

Wiltshire Council

Cabinet

27 September 2021

Subject: Stone Circle Governance Review

Cabinet Member: Councillor Pauline Church Cabinet Member for Finance & Procurement Commissioning, IT Digital and Commercialisation

Key Decision: Non Key

Executive Summary

This report presents the findings of a governance review, into the Stone Circle companies which was commissioned by Cabinet in February 2021 and conducted by the Corporate Director for Resources and Deputy Chief Executive and the Director of Legal and Governance in the intervening period.

The report sets out the recommendations of the review and their implications. It explains the opportunity to mark a change in emphasis of the Stone Circle companies from set up and commencement to enhanced delivery and commercial success.

The seven recommendations of the review are:

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 non-executive 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.

Proposal(s)

1. Cabinet adopts and commits to implementing the recommendations of the governance review over the next 12 months.
2. Cabinet requests the companies to create Business Plans with greater detail including market analysis, risks, sensitivity, performance and forecasting to be presented to Cabinet at a future meeting.
3. Cabinet agrees to create a sub-committee called the Stone Circle Shareholder Group chaired by the Leader with two other Cabinet Members and the option to co-opt external expertise and delegates to the Director of Legal & Governance in consultation with the Leader to make the necessary arrangements and Constitutional amendments.
4. Cabinet agrees that the Articles of Association of the Stone Circle companies be amended to include a 3 year maximum term for the Chairman of its boards.
5. Cabinet requests the Stone Circle companies to provide quarterly reporting to the Council with reports shared with Corporate Leadership Team, Scrutiny and the Stone Circle Shareholder Group starting from January 2022 and to produce its accounts to the Audit and Governance Committee from 2022.
6. Cabinet delegates to the Corporate Director of Resources in consultation with the Leader the recruitment and appointment of new non-executive board directors and officer director to replace current members of the Stone Circle companies and to take all further necessary steps to complete this.
7. Subject to agreeing the above recommendations Cabinet to agree the revised Stone Circle Housing company business plan as submitted to cabinet at its February 2021 meeting such that individual acquisition budgets are increased.

Reason for Proposal(s)

To give effect to the recommendations contained in the Governance Review of Stone Circle companies which provides best practice advice, academic sources and other local government learning on the governance and commercial success of council owned companies.

Terence Herbert
Chief Executive

Wiltshire Council

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Purpose of Report

1. Cabinet commissioned a review of the governance arrangements for the Stone Circle companies in February 2021. It agreed a terms of reference and asked the Corporate Director for Resources and Deputy Chief Executive and the Director of Legal and Governance to conduct the review. This report presents the outcome of the review, attached at Appendix 1, explains the implications of the seven recommendations and seeks Cabinet approvals.

Relevance to the Council's Business Plan

2. The proposals in this report support the Business Plan 2017-2027 priority of Growing the Economy and the goal of more affordable homes to rent and buy. The report also reflects our commercialism as an innovative and effective Council.

Background

3. The Stone Circle companies were formed in 2019 and with two principle aims. Firstly, to provide homes to residents whose financial circumstance enabled them to afford rents somewhere between council house levels and the private sector, with rental levels offered at above the local housing allowance as well as allowing access to the homes outside the Council's allocation policy. Secondly, to create homes for sale through developing council owned land. Cabinet set out to review the governance arrangements for the companies, agreeing a terms of reference:
4. As the business of the companies grows a review of governance will be undertaken and reported to the July cabinet meeting. This will follow best practice and learning from other Councils and include:
 - the company governance in relation to the shareholder requirements as set out in the shareholder agreement;
 - a clear process for decisions, performance and risk reporting from the companies through to CLT and Cabinet;

- the role of the Council as shareholder in holding the company to account on its business plan objectives;
- shareholder representation on the Boards;
- clear separation of roles between the council as shareholder and the companies and minimising the scope for conflicts of interest;
- role of the Audit and Governance Committee in overseeing the effectiveness of the governance arrangements;
- role of Overview and Scrutiny.

