bpha

Business Plan 2022-2027

Contents

03 A welcome from Kevin Bolt, CEO, bpha
04 Yvette, a bpha customer in Cambridge, shares with us her ambition for all our customers
05 bpha in numbers
08 Our operating environment
10 Our mission, vision and strategy
12 Achieving our goals
16 Business Plan executive summary
19 Business Plan assumptions
26 Financial capacity and viability
28 Financial projections
32 Funding
33 Key financial metrics
36 Sensitivity analysis

Welcome to our Business Plan 2022-2027 which sets out our vision to continue to provide high-quality homes and services for our customers. bpha is a successful organisation with a strong record of achievement for its customer service, the quality of its homes, the scale of its development and being a well-run and financially sound business.

To continue to ensure that bpha is well equipped for the challenges ahead, our 2025/30 strategy is supported by the rigour of our Business Plan.

As you will see in this report, the challenges presented by the pandemic and other external factors have strengthened our resolve to do what we have always done – invest in looking after the homes of existing customers and building high quality new ones.

The Business Plan covers how we will meet our purpose and ambition through our strategic priorities and the values that define us. Our priorities include:

- Enhancing our position as one of the top 10 developers for our size by building over 2,300 urgently needed homes over the five years from FY2023.
- Bringing our repairs and maintenance service in-house in the autumn of FY2022 to significantly improve customer experience and create more value for everyone.
- Investing £76m in regenerating some of our tower blocks, as part of our overall strategy to create decent, comfortable, sustainable homes and places.

The Business Plan has been stress tested to ensure we consider the risks that affect bpha's long-term strategic objectives, and to test the robustness and resilience of bpha's financial model under severe adverse scenarios, showing we can ensure long term viability.

I am delighted to share the introduction to this report with Yvette, a member of our customer scrutiny group, Resolve. We know we will only make a real and lasting difference to people's lives by seeking and acting on customers' ideas and feedback.

We plan for bpha to be as successful over the next few decades as we have in over 30 years to date. We are confident this Business Plan will help to show how.

With best wishes

Kevin Bolt, CEO

Yvette, a bpha customer in Cambridge, shares with us her ambition for all our customers

Influencing the present and future

I joined Resolve, a representative bpha customer group, to help make sure customer feedback leads to improvements. Resolve gives customers the opportunity to understand the cogs of the organisation, so as well as improving our immediate experiences we can also influence bpha's ambition.

It's been refreshing to see bpha implement our feedback. We've affected some positive changes. Examples include establishing empathy training across the business and removing pain points by assessing complaints.

The year ahead

I'm encouraged to see the ambition and particularly the emphasis on the customer in this Business Plan. We will now work with bpha, including constructively challenging, to help make sure it's actioned.

Our access to the Board, the executive team, and heads of service, as well as front line colleagues will remain essential. For me, acting on customers' feedback should continue to receive the same high priority as having a working boiler.

We're particularly encouraged by the move to bring repairs in-house this year. We've already been part of the user testing and will continue to make sure it's shaped by customers' feedback.

Despite my positive experiences of bpha there will always be room for improvement. I started this introduction talking about the cogs of bpha. Customer improvements must turn each one and be the nitty gritty as well as the strategic focus.

I and my Resolve colleagues look forward to continuing to play an essential role.

Yvette

bpha in numbers 2022-2027

£116m

Core Operating Income
Annual Income of £116m in FY2023, which increases to £144m by FY2027 (excluding sales)

40%

Operating Surplus/Margin
Core operating margin above 40% across the plan

£1.9b

Assets
Continued asset growth, reaching £1.9b in assets by FY2027

2,351

New Homes
2,351 new homes over the 5-year period to March 2027 (2,158 affordable plus 193 market sale homes)

1,657

Stock Growth
1,657 net homes added in the 5-year period to FY2027 (after assets disposals)

£623m

Development Expenditure
£623m gross development expenditure over 5 years

£34m New Grant funding over the first 5 years of the plan

£200m

Sales Income
£200m sales income over 5 years

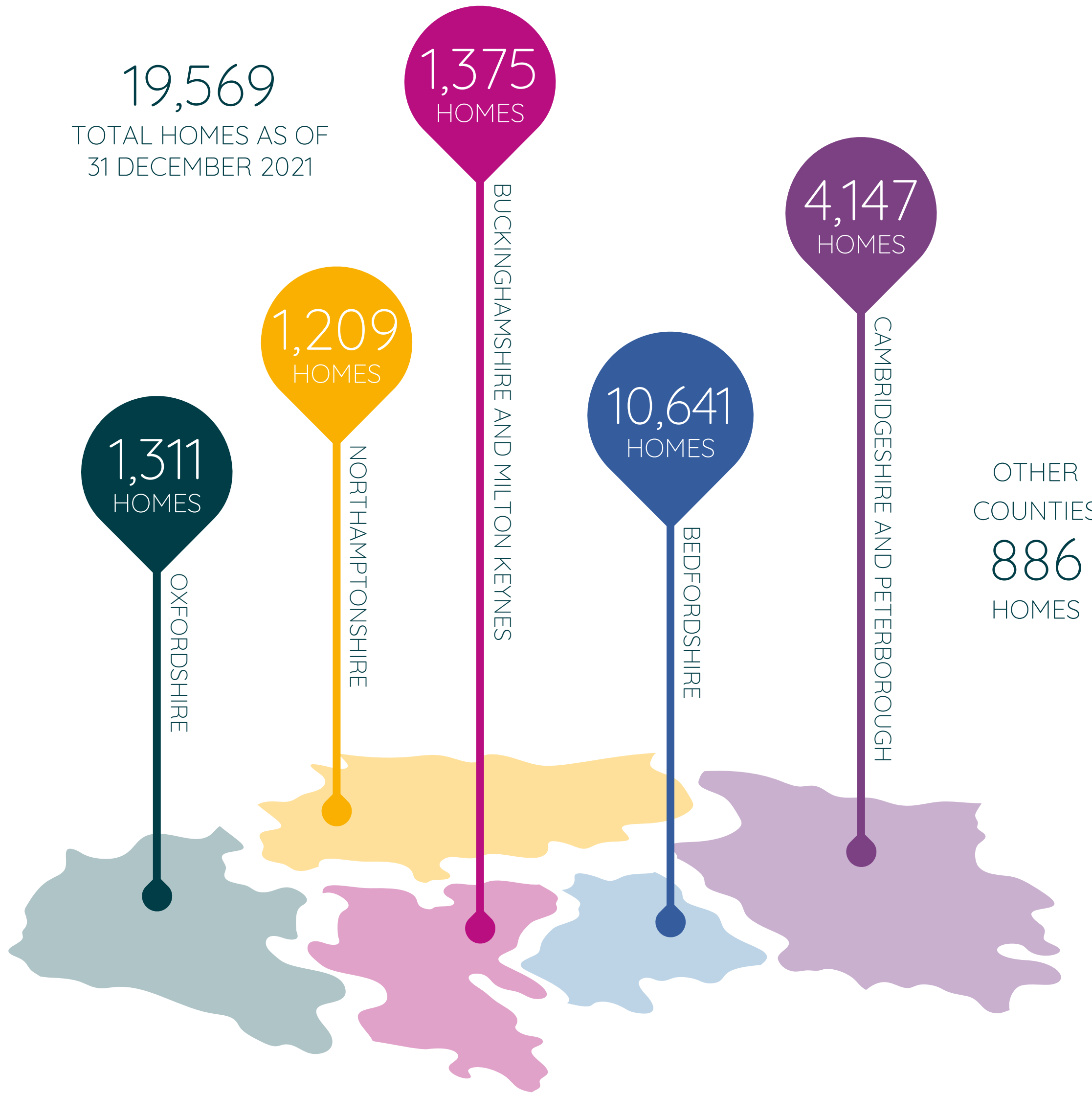
£86m

Capital Expenditure
We continue to invest in our existing assets, with circa £86m spend planned on major capital repairs over the next 5 years. (excluding Project Vista)

£15m

Routine Maintenance
£15m average spend per annum on routine maintenance

Core operating area



External environment

The UK economic and operating environment presents persistent challenges such as those caused by COVID-19 and Brexit-related trade disruption, including high and rising inflation, an outlook for rising interest rates, supply constraints and labour shortages.

This has adversely impacted the housing market, with a shortage of homes, building delays and increasing costs.

Operating efficiencies are crucial to ensure that the sector can withstand any short-term economic impacts and continue to deliver good value for money, while maintaining confidence of the funding market. This all whilst complying and being committed to new regulatory requirements, building and safety compliance, and environmental targets as net zero.

At the same time, the sector continues to face more competition, including winning development opportunities. Organisations are consolidating resources through mergers and other forms of partnership working and there is increasing diversification through a higher proportion of surplus from property sales. Although we operate a model with limited exposure to market sales, we remain mindful of all of this when considering our growth options over the next few years.

Our operating environment

While the following summary is not exhaustive, it highlights some of our key planning considerations:

POLITICAL

- Housing White Paper – including our commitment to new tenant satisfaction measures
- Housing shortage – the importance of new homes
- Planning reforms
- Alert to new housing products and models
- Growth of, and investment in, the Oxford to Cambridge area
- Ongoing management of the pandemic
- "Levelling up" agenda

ECONOMIC
post pandemic and Brexit

- Inflation
- Employment market and product supply
- Increasing interest rates
- Affordability
- Changing consumer habits
- Future rent policy
- Impact on cost and time taken to develop new homes
- Securing development sites
- A more competitive employment market
- Insurance costs

SOCIAL

- Community focus
- Customer impacts
- Welfare benefits including Universal Credit
- Affordability
- Ageing population
- Increased focus on mental and physical health and relationship with public health
- Effect of pandemic

TECHNOLOGICAL

- Digitalisation
- Remote working technologies
- Use of artificial intelligence
- More sophisticated cybersecurity threats
- Data security and effectiveness

LEGAL

- Regulatory compliance and scope
- GDPR
- Health and safety compliance
- Building safety compliance

ENVIRONMENTAL

- Sustainability commitment
- Understanding condition of homes and investment
- Carbon net zero targets
- Emerging technologies
- Net biodiversity gain
- Net environment gain
- Access to green and blue space

Our mission, vision and strategy

Corporate Strategy 25/30

Helping our customers 'love where they live' by **working in successful partnerships with others**

Great customer experience – customers at the centre of our goals, service design and decisions

Investing in our existing homes and communities to make them great places to live now and in the future

Building new, quality, sustainable, homes to help provide more opportunities for more people

Investing in systems and data to give customers choice, be more efficient and build successful ways of working

A desired employer, attracting and retaining talent in a value-led and successful organisation

Vision:
To build communities where people can live happily in a home they can afford

Mission

To build and maintain quality homes and thriving communities by being increasingly efficient and always considering the needs of those we house.

