Homes & Communities Agency
The social housing regulator

Viability Report

Great Places Housing Group Limited L4465
Great Places Housing Association L1230

March 2013

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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 viability element of the Governance and 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 March 2012, responses to quarterly surveys in September 2012, annual accounts and audit management letter for the period to 31 March 2012 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 16,157 properties at 31 March 2012. 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). 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 and the current syndicated loan facility is at a competitive rate of interest. At 30 September 2012 the Group had facilities of £449m of which £108.1m was still undrawn. In October 2012, the Group launched a successful 30 year capital market bond of £200m which will be used to further its development ambitions. 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 has achieved a good track record of delivering strategic priorities despite the difficult economy.

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. The latest business plan incorporates all the implications of its significant Affordable Rent programme and has secured appropriate funding for the next five years. 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 2012 which stated that the Group meets the requirements set out in the Governance and Financial Viability Standard of the Regulatory Framework in relation to financial viability'.

The Group:

- has based its business plan on reasonable 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 36 months with a £10m cash buffer
- has provided audited accounts to 31 March 2012 and an audit management letter, neither of which highlight any significant concerns

Business Plan

The business plan is based on reasonable assumptions and sensitivity analysis shows that the Group has the financial strength to survive most adverse situations. In addition, comprehensive risk assessment has identified appropriate mitigating actions and controls to minimise the impact of such risks.

The key covenants considered by funders are interest cover and gearing which the group meets comfortably throughout the plan. The interest cover calculation has increased following the introduction of component accounting and remains around 180% throughout the plan (see Appendix 2). A revised covenant has therefore been agreed with lenders which limits the proportion of capitalised major repairs included in the calculation and which has the effect of reducing the ratio by approximately 20%. The covenant calculation still remains well above the internal target of 120% which in turn, is higher than the minimum levels stipulated in the covenant. Projected gearing remains well below the covenant requirement of 65%, reaching a peak of 44% in 2016 and remaining virtually unchanged thereafter.

The Group is lead partner in the Bloc partnership through which it is planning to develop 1,281 units at a total cost of £158m with £30m grant. The majority of the programme will be Affordable Rent units and the remaining 10% are intended to be shared ownership units; this means that despite the large programme, sales exposure is relatively low.

The proportion of Group income relating to Supported Housing continues to fall; this income stream has been the subject of funding cuts and the Group has taken a prudent approach towards it in its forecasts and the situation is carefully monitored. These services are considered a key part of the overall business strategy and whilst some loss-making schemes have been retained, there have also been some limited scheme closures.

The Group aims to fix between 60-70% of borrowing, at 31 March 2012 64% of borrowings were fixed and the remainder were on variable rates linked to LIBOR. The Group has £127m of stand-alone interest rate swaps which give rise to a potential exposure to margin calls; at 30 September 2012 mark to market exposure stood at £36.7m. Cash collateral of £12.4m has been provided as collateral requirements are in excess of unsecured thresholds although the Group is now taking steps to replace this with charged property. The Group's bond was issued by GPHG through the Professional Securities Market (PSM) to minimise the mark to market exposure reporting requirements of IFRS26. The Group has almost 5,000 unencumbered properties that can be used for future security.

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.

