

Wiltshire Council

Audit & Governance Committee

17 October 2024

Subject: The Governance of the Stone Circle Companies

Executive Summary

This report asks the Audit & Governance Committee to note the updates to the governance arrangements for the Stone Circle companies that have been implemented and are in progress since the previous report to the committee in September 2023 and to provide any additional commentary and suggestions as they see fit.

Proposal(s)

The Audit & Governance Committee is asked to:

1. Note the updates to governance arrangements for the Stone Circle companies since the previous report to the committee in September 2023.
2. To comment and make suggestions on the future governance framework 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.

Lucy Townsend
Chief Executive

Wiltshire Council

Audit & Governance Committee

17 October 2024

Subject: The Governance of the Stone Circle Companies

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, a Cabinet Committee, 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. A further updated version of the Local Partnerships guide was issued in 2023 and remains a useful basis for viewing the approach to governance in council companies.
6. This report is pursuant to recommendation 7 of the governance review to provide annual presentation of governance arrangements to the Audit & Governance Committee.

Main Considerations for the Committee

7. The outstanding actions from recommendations from the review have now been completed.
8. The ongoing governance arrangements for the Stone Circle companies are as follows:

- a) The Companies report on their performance to the Council through the Corporate Director of Resources and Director of Legal & Governance and into the Corporate Leadership Team as appropriate on a monthly basis, as well as at quarterly Shareholder Group meetings.
 - b) The Corporate Director of Resources and the Director of Legal & Governance are invited to all Stone Circle Board meetings and have attended a number of meetings since the last report as observers.
 - c) There are regular catch ups between the scheduled formal meetings with the Chairman of Stone Circle and the Corporate Director of Resources and the Director of Legal & Governance to raise urgent and operational matters.
 - d) Overview and Scrutiny established a task group to consider the role for scrutiny in governance of the Stone Circle Companies.
 - e) There will continue to be an annual presentation of governance arrangements to the Audit & Governance Committee.
9. On the 26 September 2023 the Overview and Scrutiny Management Committee agreed 'to establish a task group to consider arrangements for scrutiny engagement on the council's activity in regard to its wholly owned Stone Circle companies and to bring proposals back to Committee'.
10. The final report of the Stone Circle Governance Task Group was presented to the Overview and Scrutiny Management Committee on 12 September 2024. The report is attached at Appendix 1. The report made the following recommendations:
- 1 That the council defines the purpose of both Stone Circle Housing and Stone Circle Development. The statement of purpose should include precise objectives and intended outcomes to enable ongoing scrutiny and to reference when reviewing performance and decision-making of Stone Circle Housing and Stone Circle Development. The statement of purpose, objectives and targets should be accessible to members and the public.
 - 2 That the council disseminates Cabinet Shareholder Group minutes to all members together with a simplified version of the shareholder group terms of reference to clarify the group's role and responsibilities in relation to Stone Circle Group.
 - 3 That the terms of reference for the Cabinet Shareholder Group includes clarification on the extent to which Stone Circle companies operate independently or follow Council standards in their operations.
 - 4 That a standing task group is set up to scrutinise the decisions of the shareholder group. The remit of the group would include:
 - scrutiny of Stone Circle Group business plans and the transparency of its information,

- the criteria applied in decisions about the development of land,
- the extent to which Stone Circle Housing and Stone Circle Development are each achieving their distinct purposes,
- the management of financial risk.

Overview and Scrutiny Management Committee to agree whether the Environment Select Committee or Overview and Scrutiny Management Committee is the best reporting route for the task group.

11. The Overview and Scrutiny Management Committee agreed:

- To endorse recommendations 1 to 3, and to refer these to the Executive for response, with recommendation 2 amended to propose that Cabinet Shareholder Minutes be made available, rather than disseminated to, all members.
- To establish a task group under the Overview and Scrutiny Management Committee with the terms of reference set out in the report under recommendation 4, amended to replace the words “scrutinise the decisions of” with “scrutinise the activity of”.
- To review the terms and reference and effectiveness of the task group in 12 months’ time.

12. 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 2 for the Committee’s assistance. Below is a reminder for the Committee of the activity of the two active subsidiary companies. This may be amended following implementation of any proposals from the scrutiny task group.

Stone Circle Housing Company

13. The business rationale 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.

14. As of the September 2024 report, the portfolio includes 168 properties, with an additional 13 under offer. The Company has been utilising the Council’s Estates Team for acquisition services under the Resourcing Contract (an agreement between the Companies and the Council to buy back some professional services), but it is currently behind target. Interviews for an internal acquisition role (intended to work alongside the Estates Team) have been completed, and a job offer has been made. The candidate is expected to join in November 2024. While the Company anticipates that this hire will significantly enhance its acquisition efforts, it remains uncertain whether the individual will be able to fully address the shortfall.

Stone Circle Development Company

15. The business rationale for Stone Circle development company is to purchase and develop council owned land for sale or rental.
16. The Company has secured planning permission for several sites: Priestly Grove, Calne (9 units); Ashton Street, Trowbridge (48 units); Tisbury Sports Centre, Tisbury (13 units); and Cherry Orchard, Marlborough (24 units). Priestly Grove is currently under construction and is scheduled for completion in 2025, with the Housing Company set to purchase these homes from the Development Company. The Ashton Street site has been deemed unviable and will instead be developed by the Council as 100% Affordable Housing. Tendering is ongoing for the Tisbury Sports Centre site and is due to commence for the Cherry Orchard sites. Construction on both sites is expected to start in 2025. Feasibility studies are underway for two additional sites, though the Company has been informally advised that one of these will be taken forward by the Council. The Council has not identified any other land opportunities for the Company, leaving its long-term future to be considered.

Stone Circle Holding Company

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

Overview and Scrutiny Engagement

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

Safeguarding Implications

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

Public Health Implications

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

Procurement Implications

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

Equalities Impact of the Proposal

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

Environmental and Climate Change Considerations

23. Stone Circle Housing Company has committed to improving the EPC rating of the properties it purchases where viable. The Company will work towards

having an EPC value of at least C, for all its properties (where exemptions are not required) by 2026. A planned maintenance program will be developed to review legacy properties which require energy improvements prior to this date.

24. Stone Circle Development Company's proposed schemes are electric-only. There are ongoing discussions about the sustainability aspirations of the Company and how the credentials can be improved on future sites. The Company will build homes for life which minimize the carbon footprint where possible. All schemes are designed in line with current Building Regulations and energy requirements.

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

25. 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.
26. 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

27. 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 holistic overview of activity and progress. This framework mitigates the financial and reputational risks to the Council of the Stone Circle companies.

Financial Implications

28. 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.
29. 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

30. 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.

31. The financing arrangements have been structured in accordance with state aid and subsidy control law. The Council will need to continue to monitor interest rates to ensure these requirements continue to be met.
32. 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

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

Options Considered

34. 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

35. This report presents an update on the governance arrangements for the Stone Circle companies for noting and commentary by the Committee.

Report Author:

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to the Stone Circle companies

Date of report 17 October 2024

Appendices

Appendix 1 Stone Circle Governance Task Group
Appendix 2 Stone Circle Governance Diagram

Background Papers

None

