Report of the Strategic Director Corporate Services to the meeting of Executive to be held on 9 January 2018.

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Subject:

A Strategy for Growth in Income from Council Tax, Business Rates and Investment

Summary statement:

This report proposes a strategy for growing the Council's sources of income from Council Tax, Business Rates and investment in assets, recommending an Investment Advisory Group is established to oversee activity and manage risks.

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1.0 SUMMARY AND CONTEXT

This report proposes a strategy for growing the Council's sources of income from Council Tax, Business Rates and investment in assets, recommending an Investment Advisory Group is established to oversee activity and manage risks.

1.1 Outlook for Continued Austerity

The financial outlook for the Council continues to be dominated by a cocktail of funding squeezes and inflationary and demand-led cost pressures. This situation has been laid out in detail in the Medium Term Financial Strategies and Budget documents during 2017.

As Revenue Support Grant reduces, eventually to zero, by 2020/21, the composition of sources of income changes dramatically, with an increasing reliance on local sources, both taxation and non-taxation.

1.2 Council Resolution

Council of 17 October 2017 passed a resolution asking for this report.

2.0 AMBITION TO GROW INCOME

Growing income from all sources has always been material in previous budget rounds.

This report seeks to give added impetus, through new initiatives to grow income from:

- Council Tax
- Business Rates
- Surpluses from investments in income-generating assets.

Each of these sources is discussed in more detail below.

2.1 Council Tax

The Council Tax system has been operating in England since 1993. Despite attempts to reform and revalue in the 24 years since, the system remains largely the same. Out of all our sources of income, it is the one that carries the most certainty both in terms of future sustainability and amounts collectable due to the amount of legislation that underpins the system

Council Tax is a mainstay of income, now accounting for funding just over 50% of the Council's net budget of £365m in 2018/19, up from 46% in 2017/18. By 2020/21, this proportion will be c 59%

Collection rates have remained relatively static, with 2016/17 outturn at 97%. The proposed reform to the Council Tax Reduction scheme will increase the value of the Council Tax Base as a source of revenue.

Bradford's 2017/18 Band D rate of £1,257.86 is the fifth lowest of the 36 English metropolitan authorities. Only Trafford, Wigan, Dudley and Doncaster have lower rates. The average Band D rate for the metropolitan authorities is £1,380 with Gateshead levying the highest rate of £1,606.

In the Council's financial plan, tax rate increases have been set at the maximum the current referendum and precepting rules allow. Our Medium Term Financial Plan (MTFP) assumes the Band D rate will increase by the current maximum allowable amount for general services of 1.99% per annum.

The MTFP assumes a modest rise of 750 Band D equivalent properties each year – any growth initiative must exceed that to be cost-effective. Therefore, the approach must be to grow the base, as well as continue to increase the rate.

2.2 Business Rates

Business is a further mainstay of income.

From a funding perspective, the current Business System has been in operation since April 2013. It works on the basis of 'shares' between local authorities (Councils, Fire authorities) and Central Government. In Bradford, 49% of income is retained by the Council, 1% by West Yorkshire Fire and Rescue Service and the remaining 50% by the Government.

The combination of the locally retained share of gross business rate income collected, and the Top Up Grant account for funding 36% of the 2018/19 net budget, with the proportion set to rise. Localised Business Rates (ie the 49% share retained by the Council) will account for 18% of the net budget in 2018/19, rising to 20% by 2020/21.

There is a high degree of uncertainty about the business rate system – in particular the national redistribution system of tariffs and top-ups which moves money from relatively lower to higher need locations. But the underlying fact remains that Business Rates taxation buoyancy will continue to be vital for the stability and sustainability of local authority funding sources.

Final collection rates are reliably in the 98-99% range, albeit the outcome of appeals have frequently left the collection fund worse off than anticipated. Since the scheme was introduced, the ability of businesses to appeal their valuation has meant this income stream is highly volatile. A successful appeal results in a reduced bill and backdated refund for the business, all of which impacts on a Council's bottom line. Since 2013, the Council has refunded £24.9m to businesses, £12.2m of which has been at the local taxpayers expense.

Given this volatility, the MTFP assumes no real growth in Business Rates income other than the inflationary uplift applied to the nationally set multiplier.

Bradford's Business Rate tax base comprises c 18,700 properties, of which c 8,100 (43%) have a relatively low rateable value (up to £12,000). Around 25% of properties have a rateable value of over £50,000. An income-boosting strategy will, plainly, gain a higher return by concentrating on higher value properties. The average rateable value in Bradford is £7,340. The average varies across our region markedly across Councils, from under £6,000 in Calderdale and Kirklees, to around £11,000 in Wakefield and £12,300 in Leeds. This again points to disparities in the underlying tax bases of different Councils. A high return would be gained by concentrating on growth which boosts that average. Clearly, targeting would need to be compatible with the District's economic growth strategy.

