

**Bolsover District Council**

**Meeting of Council on 1<sup>st</sup> February 2023**

**Dragonfly Development Limited**  
**Full Business Case**

**Report of the Leader of Council**

<b>Classification</b>	This report is public
<b>Report Of</b>	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 14<sup>th</sup> September 2022. On 2<sup>nd</sup> 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 2<sup>nd</sup> 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 4<sup>th</sup> 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 13<sup>th</sup> December 2022.
- 1.7 In addition, all Members were invited to receive a full presentation of the final business case on 19<sup>th</sup> 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:

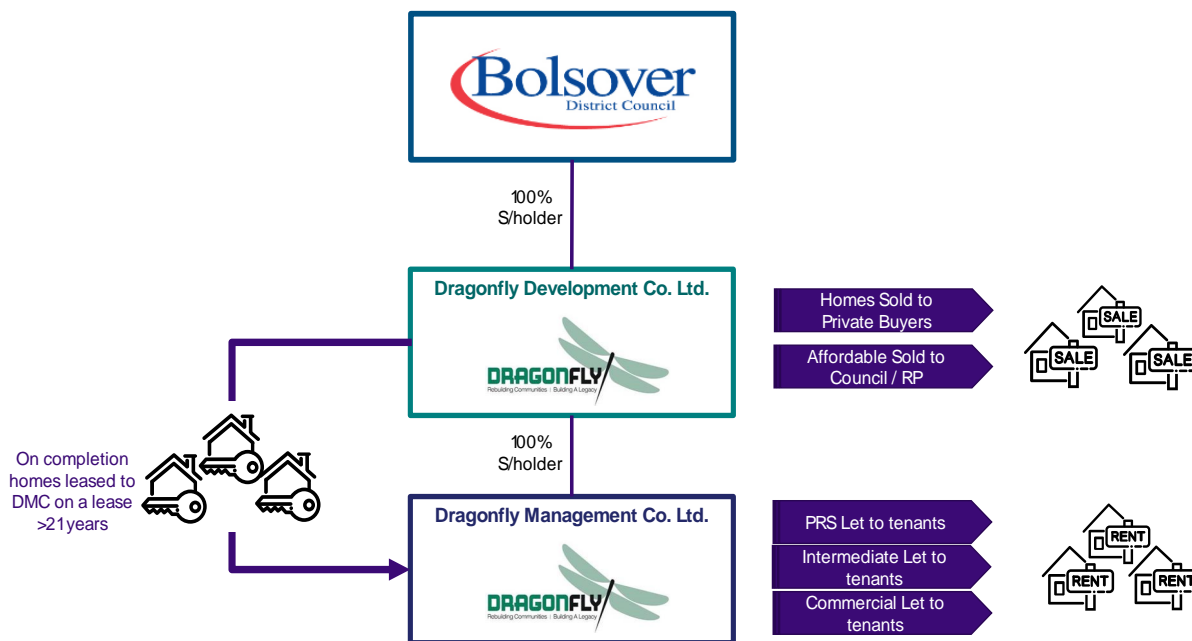


- 2.7 With this model, Dragonfly Development Ltd would be responsible for the full scope of services outlined above and would deliver them with teams made up of staff within the company, transferred from the Council on existing terms and conditions of employment.
- 2.8 The Commercial Case is discussed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

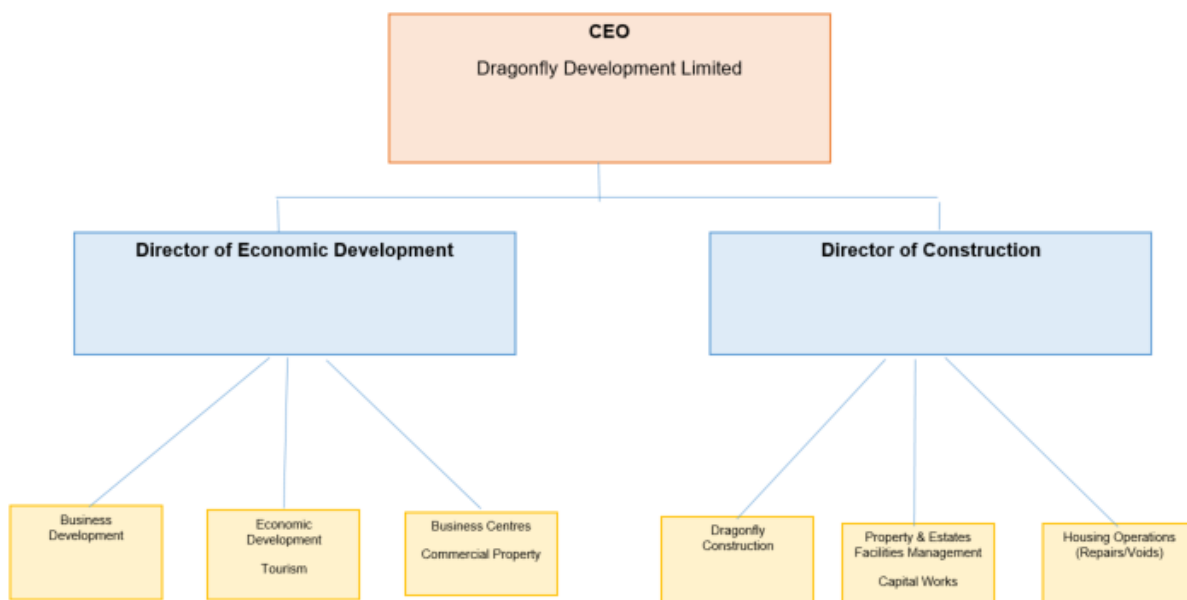
2.22 As mentioned earlier in this report, all future schemes will be subject to individual business planning and will come to Council for separate consideration and approval. The purpose of this report is to seek approval for the overarching business case relating to the principles of the company and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

