

# CHESHIRE EAST COUNCIL

## CABINET

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<b>Date of Meeting:</b>	7 May 2013
<b>Report of:</b>	Director of Economic Growth and Prosperity Head of Technical Strategy and Planning
<b>Subject/Title:</b>	Connecting Cheshire Project Update
<b>Portfolio Holder:</b>	Councillor David Brown, Deputy Leader and Cabinet Member for Sustainable Communities. Councillor Jamie Macrae, Cabinet Member for Prosperity and Economic Regeneration

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### 1.0 Report Summary

- 1.1 This report provides a progress update on the development and delivery of the Cheshire, Warrington & Halton Local Broadband Plan.
- 1.2 The Connecting Cheshire Partnership has been progressed to the delivery phase for the provision of superfast broadband services in areas of market failure, largely our outlying rural areas. The project is being developed in partnership with the Councils of Cheshire West and Chester, Warrington and Halton, with the support of the Cheshire and Warrington Local Enterprise Partnership.
- 1.3 The project has completed a procurement process to appoint a strategic telecommunications investment partner via a framework process provided by Broadband Delivery UK (BDUK), the government's broadband delivery authority. The successful bidder is British Telecom PLC (BT).
- 1.4 The strategic telecommunications investment partner will provide over £9.0m to deliver and gap fund the rollout of fibre broadband to rural areas of Cheshire, Warrington and Halton. The majority of premises are expected to receive speeds of 24Mbps or above. This will also include an infill programme to offer a minimum of 2Mbs broadband speed to those premises not covered by the fibre solution.
- 1.5 Combined with the existing and planned commercial deployment, the project is expected to deliver total coverage of over 96% of premises able to take-up a fibre broadband service by the summer 2015 compared, with around 78% coverage at present.
- 1.6 To complement the deployment of superfast broadband services an integrated demand stimulation campaign will be led by the project to encourage take-up of fibre broadband. Our growing network of Digital Champions in the community will be engaged to raise awareness about the opportunities high speed digital services bring, and to act a network of peers

through which project team can promptly give and receive key messages with local communities.

- 1.7 In July 2013 a partner will be procured to deliver a tailored programme of business support for eligible Small and Medium sized Enterprises (SMEs) to ensure they can make best use of high speed digital services, which in turn is expected to help those businesses grow and become more prosperous. A minimum of 12 hours will be spent with 830 businesses over a two year period, which is expected to create 478 new jobs and enable 415 businesses to improve their performance (GVA). Further information will be provided on the business support programme in due course.

## **2.0 Decision Requested**

- 2.1 To receive and endorse the appointment of BT as the project's strategic telecommunications investment partner.

## **3.0 Reasons for Recommendations**

- 3.1 To progress 17<sup>th</sup> September 2012 Cabinet decisions:

That Cheshire East Council enters into a partnership arrangement with Cheshire West and Chester Council, Warrington Borough Council and Halton Borough Council for the delivery of the Connecting Cheshire Superfast Broadband Project.

Cheshire East Council leading the partnership and fulfilling the role as the Accountable Body and principal delivery agent of the Connecting Cheshire Partnership.

## **4.0 Wards Affected**

- 4.1 All

## **5.0 Local Ward Members**

- 5.1 All

## **6.0 Policy Implications**

- 6.1 The case for investment into Superfast Broadband for Cheshire East has been established in the following key policy documents:
- Cheshire East Three Year Plan 2013 - 16
  - Cheshire East Sustainable Community Strategy: Ambition for All (2010)
  - Cheshire East Economic Development Strategy (2011)
  - Cheshire East ICT Strategy 2013 -16
  - Cheshire Crewe Vision All change for Crewe (2011)
  - Cheshire and Warrington Local Enterprise Partnership Business Plan (2012).

## 7.0 Financial Implications

- 7.1 The Connecting Cheshire Partnership has secured £4.0m funding from Broadband Delivery UK (BDUK) for infrastructure investment to which the local authorities have committed £3.36m match funding through, broken down as follows:

Council	Amount
Cheshire East Council	£1,176,620
Cheshire West & Chester Council	£1,497,380
Halton Borough Council	£187,110
Warrington Borough Council	£535,208

