

Economy and Enterprise Overview and Scrutiny Committee

25 February 2019

Digital Durham Programme



Joint report of Lorraine O'Donnell, Director of Transformation and Partnerships and John Hewitt, Corporate Director Resources

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 To provide members of the Economy and Enterprise Overview and Scrutiny Committee with an update on the Digital Durham Programme.

Executive summary

- 2 The Economy and Enterprise Overview and Scrutiny Committee has received several updates on the progress of the Digital Durham Programme with the last update provided to committee on the 5 April 2018. It was agreed at this meeting that a further progress update would be included in the committee's work programme for 2018/19. The progress reports have focused on providing detail of work undertaken to improve broadband availability to the business sector, including the rural business sector in the county.
- 3 In addition, as part of the skills development scrutiny review project, members of the Economy and Enterprise skills development review group were informed of Durham County Council's ICT Apprenticeship Hub Programme and requested that they be kept updated on the progress of that programme.
- 4 Arrangements have been made for Alan Patrickson, Digital Durham Programme Director, to attend the Economy and Enterprise Overview and Scrutiny Committee on the 25 February 2019 to provide a presentation focusing on:
 - Back ground to the Digital Durham Programme
 - Progress with contracts 1&2

- Current position
- Planning for Phase 3

A copy of the presentation is attached as appendix 6.

Recommendations

- 5 Members of the Economy and Enterprise Overview and Scrutiny Committee are asked to note and comment on the contents of this report and presentation.
- 6 That the Economy and Enterprise Overview and Scrutiny Committee receives a further progress report on the development of the Digital Durham programme.

Background

- 7 Access to superfast broadband is a growing part of everyday life, both at work, at home and when mobile.
- 8 The benefits of high speed Internet access can be seen in terms of collaboration, the range of information available, education, shopping, finding employment, social activities and in service provision.
- 9 From a DCC perspective, superfast broadband allows citizens to conveniently interact with the council through digital services.
- 10 Businesses can sell goods and services across global markets through Internet marketing and online stores, reducing the need to move to more expensive premises or locations. In turn, this maintains employment and supports local economies.
- 11 A recent Government study describes these benefits. “The Evaluation of the Economic Impact and Public Value of the Superfast Broadband Programme” is available on line ([Link.](#)).
- 12 In 2012, the Government set up Broadband Delivery UK (BDUK) within the Department for Culture, Media and Sport (DCMS), which set out to raise the levels of access to superfast broadband services across the UK by providing funds to local bodies. Digital Durham is the main programme in the North East region.
- 13 In 2018, the national programme reached 95% coverage of the UK and the Government stated:

- “The £1.7 billion Government rollout of superfast broadband to areas deemed “not commercially viable” by industry has so far reached more than 4.5 million UK premises that would otherwise have been left in the connectivity slow lane, the majority of which are in rural areas. In addition to the huge benefits to our day-to-day lives that superfast speeds offer, this closing of the “digital divide” has also delivered a significant boost to local economies - creating around 50,000 new local jobs and generating an additional £8.9 billion in turnover in the areas covered by the Government rollout between 2013 and 2016.”

Programme Background

- 14 The Digital Durham Programme was initially made up from 2 contracts, described below, governed by an agreement between Digital Durham and BDUK.
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- 16 The basis of each contract was that BDUK carried out a procurement exercise and appointed a company who would contract with all local bodies (such as Digital Durham) to deliver agreed targets. OR were successful in their bid and became the national provider.
- 17 After a national procurement exercise, BDUK appointed Openreach (OR) as the delivery partner and plans were developed in conjunction with local bodies to provide fibre-based connectivity to properties. This would enable service providers, such as TalkTalk and Plusnet, to offer broadband services directly to customers.
- 18 The Digital Durham Team carried out ‘demand stimulation’ activities to inform communities and residents when the new services were available and how to order them. These activities included leafleting, attendance at community events, websites and social media updates.
- 19 In delivering connectivity to homes and businesses, OR also had to upgrade their core backbone networks to provide additional capacity and resilience. This core network also supports the commercial activities of OR outside of the Digital Durham Programme.

