Great Places Housing Group Limited

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	A+
Short-Term IDR	F1

Local Currency

Long-Term IDR	A+

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Financial Data

Great Places Housing Group Limited

	31 Mar 17	31 Mar 16
Total operating revenue (GBPm)	112.3	109.2
Operating balance (GBPm)	34.1	33.8
Total debt (GBPm)	534.7	496.5
Total assets (GBPm)	1,166.7	1,119.9
Equity and reserves (GBPm)	48.6	39.5
EBITDA (Fitch calculated)	50.8	48.7
ROA (%)	1.09	1.11
ROE (%)	31.39	26.13
Net debt/Fitch calculated EBITDA (%)	9.44	9.56

Related Research

Rent Rises for Registered Housing Providers Show Support for Sector (October 2017)

Fitch Affirms 3 English Social Housing Registered Providers; Outlooks Stable (July 2017)

English Social Housing Registered Providers: No Impact on Ratings of Potential Regulation Change (February 2017)

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Key Rating Drivers

Stable and Predictable Revenue: The ratings on Great Places Housing Group Limited (GPHG) reflect continuing demand for social housing in the north of England, and continued cash flow from rented properties. They also factor in GPHG's secured cash flow from public funds and the control and regulation provided through the Regulator of Social Housing (RSH).

Rating Approach: Fitch rates registered providers (RPs) in England under its Revenue-Supported Rating Criteria and takes into account factors such as revenue defensibility, operating risk and financial profile. A one-notch uplift is applied to the standalone ratings, reflecting the application of the Government-Related Entities Criteria and Fitch's assessment of four factors under the strength of linkage and incentive to support.

Revenue Defensibility – Demand: This is assessed as Strong. Fitch expects demand to remain strong in the 36 local authorities where GPHG has housing units. The entity shows healthy tenancy turnover and swift re-letting of properties. Demand is also reflected in good performance on void loss and arrears. GPHG has developed over 5,500 units in the last 10 years, and its objective for the next 10 years is to develop a further 8,000 units of which 80% are expected to be social rent, affordable rent or shared ownership homes.

Revenue Defensibility – Pricing: This is assessed as Midrange. The UK government determines rent rises, limiting RPs' flexibility. Rents have been reduced by 1% a year since April 2016, but will return to CPI plus 1% for the five years from 1 April 2020. However, Fitch expects the revenue from housing benefit as a percentage of total revenues to eventually fall, due to increased revenues from non-social housing activity to finance development plans. RPs have independent ability and full flexibility to collect sufficient revenues to cover all costs.

Operating Risk – Operating Costs: This is assessed as Strong. GPHG has well-identified cost drivers and low potential volatility in major items. GPHG has material capex on its development plans in the medium term, but has opportunities to slow down committed schemes, defer uncommitted schemes, and switch tenure from sale to market rent.

Operating Risk – Resource Management: This is assessed as Strong. GPHG has an adequate supply of resources and labour, with limited volatility in terms of amount, cost and timing. The nature of the entity reflects a fairly flexible expenditure structure, with staff costs constituting only about a fifth of total expenses.

Stable Financial Profile: This is assessed as Strong. GPHG has recorded net annual surpluses for the last five years, and Fitch expects the operating margin to remain stable at around 30% over the next five years. Debt at FYE18 was GBP561 million, subsequent to a GBP145 million bond tap being issued in March and borrowing requirements over the next five years are stable with total debt expected to peak at GBP653 million at FYE22. Net debt/EBITDA was <10x at FYE17, and is expected to remain stable over the next five years.

Rating Sensitivities

Reassessment of Rating Factors: An upgrade could result from a sustainable improvement in the net debt/EBITDA ratio. A downgrade could result from a sustainable weakening of GPHG's net debt/EBITDA ratio along with weaker liquidity, revenue defensibility or operating risk.

Rating History

Date	Long-Term Foreign Currency IDR	Long-Term Local Currency IDR
14 Nov 14	A+/Stable	A+/Stable
30 May 13	AA−/Neg	AA−/Neg
23 Apr 12	AA−/Stable	AA−/Stable

Housing Units

	FYE18	FYE17
General		
- Social housing	9,595	9,905
- Affordable housing	3,767	3,418
- Non-social housing	114	116
Supported housing	1,250	1,274
Key worker	55	241
Shared ownership	2,544	2,374
Total owned	**17,325**	**17,328**
Managed for others		
- Social housing	811	841
- Non-social housing	1,035	739
Total managed	**19,171**	**18,908**
Accommodation in development at YE	341	341
Managed by others	56	56

