

Cabinet  
Council

24<sup>th</sup> February 2026  
24<sup>th</sup> February 2026

**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)

**Wards affected:**

All

**Title:**

Budget Report 2026/27

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**Is this a key decision?**

Yes - The report sets the Council's Revenue Budget for 2026/27, the Medium-Term Financial Strategy 2026/27 to 2028/29, the Capital Programme for 2026/27 to 2030/31, amendments to the Council Tax Support Scheme and the Council's Capital, Treasury Management and Commercial Investment Strategies which is a function reserved to Council.

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**Executive Summary:**

This report follows on from the Pre-Budget Report approved by Cabinet on 16<sup>th</sup> December 2025 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 2026/27 incorporating the following details:

- Gross budgeted spend of £1,035.3m (£73.5m higher than 2025/26).
- Net budgeted spend of £422.9m (£126.0m higher than 2025/26) funded from Council Tax, Business Rates and Business Rates top-up of £56.5m due to the 2026/27 impact of the Fair funding redistribution.
- A Council Tax Requirement of £199.9m (£10.4m or 6% higher than 2025/26), reflecting a City Council Tax increase of 3.95% detailed in the separate Council Tax Setting report on today's agenda.
- A number of new expenditure pressures, policy investments and technical savings proposals.
- A Capital Strategy including a Capital Programme of £165.9m including expenditure funded by Prudential Borrowing of £33.9m.

- An updated Treasury Management Strategy, Capital Strategy, and a Commercial Investments Strategy.
- Amendments to the Council Tax Support Scheme.

The financial position in this Budget Report is based on the Final 2026/27 Local Government Finance Settlement published on 9<sup>th</sup> February 2026. This settlement is a result of the implementation of the Fair Funding systems, Council Tax equalisation and Business Rates reset. This settlement includes a multi (three) year settlement which takes us through to the end of the current CSR (comprehensive spending review) period of March 2029.

This 3-year settlement enables a much better medium-term view of the Councils finances from a resource perspective. The Government will reserve the right to review allocations each year, but indicative allocations will allow Councils to plan more effectively. Demographic pressures are still expected to continue to increase as cost-of-living issues continue to affect individuals' experience and expectations of when local authorities and Government will intervene to protect them. The next 3 years will continue therefore to create a very challenging environment in which the City Council will need to ensure Government funding together with local taxation decisions are sufficient to cover existing cost and emerging pressures including inflation.

In response the additional resources received by Coventry in the Final settlement and in conjunction with the consultation responses, final proposals within this Budget Report propose a Council Tax increase of 3.95%. This incorporates a 2.95% Council Tax increase plus a further 1% Adult Social Care (ASC) Precept. The precept is 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 £1.48 a week for a typical Coventry household including the expected rises in the precepts for Police and Fire.

At the point of the pre-budget stage, reported to Cabinet in December 2025, the 26/27 settlement and the impact of the Fair Funding review were not known. However, sector intelligence indicated that the local impact would be positive, such that no new savings proposals would be required for 2026/27, and financial headroom could potentially be available such that some form of policy investment might be possible.

On this basis, Cabinet approved a consultation process which sought views on investment options across 7 key Strategic themes. Proposals within this 26/27 Budget report have been categorised into these themes. Table 2 in section 2.2 to this report summarises the resourcing position, expected pressures and technical savings, together with policy proposals for which approval is sought by Council.

The detail of these proposals is set out in Appendix 2 to the report. The proposals provide the Council with a balanced budget for 2026/27 as well as headroom to make strategic policy decisions that will support and enhance the city in future years. The Council's current medium term bottom line incorporates a combination of future inflationary and service pressures and the fall-out of some specific grant resources. Some of the future pressure and income assumptions are estimated at this stage.

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 use resources and manage costs pressures whilst focus on its key strategic priorities over the medium term.

The recommended Capital Programme proposals are a key part of the Council's approach and amounts to £165.9m in 2026/27. 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 London Road corridor transport packages, the construction and operation of The Coventry Very Light Rail 800m long twin-track 'City Centre Demonstrator (CCD) from the main Coventry Rail Station to the Coventry University Technology Park; the continuation of City Centre Cultural Gateway; continued implementation of the City Centre South redevelopment; and the completion of Woodlands School. Over the next 5 years the Capital Programme is estimated at a total of £437m as part of on-going investment delivered by and through the City Council.

This report also 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 9) 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** to the report and the Equality Impact Assessment set out in **Appendix 10 to 31** to the report.
- 3) Approve the total gross 2026/27 revenue budget of **£1,035.3m** in **Table 1** of this report and **Appendix 3** to the report, established in line with a 3.9% 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 5.1.4 and 5.1.5** of the report.

- 5) Approve the Capital Strategy incorporating the Capital Programme of £165.9m for 2026/27 and the forward commitments arising from this programme totalling £437m between 2026/27 to 2030/31 detailed in **Section 2.3** of the report and **Appendix 4** to the report.
- 6) Approve the addition to the capital programme of a new capital scheme for the delivery of Temporary Accommodation and Resettlement properties at a total cost of £9.2m. Funded from the acceptance of the capital grant of £4.9m from the Ministry of Housing, Communities and Local Government (MHCLG) specifically for the delivery of the Local Authority Housing Fund tranche 4 (LAHF) scheme; £1.2m funded from capital receipts; and £3.1m revenue funding as part of the proposed policy priorities in this report: Increasing family Temporary Accommodation provisions in Appendix 2 (lines 38 and 39) and detailed in **Section 2.3.4** of the report.
- 7) Approve the award of a £2.3m capital grant from the Temporary Accommodation Programme (**Recommendation 6** above) to a Registered Social Landlord (RSL) to deliver 19 properties for resettlement and delegate authority to the Director of Care, Health and Housing, following consultation with the Director of Finance and Resources and the Cabinet Member for Housing and Communities, to undertake such action as is deemed necessary to bring into effect this recommendation as referenced in **Section 2.3.4** of the report.
- 8) Approve the Council's Treasury Management Strategy and Minimum Revenue Provision Statement for 2026/27 in **Section 2.4** of the report and the Prudential Indicators and limits described and detailed in **Appendix 6** to the report, the Commercial Investment Strategy for 2026/27 in **Section 2.5** of the report and **Appendix 5** to the report and the Commercial Investment Indicators detailed in **Appendix 6** to the report.
- 9) Approve amendments to the council tax support scheme following the 6-week consultation period, as detailed in **Section 2.6** of the report and **Appendix 9** to the report, and in accordance with The Local Government Finance Act 1992 (as substituted by the 2012 Act).

