

Wiltshire Council

Cabinet

2 February 2021

Subject: Stone Circle Company Business Plans

Cabinet Member: Cllr Pauline Church, Cabinet member for Finance, Procurement and Commercial Investment

Key Decision: Key

Executive Summary

This report seeks Cabinet consideration of the 2021/22 business plans proposed by the Stone Circle companies as required under the shareholder agreement.

Cabinet is also asked to agree that a review of governance is undertaken to support the growth of the companies and protect the Council's interests as shareholder.

Proposal(s)

Cabinet is asked to:

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.
2. Agree the Stone Circle development company business plan 2021/22
3. Agree the Stone Circle holding company business plan 2021/22.
4. Subject to agreeing the business plans to allocate the £34.40m loan finance required for the Stone Circle housing company business plan and £2.657m for the Stone Circle development company business plan in the 2021/22 capital programme.
5. Delegate authority to agree the project plan for each development proposed by Stone Circle Development Company Limited to the Interim Corporate Director Resources (S.151 Officer) in consultation with the Cabinet Member for Finance, Procurement and Commercial Investment.
6. Note the Stone Circle companies intention to serve notice on the Council to end the accountancy service provided via the resourcing contract.

7. Note that Hazlewoods remain the auditors of the companies as the first audit is yet to take place.
8. Agree that a review of the governance arrangements for the Stone Circle Companies is undertaken by the Interim Corporate Director of Resources (S.151 Officer) and the Director of Legal and Governance / Monitoring Officer and that a report is brought back to cabinet for consideration within six months.
9. Delegate authority to the Interim Corporate Director of Resources (S.151 Officer) to conclude detailed contract arrangements and serving of required notices under the shareholder agreement with and on the Stone Circle Companies including changes to the resourcing contract.

Reason for Proposal(s)

The shareholder agreement between the Council and the companies requires the companies to present their proposed business plans to the Council at least three months before the start of the financial year in question.

This report is the outcome of that proposal and the consideration of the Cabinet for the forthcoming financial year, which includes that a review of the governance of the Stone Circle Companies is necessary to ensure that they support the growth of the companies and protect the interests of the Council as shareholder

Terence Herbert
Chief Executive

Wiltshire Council

Cabinet

2 February 2021

Subject: Stone Circle Company Business Plans

Cabinet Member: Cllr Pauline Church, Cabinet member for Finance, Procurement and Commercial Investment

Key Decision: Key

Purpose of Report

1. The purpose of the report is to seek consideration of the business plans proposed by the Stone Circle Companies as required under the reserved matter 26 of the shareholder agreement as well as to agree that a review of governance is undertaken to support the growth of the companies and protect the Council's interests as shareholder

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 agreed to establish the companies back at its meeting on 23 July 2019. Each January Cabinet should consider the business plans proposed by the Stone Circle companies as required by reserved matter 26 of the shareholder agreement.
4. During 2019/20 Stone circle housing company has progressed acquisition of properties in line with the business plan. At the time of writing the company has acquired 2 properties and had offers accepted on a further 20. Purchase prices and accepted offers plus stamp duty land tax have averaged 3.7% below budget across the whole 22 properties (one property in Salisbury has received an offer 24% above budget due to the quality, location and that fact it provided homeless prevention). It is proving difficult to acquire properties in Salisbury within available budget as well as larger sized properties in Chippenham.
5. Stone Circle housing company has entered into an agreement with Alabare to provide properties on a leased basis. Alabare are in contract with the Council to provide accommodation for young people and the Stone Circle acquisitions meet their requirements and are economic in terms of the lease cost. Alabare have commissioned a two bedroom and two four bedroom properties in Trowbridge. Alabare will take occupation of the two bedroom property in January 2021.

6. An independent Director, Nicholas Samuels was recruited to Stone Circle housing company following the resignation of the previous independent Director.
7. Stone Circle development company has progressed project plans for the sites identified in the 2019/20 business plan. New Zealand Avenue, Salisbury and the depot at Royal Wootton Bassett have not progressed to project plan stage following due diligence. The Priestly Grove site has progressed to project plan which has been submitted to the Cabinet member Finance, Procurement and Commercial Investment in line with the previously agreed delegation.
8. The companies have also commissioned a website which is due to go live imminently.

