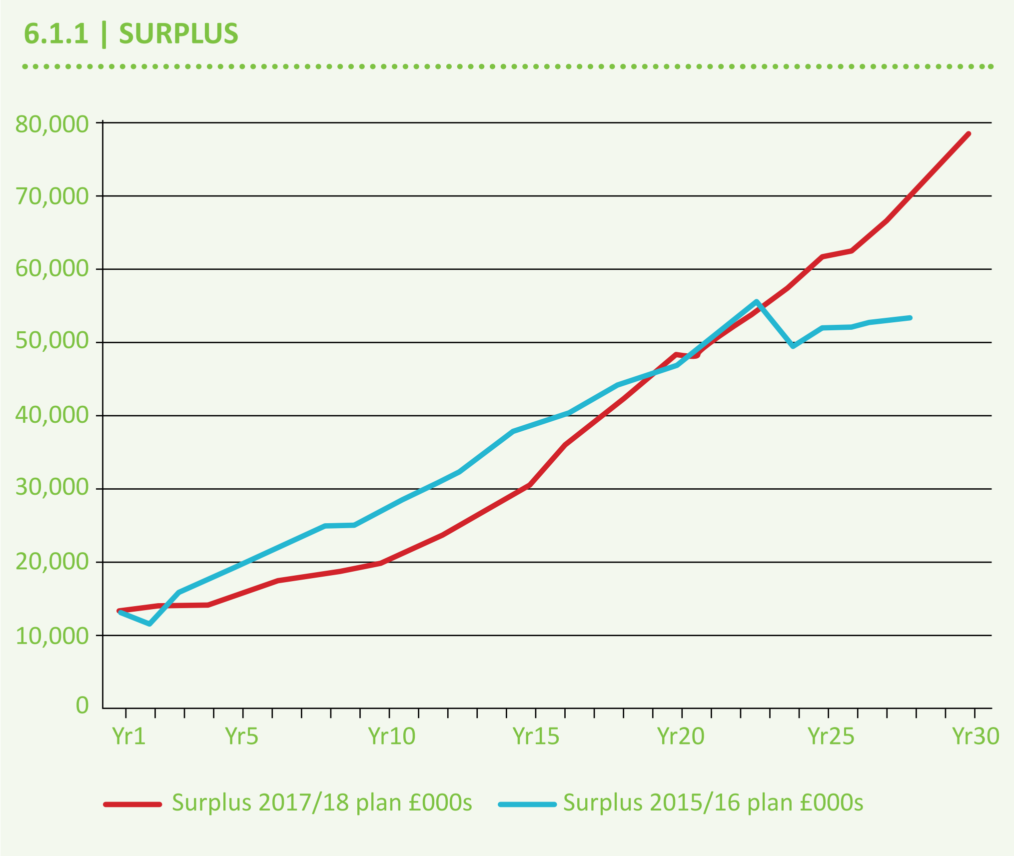
£18.1m Grant receivable

6.1 | Achievement of Group financial targets and covenants

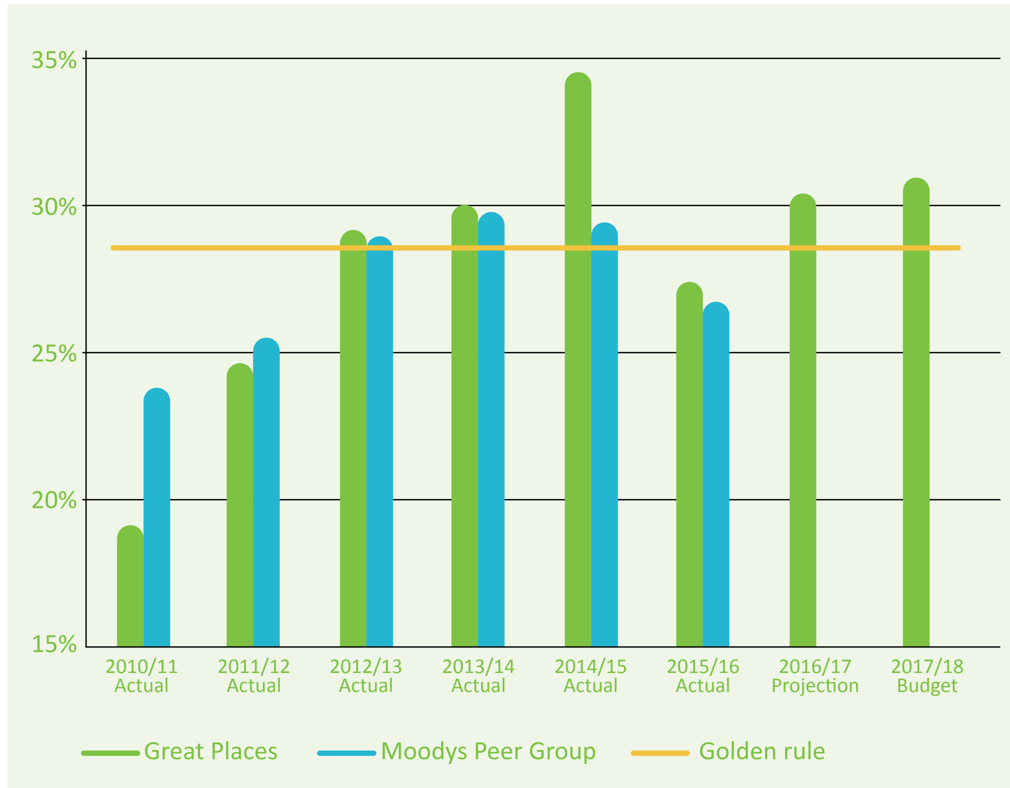
6.1.1 | Surplus

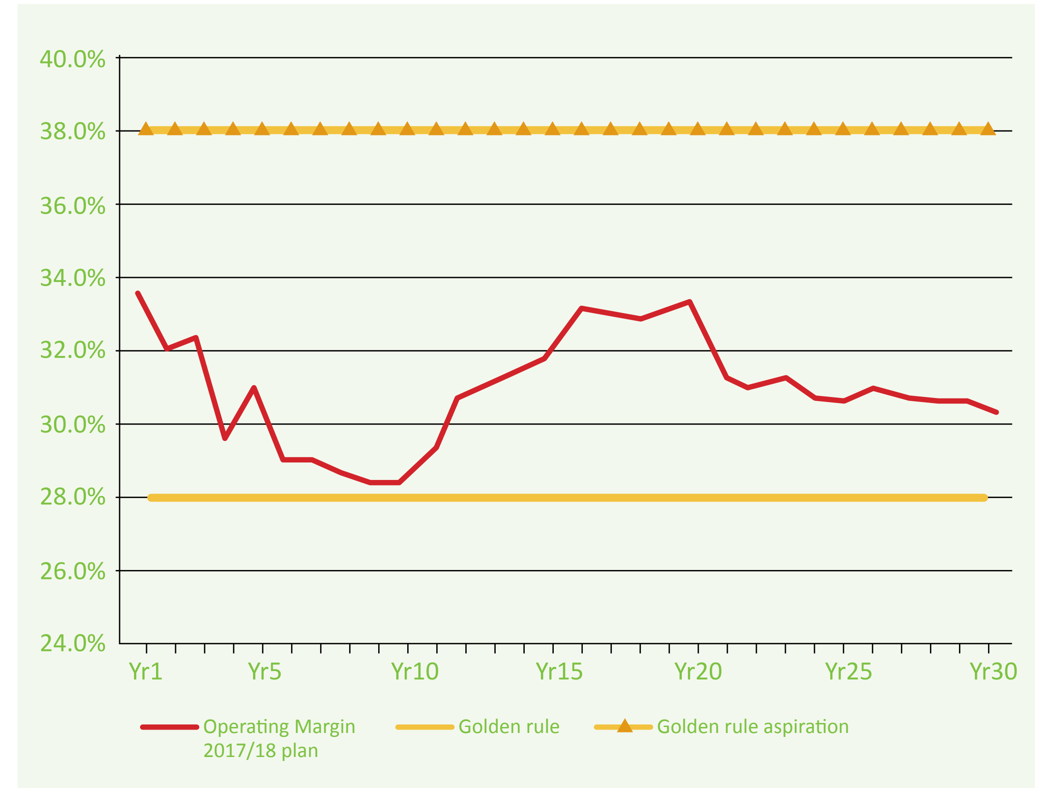
6.1.2 | The annual surplus achieved in this plan (red line) grows steadily from £12m in 2017/18 to just over £60m by the end of the plan. The trend is very similar to that achieved in the 2015/16 plan that was approved prior to the four year rent reduction (blue line). The £10m per annum rent loss has been largely offset by the operational and transformational cost savings that are being delivered through 'Building Greatness'.

It should also be noted that the 2017/18 plan has maintained the levels of surplus despite having also absorbed a CPI only rent increase assumption from April 2020 to the end of the plan compared to the CPI+1% assumed in 2015/16, which generates a significant further comparative reduction in rental income as the plan progresses.



6.1.3 | Operating margin





