SOVEREIGN

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Annual Report 2023

Annual Report and Financial Statements

Sovereign Housing Association Limited is a charitable Registered Society under the Co-operative and Community Benefit Societies Act 2014, registered with the Financial Conduct Authority no. 7448 and the Regulator of Social Housing no. 4837.

Registered office: Sovereign House, Basing View, Basingstoke RG21 4FA

CORP-32177-AR 2023WG

The year in numbers

A strong financial position gives us a great platform to continue to deliver the high quality homes and services our customers and our communities expect and deserve.

Quality services, more opportunity	**£1.5m** customer support fund to support people during the cost-of-living crisis **55,646** people helped through our grants programme	**14,000** cases of damp and mould proactively managed **9,912** neighbourhood inspections – 63% assessed as good or very good **9/10** customers satisfied with our repairs service
More homes, better places	**£303m** investment in new homes **£135.5m** investment in our existing homes **1,672** new homes delivered	**62,190** homes owned or managed **£448.2m** turnover **£13.4bn** open market value of properties
Strong foundations, more choice	**A3** Moody's credit rating **A+** Standard and Poor's credit rating	**Living wage** accredited employer **Gold** Investors in People

Contents

Chair's statement

To tackle the challenges we face as businesses and as a sector we need new, innovative and brave solutions.

At Sovereign our focus is always on our customers, and we know that the last year has been very challenging for many of them. The highest inflation for a generation has seen food prices and energy prices soaring, alongside rising interest rates and skills shortages. This has had a major impact on those on low incomes and created a challenging environment for businesses.

Customer satisfaction levels are not as high as we want this year and we have had to prioritise helping those most in need. This reflects a sector and UK-wide trend, compounded by economic hardship as well as public awareness of health and safety concerns. To support customers in the cost-of-living crisis we created a new Customer Support Fund, providing £1.5m of support with essential items, debt advice, employability coaching and increasing support for those in fuel poverty. We've also made it easier to award funds in response to increased demand for grants, benefitting over 50,000 people this year and securing over £1 million in matched funding.

The tragic case of Awaab Ishak in Rochdale brought to national public attention what can happen when landlords fail in their duties. The coroner's verdict in that case showed that far too many social housing tenants are living in homes that are not good enough. Upgrading our social housing stock must be a national mission, and at Sovereign we know that as well as improving how we address individual cases of damp and mould we need to address the root causes, home by home, neighbourhood by neighbourhood.

Housing associations exist to deliver over the long-term, as well as responding to immediate need. We have an asset management plan that will raise the standards of our homes over the coming decades through understanding the condition of our properties, investing to upgrade to higher safety and sustainability levels and disposing of properties which we anticipate won't be able to meet our Homes and Place standard.

The last year was challenging on a number of fronts including managing supply chains, recruiting new staff and the financial pressures bought about by inflation and a price cap on rents. But although those headwinds remain you can be assured that the Board is taking a long term approach in its decision making, for the benefit of customers, both of today and the future.

It is in this context that the Board has proposed a merger with Network Homes. Indeed, in part, the case for merger was heavily influenced by the external context. To tackle the challenges we face as businesses and as a sector we need new, innovative and brave solutions. Using the unique strengths of both Sovereign and Network Homes we believe that we can become much more than the sum of our parts, providing more good quality affordable homes and sector-leading services for our customers.

Our planned merger doesn't change our ambitious plans, it accelerates them, and gives us the strength and capacity to create real positive change for our customers, communities and people.

If the merger goes ahead as planned, Sovereign Network Group will have over 80,000 homes, serving over 210,000 customers and will be in the top six housing associations by size, with the aim of being in the top three by development programme. We will be able to invest around £9.2 billion in our existing and new homes, allowing us to create 20% more new homes over the next decade. And we will create a new community foundation, investing £100m in the next 10 years.

None of this would be possible without strong financial foundations. Despite the challenges of the last year, we have achieved an operating surplus of £123.9m and an overall surplus of £66m, money that we can reinvest in new affordable homes and in improving the condition of our existing stock. We've built 1,672 new homes this year, of which 94% are affordable. And we've invested more this year than last year in our existing homes, £303m compared to £237m last year.

Our total income is up – by £25.4m to £448.2m – mainly due to growing rental income. Our costs have risen dramatically this year as we felt the effect of rising repairs costs and a higher volume of repairs. Our balance sheet remains strong, with an asset base of £4.7bn, and borrowings well within market tolerances.

In my statement in last year's annual report, I noted a governance downgrade to the second level of regulatory compliance from G1 to G2. This happened in June 2022. We have been working hard on a recovery plan to regain a G1 rating. I am very pleased that in November 2022 the Regulator removed the regulatory notice in relation to historic gaps in our date for building safety in communal areas, which was a key driver in the downgrade decision. Thanks to the efforts of colleagues across the business, but especially in the building safety team, we have put those right. We have been transparent and accountable with the Regulator throughout – who rightly noted the positive and constructive engagement with us. This year we can confidently report strong building safety compliance. The recovery programme is continuing with new ways of working and new datasets. Thanks to the efforts of our colleagues and our good governance the Regulator announced on 28 June that we have returned to the top G1 rated.

The Regulator downgraded the viability of 18 large housing associations, including Sovereign, to the second compliant grade of V2. This reflects the difficult environment and the risk attached to those with significant development programmes, including the more challenging context for banks and other lenders. This is still a compliant grade with which rating agencies and funders are comfortable. However, we are not complacent and will ensure that Sovereign retains robust financial foundations – a central pillar of our objectives without which we cannot deliver on our core social mission.

Paul Massara
Chair

Foreword by CEO

Our new investment strategy quickly revealed that we would need a revolutionary approach to managing our assets and raising the standards of the homes we build and the homes we own.

The last financial year has been momentous in the life of our nation and of Sovereign. Since our last Annual General Meeting we have witnessed a new king and a coronation, two new prime ministers and an ongoing war in Ukraine. Political uncertainty here and around the world has made the economic context more turbulent, and there is no reason to believe that will change any time soon.

Through these headwinds our focus at Sovereign has been to keep our eyes on our mission: to deliver for our customers. We have invested huge resources in improving customer experience, tackling damp and mould, speeding up how we address complaints and getting repairs right first time. Despite the worst storms for over a decade and a huge surge in demand for repairs, nine out of ten of our customers are satisfied with our repairs service. We have seen reports of damp and mould double and this year have proactively managed over 14,000 cases. More and more we are using hardware in customers' homes and data and insights to anticipate problems before they become serious. The changes we have been making are working: call waiting times are down, customer service scores and when things go wrong we are dealing with complaints more quickly.

In a year when our customers have faced real hardship, we have invested £3.5m into our communities and secured £2.6m of external funding. Our Customer Support Fund, created in response to the cost-of-living crisis, has supported thousands of customers with debt advice, employment support and guidance on managing rising energy bills.

Our development programme this year is seeing our vision become a reality and the decisions we've made here over the last three years are setting us up for the next three decades.

When we committed to reducing our carbon footprint in order to be net zero by 2050 we knew it would require relentless focus. Our new investment strategy quickly revealed that we would need a revolutionary approach to managing our assets and raising the standards of the homes we build and the homes we own. The passion and energy that went into that process produced a radical approach to strategic asset management, which in turn gave birth to our Homes and Place standard. This year that standard has gone from concept to reality as we start to build new types of homes for the first time and invest millions into improving our existing stock. While it will take time for customers' energy bills to fall as a result, we are making decisions now that will have a lasting and positive effect on our future customers.

This year we have built 1,672 new homes, more than last year and ahead of budget. Our pipeline is over 8,200 homes, or five years' worth of delivery. Work has begun on our first developments that will be rated "good "or "very good" against our Homes and Place standard – a landmark for Sovereign as our sector-leading model for home and communities becomes a reality for our customers. We are continuing to invest in our existing stock and our retrofit programme has been boosted by the successful bid for £9.4m of government funding from the Social Housing Decarbonisation Fund.

The labour market has been challenging, but we are determined that Sovereign will be a great place to work and we have developed and embedded new values that reflect our culture and will help every single employee play their part in delivering for our customers. We continue to improve our offices, including opening a new operational hub in Exeter.

The progress we have made as a business this year means we are well set-up to make our planned merger with Network Homes a success. Together we will build on the successes in both businesses to deliver more good homes, improve the experience of all our customers and lead in the sector. There has never been a more important time to do so.

Mark Washer
Chief Executive

About us

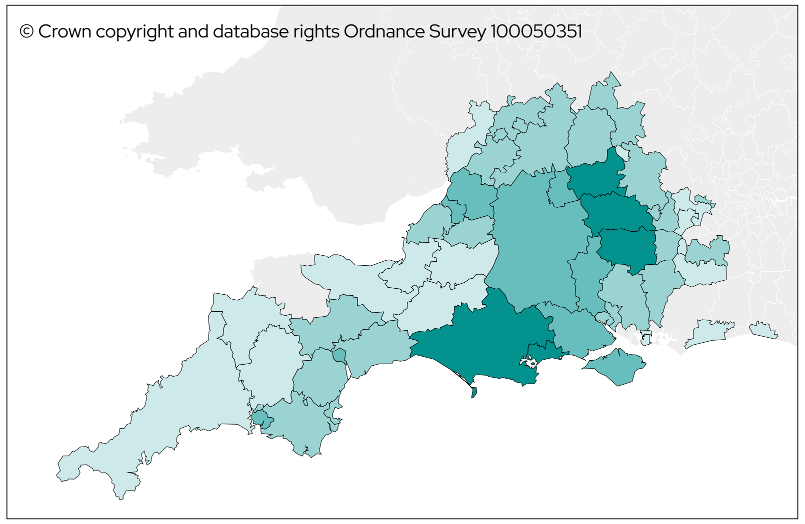
We are a leading housing association, providing our customers with good, affordable homes in thriving and sustainable communities.

We have deep roots in southern England, with more than 62,000 homes focused in a core area covering Berkshire, Cornwall, Devon, Dorset, Gloucestershire, Hampshire, Isle of Wight, Oxfordshire, Surrey, Wiltshire and West of England.

We're driven by our social purpose, with customers at the heart of everything we do. We build homes and provide great services, but our work doesn't stop at the front door – we invest for the long-term, creating great places to live, working with our customers and partners to support them in realising their potential.

Total homes

- > 4000
- 1001 – 4000
- 100 – 1000
- < 100
- None



Our history, our future

Sovereign has been providing homes for those that need them most for over 30 years. We began with the transfer of homes from West Berkshire Council. Over the last three decades we have merged with other housing associations and built thousands of new homes.

This year we are planning to merge again, this time with Network Homes, to become a new entity – Sovereign Network Group – from 1 October 2023, subject to the approval of both Boards.

Our 2021 Corporate Plan was explicit that Sovereign was open to merger and needed to be merger-ready, given our ambition to get to 100,000 homes in the next decade. Once merger with Network Homes became a possibility it was clear that there were obvious advantages to both organisations. Network Homes provide 21,000 affordable homes for nearly 40,000 people in London and the home counties. Our two geographies do not overlap and while we share the same values, we are also conscious of the striking differences between the two organisations. We were also clear as we started our merger conversations that both organisations are well-run and successful and could thrive independently. The decision to bring them together is driven by a desire to share and learn from one another, bringing together the best from each organisation.

We were also clear that the sector's headwinds make the case for merger more compelling. Together we would be better able to meet the economic, political, regulatory, environmental and social challenges of the coming decades. Our combined financial resilience would mean we can invest more and build more, shielded from risk and able to maximise development opportunities. It would provide the basis for investment in existing homes, regeneration and guide the total of £9.2bn investment over the next 10 years to provide homes that are easier to maintain and cheaper to run.

Sovereign and Network will deliver tangible gains for our customers. Together we believe we could:

- Establish a new Community Foundation investing £100m for our customers and the places we work over the next 10 years through direct support and access to external funding enabling residents to be effective advocates for themselves and their communities.
- Increase investment in technology, including systems, data and digital - creating an environment to serve customers more easily, with timely, accurate and accessible data.
- Build on the best of Sovereign and Network's current approaches creating additional ways to engage with residents and ensure that the resident voice shapes what we do and how we do it.
- Have greater capacity to tailor services. Our expanded geography and delivery of new homes will enhance opportunities for customers looking to transfer to a different home.
- Create a market-leading shared ownership offer, able to support and house a wider variety of customers.

If we merger we will be in the top six housing associations by size and have the potential to be in the top three by development programme – that would give us more influence and more opportunities to invest in homes and services.

The diversity of the places we work in would mean we can take advantage of the housing market cycles and put the Homes & Place standard across a further reach, creating more decent, well maintained, affordable homes.

Our size and scale would allow us to protect and enhance investment into our existing homes as well as build more affordable homes for people who need them most. Together, we could build 25,000 new homes over the next decade – that's 4,000 more than Sovereign could build alone.

Over that time, if we merge, we would hope to invest about £9.2 billion in existing and new homes. We would improve the quality and liveability of our existing homes and neighbourhoods. Reducing the cost of living in our homes and improving the wellbeing of customers, would drive our approach to building safety, decarbonisation, and enhancements to our quality standard.

Our size and scale will allow us to protect and enhance investment into our existing homes as well as build more affordable homes for people who need them most.

If we merge, we'll be able to do more for the communities we work in and establish a dedicated community foundation, with the aim of investing £100m in the next 10 years. That's phenomenal and would mean we can have a real impact across the cities, towns and villages our customers live in.

Integrating both organisations will involve significant effort – and at our 2023 Annual General Meeting the merger remains a likely prospect and not a certainty. However, if we do merge this year, it will create many opportunities for our people across both organisations and a fantastic opportunity to work for what could be one of the biggest and most important housing associations in the sector.

Housing and planning policy: the external context

The last twelve months have witnessed major political turbulence, even by the standards of the last decade. The Russian invasion of Ukraine in February 2022 has cast a long shadow over UK and global politics. Throughout the last year it has continued to have a profound impact on the UK economy, contributing to rising energy costs, inflation and issues with supply chains. The knock-on effect on our customers and our employees has been significant throughout the year. The biggest impact on our bottom line has been the government-imposed rent cap, which obliged all housing associations to limit any rent increase this year to under 7%. We then chose, alongside the rest of the sector to limit increases for our shared ownership customers by the same amount.

Above:
Cox's Green, Somerset

In the last year UK politics has also been fast-changing. In June, Boris Johnson's resignation triggered a leadership election in the Conservative Party and the emergence of Liz Truss as leader in early September. Sovereign was present at the Conservative Party Conference in Birmingham in the first week of October as the fallout from Kwasi Kwarteng's mini budget was landing. The previous week, Sovereign had witnessed a newly-buoyant Labour Party Conference in Liverpool. While the subsequent appointment of Jeremy Hunt as Chancellor and Rishi Sunak's arrival in Downing Street calmed the markets, the economic headwinds have been challenging all year. At the same time, housing policy has, for the most part, been subsumed by other concerns. Rachel Maclean was appointed the fifteenth housing minister in this Conservative administration.

The coroner's verdict in the case of Awaab Ishak, which confirmed that damp and mould in his family's council house in Rochdale was a contributing factor in his tragic death, has also framed the perception of the sector with the government. As is set out elsewhere in this annual report, we have invested hugely in improving how we deal with cases of damp and mould, and we have shared that work with our political stakeholders.

Over the course of the year we have continued our regular programme of stakeholder engagement. In May we launched a new research report into consumer attitudes to retrofit at an event in Westminster and we welcomed the then Minister for Building Safety Lord Greenhalgh. We have hosted two dinners in Westminster on retrofit and on the cost-of-living crisis. Representatives from Sovereign have been active on the housing sector conference scene and at the CIH conferences in Brighton and Bristol we hosted dinners for our developer partners.

We continue actively to engage with government and have formally responded to a number of consultations on reforms to compulsory purchase, tenant satisfaction measures and on the rent cap.

The recent emergence of a distinctive Labour housing policy, notably a commitment to return to housing targets, suggests housing will be a key dividing line in the run up to the next general election. Over the next twelve to eighteen months, Sovereign will be stepping up its engagement with the Labour party to ensure that our voice will be heard by whoever forms the next government.

Financial and delivery highlights

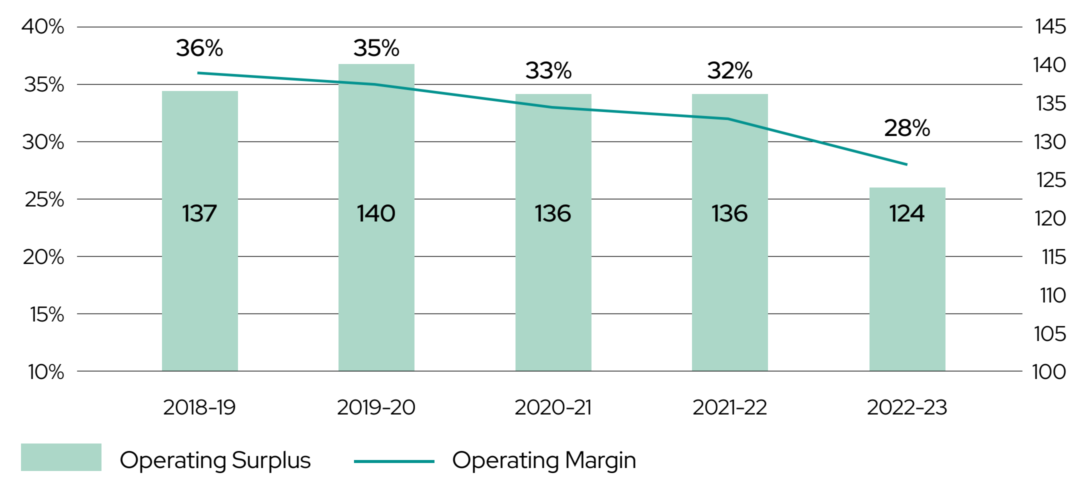
This year Sovereign delivered another set of strong results, despite the ongoing impact of the cost-of-living crisis and challenging economic headwinds. We achieved an operating surplus of £123.9m, and an overall surplus of £66m which will be reinvested into new affordable homes. Surplus is less than last year's due to challenges around repairs volumes and costs as well as utility prices. EBITDA MRI as a % of turnover has fallen to 21%, still a positive outcome for us as 2023 saw an increase to both the volume and underlying costs of capitalised repairs.

We completed 1,672 new homes, 476 more than in 2021/22. This has exceeded our target of 1,400, marking a return to pre covid levels. The overwhelming majority were affordable homes (94%). We invested £303m in new homes, higher than 2021/22 (£237m) and 2020/21 (£216.5m).

Measure	2023	2022	Change
Operating surplus £m	123.9	142.6	(18.7)
Operating margin %	28%	34%	-6%
Overall surplus £m	66.1	86.6	(20.5)
EBITDA MRI £m	95.8	146.1	(50.3)
EBITDA MRI margin %	21%	35%	-14%

EBITDA MRI = Earnings before interest, tax, amortisation and major repairs included

Operating Margin (%) and Operating Surplus (£m)



Above:
Blackberry Park, Bristol

Turnover

Our total income increased in 2023, up £25.4m to £448.2m. Social housing rental income increased by £21.3m to £358.2m and shared ownership first tranche sales remained resilient with volumes up by £11.9m to £69.8m. The increase in rental income has been driven by strong build figures from the previous year and by year-on-year rent increases.

While open market sales reduced by £6m to £6.2m (2022: £12.2m), this was down to volume of sales in the year with 11 units sold in 2023 (2022: 23 units). All private sale units completed were either reserved or sold at 31 March. We completed 491 shared ownership first tranche sales, 28 intermediate market rent sales, 1 open market sales and a further 10 sales under licence this year. Net margins on sales were 20.7% compared to 16.9% in 2022. This change reflects a very strong market for new affordable and market sale properties.

Turnover (£m)	2023	2022	Change
Social housing rent	358.2	336.9	21.3
Other social housing income	2.0	2.2	(0.2)
Shared ownership first tranche sales	69.8	57.9	11.9
Open market sales	6.2	12.2	(6.0)
Private rent	11.5	13.1	(1.6)
Other non-social housing activities	0.5	0.6	(0.1)
Total	**448.2**	**422.9**	**25.3**

Operating costs

Our operating costs have increased by 15% in the year to £283.3m, driven by inflationary pressures on management and maintenance costs. The overall costs reflect:

- Inflationary increases to skilled trades labour costs
- Maintenance cost increases and repair volumes
- Investments in our people and transformation programme for future efficiencies
- Improvements and modernisation of our workplaces

Operating costs (£m)	2023	2022	Change
Social housing activities			
Management costs (excl. depreciation)	92.0	65.5	26.5
Maintenance costs	118.7	109.5	9.2
Other costs	14.3	17.0	(2.7)
Non-social housing activities	7.7	6.3	(1.4)
Depreciation	51.0	49.3	1.7
Total	**283.7**	**247.6**	**36.1**

Other costs and activities

Surplus from sale of assets increased by £4.4m to £20.6m (2022: £16.2). Shared ownership staircasing contributed to this increase, driven by the success of our incentivisation programme and helped by further process improvements by the legal team.

Strategic property disposals also contributed to our surplus, including sales of keyworker and market rent properties in Reading and Bristol. Sovereign has benefited from a real estate market that remains strong.

Above:
Cleve Wood, Thornbury

Statement of Comprehensive Income (£m)	2023	2022
Turnover	448.2	422.8
Cost of sales	(60.2)	(58.2)
Operating expenditure	(283.8)	(247.6)
Sale of housing properties	20.6	16.2
Movement in fair value of investment properties	(0.9)	9.3
Operating surplus	**123.9**	**142.6**

The Group Statement of Financial Position

We again report a strong balance sheet with net assets increasing £139m to £2.1bn. At March 2023 fixed assets totalled £4.7bn (2022: £4.4bn), an increase of £244m on the previous year, reflecting our investment in new and existing homes.

Sovereign remains in a strong financial position with net debt of £2.56bn and available cash and committed facilities of £440m at the end of March 2023. This liquidity ensures Sovereign's ability to support both operational cash requirements and short-term future development plans.

Our interest and financing costs increased to £68.4m (2022: £61.8m). This was driven primarily by the increasing interest rates through the year, which we have minimised with a prudent mix of fixed rate debts at low rates.

Cash and short term investments have remained relatively stable at £75.1m (2022: £60.8m). This level of cash is to ensure we have sufficient cash balances to meet operational requirements. Revolving bank facilities remain available to support ongoing liquidity requirements.

Statement of Financial Position (£m)	2023	2022
Fixed assets	4,673.5	4,430.3
Current assets	226.6	223.3
Creditors amounts falling due within one year	(179.9)	(183.3)
Net current assets	46.7	40.0
Creditors amounts falling due after more than one year	(2,600.4)	(2,489.6)
Total net assets	**2,119.8**	**1,980.7**
Income and expenditure reserve	1,774.3	1,668.6
Other reserves	345.5	312.1
Capital and reserves	**2,119.8**	**1,980.7**

Cash flow

Operating cash flow at £205m has increased by £58m (2022: £147m). This increase was driven by primarily by a strong sales receipts and an increase to rental incomes from units completed in the prior year. Sovereign continued to invest heavily in more homes and better places with net cash outflow from investing activities of £293m in 2023 (2022: £209m). The increase of £84.5m was mainly driven by the fact 2023 was materially impacted by inflationary pressures and increasing investment in energy efficiency measures. Purchases of tangible fixed assets, nearly all of which were new housing development, increased by £88.3m to £370.4m as a consequence (2021: £282m).

The sale of 502 new properties generated receipts of £76m (2022: £70m), which is included in operating activities.

Cash flow (£m)	2023	2022
Net cash inflow from operating activities	**205.8**	**147.3**
Cash flow from investing activities		
Net cash flow from jointly controlled entities	–	2.1
Purchase of tangible fixed assets	(370.4)	(282.1)
Proceeds from sale of tangible fixed assets	70.2	67.5
Grants received	3.2	3.0
Interest received	3.4	0.9
Net cash from investing activities	**(293.6)**	**(208.6)**
Cash flow from financing activities		
Interest paid	(77.4)	(70.5)
Interest element of finance lease rental payment	(0.3)	(0.2)
Movement in collateral deposits	(0.1)	0.6
Net new borrowing	180.2	129.6
Finance lease rental repayments	(0.3)	(0.3)
Net cash used in financing activities	**102.1**	**59.2**
Net change in cash and cash equivalents	**14.3**	**(2.1)**

Our approach to Value for Money (VfM)

The focus of this statement is to demonstrate how the Corporate Plan seeks to deliver improved value for money for Sovereign customers and stakeholders. It reviews our performance against standard performance measures used across the industry, grouped by our strategic themes. We have chosen two peer groups to benchmark against, those with over 30,000 units and the top-10 by number of units owned. It should be noted that, while we publish our own 2022/23 VfM data in this report, the latest available peer-to-peer comparison is for the previous financial year, 2021-22.

Our core VfM objectives

- Working towards all our homes meeting a minimum quality as set out in our Homes and Place Standard
- Maximising the number of new homes available for residents
- Ensuring the organisation conforms to the three E's of Value for Money:
  – Efficiency – how well do we use our resources to deliver our services?;
  – Effectiveness – how well do our services meet our customers needs?;
  – Economy – how well do we procure the right resources to deliver our services?

VfM metrics explained

All registered providers are required to report annually on performance against a suite of metrics defined by the Regulator of Social Housing, in line with the Value for Money Standard. The approach is aimed to encourage transparency and capture performance across the sector in a fair and comparable way. The core metrics include:

- Reinvestment
- New supply (social)
- New supply (non-social)
- Gearing
- EBITDA MRI Interest Rate Cover
- Headline social housing cost per unit
- Operating margin (SHL)
- Operating margin (overall)
- Return on capital employed (ROCE)

Sector Metrics

Based on the most recent available data across the sector for 2021-22, the table below shows how we performed against the average quartiles of more than 200 registered providers (RP) with over 1,000 homes.

Sovereign's performance for 2021-22 is Upper quartile in four measures (New supply (non-social), EBITDA, Operating margin (SHL) and Operating margin (overall); three of the remaining five we are above the median.

Above:
Dunmore Road, Abingdon

VfM Metric Tables	2021-22				2022-23
	Lower Quartile	Median	Upper Quartile	Sovereign	Sovereign
Reinvestment	4.7%	6.5%	8.6%	**6.7%**	**8.3%**
New Supply (Social)	0.7%	1.4%	2.1%	**1.9%**	**2.7%**
New Supply (Non-Social)	0.0%	0.0%	0.1%	**0.1%**	**0.1%**
Gearing	53.1%	44.1%	32.1%	**45.8%**	**46.9%**
EBITDA MRI Interest Cover	106.7%	145.7%	197.5%	**203.0%**	**121.4%**
Headline Social Housing Cost Per Unit (£'000)	3.696	4.141	5.178	**3.841**	**4.480**
Operating Margin (SHL)	17.7%	23.4%	28.5%	**29.3%**	**24.2%**
Operating Margin (Overall)	14.4%	20.5%	25.4%	**29.9%**	**23.1%**
ROCE	2.4%	3.2%	3.9%	**3.3%**	**2.7%**

Operating Margin does not include asset sales or fair value movements.
Source: Regulator of Social Housing's annual report 'Value for Money metrics and reporting 2023', housing associations with >1,000 homes under management

Headline Social Housing Cost Per Unit

The cost per unit metric is calculated by adding together our total spend on management costs, maintenance, major repairs, service costs and other social costs then dividing the total by the number of owned or managed properties. This aims to give us a view of how efficient we are being at delivering services while controlling costs.

