

Sovereign Housing Association's Quarterly Performance Update covering Q1 year 2022/23

Quarter 1 Performance Update

Our unaudited management accounts for Q1 2022/23 show operating surplus and overall surplus in-line with Q1 last year and a step-up from last quarter. Ongoing inflation impacts continue to create headwinds throughout our supply chain and show no sign of abating.

	Q1 FY23	Q4 FY22	Var.		Q1 FY22	Var.	
	£m	£m	£m	%	£m	£m	%
Turnover	113.8	109.0	4.8	4.4	102.7	11.1	10.8
Operating Surplus	37.9	26.2	11.7	44.7	37.6	0.3	0.8
Retained Surplus	24.2	12.4	11.8	95.2	23.0	1.2	5.2
	#	#	#	%	#	#	%
Sales	152	141	11	7.8	116	36	31.0
Unit Completions	125	445	(320)	(71.9)	166	(41)	(24.7)

The war in Ukraine and ongoing cost of living challenge is having a broad range of impacts across the organisation, ranging from the obvious increased costs of materials to continued lower Customer Satisfaction scores reflecting anxiety felt by our customers. Despite these challenges we have seen favourable results from both our Sales and our Staircasing activities, suggesting the housing market remains strong.

The development programme has continued to be challenging due primarily to resource and material availability issues impacting the whole of the building sector, however we were able to add an additional 125 units during the past quarter.

Treasury and Golden Rules

We held a non-deal roadshow with a number of our Investors in Edinburgh and London providing an update on our business. This presentation is available on our website for any investors that were unable to attend. As part of this presentation, we informed our Investors that we have created a Sustainable Finance Framework [Sustainable Finance Framework](#) for any future debt issuances, with a [Second Party Opinion](#) provided by Sustainalytics.

Sovereign operates within a number of Financial Golden Rules that underpin our treasury and risk management. We have a minimum liquidity Golden Rule, instantly available financing was £453m which equates to 23 months of forecast headroom and we are in discussions about extending some of these existing facilities. Considering the ongoing cashflow requirements included in the latest business plan we also expect to need extra financing in 2022/23 to fund development spend and maintain liquidity in line with our Golden Rule.

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.

There is significant headroom against our Interest Cover and Gearing Golden Rules, creating protection against our underlying debt facility covenants. However we have fallen below our internal Operating margin Golden rule, which is set at the upper quartile of the Housing Association sector. This is driven by the combination of continued cost pressures the business is experiencing across our property services and increased spend in our Transformation programme which will support the long term performance of the business and recovery of operating margin above 30%.

Protection principle	Forecast	Trend	Threshold	Headroom	Definition
Liquidity	23	v	< 18 months	5 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	16.7%	^	< 40%	23.3%	Sales / turnover
Performance	29.7%	v	> 30%	-0.3%	Operating surplus (excluding all development and asset sales) / turnover on rolling three year basis
Sustainability – interest cover	261.1%	v	>121%	140%	10% minimum level of headroom against all lenders' interest cover covenants
			>110%	151%	Tightest covenant
Sustainability - gearing	45.5%	v	<71.25%	26%	5% minimum headroom against all lenders' gearing covenants
			<75%	30%	Tightest covenant

Corporate Affairs

CIH Southeast

Mark Washer gave a keynote address at CIH Southeast in Brighton on asset management and development alongside Osama Bhutta, Director of Communications, Policy and Campaigns at Shelter and Jessica Levy, Director of Communications at the Federation of Master Builders.

In the evening of 11 May Sovereign hosted a dinner for over 30 developers, land agents, sector leaders and members of Sovereign's SLG.

Research launch – 21 May 2022, Westminster

On 21 May Sovereign launched a new research report [Retrofit for the future: tenant attitudes to decarbonising social housing](#) in Westminster. This qualitative research examines customers' current views on the environment and climate change, and how these might influence how they engage with our decarbonisation strategy.

Lord Greenhalgh, Minister of State at the Department for Levelling-Up, Housing and Communities spoke at the launch, along with Mark Washer and Paul Massara. They were joined by guests from Sovereign, including customers who took part in the research, civil servants, academics and others from the sector.

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NHF independent panel launched

The National Housing Federation has appointed an independent panel to look into quality in housing association homes, chaired by Helen Baker, chair of Shelter. Mark Washer will sit on the Quality and Trust Steering group that is overseeing the work.

The panel has been set up in response to stories, especially on ITN, focusing on poor quality homes in housing associations.

You can find our more [here](#).

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