Coventry City Council

Public report
Cabinet

Cabinet	25th February 2025
Council	25th February 2025

Name of Cabinet Member:
Cabinet Member for Strategic Finance and Resources – Councillor R Brown

Director Approving Submission of the report:
Director of Finance and Resources (Section 151 Officer)

Ward(s) affected:
All

Title:
Budget Report 2025/26

Is this a key decision?
Yes - The report sets the Council's Revenue Budget for 2025/26, the Medium-Term Financial Strategy 2025/26 to 2027/28, the Capital Programme for 2025/26 to 2029/30 and the Council's Capital, Treasury Management and Commercial Investment Strategies which is a function reserved to Council.

Executive Summary:

This report follows on from the Pre-Budget Report approved by Cabinet on 10th December 2024 which has since been subject to a period of public consultation. The proposals within this report will now form the basis of the Council's final revenue and capital budget for 2025/26 incorporating the following details:

- Gross budgeted spend of £961.9m (£94.0m or 11% higher than 2024/25).
- Net budgeted spend of £296.7m (£19.3m or 7% higher than 2024/25) funded from Council Tax and Business Rates less a tariff payment of £22.2m due to the Government.
- A Council Tax Requirement of £189.5m (£13.6m or 8% higher than 2024/25), reflecting a City Council Tax increase of 4.9% detailed in the separate Council Tax Setting report on today's agenda.
- A number of new expenditure pressures, policy proposals and technical savings proposals.
- A Capital Strategy including a Capital Programme of £171.6m including expenditure funded by Prudential Borrowing of £55.3m.
- An updated Treasury Management Strategy, Capital Strategy, and a Commercial Investments Strategy.

The financial position in this Budget Report is based on the Final 2025/26 Local Government Finance Settlement published on 3rd February 2025. This settlement still only provides a one-year focus for 2025-26 with no detail for local government finances beyond this. However, in response to significant lobbying by Local Government, it is now being recognised that the current methodology and much of the data that feeds into it is out of date and therefore, the Government have begun a consultation process into Local Authority Funding Reform, with the intention that a new system, intended to reflect need, could be implemented from 2026/27.

In advance of this reform the 2025/26 Local Government Finance Settlement has addressed some of the disparity in the current system with new grants including the new one-off Recovery Grant (£9.6m), targeted towards areas with greater need and demand for services, and the new Childrens Social Care Prevention Grant (£2.2m), distributed through a new children's needs-based formula which estimates the need for Childrens Social Care Services. Coventry also received an additional £6.2m Social Care Grant. Compared to the assumptions within the pre-budget report, this represents and additional £10.5m of resources in the settlement.

With the promise of funding reform, it is difficult to provide a robust medium term financial forecast at this stage and the Council has instead made some planning estimates for future years. Initial assumptions recognise the likelihood that gaps will remain for the periods following 2025/26. The view of the Director of Finance and Resources (Section 151 Officer) is that the Council should be planning for such a position.

The Pre-Budget Report was based on an increase in Council Tax of 4.9% and this position has been maintained for the final proposals in this report. This incorporates an increase of 2.9%, which is within the Government's limit of 3% above which a referendum would need to be held plus a further 2% Adult Social Care (ASC) Precept in line with Government expectations. The precept is essential to enable councils including Coventry to manage increases in the costs of care. In total, the rise in Council Tax bills will be the equivalent of around £1.72 a week for a typical Coventry household including the expected rises in the precepts for Police and Fire.

The Council has closed the significant financial gap for 2025/26 which it had at the start of the Budget process. Measures to achieving this included the identification of additional Council Tax resources, a range of technical adjustments and newly identified cost savings or income streams. All these proposals are set out in detail in Appendix 2 to the report. Where these are different to the proposals that were included in the Pre-Budget Report, this has been indicated within Appendix 2 to the report and shown in tables 2 and 3 within section 2.2 of this report. Due to the additional resources received within the final settlement on 3rd February 2025, several savings options have been removed from the final budget proposals in response to consultation engagement and petitions heard by members.

The proposals do not provide the Council with a balanced budget beyond 2025/26. The Council's current medium term bottom line incorporates a combination of future inflationary and service pressures and the fall-out of uncertain specific grant resources. Some of the future funding assumptions are speculative at this stage and will be revised towards the end of 2025 as any changes to local government finance resulting from the Local Authority Funding Reform consultation and 2026/27 Settlement are made known. The initial approach will however be dictated by an intention to review and update technical information as it becomes available to the Council and to identify further efficiencies from, or generate further income within, Council services. Through 2025, the Council will continue to refine and implement a programme of activity designed to review how best to deliver its services, improve integration between some of them and optimise the effectiveness of others.

The Council's Medium Term Financial Strategy (MTFS) included as Appendix 1 to the report, sets out the financial planning foundations that support the setting of the Council's revenue and capital budgets, including the policy assumptions and financial management framework that underpin the strategy. The purpose of the MTFS is to describe the environment within which the Council operates and bring together resource and cost projections to explain how the Council plans to address its funding gap, whilst retaining focus on its strategic priorities.

The recommended Capital Programme proposals are a key part of the Council's approach and amounts to £171.6m in 2025/26. The proposals reflect the Council's ambitions for the city and include: extensive highways infrastructure works including specific schemes relating to continued delivery of the City Region Sustainable Transport Settlement (CRSTS) programme that include transport packages for the Foleshill and London Road corridor; construction and operation of a 220m long single track demonstrator known as the Live Environment Construction Test (LECT); the continuation of City Centre Cultural Gateway; progressing the City Centre South redevelopment; and the delivery of the Woodlands School project. Over the next 5 years the Capital Programme is estimated at a total of £510m as part of on-going investment delivered by and through the City Council.

This report details the annual Treasury Management Strategy, incorporating the Minimum Revenue Provision policy and the Commercial Investment Strategy. These cover the management of the Council's treasury and wider commercial investments, cash balances and borrowing requirements. These strategies and other relevant sections of this report reflect the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code and Prudential Code for Capital Finance, as well as statutory guidance on Minimum Revenue Provision (MRP) and Investments.

Recommendations:

That Cabinet recommend to Council the approval of recommendations (1) to (7) below.

Council is recommended to:

(1) Approve the Medium-Term Financial Strategy in **Appendix 1** to the report, as the basis of its medium-term financial planning process.

(2) Approve the Budget proposals in **Appendix 2** to the report, after due consideration of the consultation responses set out in **Appendix 7 and Appendix 8** to the report and the Equality Impact Assessment set out in **Appendix 10 to 15.**

(3) Approve the total gross 2025/26 revenue budget of **£962m** in **Table 1** and **Appendix 3,** established in line with a 4.9% City Council Tax increase and the Council Tax Requirement recommended in the Council Tax Setting Report considered on today's agenda.

(4) Note the Director of Finance and Resources (Section 151 Officer) comments confirming the adequacy of reserves and robustness of the budget in **Section 5.1.2 and 5.1.3.**

(5) Approve the Capital Strategy incorporating the Capital Programme of £171.6m for 2025/26 and the forward commitments arising from this programme totalling £510m between 2025/26 to 2029/30 detailed in **Section 2.3** and **Appendix 4**.

(6) Approve the addition to the capital programme of up to £1.1m grant funding from Arts Council England to contribute towards delivery of the City Centre Cultural Gateway scheme detailed in **Section 2.3.4** and **Appendix 4.**

(7) Approve the Council's Treasury Management Strategy and Minimum Revenue Provision Statement for 2025/26 in **Section 2.4** and the Prudential Indicators and limits described and detailed in **Appendix 6**, the Commercial Investment Strategy for 2025/26 in **Section 2.5** and **Appendix 5** and the Commercial Investment Indicators detailed in **Appendix 6**.

List of Appendices included:

Appendix 1 – Medium Term Financial Strategy
Appendix 2 - Budget Proposals and Financial Position
Appendix 2a - Detailed Changes in Proposals Compared with the Pre-Budget Report
Appendix 3a - Revenue Budgets by Cabinet Member Portfolio
Appendix 3b - Revenue Budgets by Cabinet Member Portfolio - Income & Expenditure
Appendix 4 - Capital Programme 2025/26 to 2029/30
Appendix 5 - Commercial Investment Strategy
Appendix 6 - Prudential and Investment Indicators
Appendix 7 - Budget Consultation Findings Report
Appendix 8 - Council Tax Support Scheme Consultation Findings Report
Appendix 9 – Summary of petitions received, and issues raised.
Appendix 10 – Cumulative equality impact assessments (EIA)
Appendix 11 - Adults Services - Market Management EIA
Appendix 12 - Adults Services – Service efficiency EIA
Appendix 13 – Childrens Services EIA
Appendix 14 – Senior management capacity EIA
Appendix 15 – Bereavement Services EIA

Other useful background papers:

None

Has it been or will it be considered by Scrutiny?

No

Has it been or will it be considered by any other Council Committee, Advisory Panel, or other body?

No

Will this report go to Council?

Yes – 25th February 2025

Budget Report 2025/26

1. Context (or background)

1.1 This report seeks approval for the 2025/26 Revenue Budget and corresponding Council Tax rise, Medium-Term Financial Strategy, Capital Programme and Strategy, Treasury Management Strategy, Commercial Investment Strategy and associated investment and prudential indicators. The report includes detail of the resources included within the 2025/26 Government funding allocation and forecasts of the Council's medium term revenue financial position. The revenue budget proposals in this report follow on from the Pre-Budget Report approved by Cabinet on 10th December 2024. They have been established in line with the Council's current One Coventry Council Plan and the Medium-Term Financial Strategy.

1.2 The Government announced the Final Local Government Finance Settlement for 2025/26 on 3rd February 2025. This settlement still only provides a one-year focus for 2025-26 with no detail for local government finances beyond this. However, in response to significant lobbying by Local Government, it is now being recognised that the current methodology and much of the data that feeds into it is out of date and therefore, the Government have begun a consultation process into Local Authority Funding Reform, with the intention that a new system, intended to reflect need, could be implemented from 2026/27.

