



**Scenarios,
Financial Capacity
and Stress Tests**

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Content

- What do we have the ambition to do?
- What do we have the capacity to do?
- What scenarios do we face?
- What stress testing do we need to undertake?

Ambition

- More genuinely affordable homes
- Reducing homelessness
- Satisfied, involved residents
- Homes and services for older people
- Strong, sustainable communities

Capacity



Capacity

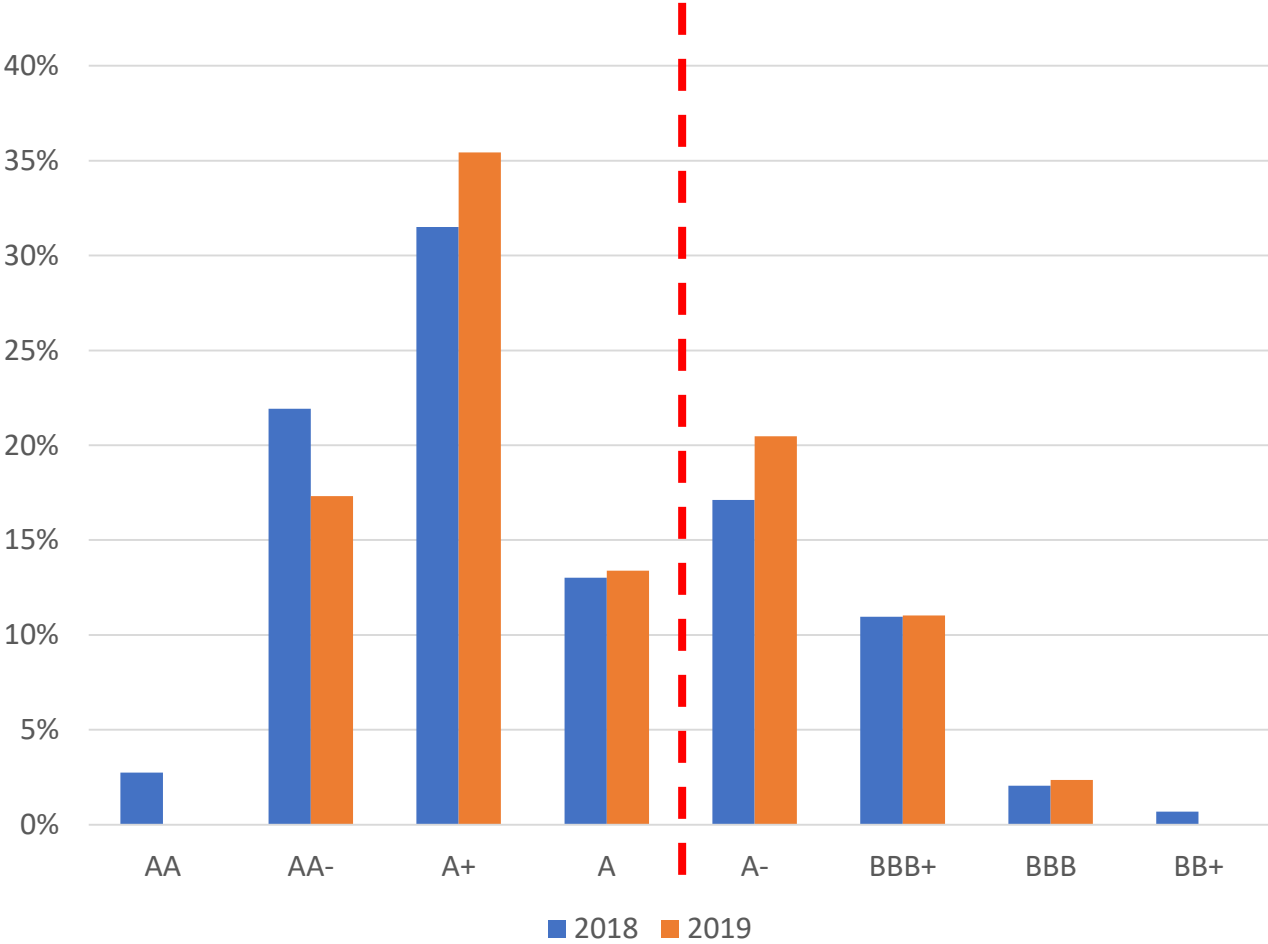
Adverse drivers

- Costs of making building safe
- Costs of improving environmental performance
- Weakness in the housing market
- Impact of hard Brexit and whatever follows it
- Economic impact of COVID-19

