Sovereign Housing Association Ltd
Sovereign House
Basing View
Basingstoke RG21 4FA
T: 0300 5000 926

SOVEREIGN

Sovereign Housing Association Limited is a charitable

Registered Society under the Co-operative and Community Benefit Societies Act 2014, registered with the Financial Conduct Authority no. 7448 and the Regulator of Social Housing no. 4837.

Registered office: Sovereign House, Basing View, Basingstoke RG21 4FA

Annual Report 2022

Annual Report and Financial Statements

CORP-31856-AR 2022WG

The year in numbers

A strong financial position gives us a great platform to continue to deliver the high quality homes and services our customers and our communities expect and deserve.

Quality services, more opportunity	**£1.27m** funding secured to deliver youth social action project **547** community organisations supported, offering training and development opportunities	**41** Kickstarters recruited, with 39 progressing to contract extensions or work **2,800** empty homes refurbished for new customers **88%** of customers satisfied with repairs service
More homes, better places	**£290m** investment in new homes **£118.4m** investment in existing homes **61,216** homes owned or managed **£422.8m** turnover – up by 1.3%	**£16.2m** in housing sales – doubled since 2021 **£13.7bn** open market value of properties **1,196** new homes delivered
Strong foundations, more choice	**£501m** cash and undrawn committed facilities available **£86.6m** surplus before tax **A+ and A2** A+ Standard and Poor's A2 Moody's credit ratings	**Living wage** accredited employer **Gold** Investors in People **50/50** representation men and women on our Executive Board

Contents

Chair's statement

Sovereign needs to continue to embrace change if it is to shape its future and improve the future lives of our customers.

I joined Sovereign in the summer of 2020, two short years ago. As we emerged from the first wave of the pandemic, it was possible to imagine the world was returning to normal. Instead, today we are facing challenges not seen for a generation, including a cost of living crisis, a shortage of workers and the need to tackle climate change. It is hugely heartening to me that at Sovereign we are rising to these challenges to make our business more sustainable for the long term.

Our commitment to sustainability, delivered through the Homes and Place standard, will ensure we can meet our ambitions not merely to limit our impact on the environment but to make a positive contribution. By building the social homes we need, we are securing the prosperity of future generations and by embracing digital solutions we are making our services easier to use and more efficient.

The current cost of living crisis has again brought into focus how challenging life is for people on low incomes. By ramping up development, building more homes and investing in our current stock, to make it more energy efficient, we are helping some of the most vulnerable people in our society, providing them with far more than just bricks and mortar.

Despite a difficult labour market, we have again built more homes this year than last: 1,196 new homes, of which 93% are affordable for rent or shared ownership, including 193 for social rent and 430 for affordable rent. We have handed over more homes for shared ownership this year than last, creating opportunities for home ownership for people who couldn't otherwise own their own home. We have exceeded our sales budget and we have increased our pipeline by over 2,000 to 8,380. We have completed the grading of all of our existing homes against the Homes and Place standard and we have begun to deliver our long-term strategic asset management plan. But I know we can do more.

I have watched with enthusiasm as the changes we are making to customer service have begun to have a measurable, positive impact. Despite increasing demand from customers, including in the aftermath of the worst storms to hit England in 30 years, our performance is solid. But I know we need to do, and can do, more. Underpinning our solid performance for customers and in development, our finances remain in excellent shape. We have maintained every single one of our Golden Rules, our turnover is up and our surplus is up. Our new offices are now providing great, modern workplaces and the Greenham Hub sets the standard for great spaces to train, collaborate and work. But I know we can achieve more. This year Sovereign did not meet its tough performance targets and it is right that Board and Executive Board agreed we would not pay executive bonuses on that basis.

But this year has not all been good news and the Regulatory Notice issued on us and the governance downgrade that followed, was deeply disappointing and showed we need to improve further. Change cannot come too soon. In dealing with this difficult situation, I was impressed to see up close the commitment of the senior team in addressing the building safety data issue. Just as the team were transparent with the Regulator of Social Housing from the very start, the Board and representatives from the Resident and Board Partnership, were kept closely informed as the property services team worked round the clock to address those compliance issues with the communal areas in some of our blocks. Over the coming months and ahead of next year's scheduled In-Depth Assessment, I know that the Executive Board are determined to restore Sovereign's G1 governance rating as soon as practicable.

Although those errors should never have happened, the calm, methodical and focused way in which the team worked to put things right was exemplary. I am very confident that the new processes now in place mean we will regain our governance ratings next year. But lessons must be learnt, and the commitment to safety enshrined in our values.

I know the pandemic and the economic backdrop have taken their toll on our people as well as our customers. We've worked hard to understand the challenges our employees face and ensure we can attract and retain good people. As we restructure the business there will be upheaval, but we remain committed to making Sovereign a great place to work.

On behalf of the whole board and the Executive Board, I want to thank our employees for all they do to make Sovereign what it is today – over the last 12 months that has not always been easy. Earlier this year we were all delighted when the chair of our Resident and Board Partnership Joyce Ward was awarded an MBE in the 2022 New Year's honours list, acknowledging her tireless work in championing social housing tenants. Joyce's commitment has rightly been singled out, but I know that as well as being an example to us all, she is reflective of Sovereign's workforce at every level. Indeed, the successes outlined in this report are a credit to every single employee at Sovereign – thank you for all that you do.

As the new Corporate Plan makes clear, Sovereign needs to embrace change so we can shape our future and improve the lives of our customers. Over the last 12 months, through difficult headwinds, the team has met that challenge. Sovereign is delivering on its vision to be the leading landlord in the south of England. There is so much still to do, but the foundations of Sovereign's future successes can be traced in the work outlined in this annual report.

Paul Massara
Chair

Foreword by CEO

Our ambitions are rooted in homes and places, and we are changing to make those ambitions a reality.

Making decisions that deliver the right homes takes time. But building thriving communities is the ongoing work of a lifetime. At Sovereign we have always believed that a good home is the start, not an end in itself. Shelter is a fundamental need, required for us simply to survive – a home gives us the chance to fully live our lives.

A good home means we can achieve our potential, with the stability and security that allow us to focus on work, family, and leisure – a good home in a great place to live frees us to make the most of our opportunities. A thriving neighbourhood means we can help one another, contribute to improving our shared environment and take our place in society. Sustainable communities make a positive impact on the planet, improve our health and wellbeing and lay strong foundations for the next generation.

As the political, social and economic landscape has changed around us, we are determined to embrace change so we can shape the future. We have had to respond to big changes, especially in the last two years. But that has not put us off making decisions for the long-term. Last year we laid the foundations for our transformation as a business. This year we have seen the positive impact of those changes. In the year to come, as that work accelerates, it will be ever more visible to us and to our customers. At Sovereign our ambitions are rooted in homes and places, and we are changing to make those ambitions a reality.

We have never chosen between new homes and existing homes: our entire strategic approach is to do both and to do both well. Our new strategic asset management plan will make the Homes and Place standard a reality for all our customers – those in homes we own now and in the homes we will build. It is a commitment to every home we own, not just raising building standards for the future. Our approach to development underlines our commitment to places and communities.

As we shift our approach towards land-led development, we can better design and improve the homes we own and better support the communities they serve. We are investing in new opportunities, including mixed use and retail, to bring that vision to life. New joint ventures, such as with Countryside at Lotmead to build 2,500 homes show that our approach is working. And we are looking holistically at the role we can play in high streets, helping bring life and prosperity back into town centres. In Bristol the site at Clifton Downs, currently a shopping centre crowned with a massive car park, could become new affordable homes alongside shops and amenities for local people right in the heart of one of the city's most popular places to live and spend time.

By bringing every home we own up to the Homes and Place standard we are committing to put serious investment into our existing communities: £138.6 million every year over the next ten years. We have put in place new joint ventures that will enable us to deliver major regeneration schemes, including two to be under way by 2026 and we are on track to deliver both.

To enable our customers to live their best lives we will reduce unwanted behaviour and create new models of community stewardship. We've committed to investing at least £3.5m a year in community projects (or more than 5% of our pre-tax surplus – whichever is bigger) which deliver positive outcomes for our customers and their neighbours.

We know it will be challenging, but we have also committed to understanding and sharing information that shows the impact we are having. We know that by giving our customers a good home in a great place to live we are contributing to improved health, lower crime, higher tax revenues and happier people, and we want to quantify the good we do so we can do more.

We continue to engage with government to ensure a policy framework that ensures accountability and transparency for social housing tenants, while allowing housing associations to focus on delivery. Ahead of the new Social Housing Bill, we've submitted our views on the best customer satisfaction measures and we will continue to work with government and through the sector to improve customer outcomes. Sovereign has a strong track record of working closely with our customers and our Resident Board Partnership was integral to the National Housing Federation's Tenants Together initiative.

Last year I reflected that a child born in a Sovereign home during lockdown could be living in a Sovereign home at the start of the next century. Who knows how the world will look in 80 years' time – the last two years have shown that nothing can be taken for granted. But the decisions we are making today are shaping that future, I am certain for the better: creating the communities in which people can thrive, building homes that have a positive impact on our environment and embracing change every day. We can look back with real pride, brace ourselves for more change to come, and look forward with real optimism for the difference we are making in the world.

Mark Washer
Chief Executive

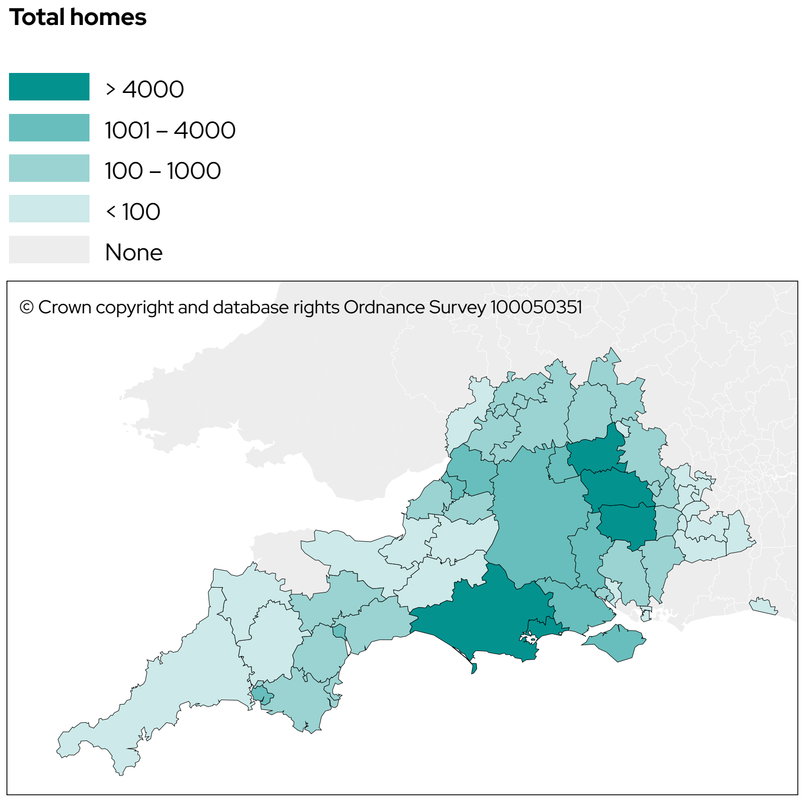

Great Western Park, Didcot

About us

We are a leading housing association, providing our customers with good, affordable homes in thriving and sustainable communities.

We have deep roots in south England, with more than 60,000 homes focused in a core area covering Berkshire, Cornwall, Devon, Dorset, Gloucestershire, Hampshire, Isle of Wight, Oxfordshire, Surrey, Wiltshire and West of England.

We're driven by our social purpose, with customers at the heart of everything we do. We build homes and provide great services, but our work doesn't stop at the front door – we invest for the long-term, creating great places to live, working with our customers and partners to support them in realising their potential.



Dalby Strand, Swindon

Our history, our future

Sovereign has been providing homes for those that need them most for over 30 years. We began through the transfer of homes from West Berkshire Council. Over the last three decades we have merged with other housing associations and built thousands of new homes. We are proud of our heritage and are ambitious for our future.

While our core mission remains the same – to be a leading landlord – we are changing how we can achieve that for more people and sooner. We aim to increase our building output to 2,400 homes over the next five years. By acquiring land and working in partnership with developers we are already showing we can build higher quality homes, and at a faster pace. While we will continue to acquire stock from developers through the new infrastructure levy, our land-led approach will in time make up half of our development programme.

Through our Strategic Asset Management plan we have graded all our assets so we know where we need to build more, invest more in existing stock and where we can best deliver for customers by replacing homes. Our Homes and Place standard will apply to every home we own, with a focus on design, quality and sustainability that will give our customers good homes in great places.

We have formalised our commitment to Environmental, Social and Governance measures (ESG) and we now publish a companion report on ESG alongside our annual report, setting out the progress we are making and how we can improve against those sector standard measures.

Our Homes and Place standard will apply to every home we own, with a focus on design, quality and sustainability that will give our customers good homes in great places.

Our new Corporate Plan shows that by embracing change Sovereign can shape the future for social housing in the South of England. The Homes and Place standard will drive improvement in our customers' experience of their homes, services and communities, creating great places to live for generations to come.

Housing and planning policy: the external context

At Sovereign we understand the need to work effectively with government at a national and a local level to influence policy and improve regulation in our sector. In our Corporate Plan we have committed to influencing policy at the highest level by engaging key stakeholders and expanding our networks. We have also started to develop a portfolio of thought leadership, starting this year with research into customer attitudes to net zero.

We have long championed resident engagement and we will work with the sector to ensure that tenants cannot be ignored.

Sovereign took part in panel discussions at Labour Party Conference in Brighton and at the Conservative Party Conference in Manchester, both on the net zero challenge as well as meeting the housing minister. As face-to-face meetings returned, we have increased engagement with MPs, including welcoming our local MP Maria Miller to visit Sovereign House and hosting site visits for the Local Government Minister Luke Hall MP to Yate Magistrates Court and Steve Brine MP to Knight's Quarter in Winchester. We continue to engage with MPs from all parties, government special advisers and think tanks to increase our influence on national and local decision making.

We responded to government consultations on the new Residential Property Developer Tax, advocating an exemption for housing associations. Sovereign responded in detail to the government's draft Tenant Satisfaction Measures consultation, as did our Resident Board Partnership on behalf of our customers. We continue to engage with MPs through our membership of Homes for the South West and with government through the National Housing Federation.

In September 2021 the prime minister's reshuffle resulted in the renaming of the Ministry of Housing, Communities and Local Government to the Department for Levelling-Up, Housing and Communities under a new Secretary of State, Michael Gove. At Sovereign we believe that access to affordable, quality housing is a vital part of levelling-up and we are engaged in this agenda to ensure government policy works to achieve that. The planning bill that was announced in the Queen's Speech in May 2021 did not materialise, although key elements of the 2020 planning White Paper will be in a new Levelling-Up and Regeneration Bill. This is a vital piece of new legislation for the housing sector and will include the replacement for Section 106.

Since the government indicated it would replace Section 106 we have made representations about the need for any replacement to maintain the volume of affordable housing, including housing for social rent. The National Housing Federation has worked closely with government on developing the new infrastructure levy and we will continue to support them in ensuring it works for the whole sector.

The reappearance of the government's plans to allow housing association tenants to buy their homes will require the sector to respond with care. We must continue to support home ownership. But the evidence from the original pilots of this policy, which Sovereign supported, showed it was very difficult to make the policy work in the way intended and that it risks reducing the overall availability of homes for affordable and social rent.

We will also work to ensure the Social Housing Regulation Bill creates a new regulatory environment that enhances tenants' rights effectively and which can accurately measure tenant satisfaction. We have long championed resident engagement through our own Resident Board Partnership and our involvement from the start in the National Housing Federation's Tenants Together campaign and we will work with the sector to ensure tenants cannot be ignored.

Above:
Bank and Ridge Farm, Weymouth

Meeting the challenges of the next decade

The UK housing and construction market is facing a challenging 10 years. The Covid pandemic's lasting effects on global supply chains and particularly on China's productivity will shape the world economy for years to come. The Russian invasion of Ukraine, and the war there that shows no sign of ending, has the potential to jeopardise food supplies leading to soaring prices or chronic food shortages. Even before the pandemic the rules-based international order was increasingly under attack and the prevalence of western liberal values increasingly challenged, in Europe, America and beyond.

Below:
Cleve Wood,
Thornbury

For enlightened developers there are real opportunities, and we are already partnering with some of the finest in the UK.

All this has taken place as the very real threat of irreversible climate change calls for global leadership and the rapidly-evolving technologies for co-operation and restraint. Here in the UK we have an aging population and public services are straining to meet growing demand and higher expectations. Rising costs are affecting our business – building and repairing homes is more expensive than it was and we need to pay people more to do it. For some of our customers, the cost of living crisis is making life very tough indeed. The world in 2022 doesn't look like we thought it would in 2012.

All this will affect every part of our lives, and housing is no exception. As well as ensuring we can continue to import the materials we need, as we adjust to the long-term impact of leaving the European Union, we need to address labour shortages and to upskill our workforces. The social housing sector is already leading the way in decarbonising our housing stock, deploying new technologies and building new homes so we embed carbon and reduce our overall carbon footprint. Sovereign is already undertaking ground-breaking pilots, investing in new providers and contracting with new suppliers, helping to fuel the potential technology boom that will help retrofit first the social housing in our country and then the homes people own themselves. For enlightened developers there are real opportunities, and we are already partnering with some of the finest in the UK.

Technology is also presenting opportunities to improve how we help our customers and to meet their growing expectations. New ways of communicating and interacting, such as our new chatbots, will speed up how we identify and then address problems that need fixing. As we gather more and more data about the homes we own, we can start to anticipate problems before they happen – for example by predicting that a home will develop damp and mould before it has done any harm.

Technology is also underpinning our commitment to ESG, as we pilot the ways we will retrofit our homes, reducing their carbon footprint and reducing our customers' energy bills. Indeed almost every response to the challenges of the next decade can be found in our parallel ESG report, that measures our progress in reducing our impact on the environment, acting to improve the lives of our customers and improving how we run as a business.

As attitudes to public services change, we can demonstrate to government at national and local level that we are providing essential services formerly the preserve of the state. And we will continue to make the case that the interventions we can make have a positive social impact, saving taxpayers' money and improving people's lives.

This annual report is set against a sometimes bleak backdrop of lingering pandemic, violent war, fragile global supply chains and erratic political priorities. But it is also set at a time when we are on the cusp of making lasting changes to how we build and maintain our homes, how we serve our customers and how we improve the way we work. That we have achieved so much is down to the hard work of our thousands of dedicated employees. That we must work harder is a reflection of the huge environmental, social and political challenges we face. We are ready.

Financial and delivery highlights

This year Sovereign delivered another set of strong results, despite the ongoing impact of the Covid pandemic, supply chain issues and challenging economic headwinds. We achieved an operating surplus of £142.6m, exceeding last year's surplus of £135.6m and an overall surplus of £86.6m which will be reinvested into new affordable homes, ahead of last year's figure of £78.0m. EBITDA MRI has fallen only slightly, a positive outcome for us as 2021 saw a much lower level of capitalised repairs.

We completed 1,196 new homes, 97 more than in 2020/21. This is lower than planned, due to the impact of the 2021 lockdowns. The overwhelming majority of handovers were affordable homes (93%). We invested £237m, higher than 2020/1 (£216.5m) but lower than in 2019/20 (£368m).

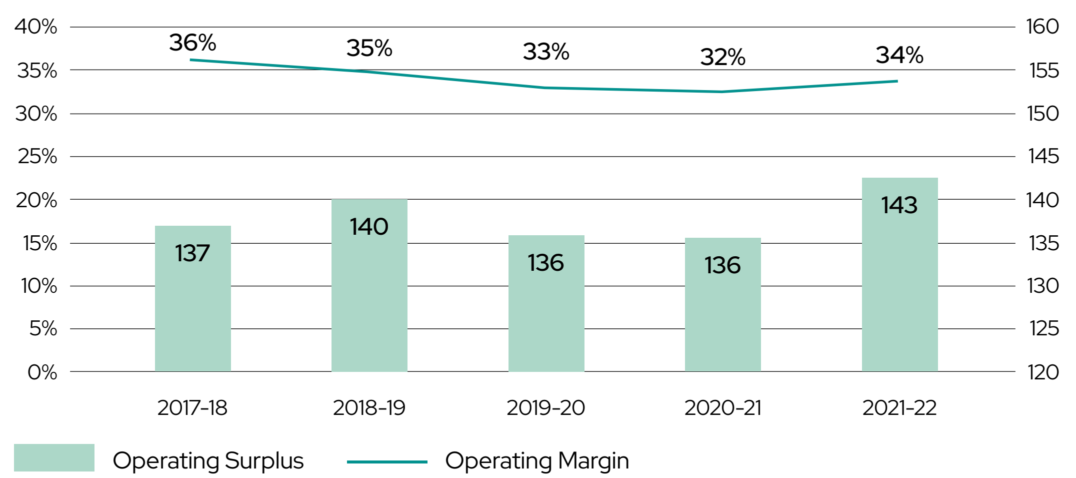
We have implemented the first stages of our new Target Operating Model and laid the groundwork to restructure our business so it can be truly customer-centric. Improvements to customer contact processes are improving the customer experience. A high proportion (88%) of our customers are happy with their repair service, despite very high demands on our services post Covid and in the wake of storms Eunice and Franklin. We continue to invest in improving technologies, creating cost efficiencies and improving the experience of our customers and our people.

We continue to invest in our existing homes and have committed to spending £1.4bn over the next decade on improving our stock. We have opened our new operational hub at Greenham as well as occupying and fully utilising our new headquarters at Sovereign House.

Measure	2022	2021	Change
Operating surplus £m	142.6	135.6	7.0
Operating Margin %	33.7%	32.5%	1.2%
Overall surplus £m	86.6	78.0	8.6
EBITDA MRI £m	146.1	158.6	(12.5)
EBITDA MRI %	35%	38%	(3.4%)

EBITDA MRI = Earnings before interest, tax, amortisation and major repairs included

Operating Margin (%) and Operating Surplus (£m)



Above:
Sopers Lane, Poole

Turnover

Our total income increased in 2022, up £5.4m to £422.8m. As in 2021, a £3.1m reduction in receipts from shared ownership first tranche sales to £57.9m has been more than offset by an increase in total social and private rental income of £10m to £316.7m. The increase in rental income has been driven by strong build figures from the previous year and continued improvement in occupancy rates and by year-on-year rent increases.

We completed 436 shared ownership first tranche sales, 40 intermediate market rent sales, three open market sales and a further 20 sales under licence this year. Net margins on sales were 16.9% compared to 14.1% in 2021. This change reflects a very strong market for new affordable and market rent properties.

Turnover (£m)	2022	2021	Change
Social housing rent	336.9	325.4	11.5
Other social housing income	2.2	2.0	0.2
Shared ownership first tranche sales	57.9	61.0	(3.1)
Open market sales	12.2	16.5	(4.3)
Private rent	13.1	11.9	1.2
Other non-social housing activities	0.5	0.6	(0.1)
Total	**422.8**	**417.4**	**5.4**

Above:
Applewood, Harwell

Operating costs

Our operating costs have increased by £22.3m to £247.6m, driven by an increase in maintenance costs, offset partially by lower management costs. The overall costs reflect:

- Increased volumes of repairs as the lockdown ended following the pandemic
- Maintenance and improvements for our customers' existing homes
- Investment in our transformation programme to drive future efficiencies
- Improvements and modernisation of our workplaces.

This year we have seen the impact of the first phases of our transformation programme, and these will deliver increased efficiencies over the next five years.

Operating costs (£m)	2022	2021	Change
Social housing activities			
Management costs (excl. depreciation)	63.2	64.3	(1.1)
Maintenance costs	118.4	102.0	16.4
Other costs	10.4	5.6	4.8
Non-social housing activities	6.3	7.4	(1.1)
Depreciation	49.3	46.0	3.3
Total	**247.6**	**225.3**	**22.3**

Other costs and activities

Surplus from sales of assets increased by £8m to £16.2m (2021: £8.2m). Shared ownership staircasing contributed to this increase, driven by the stamp duty discounts, the success of our incentivisation programme, and helped by process improvements by the legal team. Strategic asset management disposals also contributed to our surplus, including the keyworker site at Torbay.

Sovereign has benefited from the strong real estate market. Following an annual property valuation by external experts and in accordance with FRS102, our investment properties are capitalised at fair value, realising capital gains of £9.3m (2021: £2m) from our investments in market rent and commercial properties.

Statement of Comprehensive Income (£m)	2022	2021
Turnover	422.8	417.4
Cost of sales	(58.2)	(66.6)
Operating expenditure	(247.6)	(225.4)
Sale of housing properties	16.2	8.2
Movement in fair value of investment properties	9.3	2.0
Operating surplus	**142.6**	**135.6**

The Group Statement of Financial Position

We again report a strong balance sheet with net assets increasing to £2bn. At March 2022 fixed assets totalled £4.4bn (2021: £4.3bn), an increase of £176m on the previous year reflecting our investment in new and existing homes.

Sovereign remains in a strong financial position with net debt of £1.98bn and available cash of £46.2m and committed liquidity facilities of £455m at the end of March 2022. This liquidity ensures Sovereign's ability to support both operational cash requirements and short-term future development plans.

Our interest and financing cost decreased to £61.8m (2021: £63.3m). This was driven primarily by a repayment of amortising higher interest facilities and a low interest environment.

Cash and short-term investments have remained relatively stable at £60.8m (2021: £63m). This level of cash is to ensure we have sufficient cash balances to meet operational requirements. Revolving bank facilities remain available to support ongoing liquidity requirements.

Statement of Financial Position (£m)	2022	2021
Fixed assets	4,430.3	4,254.1
Current assets	223.3	178.5
Creditors amounts falling due within one year	(183.3)	(171.2)
Net current assets	40.0	7.3
Creditors amounts falling due after more than one year	(2,489.6)	(2,402.6)
Total net assets	**1,980.7**	**1,858.8**
Income and expenditure reserve	1,668.6	1,562.1
Other reserves	312.1	296.7
Capital and reserves	**1,980.7**	**1,858.8**

Cash flow

Operating cashflow at £147m has decreased £28m (2021: £175m). This drop was driven by primarily by new loans to joint venture partners.

Sovereign also continued to invest heavily in more homes and better places with net cash outflow from investing activities of £209m in 2022 (2021: £134m). The increase of £74m was mainly driven by the fact 2021 was materially impacted by the Covid restrictions imposed on the construction industry during various lockdowns, which reduced scale and pace of developments. Purchases of tangible fixed assets, nearly all of which were new housing development, increased by £88m to £282m as a consequence (2021: £194m).

During the year the sale of 499 new properties generated receipts of £70m (2021: £78m), which is included in operating activities.

Cash flow (£m)	2022	2021
Net cash inflow from operating activities	**147.3**	**175.3**
Cash flow from investing activities		
Net cash flow from jointly controlled entities	2.1	0.5
Purchase of tangible fixed assets	(282.1)	(193.6)
Proceeds from sale of tangible fixed assets	67.5	26.9
Grants received	3.0	31.1
Interest received	0.9	0.7
Net cash from investing activities	**(208.6)**	**(134.4)**
Cash flow from financing activities		
Interest paid	(70.5)	(73.6)
Interest element of finance lease rental payment	(0.3)	(0.2)
Movement in collateral deposits	0.6	2.0
Net new borrowing	129.6	21.9
Finance lease rental repayments	(0.3)	(0.3)
Net cash used in financing activities	**59.2**	**(50.2)**
Net change in cash and cash equivalents	**(2.1)**	**(9.3)**

Our approach to Value for Money (VfM)

We take a holistic and balanced approach to Value for Money (VfM), which supports our vision to be the leading landlord in the South of England and our social purpose of providing good, affordable homes in thriving and sustainable communities. VfM is a key part of our overall strategic approach and the full details of how we will continue to drive results in this area is set out in our separate Value for Money report. Our approach to ESG is also covered in more detail in our companion ESG report.

