

Report of the Cabinet Member for Economy and Skills

Introduction

I have been asked to report as follows for Full Council on 3 October 2019:

1. By Councillor Hannaford as follows:

The new government plans to create up to 10 freeports to boost trade and manufacturing by cutting cost and bureaucracy after it leaves the European Union.

Ports and airports around the country will be able to bid to become one of the freeports, and the government has created a new Freeports Advisory Panel, including tax and technology specialists, to help set them up.

Freeports, also sometimes known as free trade zones, are areas where imported goods can be held or processed free of customs duties before being exported again. They can also be used to import raw materials and make finished goods for export.

Freeports could cut down on unnecessary checks and paperwork as well as having customs and tax benefits for firms, reducing costs and bureaucracy and encouraging manufacturing businesses to set up.

Has the county council's economic development department made contact with relevant port authorities, LEP, Regional Growth Board, local councils, and the business community to explore the possibility that we could progress this scheme in Devon?

Especially to help regenerate, attract investment and boost growth in some of our coastal communities.

Could Exeter Airport also be considered under this initiative?

2. By Councillor Shaw as follows:

An update regarding Gigaclear and CDS to include comments on:

- whether it was justified to delay the cancellation of the Gigaclear contracts which has in turn delayed the delivery of broadband still further;*
- the possible delay in delivery until later than 2023, as Keri suggested today at CIRS;*
- the fact that the £18.7m funding is no longer secure;*
- the generally disastrous experience of broadband delivery in Devon and Somerset under CDS.*

1. Free Ports

- The Economy, Enterprise and Skills service has consulted with relevant organisations in exploring the freeports initiative and the likely applicability to Devon.
- The Brexit impact is most likely to be felt by the larger ports in the Heart of the South West (HotSW) area, such as Brixham (fishing only), Plymouth (fishing and commercial – EU and outside EU) and Teignmouth (small fishing port and commercial – EU and non-EU).
- The smaller ports on the Devon coast, which focus more on inshore fishing and leisure, such as Bideford, Ilfracombe, Dartmouth and Salcombe will be less affected.
- The government announcement on 1st August mentioned airports as well as ports in the opportunity to create 10 Freeports. Exeter Airport could therefore potentially be an opportunity for the Devon area.

Background and Overview

- According to the Centre for Policy Studies (CPS), there are roughly 3,500 free trade zones worldwide employing 66m people. In the US, which pioneered the concept, there are 250 zones handling \$750bn (£616bn) in merchandise every year. They estimate a UK freeport regime could create more 86,000 jobs for the British economy, largely in industrial areas outside London, if as successful as those in the US.
- Criteria for the proposed freeport bids have not yet been released but the government announcement says existing ports and airports will be able to bid to create 10 freeports after 31 October.
- So far, Teesport, the Port of Tyne, Milford Haven and London Gateway have expressed an interest in gaining freeport status, according to government research and were included in the government's announcement.
- The British Ports Association (BPA) has considered the benefit of Freeport status and the possible negative impact on other ports, saying that Free Port status could be a beneficial marketing asset which helps attract inward investment. However, that the Government will need to satisfy itself that this is not at the expense of other UK locations. The BPA is proposing the wider concept of a Port Zone status, alongside the Free Port proposals, at all UK Ports, as this might be a way to encourage the industry to grow cohesively.
- Following on from this in early September the BPA has launched a report entitled Port Zones UK: A licence to operate Enterprise, Development and Free Trade Zones. This has been produced by a coalition of airport and seaport operators and promotes regional growth centred on key transport hubs through the designation available on this link:
https://www.britishports.org.uk/system/files/circulars/a_licence_to_operate_port_zones_uk_september_2019.pdf.
- This Port Zones document promotes regional growth through the relaxing of restrictions such as planning, marine licences and environmental measures by creating/linking to Enterprise Zones, simplified planning zones, local development orders and other measures to enable development to come forward more quickly. Also to relax rules around taxation and customs duty

and to improve supporting infrastructure. In the document 8 possible Port Zones are mentioned, with 3 case study examples presented as follows: Bournemouth Airport, Milford Haven, Port of Tyne. None of the ports/airports mentioned are in Devon or the South West Peninsula.