- 7.2 The Council approved the investment of £1.2m profiled over three years to provide for 90% superfast broadband coverage across the Borough, with an ambition to achieve greater coverage by leveraging European Grant Funding.
- 7.3 To extend the rollout of Superfast Broadband, the Partnership has been successful in an application to the European Regional Development Fund (ERDF) for £15m to support investment in faster broadband infrastructure, prioritised towards adoption by SMEs. This is made up of £13.6m towards infrastructure investment, £0.8m towards business support and £0.6m towards programme management.
- 7.4 A business support programme will also be separately procured to provide direct assistance to SMEs to enable them to identify and exploit the benefits of faster broadband. The support programme will run in parallel to the deployment project, thus stimulating and securing additional economic growth for the sub-region. We anticipate in the region of 8,000 additional businesses will have access to a fibre broadband service as a result of the project and 830 businesses will gain a minimum of 12 hours support.
- 7.5 The total value of the Connecting Cheshire project is expected £31.42m. Grants and contributions will be received by the Council and paid to BT in accordance with the policies determined under Finance Procedure Rules and in line with various funding body terms and conditions. The Council as the Accountable Body will be responsible for managing finance and funding on behalf of the partnership and for fulfilling all obligations committed to under the various funding stream of the project. In particular those relating to BDUK and ERDF monies and any future funding that may become available.
- 7.6 Additional localised funding may be available via DEFRA's Rural Community Broadband Fund, subject to further funding rounds becoming available, to assist communities outside the scope of our fibre deployment. A £430K application is currently being progressed within in the Burleydam area following a previous application round.

## **8.0 Legal Implications**

- 8.1 Section 2 of the Local Government Act 2000 gives Local Authorities power to take steps which they consider are likely to promote the economic, social or environmental well being of their area - or its inhabitants. However, no action can be taken which would contravene any specific statutory prohibition, restriction or limitation. Regard must also be had to the Community Strategy. The actions proposed in this report fall within this power.
- 8.2 The Connecting Cheshire Partnership has received significant legal assistance in order to arrive at a mutually beneficial contractual arrangement with the project partners and BT, taking into account the grant funding criteria set by BDUK and particularly ERDF regarding challenging timescales to complete the project by spring 2015.

## **9.0 Risk Management**

- 9.1 The time constraints associated with ERDF and BDUK grant being used to partly fund the project has resulted in BT proposing an accelerated engineering programme, which means the Council is required to accept a higher degree of risk than usual for similar engineering project of this scale. This risk is being mitigated through regular and robust project governance, and a contractual obligation which allows the authority to re-scope the deliverables should the build not be running to schedule.
- 9.2 However even with these controls and contract mechanics in place there is a risk some work which has been started will need to be completed beyond the funding deadline(s). Broadband Delivery UK (BDUK) has committed to contribute 50% of the costs associated with finishing any outstanding work in progress, with their contribution capped at £1.3m. If the work in progress was to be as high as £2.6m (c10% of the infrastructure build costs) the financial exposure to the authority would be a maximum of £468K, with our partner authorities making up the difference (£832K).
- 9.3 It should further be noted that despite the inclusion of rigorous project monitoring protocols, there remains an element of risk in respect of the full value of the ERDF grant funding, should the project fail an external audit. If there is a failure to comply with the terms and conditions of the ERDF grant funding there will be a requirement to repay monies already received and paid to the supplier (BT). CEC as the grant recipient will be required to repay in full any monies clawed back by ERDF. The Council has limited its exposure to this risk through a partnership / collaboration agreement with the other local authorities and through the contract in place with BT.
- 9.4 There exists a risk that a grant provider may reduce the amount of money available to the project Provisions in the contract should it not be delivering the required outputs to schedule. If such an event were to occur the delivery programme would be re-scoped to accommodate this reduction within the output requirements of the grant provider, such that there would no additional call on the partners.

- 9.5 To ensure the project is making the best use of public funding the project has worked to an in-depth evaluation strategy and has sought value for money assessments independently and from BDUK.
- 9.6 Within their tender response, BT has provided indicative information setting out those areas that may be at risk of not being included in our current funded programme of upgrading to fibre broadband due to economic viability. The communities in these areas will be supported by Connecting Cheshire explore other funding sources including the DEFRA Rural Community Broadband Fund to ensure they receive the best service possible. See 10.5 for more details.
- 9.7 A detailed monitoring and evaluation framework has been developed to support the delivery of the project. Appropriate and robust financial accounting and reporting systems are in place which will assist with early identification of any financial variances from the planned expenditure and funding.
- 9.8 An annual report will be presented to the Cabinet Member for Sustainable Communities, outlining how sums have been used and the key outcomes and achievements. The report will also review the affordability and continued relevance of the arrangement to service policies and corporate objectives and seek appropriate Business Plan approval.
- 9.9 Regular reports on progress and outcomes will be provided to the project board, Head of Service and Cabinet Member for Sustainable Communities.
- 9.10 A project risk register will be monitored by the Connecting Cheshire Project Board on a monthly basis to mitigate any variance or additional risk exposure. A shared Project Management Office (PMO) and governance structure will be established with BT which will provide a direct reporting mechanism and close working relationship between the engineering deployment and overall project management.
- 9.11 The project will be subject to regular audit inspections by the Department of Communities and Local Government (DGLG) and BDUK to monitor progress. Furthermore the project will seek independent evaluation to ensure compliance with ERDF guidelines.

