

Funders' forum

Sovereign House

6 December 2021



Welcome

Paul Massara
Chair





Embracing change, shaping the future

- The economic, political and social climate is challenging – and makes the case for change
- We are resolutely focused on becoming customer-focused in all we do
- We need to meet housing need *and* upgrade our assets
- Our finances remain strong

Welcome

Mark Washer
Chief Executive Officer





Mark Washer
Chief Executive
Appointed June 2018



Nicole Sharp
Chief Operating Officer
Appointed July 2019



Tracey Barnes
Chief Financial Officer
Appointed October 2019



Tom Titherington
Chief Investment and
Development Officer
Appointed July 2019



Sally Hyndman
Chief People Officer
Appointed January 2021



Kevin Ives
Chief Information Officer
Appointed August 2019

How we operate

Our Executive Board (EB) includes five directors and is led by our Chief Executive.

Our Non-executive Board includes 11 members, led by our Chair, Paul Massara.



A major business with sector leading ratings

£216.5m investment in
new homes

£102m investment in
our existing homes

£417m turnover

60,538 homes
managed

£13bn market value



**Sovereign has some of the
strongest ratings in the
sector:**

- Moody's **A2 (Dec 21)**
- Standard and Poor's **A+ (Oct 21)**
- Reconfirmation of
Regulator of Social
Housing **G1 / V1 (Jun 21)**

The political, economic, social and environmental context





Political context

- New Secretary of State in a new department: DLUCC
- Planning bill tbc
- Conservative focus on home ownership
- Consumer regulation for housing sector



Social context

- Household income falling
- Low income families hit by cut to Universal Credit
- Rising inflation: higher energy bills
- Social care crisis
- Rising taxes



Economic context

- Inflation
- Uncertainty in property market
- Demand outstripping supply in construction
- Labour shortages
- Supply chain issues
- Ongoing uncertainty re covid and post-Brexit



Net zero challenge

- Estimated cost of retrofitting social housing in UK: £104bn
- C.£20,000 per home
- Government pledged £3.8bn over 10 years
- Technology moving fast in some areas
- 2050 is a tight timeframe
- BUT: retrofitting alone won't deliver net zero



Sector under scrutiny

- Select Committee inquiry into quality and regulation
- Damp and mould
- Building safety
- Consumer regulation
- Proactive Ombudsman
- ESG

Corporate Plan 2021-2026





A new corporate plan

- A **manifesto** for the next five years – setting out what Sovereign will do between 2021-2026
- Following the same direction as the 2019 Plan, retaining the three pillars
 - Quality services, more opportunity
 - More homes, better places
 - Strong foundations, more choice

Three pillars

Quality
services, more
opportunity

More homes,
better places

Strong
foundations,
more choice

CUSTOMER

DEVELOPMENT

ENABLING
SERVICES



Our priorities for our customers :

- **Becoming a customer impact organisation**
- **Personalising our services by better understanding our customers**
- **Providing digital services our customers want to use**
- **Improving our customers' quality of life by enabling them to build thriving, resilient communities**
- **Measuring customer impact, so we understand which interventions have the biggest social impact**



Our priorities for development and assets:

- Raising the standard of all our homes with the Homes and Place Standard
- Through Homes and Place we will decarbonise our homes
- Building more affordable homes to meet housing need
- Investing in high streets, creating great mixed developments



Our priorities for how we work:

- **Building a diverse workforce that reflects our communities**
- **Making Sovereign a great place to work**
- **Enabling our business to deliver our customer and development priorities**
- **Ensuring our business remains financially strong**
- **Influencing policy at the highest level**



Our vision

We will be the leading landlord in the south of England, providing our customers good affordable homes in thriving and sustainable communities.

