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ALL MATERIAL SHOWN HERE IS PROVISIONAL AND SUBJECT TO CHANGE



Outside In Market Engagement Event

Session 1: Procurement process
23 June 2020

Introduction

9.30 - 9.40

Objectives for the day

What we want to achieve from today's market engagement

Communicate

Communicate how BDUK has refined the approach for the Outside In Programme in line with feedback from the Industry.

Discuss

Discuss the proposed procurement process to allow Industry to plan for the launch of the programme.

Feedback

Seek your feedback on areas where BDUK could provide additional clarity and/or training.

Challenges

Identify challenges with the proposed procurement process, including suggestions how to make it work for the market.

Programme update

9.40 - 9.50

Programme update

We have progressed the following since our last meeting in February

- We have considered your feedback from the **RFI and the 1-to-1 sessions** to further develop the procurement strategy
- The Dynamic Purchasing System (**DPS**) **process has been fine tuned** accordingly. Work is underway to develop the IT systems and the DPS platform
- Today's session is not about the State aid approach, **a detailed session to explore all aspects of the subsidy regime will follow**, as will training in how it will be applied.
- Programme is **currently going through cross-government approval process** (DCMS Finance Committee, Infrastructure and Projects Authority, Major Programmes Review Group)
- We have **drafts of the contractual documents, ITT documents and templates**
- Our engagement with Local Authorities and Devolved Administrations is progressing well to develop the detail of the target operating model. We are looking to **finalise the model in Autumn 2020**
- We still plan to accept suppliers onto the DPS in January 2021, with a view to **issue the first call off ITT in May 2021**

All information in this presentation is subject to change

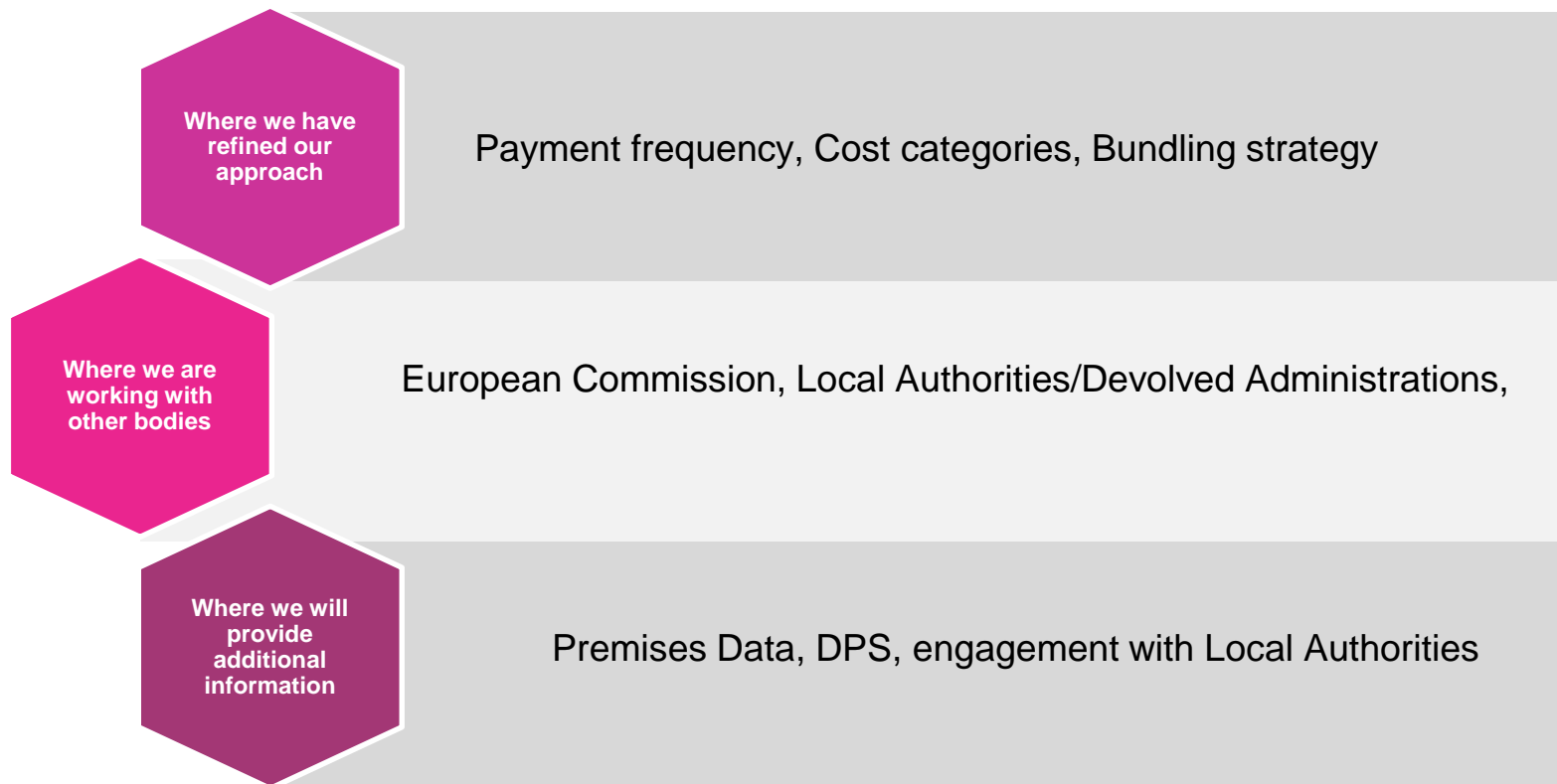
Key themes from the market engagement so far

Feedback from February Engagement, RFI and 1:1s has been valuable in finalising the procurement strategy

	Key themes of the feedback
Procurement approach	There was a general consensus that it was the appropriate approach given the programme time scale and roll out ambitions. Suppliers said that they would welcome additional training on the DPS and call-off process to improve their understanding.
Payment frequency	There were concerns around the proposal of a single payments at the end of Stage 1 and 2. Suppliers flagged that this would lead to cash flow issues.
Rate card approach	From a pricing perspective, suppliers thought that it would be challenging to submit a rate card at DPS stage as the build costs could vary considerably by geography.
Bundling strategy	Some suppliers were opposed to the bundle size of c.3,300 premises. The larger companies argued for larger bundles to ensure economies of scale and more long term contracts for increased certainty.
Procurement timeline and market capacity	There was consensus that the procurement timeline was ambitious and that there would be significant competition for civil engineering resource. A slower ramp up of procurements was generally preferred.
Prioritisation of bundles to be released	Suppliers wanted to know how bundles would be prioritised and to what extent they would be able to influence which areas BDUK would intervene in. Suggestions were raised about being able to highlight to BDUK areas with demand and capacity.
Operating Model with Local Authorities	Several suppliers raised the importance of the Local Authority for delivering the 2025 challenge, noting it is important to have local public sector and resident buy in and consider resource constraints in Local Authorities.