Values

We take responsibility.
We are better together.
We show empathy.
We are ambitious.

Achieving our goals

1 Helping our customers love where they live by working in successful partnerships with

We will continue to achieve more by working in unison with like-minded partners. Customers remain our most important partner, helping us to improve our services and better design homes and places.

We'll select and work with partners who share our values to make sure we align on principles as well as tangible outputs. Important partnerships over the next few years will be in areas including regeneration, development, customer safety, community investment, sustainability and our data and systems.

Successful partnerships will also help achieve our ambition to improve community infrastructures, through aligning with various public bodies, including health.

2 We will continually improve our customers' experience through putting them at the centre of our goals, service design and decisions.

Providing a consistently good and improving service for our customers will run through all that we do, with scrutiny provided by our Board-led Customer Experience Committee.

Our strategy focuses on providing 'the right service at the right time' for every customer. Shaped by customer involvement and feedback, we will continue to evolve from thinking 'about' customers to thinking 'like' customers.

Aligned to the Housing White Paper, and the developing Tenant Measurement Standards (TMS), we will set and achieve high standards of customer service. This will be supported by developing communication channels to enhance choice and convenience.

Achieving our goals

3 Investing in our existing homes and communities to make them great places to live now and in the future. This means keeping all our homes safe, efficient and loved.

The significant step to bring our repairs and maintenance service 'in-house' in FY2022 will improve the speed, quality and service efficiency for our customers. Supported by more effective data and systems, customers will have enhanced options to self-serve and feed back in the moment.

We will invest to make sure homes remain safe and warm and continue to meet the 'Decent Homes Standard'. We will ensure the vast majority of our homes meet or exceed the SAP Band C rating by FY2030 and run efficiently.

Our estate improvement programme will see £76m invested in regenerating Bedford tower blocks.

4 Build as many quality, sustainable homes as we can to help provide more opportunities for more people.

Our development programme will continue to prioritise affordable housing for rent and shared ownership with 2,158 affordable homes planned from FY2023 to FY2027.

To offer a mix of options on new homes, we will also offer some homes for outright sale. All our profits are invested back into our core housing.

Our developments will be underpinned by evolving sustainable design and building methods.

Achieving our goals

5 Investing in the right systems and data to give customers more choice and control, be more efficient and build more successful ways of working.

Providing a 'single view of the customer' by aligning our systems will mean a simpler, easier experience for our customers. Our planned systems improvements include our customer portal, property data (such as building composition and energy efficiency) and enhancing our colleague experience.

We will continue to adopt relevant new technology that make us a more reliable and efficient business as well as remaining as resilient as possible to security threats.

6 Become a desirable employer, attracting and retaining talent in a values-led and successful organisation.

We know the importance of having colleagues who are motivated by what they do and helping people love where they live.

Our colleagues' feedback again positioned bpha as a Great Place to Work at the end of FY2021. This reflected our ongoing investment in creating a positive work environment. We were also a FY2021 Best Place to Work for Wellbeing, a result of working with colleagues to create a flexible, productive and supportive culture.

We will continue to attract and develop people who will make a significant contribution to both achieving our goals and living our values.

Underpinned by sustainability

All our goals are underpinned by our commitment and responsibility to plan for a sustainable future and work towards net zero carbon.

Our sustainability strategy and annual external sustainability report (SRS) will demonstrate our progress and ambition.

Our approach will incorporate commitments such as 'Fabric First' thermal efficiency, designing for more biodiversity and encouraging green energy.

This Business Plan sets out our external and internal operating environment, objectives we intend to achieve during the 30-year period to 31 March 2052 and the forecast financial results and funding implications that follow.

We are a strong, financially viable organisation with an efficient business model that delivers value for money. Our latest results and Business Plan projections demonstrate our resilience during the pandemic and how we can operate effectively in an uncertain economic environment.

This plan addresses challenges and opportunities identified in our operating environment, including the impact of the pandemic and Brexit on inflation and labour/material availability, environmental targets and investment expectations, new building safety measures, increased demand for housing and competition for development projects.

It also demonstrates that we are comfortably able to service our loans, stay well within the financial covenants contained within existing loan agreements, and make significant surpluses throughout the life of the plan which will support the delivery of our corporate strategy.

Business Plan executive summary

Our projections show increased margins, strong cash availability and balance sheet position, supported by the effectiveness of recent investments in improving our operational efficiency.

Over the life of the plan, we forecast strong operating margins that reflect the good performance of bpha's housing stock and gains in efficiency as we increase our asset base through our continued development activity. Net surplus also increases over the whole term of the plan, with some variance in the early years due to phasing of sales coming from our existing development programme. Sales exposure, measured as a proportion of total revenue generated from sales, is also projected to remain at or below 26%.

The 2022/23 Business Plan delivers 366 homes in the financial year ending 31 March 2023 (FY2023) and, in line with our updated development strategy, a further c.2,500 homes over 5 years between April 2023 and March 2028 (2,250 affordable + up to 250 market sale). We expect that as a result of our revised strategy, on a net basis, after taking account of routine disposals, 2,009 homes will be added in the 6-year period to FY2028, increasing our stock to 21,684 by the end of March 2028.

The plan also shows that the absolute level of debt is projected to increase up to FY2039 to support higher capital expenditure relating to the delivery of our revised planned development programme. After FY2039 debt is projected to decrease until the end of the plan, based on the assumed development programme of 330 homes p.a. after FY2028.

Gearing levels are projected to reduce across the 30 years of the plan even in the early years when debt increases (as increasing asset values will more than offset the higher debt) and there is an increasing balance sheet capacity over time.

Increased surpluses and operating cash flows will give us the financial resources to continue investing in the maintenance of our existing homes, progress our ambitious development programme and deliver our strategic aims, with cash flow from operating activities excluding sales more than covering all debt interest (including the cost of financing new development) and capital expenditure on existing homes.

Sensitivity analysis has also been undertaken to assess our exposure to changes in key variables by estimating the potential impact of these changes upon reported results and compliance with covenants. This shows that we remain within our covenants over the next 10 years under all the scenarios tested.

Strategic risks are assessed and incorporated into our annual stress testing exercise to ensure we consider the risks that affect bpha's long-term strategic objectives, that we are aware of the potential impact they could cause, and to rehearse a range of recovery actions that would be required to ensure long term viability.

Business Plan executive summary

	FY23 Yr 1	FY24 Yr 2	FY25 Yr 3	FY26 Yr 4	FY27 Yr 5
Total homes at end of year (homes)	19,926	20,285	20,628	20,979	21,332
Operating activities					
Turnover from operating activities (£'m)	115.7	123.3	130.7	137.7	144.2
Surplus from operating activities (£'m)	49.5	54.9	57.8	61.4	64.9
Operating margin	42.8%	44.5%	44.2%	44.6%	45.0%
Surplus after Interest before Tax (£'m)	29.1	38.1	29.9	33.7	33.3
Cashflow					
Net cash from operating activities (£'m)	64.0	69.6	74.3	79.9	84.8
Interest paid (£'m)	(35.8)	(37.1)	(43.5)	(43.7)	(46.1)
Capital expenditure (£'m)	(23.7)	(27.2)	(27.0)	(31.2)	(33.0)
Operating CF net of int & capex (£'m)	4.5	5.3	3.9	4.9	5.7
Development and sales					
Homes developed	366	511	484	495	495
Development spend (£'m)	(72.4)	(130.0)	(148.7)	(133.9)	(138.4)
Income from SO and Market sales (£'m)	22.4	46.4	42.3	44.9	43.7
Income from disposal of fixed asset (£'m)	17.8	17.6	13.0	16.1	14.1
Key metrics					
Market sales as % of total income	15.5%	26.3%	24.1%	23.9%	22.9%
Gross debt (£'m)	872.7	929.7	1,010.1	1,069.1	1,134.7
Gearing	64.2%	63.6%	64.0%	63.5%	63.3%
Net debt per unit (£'000)	42.8	44.9	47.9	49.8	52.1
One year Interest cover	251%	281%	236%	241%	237%
SHL EBITDA MRI/Interest	119%	121%	118%	118%	120%
Gross debt/Non sales EBITDA MRI	19.5	19.8	19.3	19.8	19.7

Business Plan assumptions

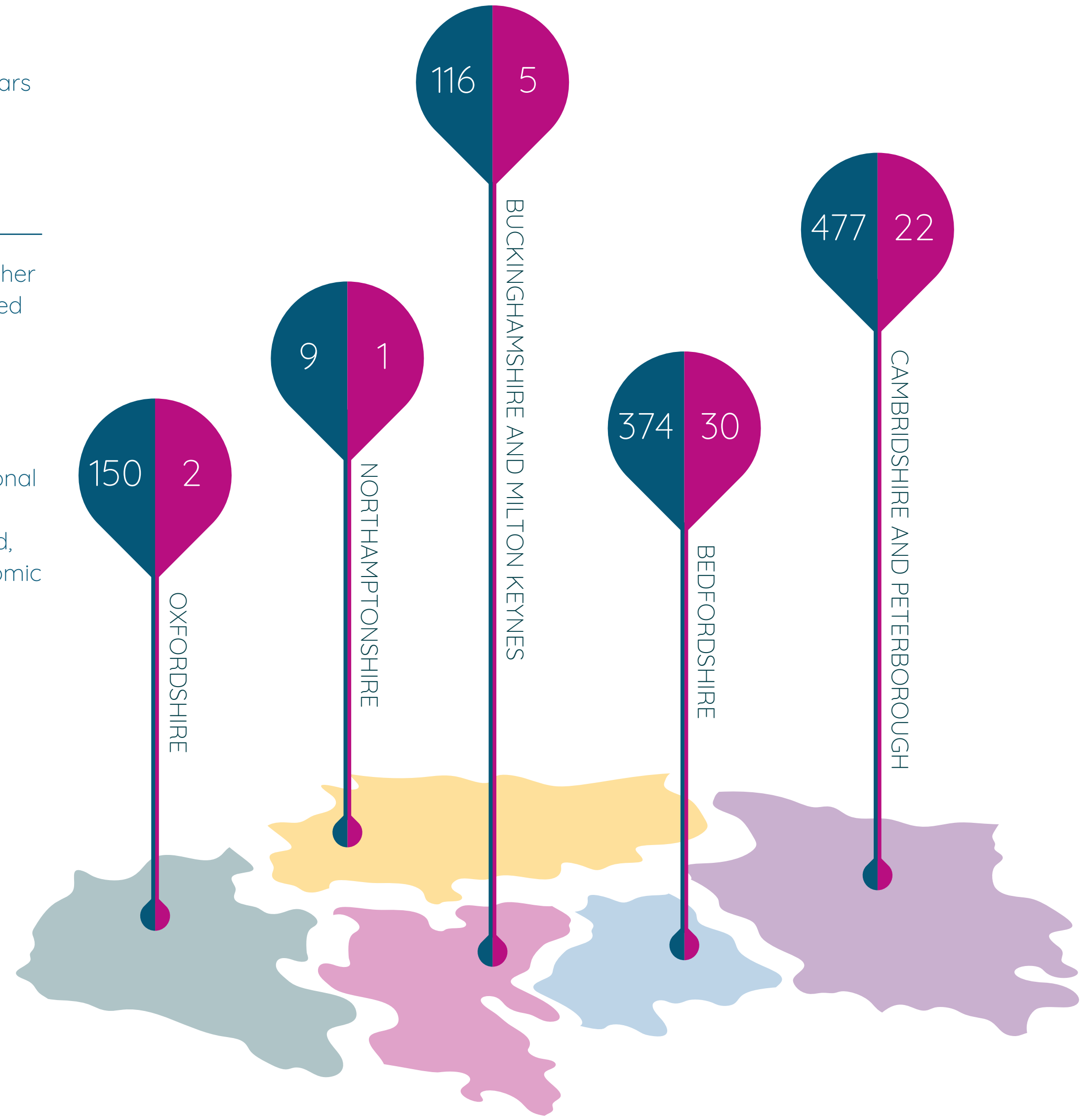
The 2022/23 Business Plan is modelled on a financially prudent basis. The first two years of the Plan represent the envelope for the budget.

