



Government consultation on proposals for a next-generation fund: Communications Consumer Panel response

Introduction

The Communications Consumer Panel was established under the Communications Act 2003 as an independent advisory body. Its role is to influence Ofcom, Government, the EU, and service and equipment providers so that the communications interests of consumers and citizens are protected and promoted.

The Panel supports the Government's intention to stimulate the rollout of super-fast broadband, also known as next-generation access (NGA), to at least 90 per cent of households by 2017. The Government should begin rollout of publicly-subsidised NGA as soon as possible to complement market-led initiatives. However, the Panel believes that public subsidy should not be used as a substitute for, or to subsidise, commercial rollout and should be deployed only in those areas that commercial rollout would not reach otherwise.

The Panel has engaged with the issue of next generation access since 2008, when it published a position paper on next generation broadband.¹ In this paper, the Panel set out its ambition in relation to next generation broadband access in the UK. The Panel believes that:

- There is a social value to the roll out of NGA, not just an economic value. The Panel believes that this point is now widely accepted but that the scale of the social value is not yet agreed.
- There is good reason to address next-generation broadband not-spots before they emerge and use NGA networks to allow those with the worst current generation broadband service to leapfrog the old networks.
- There is a value in promoting and supporting local and community initiatives, particularly in the context of extending NGA coverage.

Consultation response

The Panel welcomes the opportunity to respond to the Department for Business, Innovation and Skills' consultation on how the Next Generation Fund should be spent in

¹ <http://www.communicationsconsumerpanel.org.uk/smartweb/nga-s-economic-and-social-value/nga-position-paper>

order to stimulate rollout of NGA. Our response recognises that the Fund has been set up with a view to achieving rollout to at least 90 per cent of the UK population by 2017.

We hope that in practice it will be possible to stimulate rollout to more than 90 per cent of households and small businesses through the Next Generation Fund. And we believe that, ultimately, the Government, in conjunction with the Devolved Administrations and other public bodies, is likely to have to intervene further to rollout NGA to as close to 100 per cent of households and small businesses in the UK as possible.

There are five main areas on which the Panel wishes to comment: which technology should be used; the definition of NGA; regional versus national procurement; where roll out should begin and end; and open access and competition. So we have focused on responding to the consultation questions that are most relevant to these issues.

Consultation question 4 - Do respondents have views on how the Next Generation Fund will be used and in particular the focus on fixed line solutions?

The Panel does not believe that NGA should be defined in technology-specific terms. Rather, the Panel believes that as far as possible Next Generation Fund (Fund) should be spent on the technologies that best meet consumers' needs.

The Panel recognises that there may be legal problems with how the fund is spent due to the way it has been collected. We call on the Government to explore how the money raised by the Fund can be used to fund a range of technologies.

The Government should take a flexible approach to procuring NGA services. It should ensure that technologies can be upgraded so far as possible and recognise that what constitutes the best technology in any given area may change over time as new technologies come to market and the cost of existing technologies decreases.

Consultation question 3 - What do respondents feel is the minimum bandwidth requirements, both download and upload, in order to qualify as a Next Generation broadband service? Are the requirements above regarding quality of service, including latency and reliability sufficient? What figures should we set on the bandwidth requirements?

Consultation question 5 - What minimum criteria should we be looking at, bearing in mind the need for value for money, equity and flexibility?

One of the defining high-level features of NGA is its symmetric nature, which allows not only consumer and business services like high-quality webcam broadcasts and uploading film or photographs but also wider social and citizen benefits from, for example, education and telemedicine.

Wider social and citizen benefits are likely to require a symmetrical connection to allow high-quality, real-time two-way communication that mimics face-to-face contact. For example, such a connection would allow doctors to conduct examinations remotely for people who find it difficult to leave their homes. These types of services need not only superfast speed but also a level of reliability and minimum latency to be effective. As

such, the demands of these wider services should be taken into account when setting minimum criteria for NGA.

The Government should look to other countries, notably in Scandinavia, North America and Australia, which have begun to provide these social services over fixed and wireless broadband and learn from their experiences.