Source: GPHG

Top 6 LAs by Unit Number

	FY17	FY16
Manchester	2,680	2,671
Sheffield	2,678	2,377
Salford	2,285	2,587
Oldham	1,913	1,916
Blackpool	1,314	1,319
Blackburn	972	959
Total units in 6 LAs	11,842	11,829

Source: GPHG

Related Criteria

Government-Related Entities Rating Criteria (February 2018)

Rating Criteria for Public Sector Revenue-Supported Debt (June 2017)

Profile and Overview

At FYE18, GPHG owned or managed just over 19,000 properties, of which 84% were owned. Just over half the properties are located in Manchester, Oldham, Salford and Sheffield, but the group is active in 36 local authorities (LAs), with two-thirds of properties concentrated in seven LA areas.

The group was formed in April 2006 when Manchester Methodist Housing Group and Ashiana Housing Association merged. GPHG is an RP that has operated for a number of years and was not the result of a large-scale housing stock transfer from a local council. Until 2009, the group grew mainly through small-scale acquisitions and mergers; since then, it has grown via organic growth through development. GPHG is a non-charitable RP and parent company of two other RPs: Great Places Housing Association (GPHA) and Plumlife Homes Limited (Plumlife). Both are asset owning, and are co-operative and community benefit societies, GHPA being charitable and Plumlife non-charitable. GPHA also has two active third-tier subsidiaries: Cube Great Places Limited (Cube) and Terra Nova Developments Limited (Terra Nova), both limited by shares.

Cube, set up in 2007, develops properties for market rent and market sale to generate surpluses to support the group's core activities. Plumlife is a brand name for GPHGs sales and market rent products. Terra Nova, set up in 2004, was created to minimise the group's VAT liability on construction projects, and all surpluses generated are gift-aided back to GPHA.

Rating Approach

Fitch rates RPs in England under its Revenue-Supported Rating Criteria and takes into account key factors including revenue defensibility, operating risk and the financial profile. A one-notch uplift is applied to their standalone ratings, reflecting the application of the Government-Related Entities Criteria and Fitch's assessment of four factors under the strength of linkage and incentive to support.

Principal Rating Factors under Revenue Supported Debt Criteria

Summary of Rating Factors

Revenue defensibility	Operating risk	Financial profile
Strong	Strong	Strong

Source: Fitch Ratings

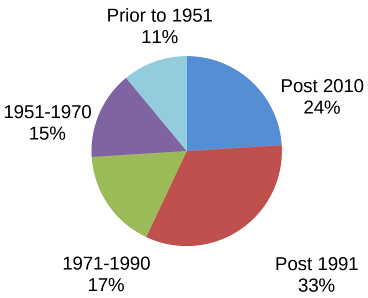
Revenue Defensibility

The revenue defensibility assessment covers two factors: demand and pricing. Demand has been assessed as Strong, and pricing as Midrange. Overall revenue defensibility has been assessed as Strong.

Demand Characteristics

Demand for social housing remains strong across the country and any change in the rents that RPs are able to charge would be unlikely to materially affect demand. GPHG has just published its Corporate Plan 2018-2021 which considers the Group's 10-year ambitions as well as three-year targets. GPHG's vision is to deliver great homes, communities and people by maximising their investment in sustainable homes; building successful, vibrant communities and providing outstanding customer service and support.

GPHG: Build Date of Stock Profile



Source: GPHG

Development Programme and Partnerships

Under the Shared Ownership Affordable Homes Programme (SOAHP) the group has an allocation for 872 new homes, with an estimated total scheme cost of GBP114 million and GBP18 million of grant receivable. The allocation comprises 560 shared ownership, 102 affordable rent, 60 supported and 150 rent to buy homes. The group received an allocation for 351 units through the 2015-2018 AHGP2 to primarily cover delivery during FY18. The allocation had total scheme costs of around GBP44 million and a grant of GBP7 million. The group completed the 900-unit, GBP17 million grant 2015-2017 AHGP with a total cost of GBP101 million. Previously, it completed the 1,300-unit, GBP28 million grant 2011-2015 AHGP with a total cost of GBP158 million.

The business plan assumes that GPHG will continue to have a substantial development programme, broadly matching the average of around 400 units built annually over the last decade. This will include an annual programme of at least 300 homes, which are shared ownership or social rented properties and around 100 for outright sale and market rent developed by Cube.