#### **List of Appendices included:**

- Appendix 1 – Medium Term Financial Strategy
- Appendix 2 - Budget Proposals and Financial Position
- Appendix 3 - Summary Revenue Budget
- Appendix 4 - Capital Programme 2026/27 to 2030/31
- 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 – Council Tax Support Scheme amendments - Equality impact assessments
- Appendix 10 – Cumulative equality impact assessments (EIA) 26-27
- Appendix 11 - EIA - Bringing the Tip to You
- Appendix 12 - EIA - Build Your Future (Eco Force Crew)
- Appendix 13 – EIA - New approach to tackle Anti-social behaviour
- Appendix 14 – EIA - Food waste behaviour change
- Appendix 15 – EIA - Enhanced Cleansing services
- Appendix 16 - EIA - Plas Dol-y-Moch Site Refurbishment and Development

Appendix 17 - EIA - Bridging the GAP from Education to Employment  
Appendix 18 - EIA - Transforming Futures - A Strategic Approach to Tackling NEET  
Appendix 19 - EIA - Increased capacity and new approach to tackle ASB  
Appendix 20 - EIA - Average Speed Enforcement (ASE)  
Appendix 21 - EIA - Godiva Festival and Extended Events Programme  
Appendix 22 - EIA - Free to play facilities improvement scheme (War Memorial Park)  
Appendix 23 - EIA - Community Grow sites  
Appendix 24 - EIA - Care Leaver Council Tax Exception  
Appendix 25 - EIA - Increasing family Temp Accommodation owned by City Council  
Appendix 26 - EIA - Increase 5-6 bed large family Temporary Accommodation  
Appendix 27 - EIA – Support for Foster care Households  
Appendix 28 - EIA - Car park improvement schemes  
Appendix 29 - EIA - Defect Repairs  
Appendix 30 - EIA - Minor Asset Management  
Appendix 31 - EIA - City Centre Red Route Enforcement

**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 – 24<sup>th</sup> February 2026

## **Title: Budget Report 2026/27**

### **1. Context (or background)**

- 1.1 This report seeks approval for the 2026/27 Revenue Budget and corresponding Council Tax rise, Medium-Term Financial Strategy, Capital Programme and Strategy, amendments to the Council Tax Support Scheme, Treasury Management Strategy, Commercial Investment Strategy and associated investment and prudential indicators. The report includes detail of the resources included within the 2026/27 3-year 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 16<sup>th</sup> December 2025 (which set out seven key strategic themes to consult on with regard to potential policy investment). They reflect the outcomes of the Local Government Settlement and consultation responses and 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 provisional Local Government settlement under the new Fair Funding Policy on Wednesday 17<sup>th</sup> December 2025, followed by the final Local Government settlement on 9<sup>th</sup> February 2026. This is a multiyear settlement covering the 3 years 2026/27 to 2028/29 and provides stability in the medium term. In response to significant lobbying by Local Government, it is now recognised that the previous methodology and much of the data that fed into it was out of date and therefore, the Government committed to the Local Authority Funding Review.
- 1.3 In advance of this, the 2025/26 Local Government Finance Settlement addressed some of the disparity in the previous system with new grants including a one-off Recovery Grant targeted towards areas with greater need and demand for services, and a new Childrens Social Care Prevention Grant as well as additional Social Care Grant. The government have taken this further for 2026/27, updating datasets including population, demographics, house prices and deprivations statistics.
- 1.4 The result of this was a recognition of the significant underfunding of Coventry City Council under the previous funding regime, represented by the higher needs share of distributable resources in the final 2026/27 settlement, and an improved cash allocation. The new funding will be subject to a transitional period across the 3 years of this settlement up to 2028/29.
- 1.5 At the start of the current Budget process the Council faced a budget deficit of £3m for 2026/27. This position was 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. The additional cash allocation announced in the Local Government settlement allows the Council to recognise and manage those known pressures, avoiding the need to make cuts to services, as well provide an opportunity to invest in services.
- 1.6 As part of the pre-budget engagement which was carried out in October 2025, the household survey, and a review of performance of the Council, the following 7 key strategic themes were deemed to be of the greatest priority and benefit for the Communities in the City:

- Keeping people safe - crime, clean, well lit, city centre improvements
  - Anti-social behaviour – fly tipping
  - Local environments – deprived neighbourhoods
  - Protecting vulnerable people – child poverty
  - Good jobs, investment and prosperity – NEET, youth unemployment, education achievement
  - Helping people to manage – bills, energy, to help themselves
  - Roads and pavements – conditions and safety
- 1.7 Since the Pre-budget Report approved by Cabinet on 16<sup>th</sup> December 2025, the Council have been consulting widely regarding those priority themes and have used the responses to inform the final decisions.
- 1.8 For 2026/27 councils nationally have the flexibility to increase Council Tax by up to 3% with further Adult Social Care (ASC) precept flexibility of 2% without holding a local referendum on the matter. Consideration of the consultation responses and the opportunity to consider investment and support proposals afforded by the Final Local Government Settlement, have resulted in the decision to propose an increase in Council Tax of 3.95% (2.95% Council Tax & 1% ASC precept).
- 1.9 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.
- 1.10 The overall Council Capital Programme is estimated to be £437m 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.
- 1.11 Whilst local authorities have been required to have a treasury management strategy, statutory government guidance (in 2021) 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.

#### 1.12 Revenue Resources

- 1.13 Local Government has been subject to a (needs based) Fair Funding review which will be implemented from April 2026, representing a multi-year settlement (3 years) which takes us to the end of the current comprehensive spending review (CSR) period of March 2029. Following the Fair Funding review most specific grants now form part of a consolidated funding approach which allocated each Local Authority a Relative Need Funding (RNF) share reflecting a variety of data sources which inform need.
- 1.14 As an authority who has been significantly disadvantaged by the outgoing funding regime, this updated funding basis benefits Coventry, however it is important to recognise that financial benefits of the changes will be implemented gradually over the full 3-year period of the CSR, which means Coventry will not receive the full impact of the needs based review until 2028/29.
- 1.15 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**

<b>2025/26</b> <b>£000s</b>		<b>2026/27</b> <b>£000s</b>	<b>*Change</b> <b>from 25/26</b> <b>£000s</b>
(189,491)	A: Council Tax Requirement	(199,924)	(10,433)
(129,430)	B: Business Rates Income	(166,398)	(36,968)
22,199	C: Business Rates Tariff / (Top-up)	(56,542)	(78,741)
(548,682)	D: Specific Grants	(473,788)	74,894
(116,451)	E: All Other Income	(138,649)	(22,198)
<b>(296,722)</b>	<b>Funding of NET Budget</b> <b>(A + B + C)</b>	<b>(422,864)</b>	<b>(126,142)</b>
<b>(961,855)</b>	<b>Funding of GROSS Budget</b> <b>(A + B + C + D + E)</b>	<b>(1,035,301)</b>	<b>(73,446)</b>

*\*Like for like comparison between years is not possible due to the change in funding methodology*

- 1.15.1 Line A in the table above reflects the combined effect of the city Council Tax increase of 3.95% with the balance reflecting the higher tax-base for 2026/27.
- 1.15.2 Line B in Table 1 represents the Council's forecast of retained Business Rates income for 2026/27 following the national Business Rates reset implemented alongside the Fair Funding Review. The increase compared with 2025/26 primarily reflects the incorporation of compensation previously paid via specific grants, rather than a material increase in underlying local tax yield.



