bpha

Business Plan 2023-2028

Contents

Welcome to our Business Plan 2023-2028 which sets out how we will continue to support our customers, look after their homes and develop the organisation for the future.

bpha's purpose has not changed since its inception in 1990. We continue to be proud to be able to provide affordable housing and community support for people who are unable to access good quality housing through the open market. Whilst this has not and will not change, the environment that we operate in and the context for our role continues to evolve. It is shaped by customer and societal expectations, the economic environment, health & safety legislation and regulatory demands.
This plan recognises that the pressures of these external considerations have increased considerably over the last 12 to 18 months and as a result the organisation is having to ensure that its resources are tightly focused on the immediate needs of our customers and their homes.

Our plan has four goal areas: 1. Developing the quality of our customer experience, 2. Investing in our existing homes, 3. Building more homes and, 4. Developing our employees, systems and processes. Whilst the detailed requirements of our operation are inherently complex, through bringing this level of clarity and focus, we will ensure that our resources are deployed to maximum effect. We are responding to the new reality in a positive and proactive manner and remain confident that whilst things in the world of housing have got tougher, bpha is prepared and approaching the next few years in a professional and positive manner.

We are benefiting from the consistency of our enduring strategies and the investments we have already made in our homes, systems and people. So whilst some initiates may be held back, overall we will deliver in full for our customers, our homes and the new challenges we will face as a result of health & safety and regulatory initiatives.

The economic environment is placing some constraints upon us at a time of high demand and increasing customer expectation, but to use a well-established metaphor; "Life is not about waiting for the storm to pass, its about learning to dance in the rain". We certainly hope it will not 'rain' for too long and 'dancing' is hardly a fair description of the professionalism and dedication of our employees, as we are prepared, resilient and optimistic about the future.

This Business Plan describes how we will deliver for now whilst ensuring the roots of our ambition are protected for the future.

Best wishes

Kevin Bolt, CEO

bpha in numbers 2023-2028

£126m
Core Operating Income

Annual Income of £126m in FY2024, which increases to £149m by FY2028 (excluding sales)

40%
Operating Margin

Core operating margin above 40% across the first 10 years of the plan

£1.6bn
Assets

Continued asset growth, reaching £1.6bn in assets by FY2028

1,197
New Homes

1,197 new homes over the 5-year period to March 2028 (1,121 affordable plus 76 market sale homes)

668
Stock Growth

668 net homes added in the 5-year period to FY2028 (after assets disposals)

£101m
Sales Income

£101m sales income over 5 years

£203m
Net Development Expenditure

£323m gross development expenditure over 5 years

£19m new grant funding over the first 5 years of the plan

£138m
Capital Expenditure

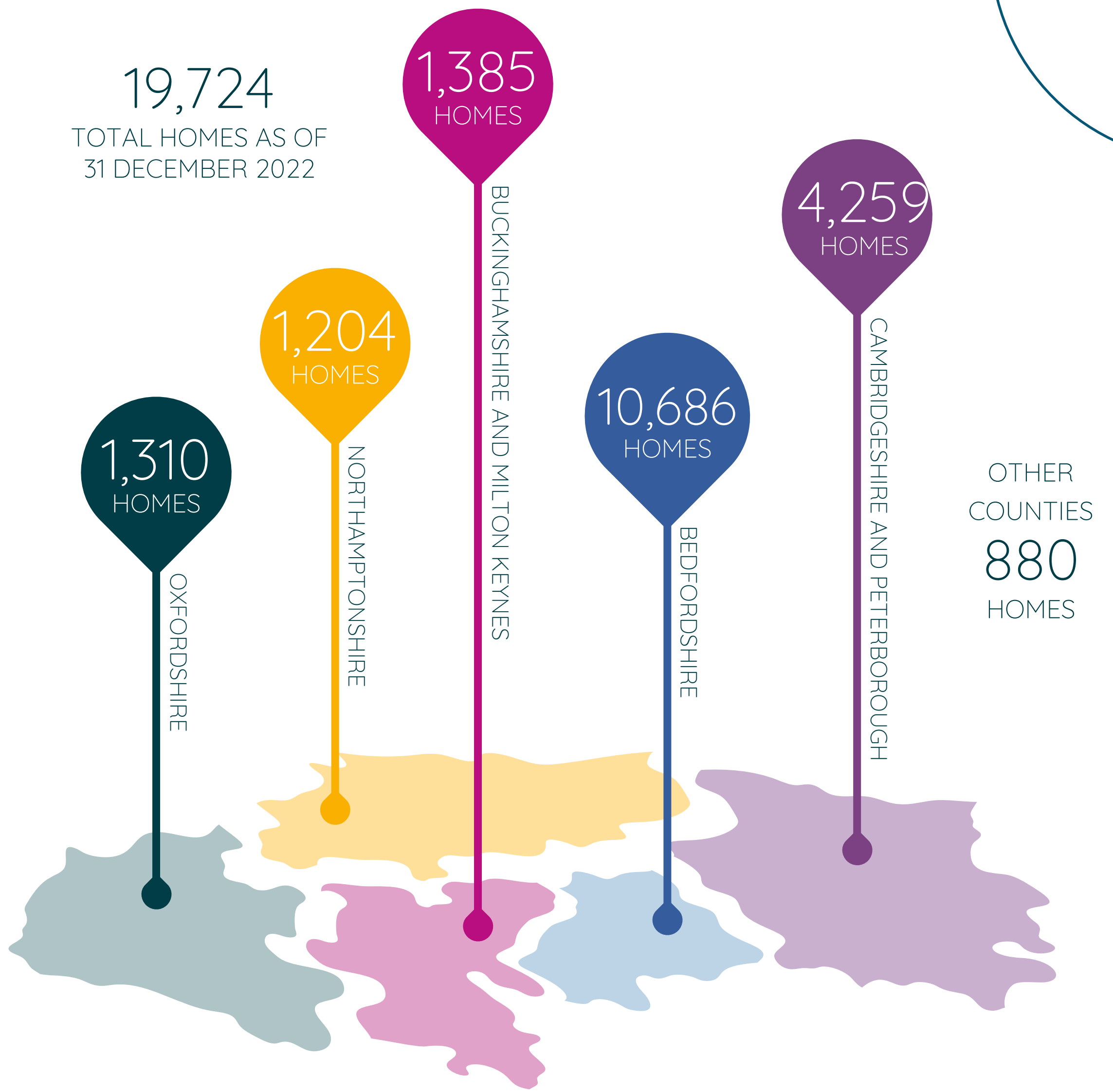
We continue to invest in our existing assets with £138m spend planed on major capital repairs and investment in regenerating tower blocks over the next 5 years

Total investment in tower blocks £83m between FY2024 and FY2031

£427m
Environmental Strategy

£10m to be invested between FY2024 and FY2030 to achieve EPC-C and £417m investment towards Net Zero Carbon targets by FY2050

Core operating area



Our mission, vision and strategy

Vision

Key strategic focus areas

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

Great customer experience and improving our services

Investing in our existing homes and communities

Building new, quality, sustainable, safe homes

Great employer with excellent people

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

Great customer experience and improving our services

Customers and communities are central to everything we do, the core of our organisation.