GPHG should benefit from wider development procurement with partners that will be developing a greater number of units. The group has taken on additional Section 106 deals with house builders for non-grant-funded schemes. Funding for the development is covered by first-tranche sales, operating surpluses, loan facilities and HCA grants. Nevertheless, GPHG can scale back the development plan if required without affecting the group's finances. At FYE18, first-tranche sales were 7% of total turnover, while developments for sale accounted for 2% of total turnover.

Total Stock and Development Track Record

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Total owned & managed	14,781	15,045	15,798	16,147	16,574	16,861	17,571	18,409	18,908	19,171
Units developed	442	481	626	705	520	576	730	457	625	285
(%)	3.0	3.2	4.0	4.4	3.1	3.4	4.2	2.5	3.3	1.5

Source: GPHG

Development Track Record

	Units developed/ completed	Units in development
2007-2008	360	580
2008-2009	442	556
2009-2010	481	882
2010-2011	626	642
2011-2012	705	461
2012-2013	520	513
2013-2014	576	701
2014-2015	730	1,029
2015-2016	457	743
2016-2017	625	341
2017-2018[a]	254	516
2017-2018[b]	285	

[a] HCA contract figure
[b] Total including non HCA units & Cube units
Source: GPHG

GPHG has two joint ventures. The group is an equity partner in the Sheffield Local Housing Company. Delivery of around 2,500 homes over 15 years has begun, with 500 of these for affordable housing or home ownership. To date about 800 units have been delivered. GPHG is also a minority equity investor and housing management delivery contractor in the Inspiral consortium that is delivering the Oldham PFI project, allowing the group to extend its services and take advantage of economies of scale. The group now provides housing management services (not maintenance services) to 650 properties on four sites.

The group has around 1,300 properties eligible for right to buy (RTB), mainly in Sheffield and some from stock transfers from Manchester City Council and Blackpool. Individuals get a discount on the market value of their home if they qualify for RTB, capped at a maximum of GBP77,000 outside London. Nevertheless, no firm information around timescales, eligibility or exemptions for the introduction of the voluntary RTB scheme have been received, and GPHG is awaiting more data from the large scale pilot proposed for the Midlands.

Welfare Benefit Reform

The impact of the welfare benefit reform can be considered minimal for GPHG as a large proportion of its tenants are exempt, which means benefits can revert to direct payment to the RP after eight weeks' arrears. At FYE18, 47% of residents paid through housing benefit, and 27% had their rent paid in full by housing benefit (19% of whom were working age and 8% pensioners). The subsidy is capped (at GBP20,000, a reduction from GBP26,000), and GPHG believes about 19% of residents will be in the highest-risk category. At present, the group's arrears policy has not changed. The bad debts provisioning policy has been revised to reflect the view of a likelihood of low arrears leading to bad debt.

The rollout of universal credit began in four north-west local authorities (including Oldham, where GPHG has 1,000 properties) in summer 2013. This was followed by direct payment of benefit to tenants rather than the landlord. The financial inclusion team of nine established in 2009 has worked with those affected to help reduce arrears, minimise energy costs and prevent evictions. This team has consistently helped residents save at least GBP1 million a year. The bedroom tax and benefit cap have both been absorbed without a material change in arrears or bad debts. The roll-out of universal credit has been much slower than originally planned so it has not been possible to conclude how large the impact of universal credit and direct payment will be. GPHG's business plan incorporates some conservative assumptions around the impact of welfare reform and universal credit. The assumption is that bad debt will increase from current levels of just under 1%-3% over the next four years and arrears will double over the same time frame.

Demand Indicators FY17 (%)

	GPHG	Median group quartile
Rent loss through voids	0.52	1.0
Average re-let times (days)	22	30
Tenancy turnover (%)	7.6	8.2

Source: GPHG

Pricing Characteristics

The assessment of revenue is somewhat constrained by the lack of control RPs have on rents. Average weekly current general needs rents across the areas in which GPHG operates vary considerably. From 1 April 2015, rents were set to be increased by CPI+1% per annum for the next 10 years. This changed with the 2015 summer budget: social housing rents would be reduced by 1% a year for four years starting in April 2016. The UK government announced in October 2017 that rents will again return to CPI+1% for the five years from 1 April 2020. This brings relief for the sector after the significant reduction in turnover over the four years from 2016 as a result of the rent cut announced in the 2015 summer budget (estimated by RPs at about 12% by 2020/2021 compared with forecasts prior to the change in 2015).

GPHG's overall average weekly rent as at December 2017 was GBP87.71, 69% of the equivalent average market rent of GBP127.89. GPHG also now has 3,700 affordable-rent properties from new developments and conversions of existing properties on re-let. Both types of property have rents that average an additional GBP11-GBP13 per week.