Contract 1 – April 2014 to June 2016

- 20 The area covered by this contract consisted of County Durham, Gateshead, Sunderland and the five Tees Valley authorities, with DCC as programme manager.

- 21 The overall budget for Contract 1 was £25.4 million.
- 22 At the end of June 2016, the programme had enabled access to fibre-based broadband to 105,333 premises and superfast access to 89,225 premises, against targets of 104,716 and 88,437 respectively.
- 23 In County Durham alone, the provision was 69,239 and 61,372, respectively.
- 24 Take up of these services reached 48% for fibre-based broadband (15Mbps) and 28% for superfast broadband (24Mbps), with a rising trend of 1% per month.
- 25 In terms of funding, after accounting for contractual efficiencies, underspend and gainshare, BDUK's final assurance shows over £7million remains available to the programme for investment in superfast broadband.

Contract 2 – July 2016 to September 2018

- 26 The programme area was slightly different to the previous contract and includes County Durham, Gateshead, Middlesbrough, Redcar and Cleveland, South Tyneside and North Tyneside, with DCC as the accountable body.
- 27 The programme aimed to make fibre-based broadband services available to 27,976 premises and superfast broadband (24Mbps+) available to 24,461 premises.
- 28 The overall budget available for Contract 2 is circa £9 million.
- 29 To date, 27,432 additional premises have access to fibre-based broadband services and 22,274 have access to superfast broadband services.
- 30 OR Missed the target for Contract 2 by 2,731 and are developing a remedial plan.
- 31 Since Contract 2 commencement in 2016, take up figures are 27% for fibre-based broadband and 12% for superfast.
- 32 Of the £9million funding, it is estimated that all of this will be used to fulfil the contract.

Gainshare

- 33 Once take-up of new broadband services reaches a set level (20% for Contract 1 and 30% for Contract 2), Digital Durham receives income from OR for any additional connections that are made using the new infrastructure. This is known as Gainshare.
- 34 The Gainshare mechanism also incentivises local bodies to stimulate demand that will drive take up of services and 'earn' Gainshare.
- 35 Gainshare is paid to Digital Durham at the end of the contract period, in 2023.
- 36 This funding can be used for further investment in the development of broadband services, however BDUK will be entitled to claim 50% of gainshare that is not used for this purpose. This is in recognition of their initial capital contribution.
- 37 Other authorities have used the assurance of these funds to underwrite loans that will be repaid from Gainshare at the end of their contract period

Current Position

- 38 At the closure of Contract 2 in September 2018, around 5,000 properties remain without access to fibre-based or superfast broadband service. This represents around 2% of the premises in County Durham.
- 39 These premises are generally located in rural areas and would be costly to connect. Contracts 1 and 2 each had a cap of £1,700 per property, and this level was set nationally. This limit meant that many rural premises could not be connected, as the cost would be well above the level of the cap, due to the construction costs of long cable ducts.
- 40 According to Government figures, this would place County Durham 231st in the UK for superfast coverage, and 10th in the North East region. See Appendix 2.
- 41 The maps in Appendix 4 show:
 - Areas within County Durham that are considered to be within the most 30% deprived nationally.
 - Areas of County Durham classified under Basic Broadband criteria.
 - Areas of County Durham classified under Next Generation Access criteria.

Open Market Review (OMR) 2018

- 42 As any additional contract would involve new funding, a new Open Market Review (OMR) is needed to comply with State Aid regulations.
- 43 This is the third full OMR process that has been carried out and information has been gathered through consultation and review with service providers, BDUK, Ofcom and the public. The area covered 10 local authorities, over 1 million premises and more than 55,000 postcodes.
- 44 The information that has been gathered will be reviewed and used to develop a new baseline of coverage, detailing the premises remaining without access to superfast broadband, together with plans from commercial providers to develop their infrastructure. This will allow an area for further intervention to be identified.
- 45 The OMR was completed in November 2018 and analysis work is underway.

