

Cabinet Member Briefing Note

Provision of a Loan to Digital City (UK) Limited for the Purpose of Establishing A Wi Fi Network Across the Borough of Swindon

Date Issued: 12th October 2009

To: *The Leader and the Cabinet Member for Finance and Benefits*
From: *Director of Finance, Director of Law and Democratic Services and Group Director, Business Transformation*

Parish / Wards Affected: All

Purpose

- To formally consult with the Leader and the Cabinet Member for Finance and Benefits on the provision of a loan, on commercial terms, to Digital City (UK) Limited, being a joint venture agreement to set up a Wireless (Wi-Fi) network across Swindon Borough.

Proposed Action Under Delegated Powers

- That in accordance with Cabinet minute 28 of 23 July 2008, approved by Council on 13 November 2008 (minute 43.1 refers), the Directors and Finance and Law and Democratic Services will make the necessary arrangements for the Council to provide a loan of up to £450k to Digital City (UK) Limited on commercial terms as detailed in the attached draft loan agreement (Appendix A) and in return for an equity stake in the company and a seat on the company's board ;
- That the Group Director Business Transformation will, on behalf of Swindon Borough Council, enter into a joint venture partnership underpinned by a Shareholders' Agreement with aQovia UK Limited and Avidity Consulting Limited to form Digital City UK Limited, which will deliver a Wi-Fi network across the Borough providing broadband access and other Wi-Fi related services to Swindon residents, public sector organisations and businesses;
- For an interim period, no longer than the first 3 months of operation, the Group Director, Business Transformation will represent Swindon Borough Council (SBC) at meetings of the Board of Digital City UK Limited, pending a decision on permanent Council representation on the Board being made via full Council;
- That the Group Director Business Transformation will grant Digital City (UK) Ltd access to accommodation in DMJ tower, at nil consideration, for a period of 12 months;
- That the Group Director Business Transformation, in consultation with other officers and Ward members as appropriate, will grant Digital City (UK) Ltd

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licenses to install equipment necessary to create the Wi Fi network at suitable Council owned premises across the Borough.

1. Reasons

- 1.1 A loan of up to £450,000 on commercial terms (see attachment) is proposed to Digital City (UK) Ltd by the Council as joint venture partner in an enterprise to create a Wi Fi network covering the Borough of Swindon. The loan, together with the Council's involvement in granting licenses to install equipment on its facilities, will provide the Council with an opportunity to benefit commercially from the company's future profits as well as helping bridge the "digital divide" by providing free access at limited speed to all residents and visitors to the Borough.

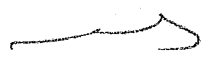
2. Detail

2.1 The business case is set out in the attached document – National Wi-Fi Business Case 20/7/09. The provision of a wireless network providing broadband access across the Borough also fulfils and enables a number of the Councils' and Local Area Agreement partner objectives :

- Social inclusion by bridging the 'digital divide' through the provision of free access at limited speed for all residents and visitors to Swindon.
- Assisting new and existing small business, struggling in the current recession, by providing vital Broadband and related services at competitive prices and without the need to commit cash to long term contracts.
- Assists the Councils' local area partners jointly engaged in the delivery of 'Destination Swindon' by providing a platform to deliver services in innovative ways and to reduce operating costs.
- Enables Swindon to become a desirable business location, a place that is 'easy to do business in' by allowing business people (based in the Borough or travelling into Swindon) to easily stay connected to their business base anywhere in the world from anywhere in the Borough.
- Supports the Council's sustainability agenda through a platform that allows; more local employers to offer cost effective flexible working resulting in fewer car journeys and new and innovative energy efficient products to be trialled in Swindon.

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- Supports the Council's Connecting People Connecting Places strategy by providing an on-line platform for local communities to connect with each other and with public service providers.
- Opportunity for the Council to generate additional revenue from selling on-line access and services to Swindon residents and businesses and by exporting the business model to other authorities.

