



## Connecting Devon and Somerset

**Gigaclear**  
Ultrafast Fibre Broadband

**Stakeholder briefing: November 9, 2018**

# The Gigaclear contracts with CDS

## Introduction

Connecting Devon and Somerset (CDS) is the largest publicly-subsidised rural broadband programme in England and covers the Bath and North East Somerset and North Somerset unitary council areas and Devon and Somerset County Councils.

CDS connects some of the hardest to reach communities in England, where the commercial market will not provide the infrastructure without public subsidy. To date, the programme has provided access to superfast broadband to more than 300,000 homes and businesses, often in sparsely populated rural areas and over challenging terrain. A further 38,000 homes and businesses have benefited from improved broadband speed.

CDS' programme combined with wholly commercially-funded broadband coverage means that over 950,000 homes and businesses across the whole CDS region now have access to superfast broadband out of a total of 1,083,200 premises.

CDS awards public subsidised contracts to companies through competitive tender to build the infrastructure needed, such as fibre cables or wireless masts. CDS can only invest where suppliers have no declared and credible plans to invest their own resources in networks.

Phase one of the programme was launched in 2013 and delivered under contract by BT Openreach, mostly through connecting fibre to BT roadside cabinets and then using BT's existing copper telephone wires to complete a connection to homes and businesses. Over short distances this method was good enough to provide superfast broadband speeds and enabled a larger number of premises to be connected relatively quickly.

It was clear that to reach more rural homes and businesses, often considerable distances from a BT cabinet, a different approach would be required using different technologies. It would necessitate building entirely new networks and therefore require major civil engineering projects across the CDS region backed by considerable public and commercial resources.

Across Britain's local broadband programmes, the need to find the industry capacity and resources would be repeated as the Government continued its drive to transform the UK economy and the lives of millions of people through an unprecedented expansion of digital connectivity.

CDS launched Phase 2 of its programme in July 2015 covering Dartmoor and Exmoor National Parks, and it was expanded in December 2016 and again in July 2017 to cover additional predominantly rural areas across the region. Six contracts or "lots" were awarded through competitive tender to commercial providers. Wireless broadband provider, Airband, was awarded one lot covering northern and western Devon, and the remaining five were awarded to full fibre provider Gigaclear.

## **The Gigaclear contracts with CDS**

Gigaclear, based in Abingdon, Oxfordshire, was awarded publicly-subsidised contracts to provide full fibre superfast broadband in five out of six lot areas in the Connecting Devon and Somerset programme. Gigaclear was successfully deploying new networks in Essex, the Cotswolds and Berkshire working with local contractors.

The award of these new contracts was approved by the Connecting Devon and Somerset board and the Government's Broadband Delivery UK agency, an arm of the Department of Digital, Culture, Media and Sport. As with all Government-funded broadband contracts, BDUK played a full role in the award of contracts including a thorough vetting of Gigaclear's suitability. CDS and BDUK had to be satisfied that:

- a) It had the finances already in place to fund its share of the roll-out costs.
- b) Its broadband technology was Next Generation Access compliant. In other words, it could provide homes and businesses with connections of at least 30mbps download speed.
- c) It would provide value for public money.

In summary, the terms of the contracts required Gigaclear to build an entirely new full fibre network providing access to superfast broadband to 41,000 homes and businesses in rural communities across Bath and North East Somerset Council, North Somerset Council and Devon and Somerset County Council areas by the end of December 2019. That was extended to June 2020 following Government approval to expand the network to a further 6,810 premises.

## **Gigaclear's appointment of Carillion telent and the fall-out from its collapse**

It was clear during the procurement process that all the companies tendering for the contracts would have to expand – "upscale" – their capacity to successfully deliver the next phase of the CDS programme.

Gigaclear's solution was to appoint one main contractor with devolved responsibility to deliver all aspects of the CDS contracts including design, survey, securing way leaves, construction, build and commissioning. This was tested by CDS and was considered to be an appropriate approach.

After prolonged negotiations, Gigaclear finally secured the services of Carillion telent, a joint venture, and signed a contract in October 2017. At that time Carillion was the second largest construction company in the UK and in possession of several major Government and public sector contracts. Its partner, telent, is a British telecommunications company formed out of the break up of Marconi in 2006.

In the summer of 2017 CDS expressed dissatisfaction with the slow mobilising of the Carillion telent contracts and Gigaclear's senior management made a commitment to CDS to bring in a second large contractor and smaller contractors to help with the deployment. With the benefit of hindsight the situation with Carillion telent was probably caused in part by the then unknown serious financial issues faced by Carillion at the time.

The Carillion telent joint venture then dissolved following the collapse of Carillion in January 2018, significantly undermining Gigaclear's upscaling strategy. The company again reassured CDS and BDUK that it was finding a suitable replacement contractor as a matter of urgency. Gigaclear eventually procured McNicholas (the contract was signed in April 2018) but the contracting and introduction of this new resource to the programme was significantly slowed by the acquisition of McNicholas by the Kier Group.

