Great Places Housing Group Limited

Full Rating Report

Ratings

Foreign Currency	
Long-Term Rating	AA−
Short-Term Rating	F1+
Local Currency	
Long-Term Rating	AA−

Outlooks

Long-Term Foreign-Currency Rating	Stable
Long-Term Local-Currency Rating	Stable

Financial Data

Great Places Housing Group Limited

	31 Mar 11	31 Mar 10
Total units	15,798	15,045
Total units under management	1,388	1,436
Total turnover (GBPm)	66.9	68.7
Surplus on sale of properties (GBPm)	1.6	0.4
Long-term debt (GBPm)	287.8	254.7
Management cost per unit (GBP)	808.8	724.0
Operating surplus/operating revenue (%)	22.2	19
Debt/reserves and housing grant (%)	54.8	53.7
Interest paid/EBITDA (%)	16.8	13.6
Voids on general housing stock/turnover (%)	0.7	0.7
Arrears/turnover (%)	4.4	4.4

Related Research

Social Housing in England: A Strongly Government-Supported Sector (June 2009)

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Key Rating Drivers

Strong Public Support: The ratings of Great Places Housing Group Limited (GPHG) reflect high demand for social housing in the areas where it operates and a stable and predictable cash flow from rented properties. They also factor in tight control from the regulators as well as secured cash flow from public funds.

Stable and Predictable Revenue: GPHG benefits from social housing grants from central government as well as from government subsidies in the form of housing benefit. Of the group's operating cash flow, 77% relies on social housing lettings backed by housing benefit, which is predominantly paid directly from local authorities to registered providers (RPs).

High Demand: The demand for affordable housing is strong in the areas in which GPHG operates. Performance on void loss and re-let times are good identifiers of demand and both measures report top quartile performance; voids were only 0.7% in 2011. GPHG's rents are, on average, about 33% lower than the regional market rents.

Ongoing Annual Surpluses: GPHG recorded growing surpluses over the last five years and continues to generate value for money and efficiencies. Surpluses have been generated from core social housing activities as the group does not rely on its development activities to generate a surplus.

Financial Covenants: The key covenants considered are interest cover and gearing, both of which have been comfortably met in the past and are projected to do so over the next five years of the business plan. Interest cover must remain above 105% and in the business plan it is not forecast to fall below 140%.

Significant New Developments: Over the next four years, 1,281 homes will be built for which the group received a grant allocation of GBP29.6m from the Homes and Communities Agency (HCA) in October 2011. Of these homes, 1,162 will be available for affordable rent.

Fixed Expenditure, Growing Debt: GPHG's operating costs are largely fixed and maintenance and management costs are well controlled. The group's debt has nearly doubled in the past five years to fund the new affordable rent programme. Borrowing is expected to increase by around 70% in the next four years according to the business plan but Fitch is of the opinion that, due to the expected growth in revenues, the increase in debt will not jeopardise the financial covenants.

Regulatory Supervision: Fitch considers that the thorough control and supervision provided by the regulators substantially mitigates the likelihood of default. RPs are now supervised by the HCA, as from April 2012 the Tenant Services Authority's (TSA) role has been assumed by a regulatory sub-committee of the HCA.

What Could Trigger a Rating Action

Cuts in Grants: A negative rating action could be prompted by a further significant cut in capital grants, significant changes in the housing benefit system or a loosening of the regulatory environment. A negative action could also be prompted by increased volatility in operating revenue and a significant increase in gearing.

Debt Reduction: A positive rating action may result from a significant reduction in debt.

Profile and Group Structure

Location of Social Housing, Number of Units and History of Activity

The group owns or manages over 16,000 homes in northern England and the Midlands and across over 30 local authorities but primarily in Greater Manchester, Lancashire and South Yorkshire. GPHG was formed in April 2006 with the merger of Manchester Methodist Housing Group (MMHG) and Ashiana Housing Association (Ashiana). The group's head office is based in Manchester.