2.2 The headline financial issue is that this requires the Council to provide the initial capital via a loan of £450k . The Financial Plan shows this being paid back within 2 years. Until the loan is repaid, the Council would be entitled to a 40% share of any profits. Provided the loan is repaid within 2 years of the first drawdown and no further monies are owed by Digital City to the Council, the Council's share of profits would reduce to 35% by means of Avidity Consulting taking an option to purchase 5% of the company's shares from the Council for £1 under an agreed risk sharing approach. Beyond year 2, the projected net profit is c.£700k per year. This does not include any projections from exporting the business model to other Councils. In the event that the loan is not re-paid the Wi-Fi network assets remain the property of Swindon Borough Council and allow for the Council to find an alternative operator of the Wi-Fi network. The loan is phased based on a draw down regime, where by the outcomes and measures from each phase need to be delivered before the next tranche is made available.

2.3 Digital City, whose Managing Director will be Rikki Hunt (Avidity Consulting), the instigator of the initiative, will deliver Borough wide Wi-Fi access in a phased manner. This will be a remunerated appointment whose continuation will be dependent upon meeting a specified series of criteria. The first operating phase is planned to cover Highworth by end of November and if the success criteria for this phase are met then coverage for the rest of the Borough will be achieved within 4 to 6 months. It is envisaged that internet access via Wi-Fi will be free to all at a limited speed. The business model is built on selling high speed access to private subscribers and business and on offering innovative services to the public and private sector at competitive prices. The first quarter outcomes and success measures for Digital City are based on the following three priority outcomes :

1. Robust, operational and scaleable Wi-Fi network in place, providing a service for the whole of Highworth
2. Successful and targeted PR campaign delivered locally and nationally
3. Effective Sales and Marketing activities and plans in place to deliver short and medium term revenue streams

2.4 The initial shareholding of Digital City UK Limited is as follows :

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Swindon Borough Council	40%
aQovia UK Limited	35%
Avidity Consulting Limited	25%

2.5 Office accommodation: As part of the Council's contribution to this project, the Council is providing office space to the joint company on a no cost basis. Suitable space has been identified in the DMJ Tower, on the 10th floor, through rationalising the current use of the space. The space will be made fit for office occupation and this cost will be met through the existing corporate repair and maintenance budget and associated schedule. Utility costs will be paid by the occupier.

2.6 The Council will also grant Digital City licenses to install equipment at a number of its facilities across the Borough. Details of the number of sites that will be required and their locations are not yet finalised, pending a detailed network assessment being undertaken. Discussions are continuing around the possible need for Planning permissions to be granted. Relevant officers and Ward members will be consulted prior to the equipment being installed.

Alternative Options

- This is a unique proposition, there are no towns or cities in the UK offering Borough Wide Wi-Fi, there is currently no equivalent in the market place.
- The Council does not have the expertise to deliver this on its own, there is no alternative to partnering with the private sector.

Risk Management

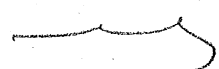
Financial and Procurement Implications

- Key risks are Financial and those of Reputation.
- Key risks are financial and reputational

Financial – the Council's constitution permits the Directors of Finance and Law and Democratic Services, in consultation with the Cabinet Member for Finance and Benefits, to provide a loan on commercial terms to a joint venture company in which the Council has an interest. The new company will need to generate sufficient income to repay the loan provided by the Council. Should this not be the case, security is provided through the loan agreement which requires transfer of the ownership of the company's assets to the Council in the event of default. The physical assets will be purchased at a cost of around £250k. In addition, there will be value in the virtual network that will cover all of the Borough and in the Council's shareholding in the

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company. While providing the loan is not without risk, based on the Business Case it appears that the risk that the loan repayment period may need to be extended is more likely than that the risk of complete default. Risk sharing has been introduced through an incentive measure through which Avidity Consulting has an option to increase its shareholding for a consideration of £1 provided that the loan is repaid within 2 years from the date of first drawdown.

