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To: Chair & Members of the Council

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Monday, 23 January 2023

Dear Councillor

COUNCIL

You are hereby summoned to attend a meeting of the Council of the Bolsover District Council to be held in the Council Chamber, The Arc, Clowne on Wednesday, 1st February, 2023 at 10:00 hours.

Register of Members' Interests - Members are reminded that a Member must within 28 days of becoming aware of any changes to their Disclosable Pecuniary Interests provide written notification to the Authority's Monitoring Officer.

You will find the contents of the agenda itemised on page 3 onwards.

Yours faithfully

J. S. Fieldsend

Solicitor to the Council & Monitoring Officer

Equalities Statement

Bolsover District Council is committed to equalities as an employer and when delivering the services it provides to all sections of the community.

The Council believes that no person should be treated unfairly and is committed to eliminating all forms of discrimination, advancing equality and fostering good relations between all groups in society.

Access for All statement

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- **Phone:** 01246 242424
- **Email:** enquiries@bolsover.gov.uk
- **BSL Video Call:** A three-way video call with us and a BSL interpreter. It is free to call Bolsover District Council with Sign Solutions, you just need WiFi or mobile data to make the video call, or call into one of our Contact Centres.
- Call with Relay UK - a free phone service provided by BT for anyone who has difficulty hearing or speaking. It's a way to have a real-time conversation with us by text.
- **Visiting** one of our offices at Clowne, Bolsover, Shirebrook and South Normanton

COUNCIL
AGENDA

Wednesday, 1st February, 2023 at 10:00 hours taking place in the Council Chamber, The Arc, Clowne

Members are requested to stay at the conclusion of the Council meeting for a briefing on the proposed changes to the National Planning Policy Framework (NPPF)

COUNCIL

Minutes of a meeting of the Bolsover District Council held in the Council Chamber, The Arc, Clowne on Wednesday, 7 December 2022 at 10:00 hours.

PRESENT:-

Members:-

Councillor Tom Munro in the Chair

Councillors Rita Turner, Derek Adams, Rose Bowler, Anne Clarke, Nick Clarke, Jim Clifton, David Dixon, Maxine Dixon, David Downes, Steve Fritchley, Ray Heffer, Andrew Joesbury, Chris Kane, Duncan McGregor, Clive Moesby, Sandra Peake, Peter Roberts, Liz Smyth, Janet Tait, Deborah Watson, Jen Wilson and Hinman.

Officers:- Karen Hanson (Chief Executive), Grant Galloway (Executive Director of Strategy and Development/Chief Executive – Dragonfly Developments), Jim Fieldsend (Assistant Director & Monitoring Officer), Theresa Fletcher (Section 151 Officer), Steve Brunt (Assistant Director – Streetscene) and Amy Bryan (Governance and Civic Manager).

CL67-22/23 APOLOGIES FOR ABSENCE

Apologies for absence were received on behalf of Councillors Allan Bailey, Dexter Bullock, Paul Cooper, Tricia Clough, Mary Dooley, Donna Hales, Natalie Hoy, Tom Kirkham, Evonne Parkin and Graham Parkin.

CL68-22/23 DECLARATIONS OF INTEREST

There were no declarations made at the meeting.

CL69-22/23 CHAIR'S ANNOUNCEMENTS

The Chair welcomed Councillor Mark Hinman to the Council, following his election on 17th November 2022.

The Chair reported that Dan Salt was no longer a Member of the Authority as Section 85 of the Local Government Act 1972 had been automatically applied. It was reported that given the timescales there was no requirement to hold a by-election and a vacancy would be held until May 2023.

The Chair permitted Councillor McGregor to ask a question of the Leader of the Council. Councillor McGregor asked if the Leader of the Council wished to express the views of the Council to the local MP regarding the proposal for the East Midlands Combined County Authority, which was currently being consulted on. Councillor Steve Fritchley, Leader of the Council, explained that North East Derbyshire District Council had recently debated the issue and he had been asked to write to the local MP to express an objection to the proposal and to ask the MP to vote against the proposals in parliament. It was agreed that the Leader of the Council would write to the MP for Bolsover regarding the

Council's objections to the East Midlands Combined County Authority proposals.

CL70-22/23 MINUTES - 5TH OCTOBER 2022

Moved by Councillor Ray Heffer and seconded by Councillor Chris Kane
RESOLVED that the minutes of a meeting of Council held on 5th October 2022 be approved as a true and correct record.

CL71-22/23 MINUTES - 2ND NOVEMBER 2022

Moved by Councillor Tom Munro and seconded by Councillor Nick Clarke
RESOLVED that the minutes of a special meeting of Council held on 2nd November 2022 be approved as a true and correct record.

CL72-22/23 OVERVIEW AND SCRUTINY ANNUAL REPORT 2021/22

Council considered a report presented by Councillor Rose Bowler on behalf of Scrutiny Chairs which provided an update on the work of the Scrutiny Committees for 2021/22. The Overview and Scrutiny Annual Report 2021/22 was appended to the report.

The annual report provided an overview of the core activity for each of the Committees and detailed some of the impact of work completed during the year. It also detailed that it had been the first year that the Audit and Corporate Overview Scrutiny Committee had existed, following a combination of the former Audit Committee and Budget Scrutiny Committee. As this Committee was new, feedback regarding the impact of this Committee could be made to the Scrutiny and Elections Officer.

Moved by Councillor Derek Adams and seconded by Councillor Rose Bowler
RESOLVED that (1) the Annual Scrutiny Report be noted;

(2) any feedback regarding the conduct and impact of the Audit & Corporate Overview Scrutiny Committee, as part of the Council's Improvement Plan, be made to the Scrutiny and Elections Officer.

CL73-22/23 PROPORTIONALITY AND APPOINTMENTS TO COMMITTEES AND ADVISORY GROUPS

The Assistant Director & Monitoring Officer presented a report to make amendments to the appointment of Members to the Council's Committees and Advisory Groups for the 2022/23 Municipal Year following a by-election and a change to the Council's political groups affecting proportionality.

It was moved by Councillor Tom Munro and seconded by Councillor Duncan McGregor
RESOLVED that (1) Councillor Peter Roberts be removed from the membership of the Audit and Corporate Overview Scrutiny Committee;

(2) Councillors Nick Clarke and Mark Hinman to appointed to the Audit and Corporate Overview Scrutiny Committee.

(Assistant Director & Monitoring Officer)

CL74-22/23 EXCLUSION OF THE PUBLIC

Moved by Councillor Ray Heffer and seconded by Councillor Tom Munro
RESOLVED that under Section 100(A)(4) of the Local Government Act 1972 (as amended), the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in the stated Part 1 of Schedule 12A of the Act and it is not in the public interest for that to be revealed. [The category of exempt information is stated after each Minute].

CL75-22/23 KERBSIDE WASTE RECYCLING SERVICE UPDATE EXEMPT PARAGRAPHS 1, 2 AND 3

Council considered a report presented by the Portfolio Holder for Environmental Health and Licensing, Councillor Deborah Watson, which provided an update on the performance of the Council's kerbside waste recycling service following changes made to bring the service in-house in February 2021. The report provided an update on the performance progress of the service and details of future management and support arrangements.

Moved by Councillor Deborah Watson and seconded by Councillor Andrew Joesbury
RESOLVED that the performance of the kerbside recycling service since it was brought in-house along with the anticipated future growth, demands and changes to the service, be noted.

CL76-22/23 CHAIRMAN'S CLOSING REMARKS

The Chair thanked Members for their attendance and closed the meeting.

The meeting concluded at 10:27 hours.

Bolsover District Council

Council

1st February 2023

MEDIUM TERM FINANCIAL PLAN 2023/24 to 2026/27

Report of the Portfolio Holder for Finance

Classification	This report is public
Report By	Assistant Director of Finance and Resources
Contact Officer	Assistant Director of Finance and Resources Theresa Fletcher 01246 242548 theresa.fletcher@bolsover.gov.uk

PURPOSE / SUMMARY

To seek approval of the proposed budget 2023/24 for the General Fund, Housing Revenue Account and Capital Programme as part of the Council's Medium Term Financial Plan covering the years 2023/24 to 2026/27.

To provide Elected Members with an overview of the Council's financial position in order to inform the decision making process.

REPORT DETAILS

1 Introduction

1.1 This report presents the following budgets for Members to consider:

- General Fund – Appendix 1 and 2
- Housing Revenue Account (HRA) – Appendix 3
- Capital Programme – Appendix 4

In particular financial projections are provided for:

- 2022/23 Current Budget Position – this is the current year budget, revised to take account of changes during the financial year that will end on 31st March 2023.

- 2023/24 Original Budget – this is the proposed budget for the next financial year, on which the Council Tax will be based, and will commence from 1st April 2023.

- 2023/24 Original Budget, this includes proposed increases to rents and fees and charges for the next financial year for the Housing Revenue Account.

- 2024/25 to 2026/27 Financial Plan – In accordance with good practice the Council agrees its annual budgets within the context of a Medium Term Financial Plan (MTFP). This includes financial projections in respect of the next three financial years.

1.2 This report and the appendices were considered by Audit and Corporate Overview Scrutiny Committee at its meeting on 24th January 2023 and by Executive at its meeting on 30th January 2023.

General Fund

2022/23 Current Budget

1.3 In February 2022, Members agreed a budget for 2022/23 to determine Council Tax. The original budget showed a funding deficit of £0.082m. Throughout the year budgets have been actively managed with savings removed from the budget once they have been agreed.

1.4 The Revised Budget was considered by Executive at its meeting on the 5th December 2022 and by the Audit and Corporate Overview Scrutiny Committee at its meeting on 29th November. There have been no changes to the budget position since this time. The revised budget funding gap is the planned use of the general fund balance for 2022/23 as agreed in 2020/21 of £0.082m.

1.5 The final in-year position will be dependent on the actual financial performance out-turning in line with the revised budgets as there may be further costs and/or savings identified as the year progresses. Whilst these estimates reflect the position at the time of setting there can be some volatility from the budget to the outturn position, especially this year with inflation being as unpredictable as it currently is.

1.6 It was agreed that any surplus on the Council's two main revenue accounts be transferred to reserves in preparation for future expenditure and to protect services at a time of declining central government support.

2023/24 Original Budget and 2024/25 to 2026/27 Financial Plan

1.7 The financial projection for 2023/24 to 2025/26 was approved by Members in February 2022. The 2022/23 budget process has updated those projections and established a base for 2026/27.

1.8 The proposed budget for 2023/24 is a deficit of £0.018m. As in 1.4 above, this is the planned use of the general fund balance as approved in 2020/21. Based on current information, where there is a shortfall in funding for a particular year, that shortfall can be met from within the NNDR Growth Protection Reserve as discussed in paragraphs 1.29 – 1.33 of this report. The financial summary for each year of the MTFP is shown in **Appendix 1**. **Appendix 2** details the net cost of each cost centre by Directorate.

1.9 Table 1 below shows the updated figures resulting from the budget process together with estimates of future basic Council Tax increases. At this stage none of this income is realised and is therefore not yet included in our budgets.

Table 1

	2022/23 Revised Budget £000	**2023/24 Forecast £000**	**2024/25 Forecast £000**	**2025/26 Forecast £000**	**2026/27 Forecast £000**
Current Budget Shortfall	**82**	**18**	**0**	**0**	**0**
Pension costs to be funded by GF balance	(82)	(18)	0	0	0
Basic assumption for future Council Tax increases	0	(131)	(245)	(359)	(473)
Closing Budget Surplus	**0**	**(131)**	**(245)**	**(359)**	**(473)**

1.10 The main factors taken into account in developing the Council's financial plans are set out within the sections below.

Level of Government Funding

1.11 The current financial year 2022/23, was another roll-over settlement. Every Spending Review since 2019/20 has effectively been a roll-over of the four-year settlement that covered the period 2016/17 – 2019/20.

1.12 It was thought when the Chancellor announced the Autumn Statement in November 2022 that the Spending Review 2022 (SR22) would cover both 2023/24 and 2024/25. The Statement made no mention of the Fair Funding Review, nor did it give detail on New Homes Bonus or the Business Rates Reset. It was anticipated this may be part of the provisional settlement.

1.13 However, the provisional local government finance settlement announced on December 19th was a one-year settlement for 2023/24 only. There were no projected or indicative numbers for 2024/25 in lots of areas (although some were given). Therefore, the SR22 is again effectively a roll-over settlement and we have had to make assumptions for some areas in 2024/25 and beyond because they weren't covered by the provisional settlement.

1.14 As previously discussed many times, the early indicative results of the Fair Funding Review; the abolition of New Homes Bonus; the fundamental review of Business Rates and the baseline reset of Business Rates were all detrimental to us as a district Council who has seen much growth in recent years, both in business rates and New Homes Bonus grant. The removal of these funding streams will have a major effect on our financial position. For this reason a delay in their implementation in their current form is not a bad thing for us. However, it does make it difficult to estimate future funding levels when there is so much uncertainty surrounding them.

1.15 A policy statement from 12th December 2022, announced the key principles that ministers intended to use in the provisional settlement, and they do remain unchanged in the provisional settlement. The provisional settlement is the best in cash terms that local government has received for many years with those responsible for adult social care doing particularly well.

1.16 The following paragraphs show our government funding for 2023/24 from what we have been told in the provisional settlement and the assumptions we have had to make for future years:

New Homes Bonus

1.17 We have been waiting for the results of the government's consultation on the future of New Homes Bonus Grant for at least four years. It is widely expected that the grant will be abolished but it is not yet known what, if anything, will replace it.

1.18 For 2023/24 we have received a roll-over of the current approach to New Homes Bonus with the delay of its abolition and a new allocation based on our property numbers. We have been able to include an extra £0.678m in grant income for 2023/24.

1.19 For 2024/25 we have assumed the same amount of grant will be received but that this will be the last year that New Homes Bonus will be received. This is based on commentary from our local government finance funding advisors about the expected timing of the results of the New Homes Bonus review.

Fair Funding Review

1.20 It is likely the wider local government reforms are now not going to be implemented until 2025/26 at the earliest. It is still not known with any clarity what the impact of the Fair Funding Review will be. Initial modelling showed that the recalculated Settlement Funding Assessment (SFA) was redirecting resources to those based on 'need' which would impact negatively on most shire districts. However, there does seem to be some growing acknowledgement that authorities such as us with a low tax base, would lose out significantly under this method and particularly if changes to business rates were brought in as planned, at the same time.

1.21 With the lack of any concrete figures for the likely impact of the Fair Funding Review we have once again not been able to attribute a value in our MTFP to any changes. Some commentators have even questioned whether the Fair Funding Review will be part of any changes to the funding of local government or whether it is just too complicated to implement. Whatever changes occur there is likely to be some years where damping payments would be paid to ensure authorities were eased into the new funding and for us that might be as much as £2m for each of the first 2 years.

Business Rates

1.22 The figures in the MTFP for Business Rates have been updated for the latest assumptions around likely changes to our baseline funding level information, tariff amounts and the impact of a business rate reset. The assumption is that there will not be any changes to the current system until at least 2025/26 as mentioned above.

1.23 This has resulted in considerable additional income for all future years of the MTFP. It has been assumed 2025/26 is the year when the reset occurs and the income slowly increases each year as we build back the growth lost from the reset. No growth in these business rates figures has been included in any year to protect against further negative adjustments.

Revenue Support Grant

1.24 The roll-over settlement has meant a further few years of receiving Revenue Support Grant. We will receive £1.473m in this first bonus year of receiving the grant and £1.582m in 2024/25. We have assumed the grant will reduce and no longer be received after 2026/27.

Lower Tier Services Grant

1.25 This grant was introduced in 2021/22 to provide damping to authorities with cash-terms reductions in Core Spending Power. It provided additional funding to District Councils who lost the most from the reduction in New Homes Bonus and gained the least from new grant increases and Council Tax increases. This grant has not continued into 2023/24.

2022/23 Services Grant

1.26 This was introduced for 2022/23 and was meant to be a one-off grant to support all services delivered by Councils. This was distributed to every authority using the 2013/14 SFA. This grant has continued into 2023/24 and 2024/25. The amount we are able to include as extra income for each of these years is £0.114m. Nothing has been included for future years.

3% Funding Guarantee Grant

1.27 The Funding Guarantee grant effectively replaces an element within the Lower Tier Services Grant and it ensures that no authority has a Core Spending Power increase of less than 3% without having to increase their Band D Council Tax. For 2023/24 only, we have been allocated £0.041m. This shows that damping as discussed earlier, is a policy intention of the government in the settlement.

1.28 To summarise, the Spending Review 2022 represented the largest increase in Core Spending Power that local government has received for more than a decade. This does depend however, on Council Tax increases being implemented at the maximum level allowed. Districts have the smallest average increase in the Core Spending Power at only 5% and the increase in government funding is only just larger than the increase we're allowed to increase Council Tax by.

Mitigating Losses in Government Funding

1.29 To help mitigate losses caused by funding changes the NNDR Growth Protection Reserve was created a number of years ago. Originally this included transfers of income from the general fund when Business Rates income calculations were updated for new growth.

1.30 This meant income received would be more than initially estimated for that year and the extra amount to be received would be transferred into the reserve, almost as a savings account to be returned back to the general fund when income was reduced in future years.

1.31 In recent years extra income received from all sources of government funding mentioned above have been transferred into the reserve if the budget for that year has already been in surplus when the extra funding has been realised.

1.32 The balance accumulated has meant we are able to use the reserve to even-out most of the government funding losses over the life of the current MTFP. A transfer from general fund to the reserve will be made in 2024/25 of £0.354m. Latest estimates for transfers back to the general fund are £0.275m 2023/24; £2.829m 2025/26 and £2.971m in 2026/27. This leaves a balance in the reserve of £4.607m for future years.

1.33 When savings are found from elsewhere or extra income is earned, the transfers from the reserve will be reduced.

Expenditure, income levels and efficiencies

1.34 In developing the financial projections covering the period 2023/24 to 2026/27, officers have made a number of assumptions. The major assumptions are:

- For 2023/24, 5% has been included in staffing budgets as an estimate for a pay award. For 2024/25 to 2026/27, 2% has been included.

- Investment income as a result of treasury management decisions has been increased in all years of the MTFP as interest rates continue to rise. Current rates are 3.50% and it is thought they are not yet at their peak. Commentators are estimating it will be late 2024 before rates begin to fall. This is the assumption we have used for our investment income levels.

- Inflation specific budgets such as energy costs and fuel have been amended to reflect anticipated price changes. We are estimating continued high prices throughout the 2023/24 financial year with a reduction in prices for future years, still above the original level for 2021/22 but in line with the 2022/23 level.

- The Local Government Pension Scheme (LGPS) actuarial valuation was carried out at 31 March 2022. The results for the Derbyshire Pension Fund show an increased funding position. This has meant the deficit payment of £0.962m per year is no longer necessary but to ensure the fund continues to meet the needs of future pensioners, the contribution rate has been increased by the Pension Fund for employers from 14.9% to 20.8%. This currently makes no significant difference to us because the amounts are very similar and net each other off but should we suddenly get a tranche of new employees joining the scheme, we would face additional costs.

- With respect to planning fees, a base level for income has been included in the MTFP for all future years of £0.400m. The rules of the government's 20% increase to planning fees means we have to set-aside the additional 20% income we receive, to be spent specifically on the planning function.

- Fees and charges – service specific increases as agreed by Members.

Council Tax Implications

Council Tax Base

1.35 In preparation for the budget, the Chief Financial Officer under delegated powers has determined the Tax Base at Band D for 2023/24 as 22,900.72. This is an increase on the 2022/23 Tax Base.

Council Tax Options

1.36 The Council's part of the Council Tax bill in 2022/23 was set at £191.28 for a Band D property. This was an increase of 2.68%

1.37 The Council has a range of options when setting the Council Tax but in calculating our funding allocation in the settlement, the government will assume we will increase Council Tax by the maximum allowed. The government indicate what upper limit they consider acceptable. For 2023/24 District Councils are permitted to increase their share of the Council Tax by the greater of 3% or £5 without triggering the need to hold a referendum.

1.38 The table below shows some of the options and the extra revenue generated.

Increase	New Band D £	Annual Increase £	Weekly Increase £	Extra Revenue £
2.00%	195.10	3.83	0.07	87,545
2.61%	196.28	5.00	0.10	114,441
2.99%	197.00	5.72	0.11	130,911

1.39 The level of increase each year affects the base for future years and the proposed increase for 2023/24 is 2.99%, generating additional revenue of £130,911. This ensures we do not accidentally trigger a referendum.

1.40 Members will recall that in our Medium Term Financial Strategy (MTFS) approved in August 2022, we have the strategic intention '*to raise Council Tax by the maximum allowed in any given year, without triggering a Council Tax referendum, to endeavour to continue to deliver services'.*

Financial Reserves – General Fund

1.41 The Council's main uncommitted Financial Reserves are the General Fund Working Balance of £2.001m, the uncommitted element of the Transformation

Reserve of £0.313m and the NNDR Growth Protection Reserve which has a balance of £4.607m after being used to fund the current MTFP. Due to the uncertainty surrounding local authority income and the fact that the Council has reduced budgets to a minimal level, it is important that the Council continues to review whether we have an acceptable General Fund Working Balance.

Housing Revenue Account (HRA)

2022/23 Current Budget

1.42 In February 2022, Members agreed a budget for 2022/23. Rent levels were set in line with government regulations with an increase of 4.1%, effective from 1st April 2022. HRA fees and charges were also set, effective from the same date.

1.43 The Revised Budget was considered by Executive at its meeting on the 5th December 2022 and by the Audit and Corporate Overview Scrutiny Committee at its meeting on 29th November. There have been no changes to the budget position since this time.

1.44 The HRA was in balance with neither a surplus or deficit estimated, which was in-line with the current budget.

2023/24 Original Budget and 2024/25 to 2026/27 Financial Plan

1.45 The proposed budget for 2023/24 currently shows the use of the HRA balance of £0.250m, this includes the planned use of the balance to cover the pension amount of £0.039m. Based on current information the position for 2024/25 is a contribution to the HRA balance of £0.211m and a transfer to HRA reserves of £0.500m. For future years there is a transfer to HRA reserves of £0.936m in 2025/26 and £1.380m in 2026/27 (**Appendix 3**). The proposal is to transfer any surplus that arises over these amounts into the HRA Revenue Reserve in all years.

1.46 The HRA budget is made up of the same assumptions as the General Fund budget for staff costs, superannuation costs and inflation. There are however, some assumptions that are specific to the HRA. The main factors taken into account in developing the Council's financial plans for the HRA are set out within the sections below.

<u>Level of Council Dwelling Rents</u>

1.47 On the 17th November 2022 when the Chancellor announced the Autumn Statement, included was the instruction that rents for social housing would be capped at 7% for 2023/24. This followed a government consultation during the summer on the affordability for Councils of a 5% rent cap, after the current government arrangements for rents to rise by Consumer Price Index (CPI) plus 1%, would've meant increases of around 11% for tenants, which was clearly likely to be unaffordable to most.

1.48 After careful consideration and in order to keep the HRA sustainable in light of the extra cost pressures, it is proposed to increase the income for dwelling rents by 5% for 2023/24 and this has been included in the budget. For future years it is unknown whether the government will revert back to the Department for Levelling Up, Housing and Communities (DLUHC) Policy Statement on rents for social housing where CPI plus 1% is used. It has therefore felt appropriate to only include 2% as an estimate of the increase in income for the final 3 years of the MTFP.

1.49 The table below shows the average rent increases on a 52 week basis, excluding service charges, for both Social Rent and Affordable Rent, which is charged on all new build properties.

Increase	New Rent Charge	Annual Increase	Weekly Increase	Range of New Rent Charge
5%	£86.14	£213.20	£4.10	£62.42 - £112.13
Average for Social Rent on a 52 week basis				
5%	£115.46	£286.00	£5.50	£81.21 - £199.78
Average for Affordable Rent on a 52 week basis				

Empty Property Levels - Voids

1.50 It is inevitable during a financial year that there will be occasion when properties are empty and therefore no income will be earned. This could be the gap in the tenancy between one tenant vacating and the next one taking up the property or could be part of a management decision to leave the property empty because it is part of a capital or repair scheme which is soon to commence.

1.51 An estimate of the number of void properties which may occur in each financial year needs to be made so that the dwelling rent income budget can be reduced to reflect this. For 2023/24 to 2026/27 the estimate for voids which has been included in the MTFP is 3%.

Fees and Charges

1.52 Although the main source of income for the HRA is property rents, the HRA is also dependent for its financial sustainability on a range of other charges. These charges are set on the principle that wherever possible charges for services should reflect the cost of providing those services.

1.53 A schedule of the proposed charges is set out at **Appendix 3, table 1**. For 2023/24 in most cases the charges are recommended to be increased by 5%.

Financial Reserves - HRA

1.54 The Council's main uncommitted Financial Reserves are the Housing Revenue Account Working Balance of £2.000m. In addition to the Working Balance there are further reserves for the HRA used only to fund the Council's HRA capital programme. These are the Major Repairs Reserve, New Build Reserve, Vehicle Repair and Renewal Reserve and Development Reserve.

Capital Programme

1.55 There will be three separate reports to Council on 1st February 2023 concerning the Council's Treasury Management Strategy, Investment Strategy and Capital Strategy. The Capital Strategy report will consider capital financing such as borrowing which enables the proposed capital programme budgets to proceed.

2022/23 Current Budget

1.56 In February 2022, Members approved a Capital Programme in respect of 2022/23 to 2025/26. Scheme delays and technical problems can cause expenditure to slip into following years and schemes can be added or extended as a result of securing additional external funding. Where capital expenditure slipped into 2022/23 the equivalent amount of funding was not applied during 2021/22 and is therefore available in 2022/23 to meet the delayed payments.

1.57 The Revised Capital Programme was considered by Executive at its meeting on 5th December 2022 and by the Audit and Corporate Overview Scrutiny Committee at its meeting on 29th November. There have been no changes to the budget position since this time.

General Fund Capital Programme 2023/24 to 2026/27

1.58 The proposed Capital Programme for the General Fund totals £9.990m for 2023/24; £3.494m for 2024/25; £1.251m for 2025/26 and £2.299m for 2026/27 (**Appendix 4**).

Housing Revenue Account Capital Programme 2023/24 to 2026/27

1.59 The proposed Capital Programme for the Housing Revenue Account totals £15.843m for 2023/24; £14.057m for 2024/25; £10.488m for 2025/26 and £5.348m for 2026/27 (**Appendix 4**).

1.60 A list of all the schemes and associated funding are attached as **Appendix 4** to this report.

Robustness of the Estimates – Section 25 Local Government Act 2003

1.61 Under the provisions of the Local Government Act 2003, the Council's Section 151 Officer is required to comment on the robustness of the estimates made and on the adequacy of the financial reserves.

1.62 The Council's Section 151 Officer (The Assistant Director of Finance and Resources) is satisfied that the estimates are considered to be robust, employee costs are based on the approved establishment, investment income is based on the advice of the Council's Treasury Management Advisors and income targets are considered to be achievable.

1.63 Likewise the Section 151 Officer is satisfied that the levels of reserves are considered to be adequate to fund planned expenditure and potential issues and risks that face the Council.

2 Reasons for Recommendation

2.1 This report presents a budget for approval by Council. It seeks to ensure approval to budgets in respect of the General Fund, the Housing Revenue Account and the Capital Programme.

3 Alternative Options and Reasons for Rejection

3.1 Alternative options are considered throughout the report.

RECOMMENDATIONS

1 That in the view of the Chief Financial Officer, that the estimates included in the Medium Term Financial Plan 2023/24 to 2026/27 are robust and that the level of financial reserves whilst at minimum levels are adequate, be accepted.

2 That officers report back to Executive and to the Audit and Corporate Overview Scrutiny Committee on a quarterly basis regarding the overall position in respect of the Council's budgets. These reports to include updates on achieving savings and efficiencies for 2023/24 and future years.

GENERAL FUND

3 A Council Tax increase of £5.72 is levied in respect of a notional Band D property (2.99%).

4 The Medium Term Financial Plan in respect of the General Fund as set out in Appendix 1 of this report be approved as the Revised Budget 2022/23, as the Original Budget in respect of 2023/24, and the financial projection in respect of 2024/25 to 2026/27.

5 That any further under spend in respect of 2022/23 is transferred to the Council's General Fund Reserves.

6 On the basis that income from Planning Fees may exceed £0.500m in 2022/23, the Head of Paid Service in consultation with the Leader be granted delegated powers to authorise such additional resources as are necessary to effectively manage the resultant increase in workload.

HOUSING REVENUE ACCOUNT

7 That Council increases its rent levels by 5% to apply from 1st April 2023.

8 That the increases in respect of other charges as outlined in **Appendix 3 Table 1** be implemented with effect from, 1st April 2023.

9 The Medium Term Financial Plan in respect of the Housing Revenue Account as set out in **Appendix 3** of this report be approved as the Revised Budget in respect of 2022/23, as the Original Budget in respect of 2023/24, and the financial projection in respect of 2024/25 to 2026/27.

10 That under spends in respect of 2022/23 to 2026/27 are transferred to the HRA Revenue Reserve.

CAPITAL PROGRAMME

11 That the Capital Programme as set out in **Appendix 4** be approved as the Revised Budget in respect of 2022/23, and as the Approved Programme for 2023/24 to 2026/27.

12 That the Assistant Director of Property Services and Housing Repairs be granted delegated powers in consultation with the Portfolio Member and the Asset Management group to approve the utilisation of the £260,000 of AMP Refurbishment Work allocation, with such approvals to be reported back to Executive through the Quarterly Budget Monitoring Report.

Approved by Councillor Clive Moesby, Portfolio Holder for Finance

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IMPLICATIONS;

Finance and Risk: **Yes☒** **No ☐**
Details:

The issue of Financial Risks is covered throughout the report.

In addition, the Council has a risk management strategy and associated framework in place and the Strategic Risk Register is regularly reviewed through the Council's performance management framework. Strategic risks along with the mitigation in place to ensure such risks are manageable are reported to the Audit and Corporate Overview Scrutiny Committee on a quarterly basis. The risk of not achieving a balanced budget is outlined as a key risk within the Council's Strategic Risk Register and is therefore closely monitored through these practices and reporting processes.

Similarly the HRA needs to be carefully managed to ensure the HRA continues to be sustainable over the life of the 30 year business plan.

On behalf of the Section 151 Officer

Legal (including Data Protection): **Yes☐** **No ☒**
Details:

The Council is legally obliged to approve a budget prior to the commencement of the new financial year in April 2023. This report together with the associated budget timetable has been prepared in order to comply with our legal obligations.

The recommended budget for the General Fund, Housing Revenue Account and Capital Programme comply with the Council's legal obligation to agree a balanced budget. There are no Data Protection issues arising directly from this report. On behalf of the Solicitor to the Council **<u>Environment:</u>** Please identify (if applicable) how this proposal/report will help the Authority meet its carbon neutral target or enhance the environment. **Details:** Not applicable to this report **<u>Staffing</u>: Yes☐ No ☒** **Details:** These are covered in the main report and supporting Appendices where appropriate. On behalf of the Head of Paid Service

DECISION INFORMATION

Is the decision a Key Decision? A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: **Revenue - £75,000 ☐ Capital - £150,000 ☐** ☒ *Please indicate which threshold applies*	No
Is the decision subject to Call-In? (*Only Key Decisions are subject to Call-In*)	No

District Wards Significantly Affected	None
Consultation: **Leader / Deputy Leader ☐ Executive ☐** **SLT ☐ Relevant Service Manager ☐** **Members ☐ Public ☐ Other ☐**	Details: Portfolio Holder for Finance

Links to Council Ambition: Customers, Economy and Environment.