6.1.4 | The chart above shows the historic and projected operating margin for the Group (surplus before interest as a proportion of turnover (excluding grant amortisation) – effectively a measure of profitability), and a Moody's peer group comparison. The margin was just c18% in 2010/11 and is now established at above 30% (the dip in 15/16 was largely due to a one off pension cost) – moving from a position that was worse than the peer group to one that is now ahead of that group. The importance of maintaining profitability is demonstrated by the adoption of this measure as one of the four golden rules, with a minimum acceptable level of 28% and a target to move towards 38%.

6.1.5 | Looking ahead, the graph above identifies that the operating margin will decline slightly over the next few years (as predicted by Moody's for all RPs), but does then rise again after year 10. This confirms the impact of the higher proportion of 'relatively' low margin (but of course very profitable) open market sales undertaken through Cube that the plan assumes will cease after 10 years.

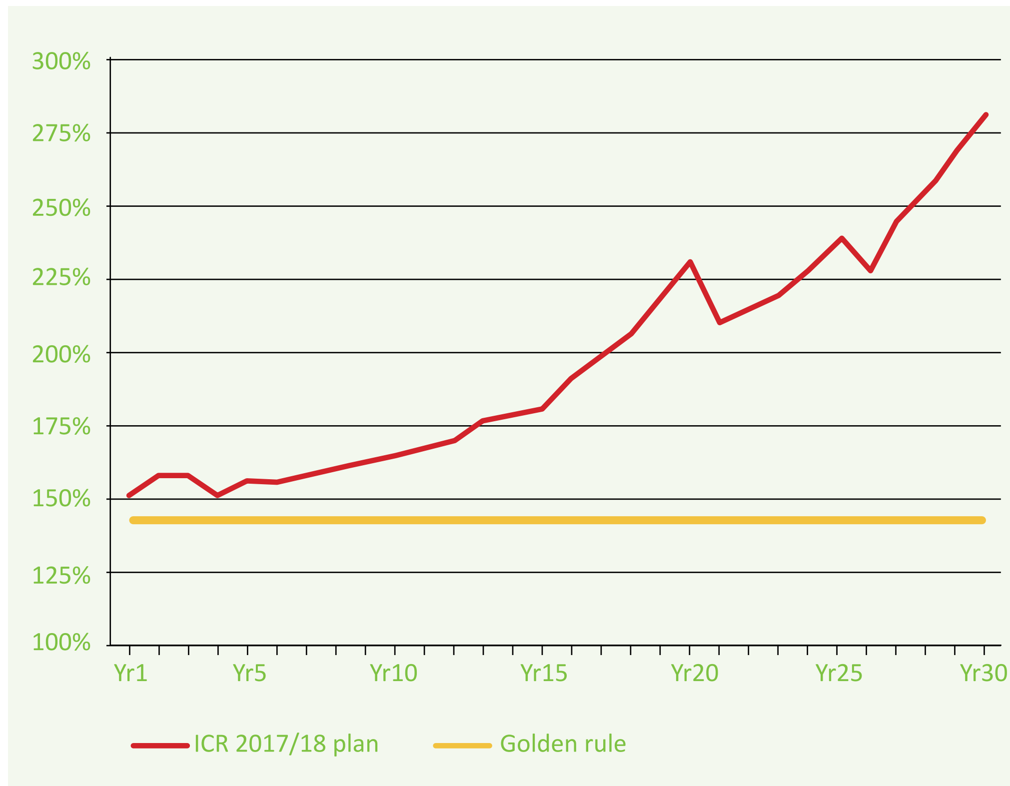
Analysis shows that additional cost savings of c£7m per annum would need to be delivered by year 10/11 of the plan to generate a sustainable operating margin of c38%.