Development

We project to deliver 366 new affordable homes in FY2023 and **in line with our strategy, to deliver c.2,500 homes over the 5 years** between April 2023 and March 2028 on a stepping up profile (2,250 affordable + up to 250 market sale), with **no hard annual targets** to allow a gradual and strategic approach to new opportunities.

Our Business Plan also assumes that after April 2028 we will continue developing **c.300 affordable homes and 30 homes for private sale for the remaining years of the plan** and we expect that in the long term we will be able to sustain this level of development without further debt drawdown. The plan has been modelled under this conservative assumption, but our development ambitions remain to further grow our stock and deliver a higher number of homes assuming that required funding can be secured and that the market conditions remain favourable.

We will continue to build new housing in our current area of operations. The economic strength of our main operational area will continue to provide bpha with new growth opportunities going forward, both in terms of increasing social economic activity and the need for development of more affordable homes.



NUMBER OF HOMES NUMBER OF SITES

Excludes pipeline in development and Bushmead.

Homes under construction as of November 2021

Business Plan assumptions

Developing entirely in our defined core operating geography, which corresponds with our existing asset base, allows us to consolidate service delivery and achieve operational efficiencies, thus delivering better value for money. We will also look at alternative ways to increase our development capacity, including working in partnership with other housing providers, local authorities and developers.

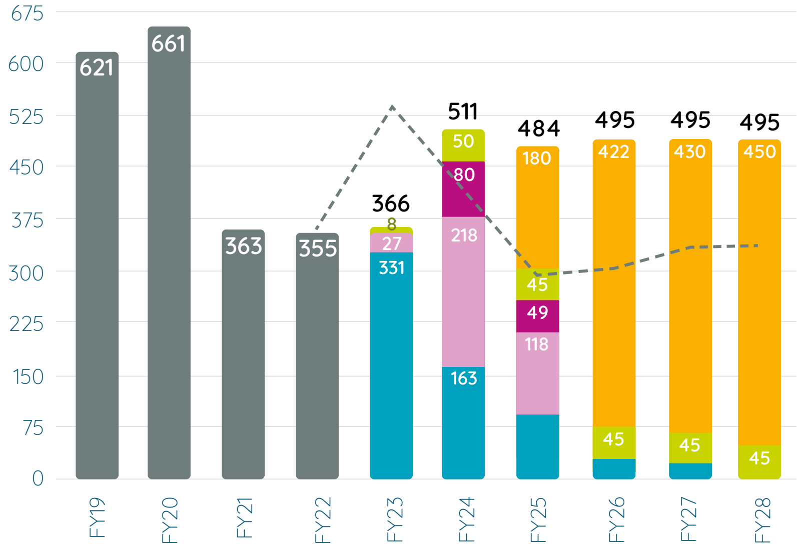
We will continue to develop a forward pipeline of future schemes from a variety of sources. These may be developer led Section 106 (S106) sites, land led schemes including developments on Local Authority land or, alternatively, asset management opportunities which arise from the redevelopment of our older homes. Although our current committed development pipeline is mainly S106 led, our intention is that over time the proportion of land led delivery will grow as this will give us more control of quality standards and delivery. We will also look to build relationships with joint venture partners to form future development opportunities.

Through our for profit subsidiary, **Bushmead Homes Limited (BHL)**, we will also develop homes for private sale to generate profits for further reinvestment in new affordable housing and to support our social purpose and strategic aims.

The development of Bushmead Homes' open market sales programme and the shared ownership schemes of bpha are supported by our marketing and sales function, which has been recently restructured to better support our strategy and respond to the new demands of the market. It is also designed to better inform our overall development strategy and ensure that it is closely aligned to the markets in which we work so that we can maximise the potential and the value of our development proposals. This is of particular importance as we move to more land led schemes where we will have more influence on our shared ownership offering.

New homes

Government restrictions during the pandemic had an adverse impact on development, with lower supply of new homes in FY2021 which is projected to continue for FY2022 and FY2023. We expect to increase again the delivery of new homes from FY2024, as we have a full pipeline for the year and are working towards securing new schemes for the following years.

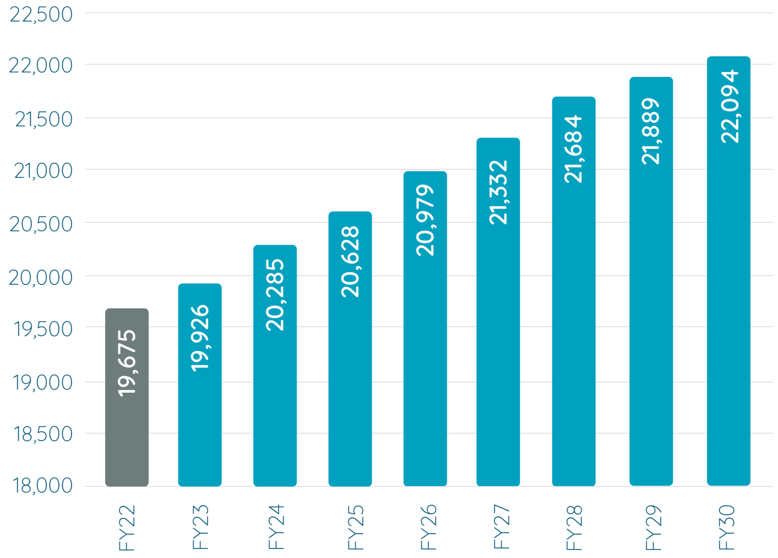


Key

- In contract
- Not in contract
- Uncommitted
- Bushmead (inc Aspirational)
- Pipeline in development
- --- FY2021/22 BP

Business Plan assumptions

The Plan development view is based on end of November 2021 data which delivers 355 homes in FY2022 (forecast year) and 366 homes in FY2023. Recent updates show a lower delivery for FY2022, but delayed homes are expected to increase delivery in FY2023, so total homes owned at the end of this year remain the same.



2,009 net homes added in the 6-year period to FY2028

This is equivalent to a 10% growth in our stock

Business Plan assumptions

Development expenditure

The gross investment in new homes forecast over the first 5 years of the plan amounts to £623m. Net development spend is projected at £390m after first tranche shared ownership sales, outright sales, and grants.

- Gross committed and in contract development expenditure is less than 2 times the projected social housing lettings turnover.
- £486m of the projected gross development investment is uncommitted or aspirational.
- Bushmead gross investment amounts to £81m.
- From April 2028 we forecast an annual net development spend of c.£50m to deliver 330 homes, of which 30 are for outright sale.

Our development programme is funded by new debt, together with cross subsidy from shared ownership sales and market sales. In addition to this, we forecast to receive £34m in new grants over the first five years of the plan from Homes England and to use Recycled Capital Grant Funding (RCGF) to provide subsidy for suitable schemes.

£'m	FY22 Forecast	FY23 Yr 1	FY24 Yr 2	FY25 Yr 3	FY26 Yr 4	FY27 Yr 5	Total 5 years
Group expenditure	(59.3)	(72.4)	(130.0)	(148.7)	(133.9)	(138.4)	(623.5)
Group income from sales	31.6	22.4	46.4	42.3	44.9	43.7	199.8
Group income from grant	1.8	2.6	3.6	9.2	9.2	9.5	34.0
Group net expenditure	(25.9)	(47.5)	(79.9)	(97.2)	(79.8)	(85.3)	(389.7)

Sales

Our plan assumes the sale of 756 first tranche shared ownership homes and 193 private sale homes by FY2027, generating a total income of £200m over the first 5 years of the plan.

For shared ownership homes, our plan assumes a 40% average first tranche sale for pipeline schemes and 35% share for aspirational schemes. Sales forecasts for FY2023 and FY2024 are based on the budget, and for following years the plan now assumes a 1-unit sale per month per scheme, and where the total scheme exceeds 20 homes, 2 homes a month are profiled to be sold which is a more prudent approach overall. Aspirational homes are assumed to be sold all in the year after completion.

Asset Disposals

The plan takes account of existing asset disposals such as shared ownership staircasing, My Choice HomeBuy (MCHB), Rent to HomeBuy (RTHB) (these homes are converted to shared ownership, so don't reduce our unit numbers) and outright sales. Our asset sales assumptions are conservative and in line with our experience of such disposals during the last years.

