A2Dominion 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

A2Dominion Housing Group Limited

	31 Mar 17	31 Mar 16
Total operating revenue (GBPm)	371.9	378.4
Operating balance (GBPm)	106.2	113.0
Total debt (GBPm)	1,561.6	1,364.5
Total assets (GBPm)	3,638.8	3,345.4
Equity and reserves (GBPm)	835.5	748.8
EBITDA (Fitch calculated)	202.5	209.6
ROA (%)	2.31	3.42
ROE (%)	10.06	15.27
Net debt/Fitch-calculated EBITDA (%)	6.94	6.30

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 of A2Dominion Housing Group Limited (A2D) reflect continuing demand for social housing in the south of England, and continued cash flow from rented properties. They also factor in A2D's secured cash flow from public funds and the control and regulation provided through the Homes and Communities Agency (HCA). A2D is one of the largest registered providers (RPs) of social housing in the south of England, with over 36,700 units owned and managed in total in the financial year to March 2017 (FY17).

Rating Approach: Fitch rates RPs in England under its Revenue-Supported Rating Criteria and takes into account factors such as revenue defensibility, operating risk and the 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 81 local authorities where A2D has housing units. A2D shows healthy tenancy turnover and swift re-letting of properties. Demand is also reflected in the 109 applications on average per vacancy for choice-based lettings and good performance on void loss and arrears. A2D has developed over 10,000 units in the last 10 years, and its strategy for 2015-2020 is to develop a further 4,500-6,000 units, of which over 2,000 have now been built.

Revenue Defensibility – Pricing: This has been assessed as Midrange. It is the UK government that determines rent rises, limiting RPs' flexibility. Rents have been reduced by 1% a year since April 2016. Nevertheless, on 4 October 2017, it was announced that rents would again return to consumer price index (CPI) plus 1% for the five years from 1 April 2020.

Operating Risk – Operating Costs: This is assessed as Strong. A2D has well-identified cost drivers and low potential volatility in major items. A2D 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. A2D 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 has been assessed as Strong. A2D has recorded net annual surpluses for the last five years, and its business plan forecasts further surpluses. Fitch expects the operating margin over the next five years to be between 28% and 34%. Debt at FYE17 was GBP1.56 billion, and borrowing requirements over the next five years are fairly stable with total debt expected to peak at GBP1.59 billion at FYE22. Net debt/EBITDA was below 7x at FYE17, and is expected to remain below 8x 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 along with an improvement in liquidity or an improvement in revenue defensibility to Strong. A downgrade could result from a sustainable weakening of A2D's net debt/EBITDA ratio along with weakening liquidity or a weakening in revenue defensibility or operating risk.

Rating History

Date	Long-Term Foreign IDR	Long-Term Local IDR
7 July 17	A+/Stable	A+/Stable
8 July 16	A+/Stable	A+/Stable
11 Nov 15	A+/Stable	A+/Stable
14 Nov 14	A+/Stable	A+/Stable
11 Aug 14	AA−/Neg.	AA−/Neg.
19 Sept 13	AA−/Neg.	AA−/Neg.

Social Housing

	Units	
	FY17	FY16
General needs	17,522	17,573
Affordable	737	424
Managed for others	5,475	5,152
Shared ownership	3,835	3,905
Key worker	2,697	2,692
Supported/housing for older people	2,293	2,375
Social housing - other	1,248	1,250
Temporary accommodation	452	440
Non-social housing	2,480	2,319
Total owned and managed	**36,739**	**36,130**

Source: A2D

Top 5 Local Authorities by Unit Number

	FY17	FY16
Spelthorne	7,527	7,491
Ealing	3,474	3,448
Hounslow	2,804	2,600
Oxford	2,688	2,689
Hillingdon	2,068	2,092

Source: A2D

Related Criteria

Government-Related Entities Rating Criteria (February 2018)

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

Profile and Overview

The group has grown organically and by acquisitions of housing associations and large-scale voluntary transfers. A2D was formed in October 2008, when A2 Housing Group merged with Dominion Housing Group. It provides social, affordable and low-cost home ownership, and supported/sheltered, student accommodation and units for private rent and private sale. A2D is the parent and provides strategic direction, and central and development services. A2Dominion Homes and A2Dominion South are the charitable RPs. A2Dominion Housing Options provides low-cost ownership and is a non-charitable organisation. A2Dominon Developments Ltd, which was formed in FY14 by merging two existing companies, carries out development activity on behalf of the whole group, including affordable housing and housing for sale. A2D Residential is the vehicle used for market rent activity. A2D provides a repairs and maintenance service through two joint ventures (JVs) with two maintenance contractors. Pyramid Plus South and Pyramid Plus London are 70% owned by A2D and sit under A2Dominion Housing Options.

