

# FAWLEY WATERSIDE

## Contents

1. Executive Summary.
2. Introduction to Fawley Waterside: An Intelligent Merchant City.
3. Outline Business Case Summary.
4. Full Business Case Analysis:
  - 4.1 Introduction.
  - 4.2 Benefits of Fibre Schemes.
  - 4.3 Scheme Options.
  - 4.4 Economic Appraisal.
  - 4.5 Summary.
5. Vodafone Project: Commercials & Project Timeline.
6. Project Delivery Schedule.
7. Project Team & Key Stakeholders.
8. Attachments:
  - 8.1 Advice Letter from Mills & Reeve regarding State Aid Regulations.
  - 8.2 Letter Confirming Aldred Drummond as Responsible Officer.
  - 8.3 Letter Guaranteeing Fawley Waterside Ltd funding of £750K.
  - 8.4 Letter Confirming FWL will cover VAT & Cost Over-Runs not covered by Vodafone.
  - 8.5 Live Risk Register.

## 1. Executive Summary

This Full Business Case supports a £750K grant from MHCLG Getting Building Fund via Solent LEP to provide 50% of the cost of connecting Fawley Waterside to Vodafone Direct Internet Access service through provision of a new fibre link from Hounslow. This network connection also serves to improve the fibre connectivity of the waterfront community as a whole. This investment provides key elements of the digital infrastructure required for the development of the intelligent merchant city – in terms of bandwidth, low latency, resilience and diversity.

## 2. Introduction to Fawley Waterside: An Intelligent Merchant City

Fawley Waterside aspires to be a hyperconnected community of 1,500 residential units and a substantial innovation park - and will differentiate on its connectivity. Many of our innovation park tenants will be working in high connectivity industries. A prospective IT services tenant may wish to establish a Network Operations Centre. We will host a satellite services project in collaboration with the Satellite Applications Catapult and will include a satellite observations operations centre, the Earth and Space Observation System (EASOS) that requires high capacity, low latency comms.

In all of our development, will be a heavy user of 5G wireless services which will place major demands on fibre backhaul, especially since the cell size of 5G is very much smaller than 4G and requires many more base stations and fibre interfaces.

For our residential users, some of the main differentiated use cases for advanced broadband services:

- Premium Audio-Visual Services.
- Virtual & Augmented Reality.
- Smart Home including Surveillance.
- Home Office Video Conferencing.
- Telehealth Service.
- Online Education.

We will implement a customer centric data architecture and a horizontal data strategy which avoids silos in energy, housing, transport etc. We will manage utilisation using predictive analytics. By maintaining integrated systems there will be an exceptional level of contextual understanding of user demands and site performance.

We will take advantage of emerging technologies in Internet of Things and Artificial Intelligence to develop a robust data architecture with strong governance. This is consistent with the call for Data Foundations in the current National Data Strategy. With strong governance and user permissions it will be possible to monetise and securitise the data feeds drawn from the site and to share these benefits equitably with our tenants and residents.

This evolution of the data economy is being actively supported by Professor Dame Wendy Hall and her team at the Web Science Institute in the University of Southampton.

**3. Outline Business Case Summary**

By way of introduction, the following Outline Business Case overview was provided by our planning consultants Deloitte.

Fawley Waterside has resolutions to grant planning permission for:

Use Class	Quantum
<b>C3 (Residential)</b>	1,500 residential dwellings
<b>A1-A5</b>	4,700 sqm
<b>B1(a-c)/B2/B8</b>	Use Class B1 Business: 31,000 sqm
	Use Class B1(c) Light Industrial / B2 General Industrial: 35,000 sqm
	Use Class B8 Storage & Distribution: 11,500sqm (including dry stack marina for c. 600 boats)
<b>C1 (Hotel)</b>	8,300 sqm
<b>D1 (Community Facilities)</b>	3,000 sqm
<b>D2 (Sports &amp; Recreation)</b>	2,500 sqm
<b>Primary School</b>	2 Form Entry
<b>Total Non-Residential</b>	96,500 sqm

Fawley Waterside will deliver:

- 2,500 permanent new jobs, including apprentices in 70,000m2 of business class employment space, a dry stack marina, 20,000m2 of R&D facilities, 150-bedroom hotel, assist 200 businesses, primary school, health and community facilities.
  - 300 construction jobs per annum, over a 10-to-15-year period, including construction skills training and apprenticeships.
  - 1,500 homes all within 10 minutes’ walk of the jobs.
  - Working harbour and canal for commercial and leisure shipping, connected to purpose-built boat yard, and Ferry to the Port of Southampton.
  - 1,000,000m2 of public realm and green space, in a Nature Park extending to 275ha.
1. The Vodafone fibre network would serve a new sustainable working community of Fawley Waterside, enabling digital connectivity and resilience for businesses, residents and visitors.

2. It also strengthens network diversity and resilience deep into the Solent waterfront community, supporting the Solent Maritime Enterprise Zone and the potential Solent Freeport.
3. Fawley Waterside is recognised as being regionally important. The Planning Inspector's Conclusions, New Forest National Park Local Plan, Report on Examination, 2019:

*"The overall the Fawley Waterside development would make a significant contribution to meeting identified housing needs in the New Forest District Council planning authority area and the National Park, including affordable housing. Moreover, the site would bring significant economic benefits, including the creation of around 2000 jobs. Furthermore, there is an identified need for the marine industry sector in the Solent. Due to the scale, the proposal would also benefit the wider regional economy. Consequently, the redevelopment of the overall site would have significant social and economic benefits at a local and regional level."*

