

BSG response to DCMS/BDUK Urban Broadband Fund

Consultation on Connection Vouchers

July 2013

Overview of response

The BSG works with a number of different companies and organisations working in the broadband space. There is not a consensus view on the proposed connection voucher scheme from the broadband stakeholder community. In light of this our response is structured in the following way:

- Perspectives on the premise of the voucher scheme
- Key issues for consideration should the voucher scheme be progressed and rolled-out
- Views on the specific questions set out in the consultation document

In submitting this response we acknowledge that BDUK is continuing work on a number of the issues we highlight. The BSG looks forward to continuing productive discussion on these matters.

Perspectives of the premise of the voucher scheme

There is not universal support for the scheme with some companies and organisations holding substantial concerns about the rationale for pursuing a connection voucher scheme. These concerns include:

- Connection vouchers will not likely address, or at least expedite efficiently, the issue of superfast not-spots in cities. This should be a priority for government as part of its overall broadband policy objectives and should either be revisited as part of this scheme or be confirmed that it falls within the newly announced superfast coverage target of 95% of the UK population by 2017
- A lack of an evidence base to suggest that connection costs are the barrier to SMEs upgrading or taking up higher speed/higher grade broadband products
- A lack of clarity in its objectives, meaning that criteria to measure success of the scheme are not clear and neither is the benchmark to ensure that the scheme delivers value for money for the government

- Whether this is the right use of public money compared to other issues relating to broadband that might yield greater social and economic returns, for example driving digital inclusion
- That by designing the scheme as one which will only subsidise excess construction costs or the costs of wireless aerials, this makes the scheme not technology neutral as it precludes services which could provide a 30Mbps service or a step-change in connectivity but which do not involve connection costs (e.g. mobile 4G services)

Key issues for consideration should the voucher scheme be progressed and rolled-out

However, in addition to those concerns there is also the perspective from some that connection vouchers could play a role in upgrading or connecting SMEs to high speed/high grade connections who would not otherwise have done so and that this could yield a wider social and economic benefit.

In order to maximise the benefits of a connection voucher scheme however, a number of key issues are crucial to building a foundation for a successful scheme and ensuring that the scheme is fit for purpose.

These issues are raised throughout our response but are centred around the following core themes:

1. Timescales for delivering and market testing the proposed scheme

There is real concern about the pace at which this scheme is planning to be delivered. We understand that DCMS/BDUK believe that this needs to be expedited quickly in relation to the funding available, however we would counsel that more time may be required to properly consider how the scheme can be most effective.

In relation to the proposed market testing there is a concern that two months will not be adequate to evaluate and rollout the full scheme with confidence. From a supplier perspective many product options that could be applied for through the scheme could take more than two months to install, for example if a service requires new fibre connections, wireless antennae or cabinet enablement to occur/be installed. As such market testing may only demonstrate the time required to approve end-user eligibility and obtain supplier quotes. The timeframe will not likely allow to test ability to claim against the voucher, process it and deliver a service to the end-user. We would counsel that further consideration is given to whether this will provide sufficient information to commit significant government funding with confidence.

2. Ensuring consistency between participating cities

We support the design principle that this will be one overarching national scheme allowing for some customisation at local level. A consistent approach will attract the most suppliers as many will not participate if they have to tailor the scheme to 22 different schemes. This will also create a level playing field for the market and end-users alike. However it is not clear as yet how this will be achieved. We would welcome clarification from BDUK about how consistent conditions will be achieved, such as ensuring technology neutrality, voucher amounts in each city and awarding vouchers to applicants. Without this national

coordination there is the risk that some cities could pursue more distortive interventions that could discriminate against the objective of ensuring that the scheme is open to all eligible and willing participants.

There is also the need for national communication of city-led activity as well. This has already been raised as a concern at the stage of preparations for the market testing phase. BDUK has not publicised at the national level which suppliers Belfast and Cardiff have engaged with in preparing for imminent market testing in August or what the details are of these schemes. Whilst it is perfectly acceptable for cities to run local engagement on this, details of this should also be made available at the national level in order that the process is fully transparent and no interested suppliers are overlooked who might want to participate.

3. Supplier eligibility and registration

We support the stated aim that all suppliers capable of offering a step change in connectivity to SMEs are eligible to participate. However we would urge that rigid definitions of what a step-change in connectivity might mean are not pursued as this could unhelpfully rule out services which SMEs could benefit from.

Further detail on confirming supplier eligibility (against interested suppliers) and the process for supplier registration is required. This relates to the point above regarding how market testing cities are handling both these issues and in order to give a fuller view, we would require further detail from BDUK on how these issues are being marshalled and how to feedback in light of that approach.

4. Ensuring the scheme delivers for SME needs

We welcome the proposal that cities will undertake demand mapping and then undertake demand stimulation and awareness activity to promote the voucher scheme against that demand.