GPHG is a traditional registered provider that has operated for a number of years rather than having been created from the large scale transfer of housing stock from a local council. The significant growth of the group so far, with the housing stock having increased from 3,000 in 2002 to around 16,000 by 2011, has been a combination of growth through small scale acquisitions/mergers and also organic growth through development.

GPHG is a non-asset holding, non-charitable holding parent of two registered providers: Great Places Housing Association (GPHA) and Plumlife Homes Limited (Plumlife). GPHA also has two active third-tier subsidiaries: Cube Great Places Limited (Cube) and Terra Nova Developments Limited (Terra Nova).

GPHA is an Industrial and Provident Society with charitable status. Plumlife is also an Industrial and Provident Society but does not have charitable status. Plumlife manages shared ownership and intermediate properties and undertakes leasehold management for the group. Plumlife is also the HCA's appointed Homebuy Agent for Greater Manchester, Lancashire and South Yorkshire. As an agent, Plumlife generates income from an annual fee charged to the HCA and from a transaction fee based on delivering activity such as Homebuy Direct and Mortgage Rescue. In 2010/11 this represented 2% of total turnover.

Cube was set up in 2007 to develop properties for outright sale with the intention of generating surpluses to support the core activities of the group. Terra Nova was set up in 2004 to minimise the group's VAT liabilities on construction projects, with all surpluses generated by the company gift aided back to GPHA.

GPHA has an investment in Reviva Urban Renewal Limited, a company 33% owned by GPHA and which provides regeneration services to Manchester City Council. The other parties in this joint venture are Mosscare Housing Limited and Irwell Valley Housing Association. During FY11 Reviva made no profit. GHPG holds 10% of the shares in Keepmoat Great Places Limited, which in turn owns 50% of Sheffield Housing Company Limited. GPHG also has a 5% investment in Inspiral Oldham, the special purpose vehicle that delivers the Gateways to Oldham private finance initiative (PFI) project. This project will transform the four 'gateway' neighbourhoods of Clarkwell, Crossley, Fitton Hill and Primrose Bank into diverse and attractive residential areas.

In FY11, the group had 528 average monthly employees, a slight decrease from 534 in FY10, and currently has more than 550, of whom 200 work in supported housing schemes. The increase from FYE11 is due to the creation of the in-house repairs team of about 25 employees.

Corporate Governance and Regulatory Judgement

GPHG has five directors, including the chief executive, the finance director, the director of performance and innovation, the director of housing services and the deputy chief executive director of development.

Board Composition

There are 12 members on the board including the chairman who has been in position since the group was founded in 2006. Board members come from a diverse range of backgrounds. Only

Related Criteria

Ratings of Public Sector Entities Outside the US (March 2012)

Tax Supported Rating Criteria (August 2011)

In the TSA's most recent Regulatory Judgement, published in December 2010, GPHG obtained the highest judgement for viability and received the second highest judgement in terms of governance

one of the executive directors is a member of the board. Of the 11 non-executive members, five are long standing board members, having been involved with GPHG and its predecessor organisations for over 10 years.

Most Recent Regulatory Judgement

TSA's most recent regulatory judgement was published in December 2010. GPHG obtained the highest judgment for viability and the second highest for governance. In terms of viability: "The Group meets the requirements set out in the Governance and Financial Viability standard of the Regulatory Framework in relation to financial viability." In terms of governance: "The governing body, supported by appropriate governance and executive arrangements, maintains satisfactory control of the organisation".

Since the previous regulatory judgement, the overall assessment of the group's performance remains unchanged. During this time the changes to the group structure have aimed to streamline the delivery of services.

The TSA's viability report from July 2010 is unchanged from the previous report published in November 2009 and concludes that the group meets the expectations set out in the regulatory code in terms of financial viability. The group has also received a 2-star rating from the Audit Commission.