4. The proposed employment space is based on a concept of the new community being an 'Intelligent Merchant City', with a focus on attracting and supporting the development of a cluster of innovation-based marine technology businesses.
5. Fawley Waterside fronts a strategically important waterway creating a unique set of opportunities for the marine sector. Independent research and case studies highlight the diversity of the marine sector and its interconnectivity with deep rooted supply chains, environmental priorities, adoption by the sector of digital technology and the use of advanced manufacturing/materials.
6. Fawley Waterside will play an important role in supporting and sustaining the Solent marine cluster, which includes SMEs as well as large firms (in services and manufacturing), academic institutions and defence related organisations. The marine sector, in common with others, also has potential for growth through encouragement of entrepreneurialism and innovation.
7. The employment strategy seeks to attract and support businesses in the digital sector, including the marine sector, life sciences, computer science and artificial intelligence, composite manufacturing, additive manufacturing and sustainable food production. The fibre connection is essential to attracting businesses in these sectors, and to creating a cluster of marine and technology led business.
8. The business space could support large corporates, and an Institute of Technology taking large units from 5,000 to 10,000 sqm and will target SMEs which may range from start-ups in incubator units to units of between 500 to 5,000 sqm. Fawley Waterside are providing a wide range of business space that could easily support 100 businesses.
9. In addition, there would be a retail offer including a farm store and farmers market, cafes and restaurants, artisan space, and a 4-star hotel, health & fitness, a 2 FE primary

school and community centre. There could be between 25 to 50 retail and community-based businesses.

10. The fibre connection would be essential to attract and support the technology and science led businesses and institute and would be a major attraction to the supporting business and activities that would make Fawley Waterside vibrant and sustainable.
11. The fibre would also accelerate the delivery of the 1,500 new homes, providing a resilient platform for home working.
12. The number of jobs that would be created is actually very high relative to the projected population of the new community (about 3750-3800 residents).
13. A significant proportion of residents are expected to work at Fawley Waterside, this creates an exceptional opportunity for more sustainable, and healthier lifestyles, which would be enabled by the fibre connection.
14. Research confirms strong interest in an improved life/work balance, proximity between home and work, reduced commuting and flexible working practices that include home working and self-employment - an entrepreneurial approach and a desire for an altogether more 'local life'.
15. Fawley Waterside is aligned with these themes and would provide a workplace that responds to social, economic and technological trends, as well as the site's unique, maritime and natural environment.
16. The fibre connection is essential to providing the digital platform for the creation of an innovative, entrepreneurial, science and technology led new community.

## 4. Full Business Case Analysis

### 4.1 Introduction

This report aims to provide the economic case for the Waterside Fibre 5G Business Case to satisfy the recommendation by Aecom in their Interim Due Diligence Report that:

*“A Green Book compliant economic case is required in order to demonstrate the value for money of the scheme. The information provided as part of the submission is only qualitative. While the rationale for how the scheme will generate additional economic benefits is understood, a Green Book compliant case requires these benefits to be quantified and monetised. It should cover all the options, not just the preferred one.”*

We set out below an economic case for the scheme based on a level of analysis proportionate with the funding sought.

#### **Scheme Details**

The objectives of the 5G scheme are as follows:

- To deliver exceptional fibre connectivity and network resilience through supplementing the existing access to the Openreach network with a connection to the Vodafone National Optical Core Network.
- To support the redevelopment of the Fawley Power Station site to provide a new Intelligent Merchant City.
- To support the expansion and deliver of the Solent Maritime Enterprise Zone & Solent Freeport proposal.

The provision of full fibre connectivity through the Fawley Waterside Vodafone Fibre Deployment is seen as fundamental towards the delivery of the Intelligent Merchant City and its ability to attract the 2,500 high quality jobs and 1,500 new homes it aims to deliver. Connection to the Vodafone National Optical Core Network will also support the Solent Maritime Enterprise Zone and the potential Solent Freeport.

The scheme’s application identifies the following economic benefits of the Fawley Power Station redevelopment (Intelligent Merchant City) which are supported by the scheme:

- Jobs: 2,500.
- Homes: 1,500.
- Employment Floorspace: 70,000m<sup>2</sup>.
- Research & Development Floorspace: 20,000m<sup>2</sup>.

- Public Realm / Green Space: 1,000,000m2.

The Fawley Waterside Vodafone Fibre Deployment scheme is also expected to benefit residents and businesses who live or operate alongside the A326 in the area, and estimates have been made from census and other data on the number of existing residents and employees who could benefit.

- The cost of the scheme is £1.5 million.
- No permanent jobs will be created directly by the laying of fibre which will be undertaken by Vodafone's specialist teams.
- The fibre will be operational in 2022.

### **Critical Success Factors**

The Critical Success Factors (CTFs) attributable to the scheme are as follows:

- To introduce a new network operator.
- To enable the widest possible access in the community.
- To be able to implement the scheme with minimal construction.
- To secure good VfM.
- To be in service in time for business needs in 2022.

