



House of Commons

Committee of Public Accounts

The rural broadband programme

Fiftieth Report of Session 2013–14



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Volume I: Report, together with formal minutes

Oral and written evidence is contained in Volume II, available on the Committee website at www.parliament.uk/pac

*Ordered by the House of Commons
to be printed 25 March 2014*

HC 834
Published on 1 April 2014
by authority of the House of Commons
London: The Stationery Office Limited
£5.50

Committee of Public Accounts

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Committee staff

The current staff of the Committee is Sarah Petit (Clerk), Claire Cozens (Committee Specialist), James McQuade (Senior Committee Assistant), Ian Blair and Jacqui Cooksey (Committee Assistants) and Janet Coull Trisic (Media Officer)

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Conclusions and Recommendations

1. When the Government published its response to our September 2013 report on the rural broadband programme, we were disappointed to see that the Department for Culture, Media and Sport (the Department) had failed to engage constructively with our conclusions and recommendations. We therefore recalled the Department and BT to give further evidence in January 2014 and our resulting conclusions are set out below. In its response we expect to hear the Department is making significant progress on the areas covered, or we will require a further hearing to assess why the Department is not improving its approach to protecting public funds.
2. **There is still not enough consistently good information published by local bodies about planned rural broadband coverage and speed.** Despite our recommendation last September, many of the maps currently available do not give sufficiently detailed information about BT's coverage to be of use to other potential suppliers seeking to plug the gaps. After we challenged the Department further in January, it issued guidance clarifying that it expects local bodies to publish detailed coverage plans. If the Department's guidance is followed this time, these should set out where and when superfast broadband will be rolled out, and do so at 7-digit postcode level. But it is still not good enough that, despite £1.2 billion of public money being spent, it is taking so long to get this information out there. Any lack of clear and easily accessible public information will only make it harder for other potential suppliers to prepare bids for the next round of funding.

Recommendation: *The Department should work urgently with all local authorities to publish detailed mapping of their implementation plans, enabling searches down to full (7-digit) postcode level. The information should include speed of service, as soon as that is available.*

3. **The Department failed to act on our recommendation to secure a higher standard of cost transparency before the remaining contracts were signed.** Improved cost transparency should have been an important safeguard to protect the taxpayers' interest and ensure that individual contracts were competitively priced and that BT was not taking advantage of its position as monopoly supplier. But the Department rejected our recommendation and all remaining contracts under the current programme have since been awarded to BT. The Department has at least now agreed to review the non-disclosure agreements, which prevent local authorities from discussing and comparing BT's costs directly between themselves. The Department also told us that it will soon have better information on actual costs of deployment.

Recommendation: *The Department should collect, analyse and publish costs data on deployment costs in the current programme, to inform its consideration of bids from suppliers under the next round of funding.*

4. **We reiterate our previous conclusion that the Department's procurement approach failed to deliver meaningful competition.** Since our hearing in July last year, when 26 of the 44 contracts to be awarded by local bodies had gone to BT, all remaining contracts have now also gone to BT. In our view, the lack of competitive

tension from other bidders put BT in a strong position and restricted the Department's ability to insist on value for money safeguards such as unfettered cost transparency. We will be seeking assurance that the Department has taken full account of our concerns in delivering its next programme, in seeking to maximise competition, in promoting value for money and in ensuring that the supplier contributes fairly to the capital cost.

Recommendation: Before the next round of funding is released, the Department should work with local authorities to identify opportunities to promote competition and value for money; including considering alternative solutions, joint working and fair capital contributions from suppliers.

1 Introduction

1. The Department for Culture, Media and Sport's (the Department's) rural broadband programme is designed to help get broadband to areas, predominantly rural, where commercial broadband infrastructure providers currently have no plans to invest. Under the programme the Department is providing a total of £490 million in grant funding to 44 local bodies (local authorities or groups of authorities) by 2015 to subsidise them to procure superfast broadband services for their areas. This subsidy is matched by public funding from local authorities and capital investment from the supplier, BT. The Department has also committed another £250 million after 2015 to extend the programme.

2. In July 2013 we held a hearing on the basis of an NAO report, with representatives from the Department, Ofcom, BT and three other key industry stakeholders attending.¹ Our report, published in September 2013, highlighted our concerns over the Department's procurement - which did not deliver meaningful competition, did not secure transparency over costs and rollout plans, and obtained a lower than anticipated capital contribution to the programme from the sole supplier, BT and led to a real risk that the programme will fail to secure value for money.