How we are refining the programme

Feedback from February Engagement, RFI and 1:1s has been valuable in finalising the procurement strategy



Pre-Procurement

9.50-10.20

Overview of this section

We are going to update the market on our progress on the following:

- > Procurement profile
- > Procurement pipeline
- > The bundling process
- > Illustrative bundles
- > Next steps

Procurement profile

Our procurement profiles align BDUK's policy aspirations and the ability of the supply chain to deliver

- We have refined the 3 models we presented at the February engagement event
- We have retained the first scenario and modelled 2 new scenarios, which will be constantly updated once the procurements start
- New modelling is informed by the requirement release principles and discussions with the market on capacity, ability to mobilise and ramp up
- The profiles consider other major national construction projects that are likely to compete for resources (e.g. commercial build, Crossrail 2)
- We have based the new models on how many premises Outside In needs to pick up after other interventions conclude or reach throughput capacity
- We are showing scenarios to 2030/31 and a scenario to 2025, however these remain scenarios and are subject to change

Procurement pipeline

BDUK will prioritise those most in need, starting near commercial build locations

BDUK will be procuring bundles in different areas across the UK in parallel.

The location of bundles will be chosen as a balance of:

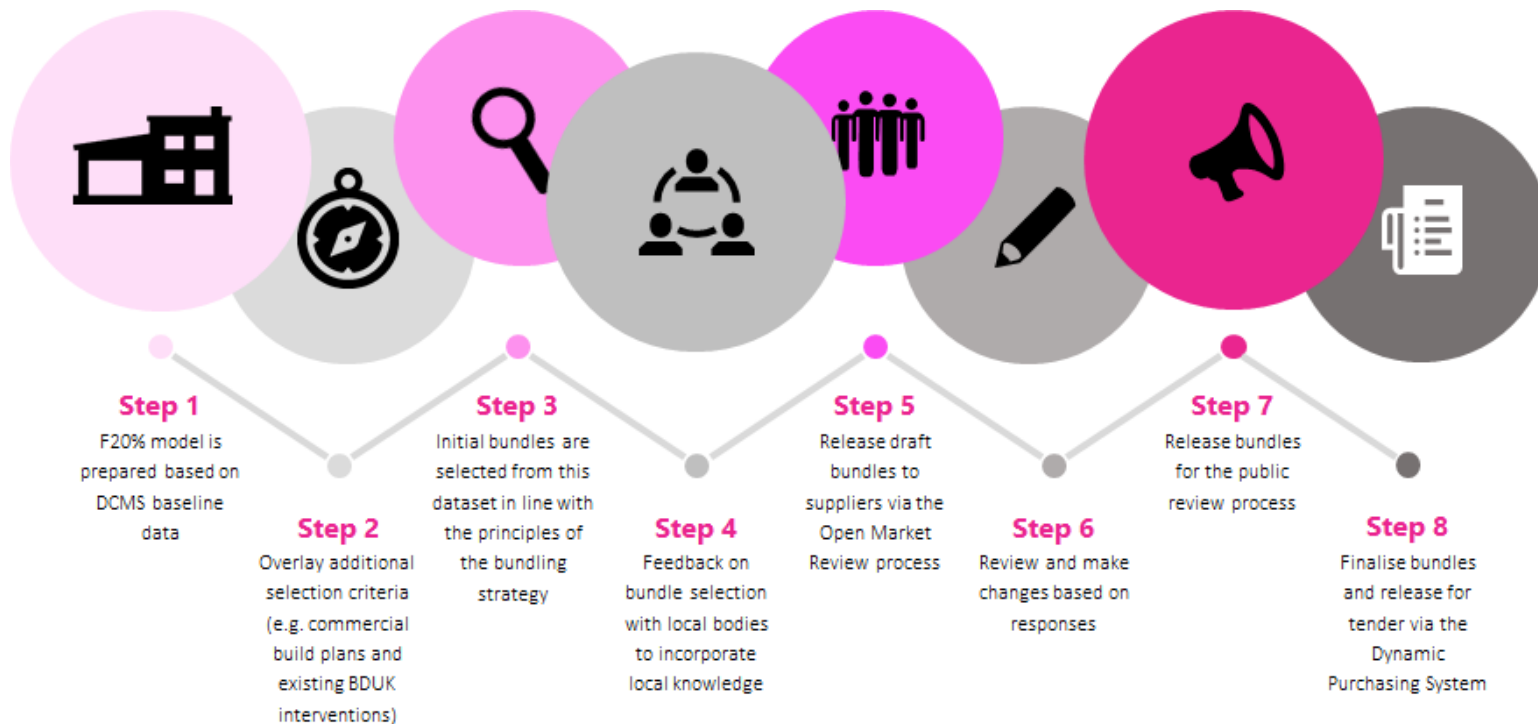
- Areas where existing Superfast build has concluded/is concluding
- Areas with the greatest connectivity needs (i.e. with higher proportions of sub-30Mbps)
- Areas identified by Local Authorities as having the greatest local benefits (e.g. economic development zones)
- Areas accessible from network operators' current / planned build activity, and where there is sufficient market capacity and interest

BDUK will publish its multi-year planned pipeline of bundles in order to consult on approximate location, time and budget.

- Suppliers and other stakeholders, e.g. Ofcom will have an opportunity to review the pipeline and propose modifications to location or timing ahead of each tranche of procurements.
- A pipeline will be issued every quarter from next year with draft versions shared with the market as we develop them later this year.
- Initial years will have the most detailed information with later years becoming increasingly indicative and high level.

