Our approach to Value for Money

July 2022

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Sovereign Housing Association Limited is charitable.
CORP-31868-VFM 2022WG

Our Value for Money snapshot

Operating Margin (Social Housing Lettings)	Operating Margin (Overall)	Return on capital employed
34.2%	30.5%	3.2%
Gearing	**EBITDA MRI Interest Rate Cover**	**Headline Social Housing Cost Per Unit**
44.4%	220.0%	£3,262
Reinvestment	**New Supply (Social)**	**New Supply (Non-Social)**
6.7%	1.9%	0.1%

Introduction

At Sovereign, it is our ambition to be the leading landlord in the south of England, providing our customers with good, affordable homes in thriving and sustainable communities.

We are a not-for-profit housing provider with 61,000 homes across the region. We manage and build homes that provide stability and security to our residents, and create thriving communities of tomorrow.

Delivering value for money to our customers is vital if we are to achieve that. Every penny we spend must be geared to improving our customers lives and building the homes our country needs. The more we deliver value for money, the more we can deliver on our social purpose. We have a responsibility to our customers to keep costs as low as possible, especially at a time of rising prices and when the cost of living crisis is making life for many people very challenging. Our approach is about more than just keeping rents low. We need to derive as much value for money as we can from our income and our assets to invest in improving the homes we already own and building new homes.

Delivering value for money means making tough decisions about our structure, systems and processes to make us as effective and efficient as possible. That is why we are making fundamental changes to the way we organise ourselves, so that we can become truly customer-centric.

Our Corporate Plan is built on three strategic building blocks, describing how we think about our customers, the homes we are going to build and retrofit, and the support services that make our business work. Through our transformation programme we are bringing them together, to put everything that we do at the service of our customers.

The 2021-26 Corporate Plan sets out how we will deliver on our ambitions over the next five years. Building on this plan, we are committing to improving customer service, building thousands more homes and reshaping our business. Providing value for money for our customers and delivering a social value to our communities is central to our mission.

VfM explained

The focus of this statement is to demonstrate how the Corporate Plan seeks to deliver improved value for money for Sovereign customers and stakeholders. It reviews our performance against standard performance measures used across the industry, grouped by our strategic building blocks. We have chosen two peer groups to benchmark against, those with over 30,000 units and the top-10 by number of units owned. It should be noted that while we publish our own 2021-22 VfM data in this report, the latest available peer-to-peer comparison is for the previous financial year, 2020-21.

A summary of this VfM statement features in our annual report, which details our overall business performance and strategic achievements. The annual report also summarises our approach to ESG – our commitment to measure our progress on delivering on our environmental, social and governance credentials. Our 2022 ESG report promotes transparency and accountability across our stakeholder groups – including investors, the regulator, government and our customers, among others.

Our core VfM objectives are:

- Working towards all our homes meeting the quality set out in our Homes and Place standard
- Maximising the number of new homes available for residents
- Ensuring the organisation conforms to the three E's of Value for Money:
  - **Efficiency:** how well do we use our resources to deliver our services
  - **Effectiveness:** how well do our services meet our customers needs
  - **Economy:** how well do we procure the right resources to deliver our services
- 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

VfM metrics explained

All registered providers are required to report annually on performance against a suite of metrics defined by the Regulator of Social Housing, in line with the Value for Money Standard. The approach aims to encourage transparency and capture performance across the sector in a fair and comparable way.

The core metrics include:
- Reinvestment
- New Supply (Social)
- New Supply (Non-Social)
- Gearing
- EBITDA MRI Interest Rate Cover
- Headline Social Housing Cost Per Unit
- Operating Margin (SHL)
- Operating Margin (Overall)
- Return on capital employed (ROCE)

Our VfM performance

Based on the most recent available data across the sector for 2020-21, the table (right) shows how we performed against the average quartiles of more than 200 registered providers (RP) with over 1,000 homes.

Sovereign's performance for 2020-21 is Upper Quartile for three measures: Operating Margin (Overall), Operating Margin (SHL) and New-Supply (Non-Social). For five of the remaining six measures, we are above or on the Median.

	Lower quartile	Median	Upper quartile	Sovereign 2020-21	Sovereign 2021-22
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 Rate 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%

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

Residents will remain at the heart of what we do, today and tomorrow. We want the high quality of our current homes, together with excellent services that meet our residents' needs and expectations.

In VfM terms, this captures the following:

	2020-21			Sovereign		
Sector metric	Sovereign	>30,000*	Top 10*	2021-22 Budget	2021-22 Actual	**2022-23 Budget**
Headline Social Housing Cost Per Unit	£3,262	£4,142	£4,268	£3,682	£3,870	**£4,276**
Investment in communities	£2,696	N/A	N/A	£3,620	£3,431	**£5,483**
Customer satisfaction	81%	82%	78%	85%	69%	**83%**

*Our benchmarking peer groups are based on Registered Providers unit numbers. We compare ourselves against all those with over 30,000 units and the ten largest.

Headline Social Housing Cost Per Unit

The cost per unit metric is calculated by adding together our total spend on management costs, maintenance, major repairs, service costs and other social costs then dividing the total by the number of owned and/or managed properties. This aims to give us a view of how efficient we are at delivering services while controlling costs.

Investment in Communities

Investment in communities is not an industry standard measure, but we are committed to the communities in which our residents live so include this metric to demonstrate our ongoing focus in this area.

Customer Satisfaction

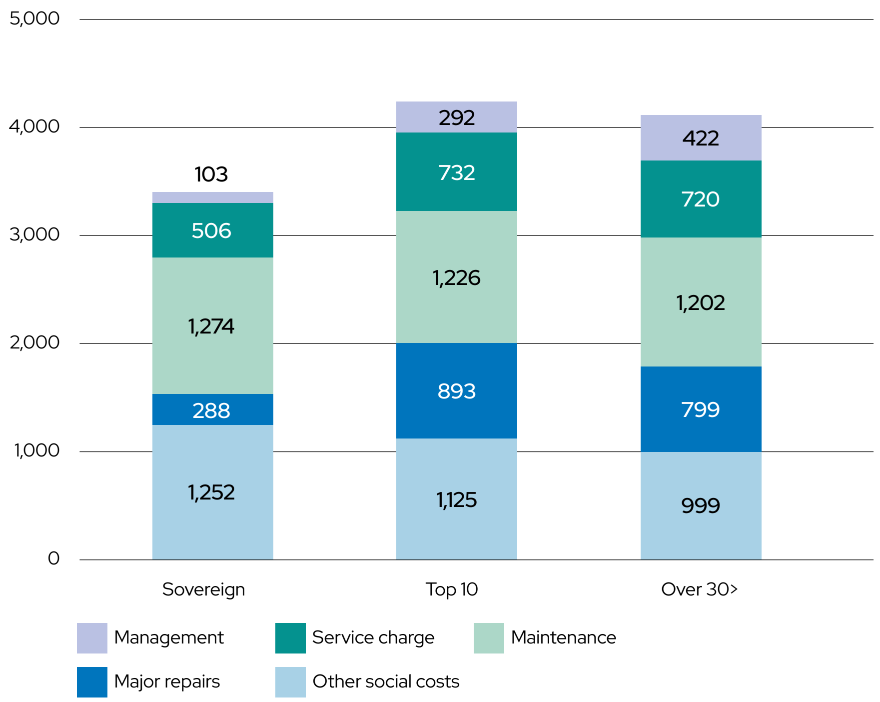
Customer Satisfaction is based on our STAR survey responses, an industry standard questionnaire issued to residents via HouseMark. The survey is used by many housing associations though it is not collected by the housing regulator, so is not consistently reported by all RPs. We believe Customer Satisfaction is a strong indicator we are delivering good quality services and when combined with Cost Per Unit demonstrate we are delivering Value for Money.

