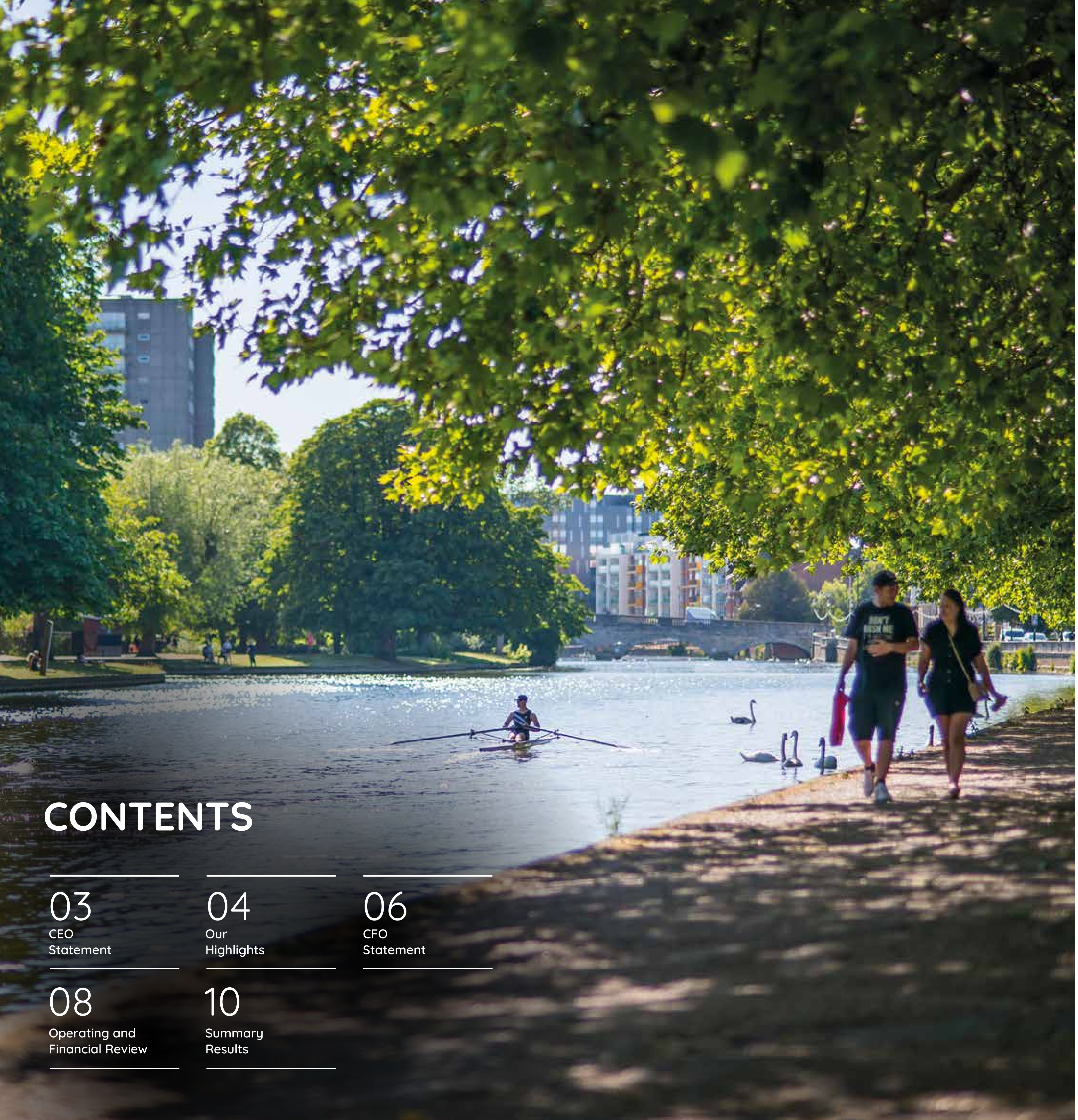
Half Year Financial Report

For the six months ended
30 September 2020



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CEO STATEMENT

A first-class response to unprecedented challenges during the last six months

The way that bpha responded to the Covid-19 pandemic was to focus on its customers first to ensure that the impact on them was minimised as far as possible. I would like to record my thanks to all the members of the organisation who worked tirelessly in adopting a fully dispersed operating model before the start of the year to serve our customers. The speed at which this was achieved was awe inspiring and I feel privileged to lead such a dedicated and hardworking team.

