Thank you for your letter of 8 December 2011. I welcome the opportunity of sharing our experiences of delivering broadband services across Northern Ireland.

By way of background we recognised that the UK telecommunications market is fully privatised and competitive. Telecommunications is a reserved matter and my Department therefore has limited powers to intervene in the Northern Ireland telecommunications market. It is a commercial decision for service providers as to where they focus their investments and on what basis products and services are deployed.

That said my Department has made, and continues to make, substantial interventions aimed at encouraging industry investment with a view to ensuring that a broadband service is available regardless of where a customer lives or does business across Northern Ireland. This is undertaken under powers conferred to my Department under the Communications Act 2003. It is because of these interventions that, since December 2005, everyone across Northern Ireland has been able to access a basic broadband service should they choose to do so. Over 99% of premises can access these services via a fixed line and for the remainder access is available through wireless technology options, including satellite.

Our Next Generation Broadband Project was a key part of the Northern Ireland Executive's commitment in the Programme for Government 2008-2011 to "work with the business sector to deliver widespread access for businesses to a next generation broadband network by 2011". This commitment was reflected in a Public Services Agreement target "to ensure that 85% of all businesses in Northern Ireland will be able to access a next generation network by March 2011."

As my Department has lead responsibility for the economy in Northern Ireland it was decided that any interventions should have a particular business focus. However we recognised that there were likely to be spill-over benefits to residential consumers. Without any intervention by Government it is likely that availability of next generation services across NI was likely to extend to around 50%-60% of businesses. This estimate was based on discussions with the industry around their investment plans and commercial models. The 85% target was chosen based on the investments likely to be made by telecoms companies in the time period, market conditions prevalent at the time and analysis of what was achievable with the confirmed budgets which were initially £15m, including EU funds.

This work was taken forward by a small dedicated team of 5-6 officials who had significant experience of project management, telecoms experience, economic experience, governance, procurement, management of EU funds and audit support. Specialist consultancy experience was acquired to assist on the more detailed technical aspects of the work, the economics of telecoms, financial modelling and legal expertise. Four to five consultants were also used. In addition, we used the considerable expertise and services of our Central Procurement Directorate (CPD) within the Department of Finance & Personnel (DFP) to manage the procurement phase of the project.

Like all government projects we began with an initial economic appraisal, taking into account of economies of scale, funding available, market conditions and the business activity across Northern Ireland to examine a range of options. Alternatives were considered such as the likely costs of the provision of a fibre to the home/premises solutions, fibre to the cabinet solutions and wireless broadband solutions. These costs options ranged from £40m up to £500m.
That study concluded that a procurement should be undertaken to make available a minimum service of 2Megabits per second (Mbps) to 85% of business premises in those areas where there is a low density of businesses (mainly rural) and to make available a minimum service of 10Mbps to 85% of business premises in those areas where there is a higher density of businesses.

A Competitive Dialogue procurement process managed by CPD was conducted, and three final bids were received and evaluated, and a preferred bid identified. On the basis of the final tenders a new economic appraisal, compliant with HMT Green Book standards was completed. DFP, Ministerial, EU Managing Authority and EU State Aid approvals were sought and secured. During the procurement phase DETI allocated a further £0.5m to the project and the Department of Agriculture and Rural Development (DARD) became interested in the project. Following discussions it was agreed that an additional £1.5m from the EU Economic Recovery Package via DARD's Rural Development Programme should be allocated to Lot 1 (Rural). Consequently the overall cost to Government of the project was £18m. This was funded under the EU ERDF Sustainable Competitiveness Programme 2007-2013 and the EU Economic Recovery Package. Some £12m was allocated to rural areas and some £6m to urban areas - and the total project costs at contract signing were £47.8m.

The contract was signed with BT Ireland in December 2009 and provided for a new network via an 18 month aggressive investment roll-out. The network was operational by May 2011. The contract then runs for a further 5 years with service provision guaranteed through a series of mechanisms.

Since the contract was signed DARD made available to DETI a further £1 m to upgrade more rural cabinets under the NGBP contract with BT. Additional cabinets were upgraded in rural area across NI by March 2011, with the additional £1m levering an additional £1 m from BT. Furthermore an additional £800K was allocated by DFP upgrade more rural cabinets under the contract, with the additional £800k levering an additional £1,167k from BT.

The project exceeded all the hurdles set for it in relation to feasibility, coverage, specification, legacy, affordability and EU acceptability.

