Homes &
Communities
Agency
The social housing regulator

Viability Report

Great Places Housing Group Limited L4465
Great Places Housing Association Limited L1230
Plumlife Limited SL3224

January 2014

PURPOSE AND INTRODUCTION

This report is an assessment of the financial viability of the registered provider and of its compliance with the financial viability element of the Governance and Financial Viability Standard.

The report is based on our assessment of the Group's latest Business Plan and supporting Financial Forecast Return approved by the board on 11th April 2013, responses to quarterly surveys, annual accounts and audit management letter for the period 2012/13 and other enquiries we have made in coming to our judgement.

Overview

Great Places Housing Group Limited (GPHG/the Group) is based in the North West and owned or managed 16,565 properties at 31 March 2013. The Group comprises a non-asset owning, non-charitable, parent with two registered subsidiaries:

- Great Places Housing Association (GPHA), an Industrial and Provident Society with charitable status; and
- Plumlife Homes Limited (Plumlife), an Industrial and Provident Society not having charitable status.

GPHA has two active unregistered subsidiaries: Cube Great Places (Cube) and Terra Nova Developments Limited (Terra Nova). It is also involved in a number of joint ventures which relate to core housing management activity and are consistent with the Group strategy. The Group receives, but isn't reliant upon, gift aid from these organisations.

Borrowing is at group level with a combination of capital market bonds and bank loans with ready access to significant amounts of long and short term borrowing. At 30 September 2013 the Group had facilities of £580.1m of which £205.0m was still undrawn with a further £50m retained bond in place. Growth through development continues to be an important element of the Group's business strategy and is supported by increasing surpluses as well as increased borrowing. The Group has achieved a good track record of delivering strategic priorities despite the difficult economy.

The latest business plan incorporates the full impact of the Affordable Rent programme (1,281 units over the next five years) and the Group has secured adequate funding to deliver this along with a significant amount of uncommitted development. It has also taken account of the proposed welfare benefit reforms and reflects the impact of continuing cuts to Supporting People income streams.

JUDGEMENT

Strapline

The provider meets the requirements on viability set out in the Governance and Financial Viability standard and has the capacity to mitigate its exposures effectively.

This judgement is unchanged from the grading of the previous Viability Report published in March 2013.

The Group meets the expectations of the Regulatory Framework as evidenced in the following areas:

- The business plan is based on reasonable assumptions and sensitivity testing has demonstrated that the plan is robust
- It is not reliant on surpluses from property sales to generate a net surplus or to fund the business plan
- It meets and forecasts to meet loan covenants comfortably and has sufficient funds for a period of 42 months
- It meets rent influencing expectations
- It meets the expectations of the Decent Homes Standard
- It has provided audited accounts to 31 March 2013 and an audit management letter, neither of which highlight any significant concerns

Business Plan

The Group's business planning is sound and based on prudent assumptions. Future surpluses are expected to increase despite significant adverse movements in key assumptions since the previous year, most notably increased levels of bad debts and a reduction on the RPI+1/2% assumption for future rent increases. The plan includes some efficiency savings but the Group's approach to target setting over a number of years has been realistic, incorporating incremental improvements and steady growth through development year on year, resulting in an excellent track record of delivery. Various key assumptions have been stress-tested and taken together demonstrate that the Group has the financial strength to withstand most realistic adverse variances. EBITDA MRI, a measure which assesses the ability of a provider to meet its interest payments from its operating cash flows, is in excess of 100% throughout the plan.

Financial viability is most clearly demonstrated by the ongoing improvement in the key ratios considered by funders. Interest cover, as calculated by the lender and adjusted for component accounting (appendix 2), is between 140% and 180% by year 7 where it remains subject to fluctuations resulting from major repairs expenditure identified in the stock condition survey in year 6 and then in years 26-30. This is well above the internal target of 120% which in turn, is higher than the minimum level of 105% stipulated in the covenant. The plan assumes interest rates rise quite sharply but this is partly offset by the hedging of a significant proportion of the Group's current debt. There is currently a £21.5m mark to market exposure although this is expected to reduce during the remainder of the term of the derivative.

The Group's gearing ratio as assessed in the main loan facilities is calculated as total indebtedness as a % of housing properties at cost (less work in progress) and is well below the maximum 65% allowed by loan covenants (appendix 3). Debt to Revenue ratios are relatively high due to the size of the development programme but the provider has a good track record and its programme is carefully managed.