We would urge that the widest possible options are made available to SMEs in terms of different suppliers. It is still not clear from the proposals how vouchers will be awarded to applicants, particularly to the amount that they will be eligible for. The connection costs will likely vary highly between different types of products. We would counsel that in making decisions regarding the value of the voucher an end-user is eligible for, the bar is neither set too high or low when allocating value amounts. The cheapest option may not actually provide best value and equally if the scheme is set up so that SMEs can only apply for specified top-end products this might preclude SMEs accessing other types of products that may meet their needs and result in a step-change in their connectivity experience.

We do not deny that this is a tricky balance to strike in ensuring that money is allocated in the most effective way to meet need, however there is a lack of detail in the proposals for how this can be affected. This echoes the points we make about the need for consistency across cities in line with the proposed design principles set out in the consultation.

Views on the specific questions set out in the consultation document

1. What methods do you consider most useful and practical in the context of stimulating awareness and demand for a broadband connection scheme?

It is our view that understanding demand should be the initial priority as demand awareness and demand stimulation activity will stem from this.

City authorities should take the lead in understanding SME demand in their localities, but central guidance should be issued by BDUK to aid this and ensure a level of consistency in approach.

This approach should build a picture from bottom-up, i.e. understanding from SMEs what they would value in improved or upgraded connectivity in order to be able to communicate to potential suppliers what sort of “step-change” they would value and wish to use a connection voucher against.

As suggested in the consultation document this picture of demand would be shared with suppliers through the portal. This would allow for all eligible and interested suppliers to assess their ability to deliver services in this area and market them to those in receipt of connection vouchers.

City authorities would also be able to promote the scheme through its own channels as well as through local media outlets. Directing those in receipt of/eligible for connection vouchers to the portal will be important to ensure SMEs are made aware of all the supplier options so that they can make informed choices as to what services would best benefit their needs.

If the aim is to run this as an overarching national scheme, as stated and which we support, it might also be instructive to explore a more national-level demand awareness scheme about the general benefits of broadband which could amplify not just the benefits of this scheme but aid the drive of broadband take-up more generally.

Although we understand that the proposals do not advocate a proactive demand aggregation role for either suppliers, city authorities or BDUK; it will be important for SMEs to be able to access information about how they would go about trying to find out which suppliers might be able to serve a collective need if they choose to cooperate with other voucher recipients to seek joint connectivity, as set out in the design principles in this consultation document.

2. If you are an SME, ISP or network operator: (a) would you be keen to participate in the voucher scheme on the basis that we have set out in this consultation? (b) in addition to the elements described in this consultation document, what further steps, if any, would BDUK need to take to ensure your participation in the scheme (e.g. broadening the categories of eligible end-users)?

The BSG is not an SME, ISP or network operator but understand that some (though not all) ISPs and network operators are potentially interested in participating in the scheme.

However it is difficult for ISPs and network operators to commit fully to the scheme without gaining further clarity about how it will really work in practice and to what extent it will run consistently across participating cities or be subject to local variations.

There are a number of issues that require further and urgent clarification from BDUK to inform the decision to participate, or not, by ISPs and network operators, including:

- Process for supplier registration
- How consistency will be achieved across cities
- How aggregated vouchers can be handled – will it be sufficient to allow SMEs to cooperate amongst themselves or should something more tangible such as a “landlord voucher” be made available to for example business parks to coordinate a collective application

3. Does BDUK need to place any conditions or criteria on the vouchers to ensure effective take-up by end-users?

The scheme should be as simple as possible in order for both end-users to engage with it as well as attracting suppliers to offer services over it.

We are better placed to discuss the supplier than end-user perspective on this and as stated in response to question 2, should the scheme wish to attract the largest possible selection of suppliers, then a consistent scheme across cities which allows suppliers systems by way of practical issues such as billing to simply plug into the scheme will be most effective.

However from an end-user perspective it would seem to make sense to impose a condition that the vouchers must be used within a reasonable time framework to ensure that they are allocated to customers who intend to use them and who will be incentivised by a deadline. In saying that however, as per the comments we have made about timescales in our introductory comments, this deadline should relate to application rather than installation given the likely lead-times of delivering some of this connectivity.

4. Which costs do you consider should be eligible for funding by the connection?

Building on the design principles of the scheme, which state that vouchers can only be used to meet capital expenditure, i.e. to pay for SMEs’ initial connection costs and focusing on area where demand exists and where connection costs are the barrier to take-up, then it would follow that eligible costs could include:

- Costs going towards or meeting the installation or excess construction costs of connecting an SME to an existing business connectivity network
- Costs for the connection/installation of a new Fibre to the Premise (FTTP) service
- Costs for the connection/installation of a cable service
- Costs for the connection to an existing Fibre to the Cabinet (FTTC) service
- Costs for the connection to a new FTTC service, i.e. connecting to an un-served cabinet
- Costs for the installation of aerials for fixed wireless services

There may well be others.

Based on the responses to this consultation and considerations made against these views it would be helpful for BDUK to set out a guidance note on this against eligible suppliers of the scheme (i.e. what costs would be met under the scheme, to what value and in relation to each type of eligible supplier).