Operational performance

Nicole Sharp

Chief Operating Officer





Strong performance through Covid – FY2021

- Customer satisfaction held steady at 81%
- 77,133 repairs in three lockdowns
- Planned works suspended to protect customers and employees during national lockdowns
- Business adapted fast to flexible ways of working
- Covid demonstrated our ability to change and the need to change how we work



Covid: the legacy

- Covid is having an ongoing impact on our business
- The sector is facing challenging customer satisfaction results – impact of lockdowns, labour shortages etc.
- Customer satisfaction is falling
- Customer complaints rising
- Repair volumes a quarter higher than this time last two years ago



Improving our service

- Call centre waiting time has reduced and abandoned calls are falling
- Repairs up by 26% compared to same period 19/20
- Action taken to minimise impact of labour and materials costs
- Current Tenant arrears ahead of target (3% vs. 4.5% target) – on track to meet target at year-end
- End of furlough not yet driving increase in UC claimants

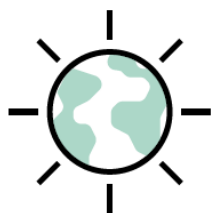
Transformation programme



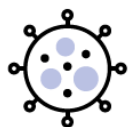
Our big plans

Today 2021

The world around us is changing...



Climate change



Covid-19 pandemic

Housing market changes

Government policies

Technology in a changing world



Customer expectations



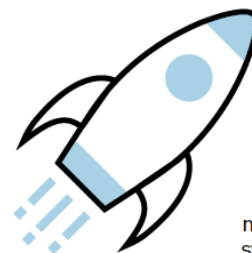
First steps

We've taken some great first steps on our journey

	Strong finances helped us weather the pandemic
	Moving to a hybrid working model
	Customer satisfaction remained steady at 81%
	Well on our way to building 2,000 new homes a year
	Delivering on our land-led development approach
	Supporting individuals, families and communities

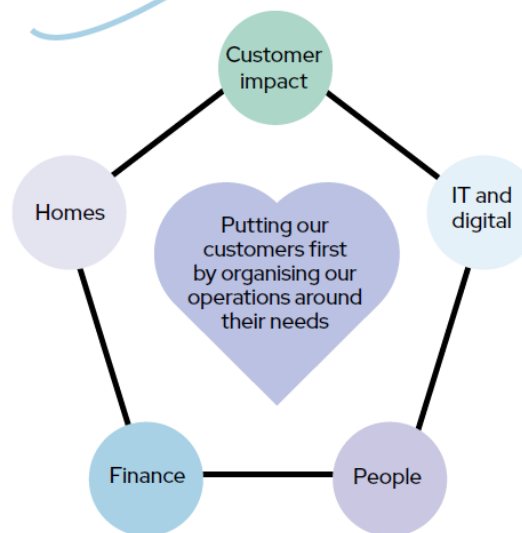
Our transformation

We'll transform the way we work in every corner of the business



The programme will accelerate the modernisation of our systems and services

It will revolutionise customers' experience of Sovereign



2026

Delivering our corporate plan



Customers

- "I live in a great home that will last for generations"
- "My place and community helps me to thrive"
- "I feel safer in my home and community – and I can contribute to my neighbourhood"
- "I trust Sovereign and they're easy to do business with"
- "Sovereign usually gets things right first time"