Quality services, more opportunity

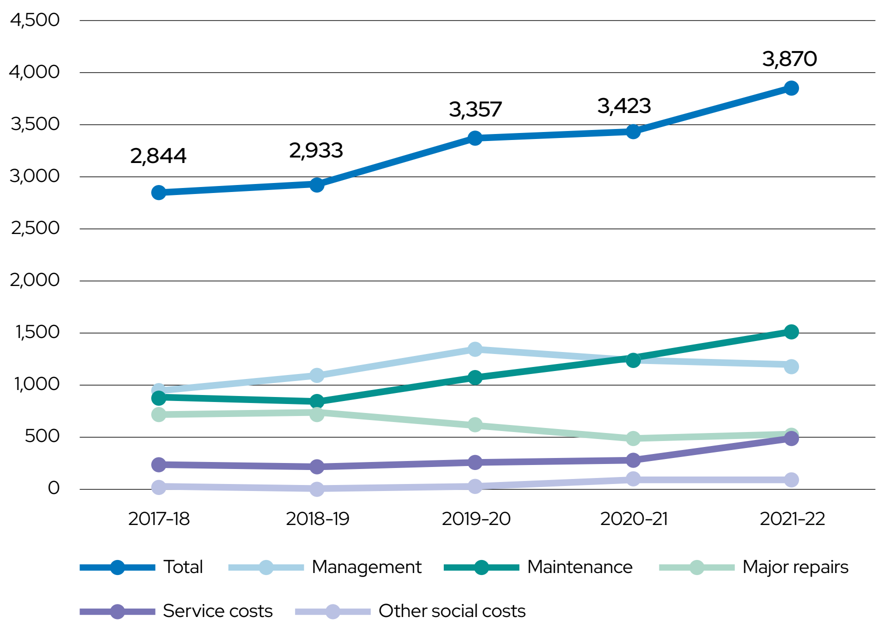
Cost Per Unit

- Sovereign outperforms both RPs with over 30,000 units and the top 10 by no. of units owned for Cost Per Unit.
- Sovereign's Major Repairs cost per unit is over £200 less than our peers. This is driven by Sovereign utilising an in-house trades labour force meaning we are more able to influence increasing costs seen across the sub-contracted trade-labour market.
- To respond to Covid, Sovereign introduced Covid-safe working practices which saw a reduction in major repairs.
- Cost Per Unit increasing over time reflects our commitment to investment in our existing properties.
- The economic climate was also a driver of cost increases in 2020-21 with both Covid and Brexit starting to push up demand and prices particularly in building materials and labour markets
- The Government's Construction Building Materials index shows a 9.1% increase in 2020-21 and as high as 25.4% in 2021-22.
- To remain competitive in the labour market and maintain service levels, Sovereign agreed an additional trade salaries uplift in 2021-22.

Cost Per Unit (£) (2020-21) analysis



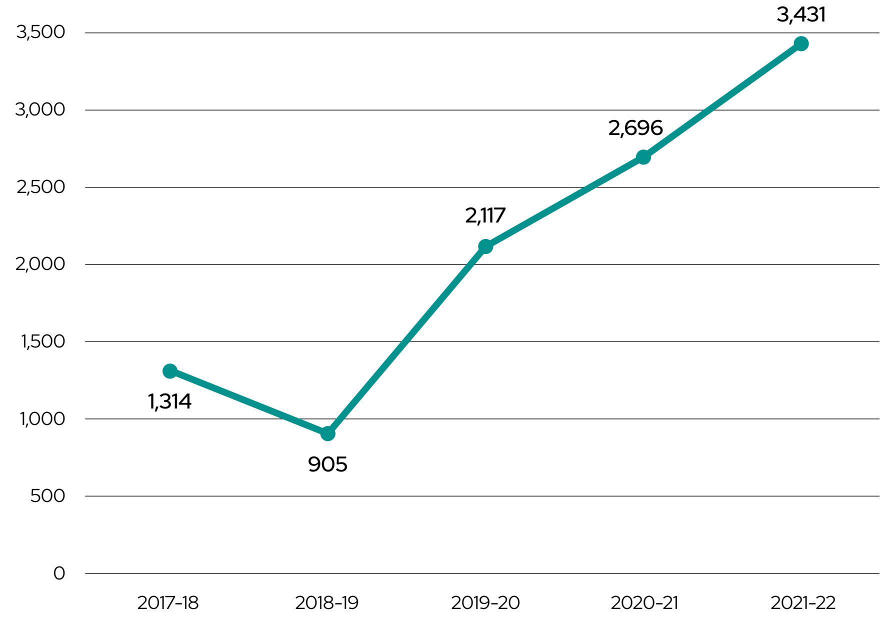
Cost per unit (£) trend analysis



Investment in Communities

- In 2020-21, we invested £3.4m which increased investment in our communities by 27% on the prior year and by 210% vs the 2017-19 average of £1.1m.
- This year we generated £53m of social value and secured £1.8m of external funding. We've supported 638 charities and helped 416 customers into work or better work.
- We out-performed our peers in the top 10 and are in line with the average for all RP's with over 30k units.