The Government also needs to take a long term view when defining next generation broadband. Setting minimum service levels, such as the ability to carry out essential tasks online, is a useful way to do this, but the definition of NGA will need to change as the needs of consumers, citizens and businesses change, and as new applications emerge.

Once NGA takes off in the UK and there is a demand amongst consumers for services only available over a NGA link, minimum services should be linked to the way that people in the majority of the UK use those NGA connections. Since basic speeds on commercial networks are likely to increase over time, publicly funded networks must be built to maintain a comparable level of service to ensure the digital divide does not deepen.

Although future-proofing a basic-service definition is not as an immediate an issue for NGA as it is for the Universal Service Commitment, it is still vital for the long-term. Web-based services that were inconceivable ten years ago are now considered essential. The Government must recognise that there will be services available ten years hence that we cannot now imagine. These services will be driven and supported by commercial innovation but may become essential to the economic and social well being of individual consumers and businesses, as well as the UK as a whole.

For instance, the notion of superfast broadband is generally considered to begin at speeds of over 24mb/s, since this is thought to be the upper limit of traditional copper links. But commercial providers are already rolling out fibre connections that are capable of downlink speeds of up to 100mb/s and trialling connections of up to 200mb/s. These connections will potentially allow very different services to those available at 24mb/s, particularly in terms of citizen services like telemedicine. Hence, the Panel believes details of the NGA definition should allow for such developments.

Consultation question 7 - In your opinion, would a regional or National deployment be a more efficient and appropriate use of the Next Generation Fund, and why? What other options are open to HMG in creating competition in the procurement process?

There is an argument that regional deployment could be cost effective, as regional development funds could add to the money provided by the central Fund. The Government should explore how it can work with regional and community projects to ensure value-for-money and efficient roll out in the regions and Nations. In doing so, the Government may wish to refer to the paper that the Panel published in October 2009 which documents the wide variety of local initiatives that are underway.² In this context, the Panel welcomes the Broadband Stakeholders Group's COTS (Commercial, Operational and Technical Standards) project, which looks at how to ensure interoperability between local NGA

² You can read the Panel's paper on local NGA initiatives on its website. <http://www.communicationsconsumerpanel.org.uk/Local%20initiatives%20on%20Next%20Generation%20Access%20in%20the%20UK.pdf>

networks. This will aid our understanding of how to maximise benefits to consumers of local NGA rollout while delivering choice and value for money for consumers. We recognise another valuable resource in developing the Government's procurement approach will be the report commissioned by the Department for Communities and Local Government *An assessment and practical guidance on next generation access (NGA) risk in the UK* (March 2010)³

It is vital that the procurement process takes into account any existing or planned local initiatives, regardless of whether regional development funds are used directly to bolster funds available to help stimulate NGA rollout. This is to ensure the most efficient use of resources possible, both to avoid building out new networks where there is already or will be sufficient provision and to make sure that NGA provided by local schemes meets the basic criteria set out by the Government.

Consumers from the Nations may be disproportionately represented in the category of those unable to get NGA, either by commercial or publicly-funded means. The Government's aim is to reach 90 per cent of the population by 2017 but the Panel is concerned that this figure may not translate equally to the regions and Nations.

It is essential that when rolling out next generation broadband the digital divide is not further deepened by leaving these consumers out. The needs of consumers in the Nations and regions must be taken into account when planning the best procurement strategy. The Panel calls on Government to explore the idea of setting rollout targets on a national and possibly regional basis, within the context of a UK-wide procurement strategy.

The Government should also take into account the fact that there may be different reasons why certain areas are expected to be NGA not-spots. For instance, sparsely populated areas may be too expensive to serve due to the absolute cost of roll out versus the number of people ever likely to use NGA services. However, some urban areas may not attract commercial investment because the socio-economic status of the people who live there might suggest an insufficient commercial return. Such areas would probably not be as expensive to serve with publicly-funded networks as sparsely populated ones, so it might be appropriate to take a different approach to procurement for these areas.

Consultation question 9 - Would an "outside in" or an "inside out" approach to delivery be more effective and why? Are there other approaches that should be considered?

Consultation question 13 - Which areas of the UK should receive intervention from the Fund, and why?