DOCUMENT INFORMATION	
Appendix No	**Title**
1 2 3 3 table 1 4	General Fund Summary General Fund Detail Housing Revenue Account Summary HRA – Fees and Charges 2023/24 Capital Programme

Background Papers
(*These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Executive you must provide copies of the background papers).*
None

BOLSOVER DISTRICT COUNCIL **APPENDIX 1**

GENERAL FUND

Description	**Revised Budget 2022/23 £**	**Original Budget 2023/24 £**	**Forecast 2024/25 £**	**Forecast 2025/26 £**	**Forecast 2026/27 £**
Resources	11,434,594	6,809,949	6,743,723	6,922,072	7,146,189
Strategy and Development	5,466,727	5,728,634	5,533,375	5,477,678	5,598,554
S106 Expenditure					
Resources	680,095	5,976	3,609	0	0
Strategy and Development	789,908	0	0	0	0
Net Cost of Services	**18,371,324**	**12,544,559**	**12,280,707**	**12,399,750**	**12,744,743**
Debt Charges	571,856	635,134	620,780	617,361	590,511
Investment Interest	(867,955)	(917,432)	(641,664)	(531,924)	(529,438)
Appropriations:					
Contributions to Reserves	1,729,500	1,661,746	1,728,667	523,667	493,667
Contribution from Earmarked Reserves	(3,434,756)	(255,033)	(184,727)	(130,588)	(80,935)
Contribution (from)/to NNDR Growth Protection Reserve	2,043,000	(274,591)	353,648	(2,828,562)	(2,970,860)
Contribution from Grant Accounts	(5,820)	(5,720)	(5,720)	(5,720)	(5,720)
Contribution from Revenue Grants	(8,517,568)	0	0	0	0
Contribution (from)/to Holding Accounts	(292,546)	(184,902)	(213,035)	(118,005)	(62,518)
Contribution from S106 Holding A/cs	(1,470,003)	(5,976)	(3,609)	0	0
TOTAL EXPENDITURE	**8,127,032**	**13,197,785**	**13,935,047**	**9,925,979**	**10,179,450**
Parish Precepts	3,645,990	3,645,990	3,645,990	3,645,990	3,645,990
TOTAL SPENDING REQUIREMENT	**11,773,022**	**16,843,775**	**17,581,037**	**13,571,969**	**13,825,440**
Revenue Support Grant	(1,231,521)	(1,473,016)	(1,582,000)	(377,000)	(347,000)
Business Rates Retention	(6,284,330)	(6,549,986)	(7,181,029)	(5,168,529)	(5,452,000)
Business Rates deficit due to Covid reliefs	1,940,350	0	0	0	0
New Homes Bonus Grant	(703,263)	(677,892)	(677,892)	0	0
Lower Tier Services Grant	(131,270)	0	0	0	0
2022/23 Services Grant	(201,739)	(113,676)	(113,676)	0	0
Funding Guarantee Grant	0	(40,837)	0	0	0
COUNCIL TAX - BDC precept	(4,292,893)	(4,380,450)	(4,380,450)	(4,380,450)	(4,380,450)
Council tax - Parish element from above	(3,645,990)	(3,645,990)	(3,645,990)	(3,645,990)	(3,645,990)
Council Tax Collection Fund (Surplus)/Deficit	(86,597)	0	0	0	0
Council Tax spread of 20/21 Covid loss	56,416	56,416	0	0	0
COVID-19 Related Support	2,889,884	0	0	0	0
TOTAL FUNDING	**(11,690,953)**	**(16,825,431)**	**(17,581,037)**	**(13,571,969)**	**(13,825,440)**

BOLSOVER DISTRICT COUNCIL **APPENDIX 1**

GENERAL FUND

Description	Revised Budget 2022/23 £	Original Budget 2023/24 £	Forecast 2024/25 £	Forecast 2025/26 £	Forecast 2026/27 £
FUNDING GAP / (SURPLUS)	**82,069**	**18,344**	**0**	**0**	**0**

APPENDIX 2

List of General Fund net budgets per cost centre per directorate

		Revised Budget 2022/23	Original Budget 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27
		£	£	£	£	£
G001	Audit Services	133,565	134,378	135,340	134,911	134,911
G002	I.C.T.	997,087	1,115,654	1,116,819	1,124,734	1,131,397
G007	Community Safety - Crime Reduction	65,097	72,148	73,767	75,414	77,093
G010	Neighbourhood Management	71,782	74,026	75,461	76,193	76,932
G013	Community Action Network	317,859	359,304	374,618	382,532	390,605
G014	Customer Contact Service	807,584	889,970	913,728	936,725	956,825
G017	Private Sector Housing Renewal	77,449	89,485	92,136	94,426	96,024
G018	Environmental Health Covid Team	40,617	117	117	117	117
G020	Public Health	(70,000)	(70,000)	(70,000)	(70,000)	(70,000)
G021	Pollution Reduction	249,713	245,679	254,661	261,817	266,778
G022	Env Health - Health + Safety	(239)	0	0	0	0
G023	Pest Control	54,399	36,278	37,638	38,681	41,255
G024	Street Cleansing	364,440	406,533	414,658	424,430	428,211
G025	Food, Health & Safety	125,121	132,740	137,090	141,605	143,712
G026	Animal Welfare	91,076	103,051	107,030	109,555	112,147
G028	Domestic Waste Collection	1,098,030	1,221,190	1,263,129	1,272,577	1,317,777
G030	Street Trading	(452)	0	0	0	0
G032	Grounds Maintenance	847,881	993,334	1,023,087	1,049,823	1,075,012
G033	Vehicle Fleet	1,152,961	1,106,368	1,139,135	1,168,793	1,191,711
G036	Environmental Health Mgmt & Admin	280,841	290,627	297,353	301,521	305,224
G038	Concessionary Fares & TV Licenses	(11,387)	(11,603)	(11,823)	(12,047)	(12,276)
G040	Corporate Management	183,881	227,667	233,683	234,688	241,066
G041	Non Distributed Costs	647,737	278,371	278,371	278,371	278,371
G043	Director of Resources	146,256	157,567	155,973	159,109	162,310
G044	Financial Services	334,896	375,575	374,928	382,114	390,593
G046	Homelessness	79,889	166,277	169,260	162,346	185,718
G047	Household Support Fund	104,923	0	0	0	0
G048	Town Centre Housing	(10,600)	(10,600)	(10,600)	(10,600)	(10,600)
G053	Licensing	34,411	44,398	48,471	50,847	52,964
G061	Bolsover Wellness Programme	89,737	45,803	51,723	56,281	59,370
G062	Extreme Wheels	(1,075)	4,223	5,506	6,814	8,149
G063	This Girl Can	1,908	0	0	0	0
G064	Bolsover Sport	132,667	158,721	162,204	165,516	168,895
G065	Parks, Playgrounds & Open Spaces	42,402	45,192	49,014	49,789	50,584
G069	Arts Projects	52,408	56,532	57,484	58,454	59,445
G070	Outdoor Sports & Recreation Facilities	53,133	48,071	40,911	41,545	40,147
G072	Leisure Services Mgmt & Admin	267,209	290,609	296,012	300,780	305,644
G097	Groundwork & Drainage Operations	82,042	101,160	103,789	106,375	108,619
G100	Benefits	339,088	426,231	469,659	510,853	547,950
G103	Council Tax / NNDR	379,453	472,614	486,854	506,025	526,287
G105	Council Tax Energy Rebate	5,327,550	0	0	0	0
G106	Housing Anti Social Behaviour	132,163	156,824	162,422	166,513	169,915
G113	Parenting Practitioner	38,822	43,689	44,829	45,987	47,168

APPENDIX 2

List of General Fund net budgets per cost centre per directorate

		Revised Budget 2022/23	Original Budget 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27
		£	£	£	£	£
G117	Payroll	78,583	132,693	138,980	144,010	146,956
G123	Riverside Depot	208,276	291,337	204,437	208,187	212,000
G124	Street Servs Mgmt & Admin	56,346	81,691	84,128	86,145	85,785
G125	S106 Percent for Art	30,985	0	0	0	0
G126	S106 Formal and Informal Recreation	216,971	5,976	3,609	0	0
G135	Domestic Violence Worker	78,404	50,149	51,114	52,094	53,096
G142	Community Safety - CCTV	4,937	2,000	2,000	2,000	2,000
G143	Housing Strategy	59,896	56,999	51,184	47,027	47,938
G144	Enabling (Housing)	41,414	42,266	43,136	44,027	44,938
G146	Pleasley Vale Outdoor Activity Centre	77,034	58,257	54,680	55,409	56,914
G148	Commercial Waste	(161,600)	(162,600)	(163,000)	(163,000)	(163,000)
G149	Recycling	117,277	358,979	374,492	382,907	390,767
G153	Housing Advice	15,107	15,734	16,054	14,625	18,616
G155	Customer Services	34,129	35,048	36,525	37,823	39,596
G161	Rent Rebates	(37,466)	(38,490)	(62,730)	(63,969)	(65,307)
G162	Rent Allowances	17,829	16,019	(9,644)	(18,749)	(27,854)
G164	Support Recharges	(4,810,563)	(5,202,089)	(5,215,482)	(5,333,916)	(5,425,893)
G168	Multifunctional Printers	37,600	37,600	37,600	37,600	37,600
G170	S106 Outdoor Sports	432,139	0	0	0	0
G176	Affordable Warmth	20,426	23,339	23,733	23,934	24,136
G177	Discretionary Housing Payments	20,000	0	0	0	0
G179	School Sports Programme	0	1,600	1,600	1,601	1,600
G182	Community Outreach Programmes	12,879	0	0	0	0
G197	Assistant Director of Finance + Resources	93,070	102,022	104,093	106,201	108,353
G198	Assistant Director of Housing (GF)	34,902	38,235	39,006	39,792	40,593
G199	Assistant Director of Street Scene	87,523	95,853	97,781	99,742	101,744
G228	Go Active Clowne Leisure Centre	197,417	494,104	278,599	333,968	356,936
G229	Housing Standards	(1,325)	0	0	0	0
G239	Housing + Comm Safety Fixed Penalty Acc	175	1,000	1,000	1,000	2,625
	Total for Resources Directorate	**12,114,689**	**6,815,925**	**6,747,332**	**6,922,072**	**7,146,189**
G003	Communications, Marketing + Design	313,483	309,089	318,613	329,094	330,798
G006	Partnership, Strategy & Policy	425,189	427,640	442,542	450,124	455,254
G009	Dragonfly	(2,580)	0	0	0	0
G011	Assistant Director of Leader's Executive Team	86,523	94,853	96,781	98,742	100,744
G012	Community Champions	13,800	1,880	2,019	2,061	2,102
G015	Customer Service + Improvement	130,251	148,693	152,546	155,127	157,317
G016	Skills Audit	15,160	0	0	0	0
G027	Emergency Planning	17,071	17,392	17,720	18,073	18,432
G031	S106 - Biodiversity	14,679	0	0	0	0
G039	Children and YP Emotional Well-being	37,500	50,000	0	0	0
G052	Human Resources	205,017	218,079	224,011	230,937	233,125
G054	Electoral Registration	167,132	177,722	183,721	188,307	190,729
G055	Democratic Representation & Management	532,650	536,556	536,392	536,398	536,404

APPENDIX 2

List of General Fund net budgets per cost centre per directorate

		Revised Budget 2022/23 £	Original Budget 2023/24 £	Forecast 2024/25 £	Forecast 2025/26 £	Forecast 2026/27 £
G056	Land Charges	16,112	20,653	21,775	22,884	24,012
G057	District Council Elections	33,250	53,000	0	0	25,000
G058	Democratic Services	196,358	246,847	257,572	265,592	269,383
G060	Legal Services	383,570	370,252	371,634	383,218	392,269
G073	Planning Policy	337,355	346,738	343,096	307,068	357,136
G074	Planning Development Control	8,219	96,770	107,392	84,602	95,377
G076	Planning Enforcement	103,330	141,818	123,615	110,094	112,282
G077	LGA Housing Advisers Programme (HAP)	25,000	0	0	0	0
G078	LGA Net Zero Innovation Programme (NZIP)	30,000	0	0	0	0
G079	Senior Urban Design Officer	22,384	63,372	64,664	65,979	67,322
G080	Engineering Services (ESRM)	97,506	97,936	102,134	103,441	104,749
G082	Tourism Promotion + Development	39,172	54,766	55,886	57,029	58,194
G083	Building Control Consortium	55,000	55,000	55,000	55,000	55,000
G085	Economic Development	53,387	29,425	29,425	29,425	29,425
G086	Alliance	5,250	5,250	5,250	5,250	5,250
G088	Derbyshire Economic Partnership	15,000	15,000	15,000	15,000	15,000
G089	Premises Development	(60,535)	(66,033)	(69,558)	(69,255)	(68,953)
G090	Pleasley Vale Mills	(153,110)	(158,939)	(154,784)	(152,532)	(150,253)
G092	Pleasley Vale Electricity Trading	(54,000)	(40,000)	(40,000)	(40,000)	(40,000)
G095	Estates + Property	552,026	612,858	629,319	643,960	659,884
G096	Building Cleaning (General)	109,240	114,376	116,481	118,675	116,747
G099	Catering	500	500	500	500	500
G109	Director of Strategy and Development	146,716	158,024	156,430	159,566	162,767
G110	Assistant Director of Development	93,910	97,484	96,778	98,739	100,741
G111	Shared Procurement	40,120	52,452	41,120	51,358	51,622
G114	Strategic Investment Fund	100,000	0	0	0	0
G129	Bolsover Apprenticeship Programme	(4,500)	0	0	0	0
G131	Bolsover Community Woodlands Project	(9,841)	5,852	8,112	10,000	10,000
G132	Planning Conservation	46,418	40,684	47,283	49,792	50,808
G133	The Tangent Business Hub	(39,314)	16,971	(32,899)	(30,839)	(28,744)
G138	Bolsover TC Regeneration Scheme	39,195	0	0	0	0
G139	Proptech Engagement Fund	167,391	0	0	0	0
G151	Street Lighting	55,506	108,880	56,516	57,546	58,597
G156	The Arc	236,731	395,288	250,341	256,164	262,061
G157	Controlling Migration Fund	14,620	14,621	24	25	25
G167	Facilities Management	10,571	11,838	10,442	11,838	11,838
G169	Closed Churchyards	10,000	10,000	10,000	10,000	10,000
G172	S106 - Affordable Housing	1,116	0	0	0	0
G188	Cotton Street Contact Centre	33,218	42,445	34,881	35,385	35,893
G191	Bolsover Community Lottery	6,250	0	0	0	0
G192	Scrutiny	24,101	26,334	26,830	27,357	27,895
G193	Economic Development Management + Admin	420,411	461,521	478,391	471,461	446,180
G195	Assistant Director of Governance + Monitoring	92,229	102,474	104,545	106,653	108,805

APPENDIX 2

List of General Fund net budgets per cost centre per directorate

		Revised Budget 2022/23 £	Original Budget 2023/24 £	Forecast 2024/25 £	Forecast 2025/26 £	Forecast 2026/27 £
G200	Assistant Director of Property + Housing Repairs	16,153	12,229	9,788	9,984	10,184
G216	Raising Aspirations	51,250	0	51,250	0	0
G218	I-Venture/Namibia Bound	12,484	13,011	12,500	12,500	0
G220	Locality Funding	(19,950)	(1,269)	40,000	0	0
G226	S106 - Highways	569,000	0	0	0	0
G227	S106 - Public Health	205,113	0	0	0	0
G238	HR Health + Safety	115,278	98,480	101,312	103,492	104,685
G241	Community Rail	13,125	19,822	20,985	21,864	21,968
G244	Bolsover Business Growth Fund	38,445	0	0	0	0
	Total for Strategy + Development Directorate	**6,256,635**	**5,728,634**	**5,533,375**	**5,477,678**	**5,598,554**
	Total Net Cost of Services	**18,371,324**	**12,544,559**	**12,280,707**	**12,399,750**	**12,744,743**

Housing Revenue Account

APPENDIX 3

	Revised Budget 2022/23	Original Budget 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27
Expenditure	**£**	**£**	**£**	**£**	**£**
Repairs and Maintenance	5,699,502	6,188,269	6,255,237	6,391,068	6,465,919
Rents, Rates, Taxes + Other Charges	213,542	225,802	209,673	211,843	214,012
Supervision and Management	6,609,260	6,529,792	6,517,078	6,722,420	6,834,171
Special Services	552,523	999,483	586,855	596,598	606,493
Housing Related Support - Wardens	688,789	775,953	792,342	806,362	820,105
Housing Related Support - Central Control	352,842	388,063	394,090	416,302	421,809
Tenants Participation	75,758	85,261	86,795	88,353	89,944
New Build Schemes Evaluations	750,000	400,000	0	0	0
New Bolsover Project	5,000	0	0	0	0
Leasehold Flats	4,834	0	0	0	0
Debt Management Expenses	8,562	9,158	9,888	10,498	10,710
Total Expenditure	**14,960,612**	**15,601,781**	**14,851,958**	**15,243,444**	**15,463,163**
Income					
Dwelling Rents	(21,522,170)	(22,982,750)	(24,256,279)	(24,983,967)	(25,733,486)
Non-dwelling Rents	(101,490)	(106,512)	(111,785)	(115,107)	(118,529)
Leasehold Flats and Shops Income	(19,295)	(7,000)	(7,000)	(7,000)	(7,000)
Repairs and Maintenance	(19,129)	(19,129)	(17,500)	(17,500)	(17,500)
Supervision and Management	(378)	0	0	0	0
Special Services	(21,732)	(21,732)	(21,732)	(10,000)	(10,000)
Housing Related Support - Wardens	(409,320)	(415,616)	(142,226)	(146,390)	(150,680)
Housing Related Support - Central Control	(277,000)	(286,650)	(212,783)	(219,166)	(225,741)
Tenants Participation	(5,005)	0	0	0	0
Total Income	**(22,375,519)**	**(23,839,389)**	**(24,769,305)**	**(25,499,130)**	**(26,262,936)**
Net Cost of Services	**(7,414,907)**	**(8,237,608)**	**(9,917,347)**	**(10,255,686)**	**(10,799,773)**
Appropriations:					
Increase in Bad Debt Provision	130,000	130,000	130,000	130,000	130,000
Capital Interest Costs	3,627,207	3,739,030	3,996,065	4,099,108	4,119,354
Investment Interest Income	(103,017)	(326,471)	(268,774)	(257,219)	(178,075)
Depreciation	4,274,630	5,348,200	5,348,200	5,348,200	5,348,200
Transfer to Major Repairs Reserve	725,370	0	0	0	0
Contribution to HRA Reserves	35,000	35,000	500,398	935,597	1,380,294
Use of HRA Earmarked Reserves	(1,235,590)	(438,000)	0	0	0
Contribution to / (from) HRA Balance	(38,693)	(250,151)	211,458	0	0
Net Operating (Surplus) /Loss	**0**	**0**	**0**	**0**	**0**
HRA Balance at 1st April	(2,077,386)	(2,038,693)	(1,788,542)	(2,000,000)	(2,000,000)
Contribution (to)/from Balances	38,693	250,151	(211,458)	0	0
HRA Balance at 31st March	(2,038,693)	(1,788,542)	(2,000,000)	(2,000,000)	(2,000,000)

HRA - Fees and Charges 2023/24

Weekly Charge over 52 Weeks unless otherwise specified
September 2022 Consumer Price Index was 10.1%

	Current £	Proposed £	Change £	Change %
Garages (tenant)	12.54	13.17	0.63	5.0%
Garage - Direct Debit Payment	9.47	9.94	0.47	5.0%
Garage (in curtledge)	4.73	4.97	0.24	5.0%
(Set at 50% of garage DD payment)				
Garage plots (billed annually)	219.75	230.74	10.99	5.0%
New Bolsover Service Charge	2.00	2.10	0.10	5.0%
(applies to new tenants only)				
Special Services Charge (See Note1)	16.41	17.23	0.82	5.0%
Reduced special service	10.94	11.49	0.55	5.0%
(Reduced special services for scheme other than Cat 2 who receive reduced service)				
Heating Service Charge (See Note 2)				
Bedsits	2.85	2.99	0.14	5.0%
1 bed flat	3.89	4.08	0.19	5.0%
Heating Charge (See Note 3)				
Bedsits	4.46	4.46	0.00	0.0%
1 bed flat	6.08	6.08	0.00	0.0%
Support Charges	14.00	14.70	0.70	5.0%
Mobile Warden	7.11	7.46	0.36	5.0%
(long-term aim to reach cost, increase capped at 10% per year)				
Lifeline - bronze	5.26	5.52	0.26	5.0%
Lifeline - gold	8.08	8.48	0.40	5.0%
Lifeline - RSL	5.03	5.29	0.25	5.0%
Buggy Parking	4.28	4.49	0.21	5.0%
(including charging facilities)				
Choice Based Lettings Postage (suggested cost is twice the cost of a second class stamp)	1.32	1.36	0.04	3.0%

HRA - Fees and Charges 2023/24

Note 1

Special Services Charge includes the heating, cleaning and furnishing of communal areas, provision of laundry and kitchen facilities and other costs. The charge is a contribution to the full cost of these services. This charge is added to the rent amount and is covered by housing benefit if appropriate.

The Heating Charge is split into two separate charges.

Note 2

Heating Service Charge is the cost for the provision and maintenance of a communal heating system. This includes an allowance for electricity to circulate heat within the system. This charge is added to the rent amount and is covered by housing benefit if appropriate.

Note 3

The Heating Charge reflects the cost of fuel only, this is not covered by housing benefit and is charged and monitored to a sub account on the main rent account.

This split is intended to make it easier to understand how we charge for heating.

APPENDIX 4

CAPITAL PROGRAMME SUMMARY	Revised Budget 2022/23 £	Original Programme 2023/24 £	Forecast Programme 2024/25 £	Forecast Programme 2025/26 £	Forecast Programme 2026/27 £
General Fund					
Asset Management Plan					
Investment Properties	4,008	0	0	0	0
Pleasley Vale Business Park	60,574	0	0	0	0
Riverside Depot	9,322	0	0	0	0
The Arc	47,893	0	0	0	0
The Tangent	15,000	0	0	0	0
Contact Centres	11,638	0	0	0	0
General	8,760	0	0	0	0
Asset Management Plan not yet allocated to an individual scheme	72,388	260,000	260,000	260,000	260,000
	229,583	**260,000**	**260,000**	**260,000**	**260,000**
Engineering Asset Management Plan					
Car Parks	27,986	25,000	25,000	25,000	25,000
Shelters	11,128	10,000	10,000	10,000	10,000
Lighting	15,000	15,000	15,000	15,000	15,000
	54,114	**50,000**	**50,000**	**50,000**	**50,000**
Assets					
Car Parking at Clowne	13,416	0	0	0	0
Pleasley Vale Mill - Dam Wall	100,410	0	0	0	0
Land at Portland Street	109,750	0	0	0	0
Shirebrook Crematorium	1,873,750	6,886,414	725,100	0	0
Cultural Business and Skills Hub	0	50,211	249,789	0	0
CISWO - former Creswell LC	166,000	0	0	0	0
	2,263,326	**6,936,625**	**974,889**	**0**	**0**
ICT Schemes					
ICT infrastructure	306,825	332,000	110,000	102,000	60,000
Digital Screens	31,970	0	0	0	0
Town Centre Regeneration	29,000	0	0	0	0
	367,795	**332,000**	**110,000**	**102,000**	**60,000**
Leisure Schemes					
Playing Pitch Improvements (Clowne)	440,284	0	0	0	0
Pleasley Vale - Leisure	20,000	0	0	0	0
Go Active Café Equipment	25,000	0	0	0	0
Go Active Equipment	15,000	15,000	15,000	15,000	15,000
Gym Equipment & Spin Bikes	0	0	0	0	392,100
Go-Active Gym flooring	0	0	0	0	40,000
Toning Tables (Leisure)	0	0	0	0	80,000
Houfton Rd Play Area (Insurance)	25,000	0	0	0	0
Community Assets (Leisure)	10,000	0	0	0	0
	535,284	**15,000**	**15,000**	**15,000**	**527,100**
Private Sector Schemes					
Disabled Facility Grants	650,000	650,000	650,000	650,000	650,000
	650,000	**650,000**	**650,000**	**650,000**	**650,000**
Joint Venture					
Dragonfly Joint Venture Shares	519,150	0	0	0	0
Dragonfly Joint Venture Loan	1,753,202	0	0	0	0
	2,272,352	**0**	**0**	**0**	**0**
Vehicles and Plant					
Vehicle Replacements	1,132,662	1,746,000	1,434,500	174,000	751,500
Vehicle Wash Area	1,000	0	0	0	0
Can Ranger's Equipment	14,231	0	0	0	0
	1,147,893	**1,746,000**	**1,434,500**	**174,000**	**751,500**
Total General Fund	**7,520,347**	**9,989,625**	**3,494,389**	**1,251,000**	**2,298,600**

APPENDIX 4

CAPITAL PROGRAMME SUMMARY	Revised Budget 2022/23 £	Original Programme 2023/24 £	Forecast Programme 2024/25 £	Forecast Programme 2025/26 £	Forecast Programme 2026/27 £
Housing Revenue Account					
New Build Properties					
Alfreton Rd Pinxton	56,860	511,700	0	0	0
Ashbourne Extension	1,038,857	0	0	0	0
Bolsover Homes-yet to be allocated	1,068,931	4,233,880	8,500,000	5,000,000	0
Bolsover Homes Staffing Costs	272,506	272,506	0	0	0
Harlesthorpe Ave Bungalow adaptation	125,000	0	0	0	0
Jubilee Court (Bungalows x2)	0	300,000	0	0	0
Keepmoat Properties at Bolsover	818,500	0	0	0	0
Market Close Shirebrook	3,926,144	1,753,072	0	0	0
Meadow View Homes - Glapwell	0	696,000	0	0	0
Moorfield Lane Whaley Thorns	126,688	1,393,565	0	0	0
Sandy Lane/Thorpe Ave Whitwell	299,340	0	0	0	0
The Whitwell Cluster	26,828	0	0	0	0
The Woodlands	3,000,000	0	0	0	0
Valley View (2 Bungalows & extension)	750,000	0	0	0	0
West Street Langwith	142,919	708,333	0	0	0
	11,652,573	**9,869,056**	**8,500,000**	**5,000,000**	**0**
Vehicle Replacements	477,600	625,500	209,000	140,000	0
	477,600	**625,500**	**209,000**	**140,000**	**0**
Public Sector Housing					
Bramley Vale	0	100,000	1,450,000	1,475,000	1,475,000
Electrical Upgrades	212,000	250,000	125,000	125,000	125,000
External Door Replacements	150,000	120,000	70,000	70,000	70,000
External Wall Insulation	506,211	0	0	0	0
Fencing	110,000	0	0	0	0
Flat Roofing	75,000	100,000	40,000	40,000	40,000
Heating Upgrades	78,740	80,000	100,000	100,000	100,000
Kitchen Replacements	335,000	220,000	200,000	200,000	200,000
Public Sector Housing - not yet allocated	0	0	0	1,927,534	1,924,870
Re Roofing	1,000,000	750,000	750,000	750,000	750,000
Property Services Mgmt. & Admin	99,846	125,496	128,056	130,666	133,330
Safe & Warm	2,305,993	2,922,704	1,955,144	0	0
Soffit and Facia	30,000	30,000	30,000	30,000	30,000
Unforeseen Reactive Capital Works	107,107	100,000	100,000	100,000	100,000
Welfare Adaptations	423,761	400,000	400,000	400,000	400,000
Wet Rooms (Bungalows)	150,000	150,000	0	0	0
Whaley Common - Air Source Heating	250,000	0	0	0	0
	5,833,658	**5,348,200**	**5,348,200**	**5,348,200**	**5,348,200**
ICT Schemes					
Open Housing	79,686	0	0	0	0
	79,686	**0**	**0**	**0**	**0**
New Bolsover Scheme (incl. HLF)					
New Bolsover-Regeneration Scheme	16,000	0	0	0	0
	16,000	**0**	**0**	**0**	**0**
Total HRA	**18,059,517**	**15,842,756**	**14,057,200**	**10,488,200**	**5,348,200**
TOTAL CAPITAL EXPENDITURE	**25,579,864**	**25,832,381**	**17,551,589**	**11,739,200**	**7,646,800**

APPENDIX 4

CAPITAL PROGRAMME SUMMARY	Revised Budget 2022/23 £	Original Programme 2023/24 £	Forecast Programme 2024/25 £	Forecast Programme 2025/26 £	Forecast Programme 2026/27 £
Capital Financing					
General Fund					
Better Care Fund	(650,000)	(650,000)	(650,000)	(650,000)	(650,000)
Prudential Borrowing	0	(3,632,012)	(725,100)	0	0
Reserves	(4,309,759)	(2,403,000)	(1,869,500)	(601,000)	(1,648,600)
Capital Receipts	(1,984,334)	(3,254,402)	0	0	0
External Funding	(576,254)	(50,211)	(249,789)	0	0
	(7,520,347)	**(9,989,625)**	**(3,494,389)**	**(1,251,000)**	**(2,298,600)**
HRA					
Major Repairs Allowance	(5,833,658)	(5,348,200)	(5,348,200)	(5,348,200)	(5,348,200)
Prudential Borrowing	(2,085,281)	(8,264,471)	(8,500,000)	(5,000,000)	0
Reserves	(8,409,915)	(1,946,752)	(209,000)	(140,000)	0
Capital Receipts	0	(283,333)	0	0	0
External Funding	(1,730,663)	0	0	0	0
	(18,059,517)	**(15,842,756)**	**(14,057,200)**	**(10,488,200)**	**(5,348,200)**
TOTAL CAPITAL FINANCING	**(25,579,864)**	**(25,832,381)**	**(17,551,589)**	**(11,739,200)**	**(7,646,800)**

Bolsover District Council

Council

1st February 2023

TREASURY STRATEGY REPORTS 2023/24 – 2026/27

Report of the Portfolio Holder for Finance

Classification	This report is Public
Report By	Assistant Director of Finance and Resources
Contact Officer	Assistant Director of Finance and Resources Theresa Fletcher 01246 242548 theresa.fletcher@bolsover.gov.uk

PURPOSE/SUMMARY OF REPORT

To provide Council with the necessary information to approve the Authority's suite of Treasury Strategies for 2023/24 to 2026/27.

REPORT DETAILS

1. Background

1.1 Treasury risk management at the Authority 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 Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

1.2 CIPFA issued a revised Prudential Code and Treasury Management Code in late December 2021, these strategy reports include the full implementation of the revised Codes.

1.3 Since 2019/20 there has been a requirement to produce three separate treasury strategies. This report therefore, includes the strategy for Treasury Management, The Capital Strategy and the Corporate Investment Strategy.

1.4 As in previous years, the Authority's Treasury Management Strategy provides the framework for managing the Authority's cash flows, borrowing and investments, and the associated risks for the years 2023/24 to 2026/27. The Treasury

Management Strategy sets out the parameters for all borrowing and lending as well as listing all approved borrowing and investment sources. Prudential indicators aimed at monitoring risk are also included **(Appendix 1)**.

1.5 The Capital Strategy is intended to be a high level, concise overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of the Authority's services. The report also provides an overview of the associated risk, its management and the implications for future financial sustainability. The Capital Strategy sets out the capital expenditure plans for the period and how they will be financed. It also provides information of the minimum revenue provision, capital financing requirement and prudential indicators aimed at monitoring risk **(Appendix 2)**.

1.6 The Corporate Investment Strategy focuses on investments made for service purposes and commercial reasons, rather than those made for treasury management. Investments covered by this strategy include earning investment income through commercial investments or by supporting local services by lending to or buying shares in, other organisations **(Appendix 3)**.

2. Reasons for Recommendation

2.1 This report outlines the Authority's proposed suite of Treasury Strategies for the period 2023/24 to 2026/27 for consideration and approval by Council. It contains:

- The Treasury Management Strategy which provides the framework for managing the Authority's cash flows, borrowing and investments for the period.

- The Capital Strategy which is intended to provide a high level, concise overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of the Authority's services.

- The Corporate Investment Strategy which focuses on investments made for service purposes and commercial reasons, rather than those made for treasury management.

The above strategies provide an approved framework within which the officers undertake the day to day capital and treasury activities.

3 Alternative Options and Reasons for Rejection

3.1 Alternative options are considered throughout the report.

RECOMMENDATION(S)

1. It is recommended that Council approve the Treasury Management Strategy at **Appendix 1** and in particular:

a) Approve the Borrowing Strategy.

b) Approve the Treasury Management Investment Strategy.

c) Approve the use of the external treasury management advisors Counterparty Weekly List – or similar – to determine the latest assessment of the counterparties that meet the Authority's Criteria before any investment is undertaken.

d) Approve the Prudential Indicators.

2. It is recommended that Council approve the Capital Strategy as set out in **Appendix 2** and in particular:

a) Approve the Capital Financing Requirement.

b) Approve the Minimum Revenue Provision Statement for 2023/24.

c) Approve the Prudential Indicators for 2023/24 detailed in the Capital Strategy, in particular:

Authorised Borrowing Limit	£139.500m
Operational Boundary	£134.500m
Capital Financing Requirement	£129.501m

3. It is recommended that Council approve the Corporate Investment Strategy as set out in **Appendix 3**.

Approved by Councillor Cllr Clive Moesby, Executive Member for Finance

IMPLICATIONS;

Finance and Risk: **Yes☒** **No ☐**

Details:

Financial implications are covered throughout this report.

On behalf of the Section 151 Officer

Legal (including Data Protection): **Yes☒** **No ☐**

Details:

As part of the requirements of the CIPFA Treasury Management Code of Practice the Authority is required to produce every year a Treasury Management Strategy and Capital Strategy which requires approval by full Council prior to the commencement of each financial year. This report is prepared in order to comply with these obligations.

There are no data protection implications arising directly from this report.

On behalf of the Solicitor to the Council

Environment: Please identify (if applicable) how this proposal/report will help the Authority meet its carbon neutral target or enhance the environment. **Details:** Not applicable to this report **Staffing:** **Yes☐** **No ☒** **Details:** There are no human resource implications arising directly from this report. On behalf of the Head of Paid Service

DECISION INFORMATION

Is the decision a Key Decision? A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: **Revenue - £75,000 ☐ Capital - £150,000 ☐** ☒ *Please indicate which threshold applies*	No
Is the decision subject to Call-In? (*Only Key Decisions are subject to Call-In*)	No

District Wards Significantly Affected	None
Consultation: **Leader / Deputy Leader ☐ Executive ☐** **SLT ☐ Relevant Service Manager ☐** **Members ☐ Public ☐ Other ☐**	Yes Details: Portfolio Holder

Links to Council Ambition: Customers, Economy and Environment.

DOCUMENT INFORMATION	
Appendix No	**Title**
1	Treasury Management Strategy
1A	Arlingclose Economic & Interest Rate Forecast
1B	Existing Investment & Debt Portfolio Position
2	Capital Strategy
2A	Capital Programme
2B	Annual Minimum Revenue Provision Statement
3	Corporate Investment Strategy

Background Papers
(*These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Executive you must provide copies of the background papers).*
None

Rpttemplate/BDC/021122

`**Appendix 1**

Bolsover District Council

Treasury Management Strategy 2023/24 - 2026/27

1 Strategy Details

1.1 Treasury risk management at the Authority 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 Authority to approve a Treasury Management Strategy before the start of each financial year. This strategy fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

1.2 The strategy outlines the Authority's Treasury Management Strategy for the years 2023/24 to 2026/27 for consideration and approval by Council.

1.3 Investments held for service purposes or for commercial profit are considered in a different strategy, the Corporate Investment Strategy.

1.4 A further strategy, the Capital Strategy, sets out the Authority's Capital Expenditure programme and Minimum Revenue Provision policy (MRP).

Introduction

1.5 Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority 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 Authority's prudent financial management.

External Context

1.6 **Economic background:** The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

1.7 The Bank of England (BoE) increased Bank Rate by 0.5% to 3.5% in December 2022. This followed a 0.75% rise in November which was the largest single rate hike since 1989 and the ninth successive rise since December 2021. The December decision was voted for by a 6-3 majority of the Monetary Policy Committee (MPC), with two dissenters voting for a no-change at 3% and one for a larger rise of 0.75%.

1.8 The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with Consumer Price Index (CPI) inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected to remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

1.9 The UK economy contracted by 0.3% between July and September 2022 according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

1.10 CPI inflation is expected to have peaked at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets at the time of the November MPR (a peak of 5.25%). However, the BoE stated it considered this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target. Market rates have fallen since the time of the November MPR.

