Sovereign Housing Association's Quarterly Performance Update covering the 12-month period to 31 March 2020

One of England's largest housing associations, Sovereign owns and manages about 60,000 homes across the south. It is also a leading provider of new affordable homes, with a target to deliver 1,900 homes a year through a mix of section 106 opportunities, direct delivery through land-led developments and regeneration schemes.

While not-for-profit, Sovereign is a major business. The organisation has increased annual turnover to £407m and its asset base would be worth over £11bn on the open market. Investment is secured from government through loans and capital grant, supported by long-term debt, with £375m raised through the UK public debt market in the past year and revolving credit facilities and term debt from a group of core relationship banks and investors.

Ratings	2020 Q4	2019 Q4	Outlook	Change
Regulator of Social Housing	G1/V1	G1/V1		-
S&P	A+		Negative	
Moody's	A2		Stable	

S&P and Moody's reaffirmed their ratings following the annual review held in October 2019.
The Regulator of Social Housing maintained our G1/V1 rating in a 'stability check' in December 2019

2020 Q4 Trading Update

Highlights

- Sovereign completed 1,770 homes (1,702 of which were affordable) in the twelve months to March 2020 (2019: 1,549) +14.5%
- There are 59,382 homes in management (2019: 57,742)
- Turnover for the year was £406.9m (2019: £402.1m) +1.2%
- Operating surplus for the year was £137.6m (2019: £150.8m) -8.7%
- Net margin on sales was 23.5% (2019: 23.9%)
- The surplus for the year was £80.9m (2019: £93.8m)
- £125m retained bond due 2048 issued at record breaking all-in price of 1.974%

Performance Update

Sovereign's operational and financial performance continued to meet expectations over the fourth quarter of 2019/20, achieving a surplus of £80.9m for the year (£4.4m favourable to budget).

During the twelve months to March 2020, we completed 1,770 new homes, of which 1,702 (96.2%) were affordable housing tenures. We invested £368m (2019: £270m) developing new homes. We are delighted that we were able to complete this many homes and increase our delivery year-on-year despite poor site conditions due to the severe storms in January and February and then the early impact of COVID19 site closures in March.

We had a very strong year in sales completing 648 (2019: 486) shared ownership first tranche sales (vs 19/20 budget 525) and a further 16 open market sales in the twelve months to March. We achieved a net margin on sales (including asset disposals) of 23.5%.

The reduction in operating surplus from the same period last year is driven by our increased focus and investment in our existing homes and our commitment to invest in digital and technology transformation.

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.

Housing fixed assets stands at £3.9bn up from £3.7bn at 31 March 2019. Net Interest YTD was (£56.8m) which is £6m lower than budget, principally driven by lower variable interest rates and lower fixed rates achieved on the bond issuance during the year. Sovereign remains in a strong financial position with net debt of £1.8bn and available cash and committed liquidity facilities of £650m at the end of March 2020, providing sufficient liquidity to support our short term future development plans. Our liquidity position was further improved with the issuance of our Retained bond in April 2020.

Sovereign is part of a group that published a white paper aiming to deliver a framework for Housing Associations to report on their Environmental, Social and Governance credentials. This group includes representatives from housing associations, investors, banks and lawyers.

COVID business update:

Once Covid-19 began to take a grip throughout the country we immediately made a promise: no one would be evicted from a Sovereign home because of financial difficulties brought about by this virus. We didn't wait to be told.

It was part of our message to our customers: we are here for you; we will keep you safe; we are by your side.

We knew that keeping in touch with people was vital. That's why we called 10,000 elderly and vulnerable residents in the first week and we have continued a cycle of welfare calls for those who need it - around 1,000 calls a week

We've brought forward £200k funding from the Communities, helping charities to assist vulnerable people with food packages and medication runs during isolation. We've changed our provision for those at risk of domestic abuse – creating a partnership with domestic abuse charity WomanKind

Key workers are at the fore front of all our minds. We provide homes for thousands of people who have been working on the front line during Covid 19. That's why we suspended car parking payments and a rent increase for those living in our NHS keyworker properties.

Throughout this crisis we have continued to provide essential services for our customers, like gas checks and fire and safety works. In accordance with government and safety guidelines we continued to work on empty homes and we also housed four long term homeless people through our Housing First provision.

We've made fuel vouchers available to those who need them and safely renovated void properties, making them ready for families in need.

Development sites: Despite work on sites slowing, ten of our 83 sites (where we have contracted to acquire or have homes built) remained open throughout the crisis, with a further 24 reopening since the first May bank holiday. As we use a network of smaller firms to help unlock sites in villages and towns we've pledged to honour all our commitments, working closely with them to ensure that, where we can, we do our bit to ensure that this economic shock does not ripple out and cause those in our supply chain to suffer unnecessarily.

We have run various stress test scenario's and are confident that we have the financial strength to sustain business operations through lockdown and recovery, despite the significant level of unpredictability of variables.

Impact on our staff: Working from home soon became the new business as usual for the vast majority of Sovereign employees and the expertise and innovative thinking to make this happen in a really challenging time was a really great effort. The IT infrastructure has performed well and 100 call centre staff have been setup with home working capability so that our customers continued to receive the service they deserve during the lockdown period. Our contingency plans have been robust and worked really well.

Like many other housing associations, and business across the country, we've also furloughed members of the Sovereign team on a rolling three-week rota – re-deploying colleagues to other areas of the business wherever possible – and still ensuring we delivered on all essential services.

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For more information, please contact:
Graeme Gilbert, Treasury Director, Sovereign Housing Association – 01635 275109 / 07392130856/ Graeme.Gilbert@Sovereign.org.uk

Richard Radcliffe , Head of External Affairs, Sovereign Housing Association - 07876847032 Richard.Radcliffe@sovereign.org.uk

www.sovereign.org.uk/investors

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