

## **Final Report of the Stone Circle Governance Task Group**

### **Purpose**

1. To present the conclusions and recommendations of the Stone Circle Governance Task Group for endorsement and referral onwards as appropriate.

### **Background**

2. 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'.
3. An online briefing was provided for all councillors on 29 November 2023. The presentation provided an overview of the development of the Stone Circle companies and key milestones to date.

### **Terms of Reference**

4. The following terms of reference were approved by Committee on 25 January 2024.
  - a) To consider how Overview and Scrutiny should provide effective and proportionate scrutiny of the council's activity in relation to its Stone Circle companies.
  - b) To consider what aspects of the Stone Circle companies and the council's exposure to them should be the focus of that scrutiny (e.g., financial implications and risks to the council, meeting housing needs etc).
  - c) To consider what information Overview and Scrutiny will need to deliver this scrutiny.
  - d) To bring recommendations regarding the matters above to Overview and Scrutiny Management Committee.

### **Membership**

5. The opportunity to take part in the task group was offered to all non-executive councillors and the following were appointed:

Cllr Richard Britton  
 Cllr Richard Budden  
 Cllr Adrian Foster  
 Cllr Ruth Hopkinson (Chair)  
 Cllr Gordon King  
 Cllr Jacqui Lay  
 Cllr Anthony Pickernell  
 Cllr Mike Sankey

## **Methodology**

6. The task group met on 5 occasions.

<b>Date</b>	<b>Reason for meeting</b>
13 December 2023	Scoping meeting for task group members only.
9 February 2024	The Purpose of Stone Circle companies - with Director of Legal and Governance and Principal Solicitor, Commercial team.
9 April 2024	Review of evidence for task group members only.
20 May 2024	Clarification of evidence, following review, with the Cabinet member for Housing, Deputy Chief Executive and Director, Legal and Governance.
26 June 2024	Review findings and agree recommendations. Task group members only.

## **Findings**

7. When scoping the work of the task group, members agreed that they needed to broaden their knowledge of the Stone Circle companies to be able to make informed recommendations of oversight and scrutiny of Stone Circle governance.

## **Current governance and scrutiny arrangements**

8. The terms of reference (TOR) for the Cabinet Shareholder Group are set out in Wiltshire Council's constitution with reference to its role in relation to council owned companies (Part 3C Appendix 1).
9. The shareholder group has delegated authority of Cabinet to ensure the performance of the companies is satisfactory.
10. The terms of reference for the shareholder group provides for Overview and Scrutiny engagement, stating 'Select committees will retain their scrutiny function

in relation to the Shareholder Board. Overview and Scrutiny Management Committee can call shareholder group to account for progress in relation to any company for which the Council is a shareholder and any returns it is making’.

11. The task group reflected that in practice the shareholder group had not been scrutinised by Overview and Scrutiny Management Committee and concluded that there needed to be mechanisms put in place that would prompt such scrutiny.
12. A focus for the task group was to explore whether that was best done through existing select committee structures or whether a new standing task group or similar needed to be established to shadow the shareholder group.

### **Purpose of Stone Circle Companies**

13. The task group decided that central to any scrutiny of the governance of Stone Circle Housing and Stone Circle Development was a clear understanding of the purpose of each of the companies.
14. The task group recognised there was a difference in the purpose of Stone Circle Housing and Stone Circle Development which needed to be reflected in any ongoing scrutiny of the two companies.
15. Members noted that there isn’t a consistent statement of purpose used by all parties for either company. While this could allow for flexibility to meet changing needs, from a scrutiny perspective, it may also result in a drift of purpose.
16. At the time of setting up Stone Circle Housing and Stone Circle Development, the main reasons outlined in the Cabinet report, ‘Establishing a local housing company and local development company’ (15 January 2019), were to provide flexibility to the Council in meeting strategic housing needs, support the development of the Council’s assets and to support the local economy.
17. Specific housing needs cited in the report were ‘the lack of key worker accommodation’ and ‘accommodation to meet the needs of specific vulnerable households.’
18. The 2019 Cabinet report also anticipated a development company would both provide accommodation and deliver economic benefits that would ‘increase the potential return that could be generated from the developments.’
19. When the task group met with the Cabinet Member for Housing, Deputy Chief Executive and Director of Legal and Governance they sought clarification on the housing need being met by Stone Circle Housing that couldn’t be met in-house. They were advised that Stone Circle Housing provided housing to residents who wouldn’t be eligible for social housing through the Council’s Housing Revenue

Account (HRA) but would struggle with meeting private sector/market rents, and SCH is offering properties at LHA levels +10%.

