

## Sovereign Network Group's Quarterly Performance Update covering Q2 year 2023/24

### Sovereign Housing Association trading as Sovereign Network Group (SNG)

Sovereign Housing Association and Network Homes Ltd completed their merger on 2<sup>nd</sup> October 2023, creating the sixth largest housing association in the UK in terms of unit size with over 84,000 homes, and a core geographical focus in London and the South of England. SNG will be one of the largest developers of social tenure developments with an ambition to develop 25,000 homes over the next 10 years.

Notwithstanding the merger completing after the 30<sup>th</sup> September, we have set out standalone results of both Sovereign Housing Association and Sovereign Network Homes as well as a combined view of the consolidated Sovereign Network Group.

### Quarter 2 Performance Update -period to 30 September 2023

Sovereign Housing Association has made a strong start to the year with our unaudited management accounts for Q2 2023/24 showing turnover, operating surplus and overall surplus higher than both Q1 2023/24 and Q2 last year. There has also remained strong with sales increasing compared to Q1 and Q2 last year, with a small increase in unit completions at 345 for this quarter compared to 335 in Q1 2023/24, though unit completions are down on Q2 2022/23 as we experience a slowdown in development sites.

Sovereign Standalone	Q2 FY24	Q1 FY24	variance		Q2 FY23	variance	
	£m	£m	£m		£m	£m	
Turnover	123.8	115.2	8.6	7.5%	113.3	10.5	9.2%
Operating Surplus	42.3	39.1	3.2	8.3%	36.2	6.1	16.9%
Retained Surplus	23.0	21.7	1.3	5.8%	22.2	0.7	3.3%
	units	units	units		units	units	
Sales	144	92	52	56.5%	147	(3)	(2.0%)
Unit Completions	345	335	10	3%	414	(69)	(16.7%)

Sovereign Network Homes has also made a strong start to the year, with turnover, operating surplus and retained surplus all higher than Q1 2023/24, and turnover and retained surplus higher than Q2 2022/23. Sales has also continued to perform strongly completing 41 homes in Q2 2023/24 compared to 20 in Q1 2023/24.

Sovereign Network Homes	Q2 FY 24	Q1 FY24	Variance		Q2 FY23	Variance	
	£m	£m	£m	%	£m	£m	%
Turnover	51.9	51.4	0.5	1.0%	48.4	3.5	7.2%
Operating Surplus	9.0	7.4	1.6	20.9%	9.1	(0.1)	(1.2%)
Retained Surplus	2.3	0.7	1.7	252.0%	1.8	0.5	30.2%
	<b>Units</b>	<b>Units</b>	<b>Units</b>		<b>Units</b>	<b>Units</b>	
Sales	41	20	21.0	105.0%	43	(2.0)	(4.7%)
Unit Completions	75	199	(124.0)	(62.3%)	50	25.0	50.0%

The table below reflects what Sovereign Network Group's historic combined position would have looked like and provides a simplified overview of the merged group whereby we have added both sets of data together. As we continue our integration journey, alignment of accounting policies and consolidation reporting will be a key focus.

	Consolidated Sovereign Network Group						
	Q2 FY 24	Q1 FY24	Variance		Q2 FY23	Variance	
	£m	£m	£m	%	£m	£m	%
Turnover	175.7	166.6	9.1	5.5%	161.7	14.0	8.6%
Operating Surplus	51.3	46.5	4.8	10.3%	45.3	6.0	13.2%
Retained Surplus	25.3	22.4	2.9	13.1%	24.0	1.3	5.3%
	<b>Units</b>	<b>Units</b>	<b>Units</b>		<b>Units</b>	<b>Units</b>	
Sales	185	112	73.0	65.2%	190	(5.0)	(2.6%)
Unit Completions	420	534	(114.0)	(21.3%)	464	(44.0)	(9.5%)

### Treasury and Golden Rules

Sovereign and Network have historically operated with a set of financial Golden Rules that underpin treasury and risk management activity. SNG are currently aligning Golden Rules following the merger and will report on these new measures in Q3 2023/24, following Board approval. These are not expected to materially differ from what was previously reported by Sovereign and Network. Definitions are currently being aligned and thresholds will reflect the risk appetite of the new group.