The success of the company, particularly in the early stages, and consequently the potential for Swindon Borough Council to achieve a return from its shareholding will depend to a large extent on the success of the marketing campaign. A formal marketing plan has not yet been developed, but a Brand Consultant and Marketing Specialist have been informally assisting the project and will be formally engaged once the company is live. Currently identified unique selling points are as follows:

- A free offer with limited bandwidth will be available throughout the Borough;
- Customers will benefit from a free 3 month trial;
- Swindon Wi-Fi will be the cheapest offering in all sectors entered (which can be delivered as a result of a low cost base);
- Customers can also sign up for a CCTV monitoring service for their home or business premises with a minimum contract term.

Marketing channels have been identified as:

- Web (the company is already designing its website);
- PR though the Press and Radio (the local BBC are very interested);
- Attendance at local trade shows and conferences;
- Mail dropping all businesses in Swindon;
- Weekend stands in the Brunel and Outlet centres;
- Utilising Swindon Borough Council external and internal communication tools.

Reputation – if the service is not sustained or does not deliver as expected, this will reflect on the Council.

The nature of the accommodation being offered to Digital City (UK) is such that it has no commercial value.

Legal / Human Rights Implications

- This arrangement is being entered into under delegated powers and will be secured by way of a formal loan agreement.

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Links to Corporate Plans and Policies (in particular to Swindon 2010 Promises)

- A successful joint venture will assist the Council's Medium Term Resourcing Plan.

Consultees

- Director of Finance and Director of Law and Democratic Service

Background Papers and Appendices

- National Wi-Fi Business Case 20/07/09
- Loan Agreement : Swindon Borough Council & Digital City (UK) Limited
- Memorandum of Understanding between SBC and Digital City UK Ltd.
- Memorandum of Understanding and Heads of Agreement between Digital City (UK) Limited and aQovia UK Limited .
- Digital City – Highworth Assessment and Drawdown Plan

Declarations of Interest – *The Cabinet Member should consider whether they have any known interests in any of the matters referred to in this Briefing Note. They are reminded that if they have such an interest this should be declared to the Monitoring Officer (Committee and Member Services). They should take no part in the consideration of the Briefing Note and should refer the Briefing Note to the Leader of the Council / Other Cabinet Member for consideration.*

Cabinet Member Response -

Proposed Action

- That in accordance with Cabinet minute 28 of 23 July 2008, approved by Council on 13 November 2008 (minute 43.1 refers), the Directors and Finance and Law and Democratic Services will make the necessary arrangements for the Council to provide a loan of up to £450k to Digital City (UK) Limited on commercial terms as detailed in the attached draft loan agreement (Appendix A) and in return for an equity stake in the company and a seat on the company's board ;
- That the Group Director Business Transformation will, on behalf of Swindon Borough Council, enter into a joint venture partnership underpinned by a Shareholders' Agreement with aQovia UK Limited and Avidity Consulting Limited to form Digital City UK Limited, which will deliver a Wi-Fi network across the Borough providing broadband access and other Wi-Fi related services to Swindon residents, public sector organisations and businesses;
- For an interim period, no longer than the first 3 months of operation, the Group Director, Business Transformation will represent Swindon Borough Council (SBC) at meetings of the Board of Digital City UK Limited, pending a decision on

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permanent Council representation on the Board being made via full Council;

- That the Group Director Business Transformation will grant Digital City (UK) Ltd access to accommodation in DMJ tower, at nil consideration, for a period of 12 months;
- That the Group Director Business Transformation will grant Digital City (UK) Ltd access to accommodation in DMJ tower, at nil consideration, for a period of 12 months;
- That the Group Director Business Transformation, in consultation with other officers and Ward members as appropriate, will grant Digital City (UK) Ltd licenses to install equipment necessary to create the Wi Fi network at suitable Council owned premises across the Borough.

Date for Response from Cabinet Member

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Note and support the proposed action to be taken under delegated authority –

Yes/ No

Note and request the proposed action be reconsidered – Yes / (No)

Reasons for Reconsideration

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Request Report be Referred to Cabinet - Yes/ (No)

Signed Cabinet Member

Date 15 OCTOBER 2009

Signed Cabinet Member

Date 20 OCTOBER 2009

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