

**Agenda Item 4.2**

**REPORT TO GOVERNANCE, FINANCE AND STAFFING SUB-COMMITTEE**

**18<sup>TH</sup> AUGUST 2022**

**SUBJECT: COVENANT COMPLIANCE TO 30<sup>TH</sup> JUNE 2022**

**PREPARED BY: G. WATSON, FINANCE MANAGER**

## **Purpose of report**

This report informs the Management Committee of the Associations compliance with our banking covenants, as set out in our loan agreements with the Triodos Bank.

A Covenant is a condition of a loan that lender uses to monitor a borrower's performance during the period covered by the loan.

The covenants are reviewed annually to ensure compliance and monitored quarterly.

A copy of the management accounts are sent to the lender.

## **Covenants Update**

Yorkhill Housing Association Ltd is complying with all of its loan covenants with Triodos Bank as at 30<sup>th</sup> June 2022.

However, committee should be aware that given the current economic environment and inflation increases above the rent increase, additional pressure has been placed on covenant compliance.

The Finance Manager recently met with Triodos to update the bank on this year's budget projections and monitoring of covenants.

Triodos Bank confirmed previous years compliance would be taken into consideration and the Association catch up program with repairs was standard across the sector.

The Finance Manager will test covenants on quarter basis during the final budget process in future.

A budget review will take place in November 22 to ensure full compliance at 31/03/23.

## **Recommendation**

1. The Management Committee is asked to note the Association's compliance with its banking covenants to 30<sup>th</sup> June 2022 as per the Management Accounts.

**TRIODOS LOAN COVENANT REPORT****Triodos Covenants at 30th June 2022**

The Association will satisfy the loan covenants with Triodos as at 30.06.22

**1. Interest Cover**

The interest cover ratio is the measure of the Association`s ability to meet its interest payments:

Operating Surplus	-24,249
Add back depreciation of housing properties	128,842
Add back gain/deduct loss on disposals of properties	0
Deduct amortisation of public sector grant	-71,466
Deduct Payments towards deficit	-24310
<b>Adjusted Operating Surplus</b>	<b>8,817</b>
Interest Payable	7,040
Interest Receivable	-52
<b>Net Interest payable</b>	<b>6,988</b>
Interest Cover	1.26
Covenant	1.1

**2. Debt Service Cover**

The debt service coverage ratio is the ration of cash available for debt servicing to interest, principal and lease:

Adjusted Operating Surplus	8,817
Net Interest Paid	6,988

Loan Repayments	12,748
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	19,736
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<b>DSC</b>	0.45

### **3. Asset Cover**

Asset Cover shows that the valuation of properties cover the loan balances outstanding.

Bank Indebtedness	870,909
Security Cover MV-T	2,250,000
<b>Asset Cover</b>	<b>2.58</b>
Covenant	1.25