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Sovereign Housing Capital Plc
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Sovereign Network Group's Quarterly Performance Update covering unaudited Q4 results for the financial year 2023/24

Sovereign Housing Association trading as Sovereign Network Group (SNG)

Sovereign Network Group is the sixth largest housing association in the UK in terms of unit size with over 84,000 homes, with a core geographical focus in the South of England and London. SNG continues to be one of the largest developers of social tenure developments with an ambition to develop 25,000 homes over the next 10 years.

Quarter 4 Performance Update - period to 31 March 2024

Sovereign Network Group's unaudited underlying financial performance continued to see growth in surplus vs prior year excluding the impact of one-off activities or accounting adjustments. Core lettings turnover improved year on year, however Q4 FY24 turnover declined compared to Q4 FY23 as a result of a one-off development transaction that occurred in Q4 FY23.

Q4 FY24 sales are in line with the overall run rate for the year, but a decrease from Q3 FY24 where there was an exceptional increase in sales. Handovers saw 62 additional units compared to Q3 FY24.

The combined development programme has continued at pace with 572 handovers in the quarter. Sales of 176 units bolstered overall performance. In comparison to this quarter last financial year SNG has sold an additional 41 units and delivered 11 additional handovers.

In total for FY24, SNG delivered 2,015 new homes including schemes at Cleve Wood (Thornbury), Dabbs Hill (LB Ealing) and Horlicks Quarter (Slough).

	Q4 FY 24	Q3 FY24	Variance		Q4 FY23	Variance	
	£m	£m	£m	%	£m	£m	%
Turnover	180.8	177.1	3.6	2.1%	187.6	(6.9)	(3.7%)
Operating Surplus	27.4	27.8	(0.3)	(1.2%)	20.4	7.1	34.7%
Retained Surplus	4.7	14.3	(9.6)	(66.9%)	-1.9	6.7	344.1%
	Units	Units	Units		Units	Units	
Sales	176	255	(79.0)	(31.0%)	135	41.0	30.4%
Unit Completions	572	510	62.0	12.2%	561	11.0	2.0%

Treasury and Golden Rules

The SNG Board agreed a set of Golden Rules that support the strategic goals of the business, protect long-term financial strength as well as a single 'A' investment grade credit rating. The Golden Rules focus on 6 key measures:

- Interest cover and Gearing are the primary two financial covenants in our loan agreements. The Board has set a prudent level of headroom against these covenants, ensuring the long-term financial resilience and viability of the business.
- Ensuring sufficient liquidity is in place to meet business requirements, balancing between minimising the cost of carry and holding a prudent

level of liquidity.

- EBITDA MRI interest cover has been included as a Golden Rule to manage expenditure on existing stock at a level that is sustainable whilst delivering for our customers. SNG have no EBITDA MRI-linked covenants.
- Operating margin has been set in line with our aspirational corporate strategy to ensure we continue delivering value for our customers and remain financially resilient.
- Sales as a percentage of turnover to limit reliance on sales income, with a large majority of revenue being derived from core cashflow.

The below table sets out the Golden rules based at SNG combined level.

Category	Golden rule	Threshold	31 Mar 2024
Cashflow	Liquidity policy	18 months+	£902m cash and available undrawn facilities equating to 20 months liquidity following the £400m bond issuance in January 2024. Documentation underway to extend a number of revolving credit facilities which would extend this further.
	EBITDA-MRI Interest cover	>100%	130.3%
Statement of Comprehensive Income	Operating Margin	>23%	20.2%. The Board set a minimum target above our current operating margin at 23% to hold the business to account to deliver efficiency savings through integration and transformation. This is in line with our expectation, and we expect to meet this Golden Rule in the future as we progress through integration and transformation.
	Sales as a % of Turnover	<35%	14.4%
Covenants	Interest cover	>145%	234%
	Gearing	<60%	49%

As at 31st March 2024, for SNG, total long-term facilities were £4,517 million, of which £3,616 million was drawn, providing £902m of available liquidity facilities, in addition to cash and cash equivalents of c. £60m. There continues to be significant headroom against Interest Cover and Gearing covenants across all SNG facilities.

SNG has an A3 (Outlook: Stable) rating with Moody's.

SNG has an A (Outlook: Negative) with S&P.

SNH has an A (Outlook: Negative) with Fitch.

Customer Services

SNG launched 24/7 View My Documents on its self-serve portal for its customer to allow them to download rent letters and service charge statements. Before this, customers had to email or call SNG if they wanted a copy.

SNG also partnered with Citizens Advice Opens to run a free Energy Outreach Programme. This provided customers with impartial advice on how to improve energy efficiency, save money and access the very best energy deals.

409 individual household assessments were completed through the programme, which led to SNG delivering:

- 310 household focused energy packs
- 163 warm packs
- 85 referrals for ongoing support from either our SNG's Customer Income Advice (CIA), Debt Advice or Employment Support services
- 101 referrals to the Pocket Power switching service

Communities and Sustainability

Over the last year, SNG have generated £99.4m of social value through activity across Community Investment and the wider organisation. We have integrated measuring the wellbeing impact of damp and mould repairs, accessing home insurance, our Customer Income Advice service and tenancy sustainment activity with Your Own Place. We have significantly exceeded our target of £75m across the organisation.

SNG continues to make good progress existing core stock with an overall average RdSAP score of 72.82% and EPC C rating of 73.36%.

Corporate Affairs

SNG has continued to actively engage with MPs, Parliamentary Candidates, local government leaders and policy influencers from all major parties with a focus on securing sustainable long-term rent settlements, as well as, promoting the development of good, affordable homes through planning reform and access to land. We are actively engaged in sector partnerships and commissioned recently published research on behalf of a group of housing associations in the South East that sets out the scale of the affordable housing deficit in the region.

SNG has formally responded to the Government's consultations on regulation of the sector including Awaab's Law, the Consumer Standards, and the Competence and Conduct Standard. We have also responded to consultations related to brownfield planning, street votes, allocations and ASB, and the Future Homes Standard.

ENDS

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Note: Figures quoted in the update are based on unaudited management accounts which are subject to review and further adjustments, for example in the areas of pensions, investment property valuation and taxation.

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