Our VfM approach recognises both social and financial value. It demonstrates our efforts to meet the needs of our customers, along with the wider social value we deliver by meeting housing need and managing our impact on the environment.

We continue to measure our performance against our peers. The table opposite, published by the Regulator of Social Housing in February 2022, shows how Sovereign performed against more than 200 Registered Providers with over 1,000 homes under management in 2020-21 and Sovereign's performance in 2021-22.

Sovereign's performance in 2020-21 was upper quartile for Operating Margin (Overall), Operating Margin Social Housing Lettings (SHL), and New Supply (Non-Social) and is in the median range for all others.

Sovereign is the seventh largest housing association by size (number of social stock units owned) but ranked in the top half for five out of the nine metrics used by the Regulator. These include:

- Ranked 1st for New Supply (Social), and Operating Margin (Overall)
- Ranked 2nd for EBITDA MRI Interest Cover
- Ranked 4th for ROCE, and Operating Margin (SHL)

We want to

- Ensure the organisation operates as efficiently, effectively and economically as possible in order to deliver the best outcomes for customers
- Meet a wide range of housing needs, by delivering new homes, improving our existing stock and managing our assets strategically
- Maximise the number of new homes we build, helping to address the country's housing crisis
- Understand the returns generated by the assets we own, ensuring we make the right decisions as to where we invest our resources so we can maintain and improve the quality of our homes
- Ensure any investment in non-social housing activity generates a level of return appropriate to the scale of risk
- Show how our business value is being used for social purpose by reinvesting returns from commercial activity into building more affordable homes, improving existing homes and enhancing the customer experience

Cox's Green, Somerset

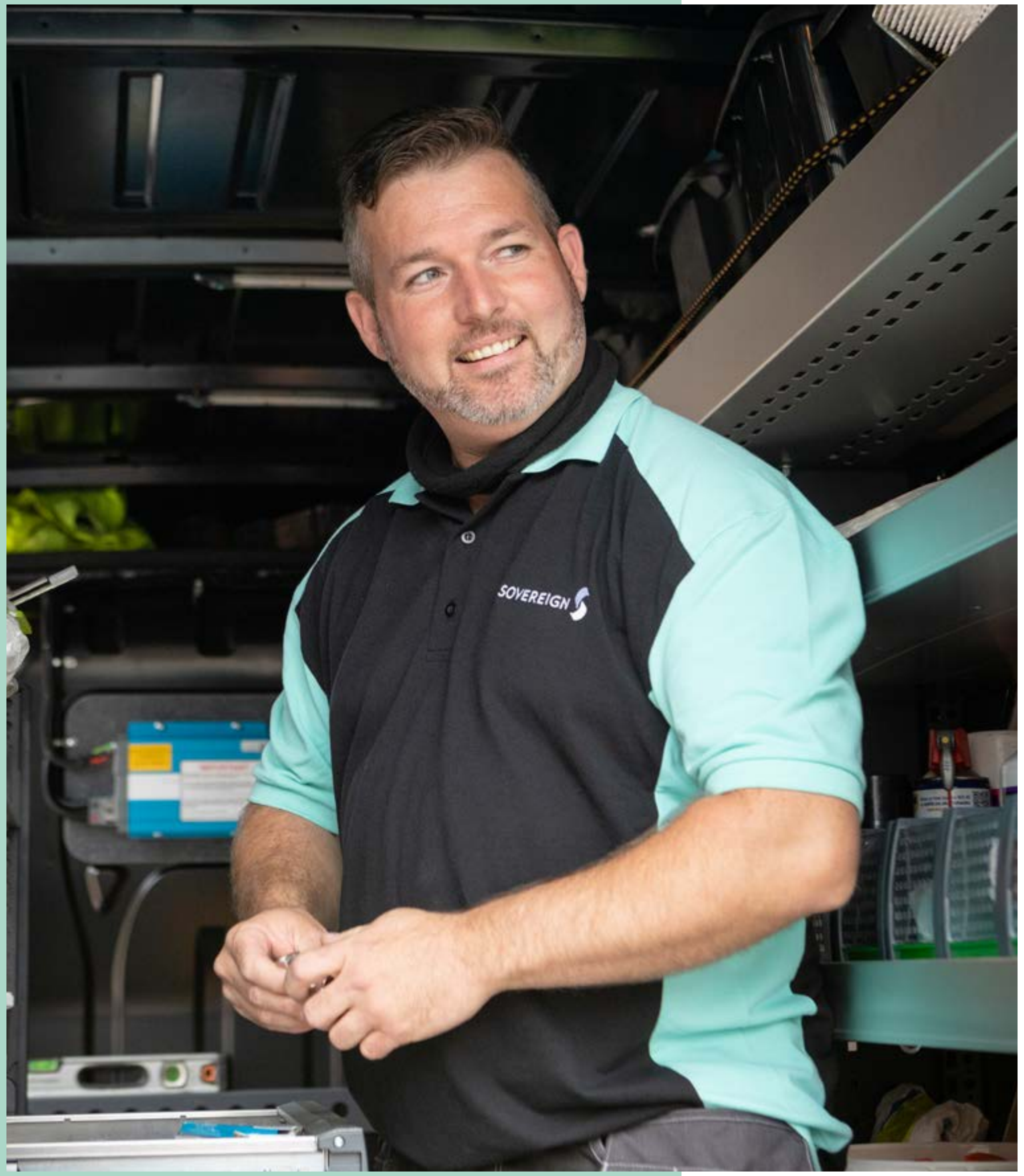
VfM Metric Tables	2020-21				2021-22
	Lower Quartile	Median	Upper Quartile	Sovereign	Sovereign
Reinvestment	4.0%	5.8%	8.2%	**6.7%**	**6.7%**
New Supply (Social)	0.5%	1.3%	2.0%	**1.9%**	**1.9%**
New Supply (Non-Social)	0.0%	0.0%	0.1%	**0.1%**	**0.14%**
Gearing	53.3%	43.9%	32.9%	**44.4%**	**45.8%**
EBITDA MRI Interest Cover	134.0%	183.0%	248.0%	**220.0%**	**203.0%**
Headline Social Housing Cost Per Unit (£'000)	4.8	3.7	3.2	**3.3**	**3.9**
Operating Margin (SHL)	22.2%	26.3%	32.6%	**34.2%**	**29.3%**
Operating Margin (Overall)	18.1%	23.9%	28.2%	**30.5%**	**29.9%**
ROCE	2.7%	3.3%	4.2%	**3.2%**	**3.3%**

Operating Margin does not include asset sales or fair value movements.
Source: Regulator of Social Housing's annual report 'Value for Money metrics and reporting 2021', housing associations with >1,000 homes under management

Quality services, more opportunity

Quality services, more opportunity

At Sovereign our priority, in every part of our business, is our customers. We only build homes because we want our customers to have great places to live. We only look to make a surplus to invest in our customers' homes. Our services, systems, processes and people are all geared to put our customers at the heart of all that we do. And as our customers' expectations have changed, we have had to change how we work. Set against the background of Covid, a cost of living crisis, a housing crisis and a challenging economic outlook, we are fundamentally reshaping how we work to ensure our customers always come first.



3,115
text messages for winter support

64%
first time resolution for our Property Repairs Resolution Team

The changes we have made this year are making a difference and we are hugely encouraged that the early indicators are all positive. In the wake of very high demand, as we emerged from successive lockdowns, we have seen significant improvement in customer experience. The first phase of our transformation programme has already made improvements to repairs that are working.

Despite a very tough 12 months, for our customers and our people, especially those on the frontline either in homes or in our contact centre, the customer experience is improving on repairs and call waiting times.

As we implement the commitments set out in our Corporate Plan, we are increasing investment in communities and securing external funding so we can offer training, development and employment opportunities.

We are open and honest about when things go wrong and will act swiftly to put them right. Unacceptable failures and historic data errors meant that we were not fully compliant on building safety this year. As soon as we learnt we were likely in breach of compliance we informed the Regulator of Social Housing and put in place major recovery programmes, all completed earlier this year. While that experience has shown we can respond thoroughly, robustly and fast, we should never have been in this position. This underlines the case for the changes we are making, including the implementation of a new Building Safety and Compliance Framework to ensure this can never happen again.

Improving the customer experience

Our investment in our Contact Centre is delivering a consistently improved performance, increasing resilience and flexibility. Our quality scores have averaged 93.88% over the year, against a target of 85%.

We have improved recruitment into the Contact Centre, refreshing engagement and induction, which has improved the onboarding experience and means our new recruits are gaining in competence and confidence more quickly.

Following periods of very high demand on our contact centre at the start of FY22, we have significantly improved performance across all contact channels, most noticeably from November 21 to March 22. By March 22 average call wait times fell from eight minutes 17 seconds to one minute 12 seconds. Email average wait times have fallen from 25 hours 34 minutes to 20 hours 11 minutes and social media average inquiry wait times have fallen from 50 minutes 42 seconds to 34 minutes 10 seconds. We have seen

consistent advisor quality results of 85%+, while also sustaining strong customer satisfaction, with scores averaging 4.2 out of 5.

The Phase Zero changes we made in the Property Repairs Resolution Team (PRRT) are now achieving 64% first time resolution and when we receive calls about existing repairs we are more joined up, reducing inefficiencies created by unnecessary duplication of tasks. We are communicating better with our customers, sending out 3,115 text messages for winter support. We are reducing the times that we cannot access a customer's home by improving our communications, including SMS reminders four days in advance of repairs.

In January we launched Sovereign's first ever virtual assistant for simple gas boiler enquiries. Early results are encouraging; there were over 1,300 interactions across 300 sessions within one month of the launch.

Major improvements to our customer portal, MySovereign, including putting it onto a new online platform, have also improved the customer experience and increased use of the portal to pay rent. New features include the option for customers to upload images of damp and mould.

Part of putting customers at the heart of all that we do means seeing things through their eyes.

Customer journey mapping

Part of putting customers at the heart of all that we do means seeing things through their eyes and walking in their shoes. We have looked at a range of customer journeys to understand how we can improve services, as well as to recognise where things are working well.

This year our customer-led Scrutiny Group looked at the following customer journeys:

Staircasing and resales
- Two workshops
- Feedback exercise with 24 customers
- 12 service improvements recommended including dedicated case managers and final completion correspondence

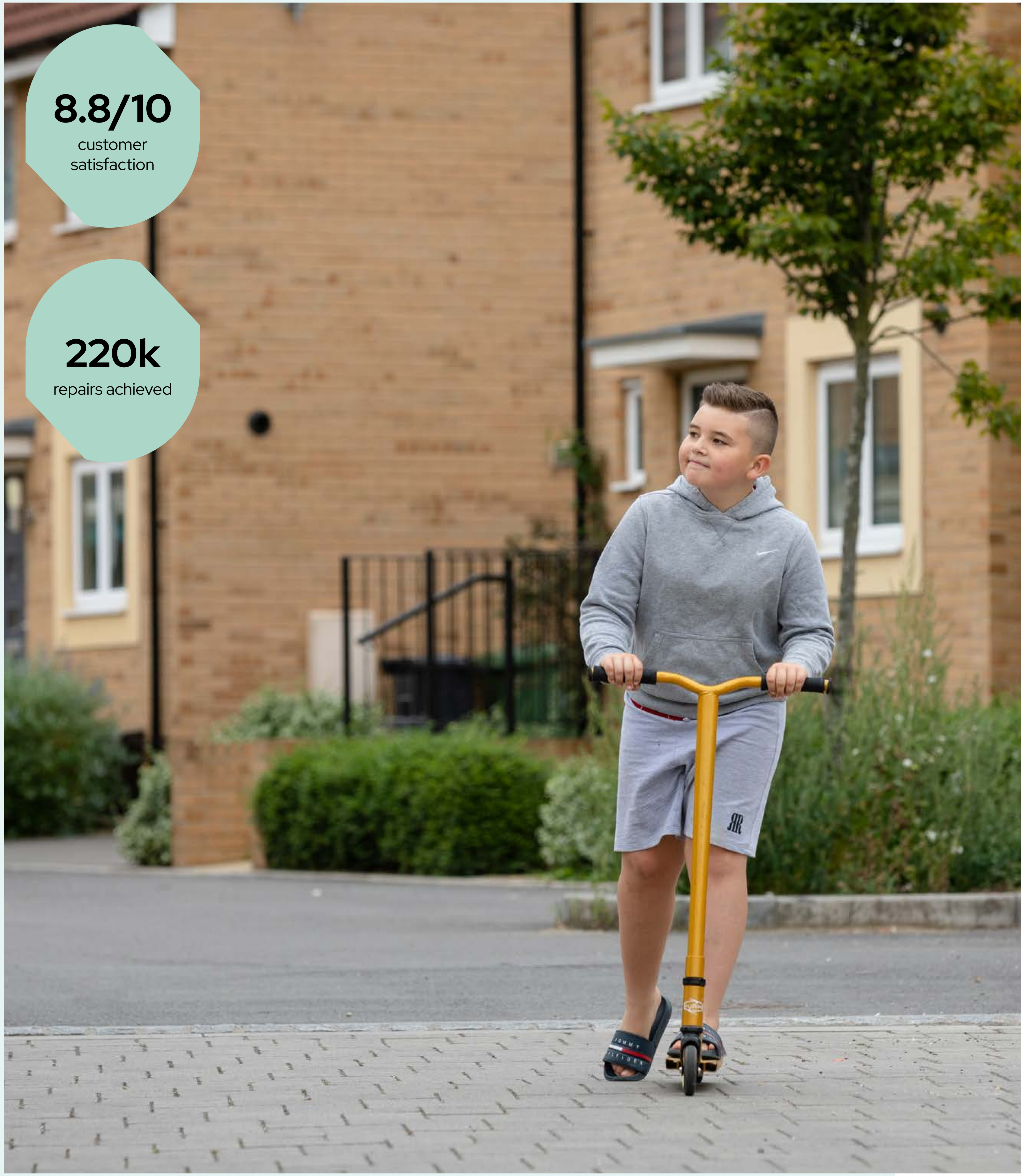
Lease extension
- Two workshops
- Feedback exercise with 26 customers
- 16 service improvements recommended including publicising the benefits of applying and using online applications

Keyworker services
- Two workshops
- Feedback exercise with 48 customers
- 54 service improvements recommended including improved signage, regular customer communications

Market rent service
- Two workshops
- Feedback exercise with 19 customers
- 10 service improvements including better advertisements and improved customer feedback for unsuccessful applicants

8.8/10
customer satisfaction

220k
repairs achieved



Delivering for our customers

Covid, storms Eunice and Franklin and the impact of the invasion of Ukraine have all increased the challenges our property delivery teams face on a daily basis. We have remained resolutely focused on maintaining a high standard of repairs and renewals for our customers.

We have responded to 220,000 repairs and customer satisfaction levels for repairs are at 8.8 out of 10. As we strive to improve the customer experience, we have introduced a second line triage team to address customers' existing repairs and speed up resolution.

We have looked hard at addressing damp and mould issues, increasing and improving training for managers and investing in new equipment so we can be more proactive in tackling it. We are trialling smart technology to monitor the humidity in homes, in effect, creating an early warning system, ensuring we can provide a responsive and preventative service for our residents.

As we clear the backlog caused by the pandemic, we are working through replacing customers' kitchens and bathrooms and we are now two fifths of the way through the original 21/22 programme. We continue to refurbish empty homes and to replace external front and back doors to improve our customers' safety and security.

Delivering for our neighbourhoods

We've sustained our strong and sector-leading approach to arrears, introducing automated rent arrears texts, ensuring 67% of customers pay their rent within one week of hearing from us.

Our new Places Impact Team is improving our focus on estate neighbourhoods and early indicators show this is improving our customers' experience on estates. In Berkshire we have brought grounds maintenance in-house to ensure a quality service.

Our new Housing Impact Team has improved support for customers to sustain their tenancies, helping 263 customers this year. We've improved routes to home ownership for customers, including support to formal qualifications.

Left:
Lyde Green, Bristol

Supporting the most vulnerable

Housing associations have a specific responsibility to help those in most need. We work closely with those without a home to improve their chances of finding stable housing and this year we completed 13 Housing First lets. We created new partnerships with Bournemouth, Christchurch and Poole council (BCP) and Southampton council to provide support for rough sleepers.

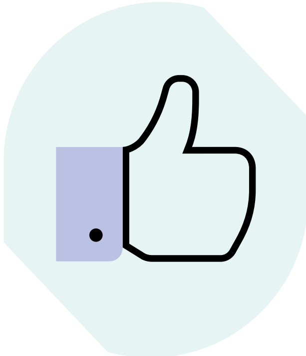
We've provided tenancy training for customers to help them move on into sustainable tenancies and we've supported nearly 300 customers to move on in a stronger position than when they joined us. Our work with homeless people in partnership with Basingstoke and Deane Borough Council (BDBC) was shortlisted in the *Inside Housing* awards for homelessness partnership of the year and our work was covered in the *i newspaper*, the *Big Issue* and on *BBC Radio Solent* and *BBC Radio Dorset*.

Customer surveys

Our quarterly Survey of Tenants and Residents (STAR) surveys ask customers to rate us on a range of factors. Over 1,500 customers took part this year, with feedback enabling us to focus on continuous improvements. Our Q4 'STAR' customer survey showed overall satisfaction for the year was 72%, despite the forecasted dip in the final quarter. This is reflective of the cross-sector volatility across the whole of the UK, and not unique to Sovereign, as customers face increasing uncertainty and anxiety with fuel and living costs rising, the onset of the Ukraine conflict and the ongoing impact of the Covid pandemic.

We work closely with those without a home to improve their chances of finding stable housing.

Nearly **300** customers supported to move into sustainable tenancies



£8m spent on fire safety improvements to high-risk properties

Keeping customers safe

We recognise the impact of cladding on customers has been severe this year, across the sector and across the country. We were successful in our bid to access government funding through the Building Safety Scheme – our customers in Quay Point in Bristol will not have to pay to replace the cladding on their building.

We have made good progress on the recommendations made at the Grenfell Phase 1 inquiry. As we mark five years since the tragic fire at Grenfell it is right that we reflect both on the progress made in the sector and on the work still to do. Much of the legislative agenda that we have to engage with over the coming years has flowed from the government's response to the fire and its aftermath. At Sovereign, many of the government's recommendations are already our best practice, but we must ensure the lasting legacy of Grenfell means that neither the building safety issues or the treatment of tenants, before and after the fire, can ever happen again.

We have spent £8m on fire safety improvements to high-risk properties. We have delivered the second phase of the enhanced empty homes pilot and allocated budget. Our new Building Safety Manager inspection regime now applies to all buildings defined as "taller buildings" and we have surveyed external walls on all blocks over five storeys, working closer to engage with and reassure customers in those blocks.

At Sovereign we know good homes enable our customers to thrive when they are rooted in vibrant communities.

499 customers helped in fuel poverty and **415** vouchers provided

Ensuring compliance

In 2021 we identified gaps in our historic data relating to statutory safety checks in communal areas of our properties: asbestos safety checks, electrical safety checks and Fire Risk Assessments (FRAs).

We immediately put in place three recovery programmes to establish whether our blocks required safety checks, and to carry them out where needed. Where blocks did not have up-to-date safety checks we added them to our reinspection programme so we could ensure the required checks were then carried out.

The asbestos programme was completed in December 2021, the electrical safety programme in January 2022 and the FRA programme in February 2022.

We referred ourselves to the Regulator of Social Housing as soon as we identified gaps in our data and on 26 January 2022 we were issued with a Regulatory Notice. We continue to work closely with the Regulator to ensure we are fully compliant.

Resident safety is a priority and it is unacceptable that our data and processes did not identify the need for safety checks in communal areas sooner. We appointed Campbell Tickell as independent consultants to understand what went wrong and we are developing a new Building Safety and Compliance Framework to ensure this can never happen again.

Supporting our communities

At Sovereign we know good homes enable our customers to make the most of their opportunities when they are rooted in thriving communities.

We secured £1.76m in external funding from a range of funders including the National Lottery Community Fund and Hampshire and Isle of Wight Community Foundation to enable us to invest more into communities. New externally funded programmes include our Skills 4 Work programme on the Isle of Wight to support people into work, Backyard Nature – connecting young people to improving green spaces where they live and age friendly communities aimed at reducing social isolation.

This year we've secured substantial external funding through the National Lottery Community Fund and the Department for Digital, Culture, Media and Sport. A grant of £225,500 will enable us to deliver a two-year social action project as part of the #iwill campaign – a programme supporting young people to have a greater say in their communities.

Through our grants programmes we awarded £90,000 through the Good Exchange platform, which attracted £122,000 of match funding from other organisations, supporting 30 projects and directly impacting over 14,000 individuals. In addition to this we awarded £79,000 through Crowdfunder platform which attracted £283,471 of match funding to support 27 projects and directly impacting over 23,000 individuals. To support improvements to open spaces we also invested £200,000 into Your Community Your Choice, where residents voted on 19 projects.

We've supported 547 community organisations with training and development opportunities and established a £100,000 grant to improve access to employment and training.

Understanding the social impact of our work is at our core so we use a variety of methods to realise the positive differences that occur. We use Housing Association's Charitable Trust (HACT) Wellbeing Valuation and have supported it to strengthen its system to measure social impact across a wider range of housing activities. Last year we generated over £53m of social value.

Maximising on opportunities for our customers and communities is a priority when working with our supply chain. Since redesigning the way we seek social value through purchasing, we've secured 10 apprenticeships, 51 days of volunteering/expert time, 25 days of youth mentoring, 53 days of work experience, 20 laptops, 20 smartphones and 23 pledges of a social value levy between 0.75 and 1.5% of individual annual contract values each year. The social value levy will be used to boost our grant giving programmes to ensure impact is delivered where needed most.

Help for those who need it most

We continue to work with customers to support them into employment and training, working with 1,053 customers and helping 273 customers get better paid work or a new job as a result.

By promoting financial and digital inclusion we can support customers to manage their finances and improve their life chances. Investing £11,160 of digital grants in equipment we've helped 23 customers get online, transforming their ability to look for and stay in work. Referring 214 customers to our independent money expert and debt advice partners we've helped customers save hundreds of thousands of pounds.

Some customers need direct interventions and this year we've helped 499 customers in fuel poverty and provided vouchers for 415 customers affected by an adverse change in circumstances.

More homes, better places

Dalby Strand,
Swindon

More homes, better places

As we transform to become a truly customer focused business, Sovereign has embarked on a major programme of regeneration and development. Our core product is delivering homes and places. We believe we provide something only a social landlord could: safe, affordable, decent homes in great places to live.

Below:
Brooklands Park, Harry Stoke

The standard is about places as much as about homes, and we have worked with colleagues to ensure that Homes and Place is championed in every part of the business.

The new homes we build are vital to addressing the housing crisis and we are unashamedly ambitious about what we can achieve. By 2027 we will be ready to build 2,400 homes a year – every single one of them meeting our Homes and Place standard. By moving to land-led development we can reduce our dependency on the infrastructure levy and build the right homes in the right places. We continue to work closely with Homes England as a strategic partner tasked with delivering more affordable homes.

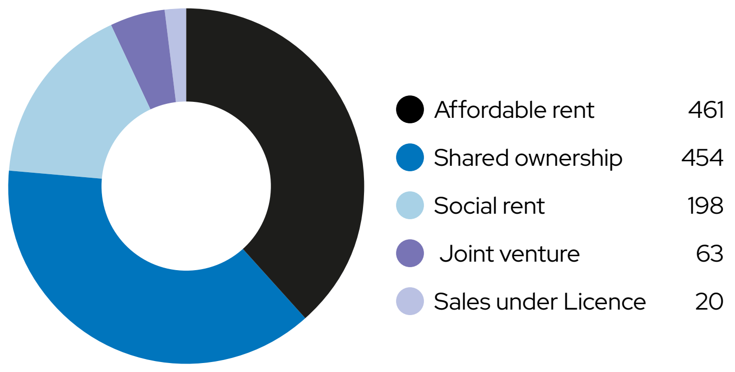
As well as acquiring land where there is housing need, we are looking at how we can play a role in regenerating high streets, town centres and communities.

We are committed to decarbonising our housing stock so we can meet our commitments on net zero. Housing is a major contributor to carbon emissions, and we want to empower our customers to have a positive impact on the environment. Indeed, a key finding in our research into customer attitudes to retrofitting was that few people are aware of quite how much a home contributes to our carbon footprint.

Our new Homes and Place standard will mean all our new homes will be net zero ready, giving us a clear pathway to be net zero by 2050. But we must invest in our existing stock too, and our plans to retrofit have made great progress this year: we stand ready to pilot and introduce new technology that will make our customers' homes more energy efficient and cheaper to run.

At Sovereign we have always understood that it's not a case of choosing between building new homes or improving the homes we own: we must do both if we are to meet our customers needs and reduce our carbon footprint. This year we have made great strides and set ambitious goals. Our work this year means we will be ready to achieve them.

We built:



The Homes and Place standard

In February this year we marked the first birthday of the Homes and Place standard and it has now been embedded in our ways of working for over a year. We've scored 58 new home opportunities, which is informing our conversations with developers to design the new homes and places we will build. We have embarked on a new joint venture with Countryside at Lotmead Farm and we will be building new homes that embody the Homes and Place standard.

We developed a new portfolio of 26 types of house and apartment. All the typologies are designed to Category 2 of the modern methods of construction definition framework, supporting our commitment to build homes with lower embodied carbon: the new designs will be 34-50% compared to traditional construction. Through their fabric and green technologies, our new homes will be more energy efficient and mean lower bills for customers.

We are also applying the standard to the 40,000 homes we rent and we will be piloting new technologies in our existing homes so we can understand how best to retrofit our stock.

The standard is about places as much as about homes, and we have worked with colleagues to ensure Homes and Place is championed in every part of the business. Through workshops, case studies and best practice tools, the standard is now part of our organisational culture. As we roll the standard out across our new and existing homes we are confident we are giving customers the safe and secure homes they want in thriving and sustainable communities.

Strategic asset management

When we launched our Homes and Place standard, we committed to carrying out an asset grading exercise to understand which of our homes meet the standard. Over the last year we have been working through the detail of this asset grading, which has helped us to prioritise areas of focus for the Strategic Asset Management Plan. A new Homes and Place task force is now applying the results of the asset grading model.

We have looked at the amount of work required and the types of interventions needed to bring a home up to the Homes and Place standard. We consider specific locations and types of property. This will inform whether we opt for regeneration, reinvestment and improvement and, in some cases, replacement. This will, in turn, inform our development pipeline. We will develop approaches tailored to homes, places and communities, so that over time the share of homes that meet the Homes and Place standard will increase.

We have used this analysis from the asset grading model to identify homes that we will use for pilot projects, testing different technologies in a range of different types of home. Once we have gathered data from the pilots we will scale up the programme and implement improvements and technologies that are right for individual homes. Our investment strategy target is that by 2026 we will invest £24m a year to bring homes up to the Homes and Place standard.

The ambition is that our whole portfolio will be zero carbon by 2050.

Regeneration is becoming an increasingly important element of our work, particularly as we respond to the opportunities presented by our strategic asset management approach.

Placemaking and regeneration

Regeneration is becoming an increasingly important element of our work, particularly as we respond to the opportunities presented by our strategic asset management approach. Creating and delivering new homes and neighbourhoods with better use of the land that we own will be a key component, as we respond to changes in demographics and housing demand – helping new and existing customers into homes that are fit for the future.

Regeneration of our own estates, together with smaller interventions, will help ensure we are creating homes that work for the long term. Interventions will consist of a range of proposals, including full regeneration, public realm and street scene investment, as well as retrofit and refurbishment of homes. Our focus is on those locations where we typically own a high proportion of stock, including Basingstoke, Bournemouth Christchurch Poole (BCP) and the Vale of White Horse, but we are exploring opportunities across our geography.