- 1.15.3 The new Fair Funding system continues to include an element of redistribution, reflecting different councils' relative needs and resources. Under the previous regime, the methodology and data that informed this relative need and the redistribution requirements was out of date and resulted in unfair distribution. The outcome of the previous methodology resulted in a business rates tariff being applied to Coventry in previous years (circa £20m), indicating that the Council was judged by Government to be earning a greater level of Council Tax and retained Business Rates (plus specific grants) than it required for its assessed spending needs.
- 1.15.4 The formula has now been updated which for Coventry, due to the growth in our population, the demographic make-up of its population, updated deprivation indices, and our lower-than-average Council Tax base, the new system, will result in a greater share of resources for the city.
- 1.15.5 Line C in Table 1 represents Coventry's redistribution position within the Business Rates Retention system under the new Fair Funding arrangements. In 2025/26 the Council was subject to a Business Rates tariff of £22.2m, reflecting an assessment that locally retained resources exceeded assessed need. From 2026/27 this position reverses to a Business Rates top-up of £56.5m, representing a net swing of £78.7m between years. This movement does not represent £78.7m of additional spending power for the Council, as a significant proportion reflects the rolling-in of specific grants that were previously paid separately. For Coventry, these rolled-in grants total £56m and therefore account for the majority of the change shown on line C.
- 1.15.6 The Council's medium term financial forecast reflected in Appendix 2 includes the multi-year settlement announced in the Final Local Government Financial Settlement. This shows the cash impact of new resources from the fair funding system being implemented 'transitionally' over 3 years, meaning the full benefit will not be felt by Coventry until 2028/29.
- 1.15.7 Line D represents the specific revenue grants that have remained outside of the fair funding formula. This fell from the 2025/26 level of £549m due the following grants being rolled into the Fair Funding system.
- 1.15.8 A number of grants remain outside of the Fair funding allocation, 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 (£242m)<sup>1</sup>, Housing Benefit Subsidy (£73m), Better Care Funding (£36m), Public Health (£30m), Children, Families and Youth Grant (£9m), Pupil Premium (£9m), Extended Producer Responsibility (£7m), Crisis and Resilience Fund (£7m).
- 1.15.9 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.

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<sup>1</sup> Allocation published December 2025, shown net of estimated recoupment and other deductions

1.16 Each year the Council receives an allocation of Dedicated Schools Grant (DSG) via the Department for Education (DfE). The DSG is divided into four blocks to cover different areas of education.

- Schools Block: Funds the Individual School Budgets (ISB) for mainstream schools
- High Needs Block: Funds provision for children and young people with special educational needs and disabilities (SEND) who require additional resources to participate in education and learning. This block also includes children in alternative provision (AP) who because of exclusion, illness or other reasons cannot receive their education in mainstream or special schools
- Early Years Block: Funds nurseries and early years providers to deliver government funded childcare entitlements for children aged 9 months to 4 years
- Central School Services Block: Provides funding for local authority responsibilities that they hold for all schools (e.g. admissions)

As part of the budget setting process the Council allocates the gross DSG allocation in consultation with Schools Forum. The DfE published in December that Coventry's gross 2026/27 allocation is £503.2M. This figure is before academies recoupment, deductions for national non-domestic rates and deductions for direct funding of high needs places by DfE. The deductions mean the amount of funding received for distribution by the Council will be lower. The table below shows what our 2026/27 allocation will be net of estimated recoupment and other deductions. The DfE will confirm these later in the year.

<b>DSG Block</b>	<b>Gross Allocation (as published Dec 2025)</b>	<b>Estimated Recoupment and Other Deductions</b>	<b>Estimated Net Allocation</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Schools	359.6	(250.0)	109.6
High Needs	81.5	(10.9)	70.6
Early Years	58.8	-	58.8
Central School Services	3.3	-	3.3
<b>Total</b>	<b>503.2</b>	<b>(260.9)</b>	<b>242.3</b>

The DfE have confirmed that the High Needs National Funding Formula has been suspended for 2026/27. Instead, the DfE is basing 2026/27 local authority allocations on their 2025/26 allocations with some adjustments. The adjustments are primarily rolling in of existing supplementary grants into the DSG, so will not provide any additional spending power for local authorities. This will be a challenge as SEND continues to be an area of financial pressure at both a national and local level.

Coventry continues to experience growth in the number of children and young people with Education, Health and Care (EHC) Plans but currently has an overall DSG surplus reserve balance. Due to the significant level of DSG deficits at a national level, the Government has enacted a statutory override ringfencing the DSG position away from Council's until March 2028. Further information on this and recent national policy developments in relation to SEND can be found in the accompanying Medium

Term Financial Strategy. The DfE has announced that they will review the High Needs funding system for future years, to ensure it will properly support a reformed SEND system.

- 1.17 The Council's capital and revenue programmes, including treasury and commercial activities, are managed in parallel through consolidated planning, in year monitoring 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 headlines that contribute to the overall budget. The full list of final proposals is provided in **Appendix 2** to the report. Approval is being sought for these and the overall budget and Council Tax Requirement in **Appendix 3** to the report. These are based on a City Council Tax rise of 3.95% which includes an Adult Social Care Precept of 1%.
- 2.1.2 The report seeks approval for a 2026/27 Capital Programme of £165.9m. The Programme is considered in detail in **Section 2.3** of the report and **Appendix 4** to the report.
- 2.1.3 The report is also required formally to seek Council approval for the Treasury Management Strategy set out in **Section 2.4** to the report, the Commercial Investment Strategy in **Appendix 5** to the report, the Prudential and Investment Indicators detailed in **Appendix 6** to the report and, amendments to the Council Tax Support Scheme set out in **Section 2.6** of the report.

