Coventry City Council

Briefing note

To: Finance and Corporate Services Scrutiny Board 1

Date: 5 November 2025

Subject: Commercial Investments and Income Generation

1 Purpose of the Note

1.1 This note sets out the Council's approach to making commercial investment decisions, the statutory framework that the Council needs to work within and the policy basis. It also sets out details of the overall commercial portfolio and performance.

2 Recommendations

2.1 The Finance and Corporate Services Scrutiny Board 1 is recommended to:

1) Note the content of the report and appendices
2) Endorse the Council's approach to making commercial investment decisions
3) Identify any further recommendations to the Cabinet Member

3 Policy and Regulatory Background

3.1 The One Coventry Plan provides the broad policy basis for the Council's service delivery. The Plan's three delivery priorities are: increasing the economic prosperity of the city and region; improving outcomes and tackling inequalities within our communities and; tackling the causes and consequences of climate change. Fundamental to this note is that one of the two enabling priorities identified within the Plan is the continued financial sustainability of the Council.

3.2 Like many local authorities across the country the Council's medium term financial position forecasts revenue funding gaps. The 2025/26 Budget Report (February 2025) identified gaps of £3m and £10m for 2026/27 and 2027/28, whilst the most recent 2025/26 revenue expenditure monitoring report to Cabinet for the first quarter year has highlighted further budgetary pressure which indicates that the position both for the Council and the wider sector is still very challenging.

3.3 The ongoing need to balance budgets in the face of significant funding reductions over a long period, has led many councils to adopt commercial approaches and initiatives to improve their financial positions, in order to help maintain service quality as far as possible. This activity can take many forms including:

- charging for local services to citizens and service users,

- providing and charging for traded services as an extension to in-house provision,
- acting as a landlord for a commercial property portfolio,
- providing loan finance to local organisations,
- establishing/acquiring external companies to complement the delivery of strategic objectives
- commercialisation through more speculative capital investment outside of municipal boundaries or on a disproportionately large scale to deliver financial returns.

3.4 The Council undertakes all these activities to a greater or lesser degree with the exception of the final one, which is of significantly greater risk. Charges to local citizens and service users and for traded services is not covered in detail in this report but a list of income categories in relation to these activities is included at Appendix 1.

3.5 Recent years have witnessed increased activity at a national level of a more speculative nature and a small but not insignificant number of financial failures as a result. Councils such as Thurrock, Slough and Woking amongst others have suffered very large financial losses which have led to the issuing of a Section 114 Notice.

3.6 A S114 Notice is extremely serious as it is an indication that the revenue expenditure of an authority will exceed the revenue resources for the year, resulting in no new expenditure being permitted, with the exception of that to fund statutory services. The current financial climate within which Local Authorities operate continues to be challenging such that the risk from normal operations remains high, and that resilience to shocks as a sector is reduced.

3.7 Consequently, in order to avoid a s114 notice, a number of Local Authorities have found themselves in need of Extraordinary Financial Support (EFS) which requires government permission to generate one off resources through capital disposals or new borrowing to support the balancing of a revenue budget.

3.8 There is therefore a significant regulatory & advisory framework for council financial activity in areas such as borrowing (the Prudential Code), treasury management & investment, Minimum Revenue Provision, the Public Works Loans Board (PWLB) and capital strategies. In response to the sector failures referred to above, the Government increased intervention and regulation aimed at reducing the risk of future such occurrences. This has led to the introduction of commercial investment strategies, revisions to the Prudential Code (requiring proportionality) and changes to rules for borrowing from the PWLB (preventing investing primarily for yield).

4 The Council's Approach

4.1 Whilst it is difficult to definitively benchmark, it is considered that the Council sits somewhere "within the pack" in relation to the income it generates from charging for services and traded services. These are activities that occur mostly as a result of 'business as usual' activity, including charging for discretionary services.

4.2 Coventry continues to hold a large commercial property portfolio compared with other councils, and the Council has historically been active in terms of providing external loan finance on commercial terms. There are also a significant number of company shareholdings compared with other authorities. It is these types of activity that have a higher risk profile and have prompted the interest of regulators in recent years.

