Sovereign Housing Association's Quarterly Performance Update covering the 3-month period to 30 June 2020

2021 Q1 Trading update at 30 June 2020

This has been a difficult quarter, impacted by the global coronavirus pandemic. However, Sovereign has continued to operate strongly by tackling the direct and indirect effects of the virus head on.

The results presented here highlight the effect the coronavirus has had on us and on the building industry. It has adversely impacted our ability to deliver our plan of building 1,900 houses for this year, but it has also demonstrated our financial resilience.

The results also reflect our commitment to keeping residents safe, while still operating essential services, our agility in responding quickly to changing circumstances, and our focus on doing the right thing, by promising that no Sovereign resident will lose their home as a result of Covid-19.

Highlights

- Sovereign completed 135 homes, 132 of which were affordable, in the three months to June 2020 (2019: 484) -72.1%
- We have 59,648 homes in management (2020 Q1: 58,163)
- Turnover for the year to date was £91.5m (2020 Q1: £100.5m), -9.0%
- Operating surplus for the year to date was £37.4m (2020 Q1: £38.9m), -3.9%
- Net margin on sales was 20.4% (2020 Q1: 24.6%)
- The surplus for the year to date was £22.8m (2020 Q1: £25.6m), -10.9%
- £125m retained bond due 2048 issued at all-in price of 1.974%

Performance update

Sovereign's operational and financial performance, unsurprisingly, has declined during the first quarter of 2020/21, which coincided with the UK's lockdown period in response to the Covid-19 pandemic - but remains robust. Sovereign achieved a surplus of £22.8m for the quarter, impacted by a lower turnover and loss of sales, but offset by lower repair costs.

The lockdown saw most of our development contractor partners shutting down their sites between March and May. Despite this disruption, in the three months to June 2020 we completed 135 new homes, of which 132 (97.8%) were for affordable housing tenures. In the same period we invested £30.6m (2019: £95.7m) in developing new homes.

We also completed 50 (2019: 137) shared ownership first tranche sales (vs 20/21 budget 197) and a further four open market sales in the three months to June. We achieved a net margin on all sales - including asset disposals - of 20.4%. Buyer demand remains strong, demonstrated by high levels of reservations since the market re-opened.

Housing fixed assets stand at £3.9bn up from £3.7bn at 30 June 2019. The net interest expense for the period was £15.0m. Sovereign remains in a strong financial position with net debt of £1.9bn and available cash and committed liquidity facilities of £931m at the end of June 2020, which provide sufficient liquidity to support our short-to-medium term development plans.

We increased our liquidity position during the period by issuing £125m of retained bonds and by arranging access to a £175m facility provided under the Bank of England CCFF (which remains undrawn). This is a strong position, enabling us to support the business evaluating opportunities to acquire land and take ownership of new houses, as building sites come back on line.

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.

Environment Social Governance (ESG)

As part of the consortium working to standardise approaches to ESG in the social housing sector, we've been reporting on, contributing to and publicising a White Paper on the subject.

We've reinforced our strong social credentials over the past year to the 31st March 2020, as, of the £368m spent on around 1,800 new homes, 96% of these were affordable. We continue to invest in our existing homes too, with £109m spent in maintaining and improving our existing properties. Under our Home and Place Standard we are looking to make all our homes more environmentally friendly at the same time as tackling fuel poverty. We've also approved a major new approach to Strategic Asset Management.

Teaming up with social value broker The Social Value Exchange will ensure that the businesses we work with meet our expectations when it comes to giving back - to people and to the planet - by maximising social value from our procurement spend.

We continue to listen to our customers, shown clearly through our improving Customer Satisfaction scores, rising to 81% in March 2020 (2019: 79%). In addition, we have three separate ways to represent the views of our customers - our Resident and Board Partnership, Scrutiny Coordination Group and Communities Groups.

We've accelerated our communities strategy to do more sooner, committing to investing £3.5m in our communities every year for the next five years, with a clear strategy in place that focuses on three strands: Communities, Money & Digital and Employment & Training. Last year alone we supported 1,461 residents with training, helped 277 people into work or better work and recruited 11 new apprentices.

Board changes

We welcomed our new Chair Paul Massara at the end of July. Paul joins us to take over from Gordon Holdcroft after 10 years on the Board. We express our appreciation to Gordon for his strong Chairmanship since 2017 and for ensuring that the benefits of the previous merger were realised for Sovereign and its residents.

Paul is an experienced Non-Executive and Executive Board director across a range of industries with particular experience in the energy sector in both Europe and North America. He was CEO of RWE Npower and on the executive committee of both RWE and Centrica/Direct Energy. He is passionate about the environment and a member of the Business, Energy and Industrial Strategy (BEIS) Committee on Fuel Poverty and a Non-Executive director of a series of energytech start-ups including Zeigo, Isize Technologies and Utonomy. He also Chairs Medicinema, a charity which provides films in hospitals.

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