Regeneration and re-purposing of previously developed urban land that we have purchased will enable us to build homes in city centres, creating mixed-tenure neighbourhoods and schemes, with a place-led approach, that incorporates high quality public realm, together with complementary non-residential uses. All of these strands are part of a long-term strategy to create and deliver great places to live, putting positive outcomes for residents at the heart of our investment approach.

Land and planning

This year we have secured opportunities for new developments across our geography at seven sites, with offers accepted at a further 15 sites, increasing our pipeline by 750 units. We have entered into three joint ventures, including with Countryside at Lotmead Farm to deliver around 1,500 new homes.

Our forward development pipeline of 8,380 homes is above target and there are new opportunities emerging month on month.

We secured £168m through Homes England's third Strategic Partnership programme to deliver 3,338 grant-funded homes. This is on top of the £72m secured in the first round, where we are on track to deliver the 1,520 homes promised.

Sales and marketing

Despite a challenging operating environment in the wake of the pandemic and supply chain issues across the construction sector, sales results have been strong. Gross asking prices have increased by more than £2.4m and first tranche sales have been ahead of budget. We have had impressive sales at Wapping Wharf in Bristol and Knights Quarter in Winchester and demand for affordable home ownership remains high. We closed out the year in a great position for the new financial year, with a pipeline of 242 forward sales and a number of flagship developments that will support the sales programme for the year ahead.

Our approach to ESG

This year Sovereign published its first Environmental, Social and Governance (ESG) report. The report highlights our commitment to creating sustainable homes and places, maintaining strong, ethical governance structures and a supportive environment for employees and customers. The 28-page report offers an accessible snapshot of Sovereign's current attainments and future commitments.

Sovereign is meeting the Sustainability Reporting Standard for Social Housing, established in 2020 by a group of housing associations, funders, regulators, residents and other key stakeholders, led by the advisory firm The Good Economy.

This consistent and broadly-accepted sector-wide approach for ESG reporting aims to support private sector investment, using 12 themes and 48 criteria for ESG reporting by housing associations. The measures are qualitative and quantitative and align to international frameworks and standards, including the United Nations' Sustainable Development Goals, Global Reporting Initiative, the Value Reporting Foundation's SASB framework, the International Capital Market Association and the principles set out by the Loan Market Association.

Below:
Chaddington Strand, Swindon

Below:
Knight's Quarter, Winchester

Placemaking

❶ Horlicks Factory – Slough
The Horlicks Factory is a regeneration site in the centre of Slough. Working with Berkeley, the development will see 152 quality new affordable homes through Sovereign. This iconic development will retain the historic Horlicks chimney stack, enhancing the site's heritage while building homes fit for the 21st century.

❷ Willington Down – Didcot
Working closely with developer L&G/Cala, Sovereign is operating under an umbrella agreement for 279 homes. The site will add much-needed quality homes to the Oxford-Cambridge growth corridor with a Sovereign investment of £58m and placemaking at its forefront.

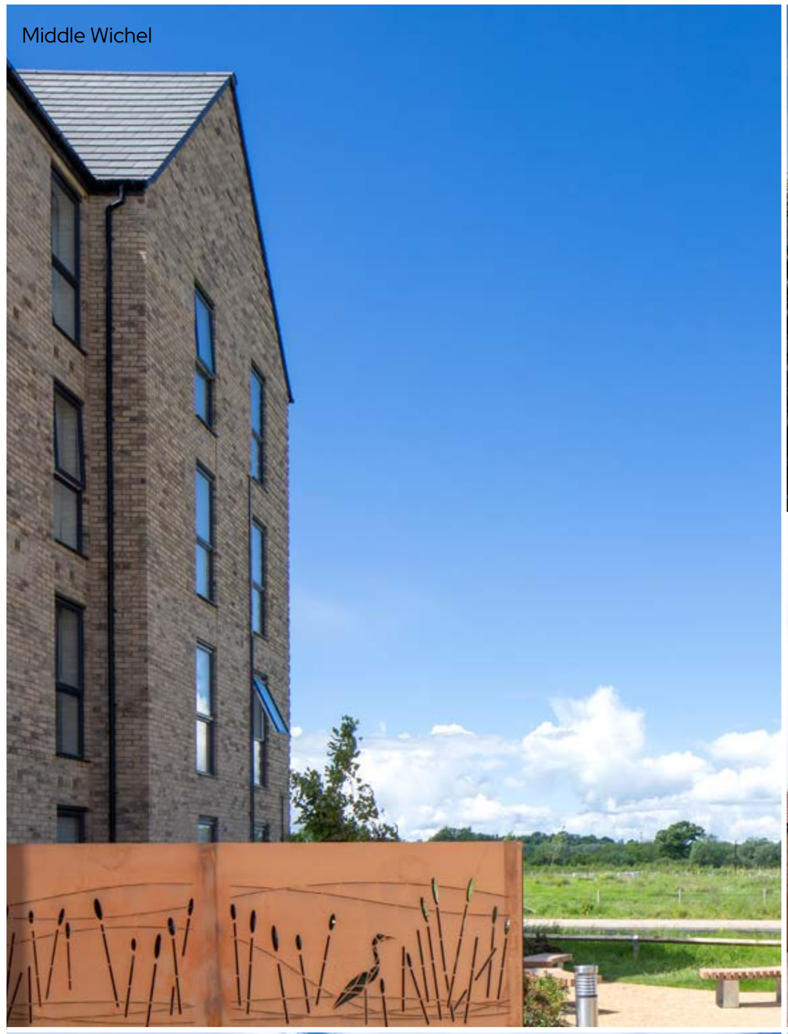
❸ Hutton Close – Newbury
In a joint venture with Sovereign and David Wilson Homes, Hutton Close is a regeneration in central Newbury of 80 quality new homes on the site of outdated, former 1960s flats and bungalows. It is a prime example of successful partnership working in Sovereign's core geography.

❹ Sopers Lane – Poole
With an investment of £27m, Sopers Lane is a Sovereign land-led development of 127 homes. With a Sovereign investment of £19m combined with £8m Homes England grant funding, and £100m funding from Bournemouth, Christchurch and Poole Council, the development has a hundred percent affordable homes.

❺ Bank and Ridge Farm – Chickerell, Dorset
A great example of placemaking, Sovereign has invested £11.5m to build 102 quality new affordable homes at this development in Dorset. Working with developer C.G. Fry, the beautifully landscaped site has integrated existing ponds while creating green open spaces and new attenuation ponds providing stunning affordable homes for the area.

❻ Edmondsham Road – Verwood, Dorset
Working with developers, Pennyfarthing, Sovereign has built 77 quality new affordable homes under a Section 106 agreement. With a Sovereign investment of £10.6m, this development is a triumph of planning as it caters to the local housing demand by providing affordable larger family homes, which are much needed in the area.

❼ Brooklands Park – Harry Stoke, Bristol
Harry Stoke 2 is the continuation of Crest Nicholson's delivery of the strategic Harcourt land in Stoke Gifford, Bristol. Sovereign and Crest entered into the Crest Sovereign (Brooklands) LLP joint venture in 2019 and signed framework agreements which govern the terms for the delivery of Section 106 and additional affordable units. Spread across seven phases, to date, Sovereign has contracted on phases one to four.


Middle Wichel


Horlicks Factory


Willington Down


Sopers Lane


Brooklands Park


Perrybrook


Bank and Ridge Farm

❽ Carriageworks – Stokes Croft, Bristol
This regeneration has breathed new life into this part of Bristol creating 112 homes. Sovereign invested £1.5m in the project, working with developers, PG Group, which reinvests into their charity. With a convenient city-centre location and impressive placemaking and charity connections, Carriageworks is an exemplar development

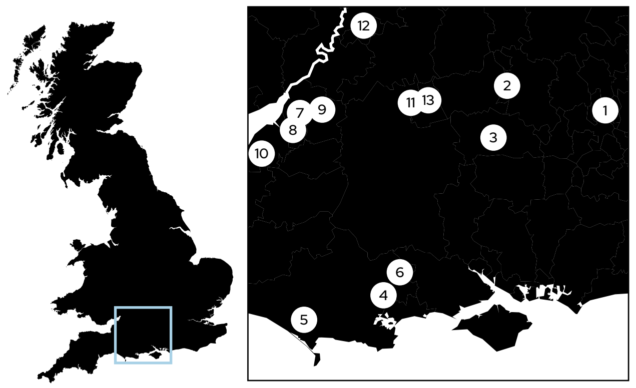
❾ Magistrates Court – Yate, Gloucestershire
This Sovereign land-led site has rejuvenated the area through the regeneration of the disused site in Yate, South Gloucestershire. The former magistrates' court is now home to 100% affordable development of 45 homes, all available for social rent.

❿ Cox's Green – Wrington, Bristol
The first affordable homes to be built in this area in the past ten years, Cox's Green, has seen a £2.9m Sovereign investment. Working with developers, Redcliffe, the homes hit Sovereign's placemaking ambitions. In an area prone to flooding, drainage basins built at Cox's Green have benefitted the whole of Wrington through improved flood defences.

⓫ Middle Wichel – Swindon
Middle Wichel is phase zero of a large strategic development which covers over 250 acres and looks to build around 4,000 homes over the next 20 years. The aspiration for Middle Wichel is to create a lifestyle destination for the future and create a vibrant new community.

⓬ Perrybrook - Brockworth, Gloucestershire
An exemplar development for partnership working, Perrybrook is a 50:50 joint venture between Sovereign and Vistry to build 225 stylish new homes with 62 affordable. Placemaking at Perrybrook includes open spaces, commercial units, community and health facilities.

⓭ Lotmead Farm – Swindon
Sovereign signed a joint venture partnership deal with Countryside to build 2,500 quality new homes in Swindon. The partnership bought 365 acres of land at Lotmead Farm where 30% of the homes will be affordable and graded against Sovereign's Homes and Place standard.



Strong foundations, more choice

Strong foundations, more choice

By making strategic decisions for the long term, we at Sovereign are in a position to invest over the next 30 years, to ensure we have access to the finance we need to deliver our Corporate Plan. Our investor strategy means we can maintain sufficient liquidity and financial robustness, providing headroom against our Golden Rules.

We're making the changes to our people, processes and systems to deliver on our ambitions for our customers. That will not only make Sovereign more customer-centric, and a better place to work, but will mean we are ready for merger if need be and able to make the joint ventures that drive our development targets.

We are now implementing our new Target Operating Model – to be in place by the end of financial year 22/23. We are redesigning our processes and leveraging new digital systems to improve efficiency and do more for less.

This year we have started to implement major changes. Our new approach to health and safety will reduce injuries and keep everyone safe and well. Improved internal communications and new channels will engage and inspire our people. Our work on Equality, Diversity and Inclusion (EDI) is already helping us to understand how we become a truly diverse workforce.

Our Corporate Plan's three pillars delineates between the services we provide directly to our customers, our development plans which build and improve their homes, and the enabling services which make that all possible. However, the passion to serve customers runs through every part of our business. In finance, people, CIO, transformation, workplace and corporate affairs our focus is as resolutely on our customers and delivering for them. This is our purpose and this is why we are driving change across the business.

A new directorate to deliver transformation

At Sovereign, change is a constant. Our 2021-26 Corporate Plan sets out our vision for the next five years. To deliver on those ambitions we are going to accelerate the pace of change. Over the last 12 months we've built the launchpad for that programme of transformation, including reconfiguring responsibilities at the Executive Board and some key strategic hires.

Our Chief People and Transformation Officer Sally Hyndman brings together the team leading transformation with the business' key support functions that look after our people, their workplaces, safety and wellbeing and how we communicate internally. This team will ensure we drive forward the agenda for change, attract and recruit talent, support people through their employment and create a great place to work. Our people are our greatest assets – creating the right structures and processes to enable employees to deliver for our customers will create the change we need in our business.

Our workplaces

We maintained open and safe workplaces throughout the pandemic, ensuring employees who wanted to work in an office could do so safely. As the restrictions ended from April 2021, we adapted to ensure a safe return to offices. We used the post-Covid return to work to test our new hybrid ways of working, trialling a flexible approach to working at home, on the road and in offices.

We are making good progress as we upgrade our business environment to support collaboration and team work in offices and flexibility of hybrid working – even before the pandemic we envisaged an end to every employee at the same desk five days a week. Our hybrid model will enable our people to deliver for our customers and we'll continue to refine it as we improve our ways of working as a business.

This year we moved into our first operational hub at Greenham Business Park, serving over 70,000 customers in around 30,000 homes across Berkshire, Hampshire and Oxfordshire. Around 500 people are now based out of Greenham, bringing together our key frontline teams.

Alongside the Greenham hub we've opened a new purpose-built Training Academy, allowing us to expand in-house training for apprentices, trades and other teams. The hub reduces our workplace estate by five buildings and some 30,000 square feet and frees us up to develop our freehold offices into new homes. We have closed our duplicate offices in Exeter and on the Isle of Wight ahead of opening modern operational hubs there next year. Overall we've saved over £0.5m in day-to-day office running costs this year.

We’ve improved our candidate journey and application process making it more targeted and responsive.

People: our greatest asset

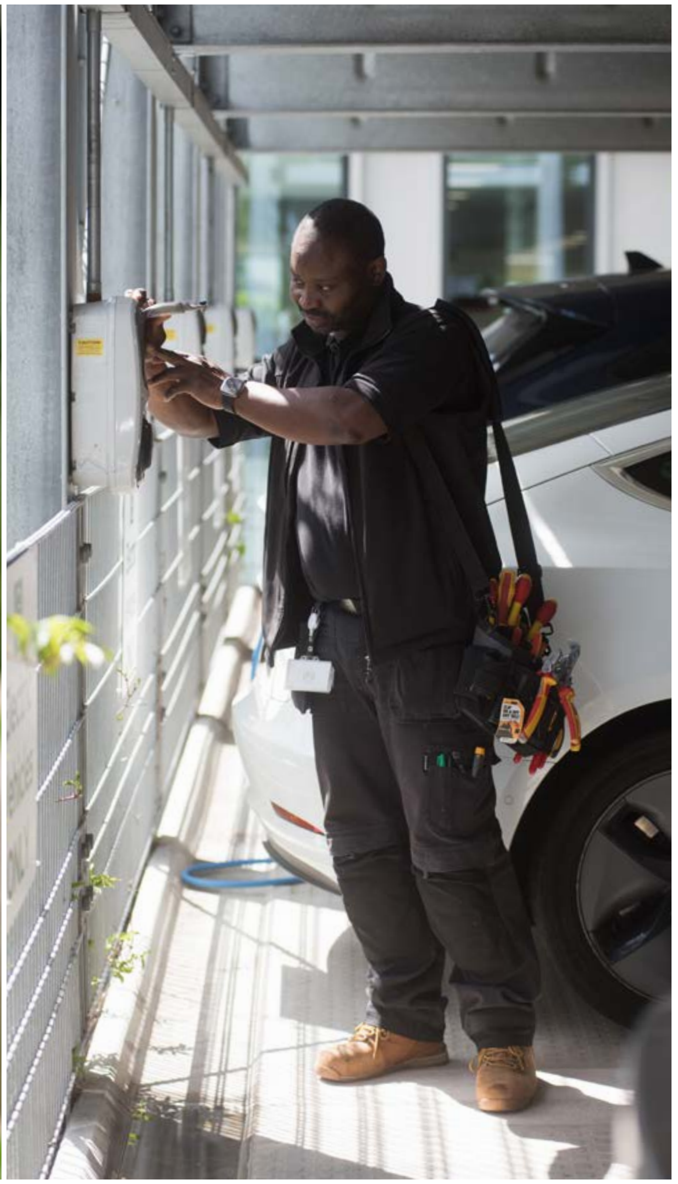
The labour market over the last 12 months has proved challenging across all our teams, driven by huge demand for skilled labour as well as changes in the labour market post-Brexit and post-Covid. Despite this we have processed some 11,000 applications, held 2,360 job interviews, and offered roles to 682 successful candidates.

We’ve improved our candidate journey and application process making it more targeted and responsive whilst broadening the channels we use for recruitment to support our ambitions around Equality, Diversity and Inclusion (EDI). Our external branding now better reflects our Employee Value Proposition as an inspiring place to work.

In response to the volatile labour market, we have reviewed salaries within our Trades Division and our Contact Centre, ensuring we are competitive and responsive to the changing market. A Fair Pay review was undertaken to understand pay gaps, including around ethnicity, gender, and disability. We have supported each Directorate in developing EDI actions focusing on education, training, and representation to create an inclusive culture and workforce. We launched a Dignity and Respect at Work (DRAW) campaign with toolbox talks for Trades. Our EDI networking groups continue to be very active, providing ideas, positive discourse and challenge on many issues and celebrating diversity at milestones throughout the year.

Our succession plans for senior leadership roles have been more visible this year and we have developed our Aspire programme into a formal apprenticeship, funded through the Apprenticeship Levy. We sponsored and developed a joint Future Leaders Programme aimed at increasing the number of leaders in the sector from Black, Asian and Minority Ethnic backgrounds and we have introduced Career Development Workshops. Our Kickstarter programme proved hugely successful with 42 candidates recruited under the scheme, with many continuing into extended programmes and permanent roles within both Sovereign and externally, with the Kickstart Project Team shortlisted for this year’s Housing Heroes ‘Team of the Year’ Award. This year we’ve recruited 41 kick-starters and nearly all of them have had contracts extended or found permanent work with us.

We continue to innovate to promote a culture of listening to employees at all levels including through targeted listening sessions for the Executive Board. Company-wide digitally accessible EB Live! online meetings have enhanced Leadership visibility across the organisation and supported clear messaging of our vision and purpose for all employees. Our Employee Experience continues to be a priority and focus providing transparent and open channels for communication and feedback so that all employees have a voice and the opportunity to contribute to the shared vision.



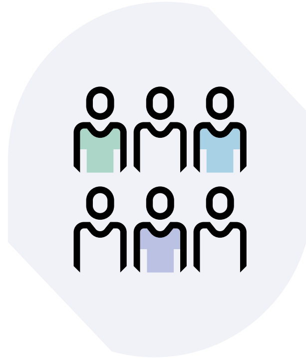
Equality, diversity and inclusion

We continue to empower our people and embed equality, diversity and inclusion (EDI) throughout Sovereign.

In March 2021 we welcomed Pamela Leonce to Sovereign as our newest non-executive board member via a live virtual event broadcast to all colleagues. Pamela shared her thoughts about joining us, our sector and race equality, how to be an ally and her thoughts on our work on race and inclusion more generally.

In April 2021 we published our new EDI Strategy 2021-2023. The Strategy sets our EDI vision and our ambitions for the next three years and commits us to bold actions aimed at moving the dial on our approach to EDI, embedding the agenda into our culture and leading by example in the sector. The EDI Strategy is accompanied by a three-year action plan that will allow us to take meaningful actions under the four strategic themes of Leadership, Representation, Employee Engagement and Inclusion and Customer Engagement and Inclusion. These themes were identified as areas that were fundamental to meeting our priorities aimed at supporting our people and meeting our customers’ needs.

Equal gender balance in our senior leadership population



50/50 representation men and women on our Executive Board

Leadership from the top was a key theme at the launch of the strategy as well as ensuring delivery of EDI is everyone’s shared responsibility. To reinforce this, the Board has taken ownership for the delivery of the strategy and signed the Board EDI Statement and EDI Objectives in September 2021. We asked senior leadership teams to take direct ownership of EDI in their areas and asked that they educate employees on the importance of EDI to their work and our overall ambitions. During the year we cemented those commitments in directorate level EDI plans with each business area taking ownership of EDI.

In November 2020 we used data to set and develop diversity targets to help drive our EDI performance forward over the next three years. Targets have been created with the overall ambition of having a workforce that is more representative of our customers and operating areas.

Supporting employees, celebrating difference and encouraging discussions on diversity and inclusion with colleagues across Sovereign has always been important to us; and our employee networks groups have continued to play a positive role in ths regard. We’re pleased to have added two more networks for Gender and Disability in 2021 to join our existing employee networks supporting ethnicity and LGBTQ+ needs.

Underlined by the ambitions set out on EDI in our Corporate Plan, our commitment is clear. We will continue to show leadership, build a diverse workforce that reflects our communities, and our work towards fairness and equity for our employees and customers alike.

Everyone safe and well

Health and safety across the business is now shared between CPTO, which is responsible for employee health, safety and wellbeing, working closely with the property services team in CIDO, which owns the new Building Safety Compliance Framework. This year we have created the new Health, Safety and Wellbeing vision, strategy and roadmap and begun the rollout of our safety learning programme with the aim of changing the way we think, talk and act when it comes to health and safety. We've reviewed our most significant safety risks around working at height and driver safety and implemented programmes to address the contributing factors to our most common incidents. We have made good progress against our key performance indicator for Health & Safety and Lost Time Injuries have reduced this year by 14%.

We have developed an occupational health safety risk control matrix. Aligned to the new Target Operating Model, the Health, Safety and Environment and Assurance structure will enable us to meet our ambition, set out in the Corporate Plan, to be a sector leader on health and safety.

Digital transformation

Supporting our customers onto digital platforms is key to our meeting changing customers needs and to making processes easier for customers and employees. We have committed in our Corporate Plan to making things so easy and accessible for our customers that they will want to interact with us digitally wherever possible. This year we have built Digital First solutions into projects including Homes and Place and Customer Experience. We have also brought onboard a new automation technology partner to accelerate the rollout of automated processes.

The launch of MySovereign on a new platform has improved the customer experience and increase personalisation. We are now on track to deliver 400 digitally-connected homes in 2022 and we are moving towards digital self-service for customers using new customer contact technology. This will improve how we gather customer insights and how we handle complaints.

We've upgraded equipment and set up new contracts, giving our people the means to do their jobs and reducing overall costs. We've responded to the increased cyber threat and rolled out cyber awareness training for all staff.

42
candidates recruited under our Kickstarter programme

14%
reduction in Health and Safety and Lost Time injuries

Data

We've established new Data Governance and Data Quality working groups to implement the Data Strategy. This is also driving significant savings. Finance, customer complaint and contact centre data is now stored centrally, giving us the insights we need to redesign our services, improve customer experience and deliver on our obligations in the Social Housing White Paper.

There are now designated people responsible for data across the business, improving how we gather insights and reduce the impact of poor-quality data. This is helping us manage customer issues like damp and mould and reducing handling times.

We are now on track to deliver 400 digitally-connected homes in 2022 and we are moving towards digital self-service for customers using new customer contact technology.

Treasury management

The management of treasury is key to ensuring sufficient facilities are in place to support our corporate plan and its development programme. Our Treasury Management Policy sets the framework for managing the treasury activities and encompasses strong governance procedures. The Board delegates responsibility for the approval and regular review of the policy to the Treasury Committee. Treasury strategy is reviewed on an ongoing basis and a documented Treasury Plan is prepared at least every year and signed off by the Treasury Committee.

Capital structure

Sovereign is financed by a combination of capital market bonds, long and short-term bank debt, Social Housing Grant funding and retained surplus. We followed our previously-issued bonds of 2009 and 2012 with a new issuance in November 2019 totalling £375m (£125m retained) due November 2048, the £125m retained element was issued in May 2020 which saw significant investor appetite enabling pricing at sub 2% interest rates whilst improving our liquidity position to provide sufficient liquidity through the pandemic.

Security

All of Sovereign's debt facilities are secured facilities, with security provided by way of charges over housing properties and at year end all of the facilities were fully secured. As at 14 April 2022 we had just under 20,000 units unsecured, with a value in the region of £1.7bn, of which, £517m was charged but unallocated with our security trustee and is therefore ready and available to be pledged as security for any future funding requirement. Accordingly, considerable secured borrowing capacity remains available to support ongoing development.

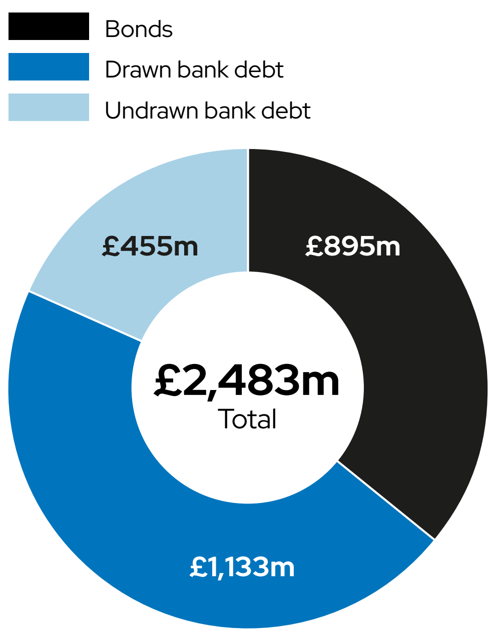
We are confident our financial position makes Sovereign a strong investment proposition and, in the absence of a material change in market sentiment, further funding to support our development programme should be available at competitive rates, as has been shown by the recent bond issuances.

Covenants

Sovereign's bonds and bank debt include various covenants and undertakings. The financial covenants are primarily in respect of Interest Cover, gearing and asset cover. Compliance with financial covenants is monitored on an ongoing basis with tighter embedded Golden Rules for Interest Cover and gearing metrics and there have been no covenant compliance or Golden Rules breaches during the financial year. Future compliance is considered as part of regular quarterly forecasting and as part of the business planning process.

Our latest business plan reflects considerable headroom in relation to all interest cover and valuation based gearing covenants. Regarding our asset cover covenants, we regularly review the level of security secured against our facilities, ensuring assets are valued at their optimal value. We seek to maintain a level of headroom on all facilities to provide ease of releasing properties in relation to staircasing of shared ownership homes or as part of our Strategic Asset Management programme.

Total facilities



Liquidity

Sovereign has a minimum liquidity Golden Rule in line with the Regulator of Social Housing's 18 month rule which is monitored monthly, whereby we require cash and immediately available finances to be in place to cover all net expenditure excluding all uncommitted or aspirational development spend and all sales income for at least the following 18 months. As at 31 March 2022, Sovereign's available liquidity totalled £501m. In addition, we had £441m charged and ready to charge security at optimal value to provide ease of access for any future facilities, so we remain well placed to protect ourselves from any unexpected eventualities arising from economic, political or regulatory challenges.

Sovereign's finance facilities have a weighted average term of 14 years (2021: 15 years), with £413m of debt facilities maturing in the next three years. Of this £413m, £250m relates to an undrawn club facility which we would look to refinance or extend to improve our liquidity position. Counterparty exposure is managed by keeping cash balances low and through retaining available facilities across a number of funders.

Interest rates

Sovereign's own-name bonds bear interest at fixed rates, as does our various borrowing through The Housing Finance Corporation and Affordable Housing Finance and the drawdowns from the European Investment Bank facility. Bank debt is at a combination of fixed and variable rates. Interest rate exposure in relation to the variable rate bank debt is managed using standalone interest rate derivatives. The average interest rate payable in the year was 3.7% (2021: 3.8%).

Sovereign's annual business plan is stress-tested to ensure it is not unduly exposed to risks associated with interest rate movements and the interest rate hedging strategy is adjusted as considered appropriate. As at 31 March 2022, 88% of drawn debt was at fixed rates or at rates fixed through the use of derivative financial instruments. The value of Sovereign's standalone interest rate derivatives is reflected on the balance sheet. As at 31 March 2022, the aggregate value of these derivatives was £59m negative (2021: £84m negative), all of which is covered by thresholds and property security with no requirement of cash security.

Left:
Chaddington Strand, Swindon

Governance

Sovereign is a Registered Society under the Co-operative and Community Benefit Societies Act 2014 and is a registered provider of social housing of which our primary business is the provision of housing at below market rates. The Board presents its report and audited financial statements for the year ended 31 March 2022.

