

## **Sovereign Housing Association's Quarterly Performance Update covering the 3-month period to 30 June 2021**

### **2022 Q1 Trading Update 30 June 2021**

Sovereign is pleased to report strong progress for the first quarter of the new 2021/22 financial year, based on unaudited management accounts.

### **Annual Report 2020/21**

We are pleased to share our annual accounts, which were signed off by the Board and our auditors and are now available [on our website](#). As highlighted in the annual report, Sovereign delivered a strong set of results despite the ongoing impact of the global pandemic.

We also completed the Annual 30 year Business Plan and performed detailed stress testing. The Board endorsed our Business Plan and we submitted our Financial Forecast Return (FFR) and associated Business Plan documentation to the Regulator of Social Housing in June.

### **Quarter 1 Performance Update**

Sovereign's operational and financial performance for the first quarter of 2021/22 has continued to be robust, despite the economic climate. Our unaudited management accounts show operating surplus and overall surplus improving versus the last quarter and on track vs year to date budget. However, 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, and whilst we are expecting a shortfall vs the full year budget of 1,900 units, we will be well ahead of last year's 1,099 units.

Homes in management of 60,425

- Turnover was £102.7m (Q4 20/21: £111.6m) -8%
- Operating surplus was £37.6m (Q4 20/21: £34.3m) +9%
- Overall surplus was £23.0m (Q4 20/21: £19.1m) +20%
- New homes completions of 166, 88% of which were for affordable tenures against a budget of 415, driven by the impact of the Covid variant, resource and material shortages
- Current development pipeline is in excess of 6,700 homes
- 116 sales completions, due to lower handover of units from developers (Q4 20/21: 173 sales) -33%.
- We received re-confirmation of the highest ratings for Governance and Viability from the Regulator of Social Housing's stability check, retaining our G1/V1 status.

### **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, 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. Instantly available financing was £701m which equates to 51 months of forecast headroom under our Liquidity Golden Rule, this has increased 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.

In addition, following significant work to review our security pools to ensure we have an appropriate level of asset cover and headroom on our facilities, we now have over 4,000 properties ready to charge for any future funding opportunities, with an estimated value of over £400m and a further 16,000 properties unsecured. 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	51 months	▲	>18 months	33 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	17.1%	▼	<40%	22.9% £97.9m	Sales / turnover
Performance	33.3%	▲	>30%	3.3% £11.5m	Operating Surplus (Exc. all development and asset sales)
Sustainability: Interest Cover	275.7% £175m	▼	>121%	155% £98m	10% Minimum level of headroom against all lender's interest cover covenants.
			>110%	166% £105m	Tightest Covenant
Sustainability: Gearing	42.7% £1969m	▼	<71.25%	29% £1320m	5% Minimum headroom against all lenders' gearing covenants.
			<75%	32% £1493m	Tightest Covenant

## Environmental, Social and Governance (ESG)

The quarter has seen work commence on our inaugural Environmental, Social and Governance (ESG) report, which we will publish in Autumn 2021. This follows our involvement in the creation of the Sustainability Reporting Standard for Social Housing, a new ESG standard for the UK social housing sector.

Our [Equality, Diversity and Inclusion \(EDI\) strategy](#) has now been launched and we are now moving to action to deliver our commitments. One example is we are now running unconscious bias training for interviewing managers and another is actively targeting an increase in the number of women in trades roles. A working group has been created to discuss the cultural and tangible challenges in attracting and retaining women in these roles and how to overcome them.

## **Corporate Affairs**

In May we published our [Homes and Place Standard](#), which marks our commitment to building and maintaining good quality homes and better places to live. This will guide how we grade our assets and bring them up to standard, meeting our ambition to be net zero by 2050. We are engaging with local authorities and talking through the implications of our regeneration and replacement programme for local communities. Tom Titherington, Chief Investment and Development Officer, addressed the Climate Change and Sustainability in Housing conference on green disposals.

Also, during the period, our Chief Executive Mark Washer met with Luke Hall MP, Minister for Regional Growth and Local Government, to talk about the role of social housing in helping to regenerate the high street and showed him round a new development in Yate, just outside Bristol.

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.

## **ENDS**

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