The Covid-19 pandemic has really demonstrated the importance of Housing Associations providing affordable housing to those that need it in challenging times. Our Money Advice Service rose to the challenge of steering many new applicants through the Government financial support process, which resulted in an increase in tenants on Universal Credit of 26%. Over half of our tenants now receive housing benefit or universal credit, and we will continue to work with customers in financial difficulty to ensure they can continue to live happily in their home.

Whilst the core operating business demonstrated a very strong performance, the development and sales business was inevitably impacted by the temporary shut down of construction sites and restrictions on sales activity. Our view is that development activity overall will have been delayed by six months with a consequential impact on our property growth rate and future sales.

The challenges ahead will not get any easier. The full impact of the proposed building safety management changes is yet to be felt. The proposed changes to the planning regime and the understandable demands of ensuring that our business is environmentally sustainable will test our business model. The new Affordable Housing Programme 2021 to 2026 offers potential help to support our development pipeline, but it comes with as yet unanswered questions. However, I am confident that bpha has the strong foundations and operational resilience to overcome these challenges. We continue to approach the future positively; we are a long-term business with long term aims. Our Corporate Strategy 2025/30 identifies how the business intends to build and maintain quality homes in thriving communities but in the context of a tightening operational environment.

Half way through 2020/21, we continue to be well placed for future sustained success.

Kevin Bolt
Chief Executive Officer

OUR HIGHLIGHTS

G1
Regulator of Social Housing governance rating (Sep 2019: G1)

V1
Regulator of Social Housing viability rating
(Sep 2019: V1)

A+ (negative)
Standard & Poor's rating
(Sep 2019: A+ negative)

19,323
Homes owned or managed
(Sep 2019: 19,087)

153
Affordable homes built
(Sep 2019: 410)

47
Shared Ownership sales
(Sep 2019: 74)

£30.2m
Net cash flows from operating activities
(Sept 2019: £28.6m)

100%
homes have met Decent Homes Standard
(Sep 2019: 100%)

£10.1m
Invested in maintaining and improving our existing homes
(Sep 2019: £11.9m)

£21.7m
Invested in new homes
(Sep 2019: £44.5m)

42%
Operating margin on core operating business
(Sep 2019: 41%)

154%
EBITDA MRI
(% of interest payable and similar charges)
(Sep 2019: 146%)

£28.4m
Operating surplus
(Sep 2019: £29.0m)

CFO STATEMENT

Six months on from the start of the Government lockdown due to the Covid-19 pandemic, our strong financial management and robust governance has ensured that we continue to be a safe and secure company with significant liquidity to manage the ongoing economic difficulties.

Our organisation delivers across two distinct areas: the core operating business which primarily comprises social housing lettings; and our development and sales business. Our core operating business is less affected by open market factors, such as Brexit uncertainty and the expected slowdown in sales due to the pandemic.

The core operating business continues to be efficient and effective at delivering a strong and stable financial performance despite the impact of the pandemic, and the operating surplus of £23.0m was £2.1m higher than the same period last year.

Core operating turnover has increased by £3.0m compared with the same period last year, although this is slightly lower than expected due to reduced handovers caused by the shutdown of all our development sites during April. Rental cash collections have held up better than initially expected; these collections continue to be carefully monitored and managed as we move into the next phase of the pandemic.

In the first months of the year our repairs service was reduced to emergency and urgent repairs only due to the pandemic. This action has reduced the cost of repairs and maintenance in the first half of the year by £1.8m to £10.1m compared with the same period last year. Our repairs and maintenance services were brought back into Covid-secure operation as quickly as possible after lockdown and we anticipate that the planned investment programme will be able to catch up by the end of the year. The pandemic has resulted in increases in expenditure which partly offset repairs and maintenance savings, for example, additional costs relating to the deployment to home working and costs related to the additional requirements for personal protective equipment.