The Board believes that Sovereign is well placed to manage its business risks successfully despite the current economic uncertainties. As a consequence, the Board has a reasonable expectation that it has adequate resources to continue to adopt the going concern basis in preparing the annual financial statements.

Group structure 31 March 2022

The main trading activities are undertaken by Sovereign Housing Association Limited, the 'parent', with the Group structure and purpose of the subsidiaries as shown below, excluding dormant and non-trading subsidiaries.

Sovereign Housing Association Ltd CCBS / RP

- Sovereign Advances Ltd — CLS
  - Sovereign Housing Capital — PLC
- Sovereign Housing Design & Build Ltd — CLS
- Sovereign Housing Partnerships Ltd — CLS
  - Sovereign BDW (Hutton Close) — LLP 50%
  - Linden Homes Westinghouse — LLP 50%
  - Tilia Sovereign — LLP 50%
  - Sovereign BDW (Newbury) — LLP 50%
  - Crest Sovereign (Brooklands) — LLP 50%
  - Linden Sovereign Brockworth — LLP 50%
  - Homes for West Berkshire — LLP 50%
  - Countryside Sovereign Swindon — LLP 50%
- Sovereign Living Ltd — CCBS / RP
- Sovereign Housing Developments Ltd — CLS
- Spectrum Premier Homes Ltd — CLS
- Spectrum Property Care Ltd — CLS

CLS Company Limited by Shares
CCBS Co-operative and Community Benefit Society
LLP Limited Liability Partnership
RP Registered Provider

Company Secretary

Charlotte Ferris, ACIS
(resigned 13 May 2021)

Iain Mackrory-Jamieson
(appointed 13 May 2021)

Registered office

Sovereign House
Basing View
Basingstoke
RG21 4FA

Advisors and Board members

External Auditor
KPMG LLP
Tollgate
Chandler's Ford
Eastleigh
Hampshire
SO53 3TG

Principal bankers
National Westminster Bank PLC
Abbey Gardens
4 Abbey Street
Reading
RG1 3BA

Principal valuers
JLL
31 Great George Street
Bristol
BS1 5QD

Principal solicitors
Trowers & Hamlins LLP
3 Bunhill Row
London
EC1Y 8YZ

Board members as of 31 March 2022

Paul Massara
Chair
Appointed 2020

Stuart Laird
Vice Chair of Board and Chair of Major Projects Committee
Appointed 2016 (joined Sovereign 2014)

Barbara Anderson
Chair of Audit and Risk Committee
Appointed 2016 (joined Sovereign 2014)

Lee Bambridge
Chair of Treasury Committee
Appointed 2016 (joined Sovereign 2013)

Angela Williams
Chair of Remuneration and Nominations Committee
Appointed 2017

Jennifer Dykes
Resident Board member and Board representative to the Resident and Board Partnership
Appointed 2016

Pamela Leonce
Board representative to the Resident and Board Partnership
Appointed 2021

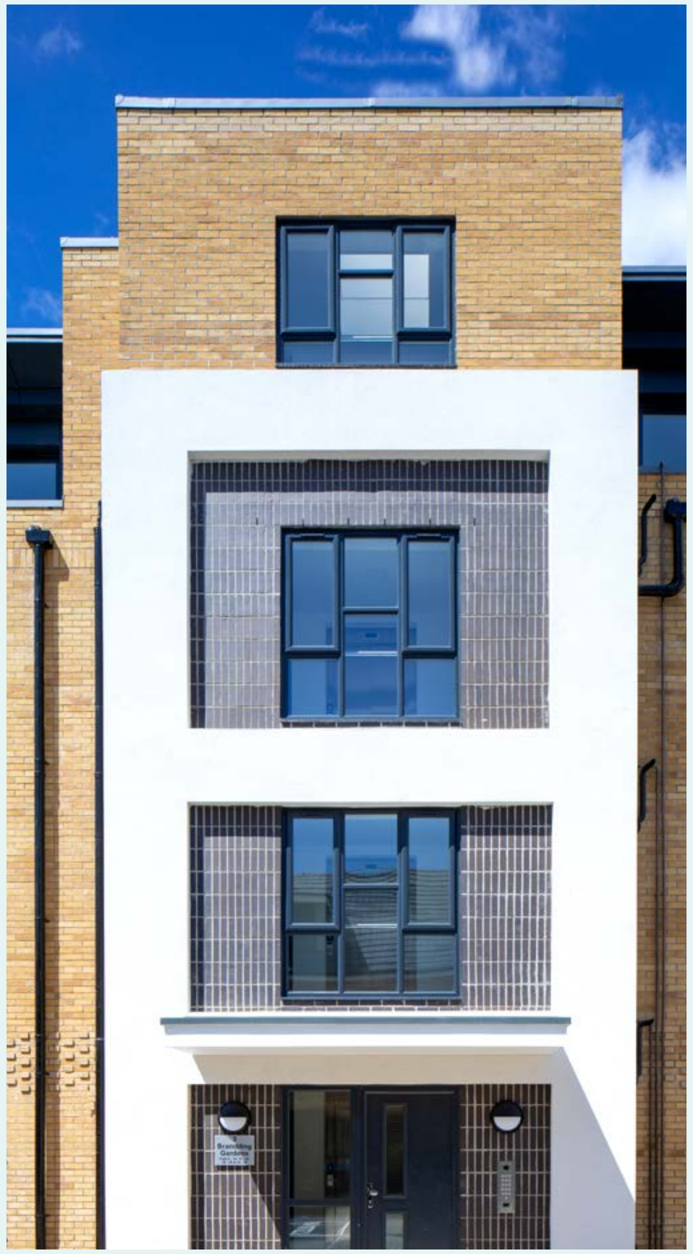
Claire O'Shaughnessy
Appointed 2016 (joined Sovereign 2015)

Jane Wynne
Appointed 2019

Mark Washer
Chief Executive
Appointed 2018

Tracey Barnes
Chief Financial Officer and Chair of Investment Committee
Appointed October 2019

Below:
Sopers Lane, Poole



Board responsibilities and governance

Governance framework

As well as a broad range of skills and experience, the Board's decisions are informed by expertise and scrutiny from its supporting committee structure. This is further enhanced by challenge and insights from the Resident and Board Partnership, the Scrutiny Coordination Group and Community Engagement Groups.

Working together with our customers

This year our Resident and Board Partnership chair Joyce Ward was awarded an MBE in the New Year's Honours. This is in recognition of her services to housing and her many decades of service to the community. Joyce was also shortlisted for a lifetime achievement award and a resident engagement award by the Chartered Institute for Housing (CIH). Along with Alan Philips and Francesca Best, Joyce is now part of the Housing Ombudsman working group.

Our Resident and Board Partnership (RBP) enables customers to influence our long-term plan, polices and service as well as providing scrutiny. This year RBP provided input into the new Performance Matrix for customer-related performance. We continued to shape the Customer Impact Strategy.

RBP held a series of "deep dive" meetings to look at specific issues around customer service, including the new customer chat box and complaints. We attended meetings with a range of Sovereign employees to understand "a day in the life" of frontline staff.

To support engagement with government we responded to the Department of Levelling Up, Housing and Communities' consultation on Tenant Customer Satisfaction Measures. We will continue to work with government as new consumer standards are brought in through the Social Housing Bill, as well as ensuring that Sovereign's engagement with customers is fit for purpose.

In October 2021 we hosted an online get together to celebrate all that the Scrutiny Group and RBP had achieved through the pandemic and made presentations to the Executive Board and to the Board.

Customer-led service scrutiny

This year the Scrutiny Co-Ordination Group (SCG) looked at:

- Community grants
- Social media

Five volunteer residents carried out the inquiry into the application process for Sovereign's community grants. We interviewed seven members of the Communities Team and helped map the customer journey through the application process. SCG interviewed 19 organisations who had received grants from Sovereign.

The SCG's recommendations are designed to increase the visibility of the grants and to inspire groups to apply. As a result:

- Visibility of community grants schemes has improved on social media, Sovereign's own website and elsewhere online.
- The Communities Impact Report is online, including case studies.
- A new "Community Grants Offer" document was prepared for smaller grass-roots groups to guide them through the application process.
- Community Development Officers have had training in our payment systems.

Six residents took part in an inquiry into customer use of social media, both in terms of content promoted by Sovereign and interactions with customers. SCG interviewed 10 employees in Corporate Affairs, Customer Experience and the contact centre and surveyed the social media use of 57 customers. Recommendations will be used to improve the use of social media as part of the Channel Strategy.

By recruiting engaged residents, a wider group of Sovereign's customers are shaping services and policy, including the Homes and Place standard, procurement, building safety and customer journey mapping.

RBP and SCG members attended 29 external training courses run by Tpas, the tenant engagement experts and the Housing Quality Network on topics including housing law, complaints, and national engagement standards. Engaged customers have spoken at 11 conferences this year.

By recruiting engaged residents, a wider group of Sovereign's customers are shaping services and policy.

Our Youth Panel

Our youth panel members provide a voice for young people living in our homes. Made up of nine 19 to 25-year-olds, the group works with our charity partner Creative Youth Network to highlight housing and community issues and discuss ways we can make changes. It also offers the young people involved an opportunity to grow their skills in the areas of policy and campaigning.

The Communities Team this year secured funding through the #iwill fund (a £54 million joint investment between The National Lottery Community Fund and the Department for Digital, Culture, Media and Sport) which aims to make social action a part of young people's lives.

Sovereign is acting as a match funder and awarding grants on behalf of the #iwill Fund. Our two-year project aims to create opportunities for young people by working with grass roots organisations. The Youth Panel will play a key role in this project, working closely with the Communities Team to distribute £200,000 of funding to organisations across Sovereign's geography in support of youth social action and youth voice projects.

Top left:
Youth Panel members

Top right:
Joyce Ward, MBE

Meet our Board

Paul Massara
Chair
Appointed as a Board member and Chair in 2020

A former CEO of RWE Npower, with extensive experience in the energy industry at Board level.

An experienced non-executive and executive director, Paul is an active member on the executive committee of both RWE and Centrica/Direct Energy and a non-executive director of Electron.

Angela Williams
Remuneration and Nominations Committee (Chair)
Appointed as a Board member and Committee Chair in 2017

An experienced executive and non-executive who has worked across FTSE30, US (incl. NASDAQ) and French listed companies.

Angela's expertise includes strategy design and delivery, global transformation, leading and creating customer focused businesses and teams as well as culture development and change management. Other skills include mergers, due diligence, restructuring, reward and pensions, leadership and talent development, employment law, business turnarounds, digital transformation, growth delivery and corporate responsibility.

Barbara Anderson
Audit and Risk Committee (Chair)
Treasury Committee
Appointed as a Board member in 2014 and Committee Chair in 2016

Barbara is an experienced Chair and NED with a background in corporate finance and growth strategy. She has worked across private (including listed), public and third sectors in several markets including finance, technology, property and retail. She holds a portfolio of Board roles including NED and Chair of RemCo for the British Business Bank, SID and Chair of ARC for SmartDCC Ltd and NED for BSV2 VCT.

Originally trained as an architect, Barbara has particular interests in property technology and data, placemaking and sustainability.

Lee Bambridge
Treasury Committee (Chair)
Appointed as a Board member in 2013 and Committee Chair in 2016

Lee is the Chief Risk Officer at Newbury Building Society. He is a chartered accountant and corporate treasurer. He previously worked in the aerospace industry.

Mark Washer
Appointed as CEO and a Board member in 2018

Mark, a highly skilled executive and non-executive with 25 years in the housing sector, joined Sovereign from Clarion in 2018. He is a chartered accountant, having qualified with Deloitte.

Mark is also a former Board member and vice chair of the National Housing Federation and has been involved with a number of national charities, including Citizens Advice.

Pamela Leonce
Resident and Board Partnership member
Appointed as a Board member in 2021

Pamela is an experienced housing professional with over 30 years' experience in the sector. She has extensive governance and leadership experience having been executive director across housing, health, social care, and in the criminal justice sector. She is CEO of Stowhill Consultancy, Chair of Inquilab Housing Association and an Equality, Diversity & Inclusion Advisor to an international executive search firm.

Pamela is passionate about good governance and the impact it has on creating sustainable and diverse organisations.

Claire O'Shaughnessy
Audit and Risk Committee member
Appointed as a Board member in 2016

Claire helped set up the Homes and Communities Agency before leading many of its major land, regeneration and investment programmes from 2008 to 2014.

Claire brings experience from the Defence Infrastructure Organisation and Deloitte Real Estate as a director in real estate consulting.

Claire was a Board member of Spectrum Housing Group Limited from 2015.

Jane Wynne
Major Projects Committee member
Appointed as a Board member in 2019

Jane is a senior executive with more than two decades of property asset management and business experience in driving organisational improvement for leading owners, investment managers, operators and advisors.

Jennifer Dykes
Resident Board member
Remuneration Committee member
Appointed as a Board member in 2016

Former NHS manager Jenny has been a social housing resident for over 40 years. Her focus is on ensuring Sovereign remains a strong organisation, committed to maintaining high standards of service and providing housing for those in need.

Stuart Laird
Vice Chair
Major Projects Committee (Chair)
Appointed as a Board member and Vice Chair in 2016 and Committee Chair in 2021

Stuart is a senior executive with a proven track record in facilities management and outsourcing markets, with expertise in leading on property acquisitions and disposals.

Tracey Barnes
Investment Committee (Chair)
Treasury Committee
Appointed as CFO and a Board member in 2019

Tracey, a PwC-trained chartered accountant, has an impressive 30-year career, here and abroad, most recently holding senior finance positions at Diageo, the international beer and spirits giant.

Tracey has a strong background in commercial finance, and is an experienced CFO, committed to developing successful teams as well as being passionate about equality.

Above:
Verwood,
Dorset

Far right:
Carriageworks,
Stokes Croft

Corporate governance statement

The Board of Sovereign has carefully considered the requirements of the regulatory standards and has robustly assessed and taken assurance of Sovereign's compliance with them during the year.

Sovereign self-referred issues to the Regulator for Social Housing (RSH) relating to the exclusion of some communal areas of properties from Sovereign's health and safety inspection programmes for asbestos, fire, and electrical safety in August 2021. This resulted in a Regulatory Notice being issued against Sovereign by the RSH in January 2022.

The Board certifies that Sovereign Housing Association has otherwise complied in all material aspects with the RSH's regulatory standards during the reporting period ended 31 March 2022.

The Board has assessed its compliance against its adopted Code of Governance and is satisfied that the organisation's governance is compliant with the material aspects of the code and is supported by its internal controls, policies and procedures.

An assessment against the Code for the previous year was undertaken in June 2022, where it was established that there were minor variances with the Code which require formalisation of currently compliant practice.

Below:
The Racecourse, Newbury

Far right:
Vyne Park, Basingstoke

Compliance with the Regulator for Social Housing Governance and Financial Viability Standard

The Board of Sovereign has carefully considered the requirements of the regulatory standards and has robustly assessed and taken assurance of Sovereign's compliance with them during the year. On this basis, the Board certifies that Sovereign Housing Association has complied in all material aspects with the Regulator of Social Housing's (RSH) regulatory standards during the reporting period ended 31 March 2022.

We review our performance with our shareholders each year at the Annual General Meeting. This year the meeting will be held at online at 4:00pm on 28 July 2022.

Regulatory performance

On 29 June 2022 the RSH confirmed that we comply with its Governance and Financial Viability Standard, but re-graded us at G2 in light of areas we are improving in relation to our management of data and risk. We anticipate a return to G1 in the coming financial year.

The current grades and straplines are:

G2 The provider meets our governance requirements but needs to improve some aspects of its governance arrangements to support continued compliance.

V1 The provider meets our viability requirements and has the financial capacity to deal with a wide range of adverse scenarios.

Appointment of the external auditor

It is Sovereign's policy to retender the external audit every seven years. The current external auditor, KPMG LLP, was successful in the competitive tender process in 2018. A resolution to reappoint KPMG as Sovereign's auditor will be proposed at the 2022 Annual General Meeting.

The Committees

An experienced and robust committee structure ensures the Board has the necessary insight, challenge and assurance to make the best decisions. Our committees include Board members as well as independent experts, who bring an external view and specialist skills.

Audit and Risk Committee

The Audit and Risk Committee (ARC or the Committee) oversees internal control and risk management procedures as well as reviewing the financial statements. The Committee provides challenge and scrutiny and ensures our risk profile is managed in accordance with our strategy and risk appetite.

The Committee meets at least four times a year and regularly reviews its policies, its effectiveness and ensures its work plan is in line with its delegations from the Board and its terms of reference.

During the year, ARC continued to review the development of Sovereign's risk management framework, monitored its risk appetite and Sovereign's key strategic risks. The Committee also approved the renewal of Sovereign's insurance programme, taking into account the organisation's principal risks.

Sovereign continued its co-sourced internal audit approach, led by the Audit and Risk Director, with external expertise procured for those specialist audits requiring specific expertise and skills. The internal audit plan was agreed by the Committee and reported to Board, with the effectiveness of these arrangements being monitored on an ongoing basis and a focus for 2022-23.

A key focus of internal audit for 2021-22 remained health and safety – ensuring the wellbeing of Sovereign's residents and employees, particularly within the context of the pandemic and that we continue to meet our statutory and regulatory obligations. The Committee is particularly focused on the remedial actions taken to address the data discrepancies which were self-referred to the Regulator in October 2021, and which Sovereign continues to work with the Regulator to assure the safety of residents.

The external auditor attended all the quarterly meetings ensuring there was an open dialogue and ability to keep abreast of the sector and accounting related matters.

For the year ahead, the Committee will continue to oversee Sovereign's response to global matters impacting the organisation and its residents, from a risk and internal controls perspective as well as focussing on areas such as income and arrears management.

The Committee will also continue with its full and rolling annual workplan, which for 2022-23, includes the review of the internal audit framework; oversight of the implementation of the risk management framework; oversight of any risks arising from Sovereign's compliance with its regulatory and statutory duties; and our ability to deliver our corporate plan.

The wellbeing of residents and employees, remains our key focus.

The Oaks, Chudleigh

Above:
London Road, Hook

Treasury Committee

The Treasury Committee oversees Sovereign's treasury and funding activities, ensuring sufficient facilities are available to support the agreed strategy, and providing challenge and scrutiny of the Treasury Strategy and risk management. The Committee also considers the treasury-related business planning assumptions and stress tests.

During the year, the Committee consisted of two Non-Executive Board members, an independent member and the Chief Financial Officer and is supported by independent treasury advisers. The Committee met five times during the year.

Liquidity and new funding opportunities have been a key focus over the last year, reflecting Sovereign's substantial development plans combined with an uncertain political and economic environment.

The Committee continues to review Sovereign's Golden Rules to ensure their alignment with our corporate strategy and risk control framework as well as making sure they continue to be as clear as possible and fit for purpose.

Regular further fundraising will be required to support Sovereign's strong development programme. This is expected to involve further issues of long-term debt in the capital markets and whilst there is current volatility in these markets, these historic deals really don't provide any confidence that the market will be there when required.

Looking ahead, it is anticipated that the global economic and political situation may continue to have an impact on the capital markets, particularly in the immediate and short terms. Accordingly, the Treasury Committee will monitor this closely through market intelligence and via the consideration of the potential impact of external influences on Sovereign via the latest forecasts and a range of stress tests, and will take appropriate action where necessary.

The Committee scrutinised the talent and succession strategy which aims to deliver an increased pipeline of future talent to enable Sovereign to deliver its ambitions.

Remuneration and Nominations Committee

In support of the Board, the Committee's role is to provide challenge, scrutiny and support in reviewing the People Strategy and related policies that have a significant implication or risk to Sovereign. It also considers issues relating to the contracts of employment for the Executive Board together with strategic issues relating to the compensation and benefit packages for employees.

The Committee has responsibility for overseeing the recruitment, induction and training of all Board and Committee members which this year has focused on planning for the succession of three new Board members on 2022-23.

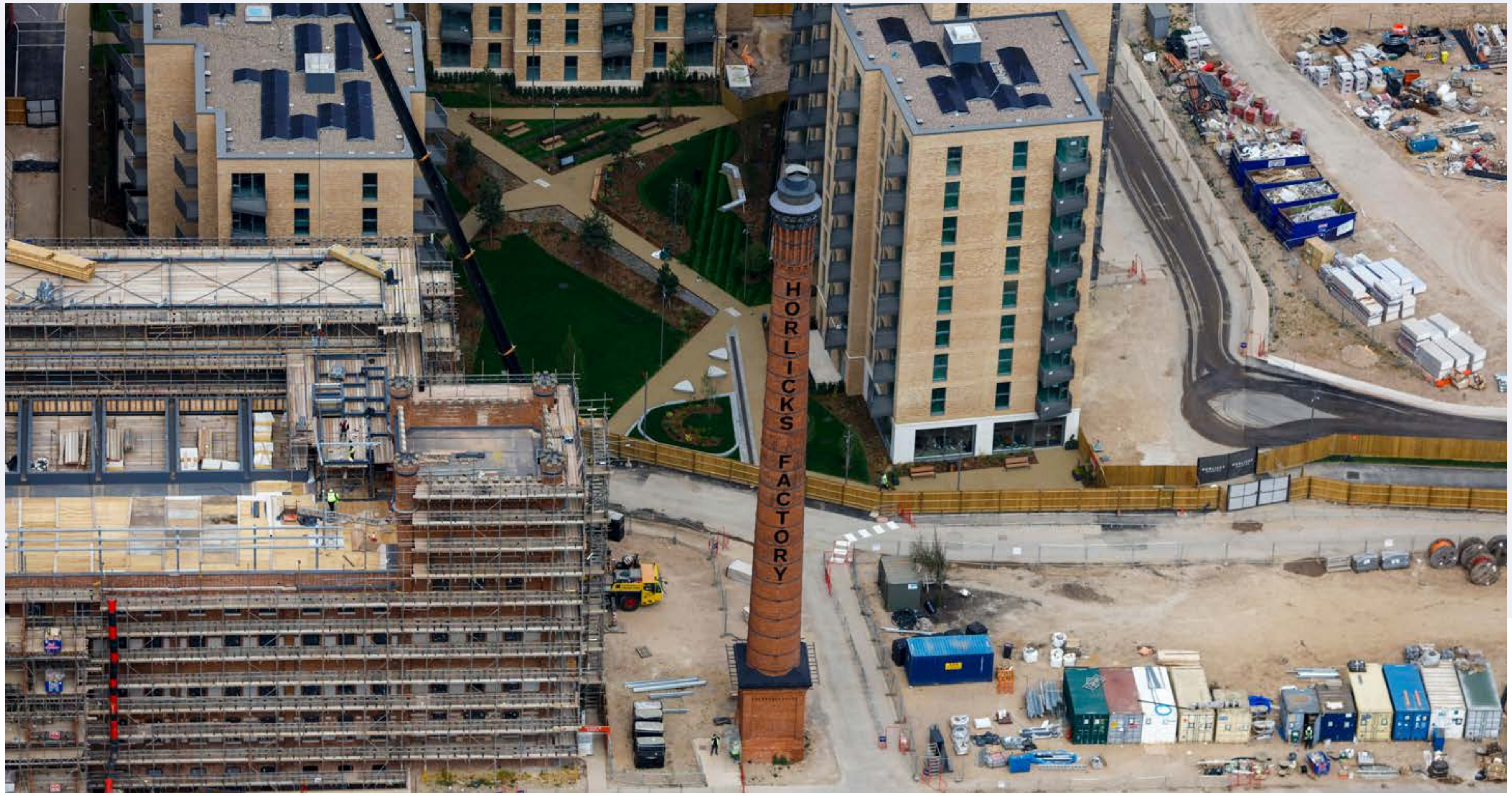
The Committee includes two Non-Executive Board members together with two independent members. The Chief People and Transformation Officer and the Director of Governance and Regulation support the Committee.

During the year, the Committee scrutinised the talent and succession strategy which will be increasingly given a high profile at Board level, and which aims to deliver an increased pipeline of future talent to enable Sovereign to deliver its ambitions. The Committee maintained oversight of the continued delivery of the Workplace strategy during the period from the 'people' perspective, providing challenge, guidance and support throughout in order to enable the culture and create a modern and more efficient business with better ways of working to deliver improved service for our residents.

Looking ahead, the Committee has a full and rolling annual workplan based on its terms of reference and reviewed at each meeting. Key strategic priorities for the Committee on behalf of the Board in the forthcoming year are to oversee the continued development of talent and succession plans from Board and Committee members to senior leadership, ensuring that Sovereign's strategic leadership remains appropriately skilled. The succession plans also aim to ensure that the membership of Sovereign's Boards and Committees are appropriately diverse within the context of the communities Sovereign serves and in line with Sovereign's Equality, Diversity and Inclusion Strategy.

The Committee will continue to monitor the Pensions Strategy including the arrangements with Sovereign's four Local Government Pension Scheme providers.

An experienced and robust committee structure ensures the Board has the necessary insight challenge and assurance to make the best decisions. Our committees include Board members as well as independent experts, who bring an external view and specialist skills.



The Major Projects Committee

Sovereign's new development strategy was approved in 2019-20, making a strategic move towards land-led development to produce a more viable model in the long term. This provides a greater opportunity to be an influential place maker and make sustainable communities a key driver, while providing an alternative view to the use of cross subsidy.

During the year, the Major Projects Committee has continued to monitor delivery of the strategy, overseeing all major and complex development, commercial and asset management schemes of all tenures including social and affordable rent, shared ownership, market rent or open market sale.

The Committee's remit included the scrutiny of major projects involving the remodelling, rehabilitation, regeneration and disposal of existing homes owned by Sovereign alongside the approval and monitoring of all land acquisitions required to facilitate any new development project.

The Committee provided thorough scrutiny of the new Strategic Asset Management strategy and the Homes and Place standard prior to Board approval, monitored the development of joint venture partnerships entered into by Sovereign, ensured regular updates were supplied to the Board and emerging risks were escalated as required in a timely manner while consistently challenging the various development opportunities which arose.

The Committee's membership included two non-executive Board members (one of whom chairs the Committee), an independent Non-Executive member and the CEO and CFO.

An (Executive) Investment Committee continued to oversee the delivery of the development programme and the strategic asset management programme.

In the year ahead, the Major Projects Committee will maintain a focus on Sovereign's evolving Investment Strategy, continuing to embed the Homes and Place standard and giving ongoing consideration to existing and new joint venture opportunities, where these deliver and enhance the strategy, and the delegations required to allow the strategy to achieve its outcomes smoothly and to remain within the business plan.

Above:
Horlicks Factory, Slough

The Executive Board

Sovereign's leadership and management structures provide the expertise and framework to achieve our strategic objectives. The Executive Board works to protect and grow the business, while overseeing our performance, as we build and provide great homes that people choose to live in, as well as providing a great customer experience.

Mark Washer
Chief Executive Officer
Appointed June 2018

Tracey Barnes
Chief Financial Officer
Appointed October 2019

Nicole Sharp
Chief Operating Officer
Appointed April 2021

Tom Titherington
Chief Investment and Development Officer
Appointed January 2019

Sally Hyndman
Chief People and Transformation Officer
Appointed January 2021

Kevin Ives
Chief Information Officer
Appointed August 2019

Risk context

Managing risk

Risk represents uncertainty and is inherent in any business. Our Board actively manages the risks faced by Sovereign through our enterprise risk management framework, which is continually being adapted to remain effective in the increasingly uncertain world around us.

Risk appetite

Knowing how much appetite we have for different risks is fundamental to effectively managing risk. We start with our risk universe, which is where we capture all the potential sources of risk to the organisation. The Board uses a widely recognised five-point scale to define how much risk it is willing to take.