1.11 The labour market remains tight for now, with the most recent statistics showing the unemployment rate was 3.7%. Earnings were up strongly in nominal terms by 6.1% for both total pay and for regular pay but factoring in inflation means real pay for both measures was -2.7%. Looking forward, the November MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

1.12 Interest rates have also been rising sharply in the United States, with the Federal Reserve increasing the range on its key interest rate by 0.5% in December 2022 to 4.25%-4.5%. This rise follows four successive 0.75% rises in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 7%. GDP grew at an annualised rate of 3.2% (revised up from 2.9%) between July and September 2022, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

1.13 Inflation rose consistently in the Euro Zone since the start of the year, hitting a peak annual rate of 10.6% in October 2022, before declining to 10.1% in November. Economic growth has been weakening with an upwardly revised expansion of 0.3% (from 0.2%) in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.50% in December, following two consecutive 0.75% rises, taking its main refinancing rate to 2.5% and deposit facility rate to 2.0%.

1.14 **Credit outlook:** Credit default swap (CDS) prices have followed an upward trend throughout the year, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

1.15 CDS price volatility has been higher in 2022 compared to 2021 and this year has seen a divergence in prices between ring-fenced (retail) and non-ring-fenced (investment) banking entities once again. The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them to negative from stable.

1.16 There are competing tensions in the banking sector which could impact bank balance sheet strength in the future. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability. However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

1.17 **Interest rate forecast:** The Authority's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

1.18 While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite the looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remain persistently higher.

1.19 Yields are expected to remain broadly at current levels over the medium-term, with 5, 10 and 20-year gilt yields expected to average around 3.5%, 3.5%, and 3.85% respectively over the 3-year period to December 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

1.20 A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Appendix 1A**.

1.21 For the purpose of setting the budget, it has been assumed that new treasury management investments will be made at an average rate of 3.31%.

<u>Local Context</u>

1.22 On 31st December 2022, the Authority held £89.4m of borrowing and £37.0m of treasury investments. This is set out in further detail at **Appendix 1B**. Forecast changes in these sums are shown in the balance sheet analysis in **table 1** below.

Table 1: Balance sheet summary and forecast

	31.3.22 Actual £m	31.3.23 Estimate £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m
General Fund CFR	6.2	5.7	9.0	9.4	9.1	8.8
HRA CFR	110.1	112.2	120.5	129.0	134.0	134.0
Total CFR	**116.3**	**117.9**	**129.5**	**138.4**	**143.1**	**142.8**
Less: Actual External borrowing *	(93.4)	(89.4)	(86.0)	(78.8)	(76.8)	(73.8)
Internal borrowing	**22.9**	**28.5**	**43.5**	**59.6**	**66.3**	**69.0**
New external borrowing	0	0	0	(4.8)	(11.6)	(13.2)
Less: Balance sheet resources	(65.4)	(64.9)	(64.9)	(64.8)	(64.7)	(66.1)
Treasury Investments (net of new borrowing)	**42.5**	**36.4**	**21.4**	**10.0**	**10.0**	**10.3**

1.23 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Authority has an increasing CFR due to the capital programme and will therefore be required to borrow up to £30m over the forecast period. CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2023/24.

1.24 **Liability benchmark:** To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing (**table 2**). This assumes the same forecasts as **table 1** above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

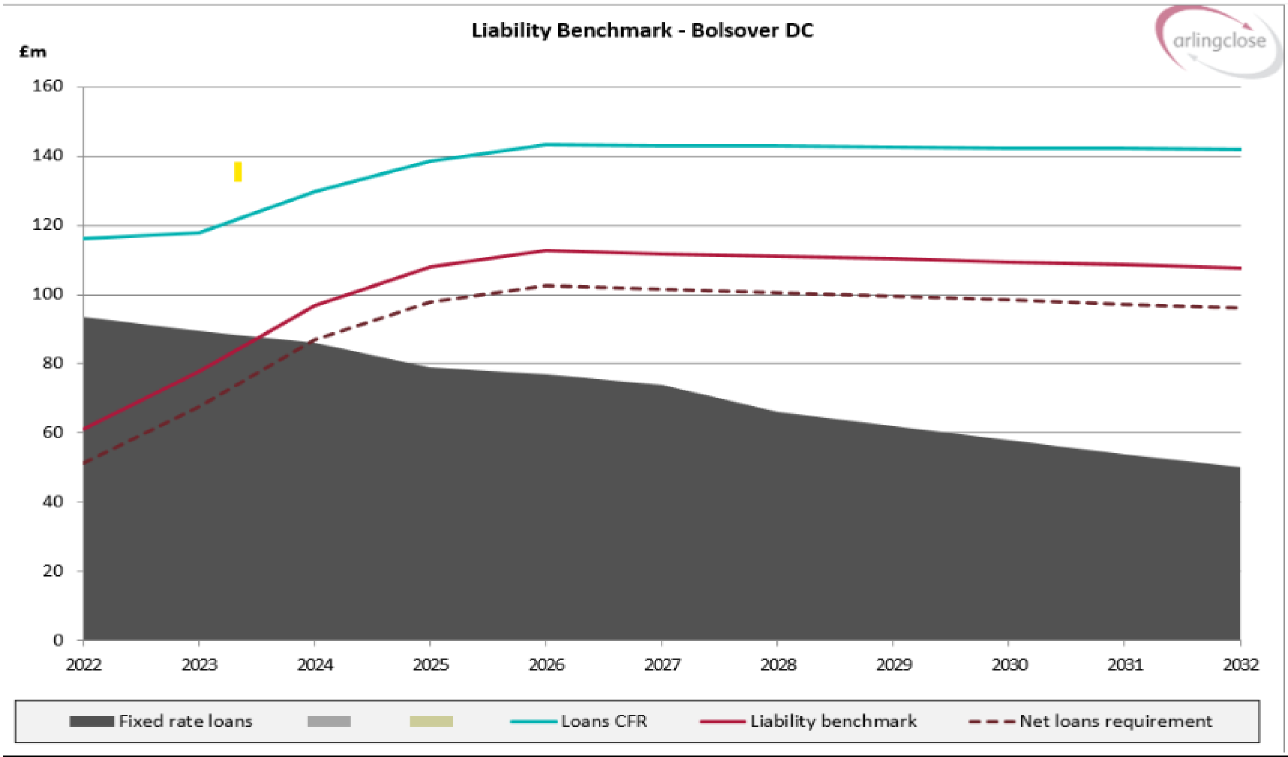
1.25 The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Liability benchmark

	31.3.22 Actual £m	31.3.23 Estimate £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m
CFR	**116.3**	**117.9**	**129.5**	**138.4**	**143.1**	**142.8**
Less: Balance sheet resources	(65.4)	(64.9)	(64.9)	(64.8)	(64.7)	(66.1)
Net loans requirement	**50.9**	**53.0**	**64.6**	**73.6**	**78.4**	**76.7**
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0	10.0
Liability Benchmark	**60.9**	**63.0**	**74.6**	**83.6**	**88.4**	**86.7**

1.26 Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £2.1m 22/23; £11.8m 23/24; £10m 24/25; £5m 25/26; minimum revenue provision on new capital expenditure based on a 5 to 50 year asset life and income, expenditure and reserves all increasing by inflation of 2.5% a year.

This is shown in the chart below together with the maturity profile of the Authority's existing borrowing:



Borrowing Strategy

1.27 The Authority currently holds £89.4m of loans, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority may utilise the approval to undertake both General Fund and HRA borrowing during the period 2023/24 to 2026/27 to fund Bolsover Homes and the Crematorium at Shirebrook.

1.28 **Objectives:** The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change, is a secondary objective.

1.29 **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

1.30 By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal 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. Arlingclose 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 2023/24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

1.31 The Authority has previously raised all of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and may investigate the possibility of issuing bonds and similar instruments, in order 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 in order to retain its access to PWLB loans.

1.32 Alternatively, the Authority may arrange forward starting loans during 2023/24, 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.

1.33 **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Derbyshire County Council Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

1.34 **Other sources of debt finance:** In addition, capital finance may be raised 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

1.35 The Authority has previously raised all of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

1.36 **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Council.

1.37 **LOBOs:** The Authority doesn't hold or intend to hold any LOBO (Lender's Option Borrower's Option) loans.

1.38 **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.

1.39 **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. 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 recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

Treasury Management Investment Strategy

1.40 The Authority holds an average of £35m invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £30.5m and £42.5m, and levels are expected to reduce in the forthcoming years.

1.41 **Objectives:** The CIPFA Code requires the Authority 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 Authority's objective 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.

1.42 Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

1.43 **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority may wish to diversify into more secure and higher yielding asset classes during 2023/24. This is especially the case for the estimated £10m that is available for longer-term investment. The majority of the Authority's surplus cash is currently invested in short-term unsecured bank deposits, short term fixed deposits with local authorities and money market funds. This diversification would represent a substantial change in strategy.

1.44 **ESG policy:** 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 Authority does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the United Nations Principles for Responsible Banking and funds operated by managers that are signatories to the United Nations Principles for Responsible Investment, the Net Zero Asset Manager's Alliance and/or the UK Stewardship Code.

1.45 **Business models:** Under IFRS 9, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

1.46 **Approved counterparties:** The Authority may invest its surplus funds with any of the counterparty types in **table 3** below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Approved investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£5m	Unlimited
Secured investments *	25 years	£5m	Unlimited
Banks (unsecured) *	13 months	£5m	Unlimited
Building societies (unsecured) *	13 months	£5m	£5m per society
Registered providers (unsecured) *	5 years	£5m	£10m
Money market funds *	n/a	£5m	Unlimited
Strategic pooled funds	n/a	£5m	£10m per manager
Real estate investment trusts	n/a	£5m	£5m
Other investments *	5 years	£5m	£5m

1.47 **Minimum Credit rating:** Treasury investments in the sectors marked with an asterisk **(*)** 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 taken into account.

1.48 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities, Parish Councils 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.

1.49 **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.

1.50 **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.

1.51 **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), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

1.52 **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 Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

1.53 **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 Authority 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 Authority's investment objectives will be monitored regularly.

1.54 **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority 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.

1.55 **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 Authority's investment at risk

1.56 **Operational bank accounts:** The Authority may incur operational exposures, for example through current accounts, collection 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, and balances will therefore be kept below £5m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

1.57 **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. 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, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

1.58 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

1.59 **Other information on the security of investments**: The Authority 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 Authority'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.

1.60 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority 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 Authority's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

1.61 **Investment limits**: In order to minimise investments that will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5m. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors 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

	Cash limit
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per manager
Foreign countries (excluding MMF where there are no limits)	£10m per country
Lloyds Bank (as providers of operational banking services)	£5m overnight

1.62 **Liquidity management**: The Authority uses its own cash flow forecasting techniques 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 Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast. The Authority 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

Treasury Management Prudential Indicators

1.63 The Authority measures and manages its exposures to treasury management risks using the following indicators:

1.64 **Interest rate exposures**: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	**Limit each year**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£303,412
Upper limit on one-year revenue impact of a 1% fall in interest rates	(£303,412)

1.65 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

1.66 **Maturity structure of borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. This indicator used to be for fixed rate borrowing only but now includes all borrowing. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	20%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	80%	0%
10 years and above	100%	0%

1.67 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

1.68 **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2022/23	2023/24	2024/25	2025/26
Limit on principal invested beyond year end	£5m	£4m	£3m	£2m

<u>Related Matters</u>

1.69 The CIPFA Code requires the Authority to include the following in its treasury management strategy.

1.70 **Financial Derivatives:** 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).

1.71 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 taken into account 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.

1.72 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit. In line with the CIPFA code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

1.73 **Housing Revenue Account:** The Authority completed the HRA self-financing settlement in March 2012 which resulted in an increase in housing debt of £94.386m. Interest payable and other costs/income arising from long-term loans which existed prior to this settlement (e.g. Premiums and discounts on early redemption) will be charged / credited to the respective revenue account based on the average CFR of the General Fund and HRA. Loans taken out as part of the self-financing settlement are assigned to the HRA loans pool and interest and other costs are payable from the HRA. Any new long-term loans borrowed will be assigned in their entirety to either the General Fund or HRA, there will be no single loans pool.

1.74 **Markets in Financial Instruments Directive**: The Authority has opted up to 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 Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

1.75 **Financial Implications:** The budget for investment income in 2023/24 is £655,443, based on an average investment portfolio of £25 million at an interest rate of 4.125%. The budget for debt interest paid in 2023/24 is £3.366 million, based on an average debt portfolio of £105.0 million at an average interest rate of 3.71%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

1.76 **Other Options Considered:** The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller

Alternative	Impact on income and expenditure	Impact on risk management
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix 1A – <u>Arlingclose Economic & Interest Rate Forecast – December 2022</u>

Underlying assumptions:

- The influence of the mini-budget on rates and yields continues to wane following the more responsible approach shown by the new incumbents of Downing Street.
- Volatility in global markets continues, however, as investors seek the extent to which central banks are willing to tighten policy, as evidence of recessionary conditions builds. Investors have been more willing to price in the downturn in growth, easing financial conditions, to the displeasure of policymakers. This raises the risk that central banks will incur a policy error by tightening too much.
- The UK economy is already experiencing recessionary conditions and recent Gross Domestic Product (GDP) and Purchasing Managers' Index (PMI) data suggests the economy entered a technical recession in Q3 2022. The resilience shown by the economy has been surprising, despite the downturn in business activity and household spending. Lower demand should bear down on business pricing power – recent data suggests the UK has passed peak inflation.
- The lagged effect of the sharp tightening of monetary policy, and the lingering effects of the mini-budget on the housing market, widespread strike action, alongside high inflation, will continue to put pressure on household disposable income and wealth. The short- to medium-term outlook for the UK economy remains bleak.
- Demand for labour appears to be ebbing, but not quickly enough in the official data for most Monetary Policy Committee (MPC) policymakers. The labour market remains the bright spot in the economy and persisting employment strength may support activity, although there is a feeling of borrowed time. The MPC focus is on nominal wage growth, despite the huge real term pay cuts being experienced by the vast majority. Bank Rate will remain relatively high(er) until both inflation and wage growth declines.
- Global bond yields remain volatile as investors price in recessions even as central bankers push back on expectations for rate cuts in 2023. The United States (US) labour market remains tight and the Federal Reserve Board (Fed) wants to see persistently higher policy rates, but the lagged effects of past hikes will depress activity more significantly to test the Fed's resolve.
- While the Bank of England (BoE) appears to be somewhat more dovish given the weak outlook for the UK economy, the European Central Bank (ECB) seems to harbour (worryingly) few doubts about the short term direction of policy. Gilt yields will be broadly supported by both significant new bond supply and global rate expectations due to hawkish central bankers, offsetting the effects of declining inflation and growth.

Forecast:

- The MPC raised Bank Rate by 50 basis points (bps) to 3.5% in December as expected, with signs that some members believe that 3% is restrictive enough. However, a majority of members think further increases in Bank Rate might be required. Arlingclose continues to expect Bank Rate to peak at 4.25%, with further 25bps rises February, March and May 2023.

- The MPC will cut rates in the medium term to stimulate a stuttering UK economy, but will be reluctant to do so until wage growth eases. We see rate cuts being in the first half of 2024.
- Arlingclose expects gilt yields to remain broadly steady over the medium term, although with continued volatility across shorter time periods.
- Gilt yields face pressures to both sides from hawkish US/Euro Zone (EZ) central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales and high government borrowing will provide further underlying support for yields.

	Current	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	**3.50**	**4.00**	**4.25**	**4.25**	**4.25**	**4.25**	**4.00**	**3.75**	**3.50**	**3.25**	**3.25**	**3.25**	**3.25**
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	**3.00**	**4.40**	**4.40**	**4.40**	**4.35**	**4.30**	**4.25**	**4.00**	**3.75**	**3.50**	**3.40**	**3.40**	**3.40**
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**3.43**	**3.60**	**3.80**	**3.80**	**3.80**	**3.70**	**3.60**	**3.50**	**3.40**	**3.30**	**3.30**	**3.30**	**3.30**
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**3.47**	**3.50**	**3.60**	**3.60**	**3.60**	**3.60**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**3.86**	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**3.46**	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix 1B

Existing Investment & Debt Portfolio Position

	31.12.22 Actual Portfolio £m	**31.12.22 Average Rate %**
External borrowing:		
Public Works Loan Board	89.4	3.68%
Total external borrowing	**89.4**	**3.68%**
Other long-term liabilities:		
Finance Leases	0	0
Total other long-term liabilities	**0**	**0**
Total gross external debt	**89.4**	**3.68%**
Treasury investments:		
Banks & building societies (unsecured)	.0	1.83%
Government (incl. local authorities)	5.0	0.35%
Money Market Funds	32.0	3.19%
Total treasury investments	**37.0**	
Net debt	**52.4**	

Appendix 2

Bolsover District Council

Capital Strategy 2023/24 - 2026/27

1 Strategy Details

1.1 The Capital Strategy was introduced by the 2017 edition of the Prudential Code and is intended to give a high level, concise and comprehensible overview to all elected members of how capital expenditure, capital financing and treasury management activity, contribute to the provision of the Authority's services. The strategy also provides an overview of the associated risk, its management and the implications for future financial sustainability.

1.2 This Capital Strategy outlines the Authority's Capital Expenditure programme and Minimum Revenue Provision policy (MRP) for the years 2023/24 to 2026/27 for consideration and approval by Council before the start of each financial year.

1.3 Investments held for service purposes or for commercial profit are considered in a different strategy, the Corporate Investment Strategy.

1.4 A further strategy, the Treasury Management Strategy, details the Authority's plans to invest cash surpluses and borrow to cover cash shortfalls.

Introduction

1.5 This Capital Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

1.6 Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

Capital Expenditure and Financing

1.7 Capital expenditure is where the Authority spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

In 2023/24, the Authority is planning capital expenditure of £25.832m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2021/22 actual £m	2022/23 forecast £m	2023/24 budget £m	2024/25 budget £m	2025/26 budget £m	2026/27 budget £m
General Fund services	2.453	5.248	9.989	3.494	1.251	2.299
Council housing (HRA)	13.093	18.060	15.843	14.057	10.488	5.348
Capital investments	0	2.272	0	0	0	0
TOTAL	15.546	25.580	25.832	17.551	11.739	7.647

1.8 The main General Fund capital projects for 2023/24 include Grants for Disabled Facilities £0.650m, Shirebrook Crematorium £6.886m and the purchase of Vehicles and Plant £1.746m.

1.9 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately.

1.10 Capital investments include loans and shares made for service purposes and property to be held primarily for financial return in line with the definition in the *CIPFA Treasury Management Code.*

1.11 **Governance**: Projects are included in the Authority's capital programme usually as a result of a committee report throughout the year. The vehicle replacement programme is updated each year and the new requirements are included in the revised capital programme. The final capital programme is then presented to Executive and Council in February each year.

- For full details of the Authority's capital programme see **Appendix 2A** to this strategy.

1.12 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority's own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is as follows:

Table 2: Capital financing

	2021/22 actual £m	2022/23 forecast £m	2023/24 budget £m	2024/25 budget £m	2025/26 budget £m	2026/27 budget £m
External sources	2.257	2.957	0.700	0.899	0.650	0.650
Own resources	12.285	20.538	13.236	7.427	6.089	6.997
Debt	1.004	2.085	11.896	9.225	5.000	0
TOTAL	15.546	25.580	25.832	17.551	11.739	7.647

1.13 Debt is only a temporary source of finance since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of prior years' debt finance

	2021/22 actual £m	2022/23 forecast £m	2023/24 budget £m	2024/25 budget £m	2025/26 budget £m	2026/27 budget £m
MRP	0.705	0.405	0.352	0.277	0.286	0.281
Capital receipts	0.571	0	0	0	0	0
TOTAL	**1.276**	**0.405**	**0.352**	**0.277**	**0.286**	**0.281**

- The Authority's full minimum revenue provision statement is **Appendix 2B** to this strategy.

1.14 The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £11.6m during 2023/24. Based on the above figures for expenditure and financing, the Authority's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

	31.3.2022 actual £m	31.3.2023 forecast £m	31.3.2024 budget £m	31.3.2025 budget £m	31.3.2026 budget £m	31.3.2027 budget £m
General Fund services	6.172	5.693	8.973	9.420	9.134	8.853
Council housing (HRA)	110.139	112.263	120.528	129.028	134.028	134.028
Capital investments	0	0	0	0	0	0
TOTAL CFR	**116.311**	**117.956**	**129.501**	**138.448**	**143.162**	**142.881**

1.15 **Asset management:** To ensure that capital assets continue to be of long-term use, the Authority has an asset management strategy in place. The Authority developed this strategy to set the context for the Corporate Asset Management Plan. The purpose of the plan is to manage the Authority's corporate property and land portfolio effectively by providing buildings that meet the needs of the service, which are fit for purpose, sustainable, allow access for all, underpin corporate priorities and provide value for money

- The Authority's asset management strategy can be found on the data transparency area of our website, www.bolsover.gov.uk

1.16 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The Authority has produced a Disposal and Acquisition Policy which documents the method and approval route for the disposal of an asset. The Authority has not identified any specific sites for disposal and does not set budgets for receipts due to the uncertain nature of disposals, but a target to receive £150,000 of capital receipts in the coming financial year has been set as follows:

Table 5: Capital receipts

	2021/22 actual £m	**2022/23 forecast £m**	**2023/24 budget £m**	**2024/25 budget £m**	**2025/26 budget £m**	**2026/27 budget £m**
Asset sales	0.197	0.800	0.150	0.150	0.150	0.150

Treasury Management

1.17 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

1.18 Due to decisions taken in the past, the Authority currently has £89.4m borrowing at an average interest rate of 3.68% and £37.0m treasury investments at an average rate of 1.79%.

1.19 **Borrowing strategy:** The Authority's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority therefore seeks to strike a balance between cheap short-term loans and long-term fixed rate loans where the future cost is known but higher. The Authority does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

1.20 Projected levels of the Authority's total outstanding debt are shown below, compared with the capital financing requirement (shown in table 4).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	31.3.2022 actual £m	**31.3.2023 forecast £m**	**31.3.2024 budget £m**	**31.3.2025 budget £m**	**31.3.2026 budget £m**	**31.3.2027 budget £m**
Debt	94.121	90.121	86.121	79.521	77.521	74.521
Capital Financing Requirement	116.311	117.956	129.501	138.448	143.162	142.881

1.21 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from **table 6**, the Authority expects to comply with this in the medium term.

1.22 **Liability benchmark:** To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £10m at each year-end. This benchmark was £61.3m at 31st March 2022 and is forecast to increase to £112.7m over the next four years. The table below shows that the Authority expects to remain borrowed above its liability benchmark.

Table 7: Borrowing and the Liability Benchmark

	31.3.2022 actual £m	31.3.2023 forecast £m	31.3.2024 budget £m	31.3.2025 budget £m	31.3.2026 budget £m	31.3.2027 budget £m
Actual Outstanding PWLB borrowing	93.4	89.4	86.0	78.8	76.8	73.8
Liability benchmark	**60.9**	**63.0**	**74.6**	**83.6**	**88.4**	**86.7**

1.23 **Affordable borrowing limit:** The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt

	2022/23 limit £m	2023/24 limit £m	2024/25 limit £m	2025/26 limit £m	2026/27 limit £m
Authorised limit	127.956	139.500	148.448	153.162	152.881
Operational boundary	122.956	134.500	143.448	148.162	147.881

- Further details on borrowing are in paragraphs 1.27 to 1.39 of the Treasury Management Strategy.

1.24 **Corporate Treasury Investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

1.25 The Authority's policy on treasury investments is to prioritise security and liquidity over yield. That is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Authority may request its money back at short notice.

Table 9: Treasury management investments

	31.3.2022 actual £m	31.3.2023 forecast £m	31.3.2024 budget £m	31.3.2025 budget £m	31.3.2026 budget £m	31.3.2027 budget £m
Near-term investments	42.5	36.4	21.4	10.0	10.0	10.3
Longer-term investments	0	0	0	0	0	0
TOTAL	**42.5**	**36.4**	**21.4**	**10.0**	**10.0**	**10.3**

Further details on treasury investments are in paragraphs 1.40 to 1.62 of the Treasury Management Strategy.

1.26 **Risk management:** The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks. The treasury management prudential indicators are included in paragraphs 1.63 – 1.68 of the treasury management strategy

1.27 **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Chief Financial Officer and staff, who must act in line with the Treasury Management Strategy approved by Council. Quarterly reports on treasury management activity are presented to Executive. The Audit and Corporate Overview Scrutiny committee is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

1.28 The Authority makes investments to assist local public services, including making loans to parish/town councils or local community organisations to promote economic growth. In light of the public service objective, the Authority is willing to take more risk than with treasury investments, however it still plans for such investments to at least break even after all costs.

1.29 **Governance:** Decisions on service investments are made by the relevant service manager and submitted to Council/Executive in consultation with the Chief Financial Officer and must meet the criteria and limits laid down in the Corporate Investment Strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

- Further details on service investments are in paragraphs 1.10 to 1.18 of the Corporate Investment strategy.

Commercial Activities

1.30 With central government financial support for local public services declining, the Authority has developed a Commercial Property Investment Strategy based around expanding its existing non-housing property portfolio. This is in order to develop revenue streams that provide a required level of return to offset the forecast budget deficits for forthcoming years. This approach can also support economic development and regeneration in the District through targeted investment.

1.31 With financial return being the main objective, the Authority accepts higher risk on commercial investment than with treasury investments. The financial viability of each individual potential investment opportunity will be fully assessed within a comprehensive business case. This is in order to reflect the potential risk that may arise as a consequence of undertaking commercial property investment and provide a sufficient financial contribution to the Authority's General Fund. A minimum Internal Rate of Return (IRR) will be set in the Commercial Property Investment Strategy.

1.32 **Governance:** It is acknowledged that commercial investment opportunities may require agile and quick decision making. However, in order to ensure appropriate governance arrangements are maintained, investment decisions will be made in accordance with the Authority's existing decision making process, threshold levels and Scheme of Delegation contained within the Authority's Constitution. Where it is not possible to wait until the next Executive and/or Council meeting, an extra-ordinary meeting will be arranged as soon as practicably possible.

- Further details on commercial investments and limits on their use are in paragraphs 1.19 to 1.23 of the Corporate Investment Strategy.

- Further details on the risk management of commercial investments are in the Commercial Property Investment Strategy

Table 10: Prudential indicator: Net income from commercial and service investments to net revenue stream

	2021/22 actual £m	2022/23 forecast £m	2023/24 budget £m	2024/25 budget £m	2025/26 budget £m	2026/27 budget £m
Total net income from service & commercial investments	0.306	0.322	0.346	0.345	0.343	0.341
Proportion of net revenue stream	2.74%	3.97%	2.62%	2.48%	3.46%	3.35%

Liabilities

1.33 In addition to debt of £86.121m detailed above, the Authority is committed to making future payments to cover its net pension fund deficit (valued at £41.7m). It has also set aside £2.1m to cover risks of future legal costs and Business Rates Appeals. (All figures are as at 31/3/22).

1.34 **Governance:** Decisions on incurring new discretional liabilities are taken to Council for approval. The risk of liabilities crystallising and requiring payment is monitored as part of the year-end process.

- Further details on liabilities are in notes 21 and 38 of the 2021/22 Statement of Accounts document, which is available on our website.

Revenue Budget Implications

1.35 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 10: Prudential Indicator: Proportion of financing costs to net revenue stream

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget
Financing costs (£m)	0.720	0.276	0.305	0.379	0.433	0.418
Proportion of net revenue stream	6.45%	3.40%	2.31%	2.72%	4.36%	4.11%

1.36 **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Chief Financial Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable.

Knowledge and Skills

1.37 The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Chief Financial Officer is a qualified accountant.

1.38 Where Authority staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Authority currently employs Arlingclose Limited as treasury management advisors. This approach is more cost effective than employing such staff directly, and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.

Treasury Management Operations

1.39 As mentioned above the Authority uses external treasury management advisors. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;

- Generic investment advice on interest rates, timing and investment instruments;
- A number of free places at training events offered on a regular basis.
- Credit ratings/market information service, comprising the three main credit rating agencies;

1.40 Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Authority. This service is subject to regular review. It should be noted that the Authority has Arlingclose Ltd as external treasury management advisors until 31st August 2025.

1.41 It is important that both Members and Officers dealing with treasury management are trained and kept up to date with current developments. This Authority has addressed these requirements by:

a. Members' individual training and development needs are addressed by a Member Development Programme.
b. Officers attend training seminars held by the external treasury management advisors and CIPFA.

Banking Contract

1.42 The contract with the Authority's banking provider Lloyds Bank, has been reviewed and extended to 9th February 2025.

APPENDIX 2A

CAPITAL PROGRAMME SUMMARY	Revised Budget 2022/23 £	Original Programme 2023/24 £	Forecast Programme 2024/25 £	Forecast Programme 2025/26 £	Forecast Programme 2026/27 £
General Fund					
Asset Management Plan					
Investment Properties	4,008	0	0	0	0
Pleasley Vale Business Park	60,574	0	0	0	0
Riverside Depot	9,322	0	0	0	0
The Arc	47,893	0	0	0	0
The Tangent	15,000	0	0	0	0
Contact Centres	11,638	0	0	0	0
General	8,760	0	0	0	0
Asset Management Plan not yet allocated to an individual scheme	72,388	260,000	260,000	260,000	260,000
	229,583	**260,000**	**260,000**	**260,000**	**260,000**
Engineering Asset Management Plan					
Car Parks	27,986	25,000	25,000	25,000	25,000
Shelters	11,128	10,000	10,000	10,000	10,000
Lighting	15,000	15,000	15,000	15,000	15,000
	54,114	**50,000**	**50,000**	**50,000**	**50,000**
Assets					
Car Parking at Clowne	13,416	0	0	0	0
Pleasley Vale Mill - Dam Wall	100,410	0	0	0	0
Land at Portland Street	109,750	0	0	0	0
Shirebrook Crematorium	1,873,750	6,886,414	725,100	0	0
Cultural Business and Skills Hub	0	50,211	249,789	0	0
CISWO - former Creswell LC	166,000	0	0	0	0
	2,263,326	**6,936,625**	**974,889**	**0**	**0**
ICT Schemes					
ICT infrastructure	306,825	332,000	110,000	102,000	60,000
Digital Screens	31,970	0	0	0	0
Town Centre Regeneration	29,000	0	0	0	0
	367,795	**332,000**	**110,000**	**102,000**	**60,000**
Leisure Schemes					
Playing Pitch Improvements (Clowne)	440,284	0	0	0	0
Pleasley Vale - Leisure	20,000	0	0	0	0
Go Active Café Equipment	25,000	0	0	0	0
Go Active Equipment	15,000	15,000	15,000	15,000	15,000
Gym Equipment & Spin Bikes	0	0	0	0	392,100
Go-Active Gym flooring	0	0	0	0	40,000
Toning Tables (Leisure)	0	0	0	0	80,000
Houfton Rd Play Area (Insurance)	25,000	0	0	0	0
Community Assets (Leisure)	10,000	0	0	0	0
	535,284	**15,000**	**15,000**	**15,000**	**527,100**
Private Sector Schemes					
Disabled Facility Grants	650,000	650,000	650,000	650,000	650,000
	650,000	**650,000**	**650,000**	**650,000**	**650,000**
Joint Venture					
Dragonfly Joint Venture Shares	519,150	0	0	0	0
Dragonfly Joint Venture Loan	1,753,202	0	0	0	0
	2,272,352	**0**	**0**	**0**	**0**
Vehicles and Plant					
Vehicle Replacements	1,132,662	1,746,000	1,434,500	174,000	751,500
Vehicle Wash Area	1,000	0	0	0	0
Can Ranger's Equipment	14,231	0	0	0	0
	1,147,893	**1,746,000**	**1,434,500**	**174,000**	**751,500**
Total General Fund	**7,520,347**	**9,989,625**	**3,494,389**	**1,251,000**	**2,298,600**

APPENDIX 2A

CAPITAL PROGRAMME SUMMARY	Revised Budget 2022/23 £	Original Programme 2023/24 £	Forecast Programme 2024/25 £	Forecast Programme 2025/26 £	Forecast Programme 2026/27 £
Housing Revenue Account					
New Build Properties					
Alfreton Rd Pinxton	56,860	511,700	0	0	0
Ashbourne Extension	1,038,857	0	0	0	0
Bolsover Homes-yet to be allocated	1,068,931	4,233,880	8,500,000	5,000,000	0
Bolsover Homes Staffing Costs	272,506	272,506	0	0	0
Harlesthorpe Ave Bungalow adaptation	125,000	0	0	0	0
Jubilee Court (Bungalows x2)	0	300,000	0	0	0
Keepmoat Properties at Bolsover	818,500	0	0	0	0
Market Close Shirebrook	3,926,144	1,753,072	0	0	0
Meadow View Homes - Glapwell	0	696,000	0	0	0
Moorfield Lane Whaley Thorns	126,688	1,393,565	0	0	0
Sandy Lane/Thorpe Ave Whitwell	299,340	0	0	0	0
The Whitwell Cluster	26,828	0	0	0	0
The Woodlands	3,000,000	0	0	0	0
Valley View (2 Bungalows & extension)	750,000	0	0	0	0
West Street Langwith	142,919	708,333	0	0	0
	11,652,573	**9,869,056**	**8,500,000**	**5,000,000**	**0**
Vehicle Replacements	477,600	625,500	209,000	140,000	0
	477,600	**625,500**	**209,000**	**140,000**	**0**
Public Sector Housing					
Bramley Vale	0	100,000	1,450,000	1,475,000	1,475,000
Electrical Upgrades	212,000	250,000	125,000	125,000	125,000
External Door Replacements	150,000	120,000	70,000	70,000	70,000
External Wall Insulation	506,211	0	0	0	0
Fencing	110,000	0	0	0	0
Flat Roofing	75,000	100,000	40,000	40,000	40,000
Heating Upgrades	78,740	80,000	100,000	100,000	100,000
Kitchen Replacements	335,000	220,000	200,000	200,000	200,000
Public Sector Housing - not yet allocated	0	0	0	1,927,534	1,924,870
Re Roofing	1,000,000	750,000	750,000	750,000	750,000
Property Services Mgmt. & Admin	99,846	125,496	128,056	130,666	133,330
Safe & Warm	2,305,993	2,922,704	1,955,144	0	0
Soffit and Facia	30,000	30,000	30,000	30,000	30,000
Unforeseen Reactive Capital Works	107,107	100,000	100,000	100,000	100,000
Welfare Adaptations	423,761	400,000	400,000	400,000	400,000
Wet Rooms (Bungalows)	150,000	150,000	0	0	0
Whaley Common - Air Source Heating	250,000	0	0	0	0
	5,833,658	**5,348,200**	**5,348,200**	**5,348,200**	**5,348,200**
ICT Schemes					
Open Housing	79,686	0	0	0	0
	79,686	**0**	**0**	**0**	**0**
New Bolsover Scheme (incl. HLF)					
New Bolsover-Regeneration Scheme	16,000	0	0	0	0
	16,000	**0**	**0**	**0**	**0**
Total HRA	**18,059,517**	**15,842,756**	**14,057,200**	**10,488,200**	**5,348,200**
TOTAL CAPITAL EXPENDITURE	**25,579,864**	**25,832,381**	**17,551,589**	**11,739,200**	**7,646,800**

APPENDIX 2A

CAPITAL PROGRAMME SUMMARY	Revised Budget 2022/23 £	Original Programme 2023/24 £	Forecast Programme 2024/25 £	Forecast Programme 2025/26 £	Forecast Programme 2026/27 £
Capital Financing					
General Fund					
Better Care Fund	(650,000)	(650,000)	(650,000)	(650,000)	(650,000)
Prudential Borrowing	0	(3,632,012)	(725,100)	0	0
Reserves	(4,309,759)	(2,403,000)	(1,869,500)	(601,000)	(1,648,600)
Capital Receipts	(1,984,334)	(3,254,402)	0	0	0
External Funding	(576,254)	(50,211)	(249,789)	0	0
	(7,520,347)	**(9,989,625)**	**(3,494,389)**	**(1,251,000)**	**(2,298,600)**
HRA					
Major Repairs Allowance	(5,833,658)	(5,348,200)	(5,348,200)	(5,348,200)	(5,348,200)
Prudential Borrowing	(2,085,281)	(8,264,471)	(8,500,000)	(5,000,000)	0
Reserves	(8,409,915)	(1,946,752)	(209,000)	(140,000)	0
Capital Receipts	0	(283,333)	0	0	0
External Funding	(1,730,663)	0	0	0	0
	(18,059,517)	**(15,842,756)**	**(14,057,200)**	**(10,488,200)**	**(5,348,200)**
TOTAL CAPITAL FINANCING	**(25,579,864)**	**(25,832,381)**	**(17,551,589)**	**(11,739,200)**	**(7,646,800)**

Appendix 2B

Annual Minimum Revenue Provision Statement 2023/24

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Ministry for Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance:

For capital expenditure incurred before 1 April 2008 the Minimum Revenue Provision policy will be:

- **Historic Debt** - MRP will follow the existing practice outlined in former MHCLG Regulations (Option 1) - capital financing requirement minus "adjustment A" multiplied by 4%.