The supportive regulatory regime aims to maintain compensation for services at a level consistently supporting solvency for not-for-profit of an essential public service. However, Fitch expects the revenue from housing benefits as a percentage of total revenues to eventually fall, due to the increased revenues from non-social housing activity in order to finance development plans to compensate for rent cuts and reduced grants. Regarding this aspect of their portfolios, RPs have independent ability and full flexibility to collect revenues sufficient to cover all costs.

Operating Risks

The operating risk assessment covers two factors: operating cost flexibility and resource management, both assessed as Strong. Overall operating risks have been assessed as Strong.

Operating Cost Flexibility

The sector has well-identified cost drivers and low potential volatility in major items. The RPs have material capex on their development plans in the medium term, but have opportunities to slow down committed schemes, defer uncommitted schemes as well as switch tenure from sale to market rent. GPHG's focus is to maximise efficiency, both structural and organisational. It has achieved economies of scale by growing without simultaneously increasing overheads. It established an in-house maintenance team in 2011, and all properties have been maintained through this team since FYE13. On average, GPHG spends about GBP10 million annually on responsive, void and cyclical maintenance and another GBP15 million on major repairs/component replacements. A photovoltaic panel installation project has brought significant energy cost savings to about 600 tenants, and generated an annual revenue stream of GBP300,000.

The responsive repairs team has been brought in-house, which has improved the quality of service delivered and will generate cost savings in the longer term. The repairs team has around 80 operatives plus call handling, supervision and management. Enhancements to IT systems have also helped break down costs into labour, travel, distance travelled, material and breakdown, invoicing and administration, which will help the cost analysis of repair work. The cost per property of responsive repairs and void works in FY16 was virtually unchanged from FY12, which is a 12% real price reduction. GPHG has also opened its own distribution centre, which has been highly successful in driving down materials cost and driving up productivity. It has also been selected to provide a material distribution service to another local RP.

The group complies with the Decent Homes Standard (DHS). In-house surveyors continuously check the stock on a cyclical basis and the value of required works under the stock condition survey, which are fully funded within the business plan. The expected costs of keeping all properties to the DHS over the next 30 years is incorporated in the business plan. The relatively new stock profile has helped limit structural costs.

Housemark data shows that GPHG compares well on demand indicators across a sample of 21 similar RPs in northern England. In benchmarking, the group has historically compared itself with other RPs based in northern England, but now also does so against other bond issuers in the sector and against the strongest RPs within the UK.

Eviction is a last resort, and in the last 10 years, 40-70 tenants have been evicted a year, which is less than 1% of all tenants. Evictions are not always rent related, but may also relate to antisocial behaviour.

GPHG compares well against a sample of similar RPs on repairs responsiveness and void works. The group's focus is primarily to get a repair done, to the timescale the tenant requires, and done the first time. It is also key to make appointments that are convenient for the tenants. The group participates in a large framework arrangement (Innovation Chain North West) with other RPs to help reduce contractor prices. Terra Nova, the group's VAT minimisation vehicle, continues to deliver VAT efficiencies. The group has invested to strengthen its procurement team to guarantee the best value for goods and services.

Development of GPHG's Structural Costs

	GPHG FY15	GPHG FY16	GPHG FY17	Global accounts FY16 (median)	Global accounts FY17 (median)
Social Housing units managed	17,515	16,996	17,618		
Social Housing cost	2,740	3,060	3,070	3,570	3,300
Management	820	940	1,020	1,020	940
Service charge	360	250	350	360	370
Maintenance	600	630	560	970	930
Major repairs	740	880	850	810	680

[a] Includes routine maintenance and planned maintenance
Source: GPHG, RSH

Resource Management Risk

GPHG has no supply constraints for labour or resources in terms of amount, cost or timing. For FY18, GPHG's salary bill (including national insurance and pensions) will be GBP17 million with around 600 full-time-employees. Staff costs account for about a quarter of total operating costs and as such there is more leeway in this sector to reduce operating costs than there is in other public sectors where staff costs consist of a much more significant proportion of operating costs.

Capital Planning and Management

Capital planning and management are assessed as Neutral. GPHG has adequate mechanisms for capital planning and funding, and has demonstrated generally effective management. Capex benefits from documented assessment and aligns to plan reasonably.

