

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Hampshire Economic Board
<b>Date:</b>	16 February 2011
<b>Title:</b>	Broadband Project : Next Steps Appendix 1 to this report is 'Not for Publication'
<b>Reference:</b>	2659
<b>Report From:</b>	Director of Economic Development

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### 1. Executive Summary

1.1. The purpose of this paper is to bring Members of Hampshire Economic Board up-to-date on the evolution of the project and the national scene, in order to determine the next steps. A report to Cabinet in February will address future management arrangements following the retirement of the Director of Economic Development.

1.2. This paper:

- summarises the previous reports to the Board;
- outlines the key elements of the recently published National Broadband Strategy;
- considers financing for the project and the opportunity to pursue grant aid; and
- considers the future direction of the project (next steps).

## **2. Background**

- 2.1. In December 2009 the Board agreed to pursue a strategic level intervention to secure effective broadband services throughout Hampshire and commissioned research into the level of broadband services in Hampshire and the future prospects for delivery. Research was also undertaken into interventions being pursued in other parts of the country, including the objectives, technology and costs. As part of this research phase, discussions were held with a number of commercial companies operating in this sector.
- 2.2. The results of this research were considered at the Board meeting in September 2010. It was noted that a bid had been made for grant aid to the newly established Broadband Delivery UK (BDUK) which had announced that £15 million was available to support three or more pilot schemes to deploy physical infrastructure. Members were advised that, given the national view of regional priorities and the size of the fund, it would be sensible to proceed with developing the County Council's own solution.
- 2.3. By the time of the last meeting, following the June emergency budget, the financial context for local authorities had become sufficiently clear for it to be decided that any project would need to be substantially self-financing over the pay back period. Opportunities for raising capital financing for the project were briefly discussed, and it was agreed that the next stage of the project would need to explore options, including district council support. It was agreed that a first priority was the stimulation and aggregation of demand, to make areas more attractive to the market and stimulate private sector investment. However, the option of setting up a not-for-profit company, to procure the infrastructure and sell wholesale products to Internet Service Providers, would continue to be developed as a final resort, if this was the only way to secure sufficiently low delivery costs to make a scheme feasible.

## **3. Updated National Context**

- 3.1. The digital economy is growing rapidly, now accounting for more than 10% of GDP in the UK. Hence the ability for Hampshire businesses to access superfast broadband continues to be a pressing priority.
- 3.2. Government has announced that it will put as much as possible of its own services online and is keen for all public services to commit similarly. This is seen as a double win - encouraging people to get online and benefit from the new social and economic opportunities, and driving down service delivery unit costs.
- 3.3. The previous Government's universal commitment to a minimum 2Mbps service by 2012 was abandoned in the National Broadband Strategy as being undeliverable, and the date extended to 2015. Significantly, the new Government also recognised that this minimum service commitment needed to be merged with superfast broadband infrastructure plans, as separate programmes did not offer best value for the public investment to be made.

- 3.4. To facilitate infrastructure provision in rural areas, the Government has set aside £530 million support for the period to 2015, with potentially another £300 million to be found for the following two years. Four pilots had been approved with the original £15m, in Scotland, Wales, Cumbria and Herefordshire. The results will be used to inform the future bid and procurement processes. Future funds will be released through a competitive bidding process, with the bid window expected to open in April 2011.
- 3.5. Upper-tier local authorities and Local Enterprise Partnerships (LEPs) will be eligible to bid, and Government is looking for local authorities to set out a digital strategy for their area. Hampshire will wish to bid for this funding, and the digital strategy will need to encompass both digital inclusion and the transformation to online public services (especially Health, Education, and Social Care), not just make the case for broadband in rural areas. Bids will also need to address demand stimulation, and have a clear project delivery team.
- 3.6. BDUK is interested in financial leverage – whether through European funding or local authorities themselves. In addition to providing funding, Government is looking at ways to drive down the cost of delivery. Sharing of existing public service network infrastructure, poles and ducts is seen as key. The bid guidance has not yet been published, but we expect it to be open to bidders to propose their preferred delivery vehicle and financial construct, to deliver best value for the BDUK funding.
- 3.7. Grant support would significantly reduce the risks to Hampshire County Council of delivering superfast broadband infrastructure in rural areas, and this funding support significantly changes the business model. It is unlikely that urban areas with low speeds will be eligible for grant support from BDUK. The strategy needs to address poor broadband speeds wherever they occur and set out a comprehensive picture for Hampshire's communities.
- 3.8. The Government's priority for digital inclusion has been evidenced by strong support of the 'Race Online 2012' campaign led by Martha Lane-Fox, appointed digital champion by the Prime Minister and advisor to Francis Maude, Minister for the Cabinet Office. It is likely that a broad approach, which includes broadband take-up and citizen benefit, will need to be part of a BDUK bid, including issues such as citizen support, access to technology, design and availability of suitable on-line services and different channels (eg mobile phones).

