Summary

At a meeting of the Borders Community Broadband (BCB) Project Board on 28th August it was agreed unanimously that the CBS / BCB Project should not progress any further, as the risks to successful project delivery using the Community Broadband Scotland (CBS) contract model had become much too high. Instead, the Board agreed in principle to opt-in to the national “R100” delivery programme, subject to some additional checks to make sure this was the right approach.

This change was driven by external events (explained later in this note) which impact all CBS projects. Although not yet confirmed, the BCB Board anticipate that most if not all remaining CBS projects (of which BCB is the largest) will choose to opt-out of the CBS model and in most cases opt-in to R100 instead.

R100 is likely to deliver a very similar outcome in the same timeframe planned by BCB, but does not require local community companies to be set up to deliver and run the resulting telecommunications infrastructure. Under R100 any project or contract risk will be carried by the Scottish Government - not a local community company.

Based on the best information available, we understand that three R100 contracts will be let by the end of 2017: for southern, central and northern Scotland. The total value of these contracts is believed to be of the order of £400M, with the contract for the South of Scotland likely to include about 20,000 properties – including those in the BCB project area.

It will take 9-12 months to negotiate and select a successful bidder. It is understood that there is strong UK and international commercial interest in these contracts, because of their size and value.

The roll-out of superfast broadband services under the R100 contracts is expected to start in late 2018 and take about 2 years to complete. Detailed timing won’t be known until the contracts are let and the successful suppliers publish their work programmes. Overall, this timetable is similar to the anticipated BCB programme, had the local project gone ahead as originally planned.

We understand that the R100 contract “philosophy” is very similar to BCB’s, with a focus on encouraging suppliers to deliver the majority of connections over fibre rather than wireless links to “future-proof” the underlying network, as far as possible.

BCB is not expected to have any formal role in the R100 programme, and will be wound down. However R100 have admitted that they are unlikely to be able to reach 100% of properties as was once imagined so there may yet be a role for community projects to help delivery superfast services to the most remote properties.

For that reason, the BCB project will probably be put into hibernation rather than closed down, pending a review in early 2019 once the South of Scotland contractor is appointed and their plans are published. At that point BCB can determine what role – if any – BCB could have working with the contractor to help deliver access to superfast broadband for the most remote properties in the region.
How did we get here?

The development of superfast broadband in Scotland has been fragmented - at least, that’s the polite way of putting it.

The majority of properties (mostly in the cities and larger towns) have had access to superfast services for several years, provided on a wholly commercial basis by suppliers like BT and Virgin. Successive Westminster and Holyrood administrations have aspired to provide 100% country-wide superfast broadband, but have struggled to decide and agree how best to fund and achieve it.

Coverage of commercial services has been augmented by the Digital Scotland Superfast Broadband (DSSB) programme, due to complete by the end of 2017. This programme is funded by the Scottish Government and some local authorities. Public funding was made available to suppliers to extend existing coverage incrementally, building out from what had already been provided commercially. All of the work was won by BT/Openreach. Scottish Borders Council was one of the biggest local authority contributors to the DSSB programme investing c. £8.5M that will bring superfast services to over 20,000 properties in the SBC area.

However commercial coverage and the DSSB programme will still leave many rural areas untouched, and a series of small, local projects sprang up across rural Scotland to explore the potential for community-led projects to deliver superfast broadband in these areas. Pioneering projects across the UK had shown this was possible, most of them exploiting rapid technological development of fixed-point wireless technology. A scoping report was undertaken for the Ettrick valley and surrounding areas by the Southern Uplands Partnership (SUP) in 2015 and helped demonstrate the need and potential for a local project in the area.

Community Broadband Scotland (CBS) was set up by government to support and fund these community initiative, and in southern Scotland 4 projects were formed by amalgamating smaller proposals onto groupings that were (at the time) all thought to be commercially viable. The Borders Community Broadband (BCB) Project, originally named “Ettrick and Beyond”, was one of the largest – if not the largest – of any of the CBS projects, potentially spanning up to 2,500 properties.

Building on the SUP scoping report, the project was formalised in the summer of 2016 with the offer of CBS grant funding. A voluntary Project Board and delivery team established in September of that year to take the project forward, working closely with CBS.

Part of that early working included a State-Aid Public Consultation (SAPC) which queried the market to check what plans they had – if any – for developing commercial services in the project area. Not surprisingly, this confirmed there was no interest, and so little or no prospect of commercial investment in superfast services coming soon to the BCB project area.

At around the same time, the Scottish Government announced a new programme – Reaching 100% (later known as R100) - that would be tasked with filling in any gaps once commercial investment, the DSSB programme and community projects had run their course. The R100 remit and policy was vague, and it was not clear at that stage what – if anything – was on offer from R100 to communities who were by that time within a potential CBS project area.

