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To: Chair & Members of the Executive

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Friday 6th June 2025

Dear Councillor

EXTRAORDINARY EXECUTIVE

You are hereby summoned to attend an Extraordinary meeting of the Executive of the Bolsover District Council to be held in the Council Chamber, The Arc, Clowne on Monday 16th June 2025 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.

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

You can request this document or information in another format such as large print or **language** or contact us by:

- **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 Wi-Fi 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

EXECUTIVE
AGENDA

Monday 16th June 2025 at 10:00 hours taking place in the Council Chamber, The Arc, Clowne

Item No.		Page No.(s)
1.	**Apologies For Absence**	
2.	**Declarations of Interest**	
	Members should declare the existence and nature of any Disclosable Pecuniary Interest and Non Statutory Interest as defined by the Members' Code of Conduct in respect of: a) any business on the agenda b) any matters arising out of those items and if appropriate, withdraw from the meeting at the relevant time.	
	NON KEY DECISIONS	
3.	**Local Partnerships' Review of the Council's Dragonfly Companies.**	4 - 39

BOLSOVER DISTRICT COUNCIL

Meeting of Extraordinary Executive on 16th June 2025

Local Partnerships' Review of the Council's Dragonfly Companies

Report of the Director of Governance and Legal Services & Monitoring Officer

Classification	Open
Contact Officer	Jim Fieldsend, Director of Governance and Legal Services & Monitoring Officer

PURPOSE/SUMMARY OF REPORT

To note Local Partnerships' report on its review of the Dragonfly companies and to consider any interim measures that need to be taken.

REPORT DETAILS

1. Background

1.1 On 30th May 2025 the Council received a report from Local Partnerships following its review of Dragonfly Development Limited and Dragonfly Management (Bolsover) Limited ("the Dragonfly companies"). A copy of the report is attached at Appendix 1.

1.2 On 2nd June 2025 the report was circulated to all councillors and made available for all staff and the general public.

1.3 Full detail of Local Partnerships' finding can be seen in their report however a summary of their findings (page 5 of the report) are as follows:

Notwithstanding the progress made in challenging circumstances, including some objectives being met, the Development Company has not delivered all of the objectives originally envisaged, including the number of sites. Therefore, the Council is considering the costs of running the Companies compared with the outcomes achieved. The Council also has concerns regarding control and VfM in relation to the Management Company. The Company does not agree with this view. Therefore, the Council has sought to understand the value and how it can control both Companies through a review of the governance arrangements.

The review has identified several significant issues which relate to the following two areas of governance:

• Building blocks of good governance; we have identified many instances where good governance is absent or not fit for purpose which are summarised below:

> *▪ the lack of a clarity of purpose which causes confusion and conflict between Council and Companies. This is the foundation for all other issues*
>
> *▪ the lack of an up-to-date, comprehensive business plan, following on from the business case, which clearly defines how the companies will deliver the Council's requirements and which the Council could use as a basis for monitoring performance*
>
> *▪ the lack of suitably robust governance framework including Company Board composition and skills*
>
> *▪ Shareholder Board prominence and not being part of the committee system*
>
> *▪ clienting capacity and capability within the Council and capability gaps in the Companies and governance bodies*
>
> *▪ the presence of conflicts of interest between the Companies and Council roles and the different roles within the companies*

• The working relationships between the Companies and Council which have arisen because of the failings relating to the above points, despite both having the same objective of wanting the Companies to be a success. These difficulties are deflecting focus from this shared objective.

1.4 The impact of these findings are contained on page 6 of the report:

In combination, these matters create risks that are potentially significant enough to pose a threat to the Council in terms of governance, finance and reputation; the Council is unable to gain assurance that the Companies are delivering Council objectives, VfM and meeting the expectations of funders and regulators.

These risks to the Council are compounded by the following:

• the Companies support key Council services where the responsibility will always rest with the Council, but delivery of important aspects of the service is with the Companies

• the Companies also manage third party funding on behalf of the Council. In these cases, responsibility for this funding rests with the Council but spend and delivery with the Companies. This is managed through a commissioning board which has been set up relatively recently. Poor performance would pose a threat to future Council funding from, amongst others, MHCLG and Homes England

• the lack of clarity and weaknesses in reporting, meaning that the Council is often unsighted on the Companies' corporate and operating risks

• the perceptions of external stakeholders including community stakeholders have highlighted concerns relating to governance, conflict of interest and ability to demonstrate VfM

1.5 A summary of the recommendations are shown on pages 6 and 7 of the report:

To address these issues, the Council should revisit the business case, which will determine whether there remains a need for the companies.

If it does, the Council should implement the recommendations as set out in this document. The key conditions that need to be met if the Companies remain:

• the Council should ensure that it has the necessary management resource and clienting capability

• the Companies should ensure that there is sufficient resource including a dedicated finance function

• clarity of purpose as set out in a refreshed and more comprehensive business plan for the Companies

• creation of a working group to re-set the relationship between Companies and Council, underpinned by an operating agreement which both parties sign up to 7 Bolsover District Council Review of Dragonfly Companies

• changes to board memberships are implemented

• adherence to all Company rules including reserved matters are assured

• a more robust framework in place around meetings including a regular meeting of senior management of both Companies and Council to underpin an improved working relationship

If it does not, the Council should take steps to bring the services back in house.