We will continue to improve our services based on what customers are experiencing and sharing with us.

We will do this in many ways.

We will continue to learn from complaints, making improvements for customers. The Tenant Satisfaction Measures, being introduced across the sector from April, will help us measure customers' satisfaction with our services. They will give both customers and bpha the opportunity to benchmark with others and share best practice.

We will maximise opportunities to engage with bpha and our services easily. Our digital hub, The Place, will connect with customers on their experience of bpha both locally and overall. It will also support customers to engage with each other and suggest improvements.

We will also work with schools, community centres and other partners to create accessible and visible services and advice for local people.

While improving our customer experience overall, we also recognize that people's circumstances and requirements differ. We will seek and use information thoughtfully, in areas such as tenancy sustainment, financial advice and adaptions to the home.

Investing in our existing homes and communities

The four main themes of our asset strategy are quality homes and service, safety, energy efficiency and ensuring the future performance of our homes.

Bringing our maintenance service in-house in October 2022 has already seen increased customer satisfaction and better performance. The repairs service is supported by technology that allows customers more control over the timing and management of their repairs through our 'my bpha portal'.

Our investment in the current and future performance of our properties will make sure all our homes continue to meet both the 'Decent Homes' and building safety standards.

Our commitment to energy efficiency, includes an additional £10m investment to reach EPC band C for all bpha homes by 2030, with 86% of our rented homes already achieving or exceeding this standard. Beyond this, we are working towards homes being Net Zero Carbon by 2050.

Building new, quality, sustainable, safe homes

Building new homes remain a key priority for bpha in a challenging environment.

Following on from the impact of pandemic restrictions, new home volumes are being restricted by high inflation and interest rates, scarcity in material and labour costs and skills shortages.

Our investment in new homes will be carefully considered from a financial appraisal perspective and closely managed to ensure delivery of projects against expectations.

Despite the challenges, the economic strength of our main operational area will continue to provide growth opportunities, both in terms of increasing social economic activity and the need for more affordable homes. Developing entirely in our core geography will allow us to consolidate service delivery and achieve operational efficiencies.

Great employer with excellent people

Our colleagues again voted bpha a Great Place to Work, while particularly endorsing the focus on employee wellbeing. In 2023/24, we look forward to working with our colleagues to make sure they remain supported and motivated to continue to improve our services to customers.

Our focus over the next 12 months will include evolving our hybrid and flexible working options and refining our popular benefits package with our teams. Developing our people, including a focus on our leaders, will continue to be a priority, ensuring we remain a value-led, customer focused organisation.

We will remain a people-centred employer in a changing world. This includes discussing the impact of the cost of living across the organisation and making sure we respond to colleague and customer feedback thoughtfully.

Our operating environment

The UK economic and operating environment continues to present significant challenges to the housing sector, caused by both internal and external factors. Just as markets were starting to stabilise following the Covid 19 pandemic and the Brexit related trade disruption, the invasion of Ukraine had a massive global impact on energy and commodity prices and this was then further compounded by political turmoil in the UK government in the Autumn of 2022. As a result we are now faced with high inflation, high and 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.

The resulting cost of living crisis is also having a profound impact on our customers, with increasing demand for affordable, energy efficient homes and support services.

At the same time the government's 7% rent cap for 2023/24 has put additional pressure on the sector's resources and its capacity to deliver against increasing regulatory and compliance requirements, including new Tenant Satisfaction Measures, the Better Social Housing Review, new Building Safety Standards and environmental sustainability targets, including net zero carbon.

The changed development landscape with higher borrowing rates and increased building costs have also led to lower affordable development delivery over the last couple of years and new S106 schemes are difficult to secure at the required hurdle rates. While a market adjustment may be required to establish the "new normal", this may take some time. In the meantime, it is crucial that all new development projects are approached with suitable caution and that risks are appropriately managed.

Operating efficiencies are therefore essential to ensure that the sector can withstand any further economic impacts and continue to deliver good value for money, while maintaining confidence of the funding market. bpha has a well-established and effective operating model that can adapt to our operating environment. During 2022/23 we have reshaped some of our operations to ensure that we can continue to support our customers in the most cost-efficient way in the current environment.

Some organisations in the sector are consolidating resources through mergers and other forms of partnership working and there is some diversification through a higher proportion of surplus from property sales. We continue to operate a model with limited exposure to market sales and we remain mindful of all of current challenges when considering our growth options over the next few years. However, we recognise that the current environment may also present opportunities and our strong financial position means that we are well placed to consider these as they arise.

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
- Better Social Housing Review
- Housing shortage – the importance of new homes
- Planning reforms, new housing products and models
- The Oxford to Cambridge Arc – back on the political agenda?
- "Levelling up" agenda
- General Election 2024 – future housing agenda and rent policy uncertainty

Economic

- High inflation
- Increasing interest rates
- Cost of living crisis
- Material and labour shortages
- House building delays
- Securing development sites getting harder
- A competitive employment market but limited financial capacity to attract/retain
- Increasing insurance costs

Social

- Affordability issues and energy crisis
- Strikes – Winter of Discontent
- Welfare benefits including Universal Credit
- Ageing population
- Acute issues in health and social care
- Changing consumer habits

Technological

- Increased and more sophisticated cybersecurity threats
- Data security, management and effectiveness
- Use of artificial intelligence
- Digitalisation

Legal

- Consumer standards regulation
- Increased powers for RSH and Ombudsman
- GDPR
- Health and safety compliance
- Building safety compliance

Environmental

- Sustainability agenda
- Investment needed in environmental improvements to homes
- Carbon net zero targets
- Emerging technologies and associated cost
- Net biodiversity gain
- Net environmental gain
- Access to green and blue space

Business Plan executive summary

This Business Plan sets out our external and internal operating environment, objectives we intend to achieve during the thirty-year period to 31 March 2053 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 strength and resilience, as well as good understanding and adaptability to external challenges and operating environment.

Our 2023/24 Business Plan 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 in the longer term.

bpha continues to operate effectively whilst facing an extremely uncertain external environment following severe macroeconomic shocks including Brexit, Covid-19, Russia's invasion of Ukraine and recent political turmoil in the UK. High inflation and borrowing costs, tight labour market and the residual impact of the pandemic on supply chains have increased costs of service delivery. At the same time, new and increased compliance and customer satisfaction requirements, environmental targets and investment expectations, new building safety measures, continued high demand for housing and increased competition for development projects put pressure on the sector resources. This, together with the government imposed 7% rent cap for 2023/24 further increased the need for demonstrable value for money.

The resulting reduced financial headroom will have some impact on the organisation's capacity to deliver our strategy and cope with any potential further financial shocks. Consequently, the 2023/24 Business Plan reflects the decisions made by bpha Board to scale down our development activity while operating environment is uncertain, reprofile some capital investment and reshape back office functions in order to maintain financial resilience while delivering quality core services and ongoing investment in existing housing.

Our financial projections continue to show healthy margins as well as strong cash generation 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. Sales exposure, measured as a proportion of total revenue generated from sales, is also projected to remain at or below 17%.

