

CABINET – 16TH NOVEMBER 2017

Report of the Strategic Director Housing, Planning and Regeneration, and Regulatory Services

Lead Member: Councillor Eric Vardy

Part A

ITEM 10 SUPERFAST BROADBAND PHASE 3

Purpose of Report

To approve in principle the investment of £100,000 supplementing an overall investment of at least £5.6m in the procurement of Phase 3 of the Leicester and Leicestershire Superfast Broadband programme to deliver services to some of the 4% of homes and businesses within the Borough which currently are dependent upon much lower broadband download speeds.

Recommendations

1. That Cabinet confirms its commitment to Charnwood being a partner in the procurement and delivery of Phase 3 of the Leicester and Leicestershire Superfast Broadband programme.
2. That Cabinet give delegated authority to the Chief Executive, in consultation with the Leader, to conclude and sign a collaboration agreement with the partner authorities committing the release of approved funding subject to the required value for money outcomes for Charnwood being achieved.
3. That a sum of £100,000 is committed in principle to the project funded from the Growth Support Fund and that this be included in the Capital Plan for 2018/9 and/or 2019/20, depending on the implementation timetable for the project.

Reasons

1. To enable the delivery of superfast broadband to a greater proportion of the 4% of homes and businesses in the Borough currently without access to the service than could be delivered on the back of current funding commitments.
2. To permit the completion of the necessary contractual commitments and authorise the release of funding approved in principle subject to the required outcomes for Charnwood being achieved.
3. To confirm the scale of investment that the Council is prepared to commit to the project.

Policy Justification and Previous Decisions

The Corporate Plan 2016 – 2020, is committed to the creation of a strong and lasting economy in Charnwood and seeks to embrace innovation and

technology so that the Borough can compete on a world-wide platform at the highest level. To deliver that commitment the Council aims to ensure the provision of infrastructure to support growth, including superfast broadband.

Throughout Leicester and Leicestershire superfast broadband is being delivered by a partnership led by Leicestershire County Council. The partnership includes British Telecommunications (BT), as the main contractor along with the Leicester and Leicestershire Enterprise Partnership (LLEP), Broadband Delivery UK (BDUK) and the district councils. The primary objective of the partnership has been to deliver superfast broadband access to areas which are not served by the commercial operators.

Prior to the commencement of the initial procurement, consideration was given to the scale of investment that might be committed to assist in the delivery of a rural broadband project across Charnwood. That resulted in the approval of a Capital Plan Amendment Report on 14 March 2013 committing a sum of £200,000 with £100,000 phased for expenditure in 2014/15 and the balance in 2015/16.

On 11 April 2013 Cabinet received a report setting out the framework for improving broadband accessibility across Charnwood under the County Council led project. It was resolved to confirm support for the project with the allocation of £100,000 subject to the agreed Charnwood outcomes being achieved with provision being made in the Capital Plan for 2013/14 and/or 2014/15, depending upon the implementation timetable for the project. (Minute 12/13: 137)

The release of that funding was subject to delegation to the Chief Executive in consultation with the Leader which was itself dependent upon the provision of evidence that the outcomes for Charnwood would deliver good value for residents and businesses. That evidence was subsequently provided and the Council's contribution was formally authorised under the delegated authority on 24 January 2014.

That investment has assisted in the delivery of the Phase 1 programme which captured almost 12,000 homes and businesses in Charnwood extending by 10% (to 93%) the level of coverage that had been achieved through commercial suppliers.

Additional publicly funded programmes will now achieve 96% coverage across Charnwood by September 2018. Superfast Leicestershire is inviting further investment from partners to develop solutions to connect the final 4% in Charnwood (3% across Leicestershire).

The Government's aim is to provide superfast broadband (speeds of 24 Mbps or more) for at least 95% of UK premises and universal access to basic broadband (speeds of at least 2 Mbps) by December 2017.

Implementation Timetable including Future Decisions and Scrutiny

The County Council will be leading the procurement process commencing with a supplier engagement day and State Aid public consultation leading up to the launch of the tendering process in December 2017/January 2018. It is anticipated that the preferred contractor(s) will be signed up in March/April

2018 with the build commencing in the summer/autumn of 2018. Subject to the roll out of the programme it is expected that any investment will be drawn down in 2018/19 and/or 2019/20.

Report Implications

The following implications have been identified for this report.

Financial Implications

The investment of £100,000 can be fully funded from the balances in the Growth Support Fund (£95,700) supplemented by the virement of £4,300 from underspend against the Economic Regeneration Consultants' Fees budget.

Risk Management

The risks associated with the decision Cabinet is asked to make and proposed actions to mitigate those risks are set out in the table below.