The key conditions that need to be met if the Companies are dissolved:

• there is capacity to support a working group to lead the transition

• there is capability (or plans to acquire it) to deliver the services in house

• the ambition for any continued development does not exceed the Council's own limits

• finance resource is sufficient to cover TUPE implications and other staffing implications

• there is resource and due diligence relating to the transfer of contracts from Company to Council

• *a clear stakeholder and staff plan is needed*

• *any adverse financial implications are understood*

2. Details of Proposal or Information

2.1 Members are requested to note the report .

2.2 Whereas the report contains a number of recommendations which will be subject to review and consideration over the next few weeks, Members may wish to consider taking some interim measures. The Shareholder Board is due to meet on Tuesday 10th June 2025 and any proposals and recommendations from the Shareholder Board will be presented to Executive at the meeting.

3. Reasons for Recommendation

3.1 To consider the report and to assess whether any interim measures are necessary.

4 Alternative Options and Reasons for Rejection

4.1 There are no alternatives

RECOMMENDATION(S)

That Executive:

1. To note Local Partnerships' report of its review of Bolsover District Council's Dragonfly companies.
2. To assess whether any interim measures need to be taken.

Approved by Councillor Jane Yates, Leader of the Council

IMPLICATIONS:

Finance and Risk Yes☐ No ☒ **Details:** On behalf of the Section 151 Officer
Legal (including Data Protection) Yes☐ No ☒ **Details:** On behalf of the Solicitor to the Council

Staffing **Yes☐** **No ☒** **Details:** On behalf of the Head of Paid Service
Equality and Diversity, and Consultation **Yes☐** **No ☒** **Details:**
Environment **Yes☐** **No ☒** Please identify (if applicable) how this proposal/report will help the Authority meet its carbon neutral target or enhance the environment **Details:**

DECISION INFORMATION:

☒ ***Please indicate which threshold applies:***	
Is the decision a Key Decision? A Key Decision is an Executive decision which has a significant impact on two or more wards in the District or which results in income or expenditure to the Council above the following thresholds:	**Yes☐** **No ☒**
Revenue (a) Results in the Council making Revenue Savings of £75,000 or more or **(b)** Results in the Council incurring Revenue Expenditure of £75,000 or more.	**(a) ☐** **(b) ☒**
Capital (a) Results in the Council making Capital Income of £150,000 or more or **(b)** Results in the Council incurring Capital Expenditure of £150,000 or more.	**(a) ☐** **(b) ☒**
District Wards Significantly Affected: *(to be significant in terms of its effects on communities living or working in an area comprising two or more wards in the District)* Please state below which wards are affected or tick **All** if all wards are affected:	**All ☐**

If Yes, is the call-in period to be waived in respect of the decision(s) proposed within this report? ***(decisions may only be classified as exempt from call-in with the agreement of the Monitoring Officer)*** **Consultation carried out:** *(this is any consultation carried out prior to the report being presented for approval)* **Leader ☒ Deputy Leader ☐ Executive ☐ SLT ☐** **Relevant Service Manager ☐ Members ☐ Public ☐** **Other ☐**	**Yes☐ No ☒** **Yes☒ No ☐**

Links to Council Ambition: Customers, Economy, Environment, Housing

DOCUMENT INFORMATION:

Appendix No	Title
1	Local Partnerships' report

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).

DECEMBER 2024

JOINTLY OWNED BY

10

Bolsover District Council Review of Dragonfly Companies

Final report

Issue date 30 May 2025

Appendix 1

Contents

1 Wholly owned company governance review

1.1 Background to the review

Bolsover District Council (the Council) has two companies:

- Dragonfly Development undertakes property development, including the Council's social housing build programme
- Dragonfly Management provides services back to the Council comprising property service, consultancy, housing repairs, estate services, facilities management, economic development and tourism

The creation of the Companies in their current form was the response to the termination of a previous joint venture (JV) two years ago, that was outside the Council's control. The original JV had the purpose of delivering social and affordable housing across a number of agreed sites. Whilst the JV was a separate delivery vehicle, Council control was via Council officers and the JV reported into the Council's normal governance and decision-making structures. At the point of termination, the Council took over the residual elements of the JV and swiftly set up Dragonfly Developments at the same time with the purpose of completing the existing housing sites and then continuing to develop a pipeline of sites set out in the business case prepared by the Council. A separate subsidiary Company (Dragonfly Management Bolsover) was also set up. Together, they are referred to as the Companies in this report. A business case for both and board of directors mobilised quickly.

During the past two years, tensions have arisen between the Council and the Companies regarding ways of working. The Council has had a number of concerns which has prompted it to undertake some investigations which raised issues around governance, conflict of interest and reporting. The internal Shareholder Board has recommended that a review of the companies be undertaken to assess the setup and governance arrangements surrounding them. The review carried out by Local Partnerships and this report are a direct result of this recommendation. The objective has been to assess to what extent the Companies are delivering benefit for the Council through the lens of governance and is not intended to provide a recommendation regarding whether or not the companies should continue to operate. However, this report does recommend a review of the role of the Companies' joint business case and suggests what the case should consider.

This report has been commissioned at a timely juncture, two years after the creation of the Companies. Whilst the review has identified a number of risks associated with oversight and governance, these risks have not crystallised and the Council has the opportunity to ensure that these risks can be managed.