Operations

Type of Social Housing Provided – Stock Profile

The group's activities are the management and development of general needs social and affordable housing for rent, supported housing and extra care properties, and low cost home ownership. It also manages key worker accommodation as well as leasehold and privately owned property. It provides related services such as financial inclusion and social enterprise activities, as well as being involved in regenerating neighbourhoods and communities.

The group is also a major developer of new affordable housing. In October 2011, GPHG entered into the seventh largest contract with the HCA (as at December 2011), under its affordable homes programme. This was signed under Bloc, a development partnership led by GPHG. GPHG has good relationships with the local authorities in which it works and the group is the only RP actively developing in several authority areas.

Demand Indicators and Rent Increase Prospects

Figure 1
GPHG Rents Compared with Private Market Rents

Size of housing units	Nº of units[a]	Proportion of total (%)	GPHG current social housing rent (GBP/week)	Average market rent[b] GBP/week	GPHG rent vs. market rent	GPHG rent as % of market rent
Bedspaces & Bedsits	824	5	61.58	97.75	36.17	63.0
1 bed	4,294	26	65.12	97.75	32.63	66.6
2 bed	6,413	39	70.19	118.94	48.75	59.0
3 bed	3,570	22	77.54	131.55	54.01	58.9
4 bed	966	6	91.64	148.69	57.05	61.6
5+ bed	171	1	96.34	166.58	70.24	57.8

[a] Total stock at 31 Dec 2011 (16,238)
[b] Average market rent in North England and Midlands in 2011
Source: Great Places Housing Group Limited

To bring rents into line with government levels, rents in April 2011 rose by an average of around GBP4 per week, the equivalent of a 5.6% rise, primarily due to the September 2010 retail price index (RPI) figure of 4.6%. RPI in September 2011 was 5.6% bringing the target rents up by 6.1% (which includes the 0.5% add-on established by the TSA) but GPHG decided to apply an increase of only 5.2%.

The profile of GPHG's tenants shows an average weekly income of GBP242 (6% lower than in FY10 but higher than the national average of GBP214); the average weekly amount paid in rent is GBP74, slightly lower than the GBP76 national average.

Efficiency Indicators

GPHG's focus is on maximising structural and organisational efficiency and in recent years it has achieved economies of scale by growing without increasing overheads. In terms of HouseMark benchmarking data, the group is doing reasonably well in terms of overheads efficiency.

Management costs for FY11 were GBP809 per unit, an increase from GBP724 in FY10. Maintenance costs for FY11 are GBP519 per unit, an improvement from GBP613 per unit in FY10. This includes routine maintenance but not planned or major repairs. At end-2010, 100% of the group's properties met Decent Homes Standard (DHS) so there is little spending pressure from this area. Close to 43% of the total stock[1] was built post 1991, 19% between 1971-91, 18% between 1951-71, and 10% prior to 1951.

GPHG has implemented an in-house property maintenance service. Since September 2011 just under half of the group's properties have been maintained by this new team. This should save GBP200k of VAT, enhance customer satisfaction, control costs and reduce call handling costs.

Figure 2

Development of GPHG's Structural Costs

	FY08	FY09	FY10	FY11
Management cost per unit (GBP)	693.7	682.1	724.0	808.8
Routine maintenance cost per unit (GBP)[a]	527.6	593.7	612.6	519.2
Total cost per unit(GBP)	**1,221.3**	**1,275.8**	**1,336.7**	**1,328.0**

[a] Includes Routine but not planned maintenance or major repairs
Source: Fitch, Great Places Housing Group Limited

The demand for affordable housing is high in the areas in which GPHG operates. High demand is reflected in the low level of voids at only 0.7% in 2011

Current arrears for FY11 were 4.4%, just above the national average of 4.2%. The percentage of rent loss through voids is 0.7%, lower than the national average of 1.1%. Average re-let times in FY11 were 23.2 days, compared with a national average of 26.9 days. Performance on void loss and re-let times are good identifiers of demand, and both measures report top quartile performance.

