Viability Report

Great Places Housing Group Limited L4465
Great Places Housing Association L1230

March 2012

PURPOSE AND INTRODUCTION

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

The report is based on our assessment of the Group's last Business Plan and supporting Financial Forecast Return. It is also based on responses to quarterly surveys, annual accounts and the audit management letter for the period 2010/11 and other enquiries we have made in coming to our assessment.

Overview

Great Places Housing Group Limited (GPHG) is based in the North West and owned or managed over 16,000 properties at December 2011. The Group comprises a non-asset owning, non-charitable, parent with two 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 third tier subsidiaries: Cube Great Places (Cube) and Terra Nova Developments Limited (Terra Nova).

Borrowing is at Group level and the current syndicated loan facility is at a competitive rate of interest. At 31 December 2011 the Group had facilities of £380.4m of which £52m was undrawn. A new five-year revolving loan facility of £60m has been agreed which will take effect before the end of March 2012, along with additional short-term funding of £20m. A £10m cash buffer is always retained to protect against liquidity risk. In the longer term the Group has mandated a long-term capital market bond issue of an amount up to £200m, to be launched during the 2012/13 financial year.

The key covenants considered by funders are interest cover and gearing which the group meets comfortably throughout the plan. Projected interest cover does not fall below 140% and projected gearing remains well below the covenant requirement of 65%, reaching a peak of 45% in 2015 and falling steadily thereafter. The plan has undergone a number of sensitivity tests which demonstrate that it is robust in a range of circumstances.

The operating environment in which housing associations are working is increasingly difficult but GPHG has adapted well to it with a clear strategic direction informed by timely and responsive business planning. 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 will impact on associations.

JUDGEMENT

The Group meets the expectations set out in the Governance and Viability Standard of the Regulatory Framework in relation to financial viability.

This judgement is unchanged from the previous Viability Report published in July 2010.

The Group:

- has based its business plan on reasonable RPI and cost assumptions
- has carried out sensitivity testing to demonstrate the plan is robust
- is not reliant on surpluses from property sales to generate a net surplus or to fund the business plan
- meets and forecasts to comfortably meet loan covenants
- complies with the rent influencing regime
- meets DHS requirements with adequate provisions to ensure it continues to do so
- has sufficient financing for thirteen months with a £10m cash buffer
- has provided audited accounts to 31 March 2011 and an audit management letter, neither of which highlight any significant concerns

Business Plan

The Group has achieved a good track record of delivering strategic priorities despite the difficult economy. Growth has continued to be a fundamental element of its business strategy and is supported by increasing surpluses as well as increased borrowing. The Group is planning to develop 1,281 units as part of the Affordable Rent regime, in addition to the 500 units remaining in the AHP 2008-11 allocation pipeline. Despite the large development programme, sales exposure is relatively low as just 9% of its programme will be developed as shared ownership units.

The proportion of Group income relating to Supported Housing has fallen in recent years although it still represents 5% of turnover. This income stream has been the subject of funding cuts and the Group has taken a prudent approach towards it in its forecasts; the 2011/12 business plan includes a 25% real reduction in income. This situation is carefully monitored and regularly reviewed and in some cases the Group has closed schemes where they have become unviable. The provision of these services however, is considered a key part of the overall business strategy and some loss-making schemes remain which the Group has chosen to subsidise.

At 31 March 2011, 65% of the Group's borrowings were fixed and the remainder were on variable rates linked to LIBOR. This exceeded the Group's treasury management policy of a maximum of 60:40 fixed to variable rate debt. As fixed rates across the swap curves are at historic lows, the policy has since been amended to allow further fixing of £30m, of which £20m had been fixed by February 2012. The Group has £127m of stand alone interest rate swaps which give rise to a potential exposure to margin calls, at 31 December 2011 mark to market exposure stood at £33.4m. Cash collateral of £10.6m has been provided where collateral requirements are in excess of unsecured thresholds although the Group is now taking steps to replace this with charged property. At 31 December 2011, unsecured property was conservatively estimated to be £156m.

Future Financial Regulatory Engagement

In addition to the standard regulatory returns we will continue to meet with the Senior Management Team and Board as appropriate, to discuss the delivery of the business plan and the management of key risks.

Appendix 1 - Financial profile table

Great Places £'000s	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Year ending	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2021**	**2031**	**2041**
Turnover	68,557	66,536	72,013	83,110	89,081	94,967	102,246	126,635	187,027	280,000
Operating Surplus	13,064	15,173	17,154	21,633	25,079	27,372	30,694	40,599	63,035	98,466
Surplus on Disposal of Fixed Assets	507	1,618	1,065	1,594	1,943	2,266	1,561	2,339	4,434	8,258
Surplus for Year	4,241	5,439	5,276	7,131	5,564	5,444	6,369	8,763	9,595	28,257
Management cost per unit	1,460	1,350	1,326	1,287	1,418	1,261	1,255	1,400	1,704	2,187
Routine maintenance costs per unit	616	527	537	545	625	574	588	679	922	1,243
Major repairs (expensed) per unit	431	435	364	326	366	404	403	474	757	997
% major repairs capitalised	77.7%	69.5%	62.3%	59.0%	52.5%	57.1%	50.8%	55.2%	48.2%	50.1%
Operating margin	19.0%	22.8%	23.8%	26.0%	28.2%	28.8%	30.0%	32.1%	33.7%	35.2%
Effective Interest Rate	4.0%	4.0%	3.9%	4.3%	5.0%	5.1%	5.1%	5.3%	5.8%	6.4%
EBITDA ratio	167.8%	176.4%	176.2%	172.1%	147.7%	143.1%	147.9%	148.7%	142.4%	161.1%
EBITDA MRI	-52.8%	53.6%	107.5%	127.6%	120.3%	105.2%	119.6%	115.5%	114.0%	126.6%
EBITDA MRI Sales	-47.8%	67.0%	115.3%	136.9%	128.9%	114.1%	125.3%	122.1%	121.5%	136.8%
Adjusted net leverage	33.1%	33.6%	36.6%	38.4%	41.0%	42.2%	42.9%	43.6%	45.5%	42.0%
Total debt per unit	17,097	22,292	24,539	26,880	29,793	31,294	32,040	36,582	46,840	48,979
Fixed rate debt	76.0%	64.7%	62.8%	58.1%	59.2%	60.9%	60.5%	62.9%	66.4%	70.0%
Bad debts % gross rents receivable	1.0%	0.3%	1.1%	1.2%	1.1%	1.1%	1.0%	1.0%	1.0%	1.1%