Business Plan assumptions

Capital investment in existing assets

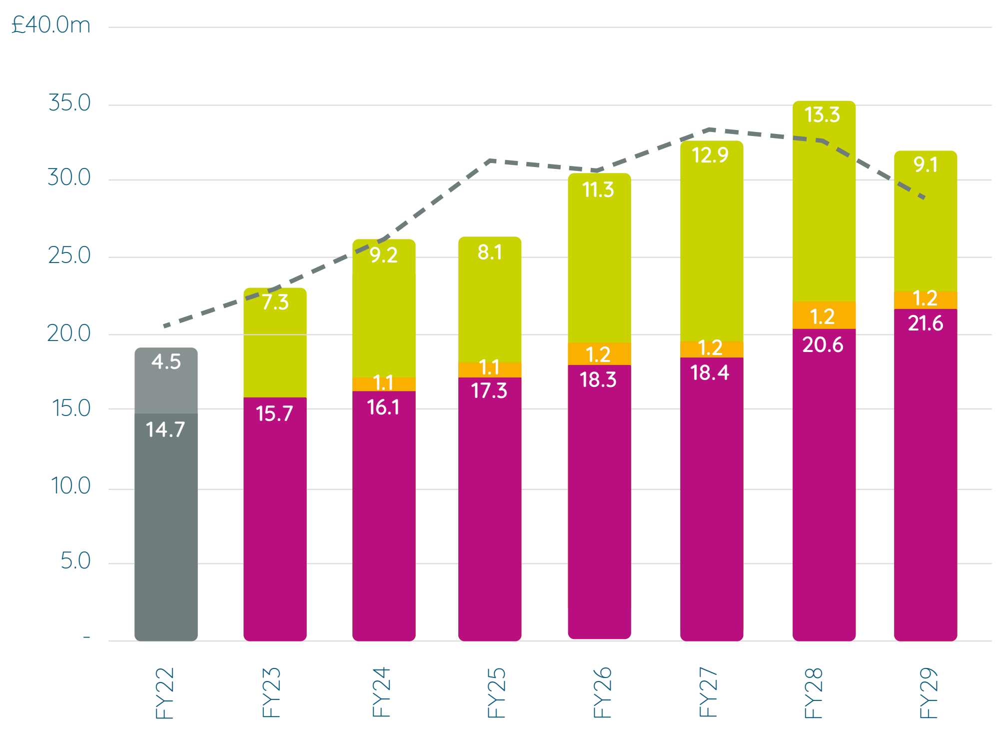
To improve and maintain the condition and long-term sustainability of our homes, we plan to invest in existing assets an average £17m p.a. over the first 5 years of the plan.

- Revised capital investment programme using a component lifecycle driven methodology and taking account of the latest material and labour costs resulted in smoother investment phasing over the coming years.
- Planned works completed as and when they reach the end of their lifecycle instead of 5-year cycle for capital works based on geography.
- Changes to lifecycles of certain components to increase their useful life.

The 2022/23 Business Plan also includes £76m of capital investment on the Bedford tower blocks regeneration project. Works started during FY2019 and are planned to continue over the next 8 years to ensure our tower blocks remain fit for purpose over the next 30-40 years.

The project includes 14 blocks of flats in Bedford built from 1954 to 1968 and, which due to their age, do not currently enhance the local environment and perform poorly in terms of heat retention. The key programme objectives are to improve thermal efficiency, aesthetics and security at each site, extending asset life by 30+ years and, in doing so, maintain housing provision that is safe and of an appropriate standard.

The Business Plan also includes additional investment in our environmental strategy with a projected £9.7m spend starting from FY2024 until FY2031. This is over and above the investment on energy efficiency measures already forecast within routine lifecycle replacements (£1.2m investment allowance for energy efficiency measures over 5 years plus spend on windows, roofs, boilers, etc, to increase energy efficiency).



Key

- Project Vista (regeneration project)
- Capitalised repairs
- Environmental accelerator fund
- FY2021/22 Capital spend on existing assets

Business Plan assumptions

Expenditure

To ensure that we have systems, controls and processes which keep pace with our growth, we have invested in people and technology over the last couple of years and we plan to continue investing in more resources in the coming years. These investments are necessary to maintain a modern forward-looking organisation, improve our operating processes and create capacity to enable sustainable growth. Our Business Plan therefore also includes continuing expenditure and capital investment related to our corporate strategy.

All our costs are inflated by CPI + 1% for FY2024, with the annual increase progressively going down to CPI flat by FY2027.

Employment costs and overheads

These costs are made up of employment expenses, estate operating costs and office overheads. It is assumed that the increasing housing stock levels can be serviced broadly within the existing back-office overheads. The investment made in the Bedford Heights office and the ongoing support of IT infrastructure and systems make this a realistic assumption.

However, additional management cost provision is driven by our development volumes to accommodate any additional direct staff and other direct costs such as maintenance necessary to service the increased number of homes.

Maintenance costs

Routine maintenance costs include the responsive and void maintenance for the existing housing stock. This is based on an average cost per repair multiplied by the estimated number of repairs.

Revenue planned maintenance is based on the cost of the existing contracts in place to provide annual statutory maintenance checks, some of which will be recovered through the service charge.

The Business Plan also includes the in-house repairs strategy, which means we have included the projected implementation costs and future anticipated savings with setup costs starting from FY2022.

Depreciation

Building structures (i.e. the value of the homes excluding the value of the land and excluding the value of components) are depreciated over 100 years for all housing stock. Individual components within the homes (e.g. kitchens, bathrooms, boilers etc) are depreciated over the estimated useful life of each component which varies between 12 and 30 years. Care homes are depreciated on historical cost in a straight-line basis over the term of the leases.

Other

The Business Plan assumes that loans made by bpha to homeowners through HomeBuy schemes will be fully repaid by FY2039.

Financial capacity and viability

Efficient operations and delivering value for money is a given. Our young housing stock profile coupled with our tight operating area allow us to achieve efficiencies in management and maintenance of our housing stock. Our value for money measures are amongst the best performing in the sector. This allows us to make sound balanced investments between our existing homes and new homes.

We use our balance sheet to optimise the financial value which can be extracted for further investments. This means that our gearing compares highly against other housing associations which might have other priorities. It is important that our future growth activities achieve the expected financial returns to add to our balance sheet capacity. Therefore, we use strict investment appraisal criteria when assessing new development schemes and apply prudent development assumptions on all proposed schemes, which are subject to extensive internal scrutiny, both in terms of financial viability and strategic fit.

While bpha makes significant operational surpluses and it is highly cash generative, additional capital funding is required to fund our development programme as set out in the Group corporate strategy objectives.

Our capital structure is predominantly debt funded (in addition to retained profits and grants) and contains no equity funding. As at 31 March 2021 our debt facilities totalled £1,112m, of which £869m (78%) was drawn. Our debt facilities amortise at a relatively even rate over a 26-year period, with this being primarily attributable to the amortising nature of our £500m syndicated and £80m AHF/EIB loans. The exception to this is our capital markets borrowings being a £275m public bond which matures in FY2044 and £125m private placement that has bullet repayments between years 9 – 19.

We have strict liquidity management criteria defined in our Treasury Management Policy, which is reviewed and approved annually. The policy also sets out parameters around our debt management, including approved sources of debt, interest rate risk management and debt maturity. Our policy is to arrange largely fixed long term funding to finance long term assets, thereby providing greater certainty over funding costs. Every effort is made to ensure the weighted average cost of capital is minimised in achieving this.

Economic and treasury assumptions

The Business Plan assumes an opening debt balance of £869m. This is due to increase by a further £265m (31%) to £1,135m over the 5 years to FY2027, of which we have assumed that £100m will be sourced from capital markets. The plan then assumes that we draw down any additional debt from our revolving credit facilities (RCF) based on the forecast LIBOR rate plus a lending margin. We would look to refinance the RCFs with term bank/capital markets debt in tranches, however, for the purpose of the Business Plan it is assumed that the all-in costs will be broadly in line with the SONIA + margin. Our economic assumptions, including assumptions around future interest rates (SONIA) are set out below:

- SONIA – the budget assumptions are based on the 3-month forward SONIA curve compiled from the forecasts of treasury advisers.
- Around 85% of our borrowing is on a fixed rate basis with an average of 80% over the next 5 years, therefore mitigating market volatility by providing a considerable degree of certainty around interest costs. The Business Plan assumes all debt from FY2026 is borrowed on a variable rate which would bring forecasted fixed rate debt down to 40% by FY2031. However, any further capital market issuance (e.g. public or private bonds) will more than likely be at a fixed rate which would increase this percentage.
- The Business Plan assumes that bpha will continue to be able to negotiate competitive new funding, both through our banking relationships and further issuance in the debt capital markets.

The table opposite sets out the performance assumptions included in the plan:

Financial capacity and viability

Business Plan assumptions 2022-23	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Inflation							
CPI rents	2021/22 Budget Projection	3.10%	3.75%	2.75%	2.00%	2.00%	2.00%
CPI costs		4.88%	3.75%	2.75%	2.00%	2.00%	2.00%
RPI		4.90%	4.75%	3.75%	3.00%	3.00%	3.00%
Rental inflation magins							
Rental homes	CPI + 1.0%				CPI		
Shared Ownership homes	RPI + 0.5%						
Rental voids	2021/22 Budget Projection	1.20%	1.20%	1.4%			
Rental bad debts		1.30%	1.30%	1.5%			
Real inflation rates (CPI linked)							
Real overheads inflation (plus CPI)	2021/22 Budget Projection	1.00%	0.75%	0.50%	0.25%	0.0%	
Real repairs and maintenance inflation (plus CPI)		1.00%	0.75%	0.50%	0.25%	0.0%	
Real major repairs inflation (plus CPI)		1.00%	0.75%	0.50%	0.25%	0.0%	
Real building costs inflation (plus CPI)		1.00%	0.75%	0.50%	0.25%	0.0%	
Total income inflation Shared Ownership homes	2021/22 Budget Projection	5.40%	5.25%	4.25%	3.50%	3.50%	3.50%
Total income inflation rental homes		4.10%	4.75%	3.75%	2.00%	2.00%	2.00%
Total expenditure inflation (inc. salaries)		5.88%	4.50%	3.25%	2.25%	2.00%	2.00%
Treasury							
SONIA (LIBOR)	0.25%	1.12%	2.12%	3.12%	2.62%	2.62%	2.62%
Cash	£10m (group) & £6m (bpha Ltd) minimum cash balance assumed at all times (excl MTM)						
Interest on positive cash balance	0.01%	0.50%	0.75%	1.00%	1.50%	1.50%	1.50%
Swaps	Remain in place until the end of the life of the swap						
MTM reduction on stand alone swaps	A straight line reduction in the MTM exposure, from year 1 to swap expiry						

The Business Plan demonstrates that bpha can deliver its corporate objectives whilst generating positive surpluses throughout the plan, repaying its loans as they fall due and comfortably meeting the financial covenants contained within its loan agreements.

Statement of comprehensive income

bpha's core operating business continues to be primarily social housing focused with a small element of private sale and non-social housing. Our projections show we are very effective at delivering a strong and stable financial performance with consistent surpluses after investment in our people, infrastructure, and our properties.