The 2023/24 Business Plan delivers 284 homes in the financial year ending 31 March 2024 (FY2024), and a total of 1,197 homes over the 5 years between April 2023 and March 2028 (of which up to 80 are market sale). We expect that as a result of lower projected development volumes, on net basis, after taking account of routine disposals, 668 homes are projected to be added in the 5-year period to FY2028, increasing our stock to 20,416 by the end of March 2028.

The plan also shows that the absolute level of debt is projected to increase up to FY2050 to support the delivery of our revised planned development programme whilst delivering higher capital expenditure to achieve our environmental strategy and Net Zero Carbon (NZC) targets by FY2050. From FY2049 debt is projected to decrease until the end of the plan, based on the assumed development programme of 220 homes p.a. after FY2026.

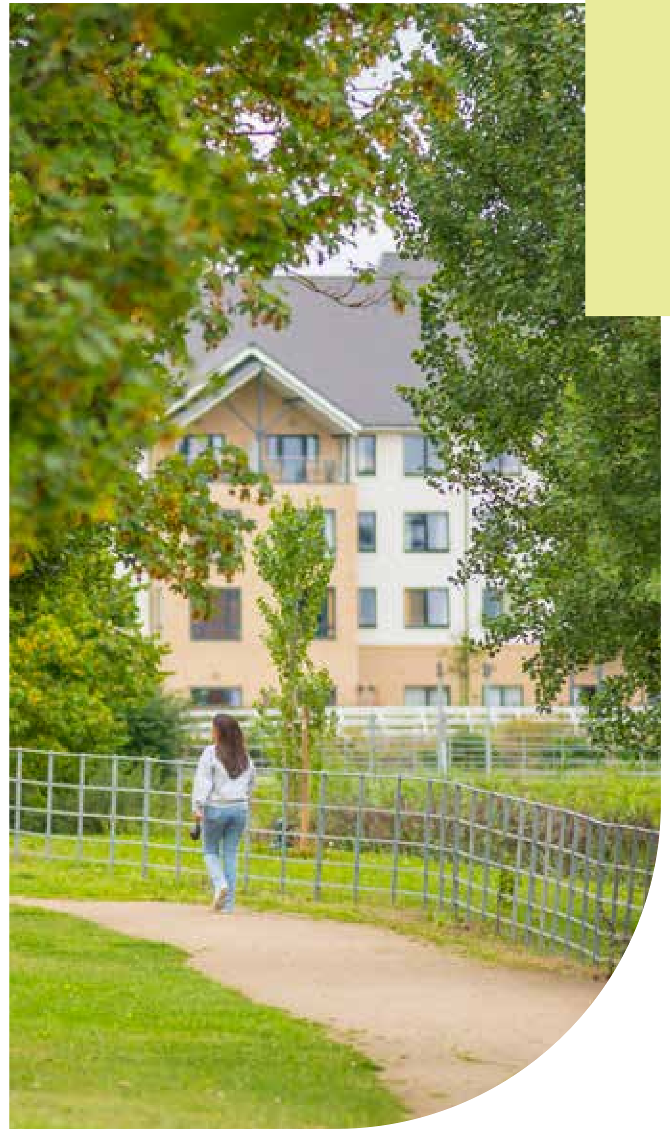
Gearing levels are projected to reduce across the 30 years of the plan even in the early years when debt increases (as increasing asset values will more than offset the higher debt), and there is an increasing balance sheet capacity over time.

Continued surpluses and operating cash flows will give us the financial resources to continue investing in the maintenance of our existing homes, deliver our development programme and progress 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 of one year interest cover and net debt per unit over the next 10 years under all the scenarios tested.

Strategic risks are assessed and incorporated in 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 maintain and rehearse a range of recovery actions and mitigation plans that remain robust to possible future shocks to ensure long term viability.

	FY24 Yr 1	FY25 Yr 2	FY26 Yr 3	FY27 Yr 4	FY28 Yr 5
Total units at end of year (units)	19,934	20,090	20,199	20,319	20,416
Core operating business					
Core turnover from operating activities (£'m)	126.3	133.3	138.0	144.0	149.2
Core contribution from operating activities (£'m)	51.0	57.3	58.6	61.5	64.2
Core operating margin	40.4%	43.0%	42.5%	42.7%	43.0%
Cashflow					
Net cash from operating activities (£'m)	67.2	73.3	76.2	79.2	82.6
Interest paid (£'m)	(40.4)	(39.2)	(38.9)	(41.7)	(41.3)
Capital expenditure (£'m)	(22.8)	(28.3)	(31.8)	(31.2)	(35.0)
Operating CF net of int & capex (£'m)	4.0	5.9	5.5	6.2	6.3
Development and sales					
Units developed	284	253	220	220	220
Development spend (£'m)	(38.2)	(53.4)	(73.6)	(82.1)	(75.3)
Income on SO and Market sales (£'m)	21.7	15.6	17.8	15.3	30.6
Income on disposal of fixed asset (£'m)	14.1	14.4	17.2	17.7	18.0
Key metrics					
Surplus after Interest before Tax (£'m)	20.8	26.5	30.3	31.6	35.9
One year Interest cover	206%	223%	234%	233%	245%
Net debt per unit (£'000)	42.6	43.1	44.4	45.9	46.3
Social Housing Lettings EBITDA MRI interest cover	110%	116%	114%	120%	119%
EBITDA MRI/ Interest	123%	124%	124%	129%	132%
Market sales as % of total income	15%	10%	11%	10%	17%
Gearing	63.3%	62.8%	62.0%	61.7%	60.1%
Gross debt (£'m)	889.7	887.9	906.6	936.9	973.7



Business Plan assumptions

The 2023/24 Business Plan is modelled on a financially prudent basis. The first year of the Plan provides the financial envelope for the budget.

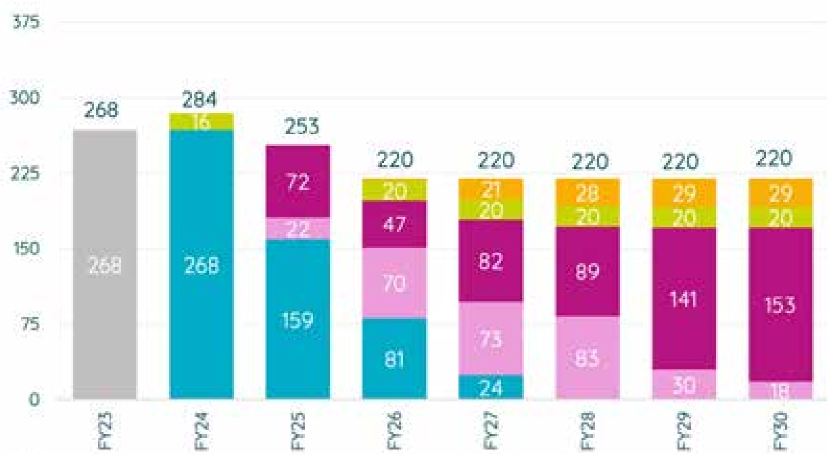
New homes development

bpha recognises that we play an important role in delivering new housing and it continues to be a key priority in our strategy. The delivery of new homes is still restricted by the disruption caused by the Covid-19 pandemic, which resulted in lower supply of new homes in FY2022 and FY2023, and now we face new challenges.