### **2.2 Revenue Budget**

- 2.2.1 The proposed budget for 2026/27 includes investment proposals and does not include any new requirements for service area savings. A line-by-line impact of how these proposals affect the base budget is given in **Appendix 2** to the report having given due consideration to the consultation responses.
- 2.2.2 The summary is shown in table 2 below and in further detail within **Appendix 2** to the report. These changes enable the Council to deliver a balanced budget for 2026/27 and present the opportunity to consider further sustained investment in Coventry for subsequent years.

**Table 2: Summary Budget Position**

	2026/27 £m	2027/28 £m	2028/29 £m
<b>Opening Budget Position – Deficit/(Surplus)</b>	<b>3.0</b>	<b>10.6</b>	<b>16.0</b>
Resources	(38.3)	(68.3)	(99.9)
Service & Technical Pressures	35.3	45.9	59.8
Technical Savings	(7.7)	(7.2)	(7.2)
Policy Investments	7.7	6.6	6.9
<b>Final Budget Position – Deficit/(Surplus)</b>	<b>0.0</b>	<b>(12.4)</b>	<b>(24.4)</b>

2.2.3 The additional resources identified for Coventry in the Local Government Finance Settlement have provided the Council with the opportunity to consider the consultation responses for additional policy investments, reflecting on the comments made and priorities highlighted by the >900 residents who completed the survey.

2.2.4 In conjunction with priorities raised by residents within the consultation responses, members have taken the opportunity to propose additional policy investment in these 7 key strategic areas, which will add to, and enhance existing service provision.

	2026/27 £m	2027/28 £m	2028/29 £m
<b>Anti-Social Behaviour</b> including Fly Tipping	2,234	1,589	1,597
<b>Good jobs, investment and prosperity</b> NEET, youth unemployment, education achievement	753	708	339
<b>Helping people to manage*</b> bills, energy, to help themselves	1,805	1,805	1,805
<b>Keeping People Safe</b> crime, clean, well lit, city centre improvements	401	430	430
<b>Local environments &amp; deprived neighbourhoods</b>	940	505	505
<b>Protecting vulnerable people</b> including child poverty	1,924	2,058	2,663
<b>Roads and pavements</b> conditions and safety	1,470	1,320	1,320
	<b>9,527</b>	<b>8,415</b>	<b>8,659</b>

*\*'Helping People to manage' represents the financial impact of the proposal to limit Council Tax increase at 3.95% which is reflected as a reduction in resources in Table 2 above*

## 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** to the report there are proposals for a Capital Programme of £165.9m which contains several strategically significant schemes. The 2026/27 Programme shown compares with the current projected 2025/26 programme of £174m. A full 5-year position is detailed in **Appendix 4** to the report with the main planned expenditure as follows:

- Coventry Very Light Rail (CVLR) Programme – following the successful construction and demonstration of the Live Environment Construction Test (LECT) in the city centre during Summer 2025, CVLR now moves onto delivery of the next stage gate following the release of the next phase of approved funding from DfT. This will result in the construction of an 800m twin track City Centre Demonstrator (CCD) that will operate in a live traffic environment from Coventry railway station to Coventry University Technology Park.
- £29.8m of investment in the city's highways and transportation infrastructure. This includes the continued delivery of the CRSTS programme. Specifically works for Coventry South Transport Package improvements focussed on the London Road corridor along with £6.7m Active Travel funding for implementing schemes that support walking, cycling, and other forms of non-motorized transport, promoting healthier lifestyles and reducing environmental impact
- £10.7m for the continued delivery 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, consistent with the One Coventry Plan ambition to increase the economic prosperity of the city and region.
- £17.5m that will see the ongoing construction for phase 1 of City Centre South progress during 2026-27.
- The ongoing delivery of City Centre Cultural Gateway with a further £20.7m approved funding programmed to complete the scheme.
- Continued investment of £5.7m into the Disabled Facilities Grant programme.

- A £42.8m programme in 2026/27 within the Education and Skills Portfolio, investing in secondary schools' provision under the Education One Strategic Plan including the completion of Woodlands Schools.
  - £1.5m has been awarded for the Pride in Place Impact Fund from MHCLG. This funding will focus on delivering visible improvements to high streets and improve places and spaces of community value.
- 2.3.3 The 2026/27 Programme requires £33.9m of funding from Prudential Borrowing, including schemes previously approved for the replacement vehicle programme, the main construction delivery for City Centre Cultural Gateway and the ongoing delivery of the LED Street Lighting upgrade. Over the course of the future 5-year programme set out, the Council is set to incur £73.1m of borrowing. This borrowing has been the subject of previous decisions and is overwhelmingly 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, proportionate with an increase in asset values.
- 2.3.4 As part of this Budget Report, approval is sought for a new capital scheme to deliver the fourth round of the Local Authority Housing Fund (LAHF4). This £9.2m scheme relates to the purchase and refurbishment of accommodation to support homeless people and refugees within Coventry. This will increase the Temporary Accommodation capacity held by the Council which reduces the cost the Council incurs compared to other higher cost accommodation options.

The programme will deliver a total of 43 properties over a four-year period. This comprises of 24 properties (including 5 large family properties) for temporary accommodation at a cost of £6.9m and 19 properties for resettlement through an award of a £2.3m capital grant to a Registered Social Landlord (RSL). The RSL will be selected in 2026/27 and will be responsible for providing the remainder of the funding necessary to procure these resettlement properties. The Ministry of Housing, Communities and Local Government (MHCLG) awarded grant funding of £4.9m to support the delivery of this programme. The remaining programme costs funded by £3.1m revenue funding over three years as part of the proposed policy priorities in this report (see **Appendix 2** (lines 38 and 39) to the report) and supplemented by £1.2m capital receipts 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 2026/27 Capital Programme is £323m of Capital grants as follows:

**Table 4: Capital Grant Funding**

<b>Grant</b>	<b>2026/27 £'000</b>	<b>2027/28 £'000</b>	<b>2028/29 £'000</b>	<b>2029/30 £'000</b>	<b>2030/31 £'000</b>	<b>Total £m</b>
Department for Transport	0.1	0.0	0.0	0.0	0.0	<b>0.1</b>
Disabled Facilities Grant	5.7	5.8	5.7	5.5	5.5	<b>28.2</b>
Department for Education	40.1	24.0	13.2	12.6	33.7	<b>123.6</b>
Ministry of Housing, Communities & Local Government	5.3	4.0	2.0	0.7	0.0	<b>12.0</b>
West Midlands Combined Authority	64.5	50.0	14.5	13.1	10.1	<b>152.2</b>
All Other Grants & Contributions	3.4	2.5	1.0	0.0	0.0	<b>6.9</b>
<b>TOTAL PROGRAMME*</b>	<b>119.1</b>	<b>86.3</b>	<b>36.4</b>	<b>31.9</b>	<b>49.3</b>	<b>323.0</b>

*\*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, 2026/27 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 of the report 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 2026/27 as a result of the 2025/26 budgetary control process. Full details of the proposed programme are included in **Appendix 4** to the report.