Financial Profile

Income generated from social housing activities has increased over the years, and Fitch expects it to continue increasing over the course of the business plan. Over the last few years, the proportion of income from social housing rents has varied between 77%-88% of total income. Social housing rental income is relatively stable, but other elements of income, primarily sales income are liable to fluctuate. In terms of other social housing activity, 4%-12% has come from first-tranche sales, 2%-4% from supporting people and 1% from properties owned but managed by other organisations. Income from development for sale has ranged from 1%-6% and Fitch expects the proportion of turnover from developments for sale to increase over the next five years. However, the entity is not reliant on sales to achieve surpluses or meet any covenants.

Total turnover decreased by GBP7 million or 6% in FY18 from the previous year primarily due to GBP6 million lower turnover from first tranche sales. Turnover from social housing letting rose to GBP85 million in FY18 from GBP84 million in the previous year. The revised business plan projects an increase in social housing letting turnover to GBP98 million by FY22.

Liquidity Profile Assessment

The liquidity profile is assessed as Neutral, as GPHG has a liquidity cushion above 0.33. This is assessed as excess annual cash flow after debt service plus the sum of readily available cash and committed liquidity lines/sum of annual operating expenses (GBP24.5 million + GBP55.4 million / GBP78.2 million = 1.02).

Leverage (Net Debt/EBITDA) Assessment

Debt at FYE18 was GBP561 million, and borrowing requirements over the next five years are fairly stable with total debt expected to peak at GBP653 billion at FYE22. Net debt/EBITDA was below 10x at FYE17, and is expected to remain stable over the next five years.

2018 Business Plan

The 2018 business plan was approved by the board in April 2018. It has absorbed the impact of the rent reduction announced in the July 2015 budget and includes the CPI + 1% increase only for the period 2020-2025 and then assumes long-term rent increases are at CPI only. The plan generally demonstrates ongoing financial strength and incorporates prudent assumptions that have been benchmarked against others in the sector. The rent reduction and other adverse changes mean the group has thoroughly reviewed its operating processes and the cost base and is under way with the delivery of “Building Greatness”. This comprises seven work streams each with its own programme of deliverables: people; leadership, corporate structures, external engagement and communications; data and performance; investment in systems; procurement and contract management; growth; and business transformation.

The business transformation work stream will analyse all aspects of the group’s front and back-office services, seeking to drive out waste, inefficiency, duplication and non-value-adding activities, thereby increasing efficiency, effectiveness and value for money. GPHG has restructured its executive and leadership teams. They also recognise the challenges of ensuring they attract and retain a high-quality workforce with the right skills and with high levels of engagement. The investment in systems work stream aims to ensure it fully embraces modern technology and goes hand in hand with the business transformation work. So far, “Building Greatness” has realised approximately GBP7 million savings (against the 2015/2016 Business Plan) with further expected savings of GBP5 million in 2018/2019 and a further GBP1 million-GBP1.5 million in the medium term.

Asymmetric Additive Risk Factors

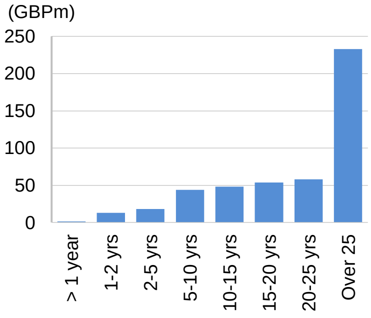
Summary of Rating Factors

Debt characteristics	Governance management	Legal and regulatory	Information quality	Country ceiling legal regime
Neutral	Neutral	Neutral	Neutral	Neutral

Source: Fitch Ratings

Loan Maturity Profile

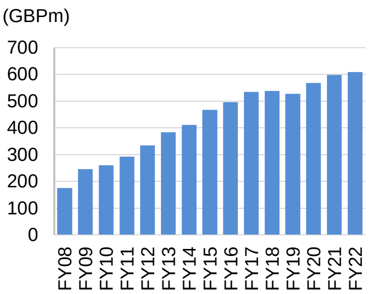
Financial debt



Source: Great Places

Actual and Projected Debt

Total debt



FY18: Actual; FY19-FY22: Business plan
Source: Great Places Housing Group Ltd

Debt Characteristics

At FYE18, debt had increased to GBP561 million from GBP535 million at FYE17 as well as GBP221 million available to draw. At FYE17, 86% was at fixed rates of interest. The group only borrows in sterling, and uses standalone interest rate swaps to hedge interest rate risk. The group also had a mark-to-market exposure of GBP44 million, a reduction from GBP51 million at FYE17. GPHG is required to post collateral for the mark-to-market exposure above the unsecured threshold on its standalone interest rate swaps.