Having data on the customer profile of its tenants helps the group ensure that it can tailor its services to their needs. The importance of the tenant profile is highlighted for instance when age is combined with arrears. There is a clear correlation showing that the younger the tenants, the higher the arrears. Analysis of arrears by economic status shows that retired residents have the lowest arrears, and job seekers the highest, followed by the part-time employed.

Net affordability shows the percentage of working households spending more than 25% of net income on rent. Net affordability is defined as weekly rent plus service charge less housing benefit, divided by net income. For FY11, net affordability for GPHG is 28%, slightly under the national average of 30%.

Evictions are an action of last resort and over the last three years, an average of 0.4% of residents have been evicted. This is equivalent to 131 residents having been evicted in three years. In April 2009, a new approach for arrears was agreed in which neighbourhood coordinators and officers had full responsibility for current arrears within their patch, but also had the support of a specialised team. Each region also has a financial support coordinator who helps ensure residents optimise benefit take up.

[1] Information related to 90% of the housing stock

Financial Analysis

The group's financial statements are audited by Grant Thornton and no significant concerns were highlighted in the 31 March 2011 unqualified accounts.

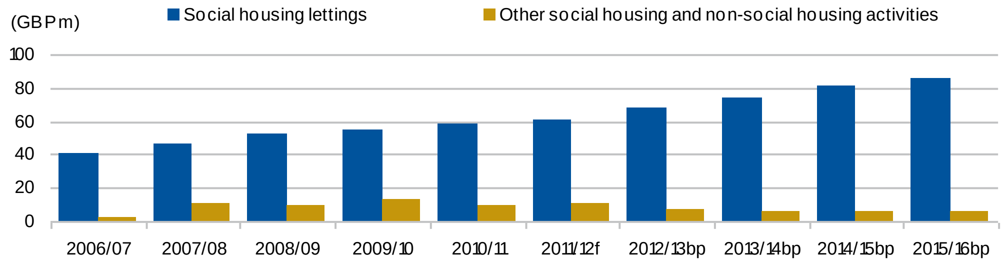
The vast majority of the group's income stream is from social housing activities. In the latest internal forecast for YE12, 80% of revenue comes from social housing rents, 5% from supporting people, and 3% from managed properties. Thus total revenues from social housing activities account for 88% of revenue. Other non-social housing rents include 4% from first tranche sales, 2% from Homebuy Direct, 4% for development activities and 2% from other.

Revenues

In FY11 the turnover from social housing lettings increased to GBP51.3m from GBP47.5m in FY10, although other social housing activities decreased to GBP15.6m from GBP21.2m. The latter is mainly due to a decrease in first tranche sales as well as a decrease in non-social lettings. Under the latest Business Plan, turnover from social housing activities are projected to increase by 47% by 2016.

Figure 3

Turnover from Social Housing Lettings and Other and Non-Social Housing Activities



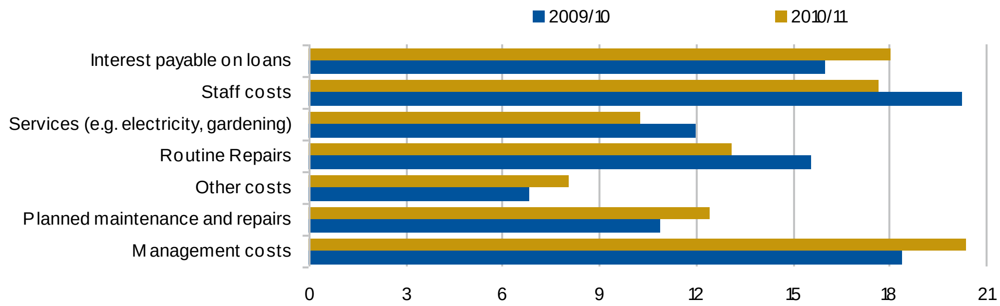
f: Forecast, bp: Business plan
Source: Great Places Housing Group Limited

The group recognises that the proposed welfare benefit reforms present risks. Primarily the direct payment of housing benefit to residents rather than the RP is likely to lead to an increase in arrears and bad debts. However a large proportion of the group's tenants are exempt vulnerable tenants where benefits can revert to direct payment to the landlord at an early stage of being in arrears, which will minimise the impact of the changes.