The Panel believes that the Government's ultimate policy objective should be to make the benefits of NGA available to as close to 100 per cent of the population of the UK as possible. We recognise, however, that the Fund will provide insufficient resources to achieve this goal. Aside from this, there are reasons why it might not be appropriate to rollout NGA to the whole of the UK immediately.

³ The report is available here: <http://www.communities.gov.uk/documents/communities/pdf/1493040.pdf>

First, building fixed NGA networks is likely to become cheaper in the coming months and years as the demand for the necessary equipment increases and providers develop more efficient ways of rolling out the services. Secondly, building wireless NGA networks is likely to become more viable as more spectrum is released and equipment costs fall.

But there is a balance to be struck between waiting for the benefits that will flow from economies of scale and practical rollout experience, and realising the benefits of early rollout of NGA for consumers and small businesses, and for society as a whole. In striking this balance, the Government also has to take into account the risk of deterring private sector investment by intervening in areas where commercial providers might themselves invest.

Taking these factors into account, the Panel believes that the Government is right to focus first on reaching at least 90 per cent of households and in doing so, assuming that the market will reach around 70 per cent of households. To offset the risk of deterring private sector investment, the Panel believes that in working towards at least 90 per cent coverage, the Government should work from the 'outside in', where feasible starting with the households and small businesses that the market will definitely not reach and working backwards towards areas that the market could reach if current projections as to the likely extent of market rollout turn out to be too conservative.

In the Panel's view, this approach should:

- Avoid deepening the digital divide, since there is still a significant minority of the UK population who cannot access broadband with a download speed of 2Mb/s at the moment. These consumers and small businesses are currently at serious detriment since they cannot access services considered basic in other areas of the UK, such as the BBC iPlayer. The Panel believes these consumers will be subjected to further detriment if they are again kept behind the technology curve. Rolling out to these areas first will bring maximum incremental benefit to consumers by allowing them to leapfrog the interim 2Mb/s development stage.
- Lessen the need to use a claw-back scheme to recoup payments to companies in receipt of subsidy from the Fund that subsequently enjoy a greater than expected return on investment, since publicly-funded and commercially-viable networks will be much less likely to overlap.
- Minimise the risk of distorting the market and chilling investment at the fringes of where the market is expected to reach.

However, as we have said the Government's ultimate goal should be to achieve as close to 100 per cent of households and small businesses as possible. To this end, the Government should develop a plan for reaching the final 10 per cent of consumers. This should take into account the lessons learned from both the commercial and publicly-funded rollout of NGA, and the fact that the cost of rolling out NGA is likely to fall over time.

Consultation question 17 - Do respondents feel that Government is right in insisting all networks built with the use of the Fund should be open access?

The Panel supports the Government's proposal to insist that all networks built with the Fund should be open access. Retail competition on publicly-funded networks is an

important element in ensuring that consumers benefit from prices and innovation comparable to those available in other parts of the country.

Background to the Communication Consumer Panel's response

The Panel has expressed support for recent proposals for funding next generation broadband, including responses to the Digital Britain final report⁴ and to the Treasury's consultation on implementing a landline duty⁵. The Panel believes that the Government's proposal to implement a 50p-per-month landline duty in order to build an NGA Fund is a pragmatic proposal, given the current economic climate and the immediate need to begin extending NGA rollout. However, we are concerned that the duty should be designed to be as equitable as possible.

Our concerns for the landline duty are primarily based on the impact on low-income households, small businesses and consumers in the devolved nations. We asked the Government to promote social tariffs in order to close the gap between those low-income households already using a social tariff and those eligible for one. The Panel is also concerned about the impact of the tax on small businesses and called on Government to seek out ways to make the duty fairer for small businesses. Finally, we asked that flexibility is built into the duty to ensure that consumers in the devolved nations do not have to pay twice to fund NGA, where they are already paying for superfast broadband rollout through other taxes.

⁴ <http://www.communicationsconsumerpanel.org.uk/Response%20to%20Digital%20Britain%20final%20report.pdf>

⁵ <http://www.communicationsconsumerpanel.org.uk/smartweb/next-generation-networks/implementing-a-landline-duty>