At the same time Gigaclear reached an agreement with telent to continue but telent's focus in the early part of the year was managing the fallout of the liquidation and replacing the resource lost from the joint venture.

Under continued pressure from CDS to accelerate deployment, Gigaclear brought in smaller civil contractors, MGM and Avonline, to begin work while these delays were resolved. Eventually, telent were able to continue the work originally awarded to the Carillion telent joint venture.

Without a single main contractor in full control of the roll-out, the build methodology developed by Gigaclear encountered difficulties for several reasons. Subcontractors were not always effectively managed or controlled, leading to instances of poor-quality work. This created significant problems for local Highways Authorities and work in some areas had to be halted while quality issues were addressed.

Lacking their own strong presence in the CDS region, Gigaclear's Abingdon HQ team were slow to grasp that its previously successful build methodology was proving unsuitable in some cases on Devon and Somerset roads and lanes where the absence of verges on many stretches was exposing a capacity problem. It had not sufficiently resourced the local teams with wayleave officers, and instead resorted to hard digging in roads rather than trenching across fields. This resulted in an escalation in Gigaclear's costs, slower deployment and slower decision making by Gigaclear to sign off designs. Capacity to engage and work with local communities was severely limited as was the level of communications with residents and stakeholders.

In effect, Gigaclear was now attempting to run its biggest single contract remotely from Abingdon and the company was slow to recognise that the collapse of the Carillion telent joint venture would require a fundamental change to its approach.

For its part, CDS was struggling to get a definitive picture of what was happening within Gigaclear and with its changing guard of programme directors, contractors and sub-contractors. Senior directors from the company including the then owner assured CDS repeatedly that most of its roll-out would be delivered by the end of 2019 and the expanded programme completed by the summer of 2020 as planned.

### **Takeover by Infracapital**

The first sign of potential improvement came in May 2018, when Gigaclear was bought up by one of its main investors, Infracapital, the London-based infrastructure investment specialist. Part of M&G Prudential, which has total assets under management of £351 billion, Infracapital has a mandate to invest in highspeed digital infrastructure in the UK after the Government appointed the company to manage a portion of its Digital Infrastructure Investment Fund.

The takeover of Gigaclear was, in part, prompted by Infracapital being equally disappointed with its performance and that by taking control they could re-focus the company. New leadership was brought in, and additional investment was confirmed by Infracapital to support accelerated deployment in the CDS region. At the same time, the new owners started a root and branch review of each contract, build methodology, management and capacity.

Even with Infracapital's reforms getting underway and injection of additional resources, it was clear by mid-summer 2018 that the initial build timescales and public commitment of dates for the first structures were not going to be met. At CDS' request, Gigaclear held briefings for MPs in July, attended by CDS, and confirmed that the dates originally published for first live cabinet areas would be missed. Letters were issued to the affected communities and revised dates were published on the Gigaclear website.

Disappointingly, the full extent of the issues and challenges being faced by Gigaclear were not revealed until September 2018 when the new owners and senior management team met with the CDS Board. The outcome from this meeting was that CDS formally notified Gigaclear in writing that CDS believed that Gigaclear was in default on three of its five contracts.

The CDS Board instructed Gigaclear to present remedial plans to get the broadband roll-out back on track with a revised and credible timetable. The Board required the company to issue statements to MPs, local authorities, stakeholders and the public and to update or remove untenable construction dates on the Gigaclear website. BDUK were fully informed of developments. Members of Parliament were forewarned by CDS of likely significant delays three days before Gigaclear's announcement. Copies of the statements were also provided to the Secretary of State for Digital, Culture, Media and Sport, the Minister for Digital and Creative Industries, and the DDCMS Press Office.

### **Reasons for the delays and actions being taken**

There are five main reasons for Gigaclear's delayed roll-out in the CDS programme, exposed by the collapse of Carillion telnet:

- Poor operational capacity and decision-making within Gigaclear.
- Lack of contractor capacity
- Slow deployment by contractors.
- Lack of detailed planning.
- Failure to redesign the build methodology.

Infracapital has made significant changes to the Gigaclear's leadership team in Abingdon. Further changes are expected to strengthen leadership and delivery capacity within the company.

Gigaclear has now opened a dedicated office in Taunton to manage the CDS contracts. The local team grown tenfold from 4 staff to 40, with further recruitment underway. Key roles include communications and engagement officers, highway liaison roles, programme managers for each of the lot areas and network designers.

Gigaclear's new management team in the CDS region reports direct to Mike Surrey, Gigaclear's interim CEO. All construction dates for the CDS programme on Gigaclear's website have been reviewed, updated or removed to ensure that at the very least members of the public are no longer reading misleading information.

New processes and management controls are being put into place by Gigaclear and the company's local team. Clearer and improved performance measures are being developed to provide accurate real time progress. Subcontractors are required to confirm all build schedule dates with Gigaclear's local team. All subcontractors have been updated on the programme approach to ensure that they provide accurate information to residents and follow correct procedure when working in communities.