Main Considerations for the Council

9. The Cabinet received the business plan proposals from the three Stone Circle companies following their board meetings in December 2020.
10. As shareholder the Council should consider the merits of the business plan proposals in line with the strategic plans and priorities the companies were originally set up to achieve. In addition, any specific risk and/or financial considerations, as well as governance issues, that are specific to the Council in its role as shareholder should also be considered for the year ahead.
11. The Business Plans received continue to grow and build upon the original rationale for the establishment of Stone Circle companies. As the companies grow and establish themselves it is right that the governance arrangements that were put in place are reviewed to ensure they continue to be effective in providing the shareholder oversight.
12. The following sections pick up the specific proposals in the business plan proposals and any changes from the last business plan approved.

Business Plan Proposals received from Stone Circle Housing company

13. Stone Circle Housing company board met on the 10th December. The company agreed an acquisition strategy that is based on wider catchment areas than just Salisbury, Trowbridge and Chippenham so as to capture opportunities outside those main areas whilst still ensuring acquisitions took place where there was demand.
14. The base business plan for stone circle housing company was to acquire 50 properties a year for five years. In 2020/21 the revised acquisition target was 22 properties thus the revised target would be to acquire 78 properties in 2021/22 to make up the shortfall from year one. Given market conditions and the additional demand that the company wishes to meet in 2021/22 they have requested a business plan that would accommodate acquisition of 125 properties in 2021/22. In effect this is drawing forward 47 acquisitions from future years. This has a positive impact on the overall business plan

delivering a better outstanding debt balance at year 50 than the previous model if based on existing acquisitions budget.

15. In addition, the Stone Circle Housing company board is requesting an increase in the budget to allow acquisitions up to 25% higher than the previous budget. There are two reasons for the request; it has proven difficult to acquire the mix of properties in the business plan based on existing budget for example in Salisbury and larger properties in Chippenham and it has not been possible to acquire new build properties as the costs lie outside the existing budget. The nature of the market in 2021/22 may offer opportunities above the previous budget for individual property acquisitions. The impact on the business plan is that although there is significant outstanding debt at year 50 if all properties are purchased at the higher 25% increase in budget that debt is cleared by year 57.
16. It is unlikely that all acquisitions will be at the higher 25% increased budget level and experience to date has shown that the company has achieved acquisitions within budget in the main. The business plan also includes an additional provision of £600 per property gross of tax to enable the company to acquire services via the resourcing contract to reflect the increased acquisition activity. That sum reduces to £150 per property gross after 2021/22. The business plan shows a break even position at year 14 whereas the previous plan broke even at year 6. The break even position could be brought forward depending on the eventual acquisition prices achieved within the available budget.
17. 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. A summary of the business plan is included in the exempt part of the agenda.

Stone Circle Development company

18. There are two new development sites included in the proposed Stone Circle development company business plan 2020/21; Tisbury sports centre and Stoneover Lane Royal Wootton Bassett. Together with the existing development projects at Marlborough resource centre, Ashton Street and Priestly Grove the business plan proposes development of 116 units subject to planning permission. The proposed development subject to agreed project plans are; Marlborough resource centre total 18 units 11 market and 7 affordable, Ashton Street total 45 units 31 market and 14 affordable, Priestly Grove 9 units in total, Tisbury sports centre 10 units in total 5 market and 5 affordable and Stoneover Lane 34 units in total 21 market and 13 affordable. In total the business plan will deliver 39 units of affordable housing subject to planning permission.
19. As due diligence and design has taken place on schemes included in the previous business plan this has allowed estimated costs to be refined. The estimated costs have increased, and this has had a direct impact on profitability and possible dividend that could be payed back to the Council. The estimated dividend net of corporation tax is now £ 1.073m. A summary of the business plan is included in the exempt part of the agenda.

Stone Circle Holding company

20. The summary business plan for the holding company is included in the exempt part of the agenda. Stone Circle energy company remains dormant until a business plan is approved.

Resourcing contract

21. The Council currently provides accountancy services to the companies via the resourcing contract. The companies have undertaken soft market testing to establish the costs of the services if procured in the open market and the result of that exercise has been included in the respective business plans. The companies have signalled that they wish to serve notice on that aspect of the business plan and seek the accountancy service externally. The resourcing contract requires a 12 month notice period, but it comes to an end in March 2021 and it is recommended that the Council allows the companies to procure that service externally.
22. Subject to the decisions on the business plans there will be a need to revise the resourcing contract to reflect the services to be provided by the Council. As mentioned above provision has been included in the business plans to allow the procurement of additional services from the Council or externally. It is recommended that the detail of the decisions on the resourcing contract is delegated.