1.2 Approach

We have undertaken:

- a high-level overview and reflection of the first two years of the Companies, including the extent to which it has followed the initial business case and how close / far the first two years have performed against the initial intended purpose of the companies
- a high-level review of the operational and governance arrangements between the Council and the Companies

This report is accompanied by a governance checklist which compares current performance against good practice in the above categories and provides greater detail to support further improvements. It is supplemented by the following documents which are annexed to this report and may help when implementing the recommendations:

- example operating agreement
- illustrative review action plan
- public Interest Report findings regarding Brick By Brick (a company owned by London Borough of Croydon)

To carry out the review, Local Partnerships has been given access to key documents produced by the Council and Companies. It has also interviewed senior Council and Company officers, cabinet members, back bench Council members, along with members of the Companies Board. A list of those who were consulted is included in Annex 2.

The range of documents that have been reviewed includes the following:

- papers and minutes for the Company Board, and Council Shareholder Board
- key Company documents
- terms of reference of Shareholder and Company Board meetings
- the current business plan
- correspondence between Council and Company at various levels

2 Summary of findings and recommendations

2.1 Summary of findings

Notwithstanding the progress made in challenging circumstances, including some objectives being met, the Development Company has not delivered all of the objectives originally envisaged, including the number of sites. Therefore the Council is considering the costs of running the Companies compared with the outcomes achieved. The Council also has concerns regarding control and VfM in relation to the Management Company. The Company does not agree with this view. Therefore, the Council has sought to understand the value and how it can control both Companies through a review of the governance arrangements.

The review has identified several significant issues which relate to the following two areas of governance:

- Building blocks of good governance; we have identified many instances where good governance is absent or not fit for purpose which are summarised below:

    - the lack of a clarity of purpose which causes confusion and conflict between Council and Companies. This is the foundation for all other issues
    - the lack of an up-to-date, comprehensive business plan, following on from the business case, which clearly defines how the companies will deliver the Council's requirements and which the Council could use as a basis for monitoring performance
    - the lack of suitably robust governance framework including Company Board composition and skills
    - Shareholder Board prominence and not being part of the committee system
    - clienting capacity and capability within the Council and capability gaps in the Companies and governance bodies
    - the presence of conflicts of interest between the Companies and Council roles and the different roles within the companies

- The working relationships between the Companies and Council which have arisen because of the failings relating to the above points, despite both having the same objective of wanting the Companies to be a success. These difficulties are deflecting focus from this shared objective.

15

2.2 The impact

In combination, these matters create risks that are potentially significant enough to pose a threat to the Council in terms of governance, finance and reputation; the Council is unable to gain assurance that the Companies are delivering Council objectives, VfM and meeting the expectations of funders and regulators.

These risks to the Council are compounded by the following:

- the Companies support key Council services where the responsibility will always rest with the Council, but delivery of important aspects of the service is with the Companies
- the Companies also manage third party funding on behalf of the Council. In these cases, responsibility for this funding rests with the Council but spend and delivery with the Companies. This is managed through a commissioning board which has been set up relatively recently. Poor performance would pose a threat to future Council funding from, amongst others, MHCLG and Homes England
- the lack of clarity and weaknesses in reporting, meaning that the Council is often unsighted on the Companies' corporate and operating risks
- the perceptions of external stakeholders including community stakeholders have highlighted concerns relating to governance, conflict of interest and ability to demonstrate VfM

2.3 Summary of recommendations

To address these issues, the Council should revisit the business case, which will determine whether there remains a need for the companies.

If it does, the Council should implement the recommendations as set out in this document. The key conditions that need to be met if the Companies remain:

- the Council should ensure that it has the necessary management resource and clienting capability
- the Companies should ensure that there is sufficient resource including a dedicated finance function
- clarity of purpose as set out in a refreshed and more comprehensive business plan for the Companies
- creation of a working group to re-set the relationship between Companies and Council, underpinned by an operating agreement which both parties sign up to

- changes to board memberships are implemented
- adherence to all Company rules including reserved matters are assured
- a more robust framework in place around meetings including a regular meeting of senior management of both Companies and Council to underpin an improved working relationship

If it does not, the Council should take steps to bring the services back in house.

The key conditions that need to be met if the Companies are dissolved:

- there is capacity to support a working group to lead the transition
- there is capability (or plans to acquire it) to deliver the services in house
- the ambition for any continued development does not exceed the Council's own limits
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- there is resource and due diligence relating to the transfer of contracts from Company to Council
- a clear stakeholder and staff plan is needed
- any adverse financial implications are understood

3 Detailed findings and recommendations

We have set out below a table containing key areas for consideration to strengthen governance arrangements. We have not made any comment on whether the Companies should remain but have assumed that they will for the foreseeable future. However, we do recommend that a review of both Companies is carried out to determine their future.

The outcome of the revised business case will determine need for delivering the building blocks of good governance set out below. In turn, the ability to re-set and improve working relationships between the Council and Companies will be needed for overall success.

3.1 Purpose of the Companies

Although the rationale for the Companies is well-rehearsed, i.e. to trade externally, this should be clarified and communicated to all stakeholders. Recommendations in this section should be implemented first in order to determine whether or not to continue with the Companies.