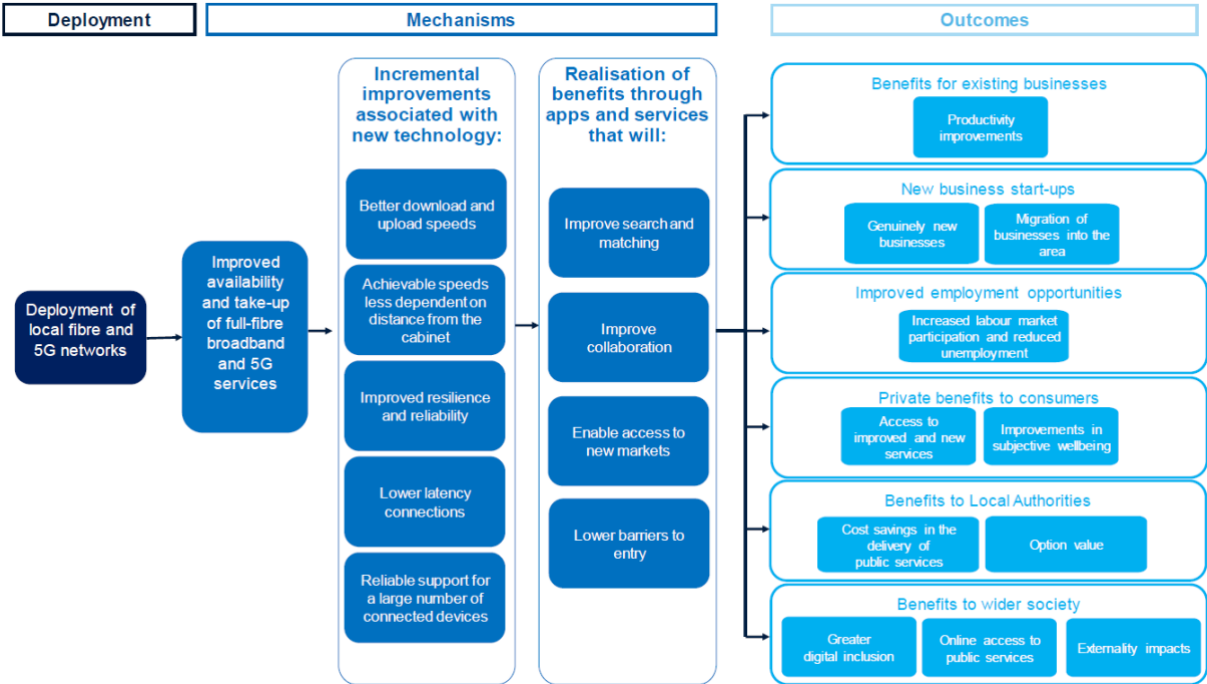


4.2 Benefits of Fibre Schemes

Summary

A selection of key benefits that are predicted to arise following implementation of 5G fibre (Impact at a local level of full fibre & 5G investments, Oxera 2019) are shown below in Figure 1 and summarised in Table 1.

Figure 1 - Deployment, Mechanisms & Measurable Outcomes 5G Fibre



Source: Figure 2.4, Oxera, 2019

Table 1 – Key Benefits

Benefits For	Examples
Existing Businesses	<ul style="list-style-type: none"> <li>• Attractive &amp; innovative business environment.</li> <li>• Business expansion, improved productivity &amp; greater turnover.</li> <li>• Improved access to existing markets, entry into new markets enabled though improved communication and distribution channels.</li> </ul>

	<ul style="list-style-type: none"> <li>The evidence shows that, on average, existing businesses will see increased productivity, with an expected impact of between 0.3% and 3.8% increase in turnover per worker per annum.<sup>1</sup> (The range is related to speed increases, the Waterside 5G is the top range, &gt;200 mbps). Impact varies between sectors. Base economic case assumes 1%.</li> </ul>
New Businesses	<ul style="list-style-type: none"> <li>Significantly improved connectivity can encourage new business start-ups, enabled by easier access to markets, lower barriers to entry and the development of new business models that are digitally dependent and more flexible than established businesses.</li> <li>At a local level, if speeds are higher relative to other surrounding areas (or similar, competing areas), new or established businesses may also be attracted into the area from elsewhere, thereby boosting the level of business activity in the local area.</li> <li>The evidence shows an expected impact of between 0.4% and 3.2% increase in the number of businesses operating in the area.<sup>2</sup> This varies by sector.</li> </ul>
Improved Employment Opportunities	<ul style="list-style-type: none"> <li>Evidence shows that improved broadband speeds and greater penetration of fibre in an area will lead to increased participation in the labour market and higher employment levels linked to the creation of new jobs.</li> <li>Furthermore, as a result of improved communication channels and opportunities for remote working, there will be new employment opportunities or a reduction in migration away from the area that might otherwise have been at a disadvantage in terms of broadband availability/speeds (this is referred to as ‘safeguarding jobs.’)</li> <li>The evidence shows that there could be an increase in employment in the area (new jobs, inward migration and safeguarded jobs) of around 0.7–1.7%.<sup>3</sup> This varies by urbanization level.</li> </ul>

<sup>1</sup> Upper bound estimates based on the findings of Ipsos MORI (2018), showing the impact of an increase in connection speed of greater than 200 Mbit/s. 0.3% based on SQW (2013), which estimated productivity gains based on an assumption of the impact of a doubling of speed, for which the central estimate is 0.3%.

<sup>2</sup> Ipsos MORI (2018), based on an increase in connection speed of 100–200 Mbit/s; and Hasbi (2017), which estimated the impact of very high-speed broadband availability in the local area.

<sup>3</sup> Ipsos MORI (2018); and OECD (2015).

Private Benefits to Consumers	<ul style="list-style-type: none"> <li>• There will be private consumer benefits in terms of access to a greater number of services. These benefits will be reflected in increased consumer surplus, i.e., the difference between willingness to pay (value) and the actual price. Consumer surplus will increase where price declines as a result of increased competition and/or willingness to pay rises as a result of increased connectivity and enables access to new and valuable services.</li> <li>• Consumers may also experience improvements in subjective personal wellbeing, for example from the greater range of entertainment or education options or increased social inclusion.</li> <li>• Annual consumer surplus estimated at £60-£120 per household.</li> </ul>
Benefits to Local Authorities	<ul style="list-style-type: none"> <li>• At the local level, public service providers, such as LAs, could benefit from cost savings in the delivery of public services and benefits associated with the improved economic environment.</li> <li>• Increased economic activity can have a number of benefits for a local area, both directly through some additional income (for example through business rates) and indirectly (through assisting with a range of other LA objectives facilitated by increased economic activity such as reduction in antisocial behaviour or deprivation).</li> <li>• There is also a significant 'option value' associated with deploying physical infrastructure that is 'future-proof', thereby reducing the costs associated with civil engineering in the long run and the trialing of new services in a more cost-effective way.</li> </ul>
Benefits to Wider Society	<ul style="list-style-type: none"> <li>• Wider society may benefit through network externalities, or positive spillovers. As more people are connected, further developments have a greater impact, and benefits might also accrue more widely than just to the subscribers and producers of such services. This could also deliver important, but often unquantifiable, social benefits such as greater social inclusion.</li> </ul>

We note that another very important benefit of 5G fibre installation on the Waterside is the network diversity and resilience and other benefits of introducing a new operator/network in the area. This provides businesses and consumers with confidence that alternative suppliers are available, that network capacity and resilience is unlikely to be an issue and that pricing will remain competitive.