Risk Identified	Likelihood	Impact	Risk Management Actions Planned
That the Council's investment provides connectivity for only a very small number of homes and businesses resulting in poor value for money from public funding.	Remote	Minor	Funding is approved in principle only; its release will be dependent upon a business plan demonstrating effective value for money
That the Council's investment is diverted to fund the delivery of superfast broadband elsewhere in Leicester and Leicestershire resulting in the misdirection of funding raised within Charnwood.	Remote	Minor	The Council's collaboration in the project will be governed by a Collaboration Agreement approval of which will be dependent upon evidence of the deployment of the funding.

Equality and Diversity

There are no direct equality issues arising from this report. Public sector investment will help in delivering superfast broadband accessibility to homes and businesses within Charnwood which currently rely on slower download speeds thereby improving access to on line services and enabling digital business opportunities.

Sustainability

Enhanced superfast broadband accessibility will assist those in the most remote and isolated communities in Charnwood to access services without the need to travel and ensure for those communities a more sustainable future.

Key Decision: Yes

Background Papers: Draft report template provided by Leicestershire County Council

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Part B

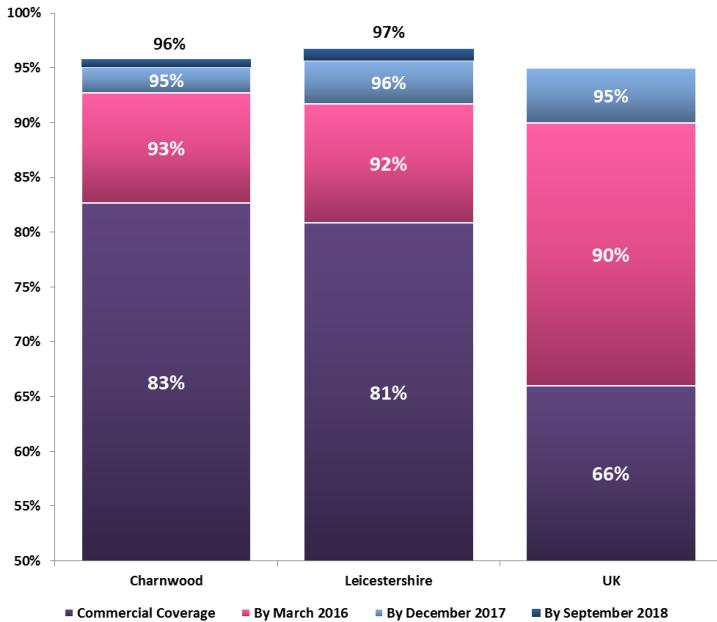
Background

1. The Superfast Leicestershire programme, led by Leicestershire County Council, is being delivered across two phases. The Phase 1 contract was awarded to BT in August 2013 with approved State Aid funding of up to £10.5m. That included a £100,000 investment from the Borough Council.
2. Phase 1 delivery ran from April 2014 to March 2016. Almost 65,000 homes and businesses across Leicestershire have been connected to a fibre broadband network as a result of this deployment. It has been delivered on time, achieving better than expected coverage and has come in significantly under budget.
3. The County Council secured further funding for Phase 2 with the contract again awarded to BT in March 2015; with State aid approved public funding of up to £10.2m. BT is a major programme funder investing more than £7.5m in capital costs and over £7.6m in operating costs across both contracts.
4. In March 2017 the County Council extended the Phase 2 rollout adding three additional quarters of build to the programme with a further £4.4m investment.
5. The Phase 2 rollout, including this new extension runs from April 2016 to September 2018. It will see over 25,000 properties connected to fibre broadband with almost 20,000 due to gain access to superfast speeds.

Superfast Coverage in Charnwood

6. Commercial operators such as BT, Virgin Media and Warwicknet have been rolling out superfast broadband where profitable, with the commercial footprint across Leicestershire reaching approximately 81% of all premises (83% in Charnwood). That has left behind a significant number of homes and business on much slower speeds.
7. By the end of March 2016, Superfast Leicestershire had ensured coverage across Leicestershire had increased to 92% (93% in Charnwood).
8. The Phase 2 rollout will see this rise to 96% (95% in Charnwood) with a further increase through the new Phase 2 extension to 97% (96% in Charnwood). (See Figure 1 below)

Figure 1: Charnwood Superfast Broadband Coverage Comparison



Impact of Superfast Broadband

11. Superfast broadband is now widely regarded as critically important infrastructure; commonly referred to as the “fourth utility.” It is an essential driver for economic growth and innovation. Business retention, job creation and inward investment are all interdependent on having ready access to superfast broadband. The County Council’s Broadband team has undertaken an analysis of the benefits of superfast broadband drawing upon national research and local data sources. (Appendix 1)