Colleagues

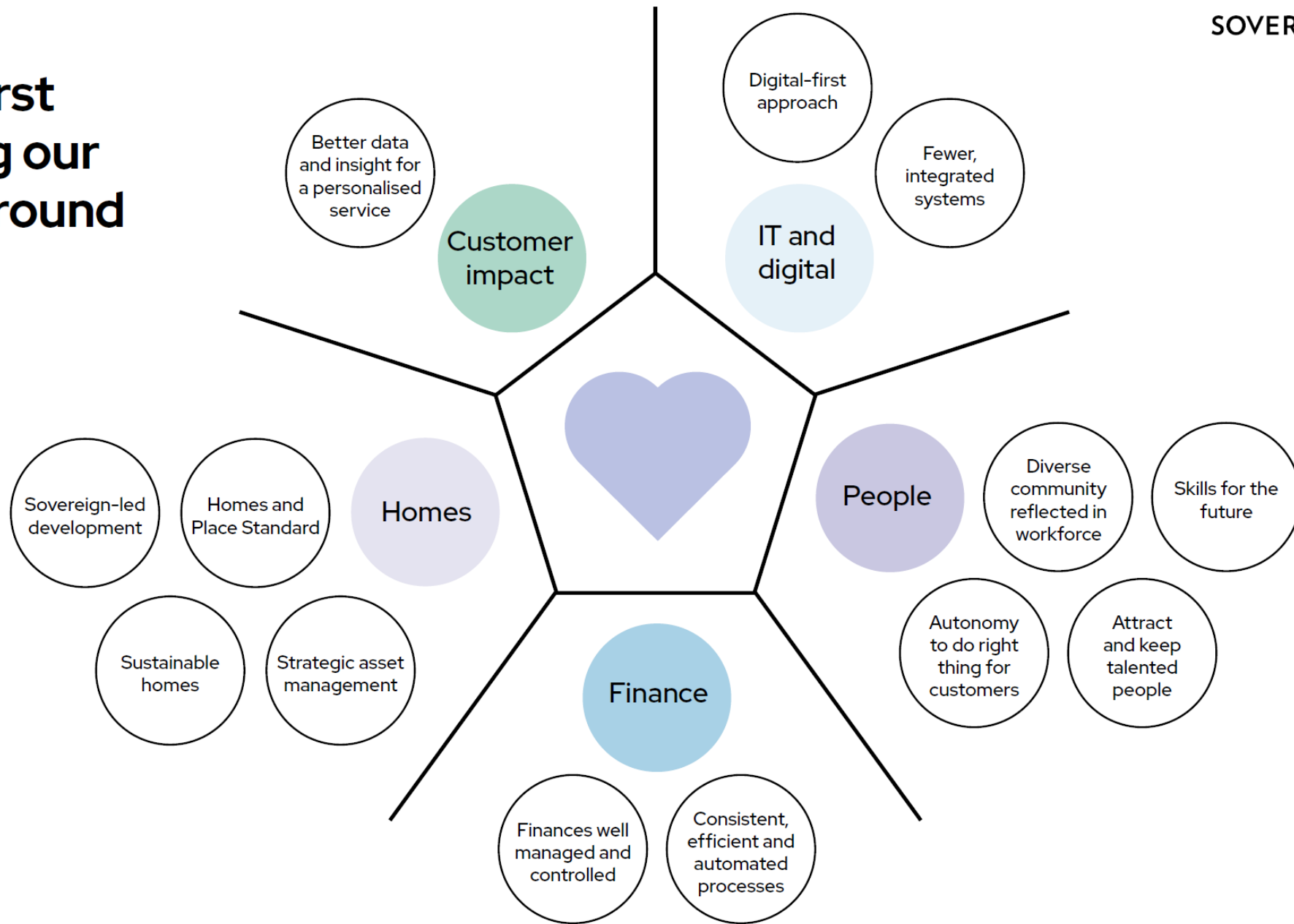
- "We can deliver our services right first time"
- "I have freedom and autonomy to do the right things for customers"
- "I feel safer at work"
- "I have the right career path at Sovereign"
- "I feel engaged working at Sovereign"



Sovereign

- We're building 2,400 new homes a year – all meeting the Homes and Place standard
- We're one of the most influential housing associations
- 80% of our customers make their first contact digitally
- 1/3 our homes meet H&P "good" standard and we're undertaking major regeneration
- We're carbon-neutral-ready on new developments and on track to be a carbon neutral business by 2050

Putting our customers first by organising our operations around their needs



Meeting housing need and managing our assets

Tom Titherington
Chief Investment and
Development Officer



Where are we now

- Pipeline mix 60:40 land-led
- Moved from 95% S106 to land-led
- Homes England partner
- Large-scale joint ventures
- Repurposing retail and commercial to mixed use

What does our investment strategy set out to deliver?



1. How to increase the amount of development we do, in core target areas, despite increasing competition...



2. How to apply the 'Homes and Place Standard,' so we can be confident that our properties are sustainable in the longer term...



3. How to operationalise the SAM strategy in view of our asset grading...

Homes and Place Standard



Customers

- Encourage long-term health and wellbeing
- Be safe, secure and inclusive
- Provide an excellent customer experience
- Foster pride in homes and communities

Homes

- Usable and adaptable
- Enjoyable to live in
- Cost effective
- Digitally connected