The Group has a relatively small pipeline of shared ownership properties currently unsold or on-site (18 units at 30 September), having achieved over 70 sales in 2012/13; it assumes that 48 first tranche sales will be made in 2013/14 and there is no longer an assumption that units may need to be converted to a Rent to Homebuy product. Following a number of repossessions in recent years, a specific assumption around repossession in years 1-3 of the plan has been included; in the first three years of the forecast, 20 repossessions have been assumed, each generating a £40k loss. The Group will also deliver a small scale outright sales programme through Cube, with a programme of around 25 outright sales per annum.

In response to Welfare Reform, rent collection costs in the business plan have been trebled and bad debts increased from around 1% in previous years to 4% over the next 4 years. The Group expect to out-perform this but the provision has been made to demonstrate that the plan has sufficient financial strength to absorb the impact of what is considered the worst scenario. The Group also has a well resourced Financial Inclusion team to assist tenants to maximise benefits and minimise fuel costs.

The proportion of Group income relating to Supporting People (SP) continues to fall as a result of ongoing funding cuts. The plan includes a £250k provision in the budget year (2013/4) to provide for further potential cuts followed by a reduction in income of 20% in 2014/15 with further reductions of 10% in the three following years. The impact of these assumptions is that SP income will have reduced by 60% in real terms with costs remaining unchanged. Whilst the plan prudently reflects this situation, the Group is currently investigating various strategic and operational responses to the situation in the long term.

