

Programme Management Group

15 November 2018

Spelthorne: Kickstarting Gigabit City – Item 7a

Programme Management Group Members are asked to:

AGREE:- the recommendation that a grant of £0.5m requested by the applicant is approved for the Spelthorne Kickstarting Gigabit City project.

AGREE: that the project can proceed to contract

1. Background

- 1.1 Following the March 2018 funding call, the Spelthorne Kickstarting Gigabit City project was marked as an A category project by our independent assessors, and was approved to progress to due diligence by the Programme Management Group on 13th September 2018.
- 1.2 Independent scrutiny of each scheme is an integral part of the approval process. The LEP has again commissioned consultants AECOM to carry out the independent assessment and considered the results, contained at section 3 below. The consultants were required to provide confidence to the LEP that a robust process had been followed, that the scheme can be delivered as programmed and that it will achieve the outcomes expected.
- 1.3 The full EOI for the project, along with the AECOM due diligence report is available to PMG on request. Please email helen.caney@enterprisem3.org.uk

2 Details of the Project

- 2.1 The applicant has requested that the project is awarded grant funding from Enterprise M3 which will be repaid from the revenue receipts over a period of 10 years. We recommend that a loan be offered instead over a similar timespan. Having examined the financial revenue streams we believe that a loan is a viable option if the repayments are linked to the income generated by the revenue share model detailed at 2.7 & 4.2 below.
- 2.2 Staines-upon-Thames borough council plans to invest in the introduction of full fibre gigabit access for businesses and residents, known as Fibre to the Premises (FTTP). FTTP provides a pure fibre connection between the exchange and individual premises, delivering highspeed connectivity of up to 1Gbps. The Open Access model will allow any provider to share in the network.
- 2.3 The project will connect most of the town centre and establish a model and ecosystem for other investment to connect the rest of the borough, including connecting the 1,000 new residential units expected over the next 2 years and a new business incubator for the town.

- 2.4 The project comprises the digging and laying of the underlying ducts and fibre cables to create the environment for the gigabit enabled network (grid). The total project cost is £992,729. Staines Borough Council will provide match funding of £500,000.
- 2.5 Staines Borough Council have consulted with a potential partner, VXFIBER, a global company experienced in the deployment and operation of Full Fibre Open Access networks. VXFIBER are committed to match fund the total provided by Enterprise M3 and Staines Borough Council, up to a total of £1.5m. The match funding from VXFIBER would be used to deploy the remaining fibre to connect the grid to the individual residences or commercial units, provision of all the necessary active equipment to ‘put live’ the network and to operate the active equipment.
- 2.6 VXFIBER has indicated, based on their experience, that the total investment of £2.5m from Enterprise M3, Staines Borough Council and themselves would provide sufficient funds to kick-start a full Fibre To The Premises (FTTP) gigabit enabled initiative for the businesses and residents of Staines-upon-Thames.
- 2.7 Staines Borough Council forecast that the project will provide a continuous revenue stream of £100,000 per annum based upon a proposed fee of £4.00 per month per household connected to the network. Evidence to back up demand?
- 2.8 Staines Borough Council have offered to pay back the full capital investment to Enterprise M3 over a 10 year period
- 2.9 Staines-upon-Thames is identified as one of EM3’s ‘step-up’ towns in the Strategic Economic Plan 2018-2030. ‘Step up’ towns are identified as places that are key to ensuring continuous, sustainable and inclusive growth across the Enterprise M3 region. The availability of gigabit speeds would give Staines-upon-Thames a competitive advantage and place it as an attractive destination for inward investment, supporting future job creation in the high-tech and digital industries.
- 2.10 The project would facilitate Spelthorne to become one of the best digitally connected local authorities in the country and as part of the fibre deployment VXFIBER would also aim to future proof the borough by including sufficient fibre in the ducts for other SMART City initiatives such as 5G, public area Wi-Fi and public service Internet of Things initiatives such as eHealth and security. This would contribute to the future EM3 plans for a 5G Region.
- 2.11 SBC indicate that the use of an Open Access model provides state aid compliance as any service provider will be able to share in the network. SBC consider that this model follows the Market Economy Operator Principle (MEOP) concept in that an economic transaction carried out by a public body does not constitute State aid if it is carried out in line with normal market conditions.
- 2.12 Confirmation in writing has been requested from the applicant confirming that state-aid will not apply to this project. If received in time for PMG it will be tabled.
- 2.13 The project will deliver:
- 27 jobs (when taking the VXFIBER investment into account)