Past initiatives have included incentives to encourage relocation – such as the City Centre Growth Zone, and Enterprise Zones) – with the aim of creating longer-term tax yields, albeit with short-term reliefs and rebates.

2.3 Investment Returns

The third strand of this report relates to the potential for investing in assets to generate revenues.

The sustained period of austerity since 2010 has required councils to act imaginatively in order to mitigate the impact of Government funding reductions to protect front line services.

Against the backdrop of historically low interest rates, an area of significant development has been around investing surplus cash in property and property based investment funds in order to generate a commercial return. Many UK councils are pursing property investment as a source of revenue.

These developments have not been without controversy and recently there has been much commentary in both the national and Local Government trade press as to whether councils should be able to make such investments.

The arguments for investing focus around the protection of frontline services and the utilisation of the general powers of competence in the Localism Act. The arguments against centre around exposing the local taxpayer to undue risk and that the cheap borrowing that councils can acquire from the Public Works Loan Board (PWLB) is distorting the market for private investors.

In recent weeks, the Government has issued a consultation on changes to the Capital Financing regulations. Of relevance to property investments is the requirement to publish an 'Investment Strategy' which will require councils to justify their investment decisions. The Chartered Institute of Public Finance & Accountancy (CIPFA) will also be issuing an updated Prudential Code in 2018 which will further strengthen reporting around council investment practices.

Bradford has an annual rental income from property of £2.8m, and has recently started to explore the prospect of larger acquisitions (the Hall Ings NCP car park being the first lease purchased).

In addition, the Council has a £4.1m stake in the Leeds City Regional £20m Revolving Investment Fund, which invests in commercial ventures (typically housing, property or commercial ventures) alongside others. Returns are reinvested in the Fund for re-lending.

3.0 GROWTH INITIATIVES

The rest of this report concentrates on initiatives designed to grow tax bases and generate income from investment.

3.1 Council Tax

Since 2010 Bradford's Housing Development and Enabling Team have been developing new homes for residents of the district using Council resources and HCA Grant funding. The team also undertakes limited work with Registered Providers (Housing Associations and private developers) to increase the number of homes built in Bradford. The team is funded entirely by income generated through the Affordable Housing Programme and their focus is on affordable homes built for rent or for sale.

The Council has a track record of delivery and a commitment to sustainable, good quality housing growth. We can already demonstrate the use of Council owned assets to support our own housing programmes and are working with colleagues in Estates Management to explore the following:

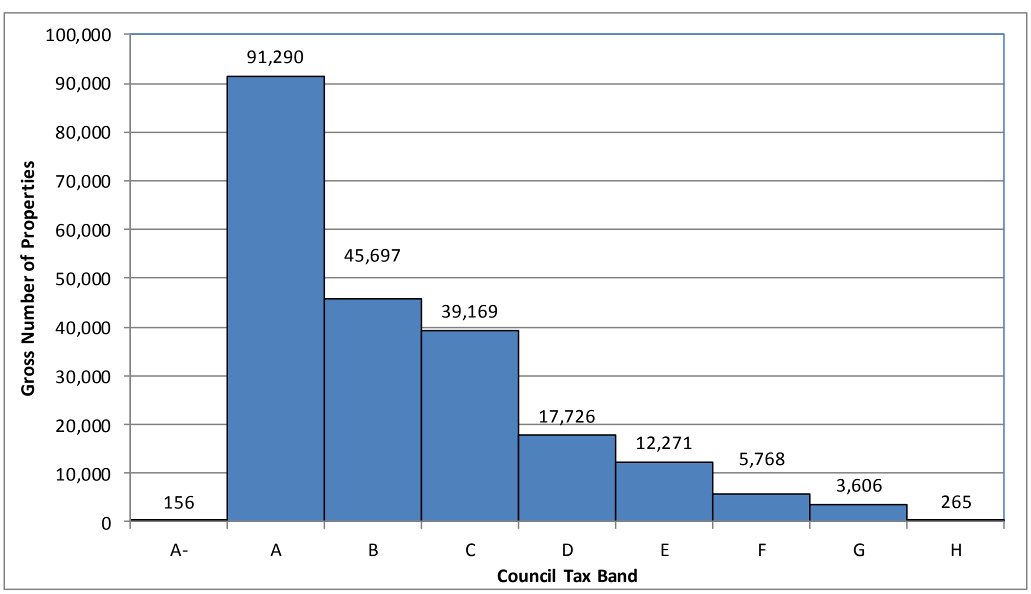
- packaging land sales to developers,
- disposals to Registered Providers
- approach to using and acquiring sites for our own stock development.