High inflation and interest rates, scarcity in material and labour costs continue to increase the costs of developing new homes, and slowdowns in sales volumes, mortgage costs and availability have the potential to restrict our capacity to meet new housing demand and reduce our new homes delivery levels.

We project to deliver 284 new affordable homes in FY2024 and c.1,200 homes over the 5 years between April 2024 and March 2028). This reduction, compared to the previous strategy (2,250 affordable + 250 market sale), is a response to the current challenging external environment and designed to ensure that we continue to operate within the financial resources of the business plan which have been constrained by the increases to inflation and borrowing costs.

Development pipeline – by status



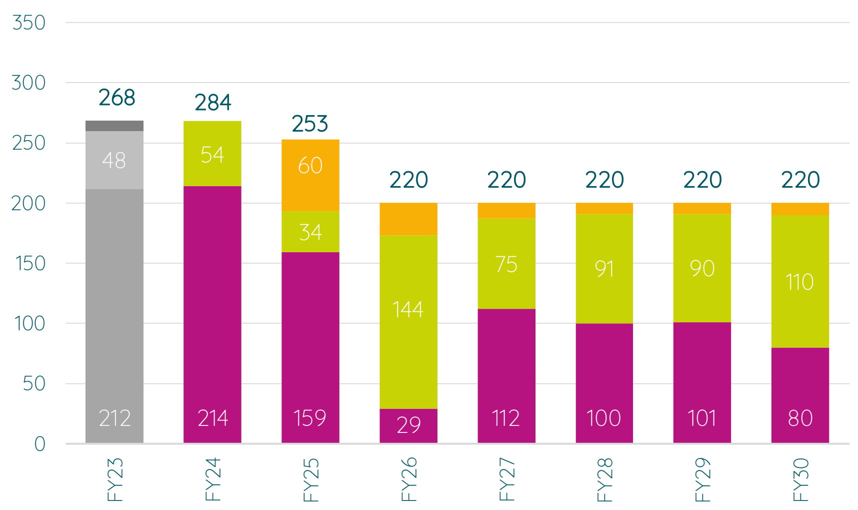
Key
- In contract
- Not in contact
- Uncommitted
- Bushmead (inc Aspirational)
- Pipeline in development

Our Business Plan also assumes that after April 2029 we will continue developing c.200 affordable homes and 20 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 ambition remains to deliver a higher number of much needed affordable homes, in line with our track record, once the market conditions become more favourable.

We will continue to develop a forward pipeline of future schemes from a variety of sources. including developer led Section 106 (S106) sites, but 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 continue to develop asset management opportunities which arise from the redevelopment of our older homes. and build relationships with joint venture partners to form future development opportunities.

This plan reflects the intended shift in the procurement route for new development with an increasing proportion of the programme planned to be delivered on land led sites (from 30% land-led in FY2026 to 60% land-led by FY2030).

Procurement profile – units



Key
- S106 Schemes
- Landled Schemes
- Asset Site

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.

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.

- Number of homes
- Number of sites

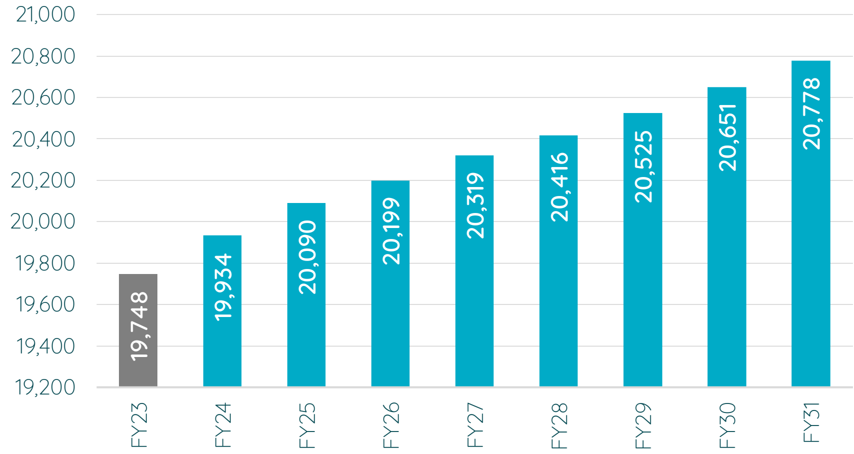
Excludes pipeline in development and private sales

Homes under construction as of December 2022

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 supports our strategy and responds to the evolving 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.

668 net homes added in the 5-year period to FY2028
This is equivalent to a 3.5% growth in our stock



Development expenditure

The gross investment in new homes forecast over the first 5 years of the plan amounts to £323m. Net development spend is projected at £203m 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.
- £256m of the projected gross development investment is uncommitted or pipeline in development.
- Bushmead gross investment amounts to £38m.
- From April 2029 we forecast an annual net development spend of c.£45m to deliver 220 homes, of which 20 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 £19m in new grants over the first five years of the plan from Homes England and to use Recycled Capital Grant (RCGF) to provide subsidy for suitable schemes.

	£'m	FY24 Yr 1t	FY25 Yr 2	FY26 Yr 3	FY27 Yr 4	FY28 Yr 5	**Total 5 years**
Development expenditure		(38.2)	(53.4)	(73.6)	(82.1)	(75.3)	**(322.7)**
Income from sales		21.7	15.6	17.8	15.3	30.6	**101.0**
Income from grant		1.7	0.5	4.1	6.1	6.2	**18.6**
Net development expenditure		**(14.9)**	**(37.3)**	**(51.7)**	**(60.7)**	**(38.4)**	**(203.0)**

Sales

Our plan assumes the sale of 435 first tranche shared ownership homes and 76 private sale homes by FY2028, generating a total income of £101m over the first 5 years of the plan.

For shared ownership homes, our plan assumes the sale of a 40% average first tranche share for existing pipeline and 35% share for pipeline in development.

Sales forecasts for FY2024 and FY2025 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. Pipeline in development 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 over the last few years.

Capital investment in existing assets

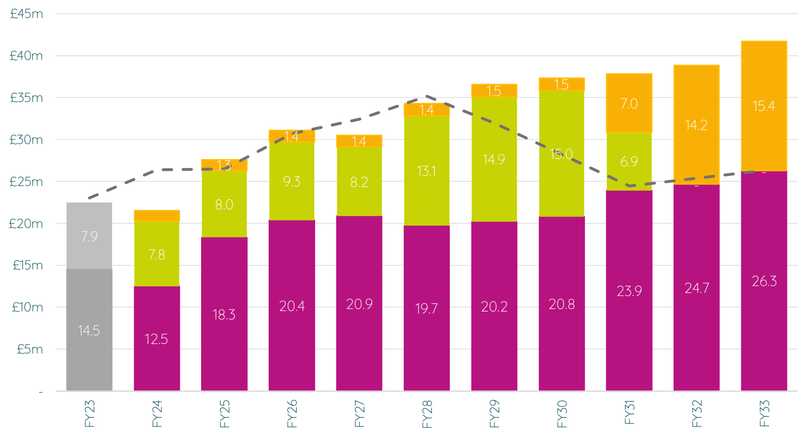
To improve and maintain the condition and long-term sustainability of our homes we plan to invest an average £18.5m p.a. in existing assets over the first 5 years of the plan.