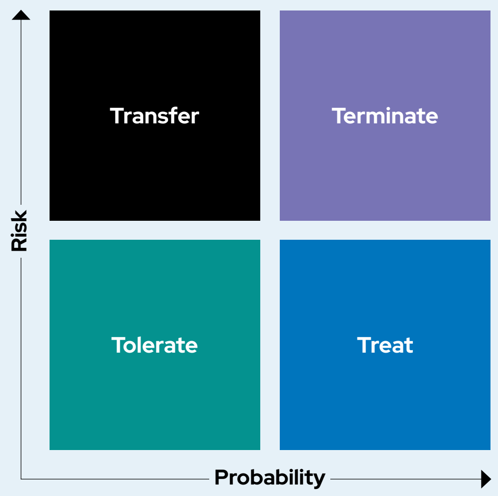
The five levels of risk appetite for each area are translated into examples of an approach that would be appropriate to take for that level of risk.

This approach empowers the whole organisation to make decisions confident they are within the Board's risk appetite.

Our 'open' risk appetite for six of the 10 areas of the risk universe means the Board is generally willing to take a reasonable degree of risk in pursuit of our organisational goals. However, there are four areas where the Board is willing to take less risk, particularly health and safety. Our 'averse' risk appetite in this area means we invest heavily in controls to reduce that risk as close to zero as we can.

Our 'averse' risk appetite towards health and safety means we invest heavily in controls to reduce that risk as close to zero as we can.

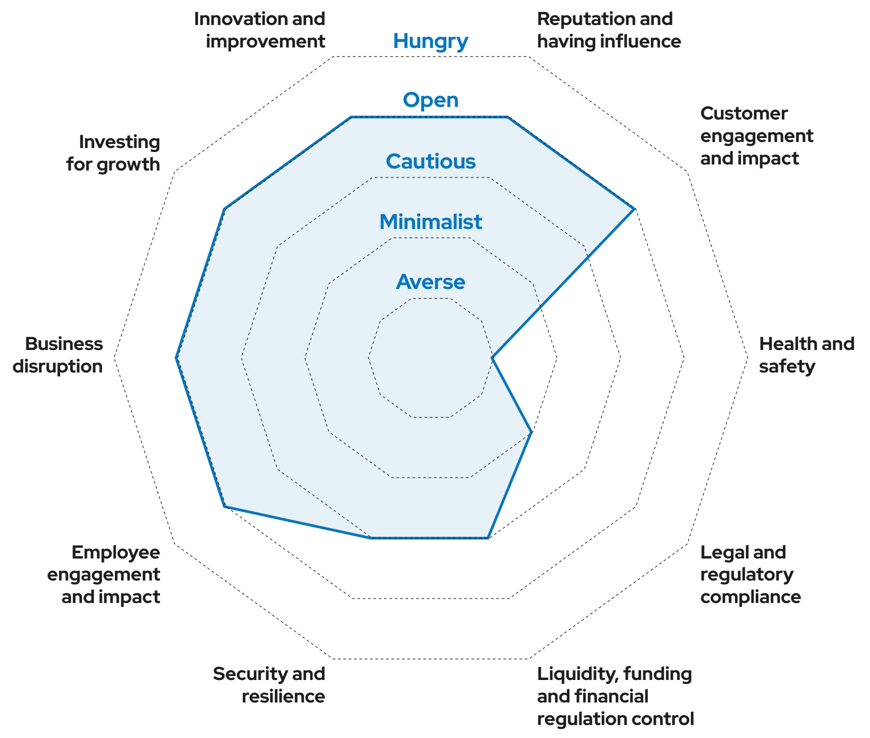
Risk model



This model guides our people to:

- Tolerate the risk when it is not significant enough to threaten achievement of our objectives
- Treat the risk when it can be reduced by internal control
- Transfer the risk when it is too high, and it can be at least partly transferred to our insurance programme or joint ventures
- Terminate the risk when it is too high, cannot be reduced and is beyond the risk appetite

Risk appetite



Identifying and mitigating risks

To identify risks, we take input from all parts of Sovereign, including our joint ventures and partnering activities, seeking to use the functional expertise of those who are closest to where the risk occurs. We also examine external sources to take a broad perspective, including the Regulator's sector risk profile, peers in the sector, and non-sector organisations who are considered leaders in managing risk. This process gives the Board assurance that we understand our risk profile and identify risks early as they emerge, giving us time to design and implement appropriate mitigations.

The Board regularly reviews our principal risks to ensure they continue to represent the most significant risks to Sovereign and ensure they are being managed effectively.

There have been significant changes in the risk landscape over the past year. Economic conditions have worsened steadily and then sharply following Russia's invasion of Ukraine. Sovereign considered its existing risks in light of these changing conditions and also created a comprehensive view of the risks created by the Ukraine situation, which the Board has reviewed and discussed.

The consensus is that the principal risks we have remain the right ones but the risk landscape has exacerbated many of these risks and mitigations have been strengthened.

Our principal risks are each mapped to, and supported by, lower level risks that are managed at directorate and functional level throughout the organisation. This direct line of sight to these sub-principal risks, and the organisation's management of them, increases the Board's assurance over risk being well managed.

Risk appetite again plays an important role in risk mitigation. The residual level of risk Sovereign is carrying, once existing controls are considered, is compared to the Board's risk appetite. Where the residual risk level is outside of risk appetite, steps are taken to bring it within appetite in a timely manner.

Above:
The Robinson Building, Bristol

The areas of focus in the short to medium term are the impact the intensification of the cost of living crisis will have, particularly on our customers and employees.

Role of the sub-committees

The Board ensures it has a mix of skills and experience appropriate for the risks the organisation faces. The Audit and Risk Committee (A&RC) supports the Board through regular, detailed scrutiny and evaluation of our risk framework, individual risks, and what our sources of assurance (such as internal audit and compliance review findings) tell us about our management of risk. The A&RC also scrutinises the Executive Board's report on risk, which is presented to the Board on a quarterly basis.

The Board's other sub-committees strengthen the framework through scrutinising and evaluating the risks that are within their areas of expertise. For example, the Treasury Committee regularly considers Sovereign's management of its principal risk that we may breach debt covenants if circumstances render the organisation unable to meet its financial commitments.

Resilience of Sovereign to risks it faces

As well as being assured that individual risks are appropriately mitigated, the Board is concerned with the ongoing viability of Sovereign in the event of unforeseen extreme circumstances, or where multiple principal risks coalesce. Our rigorous annual business plan process tests Sovereign's resilience through scrutinising the outcomes against our appetite and tolerance for risk and by stress-testing the plan in a variety of plausible and extraordinary circumstances.

The declining economic landscape and the impact of the war in Ukraine were carefully considered in stress-testing the business plan. Scenarios that would have been considered extraordinary a year ago have increased in likelihood and the stress testing reflected that. Having performed that rigorous testing of the plan we are confident that it's achievable and will stand up to the conditions we are, and expect to be, operating in.

Emerging risks

We use our risk foresight process to identify risks early as they emerge, giving us time to design and implement appropriate mitigations. The areas of focus in the short to medium term are the impact the intensification of the cost of living crisis will have, particularly on our customers and employees. High levels of inflation and shortages of materials and labour will continue to increase the cost of developing new properties and maintaining our existing ones. In the medium to long term we are also focused on mitigating the risk of a shortage of the right solutions and labour with the right skills to support us along with the whole industry achieving its net-zero goals.

Financial statements 2021-22

Statement of Board's responsibilities

In respect of the Board's report and the financial statements

The Board is responsible for preparing the Board's Report and the financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The financial statements are required by law to give a true and fair view of the state of affairs of the group and the association and of the income and expenditure of the group and the association for that period.

In preparing these financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements; and
- assess the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations or has no realistic alternative but to do so.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the corporate and financial information included on the association's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to the auditor

Each of the persons who are a director at the date of approval of this report confirms that:

a) so far as each director is aware, there is no relevant audit information of which the Group's auditor is unaware; and

b) each director has taken all the steps that they ought to have taken in their duty as a director in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Internal control assurance statement

The Board has overall responsibility for establishing and maintaining the whole system of internal control and for reviewing its effectiveness.

The Board recognises that no system of internal control can provide absolute assurance or eliminate all risk. The system of internal control is designed to manage risk and to provide reasonable, but not absolute, assurance that key business objectives and expected outcomes will be achieved. It also exists to give reasonable assurance about the preparation and reliability of financial information and the safeguarding of the Association's assets and interests.

Under the governance structure, the Board has set up a specialist Audit and Risk Committee ("ARC"). All audit and risk matters are the responsibility of the Board which delegates detailed scrutiny and evaluation of these matters to ARC. In meeting its responsibilities to the Board, ARC has adopted a risk-based approach to internal controls which is embedded within the normal management and governance process. This approach includes the regular evaluation of the nature and extent of risks to which the Association and its subsidiaries are exposed.

This process adopted by ARC in reviewing the effectiveness of the system of internal control, together with some of the key elements of the control framework includes:

Identification and evaluation of key risks

Management responsibility has been clearly defined for the identification, evaluation and control of significant risks. There is a formal and ongoing process of management review in each area of the significant risks. This process is co-ordinated through a regular reporting framework to ARC and the Board. The Group's Executive Board regularly considers reports on significant risks facing the Group and the Chief Executive, and members of Executive Board are responsible for reporting to ARC and the Board any significant changes affecting key risks.

Monitoring and corrective action

A process of control self-assessment and regular management reporting on control issues provides hierarchical assurance to successive levels of management and to the Board. This includes a rigorous procedure for ensuring corrective action is taken in relation to any significant control issues, particularly those with a material impact on the financial statements.

The Group continues to maintain a significant development programme. Monitoring and reporting of development activity has been enhanced to ensure the Group remains alert to the potential dangers posed by a much more volatile and difficult external environment.

Control environment and control procedures

The Board retains responsibility for a defined range of issues covering strategic, operational, financial, and compliance issues including treasury strategy and new investment projects.

The Board has adopted the National Housing Federation (NHF) Code of Governance 2020. Sovereign continues to meet the principles and material obligations of the Code, with its only minor departure relating to provision B4, which is explained below.

Provision B4 of the Code and relates to the composition of the Sovereign Living Board, which has an executive majority. The composition of the Board of Sovereign Living Limited, a non-charitable registered provider, bound by the same Code, does not comply as the non-executives are in the minority. In practice, decisions are made at the Parent Board level, with Sovereign Living being a 'vehicle' through which affordable home ownership is delivered on behalf of the parent. The standing orders and scheme of delegation evidence the decision-making parameters of the subsidiary.

The Association has adopted policies with regard to the quality, integrity and ethics of its employees, with which all employees must comply. These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, data and asset protection and money laundering and fraud prevention and detection. The Board has adopted the NHF Code of Conduct 2012 which aims to ensure high standards of business conduct.

The Group has four other specialist committees in addition to the Audit and Risk Committee; the Remuneration and Nominations Committee, which deals with matters of governance, human resources, terms and conditions and has responsibility for overseeing the processes required for the recruitment, induction and training of all Board and Committee members; the Treasury Committee which approves and administers the Treasury Policy and ensures the most efficient and effective funding for the Group; and the Investment and Major Project Committees, which reviews the viability of development schemes for the provision of new homes.

Information and financial reporting systems

Financial reporting procedures include detailed budgets for the year ahead and forecasts for subsequent years. These are reviewed and approved by the Board. The Board also regularly reviews key performance indicators to assess progress towards the achievement of key business objectives, targets and outcomes.

The internal control framework and the risk management process are subject to regular review by the Audit and Risk Team who are responsible for providing independent assurance to the Board via ARC. An annual internal audit programme appropriate to the size and complexity of the Group is set each year and ARC considers internal audit reports at each of its meetings during the year.

The Board has received an annual report from the Association's Executive Board and ARC confirming they have reviewed the effectiveness of the system of internal control throughout this year and have taken account of any changes needed to maintain the effectiveness of the risk management and control processes.

This Strategic Report, Board Report and the Statement of Board's Responsibilities were approved on 7 July 2022 and signed on its behalf by:

BY ORDER OF THE BOARD

Iain Mackrory-Jamieson
Company Secretary

Independent auditor's report

To the members of Sovereign Housing Association Limited

Opinion

We have audited the financial statements of Sovereign Housing Association Limited ("the association") for the year ended 31 March 2022 which comprise the Consolidated Statement of Total Comprehensive Income, Association Statement of Total Comprehensive Income, Consolidated Statement of Financial Position, Association Statement of Financial Position, Consolidated Statement of Changes in Reserves, Association Statement of Changes in Reserves, Consolidated Statement of Cash Flows and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, of the state of affairs of the group and the association as at 31 March 2022 and of the income and expenditure of the group and the association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group and the association in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The association's Board has prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the association or to cease their operations, and as they have concluded that the group's and the association's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the Board's conclusions, we considered the inherent risks to the group's business model and analysed how those risks might affect the group's and the association's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Board's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Board's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the group's and the association's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the group or the association will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Board, the audit and risk committee, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, audit and risk committee, investment committee, remuneration committee, property services committee, treasury committee, resident and board committee and major projects committee minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

• Obtaining a copy of the Group's fraud register.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet external stakeholder expectations and loan covenants, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that income from property sales and non-social housing income is recorded in the wrong period and the risk that Group management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as recoverability of stock and work in progress, valuation of post retirement benefit obligations, valuation of investment properties and valuation of derivative financial instrument.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Group-wide fraud risk management controls

We also performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included unusual or unexpected account combinations with revenue and unusual or unexpected account combinations with cash.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related co-operative & community benefit society legislation), taxation legislation, pensions legislation and specific disclosures required by housing legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the need to include significant provisions. We identified the following areas as those most likely to have such an effect: GDPR, health and safety, employment law, housing regulator legislation, anti-bribery and money laundering recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Other information

The Association's Board is responsible for the other information, which comprises the information included in the Annual Report and Financial Statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Matters on which we are required to report by exception

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

- the association has not kept proper books of account; or
- the association has not maintained a satisfactory system of control over its transactions; or
- the financial statements are not in agreement with the association's books of account; or
- we have not received all the information and explanations we need for our audit.

We have nothing to report in these respects.

Board's responsibilities

As explained more fully in their statement set out on page 74, the association's Board is responsible for: the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

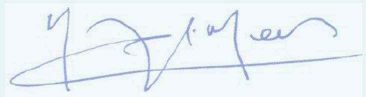
Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the association in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the association those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association for our audit work, for this report, or for the opinions we have formed.



Harry Mears
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Gateway House, Tollgate
Chandlers Ford SO53 3TG
26 July 2022

Consolidated Statement of Total Comprehensive Income
For the year ended 31 March 2022

	Note	2022 £'000	2021 £'000
Turnover	3	**422,789**	417,381
Cost of sales	3	**(58,202)**	(66,618)
Operating expenditure	3	**(247,599)**	(225,291)
Sale of housing properties	3	**16,243**	8,185
Movement in fair value of investment properties	10	**9,336**	1,957
Operating surplus	3	**142,567**	135,614
Gain/(loss) on disposal of plant and equipment	7	**(373)**	394
Share of operating surplus in joint ventures	17	**3,410**	1,421
Interest receivable and similar income	8	**2,855**	2,376
Interest and financing costs	9	**(61,778)**	(63,326)
Movement in fair value of financial instruments	30	**(82)**	1,511
Surplus before tax	6	**86,599**	77,990
Taxation	11	**-**	-
Surplus for the year		**86,599**	77,990
Actuarial gain/(loss) in respect of pension schemes	29	**13,599**	(24,360)
Changes in fair value of hedged financial instruments	30	**21,716**	19,224
Total comprehensive income for the year		**121,914**	72,854

All the amounts above relate to continuing activities.

The accompanying notes form part of the financial statements.

The financial statements were approved by the Board on 7 July 2022 and were signed on its behalf by:

Paul Massara
Chair

Mark Washer
Chief Executive

Iain Mackrory-Jamieson
Company Secretary

Association Statement of Total Comprehensive Income
For the year ended 31 March 2022

	Note	2022 £'000	2021 £'000
Turnover	3	**409,244**	398,489
Cost of sales	3	**(46,314)**	(51,113)
Operating expenditure	3	**(247,137)**	(224,940)
Sale of housing properties	3	**15,794**	8,185
Movement in fair value of investment properties	10	**7,333**	15
Operating surplus	3	**138,920**	130,636
Gift aid		**5,977**	3,891
Gain/(loss) on disposal of plant and equipment	7	**(373)**	394
Interest receivable	8	**4,531**	3,703
Interest and financing costs	9	**(63,348)**	(64,585)
Movement in fair value of financial instruments	30	**(82)**	1,511
Surplus before tax	6	**85,625**	75,550
Taxation	11	**-**	-
Surplus for the year		**85,625**	75,550
Actuarial gain/(loss) in respect of pension schemes	29	**13,599**	(24,360)
Changes in fair value of hedged financial instruments	30	**21,716**	19,224
Total comprehensive income for the year		**120,940**	70,414

All the amounts above relate to continuing activities.

The accompanying notes form part of the financial statements.

The financial statements were approved by the Board on 7 July 2022 and were signed on its behalf by:

Paul Massara
Chair

Mark Washer
Chief Executive

Iain Mackrory-Jamieson
Company Secretary

Consolidated Statement of Financial Position
As at 31 March 2022

	Note	2022 £'000	2021 £'000
Fixed assets			
Social housing properties	14	**4,199,472**	4,027,428
Other fixed assets	15	**40,008**	35,594
Investment properties	16	**171,885**	170,435
Investments in joint ventures	17	**3,207**	2,035
Investments - HomeBuy loans	18	**10,238**	10,614
Financial assets	19	**5,529**	8,003
		4,430,339	4,254,109
Current assets			
Stocks	20	**62,117**	63,429
Debtors	21	**100,328**	52,048
Cash and cash equivalents	22	**60,823**	62,966
		223,268	178,443
Creditors: amounts falling due within one year	23	**(183,291)**	(171,172)
Net current assets		**39,977**	7,271
Creditors: amounts falling due after more than one year	24	**(2,432,887)**	(2,323,031)
Provisions for liabilities			
- Pension	29	**(49,287)**	(70,577)
- Other	26	**(7,412)**	(8,956)
Total net assets		**1,980,730**	1,858,816
Capital and reserves			
Called up share capital	31	**-**	-
Income and expenditure reserve		**1,668,580**	1,562,099
Revaluation reserve		**337,016**	343,299
Hedging reserve		**(24,866)**	(46,582)
Total reserves		**1,980,730**	1,858,816

The accompanying notes form part of the financial statements.

The financial statements were approved by the Board on 7 July 2022 and were signed on its behalf by:

Paul Massara	**Mark Washer**	**Iain Mackrory-Jamieson**
Chair	**Chief Executive**	**Company Secretary**

Association Statement of Financial Position
As at 31 March 2022

	Note	2022 £'000	2021 £'000
Fixed assets			
Social housing properties	14	**4,206,483**	4,028,465
Other fixed assets	15	**40,008**	35,521
Investment properties	16	**131,810**	130,319
Investments - HomeBuy loans	18	**10,238**	10,614
Financial assets	19	**7,177**	11,932
		4,395,716	4,216,851
Current assets			
Stocks	20	**53,899**	52,043
Debtors	21	**156,502**	111,015
Cash and cash equivalents	22	**53,590**	60,781
		263,991	223,839
Creditors: amounts falling due within one year	23	**(184,132)**	(173,548)
Net current assets		**79,859**	50,291
Creditors: amounts falling due after more than one year	24	**(2,427,172)**	(2,316,845)
Provisions for liabilities			
- Pension	29	**(49,287)**	(70,577)
- Other	26	**(7,412)**	(8,956)
Total net assets		**1,991,704**	1,870,764
Capital and reserves			
Called up share capital	31	**-**	-
Income and expenditure reserve		**1,467,830**	1,362,323
Revaluation reserve		**548,740**	555,023
Hedging reserve		**(24,866)**	(46,582)
Total reserves		**1,991,704**	1,870,764

The accompanying notes form part of the financial statements.

The financial statements were approved by the Board on 7 July 2022 and were signed on its behalf by:

Paul Massara	**Mark Washer**	**Iain Mackrory-Jamieson**
Chair	**Chief Executive**	**Company Secretary**

Financial Statements

Consolidated Statement of Changes in Reserves
As at 31 March 2022

	Income and expenditure reserve	Revaluation reserve	Hedging reserve	**2022 Total**	2021 Total
	£'000	£'000	£'000	**£'000**	£'000
As at 1 April 2021	1,562,099	343,299	(46,582)	**1,858,816**	1,785,962
Surplus from statement of comprehensive income	86,599	-	-	**86,599**	77,990
Transfer from revaluation reserve to income and expenditure reserve					
- on sale of revalued properties	1,770	(1,770)	-	**-**	-
- depreciation of revalued properties	4,513	(4,513)	-	**-**	-
Actuarial gain/(loss) in respect of pension schemes	13,599	-	-	**13,599**	(24,360)
Movement in fair value of financial derivatives	-	-	21,716	**21,716**	19,224
As at 31 March 2022	1,668,580	337,016	(24,866)	**1,980,730**	1,858,816

Association Statement of Changes in Reserves
As at 31 March 2022

	Income and expenditure reserve	Revaluation reserve	Hedging reserve	**2022 Total**	2021 Total
	£'000	£'000	£'000	**£'000**	£'000
As at 1 April 2021	1,362,323	555,023	(46,582)	**1,870,764**	1,800,350
Surplus from statement of comprehensive income	85,625	-	-	**85,625**	75,550
Transfer from revaluation reserve to income and expenditure reserve					
- on sale of revalued properties	1,770	(1,770)	-	**-**	-
- depreciation of revalued properties	4,513	(4,513)	-	**-**	-
Actuarial gain/(loss) in respect of pension schemes	13,599	-	-	**13,599**	(24,360)
Movement in fair value of financial derivatives	-	-	21,716	**21,716**	19,224
As at 31 March 2022	1,467,830	548,740	(24,866)	**1,991,704**	1,870,764

Consolidated Statement of Cash Flows
As at 31 March 2022

	Note	2022 £'000	2021 £'000
Cash flow from operating activities			
Surplus for the year		**86,599**	77,990
Adjustments for non-cash items			
Depreciation of fixed assets		**49,255**	45,997
Decrease in stock		**27,297**	5,155
(Increase)/Decrease in trade and other debtors		**(46,335)**	6,892
Increase/(Decrease) in trade and other creditors		**17,172**	(2,655)
(Decrease)/Increase in provisions		**(1,544)**	2,417
Pension costs less contributions payable		**(9,069)**	(7,745)
Carrying amount of tangible fixed asset disposals		**46,305**	15,401
Impairment	6	**1,001**	1,208
Fair value movements in investment properties	16	**(9,336)**	(1,957)
Share of operating surplus in associate		**(5,485)**	(1,421)
Adjustments for investing or financing activities:			
Proceeds from the sale of tangible fixed assets		**(67,532)**	(26,936)
Interest payable	9	**61,778**	63,326
Interest receivable	8	**(2,855)**	(2,376)
Cash from operations		**147,251**	175,296
Corporation tax		**-**	-
Net cash inflow from operating activities		**147,251**	175,296
Cash flow from investing activities			
Net return on investment in jointly controlled entities	17	**2,076**	489
Purchase of tangible fixed assets		**(282,121)**	(193,605)
Proceeds from sale of tangible fixed assets		**67,532**	26,936
Grants received		**3,009**	31,097
Interest received		**936**	733
Net cash from investing activities		**(208,568)**	(134,350)
Cash flow from financing activities			
Interest paid		**(70,524)**	(73,570)
Interest element of finance lease rental payment		**(256)**	(256)
Movement in collateral deposits		**641**	1,998
New secured loans		**169,556**	125,000
Repayment of borrowings		**(39,977)**	(103,112)
Capital element of finance lease rental payments		**(266)**	(257)
Net cash used in financing activities		**59,174**	(50,197)
Net change in cash and cash equivalents		**(2,143)**	(9,251)
Cash and cash equivalents at beginning of the year	22	**62,966**	72,217
Cash and cash equivalents at end of the year	22, 35	**60,823**	62,966

The accompanying notes form part of the financial statements.

Notes to the financial statements

For the year ended 31 March 2022

1. Legal status

Sovereign Housing Association ("The Association") is a not for profit registered provider of social housing and holds charitable status under the Co-operative and Community Benefit Societies Act 2014. The Association is a public benefit entity, an entity whose primary purpose is to provide services for the general public, community or social benefit and where any equity is provided with a view to supporting this objective rather than with a view to providing financial return.

2. Principal accounting policies

The financial statements have been prepared in accordance with Financial Reporting Standard 102 ("FRS 102"), the applicable financial reporting standard in the United Kingdom and Republic of Ireland and the Statement of Recommended Practice for registered social housing providers 2018 (SORP 2018) and comply with the Accounting Direction for Private Registered Providers of Social Housing 2019.

(a) Basis of accounting

The consolidated financial statements are prepared on the historical cost basis of accounting except for the modification to a fair value basis for certain financial instruments and fixed asset investments, and by the annual valuation of freehold commercial properties and investment properties as specified in the accounting policies below.

The financial statements are presented in pounds sterling and are rounded to the nearest £1,000.

(b) Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions which have been complied with, including notification of and no objection to, the use of exemptions by the Association's shareholders.

The Association has taken advantage of the exemption to prepare a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, presented in these financial statements, includes the Association's cash flows.

(c) Going concern

Sovereign has implemented a financial resilience model to test the strength of the Group under various scenarios including what is thought to be a worst case scenario. Parameters including debt recovery, sales and operational activities have been modelled and the continued financial strength of the Group monitored under all outcomes that have been tested.

If all sales proceeds are removed from forecast 2022/23 performance, cash and committed facilities of £501m at 31 March 2022 comfortably cover the funding requirement for the 12 months following the signing date of these financial statements. The ability to draw the existing funding facilities is contingent on being able to maintain covenant compliance. The Business Plan presented to and approved by Board in May 2022 demonstrated ongoing compliance with all financial covenants throughout the life of the plan with comfortable headroom.

The Business Plan presented to Board also included a number of stress tests against a range of adverse scenarios. These tests were designed to be 'severe' rather than 'likely', but nonetheless the testing demonstrated that covenant compliance is either maintained, or in the most severe scenarios can be maintained with manageable levels of cuts in activities. Both the Business Plan base case and the stress tests support the assertion that Sovereign will continue as a going concern. As a consequence, the Board is confident that the Group and Association will have sufficient funds to continue to meet their liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

(d) Consolidation

The consolidated financial statements include the parent association and all its subsidiaries. Intra-group surpluses and deficits are eliminated on consolidation.

Investments in subsidiaries are accounted for using the equity method in the Group financial statements. Investments in subsidiaries and jointly controlled entities are carried at cost less impairment in the individual financial statements.

Uniform accounting policies have been used throughout the Group.

(e) Turnover

Turnover represents rental and service charge income, fees and revenue based grants receivable from local authorities and from Homes England, the proceeds of first tranche sales of shared ownership properties and open market property sales, amortisation of grant previously received, and income from building maintenance and refurbishment services. These exclude VAT (where applicable). Revenue for the main income streams is recognised as follows:

Rental income is measured at fair value of the consideration received or receivable and represents the amount receivable for the services rendered net of any voids.

Fixed service charge income is recognised in the year to which it relates. Variable service charge income is recognised in the year the related cost is recognised.

Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale.

Income from provision of buildings maintenance and refurbishment services to third parties is recognised as work is completed.

Intra-group income and expenditure is included in turnover and operating costs on an arm's length basis in the financial statements of the Association but is eliminated in producing the Group consolidated financial statements.

(f) Cyclical repairs and maintenance
The actual costs of cyclical repairs and maintenance are charged to the Statement of Total Comprehensive Income as incurred.

(g) Major repairs
The capitalisation of major repairs follows the methodology of Component Accounting as laid out in the SORP 2018. Under this methodology it is recognised that a housing property will always comprise of several components with substantially different economic lives. Each major component is accounted for separately and depreciated over its individual economic life.

