Homes &
Communities
Agency
The social housing regulator

Viability Report

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

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PURPOSE AND INTRODUCTION

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

This report is based on our assessment of the group's latest Business Plan and supporting Financial Forecast Return approved by the board in April 2014, responses to quarterly surveys, annual accounts and audit management letter for the period 2013/14 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 16,785 properties at 31 March 2014. The Group comprises a non-asset owning, non-charitable, parent with two registered subsidiaries:

- Great Places Housing Association (GPHA), a Community Benefit Society with charitable status (15,063 units); and
- Plumlife Homes Limited (Plumlife), a Community Benefit Society not having charitable status (1,722 units).

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. The Group has a 5% interest in Inspiral Oldham Holding Company, whose subsidiary Inspiral Oldham Limited has a 25 year PFI contract with Inspiral Oldham Ltd. The Group provides a housing management service to Inspiral Oldham PFI which is anticipated to add £600k+ per year to turnover for 23 years.

Borrowing is mainly 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 2014 the Group had facilities of £610.5m of which £165.9m was still undrawn. 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 a good track record of delivering strategic priorities despite the difficult economy.

The latest business plan incorporates the full impact of the successful 2015-17 AGHP bid (£17m grant for 922 units) plus the balance of the 2011-15 AHP programme. The Group has secured adequate funding to deliver this along with a significant amount of uncommitted development (£160m net uncommitted spend out of a total £253m forecast spend over the next 5 years). It has also taken account of the proposed welfare benefit reforms and reflected 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 January 2014.

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

- It meets and forecasts to meet loan covenants comfortably
- It has sufficient funds for the next four years of operation
- 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 rent influencing expectations
- It meets the expectations of the Decent Homes Standard
- It has provided audited accounts to 31 March 2014 and an audit management letter, neither of which highlight any significant concerns

The operating environment in which housing associations are working is increasingly difficult. The housing and financial markets continue to present significant exposures, and the introduction of the Affordable Rent product creates additional challenges as well as opportunities. In addition reductions in government expenditure, including the funding of Supporting People contracts, and welfare reform continue to impact on associations.

The Group has a strong and stable business plan, with limited exposure to movements in interest rates as an average of 75% of borrowings are fixed. In recent years the Group has run a successful programme of shared ownership sales and is forecast to continue doing so. The Group is diversifying and plans to complete an uncommitted programme of 306 market rent units between 2015 and 2020 in addition to the 101 market rent units already owned and it plans to deliver a largely uncommitted outright sales programme of 218 units to be completed and sold between 2016 and 2024.

Business Plan

The business plan shows a healthy financial position for the Group. The Group recorded a surplus of £9.2m in 2013/14, which was £0.8m more than had been forecast in the prior year's FFR. This was due to the surpluses on sales of fixed assets being higher than anticipated. There were no other significant variances to budget.

The Group's business planning is 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 larger than usual inflation "wedge" between CPI used for rent increases and RPI used for many cost 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 a strong 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.

Financial viability is most clearly demonstrated through strong interest cover. EBITDA MRI interest cover (which the HCA uses to assess a provider's ability to meet interest payments and which eliminates the impact of different accounting treatments for works to existing properties) was 137% in 2014 and is forecast to be 139% by 2019. EBITDA MRI interest cover from social housing lettings is similarly strong:127% in 2013/14. The apparent weakening of this ratio in the forecast (see appendix 1) reflects an incorrect allocation of costs between social housing lettings costs and other social housing costs when preparing the business plan. Interest cover, as calculated by the lender and adjusted for component accounting (appendix 1) is above 160% in all years. 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 prudently assumes interest rates rise quite sharply, though the impact of this is partly offset by the hedging of a significant proportion of the Group's current debt. The group makes use of standalone derivatives in order to manage its interest rate risk. At December 2014 it reported a £41.9m mark to market exposure, collateralised with £18.7m cash and utilising an unsecured threshold of £23.8m.

The Group's gearing ratio as assessed in the main loan facilities is calculated as total indebtedness as a percentage of housing properties at cost (less work in progress) and is well below the maximum 65% allowed by loan covenants (appendix 1) with a maximum figure of 46% between 2017 and 2019 in the latest forecast. 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 number of shared ownership properties currently unsold (21 units at December 2014) having achieved over 57 sales in 2013/14; it assumes that 52 first tranche sales will be made in 2014/15 and there is no longer an assumption that units may need to be converted to a Rent to Homebuy product. The Group will also deliver a market rent programme of 306 market rent units to be completed between 2015 and 2020 and an outright sales programme of 218 units to be completed and sold between 2016 and 2024. The market rent

programme and the outright sales programme are both largely uncommitted. The Group also assumes a programme of 82 completed unit sales per year for the next 4 years through a combination of asset management sales, void sales, right to buys sales, and staircasing sales. Should the cash generated from these sales not be realised then the Group would need new funding 12 months earlier than the 48 months currently forecast. The surpluses from the above sales programmes are not required to meet covenants.

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 5 years. Arrears are also forecast to nearly double from £4.3m to £8.2m over the next 5 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. This is illustrated by the actual arrears performance to December 2014 being comfortably below the business plan forecast level for 2014/15. 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 on-going funding cuts. The plan includes a £150k provision in the budget year (2014/15) to provide for further potential cuts followed by a reduction in income of 15% in 2015/16 and a further 15% in 2016/17. The impact of these assumptions is that SP income will have reduced by 30% 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.