From 1 April 2008 for all capital expenditure funded by borrowing the Minimum Revenue Provision policy will be:

- **Asset Life Method** - MRP will be based on the estimated useful life of the asset starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

For assets acquired by finance 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.

For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the MHCLG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.

No MRP will be charged in respect of assets held within the Housing Revenue Account.

The charge to revenue for MRP is not made until the year after which the capital expenditure is incurred.

In 2019/20 the Authority took steps to reduce the amount of MRP charged by swapping the financing of the capital programme from borrowing to the use of reserves. The Council's Medium Term Financial Strategy 2023/24 – 2026/27 approved in August 2022 states that *'Borrowing costs will be incurred (on capital projects) only where the cost is covered by new income as part of a business case.'*

Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2023, the budget for MRP for borrowing incurred in previous years' has been set as follows:

	31.03.2023 Estimated CFR £m	**2023/24 Estimated MRP £**
Capital expenditure before 01.04.2008	0.121	0.139
Unsupported capital expenditure incurred 31.03.2008 – 31.03.2019	0.284	0.213
Finance leases	0	0
Total General Fund	**0.405**	**0.352**
Assets in the Housing Revenue Account	0	0
HRA subsidy reform payment	0	0
Total Housing Revenue Account	**0**	**0**
Total	**0.405**	**0.352**

Appendix 3

Bolsover District Council

Corporate Investment Strategy 2023/24 - 2026/27

1 Strategy Details

1.1 The Corporate Investment Strategy was introduced by the 2018 edition of the government's Guidance on Local Government Investments. It focuses on investments made for service purposes and commercial reasons, rather than those made for treasury management.

1.2 This strategy outlines the Authority's Corporate Investment Strategy for the years 2023/24 to 2026/27 for consideration and approval by Council before the start of each financial year.

1.3 The Authority's Capital Expenditure programme and Minimum Revenue Provision policy (MRP) are considered in a different strategy, the Capital Strategy.

1.4 A further strategy, the Treasury Management Strategy, details the Authority's plans to invest cash surpluses and borrow to cover cash shortfalls.

Introduction

1.5 The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

1.6 This Corporate Investment Strategy meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

Treasury Management Investments

1.7 The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £15m and £40m during the 2023/24 financial year.

1.8 **Contribution:** The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

1.9 **Further details:** Full details of the Authority's policies and its plan for 2023/24 for treasury management investments are covered in a separate document, the Treasury Management Strategy.

Service Investments: Loans

1.10 **Contribution:** The Authority lends money to its joint ventures, business partners, parish/town councils, local charities, housing associations, and community groups to support local public services and stimulate local economic growth. For example we may give a loan to a parish council who are undertaking a large building project to help with cash flow until external monies are received.

1.11 **Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes

Category of borrower	31.3.2022 actual			2023/24
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Wholly owned company - Dragonfly	£0.290m	0	£0.290m	£6m
Business Partners	0	0	0	£5m
Parish / Town Councils	0	0	0	£5m
Local charities	0	0	0	£5m
Housing associations	0	0	0	£5m
Community Groups	0	0	0	£5m
TOTAL	**£0.290m**	**0**	**£0.290m**	

1.12 Accounting standards require the Authority to set aside a loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts are shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

1.13 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding service loans by undertaking a comprehensive business case for each individual potential investment opportunity. This will include a market analysis focusing on competition, demand and current market trends. External advisors will be used where appropriate to ensure that the Authority has access to quality advice and expertise in specialist areas. Each potential investment will undergo qualitative and quantitative appraisal to establish its suitability to the Authority's core values and the legal and financial implications of the purchase.

Service Investments: Shares

1.14 **Contribution:** The Authority invests in the shares of its wholly owned company, Dragonfly Development Limited to support local public services and stimulate local economic growth by delivering housing and commercial developments whilst generating income for the Authority.

1.15 **Security:** One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 2: Shares held for service purposes

Category of company	31.3.2022 actual			2023/24
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Wholly owned company - Dragonfly	£0.108m	0	£0.108m	£1.000m
TOTAL	**£0.108m**	**0**	**£0.108m**	**£1.000m**

1.16 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding shares by undertaking a comprehensive business case for each individual potential investment opportunity. This will include a market analysis focusing on competition, demand and current market trends. External advisors will be used where appropriate to ensure that the Authority has access to quality advice and expertise in specialist areas. Each potential investment will undergo qualitative and quantitative appraisal to establish its suitability to the Authority's core values and the legal and financial implications of the purchase.

1.17 **Liquidity:** Based on the approved limit in Table 2 the funds will not be required in the short term and may prudently be committed for the periods covered by this strategy.

1.18 **Non-specified Investments:** Shares are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

Commercial Investments: Property

1.19 **Contribution:** The Authority's current investment in commercial property is characterised by the larger investments, Pleasley Vale Mills and The Tangent Business Hub which are aimed to provide appropriate commercial accommodation to support local small businesses to develop and grow. The Authority has developed a Commercial Property Investment Strategy which looks to expand its existing non-housing property portfolio with the intention of making a profit wherever possible that will be spent on local public services.

1.20 **Security:** In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

1.21 A fair value assessment of the Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2022/23 year end accounts preparation and audit process value these properties below their purchase cost, then an updated Corporate Investment Strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

1.22 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding property investments by undertaking a comprehensive business case for each individual potential investment opportunity. This will include a market analysis focusing on competition, demand and current market trends. External advisors will be used where appropriate to ensure that the Authority has access to quality advice and expertise in specialist areas. Each potential investment will undergo qualitative and quantitative appraisal to establish its suitability to the Authorities core values and the legal and financial implications of the purchase

1.23 **Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Authority will only invest cash that is not needed in the short term based on current cash flow predictions. In addition to this a well-diversified property portfolio will be held, spread across different property sectors.

Loan Commitments and Financial Guarantees

1.24 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Authority and are included here for completeness.

1.25 The Authority is in the process of reviewing its strategy for its wholly owned company Dragonfly Developments Limited, in light of the changes that have occurred during 2022/23. It is currently contractually committed to make up to £3.020m of loans to Dragonfly Development Limited should it request it but a future Council report will update this position should it prove necessary.

Borrowing in Advance of Need

1.26 Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.

Capacity, Skills and Culture

1.27 **Elected members and statutory officers:** This Authority recognises the importance of ensuring that all Elected Members and Officers involved in investment decisions are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. Elected Members' individual training and development needs are addressed by a Member Development Programme. The Authority's Treasury Management Advisors Arlingclose, provide both Elected Members and Officers with training in relation to all areas of Treasury Management.

1.28 **Commercial deals:** The Authority has a decision making framework which is aligned to the requirements of the Statutory Guidance Relating to Local Authority Investments. A dedicated Property Investment Panel, made up of Cabinet Members and the relevant Officers, including legal and financial Officers will prepare a business case for each potential Commercial Investment.

1.29 **Corporate governance:** The Commercial Property Investment Strategy sets out a number of core principles the Authority will require in a commercial investment. All investments will need to align with Corporate Plan priorities.

Investment Indicators

1.30 The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

1.31 **Total risk exposure:** The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

Table 3: Total investment exposure

Total investment exposure	31.03.2022 Actual	31.03.2023 Forecast	31.03.2024 Forecast
Treasury management investments	£42.459	£21.800	£10.000
Service investments: Loans	£0.290	£2.000	£3.000
Service investments: Shares	£0.108	£0.199	£0.100
TOTAL INVESTMENTS	**£42.857**	**£23.999**	**£13.100**
Commitments to lend	£1.753	£1.753	0
TOTAL EXPOSURE	**£44.610**	**£25.752**	**£13.100**

1.32 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Table4: Investments funded by borrowing

Investments funded by borrowing	31.03.2022 Actual	31.03.2023 Forecast	31.03.2024 Forecast
Dragonfly Development Limited	0	0	3,000
TOTAL FUNDED BY BORROWING	**0**	**0**	**3,000**

1.33 **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 5: Investment rate of return (net of all costs)

Investments net rate of return	2021/23 Actual	2022/23 Forecast	2023/24 Forecast
Treasury management investments	0.16%	1.50%	4.13%
ALL INVESTMENTS	**0.16%**	**1.50%**	**4.13%**

- Dragonfly Development Limited, has not been included in the above table as its main focus is to support local public services and stimulate local economic growth rather than commercial investment.

Bolsover District Council

Meeting of Council
1st February 2023

UK Shared Prosperity Fund

Report of the Monitoring Officer

Classification	This report is public
Report By	Assistant Director of Governance & Monitoring Officer Jim.fieldsend@bolsover.gov.uk 01246 242472
Contact Officer	As above

PURPOSE / SUMMARY OF REPORT

- To provide the Council with an update on the UK Shared Prosperity Fund (UKSPF).
- To approve the suspension of the Contract Procedure Rules in relation to procurement relating to the UKSPF.

REPORT DETAILS

1 Update

1.1 The UKSPF is a central pillar of the Government's Levelling Up agenda. It provides £2.6 billion of funding for local investments.

1.2 In order to access the UKSPF allocation, each local authority was asked to submit an Investment Plan setting out measurable outcomes it is looking to deliver, and what interventions will be prioritised. Bolsover District Council's Investment Plan was approved on 12th January 2023 and funding is eligible over a three year period from 2022/23 to 2024/25. Payments will be received in accordance with the following table.

Allocation 2022/23	Allocation 2023/24	Allocation 2024/25
£258,349	£476,697	£1,248,947

1.3 A number of schemes have already been agreed and outlined below. Some of the schemes will be delivered internally however other schemes will be delivered by external organisations. Many of the internally provided schemes will also require an element of external procurement. The identified schemes are as follows:

- Bolsover CCTV redeployable cameras (internal);
- Cultural Arts Corridor (internal);
- Tourism and Culture (internal);
- This Girl Codes (external);
- Cycle and Explore (internal);
- You V Train (ASB) (internal);
- Youth Based Intervention Programme (internal);
- Visitor economy business support (internal);;
- Business growth grant scheme (internal);
- Hyper local small business support (internal);
- Hyper local Net Zero innovation programme (internal);
- Bolsover Community Grants

1.4 For the schemes that need to be delivered by external organisations and for the internally delivered schemes that require the purchase of external supplies, the Council will still need to undertake a procurement exercise. All procurements need to follow the procedures as set out in the Council's Contract Procedure Rules. However the UKSPF have set conditions for procurement which do not align with the Council's rules. The differences are set out below; BDC requirements are as follows;

BDC Contract Procedure Rules Requirements

Value of contract	**Minimum procedure**
£0 - £1,000	an oral or written quote
£1,001- £5,000	3 written quotes or prices sought from relevant suppliers of goods, works and/or services
£5,001 to £75,00	Request for Quotation
Over £75,000	Formal tender process

UKSPF Requirements

Value of contract	**Minimum procedure**
£0 - £2,499	Direct award
£2,500 - £24,999	3 written quotes or prices sought from relevant suppliers of goods, works and/or services
Over £25,000	Formal tender process

1.5 Therefore below £25,000 the Council’s requirements are stricter however above £25,000 and up to £75,000 UKSPF’s is more onerous. We could look to combine the two procurement regimes so that the most onerous requirements apply however this would mean that the way we do things will be out of step with the funder’s intentions. Also having one set of standards would make the procurement process easier to navigate. In order to resolve this it is proposed that the Council agrees to relax our procurement rules so that officers follow the UKSPF rules but only in relation to the UKSPF schemes. Any contracts that require a formal tender would still be undertaken with the support of the Council’s Procurement Team.

2 Reasons for Recommendation

To enable officers to procure goods and services for UKSPF schemes in accordance with the UKSPF requirements.

3 Alternative Options and Reasons for Rejection

To amend the Contract Procedure Rules to merge the Council and UKSPF requirements. This is rejected as this would mean the requirements would be stricter than what UKSPF had intended.

RECOMMENDATIONS

1. To note that the Council’s UKSPF Investment Plan application has been approved;
2. To agree to suspend the Council’s Contract Procedure Rules as set out in the report.

Approved by the Portfolio Holder – Finance

IMPLICATIONS;

Finance and Risk: **Yes☒** **No ☐**

Details:

As the cost of the schemes are provided by external grant funding there is no impact on the Council’s budgets.

On behalf of the Section 151 Officer

Legal (including Data Protection): **Yes☒** **No ☐**

Details:

The Contract Procedure Rules forms part of the Council’s Constitution. The Council may make amendments to the Constitution and the changes proposed in this report amount to such amendments.

On behalf of the Solicitor to the Council

Environment: Please identify (if applicable) how this proposal/report will help the Authority meet its carbon neutral target or enhance the environment. **Details:** Environmental implications are not applicable for this report. **Staffing:** **Yes☐** **No ☒** **Details:** On behalf of the Head of Paid Service

DECISION INFORMATION

Is the decision a Key Decision? A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: **Revenue - £75,000** ☐ **Capital - £150,000** ☐ ☒ *Please indicate which threshold applies*	No
Is the decision subject to Call-In? (*Only Key Decisions are subject to Call-In*)	No

District Wards Significantly Affected	
Consultation: **Leader / Deputy Leader** ☐ **Executive** ☒ **SLT** ☐ **Relevant Service Manager** ☐ **Members** ☐ **Public** ☐ **Other** ☒	Details: Portfolio Holder- Finance

Links to Council Ambition: Customers, Economy and Environment.

DOCUMENT INFORMATION

Appendix No.	**Title**

Bolsover District Council

Meeting of Council on 1st February 2023

Dragonfly Development Limited
Full Business Case

Report of the Leader of Council

Classification	This report is public
Report Of	Report of the Leader of Council

PURPOSE / SUMMARY OF REPORT

- To provide Council with the full business case in relation to Dragonfly Development Ltd for consideration.
- To seek approval of the recommendations regarding the future arrangements for the operation of Dragonfly Development Ltd and the Council, outlined within this report.

REPORT DETAILS

1 Update

1.1 Members will be aware that Woodhead Construction Ltd, the Council's joint venture partner from 2016 ceased trading on 14th September 2022. On 2nd November 2022, Council received an update regarding arrangements put in place to ensure the continuity and completion of the current and future construction projects and options for the future of Dragonfly Development Ltd as a wholly owned company (WOC) of the Council.

1.2 At the meeting on 2nd November, it was noted that an agreement had been reached with Woodhead Regeneration Ltd, and ratified at the Dragonfly Board for Dragonfly Development Ltd to be converted into a wholly owned company of Bolsover District Council. This process was completed on 4th October 2022.

1.3 In order to ensure that work was able to continue on the existing sites, the Council directly recruited some of the former Woodhead staff and project management and quantity surveyor staff, on temporary contracts. These staff have now been transferred to Dragonfly Development Ltd on permanent contracts of employment.

1.4 In addition, it was agreed that a full business case would be independently commissioned to explore the future options for Dragonfly Development Ltd, including income generation from housing, property, commercial and regeneration activities.

1.5 The business case has been commissioned from Sharpe Pritchard (Public Sector Lawyers) and is aligned to the requirements of the HM Treasury Five Case Model and the CIPFA Local Authority Owned Companies good practice guide. It has been procured in accordance with Council procedures through East Midlands Law Share.

1.6 The business case is attached at **Appendix 1** of this report. As part of the preparatory work undertaken in the development of the business case, all Members were invited to attend a meeting with the independent consultants. This took place on 13th December 2022.

1.7 In addition, all Members were invited to receive a full presentation of the final business case on 19th January 2023 and have been provided with the opportunity to discuss the content and ask questions regarding the options proposed.

1.8 It is important to note that the business plan contains details of schemes and projects as examples of ongoing works in progress and options for future schemes. Any future scheme will be subject to its own business plan and will come to Council for separate approval. The purpose of this report is to seek approval for the overarching business case relating to the principles of the company and does not seek approval for any new schemes.

2 The Business Case

2.1 The business case for Dragonfly Development Ltd, see **Appendix 1**, provides a detailed analysis under 5 key themes as follows:

- The Strategic Case
- The Economic Case
- The Commercial Case
- The Financial Case
- The Management Case

Details of each of these cases, together with analysis and the options considered are outlined on page 1 of the business case.

2.2 This includes details of the Council's current ambition, vision statement and the case for change. It also highlights the current national and local backdrop that Bolsover finds itself in, including high housing demands, house prices to income ratio and the impact of the cost of living crisis. High demand and need for limited social and private housing in the District is detailed alongside the requirement of improved private sector stock condition. It acknowledges 'tackling issues in relation to private rented accommodation is a priority focus for the Council', as documented within our Housing Strategy.

2.3 The purpose and objectives of developing the capabilities of Dragonfly Development Ltd are outlined on page 6 of the business plan and provide a clear ambition, outlined below:

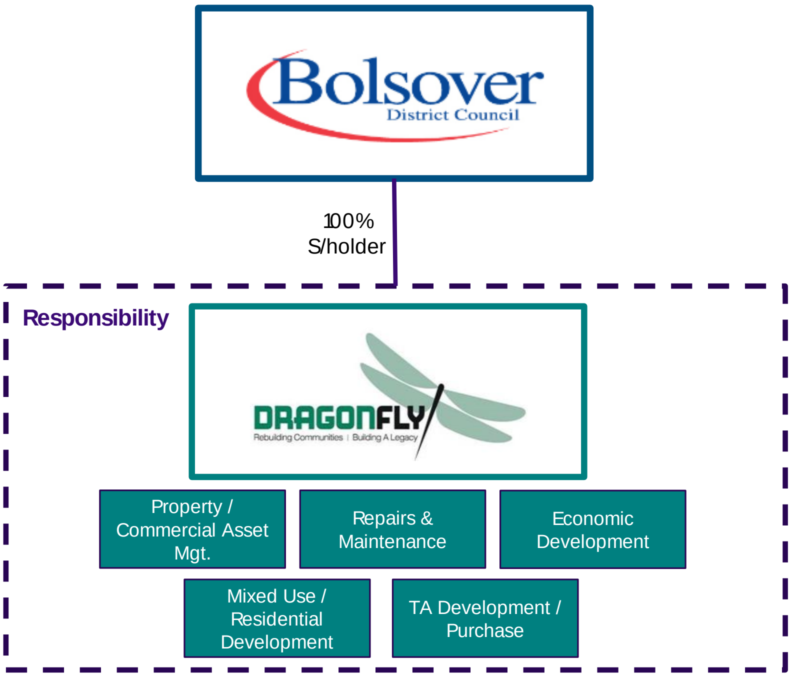
Purpose
To enable economic growth and community regeneration through direct commercial action and to generate an income for Bolsover District Council.
To reinvigorate Bolsover District by directly constructing, stimulating employment, tourism, providing quality housing, regeneration and income opportunities through direct intervention and delivery.

Objectives
1. To provide a mechanism for the Council to directly deliver its construction programme for both social housing, private housing and commercial projects.
2. To contribute to meeting challenging housing delivery targets to meet population and housing growth projections.
3. To provide good quality private rented accommodation across the District.
4. To empower staff, services and skills to maximise outcomes.
5. To maximise investment in commercial and retail property to generate a return on investment.
6. To provide an avenue to enable sites to be developed which aren't viable for open market sales (private rent / other tenures).
7. To increase the supply, quality and range of housing to meet the needs of the growing population and support economic growth, ensuring more quality homes are available to rent or buy.
8. To lead by example, by being a socially responsible private landlord.
9. To directly influence the reduction of empty properties across the District (purchase, renovate and rent).
10. To maximise additional income streams to the Council.
11. To provide a range of accommodation across the District to meet the needs of local people, including, sheltered accommodation, retirement homes, bungalows and family accommodation.
12. To be able to react more quickly to local opportunities.
13. To maximise the shareholder return on investment whilst delivering wider social and economic benefits to communities.

2.4 The business plan also considers, in detail, the scope of services (both existing Council services and new services), that could be provided directly by Dragonfly Development Ltd. Initially, 6 options were considered and risk rated, with 2 being discounted as inappropriate at a very early stage within the plan. The remaining 4 options have then progressed to the Economic Case for further consideration.

2.5 Full analysis of the 4 remaining options are outlined on pages 11-20 of the business case. Each have been considered in terms of their key financial and non-financial benefits to the Council and primarily differ depending on the level / numbers of services and staff to be transferred into the company.

2.6 The full options appraisal is detailed on pages 21 and 22 of the report, with the risk-rated summary on page 23. The summary concludes that option 4 scores the highest and ranks first. This option allows for the transfer of the following services and staff into Dragonfly Development Ltd:



2.7 With this model, Dragonfly Development Ltd would be responsible for the full scope of services outlined above and would deliver them with teams made up of staff within the company, transferred from the Council on existing terms and conditions of employment.

2.8 The Commercial Case is discussed within Section 3 of the business case and considers company structure, funding and governance. Tax considerations are also outlined alongside the options for funding.

2.9 The CIPFA Good Practice guide on Local Authority Companies advises that a company should have sufficient freedom to achieve its objectives and to be able to compete with other companies in the market. This however needs to be balanced against the Council's needs to retain effective oversight of the company thus protecting its investment and ensuring the company acts in accordance with the Council's ethos and values.

2.10 It is essential that board members offer the company and existing directors long term stability. This is to ensure consistency of decision making and to ensure a thorough level of understanding and experience of Dragonfly operations is built up and retained.

2.11 Many of the governance arrangements will be set out in a shareholder agreement. This is a contract entered into by the Council (as shareholder of

Dragonfly) and Dragonfly itself. It regulates the relationship between the shareholders and the company and governs the management of the company.

2.12 Typically the shareholder agreement will include arrangements such as the ability to agree the makeup of the board and identity of the directors. Currently there are two directors of Dragonfly Development Limited, Cllr Steve Fritchley and Grant Galloway and it is intended they remain on the board to ensure stability and retain knowledge. There is no set rule as to the maximum number of directors on the board, however the Institute of Directors' accepted practice is that there should be between 4 and 7 (two of these being the current board members). The remaining will come from either within the Council or from outside it (Non-Executive Directors).

2.13 In addition the shareholder agreement will contain a number of reserved matters which are activities the company can only undertake with the express consent of the Council as shareholder, for example approval of the company Business Plan and appointment of senior staff. Further examples of typical reserved matters are set out in the Business Case however this is not an exhaustive list.

2.14 There will also be a number of service level agreements dealing with the services that Dragonfly will undertake for the Council, such as repairs and maintenance of Council properties. This will include service level agreements for the services the Council will be providing, such as legal services, HR, payroll and finance.

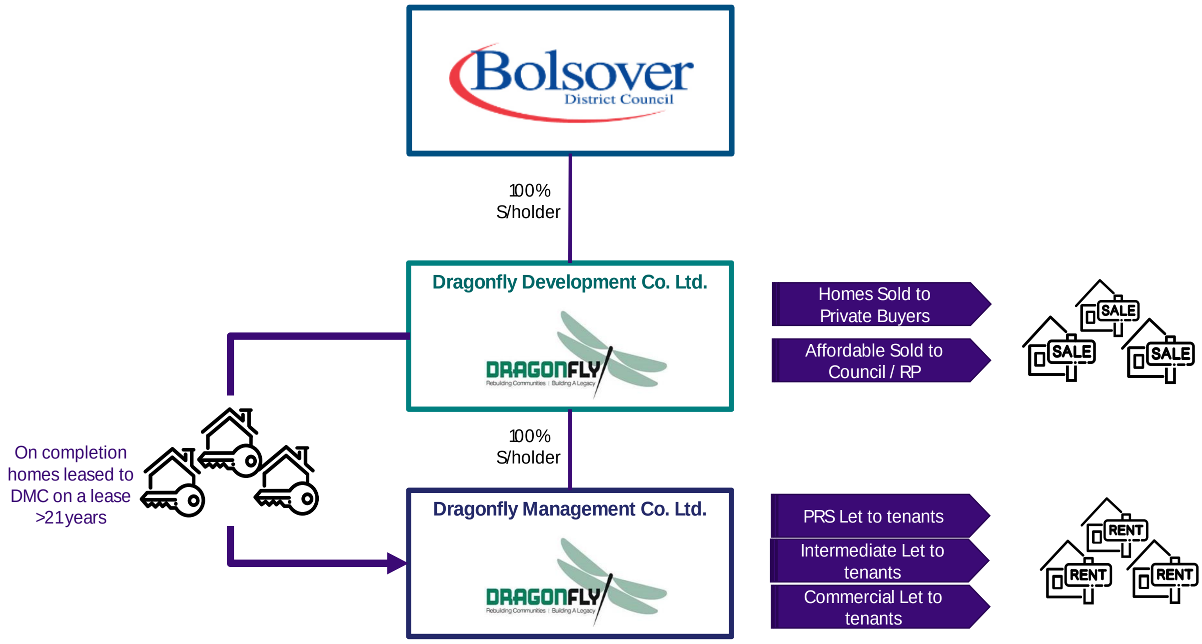
2.15 In order to take decisions on company issues, including whether to authorise a development, the Council will need to agree internal governance arrangements. Generally a final decision on a particular issue, e.g. providing land for a development opportunity would be made by the Executive, however leading up to that point there would need to be discussions at a combined officer/member level.

2.16 The business case has proposed the establishment of a Project Group and Shareholder Board to act as sounding boards and discussion forums to advise the Executive on Dragonfly issues. These groups will be made up of relevant officers and Councillors. Scrutiny, Audit and the Council's Risk Management Group will also need to play a role in the governance framework. Scrutiny's involvement will evolve over time to ensure that Dragonfly performs against its objectives.

2.17 Establishing clear communication channels between the Council and Dragonfly will be an important part of developing the relationship as will ensuring that systems are in place to ensure the Council has appropriate access to company information and data. Also arrangements should be in place for the required audit of company finances.

2.18 The establishment of a clear and workable governance framework will be developed and further reports on this will be presented to Executive for approval at future meetings.

2.19 The business case confirms the company will be looking to develop a portfolio of sites for housing or other developments. The existing company structure comprises the Council as a sole shareholder of a single entity in the form of Dragonfly Developments Ltd which is established and limited by shares. The business case confirms there are potential tax advantages in splitting the development activity away from the managements activity within the company and establishing a new Dragonfly Group as shown below:



Page 26 of the business case explains how the Group arrangement of companies would work and the factors driving this recommendation including tax considerations and funding arrangements.

2.20 The Commercial Case concludes that there are no commercial considerations that would restrict or prevent the establishment of Dragonfly Group. The implementation of the structure with the appropriate legal and governance arrangements in place will enable the delivery of the full scope of services, be funded in a potentially viable way using a Subsidy Control compliant funding approach and will enable the levels of control required for the Council.

2.21 Most importantly, the Financial Case is outlined at Section 4, page 39 of the business case. This section details staffing and other costs, considers affordability and provides some examples of viability assessments. The report confirms there are a series of ways the Council could benefit financially from the activities of Dragonfly Group as follows:

1. Profit distribution from Dragonfly Group to the Council as 100% shareholder;
2. Interest premium - the income generated by charging a commercial interest rate of say 7% to Dragonfly Group for the development loans and the Council borrowing from Public Works Loan Board (PWLB) at

say 4% to fund this on-lending. The difference between the two is an income to the Council;

3. Cost Saving on services delivered by the company (should it deliver the services more efficiently due to its operating model, this cost saving is a financial benefit to the Council);
4. Temporary Accommodation saving compared to current costs - Whilst the temporary accommodation costs money to the company, reducing its level of surpluses, it does provide homelessness accommodation at a cheaper rate than the Council currently incur, providing a saving to the Council.

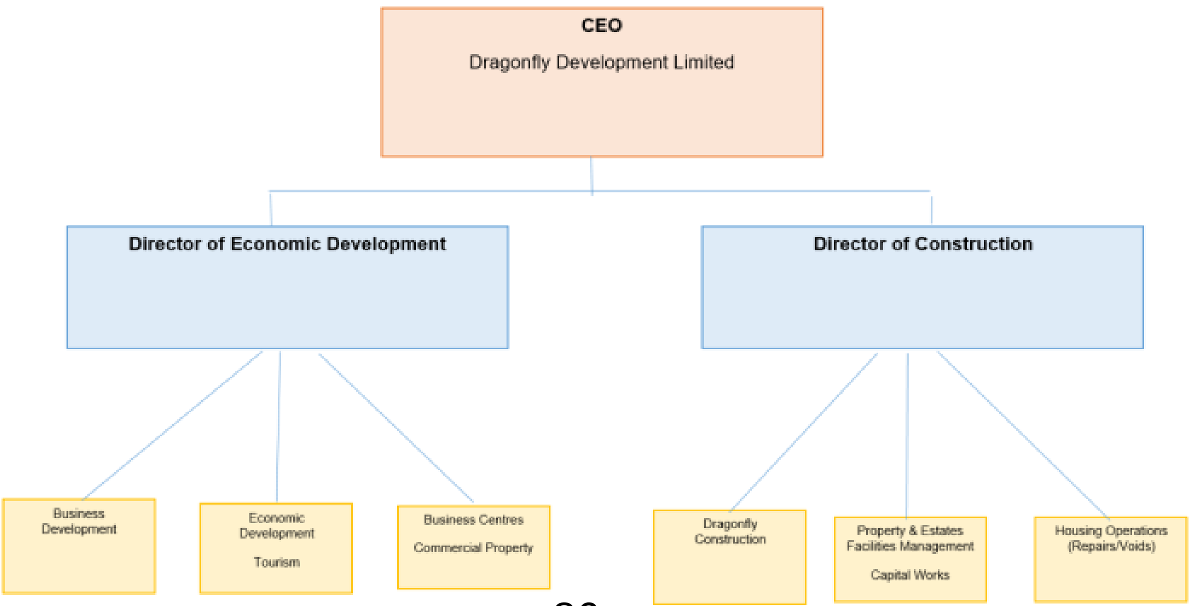
2.22 As mentioned earlier in this report, all future schemes will be subject to individual business planning and will come to Council for separate consideration and approval. The purpose of this report is to seek approval for the overarching business case relating to the principles of the company and does not seek approval for any new schemes.

3. <u>Senior Management Structures</u>

<u>Dragonfly Development Ltd</u>

3.1 As outlined within the Council report of 2nd November 2022, a permanent senior management structure is required within Dragonfly to enable the appropriate transfer and recruitment of staff into the company and ensure line management reporting and procedures are implemented. This has been undertaken by way of secondment of staff in the first instance, until the development of the business case and the subsequent consideration of permanent arrangements are agreed and implemented.

3.2 The temporary arrangements currently in place are contained within the diagram below and are considered appropriate to be made permanent subject to the approval of the business case and the recommendations contained within it. In addition, full staff and union consultation will take place prior to any changes being implemented and the Council will be required to comply with TUPE obligations.



