



# **Fylde Council**

## Commercial Strategy

## **The Background**

As local authorities move towards 2020 and the need to be self-sufficient a more commercial approach is required, this strategy outlines the approach Fylde will be taking to introduce a commercial approach. There are already excellent examples in Fylde Council of commercial cost saving initiatives, including; re-commissioning of services, effective re-letting of contracts, re-negotiating arrangements to realise increased income, and reviewing specifications to achieve more for less. However, these measures tinker at the margins with existing assets or income streams and will not be enough to deliver a self-sufficient council by 2020.

Fylde Council's Commercial Strategy aims to introduce commercialisation wherever possible in the organisation including; service reviews and 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. The direction set out in the [Corporate Plan 2016-2020](#) and Medium Term Financial Strategy is for the Council to achieve a financially self-sufficient position. The Corporate Plan 'value for money' priority identifies the need for an investment strategy that will generate sustainable income streams which will be used to fund the delivery of council services, this strategy delivers the Corporate Plan objectives.

## **The Vision**

The vision is for Fylde Council to become an innovative and entrepreneurial authority that achieves a positive financial contribution to the revenue stream driven by efficiencies through trading and business process improvement. Local services will be financially sustainable and revenue streams will generate sufficient funds to invest in priority outcomes.

The primary objective is to generate income in excess of returns that can be achieved from treasury management that will contribute to the revenue account for the delivery of services, this includes:

- 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 maximum return

Commercial investment will complement, but not replace, investment in public realm which enhances community facilities and contributes towards footfall and desirability 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 / income to the council's revenue stream would need to be considered on merit against the corporate objectives and approved in accordance with existing procedures within constitutional arrangements. Any interventionist initiative designed to stimulate the private sector must be supported by evidence that demonstrates the wider economic value of the investment.

Employees are responsible for actively seeking out potential for reviewing services and revenue opportunities developing an approach for being commercially aware, willing, and able.

## **The Drivers**

Fylde has been managing the ongoing reduction in the government support grant and long term low interest rates resulting in a low return on treasury investments. The Council is required to achieve a self-sufficient position by 2020 and it is highly likely that Government will continue to restructure financial arrangements so that the funding for Local Government is paid for by local taxation and other means of localised income generation.

The Revenue Support Grant will be withdrawn which has triggered the requirement to be self-sufficient, it is essential that the Council develops a proactive approach to the growth of its revenue base, the opportunity to generate greater income from investing in appropriate property assets, developing existing services, marketing, sponsorship and advertising will significantly contribute to financial self-sufficiency.

The following key drivers have informed the development of this strategy:

- The need to be self-sufficient by 2020
- The ambition to stimulate economic activity on the high street
- The ambition to maximise revenue from new and existing income streams
- The need to deliver a greater financial return from reserves
- The ambition to maximise the efficiency of every service area
- The need to generate capacity to redirect resources to corporate priorities

The strategy will deliver key outcomes for the Borough including:

- An improved economic and financial return for the Council
- Increased economic activity and employment in the borough
- Increased business rate income
- Delivery of the objectives within the [Corporate Plan 2016-2020](#)

A commercial approach will be applied to every services through process re-engineering at every opportunity to ensure that the most efficient means of service delivery at any given time is in place. Existing services, including statutory internal services will have the potential to create capacity that can be diverted to support commercial opportunities and corporate priorities.

### **Creating a Commercial Environment**

Careful consideration will be given to create the right environment to nurture innovative commercial ideas and develop them into robust project proposals including:

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

For a commercial approach to be embedded in every service area it will be necessary to develop the skill set and attitude required to identify appropriate opportunities, operate with maximum efficiency and focus on surplus, profit, productivity or capacity, traditional public sector thinking and behaviour will not deliver a commercial approach.

### **Assessing Opportunities**

Commercial opportunities will be assessed through a formal process designed to identify potential viable proposals, with support to further develop ideas and the resources to deliver viable options. Initial proposals will be discussed informally to determine suitability or fit with the corporate objectives, opportunities that are compatible will have an outline business case covering risk, cost and resource implication, if the proposal is viable at this stage a full business case will be taken to Management Team for approval and the authority to proceed.

Project proposals will be assessed against set criteria at each stage of the process, with a high level appraisal at the outline stage, to determine whether to take a project through to a full business case assessment. Proposed 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 the parameters agreed in the commercial policy? 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?

## Property Investment

The majority of local authority commercial income is generated from property investment, it is a significant element of almost all commercial strategies. 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 main stream 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.
- 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 their financial stability.

Based on the best practice considerations outlined above and taking into account the Fylde coast local market conditions, a suggested lot size starting at £1m is recommended, this would 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 be seeking the best balance between risk and return.

An income yield in excess of 5% (after management costs) should be the minimum entry requirement for consideration as a viable proposal. Opportunities should be sought that have the potential to increase rental income above that which is currently being realised. A limited number of opportunities that include the potential for innovative development should also be considered. All proposals must have evidence to demonstrate the potential to deliver an additional return on investment in the short to medium term.

Sites that are 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.

It is proposed that external specialist property investment advisors are retained on proposed transactions that are approved, advising on suitability having undertaken detailed pre purchase due diligence, including valuation, risk analysis and lease or title reviews.

This approach will be reviewed on at least an annual basis, including a review of ongoing resource requirements, as the property investment portfolio grows.

### Pricing

The pricing of council goods and services will be structured to achieve maximum profit or surplus where this is lawful to do so. Officers will take a market led approach to price setting based on demand using market analysis to establish the best possible as opposed to increases based on national indexes, comparison with neighbours or set percentage per annum regardless of any other factors.

### The Commercial Investment Action Plan 2018-2019

OPPORTUNITY / ACTION	RESPONSIBILITY
Review all leased assets and current subsidies to ensure efficiency and maximum value for money (sweat assets and maximise income)	Estates
Review and challenge all income streams to ensure maximum returns / best price is achieved	Service Managers
Examine the capacity to establish service packages that can be charged for i.e. legal services, parks, operational activities	Service Managers
Develop an options appraisal to be included as part of every service review to test the external market, where possible	Service Managers
Establish effective engagement with Enterprise Zone projects, Blackpool airport and sub regional economic development	Joint Committee
Explore shared budget options with LCC in particular health and wellbeing initiatives	Partnership Team
Establish a comprehensive <a href="#">profile of the local economic position</a> to inform investment decisions	Corporate Services
Consider opportunities through the <a href="#">One Public Estate initiative</a> that can make better use of public assets on the Fylde Coast	Estates
Investigate the option / opportunity of investing in strategic assets that would act as a stimuli to the local economy	Estates
Develop town centre strategies / vision that reflect the unique selling points to make it easier for commercial ventures to develop	Planning Policy

This is a test