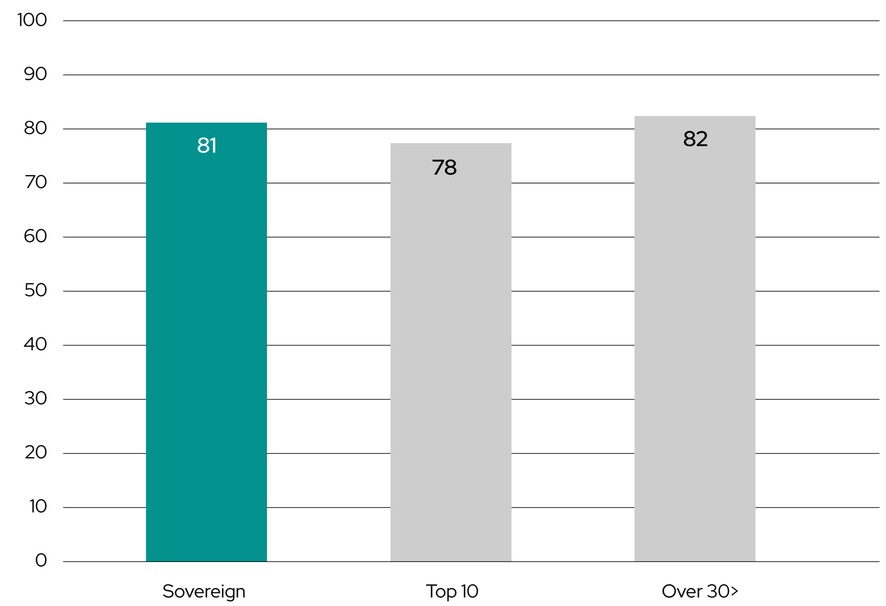
Investment in Communities (£'000) trend analysis



Customer Satisfaction

- Sovereign's customer satisfaction remained stable compared to our 2019-20 results despite a year of lockdowns and reduced services.

Customer Satisfaction STAR % (2020-21)



Case study 1

Quality services, more opportunity

Sovereign is transforming as a business to become truly customer-focused. Critical to achieving this is ensuring that we improve the way we serve customers calling our contact centre, and that we improve the rate at which we get things right first time.

Getting repairs right is a key driver of our overall customer experience and getting things right first time saves money: a repair right first time is obviously the most cost efficient way to address a problem, but it also drives further savings. Every time we repair a window, we also reduce the likelihood of other problems, such as damp and mould, further down the line.

In December 2021, we invested in significant improvements in the contact centre to improve the customer experience. This has led to significantly improving performance across all contact channels. Average waiting times for calls fell from 8 minutes 17 seconds to 2 minutes 3 seconds. The waiting time for emails has fallen from 25 hours 35 minutes to 20 hours 26 minutes. We are now achieving consistent advisor quality results of 85%+ and we are sustaining customer satisfaction with scores now averaging 4.4 out of 5.

As part of his programme of change, we created the Property Repairs Resolution Team, which is now achieving 64% right first time resolution, with lower task creation on calls received about existing repairs. A major challenge for repairs is ensuring that our people can get access to a customer's home at the agreed time. To improve access rates we now send our customers reminders by text message four days ahead of an appointment, and this is proving effective.

All of this means we are driving value for money, and fixing problems for our customers more quickly.

More homes, better places

We want to meet the needs of our future residents by continuing to grow – delivering more new, high-quality affordable housing, supported by market development where it makes sense.

In VfM terms, this captures the following:

	2020-21			Sovereign		
Sector metric	Sovereign	>30,000*	Top 10*	2021-22 Budget	2021-22 Actual	**2022-23 Budget**
Reinvestment %	6.7%	5.1%	4.9%	9.9%	6.7%	**14.2%**
New supply delivered (social) %	1.9%	1.4%	1.2%	3.2%	1.9%	**2.4%**
Effective asset management – occupancy	98.2%	98.3%	98.3%	99.0%	99.3%	**99.0%**

*Our benchmarking peer groups are based on Registered Providers unit numbers. We compare ourselves against all those with over 30,000 units and the ten largest.

Reinvestment

The reinvestment metric looks at the investment in new and existing properties as a percentage of properties held. This is calculated by taking the total spend on property acquisitions, works to existing properties and capitalised interest then dividing this by the value (cost or revaluation) of properties held. This shows our commitment to increasing and improving our property base.

New Supply (Social and Non-Social)

The New Supply metric looks at how many new homes we deliver in a year compared to our size. It is measured as the number of new social housing and non-social housing units that have been acquired or developed in the year divided by the number of housing units owned at year end. This shows our commitment to increasing the number of homes available for residents.

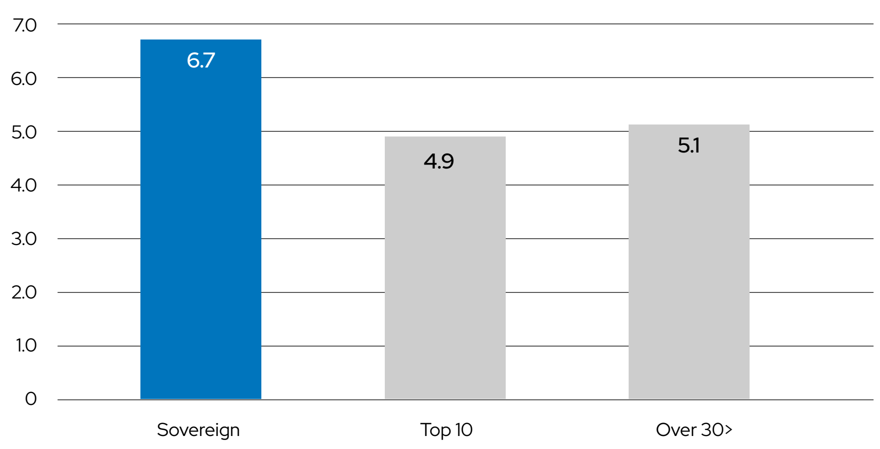
Occupancy

Occupancy measures the total number of days we had residents in our properties as a percentage of the total number of days it was possible to have residents in our properties. There are natural 'down times' when residents aren't in our properties, such as when someone moves out, we take time to redecorate properties before new people move in. It is our aim to reduce these gaps as much as possible as we want to ensure people have places to live.