Based on the above benefits, the economic case that follows will seek to quantify:

- Increased productivity to businesses.
- Benefits to consumers.
- Increases in local employment and businesses.

### 4.3 Scheme Options

Table 2 describes the four options considered for the 5G fibre scheme.

**Table 2 - 5G Fibre Scheme Options**

Option	Description	Comment
1	Do Nothing	The 'do-nothing' scenario involves relying on the existing Openreach provision, which would not meet objectives in terms of diversity (i.e., alternative routes, which requires a second operator) and resilience (i.e.no interruptions).
2	Upgrade to Openreach Network	Would not provide the network diversity and resilience required from a second operator.
3	Run Fibre through the Fawley / Warsash Tunnel	Tunnel currently considered to be National Infrastructure (because it carries power distribution cables), access was refused.
4	Connect from Hounslow to Fawley by laying a new spur of fibre	Will improve network diversity, resilience and capacity. Can be coordinated with planned highway upgrades to the A326.

Option 1 (do nothing) would not meet the scheme objectives of diversity and resilience; and it would probably also slow down the take-up by businesses of space at Fawley Waterside. It is not considered appropriate to quantify the effect of this option.

Option 2 would similarly not meet the scheme objectives of diversity and resilience; and has therefore not been quantified.

Option 3 is unfeasible given that access was refused.

The economic impacts of Option 4, the preferred option, have been quantified.

## 4.4 Economic Appraisal

### Preamble

An assessment of the economic case has been undertaken to ensure the scheme fulfils the Local Enterprise Partnership Growth Fund requirements for appraisal and that it demonstrates value for money.

### Economic Case Assumptions

The quantifiable economic benefits of digital infrastructure are difficult to estimate, but as noted above the 2019 Oxera report (reference above) provides some guidance and has been used. In most cases conservative assumptions have been used.

The base year 2020 data from Temprowas was used in the BCR calculation - 18,127 households and 18,049 jobs. We used this as the source data for base households and jobs. Future Temprowas growth was ignored to be conservative.

The initial estimates in our grant application were made without more detailed information developed for the Economic case and have been updated by the EC estimates. This uses Temprowas data on households and jobs in the area, with the addition of Fawley Waterside to confirm the potential connections to be for:

- 19,717 Households.
- 20, 549 Employees (2,500 at Fawley Waterside & 18,029 existing).

There was no real information available for the number of businesses, but assuming 2,300 employees at the Fawley Refinery and using the 2011 Solent LEP average of 10.44, that could mean some 1,754 businesses in the catchment. Of these, up to 240 could be located at Fawley Waterside, very dependent on type of employer.

The three tangible benefits that are quantified in this report include:

- Productivity (per annum) - (Turnover per worker of firms taking up full-fibre broadband \* estimated percentage increase in productivity) \* the number of employees of those firms taking up full-fibre broadband.
- Consumer Surplus Value - Households taking up the service \* consumer surplus for full-fibre/5G services per annum.
- Additional local employees and businesses due to 5G.

The assessment period assumed is 15 years, which is the build-out period for Fawley Waterside and assumed longevity of the technology. Any maintenance and operating costs are assumed to be covered by access fees.

All prices are assumed to be for 2020, and a present value estimate has been made using the Green Book assumed 3.5% discount rate.

The average turnover per worker in the SLEP area is assumed to be £77,000 per annum – this has been derived from a SLEP report on GVA per worker and a GVA to turnover ratio.

The assumed increase in productivity arising through Fibre 5G implementation is assumed to be 1%, much lower than the average of 3.8% quoted in the Oxera report.

The assumed 'penetration rate; of 5G fibre is assumed at 10%, lower than the Oxera quoted 13% average.

The assumed additional consumer surplus for households of superfast Fibre 5G compared to normal provision is between £5 - £10 a month, approximately £60 - £120 per annum (Oxera 2019).

### **Scheme costs, Resourcing Package & Optimism Bias**

The cost of the scheme is £1.5 million in 2020 prices (Design: £50,000, Civil Construction: £1,000,000, Cable Installation: £350,000, Splicing and Testing: £100,000).

The resourcing package is made up of 50% (£750,000) Local Growth Fund contributions and 50% (£750,000) contributions from Fawley Waterside Development Ltd. The total scheme cost is £1.5million.

No optimism bias has been added. The costs of the scheme are fixed and have been agreed with the operator. The works involved are industry standard and there is extensive experience in this type of construction.

### **Benefit Cost Ratio Appraisal**

Table 3 shows the analysis of monetised costs and benefits for the preferred option. The Net Present Value ranges between £14.5 and £15.5 m, and the BCR between 11 and 12, showing high value for money. Nearly all of these benefits come improved business productivity.

There are other very important other non-quantified benefits from (i) network diversity and resilience and (ii) new businesses and jobs in the area, as well as (iii) enabling the delivery of the new Fawley Waterside Intelligent Merchant City.

**Table 3 - Economic Case Summary**

	Low (£m)	High (£m)
Present value of costs	£1.5	£1.5
Present value of benefits	£16	£17
Net present value	£14.5	£15.5
BCR	10	11

### **Risk Assessment & Sensitivity Analysis**

The key economic-related risks and comments /sensitivity tests are set out in Table 4.

