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Sovereign Housing Capital Plc  
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## Sovereign Housing Association's Quarterly Performance Update covering Q4 year 2022/23

### Proposed Merger with Network Homes

On Monday 13 March Sovereign Housing and Network Homes announced their intention to merge. The decision was agreed by their respective board meetings on Thursday 9 March. The target date for the completion of the merger is 1 October 2023.

The new organisation, Sovereign Network Group, will be one of the largest housing associations in the UK, with over 82,000 homes across the South of England and in London. Subject to a formal appointment process, it is expected that Mark Washer, CEO at Sovereign will become the Chief Executive and Helen Evans, currently CEO of Network Homes, will become Deputy Chief Executive. Sovereign Chair Paul Massara will become Chair of Sovereign Network Group and interim Chair at Network Homes, Jon Gooding, will become Deputy Chair.

Sovereign Network Group will have an annual income of over £830m in 2024-25 and will invest £9.2bn over the next ten years, building 25,000 new homes - almost 4,000 more than in current plans, as well as regenerating estates and improving the quality of existing homes. They have also pledged to establish a new Community Foundation to invest £100m in communities over a ten-year period.

[Find more information about the merger in our investor presentation \[pdf, 2.29MB\]](#)

### Quarter 4 Performance Update

Our unaudited management accounts for Q4 2022/23 show operating surplus and overall surplus lower than Q4 last year and a step-down from last quarter. This is driven by ongoing economic challenges, including increased costs of labour, materials, high utilities costs and increased funding costs. High levels of repairs are occurring including a continued focus on safety and compliance. Provisions have been made for other costs. Sales and staircasing activities have performed well. Confidence in our Shared Ownership product remains high, with demand strong.

	Q4 FY23 £m	Q3 FY23 £m	variance £m		Q4 FY22 £m	variance £m	
Turnover	108.7	112.5	(3.8)	(3.3%)	109.0	(0.3)	(0.2%)
Operating Surplus	21.5	28.7	(7.2)	(25.0%)	27.5	(5.9)	(21.6%)
Retained Surplus	5.0	14.3	(9.3)	(64.8%)	22.1	(17.1)	(77.2%)
	units	units	units		units	units	
Sales	106	125	(19)	(15.2%)	141	(35)	(24.8%)
Unit Completions	506	413	93	22.5%	445	61	13.7%

The development programme handed over 506 units during the past quarter. For the full year there were 1,672 handovers, 133 more than expected. The forward development programme equates to 5 years' worth of deliver. Sovereign has recently completed on land at Horns Lane, High Wycombe at £6.9m for a further 50 homes.

### Treasury and Golden Rules

S&P reaffirmed our credit rating of A+ negative outlook on the 30<sup>th</sup> March following our merger announcement with Network Homes, the report highlighted that if the merger completed, Sovereign Network Group's creditworthiness would not materially differ from Sovereign, reinforcing that the potential merger is a merger of two financially strong RP's. [Read the full S&P report \[pdf, 133KB\]](#)

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 decreased from £451m last quarter to £424m (equating to 27 months of forecast liquidity).

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	27 months	v	< 18 months	9 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	16.5%	-	< 40%	23.5%	Sales / turnover %
Performance (Op surplus %)	29.2%	v	> 30%	-0.8%	Operating surplus (excluding all development and asset sales) / turnover on rolling three year basis
Sustainability - Interest Cover	209%	v	>121% >110%	88% 99%	10% minimum level of headroom against all lenders' interest cover covenants Tightest covenant
Sustainability - Gearing	50.1%	^	<76% <80%	26% 30%	5% minimum headroom against all lenders' gearing covenants Tightest covenant

### ESG

We continue to make good progress in improvements of our existing core stock moving from 69.2% at Dec 2022 to 70.3% as at March 2023 of our properties at EPC C or better with 24.5% of our core stock at EPC B or better. With a number of pilot schemes completing next year and our successful application for £9.4m of SHDF funding we expect to make strong progress on our journey towards net zero.

We have engaged with Inspired energy, who have provided us with our scope 1 and 2 emissions for our prior year to March 2022 and we will be able to share our scope 1, 2 and 3 emissions in our next quarterly update. Our total Carbon and Consumption was 11,473.58tCO<sub>2</sub>e, covering Gas, Fuel, Heat, Electricity and Transport.

This provides an overall carbon intensity metric of 27.14tCO<sub>2</sub>e per £m based against Sovereign's revenue. [Read the full report - Streamlined Energy Carbon Reporting \(SECR\) \[pdf, 1.72MB\]](#).

## **Corporate Affairs**

### **SHDF funding**

The government has awarded £778m of funding through the Social Housing Decarbonisation Fund - Sovereign received our full bid's allocation of £9.4m. This is the largest grant yet made to Sovereign to invest in existing homes and will help Sovereign on its journey to de-carbonising and retrofitting our 61,000-home portfolio and map a pathway to net zero by 2050.

This SHDF Wave 2.1 funding round is part of the 2019 Conservative Manifesto commitment to a £3.8bn Social Housing Decarbonisation Fund over a 10-year period to improve the energy performance of social rented homes. The SHDF strategic objectives are to deliver warm, energy-efficient homes, reduce carbon emissions and fuel bills, tackle fuel poverty, and support green jobs.

### **Cost of living - London networking dinner**

Sovereign hosted dinner in London on 28 February with attendees from HACT, Business in the Community, NHF and CIH. The focus was how the sector can best support customers through the cost-of-living crisis.

## **ENDS**

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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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