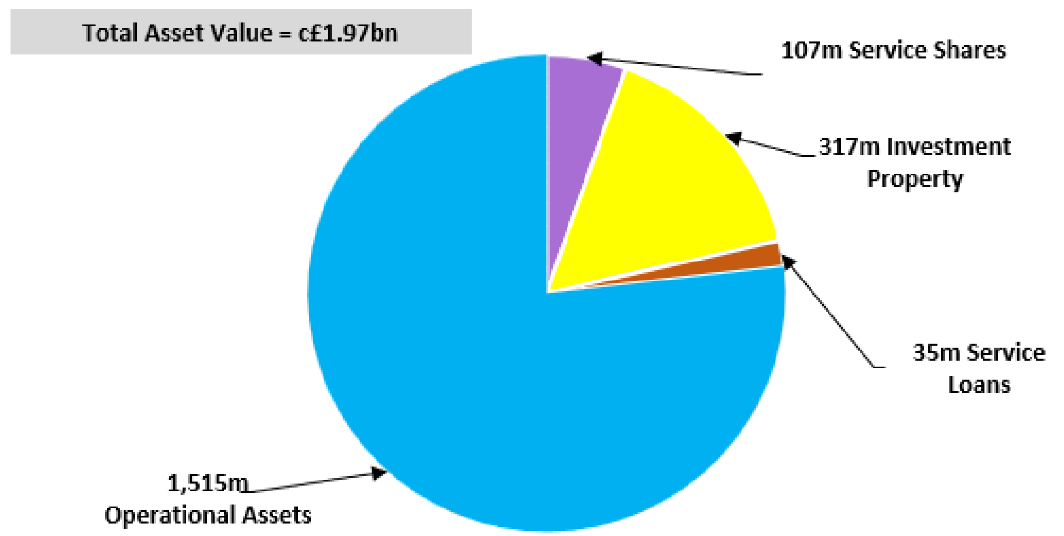
4.3 Like other councils, our approach has been informed by the need for us to generate new income streams to help offset historic government funding reductions, support our budgetary position and protect services. Importantly however, at a local level, each commercial intervention made by the Council has also had strong policy, service and/or risk mitigation justifications.

4.4 Such activities have a direct impact on the Council's balance sheet and are therefore required to be measured/revalued periodically. This measurement is helpful in establishing whether the activity is proportionate in comparison to the Council's overall asset base and the scale of overall risk of each activity type, as is required by the prudential code. This is explored in the following section.

5 The Council's Commercial Activity

5.1 The following chart shows the latest estimate of the key categories of long-term assets on the Council's balance sheet, totalling almost £2bn. 77% (c£1.5bn) of the value is held in the form of operational assets which is essentially the land, buildings and infrastructure owned by the Council from which services are delivered. A further 16% (£317m) is represented by investment property which generates an on-going commercial rent and whose valuation is essentially driven by that rent. The remaining 7% is held in the form of long-term loans to third parties (£35m) and shares in external companies (£107m).

Figure 1: Long-Term Assets at 31 March 2025



5.2 Three of the categories above also represent a source of revenue income to the Council on an ongoing basis. The latest financial returns for the financial year 2024/25 are shown in the table below and represent an average overall 6.6% rate of return on asset value for the whole portfolio.

Table 1: Commercial Income 2024/25 (per Commercial Investment Indicators)

Investment Category	203/24 Income £000	2024/25 Income £000	2025/26 Income £000
Service Loans (interest received)	(1,554)	(2,139)	(2,147)
Service Shares (Dividends)	(8,200)	(12,372)	(15,894)
Investment Property (Rental income net of voids & service charges)	(13,768)	(12,597)	(12,298)
Total Commercial Assets	**(23,522)**	**(27,108)**	**(30,339)**

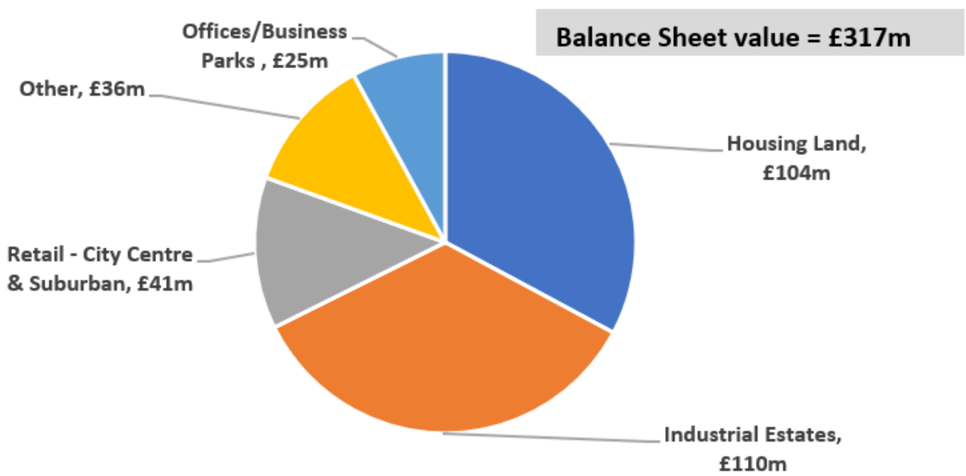
5.3 It is important to recognise some of the risks that are involved in owning these types of assets. One key risk is the capital value. For example, an organisation to which the council has provided a loan might not pay the Council the full amount owed. Similarly, the value of an investment (shareholding or property) might decrease in certain circumstances. This was witnessed during the Covid pandemic, and since then in times of higher interest rates, but can also apply during other periods of financial downturn or due to specific circumstances such as an entity's trading performance. In these events, there may be a need to notionally revalue amounts on the Councils balance sheet or in some cases write off values to revenue. The reverse is also the case in that valuations can increase in stronger economic circumstances.