(h) Provision for major repairs
Provision for major repairs is made only where a contractual liability exists. The Board believe that this accounting policy represents commercial practice and complies with guidance given by the National Housing Federation in its Statement of Recommended Practice.

(i) Pension costs
The Association participates in six multi-employer defined benefit pension schemes, all of which are now closed to new members. The Association also participates in defined contribution money purchase pension schemes, the details of which are given in note 29.

Defined benefit pension schemes
Where the Association can identify their share of scheme assets and liabilities these are included in the Statement of Financial Position and the expected cost of pensions is charged to the Statement of Total Comprehensive Income so as to spread the cost of pensions over the service lives of employees. For the defined benefit pension schemes, the liability for the benefits earned by employees in return for service rendered in the current and prior periods is determined using the projected unit credit method as determined annually by qualified actuaries. This is based upon a number of assumptions, the determination of which is significant to the valuation.

The following are charged to operating profit:

the net finance expense measured using the discount rate applied in measuring the defined benefit obligation;

the increase in the present value of pension scheme liabilities arising from employee service in the current period (current service cost);

the increase in the present value of pension scheme liabilities as a result of benefit improvements over the period during which such improvements vest (past service cost);

gains and losses arising on settlements/curtailments; and

scheme administration costs.

Actuarial gains and losses are recognised in full in other comprehensive income in the period in which they occur.

Defined contribution schemes
The Association also participates in defined contribution money purchase pension schemes which are open to new members, the details of which are given in note 29. In respect of the defined contribution schemes, employers' contributions are charged to the Statement of Total Comprehensive Income in the year incurred.

(j) Value Added Tax
The group undertakings are registered for Value Added Tax (VAT), but a large proportion of their income, including rents, is exempt for VAT purposes and the majority of its expenditure is subject to VAT which cannot be reclaimed. Expenditure is therefore shown inclusive of VAT. The Group recovers VAT where appropriate and this is credited against expenditure within the income statement.

(k) Joint ventures
Joint ventures are contractual arrangements where two or more parties enter into an economic activity that they jointly control. The Group has the following type of joint venture:

Jointly controlled entities – these are joint ventures that involve the establishment of a corporation, partnership or other entity in which each partner has an interest. They are accounted for using the equity method in the member organisation. The Group includes an investment to the extent of any undistributed profits on an individual LLP basis.

The Member of the joint venture includes investments at the cost of the investment, with dividends received credited to revenue in the period they are received.

These investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

(l) Leased assets
Operating leased assets
Rentals paid under operating leases are charged to the Statement of Total Comprehensive Income on an accruals basis.

Finance leased assets
Leasing agreements that transfer to the Group substantially all of the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the Statement of Total Comprehensive Income in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the lease term.

(m) Sale of housing properties
Sales of housing properties are recognised on the completion date. Where houses are sold, the surplus or deficit in the Statement of Total Comprehensive Income is calculated by comparing sale proceeds and the carrying amount.

Sales of properties originally transferred from local authorities and sold under the right to buy legislation, and sales of shared ownership properties other than the initial tranche, are classified in the Statement of Total Comprehensive Income as sales of housing properties.

Due to the nature of the transfer agreements with local authorities it is not possible to identify precisely the historical cost of individual transferred properties. Management's estimate of cost is used to determine the historical cost surplus on sales of these properties.

(n) First tranche shared ownership sales
Shared ownership sales are treated under the SORP 2018 as follows:

Shared ownership properties are split proportionally between current and fixed assets based on the first tranche proportion;

First tranche proportions are shown in current assets and the sale proceeds shown in turnover;

The remaining element of the shared ownership property is accounted for as a fixed asset and any subsequent sale is treated as a disposal or part disposal of a fixed asset;

Any surplus on first tranche shared ownership sales on mixed tenure developments is restricted to the net present value of future cash flows on shared ownership properties.

(o) Depreciation
Freehold land is not depreciated. Depreciation is charged so as to write down the cost of freehold properties other than freehold land to their estimated residual value on a straight line basis over their estimated useful economic lives at the following annual rates:

Housing properties	120 years
Kitchens	23-25 years
Bathrooms	25-30 years
Windows	25-30 years
Heating systems	30-40 years
Pitched Roofs	56-60 years
Flat Roofs	25 years
Boilers	15 years
External Doors	30 years
Electrical Rewiring	40 years
Lifts	20 years
Mechanical Systems	20 years

These components have been determined as the areas where most expenditure on replacement will occur during the lifetime of a property and which are integral to its continued effective use. The useful economic lives are based on historical data on the life span of previous installations of each type of component.

Depreciation is charged on a straight line basis over the expected useful economic lives of the other fixed assets at the following annual rates:

Office furniture and equipment	10-30% on cost
Computer equipment	20-50% on cost
Motor vehicles	over life of hire purchase contract or 20% per annum straight line
Leasehold premises	over life of lease
Leasehold office improvements	10% per annum straight line
Freehold offices	1% on cost
Scheme furniture and equipment	10-33.3% per annum straight line
Scheme lifts	3.33-6.67% per annum straight line

(p) Social housing properties and other fixed assets
Social housing properties are stated at cost or deemed cost valuation (as part of the FRS 102 transition, taken at 1 April 2014) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bring the asset to its working condition for its intended use and borrowing costs capitalised.

The valuation as at 31 March 2014 on which the carrying values of housing properties was taken for deemed cost valuations was based on 'Existing use value - social housing'. The aggregate surplus or deficit on revaluation is the difference between the valuation and the costs of the property less depreciation. The aggregate surplus or deficit on revaluation is included in a revaluation reserve.

Housing properties developed on behalf of other housing associations are stated at cost less Social Housing Grant if applicable and are treated as current assets rather than fixed assets in line with the SORP 2018.

Housing properties in the course of construction, excluding the proportion of costs related to first tranche sales of shared ownership property, are stated at cost and are transferred into housing properties when completed. Development costs include the cost of acquiring land and buildings, the valuation of contracted works to date, and acquisition and development costs including directly attributable internal costs. Interest payable is capitalised by applying the Association's cost of borrowing to expenditure during the construction of the property up to the date of practical completion.

Recoverability of properties constructed for outright sale is measured by reviewing the current net present value against the original appraisal. Allocation of costs for mixed tenure developments are generally based on a metre square calculation of the entire scheme for the different tenure types.

Purchases from other housing associations are included at the purchase price. Social housing grant relating to the purchase of such properties is disclosed as a contingent liability within social housing properties (note 14).

Office buildings are held at original cost less accumulated depreciation and accumulated impairment losses.

Commercial buildings are held at valuation based on the rental yield in the relevant geographical location of each property. Valuations are carried out annually.

Plant and equipment is capitalised at cost and depreciated in line with the depreciation policy of the Association.

(q) Impairment

At each reporting date fixed assets that are held at cost are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised as operating expenditure.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss. Indicators considered which may give rise to impairment include government policy announcements, significant declines in future cash flows and physical evidence of obsolescence or damage.

Impairment reviews are carried out for all properties where the scheme appraisal has worsened since approved by the Board in accordance with the SORP 2018.

(r) Investment properties

The Group holds properties for the purpose of investment gains with a view to a future sale or in order to receive market rates of return and categorises these as investment properties. Investment properties are initially recognised at cost and subsequently held at valuation. Valuations are performed annually by a professional valuer and are at open market value. Any gains or losses arising from changes in the fair value are recognised in profit or loss in the period in which they arise. Depreciation is not provided in respect of freehold and long leasehold investment properties. Investment properties held on a short term lease are reported at fair value and depreciated over the remaining life of the lease.

Commercial buildings held as investment properties are included at valuation based on the rental yield in the relevant geographical location of each property. Valuations are carried out annually.

(s) HomeBuy loans and grants

HomeBuy loans to individuals are considered to be a public benefit entity concessionary loan and are accounted for in accordance with paragraphs PBE34.90 to PBE34.97 of FRS 102. Initial recognition is at the amount paid to the purchaser. Subsequent value is the loan value adjusted for any accrued interest less any impairment loss. If a HomeBuy loan is considered irrecoverable, an impairment loss is recognised in the Income Statement.

HomeBuy grants are accounted for as grant received in advance and are recognised as deferred income in the Statement of Financial Position until the point that the related HomeBuy loan is redeemed.

Other housing grants are receivable from local authorities and other organisations. Capital grants are utilised to reduce the capital costs of housing properties, including land costs. Grants in respect of revenue expenditure are credited to the Income Statement in the same period as the expenditure to which they relate. Other housing grants are repayable under certain circumstances, primarily following the sale of a property, but will normally be restricted to net proceeds of sale.

(t) Stock

Inventories of consumables are stated at the lower of cost and net realisable value.

A proportion of shared ownership properties costs relevant to the planned first tranche sale proportion are held as stock. These are shown split between completed properties unsold at 31 March and those still under construction for clarity.

Properties developed for outright sale which have not been sold at 31 March are shown as stock.

(u) Social Housing Grant

Social Housing Grant is accounted for using the accrual method of accounting for government grant and any new grant received or receivable is included in creditors. The grant is amortised in line with the depreciation policy for housing properties. If Social Housing Grant is received in advance of related expenditure on housing construction, it is shown as a current liability. The Group has the option to recycle Social Housing Grant on sold properties which would otherwise become payable to Homes England. This grant is transferred to the Recycled Capital Grant Fund to be used to finance future development. Social Housing Grant is repayable under certain circumstances and in such circumstances will be classed as a current creditor.

(v) Recycled Capital Grant Fund

The purpose of the funds is to provide replacement properties for rent, at no greater cost than properties provided through the approved development programme. If unused within a three year period it may be repayable to Homes England with interest unless a time extension or waiver is received. The development programme of the Group is such that the funds are likely to be used before they become repayable.

(w) Provisions

Provisions are included when there is a probable, but uncertain, economic obligation. Any provisions included are expected to cover the future obligation and are recognised within the Statement of Financial Position.

Holiday pay accrual

A liability is recognised to the extent of any unused holiday entitlement which has accrued at the reporting date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the reporting date.

(x) Contingencies

Contingent liabilities are not accounted for in the financial statements, including those relating to grants transferred with stock swap properties. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Group's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote. Contingent assets are not accounted for in the financial statements. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

(y) Housing loans

Mortgage loans are advanced by banks or building societies under the terms of individual mortgage deeds in respect of each property or housing scheme. Loan finance issue costs are off-set against the gross proceeds of the loan. Loans are accounted for in the Statement of Financial Position at transaction price and subsequently at amortised cost using the effective interest method.

(z) Revaluation reserve

The revaluation reserve represents the difference between the deemed cost of housing properties (see 2(p)) and the historic cost, net of depreciation.

(aa) Basic financial instruments

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument. Rental arrears payment plans are determined as financing arrangements and are discounted at a rate management believes is appropriate for the level of risk involved in recovery of tenant arrears.

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents comprise cash balances and instant access deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

(bb) Other financial instruments

Financial instruments not considered to be basic financial instruments are defined as other financial instruments. Other financial instruments are recognised initially at fair value. Subsequent to initial recognition these are measured at fair value with changes recognised in the surplus or deficit for the year except hedging instruments in a designated hedging relationship shall be recognised as set out below:

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the surplus or deficit for the year. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. The Association includes derivatives in its financial statements which qualify for cash flow hedge accounting.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in the surplus or deficit in the year. For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in other comprehensive income is included in the initial cost or other carrying amount of the asset or liability. Alternatively, when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to the surplus or deficit in the year.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the Income Statement immediately.

(cc) Taxation

Corporation tax is provided on the taxable profits of each member of the Group at the current rate. Deferred taxation would normally be recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, when transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. However, deferred tax assets and liabilities are not recognised as any timing differences do not give rise to any material deferred tax charge or credit.

3. Turnover, operating costs and operating surplus by class of business

Group	Note	Turnover £'000	Cost of sales £'000	Operating costs £'000	Other £'000	**2022 Operating surplus £'000**	2021 Operating surplus £'000
Income and expenditure from social housing lettings:							
Housing accommodation		308,404	-	(222,365)	-	**86,039**	98,428
Shared ownership accommodation		28,492	-	(15,895)	-	**12,597**	12,752
	4	336,896	-	(238,260)	-	**98,636**	111,180
Other social housing income and expenditure:							
External income generated from development services		34	-	(29)	-	**5**	10
Community investment		152	-	(2,406)	-	**(2,254)**	(2,360)
Other		2,008	-	(570)	-	**1,438**	656
		2,194	-	(3,005)	-	**(811)**	(1,694)
Development for sale							
Shared ownership first tranche sales		57,878	(47,336)	-	-	**10,542**	9,570
		57,878	(47,336)	-	-	**10,542**	9,570
Total social housing activities		396,968	(47,336)	(241,265)	-	**108,367**	119,056
Non-social housing activities							
Market rented properties		9,013	-	(5,206)	-	**3,807**	3,440
Commercial properties		4,062	-	(1,046)	-	**3,016**	2,346
Outright sales		12,158	(10,866)	-	-	**1,292**	1,333
Other		588	-	(82)	-	**506**	(703)
		25,821	(10,866)	(6,334)	-	**8,621**	6,416
Other activities							
Housing assets disposals		-	-	-	16,243	**16,243**	8,185
Movement in fair value of investment properties		-	-	-	9,336	**9,336**	1,957
		-	-	-	25,579	**25,579**	10,142
Total		422,789	(58,202)	(247,599)	25,579	**142,567**	135,614

Other activities within 'Other social housing' include management services, administration services and HomeBuy activities.

3. Turnover, operating costs and operating surplus by class of business (continued)

Association	Note	Turnover	Cost of sales	Operating costs	Other	**2022 Operating surplus**	2021 Operating surplus
		£'000	£'000	£'000	£'000	**£'000**	£'000
Income and expenditure from social housing lettings:							
Housing accommodation		308,381	-	(222,101)	-	**86,280**	98,709
Shared ownership accommodation		28,492	-	(15,895)	-	**12,597**	12,752
	4	336,873	-	(237,996)	-	**98,877**	111,461
Other social housing income and expenditure:							
Income from Group undertakings		188	-	-	-	**188**	195
External income generated from development services		34	-	(29)	-	**5**	10
Community investment		152	-	(2,405)	-	**(2,253)**	(2,360)
Other		2,009	-	(569)	-	**1,440**	606
		2,383	-	(3,003)	-	**(620)**	(1,549)
Development for sale							
Shared ownership first tranche sales		56,847	(46,314)	-	-	**10,533**	9,458
		56,847	(46,314)	-	-	10,533	9,458
Total social housing activities		396,103	(46,314)	(240,999)	-	**108,790**	119,370
Non-social housing activities							
Market rented properties		7,203	-	(5,090)	-	**2,113**	1,454
Commercial properties		4,060	-	(1,046)	-	**3,014**	2,345
Other		589	-	(2)	-	**587**	(733)
		11,852	-	(6,138)	-	**5,714**	3,066
Other activities							
Housing assets disposals		-	-	-	15,794	**15,794**	8,185
Dividend income		1,289	-	-	-	**1,289**	-
Movement in fair value of investment properties		-	-	-	7,333	**7,333**	15
		1,289	-	-	23,127	**24,416**	8,200
Total		409,244	(46,314)	(247,137)	23,127	**138,920**	130,636

Other activities within 'Other social housing' include management services, administration services and HomeBuy activities.

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4. Income and expenditure from social housing lettings

Group	General needs	Shared ownership	Supported housing/ Housing for older people	Keyworker	Other	**2022 Total**	2021 Total
	£'000	£'000	£'000	£'000	£'000	**£'000**	£'000
Rent receivable net of identifiable service charges	254,226	24,575	30,543	6,832	494	**316,670**	306,712
Service charges	8,838	3,568	1,601	2,984	83	**17,074**	15,550
Supporting people block subsidy	-	-	266	-	-	**266**	417
Amortised government grants	2,135	349	366	36	-	**2,886**	2,713
Turnover from social housing lettings	265,199	28,492	32,776	9,852	577	**336,896**	325,392
Management	(61,776)	(10,171)	(4,317)	(1,929)	(230)	**(78,423)**	(69,655)
Service costs	(13,748)	(2,551)	(1,083)	(2,183)	(57)	**(19,622)**	(16,037)
Routine maintenance	(47,423)	-	(2,813)	(589)	(149)	**(50,974)**	(35,007)
Planned maintenance	(34,158)	-	(2,035)	(570)	(108)	**(36,871)**	(35,831)
Major repairs expenditure	(1,939)	-	(114)	-	(6)	**(2,059)**	(15,122)
Bad debts	(56)	(10)	(4)	(5)	-	**(75)**	(5)
Depreciation of housing property	(36,461)	(3,163)	(2,394)	(1,239)	(127)	**(43,384)**	(40,509)
Impairment	-	-	(1,001)	-	-	**(1,001)**	-
Other costs	(5,351)	-	(318)	(165)	(17)	**(5,851)**	(2,046)
Operating costs on social housing activities	(200,912)	(15,895)	(14,079)	(6,680)	(694)	**(238,260)**	(214,212)
Operating surplus/(deficit) on social housing activities	64,287	12,597	18,697	3,172	(117)	**98,636**	111,180
Rent receivable is net of void losses of:	2,328	105	794	2,466	22	**5,715**	5,478

Sovereign Housing Association uses key income streams and associated costs to determine appropriate management information and has adopted this approach to report segmentally on its social housing operating surplus.

The impairment of the social housing property in 2021/22 relates to a block of Housing for Older People units where significant structural issues have been discovered. The estimated costs to bring these units back into use are expected to exceed the carrying value of the properties.

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4. Income and expenditure from social housing lettings (continued)

Association	General needs	Shared ownership	Supported housing/ Housing for older people	Keyworker	Other	2022 Total	2021 Total
	£'000	£'000	£'000	£'000	£'000	**£'000**	£'000
Rent receivable net of identifiable service charges	254,226	24,575	30,543	6,832	471	**316,647**	306,688
Service charges	8,838	3,568	1,601	2,984	83	**17,074**	15,550
Supporting people block subsidy	-	-	266	-	-	**266**	417
Amortised government grants	2,135	349	366	36	-	**2,886**	2,713
Turnover from social housing lettings	265,199	28,492	32,776	9,852	554	**336,873**	325,368
Management	(61,596)	(10,171)	(4,317)	(1,929)	(229)	**(78,242)**	(69,429)
Service costs	(13,748)	(2,551)	(1,083)	(2,183)	(57)	**(19,622)**	(16,037)
Routine maintenance	(47,423)	-	(2,813)	(589)	(149)	**(50,974)**	(35,007)
Planned maintenance	(34,158)	-	(2,035)	(570)	(108)	**(36,871)**	(35,831)
Major repairs expenditure	(1,939)	-	(114)	-	(6)	**(2,059)**	(15,122)
Bad debts	(56)	(10)	(4)	(5)	-	**(75)**	(5)
Depreciation of housing property	(36,461)	(3,163)	(2,394)	(1,239)	(127)	**(43,384)**	(40,509)
Impairment	-	-	(1,001)	-	-	**(1,001)**	-
Other costs	(5,268)	-	(318)	(165)	(17)	**(5,768)**	(1,967)
Operating costs on social housing activities	(200,649)	(15,895)	(14,079)	(6,680)	(693)	**(237,996)**	(213,907)
Operating surplus/(deficit) on social housing activities	64,550	12,597	18,697	3,172	(139)	**98,877**	111,461
Rent receivable is net of void losses of:	2,328	105	794	2,466	22	**5,715**	5,478

Sovereign Housing Association uses key income streams and associated costs to determine appropriate management information and has adopted this approach to report segmentally on its social housing operating surplus.

5. Number of units in management

	Group		Association	
	2022 Units	2021 Units	**2022 Units**	2021 Units
Owned and managed:				
General needs	**38,926**	38,872	**38,926**	38,872
General needs - affordable	**5,944**	5,497	**5,944**	5,497
Shared ownership	**7,381**	7,081	**7,381**	7,081
Housing for older people	**2,262**	2,266	**2,262**	2,266
Housing for older people - affordable	**32**	32	**32**	32
Supported	**873**	881	**873**	881
Keyworker	**1,639**	1,706	**1,639**	1,706
Intermediate market rent	**326**	367	**326**	367
Other social	**288**	301	**285**	298
Non-social - market rent	**554**	675	**432**	533
Non-social - other	**134**	103	**134**	103
Managed not owned:				
Owned by an external company - social	**22**	22	**25**	25
Owned by an external company - non-social	**2,616**	2,526	**2,738**	2,668
Owned by an external company - keyworker	**26**	26	**26**	26
Total in management	**61,023**	60,355	**61,023**	60,355
Owned and not managed:				
Managed by third parties	**186**	176	**186**	176
Freehold/Long leasehold (incl. Right to Buy leasehold)	**7**	7	**7**	7
Total owned not managed	**193**	183	**193**	183
Total owned or managed	**61,216**	60,538	**61,216**	60,538

6. Surplus on ordinary activities before taxation

	Group		Association	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
Surplus on ordinary activities before taxation is stated after charging:				
Depreciation and amortisation:				
- housing properties	**42,587**	40,291	**42,583**	40,288
- other owned assets	**6,668**	5,706	**6,433**	5,470
Rentals payable:				
- plant, vehicles and machinery	**3,825**	4,585	**3,825**	4,585
- other assets	**2,090**	1,791	**2,032**	1,735
- operating leases	**8**	44	**8**	44
Auditor's remuneration:				
- in their capacity as auditor	**190**	188	**153**	149
- in respect of other work	**-**	7	**-**	7
Other:				
- impairment of social housing property	**1,001**	-	**1,001**	-

The impairment of the social housing property in 2021/22 relates to a block of Housing for Older People units as described in Note 4.

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7. Surplus on disposal of property, plant and equipment

	Group		Association	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
Proceeds from other fixed asset sales	**4**	3,527	**4**	3,527
Cost of sales	**(377)**	(3,133)	**(377)**	(3,133)
Net (deficit)/surplus	**(373)**	394	**(373)**	394

8. Interest receivable and similar income

	Group		Association	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
Interest receivable on investments	**2,823**	2,298	**2,823**	2,298
Interest receivable on bank deposits	**32**	78	**32**	76
Interest receivable from Group undertakings	**-**	-	**1,676**	1,329
Interest receivable and similar income	**2,855**	2,376	**4,531**	3,703

9. Interest payable and financing costs

	Group		Association	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
In respect of loans:				
Interest payable on loans and bank overdrafts	**(63,392)**	(63,777)	**(33,180)**	(33,840)
Interest payable on hedging arrangements	**(9,439)**	(9,246)	**(9,439)**	(9,246)
On hedging arrangements - non cash	**3,800**	3,366	**3,800**	3,366
Interest payable to Group undertakings	**-**	-	**(30,759)**	(30,487)
Interest payable on recycled capital grant and disposal proceeds funds	**(22)**	(19)	**(22)**	(19)
Interest payable on finance leases	**(256)**	(256)	**(256)**	(256)
Loan costs or other financing costs	**(1,117)**	(893)	**(1,112)**	(893)
Interest payable	**(70,426)**	(70,825)	**(70,968)**	(71,375)
Less interest capitalised	**10,026**	8,640	**8,998**	7,931
	(60,400)	(62,185)	**(61,970)**	(63,444)
Net interest payable on pension liabilities	**(1,378)**	(1,141)	**(1,378)**	(1,141)
Interest and financing costs	**(61,778)**	(63,326)	**(63,348)**	(64,585)

Interest is capitalised on active development schemes at 4% (2021: 4%).

As the sole purpose of the hedging arrangements is to reduce interest payable volatility on the bank loans, hedging interest receivable is shown within and offsetting hedging interest payable.

10. Movement in fair value of investment properties

	Note	Group		Association	
		2022	2021	**2022**	2021
		£'000	£'000	**£'000**	£'000
Fair value increase in investment properties	16	**9,336**	1,957	**7,333**	15
Fair value adjustments		**9,336**	1,957	**7,333**	15

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11. Taxation

Sovereign Housing Association is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the charity is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

	Group		Association	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
UK corporation tax				
Current tax on income for the period	**-**	-	**-**	-
Prior year released	**-**	-	**-**	-
Adjustment in respect of prior periods	**-**	-	**-**	-
Total current tax	**-**	-	**-**	-
Tax credit on surplus on ordinary activities	**-**	-	**-**	-

Factors affecting the tax charge for the current period

The current tax credit for the year is lower (2021: lower) than the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below:

	Group		Association	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
Current tax reconciliation				
Surplus on ordinary activities before tax	**86,599**	77,990	**85,624**	75,550
Surplus chargeable to corporation tax	**86,599**	77,990	**85,624**	75,550
Current tax at 19% (2021: 19%)	**16,454**	14,818	**16,269**	14,355
Effects of:				
Surplus not within the scope of taxation due to charitable status	**(16,454)**	(14,818)	**(16,269)**	(14,355)
Total tax credit	**-**	-	**-**	-
Current tax (see above)	**-**	-	**-**	-
Tax credit for the year	**-**	-	**-**	-

A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020. In the Budget on 3 March 2021, it was announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the company's future tax charge.

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12. Board members and executive officers

The Board members are defined as the members of the Parent Management Board.

In accordance with the 'Excellence in Governance Code for Members of the NHF', set out below is the level of payments made to the Chair and individual board members of the Sovereign Board and its Committees.

	2022	2021
Annual rates of pay	**£**	£
Position held as at 31 March		
Chair	**35,000**	35,000
Vice chair	**19,000**	18,000
Board member	**14,000**	13,000
Independent committee member	**6,000**	5,000
Committee chair (in addition to Board member salary)	**5,000**	5,000

The table below sets out all group Non-Executive Board members who served during the year:

	2022	2021
Non-Executive Directors	**£**	£
Barbara Anderson	**18,750**	18,000
Lee Bambridge	**18,750**	18,000
Christopher Broe (resigned 15 February 2021)	**-**	15,167
Jennifer Dykes	**24,833**	20,750
Gordon Holdcroft (Chair) (resigned 31 July 2020)	**-**	14,236
Stuart Laird	**23,750**	23,000
Pamela Leonce	**13,750**	1,933
Paul Massara (Chair)	**35,000**	23,603
Claire O'Shaughnessy	**13,750**	13,000
Angela Williams	**18,750**	18,000
Jane Wynne	**13,750**	13,000
	181,083	178,689

Jennifer Dykes is a resident, her lease and tenancy is on normal commercial terms and she cannot use her position on the Board to her advantage.

No expenses paid to Board members that are subject to income tax (2021: £nil).

12. Board members and executive officers (continued)

In addition, the following remuneration was paid to subsidiary Board members during the year:

	2022	2021
	£	£
Gerard Boyle	**-**	-
Martin Lawton	**-**	5,000
David Todd	**-**	5,000
	-	**10,000**

Executive directors' emoluments

	2022	2021
	£'000	£'000
Emoluments (including pension contributions and benefits in kind)	**1,453**	1,769
Total pension contributions to Executive Officers	**83**	61
Emoluments (excluding pension contributions and payments in lieu of pension contributions) include amounts paid to:		
The highest paid director	**280**	313

Pension contributions to the highest paid director were £nil (2021: £nil).