**Table 5: 2026/27 – 2030/31 Capital Programme (Expenditure & Funding)**

	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	2030/31 £'000	Total £'000
<b>Portfolio Expenditure</b>						
Children & Young People	695	5,029	100	100	100	<b>6,024</b>
Education & Skills	42,768	26,113	13,521	12,639	48,334	<b>143,375</b>
Jobs, Regeneration & Climate Change	48,099	37,200	9,288	7,038	4,030	<b>105,655</b>
City Services	41,871	28,683	18,271	11,794	11,976	<b>112,595</b>
Adult Services	5,732	5,797	5,711	5,440	5,511	<b>28,191</b>
Public Health, Sport & Wellbeing	1,834	1,232	35	40	1,525	<b>4,666</b>
Housing & Communities	24,864	6,781	3,482	1,314	0	<b>36,441</b>
<b>TOTAL PROGRAMME</b>	<b>165,863</b>	<b>110,835</b>	<b>50,408</b>	<b>38,365</b>	<b>71,476</b>	<b>436,947</b>
<b>Funding</b>						
Management of Capital Reserve	1,100	2,846	100	100	100	<b>4,246</b>
Capital Receipts	3,892	610	960	638	0	<b>6,100</b>
Prudential Borrowing	33,924	13,039	7,512	2,005	16,605	<b>73,085</b>
Grant	119,088	86,290	36,339	31,913	49,348	<b>322,978</b>
Capital Expenditure from Revenue	4,243	3,881	4,103	2,669	2,669	<b>17,565</b>
Section 106	3,616	4,169	1,394	1,040	2,754	<b>12,973</b>
<b>TOTAL PROGRAMME</b>	<b>165,863</b>	<b>110,835</b>	<b>50,408</b>	<b>38,365</b>	<b>71,476</b>	<b>436,947</b>

### 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 and future decisions given the nature of activity in this area.



**Table 6: Forecast Capital Receipts**

	2025/26	2026/27	2027/28	2028/29	2029/30
	£000s	£000s	£000s	£000s	£000s
Forecast (Receipts B/fwd)/Receipts Shortfall	-15,168	-22,904	-36,236	-37,370	-38,282
Forecast/potential New Receipts	-25,343	-17,984	-2,044	-2,172	-1,274
<b>Total Receipts</b>	<b>-40,511</b>	<b>-40,888</b>	<b>-38,280</b>	<b>-39,542</b>	<b>-39,556</b>
Commitments and capital contingency	17,607	4,652	910	1260	928
<b>Receipts Carried Forward (-)</b>	<b>-22,904</b>	<b>-36,236</b>	<b>-37,370</b>	<b>-38,282</b>	<b>-38,618</b>

### 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 of the report) and the pension fund liability. Whilst the pension fund has now moved to a surplus position of £280m, there remains a liability due to; a) unfunded elements and b) we are required to apply an asset ceiling under accounting standards meaning the surplus is not available for distribution or for us to use. The changes in Appendix 2 to the report reflect a reduction in employer contribution rates which will reduce the surplus in future years.

The Council has made loans to several external partners which are summarised in the Commercial Investment Strategy within Appendix 5 to this report. The total value of loans provided or committed, as at 31<sup>st</sup> March 2026, is forecast to be £34.6m. 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 considered 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, due to 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, considering the overall level of risk exposure.

### 2.3.10 Capital Financing Requirement

Considering 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: Capital Financing Requirement (including PFI & Finance Leases)**

Forecast CFR Movements	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m
<b>Opening CFR - 1st April *</b>	<b>522.8</b>	<b>541.3</b>	<b>552.6</b>	<b>540.3</b>	<b>519.9</b>	<b>492.5</b>
Capital Spend met from borrowing	43.7	33.9	13.0	7.5	2.0	16.6
Minimum Revenue Provision *	-22.8	-22.6	-25.3	-27.9	-29.4	-30.2
Other	-2.4	0.0	0.0	0.0	0.0	0.0
<b>Closing CFR - 31st March</b>	<b>541.3</b>	<b>552.6</b>	<b>540.3</b>	<b>519.9</b>	<b>492.5</b>	<b>478.9</b>

Over the 5 years from 1st April 2026, it is forecast that the CFR will increase initially reflecting the level of the borrowing required to meet the capital programme. It will then reduce, recognising a lower borrowing requirement and increasing amounts set aside to repay debt as Minimum Revenue Provision (MRP). Any future decisions to fund capital spending from prudential borrowing would impact the above profile.

### **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 known as the total general fund capital financing cost. Although revenue financing costs for the most part are matched by revenue savings on a business case basis. It is forecast that these financing costs will increase from £40.2m in 2026/27 to £42.5m in 2027/28, 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 of the report.

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 Treasury Management Strategy Statement 2026/27**

### **2.4.1 Introduction**

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 2025/26 to 2028/29 (**Appendix 6** to the report) and the capital programme covers the period 2026/27 – 2030/31 (**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 of the report.

#### 2.4.2 **Economic Environment**

**Economic background:** The most significant impacts on the Authority's treasury management strategy for 2026/27 are expected to include: the influence of the government's 2025 Autumn Budget, lower short-term interest rates alongside higher medium and longer-term rates, slower economic growth, together with ongoing uncertainties around the global economy, stock market sentiment, and geopolitical issues.

The Bank of England's Monetary Policy Committee (MPC) cut the Bank Rate to 3.75% in December 2025, as expected although there had been talk prior to the budget that the reduction could slip into quarter 4. The vote to cut was 5-4, with the minority favouring holding rates at 4.0%. Those members wanting a cut judged that disinflation was established while those preferring to hold Bank Rate argued that inflation risks remained sufficiently material to leave rates untouched at this stage.

Figures from the Office for National Statistics showed that the UK economy expanded by 0.1% in the third quarter of the calendar year, this was unrevised from the initial estimate. The most recent Monetary Policy Report (November) projected modest economic growth, with GDP expected to rise by 0.2% in the final calendar quarter of 2025. Annual growth is forecast to ease from 1.4% before improving again later, reflecting the delayed effects of lower interest rates, looser monetary conditions, stronger global activity, and higher consumer spending. The view of modest economic growth going forward was echoed by the Office for Budget Responsibility in its Economic and fiscal outlook published in line with the Autumn Statement which revised down its estimate of annual real GDP to around 1.5% on average between 2025 and 2030.