The group also has interests in an additional five JVs, four of which are development JVs. Two of these are developing 606 homes with Mount Anvil at Keybridge House in Vauxhall and Queen's Wharf in Hammersmith; with A2D acting as funder and partner, this reduces risks, costs and time. In FY15, the "FABRICA by A2Dominion" brand was launched along with a website for marketing the growing range of private sale, shared ownership and private rent homes.

A2D is now one of the largest registered social housing providers in the south of England, with just under 36,750 total units at FYE17. It is a member of the G15 group of London's largest housing associations. A2D operates in London and throughout the south-east of England, with a strong presence in Ealing, Bromley and Oxford through A2Dominion Homes, and in Staines and Winchester through A2Domion South. The group operates across 81 local authorities, of which 10 are key partners for the future.

Rating Approach

Fitch rates RPs in England under its Revenue-Supported Rating Criteria and takes into account factors such as 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
Midrange	Strong	Strong

Source: Fitch

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 Midrange.

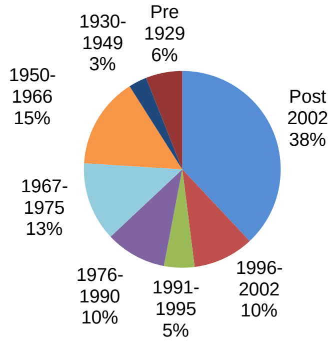
Demand Characteristics

Stock Profile of Social Housing Provided

The group's stock is located in regions with high property values and market rents. There is also strong demand for housing in these areas, with 109 applications on average per vacancy for choice-based lettings. Only 34% of all A2D tenants received HB to pay either part or all their rent. Eighty-five per cent of tenants already have a paying relationship with A2D, and 62% of rental income is paid directly by tenants.

The group regularly carries out a planned stock condition survey. On average, all stock is inspected on a rolling five-year basis. This information is fed into the survey. New surveys are budgeted for annually and include new units and any stock swaps. The stock condition survey influences asset management strategy and future planned programmes, and provides data for internal/external clients who may request stock data. Ninety-nine per cent of the total stock is compliant with the Decent Homes Standard. Just under 40% of the stock was built post-2002, demonstrating a fairly new portfolio.

A2D: Age of Stock Profile



Source: Fitch

Development Programme and Partnerships

A2D has developed over 10,000 units since FY08. It has an in-house developer, which undertakes certain developments as the main contractor employing subcontractors. Of those units developed, 53% were for social rent, which were previously helped by the grant regime. Just over 25% were shared ownership, and the rest were for private sale or market rent. Total units developed annually have ranged between 579 and 1,767 since FY08. These numbers will vary over the coming years as completion of developments is achieved.

Total Stock and Development Track Record

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Total owned & managed	32,912	33,787	34,557	34,931	34,343	34,818	35,399	36,130	36,739
Units developed	1,553	1,253	1,107	1,101	636	581	579	1,127	754
(%)	4.7	3.7	3.2	3.2	1.9	1.7	1.6	3.1	2.1

Source: A2D

Development Track Record

	Units developed/ completed	Units in development
2007-2008	1,767	
2008-2009	1,553	
2009-2010	1,253	
2010-2011	1,107	
2011-2012	1,101	
2012-2013	636	
2013-2014	581	
2014-2015	579	
2015-2016	1,127	
2016-2017	754	
2017-2018		582
2018-2019		1,080
2019-2020		931
2020-2021		717
2021-2022		850
2022-2023		1,176

Note: Includes committed and uncommitted
Source: A2D

The group has a robust development appraisal process, procedures and controls. As affordable housing development in London and the south-east requires a subsidy, this must be provided from surpluses generated elsewhere within the group. A2D has managed to lessen the impact of reduced government grants by reinvesting more of its reserves in subsidising the provision of affordable homes. The grant secured under the 2016-2021 Programme is GBP3.8 million compared to GBP18 million under the 2015-2018 Programme. An additional total grant of GBP8 million has been secured for specialised programmes.