The expected value for money of the project was significant with an estimated Net Present Value of £ 11 0.65m, clearly demonstrating the magnitude of the (direct and indirect) benefits accruing to the wider economy. In broad terms, the one-off cost of the intervention was expected to be repaid in less than two years when counting only quantifiable benefits and in less than one year when including unquantifiable benefits. The wider benefits equate to an estimated additional 1,000 jobs a year, cumulatively approaching perhaps 5,000 jobs over the life of the contract. These jobs are indirect jobs created through the potential for productivity gains.

Broadband is an enabler - the potential for wealth creation in the wider economy and indirect employment creation is crucially dependent on the take-up and use of these services. Marketing activities will continue throughout the life of the contract in order to stimulate the take-up and higher value added use of these next generation broadband services.

Additional was clearly demonstrated - the procurement process tested the market effectively. Displacement was not an issue - support was only given where it was clearly demonstrated that there was planned provision for next generation services for at least three years.
The extent of fibre deployment being offered is significantly above that which was considered achievable given the budget available. In Lot 1 (Rural) 67% of coverage will be delivered via the Fibre to the Cabinet technology and for Lot 2 (Urban) the equivalent figure is 79%. This project will leave a very significant legacy. The extent of fibre deployment deep into the network will mean that further evolutions of broadband become more readily achievable given the scalability that fibre offers.

As no post project evaluation has been completed to date it is difficult to verify these figures however the government investment has persuaded BT to make further investment in its infrastructure in Northern Ireland and by 31 March 2012 it is expected some 2,500 cabinets out of 2,950 cabinets will have been upgraded. BT estimates that at that point 89% of premises will be connected to an enabled cabinet.

I note that you asked about using public infrastructure in developing broadband networks. I am informed that this was considered but following discussions with the industry it was decided that it may not necessarily result in an optimum competitive outcome that would benefit consumers. However, the telecoms companies can approach public infrastructure owners asking permission to locate equipment on premises. This though would be undertaken under normal commercial agreements. I know that our local water company, which is a Government Company (GOCO), has an extensive network of infrastructure which it lets on commercial terms to telcos.

We have also run a number of trials to explore the practicalities and costs of laying networks as part of civil works in road construction and house developments. There are cost savings that can be made but again the demand for these deployments from the telecoms industry is not significant. We believe that regulation is only likely to increase the costs for the providers that will ultimately be passed on to consumers or delay deployment as telcos learn to understand the consequences of the new rules.

Regarding the lessons that can be learnt from this project there are many and depend on who you might ask. From DETI's perspective these include:

- Leadership at highest level;
- Having a dedicated project team with the right skills to drive the project forward;
- Engaging early with the market to make them aware of our intentions and expectations;
- Drawing on the expertise of procurement specialists to maintain competitive tension during the procurement phase;
- Make use of a multi-disciplinary consultancy support when needed;
- Early discussions on minimising State Aid;
- Ensuring there was a clear audit plan and the requirement for the accounting of government funds; and
- Ensuring that there was a workable Change Control Procedure in the final contract.

BT inform us that their lessons learnt include:

- Developing an open and transparent relationship between the contracting government department and BT;
- Leadership and proactive support at senior levels across the company;
- Accepting that there needs to be flexibility in planning to accommodate issues or risks as they emerge;
- Developing straightforward governance arrangements;
- Good communication and recognition of performance across all teams by all parties;
• Development of a benefits realisation plan and management thereof throughout lifecycle.

Looking forward, I have agreed a new Telecoms Action Plan for 2011-2015. This Action Plan sets out our key priorities and themes to be taken forward over the next 4 years in order to ensure that NI continues to have a telecommunications infrastructure that is fit for purpose and capable of supporting the growth of the local economy. The key themes are:

• ensuring ongoing access to a broadband service regardless of where you live or do business
• increasing 'superfast' broadband coverage across NI in line with national UK commitments
• identifying ways to improve access to mobile voice and data services
• identifying opportunities for working with others to stimulate demand for and take-up of telecommunications and broadband services

Finally I have learnt that the telecoms sector is an ever fast moving and developing sector. Our key priorities and themes to be taken forward over the next 4 years aim to ensure that NI continues to have a telecommunications infrastructure that is fit for purpose and capable of supporting the growth of the local economy.

Arlene Foster MLA
Minister of Enterprise, Trade and Investment
Northern Ireland Executive