CPI inflation was 3.4% in December a slight increase on 3.2% in November 2025, still down from 3.6% in October 2025 but below the 4.0% expected. Looking forward, the MPC continues to expect inflation to fall, to around 3% in calendar Q1 2026, before steadily returning to the 2% Bank of England target by late 2026 or early 2027.

Unemployment is still rising, although at a slower pace, with vacancies continuing to decline and inactivity remaining unchanged. In the three months to October 2025, the unemployment rate increased to 5.1%, higher than the level previously expected by the BoE, while the employment rate slipped to 74.9%. Pay growth for the same period eased modestly, with total earnings (including bonuses) growth at 4.7% and while regular pay was 4.6%.

The US Federal Reserve also continued to cut rates, including reducing the target range for the Federal Funds Rate by 0.25% at its December 2025 meeting, to 3.50%-3.75%, in line with expectations. The minutes of the meeting noted that most Fed policymakers judged that further rate cuts would be likely in 2026 if inflation continues to ease, however they were still divided in their assessment of the risks between inflation and unemployment.

The European Central Bank (ECB) kept its key interest rates unchanged in December for a fourth consecutive month, maintaining the deposit rate at 2.0% and the main refinancing rate at 2.15%. The ECB reiterated that future policy decisions will remain data-dependent, noting that inflation is close to its 2% target and that the euro area economy continues to expand despite a challenging global environment, including heightened geopolitical risks and trade tensions.

**Credit outlook:** Credit Default Swap (CDS) prices, which spiked in April 2025 following President Trump's 'Liberation Day' tariff announcements, have since trended lower, returning to levels broadly consistent with their 2024 averages. Although CDS prices rose modestly in October, the overall credit outlook remains stable, and credit conditions are expected to remain close to the range seen over the past two years.

While lower interest rates may weigh on banks' profitability, strong capital positions, easing inflation and unemployment, steady economic growth, and reduced borrowing costs for households and businesses all support a favourable outlook for the creditworthiness of institutions on Arlingclose's (the Council's Treasury Management advisor) counterparty list. Arlingclose's advice on approved counterparties and recommended investment durations is kept under continuous review and will continue to reflect prevailing economic and credit conditions.

Arlingclose, currently forecasts that the Bank of England's Monetary Policy Committee will continue to reduce Bank Rate in 2026, reaching around 3.25%. This forecast reflects amendments made following the Autumn Budget and an assessment of the fiscal measures and their market implications, and following the BoE MPC meeting held on 18th December.

Long-term gilt yields, and therefore interest rates payable on long-term borrowing, are expected to remain broadly stable on average, though with continued volatility, and to end the forecast period marginally lower than current levels. Yields are likely to stay higher than in the pre-quantitative tightening era, reflecting ongoing balance sheet reduction and elevated bond issuance. Short-term fluctuations are expected to persist in response to economic data releases and geopolitical developments.

### 2.4.3 **Coventry City Council Position**

On 31 March 2026, the Council will hold an estimated £292.8m of borrowing and £37m 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 Borrowing at 31 March 2026**

	31 <sup>st</sup> March 2025 Actual £m	31 <sup>st</sup> March 2026 Forecast £m
<b>External long-term borrowing:</b>		
Public Works Loan Board	180.7	180.7
Money Market Loans (Incl. LOBO's)	38.0	28.0
Stock Issue	0.0	0.0
West Midlands Combined Authority	18.0	18.0
<b>Total external long-term borrowing</b>	<b>236.7</b>	<b>226.7</b>
External short-term borrowing	20.0	0.0
<b>Total external long &amp; short-term borrowing</b>	<b>256.7</b>	<b>226.7</b>
<b>Other liabilities:</b>		
Private Finance Initiative	63.5	58.6
Other Liabilities (leases)	8.4	7.5
Transferred Debt (other authorities)	2.4	0.0
<b>Total other liabilities</b>	<b>74.3</b>	<b>66.1</b>
<b>Total gross external debt</b>	<b>331.0</b>	<b>292.8</b>

**Table 2: Estimated Treasury Investments at 31 March 2026**

	31 March 2025 Actual £m	31 March 2026 Forecast £m
<b>Treasury investments</b>		
The UK Government	0.0	0.0
Local authorities	25.0	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	18.7	7.0
Strategic pooled funds	30.0	30.0
Real estate investment trusts	0.0	0.0
Other investments	0.0	0.0
<b>Total Treasury investments</b>	<b>73.7</b>	<b>37.0</b>

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**

**Objectives:** The Councils chief objective when borrowing has been to strike an appropriate LOW 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.

**Strategy:** The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates have fallen over the past year, and are expected to fall a little further, and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term instead. The risks of this approach will be managed by keeping the Authority's interest rate exposure within the limit set in the treasury management prudential indicators, see below.

By doing so, the Authority 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 rise modestly. Our treasury advisers will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2026/27 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Authority has previously raised most of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and if appropriate will investigate 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. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity to retain access to PWLB loans.

Alternatively, the Authority 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. In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

The PWLB certainty rate for 10-year maturity loans was 5.40% at the beginning of the period and 5.01% towards the end of January 2026. The lowest available 10-year maturity rate was 4.85% (2024/25 4.52%) and the highest was 5.22% (2024/25 5.44%). Rates for 20-year maturity loans ranged from 5.39% - 5.85% (2024/25 5.01% to 5.87%) during the period, and 50-year maturity loans from 5.98% - 6.61% (2024/25 4.88% to 5.69%). These are still relatively high compared to the recent past.

The cost of short-term borrowing from other local authorities usually increases around March each year. This spiked to around 6.30% in late March 2025 which was down from the same time in March 24 (7%) as expected shorter-term rates revert to a more market-consistent range after year end and have been downward trending from 5.00% - 4.05%.

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 therefore 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, particularly with long term borrowing rates remaining relatively high.

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.

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. The Council may also borrow further short-term loans to cover cash flow shortages.