3.1.1 Baseline forecast

The Medium Term Financial Plan and proposed budget assume a prudent increase in the taxbase of 750 Band D properties per annum, the equivalent of £943k in new income

3.1.2 Income Growth Depends on Mix of Property Values

The graph below shows the distribution of the number of gross properties across the Council Tax banding system. As can be seen, the distribution is skewed heavily towards the lower value bands, with more than half the number of properties in the district being in the A- to B bandings.



The table below shows the different values of properties in Band's A, D and H both in relation to each other and the value in Council Tax income that they each yield for 750 units. The summary conclusion is that a district that has a predisposition for lower value properties has to build more volume or identify ways of building higher value housing, to generate as much income as a more affluent district.

	Illustrative Composition and Yield of 750 Band D Equivalent Properties		
	Proportion	Comparative Figure	Yield from 750 Properties (£k)
Band A	6/9	1,125	628.9
Band D	9/9	750	943.4
Band H	18/9	375	1,886.8

3.1.3 Aspirational Growth from Stimulating More Housing Development

In order to deliver a more ambitious programme and stimulate activity with an improved pipeline of schemes the Council needs to adopt a proactive approach to delivering and enabling growth. The White Paper "Fixing Our Broken Housing Market" https://www.gov.uk/government/publications/fixing-our-broken-housing-market is in line with our ambition and the multi tenure approach, recognising the need to deliver new homes across the spectrum of affordability.

The White Paper also recognises the role of local authorities as a deliverer and an enabler and in response we are seeking to develop a programme of activity to accelerate delivery, working with partners to ensure Bradford district makes its contribution to national housing targets.

3.1.4 Development of Housing Delivery Function

The proposal is to establish a multi-disciplinary delivery team ('**Housing Delivery Team**'). They will be responsible for working across the Council and with partners to deliver an annual housing delivery programme with performance targets. The team will lead the way in making the council's approach more dynamic and pro-active; bringing together existing and new functions. Its focus will be:

- Finding solutions to unlocking the delivery of stalled sites including identifying "quick wins" to facilitate delivery. Working with colleagues in Planning the Housing Delivery Team will map and monitor all public and private housing delivery sites. With limited resources the Housing Delivery Team will not be able to actively support all housing developments therefore a list of priority development sites will be identified and agreed. The Housing Delivery Team will prioritise its resource to support accelerating the delivery of housing on these priority sites which will form the initial pipeline whilst a viable development pipeline is established for future delivery. Sites may be brought forward into the priority development list, as other sites either move forward into delivery, or to manage slippage.

- Working collaboratively with land owners, developers and officers to broker resolutions to facilitate delivery, utilising links with developers. One issue developers often raise is that they do not have a single point of entry to the system and often receive conflicting messages about policy and priorities. The new single multi-disciplinary team and improved process and policies are designed to overcome these, and other, barriers and to create a more pro-active and coordinated approach.

- Identifying innovative solutions to overcome constraints to housing delivery. Examples include:
    - Obtaining outline planning permission on Council owned sites: as part of the disposal process of Council owned residential land either outline planning permission or permission in principle will be obtained to mitigate risk, create certainty for the buyer and increase the value of the land to the Council.
    - Exploring and supporting innovation: housing is not just delivered by volume builders and Councils so the team will work with community groups, self-builders, small and medium sized builders and community land trusts to unlock the potential of some of the smaller residential sites.
    - Procure delivery partners: plan procurement routes to secure strategic delivery partners

- Equipping the council with the tools and expertise to implement future strategies and actions plans for accelerated housing delivery

- Devising a strategic plan for improved housing delivery.

3.1.5 Potential Success Measures

The rationale for the team is based on securing supply output (increasing delivery against the Core Strategy targets) and council tax / NHB (New Homes Bonus) revenues. In addition there are the associated skills and employment benefits linked to increased delivery. Programme outputs could be reported across main workstreams (council, affordable and market housing) as a simple number update table:

- On the council new build: units handed over; starts on site; empty homes brought back into use and drawdown of external grant funding in £s.

- Affordable and specialist housing: units delivered (through AHP, s106); Percentage of the AHP committed; hectares of council land made available.
    - Members are also interested in the nature and quality of relationships with the Registered Providers and 3rd sector so we could introduce a Key Account Management approach which could see diversification of providers and increased supply.
    - The Acceleration Programme (unlocking private sites): number of land owners we're in dialogue with; starts on site; external funding bids either submitted by us or supported.