- The BPA has also stated that it will be important that any Freeports are industry-led, with the new government advisory panel taking a “bottom up” approach. This means that specific sectors with strengths in geographic areas can use this opportunity to grow.

What does this mean for Devon?

- Devon ports are therefore unlikely to be sufficiently large to qualify to become a Freeport under this initiative, especially with potentially only 6 remaining to allocate. However, as above, currently there is no detail on size or criteria for Freeport status.
- Teignmouth is the only Devon County Council area port that would potentially be applicable as the others are too small with insufficient infrastructure, such as transport links. Teignmouth does handle medium-sized quantities of sector-specific cargo, primarily exports of locally-mined ball clay, Imports include animal feed, fertilizer, timber, building materials, stone and coal. With over 800 shipping movements per year and 600,000 tonnes of cargo each year, Teignmouth is the busiest it has ever been in its history and deals with EU and other non-EU primarily European and Mediterranean ports.
- However, Teignmouth is unlikely to be able to scale up appropriately due to infrastructure requirements and the limitations on the port itself in terms of capacity and physical ability to expand.
- Nearby ports that could be more appropriate could be Brixham (if fishing is included) and Plymouth, with Plymouth being the most obvious contender in terms of size, flexibility and ability to take large amounts of cargo. There may also be space to scale up. Plymouth has 3 separate statutory harbours and a naval base and 2,343,000 tonnes of cargo (2016) per year transiting the port. Part of the port, formerly used by the Ministry of Defence has become the Oceansgate Enterprise Zone, enabling business rate reinvestment. The port is not however designed to take large volumes of traffic with no motorway or fast rail link to the rest of the UK, so infrastructure within Plymouth and wider transport links would require improvement.
- Plymouth manufacturers rely on imports and exports of parts and goods as 75% of them have overseas parent companies. If there is a “no deal” Brexit these sectors could be severely impacted by tariffs, potentially affecting manufacturing jobs in the city. Plymouth City Council is considering supporting the freeport opportunity with no decision as yet.
- Plymouth becoming a freeport could also benefit the surrounding areas of Devon, producing an opportunity for businesses in the SW part of the County and this could potentially benefit industrial areas and new communities such as Langage and Sherford, potentially Ivybridge and other nearby areas of South Hams and West Devon.
- Teignmouth and the Millbay part of Plymouth port (Ferries and cargo) are owned by the same operator Associated British Ports (ABP).

- Exeter Airport is the other potential opportunity for Devon. This has grown in recent years and is nearing 1m passengers per year plus some cargo movements. The nearby industrial space at Skypark and Airpark enables business growth nearby and these are existing Enterprise Zone sites. Refresh of the existing business park adjacent to the airport could also be considered. There is limited space for the airport to expand its operations unlike some other regional airports, such as Bournemouth.
- The operators of Exeter airport, Regional and City Airports, parent company Rigby Group, are interested in pursuing the Free ports opportunity as part of their “mini manifesto” to government on support for growth for all their regional airports. This can be accessed at this link <https://www.rca.aero/journal/2018-10-24/free-port-freedom-for-regional-airports>. However, in the Port Zones document mentioned above the Rigby Group is only promoting Bournemouth Airport as the one to come forward.
- It is important that we ensure that effects of any Free Port in another part of the country do not act to displace activity from Devon’s ports, but work to complement and enhance them. For example, some clay is already exported via Southampton. If it were to become cheaper to use Southampton, there may be a need to promote joint working to avoid putting Teignmouth at risk.

In summary, the best opportunities for Devon would come from supporting bids from Exeter Airport or Plymouth. However, these are significantly smaller than the largest ports in the UK, so may not be a priority for the operators or government in achieving 10 freeports nationally. We will work with local operators to complement any freeports awarded as needed, to help ensure the survival of our other ports, such as Teignmouth.

2. Gigaclear and CDS

Connecting Devon and Somerset

Background

The Connecting Devon and Somerset programme is the largest of its kind in England. It is supported with funding from the Department for Digital, Culture, Media and Sport, the EU’s European Regional Development Fund, the Heart of the South West Local Enterprise Partnership and local authorities, including Devon County Council. Somerset County Council is the accountable body, and the programme works very closely with the Government’s Building Digital UK (BDUK) agency.