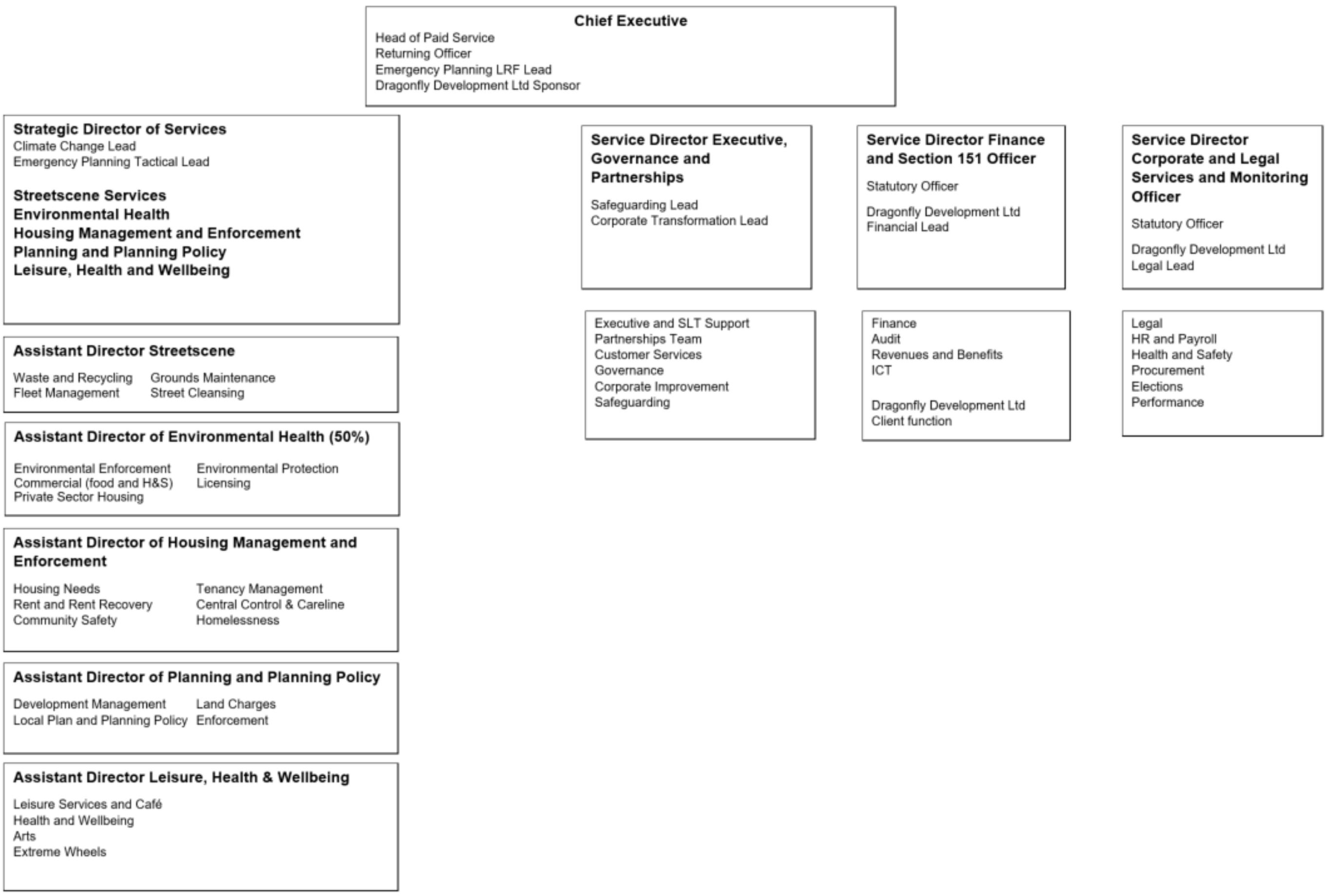
Bolsover District Council

3.3 The Council has a balanced Medium Term Financial Plan (MTFP) for 2023/24 – 2026/27. The reductions in government funding are being mitigated by the NNDR Growth Protection Reserve over the life of the MTFP and a balance of £4.607m remains for future years.

3.4 The business case produced at **Appendix 1**, demonstrates that Dragonfly is a viable proposition that will provide the Council with a positive income stream.

3.5 Alongside the structural arrangements for Dragonfly, it will be necessary to undertake a restructure of the senior leadership team remaining within the Council to ensure the continued provision of services, which will be largely unaffected by these proposals. These services include services such as Street Scene Services, Housing Management and Community Safety, Leisure Services, Environmental Health, Planning, Partnership Team and the support services such as Finance and Legal Services (Section 151 Officer and Monitoring Officer).

3.6 The proposed structure for services remaining within the Council includes the permanent appointment of the Chief Executive of the Council in the first instance, followed by a subsequent partial restructure of the senior leadership team (subject to full staff and union consultation). A larger copy of this structure is attached at **Appendix 2**.



3.7 The expected maximum extra annual cost of implementing the structure proposed at **Appendix 2** is £0.049m. This additional cost would fall to general fund and in effect be financed by the NNDR Growth Protection Reserve until year 4 of the Dragonfly business case when the first positive contribution to the Council is made. Profits paid from Dragonfly to the Council would then cover this amount.

3.8 There will be service level agreements set up between the Council and Dragonfly for the provision of the services which are being transferred into the Company. Therefore, for Business Development; Economic Development; Tourism; Business Centres and Commercial Property; Property and Estates; Facilities Management; Capital works and Housing Operations the Council will make payments to Dragonfly for the provision of these services in line with the agreements.

3.9 There will also be service level agreements set up for the provision of support services such as human resources; payroll; finance; legal and procurement being carried out by the Council for Dragonfly. This will be paid by Dragonfly to the Council in line with the agreements.

3.10 These amounts are still being calculated as part of establishing the internal procedures required to run and operate the Company. An amount was allocated as part of the revised budget for 2022/23, to enable the Council to obtain specialist advice in areas it has not previously been involved. These areas include preparing service level agreements, shareholder agreements and financial modelling; human resources advice such as TUPE and Company Taxation advice. The amount of £0.100m is currently held in the Council's Transformation Reserve.

Transitional Arrangements

3.11 It is recognised there will be a period of transition to include staff and union consultation, the seeking of all appropriate advice and guidance and the roll-out of the new arrangements outlined within this report. During this period, staff will be encouraged to participate in the consultations, will receive regular information and will be given the opportunity to ask questions. Current management arrangements will remain in place to ensure the continuity of services to the public and to allow a smooth and managed transition to the new arrangements.

4 Reasons for Recommendation

4.1 Full details of the reasons for the recommendations are contained within this report and the business case at Appendix 1 attached.

5 Alternative Options and Reasons for Rejection

5.1 Alternative options are outlined and explored within the business case at **Appendix 1**, attached.

6 RECOMMENDATIONS

1. Council approve the full Business Case at **Appendix 1**, including the recommended business and governance model.

2. Subject to full and appropriate staff and trade union consultation and TUPE requirements, staff within the teams outlined within the business case are transferred into Dragonfly Development Ltd.

3. Delegation be given to the Head of Paid Service to make any required changes to the above staffing structure and arrangements following staff consultation.

4. Executive receive a report regarding additional appointments to the existing Board of Directors in due course for approval.

5. Council approve that Grant Galloway, Ian Barber and Chris Fridlington are permanently appointed to their posts within Dragonfly Group on the same terms and conditions as previously agreed within the current temporary arrangements.

6. Council approve that Karen Hanson is appointed as Chief Executive of Bolsover District Council on the same terms and conditions as previously agreed within the current temporary arrangements.

7. Subject to full and appropriate staff and trade union consultation, Council approve the senior management structure of the Council outlined within the report with staff assimilated into posts where appropriate and in accordance with the Council's restructure policy.

8. Delegation to be given to the Head of Paid Service to make appropriate amendments to the above following staff consultation.

9. Council approve the use of £0.100m already added to the Transformation Reserve be used to obtain specialist advice as described in paragraph 3.10 of the report.

Approved by the Portfolio Holder – Corporate Governance

IMPLICATIONS

Finance and Risk: Yes☒ No ☐

Details:

Financial implications are covered in detail throughout the report and business case.

In Summary:
The business case commissioned shows Dragonfly to be a viable proposition over the 30 year period of the plan.

The Company first makes a profit after tax in 2026/27 which is the fourth year of its operation. The business case shows the losses made in the first 3 years of operation during development and before it starts generating returns, are recouped by 2034 using current assumptions. These calculations are based on assumptions made at a certain point in time for such as interest rates/costs of materials/achievable income to name but a few, and as such can change over time.

As described in section 4.5, there are risks associated with setting up and running a company. These will be developed, managed and mitigated wherever possible throughout the development of the Dragonfly business plan, both for Dragonfly and the Council.

On Behalf of the Section 151 Officer

Legal (including Data Protection): **Yes☒** **No ☐**
Details:

A shareholder agreement will need to be completed setting out how the Dragonfly Development shall be governed. Other service level agreements will need to be prepared dealing with services to be provided by the Council to the company and by the company to the Council

On Behalf of the Solicitor to the Council

Staffing: **Yes☒** **No ☐**
Details:

The Council's policies and procedures relating to secondments and restructure arrangements will be followed. TUPE obligations will be undertaken and all proposed changes will be subject to appropriate staff consultation.

On behalf of the Head of Paid Service

DECISION INFORMATION

Is the decision a Key Decision? A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: **Revenue - £75,000** ☐ **Capital - £150,000** ☐ ☒ *Please indicate which threshold applies*	No
Is the decision subject to Call-In? (*Only Key Decisions are subject to Call-In*)	No

District Wards Significantly Affected	
Consultation: **Leader / Deputy Leader** ☒ **Executive** ☒ **SLT** ☒ **Relevant Service Manager** ☒ **Members** ☐ **Public** ☐ **Other** ☐	Details:

Links to Council Ambition: Customers, Economy and Environment.
Focussing on Our Customers Focussing on Our Economy Focussing on Our Environment

DOCUMENT INFORMATION

Appendix No.	Title
Appendix 1	Bolsover District Company – Dragonfly, Business Case
Appendix 2	Proposed BDC Senior Leadership Team structure

Bolsover District Council

Bolsover District Company

Income Generation from Housing, Commercial and Regeneration Activities - Business Case

January 2023

31 TEN

SHARPE PRITCHARD

CONTENTS

1. Strategic Case

This Business Case is structured around the HM Treasury Five Case model. The diagram below shows the five cases and their purpose

Strategic case	Economic Case	Commercial Case	Finance case	Management case
• Introduction • Current Arrangements • Case for change • Business need • Objectives • Long List Options • Conclusion	• Shortlisted Options • Key Financial and Non Financial Benefits • Appraisal Criteria • Options Appraisal Selection of Preferred Option • Conclusion	• Structure and Funding • Commercial Considerations • Legal Structure • Funding • Governance • Tax • Conclusion	• Preferred Option • Operational Costs • Transaction approach and costs • Affordability • Conclusion	• Project Governance arrangements • Approach to project management • Conclusion

This section forms the Strategic Case of the business case for the Council to develop an approach to income generation from its housing, commercial and regeneration activities. It is intended to provide a common understanding of the current issues that need to be addressed for Bolsover District Council (BDC, or the Council) and considers the high-level strategic options open to it to address these issues. The document identifies a series of feasible options for consideration at the next stage, in the Economic Case.

1.1. Introduction: the proposition

To deliver the Council's ambition vision statement 2020 - 2024, *'to become a dynamic, self-sufficient and flexible Council that delivers excellent services, whilst adapting to local aspirations and acting as the economic and environmental driver for Bolsover District'*, there is a pressing need to generate income from housing, development, and regeneration activities to fund the investment required to tackle the key challenges facing BDC.

Operating amongst the current economic and political climate is a critical challenge for all Councils across the country. With large volumes of Council funding being utilised to address the current cost of living and inflation crisis, it is increasingly important for local authorities to invest in income generating activities to ensure Council operations remain funded in both the short, medium, and long term. With a substantial list of issues facing the Council (explored below), it's vital the Council can fund the investment required to address the issues ahead. The Council are in a position where they wholly own 'Dragonfly Developments'. It is critical that this organisation is tailored to tackle vital issues at the forefront of Bolsover's agenda, whilst simultaneously providing long term solutions and sustainability to BDC. Establishing the business model, and a business plan are the initial steps to ensuring 'Dragonfly Developments' effectively serves the BDC ambition and vision.

1.2. Current Arrangements and the Case for Change

Financial position

To deliver the housing, development, and regeneration needs of the Council, BDC had contracted with Woodhead construction to facilitate delivery of projects. The Council has approval to invest £36 million to build new Council properties, all of which were at risk with Woodhead Construction ceasing trading. The Council took swift action to take full control of 'Dragonfly Developments' and procure the required resources from Woodhead construction to ensure delivery of current and future projects. Woodhead had contractually agreed to spend within the local economy, agreeing to source 80% of subcontractors within 20 miles of sites. Alongside this, a range of apprenticeship and training opportunities were to be created, boosting skills, and providing jobs across the district. The Annual Population Survey (2020) published by the ONS reports the percentage of the Bolsover working-age (aged 16-64) population who have a degree or higher is 21.0%, which is below the 42.8% degree qualification rate for England. The data demonstrates the significant need to support the labour market, and as such the Council intervention to take full control of 'Dragonfly Developments' will ensure that the benefits to the local economy and it's residents can still be delivered.

With Government grants and funding reducing, it is increasingly important for BDC to become self-sufficient and strategic in their decision making. The acquisition is the first step to achieving this, however the logistical, operational, and strategic mechanisms are currently absent, and will need to be established to ensure 'Dragonfly Developments' is set up for success.

Demand and need

Akin to the rest of the nation, there is significant demand for appropriate social and private housing in Bolsover, suitable for the population need. Housing data clearly demonstrates the significant gap:

- In 2017, The Strategic Housing Market Assessment OAN estimated that to meet all housing need in the district 126 affordable homes would have to be brought forward every year to 2034.
- As of 13th January 2023, there were 1,655 applicants on the Council's Housing Register.
- The Derbyshire County Council's Older Peoples Housing Strategy, has assessed that Bolsover District Council needs 200 additional units of older people's designated housing to 2035

The data above illustrates the shortfall in housing provision within Bolsover and showcases an opportunity for BDC to utilise 'Dragonfly Developments' to tackle this critical issue at the forefront of the housing agenda. Alongside this, the housing market is currently failing to provide sufficient supported housing for people with complex needs, such as those living with mental health issues, learning disabilities and Autism. There is a further need for the Council to provide suitable and sufficient housing for the increasing ageing population within Bolsover (forecasted to grow 49.8% by 2041, ONS 2016).

Despite the demand for properties within Bolsover, as of August 2020 there were 754 long term empty properties in the District, approximately one third of these have been empty for more than 2 years. The Council could combine the use of policy and the resources of 'Dragonfly Developments' to intervene to ensure reduced numbers of empty properties to house those who require homes.

Bolsover strategic backdrop

Whilst the supply of housing fails to meet demand, the housing landscape in Bolsover is further complicated by the cost of housing within the district. Data shows:

- It is estimated that 24% of First Time Buyers cannot afford to purchase a flat and 36% cannot afford to buy a terraced house in the district.
- The house price to income ratio in Bolsover district at October 2020 is 5:1. (Source: Hometrack Housing Intelligence October 2020)

These statistics were recorded prior to the cost of living and inflation crisis, and therefore it's likely the number of residents priced out of purchasing a property in Bolsover has increased over the past 24 months. The Council can seek to address this through increasing the supply of homes, through housing development, and regeneration activities via 'Dragonfly Developments'

Tackling issues in relation to private rented accommodation is a priority focus for the Council, as documented in the Bolsover Housing Strategy.

The key issues within the private rental sector relate to the below quality and security of tenure in the private rented sector, and the shortage of suitable properties aligned to population need. This is clearly evidenced by data, as shown below:

- There is very limited private rented accommodation available, making up 13% of the properties in the district. Majority of the properties in this sector are owned by landlords who own one property or a very small number.
- Private Sector Stock Condition Survey: The survey concluded that 1,443 homes in the district of Bolsover fail the Decent Homes criteria, the majority are properties built pre 1918. Approximately 16.9% (5,110) homes contain a Housing Health and Safety Rating System (HHSRS) category 1 hazard, this is higher than the East Midlands Region (13.8%) and England (12.2%). It is estimated that 18.6% of HHSRS category 1 hazard are homes in the private rented sector and 16.3% are owner occupied homes.

The data clearly emphasises the need for appropriate intervention within the private rental market, a role which 'Dragonfly Developments' could adopt to restore the private sector landscape to acceptable levels. The Council are already providing several works across Bolsover, which are activities that could be undertaken and scaled by 'Dragonfly Developments', such as:

- Electrical works – April 2020 to March 2024 – upgrades to approximately 900 properties.
- Efficiency East Midlands (EEM) Framework – New windows and doors
- Replacement Kitchens
- Bolsover Safe and Warm Scheme
- Re-roofing programme
- External Wall Installation (EWI) scheme

National backdrop

The narrative from previous years of shortfalls in affordable housing provision due to a combination of market and local authority failures is likely be accentuated due to the current cost of living crisis, the after-effects of the global pandemic, and the war in Ukraine. Councils across the country are overspending on budgets to control the impact of multiple crises, which adversely impacts funding allocations for critical areas within the Council such as housing development, and regeneration. Whilst there may be a substantial upfront cost, adopting a proactive strategy in relation to housing development and regeneration will allow the Council to improve the medium to long term outlook. The severity of the challenge at hand can be demonstrated by understanding the risk to homelessness to residents within Bolsover. Recent figures show that homelessness is becoming more of an issue as BDC have seen 345 approaches for homelessness since April 2022 to date, compared with 233 in the full financial year of 2021/22 and 98 in 2020/21. The Council can deploy Dragonfly Developments to support delivery of the Bolsover Homelessness and Rough Sleeper Strategy.

Macro-Economic Factors

The development construction industry is currently in crisis as a result of a series of macro economic issues. Material shortages have caused significant supply chain issues for the sector at large, costs have soared since the start of 2021, and a combination of price inflation, energy price rises and the Ukraine conflict have all impacted the development sector significantly with construction cost inflation hitting c. 25% in July 2022 and interest rates hitting new highs for the last decade.

These factors, coupled with the cost of living crisis hitting residents, are providing a perfect storm. The cost of delivering housing is increasing whilst demand also hits new highs with record levels of people presenting as homeless, or qualifying for long term social housing.

1.3. Purpose and Objectives

The Council has undertaken an exercise to identify the *Purpose* and *Objectives* of this exercise. These are driven directly from the Council's ambitions as set out in it's Ambition Statement 2020-2021 which states that it wishes to become a dynamic, self-sufficient and flexible Council that delivers excellent services, whilst adapting to local aspirations and acting as the economic and environmental driver for Bolsover District.

The purpose of this exercise is articulated below:

Purpose
To enable economic growth and community regeneration through direct commercial action and to generate an income for Bolsover District Council.
To reinvigorate Bolsover District by directly constructing, stimulating employment, tourism, providing quality housing, regeneration and income opportunities through direct intervention and delivery.

The following set of Objectives were developed from this purpose:

Objectives
1. To provide a mechanism for the Council to directly deliver its construction programme for both social housing, private housing and commercial projects.
2. To contribute to meeting challenging housing delivery targets to meet population and housing growth projections.
3. To provide good quality private rented accommodation across the District.
4. To utilise staff and skills effectively across the services to maximise outcomes.
5. To maximise investment in commercial and retail property to generate a return on investment.
6. To provide an avenue to enable sites to be developed which aren't viable for open market sales (private rent / other tenures).
7. To increase the supply, quality and range of housing to meet the needs of the growing population and support economic growth, ensuring more quality homes are available to rent or buy.
8. To lead by example, by being a socially responsible private landlord.
9. To directly influence the reduction of empty properties across the District (purchase, renovate and rent).
10. To maximise additional income streams to the Council.
11. To provide a range of accommodation across the District to meet the needs of local people, including, sheltered accommodation, retirement homes, bungalows and family accommodation.
12. To be able to react more quickly to local opportunities.
13. To maximise the shareholder return on investment whilst delivering wider social and economic benefits to communities.

1.4. Scope of Services

The Dragonfly Developments Joint Venture with Woodhead Construction was established to deliver mixed use developments and to sell the units developed, either to the Council, or to third parties. Now that the Council has taken control of the vehicle and brought it into the Council group structure, there is the opportunity to examine the potential for the vehicle to undertake a broader scope of services that is more aligned to the Council's broader aspirations.

The above set of objectives have been compared with the potential services that could be delivered by the company and the following scope of services has been developed. as a wholly owned company (WOC) new housing and other linked undertook the following scope of services:

Service	Explanation
Mixed use / residential development	To undertake the development of mixed use and residential schemes, including purchasing sites, undertaking pre development works, including securing planning, developing the sites and selling any commercial / residential assets that are not to be retained. The company will also undertake development services for Council owned sites.
Property / commercial asset management	To undertake all management activities to run retained assets, including landlord services such as rent collection for private rented sector housing, intermediate housing, temporary accommodation and commercial assets.
Repairs and Maintenance	To undertake all repairs and maintenance activities for the retained assets of the WOC, the Council's operational portfolio and the Council's 5,000 unit housing stock, including both routine and major repairs / capital replacement works.
Temporary Accommodation Development / Purchase	To develop, as a part of the above services, or to purchase street properties, for the purposes of temporary accommodation.
Economic Development	To develop the strategy for, and to implement, the Council's economic development strategy to ensure 'a successful local economy, supporting the development of sustainable communities'.

1.5. Alternative options considered

To address the issues identified in the case for change a long list of options was developed which could meet some or all of the needs. The table below summarises each of these options

No.	Option
1	The Council deliver through a hybrid of current Council structure and a wholly owned company limited by shares (WOC), with company tasks being contracted from the Council and third parties.
2	The Council deliver through a hybrid of current Council structure and a wholly owned company limited by shares (WOC), with some staff and service transferred into the WOC.
3	The Council deliver all services through a wholly owned trading company limited by shares and deliver the services through contracts let back to the Council / Third Parties.
4	The Council deliver all services through a wholly owned trading company limited by shares (WOC) and transfer the majority of relevant staff and services into the company.
5	The Council directly deliver within the current Council structure.

No.	Option
6	For Options 2 to 5, the corporate entity established is an alternative structure such as a Company Limited by Guarantee (CLG) or Limited Liability Partnership (LLP).

Each of these strategic options have been compared against the project objectives to determine the extent to which they would meet them, as well as the feasibility or deliverability of the options. All options which were deemed able to meet the objectives to some degree were identified to 'explore further' in the Economic Case as shown in the table below.

No.	Option	Commentary	Take forward? (RAG Rating)
1	**Hybrid Light Staffing** - The Council deliver through a hybrid of current Council structure and wholly owned company (WOC), with company tasks being contracted from the Council and third parties.	**Service Delivery Approach** ***Council*** • Property / commercial asset mgt. • Repairs and Maintenance • Economic Development ***WOC - Let to Council*** • Mixed use / residential development • Temporary Accommodation Development / Purchase	
		This approach has the potential to address the majority of the Council's objectives, although there are some challenges in some areas. In particular: • The WOC is purely a development vehicle and cannot hold stock and undertake management activities. • The WOC cannot blend staff across a number of areas in an efficient manner; • The WOC is buying services from the Council and cannot approach its resourcing in a commercial way; and • The WOC cannot cross subsidise development and management.	
2	**Hybrid with WOC Staffing** - The Council deliver through a hybrid of current Council structure and wholly owned company (WOC), with some staff and service transferred into the WOC.	**Service Delivery Approach** ***Council*** • Property / commercial asset mgt. • Repairs and Maintenance • Economic Development ***WOC*** • Mixed use / residential development • Temporary Accommodation Development / Purchase	

No.	Option	Commentary	Take forward? (RAG Rating)
		This approach has the potential to address the majority of the Council's objectives, although there are some challenges in some areas. In particular: • The WOC is purely a development vehicle and cannot hold stock and undertake management activities. • The WOC cannot blend staff across a number of areas in an efficient manner; and • The WOC cannot cross subsidise development and management.	
3	**WOC Light Staffing** - The Council set up a wholly owned trading company and deliver the services through contracts let back to the Council / Third Parties	**Service Delivery Approach** ***WOC - Let to Council*** • Mixed use / residential development • Property / commercial asset mgt. • Repairs and Maintenance • Temporary Accommodation Development / Purchase • Economic Development	
		This approach has the potential to address the majority of the Council's objectives, although there are some minor challenges in some areas. In particular: • The WOC cannot blend staff across several areas in an efficient manner as they are purchased from the Council; and • The WOC is buying services from the Council and cannot approach its resourcing in a commercial way. • The WOC is exposed to all development and management risk.	
4	**WOC with Staffing** - The Council set up a wholly owned trading company and transfer the majority of relevant staff and services into the company.	**Service Delivery Approach** ***WOC*** • Mixed use / residential development • Property / commercial asset mgt. • Repairs and Maintenance • Temporary Accommodation Development / Purchase • Economic Development	
		This approach has the potential to address the majority of the Council's objectives, although there are some minor challenges in some areas. In particular: • The WOC is exposed to all development and management risk.	
5	**Council Delivery** - The Council directly delivers within the current Council structure.	Appendix 1 has examined the Council's powers that are relevant to the activities of the company. Due to the Council undertaking the activities with a strong driver for financial return then there is a requirement on the Council to undertake these activities through an external vehicle.	No

No.	Option	Commentary	Take forward? (RAG Rating)
6	**Corporate Entity Options** - For Options 2 to 5, the corporate entity established is an alternative structure such as a Company Limited by Guarantee (CLG) or Limited Liability Partnership (LLP)	Appendix 1 has examined the potential alternative corporate entity structures that could be used. This analysis concludes that due to the Council undertaking the activities with a strong driver for financial return then a Company Limited by Shares is the most appropriate option.	No

1.6. Conclusion

In summary, the Strategic Case has demonstrated that there are several critical issues facing BDC, however 'Dragonfly Developments' can play a significant role in mitigating issues and developing long term sustainable solutions for the benefit of the Council, economy, and its residents. Data has clearly demonstrated the scale of the challenge facing the Council, across the issues of: increasing homelessness rates, inadequately qualified and trained local population, insufficient housing supply, large volumes of empty properties, unfit for purpose private rented landscape, restricted Council funding, limited appropriate housing options for complex needs residents and unaffordable homes.
There are strategic options to address these issues which should be explored further in the next stage – the Economic Case.

2. Economic Case

This section forms the Economic Case of the business case for the income generation approaches. The purpose of the Economic Case is to assess the options that address the strategic need identified. The Strategic Case considered a long list of options by comparison against the project objectives to arrive at a short list for further consideration. In the Economic Case these shortlisted options will be assessed against:

- Project objectives and Critical Success Factors – the extent to which the options meet the project objectives and the attributes that the solution should have to be successful; and

- Benefits – the financial and non-financial benefits of each option

The section will then select a preferred option for further analysis in the remaining three cases.

2.1 Shortlisted Options

The Strategic Case has highlighted four potential options to address the Council's strategic objectives for a Local Housing Company / Delivery vehicle. These options are as follows:

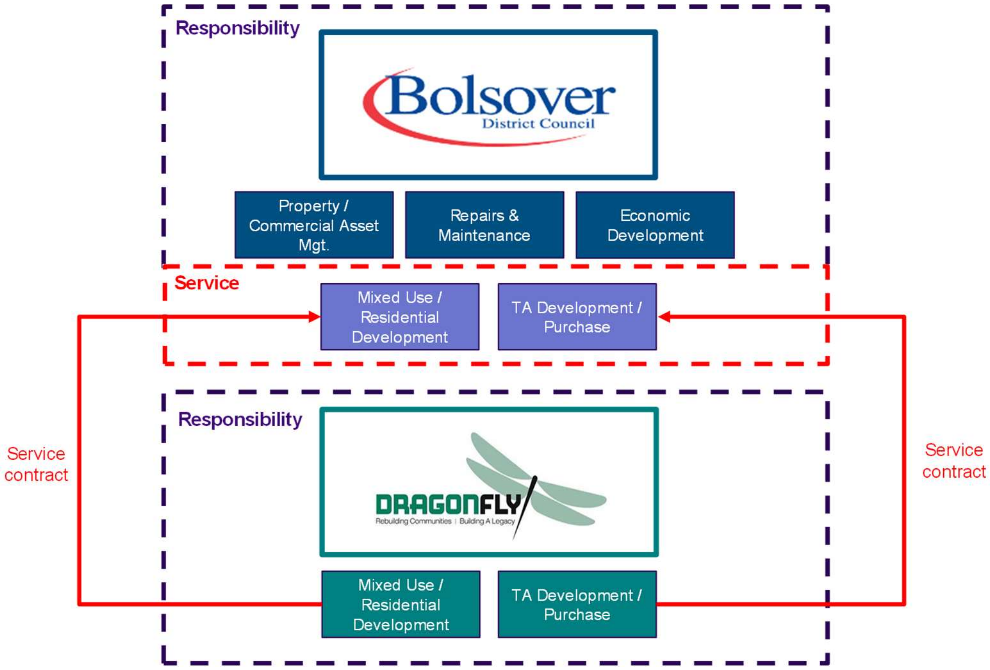
No.	Option	Explanation	Service Delivery
1	**Hybrid Light Staffing** - The Council delivers through a hybrid of current Council structure and wholly owned company (WOC), with company tasks being contracted from the Council and third parties.	Through this option the Council / WOC deliver the full scope of services with some being delivered directly by the Council and some through the WOC. The WOC is established with a very light staffing structure that commissions the services either through contracts back to the Council, or through contracts to third parties.	**Council** • Property / commercial asset mgt. • Repairs and Maintenance • Economic Development **WOC - Let to Council** • Mixed use / residential development • Temporary Accommodation Development / Purchase
2	**Hybrid with WOC Staffing** - The Council delivers through a hybrid of current Council structure and wholly owned company (WOC), with some staff and service transferred into the WOC.	Through this option the Council / WOC deliver the full scope of services with some being delivered directly by the Council and some through the WOC. The WOC is established with a comprehensive staffing structure to deliver its scope of services, although some specialist areas could be contracted from third parties.	**Council** • Property / commercial asset mgt. • Repairs and Maintenance • Economic Development **WOC** • Mixed use / residential development • Temporary Accommodation Development / Purchase

No.	Option	Explanation	Service Delivery
3	**WOC Light Staffing** - The Council set up a wholly owned trading company and deliver the services through contracts let back to the Council / Third Parties.	Through this option the WOC delivers the full scope of services. The WOC is established with a very light staffing structure that commissions the services either through contracts back to the Council, or through contracts to third parties.	**WOC - Let to Council** • Mixed use / residential development • Property / commercial asset mgt. • Repairs and Maintenance • Temporary Accommodation Development / Purchase • Economic Development
4	**WOC with Staffing** - The Council set up a wholly owned trading company and transfer the majority of relevant staff and services into the company.	Through this option the WOC delivers the full scope of services. The WOC is established with a comprehensive staffing structure to deliver its scope of services, although some specialist areas could be contracted from third parties.	**WOC** • Mixed use / residential development • Property / commercial asset mgt. • Repairs and Maintenance • Temporary Accommodation Development / Purchase • Economic Development

2.2 Key Financial and Non-Financial Benefits

In advance of undertaking the options appraisal this section explains each option and draws out the key financial and non-financial benefits of each.

Option 1 - Hybrid Light Staffing



The key features of this approach are as follows:

- The Council owns Dragonfly Developments as a 100% owned subsidiary vehicle.

- The responsibility for the scope of services is split between the Council and the WOC as follows:

Council Responsibility	WOC Responsibility
• Property / commercial asset mgt.	• Mixed use / residential development
• Repairs and Maintenance	• Temporary Accommodation Development / Purchase
• Economic Development	

- With this scope of services, the WOC is a development company only, in line with its current scope and the Council would retain management and repairs and maintenance services in house.

- The WOC is responsible for the services on the right, but it delivers these through purchasing them from the Council through service contracts.

- The WOC has a very light staffing model, largely operating with a Chief Executive Officer and contract management resource for the third party contracts.

- The vehicle would be funded through loans from the Council to undertake development, which would be repaid from development proceeds; and

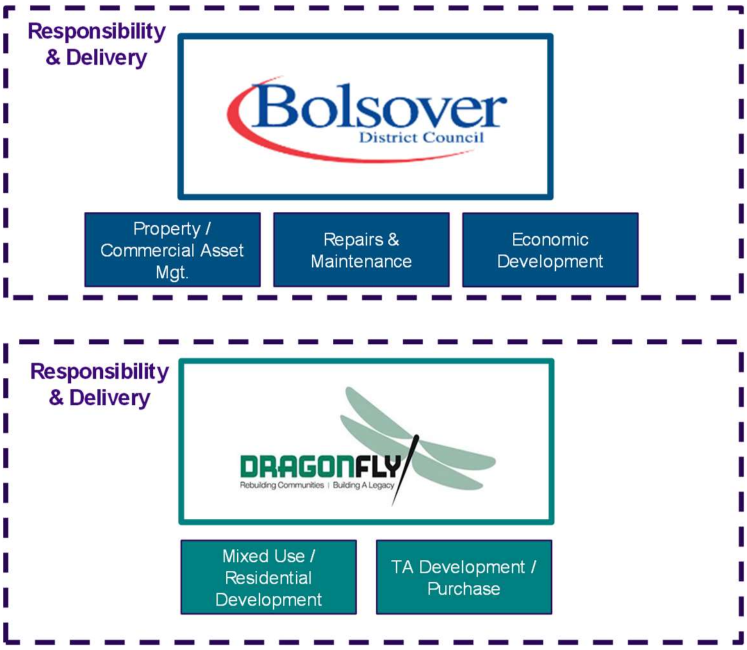
- Any surpluses would be distributed to the Council by way of dividend.

The key pros and cons of this approach against both financial and non-financial factors are detailed in the table below:

Pros	Cons
Financial	
The WOC has been established to act commercially and in line with its objectives. As a result, it is free of other Council responsibilities.	The Council will need to resource being on the Board of the WOC.
The WOC can recruit from the market outside of Council terms and conditions for its Chief Executive Officer / contract management staff.	The Council is not guaranteed a specific level of receipt, instead the vehicle will act at arm's length and not in the financial control of the Council.
The vehicle can generate financial returns from private development with a profit motive as the Council is using a trading company structure, something it could not do within the Council.	Financial returns can only be generated from development activity, not long-term management, thus not delivering long term income streams.
Financial risk is ringfenced to an external vehicle enabling the WOC's assets to be borrowed against.	As a company limited by shares, the WOC is likely to pay Corporation tax on its surpluses / profits.
	As the WOC is purchasing the services from the Council it is not able to put in place an efficient and effective staffing structure to deliver the scope of services for the best cost.
Non-Financial	

Pros	Cons
The Council can share risk with an expert party. The Council can share in risk and reward in order to deliver a viable programme.	Putting in place a WOC arrangement such as this takes time, and cost and appropriate governance arrangements need to be developed and operated for it to thrive.
Once established there is little to no ongoing procurement workload for the Council as the company is likely to be outside public procurement regulations.	The Council is establishing an arm's length organisation with its own autonomy, within the bounds of the shareholder agreement, as such the relationship needs to be managed.
The partnership can be set up with specific objectives to drive pace is desired, or to deliver some sites quicker than others.	The Council's land when transferred into the vehicle is no longer in the Council's control. It is possible for the WOC to borrow against this land from a third-party lender who would have security over it. As such, this stage the land would be at risk
By letting contracts back to the Council, there is no need for Council staff to be transferred to the new vehicle.	The Council need to be able to support the commercial pace of the vehicle this is challenging when Council governance processes require lengthy sign off processes for key items such as disposals or sign off of business plans.
	The Council lose overall control of the ongoing operational activities of the WOC.
	By letting contracts back to the Council the WOC cannot take strategic control of its staffing and resources, and as such will struggle to drive efficiency.
	By not pulling together asset management, repairs and maintenance and development it is not possible to have an integrated service across these areas which have significant synergies.

