Performance Update

For the period ending
30 September 2016

Great homes. Great communities. Great people.

great places
HOUSING GROUP

This Performance Update is aimed at ensuring our investors and other stakeholders receive regular, timely information regarding the current and projected performance of the Group. We will publish these reports on a quarterly basis and aim to produce them within one month of the relevant quarter end.

Contents

Financial performance

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Turnover for the first half of the year was £56m and net surplus was £7.7m. We are continuing to see strong Shared Ownership sales performance with volumes on target, values up slightly and first tranche shares at over 45%, compared to 35% budgeted. Operating costs are c£1m better than budget and net interest costs £0.5m better than budget.

£M	6 month Actual	6 month Budget
Rental turnover	£42.4	£42.5
Operating costs	£26.6	£27.5
Operating surplus	**£15.8**	**£15.0**
First tranche sales surplus	£0.9	£0.7
Outright sales surplus	£0.8	£0.5
Other sales surplus	£0.9	£0.9
Net interest costs	£10.7	£11.1
Surplus	**£7.7**	**£6.0**

We are confident that the budget surplus for the year of £11.1m will be exceeded.

All financial covenants were comfortably met at the end of September. Our Fitch credit rating was re-affirmed in November 2016 as 'A+' with a stable outlook. Our Moodys rating is 'A2' with a negative outlook. We continue to be assessed as V1/G1 by the Homes and Communities Agency. The 2016 Great Places Business plan is available on the website. Falling interest rates throughout the first half of the year pushed up mark to market exposure on the Group's free standing derivatives to £61.5m at 30 September, with £39m of cash collateral posted to meet counterparties' security requirements.

New debt drawn in the quarter was £6m with £10m drawn for the year to date.

Operational performance

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Seven of our eleven Critical Success Factors (CSFs) were being achieved at the half year, with an expectation that ten of them will definitely be achieved by the end of the year and one (to achieve stock condition surveys on 91% of our homes) where we have plans in place to achieve it, but there is some uncertainty at present that this can be delivered.

Amongst the CSFs, overall satisfaction is 86.7% and repairs satisfaction is 92.0%, both being very close to target. Current arrears (3.6%) and relet times (19.9 days) continue to show excellent performance, both are well ahead of the phased target and reflect continuing strong demand.

We expect to complete 498 new development handovers in the year with the half year delivery of 222 units being in line with expectations. We achieved 123 first tranche sales and 25 outright sales (through our commercial subsidiary Cube) in the first six months of the year – well ahead of budget.

Corporate news

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We have slightly delayed the publication of this document as there were two pieces of corporate news that were not in the public domain until very recently.