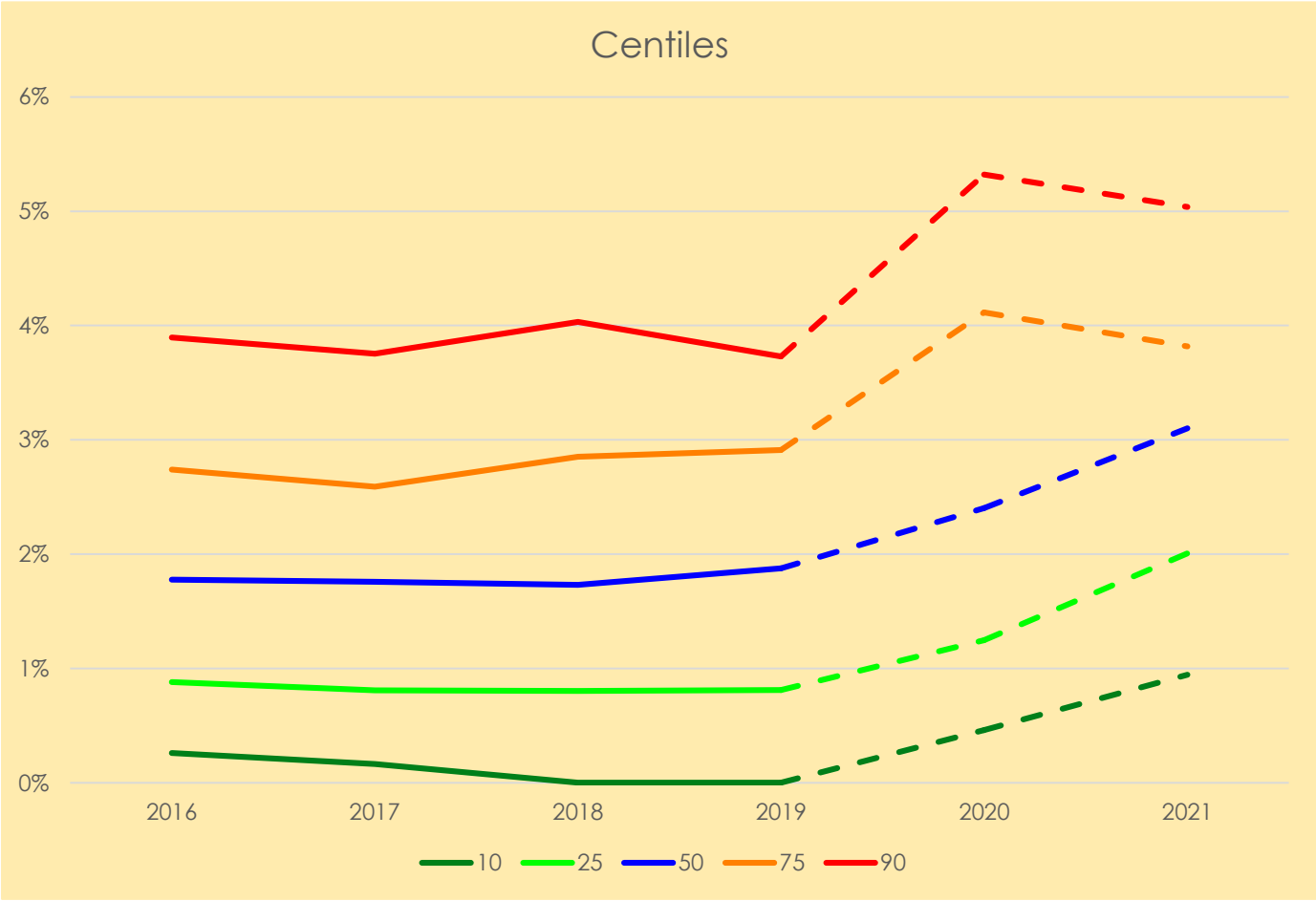
Favourable drivers

- Low interest rates
- Rent increases at CPI+1%
- High need / demand for housing

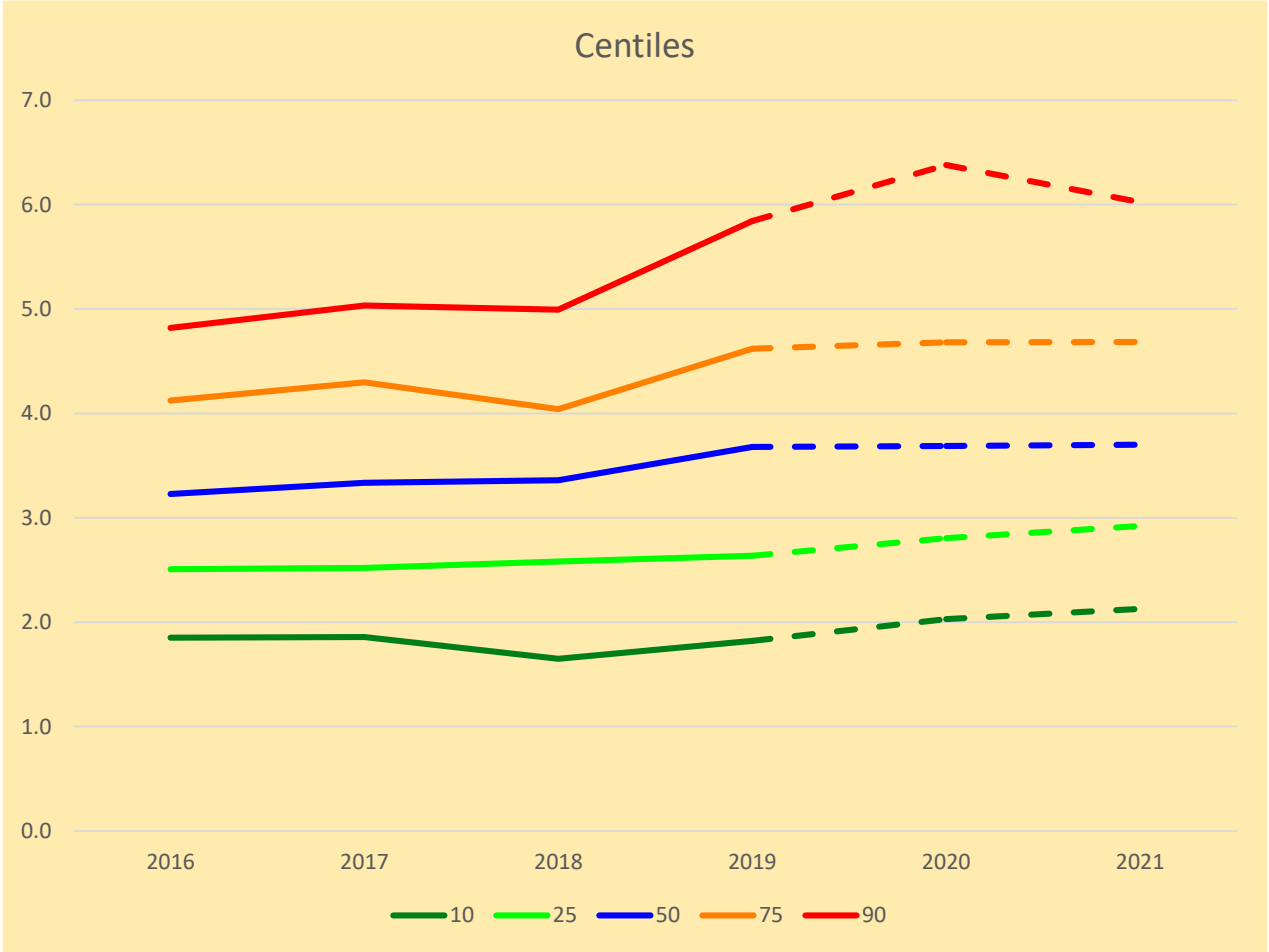
Credit ratings



Actuals and forecasts – development rate



Actuals and forecasts – debt to turnover



Scenarios



HRS sector scenarios – current estimates

Probability	Fall in house prices	2019 Conference	2020 Conference
Base Case (formerly Orderly Brexit)	< 5%	56%	75%
Disruptive Brexit	15%	9%	15%
Disorderly Brexit (current version weaker)	25% (was 35%)	4%	5%
No Brexit	-	29%	0%
BoE Annual Cyclical Scenario	33%	2%	5%

Base case

Economic

- Weak but positive economic growth
- Inflation remains around 2%
- Interest rates edge up very slowly
- Earnings rising faster than inflation (c. 3.5% p.a.)
- House prices increasing but by less than CPI

Political

- Hard Brexit – skinny trade deal or none at all
- Pivot back to focus on homeownership
- Competition from *First Homes*
- Right to Shared Ownership (plus changes to existing shared ownership model)
- Changes to regulation to improve building safety and tenant empowerment

BoE Annual Cyclical Scenario

- Triggered by global economic shock
- Probability increasing due to coronavirus
- Spike in inflation and interest rates
- Sharp fall, then recovery in house prices

Disruptive / Disorderly Brexit

- Impact on economy of ending transition period without an FTA
- Milder *Disruptive Brexit* sees moderate fall in house prices due to loss of confidence – no significant increase in interest rates