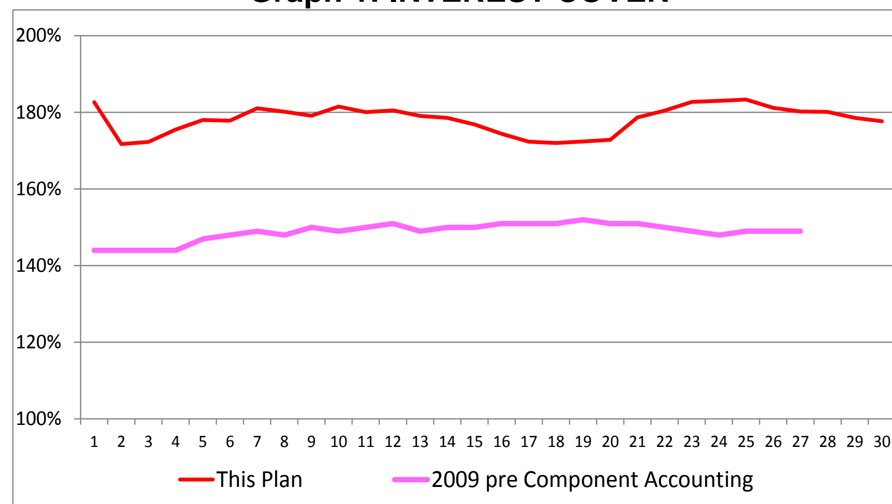
Appendix 1
Great Places Housing Group

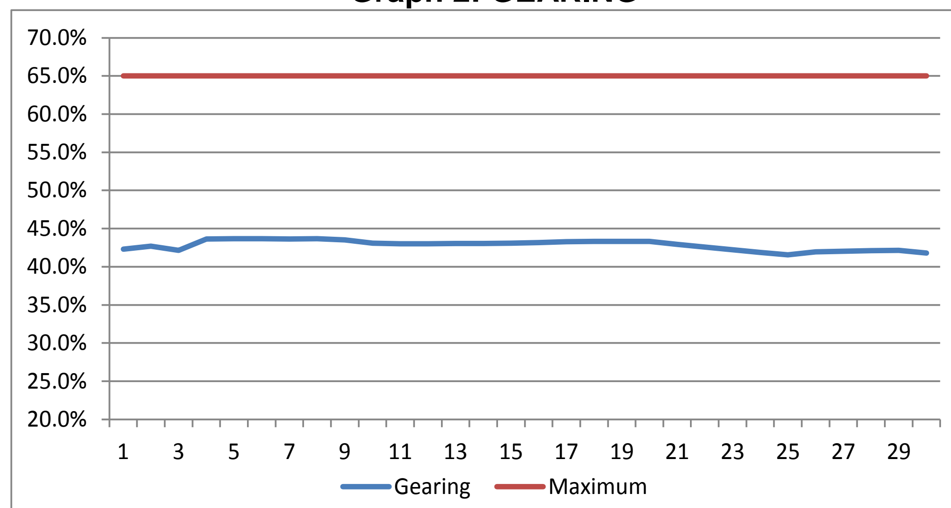
	Actual 2010	Actual 2011	Actual 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2022	Forecast 2032	Forecast 2042
Income and Expend £000s											
Turnover	68,557	66,536	71,886	79,663	83,745	91,150	102,902	105,008	135,708	206,089	322,702
Operating Surplus	13,064	15,173	17,460	22,159	25,276	27,775	30,079	33,084	46,520	77,691	125,931
Interest Payable	(9,336)	(11,342)	(11,026)	(16,657)	(19,855)	(21,700)	(22,316)	(24,316)	(33,354)	(62,178)	(100,274)
Surplus for the Year	4,241	5,439	7,160	7,210	7,315	8,222	9,440	10,598	15,900	21,530	36,462
Sales (£000)											
Surplus on Fixed Asset Disposals	507	1,618	554	1,516	1,451	1,571	1,228	1,319	2,255	5,543	10,356
First Tranche Sales Income	1,354	2,328	2,451	3,381	1,743	1,638	1,268	2,218	2,660	3,753	5,294
First Tranche Sales Surplus	0	0	288	196	101	95	74	86	140	223	352
Market Sales Income	423	297	0	1,698	2,672	4,530	11,308	7,646	9,081	0	0
Market Sales Surplus	0	0	0	219	291	421	892	567	760	0	0
Balance Sheet (£000)											
Housing Properties	736,115	848,439	923,294	988,754	1,048,909	1,094,354	1,163,825	1,230,704	1,593,326	2,612,766	4,125,734
Grant	407,900	474,370	502,638	503,571	514,180	526,015	534,666	552,385	647,760	876,325	1,183,219
Debt	255,931	301,750	331,684	389,820	422,265	442,146	477,363	508,105	653,033	1,079,975	1,645,950
Reserves	61,147	81,394	49,575	65,987	73,302	81,524	90,964	101,562	169,181	351,226	677,338
Financial Ratios											
EBITDA MRI interest cover excl FA sales	(53%)	54%	[1]143%	121%	118%	123%	126%	126%	139%	116%	105%
Operating Margin MRI	(14%)	1%	12%	17%	19%	21%	20%	21%	26%	24%	20%
Effective Interest Rate	4%	4%	4%	5%	5%	5%	5%	5%	5%	6%	6%
Management Cost per Unit (£)	1,460	1,350	1,148	1,366	1,319	1,330	1,373	1,398	1,537	1,900	2,400
Routine/Planned Maintenance Cost per Unit (£)	616	[2]527	647	507	502	515	546	562	671	953	1,351
Major Repairs Cost per Unit (£)	431	435	807	778	799	832	954	927	949	1,806	3,096
Arrears	10.3%	10.3%	[3]9.0%	10.2%	9.8%	9.3%	8.9%	8.7%	7.6%	6.1%	5.2%
Voids	2.3%	1.4%	2.3%	2.5%	2.2%	2.1%	2.0%	2.0%	1.8%	1.7%	1.5%

1. Completion of £50m improvement programme in Sheffield has improved this ratio
2. The profile of actual routine maintenance costs has been distorted by the phased introduction of an in-house maintenance team which commenced in September 2011
3. Arrears are distorted by the exclusion of service income from the calculation.

Appendix 2

Supporting Graphs





Graph 1 The 180% Interest Cover shown is based on component accounting which has increased the ratio. Discussions with lenders have taken place to neutralize the impact of this and a revised calculation which limits the proportion of major repairs capitalization for the purposes of the calculation has been agreed.

Graph 2 shows the Group's gearing ratio as assessed under the ratio specified in its main facility: loans as a % of housing properties at cost (less work in progress). Projected gearing remains well below the maximum level of 65% throughout, reaching just over 44% in year 4 and remaining steady thereafter. The small increase in years 1-3 is the result of the low grant affordable rent regime operating in 2011-15.