Bundling Journey Overview

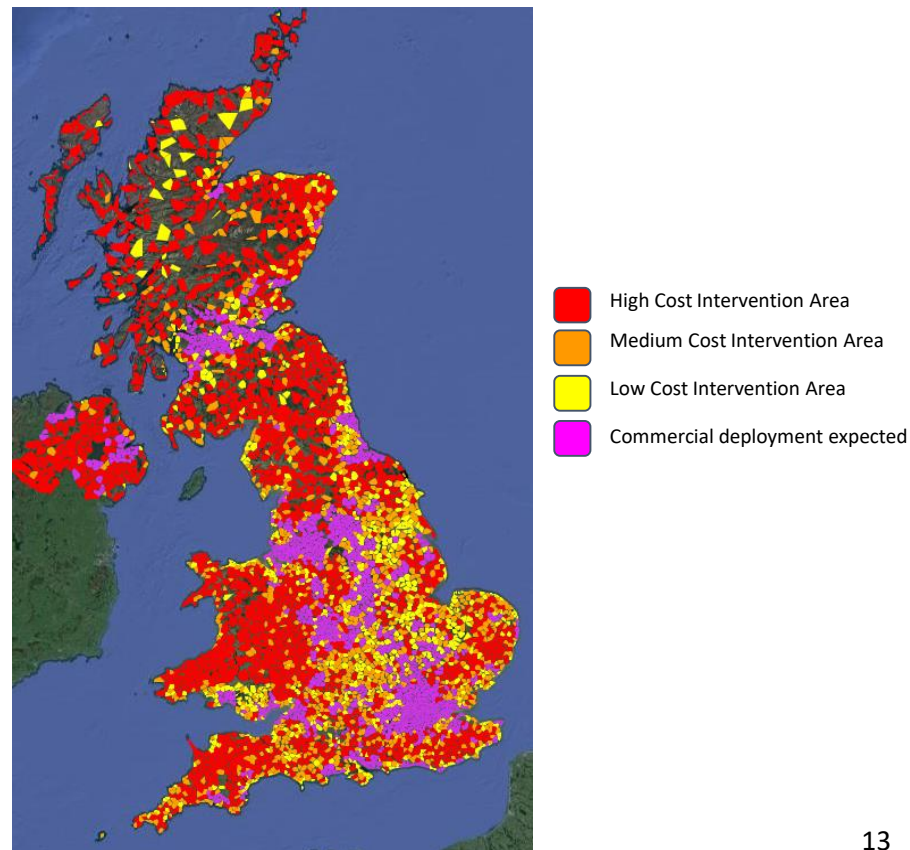
BDUK will undertake the following journey to validate the data and achieve the finalised bundles ready to release via the DPS



Step 1: Identify F20 premises

The initial F20 model is the first step in identifying and prioritising Outside In intervention areas

- We currently define the F20 as the c. 6m UK premises that our models indicate have the highest per premise FTTP build costs.
- A weighted combination of 11 models is used to estimate the relative cost of building each individual premise in the UK. This forms the basis of our modelling of the F20.
- We've aggregated premises by pseudo Openreach exchanges and exclude premises within existing gigabit postcodes
- Pink exchanges are those in which 50%+ premises are in Ofcom Area 2 i.e. expected to be commercially competitive.
- Residual exchanges are colour coded to reflect the expected costs of building F20 premises.
- **The overall F20 model forms a starting point for identifying bundles and areas of priority.**



Steps 2 - 4: Overlay commercial build plans and refine model

The initial F20 model will be refined to exclude premises that do not satisfy eligibility criteria

- BDUK will need to continually assess the commercial build in the F20 and any demand stimulation from BDUK delivery mechanisms. This will enable BDUK to identify which areas to target next.
- So far, draft bundles are currently composed of premises grouped by Exchange area. Exchange areas in which there is ongoing or planned Superfast build are excluded entirely. These criteria are subject to ongoing refinement.
- Exchanges are prioritised which contain a high proportion of premises:
 - In the final 20%
 - Without access to fibre
- Exchanges are also chosen:
 - Not so close to existing commercial build that they would be higher risk of deadweight/overbuild
 - Not so far from other existing build that suppliers won't be able to create a contiguous network
- For draft bundles, commercial build plan data has not been used.
- In order to help avoid targeting areas of likely commercial activity, **BDUK needs suppliers to submit commercial build plans.**
 - To reduce duplication, the build plan data collection will be patterned on the Ofcom Connected Nations report.
 - The wider market will also be invited to provide build plans.
 - Together, this will form a master data set of UPRN level data, grouped by Exchange, which will inform the selection of bundles.
 - BDUK has commenced discussions with local bodies to help validate the bundles with their local knowledge.

Step 5 - 6: Open market review process

Once the premises within each bundle have been identified, Suppliers will be asked to feed back through an Open Market Review (OMR) process

- The OMR process invites the entire market (not just suppliers on the DPS) to provide feedback and comment on the premises that make up the proposed intervention area.
- This feedback will be used to ensure that all premises being proposed are eligible for funding.
- BDUK will seek evidence from suppliers of their existing and planned commercial build in each area. This will include both premise level data on suppliers' build, and qualitative evidence to support this data. Evidence could include a business plan, a detailed calendar deployment plan, proof of adequate financing, etc.
- This data will be used to adjust the original list of premises for each bundle, to create the final list of premises that will be used for the public review.
- We will share the working specification for the data collection element of the OMR in due course. As much as possible, this has been designed to be consistent with the Ofcom data collection of premise level data.
- This is still being refined and may change.
- **Please let us have any feedback on this specification and whether you will be able to provide data in this format.**

Step 7 - 8: Public review & bundle finalisation

The final step of the bundling process involves a public review

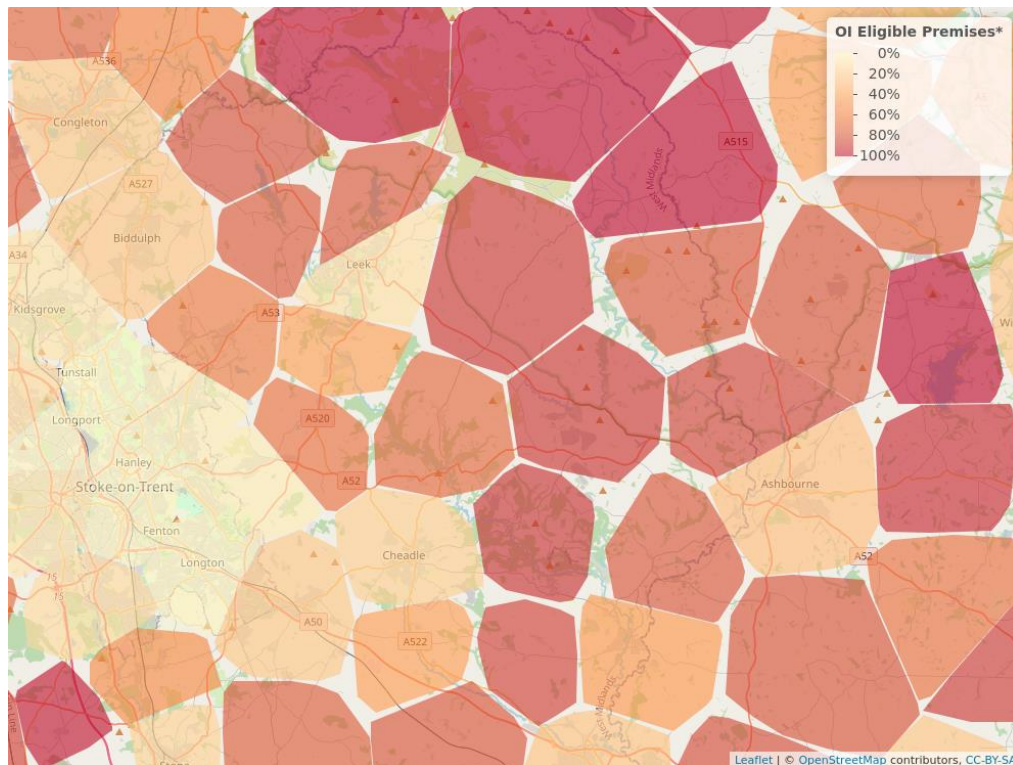
- The final stage before issuing the **final requirements to the market will be for BDUK to run a public review*** on the proposed intervention area.
- This will allow any party to raise concerns over the intervention and any changes made as a result of the OMR.
- **All responses to the public review will be reviewed and addressed** ahead of finalising the requirements. This may result in further amendments to the proposed intervention bundles in the removal of some premises from the requirements.
- Final versions of the bundles are then ready to be released via the DPS for tender.