Option 2 - Hybrid with WOC Staffing



The key features of this approach are as follows:

- The Council owns Dragonfly Developments as a 100% owned subsidiary vehicle.

- The responsibility for the scope of services is split between the Council and the WOC as follows:

Council Responsibility	WOC Responsibility
• Property / commercial asset mgt.	• Mixed use / residential development
• Repairs and Maintenance	• Temporary Accommodation Development / Purchase
• Economic Development	

- With this scope of services, the WOC is a development company only, in line with its current scope and the Council would retain management and repairs and maintenance services in-house.

- The WOC is responsible for the services on the right and it delivers these through staffing the WOC with the relevant skill sets to deliver them, as such the team would include the Chief Executive Officer as well as a development team.

- These teams will be made up of staff already in the company, transferred from the Council (if relevant) and/or recruited from the market.

- The vehicle would be funded through loans from the Council to undertake development, which would be repaid from development proceeds; and

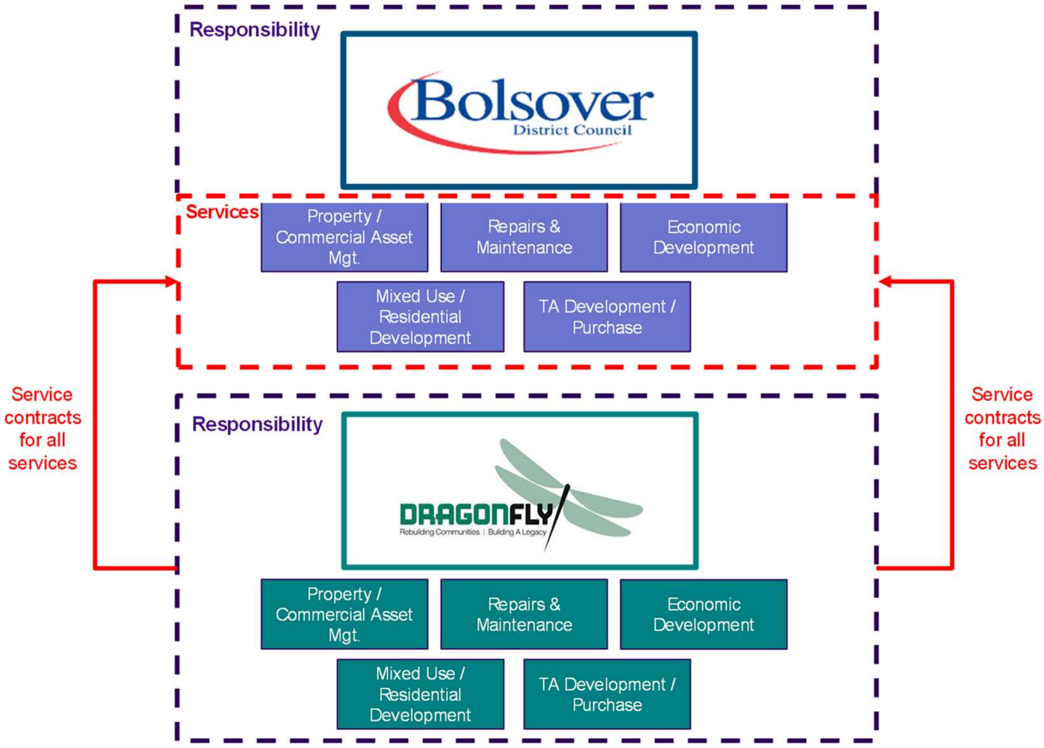
- Any surpluses would be distributed to the Council by way of dividend.

The key pros and cons of this approach against both financial and non-financial factors are detailed in the table below:

Pros	Cons
Financial	
The WOC has been established to act commercially and in line with its objectives. As a result, it is free of other Council responsibilities.	The Council will need to resource being on the board of the WOC.
The WOC can recruit from the market outside of Council terms and conditions for its Chief Executive Officer / development staff. Thus, competing with the development market.	The Council is not guaranteed a specific level of receipt, instead the vehicle will act at arm's length and not in the financial control of the Council.
The vehicle can generate financial returns from private development with a profit motive as the Council is using a trading company structure, something it could not do within the Council.	Financial returns can only be generated from development activity, not long-term management, thus not delivering long term income streams.
Financial risk is ringfenced to an external vehicle enabling the WOC's assets to be borrowed against.	As a company limited by shares, the WOC is likely to pay Corporation tax on its surpluses / profits.

Pros	Cons
As the WOC is employing its own staff to deliver the services it is responsible for it is able to put in place an efficient and effective staffing structure to deliver the scope of services for the best cost.	There are potentially significant costs in transferring staff, including TUPE arrangements.
Non-Financial	
The Council can share risk with an expert party. The Council can share in risk and reward to deliver a viable programme.	Putting in place a WOC arrangement such as this takes time, and cost and appropriate governance arrangements need to be developed and operated for it to thrive.
Once established there is little to no ongoing procurement workload for the Council as the company is likely to be outside public procurement regulations.	The Council is establishing an arm's length organisation with its own autonomy, within the bounds of the shareholder agreement, as such the relationship needs to be managed.
The partnership can be set up with specific objectives to drive pace if desired, or to deliver some sites quicker than others.	The Council's land when transferred into the vehicle is no longer in the Council's control. It is possible for the WOC to borrow against this land from a third-party lender who would have security over it. As such, this stage the land would be at risk.
By delivering development services directly the WOC cannot take strategic control of its staffing and resources, and drive efficiency.	The Council need to be able to support the commercial pace of the vehicle which is challenging when Council governance processes require lengthy sign off processes for key items such as disposals or sign off on business plans.
	The Council lose overall control of the ongoing operational activities of the WOC.
	By not pulling together asset management, repairs and maintenance and development, it is not possible to have an integrated service across these areas which have significant synergies.

Option 3 - WOC Light Staffing



The key features of this approach are as follows:

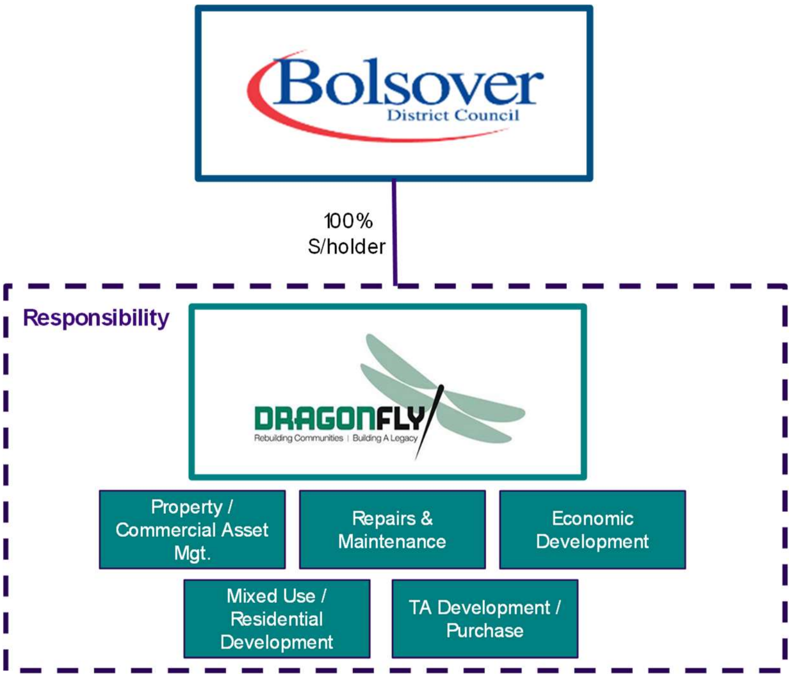
- The Council owns Dragonfly Developments as a 100% owned subsidiary vehicle.
- The responsibility for the scope of services is all undertaken by the WOC.
- The WOC is responsible for the services, but it delivers these through purchasing them from the Council through service contracts.
- The WOC has a very light staffing model, largely operating with a Chief Executive Officer and contract management resource for the third party contracts.
- The vehicle would be funded through a combination of proceeds from service contracts and loans from the Council to undertake its full scope of services, any loans would be repaid from WOC surpluses; and
- Any surpluses would be distributed to the Council by way of dividend.

The key pros and cons of this approach against both financial and non-financial factors are detailed in the table below:

Pros	Cons
Financial	
The WOC has been established to act commercially and in line with its objectives. As a result, it is free of other Council responsibilities.	The Council will need to resource being on the board of the WOC.

Pros	Cons
The WOC can recruit from the market outside of Council terms and conditions for its Chief Executive Officer / contract management staff.	The Council is not guaranteed a specific level of receipt, instead the vehicle will act at arm's length and not in the financial control of the Council.
The vehicle can generate financial returns from private development with a profit motive as the Council is using a trading company structure, something it could not do within the Council.	As a company limited by shares, the WOC is likely to pay Corporation tax on its surpluses / profits.
Financial risk is ringfenced to an external vehicle enabling the WOC's assets to be borrowed against.	As the WOC is purchasing the services from the Council it is not able to put in place an efficient and effective staffing structure to deliver the scope of services for the best cost.
Financial returns can be generated from development activity and management activity, thus delivering long term income streams.	
Non-Financial	
The Council can share risk with an expert party. The Council can share in risk and reward to deliver a viable programme.	Putting in place a WOC arrangement such as this takes time, and cost and appropriate governance arrangements need to be developed and operated for it to thrive.
Once established there is little to no ongoing procurement workload for the Council as the company is likely to be outside public procurement regulations.	The Council is establishing an arm's length organisation with its own autonomy, within the bounds of the shareholder agreement, as such the relationship needs to be managed.
The partnership can be set up with specific objectives to drive pace if desired, or to deliver some sites quicker than others.	The Council's land when transferred into the vehicle is no longer in the Council's control. It is possible for the WOC to borrow against this land from a third-party lender who would have security over it. As such, this stage the land would be at risk.
By letting contracts back to the Council, there is no need for Council staff to be transferred to the new vehicle.	The Council need to be able to support the commercial pace of the vehicle which is challenging when Council governance processes require lengthy sign off processes for key items such as disposals or sign off on business plans.
By pulling together asset management, repairs and maintenance and development it is possible to have as integrated service across these areas which have significant synergies.	The Council lose overall control of the ongoing operational activities of the WOC.
	By letting contracts back to the Council the WOC cannot take strategic control of its staffing and resources, and as such will struggle to drive efficiency.

Option 4 - WOC with Staffing



The key features of this approach are as follows:

- The Council owns Dragonfly Developments as a 100% owned subsidiary vehicle.
- The responsibility for the full scope of services sits with the WOC.
- The WOC is responsible for the full scope of services, and it delivers these through staffing the WOC with the relevant skill sets to deliver them, as such the team would include the Chief Executive Officer as well as teams for development, asset management, repairs and maintenance, temporary accommodation and economic development;
- These teams will be made up of staff already in the company, transferred from the Council and/or recruited from the market.
- The vehicle would be funded through a combination of proceeds from service contracts and loans from the Council to undertake its full scope of services, any loans would be repaid from WOC surpluses; and
- Any additional surpluses would be distributed to the Council by way of dividend.

The key pros and cons of this approach against both financial and non-financial factors are detailed in the table below:

Pros	Cons
Financial	

Pros	Cons
The WOC has been established to act commercially and in line with its objectives. As a result, it is free of other Council responsibilities.	The Council will need to resource being on the board of the WOC.
The WOC can recruit from the market outside of Council terms and conditions for its Chief Executive Officer and all service staff. Thus, competing with the development, asset management and other service markets.	The Council is not guaranteed a specific level of receipt, instead the vehicle will act at arm's length and not in the financial control of the Council.
The vehicle can generate financial returns from private development with a profit motive as the Council is using a trading company structure, something it could not do within the Council.	As a company limited by shares, the WOC is likely to pay Corporation tax on its surpluses / profits.
Financial risk is ringfenced to an external vehicle enabling the WOC's assets to be borrowed against.	There are potentially significant costs in transferring staff, including TUPE arrangements.
Financial returns can be generated from development activity and management activity, thus delivering long term income streams.	
As the WOC is delivering the services directly it is able to put in place an efficient and effective staffing structure to deliver the scope of services for the best cost.	
Non-Financial	
The Council can share risk with an expert party The Council can share in risk and reward to deliver a viable programme.	Putting in place a WOC arrangement such as this takes time, and cost and appropriate governance arrangements need to be developed and operated for it to thrive.
Once established there is little to no ongoing procurement workload for the Council as the company is likely to be outside public procurement regulations.	The Council is establishing an arm's length organisation with its own autonomy, within the bounds of the shareholder agreement, as such the relationship needs to be managed.
The partnership can be set up with specific objectives to drive pace if desired, or to deliver some sites quicker than others.	The Council's land when transferred into the vehicle is no longer in the Council's control. It is possible for the WOC to borrow against this land from a third-party lender who would have security over it. As such, this stage the land would be at risk .
By delivering services directly the WOC can take strategic control of its staffing and resources, and drive efficiency.	The Council need to be able to support the commercial pace of the vehicle which is challenging when Council governance processes require lengthy sign off processes for key items such as disposals or sign off of business plans.
By pulling together asset management, repairs and maintenance and development it is possible to have as integrated service across these areas which have significant synergies.	The Council lose overall control of the ongoing operational activities of the WOC.

2.3 Options Appraisal

This section of the Economic Case will undertake an appraisal of the different options to establish which best delivers against the Council's objectives.

This will be undertaken by comparing the options through a series of criteria, or critical success factors, that are extrapolated from the key objectives that the Council has set.

The table below details these objectives and the criteria that have been extrapolated from them, as well as an explanation of each.

Council Objectives	Critical Success Factor / Criteria	Explanation
1. To provide a mechanism for the Council to directly deliver its construction programme for both social housing, private housing and commercial projects.	A. Development of full housing spectrum	The approach enables the development of the full spectrum of housing including private and affordable.
	B. Development of commercial projects	The approach enables the development of commercial projects.
2. To contribute to meeting challenging housing delivery targets to meet population and housing growth projections.	C. Maximise housing delivery	The approach enables the maximisation of the delivery of housing of all tenures.
3. To provide good quality private rented accommodation across the District.	D. Private housing management	The approach enables the provision of housing management arrangements for private rented accommodation.
4. To utilise staff and skills effectively across the services to maximise outcomes.	E. Effective utilisation of staff	The approach enables the staff and skills to be utilised effectively across all of the different areas of synergy.
5. To maximise investment in commercial and retail property to generate a return on investment.	F. Investment into commercial / retail development	The approach enables investment by the Council / WOC into the development of commercial and retail property with an expressed purpose of generating financial return.
	G. Investment into commercial / retail management	The approach enables investment by the Council / WOC into the management of commercial and retail property with an expressed purpose of generating financial return.
6. To provide an avenue to enable sites to be developed which aren't viable for open market sales (private rent / other tenures).	H. Enables cross subsidy	The approach enables cross subsidy between developments, and between development and management activities.
7. To increase the supply, quality and range of housing to meet the needs of the growing population and support economic growth, ensuring more quality homes are available to rent or buy.	A. Development of full housing spectrum	The approach enables the development of the full spectrum of housing including private and affordable.
	I. Management of full housing spectrum	The approach enables the management of the full spectrum of housing including private and affordable.
8. To lead by example, by being a socially responsible private landlord.	D. Private housing management	The approach enables the provision of housing management arrangements for private rented accommodation.
9. To directly influence the reduction of empty properties	J. Purchase of empty properties	The approach enables the purchase of empty properties.

Council Objectives	Critical Success Factor / Criteria	Explanation
across the District (purchase, renovate and rent).	K. Renovation /operation of empty properties	The approach enables the renovation and operation of empty properties.
10. To maximise additional income streams to the Council.	L. Financial benefit	The approach maximises long term income streams to the Council as well as saving costs on delivery.
11. To provide a range of accommodation across the District to meet the needs of local people, including, sheltered accommodation, retirement homes, bungalows and family accommodation.	A. Development of full housing spectrum	The approach enables the development of the full spectrum of housing including private and affordable.
	I. Management of full housing spectrum	The approach enables the management of the full spectrum of housing including private and affordable.
12. To be able to react more quickly to local opportunities.	M. Provides a commercial agile vehicle	The approach provides a commercial and agile delivery vehicle outside the Council for the scope of services required.
13. To maximise the shareholder return on investment whilst delivering wider social and economic benefits to communities.	L. Financial benefit	The approach maximises long term income streams to the Council as well as saving costs on delivery.
	N. Development proceeds	The approach maximises development proceeds to the Council.
14. To balance risk and reward in delivering the Council's objectives	O. Development risk	The approach gives a high level of control to the Council over development risk.
	P. Management risk	The approach gives a high level of control to the Council over management risk.
	Q. Funding risk	The approach gives a high level of control to the Council over funding risk.

In order to assess the financial benefit to the Council for this comparative analysis of the 4 options, the comparable cost of service delivery has been calculated across the first five years to correspond with the development period. This assessment brings together:

- The total cost for the provision of the services
- The income generated from the services; and
- A Net Present Value (NPV) calculated to show the effective cost as at today.

This demonstrates the following comparable results

	Option 1	Option 2	Option 3	Option 4
Council Cost (NPV)	£34.0m	£33.9m	£34.3m	£30.7m
Rank	3	2	4	1

Scoring

These will each be scored on the following basis

Score	Explanation	Score
Addresses Fully	Criteria is addressed in full by the approach	3
Addresses Partially	Criteria is partially addressed by the approach	2
Does Not Address	The approach fails to address the criteria	1

The completed options appraisal is included within the table below

	Option 1 – Hybrid Light Staffing	Option 2 – Hybrid w. WOC Staffing	Option 3 – WOC Light Staffing	Option 4 – WOC w Staffing
A. Development of full housing spectrum	3	3	3	3
B. Development of commercial projects	3	3	3	3
C. Maximise housing delivery	2	2	2	3
D. Private housing management	1	1	2	3
E. Effective utilisation of staff	2	1	2	3
F. Investment into commercial / retail development	2	3	2	3
G. Investment into commercial / retail management	1	1	2	3
H. Enables cross subsidy	1	1	2	3
I. Management of full housing spectrum	1	1	3	3
J. Purchase of empty properties	3	3	3	3
K. Renovation /operation of empty properties	2	2	3	3
L. Financial Benefit	1	1	3	3
M. Provides a commercial agile vehicle	1	1	2	3
N. Development proceeds	2	2	3	3
O. Development Risk	1	1	2	1
P. Management Risk	3	3	2	1
Q. Funding Risk	3	3	2	2
Total	**32**	**32**	**41**	**46**
Ranking	**4th**	**3rd**	**2nd**	**1st**

2.4 Conclusion

The Options Appraisal has demonstrated a clear preferred option in the form of Option 4, for a WOC which incorporates the staff to deliver the full scope of services. The key factors that differentiated this option from the other three were as follows:

- Maximisation of housing delivery - By putting the WOC in control of all staffing and resourcing, as well as the full scope of services it can deliver more efficiently and therefore generate better returns to deliver additional housing
- Private housing management - only options 3 and 4 enable this service to be delivered effectively as the Council does not have the powers to operate private housing at scale. Option 4 scores higher due to its control over the staff and service entirely within the company enabling an integrated approach.
- Efficient and effective usage of staff - By undertaking all of the services within the WOC, the company can utilise the skills and capabilities of the team on multiple different workstreams in a less siloed fashion. The other options either divide the staff between organisations or do not maximise this potential by locating them in a single commercial entity.
- Investment into commercial / retail management - Option 4 is the only option that enables management of commercial and retail units with an expressed purpose of generating a profit.
- Enables Cross Subsidy - Option 4 maximises this potential as the full cross section of development and management is undertaken entirely within the control of the WOC, as such the WOC has the most control over costs and funding.
- Development proceeds - Option 4 generates the highest overall development proceeds.
- Risk - Option 4 scores worst on minimising risk, however, this is balanced by it maximising the return that can be generated which is a key requirement of the approach, as such it is not possible to score highly on both elements. The management of this risk is a key consideration of the Commercial Case.

3. Commercial Case

This section forms the Commercial Case of the business case for the preferred option of the scope of the WOC.

The purpose of the Commercial Case is to address any issues of commercial feasibility. It seeks to answer the question "can the proposal be effectively delivered from a commercial perspective?". It will outline how the preferred option of Dragonfly Developments being established to deliver the full scope of services with its own staffing resources will work and will highlight key commercial considerations and how they have been addressed.

- Other legal considerations
- Pensions

3.1 Company Structure, Funding and Governance

The Strategic and Economic Cases have established that Dragonfly Developments should continue as a company limited by shares. Now that the preferred option has identified the full scope of services to be undertaken by the WOC the company structure needs to be considered.

As detailed in section 2, the scope of services of the WOC will be as follows:

1. Mixed use / residential development
2. Property / commercial asset mgt.
3. Repairs and Maintenance
4. Temporary Accommodation Development / Purchase
5. Economic Development

Activities 1 to 4 relate to property portfolio development, acquisition, and management, whereas activity 5 is a service function that drives this activity.

There are significant structural, funding and governance considerations in how these activities are delivered by the WOC. This section considers these in turn, as follows:

- Company Structure
- Funding Arrangements
- Governance Arrangements

Company Structure

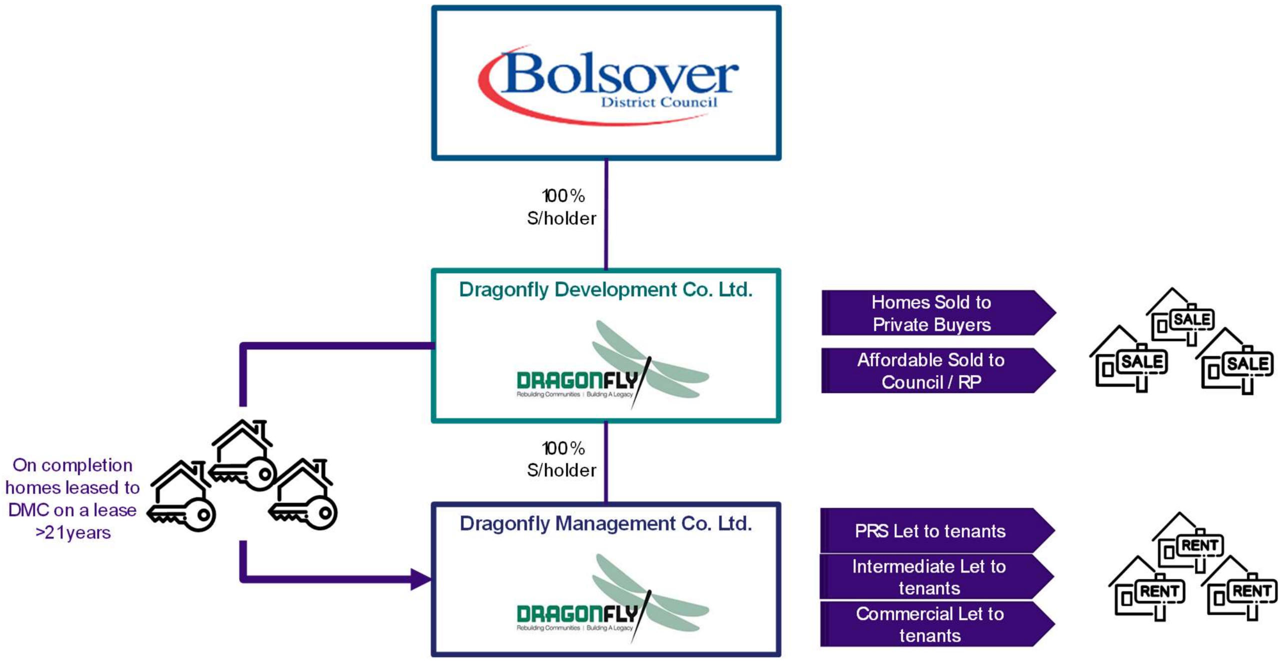
Tax considerations

The WOC will be looking to develop a portfolio of sites for housing or other development. The main activity which will be undertaken with the portfolio are expected to be:

- Develop and sell to private buyers;
- Develop and let to private individuals under a private rental scheme ("PRS");
- Develop affordable housing and sell to either the Council or Registered Providers;

- Develop non-housing sites for mixed use schemes such as retail and car-parking which will most likely be let.

The existing structure comprises the Council as sole shareholder of a single entity in the form of Dragonfly Developments Ltd. which is established as a company limited by shares. There are potential tax advantages in splitting the development activity from the management activity within the company structure and establishing a new Dragonfly Group (DG). This is demonstrated in the diagram below:



The diagram shows the following:

- Dragonfly Development Co. Ltd (DDC) would be established as a development company and would be wholly owned by BDC, as a Company Limited by Shares.

  The new Dragonfly Management Co. Ltd. (DMC) would be established as a management company and would be a wholly owned subsidiary of DDC as a company Limited by Shares, the two entities would form DG.

- DDC would undertake development of all the housing and commercial units on its sites, and undertake development services for the Council on its sites.

- Once developed, DDC would sell its units that are not to be held for letting to either third party buyers or the Council / an RP.

- Those units that are to be let are transferred to DMC, likely via a long lease (longer than 21 years).

- DMC then let these units to third party tenants.

The driving factors, from a tax perspective, that have driven this structure are as follows.

- By including a management subsidiary in the structure, in the form of DMC, and then transferring properties to it via long term lease is to enable VAT recovery on the residential development costs incurred by DDC. If DDC granted short leases directly to tenants this VAT would largely not be recoverable.

- By including DMC as a subsidiary to DDC then a group can be formed for Corporation Tax purposes to facilitate the offsetting of profits and losses between the entities.

The more detailed key tax considerations that have been accommodated in this arrangement are as follows:

- The land for development can be transferred to DDC with no Stamp Duty Land Tax (SDLT) as SDLT group relief should be available.

- VAT incurred on all costs attributable to the sale or long leases on newly developed properties will be recoverable, apart from where legislation blocks this e.g., VAT on white goods.

- DDC should not form a VAT group with the Council, as this could result in BDC losing its preferential partial exemption status that applies to Councils.

- No SDLT is incurred on the grant of the lease from DDC to DMC as SDLT group relief should be available.

- No taxable profit should arise on the grant of the lease from DDC to DMC.

- Corporation tax would be due on DDC's profits from the sale of properties to third party buyers and the proceeds from DMC

- DDC should be able to obtain tax relief for interest paid to the Council on any loans to fund its operations, subject to these loans being at commercial rates. However, no tax relief will be available in respect of dividends paid.

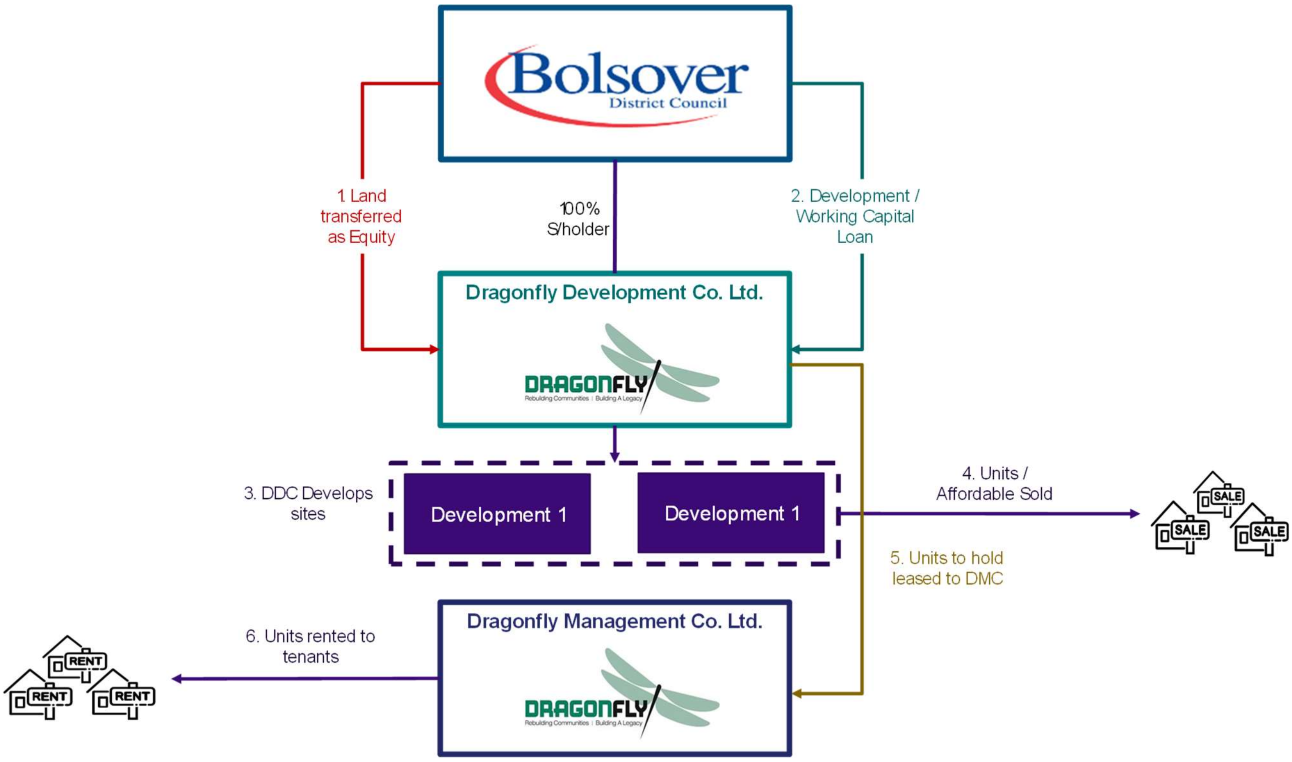
- Corporation tax would be due on DMC's rent received from letting the units, although relief would be available for rent paid to DDC.

- Corporation Tax group relief should be available for profits and losses between DDC and DMC

Funding Arrangements

DG is a group undertaking property development / acquisition, property management, repairs and maintenance activity and Economic Development services. It is critical to understand how the company will operate in practice and, in particular how it will be funded. The two diagrams below capture the potential funding arrangements for the group.

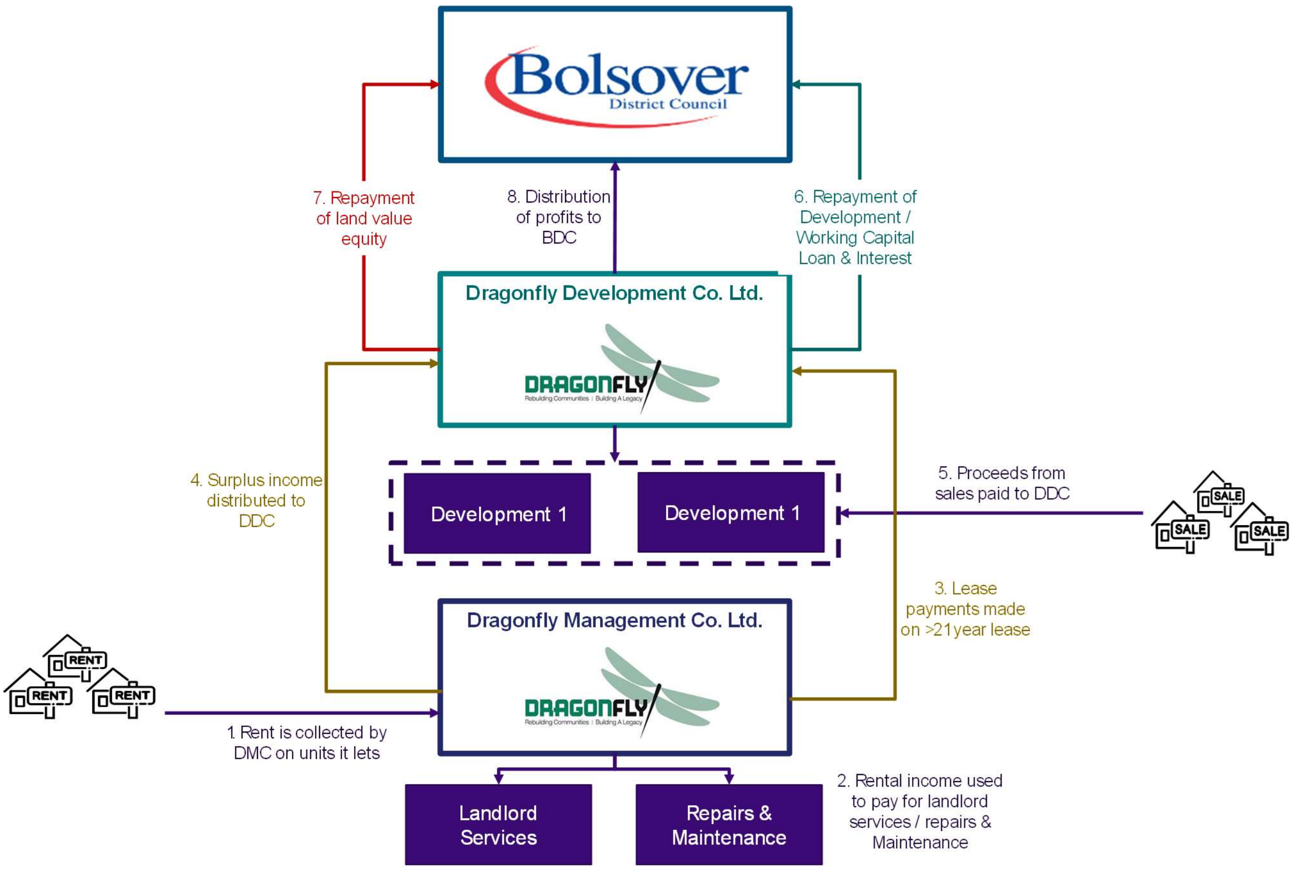
Step 1 - Funding the development of units



The key steps in the above are as follows:

1. For sites to be developed by DG, land is transferred to DDC as equity. There is no upfront receipt for the land but it has an equity stake in the vehicle for the value of the land. Fore sites where DG are only undertaking development services for the Council there is no land transfer.
2. DDC develop the site it has received, utilising a development loan from the Council, secured on the land. There may also be the need for a working capital loan to fund other costs, such as office / salaries etc. The terms of these loans are considered further in the Subsidy Control section below:
3. DDC undertakes all predevelopment activity, secured planning and then develops the sites.
4. Any residential / non-residential units, that are not to be held, are sold to third party buyers.
5. Those units that are to be held are leased to DMC on a >21-year lease.
6. Units are rented to tenants.