**Table 4 - Economic Risks**

Risk	Comment	Sensitivity Test
Capital costs increase	Costs fixed, risk low	None
Reduced take-up of 5G	10% assumed for households and businesses	Sensitivity test assumes 5% take-up
Lower productivity benefits of 5G to employees	1% increase in turnover assumed	Sensitivity test assumes 0.5 % increase
Lower turnover per employee	£77,000 pa assumed	Sensitivity test assumes £37,000 pa
Benefits for shorter period due to technology redundancy	15 years assumed	Sensitivity test assumes 10 years
Lower consumer benefit	Low of £60 per anum and high of £120 pa assumed	Sensitivity test assumes low of £30 pa

The results of the sensitivity tests are shown in Table 5.



**Table 5 - Sensitivity Test Results**

Test	NPV (£m)	BCR (low)
Base case	£15	10
Reduced take-up of 5G (5%)	£7	4
Lower productivity benefits of 5G to employees (0.5%)	£7	5
Lower turnover per employee (£37k)	£7	5
Shorter benefit period (10 years)	£10	6
Lower consumer benefit (£30 pa)	£14	9

The tests indicate that value for money is still likely to be very high under these different circumstances, giving confidence in the overall value for money of the scheme. Even if some effects were compounded, it seems unlikely that the BCR would drop below 2. We note that conservative assumptions have been used in the base case.

### **Estimated Changes in Business & Employment**

Table 6 shows the estimates of new business and employment encouraged by 5G fibre, based on Oxera assumptions. We note that these may be ‘double counted’ to some degree and may represent firms or employees moved from other parts of the UK or region. However, the Oxera evidence is clear that there are significant benefits attributable to new business location and employment.

**Table 6: Estimated Changes in Businesses & Employment**

	Assumption	Low	High
Change in number of businesses	0.4 to 3.2% increase	7	58
Employment impact	0.8 to 1.3% increase	144	235

### **Distributional Analysis**

No detailed analysis of distributional impacts has been undertaken, but some indicative impacts are summarised below.

Social groups that might be specifically affected by the introduction of 5G Fibre may include children, older people, people with a disability, people without access to a car and people on low incomes. The scheme considered in this business case impacts a large area and is considered to be beneficial across social groups who live in the area and those who will also

live or be employed at the Fawley Waterside development which also includes a significant proportion of affordable housing.

The elderly disabled and people without access to a vehicle will have the opportunity to be better connected and reliability of connection should reduce the feeling of isolation through more and clearer social interactions such as virtual reality meetings. In addition, remote treatment could be administered and communication with healthcare professionals improved through connected devices.

Local educational facilities such as the New Forest Academy secondary school and the local primary schools will have better access to new technology, helping improve the training and prospects of children attending the schools.

Implementation of 5G Fibre could also lead to improved public transport service, optimization of routes and connection in areas previously less well connected. Moreover, Intelligent Transport Systems (ITS) could be developed through 5G consumer data.

People on low incomes should experience an increase in employment opportunities through the implementation of 5G Fibre as more businesses settle in the area and innovation drives change throughout the region.

#### 4.5 Summary

The value for money assessment within the Economic Case gives an NPV of some £16 - £17m, and a BCR of 9 to 11. Sensitivity tests suggest that under more conservative assumptions the BCR would remain high value for money.

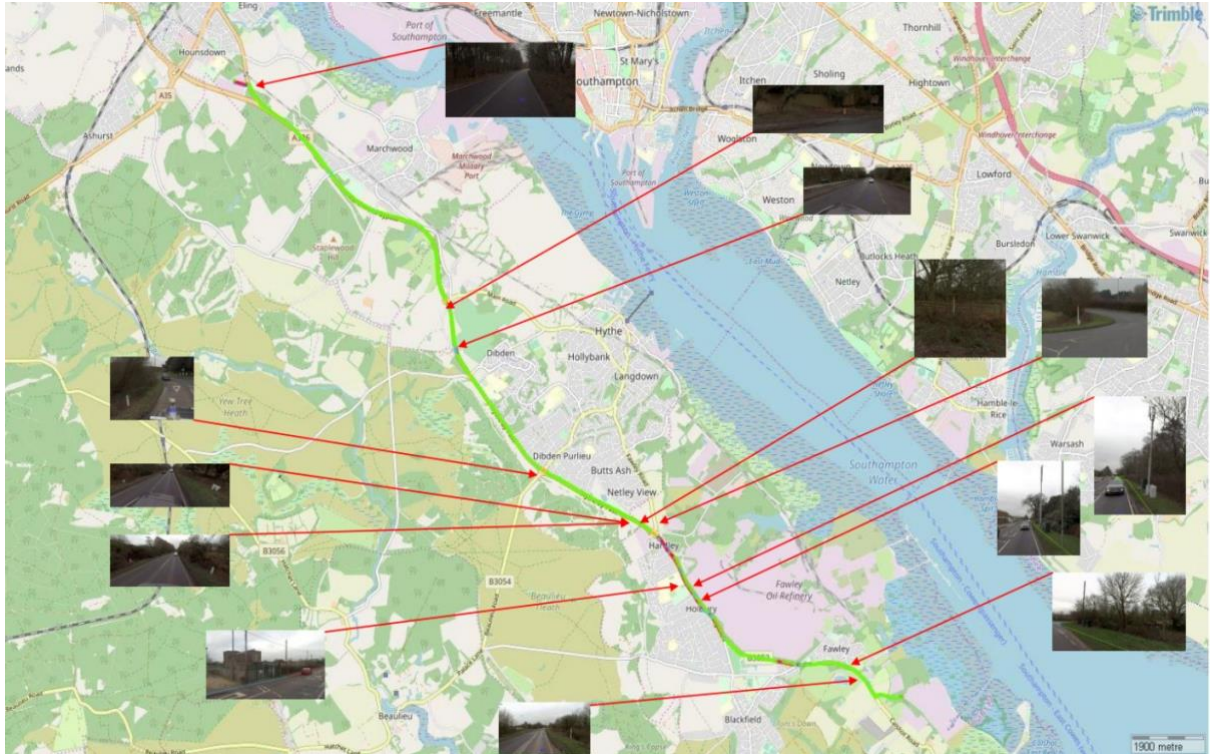
There are other very important other non-quantified benefits from (i) network diversity and resilience and (ii) new businesses and jobs in the area, as well as (iii) enabling the delivery of the new Fawley Waterside Intelligent Merchant City.