*Public review is currently referred to as 'public consultation' in the Superfast Programme. The name has been changed as 'consultation' has different connotations and may cause some confusion

Illustrative bundle: Staffordshire Moorlands

Below outlines what a real-world bundle could be comprised of. We select bundles with deliverability in mind.

- We understand the difficulty in building networks in rural areas. So we have considered the following when creating a bundle:
 - Select predominantly Red exchanges with a high density of F20 premises
 - exchanges within relatively close proximity of commercial build areas, to take advantage of the backhaul.
 - Attempted to avoid dividing exchanges with rivers, rail lines and motorways etc.
 - The timescales to complete these bundles are fairly short, so we have limited the number of premises in extremely rural bundles.

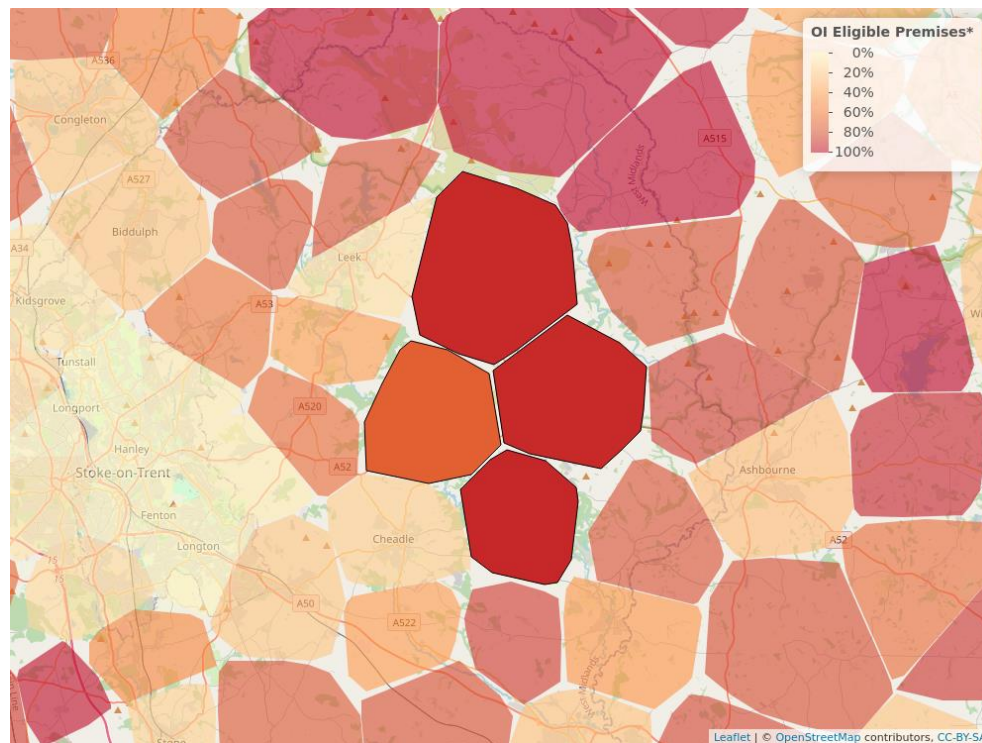


*OI Premise Eligibility: 1) In the final 20%, 2) No current fibre

Illustrative bundle: Staffordshire Moorlands

Bundles within close proximity to a commercial build will be prioritised

- The exchanges that have been bundled together are within close proximity to a commercial build in Leek and Cheadle.
- The number of premises has been kept to 3k in this example of a bundle, due to concerns around completing the delivery within 2 /3 years?
- The area is comparatively close to Stoke on Trent, for access to materials and labour resources.