Statement of comprehensive income £m	FY23 Yr 1	FY24 Yr 2	FY25 Yr 3	FY26 Yr 4	FY27 Yr 5
Core operating Income	115.7	123.3	130.7	137.7	144.2
Core operating expenditure	(66.1)	(68.4)	(72.9)	(76.3)	(79.3)
Surplus core operating activities	**49.5**	**54.9**	**57.8**	**61.4**	**64.9**
% Margin	42.8%	44.5%	44.2%	44.6%	45.0%
Surplus from development sales	4.4	8.6	6.2	6.9	6.9
Surplus on disposal of fixed asset	6.9	6.8	4.2	6.3	4.7
Surplus before interest	**60.8**	**70.3**	**68.3**	**74.6**	**76.4**
Net interest	(31.7)	(32.2)	(38.3)	(40.9)	(43.2)
Surplus after interest and tax	**29.1**	**38.1**	**29.9**	**33.7**	**33.3**

- Strong core operating business with turnover from rental income increasing steadily year-on-year in line with inflation on existing properties and additions to our property portfolio from our development programme.
- Higher inflation assumptions for the early years of the plan have marginally reduced the core operating activities margin compared to last year's plan as we see a higher increase in cost than rents for FY2023. The core operating margin stays above the board's expectation of 40%, aided by social housing rents increasing by CPI plus 1% per year up to FY2024 and a relevant proportion of overhead expenditure now being allocated to development and sales and disposal of fixed assets activities.
- Beyond FY2027 the operating margin increases steadily up to 51%.
- A lower surplus from development sales in FY2023 due to the delays in the affordable handover of homes into later years, but an increase in FY2024 mainly driven by Bushmead homes. Market sales exposure peaks at 26% in FY2024 and it stays below 33% for the whole term of the plan.
- Surplus from first tranche shared ownership sales and Bushmead private market sales peaks in FY2024 mainly due to the higher number of Bushmead sales that year and drops in FY2025 before increasing steadily year-on-year until FY2028. It reduces back again from FY2029 as we scale back development delivery to 330 homes per annum.
- Rise in debt interest payments reflects the increase in gross debt to support our ongoing development activity.

Financial projections

Statement of Financial Position £m	FY23 Yr 1	FY24 Yr 2	FY25 Yr 3	FY26 Yr 4	FY27 Yr 5
Fixed Assets Total	**1,380.2**	**1,482.0**	**1,597.2**	**1,7010.5**	**1,808.2**
SO and Outright Sale WIP	40.8	37.3	39.8	36.9	356.1
Trade and other debtors	6.4	6.6	6.9	7.2	7.6
Cash and cash equivalents	12.9	12.9	12.9	12.9	12.8
Current Assets Total	60.1	56.8	59.6	57.0	56.5
Creditors - amounts due within 1 year	(33.7)	(34.7)	(35.5)	(36.0)	(36.6)
Total Assets less current creditors	**1,406.5**	**1,504.1**	**1,621.3**	**1,721.5**	**1,828.1**
Creditors - amounts due > 1 year	(990.9)	(1,050.3)	(1,137.5)	(1,204.2)	(1,277.6)
Pension provisions	(36.6)	(36.2)	(35.7)	(35.1)	(34.5)
Net Assets	**379.0**	**417.6**	**448.1**	**482.3**	**516.1**
I & E Reserve	**379.0**	**417.6**	**448.1**	**482.3**	**516.1**
Gearing	**64.2%**	**63.6%**	**64.0%**	**63.5%**	**63.3%**

Statement of Financial Position

- Balance sheet continues to strengthen going forward as new homes are completed and we invest in improving our existing properties, leading to increased levels of surplus retained within I&E Reserves.
- Creditors – amounts falling due within 1 year – includes other creditors, and consists of HomeBuy products, social housing grant and recycled capital grant funding (RCGF). Over the plan we forecast that the RCGF utilised will broadly offset the RCGF generated from our asset sales, so there are no RCGF repayments.
- Debt increases year-on-year as we continue with our development activity for the 30 years of the plan, however, we expect our net debt to reduce from FY2039.
- Gearing is forecast to peak in FY2022 at 64.6% and reduce in the following years staying below 64% from FY2026 as cash generated from operating activities further contributes to fund future development.

Financial projections

Statement of CF £m	FY23 Yr 1	FY24 Yr 2	FY25 Yr 3	FY26 Yr 4	FY27 Yr 5
Net cash from operating activities	64.0	69.6	74.3	79.9	84.8
Interest Paid	(35.8)	(37.1)	(43.5)	(43.7)	(46.1)
Operating CF net of interest	**28.3**	**32.5**	**30.9**	**36.2**	**38.7**
Improvements to housing properties & other capex	(16.5)	(16.9)	(18.1)	(19.1)	(19.2)
Operating CF net of int & home improvements	**11.8**	**15.6**	**12.8**	**17.1**	**19.5**
Project Vista	(7.3)	(9.2)	(8.1)	(11.3)	(12.9)
IHMS	0.0	0.0	0.4	0.4	0.4
Environmental Strategy	0.0	(1.2)	(1.2)	(1.2)	(1.3)
Operating CF net of int & special projects	**4.5**	**5.3**	**3.9**	**4.9**	**5.7**
Proceeds from asset sales	17.8	17.6	13.0	16.1	14.1
SO sales + Market sales	22.4	46.4	42.3	44.9	43.7
Operating + sales CF	**44.7**	**69.3**	**59.2**	**66.0**	**63.5**
Dev Spend	(72.4)	(130.0)	(148.7)	(133.9)	(138.4)
Other items	2.6	3.6	9.2	9.2	9.5
Net CF after development activities	**(25.2)**	**(57.0)**	**(80.3)**	**(58.7)**	**(65.4)**
Opening cash	19.0	10.0	10.0	10.0	10.0
Net movement in borrowings and deposits	16.3	57.0	80.4	59.0	65.7
Closing cash	**10.0**	**10.0**	**10.1**	**10.2**	**10.2**

Cash flow

- Operating cash flows from existing activities excluding sales increase steadily as we continue with our development activities across the 30 years of the plan. Our core operating activities are more than sufficient to pay for interest costs and capital expenditure on existing properties. Some of this surplus is then used for strategy implementation and special projects such as Project Vista before being used to contribute to new development.
- Development activities result in net cash outflow of £390m in the next 5 years, after a contribution from first tranche and outright sales and grants receipts.
- Existing asset sales are contributing further £79m towards funding new development activities over the next 5 years. The plan is not reliant on the sale of fixed assets, and our assumption on the surplus from asset sales surplus reflects a prudent view of our recent history on the number of homes sold and the average surplus generated from these sales.
- The expenditure on development declines as the plan assumes that we scale down development to 300 affordable homes from FY2029.
- The cash interest costs increase to £43.5m by FY2025 due to an assumed capital markets fundraising to support new development of circa £60m in FY2024 and £70m in FY2025 and variable rates forecast to rise by an additional 2% and peak in FY2025 before falling back slightly. Beyond that our debt progressively increases to fund our development activities.
- Our policy remains to maintain a minimum £10m cash balance, excluding secured and MTM cash collateral.

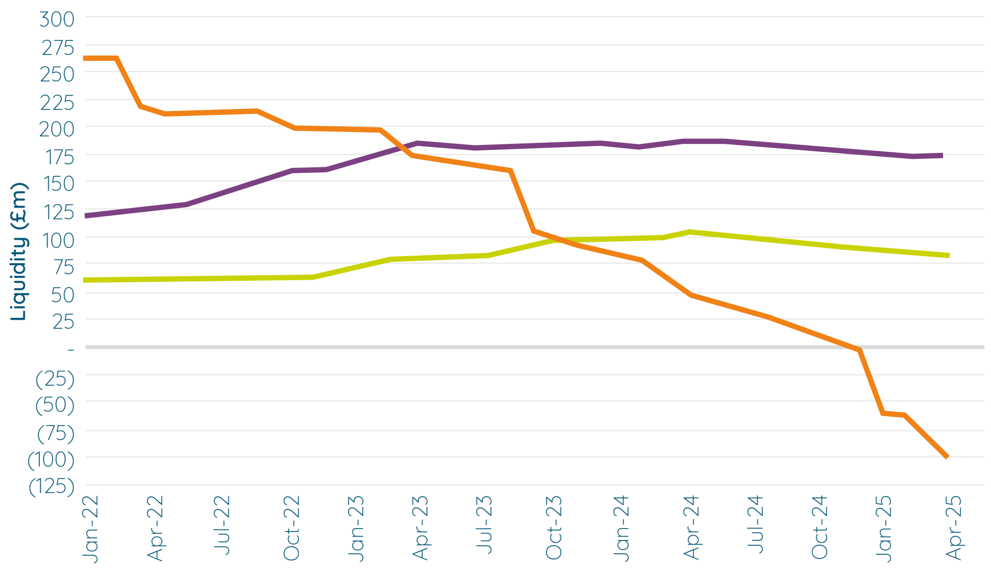
Funding

Gross debt projection and debt facilities

The financial forecasts in the Business Plan show that we have sufficient cash and debt facilities in place to deliver our committed development schemes and the spend assumed for Project Vista. However, additional funding will be required to deliver an assumed ongoing development programme. The timing of new funding to support our aspirational development programme will take into consideration our minimum and target liquidity requirements, a reasonable commercial balance between availability of cash to capitalise on opportunities and unnecessary carry costs of finance in line with our investment and treasury policies.

With the facilities currently in place, at the end of December 2021 we have 21 months until we breach our minimum headroom target. The Business Plan forecasts the renewal of RCFs and additional long-term funding to support the Business Plan debt requirement (our base case scenario modelling includes a £100m private placement). Additional funding was not modelled but the plan shows how much new funding will need to be put in place to maintain our liquidity headroom through the next 10 years of the plan.

Projected Liquidity Headroom



Key

— Target Liquidity Headroom — Min Liquidity Headroom — Liquidity Headroom

Key financial metrics

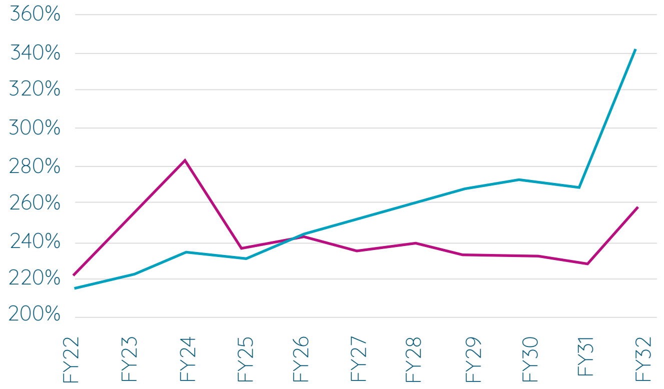
Covenants

The Business Plan shows that, going forward, bpha comfortably meets its financial covenants in our loan agreements: one-year Interest Cover and Net Debt per Unit (NDPU).

