

## **Wiltshire Council**

### **Audit & Governance Committee**

**19 September 2023**

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**Subject: The Governance of the Stone Circle Companies**

**Cabinet Member: Councillor Richard Clewer, Leader of the Council**

**Key Decision: Non-Key**

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#### **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 2022 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 2022.
2. 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**

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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.

#### **Main Considerations for the Committee**

6. 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	In progress	Business Plan for 2023/2024 presented to Shareholder Group 27 June 2023 in previous format, Business Plan for 2024/2025 will be produced in line with the recommendation.
2	Quarterly performance reporting	In progress	Reporting from Stone Circle to be included in the quarterly reports to Cabinet
3	Shareholder Group	Complete	Meetings held on 7 November 2022 and 27 June 2023. Future meetings to be diarised to be held a minimum of 3 times per year.
4	Chairman's term	Complete	Amendment made 25 November 2021

5	Board appointments	Complete	Director of Housing & Commercial Development replaced with Director of Finance. Non- executive director appointments made 6 July 2023.
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 19 September 2023

Table 1 – updated progress against the seven governance recommendations

### **Progress against recommendations**

7. Five of the seven recommendations are complete. The Shareholder Group has now met on four occasions and is undertaking its role of holding the Companies to account to deliver their business plans. The Articles of Association have been amended to introduce a maximum three year term of office for the Chairman. The recruitment of additional non-executive directors has taken place with a new director being appointed to each of the Boards of Stone Circle Housing Company and Stone Circle Development Company with effect from 6 July 2023.
8. 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, 2023/24. 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.
9. The Companies 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. Stone Circle Housing Company has also now appointed an Administrator to support the Housing Manager.
10. 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**

11. 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.

12. At the September Board meeting it was reported that the portfolio currently contains 123 properties, with an additional 40 properties under offer. The company is on track to meet the annual acquisition target for the first time. Once the 2023/24 target has been met, the company will work on the shortfall from previous years.

### **Stone Circle Development Company**

13. The business rationale for Stone Circle development company is to purchase and develop council owned land for sale or rental.
14. The company achieved planning permission for the site at Priestly Grove site, Calne (9 units) which is due to start onsite in late 2023. The sites at Ashton Street, Trowbridge (48 units) and Tisbury Sports Centre (13 units) have received planning permission subject to conditions and s106 agreements being finalized. The site at Ashton Street, Trowbridge has been confirmed as unviable by the Company, and this will be taken forward by the Council as 100% AH once the s106 and decision notice have been finalized. The site at Cherry Orchard, Marlborough (24 units) is expected to be presented at the October planning committee. Feasibility works are being carried out on two other sites.

### **Stone Circle Holding Company**

15. 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**

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

### **Safeguarding Implications**

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

### **Public Health Implications**

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

### **Procurement Implications**

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

### **Equalities Impact of the Proposal**

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

## **Environmental and Climate Change Considerations**

21. 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.
22. 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**

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 and subsidy control law. The Council will need to continue to monitor interest rates to ensure these requirements continue to be met.
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 an update on the governance arrangements for the Stone Circle companies for noting and commentary by the Committee.

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Report Author:

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Secretary to the Stone Circle companies

Date of report 19 September 2023

### **Appendices**

Appendix 1 Stone Circle governance diagram

### **Background Papers**

None

# Stone Circle Governance Diagram