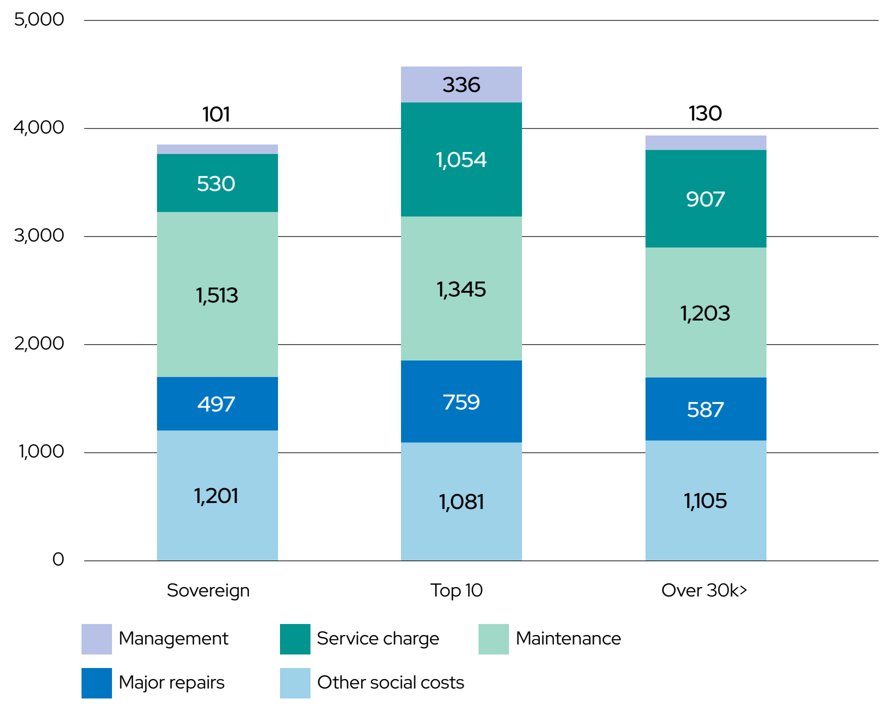
Sovereign's combined major Repairs and maintenance cost per unit are lower than our peers. This is driven by Sovereign utilising an in-house trade labour force, meaning we are more able to influence increasing costs seen across the subcontracted trade-labour market. Major repairs service delivery was affected by Covid lockdowns. After reopening, Sovereign prioritised maintenance and smaller repairs to address pent-up demand and backlogs. Major repairs faced further challenges with contractor demand and delivery, which impacted Sovereign's cost per unit.

The management cost per unit is higher than our peers. This includes research and development costs related to the spend to save transformation initiatives that commenced in the year.

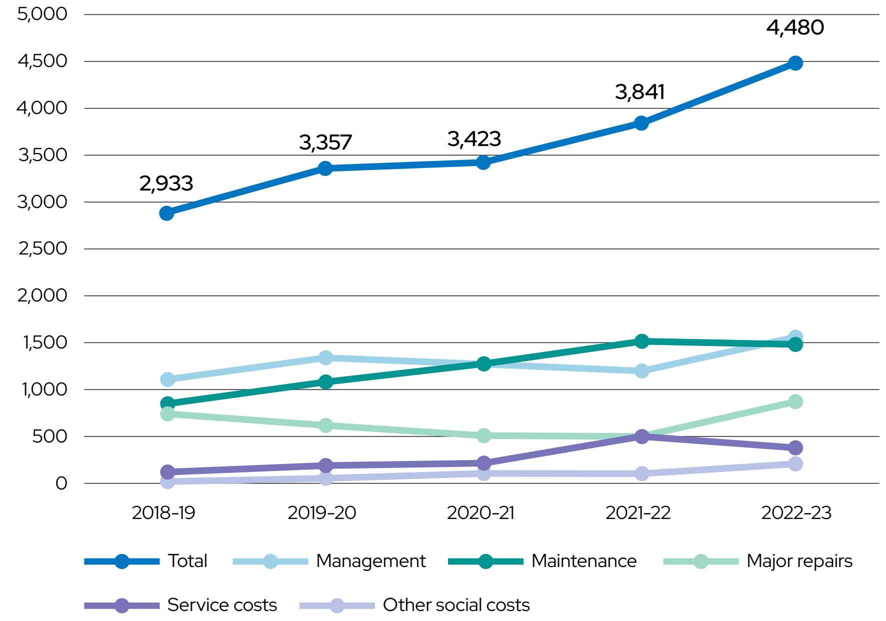
Cost per unit increasing over time reflects two things. Firstly, our commitment to investment in our existing properties. Secondly the economic climate was a driver of cost increases in 2021-22 with cost push in the building materials and labour markets.

The Government's Construction Building Materials index showed a 25.4% increase in 2021-22 and a further 8.7% in 2022-23.

Cost Per Unit (£) (2021-22) analysis



Cost Per Unit (£) trend analysis

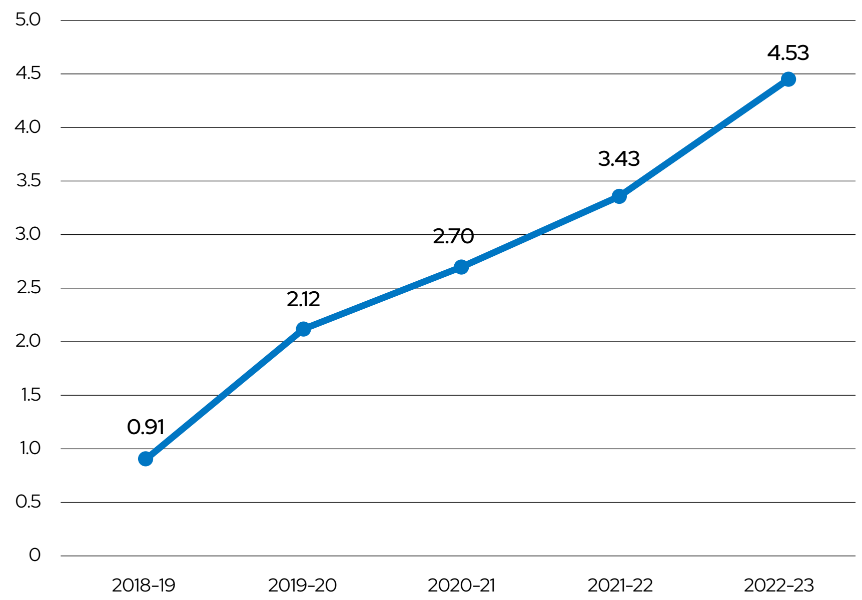


Investment in Communities

Investment in communities is not an industry standard measure, but we are committed to the communities in which our residents live so include this metric to demonstrate our ongoing focus in this area. Sovereign's Thriving Community Strategy is committed to investing a minimum of £3.5m (or 5% of surplus, whichever is higher) each year, including £1.5m towards customer support initiatives such as crisis support and debt advice. Through these initiatives we have also been able to gain match funding from organisations such as The National Lottery, Sports England, The Arts Council and Wessex Water Fund, increasing our ability to invest more in the communities and our customers. The continuing commitment to spend has also enabled us to increase the size of the Communities team in the past year.

To understand the impact our investment in communities, we use HACT's Wellbeing valuation, which places financial proxy of social value against the impact of activities. The social value we generate has increased across the last three years from £24.1m to £68.7m.

Investment in Communities (£'m) trend analysis



Reinvestment

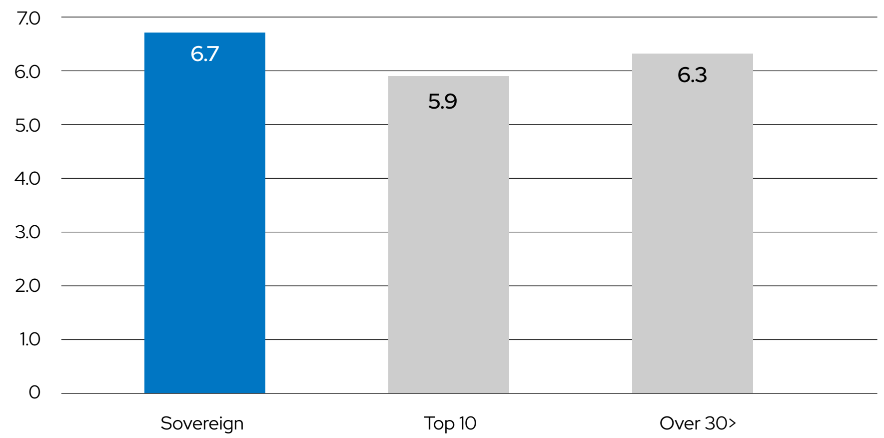
The reinvestment metric looks at the investment in new and existing properties as a percentage of properties held. This is calculated by taking the total spend on property acquisitions, works to existing properties and capitalised interest then dividing this by the value (cost or revaluation) of properties held. This shows our commitment to increasing and improving our property base.

Our reinvestment % continues to be above both the top 10 and RP's with stock over 30,000 homes.

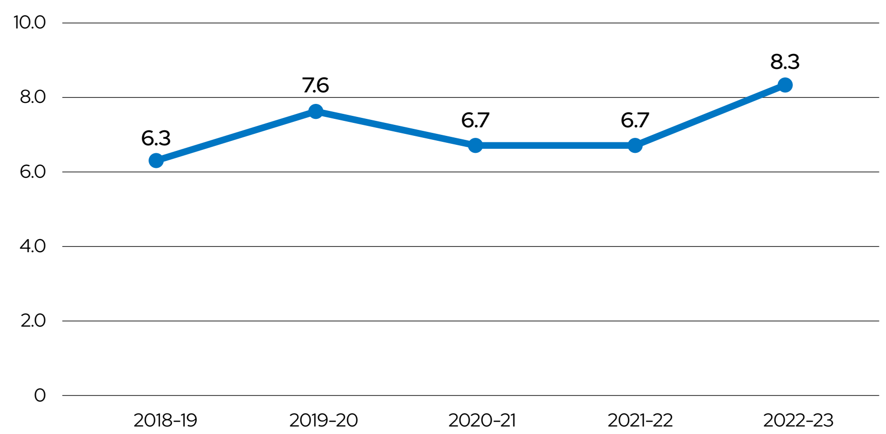
Covid-safe working practices meant that we could not complete as many major repairs as we wanted between 2020-21 and 2021-22 but we are now starting to see a recovery in this area.

Sovereign plans to invest heavily in the 2023-24 year with the reinvestment planned to rise to 14.2% as we conduct more expensive repairs and invest further in our properties.

Reinvestment % (2021-22)



Reinvestment % trend analysis



New Supply (Social and Non-Social)

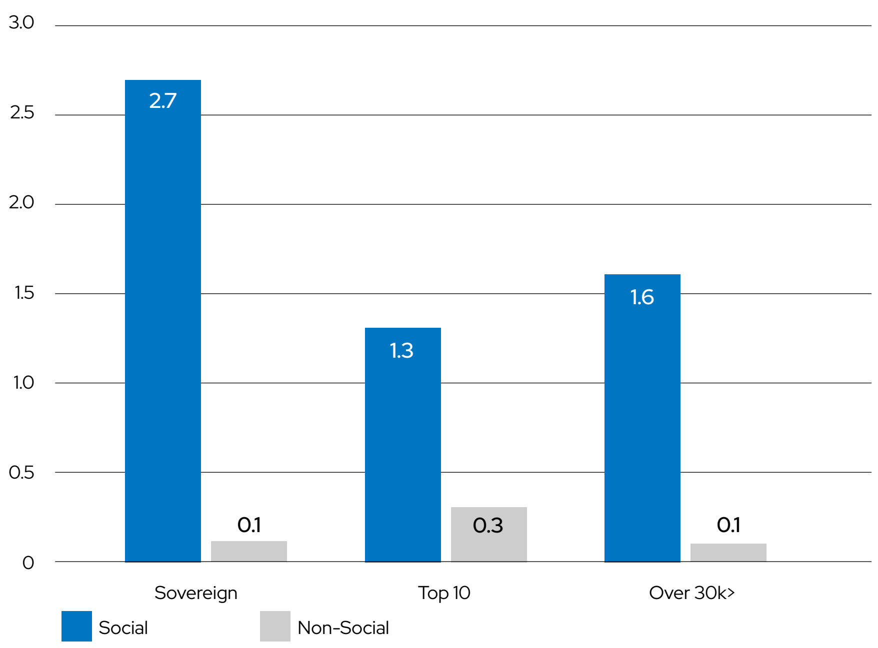
The new supply metric looks at how many new homes we deliver in a year compared to our size. It is measured as the number of new social housing and non-social housing units that have been acquired or developed in the year divided by the number of housing units owned at year end. This shows our commitment to increasing the number of homes available for residents.

As a percentage of existing stock, Sovereign delivered more new social housing than both the Top 10 and those RP's with over 30,000 homes. This represents our commitment to focusing on affordable housing and limiting the number of open market sales.

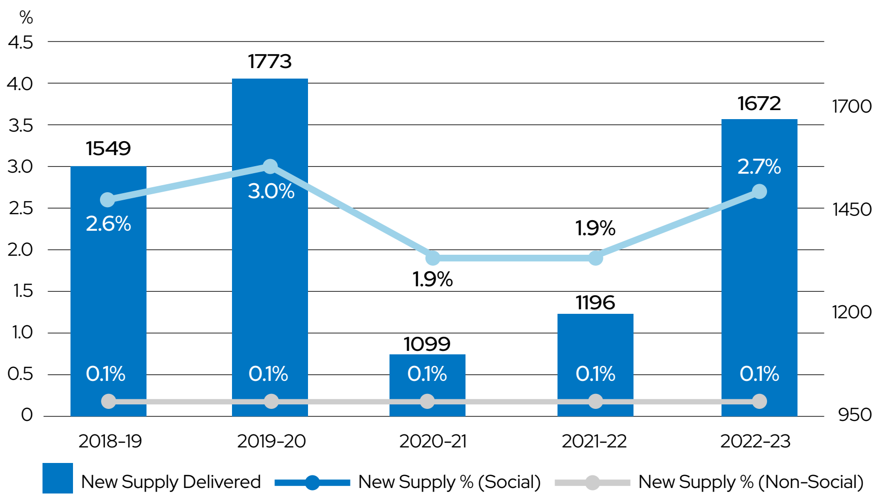
Sovereign delivered 1,196 new homes in 2021-22, a 9% increase on 2020-21 despite ongoing shortages of building materials and trade labour.

In 2022-23 we have delivered 1,672 new homes, 272 over our initial budget of 1,400 marking a return to pre-Covid levels following lockdowns and market shortages.

New Supply % (2021-22)



New Supply trend analysis

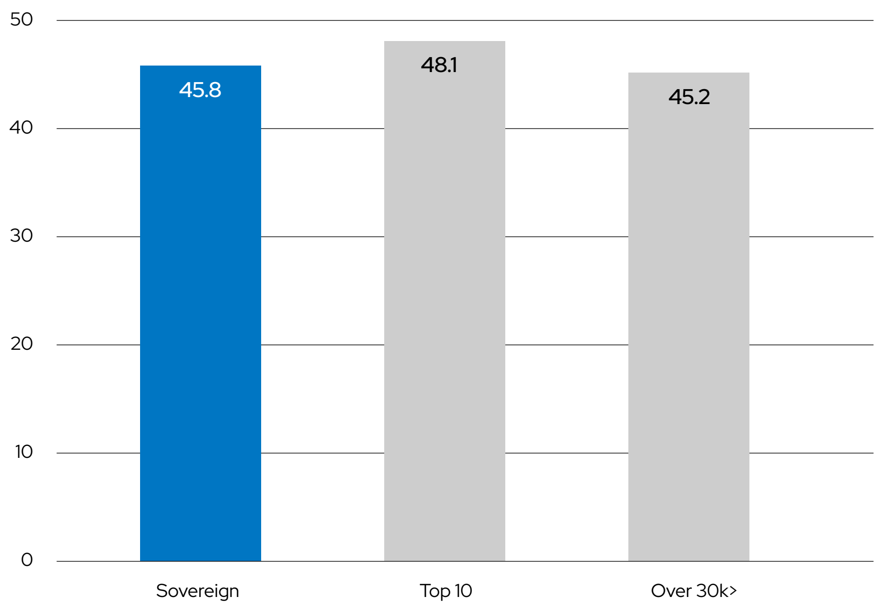


Gearing

The gearing metric looks at our debt to asset ratio, comparing our cash and financing balances against the value (cost or revaluation) of properties held. We calculate this by taking short and long term loans, cash, group loans and finance leases and divide the total of these by the value of our housing stock. This shows our approach to risk and our appetite for growth by seeking external finance options, a lower gearing is good as we are carrying less debt than our peers and have more potential for growth.

Our gearing compared to the top 10 peer group and RPs with over 30,000 homes shows we are positioned to continue to grow and re-invest in our existing assets as we are able to attract further investment funding due to being a less risky investment than our closest peers.

Gearing % (2021-22)

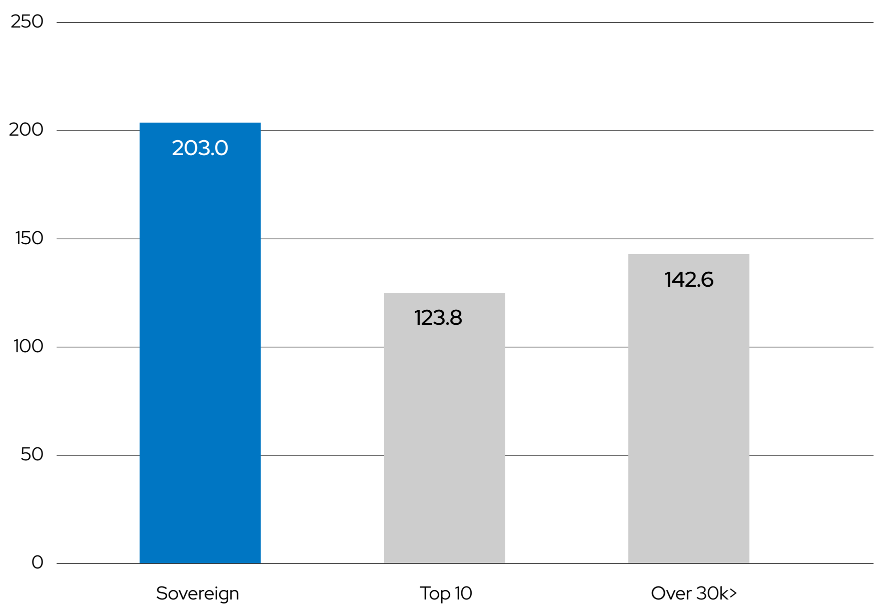


EDITDA MRI Interest Cover

EBITDA MRI refers to earnings before interest, tax, depreciation and amortisation, with major repairs included.. We then divide this by the total interest payable to show how much surplus we have available to cover interest payments. This is calculated by taking the operating surplus excluding property sales and deducting grant amortisation & capitalised major repairs, adding back interest receivable and depreciation then dividing this by total interest. This shows how easily we can pay the interest on our debt, the higher the value the more financially resilient we are.

Sovereign out-performs both our peer groups, demonstrating our strong financial stability for the long-term.

EBITDA MRI (as % interest) (2021-22)



Operating Margin

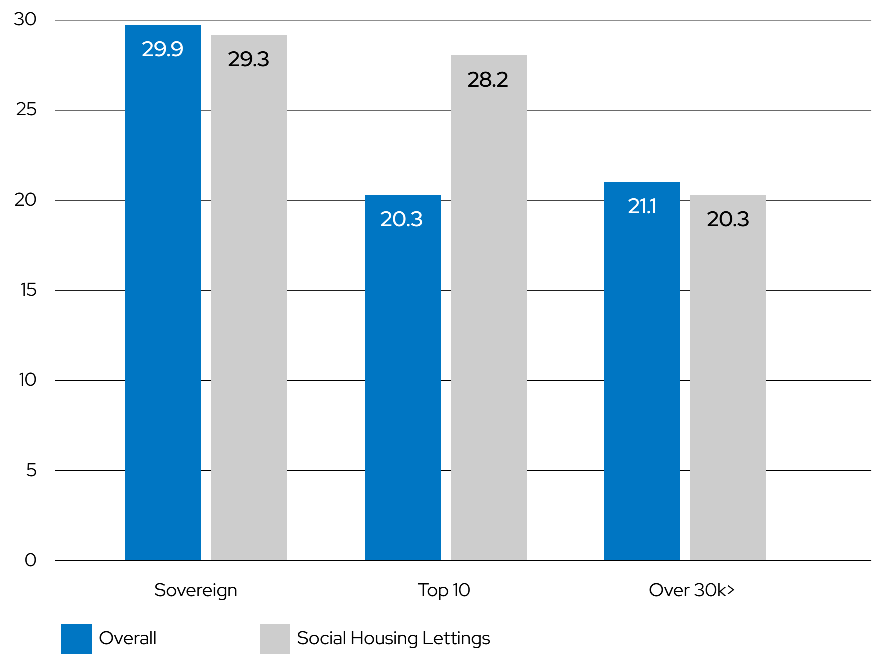
Operating margin measures the amount of money we have left from rental income after we have deducted our main costs to run the business and serve our customers. There are two measures, one focuses on the income and costs relating to just our social properties, the other includes all our activities such as key worker and shared ownership properties. Operating margin measures our financial stability, a higher margin means we are more resilient to increases in costs.

Sovereign's gap between SHL (social housing lettings) and overall operating margin shows we are committed to long-term financial stability, ensuring non-SHL activity is equally contributing to our ability to reinvest in the future.

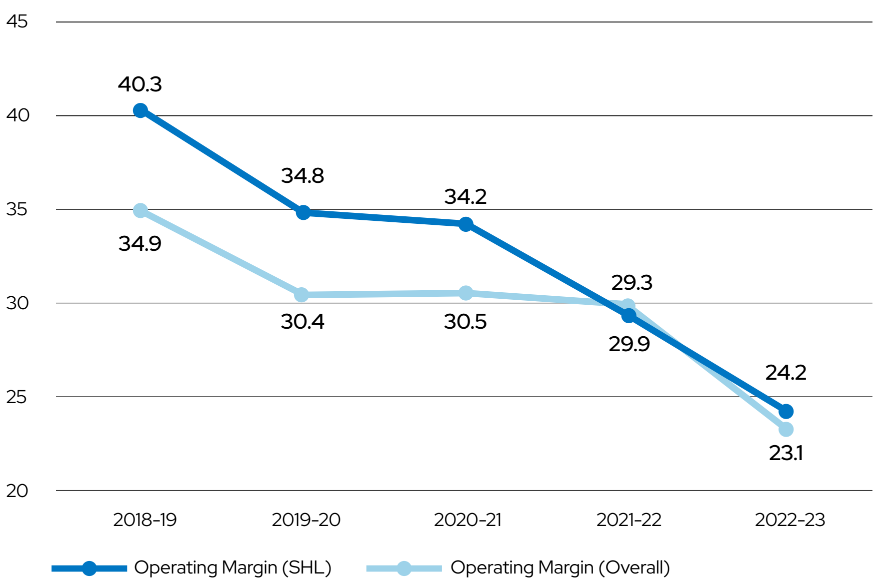
As a percentage of turnover, our overall operating margin and SHL operating margin have out-performed both the top 10 and RP's over 30,000 homes for 2021-22 reflecting our drive to mitigate increases in building material and labour market costs by using in-house teams in place of subcontractors.

Operating margin pressures continue with challenges linked to demand-price increases of the building materials, trade-labour markets and mix of repairs being more expensive. 2022-23 reflects on-going difficulties as the market tries to recover post-Covid and the impact of the situation in Ukraine driving up global prices.

Operating Margin % (2021-22)



Operating Margin % trend analysis

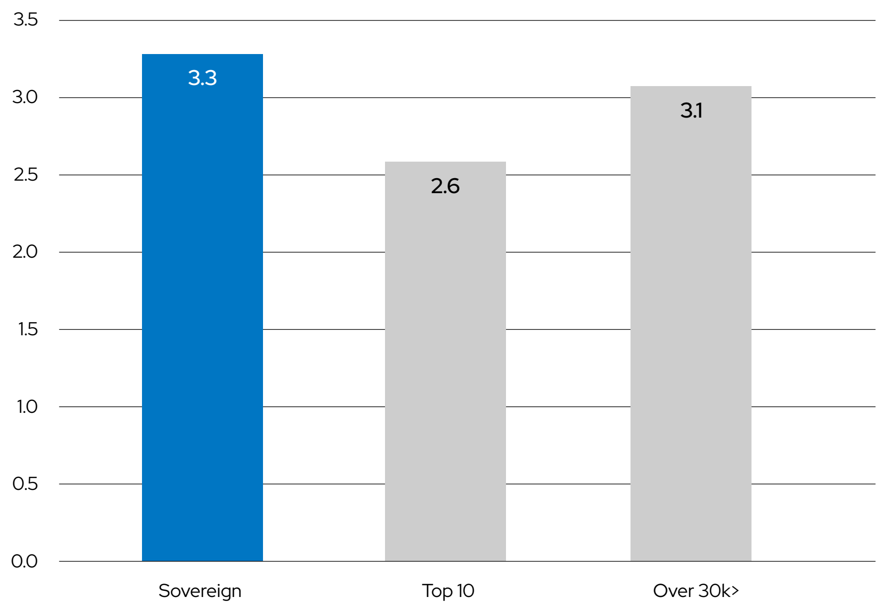


ROCE

ROCE (return on capital employed) compares our operating margin against our current assets, less our current liabilities. ROCE indicates how efficiently our money is invested internally by Sovereign, a higher ROCE is better as it indicates we are better able to use the money we have available.

Our ROCE (return on capital employed) is higher than our peer groups.

ROCE % (2021-22)



Quality services, more opportunity

Quality services, more opportunity

The last 12 months have been very challenging for our customers, for our people and for our sector. We started the financial year in the wake of the worst storms to hit the UK for over a decade, and facing economic headwinds that meant rising bills for our customers and rising costs for us all. Against that grim backdrop we have achieved a remarkable amount for our customers this year, transforming how we deliver our services at every level.

The newly established Property Response team brings customers into contact with experts who understand their repair needs.

4.2/5 customer satisfaction

80% of customer queries resolved first time

Building on the achievements of our first phase of transformation – Phase Zero – we have improved a number of our systems and processes, and set ourselves up for a Customer Programme to be rolled out in the coming year. This work is ongoing. Our day-to-day work to maintain homes has been getting better and our support to those most in need has become more focused. As backlogs are cleared and customer issues resolved, in case after case we are seeing that shortcomings from years ago are being rectified. Where our systems and processes were not always working, they have been fixed. We have taken the time this year to ready ourselves for further change through our 5-year transformation programme.

Those changes have not always been easy for our people as we have changed how we organise ourselves to better deliver services to customers. As we reshape our delivery model for customers, we will be delivering on our corporate ambitions to be truly customer-focused and leading the way in the sector. And we will be more visible in our communities, giving customers more awareness of us as a landlord and building stronger relationships between us, our customers and where they live.

Understanding our customers, improving their experience

We've also built on the significant achievements we made last year in improving the customer experience when they contact us. In a backdrop of higher than expected demand due to the worst storms to hit the UK in over a decade, we continued to exceed target across all customer channels. Over the year our average call wait times are now 1 minute 45 seconds – against a target of 2 minutes. Our email response time is now at 18 hours – against a target of 48 hours. We're getting quicker at responding on social media too: our response time is 46 minutes against a 1-hour target. Our customer service scores are strong 4.2 out of 5 underpinned by an average quality score of 94.55% against a target of 85%.

We have invested in training to give our advisors new skills, including new emotional intelligence training, to improve how we respond to complaints at first point of contact, and we will continue to develop this in the year ahead.

The newly established Property Response team brings customers into contact with experts who understand their repair needs and is speeding up our response to customers' inquiries on complex repairs using a case managed approach.. 80% of queries are now resolved first time and 76% of our customers tell us they would use this service again.

Alongside improved recruitment and training, we are harnessing technology to improve the customer experience all the time. We've tested and launched webchat as a new channel for customers to self-serve, saving them time and providing more customer choice. By redesigning the customer journey via telephone Interactive Voice Response (IVR) we have reduced the customer time completing selection within the IVR from over two minutes to 35 seconds.

At Sovereign we know good homes rooted in thriving communities enable our customers to make the most of their opportunities.

