Committee and Date	Item
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CONNECTING SHROPSHIRE REPORT – PHASE 2

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1. Summary

1.1 The report sets out the various options available to Shropshire Council to provide fibre broadband to those areas that are currently not projected to get access to superfast broadband (SFBB) speeds (24Mbps+) as part of the Connecting Shropshire programme.

1.2 The current Connecting Shropshire programme which is valued at £26m will complete in 2016 and aims to provide approximately 87% of premises with SFBB, with 93% getting access to fibre based broadband*. All premises in the programme area (72,000) are assured to get access to a basic level of broadband (2Mbps) by the end of the BDUK programme. These outputs are defined as Phase 1 of the national BDUK (Broadband Delivery UK) programme.

1.3 Phase 2 of the BDUK programme aims to cover 95% of premises in the UK by 2017, and provide 90% of premises in the Shropshire Council area with access to SFBB speeds.

1.4 £11.38m of grant monies have been secured from BDUK as part of Phase 2 funding to commence a procurement exercise to appoint a provider to extend the coverage of fibre broadband in the Shropshire Council area.

1.5 Shropshire Council is continuing to look to secure 'match funding'. BDUK have assured Shropshire that they will support a Phase 2 procurement without 'match funding' in place.

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* based upon existing commercial providers projections received as part of Open Market Review undertaken in 2012

2. Recommendations

It is recommended that members agree to:

2.1 The commencement of a Phase 2 procurement process using the BDUK Framework, to extend the coverage of fibre broadband in the Shropshire Council area **(option 3).**

2.2 Delegate authority to the Head of Economic Growth & Prosperity (Programme Executive), in consultation with the Portfolio Holder for Business Growth, ip&e and Commissioning (North) to define the value for money criteria to be used in evaluating the tender submission

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 The risks associated with each project are contained within each assessed option in sections 7-11.

3.2 There continues to remain a high level of public demand for improving broadband speeds in those areas currently not projected to get fibre broadband as part of the current Connecting Shropshire programme.

3.3 Improving broadband remains a key priority for Shropshire Council and underpins a number of the Authority's strategic objectives, specifically in support of the local economy; public health; education and supporting its service redesign agenda.

3.4 All options reviewed pose a potential reputational risk for the Authority.

3.5 Programme projections on premise numbers without superfast speeds are based on the data received as part of the Open Market Review held in October 2014.

3.6 The OMR data suggests that at the end of the current Phase 1 contract there will be circa 28,500 premises projected to not have access to superfast broadband. This includes 13,000 premises that are deemed as 'at risk' of not being delivered by existing providers as part of their commercial plans. The intention is to exclude these 13,000 premises from any procurement in Phase 2, and hold the providers to account for their projections. The tender will seek a solution for the remaining 15,500 premises.

3.7 The primary and most significant risk to all options reviewed is the need for the selected procurement model to meet BDUK assurance tests and for the procurement to have completed and contracted before the current EU State Aid conditions expire in June 2015.

3.8 Additionally, and most importantly if Shropshire Council fails to secure the committed match funding prior to procurement, BDUK will be the sole stakeholder in the process.

4   Financial Implications

4.1 The financial implications are contained within each project option in sections 7-11.

4.2 BDUK have confirmed they will support Shropshire Council in a Phase 2 procurement regardless of its ability to initially match funds on the understanding that the Council will continue to look for match funding to support actual expenditure. Any risk to the Authority is mitigated given that the Council will need to agree grant conditions prior to entering into any contract with a supplier. The costs associated with the proposed procurement exercise consist of Officer time and other expenses and have been budgeted for within the existing Revenue budget identified for the Broadband initiative.