3. The Government responded to the recommendations in our report in November 2013.² Its response failed to address properly our concerns, most notably over: improving cost transparency, facilitating the publication of detailed broadband rollout plans, and ensuring that supplier contributions reflect the long term value of the asset it is receiving. We therefore recalled the Department and BT to another hearing on 27 January this year. After the hearing the Department provided a further note on its actions to promote the release of detailed broadband rollout plans, and on cost transparency.³

1 C&AG's Report, *The rural broadband programme*, Session 2012-13 HC535

2 Treasury Minute Cm 8744, November 2013

3 Ev 28

2 Release of detailed rollout plans

4. Our first report covered how the lack of published rollout plans was hindering other potential suppliers from making informed decisions about where and how to invest in broadband provision. At that time the Department had said that it was sympathetic to releasing rollout plans and BT stated that there was no commercial impediment to rollout information being made public.⁴ However, following the hearing the Committee received several letters stating that local authorities were still not releasing sufficiently detailed information on proposed coverage, with some claiming BT was still unwilling to allow this.⁵ At the January 2014 hearing, both the Department and BT told us that they were not blocking the publication of maps; indeed the Secretary of State for Culture, Media and Sport wrote to local bodies in July 2013, stating her preference for this information to be published.⁶ While we are hearing that neither BT nor the Department is blocking publication of detailed coverage plans, correspondents continue to tell us that the data they require to develop alternative projects are not being released.⁷ Without such information suppliers and communities will not have the necessary information to design projects and to bid for any of the additional funding the Department has announced for 2015-2017 to extend further superfast broadband coverage.⁸

5. BT told us that 40 out of 44 local bodies have now published some information on broadband coverage, a significant increase since our last hearing, and that it is currently helping the last four local bodies to publish some information. Coverage information is typically presented as maps.⁹ But these maps still vary significantly in the level of detail they provide and many are inadequate.¹⁰ While we saw a few good examples, with witnesses referring particularly to Dorset and Northamptonshire, many of the maps we have seen still do not currently provide sufficient information to allow other suppliers to accurately identify areas remaining without superfast broadband. We are frustrated that we did not manage to get to the bottom of whether the disparity in the level of information released is due to conscious choices by local authorities over the level of information they want to publish, lack of available information, or due to confusion or restrictions over what BT would allow them to publish.¹¹

6. In the case of Cumbria, several correspondents wrote to us to say that BT was still not allowing the County Council to release sufficiently detailed rollout information. This view is different to the Department's understanding which was that the Cumbria County

4 Committee of Public Accounts, 24th Report of Session 2013-14, *The rural broadband programme*, HC474, paragraph 23

5 Q151

6 Qq 148-158, Ev 28

7 Qq 151-152

8 Qq 148, 150, 152

9 Q148

10 Qq 150, 178

11 Qq 150-153, 156-158, 165-166, 178, 153

Council was able to publish the data it wanted to.¹² The Department told us that BT is now working with Cumbria County Council to prepare a detailed coverage map.¹³

7. BT clarified its policy position on the publication of rollout information. BT told us that it is for local authorities to decide the level of coverage information they wish to publish.¹⁴ But BT's contract with each local authority contains a commercial confidentiality clause which is preventing local authorities from publishing the contract's speed and coverage templates. Despite the £1.2 billion public sector investment in areas where there is no commercial market for broadband, BT continues to refuse to release these templates as it considers them highly commercially sensitive (as the templates contain information about its technical solutions which are also used in its commercial programme).¹⁵ However, BT has committed to allow local authorities to publish coverage information on which locations will receive superfast broadband at a complete 7-digit postcode level if they choose to; a greater level of detail than its contract obliges it to or than is contained in the speed and coverage templates.¹⁶

8. The Department expressed its concern at the correspondence received by the Committee and has committed to resolve this issue as a priority, although it is not a direct contract signatory.¹⁷ After our hearing in July the Department wrote to local authorities to encourage them to release coverage information. Since our January 2014 hearing it has now supplemented this with further guidance to all local authorities to clarify and confirm BT's agreement to release detailed coverage data. This should represent another step forward. The Department also told us it is actively considering how to ensure transparency of deployment plans for its future broadband programme.¹⁸

9. However, coverage is only one part of the picture. Individuals and other potential suppliers need to know the speed and timing of proposed superfast broadband services. We highlighted the implications for individuals of not knowing if and when they might receive a superfast connection, and what speed they can expect.¹⁹ The Department told us that speed and coverage templates cannot provide detailed speed estimates for specific locations. BT told us that it makes speed information public once its surveys are complete by publishing on its Openreach website which exchanges will be upgraded and which cabinets will be enabled. However speed cannot be determined prior to this point. As a result, we are disappointed that limited information remains available on who will receive superfast services from the rural broadband programme.²⁰

