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Meg Hillier MP
Chair of Public Accounts Committee

10th July 2019

Dear Meg

ACCOUNTING OFFICER ASSESSMENT OF THE BUSINESS CASE FOR LOCAL FULL FIBRE NETWORKS PROGRAMME

It is normal practice for Accounting Officers to scrutinise significant policy proposals or plans to start or vary major projects, and then assess whether they measure up to the standards set out in Managing Public Money. From April 2017, the government has committed to make a summary of the key points from these assessments available to Parliament for projects within the Government's Major Projects Portfolio (GMPP). This AO assessment considers the four accounting officer standards of regularity, propriety, value for money and feasibility.

Introduction

The Government has set an ambition of Full Fibre coverage to 50% of premises by 2025 and nationwide coverage by 2033. At the commencement of this programme, Full Fibre coverage was below 3% it is now at 7% but this still puts us fourth from bottom in Europe, slightly ahead of Cyprus, Greece and Belgium.

The Local Full Fibre Networks (LFFN) Programme aims to stimulate greater commercial investment to deliver faster and more reliable connectivity. Full fibre connections provide speeds in excess of 1 Gigabit per second, at low latency, are highly reliable and have the ability to support symmetrical speeds (i.e./ upload at the same speed as download). The Future Telecoms Infrastructure Review (FTIR) published in July 2018 sets out HMG commitment to a full fibre future, and this programme tests innovative ways to achieve this. Greater availability of these networks will enable businesses and individuals to access the connectivity that they need both now and for the future, as well as facilitating the deployment of 5G.

The programme was not deliverable from existing DCMS budgets.

- An initial capital funding allocation of £200 million from the £738 million National Productivity Investment Fund has been confirmed by HMT.
- HMT has confirmed that resource funding will come from capital to resource switches

made from any available underspends on other DCMS non-ring fenced capital projects for financial year 19/20. If none or not enough capital is available within 19/20 to switch, DCMS has previously had recourse to the reserve to cover resource costs thus far but this has not been guaranteed for the future. This means resource funding for this Programme is contingent on sufficient capital under-spends being available. From financial year 20/21 resource funding will be discussed with HMT as part of the upcoming spending review.

Regularity

Regularity considers whether the proposal rests on clear legal grounds. The legal basis for the funding is Section 13A of the Industrial Development Act 1982, with the required HMT approval provided through the Full Business Case (FBC).

A further consideration is State Aid. Government interventions which interact with industry run the risk of market distortion, which could be deemed to be a State Aid. The interventions being utilised in this programme have been designed – with the assistance of legal advice - as "No Aid" or "Not notifiable" (e.g. *de minimis* aid). We also regularly review the risk of State Aid challenge.

Summary: ***On these grounds, no issue of regularity arises.***

Propriety

I assess the LFFN programme as proper. As outlined above it is compliant with parliamentary control procedures and expectations. Careful consideration has been given to interaction with other parts of the public sector and the programme's consistency with overall government policy. There are no reputational risks to the department or government.

Summary: ***On propriety grounds, there is no cause for concern***

Value for money

The Full Business Case sought approval for £200m in capital budgets for the Local Full Fibre Networks Programme. The overall Benefit to Cost ratio of the programme in the original FBC was 3.5. The model has been run by stressing key inputs by approximately 25% and the impact on Net Present Value and Benefit Cost Ratio (BCR) reviewed for delivery mechanisms and policy options. The achievement of the benefits claimed is dependent upon:

- Further growth in local fibre market, supplying more local premises with fibre connectivity
- Take-up of this connection by local residents and businesses.

Projections of the further build likely to be realised, and the take-up, were tested with the market in 2018. We are at too early a stage in the Programme to assess this further, although we have already engaged a third party (IPSOS MORI) to do the benefits measurement and analysis on Wave1 of the Programme and scope the requirement for the subsequent Waves.

That said, there is some early evidence of us stimulating market investment from our Wave1 Schools Programme such as Wessex Internet undertaking incremental commercial build in Dorset. Similarly from our Wave1 project in West Sussex we believe City Fibre and Vodafone are looking to commercially invest circa £50m on top of our funding of £4.9m. We have also seen other areas of the UK propose investments copying our LFFN intervention model – which suggests we are also having an impact beyond the specific projects we are investing in – for example a proposed City of Leeds / Health network investment and West/Mid Sussex proposed digital investment using partial retention of Business Rates tax.

During 2018 and the first half of 2019 we have seen numerous market announcements about proposed build in urban areas (e.g. Openreach, City Fibre and Hyperoptic). This is a positive sign that LFFN, and other Government interventions are stimulating the market to build fibre in urban areas at least. Our publication of the Future Telecoms Infrastructure review (FTIR) proposed an "Outside In" (rural and under-served areas) strategy for HMG network investment. As a result between Wave2 and Wave3 of LFFN we have shifted to favour selection of more rural or urban deprived projects. The lower density of homes and businesses in these areas will put pressure on the BCR and we are in the process of updating the LFFN Business Case to reflect this. However at this point in time the current business case is the best view we have on VfM.

The Building Digital UK Finance Team will contribute to ensuring value for money in the capital programme. Firstly, they will review grant proposals and attend assurance boards where the finance lead will comment on affordability and provide a check and challenge to the commercial review. Secondly, the finance role in the grant approval and payment process will help ensure that grant claims only include valid expenditure, are for the correct amount, are authorised correctly and are paid to the correct grantee.

Summary: ***There are no significant concerns regarding Value for Money from the LFFN Programme.***

Feasibility

Scrutiny by both the DCMS Finance Committee and at the Treasury Approval Point Panel raised no significant concerns around the feasibility of delivery. I am satisfied that the business case sets out the resource requirements, management and governance arrangements necessary to deliver effectively and credibly a successful Local Full Fibre Networks Programme. However as outlined above, the resource funding for this Programme is contingent on sufficient capital underspends being available. Future resource funding will continue to be monitored closely with DCMS Finance and HMT's DCMS spending team and will be discussed as part of the upcoming spending review so that early interventions can be made if required.

LFFN is a GMPP Programme, therefore subject to timely IPA reviews and the outcome of our last review was Amber-Green.

Summary: ***No issues of feasibility have been identified.***

Conclusion

It is concluded that the Local Full Fibre Networks Programme remains an appropriate use of public resources and that the Programme should proceed.

As the DCMS Accounting Officer I considered this assessment of the Local Full Fibre Networks Programme and approved it on 10th July 2019

I have prepared this summary to set out the key points, which informed my decision. If any of these factors change materially during the lifetime of this programme, I undertake to prepare a revised summary, setting out my assessment of those factors.

This summary will be published on the government's website (www.gov.uk). Copies will be deposited in the library of the House of Commons, and sent to the Comptroller and Auditor General and the Treasury Officer of Accounts.

Yours sincerely,

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Permanent Secretary