Company Auditors

23. Reserved matter 21 of the Shareholder agreement requires the Council to appoint the auditors for the Stone Circle companies. Last year the Council appointed Hazlewoods. The companies have filed dormant accounts for the previous financial year and as such an audit has not taken place. Therefore, the decision to appoint Hazlewoods stands until the first audit has taken place.

Governance arrangements

24. 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.

25. The request for an increase in the acquisition budget made by Stone Circle housing company will be reconsidered in the light of the revised Stone Circle housing company business plan that may be required subject to the governance review reported to the July Cabinet meeting.

26. The Council as shareholder although agreeing the business plan of Stone Circle housing company is making a recommendation to the Company under clause 4.2.3 of the shareholder agreement that it will provide notice that the company cannot employ the higher acquisition budget in the business plan until the governance review is complete and considered by the Council's cabinet at its July meeting.

27. Overview and Scrutiny Engagement

This report will be discussed with the financial planning task group and verbal comments provided to the cabinet meeting.

Safeguarding Implications

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

Public Health Implications

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

Procurement Implications

30. The procurement of Accountancy Services subject to value, should be considered under Public Contract Regulations.

Equalities Impact of the Proposal

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

Environmental and Climate Change Considerations

32. 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

33. If the decisions are not taken the companies will not deliver the property acquisition and development proposed. Stone Circle housing company will therefore not be able to meet housing need identified and Stone Circle development company will not be able to deliver the anticipated financial return to the Council.

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

34. The potential risks generated from the proposals are mainly financial. The Council has a number of mechanisms to control and or mitigate the risks if it agrees the proposed business plans. Firstly, the shareholder agreement provides on going oversight of the operations of the companies. Secondly, the Council provides the loan finance for the companies. Lastly, in relation to Stone Circle development company the Council has reserved the right to agree the project plan for each development before it proceeds within the shareholder agreement.
35. There may be financial and reputational risks to the council if the governance of the Stone Circle Companies is not kept under review.

Financial Implications

36. The business plans for the Local Housing Company and Development Company have been updated. A business plan has also been created for the holding company. Extracts from the plans are included in the appendices to this report.
37. For the Local Housing Company, operational costs have been reviewed and updated and the base budget has been uplifted by 25% but the utilisation of that increase is not agreed until the governance review has been undertaken and reported back to Cabinet. Property acquisitions have been reprogrammed to 125 units in 2021/22, an increase of 47 units drawn from future years, 50 units for years 2022/23 to 2023/24 and 3 units in 2024/25.
38. Additional resourcing has been built in to cover the cost of the additional units in 2021/22 to ensure that there is adequate resourcing and capacity to cover the work of procuring and managing them. Therefore, an additional £600 per property in 2021/22 has been built into the LHC business plan and in future years the procurement provision has been increased by an additional £150 per property.
39. Taking the above changes into account, the revised plan models the value of the loans issued by Wiltshire Council at £60.2m, an increase of £3.6m from the approved base. For 2021/22 the company is seeking a loan of £34.4m.
40. The total interest premium payable to Wiltshire Council over 50 years per the revised plan is now modelled at £86.9m, an increase of £11.3m on the approved base.

41. The total interest premium forecast to be earned by the Council in 2021/22 is £0.684m. For years three to five (2022/23 to 2024/25) £5.672m. This is a revenue income stream that can be built into the Medium Term Financial Strategy (MTFS) and re-invested in Council services. **Appendix 1** has a Graph that presents the Loan premium per year to Wiltshire Council over the 50-year plan period.
42. The revised model shows that the LHC will be earning enough income to cover its operating costs, including loan interest, by year 14. This represents no change on what has been previously been reported.
43. The income and expenditure account show an average annual deficit for the first 5 years of £0.111m. By year 50 an annual surplus of £5.5m is forecast, an increase of £1.8m previously reported.
44. The modelled debt position suggests that borrowing will be repaid by year 57 and that a loan balance of £14.7m will be outstanding by the end of year 50. **Appendix 1** shows a graph which presents the Local Housing Company Loan balances over the 50-year plan period.
45. To deliver to plan the Local Housing Company will need to ensure properties are purchased for the right price and condition, that operating costs are maintained within the assumed levels and that stock is managed efficiently to keep voids and bad debt low. The Local Housing Company Directors have signed up to this plan and its assumptions as part of the Shareholders agreement and should ensure evaluation processes are in place to deliver in line with Business Plan.
46. The exposure of Wiltshire Council will be minimised by not advancing resources in the form of equity. There will therefore also be no requirement for Minimum Revenue Repayment on the Loans and the Council's policy reflect this.
47. Officers have scrutinised and evaluated this plan and have assessed it to be reliable and robust. Ultimately the benefit that it offers to the Council is the interest premium on the loan and the increase in the provision of housing in Wiltshire.
48. The updated Development Company business plan is for the development of 116 units and includes the development of two additional sites (Tisbury Sports Centre and Stone Over Lane). Once developed the properties will be disposed of either to the HRA, the Local Housing Company or by sale on the open market. Operating costs have been reviewed and increased as necessary. Key figures for each of the five sites are shown on the last page of **appendix 4**.
49. The total land value for the 5 sites has been estimated at £3.7m.