Sensitivities have been carried out including average interest rates, inflation, and flexing of the size of the future development programme under which the Group would not breach any of the covenants. A number of further sensitivities have been modelled including multivariate sensitivities which demonstrate the underlying strength of the Group's business.

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 (30 years)
Summary Profile

	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2024	Forecast 2034	Forecast 2044
Financial Highlights												
Income and Expenditure (£000)												
Turnover	59,603	65,985	79,873	85,044	87,512	96,227	101,151	106,283	112,389	145,248	228,268	354,502
Operating Surplus	13,228	16,591	22,926	25,513	28,945	30,949	33,581	34,566	36,134	52,408	85,858	124,182
Interest Payable	(11,304)	(11,002)	(16,182)	(19,218)	(20,544)	(21,878)	(23,637)	(24,727)	(25,703)	(30,995)	(46,967)	(69,005)
Surplus for the Year	5,091	7,321	7,429	9,166	10,118	10,879	12,043	12,281	12,879	24,799	45,964	68,542
Sales (£000)												
Surplus on Fixed Asset Disposals	1,498	471	685	2,773	1,555	1,581	1,730	1,890	1,791	2,858	6,554	12,865
First Tranche Sales Income	1,354	2,451	4,341	4,079	2,669	2,167	3,329	1,966	2,660	3,506	5,076	7,349
First Tranche Sales Surplus	222	288	(276)	795	439	357	547	324	220	260	376	544
Market Sales Income	423	0	187	1,344	1	4,815	3,584	3,701	3,821	4,705	0	0
Market Sales Surplus			34	122	0	474	234	232	219	368	0	0
Balance Sheet (£000)												
Housing Properties	821,715	921,785	971,522	1,033,167	1,124,740	1,191,628	1,244,120	1,286,120	1,343,743	1,678,837	2,620,345	3,852,321
Grant	451,798	500,227	506,860	517,810	533,860	539,949	547,608	554,143	564,414	621,545	768,542	940,955
Debt	291,632	333,030	381,204	412,838	469,757	520,957	547,927	568,082	634,603	708,508	989,536	1,215,594
Reserves	71,117	49,452	56,742	65,992	84,605	95,487	107,531	119,810	132,689	232,624	590,690	1,211,382
Financial Ratios												
Balance Sheet Capacity												
EBITDA MRI interest cover excl. FA sales	27%	123%	129%	137%	130%	138%	136%	141%	139%	153%	159%	139%
EBITDA MRI int. cover from social hsg lettings 1.	7%	110%	128%	127%	83%	99%	101%	103%	98%	117%	127%	111%
EBITDA MRI margin	5%	22%	28%	33%	33%	34%	34%	36%	35%	38%	38%	31%
Effective Interest Rate	4.08%	3.56%	4.56%	4.93%	4.81%	4.59%	4.66%	4.76%	4.51%	5.04%	5.56%	6.48%
Gearing	55%	60%	67%	70%	75%	81%	83%	84%	90%	83%	73%	56%
Net Debt to EBITDA MRI	87.8	22.5	15.2	13.5	15.6	15.4	15.4	14.5	14.7	12.7	11.2	11.0
Net Debt to Turnover	4.7	5.0	4.3	4.4	5.2	5.3	5.3	5.2	5.2	4.8	4.3	3.4
Cost Structure and Efficiency												
Management Cost per Unit (£) 2.	943	889	841	881	1,273	1,265	1,291	1,330	1,360	1,488	1,856	2,446
Routine/Planned Maintenance Cost per Unit (£)	724	782	610	601	502	505	521	540	562	680	1,010	1,547
Major Repairs Cost per Unit (£)	1,603	942	757	735	786	765	791	807	859	1,012	1,727	3,640
Arrears	6.81%	5.47%	8.76%	6.93%	7.98%	8.36%	8.78%	9.25%	9.77%	8.59%	6.79%	5.47%
Voids	2.06%	2.40%	2.17%	2.29%	1.95%	1.81%	1.74%	1.71%	1.71%	1.62%	1.52%	1.45%
Bad debts	0.32%	0.92%	0.83%	1.00%	1.39%	1.83%	2.47%	2.82%	3.16%	3.12%	3.19%	3.11%
Financial covenants												
Tightest I&E/cashflow covenant - limit	(Operating surplus + depn)/(interest per I&E+ interest capitalised)			105%	105%	105%	105%	105%	105%			
Tightest I&E/cashflow covenant - result				167%	167%	169%	172%	167%	164%			
Tightest Balance sheet covenant - limit	Net debt not to exceed 65% of housing properties at cost (excluding WiP)			65%	65%	65%	65%	65%	65%			
Tightest Balance sheet covenant - result				43%	43%	45%	46%	46%	46%			

1. EBITDA MRI int. cover from social hsg lettings is below 100% in 2015, 2016 and 2019 but this appears to be due to an incorrect allocation of costs between social housing lettings costs and other social housing costs. The provider generates substantial turnover from other social housing activities in the business plan but appears to have not allocated operating costs against this income when preparing the FFR based on the business plan.
2. Management costs per unit show a substantial increase between the 2014 actual figure based on the audited accounts and the 2015 forecast figure based on the business plan. As with EBITDA MRI int. cover from social hsg lettings comment above this appears to be due to an incorrect allocation of costs between social housing lettings costs and other social housing costs when preparing the FFR based on the business plan.