#### **4. Updated local context**

- 4.1. BT has advised that up to 80% of the telephone landlines in Hampshire are likely to receive enhanced broadband services by 2015 through the market.
- 4.2. However, those with the poorest service now, less than 2 Mbps, are least likely to benefit from this. Although this affects rural areas most, there will be pockets of poor provision throughout the county because of the historic pattern of infrastructure network provision.

- 4.3. The market will be focusing on the core fibre roll-out – mainly from the exchange to some cabinets. Where numbers on a cabinet are small or resulting improvement will be modest, premises will not benefit. Nationally, around 10% of premises have exchange-only lines and cannot benefit straightforwardly from this technology solution. Fibre direct to premises (FTTP) is a much more expensive solution.
- 4.4. With regard to residents and businesses in the sub 2Mbps areas, the first round (simple) business case modelling demonstrated that, at a defined monthly payment per customer, and provided services were also sold (at a lower penetration) to those with speeds above 2Mbps whom the infrastructure passed, this should return sufficient surplus to recover infrastructure costs over a 7-8 year timeframe. However, these costs are necessarily based on generic assumptions about unit costs, and assume a reasonable propensity to take up the service at the price offered. Some market testing of pricing sensitivity is underway to assist in the next stage business case, and it is hoped that early results will be able to be reported orally at the meeting.
- 4.5. Establishing a local company to deliver broadband is therefore not now a priority, as the national momentum and funding should create sufficient interest from the market to allow a more conventional procurement, and a resulting open access network infrastructure owned by the successful provider. Work on this aspect has therefore not been progressed further, given the high cost of advice that would be required as a next step. It would, however, be prudent to maintain the County Council's commitment to providing (repayable) capital financing and sharing risk, in order to maximise competition and get the most improved broadband speed outcomes for Hampshire with the grant funding it receives. This approach may also satisfy BDUK's expectation of match-funding.
- 4.6. The project remains technologically neutral – it will be for bidders through the procurement process to determine the most cost-effective solutions. These will need to be specifically designed for each exchange area and sufficient time will be needed in the procurement process to enable this detailed work to be done. The full menu of options is likely to play a part, with several technologies deployed in a single community, including fibre to the cabinet (FTTC), fibre to the premises (under and over ground), and various types of wireless solution. Satellite may be the only cost-effective solution for a small proportion of connections, where terrain and population density rule out other options. The Little London pilot has been helpful in demonstrating likely solutions.
- 4.7. There will be areas with poor broadband speeds in Hampshire that are not eligible for BDUK funding (eg significant areas of Basingstoke). Given that a major procurement will be underway if the BDUK bid is successful, there will be sensitivities around this segment, and if these could be tackled at the same time, there could be economies of scale with a single procurement.

- 4.8. Discussions with BT have continued, including engagement with Bill Murphy, Managing Director of BT's Next Generation Access. BT has begun to develop its plans for a mixed technology solution in those rural areas where fibre to the cabinet is not a cost-effective solution.
- 4.9. The potential for utilising HPSN2 in providing backhaul for areas passed by the network continues to be explored. Sharing fibre is a more contentious issue, but sharing of ducts is a more promising possibility that is being actively explored and, if appropriate, will be built into the HPSN2 delivery plan.

## **5. Finance**

- 5.1. Further information on cost modelling and financing is set out in the confidential appendix to this report.

