

HAMPSHIRE COUNTY COUNCIL**Decision Report**

Decision Maker:	Hampshire Economic Board
Date of Decision:	25 February 2010
Decision Title:	The role of the County Council in delivering digital Britain - Update
Decision Reference:	1367
Report From:	Director of Economic Development

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1. Executive Summary

1.1. The purpose of this paper is to provide an update on progress following the report to the Board on 14 December 2009.

1.2. This paper seeks to:

- describe the current situation in respect of actual broadband service delivery across Hampshire;
- summarise the interventions of other local authorities across the UK to address current broadband market failure;
- identify the legal and financial implications for any Hampshire County Council intervention; and
- propose the next steps needed to be taken.

2. Contextual information

2.1. The report submitted to the Board on 14 December 2009 summarised the economic importance of broadband services in Hampshire and reviewed the ambitions and measures recommended by the Carter Report – Digital Britain - published in June 2009. The Digital Britain report set out the priority for greater broadband access across the country to stimulate the economy and competitiveness of the UK, and to improve social inclusion and equality.

2.2. The report to the Hampshire Economic Board of 14 December recommended that further research be undertaken and brought back to the meeting on 25 February 2010, to allow the Board to consider what future action should be undertaken by Hampshire County Council to address the issue of poor broadband services.

- 2.3. At the meeting on 14 December, Members reflected the concerns of many Hampshire residents that the lack of an effective broadband service is not only an obstacle to business start-up and business growth, but also to social inclusion. Members were advised of current Hampshire County Council and eHampshire activity including the pilot project in Little London, near Andover.
- 2.4. Members agreed that effective internet services can help people on low incomes get on line and take advantage of educational, employment, social and financial opportunities. Securing broadband access to all homes in Hampshire as envisaged by the Digital Britain Report is a clear economic and social priority, and Hampshire County Council needs to build on the expertise and partnership network of eHampshire and the Hampshire Public Services Network (HPSN2) plans in Hampshire.
- 2.5. The vision of the Digital Britain report will require considerable investment to be made across the country and in Hampshire. Market forces alone will not solve this problem, at least not in the short to medium term.
- 2.6. The Department for Business, Investment and Skills is currently consulting on proposals for a Next Generation Fund through a small charge of 50 pence per month on all fixed lines to contribute to the infrastructure costs needed to roll out high speed broadband to at least 90% of all households by 2017. A Hampshire County Council response to the consultation is being drafted. It is felt that the levy is not likely to raise sufficient funds to deliver the Digital Britain vision, and that any intervention should be undertaken at a local level with the knowledge of local circumstances and suppliers and ideally used to supplement any other subsidy or grant funding.
- 2.7. Members were keen that opportunities for Hampshire County Council to make a strategic intervention were therefore developed, and that more detailed research should be undertaken to inform any consideration of options.

3. Progress to Date

Research into Broadband Availability in Hampshire

- 3.1. A more accurate picture of the current level of broadband service provision in Hampshire has now been produced and matched to socio-economic data. This specific local data will be particularly useful in future discussions with commercial operators to estimate future demand.
- 3.2. The key findings from this analysis are as follows:
 - (i) All BT exchanges across Hampshire are now enabled to provide broadband services. In urban centres, such as Portsmouth and Southampton, there is also considerable cable penetration and speeds of 50Mb/s can be purchased by residential subscribers. Business parks in urban areas are typically served by very good fibre networks.
 - (ii) However, broadband speeds currently available across the county vary considerably, as can be seen from Table 1.

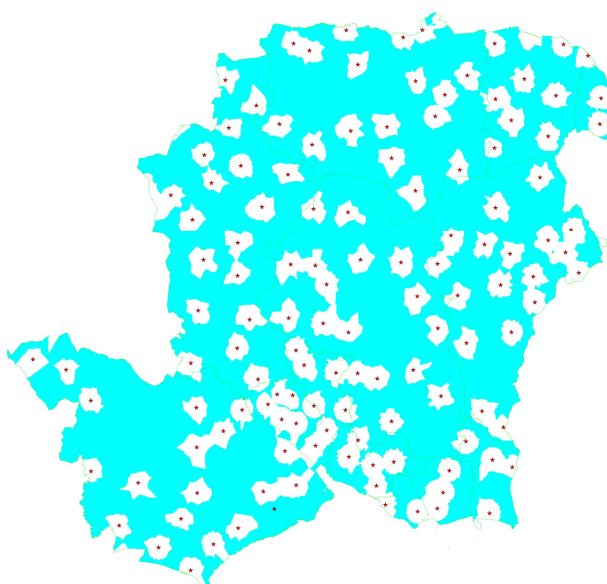
Table 1: Broadband Speeds across Hampshire:

Upper speed (Megabits per second)	Number of postcodes	Percentage of postcodes	Cumulative percentage
0	381	0.8%	0.8%
0.25	2,551	5.2%	6.0%
0.5	4,100	8.4%	14.4%
1	5,520	11.3%	25.7%
2	12,777	26.1%	51.8%

Source: Point Topic for eHampshire Partnership

- (iii) Up to 50% of Hampshire postcodes are unable to receive a service of more than 2Mb/s. These are mostly found in smaller towns and rural locations, and these areas have a high demand for access to the internet to obtain services and information. **Map 1** below displays the areas (in blue) in Hampshire with inadequate broadband access. The white areas represent communities able to receive more than 2 Mb/s per second broadband speed.

Map1



- (iv) This blue area contains around 208,000 internet subscribers, 35% of all Hampshire subscribers (594,000) and 440 hamlets, settlements and small towns.
 - (v) Over 85% of the post codes in the blue areas have high and medium demand for internet based on their social profiles.
- 3.3. The detailed analysis demonstrates that there is serious market failure to deliver adequate broadband in many areas of Hampshire, not just in remote rural communities.
- 3.4. The data also presents a strong case for Hampshire County Council's intervention to help address the market shortcomings. It is felt that the current

reluctance of commercial operators to invest in the blue areas of **Map 1** may change with the commitment and possible financial support of the County Council to a public/private partnership or special purpose vehicle, and with the opportunity to exploit HPSN2.

Case Studies of Local Authority Interventions across the UK

- 3.5. An investigation of interventions by Local Authorities across the UK to address the issue of poor broadband services has been compiled (see **Appendix 1**).
- 3.6. Most interventions are at early stages of development and, as such, do not have analysis of success or value of intervention. They have primarily been set up to drive economic development but many too are looking to be instrumental in combating social exclusion, improving network capacity, improving access to public sector information and reducing carbon-dioxide emissions. Some are led by demand, where funds are allocated to address areas with poor broadband speeds, while others are supply-side interventions where the suppliers determine where high speed broadband infrastructure will go.
- 3.7. The most high profile projects rolling out network infrastructure are those in Yorkshire, Cornwall and Gateshead. These are at an advanced stage of roll-out and delivering services to public sector and businesses. Some of the case studies are in areas with European Objective 1 status and hence eligible for structural funds to support the development programme, and their Regional Development Agency (RDA) is actively involved. The South and North Yorkshire models adopt different approaches and different business models, both of which may be appropriate for Hampshire to consider, but the outcome of a challenge to State Aid Rules by the North Yorkshire local authorities is very important and this is being monitored closely (see 3.10 (iii) (c)).
- 3.8. Other local authority interventions, such as that in Kent, do not involve setting up a separate trading company or a complex partnership model, but rely instead on a simple grant funding mechanism. Cornwall has already completed one major broadband intervention, a seven year programme to providing funding for IT investments and broadband development. A new programme is now underway called Convergence which will run until 2013 aimed at providing gap funding to the private sector for investment in high speed broadband.
- 3.9. At the moment it is too early to recommend a model that would be appropriate for Hampshire to consider. In developing any approach for Hampshire, more work needs to be undertaken to obtain more detailed information about these examples, particularly on the suitability of different financial and partnership models. This information, along with the feedback from discussions with commercial operators, will inform future recommendations to Members on models appropriate to Hampshire.

Legal and Financial Implications Study

- 3.10. The relevant legal and financial issues which would need to be taken into consideration when exploring any private/public sector partnership solutions, or

other commercial options, have been scoped. The information will help in the exploration of possible Hampshire County Council strategic interventions.

Key issues in respect of any intervention:

- (i) **The main risks of public sector intervention in broadband infrastructure are:**
 - (a) distorting the competition and disadvantaging commercial companies;
 - (b) deterring private sector investment and reducing choice for customers;
 - (c) duplicating investment;
 - (d) investing in equipment that becomes obsolete over time;
 - (e) public sector must create conditions for competition rather than act as a distorter – enable rather than provide.