### 3. **Senior Management Structures**

#### **Dragonfly Development Ltd**

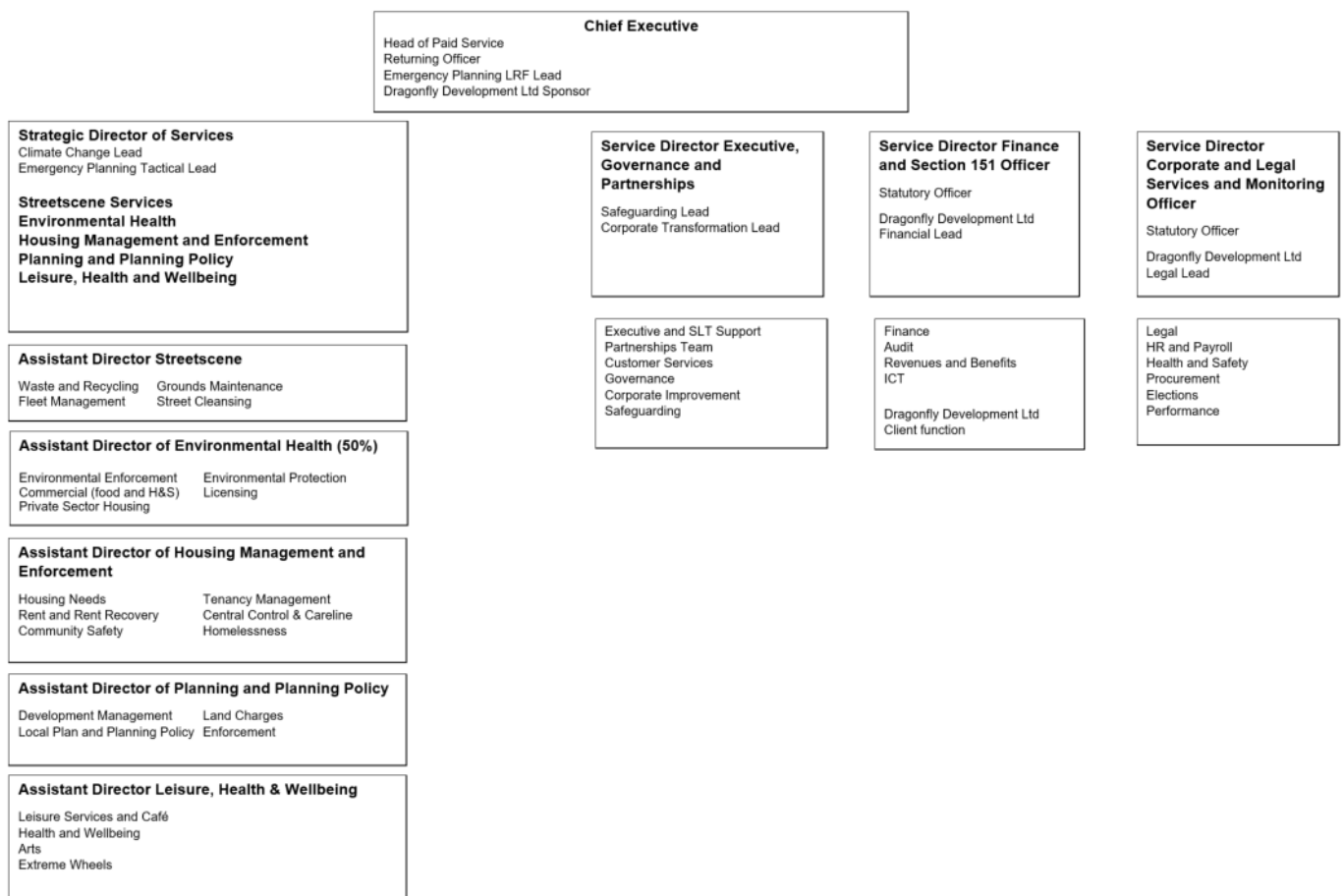
3.1 As outlined within the Council report of 2<sup>nd</sup> November 2022, a permanent senior management structure is required within Dragonfly to enable the appropriate transfer and recruitment of staff into the company and ensure line management reporting and procedures are implemented. This has been 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.
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## 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

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## **IMPLICATIONS**

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### **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

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**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

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**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

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## DECISION INFORMATION

<p><b>Is the decision a Key Decision?</b>  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:</p> <p><b>Revenue - £75,000</b> <input type="checkbox"/> <b>Capital - £150,000</b> <input type="checkbox"/>  <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i></p>	No
<p><b>Is the decision subject to Call-In?</b>  <i>(Only Key Decisions are subject to Call-In)</i></p>	No

<p><b>District Wards Significantly Affected</b></p>	
<p><b>Consultation:</b>  <b>Leader / Deputy Leader</b> <input checked="" type="checkbox"/> <b>Executive</b> <input checked="" type="checkbox"/>  <b>SLT</b> <input checked="" type="checkbox"/> <b>Relevant Service Manager</b> <input checked="" type="checkbox"/>  <b>Members</b> <input type="checkbox"/> <b>Public</b> <input type="checkbox"/> <b>Other</b> <input type="checkbox"/></p>	<p>Details:</p>

<p><b>Links to Council Ambition: Customers, Economy and Environment.</b></p>
<p>Focussing on Our Customers  Focussing on Our Economy  Focussing on Our Environment</p>

## DOCUMENT INFORMATION

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