Infracapital has injected substantial additional funding into Gigaclear and stated its commitment to completing the contracts with CDS assuming the current level of public subsidy remains in place.

In the short term, it is the aim of Infracapital that Gigaclear focuses on making good its current commitments to CDS before bidding for further new BDUK contract areas, though the company and its backers reserve the right to do so.

## The Gigaclear remedial plans and the CDS and BDUK decision making process

On October 31<sup>st</sup> Gigaclear presented CDS officers and BDUK with a broad plan on how the company can address its shortcomings and provide a firm completion date for 100% coverage against its contract.

Gigaclear advanced the view that progress is being made in addressing the need for improved capacity and resources. The company proposed a new build methodology that it believes will provide a robust plan whilst reducing traffic disruption to Devon and Somerset communities.

In broad terms, and based on the above, Gigaclear has proposed the following:

- A commitment to continuing its investment of £127.8 million in the CDS region. This comprises £60.5 million in the CDS contracts and £67.3 million in the company's commercial build.  
*NB The total public subsidy is £31 million of which only £537,200 has been paid to Gigaclear to date.*
- It will continue to provide full fibre-to-the-premise technology.
- There will be no reduction in the broadband speed made available to homes and businesses. Gigaclear is contracted to deliver superfast broadband of at least 30mbps download. The company says its service can deliver symmetrical ultrafast speeds up to 900mbps.
- It will continue to deliver the full coverage agreed in the contracts with CDS.  
*That is 47,810 homes and businesses across the region.*
- There will be no reduction in the company's commercially-funded network.  
*That is around 43,000 homes and businesses in the region.*
- The proposed build methodology is based on "a spine and spurs" approach that will reduce disruption to communities and deliver superfast broadband access to between 40% and 50% of the CDS contracted premises by June 2020 with the remaining coverage completed by June 2022.

However, the company has not yet provided enough detail and clarity for each Lot area to demonstrate a credible approach is in place. Whilst coverage and a full fibre solution remain firm commitments, the proposal indicates significant delays will be felt across the CDS region.

CDS therefore continues to withhold payment to Gigaclear and the company remains on notice of default while more work is undertaken to fully develop a final set of plans. Gigaclear and CDS are maintaining a dialogue and are committed to work as quickly as possible to get the best outcome for residents and businesses.

A key issue to address will be whether the Government and other partners are willing to extend the time in which their funding can be used to subsidise the current contracts with Gigaclear. Currently, Government funding must be spent by March 2020. If the deadline cannot be extended it is unlikely the current contracts with Gigaclear will continue.

CDS is continuing to explore with BDUK the potential for finding a solution to this issue. Similar discussions may also be required with the Heart of the South West LEP, which is being kept informed of developments, and other funders.

In the meantime, CDS and Gigaclear will continue to meet in an effort to make progress on the required level of detail and clarity for each Lot area. When this work is completed CDS and BDUK will need to consider the remedial plans in detail.

CDS and BDUK will require:

- key reassurances regarding capacity and resources,
- acceleration of deployment,
- secure funding and investment from Gigaclear and
- robust evidence that the proposals can be delivered.

CDS and BDUK will also need to consider:

- if the extent of change proposed by Gigaclear is permissible in law against the original procurement requirements,
- if the proposals remain State Aid compliant and
- whether any impact on grant funding from BDUK, the Heart of the South West LEP and other funding sources can be accommodated.

CDS will require guarantees on the level of resources Gigaclear is putting into its delivery, including community engagement. CDS will require time to assess, evaluate and test the revised plans.

If an acceptable solution is presented, BDUK will need to assure the revised plans and agree any impact on funding timescales for the Government grants awarded to CDS.

Whilst a decision will be taken as soon as possible on the way forward, the decision does need to be the right one and deliver the best outcome for communities. The above decision-making process will take several weeks to conclude.

### **At risk build and communications**

Gigaclear is continuing to build at risk whilst the remedial plans are developed. This includes completing the build in the first community areas originally planned under the contracts and completing survey work for the next wave of communities. Letters to parish councils will be issued shortly to update communities on the ongoing work taking place, and to parishes that were originally intended to have live connections which remain in delay. These letters will be shared with councillors and MPs.

### **BT re-investment in the CDS programme**

CDS is also working with BT to extend superfast broadband coverage to those areas not included within current publicly-subsidised or commercially-funded roll-out plans. This extension of broadband coverage will be financed by a £4.7m investment, the first of a series of repayments from BT. This is a return on the public investment in phase one of the CDS programme because BT is benefiting from a higher than expected level of new customers taking up its services. At CDS' request BT has begun modelling coverage proposals. CDS hopes to be able to announce the additional coverage in the New Year. Options to increase this level of funding, drawing on future repayments are also being explored by CDS. In line with an agreement between the Government and BT, this additional funding will be available to finance new broadband infrastructure through competitive procurement on the open market.

*The Gigaclear contract with CDS, Stakeholder Briefing, November 9, 2018*