In October 2012, GPHG issued a GBP150 million secured 30-year fixed-rate bond, with a GBP50 million retained element. It achieved a 170bp spread at an all-in cost of 4.81% for 30-year debt. This issuance was 8x oversubscribed. In December 2013, GPHG raised GBP31.8 million of the GBP50 million retained bonds and achieved an all-in cost of 4.57% and a spread of 1.04%. The final GBP18 million of the retained bond was issued on 3 October 2014 at an all-in cost of just over 4% and a spread of 1.02% over the gilt, almost 70bp cheaper than the GBP150 million initially issued in October 2012. In March 2018, GPHG issued a GBP145 million bond tap with a spread of 140bp and a total cost of 3.34% with a 2042 maturity including GBP70 million to be retained and to be drawn at a later date. GPHG has used these proceeds to cover its funding requirements under the group's current business plan, including its debt refinancing needs and has also repaid GBP19 million of existing legacy debt. The new bonds have the same terms and conditions, and will form a single series and rank pari passu with GPHG's GBP200 million secured bonds issued in October 2012.

Most of the group's debt is amortising except for three bullet repayments: GBP20 million of The Housing Finance Corporation EIB facility due in 2031; a GBP345 million bond for repayment in October 2042; and the GBP20 million AHGP bond due in 2042. There is also a GBP60m Royal Bank of Canada (AA/Stable/F1+) revolving facility due for repayment in November 2018 although this facility is currently undrawn. Otherwise, annual debt repayments are between a low of GBP8.7 million in FY19 and a high of GBP22.4 million for FY29.

Of the GB221 million available to draw, GBP118 million is immediately available, and fully secured, and GBP103 million was undrawn, not yet secured, and not available immediately. Most facilities are with major UK lenders including Santander, Barclays, Lloyds, Royal Bank of Canada and Royal Bank of Scotland. Of the group's 15,768 properties owned at FYE18, a total of 13,824 were secured, and 1,944 unencumbered. The group has GBP94 million of loan supportable properties.

GPHG had GBP55 million in liquid assets at FYE18. The group holds sufficient liquidity to cover the forecast net outflow of: liquid funds to cover a month; near-liquid funds to cover six months; short-term funds to cover a year; and medium-term funds to cover all contractually committed liabilities falling due after a year and before three years.

GPHG closed its final salary pension scheme to new and existing members and replaced it with a career average scheme in April 2016 as well as a defined contribution offer for auto-enrolment that has helped control ongoing pension costs. The Social Housing Pension Scheme (SHPS) had its triannual revaluation in September 2017 and it is highly likely this will see an increased deficit and a requirement for additional deficit reduction payments.

Governance and Management

GPHG's executive team consists of the chief executive, three executive directors covering finance, growth and assets, customer services and a CEO Directorate. A strengthened layer of 10 directors also manage specific areas under the executives. Matthew Harrison has been chief executive since April 2013. He had previously been director of development since 1993 and deputy chief executive since 2002. "Insight", the Tenant Scrutiny Group, supports the voice of the tenant to the board.

The board has eight members not including the chief executive, but is currently recruiting for up to two new board members as part of succession planning. GPHG, GPHA and Plumlife have had coterminous boards since September 2013, to streamline the governance structure. Cube and Terra Nova still have different boards.

Legal and Regulatory

There is a strong precedent for contractual frameworks and a regulatory or statutory framework and its operation and effect. All the customer key documents and legal opinions are accessible for review where relevant. The external auditor, BDO LLP, raised no significant concerns on the FYE17 unqualified accounts. The latest regulatory judgement, of G1/V1 for governance and viability, was re-affirmed in November 2017 following an annual stability check. GPHG is also currently subject to an In-depth Assessment (IDA).

Information Quality

The information quality is assessed as being Neutral to the rating. Data is regularly updated; data is independently validated; forecasts are supported by significance or error range statistics; there is no history of material data errors; there are detailed cash flows showing receipts and disbursements; and there is audited financial data and a significant amount of public information available.

Country Ceiling and Legal Regime

The Country Ceiling and legal regime are also assessed as Neutral. The Country Ceiling of the United Kingdom is 'AAA' and above GPHG's intrinsic credit profile. The legal system is creditor-friendly and reliable, and there is a history of impartiality and respect for contracts. There is a long-term stable economy and supportive regulatory regime, and the social housing sector is of national importance.