1.3 In advance of this reform the 2025/26 Local Government Finance Settlement has addressed some of the disparity in the current system with new grants including the new one-off Recovery Grant (£9.6m), targeted towards areas with greater need and demand for services, and the new Childrens Social Care Prevention Grant (£2.2m), distributed through a new children's needs-based formula which estimates the need for Childrens Social Care Services. Coventry also received an additional £6.2m Social Care Grant. Compared to the assumptions within the pre-budget report, this represents and additional £10.5m of resources in the settlement.

1.4 At the start of the current Budget process the Council faced a budget deficit of £14m for 2025/26. This position has been made worse by forecast financial pressures for the year ahead, including those caused by inflation, social care activity and market conditions, and other key services including housing and homelessness. Following the Autumn Statement announcement in November 2024, the Council changed its forecasts of Government funding levels. These and the incorporation of new technical savings proposals improved the financial position such that the Pre-Budget Report presented a suite of proposals on which to consult, which collectively formed the basis of a potential balanced year one position pending the Government's Provisional Local Government Settlement, released in December 2024. This Settlement refined the detailed proposals on specific grant resources which together with a subsequent announcement of one-off Recovery Grant and a small number of other technical changes, has enabled a balanced budget position to be proposed for 2025/26.

1.5 For 2025/26 councils nationally have the flexibility to increase Council Tax by up to 3% without holding a local referendum on the matter with further ASC precept flexibility of 2%. The Pre-Budget Report was approved on the basis of an overall

Council Tax rise of 4.9% - within the parameters of these flexibilities - and the budget being proposed in this report maintains this position.

1.6 The Chancellor's Autumn Statement 2024 announced plans for Local Government Funding Reform, intended to reflect need, and seeking to be implemented from 2026/27. The scope for variations in the future allocation methodology and the distribution of specific grants continues to deliver financial planning uncertainty for individual councils, including Coventry. In response, the Council is planning to identify more efficient and coordinated ways of working across a range of services under its One Coventry approach. This will continue to take a more co-ordinated approach to how some services are delivered across the Council and the city alongside partners, as well as continuing to pursue commercial options where these arise and are in line with Government regulation and sector guidance.

1.7 The Council and city have witnessed large and sustained programmes of infrastructure and other capital investment works over recent years. The next phases of this are set out in the Capital Programme in section 2.3 and Appendix 4. A large part of the Programme reflects the Council's continued success in attracting external grant funding into the city, working with the West Midlands Combined Authority to secure resources as part of the Devolution Deal and the City Region Sustainable Transport plan and developing local self-financing projects within the city. The scale and breadth of this programme continue to be large in a historical context. Council has been informed previously of the significant challenge in managing the number and size of complex and overlapping projects within a relatively compact city and tight timescales, although for the most part the Council's capital projects have maintained good momentum. In terms of the wider Capital Programme, it is worth emphasising that the vast majority of the funding to deliver these schemes comes from sources that can only be used in one-off capital schemes and therefore is not available to support the revenue budget.

1.8 The overall Council Capital Programme is estimated to be £510m over the next 5 years. The city's aspiration continues to be to spearhead growth, economic development and job creation in the city and greater self-sufficiency for the City Council through the generation of higher tax revenues, wider economic prosperity, and lower deprivation levels amongst citizens. The national economic and political context, including the structure of any future Business Rates Retention model, will play a factor in the degree to which this can be achieved over this period, but the Council will continue to explore a range of options that increase the degree of control that it has over its own financial destiny.

1.9 Whilst local authorities have been required to have a treasury management strategy, more recent statutory government guidance has extended these requirements to other commercial investments, including service loans, shares and investment properties. The guidance seeks to ensure that authorities have strong commercial risk management arrangements and that such investments are proportionate, and relative to the size and financial capacity of the authority. The Council's arrangements in this regard are set out in the Capital Strategy, Commercial Investment Strategy and associated investment and prudential indicators.

1.10 Revenue Resources

1.10.1 The Council's total revenue expenditure is funded from a combination of resources as set out in the table below:

Table 1: Funding of Revenue Budget

2024/25 £000s		2025/26 £000s	Change from 24/25 £000s	Change from 24/25 %
(175,898)	A: Council Tax Requirement	(189,491)	(13,593)	8% Increase
(123,757)	B: Business Rates Income	(129,430)	(5,673)	5% Increase
22,203	C: Tariff	22,199	(4)	0% change
(476,828)	D: Specific Grants	(548,682)	(71,854)	15% Increase
(113,541)	E: All Other Income	(116,451)	(2,910)	3% Increase
(277,452)	**Funding of NET Budget (A + B + C)**	**(296,722)**	**(19,270)**	**7% Increase**
(867,821)	**Funding of GROSS Budget (A + B + C + D + E)**	**(961,855)**	**(94,034)**	**11% Increase**

Line A above reflects the combined effect of the city Council Tax increase of 4.9% and the balance reflecting a higher tax-base.

Line E, in addition to other Fees and Charges, includes Council Tax and Business Rates Collection Fund surpluses/deficits, dividend payments and contributions from reserves.

Limited information is available currently about the level of resources that will be available to the Council beyond 2025/26. This will be subject to decisions and implementation of the Government's plans for Local Government Funding Reform. The Council's medium term financial forecast reflected in Appendix 2 makes planning assumptions about future growth in Core Spending Power, including Council Tax increases and Social Care Grants, although this will require confirmation at a later date.

1.10.2 The Council is in a similar position to many councils having experienced significant reductions in Government resource allocation since 2010. In efforts to maximise the benefit realisable within the current system Coventry is currently a member of both the Coventry and Warwickshire Business Rates Pool and the West Midlands Business Rates Pilot, the latter of which enables the Council to retain 99% of Business Rates. Both these mechanisms have enabled the Council to improve its overall resource position by a modest degree over recent years. The devolution deal negotiated by West Midlands Combined Authority with the Ministry of Housing Communities & Local Government (MHCLG) on behalf of the West Midland Mets, currently provides for the continuation of the West Midlands business rate retention scheme for a period of up to 10 years.

1.10.3 The current Local Government Finance system includes an element of redistribution, reflecting different councils' relative needs and resources. Under the current arrangements, where the Council retains 99% of the Business Rates it collects, it must pay a tariff to central government as part of the redistribution process. This tariff payment now stands at £22.2m for 2025/26 which is consistent with the previous year. This indicates that the Council is judged by Government to be earning a greater level of Council Tax and retained Business Rates (plus specific grants) than it requires for its assessed spending needs. This position reflects a combination of cuts to Government resource allocation for local government and to a limited degree, indications that, in the Governments view, the Council has a degree of self-reliance (in relative terms compared to other areas) and can fund its own spending requirements. It is important to treat this assessment with caution given that the city continues to have some high levels of need and areas of high deprivation relative to the national position. Nevertheless, it emphasises the importance for the Council of generating greater resilience and prosperity in the local economy for the city to be able to support itself under the Government's intention for local government to become more self-sufficient.

1.11 In overall terms budgeted specific revenue grant funding (Line D) is increasing between 2024/25 and 2025/26 from £477m to £549m. The vast majority of these are provided by Government with most of this being allocated for specific and ring-fenced purposes. The largest grant allocations are for Dedicated Schools Grant (£251m)[1], Housing Benefit Subsidy (£70m), various social care funding streams (£84m), grants relating to Business Rates (£32m), Public Health (£26m), Pupil Premium (£11m), Extended Producer Responsibility (£6.1m) and Adult Education funding (£5m).

1.12 Most of the increase in specific grants relates to Coventry's indicative Dedicated Schools Grant allocation (net of estimated recoupment) with an increase of £43m from £208m in 2024/25 to £251m in 2025/26. There are three main reasons for this increase which are as follows:

- In 2024/25 mainstream schools are receiving three supplementary grants outside of the DSG (Teachers Pay Additional Grant, Teachers Pension Employer Contribution Grant and Core Schools Budget Grant). In 2025/26 these are being rolled into the schools' block of the DSG which equates to £22m.
- The Early Years block is increasing by £12m in response to the continued roll out of the expanded government funded childcare offer. The funding regulations for 2025/26 mandate that 96% of Early Years block funding must be passported to providers.
- The High Needs block, which funds educational provision for pupils with SEND is increasing by £6m. In line with national trends Coventry is experiencing significant growth in this area and the increased funding will contribute towards the management of this pressure.

The remainder of the increase is due to uplifts across Schools block and Central School Services block reflecting changes in pupil numbers, alongside inflation and the rolling in of supplementary grants for centrally employed teachers.

1.13 The Council's capital and revenue programmes, including treasury and commercial activities, are managed in parallel through consolidated planning, in year monitoring

[1] Indicative allocation, shown net of estimated recoupment

and year end processes, within the context of the Medium-Term Financial Strategy. The Constitution, including the Financial Procedure Rules, set out thresholds that determine the level at which financial approval is required by officers or the appropriate member forum, up to Council. Central to the approach is the principal that recommendations are supported by appropriate business cases.

2. Options considered and recommended proposal.

2.1 Section Outline

2.1.1 This section details the specific proposals recommended for approval within the revenue budget. Section 2.2 below outlines the changes that have occurred to the financial proposals since the Pre-Budget Report in December. The full list of final proposals is provided in **Appendix 2** to this report**.** Approval is being sought for these and the overall budget and Council Tax Requirement in **Appendix 3**. These are based on a City Council Tax rise of 4.9% which includes an Adult Social Care Precept of 2%.

2.1.2 The report seeks approval for a 2025/26 Capital Programme of £171.6m compared with the initial 2024/25 programme of £157.5m. The Programme is considered in detail in **Section 2.3** and **Appendix 4**.

2.1.3 The report is also required formally to seek Council approval for the Treasury Management Strategy set out in **Section 2.4,** the Commercial Investment Strategy **in Appendix 5** to the report and the Prudential and Investment Indicators detailed in **Appendix 6** to the report.

2.2 Revenue Budget

2.2.1 The budget includes the saving and expenditure proposals included within the Pre-Budget Report approved by Cabinet on 10th December 2024 as a basis for Pre-Budget consultation. A line-by-line impact of how these proposals affect the base budget is given in **Appendix 2** with an indication of where there have been changes to the figures included within the Pre-Budget Report, having given due consideration to the consultation responses. The summary and detailed changes since the Pre-Budget Report are shown in tables 2 below and in further detail within **Appendix 2a** to the report. These changes enable the Council to deliver a balanced budget for 2025/26 but indicate that a financial gap will arise based on the best estimates for subsequent years.