- (ii) **Financial Implications**
 - (a) any finance provided must be capital funding only;
 - (b) any intervention must go out to competitive tendering;
 - (c) other local authority intervention projects such as Cornwall and Yorkshire, in Objective 1 areas, have been able to draw down large funds for broadband service improvements and Hampshire is not in an Objective 1 area. Investigations will need to be made to identify all other potential sources of funding, including the South East England Development Agency and European Rural Development Funds (ERDF).

- (iii) **Legal Implications**
 - (a) The Council will need to consider the **current HPSN2** contractual arrangements;
 - (b) **State Aid Rules** are also a major issue to consider:
 - any intervention must not place one organisation or commercial operator in a better position than any other competitors; and
 - goods or services must not be purchased which would have been supplied by the market anyway, even after competitive tender.
 - (c) There are currently challenges to State Aid rules and the outcomes of these could impact on options available to Hampshire County Council. NYNet was set up by North Yorkshire County Council with funding from the Council,

Yorkshire Forward and ERDF monies. This funding received by NYNet is currently classed as State Aid which means that NYNet can only deliver broadband service to schools and libraries, not to local businesses or residents. It appears that, in France, a provision in French law has allowed similar initiatives to extend their products and services to businesses and residents.

- (d) The concept of **Services of General Economic Interest (SGEI)** has an impact on the State Aid ruling - if a local authority can be seen as “enabling” services rather than “providing” services - ie if rural communities were provided with the infrastructure through the expansion of HPSN2 but allowed the choice of an Internet Service Provider (ISP) - this would be allowed, as it offered choice and enabled competition.

(iv) **Overview of Potential Delivery Vehicles**

- (a) There are several options open to Hampshire County Council if strategic intervention is to be undertaken, including Public Private Partnerships, Joint Ventures and Local Authority Trading Companies, and there are examples of local authorities using a combination of all three models, including South Yorkshire’s project Digital Region Limited.

3.11. Further financial and legal advice will be required as detailed proposals are developed once discussions have been held with commercial operators and service providers.

4. Next Steps

4.1. There is now a more accurate picture of the current level of broadband service delivery in Hampshire, good examples of the intervention being undertaken by other local authorities, and advice on the main legal and financial issues to take into consideration. With this knowledge, it is now proposed that detailed discussions take place with main suppliers in Hampshire, especially BT and NTL.

4.2. It has always been the intention that HPSN2 should have potential to support getting links into hard-to-reach communities, especially in rural Hampshire. This will feature as a key part of any discussions. Whilst the County Council is unlikely to wish to operate as an internet service provider (and may be prohibited from doing so), it could work with the private sector, for example in a franchise arrangement:

- (i) allowing private sector organisations to use HPSN2 points of presence in schools, libraries and community centres to reach remoter communities;
- (ii) in doing so, to bring income back into the public service infrastructure to reduce the costs to those points of presence, such as schools; and

- (iii) to achieve a commercially sustainable model between the public and private sector to ensure that communities are not at risk from failure of companies operating in this way.
- 4.3. The County Council needs to decide where, when and how it needs to intervene, and where the market will address issues of its own accord. A valid commercial model would be necessary to support the last leg of the connection from, say, a school to properties in a community, with an analysis of risks and incentives (ie what is Hampshire County Council prepared to take on to stimulate the marketplace).
- 4.4. Following the proposed discussions with commercial operators and service providers, a further report will be brought to a future meeting of the Hampshire Economic Board, with a first summary of options for any Hampshire County Council strategic intervention.
- 4.5. Securing broadband access for all will require a much wider programme of activity, which goes beyond a programme to deliver broadband to the 'hard-to-reach' areas. Hampshire County Council will need to consider how it can link to existing initiatives and capitalise on existing activities across the Council and beyond, to widen the impact through all Hampshire County Council departments, including Building Schools for the Future programme, Adult Education, computer skills for life, transport strategy, infrastructure projects to include broadband ducting, etc.

5. Recommendations

- 5.1. That the content of the report and Appendix 1 be noted.
- 5.2. That the next steps in this process should be the detailed discussions between Hampshire County Council and commercial operators and internet service providers.
- 5.3. That a further report is brought back to a future meeting, with recommendations as to possible future Hampshire County Council strategic interventions and their relevant commercial, financial and legal models.
- 5.4. That consideration is given as to how any activity relating from this project links into other Hampshire County Council and external initiatives.
- 5.5. That authority be delegated to the Director of Economic Development, in consultation with the Chairman and Vice-Chairman of the Hampshire Economic Board, to respond on behalf of the County Council to the consultation by the Department for Business, Innovation and Skills on proposals for a Next Generation Fund.

