



# **Digital Britain – Government Consultation on proposals for a Next Generation Fund**

## **Views of CEDOS & ADEPT**

**March 2010**

**The Chief Economic Development Officers Society [CEDOS]** provides a forum for Heads of Economic Development in upper tier local authorities throughout England. Membership includes county, city and unitary Councils in non-metropolitan areas. The Society carries out research, develops and disseminates best practice, and publishes reports on key issues for economic development policy and practice. Through its collective expertise, it seeks to play its full part in helping to inform and shape national and regional policies and initiatives

**The Association of Directors of Environment, Economy, Planning & Transport [ADEPT]** represents local authority Strategic Directors who manage some of the most pressing issues facing the UK today. The expertise of ADEPT members and their vision is fundamental in the handling of issues that affect all our lives. Operating at the strategic tier of local government they are responsible for crucial transport, waste management, environment, planning, energy and economic development issues. ADEPT membership is drawn from all four corners of the United Kingdom.

# **DIGITAL BRITAIN – GOVERNMENT CONSULTATION ON PROPOSALS FOR A NEXT GENERATION FUND**

## **Joint views of the Association of Directors of Environment, Economy, Planning and Transport [ADEPT] and the Chief Economic Development Officers Society [CEDOS]**

### **INTRODUCTION**

1. We welcome the Government's consultation on its proposals for a Next Generation Fund (NGF) and the opportunity to provide views on how next generation broadband access (NGA) should be taken forward both to maximise economic competitiveness and address the issue of digital exclusion. We agree to our response being made public.

### **OUR OVERALL VIEWS**

2. We agree with the ambition set out in the Digital Britain report to strengthen and modernise the country's communications infrastructure so that the UK can compete and lead in the global digital economy. We believe that there will be serious negative consequences if we fail to take full advantage of the economic and social benefits associated with NGA.

3. It is evident that in substantial areas of the country, the market will not deliver, at least in a short timeframe. The Government is right to recognise the need to act in order to ensure the UK continues to be a world leader in digital content, innovation and services, with a world class communications network that supports this. We therefore support the introduction of the proposed Next Generation Fund. However, we have serious reservations about its funding and scope, which we fear could severely restrict our ability to achieve the stated ambition. In particular:

- we consider that to achieve truly 'next generation broadband', a much higher minimum bandwidth must be sought than the 2Mbps the NGF aspires to achieve;
- we are not convinced that the proposed landline duty will provide sufficient funding to meet even the relatively modest aspirations for NGA provision being aimed for by the Government;
- the focus on using the NGF solely for fixed line solutions is technologically short sighted and likely to exacerbate inequality in terms of area coverage of next generation broadband.

4. We believe:

- next generation broadband access should be seen as a critical national infrastructure and be given equal priority to other forms of communications infrastructure and public utilities;

- to achieve truly next generation broadband access, we should be looking for 100Mbps; at the very least, we should be aiming for a bandwidth of 20 – 50Mbps;
- technical solutions should be tailored to individual community needs and the NGF must have the flexibility to cover satellite and wireless as well as fixed line solutions;
- it is essential to make full use of local knowledge and that a sub-regional deployment model offers the best and most efficient way of meeting local needs and opportunities;
- the priority areas for the Fund should be those where there is clear evidence of market failure to meet demand for an enhanced service and with little or no chance of commercial investment in the next 2 years;
- a socially and economically responsible approach to NGF delivery must focus on addressing the digital divide and boosting local economies; it must address the fact that rural areas are disproportionately at risk but, at the same time, it must also tackle the issue of NGA roll-out in deprived urban areas.

5. These and other points are developed further in our responses to specific consultation questions below.

## **THE CONSULTATION QUESTIONS**

### ***1. Do respondents feel that the cost analysis for fixed-line Next Generation Access is still valid, and if not, what are the latest estimates?***

#### ***CEDOS/ADEPT Views:***

6. We are not convinced that the proposed 50p per month landline duty will be sufficient to provide even the relatively modest aspirations for next generation broadband provision being aimed for by the Government. Inevitably an overall cost analysis cannot take into account the many local factors that will influence costs. Quite apart from the adequacy of the 50p landline duty, there is the question of fairness as the House of Commons Business, Innovation & Skills Committee has pointed out in its opposition to the proposed duty and its recommendation that “next generation access, to the extent that publicly funded support is necessary, be supported out of general taxation”.