Approach

- 46 There are a number of factors to consider in developing an approach to the development of the Digital Durham programme: National targets and Government drivers, European targets, Ofcom regulation and DCC aspirations.
- 47 The Government's target to extend superfast broadband to 95% of the UK was reached in December 2017. Without contracts 1 and 2, Durham wouldn't have reached the national target.
- 48 In addition, through the Universal Service Obligation (USO), everyone in the UK will have the legally enforceable right to high speed broadband (10Mbps or faster) by 2020. This right will be managed by Ofcom, who will challenge service providers where necessary.
- 49 A link to the Ofcom report, 'Achieving decent broadband connectivity for everyone' can be found [here](#).
- 50 The report describes the regulator's definition of decent broadband, the scale of the problem of delivery, who should benefit from the USO, financial concerns (cost, price and affordability) and potential providers. Several Annexes provide supporting evidence and modelling.
- 51 The European Union (EU) has 3 strategic connectivity objectives for 2025:

- All main socio-economic drivers, such as schools, universities, research centres, transport hubs, all providers of public services such as hospitals and administrations, and enterprises relying on digital technologies, should have access to extremely high – gigabit – connectivity (allowing users to download/upload 1 gigabit of data per second).
- All European households, rural or urban, should have access to connectivity offering a download speed of at least 100 Mbps, which can be upgraded to gigabit services.
- All urban areas as well as major roads and railways should have uninterrupted 5G coverage, the fifth generation of wireless communication systems. As an interim target, 5G should be commercially available in at least one major city in each EU Member State by 2020. A target speed of 50Mbps is referenced.

Potential Funding

52 Subject to approvals from the Digital Durham Strategic board, partner councils and external funding bodies, there could be £10.7 million to extend superfast broadband coverage further. This consists of:

- County Durham - Potential for additional £1.1m funding from EAFRD Rural Broadband Fund.
- Underspend from Contract 1 of up to £7m.
- Unused Basic Broadband (infill funding) of up to £596,000.
- Potential Contract 1 gainshare (underwrite/loan) of up to £2m - pending decision.

53 Note that each of the individual authority contributions and associated matched funding will be spent within their geographic area.

54 Of this £10.7million funding, £8,030,214 can be spent directly within County Durham.

55 The table in Appendix 5 summarises the potential funding available for Contract 3.

Projected Costs

56 Once Contracts 1 and 2 are complete, around 2% of the premises in County Durham will remain without access to broadband services less than 15Mbps. This amounts to around 5,000 premises.

- 57 In the existing cost models, the government allocated £1,700 per premise, which indicates an estimated cost of £8.5million for the remaining properties.
- 58 However, the experience of installing broadband over the past 5 years has shown that £1,700 per premise isn't enough to reach properties in very rural areas or areas that have poor data networks.
- 59 To reach a budgetary position, a figure of £2,500 per premise has been used, and this brings the estimated funding requirement to £12,500,000 to reach 100%.
- 60 Estimating accurate costs is difficult, as it is subject to many unknown conditions: blocked/collapsed ductwork, wayleaves, poor quality and direct buried cable with no existing ductwork.
- 61 Using the c.£8million of potential funding, it is estimated that an additional 2,600 premises could be connected. This would take coverage to around 99% in County Durham.
- 62 Impact of additional funding:

Additional Investment	Additional premises
£8,000,000 (current funding)	2,600
£9,000,000	3,000
£10,000,000	3,400
£11,000,000	3,800
£12,000,000	4,200
£13,000,000	5,000

Potential Issues/Risks

- 63 The Digital Durham Programme Risk Register is included as Appendix 3 and highlights a number of risks with the existing programme. Any new development would be subject to similar risks.

Other Technologies

- 64 Currently, superfast broadband can be provided through cabled connections, wireless solutions and mobile networks.