5.4 A further set of risks can be categorised as revenue or income risks. The respective assets might return less income in the form of interest (loans), dividends (shares) or rents (property). If any of these asset classes have been purchased by borrowing, then an additional risk would arise because the Council will need to continue to repay its borrowing despite any falls in income received. For an organisation like the Council, there can be reputational risk due to their position in the public eye and the fact that transactions involve public money – the bar set for publicly funded organisations is often much higher than for private organisations in this respect.

5.5 The following sections look at some of the asset categories in more detail.

Investment Property

Figure 2: Investment Property at 31 March 2025



5.6 The Council's investment property represents the largest share of its commercial assets, £317m of the £459m long-term assets set out in Figure 1 on the previous page. The values are subject to revaluation each year. The balance sheet value and the £12.3m (see table 1) revenue income stream achieved in 2024/25 identify it as the single largest area of benefit or risk for the Council's commercial portfolio (in budget terms).

5.7 This is however not regarded as a high financial risk to the Council. The vast majority of the assets are ones that have been owned by the Council for many years, have been purchased by means other than borrowing, and values are higher now than as at the date of acquisition. Therefore, the Council is not faced with the need to meet a repayment cost for the assets and has a commercial asset base worth significantly more than debt liabilities.

5.8 In addition, over the medium to long-term, historic patterns show that property is a reliable investment with a strong likelihood of values increasing which would strengthen the Councils balance sheet further.

5.9 The overall value of the investments, whilst substantial, is not disproportionate to the overall size of the Council's balance sheet and reflects a strategy of ownership plus organic growth over many years rather than because of an extra-ordinary recent intervention. Additionally, commercial assets are spread across a range of classes with the largest class representing around one-third of the overall value. This means that a financial shock which had a disproportionate impact on a particular class might have a limited impact elsewhere within the portfolio.

6 Service Loans

6.1 Table 2 below sets out the loans that the Council has made with the large majority of these approved over the past 7 years.

Table 2: External Loans (Resources Invested or Committed) 2024/25

Major Loans	Actual Q2 £m	Commitments £m	Total £m
Coombe	8.7	0.2	8.9
Friargate	4.2	0.0	4.2
CWRT	2.1	0.0	2.1
MRF - Domestic	15.2	0.0	15.2
Other	4.8	0.0	4.8
Total	**35.0**	**0.2**	**35.2**

6.2 Although these loans are all of a service or strategic nature, they are all constructed to deliver a commercial return. The Council is bound by Subsidy Control regulations which demand that loans have a (commercial) market rate of interest. Table 1 on page 4 shows that whilst the Council is currently receiving income in the form of interest payments (£2.1m in 2024/25) this is very low in comparison to the Council's overall budget and is not considered a primary motivation for making such loans. Instead, it is of paramount importance that loans are aligned to the Council's existing policy priorities and delivery of service objectives and any decision by the Council to approve such loans is driven by this as the primary motivation.

6.3 These loans are of course at risk of non-repayment and potentially write off. Each formal decision to make a loan, together with the interest rate set, is subject to consideration of these risks and the mitigations including securities in place to control them. In totality, the overall level of loans is significant, but each individual loan is modest in proportion to the overall size of the Council.

7 Company Shares

7.1 The Council's company shareholdings are valued at c£106m per the latest set of valuations undertaken at 31st March 2025. This reflects the market (fair) value which is calculated broadly in relation to the financial activity and performance of each company. The component parts of the Coventry Municipal Holdings Ltd Group have been disaggregated for the purpose of this report.