  - Leeds are also just introducing a brokerage approach joining up SMEs (incl RP's) with land owners via the HCA. This would be beneficial and could be incorporated.

The Programme's contribution to delivering council & affordable housing plus efforts to support SMEs delivering the Core Strategy targets therefore means ?DCLG, and in particular Homes England (HCA), would be supportive in terms of sector support for SMEs.

3.2 Business Rates

3.2.1 Baseline Forecast

MTFS assumes annual growth in Business Rates income of c 2%, reflecting inflationary uplift rather than volume growth.

3.2.2 Economic Growth Strategy

The principal tool to stimulate growth in the Business Rates will be Council's Economic Growth Strategy, currently in development

3.2.3 The Purpose of the Economic Growth Strategy

Bradford District's new economic growth strategy sets out an ambition to grow our economy so we can close the £4bn productivity gap with the rest of the UK and create 22,000 new jobs.

It identifies four key opportunities around which the Council, partners and government can take action:

- Our young and enterprising population; ensuring our young people are equipped to succeed and drive our future economy.
- Our distinctive offer: capitalising on our distinctive places and cultural assets to create compelling investment proposition
- Our growth potential: building on business strengths to improve productivity and create the conditions for growth.
- Our globally connected district: improving transport infrastructure and digital connectivity, and supporting businesses to increase exports.

The strategy is currently in the final stages of development, in advance of partnership approval and Council endorsement in March 2018.

3.2.3 Investing in Delivery

The strategy will identify key delivery mechanisms to stimulate inclusive economic growth. These will include:

- Growing our Industrial Centres of Excellence to ensure young people are equipped with the skills needed to prosper.
- A new approach to bringing our mills back into productive use, creating attractive and viable environments for live and work space that provides an offer for businesses that complements that of Leeds.
- Investment in our cultural industries, including the agreed loan to support the delivery of Bradford Live which will increase the attractiveness and economic vibrancy of our city centre.

- Supporting our key sectors including developing a manufacturing week with the Chamber of commerce and building on our digital strengths and assets.
- Prioritising a city centre stop for Bradford in Northern PowerHouse Rail – an investment which it is calculated will bring £1.3 billion for the regional economy through improved access to jobs and markets across the North of England.

3.2.4 Co Investment

- With the private sector - e.g. #manufacturing week – i.e. delivering with the Chamber – not just investment in physical infrastructure
- Joint initiatives with public sector –i.e. DHEZ – University of Bradford led
- Use of our investment as grant giving– i.e. expansion and extension (time and geography) of city centre growth zone – supporting businesses to create jobs, improve premises, expand and grow etc.
- Use of our investment as loan – e.g. Odeon – building on ground breaking experience with Provident Financial.
- Significant WYCA / LEP investment in supporting business growth

3.2.5 Measuring Impact

The measures in the Economic Growth strategy reflect the overall health of the economy (GVA, employment, skills, earnings and emissions), and will be used to assess the outcomes which we are working to achieve. Council Plan indicators will be used to track Bradford Council's specific contributions.

Bradford currently collects business rates (gross) of around £140 million on a GVA of £9.5 billion. A simple calculation suggests a GVA uplift of £1bn creates an additional £14.7m additional tax. The Economic Growth Strategy has an ambition of an economy for the district of £13.6 billion, which would means a business rate base in the region of c £200m. .

3.2.6 Policy Links

- Work on the economic growth strategy commenced with Bradford's response to the Industrial Strategy green paper at the beginning of 2017. Bradford's draft economic growth strategy aligns well in terms of the five foundations (Ideas, People, Infrastructure, Business environment and Place)and there is a strong read through to the four opportunities identified in our growth strategy as follows:
- Our Young and Enterprising Population(People)
- Our Distinctive Offer (Place)
- Our Growth Potential (Ideas, Business Environment)
- Our globally Connected District (Infrastructure).