- 65 Whilst fibre optic cabling is regarded as most desirable and future proof, due to its speed/capacity and reliability, wireless networks can also deliver broadband at gigabit speeds and will be considered for Contract 3.
- 66 Current 4G mobile phone networks can deliver lower speed broadband and will be considered for premises without access to either fibre optic or wireless connectivity.
- 67 In many cases, 5G can offer faster services and lower latency than fibre-based broadband, but the technology is more suited to densely populated urban areas. 5G is relatively short range and consequently needs many more base stations/antennae to provide coverage.
- 68 4G and 5G Services will complement, rather than replace, the cabled infrastructures deployed by the programme.

Option to End Investment in Superfast Broadband

- 69 There is a further option to end the Digital Durham programme once Contract 2 is closed.
- 70 If this were to happen, monies would be returned to BDUK and partner local authorities. Around £2.75million capital would be returned to DCC, together with a reduced salary cost of £28,676 pa. 2 Jobs would be lost from the Digital Durham Team.
- 71 However, around 5,000 premises in the County would remain without access to superfast broadband services and without any commercial plans for installation. Several thousand citizens would not be able to gain the benefits associated with high speed Internet access.
- 72 As commercial services develop in areas with good infrastructure, the broadband gap will increase as 1000Mbps Ultrafast services are delivered.
- 73 As no other local body has indicated that they will cease investment, Durham would fall from their position in the broadband 'league' and may have the lowest coverage in the region.

Next steps

- 74 There are a number of planned activities that are underway to support the development of a strategic plan for the future of Digital Durham:
- Financial close of Contract 1: The 'Deep Dive' assurance process is now complete and it is expected that the closure will be finalised by the end of September.

- Contract 2: OR are developing a plan to meet the targets set out in Contract 2. This is expected before the end of September.
- The results of the 2018 OMR are being reviewed to establish a baseline of coverage, commercial plans and intervention area. This is expected by the end of November.

75 Once the outcomes of these activities is known, a further report will recommend an approach to Contract 3 or closure of the programme.

Conclusion

76 The issue of ensuring that businesses have access to superfast broadband featured strongly within the recently completed Scrutiny review report 'Support provided to the retail sector by DCC'. Members will have received a progress update on the support provided to the business sector by the Digital Durham Programme and future options to support the business sector of County Durham.

Background papers

- Digital Durham Programme papers

Other useful documents

Appendix 1: Implications

Legal Implications

Not applicable

Finance

A budgetary figure of £12.5million is estimated for 100% coverage of County Durham. Available funding is £8,030,214. A capital bid for £5million has been made to fund work towards this target. The total cost of the additional staff who support the Digital Durham programme is £63,676 and partner authorities contribute £35,000 pa towards this cost.

Consultation

On the 1 September 2018, the programme completed an Open Market Review (OMR) regarding Contract 3. This 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.

Equality and Diversity / Public Sector Equality Duty

Increased broadband coverage enables improved access to services that are provided digitally.

Human Rights

Not applicable

Crime and Disorder

Not applicable

Staffing

There is currently a small team of four people working full time on the programme. Two of these positions are temporary contracts, one of which is funded from the partner authorities.

Accommodation

Not applicable

Risk

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

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.

Appendix 2: Regional Comparisons Based on EU broadband definitions.

Regional Rank	National Rank	Council	Superfast 30Mbps+	Ultrafast 100Mbps+	Full Fibre
1	47	South Tyneside	99.00%	78.90%	0.00%
2	112	Sunderland	98.10%	54.90%	0.30%
3	128	North Tyneside	97.90%	63.50%	0.30%
4	146	Redcar and Cleveland	97.60%	90.20%	0.30%
5	159	Newcastle upon Tyne	97.30%	66.40%	2.60%
6	161	Hartlepool	97.30%	90.10%	0.00%
7	164	Middlesbrough	97.20%	93.00%	0.30%
8	189	Stockton-on-Tees	96.50%	89.70%	0.40%
9	209	Gateshead	96.00%	70.20%	1.00%
10	231	County Durham	95.50%	2.20%	0.50%
11	260	Darlington	94.50%	86.50%	0.80%
12	308	Northumberland	92.70%	2.50%	2.50%