Sources of borrowing: The approved sources of borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd)
- any institution approved for investments (see below)
- any bank, building society or insurance company authorised to operate in the UK

- any other UK public sector body
- UK public and private sector pension funds (except [your local] Local Government Pension Scheme)
- capital market bond investors
- retail investors via a regulated peer-to-peer platform
- special purpose companies created to enable local authority bond issues

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
- similar asset-based finance

**LOBOs:** The Council held £38m of LOBO (Lender's Option Borrower's Option) loans at 01/04/2025 where the lender had the option to propose a new interest rate at set dates in May 2025, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. Two lenders exercised their option of increasing the rates as detailed in the table below

Lender	Amount	Option date	Old Rate	New Rate
Dexia	£5,000,000	16/05/2025	4.05%	6.38%
FMS	£5,000,000	16/05/2025	4.05%	7.95%

As the increase in rates was significant the Council took the prudent option to repay £10m and have not replaced the borrowing to date as there was no immediate need to do so.

**Short-term and variable rate loans:** These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

**Debt rescheduling:** 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 Authority 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 rise in long term 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, indicator 4 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 2026/27 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 £73.6m and £144m, 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 continued 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 2025/26.

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

Table 3 (Approved counterparties and limits) 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 through 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**

	<b>Cash limit</b>
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 **Related Matters**

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. This contract recently went out for tender and has been awarded to another company MUFG, which will begin on 01 April 2026.

#### **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, if they are affordable in revenue terms. The framework requires that authorities set and monitor against several 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 several 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 Prudential Code and Treasury Management code were last reviewed in 2021 and the latest MRP Guidance (the 5<sup>th</sup> edition) was issued in 2024, is very much in line with the rules for PWLB borrowing and 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 6.1% (8.4% in 2025/26) of Net Revenue Stream (Indicator 7) and with an asset value of £458.4m representing 23.2% 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 of 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 £45m and £55m respectively are set for 2026/27 (**Appendices 5 and 6** to the report), giving a combined total of £100m, representing a reduction of £15m compared to 2025/26. These limits provide combined headroom of c£14m 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 several 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.

## **2.6 Council Tax Support Scheme – amendments**

- 2.6.1 The provision of a Council Tax Support scheme is a statutory requirement and each year the Council is required to review its scheme and to either maintain the scheme or replace it.
- 2.6.2 The Council's Council Tax Support (CTS) scheme is being amended to provide additional support for recipients who face unavoidable council tax liability for two homes in the following circumstances:
- They have left their original home through fear of violence, or
  - Changes for disabled people are being made in their new home, like a wet bathroom or stairlift
  - They have moved and have an unavoidable liability to pay council tax for both their original home and new home
- 2.6.3 This means that where a person is liable for council tax at their original home, at the same time as being liable at their new home, in the above circumstances they can claim CTS at both addresses for a temporary period, appropriate to the situation.

## **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 investment themes in the budget proposals and >900 respondents completed a survey. Two sessions were held for residents (one online) as well as a Youth Council session held on 22nd January, to hear about the priorities and provide feedback. Further opportunity to comment was offered to the Chamber of Commerce.

Consultation responses have been considered for both budget proposals and the Council Tax Support scheme amendments and details arising from the consultations, including areas of concern and areas of support, are set out in **Appendix 7** and **Appendix 8** to the report.

## **4. Timetable for implementing this decision**

- 4.1 Most of the individual proposals identified within this report will take effect from 1st April 2026. The proposed profile of these changes is set out in **Appendix 2** to the report

## **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 2026/27 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

The Local Government Financial Settlement for 2026/27 provides, for the first time in many years, a multiyear settlement through to 2028/29. This report sets out proposals that will deliver a balanced budget for 2026/27 and indicative positions for the two following years.

- 5.1.2 The Settlement references cash increase in Core Spending Power (CSP) for councils in England of 6.1% in 26/27, 4.3% in 27/28, and 4.4% in 28/29 (cumulatively 15.5%). These assume that Council tax and ASC precept increases are levied at their maximum allowed levels of 3% and 2% respectively. The Fair Funding redistribution will have a positive effect on Coventry's assumed core spending power, such that the Council will receive a 12.1% increase in CSP in 26/27, 9.6% in 27/28, and 8.8% in 28/29 (33.8% cumulatively). As with the national funding position, the local increases assume that Council Tax and ASC are increased by 5% in each year. The reason for the (relatively) large increases year on year reflect the fact that transitional arrangements have been applied to the fair funding review over a 3-year period.
- 5.1.3 The 3-year settlement enables a much better medium-term view of the Councils finances from a resource perspective. The Government will reserve the right to review allocations each year, but indicative allocations will allow Councils to plan more effectively. Demographic pressures are still expected to continue to increase as cost-of-living issues continue to affect individuals' experience and expectations of when local authorities and Government will intervene to protect them. The next 3 years will continue therefore to create a very challenging environment in which the City Council will need to ensure Government funding together with local taxation decisions are sufficient to cover existing cost and emerging pressures including inflation.
- 5.1.4 Table 1 in section 1.15 of the report sets out indicative allocations provided by the Government in this year's settlement. The cash impacts of the fair funding increases for Coventry, are presented within **Appendix 2** (line 3) of the report, together with the 3-year impact of assumed changes to cost pressures and policy recommendations, which present a positive outlook for the medium term, with potential future 'headroom' in 27/28 and 28/29. However, it is a reality that there are many economic factors affecting public sector finances, such that each year will still need to be considered based on prevailing circumstances, such is the volatility in recent years. The cumulative severity of such volatility in recent times have caused some Local Authorities to be unable to afford the cost of providing services, such that prudence and financial discipline will continue to be paramount to ensure medium term sustainability and protect reserves.

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.

### 5.1.5 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 2026/27 will not be known until finalisation of the 2025/26 accounts and reserve levels will be reviewed at that time. The total revenue reserve balances available to the Council at the end of 2024/25 stood at £119m. Other reserve balances set aside to fund capital schemes stood at £48m and balances owned by the Council's local authority-maintained schools and outside the Council's control, stood at £40m at 31st March 2025. Explanations for the key balances were set out in the Council's Financial Outturn Report considered by Cabinet in July 2025. The level of balances is set out in the table below.