The group's strategy is to develop whole sites, with a mix of tenures. This gives it full control over the site and the ability to appoint contractors or use its in-house developers. Profits from housing sales can be gift-aided to the charitable RPs to support affordable housing development.

At FYE17, the group managed or owned 36,739 homes, a net increase of 609 on the previous year-end. Organic growth through development was offset by the disposal of units under the group's stock rationalisation programme. In FY17, 754 units were developed, of affordable and private rented, shared ownership and private sale. The group has over 5,400 units under development in line with its strategy to develop between 900 and 1,200 units a year. Of these, around 20% will be social and affordable units, 20% market rent, 20% shared ownership and 40% private sale. A2D submitted bids for the 2015-2018 Programme that included 290 rented and 60 shared-ownership bids through the Greater London Authority and combined bids to the HCA of 135 rented and 139 shared ownership.

A2D had GBP908 million of total capital commitments in FY17, representing 244% of total turnover. Of these commitments, GBP493 million or 54% were authorised by the board but not contracted. Total commitments are phased up to FY22 and are expected to be met by: GBP358 million of undrawn loan facilities, cash of GBP218 million, Social Housing Grant, projected proceeds from first-tranche sales of shared-ownership properties, and the sale of properties for a projected GBP1,097 million.

Market Rent

The group has developed a market rent programme with the key objective of achieving a commercial return to reinvest in social housing. These properties are being developed in key areas within a 20-mile radius of one of A2D's management offices. 682 units are already in management, and a further 532 units are planned to be built by FY20 at a cost of GBP255 million.

Welfare Benefit Reform

The key welfare reforms affecting A2D concern direct payment by, and lower benefits to, tenants, under-occupancy rules and benefit caps. The Welfare Reform working group continues to monitor and reports regularly on the effects of welfare reform and the effectiveness of A2D's action plan. The tenancy sustainment team has helped tenants secure GBP5.4 million in HB from applications and renewals received. Of A2D's tenants, 34% receive HB, but only 15% are on full HB. Sixty-two per cent of all rental income is paid directly by tenants, and 85% of tenants already have a paying relationship with A2D. General needs arrears were 3.52% at FYE17, a slight reduction from 3.7% at FYE16.

Universal Credit was initially expected to have the single biggest impact on the group and was forecast to affect just over 10,200 units from FY19. Due to the delay in the implementation of Universal Credit, the projected impact for FY18 is for 839 tenants to be affected with a maximum exposure of GBP0.4 million. This could rise to GBP1.2 million in FY19, GBP2.1 million in FY20 and GBP2.4 million in FY21 as Universal Credit is rolled out. The under-occupancy charge is expected to affect just over 850 units, and the group continues to facilitate downsizing moves. The group aims to keep potential exposure to within GBP0.2 million annually until FY21. Council Tax Benefit Reductions have been estimated to affect just under 6,300 units, and the aim is to keep exposure to a minimum of GBP0.1 million annually until FY21. The Benefit Cap is estimated to affect under 250 residents. The maximum exposure is not expected to be more than GBP0.7 million in FY18, reducing to GBP0.5 million in subsequent years. The working-age benefit freeze is estimated to affect about 8,700 residents, although there should be no financial impact until FY21.

Pricing Characteristics

Average weekly current general needs rents across the areas in which A2D 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 on 4 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).

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

Benchmarking A2D's Financial Indicators

Total cost per property	A2D FY13	A2D FY14	A2D FY15	A2D FY16	G15 2016	London HAs 2016
Major works and cyclical repairs (GBP)	1,592	1,453	1,647	1,751	1,537	1,495
Responsive repairs and void works (GBP)	820	799	901	936	931	941
Housing management (GBP)	572	593	626	623	545	618
Arrears (%)	4.9	4.1	4.6	4.3	4.0	4.5
Void rent loss (%)	0.6	0.9	0.6	0.5	0.6	0.6

Source: A2D, HouseMark G15 and London Cross Sector reports 2015/16

A2D has well-identified cost drivers and low potential volatility in major items. It has material capex in the near term but limited flexibility on timing for major life-cycle costs.

A2D's performance indicators have improved in recent years, partly due to a business improvement exercise. FY17 was the fourth year of operations for Pyramid Plus London and Pyramid Plus South, which provide responsive repairs and allow A2D to continue investing to maintain and upgrade its homes. This service model allowed for savings of GBP1 million against the previous model.