	Finding	Recommendation
1	**Business case** A business case (following the HM Treasury Green Book Five case model) was developed to justify the creation of the Companies in 2022. It has not been updated since then. The rationale for an alternative model was present because of the failure of the JV and this forced a swift change of operating model. However, the services included in the business case went well beyond those covered by the JV, including housing repairs and economic development. There was an options appraisal, but it was not exhaustive e.g. not all options were considered or scored in detail which otherwise may have led to a different outcome. Therefore, the case for change lacked a full justification.	Review the business case, testing the advantage and disadvantages of the current model against those of a full range of delivery options. It should also consider options involving disaggregating services from the Dragonfly Group. The review should consider the implication that the different options have on Council control, management and Council risks as well as which options represent the best VfM for the Council and residents.

	Finding	Recommendation
	The Companies have not been reviewed since set up. The group structure (with Dragonfly Management and Dragonfly Development) seems to be aligned to enabling a passporting of work to the Development Company from the Management Company. This has been driven by the objective of appointing contractors outside public sector procurement process. The Development Company was set up assuming that more than 20% of its work would be non-owner work but this has not happened.	As a general rule, business cases should be updated at least every five years, or more frequently if there are significant changes to the Companies. Although they have only been operating for two years, given the current challenges, this should be refreshed now. This should either make the case for one or both companies to continue, or if not, to be dissolved. The business case should include an options appraisal identifying the most suitable model for service delivery including the relationship between the two Companies. The case should consider the risks of bypassing public procurement rules against any benefits – considering that most local authority owned companies do not create two companies for this reason.
2	**Purpose** There is a lack of clarity regarding the purpose of the Companies. This has not been reviewed since the preparation of the business case which has resulted in confusion regarding what they are expected to do and in turn has caused friction between the Companies and Council. Therefore, the Council has been unable to adequately manage the Companies to its satisfaction. There is also a lack of clarity regarding how arm's length the Companies should be. In some instances it acts independently e.g. devising its own staff structures but is also dependent on the Council for services such as finance.	A short document should be produced for communication to all stakeholders, including: • what the Council expects from each Company • why it was set up • why it remains relevant and is being invested in • key outputs • how development outputs should be balanced against social value and higher specifications • KPIs • how arm's length it should be Initially, the Council should keep close control over the Companies until the various issues are addressed and a more arm's length approach may be possible.

	Finding	Recommendation
		It should be based on a revised business case and be linked to the business plan.

3.2 Building blocks of good governance

The Council already has in place some governance mechanisms which should be built upon. If it has been decided, through the updating of the business case, that one or both Companies should continue, the following areas of governance will need to be addressed.

	Finding	Recommendation
3	**Shareholder Board** There is a Shareholder Board. This does not have the status of a committee. It comprises four elected members and the Council's Statutory Officers, who, combined, have good experience and understanding of the Companies. The Board has received training. There is a governance framework in place e.g. meetings take place, but this does not result in the Council having sufficient oversight because of insufficient information from the Companies. The Shareholder Board is supported by the Council's Governance Team who schedule meetings, take minutes and align meeting dates with Scrutiny and Executive meetings. The Shareholder Board minutes are reported to Local Growth Scrutiny Committee and Executive. It was not clear to all stakeholders who should attend these meetings from the Companies.	The Council should dissolve the existing Shareholder Board and create a Shareholder Committee to formalise its status. Recommendation 6 states that the Dragonfly Board should be dissolved. The Council should then consider bringing the former Board members from Dragonfly onto this committee subject to political balance being maintained in line with the constitution to continue to exercise their Shareholder duties. Officers should be in attendance as observers and to advise and support members as required. At Shareholder Committee meetings the senior management and chair of Dragonfly should be invited to present reports and receive challenge from the Committee. Shareholder meetings should be scheduled to align with an agreed programme for Company preparation, review and monitoring of an up-to-date business plan. Scheduling of Shareholder Committee meetings should enable the Shareholder to provide a timely response

	Finding	Recommendation
		to Company Board decisions covered by reserved matters. (An illustrative annual Shareholder Committee cycle is included in Annex 1 of this report (Operating Agreement) which shows the links to a Company business plan preparation cycle).
4	**Reserved Matters** There are reserved matters relating to Companies' decisions, but they are not always followed by the Companies to the satisfaction of the Council. For example, in both the following cases the Council did not feel it had been made sufficiently aware at the right time: • proposals for a new senior management structure • the appointment of the Chair of the Board	The reserved matters are a key element in the Council being able to control its Companies. The Council should ensure that Company staff are aware of the rules relating to reserved matters. The Shareholder Committee should ensure that procedure is followed. The Council and Companies need to develop a clear process leading to clearly understood consequences / sanctions if the reserved matters are not followed.
5	**Conflicts of interest** There is a policy on conflicts of interest, but it is not always rigorously followed by the Companies. For example, there is a large proportion of the Board formed of elected members. This presents a risk of conflict of interest. As well as there being members on the Board, there is evidence that members' responsibilities as Board directors are to the detriment of members' Council responsibilities e.g. having to withdraw from Council discussions, as well compromising their duty to residents.	The Companies should ensure that it is familiar with reserved matters and adhering to them to prevent conflicts of interest. The Council should put in place sanctions for non-compliance with the policy. However this would be alleviated if members were not on the Board See also the recommendations relating to capacity and clienting function and Service Level Agreement (SLAs).