Table 2: Summary Changes to Pre-Budget Report Position

	2025/26 £m	2026/27 £m	2027/28 £m
Pre-Budget Report Position	**(3.1)**	**2.6**	**5.3**
Change to Resources	(10.8)	(12.9)	(15.1)
Change to Service & Technical Pressures	8.2	10.1	17.1
Change to Service & Technical Savings	3.5	3.2	3.2
Change to Policy Investments	2.2	0.0	0.0
Sub-Total: Changes from Pre- Budget Position	**3.1**	**0.4**	**5.2**
Final Budget Position	**0.0**	**3.0**	**10.5**

2.2.2 The additional resources identified for Coventry in the Local Government Finance Settlement have provided members with the opportunity to re-evaluate the savings options presented within the Pre-Budget report as well as consider proposals for additional policy investments, reflecting on the comments made and priorities highlighted by the >700 residents who completed the survey.

2.2.3 The following options presented within the Pre-Budget Report were rejected by members following due consideration of the consultation responses and issues raised via the petitions received.

Rejection savings options:

- Adult Social Care – Voluntary Sector	(£560k)
- City Events	(£50k)
- Cultural Services internal provision	(£56k)
- Sustainability and Climate Change	(£32k)
- Election cost efficiencies	(£100k)
- Council Tax Support Scheme	(£850k)
- Discretionary Payments	(£494k)
- War Memorial Park Car Park	(£150k)
- Parks & Open Spaces	(£150k)
- Streetpride	(£690k)
- Waste Disposal	(£340k)
- Your Coventry Publication	(£65k)

2.2.4 In conjunction with priorities raised by residents within the consultation responses such as pride in the city, perception of visitors and health concerns related to the impact of fly tipping, members have taken the opportunity to provide additional one-off policy investment in these areas.

New policy investment:

- Highways – Road defects	(£700k)
- Highways – Road safety measures	(£150k)
- Highways - Gully Cleaning	(£150k)
- Street Cleansing - Fly tipping	(£500k)
- Community Safety & Neighbourhood Enforcement	(£300k)
- Community Events	(£400k)

2.3 Capital Strategy and Expenditure Programme

2.3.1 Under the Prudential Code authorities are required to produce a Capital Strategy that covers a broad range of capital related issues including capital expenditure and resourcing; borrowing and liabilities, and their repayment through Minimum Revenue Provision; loan commitments and guarantees; and treasury and commercial investments. These areas are covered either in this section or elsewhere in this report where appropriate (e.g. the Treasury Management Strategy or Commercial Investment Strategy).

2.3.2 In **Appendix 4** there are proposals for a Capital Programme of £171.6m which contains several strategically significant schemes and schemes that support the savings proposals recommended. The 2025/26 Programme shown compares with the current projected 2024/25 programme of £111.3m. A full 5-year position is detailed in **Appendix 4** with the main planned expenditure as follows:

- Very Light Rail Regional Programme – following the successful development and trials of track and vehicle, Coventry's groundbreaking Very Light Rail Project is now ready to be tested in a live environment. Stage Gate 2 approval of £6.1m enables the construction and operation of a 220m long single-track demonstrator. known as the Live Environment Construction Test (LECT). To date £15m of CRSTS grant funding has been approved of the total allocated £40.5m.
- £20.7m of investment in the city's highways and transportation infrastructure. This includes the continued delivery of the CRSTS programme. Specifically works for Foleshill Transport Package improvements focussed on the Foleshill Road corridor along with transport improvements focussed on the London Road corridor supporting the Gigafactory and other developments planned for the Coventry Airport area.
- £8.3m for the commencement of infrastructure works to prepare the Coventry Airport site for development as part of the proposal for a West Midlands Investment Zone (WMIZ). The sectoral focus for WMIZ will be advanced manufacturing, which is an excellent fit with the One Coventry Plan ambition to increase the economic prosperity of the city and region.
- £25.2m that will see the preparation of works and construction for phase 1 of City Centre South progress during 2025-26.
- Continued investment of £5.8m into the Disabled Facilities Grant programme.
- A £46.4m programme in 2025/26 within the Education and Skills Portfolio, investing in secondary schools' provision under the Education One Strategic Plan including the start of the Woodlands Schools development.
- £4.5m for the continued delivery of the Residential children's homes review & strategy 2023-2026.

2.3.3 The 2025/26 Programme requires £55.3m of funding from Prudential Borrowing, including schemes previously approved for the replacement vehicle programme, the main construction delivery for City Centre Cultural Gateway – Collection Centre, residential children's homes strategy 2023-2026 and the commencement of the Street LED Lighting upgrade. Over the course of the future 5-year programme set out, the Council is set to incur £197m of borrowing. This borrowing has been the subject of previous decisions and will, overwhelmingly, be supported by business cases that have identified income streams to cover the capital financing costs, all of which is factored into the Council's medium term financial plans. In relation to the Council's existing level of borrowing this adds to the Council's external indebtedness.

2.3.4 Included within the Capital programme is £46.8m anticipated to be incurred during 2025/26 and 2026/27 on the main construction works for the City Centre Cultural Gateway, which includes the creation of a Collections Centre for cultural, arts and historical artefacts. Works on the scheme have been delayed following the contractor filing for administration in September 2024 and are now expected to complete in 2026/27. As part of this budget report, approval is sought to accept up to £1.1m grant funding from Arts Council England towards the costs of the City

Centre Cultural Gateway following planned appointment of a replacement contractor for the scheme. This additional grant will increase the overall funding envelope for phases 1-3 of the scheme from the £57.9m approved in March 2024 to £59.0m, ensuring that the project can be delivered without additional Council funding.

2.3.5 In addition to the opportunities to receive additional external funding, the Director of Finance and Resources (Section 151 Officer) will continue to explore options to fund the programme in the most appropriate way depending on the balance of resources, including using capital receipts to reduce the overall need to borrow. In reality, any displacement of borrowing from this source is likely to be at a comparatively low level based on the current level of available uncommitted receipts. In addition to the Prudential Borrowing referred to above, the other main source of funding for the 2025/26 Capital Programme is £96.7m of Capital grants as follows.

Table 4: Capital Grant Funding

Grant	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	Total £m
Department for Environment Food and Rural Affairs	1.9	0.0	0.0	0.0	0.0	**1.9**
Department for Levelling Up, Housing and Communities	2.5	0.0	0.0	0.0	0.0	**2.5**
Department for Transport	0.0	0.0	0.0	0.0	0.0	**0.0**
Disabled Facilities Grant	5.9	5.4	5.4	5.2	5.3	**27.2**
Education Funding Agency	25.3	5.0	2.5	2.5	2.5	**37.8**
West Midlands Combined Authority	56.5	89.8	24.8	12.3	7.8	**191.2**
All Other Grants & Contributions	4.6	1.8	1.3	0.0	0.0	**7.7**
TOTAL PROGRAMME*	**96.7**	**102.0**	**34.0**	**20.0**	**15.6**	**268.3**

**Totals are subject to minor rounding differences.*

2.3.6 The programme is based on an approach to the capitalisation of expenditure set out within the accounting policies section of the Council's Statement of Accounts. This approach is based on proper accounting practices, amended as required by local government capital finance regulations. In broad terms assets are treated as capital where they have a useful life of longer than one year and are not intended for sale during the normal course of business.

2.3.7 **Forecast Capital Expenditure and Resourcing Programme**

The Programme included has been evaluated to identify a likely best profile of spend based on current knowledge of individual projects. In part this is to maximise the amount of programmed expenditure to meet expectations of grant funding bodies but there are also local expectations to inject momentum into the programme to ensure sufficient progress is made. In overall terms, 2025/26 will continue at a relatively higher level of programme spend than witnessed in some recent years that involves a number of complex and overlapping projects. Section 5.1.4 recognises the risks inherent in this. Given the innovation involved in some of the projects, the milestones that need to be achieved to satisfy grant funding bodies and the potential for delay given the interdependency of some schemes, it should be recognised that the profile for some schemes could shift significantly between years, with the potential for expenditure being rescheduled into later periods.

A summary of the proposed programme including existing commitments and funding sources is outlined below. This includes expenditure rescheduled into 2025/26 as a result of the 2024/25 budgetary control process. Full details of the proposed programme are included in **Appendix 4.**

Table 5: 2025/26 – 2029/30 Capital Programme (Expenditure & Funding)

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	Total £'000
Portfolio Expenditure						
Children & Young People	4,544	1,300	100	100	100	**6,144**
Education & Skills	46,370	9,704	2,489	2,489	2,489	**63,541**
Jobs, Regeneration & Climate Change	38,352	73,678	59,941	6,227	60,742	**238,940**
City Services	39,788	37,460	17,228	17,675	9,089	**121,240**
Adult Services	5,880	5,435	5,374	5,234	5,264	**27,187**
Public Health, Sport & Wellbeing	433	621	170	79	1,039	**2,342**
Housing & Communities	36,220	13,983	645	0	0	**50,848**
TOTAL PROGRAMME*	**171,587**	**142,181**	**85,947**	**31,804**	**78,723**	**510,242**
Funding						
Management of Capital Reserve	1,189	3,146	100	100	100	**4,635**
Capital Receipts	14,061	3,695	0	0	0	**17,756**
Prudential Borrowing	55,332	27,327	47,779	7,586	58,987	**197,011**
Grant	96,696	102,020	33,929	20,070	15,628	**268,343**
Capital Expenditure from Revenue	969	2,969	2,969	2,969	2,969	**12,845**
Section 106	3,340	3,024	1,170	1,079	1,039	**9,652**
TOTAL PROGRAMME	**171,587**	**142,181**	**85,947**	**31,804**	**78,723**	**510,242**

2.3.8 Generation of Capital Receipts

The Council reviews the opportunity to generate capital receipts in order to support capital investment and reduce the reliance on Prudential Borrowing to fund spend. Whilst the Council considers all assets in looking to generate receipts, it will seek to do so in particular where these are surplus to operational requirements or yield little or no income. As capital receipts, the proceeds from such disposals can only be used to fund new capital expenditure or repay debt but cannot ordinarily be used to fund revenue expenditure. Based on the review of the potential to generate receipts, the following table sets out the Council's current forecast of capital receipts flows and expenditure commitments, although these are subject to change given the nature of activity in this area.