4.3 Match funding may become available from the EU and Marches LEP funding sources in future. Details of any allocations are currently unclear and will remain uncertain until perhaps early 2015. Connecting Shropshire has projected a potential match funding figure of £9.7m to support a further procurement phase, whether as part of a BDUK Phase 2, or later as a Phase 3 project. Potential match funding sources include the LEP Local Growth Fund 2 of £7.5m (2016/17) and EU notional Funding 2014-20 of £2.2m (2015/23)

4.4 Revenue funding is currently not in place to provide a programme management office beyond current revenue commitments to September 2016, when the current programme is scheduled to complete and close. The estimated future cost is £0.240m and a new budget will need to be put in place from October 2016 should this initiative continue to be prioritised. Over the coming months work will be undertaken to both confirm the required budget and identify potential funding sources. There is a base budget allocation of £0.104m per annum, leaving a funding gap of £0.136m yet to be identified.

5   Phase 2 –Summary

5.1 In February 2014 Shropshire Council was allocated £11.38m as part of the Government's commitment to improve broadband nationally. The funding was offered to Shropshire on the basis that they are able to provide committed match funding £1:£1. The allocation was the second largest in the country behind Devon and Somerset.

5.2 In May 2014 Shropshire Council indicated to BDUK that they would be unable to find the necessary match funding owing to current financial constraints.

5.3 BDUK have subsequently committed to supporting Shropshire Council with a further procurement up to the value of £11.38m. This is regardless of the Council's

ability to secure the necessary full match funding prior to procurement. The agreement is based on Shropshire Council's commitment to continue to seek and secure match funding.

5.4 At the end of 2016, and using current commercial data, Connecting Shropshire has a projected gap of 28,500 premises in the Council area that will not have access to SFBB.

5.5 In order to justify a new framework procurement new alternative technologies or reengineering of existing technologies must be available to demonstrate value for money.

6. Options

6.1 Connecting Shropshire has reviewed the available procurements options:

- **Option 1** – procure through the extension of the current BDUK procurement framework; where there is clear evidence that new alternative technologies will be available; value for money can be demonstrated, with or without match funding.

- **Option 2** – undertake a fresh competitive procurement; with or without match funding.

- **Option 3** – a combination of 1 and 2 either in parallel, or staggered.

- **Option 4** – encourage existing Broadband infrastructure providers to commercially invest in Shropshire, in the areas that have no fibre access, without the need for any public subsidy.

- **Option 5** – Do nothing and close down the Connecting Shropshire Programme after completion of Phase 1.

7. Examination of the options in detail is considered below:
Option 1 - procurement through the extension of the current BDUK procurement framework

7.1 The BDUK procurement framework has been approved by the EU and extended until June 2015. To date as part of Phase 2, 32 Local Authority projects have already committed to procure through the BDUK framework.

7.2 The framework allows Local Authorities to procure cost effectively and expediently (26 weeks) through a proven process endorsed by BDUK.

7.3 The framework would allow Connecting Shropshire to extend existing SFBB coverage off the current supplier's network built as part of Phase 1.The framework will provide the BDUK assurance necessary to receive grant funding. Compliance

with EU State Aid conditions and supplier challenges would have less risk through the framework supported by BDUK.

7.4 Provided Shropshire Council commenced procurement activities prior to January 2015 it would be possible to contract with a framework supplier before the expiry of the framework agreement in June 2015 and commence deployment before the expiry of the current Phase 1 contract.

7.5 Assuming Shropshire Council was able to secure a full match funding allocation, a total capital investment of £30m+ could be available for broadband infrastructure deployment in the Council area. This assumes the incumbent supplier would provide a similar percentage investment as in Phase 1 which may be somewhat speculative.

- BDUK - £11.38m
- Shropshire Council match funding (from various sources) - up to £11.38m
- Supplier - £balance (To be defined at procurement)

7.6 Owing to the network topology and geography in Shropshire the existing framework technologies, within the current Suppliers solution **will not** currently offer value for money:

- Fibre to the Cabinet (FTTC) – in the majority of cases this technology has been fully exploited. Upgrading the remaining cabinets in the Council area will not provide sufficient premises with a good uplift in broadband speed because the majority of premises are a long way from their nearest cabinet. There is however some opportunities to build FTTC structures that will give 'good uplift speeds' at a reasonable cost (1,000-2,000 premises).