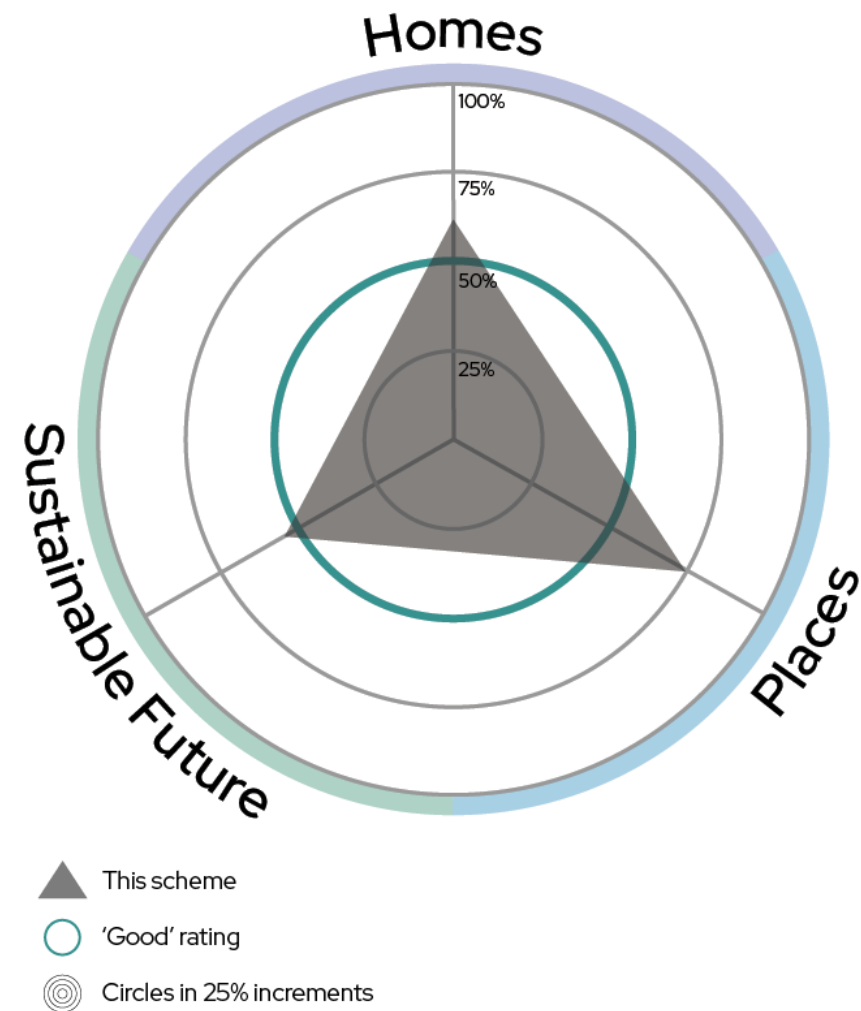
Places

- Have character and delight
- Be well-integrated
- Be inclusive
- Be safe

Sustainable future

- Be comfortable for the future
- Have a simple approach to moving towards zero carbon
- Promote a healthy environment
- Empower customers through technology

Homes and Place Standard scorecard



The outcome of the assessment produces a scorecard. This shows at a high level the performance of the scheme against the three overarching areas. It can clearly be seen which areas perform well and which less so against the Standard.

	% achieved	% below or above 'Good' rating
Homes	62 %	+12 %
Homes will be cost effective	67 %	+17 %
Homes will be useable and adaptable	60 %	+10 %
Homes will be enjoyable to live in	60 %	+10 %
Homes will be digitally connected	60 %	+10 %
Places	74 %	+24 %
Places will have character and delight	84 %	+34 %
Places will be strong and well integrated	73 %	+23 %
Places will be inclusive	67 %	+17 %
Places will be safe	67 %	+17 %
Sustainable future	52 %	+2 %
Be comfortable for the Future	60 %	+10 %
Simple approach to moving towards zero carbon	46 %	-4 %
Promote a healthy environment	60 %	+10 %
Empower customers through technology	60 %	+10 %
Overall score	63 %	+13 %
Overall rating	'Good'	

Homes and Place, Zero Carbon and Carbon reduction

New homes

- All homes can move to zero carbon
- Excellent - Zero ready

Existing homes

- Building passport
- Layered investment
- Carbon reduced, zero ready 2050 or before