NB Only Newcastle and Northumberland are outside of the Digital Durham Programme

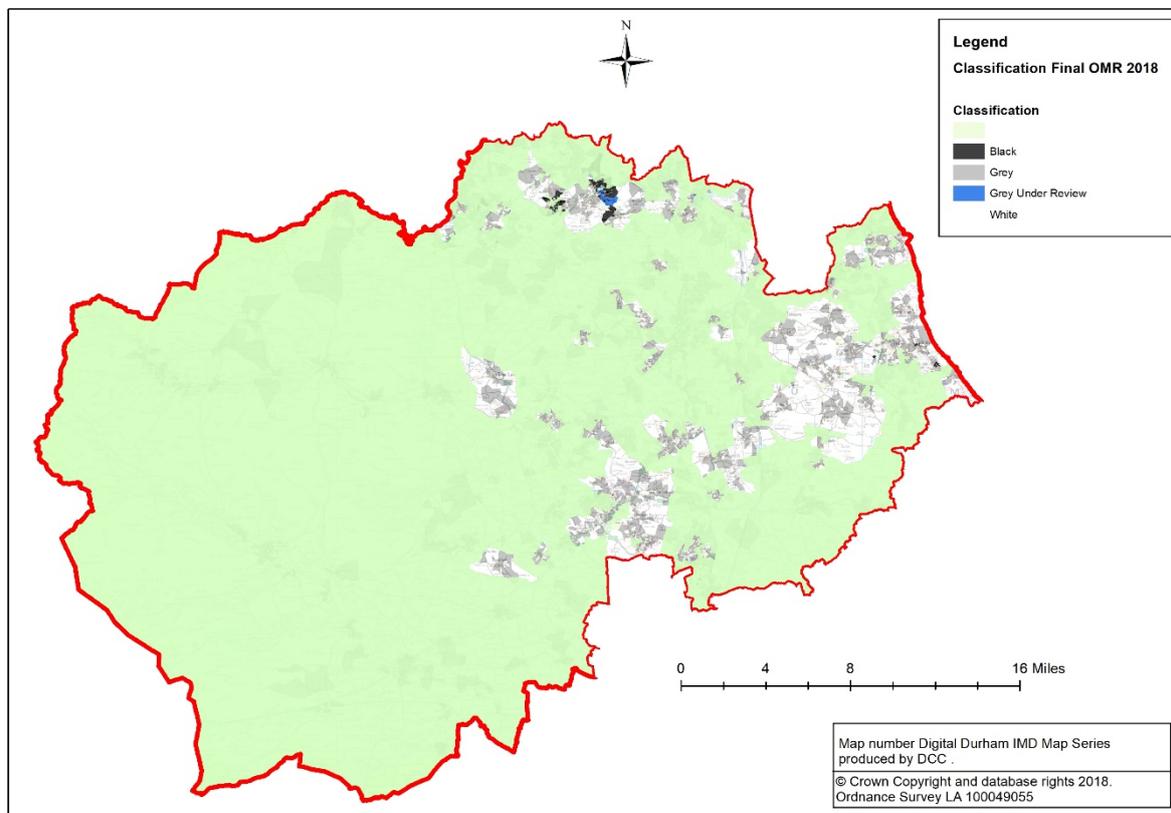
Appendix 3: Risk Register

Risk ID	Description of risk	Cause	Impact description	Controls
3	There is a risk of a long term resource requirement, leading to partners having to fund resource beyond the expected life of the programme.	<ol style="list-style-type: none"> 1. Additional Contract 2 funding 2. Contractual requirement to manage contract for 7 years. 	DCC resources required beyond currently expected timescales	<ol style="list-style-type: none"> 1. Governance. 2. Monitoring of delivery partner, contractual arrangements via tender.
24	Poor Level of Take Up of SFBB services	<p>Lack of resource for demand stim activities</p> <p>Ineffective Demand Stim strategy</p> <p>Inconsistent approach to Demand Stim across LA's</p> <p>Ineffective Digital Inclusion Strategy</p>	<p>Take up fails to achieve floor target and/or clawback target.</p> <p>Consequentially limit on re-investment fund and impact wider programme benefits</p>	Defined Stakeholder Map. Initial Demand Stimulation Resource engaged on programme. Demand Stim Workstream Defined.
26	Communities in the Programme Area may not be covered by either the commercial programme or BDUK programme with no mechanism for bringing them into the latter	<ol style="list-style-type: none"> 1. Cabs dropping out of commercial programme 2. New build activity in programme area post OMR 3. Premises connected to Cab but cannot currently get speed uplift 4. OMR incorrectly defined 	<p>Reputational - dissatisfaction from communities excluded from the SFBB programme. Coverage - DCC are constrained to delivering optimal coverage in the IA.</p>	None
27	Programme Benefits cannot be fully realised and/or accurately baselined and measured	<p>Lack of clarity around benefits measures.</p> <p>Lack of definition of Business Change activities (and owners) to realise the benefits</p> <p>Lack of overarching ownership to maximise the benefits</p>	<p>Failure of realise Government objectives of the programme.</p> <p>Failure to realise Council Benefits (i.e. transformed services)</p> <p>Low credibility of claimed benefits</p>	<p>Stakeholder engagement.</p> <p>Demand stimulation.</p>
34	Coverage of Stockton Town centre does not meet Council expectations.	STC had not appreciated exactly what was planned to be delivered in Contract 1.	Late changes to deployment plan. Money spent that cannot be recovered.	Existing contract

35	Commercial rollout progressing extremely slowly	Resources diverted from Commercial Programme onto BDUK programme	People in planned commercial areas will not have access to SFBB	Contract management.
36	Lack of match against Contract 2 allocations	Many councils particularly Tees Valley have been unable to match their indicative allocations	Coverage will not hit 95% target in many areas. In Tees Valley many domestic prems will remain white.	BDUK