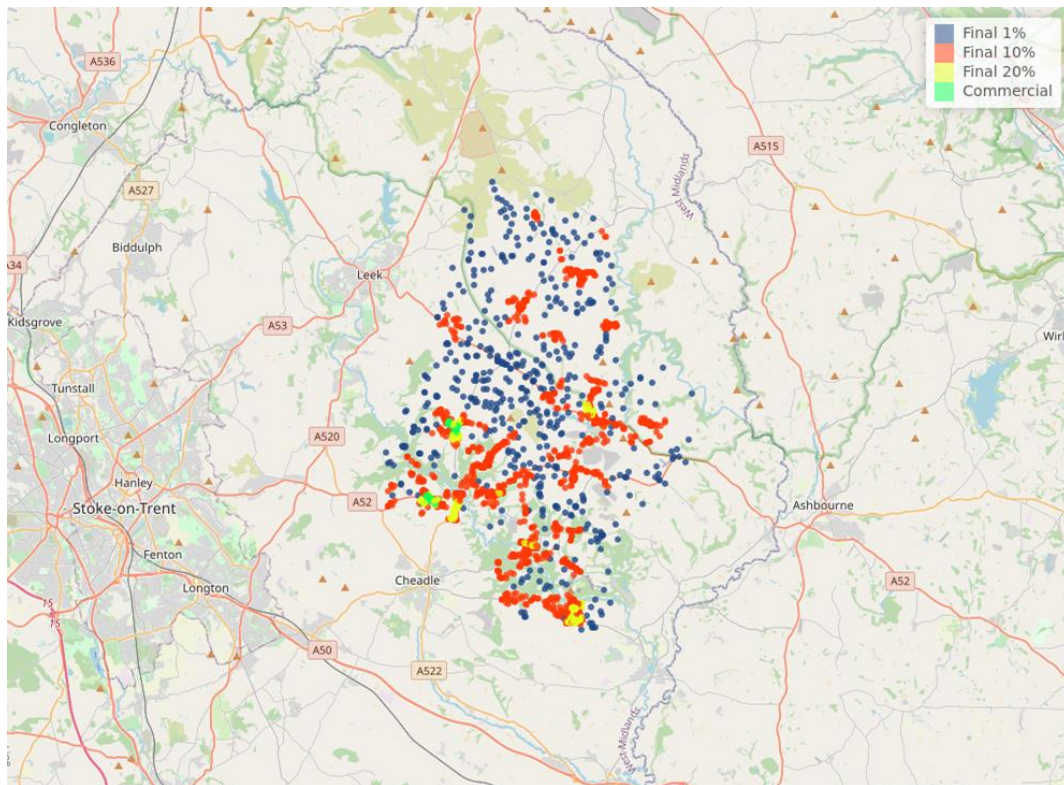


*OI Premise Eligibility: 1) In the final 20%, 2) No current fibre

Illustrative bundles

Bundle size and make-up will vary regionally

- Illustrative bundle: Staffordshire
 - This map shows the premises within this illustrative bundle, coloured by commerciality scores from the F20 modelling
 - 3700 premises in total
 - 3250 premises are in the final 20% (88%)
- Approximately 30 bundles have been identified so far, ranging from 1000 to 8000 premises, with an average of 4000



Next Steps

In the coming months we will be requesting your commercial build plans to inform the bundle creation and sharing data with you for feedback

In Development:

- We are also formalising the methodology and system for collecting commercial build plans on a regular basis once the programme is live. However, we want to work with suppliers to gather any available data from now.

What we will share with you:

- An exchange level view of our F20 modelling with information of the relative cost and percentage of F20 premises
- Information on sample bundles
- Open Market Review (OMR) draft specification to be shared in the near future.

What we need from you:

- Please inform BDUK about commercial build plans to help us inform where we locate the bundles.
- Feedback on the sample bundles
- Feedback on specification for the OMR in due course to highlight any areas where this data request and process flow will not be deliverable.

To be aware of:

- Data from delivery on existing BDUK programmes will continue and be fed into the bundling strategy for Outside In.
- Superfast programme and Gigabit Vouchers will continue to deliver connections in the hardest to reach areas
 - Some Superfast contracts in train to 2025 or later;
 - LFFN and RGC projects will complete delivery in 2021;
 - Funding for demand led measures (hubs + vouchers) expected to continue as part of UK Gigabit Programme.

Information that we will share with you

We are still refining our approach and will keep consulting with Suppliers in the coming months

We will share from the f20 modelling:

- The list of pseudo exchange areas, the number of premises they serve and for exchanges in Ofcom Area 3:
 - Percentage of modelled f20 premises aggregated into 4 bands:
 - 0 - 30%
 - 30 - 60%
 - 60 - 90%
 - 90%+
 - Relative cost of addressing f19 premises averaged to exchange level, and presented in three bands:
 - Low
 - Medium
 - High

(no UPRN level data will be shared at this stage)

We will share sample bundle data as follows:

- 3 sample bundles
 - Small, medium & large,
 - Lists of UPRNs,
 - Exchange & bundle names,
 - Maps showing where the premises are located

The Procurement Process

10.45-11.30

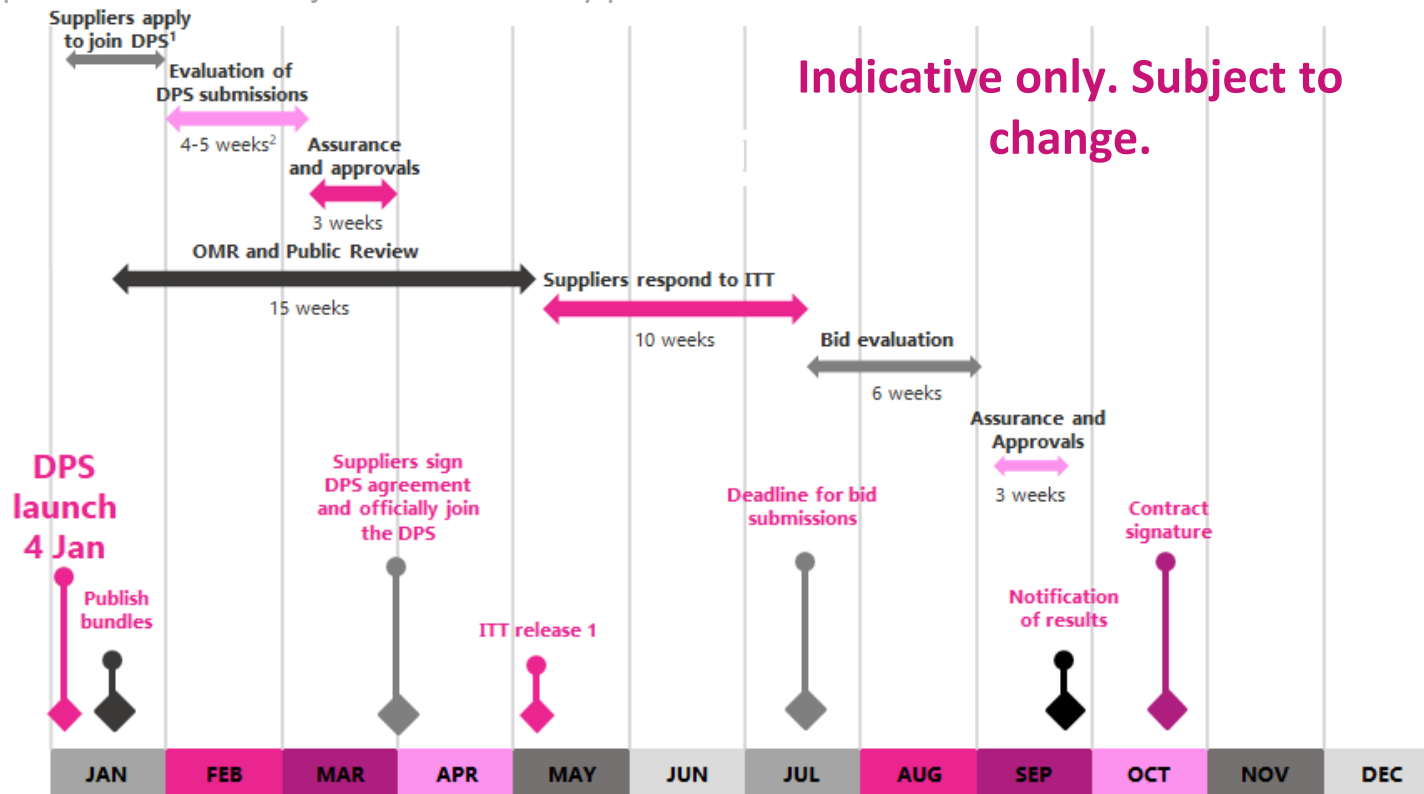
Overview of this section

We are going to update the market on our progress on the following:

- > Procurement Timeline
- > DPS: Submission Requirements
- > DPS: Evaluation Criteria
- > Continued Membership of the DPS
- > Grant Award: Submission Requirements
- > Grant Award: Evaluation
- > Worked Example
- > Next Steps

Procurement timeline

This diagram illustrates the draft procurement timeline for 2021, from when suppliers are first able to apply to join the DPS. Suppliers can choose to join the DPS at any point.



¹ This is an illustrative timeline only. Suppliers can apply to join the DPS at any time after the launch

² BDUK will aim to process each application within 30 days

DPS: Submission requirements

To join the DPS, Suppliers have to submit a 3-part questionnaire

Supplier Submission Questionnaire	Submission Requirements
Part 1 - Potential Supplier Information	Organisation details
Part 2 - Exclusion Grounds	These are the grounds set out in regulation 57 PCR. If a Supplier satisfies one or more of these grounds for exclusion, BDUK reserves the right to exclude the Supplier from further participation in the application process to join the DPS, subject to the Supplier's ability to self-clean.
Part 3 - Selection Questions	<p>Economic and Financial Standing</p> <ul style="list-style-type: none"> ● Completed Financial Standing Template ● Latest three years' worth of audited financial statements. (<i>Suppliers may be required to provide additional information, e.g. a parent company guarantee or management accounts, on request</i>) <p>Technical and Professional Ability</p> <ul style="list-style-type: none"> ● Case study of network delivery in rural areas and maximum build rate achieved ● Description of Gigabit capable technology(ies) that the Supplier would intend to use <p>Compliance Requirements</p> <ul style="list-style-type: none"> ● Appropriate Insurance held ● Cyber Essentials or Cyber Essentials Plus certification held ● Compliance with Section 54 of the Modern Slavery Act 2015 ● Agreement to report costs to the level of detailed outlined in the Cost Categories Schedule ● Agreement to the Competition Process Agreement ● Agreement to the Asset Re-use Code ● Agreement to the DPS Agreement

DPS: Evaluation criteria

Criteria to join the DPS are evaluated on a Pass/Fail basis

Criteria	What we are looking for
Technical and professional capability/capacity	<ul style="list-style-type: none"> ● Experience delivering Gigabit speeds (Gigabit Capable NGA) in rural areas ● Experience of broadband network operations
Financial robustness and financial capacity	<ul style="list-style-type: none"> ● Healthy financials (Operating Margin, Net Debt to EBITDA Ratio, Acid Ratio, Net Asset Value) ● Potential mitigations where financial information is not available or lacking ● BDUK may request additional information such as guarantees from a parent company or bank and/or management accounts
Technology solution	<ul style="list-style-type: none"> ● Demonstration of ability to offer a suitable technology that will result in the technical requirements being met
Wholesale prices & products	<ul style="list-style-type: none"> ● The Wholesale Price Book is completed in compliance with the Instructions, with all required fields completed ● Provide outline of State aid compliant wholesale product descriptions and technical specifications to describe the proposed products.
Asset Re-use Code	<ul style="list-style-type: none"> ● Agreement to Asset Re-use Code
Terms and Conditions	<ul style="list-style-type: none"> ● Agreement to Terms & Conditions
Insurance	<ul style="list-style-type: none"> ● Supplier has appropriate insurance in place
Cyber Essentials	<ul style="list-style-type: none"> ● Supplier has a Cyber Essentials certification
Grounds for Exclusion	<ul style="list-style-type: none"> ● Supplier has not met any of the grounds for exclusion without sufficient self-cleaning in place.

DPS: Financial standing

Ensuring necessary financial standing and robustness at each stage in the procurement cycle

DPS entry application

Suppliers must provide some limited financial information:

- Audited accounts for the previous three years
- Complete a template of financial inputs
 - Turnover
 - Operating profit
 - Net assets
 - Cash/debt facility
 - Weighted average cost of capital
- Agreement for a credit check to be run

There will be no threshold however:

- **All DPS entrants must evidence they are revenue generating.**
- The Authority may request additional information from the Supplier to gain assurance that the Supplier would be able to deliver a single contract (e.g. some form of guarantee).

Ongoing turnover monitoring

After each Grant Award, DPS managers will review the committed funding and notify Suppliers if the below may be applicable.

*Suppliers may be required to evidence additional support if an award would result in the **total grant** received for Agreements being executed concurrently **exceeding 100%** of that Supplier's **annual turnover**.*

Suppliers on the DPS will also re-submit the template of financial inputs annually for ongoing financial health visibility.

Grant award tender

Information from the financial statements and additional evidence supplied by the Supplier will be used to test the Supplier's ability to **meet the maximum capital drawdowns** forecast for build.

Continued membership of the DPS

Suppliers have to meet certain conditions to remain on the DPS

Each Quarter throughout the DPS Agreement Period, the Parties shall attend a Quarterly Meeting to review and discuss:

- risk and issue management
- continuous improvement of the Outside In Programme and training opportunities
- the Authority's upcoming Requirement Releases, Pipeline and eligibility of premises
- Any recently submitted DPS Reports

The Supplier will also need to submit the following reports:

- DPS Annual Certification (annually)
- Financial Standing Template (annually)
- DPS Quarterly Feedback Report (quarterly)

Grant Award: Submission requirements

Grant agreements will be competitively awarded based on the following submissions

Submission	Submission Requirements
Bidder Response Document	Detailed Technical Solution & Network Diagram Detail of the Bidder's Technical Solution including Network diagrams and responses to the Technical questions.
	Additional Questions Questions on the Bidder's in-life support arrangements, driving take-up and contract management, including a risk register.
	Project Plan A detailed plan of Stage 1 - Network Detailed Design and Due Diligence and Stage 2 -Build.
	Social Value A plan of how the Bidder will create Social Value.
Financial Schedule	We will cover this in Session 2 on the 30th of June.
Additional financial information	Bidders will be required to evidence their ability to meet the maximum capital drawdowns. The Authority may request additional information.