Table 6: Forecast Capital Receipts

	2024/25 £000s	2025/26 £000s	2026/27 £000s	2027/28 £000s	2028/29 £000s
Forecast (Receipts Brought Forward)/Receipts Shortfall	-11,733	-10,841	-777	-19	-71
Forecast/potential New Receipts	-3,266	-14,690	-25,737	-352	0
Total Receipts	**-14,999**	**-25,531**	**-26,514**	**-371**	**-71**
Commitments and capital contingency	4,158	24,754	26,495	300	0
Receipts Carried Forward (-)	**-10,841**	**-777**	**-19**	**-71**	**-71**

2.3.9 Guarantees, Loan Commitments and Other Liabilities

The Council's long-term liabilities comprise two main elements; the long-term borrowings set out in the Treasury Management Strategy (section 2.4.3) and the pension fund liability. Whilst the pension fund has now moved to a surplus position of £54m, there remains a liability due to; a) unfunded elements and b) we have to apply an asset ceiling under accounting standards meaning the surplus is not available for us to use.

The Council has made loans to a number of external partners which are summarised in the Commercial Investment Strategy attached to this report as Appendix 5 to the report. The total value of loans provided or committed, as at 31st March 2025, is forecast to be £51.5m. Where the Council has committed to make a loan, but has yet to make the advance, for example in making a forward treasury investment or in agreeing a loan facility to be advanced over time, such loan commitments are taken into account in managing the Council's overall investment exposure.

The Council currently provides a small number of guarantees to third parties, for example in respect of long-term pension liabilities. One benefit of this type of arrangement is that a smaller pension contribution can be secured for the organisations in question, as a consequence of the Council's longer term credit strength. Such guarantees can be historic, arising through the Council's past relationships with those organisations. In providing guarantees the Council is accepting risk, and each is reviewed on a case-by-case basis, taking into account the overall level of risk exposure.

2.3.10 Capital Financing Requirement

Taking into account the planned programme set out in the Table 5 above, the estimated Capital Financing Requirement (CFR), representing the underlying need to borrow for capital investment purposes, is detailed in the following table below:

Table 7: 2024/25 Capital Financing Requirement (including PFI & Finance Leases)

Forecast CFR Movements	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**2028/29 £m**	**2029/30 £m**
Opening CFR - 1st April *	**542.5**	**542.5**	**571.6**	**574.2**	**555.2**	**534.5**
Capital Spend met form borrowing	25.1	55.3	26.1	6.5	7.6	59.0
Minimum Revenue Provision *	-22.9	-23.8	-23.5	-25.5	-28.3	-29.4
Other	-2.2	-2.4	-0.0	-0.0	-0.0	-0.0
Closing CFR - 31st March	**542.5**	**571.6**	**574.2**	**555.2**	**534.5**	**564.1**

**Opening balance 2024/25 & annual MRP updated to reflect the impact of the introduction of IFRS16*

Over the 5 years from 1st April 2024, it is forecast that the CFR will Increase marginally reflecting the level of the borrowing required to meet the capital programme, less amounts set aside to repay debt as Minimum Revenue Provision (MRP).

2.3.11 Revenue Budget Implications

The revenue cost of the proposed Capital Programme, in the form of interest on debt, plus the amount set aside as MRP to repay debt is the total general fund capital financing cost. It is forecast that these financing costs will increase from £41.0m in 2025/26 to £41.2m in 2026/27, reflecting the net impact of capital expenditure to be resourced by borrowing. Due to the long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the coming years will extend for up to 50 years, in line with the Council's Minimum MRP policy set out in Section 2.4.4.

2.3.12 The Section 151 Officer considers that the capital strategy, including the capital expenditure programme and resourcing as set out in this report, is prudent, affordable, and sustainable, and that the level of borrowing and commercial investment income is proportionate to the resources available to the Council.

2.4 <u>Treasury Management Strategy Statement 2025/26</u>

2.4.1 <u>Introduction</u>

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. The three main reports are:

- A Treasury Management Strategy (This report) – This provides an outline of how investments and borrowings are to be organised over the next three years. The report includes an investment strategy and a range of Prudential Indicators to measure and manage the Council's exposure to treasury management risks. The Treasury indicators cover the period 2024/25 to 2027/28 (**Appendix 6** to the report) and the capital programme covers the period 2025/26 – 2029/30 (**Appendix 4** to the report).

- A Mid-Year Treasury Management Report – This identifies if any amendment to the Prudential indicators is necessary and states whether the treasury operations are meeting the strategy or whether any policies require revision.

- An Annual Outturn Report – This provides details of the actual performance of the prudential and treasury indicators compared to estimates within the strategy.

- In addition to these reports the Cabinet and the Audit and Procurement Committee receive quarterly updates through budget monitoring reports to update on treasury activity.

The Local Authorities (Capital Finance and Accounting) Regulations 2003, require the approval of a Minimum Revenue Provision (MRP) statement setting out the Council's approach. The proposed approach is set out at Section 2.4.5

2.4.2 <u>Economic Environment</u>

Economic background: The Chancellor of the Exchequer delivered her Autumn Budget at the end of October. Based on the plans announced, the Office for Budget Responsibility reported they would provide a short-term boost to GDP growth before weakening it further out and push inflation higher over the medium-term. This change to the economic and inflation outlook caused financial markets to readjust expectations of Bank of England (BoE) Bank Rate and gilt yields higher. The council's treasury management advisor, Arlingclose also revised its interest rate forecast upwards in November, with Bank Rate expected to eventually fall to 3.75%.

UK annual Consumer Price Index (CPI) inflation remained above the Bank of England (BoE) 2% target in the later part of the period. The Office for National Statistics (ONS) reported headline consumer prices which saw a slight decrease in December 2024 (2.5%) compared to November 2024 (2.6%), but not dropping to October 2024 levels (2.3%) which is in line with expectations. Core CPI also saw a slight decrease in

December 2024 (3.4%) compared to November 2024 (3.5%) which had risen by more than expected, against a forecast of 3.5% and compared to 3.3% in the previous month.

The BoE's Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November and following a previous 25bp cut from the 5.25% peak at the August MPC meeting (5-4 vote to cut). At the December meeting, six Committee members voted to maintain Bank Rate at 4.75% while three members preferred to reduce it to 4.50%. The meeting minutes suggested a reasonably dovish tilt to rates with the outlook for economic growth a concern among policymakers as the Bank downgraded its Q4 GDP forecast from 0.3% to 0.0%. As expected at the February 2025 meeting the MPC voted 7-2 to reduce base rate a further 0.25% to 4.5% as the committee continues its dovish approach with continued concerns around inflation.

The November Monetary Policy Report (MPR) showed the BoE expected GDP growth to pick up to around 1.75% (four-quarter GDP) in the early period of the forecast horizon before falling back. The impact from the government's Autumn Budget pushed GDP higher in 2025 than was expected in the August MPR, before becoming weaker. A surprisingly strong 0.4% expansion in December has helped lift UK GDP 0.1% in quarter four. However, the breakdown indicated that the private sector elements of the economy are struggling. Household consumption was flat in quarter four while business investment was estimated to have fallen 3.2%, perhaps a response to the October budget. Government consumption on the other hand expanded by 0.8%, apart from inventories the only expenditure component to grow. Given recent declines in business and consumer confidence it is difficult to see how these areas will contribute to growth in the short-term, but the boost from Government spending will encourage the MPC to continue with its gradual approach to easing monetary policy.

The outlook for CPI inflation showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of calendar 2025. Over the medium-term, once the near-term pressures eased, inflation was expected to stabilise around the 2% target. The unemployment rate was expected to increase modestly, rising to around 4.5%, the assumed medium-term equilibrium unemployment rate, by the end of the forecast horizon.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would continue to fall from the 5.25% peak. From the first cut in August 2024, followed by the next in November which took Bank Rate to 4.75%, followed by a further 0.25% reduction in February 2025, with further cuts expected to follow steadily in line with MPC's aim to take Bank Rate down to around 3.75% by the end of 2025.

The US Federal Reserve continued cutting interest rates during the period, reducing the Fed Funds Rate by 0.25% at its December 2024 monetary policy meeting to a range of 4.25%-4.50%, marking the third consecutive reduction. Further interest rate cuts are expected into 2025, but uncertainties around the potential inflationary impact of President Trump's policies may muddy the waters in terms of the pace and magnitude of further rate reductions. Moreover, the US economy continues to expand at a decent pace, suggesting that monetary policy may need to remain more restrictive in the coming months than had previously been anticipated.

The European Central Bank (ECB) also continued its rate cutting cycle, reducing its three key policy rates by 0.25% in December. Euro zone inflation rose above the ECB 2% target in November 2024, hitting 2.2% as was widely expected and a further increase from 2% in the previous month. Inflation is expected to rise further in the short term, but then fall back towards the 2% target during 2025, with the ECB remaining committed to maintaining rates at levels consistent with bringing inflation to target, but without suggesting a specific path.

Financial markets: Financial market sentiment was generally positive over the period, but economic, financial and geopolitical issues meant the ongoing trend of bond yield volatility very much remained. In the last few months of the period, there was a general rising trend in yields due to upwardly revised interest rate and inflation expectations, causing gilt yields to end the period at substantially higher levels to where they began.
Over the period, the 10-year UK benchmark gilt yield started at 3.94% and ended at a high of 4.57%, having reached a low of 3.76% in mid-September. While the 20-year gilt started at 4.40%, ended at a high of at 5.08% and hit a low of 4.27% in mid-September. The Sterling Overnight Rate (SONIA) averaged 5.01% over the period to 31st December.