Appendix 4: Geographical Coverage

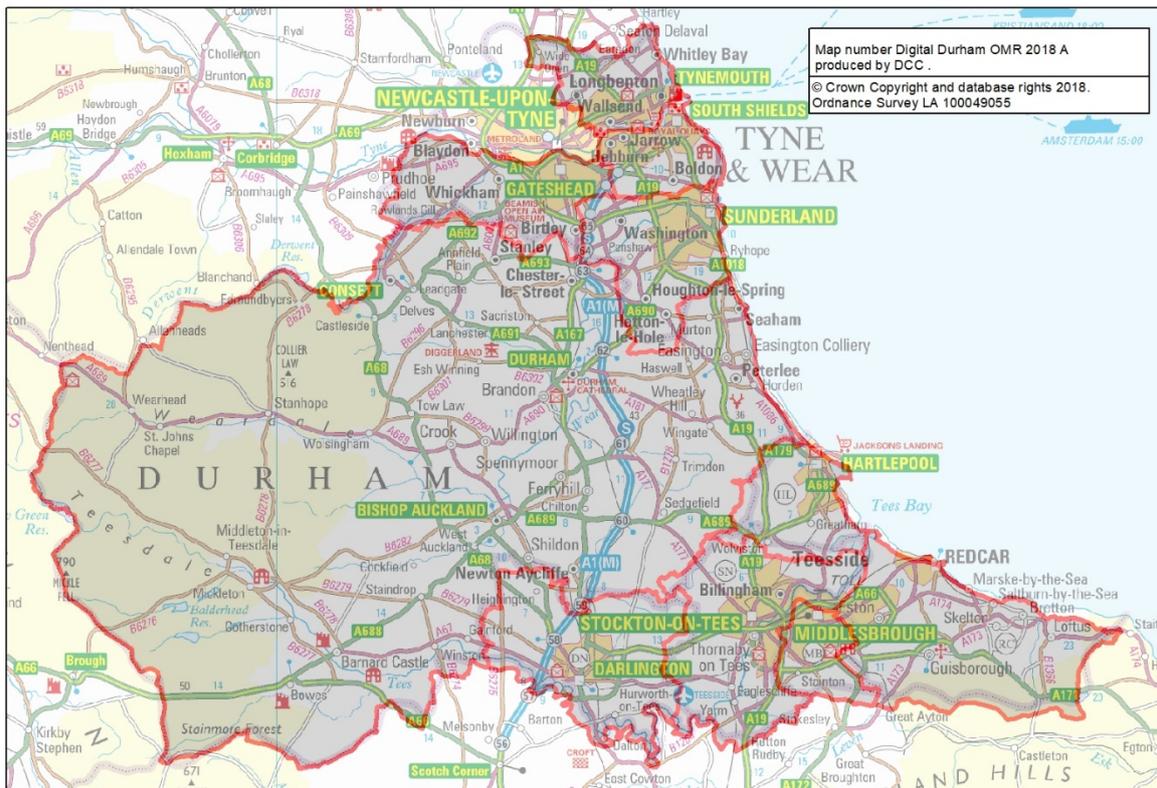
County Durham: Areas of Deprivation



- Areas visible are areas within County Durham are considered to be within the most 30% deprived nationally. The green blocked out areas are not within the lowest 30%.
- OMR 2018 definition of superfast broadband is 30Mbps.
- The public consultation has recently concluded and submissions are being reviewed to determine whether any classifications need to be changed. There may be changes of less than 20 postcodes of the circa 15,000 in County Durham.
- White areas cannot access speeds of 30Mbps.
- Grey Under Review areas (shaded dark blue) are areas where coverage may not be provided and could be considered for public funding to provide improved broadband speeds in the future. Clarity is being sought on reasons why plans or data may change.
- Grey areas can access speeds of 30Mbps or more from one provider, including through publicly funded work from Digital Durham.