**Table 12: 2024/25 Reserve Balances**

	<b>1st Apr 2024 £000</b>	<b>(Increase)/ Decrease £000</b>	<b>31st Mar 2025 £000</b>
<u>Council Revenue Reserves</u>			
General Fund Balance	(10,277)	0	(10,277)
Adult Social Care	(20,551)	5,802	(14,749)
Financial Risk Contingency	(11,472)	(1,796)	(13,268)
Commercial, Reset & Innovation	(12,203)	0	(12,203)
Business Rates Income Reserve	(5,026)	(4,163)	(9,189)
Early Retirement and Voluntary Redundancy	(7,242)	0	(7,242)
Management of Capital	(5,803)	(562)	(6,365)
Public Health	(4,026)	(530)	(4,556)
Private Finance Initiatives	(5,301)	1,164	(4,137)
Refugee Resettlement Programme	(2,866)	(752)	(3,618)
Air Quality Early Measures	(2,375)	209	(2,166)
Homes for Ukraine	(1,275)	78	(1,197)
Insurance Fund	(923)	143	(780)
Other Directorate	(19,775)	(1,642)	(21,417)
Other Corporate	(8,580)	346	(8,234)
<b>Total Council Revenue Reserves</b>	<b>(117,695)</b>	<b>(1,703)</b>	<b>(119,398)</b>
<u>Council Capital Reserves</u>			
Useable Capital Receipts Reserve	(11,733)	(3,434)	(15,167)
Capital Grant Unapplied Account	(40,737)	8,131	(32,606)
<b>Total Council Capital Reserves</b>	<b>(52,470)</b>	<b>4,697</b>	<b>(47,773)</b>
<u>School Reserves</u>			
Schools (specific to individual schools)	(23,993)	97	(23,896)
Schools (related to expenditure retained centrally)	(14,205)	(1,925)	(16,130)
<b>Total Schools Reserves</b>	<b>(38,198)</b>	<b>(1,828)</b>	<b>(40,026)</b>
<b>Total Reserves</b>	<b>(208,363)</b>	<b>1,166</b>	<b>(207,197)</b>

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 5.1.7 of the report. 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 2023/24) 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, this is subject to how authorities classify their reserves as unallocated, and is not a significant concern given the healthy level of other balances.

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 2026/27. 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 2026/27 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 the 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.

#### 5.1.6 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 investment themes that formed the Pre-Budget consultation, and financial planning projections to enable them to participate in the final budget setting decisions.

#### **5.1.7 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. 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 delegated budgets. Operational management arrangements and quarterly monitoring reports in compliance with the Council's budgetary control rules will address this issue specifically.

##### **5.1.7.1 Children's Social Care Services** – Variability in overall demand alongside steep inflationary increases in the cost of individual homes for children in care 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 2026/27. 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.

**5.1.7.2 Adult Social Care** – Adult Social Care services continue to operate within a dynamic environment with cost pressures driven by a number of factors which are primarily influenced by the level of need that people present with and how those needs change and develop over time. As well as the care and support needs of individuals, demand for services, and therefore the cost of Adult Social Care is also influenced by demand from the health system (including hospital discharge and contributions towards joint funded packages of care), people's own ability to contribute/pay for social care, people's pre-existing support networks including the presence of unpaid carers, and of course demographic changes including life expectancy. The impact of national changes to the care market, such as National Living Wage uplifts and price increases driven by inflation further impact on future costs and can only be best estimates at this point in time. 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.

**5.1.7.3 Housing and Homelessness** - During 2025/26 Coventry has continued to feel the impact of the rise in demand for housing and homelessness services that was felt nationally in 2023/24 and persisted through 2024/25. The number of households seeking assistance has shown no meaningful reduction and system pressures remain significant. There are several drivers that have contributed to this including the ongoing cost of living challenges, a highly competitive private rented sector, and the continued shortage of affordable social housing. Despite this the Council has seen a 6.7% reduction in the number of households accommodated in temporary accommodation during 2025/26, reflecting the continued impact of Coventry's targeted Temporary Accommodation reduction plan and the strengthened focus on temporary accommodation move on and prevention. While pressures on the system remain, these improvements demonstrate encouraging progress to continue during 2026/27. The Council will need to continue to monitor emerging trends in this area to ensure approach remains responsive and cost-effective. This will be particularly important as the new Homelessness Prevention Team is established and as the implications of the recently published cross-Government homelessness strategy 'National Plan to End Homelessness' become clearer.

**5.1.7.4 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:

- Continued development of the City Centre South project, working with a major development partner to regenerate a large area of the city centre.
- Ongoing work to re-purpose the former IKEA building via the City Centre Cultural Gateway project.



- 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.
- 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.
- Continued 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 prevailing economic factors such as the cost-of-living crisis and the difficult trading and inflationary conditions affecting many sectors of the economy and key delivery partners. This has extended the level of involvement beyond what might have historically been 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.

**5.1.7.5 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 transport packages of work on the London Road corridor, plans to develop a Very Light Rail solution across the city and Active Travel schemes to support walking, cycling, and other forms of non-motorized transport. 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.

**5.1.7.6 Local Government Finance Settlement** – The 3-year settlement enables a much better medium-term view of the Council's finances from a resource perspective. Although indicative allocations will allow Councils to plan more effectively, the Government will reserve the right to review allocations each year.

The reality is that there are many economic factors affecting public sector finances, such that each year will still need to be considered based on prevailing circumstances, such is the volatility in recent years. The next 3 years will continue therefore to create a very challenging environment in which the City Council will need to ensure Government funding together with local taxation decisions are sufficient to cover existing cost and emerging pressures including inflation.

- 5.1.7.7 **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 is subject to complex and protracted legal proceedings, and negotiations between relevant parties. Given the uncertainty around whether a financial obligation exists, or therefore 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 **Legal implications**

### Budget Policy Proposals

The proposals in this report are designed to meet the Council's statutory obligations in relation to setting a balanced 2026/27 budget by mid-March 2026. 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.

### Council Tax Support Scheme

The Council Tax Support Schemes (Amendment) (England) Regulations 2017 states the date for the scheme to be approved is 11 March before the start of each financial year to which the scheme applies.

Under the Local Government Finance Act 1992, as amended by the Local Government Finance Act 2012, ("the Act") every billing authority in England is required to make a Council Tax Support Scheme (CTS).

Each financial year every billing authority in England is required to consider whether to revise or replace its CTS. The Act imposes certain procedural requirements which must be satisfied before a billing authority can make any revisions, including a requirement to consult persons who are likely to have an interest in the operation of their CTS.

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

## **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 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 strategic priorities. 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 of the report.

### **6.3 What is the impact on the organisation?**

There are no new savings proposals included within the Budget Setting plans for 2026/27. The approach to setting the budget for 2026/27 has sought to deliver services more efficiently and effectively and focus on investment in the 7 key strategic themes to deliver positive impacts for residents and partners. Implementation of the One Coventry Plan, continued delivery of complex Capital Programme schemes and the adoption of commercially based projects ensure that the Council can continue to adapt and transform to respond to financial challenges.

### **6.4 Equalities / EIA**

A cumulative impact assessment of all the policy investment proposals contained in this year's budget report has been produced and can be found in Appendix 10 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 which are set out in **Appendix 11** to **Appendix 31** to the report 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. These priorities have been a constant consideration by elected members and officers throughout the process to deliver a balanced budget for 2026/27. 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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