Credit outlook: In October, Arlingclose revised its advised recommended maximum unsecured duration limit on most banks on its counterparty list to six months. Duration advice for the remaining five institutions, including the newly added Lloyds Bank Corporate Markets, was kept to a maximum of 100 days.

Fitch revised the outlooks on Royal Bank of Scotland, NatWest Markets PLC, and National Westminster Bank to positive from stable, while affirming their long-term ratings at A+.

Moody's upgraded the ratings on National Bank of Canada to Aa2 from Aa3, having previously had the entity on Rating Watch for a possible upgrade. Moody's also upgraded the ratings on The Co-operative Bank to A3 (from Baa3) and downgraded the ratings on Coventry Building Society to A3 (from A2) and Canada's Toronto-Dominion Bank to Aa2 (from Aa1).

S&P also downgraded Toronto-Dominion Bank, to A+ from AA-, but kept the outlook at stable.

Credit default swap prices were generally lower at the end of the period compared to the beginning for most of the names on UK and non-UK lists. Price volatility over the period also remained generally more muted compared to previous periods.

Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remain under constant review.

2.4.3 Coventry City Council Position

On 31 March 2025, the Council will hold an estimated £325.4m of borrowing and £35m of treasury investments. This is set out in further detail in the tables below: (figures included at the nominal value of the debt):

Table 1: Estimated Long-Term Borrowing at 31 March 2025

	31 March 2024 Actual £m	31 March 2025 Forecast £m
External borrowing:		
Public Works Loan Board	180.7	180.7
Money Market Loans (Incl. LOBO's)	38.0	38.0
Stock Issue	12.0	0.0
West Midlands Combined Authority	18.0	18.0
Total external borrowing	**248.7**	**236.7**
Other liabilities:		
Private Finance Initiative	50.0	75.0
Other Liabilities	0.0	11.2
Transferred Debt (other authorities)	4.7	2.5
Total other liabilities	**54.7**	**88.7**
Total gross external debt	**303.4**	**325.4**

Table 2: Estimated Treasury Investments at 31 March 2025

	31 March 2024 Actual £m	31 March 2025 Forecast £m
Treasury investments:		
The UK Government	0.0	0.0
Local authorities	10.0	0.0
Other government entities	0.0	0.0
Secured investments	0.0	0.0
Banks (unsecured)	0.0	0.0
Building societies (unsecured)	0.0	0.0
Registered providers (unsecured)	0.0	0.0
Money market funds	15.0	5.0
Strategic pooled funds	30.0	30.0
Real estate investment trusts	0.0	0.0
Other investments	0.0	0.0
Total Treasury investments	**55.0**	**35.0**

The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing – the use of balances held from sources such as reserves and capital receipts to reduce the amount of external borrowing required by the Council.

2.4.4 Borrowing

The Council's chief objective when borrowing has been to strike an appropriate risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. During the period short term interest rates have been higher than long term interest rates.

After substantial rises in interest rates since 2021 many central banks have now begun to reduce their policy rates, albeit slowly. Gilt yields were volatile but have increased overall during the period. Much of the increase has been in response to market concerns that policies introduced by the Labour government will be inflationary and lead to higher levels of government borrowing. The election of Donald Trump in the US in November is also expected to lead to inflationary trade policies.

The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the period and 5.40% at the end. The lowest available 10-year maturity rate was 4.52% and the highest was 5.44%. Rates for 20-year maturity loans ranged from 5.01% to 5.87% during the period, and 50-year maturity loans from 4.88% to 5.69%.

The cost of short-term borrowing from other local authorities spiked to around 7% in late March 2024 as expected shorter-term rates reverted to a more market-consistent range and were generally around 5.00% - 5.5%.

CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Authority has no plans to borrow to invest primarily for financial return. The borrowing sums have been used as part of the Council's strategy for funding previous years' capital programmes. Although local authorities have scope to borrow in advance of need, i.e. borrowing based on future capital spend. It is proposed that the Council continues with its current practice which is not to borrow in advance of need.

Given the significant cuts to public expenditure and to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Council can reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to fall modestly.

The Council has raised most of its long-term borrowing from the Public Works Loan Board (PWLB) but will consider long-term loans from other sources including banks, pensions and local authorities, while also investigating the possibility of issuing bonds and similar instruments, to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

The PWLB is the main, competitively priced, flexible source of loan finance for funding local authority capital investment. As such it can be a significant source of liquidity. With some limited exceptions, PWLB loans are not available to local authorities that plan to buy investment assets primarily for yield, such as property purchased for a financial return, where they are not clearly serving some other significant service objective.

In respect of borrowing more generally, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. The Council may also borrow further short-term loans to cover cash flow shortages.

The main sources of borrowing are:
- HM Treasury's PWLB lending facility
- bank or building society authorised to operate in the UK
- UK Local Authority and UK public sector body
- UK public and private sector pension funds (except West Midlands Pension Fund)
- Stock Issue (Bond Issue)
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- UK Infrastructure Bank Ltd

Other sources of raising capital finance may be by the following methods that are not borrowing, but may be classed as other debt liabilities:
- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

Further detail on alternate funding sources is provided below:
- UK Local Authority and UK public sector body – Traditionally inter local authority borrowing has been used to manage shorter term cashflow demands, but there is now greater potential for longer term arrangements.
- UK Municipal Bonds Agency plc - This was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities.
- UK Infrastructure Bank Ltd- It provides infrastructure finance to tackle climate change and support regional and local economic growth across the United Kingdom and is funded by HM Treasury.
- LOBOs - The Council holds £38m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOs have options during 2025/26, and in the current interest rate environment, it may be that the lender does exercise the option of increasing the rates and therefore there is an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost when the opportunity arises.

There may be potential to reschedule debt through redeeming existing borrowing early and replacing it with borrowing at lower interest rates. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

Given the capital programme and the increase in the underlying need to borrow represented by the Capital Financing Requirement (see **Appendix 6** to the report), the Council may need to borrow in the coming year. Taking account of interest rates, the level of investment balances, the objectives underpinning the Treasury Management Strategy and the forecast borrowing requirement for 2025/26 and future years, the Section 151 Officer will undertake the most appropriate form of borrowing depending on prevailing interest rates at the time.

2.4.5 Minimum Revenue Provision (MRP)

Where the Authority funds capital expenditure with debt, they are required to make prudent provision for the repayment of long-term capital programme borrowing through a revenue charge (MRP). The aim of prudent provision is to ensure that the revenue charge broadly reflects the period over which benefit is derived from the capital spend e.g. broadly the life of an asset purchased or built.

MRP is calculated by reference to the capital financing requirement (CFR) which is the total amount of past capital expenditure that has yet to be permanently financed, noting that debt must be repaid and therefore can only be a temporary form of funding. The CFR is calculated from the Authority's balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Expenditure in Local Authorities, 2021 edition.

It is proposed that the existing charging policy continues: -

- For capital expenditure incurred before 1st April 2008, the Council will set MRP as a fixed charge of 2% per annum of the relevant element of the Capital Financing Requirement, adjusted for the Adjustment A. Under the existing policy approved by Council on 23rd February 2016, the impact of this change in methodology is to be calculated with effect from 2007/08. In line with the transitional arrangements set out in the Statutory Guidance on Minimum Revenue Provision any amounts calculated will be treated as overpayments of MRP and may therefore be incorporated into future calculations of prudent provision. In total, the amount to be treated as overpayment of MRP is £35,724k to 2015/16.

- From 1st April 2008 for all capital expenditure met from unsupported or prudential borrowing, MRP will be based on the estimated asset life of the assets, using either the annuity or equal instalments calculation method or a depreciation calculation starting in the year after the asset becomes operational.

    - For assets acquired by leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

- Voluntary revenue provision will not be made, and capital receipts not set aside to repay debt, unless approved in line with the financial procedure rules. Amounts voluntarily set aside as capital receipts and revenue provision in previous years will be treated as overpayments of MRP in line with the Statutory Guidance on Minimum Revenue Provision. In total, the amounts to be treated as overpayments are: £7,847k (voluntary revenue provision to 2015/16) and £28,948k (voluntary capital receipts set aside to 2015/16)

- Where former operating leases have been brought onto the balance sheet due to the adoption of the IFRS 16 Leases accounting standard, then the MRP charges will be adjusted so that the overall charge for MRP over the life of the lease reflects the value of the right-of-use asset recognised on transition rather than the liability. The total charge to revenue will remain unaffected by the new standard.

The following 2 sections have been added to comply with the amended 2003 regulations (updated in April 2024) which provide local authorities a policy choice as to whether charge MRP with respect to any debt used to finance a capital loan. Further, that capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue.

Capital loans

- For capital loans made on or after 7th May 2024 where an expected credit loss is recognised during the year, the MRP charge in respect of the loan will be no lower than the loss recognised. Where expected credit losses are reversed, for example on the eventual repayment of the loan, this will be treated as an overpayment.

- For capital loans made before 7th May 2024 and for loans where expected credit losses are not applicable, where a shortfall in capital receipts is anticipated, MRP will be charged to cover that shortfall over the remaining life of the assets funded by the loan.

Capital receipts

Proceeds from the sale of capital assets are classed as capital receipts and are typically used to finance new capital expenditure. Where the Authority decides instead to use capital receipts to repay debt and hence reduce the CFR, the calculation of MRP will be adjusted as follows:

- Capital receipts arising on the repayment of principal on capital loans to third parties will be used to lower the MRP charge in respect of the same loans in the year of receipt, if any.

- Capital receipts arising on the repayment of principal on finance lease receivables will be used to lower the MRP charge in respect of the acquisition of the asset subject to the lease in the year of receipt, if any.

- Capital receipts arising from other assets which form an identified part of the Authority's MRP calculations will be used to reduce the MRP charge in respect of the same assets over their remaining useful lives, starting in the year after the receipt is applied.

- Any other capital receipts applied to repay debt will be used to reduce MRP in equal instalments starting in the year after receipt is applied.

2.4.6 Investments

CIPFA revised TM Code defines treasury management investments as those which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances which need to be invested until the cash is required for use business purposes.

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £72.6m and £155m, although lower levels are expected in the forthcoming year.