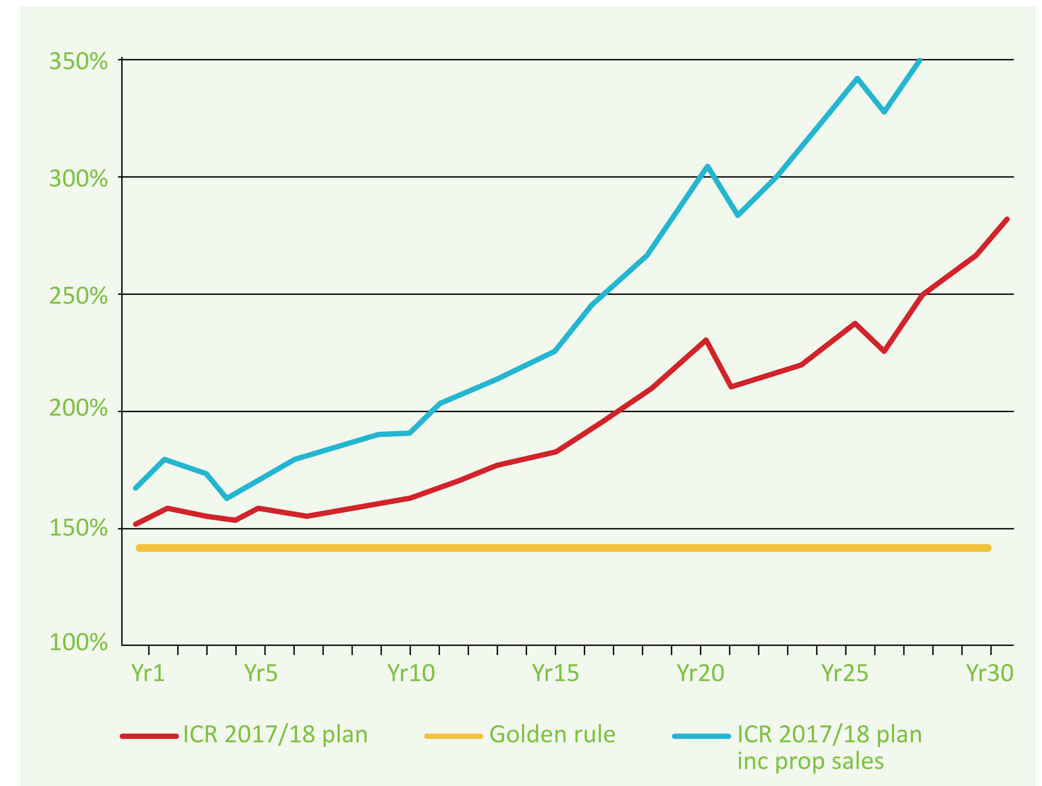
6.1.6 | Interest cover

6.1.7 | Surplus and margin are easily understood measures of financial strength, but neither is a financial covenant. The interest cover ratio (ICR) as shown in the graph below is a financial covenant – it is an accounting not a cash based measure.

The results shown in the left graph below excludes all property sales surpluses. The graph shows that the ICR steadily improves through the life of the plan and there is good headroom above the 140% golden rule (which in turn provides significant comfort above the tightest loan covenant of 120%).

The right hand graph shows the same red line as the left graph (ie interest cover excluding all property sales), but also shows interest cover where 'sales in the ordinary course of business' are included in the result (blue line). This is the wording of our bank covenant and means that property sales such as voluntary sales and staircasings can be included. First tranche sales and outright sales through Cube are excluded. Historically, the red and blue lines have not diverged as much as shown in the right hand graph, but the increased proportion of shared ownership sales in the development programme will inevitably lead to much greater volumes of staircasing in the later years of the plan, hence pushing up the blue line.



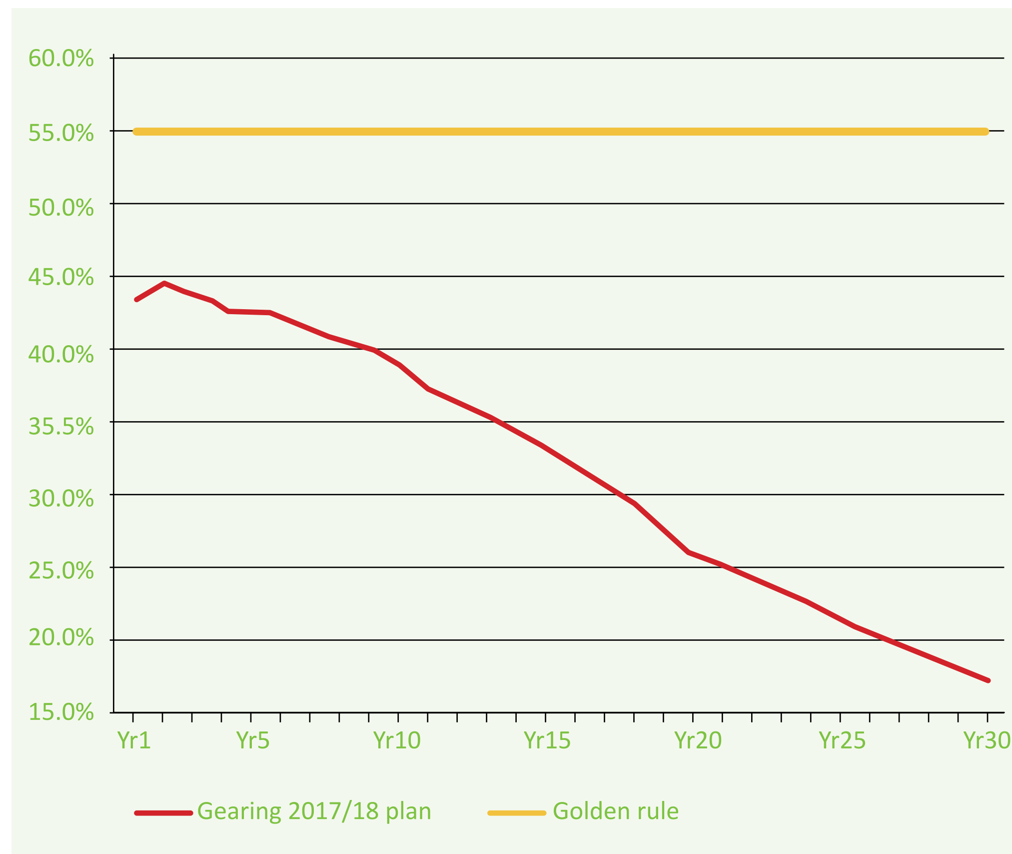


6.1.8 | Gearing

6.1.9 | The Group's other key financial covenant is gearing, shown on this graph.

