

Report subject	<b>Core Gigabit Fibre Network</b>
Meeting date	17 July 2024
Status	Public Report
Executive summary	<p>In November 2021, Council approved a £5.87m allocation from Futures Fund (Public Works Loan Board - PWLB - borrowing) to install a 70.5km long core gigabit-fibre network asset, enabling savings, social and economic benefit, and a net surplus income for the Council over a fifty year period.</p> <p>Due to changes in financial circumstances, the scope of the project was revised in August 2023 to £3.35m to deliver 21.6km of fibre network. Phase 1 has involved already installing some ducting during programmed highway works. Phase 2 requires the majority of capital investment. Before Phase 2 begins, this paper draws attention to further significant changes that have occurred since Council approved the project funding and provides options with a recommendation to stop the project</p>
Recommendations	<p><b>It is RECOMMENDED that Cabinet:</b></p> <p><b>Agrees the Preferred Option, to stop the project and not to proceed with Phase 2 of installation of fibre and ducting.</b></p>
Reason for recommendations	<ul style="list-style-type: none"> <li>(i) Due to recent and potentially future volatility with interest rates, changes in market conditions and increases in construction costs there is now less certainty about the viability of the business case.</li> <li>(ii) The project does not meet the current administration's criteria for PWLB borrowing.</li> <li>(iii) Derisks the ongoing project for the council and aligns with the current Corporate Strategy, 'working with partners, removing barriers and empowering others'.</li> </ul>

Portfolio Holder(s):	Councillor Vikki Slade, Leader and Portfolio Holder Dynamic Places; Councillor Millie Earl, Deputy Leader and Portfolio Holder Connected Communities
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Wards	Council-wide
Classification	For Decision

## Background

### What is Gigabit Fibre and a Wide Area Network (WAN)?

1. Gigabit Fibre is the next-generation of high-speed broadband technology. 'Gigabit-capable' means any technology that can deliver speeds of at least 1000 megabits per second (Mbps), or 1 gigabit per second (Gbps).'
2. Gigabit fibre is the foundation for the deployment of other technologies, such as Internet of Things, 5G and public Wi-Fi that enable social impact, community regeneration, industrial transformation and business productivity. It also provides a platform for innovation and the commercialisation of new products and services for the benefit of society and businesses.
3. Existing telecommunications providers have previously committed to providing gigabit fibre where it is economically viable to do so in the BCP area, although volatility in the market means that plans are regularly changing.
4. Wide area networks (WANs) are used by organisations that operate across multiple locations, allowing the exchange of data and sharing of systems between sites. BCP Council's WAN links together a series of Local Area Networks (LANs) using mixed technology, including both BCP owned and private sector leased fibre connections to provide a secure, robust network.
5. There are two components that make up the BCP Council WAN service:
  - I. Fibre connectivity infrastructure which is currently subleased through the WAN operator, from third parties such as BT and CityFibre.
  - II. Operation of the network, including but not limited to: 24/7/365 monitoring and fault detection via a manned Network Operations Centre, failure demand management (break/fix activity), connectivity resilience, subcontractor relationship management, hardware and software patching, secure upstream internet routing and maintaining client isolation from other customers.
6. IT & Programmes are the contract owner for BCP Council's WAN and have been consulted on this report.
7. BCP Council's current agreement is with MLL Telecom to operate the WAN. MML Telecom lease the ducting and required infrastructure from third parties and provide BCP Council with the service. The current contract with MLL Telecom costs the Council approximately £320K per year, covers 86 BCP service delivery locations (at time of writing), and is due to end in March 2025, with an anticipated allowed contractual extension to March 2027.