Expenditure

Figure 4

For Every GBP1 Spent in Rent, Great Places Spent



Source: Great Places Housing Group Limited

The group's operating costs rose by 7% in FY11 mainly driven by social housing operating expenditure of GBP2.6m, and an increase in net interest payable of GBP1.9m. The rise in operating expenditure was mainly from an increase in housing management expenses of GBP1.9m as well as property amortisation and depreciation and major repairs expenditure. Routine maintenance costs on the other hand have decreased by GBP1m since FY10.

Forecasts

Over 2012-16, 1,281 homes will be built for which the group received a grant allocation of GBP29.6m from the HCA in October 2011. The total amount received was GBP40m for the delivery of 1,751 properties but 470 properties will be delivered by other members in the Bloc development partnership. Of the homes to be built by GPHG, 1,162 will be available for affordable rent. Most of the units will be in the north west with some in south Yorkshire. The development plan will require private finance to supplement social housing grants. GPHG's total programme cost is GBP158m and an internal subsidy of GBP16m has initially been allocated to ensure the programme meets the group's financial return requirements.

The group is not relying on surpluses from sales of assets to generate a net surplus but rather through core social housing activities. The business plan prudently assumes that only half of any shared new ownership properties developed are actually sold, the other half being let as rent to homebuy properties. Between FY09/10 and FY11/12, GPHG disposed of more than 100 properties. Going forward the group's underlying strategy is to dispose of between 40-60 properties a year, balancing considerations of demand, stock condition, investment requirements and sales receipts and surpluses.

Debt and Liquidity

At FYE11 the group's debt increased to GBP292.8m from GBP260.5m at FYE10. During FY11 the group borrowed GBP34m. The net increase in debt, with debt repayments, was GBP32m. GPHG's debt is mainly from banks and building societies at fixed and floating rates. For FY11 and at the end of December 2011, 66% of the debt is at fixed rates. By YE12, this should have shifted slightly to 63%. This is higher than the Treasury management policy target of a maximum of 60% (and a minimum of 40% variable rate debt) but reflects the board's decision to take advantage of low fixed rates. The fixed rates of interest range from 3.41%-11.5%, although the weighted average cost for the total portfolio inclusive of margin is 3.62%. The group is not exposed to currency risk as it only borrows in sterling.

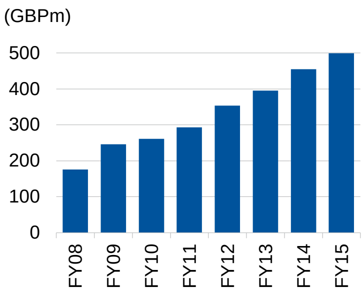
The group's lending agreements require compliance with a number of financial and non-financial covenants, primarily interest cover and gearing. Interest cover in 2011 is 180% up from 164% in FY10, and gearing has improved marginally to 36.3% from 36.9% in FY10. In this instance gearing equals total borrowings less cash at bank and in hand divided by housing properties at cost less properties under construction less depreciation and impairment.

The business plan shows that GPHG's current funding will cover the contemplated development programme only until the third quarter of 2012/13 with new short-term funding having been arranged by end March 2012. From that date, the business plan projects total funding requirements of GBP96m in the next two years: GBP52m in FY12 and GBP44m in FY13. The remaining facility at FYE11 was GBP81m. Due to the new affordable rent programme, GPHG will require significant new borrowing over the next four years. At the end of June 2011, the group drew down GBP18.9m of a GBP20m new EIB funding facility. The group has recently received confirmation from the Royal Bank of Canada for a new funding arrangement. This will be a five-year revolving loan facility of GBP60m. Based on the latest business plan the total forecast drawn debt at FYE12 is expected to be GBP353.7m and GBP395.2m at FYE13.