The gearing ratio compares the Group's debt to the asset base (measured as housing properties at cost) and has a funding covenant maximum of 65%, and a golden rule set at 55%.

The cash flow from sales receipts (shared ownership first tranche sales and outright sales through Cube) means debt grows quite slowly and gearing steadily declines. A strong operating margin, combined with cash flows from asset management disposals means the core business generates significant levels of cash which also benefits the gearing ratio. The effective gearing ratio on new affordable rented development property is c80%, and for market rent is c100%, so additional rented development would clearly see the gearing ratio increase.



FitchRatings

A+ rating confirmed

Moody's

A2 rating confirmed

6.1.8 | Security exhaustion

6.1.10 | The Group's position in respect of unencumbered assets has long been recognised as a constraint on the business, particularly on the scale of development deliverable. The existing use value and market value subject to tenancy valuation methodologies have meant that in a low grant regime, every new build property built requires two properties of security in order to access the debt required. In addition, all work in progress requires securing, and the work in progress itself cannot be used as security (unlike project based development finance).

6.1.11 | The chart above shows that the Group currently has c1800 unencumbered properties, but this will reduce significantly during 2017/18 as the remaining £50m portion of the RBS facility will be secured in the year in advance of using that facility during 2018/19. This will use up c900 of the current pool of unencumbered properties.

6.1.12 | After the RBS facility is secured, the level of unencumbered properties then remains fairly stable for the foreseeable future, but this does remain a key business constraint.
The graph does not take into account the fully secured £60m RBC revolving facility, which provides some additional headroom. A large scale revaluation exercise is to be undertaken in the second half of 2017/18 which is hoped will enhance the security position.

6.2 | CONSOLIDATED GROUP STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March £000's	2018 Yr1	2019 Yr2	2020 Yr3	2021 Yr4	2022 Yr5	2027 Yr10	2037 Yr20	2047 Yr30
Turnover From Social Housing Lettings	£86,380.1	£86,681.8	£87,939.8	£89,636.4	£91,590.6	£107,401.3	£144,648.8	£192,562.2
Other Social Housing Turnover	£11,102.9	£22,234.5	£16,501.0	£23,290.2	£23,835.9	£31,110.9	£17,024.1	£23,410.3
Non Social Housing Lettings Turnover	£891.3	£1,678.1	£2,425.6	£2,646.8	£2,931.0	£3,455.8	£4,642.3	£6,236.4
Grant Amortisation	£5,522.0	£5,562.9	£5,636.5	£5,693.8	£5,735.7	£5,962.4	£6,157.5	£6,781.2
Total Turnover	**£103,896.3**	**£116,157.3**	**£112,503.0**	**£121,267.3**	**£124,093.2**	**£147,930.4**	**£172,472.8**	**£228,990.2**
Operating Costs Social Housing	-£63,488.6	-£64,119.2	-£65,558.5	-£65,262.3	-£66,836.8	-£80,625.8	-£105,134.0	-£144,000.2
Other Social Housing Cost of Sales	-£8,010.5	-£18,196.4	-£12,985.6	-£21,444.5	-£20,654.8	-£27,085.4	-£11,910.4	-£16,800.8
Non Social Housing Lettings Expenditure	-£414.8	-£661.8	-£880.9	-£954.0	-£1,047.3	-£1,227.4	-£1,637.5	-£2,136.7
Total Operating Expenditure	**£71,913.9**	**£82,977.4**	**£79,425.1**	**£87,660.8**	**£88,538.9**	**£108,938.7**	**£118,681.9**	**£162,937.7**
Operating Surplus	**£31,982.4**	**£33,179.9**	**£33,077.9**	**£33,606.5**	**£35,554.3**	**£38,991.7**	**£53,790.9**	**£66,937.5**
Surplus on Fixed Asset Disposals	£2,786.0	£2,259.3	£2,419.1	£2,564.4	£2,712.6	£6,661.1	£19,476.5	£34,964.6
Interest Receivable	£211.9	£419.6	£1,100.3	£1,020.5	£1,004.5	£894.9	£1,163.5	£1,595.6
Interest Payable	-£22,639.1	-£23,125.6	-£23,323.8	-£23,823.8	-£24,506.7	-£27,135.9	-£27,031.0	-£25,832.6
Surplus before tax	**£12,341.2**	**£12,733.1**	**£13,273.4**	**£13,367.6**	**£14,764.6**	**£19,396.7**	**£47,400.0**	**£76,770.2**
Taxation	-£125.4	-£280.0	-£317.2	-£265.9	-£282.4	-£337.7	-£270.4	-£369.0
Surplus after Tax	**£12,215.8**	**£12,453.1**	**£12,956.2**	**£13,101.7**	**£14,482.2**	**£19,059.1**	**£47,129.6**	**£76,401.2**

6.2.1 | Other social housing turnover includes sales income from first tranche sales of shared ownership properties and also outright sales income in Cube. The costs relating to these sales are shown in the line headed 'other social housing cost of sales'.

6.2.2 | Non social housing lettings turnover is rent from market rent properties in Cube.

6.2.3 | Surplus on fixed asset disposals is the profit generated on staircasings, Right to Buy sales and asset management disposals.

6.2.4 | Interest payable is shown net of capitalised interest.