- More serious *Disorderly Brexit* scenario sees interest rates increasing to defend sterling, followed by a greater fall in the housing market
 - BoE reduced impact of this variant due to better *No Deal* preparations
 - Probability reduced because markets appear not to expect significant disruption in January 2021

Stress testing



Stress testing

- Multivariate, scenario based, but also linked to the risk map
- Consider both liquidity and covenant compliance
- Evaluate the impact on all companies in the group, including risk flows back to the parent
- Realistic, quantified contingency plans
- Early warning triggers to signal that the contingency plans need to be implemented

From the *Sector Risk Profile*

- Identify mitigations to sudden and significant market change as part of the stress testing exercise
- Stress test combinations of risks across a range of scenarios and put appropriate mitigations in place
- Fully understand your cost base and factor a range of inflation assumptions into your stress tests
- Demonstrate the effects against cash, covenants and security

Conclusions



Conclusions

- To maximise the social benefit from our activities, we need to:
 - Build as many new homes as possible within our capacity
 - Provide additional services according to the needs of our residents and communities
- Most associations should be able to grow at 3%, while maintaining a reasonable credit grade of A or above
- In the short term, the coronavirus is as likely a source of a severe adverse scenario as a disorderly Brexit
- Scenario-based stress testing needs to be combined with trigger points and realistic, costed, mitigation plans

