

Sovereign Housing Association’s Quarterly Performance Update covering the 6-month period to 30 September 2021

2022 Q2 Trading Update 30 September 2021

Sovereign is pleased to report good progress for the first half of the new 2021/22 financial year based on unaudited management accounts, although headwinds continue with specific risks around materials shortages and increased prices, along with longer lead times to fill vacancies.

Quarter 2 Performance Update

Our unaudited management accounts for the first half of 2021/22 show operating surplus and overall surplus declining marginally versus the last quarter (Q1 £37.6m and £23m vs Q2 £36.4m and £21.9m). The development programme has continued to be slower than expected due primarily to resource and material availability issues impacting the whole of the building sector, we are monitoring closely and expecting to be more in line with last year’s 1,099 units.

- Homes in management 60,572
- Turnover was £104.9m (Q1 21/22: £102.7m) +2%
- Operating surplus was £36.4m (Q1 21/22: £37.6m) -3%
- Overall surplus was £21.9m (Q1 21/22: £23m) -5%
- New homes completions YTD of 458 against a budget of 857, driven by the impact of the Covid variant, resource and material shortages
- Current development pipeline of 7,175 homes
- 121 sales completions (Q1 21/22: 116 sales) +4%.
- Highest ratings for Governance and Viability from the Regulator of Social Housing’s stability check, G1/V1 status. We received confirmation of A+ outlook stable by S&P with the latest available report found on our Investor page.
<https://www.sovereign.org.uk/investors>

Treasury and Golden rules

Sovereign operates within a number of Financial Golden Rules that underpin our treasury and risk management. We have a minimum liquidity Golden Rule, instantly available financing was £684m which equates to 50 months of forecast headroom. This continues to be high due to delays in development caused primarily by resource and material constraints. Considering the cashflow requirements included in the latest business plan we expect to need extra financing in the next financial year. There is significant headroom against our Interest Cover and Gearing Golden Rules creating protection against our underlying debt facility covenants.

We continue to maintain significant headroom against all our Golden Rules.

Protection principle	Forecast	Trend	Threshold	Headroom	Definition
Liquidity	50	^	< 18 months	32 months	18 months as a minimum, where available cash plus committed and ready-to-draw borrowing facilities (excluding retained bonds) must exceed forecast cash flows excluding all uncommitted development spend and all income

					from development sales and asset sales.
Market risk	16.5%	v	< 40%	23.5% £98.8m	Sales / turnover
Performance	32.2%	^	> 30%	2.8% £9.7m	Operating surplus (excluding all development and asset sales) / turnover
Sustainability – interest cover	272.5%	v	>121%	152% £92m	10% minimum level of headroom against all lenders' interest cover covenants
	£166m		>110%	163% £99m	Tightest covenant
Sustainability - gearing	45.1%	^	<71.25%	26% £1202m	10% minimum level of headroom against all lenders' interest cover covenants
	£2068m		<75%	30% £1374m	Tightest covenant

Environmental, Social and Governance (ESG)

We look forward to publishing our inaugural Environmental, Social and Governance (ESG) report, which is at final draft stage and is going through its Governance review process. Once signed off we will publish this on our website, expected December 2021.

Corporate Affairs

Given the importance Sovereign is placing on decarbonisation, we have been keen to positively influence the national agenda by speaking at a number of key events. Sovereign was present at the Labour and Conservative Party Conferences. Tom Titherington, Chief Investment and Development Officer spoke on a panel at Labour Conference 'A net zero future: Leading the decarbonisation of the UK's homes' alongside the Shadow Housing Minister Mike Amesbury MP, Deputy Mayor of London Tom Copley, Chief Executive of the National Housing Federation Kate Henderson and the Chair of the G15, Geeta Nandy. Sovereign CEO Mark Washer represented Sovereign on the same panel at the Conservative Conference alongside Lord Callanan, Parliamentary Under Secretary of State at the Department for Business, Energy and Climate Change (BEIS).

On Tuesday 19 October, Sovereign's Chair hosted a dinner at One Great George Street, Westminster to discuss decarbonisation of social housing. Guests included Matt Harrison, the lead civil servant for the Decarbonisation of Social Housing at BEIS. He briefed the guests on the government's new Heat and Building's strategy.

ENDS

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Note: Figures quoted in the update are based on unaudited management accounts which are subject to review and further adjustments, for example in the areas of pensions, investment property valuation and taxation.