	Finding	Recommendation
6	**Company Board** The Board comprises six members. They were drawn from the pool of elected members, identified by the Leader at the time, in the interests of speed given the urgency with which the Companies had to be created. Therefore no external, formal process for recruitment took place. The skills of Board members were not assessed as a whole against best practice. Given this composition, there is a lack of diversity in terms of experience and skills exacerbated by the lack of independent non-executive directors.	Recruitment should be through an externally facilitated process. Create a new Board with a suggested composition of independent chair, senior Council officer (non-statutory), one other independent non-executive director (NED) and the Companies' CEO. The external roles should be advertised publicly and a formal interview process by the Company Board. Appointments should be approved by the Shareholder Committee under reserved matters. The size of Board will depend on whether both Companies remain. If the management side is retained, a further NED would be advisable, with regulatory experience.
	These Board directors oversaw the delivery of sites taken over from the JV, along with other Company objectives. However, broader skills for the nature of the business are needed because the two Companies are responsible for high risk regulated activities where detailed understanding and experience is necessary to oversee the activities and to provide the necessary assurance that the Companies are being run effectively. The Board needs to be able to set strategy, develop and test a company and challenge the Chief Executive and senior management in terms of delivery performance. There is little evidence that the current Board has access to all of the skills required to run such a high-risk Company collectively.	Board members should collectively have commercial finance, development, and housing management experience, with a knowledge of the supplier and competitor markets.
	The Board meets regularly both formally at meetings and also informally outside the governance process. However, the quality of the Board agenda and minutes are not as required e.g. from the examples seen there were no actions agreed	Update the agenda and minute taking process of meetings. Key sections of the agenda should include: • CEO report • financial report

	Finding	Recommendation
	and no formal structure such as a report from the CEO, finance report, progress against Company KPIs, people and communications. They do not provide the Council with the necessary information to properly oversee the Companies. They also combine both Companies.	• opportunities • progress • people • communications The Board should resolve to agree each point at the meeting and be minuted. The Board agendas and minutes should be separate for each Company, although they can take place at the same meeting.
7	**Clienting** Following the setting up of the two Companies, certain activities were transferred out of the Council into them. This has resulted in the Council not having the in-house expertise and capacity to manage them at an operational level. As a result, it has been a challenge to ensure that it has correct oversight of day-to-day activities. It also leads to a potential conflict of interest with the Council relying on advice from the Companies on issues relating to the Council as client.	The Council should consider setting up a clienting function to oversee operational matters, allowing other governance forums to focus on the strategic. This should be staffed with individuals who have the relevant knowledge to be able to challenge the Management Company to ensure that delivery is of a suitable standard. The clienting gaps that need to be filled cover areas including: • asset management • quantity surveying and cost management • property management and repairs There are a number of options for filling these gaps including: • moving client skills from the Companies to the Council • employing new staff in the Council • using external consultants

3.3 Embedding the business planning process

The documentation supporting the business planning process should be strengthened.

	Finding	Recommendation
8	**Business plan** The lack of up to date, correctly detailed business plan makes it difficult to challenge the progress of the Companies' representatives are not routinely invited to the Shareholder Board to present documents which exacerbates this issue. The Companies feel that the Council as owner could be clearer regarding its objectives, while the Council feels that it could be more transparent. Therefore, the ability to constructively challenge in both directions is limited and the extent to which the Companies are given commercial freedom by the Council has been limited. The most up-to-date development pipeline, and financing ask of the Council, is still the pipeline developed for the business case which is out of date. The Management Company has a comprehensive set of operational KPIs but the Development Company does not.	 The Companies should develop a business plan that is fit for purpose with all the necessary components, financial detail and background financial stress testing. The business plan for Dragonfly Development should be based on an up-to-date development pipeline identifying agreed Council owned sites that the Development Company can expect to develop. Relevant Company representatives should attend Shareholder Committee meetings to present the business plan and other relevant documents. The Council and Companies should develop a dashboard identifying strategic level targets that reflect the key overarching measures used to determine whether the Companies are successful and delivering the Council's objectives. These should be reported to all Shareholder Committee meetings. The KPIs should reflect the purpose and objectives as set out in the revised business case and should be amended as required to reflect the business plan.
9	**Value for Money** The VfM of the Companies (compared to alternatives) is not evidenced, or clear how it is assured for transactions. There has been no test since the original business case was	 Parallel to the development of a new vision, business case and business plan, the Council should set out its requirements for the wider benefits that it expects the Companies to deliver. This should

	Finding	Recommendation
	prepared, for either Company. Examples of VfM not being achieved relate to build costs for some housing which are higher than industry average, which has been identified and is a concern to the Council. It is understood that this concern has resulted in the Council not approving recent schemes. The ad hoc rather than strategic nature of site development exacerbates this problem. There is no agreed approach that identifies the non-financial benefits that the Council expects to be delivered by Dragonfly Development Company on individual sites or how their impact of delivering these benefits on cost will be managed.	consider the forgone value or additional cost that the Council is willing to agree to, so that it can be considered in any VfM reviews. This approach should be applied to the long-term programme / pipeline not only when individual sites come forward. It should cover the social value to be delivered by both Dragonfly Development and Dragonfly Management.
10	**Risks** Risks are reviewed and managed within the Companies and do not align fully with the Council's strategic risk register. Company risks concentrate on operational rather than also covering strategic / corporate risks. There are some risks that are not recorded for example those relating to regulatory matters which could have a significant adverse impact on the Council if the Companies do not manage the risk properly e.g. the case of housing regulator returns which incorrectly indicated that a significant number of homes were not Decent Homes compliant.	The risk register should be updated and ensure that Companies and Council side align. The risks should include those relating to regulatory compliance. There should also be an issues log which should include reputational damage as this is already the case. Significant risks, that the Council could reflect in its risk register, comprise: • funding risk - Lack of direct control over the management of external funding schemes • risk of legal challenge - Significant public sector spend outside the Procurement Act 2023 • inability to demonstrate VfM for a significant element of the Council's budget • reputational risk - poor perception of the Council's use of the Companies to deliver services