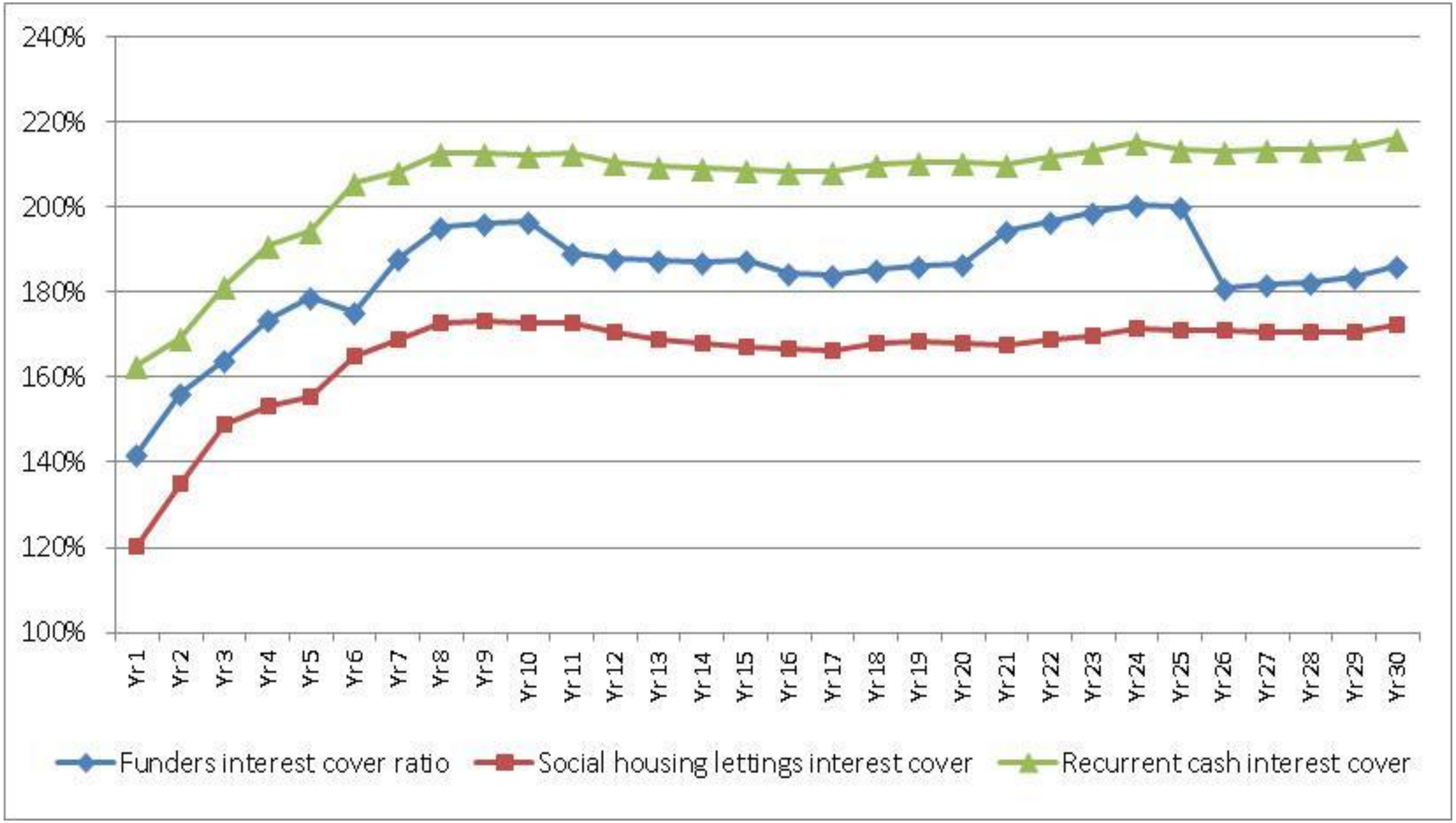
Future Financial Regulatory Engagement

We will continue to receive the standard regulatory returns, quarterly surveys and visit to meet with the management team and board as appropriate.

Appendix 1 – Financial Profile

£000s **Financial Highlights**	Actual 2011	Actual 2012	Actual 2013	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2023	Forecast 2033	Forecast 2043
Income and Expenditure											
Turnover	66,536	71,886	79,657	84,362	88,999	93,772	99,562	106,768	130,374	191,890	290,542
Operating Surplus	15,173	17,460	22,926	26,223	29,002	30,796	31,984	32,679	44,539	72,597	111,210
Interest Payable	(11,342)	(11,026)	(16,182)	(19,122)	(20,120)	(20,939)	(21,033)	(21,189)	(25,492)	(42,722)	(63,619)
Surplus for the Year	5,439	7,160	7,533	8,392	10,568	11,291	12,607	14,222	22,039	35,400	57,354
Sales (£000)											
Surplus on Fixed Asset Disposals	1,618	554	685	1,151	1,393	1,076	1,049	1,155	2,364	4,950	9,263
First Tranche Sales Income	2,328	2,451	4,341	3,067	2,613	2,338	2,623	2,718	3,202	4,418	6,095
First Tranche Sales Surplus	0	288	(277)	293	250	70	195	201	237	327	451
Market Sales Income	297	0	184	2,021	1,507	2,136	2,468	5,237	4,156	0	0
Market Sales Surplus	0	0	31	275	126	184	230	514	491	0	0
Balance Sheet (£000)											
Housing Properties	848,439	923,294	971,470	1,070,887	1,144,343	1,210,704	1,268,874	1,328,341	1,631,597	2,455,892	3,637,754
Grant	474,370	502,638	506,800	531,006	543,902	556,954	570,031	582,298	641,567	788,627	986,047
Debt	301,750	331,684	379,047	432,577	463,728	499,499	523,778	584,997	615,782	850,504	1,140,420
Reserves	81,394	49,575	56,879	67,872	78,770	90,144	102,906	117,466	215,802	507,326	990,484
Financial Ratios											
Balance Sheet Capacity											
EBITDA MRI interest cover excl. FA sales	54%	143%	126%	125%	139%	147%	156%	166%	181%	158%	140%
Operating Margin MRI	1%	12%	18%	20%	23%	24%	24%	24%	27%	25%	20%
Effective Interest Rate	4%	4%	5%	5%	5%	5%	4%	4%	4%	5%	6%
Gearing	62.1%	62.9%	67.2%	72.2%	74.5%	77.2%	77.8%	83.6%	71.8%	65.6%	57.7%
Net Debt to EBITDA MRI	5.1	4.3	15.5	15.0	14.3	14.3	14.1	13.5	12.0	11.6	11.8
Net Debt to Turnover	4.6	4.7	4.3	4.6	4.9	5.0	5.0	4.9	4.6	4.4	3.9
Cost Structure/Efficiency £											
Management Cost p/u	1,350	1,148	1,464	1,521	1,495	1,501	1,517	1,528	1,694	2,015	
Routine/Planned Maintenance Cost p/u	527	647	542	457	460	459	495	506	606	837	
Major Repairs Cost p/u	435	807	764	792	761	762	806	808	816	1,507	
Arrears	10.3%	9.0%	8.0%	9.0%	10.3%	11.5%	11.1%	10.7%	9.3%	7.1%	5.4%
Voids	1.4%	2.3%	2.3%	1.9%	1.8%	1.8%	1.7%	1.7%	1.6%	1.4%	1.3%

Appendix 2 – Interest Cover Ratios



Appendix 3 – Gearing