Understand property

- Holistic view
- Clear choices
- £7.5 m -next year
- £15 m – year 2

9,000

homes that meet Homes and Place Standard

17,000

homes requiring investment and partially meets Homes and Place Standard

6,000

homes that do not meet Homes and Place Standard

3,000

homes to be regenerated

11,000

homes to be replaced

Our strategy 2021 - 2050

The challenge

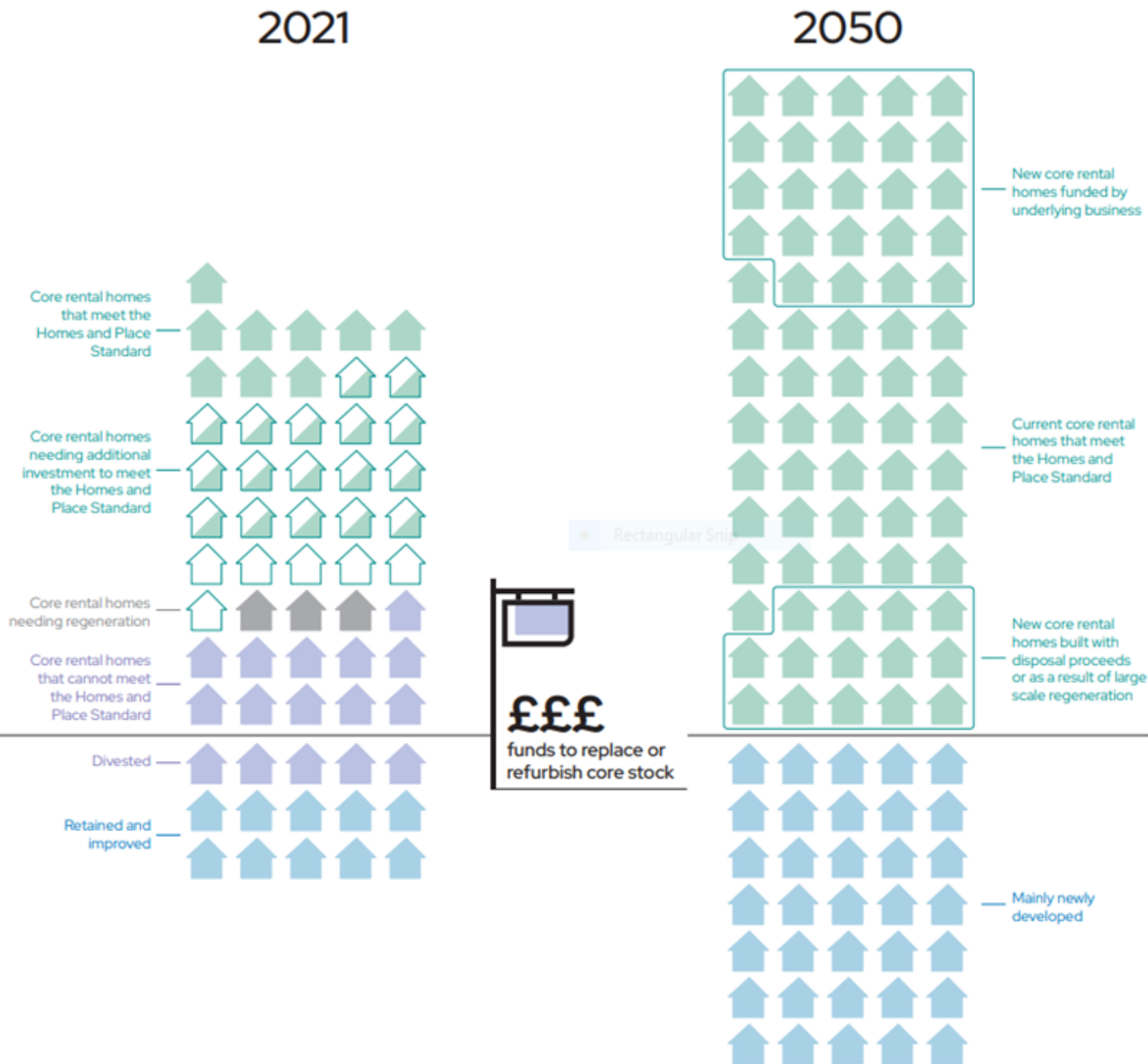
How are we going to grow the amount of affordable housing we can offer while making sure that all the housing we have meets an acceptable standard, and that all of our residents live in a great home, in a great place?