	Finding	Recommendation
		• regulatory risk – safety critical services to Council tenants provided by the Management Company without necessary oversight. Split between responsibility and delivery role.
11	**Service Level Agreements (SLAs)** SLAs are in place covering the activities of Management. These seem to cover some issues more appropriate to the Company business plan. The services that the Council provides to the Companies are not clearly set out or monitored for fitness of purpose. There is a draft SLA for this purpose, however it is understood that this has not been formally agreed due to the KPIs requested by the Companies which the Council cannot agree to. The Companies rely on the Council for key financial and legal advice. This puts the Council in an awkward position where there is a real risk of conflict of interest as well as unmanageable workloads.	If the business plan is refreshed appropriately, this issue should be addressed. It should be clear what falls within reserved matters or SLAs and all staff should be clear about this. These should be updated to ensure that this is the case. The need for additional capability within the Companies is covered below.
12	**Finance** The Council does not feel that sufficient financial information is being shared by the Companies at a strategic level to enable it to have a clear oversight of activities. Two examples where this has resulted in difficulties: • delays in having the Council's accounts signed off	The Council should require the Companies to put in place their own finance function with suitably trained individuals to address the strategic objectives. A key area of experience should be commercial finance / accountancy to enable it to develop, and sensitivity / stress test its business plan. The Council should also require the Companies to put in place a financial reporting process to enable the Council's S151 officer to

	Finding	Recommendation
	• where the Council is responsible for delivery associated with grant funding, but the Companies are responsible for reporting This is exacerbated by the fact that there is no dedicated, suitably skilled finance function within the Companies at the moment, hence the Council has stepped in to support it However, it is recognised that the Council does not have expertise specific to Company finance and sufficient capacity, making it unsustainable.	gain the necessary assurance that external grant funding is being used appropriately and in line with any relevant grant agreements.

3.4 Working relationships

There is a need for a re-set of the working relationships between Council and Companies. Assuming that the revised business case identifies a continuing role for the Companies and that all of the building blocks of good governance are put in place, success will still be dependent upon the re-set of relationships being achieved and working relationships improving.

	Finding	Recommendation
13	The relationship between the Council (particularly Chief Executive, Leader, Deputy Leader and statutory officers) and the Companies (particularly the CEO, management team and Board directors) is not working well. Important information as a result is not being shared and there is a sense on both sides that there is insufficient opportunity to find out what is happening with the Companies. Trust has been lost, and each seeks independent advice which exacerbates the situation.	A re-set of relationships is needed by both the Council and the Companies. A task force could be set up comprising officer deputies and an elected member to allow lead roles to focus on their substantive roles while the re-set takes place. Suggested members could either be the Monitoring officer and S151 officer or their deputies, deputy CEO of the Companies and the chair of the Board, allowing both sides to have a say. This could be co-ordinated by an independent, impartial individual who is experienced in local government to bring a new perspective and facilitate the actions leading to the development of a new working relationship.

	A joint meeting was convened last year but no follow up meetings have taken place although some attendees felt it was a useful exercise.	The task force should be used to oversee the delivery of an action plan based on the recommendation from this review. Meetings between the CEO of Companies and Council with other senior officers in attendance should be considered to initiate the re-set.

3.5 Action plan

This action plan identifies immediate next steps to put in motion required changes pending official approval of recommendations arising from the refreshed business case.

Action	When	Who
Convene a joint meeting to signal the re-set comprising: • Council Leader and other relevant senior members • CEO of Council and statutory officers • CEO of Dragonfly and senior management • Dragonfly Board directors • Shareholder Board members	Immediate	Council CEO
Dissolve the Dragonfly Board and recruit new directors. Review membership of Shareholder Board to ensure suitable political representation and convert to a Committee.	Immediate	Shareholder Board Council Leader
Set up task force to take project forward: • identify individuals and backfill as needed • recruit an external, neutral individual to lead the group • identify a client-side officer to oversee	June 2025	Council CEO

Action	When	Who
• develop Terms of Reference for the group • communicate rationale for the group to all stakeholders		
Task force to review and update business case to determine if there remains a case for the Companies. If so, it should develop plans to address the points raised in the table above to create a robust governance framework. If not, it should develop plans to bring services in house, starting with an options appraisal to demonstrate that this is the most suitable model.	June 2025	Task Force Lead

Annex 1: Operating Agreement

The consideration of the Operating Agreement has concentrated on requirements relating to the Company Business plan, the Council's role as Shareholder and funder and requirements relating to reporting and monitoring.