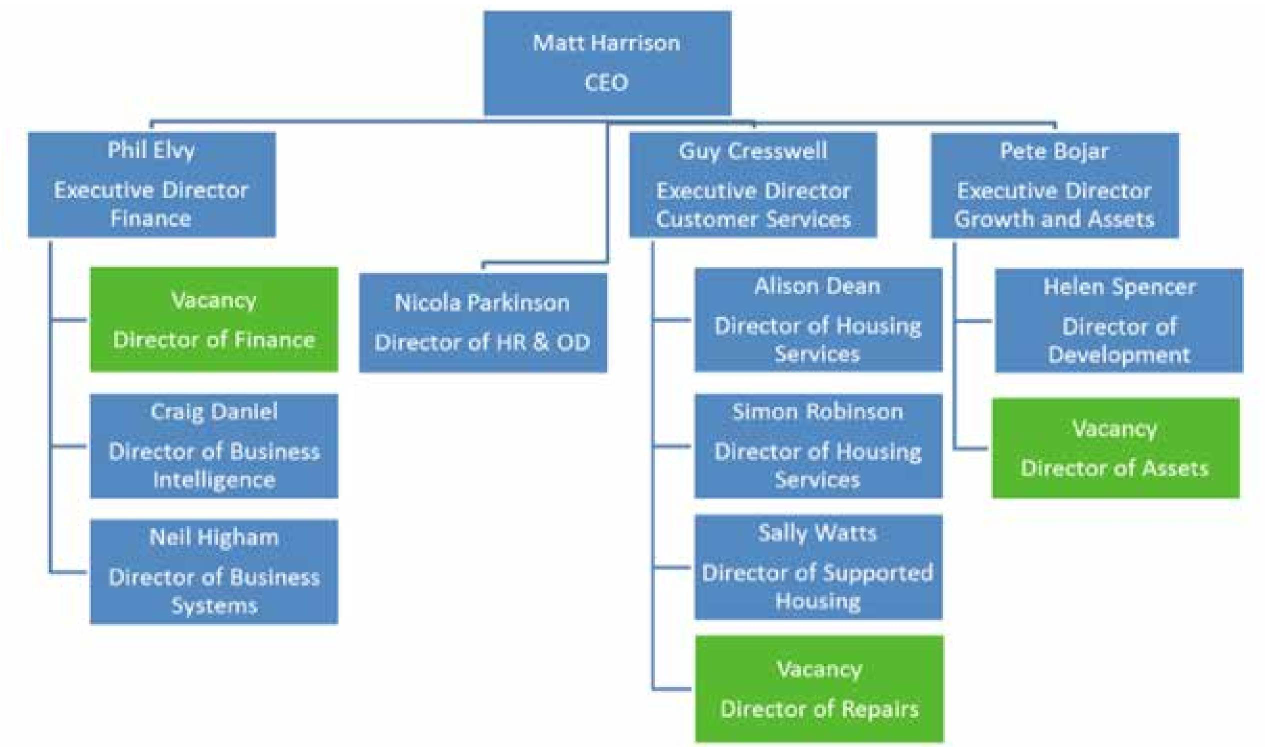
Executive Team

A restructure of the Executive Team is largely complete – the final structure is shown in the chart below.

The fundamental change is that the portfolios of each existing Director will be broader, with the roles being retitled as Executive Directors and a strengthened team of Directors reporting in to them.

This means that the current vacancy of Director of Organisational Development will not be replaced and that when Dave Wood (Interim Director of Repairs and Asset Management) completes his assignment, he will not be directly replaced.

The new structure will bring together the different parts of the business much more clearly, especially around responsibility and accountability for customer services, growth and management of assets. It will support the business in an uncertain environment and help us allocate resources more effectively.



The three vacant posts are currently being recruited.

New head office

We have acquired a self contained 36,000 sq ft office close to the current Manchester base. This will allow over 300 staff at our Salford and Manchester offices to be co-located and will generate operating cost savings of at least £250k per annum. We expect to complete the relocation by the summer of 2017.

Outlook

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Brexit continues to dominate our outlook, with the only certainty being that we face a period of prolonged uncertainty. The Group is carefully watching all aspects of its business, most notably property sales performance, for any signs of weakness in the market, and in particular a slowdown in sales volumes or a fall in values. We have not seen anything material yet. We will also ensure we remain alert to changes in the political environment, notably around the commitment to home ownership and the devolution agenda.

The Group remains well hedged against interest rate risk with over 80% of debt at fixed rates of interest, whilst also taking some benefit from lower rates charged on the variable element of our debt portfolio. However, with a high proportion of hedging by way of stand-alone interest rate swaps, collateral requirements for the increased mark to market exposure has grown further, as referenced above.

The Group's medium term strategic response to the June 2015 rent reduction – a programme of activities under the banner 'Building Greatness' – continues to be driven forward. The objective of this programme is to generate ongoing operational efficiencies of £10m per annum within the next five years, through a broad range of initiatives including:

- A series of major IT investments in areas such as mobile working, customer access, our contact centres and our websites. We have been trialling the first stage of the mobile working technology in the last few weeks with excellent feedback from front line staff.
- Our new distribution centre (DC) is generating greater than expected benefits in the responsive repairs service, including savings on materials costs, waste disposal costs, reduced travelling time and fuel costs, improved labour productivity, increased first time fix rates and rising customer satisfaction.
- Continuing procurement efficiencies.
- A cultural change programme.
- Business Transformational review that will lead to the redesign of processes across all areas of the Group, to drive out waste, duplication and inefficiency, whilst also enhancing customer service.

We remain confident that 'Building Greatness' will deliver the £10m per annum of cost savings that are needed to offset the impact of the rent reduction.

Feedback

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We welcome feedback on this performance update.

Please contact Phil Elvy, Executive Director of Finance, on **0161 447 5028** or **phil.elvy@greatplaces.org.uk.**