🏠 Approximately 1000 homes

- 🏠 Homes and Place Standard met
- 🏠 Homes and Place Standard partially met
- 🏠 Homes and Place Standard not met
- 🏠 Divested assets
- 🏠 Retained and improved assets
- 🏠 Regeneration assets

Core
Homes let at sub-market rents

Non core
Other tenures
e.g. shared ownership,
market rent etc.



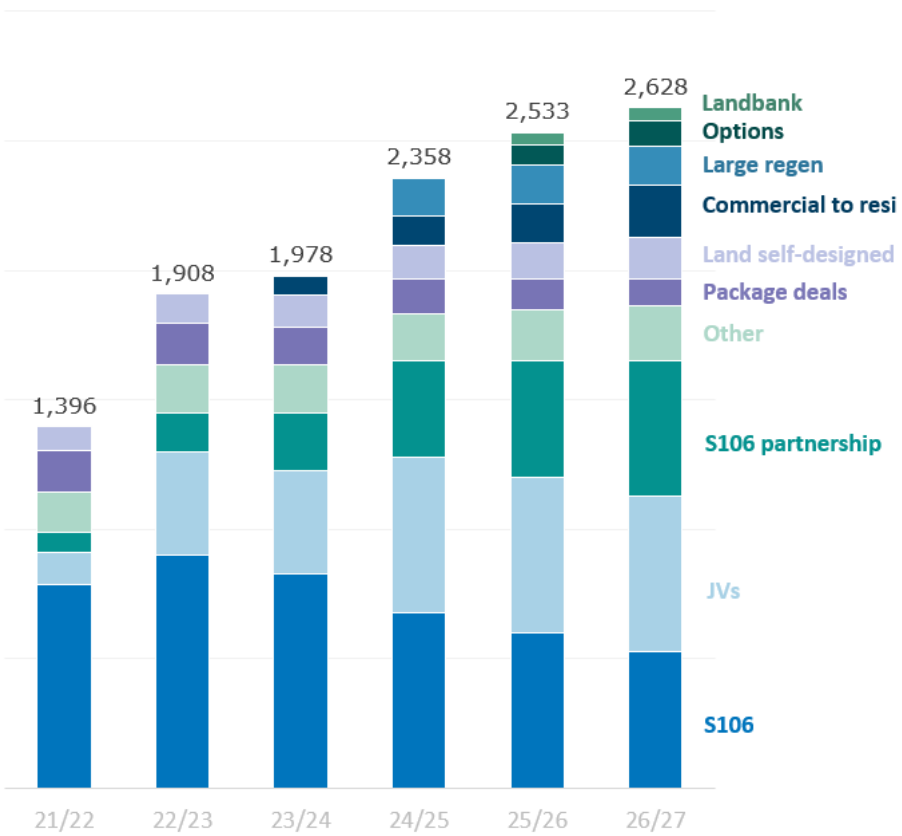
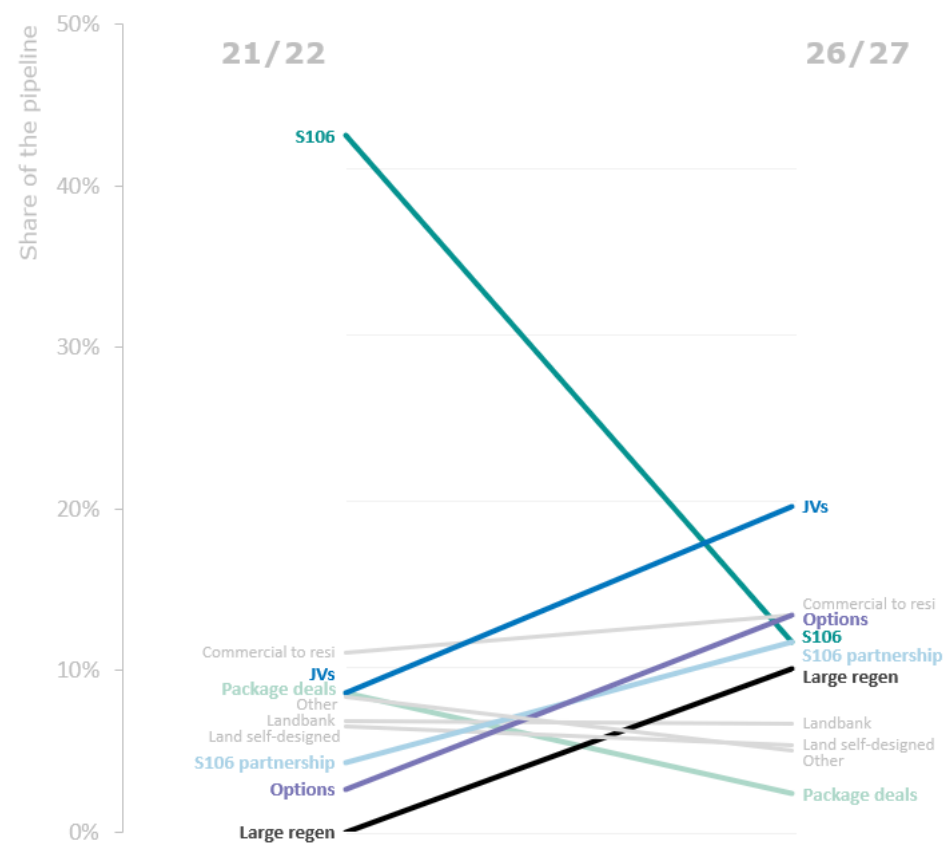
How the mix of pipeline and delivery changes over time

