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Sovereign Housing Capital Plc
18 November 2022

Sovereign Housing Association's Quarterly Performance Update covering Q2 year 2022/23

Quarter 2 Performance Update

Our unaudited management accounts for Q2 2022/23 show operating surplus and overall surplus in-line with Q2 last year - however, this is a small step-down from last quarter. Ongoing inflation impacts continue to create headwinds throughout our supply chain and show no sign of abating.

	Q2 FY23 £m	Q1 FY23 £m	variance £m		Q2 FY22 £m	variance £m	
Turnover	113.3	113.8	(0.5)	(0.4%)	104.9	8.4	8.0%
Operating Surplus	36.2	37.9	(1.7)	(4.5%)	36.4	(0.2)	(0.5%)
Retained Surplus	22.2	24.2	(1.9)	(8.0%)	21.9	0.3	1.4%
	units	units	units		units	units	
Sales	147	152	(5)	(3.3%)	121	26	21.5%
Unit Completions	418	339	79	23.3%	287	131	45.6%

The war in Ukraine and ongoing cost of living challenge are having a broad range of impacts across the organisation, ranging from the obvious increased costs of materials and services to continued lower Customer Satisfaction scores reflecting the general anxiety felt by customers. Despite these challenges we have seen continued favourable results from both Sales and Staircasing activities, Economic uncertainty arises from budget announcements and interest rate increases are likely to be a drag on performance in the second half of the year.

Development projects are being challenged by resource and material availability issues impacting the whole of the building sector. Nevertheless 418 units were handed over in the past quarter. Sovereign recently completed on the purchase of Princes Mead shopping centre in Farnborough for £17.6m with plans to build 350 homes. There are also plans to demolish the former Sovereign office at Saxon Court in Basingstoke and build 43 apartments.

Treasury and Golden Rules

An annual credit rating review with S&P has been completed which reaffirmed our A+ credit rating while revising the outlook to Negative this reflects the UK Sovereign outlook being revised to Negative. This is seen as a positive endorsement of the financial strength of our business. Please find details in this link to the final report: [S&P credit ratings report October 2022](#)

Sovereign operates within a number of Financial Golden Rules that underpin treasury and risk management activity. A summary is shown in accordance below. Instantly available financing is £397m which equates to 20 months of forecast headroom. Terms are being finalised on £175m of new facilities. Existing facilities of £250m that is due to mature in June 2024 is being renewed improving liquidity.

There is significant headroom against Interest Cover and Gearing Golden Rules, creating protection against underlying debt facility covenants. The performance metric shows underperformance on operating margin, which is set at the upper quartile of the Housing Association sector. We do not expect this to recover in the short term as this is driven by the combination of continued cost pressures the business is experiencing across our property services and increased spend in our Transformation programme which will support the long term performance of the business.

Protection principle	Actual	Trend	Threshold	Headroom	Definition
Liquidity	20	v	< 18 months	2 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%	Sales / turnover %
Performance	29.5%	v	> 30%	-0.5%	Operating surplus (excluding all development and asset sales) / turnover on rolling three year basis
Sustainability - Interest Cover	307.2%	^	>121% >110%	186% 197%	10% minimum level of headroom against all lenders' interest cover covenants Tightest covenant
Sustainability - Gearing	49.4%	^	<76% <80%	27% 31%	5% minimum headroom against all lenders' gearing covenants Tightest covenant

Corporate Affairs

On Tuesday 15 November, the Regulator of Social Housing downgraded the viability ratings of several large housing associations, Sovereign, Clarion, L&Q and Riverside were among those downgraded from V1 to V2 as the housing sector faces a very challenging economic environment.

A rating of V2 is compliant and the Regulator's statement says that Sovereign's "financial plans are consistent with, and support, its financial strategy" and that Sovereign "has an adequately funded business plan, sufficient security, and is forecast to continue to meet its financial covenants."

The Regulatory Judgement confirms Sovereign's existing compliant governance rating at G2 and acknowledges that Sovereign has developed a governance improvement plan that it continues to progress. The full judgement can be read [here](#).

Annual report and AGM

On 28 July 2022 Sovereign published its 2021/22 Annual Report.

The report, which has been published on the back of a very challenging economic and social period shows the housing association is continuing to deliver for its customers, despite increasing demand on its services. You can read the report in full [here](#).

Nicole Sharp, Chief Customer Officer, gave a keynote address at the CIH South West Conference in Bristol on *Putting customers at the heart of communities* alongside speakers from Soha Housing and Coastline Housing.

On 21 September Sovereign hosted a dinner for 20 developers, land agents, sector leaders and members of Sovereign's SLG.

Party Conferences

Sovereign was represented on panels at Labour Party Conference in Liverpool and Conservative Party Conference in Birmingham, talking about the role housing associations can play in supporting levelling up. Mark Washer and Tom Titherington also met with Michael Gove MP at a fringe meeting on housing.

Consultation responses

Sovereign has submitted a formal response to the government's consultation on a proposed rent cap, calling for flexibility to allow housing associations to invest in stock and new homes as well as protecting customers from rent rises. We continue to work closely with the NHF on rents and rents for shared owners. We have also submitted responses on compulsory purchase orders and electrical safety.

ENDS

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

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