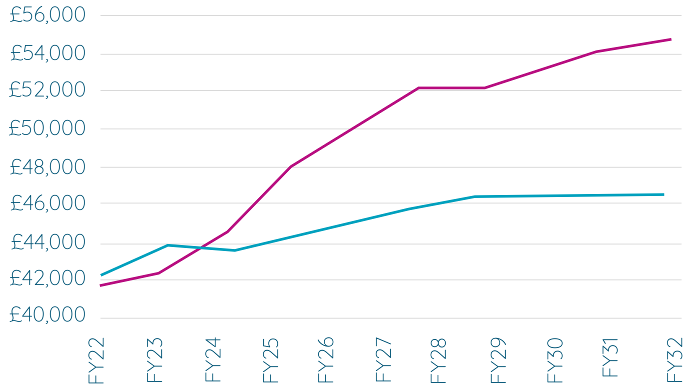
Increased development levels to fulfil our development ambitions of 2,500 homes from FY2024 to FY2025 increase our debt levels thus reducing the headroom in the metrics in the long term compared to last year's plan.

- The one-year interest cover ratio remains well in excess of covenant levels (110%) and is at its lowest in 2031 at 229%.
- NDPU peaks at £55.3k in FY2035.

One Year Interest Cover



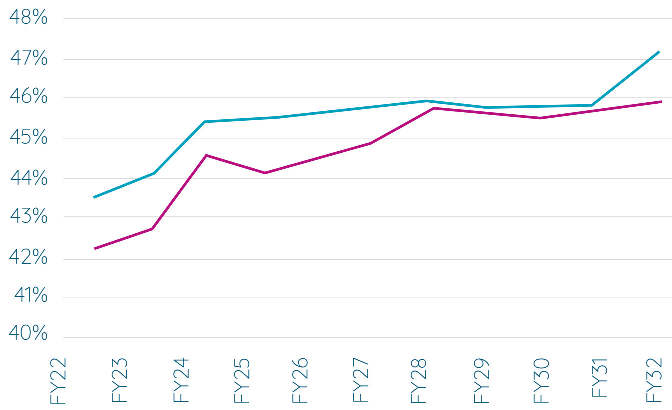
Net Debt per Unit



Core operating surplus and margin

Higher inflation assumptions for the first few years of the plan have marginally reduced the core operating activities margin compared to last year's plan as we see a higher increase in costs than rents for FY2023 and overall increased expenditure across all years.

Core Operating Margin



Key

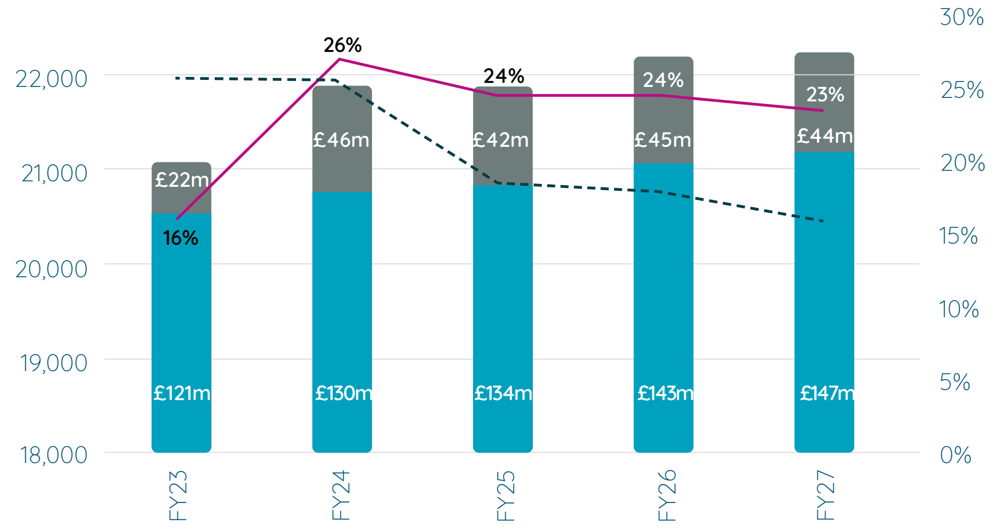
— BP 2022/23 — BP 2021/22

Key financial metrics

Market sales as a % of total revenue

Controlled market sales exposure, peaking in FY2024 where the percentage of sales over total turnover is 26%.

Market Sales Exposure



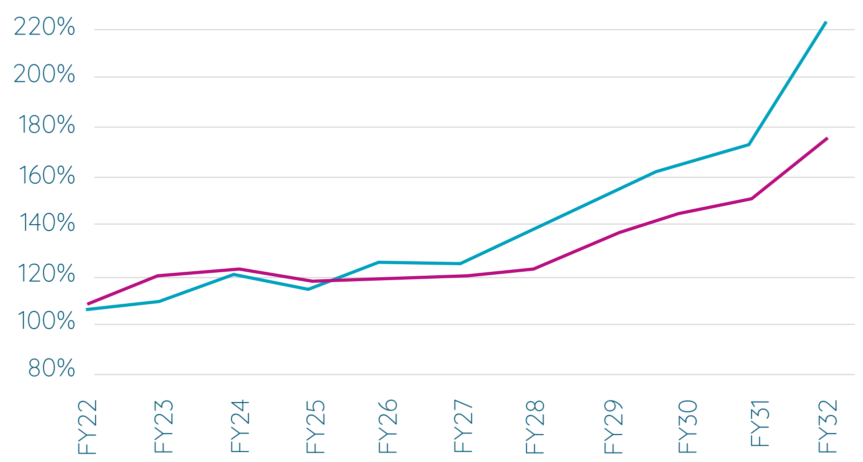
Key

- Turnover exc Mkt Sales (Group)
- Sales Revenue (Group)
- BP 2022/23
- BP 2021/22

Social Housing Lettings EBITDA MRI / Interest Cover

- This metric is based on EBITDA excluding all development surplus as well as existing asset sales.
- Lowest coverage is in FY2025 and FY2026 where EBITDA MRI interest cover is 118%.
- The adverse variance in the metric compared to the previous plan is due to increased expenditure driven by higher inflation assumptions.

Social Housing Lettings EBITDA MRI Interest Cover



Key

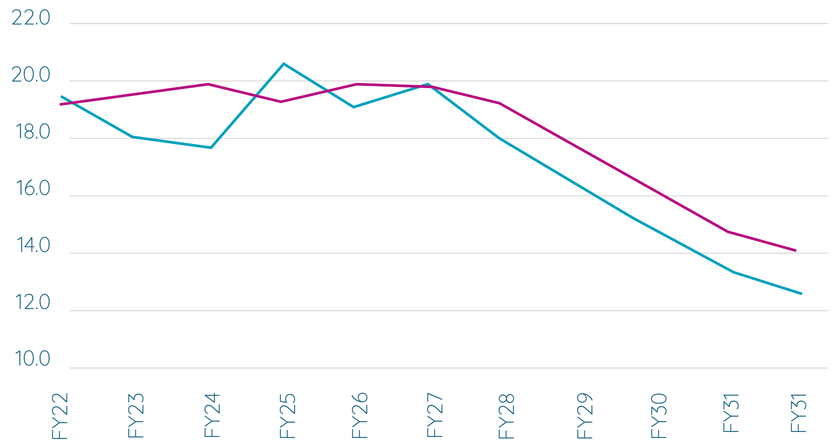
BP 2022/23 BP 2021/22

Key financial metrics

Gross Debt / Non Sales EBITDA MRI

- Gross Debt/Non Sales EBITDA MRI remains below 20x throughout the plan.
- The reprofiling of the capital investment in existing assets and project vista are the main drivers for the movement in Debt/ EBITDA MRI compared to the previous year.
- From FY2031 as tower blocks spend stops in later years, Debt/Non Sales EBITDA MRI decreases below 15x and stays below that level for the rest of the plan.

Gross Debt / Non Sales EBITDA MRI (x)



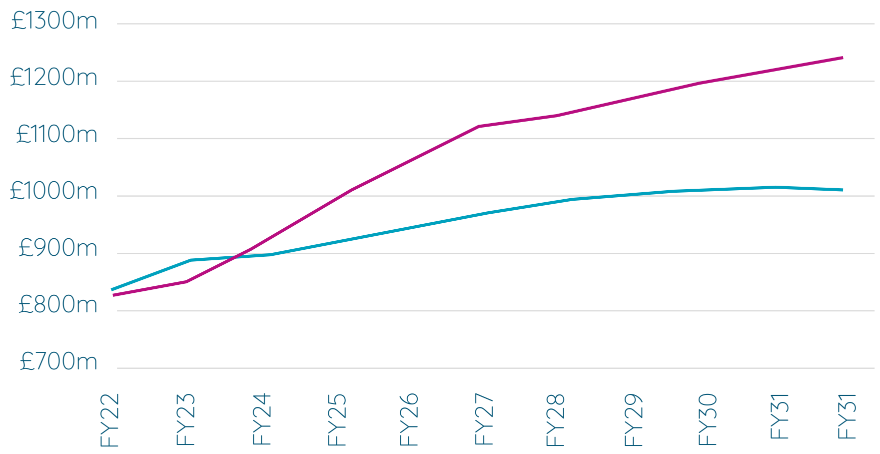
Key

BP 2022/23 BP 2021/22

Net Debt and Gearing

- Increased debt levels compared to last year's plan as we have increased our development delivery until FY2028.
- Net debt peaks at £1,312m in FY2039.
- From this year it is projected that we could support the 330 homes p.a. development with no further debt requirement.
- Although the absolute level of debt is projected to increase to support ongoing development, gearing levels reduce across all the years from 64.2% in FY2023 to 23% in FY2052 with increasing balance sheet capacity over time.

Debt Profile



Sensitivity analysis

Scenario	Description
Base Case	bpha develops 450 homes + 45 market sale, on average per year from FY2024 to FY2028 and 300 + 30 ongoing
Committed	Existing committed schemes only (in contract & not in contract)
Aspirational	bpha develops 600 homes per year with 50 MS homes until FY2028
1	Base plan with no market sales
2	Reduction in open market values of 10% (up to FY2027)
3	6-month delay in sales (Shared Ownership and Private)
4	Freeze in rent for 4 years
5	Rent rise is CPI flat throughout
6	Reduction in first tranche sales sold percentage by 10% (up to FY2027)
7	Increase in management and overheads, construction, maintenance & major repairs costs by 10% for the first 5 years of the plan
8	Lower inflation of 1% below plan assumptions for the first 5 years of the plan
9	Higher inflation of 1% above plan assumptions for the first 5 years of the plan
10	Increase in cost of bad debts by 25% for "at risk" income for the first 5 years of the plan
11	Increase in variable interest rates of 1% above levels in Base Plan for the first 5 years of the plan
12	Base plan with increased inflation and interest rates as at February 2022
Combination	Economic downturn - combination of scenarios base case, 2, 5, 7, 10, 11

Sensitivity analysis has been undertaken to assess our exposure to changes in key variables by estimating the potential impact of these changes upon reported results and compliance with covenants. The scenarios are measured against the FY2023 Business Plan 'base plan'.