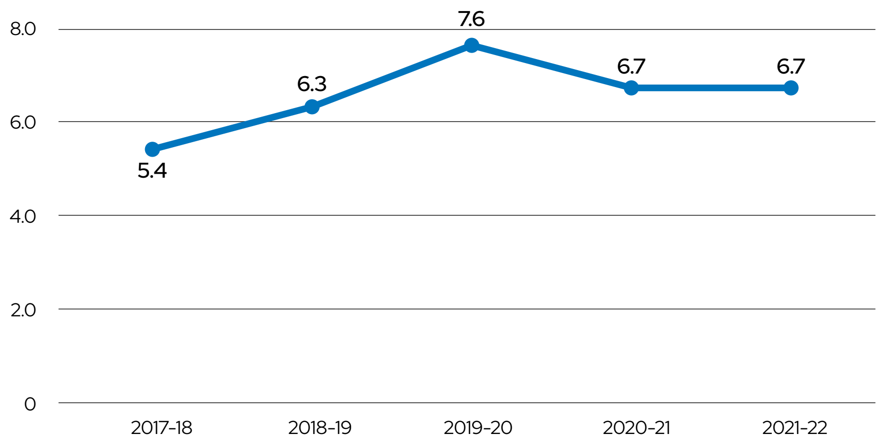
Reinvestment

- Our reinvestment % is above both the Top 10 and RPs >30k.
- Like all RPs our reinvestment dropped in 2020-21 as a result of the impacts of Covid; our Covid-safe working practices meant we couldn't complete as many big repairs as we would have wanted.
- Sovereign plans to invest heavily in the 2022-23 year with the re-investment % planned to rise to 14.2% as we exit Covid and we can catch up on repairs and invest further in our properties.
- Despite our reinvestment dropping from 2019-20 as called out above, it can be seen this was experienced across the sector with Sovereign still in-line with both the Top 10 and those with over 30,000 units.

Reinvestment % (2020-21)



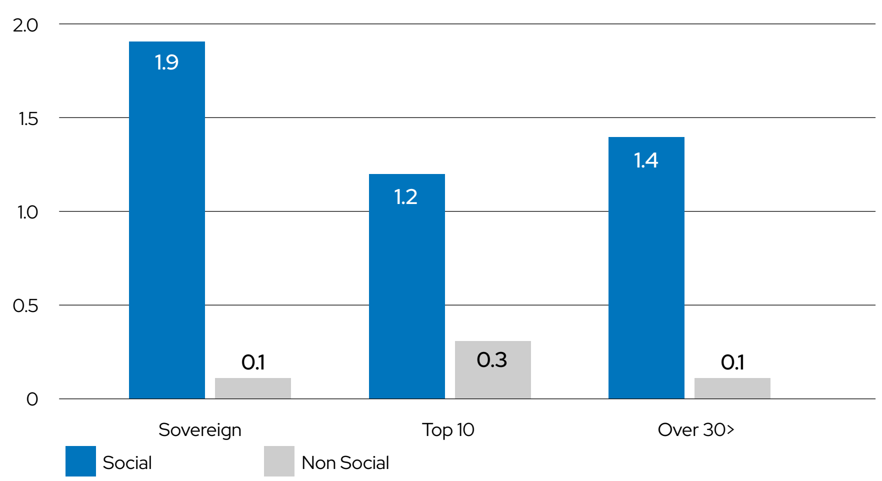
Reinvestment % trend analysis



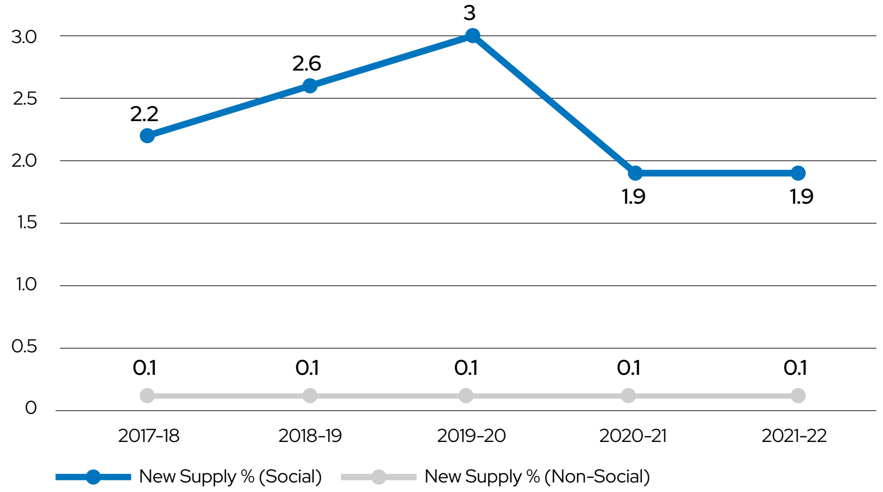
New supply

- Sovereign delivered 1,099 new homes in 2020-21, a positive in the face of the building industry closing for much of the year due to Covid restrictions and lockdowns.
- In 2021-22 we have delivered 1,196 new homes, a 9% increase on 2020-21 despite ongoing shortages of building materials and trade labour.
- Shortages across the housing sector mean competition for Section 106 homes from developers is at an all time high and supports our decision to focus more on our land-led approach.
- As a percentage of existing stock, Sovereign delivered more new social housing than both the Top 10 and those RP's with over 30,000 units. This represents our commitment to focusing on affordable housing, limiting the number of Open Market Sales.

New Supply % (2020-21)



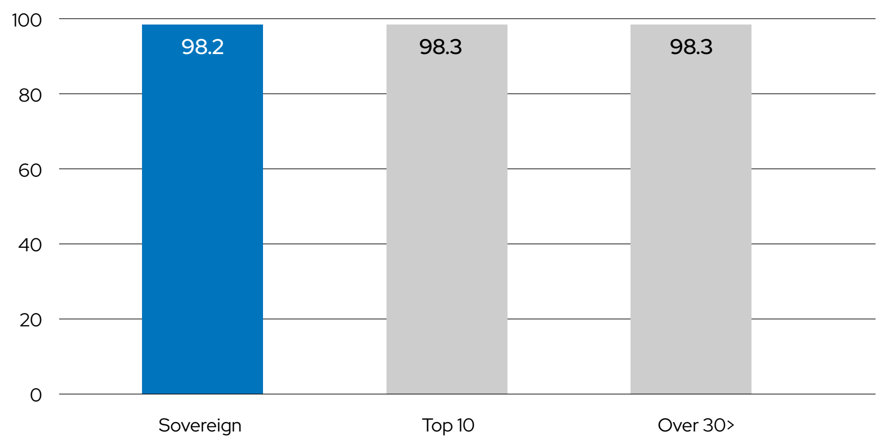
New Supply % trend analysis



Occupancy

- Similar to other Registered Providers, occupancy has dropped for the second year in a row due to the ongoing impacts of Covid, which slowed down our ability at times to let homes and at other times to let them as quickly as we did.
- As we come out of Covid we expect occupancy to increase again as customer demand for our homes outweighs supply and Covid working practice restrictions have lifted. We have set a target of 99% to reflect this forecast.

Occupancy % (2020-21)



Case study 2

More homes, better places

Sovereign's Homes and Place standard is driving our approach to development and asset management. This year we have set up the new Homes and Place task force as we begin to put the standard into practice.