We continue to see strong and steady cashflow from our core operating business which improved to £30.2m (2019: £28.6m). Following the submission of the financial forecast return to the Regulator of Social Housing in September, our viability rating remains under review whilst they complete their annual stability check. However, we have maintained the A+ negative Standard & Poor's rating which was reconfirmed in October 2020.

Our recent successful £125m Private Placement has given us significant liquidity to manage any potential stress on the business caused by the Covid-19 pandemic and any potential impacts associated with Brexit. Cash on the balance sheet has increased to £59m from £41m at 31 March 2020 year end.

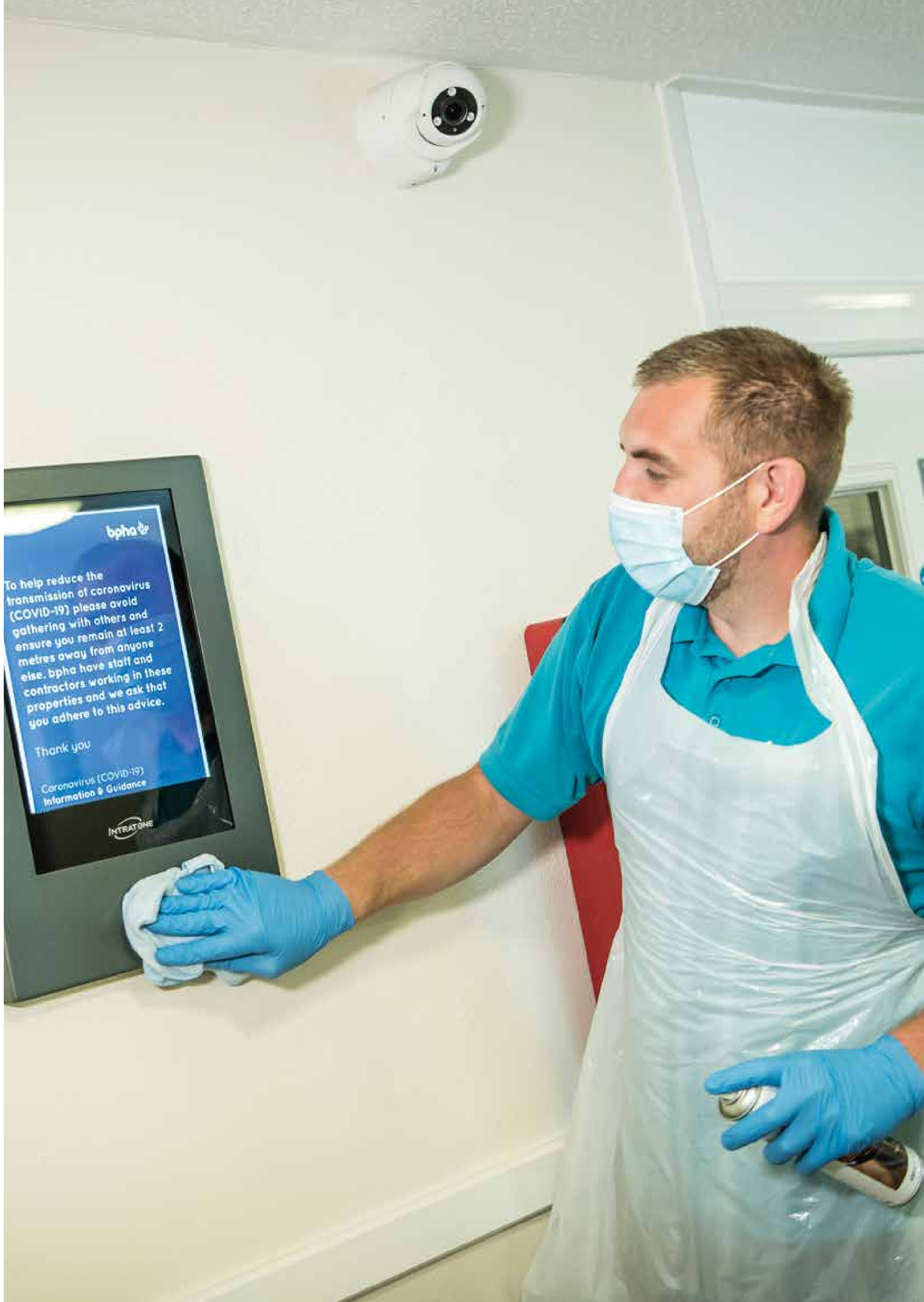
The pandemic has impacted our development and sales business with both the development programme and property sales unable to continue at the start of the year. Consequently, development spend during the first half of the year of £21.7m is £22.8m lower than this period last year.