Our pipeline will target partnerships

In five years' time our pipeline will be weighted towards JVs, option, regeneration and strategic S106 partnerships. Small S106 deals will still make up around 12% of the programme, much reduced from over 40% today

Delivery mix will change gradually

By 26/27 we should see units delivered from JVs and S106 partnerships rivalling output from smaller S106 deals. It will take longer (5-10 years) for options and large regeneration schemes to contribute meaningfully to output.





External pressures

- Handovers lower than expected
- Driven by materials and delivery shortages
- Developers prioritising completion of open markets homes
- Housing market cooling post Stamp Duty holiday
- Building safety issues impacting developers and housing associations

Financial update

Tracey Barnes
Chief Financial Officer



Quality services, more opportunity	81% customer satisfaction with Sovereign remained steady at 81% £4.72m invested in communities 1,182 customers completed training to support their aspirations	327 customers into work or better work 100% fire risk assessment completed within required time scale 77,133 repairs made during lockdowns
More homes, better places	£216.5m Investment in new homes £100.4m Investment in our existing homes 1,099 new homes delivered	60,538 Homes owned or managed £417.4m Turnover £13.0bn Open market value of properties
Strong foundations, more choice	£719m cash and undrawn committed facilities available £78.0m Surplus before tax G1/V1 Regulatory ratings A+ and A2 A+ Standard and Poor's A2 Moody's credit ratings	£1.3m invested in customer- facing technology Living wage accredited employer Gold Investors in People 50/50 representation men and women on our Executive Board

FY 2020/21 in Numbers

- Despite all the headwinds of Brexit and the Pandemic, Sovereign delivered a strong full year performance.
- We invested in our Communities last year and continue to do so and we believe this is more important than ever as we recover from the Pandemic
- Development of new homes, was impacted by the Pandemic, with continued headwinds due to shortage of labour and suppliers impacting this financial year .
- Sovereign remain in a strong financial position with sufficient liquidity facilities available in place and top quartile Regulator/Credit ratings.

2021/22 YTD to 30th September performance

£'m	Actual	YTD Vs Budget	Vs Prior Year
Income	175.5	(2.5)	6.5
Sales	32.1	(4.8)	5.5
Cost of Sales	(27.1)	3.0	(4.2)
Sales Margin	5.0	(1.8)	1.3
Sales Margin %	15.6%	(2.7%)	1.7%
Operating Costs	(113.8)	4.1	(12.9)
FA Disposals	7.2	(0.3)	5.3
Operating Surplus	74.0	(0.5)	0.3
Financing Costs	(30.7)	(1.6)	(0.3)
Share of JV Profit	1.6	(0.7)	1.6
Retained Surplus	44.9	(2.8)	1.5
EBITDA MRI	87.7	8.8	(3.0)
Operating Margin	32.2%	1.0%	(4.5%)
Handover Units	459	(400)	2

Half year update

- YTD £44.9m Retained Surplus, lower than our original Budget, higher than prior year, driven principally by lower income and sales as handover of new units continue to be delayed from Developers. Financing costs are higher than budget due to lower capitalised interest.
- Within property services we are also seeing an increase in costs of labour and materials leading to higher costs which we expect to flow through for the rest of the year.
- Investment in New homes of c£130m
- Investment in Existing homes of c£50m.

