

Subject:	Greater Brighton City Deal: The Brighton Digital Exchange, New England House		
Date of Meeting:	18 September 2014		
Report of:	Executive Director Environment, Development & Housing		
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Ward(s) affected:	All		

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT

- 1.1 This report outlines the progress that has been made in developing the business case for the Brighton Digital Exchange, which will be located in New England House and will be funded via the Super Connected Cities Programme as part of the Greater Brighton City Deal. It seeks consent to divert existing Super Connected Cities Programme (SCCP) funding to deliver the project, both via a grant programme to private sector partners and through the upgrading of existing wiring in New England House.

2. RECOMMENDATIONS:

- 2.1 That members note the progress that has been made in developing the business case for the Brighton Digital Exchange that forms part of the economic growth initiatives agreed through the Greater Brighton City Deal.
- 2.2 That members agree to release £620,000 of funding from the Super Connected Cities Programme to deliver the Brighton Digital Exchange.
- 2.3 Grant delegated authority to the Executive Director Finance and Resources and Executive Director of Environment, Development and Housing to procure and award a contract undertaking the wiring of New England House with the remainder of the funding to facilitate the Brighton Digital Exchange.

3. CONTEXT/ BACKGROUND INFORMATION

Background

- 3.1 The Brighton Digital Exchange (BDX) will deliver ultrafast cost effective broadband connectivity to local businesses in the creative and digital sector. It will stimulate the creative, digital and IT (CDIT) sector in Brighton, support

innovation and the development of new products and services, which in turn will have an impact upon the wider business community,

- 3.2 The Brighton Digital Exchange in the negotiation of the Greater Brighton City Deal as an ask of government that we be allowed to divert unallocated funding from the Super Connected Cities Programme to establish a digital exchange as part of the development of New England House as a flagship growth centre for creative and digital businesses. Since the signing of the City Deal in March 2014 officers have been working with Wired Sussex on developing the Brighton Digital Exchange concept to ensure it is deliverable and financially sustainable.
- 3.3 A detailed business case has been prepared that demonstrates the financial objectives of the Digital Exchange. These are i) to create a sustainable digital exchange and ii) to develop and grow the digital exchange. The business plan shows the Digital Exchange would be financially sustainable once it is fully operational. Public funding is required to cover the initial construction costs of the host room and associated capital equipment plus a shared contribution toward operating costs to reach full sustainable operation. Sufficient contributions will be collected within the lifetime of the assets to invest in the replacement of the Core Facility and also to support new and expanded shared facilities.

What is a Digital Exchange?

- 3.4 The digital exchange will help Creative Digital and IT businesses that engage with it to address three gaps in the market for digital infrastructure in Brighton:
- A neutral location, not owned by any one carrier or service provider, where digital businesses can terminate connectivity and locate servers and switching equipment;
 - A cost-effective way to join the London Internet Exchange (LINX) Internet traffic peering network; and
 - An opportunity to create products that offer businesses affordable connectivity with service levels exceeding low cost broadband.
- 3.5 A digital exchange combines three elements: it is a 'meet-me' point where digital traffic is exchanged between networks and servers - one step down from an Internet exchange; it is linked to office space for CDIT businesses that use the servers and connectivity to provide digital services; and it is run collaboratively by the businesses that use it.
- 3.6 The core physical facility of the Brighton Digital Exchange will be the 'Host Room.' Located in New England House, this will be a neutral space with racks for servers and switching equipment and facilities for carriers and service providers to terminate connections. It will include the requisite levels of resilience such as fire suppression and an uninterruptable power supply.
- 3.7 In addition to this host room, the BDX would benefit from new cabling to provide connections from all the business units in New England House back to the host room. It will also use a high speed dedicated connection to the London Internet Exchange, but this will be delivered commercially and not by public funds.

What Will The Brighton Digital Exchange Deliver?

- 3.8 The Brighton Digital Exchange aims to transform the way that Creative Digital Businesses in New England House across the creative digital cluster work with and use technology. Through a high capacity connection to the LINX¹ Internet peering point in London, the digital exchange will establish local hosting capacity to support Internet Service Providers and other value-added service providers. It will enable smaller business focused Internet Service Providers to extend the range of service they can offer in the city such as fast business-class internet access.
- 3.9 A thriving and successful digital exchange in Brighton will be used by participating suppliers to provide new and competitively-priced digital services to end user businesses in New England House and elsewhere. The exchange will mean users can enjoy affordable, ultrafast, business-class Internet connectivity. But it will also provide a platform for local businesses to play a role in creating the new applications and services that will stimulate demand for that connectivity.

How Will the Brighton Digital Exchange be Delivered?

- 3.10 It is proposed that the Brighton Digital Exchange be delivered by using government Super Connected Cities Programme funding, allocated to Brighton & Hove by the Department for Culture Media and Sport. Our successful bid in 2012 attracted over £3.2m of potential investment in the city's digital infrastructure.
- 3.11 The Brighton Digital Exchange is a private sector led project. Since the holding of an information day in June, seven prospective founder members of the Brighton Digital Exchange have signed a Memorandum of Understanding. Those founder members are now in a position to lead on elements of the project design and implementation. In many cases this involves Wired Sussex acting as an agent for the collection of founder members. The city council will retain a role offering project assurance and acting as the grant funding body. The £540,000 funding will be split across those members to deliver the digital exchange. A draft grant agreement has been prepared by the council's solicitors.
- 3.12 The remainder of the funding will be spent on wiring up New England House so each unit has access to the Brighton Digital Exchange. It is proposed that this is procured by the city council, using government funding from the Superconnected Cities Programme.
- 3.13 A space has been identified in New England House that the Brighton Digital Exchange can occupy. At present the space is under-used and in poor condition. The proposal is that the space is let to the Brighton Digital Exchange on a peppercorn rent until the digital exchange generates enough income to pay a standard rent for space in New England House. However, that unit is not generating a rent at present, and the space is in poor condition. It is usual that any new tenants in the building who do works to upgrade their unit (as would have been done here) gets a rental holiday to the value of that work. The business case is confident that the digital exchange will quickly become commercially viable, and so it is not considered that there will be a significant loss of rental income, and in addition the existence of the digital exchange will make New

¹ The London Internet Exchange is one of the three largest Internet exchanges in the world.