## **10.0 Background**

- 10.1 The Councils across Cheshire East, Cheshire West & Chester, Halton and Warrington have formed the Connecting Cheshire Partnership tasked with the delivery of faster broadband speeds for our businesses and indirectly our residents by 2015. The project is a real opportunity to give the sub-region a much needed economic and social boost; a study conducted in 2012 estimated full coverage of Superfast Broadband (SfB) would generate a gross impact of £1.3bn to the economy and create 11,000 jobs over the next 15 years across our sub-region.

- 10.2 On the 17<sup>th</sup> December 2012 Cheshire East Council on behalf of the Connecting Cheshire Partnership, released an invitation to tender to procure a strategic investment partner to deliver and gap fund the rollout of superfast broadband to rural areas of Cheshire, Warrington and Halton. On the 15<sup>th</sup> February 2013 a bid was received from BT in response to our tender. Fujitsu, the other framework supplier, declined to bid and have subsequently withdrawn from the framework.
- 10.3 Working to the direction of a Connecting Cheshire Evaluation Strategy a full evaluation of the bid response took place on receipt of the tender response from BT. The conclusion of the evaluation was that the BT bid was compliant and achieved a score of 74.8%. The Connecting Cheshire Project Board accepted a recommendation to announce BT as the preferred supplier, subject to contract, on the 13<sup>th</sup> March 2013. Following a period of extensive clarification and refinement, the contract was finalised for approval and was accepted on behalf of the Partnership by Kim Ryley and David Brown on 26<sup>th</sup> April 2013.
- 10.4 The solution offered by BT is expected to deliver fibre broadband services to 91% of the intervention area (85,109 premises); of which 73% premises should receive a speed greater than 24Mbps. In addition 52% of enabled premises are expected to benefit from an estimated speed uplift of 40Mbps or more. The solution will predominantly make use of Fibre to the Cabinet, FTTC and a small amount of Fibre to the Premises, FTTP technologies. The remaining premises (3,508), referred to as infill, will receive a guaranteed minimum speed of 2Mbps delivered by technologies such as Broadband Enabling Technology and satellite services.
- 10.5 BT's Solution Design involves the deployment of the following key infrastructure components within the Intervention Area:
- A total of 22 Handover Points will serve premises across the Intervention Area allowing internet service providers to interconnect into the network.
  - 297 cabinets (538 cabinet areas) are planned to be enabled serving over 54,000 premises with an FTTC solution and over 20,000 Exchange Only (EO) lines are expected to be enabled with either an FTTC or an FTTP solution. A proportion of the remaining premises are planned to be enabled with an FTTP solution.
  - The telephone exchanges covering Burleydam, Winkle, Arley and Huxley have been identified as being at the highest risk of not being upgraded to fibre services. Whilst other approaches will be deployed such as advanced copper technology, wireless or satellite delivery to bring broadband speeds up to a minimum of 2Mbps, this could result in these areas remaining on slower broadband speeds for some time to come, impacting on approx. 1,200 premises in total. The project team is working with the community in Burleydam and Audlem to secure a Rural Community Broadband Fund grant to ensure fibre broadband will reach as many homes and businesses as possible.

- 10.6 It is forecast that the fibre broadband rollout will be delivered by summer 2015 with the remaining premises receiving a speed greater than 2Mb/second by late 2015. When considering the existing commercial rollout of fibre broadband regionally, availability of fibre services will increase from 80% (as it is today) to over 96% making Cheshire one of the best connected regions in the country.
- 10.7 The project will cost £31.42 including the non-fibre infill and the revenue phase of the project. Public sector contributions to the project total are £22.40m which is made up of £3.40m Local Authority, £4m BDUK, and £15m ERDF. BT is providing £9.02m match to the total sum.
- 10.8 BT has built their solution on an assumed 20% base take-up of service over the contract term. If take-up is higher, or build costs cheaper, a claw-back mechanism is triggered returning investment to Connecting Cheshire to reinvest in project. For example if take-up achieved 40%, which is a robust independent estimate for Cheshire, in the region of £150,000 would be returned an Investment Fund for the project.
- 10.9 The BT bid is based on the same business model that has underpinned their commercial roll-out across the UK; this provides a wholesale open access approach whereby the Openreach network is used by a large number of internet service providers such as Talk Talk, Sky and Plusnet as well as BT Retail to offer choice and competitive pricing to residential and businesses subscribers.
- 10.10 The BT bid also includes in-kind contributions to the marketing and demand stimulation aspects of the project, to integrate fully with their national roll-out of fibre broadband, and will exploit many technological innovations and engineering expertise gained during fibre deployment in predominantly rural areas such as Cornwall, Cumbria and North Yorkshire.
- 10.11 An extensive programme of community engagement and demand stimulation will be provided during the project to help exploit the benefits of fibre broadband to drive service take-up, reduce digital exclusion and support digital literacy. This will build on the work to date including the recruitment of over 100 volunteer Digital Champions and 6,500 demand registrations received to date.

## **11.0 Access to Information**

- 11.1 Background papers relating to this report can be inspected by contacting the report writer:

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