

Cabinet

14 September 2016

Digital Durham Programme Update and Contract 1 Closure



Report of Corporate Management Team

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Purpose of the Report

- 1 To provide Cabinet with an update on the Digital Durham Programme and the outcomes for Contract 1, which has now closed.

Background

- 2 The Digital Durham Programme began in April 2014 and aims to improve access to effective broadband across the region. Durham County Council is the accountable body and the programme area includes Gateshead, Sunderland and the five Tees Valley authorities. Following a national procurement exercise, BT was appointed as the principle contractor to deliver the broadband solution across the Digital Durham Programme.
- 3 The programme has been split into 3 contracts due to the complexity caused by the involvement of different authorities and the cost of delivery against the original programme expectations:
 - a. Contract 1 was the original contract involving 8 authorities. Build on this contract has now been completed.
 - b. Contract 2 is a second phase of build to which the Council and its partners committed additional funding. This work is now underway
 - c. Contract 3, which is yet to be defined, includes the potential of addressing all properties that will not be covered by contracts 1 and 2.

- 4 The fibre infrastructure build for Contract 1 commenced in December 2013 and is now complete. BT has surpassed its contractual target (cumulative total) of 104,716 premises being able to access fibre based broadband services, reaching more than 107,000 premises by the end of the contract 1 in July 2016. 490 new structures have been installed across the Digital Durham Programme area to provide fibre broadband services.
- 5 The target of 89,124 premises with access to superfast broadband, in line with the Speed and Coverage Template (SCT), has also been achieved. All 89,124 premises can now access fibre based services with speeds in excess of 24 Megabits per Second (24Mbps).
- 6 68,875 properties now have improved broadband services in County Durham, representing 101% of the fibre infrastructure planned for County Durham.
- 7 The Better Broadband subsidy scheme was launched in December 2015. The voucher scheme covers the installation and hardware costs for satellite broadband services up to a maximum amount of £350 per property. Residents still need to pay the monthly service fee.
- 8 Residents are eligible for a voucher if they currently receive less than 2Mbps download speeds and will not be upgraded to fibre broadband in the next 12 months. 120 unique applications have been received to date, of which 85 residents were eligible for a voucher code. 11 codes have been activated by residents.
- 9 In terms of take up of services, as of the 12 August 2016, 25.64% of properties included in the Digital Durham programme area have upgraded to fibre based broadband, against the Government target of 20%. Take up in Durham County is at 28.62%.

Current Position

- 10 Contract 2 of the programme is now underway, with circa £8.5million available to provide access to superfast broadband to a further 29,000 premises. Of this funding Durham County Council has matched £1 million of BDUK monies with £1 million of local authority funded capital expenditure. The rest of the funding is made up of BDUK funding, match from other authorities and BT's contribution.
- 11 Contract 2 is also known as the Superfast Extension Programme (SEP) and runs until December 2018.
- 12 To comply with the European State Aid rules, a public consultation to define the intervention area where public funds can be used in contract 3 is currently underway. This is usually carried out through a full Open Market Review however; Broadband Delivery UK (BDUK) decided that programmes should go straight to the consultation using existing data. Timescales for Contract 3 have not yet been confirmed. Any subsequent investment in Contract 3 will need to be approved by Cabinet.

- 13 The consultation provides information on how areas are currently served by superfast services and seeks information from interested parties, such as telecommunications and other service providers, on their future plans.
- 14 Contract 2 sees North Tyneside and South Tyneside Councils join the programme. Sunderland Council has left the programme due to the high coverage provided in Contract 1 while Hartlepool Council has withdrawn. The involvement of Darlington and Stockton Councils is still being defined though they are expected to continue.

Finance Update

- 15 The programme's financial position is set out below:

Contract 1

- 16 The total overall budget for Contract 1 was £25.2 million, consisting of £10.1 million from BDUK, £9.1 million from Local Bodies (of which Durham County Council's contribution was £6.93 million) and £6 million from BT. To the end of the quarter ending June 2016.
- 17 £11.8million has been paid to date and there are two further claims from BT to come, an end of quarter and an end of contract 'mop up' claim. All of the £25.2million has been contractually committed to BT. The underspend is the difference between the committed funding and the actual cost. The underspend remains contractually committed to BT. A model will be developed once the consultation is complete and will use the VfM rules in the framework to deliver more coverage during Contract 3.
- 18 The project closure process is underway which includes a financial reconciliation. This process is complex and involves BT finalising its spend through a claims procedure, an assessment by the Digital Durham Team and an assessment by BDUK. This process is expected to be completed by the end of March 2017, in line with BDUK's schedule and it is only at this point the precise details of any underspends within each authority area will be known

Contract 2

- 19 The overall budget available for Contract 2 is circa £8.5 million, consisting of £2.7million from BDUK, £2.7 million from Local Bodies (of which Durham's contribution is £1 million) and £3.1 million from BT.
- 20 Further discussions are underway with Darlington Borough Council and Stockton-On-Tees Borough Council in respect of their inclusion in Contract 2. The anticipated funding contributions from these Local Bodies is £135,000 in total which would be match funded by a further £135,000 from BDUK, bringing the potential Contract 2 funding total to £8.7 million.
- 21 BT has not yet submitted any claims against this funding as Contract 2 only recently commenced.