7. We believe that next generation broadband access must be seen as a critical national infrastructure that is vital to the economic competitiveness and the social well being of this country. For funding, it should be given equal priority to other forms of communications infrastructure and public utilities.

**2. 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?**

***CEDOS/ADEPT Views:***

8. As the Consultation Paper notes, there is no agreed definition of super-fast broadband but there have been two clear trends in the evolution of broadband services – ever increasing bandwidths for fixed line services, and increased mobility at more modest bandwidths. In this context, the objective of the Next Generation Fund to ensure that virtually every community has access to a broadband connection of at least 2Mbps is very modest indeed. It cannot, in our view, be regarded as genuinely next generation broadband.

9. We note the comparisons made in the Consultation Paper itself. Germany has plans to deliver by 2014, 50Mbps to 75% of households, with public sector involvement where the market will not deliver, whilst the Australian Government has announced plans to provide Fibre to the home (FTTH) technology at speeds of 100Mbps to 90% of homes over the next 8 years. By these and other comparisons, this country risks being seriously left behind in the race to achieve widely available next generation broadband.

10. In our view, to achieve truly next generation broadband, a much higher minimum bandwidth must be sought than the 2Mbps the NGF aims to achieve. Clearly, the national aspiration has to be affordable and achievable but to be economically competitive as a country, we should be looking for 100Mbps. At the very least, we should be aiming for 20 – 50 mbps. Whilst, for cost reasons, it may be necessary for a small percentage of the population in hard to reach areas to be below this, anything less than 10Mbps in the timeframe the Government is looking at is, quite simply, unacceptable.

11. If the Fund's ambition is to be set as low as 2Mbps, there needs to be absolute clarity on what this will mean in practice. In this context, we echo the view of the Business, Innovation & Skills Select Committee that a clear definition is needed and that this should be the delivery of *a minimum 2Mbps, under normal circumstances, to all users at all times.*

12. Whatever minimum bandwidth speed the Government finally aspires to, we believe the following are of paramount importance:

- there should be an equitable level of access for both rural and urban communities;
- it should be provided with a zero or very low contention ratio;

- the resulting internet infrastructure should be future-proofed and be able to cope, as far as possible, with future technological developments.

**3. Do respondents have views how the Next Generation Fund will be used and in particular the focus on fixed line solutions?**

***CEDOS/ADEPT Views:***

13. In our view, the Next Generation Fund should aim to produce an outcome that is both equitable in terms of area coverage of next generation broadband and is as forward looking as possible in terms of technological developments. In this context, the overwhelming focus on using the NGF for fixed line solutions is short sighted and likely to exacerbate inequality. In terms of future proofing, the Government's proposed approach for using the NGF leaves much to be desired. The consultation document acknowledges the question of advancing technologies and whether the fixed line approach will be left behind. Despite recognising that by 2017, things may well be very different and that in the future connectivity "will also be delivered through wireless means, such as satellite, mobile and other technologies such as WiMax", it takes a short-term approach, on the basis that fixed-line solutions, based on fibre are likely *initially* to be the most appropriate and that "in the short term, we believe only fixed line will have the ability to deliver".

14. We do not support a 'one size fits all' approach. In our view, technical solutions will need to be tailored to individual community needs. Whilst fixed line solutions may often be the correct technology to deliver next generation access, the NGF must have the flexibility to consider and support alternatives including satellite and wireless solutions. As the Business, Innovation & Skills Select Committee has pointed out, the speed of technological development in the industry is fast and solutions, which appear to be too costly or complex today, may quickly become the most appropriate option in the near future. We strongly support the Committee's view that technological neutrality should be the cornerstone of Government intervention.