Golden Rule metrics as at 30th September 2021

Protection principle	Forecast	Trend	Threshold	Headroom	Definition
Liquidity	50	^	< 18 months	32 months	18 months as a minimum, where available case 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	16.5%	v	< 40%	23.5% £98.8m	Sales / turnover
Performance	32.2%	^	> 30%	2.8% £9.7m	Operating surplus (excluding all development and asset sales) / turnover
Sustainability – interest cover	272.5%	v	<121%	152% £92m	10% minimum level of headroom against all lenders' interest cover covenants
	£166m		<110%	163% £99m	Tightest covenant
Sustainability - gearing	45.1%	^	<71.25%	26% £1202m	10% minimum level of headroom against all lenders' interest cover covenants
	£2068m		<75%	30% £1374m	Tightest covenant

Treasury update

- £684m liquidity available (All facilities are fully secured and immediately available for drawing).
- Future funding, we have over £400m of security in charge (unallocated) to our Trustee, Prudential, to provide ease of access for future funding opportunities, and put in place a strategy of rolling charging with a regular flow of uncharged assets (current value c£1.5bn) to be added to this pot to meet future facilities or new debt issuances over time.
- Next targeted funding not required until 2022/23. Options being considered are funding from Saltaire: government backed funding programme or public bond market.
- Good progress on LIBOR to SONIA transition with all facilities and swaps transitioned. Thankyou for all your help.

Value for Money (19/20 Global Accounts benchmark data)

Sector Metric	Lower Quartile	Median	Upper Quartile	Sovereign	
				21/22 Actual YTD	2021/22 Forecast
Reinvestment	4.9%	7.2%	10.0%	6.72%	10.14%
New Supply (Social)	0.7%	1.5%	2.4%	1.58%	2.24%
New Supply (non-social)	0.00%	0.00%	0.15%	0.13%	0.12%
Gearing	33.0%	44.0%	54.7%	44.3%	46.0%
EBITDA MRI Interest rate Cover	126%	170%	227%	225%	203%
Headline Social Housing Cost per Unit (£k)	4.86	3.83	3.34	3.40	3.75
Operating Margin (SHL)	20.8%	25.7%	32.3%	35.1%	38.9%
Operating Margin (Overall)	18.1%	23.1%	28.6%	32.2%	28.7%
ROCE	2.6%	3.4%	4.4%	n/a	3.4%

Value for Money update

- Sovereign continues to deliver strong performance in 21/22, when benchmarked against the sector.
- Full year forecast, we expect to be upper quartile on 6 out of 9 measures
- We expect to be median quartile for the remaining 3 measures

Sovereign's ESG story in numbers

Number of properties



60,538

96% social and affordable

EPC C or better in



100%

of our new homes

Community investment



£4.72m

Sovereign pays the



living wage

Net investment over 25 years



over £1bn

to improve quality and meet net zero target

Number of homes built in 2021



1,099

EPC C or better in



63%

of our existing homes

Customer service satisfaction



81%

Highest rating of governance and viability



G1 / V1

S&P A+ and Moody's A2

All our homes to meet at least



good

Homes and Place Standard

Market value of assets



£13 bn

Sovereign rents below Local Housing Allowance in



98%

of our homes

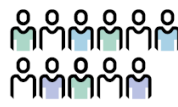
Oversight of governance by engaged residents



RBP

Resident Board Partnership

Gender balance across our Board



7/11

64% female and 36% male

All existing homes retrofitted to meet



EPC B

or better

Our ESG objectives

ESG report

- We have finalised our ESG report and recently shared this with our Board for comment. Once agreed, we will publish this on our Investors webpage.
- This is only the start of the journey, as we look to embed Sustainability within the business.
- Next steps, putting in place an ESG funding framework for any future new debt issuance or facilities.



**Thank you
and questions**