3 Independent Scrutiny and Assurance

- 3.1 AECOM has carried out due diligence on the proposal and has recommended that:

- Any such agreement including payment terms, interest and timescale is included in the EM3 contract to provide the grant, as well as having a greater understanding of the margin that is available to EM3 from these revenue figures
- The legal title and ability for SBC to retain revenue is reviewed by a legal team
- A detailed programme is provided by SBC, which identifies the key design phases, procurement period and construction elemental breakdown of works
- A detailed procurement report is produced by SBC, for review, prior to the Grant being awarded
- That the job creation statistics are based only upon the Grant and match funding from SBC which equates to circa 13 jobs being created
- SBC provides written confirmation that they will underwrite any overspend
- Confirmation of whether the costs include VAT is reviewed and considered prior to the Grant being approved
- More cost details are provided regarding the rates of the elements of work, by SBC prior to approval of the Grant
- SBC obtain from VXFIBER a detailed proposal and timescale for delivery of The Project together with examples of similar projects carried out by them either in the UK or elsewhere to benchmark costs and match funding amount of £1.5M within The Project proposal
- SBC provide confirmation of VXFIBER's contribution and detailed breakdown of what that contribution covers and if exceeded, that VXFIBER will cover all additional costs.

4 Finance

4.1 The table below shows the total funding for the project

Table 1

	2018/19	2019/20
EM3 Capital funding	£0	£500k
SBC Capital funding	£0	£500k

4.2 The revenue share model has three layers:

- The groundworks (the ducts and fibre) invested in by both public and private investment. Staines Borough Council will retain ownership of the ducts and receive a proportion of the revenue generated from the services delivered over the network.
- The Active Equipment layer required to operate and support the network invested in by the private sector.
- The 'Retail' layer (the service providers that ultimately sell services over the network to subscribers). Revenue flows from the service providers in the form of a wholesale fee to the network operator (VXFIBER) who share this with the various fibre owners proportionately.

5 Key criteria

5.1 The table below summarises how the scheme performs against key criteria

Table 2

Criteria	Assessment	Comments
Strategic Fit	Good	Aligns with the Strategic Economic Plan 2018-30
Impact of the Scheme	Good	The project will enhance the local and regional economy by stimulating growth and investment in the borough
Percentage of Match Funding	Medium	Match funding represents 50% of the funding
Past Performance of Scheme Promoter	Unknown	Enterprise M3 have not funded any projects with the scheme promoter

6 Project Milestones & Key Dates

Table 3

1 December 2018	Go out to tender for civils construction works
February 2019	Contract awarded
March 2019	Commence works and initiate sales and marketing of connections
October 2019	Civil works complete

7 Conclusion & Next Steps

- 7.1 Staines-upon-Thames have applied for £500k LGF investment from Enterprise M3 to support the Spelthorne: Kickstarting Gigabit City project. The investment will be used to contribute to the capital costs of digging and laying the underlying ducts for the fibre and hardware to create the gigabit enabled environment.
- 7.2 The Spelthorne: Kickstarting Gigabit City project aligns with the Enterprise M3 Strategic Economic Plan 2018-2030 objective to ensure continuous sustainable and inclusive growth in the Enterprise M3 region and supports the region's key digital and high tech sectors.
- 7.3 The recommendations from the AECOM due diligence report will be addressed as part of the contract negotiation. Any recommendations that are not addressed prior to contract signature will be included as conditions for funding.

8 Recommendation

AGREE: the recommendation that a £0.5m grant the applicant is approved for the Spelthorne Kickstarting Gigabit City project with repayments from a revenue sharing scheme.

AGREE: that the project can proceed to contract

Helen Caney
7 November 2018