Principal Rating Factors Under Government-Related Entity Criteria

Summary of Rating Factors

Strength of linkage		Incentive to support	
Status, ownership and control	**Support track record and expectations**	**Socio-political implications of default**	**Financial implications of default**
Strong	Moderate	Moderate	Weak

Source: Fitch Ratings

The assessment under the Government-Related Entities Criteria for all RPs is currently a total scoring of 12.5 points. With a standalone assessment of 'A' for GPHG under the Revenue-Supported Criteria, meaning three notches away from the UK government, this would lead to a bottom-up + 1 notch under the Notching Guideline Table.

Strength of Linkage

Status, Ownership and Control – Assessed as Strong

Most RPs are private not-for-profit entities. For entities that do not have, in strict terms, a legal ownership (due to their structure or their status), Fitch will look primarily at the level of control by the government – and not at ownership. We consider the regulatory framework for English social housing as having a robust legal basis and the overseeing Regulator of Social Housing (RSH) as maintaining sound control and tight monitoring of RPs. The regulator's history of oversight and (non-financial) intervention in (rare) cases of distress is a key factor behind the sector's solidity.

The RSH periodically publishes regulatory judgements on individual RPs. These judgements comprise a viability report and a governance report, which are conducted by means of an in-depth assessment of the individual RP (evaluation of the risks it faces – financial, market, liquidity, etc – and the management team's ways of coping with them). In addition, RPs have to submit their multi-year business plans (which include a development plan, an operating plan, a means of financing, and stress testing) for assessment.

Under this assessment, Fitch has factored in not only the financial involvement of the government in terms of the provision of housing benefit and housing grants, but also the fact that RPs are carrying out an important public policy mission as well as ensuring that the until-now government co-financed public assets remain in the sector.

Support Track Record and Expectations – Assessed as Moderate

Policy influence is moderately supportive of the financial stability of RPs. Regulatory restrictions on government support are unlikely to prevent timely intervention in exceptional circumstances. Although the regulator does not provide a direct guarantee for RP borrowers, and the UK government does not have any ownership in the entities, the RSH can use its statutory powers to intervene where there are serious concerns about the performance of an RP. Cosmopolitan's merger with Sanctuary in March 2013 showed that the regulator's support was available for those entities also heavily involved in non-social housing activity. We have therefore deemed that, if necessary, support would ultimately be forthcoming for all RPs.

Incentive to Support

Socio-Political Implications of Default – Assessed as Moderate

In the unlikely event of financial default, other RPs can act as substitutes with only minor or temporary disruption to the service offered by the RP, not materially affecting the provision of service. Support for this sector ranges from merely ensuring continuation of activities whilst a substitute is found to actively seeking to prevent a default and ensure continued financial viability of the GRE. The RSH can place a poorly performing RP under supervision and make statutory appointments to the board. In some extreme cases, it can direct an independent statutory inquiry, which could result in an RP being required to transfer its assets to another RP to protect the interests of tenants and other relevant parties. Fitch considers that RPs facing difficulties would probably be forced to merge with larger or financially stronger entities.

Financial Implications of Default – Assessed as Weak

Default would have a minimal impact on either the availability or cost of domestic financing of other RPs. Fitch considers that if a default occurred, it would be treated as an isolated case of mismanagement or viability concerns; as such, this should not affect the sector at large.

Appendix A

Great Places Housing Group Limited

(GBPm) FYE: 31 March	2013	2014	2015 Restated (adoption of FRS 102)	2016 (adoption of FRS 102)	2017 (FRS 102)
Income statement summary and profitability					
Total operating revenue (exc. transfers and grants from public sector)	80.5	87.8	92.1	109.2	112.3
Operating revenue growth (%)	10.88	9.07	4.90	18.57	2.84
Transfers and grants from public sector	0	0	0	0	0
Transfers and grants from public sector/total revenues (%)	0	0%	0	0	0
Operating balance	23.6	28.3	33.2	33.8	34.1
Interest expense	16.2	19.2	20.8	21.8	21.5
Profit (loss) after tax [b]	7.4	9.2	11.3	12.4	12.7
Personnel costs/total revenues (%)	21.49	22.10	20.63	17.77	17.36
Fitch calculated EBITDA margin (%)	37.89	41.00	51.03	44.60	45.24
FCF margin (%)	-14.78	-10.93	-38.22	-1.10	5.43
Return on equity and reserves (%)	13.05	13.94	37.92	31.39	26.13
Return on assets (%)	1.56	1.78	1.05	1.11	1.09
Balance sheet summary					
Total assets [a]	473.2	516.8	1,078.6	1,119.9	1,166.7
Stock	14.7	18.6	7.5	15.1	10.0
Cash and liquid investments	18.0	27.3	26.3	31.0	55.4
Reserves	56.7	66.0	29.8	39.5	48.6
Equity	0	0	0	0	0
Cash flow summary					
EBITDA (Fitch calculated)	30.5	36.0	47.0	48.7	50.8
CFO: Cash flow from operations	41.0	43.8	44.7	29.1	67.7
Net capital expenditure	-52.9	-53.4	-79.9	-30.3	-61.6
Dividends paid	0	0	0	0	0
FCF: Free cash flow	-11.9	-9.6	-35.2	-1.2	6.1
Equity injection	0	0	0	0	0
Other cash financing	-25.9	-10.9	-22.5	-23.0	-23.4
Cash flow before debt movement	-37.8	-20.5	-57.7	-24.2	-17.3
New borrowing	176.2	42.9	70.9	62.5	55.9
Debt repayment	-126.6	-13.2	-14.1	-33.5	-14.1
Cash flow after net debt movement	11.8	9.2	-.9	4.8	24.5

