

Wiltshire Council

Audit & Governance Committee

27 September 2022

Subject: The Governance of the Stone Circle Companies

Cabinet Member: Richard Clewer, Leader of the Council

Key Decision: Non-Key

Executive Summary

This report asks the Audit & Governance Committee to note the changes to the governance arrangements for the Stone Circle companies that have been implemented and are in progress since the completion of a governance review in September 2021 and to provide any additional commentary and suggestions as they see fit.

Proposal(s)

The Audit & Governance Committee is asked to:

1. Note the changes to governance arrangements for the Stone Circle companies that have been implemented since a governance review was conducted in September 2021.
2. Note the changes to be implemented following a governance review in September 2021.
3. To comment and make suggestions on future governance for the Stone Circle companies as they see fit.

Reason for Proposal(s)

The Audit & Governance Committee amongst other roles has responsibilities “to monitor and review the effective development and operation of corporate governance, risk and performance management and internal control, and to receive progress reports as required;”

Following a governance review of the Stone Circle Companies which was presented to Cabinet in September 2021, it was agreed that each year the governance arrangements should be presented to Audit & Governance Committee.

**Terence Herbert
Chief Executive**

Wiltshire Council

Cabinet

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Purpose of Report

1. The purpose of the report is to present the governance arrangements for the Stone Circle companies.

Relevance to the Council's Business Plan

2. The proposals in the report directly support the Council's business plan to Grow the economy by facilitating the provision of affordable homes and developing new housing on public land.

Background

3. The Cabinet received a governance review in September 2021 setting out some recommendations based on best practice at the time for the governance of the Stone Circle companies.
4. The Cabinet agreed the recommendations of the review including the establishment of a Shareholder Group to undertake the matters between the Council as shareholder and the companies reserved to the Council in the Shareholder Agreement.
5. After the completion of the governance review and the implementation of some recommendations, Local Partnerships, a joint venture between the Local Government Association and HM Treasury, published a useful toolkit "Local Authority Company Review Guidance." Officers noted that Wiltshire's governance review had broadly followed the advice in the Local Partnerships guide.
6. The Monitoring Officer has also conducted a review of other guidance and academic material in this emerging area. He is now working on some sector led improvement work in collaboration with Canterbury Christchurch University and Browne Jacobson solicitors (a top 50 UK law firm with a highly regarded public sector team) to create a national best practice and innovation network to support council companies. Support and interest for the network has come so far from the Local Government Association, the Chartered Institute of Public Finance and Accountability and Lawyers in Local Government. Wiltshire Council will have a prominent role in this new initiative providing support for other councils and benefitting from learning

and experiences from elsewhere in the country as well as emerging practice and academic study.

Main Considerations for the Committee

7. The Cabinet received a governance review of the Stone Circle companies which made seven recommendations. The recommendations are set out below and Table 1 shows the progress made to date.

Recommendation 1 (R1) a Business Plan with greater detail including market analysis, risks, sensitivity, performance, and forecasting should be produced by the companies especially Stone Circle Housing and Stone Circle Development.

Recommendation 2 (R2) There should be quarterly performance reporting by the companies to the Council in the order Corporate Leadership Team (CLT), an appropriate Task Group or Scrutiny Select Committee and then Cabinet (through the Shareholder Group).

Recommendation 3 (R3) create a Shareholder Group as a sub-Committee of Cabinet with the Leader as Chair with two other Cabinet Members as members with the option to co-opt external commercial expertise to enable the Shareholder Group (after consideration of performance reporting by CLT and Scrutiny) to conduct its role on behalf of the shareholder.

Recommendation 4 (R4) to amend the articles of the company to introduce a three year term for the Chair.

Recommendation 5 (R5) review the appointments to the Board. Now is the time to focus on delivery and therefore the current appointments, although assisting in set-up and initial trading activity, should be amended over a 12-month transitional period. This should include replacing the elected Members on the company Boards, with the advent of the Shareholder Group which will carry out a scrutiny and challenge function, expanding the membership of nonexecutive appointments with specific housing sector commercial experience and increasing the general non-executive membership to the Housing and Development companies by two. The Director of Housing and Commercial Development also be appointed to the companies.

Recommendation 6 (R6) request the company to develop and implement an appropriate staffing structure for the companies, to oversee the operations and to drive commercial delivery at pace. This structure could be resourced incrementally and phased against specific trading data.

Recommendation 7 (R7) annual presentation of governance arrangements to the Audit & Governance Committee.

No	Recommendation	Status	Details
1	Business plan update	Complete	Presented to Shareholder Group 25 January 2022
2	Quarterly performance reporting	In progress	Reporting from Stone Circle to be included in the quarterly reports to Cabinet

3	Shareholder Group	Complete	Meetings on 25 January 2022 and 1 August 2022. Future meetings to be diarised to be held a minimum of 3 times per year, with any additional meetings as required
4	Chairman's term	Complete	Amendment made 25 November 2021
5	Board appointments	In progress	Director of Housing & Commercial Development appointed. Other non-executive director appointments in train
6	Company staffing	Complete	Housing Manager started 30 May 2022 and Construction and Development Manager started 1 August 2022
7	Audit & Governance	Complete	Report presented 27 September 2022