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

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

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. A full assessment will be undertaken if action is approved to address the issue of poor broadband delivery – currently this is research and information gathering.

2. Impact on Crime and Disorder:

- 2.1. No impact.

3. Climate Change:

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

Strategic Intervention by Hampshire County Council has the potential to save CO₂ by reducing the need to travel and enabling economic activity with minimal CO₂ 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.

Appendix 1 – Local Authority Interventions across UK to support broadband network

1. Aim – to summarise research on some current public sector broadband interventions.

2. Findings Summary

Over 20 projects covering public sector intervention in broadband provision and the provision of infrastructure for Next Generation Access (NGA) have been identified. It has only been possible to gather further detail on several of these projects but further work is underway to expand the information provided in this report.

3. Interventions

3.1 South Yorkshire - Digital Region

South Yorkshire has European Objective One status and a workforce of 1.28 million people. The county is made up of the Metropolitan Boroughs of Barnsley, Doncaster, Rotherham and the City of Sheffield. South Yorkshire has suffered from a lack of competition and investment in broadband infrastructure, with BT being the main incumbent and only small areas covered by competitors like Virgin Media. Digital Region is a supply-side intervention consisting of a private limited trading company with shares owned by the Metropolitan Boroughs, City of Sheffield and Yorkshire Forward, the Regional Development Agency.

Digital Region provides networking to service providers covering the local authorities, business and consumer markets. It sells regulated wholesale products and is not allowed to sell direct to consumers. Digital Region technology is provided by Thales who were selected through OJEU tender, Digital Region then won tenders to supply networking to the local authorities. Funding for Digital Region is approximately £100 million in the form of grants and loans from European Regional Development Funds (ERDF) and the partners.

Roll out of the network has commenced and the network went live on December 2009, and the roll out will continue until 2012. When completed minimum speeds of 25 Megabits will be offered to 540,000 homes and 40,000 business premises. All local authorities are signed up and the company is working to finalise contracts with ISP's to provide business and consumer services over the network.

Drivers for Digital Regions are:

- Encourage competition in broadband provision
- Aid economic growth in the region by providing modern infrastructure

- Realise efficiency savings through a shared network
- Longer term transformational drivers in combating social exclusion, transforming social care and delivery of public services. Work is currently underway to investigate the business case for these services.

3.2 North Yorkshire - NYNet

North Yorkshire, like its neighbour, has European Objective One status. It is England's largest rural county and has a population of approximately 599,000. NYNet is a supply-side intervention consisting of a private trading company, with its shares owned by North Yorkshire County Council and Yorkshire Forward, the RDA.

NYNet provides wholesale broadband products to the local authority and ISP's. It is unable to provide services directly to business or residential consumers. Technology is provided to NYNet as a managed service from BT Global Services who won their contract through OJEU tender. NYNet then tendered to supply North Yorkshire County Council. NYNet was based on a business case where North Yorkshire Council was the sole tenant; this case was further revised to allow for reasonable grant funding. North Yorkshire CC provided £12 million capital investment, supplemented with £4 million from Yorkshire Forward and £1.1 million from ERDF.

NYNet is live and has attracted various public sector clients including the County Council, local PCT, district and borough councils, local Fire and Rescue Service and other bodies. The network is available to around 330,000 households and 50,000 SMEs. Despite this success with the public sector NYNet has experienced difficulty attracting ISP's to provide business and consumer services, this may in part be due to the nature of their managed service agreement with BT. North Yorkshire local authorities are currently challenging the State Aid Rules classification of the funding received by NYNet.

Drivers for NYNet are:

- Addressing North Yorkshire County Council's issues with its network capacity
- Shared services for the public sector and transformation of public services
- Economic regeneration, providing a modern infrastructure for businesses in the region

3.3 Gateshead - G-ti

Gateshead is a metropolitan borough with a population of 190,000. Traditionally reliant on heavy industry, Gateshead has invested significantly in developing Gateshead as a centre for the arts nationally.

Gateshead Technology Innovation (G-ti) is an intervention which consists of a joint venture owned 50/50 by Gateshead Council and its technology partner Alcatel-Lucent. G-ti acts as a wholesale broadband provider, supplying an open access network that ISP's can use to supply services to business and residential consumers. Gateshead Council worked with Adit NE to develop their business case and manage the procurement of a partner. Alcatel-Lucent was procured through OJEU tender. Capital funding was provided by Gateshead Council of £850,000 which was used to purchase networking hardware equipment from Alcatel-Lucent. Alcatel-Lucent provide half the running costs, with profits split 50/50, and the business plan in place plans for the company to be cost neutral within a specified time frame.