20. A significant benefit continued to be the flexibility Stone Circle Housing offered to provide housing outside of the Council's Allocation Policy ([link](#)).
21. The task group were uneasy that this flexibility meant by-passing the choice-based lettings system Homes4Wiltshire, which prioritises housing to residents most in need.
22. Members noted that the performance data in the Stone Circle Group Business Plan for 2024-25 doesn't refer to meeting specific housing needs, for example, of key workers or vulnerable households. The business plans prior to 2024-25 were difficult to review as they didn't have an accompanying narrative.
23. In terms of Stone Circle companies meeting their economic purpose, task group members felt this may be too early to evaluate, but the economic impact of Stone Circle Housing and Stone Circle Development for the Council and Wiltshire residents should be a focus of ongoing scrutiny.
24. There was a distinction to be made in the performance of the two companies, with Stone Circle Development yet to complete a development.
25. To assess what specific housing needs were being met through Stone Circle Development and Stone Circle Housing, scrutiny would be looking for defined objectives and targets and evidence that this data was being collated and reviewed.

### **The interaction between Stone Circle Companies and Wiltshire Council in the provision of housing**

26. When considering the relationship between the Council and Stone Circle, its wholly owned companies, members were unclear on the extent to which the two entities were aligned. The task group wanted to understand whether the organisations worked to the same policies, standards and values.
27. Both organisations are involved in the provision of housing, as landlords and in the development of housing. A key question raised by the task group was whether this had resulted in competition for resources or a drawing on Council resources that reduced the Council's capacity to deliver housing services.
28. Officers and the executive reflected that a working protocol might have been useful for officers when Stone Circle first started operating. However, in future the company would be managing its own resources and relying less on Council support. It was confirmed that when the Council had provided services for Stone

Circle on a commercial basis, with the Council reimbursed for the services they had provided.

29. The task group requested reassurance that the development of the Stone Circle companies is not being supported at the expense of core council housing services and wanted the amount reimbursed to Wiltshire Council to be published.
30. To further clarify the relationship between the organisations, the task group queried how land was prioritised for development. It was reported that the Council's HRA is always given priority and land is offered to Stone Circle Development only if the HRA has considered it unsuitable for its own development needs.
31. Members queried whether priority had always been given to HRA development in the past. Certainly, future scrutiny would want to be able to review decisions about land development and the basis on which those decisions were taken should be clear.
32. The task group thought there would be value in housing being scrutinised as a whole. If, for example, Stone Circle and the Council's housing services needed to comply with the same housing standards, it would make sense for the performance to be scrutinised together as it would allow for comparison, understanding of performance and greater awareness of Stone Circle operations.
33. However, in terms of the provision of landlord services, Stone Circle and HRA are not operating in the same way. The HRA is providing social housing and complies with standards set by the Regulator of Social Housing. Although Stone Circle Housing sets rents at below-market rates, it is not a social housing provider and does not report against the same key performance indicators.
34. The performance of Stone Circle Group in the delivery of homes and housing services could be scrutinised under the remit of the Environment Select Committee, but comparison of performance with HRA would not be meaningful as it would not be comparing like with like.

### **The management of risk in relation to the activities of Stone Circle Housing (SCH) and Stone Circle Development (SCD).**

35. The Council has loaned £28m to Stone Circle Housing and £9m to Stone Circle Development.
36. The task group observed that Stone Circle is not operating with the same resources or infrastructure as the Council, noting the reference in the group Business Plan 2024/25 to plans 'to produce a full risk register in the coming year.'