- Black areas can access speeds of 30Mbps or more from multiple providers, including through publicly funded work from Digital Durham.
- The change in the definition of superfast broadband has significantly changed the broadband map.

For basic broadband,

- A postcode is classified grey if there is only one broadband infrastructure operator providing basic broadband services of with speeds greater than 2Mbps to that postcode
- A postcode is classified black if there are at least two broadband infrastructure operators providing basic broadband services with speeds greater than 2Mbps to that postcode
- All other postcodes remain white.



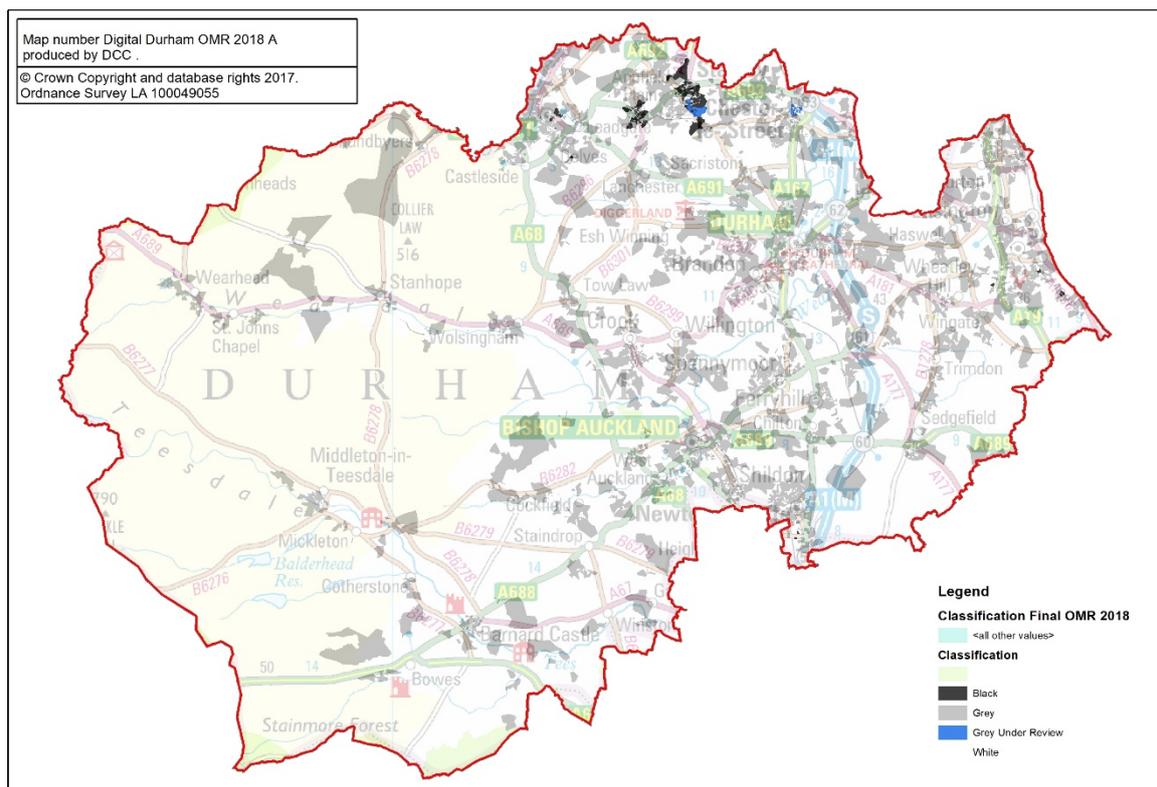
All postcodes within Digital Durham are classified as 'Basic Grey' or 'Basic Black' for this third procurement because of the availability of a basic broadband provision via the Better Broadband Scheme¹