In FY17, management cost per unit decreased significantly. Planned and major repairs totalled GBP30 million, of which GBP9.3 million was capitalised.

The group focuses on value for money and is continually looking for efficiencies. The group achieved GBP4.5 million in efficiency savings in FY17 through various process reviews, and primarily as a result of procurement and contract savings. A total of GBP23 million has been saved since FY10 through rationalisation, the business transformation programme and testing the market in all areas of expenditure. A2D aims to save a further GBP19.4 million over the next three years. The relocation of offices to Paddington and redevelopment of the offices in Staines and Ealing will also help reduce costs in the long term.

Resource Management Risk

A2D has no supply constraints for labour or resources in terms of amount, cost or timing. A2D's average number of employees was 1,024 full-time equivalents during FY17, in line with FY16. Of these, 72% were in housing support and care, 19% in administration and 9% in development. Wages and salaries also remained in line with the previous year, although the pension provision reduced to GBP1.1 million from GBP7.9 million primarily due to a reduced movement on the present value of Social Housing Pension Scheme (SHPS) pension deficit payments.

Development of A2D's Structural Costs

	FY12	FY13	FY14	FY15	FY16	FY17
Management cost per unit (GBP)	1,219	1,406	1,366	1,386	1,361	1,085
Total maintenance cost per unit (GBP)[a]	464	486	464	485	494	505
Total cost per unit (GBP)	1,683	1,892	1,830	1,871	1,855	1,590

[a] Includes routine maintenance but not planned or major repairs
Source: Fitch, A2D

Capital Planning and Management

Capital planning and management are assessed as Neutral. A2D has adequate mechanisms for capital planning and funding, and has demonstrated generally effective management. Capex benefits from documented assessment and aligns to plan in a reasonable way.

Financial Profile

In FY17, turnover reduced slightly to GBP372 million, from GBP378 million in FY16. This was primarily due to a reduction in first-tranche sales to GBP15.6 million from GBP26.1 million in FY16. The surplus for FY17 also reduced to GBP85 million from GBP115 million in FY16 due to lower surplus on sales and fair-value upward adjustments amounting to GBP15.3 million in FY17 as opposed to GBP32 million in FY16.

Liquidity Profile Assessment

At FYE17, A2D had GBP218 million in cash and liquid investments. This is much higher than the usual amount held at year-end as a result of the group's GBP250 million bond issue during the year. A2D aims to minimise the liquid cash that it holds, seeking to maximise its return through investment. The liquidity profile is assessed as Neutral, as A2D 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 (GBP111.2 million + GBP218 million / GBP265.7 million = 1.24).

Leverage (Net Debt/EBITDA) Assessment

Drawn debt is expected to remain stable at around GBP1.5 billion over the next five years. Net debt/EBITDA is also expected to remain stable, not exceeding 8x over the next five years.

Base Case and Rating Case Outcomes – Compatible With 'A' Category

Long-Term Financial Forecast 2018-2047

The long-term financial forecast is reviewed annually and approved by the board. The key areas the group has focused on are providing new quality homes; delivering customer-led services; investing in homes and local communities; and strengthening the business.

Turnover is forecast to rise to GBP547 million in FY22 with the operating surplus at GBP142 million in the same year. Debt is expected to be GBP1.59 billion in FY22, in line with the GBP1.56 billion at FYE17. The tightest interest cover covenant of 1.1x as well as the tightest gearing covenant of 85% are met across the base plan and stress tests by all subsidiaries, albeit with diminished headroom. A2D has developed just under 10,500 units in the last decade, and its strategy for 2015-2020 is to develop 4,500-6,000 units. The tenure split is expected to be 20% affordable rent, 20% shared ownership, 20% private rent and 40% private sale, and the regional split of 60% in London and 40% in the south-east. Nevertheless, both the tenure and regional splits are continually under review.

A2D has considered various key risks for the plan including interest rates, inflation, rent and housing benefit, sales, liquidity, and development strategy. The base plan and stress testing variants demonstrate the group could still meet its covenants if it faced an increase in lending margins or a price sales decrease and a delay in sales, whilst a combination of these would bring the group closer to its covenant limits. The group has identified potential remedies including: conversion of any loss-making private developments into intermediate or market rented properties; a further review of costs with the aim of achieving further reductions and savings; general asset sales as part of the asset management programme, which are not currently part of the forecast; and the sale of part of the group's private rented stock, which is held in A2D Residential unencumbered and which has a historical cost well below its current market value. The social housing schemes in the forecast require a significant amount of subsidy. However, there are a number of schemes where A2D has not committed to start construction that could be delayed or the site disposed of to another RP.