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12. Board members and executive officers (continued)

The level of emoluments to members of the Executive Board during 2021/22 is shown below:

	Taxable pay	Pension contri-butions	In lieu of pension	Benefits in kind	PRP paid 2021/22	Accrued PRP 2021/22	**2022 Total**	2021 Total
	£	£	£	£	£	£	**£**	£
Executive Directors:								
Mark Washer	280,450	–	33,600	485	–	–	**314,535**	345,504
Tracey Barnes	214,650	–	25,704	485	–	–	**240,839**	270,786
Members of the Executive Board:								
Keith Astill[1]	–	–	–	–	–	–	**-**	173,497
Heather Bowman[2]	–	–	–	–	–	–	**-**	142,981
Sally Hyndman[3]	200,450	–	24,000	–	–	–	**224,450**	46,093
Kevin Ives	199,350	19,890	–	485	–	–	**219,725**	246,882
Nicole Sharp	185,450	39,024	–	485	1,989	–	**226,948**	205,612
Tom Titherington	202,410	24,235	–	–	–	–	**226,645**	251,611
	1,282,760	83,149	83,304	1,940	1,989	–	**1,453,142**	1,682,966

[1] Resigned 31 July 2020
[2] Resigned 26 October 2020
[3] Appointed 18 January 2021

Heather Bowman and Mark Washer are deferred members of the Sovereign Pension Plan (SPP) which is one of the defined benefit schemes that the Association participates in (see note 29). Of the current Executive Board, Nicole Sharp is a member of the Dorset Local Government Pension Scheme, a defined benefit scheme, and Tom Titherington is an ordinary member of the Scottish Widows defined contributions scheme. Funding is by employer and employee contributions and no enhanced or special terms apply to the Chief Executive and any other Director. The Chief Executive does not have any other individual pension arrangement (including a personal pension) to which the Association or any of its subsidiaries make a contribution.

We benchmark Executive Board's pay, with salaries in the medium quartile of executive pay among comparative housing associations. However, in order to recruit and retain the best talent, our Remuneration Committee has developed a performance related pay structure. Executive Board members can earn up to a maximum 15% of their basic pay measured against corporate key performance indicators and targets and a further 5% based on personal performance.

No pension contributions are accruing to former executives (2021: £nil).

13. Employee information

Highest paid employees

Sovereign has the following numbers of employees, including Executive Board members with remuneration of £60,000 or more, shown in bands of £10,000.

Salary £'000	**2022 Number**	2021 Number
>60 to 70	**56**	66
>70 to 80	**33**	34
>80 to 90	**11**	20
>90 to 100	**5**	9
>100 to 110	**3**	2
>110 to 120	**4**	2
>120 to 130	**6**	5
>130 to 140	**7**	3
>140 to 150	**4**	5
>150 to 160	**-**	2
>160 to 170	**-**	1
>170 to 180	**-**	1
>190 to 200	**-**	1
>200 to 210	**-**	1
>210 to 220	**1**	–
>220 to 230	**3**	–
>240 to 250	**1**	1
>250 to 260	**-**	1
>270 to 280	**-**	1
>310 to 320	**1**	–
>340 to 350	**-**	1

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13. Employee information (continued)

The number of persons (including executives) employed during the year has been calculated using an average of the total employees for each month:

	Group		Association	
	2022	2021	**2022**	2021
	FTE	FTE	**FTE**	FTE
Expressed in full time equivalents (FTE):				
Central administrative services	**447**	422	**447**	422
Developing or selling housing stock	**81**	67	**81**	67
Managing or maintaining stock	**1,424**	1,459	**1,424**	1,459
Staff providing support to tenants	**62**	48	**62**	48
	2,014	1,996	**2,014**	1,996

	Group		Association	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
Staff costs (for the above persons):				
Wages and salaries	**74,036**	70,365	**74,036**	70,365
Social security costs	**7,542**	6,944	**7,542**	6,944
Pension costs	**4,736**	4,280	**4,736**	4,280
	86,314	81,589	**86,314**	81,589

14. Social housing properties

Group	Completed Housing properties (rental) £'000	Completed Shared ownership properties £'000	Under construction Housing properties £'000	Under construction Shared ownership properties £'000	**2022 Total £'000**	2021 Total £'000
Deemed cost						
At 1 April	3,657,764	524,777	198,640	90,761	**4,471,942**	4,308,028
Reclassification of schemes	-	-	7,017	(7,017)	**-**	-
Transfer to current assets	(25,985)	-	-	-	**(25,985)**	-
Schemes completed	58,502	34,802	(58,502)	(34,802)	**-**	-
Additions - new units	38,592	1,831	139,600	61,258	**241,281**	156,807
Additions - improvements to stock	28,632	-	-	-	**28,632**	12,999
Transfer from Investment Properties	-	-	-	-	**-**	7,791
Impairment	(1,001)	-	-	-	**(1,001)**	-
Disposals	(16,859)	(14,204)	-	-	**(31,063)**	(13,683)
Disposals IMR (transferred to current assets)	(926)	(268)	-	-	**(1,194)**	-
As at 31 March	3,738,719	546,938	286,755	110,200	**4,682,612**	4,471,942
Depreciation						
At 1 April	424,905	19,609	-	-	**444,514**	405,854
Charge for year	39,424	3,163	-	-	**42,587**	40,291
On disposals	(2,925)	(879)	-	-	**(3,804)**	(1,631)
On disposals IMR	(138)	(19)	-	-	**(157)**	-
As at 31 March	461,266	21,874	-	-	**483,140**	444,514
Net book value at 31 March 2022	3,277,453	525,064	286,755	110,200	**4,199,472**	
Net book value at 31 March 2021	3,232,859	505,168	198,640	90,761	**4,027,428**	

14. Social housing properties (continued)

Group	Completed: Housing properties (rental) £'000	Completed: Shared ownership properties £'000	Under construction: Housing properties £'000	Under construction: Shared ownership properties £'000	**2022 Total £'000**	2021 Total £'000
Cost or valuation at 31 March is represented by:						
Gross cost	3,375,138	524,647	286,755	110,200	**4,296,740**	4,084,190
Historic cost depreciation	(414,456)	(19,828)	-	-	**(434,284)**	(400,061)
	2,960,682	504,819	286,755	110,200	**3,862,456**	3,684,129
Revaluation reserve	316,771	20,245	-	-	**337,016**	343,299
	3,277,453	525,064	286,755	110,200	**4,199,472**	4,027,428
Existing use value and properties under construction	3,692,293	612,162	286,755	110,200	**4,701,410**	4,395,271

Additions to housing properties under construction during the year included capitalised interest of £10,026k (2021: £8,641k) and major repairs capitalised of £28,632k (2021: £12,999k). Interest is capitalised on development schemes as set out in the accounting policy in note 2(p).

During the year, 146 properties were sold to other housing associations (2021: £nil). No properties were purchased from other housing associations (2021: £nil).

Following purchases of housing properties from other housing associations in previous years, the Association has a contingent liability of £164.2m (2021: £164.4m) for Social Housing Grant which requires recycling into new social housing development on sale of the properties originally purchased.

An impairment of £1,001k has been made against a block of Housing for Older People units as described in Note 4.

There are no other indicators of impairment in the current year and a detailed impairment review has not been required.

In addition to the capital improvements to housing properties shown above, £89,673k (2021: £85,959k) was spent on routine, planned and major repairs.

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14. Social housing properties (continued)

Association	Completed: Housing properties (rental) £'000	Completed: Shared ownership properties £'000	Under construction: Housing properties £'000	Under construction: Shared ownership properties £'000	**2022 Total £'000**	2021 Total £'000
Deemed cost						
At 1 April	3,681,501	524,777	177,221	89,448	**4,472,947**	4,321,077
Reclassification of schemes	-	-	7,017	(7,017)	**-**	-
Schemes completed	58,502	34,802	(58,502)	(34,802)	**-**	-
Additions - new units	21,831	1,831	136,346	61,258	**221,266**	144,763
Additions - improvements to stock	28,632	-	-	-	**28,632**	12,999
Transfer from Investment Properties	-	-	-	-	**-**	7,791
Impairment	(1,001)	-	-	-	**(1,001)**	-
Disposals	(16,859)	(14,204)	-	-	**(31,063)**	(13,683)
Disposals IMR	(926)	(268)	-	-	**(1,194)**	-
As at 31 March	3,771,680	546,938	262,082	108,887	**4,689,587**	4,472,947
Depreciation						
At 1 April	424,873	19,609	-	-	**444,482**	405,825
Charge for year	39,420	3,163	-	-	**42,583**	40,288
On disposals	(2,925)	(879)	-	-	**(3,804)**	(1,631)
IMR Disposals	(138)	(19)	-	-	**(157)**	-
As at 31 March	461,230	21,874	-	-	**483,104**	444,482
Net book value at 31 March 2022	3,310,450	525,064	262,082	108,887	**4,206,483**	
Net book value at 31 March 2021	3,256,628	505,168	177,221	89,448	**4,028,465**	

14. Social housing properties (continued)

Association	Completed		Under construction			
	Housing properties (rental)	Shared ownership properties	Housing properties	Shared ownership properties	**2022 Total**	2021 Total
	£'000	£'000	£'000	£'000	**£'000**	£'000
Cost or valuation at 31 March is represented by:						
Gross cost	3,213,751	524,647	262,082	108,887	**4,109,367**	3,890,847
Historic cost depreciation	(431,796)	(19,828)	-	-	**(451,624)**	(417,405)
	2,781,955	504,819	262,082	108,887	**3,657,743**	3,473,442
Revaluation reserve	528,495	20,245			**548,740**	555,023
	3,310,450	525,064	262,082	108,887	**4,206,483**	4,028,465
Existing use value and properties under construction	3,692,014	612,162	262,082	108,887	**4,675,145**	4,372,260

Total grant liability included in creditors, reserves and contingent liabilities is £1,063.5m (2021: £1,065.3m).

15. Other fixed assets

Group	Freehold offices	Leasehold offices	Office furniture and equipment	Scheme plant, furniture and equipment	Computer hardware and software	Plant	Motor vehicles	**2022 Total**	2021 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**	£'000
Cost									
At 1 April	14,046	4,437	8,809	11,339	49,846	433	1,422	**90,332**	97,283
Additions	2,821	165	562	49	7,289	11	27	**10,924**	6,912
Disposals	(401)	-	-	-	-	-	(195)	**(596)**	(5,260)
Impairment	-	-	-	-	-	-	-	**-**	(1,208)
Transfer to investment properties	-	-	-	-	-	-	-	**-**	(7,395)
As at 31 March	16,466	4,602	9,371	11,388	57,135	444	1,254	**100,660**	90,332
Depreciation									
At 1 April	5,116	672	7,456	8,793	31,022	342	1,337	**54,738**	51,319
Charge for year	228	389	326	434	5,020	23	86	**6,506**	5,545
On disposals	(401)	-	-	-	-	-	(191)	**(592)**	(2,126)
As at 31 March	4,943	1,061	7,782	9,227	36,042	365	1,232	**60,652**	54,738
Net book value at 31 March 2022	11,523	3,541	1,589	2,161	21,093	79	22	**40,008**	
Net book value at 31 March 2021	8,930	3,765	1,353	2,546	18,824	91	85	**35,594**	

All fixed assets included in this note are held at historic cost.

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15. Other fixed assets (continued)

Association	Freehold offices	Leasehold offices	Office furniture and equipment	Scheme plant, furniture and equipment	Computer hardware and software	Plant	Motor vehicles	**2022 Total**	2021 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**	£'000
Cost or valuation									
At 1 April	14,046	4,437	8,112	11,339	49,374	113	606	**88,027**	94,978
Additions	2,821	165	562	49	7,289	11	27	**10,924**	6,912
Disposals	(401)	-	-	-	-	-	(195)	**(596)**	(5,260)
Impairment	-	-	-	-	-	-	-	**-**	(1,208)
Transfer to investment properties	-	-	-	-	-	-	-	**-**	(7,395)
As at 31 March	16,466	4,602	8,674	11,388	56,663	124	438	**98,355**	88,027
Depreciation									
At 1 April	5,116	672	6,759	8,793	30,550	22	594	**52,506**	49,162
Charge for year	228	389	326	434	5,020	23	13	**6,433**	5,470
On disposals	(401)	-	-	-	-	-	(191)	**(592)**	(2,126)
As at 31 March	4,943	1,061	7,085	9,227	35,570	45	416	**58,347**	52,506
Net book value at 31 March 2022	11,523	3,541	1,589	2,161	21,093	79	22	**40,008**	
Net book value at 31 March 2021	8,930	3,765	1,353	2,546	18,824	91	12	**35,521**	

All fixed assets included in this note are held at historic cost.

16. Investment properties

	Group		Association	
	2022	2021	**2022**	2021
Valuation	**£'000**	£'000	**£'000**	£'000
At 1 April	**170,435**	140,012	**130,319**	101,838
Additions new units	**9,260**	27,634	**9,260**	27,634
Transfer of units under construction to Housing Properties	**-**	(7,791)	**-**	(7,791)
Transfer from other fixed assets	**-**	7,395	**-**	7,395
Improvements to existing units	**859**	1,443	**859**	1,443
Disposals	**(18,005)**	(215)	**(15,961)**	(215)
Fair value increase	**9,336**	1,957	**7,333**	15
At 31 March	**171,885**	170,435	**131,810**	130,319
Historic cost net book value	**141,855**	147,144	**111,941**	115,584

Market rent Investment properties, which primarily comprise market rent properties, were professionally valued by Jones Lang LaSalle at open market value as at 31 March 2022. The valuation was undertaken in accordance with the RICS Appraisal and Valuation Standards. See also note 37 for estimates and judgements used by the valuer.

Freehold shops were professionally valued by Savills on the basis of open market value as at 31 March 2022 and in accordance with the RICS Appraisal and Valuation Standards. The valuer is neither an employee nor an officer of the Association. See also note 37 for estimates and judgements used by the valuer.

17. Investments in joint ventures

	David Wilson £'000	Linden Homes £'000	Kier £'000	Crest £'000	Total £'000
Investment					
At 1 April 2021	-	-	-	524	**524**
Additions	-	-	-	-	**-**
Amortisation	-	-	-	(162)	**(162)**
At 31 March 2022	-	-	-	362	**362**
Share of profits					
At 1 April 2021	613	871	27	-	**1,511**
Profit for the year	1,144	896	44	1,326	**3,410**
Equity adjustment	-	-	-	-	**-**
Equity Cap	-	-	-	-	**-**
Dividend distribution	(1,101)	(975)	-	-	**(2,076)**
At 31 March 2022	656	792	71	1,326	**2,845**
Net book value at 31 March 2022	656	792	71	1,688	**3,207**
Net book value at 31 March 2021	613	871	27	524	**2,035**

The investment in joint ventures is grouped by venture partner for risk profile and exposure purposes. There are losses of £1.1m (2021: £0.3m) from joint ventures not shown on the statement of financial position as negative investments are not recognised. The group will recognise profit from those joint ventures when there is sufficient profit to eliminate the accumulated losses for each joint venture.

18. Investments - HomeBuy loans

	Group		Association	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
At 1 April	**10,614**	10,969	**10,614**	10,969
Loans repaid	**(376)**	(355)	**(376)**	(355)
At 31 March	**10,238**	10,614	**10,238**	10,614

Loans are made to individuals to purchase a property. There is no interest charge on the loan, but it is repayable on sale of the property with an appreciation of property value being included in the repayment. There are 333 loans outstanding (2021: 349).

19. Financial Assets

	Group		Association	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
Cost or valuation				
Debt service reserve	**3,812**	3,812	**3,812**	3,812
Collateral deposits	**-**	641	**-**	641
Assets measured at fair value through the income statement (derivatives)	**1,717**	3,550	**1,717**	3,550
Shares in subsidiary undertakings	**-**	-	**1,648**	3,929
	5,529	8,003	**7,177**	11,932

Collateral deposits represent amounts held by counterparties as a result of margin calls on out-of-the-money interest rate swaps. Cash collateral deposit levels will increase or decrease in line with interest rate market movements, or if the Association places or withdraws alternative non-cash collateral. In any collateral deposit, requirements reduce towards zero by the maturity date of the underlying financial instruments giving rise to the collateral obligation.

A list of subsidiary undertakings is included in note 36.

20. Stock

	Group		Association	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
Properties under construction	**57,347**	53,916	**49,552**	44,058
Completed properties	**1,226**	6,304	**803**	4,776
Consumable stock	**3,544**	3,209	**3,544**	3,209
	62,117	63,429	**53,899**	52,043

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21. Debtors

	Group		Association	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
Rental arrears				
Gross	**12,180**	11,765	**12,128**	11,692
Discounted repayment schedules	**(690)**	(690)	**(690)**	(690)
Less bad debt provision	**(7,330)**	(7,025)	**(7,282)**	(6,989)
Net rental income due	**4,160**	4,050	**4,156**	4,013
Social Housing Grant receivable	**365**	-	**365**	-
Prepayments and accrued income	**2,417**	5,278	**7,029**	5,539
Due from other Group undertakings	**-**	-	**56,143**	58,822
Other loans	**87,285**	39,466	**87,273**	39,453
Other debtors	**6,101**	3,254	**1,536**	3,188
	100,328	52,048	**156,502**	111,015
Amounts falling due within one year:	**49,443**	43,121	**52,031**	53,154
Amounts falling due after more than one year	**50,885**	8,927	**104,471**	57,861
	100,328	52,048	**156,502**	111,015

Loans from the Association to other members of the Group are charged at a market rate of interest of 2.1% to 5% (2021: 2.1% to 6%).

Long term debtors consist of prepayments and amounts due from joint ventures. Amounts are repayable dependent on sales and operating performance within the joint venture. No repayment is due within the next 12 months.

Within other loans are amounts due from Crest Sovereign (Brooklands) LLP of £18.6m (2021: £22.5m), Linden Sovereign Brockworth LLP of £7.4m (2021: £6.5m), Homes for West Berkshire LLP £0.1m (2021: £nil) and Countryside Sovereign Swindon LLP £55.4m (2021: £nil) of which £45.0m is falling due after more than one year. Other loans also include an amount due from Vistry Partnerships Limited of £5.6m (2021: £8.4m).

22. Cash and cash equivalents

	Group		Association	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
Cash and cash equivalents	**60,823**	62,966	**53,590**	60,781
	60,823	62,966	**53,590**	60,781

23. Creditors – amounts falling due within one year

		Group		Association	
	Note	**2022**	2021	**2022**	2021
		£'000	£'000	**£'000**	£'000
Housing loans	25	**32,387**	26,779	**31,914**	26,286
Trade creditors		**26,385**	17,312	**21,260**	14,930
Social housing grant	27	**28,841**	41,532	**28,841**	41,532
Social housing grant - properties	27	**2,916**	2,855	**2,916**	2,855
Due to Group undertakings		**-**	-	**24,226**	28,145
Other loans		**688**	-	**5,786**	-
Taxation and social security		**2,168**	1,968	**2,168**	1,968
Recycled capital grant fund	28	**19,914**	18,211	**19,914**	18,211
Rents received in advance		**11,091**	10,066	**11,091**	10,046
Other creditors		**11,887**	5,662	**12,405**	6,243
Accruals and deferred income		**47,014**	46,787	**23,612**	23,332
		183,291	171,172	**184,133**	173,548

24. Creditors – amounts falling due after more than one year

	Note	Group 2022 £'000	Group 2021 £'000	Association 2022 £'000	Association 2021 £'000
Housing loans	25	**2,012,432**	1,888,933	**1,206,717**	1,082,747
Finance lease		**2,711**	2,721	**2,711**	2,721
Derivative financial instruments		**60,104**	87,371	**60,104**	87,371
Social housing grant - properties	27	**342,005**	331,018	**342,005**	331,018
Deferred income		**10,238**	10,614	**10,238**	10,614
Recycled capital grant fund	28	**4,784**	1,810	**4,784**	1,810
Other creditors		**613**	564	**613**	564
Long term Group loans	25	**-**	-	**800,000**	800,000
		2,432,887	2,323,031	**2,427,172**	2,316,845

The repayment profile of the Group's gross undiscounted long term bond liabilities including interest is as follows:

	On demand £'000	Less than 12 months £'000	1 to 5 years £'000	More than 5 years £'000	**Total £'000**
March 2022					
Amounts due to 2009 bond investors	-	9,986	39,942	299,819	**349,747**
Amounts due to 2012 bond investors	-	11,920	47,680	446,680	**506,280**
Amounts due to Affordable Housing Finance	-	8,906	35,625	570,938	**615,469**
Amounts due to 2019 bond investors	-	2,748	10,993	140,348	**154,089**
	-	33,560	134,240	1,457,785	**1,625,585**

25. Housing loans

	Note	Group 2022 £'000	Group 2021 £'000	Association 2022 £'000	Association 2021 £'000
Repayable other than by instalments in more than five years	24	**965,406**	965,406	**965,406**	965,406
Repayable by instalments within one year	23	**32,387**	26,779	**31,914**	26,286
Repayable by instalments in more than one but less than two years	24	**39,033**	27,032	**38,569**	26,559
Repayable by instalments between two and five years	24	**236,494**	115,698	**235,363**	114,396
Repayable by instalments in more than five years	24	**771,499**	780,797	**767,379**	776,386
		2,044,819	1,915,712	**2,038,631**	1,909,033

All loans are held at amortised cost.

The housing loans are provided by a combination of bank debt and capital markets funding. The bank facilities are provided by our core relationship banks, and a number of supportive smaller banks. Loan interest rates range from 0.28% to 11.02% per annum (2021: 0.25% to 15.88%). The average rate achieved over the year was 3.7% (2021: 3.8%). Interest on housing loans is charged to the Statement of Total Comprehensive Income or capitalised in the year that it is incurred. The housing loans are secured by first fixed charges over certain of the Group's housing properties. The total undrawn loan facilities at 31 March 2022 were £455m (2021: £667m).

26. Provisions

	Group Property £'000	Group Other £'000	Group **Total £'000**	Association Property £'000	Association Other £'000	Association **Total £'000**
At 1 April 2021	7,305	1,651	**8,956**	7,305	1,651	**8,956**
Arising during the year	607	-	**607**	607	-	**607**
Utilised during the year	(2,076)	-	**(2,076)**	(2,076)	-	**(2,076)**
Unused reversed during the year	(75)	-	**(75)**	(75)	-	**(75)**
At 31 March 2022	5,761	1,651	**7,412**	5,761	1,651	**7,412**
Current	5,761	1,651	**7,412**	5,761	1,651	**7,412**
At 31 March 2022	5,761	1,651	**7,412**	5,761	1,651	**7,412**

Provisions recognised by the Group and Association are based on reliable estimates determined by management of the amounts payable based on available information. The amounts recorded in the above tables are continually evaluated by management.

The property provision relates to the cost of replacing defective cladding to one property, dilapidations on the exit of leases and remedial works to make good. Cost of work is estimated and is expected to be incurred within the next two years.

Other provisions relate to probable future outflows following changes in the interpretation of specific services provided historically. There is uncertainty in the timing of resulting payments.

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27. Grant

	Note	Group 2022 £'000	Group 2021 £'000	Association 2022 £'000	Association 2021 £'000
At 1 April		**375,405**	346,387	**375,405**	346,387
Grants received during the year		**3,009**	31,097	**3,009**	31,097
Grants recycled from the recycled capital grant fund		**701**	1,694	**701**	1,694
Grant re staircasing sales		**(862)**	(492)	**(862)**	(492)
Grant re other property		**(1,605)**	(568)	**(1,605)**	(568)
Grant amortisation		**(2,886)**	(2,713)	**(2,886)**	(2,713)
At 31 March	23, 24	**373,762**	375,405	**373,762**	375,405

28. Recycled Capital Grant Fund

	Note	Group 2022 £'000	Group 2021 £'000	Association 2022 £'000	Association 2021 £'000
Recycled Capital Grant Fund					
At 1 April		**20,020**	18,739	**20,020**	18,739
Grants recycled		**5,357**	2,956	**5,357**	2,956
Interest accrued		**22**	19	**22**	19
New build		**(701)**	(1,694)	**(701)**	(1,694)
At 31 March	23, 24	**24,698**	20,020	**24,698**	20,020

Amounts held for longer than 3 years potentially become repayable if not allocated to new schemes. Sovereign has an agreement with Homes England that those amounts over 3 years old at 31 March 2022 will not be recalled.

29. Pension arrangements

The Association participates in six defined benefit pension schemes which are multi-employer defined benefit schemes providing benefits based on final pensionable pay. All of the defined benefit schemes are now closed to new members. New employees are able to join a defined contribution scheme operated by Scottish Widows.

Defined benefit pension plans assets and liabilities

	SPP £'000	LGPS £'000	2022 Total £'000	2021 Total £'000
Assets and liabilities				
Present value of funded obligation	(191,280)	(78,958)	**(270,238)**	(275,647)
Fair value of scheme assets (bid value)	166,179	54,850	**221,029**	205,153
Net liability	(25,101)	(24,108)	**(49,209)**	(70,494)
Present value of unfunded obligation	-	(78)	**(78)**	(83)
Net liability (including unfunded obligations)	(25,101)	(24,186)	**(49,287)**	(70,577)

Defined benefit pension plans - amounts charged to the income statement

	SPP £'000	LGPS £'000	2022 Total £'000	2021 Total £'000
Charged to operating costs				
Current service cost	-	873	**873**	630
Administration costs	143	25	**168**	159
Total charged to operating costs	143	898	**1,041**	789
(Credit)/charge to other finance costs				
Expected return on pension fund assets	(3,435)	(1,006)	**(4,441)**	(4,055)
Interest on pension scheme liabilities	4,204	1,615	**5,819**	5,196
Net charge to other finance costs	769	609	**1,378**	1,141

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29. Pension arrangements (continued)

Defined benefit pension plans - amounts charged to other comprehensive income

	SPP £'000	LGPS £'000	2022 Total £'000	2021 Total £'000
Defined benefit costs recognised in other comprehensive income				
Return on plan assets (less interest income)	4,974	3,637	**8,611**	26,943
Experience gains arising on plan liabilities	8,455	(150)	**8,305**	9,289
Effects of changes in the demographic and financial assumptions underlying the present value of the defined benefit obligation - (loss)/gain	(6,837)	3,520	**(3,317)**	(60,592)
Other actuarial losses	-	-	**-**	-
Total amount recognised in other comprehensive income	6,592	7,007	**13,599**	(24,360)

(a) Sovereign Pension Plan (SPP)

On 1 October 2019, Sovereign enacted a 'bulk transfer' of all pension assets and liabilities away from the defined benefit scheme held within the Social Housing Pensions Scheme (SHPS), a multi-employer pension fund, to a new defined benefit scheme, the Sovereign Pension Plan (SPP). This scheme is closed to new members.

It is believed that the new SPP investment strategy will be beneficial to Sovereign in future years.

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The net defined benefit liability to be recognised is £25.101m (2021: £38.871m).

The table below gives a summary of the plan asset and benefit liability:

Present values of defined benefit obligation, fair value of assets and defined benefit liability	**2022 £'000**	2021 £'000
Present value of defined benefit obligation	**(191,280)**	(193,424)
Fair value of plan assets	**166,179**	154,553
Deficit in plan	**(25,101)**	(38,871)
Unrecognised surplus	**-**	-
Defined benefit liability to be recognised	**(25,101)**	(38,871)

29. Pension arrangements (continued)

The fair value of the plan assets and the return on those assets was as follows:

	2022 £'000	2021 £'000
Asset category		
Equity	**55,706**	57,802
Bonds	**56,808**	52,974
Property	**5,146**	2,159
Cash	**5,224**	3,645
Other	**43,295**	37,973
Total	**166,179**	154,553

The actual return on plan assets was £8,409k (2021: £22,215k).

A reconciliation from previous accounting date to the current accounting date is shown below for the pension benefit obligation and associated pension asset:

Benefit obligation	**2022 £'000**	2021 £'000
Defined benefit obligation at the beginning of the period	**193,424**	155,105
Expenses	**-**	-
Interest expense	**4,204**	3,602
Actuarial losses/(gains)	**(1,618)**	38,432
Benefits paid and expenses	**(4,730)**	(3,715)
Defined benefit obligation at the end of the period	**191,280**	193,424

Asset reconciliation	**2022 £'000**	2021 £'000
Fair value of scheme assets at the beginning of the period	**154,553**	129,444
Expenses	**(143)**	(141)
Interest income	**3,435**	3,076
Experience on plan assets (less interest income) - gain/(loss)	**4,974**	19,139
Contributions by employer	**8,090**	6,750
Benefits paid and expenses	**(4,730)**	(3,715)
Fair value of scheme assets at the end of the period	**166,179**	154,553

The Trustee of the Scheme commissions a full actuarial valuation of the Scheme every three years. The actuarial valuation assesses whether the Scheme's assets at the valuation date are likely to be sufficient to pay pension benefits obligation by members as at the valuation date. Asset values are calculated by reference to market levels. Pension obligations are valued by discounting expected future events discount rate calculated by reference to the expected future investment returns.