Step 2 - Repaying development debt



The key steps in the above are as follows:

1. Rent is collected by DMC for all the residential and commercial units it lets.
2. This rental income is collected by DMC and utilised to pay for the landlord services for the units that DMC own as well as for responsive and planned repairs. To achieve this, the funds will also be used to establish a sinking fund to fund maintenance costs for these units.
3. Out of the net rent remaining the lease payments are made to DDC for the units that have been leased to DMC on long leases (>21 years).
4. Any remaining surplus after paying for these elements can either be retained within DMC in reserves or be distributed to DDC, or more likely a combination of the two.
5. DDC receive all proceeds of sale for the units it has developed and sold to third parties.
6. A combination of the profits and lease payments from DMC and the proceeds of sale of units to third parties are used to repay the loans to the Council, including interest; and
7. To repay the land value equity; and
8. Finally, any remaining surplus after paying for these elements can either be retained within DDC in reserves or be distributed to BDC as dividends, or more likely a combination of the two.

Step 3 - Funding of other activities

As well as the development and operation of the units developed by DG there are a series of other activities that will be undertaken by the new group. The funding arrangements for each are analysed below:

Repairs and Maintenance for Council owned properties (HRA housing and operational)

A service contract will be agreed between DG and the Council for the provision of repairs and maintenance services. This will incorporate necessary funds to undertake management activities. A budget will be agreed to undertake the works that can be drawn down on. It is assumed that this activity will be self-financing with a small element of profit for DG. DG will need to charge a level of profit for these services as it is assuming the risks of delivery. To be commercial it needs to be rewarded for the level of risk is takes in undertaking this role. In practice, the level of profit will be agreed as part of setting up the service agreement between the WOC and the Council.

Temporary Accommodation (TA)

DG will be responsible for developing / acquiring temporary accommodation, operating it and undertaking appropriate repairs and maintenance activity. The arrangements for funding will be in line with the development activity above, as follows:

1. Acquisition / development activity will be funded by loans from the Council.
2. Units will then be let to individual tenants, based on an assessment of their qualification for TA.
3. These residents will receive Local Housing Allowance payments which are then paid to DMC.
4. This rent is used to fund landlord services, repairs and maintenance costs
5. The surplus used to repay the debt back to BDC

Development Services

A service contract will be agreed between DG and the Council for the provision of Development Services on Council owned sites. This will incorporate necessary funds to fund salaries and relevant overheads. It is assumed that this activity will be self-financing with a small element of profit for DG for the risks of delivery (10% profit).

Economic Development

Again, a service contract will be agreed between DG and the Council for the provision of Economic Development services. This will incorporate necessary funds to fund salaries and relevant overheads. It is assumed that this activity will be self-financing with a small element of profit for DG for the risks of delivery.

Subsidy Control

The subsidy control regime in the UK is governed by the Subsidy Control Act 2022 (the Act), which came into force on 4 January 2023. Under the provisions of the Act, subsidies made by public bodies (such as the Council) to enterprises (which would include DDC and DMC) are generally prohibited unless there is an available exemption, or if the proposed subsidy conforms to the subsidy control principles. A financial measure will only be a subsidy if public monies confer an economic advantage on an enterprise that is specific (i.e., it benefits just that enterprise) and that economic advantage is capable of having an effect on competition within or outside the UK.

For the purposes of this business case, and based on our interpretation of the objectives, DDC will be an enterprise operating in a market for subsidy control purposes. As such, any financial support provided by the Council that is on more favourable terms than is available to similar businesses on the open market is likely to be seen as a subsidy (and, most likely, one that would not conform to the subsidy control principles, and which would therefore be unlawful). It follows that any financial support given to either DDC or DMC will need to be provided on commercial terms i.e., terms that would be available to other similar businesses. Where that support is provided in the form of a loan, the features of that loan, such as the term, interest rate, security position and gearing will need be no more favourable than would be available on the open market by commercial lenders. This is known as the Commercial Market Operator principle.

Where seeking to rely on this principle, it is important that the Council obtains sufficient evidence to show that the financial assistance provided could be made available in the market by a private lender with commercial objectives. Any evaluation of compliance should be undertaken with input from experts with appropriate skills and experience (in this case, a firm of public sector treasury management advisers).

On this basis, the working capital and development loans would need to be made from the Council to DDC on equivalent rates to those obtainable in the open market by other developers.

Governance Arrangements

DG will need to be formed as a group of companies with the appropriate legal arrangements that underpin them.

Constitution and Legal Agreements

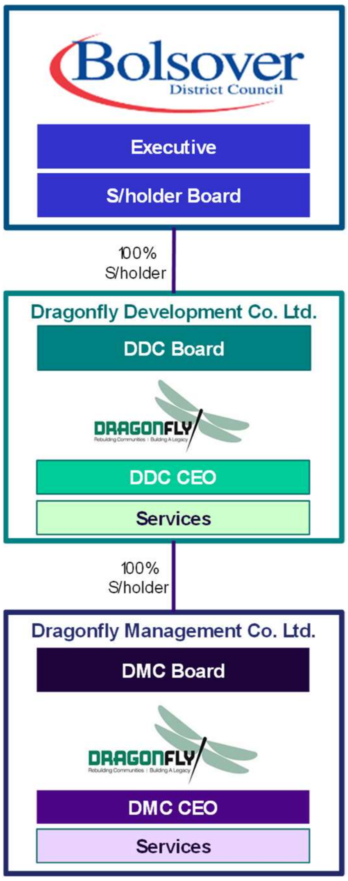
A set of documents will underpin the legal arrangements for both DDC and DMC. These include:

- Two Shareholders Agreements that are agreed between BDC and DDC and DDC and DMC.
- This will be supplemented, on an ongoing basis, with the various documentation arising from the funding and acquisition structures of the companies such as any lease structure documents.
- In addition, loan documentation will be put in place to cover any asset-based loan transactions and working capital (if required).
- Land and property transfer and development agreement documentation is required in the round and may also apply to the companies depending on precise deal structures.

Governance

Both DDC and DMC are limited companies with their own Articles, business plan and Board of Directors. DDC is 100% owned by the Council and DMC would be 100% owned by DDC. Directors of each company have a duty to act in the interests of their respective companies, even if there is a conflict with the interests of the other entity or the Council. However, in view of the rationale behind DDC and DMC, and their structures, it is unlikely that significant conflicts would arise. As the 100% owner of DDC, who in turn own DMC, the Council can protect their interests by adding to or changing directors.

The Shareholders' Agreements entered in to by the three parties will set out the governance arrangements, delegated functions, and decision-making structure. The diagram below shows the potential governance structure for the Group and how it interacts with the Council.



The key roles and responsibilities required from the Council / DDC / DMC as the Company is established are:

Council

- A shareholder Board will commonly be established to fulfil the day-to-day shareholder responsibilities of the Council such as addressing any Reserved Matters, such as reviewing and approving the Business Plan. this group will often be constituted by a combination of officers and Members. It is commonly not a decision-making body, but its recommendations are reviewed and adopted by the Executive

- Often an Internal Working Group is established to operationally support this group, this is not shown in the diagram. This is a more informal group that undertakes tasks to support the Council's role in the Company.

Company

- The Council will need to nominate individuals to the Board of Directors for the 2 entities, considering their scope of works, that will be responsible for key strategic decisions of DDC and DMC. This Board should cover a breadth of experience including property development, management, funding, and economic development in the context of the local area, and in managing a private company.

- A Chief Executive Officer (CEO), shown in the diagram, will often have delegated responsibilities from the Board to run the business in line with the agreed Business Plan

- Beneath this individual will be a service delivery structure that enables management and delivery of the Business Plan

- Putting in place appropriate service agreements for any services purchased by the Companies from BDC and by the Council from the companies; and

- Funding agreements to underpin any working capital facility and specific loans to support the investment activities of the company.

Board of Directors

DDC's structure and make-up of the Board is at the discretion of BDC, and DMC's is at the discretion of DDC, although as the entities are established the Council is likely to have a large say in the DMC Board make up. It is, however, important that the Board members hold the necessary skills and expertise to discharge their responsibilities and run the companies. It is also important that the Board of Directors act completely independently from the Council and from each other. Also, the directors' terms of office should be such so as to ensure long term stability and consistency of decision making. Typically, the Board could be established with officers, Members or a combination of both, whoever is nominated will need to be able to address the challenges in managing conflicts of interest considering their broader Council role. Accepted practice advised by the Institute of Directors is to include 4 to 7 Board members on the Board.

Other potential members of the Board, if the Council desire, would typically be Non-Executive Directors (NEDs). NEDs should have relevant and adequate experience in the asset/property sector. NEDs offer objectivity and provide valuable industry knowledge.

The role of the Board of Directors is to act on behalf of the shareholders in running the business. The Directors of the Board will provide a report to the Council on the performance of the company, as well as its future plans and strategies at the annual general meeting (AGM).

Reserved Matters

The Directors are responsible for the management of the Companies business, for which purpose they may, with the exception of the matters requiring Shareholder consent and expressly reserved pursuant to Shareholder Reserved Matters, exercise all the powers of the Company. One key Reserved Matter will be the agreement of the DDC's and DMC's Business Plans. The Shareholders Agreement should require that this Business Plan is developed and approved by the companies, but its overall approval is reserved to the Council and DDC as the shareholders of the 2 entities. They will review this Business Plan in detail and approve them. Appendix 4 shows other typical Reserved Matters for a venture of this type.

Internal Working Group

The Council should consider establishing an Internal Working Group. As the Council is the debt provider for the Company, the Internal Working Group will be a sounding board and discussion forum to consider the Council's interests when making decisions. This will also help manage the relationship between the Council and the Companies. This should include key stakeholders within it with expertise from Finance, Legal and Property, it could include statutory officers if the Council wishes.

3.2 Company Resourcing

DDC and DMC will be established as full-service companies incorporating the appropriate staff to govern and manage the business, to deliver the services and to manage contracts with third parties such as construction contracts and architects.

Governance and Management Resource

DDC's staffing structure currently accommodates a Chief Executive Officer, staffed as 20% of the time of an internal Council employee. This is supplemented by the support of 2 Directors. These are again internal Council officers who will spend 20% of their time working for DDC.

The change in scope of DDC and the addition of DMC will necessitate additional resource for the management of the business. This is planned to include a full time Chief Executive Officer, although this could be a joint role across the 2 entities if a candidate with appropriate skills can be sourced. This would be supplemented by a management team of service leads and administrative resource to address company secretariat activities. It is assumed that the above 2 Directors will become full time to provide this resource.

In addition, HR, Finance and ICT support will be needed which could be purchased from BDC or sourced from third parties

In addition to management resource there will need to be full-service teams for each activity. These are considered in turn below:

Mixed Use / Residential Development

DDC is already in operation and undertaking development activity. The current team is made up of the following

- Project Managers x 2
- Site Managers x 2
- Quantity Surveyor x 1
- Assistant Site Manager x 1

This team is likely to need to be supplemented based on the level of activity to be undertaken as per the DDC Business Plan. This resourcing need will be developed on an ongoing basis and staff recruited from the market to undertake the development activity.

Property & Commercial Asset Management / Repairs & Maintenance

The Council already undertakes some elements of this work itself and these functions will be transferred to DMC. There are several TUPE considerations in this transfer which are considered in the TUPE section below. It should be noted, however, that the level of activity is likely to increase as a result of the new assets developed by DDC that will be retained and need to be managed.

As a part of this transfer / resourcing process the level of activity of the new entity, as well as the delivery practices / commercial approach, will need to be considered and the Business Plan developed accordingly. This will result in the development of the structure and scale of the new team which will result in a resourcing plan addressing recruitment and team restructuring needs

Temporary Accommodation Development / Purchase

The development aspects of this function will be addressed within the residential / Mixed Use development section above. Additional resources will be needed to undertake the acquisition elements. It is unclear at this stage whether there would be any resource transferred from the Council to undertake these activities. If not, they would be sourced from the market.

Economic Development

The Council already undertakes this work itself and these functions will be transferred to DDC. As per the above, there are a number of TUPE considerations in this transfer which are considered in the TUPE section below.

Third Parties

Several elements of delivery will be sourced from third party contractors and consultants, including, but not limited to:

- Architects;
- Cost Consultants;
- Surveyors;
- Construction activities; and
- Sales / Letting agents.

The DDC and DMC teams will be responsible for procuring these arrangements and the contract management of their activities. The key procurement considerations are addressed in the Procurement Considerations section below.

TUPE Considerations

Implementing the proposed arrangements above will raise several people issues and the following issues will need to be considered.

Unless there is a fundamental change proposed in the nature of the work being done by Council employees, TUPE is likely to apply to this arrangement as it will fit into the definition of 'service provision change' under TUPE.

This will mean that the contracts of employment of those employees engaged in the undertaking proposed to be transferred to DG will transfer automatically. Both the Council and DG will need to ensure that their obligations in relation to TUPE are met. For example, they will need to comply with their respective duties to inform and, in some cases, consult with appropriate representatives of any of their employees who may be affected by the transfer, even if those employees are included in the transfer.

Whilst a local authority looking to implement this arrangement will typically accept the liability associated with the transfer, discussions will need to take place to ensure that DG is able to discharge any liabilities it faces as a result of the TUPE transfer. It is planned that staff transferred will continue in the Local Government Pension Scheme. Dragonfly Developments is qualified as an umbrella organisation and as a result no additional employer contributions will be required under this arrangement.

3.3 Procurement Considerations

Procurement is an important consideration both for the Council and for DG. This section will firstly consider procurement from the point of view of DDC and DMC. It will then consider the position for the Council.

Procurement of works and services by DDC and DMC

DDC's current and anticipated future remit is for it to operate as a commercial company with an overriding objective to generate returns to the Council through profits. This is a helpful starting point in demonstrating that it will fall outside the remit of the Public Contracts Regulations 2015 (the Regulations), but there are other factors to consider. The key question is whether DDC would be a contracting authority. If it is, it would need to procure works and services in accordance with the Regulations.

A contracting authority is defined in regulation 2(1) as being "*the State, regional or local authorities, bodies governed by public law or associations formed by one or more such authorities or one or more such bodies governed by public law…*". For the purposes of this business case, the relevant test is whether DDC and DMC are bodies governed by public law (BGPL). If the companies are considered a BGPL under the Regulations, then they will meet the definition of a contracting authority and will be required to conduct procurement in accordance with the Regulations.
Regulation 2(1) defines a BGPL as a body which meets **all** the following characteristics:

- They are established for the specific purpose of meeting needs in the general interest, not having an industrial or commercial character.
- They have legal personality; and
- They have any of the following characteristics:
  - They are financed, for the most part, by the State, regional or local authorities, or by other bodies governed by public law; or

- They are subject to management supervision by those authorities or bodies; or

- They have an administrative, managerial or supervisory board, more than half of whose members are appointed by the State, regional or local authorities, or by other bodies governed by public law.

If any of the limbs above are not satisfied, the company would not be classified as a BGPL and would not be considered a contracting authority within the meaning of the Regulations. Subject to comments that follow on the Council's procurement position and more detailed legal advice following the agreement of the final structure, the Council's legal advisors headline view is that the corporate structure can be set up in a way that both DDC and DMC fall outside the Regulations, giving both companies the freedom to operate free of public procurement rules. However, as we outline below, there may be an advantage in having DMC in particular, subject to the procurement rules.

For DDC, as a commercial company, it is typically seen as an advantage not to be bound by the Regulations. However, many local authority companies continue to procure in line with the Regulations to ensure that they continue to obtain best value in all their activities. This is achieved by inserting specific requirements into a shareholder agreement that links the Council and the companies concerned.

Procurement by the Council

DDC is operating as a purely commercial entity under the proposed model. It is, in essence, a private developer operating in the marketplace like any other. The Council is the shareholder in DDC, but DDC is not providing any specific services to the Council (in the sense of a works/services contract as defined by the Regulations). The situation could be argued to be different for DMC, which is providing repairs and maintenance services and economic development services to the Council, which is likely to be considered a contract for services under the Regulations. To enable the Council to award these services to DMC directly without the need for a wider public procurement exercise, the Council can look to structure the arrangement to take advantage of Regulation 12 of the Regulations, which provides that a contracting authority (in this case, the Council) can make a direct award to a subsidiary if certain requirements relating to control, management and financial structure are complied with. This is a common arrangement, but the precise structure will depend to a large degree on the level of control that the Council wishes to have over each of DDC and DMC, although the fundamentals of the structure as set out in this business case would remain.

It is important to note that the above is a broad summary of the relevant procurement issues. The final position will be determined upon finalising the group company structure, at which point the Council's preferred procurement position should be confirmed with its legal advisers to ensure it can be accommodated.

3.4 Conclusion

The Commercial Case concludes that there are no commercial considerations that would restrict or prevent the establishment of the Dragonfly Group

The proposed approach provides an appropriate structure that addresses the strategic objectives and priorities. The implementation of the DG structure with the appropriate legal and governance arrangements will enable the delivery of the full scope of services to be funded in an efficient and potentially viable way utilising a Subsidy Control compliant funding approach and will enable the levels of control required for the Council.

Establishment of DDC and DMC will enable the Council to manage risk via a broader housing ecosystem within its control that can address housing development, sale and operation and give it the ability to utilise a flexible funding model that is appropriate for each transaction.

4. Financial Case

The Financial Case sets out the financial implications of the implementation of the preferred option of the Dragonfly Group being established to deliver the full scope of services with its own staffing resources, including the costs in establishing the entities and operating them on an ongoing basis. It also details the funding approach and the proposed financing arrangements. The Financial Case demonstrates the affordability of DG, considering all potential funding sources.

The financial implications of this preferred option and its affordability will be assessed within this section.

4.1 Approach

An operational scenario has been developed to demonstrate the affordability of DG. It has been assumed that DG is established with DDC and DMC. This group will deliver the set of services listed below with the associated activity detailed within the table.

DG Operational Area	Approach
Mixed use / residential development	It has been assumed that DG delivers the current programme of sites identified by the Council as detailed at Appendix 2. 75% of these sites will be delivered as Development Services provided by DG, whilst the sites are retained by the Council. 25% of the sites are transferred to DG for it to fund and develop in full. Note - In practice this will be decided on a site by site basis based on development risk and unit type.
Property / commercial asset management	It has been assumed that 9% of units that have been developed are retained for management (26 units). These have been retained in the same ratio of mix and tenure as for the development assets with a blend of market rented and discounted market rented units. In addition and purchased Temporary Accommodation units are also managed.
Repairs and Maintenance	It has been assumed that the Council's repairs and maintenance function is transferred into DG and the Companies then undertake all repairs and maintenance activities for the 5,000 housing units, operational buildings and the DG retained portfolio. The service for the Council's housing and operational portfolio will be funded by a service agreement from the Council.
Temporary Accommodation Development / Purchase	It has been assumed 10 units per annum for the first 10 years, funded by a loan from the Council. These are then operated within DG with income matching the Local Housing Allowance rate.
Economic Development	It has been assumed that the Council's Economic Development team is transferred into DG and the service is delivered back to the Council, funded by a service agreement.

DG Operational Area	Approach
Management Team	The vehicle will employ its own Chief Executive officer and management team to operate DG.

4.2 Dragonfly Group Staffing and Costs

In order to deliver the above set of services an appropriate staffing structure is required. The table below details the assumed level of staffing for each of the service areas:

DG Operational Area	Full Time	Part Time	FTE
Mixed use / residential development	6	0	6
Property / commercial asset management	11	17	17.1
Repairs and Maintenance	60	0	60
Temporary Accommodation Development / Purchase	Within above	0	Within above
Economic Development	8	4	10.9
Management Team	3		
Total	**88**	**21**	**97**

It has been assumed that those staff currently operating within the Council undertaking these tasks will be transferred into the vehicle under TUPE arrangements on the same terms and conditions. An allowance of £50k has been included within the financial analysis to fund the necessary work to enable this to occur.

When this staff base is modelled within the vehicle it results in the following annual expenditure budget.

DG Operational Area	23/24'
Mixed use / residential development	£357,500
Property / commercial asset management	£1,570,206
Repairs and Maintenance	£5,893,915
Economic Development	£281,546
Management Team	£362,500
Total	**£8,465,667**

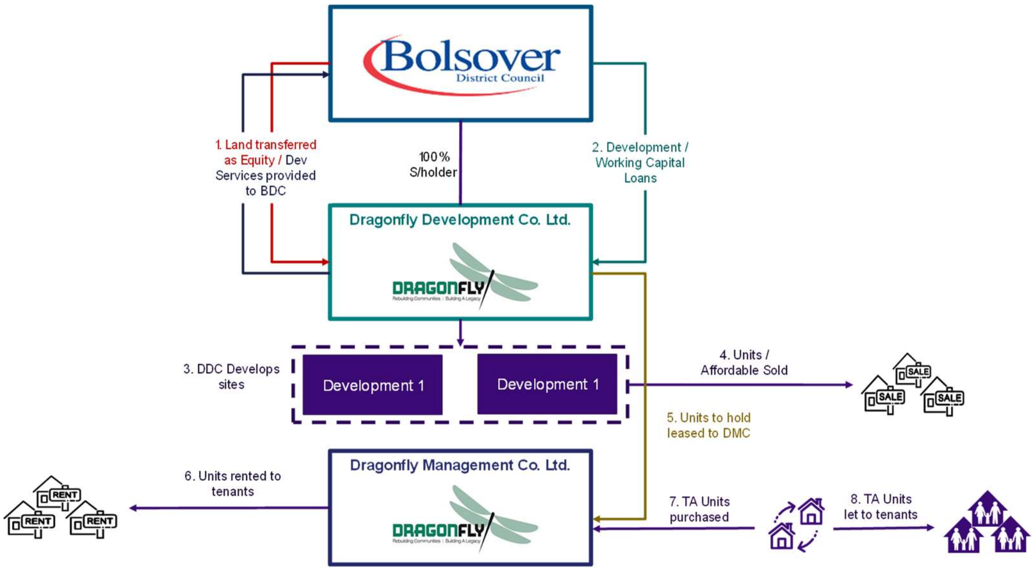
This demonstrates an ongoing cost for the vehicle of **£8.5m** per annum to be recovered from the broader activities of the company. This will be assessed as part of overall affordability below

It should be noted that the set-up costs of DG beyond the TUPE costs have not been included within this analysis as it has been assumed that these do not need to be recovered from the vehicle.

4.3 Affordability Approach

The Commercial Case has demonstrated the delivery approach for DG. For the Financial Case this structure is applied to the specific arrangements above. The diagrams below explain this approach, including the numbers of units and assumed level of activity:

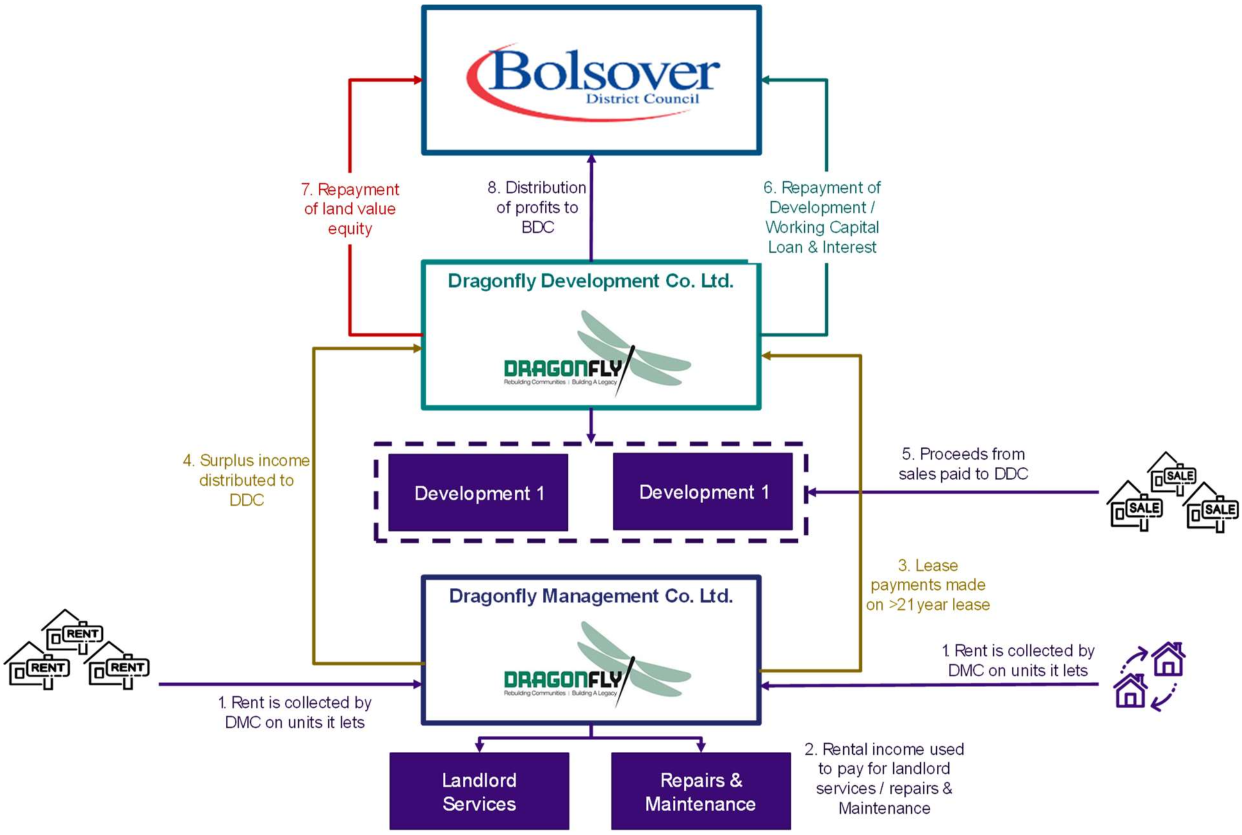
Step 1 – Development / Sale / Letting of the Pipeline of Homes



The diagram shows the following:

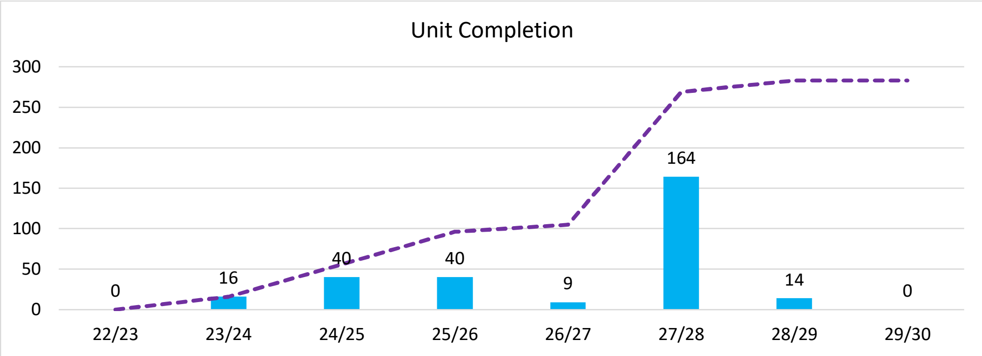
1. 25% of the land for the pipeline of sites at Appendix 2 is transferred to the vehicle as equity as and when it is required for development. There is no receipt to the Council at this stage but the value of the land is agreed. 75% of the sites are developed under a service contract between DG and BDC.
2. Development loan funding is drawn down into the vehicle to fund the development activities of DDC. The loans are made at a rate of 7% and are funded by PWLB borrowing taken out by the Council at approximately 4%. As a result, there is a net income stream to the Council for the difference between these 2 rates of 3%
3. DDC undertakes the development of these sites delivering a total of 283 units across a 5-year time horizon
4. 26 units are leased to DMC to be held and operated
5. 26 units are rented to individual private rented / intermediate tenants
6. 10 TA units are purchased per annum for the first 10 years of the company utilising loans from the Council. Total lending for this activity is estimated to be £13.85m estimated to at an approximate cost of £115k per unit.'
7. TA units are rented to qualifying homeless tenants at an LHA rent

Step 2 – Funding of development / management activity



1. Rent is collected on the 26 units held from development and TA units purchased at a rate of 10 per annum over 10 years.
2. Rental income from these units is used to fund landlord services and repairs and maintenance for these units
3. A ground rent is paid for the 26 units leased to the company. For this analysis this has been assumed to be a nominal ground rent. This will need further review as the vehicle is established
4. Surplus income generated by DMC is distributed to DDC
5. Proceeds from asset sales are realised by DDC. This totals c. £63.3m across the 5-year development programme
6. Debt is repaid from surpluses. The total debt is repaid by the end of the 5-year development period.
7. The land value equity is repaid
8. Any other profits are distributed to BDC by way of dividend.

The units developed total 283, the development profile for these across the 5-year period is shown in the graph below



Step 3 - Services to the Council

As well as the above activities DG is also delivering a set of services to the Council as follows:

- Repairs & Maintenance - for 5,000 Council homes and the Council owned buildings.
- Economic Development - Taking on this function in full.
- Property / Commercial Asset Management
- Mixed use / residential development services for Council owned assets

It has been assumed that the full functions are transferred into DG for these at the same cost levels, but that due to the commercial approach of DGs and synergies between development, management and strategic services a 10% efficiency can be achieved. DG is also taking risk in delivering these services and would need to charge a fee to account for this. As such a fee of 3% has been included for Repairs and Maintenance, Economic Development and Property / Commercial Asset Management service. The net impact is a c. 7% saving. A profit of 10% is being charged for Mixed use / residential development services to the Council due to the increased risk profile of this service This is shown in the financial tables detailed below.

Temporary Accommodation

Another key consideration is that, as the Strategic Case shows, the Council are currently inundated with homelessness applications and a need for temporary accommodation. The current costs incurred by the Council per night to accommodate this volume is high due to a need to utilise bed and breakfast and other sources. The provision of new temporary units through street purchase acquisitions within the company will produce a significant saving on these costs.

To exemplify this, the current average costs per night for temporary housing provision by the Council are c. £59 per night through B & B accommodation, and this ranges from £35 to £80 depending on scale and timing of placement. By utilising purchased units operated. If purchased units are used this would equate to c. £20 a night, a saving of c. £39

4.4 Affordability Results

Assessing Affordability

In order to assess affordability, the key affordability parameters need to be set. For this analysis the key affordability requirements are as follows:

- Company viability
- Reduction in costs for the Council
- Financial benefit to the Council

A number of the assumptions that underpin this analysis are detailed earlier in this section; Appendix 3 includes additional key financial assumptions that have been made.

Company Viability

In order to demonstrate the viability of the company two key metrics have been produced, as follows:

- Company Income and Expenditure Account - For this analysis a consolidated Income and Expenditure account has been shown for DG. In practice both DDC and DMC will also have their own separate Income and Expenditure accounts as well as this consolidated one
- Debt drawdown and repayment - This shows the drawdown of debt for the development activity and the Temporary Accommodation purchases as well as how these are repaid.

Company Income and Expenditure

The table below provides the consolidated Income and Expenditure account for DG over a 30-year period addressing the development and operational periods for the group.

	Total	NPV
Expenditure		
WOC Staff	£12.1m	£5.2m
DM Team	£1.7m	£1.4m
Property & Estates	£57.3m	£23.9m
R&M Team	£215.2m	£89.8m
Econ Development	£10.3m	£4.3m
Interest on TA properti	£15.8m	£6.1m
Total Expenditure	**£312.4m**	**£130.8m**
Income		
Fees Recharge	£1.6m	£1.3m
Property & Estates	£59.1m	£24.6m
R&M Team	£221.7m	£92.5m
Econ Development	£10.6m	£4.4m
Rent from Developmer	£9.2m	£3.4m
Rent from TA	£16.9m	£6.2m
Exit Value	£10.1m	£1.7m
Total Income	**£329.1m**	**£134.2m**
Earnings before Tax	**£16.7m**	**£3.4m**
Tax	-£4.4m	-£1.0m
Earnings after Tax	**£12.3m**	**£2.3m**

This demonstrates that the company is viable and operating as a going concern generating a surplus before tax across the 30-year period of c. £16.7m (£12.3m after tax). This can be further broken down across the first 10 years as shown below.