£1.5m
Customer Support Fund created

435
grassroots and local charities supported

Investing in our communities

In addition to the £3.5m Sovereign invested into communities we secured £2.6m in external funding from a range of funders including the National Lottery Community Fund, Hampshire and Isle of Wight Community Foundation and The Blagrave Trust to enable us to invest more into communities.

We successfully delivered externally funded programmes including our Skills 4 Work programme on the Isle of Wight to support people into work. This year we've also successfully delivered the first year of our #iWill fund, a two-year programme co-funded by a £225,500 grant from the National Lottery Community Fund and the Department for Digital, Culture Media and Sport. The fund, which provides high quality opportunities to give young people a voice in their community and their future, awarded grants to 24 grassroots youth social action organisations, supporting 354 young people in year one alone. In addition, we capacity-built 94 organisations with training and networking opportunities through the Sovereign #iwill Youth Network in partnership with Creative Youth Network.

Our staff and residents have felt the impact of the cost-of-living crisis and we have scaled up our resources by creating a £1.5m Customer Support Fund. The fund provided a range of additional services and support for thousands of customers including grants for essential items, debt advice, in-work job coaching, providing more support around fuel poverty and money coaching.

More projects have needed funding as a result of the cost-of-living crisis, leading to an increased number of applications to our grants programmes. We have been more flexible with some awarding criteria to enable funding to reach organisations in a timely way to respond quickly to support our neighbourhoods. Our grants programmes benefitted 55,646 individuals. We awarded £359,548 through the Crowdfunder platform which attracted £1,028,960 in match funding from individual supporters and other partner organisations to provide essential funding to 81 projects. These projects support wide-ranging initiatives from community kitchens, larders and food projects, cost-of-living support for older people and carers to wellbeing, mental health and warm spaces. Our participatory budgeting programme Your Community Your Choice also provided £69,732, benefitting 587 homes with improved open areas and outside space to aid with mental health and reduced isolation.

In addition, through the Good Exchange platform we awarded £30,000 to 16 grassroots community organisations, which attracted an additional £318,445 in match funding from public and other partner organisations to support local community investment.

In total, we've supported 435 local grassroots charities and organisations to deliver community investment programmes and engaged 5,484 customers in our services. We established a £100,000 grant to improve access to employment and training. Understanding the social impact of our work is at our core so we use a variety of methods to realise the positive differences that occur. We use Housing Associations' Charitable Trust (HACT) Wellbeing Valuation and have supported it to strengthen its system to measure social impact across a wider range of housing activities.

We generated over £68m of social value through our charitable and social purpose activity as a housing association. We seek ways to maximise the opportunities for our customers and communities with our supply chain. Since redesigning the way we seek social value through purchasing, we've made £3,430 in contributions to the Social Value levy towards our grants programmes, supported 14 apprenticeships and our suppliers have refurbished a community centre.

We continue to work with customers to support them into employment and training, working with 960 customers over the last year and helping 302 customers get better paid work or a new job as a result. By promoting financial and digital inclusion we can support customers to manage their finances and improve their life chances supporting 6,497 interventions. Investing £11,160 of digital grants in equipment we've helped 622 customers get online, transforming their ability to look for and stay in work. Referring 214 customers to our independent money expert and debt advice partners we've helped customers save £382,440. Some customers need direct interventions and this year we've helped 3,121 interventions in fuel poverty and provided vouchers for customers affected by an adverse change in circumstances.

We are expanding our partnerships and programmes in communities and are delivering an Age Friendly Communities programme in partnership with HACT in Christchurch and a Green Skills programme in the same area. We are working with Business in the Community to support charities and community groups and this year will launch new work on supporting intergenerational activity in our neighbourhoods, supporting young people on the Isle of Wight to prevent homelessness and launching a large project around social action and wellbeing for our younger residents.

Supporting our neighbourhoods

As a landlord we have a direct responsibility for our customers and their neighbours – whatever their home or tenure. In 2022-23 we managed over 12,000 cases, including dealing with 1,160 cases of anti-social behaviour (ASB), 112 domestic abuse cases and 456 safeguarding cases. Our Tenancy Success model is working – of over 210 cases since we set it up, only one has failed. Customer response times on tenancy issues are down from 14 days to two days. We have also taken steps to improve the experience of customers who have to temporarily move out of their homes, of which there were 229 this year.

We've completed 9,912 neighbourhood inspections and 63% of our neighbourhoods were assessed as good or very good. We completed 1,400 compliance non-access cases, including injunctions and reviewed 289 personal evacuation plans. 645 actions from Fire Risk Assessments were completed.

We've let over 2,500 homes, including 834 new homes and more than 600 mutual exchanges. We have successfully trialled new ways of advertising homes at the Horlicks site and have let 62 homes there, and generated a waiting list for future phases of the development.

We've helped customers to move into homes that better suit them through our RightSizing support package. We also launched a new Home Transfer product – Locata – to advertise homes to existing customers.

Helping those who need it most

We continue to have strong performance on maintaining income by keeping arrears down and managing Universal Credit (UC). We are nearing completion of our UC automated verification bot testing. We went live towards the end of the financial year and we will continue to review the cases handled by the bot in real time to ensure we are happy with the outcome.

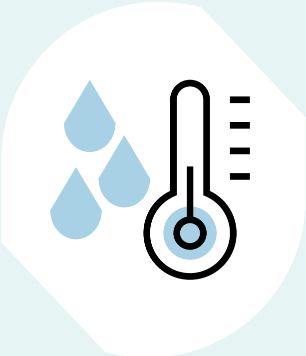
We've worked closely with customers to ensure they can access the support they need and which benefits they are entitled to, including through a new better-off calculator that helps customers understand the benefits to which they are entitled and how that might change as their circumstances change.

We launched a new cost-of-living website giving customers information on support from government, energy companies and from us. This included tips on how to keep their homes warm and to save money on essentials.

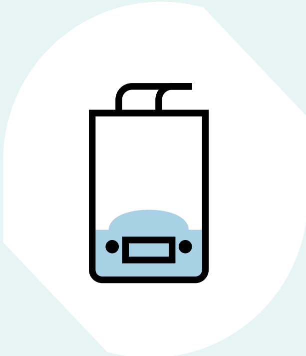
We secured £20,000 of funding from Basingstoke and Deane Council to support local customers struggling with the cost-of-living.

Over **2,500** homes let, including **834** new homes and more than **600** mutual exchanges

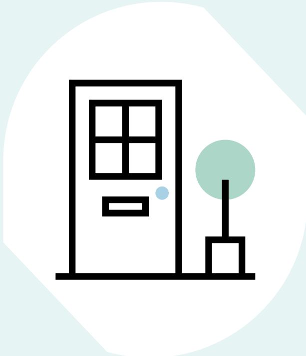
£20,000 of funding secured to support customers struggling with the cost of living



14,000 cases of damp and mould proactively managed and repaired



1,800 gas boilers replaced with modern efficient models



1,700 front and back doors replaced to improve safety and security of customer homes

Fixing problems: damp and mould

In November 2022, the coroner's verdict on the tragic death of two-year old Awaab Ishak brought to national attention the impact of damp and mould. While journalists had been exposing failures by landlords for some time, the multiple failings in this case were, as the coroner said, a "defining moment for the sector."

Like every social landlord, we have a massive challenge in addressing damp and mould in our customers' homes and putting it right, both in the immediate term and as we improve our housing stock over the next thirty years. And we have been working on this for over three years, investing in better processes and new technology to reduce the incidence of damp and mould and to put it right. The systematic and proactive approach we have been taking to understand the root causes, and to anticipate damp and mould mean that the number of cases could have been far, far higher.

Nonetheless, in the period running up to Christmas 2022, the volume of damp and mould repairs increased by 100%. This is partly because of our new proactive approach, where we are actively looking for cases, in part because our employees are looking out for cases of damp and mould as they carry out other routine repairs. The high prominence of damp and mould in the media has also contributed to sector-wide increase in reporting as social housing tenants are alerted to the potential dangers of damp and mould. This year we proactively managed over 14,000 cases.

Following a thorough review of our approach to damp and mould in 2021, we have upskilled our customer-facing team and all of our property teams to identify signs and symptoms of damp and mould and the underlying causes. We also given specialist training to property maintenance managers and delivery managers to help them spot issues and how to address them.

As well training our people, we have improved our processes so that we can fix things for our customers as quickly as possible. Our teams attend reports of damp and mould within 10 working days and when they do so they carry out an assessment of the whole property, looking at vents and extractor fans and completing a mould wash if needed. We give our customers information on preventing damp and mould and we follow up within three months. When we can't establish a cause, we will bring in independent experts.

Alongside our responsive approach, we have developed a proactive, data-led service that helps identify where damp and mould is more likely. This considers a home's age, design, heating, and repairs history and what we know about who is living in the home. We are evaluating the rollout of out smart technology, such as humidity sensors, that will help predict damp and mould before it happens. And we are using video calls with customers, so we get an instant picture of a problem in a home.

In all our interactions with customers on damp and mould we are supportive of their needs and sympathetic to the challenges they face, especially in the light of high energy bills. We now provide information direct to customers using QR codes when we visit their homes. A key part of our review was to look at how we support vulnerable customers to ensure that we consider their needs and track their cases. Our dedicated damp and mould team has oversight of all complex cases.

Maintaining our customers' homes

This year we received over 20,000 more repair jobs than last and yet we have had consistently high customer satisfaction with our repair service – 8.9 of our 10 customers say they are satisfied. We've also had positive feedback as we've started to move our grounds maintenance service in-house, giving us more control and helping to address issues more quickly. Recruitment into trades has been a challenge for some time, given the challenging labour market, inflation and rising wages, but this year we have had more success in filling posts.

We continue to invest in customers' homes to improve energy efficiency. We have replaced windows in 570 homes, replaced 1,800 gas boilers with modern efficient models and installed 400 modern Quantum heating systems. We have replaced 1,700 front/back doors to improve safety and security of customer homes and replaced 600 kitchens and 450 bathrooms and 300 new roofs.

We know that we are often at our best as a business when responding to a major incident. When a gas leak put 19 homes in a block in the Bournemouth at risk we had rehoused all the residents, regardless of tenure, in temporary accommodation within six hours. When 75,000 gallons of water flooded a property in Dorset over two weeks, we rehoused customers and provided additional facilities for customers remaining on site.

Ensuring building safety

The original notice related to gaps which we identified in our historic data on safety checks in the communal areas of our properties: asbestos safety checks, electrical safety checks and Fire Risk Assessments (FRAs). The recovery programmes for each workstream were completed by February 2022.

The Regulator stated that "we are content that the evidence provided by Sovereign throughout the period of our engagement satisfactorily addresses the areas of non-compliance which led to the publication of our regulatory notice." The letter also included thanks "for the positive and constructive engagement we have had throughout the period of our engagement regarding the breach of the consumer standards and for their transparency and openness as this case has been progressed."

This year we have consistently reported strong building safety compliance across our properties. We have established a dedicated Building Safety and Compliance team with highly competent team members recruited into key roles, including Fire Door Inspectors, a Building Safety Compliance and Standards Manager, a Mechanical and Electrical Manager and new Building Safety and Compliance Coordinators.

We have introduced new software to provide one accurate dataset for our big six compliance certification and reporting. This has improved controls, brought in automated processes and gives us a Single Version of the Truth (SVoT).

We've overhauled how we manage data on our assets so that, as well as meeting our regulatory obligations, our data is robust and up-to-date.

This year we have strengthened our in-house capability to specify pre-contract requirements, undertaken value for money assessments and readied ourselves to roll out the Homes and Place retrofit programme. We have worked very closely with colleagues in the Built Environment team to support Sovereign's business-wide work in understanding the complexities of the stock portfolio.

This year we have consistently reported strong building safety compliance across our properties. We have established a dedicated Building Safety and Compliance team with highly competent team members recruited into key roles.

More homes, better places

Harry Stoke, Bristol

More homes, better places

This year has seen our investment strategy for development become a reality. Four years ago, we looked at how we could deliver the sustainable, quality homes our customers deserve and ensure we play our part in delivering Net Zero by 2050. It soon became clear that we needed a far more holistic and comprehensive tool for assessing the standard of our existing stock and the designs for future homes than this sector had historically used.

Our new customer aftercare service means we can monitor new homes and continually learn about them after new customers move in.

From our revised investment strategy and the need to grade our assets in a completely new way, there emerged the Homes and Place standard. This year new homes are being built right at the top end of that exacting standard – setting a sector-wide bar for social housing of the future.

Just as important to us, our work to improve every home and bring it up to the Homes and Place standard has begun as we start piloting the technologies that will make our current stock greener, safer and cheaper to heat.

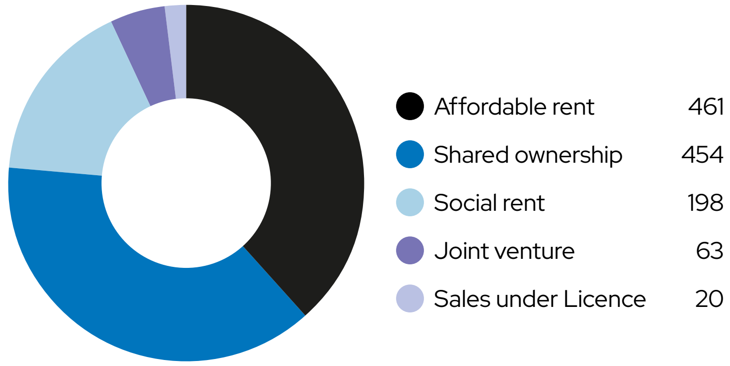
Building the homes our customers need

This year we have built 1,672 homes for rent and shared ownership, ahead of the 1,400 homes we had budgeted for. Our pipeline remains strong – we have secured 8,326 homes. This is slightly below our target as our capacity has been necessarily constrained by the government's imposition of a rent cap.

As we committed to in our 2021 Corporate Plan, we are taking a land-led approach to development which gives us more control over the types of homes we can build and the neighbourhoods we can create. We pledged to be delivering half of our homes this way by 2026, and this year over 60% of secured developments will be land-led. This marks a major departure for us and will help us to address the national housing crisis and support truly thriving communities.

Our new developments are now consistently high quality. The average Homes and Place score for our new homes is up from 59% last year to 64% this year, reflecting our work to identify and secure good homes and to shape the design process when working with developers. Our homes are going to be more sustainable as well – the sustainability scores for our new homes have gone up from an average of 45% to 53%.

We built:



Work has begun on the Taverners Field scheme near Exeter. The 62 new homes here will be good or very good when assessed against the Homes and Place standard and utilise Sovereign's new standard house types. For the first time we have built homes using our new standard designs.

This year we acquired another shopping centre – Princes Mead in Farnborough – for £17.6m. We will redevelop the site to include retail and around 350 new homes. Alongside our acquisition of the Clifton Down shopping centre in Bristol, this purchase underlines our interest in developing high street sites, helping existing town centres and providing much needed affordable homes.

We have submitted plans for a new development of 2,400 homes as the first phase of development at Lotmead in Swindon. We've also acquired a new site in Bristol at Paynes Shipyard and will look to continue investing in new homes in this part of the city. Planning permission is being sought for around 380 homes at Castle Court in Bristol.

Homes England has carried out a full audit of our processes as part of their grant programme and given us the green light across the board. We are on track to deliver the initial £72m of funding secured through our Strategic Partnership bid. Despite the challenging economic backdrop, we are going to deliver on the original contract without reduction in the number of homes or an increase in grant requirements.

We have set up new processes to help implement the Homes and Place standard in our new homes, including a capital allocation framework as part of our process for approving schemes. As well as seeing our new homes steadily achieving higher Homes and Place scores, a new aftercare service for customers through the MySovereign portal means we can monitor new homes and ensure that we continue to learn about them after new customers move in.

Managing our assets

This year we have handed over 529 units for sale, with an average selling price of £308,973 and an average margin of 44% on the first tranche sale. Our open market development at Cleve Wood in Thornbury was launched with a purpose-built marketing suite and show home and we've seen many potential customers there.

Intermediate market rent sales have increased and we have seen the average share of a shared ownership home grow to 49%. We've brought releases and staircasing into the sales and marketing team, enabling us to play a critical role in Strategic Asset Management (SAM).

This year we have sold 117 empty homes, generating £19.5m, an increase of £10m on last year. Our surplus before overheads was also up by £5.5m to £10.3m. The SAM strategy is continuing to give us overall cost savings, this year totalling £2m to date.

The new Built Environment team has brought together colleagues from construction, technical, quality, policy and performance and customer care. Together, this team is now making the Homes and Place standard a reality for our customers.

This year we have developed our new house types and will start to build them in the next financial year. These modern, sustainable homes are future-proofed both for anticipated changes in the actual climate and in the regulatory environment. We have secured type approval from the National Housebuilding Council (NHBC) giving our customers the assurance they and we want from brand new homes.

We've begun modelling the impact of our new house types in terms of their carbon footprint, including analysing embodied carbon. This will give us a whole-life carbon assessment of our homes and our regeneration schemes.

To help us to acquire the land we need to deliver our new homes we have finalised the new Homes and Place Design and Plotting Guide. We have set up a framework for establishing new partnerships, with a focus on accountability in our supply chain.

Our contractor/developer procurement framework was successfully launched and has generated significant interest – potential development partners share our passion for building the new homes we need and are eager to work with us.

Decarbonising our homes

The Homes and Place task force, bringing together expertise in development, property services, building safety and communications has been exemplary in developing effective cross-discipline working.

A major achievement for the task force was the successful bid for government funding through the Social Housing Decarbonisation Fund (SHDF) run by the Department for Energy and Net Zero (formerly part of the Department for Business, Energy and Industrial Strategy). SHDF awarded us over £9m towards our £22.5m improvement strategy. We will use this funding to retrofit a thousand homes.

Engaging with our customers on this journey to decarbonisation is crucial to the success of the project. We are now meeting our customers to get this project underway. Our Resident Liaison Officers and retrofit teams will work closely with our customers to explain every step of the journey, what the outcomes will be, how this will benefit them and how newly installed smart-home technology will help reduce their energy bills.

Home improvement retrofit measures have been individually-assessed and tailored for each home and follow a fabric-first approach which includes wall insulation, heat pumps, battery storage, photovoltaic ("solar") panels, and 'smart' home controls. Combined, these measures will deliver an enhanced energy efficiency rating of EPC B and B+ and an improved affordability benefit to our customers where bills could fall by as much as half post-retrofit.

The project is supported by a data-driven approach to continuous learning and improvement, and we intend to roll that out across all our homes. Once surveyed, each home will have a "passport" that records all the retrofit measures needed to achieve net zero. The same "passport" links to ongoing monitoring within each home to evaluate their operation, demonstrating net zero delivery and allowing quicker identification of faults or poor environmental conditions within homes.

Left:
Harry Stoke, Bristol

Featured developments

1 Severells Field
This is truly a landscape-led development, which will be set in acres of open space, Native Woodlands, Wetland areas and will even house a Forestry School. The 88 homes being developed by Stonewood Homes, will provide 26 affordable rent and shared ownership homes with a 200 metre long tree-lined access. The homes will be extremely energy efficient being built to AECB Standards, which will reduce overall CO_2 emissions by up to 70% and provide our residents with significantly reduced energy bills and an amazing place to live.

2 Nobel Park
The first phase of the wider Willington Down umbrella agreement with L&G/Cala. With a Sovereign investment of £7.9m this first phase delivers 39 good quality rented and shared ownership homes. The site is attractively laid out and designed with placemaking in mind, it is well connected to the town centre and further afield with new bus routes and road infrastructure.

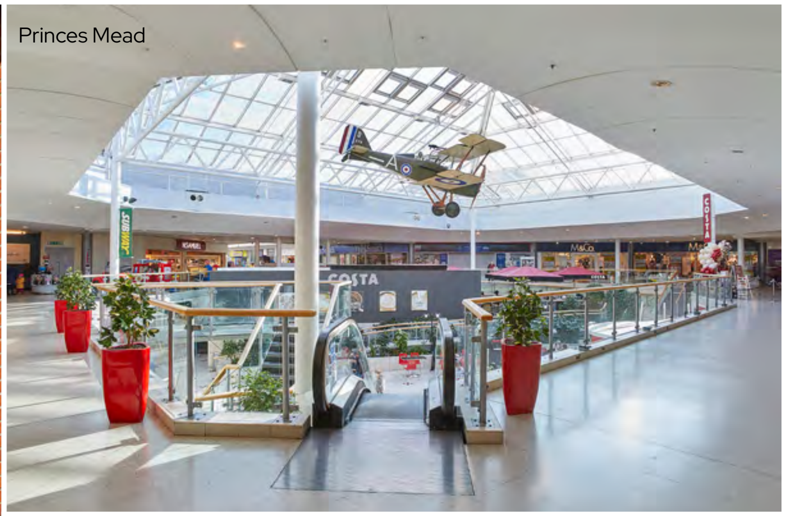
3 Dunmore Road
Working with developers, Barratt David Wilson , Sovereign will deliver a total of 70 new affordable homes under a Section 106 agreement. With a Sovereign investment of £17.1m, this development is currently on site and providing a good mixture of different sized homes and tenures to achieve a balanced community.

4 Princes Mead
At the end of September 2022 Sovereign purchased the indoor Princes Mead shopping centre, two retail sheds and a block of eight retail units in the centre of Farnborough. The proposed redevelopment will provide a truly flagship project that demonstrates Sovereign's commitment to design and great placemaking which will create a strong and successful community.

5 Sopers Lane
In January 2023, the final units at Potters Grove, Sopers Lane, Poole were handed over. The development has provided 127 homes across three all affordable tenures. The homes were delivered to a very high standard with all benefitting from sustainable energy solutions. The development was delivered for £27m, supported by £8m Homes England grant funding, and £100k funding from Bournemouth, Christchurch and Poole Council.

6 Harry Stoke
In April 2019, Sovereign and Crest Nicholson Operations Ltd created a joint venture LLP for the development of land at Harry Stoke. The site is forecast to deliver c.900 dwellings, a community centre, retail units, and open space. As part of the joint venture, Sovereign secured the affordable housing units across the development, c.244 dwellings, plus 91 guaranteed and a further 59 potential grant-funded units. This will cement Sovereign's position as a key provider on the development, with a significant stake in the success of the community. 130 affordable homes have been delivered to date, with at least 245 to be delivered. The investment from Sovereign in the affordable housing units alone is forecast to be £75.4m on completion of the scheme.

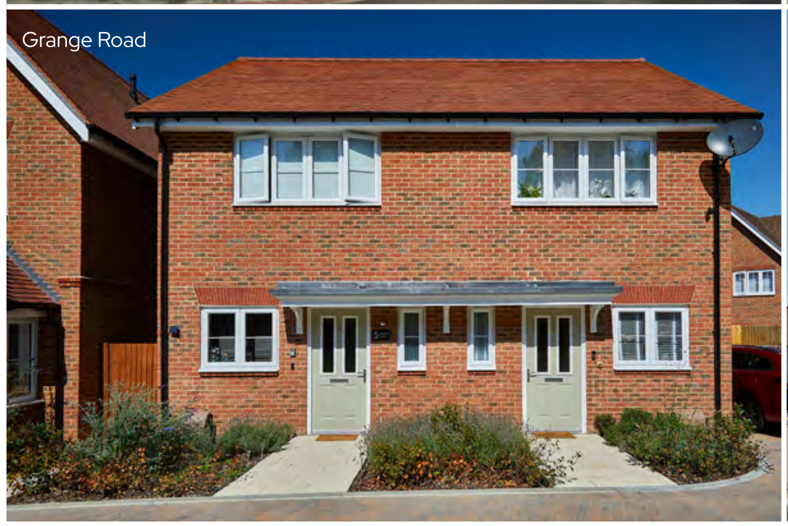

Harry Stoke


Princes Mead


Sopers Lane


Dunmore Road


Severells Field


Grange Road


Nobel Park

7 Blackberry Park Hill
Sovereign entered contracts with Galliford Try Partnership in March 2018 to deliver 100 homes, a mix of shared ownership and affordable rent on the old Blackberry Hill hospital site. The acquisition was for 20 S106 nil subsidy homes and 80 grant funded non S106 homes. Funding for the non S106 homes was via a combination of RCGF, Homes England (via Galliford Try), BCC Grant funding and Sovereign subsidy. The partnership approach has delivered 76 of the 100 homes with the remaining 24 homes expected to be delivered during the summer of 2023. The homes achieve a tenure mix suitable to meet local demand, whilst carefully considering the listed buildings remaining on site.

The site has a colourful history, formerly being a prisoner of war camp in the Napoleonic Wars, Victorian workhouse and most recently a hospital.

8 London Road, Hook
The London Road development has delivered a total of 100 affordable homes, with an investment of £20.7m, with Croudace Homes Ltd as part of the S106 planning obligations. Work started on the first phase in 2018 and reached practical completion in April 2023 and has delivered new homes of excellent quality in a core Sovereign operating area.

9 Grange Road, Ash
This land-led site has delivered 60 new rented and shared ownership homes on an all-affordable development, via a package deal with Thakeham Homes Ltd. The site has seen a total £17.4m investment from Sovereign, and has allowed us to utilise Homes England strategic funding, to provide new affordable homes in an area that we are working to increase our presence.

10 Willington Down
Working closely with developer L&G/Cala, Sovereign is operating under an umbrella agreement for 279 homes. The site will add much-needed quality homes to the Oxford-Cambridge growth corridor with a Sovereign investment of £58m and placemaking at its forefront.

Strong foundations, more choice

Strong foundations, more choice

For Sovereign to meet our ambitions to deliver for our customers and to build the new homes they need, we must have a strong financial footing, robust systems and processes and harness technology so we can deliver more for less. Over the last year our investment in new digital systems has been at the heart of our transformation programme. But even the best tools in the world will only deliver for our customers if our people are engaged and inspired to live out our values every day they come to work. This year we have set in train a new approach to performance management and made a significant investment in training and development so that we develop our people and attract and retain the very best in the sector.

£1.8m saved in legal bills through our new legal case management system

We've made nearly four hundred proactive calls to customers based on this new data, helping to solve problems before they become serious.

New technology driving transformation

The use of new technology, digital platforms and data are transforming the way we can serve our customers. New hardware in our homes is giving us insights that will help us anticipate issues in our customers' homes. This year we have installed over a thousand sensors to monitor the conditions that can cause damp and mould and legionella in communal heating systems. Embracing the Internet of Things (IoT) is already having a positive impact on our customers.

We've made nearly four hundred proactive calls to customers based on this new data, helping to solve problems before they become serious. This has helped us to spot customers who might be in fuel poverty and to get them support from our Money and Digital team. Data is also helping us to spot repairs, meaning we can carry out remedial works more quickly and prevent larger scale repairs further down the line. And we are providing ever more support to help our colleagues in property services deal with damp and mould.

Technology is freeing up our skilled workforce to focus on the more challenging cases. This year we deployed Robotic Process Automation for our customer refunds process – two thirds of refunds are now managed without manual intervention from the Rents Accounts team.

A new Neighbourhood Inspection App has replaced old, paper-based processes, immediately integrating information and automatically alerting people across the business if we need to take action in one of our neighbourhoods. Our customer website, MySovereign, now has a virtual assistant using artificial intelligence to help us with customers' inquiries.

Driving efficiency, minimising risk

We've advanced automation across the finance function, bringing in new AI to improve supplier invoice processing and we've modernised our financial reports using Power BI. Our new treasury management system means we can move faster in response to regulation – for instance, in providing the necessary analysis when the government imposed a rent cap.

Our internal legal team dealt with over 3,700 issues, saving an estimated £1.8m legal bill. Our new legal case management system will further improve efficiencies for the legal team.

We've established a new Process and Controls capability, to support transformation and integration. We have also joined up across functions to create a new Health & Safety Leadership Group as party of our governance and risk management.