This report shows that there are likely to be significant economic benefits from the investment.

5. Vodafone Project – Commercials & Project Timeline

Vodafone provided a fixed price bid for the laying a new Vodafone fibre from Hounslow to Fawley Waterside for a price of £1.5M + VAT.

The route is shown below:



The new fibre connects to Vodafone’s core UK national network and gives access to the main route from the Tele-house’s / Datacentre’s in Slough and Docklands through to the global subsea networks landing in Porthcurno and Bude in Cornwall.

The commercial details are outlined here by Vodafone:

In 2019 Vodafone Procurement Company (VPC) carried out a tendering exercise and 4 Civils & Cabling companies were selected to further build out the VF Fibre Network. These 4 companies were asked to Tender for the Fawley Waterside Project in the Summer of 2020. Of the 4 companies, 3 provided prices (the 4<sup>th</sup> declined on the basis that they have enough work). The prices provided are “Fixed price” and offer a discount against their currently contracted Rate Cards.

A market price comparison is offered on the enclosed PDF ‘Vodafone pricing and Openreach comparison’ as previously provided.

The Project was put out to tender, and this is a standard tender response, costs are broken down into civils and cabling activities and offered at discounted fixed price.

- Civils Works – Fixed cost to include TM and all materials: £1,400,000
- Cabling & Splicing Works – Fixed Cost to include all materials: £100,000
- Total Fixed Price inclusive of all materials: £1,500,000

Further detailed cost analysis has been shared with the Solent LEP in confidence, based on the following materials and quantities:

- 1 x 4-way Micro Duct Direct Bury.
- 48F Diverse Cables Assume 4km Cable Sections.
- 31km of Civils.
- 31km of Fibre.

The 4-way multi-duct solution is the containment system used to facilitate the installation of Blown Fibre cables and is faster and cheaper to deploy than conventional 90mm Duct systems. Using a 4 Way variant provides the capacity now but more importantly the ability to massively increase capacity by ‘blowing’ additional cables in the future as required. Blown Fibre cable technology allows for faster and cheaper cable deployment.

As supporting evidence, the project was market-priced for comparison using published Openreach price lists:

Openreach Excess Construction Charges (prices correct as of 27-10-20)	Cost per m	Total	Total Cost
New Ductwork - Soft surface (includes wayleave costs) (per metre)	32.40	24665	£799,146.00
New Ductwork - Footway (includes wayleave costs) (per metre)	71.60	2248	£160,956.80
New Ductwork - Carriageway (includes wayleave costs) (per metre)	121.09	4059	£491,504.31
Cable (fibre or copper) including any jointing required (per metre)	7.53	30972	£233,219.16
Provision of a new medium size footway box (Surface area between 0.5 sqm and 1 sqm)	1476.18	80	£118,094.40
Traffic Management - (Provisional Sum))			£100,000.00
Does NOT include any Internet services		Total	£1,902,920.67

Vodafone proposal including 1Gb Direct Internet Access for 3 Years	Total	£1,500,000
--	-------	------------

Vodafone have provided a fixed cost and will absorb any costs over runs associated with the Vodafone build. The A326 is the confirmed route, no other alternatives have been considered”

Vodafone will maintain the 4 Way Multi-duct system and its Fibre cable(s) as part of its standard network service operations.

See Vodafone’s Fixed Service Terms contract at:

<https://www.vodafone.co.uk/cs/groups/public/documents/document/vfcon092493.pdf>

*“Vodafone Obligations: Vodafone will, to the extent set out in the Service Specific Terms, be responsible for the installation, maintenance, performance, change requests and compatibility of the Fixed Equipment with the Services.”*

Fawley Waterside recognised from the outset that the Getting Building Fund requires full defrayment by the end of January 2022, and we are confident that this project will be completed well before this deadline. We agree that funding will be defrayed in compliance with LEP/GBF timeframes.

## 6. Project Delivery Schedule

Where possible, Vodafone project delivery dates will align with the revised plan for upgrade works to the A326 junctions being undertaken by Hampshire County Council, in order to minimise disruption. Our expected schedule is as follows:

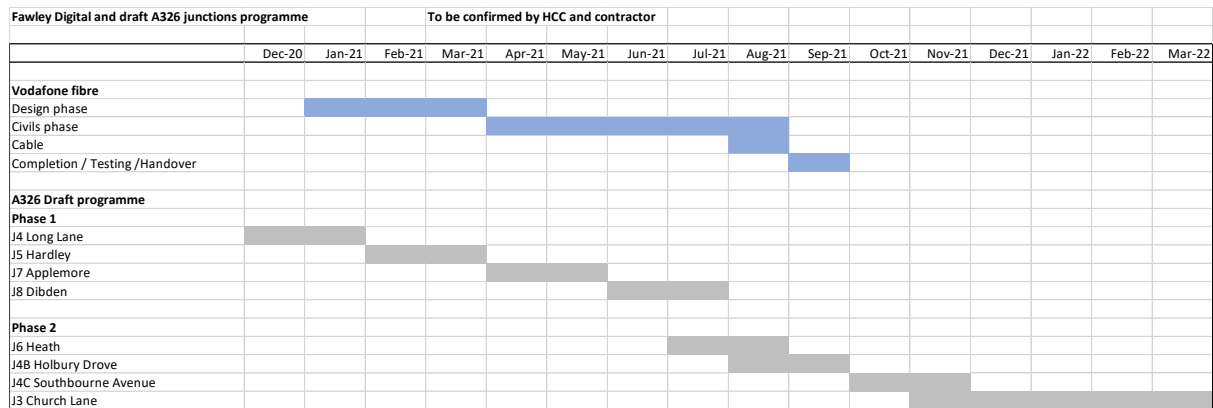
Design 04/01/21

Civils 04/04/21

Cable 04/08/21

Completion / Testing / Handover 04/09/21

These works will be carried out in collaboration with A326 junction improvements. For phasing of both projects, please see the following GANTT chart provided by Markides Associates:



The integration of ducting works with junction improvements is desirable (specially to minimise road closures) but not essential. Delays in A326 works will not compromise the Vodafone project delivery schedule. Similarly, the subsequent Northern road scheme (Hounsdawn to Dibden) which is pre-consultation and pre-planning will not be an obstacle to the deployment of ducts. In all cases Vodafone will deploy at the edge of the highway boundary to leave maximum space for road works.

## 7. Project Team & Key Stakeholders

The management and governance structure of the project is as follows:

- Responsible officer is Aldred Drummond, CEO of Fawley Waterside Ltd.  
arad@fawleywaterside.co.uk.
- Project Director is Phil Brown, Development Director, Fawley Waterside Ltd,  
phil.brown@fawleywaterside.co.uk.
- Vodafone Ltd delivery prime is Mike Aston, Senior Manager - Fibre Services Networks  
mike.aston@vodafone.com .
- Hampshire Country Council (HCC) prime for A326 works is David Wilson  
(David.wilson@hants.gov.uk) who will share progress on scheduling with FW and  
Vodafone.
- Fawley Waterside's highways consultant will keep communications open between  
HCC, Vodafone and Fawley Waterside.
- Prime is Atholl Noon, Markides Associates: Atholl Noon, Director, Transport Planning  
& Engineering atholl@markidesassociates.co.uk. Markides Associates Ltd, 81  
Southwark Bridge Road, London, SE1 0NQ.



**8. Attachments**

- 8.1: Advice letter from Mills & Reeve regarding State Aid Regulations.
- 8.2: Letter confirming Aldred Drummond as Responsible Officer.
- 8.3: Letter guaranteeing Fawley Waterside Ltd funding of £750K.
- 8.4: Letter confirming FWL will cover VAT & cost over-runs not covered by Vodafone.
- 8.5: Live risk register for this project.

# FAWLEY WATERSIDE

Fawley Waterside Ltd, Fawley, Southampton, Hampshire, SO45 1TW

[www.fawleywaterside.co.uk](http://www.fawleywaterside.co.uk)

## 8.1 Advice Letter from Mills & Reeve

# MILLS & REEVE

Your reference:

Our reference: 4051360-0001

Document number: 241831047\_2

Direct line: +(44)(0)1603 693449

Simon.elsegood@mills-reeve.com

Mr. Paul Copping  
Fawley Waterside Limited  
Fawley  
Southampton  
SO45 1TW

28 October 2020

Sent by email only

Dear Paul

### Vodafone fibre project (the "Project") - Advice on State aid

This letter relates to the application of the rules on State aid to the proposed grant of £750,000 to Fawley Waterside Limited under the Ministry of Housing, Communities and Local Government's Getting Building Fund (the "Grant").

This letter is addressed to Fawley Waterside Limited ("FWL"). However, we understand that this letter may be shared with Solent LEP, the Managing Authority for the Grant. We are happy for this letter to be shared with the LEP, but both FWL and the LEP should be aware that our duty of care is to FWL only, as our client, and that the LEP cannot rely on anything in this letter.

As agreed, we are only advising on the State aid treatment of the Grant. In particular, we are not advising on any other funding of the Project nor any other terms of the Grant.

### Summary

Based on the information which FWL has provided to us, it is our opinion that:

- There is no direct State aid to FWL because the Grant is "washed through" to Vodafone. Any indirect aid to FWL through the increase in the value of the Site is permitted "aid for local infrastructure".

- There is no State aid to Vodafone if its price for the Project is a market rate. In the absence of an open, fair and transparent procurement process, this should be demonstrated by independent evidence.

#### The Grant and its proposed use

FWL is a privately owned development company which owns the freehold to the former oil-fired power station at Fawley (the “Site”). It intends to build an international merchant city comprising of 1500 residential units and an industrial park on a 400-acre site at the Site.

You have told us that the Project will deliver two separate 4-way multiduct Vodafone fibres running either side of the A326, from the network site at the Hounslow Interchange to the Fawley Waterside site. These fibres will combine with existing access to the Openreach network, this will provide Fawley Waterside with a grade of connectivity required to support critical infrastructure including network operations centres. The whole Waterside community, business and residential, will benefit from the proximity and ease of access to Vodafone’s network for their own services for improved choice, resilience and diversity of network routes.

You have told us that the Grant will be used to fund half of the cost of the Project. The balance of the funding will be from FWL’s own resources.

#### Legal Analysis

State aid is defined under Article 107(1) of the Treaty on the Functioning of the European Union (“TFEU”). It is only present where all of four conditions are met. Thus, if one or more condition is not present, unlawful State aid does not arise. The four conditions are:

- Assistance or aid is granted from, or through, State resources. The Grant will clearly be a State resource, so the condition will be met.
- The aid must favour (i.e., provide an advantage to) an “undertaking”. An undertaking is an entity which carries out an economic activity i.e., an entity which offers goods or services on a commercial market.
- The aid must distort (or threaten to distort) competition; and
- It must affect trade between Member States.