12 Qq 151, 156, 158

13 Ev 28

14 Qq 150-152

15 Qq 148-149, 151, 159, 161, 167, 173-174

16 Qq 151-152, 163, 168, 178

17 Qq 158, 195

18 Ev 28

19 Qq 175-178, 186-187, 191

20 Qq 175-177, 191

3 Cost transparency

10. The standard contract used by local authorities in their procurements with BT contains a non-disclosure agreement clause which prevents local authorities from discussing their bids and costs with each other. Our September 2013 report recommended that for areas where procurement was not already complete, the Department should secure BT's agreement to improve cost transparency, for example, by omitting the non-disclosure agreement.²¹ Allowing local authorities to share information with each other would have helped to promote best value from negotiations, particularly given that BT was effectively in a monopoly position.²² We are disappointed that no such agreements were reached. The non-disclosure agreements meant that local authorities negotiating with BT—a quasi-monopoly supplier receiving £1.2 billion pounds of public money—still did not have sufficient transparency over bids to see what deals other local authorities are getting.²³

11. The Department repeated its view that it does not consider that local bodies have been materially disadvantaged by the non-disclosure agreements.²⁴ Although local authorities did not have access to each other's bids, the Department reported it had oversight of all costs, and provided advice to local authorities on reasonableness of its costs compared with others when negotiating contracts.²⁵ Although complete transparency would have been in the public interest, BT was not willing to enter into contracts under those terms.²⁶ BT stated that its costs are commercially sensitive due to the assurance it gives of consistency between costs in its publicly funded and commercial programmes. It argues that any information released about BT's publicly subsidised programme would allow its commercial competitors to understand its technical solutions and costs. We are unconvinced that sharing information privately between local authorities under standard commercial confidentiality clauses would have led to BT's commercial position being compromised. The Department has asked the new Chief Executive of Broadband Delivery UK, a unit within the Department, to review the contractual arrangements to see if the non-disclosure agreements signed by local authorities are really necessary to prevent commercial harm.²⁷

12. In a note sent to us after our January hearing, the Department described how its assurance system was designed to ensure in-life contract costs are well-managed and controlled. The system includes central checks of costs, such as staff costs, and training for local bodies in checking invoices.²⁸ BT also reported that it had already passed three post-expenditure audits in Cornwall. Such controls should, if operated well, ensure that only actual costs incurred can be invoiced. However we remain concerned that the controls can identify actual costs charged, but not whether those costs were efficiently priced in the first

21 Committee of Public Accounts, 24th Report of Session 2013-14, *The rural broadband programme*, HC 474

22 Q208

23 Q215-220

24 Ev 28

25 Qq 208, 212-214

26 Q219

27 Q220

28 Ev 28

place.²⁹ The Department reported that it seems likely that the programme's actual project management costs will be about a third lower than those included in the bids though we questioned whether this merely showed that the bid costs had been too high in the first place.³⁰

13. We sought some reassurance from the Department that it had been trying to drive down contract prices to reduce the public subsidy per cabinet despite the lack of competition. The Department reported that the projection of overall public subsidy required has remained constant despite the projected reduction in actual project management costs compared with those included in bids. The Department does not yet have detailed cost data per cabinet and path but it told us it will soon be able to collect real deployment costs to gain a better picture on actual costs.³¹

29 Qq 220-1

30 Qq 216-17, 245

31 Qq 238-243

4 Promoting competition

14. At our July 2013 hearing we discussed the failure to secure meaningful competition between suppliers at some length. The Department rejected our conclusion that its existing arrangements had not provided enough competition.³² But although nine suppliers had initially bid to be on the framework most dropped out, and the only other supplier on the framework was largely inactive. In the end every single contract in the current broadband programme has gone to BT.³³

15. BT's monopoly position should have been a red flag for the Department as it finalised its framework contract with BT, placing greater importance on the other value for money safeguards.³⁴ But we see the lack of cost transparency and BT's insistence on non-disclosure agreements as symptomatic of BT's strong negotiating position resulting from the lack of competition. And BT is still putting in significantly less of its own capital funds than it originally promised.³⁵ In addition we have received correspondence suggesting that BT was able to change its rollout plans leaving a village not served by either its commercial or subsidised programme. Correspondents have also suggested that BT was able to delay or halt potential competitors' plans by changing its rollout plans.³⁶ The Department pointed out that BT is getting to the most premises at the lowest cost; but of course in the end it was the only active bidder for many of the contracts. So in our view the Department cannot know if it has got value for money from the contracts.³⁷

16. We questioned whether the way the Department designed the programme had allowed sufficient space for smaller suppliers and alternative technologies.³⁸ The Department told us that in the last few months it has spoken to 57 different suppliers in relation to the additional £250 million of broadband funding from 2015. It told us that it is very interested in exploring different technologies as it tries to reach the hardest to reach areas where there is less existing infrastructure.³⁹ BT also told us that it is actively developing alternative solutions for 'not-spots' (areas with no broadband coverage) including trialling wireless solutions in areas such as Cornwall and the Scottish Highlands. BT also said it was open to working in partnership with smaller suppliers and had done so in some of its wireless experiments.⁴⁰