We have agreed on 22 new house designs and four new apartment designs and have started the procurement process to appoint new partners who will build our new homes to the Homes and Place standard. These new homes can be classified as "net zero ready", which means that they will be capable of meeting current and future carbon reduction targets. To be fully net zero will require further improvements to the national energy infrastructure and supply chain.

To enable us to deliver on our development ambitions, we are making steady progress as we move to a land-led approach. By buying land and setting up new joint ventures (JVs) we have more control over the types of house we can build, the tenure and where we develop. This also reduces our dependency on the homes we acquire through Section 106 agreements. This year we are agreed major new JVs. At Lotmead Farm we are working with Countryside Partnerships on a development of 2,200 new homes, that will mean 640 affordable homes. We are also working with Hengrove Leisure Centre on a site that will deliver 327 homes, including around 100 affordable homes.

Despite the challenges of Covid, we have built 1,196 new homes this year and our pipeline is above target with over 8,500 homes. We've secured £168m from Homes England to deliver 3,338 grant funded homes. This is in addition to the £72m secured in the first round of the Strategic Partnership programme.

Just as important as designing new homes that will help our customers to save energy and have lower bills, we need to regenerate our existing housing stock. We are about to embark on the first phase of pilots to understand the interventions we will need to make in our existing homes to bring them up to the Homes and Place standard. Our investment strategy sets out that we will invest £24m a year in our existing homes to bring them up to standard.

Strong foundations, more choice

Our ability to offer the homes and services our residents need and deserve, and to build more for the future, is underpinned by our strength as an organisation.

In VfM terms, this captures the following:

	2020-21			Sovereign		
Sector metric	Sovereign	>30,000*	Top 10*	2021-22 Budget	2021-22 Actual	**2022-23 Budget**
Operating Margin (Overall)	30.5%	24.3%	21.7%	30.4%	29.9%	26.0%
Operating Margin (Social Housing Lettings)	34.2%	31.6%	31.3%	36.1%	29.3%	29.0%
Gearing	44.4%	46.0%	47.7%	49.0%	45.8%	47.9%
EBITDA MRI – Interest Cover	220.0%	171.0%	158.3%	203.0%	203.0%	161.0%
Return on Capital Employed (ROCE)	3.2%	3.5%	3.0%	3.6%	3.3%	3.6%
Employee engagement	70.0%	N/A	N/A	73.0%	64.0%	68.0%

*Our benchmarking peer groups are based on Registered Providers unit numbers. We compare ourselves against all those with over 30,000 units and the ten largest.

Gearing

The gearing metric looks at our debt to asset ratio, comparing our cash and financing balances against the value (cost or revaluation) of properties held. We calculate this by taking short and long term loans, cash, group loans and finance leases and divide the total of these by the value of our housing stock. This shows our approach to risk and our appetite for growth by seeking external finance. Lower Gearing is good as we are carrying less debt than our peers and have more potential for growth.

EBITDA MRI Interest Cover

EBITDA MRI refers to Earnings before Interest, Tax, Depreciation and Amortisation with Major Repairs Included. We then divide this by the total interest payable to show how much surplus we have available to cover interest payments. This is calculated by taking the Operating Surplus excluding property sales and deducting grant amortisation & capitalised major repairs, adding back interest receivable and depreciation then dividing this by total interest. This shows how easily we can pay the interest on our debt, the higher the value the more financially resilient we are.

Operating Margin

Operating Margin measures the amount of money we have left from rental income after we have deducted our main costs to run the business and serve our customers. There are two measures, one focuses on the income and costs relating to just our social properties, the other includes all activities such as Market Rent and Commercial properties. Operating Margin measures our financial stability, a higher margin means we are more resilient to increases in costs.

ROCE

ROCE (Return on Capital Employed) compares our Operating Margin against our current assets, less our current liabilities. ROCE indicates how efficiently our money is invested internally by Sovereign, a higher ROCE is better as it indicates we are better able to use the money we have available.

Employee Engagement

Employee Engagement is based on an internal survey of our employees conducted at different times throughout the year, with one question asking their overall satisfaction with working at Sovereign. Sovereign measures employee engagement because we feel this has a direct impact on the quality of services we offer our customers, the higher the score the better.

