



Commercial Strategy 2022

Background to a Commercial Approach

Local government has changed significantly in the 21st Century with one of the key drivers being the need for a more commercial approach by local authorities to reduce reliance on central government funding and create self-sufficient organisations. Local authorities have developed a strategic policy statement that outlines the commercial objectives and appetite applicable to their circumstances, this strategy provides the commercial approach at Fylde.

Fylde Council has been involved in commercial initiatives for several years including the re-commissioning of services, effective re-letting of contracts / concessions, re-negotiating existing arrangements to achieve increased income, and reviewing specifications to achieve more for less. These measures are aimed at obtaining maximum value for money from council assets balancing the income received alongside the service or goods being consistent with the quality, values, and principles of the council.

The Commercial Strategy aims to introduce commercialisation wherever possible in the organisation including service review redesign to identify every viable opportunity to increase income and reduce cost; the commissioning cycle to drive out even better value; explore shared services to get more by working together; and new opportunities for revenue generation that have never previously been delivered, for example, capital acquisitions and investment in existing assets to maximise returns.

The Commercial strategy is linked to and is consistent with several other strategic documents at Fylde including:

- The Corporate Plan
- The Asset Management Strategy
- The Procurement Strategy
- The Medium-Term Financial Strategy which incorporates the council's Investment Strategy
- The Project Management Framework

The Commercial Vision

The Corporate Plan 'Economy' priority identifies the requirement for commercial investment that will generate sustainable appropriate income streams which can be used to fund the delivery of quality council services. The approach at Fylde is to deliver more than just a financial return from commercial initiatives. High quality appropriate commercial ventures that contribute to the vision for the Borough and the council articulated in the Corporate Plan will be explored.

The business case for commercial investment at Fylde should include non-financial benefits that support the corporate objectives, recognising that some opportunities will be purely financial returns. The commercial objective is for Fylde Council to be innovative and entrepreneurial achieving a positive financial contribution to the revenue stream driven by efficiencies through trading and business process improvement. Commercial initiatives should make a financial as well as a service improvement contribution, assisting local services to be financially sustainable whilst supporting the delivery of local priorities.

Fylde does not currently have a budget deficit that needs to be addressed through commercial investments. The generation of additional income from commercial ventures should add social value to the community with the investment business case required to identify the contribution to social value. The opportunity to achieve greater income from commercial investment than the return

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achieved from treasury management will also be explored. Initiatives to achieve this at Fylde include:

- Exploring every opportunity to generate income from investment in property assets
- Maximising the return from existing and new income streams and assets
- Maximising marketing, sponsorship, and promotion opportunities
- Facilitating new and increased commercial activity to stimulate the local economy and grow the business rate base
- Pricing services to deliver value for money as well as financial return
- Invest to save to achieve longer term contribution to the revenue budget

Commercial investment will complement, but not replace, capital investment in public realm which enhances community facilities and contributes towards footfall and desirability of the community that support economic activity stimulating private sector investment and growth.

Investment opportunities that benefit the broader economic environment but do not necessarily generate direct measurable financial benefit to the council would need to be considered on merit and approved by Full Council. Any interventionist initiative designed to stimulate the private sector should be supported by evidence that demonstrates the wider economic value of the investment.

All service areas are required as part of the continuous service review policy to actively seek out potential for efficiencies, the creation of capacity and revenue opportunities as part of the commercial approach.

KEY CRITERIA FOR COMMERCIAL INVESTMENT:

- **Demonstrate delivery of the Commercial Strategy as well as the Corporate Strategy**
- **Demonstrate improved services in addition to improved finances**
- **Identify contributions to social value**
- **All service areas to build in review for commercial approach**

The Drivers for Local Authority Commercialisation

Local authorities have engaged in more commercial activity over recent years in response to the 'requirement' to be self-sufficient announced in 2016 alongside government proposals to restructure funding for Local Government that intended to reduce contributions from central government grant. At the same time the era of austerity led to several councils facing budget deficits with many turning to commercial activity as one of the options to address the deficits. Since 2016 local government finance settlements have been short term and impacted by the COVID pandemic leaving a degree of uncertainty over longer term central government funding.

Whilst the financial position has not developed exactly in line with the proposals since 2016 the principle of greater self-sufficiency for local authorities remains with a number of councils still having a budget deficit to address. Therefore, where possible local authorities have sought to strengthen the revenue account through commercial ventures by investing in appropriate property assets, developing existing services, marketing, sponsorship, and advertising to contribute to revenue that funds public services.