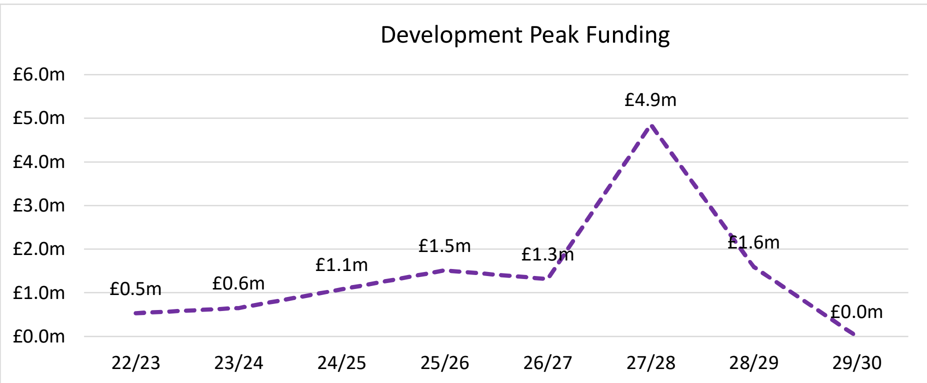
	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33
Expenditure										
WOC Staff	£362,500	£369,750	£377,145	£384,688	£392,382	£320,183	£326,587	£333,119	£339,781	£346,577
DM Team	£321,750	£328,185	£334,749	£341,444	£348,273	£0	£0	£0	£0	£0
Property & Estates	£1,413,185	£1,441,449	£1,470,278	£1,499,684	£1,529,677	£1,560,271	£1,591,476	£1,623,306	£1,655,772	£1,688,887
R&M Team	£5,304,524	£5,410,614	£5,518,826	£5,629,203	£5,741,787	£5,856,623	£5,973,755	£6,093,230	£6,215,095	£6,339,397
Econ Development	£253,391	£258,459	£263,628	£268,901	£274,279	£279,765	£285,360	£291,067	£296,888	£302,826
Interest on TA properti	£56,925	£114,989	£174,213	£234,623	£296,240	£359,090	£423,197	£488,586	£555,282	£623,313
Total Expenditure	**£7,712,275**	**£7,923,446**	**£8,138,840**	**£8,358,542**	**£8,582,637**	**£8,375,931**	**£8,600,375**	**£8,829,307**	**£9,062,819**	**£9,301,000**
Income										
Fees Recharge	£141,437	£172,933	£225,510	£559,037	£506,159	£0	£0	£0	£0	£0
Property & Estates	£1,455,581	£1,484,693	£1,514,386	£1,544,674	£1,575,568	£1,607,079	£1,639,221	£1,672,005	£1,705,445	£1,739,554
R&M Team	£5,463,659	£5,572,932	£5,684,391	£5,798,079	£5,914,040	£6,032,321	£6,152,968	£6,276,027	£6,401,548	£6,529,579
Econ Development	£260,993	£266,213	£271,537	£276,968	£282,507	£288,158	£293,921	£299,799	£305,795	£311,911
Rent from Developmer	£8,840	£28,024	£56,973	£85,530	£162,257	£258,088	£283,005	£288,665	£294,438	£300,327
Rent from TA	£47,281	£96,453	£147,574	£200,700	£255,893	£313,213	£372,723	£434,489	£498,576	£565,053
Exit Value	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Total Income	**£7,377,791**	**£7,621,248**	**£7,900,372**	**£8,464,988**	**£8,696,424**	**£8,498,858**	**£8,741,837**	**£8,970,985**	**£9,205,802**	**£9,446,423**
Earnings before Tax	**-£334,484**	**-£302,198**	**-£238,468**	**£106,446**	**£113,787**	**£122,927**	**£141,462**	**£141,677**	**£142,983**	**£145,423**
Tax	£0	£0	£0	-£26,612	-£28,447	-£30,732	-£35,365	-£35,419	-£35,746	-£36,356
Earnings after Tax	**-£334,484**	**-£302,198**	**-£238,468**	**£79,835**	**£85,340**	**£92,195**	**£106,096**	**£106,258**	**£107,237**	**£109,067**

This shows that whilst the company makes a loss in the first three years during development and before operational assets start generating returns, it then turns profits and generates ongoing receipts. It has also been assumed for the financial modelling that the asset value at year 30 is realised. At the end of the period, the Council will also retain a number of assets which have a value, this would potentially result in a profit on disposal of c. £10.1m (NPV of £1.7m) in year 30.

It should be noted that a cash efficient model has been employed for DG. For example where profits are made on service delivery, these have been used to purchase the commercial / housing units that DG chooses to manage. Thus, there is no need to take additional loans for this activity. In practice this can be decided in partnership with the Council to ensure the most appropriate treatment for both parties

Debt Drawdown and Repayment

The graph below shows the drawdown and repayment of the development loans to support the delivery of the pipeline.



This graph shows that the loans can be repaid within the relevant development period. The development loans are repaid from the proceeds of sale of the majority of assets developed and after reaching a peak debt position of £4.9m in 2027/28 they are repaid in full by 2029/30.

Reduction in costs for the Council

The Council currently undertakes a number of the services to be delivered by DG. By these services being transferred into the vehicle there is a strong expectation that the commercial nature of DG will drive efficiencies. Typical efficiency measures that have been achieved include:

- Support in improving productivity through changes in working practices and systems
- Recruitment of commercial expertise to support existing teams in areas of specialism
- Restructuring / Combination of teams to be task focused within a company environment
- Performance management approaches

For this analysis these changes have been assumed to result in a 10% efficiency saving. This is in line with experience of other similar arrangements, if anything falling on the conservative side of many efficiencies achieved.

The company will, however, charge a fee for delivering these services. As it is now responsible for undertaking the services it bears all risks of performance and delivery of these contracts. This is a service risk, rather than a development risk, and as such is likely to bear a smaller level of profit, for this analysis this has been assumed to be 3%. This gives a potential c. 7% saving in costs of delivery compared with the current expenditure.

The table below shows the impact of these changes for the Council.

Cost Comparison	Amount
Current Budget	£8,103,167
In Company	£7,292,850

This shows that the total cost the Council was paying for these services has reduced by c. £810k.

If only 5% efficiency were achieved, instead of 10% this would lead to the following results:

Cost Comparison	Amount
Current Budget	£8,103,167
In Company	£7,698,009

This shows that the total cost the Council was paying for these services would be reduced by c. £405k, 5% saved.

Financial Benefit to the Council

There are a series of ways that the Council would benefit financially from the activities of DG. The key financial benefits to the Council are:

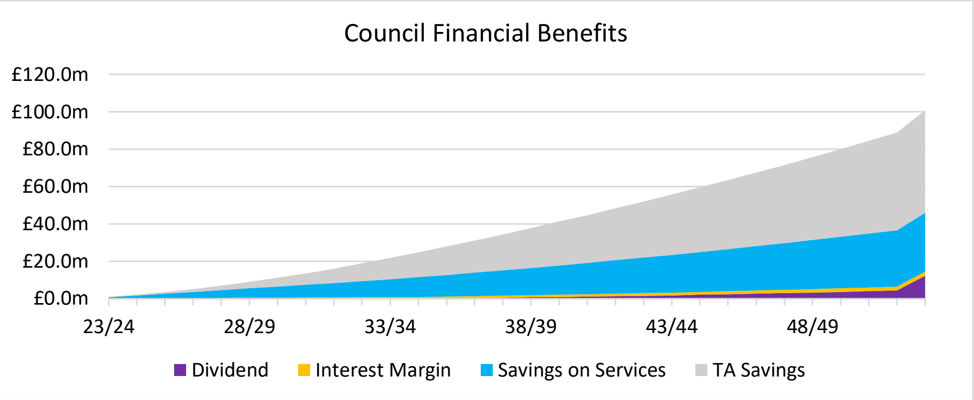
1. Profit distribution from DG to the Council as 100% shareholder.
2. Interest premium - the income generated by charging an interest rate of 7% to DG for the development loans and the Council borrowing at 4% from PWLB to fund this on lending. The difference between the 2 is an income to the Council.
3. Cost saving on services delivered by the WOC - as explained above DG should deliver the services more efficiently due to its operating model, this cost saving is a financial benefit to the Council.
4. Temporary accommodation saving compared to current costs - Whilst the temporary accommodation costs money to DG, reducing its level of surpluses, it does provide homelessness accommodation at a cheaper rate than the Council currently incurs, providing a saving to the Council.

The table below brings these elements together to demonstrate the overall financial benefit to the Council over a 30-year period.

Council Financial Benefits		
Type	**Total**	**NPV**
Dividend	£12.3m	£2.3m
Interest Margin	£2.1m	£1.0m
Savings on Services	£31.6m	£13.3m
Savings on TA*	£54.9m	£20.1m
Total	**£101.0m**	**£36.7m**

* TA loses circa £100k per year

The graph also shows how this is made up



4.5 Risk Register

The tables below contain a high-level view of the main risks that apply to the establishment and operation of DG in its proposed structure and funding structure split into strategic and financial/operational. This will be developed into a more detailed Risk Register during the course of the development of the DG Business Plans, with impact and likelihood, key mitigations and residual risk analysis.

Strategic risks register

Strategic risks	Likelihood	Measures and mitigation
Failure to provide a repairs and maintenance service or Property Management Service that meets relevant standards, within agreed resources	Medium	Properly specified service agreement for repairs and maintenance and property management. Establishment of appropriately skilled and resourced team. Regular meetings between the CEO, Council and property management / R&M team and defined set of KPI's. Benchmarking of KPI's to be put in place.
Adverse macro-economic environment compared to business plan and budget assumptions	Medium	Business plan stress testing to identify failure scenarios and mitigating actions, any requirement for additional funds and ensuring there is adequate headroom. BDC as shareholder has a vested interest in DG success.
Cost of future pipeline of new homes increasing in price or becoming available later than planned.	Medium	DDC / Council input and challenge into the development appraisal process, and a Gateway approval process via Company governance. The Board will assess future schemes viability as a site and as part of the overall programme before committing, contracts and pricing to be agreed.
Failure to achieve the planned quality of neighbourhoods and communities within agreed resources.	Medium	Tenants to be vetted prior to letting and appropriate support put in place. Quality of environment maintained to discourage ASB. Tenancy management will be provided by the Council under existing targets and arrangements. Neighbourhood management and dealing with Anti-social behaviour forms part of the property management arrangements.
Failure to comply with health and safety obligations as a Landlord.	Medium	Quarterly health and safety and landlord statutory compliance reports to be brought to Board, with regular H&S items picked up as a standing item. Upskill as a Board on health and safety and engage external consultant to give assurance. Appropriate review and reporting arrangements put in place.
Failure to deliver planned improvements in environmental management and energy efficiency and planning for climate change scenarios.	Medium	Homes built to sustainable design standards. Planning system considers flood risk zone as part of the application and this impacts on the design of new homes, planning system also considers heating / risk of overheating. Under constant review as part of wider work on preparing for a zero-carbon future.
Risk of loss of income because of inadequate handover processes meaning the homes are not occupied quickly.	Medium	Business plan assumptions for letting to be stress tested. Nominations are from the Council. Agreement to lease should specifically set out the homes will not come to DDC until they are ready for occupation. DMC should be part of sign off on Practical Completion with DDC.
Unavailability of future funding.	Medium	Business Plan and establishment process should agree an approach to lending and the security of draw down. One of the Business plan stress testing criteria should be a requirement for extra funds, this means that there should

Strategic risks	Likelihood	Measures and mitigation
		be a good understanding of the circumstances that would trigger a need for extra finance and how this would be addressed.
Failure to effectively monitor, anticipate, and respond to changes in the external environment: policy / regulation / law/taxation.	Low	If structure was no longer vires the MDC can move appropriate homes into the Council, this will give the tenants at least the same rights they have as tenants of MDC. Other units would be sold to the market.
Income or cost assumptions in the financial business plan are incorrect.	Medium	Homes will mostly be new build (other than TA acquisitions) and constructed to current standards, they will be purchased by third party purchasers outright or purchased at a fixed price from DDC on a leasehold basis. Quarterly consideration of key risks by Board. Annual business planning process includes stress testing scenarios. Handover project process for new homes should be led by DMC CEO. Lifecycle costs for repairs in the business plan should be based on appropriate professional QS reports. Performance and financial reporting framework being put in place with quarterly reporting to the Board.
Failure to comply with regulation / law/taxation.	Medium	Establishment of the company should consider all relevant legal requirements including Teckal, TUPE, housing management standards, development standards, vires etc. Service Agreements should include provisions to ensure compliance with GPDR and in the case of the Property Management Agreement will specify a Regulatory compliant service. Service will review regularly to ensure compliance and performance management will focus on these areas.
Failure to maintain a strong and positive relationship with key stakeholders, including the Council Officers, Councillors and MPs.	Low	Regular liaison meetings should be established with key stakeholders. Quarterly meetings between the Council and the Companies should be established.
Lack of sufficient leadership and strategic direction.	Low	Regular meetings should be held between the Board Chair and the CEO for each company. Business Plan. A Governance handbook should be established (including clarity on Board and Executive roles). Board evaluation process and CEO appraisal should ensure they have the skills to develop and deliver on the business plan.
Failure to maintain back-office services that meets the needs of the business, within agreed resources.	Low	HR, finance, and internal audit services should be procured from the Council third parties. Monthly performance reporting should be put in place to the company's Senior Leadership Team with quarterly reports to the Board, this will highlight any issues and enable them to be addressed under the contracts in place.

Strategic risks	Likelihood	Measures and mitigation
		Specific monitoring of timetable for production and filing of the financial statements should be put in place and regular meetings between the CEO and the Company CFOs to allow for escalation.
Failure of contractor to provide expected quality and volume of service within agreed resources.	Low	Regular performance monitoring arrangements to be put in place with all contractors, including relevant KPIs. Escalation procedures to be included in all contracts. Only contractors with a high viability and governance rating able to tender for works.
Failure of governance (including medium and long-term financial control).	Low	Governance manual and policy framework to be put in place. Service agreements for the HR / ICT / finance etc. should I.e., appropriate arrangements around the financial statements.
Rising interest rates.	Medium	These would impact the loan rates offered to DDC, however, there is the potential for subsidised rates to be offered provided they comply with Subsidy Control regulations.
A legal challenge is made with regards to Subsidy Control (formerly State Aid).	Low	Expert opinion should be sought to ensure that the terms of set up by the Council and DDC are considered reasonable, under the latest guidance.
Perception and reputation.	Low	The Council's role as an operator in the affordable rented and private letting sector would need to be considered in the context of ensuring correct branding and marketing strategy.
Demand for certain tenure changes.	Low	The balance of the properties, be it market rent or market sale, and affordable homes, could be varied flexibly for a short or medium term, though the impact to the business plan would need to be assessed.
Increased voids.	Low	Void risk performance management and KPIs should be core to the service management process.
Increased bad debts.	Low	Debt collection performance management and KPIS should be core to the service management process.

4.6 Affordability Conclusion

The Financial Case has demonstrated that the preferred option of establishing DG with a fully staffed set of services is affordable in that the company is viable and fundable and that the preferred option delivers significant financial benefit to the Council.

5. Management Case

The purpose of the Management Case is to set out the governance structure for the implementation of the preferred option and outline the processes and procedures in place for the Council to ensure successful implementation of the Dragonfly Group.

5.1 Internal resources, roles, and responsibilities

Project Sponsor
The implementation of the preferred option will be led by the key Project Sponsor, Karen Hanson Chief Executive Officer, with support from the project team.

Karen will champion the delivery of the project and lead the Project Team to ensure the delivery of the programme to time and budget.

5.2 Project Team for the DG Project

The project team for the implementation will be made up of resource from Dragonfly Developments and the Council, as follows:

Dragonfly Developments

- Grant Galloway
- Ian Barber
- Chis Fridlington

Bolsover District Council

- Karen Hanson - CEO
- Theresa Fletcher - Finance
- Jim Fieldsend - Legal
- Victoria Dawson
- Scott Chambers

Key Roles

Finance – the Project Team, will be responsible for ensuring that the business case remains viable at all times. The key role is to work with the project team to problem solve when viability or affordability are threatened.

Legal – the Project Team will be responsible for the appointment of specialist legal support to advise on structures, contracts, development agreements, procurements, and commercials.

Communications – the communications lead will provide support in terms of keeping up to date both members and officers.

5.3 External resources, roles, and responsibilities

The table below highlights the appointments in place and required to implement the project.

External resources	
Legal: Sharpe Pritchard	Providing legal support on key issues to support the implementation
Finance / Commercial: 31ten Consulting	Providing commercial support on key issues to support the implementation

5.4 Governance and Timetable

The Business Case will be presented to the Executive in early February 2023. If approved, an initial workstream will be established to review and update the governance structure to support the implementation of the preferred option. This is likely to include the establishment of a Shareholder Board and appropriate delegations' matrix.

5.5 Conclusion

The Council has established a team to take forward the implementation of the preferred option subject to the approval of the Business Case in February 2023.

Appendix 1 – Company Structure

1. Dragonfly Developments Limited is already established as a company limited by shares. The main body of this business case sets out that this model is the most appropriate for its future use based on the Council's objectives. In this annex we consider why this is the case and comment on why other types of company would be inappropriate.

2. Local authorities make use of a range of company structures, the type of which is generally governed by that company's objectives (which, in turn, are determined by the objectives of the shareholder Council). A company's objectives are important as they will generally point to a structure that is both legally and commercially suitable. For example, a company set up by a local authority to undertake activities with a social angle may choose a community interest company due to its social characteristics and the asset lock that is a feature of that model, whilst a company established to pursue commercial objectives to allow for a commercial revenue stream for the Council may look to a more traditional company limited by shares. The table at the end of this annex contains a matrix of different corporate structures that are often considered by local authorities when looking to undertake activity through a separate corporate vehicle and the limitations and possibilities attached to each.

3. We now consider Dragonfly's current structure, its appropriateness and whether other structure may be more suitable.

Dragonfly as a company limited by shares

4. The Council's objectives for Dragonfly place a particular emphasis on achieving a commercial return from its activities. For legal reasons, discussed in more detail below, this eliminates certain structures from the options available.

5. Section 1 of the Localism Act 2011 contains the *general power of competence*, which allows a Council to do anything that an individual may do, providing there is not another statutory obligation not to do that thing. This means that a Council has the ability to operate commercially, but section 4 of the Localism Act 2011 requires that, for it to do so, it must undertake that activity through a company as outlined in section 1 of the Companies Act 2006. As it currently stands, therefore, the Council's objective of achieving a commercial return will need to adopt one of the following companies:

   - Company limited by shares
   - Company limited by guarantee
   - An unlimited company

6. The third of these options is not appropriate and very few companies are now established as unlimited companies (for the reason that do not benefit from the limited liability that is often the core purpose of setting up a company in the first place). The second of these

options would be available, but as the table on the following page shows, this is not a type of company generally used for purely commercial activity as its articles will generally not permit declaring dividends, which would not be appropriate for the Council given its objectives of generating revenue. It would also restrict the options that the Council would have for financing (it would only be able to loan to the company and not make an equity investment, which could cause legal issues around subsidy control).

7. This leaves a *company limited by shares*, which is the current structure. This is suitable as it has been designed, by statute, to best fit the activities of a commercial company. It allows for flexible funding, is well understood, and permits the declaration of dividends.

8. A structure that is often considered by local authorities for activities is the LLP – limited liability partnership. This is a model that is a hybrid of an unincorporated partnership and a company. It is particularly attractive to local authorities as it is tax transparent, which means each member of an LLP is taxed in its own hands. As local authorities do not pay corporation tax, this makes the structure particularly interesting. However, the LLP structure is not one referred to in section 1 of the Companies Act 2006 due to the advantage that local authorities would have over private businesses when undertaking commercial activity. An LLP structure is only available if a Council is not operating "for a commercial purpose", which is defined in section 4 of the Localism Act 2011. The meaning behind this phrase was tested in the case of *Peters v Haringey*, in which the judgment concludes that for there to be a commercial purpose, the primary objective of the activity that is being undertaken should be a commercial return. If a commercial return is simply ancillary to a wider Council objective e.g., implementing its corporate plan, this is unlikely to be considered acting for a commercial purpose.

9. Given the Council's focus on commercial return in its objectives, we suggest that the LLP structure would not be available, and the company limited by shares is the most legally compliant model.

	Company Limited by shares	Private Company Limited by Guarantee	Community Interest Company (CIC)	Co-operative / Community Benefit Society	Limited Liability Partnership
Limited liability of members	Limited to unpaid amount on share (including premium).	Limited to the amount of their guarantee.	May either be a company limited by shares or guarantee.	Members' liability limited to the amount unpaid on shares.	Members' liability limited to amount of capital invested
Governing documents	Articles of association, usually supplemented by a shareholder's agreement	Articles of association, usually supplemented by a shareholder's agreement	Articles of association incorporating the specific requirements of the Community Interest Companies Regulations 2005 as amended	Constitution or rules administered by members, generally on the basis of one vote per member.	Members' (LLP) agreement – there is not statutory constitution
Scope to obtain charitable status / tax benefits as a charity	**No**, but can be a trading subsidiary of a charity which covenants profits to parent trust/charity to obtain maximum tax advantage.	**Yes**, if it has objects satisfactory to the Charity Commission.	**No**	Cannot register as a charity but if it meets charitable criteria it may benefit from "exempt charity" status and obtain tax benefits.	**No**
Regulation	Companies Act 2006 and associated legislation.	Companies Act 2006 and associated legislation Charity law and Charity Commission if charitable.	Community Interest Company Regulations 2005 (as amended) (CIC Regulations), Registration with Registrar of Companies and Regulated by the Regulator of CICs.	Regulated by the FCA (and not by the Charity Commission even if its objects are charitable). They are also regulated by the Co-operative and Community Benefit Societies Act 2014.	Limited Liability Partnerships Act 2000 and provisions of Companies Act 2006 and partnership law.
Main potential sources of funding / income	Generating profit from trading activities or sale of assets or other income.	Fund raising/grants/donations Trading or other income-generating activities as permitted by its objects Borrowing if income sufficient and constitution permits.	Similar to company limited by guarantee or other private company, but scope for raising equity and debt capital is restricted by their community interest objectives and limitations on dividends and interest payments.	Equity investment, grants, fundraising, trade or other income-generating activities and borrowing dependent on constitution.	Generating surpluses from trading activities or sale of assets or other income.
Can it distribute profits?	**Yes**	In principle yes, but companies limited by guarantee generally have a prohibition on distributing profits the articles of association	Dividends paid by CICs are subject to limits set by the Secretary of State.	Generally, it is a requirement of registration with the FCA that a BenCom should not distribute profits to members but retain them for the benefit of the community.	Yes, Members can withdraw profits as drawings

	Company Limited by shares	Private Company Limited by Guarantee	Community Interest Company (CIC)	Co-operative / Community Benefit Society	Limited Liability Partnership
Asset lock	No, but subject to maintenance of capital restrictions.	No specific requirement but provisions with such an effect could be included in articles of association.	Articles must include an "asset lock" as set out in the CIC Regulations. Assets can only be transferred at full market value. Assets remaining on dissolution protected for the community.	Such provisions could be included in the BenCom's constitution.	**No**
Minimum number directors/members or equivalent	At least one director (a natural person at least 16 years old). May have a sole member. Members will decide the most important decisions regarding the company. Directors will carry out the day-to-day business.	At least one director (a natural person at least 16 years old). May have a sole member. A charitable trust set up as a company limited by guarantee will usually have several trustee directors.	Same as a company limited by guarantee, shares or any other private company.	Every IPS/BenCom must have a committee of management (sometimes called "directors") and a secretary; generally, a minimum of three individuals plus a secretary.	Must have at least two designated members responsible for statutory filings
Typical use	Most common business structure and well recognised by banks and other commercial organisations as a trading vehicle.	Proposals requiring the body to own land or other assets, enter contracts, employ staff, hold a bank account and/or borrow money. Charities or companies where the purpose is not-for-profit	Intended for social enterprises that wish to use assets and profits for public benefits, with mandatory asset lock and controls on dividends to reassure potential participants, donors or investors.	BenComs are one of the two forms of IPS which can be registered under the Co-operative and Community Benefit Societies Act 2014(the other being a cooperative) and are organisations with social objects to run a business for the benefit of the community.	Increasingly common business structure recognised by banks and other commercial organisations as a trading vehicle.
Points to note	Permitted under trading powers, and well-being (Wales, LGA 2000, s 2) /general power of competence (England, Localism Act 2011, s 2).	Recognised entity for a not for profit distributing enterprise where asset ownership and contracting envisaged, a degree of continuity is sought and/or there are benefits in limiting liability. Permitted under trading powers, and well-being (Wales, LGA 2000, s 2)/general power of competence (England, Localism Act 2011, s 2).	A limited company with an added "overlay". Doubtful whether additional costs and complexity justified by benefits over other forms. Permitted under trading powers but unlikely to be suited to public/public collaborative venture.	Organisations which conduct an industry, business, or trade for the benefit of the community. There must be special reasons why they cannot register as a company. In practice they are used less frequently than companies though permitted under trading powers.	A local authority is not able to use LLPs for trading or pursuing commercial purpose (Localism Act 2011).

Appendix 2 – Development Sites

Site Name	Ward	Start Date	End Date	No of Units
West Street Site 1&2	Langwith	16/01/23	25/08/23	5
The Woodlands	Langwith	31/01/22	03/03/23	19
Moorfield Lane Site 1	Langwith	30/01/23	11/08/23	3
Moorfield Lane Site 2	Langwith	30/01/23	08/09/23	4
The Woodlands 2	Langwith	10/07/25	29/04/26	14
Rowan Drive	Shirebrook	28/01/25	03/11/25	10
Portland rd/Market Close Site 1	Shirebrook	12/09/22	15/01/24	24
Market Close Site 2	Shirebrook	21/11/22	24/04/23	1
Briar Close	Shirebrook	04/12/23	16/05/25	35
Station Road	Shirebrook	16/12/24	05/09/25	6
Hereward Close Site 1	Shirebrook	05/12/22	03/07/23	3
Swanwick Avenue	Shirebrook	25/03/24	29/11/24	6
Brookfield Crescent	Shirebrook	28/01/25	11/08/25	2
Elm Tree Avenue	Shirebrook	28/01/25	25/08/25	3
Alder Way	Shirebrook	25/03/25	26/01/26	6
Alder House	Shirebrook	04/03/25	17/11/25	7
Hill Crest	Shirebrook	28/01/25	08/09/25	5
Woburn House/Close	Blackwell	10/07/23	20/03/26	42
Alfreton Road	Blackwell	13/11/23	10/05/24	1
Pendean Close	Blackwell	13/05/24	01/11/24	2
Victoria Drive Site 2	Blackwell	28/10/24	23/05/25	1
St Thomas Close Site 1	Tibshelf	03/06/25	12/01/26	2
St Thomas Close Site 2	Tibshelf	03/06/25	15/12/25	1
Clune Street Site 1	Clowne East & West	13/02/25	30/07/25	1
Clune Street Site 2	Clowne East & West	20/03/25	03/09/25	1
Mansfield Road/Damsbrook Drive Site 1	Clowne East & West	07/11/24	13/08/25	7
Damsbrook Drive Site 4	Clowne East & West	30/01/25	13/08/25	2
Southgate Crescent Site 1	Clowne East & West	12/12/24	06/08/25	3
Orchard Close	Clowne East & West	15/05/25	07/01/26	3

Site Name	Ward	Start Date	End Date	No of Units
King Street	Clowne East & West	17/04/25	01/10/25	1
Damsbrook Site 3	Clowne East & West	13/03/25	27/08/25	1
Springfield Close	Clowne East & West	08/05/25	22/10/25	1
Harlesthorpe Avenue Site 2	Clowne East & West	07/11/24	07/05/25	1
Doles Lane	Whitwell	26/10/20	21/09/21	7
Longcroft View	Whitwell	12/10/20	20/04/21	1
Bakestone Moor	Whitwell	12/10/20	30/08/21	5
Claylands Road	Whitwell	09/11/20	10/08/21	3
Sandy Lane/Thorpe Avenue	Whitwell	26/04/21	17/06/22	21
Sleights Lane	Pinxton	29/10/24	02/06/25	3
Eastfield Drive	South Normanton East & West	15/10/24	07/07/25	4
Peveril road	Bolsover North & Shuttlewood	28/11/24	27/08/25	8
St Lawrence Avenue	Bolsover East & South	28/11/24	16/07/25	1
Moorfield Avenue/Schoolfield Close	Bolsover East & South	16/01/25	06/08/25	2
Sycamore Close	Pinxton	12/11/24	16/06/25	1
Woodfield Road (41)	Pinxton	25/11/24	27/06/25	2
Woodfield Road (73-75)	Pinxton	19/11/24	23/06/25	1
Woodfield Road (Side 20)	Pinxton	26/11/24	23/06/25	1
Total				**283**

Appendix 3 – Key Financial Assumptions

Financial Modelling Assumptions	
Company I&E Period (years)	30
Blended Development Interest Rate	7.0%
Blended TA Acquisition Interest Rate	4.5%
Council Borrowing Rate	4.0%
Recharged Prof. Fees from Development	3.50%
Retained Assets (% of Units)	9%
Rental yield (% of GDV)	5.0%
Full OpEx (% of Rent)	25.0%
OpEx in fully staffed Company	12.5%
Indexation all Cost/Income	2.0%
Corporation Tax Rate	25%
Reduction in Asset Exit Value	40%
75% of sites developed utilising DM services / 25% of sites developed by DG	

Other Teams	Annual Budget
Property & Estates Budget Cost	£1,570,206
R&M Team Budget Cost	£5,893,915
Econ Development Budget Cost	£281,546

Assumed Company Efficiency	10%

TA Acquisition	Assumption
Number of Properties	100
Properties per year	10
Price per unit	£115,000
On-costs	10%
LHA Rent (£ / week)	£103.56
Opex (excluding in-house resource) % of rent	12.5%
Net Savings per night	£44
Assumed void on savings	5%

Appendix 4 – Example Reserved Matters

RESERVED MATTERS

Insofar as a matter is a Reserved Matter relating to a Company, the Company shall not make any decision in relation to, or undertake, that Reserved Matter except with the prior written consent of the Council. Reference to a "Company" shall be to the relevant company (as appropriate):

Number	Reserved Matter	[DMC]	[DDC]
Constitution of the Company			
1	Varying in any respect the articles or the rights attaching to any of the shares or memberships (as applicable) in the Company.	✓	✓
Officers and shareholders of the Company			
2	The appointment and the appointment terms (including any remuneration terms) of any directors other than Council appointed directors.	✓	✓
3	The removal of any directors (including any terms on which such directors are removed from their office as directors) other than Council appointed directors.	✓	✓
4	The admission of further shareholders or members to the company or agreeing any rights or restrictions attaching to any shares or memberships allocated to such new shareholders or members as applicable).	✓	✓
5	The appointment or removal of the chair of the board (except where the chair is absent in which case the board will appoint an alternate chair).	✓	✓
Future direction and development of the Company			
6	Forming any subsidiary or acquiring shares in any other company or participating in any partnership or incorporated joint venture vehicle	✓	✓
7	Amalgamating or merging with any other company or business undertaking.	✓	✓
8	Selling or disposing of any part of the business of the Company.	✓	✓
9	Adopting or amending the Business	✓	✓
10	Undertaking any business or action which is inconsistent with the Business Plan then in force or omitting to	✓	✓

Number	Reserved Matter	[DMC]	[DDC]
	undertake any action which is required by that Business Plan except with the prior written consent of the Council		
11	Passing any resolution for its winding up or presenting any petition for its administration (unless it has become insolvent).	✓	✓
12	Agreeing or approving any other material services the total value of which exceeds15% of the respective Company's projected annual turnover per annum to be provided by the Company to a third party not approved under the Business Plan.	✓	✓
13	Appoint any agent (not being a subcontractor) to conduct the whole or any part of the business of the Company.	✓	✓
14	Apply for the listing or trading of any shares in its issued capital or debt securities on any stock exchange or market (where applicable).	✓	✓
Management of the business of the Company			
15	Changing the Company's registered office.	✓	✓
16	Changing the Company's name.	✓	✓
17	Creating or agreeing to create a charge, security or Encumbrance over the Company's assets, shares or income	✓	✓
18	Approving any matter that is reasonably likely to have an adverse effect on the reputation of the Council.	✓	✓
19	Changing the nature of the business or commencing any new business which is not ancillary or incidental to the business of the Company.	✓	✓
20	Agreeing to enter into or entering into any acquisition or disposal of any material assets by the Company the total value of which exceeds £[X] per annum	✓	✓
21	Giving notice of termination of any arrangements, contracts or transactions the total value of which exceeds £[X] per annum or materially varying any such arrangements, contracts or transactions and such termination or variation is likely to have an adverse impact on the financial status of a Company.	✓	✓
22	Granting rights (by license or otherwise) in or over any intellectual property owned or used by the Company.	✓	✓
23	Changing the Company's auditors.	✓	✓
24	Make any borrowing.	✓	✓
25	Agree to make or making any loan (otherwise than by way of a deposit with a bank or other institution, the normal business of which includes the acceptance of deposits or in the ordinary course of business) or granting any credit	✓	✓

Number	Reserved Matter	[DMC]	[DDC]
	(other than in the normal course of trading or the granting of trade credit to a Company which has been approved under the Business Plan) or giving any guarantee or indemnity (other than in the normal course of trading).		
26	Changing the Financial Year of the Company.	✓	✓
27	Increase or reduce the amount of its issued share capital, grant any option over or in its share capital, redeem or purchase any of its own shares or otherwise alter, or effect any reorganisation of, its share capital (where applicable).	✓	✓
28	Declare or pay any end of year dividend of the Company (where applicable).	✓	✓
29	Establishing or amending any pension scheme or granting any pension rights to any Director, officer, employee, former director, officer or employee, or any member of any such person's family.	✓	✓

Chief Executive
Head of Paid Service
Returning Officer, Elections
Emergency Planning LRF Lead
Dragonfly Development Ltd Sponsor

Strategic Director of Services
Climate Change Lead
Emergency Planning Tactical Lead

Streetscene Services
Environmental Health
Housing Management and Enforcement
Planning and Planning Policy
Leisure, Health and Wellbeing

Assistant Director Streetscene

Waste and Recycling
Fleet Management
Grounds Maintenance
Street Cleansing

Assistant Director of Environmental Health (50%)

Environmental Enforcement
Commercial (food and H&S)
Private Sector Housing
Environmental Protection
Licensing

Assistant Director of Housing Management and Enforcement

Housing Needs
Rent and Rent Recovery
Community Safety
Tenancy Management
Central Control & Careline
Homelessness

Assistant Director of Planning and Planning Policy

Development Management
Local Plan and Planning Policy
Land Charges
Enforcement

Assistant Director Leisure, Health & Wellbeing

Leisure Services and Café
Health and Wellbeing
Arts
Extreme Wheels

Service Director Executive, Governance and Partnerships

Safeguarding Lead
Corporate Transformation Lead

Executive and SLT Support
Partnerships Team
Customer Services
Governance
Corporate Improvement
Safeguarding

Service Director Finance and Section 151 Officer

Statutory Officer

Dragonfly Development Ltd Financial Lead

Finance
Audit
Revenues and Benefits
ICT

Dragonfly Development Ltd Client function

Service Director Corporate and Legal Services and Monitoring Officer

Statutory Officer

Dragonfly Development Ltd Legal Lead

Legal
HR and Payroll
Health and Safety
Procurement
Performance