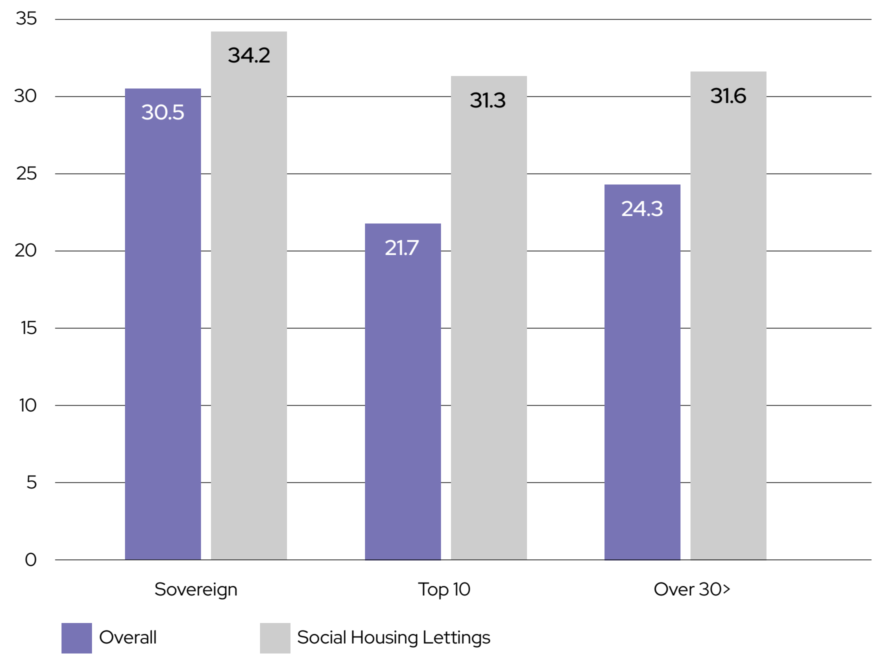
Strong foundations, more choice

Operating Margin

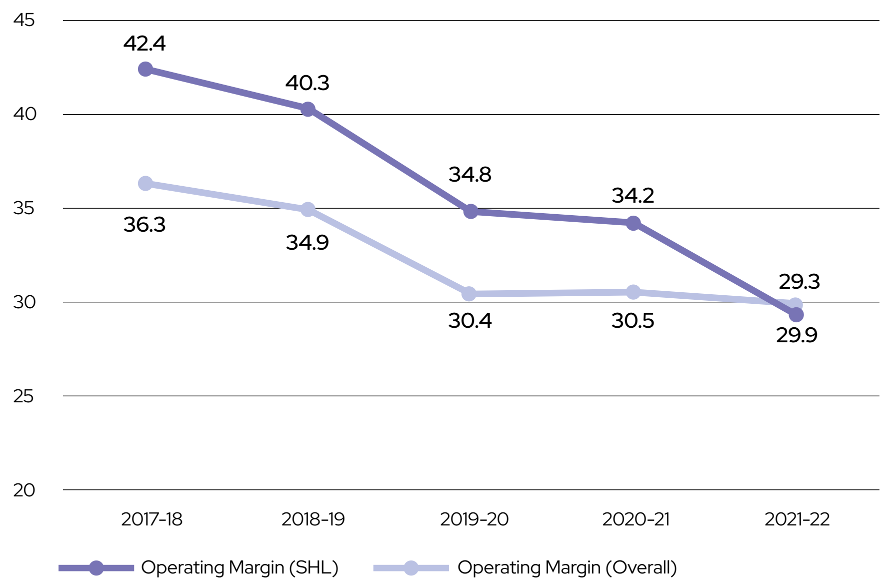
Sovereign's gap between SHL (Social Housing Lettings) and overall Operating Margin shows we are committed to long-term financial stability, ensuring non-SHL activity is equally contributing to our ability to reinvest in the future.

- Operating Margins continue to decrease reflecting the increasing difficulty of operating within the sector and challenges linked to demand-price increases of the building materials and trade-labour markets.

Operating Margin % (2020-21)



Operating Margin % trend analysis

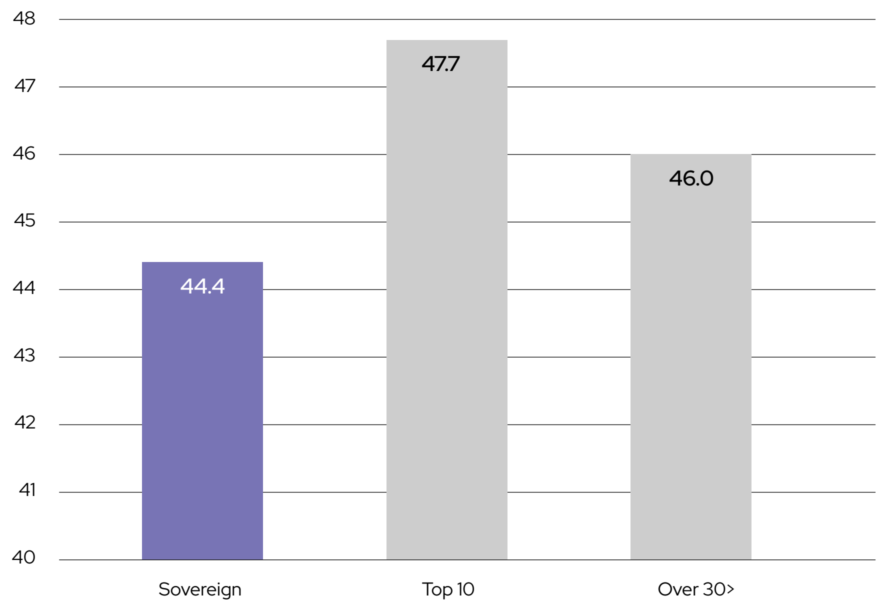


Gearing

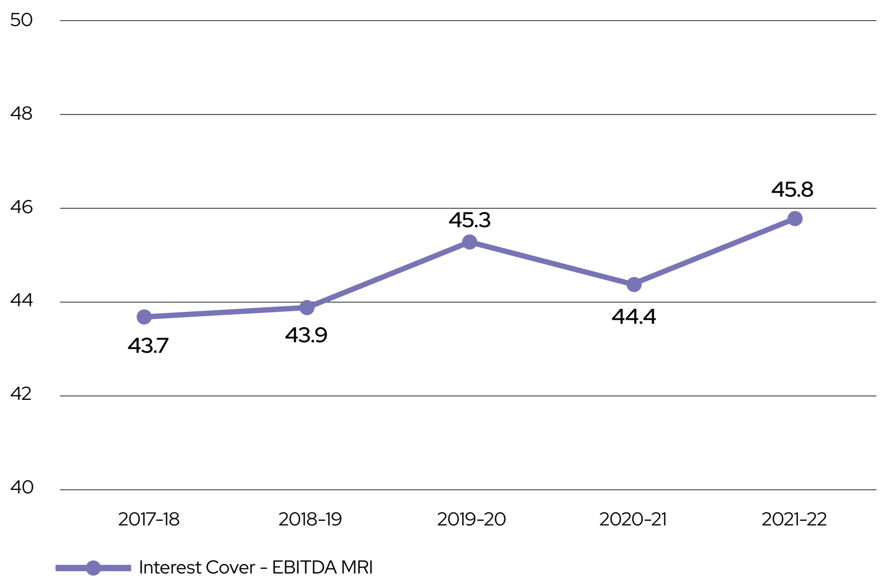
Our gearing outperforms both our peer groups and shows we are positioned to continue to grow and re-invest in our existing assets as we are able to attract further investment funding due to being a less risky investment than our peers.

- Our gearing has generally continued to grow over time as we secure funding against our existing homes to allow us to invest in our strategic goals such as decarbonisation and the development of new homes.

Gearing % (2020-21)



Gearing % trend analysis



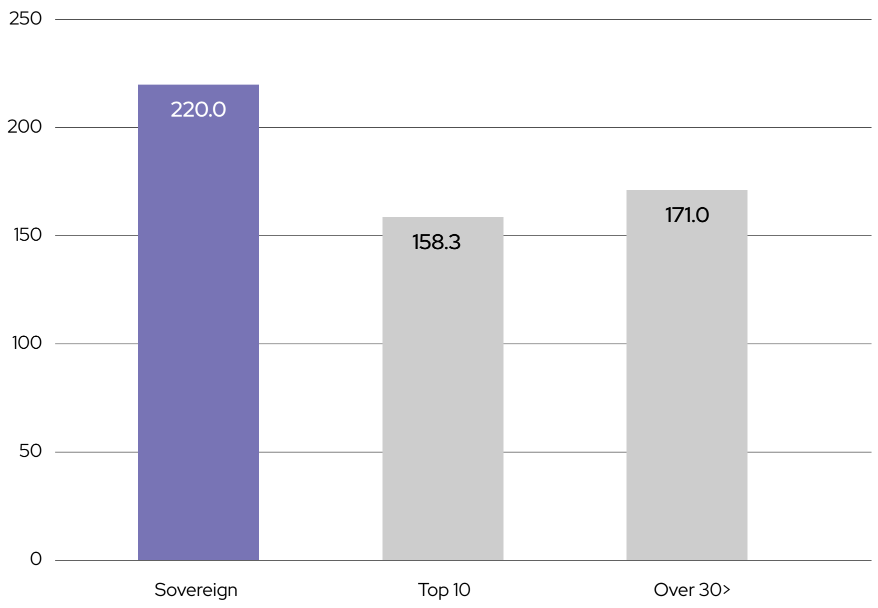
Strong foundations, more choice

Interest cover – EBITDA (MRI)