Although our development programme has been delayed due to the pandemic, we have the financial resources to ensure that we can continue to pursue our ambitious development programme and to invest in the maintenance of existing homes.

Property sales have proven challenging due to an initial halt to sales during the lockdown followed by a slower process to completion of sales due to pandemic related issues experienced by mortgage lenders and solicitors. Consequently, the first half of the year has seen development and sales turnover fall by £3.8m to £14.5m compared with the same time last year. Operating surplus also fell by £2.7m to £5.4m in the period.

Overall, our underlying operating surplus only reduced by £1.5m to £10.7m which is a very credible result in challenging circumstances.

Julian Pearce
Chief Financial Officer

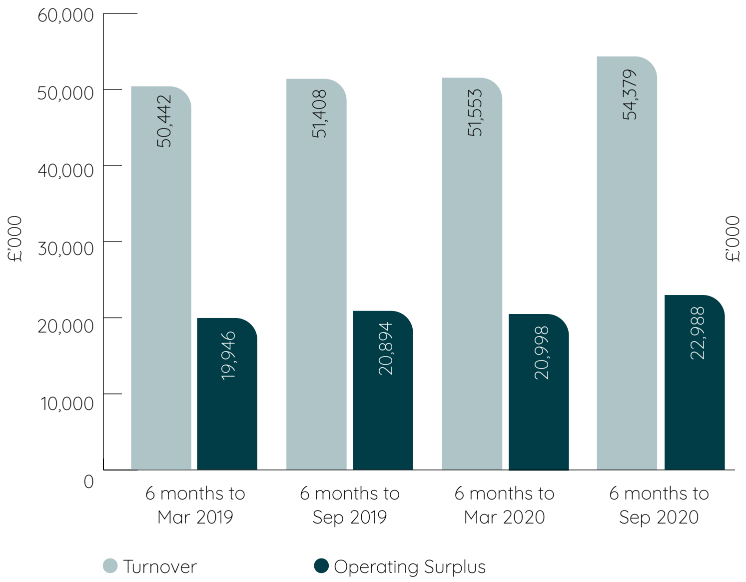


OPERATING AND FINANCIAL REVIEW

The core operating margin increased to 42.3% (2019: 40.6%), reflecting our strong operational controls and effective management during the pandemic period. The total operating surplus remained stable at £28.4m as increased surplus in the core operating area was offset by a fall in sale surpluses. As development interest was not capitalised during closure of our construction sites, this led to higher interest costs which meant that the underlying surplus (before fair value movements) reduced to £10.7m (2019: £12.2m). The surplus before tax was £9.1m after movement in fair value of financial instruments in the period.

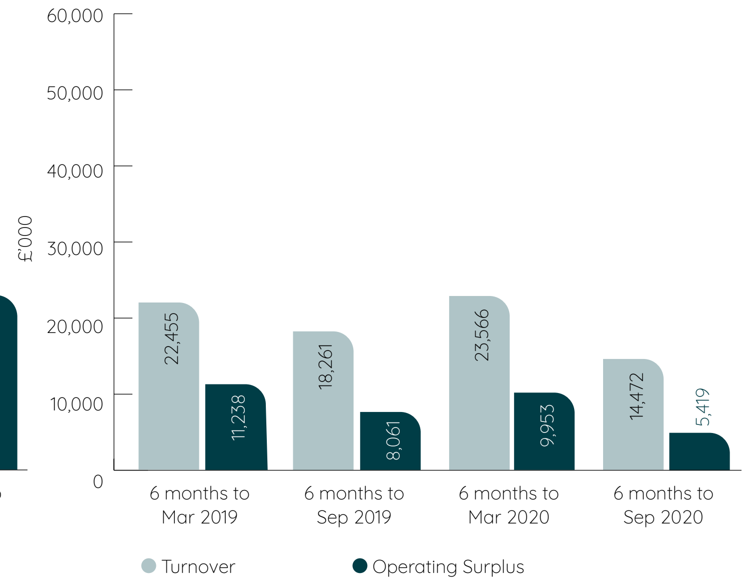
The Core Operating Business

The core operating business continued to perform strongly as turnover increased to £54.4m from £51.4m in the same period last year. This increase results from a rent increase at the start of the year combined with our development program which delivered 153 properties for rent in the period. We target our core operating business to achieve margins above 40% and this continued during the period at 42%, up slightly from 41% for the same period last year.