6.3 | CONSOLIDATED GROUP CASH FLOW

Year ended 31 March £000's	2018 Yr1	2019 Yr2	2020 Yr3	2021 Yr4	2022 Yr5	2027 Yr10	2037 Yr20	2047 Yr30
Total Receipts	£97,739.8	£108,132.6	£103,972.2	£112,232.4	£116,144.7	£139,478.7	£163,174.4	£218,245.9
Total Payments	-£41,150.8	-£44,804.0	-£44,600.4	-£44,687.2	-£50,187.1	-£54,911.4	-£52,245.9	-£72,178.2
Cash Paid to Employees	-£21,372.2	-£20,821.0	-£20,963.4	-£21,586.5	-£22,342.1	-£26,535.4	-£37,430.7	-£51,935.3
Net cash generated from operating activities	**£35,216.7**	**£42,507.5**	**£38,408.4**	**£45,958.6**	**£43,615.6**	**£58,032.0**	**£73,497.8**	**£94,132.4**
Provisions for Tax	-£125.4	-£280.0	-£317.2	-£265.9	-£282.4	-£337.7	-£270.4	-£369.0
Purchase of tangible fixed assets	-£47,259.1	-£48,598.1	-£34,423.7	-£27,542.5	-£43,543.2	-£53,752.5	-£72,152.9	-£108,345.4
Proceeds from sale of tangible fixed assets	£10,156.0	£7,104.3	£7,264.1	£7,409.4	£7,557.6	£14,307.0	£35,611.6	£53,270.5
Grants received	£7,120.1	£6,282.9	£6,675.4	£3,588.5	£4,230.4	£5,024.4	£7,087.4	£9,997.5
Interest received	£211.9	£419.6	£1,100.3	£1,020.5	£1,004.5	£894.9	£1,163.5	£1,595.6
Total Cash flow from investing activities	**-£29,771.1**	**-£34,791.4**	**-£19,383.9**	**-£15,524.1**	**-£30,750.8**	**-£33,526.2**	**-£28,290.2**	**-£43,481.7**
Interest paid	-£22,974.5	-£24,206.1	-£25,147.9	-£25,856.5	-£26,658.3	-£29,638.6	-£29,797.7	-£29,858.4
New loan drawdowns	£0	£56,000.0	£0	£0	£7,780.7	£22,043.0	£14,284.3	£2,639.4
Repayment of borrowings	-£4,883.4	-£9,992.6	-£10,063.1	-£10,127.5	-£11,595.1	-£16,103.8	-£28,852.4	-£22,366.3
Total Cash flow from financing activities	**-£27,857.9**	**£21,801.3**	**-£35,211.0**	**-£35,984.0**	**-£30,472.8**	**-£23,699.4**	**-£44,365.8**	**-£49,585.3**
Opening Cash	**£55,158.4**	**£32,620.8**	**£61,858.2**	**£45,354.4**	**£39,539.1**	**£23,433.2**	**£28,564.9**	**£34,820.5**
Cash flow in year	-£22,537.7	£29,237.4	-£16,503.7	-£5,815.4	-£17,890.4	£468.7	£571.3	£696.4
Closing Cash	**£32,620.8**	**£61,858.2**	**£45,354.4**	**£39,539.1**	**£21,648.6**	**£23,901.9**	**£29.136.2**	**£35,516.9**

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

6.3.2 | Total payments includes the cash costs incurred on construction of outright sale properties and 35% of the costs of developing Shared Ownership homes. Note that staffing costs are shown on a separate line 'cash paid to employees'.

6.3.3 | Purchase of tangible fixed assets includes construction of rented homes, development of the unsold proportion of shared ownership properties (65%), capitalised major repairs (component replacements) and IT capital expenditure.

6.3.4 | Proceeds from sale of tangible fixed assets include staircasing, Right to Buy and asset management disposal receipts.

6.3.5 | New loan drawdowns in 2018/19 include the £50m drawdown of the remaining RBS facility and a £6m drawdown of a new facility to part fund private rented homes constructed by Cube. In subsequent years the loans drawn are from loan facilities not yet in place.

6.3.6 | Loan repayments become quite substantial from 2018/19 onwards with the £10m figure shown including £8.1m of amortising payments made on the Santander, Barclays and Lloyds facilities. These facilities, plus the RBS facility, all agreed in 2007, are all fully repaid by 2047. The commencement of amortisation repayment on these facilities does generate an increased reliance on the core business to generate the cash needed to make the required repayments.

6.3.7 | The minimum cash balance increases from the initial £20m by an indexation factor which is linked to the costs of construction, which is the primary driver of liquidity risk.

6.4 | CONSOLIDATED STATEMENT OF FINANCIAL POSITION (overleaf)

6.4.1 | Housing properties at cost includes work in progress on social and affordable rented schemes.

6.4.2 | Other tangible fixed assets include primarily the Group's office accommodation, most notably the existing Southern Gate head office and the newly acquired office at No.1 Christie Fields.

6.4.3 | Fixed asset investments include investment properties owned by GPHA and market rent properties owned by Cube.

6.4.4 | Stock represents unsold shared ownership and outright sales properties as well as work in progress on such properties.