- Fibre to the Premises (FTTP) – within the current contract BT will be building a number of FTTP structures. The cost of building these structures can be expensive in rural areas where premises are dispersed. The average cost of FTTP for Phase 2 has been estimated at £2,000 per premise which does not offer good value for money.

7.7 Procurement using the BDUK framework would need to include assurances that new technology (i.e. Fibre to the Remote Node - FTTRN) would be deployed in order that value for money can be achieved. The technology is currently being tested with a number of Local Bodies and is likely to be available as a 'call off' technology within Phase 2 procurements. Shropshire is aware that a number of other authority BDUK Phase 2 procurements are receiving modelled solutions that include new technology variations which would offer value for money to Shropshire. The technology will enable fibre to be taken deeper into the network to serve small hamlets that are currently too far away from cabinet structures.

7.8 It is unlikely that any procurement through the framework would provide SFBB to all remaining premises in the Shropshire Council area, regardless of the new technologies deployed.

7.9 The BDUK model is a financing 'gap filled' model. Once the 'open network' is built, the assets transfer to the contracted supplier. Shropshire Council will not retain any investment in the completed network.

7.10 There is a reputational risk of a Phase 2 procurement through the framework which will continue to build off the Phase 1 network deployment. To date the programme has received criticism for not addressing the most rural premises with slow speeds as a priority ahead of those areas that currently receive reasonable ADSL speeds. There is a reputational risk of procuring through a framework that will have only a single supplier willing to respond to an Invitation to Tender (ITT).

8.   Option 2 – Seek a fresh procurement

8.1 A full supplier engagement and tendering process could provide an opportunity to exploit new technical solutions and provide wider coverage of SFBB in Shropshire.

8.2 A new procurement would encourage competition which can provide value for money. The new procurement process will potentially take at least 30 weeks minimum before contracting with a supplier.

8.3 It is essential to complete procurement ahead of the State Aid expiry in June 2015. Failure to do so could incur significant legal costs and contract delays in seeking State Aid compliance outside of the BDUK process. Any solution would need to provide an 'open and competitive' network to meet State Aid compliance. It would be optional on Shropshire Council whether they would seek a 'gap filled' procurement model, and if they chose to retain any investment in the completed network.

8.4 A new procurement may result in a new alternative network being deployed. The network may not build off the Phase 1 work that has been completed to date.

8.5 BDUK will need to provide assurance for any new procurement route. Without approval there is a risk that grant funds will not be available.

8.6 Any full procurement process would incur additional revenue costs, to provide the necessary skills (Project Management, Legal, State Aid and Procurement), above those that would be incurred naturally through the BDUK framework (Option 1). Estimated additional revenue costs:

- Additional external procurement specialist resources and support - £100k
- Additional external specialist legal resources - £100k

9.   Option 3 – Seek a combination of Options 1 and 2

9.1 A blended procurement approach could offer an opportunity to exploit the current framework with a 'fast track' procurement that builds on Phase 1; focuses on fibre structures that offer value for money; offers best uplift speeds; and cost per premise, whilst seeking a subsequent new procurement beyond Phase 2 that

would exploit new technology in the more rural areas of Shropshire. These areas would typically be at the end of the fibre network which would not offer value for money with existing framework technologies.

9.2 Running two procurements would add complexity, timescale, and cost associated with procurement, legal and project management revenue expense. However it is possible to stagger the procurements which may provide more flexibility for the authority.

9.3 It could be possible to 'call off' up to the value of £11.38m allocation for a Phase 2 procurement. The balance beyond which value for money was not achieved could then be deferred for a further phase of open procurement to follow once additional funding has been secured beyond Phase 2.

10. <u>Option 4 – Encourage existing Network providers to commercially invest in Shropshire</u>

10.1 Local Shropshire wireless broadband providers have expressed a willingness to close some of the coverage gaps commercially without the need for state aid subsidy. The suppliers require a thorough understanding of where there are gaps in provision in Shropshire.