The analysis has been built and designed within the context of the tests put forward by the Bank of England (BoE) and focuses on risk factors such as increases in inflation and interest rates, rising unemployment and changing house prices.

For this year's exercise we have increased the severity of some of the scenarios to address the increased uncertainty and challenges in our operating environment, mainly those around increasing inflation, supply constraints and labour shortages.

To address the recent changes in the economic outlook-rising inflation and an outlook for a rise in interest rates, we have included an additional sensitivity to show the impact on our base plan of updated economic assumptions as at February 2022. Higher costs inflation in FY2023 (rents increase doesn't change as it was set based on September inflation) result in a decrease in operating surplus in the year, but for following years we see an improvement across all the metrics driven by higher rental increases, above the levels assumed in our base plan. The inflation and interest rates assumed in the scenario compared to base plan are presented opposite:

Assumptions	FY23	FY24	FY25	FY26	FY27	FY28+
CPI rents						
Sensitivity Economic assumptions	3.10%	6.75%	4.50%	2.50%	2.00%	2.00%
Final Business Plan 2022-23	3.10%	3.75%	2.75%	2.00%	2.00%	2.00%
CPI Costs						
Sensitivity Economic assumptions	6.25%	4.25%	2.38%	2.00%	2.00%	2.00%
Final Business Plan 2022-23	4.88%	3.75%	2.75%	2.00%	2.00%	2.00%
RPI						
Sensitivity Economic assumptions	4.90%	5.25%	3.38%	3.00%	3.00%	3.00%
Final Business Plan 2022-23	4.90%	4.75%	3.75%	3.00%	3.00%	3.00%
SONIA						
Sensitivity Economic assumptions	1.32%	2.32%	3.12%	2.62%	2.62%	2.62%
Final Business Plan 2022-23	1.12%	2.12%	3.12%	2.62%	2.62%	2.62%

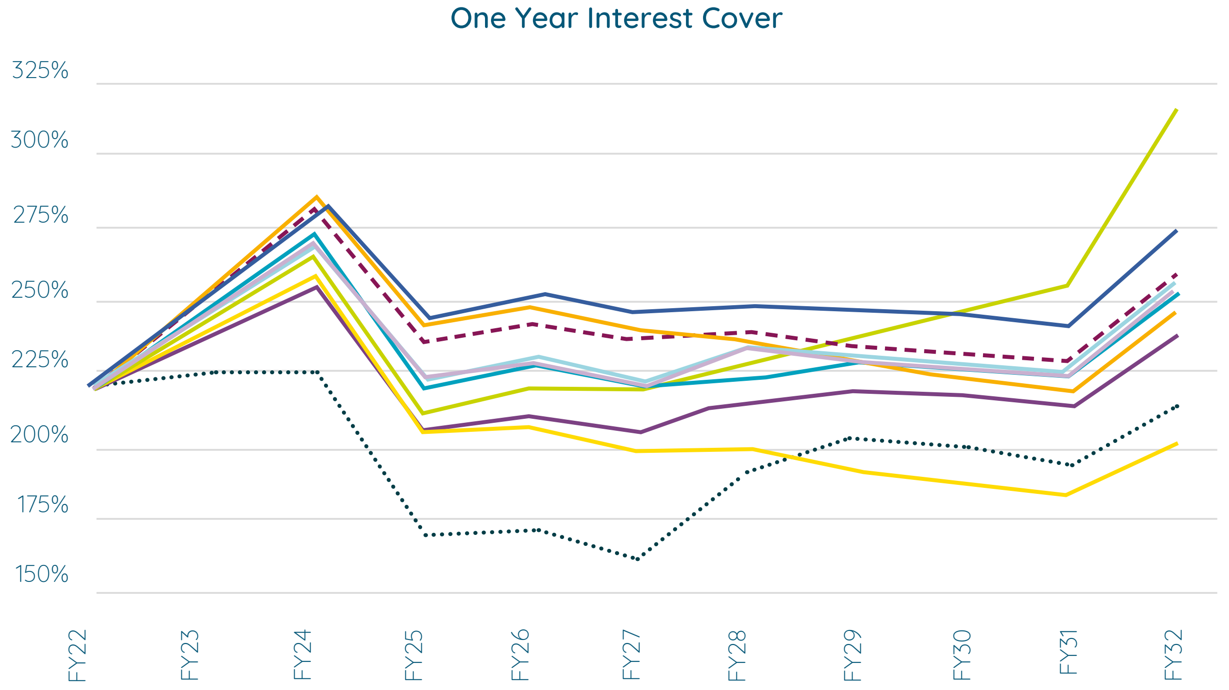
The impact of the scenarios described above on our financial covenants is presented below. To make the graphs easier to read, we have excluded those scenarios with limited impact on the metric (less than 5%).

The sensitivity analysis shows that we remain within our interest cover covenants over the next 10 years. NDPU goes above the £60k limit after FY2029 in two of the scenarios, driven by higher development delivery from FY2024 to FY2028. We closely monitor this covenant and should there be an indication of reaching higher NDPU levels due to any internal or external factors, it is likely that we will not commit to new development schemes, or if required a higher covenant level can be agreed with the lenders (as provided for in the debt facility agreements).

Sensitivity analysis

Interest Cover

None of the sensitivities impact on our ability to meet interest cover covenants.



Key

- Base Plan FY23-450 Homes
- Aspirational
- 2 - 10% Reduction OMV
- 7 - Increase in costs by 10%
- 12 - Base Plan with increased inflation and interest rates
- Committed only
- 1 - Base case with no market sales
- 4 - Freeze in rents for 4 years
- 11 - Increase in interest rates 1%
- Combination of 2, 5, 7, 10, 11

Sensitivity analysis

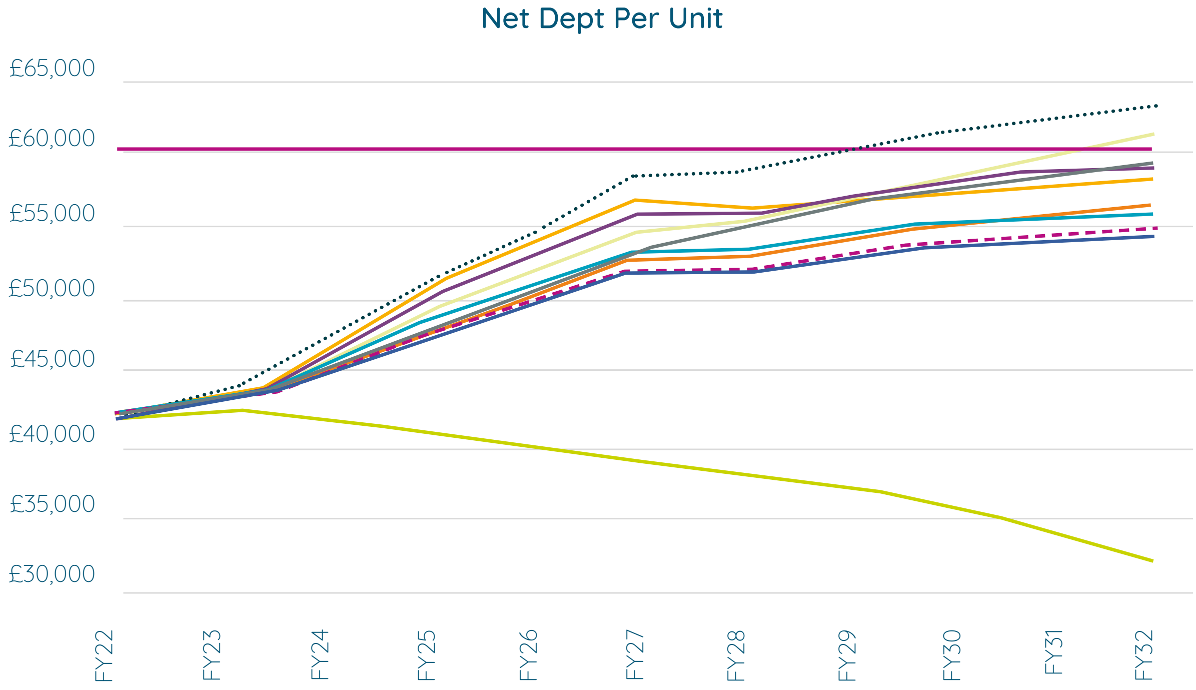
Net Debt Per Unit

NDPU goes above the maximum level in two of the scenarios, the combination scenario in FY2029 and combination scenario 4 - rent freeze in FY2031. This is due to assumed higher development delivery from FY2024 to FY2028, with 450 affordable and 45 for private sales homes delivered on average, 50% higher than in last year's plan.

Financial modelling shows that even if the combination scenario were to fully materialise, we can still deliver 300 homes and remain under the £60k limit over the next 10 years (black dotted line).

To deliver higher levels of development our loan facility agreement allows for the debt per unit covenant to be revised up (the agreements with our lenders allow for an upward review of the NDPU covenant every 5 years, with the next review available to us from next year). However, any additional development, over and above that assumed in the Business Plan, would only be committed to if the covenant would not be breached as a result.

The sensitivities also show that under the base plan economic assumptions, we can sustain an ongoing development level of 650 homes up to FY2028 (then reduces to 330 homes until the end of the plan) and stay below the covenant £60k limit.



