

## **UPDATE ON AYLESBURY VALE BROADBAND REVIEW**

### **1 Purpose**

- 1.1 To update the Audit Committee on the cross party working group established to oversee the recommendations of the Aylesbury Vale Broadband report; and
- 1.2 To review the updated “Guide to Creation and Working with Companies in which AVDC had a Financial Interest” (the “Guide”) and consider whether the recommendations from the AVB review have been appropriately included in accordance with Audit Committee resolutions.

### **2 Recommendations/for decision**

The Committee is asked to:

- 2.1 Note the work of the Cross Party Group.
- 2.2 Approve the amendments to the Guide, which is included as part of the Council’s Constitution at Section G (Codes and Protocols).

### **3 Supporting information**

- 3.1 On 28 June, 2018, Council resolved that:
  - (1) That this Council notes that, at its meeting on 12 June 2018, the Audit Committee of AVDC accepted and agreed the twenty two recommendations of the BDO LLP review into AVB. As such, Council endorses the decision and formally adopts the recommendations which are to be applied to all its current and future commercial ventures. Further, a cross party group will be formed to oversee the implementation of the recommendations, the group to be appointed by the Audit Committee.
  - (2) That in view of concerns about various financial aspects of financial matters reported in the BDO LLP report on the review of Aylesbury Vale Broadband (AVB), the Council as 95% shareholder in AVB, agrees for a detailed examination of the accounts of AVB to be carried out as a matter of urgency by AVDC’s internal audit team and a report of this be delivered to the Audit Committee.
- 3.2 Prior to this Council meeting, on 12 June 2018 the Audit Committee resolved that:
  - (3) That the recommendations identified in the report be reflected in the Council’s “Guide to the Creation and Working with Companies in which AVDC has an interest”.
  - (4) That the Council’s Code of Conduct be affirmed in relation to the divulgence of confidential papers and the Democratic Manager be instructed to take account of the AVB review recommendations in his review of the Councillors Code of Conduct, in particular the section relating to the divulgence of confidential papers.”

## Update on work of Cross Party Group

- 3.3 The Cross Party group (Councillors Branston (Chairman), B Chapple, A Cole, S Cole, Christensen, Lambert and Cooper) met on 6 December 2018 to consider the progress made on implementation of recommendations arising from the AVB review report.
- 3.4 A report was presented which included details of how the recommendations had been incorporated into the "Guide to Creation and Working with Companies in which AVDC had a Financial Interest" (the "Guide") together with a draft of the updated Guide.
- 3.5 Members considered the updated table of recommendations, which included details of how the recommendations had been incorporated into the updated Guide. Their attention was drawn, in particular, to Recommendation 17 (Confidentiality requirements and the Code of Conduct). The new Members' Code of Conduct had been drafted taking into account the Audit Committee's request that particular attention be given to the divulgence of confidential papers. The Chairman of the Audit Committee had been closely involved in this process. An updated Code of Conduct had been agreed by the Standards Committee on 3 December 2018 and would now be submitted to full Council in February 2019 for final approval.
- 3.6 The investigation into the 'yellow pages' breaches that had been raised during the review of AVB was ongoing and would be reported to Members in due course.
- 3.7 The Group then considered the AVB Financial Review that had been requested at the last meeting and undertaken by the Corporate Governance Manager.
- 3.8 Members were informed that sample testing of income and expenditure incurred by AVB from inception to 31 March 2018 had been performed. Samples had been selected from the AVB Nominal Ledger. The AVB annual accounts had been prepared by external accountants (Tax Assist) on the basis of the information contained in the nominal ledger. A report was presented detailing the testing performed and the results.
- 3.9 The report concluded that no exceptions had been identified in the sample testing. On the basis of the documentation reviewed and the testing performed no concerns had arisen that would indicate that the financial accounts of AVB did not present an accurate record of the affairs of the company.
- 3.10 Following consideration of the updated actions taken against the 22 recommendations stemming from the BDO LLP report, including the updating of the Guide to Creation and Working with Companies in which AVDC had a Financial Interest, and on the financial review of some areas of the AVB accounts, the Group resolved that:
  - (1) That the Corporate Governance Manager be thanked for the work undertaken and submitted to the AVB Cross Party group.
  - (2) That the 'Guide to Creation and Working with Companies in which AVDC had a Financial Interest' should be updated with regard to information required in support of business cases, as discussed at the meeting.