Unlocking the power of our data

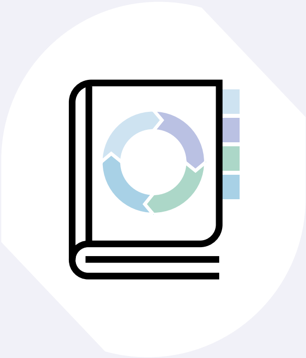
We know data is key and we are investing in a new "single source of truth" for our data in one tool. This year we have embedded new data systems, including Power BI and GIS userbase to ensure we are truly data driven in our decision making. This has meant ensuring data is at the heart of our Transformation Programme.

We have made steady progress on Cloud Data Migration, working to classify data using clear and widely understood policies and ensuring we keep information secure.

A key focus this year has been data on our assets, to ensure we can be fully compliant and guarantee building safety. As our customers have been facing a cost-of-living crisis, we have used the insights we gather to inform where fuel and food vouchers are most needed and will have the most positive impact. All this data work supports the development of effective customer segmentation, meaning we can get support, advice and carry out repairs for our customers more efficiently.

IT improvements have also driven cost savings. This year we exceeded our Fit for Growth saving target of £1.9m. Our new organisational structure is scalable, focused on delivering value and helping cross-functional working.

Four new values launched, helping us shape our culture and deliver for our customers



Everyone Safe & Well programme delivered to over **400** line managers

Embedding our new values

This year we have launched our new values, which will shape our culture and help us to deliver for our customers.

- Connect: We build relationships with each other, our customers and partners. We're in this together.
- Deliver: We deliver by doing what we say, and more. We're a trusted partner.
- Invent: We're curious and brave, taking risks in pursuit of being better - for each other, our customers, our homes and communities, and the environment.
- Own: We own everything we do, putting the customer first, every time. If it's the right thing to do, we do it.

These new values will be integral to our new performance management processes, how we recruit new talent and reward our people. We have also created clear succession plans across teams, ensuring that we can create opportunities for people to make progress in their careers and that the business is nurturing our future leaders. Together with a refreshed corporate strategy, we can support our people to direct all their efforts to the service of our customers, creating a great place to work and achieving our corporate ambitions.

Engaged employees

We've restructured our business through a collective consultation process, creating a blueprint for our structure, evaluating every role and enabling us to have the right roles and skills in every team. Ensuring that we consulted fully and were thorough in testing our models meant we responded to over 200 counter proposals and managed over 500 consultation meetings.

We know that the external factors that have been challenging for our customers and for the housing sector have been tough for our people too. Everyone at Sovereign has been affected by the cost-of-living crisis and we have responded by improving how we support our people, including appointing a new employee assistance provider.

The labour market this year has continued to be challenging. We are using different platforms to recruit, as well as more of a focus on social media. This year we advertised over 660 new roles – 175 to existing colleagues and 485 to new starters.

We have rolled out new training for colleagues to promote equality, diversity and inclusion, including interview training and inclusive leadership. We continue to benefit from the active involvement of colleagues in our LGBTQ Network, Gender Network, Diverse Ability and Carers Network and CAAN (Caribbean, African, Asian Network).

We've improved our employee engagement surveys and made them more action-oriented, so that each directorate is actively engaged on their respective improvement plan. We have also recruited over 50 employee engagement champions, to support this activity in every part of the business.

Above:
Sovereign's new operational hub, Exeter

We've delivered a new driving safety programme to remind colleagues of the risks of driving and of their obligations when driving for work.

Treasury management

The management of treasury is key to ensuring sufficient facilities are in place to support our corporate plan and its development programme. Our Treasury Management Policy sets the framework for managing the treasury activities and encompasses strong governance procedures. The Board delegates responsibility for the approval and regular review of the policy to the Treasury Committee. Treasury strategy is reviewed on an ongoing basis and a documented Treasury Plan is prepared at least every year and signed off by the Treasury Committee.

Capital structure

Sovereign is financed by a combination of capital market bonds, long and short-term bank debt, Social Housing Grant funding and retained surplus. We have three public bonds in issuance £175m, 2039 £250m, 2043 and £375m, 2048. We also have a total of £95m bonds from AHF 2043.

Security

All of Sovereign's debt facilities are secured facilities, with security provided by way of charges over housing properties and at year end all of the facilities were fully secured. As at 31 March 2023 we had 19,460 units unsecured, with a value in the region of £1.6bn, of which, £267m was charged but unallocated with our security trustee and is therefore ready and available to be pledged as security for any future funding requirement.

Accordingly, considerable secured borrowing capacity remains available to support ongoing development.

We are confident our financial position makes Sovereign a strong investment proposition.

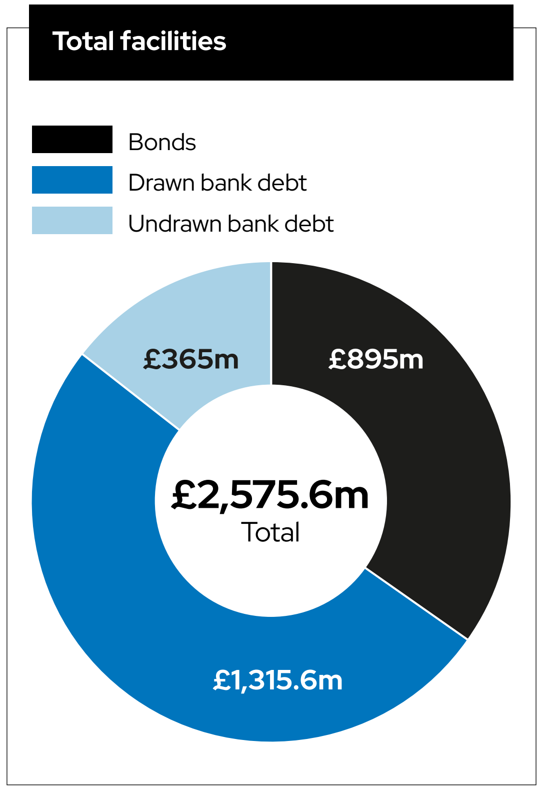
Covenants

Sovereign's bonds and bank debt include various covenants and undertakings. The financial covenants are primarily in respect of Interest Cover, gearing and asset cover. Compliance with financial covenants is monitored on an ongoing basis with tighter embedded Golden Rules for Interest Cover and gearing metrics and there have been no covenant compliance breaches during the financial year. Future compliance is considered as part of regular quarterly forecasting and as part of the business planning process.

Our latest business plan reflects considerable headroom in relation to all interest cover and valuation based gearing covenants. Regarding our asset cover covenants, we regularly review the level of security secured against our facilities, ensuring assets are valued at their optimal value. We seek to maintain a level of headroom on all facilities to provide ease of releasing properties in relation to staircasing of shared ownership homes or as part of our Strategic Asset Management programme.

Liquidity

Sovereign has a minimum liquidity Golden Rule in line with the Regulator of Social Housing's 18 month rule which is monitored monthly, whereby we require cash and immediately available finances to be in place to cover all net expenditure excluding all uncommitted or aspirational development spend and all sales income for at least the following 18 months. As at 31 March 2023, Sovereign's available liquidity totalled £440m. In addition, we had £267m charged and ready to charge security at optimal value to provide ease of access for any future facilities, so we remain well placed to protect ourselves from any unexpected eventualities arising from economic, political or regulatory challenges.



Sovereign's finance facilities have a weighted average term of 13 years (2022: 14 years), with £604m of debt facilities maturing in the next three years. Of this £390m, are short term liquidity facilities with extension options or with banks we would look to refinance in advance of maturity. Counterparty exposure is managed by keeping cash balances low and through retaining available facilities across a number of funders.

Interest rates

Sovereign's own-name bonds bear interest at fixed rates, as does our various borrowing through The Housing Finance Corporation and Affordable Housing Finance and the drawdowns from the European Investment Bank facility. Bank debt is at a combination of fixed and variable rates. Interest rate exposure in relation to the variable rate bank debt is managed using standalone interest rate derivatives. The average interest rate payable in the year was 3.9% (2022: 3.7%).

Sovereign's annual business plan is stress-tested to ensure it is not unduly exposed to risks associated with interest rate movements and the interest rate hedging strategy is adjusted as considered appropriate. As at 31 March 2023, 80% of drawn debt was at fixed rates or at rates fixed through the use of derivative financial instruments. The value of Sovereign's standalone interest rate derivatives is reflected on the balance sheet. As at 31 March 2023, the aggregate value of these derivatives was £14m negative (2022: £59m negative), all of which is covered by thresholds and property security with no requirement of cash security.

Left:
Dunmore Road, Abingdon

Governance

Sovereign Housing Association Limited is a Registered Society under the Co-operative and Community Benefit Societies Act 2014 and a registered provider of social housing with the RSH. Our primary activity is the provision of housing at below market rates.

Hereby, the Board presents its annual report and audited financial statements for the year ended 31 March 2023. The Board believes that Sovereign is well placed to manage its business risks successfully, despite the current economic uncertainties. Therefore, the Board has a reasonable expectation that Sovereign has adequate resources to continue to adopt the going concern basis in preparing these annual financial statements.

Group structure 31 March 2023

The main trading activities are undertaken by Sovereign Housing Association Limited, the 'parent', with the Group structure and purpose of the subsidiaries as shown below, excluding dormant and non-trading subsidiaries.

Sovereign Housing Association Ltd CCBS / RP

- Sovereign Advances Ltd — CLS
  - Sovereign Housing Capital — PLC
- Sovereign Housing Design & Build Ltd — CLS
- Sovereign Housing Partnerships Ltd — CLS
  - Sovereign BDW (Hutton Close) — LLP 50%
  - Linden Homes Westinghouse — LLP 50%
  - Tilia Sovereign — LLP 50%
  - Sovereign BDW (Newbury) — LLP 50%
  - Crest Sovereign (Brooklands) — LLP 50%
  - Linden Sovereign Brockworth — LLP 50%
  - Homes for West Berkshire — LLP 50%
  - Countryside Sovereign Swindon — LLP 50%
- Sovereign Living Ltd — CCBS / RP
- Sovereign Housing Developments Ltd — CLS
- Spectrum Premier Homes Ltd — CLS
- Spectrum Property Care Ltd — CLS

CLS	Company Limited by Shares
CCBS	Co-operative and Community Benefit Society
LLP	Limited Liability Partnership
RP	Registered Provider

Company Secretary

Iain Mackrory-Jamieson

Registered office

Sovereign House
Basing View
Basingstoke
RG21 4FA

Advisors and Board members

External Auditor
KPMG LLP
One Snowhill
Snow Hill Queensway
B4 6GH

Principal bankers
National Westminster Bank PLC
Abbey Gardens
4 Abbey Street
Reading
RG1 3BA

Principal valuers
JLL
31 Great George Street
Bristol
BS1 5QD

Principal solicitors
Towers & Hamlins LLP
3 Bunhill Row
London
EC1Y 8YZ

Board members as of 31 March 2023

Paul Massara
Chair
Appointed 2020

Stuart Laird
Vice Chair of Board and Chair of Major Projects Committee
Appointed 2016 (joined Sovereign 2014)

Barbara Anderson
Chair of Audit and Risk Committee
Appointed 2016 (joined Sovereign 2014)

Angela Williams
Chair of Remuneration and Nominations Committee
Appointed 2017

Jennifer Dykes
Resident Board member and Board representative to the Resident and Board Partnership
Appointed 2016

Pamela Leonce
Board representative to the Resident and Board Partnership
Appointed 2021

Claire O'Shaughnessy
Member of Audit and Risk Committee
Appointed 2016 (joined Sovereign 2015)

Jane Wynne
Member of Major Projects Committee
Appointed 2019

Mark Washer
Chief Executive
Appointed 2018

Ken Youngman
Interim Chief Financial Officer and Chair of Investment Committee
Appointed November 2022

Board responsibilities and governance

Governance framework

As well as a broad range of skills and experience, the Board's decisions are informed by expertise and scrutiny from its supporting committee structure. This is further enhanced by challenge and insights from the Resident and Board Partnership, the Scrutiny Coordination Group and Community Engagement Groups.

Working together with our customers

Ruth Picknett-Powell was appointed as the new chair of Sovereign's Resident and Board Partnership (RBP) in December 2022. She replaced Joyce Ward MBE, who was the first RBP chair and had served since 2017. At a tea party at Sovereign House to mark Her Late Majesty the Queen's Platinum Jubilee, Mark Washer paid tribute to Joyce for her service and congratulated her on the MBE she received in the 2022 New Year's honours.

Ruth lives in a Sovereign home in Amesbury and joined the RBP last year. She works for the NHS as a Programme Manager in mental health services.

We received 17 applications for the position of Chair alone and Ruth was successfully appointed following an interview and selection process.

Our Resident and Board Partnership (RBP) enables customers to influence our long-term plan, polices and service as well as recommending resident-led scrutiny of services that require a customer perspective.

This year, we received 70 applications to join the RBP and successfully appointed three new members after a series of selection events.

Customer-led service scrutiny

This year the Scrutiny Coordination Group (SCG) looked at:

Repairs Scrutiny
This scrutiny was an extensive piece of work, beginning in April 2022, taking nine months to complete. The theme was to review and scrutinise customer satisfaction with repairs. Six scrutineers were specifically recruited for this activity and overall, residents volunteered 75 hours of their time to complete this important piece of work. Four focus groups were formed, and two surveys were undertaken, to inform and shape the review.

Nine recommendations were produced following the scrutiny activity. These will all be reviewed as part of the end-to-end repairs transformation project. Overall, customers that gave feedback had a more positive experience than a negative one.

Customer Journey Mapping
Residents led on two customer journey mapping activities between April and October. The specific areas of focus were our Mutual Exchange and Planned Maintenance services. We gained insight from 210 residents throughout both journey mapping activities which resulted in a total of 32 recommendations being proposed.

We received a high number of applications to join our Scrutiny Coordination Group this year with a total of 43 residents registering their interest to share their voice and expertise. We successfully recruited two additional panel members.

Top left:
Youth Panel members

Top right:
Ruth Picknett-Powell

Engagement Review

We undertook a comprehensive review of our engagement approaches between September and December, which has resulted in a total of 11 recommendations that we are now reviewing to facilitate positive changes that reflect the views of our customers.

Residents Conference

Our RBP hosted another successful Residents Conference on July 22 at Sovereign House, Basingstoke, with 32 residents attending alongside members of our Executive Board and colleagues across the business. Residents enjoyed a day of networking, a series of workshops, addresses from senior leaders and an open frame question and answer session.

Our Youth Panel

Our Youth Panel members provide a voice for young people living in our homes. Made up of four 21 to 26-year-olds, the group originally worked with our charity partner Creative Youth Network to highlight housing and community issues and discuss ways we can make changes. It also offered the young people involved an opportunity to grow their skills in the areas of policy and campaigning.

This year, three of our Youth Panel members helped us score 24 applications for the second round of the Sovereign #iwill Fund. Our judges scored against set criteria and the result was that we awarded over £86k to ten groups.

Our Youth Panel offers the young people involved an opportunity to grow their skills in the areas of policy and campaigning.

Meet our Board

Paul Massara
Chair
Appointed as a Board member and Chair in 2020

A former CEO of RWE Npower, with extensive experience in the energy industry at Board level.

An experienced non-executive and executive director, Paul is an active member on the executive committee of both RWE and Centrica/Direct Energy and a non-executive director of Electron.

Angela Williams
Remuneration and Nominations Committee (Chair)
Appointed as a Board member and Committee Chair in 2017

An experienced executive and non-executive who has worked across FTSE30, US (incl. NASDAQ) and French listed companies.

Angela's expertise includes strategy design and delivery, global transformation, leading and creating customer-focused businesses and teams as well as culture development and change management. Other skills include mergers, due diligence, restructuring, reward and pensions, leadership and talent development, employment law, business turnarounds, digital transformation, growth delivery and corporate responsibility.

Barbara Anderson
Audit and Risk Committee (Chair)
Treasury Committee
Appointed as a Board member in 2014 and Committee Chair in 2016

Barbara is an experienced Chair and NED with a background in corporate finance and growth strategy. She has worked across private (including listed), public and third sectors in several markets including finance, technology, property and retail. She holds a portfolio of Board roles including NED and Chair of RemCo for the British Business Bank, SID and Chair of ARC for SmartDCC Ltd and NED for BSV2 VCT.

Originally trained as an architect, Barbara has particular interests in property technology and data, placemaking and sustainability.

Mark Washer
Appointed as CEO and a Board member in 2018

Mark, a highly-skilled executive and non-executive with 25 years in the housing sector, joined Sovereign from Clarion in 2018. He is a chartered accountant, having qualified with Deloitte.

Mark is also a former Board member and vice chair of the National Housing Federation and has been involved with a number of national charities, including Citizens Advice.

Pamela Leonce
Resident and Board Partnership member
Appointed as a Board member in 2021

Pamela is an experienced housing professional with over 30 years' experience in the sector. She has extensive governance and leadership experience having been executive director across housing, health, social care, and in the criminal justice sector. She is CEO of Stowhill Consultancy, Chair of Inquilab Housing Association and an Equality, Diversity & Inclusion Advisor to an international executive search firm.

Pamela is passionate about good governance and the impact it has on creating sustainable and diverse organisations.

Claire O'Shaughnessy
Audit and Risk Committee member
Appointed as a Board member in 2016

Claire helped set up the Homes and Communities Agency before leading many of its major land, regeneration and investment programmes from 2008 to 2014.

Claire brings experience from the Defence Infrastructure Organisation and Deloitte Real Estate as a director in real estate consulting.

Claire was a Board member of Spectrum Housing Group Limited from 2015.

Jane Wynne
Major Projects Committee member
Appointed as a Board member in 2019

Jane is a senior executive with more than two decades of property asset management and business experience in driving organisational improvement for leading owners, investment managers, operators and advisors.

Jennifer Dykes
Resident Board member
Remuneration Committee member
Appointed as a Board member in 2016

Former NHS manager Jenny has been a social housing resident for over 40 years. Her focus is on ensuring Sovereign remains a strong organisation, committed to maintaining high standards of service and providing housing for those in need.

Stuart Laird
Vice Chair
Major Projects Committee (Chair)
Appointed as a Board member and Vice Chair in 2016 and Committee Chair in 2021

Stuart is a senior executive with a proven track record in facilities management and outsourcing markets, with expertise in leading on property acquisitions and disposals.

Ken Youngman
Interim Chief Financial Officer and Chair of Investment Committee
Appointed November 2022

Ken joined Sovereign in November 2022, bringing considerable experience in housing and as a finance director, most recently as Finance Director for Commercial Development within Transport for London. He previously spent 16 years as Group Finance Director at Family Mosaic and has been chair of the g15 Finance Directors Group, and a member of the Finance Policy Advisory Group of the National Housing Federation. Ken is a voluntary board member and Chair of Audit for YMCA St Paul's Group.

Corporate governance statement

Sovereign's Board has carefully considered the requirements of the regulatory standards and has robustly assessed and taken assurance of Sovereign's compliance with them during the year.

As a result of significant activity to improve the data we hold on our properties particularly in relation to safety in communal areas, the Regulatory Notice issued against Sovereign in January 2022 was lifted in November 2022.

The Board certifies that Sovereign Housing Association has otherwise complied in all material aspects with the RSH's regulatory standards during the reporting period ended 31 March 2023.

The Board has assessed its compliance against its adopted Code of Governance and is satisfied that the organisation's governance is compliant with the material aspects of the code and is supported by its internal controls, policies and procedures.

As at the date of Sovereign's 2023 AGM, two of Sovereign's non-executive Board members (Stuart Laird and Barbara Anderson) will have served the maximum of nine years set out in provision 3.7(3) of Sovereign's adopted Code of Governance, two (Jenny Dykes and Angela Williams) will have served in excess of six years and one (Claire O'Shaughnessy) will have served six years.

In order to provide continuity in a time of transformation and continuity in the lead up to the proposed merger with Network Homes, the Board has agreed that it is in Sovereign's best interests to re-appoint Barbara Anderson and Claire O'Shaughnessy until October 2023 and to re-appoint Stuart Laird, Jenny Dykes and Angela Williams for at least another year. It is recognised that the maximum term of office prescribed in the Code is nine years and Board succession planning is in place to address this in the coming year in the case of Stuart Laird.

Top left:
Princes Mead shopping centre

Top right:
Horlicks Quarter, Slough

Compliance with the Regulator for Social Housing Governance and Financial Viability Standard

Sovereign's Board has carefully considered the requirements of the regulatory standards and has robustly assessed and taken assurance of Sovereign's compliance with them during the year. On this basis, the Board certifies that Sovereign Housing Association has complied in all material aspects with the Regulator of Social Housing's (RSH) regulatory standards during the reporting period ended 31 March 2023.

We review our performance with our shareholders each year at the Annual General Meeting. This year the meeting will be held at Sovereign's registered office and online at 4pm on 27 July 2023.

Regulatory performance

On 29 June 2022, the RSH confirmed that we comply with its Governance and Financial Viability Standard, but re-graded us at G2 in light of areas we are improving in relation to our management of data and risk. On 5 July 2023 the Regulator confirmed that we would be upgraded back to G1 on the basis that we had addressed the issues identified. This has included external validation of data, introduction of new systems and processes, continued strengthening of internal controls and improved board reporting and oversight of landlord health and safety risk.

On 15 November 2022, the RSH confirmed that we comply with its Governance and Financial Viability Standard but re-graded us at V2 due to Sovereign increasing investment in existing homes

Noble Park, Didcot

and business transformation programme, within an external economic environment of higher inflation and interest rate pressures. This was re-confirmed on 28 June 2023.

The current grades and straplines are:

G1 – The provider meets our governance requirements.

V2 – The provider meets our viability requirements but needs to manage material financial exposures to support continued compliance.

Appointment of the external auditor

It is Sovereign's policy to retender the external audit every seven years. The current external auditor, KPMG LLP, was successful in the competitive tender process in 2018. A resolution to reappoint KPMG as Sovereign's auditor will be proposed at the 2023 Annual General Meeting.

The Committees

Sovereign takes pride in its robust committee structure, which ensures the Board has the necessary insight, challenge, and assurance to make informed strategic decisions. Our committees include Non-Executive Board members and executive officers, as well as independent experts, who bring an external view and specialist skills, ensuring that the Board has the level of guidance and support necessary to achieve the best outcomes and future-proof the organisation.

Audit and Risk Committee

The Audit and Risk Committee ("ARC") provides challenge and scrutiny and ensures our risk profile is managed in accordance with our strategy and risk appetite. The Committee reviews and recommends to the Board for approval internal control procedures, the Risk Management Framework, and the annual financial statements.

The Committee includes two Non-Executive Board members and one independent member. The external auditor attended all the quarterly meetings ensuring there was an open dialogue and ability to keep abreast of the sector and accounting related matters.

The Committee meets at least four times a year and regularly reviews its policies, its effectiveness and ensures its work plan is in line with its delegations from the Board and its terms of reference.

During the year, ARC continued to review the development of Sovereign's risk management framework, monitored its risk appetite and Sovereign's key strategic risks. The Committee also approved the renewal of Sovereign's insurance programme, taking into account the organisation's principal risks.

During 2022-23, the Committee continued to seek assurance and monitor progress on the actions recommended as a result of the data discrepancies which were self-referred to the Regulator in October 2021. A key focus of internal audit for the relevant period remained health and safety, and working with the Regulator to ensure the wellbeing of Sovereign's residents.

Sovereign continued its co-sourced internal audit approach, following the agreed internal audit plan, and monitoring the effectiveness of these arrangements on an ongoing basis throughout 2022-23.

For the year ahead, the Committee will continue to oversee Sovereign's response to global matters impacting the organisation and its residents, from a risk and internal controls perspective, as well as focusing on areas such as income and arrears management.

The Committee will also continue with its full and rolling annual workplan, which for 2023-24, includes the approval of the Internal Audit Framework, review of the Risk Management Framework, oversight of any risks arising from Sovereign's compliance with its regulatory and statutory duties, and our ability to deliver our corporate plan.

A key focus remained health and safety, and working with the Regulator to ensure the wellbeing of Sovereign's residents.

Grange Road, Ash

Above:
Blackberry Park, Bristol

Treasury Committee

The Treasury Committee oversees Sovereign's treasury and funding activities, ensuring sufficient facilities are available to support the agreed Treasury Strategy, while providing challenge, scrutiny and risk management. The Committee also considers the treasury-related business planning assumptions and stress tests.

As at 31 March 2023, the Committee consisted of two Non-Executive Board members, an independent member and the Chief Financial Officer. The Committee is also supported by independent treasury advisers and met three times during the year.

Liquidity and new funding opportunities have been a key focus over the last year, reflecting Sovereign's substantial development plans combined with an uncertain political and economic environment.

The Committee continues to review Sovereign's Golden Rules to ensure their alignment with our Corporate Strategy and risk control framework as well as making sure they continue to be as clear as possible and fit for purpose.

During the year, the Committee approved the Treasury Management Policy, which set out the prime criteria by which the effectiveness of treasury management activities will be measured. The Committee continues to ensure that treasury risks and controls are reviewed annually.

Looking ahead into 2023-24, a key area of focus for the Treasury Committee will be the Sovereign Network Group merger, with special attention on harmonising covenants and aligning treasury policies and operations. With new funding in place, the Committee will continue to support the Business Plan and consider refinancing opportunities as they arise.

Further fundraising in 2023 will be required to support Sovereign's strong development programme and ensure sufficient level of liquidity, with the Committee continuing to review the business-forecasted cashflow requirements and sources of funding.

The Treasury Committee will continue to monitor external global factors through market intelligence and via the consideration of the potential impact of external influences on Sovereign. The Committee will rely on the latest forecasts and a range of stress tests, and will take appropriate action where necessary.

The Committee scrutinised the talent and succession strategy which aims to deliver an increased pipeline of future talent to enable Sovereign to deliver its ambitions.

Remuneration and Nominations Committee

In support of the Board, the Committee's role is to provide challenge, scrutiny and support in monitoring the delivery of the People Strategy and related policies that have a significant implication or risk to Sovereign. It also considers issues relating to the contracts of employment for the Executive Board together with strategic issues relating to the compensation and benefit packages for employees.

The Committee has responsibility for overseeing the recruitment, induction and training of all Board and Committee members and this year it focused on recruitment of the Chair of the Treasury Committee which will remain a key focus for the upcoming year.

The Committee includes two Non-Executive Board members and two independent members, with support provided to the Committee by the Chief People and Transformation Officer and the Group Counsel and Regulation Director.

During the year, the Committee approved the Executive Target Incentive Plan and continued to review its progress during the period. The Committee also reviewed the new Talent and Succession Strategy, which aims to deliver an increased pipeline of future talent to enable Sovereign to deliver its ambitions. This new strategy enables Sovereign to maintain a competitive advantage by being 'merger-ready', ensuring our Talent Management processes serve as a foundation for the upcoming Sovereign Network Group merger. The Committee maintained oversight of the Corporate Strategy and People Plan, which was created to integrate our company culture and values, achieve a modern and more efficient way of working to deliver improved service for our residents, and ensure that our workforce is fully committed to achieving our overall business objectives.

Looking ahead, the Committee has a full and rolling annual workplan that is reviewed at each meeting based on its terms of reference. Key strategic priorities for the Committee on behalf of the Board in the forthcoming year are to oversee the continued development of talent and succession plans from Board and Committee members to senior leadership, ensuring that Sovereign's strategic leadership remains appropriately skilled. The succession plans also aim to ensure that the membership of Sovereign's Boards and Committees are appropriately diverse within the context of the communities Sovereign serves and in line with Sovereign's updated Equality, Diversity and Inclusion Strategy.

The Committee will also continue to monitor the Pensions Strategy including the arrangements with Sovereign's four Local Government Pension Scheme providers.

The Major Projects Committee

The Committee's remit includes the scrutiny of major projects involving the remodelling, rehabilitation, regeneration and disposal of existing homes owned by Sovereign alongside the approval and monitoring of all land acquisitions required to facilitate any new development project.

The Committee's membership includes two Non-Executive Board members (one of whom chairs the Committee), an independent Non-Executive member, the CEO and the CFO.

During the year, the Major Projects Committee has continued to monitor delivery of the strategy, overseeing all major and complex development, commercial and asset management schemes of all tenures including social and affordable rent, shared ownership, market rent or open market sale.