The initial network is rolled out to the Baltic Business Quarter and ISP's are providing services to businesses in the area. There are plans to expand the network into adjacent brownfield sites that are being redeveloped for residential use, and Gateshead Council is keen to ensure the network is extended throughout the borough for use by business and residents.

The main driver for Gateshead was to provide infrastructure to allow businesses to be competitive on the international stage.

3.4 Cornwall - ACTNow/Convergence

Cornwall, with a population of 534,000, is regarded as one of the poorest areas in England and has European Objective One status. Cornwall is largely rural with a heavy reliance on tourism and fishing, though creative industries have also grown in recent years supported by European funding.

ACTNow was a demand-side intervention consisting of a not for profit partnership project aimed at enabling social and economic regeneration through broadband in information technology. Partners included Cornwall Enterprise, South West Regional Development Agency, BT, the Objective One Partnership for Cornwall and Isles of Scilly and others, with funding provided by the ERDF.

ACTNow did not provide network connectivity, it acted to identify and quantify demand for broadband and sell the benefits to the business community. The initial aim in 2002 when the project started, was to bring broadband to 12 communities and have 3,300 businesses signed up by 2005. By 2007, all 100 exchanges in Cornwall were enabled with 10,000 businesses connected to broadband services. Broadband penetration in Cornwall is now 46% against a national average of 31%.

Activities took the form of demand aggregation and market development, specifically working with the farming, tourism and fishing industries. ACTNow also provided funding for IT investments for the self employed or those running a business.

ACTNow has finished and has been replaced by the Convergence programme which will run until 2013. Convergence is a European funded economic regeneration programme funded by ERDF and the European Social Fund (ESF). It is planned to provide gap funding to the private sector for an investment in NGA in Cornwall. We have not as yet been able to secure more details of this project from Cornwall Council.

Drivers for ACTNow were regeneration and developing broadband infrastructure for business.

3.5 Derby – LightSpeed

Derby City Council is a unitary authority and the city has a population of 233,700. Derby is home to international companies such as Rolls Royce, Egg, Bombardier and Toyota.

LightSpeed Derby is a demand-side intervention in the form of a partnership project. It is aimed at supporting development of Next Generation Access (super-fast broadband) by developing the local market and bringing the market to the incumbent infrastructure providers, BT and Virgin Media. The aim of the LightSpeed project is to ensure that Derby receives NGA significantly earlier than the market would otherwise deliver.

East Midlands Development Agency (EMDA), has awarded single programme funding to the LSP Derby Cityscape to run the project for two years. Partners include Bombardier, Egg, local PCT, Derby City Council, Derby Chamber of Commerce, University of Derby, Derby College. Detailed financial information is not available at the time of writing.

The project has only recently started in October 2009 and as such there is currently no progress to report.

Drivers for Derby are:

- Maintaining Derby's status as "UK's number 1 high-tech city"
- Support the provision of services to overcome deprivation in priority neighbourhoods
- Advance behavioural change to reduce CO₂ emissions

3.6 Kent

Kent has faced similar issues to Hampshire in the roll out of broadband. Generally the market has provided broadband in urban areas with 59% of the population covered by 19 exchanges; the market is expected to cater for these. It is estimated that 38%, circa 255,000 properties, cannot get 4 megabit minimum broadband.

The approach so far has been to provide grants to community groups to address “not spots” either through enabling remaining exchanges or procuring alternative infrastructure. The grant budget is in the region of £250,000 p.a. and the maximum grant available is £50,000. Examples of usage are provision of wireless broadband in villages and one example underway of a fibre roll out.

Kent is currently producing an action plan in response to the Digital Britain report.

3.7 Herefordshire

Whilst not an intervention project currently, Herefordshire has recently announced a consultation on a 16 year development plan “Shaping Our Place - 2026”. At the heart of the vision is a communications infrastructure based on a fibre optic network. The consultation paper notes that much of Herefordshire is limited in terms of broadband speed and that a high speed infrastructure is necessary for business effectiveness, public sector service delivery, social networking and education. It proposes that high speed infrastructure is delivered with new developments funded by developer contributions where possible.

4. Summary

This represents a brief snapshot of some of the Local Authority interventions underway in England. Some information is also available on models of intervention that have been used across Europe, though it is unclear how these would fare in the UK regulatory environment.

The current research has highlighted other UK local authority interventions that will be followed up for a more detailed picture.