Borrowings, FYE17

(GBPm)	Arranged	Drawn
A2D Homes Ltd	897.9	675.8
A2D South Ltd	790.2	654.0
A2D Housing Options Ltd	0	0
A2D Residential Ltd	222.8	222.8
Total	**1,909.4**	**1,551.1**[a]

[a] Difference of GBP10.5m with total debt in Appendix A. When Kelsey Housing Association joined the Dominion Group, its loans were incorporated into the A2D accounts at fair value. The difference consists of remaining fair value adjustment and loan issue costs
Source: A2D financial statements

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

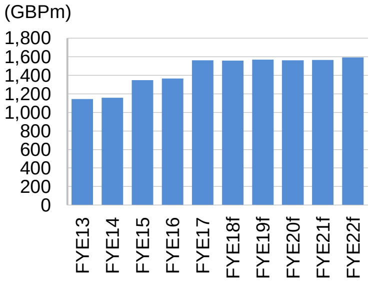
Source: Fitch

Debt Characteristics

A2Dominion Homes, A2Dominion South and A2D Residential Ltd are the group's main active borrowers. A2Dominion South is partly funded by loans provided through the group's parent, and the remaining borrowing within the group is through bilateral agreements or from bonds. Total drawn debt increased by GBP197 million in FY17 due to a 3.5% fixed-rate GBP250 million bond issuance in November 2016 under the EMTN programme. Over 52% of the current debt portfolio comprises bank loans, with margins ranging from 0.25% to 1.4%, with 77% of bank loans at a fixed rate for over 12 months.

Actual and Projected Total Debt

Financial debt



f: Long-term Business Plan
Source: A2D

All loans are secured by charges on properties, apart from the bonds, which are unsecured. The loans are to be repaid between 2018 and 2043 in bullet payments or half-yearly and quarterly instalments. There are bullet loans of GBP28.5 million due to be repaid over the next two years, with total repayments of GBP88 million. Of total units owned, just over 10,000 are unencumbered, of which 7,000 are available to be charged. The total value of the social housing stock is GBP2.3 billion on an Existing Use Value for Social Housing (EUV-SH) basis, giving an average EUV-SH figure of GBP100,000 per unit compared to an average Market Value, subject to tenancies (MV-T), of GBP151,000. The total value of all completed stock at MV-T is GBP8.7 billion.

Loan covenants are primarily based on interest cover and gearing ratios. Individual loan covenant ratios at FYE17 were comfortably above the most constraining interest cover limits of 110% over one year and comfortably within the most constraining gearing limits of 85%. At FYE17, the group had completed the charging of all loan facilities and had GBP350 million of undrawn immediately available loans and GBP218 million of cash, investments and sinking funds.

Total Drawn Loans, FYE17

(GBPm)	Less than 1yr	1-2yrs	2-5yrs	More than 5yrs	Total due
A2D Homes Ltd	17.0	18.9	27.8	612.0	675.7
A2D South Ltd	15.5	31.2	59.6	547.7	654.0
A2D Housing Options Ltd	0	0	0	0	0
A2D Residential Ltd	0	0	0	222.8	222.8
FV Adjustment	1.4	1.4	3.9	9.5	16.2
Total	**33.9**	**51.5**	**91.3**	**1,393.0**	**1,568.7**
(%)	2	3	6	89	

Note: FV Adjustment occurred when the group took on some old Kelsey loans previously
Source: A2D

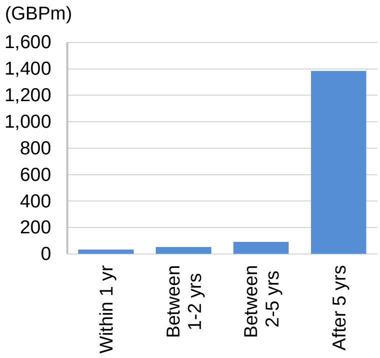
In October 2014, A2D Funding II issued a GBP150 million 12-year fixed-rate bond at a coupon rate of 4.5%. This followed GBP150 million of unsecured retail bonds issued in October 2013 by A2D Funding for a nine-year fixed-rate bond at a coupon rate of 4.75%. The sole purpose of these two special-purpose vehicles, governed and owned by trustees, is to issue bonds and on-lend the proceeds to A2D subsidiaries. The bond issuances both had a guarantee from A2D. The guarantee is a senior unsecured primary obligation of the guarantor, which has the primary obligation to make the payments in full and on the due date if the issuer fails to make the payment. In FY17, A2D established an EMTN programme and raised GBP250 million as a debut issue at the group’s lowest coupon to date of 3.5%.