By January 2017 the BCB Project Board had determined that the choices were becoming so complex that a formal option appraisal was necessary, to be sure of exploring everything in a careful and systematic way before deciding what would be the best way
forward. This work was given a boost in March 2017 when SBC agreed to make a “start-up” grant available to the project, which allowed Technical Consultants to be appointed to help develop the option appraisal. It was completed in July 2017, concluding that a community-led CBS project was the best option, with R100 as the fall-back position.

The full option appraisal report can be found in the Documents section on the BCB website: http://www.bordersbroadband.co.uk/content/documents

What’s changed?

In the last 3 months, a series of external events outwith the control of BCB have all impacted on the project.

- One of the biggest “small” operators of community networks – AB Internet Ltd – went into administration in July 2017, shortly after winning the CBS GigaPlus Argyle project. This cast some doubt on the commercial viability of remaining CBS projects.
- Market engagement by BCB and feedback from our Technical Consultants confirmed that suppliers were finding the cost of bidding for CBS projects disproportionate, and that on-going overhead costs (to meet CBS contract requirements) made most CBS projects commercially unsustainable.
- In July 2017, suppliers sought urgent talks with CBS regarding terms for contracts that were at the bidding stage. We understand that suppliers sought relaxation of some of the more onerous requirements, but this was refused by CBS.
- As a consequence, two CBS projects collapsed either because no compliant bids were received, or because suppliers gave notice they would not bid. A third CBS procurement has since been abandoned, and one large project has decided to walk away from CBS and attempt a private-funded solution.
- Around the same time, an announcement was made by the DSSB programme that the roll-out had come in under-budget, and take-up had been in excess of supplier targets and a “rebate” due of approx. £15M would be re-invested in an extension of the programme. This investment was known as “gainshare”.
- CBS confirmed that some of the re-investment would encroach on the BCB project area, and reduce BCB scope but for commercial reasons they could not be specific about how many properties would be affected, nor where they were. Best estimates suggested that around 500 properties might drop out.
- While the gainshare investment was welcome news, especially for those who would now be connected as part of the DSSB programme, BCB was concerned that that this would probably take a lot of the relatively “easy” properties out of the project, and make those remaining unsustainable. This could make the commercial risk profile for the BCB project much worse, and deter suppliers. However, as CBS could not confirm precise impact, the risk to BCB could not be assessed.
- With the help of a specialist procurement advisor, BCB sought to “rescue” the position by proposing changes to the CBS contract to address supplier concerns. BCB’s market contacts had confirmed informally that if contract changes could be made, then unlike smaller the CBS projects BCB was still big enough to be commercially sustainable. Two major suppliers expressed an informal interest in the project, despite the difficulties with other CBS projects.
- Discussions with CBS to negotiate changes revealed that the contract difficulties stemmed from additional contract clauses and conditions that had been added to meet SRDP funding standards, and were a requirement of the Scottish SRDP funding team – not CBS (CBS core funding came from Europe, via the CAP and was administered in Scotland by SRDP).
- BCB’s understanding is that CBS had attempted to negotiate changes to the contract with SRDP but these had been refused. It was therefore very unlikely BCB
could affect any of the required changes without Ministerial intervention, and that seemed unrealistic.

- A external review of CBS was undertaken in August 2017, although the findings have not been made available to BCB. Informally, CBS acknowledged that their approach had not worked commercially and strong signals were sent to suggest that projects should consider very carefully if they wanted to continue under CBS. Although unsaid, the message was clearly that that projects should opt-in to the R100 programme instead.
- The final “body blow” came from R100 in August 2017. Up to that point, it had been understood by BCB that R100 would offer a guaranteed “safety net” for CBS projects, so that there would always be a fall-back position should a community project fail, or have to be abandoned. R100 announced that this could no longer be guaranteed. They would attempt to “pick up the pieces” but no more than that. Furthermore, it was impossible to transfer CBS budgets (European) to the R100 programme (UK/Scotland) so if the BCB project failed there could be no project, no budget and no fall-back.

**What happens next?**

Unless there are any unexpected further developments (not impossible – this project has seen lots of them) the BCB Project Board will formally agree to opt-in to R100 around the end of October 2017. A formal decision to opt-in must be made no later than 17th November 2017.

What follows is BCB’s best estimate of what will happen next. BCB has no formal role in the DSSB or R100 programmes so cannot guarantee this is accurate:

- Properties that will benefit from the DSSB gainshare re-investment will probably hear from BT/Openreach in the next few months about plans for their area. BCB has no further information on this.
- Bids for the R100 contracts will be invited around the end of 2017. All properties originally in the BCB project area will be included in the R100 south-of-Scotland contract scope.
- The R100 contract will be let towards the end of 2018, with roll-out starting soon after. Roll-out will probably take at least 2 years. BCB has no further information.
- R100 have confirmed that as they are operating on a fixed budget, they cannot guarantee reaching all properties, although that is their objective.

The BCB project will be put into hibernation, until early 2019. At that point, it may prove beneficial to re-start the project, but in a different guise to work alongside the successful supplier to deliver a community-led solution for the most remote properties. As they say, watch this space …

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