England House as whole more desirable and lettable once it is refurbished and extended under the wider City Deal proposals.

Risks

- 3.14 With all publically funded projects that appear to offer new digital infrastructure a key risk is the perception of state aid. The city council has obtained independent state aid advice from specialist solicitors and are happy with the state aid position. This advice makes the case that each individual grant to a founder member is *de minimis* – i.e. too small for state aid to be a problem. The advice also states that it is the connection service providers (i.e. those to whom the *de minimis* grants are actually given), rather than an entity set up by the Council, who should commission, install and operate the digital exchange jointly. It should be left up to them to decide how to achieve this (whether by setting up a limited company, unincorporated association or otherwise). However, the draft grant agreement provides protections to ensure the money is spent on delivering and maintaining the digital exchange. The present approach to the project reflects this.
- 3.15 The other key risk is timescale. The Super Connected Cities Programme funding must be spent by March 2015. This does offer a tight window of opportunity for the businesses that are setting up the BDX to deliver it, but many of the businesses are experienced in the delivery and operation of data centre type facilities and have the expertise to deliver it.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 A do nothing option would result in losing the opportunity to create an innovative driver for growth in city region's digital and creative sectors. The funding that is being allocated is not core city council funding and would have to be returned to government if unspent by March 2015
- 4.2 In developing the business case for the Brighton Digital Exchange a number of options have been tested about how best to deliver and operate the facility. Careful consideration of and response to commercial, value for money and state aid issues have resulted in the final business case for the facility.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 The Brighton Digital Exchange will only impact on those who wish to become members or end users of it. As such the engagement has primarily been market engagement. There has been considerable engagement with local and national suppliers to gauge interest, culminating in a Market Information Day held in June which resulted in a number of founder member companies emerging.

6. CONCLUSION

- 6.1 For the reasons outlined above, it is considered that the Brighton Digital Exchange offers a strong opportunity for growth in the digital and creative sectors in the Greater Brighton City Region. It would facilitate better connectivity with the key digital markets in London, allowing better access to customers and partners for businesses based in Brighton & Hove.

- 6.2 The proposal would not involve expenditure of city council funding, and would be the kind innovative and commercially sustainable project that the Super Connected Cities Programme is meant to deliver.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 A total of £3.236m has been bid to the Department of Culture, Media & Sport in relation to the Super Connected Cities Programme. This includes a sum of up to £0.7m in relation to the Brighton Digital Exchange with £0.080m to implement the fibre connectivity to New England House and £0.620m to deliver the Brighton Digital Exchange. Of the £0.620m a sum of £0.540m is designated for a grant scheme to private sector businesses as detailed in paragraph 3.10. A draft grant agreement has been prepared by the council's solicitor for the founder members which will protect the council's financial interest.
- 7.2 A budget of £0.686m has already been included within the council's Capital Investment Programme as reported to Policy & Resources Committee on 12 June 2014. A variation to the budget will be reported to Policy & Resources Committee within the TBM5 report on 16 October 2014 for a revised budget of £0.700 following the results of the BDX business case, subject to approval at this Committee.
- 7.3 The business plan for the BDX demonstrates a sustainable digital exchange. The grant funding will be used for construction of the Host Room and associated capital equipment and also provide a contribution towards shared operation costs until a period of sustainable operation is reached. It is expected that sufficient contributions will be collected within the lifetime of the assets (10 years or more) to invest in the replacement of the Core Facility and also to support new and expanded shared facilities to serve new participating suppliers.

Finance Officer Consulted: Rob Allen

Date: 27/08/14

Legal Implications:

- 7.4 The switching of the DCMS funding to this project will be authorised by variations to the original grant agreement. The Council can use its economic development powers to complete the development of the BDX as set out in the report. State Aid issues in relation to the DCMS grant funding arrangements have, as indicated in paragraph 3.2 been the subject of external legal advice, and are not of concern. The proposed arrangement for leasing the refurbished units in New England House raises additional State Aid issues, and we cannot completely rule out the possibility that the arrangement would amount to State Aid. However, it is arguable that this falls under the Block Exemption for economic regeneration, and given that the sums involved are small, the risk appears to be low.

Lawyer Consulted: Jill Whittaker

Date: 20/08/14

Equalities Implications:

- 7.5 No EIA has been carried out as yet. This is a private sector led project which the city council is facilitating through a grant scheme rather than a city council led project.

Sustainability Implications:

- 7.6 The BDX will deliver improved digital connectivity – in particular to the London Internet Exchange and its members. This reduces the need for businesses to concentrate in London and so reduces the requirement for travel.

Any Other Significant Implications:

- 7.7 The most significant implications are beneficial ones for the city region's digital economy, as outlined in the body of the report.

SUPPORTING DOCUMENTATION

Appendices:

None.

Documents in Members' Rooms

None.

Background Documents

1. The Greater Brighton City Deal.