10.2 This Option has a number of risks:

- Local wireless broadband providers would not be under any obligation to fill the commercial gaps and may not have sufficient capital funding to support an expansion of their networks.
- As has been seen with BT's own commercial OMR responses, there is no contract obligation that the supplier has to meet their commitments. It is possible that the providers may decide not to invest.
- Local wireless broadband providers may not be sustainable, placing a risk against the authority should the provider cease trading.
- There is no obligation on the wireless providers offering an 'open network'. The choice of service and cost of broadband packages may preclude people from taking a service.
- State Aid guidance conditions recognise wireless provision as an interim SFBB technology that must be ultimately replaced by a fixed wire solution when it is economically viable. There is a risk that local wireless providers will be unable to meet this requirement.

10.3 During 'soft supplier engagement' a network provider approached Connecting Shropshire and intimated that they would be willing to invest in an alternative network that would provide full 100% fibre based coverage for Shropshire. The provider would not request any public state aid funds but would require a commitment by Shropshire Council to sign an exclusivity agreement to allow access to the authorities' commercial assets for the purpose of building a new network (buildings, street furniture, ducts, existing fibre structures i.e. CCTV).

Whilst the proposed model looks attractive it has a number of risks:

- The provider would want to build its network across existing areas that have already been fibre enabled as part of Phase 1. The provider sees the key 'market towns' as a commercial opportunity to make full rural deployment financially viable. This would add competition to the BT enabled areas where Shropshire Council has already invested monies, thus reducing contract 'claw back' opportunities for take up of broadband services. Connecting Shropshire are estimated up to £2m in claw back over the 10 year term of the current contract;
- The provider would focus on 'market towns' ahead of deploying services to those who do not have fibre broadband which would attract a significant reputational risk to Shropshire Council;
- Failure of the supplier to deliver projected coverage aspirations;
- Reputational damage if the model is unsuccessful;
- Authority support and exclusivity rights would constitute State Aid support
- Inability to provide a range of ISP services, leading to low take-up;
- Network Operator fails in-life or project ceases to operate creating reputational damage to the authority.

11. Option 5 – Do nothing

11.1 At the end of the current contract it is estimated that the Shropshire Council area will have 28,500 premises without SFBB speeds.

11.2 There is a significant reputational risk to the Authority if they chose not to support an extension of the current Phase 1 BDUK programme, particularly as grant funds are available from BDUK.

12. Conclusion

12.1 There remains significant risk associated to procuring outside of the existing BDUK framework and not meeting the June 2015 deadline. However, unless new technologies can be assured within a Phase 2 procurement Shropshire Council would not be able to justify using the framework.

12.2 Shropshire Council have received assurances that new technologies will be modelled as part of the BDUK framework. There remains therefore a real opportunity to extend the work carried out in Phase 1 and extend fibre provision further across the Shropshire Council area, particularly into the more rural communities.

12.3 Beyond a value for money threshold the balance of grant funds could be subsequently deferred and used in a further Phase 3 procurement, using additional match funds once these are secured. This would provide the most pragmatic, flexible and expedient solution.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
24-09-2014 FINANCIAL STRATEGY 2015/16 – 2017/18 INTERIM REPORT

Cabinet Member (Portfolio Holder)
Steve Charmley

Local Member
Cabinet

Appendices
<u>Glossary</u>
ADSL	Asymmetric Digital Subscriber Line
BDUK	Broadband Delivery UK
FTTC	Fibre to the Cabinet
FTTP	Fibre to the Premises
FTTRN	Fibre to the Remote Node
ITT	Invitation to Tender
ISP	Internet Service Provider
LEP	Local Enterprise Partnership
Mbps	Megabytes per Second
OMR	Open Market Review
SFBB	Superfast Broadband
SPV	Special Purpose Vehicle