- Revised capital investment programme using a component lifecycle driven methodology and taking account of the latest material and labour costs.
- 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 in line with best practice.

The FY2023/24 Business Plan also includes £83m of capital investment in the Bedford tower blocks regeneration project over the next 8 years. Works started during FY2018/19 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.

Capital expenditure



Key
- Capitalised repairs and IHMS
- Project Vista
- Environmental Strategy
- FY22/23 BP Capitalised repairs

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:

- We project £11m spend starting from FY2024 until FY2031 to bring all properties to EPC C+ rating. 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).
- We have made provision to invest in our assets of £417m starting from FY2031 to achieve net zero carbon target by FY2050 (an estimated investment of £20k per unit at todays values). This is additional investment to the standard component replacements which will also contribute to meet this target.

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 few years. Given the current economic pressures and to ensure that we remain financially strong and resilient, in the first couple of years of the business plan the focus is on delivering core services to our customers with assumed reduction in discretionary spend while resources are tight. From FY2026, we expect to see inflation to normalise which will create capacity in the business plan to enable us to invest more in strategic priorities and growth.

Employment costs and overheads

These costs are made up of employment expenses, estate operating costs and office overheads. During 2022/23 bpha has restructured its back office to realise efficiencies from previous investment in systems, people, and processes. Whilst the staff resources in customer facing operations have been preserved, these have been re-shaped to ensure bpha is well placed to deliver on the increasing commitments in relation to health and safety as well as new customer standards.

Additional management costs have also been provided for in future years, 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 reflects the in-house repairs delivery, following implementation of phase 1 in 2022/23 and includes the projected implementation costs and future anticipated savings from phases 2 and 3 due to be implemented during 2023/24. Due to increased inflation, the savings have been offset thus this service is cost neutral in FY2024, with future savings being generated from FY2025.

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 key. 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, operating margins, 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 is relatively high compared to 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). As at 31 March 2022 our debt facilities totalled £1,099m, of which £856m (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 8 – 18.

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 fixed rate 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 £856m, which is projected to increase by a further £90m (10.5%) to £946m over the 5 years to FY2028. This increase in debt plus the repayments on existing facilities to FY2028, will require total additional borrowings of £145m of which we have assumed £100m will be sourced from capital markets. The plan then assumes that we draw down any additional debt from variable rate facilities based on the forecast SONIA rate plus a lending margin.

Although we would refinance this variable rate debt periodically with bank term/capital markets debt (i.e. long term fixed rate debt), for the purpose of the Business Plan it is assumed that the all-in costs will be broadly in line with the variable rate assumption on SONIA + margin. We also retain the agility within our funding strategy to raise longer term fixed rate debt through banks or capital markets, on short notice, to provide certainty of costs for specific development projects. Our economic assumptions, including assumptions around future interest rates (SONIA) are set out in the table:

- SONIA – the assumptions are based on the 3-month forward SONIA curve compiled from the forecasts of bank, broker and treasury advisers.
- Around 78% of our borrowing is on a fixed rate basis with an average of 74% 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 FY2027 is borrowed on a variable rate which would bring forecasted fixed rate debt down to 61% 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 below sets out the performance assumptions included in the plan:

Business Plan assumptions 2023-24	FY2024	FY2025	FY2026	FY2027	FY2028
Inflation					
CPI	10.13%	6.68%	4.00%	3.00%	2.00%
Expenditure inflation	10.13%	6.68%	4.00%	3.00%	2.00%
Income inflation Rental homes	7.00%	6.68%	4.00%	3.00%	2.00%
Income inflation Shared Ownership homes	7.00%	6.68%	5.50%	4.50%	3.50%
Rental voids	1.40%	1.40%	1.40%	1.40%	1.40%
Rental bad debts	0.72%	1.10%	1.10%	1.10%	1.10%
Treasury					
SONIA (LIBOR)	4.50%	4.25%	3.50%	3.25%	3.00%
Interest margin	0.32%	0.32%	1.25%	1.25%	1.25%
Interest on positive cash balance	4.20%	3.25%	2.50%	2.25%	2.00%
Cash	£10m (group) & £6m (bpha Ltd) minimum cash balance				
Swaps	Remain in place until the end of the life of the swap				

Financial projections

The Business Plan demonstrates that bpha can deliver its corporate objectives whilst generating strong operating 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	FY24 Yr 1	FY25 Yr 2	FY26 Yr 3	FY27 Yr 4	FY28 Yr 5
Core operating income	126.3	133.3	138.0	144.0	149.2
Core operating expenditure	(75.2)	(76.0)	(79.4)	(82.5)	(85.0)
Surplus core operating activities	51.0	57.3	58.6	61.5	64.2
% Margin	40.4%	43.0%	42.5%	42.7%	43.0%
Surplus from development sales	1.4	0.3	0.6	0.4	2.3
Surplus on disposal of fixed asset	5.2	5.2	7.9	8.4	8.7
Surplus before interest	**57.6**	**62.8**	**67.1**	**70.3**	**75.2**
Net interest	(36.8)	(36.3)	(36.8)	(38.7)	(39.2)
Surplus after interest and tax	**20.8**	**26.5**	**30.3**	**31.6**	**35.9**

- 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.
- The Government-imposed 7% rent cap for FY2024 and higher inflation assumptions for the early years of the plan have marginally reduced the core operating activities margin compared to last year's plan. This improves from FY2025 as rent and cost inflation are assumed to be aligned with CPI inflation and new homes are added to our property portfolio from our development programme.
- The core operating margin stays above the board's expectation of 40% over the first 10 years of the plan.
- We see lower contribution from development and sales over the first 5 years of the plan as we forecast lower development levels in the current operating environment.
- Market sales exposure peaks at 17% in FY2028 and stays below 33% for the whole term of the plan.
- Rise in debt interest payments reflects the increase in gross debt to support our ongoing development activity, albeit at lower levels than in last year's plan.

Statement of financial position

Statement of Financial Position £m	FY24 Yr 1	FY25 Yr 2	FY26 Yr 3	FY27 Yr 4	FY28 Yr 5
Fixed Assets Total	**1,386.9**	**1,425.4**	**1,489.2**	**1,555.3**	**1,619.2**
SO and Outright Sale WIP	23.2	28.7	28.0	34.7	26.1
Trade and other debtors	6.8	7.1	7.4	7.7	8.0
Cash and cash equivalents	11.9	11.9	11.9	11.9	11.8
Current Assets Total	**41.9**	**47.8**	**47.3**	**54.3**	**45.9**
Creditors - amounts due within 1 year	(27.2)	(28.3)	(29.2)	(29.8)	(30.3)
Total Assets less current creditors	**1,401.6**	**1,444.8**	**1,507.4**	**1,579.8**	**1,634.9**
Creditors - amounts due > 1 year	(980.6)	(997.3)	(1,029.6)	(1,070.4)	(1,089.5)
Net Assets	**421.0**	**447.5**	**477.8**	**509.4**	**545.3**
I & E Reserve	**421.0**	**447.5**	**477.8**	**509.4**	**545.3**
Gearing	**63.3%**	**62.8%**	**62.0%**	**61.7%**	**60.1%**

- 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 term of 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. Based on the assumed development levels and investment in NZC targets now included in the plan, net debt is projected to peak at £1,302m in FY2048 then reduce gradually till the end of the plan.
- Gearing is forecast to reduce year on year, falling below 60% from FY2029, as increase in the book value of our housing assets more than offsets the additional debt required to fund future development.