The Development and Sales Business

The development and sales business experienced reduced numbers of property sales during the first half of the year due to the pandemic. The number of first tranche shared ownership units sold was 47, down from 74 in the same period last year. As a result, turnover reduced to £14.5m (2019: £18.3m). The sales volume reduction together with an expected reduction to the margin, resulting from changes in the mix of properties sold, has driven a reduction in surplus of £2.7m compared to the same period last year.

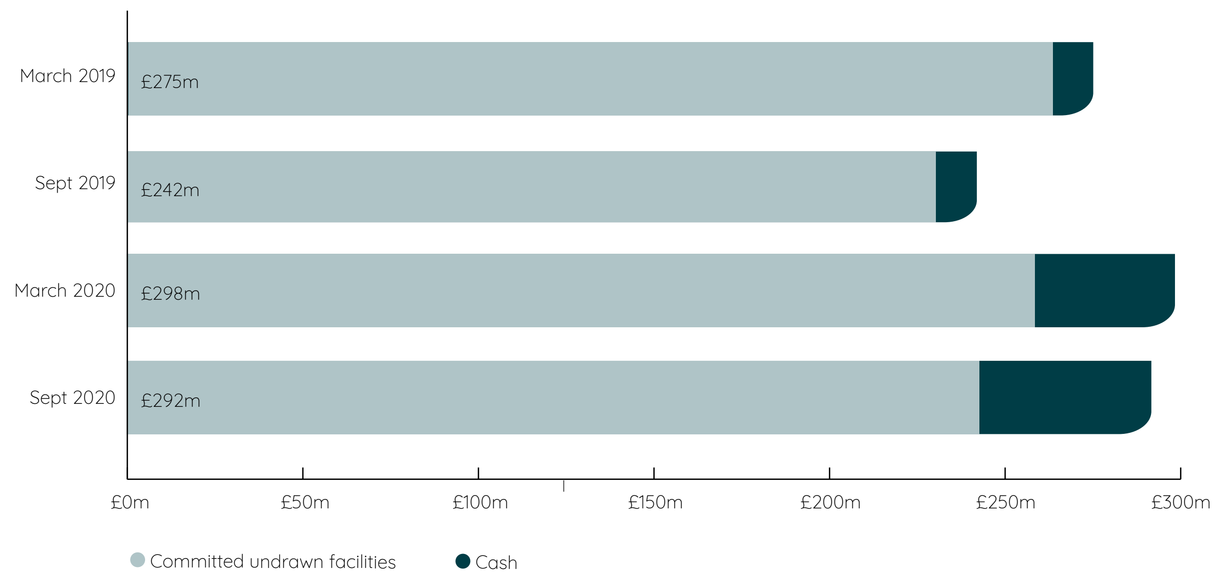


Investments in homes	No of units 31 Mar 2020	Additions	Disposals	No of units at 30 Sept 2020
Homes owned	17,801	153	49	17,905
Other properties owned	51	1	17	35
Properties owned	17,852	154	66	17,940
Properties managed on behalf of others	1,383	22	22	1,383
Total	19,235	176	88	19,323

Financial Resources

We have strict liquidity targets to ensure that sufficient financial resources are available to fund ongoing and planned activities. All future committed developments can be funded from existing facilities, without the need to raise new funding. Strong operational cash flow of £30.2m has slightly increased over the previous two and a half years which demonstrates the resilience of our core operating business.

Our loan covenants are predominantly based on interest coverage, asset cover and gearing ratios. Covenants are regularly monitored in accordance with our governance framework and were comfortably met in the period.