50. The sites are already owned by Wiltshire Council, the plan is for the Land to be sold to the company at which point Wiltshire Council will receive a capital receipt forecast at £3.7m at the point of transfer which can then be used to finance the Council's capital programme.
51. The company will draw-down on a revolver loan facility and will reinvest capital receipts generated over the programme to keep borrowing to a minimum, providing security is still maintained over any outstanding Loan balance.
52. **Appendix 2** shows the cashflows for the 5 developments. The plan forecasts that the Local Development Company will require Loan finance of £21.459m over the six years to Develop the 5 sites. For year 20/21 the company is seeking a loan of £0.269m. The maximum level of debt will then peak at year 23/24. The plan models that the loan will be fully repaid by year 25/26.
53. Interest will be charged at an independently assessed commercial rate, the Business Plan assumes 7% for secured loans. Based on the modelled rates the total interest premium forecast to be earned at the end of the 6 years by the Council would be £2.679m.
54. The income and expenditure shown in **appendix 2** shows a loss in years 1 to 5 which then moves to profit in year 6 and 7 when all the developments are sold. The direct costs of the revised plan have increased as a result of the amendments that have been made (mainly the increase in the number of units). This has resulted in a reduction in the forecast dividend that the Council is due to receive. The total profit made by the Local Development Company is forecast to be £1.073m after Corporation Tax of £0.252m. The £1.073m profit will be paid from the Local Development Company to Wiltshire Council as a Dividend.
55. The main risk for Wiltshire Council will be if the Development programmes slip, have cost overrun or the market changes resulting in the Developments taking longer to sell as the Local Development Company would then require longer loan finance cashflow which would ultimately result in lower Dividend return.
56. Officers have scrutinised and evaluated this plan and have assessed it to be reliable and robust. Ultimately the benefit that it offers to the Council is the dividend and the increase in the provision of housing in Wiltshire.
57. A business plan has created for the Holding company. An extract from the plan is shown in **appendix 3**. The costs of the holding company, which are included in the plan, include the cost of independent director remunerations, general ledger, insurance and accountancy support. These costs are recharged back to the Local Housing Company and the Development Company so that the cost of operating the holding company is nil. A breakdown of these costs has been included in **appendix 4**.

Legal Implications

58. The Stone Circle housing company and development company business plans must be approved by cabinet on behalf of the Council as ultimate shareholder in accordance with the Shareholder's Agreements. For the avoidance of any doubt, the holding company business plan must also be approved by cabinet on behalf of Council as the ultimate shareholder in accordance with the shareholders agreements, however the holding company business plan is set out within the housing company and development company business plans.
59. 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 state aid will apply.
60. The Council needs to ensure that as the companies develop the governance arrangements for the companies are robust, transparent and fit for purpose.

Workforce Implications

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

Options Considered

62. The council could decide not to support the proposed business plans and rely on the previous business plan models agreed in 2019/20. However, this would not allow the companies to address the new economic circumstances that have presented themselves in 2021/22 or the potential for Stone Circle development company to generate additional returns for the shareholder and it is for those reasons that option is not recommended.

Conclusions

63. This report proposes business plans for the Stone Circle Companies as required under reserved matter 26 of the shareholder agreement. The revised plans will allow the companies to respond to the changed economic circumstances in Wiltshire in the residential property market.

Report Author:

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Date of report 25th January 2021

Appendices

Appendix 1 to 4 – Exempt information – Summary business plans for Stone Circle housing company, Stone Circle development company and Stone Circle holding company.

Background Papers

Business plan and Stone Circle Company board minutes.