The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The detailed objectives for investment that underpin the Treasury Management Strategy are:

Investment to:
- Maintain the capital security of sums invested,
- Maintain adequate liquidity.
- Maximise the revenue benefit by retaining external investments, repaying existing loans and avoiding new borrowing as appropriate given prevailing and forecast interest rates.

The Council's aim when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Strategic Approach: Given the current uncertainty in interest rates and the volatility of the financial markets, treasury investments will therefore include both short-term low risk instruments to manage day-to-day flows and longer-term instruments where limited additional risk is accepted in return for higher investment income to support local public services. The main investments used by the Council for any surplus cash are short-term unsecured deposits with banks, building societies, local authorities, the government and registered providers, along with Pooled funds such as Collective Investment Schemes and money market funds. This diversification will represent a continuation of the approach adopted in 2024/25.

Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG investment policy does not currently include ESG scoring. The Council will where possible, align treasury management practices with its own relevant environmental and climate change policies. The Council will always strive to obtain the best arrangement in line with its investment objectives and due consideration will be given into opening an ESG investment counterparty.

The Council may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

Table 3: Approved counterparties and limits

Sector	Time limit (maximum)	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	2 years	£20m	Unlimited
Secured investments*	25 years	£20m	£20m per group
Banks (unsecured)*	13 months	£10m	£20m per group
Building societies (unsecured)*	13 months	£10m	£20m per group
Registered providers (unsecured)*	5 years	£10m	£20m in total
Money market funds*	n/a	£20m	£100m in total
Strategic pooled funds	n/a	£20m per fund	£50m per manager
Real estate investment trusts	n/a	£20m per fund	£50m in total
Corporates and Other investments*	20 years	£10m	£20m in total

This table must be read in conjunction with the notes below:

***** A minimum credit rating limit will apply to the Treasury investments in the sectors marked with an asterisk. Investments will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered.

For entities without published credit ratings, investments may be made where external advice indicates the entity to be suitably creditworthy.

The Council will usually invest in counterparty types and for duration as identified by their treasury advisors. However, where terms allow security of deposit and demonstrate a small bail in risk, the Council may invest with 'local' counterparties (such as Coventry Building Society) in accordance with the limits and amounts in the table above.

The time limits indicated above is a maximum limit. Operationally, the Council will act on the most recent recommendations from the Council's treasury management adviser Arlingclose.

Some detail on investment counterparties is outlined below:

- **Government** - Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years. This relates to investments with the Debt Management Office (DMO), Treasury bills and gilts.

- **Secured investments** - Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

- **Banks and building societies (unsecured)** - Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

- **Registered providers (unsecured)** - Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England). As providers of public services, they retain the likelihood of receiving government support if needed.

- **Money market funds** - Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure cash is always available.

- **Strategic pooled funds** - Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

- **Real estate investment trusts (REIT)** - Shares in companies that invest mainly in real estate and pay much of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

- **Other investments** - This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.

- **Operational bank accounts** - The Council may incur operational exposures, for example though current accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in.

- **Risk assessment and credit ratings** – Credit ratings are obtained and monitored by the Council's treasury advisors, who will notify changes in ratings as they occur. The credit rating criteria are those determined by the Fitch crediting rating agency. In addition, the Council also has regard to the two other agencies that undertake credit ratings. Standard and Poor's and Moody's, in determining the lowest acceptable credit quality. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
    - No new investments will be made
    - Any existing investments that can be recalled or sold at no cost will be
    - Full consideration will be given to the recall or sale of all other investments with the affected counterparty

- **Other information on the security of investments**: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

  When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

- **Investment limits:** The Council has sufficient revenue reserves available to cover investment losses but to minimise risk in the case of a single default, the maximum that will be invested in any one organisation (other than the UK Government) will be £20 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries

Table 4: Additional investment limits

	Cash limit
Any group of pooled funds under the same management	£20m per manager
Negotiable instruments held in a broker's nominee account	£50m per broker
Foreign countries	£20m per country

Liquidity management: The Council uses cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

The Council will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

2.4.7 <u>Related Matters</u>

The CIPFA Code requires Local Authorities to include the following in its treasury management strategy.

- Financial derivatives (Councils) **-** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

  The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be considered when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
  Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria.

In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering financial derivatives to ensure that it fully understands the implications.

- Markets in Financial Instruments Directive - The Council has retained professional client status with its providers of financial services, including [advisers, banks, brokers and fund managers], allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

2.4.8 Other option considered

The CIPFA Code does not prescribe a treasury management strategy for local authorities to adopt. The view of the Section 151 Officer is that the above strategy represents an appropriate balance between risk management and cost effectiveness.

2.4.9 Treasury Management Advisors

The Council employs consultants, currently Arlingclose, to provide treasury management advice. A key element of this is the provision of advice on credit risk and the supply of information on credit ratings from the three rating agencies, referred to above. Regular review meetings with the advisors provide a vehicle through which quality is managed. In addition, within the City Council, senior managers within the Finance service meet on a periodic basis to review treasury issues, including the use of advisors.

2.4.10 **Treasury Management Staff Training**

The Council's process of performance management, of which competency-based appraisals are central, addresses the training requirements of individuals. Staff with involvement in treasury issues attend events, including training courses, seminars and networking sessions focused on treasury management as appropriate.

2.4.11 **The Prudential Code**

The current capital finance framework has historically rested on the principle that local authorities can borrow whatever sums they see fit to support their capital programmes, as long as they are affordable in revenue terms. The framework requires that authorities set and monitor against a number of Prudential Indicators relating to capital, treasury management and revenue issues. The indicators are explained and shown in **Appendix 6** to the report. These indicators reflect the requirements under the Prudential and Treasury Management Codes.

2.5 Commercial Investment Strategy

2.5.1 Commercialisation across local government through investment in property, shares and loans has come under increasing national scrutiny, particularly where such investment is funded through borrowing. A concern is that some authorities have overstretched themselves relative to their capacity to manage the risk. As some authorities have encountered problems with a number of their commercial investments there has been an increased focus on the regulatory framework in which authorities operate.

2.5.2 The proposed Commercial Investment Strategy is set out in **Appendix 5** to the report and the associated Commercial Investment Indicators in **Appendix 6** to the report. The Strategy is designed to ensure strong risk management arrangements and that the level of commercial investments is proportionate in the context of the Council's overall finances. It is framed within the context of the Prudential Code for capital finance, Statutory Government Investment Guidance, and the borrowing requirements of the PWLB.

2.5.3 The 2021 Prudential Code, which is very much in line with the rules for PWLB borrowing, sets out a new framework in which authorities are to manage commercial investments. The Code classifies investments as being for one of three purposes: *treasury management, service delivery or commercial return*, held primarily for financial return.

2.5.4 In respect of investments for **commercial return**:

- The risks should be proportionate to the authority's financial capacity – i.e. that losses are manageable.
- Authorities must not borrow to invest primarily for financial return.
- However, authorities with commercial land and property can invest in maximising its value, including repair, renewal and updating of the properties.
- Financial returns from the investment should be related to the viability of the project or only incidentally to the primary purpose.
- Although authorities are not required to sell commercial investments prior to borrowing, they will need to review options for selling such investments before borrowing, and annually as part of the treasury or investment strategies.

2.5.5 The financial risks that the Council faces through its investment portfolio can be broadly categorised as capital value or income risks, with:

- Capital value risks arising from the possibility of a borrower not being able to repay a loan, resulting in the need to impair or write off the loan at a cost to the Council. In the case of shares or property assets, a fall in value would result in a lower level of capital receipt were the Council to sell those assets.
- Income risks arising from lower levels of dividends, rent or interest income than budgeted for.

2.5.6 The Strategy (**Appendix 5** to the report) is designed to ensure strong risk management arrangements and that the level of commercial investments is proportionate in the context of the Council's overall finances. In summary, the key issues addressed in the strategy are:

- The need to explicitly consider the balance between the security, yield, and liquidity, both at strategic and scheme business case level. The investment guidance focuses on security in terms of the value of the asset invested in, and the ability of the authority to get back any sums invested; yield as the financial return on the investment, either as capital value or income generated, and liquidity as the ability to access liquid or cash funds from the assets when required.

- The setting of indicators to demonstrate the proportionality of the investments to the Council. Investments in commercial assets are proportionate to the size of the Council, with income from such investments representing 9.2% (8.3% in 2023/24) of Net Revenue Stream (Indicator 7) and with an asset value of £468.0m representing 24% of the Council's Total assets (Indicator 1).
- Setting processes that ensure that the risk assessment of commercial investments is robust.
- Ensuring that there is clarity about the contribution that the investments make to the authority, both in terms of financial return, but also in service or policy terms.
- The continuation of the policy that the Council will not invest primarily for yield of financial return, in line with both the PWLB borrowing rules and the revised Prudential Code.

2.5.7 The strategy sets out the approach to ensuring that the requirements are met, through a combination or policies, processes, and investment indicators. Specific indicators include exposure limits in 2025/26 for investment in service loans and shares, excluding fluctuations in value. It is proposed that limits of £60m and £55m respectively are set for 2025/26 (Appendices 5 & 6), giving a combined total of £115m, representing a reduction of £10m compared to 2024/25, These limits provided combined headroom of c£13m future loan and share commitments. Revision of these limits would require the approval of Council.

2.5.8 Whilst the Council holds significant commercial assets, including shares, loans, and property many of these assets have been held for a number of years and are an integral part of the economic infrastructure of the city, reflecting both current and past economic regeneration and development policies. They do not form part of an inventory of assets that are routinely bought and sold as part of a "trading" strategy. The Commercial Investment Strategy together with the Council Medium Term Financial Strategy processes provide the structure within which the Council's overall commercial risk is managed. This includes a level of reserves which is adequate from the wider risk and resilience perspective.

3. Results of consultation undertaken

The proposals in this report have been subject to public consultation. The Council hosted a survey on its website asking for people's views of the budget proposals and 716 respondents completed a survey. Two sessions were held for residents (one online) as well as a Let's Talk session held with employees on 16th December, to hear about the plans and provide feedback. Further opportunity to comment was offered to the Trades Unions and the Chamber of Commerce. Consultation responses have been considered and details arising from the consultation, including areas of concern and areas of support, are set out in **Appendix 7** and **Appendix 8** to the report.

