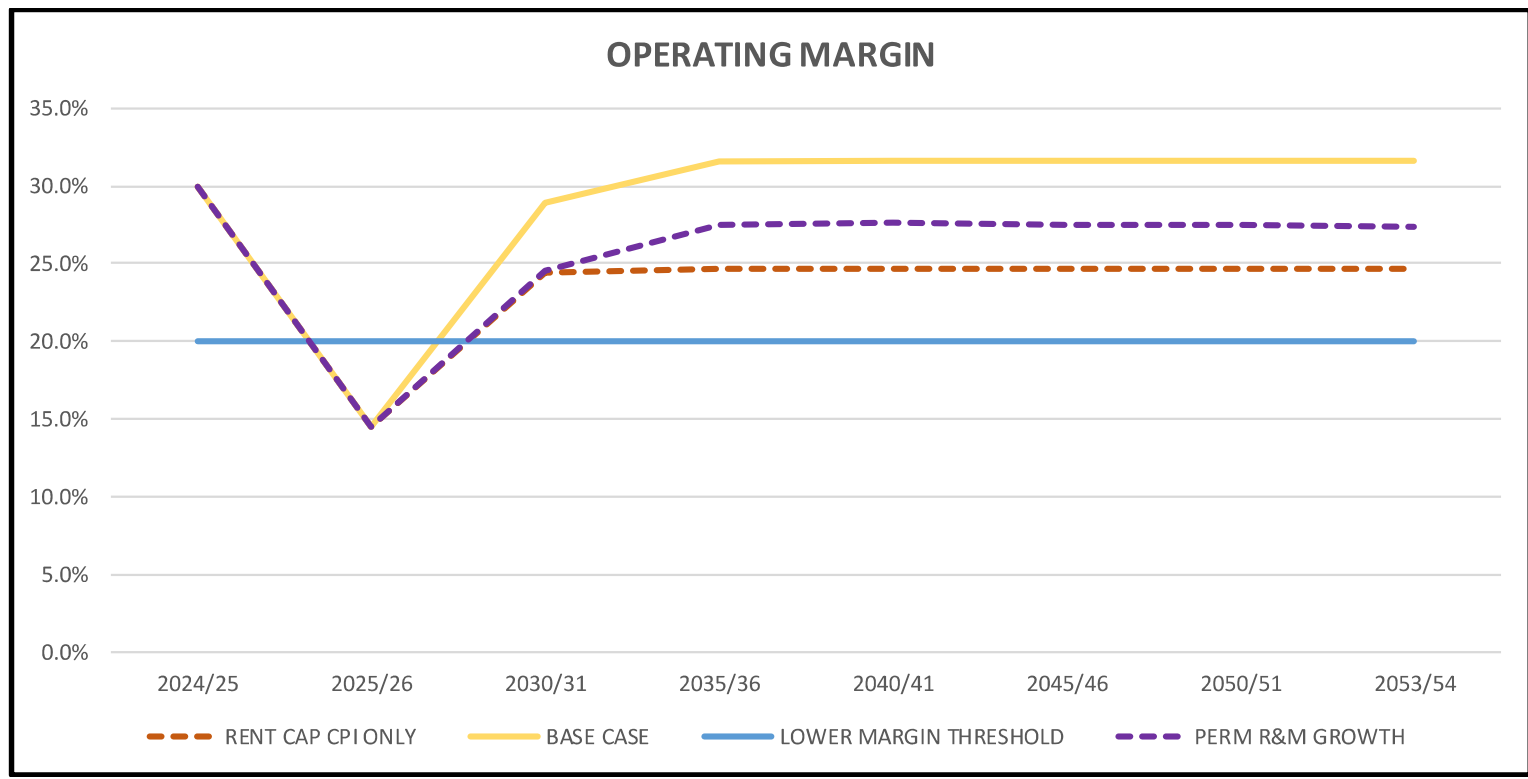


PERFORMANCE MEASURE 1 – OPERATING MARGIN

Operating margin is a measure which looks at remaining income after funding operating expenditure, it is an indication of financial efficiency. 20% is considered a comparable benchmark for similar stock holding organisations.

The current HRA position is performing well against the benchmark and results show that in all three scenarios there is headroom above the minimum margin.