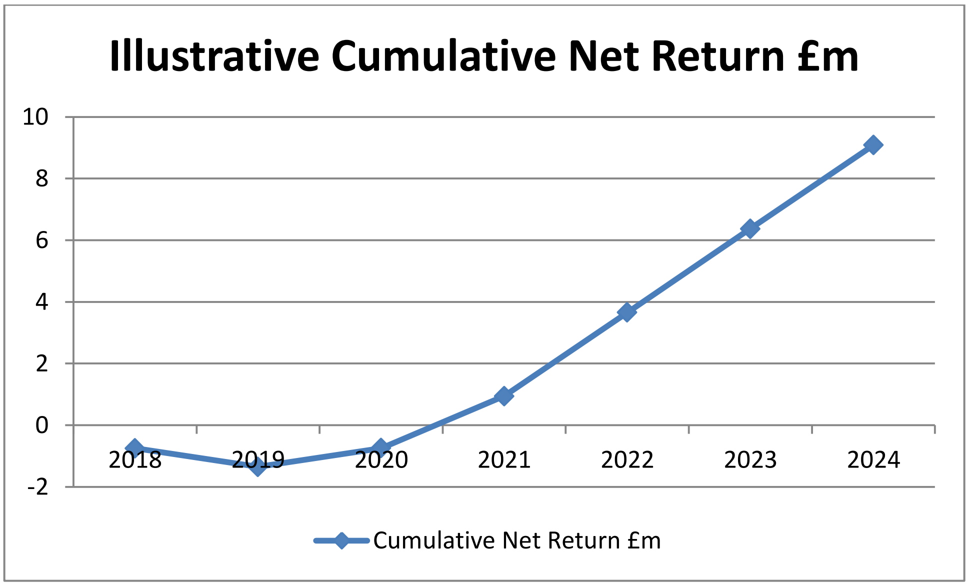
The Industrial Strategy white paper includes a commitment to developing local industrial strategies – led by LEPs in non mayoral areas. The Leeds City Region LEP is committed to developing an *Inclusive* Industrial Strategy, that builds from the bottom up and therefore draws upon the priorities in Bradford and the other districts' economic growth strategies (which are all also in a variety of stages of development).

3.2.7 Target Return on Investment

The graphic below illustrates the additional cumulative net income that would be gained as a result of:

- Investing £0.75/0.75/0.75/0.35m in activity to stimulate growth in Council tax and business rates, from 2018 to 2021
- Creating an additional 500 Band D equivalent units each year, albeit with a year's delay before income comes on stream
- Adding £50,000 per year (ie an additional around 7average business per year), again with a delay

By 2022 the additional annual gross income is £2.7m. After a net cumulative loss up to an including 2020, the net cumulative return rises to over £9m by 2024, assuming those houses and new businesses continue to yield tax.



The table below exemplifies the number of Band D houses that would be needed over and above the baseline 750, to achieve a payback over *x* years, assuming again investment of £0.75/0.75/0.75/0.35m, which would also achieve a £50,000 addition to Business Rates

Additional Band D Houses required each year to achieve target payback	Payback period
5,870	2 years
768	3 years
355	4 years
184	5 years

3.3 Investment Fund

In this section, we outline an investment fund which could be established to generate income.

3.3.1 Property

As mentioned earlier, the Council has already acquired and is considering other Bradford properties. This activity was authorised through the Executive report on 4 April 2017.

The Council's existing property portfolio comprises some 600 properties, with a capital value of c £45m, which generate an income of c £2.8m per year.

Investing in Bradford property speaks to the notion of utilising the Bradford Pound, and supports the ambition to stimulate local economic activity. However, in order to reduce the over-reliance on one locality, consideration should also be given to property outside the Bradford district. This could involve investment in more broadly based property funds, or acquisition of individual properties in other locations.

3.3.2 Assets Other Than Property

In order to reduce reliance on one asset class, consideration should be given to investment in other assets including bonds and shares. This would go beyond the scope of current treasury management activity, whose premium is on security rather than yield, and would signal a higher risk appetite.

The investment management team from West Yorkshire Pension Fund have provided advice on the matters that would need to be part of an Investment Strategy in embarking on this route, bearing in mind the upside and downside risks entailed.

As a reality check on the potential gains involved, an investment fund has to be sizeable to generate an annual return that is meaningful for the net revenue budget. For example, assuming a net annual return of 2%, a fully invested fund of £50m would be required to generate £1m. In context, £50m additional capital investment activity represents a circa X% increase in the CIP to generate only a 0.3% increase in the net budget.

Accordingly, the greater and less risky returns are likely to be afforded from tax base growth, especially housing.

3.3.3 Social Purpose

In order for investment activity to be consistent with the Council's overarching objectives, it would have defined social purpose (see below on investment strategy). As a minimum the purpose of the investment would be to generate additional income that can be used to fund services otherwise unaffordable. It would be an option to earmark returns on investment for specific purposes, though this may limit financial flexibility.

4.0 FINANCIAL APPRAISAL

4.1 Revenue Budget

The currently proposed budget 2018/19-2020/21 does not assume any additional income from the growth strategy which is the subject of this report. It does provide for:

- £750K funding for growth initiative
- A growth in the income stream from estates and property of £0.8m by 2020/21 from a base of £2.8m

The revenue budget also provides the consequences of the existing capital programme. The Council has adopted a general rule that capital financing costs should not exceed 15% of the net revenue budget. This has been become more difficult in recent years as the net budget has decreased as a result of continued reductions in Government funding. The current ratio is 16.1%.