The group’s strategy is to repay loans rather than hold large cash balances, and it has GBP35 million of currently drawn revolving credit facilities that could be repaid if required.

A2D’s employees are members of the SHPS or the Surrey and Oxfordshire County Council Schemes or the Scottish Widows pension schemes. There are two Scottish Widows schemes, which are defined-contribution schemes. For the Surrey and Oxfordshire County Council schemes, the funded assets total GBP17.9 million and the liabilities GBP23.6 million, resulting in a net deficit of GBP5.7 million, equivalent to 76% funded.

A2D is looking to increase its headroom to safeguard against any market shocks or a slowdown in sales, as well as to take advantage of development opportunities as they arise. As such, in September 2015, it entered into two new five-year revolving credit facilities to act as standby facilities.

Loan Maturity Profile
Financial debt



Source: A2D

Governance and Management

Governance and management are assessed as Neutral. The management and governing body have extensive experience in the sector, which has generally been stable with modest turnover. The governing body is objective and engaged, and transparency and communication are good between the management and governing body. There are well-developed and documented policies and procedures.

There has been a new governance structure in place since 1 April 2017. The group board is supported by three committees and two panels. The membership of the board and committees has been reviewed and a new group chair appointed. A2D launched its “Fit for the Future” change programme, and a business-wide review of processes and structures was undertaken. The procurement process for a new IT system has commenced, and A2D estimates GBP20 million investments over three years.

There are six non-executive board members, including the chair. The executive team consists of nine members: the group chief executive, and executive directors covering the following areas: central and financial services, operations, change & IT, finance and strategy, new business, projects, development initiatives, and commercial. There is a centralised management structure, and the single board oversees the subsidiaries.

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, which were approved by the board in July 2017. The latest regulatory judgement, of G1/V1 for governance and viability, was confirmed in December 2017.

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 A2D’s intrinsic credit profile. The legal system is creditor-friendly and reliable, and there is a history of impartiality and respects 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

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 A2D 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 factor, 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-SH 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

A2Dominion 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)	258.6	272.1	312.3	378.4	371.9
Operating revenue growth (%)	3.77	5.22	14.77	21.17	-1.72
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	54.9	77.7	86.5	113.0	106.2
Interest expense	43.4	48.2	49.8	49.7	55.8
Profit (loss) after tax	28.0	38.9	73.2	114.5	84.1
Personnel costs/total revenues (%)	12.68	14.11	12.39	10.65	11.16
Fitch calculated EBITDA margin (%)	51.78	57.33	55.97	55.39	54.45
FFO margin (%)	32.21	37.52	36.47	38.64	37.51
FCF margin (%)	28.19	19.59	-41.15	14.61	-6.21
Return on equity and reserves (%)	4.69	6.10	11.49	15.27	10.06
Return on assets (%)	1.53	2.06	2.26	3.42	2.31
Balance sheet summary					
Total assets	1,834.6	1,887.5	3,239.2	3,345.4	3,638.8
Stock	172.7	174.7	243.2	201.2	221.9
Cash and liquid investments	17.6	31.3	38.4	45.3	218.1
Reserves	597.1	636.5	635.8	748.8	835.5
Equity					
Cash flow summary					
EBITDA (Fitch calculated)	133.9	156.0	174.8	209.6	202.5
Cash interest paid	-51.3	-54.1	-62.7	-65.7	-69.4
Other items before FFO	.7	.2	1.8	2.3	6.4
FFO: funds from operations	**83.3**	**102.1**	**113.9**	**146.2**	**139.5**
Changes in working capital	4.7	-21.4	-96.9	40.8	-6.7
CFO: cash flow from operations	**88.0**	**80.7**	**17.0**	**187.0**	**132.8**
Net capital expenditure	-15.1	-27.4	-145.5	-131.7	-155.9
Dividends paid	0	0	0	0	0
FCF: free cash flow	**72.9**	**53.3**	**-128.5**	**55.3**	**-23.1**
Equity injection					
Other cash financing	-50.6	-54.9	-60.9	-63.3	-63.0
Cash flow before debt movement	**22.3**	**-1.6**	**-189.4**	**-8.0**	**-86.1**
New borrowing	26.3	237.4	583.9	50.0	318.5
Debt repayment	-66.6	-213.5	-395.1	-34.1	-121.2
Cash flow after net debt movement	**-18.0**	**22.3**	**-.6**	**7.9**	**111.2**