The Committee also monitored the development of joint venture partnerships entered into by Sovereign, ensured regular updates were supplied to the Board and emerging risks were escalated as required in a timely manner while consistently challenging the various development opportunities which arose.

An executive Investment Committee continues to oversee the delivery of the development programme and the strategic asset management programme.

In the year ahead, the Major Projects Committee will maintain a focus on Sovereign's evolving Investment Strategy, continuing to embed the Homes and Place standard and giving ongoing consideration to existing and new joint venture opportunities, where these deliver and enhance the strategy, and the delegations required to allow the strategy to achieve its outcomes smoothly and to remain within the business plan.

The Executive Board

Sovereign's leadership and management structures provide the expertise and framework to achieve our strategic objectives. The Executive Board works to protect and grow the business, while overseeing our performance, as we build and provide great homes that people choose to live in, as well as providing a great customer experience.

Mark Washer
Chief Executive Officer
Appointed June 2018

Ken Youngman
Interim Chief Financial Officer
Appointed November 2022

Nicole Sharp
Chief Operating Officer
Appointed April 2021

Tom Titherington
Chief Investment and Development Officer
Appointed January 2019

Sally Hyndman
Chief People and Transformation Officer
Appointed January 2021

Kevin Ives
Chief Information Officer
Appointed August 2019

Risk context

Managing risk

Risk represents uncertainty and is inherent in any business. Our Board actively manages the risks faced by Sovereign through our enterprise risk management framework, which is continually being adapted to remain effective in the increasingly uncertain world around us.

Risk appetite

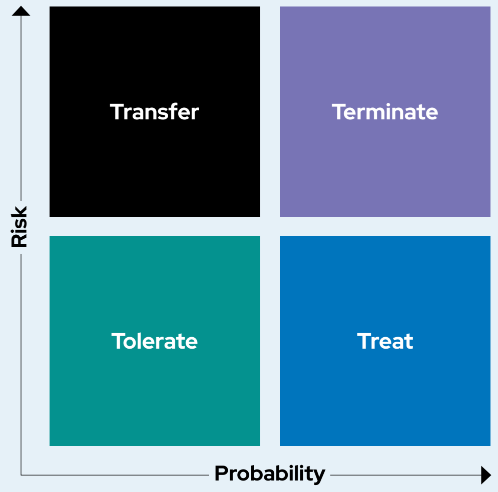
Knowing how much appetite we have for different risks is fundamental to effectively managing risk. We start with our risk universe, which is where we capture all the potential sources of risk to the organisation. The Board uses a widely recognised five-point scale to define how much risk it is willing to take.

The five levels of risk appetite for each area are translated into examples of an approach that would be appropriate to take for that level of risk.

This approach empowers the whole organisation to make decisions confident they are within the Board's risk appetite.

Our 'open' risk appetite for six of the ten areas of the risk universe means the Board is generally willing to take a reasonable degree of risk in pursuit of our organisational goals. However, there are four areas where the Board is willing to take less risk, particularly health and safety, and complying with laws and regulations. Our 'averse' risk appetite in these areas means we invest heavily in controls to reduce that risk as close to zero as we can.

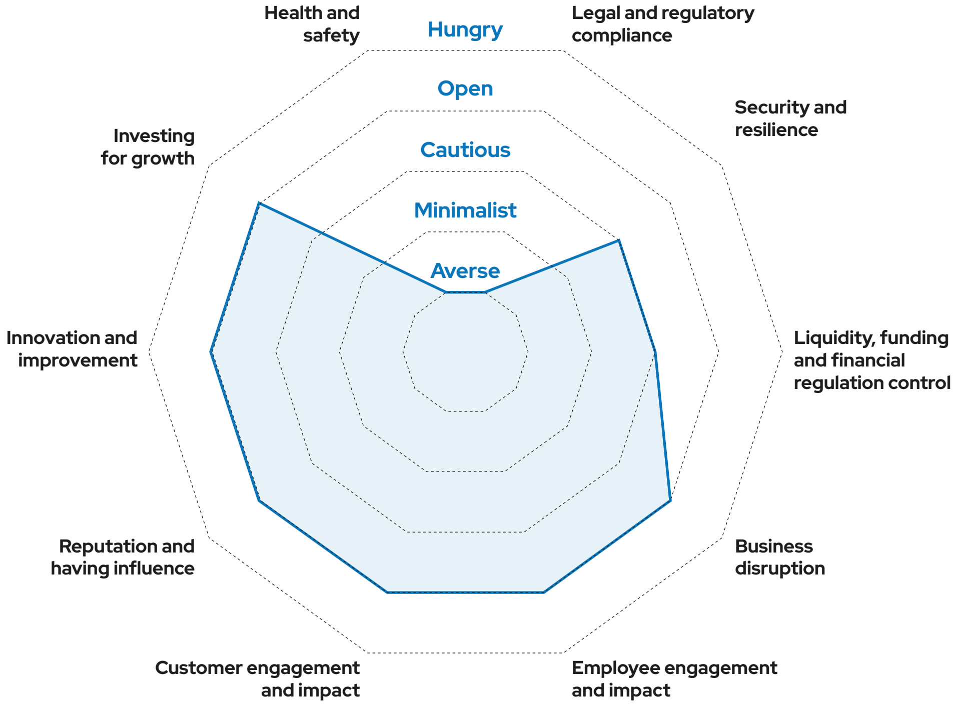
Risk model



This model guides our people to:

- Tolerate the risk when it is not significant enough to threaten achievement of our objectives
- Treat the risk when it can be reduced by internal control
- Transfer the risk when it is too high, and it can be at least partly transferred to our insurance programme or joint ventures
- Terminate the risk when it is too high, cannot be reduced and is beyond the risk appetite

Risk appetite



Identifying and mitigating risks

To identify risks, we take input from all parts of Sovereign, including our joint ventures and partnering activities, seeking to use the functional expertise of those who are closest to where the risk occurs. We also examine external sources to take a broad perspective, including the Regulator's sector risk profile, peers in the sector, and non-sector organisations who are considered leaders in managing risk. This process gives the Board assurance that we understand our risk profile and identify risks early as they emerge, giving us time to design and implement appropriate mitigations.

The Board regularly reviews our principal risks to ensure they continue to represent the most significant risks to Sovereign and ensure they are being managed effectively.

There have been significant changes in the risk landscape over the past year. Economic conditions have worsened steadily and then sharply following Russia's invasion of Ukraine. Sovereign considered its existing risks in light of these changing conditions and also created a comprehensive view of the risks created by the Ukraine situation, which the Board has reviewed and discussed.

The consensus is that the principal risks we have remain the right ones but the risk landscape has exacerbated many of these risks and mitigations have been strengthened.

Our principal risks are each mapped to, and supported by, lower level risks that are managed at directorate and functional level throughout the organisation. This direct line of sight to these sub-principal risks, and the organisation's management of them, increases the Board's assurance over risk being well managed.

Risk appetite again plays an important role in risk mitigation. The residual level of risk Sovereign is carrying, once existing controls are considered, is compared to the Board's risk appetite. Where the residual risk level is outside of risk appetite, steps are taken to bring it within appetite in a timely manner.

In the medium to long term we are focused on mitigating the risk of a shortage of the right solutions and labour so that we and the sider sector can achieve our net-zero goals.

Role of the sub-committees

The Board ensures it has a mix of skills and experience appropriate for the risks the organisation faces. The Audit and Risk Committee (A&RC) supports the Board through regular, detailed scrutiny and evaluation of our risk framework, individual risks, and what our sources of assurance (such as internal audit and compliance review findings) tell us about our management of risk. The A&RC also scrutinises the Executive Board's report on risk, which is presented to the Board on a quarterly basis.

The Board's other sub-committees strengthen the framework through scrutinising and evaluating the risks that are within their areas of expertise.

For example, the Treasury Committee regularly considers Sovereign's management of its principal risk that we may breach debt covenants if circumstances render the organisation unable to meet its financial commitments.

Resilience of Sovereign to risks it faces

As well as being assured that individual risks are appropriately mitigated, the Board is concerned with the ongoing viability of Sovereign in the event of unforeseen extreme circumstances, or where multiple principal risks coalesce. Our rigorous annual business plan process tests Sovereign's resilience through scrutinising the outcomes against our appetite and tolerance for risk and by stress-testing the plan in a variety of plausible and extraordinary circumstances.

The challenging economic landscape was carefully considered in stress-testing the business plan. Having performed that rigorous testing of the plan we are confident that it is achievable and will stand up to the conditions we are, and expect to be, operating in.

The areas of focus in the short to medium term are the impact the intensification of the cost-of-living crisis will have, particularly on our customers and employees.

Emerging risks

We use our risk foresight process to identify risks early as they emerge, giving us time to design and implement appropriate mitigations.

High levels of inflation and shortages of materials and labour will continue to increase the cost of developing new properties and maintaining our existing ones. In the medium to long term we are focused on mitigating the risk of a shortage of the right solutions and labour so that we and the sider sector can achieve our net-zero goals.

Regulatory changes are also considered with controls tested to ensure that we are, as a minimum, meeting our legal obligations.

Financial statements 2022–23

Statement of Board's responsibilities

In respect of the Board's report and the financial statements

The Board is responsible for preparing the Board's Report and the financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Association and of the income and expenditure of the Group and the Association for that period.

In preparing these financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group's and the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it either intends to liquidate the Group or the Association or to cease operations, or has no realistic alternative but to do so.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2022. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the corporate and financial information included on the Association's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to the auditor

Each of the persons who are a director at the date of approval of this report confirms that:

a) so far as each director is aware, there is no relevant audit information of which the Group's auditor is unaware; and

b) each director has taken all the steps that they ought to have taken in their duty as a director in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Internal control assurance statement

The Board has overall responsibility for establishing and maintaining the whole system of internal control and for reviewing its effectiveness.

The Board recognises that no system of internal control can provide absolute assurance or eliminate all risk. The system of internal control is designed to manage risk and to provide reasonable, but not absolute, assurance that key business objectives and expected outcomes will be achieved. It also exists to give reasonable assurance about the preparation and reliability of financial information and the safeguarding of the Association's assets and interests.

Under the governance structure, the Board has set up a specialist Audit and Risk Committee ("ARC"). All audit and risk matters are the responsibility of the Board which delegates detailed scrutiny and evaluation of these matters to ARC. In meeting its responsibilities to the Board, ARC has adopted a risk-based approach to internal controls which is embedded within the normal management and governance process. This approach includes the regular evaluation of the nature and extent of risks to which the Association and its subsidiaries are exposed.

This process adopted by ARC in reviewing the effectiveness of the system of internal control, together with some of the key elements of the control framework includes:

Identification and evaluation of key risks

Management responsibility has been clearly defined for the identification, evaluation, and control of significant risks. There is a formal and ongoing process of management review in each area of the significant risks. This process is co-ordinated through a regular reporting framework to ARC and the Board. The Group's Executive Board regularly considers reports on significant risks facing the Group and the Chief Executive, and members of Executive Board are responsible for reporting to ARC and the Board any significant changes affecting key risks.

Monitoring and corrective action

A process of control self-assessment and regular management reporting on control issues provides hierarchical assurance to successive levels of management and to the Board. This includes a rigorous procedure for ensuring corrective action is taken in relation to any significant control issues, particularly those with a material impact on the financial statements.

The Group continues to maintain a significant development programme. Monitoring and reporting of development activity has been enhanced to ensure the Group remains alert to the potential dangers posed by a much more volatile and difficult external environment.

Control environment and control procedures

The Board retains responsibility for a defined range of issues covering strategic, operational, financial, and compliance issues including treasury strategy and new investment projects.

The Board has adopted the National Housing Federation (NHF) Code of Governance 2020. Sovereign continues to meet the principles and material obligations of the Code, with its only minor departure relating to provision B4, which is explained below.

Provision B4 of the Code and relates to the composition of the Sovereign Living Board, which has an executive majority. The composition of the Board of Sovereign Living Limited, a non-charitable registered provider, bound by the same Code, does not comply as the non-executives are in the minority. In practice, decisions are made at the Parent Board level, with Sovereign Living being a 'vehicle' through which affordable home ownership is delivered on behalf of the parent. The standing orders and scheme of delegation evidence the decision-making parameters of the subsidiary.

The Association has adopted policies with regard to the quality, integrity and ethics of its employees, with which all employees must comply. These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, data and asset protection and money laundering and fraud prevention and detection. The Board has adopted the NHF Code of Conduct 2012 which aims to ensure high standards of business conduct.

The Group has four other specialist committees in addition to the Audit and Risk Committee; the Remuneration and Nominations Committee, which deals with matters of governance, human resources, terms and conditions and has responsibility for overseeing the processes required for the recruitment, induction and training of all Board and Committee members; the Treasury Committee which approves and administers the Treasury Policy and ensures the most efficient and effective funding for the Group; and the Investment and Major Project Committees, which reviews the viability of development schemes for the provision of new homes.

Information and financial reporting systems

Financial reporting procedures include detailed budgets for the year ahead and forecasts for subsequent years. These are reviewed and approved by the Board. The Board also regularly reviews key performance indicators to assess progress towards the achievement of key business objectives, targets and outcomes.

The internal control framework and the risk management process are subject to regular review by the Audit and Risk Team who are responsible for providing independent assurance to the Board via ARC. An annual internal audit programme appropriate to the size and complexity of the Group is set each year and ARC considers internal audit reports at each of its meetings during the year.

The Board has received an annual report from the Association's Executive Board and ARC confirming they have reviewed the effectiveness of the system of internal control throughout this year and have taken account of any changes needed to maintain the effectiveness of the risk management and control processes.

This Strategic Report, Board Report and the Statement of Board's Responsibilities were approved on 6 July 2023 and signed on its behalf by:

BY ORDER OF THE BOARD

Iain Mackrory-Jamieson
Company Secretary

Independent auditor's report

To the members of Sovereign Housing Association Limited

Opinion

We have audited the financial statements of Sovereign Housing Association ("the Association") for the year ended 31 March 2023 which comprise the Consolidated Statement of Total Comprehensive Income, Association Statement of Total Comprehensive Income, Consolidated Statement of Financial Position, Association Statement of Financial Position, Consolidated Statement of Changes in Reserves, Association Statement of Changes in Reserves, Consolidated Statement of Cash Flows and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, of the state of affairs of the Group and the Association as at 31 March 2023 and of the income and expenditure of the Group and the Association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2022.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group and the Association in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Association's Board has prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Association or to cease their operations, and as they have concluded that the Group's and the Association's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the Board's conclusions, we considered the inherent risks to the Group's business model and analysed how those risks might affect the Group's and the Association's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Board's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Board's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Association's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Association will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Board, the audit and risk committee, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, audit and risk committee, investment committee, remuneration committee, property services committee, treasury committee, resident and board committee and major projects committee minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

- Obtaining a copy of the Group's fraud register.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet external stakeholder expectations and loan covenants, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that income from property sales and non-social housing income is recorded in the wrong period and the risk that Group management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as recoverability of stock and work in progress, valuation of post retirement benefit obligations, valuation of investment properties and valuation of derivative financial instrument.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. As required by auditing standards, and taking into account possible pressures to meet external stakeholder expectations and loan covenants, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that income from property sales is recorded in the wrong period and the risk that Group management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Group-wide fraud risk management controls We also performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included unusual or unexpected account combinations with revenue and unusual or unexpected account combinations with cash.
- Selected a sample of development sales revenue recognised either side of the balance sheet date and ensured the sale completed in the period where it is recorded
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related co-operative & community benefit society legislation), taxation legislation, pensions legislation and specific disclosures required by housing legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the need to include significant provisions. We identified the following areas as those most likely to have such an effect: GDPR, health and safety, employment law, housing regulator legislation, anti-bribery and money laundering recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Other information

The Association's Board is responsible for the other information, which comprises the Board's Annual Report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Matters on which we are required to report by exception

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

- the association has not kept proper books of account; or
- the association has not maintained a satisfactory system of control over its transactions; or
- the financial statements are not in agreement with the association's books of account; or
- we have not received all the information and explanations we need for our audit.

We have nothing to report in these respects.

Board's responsibilities

As explained more fully in their statement set out on page 78, the Association's Board is responsible for: the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the Group or the Association or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Association in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the Association those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association, for our audit work, for this report, or for the opinions we have formed.

M. J. Dawson

Mark Dawson
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
B4 6GH

26 July 2023

Consolidated Statement of Total Comprehensive Income
For the year ended 31 March 2023

	Note	2023 £'000	2022 £'000
Turnover	3	**448,199**	422,789
Cost of sales	3	**(60,234)**	(58,202)
Operating expenditure	3	**(283,741)**	(247,599)
Gain on sale of housing properties	3	**20,558**	16,243
Movement in fair value of investment properties	3, 10	**(847)**	9,336
Operating surplus	3	**123,935**	142,567
Gain/(loss) on disposal of plant and equipment	7	**802**	(373)
Share of operating surplus in joint ventures	17	**3,463**	3,410
Interest receivable and similar income	8	**5,248**	2,855
Interest and financing costs	9	**(68,445)**	(61,778)
Movement in fair value of financial instruments	30	**1,074**	(82)
Surplus before tax	6	**66,077**	86,599
Taxation	11	**-**	-
Surplus for the year		**66,077**	86,599
Actuarial gain in respect of pension schemes	29	**32,791**	13,599
Changes in fair value of hedged financial instruments	30	**40,228**	21,716
Total comprehensive income for the year		**139,096**	121,914

All the amounts above relate to continuing activities.

The accompanying notes form part of the financial statements.

The financial statements were approved by the Board on 6 July 2023 and were signed on its behalf by:

Paul Massara
Chair

Mark Washer
Chief Executive

Iain Mackrory-Jamieson
Company Secretary

Association Statement of Total Comprehensive Income
For the year ended 31 March 2023

	Note	2023 £'000	2022 £'000
Turnover	3	**439,663**	409,244
Cost of sales	3	**(54,390)**	(46,314)
Operating expenditure	3	**(282,753)**	(247,137)
Gain on sale of housing properties	3	**20,614**	15,794
Movement in fair value of investment properties	3, 10	**1,160**	7,333
Operating surplus	3	**124,294**	138,920
Gift aid		**9,303**	5,977
Gain/(loss) on disposal of plant and equipment	7	**894**	(373)
Interest receivable	8	**8,905**	4,531
Interest and financing costs	9	**(70,273)**	(63,348)
Movement in fair value of financial instruments	30	**1,074**	(82)
Surplus before tax	6	**74,197**	85,625
Taxation	11	**-**	-
Surplus for the year		**74,197**	85,625
Actuarial gain in respect of pension schemes	29	**32,791**	13,599
Changes in fair value of hedged financial instruments	30	**40,228**	21,716
Total comprehensive income for the year		**147,216**	120,940

All the amounts above relate to continuing activities.

The accompanying notes form part of the financial statements.

The financial statements were approved by the Board on 6 July 2023 and were signed on its behalf by:

Paul Massara
Chair

Mark Washer
Chief Executive

Iain Mackrory-Jamieson
Company Secretary

Consolidated Statement of Financial Position
As at 31 March 2023

	Note	2023 £'000	2022 £'000
Fixed assets			
Social housing properties	14	**4,437,146**	4,199,472
Other fixed assets	15	**39,757**	40,008
Investment properties	16	**172,235**	171,885
Investments in joint ventures	17	**6,059**	3,207
Investments - HomeBuy loans	18	**9,903**	10,238
Financial assets	19	**8,372**	5,529
		4,673,472	4,430,339
Current assets			
Stocks	20	**60,664**	62,117
Debtors	21	**90,810**	100,328
Cash and cash equivalents	22	**75,144**	60,823
		226,618	223,268
Creditors: amounts falling due within one year	23	**(179,850)**	(183,291)
Net current assets		**46,768**	39,977
Creditors: amounts falling due after more than one year	24	**(2,584,952)**	(2,432,887)
Provisions for liabilities			
- Pension	29	**(8,337)**	(49,287)
- Other	26	**(7,126)**	(7,412)
Total net assets		**2,119,825**	1,980,730
Capital and reserves			
Called up share capital	31	**-**	-
Income and expenditure reserve		**1,774,307**	1,668,580
Revaluation reserve		**330,156**	337,016
Hedging reserve		**15,362**	(24,866)
Total reserves		**2,119,825**	1,980,730

All the amounts above relate to continuing activities.

The accompanying notes form part of the financial statements.

The financial statements were approved by the Board on 6 July 2023 and were signed on its behalf by:

Paul Massara
Chair

Mark Washer
Chief Executive

Iain Mackrory-Jamieson
Company Secretary

Association Statement of Financial Position
As at 31 March 2023

	Note	2023 £'000	2022 £'000
Fixed assets			
Social housing properties	14	**4,431,927**	4,206,483
Other fixed assets	15	**39,757**	40,008
Investment properties	16	**126,012**	131,810
Investments - HomeBuy loans	18	**9,903**	10,238
Financial assets	19	**8,298**	7,177
		4,615,897	4,395,716
Current assets			
Stocks	20	**46,506**	53,899
Debtors	21	**183,043**	156,502
Cash and cash equivalents	22	**69,504**	53,590
		299,053	263,991
Creditors: amounts falling due within one year	23	**(180,851)**	(184,132)
Net current assets		**118,202**	79,859
Creditors: amounts falling due after more than one year	24	**(2,579,718)**	(2,427,172)
Provisions for liabilities			
- Pension	29	**(8,337)**	(49,287)
- Other	26	**(7,126)**	(7,412)
Total net assets		**2,138,918**	1,991,704
Capital and reserves			
Called up share capital	31	**-**	-
Income and expenditure reserve		**1,581,676**	1,467,830
Revaluation reserve		**541,880**	548,740
Hedging reserve		**15,362**	(24,866)
Total reserves		**2,138,918**	1,991,704

All the amounts above relate to continuing activities.

The accompanying notes form part of the financial statements.

The financial statements were approved by the Board on 6 July 2023 and were signed on its behalf by:

Paul Massara
Chair

Mark Washer
Chief Executive

Iain Mackrory-Jamieson
Company Secretary

Financial Statements

Consolidated Statement of Changes in Reserves As at 31 March 2023

	Income and expenditure reserve	Revaluation reserve	Hedging reserve	**2023 Total**	2022 Total
	£'000	£'000	£'000	**£'000**	£'000
As at 1 April 2022	1,668,580	337,016	(24,866)	**1,980,730**	1,858,816
Surplus from statement of comprehensive income	66,077	-	-	**66,077**	86,599
Transfer from revaluation reserve to income and expenditure reserve					
- on sale of revalued properties	2,363	(2,363)	-	**-**	-
- depreciation of revalued properties	4,497	(4,497)	-	**-**	-
Actuarial gain/(loss) in respect of pension schemes	32,791	-	-	**32,791**	13,599
Movement in fair value of financial derivatives		-	40,228	**40,228**	21,716
As at 31 March 2023	1,774,307	330,156	15,362	**2,119,825**	1,980,730

Association Statement of Changes in Reserves As at 31 March 2023

	Income and expenditure reserve	Revaluation reserve	Hedging reserve	**2023 Total**	2022 Total
	£'000	£'000	£'000	**£'000**	£'000
As at 1 April 2022	1,467,830	548,740	(24,866)	**1,991,704**	1,870,764
Surplus from statement of comprehensive income	74,196	-	-	**74,196**	85,625
Transfer from revaluation reserve to income and expenditure reserve					
- on sale of revalued properties	2,363	(2,363)	-	**-**	-
- depreciation of revalued properties	4,497	(4,497)	-	**-**	-
- on transfer of commercial properties to investments	(1)		-	**(1)**	-
Actuarial gain/(loss) in respect of pension schemes	32,791	-	-	**32,791**	13,599
Movement in fair value of financial derivatives		-	40,228	**40,228**	21,716
As at 31 March 2023	1,581,676	541,880	15,362	**2,138,918**	1,991,704

Consolidated Statement of Cash Flows
As at 31 March 2023

	Note	2023 £'000	2022 £'000
Cash flow from operating activities			
Surplus for the year		**66,077**	86,599
Adjustments for non-cash items			
Depreciation of fixed assets		**50,972**	49,255
Decrease in stock		**47,225**	27,297
Decrease/(Increase) in trade and other debtors		**11,395**	(46,335)
Increase in trade and other creditors		**4,938**	17,172
(Decrease) in provisions		**(286)**	(1,544)
Pension costs less contributions payable		**(9,304)**	(9,069)
Carrying amount of tangible fixed asset disposals		**44,359**	46,305
Impairment	6	**-**	1,001
Fair value movements in investment properties	16	**847**	(9,336)
Share of operating surplus in associate		**(3,463)**	(5,485)
Adjustments for investing or financing activities:			
Proceeds from the sale of tangible fixed assets		**(70,199)**	(67,532)
Interest payable	9	**68,445**	61,778
Interest receivable	8	**(5,248)**	(2,855)
Cash from operations		**205,758**	147,251
Corporation tax		**-**	-
Net cash inflow from operating activities		**205,758**	147,251
Cash flow from investing activities			
Net return on investment in jointly controlled entities	17	**-**	2,076
Purchase of tangible fixed assets		**(370,361)**	(282,121)
Proceeds from sale of tangible fixed assets		**70,199**	67,532
Grants received	27	**3,199**	3,009
Interest received		**3,371**	936
Net cash from investing activities		**(293,592)**	(208,568)
Cash flow from financing activities			
Interest paid		**(77,408)**	(70,524)
Interest element of finance lease rental payment		**(254)**	(256)
Movement in collateral deposits		**(86)**	641
New secured loans		**361,883**	169,556
Repayment of borrowings		**(181,636)**	(39,977)
Capital element of finance lease rental payments		**(344)**	(266)
Net cash used in financing activities		**102,155**	59,174
Net change in cash and cash equivalents		**14,321**	(2,143)
Cash and cash equivalents at beginning of the year	22	**60,823**	62,966
Cash and cash equivalents at end of the year	22, 35	**75,144**	60,823

The accompanying notes form part of the financial statements.

Notes to the financial statements

For the year ended 31 March 2023

1. Legal status

Sovereign Housing Association ("The Association") is a not for profit registered provider of social housing and holds charitable status under the Co-operative and Community Benefit Societies Act 2014. The Association is a public benefit entity, an entity whose primary purpose is to provide services for the general public, community or social benefit and where any equity is provided with a view to supporting this objective rather than with a view to providing financial return.

2. Principal accounting policies

The financial statements have been prepared in accordance with Financial Reporting Standard 102 ("FRS 102"), the applicable financial reporting standard in the United Kingdom and Republic of Ireland and the Statement of Recommended Practice for registered social housing providers 2018 (SORP 2018) and comply with the Accounting Direction for Private Registered Providers of Social Housing 2022.

(a) Basis of accounting

The consolidated financial statements are prepared on the historical cost basis of accounting except for the modification to a fair value basis for certain financial instruments and fixed asset investments, and by the annual valuation of freehold commercial properties and investment properties as specified in the accounting policies below.

The financial statements are presented in pounds sterling and are rounded to the nearest £1,000.

(b) Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions which have been complied with, including notification of and no objection to, the use of exemptions by the Association's shareholders.

The Association has taken advantage of the exemption to prepare a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, presented in these financial statements, includes the Association's cash flows.

(c) Going concern

Sovereign has implemented a financial resilience model to test the strength of the Group under various scenarios including what is thought to be a worst case scenario. Parameters including debt recovery, sales and operational activities have been modelled and the continued financial strength of the Group monitored under all outcomes that have been tested.

If all sales proceeds are removed from forecast 2023/24 performance, cash and committed facilities of £424m at 31 March 2023 comfortably cover the committed funding requirement for the 12 months following the signing date of these financial statements. The ability to draw the existing funding facilities is contingent on being able to maintain covenant compliance. The Business Plan presented to and approved by Board in May 2023 demonstrated ongoing compliance with all financial covenants throughout the life of the plan with comfortable headroom.