As at 30<sup>th</sup> September 2023, for SNG, total long-term facilities were £4,129 million, of which £3,474 million were drawn, providing £654m of available liquidity facilities and cash. Cash equivalent balances totalled £85.8 million. The Treasury team is currently finalising new facilities of £135m following successful completion of the merger consent process, further improving our available liquidity position. There continues to be significant headroom

against Interest Cover and Gearing covenants across all SNG facilities. Additional headroom has been created where some of our previous tightest covenants were amended as part of the merger consent process with lenders reflecting a more market standard covenant position.

Moody's upgraded SNG outlook from 'negative' to stable' on the 27<sup>th</sup> October 2023, reflecting the change in the UK Sovereign outlook. SNG now has an A3 (Stable) rating with Moody's. [Read the full Moody's report \[pdf, 1MB\]](#)

S&P have recently published their annual rating review for SNG, downgrading our credit rating from A+ 'negative' outlook to A 'negative' outlook. This rating downgrade reflects a weakening of the financial metrics of SNG due to increased spend in our existing homes and development pipeline. Ultimately, this is driven by SNG corporate strategy to deliver social purpose and really make a difference for our existing and new customers by investing in our existing customers homes while delivering our strategy towards net zero and developing new social homes which are critically needed across our geographies. The investment in existing stock and new stock should also have the benefit of reducing costs for responsive repairs long term. [Read the full S&P report \[pdf, 265KB\]](#)

## **ESG**

Combined ESG reporting is still a work in progress. Sovereign Housing Association continues to make good progress improving existing core stock moving from 71.2% EPC C at June 2023 to 71.7% as at September 2023. 24.9% of our core stock is at EPC B or better with an overall average RdSAP score of 72.6. Sovereign Network Homes has c. 67% of core stock at EPC C or above, with 25% at EPC B or better. SNG has c. 70% of combined core stock at EPC C or better.

We have entered contracts with 3 contractors to support our retrofit journey, with work expected to begin in Feb 2024 targeting 1,000 properties in the first year and we expect to make strong progress on our journey towards net zero.

We have both published our standalone annual ESG reports, which are available on our Investor webpage and also our Streamlined Energy and Carbon Reporting (SECR) and Carbon balance sheet report for 2022/23, with Sovereign Housing Association Total Carbon Emissions of 11,224.95 tCO<sub>2</sub>e. [Read the full report - Streamlined Energy and Carbon Reporting \(SECR\) \[pdf, 4MB\]](#), and [Read the Carbon Balance Sheet for the 2022-23 year \[PDF, 3MB\]](#).

## **Corporate Affairs**

SNG representatives attended the National Housing Federation (NHF) Summit in September and CEO Mark Washer spoke on a panel on regeneration. Tom Titherington (Chief Investment and Development Officer) hosted a dinner for developers and other stakeholders at the Chartered Institute of Housing (CIH) South West conference in Bristol. Anup Dholakia (Director of Corporate Finance) spoke at the NHF's Treasury in Housing conference. Patrick Wallace (Finance Director – Operations) and Nadia Dowling (Head of Digital Delivery) both spoke at the Social Housing Strategy Forum and James Mclarin (Head of External Affairs) spoke at the Inside Housing communications conference.

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Ahead of the two main party conferences in October, Nicole Sharp (Chief Customer Officer) met with candidates and councillors at the Liberal Democrat Party Conference and Jim Dyer (Director of Built Environment) spoke on a panel. Maria Miller, MP for Basingstoke, was briefed in Sovereign House on the proposed regeneration scheme at Basingstoke West.

## **ENDS**

For more information, please contact:

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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.