SUMMARY RESULTS

Results for the period

	Unaudited results for six months to			Audited results year to	
	30 Sept 20 £'000	31 Mar 20 £'000	30 Sept 19 £'000	31 Mar 20 £'000	31 Mar 19 £'000
Turnover					
Core Operating Business	54,379	51,553	51,408	102,961	98,722
Development & Sales Business	14,472	23,566	18,261	41,827	49,501
	68,851	75,119	69,669	144,788	148,223
Operating surplus					
Core Operating Business	22,988	20,998	20,894	41,892	41,195
Development & Sales Business	5,419	9,953	8,061	18,014	22,813
Fair value adjustments on investment properties	-	863	-	863	3,935
Pension adjustments (McCloud)	-	(390)	-	(390)	-
	28,407	31,424	28,955	60,379	67,943
Operating surplus - Core Operating as a % of turnover	42.3%	40.7%	40.6%	40.7%	41.7%
Operating surplus - Development & Sales as a % of turnover	37.4%	42.2%	44.1%	43.1%	46.1%
Operating surplus - Overall as a % of turnover	41.3%	41.8%	41.6%	41.7%	45.8%
Net interest	(17,753)	(15,897)	(16,755)	(32,652)	(33,018)
Underlying surplus from operations	10,654	15,527	12,200	27,727	34,925
Movement in fair value of financial instruments	(1,582)	455	(10,167)	(9,712)	(796)
Surplus before tax	9,072	15,982	2,033	18,015	34,129
Repairs and maintenance	6,031	6,391	5,691	12,082	11,028
Capitalised repairs on improvments to housing properties	4,073	8,290	6,184	14,473	14,725
Total spending on repairing and maintaining our housing properties	10,104	14,681	11,875	26,555	25,753
Earnings before interest, tax, depreciation and amortisation, major repairs included (EBITDA MRI)	30,759	27,320	28,119	55,438	58,353
EBITDA MRI as a percentage of interest payable and similar charges	154%	141%	146%	144%	155%

Note: EBITDA MRI has been restated for six months ended 30 September 2019

Statement of cash flow

	Unaudited results for six months to			Audited results year to	
	30 Sept 20 £'000	31 Mar 20 £'000	30 Sept 19 £'000	31 Mar 20 £'000	31 Mar 19 £'000
Net cash flows from operating activities	30,177	30,065	28,617	58,682	60,028
Interest paid	(19,689)	(19,686)	(19,048)	(38,734)	(35,641)
Operating cash flow net of interest	10,488	10,379	9,569	19,948	24,387
Improvements to housing properties	(5,865)	(7,571)	(6,492)	(14,063)	(14,127)
Other items	2,485	2,961	-	2,961	2,531
Operating cash flow net of interest, capex and other	7,108	5,769	3,077	8,846	12,791
Proceeds from assets sale	6,724	10,155	8,381	18,536	23,694
First tranche shared ownership sales	7,476	13,413	9,880	23,293	25,807
Operating and sales cash flow	21,308	29,337	21,338	50,675	62,292
Development spend	(21,730)	(39,516)	(44,545)	(84,061)	(123,295)
Net movements in borrowings and deposits	18,801	19,124	38,310	57,434	57,626
Net cash flow after development activities	18,379	8,945	15,103	24,048	(3,377)

Summary balance sheet

	Unaudited	Audited	Unaudited	Audited
	30 Sept 20 £'000	31 Mar 20 £'000	30 Sept 19 £'000	31 Mar 19 £'000
Housing fixed assets	1,232,220	1,224,631	1,196,558	1,167,385
Other assets less current liabilities	139,830	117,857	91,469	75,863
Total assets less current assets	1,372,050	1,342,488	1,288,027	1,243,248
Debt (due over one year)	862,820	848,807	805,900	773,977
Other long term liabilities	208,679	202,202	208,601	197,778
Total long term liabilities	1,071,499	1,051,009	1,014,501	971,755
Reserves	300,551	291,479	273,526	271,493
Total long term funding and reserves	1,372,050	1,342,488	1,288,027	1,243,248

Registered as a society under the Co-operative and Community Benefit Societies Act 2014
Registered number: 26751R | Registered with the Regulator of Social Housing | Registered number: LH 3887

Tel: 0330 100 0272 www.bpha.org.uk/investor-relations