The Business Plan presented to Board also included a number of stress tests against a range of adverse scenarios. These tests were designed to be 'severe' rather than 'likely', but nonetheless the testing demonstrated that covenant compliance is either maintained, or in the most severe scenarios can be maintained with manageable levels of cuts in activities. Both the Business Plan base case and the stress tests support the assertion that Sovereign will continue as a going concern. As a consequence, the Board is confident that the Group and Association will have sufficient funds to continue to meet their liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

(d) Consolidation

The consolidated financial statements include the parent association and all its subsidiaries. Intra-group surpluses and deficits are eliminated on consolidation.

Investments in subsidiaries are accounted for using the equity method in the Group financial statements. Investments in subsidiaries and jointly controlled entities are carried at cost less impairment in the individual financial statements.

Uniform accounting policies have been used throughout the Group.

(e) Turnover

Turnover represents rental and service charge income, fees and revenue based grants receivable from local authorities and from Homes England, the proceeds of first tranche sales of shared ownership properties and open market property sales, amortisation of grant previously received, and income from building maintenance and refurbishment services. These exclude VAT (where applicable). Revenue for the main income streams is recognised as follows:

Rental income is measured at fair value of the consideration received or receivable and represents the amount receivable for the services rendered net of any voids.

Fixed service charge income is recognised in the year to which it relates. Variable service charge income is recognised in the year the related cost is recognised.

Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale.

Income from provision of buildings maintenance and refurbishment services to third parties is recognised as work is completed.

Intra-group income and expenditure is included in turnover and operating costs on an arm's length basis in the financial statements of the Association but is eliminated in producing the Group consolidated financial statements.

(f) Cyclical repairs and maintenance
The actual costs of cyclical repairs and maintenance are charged to the Statement of Total Comprehensive Income as incurred.

(g) Major repairs
The capitalisation of major repairs follows the methodology of Component Accounting as laid out in the SORP 2018. Under this methodology it is recognised that a housing property will always comprise of several components with substantially different economic lives. Each major component is accounted for separately and depreciated over its individual economic life.

(h) Provision for major repairs
Provision for major repairs is made only where a contractual liability exists. The Board believe that this accounting policy represents commercial practice and complies with guidance given by the National Housing Federation in its Statement of Recommended Practice.

(i) Pension costs
The Association participates in six multi-employer defined benefit pension schemes, all of which are now closed to new members. The Association also participates in defined contribution money purchase pension schemes, the details of which are given in note 29.

Defined benefit pension schemes
Where the Association can identify their share of scheme assets and liabilities these are included in the Statement of Financial Position and the expected cost of pensions is charged to the Statement of Total Comprehensive Income so as to spread the cost of pensions over the service lives of employees. For the defined benefit pension schemes, the liability for the benefits earned by employees in return for service rendered in the current and prior periods is determined using the projected unit credit method as determined annually by qualified actuaries. This is based upon a number of assumptions, the determination of which is significant to the valuation.

The following are charged to operating profit:

the net finance expense measured using the discount rate applied in measuring the defined benefit obligation;

the increase in the present value of pension scheme liabilities arising from employee service in the current period (current service cost);

the increase in the present value of pension scheme liabilities as a result of benefit improvements over the period during which such improvements vest (past service cost);

gains and losses arising on settlements/curtailments; and

scheme administration costs.

Actuarial gains and losses are recognised in full in other comprehensive income in the period in which they occur.

Defined contribution schemes
The Association also participates in defined contribution money purchase pension schemes which are open to new members, the details of which are given in note 29. In respect of the defined contribution schemes, employers' contributions are charged to the Statement of Total Comprehensive Income in the year incurred.

(j) Value Added Tax
The group undertakings are registered for Value Added Tax (VAT), but a large proportion of their income, including rents, is exempt for VAT purposes and the majority of its expenditure is subject to VAT which cannot be reclaimed. Expenditure is therefore shown inclusive of VAT. The Group recovers VAT where appropriate and this is credited against expenditure within the income statement.

(k) Joint ventures
Joint ventures are contractual arrangements where two or more parties enter into an economic activity that they jointly control. The Group has the following type of joint venture:

Jointly controlled entities – these are joint ventures that involve the establishment of a corporation, partnership or other entity in which each partner has an interest. They are accounted for using the equity method in the member organisation. The Group includes an investment to the extent of any undistributed profits on an individual LLP basis.

The Member of the joint venture includes investments at the cost of the investment, with dividends received credited to revenue in the period they are received.

These investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

(l) Leased assets
Operating leased assets
Rentals paid under operating leases are charged to the Statement of Total Comprehensive Income on an accruals basis.

Finance leased assets
Leasing agreements that transfer to the Group substantially all of the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the Statement of Total Comprehensive Income in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the lease term.

(m) Sale of housing properties
Sales of housing properties are recognised on the completion date. Where houses are sold, the surplus or deficit in the Statement of Total Comprehensive Income is calculated by comparing sale proceeds and the carrying amount.

Sales of properties originally transferred from local authorities and sold under the right to buy legislation, and sales of shared ownership properties other than the initial tranche, are classified in the Statement of Total Comprehensive Income as sales of housing properties.

Due to the nature of the transfer agreements with local authorities it is not possible to identify precisely the historical cost of individual transferred properties. Management's estimate of cost is used to determine the historical cost surplus on sales of these properties.

(n) First tranche shared ownership sales
Shared ownership sales are treated under the SORP 2018 as follows:

Shared ownership properties are split proportionally between current and fixed assets based on the first tranche proportion;

First tranche proportions are shown in current assets and the sale proceeds shown in turnover;

The remaining element of the shared ownership property is accounted for as a fixed asset and any subsequent sale is treated as a disposal or part disposal of a fixed asset;

Any surplus on first tranche shared ownership sales on mixed tenure developments is restricted to the net present value of future cash flows on shared ownership properties.

(o) Depreciation
Freehold land is not depreciated. Depreciation is charged so as to write down the cost of freehold properties other than freehold land to their estimated residual value on a straight line basis over their estimated useful economic lives at the following annual rates:

Housing properties	120 years
Kitchens	23-25 years
Bathrooms	25-30 years
Windows	25-30 years
Heating systems	30-40 years
Pitched Roofs	56-60 years
Flat Roofs	25 years
Boilers	15 years
External Doors	30 years
Electrical Rewiring	40 years
Lifts	20 years
Mechanical Systems	20 years

These components have been determined as the areas where most expenditure on replacement will occur during the lifetime of a property and which are integral to its continued effective use. The useful economic lives are based on historical data on the life span of previous installations of each type of component.

Depreciation is charged on a straight line basis over the expected useful economic lives of the other fixed assets at the following annual rates:

Office furniture and equipment	10-30% on cost
Computer equipment	20-50% on cost
Motor vehicles	over life of hire purchase contract or 20% per annum straight line
Leasehold premises	over life of lease
Leasehold office improvements	10% per annum straight line
Freehold offices	1%-2% on cost
Scheme furniture and equipment	10-33.3% per annum straight line
Scheme lifts	3.33-6.67% per annum straight line

(p) Social housing properties and other fixed assets
Social housing properties are stated at cost or deemed cost valuation (as part of the FRS 102 transition, taken at 1 April 2014) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bring the asset to its working condition for its intended use and borrowing costs capitalised.

The valuation as at 31 March 2014 on which the carrying values of housing properties was taken for deemed cost valuations was based on 'Existing use value - social housing'. The aggregate surplus or deficit on revaluation is the difference between the valuation and the costs of the property less depreciation. The aggregate surplus or deficit on revaluation is included in a revaluation reserve.

Housing properties developed on behalf of other housing associations are stated at cost less Social Housing Grant if applicable and are treated as current assets rather than fixed assets in line with the SORP 2018.

Housing properties in the course of construction, excluding the proportion of costs related to first tranche sales of shared ownership property, are stated at cost and are transferred into housing properties when completed. Development costs include the cost of acquiring land and buildings, the valuation of contracted works to date, and acquisition and development costs including directly attributable internal costs. Interest payable is capitalised by applying the Association's cost of borrowing to expenditure during the construction of the property up to the date of practical completion.

Recoverability of properties constructed for outright sale is measured by reviewing the current net present value against the original appraisal. Allocation of costs for mixed tenure developments are generally based on a metre square calculation of the entire scheme for the different tenure types.

Purchases from other housing associations are included at the purchase price. Social housing grant relating to the purchase of such properties is disclosed as a contingent liability within social housing properties (note 14).

Office buildings are held at original cost less accumulated depreciation and accumulated impairment losses.

Commercial buildings are held at valuation based on the rental yield in the relevant geographical location of each property. Valuations are carried out annually.

Plant and equipment is capitalised at cost and depreciated in line with the depreciation policy of the Association.

(q) Impairment
At each reporting date fixed assets that are held at cost are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised as operating expenditure.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss. Indicators considered which may give rise to impairment include government policy announcements, significant declines in future cash flows and physical evidence of obsolescence or damage.

Impairment reviews are carried out for all properties where the scheme appraisal has worsened since approved by the Board in accordance with the SORP 2018.

(r) Investment properties
The Group holds properties for the purpose of investment gains with a view to a future sale or in order to receive market rates of return and categorises these as investment properties. Investment properties are initially recognised at cost and subsequently held at valuation. Valuations are performed annually by a professional valuer and are at open market value. Any gains or losses arising from changes in the fair value are recognised in profit or loss in the period in which they arise. Depreciation is not provided in respect of freehold and long leasehold investment properties. Investment properties held on a short term lease are reported at fair value and depreciated over the remaining life of the lease.

Commercial buildings held as investment properties are included at valuation based on the rental yield in the relevant geographical location of each property. Valuations are carried out annually.

(s) HomeBuy loans and grants
HomeBuy loans to individuals are considered to be a public benefit entity concessionary loan and are accounted for in accordance with paragraphs PBE34.90 to PBE34.97 of FRS 102. Initial recognition is at the amount paid to the purchaser. Subsequent value is the loan value adjusted for any accrued interest less any impairment loss. If a HomeBuy loan is considered irrecoverable, an impairment loss is recognised in the Income Statement.

HomeBuy grants are accounted for as grant received in advance and are recognised as deferred income in the Statement of Financial Position until the point that the related HomeBuy loan is redeemed.

Other housing grants are receivable from local authorities and other organisations. Capital grants are utilised to reduce the capital costs of housing properties, including land costs. Grants in respect of revenue expenditure are credited to the Income Statement in the same period as the expenditure to which they relate. Other housing grants are repayable under certain circumstances, primarily following the sale of a property, but will normally be restricted to net proceeds of sale.

(t) Stock
Inventories of consumables are stated at the lower of cost and net realisable value.

A proportion of shared ownership properties costs relevant to the planned first tranche sale proportion are held as stock. These are shown split between completed properties unsold at 31 March and those still under construction for clarity.

Properties developed for outright sale which have not been sold at 31 March are shown as stock.

(u) Social Housing Grant
Social Housing Grant is accounted for using the accrual method of accounting for government grant and any new grant received or receivable is included in creditors. The grant is amortised in line with the depreciation policy for housing properties. If Social Housing Grant is received in advance of related expenditure on housing construction, it is shown as a current liability. The Group has the option to recycle Social Housing Grant on sold properties which would otherwise become payable to Homes England. This grant is transferred to the Recycled Capital Grant Fund to be used to finance future development. Social Housing Grant is repayable under certain circumstances and in such circumstances will be classed as a current creditor.

(v) Recycled Capital Grant Fund
The purpose of the funds is to provide replacement properties for rent, at no greater cost than properties provided through the approved development programme. If unused within a three year period it may be repayable to Homes England with interest unless a time extension or waiver is received. The development programme of the Group is such that the funds are likely to be used before they become repayable.

(w) Provisions
Provisions are included when there is a probable, but uncertain, economic obligation. Any provisions included are expected to cover the future obligation and are recognised within the Statement of Financial Position.

Holiday pay accrual
A liability is recognised to the extent of any unused holiday entitlement which has accrued at the reporting date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the reporting date.

(x) Contingencies
Contingent liabilities are not accounted for in the financial statements, including those relating to grants transferred with stock swap properties. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Group's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote. Contingent assets are not accounted for in the financial statements. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

(y) Housing loans
Mortgage loans are advanced by banks or building societies under the terms of individual mortgage deeds in respect of each property or housing scheme. Loan finance issue costs are off-set against the gross proceeds of the loan. Loans are accounted for in the Statement of Financial Position at transaction price and subsequently at amortised cost using the effective interest method.

(z) Revaluation reserve
The revaluation reserve represents the difference between the deemed cost of housing properties (see 2(p)) and the historic cost, net of depreciation.

(aa) Basic financial instruments
Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument. Rental arrears payment plans are determined as financing arrangements and are discounted at a rate management believes is appropriate for the level of risk involved in recovery of tenant arrears.

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents comprise cash balances and instant access deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

(bb) Other financial instruments
Financial instruments not considered to be basic financial instruments are defined as other financial instruments. Other financial instruments are recognised initially at fair value. Subsequent to initial recognition these are measured at fair value with changes recognised in the surplus or deficit for the year except hedging instruments in a designated hedging relationship shall be recognised as set out below:

Derivative financial instruments and hedging
Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the surplus or deficit for the year. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. The Association includes derivatives in its financial statements which qualify for cash flow hedge accounting.

Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in the surplus or deficit in the year. For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in other comprehensive income is included in the initial cost or other carrying amount of the asset or liability. Alternatively, when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to the surplus or deficit in the year.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the Income Statement immediately.

(cc) Taxation

Corporation tax is provided on the taxable profits of each member of the Group at the current rate. Deferred taxation would normally be recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, when transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. However, deferred tax assets and liabilities are not recognised as any timing differences do not give rise to any material deferred tax charge or credit.

3. Turnover, operating costs and operating surplus by class of business

Group	Note	Turnover £'000	Cost of sales £'000	Operating costs £'000	Other £'000	**2023 Operating surplus £'000**	2022 Operating surplus £'000
Income and expenditure from social housing lettings:							
Housing accommodation		326,797	-	(253,873)	-	**72,924**	86,039
Shared ownership accommodation		31,386	-	(17,635)	-	**13,751**	12,597
	4	358,183	-	(271,508)	-	**86,675**	98,636
Other social housing income and expenditure:							
Income from Group undertakings		324	-	-	-	**324**	-
External income generated from development services		(32)	-	(41)	-	**(73)**	5
Community investment		114	-	(3,453)	-	**(3,339)**	(2,254)
Other		1,633	-	(1,030)	-	**603**	1,438
		2,039	-	(4,524)	-	**(2,485)**	(811)
Development for sale							
Shared ownership first tranche sales		69,768	(54,390)	-	-	**15,378**	10,542
		69,768	(54,390)	-	-	**15,378**	10,542
Total social housing activities		429,990	(54,390)	(276,032)	-	**99,568**	108,367
Non-social housing activities							
Market rented properties		8,390	-	(6,370)	-	**2,020**	3,807
Commercial properties		3,131	-	(1,327)	-	**1,804**	3,016
Outright sales		6,230	(5,844)	-	-	**386**	1,292
Other		458	-	(12)	-	**446**	506
		18,209	(5,844)	(7,709)	-	**4,656**	8,621
Other activities							
Gain on housing assets disposals		-	-	-	20,558	**20,558**	16,243
Movement in fair value of investment properties		-	-	-	(847)	**(847)**	9,336
		-	-	-	19,711	**19,711**	25,579
Total		448,199	(60,234)	(283,741)	19,711	**123,935**	142,567

Other activities within 'Other social housing' include management services, administration services and HomeBuy activities.

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3. Turnover, operating costs and operating surplus by class of business (continued)

Association	Note	Turnover £'000	Cost of sales £'000	Operating costs £'000	Other £'000	**2023 Operating surplus £'000**	2022 Operating surplus £'000
Income and expenditure from social housing lettings:							
Housing accommodation		326,130	-	(253,361)	-	**72,769**	86,280
Shared ownership accommodation		31,375	-	(17,635)	-	**13,740**	12,597
	4	357,505	-	(270,996)	-	**86,509**	98,877
Other social housing income and expenditure:							
Income from Group undertakings		164	-	-	-	**164**	188
External income generated from development services		(32)	-	-	-	**(32)**	5
Community investment		114	-	(3,460)	-	**(3,346)**	(2,253)
Other		1,633	-	(1,063)	-	**570**	1,440
		1,879	-	(4,523)	-	**(2,644)**	(620)
Development for sale							
Shared ownership first tranche sales		69,768	(54,390)	-	-	**15,378**	10,533
		69,768	(54,390)	-	-	15,378	10,533
Total social housing activities		429,152	(54,390)	(275,519)	-	**99,243**	108,789
Non-social housing activities							
Market rented properties		6,924	-	(5,906)	-	**1,018**	2,113
Commercial properties		3,133	-	(1,327)	-	**1,806**	3,014
Other		454	-	(1)	-	**453**	587
		10,511	-	(7,234)	-	**3,277**	5,714
Other activities							
Gain on housing assets disposals		-	-	-	20,614	**20,614**	15,794
Dividend income		-	-	-	-	**-**	1,289
Movement in fair value of investment properties		-	-	-	1,160	**1,160**	7,333
		-	-	-	21,774	**21,774**	24,416
Total		439,663	(54,390)	(282,753)	21,774	**124,294**	138,920

Other activities within 'Other social housing' include management services, administration services and HomeBuy activities.

4. Income and expenditure from social housing lettings

Group	General needs £'000	Shared ownership £'000	Supported housing/ Housing for older people £'000	Keyworker £'000	Other £'000	**2023 Total £'000**	2022 Total £'000
Rent receivable net of identifiable service charges	270,676	27,009	30,543	6,456	1,361	**336,045**	316,670
Service charges	10,061	4,022	1,601	3,184	109	**18,977**	17,074
Supporting people block subsidy	-	-	260	-	-	**260**	266
Amortised government grants	2,149	355	361	36	-	**2,901**	2,886
Turnover from social housing lettings	282,886	31,386	32,765	9,676	1,470	**358,183**	**336,896**
Management	(72,801)	(11,853)	(4,864)	(1,929)	(233)	**(91,680)**	(71,786)
Service costs	(17,403)	(3,127)	(1,283)	(2,183)	(61)	**(24,057)**	(19,622)
Routine maintenance	(42,749)	-	(2,449)	(589)	(117)	**(45,904)**	(50,974)
Planned maintenance	(38,329)	-	(2,198)	(570)	(105)	**(41,202)**	(36,871)
Major repairs expenditure	(7,141)	-	(404)	-	(19)	**(7,564)**	(2,059)
Bad debts	(736)	(118)	(49)	(5)	(2)	**(910)**	(75)
Depreciation of housing property	(38,707)	(3,288)	(2,434)	(1,073)	(116)	**(45,618)**	(43,384)
Impairment	-	-	-	-	-	**-**	(1,001)
Lease Costs	(373)	751	(361)	(6,766)	(17)	**(6,766)**	(6,637)
Other costs	(7,188)	-	(416)	(183)	(20)	**(7,807)**	(5,851)
Operating costs on social housing activities	(225,427)	(17,635)	(14,458)	(13,298)	(690)	**(271,508)**	(238,260)
Operating surplus/(deficit) on social housing activities	57,459	13,751	18,307	(3,622)	780	**86,675**	**98,636**
Rent receivable is net of void losses of:	3,916	150	571	1,750	49	**6,436**	5,715

Sovereign Housing Association uses key income streams and associated costs to determine appropriate management information and has adopted this approach to report segmentally on its social housing operating surplus.

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4. Income and expenditure from social housing lettings (continued)

Association	General needs £'000	Shared ownership £'000	Supported housing/ Housing for older people £'000	Keyworker £'000	Other £'000	**2023 Total £'000**	2022 Total £'000
Rent receivable net of identifiable service charges	270,676	26,998	30,543	6,456	694	**335,367**	316,647
Service charges	10,061	4,022	1,601	3,184	109	**18,977**	17,074
Supporting people block subsidy	-	-	260	-	-	**260**	266
Amortised government grants	2,149	355	361	36	-	**2,901**	2,886
Turnover from social housing lettings	282,886	31,375	32,765	9,676	803	**357,505**	336,873
Management	(72,299)	(11,853)	(4,864)	(1,929)	(232)	**(91,177)**	(71,605)
Service costs	(17,403)	(3,127)	(1,283)	(2,183)	(61)	**(24,057)**	(19,622)
Routine maintenance	(42,749)	-	(2,449)	(589)	(117)	**(45,904)**	(50,974)
Planned maintenance	(38,329)	-	(2,198)	(570)	(105)	**(41,202)**	(36,871)
Major repairs expenditure	(7,141)	-	(404)	-	(19)	**(7,564)**	(2,059)
Bad debts	(736)	(118)	(49)	(5)	(2)	**(910)**	(75)
Depreciation of housing property	(38,708)	(3,288)	(2,434)	(1,073)	(116)	**(45,619)**	(43,384)
Impairment	-	-	-	-	-	**-**	(1,001)
Lease costs	(373)	751	(361)	(6,766)	(17)	**(6,766)**	(6,637)
Other costs	(7,178)	-	(416)	(183)	(20)	**(7,797)**	(5,768)
Operating costs on social housing activities	(224,916)	(17,635)	(14,458)	(13,298)	(689)	**(270,996)**	**(237,996)**
Operating surplus/(deficit) on social housing activities	57,970	13,740	18,307	(3,622)	114	**86,509**	**98,877**
Rent receivable is net of void losses of:	3,916	150	571	1,750	49	**6,436**	5,715

Sovereign Housing Association uses key income streams and associated costs to determine appropriate management information and has adopted this approach to report segmentally on its social housing operating surplus.

5. Number of units in management

	Group		Association	
	2023 Units	2022 Units	**2023 Units**	2022 Units
Owned and managed:				
General needs	**39,428**	38,926	**39,428**	38,926
General needs - affordable	**6,450**	5,944	**6,450**	5,944
Shared ownership	**7,711**	7,381	**7,711**	7,381
Housing for older people	**2,229**	2,262	**2,229**	2,262
Housing for older people - affordable	**32**	32	**32**	32
Supported	**853**	873	**853**	873
Keyworker	**1,373**	1,639	**1,373**	1,639
Intermediate market rent	**297**	326	**297**	326
Other social	**282**	288	**279**	285
Non-social - market rent	**483**	554	**402**	432
Non-social - other	**126**	134	**126**	134
Managed not owned:				
Owned by an external company - social	**15**	22	**18**	25
Owned by an external company - non-social	**2,747**	2,616	**2,828**	2,738
Owned by an external company - keyworker		26		26
Total in management	**62,026**	61,023	**62,026**	61,023
Owned and not managed:				
Managed by third parties	**157**	186	**157**	186
Freehold/Long leasehold (incl. Right to Buy leasehold)	**7**	7	**7**	7
Total owned not managed	**164**	193	**164**	193
Total owned or managed	**62,190**	61,216	**62,190**	61,216

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6. Surplus on ordinary activities before taxation

	Group		Association	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000
Surplus on ordinary activities before taxation is stated after charging:				
Depreciation and amortisation:				
- housing properties	**44,167**	42,587	**44,163**	42,583
- other owned assets	**6,807**	6,668	**6,646**	6,433
Rentals payable:				
- plant, vehicles and machinery	**4,405**	3,825	**4,405**	3,825
- other assets	**2,517**	2,090	**2,517**	2,032
- operating leases	**-**	8	**-**	8
Auditor's remuneration:				
- in their capacity as auditor	**269**	190	**235**	153
- in respect of other work	**-**	-	**-**	-
Other:				
- impairment of social housing property	**-**	1,001	**-**	1,001

7. Surplus on disposal of property, plant and equipment

	Group		Association	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000
Proceeds from other fixed asset sales	**980**	4	**980**	4
Cost of sales	**(178)**	(377)	**(86)**	(377)
Net (deficit)/surplus	**802**	(373)	**894**	(373)

8. Interest receivable and similar income

	Group		Association	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000
Interest receivable on investments	**5,030**	2,823	**5,030**	2,823
Interest receivable on bank deposits	**218**	32	**218**	32
Interest receivable from Group undertakings	**-**	-	**3,657**	1,676
Interest receivable and similar income	**5,248**	2,855	**8,905**	4,531

9. Interest payable and financing costs

	Group		Association	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
In respect of loans:				
Interest payable on loans and bank overdrafts	**(76,099)**	(63,392)	**(45,319)**	(33,180)
Interest payable on hedging arrangements	**(3,982)**	(9,439)	**(3,982)**	(9,439)
On hedging arrangements - non cash	**3,419**	3,800	**3,419**	3,800
Interest payable to Group undertakings	**-**	-	**(30,867)**	(30,759)
Interest payable on recycled capital grant and disposal proceeds funds	**(216)**	(22)	**(216)**	(22)
Interest payable on finance leases	**(254)**	(256)	**(256)**	(256)
Loan costs or other financing costs	**(668)**	(1,117)	**(1,112)**	(1,112)
Interest payable	**(77,800)**	(70,426)	**(78,333)**	(70,968)
Less interest capitalised	**10,500**	10,026	**9,205**	8,998
	(67,300)	(60,400)	**(69,128)**	(61,970)
Net interest payable on pension liabilities	**(1,145)**	(1,378)	**(1,145)**	(1,378)
Interest and financing costs	**(68,445)**	(61,778)	**(70,273)**	(63,348)

Interest is capitalised on active development schemes at 4% (2022: 4%).

As the sole purpose of the hedging arrangements is to reduce interest payable volatility on the bank loans, hedging interest receivable is shown within and offsetting hedging interest payable.

10. Movement in fair value of investment properties

	Note	Group		Association	
		2023	2022	**2023**	2022
		£'000	£'000	**£'000**	£'000
Fair value increase/(decrease) in investment properties	16	**(847)**	9,336	**1,160**	7,333
Fair value adjustments		**(847)**	9,336	**1,160**	7,333

11. Taxation

Sovereign Housing Association is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the charity is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

	Group		Association	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
UK corporation tax				
Current tax on income for the period	**-**	-	**-**	-
Prior year released	**-**	-	**-**	-
Adjustment in respect of prior periods	**-**	-	**-**	-
Total current tax	**-**	-	**-**	-
Tax credit on surplus on ordinary activities	**-**	-	**-**	-

Factors affecting the tax charge for the current period

The current tax credit for the year is lower (2022: lower) than the standard rate of corporation tax in the UK of 19% (2022: 19%). The differences are explained below:

	Group		Association	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
Current tax reconciliation				
Surplus on ordinary activities before tax	**66,077**	86,599	**74,197**	85,625
Surplus chargeable to corporation tax	**66,077**	86,599	**74,197**	85,625
Current tax at 19% (2022: 19%)	**12,555**	16,454	**14,097**	16,269
Effects of:				
Surplus not within the scope of taxation due to charitable status	**(12,555)**	(16,454)	**(14,097)**	(16,269)
Total tax credit	**-**	-	**-**	-
Current tax (see above)	**-**	-	**-**	-
Tax credit for the year	**-**	-	**-**	-

In the Budget on 3 March 2021, it was announced that the UK tax rate would increase to 25% from 1 April 2023. Currently rate is 19%. (2022 19%). This will have a consequential effect on the company's future tax charge.

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12. Board members and executive officers

The Board members are defined as the members of the Parent Management Board.

In accordance with the 'Excellence in Governance Code for Members of the NHF', set out below is the level of payments made to the Chair and individual board members of the Sovereign Board and its Committees.

Annual rates of pay	**2023 £**	2022 £
Position held as at 31 March		
Chair	**35,000**	35,000
Vice chair	**19,000**	19,000
Board member	**14,000**	14,000
Independent committee member	**6,000**	6,000
Committee chair (in addition to Board member salary)	**5,000**	5,000

The table below sets out all group Non-Executive Board members who served during the year:

Non-Executive Directors	**2023 £**	2022 £
Barbara Anderson	**19,000**	18,750
Lee Bambridge	**6,333**	18,750
Jennifer Dykes	**19,000**	24,833
Stuart Laird	**24,000**	23,750
Pamela Leonce	**14,000**	13,750
Paul Massara (Chair)	**35,000**	35,000
Claire O'Shaughnessy	**14,000**	13,750
Angela Williams	**19,000**	18,750
Jane Wynne	**14,000**	13,750
	164,333	181,083

Jennifer Dykes is a resident, her lease and tenancy is on normal commercial terms and she cannot use her position on the Board to her advantage.