(3) That, subject to recommendation (2) above, the AVB Cross Party Group was satisfied that the 22 recommendations stemming from the BDO LLP report on the review of AVB had been actioned.

(4) That a report of the AVB Cross Party Group's findings should be reported back to the Audit Committee in January 2019.

3.11 It was agreed that the work of the Cross Party Group had been concluded in accordance with Council's resolution and no further meeting was required.

**Updated "Guide to Creation and Working with Companies in which AVDC had a Financial Interest"**

3.12 The Guide has been update to reflect the recommendations set out in the AVB report.

3.13 Further updates requested by the Cross Party Group to strengthen the information required to support business cases have also been included. This is attached as Appendix 1.

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Background Documents	None

## AVB recommendations and implementation plan – Update December 2018

The majority of recommendations made in the Aylesbury Vale Broadband (AVB) Review (June 2018) will only become applicable when a new company is formed or financial investment made. To ensure that the learnings identified from the review become embedded, our policies, procedures and working practices need to be updated. The “Guide to creation and working with companies in which AVDC has a financial interest” (“the Guide”) sets out the current protocols and is already part of the Council’s Constitution (Section G, Appendix K). For other recommendations, updates to the Code of Conduct are required.

The internal audit plan for 2018/19 includes a review of the governance arrangements for Aylesbury Vale Estates, the only other commercial venture in which the Council has an interest. This will assess whether the recommendations raised from AVB are operating effectively.

The Guide has been updated and the 22 recommendations have been actioned as follows:

Recommendation	Next steps	Update (Dec 18)
<i>When establishing new commercial ventures and overseeing the ongoing business planning cycles (Inception):</i>		
1	Robustly evaluate pilots of new commercial ventures before making further investment  a) Update the Guide to reflect the need for and the information requirements to enable robust evaluation of pilots b) Identify appropriate committee to scrutinise and approve further investment c) Provide training for members d) Obtain external expertise where applicable	Guide updated - page 13
2	Sign a Shareholder Agreement requiring permission for wholly or partly owned companies to deviate significantly from agreed business plans  a) The Guide currently states that AVDC <i>should</i> appoint a shareholder representative who would normally be an elected member of the Council. Update so that this is a requirement b) Update the Guide to require a Shareholder Agreement, including specific points the agreement should contain such as the requirement for shareholder approval for material changes to business plans	Guide updated - pages 11 & 12
3	Improve scrutiny of business plans to ensure they are realistic  a) The Guide already includes the requirements for a business case and the objectives, which must be at least one of : – Reducing Council operating costs by delivering Council	Guide updated - pages 4 & 5

Recommendation	Next steps	Update (Dec 18)
	<p>service at lower cost than the Council is able to do.</p> <ul style="list-style-type: none"> <li>- Delivering services which the Council is not empowered to deliver</li> <li>- Generating cash to the Council through Dividend payments</li> <li>- Generating a cash lump sum by enabling the Council to sell its shares at a point in the future at a significant profit.</li> </ul> <p>All business plans should clearly outline the objectives of the investment and report on the achievement of those objectives.</p> <p>b) The Guide sets out the minimum requirements for a business plan. To ensure robust scrutiny, each of these requirements should be considered in turn prior to approval</p> <p>c) The Guide already sets out the minimum reporting &amp; performance monitoring requirements which includes quarterly reporting of:</p> <ul style="list-style-type: none"> <li>- Current cash flow and profit and loss position</li> <li>- Current investment position (including any loan position)</li> <li>- Income and expenditure forecast for the 4 rolling quarters</li> <li>- Current position compared to current business plan</li> <li>- Any expected issues reserved in the companies articles of association that may be need to be reported to AVDC formally over the next 6 months.</li> <li>- High level reporting of planned strategic marketing activities.</li> </ul> <p>The business case should include a template for reporting to ensure there is agreement over what will be reported and that this information is captured from the start.</p> <p>d) Updated the Guide to make it clear that the original Business Case and annual Business Plans must include an assessment of risks and any new issues arising. Members should ensure they are satisfied with the way these risks are being addressed.</p> <p>e) Identify appropriate committee to scrutinise and provide training for members</p> <p>f) Obtain external expertise where applicable</p>	