¹ <https://basicbroadbandchecker.culture.gov.uk/guide-to-better-broadband-subsidy-scheme.pdf>

For Next Generation Access Broadband (30Mbps+)

- A postcode is classified grey if there is only one broadband infrastructure operator providing NGA services (with speeds greater than 30Mbps) to that postcode
- A postcode is classified black if there are at least two broadband infrastructure operators providing NGA services (with speeds greater than 30Mbps) to that postcode
- All other postcodes remain white.

In addition, the proposed intervention area includes a number of “under review” areas (coloured blue on the map). These areas have previously been indicated to have planned commercial coverage for NGA broadband (i.e. mapped as grey or black NGA), but those plans have been reported through the OMR as being ‘at risk’ of not being completed. These areas will be subject to continued monitoring and verification of supplier plans within the 3 year period by Digital Durham and in the event that these commercial plans fall away these premises will be mapped as white NGA and form part of the proposed intervention area and eligible for intervention via this aid measure.



The mapping analysis of existing and planned coverage (within the next 3 years) has identified significant remaining ‘white NGA’ areas. The outcome of the OMR is summarised in terms of NGA White, Grey, Black and ‘Under Review’ premises.

Appendix 5: Summary of Potential Funding Available for Contract 3.

Funding	Programme Value	Durham Value	Source	Notes	Status	Date Available
Contract 1 efficiency savings	Up to £7m	£4,579,200	Contract 1 efficiency savings	Programme Value - Around £1m is earmarked for upgrades that were not completed in the timescale for contract 1 but not needed for the successful delivery of required targets. The remaining £6m is available for extending broadband coverage. Should it not be used for superfast broadband coverage, BDUK require their 50% contribution back. Specific amount will be confirmed on contract 1 closure.	Confirmed	Q3 2018
Unused basic broadband funding	£596,000	£342,819	Contract 1 - changes to basic broadband target delivery by BDUK	Should it not be used for superfast broadband coverage, BDUK require their 50% contribution back. Specific amount will be confirmed on contract 1 closure.	Confirmed	Q3 2018
Loan against clawback	Up to £2m	Dependent on authorisation from DCC governance processes	Contract 1	BDUK tracker estimates clawback to already have reach a total of £5.660m from Contract 1 and £2.291m from Contract 2. However, £2m has been declared as part of the public consultation for the most recent OMR. This figure was used as there was no decision in place in relation to the principle of loaning against clawback.		Q3 2018
European Structural funds (EAFRD)	£1,108,195	£1,108,195	European funding via Rural Payments Agency		Decision pending	Final claim to be made no later than March 2020.
Totals:	£10,704,195	£8,030,214				