New Procurement – Phase 3

12. Without further public investment it is apparent that some 4% of premises in Charnwood will not have access to superfast broadband upon the expiry of the current programme in September 2018; that equates to more than 3,000 properties. Almost by definition these will include some of the most remote and isolated properties in the Borough where the delivery of superfast broadband capability will be more challenging and costly per unit.
13. However, the County Council intends to extend the scope of the Superfast Leicestershire programme through the investment of further funding to reduce the 3% of unconnected properties across the county. That project will see the commencement of an OJEU procurement to secure a partner for the delivery of a Phase 3 rollout with the anticipated appointment of a preferred contractor in March / April 2018.
14. Prior to that process beginning an Open Market Review will be conducted to establish which properties within Charnwood and across Leicestershire need to be targeted with further investment. A Public Consultation will follow.
15. As a minimum, £5.6m will be invested through Phase 3, including £2.46m of funding underwritten by the County Council. It is clear that this range of funding will be insufficient to reach all properties in the county which will remain without access to superfast broadband after September 2018.
16. By that date, coverage in Charnwood is anticipated to reach 96%. Without knowing which supplier will deliver the next phase of the programme, the technology they will deploy or their cost base, it is difficult to assess what will remain after Phase 3 completion.
17. A review of publicised broadband contracts recently awarded elsewhere in the UK provides an indicative range for how many properties are likely to be served through the £5.6m investment. This does not take account of local conditions such as geography, premise clustering or rurality. However, for Charnwood the existing committed Phase 3 funding could bring superfast access to a further 650 to 1,100 properties. That would bring the Borough to around 97% coverage overall.
18. That would leave between 1,900 and 2,350 properties on much slower speeds. By investing additional funding together with the County Council as part of this new Phase 3 procurement, the Borough Council could ensure that some of these remaining properties would be able to access superfast broadband. But, given the current range of uncertainties, a reliable cost/benefit analysis cannot be undertaken to inform the preparation of a viable business case.
19. For the purposes of preparing any business case it should be noted that the Government has previously committed to match fund any new council investment in the programme, up to £1.5m. This offer has now lapsed, however it is still possible if not probable that the Government will match any Council contribution in full.

Procedural and Legal Issues

20. In the event that the Council should be persuaded by a sound business case of the merits of investing in Phase 3 of the programme that funding will be contractually committed through an updated collaboration agreement with the County Council, mirroring the procedures accompanying the Phase 1 programme.
21. The County Council will continue to act as the lead authority for Superfast Leicestershire and will meet the revenue costs associated with project management and governance.
22. The cost of technical analysis and support, provided by the programme's technical advisors, Farrpoint, will also be met by the County Council.
23. Neither the County Council nor any other funding partner will own any of the infrastructure assets deployed as part of the expected new rollout. There will be no ongoing liability placed on any funding partner.
24. The County Council as the contracting body will be liable for compliance with all procurement and State Aid requirements and regulations. Although there is no longer a national broadband framework, the County Council will work closely with BDUK to ensure that any risk of overspend on the new rollout will be met by the successful bidder. In the unlikely event, Charnwood Borough Council will not be liable for any shortfall in funding.

Options

25. An alternative to investing would be to actively encourage the market to address the connectivity gap within Charnwood. Whilst this option should be pursued where there is some prospect of securing commercial service delivery, it is evident that there is market failure in servicing remote and isolated communities which cannot be resolved without significant public sector intervention.
26. The UK Government is also in the process of introducing a broadband universal service obligation (USO) that would give everyone a right to a decent broadband connection upon reasonable request. The proposal is that the USO would provide for access to at least 10 Mbps, however some costs are likely to be borne by those requesting this service. In any event, a 10 Mbps connection does not offer the same future proofed opportunity that is being delivered through Superfast Leicestershire.

Preferred Option

27. It is clear that the new procurement will see additional properties within Charnwood being upgraded. However, it is also clear that the available funding is not sufficient to reach all remaining properties in the Borough.
28. Investing as part of this new procurement offers economies of scale. It will help attract competitive bids from a range of potential suppliers and will assist in maximising delivery within Charnwood as quickly as possible. It will help the area maintain parity of coverage with other areas of

Leicestershire and across the Midlands, supporting continued and improved economic growth within the Borough.