32 Treasury Minute Cm 8744, November 2013

33 Qq 198-207, 227-230

34 Q231

35 Qq 183-5

36 Q178

37 Qq 221, 232-3

38 Q222

39 Qq 223-225

40 Qq 192-194

Formal Minutes

Monday 24 March 2014

Members present:

Mrs Margaret Hodge, in the Chair

Mr Richard Bacon
Stephen Barclay
Chris Heaton-Harris
Meg Hillier

Stewart Jackson
Austin Mitchell
Nick Smith
Justin Tomlinson

Draft Report (The rural broadband programme), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 16 read and agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Fiftieth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 26 March at 2.00 pm]

Witnesses

(published in Volume II on the Committee's website www.parliament.uk/pac)

Monday 27 January 2014

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Sue Owen, Permanent Secretary, Department for Culture, Media and Sport, **Sean Williams**, Director of Strategy, Policy and Portfolio, BT Group and **Jon Zeff**, Director of Programme SRO, Department for Culture, Media and Sport

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List of printed written evidence

(published in Volume II on the Committee's website www.parliament.uk/pac)

1 Department for Culture, Media and Sport

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List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2013–14

First Report	Ministry of Defence: Equipment Plan 2012-2022 and Major Projects Report 2012	HC 53
Second Report	Early Action: landscape review	HC 133
Third Report	Department for Communities and Local Government: Financial sustainability of local authorities	HC 134
Fourth Report	HM Revenue & Customs: tax credits error and fraud	HC 135
Fifth Report	Department for Work and Pensions: Responding to change in jobcentres	HC 136
Sixth Report	Cabinet Office: Improving government procurement and the impact of government's ICT savings initiative	HC 137
Seventh Report	Charity Commission: the Cup Trust and tax avoidance	HC 138
Eighth Report	Regulating Consumer Credit	HC 165
Ninth Report	Tax Avoidance – Google	HC 112
Tenth Report	Serious Fraud Office – redundancy and severance arrangements	HC 360
Eleventh Report	Department of Health: managing hospital consultants	HC 358
Twelfth Report	Department for Education: Capital funding for new school places	HC 359
Thirteenth Report	Civil Service Reform	HC 473
Fourteenth Report	Integration across government and Whole-Place Community Budgets	HC 472
Fifteenth Report	The provision of the out-of-hours GP service in Cornwall	HC 471
Sixteenth Report	FiRe Control	HC 110
Seventeenth Report	Administering the Equitable Life Payment Scheme	HC 111
Eighteenth Report	Carrier Strike: the 2012 reversion decision	HC 113
Nineteenth Report	The dismantled National Programme for IT in the NHS	HC 294
Twentieth Report	The BBC's move to Salford	HC 293
Twenty-first Report	Police Procurement	HC 115
Twenty-second Report	High Speed 2: a review of early programme preparation	HC 478
Twenty-third Report	HM Revenue & Customs: Progress in tackling tobacco smuggling	HC 297
Twenty-fourth Report	The rural broadband programme	HC 474
Twenty-fifth Report	The Duchy of Cornwall	HC 475
Twenty-sixth Report	Progress in delivering the Thameslink programme	HC 296
Twenty-seventh Report	Charges for customer telephone lines	HC 617
Twenty-eighth Report	The fight against Malaria	HC 618

Twenty-ninth Report	The New Homes Bonus	HC 114
Thirtieth Report	Universal Credit: early progress	HC 619
Thirty-first Report	The Border Force: securing the border	HC 663
Thirty-second Report	Whole of Government Accounts 2011-12	HC 667
Thirty-third Report	BBC severance packages	HC 476
Thirty-fourth Report	HMRC Tax Collection: Annual Report & Accounts 2012-13	HC 666
Thirty-fifth Report	Access to clinical trial information and the Stockpiling of Tamiflu	HC 295
Thirty-sixth Report	Confidentiality clauses and special severance payments	HC 477
Thirty-seventh Report	Supporting UK exporters overseas	HC 709
Thirty-eighth Report	Improving access to finance from small and medium-sized enterprises	HC 775
Thirty-ninth Report	The Sovereign Grant	HC 665
Fortieth Report	Maternity services in England	HC 776
Forty-first Report	Gift Aid and other reliefs on charitable donations	HC 835
Forty-second Report	The Charity Commission	HC 792
Forty-third Report	Progress at Sellafield	HC 708
Forty-fourth Report	Student loan repayments	HC 886
Forty-fifth Report	Excess votes 2012-13	HC 1068
Forty-sixth Report	Emergency admissions to hospital	HC 885
Forty-seventh Report	Contracting out public services to the private sector	HC 777
Forty-eighth Report	Council tax support	HC 943
Forty-ninth Report	Confiscation Orders	HC 942