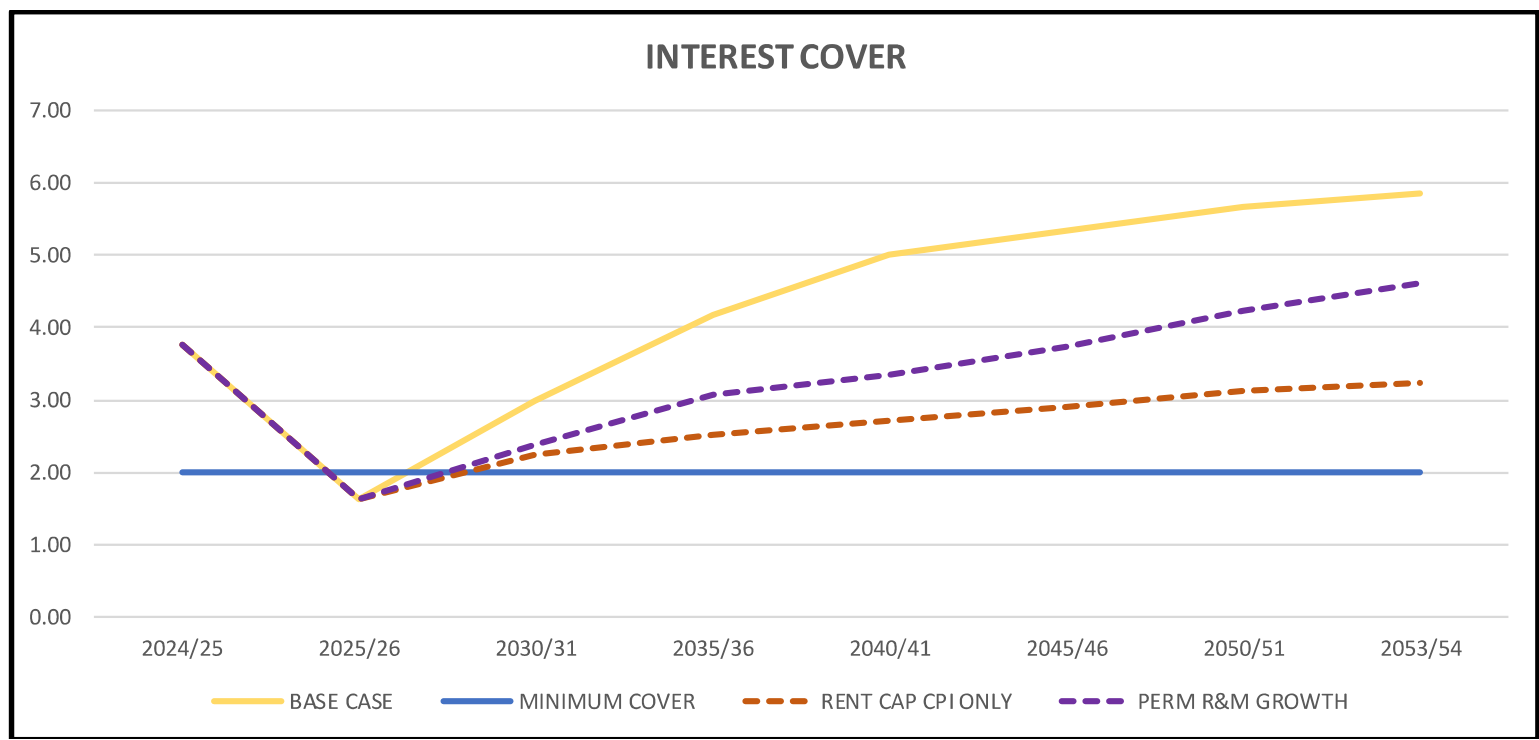
The forecast position for 2025/26 is expected to fall below the benchmark due to revenue budget pressures and with slower than anticipated income growth from higher than average properties lost through Right to buy and void rates. In future years, this stabilises in all scenarios, as short term pressures ease and stock growth continues. This is further supported within the base case estimate and permanent repairs and maintenance growth case as rent convergence and CPI+1% increases continue for 10 years.



PERFORMANCE MEASURE 2 – INTEREST COVER

Interest cover is used to assess the HRA’s ability to service debt interest and is calculated by dividing net operating income by interest costs. It is a standard covenant used by banks for housing providers looking to take new borrowing, usually a cover of 1.10, with a warning trigger at 1.25 deemed acceptable. However, for an additional level of prudence within the Council’s plan, a minimum cover of 2.0 has been set as the lower threshold.

