

**SCHEDULE 5.3**  
**THE PROJECT MODEL**

## VERSION CONTROL

VERSION NUMBER	DATE	COMMENT
0.1	27 July 2016	Preliminary draft template version made available for general comment
0.2	2 September 2016	Uplifted draft, following feedback, made available for final comment
0.3	25 October 2016	Uplifted following local body and supplier feedback
1.0	16 November 2016	Baselined Version 1.0
1.1	26 January 2018	Updated for Next Generation Access Broadband Wales – Phase 2 Procurement
1.2	03 October 2018	Updated by BT with PFM and Finance Memo documents
1.3	12 October 2018	Amendment to tab1. Version Control of Bid Financial Model
1.4	16 October 2018	Updated Tab 15 of the Bid Financial Model – line 39 (Product ID and Product Name & Description

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## **SCHEDULE 5.3 – THE PROJECT MODEL**

### **1. BACKGROUND**

1.1 This Schedule 5.3:

1.1.1 references, at Appendix 1, the version of the Project Model agreed at the Effective Date;

1.1.2 sets out requirements in respect of the ongoing management of changes to the Project Model; and

1.1.3 sets out the general requirements of the Project Model in Appendix 2.

### **2. THE PROJECT MODEL**

Appendix 1 references the Project Model as at the Effective Date, and also contains certain assurances made by the Grantee in respect of that Project Model.

### **3. MANAGEMENT OF CHANGES TO THE PROJECT MODEL**

3.1 The Project Model shall be updated as described in this Schedule 5.3.

3.2 For any Changes to the Project Model, subject to Clause 39.2, the Change Control Procedure shall apply.

3.3 All proposed updates to the Project Model shall be trackable (i.e. any changes can be clearly identified). Each proposed and agreed updated version of the Project Model shall be clearly identified (and distinguishable from earlier versions) by version number and date.

3.4 The Grantee shall ensure that each updated version of the Project Model delivered to the Welsh Ministers for agreement under the Change Control Procedure is certified by a suitably qualified finance representative of the Grantee as:

3.4.1 being accurate and not misleading;

3.4.2 being in conformity with the terms of this Agreement; and

3.4.3 reflecting only the change(s) as previously 'approved in principle' by the Parties.

## APPENDIX 1 – THE PROJECT MODEL

### **1. THE PROJECT MODEL**

The Project Model at the Effective Date is inserted below:

XXXXREDACTEDXXXX

Commentary on certain ongoing content requirements for the Project Model is contained in Appendix 2 to this Schedule 5.3.

### **2. GRANTEE'S STATEMENT OF ASSURANCE**

The Grantee has, as part of the ITT process in respect of this Agreement, provided a copy of the following statement signed by a suitably qualified finance representative of the Grantee or its external auditor. In the event this statement is subsequently identified to be inaccurate, save in the case of minor inconsistency that has nominal financial impact, such inaccuracy shall be a material Default.

The assessment of accuracy is determined by reference to the time of provision of the statement, including the Project Model and Agreement in the form exchanged between the Parties at that time.

*It is hereby confirmed that:*

- 1) *The processes and core data used to assemble the costs shown in the Cost Book for the Project Model are consistent with the solution costs offered by the Grantee in any similar local authority contracts (e.g. ERDF, Local Authority and/or DCMS funded) of the Grantee. The explanations of variances, if any, have been provided and are accurate and consistent;*
- 2) *The costs shown in the Cost Book for the Project Model are calculated on a consistent basis to those costs offered by the Grantee when investing in non-"white" areas (as defined under State aid regulations). The explanations of variances, if any, have been provided and are accurate and consistent;*
- 3) *The Project Model has been prepared in accordance with the expenditure categories prescribed in Schedule 5.1, Appendices 2 – 6.*

## APPENDIX 2 – PROJECT MODEL REQUIREMENTS

This Appendix 2 sets out content requirements which must be maintained when making changes to the Project Model:

### 1.1 General Requirements:

The Project Model must:

- show calculations and outputs on a Quarterly basis; and
- use Microsoft Excel 2010 or any fully compatible versions.

The Project Model must not include any protected or hidden areas.

### 1.2 Network Build Cost Book:

The Network Build Cost Book shows the Network components. For each Network component the Cost Book shall contain:

- Sub-Network component descriptions;
- Sub-Network component units of measurement (per meter, per cabinet, per mast, per transmitter, per cell etc);
- Sub-Network component unit build capital costs (Qualifying Capital Expenditure per unit of measurement);
- Sub-Network component unit build operating cost (Qualifying Operating Expenditure per unit of measurement);
- Name(s) of any supplier(s) in the Grantee's supply chain (including any Key Subcontractor or Subcontractor) providing the sub-Network component (or if not identified at the time of submission, labelled as such but notified in writing to the Welsh Ministers within five (5) Working Days of such appointment of such supply chain provider); and
- Sub-Network component planning and design costs per unit of measurement separately identified for each of those sub-Network components.