## **6. Other key issues**

- 6.1. With the announcement of a competitive bidding process and the prospect of needing to move into demand mobilisation alongside project procurement, it is timely to begin a more serious campaign to mobilise support for superfast broadband and for the bid. It should be possible to secure the support of Senate partners and County Councillors in mobilising community support, and a lead district council to work with the County Council would be helpful.
- 6.2. The campaign might include:
- a briefing for Hampshire's MPs in Westminster;
  - development of website materials, for use in local campaigns;
  - promoting the demand registration schemes and market testing information with feedback on results to individual areas; and
  - publishing a draft digital Hampshire Strategy for the widest consultation.
- 6.3. Resources for the project are limited and work to support the development of the bid in April will need to take the highest priority in the next few months. It is therefore recommended that the planning of the campaign reflects this.

## **7. Conclusion**

- 7.1. The context has changed for increasing broadband speeds in poorly served areas of Hampshire.
- 7.2. The National Broadband Strategy, the Race Online programme and the establishment of a grant fund to tackle rural areas provide a significant opportunity to achieve the County Council's objectives with less risk, but also require a rapid and effective response to maximise its prospects.

7.3. This must include developing an embryonic digital strategy for Hampshire and securing partners' backing. It is also important to secure the widest political, community, public service and business support across Hampshire, both to support the bid and to mobilise demand.

7.4. If the bid to BDUK is successful, the project can move to the delivery phase. Further work will be required, following the market testing, to establish whether provision could be extended to cover areas with a poor service that are not eligible for BDUK funding.

## **8. Recommendations**

8.1. That the following be endorsed as key priorities for the next six months:

- (i) the submission of a good quality bid to Broadband Delivery UK for infrastructure grant in April 2011 and the development of the County Council's relationship with them;
- (ii) delivery of the Little London Pilot;
- (iii) further development of the business case, funding strategy and business model following the results of market testing, to include a local authority financing/risk share model; and
- (iv) subject to the outcome of the Broadband Delivery UK bid , initiation of the procurement of superfast broadband infrastructure in rural areas.

8.2. That a draft Hampshire Digital Strategy be developed to support the bid to Broadband Delivery UK, to include the strategy for delivering public services online and proposals for digital inclusion.

8.3. That a campaign for securing support for the bid and mobilising demand be initiated.

**CORPORATE OR LEGAL INFORMATION:****Links to the Corporate Strategy**

<b>Hampshire safer and more secure for all:</b>	no
Corporate Improvement plan link number (if appropriate):	
<b>Maximising well-being:</b>	yes
Corporate Improvement plan link number (if appropriate):	
<b>Enhancing our quality of place:</b>	no
Corporate Improvement plan link number (if appropriate):	

**Other Significant Links**

<b>Links to previous Member decisions:</b>		
<u>Title</u>	<u>Reference</u>	<u>Date</u>
<u>Hampshire Economic Board – ‘E-Hampshire: the role of the County Council in delivering digital Britain’</u>	<u>1107</u>	<u>14 December 2009</u>
<u>Hampshire Economic Board – ‘The Role of the County Council in Digital Britain’</u>	<u>1367</u>	<u>25 February 2010</u>
Hampshire Economic Board – ‘Broadband Strategy Progress Report’	2033	21 September 2010
<b>Direct links to specific legislation or Government Directives</b>		
<u>Title</u>	<u>Date</u>	
Britain’s Superfast Broadband Future (DBIS and DCMS)	December 2010	

**Section 100 D - Local Government Act 1972 - background documents**

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

## **IMPACT ASSESSMENTS:**

### **1. Equalities Impact Assessment:**

- 1.1. The project seeks to ensure that those with poor broadband speeds now have the opportunity to have a good quality service at reasonable cost  
Development of a digital inclusion strategy as outlined in the report will address the wider issue of access to technology for diverse groups.

### **2. Impact on Crime and Disorder:**

- 2.1. Not applicable.

### **3. Climate Change:**

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

The project has the potential to save carbon dioxide by reducing the need to travel and enabling economic activity with minimal carbon dioxide emissions.

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

Not applicable.