The group also intends to issue a long-term capital market bond in an amount of up to GBP200m. This issue is expected to be launched some time during FY13.

Figure 5

Actual and Projected Debt



FY11: Actual; FY12-FY15: Business plan
Source: Great Places

At YE12, GPHG's debt represented 55% of reserves and social housing grants and 19 years of the operating margin

Despite the expected increasing debt, the key financial covenants are comfortably met throughout the plan. Interest cover is not forecast to fall below 140%. Gearing must remain below 65% and throughout the plan complies with this, starting at a high 41% but falling steadily thereafter.

Maturity Profile

Maturities are well spread but with some concentration between 2030 and 2039. Any new hedging sought will avoid maturities within this range. The group has both amortising fixed rate loans and fixed rate bullet maturity.

Security

At end December 2011, the group had facilities of GBP382m with GBP53m of undrawn facilities available from four major UK lenders including Santander, Lloyds, RBS and Barclays. Over 8,000 of the GPHG's properties have been valued independently over the last five years with a market value subject to tenancies of GBP400m. At December 2011, the group has GBP328.8m loans currently drawn and GBP7.5m available to draw down, supported by properties valued and secured. The group has about 5,000 unencumbered properties. Of these 739 are valued and ready for immediate charging, which can support GBP32.5m. Another 2,516 are being valued with a conservative estimate of GBP123m.

Liquidity – Cash Flow Protection

The group had GBP10.8m in liquid assets at YE11. This adequately covers all debt due within one year of GBP1.7m. In the latest Treasury update at December 2011, there was sufficient cash and security available for charging that provided the group with five months funding readily available. In October 2008, the board approved the group maintaining a minimum GBP10m cash balance due to mounting uncertainties in the financial markets.

Appendix A

Figure 6

Great Places Housing Group Ltd, Consolidated

	31 Mar				
(GBPm)	**2007**	**2008 restated**	**2009**	**2010**	**2011**
Income and expenditure account					
Operating revenues	42.9	56.6	62.1	68.7	66.9
Cost of sales	-33.3	-44.3	-49.2	-55.6	-51.8
Impairment	0.0	0.0	0.0	0.0	-0.2
Other operating costs	0.0	0.0	0.0	0.0	0.0
Operating surplus	**9.6**	**12.3**	**12.9**	**13.1**	**14.9**
Surplus on sale of assets	1.1	1.9	0.6	0.4	1.6
Income from investments	0.0	0.0	0.0	0.0	0.0
Net interest charge	-7.4	-9.7	-9.4	-9.3	-11.2
Taxation	0.1	0.0	0.0	-0.2	-0.2
Surplus for the year excluding joint venture activities	**3.4**	**4.5**	**4.2**	**4.0**	**5.1**
Joint venture activities deficit after tax	0.0	0.1	0.1	0.1	0.0
Net Group surplus for the year	**3.4**	**4.6**	**4.3**	**4.1**	**5.2**
Balance sheet					
Housing properties at cost less depreciation	455.0	492.3	627.8	717.5	801.4
Social housing grant and other grants	-276.7	-292.9	-358.3	-407.9	-454.2
Other tangible fixed assets	6.6	6.7	7.5	8.1	7.8
Intangible fixed assets	0.0	0.0	0.0	0.0	0.0
Investments	0.1	-0.1	0.3	0.3	0.0
Share of joint venture assets/(liabilities)	0.0	0.0	0.0	0.0	0.0
current assets	24.6	41.3	58.2	46.7	44.1
Net current assets/(liabilities)	6.0	17.9	29.4	6.1	6.9
Total assets	**209.5**	**247.4**	**335.5**	**364.8**	**399.2**
Of which cash and cash equivalents	12.1	9.5	16.0	15.5	10.8
Long-term financial debt due after one year	144.3	172.2	241.8	254.7	287.8
Other long term liabilities	4.9	3.5	2.7	3.5	3.0
Total risk	149.2	175.7	244.5	258.2	290.8
Negative goodwill reserves	8.0	0.0	5.1	5.1	5.0
Other reserves	33.7	48.2	57.1	61.0	66.1
Of which current liabilities	18.6	23.5	28.8	40.5	37.2
Total liabilities	**209.5**	**247.4**	**335.5**	**364.8**	**399.2**
Total units	**10,946**	**13,985**	**14,949**	**15,045**	**15,798**
Of which managed units	**575**	**2,410**	**1,712**	**1,436**	**1,388**