No expenses paid to Board members are subject to income tax (2022: £nil).

12. Board members and executive officers (continued)

No additional remuneration was paid to subsidiary Board members during the year (2022: nil).

Executive directors' emoluments

	2023 £'000	2022 £'000
Emoluments (including pension contributions and benefits in kind)	**1,576**	1,453
Total pension contributions to Executive Officers	**86**	83
Emoluments (excluding pension contributions and payments in lieu of pension contributions) include amounts paid to:		
The highest paid director	**289**	280

Pension contributions to the highest paid director were £nil (2022: £nil)

12. Board members and executive officers (continued)

The level of emoluments to members of the Executive Board during 2022/23 is shown below

	Taxable pay	Pension contri-butions	In lieu of pension	Benefits in kind	PRP paid 2022/23	Accrued PRP 2022/23	**2023 Total**	2022 Total
	£	£	£	£	£	£	**£**	£
Executive Directors:								
Mark Washer	289,150	-	34,608	395		-	**324,153**	314,535
Tracey Barnes[1]	203,477	-	16,776	263		-	**220,516**	240,839
Ken Youngman[2]	96,591	2,800	-	-			**99,391**	-
Members of the Executive Board:								
Sally Hyndman	206,750	-	24,720	-		-	**231,470**	224,450
Kevin Ives	205,617	20,487	-	395		-	**226,499**	219,725
Nicole Sharp	210,083	37,944	-	395		-	**248,422**	226,948
Tom Titherington	208,769	24,962	-	-		-	**233,731**	226,645
	1,420,437	86,193	76,104	1,448	-	-	**1,584,182**	1,453,142

[1] Resigned 18 November 2022
[2] Appointed 17 October 2022

Mark Washer is a deferred member of the Sovereign Pension Plan (SPP) which is one of the defined benefit schemes that the Association participates in (see note 29). Of the current Executive Board, Nicole Sharp is a member of the Dorset Local Government Pension Scheme, a defined benefit scheme, and Tom Titherington is an ordinary member of the Scottish Widows defined contributions scheme. Funding is by employer and employee contributions and no enhanced or special terms apply to the Chief Executive and any other Director. The Chief Executive does not have any other individual pension arrangement (including a personal pension) to which the Association or any of its subsidiaries make a contribution.

We benchmark Executive Board's pay, with salaries in the medium quartile of executive pay among comparative housing associations. However, in order to recruit and retain the best talent, our Remuneration Committee has developed a performance related pay structure. Executive Board members can earn up to a maximum 15% of their basic pay measured against corporate key performance indicators and targets and a further 5% based on personal performance.

No pension contributions are accruing to former executives (2022: £nil).

13. Employee information

Highest paid employees

Sovereign has the following numbers of employees, including Executive Board members with remuneration of £60,000 or more, shown in bands of £10,000.

Salary	**2023**	2022
£'000	**Number**	Number
>60 to 70	**46**	56
>70 to 80	**58**	33
>80 to 90	**26**	11
>90 to 100	**16**	5
>100 to 110	**6**	3
>110 to 120	**3**	4
>120 to 130	**3**	6
>130 to 140	**7**	7
>140 to 150	**6**	4
>150 to 160	**3**	-
>160 to 170	**-**	-
>170 to 180	**-**	-
>180 to 190	**-**	-
>190 to 200	**-**	-
>200 to 210	**-**	-
>210 to 220	**1**	1
>220 to 230	**1**	3
>230 to 240	**2**	-
>240 to 250	**1**	1
>250 to 260	**-**	-
>270 to 280	**-**	-
>310 to 320	**-**	1
>320 to 330	**1**	-

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13. Employee information (continued)

The number of persons (including executives) employed during the year has been calculated using an average of the total employees for each month:

	Group		Association	
	2023	2022	**2023**	2022
	FTE	FTE	**FTE**	FTE
Expressed in full time equivalents (FTE):				
Central administrative services	**483**	447	**483**	447
Developing or selling housing stock	**91**	81	**91**	81
Managing or maintaining stock	**1,434**	1,424	**1,434**	1,424
Staff providing support to tenants	**92**	62	**92**	62
	2,100	2,014	**2,100**	2,014

	Group		Association	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
Staff costs (for the above persons):				
Wages and salaries	**85,105**	74,036	**85,105**	74,036
Social security costs	**9,005**	7,542	**9,005**	7,542
Pension costs	**5,156**	4,736	**5,156**	4,736
	99,266	86,314	**99,266**	86,314

14. Social housing properties

	Completed		Under construction			
Group	Housing properties (rental)	Shared ownership properties	Housing properties	Shared ownership properties	**2023 Total**	2022 Total
	£'000	£'000	£'000	£'000	**£'000**	£'000
Deemed cost						
At 1 April	3,738,719	546,938	286,755	110,200	**4,682,612**	4,471,942
Reclassification of schemes	-	-	(4,799)	4,799	**-**	-
Transfer to current assets	(45,772)	-	-	-	**(45,772)**	(25,985)
Schemes completed	84,687	69,007	(84,687)	(69,007)	**-**	-
Additions - new units	31,639	(11,302)	222,097	68,796	**311,230**	241,281
Additions - improvements to stock	39,968	890	-	-	**40,858**	28,632
Impairment	-	-	-	-	**-**	(1,001)
Disposals	(15,709)	(14,584)	-	-	**(30,293)**	(31,063)
Disposals IMR (transferred to current assets)	(279)	(774)	-	-	**(1,053)**	(1,194)
As at 31 March	3,833,253	590,175	419,366	114,788	**4,957,582**	4,682,612
Depreciation						
At 1 April	461,266	21,874	-	-	**483,140**	444,514
Charge for year	40,879	3,288	-	-	**44,167**	42,587
On disposals	(5,985)	(751)	-	-	**(6,736)**	(3,804)
On disposals IMR	(40)	(95)	-	-	**(135)**	(157)
As at 31 March	496,120	24,316	-	-	**520,436**	483,140
Net book value at 31 March 2023	3,337,133	565,859	419,366	114,788	**4,437,146**	
Net book value at 31 March 2022	3,277,453	525,064	286,755	110,200	**4,199,472**	

14. Social housing properties (continued)

Group	Completed Housing properties (rental) £'000	Completed Shared ownership properties £'000	Under construction Housing properties £'000	Under construction Shared ownership properties £'000	**2023 Total £'000**	2022 Total £'000
Cost or valuation at 31 March is represented by:						
Gross cost	3,472,369	567,694	419,366	114,788	**4,574,217**	4,296,740
Historic cost depreciation	(445,104)	(22,122)	-	-	**(467,226)**	(434,284)
	3,027,265	545,572	419,366	114,788	**4,106,991**	3,862,456
Revaluation reserve	309,868	20,287	-	-	**330,155**	337,016
	3,337,133	565,859	419,366	114,788	**4,437,146**	4,199,472
Existing use value and properties under construction	3,738,373	627,226	419,366	114,788	**4,899,753**	4,701,410

Additions to housing properties under construction during the year included capitalised interest of £10,500k (2022: £10,026k) and major repairs capitalised of £39,967k (2022: £28,632k). Interest is capitalised on development schemes as set out in the accounting policy in note 2(p).

During the year, no properties were sold to other housing associations (2022: 146). No properties were purchased from other housing associations (2022: nil).

Following purchases of housing properties from other housing associations in previous years, the Association has a contingent liability of £163.8m (2022: £164.2m) for Social Housing Grant which requires recycling into new social housing development on sale of the properties originally purchased.

There are no indicators of impairment in the current year and a detailed impairment review has not been required.

In addition to the capital improvements to housing properties shown above, £94,670k (2022: £89,673k) was spent on routine, planned and major repairs.

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14. Social housing properties (continued)

Association	Completed Housing properties (rental) £'000	Completed Shared ownership properties £'000	Under construction Housing properties £'000	Under construction Shared ownership properties £'000	**2023 Total £'000**	2022 Total £'000
Deemed cost						
At 1 April	3,771,680	546,938	262,082	108,887	**4,689,587**	4,472,947
Reclassification of schemes	-	-	(4,799)	4,799	**-**	-
Schemes completed	84,687	69,007	(84,687)	(69,007)	**-**	-
Additions - new units	19,404	(11,302)	176,324	68,796	**253,222**	221,266
Additions - improvements to stock	39,968	890	-	-	**40,858**	28,632
Impairment	-	-	-	-	**-**	(1,001)
Disposals	(15,707)	(14,584)	-	-	**(30,291)**	(31,063)
Disposals IMR	(279)	(774)	-	-	**(1,053)**	(1,194)
As at 31 March	3,899,753	590,175	348,920	113,475	**4,952,324**	4,689,587
Depreciation						
At 1 April	461,230	21,874	-	-	**483,104**	444,482
Charge for year	40,875	3,288	-	-	**44,163**	42,583
On disposals	(5,985)	(751)	-	-	**(6,736)**	(3,804)
IMR Disposals	(40)	(95)	-	-	**(135)**	(157)
As at 31 March	496,080	24,316	-	-	**520,396**	483,104
Net book value at 31 March 2023	3,403,673	565,859	348,920	113,475	**4,431,927**	
Net book value at 31 March 2022	3,310,450	505,168	262,082	108,887	**4,206,483**	

14. Social housing properties (continued)

Association	Completed Housing properties (rental) £'000	Completed Shared ownership properties £'000	Under construction Housing properties £'000	Under construction Shared ownership properties £'000	**2023 Total £'000**	2022 Total £'000
Cost or valuation at 31 March is represented by:						
Gross cost	3,344,523	567,694	348,920	113,475	**4,374,612**	4,109,367
Historic cost depreciation	(462,443)	(22,122)	-	-	**(484,564)**	(451,624)
	2,882,080	545,572	348,920	113,475	3,890,047	3,657,743
Revaluation reserve	521,593	20,287			**541,880**	548,740
	3,403,673	565,859	348,920	113,475	**4,431,927**	4,206,483
Existing use value and properties under construction	3,738,098	627,226	348,920	113,475	**4,827,719**	4,675,145

Total grant liability included in creditors, reserves and contingent liabilities is £1,069.0m (2022: £1,063.5m).

15. Other fixed assets

Group	Freehold offices £'000	Leasehold offices £'000	Office furniture and equipment £'000	Scheme plant, furniture and equipment £'000	Computer hardware and software £'000	Plant £'000	Motor vehicles £'000	**2023 Total £'000**	2022 Total £'000
Cost									
At 1 April	16,468	4,601	9,368	11,388	57,137	444	1,254	**100,660**	90,332
Additions	192	244	1,324	41	5,522	116	-	**7,439**	10,924
Disposals	(1,767)	-	(46)	(250)	(3)	-	-	**(2,066)**	(596)
Impairment	-	-	-	-	-	-	-	**-**	-
Transfer to investment properties	-	-	-	-	-	-	-	**-**	-
As at 31 March	14,893	4,845	10,646	11,179	62,656	560	1,254	**106,033**	100,660
Depreciation									
At 1 April	4,945	1,060	7,783	9,226	36,043	365	1,229	**60,651**	54,738
Charge for year	271	423	449	393	5,066	38	5	**6,645**	6,506
On disposals	(777)	-	(46)	(193)	(4)	-	-	**(1,020)**	(592)
As at 31 March	4,439	1,483	8,187	9,426	41,104	403	1,234	**66,276**	60,652
Net book value at 31 March 2023	10,454	3,362	2,459	1,753	21,551	156	20	**39,757**	
Net book value at 31 March 2022	11,523	3,541	1,589	2,161	21,093	79	22	**40,008**	

All fixed assets included in this note are held at historic cost.

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15. Other fixed assets (continued)

Association	Freehold offices	Leasehold offices	Office furniture and equipment	Scheme plant, furniture and equipment	Computer hardware and software	Plant	Motor vehicles	**2023 Total**	2022 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**	£'000
Cost or valuation									
At 1 April	16,468	4,601	8,671	11,388	56,665	124	438	**98,355**	88,027
Additions	192	244	1,324	41	5,523	116	-	**7,440**	10,924
Disposals	(1,767)	-	(46)	(250)	(3)	-	-	**(2,066)**	(596)
Impairment	-	-	-	-	-	-	-	**-**	-
Transfer to investment properties	-	-	-	-	-	-	-	**-**	-
As at 31 March	14,893	4,845	9,949	11,179	62,185	240	438	**103,729**	98,355
Depreciation									
At 1 April	4,945	1,060	7,083	9,226	35,571	45	416	**58,346**	52,506
Charge for year	271	423	449	393	5,066	38	5	**6,645**	6,433
On disposals	(777)	-	(46)	(193)	(3)	-	-	**(1,019)**	(592)
As at 31 March	4,439	1,483	7,486	9,426	40,634	83	421	**63,972**	58,347
Net book value at 31 March 2023	10,454	3,362	2,463	1,753	21,551	156	17	**39,757**	
Net book value at 31 March 2022	11,523	3,541	1,589	2,161	21,093	79	22	**40,008**	

All fixed assets included in this note are held at historic cost.

16. Investment properties

	Group		Association	
	2023	2022	**2023**	2022
Valuation	**£'000**	£'000	**£'000**	£'000
At 1 April	**171,885**	170,435	**131,810**	130,319
Additions new units	**-**	9,260	**-**	9,260
Improvements to existing units	**20,035**	859	**1,368**	859
Disposals	**(18,838)**	(18,005)	**(8,326)**	(15,961)
Fair value (decrease)/increase	**(847)**	9,336	**1,160**	7,333
At 31 March	**172,235**	171,885	**126,012**	131,810
Historic cost net book value	**153,329**	141,855	**111,478**	111,941

Market rent Investment properties, which primarily comprise market rent properties, were professionally valued by Jones Lang LaSalle at open market value as at 31 March 2023. The valuation was undertaken in accordance with the RICS Appraisal and Valuation Standards. See also note 37 for estimates and judgements used by the valuer.

Freehold shops were professionally valued by Savills on the basis of open market value as at 31 March 2023 and in accordance with the RICS Appraisal and Valuation Standards. The valuer is neither an employee nor an officer of the Association. See also note 37 for estimates and judgements used by the valuer.

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17. Investments in joint ventures

	David Wilson £'000	Linden Homes £'000	Kier £'000	Crest £'000	**Total £'000**
Investment					
At 1 April 2022	-	-	-	362	**362**
Additions	-	-	-	-	**-**
Amortisation	-	-	-	(161)	**(161)**
At 31 March 2023	-	-	-	201	**201**
Share of profits					
At 1 April 2022	656	792	71	1,326	**2,845**
Profit for the year	-	791	-	2,672	**3,463**
Equity adjustment	-	-	-	-	**-**
Equity Cap	-	-	-	-	**-**
Dividend distribution	(450)	-	-	-	**(450)**
At 31 March 2023	206	1,583	71	3,998	**5,858**
Net book value at 31 March 2023	206	1,583	71	4,199	**6,059**
Net book value at 31 March 2022	656	792	71	1,688	**3,207**

The investment in joint ventures is grouped by venture partner for risk profile and exposure purposes. There are losses of £3.5m (2022: £1.1m) from joint ventures not shown on the statement of financial position as negative investments are not recognised. The group will recognise profit from those joint ventures when there is sufficient profit to eliminate the accumulated losses for each joint venture.

18. Investments - HomeBuy loans

	Group		Association	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000
At 1 April	**10,238**	10,614	**10,238**	10,614
Loans repaid	**(335)**	(376)	**(335)**	(376)
At 31 March	**9,903**	10,238	**9,903**	10,238

Loans are made to individuals to purchase a property. There is no interest charge on the loan, but it is repayable on sale of the property with an appreciation of property value being included in the repayment. There are 321 loans outstanding (2022: 333).

19. Financial Assets

	Group		Association	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000
Cost or valuation				
Bonds		-		-
Debt service reserve	**3,811**	3,812	**3,811**	3,812
Collateral deposits	**87**	-		-
Assets measured at fair value through the income statement (derivatives)	**4,474**	1,717	**4,474**	1,717
Shares in subsidiary undertakings	**-**	-	**13**	1,648
	8,372	5,529	**8,298**	7,177

Collateral deposits represent amounts held by counterparties as a result of margin calls on out-of-the-money interest rate swaps. Cash collateral deposit levels will increase or decrease in line with interest rate market movements, or if the Association places or withdraws alternative non-cash collateral. In any collateral deposit, requirements reduce towards zero by the maturity date of the underlying financial instruments giving rise to the collateral obligation.

A list of subsidiary undertakings is included in note 36.

20. Stock

	Group		Association	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000
Properties under construction	**56,442**	57,347	**42,710**	49,552
Completed properties	**1,228**	1,226	**802**	803
Consumable stock	**2,994**	3,544	**2,994**	3,544
	60,664	62,117	**46,506**	53,899

21. Debtors

	Group		Association	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
Rental arrears				
Gross	**13,354**	12,180	**12,948**	12,128
Discounted repayment schedules	**(690)**	(690)	**(690)**	(690)
Less bad debt provision	**(8,318)**	(7,330)	**(8,268)**	(7,282)
Net rental income due	**4,346**	4,160	**3,990**	4,156
Social Housing Grant receivable	**186**	365	**186**	365
Prepayments and accrued income	**195**	2,417	**194**	7,029
Due from other Group undertakings	**-**	-	**93,945**	56,143
Other loans	**77,517**	87,285	**77,504**	87,273
Other debtors	**8,566**	6,101	**7,224**	1,536
	90,810	100,328	**183,043**	156,502
Amounts falling due within one year:	**42,643**	49,443	**42,133**	52,031
Amounts falling due after more than one year	**48,167**	50,885	**140,910**	104,471
	90,810	100,328	**183,043**	156,502

Within other loans are amounts due from Crest Sovereign (Brooklands) LLP of £9.4m (2022: £18.6m), Linden Sovereign Brockworth LLP of £5.8m (2022: £7.4m) and Countryside Sovereign Swindon LLP £59.2m (2022: £55.4m). Other loans also include an amount due from Vistry Partnership Ltd of £2.8m (2022: £5.6m).

Loans from the Association to other members of the Group are charged at a market rate of interest of 2.75% to 8% (2022: 2.1% to 5%).

Long term debtors consist of prepayments and amounts due from joint ventures. Amounts are repayable dependent on sales and operating performance within the joint venture. No repayment is due within the next 12 months.

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22. Cash and cash equivalents

	Group		Association	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
Cash and cash equivalents	**75,144**	60,823	**69,504**	53,590
	75,144	60,823	**69,504**	53,590

23. Creditors – amounts falling due within one year

		Group		Association	
	Note	**2023**	2022	**2023**	2022
		£'000	£'000	**£'000**	£'000
Housing loans	25	**38,833**	32,387	**38,361**	31,914
Trade creditors		**30,304**	26,385	**22,697**	21,260
Social housing grant	26	**11,100**	28,841	**11,100**	28,841
Social housing grant - properties	27	**3,071**	2,916	**3,071**	2,916
Due to Group undertakings		**-**	-	**20,490**	24,226
Other loans		**217**	688	**3,831**	5,786
Taxation and social security		**2,363**	2,168	**2,363**	2,168
Recycled capital grant fund	28	**19,914**	19,914	**19,914**	19,914
Rents received in advance		**12,823**	11,091	**12,823**	11,091
Other creditors		**14,712**	11,887	**17,288**	12,405
Accruals and deferred income		**46,513**	47,014	**28,913**	23,612
		179,850	183,291	**180,851**	184,133

24. Creditors – amounts falling due after more than one year

	Note	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Housing loans	25	**2,185,752**	2,012,432	**1,380,518**	1,206,717
Finance lease		**2,621**	2,711	**2,621**	2,711
Derivative financial instruments		**18,139**	60,104	**18,139**	60,104
Social housing grant - properties	27	**365,138**	342,005	**365,138**	342,005
Deferred income		**9,903**	10,238	**9,903**	10,238
Recycled capital grant fund	28	**2,746**	4,784	**2,746**	4,784
Other creditors		**653**	613	**653**	613
Long term Group loans	25	**-**	-	**800,000**	800,000
		2,584,952	2,432,887	**2,579,718**	2,427,172

The repayment profile of the Group's gross undiscounted long term bond liabilities including interest is as follows:

	On demand £'000	Less than 12 months £'000	1 to 5 years £'000	More than 5 years £'000	Total £'000
March 2023					
Amounts due to 2009 bond investors	-	9,986	39,942	289,833	**339,761**
Amounts due to 2012 bond investors	-	11,920	47,680	434,760	**494,360**
Amounts due to Affordable Housing Finance	-	8,906	35,625	562,031	**606,562**
Amounts due to 2019 bond investors	-	5,497	10,993	137,599	**154,089**
	-	36,309	134,240	1,424,223	**1,594,772**

25. Housing loans

	Note	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Repayable other than by instalments in more than five years	24	**1,045,000**	965,406	**1,045,000**	965,406
Repayable by instalments within one year	23	**38,833**	32,387	**38,361**	31,914
Repayable by instalments in more than one but less than two years	24	**92,532**	39,033	**92,105**	38,569
Repayable by instalments between two and five years	24	**326,946**	236,494	**325,926**	235,363
Repayable by instalments in more than five years	24	**721,274**	771,499	**717,490**	767,379
		2,224,585	2,044,818	**2,218,881**	2,038,631

All loans are held at amortised cost.

The housing loans are provided by a combination of bank debt and capital markets funding. The bank facilities are provided by our core relationship banks, and a number of supportive smaller banks. Loan interest rates range from 0.9146% to 11.20% per annum (2022: 0.28% to 11.02%). The average rate achieved over the year was 3.7% (2022: 3.7%). Interest on housing loans is charged to the Statement of Total Comprehensive Income or capitalised in the year that it is incurred. The housing loans are secured by first fixed charges over certain of the Group's housing properties. The total undrawn loan facilities at 31 March 2023 were £365m (2022: £455m).

26. Provisions

	Group Property £'000	Group Other £'000	Group Total £'000	Association Property £'000	Association Other £'000	Association Total £'000
At 1 April 2022	5,761	1,651	**7,412**	5,761	1,651	**7,412**
Arising during the year	3,500	-	**3,500**	3,500	-	**3,500**
Utilised during the year	(3,654)	-	**(3,654)**	(3,654)	-	**(3,654)**
Unused reversed during the year	(132)	-	**(132)**	(132)	-	**(132)**
At 31 March 2023	**5,475**	**1,651**	**7,126**	**5,475**	**1,651**	**7,126**

Provisions recognised by the Group and Association are based on reliable estimates determined by management of the amounts payable based on available information. The amounts recorded in the above tables are continually evaluated by management.

The property provision relates to contracted costs for historic disposals, dilapidations on the exit of leases and remedial works to make good. Costs are estimated and are expected to be incurred within the next two years.

Other provisions relate to probable future outflows following changes in the interpretation of specific services provided historically. There is uncertainty in the timing of resulting payments.

27. Grant

	Note	Group		Association	
		2023	2022	**2023**	2022
		£'000	£'000	**£'000**	£'000
At 1 April		**373,762**	375,405	**373,762**	375,405
Grants received during the year		**3,200**	3,009	**3,200**	3,009
Grants recycled from the recycled capital grant fund		**6,735**	701	**6,735**	701
Grant re staircasing sales		**(1,013)**	(862)	**(1,013)**	(862)
Grant re other property		**(474)**	(1,605)	**(474)**	(1,605)
Grant amortisation		**(2,901)**	(2,886)	**(2,901)**	(2,886)
At 31 March	23, 24	**379,309**	373,762	**379,309**	373,762

28. Recycled Capital Grant Fund

	Note	Group		Association	
		2023	2022	**2023**	2022
		£'000	£'000	**£'000**	£'000
Recycled Capital Grant Fund					
At 1 April		**24,698**	20,020	**24,698**	20,020
Grants recycled		**6,735**	5,357	**6,735**	5,357
Interest accrued		**216**	22	**216**	22
New build		**4,480**	(701)	**4,480**	(701)
At 31 March	23, 24	**36,129**	24,698	**36,129**	24,698

Amounts held for longer than 3 years potentially become repayable if not allocated to new schemes. Sovereign has an agreement with Homes England that those amounts over 3 years old at 31 March 2023 will not be recalled.

29. Pension arrangements

The Association participates in six defined benefit pension schemes which are multi-employer defined benefit schemes providing benefits based on final pensionable pay. All of the defined benefit schemes are now closed to new members. New employees are able to join a defined contribution scheme operated by Scottish Widows.

Defined benefit pension plans assets and liabilities

	SPP	LGPS	**2023 Total**	2022 Total
	£'000	£'000	**£'000**	£'000
Assets and liabilities				
Present value of funded obligation	(125,011)	(58,584)	**(183,595)**	(270,238)
Fair value of scheme assets (bid value)	122,855	52,476	**175,331**	221,029
Net liability	(2,156)	(6,108)	**(8,264)**	(49,209)
Present value of unfunded obligation	-	(73)	**(73)**	(78)
Net liability (including unfunded obligations)	(2,156)	(6,181)	**(8,337)**	(49,287)

Defined benefit pension plans - amounts charged to the income statement

	SPP	LGPS	**2023 Total**	2022 Total
	£'000	£'000	**£'000**	£'000
Charged to operating costs				
Current service cost	-	858	**858**	873
Administration costs	353	26	**379**	168
Total charged to operating costs	353	884	**1,237**	1,041
(Credit)/charge to other finance costs				
Expected return on pension fund assets	(4,729)	(1,456)	**(6,185)**	(4,441)
Interest on pension scheme liabilities	5,265	2,065	**7,330**	5,819
Net charge to other finance costs	536	609	**1,145**	1,378

29. Pension arrangements (continued)

Defined benefit pension plans - amounts charged to other comprehensive income

	SPP £'000	LGPS £'000	**2023 Total £'000**	2022 Total £'000
Defined benefit costs recognised in other comprehensive income				
Return on plan assets (less interest income)	(52,238)	(3,659)	**(55,897)**	8,611
Experience gains arising on plan liabilities	(9,328)	(7,594)	**(16,922)**	8,305
Effects of changes in the demographic and financial assumptions underlying the present value of the defined benefit obligation - (loss)/gain	77,028	28,463	**105,491**	(3,317)
Other actuarial losses	-	119	**119**	-
Total amount recognised in other comprehensive income	15,462	17,329	**32,791**	13,599

(a) Sovereign Pension Plan (SPP)

On 1 October 2019, Sovereign enacted a 'bulk transfer' of all pension assets and liabilities away from the defined benefit scheme held within the Social Housing Pensions Scheme (SHPS), a multi-employer pension fund, to a new defined benefit scheme, the Sovereign Pension Plan (SPP). This scheme is closed to new members.

It is believed that the new SPP investment strategy will be beneficial to Sovereign in future years.

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The net defined benefit liability to be recognised is £2,156m (2022 £25,101m).

The table below gives a summary of the plan asset and benefit liability:

Present values of defined benefit obligation, fair value of assets and defined benefit liability	**2023 £'000**	2022 £'000
Present value of defined benefit obligation	**(125,011)**	(191,280)
Fair value of plan assets	**122,855**	166,179
Deficit in plan	**(2,156)**	(25,101)
Unrecognised surplus	**-**	-
Defined benefit liability to be recognised	**(2,156)**	(25,101)

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29. Pension arrangements (continued)

The fair value of the plan assets and the return on those assets was as follows:

	2023 £'000	2022 £'000
Asset category		
Equity	**29,115**	55,706
Bonds	**42,195**	56,808
Property	**4,750**	5,146
Cash	**4,483**	5,224
Other	**42,312**	43,295
Total	**122,855**	166,179

The actual return on plan assets was £47,509k (2022: £8,409k).

