OFCOM

Designing the Broadband Universal Service Obligation – Call for Inputs

A submission from the Federation of Communication Services.

The Federation of Communication Services represents companies who provide professional communications solutions to professional users. Our members deliver telecommunications services via mobile and fixed line telephony networks, broadband, satellite, wi-fi and business radio. Our members' customers range from SMEs, home-workers and micro-businesses up to the very largest national and international private enterprises and public sector users. FCS is the largest trade organisation in the professional communications arena, representing the interests of nearly 400 businesses with a combined annual turnover in excess of £45 billion.

In the context of this consultation, it should be noted FCS members are themselves almost exclusively SME businesses. They therefore provide an unique sounding-board against which to test any initial conclusions regarding the needs of the business community. FCS stands ready to facilitate those interactions in whatever way makes most sense.

FCS has long been concerned to ensure the nation enjoys ubiquitous and cost-effective access to business-grade broadband connectivity. Without high quality, affordable and ubiquitous connectivity – preferably available from a choice of more than one supplier -- it is impossible to deliver the hosted databases, value-added call-handling and recording functionality and cloud-based software solutions which empower business growth and efficiency in the present age.

FCS is therefore responding with a view to the interests of the business community, rather than householders, consuming broadband services for TV and recreational uses.

Main concerns:

1. Assumptions about a 'minimum level' must start from the basis that whatever datum is originally set, it must be capable of being re-visited as customer demands develop. Setting even a five-year strategic window is a herculean task in an industry like telecommunications, where the technologies which our infrastructure delivers are developing at such a fast pace. See, for example, the strategic 'what-if' scenarios in DCMS's 2014 UK Digital Communications Infrastructure Strategy consultation. In the light of recent industry developments (for example, the growth of voice-over-wi-fi mobile calling or the acquisition of Everything Everywhere by British Telecom, or of Airwave by Motorola), some of these scenarios already appear irrelevant or out of date. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/346054/DCIS_consultation_final.pdf

2. The policies of successive governments towards the digital communications sector have concentrated on what we might call the art of the possible. Inducements and commitments

have been entered into with the incumbent provider which have worked to successfully deliver short-term political objectives. In the process, existing legacy technologies have not been replaced, and new entrants have been restricted from entering the market place. What is missing is the clear long-term objective, against which inward investors and incumbent industry participants can plan a strategic future path. The creation of a presumptive universal minimum service level is a useful step towards clearly identifying remaining gaps in the current availability of service.

3. Because IT and comms have become so vital, so quickly, neither business users nor government have been able to keep pace. Witness the development of Cyber Essentials, for example, in response to a specific concern that sub-contractors' systems could provide a means to compromise sensitive public data. Cyber Essentials contains no provision to secure a company's telephone system. Not because this is not best practice or because it's not desirable, but simply because the solution was developed as a response to what was seen as a specific IT problem.

4. This is a crucial differentiator between the existing USO for voice and the proposed USO for connectivity. This call for inputs starts from the perspective of the existing voice USO approach, and seeks to adapt it to digital connectivity. FCS contends this is a fundamentally flawed approach. Analogue voice, for which the current USO was designed, is analogue voice. You can't squeeze any more words down a wire in the same time. And the degree to which you will use the service is a function of how many discrete voice calls you need to make. On the other hand, digital data packets (of which contemporary voice communications is simply a sub-set with a peculiar latency requirement) may well be facilitating several widely different applications simultaneously, even when the office is otherwise unmanned.

5. Demand for analogue voice services is a predictable function of the number of telephone calls an individual or business needs to make in the course of a day. Attempting to forecast maximum demand levels for digital connectivity is far less predictable, in as much as new applications are being developed every day. In addition, analogue voice at the time of the first USO was available over only one delivery platform – the copper network. Digital connectivity in today's markets is available over several networks, many of which may compete directly to offer identical connectivity levels to identical customers in some parts of the country.

6. It follows from the above that attempts to designate a single universal provider are unlikely to deliver optimal results across the country. Rather, they are more likely to hinder or prevent competition at the infrastructure level and restrict the expectations of the most remote communities to only the minimum service level.

7. A clear and unambiguous definition of the minimum service level is required. It is no use a business planning investment decisions in anticipation of a guaranteed minimum 10Mbps connectivity, only to discover that 10Mbps is contended 20:1. For the avoidance of doubt, FCS therefore proposes the words 'uncontended' and 'synchronous' be inserted before the 10Mbps.

Demand for a USO – anticipating current and future business needs

1.1 Businesses who already enjoy access to adequate connectivity are starting to learn that 'speed' is a very blunt proxy for 'availability'. BT FTTC broadband may offer headline 80MBps download, 20MBps upload speeds. But it it typically contended 1:20 or even 1:50. Hence a 10MBps leased-line in which 100% availability is guaranteed to the single lessee may well deliver a more consistent experience.