In addition, 3 petitions were received as part of the budget consultation process in respect of 3 separate proposals contained in the consultation documents. The petition organisers/sponsors were invited to the meeting of the Cabinet Member for Strategic Finance and Resources on 27th January 2025 where it was resolved that these petitions and the issues raised will be considered as part of the Budget Setting proposals contained in this report. Further details of the petition and the issues raised and discussed are set out in Appendix 9 of this report.

4. Timetable for implementing this decision

4.1 Most of the individual changes identified within this report will take effect from 1st April 2025. The proposed profile of these changes is set out in Appendix 2.

5. Comments from the Director of Finance and Resources (Section 151 Officer) and the Director of law and Governance

5.1 Financial Implications

This report is concerned wholly with financial matters. The proposals within this report represent the basis of the Council's 2025/26 revenue and capital budget supported by the Council Tax setting Report that will be considered on the same agenda alongside this report.

5.1.1 Financial implications - Medium Term Position

This report sets out proposals that will deliver a balanced budget for 2025/26 and indicative positions for the two following years. The new Government have committed to a Local Government Funding Reform, and we are awaiting outcomes of a consultation, therefore the Council is still planning within an uncertain environment. The financial gap currently projected for subsequent years demonstrates the need for the Council to continue to exercise robust financial disciplines and to take a medium-term approach to Budget setting. With the recent distribution of the Recovery Grant and Childrens Prevention Grant, which were both intended to support areas of need, and contributed to a real term increase for 2025/26, and the expectation that the outcome of any funding reform would be more reflective of need, it is reasonable to assume the funding levels announced for 2025/26 will be available as ongoing resource for the Council in the future and some of this has now been included in future forecasts. However, this is a risk, and it will not be possible to provide a robust forecast of this funding until the Government provides further detail as part of a new Comprehensive Spending review expected during 2025.

Despite this, the view of the Director of Finance and Resources (Section 151 Officer) is that the Council remains in a strong position to meet the financial challenges that it is likely to face. This view is based on a combination of a consideration expectations of the trajectory of future funding settlements, the Council’s strong reserves position, its focus on income generating commercial activities and its plans to streamline and better align its activities with its policy priorities through its One Coventry Plan approach.

5.1.2 Financial Implications – Reserves

The Local Government Act 2003 requires the chief financial officer to give assurance on the adequacy of reserves of the Authority for which the budget provides. The final position of reserve balances carried forward into 2025/26 will not be known until finalisation of the 2024/25 accounts and reserve levels will be reviewed at that time. The total revenue reserve balances available to the Council at the end of 2023/24 stood at £118m. Other reserve balances set aside to fund capital schemes stood at £16m and balances owned by the Council's local authority-maintained schools and outside the Council's control, stood at £38m at 31st March 2024. Explanations for the key balances were set out in the Council's Financial Outturn Report considered by Cabinet in July 2024. The level of balances is set out in the table below.

Table 12: 2023/24 Reserve Balances

	1st Apr 2023 £000	(Increase)/ Decrease £000	31st Mar 2024 £000
Council Revenue Reserves			
General Fund Balance	(10,277)	0	(10,277)
Adult Social Care	(32,152)	11,582	(20,570)
Financial Risk Contingency	(5,855)	(2,623)	(8,478)
Early Retirement and Voluntary Redundancy	(7,241)	0	(7,241)
Private Finance Initiatives	(8,108)	1,378	(6,730)
Management of Capital	(6,323)	520	(5,803)
Reset and Recovery	(5,467)	0	(5,467)
Business Rates Income Reserve	(3,433)	(1,593)	(5,026)
Innovation and Development Fund	(5,068)	804	(4,264)
Public Health	(3,778)	(248)	(4,026)
Corporate Priorities (2020/21 Outturn Underspend)	(2,994)	0	(2,994)
Covid 19 Government Funding	(4,260)	1,756	(2,504)
Commercial Developments	(2,682)	209	(2,473)
Air Quality Early Measures	(3,921)	1,546	(2,375)
Refugee Resettlement Programme	(619)	(1,722)	(2,341)
Friargate Lifecycle	(1,595)	1	(1,594)
IT Replacement Programme	(510)	(1,016)	(1,526)
Homes for Ukraine	(2,530)	1,255	(1,275)
Adult Education Income	(1,092)	(99)	(1,191)
Housing Enforcement	(590)	(577)	(1,167)
City of Culture & Commonwealth Games Readiness Legacy	(1,400)	275	(1,125)
Corporate Property Management	(819)	(200)	(1,019)
Insurance Fund	(1,063)	140	(923)
Other Directorate	(12,691)	31	(12,660)
Other Corporate	(3,460)	(1,186)	(4,646)
Total Council Revenue Reserves	**(127,928)**	**10,233**	**(117,695)**

Council Capital Reserves			
Useable Capital Receipts Reserve	(18,623)	6,890	(11,733)
Capital Grant Unapplied Account	(5,745)	1,551	(4,194)
Total Council Capital Reserves	**(24,368)**	**8,441**	**(15,927)**
School Reserves			
Schools (specific to individual schools)	(23,413)	(580)	(23,993)
Schools (related to expenditure retained centrally)	(10,237)	(3,968)	(14,205)
Total Schools Reserves	**(33,650)**	**(4,548)**	**(38,198)**
Total Reserves	**(185,946)**	**14,126**	**(171,820)**

The large majority of the balances above are held for a clear identifiable purpose and have existing planned expenditure commitments against them or are held to protect the Council manage unforeseen risks, potential or known insurance claims or Business Rate volatility. Schools' reserves are set aside exclusively for the purpose of supporting schools' expenditure and capital reserves are set aside to support capital expenditure. Local authority reserves must also be viewed in the context of the risks that are faced, set out below, in section 5.1.4. For these reasons it is not appropriate to apply reserves on a regular basis to support the revenue position. The proposed revenue budget does not include any material reserve contributions to support the overall revenue position although some specific reserve balances will be applied within services to support time-limited projects or expenditure.

Given the consideration of risk within the Commercial Investment Strategy it is proposed that the level of reserves set aside to take account of the Council's risk profile will be considered as part of the Council's outturn position.

The most recently published CIPFA Resilience Index (based on 2022/23) contained results indicating that the Council's overall level of reserves placed it in the middle of the pack compared to similar authorities although the Council's ratio of unallocated reserves to revenue expenditure placed it in the highest risk quartile.

A review of the conditions of the grant from the West Midlands Combined Authority (WMCA) relating to the Coventry Station Master Plan (CSMP) has resulted in a reassessment of usable capital receipts value at 1st April 2023. The original plan to develop Coventry's railway station, and supporting infrastructure, included the construction of a bay platform. The estimated cost of this platform was £10m and its construction formed part of the grant conditions for the associated funding provided from the WMCA. During delivery of the CSMP other elements of the plan encountered significant cost variances above budget which required amendments to the original plan. A change control was agreed with the WMCA that saw the bay platform element being removed from the scheme, on the basis that the Department for Transport (DfT) had committed to funding the bay platform through the national rail investment programme, subject to an acceptable business case. Despite this agreed change, the grant conditions were not revised, and the Council continues to have a financial commitment to resource the bay platform’s construction, or return £10m to the WMCA. On this basis, when preparing the 2023/24 Statement of Accounts, the Council has recognised a £10m liability on its balance sheet, within Capital Grants – Receipts in Advance. This reduces the total grant receivable for the project by £10m and this shortfall has been met through the application of useable capital receipts, reducing the opening balance of Total Reserves from £195m to £185m at 1st April 2023. The Council is continuing to work with the DfT to develop the necessary business case and, given the progress to date, it is highly probable that an alternative source of funding for the bay platform will be secured. As such, it is very likely that repayment of the £10m grant to the WMCA will not be required.

Taking all this into account, it is the view of the Director of Finance and Resources (Section 151 Officer) that overall levels are adequate to support the recommended budget for 2025/26. This judgement is based on the following:

i) The Council is adequately provided for in terms of its reserves compared to its overall level of budget and better provided for than some other similar authorities.
ii) The level of reserves is sufficient to support contributions to 2025/26 directorate-based budgets (including schools) and corporate commitments both for capital and revenue purposes.
iii) The level of uncommitted General Fund Reserves provides a sufficient level of short-term resource to meet any other unforeseen eventualities (within reasonable limits of assessed risk) balanced against pressures to not hold an excessive level of reserve balances.

The Council's policy on reserve usage is set out in the Medium-Term Financial Strategy, Appendix 1 to this report. The overriding aim is to ensure that reserve usage is focused on delivery of the Council's corporate priorities, recognising that reserves can only be used once and that they should not be used to support on-going expenditure. These balances are reported and scrutinised regularly.

5.1.3 Financial Implications – Assurance on the Robustness of the Estimates

Under the terms of the Local Government Act 2003, the chief financial officer is required to give assurance on the robustness of the estimates included in the budget. In the view of the Director of Finance and Resources (Section 151 Officer) the budget being recommended to the City Council is supported by robust estimates of income and expenditure. This judgement is based on the following:

i) The budget has been set within the guidelines of the authority's Medium Term Financial Strategy, Appendix 1 to this report, that sets out the broad policies and assumptions that lie behind the Council's medium term financial planning process.
ii) There is a medium-term financial plan in place that sets out the known changes to the current budget over three years incorporating the concept of strictly controlled directorate budgets, known policy changes and best estimates of the impact of inflationary pressures and expectations of resources.
iii) The authority operates an integrated medium-term policy and financial planning process that incorporates a comprehensive and detailed

assessment of the new policy and technical changes that will affect the proposed budget and the medium-term budgetary position of the authority.

iv) Individual services working to strict budgets, prepare detailed budgets that are the financial representation of the authority's statutory duties and corporate service objectives for the coming year.

v) The authority's individual services have been involved in the make-up of the information included in the policy and financial planning process through the Leadership Board.

vi) As discussed above, the Authority's level of reserve balances is sufficient to meet other unforeseen eventualities, within reasonable limits of assessed risk that may potentially need to be met by the authority.

