

REVIEW OF AYLESBURY VALE BROADBAND

1 Purpose

- 1.1 To consider and approve the accompanying report “Aylesbury Vale Broadband Review” prepared by BDO, a firm of independent auditors.

2. Recommendations

The Committee is recommended to:

- 2.1 Accept the review has been performed in accordance with the Motion and delivered against all the objectives set out and agreed in the Terms of Reference**
- 2.2 Approve the report and all the recommendations contained in it**
- 2.3 Ensure the recommendations identified in this report are reflected in the Council’s “Guide to creation and working with companies in which AVDC has a financial interest”**
- 2.4 Affirm the Council’s code of conduct in relation to divulgence of confidential papers**
- 2.5 Invite Cabinet to endorse the recommendations of the Audit Committee**

3. Supporting Information

- 2.1 Audit Committee has previously received reports into the governance arrangements of Aylesbury Vale Broadband (AVB) in March 2017 and September 2017. A number of weaknesses were highlighted and the Committee approved a series of recommendations to address them.
- 2.2 On 6 December 2017 a Motion (attached below) was agreed at full Council which tasked the Audit Committee with a further detailed audit of the governance arrangements over AVB culminating in the decision to sell AVB assets.
- 2.3 It was agreed that the audit of AVB be undertaken by the Council’s externalised internal audit team (BDO) as they have experience of the governance of company structures.
- 2.4 The scope of work for the review of AVB was discussed with the Leaders of all political parties on 8 January and subsequently the Terms of Reference were agreed at a meeting of the Audit Committee on 22 January 2018. The Terms of Reference is included as Appendix A of the full report.
- 2.5 In accordance with the Motion, the review commenced on 31 January. The Motion required for the report to be issued by 30 April 2018. However, there were late

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requests for interview and additional submissions made during May which, in order to fully consider this information, caused delay to the timing of the report.

2.6 The review has been conducted by Mr Adam Leeder, a Senior Consultant from BDO. Mr Leeder has had free access to all AVB and Council documentation and information throughout the course of the review.

2.7 When the Terms of Reference were agreed, a number of stakeholders were identified to interview as part of the review. All of these were interviewed in addition to other Members and Stakeholders who came forward during the course of work. All of those who requested to provide input to the review were given the opportunity to do so.

2.8 The purpose of the review, as set out in the terms of reference, was to:

- assess the governance arrangements over AVB from the development of the original proposal through to the position culminating in the decision to sell AVB and the conclusion of the sale
- comment on whether these helped the Council secure value for money and deliver the objectives approved by Full Council resulting from its investment in the company
- draw lessons from the Council's governance arrangements for AVB which could be applied to other commercial undertakings

2.9 The report highlights some good practice and goes on to make a series of 22 separate recommendations, drawing upon lessons which can be learned from the Council's experience with AVB, that could be applied to commercial investments in the future.

2.10 The report makes the following recommendations:

When establishing new commercial ventures and overseeing the ongoing business planning cycles (Inception):

- Recommendation 1: Robustly evaluate pilots of new commercial ventures before making further investment;
- Recommendation 2: Sign a Shareholder Agreement requiring permission for wholly or partly owned companies to deviate significantly from agreed business plans;
- Recommendation 3: Improve scrutiny of business plans to ensure they are realistic;
- Recommendation 4: Undertake more thorough market research before entering new markets. Future business plans for commercial ventures should include scenario planning and risk assessments;
- Recommendation 5: Structure the business planning cycle to set a clear vision for the future and assess performance against previous plans;
- Recommendation 6: Ensure commercial ventures have a clear and consistent strategic direction.

When considering governance arrangements for new commercial ventures (Governance):

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- Recommendation 7: Avoid placing Cabinet members on the Boards of commercial ventures unless this can be justified on exceptional grounds such as specific sector knowledge;
- Recommendation 8: Institute a conflicts of interest policy for all commercial ventures;
- Recommendation 9: Place a Shareholder Representative on the Board of commercial ventures from the outset to avoid potential conflicts of interest;
- Recommendation 10: Select Board members with sufficient sector knowledge and independent oversight and commission training on Director responsibilities and being an effective Director either shortly before or soon after Directors are appointed
- Recommendation 11: Undertake a capacity, capability and conflicts assessment of potential Directors to avoid high turnover of Board members;
- Recommendation 12: Check Board Members, and key management, have sufficient capacity to discharge their full range of functions, supported by appropriate resilience arrangements;
- Recommendation 13: Keep a clear record of meetings to provide a robust audit trail.