Main Considerations for the Council

5. Cabinet as the representative of the shareholder should consider the recommendations of the review and the extent to which approving them would support the shareholder's aspirations for the companies. The recommendations offer a shift of emphasis from the setting up of the companies and the commencement of their current business plans, towards a focus on business viability, with greater prominence being given to accelerated delivery and commercial success.
6. The Cabinet may consider that the range of recommended changes such as the board membership, the development of more sophisticated business planning and the acquiring of employee capacity, support greater pace of delivery. The other recommendations such as enhanced reporting provide an improved level of scrutiny and oversight and could also promote commercial success.
7. At its meeting February 2021 cabinet agreed to consider a revised business plan submitted by the Stone Circle Housing company subject to the outcome of the governance review:
 1. ***“ Agree the Stone Circle housing company business plan 2021/22 but serve notice on the company that the increased budget for individual acquisitions is not agreed and will be subject to a governance review and new business plan.”***
8. The Stone Circle Housing company proposes the business plan as in February 2021 which requests an increase in the individual property acquisition price by 25% and also to bring forward acquisitions into 2021/22 such that the target number of acquisitions is 125. The report in February showed that if all properties were purchased at the 25% increased level all debt would be cleared by year 57.
9. At year 50 the business plan is predicting fixed assets of £149m, current liabilities of £18m and long term liabilities of £5m giving a net retained earnings profit and loss of £116m. The current well documented strength of the residential property market indicates that the individual property acquisition budget will need to increase if the company is to be able to compete in acquisitions going forward so as to fulfil the business plan.

Overview and Scrutiny Engagement

10. The Overview and Scrutiny Management Committee will consider this report on 21 September 2021, with comments reported to the Cabinet meeting.

Safeguarding Implications

11. There are no direct safeguarding implications.

Public Health Implications

12. There are no direct public health implications, but it is hoped that faster delivery of affordable housing in Wiltshire will have a beneficial impact on the health and well-being of families who become residents of Stone Circle Housing.

Procurement Implications

13. There are no direct procurement implications.

Equalities Impact of the Proposal

14. A low equalities risk score was calculated for the proposals in this report.

Environmental and Climate Change Considerations

15. Stone Circle development company aims to be a carbon zero developer and will not include fossil fuel use to heat homes in its developments.

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

16. Missing the opportunity that this review provides to shift the emphasis of the companies to greater pace of delivery and commercial viability risks the under delivery of new homes and the financial viability of the companies and the return of the Council's investment.

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

17. Care will need to be taken in the selection of non-executive directors to ensure that commercial delivery is progressed whilst accepting the context for the companies being local authority trading companies.

Financial Implications

18. Stone Circle company will need to present a new business plan that incorporates the financial implications of the included recommendations and then update the Council, as Shareholder, of the impact of the proposed direction of travel. In particular presenting the changes to the companies cashflow position, breakeven point and debt position at the end of 50 years as a result of the recommendations being presented today.

19. The Council will continue to keep oversight of the overall position, risk and financial viability of the companies, and this assessment will be updated following receipt of the revised business plan.

Legal Implications

20. There are no legal implications to the proposals.

Workforce Implications

21. The proposals will have workforce implications for the companies as they recruit staff. It is a matter for the companies to take advice on those consequences. Any Council officers appointed as Directors of the boards will need to manage any conflicts of interests, professional conflicts and seek appropriate indemnities.

Options Considered

22. Cabinet commissioned the review but it has the option to disregard the recommendations proposed.

Conclusions

23. The review draws on examples of best practice, academic material and the experience in other Councils with trading companies, to provide recommendations that are designed to enhance the viability and pace of delivery of the Stone Circle companies. Cabinet is advised to implement the recommendations and together with Scrutiny and Audit & Governance Committee, hold the companies to account to deliver their ambitious plans.

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16 September 2021

Appendices

Governance Review of Stone Circle companies

Background Papers

None