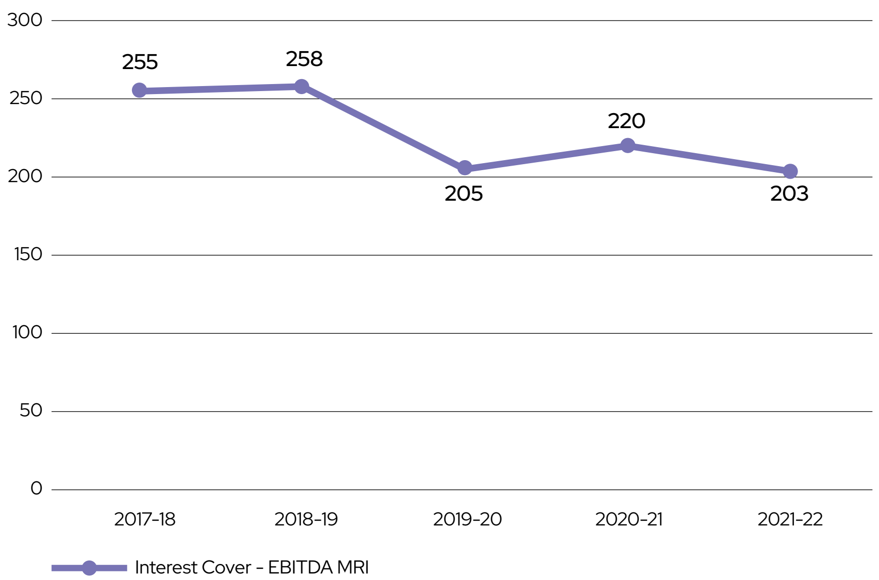
Sovereign out-performs both our peer groups, demonstrating our strong financial stability for the long-term.

- The trend analysis shows a shallow downward trend, this reflects the challenges faced by the sector as a whole.

EBITDA MRI (as % interest) (2020-21)



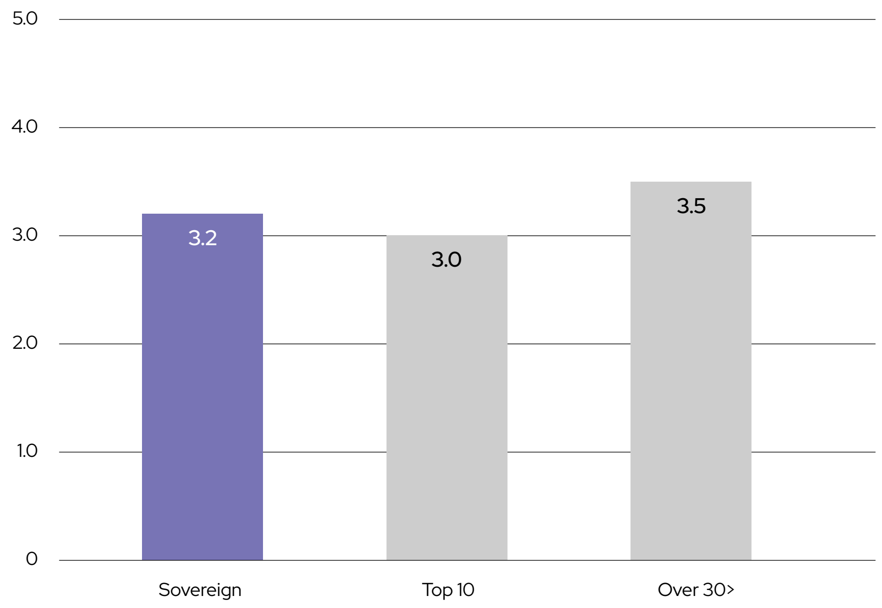
EBITDA MRI (as % interest) trend analysis



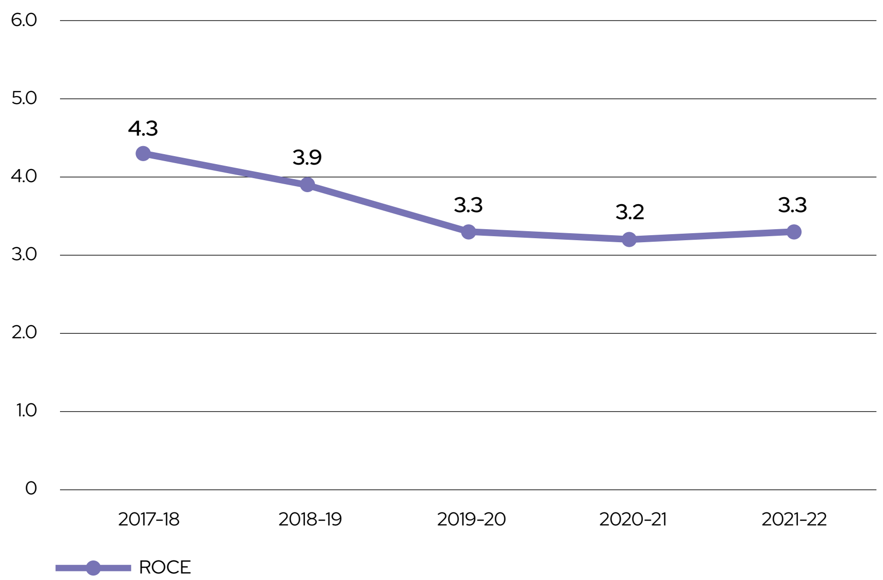
Return on Capital Employed (ROCE)

- Our ROCE (Return On Capital Employed) is in-line with our Top 10 peer group and slightly behind the over 30,000 Registered Providers group.
- ROCE reduces over time reflecting Sovereign's total units and therefore the value of our assets is growing each year.

