YORKSHIRE DALES NATIONAL PARK AUTHORITY **ITEM 7**

Committee: **FINANCE AND RESOURCES**
Date: **28 May 2019**

Report: **FUNDING ARRANGEMENTS, BROADBAND**

Purpose of report

1. To propose a change to the way in which broadband schemes are supported by the Sustainable Development Fund (SDF).

RECOMMENDATION

2. That Members agree that new broadband schemes proposed by Broadband for the Rural North (B4RN) continue to be supported through the SDF through a dedicated investment in shares.

Strategic Planning Framework

3. The information and recommendation contained in this report are consistent with the Authority's statutory purposes and it's approved strategic planning framework:

   National Park Management Plan 2019-24

   Objective E1: Connect Grassington, Hawes, Reeth and Sedbergh to fibre-to-premises broadband by 2024, and secure at least the Universal Service Obligation (10mbps) for the rest of the National Park.

Background

4. Since 2016, the Authority has been supporting the roll-out of a programme of community broadband. This programme has been developed and delivered by Broadband for the Rural North Ltd (B4RN), with our financial support being through a series of interest-bearing loans allocated to component projects.

5. Broadband provision is seen by many as critical to the economy of the area and although economic development is not one of our statutory purposes, we have been able to support the development of high quality provision in areas that other schemes would not have reached. Good levels of broadband provision are now needed by farmers to compete agri-environmental claims documentation, and by tourism business to run publicity and booking operations and to sustain other businesses, which in turn contribute to maintaining communities within the Park. Just as importantly, B4RN's approach provides hyperfast speeds without the proliferation of masts and other infrastructure that have typified other broadband schemes, minimising impacts on the National Park's landscape.

6. To date, we've supported thirteen projects (Ireby; Masongill; Chapel le Dale 1; Dent & Garsdale phase 1; Casterton; Thornton in Lonsdale / Westhouse; Barbon/Middleton; Clapham; Sedbergh East; Sedbergh West; Cautley /Dowbiggin; Dentdale & Garsdale phase 2; Chapel le Dale 2). These projects fall within the south and west of the National Park, and form natural extensions of the network radiating from B4RN's hub near Carnforth. B4RN has an important role to play in delivering the new National Park Management Plan Objective – providing fibre-to-the-premises broadband to Sedbergh, and helping to fill in gaps for many residents and businesses in more isolated locations.

7. So far, their projects have benefited 3,000 properties, with broadband speeds of 1,000 mega bits per second (Mbps); to put these speeds into context, in rural locations where 'Fibre to the cabinet' has been rolled out by BT, speeds of 24Mbps are achieved, although in areas like the Dales where significant lengths of copper wire link the cabinet to individual properties, actual speeds are likely to be a fair bit lower.

8. £131k of SDF money has been used as unsecured loans to fund these projects. These loans are interest bearing (earlier loans at 5% PA, later ones at 4% PA; £30k of interest income is projected to accrue over this period) and repayable after 5 years.

9. B4RN has now decided to end the option of loans as a mechanism for funding future schemes, moving to a model where shares can be used to the same end. As we are very likely to want to support the continued roll-out of such schemes through the SDF (the next proposal, Sedbergh 3, is already waiting in the wings), the issues relating to this change are described below.

Considerations

10. Please note that the following paragraphs are not intended to suggest that B4RN faces any financial issues, and all evidence seen to date strongly suggests the exact opposite.

11. The Authority's loans made to B4RN are all unsecured. This means that, if B4RN were to fail as a business, for whatever reason and in whatever form, the loan capital could be lost to the authority, subject to the value of any residual assets held by B4RN. This risk is mitigated to a degree by periodic discussions with B4RN about their financial position and future plans. Any wider risk to the Authority's finances is managed out, by maintaining a committed Reserve that matches off against the loans (so that, were the loans to be 'lost', the only impact would be on that Reserve).

12. B4RN already offer shares as a means of financing their operations and, in the event of B4RN becoming insolvent, the value of these shares would be repaid to shareholders, but again, only if there was sufficient residual value in the assets of the company, and only after loan capital (a preferential liability to share capital) had been repaid.

13. So moving to shares is a riskier option: not because the operation of B4RN presents any different or heightened risk, but simply because of the legal status of shares in the context of an insolvency or winding up of any business. Indeed, the prospectus accompanying the share offer explains that, in the circumstance of B4RN's liabilities

exceeding its assets, the value at which shares would be redeemed would be reduced, by which means the excess of any liabilities would be apportioned to shareholders.

14. The share offer from B4RN allows the investment to be ring-fenced to a particular scheme. Shares pay 5% interest (paid as additional shares) from the day of purchase (compared to loans, which generate 4% interest, payable at the end of the loan term), but they do have to be kept for 3 years. B4RN sets aside 10% of their share capital each year to meet potential redemption requests, and say that if there is significant demand they will redeem shares on a 'first come first served' basis. This restriction suggests a risk in being able to recover the cash from the investment. However, so far very few people have requested repayment and B4RN has never got close to restricting payback, partly because the investment offers a good return, and because the primary interest of investors is to support the network.

15. Shareholdings are non-transferrable (so can't, for example, be traded on the open market) and must be between a minimum of £100 and a maximum of £100,000, each share having a nominal value of £1. Members (shareholders) are entitled to vote at general meetings and become involved in strategy decisions, though voting rights are 'one per shareholder' irrespective of the number of shares held. Current projections are that B4RN will have generated sufficient cash from its operations to repay all shareholdings by 2027 if investors should wish to redeem their shares (which is perhaps unlikely, given the very low levels of redemption seen so far).

16. Investors purchasing at least £1,500 of shares are able to designate a property within the B4RN coverage area which B4RN will connect to the network without payment of the current £150 connection charge. Investors buying more than 1,500 shares can take advantage of this offer for each 1,500 purchased. Potentially, such free connections could be designated by the Authority, but the alternative option, to leave it to B4RN to identify particular cases which might need support getting on line, would seem more appropriate, given their experience and the officer time which would otherwise be taken up.

Conclusion

17. The option to support broadband schemes by subscribing to shares in B4RN offers a slightly greater risk that the loan arrangements that have been used to date. That risk can be managed by retaining an earmarked Reserve of the equivalent amount, such that any losses would be covered by that Reserve. This would seem to be the most effective way of assuring that we achieve value for money when spending public funds, whilst continuing our policy of making temporary investments to support hyperfast broadband roll-out to isolated rural communities.

Richard Burnett
Director of Corporate Services

26 April 2019