The third and fourth conditions (i.e., aid distorting (or threatening to distort) competition, and it is having an effect on trade between Member States) are relatively easy to satisfy and it is often presumed that these conditions are present if an entity is engaged in economic activity.

The question of whether State aid is present therefore often turns (as it does here) on whether the second condition is met.

If State aid is present, then unless it is exempt it must be notified to the Commission and the Commission's clearance obtained before the aid can be granted. The Commission has wide powers to investigate State aids awarded and to require the recovery of aids made contrary to the State aid rules.

Because the Grant is first being paid to FWL, which then pays it to Vodafone as part of the price for the Project, it is necessary to analyse the State aid position both from FWL's and Vodafone's perspective. For the purposes of this advice, we will assume that both FWL and Vodafone are engaged in economic activity with respect to the Project and so are undertakings for this purpose.

#### State aid at the level of FWL

It is necessary to analyse whether FWL is being "favoured" by the Grant. We understand that all of the Grant is being used by FWL to pay Vodafone for the delivery of the Project. Consequently, FWL is not receiving any direct benefit from the Grant. The Grant is being "washed through" to Vodafone (see below).

This "wash through" principle is based on the Commission's guidance<sup>5</sup> that it will not consider FWL to be a beneficiary of State aid if it acts as a mere intermediary for passing on to final recipients (i.e., Vodafone) public funding and any advantage produced by such funding.

There is an argument that FWL is receiving an indirect benefit from the Grant (i.e., being favoured) to the extent that the Project will increase the value of the Site. Even if this is the case, article 56 of the General Block Exemption Regulation<sup>6</sup> permits aid to be used for "the construction ... of local infrastructures which ... contribute at a local level to improving the business and consumer environment and modernising and developing the industrial base". The infrastructure must be made available to interested users on an open, transparent and non-discriminatory basis. The price charged for the use of the infrastructure shall correspond to market price. We understand that the eventual occupiers of the site will all be eligible (without any obligation) to take advantage of the connection provided by the Project and will pay their network provider the market rate for that.

We have considered other exemptions to the general prohibition on State aid which are specifically designed for broadband provision<sup>7</sup>. However, in general these are for the provision

---

<sup>5</sup> Paragraph 22 of the Framework for State aid for research and development and innovation (2014/C 198/01).

<sup>6</sup> Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty.

<sup>7</sup> For example, article 52 of the General Block Exemption Regulation

of broadband where no other broadband is available (e.g., to rural communities). We understand that in this case there is already an existing Openreach broadband service to the Site.

State aid at the level of Vodafone

Whether Vodafone is being favoured by the Grant depends upon whether it is being overpaid for its works. An undertaking is not being favoured by public money if it is providing goods or services at a market rate.

The best way of demonstrating that Vodafone is not being overpaid for the project is to hold an open, fair and transparent tendering process. If that is not possible or disproportionate, FLW will need to be able to demonstrate, preferably through means independent of Vodafone, that the £1.5million cost of the Project is no more than a reasonable market rate. In this case for instance, a report from AECOM's costs consultants should suffice. You have sent me a copy of an e-mail from Philip Kennelly to you of 9 October 2020 in which he says that "pricing reflects approximately £48 per meter which are industry competitive" and provided me with his table of how Vodafone's quote compares to Openreach. It would be helpful if FWL obtained independent evidence to support this.

Yours sincerely

A handwritten signature in black ink, appearing to read 'SE', with a large, sweeping flourish extending upwards and to the right.

Simon Elsegood  
Principal Associate  
for Mills & Reeve LLP

---

## 8.2 Letter confirming Aldred Drummond as Responsible Officer.

# FAWLEY WATERSIDE

Fawley Waterside Limited  
Fawley  
Southampton  
Hampshire  
SO45 1TW

Solent Local Enterprise Office  
Third Floor  
1000 Lakeside  
Western Road  
Portsmouth  
PO6 3EN

16<sup>th</sup> September 2020

Dear Sirs

**Re: Getting Building Fund**

I confirm that as Chief Executive of Fawley Waterside Ltd, I take personal responsibility for the delivery of the Fawley Waterside Digital project.

Yours sincerely



Aldred Drummond  
CEO  
Fawley Waterside Limited

### 8.3 Letter guaranteeing Fawley Waterside Ltd funding of £750k.

# FAWLEY WATERSIDE

Fawley Waterside Limited  
Fawley  
Southampton  
Hampshire  
SO45 1TW

Solent Local Enterprise Office  
Third Floor  
1000 Lakeside  
Western Road  
Portsmouth  
PO6 3EN

16<sup>th</sup> September 2020

Dear Sirs

**Re: Getting Building Fund**

I confirm that Fawley Waterside Ltd will provide £750,000 (50% of scheme costs) for the Fawley Waterside Digital project and that this funding is guaranteed, and is not the subject of a loan agreement.

Yours sincerely



Aldred Drummond  
CEO  
Fawley Waterside Limited



8.4 Letter confirming Fawley Waterside Ltd will cover VAT & Cost Over-Runs not covered by Vodafone.

## FAWLEY WATERSIDE

Fawley Waterside Limited  
Fawley  
Southampton  
Hampshire  
SO45 1TW

Solent Local Enterprise Office  
Third Floor  
1000 Lakeside  
Western Road  
Portsmouth  
PO6 3EN

30<sup>th</sup> November 2020

Dear Sirs

**Re: Getting Building Fund**

This letter is to confirm that Fawley Waterside Limited will cover any additional cost over-runs associated with any potential rescope of the scheme which would not be covered by Vodafone.

We further confirm that Vodafone's pricing is exclusive of VAT and Fawley Waterside Ltd will pay the VAT arising on this contract.

Yours sincerely



Aldred Drummond  
CEO  
Fawley Waterside Limited