CDS connects some of the hardest to reach communities in England, where the commercial market will not provide the infrastructure. CDS does this by awarding public subsidised contracts to companies through competitive tender to build the infrastructure needed, such as fibre cables or wireless masts.

CDS is only able to invest where suppliers have no declared and credible plans to invest their own resources to extend their networks. CDS does not fund actual internet services available via the web, that is a role for commercial Internet Service Providers or ISPs.

A record of achievement

Nearly 1 million homes and businesses in Devon and Somerset now have access to superfast broadband thanks to the Government supported CDS programme and stimulation of the commercial market which is an important element of CDS' role.

Over 300,000 homes and businesses have access to superfast broadband as a direct result of investment by CDS.

Superfast coverage funded by CDS is as high as 59% in some rural districts -- and 82% in one -- compared with the average 33% that Government estimated the public sector would need to fund.

Take-up of CDS-funded broadband services is nearly 60% compared with a national average of 52.4% and that is generating millions of pounds of new money to invest in expanding the CDS coverage thanks to the Government's gainshare agreement with BT.

CDS-funded contracts with Airband have delivered superfast access to over 12,000 homes and businesses with a further 3,500 due to be completed on target this quarter.

CDS has successfully piloted a new Community Challenge Fund delivering superfast broadband to communities in Devon and Somerset and intends to launch an expanded scheme this year.

Since the inception of the CDS programme, over a quarter of million miles of optical fibre has laid to connect rural communities – enough to circle the Earth ten times.

The Gigaclear contracts

On September 12th 2019, Connecting Devon and Somerset (CDS) announced its decision to end Gigaclear's five contracts to deliver full-fibre broadband in Devon and Somerset.

CDS and the Government's Building Digital UK (BDUK) agency were unable to agree an acceptable recovery plan with Gigaclear following the significant delays incurred by the company in its roll-out of full fibre broadband.

CDS awarded five contracts to Gigaclear for completion initially by December 2019 and extended to June 2020 when the Government approved an expansion of the roll-out. The company was contracted to build an underground full fibre network for CDS covering 47,810 homes and businesses.

Gigaclear planned to invest £60.5m of their own resources with CDS contributing £31m public sector subsidy to deliver this coverage. Gigaclear also committed to deliver services to a further 43,000 premises under their own commercial

programme and a further investment of £67.3m into their commercial build programme.

The award of contracts was vetted and approved by BDUK on behalf of the Government.

The company, under new ownership since last summer, incurred significant delays with its roll-out due to previous failings and the collapse of Carillion in early 2018.

Those delays, details of which were set out in a joint CDS/Gigaclear briefing in November, 2018 meant the company could not meet its 2019-20 contract deadlines with CDS.

Gigaclear admitted itself that there were five main reasons for the company's delayed roll-out in the CDS programme:

- 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.

These failings were exposed by the collapse of Carillion in January 2018 which led to the demise of the Carillion telent joint venture, Gigaclear's civil contractor.

CDS has been withholding public subsidy while Gigaclear attempted to produce a satisfactory recovery plan. CDS had already had to place Gigaclear on notice of default after it failed to meet contract targets set in early 2018 for the number of homes and businesses connected.

Targets have continued to be missed by a substantial margin. By the end of the first quarter of this year (June 30,2019) Gigaclear had provided 496 properties with access to the new network compared to contract targets totalling 28,689.

Assurances that the contracts would be delivered in full and on time were given to CDS and BDUK in March 2018 by Gigaclear's previous owner. In October 2018 the new management of Gigaclear said the company would 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, despite the new owners, Infracapital, investing additional resources, changes in senior management, the opening of a regional office in Taunton, and increasing the number of staff dedicated to the Devon and Somerset publicly-funded and commercial broadband operations, the delays increased.

Remedial plans proposed by Gigaclear were withdrawn in January this year with the company saying they were economically unviable.

At CDS' request, the company undertook, first, a limited cost analysis that indicated construction using poles and overhead cables might be affordable. This was followed by a wider analysis by Gigaclear, again at CDS' request, to support a potential recovery plan by the company.

Despite painstaking work by all concerned, it was not possible to agree a plan that CDS and BDUK could support with confidence. As a result, the CDS Board took the decision to end the five contracts with Gigaclear.

Should CDS have terminated the Gigaclear contracts sooner?