**4. What minimum criteria should we be looking at, bearing in mind the need for value for money, equity and flexibility?**

***CEDOS/ADEPT Views:***

15. Our views on the minimum technical criteria have been set out above (see answer to question 2). Whilst affordability and value for money are clearly important, we must recognise next generation broadband as an essential element of national communications infrastructure and focus on the need to achieve and maintain economic competitiveness and to eliminate the digital divide in this country.

**5. What applications and services would not be able to be run over a network that has the criteria outlined as a minimum?**

***CEDOS/ADEPT Views:***

16. It is important that access solutions are as future proof as possible so that they can accommodate future applications and services. Moreover, It is not only a question of individual services but also the quantity in total and the impact this could have on real time interactions and the consequent issue of prioritisation as, for example, between medical services and entertainment downloads. With the growth in internet-based services including Voice over Internet Protocol, videoconferencing, cloud computing, multiple HDTV's, high definition interactive product display technology, multiple web cams and the overall pace of technological development, anything less than the criteria we have outlined is likely to face considerable difficulties. Indeed if the proposed 2Mbps minimum is adhered to, households with 2-3 computers/devices simultaneously accessing the internet will have an inadequate internet experience.

**6. 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?**

***CEDOS/ADEPT Views:***

17. We believe there needs to be a balanced approach. Whilst national standards and overall agreement on outcomes is important to underpinning equity across the country, we agree that national deployment runs the risk of inflexibility and a "one size fits all" approach, which does not meet the needs of different local areas. Given the size of some of our regions, the same is true of a purely regional approach. We believe that it is essential to make full use of local knowledge and for this a sub-regional deployment model offers the best and most efficient way of meeting local needs and opportunities including identifying the most appropriate technology for an area.

18. Whatever deployment process is ultimately chosen, it will be vital that there is meaningful engagement with local authorities and their partners. The process must provide a framework, which has the flexibility to take account of local conditions, networks and community solutions.

**7. What do you consider to be the optimum procurement approach or commercial model that balances the public sector's need to demonstrate value for money with private sector considerations?**

***CEDOS/ADEPT Views:***

19. The procurement process that the Government embarks upon must be technologically neutral, utilising the most appropriate solution in each particular case. It should enable the comparison of a range of solutions, establish a framework of suppliers and be able to separate commercial

reluctance to take risks from the genuinely commercially non-viable in order to target public funding where it is most needed.

**8. Would an "outside in" or an "inside out" approach to delivery be more effective and why? Are there other approaches that should be considered?**

***CEDOS/ADEPT Views:***

20. To view the approach to delivery as simply a matter of 'outside in' versus 'inside out' is overly simplistic. Pursued on their own, both risk missing economic opportunities and exacerbating digital exclusion in some areas. On the latter point, the Government's recent report on the risks to next generation access in the UK<sup>1</sup> has made clear that digital exclusion is an important issue for the *whole* of the UK, with two key supply-side factors – distance and deprivation. The costs of network roll-out in rural areas are higher because of the distances involved to reach premises, which reduce return on investment when compared to more densely populated urban areas. In addition, both deprived urban and rural areas are less attractive to telecoms companies due to the lower potential revenue. The report has identified both deprived rural and deprived urban areas that are likely to be left behind in the initial waves of market-led NGA investments – with some 31% of areas remaining at risk in subsequent waves as far into the future as 2017. This figure assumes that public sector intervention is delivered. Without it, even more (43%) will remain at risk in 2017.

21. As the report reveals, rural areas are disproportionately affected with 87% of rural communities at high risk in 2012, and a socially and economically responsible approach to NGF delivery must tackle this issue but at the same time, it must also tackle the issue of NGA rollout in deprived urban areas.

**9. Where should the Next Generation Fund be used to intervene in the first instance, in terms of either location, or market deployment, in order to minimise the risk of distorting the market, and not chill planned investment?**

***CEDOS/ADEPT Views:***

22. Intervention should focus on addressing the digital divide and boosting local economies. In terms of location, the priority areas should be those where there is clear evidence of market failure to meet demand for an enhanced service and with little or no chance of commercial investment in the next 2 years. An emphasis on sub-regional delivery would ensure local and community knowledge is brought to bear to prioritise areas of intervention, which minimise the risk of distorting the market.