A reconciliation from previous accounting date to the current accounting date is shown below for the pension benefit obligation and associated pension asset:

Benefit obligation	**2023 £'000**	2022 £'000
Defined benefit obligation at the beginning of the period	**191,280**	193,424
Expenses	**-**	-
Interest expense	**5,265**	4,204
Actuarial losses/(gains)	**(67,700)**	(1,618)
Benefits paid and expenses	**(3,834)**	(4,730)
Defined benefit obligation at the end of the period	**125,011**	191,280

Asset reconciliation	**2023 £'000**	2022 £'000
Fair value of scheme assets at the beginning of the period	**166,179**	154,553
Expenses	**(353)**	(143)
Interest income	**4,729**	3,435
Experience on plan assets (less interest income) - gain/(loss)	**(52,238)**	4,974
Contributions by employer	**8,372**	8,090
Benefits paid and expenses	**(3,834)**	(4,730)
Fair value of scheme assets at the end of the period	**122,855**	166,179

The Trustee of the Scheme commissions a full actuarial valuation of the Scheme every three years. The actuarial valuation assesses whether the Scheme's assets at the valuation date are likely to be sufficient to pay pension benefits obligation by members as at the valuation date. Asset values are calculated by reference to market levels. Pension obligations are valued by discounting expected future events discount rate calculated by reference to the expected future investment returns.

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29. Pension arrangements (continued)

The following table sets out the assumptions used to arrive at the pension asset and liability for 31 March 2023 and 31 March 2022 (using market conditions as at the respective date).

SPP defined benefit Major assumptions	2023 %	2022 %
Price increases RPI	**3.16**	3.49
Price increases CPI	**2.92**	3.22
Discount rate	**4.84**	2.78
Salary increase	**3.16**	3.49
Allowance for commutation of pension for cash at retirement	**75**	75

The assumed life expectancy from the age of 65 is as follows:

	2023 Years	2022 Years
Retiring today		
Males	**22.0**	22.2
Females	**24.5**	24.6
Retiring in 20 years		
Males	**23.7**	23.9
Females	**25.9**	26.1

The discount rate assumption has been derived using the UK Mercer yield curve. Recent changes in global and UK economic pressures and tightening of monetary policy have had a significant impact on asset markets and corporate bonds yields, which are key to the FRS102 assessment of the net pension asset or liability. In particular, AA corporate bond yields, used to set the FRS102 discount rate, have increased significantly, with corresponding falls in asset values. The markets have been exceptionally volatile and therefore both gross DBOs and assets have fallen.

The mortality rate is based on publicly available mortality tables for the specific country.

29. Pension arrangements (continued)

The approximate effects of movements in the main assumptions on the value of liabilities are shown in the table below:

Movement in assumptions	
Discount rate + / - 0.1%	- / + 2%
Inflation assumptions + / - 0.1%	- / + 2% (of inflation linked liabilities)
Life expectancy + / - 1 year	- / + 3-5%

Contributions to be made into the SPP for 2023-24 will be £8,100k.

Below is a summary of the overall impact of the defined cost recognised in the other comprehensive income:

	2023 £'000	2022 £'000
Defined benefit costs recognised in other comprehensive income		
Return on plan assets (less interest income)	**(52,238)**	4,974
Experience gains arising on plan liabilities	**(9,328)**	(3,891)
Effects of changes in the demographic and financial assumptions underlying the present value of the defined benefit obligation - (loss)/gain	**77,028**	5,509
Total (loss)/gain recognised in other comprehensive income	**15,462**	6,592

Below is a summary of the overall impact of the defined cost recognised in the Income Statement:

	2023 £'000	2022 £'000
Charged to operating costs		
Administration costs	**353**	143
Total charged to operating costs	**353**	143
(Credit)/charge to other finance costs		
Expected return on pension fund assets	**(4,729)**	(3,435)
Interest on pension scheme liabilities	**5,265**	4,204
Net charge to other finance costs	**536**	769

It has been brought to the attention of the Trustee that changes to benefits in the past may have been implemented at a time or in a way that may not be in accordance with the Scheme Rules. The Trustee will be seeking court directions on how to interpret the rules. If the Trustee is required to make changes to the Scheme this will increase the Scheme's liabilities. Although no reliable estimate can be made at this state, an indication of the potential liability is 2.9% of the benefit obligations at 30 September 2020 (the date of the latest triennial valuation). The Trustee and Sovereign both recognise that if the Scheme's liabilities increase, action will be required to eliminate any arising deficit. Discussions have taken place between the Trustee and Sovereign regarding contingency arrangements for additional contributions should they be required. The results elsewhere in this report make no allowance for these uncertain potential additional liabilities.

29. Pension arrangements (continued)

SHPS defined contributions

The Association has made no paid employer's contributions in the year (2022: £nil). The scheme has been replaced by a Scottish Widows administered scheme.

(b) Royal Berkshire Pension Fund (Berkshire)

The Royal County of Berkshire Pension Fund was closed to new members in 1989.

The last full actuarial valuation was carried out as at 31 March 2022 and was updated to 31 March 2023 by a qualified independent actuary.

Future pension increases have been assumed to be at CPI.

It was agreed that an employer contribution rate of 0% of pensionable pay would apply in the year ended 31 March 2023 (2022: 0%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2023 was £610k (2022: £596k).

(c) Local Government Pension Scheme administered by Dorset County Council (Dorset – legacy Sovereign Housing Association Limited)

This is a statutory, funded, occupational final salary scheme which is now closed to new members. The assets of the scheme are held in separate trustee administered funds.

The last full actuarial valuation was carried out as at 31 March 2022 and was updated to 31 March 2023 by a qualified independent actuary.

Future pension increases have been assumed to be at CPI.

It was agreed that an employer contribution rate of 18.1% of pensionable pay would apply in the year ended 31 March 2022 (2022: 18.1%). Past service deficit payments of £200k were made during the year (2022: £180k).

(d) Local Government Pension Scheme administered by Hampshire County Council (Hants)

The last full actuarial valuation was carried out at 31 March 2022 and was updated to 31 March 2023 by a qualified independent actuary.

An employer contribution rate of 36.9% of pensionable pay applied for the year ended 31 March 2023 (2022: 37.4%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2023 was £339k (2022: £329k).

Future pension increases have been assumed to be at CPI.

(e) Local Government Pension Scheme administered by Dorset County Council (Dorset – legacy Spectrum Housing Group Limited)

The last full actuarial valuation was carried out at 31 March 2022 and was updated to 31 March 2023 by a qualified independent actuary.

An employer contribution rate of 18.4% of pensionable pay applied for the year ended 31 March 2023 (2022: 18.4%). Past service deficit payments of £261k were made during the year (2022: £252k).

Future pension increases have been assumed to be at CPI.

(f) Local Government Pension Scheme administered by Isle of Wight Council (IOW)

The last full actuarial valuation was carried out at 31 March 2022 and was updated to 31 March 2023 by a qualified independent actuary.

An employer contribution rate of 29.7% of pensionable pay applied for the year ended 31 March 2023 (2022: 29.6%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2023 was £198k (2022: £198k).

Future pension increases have been assumed to be at CPI.

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29. Pension arrangements (continued)

(g) Assumptions

The assumptions used by the actuaries for the individual schemes are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescales covered, may not necessarily be borne out in practice.

	2023 % per annum					2022 % per annum				
Major assumptions	**Berks**	**Dorset**	**Hants**	**Dorset**	**I.O.W.**	Berks	Dorset	Hants	Dorset	I.O.W.
Price increases RPI	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
Price increases CPI	**2.9**	**2.9**	**2.7**	**2.9**	**3.0**	3.4	3.3	3.1	3.3	3.2
Pension increases	**2.9**	**2.9**	**2.7**	**2.9**	**3.0**	3.4	3.3	3.1	3.3	3.2
Pension accounts revaluation rate	**-**	**-**	**2.7**	**-**	**-**	-	-	3.1	-	-
Discount rate	**4.8**	**4.8**	**4.8**	**4.8**	**4.8**	2.6	2.6	2.8	2.6	2.7
Salary increase	**3.9**	**3.9**	**3.7**	**3.9**	**4.0**	4.4	4.3	4.1	4.3	4.0
Asset portfolio										
Asset portfolio	**4.8**	**4.8**	**4.8**	**4.8**	**4.8**	2.6	2.6	2.8	2.6	2.7

The return on assets is quoted as the same value as the discount rate in each of the actuarial reports.

The assumed life expectancy from the age of 65 is as follows

	Berks	**Dorset**	**Hants**	**Dorset**	**I.O.W.**
	Years	**Years**	**Years**	**Years**	**Years**
Retiring today					
Males	**21.1**	**22.2**	**23.3**	**22.2**	**21.1**
Females	**23.9**	**24.2**	**25.7**	**24.2**	**23.5**
Retiring in 20 years					
Males	**22.3**	**23.5**	**23.8**	**23.5**	**22.2**
Females	**25.3**	**25.6**	**26.7**	**25.6**	**25.7**

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29. Pension arrangements (continued)

(h) Historic data

Berkshire	2023 £'000	2022 £'000	2021 £'000	2020 £'000	2019 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(11,575)**	(15,487)	(16,349)	(15,336)	(17,944)
Fair value of scheme assets (bid value)	**9,254**	9,408	8,488	8,176	9,152
Net (liability)	**(2,321)**	(6,079)	(7,861)	(7,160)	(8,792)
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	-	-	-
Experience adjustments on scheme liabilities	**-**	-	-	-	-

Dorset (legacy Sovereign Housing Association Limited)	2023 £'000	2022 £'000	2021 £'000	2020 £'000	2019 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(8,652)**	(11,322)	(11,774)	(9,873)	(10,819)
Fair value of scheme assets (bid value)	**5,758**	6,212	5,717	4,744	5,439
Net (liability)	**(2,894)**	(5,110)	(6,057)	(5,129)	(5,380)
Present value of unfunded obligation	**(19)**	(20)	(21)	(22)	(23)
Net (liability) (including unfunded obligations)	**(2,913)**	(5,130)	(6,078)	(5,151)	(5,403)
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	-	-	-
Experience adjustments on scheme liabilities	**-**	-	-	-	-

29. Pension arrangements (continued)

Hampshire	2023 £'000	2022 £'000	2021 £'000	2020 £'000	2019 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(7,155)**	(9,252)	(9,798)	(8,887)	(8,890)
Fair value of scheme assets (bid value)	**9,225**	9,734	9,005	7,164	7,330
Net asset/(liability)	**2,070**	482	(793)	(1,723)	(1,560)
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	-	-	-
Experience adjustments on scheme liabilities	**-**	-	-	-	-

Dorset (legacy Spectrum Housing Group Limited)	2023 £'000	2022 £'000	2021 £'000	2020 £'000	2019 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(19,145)**	(26,531)	(27,280)	(22,575)	(24,562)
Fair value of scheme assets (bid value)	**14,696**	15,886	14,809	12,165	13,893
Net (liability)	**(4,449)**	(10,645)	(12,471)	(10,410)	(10,669)
Present value of unfunded obligation	**(54)**	(58)	(62)	(66)	(70)
Net (liability) (including unfunded obligations)	**(4,503)**	(10,703)	(12,533)	(10,476)	(10,739)
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	-	-	-
Experience adjustments on scheme liabilities	**-**	-	-	-	-

Isle of Wight	2023 £'000	2022 £'000	2021 £'000	2020 £'000	2019 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(12,057)**	(16,366)	(17,022)	(13,008)	(14,759)
Fair value of scheme assets (bid value)	**13,543**	13,610	12,581	10,358	10,995
Net asset/(liability)	**1,486**	(2,756)	(4,441)	(2,650)	(3,764)
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	-	-	-
Experience adjustments on scheme liabilities	**-**	-	-	-	-

29. Pension arrangements (continued)

Consolidated (Group and Association) Local Government Pension Schemes	2023 £'000	2022 £'000	2021 £'000	2020 £'000	2019 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(58,584)**	(78,958)	(82,223)	(69,679)	(76,974)
Fair value of scheme assets (bid value)	**52,476**	54,850	50,600	42,607	46,809
Net (liability)	**(6,108)**	(24,108)	(31,623)	(27,072)	(30,165)
Present value of unfunded obligation	**(73)**	(78)	(83)	(88)	(93)
LGPS net (liability) (including unfunded obligations)	**(6,181)**	(24,186)	(31,706)	(27,160)	(30,258)

(i) Analysis of pension costs in the income statement – LGPS

	2023 £'000	2022 £'000
Charged to operating costs		
Current service cost	**858**	873
Past service cost	**-**	-
Administration costs	**26**	25
Losses on settlements or curtailments	**-**	-
Total charged to operating costs	**884**	898
(Credit)/charge to other finance costs		
Expected return on pension fund assets	**(1,456)**	(1,006)
Interest on pension scheme liabilities	**2,065**	1,615
Net charge to other finance costs	**609**	609

29. Pension arrangements (continued)

(j) Analysis of pension costs in Other Comprehensive Income – LGPS

	2023 £'000	2022 £'000
Defined benefit costs recognised in other comprehensive income		
Return on plan assets (less interest income)	**(3,659)**	3,637
Experience gains arising on plan liabilities	**(7,594)**	(150)
Effects of changes in the demographic and financial assumptions underlying the present value of the defined benefit obligation - (loss)/gain	**28,463**	3,520
Other actuarial losses	**119**	-
Total gain recognised in other comprehensive income	**17,329**	7,007

(k) Asset and liability obligation reconciliations - LGPS

Benefit obligation	2023 £'000	2022 £'000
Defined benefit obligation at the beginning of the year	**79,036**	82,306
Service cost	**858**	873
Interest cost	**2,065**	1,615
Change in financial assumptions	**(26,599)**	(3,444)
Change in demographic assumptions	**(1,864)**	(76)
Experience gains	**7,594**	150
Estimated benefits paid (net of transfers in)	**(2,565)**	(2,523)
Contributions by scheme participants	**137**	140
Unfunded pension payments	**(5)**	(5)
Defined benefit obligation at the end of the year	**58,657**	79,036

29. Pension arrangements (continued)

Asset reconciliation	**2023**	2022
	£'000	£'000
Fair value of scheme assets at the beginning of the year	**54,850**	50,600
Interest on assets	**1,456**	1,006
Return on assets less interest	**(3,659)**	3,637
Other actuarial gains	**119**	-
Administration expenses	**(26)**	(25)
Contributions by employer	**2,169**	2,020
Contributions by scheme participants	**137**	140
Estimated benefits paid (net of transfers in)	**(2,570)**	(2,528)
Fair value of scheme assets at the end of the year	**52,476**	54,850

(l) Guaranteed minimum pensions

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. The valuation assumption in these financial statements is consistent with the consultation outcome.

30. Financial instruments

(a) Carrying amount of financial instruments

The carrying amount of the financial assets and liabilities includes:

	2023	2022
	£'000	£'000
Assets measured at amortised cost	**3,898**	3,812
Liabilities measured at fair value through income statement (derivatives)	**(18,139)**	(60,104)
Assets measured at fair value through income statement (derivatives)	**4,474**	1,717
Liabilities measured at amortised cost (housing loans)	**(2,224,585)**	(2,044,819)
	(2,234,352)	(2,099,394)

30. Financial instruments (continued)

(b) Financial instruments measured at fair value

Derivative financial liabilities at fair value are calculated using quoted market prices to establish expected future cash flows, which are discounted at a market derived interest rate.

(c) Hedge accounting

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur as required by FRS 102.29(a) for the cash flow hedge accounting models:

	2023						2022					
	Carrying amount £'000	**Expected cash flows £'000**	**1 year or less £'000**	**1 to <2 years £'000**	**2 to <5 years £'000**	**5 years and over £'000**	Carrying amount £'000	Expected cash flows £'000	1 year or less £'000	1 to <2 years £'000	2 to <5 years £'000	5 years and over £'000
Interest rate swaps												
Liabilities	**17,167**	**19,295**	**(222)**	**296**	**3,663**	**15,558**	57,594	63,129	5,568	3,718	10,652	43,191
	17,167	**19,294**	**(222)**	**296**	**3,663**	**15,558**	57,594	63,129	5,568	3,718	10,652	43,191

The Group uses cash flow hedges to manage interest rate risk arising from uncertain future interest rates on its floating rate loans. Interest rate swaps (the hedging instrument) are used to swap a proportion of the Group's floating rate interest cash flows (the hedged items) for fixed rate cash flows, thereby reducing the cash flow and income statement uncertainty. The Group recognises interest rate exposure as a key risk to be managed as an integral part of its strategy for managing its overall business risks and costs.

Change in fair value (Group and Association)	**2023**	2022
	£'000	£'000
Recognised through other comprehensive income	**40,228**	21,716
Recognised through the income statement	**1,074**	(82)
Decrease/(increase) in fair value	**41,302**	21,634

(d) Fair values

The amounts for all financial assets and financial liabilities carried at fair values are as follows:

	2023	2022
	£'000	£'000
Derivatives measured at fair value through income statement	**13,665**	58,387
	13,665	58,387

31. Called up share capital

Each shareholder of the Parent holds a non-equity share of £1 in the Parent. The shares carry no rights to dividends and are non-redeemable. They carry the right to vote at meetings of the Parent on the basis of one share one vote. No rights to participate in the net assets of the Parent in the event of a winding up are conferred by the shares.

	2023	2022
	£	£
Allotted issued and fully paid		
At 1 April	**108**	108
Issued in the year	**-**	-
Cancelled during the year		
At 31 March	**108**	108

32. Reserves

Called up share capital – represents the nominal value of shares that have been issued.

Income and expenditure reserve – includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Hedging reserve – gains and losses on hedge effective financial instrument.

Revaluation reserve – the difference between historic cost and valuation or deemed cost of fixed assets.

33. Capital commitments

	Group		Association	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	**394,174**	453,974	**396,443**	439,840
Capital expenditure that has been authorised by the Executive Board but has not yet been contracted for	**1,048,410**	832,956	**1,042,265**	631,090

At 31 March 2023, the Group had cash and short term deposits of £75.1m (2022: £60.8m) and a further £365m of undrawn committed funding (2022: £455m), of which £365m was immediately available (2022: £455m). These funds, along with cash generated from operating activities are expected to fund the above capital expenditure.

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34. Operating leases

The Group and Association hold office premises and equipment, and vehicles under non-cancellable operating leases. Non-cancellable operating lease rentals are payable as follows:

	Group		Association	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
Land and buildings				
- within one year	**2,487**	2,121	**2,487**	2,043
- between two and five years	**9,563**	6,009	**9,563**	5,858
- in over five years	**22,780**	23,475	**22,780**	23,332
Temporary social housing initiatives				
- within one year	**-**	8	**-**	8
- between two and five years	**-**	-	**-**	-
- in over five years	**-**	-	**-**	-
Other				
- within one year	**2,154**	2,277	**2,154**	2,262
- between two and five years	**7,283**	7,471	**7,283**	7,460
- in over five years	**-**	-	**-**	-
	44,267	41,361	**44,267**	40,963

35. Group analysis of change in net debt

	As at 1 April 2022	Cashflows	Other changes	**As at 31 March 2023**
Cash at bank and in hand	60,823	14,321	-	**75,144**
Debt due within one year	(32,387)	(6,446)	-	**(38,833)**
Debt due within more than one year	(2,072,536)	(173,320)	41,965	**(2,203,891)**
	(2,044,100)	(165,445)	41,965	**(2,167,580)**

36. Group company information and related parties

	Status	Activity	Holding
Sovereign Housing Association Limited	Registered Co-operative and Community Benefit Societies	Non - charity housing registered provider	
Subsidiary			
Sovereign Housing Design and Build Limited	Private Limited Company	Design and build	100%
Sovereign Housing Developments Limited	Private Limited Company	Commercial investment	100%
Sovereign Living Limited	Registered Co-operative and Community Benefit Societies	Non - charity housing registered provider	100%
Sovereign Advances Limited	Private Limited Company	Capital funding	100%
Sovereign Housing Partnerships Limited	Private Limited Company	Joint venture holding company	100%
Sovereign Housing Property Services Limited	Private Limited Company	Repairs and maintenance	100%
Spectrum Property Ventures Limited	Private Limited Company	Capital funding	100%
Spectrum Premier Homes Limited	Private Limited Company (by guarantee)	Development and sale of housing properties	100%
Sovereign Housing Capital Plc	Public Limited Company registered	Capital funding	100%
Joint venture			
Sovereign BDW (Newbury) LLP	Limited Liability Partnership	Development and sale of residential accommodation	50%
Linden Homes Westinghouse LLP	Limited Liability Partnership	Development and sale of residential accommodation	50%
Tilia Sovereign LLP	Limited Liability Partnership	Development and sale of residential accommodation	50%
Linden Sovereign Brockworth LLP	Limited Liability Partnership	Development and sale of residential accommodation	50%
Crest Sovereign (Brooklands) LLP	Limited Liability Partnership	Development and sale of residential accommodation	50%
Sovereign BDW (Hutton Close) LLP	Limited Liability Partnership	Development and sale of residential accommodation	50%
Countryside Sovereign Swindon LLP	Limited Liability Partnership	Development and sale of residential accommodation	50%
Homes for West Berkshire LLP	Limited Liability Partnership	Development and sale of residential accommodation	50%

36. Group company information and related parties (continued)

Sovereign Housing Association Limited also owns a non-charitable company Points West Housing Limited which is dormant and its net assets are not material. Points West Housing Limited is not consolidated within the Group's financial statements. Sovereign Housing D1 Limited, Sovereign Property Care Limited and Sovereign Maintenance Limited are dormant and net assets are zero in each.

Sovereign Housing Partnerships Limited is a member in eight joint ventures at the date of reporting with equal interests from two Partners in each case. These are Linden Homes Westinghouse LLP, Sovereign BDW (Newbury) LLP, Sovereign BDW (Hutton Close) LLP, Tilia Sovereign LLP (formerly Kier Sovereign LLP – name changed 4th November 2021), Linden Sovereign Brockworth LLP, Crest Sovereign (Brooklands) LLP, Countryside Sovereign Swindon LLP and Homes for West Berkshire LLP. Sovereign Housing Partnerships LLP has entered into a 50% Joint Venture partnership with Hill Partnerships Ltd in the period following the date of the financial statements as Sovereign Hill Partnership LLP.

The Group has a loan agreement with Vistry Partnerships Limited, a joint venture partner. The monies owed to the Group are lent on commercial terms. The amount outstanding at 31 March 2023 is £2.8m (2022: £5.6m).

The Group has a senior loan with Countryside Sovereign Swindon LLP, a partnership between Sovereign Housing Partnerships Limited and Countryside Properties (UK) Limited. The monies owed to the Group are lent on commercial terms. The amount outstanding at 31 March 2023 is £45.0m (2022: £45.0m).

Related parties

(a) Pension schemes

FRS 102 considers defined benefit pension schemes for the benefit of the reporting entity as related parties. During the year Sovereign Housing Association Limited had transactions with the below pension providers:

Social Housing Pension Scheme
Sovereign Pension Plan
LGPS - Dorset County Council
LGPS - Royal Berkshire Pension Fund
LGPS - Hampshire County Council
LGPS - Isle of Wight Council

Please refer to the pension note 29, which provides the full details of the pension providers and impact on the statement of total comprehensive income.

(b) Inter company

During the year Sovereign Housing Association Limited and Sovereign Living Limited had the following intra-group transactions with non-regulated members of the Group:

	2023 £'000	2022 £'000
Payment of interest at commercial rates	**30,867**	30,759
Purchase of design and build services at cost plus commercial mark-up	**163,112**	141,731
Management charges on a cost sharing basis (income)	**(142)**	(142)
	193,837	172,348

37. Accounting estimates and judgements

There were no estimates, judgement and assumptions which had a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities or income and expenditure within the financial period. Below are the key estimates and judgements which management has applied

Pension liability (LGPS)

Assumptions for the Local Government Pension Schemes have been obtained from the annual reports performed by qualified actuaries. An estimate of the Group's future cash flows is made using notional cash flows based on the estimated duration. These estimated are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cash flows, discounted at this single rate, equates to the net present value of the cash flows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). The approach has changed from the "spot rate" approach adopted in the previous year.

Pension liability (SPP)

The Sovereign Pension Plan year end liability is obtained from The Pensions Trust using analysis provided by a qualified actuary. To derive the discount rate a £GBP AA Corporate Bond yield curve is used which is supplied by Bank of America Merrill Lynch at the reporting date. The rates from the yield curve are used to calculate a present value of the pension scheme's future agreed deficit reduction contributions at the reporting date. A single equivalent discount rate is then derived.

Rental arrears

Rental arrears payment plans are discounted at a rate which management believes is appropriate for the level of risk in the recovery of such debt.

Investment properties

The valuation exercise was carried out in March/April 2022 with a valuation date of 31 March 2023. In applying the Royal Institute of Chartered Surveyors (RICS) Valuation Global Standards 2017 ('Red Book'), The values in the report have been used to inform the measurement of property assets at valuation in these financial statements.

Measurement of stock

Costs in determining the carrying value of housing properties in current assets are applied as prescribed in the relevant SORP. The apportionment is based on the out turn of the scheme at the reporting date but is subject to future influences from government policy changes and economic conditions.

Basis and estimate for overhead allocation

Overhead cost that can be directly linked to business stream (cost centres) are recognised against them. For general overheads, the costs are allocated to the business stream based on number of properties. Management deem property numbers to be a key driver for the level of overhead cost incurred in the business and therefore provides an appropriate and realistic basis for allocating overhead. Other allocation basis under consideration and continuously reviewed are turnover, expenses level and employee time analysis.

Estimates and judgements for recognising stock

An element of completed and work in progress shared ownership properties are recognised as stock at each balance sheet date. This is the disposable first tranche portion. Management have estimated the first tranche portion held in stock as 40% of the total cost incurred at the balance sheet date, this is a realistic estimate as it is consistent with current trend of first tranche equity sale pattern.

37. Accounting estimates and judgements (continued)

Estimate on useful life housing properties

Housing properties other than investment properties are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets are based on the NHF guidance and may vary slightly depending on a number of factors that are relevant to the underlying asset. Fixed assets are expected to come to a nil value at the end of its useful economic life however management reviews the estimate of the useful lives at each reporting date to ensure they are consistent with survey report, making changes to individual units or component as appropriate. Such changes could impact insignificantly the surpluses for the year.

Grant amortisation

Deferred capital grants are amortised over the economic useful life of the structure of housing properties. Although share ownership properties tend to have a shorter actual life span compared to their expected useful life (EUL) of their structure, management deem the current approach of amortisation to be prudent and not distorting the business performance.

Judgement on provisions

Provisions are recognised in the financial statement based on the likelihood of a liability occurring and an appropriate estimate is known for such liability. In estimating provisions, judgement on likelihood of occurrence is determined by expert opinion and past indicative trend of similar items. The value of provisions is arrived at considering the worst case scenario. The amounts recorded in note 27 are continually evaluated by management.

Estimates and judgements on pensions

Estimates and judgements applied to the pension deficit are based on the pension estimate and assumption provided by the pension provider. Please refer to note 29 for the underlying assumption.

Discounted items

Assets and liabilities with cash flow implications of more than one year are recognised in the accounts at fair value which is arrived at by applying a discount rate that reflects the level of risk relevant to those items.

Judgement on the risk level and rate is informed by expert opinion and items with similar risk profile. Discounted items include long term debtor and financial instrument.

Judgement on capitalised major repairs

The group's capitalisation policies align with FRS 102 principles, in applying this, management take an aggregated view in making capitalisation decisions which match the accounting standard criteria requirements.

Judgement on mixed tenure split

Where a development relates to two or more tenures, construction cost is allocated to the different tenures using a dynamic apportionment basis. The dynamic approach applies a mix of standard apportionment basis to reflect substance of the development. Management deem this allocation basis effective as it results in a similar cost if the tenures are built independently. Cost allocation methods are reviewed annually for effectiveness. This basis for apportionment impacts depreciation charged for the year and the profit on sale of fixed assets.

Impairment

In determining any possible impairment of the Group's assets, factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the economic viability and expected future financial performance of that unit. Where impairment is found, the carrying value of the properties in the cash generating unit is reduced to depreciated replacement cost.