Requirements relating to the business plan (BP)

This section of the Operating Agreement should contain the following:

- A requirement that the Companies should have a multiyear business plan
- A requirement that the business plan should be reviewed annually and rebased as appropriate to reflect changes in Council strategy, the Companies' operating environment or other significant changes in circumstances
- A requirement that the Council is engaged in the preparation of the business plan in a timely manner which enables it to input changes to its corporate strategy, policies and financial plans into the business plan
- A detailed programme setting out how the Council, as Shareholder, will be involved in the preparation of the plan
- A decision tree setting out the different decision points in the process and their relationship to the Company Board approval process
- A clear ask (reviewed each year) of the financial requirements in terms of the loans and grant – identifying how the loans and grant will be used by the group and subsidiary companies. This needs to reflect the Companies' Treasury Management policy and Financing Strategy
- A list of supporting information required by the Council to enable it to consider and then approve the business plan including:
  - Assumptions underpinning the business plan
  - Cashflow modelling
  - Sensitivity testing of the key business plan assumptions
  - Statement setting out the key risks relating to the delivery of the business plan
- An agreed set of outputs and KPIs that the Council will use to judge the success of the Companies within year and at the end of the year.

The table below illustrates a possible programme – setting out the input required from both the Companies and Council.

<table>
<tr><th>Quarter</th><th>BP stage and status</th><th>Company input</th><th>Council input</th></tr>
<tr><td>1</td><td>Performance review</td><td>Review of Company performance against previous year’s targets and KPIs

Chief Executive performance appraisal by chair

Initial review of strategic direction – reflecting past performance and any changes to Council strategy</td><td>Review of performance against corporate plan

Shareholder input into Company and Chief Executive performance appraisal

Review Company objectives against changes in Council strategy / policies</td></tr>
<tr><td>2</td><td>High level review of strategic direction</td><td colspan="2">Company Shareholder joint strategy discussion:
• Setting expectations
• Agreement on strategic direction – reflecting any changes to Council priorities
• Agreement on the type of outputs and KPIs – to be used in following year</td></tr>
<tr><td>3</td><td>First iteration of new / revised business plan</td><td>Draft prepared reflecting strategic discussions.

Supporting information for Council to include:

• Financing strategy (loans and grants required)
• Sensitivity testing of key assumptions
• Identification of key areas of activity
• Resource plan to deliver activity

Sign off by Company Board</td><td>Review of Council’s corporate plan and financial planning for following year

Input changes to Council strategy and financial requirements into Company business plan

Reflect Company business requirements in corporate and financial plans

Engagement with wider Council (non-Shareholder role)

Alignment of assumptions and key risks with Council risk appetite</td></tr>
</table>

Quarter	BP stage and status	Company input	Council input
	Second iteration of the business plan	Near complete business plan reflecting responses and engagement • Detailed supporting information • Cashflow modelling • Appraisals for key areas of activity	Alignment of Company business plan with corporate plan and MTFP • In principle sign off of Company financing strategy covering loans and grants and any loan repayments (in principle sign off at the Company programme level – detailed requirements to draw down loans and grants within year will still be required) • Sign off KPIs and other performance metrics
4	Final business plan	Formal Board sign off	Shareholder Committee sign off

Council as funder

This section should cover the following points

- How grants will be applied for by the Company from the Council:
    - Timescale for Council and Company actions
    - Supporting material required by the Council
    - Requirements relating to security of loan
- Where relevant, subsidy control assessment requirements subsidy_control_principles_assessment_template.docx
- Requirements relating to Council loans and the need to agree subsidy control compliant interest rates

Monitoring and reporting

This section should include:

- The level and frequency of engagement with the Shareholder representative and Shareholder Committee
- The information required by the Shareholder Committee on a quarterly basis:
    - Performance – against the metrics identified in the business planning process
    - Debt repayments – against the financing strategy set out in the business plan
    - Summary of the Company’s overall financial position
    - Changes to key risks since the previous meeting

Annex 2: List of consultees

Name	Role
Karen Hanson	Council CEO
Jane Yates	Leader of the Council
Jim Fieldsend	Council Monitoring Officer
Theresa Fletcher	Council S151 Officer
Steve Brunt	Council Director of Services
Grant Galloway	CEO of both Companies
John Ritchie	Elected Member and Chair of Shareholder Board
Tom Kirkham	Elected Member and member of Shareholder Board
Phil Smith	Elected Member and member of Shareholder Board
Duncan Haywood	Elected Member and member of Shareholder Board
Anne Clarke	Elected Member and director of Dragonfly
Janet Tait	Elected Member and director of Dragonfly
Deborah Watson	Elected Member and director of Dragonfly
Victoria Dawson	Council Assistant Director of Housing
Carol Wood	Elected Member and director of Dragonfly
Claire Bamford	Deputy S151 Officer
Sharon Lynch	Council Internal Auditor
Ian Barner, Natalie Etches, Andy Clarke, Katie Walters	Dragonfly management team
Steve Fritchley	Elected Member
Vicky Difelice, Louise Arnold	Deputy Monitoring Officer and Legal Officer

34

Annex 3: Illustrative Review Action Plan

Red: Late
Amber: In progress
Green: Complete

Ref	LP Recommendation	LP Priority	Action Summary	Update	Action	Expected Completion Date. RAG
01	*** needs its own financial controller	High	Recruit Finance business partner for Company	Post recruited to		Completed
02	Financial modelling capability needs to be enhanced – move away from disaggregated spreadsheets	Medium	New modelling systems to be implemented	Interim FD in place and reviewing process Business partner to continue process once in post		March 25
03	Development Management Software needs implementing asap	High	Software to be implemented	Implementation continuing and due to be completed for roll out Q4 24/25		March 25
04	A Treasury Management policy needs produced and implemented	High	Formalise treasury management into a new policy and implement	Policy approved by Board Nov 24		Completed
05	Risk Management – to review links between Project and Operational RR	Medium	Review and revise policy and practice as required	Risk policy revised by Head of Business Transformation Training / awareness sessions for Senior Management Team members being held		Completed