Recommendation		Next steps	Update (Dec 18)
4	Undertake more thorough market research before entering new markets. Future business plans for commercial ventures should include scenario planning and risk assessments	a) Update the Guide to reflect the need for market research and ensure the results are shared with members prior to approval of new business plans.	Guide updated - page 5
5	Structure the business planning cycle to set a clear vision for the future and assess performance against previous plans	Update the Guide to reflect that business plans and reporting need to: a) help the Board and, where relevant the Council, to: – Agree clear direction of travel over the coming year; – Provide a suite of KPIs which allow the Board and the Council to assess performance against that plan; – Review performance against last year’s plan. b) include specific, measurable, assignable, realistic and time bound (SMART) key performance indicators. c) contain forecast cash flow, profit and loss and balance sheet as well as actual financial information from the last year.	Guide updated - page 5
6	Ensure commercial ventures have a clear and consistent strategic direction.	a) The Guide already includes the requirements for a business case and the objectives, which must be at least one of : – Reducing Council operating costs by delivering Council service at lower cost than the Council is able to do. – Delivering services which the Council is not empowered to deliver – Generating cash to the Council through Dividend payments – Generating a cash lump sum by enabling the Council to sell its shares at a point in the future at a significant profit. All business plans should clearly outline the objectives of the investment and report on the achievement of those objectives.	Guide updated - pages 4 & 5
<i>When considering governance arrangements for new commercial ventures (Governance):</i>			
7	Avoid placing Cabinet members	a) Update the Guide to reflect the recommendation to avoid placing	Guide updated - page 10

Recommendation		Next steps	Update (Dec 18)
	on the Boards of commercial ventures unless this can be justified on exceptional grounds such as specific sector knowledge	Cabinet members on the Boards of commercial ventures unless this can be justified on exceptional grounds such as specific sector knowledge	
8	Institute a conflicts of interest policy for all commercial ventures	a) Update the Guide to reflect that Companies should have a conflict of interest policy	Guide updated - page 10
9	Place a Shareholder Representative on the Board of commercial ventures from the outset to avoid potential conflicts of interest	a) The Guide currently says AVDC <i>should</i> appoint a shareholder representative who would normally be an elected member of the Council. Update so that this is a requirement at the outset.	Guide updated - pages 7 & 11
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	The Guide already sets out the requirements for effective Boards. a) Review and approve all current board memberships. Ensure there is sufficient sector, financial, marketing, governance experience. b) Review any potential conflicts of interest for existing board members. c) Provide training on Director responsibilities for all current, and any new Directors prior to appointment	Guide updated - page 10
11	Undertake a capacity, capability and conflicts assessment of potential Directors to avoid high turnover of Board members	As for 10.	Guide updated - page 10
12	Check Board Members, and key management, have sufficient capacity to discharge their full range of functions, supported by	As for 10.	Guide updated - page 10