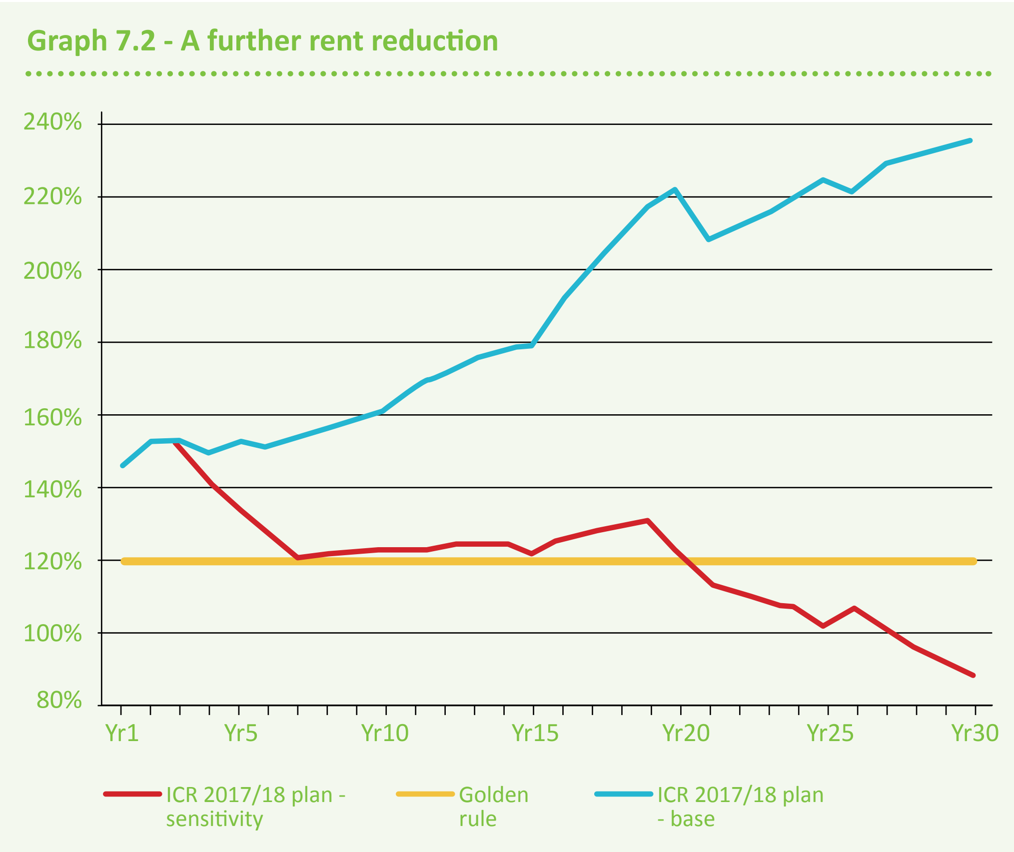
6.4.5 | Other long term creditors include any RCGF balances.

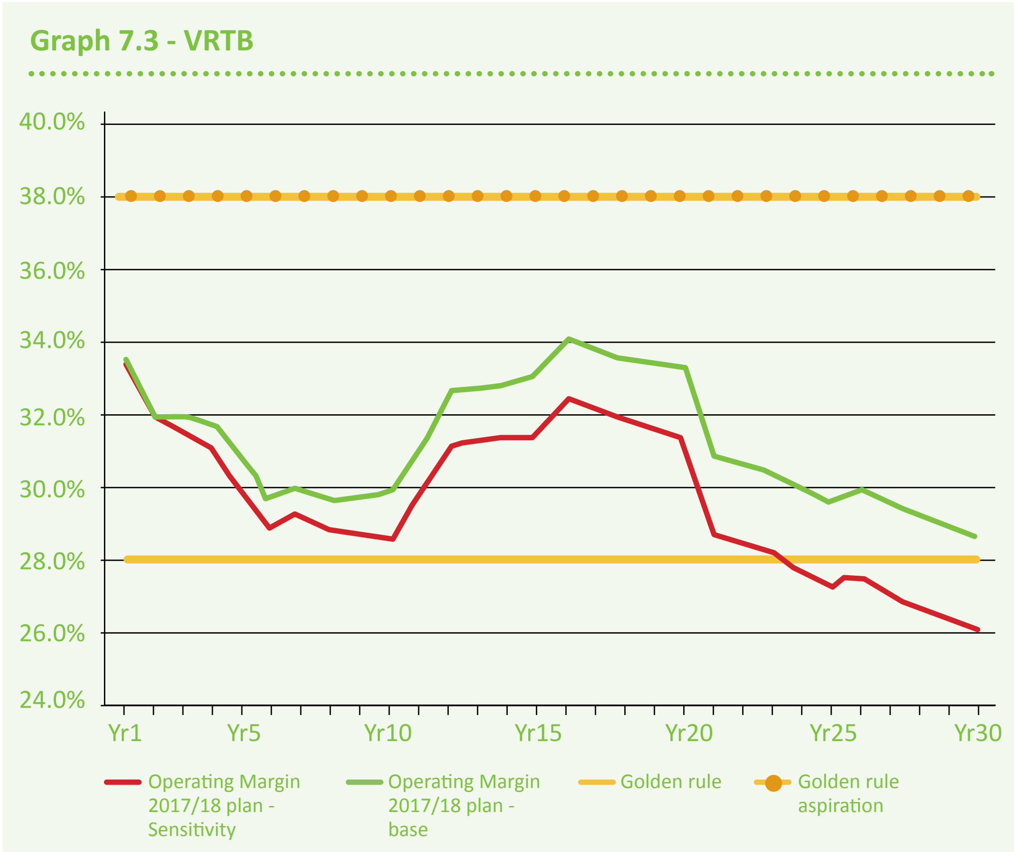
6.4 | CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 March £000's	2018 Yr1	2019 Yr2	2020 Yr3	2021 Yr4	2022 Yr5	2027 Yr10	2037 Yr20	2047 Yr30
Housing Properties at Cost	£1,215,955.4	£1,250,510.0	£1,283,195.3	£1,307,962.8	£1,352,060.5	£1,580,134.7	£2,088,360.4	£2,846,936.7
Other Tangible Fixed Assets	£12,582.1	£13,402.1	£14,240.6	£15,095.8	£15,273.1	£15,627.7	£16,446.9	£16,288.4
Less cumulative depreciation	-£166,042.1	-£183,235.5	-£200,968.3	-£218,740.1	-£236,429.4	-£337,935.1	-£559,727.0	-£773,564.5
Fixed asset investments	£55,476.6	£65,906.7	£63,988.2	£62,468.5	£58,793.6	£54,374.9	£53,374.3	£49,341.3
Investments in joint ventures	£10.0	£10.0	£10.0	£10.0	£10.0	£10.0	£10.0	£0.0
Investment in associates	£15.0	£15.0	£15.0	£15.0	£15.0	£0	£0	£0.0
Total Fixed Assets	**£1,117,997.1**	**£1,146,608.3**	**£1,160,480.8**	**£1,166,812.0**	**£1,189,722.8**	**£1,312,212.1**	**£1,596,831.6**	**£2,139,001.8**
Stock	£14,839.7	£14,265.3	£18,793.8	£17,275.6	£20,915.9	£19,006.2	£17,306.0	£25,902.4
Trade and other debtors	£8,731.8	£10,145.1	£11,537.4	£12,907.7	£13,112.7	£14,179.2	£16,542.4	£19,268.2
Cash and cash equivalents	£32,620.8	£61,858.2	£45,354.4	£39,539.1	£21,648.6	£23,901.9	£29,136.2	£35,516.9
Total Current Assets	**£56,192.3**	**£86,268.6**	**£75,685.7**	**£69,722.4**	**£55,677.3**	**£57,087.3**	**£62,984.7**	**£80,687.5**
Less - Creditors - due within one year	-£39,170.1	-£39,809.8	-£40,435.7	-£40,987.8	-£41,518.3	-£43,451.5	-£47,173.7	-£49,392.9
Net current assets/liabilities	**£17,022.1**	**£46,458.8**	**£35,250.0**	**£28,734.6**	**£14,159.0**	**£13,635.8**	**£15,810.9**	**£31,294.6**
Total assets less current liabilities	**£1,135,019.2**	**£1,193,067.1**	**£1,195,730.7**	**£1,195,546.7**	**£1,203,881.8**	**£1,325,847.9**	**£1,612,642.6**	**£2,170,296.5**
Outstanding Loans	-£531,686.1	-£578,092.5	-£568,324.3	-£558,491.8	-£554,972.3	-£599,901.4	-£560,015.3	-£487,951.3
Deferred capital grant	-£464,684.0	-£464,616.4	-£464,867.6	-£460,909.6	-£457,551.7	-£441,124.9	-£405,281.2	-£381,794.2
Pension provisions	-£1,182.0	-£1,182.0	-£1,182.0	-£1,182.0	-£1,182.0	-£1,182.0	-£1,182.0	-£1,182.0
Fair value provision on swaps	-£46,596.6	-£43,490.1	-£40,383.7	-£37,277.3	-£34,170.8	-£18,638.6	£0	£0
Other long term creditors	-£26,759.2	-£26,015.3	-£25,239.6	-£25,744.4	-£26,474.7	-£32,893.8	-£70,336.4	-£115,497.2
Total net assets	**£64,111.3**	**£79,670.8**	**£95,733.5**	**£111,941.6**	**£129,530.3**	**£232,107.1**	**£575,827.7**	**£1,183,871.8**
Income and expenditure reserve	£108,523.6	£120,976.7	£133,932.9	£147,034.6	£161,516.8	£248,561.5	£573,643.4	£1,181,687.6
Cash flow hedge reserve	-£46,596.6	-£43,490.1	-£40,383.7	-£37,277.3	-£34,170.8	-£18,638.6	£0	£0
Revaluation reserve	£2,023.0	£2,023.0	£2,023.0	£2,023.0	£2,023.0	£2,023.0	£2,023.0	£2,023.0
Restricted reserve	£161.2	£161.2	£161.2	£161.2	£161.2	£161.2	£161.2	£161.2
Total reserves	**£64,111.3**	**£79,670.8**	**£95,733.5**	**£111,941.6**	**£129,530.3**	**£232,107.1**	**£575,827.7**	**£1,183,871.8**