[a] Includes revenue from the public sector
[b] 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.
[c] Since the adoption of FRS102, the Financial Statements now show the total comprehensive income for the year, which considers primarily movements in FV of hedged financial instruments. These movements have not been included in the table above.
Source: Issuer and Fitch calculations

Appendix B

A2Dominion Housing Group Limited

(GBPm) FYE: 31 March	2013	2014	2015	2016	2017
Debt summary					
Short-term debt	22.3	21.1	15.3	29.2	33.9
Long-term debt	1,122.7	1,138.2	1,332.8	1,335.3	1,527.7
Total debt	1,145.0	1,159.3	1,348.1	1,364.5	1,561.6
Subordinated debt					
Finance leases					
Other Fitch-classified debt					
Total risk	1,145.0	1,159.3	1,348.1	1,364.5	1,561.6
Unfunded pension liabilities	3.2	4.6	5.8	4.9	5.7
Contingent liabilities	0				
Overall risk	1,148.2	1,163.9	1,353.9	1,369.4	1,567.3
Cash, liquid deposits and sinking fund	21.5	34.6	34.8	43.9	155.6
Net overall risk	1,126.7	1,129.3	1,319.1	1,325.5	1,411.7
% debt in foreign currency (%)	0	0	0	0	0
% debt at fixed interest rate (%)	83.00	95.40	90.40	89.10	92.90
% issued debt (%)	0	12.94	22.25	21.99	19.21
Coverage and leverage					
Fitch calculated EBITDA gross interest coverage (x)	2.61	2.88	2.79	3.19	2.92
FFO gross interest coverage (x)	1.62	1.89	1.82	2.23	2.01
FFO debt service coverage (x)	0.71	0.38	0.25	1.46	0.73
FFO/net capital expenditure (%)	551.66	372.63	78.28	111.01	89.48
FFO gross leverage (x)	13.75	11.35	11.84	9.33	11.19
Net debt/(CFO-capex) (x)	-11,235.00	105.11	-6.92	-89.84	-18.57
Total debt/Fitch-calculated EBITDA (x)	8.55	7.43	7.71	6.51	7.71
Net debt/Fitch-calculated EBITDA (x)	8.39	7.21	7.51	6.30	6.94
Total risk/Fitch-calculated EBITDA (x)	8.55	7.43	7.71	6.51	7.71
Overall risk/Fitch-calculated EBITDA (x)	8.58	7.46	7.75	6.53	7.74
Total debt/equity and reserves (%)	191.76	182.14	212.03	182.22	186.91
Total debt/total assets (%)	62.41	61.42	41.62	40.79	42.92
Sector-specific data					
Social housing rent	174.6	180.0	202.6	209.5	211.7
Other social and non-social activity	84.0	92.1	109.7	168.9	160.2
Property sales	45.6	53.3	75.8	113.6	114.2
Management costs	46.0	45.0	46.3	46.0	37.2
Routine maintenance costs	15.9	15.3	16.2	16.7	17.3
Net debt/total assets (%)[b]	61.45	59.76	40.43	39.43	36.92
Total debt per unit	35,006	35,194	40,348	40,357	45,582
Accrued housing grant	1,157.8	1,157.2	1,173.0	1,187.0	1,191.4
Total social housing stock (units)	32,709	32,940	33,412	33,811	34,259
Void rent loss	2.4	3.0	2.5	2.1	2.3
Management cost per social housing unit	1,406.34	1,366.12	1,385.73	1,360.50	1,085.85
Routine maintenance cost per social housing unit	486.10	464.48	484.86	493.92	504.98
Void rent loss/social housing rent (%)	1.37	1.67	1.23	1.00	1.09
Social housing rent/total revenues[a] (%)	67.52	66.15	64.87	55.36	56.92

[a] Includes revenue from the public sector
[b] 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 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.