Source: Great Places Housing Group Limited Financial Statements, Fitch

Appendix B

Figure 7

Great Places Housing Group Ltd, Consolidated

	31 Mar				
	2007	2008 restated	2009	2010	2011
Profitability/activity ratios %					
Operating surplus/operating revenues	22.3	21.7	20.8	19.0	22.2
Social housing rent revenue/operating revenues	77.5	69.9	72.5	69.2	76.7
Total maintenance costs/operating expenditure	21.9	19.2	19.4	18.6	18.4
Management cost/operating revenues	18.3	17.1	16.4	15.9	19.1
Net surplus (deficit)/total revenues	7.7	7.9	6.8	5.9	7.5
Assets sales proceeds/total revenue	2.6	3.2	1.0	0.6	2.4
Operating revenue/total assets	20.5	22.9	18.5	18.8	16.8
Management cost per unit (GBP)	718.3	693.7	682.1	724.0	808.8
Routine maintenance cost per unit (GBP)	578.5	527.6	593.7	612.6	519.2
Major repairs per unit (GBP)	248.7	254.3	364.7	354.3	405.9
Financial investments + shares in JV/Total assets	0.0	0.0	0.1	0.1	0.0
Arrears (as a % of operating revenues)	4.4	4.4	4.4	4.4	4.4
Voids (as a % of operating revenues)	0.7	0.7	0.7	0.7	0.7
Debt ratios %					
LT direct debt/EBITDA (operating revenue plus impairment) (%)	336.5	304.0	389.6	371.0	431.4
LT direct debt/total reserves (%)	346.1	357.1	388.4	385.7	404.4
LT direct debt/total reserves and housing grants (%)	45.3	50.5	57.5	53.7	54.8
LT direct debt/total revenues (%)	327.9	294.2	385.6	368.6	419.8
LT direct debt/operating balance (yrs)	15.1	14.0	18.7	19.5	19.3
LT debt/housing properties at cost (B/S value) (%)	31.7	35.0	38.5	35.5	35.9
LT debt per unit (GBP)	13,185	12,314	16,174	16,929	18,217
Social housing grant + other grants/ LT debt (%)	191.7	170.1	148.2	160.1	157.8
Balance sheet ratios %					
Current assets/total assets (%)	11.7	16.7	17.3	12.8	11.1
Net current assets (liabilities)/total LT liabilities (%)	4.0	10.2	12.0	2.4	2.4
Current assets/current liabilities (%)	132.3	176.0	201.9	115.1	118.5
Interest ratios %					
Interest revenue/financial charges (%)	1.1	1.1	1.1	1.1	1.1
Net interest charges/operating charges (%)	18.1	17.9	16.0	14.4	17.8
Net interest charges/EBITDA (operating revenue plus impairment) (%)	17.2	17.1	15.1	13.6	16.8
Cash and liquid assets/net interest charges	164.3	98.6	171.4	165.7	96.6
Operating revenues interest cover (x)	5.8	5.9	6.6	7.4	6.0

Source: Great Places Housing Group Limited Financial Statements, Fitch

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