The revenue budget scope for additional borrowing to finance investment is therefore constrained by:

- The need for borrowing costs to be offset by returns (i.e. so that the net revenue budget impact of investment activity is credit/income). This is contingent of selecting the right investment and growth activity
- The buoyancy of reserves/the balance sheet to handle any timing differences between the costs incurred to generate income, and the receipt of that income
- Capital financing limits, discussed below.

4.2 Capital Budget

The Capital plan contains £50m of planned spend on property investments/strategic acquisitions, above and beyond the investment already made in the Hall Ings NCP car park. (The intention of these investments is that they provide an income stream for the Council and the Estates and Property savings strategy is predicated on delivering £800k of new income by 2020/21)

Additional capital investment funds would need to be approved through the annual budgeting cycle.

4.2.1 Capital Financing

The Council's capital activities are governed by the CIPFA Prudential Code and wider capital financing regulations which are updated periodically by the Government. These include a number of key Prudential Indicators that ensure those activities are understood, affordable and in the interest of the local taxpayer:

4.2.2 External Debt

Members are asked each year, as part of the Treasury Management Strategy, to approve authorised limits and operational boundaries for external debt (borrowing and other long term liabilities). The former, which is the maximum amount of external debt the Council can incur was set at £680m for 2017/18. The latter, which is based on the probable amount of external debt to be held in the year of the strategy, was set at £620m for 2017/18. The latest Treasury Management update, reported to Governance & Audit Committee in November 2017 current external debt levels of £522m (of which £336m is external borrowing), £98m less than the operational boundary.

The Council borrows exclusively from the Public Works Loan Board (PWLB), due to the competitive rates offered. Interest rates for each loan are fixed, and redemption costs are such that refinancing of debt before maturity is not cost effective.

4.2.3 Capital Financing Requirement

The CFR is defined as the underlying need to borrow to finance capital activities. Where the CFR is positive, the council may borrow externally or from internal cash resources on a temporary basis. The council has utilised internal cash balances to the extent it is currently ‘under-borrowed’ by £156m against an overall CFR of £678m. The Council may wish to utilise current low interest rates and finance some this capital activity, which would increase the cash balances of the council but would in the first instance result in a cost of carry (the difference between the rate of interest on the borrowing and the interest return on the cash balances).

4.2.4 Use of Council Corporate Funds

Instead of borrowing from PWLB, or any other external source, the Council could instead use its useable reserves as the source of funds for investment. Theoretically, the Council’s cash balances should equal the amount of useable reserves we list on our balance sheet. However, the under-borrowed position noted above distorts this significantly but added to available cash and short term investments totalling c. £35m, the total potential cash resources available to the Council equate to c. £165m.

The Council’s Treasury Management Policy would need amending to accommodate changes in the composition of current assets, and the use of funds for income generation. We would also need to ensure that the planned utilisation of useable reserves continues to be supported by treasury management operations.

5.0 GOVERNANCE AND RISK MANAGEMENT

5.1 Source of Risk

The table below summarise sources of risk to the strands of this investment strategy, and their potential mitigations.

Source of Risk	**Available Mitigations**
Financial: anticipated returns to do not materialise	Due diligence on individual investments Contractual structure/covenants of individual investments Strength of counterparties/suppliers Set prudent budget assumptions on additional income Access to appropriate expertise/skills Use of balance sheet to handle timing difference between investment and returns

Source of Risk	Available Mitigations
Financial: capital is at risk	Due diligence on individual investments Diversification of investment Set appetite for total losses, with appropriate contingency
No additionality in respect of housebuilding	Understand and intervene in specific barriers to construction/development Monitor and oversee impact Discipline to cease activity if ineffective Access to appropriate expertise/skills
No additionality in respect of economic growth	Understand and intervene in specific barriers to growth/investor confidence Monitoring and oversee impact Discipline to cease activity if ineffective

5.2 Managing Risk Through Diversification

Overall risk can be mitigated by diversification. Seeking to diversify brings in turn a series of strategic, policy and political considerations, including:

- **Geography**
  Geographic diversification would reduce reliance on Bradford as a place, and allows the Council to benefit from more buoyant activity elsewhere. However it raises the question about whether Bradford resource should be utilised for other places' physical and commercial development, even though Bradford would gain additional income. Geography can be considered in zones emanating from Bradford – Bradford district; Leeds City Region, Yorkshire, national, international

- **Sector**
  Sectoral diversification would reduce reliance one asset class. It is remarkable in some ways that many Councils have opted to pursue property-related investment, but not other assets.