ROCE % (2020-21)



ROCE % trend analysis



Case study 3

Strong foundations, more choice

Digital transformation

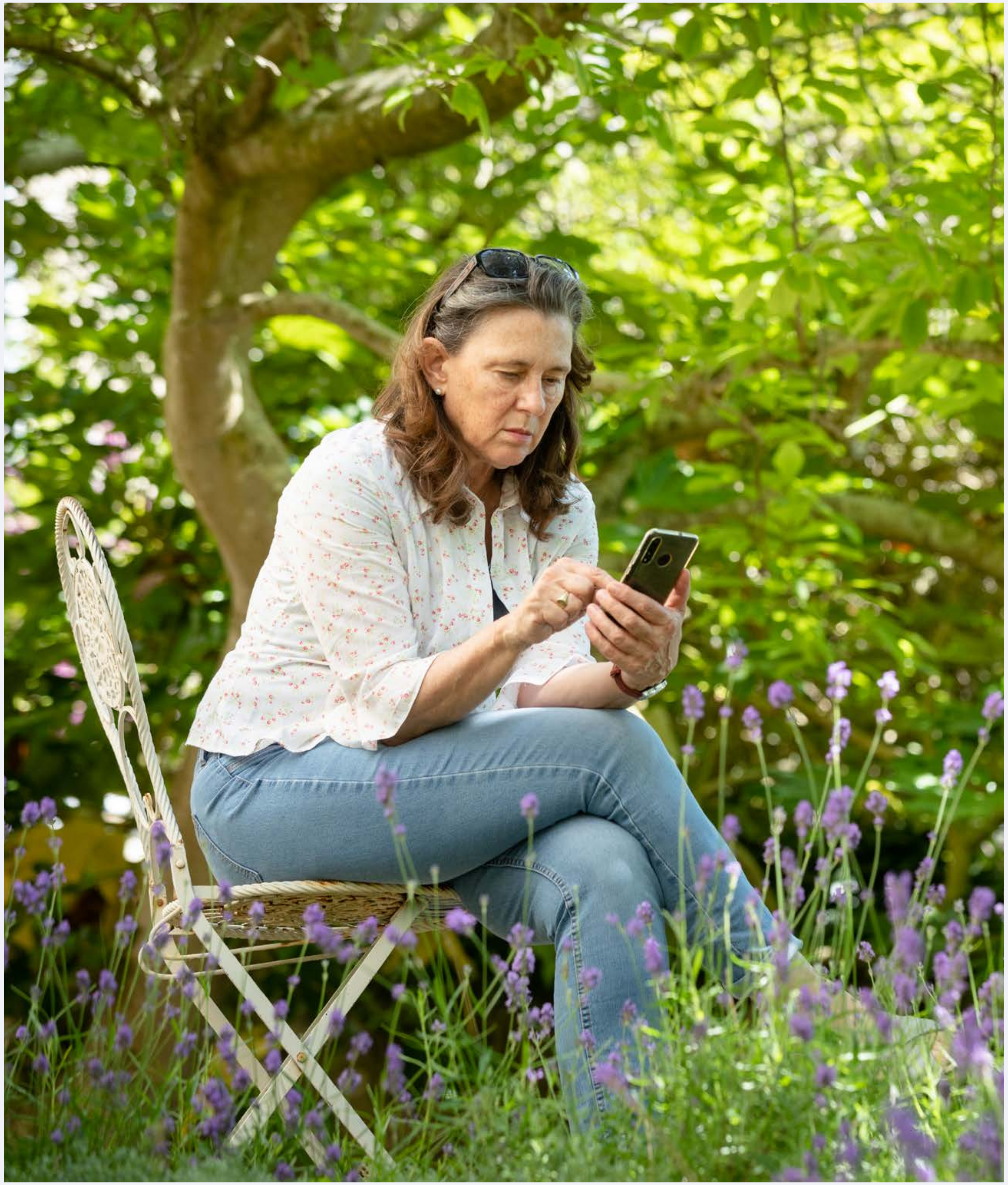
Supporting our customers onto digital platforms is key to our meeting changing needs and to making processes easier for customers and employees. We have committed in our Corporate Plan to making things so easy and accessible for our customers that they will want to interact with us digitally wherever 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 more efficiently and reducing overall costs. We've responded to the increased cyber threat and rolled out cyber awareness training for all staff.

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.



In conclusion

The last financial year has been challenging for the housing sector and Sovereign is no exception. Issues with the supply chain, labour shortages and rising prices, caused in part by the pandemic and made far worse by the Russian invasion of Ukraine will make the coming years challenging too.

Our new corporate plan commits us to becoming a truly customer-focused business and this year the first phase of our transformation programme is having a positive impact on our customers. Major improvements in our contact centre are improving the customer experience and helping us to get things right first time. We've worked hard to address the post-covid backlog and 88% of our customers are satisfied with our repairs service. Because we want to have a positive social impact we've continued to invest in our communities, securing funding for projects that benefit our customers and their neighbours. This year a National Lottery Community Fund grant of £225,000 will enable us to deliver a two-year social action project that supports young people to have a greater say in their communities.

This year we have built 1,196 new homes – more than last year. 93% of these are affordable for rent or shared ownership, including 193 for social rent and 430 for affordable rent. This underlines our commitment to VfM for our customers and our core social purpose – housing people who would not otherwise have a home to call their own. We have increased our development pipeline by over 2,000 to 8,380.

Alongside our commitment to build new homes we are making steady progress in bringing our Homes and Place standard to life in our existing homes. We have completed our asset grading model and we now know where we need to invest in regeneration. We have launched our pilot programme to understand how best to retrofit our homes ahead of rolling out the first phase of retrofit and regeneration. We are committed to investing an average of £138.6 million every year into our existing homes over the next decade, ensuring our homes are higher quality and cheaper to run for our customers.

Implementing the Homes and Place standard is core to our commitment to environment, governance and social standards (ESG). The pilots we are running will determine how we best retrofit our homes and we have published research into customer attitudes to retrofitting. Delivering net zero by 2050 will only be possible if we start now on our existing stock, as well as having the most energy efficient new homes. Our parallel ESG report sets out how we are measuring ourselves and tracking our progress in more detail, and we will continue to put ESG at the heart of all we do across all our delivery portfolios.

Our finances remain strong: we achieved an operating surplus of £142.6m, exceeding last year's surplus. EBITDA MRI has fallen only slightly, a positive outcome for us as 2021 saw a much lower level of capitalised repairs. Our access to cash remains strong too, with net debt of £2.0bn 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.

The economic headwinds this year have been tough, and the outlook is turbulent. But the decisions we have made this year, and will continue to make, mean we will not be blown off course. We will continue to be able to deliver value for money for our customers and for the taxpayer as we implement our Corporate Plan. We will remain true to our vision to be the leading landlord in the south of England, providing our customers good affordable homes in thriving and sustainable communities.

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Sovereign Housing Association Limited is charitable.
CORP-31868-VFM 2022WG