Grant Award: Compliance criteria

These are the criteria that BDUK will be looking for when evaluating bids

Requirements

Evaluation Criteria

Associated tender documentation

Technical solution compliance

- Technology qualified as part of DPS entry
- Ability to reach all premises

Bids that do not meet the requirements will be excluded

- Bidder Response Document - Section One Technical Solution Design including Network maps

Total grant requested (Authority budget)

Bids must not exceed budget restrictions. Budgets will be provided as range and discussed with the market during pre procurement market engagement

- Financial Schedule

Bidder funding availability

Bidders must provide evidence of their ability to meet the cash flow requirements of the project and any risk mitigation measures

- Financial Schedule
- Financial information

Grant Award: Technical solution quality

These are the criteria that BDUK will be looking for when evaluating bids

Requirements

- The solution components should be clearly documented, along with suitable design approaches and operational procedures that are consistent with industry practice
- The solution should be upgradeable and extensible

Evaluation Criteria

- Bids will be scored based on the technical merit of the solution design including longevity and capacity for future upgrade

Associated tender documentation

- Bidder Response Document - Section One Technical Solution Design including Network Maps

Grant Award: In-life support and demand

These are the criteria that BDUK will be looking for when evaluating bids

Requirements

- At least one Retail Service Provider (RSP) should be expected to resell the wholesale products to offer services to end users
- The wholesale access products should have appropriate prices, set with reference to appropriate price benchmarks
- The supplier has processes in place for operating the network e.g. order handling, fault management

Evaluation Criteria

- How many RSPs the bidder is expecting to attract and the likelihood of doing so
- The breadth of RSPs and whether the solution is likely to result in a wide range of retail/end user offerings

Associated tender documentation

- Bidder Response Document - Section Two In-life Support

Grant Award: Build

These are the criteria that BDUK will be looking for when evaluating bids

Requirements

- There must be a robust build approach and transparent timetable
- There must be a risk register to document the risks that may affect the timetable

Evaluation Criteria

- Whether the bid provides confidence in its approach to planning, deployment and testing.

Associated tender documentation

- Bidder Response Document - Section Three Contract Delivery including the Project Plan and Risk Register
- Financial Schedule

Grant Award: Contract & stakeholder management

These are the criteria that BDUK will be looking for when evaluating bids

Requirements

- The bid must meet the stakeholder management priorities of BDUK, e.g. interfacing with the Local Authority, planning authorities, and communities

Evaluation Criteria

- The level of commitment and investment to joint working with BDUK, the Local Authority, existing suppliers and other stakeholders
- Confidence in suppliers ability to manage and maintain the contract

Associated tender documentation

- Bidder Response Document - Section Three Contract Delivery

Grant Award: Speed & cost

These are the criteria that BDUK will be looking for when evaluating bids

Requirements

- All premises identified by the Authority in the Intervention Area must be provided with
 - Gigabit Capable Connectivity with a normally available download speed of at least 500Mbps and upload speed of 200Mbps
 - In limited circumstances, Ultrafast Capable Connectivity with a normally available download speed of at least 50Mbps and 20Mbps upload
- All premises must be designed and proven to have no excess construction charges to be counted as part of the Coverage

Evaluation Criteria

- The proportion of premises in the Intervention Area that are provided with Gigabit Capable Connectivity.
- Cost will be used as a differentiator to rank bids where two bidders offer the same proportion of gigabit capable coverage

Associated tender documentation

- Financial Schedule
- Bidder Response Document - Section One Technical Solution Design including Network Diagrams

Grant Award: Social value plan

These are the criteria that BDUK will be looking for when evaluating bids

Requirements

- The Supplier has provided a Social Value Plan which outlines how it will seek to create value in line with the Authority's Social Value aims and how it intends to update the Authority on the creation of value

Evaluation Criteria

- The Social Value benefit the Supplier is expecting to create and the likelihood of doing so