Attention is also drawn to the following Network Build Cost Book related points that although not presented in the Network Build Cost Book itself are nonetheless mandatory requirements elsewhere in the Project Model:

- A description of those circumstances where unit costs would be expected to vary from those values presented in the Project Model is to be included in the Financial Memorandum;
- A description of capital cost inflation or deflation assumption(s) and values on a full disclosure basis is to be included on the General Assumptions tab of the Project Model (tab 3);
- A description of operating cost inflation or deflation assumption(s) and values on a full disclosure basis is to be included on the General Assumptions tab of the Project Model (tab 3); and
- The eligibility for public sector subsidy for each sub-Network component is to be included on the Network Build Cashflows tab of the Project Model (tab 11).

### 1.3 PMO Cost Book:

The PMO Cost Book shows PMO resource costs. For each PMO resource the PMO Cost Book shall contain:

- Annual salaries and associated daily capitalised labour rates for each resource identified by role, including details of the calculation of that rate; and
- For those resources that are contracted as opposed to employed then a daily rate should be provided in lieu of annual salary including details of the calculation of that rate.

Attention is also drawn to the following PMO Cost Book related points that although not presented in the PMO Cost Book itself are nonetheless mandatory requirements elsewhere in the Project Model:

- Evidence of a robust procurement process and suitable skills assurance for those PMO resources that are contracted in (i.e. provided on a sub contract basis) is to be included in the Financial Memorandum;
- A description of capital cost inflation or deflation assumption(s) and values on a full disclosure basis is to be included on the General Assumptions tab of the Project Model (tab 3); and
- The eligibility for public sector subsidy for each sub-Network component is to be included on the Network Build Cashflows tab of the Project Model (tab 11).

### 1.4 In Life Cost Book:

The In Life Cost Book shows the In Life costs associated with Network components and Wholesale Access Products and Services. For each Network component and Wholesale Access Product and Service for which in life costs are appropriate the In Life Cost Book shall contain:

- Sub-Network component descriptions;
- Sub-Network component units of measurement (per meter, per cabinet, per mast, per transmitter, per cell etc);
- Sub-Network component unit In Life capital costs (Non Qualifying Capital Expenditure per unit of measurement);
- Sub-Network component unit In Life operating cost (Non Qualifying Operating Expenditure per unit of measurement);
- Name(s) of any supplier(s) in the Grantee's supply chain (including any Key Subcontractor or Subcontractor) providing the sub-Network component (or if not identified at the time of submission, labelled as such but notified in writing to the Welsh Ministers within five (5) Working Days of such appointment of such supply chain provider);
- A description of each Wholesale Access Product and Service;
- Wholesale product units of measurement/cost drivers (per connected premise, per connecting premise etc);
- Wholesale product unit In Life capital costs (Non-Qualifying Capital Expenditure per unit of measurement); and
- Wholesale product unit In Life operating cost (Non-Qualifying Operating Expenditure per unit of measurement).

Attention is also drawn to the following In life Cost Book related points that although not presented in the In life Cost Book itself are nonetheless mandatory requirements elsewhere in the Project Model:

- A description of capital cost deflation assumption(s) and values on a full disclosure basis is to be included on the General Assumptions tab of the Project Model (tab 3);
- A description of operating cost deflation assumption(s) and values on a full disclosure basis is to be included on the General Assumptions tab of the Project Model (tab 3); and
- The eligibility for public sector subsidy for each sub-Network component and Wholesale Access Product and Service related In Life costs is to be included on the In Life cost cashflows tab of the Project Model (tab 14).

### **1.5 Wholesale Access Price Book:**

The Wholesale Access Price Book shows:

- Wholesale access prices and their associated charges to Retail Service Providers (e.g. installation and decommissioning) broken down by different Solution Components or product types (e.g. for business customers, residential customers, etc); and
- A description of each Wholesale Access Product and Service.

Attention is also drawn to the following Wholesale Access Price Book related points that although not presented in the Wholesale Access Price Book itself are nonetheless mandatory requirements elsewhere in the Project Model:

- A description of revenue inflation or deflation assumption(s) and values on a full disclosure basis is to be included on the General Assumptions tab of the Project Model (tab 3); and
- All data to be consistent with the Wholesale Product Template.

### **1.6 Other sections on the Project Model**

In addition to the Cost Books and Wholesale Access Price Book, the Project Model must include the following:

#### **1.6.1 Cashflow period**

- The Project Model must show cashflows for a twenty (20) year (eighty (80) Quarter) period, on the Network Volume tab of the Project Model (tab 7).