## Original WAN Infrastructure Cabinet Report and Business Case

8. In November 2021, Council approved a £5.87m allocation from Futures Fund (Public Works Loan Board - PWLB - over a 50-year borrowing term) to install a 70.5km long core gigabit fibre network in the Bournemouth, Christchurch and Poole (BCP) area (Appendix A). This project involves:
  - I. Phase 1: Laying new ducting during the course of planned highways works
  - II. Phase 2: Installing new ducting (not coincident with planned highway works) and gigabit fibre
9. The original project purpose was to generate:
  - I. estimated savings against the fibre leasing element of the Council's £320K per annum Wide Area Network (WAN) as outlined in Table 1 below and in the detailed financial assessment in Appendix A.
  - II. potential income from leasing a fibre asset as outlined in Table 1 below and in the detailed financial assessment in Appendix A (income was not required as part of the original 'Invest to Save' business case)
  - III. better digital infrastructure accelerates the realisation of economic, social and health benefits (not quantified as part of the 'Invest to Save' business case);

Table 1: Original Project Financial Assessment Summary

	<b>Initial Project Cost</b>	<b>Total Costs (Over 50 yr borrowing term)</b>	<b>Total Savings (Over 50 yr borrowing term)</b>	<b>Futures Fund Support (Over 50 yr term)</b>	<b>Income (Over 50 yr borrowing term)</b>	<b>Net MTFP (Surplus) /Pressure (Over 50 yr term)</b>
<b>Original</b>	£5.87m	£14.52m	(£7.97m)	(£8.65m)	Not assessed	(£2.09m)

## Works completed and value achieved to date

10. Approximately 3.0 km of ducting has been installed as part of other highways or grant funded works utilising the Core Gigabit Fibre funding. In addition, approximately 5.5 km of exiting CCTV ducting has been surveyed of which approximately 3.7 km is usable for new fibre. Coupled with approximately 11.7 km of ducting previously laid within government and Dorset LEP funded schemes there is now a council-owned ducting network of at least 18.4 km in place (see Appendix 1). This ducting network can be made available to tenderers for the new WAN contract due to be let in 2026, with a view to achieving savings against fibre leasing costs. In addition, this ducting can also be used to extend public Wi-Fi roll out, typically within the town centres, as well as for CCTV, highways communications and future Smart Place IoT connectivity. There also remains the opportunity of potentially securing income from leasing the ducting to commercial partners.
11. An estimated £474K has been spent to date on completion of Phase 1 and staff costs for contract tender document preparation for Phase 2 which has not yet commenced. A Procurement Decision Record was submitted for approval to go out to tender. The £140.8k for staff costs shown in 2023/24 have been primarily for design and tender preparation for the envisaged £5.87m Phase 2 scheme. This involved doing the design, producing contract drawings, developing the specification, drawing up the contract and preparing the bill of quantities. These staff

design costs equate to 2.4% of the original £5.87m scheme (or 4.2% of the reduced £3.353m scheme).

	2022/22	2022/23	2023/24	Total
Works	£0.00	£154,311.00	£135,000.00	£289,311.00
Staff	£0.00	£38,287.09	£140,837.00	£179,124.09
Consultancy	£4,900.00	£0.00	£0.00	£4,900.00
Totals	£4,900.00	£192,598.09	£275,837.00	£473,335.09

## Revised Business Case

12. In June 2023, following interest rate increases from 3% to 5.5% and increases in construction costs the Smart Place team worked with Finance on a revised financial business case over the 50-year borrowing term. The scheme was redesigned to optimise return on investment. The gigabit fibre network was reduced from 70.5Km to 21.6km, reducing project costs from £5.87m to £3.353m.
13. The revised business case indicated that the project continued to be viable although a further rise in interest rates over the 50-year term could mean the project is no longer viable. Savings were based upon 30 of the existing 86 leased service circuits being replaced with the Council's own fibre and ducting.
14. Table 2 compares the project's revised financial summary with the original business case. The council's MTFP was amended to include the impact of these changes.