The authority's political groups were provided with information on the policy and financial planning process and were consulted on the options available to enable them to participate in the final budget setting decisions.

Despite these statements about robustness of estimates and reserves, the challenges facing the Council in the next few years will require regular monitoring and potentially corrective action.

5.1.4 Financial Implications - Budget Risks

In setting the budget and implementing the policies that sit behind it, the Council inevitably carries some risk. The major financial risks are set out below and will be managed through existing processes, including in year financial monitoring.

Overall Risks - In considering the Council's corporate objectives in the context of its financial position, resources have been allocated to meet corporate priorities, and savings have been identified. In these circumstances there are inherent risks that new resources are not used effectively to deliver corporate objectives, and that on-going spending and income is not controlled to budgets. Operational management arrangements and quarterly monitoring reports in compliance with the Council's budgetary control rules will address this issue specifically.

5.1.4.1 **Children's Social Care Services –** The overall volume of cases, steep inflationary increases in the cost of individual placements, challenges in delivering a cost-effective mix of placement types and the cost of additional staffing to manage the overall caseload continues to cause a volatile budgetary position within Children’s Services. This budget is designed to reflect a reasonable forecast of the anticipated cost of ensuring safe and secure care for children within the city, but it should be recognised that this will continue to be an area where the potential exists for further budgetary pressure through 2025/26. Within this environment, it remains important for work to continue to provide this care in the most cost-effective manner as possible and management is committed to identifying and implementing the appropriate mechanisms to do that.

5.1.4.2 **Health and Adult Social Care –** Adult Social Care services continue to operate within a very dynamic environment with cost pressures driven by another year of substantial increase to the National Living Wage in 2025/26, changes to employer National Insurance contributions, inflation within other costs across Social Care provision as well as increasingly complex care packages. Whilst capacity and market sustainability pressures are a long-standing issue in Adult Social Care, these have been exacerbated by additional costs and difficulties in recruitment and retention, alongside the widely reported pressures across the health system (a key driver of activity into Adult Social Care). Although inflation levels are beginning to slow, costs are still increasing faster than the national 2% inflation target and are expected to remain above target for at least the next year, adding further strain to a market already heavily under pressure. This area of activity is naturally difficult to predict, and the Council needs to continue to ensure an appropriate balance between the budget available and the level of activity.

5.1.4.3 **Housing and Homelessness -** Nationally housing & homelessness services have seen highly significant increases in demand for support over the past two years, with the number of households in temporary accommodation reaching its highest ever level during 2024. In Coventry the number of people seeking assistance with housing issues and subsequently being placed in Temporary Accommodation (TA) has increased by nearly 20% during 2024. There are a number of drivers that have contributed to the increases, including the cost-of-living crisis, a buoyant private rented sector and a lack of social housing. Although this upward trend has begun to slow following the implementation of Coventry's detailed TA reduction plan, it is expected that numbers of singles and families in TA will continue to increase during 2025/26. A number of further mitigations are being put in place to limit this as far as possible and secure appropriate accommodation through additional, lower cost TA schemes, in preference to more expensive short-term options. The Council will need to continue to monitor emerging trends in this area to ensure support is provided in the most appropriate and cost-effective way.

5.1.4.4 **Projects, Commercial Activity and External Companies –** The Council is involved in or investigating a range of major projects, commercial activities, and interventions. These include potential major reputational and financial risk from the activities and commercial performance of each venture. These include, but are not restricted the following projects:

- Following completion of Two Friargate and Hotel Indigo at Friargate Business District there remains an intention to continue to build out the Friargate Business District, funded from recycled income from Two Friargate in due course.
- Development of the City Centre South project, working with a major development partner to regenerate a large area of the city centre.
- Work to re-purpose the former IKEA building via the City Centre Cultural Gateway project.
- Ongoing work together with E.on, as the city's Strategic Energy Partner to develop ideas and projects to reduce carbon and benefit Coventry's residents.
- Commencing delivery of infrastructure works at Greenpower Park, within the West Midlands Investment Zone
- Financial arrangements made on commercial terms to help support local organisations and the Council's arm's length companies.

These projects are subject to a range of ownership and company structure arrangements, which involve complex legal and financial transactions, a risk that commercial pay-back targets (for instance to finance prudential borrowing decisions) are not achieved and a wider risk that projects do not deliver their fundamental purpose (where this is different to specific financial targets). In making decisions to pursue these projects the Council is clear that its involvement is consistent with its overarching objectives. In addition, the Council undertakes significant due diligence and ensures that self-funding business cases support any expenditure to keep the Council's financial costs (and risk) to a minimum. Nevertheless, it must be recognised that their future financial performance will always be subject to a degree of risk.

Decisions that have been taken in prior years, or that are imminent have required a level of support due in part to respond to legacy Covid conditions, the cost-of-living crisis and the difficult trading & inflationary conditions affecting many sectors of the economy and key delivery partners. This has extended the level of involvement beyond what might be considered normal. Although each of these increases the risk profile for the Council, they are (both collectively and individually) relatively modest compared to the Council's overall activity levels and do not threaten the Council's financial resilience.

5.1.4.5 **Major Infrastructure Projects** – The Council is involved in several major infrastructure projects around the city that give it some exposure to a degree of financial and reputational risk. These include but are not limited to delivering the CRSTS programme that includes initial packages of work on the Foleshill and London Road corridors, plans to develop a Very Light Rail solution across the city and significant remodelling of major arterial routes in relation to the improvement of air quality. These projects all carry different balances of risk including project overrun, over-spending, funding gaps and reputational damage from any of these and other factors. The Council is clear that its involvement in these projects is vital to help regenerate the city and make Coventry a better place to live, work and do business in. Overwhelmingly, these arrangements are externally funded or have self-funding business cases that keep the Council's financial costs to a minimum. Any decisions to move away from this base position would need to be made on a case-by-case basis within the Council's existing resource constraints.

5.1.4.6 **Local Government Finance Changes** – Central Government have committed to Local Government Funding Reform, and a period of consultation has just ended, anticipating that the outcomes of the reform could be implemented for the 2026/27 Local Government settlement. In addition to this an updated Comprehensive Spending Review is also expected during 2025. Until the outcomes of these are knows future funding assumptions remain a risk. However, due to the nature of accounting for these income sources, the risk applies to future years such that the 2025/26 budget estimates are secure.

5.1.4.7 Equal Pay Claims- A revenue financial risk exists for the Council in respect of Equal Pay Claims. A number of claims have been received from employees which, if successful, would result in a one-off revenue cost to the Council. The Council is robustly defending the claims, so to date there is no reliable assessment of the likely success, or the financial cost if claims do eventually prove to be valid. The matter will inevitably be subject to complex and protracted legal proceedings, and potential negotiations between relevant parties. Given the significant uncertainty around whether a financial obligation exists, or the value of any obligation, we are not at this point able to make any accurate financial assumptions in the medium-term financial strategy.

5.2 **<u>Legal implications</u>**

<u>Budget Policy Proposals</u>
The proposals in this report are designed to meet the Council's statutory obligations in relation to setting a balanced 2025/26 budget by mid-March 2025. This includes the duty to report to the Council on the robustness of the estimates provided and the adequacy of the financial reserves in place. Section 31A of the Local Government Finance Act 1992 and Section 25 of the Local Government Act 2003 refer.

The Council's prospective expenditure must not be likely to exceed its resources available to meet that expenditure and the proposals set out in this report meet this obligation. Any amending or substituted proposals must also achieve a balanced budget.

It should also be stated that Members are subject to the Council's duty to set a balanced budget, and at common law owe a fiduciary duty to taxpayers to do so. Members must receive and consider the advice of officers, particularly the section 151 officer, when considering and deciding the Council's budget.

As the decision makers, members must have due regard to the Council's equalities duties when setting the budget.

6. Other implications

6.1 How will this contribute to achievement of the One Coventry Plan?
(**https://www.coventry.gov.uk/strategies-plans-policies/one-coventry-plan**)

The Council, alongside many other Local Authorities, continues to be faced with challenging resource constraints over the coming years, which will have a direct impact on our ability to deliver front-line services.

The recommendations made in this report will enable a balanced budget to be set for the next financial year and the Medium-Term Financial Strategy (included as Appendix 1 to the report) details the approach that the Council will take in meeting future financial challenges. As such this report lays the foundation for ensuring the continued financial sustainability of the Council, which is a key enabling priority of the One Coventry Plan.

6.2 How is risk being managed?

The inability to deliver a balanced budget is one of the Council's key corporate risks. The proposals within this report are aimed directly at trying to mitigate this risk. The other key financial risks are identified in section 5.1.4 of the report.

6.3 What is the impact on the organisation?

Whilst the approach to setting the budget for 2025/26 has sought to deliver services more efficiently and effectively such that services and jobs are protected, some of the policy proposals could impact residents, partners, and the workforce. Implementation of the One Coventry Plan, continued delivery of complex Capital Programme schemes and the adoption of commercially based projects mean that the Council will have to continue to adapt and transform to meet the financial challenges that it faces.

6.4 Equalities / EIA

A cumulative impact assessment of all the policy proposals contained in this year's budget report has been produced and can be found in Appendix 10 to 15 to the report. This cumulative assessment has been produced using data from individual equality impact assessments (EIAs) completed by service areas on the policy proposals, which have been updated to reflect feedback received during the public consultation. These EIAs will be kept under review and further updated as necessary over the coming weeks and months as the proposals are implemented operationally.

6.5 Implications for (or impact on) climate change and the environment

The Council's One Coventry Plan identifies climate change as a key priority. Notwithstanding the financial challenges faced by the Council, these priorities have been a constant consideration by elected members and officers throughout the process to deliver a proposed balanced budget for 2025/26. The Council remains focused on its Climate Change Strategy to support the commitment it has made to respond to the climate change agenda and as such, many initiatives in the Capital Programme reflect this ambition, including schemes such as Coventry Very Light Rail, Green travel alternatives such as cycling infrastructure, air quality and transport solutions, all of which are all designed to have positive impacts on the environment.

6.6 Implications for partner organisations?

The options contained within this budget report include potential impact on some of the Council's partner organisations. We will engage with key partners on these matters as appropriate.

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