#### **1.6.2 Discount Rate**

- The project specific discount rate must be provided together with a justification for that rate taking into account sources and costs of Grantee funds and specifically referencing the Grantee's weighted average cost of capital ("WACC"). Such justification to be provided in the Financial Memorandum;
- That discount rate is used for net present value calculations and must be shown on the General Assumptions tab (tab 3);



### 1.6.3 Churn and Take-up:

The following churn and take up data must be included on the General Assumptions Tab (tab 3):

- Churn rate (the rate at which the existing customer base reduces but new customers are added) by Quarter over the proposed Bidder Timeline (being the project timeline identified as such in the Project Model);
- Quarterly profile of all premises passed, including any overspill outside of the intervention area at a premises level (i.e. all those premises that can be connected to the Grantee's network);
- Take up rates by product by Quarter over the proposed Bidder Timeline; and
- Quarterly profile of all connected premises, including any overspill outside of the intervention area at a premises level (i.e. all those premises that can be connected to the Grantee's network);

### 1.6.4 End state intervention area premises passed

- End state (ie final Quarter of Bidder Timeline) premises passed in the intervention area; this MUST agree to the Superfast contract tab of the Speed and Coverage Template;
- End state (ie final Quarter of Bidder Timeline) premises passed in the intervention area at superfast speeds; this MUST agree to the Superfast contract tab of the Speed and Coverage Template;

### 1.6.5 Milestone Payments

The following Milestone Payments data must be included on the MPT Tab (tab 18):

- Proposed Milestone Payments by Quarter and by Milestone Type;
- Calculation of the NPV of those proposed Milestone Payments;
- Demonstrate that the NPV of those proposed Milestone Payments does not exceed the NPV of the gap between NGA Network Build Costs and future earnings associated with connected premises measured over the Bidder Timeline;
- Demonstrate that cumulative Qualifying Capital Expenditure exceeds the cumulative value of proposed Milestones at any point in time;
- A comparison of the cumulative Capex against the cumulative public subsidy paid against Milestones;

### 1.6.6 NGA Network Build Costs

The following data must be included on the Cashflow Tab (tab 17):

- Details of NGA Network Build Costs separately analysed between PMO related Qualifying Capital Expenditure, non PMO related Qualifying Capital Expenditure and Qualifying Operating Expenditure per Quarter;
- Non PMO related Qualifying Capital Expenditure further analysed to separately show planning and design costs by Quarter;

The following data must be included on the Network Build Cashflows Tab (tab 11):

- Confirmation that NGA Network Build Costs cease at the point that the final Milestone Type 2 is achieved;

#### 1.6.7 Cash flow:

The Cashflow Tab (tab 17) must also include the following data:

- A schedule of expected cash flows discounted to show the Bidder Timeline NPV before receipt of any subsidy;
- Profit and loss components analysed down to an underlying EBITDA (being revenue less Non Qualifying Operating Expenditure);
- Calculation of the project unit margin;

#### 1.6.8 Outputs:

The Output Tab (tab 19) must also include the following data:

- NGA Network Build Costs analysed between Qualifying Capital Expenditure and Qualifying Operating Expenditure;
- PMO costs as a percentage of build Qualifying Capital Expenditure;
- Qualifying Operating Expenditure Costs as a percentage of NGA Network Build Costs;
- Project Investment Ratios over both the Term and Bidder Timeline;
- Project Unit Margin;
- Percentage of Grantee funding invested during the Deployment Period;
- Grantee NGA Network Build Investment as a percentage of underlying EBITDA over both the Term and the Bidder Timeline;
- Project NPV after subsidy over both the Term and the Bidder Timeline;
- The Grantee's Internal Rate of Return (IRR) over both the Term and the Bidder Timeline;
- Leverage;
- Estimated payback period;
- Grantee NGA Network Build Investment per premise passed in terms of total premises passed (including any overspill out of the intervention area), End User Premises in the intervention area and End User Premises in the intervention area that will receive a superfast solution;
- Subsidy payments per premise passed in terms of total premises passed (including any overspill out of the intervention area), End User Premises in the intervention area and End User Premises in the intervention area that will receive a superfast solution;
- Comparison of the NPV of the gap and that of the Subsidy Payments;
- Breakdown of Milestones into Milestone Types;
- Final Quarter in the Bidder Timeline average revenue per user ("ARPU");
- Final Quarter in the Bidder Timeline average Non Qualifying Operating Expenditure per user.

### **1.7 Financial Memorandum:**

The Project Model shall also include Financial Memorandum (as originally submitted as part of the Grantee ITT Response), subject to the following:

- Only those Financial Memorandum that provide explanatory detail for Project Model content shall be included;

- The Financial Memorandum may provide explanations and clarifications but may not be construed to vary or otherwise override any aspect of this Agreement.

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