Cash flow

- Cash flow from core operating activities is projected to increase steadily as a result of additional rental income from new homes added to our stock trough our development activities forecast 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, including expected investment to achieve EPC- C and net zero carbon targets. 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 £203m in the next 5 years, after a contribution from first tranche and outright sales and grants receipts.
- Existing asset sales are projected to contribute further £81m towards funding new development activities over the next 5 years. The plan is not reliant on the sale of fixed assets. Our assumption on the surplus from asset sales reflects a prudent view of our recent experience on the number of homes sold and the average surplus generated from these sales. It shows a reduced forecast for the first 2 years of the plan to recognize a more challenging sales market driven by the economic environment with higher interest costs and reduced access to new mortgages.
- The expenditure on development declines as the plan assumed that we scale down development 200 affordable homes from FY2029.
- FY2024 shows a lower development spend level as we deliver units form existing pipeline for which spend already happened in previous years, but as we start to build a pipeline from aspirational schemes spend starts to increase to average c.£77m from FY2026
- The cash interest costs are expected to average £39.5m from FY2024 to FY2026 and then to increase slightly due to an assumed capital market fundraising of circa £100m in FY2027 and ongoing drawdowns from RCF facilities to support our development activities.
- Our policy remains to maintain a minimum £10m cash balance, excluding secured and MTM cash collateral.

Statement of CF £m	FY24 Yr 1	FY25 Yr 2	FY26 Yr 3	FY27 Yr 4	FY28 Yr 5
Net cash from operating activities	67.2	73.3	76.2	79.2	82.6
Interest Paid	(40.4)	(39.2)	(38.9)	(41.7)	(41.3)
Operating CF net of interest	**26.8**	**34.2**	**37.3**	**37.4**	**41.3**
Improvements to housing properties & other capex	(13.8)	(19.4)	(21.5)	(22.0)	(20.9)
Operating CF net of int & home	**13.0**	**14.8**	**15.8**	**15.4**	**20.4**
Project Vista	(7.8)	(8.0)	(9.3)	(8.2)	(13.1)
IHMS	0.0	0.4	0.4	0.4	0.4
Environmental Strategy	(1.2)	(1.3)	(1.4)	(1.4)	(1.4)
Operating CF net of int & special projects	**4.0**	**5.9**	**5.5**	**6.2**	**6.3**
Proceeds from asset sales	14.1	14.4	17.2	17.7	18.0
SO sales + Market sales	21.7	15.6	17.8	15.3	30.6
Operating + sales CF	**39.7**	**35.9**	**40.5**	**39.2**	**55.0**
Dev Spend	(38.2)	(53.4)	(73.6)	(82.1)	(75.3)
Other items	1.7	0.5	4.1	6.1	6.2
Net CF after development activities	**3.2**	**(17.0)**	**(29.0)**	**(36.8)**	**(14.1)**
Opening cash	10.0	10.0	10.0	10.0	10.0
Net movement in borrowings and deposits	(3.2)	17.0	29.0	36.8	14.1
Closing cash	**10.0**	**10.0**	**10.0**	**10.0**	**10.0**

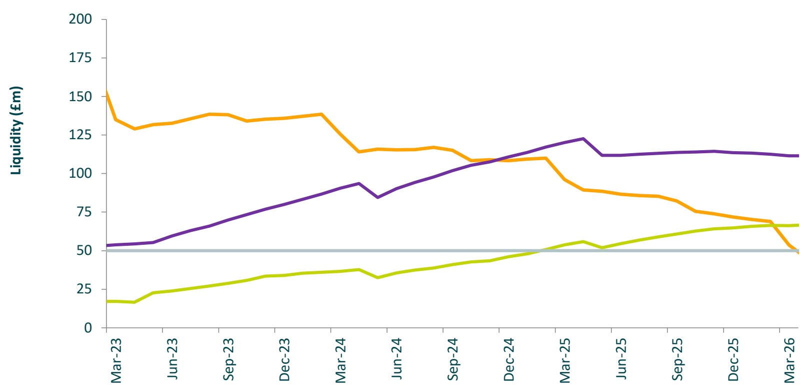
Funding:

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, EPC-C and NZC investment and the spend assumed for Project Vista. However, additional funding will be required to deliver the assumed ongoing development programme. The timing of new funding to support our aspirational development programme will take into consideration our liquidity requirements as well as 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, by the end of March 2023 we will have 36 months until we breach our minimum liquidity headroom target. The Business Plan assumes 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 in FY2027). Additional funding was not modelled specifically but assumed within working capital facility, which 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
- Liquidity Headroom
- Min Liquidity Headroom
- Target Liquidity Headroom
- Min Treasury 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).

- The one-year interest cover ratio remains well in excess of covenant levels (110%) and is at its lowest in FY2024 at 206%.
- NDPU peaks at £56.9k in FY2046.

One year interest cover

Net dept per unit

Core operating surplus and margin

The Government-imposed rent cap paired with higher inflation over the first few years of the plan have slightly reduced the core operating activities margin compared to last year's plan as we see a higher increase in costs than rents for FY2024 and overall increased expenditure and environmental investment across all years.

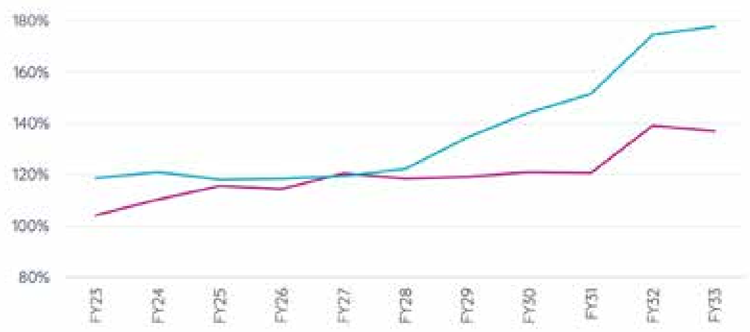
Core operating margin

Key
- BP 2022/23
- BP 2023/24

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 FY2024 where SHL EBITDA MRI interest cover is 110%.
- The adverse variance in the metric compared to the previous plan is due to lower surplus levels resulting from the Government-imposed rent cap and higher inflation assumptions.