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Fylde has a robust financial position as set out in detail in the Medium-Term Financial Strategy and does not have a budget deficit in the short term that must be addressed through commercial activity or any other initiatives driven by need. However, the council seeks to maximise value for money from the public purse with quality service provision a priority. The council will consider appropriate commercial initiatives that meet the drivers that have informed the development of the commercial strategy for Fylde, which include:

- The requirement for all local authorities to become more self-sufficient
- The ambition to maximise revenue from new and existing income streams
- The benefit from achieving a greater financial return from reserves
- The ambition to maximise the efficiency of every service area and create capacity
- The corporate objective to deliver quality service by re-investing capacity and resource

The commercial strategy is intended to deliver the following outcomes for Fylde:

- An improved economic and financial return for the Council
- A contribution to revenue that helps to fund quality service delivery
- Schemes that support the Corporate Plan objectives
- Increased economic activity and employment in the borough
- A more self-sufficient council

A commercial approach will be applied to every service through process re-engineering as part of the continuous review policy to ensure that the most efficient means of service delivery is in place at any given time. Existing services re-engineered, including statutory internal services, will release capacity that can be diverted to support commercial opportunities, corporate priorities, and enhanced service provision in the local community.

KEY ACTION:

Business Process Re-engineering to be embedded across every service area.

Creating a Commercial Environment

Officers will seek to create the right environment to nurture and develop innovative commercial ideas that can deliver appropriate project proposals for Fylde including:

- A review of commercial skills and capability across the Council
- A communications campaign to encourage ideas and identify opportunities
- A robust business case process for the development of commercial proposals
- Learning from best practice and sharing experience of commercial ventures
- Adopting a robust project management approach for implementation
- Ensuring new proposals have the right support from the necessary stakeholders

To embed a commercial approach in every service area it will be necessary to develop the skill set, and attitude required to identify appropriate commercial opportunities that will contribute to the

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provision of quality services either directly through the commercial venture or indirectly contributing to the revenue account. Commercial skill, experience and knowledge has become more prevalent in the public sector with the development of more commercial initiatives, and this will continue to be developed at Fylde to deliver the strategy.

The commercial property market is a dynamic and fast-moving environment. The ability to respond swiftly to opportunities can be key to successfully managing a commercial property portfolio. The Land Transaction Procedure Rules, which form part of the constitution, and the present decision-making powers for property transactions should be reviewed to make sure that decisions can be made and implemented consistently with the aims of this strategy, while maintaining ultimate accountability to members.

KEY ACTIONS:

- **Review Land Transaction Procedure Rules**
- **Review decision-making powers for property transactions**

Business Rates & Commercial Support

The Council's approved Corporate Plan includes the following priority action:

- Channel business rates funding opportunities to economic development.

In line with this action, the Council has established a Funding Volatility Reserve. This reserve was initially created from surplus business rate receipts, with the following purpose: "For release to support the revenue budget as and when necessary to cushion the impact of future funding reductions, and to fund investment in activity to stimulate Economic Development in the Borough." The reserve has been used to fund several schemes and projects across the borough which have both supported economic development activity and generated a return on investment consistent with the principles set out in this commercial strategy. The reserve has subsequently been topped-up, most recently as part of the financial outturn for 2020/21, from surplus resources including receipts from business rates to allow investment of this nature to continue.

Assessing Commercial Investment Opportunities

Commercial opportunities will be assessed through a formal process to identify viable and appropriate proposals for Fylde, with support to further develop ideas that demonstrate potential and the resource to implement viable schemes. Opportunities can arise at any time both planned and ad hoc that will be discussed initially to determine suitability or fit with the requirements of the commercial strategy. The discussion will include relevant members and stakeholders.

Ideas compatible with the commercial strategy will require an initial outline business case covering risk, cost, and resource implication to be considered by officers and lead members. If the proposal is viable and approved for a full business case, this will be taken to Management Team for viability assessment and Budget Working Group for consideration. Project proposals will be assessed against set criteria at each stage of the process, with a high-level appraisal at the initial business case outline stage, to determine whether to take a project through to a full business case assessment. Proposed

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key business case criteria will include:

Criteria	Key Questions to be Satisfied
Strategic Fit	Does the commercial opportunity align with the council's core values and objectives?
Economic Case	Are the financial returns within parameters agreed in the commercial strategy? Are there consequential financial and economic benefits that add value to the proposal (e.g. stimuli to the local high street)?
Commercial Case	Is the proposal operationally viable and within regulations for a public sector organisation? Is there independent valuation possible to assess 'worth' or viability?
Financial Case	Is any required 'up front' funding available – invest to save / generate income? Is the proposal affordable?
Management Case	Is there a realistic project plan that can be delivered within current resources? Does the council have, or is able to access, the capacity and skill to deliver the project / investment?