### 15. Table 2: Revised Project Financial Assessment Summary

	Initial Project Cost	Total Costs (Over 50 yr borrowing term)	Total Savings (Over 50 yr borrowing term)	Futures Fund Support (Over 50 yr term)	Income (Over 50 yr borrowing term)	Net MTFP (Surplus) /Pressure (Over 50 yr term)
<b>Original</b>	£5.87m	£14.52m	(£7.97m)	(£8.65m)	Not assessed	(£2.09m)
<b>Revised*</b>	£3.35m	£14.99m	(£10.35m)	Removed	(£11.42m)	(£6.78m)

16. The estimated savings apply to the ducting and fibre infrastructure element of the WAN service only. The savings are based upon best estimates following engagement with industry as the current MLL contract does not split out leasing costs and management operational costs. The assumption made for the Invest to Save business case of the component split is 75% of costs relate to fibre connectivity sublease costs and 25% of costs relate to network operation.

## Major Changes since Project Initiation in November 2021

17. Due to the economic climate, interest rates used in the PWLB Invest to Save business case have increased from 3% to 5.5% and this has had an impact on the borrowing required over the 50-year term. This has been mitigated by revisiting the business case, and optimising return on investment ensuring overall savings can still be delivered. A further factor is that construction prices have increased significantly

over the past 3-years. The combination of continuing increased interest rates and construction cost rises significantly increases the risk that the project may become unviable.

18. The BCP Council WAN is due for renewal in March 2025. As a result of delays to the implementation of Phase 2 the fibre and ducting installation will not be able to be completed by March 2025. IT & Programmes have advised that the intention is to extend the contract until March 2027 therefore savings realisation will therefore also be delayed by two years, which negatively impacts upon the business case.
19. The project is now less aligned with strategic objectives. The new political administration has resulted in a new Corporate Strategy and a movement away from the previous Big Plan initiative.

#### **Risk Assessment: Revised Project**

<b>Risk</b>	<b>Description</b>	<b>Mitigation</b>
<b>Stakeholder Support</b>	Not aligned with the current administration Corporate Strategy	Portfolio Holder briefings to provide updated information and get feedback
<b>Financial</b>	Further interest rate rises may occur, leading to increased financial pressure on the Council from borrowing	Business case has already been scaled back following interest rate rise from 3.3% to 5.5%. Options could be explored to scale back further.
<b>Financial</b>	Construction costs have been rising significantly	Business case has been revisited, significantly reducing the project costs and financial risk
<b>Financial</b>	BCP Council WAN (operational) contract is due for renewal in March 2025. Project will now not be complete by March 2025. IT & Programmes have advised of intention to extend the existing contract until March 2027 delaying savings realisation by two years.	Initial work with IT & Programmes on lead times for contract renewal migrate all sites to a new service provider is 18-24 months.
<b>Operational</b>	Uncertainty over estate rationalisation and which buildings will require WAN connectivity	Liaise regularly with Estates to build in rationalisation plans to network design

## Options Appraisal and Next Steps

20. In light of the significant changes that have occurred since project initiation, the emergence of new risks and the completion of Phase 1, new options are being presented for Phase 2.
21. Options Appraisal Summary for the Revised Project: Phase 2

Option	Pros	Cons
<b>Option 1 – Stop Project</b>	Provides the greatest certainty to the council and avoids all other risks associated with the project. Staff resources and borrowing headroom can be redirected elsewhere to align with the corporate strategy and support core services.	Potential savings are not realised.  Loss of potential income
<b>Option 2 – Continue Project</b>	Development of full asset  Potential savings realisation and income generation enables cost recovery by 28/29	Uncertainty of future market conditions, construction costs and potential further rise in interest rates  Less aligned with current Corporate Strategy

22. The preferred option is Option 1: Stop the project for the following reasons:
  - I. Risk of further movement in interest rates, increase in construction costs and volatile market conditions could well lead to costs to the council outweighing the potential savings.
  - II. Derisks the ongoing project for the council and aligns with the current Corporate Strategy, 'working with partners, removing barriers and empowering others'.