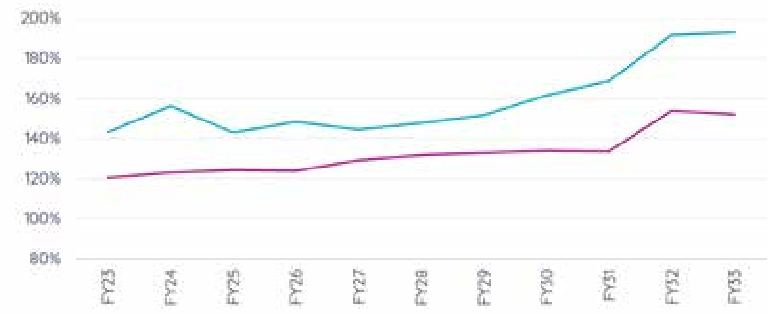
Social Housing Lettings EBITDA MRI Interest Cover



EBITDA MRI/Interest cover

- Lowest coverage is in FY2024 where SHL EBITDA MRI interest cover is 123%.
- The adverse variance in the metric compared to the previous plan is explained in lower surplus levels and lower sales forecast based on reduced development strategy.

EBITDA MRI Interest Cover



Gearing and debt

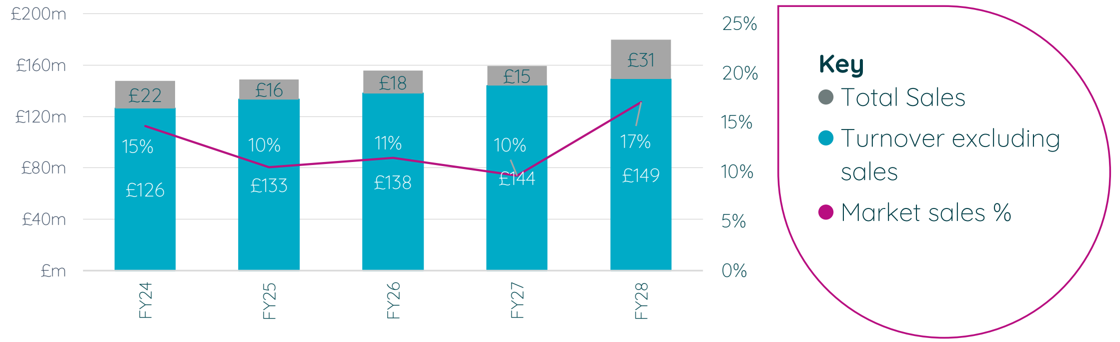
- Increased debt levels compared to last year's plan as a result of lower rental income (following the rent cap in FY2024) and higher inflationary increases to costs as well as the inclusion of investment in achieving NZC targets by FY2050.
- Although the absolute level of debt is projected to increase to support ongoing development, as asset values increase, the gearing levels reduce across all the years from 63.3% in FY2024 to 34% in FY2053 with increasing balance sheet capacity over time.
- Net debt peaks at £1,302m in FY2048.
- From this year it is projected that we could support 220 homes p.a. development with no further debt requirement.

Key
- BP 2022/23
- BP 2023/24

Market sales as a % of total revenue

Controlled market sales exposure, peaking in FY2028 where the percentage of sales over total turnover is 17%.

Market Sales Exposure



Gearing

Sensitivity analysis

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 FY2024 Business Plan 'base case'.

The analysis has been built and designed within the context of the tests put forward by the Bank of England (BoE) and the Sector Risk Profile paper published by the Regulator of Social Housing in October 2022 and focuses on risk factors such as increases in inflation paired with imposed rent increase controls - rent caps-, increase in interest rates, rising unemployment and changing house prices, supply constraints and labour shortages.

The sensitivity analysis shows that we remain within our interest cover and NDPU covenants over the next 10 years.

We closely monitor our NDPU 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).

Scenario	Description
Base Case	bpha develops 200 units + 20 market sale
Pipeline	Existing pipeline schemes only (no pipeline in development or aspirational)
1	Increase in service charge costs with a lower recovery level for 3 years (FY2025 - FY2027)
2	Reduction in open market values of 10% (up to FY2028)
3	6-month delay in sales (shared Ownership and Private)
4	Reduction in first tranche sales sold percentage by 10% (up to FY2028)
5	Rent increase capped at 2% for 3 years (FY2026 to FY2028)
6	Increase in construction costs, maintenance & major repairs costs by 5% (up to FY2028)
7	Cost increase at 9% and rents capped at 7% for FY2025
8	Increase in cost of bad debts by 10% for "at risk" income (up to FY2026)
9	Increase in variable interest rates of 0.5% above levels in Base Plan (up to FY2028)
10	EPC Band C to be accelerated (to be achieved by FY2026)
11	Increased VAT/Tax/NI (1% increase in VAT and other taxes)
Combination	Economic Downturn -combination of scenarios base case, 2, 7, 8, 9

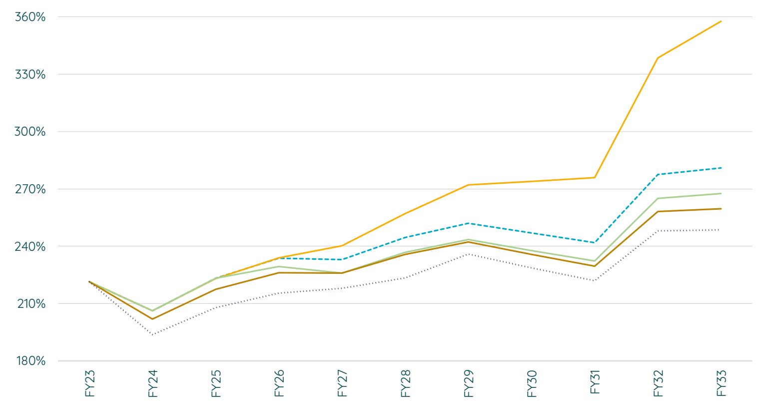
Interest cover

None of the sensitivities impact on our ability to meet interest cover covenants (covenant level 110%).

Key

- Base Plan
- Existing Pipeline only
- 5. Rent Cap 3 years
- 9. Increase in variable rate 0.5%
- Combination of base, OMV Reduction, Increase in cost, bad debts, interest rate and Rent Cap

One year interest cover



Net debt per unit

None of the sensitivities impact on our ability to meet our net debt per unit covenant of £60k per unit.

The Business Plan assumes a reduced development volumes delivering 200 affordable and 20 for private sales homes units ongoing from FY2026, which results in lower levels of NDPU even with the inclusion of investment in achieving NZC targets by FY2050.

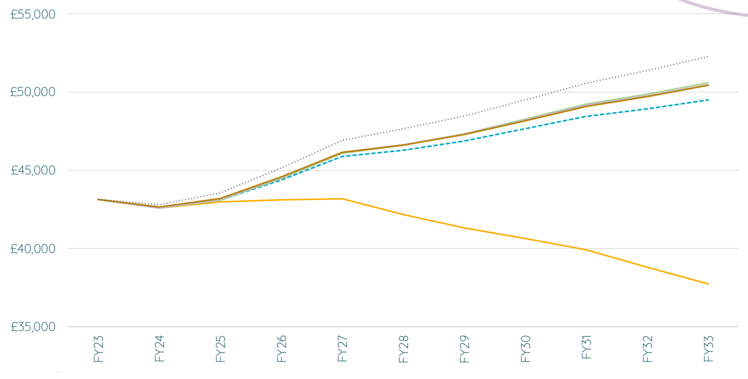
Financial modelling shows that even if the combination scenario were to fully materialise, we can still deliver our development strategy and remain under the £60k limit over the next 10 years.