Sensitivity Analysis

7.1 | A separate stress testing appendix has been produced to supplement this business plan document, and this appendix addresses many of the sensitivity analyses historically included in this section of the plan. Hence this section focuses solely on a small number of specific scenarios identified earlier in the plan.





Sensitivity Analysis

7.2 | The first sensitivity is to assess the impact of a second four-year rent reduction of 1% per annum commencing in April 2020 (year four of the plan). This causes an immediate reduction in interest cover as shown in the graph 7.2 with our golden rule breached in year five and by year seven we are very close to breaching our tightest interest cover covenant. Surplus drops to c£10m and remains at that level for over a decade. Operating margin drops to c25% in the same timeframe, the previously steadily reducing gearing ratio flattens out at c45% and security is exhausted in year nine. A further rent reduction would have very severe consequences indeed for Great Places.

7.3 | As explained at 5.6.1 earlier, the plan does not include any disposals under the Voluntary Right to Buy scheme (VRTB) due to the uncertainty around timing and eligibility, which in turn means any estimate of potential volumes is difficult.

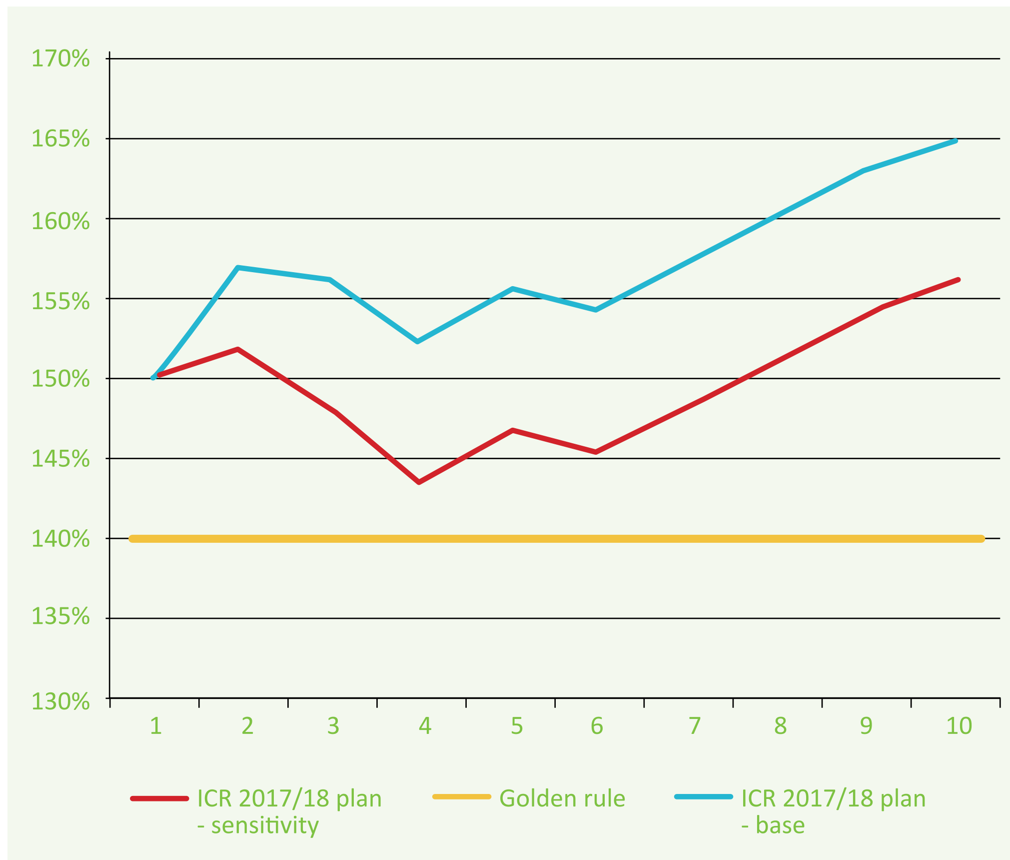
This sensitivity assumes 100 VTRB sales in 2018/19, 2019/20 and 2020/21, and then 30 sales every year thereafter. Each sale generates £80k of sales income and £24k of surplus.