- **Investment to Generate Income or Also to Promote Council Outcomes**
  A consideration is whether investment should be pursued that only relates directly to the Council's outcomes. Developing housing in Bradford supports both income-generation and the Local Plan. What about investment in, say, a business park outside the Leeds City Region? Should investment beyond Bradford be only in activities that relate to education, social welfare or place-related community value? Risk diversification suggests the investment strategy should be broadly based, but it would be legitimate to place parameters on it to be directly aligned to the Council's objectives.

- **Time-Limited, Controlled Investment**
  Some of the risk that investment will not yield expected outcomes can be offset by limiting the amount of resource input and monitoring its effectiveness. "Prove before you move" evaluation methodology, and strong oversight of the activity being funded are key components in ensuring money is not wasted. This implies that additionality can actually be tracked, without which the impetus of investment cannot be proven.

- **Use of Contingency to Match Risk Appetite**
  In respect of investing for financial returns, it will be important for the Council to set a risk appetite – plainly put, how much capital it is prepared to lose – and to set up a contingency to match that appetite.

- **Due Diligence**
  Due diligence on any investment will be an indispensable element of any decision to invest, and should cover at least the financial (return, security), commercial, legal, delivery, control and governance questions.

6.0 INVESTMENT ADVISORY GROUP

6.1 Purpose

This report recommends that an Investment Advisory Group is established to oversee this strategy, both to provide supporting governance to the Executive, and to provide a place where sufficient time can be given to understanding and controlling the risks and rewards the strategy offers.

The Group will not be a formal committee of the Council, but an authorised informal special-purpose body.

6.2 Composition

Follow the model used in other investment setting and particularly the West Yorkshire Pension Fund, the Investment Advisory Group should comprise members, officers, and external advisors. The latter brings a potential additional cost as well as value.

6.3 Investment strategy

One of the primary roles of the Investment Advisory Group will be to recommend and oversee a strategy for generating income from investment in other assets, which should take into account:

- Source of funds
- Objectives/purpose
- Scope of investments (geography, sector, exclusions)
- Risk appetite
- Duration
- Return requirement
- Economic and regulatory environment

7.0 LEGAL APPRAISAL

7.1 Powers

Part 1 of the Localism Act 2011 applies a general power of competence to local authorities in England. Section 1 (1) of the Act provides that “a local authority has power to do anything that individuals generally may do”.

The power does not permit local authorities to do anything that is specifically prohibited in legislation (a ‘pre-commencement limitation’), to raise taxes, or to alter the political management structure of the authority. It continues to be necessary for authorities to check for pre- or post-commencement limitations, i.e. activities which are specifically prohibited in statute. These cannot be overridden with the general power of competence.

The usual public law constraints (rationality, relevant considerations, procedural fairness, disregard of irrelevant considerations) will be applied by the courts to the exercise of the power, even though an “individual” in the private sphere is not subject to them.

The Council has a general power to lend for investment under Section 12 of the Local Government Act 2003. The restrictions on lending are as set out in the CIPFA code. The Council has power to make investments under Para 8 of Part 3F provided the loan is consistent with the Council’s priorities.

Under the Local Authorities (Land) Act 1963 (power of local authorities to make advances for the erection of buildings on land sold or let by them), money may be advanced to any person for the purpose of enabling them (a) to acquire land; or (b) to erect any building or carry out any work on land, but the advance together with interest shall be secured by a mortgage of the land, and the amount of the principal of an advance shall not exceed nine-tenths of the value of the land.

An advance made under the section shall also carry interest at a rate not less than one quarter per cent. greater than that fixed by the Treasury in respect of loans to local authorities made on the date on which the terms of the advance are settled.

Authorities using their general power of competence under the Localism Act 2011 to develop new social or affordable housing should account for that stock within the Housing Revenue Account.

In respect of the proposal to find solutions to unlock stalled sites, legislation, contained in sections 203 to 205 of the Housing and Planning Act of 2016, came into effect on 13 July 2016. It provides local authorities and regeneration bodies with powers to override private third party rights in land they own or formerly owned to unlock the redevelopment potential of that land.

These provisions may, however, require authorities to give greater consideration to the public interest justification for any interference with third party rights arising from the new powers.

Third party rights such as rights to light, rights of way and restrictive covenants can pose a serious obstacle to development if third party owners are not prepared to release their rights by agreement on reasonable terms or if they cannot be identified.

Section 203 of the 2016 Act applies to land owned, or formerly owned, by a range of "specified authorities", which includes the Council.

Where the new provisions apply, it is irrelevant who carries out the works or implements the change of use. It is not necessary to show that the developer has derived title under a specified authority, or has any land interest at all.