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). 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.

Key

- Base Plan
- Existing Pipeline only
- 5. Rent Cap 3 years
- 7. Cost increase 9%, rents capped 7%
- 9. Increase in variable rate 0.5%
- Combination of base, OMV Reduction, Increase in cost, bad debts, interest rate and Rent Cap

Net debt per unit



Social Housing Lettings EBITDA MRI/Interest cover

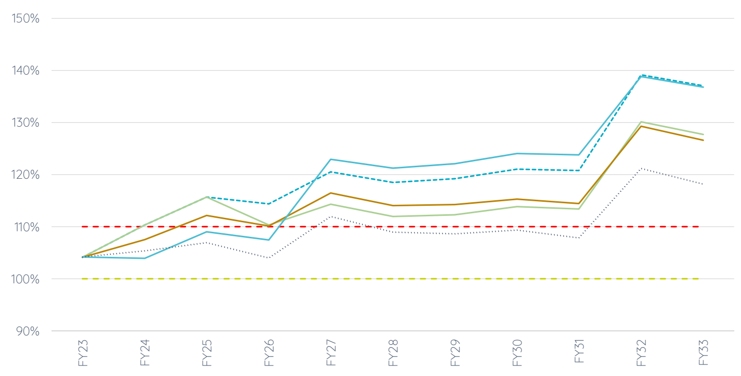
All sensitivity scenarios remain above the 100% minimum level. Combination scenario, Scenario 9 – Increase in variable rate and Scenario 10 -EPC acceleration band fall below the 110% target level but always above minimum level, in those years where Capex increases considerably driven by Project vista.

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

Key

- Minimum Level %
- Target Level %
- Base Plan
- 5.Rent Cap 3 years
- 9. Increase in variable rate 0.5%
- 10. EPC Band C by FY26
- Combination of base, OMV Reduction, Increase in cost, bad debts, interest rate and Rent Cap

Social Housing Lettings EBITDA MRI Interest Cover



EBITDA MRI/Interest cover

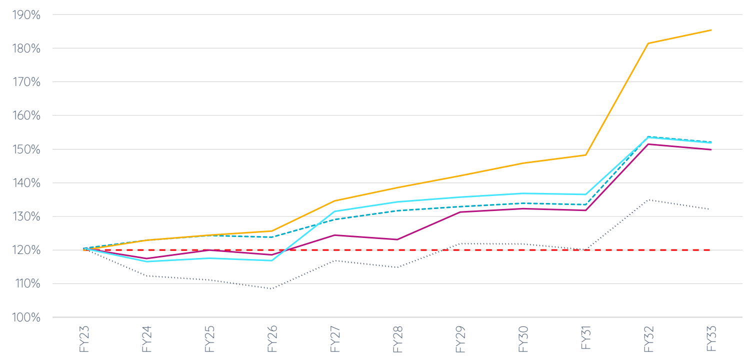
Most of the sensitivity scenarios remain above the 120% target except for the Combination scenario which falls below 120% from FY2024 to FY2028. Similarly, Scenario 2- Reductions in OMV and Scenario 10 -EPC Band acceleration, fall slightly below the target between FY2024 and FY2026.

As above, if either of these scenarios were to materialise, we would take early actions to improve our surplus and by reviewing and reprofiling our capex programme to ensure the metric stays above the 120% target.

Key

- Optimal Level
- Base Plan
- Existing Pipeline only
- 2. Reduction in OMV 10%
- 10. EPC Band C by FY26
- Combination of base, OMV Reduction, Increase in cost, bad debts, interest rate & Rent Cap

EBITDA MRI Interest Cover



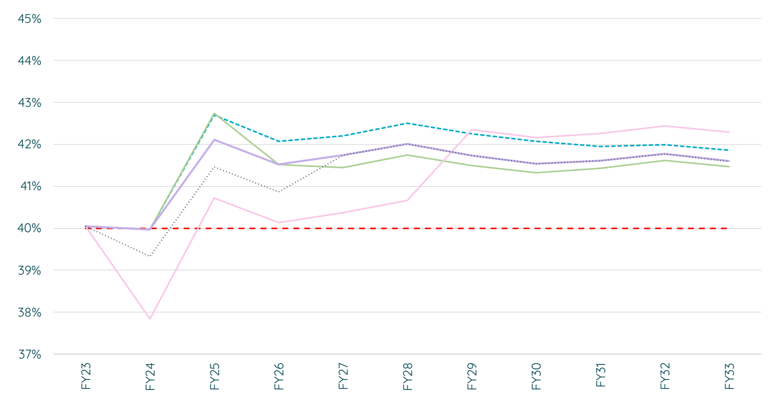
Core operating margin

Core operating margin remains above the 40% optimal level over the first 10 years of the plan for all scenarios except in FY2024, where combination scenario and scenario 6 – increase in construction costs, maintenance & major repairs costs by 5%, go below our internal target, but only down to 37%, still high compared to the rest of the sector and sufficient to ensure we can continue investing in our existing properties and meet all of our financial obligations.

Key

- Covenant Level
- Base Plan
- 5. Rent Cap 3 years
- 6. Increase in costs by 5%
- 7. Cost increase 9%, rents capped 7%
- Combination of base, OMV Reduction, Increase in cost, bad debts, interest rate and Rent Cap

Operating margin %



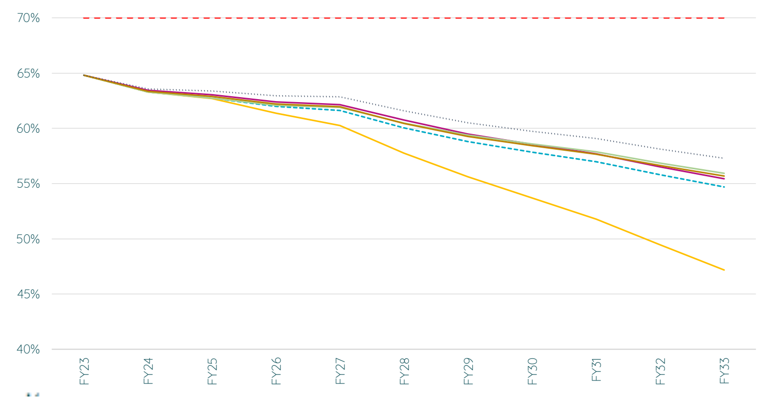
Gearing

Gearing levels follow a similar trend to the base Business Plan for the majority of the scenarios reducing year on year.

Key

- Minimum Level %
- Base Plan
- Existing Pipeline only
- 2. Reduction in OMV 10%
- 5. Rent Cap 3 years
- 9. Increase in variable rate 0.5%
- Combination of base, OMV Reduction, Increase in cost, bad debts, interest rate and Rent Cap

Gearing



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