## Summary of financial implications

23. That project costs of £474,000 have been incurred to date in delivering the Phase 1 benefits as set out in section 10 and contract tender document preparation as part of Phase 2. This sum is provided for as part of the 2023/24 Financial Accounts set out as a separate report to the July 2024 Cabinet. The councils Medium Term Financial Plan (MTFP) will need to reverse any current 2024/25 base revenue budget and any future year's assumptions as set out in paragraph 25.
24. Due to the uncertainty regarding future delivery, caused by volatility with interest rates, increases in construction costs and changes in market conditions, leading to the cessation of the project, it is prudent to write off these costs in full to the revenue account, using one off corporate resources from the council's contingency fund.
25. The council's MTFP shall be adjusted to remove the anticipated costs (both service related and the cost of borrowing) plus income expected from the implantation of the

scheme as revised as part of the June 2023 business case review. This means a net pressure of £146k in 2024/25, a net saving in 2025/26 of £69k, and net pressures of £65k in 2026/27 and £38k in 2027/28.

### MTFP Impact

#### **Current MTFP assumptions**

	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
MRP movement	(£ 49,000)	£ 48,000	-	-
Interest movement	£ 52,000	£ 133,000	-	-
Service movement	£ 149,470	(£ 112,157)	(£ 65,379)	(£ 38,171)
<b>Total</b>	<b>(£ 146,470)</b>	<b>£ 68,843</b>	<b>(£ 65,379)</b>	<b>(£ 38,171)</b>

#### **Reversal of MTFP assumptions**

	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
MRP movement	£ 49,000	(£ 48,000)	-	-
Interest movement	(£ 52,000)	(£ 133,000)	-	-
Service movement	£ 149,470	£ 112,157	£ 65,379	£ 38,171
<b>Total</b>	<b>£ 146,470</b>	<b>-£ 68,843</b>	<b>£ 65,379</b>	<b>£ 38,171</b>

26. Further costs relating to this scheme are not expected nor budgeted for.

27. The ducting network delivered in Phase 1 can be made available to tenderers for the new WAN contract due to be let in 2026, with a view to achieving some savings against fibre leasing costs. In addition, this ducting can also be used to extend public Wi-Fi roll out, typically within the town centres, as well as for CCTV, highways communications and future Smart Place IoT connectivity. There also remains the opportunity of potentially securing income from leasing the ducting to commercial partners. These potential savings and/or potential income have not yet been modelled and do not form part of this paper.

### **Summary of legal implications**

28. If the preferred option is adopted the Procurement Decision Record would not be completed as this decision would supersede it.
29. There are no legal implications to not proceeding to tender for the construction contract for Phase 2.

### **Summary of human resources implications**

30. In the preferred option, employees working on the project are on the Comensura framework contract and can be called off or reallocated to other grant funded projects within the programme where there is a need for resource.

### Summary of sustainability impact

31. A Decision Impact Assessment has been produced at Smart Place Programme level. Stopping this project within the programme will have no direct positive or negative impact on sustainability.

### Summary of public health implications

32. Stopping this project will not have a direct positive or negative impact on public health.

### Summary of equality implications

33. An Equality Impact Assessment conversation screening tool (Form 1) was produced at Smart Place programme level. Stopping this project within the programme has no direct positive or negative impact upon protected characteristics.

### Summary of risk assessment

34. Risk Assessment: Preferred Option, Option 1 to stop the project

<b>Risk</b>	<b>Description</b>	<b>Mitigation</b>
<b>Financial</b>	Recognition of £474k costs requiring revenue resources.	With Option 1, the project costs to date are a sunk cost and cannot be mitigated
<b>Reputational</b>	Public response to a project being stopped	Clear communications around needing to prioritise the new Corporate Strategy and being an 'enabling' Council; reallocation of resource for core statutory services reduced financial risk for the Council

### Background papers

Accelerating Gigabit Fibre Cabinet Report – November 2021

### Appendices

Appendix 1 - Core Gigabit Fibre Network Phase 1 Map