37. The risk related to the financial investment seems to sit firmly with the Council and the shareholder group who manage the risk on behalf of the Council.
38. The task group wanted to know on what basis decisions are made to continue operations. Members were concerned that the forecasts made by Savills (property management and investment agents) in their report to Wiltshire Council, in November 2018, which formed the business case for setting up the companies, no longer applied because of external factors. The task group was informed that the shareholder group makes decisions based on the regular financial and performance information provided to it by the Stone Circle companies. Its decisions are informed by regular reporting of actual performance and up to date financial information.
39. The task group queried the assumption that the value of assets, that is property acquired by Stone Circle Homes, would cover any loss. Members were concerned that the long-term performance of the housing market was unknown and therefore questioned whether the possibility of house values going down had been factored in.
40. A key concern was the possibility of Wiltshire Council repeating the experience of other councils whose council-owned companies had amassed unmanageable debts. The task group wanted to know if there was an exit plan to prevent Wiltshire making the same mistake. Reassurances were given that the Council had learned lessons from other authorities and, following the governance review of 2021, made changes to strengthen the companies' governance arrangements, ensuring significant control for the Council. All loans come from the Council, business case approval must be made by the Council and senior officers are able to attend Stone Circle board meetings. The framework for governance was therefore in place, but still relied on regular and robust financial oversight of the Council's investment taking place.
41. While acknowledging the ongoing assessment of risks, the task group wanted the point at which accumulated loss was unacceptable to be defined.
42. The task group agreed that ongoing scrutiny should include a clear and easily understood quarterly financial report to include cost benefit analysis. It noted that the report would need to factor in, if possible, what the cost to the Council would be without having access to Stone Circle properties.

### **Scrutiny of the shareholder group**

43. The task group considered whether scrutiny of Stone Circle governance was currently taking place at shareholder group meetings.
44. Those who had attended the meetings had expressed frustration at not having the same level of access to information as the shareholder group themselves,

which did not facilitate scrutiny. Stone Circle's business plans were made available to the task group, but they are not accessible to members or the public.

45. The task group considered whether raising questions at shareholder meetings, even with improved access to meeting papers, would provide sufficient scrutiny of risk management and decision-making.
46. On balance, the task group considered having a standing task group which shadowed the shareholder group would be a better way to provide consistent scrutiny and enable sharing of sensitive information with the non-executive members of the task group.
47. The task group proposed it would be beneficial to increase awareness of Stone Circle with all members. One way of doing that would be to disseminate shareholder group minutes to all members.
48. In addition, to further increase all members' awareness of the role of the shareholder group in overseeing Stone Circle activities, the task group suggested the publication of a simplified version of the shareholder groups terms of reference.

## **Conclusions**

49. The reasons for setting up Stone Circle and its purpose has not been described in a consistent way. This makes it difficult to assess objectively whether the Stone Circle companies are meeting their intended purpose.
50. Information about Stone Circle is not easily available, and its low profile may have resulted in a general lack of awareness of the business and its operations.
51. The need to increase transparency was a recurring theme in the work of the task group. There were some quick wins identified to support this aim and raise awareness of Stone Circle's activities and role in relation to the council's business plan. In turn, it was hoped this could encourage wider engagement and scrutiny.
52. It was felt that further clarity was needed about the council's interaction with Stone Circle, a commercial company wholly owned by the council. The shareholder group terms of reference could clarify further the extent to which Stone Circle companies operated independently or followed Council standards in their operations.
53. The Shareholder Group meetings are open to members, however, without full access to information, scrutiny at these meetings is currently limited.
54. It is theoretically possible for members to raise questions relating to Stone Circle at the Overview and Scrutiny Management Committee. However, the task group

concluded a more structured scrutiny approach was needed to allow for scrutiny of the council's activity in relation to Stone Circle companies.

55. The task group agreed that there would be advantages to setting up a standing task group to consider Stone Circle governance.
56. However, the group did not reach unanimous agreement on the reporting route for the standing task group.
57. Members saw merit in reporting to Environment Select committee, as the committee with a remit to review housing. They could see there were advantages in Stone Circle being considered in context as part of the Council's wider strategy to meet the housing needs in Wiltshire.
58. Alternatively, as the work of the task group would cover scrutiny of the governance responsibility of the Cabinet Shareholder Group in the management of performance and corporate risk, the Overview and Scrutiny Management Committee could be a more appropriate reporting route.

## **Recommendations**

**The task group proposes the following recommendations for endorsement by the Overview and Scrutiny Management Committee:**

- 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.**

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**Cllr Ruth Hopkinson (Chair), Stone Circle Governance Task Group**

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