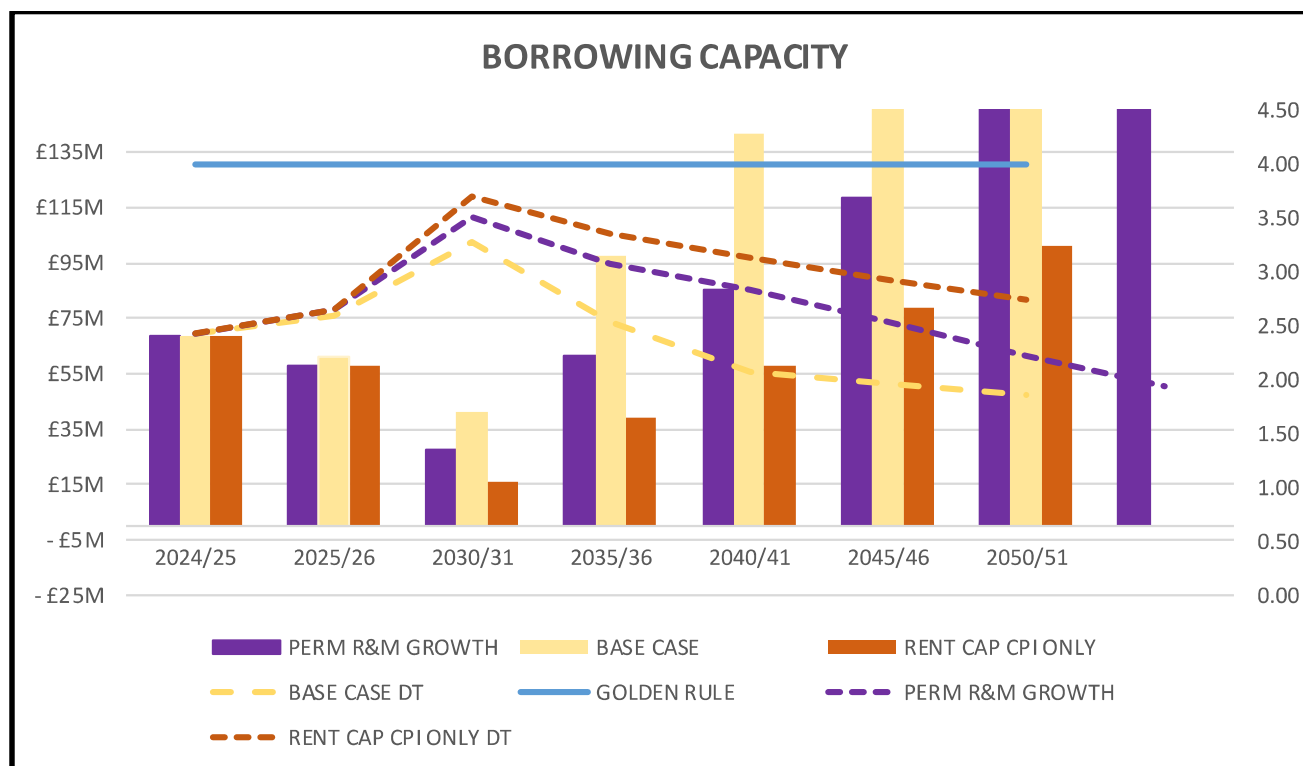
Following a dip in 25/26, all three scenarios maintain cover above the threshold, with the base case performing best against this measure. As can be seen below, limiting rent increases to CPI only is more detrimental than a permanent repairs and maintenance growth, due to its significant impact on rent income which cannot be recovered in later years.



PERFORMANCE MEASURE 3 – DEBT TO TURNOVER AND BORROWING CAPACITY

Debt to turnover in straightforward terms can be understood as ‘income multiplier’. It is calculated by taking total debt (measured as HRA capital financing requirement – CFR), divided by gross income. An industry benchmark of 5.5 is considered reasonable, although as with interest cover, for NYC’s plan, we have set a lower threshold of 4 to give an additional level of assurance. It is then possible to derive from this calculation borrowing capacity within the business plan, as 4 times gross income. Borrowing capacity less CFR is the borrowing headroom remaining in the plan. The charts below show the projected Debt to turnover versus the ‘golden rule’ of 4 and shows borrowing headroom within the bar chart.

All scenarios modelled maintain borrowing within the parameters of the performance measure. With the base case estimate most comfortably within the threshold, whilst in the scenario showing rent capped borrowing headroom falls to £14.6m in 29/30, which is a relatively small margin in the scale of the HRA capital programme of £235m



PERFORMANCE MEASURE 4 – WORKING BALANCE / RESERVES

To provide a safety net and provision for unexpected events, a minimum working balance is recommended of £1,500 per property. This is still deemed to be appropriate until the outcome of stock condition work is fully understood and the Housing Improvement Programme is complete.

The tables below present forecast working balances, for this year’s Business Plan, all surpluses and deficits are assumed to transfer to/from working balance and no other earmarked reserves have been created.

Within all scenarios, borrowing for Decent Homes capital expenditure has been utilised to ensure minimum working balance can be maintained . Within the base case, forecasts suggest Decent Homes borrowing can be repaid in full from year 8, with an 8 year repayment plan. The alternative scenarios require a significantly longer period to repay, with neither achieving payback within the 30 year plan