29. In isolation any investment would not be sufficient to secure a delivery partner capable of deploying superfast connectivity to significant numbers of properties within the Borough.
30. A provisional commitment to invest in the Phase 3 programme reasonably might be issued, securing the potential benefits which could be derived through economies of scale and any additional leveraged resources, as part of the pre-contract process.
31. Approval to release that provisional funding could remain conditional upon the demonstration of a viable business case to be compiled once a supplier has been chosen by the County Council when it will be possible to confirm more accurately the number of properties in Charnwood which can be captured by the Phase 3 programme, permitting an assessment of the cost per premise.
32. While that approach would certainly bring some properties within scope it cannot capture all remaining premises receiving lower broadband speeds; improvement of service to those premises is likely to require alternative and innovative solutions.
33. Cabinet originally committed £200,000 in support of the broadband project of which £100,000 was released to assist in the delivery of Phase 1. The remaining £100,000 was drawn back into operational budgets when there was no call for additional funding by 2015/16.
34. Given the scale of the Council's previous commitment to the broadband project it is recommended that an investment of £100,000 is offered to the project in principle, its formal release to be dependent upon the outcome of a value for money assessment informed by the evidence obtained through the procurement process.
35. Based upon evidence from other schemes delivered across the country it is apparent that the generally applied threshold for judging value for money is reached once the installation costs arrive at a level of £1,200 per premise.
36. The Council reasonably might expect also to see its investment channelled into the delivery of superfast broadband to homes and businesses within the Borough, rather than making a commitment to a general fund for deployment across the County.
37. Subject to these parameters being demonstrated within a business case the decision to release any funding initially approved in principle reasonably might be delegated to the Chief Executive in consultation with the Leader of the Council.

Appendices

The Benefits of Superfast Broadband (LCC)

Appendix 1

The Benefits of Superfast Broadband (Leicestershire County Council)

Digital infrastructure opens up new opportunities for businesses with research suggesting that increased broadband speeds alone could add £17bn to UK economic output by 2024.¹

Improvements to digital infrastructure are felt most in rural areas. Supporting the rollout of superfast broadband to rural areas enables new businesses to locate and grow there. It is estimated that an increase in broadband penetration of 10% yields a 0.25% increase in GDP growth.² In Charnwood superfast broadband coverage will increase by 13% through existing Superfast Leicestershire build plans, representing a huge potential economic benefit.

It is estimated that for every £1 invested in broadband the economy will benefit by £20. Approximately a fifth of the public investment in the Superfast Leicestershire programme will be spent in Charnwood. That means for every £1 that Charnwood Borough Council has invested a further £36 of public funding has been applied giving an estimated overall economic benefit of £72m for the area. In total £2.3m of private sector funding has been leveraged for work being completed in Charnwood.

Small businesses in the district will be the biggest beneficiaries of superfast broadband. The benefits available include:

- Increased productivity and improved customer service through faster upload and download speeds.
- Growing and accessing new markets through better communication with customers and suppliers.
- Increased efficiency and employee effectiveness.
- Increased security through fast secure backup of data.

As well as the benefits for businesses, significant cost savings will also become available to residents. For example, UK household savings of £45 million a year are anticipated by 2024 as increasing numbers of people are able to work from home.

This will have a positive knock on impact on the environment with a reduction of around 0.4 million tonnes a year of CO₂ emissions through reduced commuting, business travel and firms shifting to more energy-efficient cloud computing.

Substantial savings are also likely to be achieved over the long term to all public sector budgets with a shift to delivering many services online.

In terms of quantifying the impact per SME, the prevailing, research based conclusions are that fibre broadband provides a dramatic financial advantage.

¹ SQW (November 2013) UK Broadband Impact Study: Impact Report

² See research by Aberdeen and Oxford Universities available at <https://www.abdn.ac.uk/news/8127/> and OECD report across 22 countries <http://tinyurl.com/jmjra9j>

The costs of broadband infrastructure are modest compared with the benefits and savings they facilitate.³ In summary, superfast connectivity such as fibre broadband enables:

- Increased productivity: employee productivity will be increased, having a direct impact on GVA. Businesses enabled with access through the programme will experience increased productivity within their workforce.
- Growth in the knowledge economy: fibre access will contribute towards the growth of a knowledge based economy, resulting in the creation of high value jobs and increased salaries for employees moving into this sector within the region.
- Consumer surplus: a residential consumer surplus of at least £10 per household each month is anticipated. This surplus is then available to be reinvested with local businesses.
- Cloud computing: access to fibre will promote more widespread use of cloud computing. The value to businesses of cloud computing is a marked decrease in processing power required to complete tasks, i.e. a cost saving on computer equipment, with low cost alternatives becoming viable. It is anticipated that a 10% reduction in total cost of ownership would be achieved for IT purchases or upgrades.
- Remote learning: fibre availability will support distance learning, with businesses able to access remote training and conference facilities. This has obvious long term financial benefits and significant potential cost savings for each business.
- Environmental: fibre access will enable more employees to adapt to flexible working, producing a positive impact on the environment but also offering substantial cost savings to businesses. Absenteeism is reduced, mileage expenses decrease and productivity improves. Flexible working via fibre connectivity also creates opportunities for people who are otherwise economically limited or inactive (e.g. through mobility issues).

³ See, Dini, P., Milne, C. and Milne, R., "Costs and Benefits of Superfast Broadband in the UK", London School of Economics, 2012. Available at:
http://eprints.lse.ac.uk/43651/1/libfile/REPOSITORY_Content_Dini,%20P_Costs-and-Benefits-of-Superfast-Broadband.pdf