- 22 Contract 2 runs until December 2018 and aims to connect approximately 29,000 premises, raising connectivity to superfast services in the programme area to 97.4%. The figure for Durham County is expected to be 98.4%.

Contract 3

- 23 Options will be available in relation to the funding of Contract 3 as detailed below:
- a. Once take up in the programme area exceeds 20% then a portion of the authorities' subsidy is returned. This is known as gain share. The council's £1million contribution to Contract 2 was to be funded from this gain share but a decision could be made to reinvest back into broadband coverage.
 - b. Efficiency savings in delivery are being made as older technologies, such as of Broadband Enabling Technology (BET), have been replaced with more cost effective solutions.
 - c. Efficiency savings are also being realised in the delivery costs of BT and its contractors.
- 24 BT has calculated that the take-up of fibre broadband services across the Digital Durham programme area is likely to exceed the levels forecast in the original Project Model. BT is estimating that £1.55 million of gain share would be available which could be utilised to extend the deployment of the fibre network further across the programme area.
- 25 The programme and BT have agreed that the use of Broadband Enabling Technology (BET) to provide infill solutions under the project will not now take place. BET Allows connections to be made where fibre cabling doesn't offer good value for money but this technology is now deemed to be obsolete. This means the £596k BET funding apportioned to Contract 1 would also be available to be reallocated to expand the deployment of fibre services.
- 26 The BET funding amount will be distributed across the programme based on the original levels of subsidy committed by each individual local authority. It should be noted that the BET funding can only be spent on solutions where the current broadband service is less than 2Mbps; and that the modelling will be carried out on an optimum value for money basis within each local authority area.
- 27 A further report will be brought to Cabinet with a recommendation of the options available for funding Contract 3 once Contract 1 has been reconciled and all payments made.

Overall Position

- 28 The programme remains on track with no significant issues to address.

- 29 The total overall budget for Contract 1 was £25.2 million, consisting of £10.1 million from BDUK, £9.1 million from Local Bodies (of which Durham County Council's contribution was £6.93 million) and £6 million from BT. To the end of the quarter ending June 2016, £11.8 million has been paid.
- 30 Contract 1 is likely to achieve an underspend of which could be utilised for additional coverage.
- 31 The position with BDUK regarding match funding is also not clear. If the Contract 1 underspend is not reinvested, then BDUK may wish to see its portion of the original funding returned. BDUK's position has changed on this since the start of the programme and legal advice has been sought. Any return of funding to BDUK would not include any element of gain share.
- 32 The overall budget available for Contract 2 is circa £8.5 million, consisting of £2.7 million from BDUK, £2.7 million from Local Bodies (of which Durham's contribution is £1 million) and £3.1million from BT.
- 33 Further discussions are underway with Darlington Borough Council and Stockton-On-Tees Borough Council in respect of their inclusion in Contract 2. The anticipated funding contributions from these Local Bodies is £135,000 in total which would be match funded by a further £135,000 from BDUK, bringing the potential Contract 2 funding total to £8.7 million.
- 34 Digital Durham is recognised by BDUK as one of the leading broadband initiatives across the country both in terms of its numerical success and also the collaboration across multiple unitary authorities.
- 35 The programme has brought significant benefits to businesses, residents and communities across the region.

Recommendation and Reasons

- 36 Cabinet is asked to:
- i. Note the content of this report, specifically the successful outcomes delivered to date;
 - ii. Note the closure of Contract 1 and the implementation plans in terms of Contract 2;
 - iii. Note there will be a further report will be brought to Cabinet to detail the options available for funding Contract 3.

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Appendix 1: Implications

Finance –The total overall budget for Contract 1 was £25.2 million, consisting of £10.1million from BDUK, £9.1 million from Local Bodies (of which Durham County Councils contribution was £6.93 million) and £6 million from BT. To the end of the quarter ending June 2016, £11.8million has been spent. All of the £25.2million has been contractually committed to BT. The underspend is the difference between the committed money and the actual cost, and this underspend remains contractually committed to BT.

The overall budget available for Contract 2 is circa £8.5 million, consisting of £2.7million from BDUK, £2.7million from Local Bodies (of which Durham’s contribution is £1 million) and £3.1million from BT.

Staffing - There is currently a small team of 4 people working on the programme. Two of these positions are on temporary contracts, with one funded from the partner authorities. The remaining two staff are expected to move to the Inspire Programme.

Risk - The programme has a risk register. As contract 1 has overachieved on its objects there are no major risks.

Equality and Diversity / Public Sector Equality Duty - Increased broadband coverage enables improved access to services that are provided digitally

Accommodation - None specific within this report

Crime and Disorder - None specific within this report

Human Rights - None specific within this report

Consultation – The programme is currently in public consultation over phase 3, beginning 04/07/16 and concluding at 5pm 01/09/16. The consultation is designed to allow telecommunications companies to consider the Digital Durham area, progress with infrastructure development and advise the programme of their plans. As a public consultation, any resident can also comment, registering demand or issues with service delivery. This will help to inform plans for future developments and investment.

Procurement – Procurement of services has been done through a national exercise. This has been carried out by Central Government and is subject to European State Aid regulations.

Disability Issues - None specific within this report

Legal Implications - None specific within this report