Table 3: Company Shareholding Values

Shares	Resource Invested £m
Birmingham Airport Holdings Ltd	11.6
The Coventry and Solihull Waste Disposal Company Ltd	0.0
Tom White Waste Ltd	14.9
Coventry Municipal Holdings Ltd	0.0
Coventry Regeneration Ltd	0.0
Coventry Technical Resources Ltd	0.0
Coombe Abbey Park Ltd	9.1
Friargate Joint Venture Project Limited	10.5
UK Battery Industrialisation Centre Ltd	0.0
Sherbourne Recycling Ltd	0.2
Total	**46.3**
Revaluation Balance (increase)	**60.3**
Balance Sheet Value	**106.6**

7.2 The table also shows the initial amount invested by the Council. The difference between this and the Balance Sheet Value is the result of market revaluations undertaken on a regular basis which can increase or decrease the assessed value of individual companies and is not linked to the initial acquisition price. An initial amount invested of £10m for the Coventry and Warwickshire Waste Disposal Company (CSWDC) is not reflected. This was in the form of preference shares issued as part of the initial investment in CSWDC which were later redeemed as part of a company re-structure.

7.3 The 2024/25 dividend income shown in Table 1 came from CSWDC and Birmingham Airport Holdings. Dividends have been received previously from Tom White Waste Ltd, Coombe Abbey Park Ltd (CAPL), all of which were affected historically by the covid pandemic, but more recently the inflationary operating environment and cost of living crisis affecting the economy but are in the process of recovery.

7.4 From a purely financial perspective, the diversity of shareholdings, and indeed the wider commercial portfolio is designed to protect the Council from a concentration of dividends or income from one source although the degree of financial shock from Covid was clearly not one that could have been easily anticipated. Birmingham Airport has returned to profitability, declaring a large dividend in 2024/25 and it is expected that CMH and SRL will following the near future. CMH have specifically indicated that a material dividend is likely as a result of 25/26 performance to date.

7.5 It is important to note that the Council's acquisition or establishment of each company will be strongly aligned to its policy and service objectives. Between them CSWDC, TWW, and SRL provide strong synergies with the Council's existing waste collection, management and recycling responsibilities, protect the Council from some of the volatility in waste markets, provide the opportunity to rationalise some of the costs of waste management and enable the production of a local source of green energy from waste. CAPL provides strong synergies with the existing country park facilities at Coombe and protect large existing rental income streams. The Friargate Joint Venture Project enables the Council to manage a long-term regeneration plan within the Friargate District.

7.6 Notwithstanding that some of these companies have lost value compared with the resources initially invested, the Council's shareholdings should be viewed as long-term assets and it can reasonably be expected that values can increase in line with performance improvements. The Council would only seek to dispose of such assets if this was seen to be advantageous from both a financial and policy perspective. In this sense the current balance sheet valuations are not a significant factor in terms of the Council's day-to-day financial position.

Appendix 1: Fees and Charges
Appendix 2: Presentation

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Appendix 1: 2025/26 Fees and Charges

	2025/26 Budget £m
Fees - Social Care	(26.3)
Fees - Housing	(12.0)
Fees - Bereavement Services	(5.5)
Fees - Corporate Services	(5.4)
Fees - Car Parks	(4.9)
Fees - Parking Enforcement	(4.6)
Fees - Waste	(3.9)
Fees - Planning	(2.8)
Fees - Transportation & Highways	(2.7)
Fees - Licensing	(2.6)
Fees - Facilities & Property Services	(1.9)
Misc. Sales income	(1.6)
Fees - Register Office	(1.2)
Fees - Education	(1.2)
Godiva Festival Income	(1.0)
Fees - Planning & Regulatory Services	(1.0)
Fees - Leisure Activities	(0.9)
Outdoor Education Centre income (non schools)	(0.7)
Commercialisation - Sponsorship Activities	(0.7)
Fees - Fleet Services	(0.6)
Fees - Other External	(0.6)
Fees - Training	(0.4)
Fees - Pest Control	(0.4)
Outdoor Education Service – In City Offer	(0.3)
Fees - Land Search	(0.3)
Fees - Adult Education	(0.2)
Fees - Streetpride & Parks	(0.2)
Fees - Legal	(0.2)
Fees - HR/Employment	(0.1)
Fees - Libraries, Advice, Health & Information Services	(0.1)
Fees - Environmental Services	(0.1)
Fees - Post	(0.1)
Total	(75.9)

Excludes rents and dividends and Business Rates and Council Tax Collection Fund surpluses.