



REPORT

To: Development Committee

30 September 2010

From: Economic Development Officer

**DV063-F
SHEFA2 Interconnect Project**

1.0 Introduction

- 1.1 The purpose of this report is to update Members on the current position with regard to establishing Shetland Telecom and installation of the link between Lerwick and the SHEFA2 fibre optic cable in the South Mainland, referred to hereafter as the SHEFA2 Interconnect Project.

2.0 Links to Corporate Priorities

- 2.1 The activities reported in this document aim to fulfil our commitments in the Corporate Plan to deliver a sustainable economy and supports the aim contained in the Economic Development Policy Statement (2007-2011) to improve broadband services in Shetland.

3.0 Risk Management

3.1 Economic/Financial

There is a significant risk to this project if an existing telecoms operator chooses to replicate the project by making available infrastructure between Lerwick and the SHEFA2 cable. This risk has been mitigated to a large extent by ensuring that all the major telecoms providers have been consulted throughout the project thus far.

The project is using the Prince 2 project management system to ensure that all financial risks are mitigated or at least restricted. A project steering group is in place and changes (even minor ones) are managed through a reporting procedure.

3.2 Legal

The project is in the process of establishing State Aid compliance (covered in section 4.4). The project is adhering to EU guidance notes and the project has been formally notified to the EU.

4.0 **Update**

4.1 A report was presented to Development Committee on 19 November 2009 [Min. Ref. 109/09], setting out the case for establishing Shetland Telecom and fast tracking the SHEFA2 Interconnect Project on to the 2010 – 2011 Capital Programme.

4.2 The report established the Shetland Telecom Steering Group which includes the Chief Executive, Head of Economic Development and Head of Finance along with three Members (currently Cllr Alastair Cooper, Cllr Laura Baisley and Cllr Gary Robinson) and the Telecommunication Team (Marvin Smith and Guy Smith).

4.3 A further report was presented to the Development Committee on 29 April 2010 [Min. Ref. 29/10] , which delegated authority to the Head of Economic Development to proceed with the fibre optic installation project and set up a Special Purpose Vehicle (Shetland Telecom) for the purposes of State Aid compliance.

4.4 State Aid Approval

Significant progress has been made towards achieving State Aid approval. We have had a series of audio conferences with The Scottish Government's State Aid Unit, The UK Government's relevant department (BIS) and the EU State Aid Department. The formal State Aid notification has been submitted.

4.5 The EU has informed us that in order to achieve State Aid approval, there will be a requirement for a tendering process to ensure that the operator of the network is providing the most cost effective services and to allow the private sector the opportunity of tendering. This means that Shetland Telecom would have to bid for the contract to deliver wholesale services on the SIC's infrastructure. This conceivably could result in an established telco providing services and negate the need for the Council to establish Shetland Telecom. This is extremely unlikely due to the network being too small to be of much interest to a telco outside of Shetland. The requirement by the EU will result in a problem for the project team because in order to maintain an open and fair tendering process, anybody who could perceivably be involved in Shetland Telecom will not be able to be involved in the preparation of the tender. The next stage, therefore, in the process shall require to be considered in accordance with the Council's Code of Practice for in-house bids, where appropriate and applicable.

4.6 BT

Dialogue with BT is ongoing. BT have made an informal offer to deliver some network improvements in Shetland but the proposal would have required a sizable investment by the Council, offered no return on the investment and would not have met our requirements for a fully fibre optic resilient backhaul.

These discussions have been taking place for a number of years now and have failed to get anywhere near a satisfactory conclusion.

4.7 Broadband Delivery UK (BDUK)

BDUK is a UK government initiative, which aims to deliver improvements to broadband coverage across the UK.

BDUK are currently considering various bids from Regional Development Agencies across the UK for funding towards pilot projects.

Highlands and Islands Enterprise (HIE) have made a bid for money to deliver “superfast broadband” at various locations across the Highlands and Islands region. Within their plans there is currently provision for improvements to broadband provision in Lerwick, Scalloway, Sumburgh and Brae. We have not been involved in the consultation or development of this plan but very much hope to ensure that any improvements to broadband provision in Shetland utilises the Council’s fibre optic network. A decision on whether or not their bid is successful is due within one month.