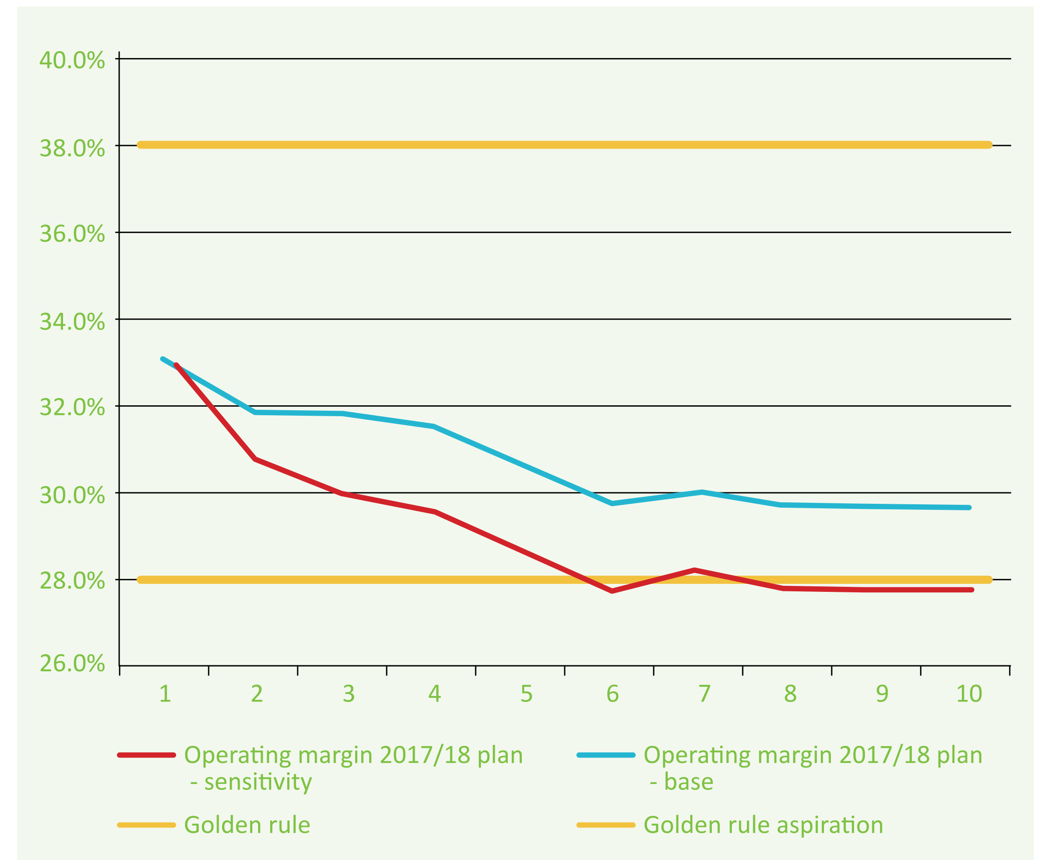
The impact of VRTB is to generate quite significant levels of cash, so debt is lower, gearing reduces by 2-3% and interest cover improves slightly (by 4% by year 10). The unencumbered asset position initially deteriorates by c250 properties due to the impact of the disposals requiring security release, but then improves by over 350 properties as the reduced debt requirement feeds through. Operating margin deteriorates steadily through the life of the plan as the group loses rented stock which typically generates a margin of c40% – the impact is shown in graph 7.3 on page 28.

Sensitivity Analysis

7.4 | The Building Greatness programme is the Group's response to the four year rent reduction and is critical to maintaining financial strength and resilience. This sensitivity considers the impact of failure to deliver future building greatness savings (savings already delivered in 2016/17, plus those included in the 2017/18 budget are assumed to be sustained, and as these comprise around a third of the total savings required, it does materially mitigate the impact).

The two graphs demonstrate the significant impact in the short term on interest cover and operating margin of future non delivery of Building Greatness savings. The impact on interest cover is a reduction of c10% by year 4 of the plan – so a significant and relatively immediate impact, which leaves very little headroom over our 140% golden rule. Operating margin also drops swiftly, to the extent that the 28% minimum target is breached in year 6 of the plan. These demonstrate the importance of the Building Greatness programme, and the impact would be far worse had a third of the Building Greatness savings not already been achieved.





Sensitivity analysis

7.5 | The fourth sensitivity looks at the Group's capacity to expand the Affordable rent development programme. The scenario modelled reflects the construction of 150 AR units in each of the three years 2018/19, 2019/20, 2020/21 only. The properties are assumed to cost £130k each, take 12 months to build and receive grant at a rate of 30%.

The impact on the Group's interest cover is a marginal 3-4% deterioration, surplus is virtually unchanged, gearing worsens by only 1-2% and operating margin improves by close to 1%. So in respect of these measures, the Group has capacity to undertake the extra development. However, the graph below shows the far more material impact on the unencumbered assets of the Group. Development of 450 additional affordable rented homes sees the pool of unencumbered assets reduce by c380 properties – 1.8 units being required to secure every new home built. In the absence of any other changes, this is clearly not sustainable in the longer term, but it does show there is some capacity to accommodate an additional affordable rent programme in the final three years of the HCA 2016-2021 SOAHP regime.

7.6 | The final sensitivity is provided to demonstrate that if the Group were to cease all future, uncommitted development activity, it would be able to repay its debts. The chart below actually shows that debt could be repaid more quickly than the contractual amortisation and bullet repayment profiles require, with net debt reaching zero in year 23 of the plan.