[a] Prior to the adoption of FRS 102, the Social Housing Grant was classified within fixed assets and netted off. With the adoption of FRS 102, it is now shown as a long-term liability
[b] Since the adoption of FRS102, the Financial Statements now show the total comprehensive income for the year, which considers primarily movements in Fair Value of hedged financial instruments. These movements have not been included in the table above
Source: Issuer and Fitch Ratings calculations

Appendix B

Great Places Housing Group Limited

(GBPm) FYE: 31 March	2013	2014	2015	2016	2017
Debt summary					
Short-term debt	1.8	1.6	1.5	3.1	4.7
Long-term debt	381.4	409.3	466.0	493.4	530.0
Total debt	383.2	410.9	467.5	496.5	534.7
Subordinated debt					
Finance leases	1.1	3.1	3.3	3.3	3.2
Other Fitch-classified debt					
Total risk	384.3	414.0	470.8	499.8	537.9
Unfunded pension liabilities					
Contingent liabilities					
Overall risk	384.3	414.0	470.8	499.8	537.9
Cash, liquid deposits and sinking fund	18.0	27.3	26.3	31.0	55.4
Net overall risk	366.3	386.7	444.5	468.8	482.5
% debt in foreign currency (%)	0	0	0	0	0
% debt at fixed interest rate (%)	90.24	91.82	95.02	95.27	85.99
% issued debt (%)	38.49	44.07	43.14	40.62	37.72
Coverage and leverage					
Fitch calculated EBITDA gross interest coverage (x)	1.88	1.88	2.26	2.23	2.36
Net debt/(CFO-capex) (x)	-30.69	-39.96	-12.53	-387.92	78.57
Total debt/Fitch-calculated EBITDA (x)	12.56	11.41	9.95	10.20	10.53
Net debt/Fitch-calculated EBITDA (x)	11.97	10.66	9.39	9.56	9.44
Total risk/Fitch-calculated EBITDA (x)	12.60	11.50	10.02	10.26	10.59
Overall risk/Fitch-calculated EBITDA (x)	12.60	11.50	10.02	10.26	10.59
Total debt/equity and reserves (%) [a]	675.84	622.58	1,568.79	1,256.96	1,100.21
Total debt/total assets (%)	80.98	79.51	43.34	44.33	45.83
Sector-specific data					
Social housing rent	64.7	68.6	78.5	82.9	84.3
Other social and non-social activity	15.1	16.4	10.9	21.0	25.1
Property sales	.2	1.3	.5	9.1	2.8
Management costs	13.9	14.8	13.9	16.0	18.1
Routine maintenance costs	9.3	9.4	10.3	10.4	10.2
Net debt/total assets (%)[b]	77.18	74.23	40.90	41.57	41.08
Total debt per unit	23,227	24,480	26,691	26,971	28,196
Accrued housing grant	506.9	517.8	524.0	527.8	527.1
Total social housing stock (units)	16,498	16,785	17,515	18,409	18,964
Void rent loss	1.3	1.4	1.2	0.9	0.9
Management cost per social housing unit	842.53	881.74	793.61	869.14	954.44
Routine maintenance cost per social housing unit	563.70	560.02	588.07	564.94	537.86
Void rent loss/social housing rent (%)	2.01	2.04	1.53	1.09	1.07
Social housing rent/total revenues[a] (%)	80.37	78.13	85.23	75.92	75.07

[a] Prior to the adoption of FRS 102, the Social Housing Grant was classified within fixed assets and netted off. With the adoption of FRS 102, it is now shown as a long-term liability
Source: Issuer and Fitch Ratings calculations

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.