Establishing whether the new provisions apply depends on whether the land to be developed was acquired by the Council before or after section 203 of the 2016 Act came into force on 13 July 2016.

In the case of land acquired by or vested in the Council on or after 13 July 2016, and land appropriated by the Council for planning purposes on or after that date, regardless of when the authority acquired the land, the new power to override third party rights and interests would apply if:

- there is planning consent for the development (i.e. works or use) that causes the interference with the third party right;
- the Council could acquire the land compulsorily for the purpose of the development that causes the interference; and
- the development which causes the interference is for purposes related to the purposes for which the land was vested in, acquired or appropriated by the Council.

It is irrelevant who actually carries out the development, or whether the land, or an interest in the land, has passed to another party following its ownership by the Council, or its appropriation by the Council. What is key is that the Council would have had power to acquire the land compulsorily for the particular purpose that causes the interference.

- The activities authorised by section 203 are "the erection, construction or carrying out or maintenance of any building or work" and any use of land.
- Statutory compensation is payable to third party owners whose rights are overridden, calculated in the same way as compensation for certain harm caused by compulsory purchase, generally based on any reduction in the value of their land. The developer causing the interference is liable to pay the compensation, failing which the specified authority must pay. The specified authority can then recover from the developer.
- Rights of statutory undertakers and electronic communications code network operators cannot be overridden by the new provisions.
- It is necessary to show that the land is owned by or has "passed through" the ownership of the Council at the relevant time. Accordingly, in a scheme involving the Council and land owned by a developer, it would still be necessary for the Council to acquire the land and to grant an interest back to the developer.
- The Council will need to be satisfied that any interference with third party rights is proportionate and justified in the public interest.

7.2 Capital Finance Regulations

Government and oversight functions have recently amended codes and tightened regulations. Final versions, following a period of consultation, are expected in early 2018.

7.3 Code of Practice on Treasury Management and Investment

The Council must also follow the CIPFA Prudential Code for Capital Finance in Local Authorities. The Code is also undergoing revision, with a final version expected in early 2018. This may constrain room for manoeuvre in investment activities.

8..0 NEXT STEPS

The next steps for this strategy are set out below.

8.1 Establish Investment Advisory Group

An Investment Advisory Group should be established to oversee this strategy. Its composition should be:

- Chair (ruling group)
- Portfolio Holder for Regeneration/Economy
- 2 members, one nominated from each of the main opposition groups
- S151 Officer
- SD Place
- 2 Advisory members (from banking/investment sector in a non-remunerated capacity).

The Advisory Group will not have formal voting rights, but seek on a consensus basis to make recommendations to the Executive. The Advisory Group can be supported by an officer group led by S151 Officer (akin to the Project Appraisal Group which considers capital investments) whose role is to undertake detailed evaluation of investment proposals, with the support of external advisors (through our existing contract for advice on treasury management and capital financing. This should be a group distinct from officers in the Property/Estates and Economy and Development teams who undertake day to day delivery of the strategy.

8.2 Establish Housing Delivery and Economic Development Growth Team

A more detailed proposal should be sought from the AD Economy and Development on the composition, work plan, and performance indicators for the function that will be funded from the proposed additional revenue budget.

The proposal can be developed alongside establishment of the Investment Advisory Group

8.3 Promotion of Bradford as Investment Destination

Work should continue, and be strengthened, to promote Bradford as a place to invest in, including:

- Investor relations development
- Attendance and marketing at events such as MIPIM
- Support to the Producer City Board

8.4 Set Investment Strategy and Risk Appetite

The Investment Advisory Group should recommend an investment strategy, including an explicit risk appetite.

If investment is to be extended into non-property assets, further consideration will be needed on the operational arrangements for such.

The strategy can be developed by officers, alongside establishment of the Investment Advisory Group

8.5 Implementation, Monitoring and Reporting

Practical next steps for implementation should include:

- The Housing and Economic Growth Delivery Team, once established, should pursue the performance targets endorsed by the Investment Advisory Group.
- AD Estates and Property should continue to identify properties for investment purposes.
- Further operational/delivery activity is contingent on the setting of the investment strategy.
- Monthly monitoring of progress, through the Investment Committee and the officer group supporting it.

9.0 RECOMMENDATIONS

To accept the basic premise underpinning this report, that targeted activity should be undertaken to grow income from:

- Council Tax
- Business Rates
- Income-generating investment

To pursue the next steps outlined at Section 8.

10.0 Background Reports

- Report on Income generated by Council Services from fees and charges November 3 2016
- Progress report on the Property Programme and Council's proposed property investment strategy April 4 2017