RNS Number : 9995Q
Sovereign Housing Capital Plc
24 February 2023

Sovereign Housing Association's Quarterly Performance Update covering Q3 year 2022/23

Quarter 3 Performance Update

Our unaudited management accounts for Q3 2022/23 show operating surplus and overall surplus less than Q3 last year and a step-down from last quarter.

	Q3 FY23	Q2 FY23	variance		Q3 FY22	variance	
	£m	£m	£m		£m	£m	
Turnover	112.5	113.3	(0.8)	(0.7%)	106.0	6.5	6.1%
Operating Surplus	28.7	36.2	(7.5)	(20.7%)	32.5	(3.8)	(11.7%)
Retained Surplus	14.3	22.2	(7.9)	(35.7%)	19.6	(5.3)	(26.9%)
	units	units	units		units	units	
Sales	125	147	(22)	(15.0%)	121	4	3.3%
Unit Completions	412	414	(2)	(0.5%)	300	112	37.3%

The ongoing economic challenges are continuing to impact the organisation, including increased costs of labour, materials and energy and higher funding costs. High levels of repairs are occurring including a current focus on damp and mould cases. Sales and staircasing activities have been favourable. Confidence in our Shared Ownership product remains high, with demand and pipeline still strong. Market conditions are evolving.

The development programme has handed over 412 units during the past quarter. We expect to achieve 1552 handovers for the year as a whole, principally rented social units.

Sovereign has recently completed on the disposals of Stanshawe and Belmont Private Rental units in Reading. We have secured a place on the Homes England Delivery Partner Dynamic Purchasing System: this is a list of preferred developers and house builders who are able to bid on land owned by the Government's housing delivery agency. The decision paves the way for Sovereign to bid on larger sites delivering 70+ units across the East and West regions.

Treasury and Golden Rules

Moody's published on the 30th January a press statement announcing rating action against 13 HAs, with a further 6 HAs subsequently being downgraded. Sovereign's A2 rating was downgraded to A3, at this time, reflecting the challenging environment the sector is experiencing and our exposure to development risk. Although we are disappointed in this downgrade, this is still a strong investment grade rating. Sovereign remains strong financially and continues delivering on core social purpose by investing in our existing homes and building new homes. The detailed credit opinion can be found on our Investor webpage.

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 increased from £397m last quarter to £451m (equating to 33 months of forecast liquidity), following the completion of a new ESG linked Term loan with Natwest, a new ESG linked revolving credit facility with ABN Amro and an "amend and extend" of an existing syndicated facility.

There is significant headroom against Interest Cover and Gearing Golden Rules, creating protection against underlying debt facility covenants. The performance metrics below show underperformance on operating margin, 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 continued cost pressures the business is experiencing across our property services, and increased spend in our Transformation programme, the benefits of which will support longer term performance improvement of the business.

Protection principle	Actual	Trend	Threshold	Headroom	Definition
Liquidity	33 months	^	< 18 months	15 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	16.6%	v	< 40%	23.4%	Sales / turnover %
Performance (Op surplus %)	29.7%	^	> 30%	-0.3%	Operating surplus (excluding all development and asset sales) / turnover on rolling three year basis
Sustainability - Interest Cover	236.4%	v	>121% >110%	115% 126%	10% minimum level of headroom against all lenders' interest cover covenants Tightest covenant
Sustainability - Gearing	52.5%	v	<76% <80%	24% 28%	5% minimum headroom against all lenders' gearing covenants Tightest covenant

ESG

We have engaged with our energy broker Inspired Energy to support us on measuring Scope 1, 2 and 3 emissions. We expect to publish our Scope 1 and 2 emissions data for Year ending 2021/22 shortly and are targeting publishing our scope 3 emissions information in the summer as part of our ESG report publication.

We are also making good progress in improvements of our existing stock with 69.2% of our properties at EPC C or better with 24.4% of our core stock at EPC B or better as at end of Dec 2022.

Corporate Affairs

Autumn Statement

On 17 November the Chancellor of the Exchequer gave the Autumn Statement, which included plans to cap social housing providers rent at a maximum increase of 7%. Following negotiations between the National Housing Federation and Michael Gove, the Secretary of State for Levelling-Up, Housing and Communities, it was agreed that housing associations would voluntarily cap rent for shared owners at 7% as well. Given the range of options for the government, this outcome was better than it could have been, while still having a significant impact on our business plan.

Damp and Mould

Following the coroner's verdict in tragic case of Awaab Ishak, political and media coverage of this issue has been very intense. In December Michael Gove wrote to all social housing providers to remind us of our obligations to customers. He has also started naming and shaming those he sees as the worst offenders. Mr Gove is taking a personal interest in this issue and our corporate affairs team are working closely with operational teams to ensure we can respond to media enquiries on this issue. We have written to the Regulator of Social Housing setting out in detail how we are handling cases of damp and mould and have kept our local MPs and local authorities informed.

Retrofit networking dinner

Sovereign hosted dinner in London on 29 November with attendees from Green Finance Initiative, NHF and CIH and representatives from BEIS. The focus of the dinner was retrofitting social housing. We explored how government, policy makers and the sector can ensure that we have the focus, skills and resources to roll-out decarbonisation of social housing.

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

Charles Pitt, Corporate Affairs Director, Sovereign Housing Association
07887524378 Charles.Pitt@Sovereign.org.uk

the Trading Update (and whether any information has been omitted from the Trading Update). The Trading Update does not constitute legal, tax, accounting or investment advice.

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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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