Key

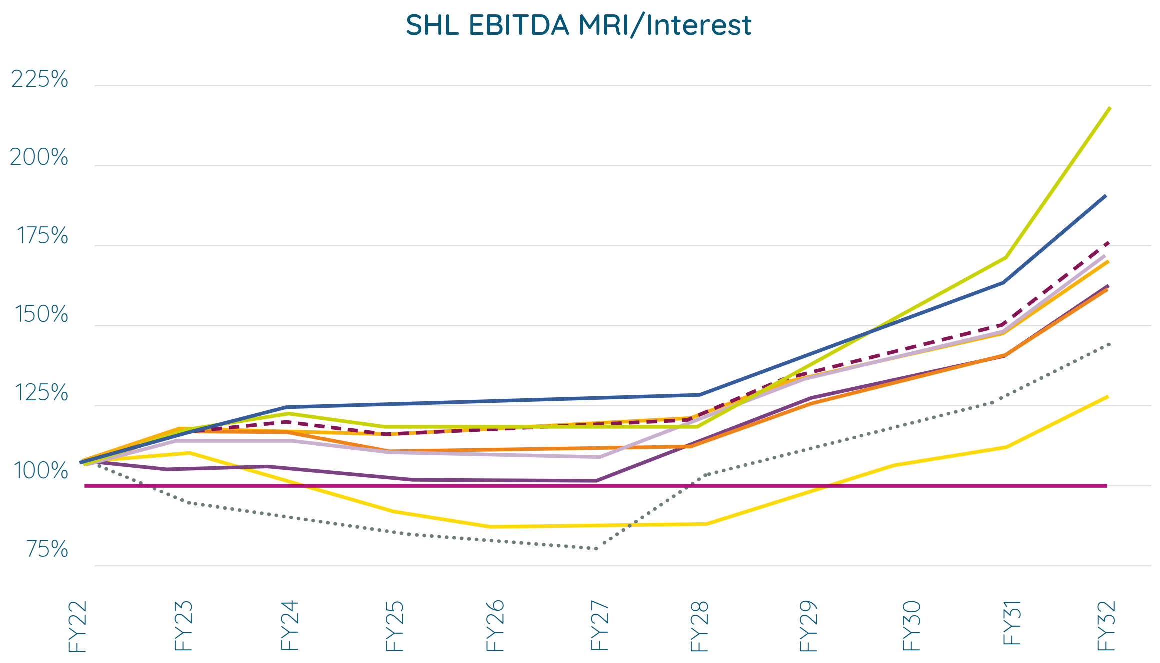
- Covenant Level
- Committed only
- 2 - 10% Reduction OMV
- 5 - Rent Rise CPI flat
- 12 - Base Plan with increased inflation and interest rates
- Base Plan FY23-450 Homes
- Aspirational
- 4 - Freeze in rents for 4 years
- 7 - Increase in costs by 10%
- Combination of 2, 5, 7, 10, 11
- Combination Scenario with reduced development

Sensitivity analysis

Social Housing Lettings EBITDA MRI / Interest Cover

Most of the sensitivity scenarios follow a similar pattern to the base plan and remain above 100% except for the Combination scenarios and Scenario 4 - Rent freeze, which fall below 100% from FY2023 and 2024 respectively, when Capex increases considerably driven by Project vista.

As we monitor this metric closely, if either of these scenarios were to materialise, we would take early actions to improve the SHL margin by reviewing and reprofiling our capex programme to ensure the metric stays above the 100% target.



Key

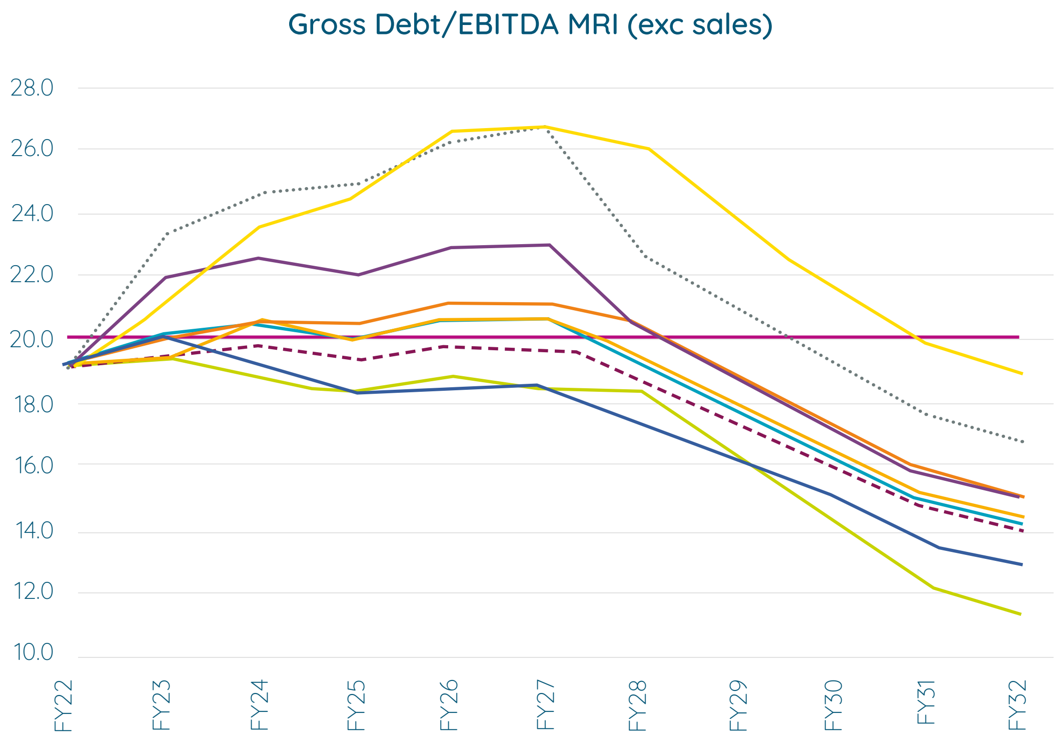
- Optimal Level
- Committed only
- 4 - 4 yr Rent Freeze
- 7 - Inc costs by 10%
- 12 - Base Plan with increased inflation and interest rates
- Base Plan FY23-450 Homes
- Aspirational
- 5 - Rent Rise CPI flat
- 11 - Inc var interest rates 1%
- Combination of 2, 5, 7, 10, 11

Sensitivity analysis

Gross Debt / Non Sales EBITDA MRI

In half of the scenarios Gross Debt/Non Sales EBITDA-MRI goes above the desired maximum level of 20 times between FY2023 and FY2028, those years with increased capital expenditure related to Project Vista. From FY2028 the metric falls below the desired maximum once Project Vista investments cease, but scenario 4 - rent freeze and combination scenario for an economic downturn, which have the biggest adverse movement take longer to recover.

If any of these scenarios were to materialise a reduction/reprofile of the capex programme and reduction of development delivery would allow the metric to be improved to the desired levels.



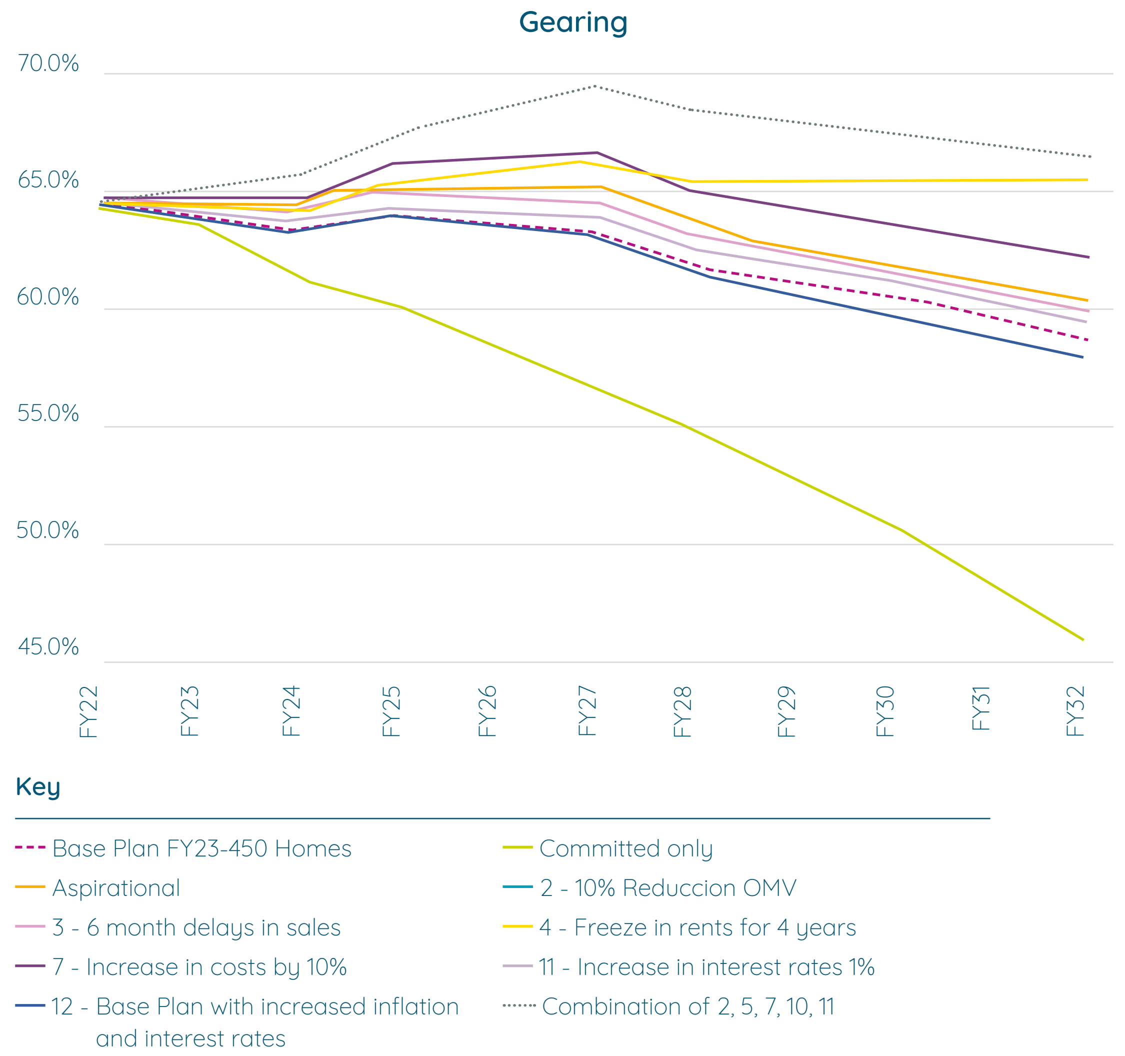
Key

- Recommended Level
- Committed only
- 4 - Freeze in rents for 4 years
- 7 - Increase in costs by 10%
- 12 - Base Plan with increased inflation and interest rates
- Base Plan FY23-450 Homes
- Aspirational
- 5 - Rent Rise CPI flat
- 10 - Increase bad debt by 25%
- Combination of 2, 5, 7, 10, 11

Sensitivity analysis

Gearing

Gearing levels follow a similar trend to the base Business Plan for the majority of the scenarios, with the biggest increase for scenario 7 – increase in costs (up to 66.6% in FY2027) and combination scenario (which increases up to 69.5% in FY2027). After FY2027 we see a reduction in gearing for all of the scenarios.



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