Table 1 – progress against the seven governance recommendations

Progress against recommendations

8. Five of the seven recommendations are complete. The Shareholder Group has now met on two occasions and is undertaking its role of holding the Companies to account to deliver their business plans. Those business plans have been updated as requested by Cabinet. The term of office for the Chairman has been amended. Changes to the make-up of the Boards have started but are not yet complete. A review has taken place of potential remuneration of non-executive directors, with industry expertise and knowledge. Now that has completed the recruitment of additional non-executive directors to the Board can take place. That is expected to be implemented by the end of the calendar year.
9. The provision of quarterly reports has not progressed whilst the other linked recommendations were completed but discussions with the Companies are ongoing with quarterly reporting anticipated to start during the current financial year, 2022/23. The reporting on the value of loans issued and held with the companies will be through the Treasury management reporting to Cabinet, thereby transparently reporting on the Councils exposure and risk on debt.
10. The Companies have appointed a Housing Manager who started on 30 May 2022 and a Construction and Development Manager who started on 1 August 2022. Both are directly employed by Stone Circle Housing Company.
11. When Cabinet approved the Stone Circle governance arrangements it was provided with a diagram setting out the roles and responsibilities of the various parts of the Council which is set out at Appendix 1 for the Committee's assistance. Below is a reminder for the Committee of the activity of the two active subsidiary companies.

Stone Circle Housing company

12. The business rational for Stone Circle Housing company is to purchase and rent properties to enable renters to access the market at rental levels that are somewhere between Local Housing Allowance levels (those rent levels paid by tenants in our council housing stock) and the private sector market rate.

13. At the September Board meeting it was reported that at present there are 41 properties completed and offers have been accepted on a further 10 with 28 properties identified for viewing. Given the time period to complete acquisition it is likely that the business plan target of 72 properties will not be achieved in this financial year albeit the company may be in contract for the business plan target acquisitions.

Stone Circle Development company

14. The rationale for Stone Circle development company is to purchase and develop council owned land for sale or rental.

15. The company has achieved planning permission for the Priestly Grove site comprising 9 units. Planning conditions and option agreement are still to be resolved and the Council is being chased to progress this. Start on site for this scheme is projected to be early in 2023 calendar year. Ashton Street scheme is expected to be considered at September planning committee. Other schemes are progressing through the planning process.

Stone Circle Holding company

16. Stone Circle Holding company acts as a holding company for the other two and all costs are recharged and thus captured in the Stone Circle Housing and Development company activities. At this stage a third subsidiary, Stone Circle Energy, has not started trading.

Overview and Scrutiny Engagement

17. This report has not been considered by financial planning task group.

Safeguarding Implications

18. There are no safeguarding implications stemming from this report.

Public Health Implications

19. There are no public health implications as a direct result of this report.

Procurement Implications

20. There are no procurement implications as a direct result of this report.

Equalities Impact of the Proposal

21. There are no equality impact implications stemming from this report.

Environmental and Climate Change Considerations

22. Stone Circle housing company has committed to improve the EPC rating of the properties it purchases where economic to do so. Stone Circle development company has submitted the first project plan that includes an all-electric development installing air source heat pumps. The company aims

to build homes for life which minimise the carbon footprint within the overall economics of development.

Risks that may arise if the proposed decision and related work is not taken

23. If the Audit & Governance Committee does not consider the governance arrangements for the Stone Circle companies an element of the Council's approach to following best practice in relation to its council companies will be missed.
24. There may be financial and reputational risks to the council if the governance of the Stone Circle companies is not kept under review.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

25. The roles and responsibilities for Wiltshire Council's companies includes the Shareholder Group, the Boards of the companies including non-executive directors with industry knowledge and expertise, Overview & Scrutiny Management Committee and Audit & Governance Committee in providing a wholistic overview of activity and progress. This framework mitigates the financial and reputational risks to the Council of the Stone Circle Companies.

Financial Implications

26. The purpose of this report is to present governance arrangements for review and comment. There are no direct financial implications from the decision to note the governance arrangements.
27. The financial basis for the Stone Circle companies is predicated on loans from the Council to the company to finance their activities. In the case of the Housing company, the Council will recover its investment over a significant period through a mixture of company returns and a margin on the borrowing issued. For the Development company the Council will recover its investment for each site at the end of the project as a margin on the borrowing issued and through the return from the profit made from the project.

Legal Implications

28. This report for noting and commentary, does not involve any direct legal implications. The approach being taken to governance at Wiltshire Council is in line with best practice available at this time.
29. The financing arrangements have been structured in accordance with state aid law. The Council will need to continue to monitor interest rates to ensure state aid law requirements continue to be met. These arrangements were put in place prior to exiting the EU – so subsidy control (previously called state aid) will apply.
30. The Council needs to continue to ensure that as the companies develop the governance arrangements for the companies are robust, transparent and fit for purpose.

Workforce Implications

31. There are no direct workforce implications stemming from this report.

Options Considered

32. The options available to the Audit & Governance committee are to note or not the report and to comment or not on the governance arrangements in place and being completed.

Conclusions

33. This report presents the governance arrangements for the Stone Circle companies for noting and commentary by the Committee.

Report Author:

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Date of report 27th September 2022

Appendices

Appendix 1 Stone Circle governance diagram

Background Papers

None