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Sovereign Housing Capital Plc  
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## Sovereign Housing Association's Quarterly Performance Update covering Q1 year 2023/24

### 2022/23 Full year overview

Sovereign delivered another strong set of results for the [year end 31 March 2023](#), despite the ongoing impact of the cost-of-living crisis and challenging economic headwinds. We achieved an operating surplus of £123.9m, 28% operating margin and an overall surplus of £66m, which is reinvested into homes and communities.

Capital expenditure included £303m in new homes, higher than both 2021/22 (£237m) and 2020/21 (£216.5m) with 1672 new homes completed and an additional £135.5m invested in our existing homes.

### Quarter 1 Performance Update -period to 30 June 2023

Sovereign have made a strong start to the year with our unaudited management accounts for Q1 2023/24 showing operating surplus and overall surplus considerably higher than Q4 last year, this is driven by the increase in Rent and service charge income in Q1 and by high levels of repairs and compliance, legal and transformation spend that occurred in Q4 FY23.

There is a drop in overall surplus from the previous year's quarter driven mainly by higher funding costs due to increases in interest rates.

	Q1 FY24	Q4 FY23	variance		Q1 FY23	variance	
	£m	£m	£m		£m	£m	
Turnover	115.2	108.7	6.5	5.9%	113.8	1.4	1.2%
Operating Surplus	39.1	22.9	16.2	70.9%	37.9	1.2	3.1%
Retained Surplus	21.7	5.3	16.4	306.5%	24.2	(2.5)	(10.2%)
	units	units	units		units	units	
Sales	181	106	75	70.8%	152	29	19.1%
Unit Completions	335	506	(171)	(33.8%)	339	(4)	(1.2%)

The development programme handed over 335 units during the past quarter. This is a drop on Q4 because many units were delivered early in Q4, making a good end to 22/23

The forward development programme equates to 5 years' worth of delivery.

### Treasury and Golden Rules

Sovereign operates within a number of Financial Golden Rules that underpin treasury and risk management activity. A summary is shown below. Instantly

available financing has decreased from £424m last quarter to £367m (equating to 24 months of forecast liquidity), however this will increase as finalise discussions with lenders and enter into new funding arrangements.

There is significant headroom against Interest Cover and Gearing Golden Rules, creating protection against underlying debt facility covenants. The performance metrics below show operating margin slightly lower though resilient given the current economic environment, against a threshold which is set at the upper quartile of the Housing Association sector. We do not expect this to recover in the short term as this is driven by the combination of capped rents and continued cost pressures the business is experiencing across our property services, as well as increased spend in our Transformation programme. This programme will support longer term performance improvement of the business.

Protection principle	Actual	Trend	Threshold	Headroom	Definition
Liquidity	24 months	v	< 18 months	6 months	18 months as a minimum, where available cash plus committed and ready-to-draw borrowing facilities (excluding retained bonds) must exceed forecast cash flows excluding all uncommitted development spend and all income from development sales and asset sales.
Market risk	17.6%	-	< 40%	22.4%	Sales / turnover %
Performance (Op surplus %)	26.4%	v	> 30%	-3.6%	Operating surplus (excluding all development and asset sales) / turnover on rolling three year basis
Sustainability - Interest Cover	223.3%	v	>121% >110%	82% 74%	10% minimum level of headroom against all lenders' interest cover covenants Tightest covenant
Sustainability - Gearing	48.3%	^	<76% <80%	17.7% 21.7%	5% minimum headroom against all lenders' gearing covenants Tightest covenant

## ESG

We continue to make good progress in improvements of our existing core stock moving from 70.3% EPC C at March 2023 to 71.2% as at June 2023. 24.6% of our core stock is at EPC B or better and an overall average RdSAP score of 73.426. With a number of pilot schemes completing next year and our successful application for £9.4m of SHDF funding we expect to make strong progress on our journey towards net zero.

We continue to work with Inspired energy, and we expect to be able to share our scope 1,2 and 3 emissions and our FY23 ESG report by October 2023.

## Corporate Affairs

At the Housing 2023 Conference in Manchester in the last week of June Sovereign had a strong presence. CEO Mark Washer spoke on the main stage in a session with the Regulator of Social Housing. Chief Customer Officer Nicole Sharp spoke on a panel on complaints and Director of Built Environment Jim Dyer spoke on a panel on retrofitting.

Ahead of Lisa Nandy's (Shadow Secretary of State for Levelling-Up, Housing and Communities) speech to the conference, Sovereign hosted a networking breakfast for more than fifty guests from across the sector who heard from Mark Washer and enjoyed a Q&A session led by Peter Apps from *Inside Housing* and Cllr Jayne

Francis, Cabinet Member for Housing and Homelessness, Birmingham City Council on how the housing sector can work with the Labour Party this side of the election and beyond.

## 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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