1.2 These arguments can be observed especially in discussions between landlords and tenants. They are a major factor for any business which is looking to relocate or expand. There is strong evidence that unavailability of business-grade connectivity is a major inhibiting factor for owners of rural estates wishing to diversify by converting farm buildings into offices.

1.3 The ongoing 'digital by default' public sector agenda is a useful starting point when assessing current minimum connectivity requirements. Local authority and government websites and automated payment platforms are not always configured to accept incoming data supplied slowly, over contended broadband services. The farming community has already been driven in some areas to rely upon the services of local agents for the timely submission of returns to claim EU outpayments or set-aside subsidies.

1.4 In this context, therefore, the current proposals for a Universal Service Obligation should be seen very much as a minimum aspiration for the short-term, rather than something which will future-proof the UK's competitiveness. Whether or not the Institute of Directors' call for a 10Gbps USO by 2025 prove to be whimsical, they represent a far more intelligent starting aspiration than legislating to roll out a universal access to speeds which most commercial users already regard as insufficient for future needs. (see, for example, EEF members survey, Feb 2016. https://www.eef.org.uk/campaigning/news-blogs-and-publications/publications/2016/feb/eef-infographic-digital-infrastructure-underpins-modern-manufacturing)

How could a USO be delivered?

2.1 With target delivery aspirations deliberately set at a level that can be delivered over a variety of existing technologies, the big opportunity from designing a broadband USO is not from focusing on the speeds delivered. Rather, it is the opportunity to use this unambitious bedrock as the basis to create innovative and future-proofed structures to oversee that delivery.

2.2 The existing default structure is a good place to start. Network infrastructure providers are already well used to planning roll-outs on a £x-per-premises basis. In this case, the suggestion is that £x (currently £3.4k for the voice USO) minus any once-off 'connection fee' becomes the known maximum sunk cost to the Universal Service Provider of providing a service to an address. Any costs above £x are a matter for negotiation between the provider and the customer.

2.3 This is at least a robust basis for a competitive commercial model. Network providers can take a view about the long-term benefits of being the connectivity provider to such-and-such a premises; they can work out the long-term revenues either from providing services over their infrastructure in their own right, or wholesaling access to third party providers. They can therefore take an intelligent business approach to the decision whether or not to apply to be listed as a USP.

2.4 On the same basis, businesses and communities can take their own view about the best models to defray the excess build costs, or develop strategic models to work in partnership with the USP. The greater the opportunity for strategic partnership approaches, the lower the risks to the USP of losing recurring retail revenues to third-party competitors.

2.4 For this reason, FCS contends the USO represents an important opportunity to liberalise market delivery models. The 10Mbps minimum is simply the minimum service level datum any potential provider must commit to deliver, and £x per premises (currently £3.4k for voice) the known cost any would-be USP must commit to carry in order to be listed on a national register of USPs.

2.5 FCS contends the market would be best served by setting up a straightforward and consistent qualification process (including appropriate public sector due-diligence regarding financial stability and insurances) with a view to encouraging as many organisations as possible to join a national register of USPs.

2.6 For any particular project, customers will be able to approach the Registrar with a simple ITT. Depending on the topography, number and geography of the build, any of a number of USPs could then respond the the request. As in any normal bidding process, the customer could choose best in class solutions based on service level, build-time, strategic partnership issues or simply the extent to which delivered costs exceeds £x. In the event no USP responds, the Registrar should have the power to require a minimum of two USPs to submit bids.

Down-side risks: affordability, delays and failures

3.1 FCS contends markets are always best placed to deliver competitive outcomes. Whatever process is finally decided upon must be sufficiently flexible to accommodate developing technologies and evolving price/value models. There must be no risk of presumption in favour of a single provider or a single technology.

3.2 In the above model, the role of the Registrar is obviously a single point of failure. For this reason, FCS suggests the register should be maintained by industry; the Registrar employing only a minimal secretariat, with governance vested in a stakeholder committee including Ofcom, USPs and stakeholders from the national and devolved administrations – along the lines of the governance models used in the energy sector or the partial privatisation of the Scottish water industry.

3.3 All USPs would be expected to deliver services (including prompt responses to tender requests) against SLAs whch will be audited by the Registrar.

3.4 Access to the USP register should be re-let on a regular basis (say once every two years).

3.5 The initial approach should be tested in the market on the basis of a purely commercial model. In the event insufficient potential USPs emerge, there may be scope to re-visit the kind of incentivisation subsidy approaches used in the BDUK Broadband Voucher scheme or the current Satellite subsidy programme – effectively reducing the £x element of the cost to the provider.

SUBMISSION ENDS