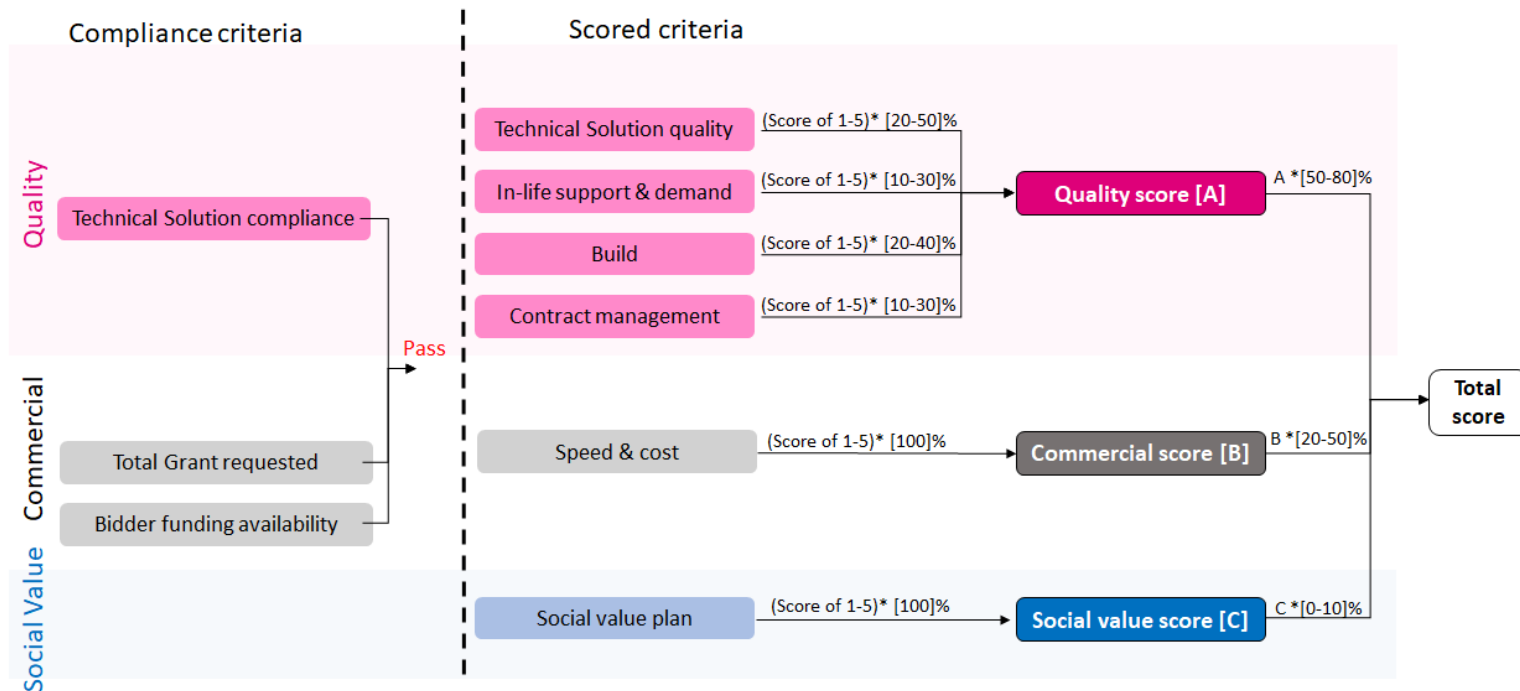
Associated tender documentation

- Bidder Response Document - Section Four Social Value

Grant Award: Evaluation criteria

Grants will be awarded on the basis of Most Economically Advantageous Tender ("MEAT")

Each Bid must pass all of the Pass/Fail criteria to be given a score. The weightings for the criteria and sub-criteria will be given in the Grant Agreement ITT.



Illustrative example

The example below illustrates how a score may be calculated based on the various submissions

Step 1: Bids are evaluated against the Pass/Fail, compliance criteria. Bids must pass all of these criteria to be given a score.

Step 2: Bids are given a score for each of the Award criteria.

(Note that criteria and sub-criteria weightings will be specified in the Grant agreement ITT)

Criteria	Methodology	Bid X	Bid Y	Bid Z
Quality (weighting 50%) <i>Technical Solution</i> <i>In-life support arrangements</i> <i>Build proposals</i> <i>Contract management</i>	Evaluators give each bid four scores, one for each of the sub-criteria. These are then weighted and combined.	5*25% 5*25% 5*25% 5*25% ----- 5	4*25% 4*25% 4*25% 4*25% ----- 4	3*25% 3*25% 3*25% 3*25% ----- 3
Commercial (weighting 40%) <i>Speed & cost</i>	Proposed approach being considered: <i>Bids will be ranked based on the level of Gigabit Capable Connectivity using cost as a differentiator where necessary.</i>	<i>100% gigabit</i> (100%/100%) * 5 = 5	<i>90% gigabit</i> (90%/100%) * 5 = 4.5	<i>75% gigabit</i> (75%/100%) * 5 = 3.75
Social Value (weighting 10%)	Evaluators give each bid one score	5	5	5

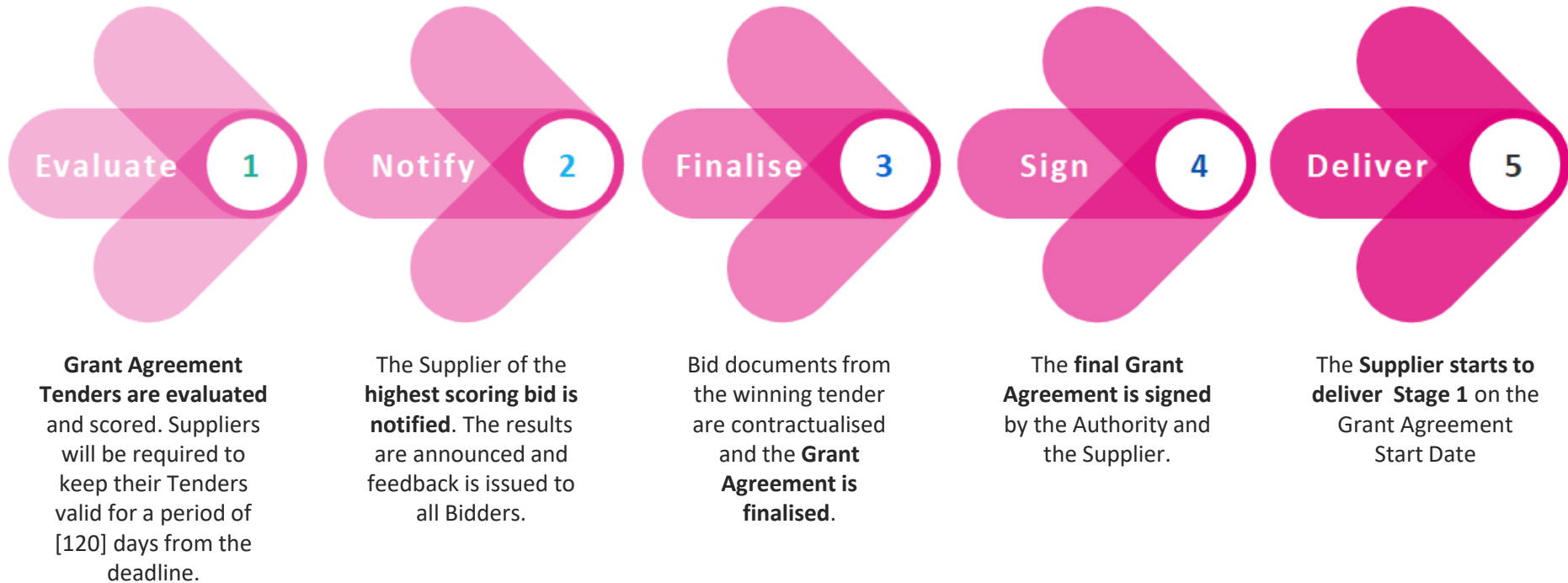
Step 3: A total score is calculated.

Bid X = (5*50%)+(5*40%)+(5*10%) = 5	Bid Y = (4*50%)+(4.5*40%)+(5*10%) = 4.3	Bid Z = (3*50%)+(3.75*40%)+(5*10%) = 3.5
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Step 4: The highest scoring Bidder may be required to provide additional information.

Contract award

Process following the Grant Agreement Tender submission deadline



Next steps

We are still refining our approach and will keep consulting with Suppliers in the coming months

- We will issue the slides via email and onto the Communications Provider section of the Digital Connectivity Portal website.
- We are also seeking feedback from suppliers around illustrative bundles and inviting suppliers to comment on some key areas. We will issue a data pack via email along with a feedback template later this week.
- A reminder that the second June supplier event is this time next week (30th June) and will cover more detail on the terms and conditions.
- Any queries on the next supplier event, please contact via the BDUK suppliers mailbox: bduksuppliers@culture.gov.uk
- Local Authority and Devolved Administration engagement (Summer 2020)
- Supplier training sessions (Autumn 2020)

End of Session

bdukssuppliers@culture.gov.uk