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<sup>1</sup> *An assessment and guidance on next generation access [NGA] risk in the UK – Final report.* HM Government March 2010

**10. What do you see the risks to competition from providing public support for NGA rollout and how can these be mitigated?**

***CEDOS/ADEPT Views:***

23. The main risks are that the NGF subsidises areas that market competition would have provided for, and the creation of new monopoly operators or the strengthening of existing ones. The most important way of minimising risk to competition is to ensure the Next Generation Fund is targeted on areas where market failure can be demonstrated and that any Government funded infrastructure should be able to support services offered by multiple internet service providers.

**11. At what stage in the deployment cycle, such as time or penetration, should the Next Generation Fund cease intervention, and why?**

***CEDOS/ADEPT Views:***

24. The stated objective of the Next Generation Fund is to support the roll out of next generation access to at least 90% of households in the UK by 2017. The Consultation Document suggests "once you move above this, the costs escalate considerably to the point where the business case for deployment becomes unsustainable, even with the seed-corn funding that the Next Generation Fund will provide". This presumably relates to the NGF's focus on fixed line solutions. Our position is that a flexible approach is needed which takes account of local conditions, including consideration of satellite and wireless solutions. In this context, we believe that this country should aim for more comprehensive coverage and that, accordingly, intervention should cease when the market gap is closed and all areas have adequate access to super-fast connectivity.

**12. Which areas of the UK should receive intervention from the Fund, and why?**

***CEDOS/ADEPT Views:***

25. The Government's ambition for the Next Generation Fund based on a focus on fixed line solutions is to support the roll out of NGA to at least 90% of households in the UK by 2017. As shown in the Government's risks to NGA Roll-out in the UK report, this will still leave large areas of the country not being covered. If, as we have argued (see above), a flexible approach is taken that also embraces other technologies, there is no reason why there should not be a commitment to 100% roll-out with use of the NGF being focused on achieving economic benefits and addressing digital exclusion to achieve NGA in areas where market failure can be demonstrated.

**13. Should the Government consider a claw back scheme, once the return on investment reaches a certain level?**

***CEDOS/ADEPT Views:***

26. As the fund will provide a subsidy for commercial companies, we support the principle of claw back to cover situations where it is proven that the market would have delivered without the need for public subsidy. However, the claw back mechanism will need to be very carefully designed and operated in a way that is not overly bureaucratic and to ensure that it does not act as a disincentive to investment. It will be important that any funds that are clawed back are re-invested to increase the impact of the fund and ensure value for public money

**14. If so, at what level of return on investment should this begin, and how should this be determined? For example, you could implement a sliding scale that increases as the return on investment increases.**

***CEDOS/ADEPT Views:***

27. On the basis of the information currently available, it is difficult, at this stage, to suggest a particular level of return on investment at which claw back should be activated. The important thing is that whatever trigger point is chosen, the claw back mechanism must be equitable, for which a sliding-scale approach looks appropriate. Equally, the method of calculation should be clear, transparent and be as simple and straightforward as possible.

**15. Are there any other options HMG should consider to minimise deadweight?**

***CEDOS/ADEPT Views:***

28. To achieve value for money and optimise the impact of the fund, it is important to minimise the risk of deadweight investment and ensure competition in the procurement process. However, any deadweight loss resulting from subsidy artificially lowering price and driving up consumption, could be considered an acceptable price to pay for encouraging uptake of a service that has considerable long-term economic and social benefits. On the other hand, supply side deadweight resulting from a supplier exploiting a monopoly position will need to be minimised through vigilance in the procurement process. This should be achieved through utilising existing procurement frameworks and bodies rather than creating new quangos or administrative functions.

**16. Do respondents feel that Government is right in insisting all networks built with the use of the Fund should be open access?**

***CEDOS/ADEPT Views:***

29. We strongly support the principle of next generation broadband networks being open access. This is essential to achieving effective competition, value for money and providing quality of service, choice and lower prices for the consumer. It will also promote innovation and assist in future-proofing the investment. It will be important for open access to be monitored and enforced effectively.