35

Ref	LP Recommendation	LP Priority	Action Summary	Update	Action	Expected Completion Date. RAG
				Focus on project level risks and process / escalation points to Operational and then corporate risk register		
06	Sustain formal monthly meeting between Finance and Council to address lack of synchronisation	High	Ensure meetings are programmed and held, with Agenda and meeting notes taken	In place		Completed
07	Adjust pipeline cashflows to ensure an up-to-date position in respect of development viability	Urgent	Provide more representative business and project cashflows	Improved business cashflow forecasting now in place		Completed
08	Accelerate delivery of units to 3.5-4 per month as part of growth plans	Low	Consider when forming new project programmes and cashflows	Being undertaken as part of new viability assessments Need to match against market conditions to avoid any holding costs		In place – ongoing
09	Consider use of recognised development software to enable sensitivity analysis to be carried out	Medium	Review use / applicability of project sensitivity software	Implementation continuing and due to be completed for roll out Q4 24/25 Sensitivity analysis to be undertaken as part of incoming PM system		March 25
10	Improve processes around loan application, capital budget setting and affordability testing and cashflow impact	High	New Loan Application process to be agreed / implemented Implement Project Framework process	Loans to be submitted in new format Oct 24 PM system in trial phase Any new projects will be tested System fully in place by Dec 24		Completed – first 'new' loan approved

Ref	LP Recommendation	LP Priority	Action Summary	Update	Action	Expected Completion Date. RAG
10a			Propose capital project investment plan for next 5 years within business plan	Business plan approved by Board January 25		Completed
11	Improve loan management systems	High	Develop and maintain record of all loans and payment dates to include asset security	Complete and now a standing item on leadership meetings		Completed

Annex 4: Case study: Brick by Brick (Summary of Public Interest Report into London Borough of Croydon's wholly-owned company)

Here the Council's funds were used to support a wholly owned development company that did not have a strong business case. After five years and more than £200m lent, the Council did not receive any interest payments. The criticism was aimed at the members for allowing this to happen through ineffective questioning at scrutiny committee where information was not provided, and challenge was poor.

The Croydon Cabinet was advised to reconsider the business case for investment before agreeing any further borrowing and ascertain the ongoing financial rationale for the Council in the equity arrangement with the company. It was also advised to review its oversight and links to other Boards and committees.

Croydon was sole shareholder, so the cabinet received the annual business plan which based on a review was subject to limited level of challenge. The Council must have clear governance arrangements to ensure its interests are safeguarded. Also need a financial reporting mechanism from the Council-nominated directors back to the Council. Croydon has no Council nominated directors. It did not show sufficient scrutiny. The Council agreed individual loan agreements for each scheme which included loan covenants. Some of the loans had covenants that were not met. It broke the agreement, but the Council did not act.

Additionally, Brick by Brick set up a trading arm which the Council did not know about, and it went unchecked as to whether this was legal or even aligned to the strategic direction of the Council. Additional borrowing was not in line with the original business case which went unchecked.

The Council obtained legal advice but did not act on it regarding a land transfer, so it failed to ensure it was acting lawfully. There was no proper assessment of legal powers to enter into the arrangement and the attendant risk. Therefore, there was no apparent contractual basis for the project.

There was no evidence found of senior statutory officers briefing Cabinet formally on the risks and how they could be mitigated. There was also no anticipation of the shortfall of funding and how this would impact the Council. It is the responsibility of the three statutory officers to ensure that cabinet papers for major projects are set out clearly and this did not happen. As a result, they left their posts.

The Monitoring Officer (MO) should have ensured that:

- Contracts are properly executed before entering into arrangements with third parties and are stored appropriately to allow future scrutiny. Key requirements underpinning the legal advice are in place before progressing with the arrangement.

- Where legal advice changes after a Cabinet decision that the consideration of the implications of the changes is documented and whether the MO considers there are further risks that cabinet is updated

The S151 should have ensured that:

- Prior to making payments to third parties that appropriate documentation is in place eg a contract. Both S151 and MO should check that not in contravention of public procurement rules.
- Financial reporting on significant capital projects is enhanced
- A clear budget is agreed for the project and the underlying financial analysis is maintained
- A clear agreed project expenditure amount can be reported through appropriate governance processes
- Where there are changes to the original financial assumptions that there is an assessment on the project's financial viability with appropriate reporting
- The revenue impact of any changes in the capital project are addressed at future budget setting
- Both the S151 and MO should have monitored compliance with loan covenants and report any breaches to members

The CEO should have ensured that:

- Records are kept and a standard approach to record keeping with monitoring of which decisions have been implemented and that tolerances are established for reporting back changes to Cabinet.
- There is a clearly understood distinction between the different roles and responsibilities of members, officers and representatives of the Company.
- There are proper procedures for identifying and mitigating conflicts of interest.
- There are clear responsibilities for officers and portfolio holders in challenging reports presented to Cabinet and other committees for balance accuracy and consistency in terms of knowledge.
- The TOR for Boards that oversee large projects are appropriate and that capital and revenue expenditure are monitored with clear escalation processes for significant additional expenditure in excess of budget.

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