Recommendation		Next steps	Update (Dec 18)
	appropriate resilience arrangements		
13	Keep a clear record of meetings to provide a robust audit trail.	a) Update the Guide to reflect the requirement for Board minutes to be maintained b) Include the requirement for minutes in any future Shareholder Agreements	Guide updated - page 12
<i>When developing reporting arrangements at Board level, Council level and to customers of future commercial ventures (Reporting):</i>			
14	Clarify from the outset what company information will be reported to Board and invest in capacity to provide this;	<ul style="list-style-type: none"> <li>• Update the Guide to reflect the requirement for the Board of commercial ventures to agree their reporting requirements, which in turn satisfy the Council's requirements for oversight of performance of the investment, this should be reflected in the Shareholder Agreement.</li> <li>• At a minimum the Board should receive:               <ul style="list-style-type: none"> <li>- monthly management accounts showing profit and loss, balance sheet and historic/forecast cash flow.</li> <li>- monthly information on the activity of the business against KPIs</li> <li>- risk register</li> </ul> </li> </ul>	Guide updated – pages 5 & 12
15	Agree the format and data sources of information which will be reviewed at Board meetings;	a) As for 14, the Shareholder Agreement must specify the format of Board reporting to ensure accurate, complete and comparable information.	Guide updated - page 12
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.	As for Recommendation 3: a) All business plans should clearly outline the objectives of the investment and report on the achievement of those objectives. b) The Guide already sets out the minimum reporting & performance monitoring requirements which includes quarterly reporting of:	Guide updated – pages 5, 12 & 13



Recommendation	Next steps	Update (Dec 18)
<p>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.</p>	<ul style="list-style-type: none"> <li>- Current cash flow and profit and loss position</li> <li>- Current investment position (including any loan position)</li> <li>- Income and expenditure forecast for the 4 rolling quarters</li> <li>- Current position compared to current business plan</li> <li>- Any expected issues reserved in the companies articles of association that may be need to be reported to AVDC formally over the next 6 months.</li> <li>- High level reporting of planned strategic marketing activities. The business case should include a template for reporting to ensure there is agreement over what will be reported and that this information is captured from the start.</li> </ul> <p>c) Update the Guide to make it clear that the original Business Case and annual Business Plans must include an assessment of risks and any new issues arising. Members should ensure they are satisfied with the way these risks are being addressed.</p> <p>d) In relation to council minutes, Democratic Services already have a four step checking process in place to ensure accuracy of meeting minutes. The process has been reviewed and no changes are required, however, it is important that the process is supported by Officers and Members reading, checking and commenting on minutes at the appropriate check point.</p>	<p>Process is ongoing</p>
<p>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;</p>	<p>a) Councillors Code of Conduct, in particular the section relating to the divulgence of confidential papers to be reviewed and updated.</p> <p>b) The Council's Monitoring Officer to Investigate breaches and take action accordingly</p>	<p>New Code has been drafted taking account of the Audit Committee's request that particular attention is given to the divulgence of confidential papers. The Chairman of AC has been closely involved. The Standards Committee will now</p>

Recommendation		Next steps	Update (Dec 18)
			consider the draft which will then go on to full Council.  Investigation into breaches is ongoing.
18	Invest sufficiently in communications and engagement with current and potential customers.	a) Future Council-owned commercial ventures need to ensure they have invested sufficiently in communications platforms to manage customer expectations and avoid 'over promising and under delivering'	No action required
<i>In terms of arrangements for agreement of, and release of funds to new commercial ventures (Investment):</i>			
19	Sign loan agreements prior to loans being issued	Noted	Guide updated - page 15
20	Sign service level agreements to cover Council staff delivering services for a Council-owned commercial venture and charge this time accordingly	a) The Guide already includes a template Service Level Agreement. This should be used for all new Council owned commercial ventures to clearly identify and capture recharges and agree quality of service.	Guide updated – pages 18 & 20
21	Clarify arrangements from the outset for release of funds from the Council to commercial ventures	a) Update the Guide to reflect a clear process for drawdown of funds, including responsibilities approval and sign off. This should be reflected in the Shareholder Agreement.	Guide updated – pages 12 & 15
22	Require Section 151 Officer sign-off for release of funds from the Council to companies owned by the Council.	As for 21	Guide updated - page 15