When developing reporting arrangements at Board level, Council level and to customers of future commercial ventures (Reporting):

- Recommendation 14: Clarify from the outset what company information will be reported to Board and invest in capacity to provide this;
- Recommendation 15: Agree the format and data sources of information which will be reviewed at Board meetings;
- Recommendation 16: Reporting to Members needs to be more proactive and reflective of the venture's current rather than potential future position whilst still respecting the bounds of commercial confidentiality. The Council's Democratic services team must support this by ensuring that formal minutes of meetings reflect accurately the content of remarks by Members in Council meetings;
- Recommendation 17: If the Council's wider Members are to have greater oversight of the Council's commercial ventures, then the confidentiality requirements of 'yellow papers' must be respected;
- Recommendation 18: Invest sufficiently in communications and engagement with current and potential customers.

In terms of arrangements for agreement of, and release of funds to new commercial ventures (Investment):

- Recommendation 19: Sign loan agreements prior to loans being issued;
- Recommendation 20: Sign service level agreements to cover Council staff delivering services for a Council-owned commercial venture and charge this time accordingly;
- Recommendation 21: Clarify arrangements from the outset for release of funds from the Council to commercial ventures;

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- Recommendation 22: Require Section 151 Officer sign-off for release of funds from the Council to companies owned by the Council.
- 2.11 The review has given full consideration to whether the Council secured value for money its investment and delivered against the objectives of AVB.
- 2.12 It notes that the capital receipts the Council will receive from AVB following sale of company assets means that the Council will only have made a small net loss from its investment in the company. In return, AVB was able to provide Fibre to the Premises (FTTP) broadband to 234 properties in rural areas which were not priority areas for connections – either from commercial companies, or national government-backed schemes. In addition, AVB laid a fibre network passing c. 2,000 properties, which will now be developed by Gigaclear, who purchased AVB's assets. Based on this, the report concludes that there is a reasonable case that AVB delivered value for money. However, any final judgement on value for money is subject to the warranties attached to the sale.
- 2.13 An internal audit of the Council's governance arrangements for Aylesbury Vale Estates is already included in the Internal Audit plan for 2018/19. This will include consideration of whether the recommendations identified in this report have been applied.

4. Reasons for Recommendations

- 4.1 To deliver the report in accordance with the Motion agreed at full Council on 6 December 2017.

5. Resource Implications

- 5.1 These are covered in the terms of reference document.

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MOTION

A Notice of Motion in relation to the governance arrangements and operation of Aylesbury Vale Broadband Ltd had been submitted to full Council on 6 December, 2017, at which it had been resolved:

- (1) That this Council will honour the commitment given by the Leader of the Council at the General Purposes Committee to review the position culminating in the decision to sell AVB and introduce a suitable mechanism for keeping all Members of the Council informed of the Council's commercial activities.
- (2) That the Audit Committee be tasked with a detailed audit of the operation of AVB, as far as practicable within the timescales set out within the original Motion and to keep as much information as is possible in the public domain.
- (3) That the audit of AVB be undertaken by the Council's externalised internal audit team (BDO) as they have experience of the governance of company structures.
- (4) That a brief for carrying out the review of AVB be agreed by Group Leaders, the Council's Head of Internal Audit, a representative from BDO and the Chairman of the Audit Committee, with Group Leaders receiving a draft of the report prior to its submission to the Audit Committee, any such meetings involving Group Leaders to be chaired by the Deputy Leader of the Council.
- (5) That any meeting of the Audit Committee convened to consider the report findings be open to all members of the Council to attend and at the discretion of the Audit Committee Chairman, to participate in the discussions (although they would not be able to vote).
- (6) That insofar as the other commercial undertakings of the Council are concerned, reports on their activities be brought forward at regular intervals to the relevant Scrutiny Committee.

With regards to recommendation (2), the timescales set out in the original motion had asked for a review to commence no later than 1 calendar month from the sale of AVB or by 31 January 2018, whichever was sooner, and for it to report no more than 3 months after commencement, i.e. by 30 April 2018.