When decisions had to be taken to extend Gigaclear more time, there are two critical events that stand out as having had a significant influence on CDS and BDUK thinking.

The collapse of Carillion had a profound and far-reaching effect on many public and private sector projects. CDS was sympathetic to the impact this had on Gigaclear and although this inevitably meant a knock-on delay to the CDS contract, it was felt reasonable to allow the company time to find alternative contractors.

The second significant event was the take-over of Gigaclear by Infracapital in May, 2018. At a time when CDS was becoming deeply concerned over Gigaclear's struggles with its civil engineering and design capacity, the arrival of Infracapital was timely and felt to be a golden opportunity to kick start the roll-out backed by considerable resources.

As reported at the time, Infracapital are part of M&G Prudential, with total assets under management of £351 billion. The company 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 opening of a regional office dedicated to the CDS programme and the appointment of additional staff were seen as positive indications of the new owners' determination to get the contracts back on track. Sadly, for the reasons already outlined, it wasn't to be, but that is only apparent now with the benefit of 20-20 hindsight. At the time, it did seem to be a new dawn for the company and therefore CDS and BDUK were of the same view that Gigaclear should be allowed additional time to plan and implement a recovery.

Finally, on this point, I would reiterate a point acknowledged by the Digital Minister that one does not walk away from the potential of £128 million of investment lightly.

Next steps

CDS is working closely with BDUK on a new procurement process for launch this autumn, commencing a tender process to identify new provider(s) of these services.

Government officials at the Building Digital UK agency have confirmed that extending the Government's £18.7 million of funding for the CDS programme is a top priority in the agency's spending commitments, and that this was reaffirmed by the Digital Minister personally when he met with CDS last Tuesday.

The meeting confirmed that BDUK is on a trajectory to put forward its own funding case to Treasury as part of that spending decision process to support both CDS, other programmes that are in delay through the superfast scheme and, looking to the future, the opportunities from the Government's 'outside in' strategy which has been trailed to be a programme of up to £5 billion.

The reason why the Chancellor did not announce broadband funding on September 4 is because the Government decided to postpone the multi-year Comprehensive Spending Review and replace it with a one-year Spending Round.

BDUK and the Minister are conscious of the timetable to launch the new CDS procurement process. We understand that Government decisions on capital funding for broadband programmes are to be made in November.

While CDS and BDUK are working on a new procurement process, the roll-out of broadband in Devon and Somerset will continue.

The CDS Community Challenge Fund will be launched later this year, following successful pilots in Devon and Somerset, enabling local communities to have a real hands-on say in new networks for their areas. A capital fund of £295k has been set aside to support this extension. Its anticipated 6-8 more community solutions can be supported and work has begun to identify opportunities working with a range of suppliers.

A new collaboration with BT to extend coverage in rural areas is also nearing conclusion and is going through assurance within BDUK. This represents delivery of full fibre to a further 2,000 rural premises across Devon and Somerset.

Airband will be continuing to make good progress with its roll-out superfast wireless broadband for CDS in northern and west Devon.

CDS and BDUK will be working closely together to ensure as many residents and businesses have the opportunity to benefit from the Government's national broadband voucher schemes. CDS will be stepping up its community engagement to promote, help and advise those interested in taking up these opportunities.

CDS is also working with the Heart of the South West Local Enterprise Partnership and other partners to develop a Digital Strategy and a refreshed Local Broadband

Plan. The former will focus on the digital ambitions for the region, supporting productivity growth and prosperity for all. The Local Broadband Plan will specifically focus on the connectivity programme and include fixed and mobile solutions.

Importantly, the commercial sector will also be continuing its investment in new broadband infrastructure. For example, our current review of the market is showing that of the 47,000 premises Gigaclear were contracted to connect, around 15,000 have already been covered by other commercial providers while Gigaclear delayed.

In terms of timescales, as I have reported CDS funding will deliver new coverage this year, the commercial sector will be delivering more, and we would want to see any new services procured by CDS completing as soon as possible. Ultimately, that will depend on the total funding available, how long the Government extends its funding, the number of homes and businesses we will need to help and what providers can do for the money on offer. This is all part of the work we're doing now with BDUK.

Councillor Rufus Gilbert

Cabinet Member for Economy and Skills