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29. Pension arrangements (continued)

The following table sets out the assumptions used to arrive at the pension asset and liability for 31 March 2022 and 31 March 2021 (using market conditions as at the respective date).

SPP defined benefit Major assumptions	2022 %	2021 %
Price increases RPI	**3.49**	3.25
Price increases CPI	**3.22**	2.95
Discount rate	**2.78**	2.20
Salary increase	**3.49**	3.25
Allowance for commutation of pension for cash at retirement	**75**	75

The assumed life expectancy from the age of 65 is as follows:

	2022 Years	2021 Years
Retiring today		
Males	**22.2**	22.1
Females	**24.6**	24.5
Retiring in 20 years		
Males	**23.9**	23.7
Females	**26.1**	26.0

The discount rate assumption has been derived using the UK Mercer yield curve, as opposed to the Merrill Lynch AA corporate bond yield curve from the prior year end.

Sovereign has updated its approach to setting RPI and CPI inflation assumptions in light of the RPI reform proposals published on the 4th September 2019 by the UK Chancellor and UK Statistics Authority. The RPI/CPI wedge/(long term gap) has been reduced by 70 basis points (from 1% in FY 2020 to 0.30% in FY 2021) to reflect increased clarity on the future of the RPI index. The impact of this change in assumptions has increased the defined benefit obligations by approximately £16m.

The mortality rate is based on publicly available mortality tables for the specific country. COVID-19 has caused a short-term increase in deaths in the UK but the excess deaths to date have not generally had a material impact on UK pension scheme liabilities. The future impact of COVID-19 on long term mortality improvements is currently uncertain with potential adverse implications of delayed medical interventions and long COVID along with potential positive implications if the surviving population is less frail or the pandemic causes improved healthcare initiatives and lifestyle changes. Overall, the Group believes currently there is insufficient evidence to require an explicit adjustment to the mortality assumption for COVID-19.

An allowance of 0.05% is included in the liabilities to allow for the expected impact of Guaranteed Minimum Pensions equalisation.

29. Pension arrangements (continued)

The approximate effects of movements in the main assumptions on the value of liabilities are shown in the table below:

Movement in assumptions	
Discount rate + / - 0.1%	- / + 2%
Inflation assumptions + / - 0.1%	- / + 2% (of inflation linked liabilities)
Life expectancy + / - 1 year	- / + 3-5%

Contributions to be made into the SPP for 2022-23 will be £8,100k, which includes a one-off lump sum contribution of £3.5m pre-agreed to minimise the liability deficit.

Below is a summary of the overall impact of the defined cost recognised in the other comprehensive income:

	2022 £'000	2021 £'000
Defined benefit costs recognised in other comprehensive income		
Return on plan assets (less interest income)	**4,974**	19,139
Experience gains arising on plan liabilities	**(3,891)**	8,455
Effects of changes in the demographic and financial assumptions underlying the present value of the defined benefit obligation - gain/(loss)	**5,509**	(46,887)
Total gain/(loss) recognised in other comprehensive income	**6,592**	(19,293)

Below is a summary of the overall impact of the defined cost recognised in the Income Statement:

	2022 £'000	2021 £'000
Charged to operating costs		
Administration costs	**143**	141
Total charged to operating costs	**143**	141
(Credit)/charge to other finance costs		
Expected return on pension fund assets	**(3,435)**	(3,076)
Interest on pension scheme liabilities	**4,204**	3,602
Net charge to other finance costs	**769**	526

It has been brought to the attention of the Trustee that changes to benefits in the past may have been implemented at a time or in a way that may not be in accordance with the Scheme Rules. The Trustee will be seeking court directions on how to interpret the rules. If the Trustee is required to make changes to the Scheme this will increase the Scheme's liabilities. Although no reliable estimate can be made at this state, an indication of the potential liability is 2.9% of the benefit obligations at 30 September 2020 (the date of the latest triennial valuation). The Trustee and Sovereign both recognise that if the Scheme's liabilities increase, action will be required to eliminate any arising deficit. Discussions have taken place between the Trustee and Sovereign regarding contingency arrangements for additional contributions should they be required. The results elsewhere in this report make no allowance for these uncertain potential additional liabilities.

29. Pension arrangements (continued)

SHPS defined contributions

The Association has made no paid employer's contributions in the year (2021: £nil). The scheme has been replaced by a Scottish Widows administered scheme.

(b) Royal Berkshire Pension Fund (Berkshire)

The Royal County of Berkshire Pension Fund was closed to new members in 1989.

The last full actuarial valuation was carried out as at 31 March 2019 and was updated to 31 March 2022 by a qualified independent actuary.

Future pension increases have been assumed to be at CPI.

It was agreed that an employer contribution rate of 0% of pensionable pay would apply in the year ended 31 March 2022 (2021: 25.4%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2022 was £596k (2021: £473k).

(c) Local Government Pension Scheme administered by Dorset County Council (Dorset – legacy Sovereign Housing Association Limited)

This is a statutory, funded, occupational final salary scheme which is now closed to new members. The assets of the scheme are held in separate trustee administered funds.

The last full actuarial valuation was carried out as at 31 March 2019 and was updated to 31 March 2022 by a qualified independent actuary.

Future pension increases have been assumed to be at CPI.

It was agreed that an employer contribution rate of 18.1% of pensionable pay would apply in the year ended 31 March 2022 (2021: 18.1%). Past service deficit payments of £180k were made during the year (2021: £160k).

(d) Local Government Pension Scheme administered by Hampshire County Council (Hants)

The last full actuarial valuation was carried out at 31 March 2019 and was updated to 31 March 2022 by a qualified independent actuary.

An employer contribution rate of 37.4% of pensionable pay applied for the year ended 31 March 2022 (2021: 36.9%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2022 was £329k (2021: £319k).

Future pension increases have been assumed to be at CPI.

(e) Local Government Pension Scheme administered by Dorset County Council (Dorset – legacy Spectrum Housing Group Limited)

The last full actuarial valuation was carried out at 31 March 2019 and was updated to 31 March 2022 by a qualified independent actuary.

An employer contribution rate of 18.4% of pensionable pay applied for the year ended 31 March 2022 (2021: 18.4%). Past service deficit payments of £252k were made during the year (2021: £243k).

Future pension increases have been assumed to be at CPI.

(f) Local Government Pension Scheme administered by Isle of Wight Council (IOW)

The last full actuarial valuation was carried out at 31 March 2019 and was updated to 31 March 2022 by a qualified independent actuary.

An employer contribution rate of 29.6% of pensionable pay applied for the year ended 31 March 2022 (2021: 29.7%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2022 was £198k (2021: £198k).

Future pension increases have been assumed to be at CPI.

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29. Pension arrangements (continued)

(g) Assumptions

The assumptions used by the actuaries for the individual schemes are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescales covered, may not necessarily be borne out in practice.

Assumptions

	2022 % per annum					2021 % per annum				
Major assumptions	**Berks**	**Dorset**	**Hants**	**Dorset**	**I.O.W.**	Berks	Dorset	Hants	Dorset	I.O.W.
Price increases RPI	-	-	-	-	-	3.4	3.3	-	3.3	-
Price increases CPI	3.4	3.3	3.1	3.3	3.2	2.9	2.9	2.7	2.9	2.9
Pension increases	3.4	3.3	3.1	3.3	3.2	2.9	2.9	2.7	2.9	2.9
Pension accounts revaluation rate	-	-	3.1	-	-	-	-	2.7	-	-
Discount rate	2.6	2.6	2.8	2.6	2.7	1.9	2.0	2.1	2.0	2.0
Salary increase	4.4	4.3	4.1	4.3	4.0	3.9	3.9	3.7	3.9	3.7
Asset portfolio										
Asset portfolio	2.6	2.6	2.8	2.6	2.7	1.9	2.0	2.1	2.0	2.0

The return on assets is quoted as the same value as the discount rate in each of the actuarial reports.

The assumed life expectancy from the age of 65 is as follows:

	Berks	Dorset	Hants	Dorset	I.O.W.
	Years	Years	Years	Years	Years
Retiring today					
Males	21.3	23.1	22.9	23.1	21.7
Females	24.0	24.7	25.4	24.7	24.0
Retiring in 20 years					
Males	22.6	24.4	24.7	24.4	22.6
Females	25.4	26.1	27.1	26.1	25.7

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29. Pension arrangements (continued)

(h) Historic data

Berkshire	2022 £'000	2021 £'000	2020 £'000	2019 £'000	2018 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(15,487)**	(16,349)	(15,336)	(17,944)	(18,503)
Fair value of scheme assets (bid value)	**9,408**	8,488	8,176	9,152	8,814
Net liability	**(6,079)**	(7,861)	(7,160)	(8,792)	(9,689)
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	-	-	-
Experience adjustments on scheme liabilities	**-**	-	-	-	-

Dorset (legacy Sovereign Housing Association Limited)	2022	2021	2020	2019	2018
Assets and liabilities value as at:					
Present value of funded obligation	**(11,322)**	(11,774)	(9,873)	(10,819)	(10,948)
Fair value of scheme assets (bid value)	**6,212**	5,717	4,744	5,439	5,329
Net liability	**(5,110)**	(6,057)	(5,129)	(5,380)	(5,619)
Present value of unfunded obligation	**(20)**	(21)	(22)	(23)	(25)
Net liability (including unfunded obligations)	**(5,130)**	(6,078)	(5,151)	(5,403)	(5,644)
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	-	-	-
Experience adjustments on scheme liabilities	**-**	-	-	-	-

29. Pension arrangements (continued)

Hampshire	2022 £'000	2021 £'000	2020 £'000	2019 £'000	2018 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(9,252)**	(9,798)	(8,887)	(8,890)	(8,880)
Fair value of scheme assets (bid value)	**9,734**	9,005	7,164	7,330	6,600
Net liability	**482**	(793)	(1,723)	(1,560)	(2,280)
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	-	-	-
Experience adjustments on scheme liabilities	**-**	-	-	-	-

Dorset (legacy Spectrum Housing Group Limited)	2022 £'000	2021 £'000	2020 £'000	2019 £'000	2018 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(26,531)**	(27,280)	(22,575)	(24,562)	(24,841)
Fair value of scheme assets (bid value)	**15,886**	14,809	12,165	13,893	13,521
Net liability	**(10,645)**	(12,471)	(10,410)	(10,669)	(11,320)
Present value of unfunded obligation	**(58)**	(62)	(66)	(70)	(74)
Net liability (including unfunded obligations)	**(10,703)**	(12,533)	(10,476)	(10,739)	(11,394)
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	-	-	-
Experience adjustments on scheme liabilities	**-**	-	-	-	-

Isle of Wight	2022 £'000	2021 £'000	2020 £'000	2019 £'000	2018 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(16,366)**	(17,022)	(13,008)	(14,759)	(13,041)
Fair value of scheme assets (bid value)	**13,610**	12,581	10,358	10,995	9,918
Net liability	**(2,756)**	(4,441)	(2,650)	(3,764)	(3,123)
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	-	-	-
Experience adjustments on scheme liabilities	**-**	-	-	-	-

29. Pension arrangements (continued)

Consolidated (Group and Association) Local Government Pension Schemes	Note	2022 £'000	2021 £'000	2020 £'000	2019 £'000	2018 £'000
Assets and liabilities value as at:						
Present value of funded obligation		**(78,958)**	(82,223)	(69,679)	(76,974)	(102,631)
Fair value of scheme assets (bid value)		**54,850**	50,600	42,607	46,809	71,370
Net liability		**(24,108)**	(31,623)	(27,072)	(30,165)	(31,261)
Present value of unfunded obligation		**(78)**	(83)	(88)	(93)	(99)
LGPS net liability (including unfunded obligations)		**(24,186)**	(31,706)	(27,160)	(30,258)	(31,360)

(i) Analysis of pension costs in the income statement – LGPS

	2022 £'000	2021 £'000
Charged to operating costs		
Current service cost	**873**	630
Past service cost	**-**	-
Administration costs	**25**	18
Losses on settlements or curtailments	**-**	-
Total charged to operating costs	**898**	648
(Credit)/charge to other finance costs		
Expected return on pension fund assets	**(1,006)**	(979)
Interest on pension scheme liabilities	**1,615**	1,594
Net charge to other finance costs	**609**	615

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29. Pension arrangements (continued)

(j) Analysis of pension costs in Other Comprehensive Income – LGPS

	2022 £'000	2021 £'000
Defined benefit costs recognised in other comprehensive income		
Return on plan assets (less interest income)	**3,637**	7,804
Experience gains arising on plan liabilities	**(150)**	834
Effects of changes in the demographic and financial assumptions underlying the present value of the defined benefit obligation – (loss)/gain	**3,520**	(13,705)
Other actuarial losses	**-**	-
Total gain recognised in other comprehensive income	**7,007**	(5,067)

(k) Asset and liability obligation reconciliations - LGPS

Benefit obligation	2022 £'000	2021 £'000
Defined benefit obligation at the beginning of the year	**82,306**	69,767
Service cost	**873**	630
Interest cost	**1,615**	1,594
Change in financial assumptions	**(3,444)**	14,020
Change in demographic assumptions	**(76)**	(315)
Experience gains	**150**	(834)
Losses on curtailments	**-**	-
Estimated benefits paid (net of transfers in)	**(2,523)**	(2,689)
Past service cost	**-**	-
Contributions by scheme participants	**140**	138
Unfunded pension payments	**(5)**	(5)
Defined benefit obligation at the end of the year	**79,036**	82,306

29. Pension arrangements (continued)

Asset reconciliation	2022 £'000	2021 £'000
Fair value of scheme assets at the beginning of the year	50,600	42,607
Interest on assets	1,006	979
Return on assets less interest	3,637	7,804
Administration expenses	(25)	(18)
Contributions by employer	2,020	1,784
Contributions by scheme participants	140	138
Estimated benefits paid (net of transfers in)	(2,528)	(2,694)
Fair value of scheme assets at the end of the year	54,850	50,600

(l) Guaranteed minimum pensions

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. The valuation assumption in these financial statements is consistent with the consultation outcome.

30. Financial instruments

(a) Carrying amount of financial instruments

The carrying amount of the financial assets and liabilities includes:

	2022 £'000	2021 £'000
Assets measured at amortised cost	3,812	4,453
Liabilities measured at fair value through income statement (derivatives)	(60,104)	(87,371)
Assets measured at fair value through income statement (derivatives)	1,717	3,550
Liabilities measured at amortised cost (housing loans)	(2,044,819)	(1,915,712)
	(2,099,394)	(1,995,080)

30. Financial instruments (continued)

(b) Financial instruments measured at fair value

Derivative financial liabilities at fair value are calculated using quoted market prices to establish expected future cash flows, which are discounted at a market derived interest rate.

(c) Hedge accounting

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur as required by FRS 102.29(a) for the cash flow hedge accounting models:

	2022						2021					
	Carrying amount £'000	Expected cash flows £'000	1 year or less £'000	1 to <2 years £'000	2 to <5 years £'000	5 years and over £'000	Carrying amount £'000	Expected cash flows £'000	1 year or less £'000	1 to <2 years £'000	2 to <5 years £'000	5 years and over £'000
Interest rate swaps												
Liabilities	57,594	63,129	5,568	3,718	10,652	43,191	83,444	101,671	9,283	9,130	21,929	61,330
	57,594	63,129	5,568	3,718	10,652	43,191	83,444	101,671	9,283	9,130	21,929	61,330

The Group uses cash flow hedges to manage interest rate risk arising from uncertain future interest rates on its floating rate loans. Interest rate swaps (the hedging instrument) are used to swap a proportion of the Group's floating rate interest cash flows (the hedged items) for fixed rate cash flows, thereby reducing the cash flow and income statement uncertainty. The Group recognises interest rate exposure as a key risk to be managed as an integral part of its strategy for managing its overall business risks and costs.

Change in fair value (Group and Association)	2022 £'000	2021 £'000
Recognised through other comprehensive income	21,716	19,224
Recognised through the income statement	(82)	1,511
Decrease in fair value	21,634	20,735

(d) Fair values

The amounts for all financial assets and financial liabilities carried at fair values are as follows:

	2022 £'000	2021 £'000
Derivatives measured at fair value through income statement	58,387	83,821
	58,387	83,821

31. Called up share capital

Each shareholder of the Parent holds a non-equity share of £1 in the Parent. The shares carry no rights to dividends and are non-redeemable. They carry the right to vote at meetings of the Parent on the basis of one share one vote. No rights to participate in the net assets of the Parent in the event of a winding up are conferred by the shares.

	2022 £	2021 £
Allotted issued and fully paid		
At 1 April	**108**	113
Issued in the year	**-**	2
Cancelled during the year		(7)
At 31 March	**108**	108

32. Reserves

Called up share capital – represents the nominal value of shares that have been issued.

Income and expenditure reserve – includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Hedging reserve – gains and losses on hedge effective financial instrument.

Revaluation reserve – the difference between historic cost and valuation or deemed cost of fixed assets.

33. Capital commitments

	Group		Association	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	**453,974**	416,901	**439,840**	353,990
Capital expenditure that has been authorised by the Executive Board but has not yet been contracted for	**832,956**	509,450	**631,090**	441,668

At 31 March 2022, the Group had cash and short term deposits of £60.8m (2021: £63.0m) and a further £455m of undrawn committed funding (2021: £667m), of which £455m was immediately available (2021: £655m). These funds, along with cash generated from operating activities are expected to fund the above capital expenditure.

34. Operating leases

The Group and Association hold office premises and equipment, and vehicles under non-cancellable operating leases. Non-cancellable operating lease rentals are payable as follows:

	Group		Association	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
Land and buildings				
- within one year	**2,121**	1,590	**2,043**	1,557
- between two and five years	**6,009**	6,054	**5,858**	5,919
- in over five years	**23,475**	16,888	**23,332**	16,753
Temporary social housing initiatives				
- within one year	**8**	44	**8**	44
- between two and five years	**-**	6	**-**	6
- in over five years	**-**	-	**-**	-
Other				
- within one year	**2,277**	708	**2,262**	695
- between two and five years	**7,471**	121	**7,460**	114
- in over five years	**-**	-	**-**	-
	41,361	25,411	**40,963**	25,088

35. Group analysis of change in net debt

	As at 1 April 2021	Cashflows	Other changes	**As at 31 March 2022**
Cash at bank and in hand	62,966	(2,143)	-	**60,823**
Debt due within one year	(26,779)	(5,608)	-	**(32,387)**
Debt due within more than one year	(1,976,304)	(123,499)	27,267	**(2,072,536)**
	(1,940,117)	(131,250)	27,267	**(2,044,100)**

36. Group company information and related parties

	Status	Activity	Holding
Sovereign Housing Association Limited	Registered Co-operative and Community Benefit Societies	Non - charity housing registered provider	
Subsidiary			
Sovereign Housing Design and Build Limited	Private Limited Company	Design and build	100%
Sovereign Housing Developments Limited	Private Limited Company	Commercial investment	100%
Sovereign Living Limited	Registered Co-operative and Community Benefit Societies	Non - charity housing registered provider	100%
Sovereign Advances Limited	Private Limited Company	Capital funding	100%
Sovereign Housing Partnerships Limited	Private Limited Company	Joint venture holding company	100%
Spectrum Property Care Limited	Private Limited Company	Repairs and maintenance	100%
Spectrum Property Ventures Limited	Private Limited Company	Capital funding	100%
Spectrum Premier Homes Limited	Private Limited Company (by guarantee)	Development and sale of housing properties	100%
Sovereign Housing Capital Plc	Public Limited Company registered	Capital funding	100%
Joint venture			
Sovereign BDW (Newbury) LLP	Limited Liability Partnership	Development and sale of residential accommodation	50%
Linden Homes Westinghouse LLP	Limited Liability Partnership	Development and sale of residential accommodation	50%
Tilia Sovereign LLP	Limited Liability Partnership	Development and sale of residential accommodation	50%
Linden Sovereign Brockworth LLP	Limited Liability Partnership	Development and sale of residential accommodation	50%
Crest Sovereign (Brooklands) LLP	Limited Liability Partnership	Development and sale of residential accommodation	50%
Sovereign BDW (Hutton Close) LLP	Limited Liability Partnership	Development and sale of residential accommodation	50%
Countryside Sovereign Swindon LLP	Limited Liability Partnership	Development and sale of residential accommodation	50%
Homes for West Berkshire LLP	Limited Liability Partnership	Development and sale of residential accommodation	50%

The Association also holds £1 of the £50,000 share capital of Sovereign Housing Capital plc, with the remaining held by Sovereign Advances Limited.

36. Group company information and related parties (continued)

Sovereign Housing Association Limited also owns a non-charitable company Points West Housing Limited which is dormant and its net assets are not material. Points West Housing Limited is not consolidated within the Group's financial statements. Sovereign Housing D1 Limited, Sovereign Property Care Limited and Sovereign Maintenance Limited are dormant and net assets are zero in each.

Sovereign Housing Partnerships Limited is a member in eight joint ventures with equal interests from two Partners in each case. These are Linden Homes Westinghouse LLP, Sovereign BDW (Newbury) LLP, Sovereign BDW (Hutton Close) LLP, Tilia Sovereign LLP (formerly Kier Sovereign LLP – name changed 4th November 2021), Linden Sovereign Brockworth LLP, Crest Sovereign (Brooklands) LLP, Countryside Sovereign Swindon LLP and Homes for West Berkshire LLP.

The Group has a loan agreement with Vistry Partnerships Limited, a joint venture partner. The monies owed to the Group are lent on commercial terms. The amount outstanding at 31 March 2022 is £5.6m (2021: £8.4m).

Related parties

(a) Pension schemes

FRS 102 considers defined benefit pension schemes for the benefit of the reporting entity as related parties. During the year Sovereign Housing Association Limited had transactions with the below pension providers:

Social Housing Pension Scheme
Sovereign Pension Plan
LGPS - Dorset County Council
LGPS - Royal Berkshire Pension Fund
LGPS - Hampshire County Council
LGPS - Isle of Wight Council

Please refer to the pension note 29, which provides the full details of the pension providers and impact on the statement of total comprehensive income.

(b) Inter company

During the year Sovereign Housing Association Limited and Sovereign Living Limited had the following intra-group transactions with non-regulated members of the Group:

	2022	2021
	£'000	£'000
Payment of interest at commercial rates	**30,759**	30,487
Purchase of design and build services at cost plus commercial mark-up	**141,731**	93,384
Management charges on a cost sharing basis (income)	**(142)**	(154)
	172,348	123,717

Interest is payable to Sovereign Housing Capital Plc and Sovereign Advances Limited. Design and Build Services are contracted with Sovereign Design and Build Limited and Spectrum Premier Homes Limited. Development Services are contracted with Sovereign Housing Developments Limited. Management charges are received from all non-regulated subsidiaries.

37. Accounting estimates and judgements

There were no estimates, judgement and assumptions which had a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities or income and expenditure within the financial period. Below are the key estimates and judgements which management has applied

Pension liability (LGPS)

Assumptions for the Local Government Pension Schemes have been obtained from the annual reports performed by qualified actuaries. An estimate of the Group's future cash flows is made using notional cash flows based on the estimated duration. These estimated are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cash flows, discounted at this single rate, equates to the net present value of the cash flows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). The approach has changed from the "spot rate" approach adopted in the previous year.

Pension liability (SPP)

The Sovereign Pension Plan year end liability is obtained from The Pensions Trust using analysis provided by a qualified actuary. To derive the discount rate a £GBP AA Corporate Bond yield curve is used which is supplied by Bank of America Merrill Lynch at the reporting date. The rates from the yield curve are used to calculate a present value of the pension scheme's future agreed deficit reduction contributions at the reporting date. A single equivalent discount rate is then derived.

Rental arrears

Rental arrears payment plans are discounted at a rate which management believes is appropriate for the level of risk in the recovery of such debt.

Investment properties

The valuation exercise was carried out in March/April 2022 with a valuation date of 31 March 2022. In applying the Royal Institute of Chartered Surveyors (RICS) Valuation Global Standards 2017 ('Red Book'), The values in the report have been used to inform the measurement of property assets at valuation in these financial statements.

Measurement of stock

Costs in determining the carrying value of housing properties in current assets are applied as prescribed in the relevant SORP. The apportionment is based on the out turn of the scheme at the reporting date but is subject to future influences from government policy changes and economic conditions.

Basis and estimate for overhead allocation

Overhead cost that can be directly linked to business stream (cost centres) are recognised against them. For general overheads, the costs are allocated to the business stream based on number of properties. Management deem property numbers to be a key driver for the level of overhead cost incurred in the business and therefore provides an appropriate and realistic basis for allocating overhead. Other allocation basis under consideration and continuously reviewed are turnover, expenses level and employee time analysis.

Estimates and judgements for recognising stock

An element of completed and work in progress shared ownership properties are recognised as stock at each balance sheet date. This is the disposable first tranche portion. Management have estimated the first tranche portion held in stock as 40% of the total cost incurred at the balance sheet date, this is a realistic estimate as it is consistent with current trend of first tranche equity sale pattern.

37. Accounting estimates and judgements (continued)

Estimate on useful life housing properties

Housing properties other than investment properties are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets are based on the NHF guidance and may vary slightly depending on a number of factors that are relevant to the underlying asset. Fixed assets are expected to come to a nil value at the end of its useful economic life however management reviews the estimate of the useful lives at each reporting date to ensure they are consistent with survey report, making changes to individual units or component as appropriate. Such changes could impact insignificantly the surpluses for the year.

Grant amortisation

Deferred capital grants are amortised over the economic useful life of the structure of housing properties. Although share ownership properties tend to have a shorter actual life span compared to their expected useful life (EUL) of their structure, management deem the current approach of amortisation to be prudent and not distorting the business performance.

Judgement on provisions

Provisions are recognised in the financial statement based on the likelihood of a liability occurring and an appropriate estimate is known for such liability. In estimating provisions, judgement on likelihood of occurrence is determined by expert opinion and past indicative trend of similar items. The value of provisions is arrived at considering the worst case scenario. The amounts recorded in note 27 are continually evaluated by management.

Estimates and judgements on pensions

Estimates and judgements applied to the pension deficit are based on the pension estimate and assumption provided by the pension provider. Please refer to note 29 for the underlying assumption.

Discounted items

Assets and liabilities with cash flow implications of more than one year are recognised in the accounts at fair value which is arrived at by applying a discount rate that reflects the level of risk relevant to those items.

Judgement on the risk level and rate is informed by expert opinion and items with similar risk profile. Discounted items include long term debtor and financial instrument.

Judgement on capitalised major repairs

The group's capitalisation policies align with FRS 102 principles, in applying this, management take an aggregated view in making capitalisation decisions which match the accounting standard criteria requirements.

Judgement on mixed tenure split

Where a development relates to two or more tenures, construction cost is allocated to the different tenures using a dynamic apportionment basis. The dynamic approach applies a mix of standard apportionment basis to reflect substance of the development. Management deem this allocation basis effective as it results in a similar cost if the tenures are built independently. Cost allocation methods are reviewed annually for effectiveness. This basis for apportionment impacts depreciation charged for the year and the profit on sale of fixed assets.

Impairment

In determining any possible impairment of the Group's assets, factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the economic viability and expected future financial performance of that unit. Where impairment is found, the carrying value of the properties in the cash generating unit is reduced to depreciated replacement cost.