Funding New Investment Opportunities

Funding for commercial opportunities will come from reserves with alternative sources considered if available including grants. The council's existing policy not to borrow will remain and whilst it is possible for Full Council to approve by exception a deviation from this policy, in practice statutory restrictions on borrowing purely for financial return and reporting requirements will mean this will seldom be practicable in the fast-moving commercial property environment. There is a desire to explore commercial opportunities that provide the right benefit to Fylde. However, there is not currently a need driven by a budget deficit which should mitigate risk.

Property Investment Best Practice Framework

A significant amount of local authority commercial income is generated from property investment. Best practice guidance includes:

- Developing a diversified and balanced portfolio of investment assets will achieve the most efficient approach.
- Established property investment practice is based on long standing markets for assets in mainstream sectors such as office space, retail, industrial and residential. Investing in these traditional asset categories in a balanced fashion, allows for a lower risk investment when compared to emerging markets such as student accommodation, nursing homes and medical centres.
- When considering the tenure of an asset, freehold is preferable to leasehold because it offers a greater level of security than a leasehold asset that would effectively decrease in value over time. However, assets on a long leasehold basis, anything in the region of 150 years or more, are often suitable for consideration.

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- Properties let to a single tenant may offer an acceptable level of risk if the tenants are marquee brands. Multiple tenanted properties minimise the impact of any one part of the asset being vacant. If assets are occupied by a single tenant, then detailed financial due diligence would be undertaken to ascertain the financial stability.

Based on the best practice outlined above and considering the Fylde coast local market conditions, commercial investment property starting at £1m will be considered to avoid the lower part of the local market where private high net worth individuals would be seeking to invest. Like any commercial investor, the council will seek the best balance between risk and return. Investments outside the Borough will not normally be considered to retain financial and non-financial benefit within the Fylde community.

Income yields of more than 5% (after management costs) will be the minimum entry requirement for consideration as a viable proposal for a commercial investment. Opportunities will be sought that have the potential to increase rental income above that which is currently being realised. Opportunities that include the potential for innovative development to stimulate the local economy whilst earning a commercial return will also be considered even if they do not achieve a return in excess of 5%. All proposals must have evidence to demonstrate the potential to deliver an additional return on investment in the short to medium term and deliver Corporate Plan objectives.

Longer term lower yield investments that would stimulate economic activity or unlock potential private sector investment will be considered on a case-by-case basis with the requirement for necessary political approval.

Assets already in the ownership of the Council that could be redeveloped in partnership with neighbouring sites can realise added value from 'marriage' of the sites. Consideration should be given to Joint Venture projects that maximise value, with priority given to those which would result in the delivery of assets meeting the investment criteria or providing significant stimulus to additional economic investment.

Independent external specialist property investment advisors will be commissioned on proposed asset acquisitions that are approved, to advise on suitability having undertaken detailed pre purchase due diligence, including valuation, risk analysis and lease or title reviews.

The commercial approach will be subject to continuous review in accordance with the policy for all services at Fylde with any necessary changes made to reflect the economic landscape.

Pricing and Setting Fees

The pricing of council goods and services will be structured to achieve maximum value for money, balancing quality and price, within the supply-demand dynamic of the market forces. Officers will take a market led approach to price setting based on demand using market analysis to establish the best possible income alongside consideration of increases based on national indexes, comparison with neighbours or set percentage per annum. Market forces may not always lead to an increase in price and the corporate ambition for quality services will always be a consideration.

Concessions

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The council offers a range of concessions primarily linked to tourism and leisure activities which are regularly tendered to achieve best value through a balance of quality and price. Tenders are not based on price alone with a significant quality element to ensure that the offer is consistent with the high standard of provision associated with Fylde Council and reflected in the vision for our tourism offer. All activities that can be operated as concessions will be subject to market testing with direct delivery through council resources appropriately challenged and tested.

A Commercial Approach

EMBEDDED PRACTICE / PROCESS	OBJECTIVE	RESPONSIBILITY
All leased assets and current subsidies regularly reviewed to ensure efficiency and maximum value for money (quality and price)	To ensure that the maximum value for money is achieved from assets	Estates
Review all income streams to ensure maximum returns / best price is achieved – part of the annual budget procedure	To ensure that the maximum value for money is achieved from assets	Service Managers
Explore service delivery options including external commissioning and joint or shared delivery – at least once every two years as part of continuous service review	To ensure that services deliver value for money	Service Managers
Establish comprehensive economic data sets to inform investment decisions	Ensure decisions are made based on the best available information	Economic Development
Develop town centre strategies & vision that reflect the unique selling points in Fylde	Enable commercial ventures to develop and inform opportunities	Town Centre Manager
Embed a commercial culture in the organisation – a commercial mind-set, through workshops, experience, and examples	Develop the required approach and attitude to identify and implement commercial opportunity	Service Managers

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