4.8 Faroese Telecom

Discussions with Faroese Telecom regarding technical issues relating to connecting to the SHEFA2 cable and also potential cost for bandwidth are progressing well.

4.9 Installation of the Network

The technical specifications and network design for the project is complete. Tenders for the civil works and installation of the network have been received and the bidders are waiting to hear which company will be awarded the contract. The tendering was completed with the expectation that we would have achieved State Aid approval before now. These tenders are still open for acceptance but expiry dates apply so it is critical that the project goes ahead as soon as possible.

5.0 Next Steps

- 5.1 The priority at the moment is getting State Aid approval for the project. This will involve a slight change to the project because the Council will need to put the contract for wholesale services out to competitive tender. Originally it was envisaged that an SPV (Shetland Telecom) would be given the responsibility for wholesale services. The EU are seeking assurance that the contract will be tendered. Once they have that assurance they intend on issuing approval within one month. The only significant risk to the approval would have been an objection from one of the existing telecoms operators in Shetland. This risk was negated (on advice from the EU) by publishing a public consultation document online which detailed the project. The EU requested that the document be available for one month. The document has been online for well over 5 weeks and neither BT nor Cable and Wireless have objected.

The EU requirement for tendering the wholesale access should not hold up the project because the issue relates to the operation of the cable. The installation of the cable needs to progress as soon as possible to ensure that the tenders received for the civil works remain valid and that the successful contractor can proceed with the works before the weather conditions deteriorate any further. It is not envisaged that the network will be ready for use until early next year which will give us time to tender for the wholesale services.

- 5.2 The Council will have to establish how this tendering process is done to ensure that no breach of State Aid regulations occurs. The tender will have to be drawn up and the process will have to be done openly and transparently.
- 5.3 The formation of the SPV (Shetland Telecom) will have to proceed quickly to ensure that it is operational in order to tender for the Council contract once the tender exercise is initiated.

6.0 Financial Implications

- 6.1 A budget for establishing Shetland Telecom was agreed at £140,000 for the 2010 – 2011 financial year with authority delegated to the Head of Economic Development.
- 6.2 The 2010 – 2011 Capital Programme includes provision of £700,000 and the 2011-12 Capital Programme includes provision for £400,000 for the SHEFA2 Interconnect Project. We are still awaiting confirmation of approval for £367,500 of ERDF funding.
- 6.3 The formation of the SPV will be of minimal additional cost. It is not expected at this stage that there will be any increase in staffing costs. There will be some legal costs, which will come from budget code RRD1551 (subject to vired funds from other Economic Development budgets if required).

7.0 Policy and Delegated Authority

- 7.1 This report has been prepared under Economic Development Policy number 15, "Establish robust broadband services to businesses, organisations and homes in Shetland" which was approved by the Development Committee on 24 April 2008 [Min. Ref. 02/08] and by the Council on 14 May 2008 [Min. Ref. 55/08].
- 7.2 In accordance with Section 11.0 of the Council's Scheme of Delegations, the Development Committee has delegated authority to implement decisions within its remit for which the overall objectives have been approved by the Council, in addition to appropriate budget provision, including:
- Economic Strategy
 - Europe
- 7.3 As the subject of this report is covered by existing policy the Development Committee does have delegated authority to make a decision.

8.0 Observations

- 8.1 Delegated authority to act on the issues raised within this report has already been granted to the Head of Economic Development.
- 8.2 Progress on this project is within predicted timescales and within budget.

9.0 Conclusions

- 9.1 Shetland, like many areas across the UK, is not being adequately served by the big telecoms companies.
- 9.2 Shetland Telecom will be able to use a resilient SHEFA2 Interconnection to help develop telecommunication services in Shetland and also to promote Shetland as a base for high tech businesses.

10.0 Recommendations

- 10.1 It is recommended that the Committee notes the content of this report.