5. Do you think the current value range proposed for the connection vouchers (£250 to £3000) is appropriate?

The average connection cost is likely to be met within this bracket but some stakeholders believe that this could usefully be increased to £5000 to cater for those SMEs who might have difficult access issues.

On a similar vein, some stakeholders believe that if the scheme could enable a “landlord voucher”, this could deliver to multiple SMEs through one voucher and could carry greater impact for those businesses and provide better value. If this was deemed possible through the principle contained within the consultation document to allow eligible voucher recipients to cooperate with others to put in a joint bid for connectivity, this could be catered for on the basis of an overall amount up to “number of SMEs x maximum connection voucher cost”.

Beyond the issue of the value range of the vouchers however are the important issues of whether a) how the value of the voucher for an individual applicant customer will be decided and by who and b) will both the value range of vouchers and the decision process regarding individual applications be implemented in the same way across all participating cities.

If there is not consistency then it will act as a barrier for supplier participation, particularly national and larger providers who will want to engage with the voucher scheme as a whole and who will be dis-incentivised from participating if there are different value bands and decision processes at the city level.

Furthermore given the connection costs, which the vouchers will go towards, will vary depending on the supplier and the type of technology they offer, if the maximum value of the voucher is set lower than the connection cost, then that supplier will be unlikely to want to or be able to participate.

Clarification on this point is therefore required as a matter of urgency. In line with the design principle that this is a national scheme, allowing for some customisation at a city level, BDUK should therefore issue this guidance, starting with an overview of what cities wish to pursue at market testing stage so that this issue can be assessed with a clear process should the scheme progress to rollout through the 22 cities.

6. Should a contribution to the connectivity costs be required of end-users or should the scheme support the total costs of connectivity? If you consider a contribution to be appropriate please explain why and confirm which end-user should be required to contribute (e.g. SMEs, residents etc) and what the minimum contribution should be.

Whilst it might make sense to gain a contribution from the end-user to reflect the value they view in accessing the service, in practice and on balance we feel that to introduce this would complicate the scheme to its overall detriment. However should any contribution be decided upon it might be proportionate to the overall value of the voucher. It would also be useful to have clarity regarding whether connection costs have to be covered completely by the value of the voucher or under the scheme whether it would be permissible for an end user to use a voucher towards the connection cost and top up the balance themselves. This point is not clear from the consultation document.

7. Do you agree that a 'portal' (web based interface) is the best mechanism to enable end-users to meet potential suppliers? If so, what information do you consider should be provided on the portal?

The idea of a portal seems to be the most efficient way to inform voucher applicants of available suppliers. We propose that the portal would be a simple list of suppliers with contact details so that applicants can research the market offerings against their needs. This is probably the only way of presenting information that is both neutral and transparent.

However for the portal to be effective, applicants will need to be directed there and this is where city authorities and local trusted sources such as local business support groups can play a role in promoting the overall scheme and driving traffic to the portal.

8. Other than the use of a portal, what steps could be taken by BDUK to maximise the effectiveness and efficiency of the scheme for suppliers and end-users?

As per the responses to question 7 and question 1, BDUK should encourage and facilitate participating cities to drive awareness of the connection voucher scheme and drive traffic to the portal. BDUK can also play an important and helpful coordinating role in facilitating cities' ability to map demand in their areas and understand SME connectivity needs. This information can then be made available on the portal so that suppliers can assess their ability to meet this demand with products they offer.

9. The measures that BDUK is proposing are designed to stimulate the take-up of high-grade connectivity demanded by SMEs. These measures and the voucher scheme in particular have been formulated to work with the current regulatory framework and State aid rules. Please confirm:
 - (a) Whether and how you consider these measures might result in a distortion to competition and what, if any, adjustments to the scheme might serve to correct for such distortions;
 - (b) Whether the operation of the proposed scheme is likely to give rise to any regulatory concerns.

It is our understanding that whilst the scheme has been designed to be non aid-attracting, there does remain the possibility that it could in theory be subject to a challenge on State Aid grounds. This would clearly hinder the scheme and could deter supplier participants. It

would therefore be helpful for BDUK to be clear on how it would navigate state aid issues through the scheme, thinking through a number of scenarios. Particular issues for closer consideration would be open access of networks as well as the impact on the market of connection vouchers being used to pay for services that would require construction of some form of new network assets.

In its objectives however of supplying connection vouchers to SMEs to go towards the purchase of products in the market, concerns should be allayed if the scheme is set up in such a way that:

- Pre-qualification and supplier registration is light touch and does not pose barriers for entry to the full range of suppliers
- There are clear avenues for all interested and eligible suppliers to be involved in the scheme; this includes a duty for BDUK to promote, at a national level, what each city is doing and when so that no suppliers are overlooked
- All suppliers are given fair and equal siting on the portal
- All suppliers are given an equal chance to promote their offering to SMEs; SMEs should be able to select a provider on the basis of their own needs rather than being prescribed what the types of provider they have to look to for service (this relates back to the need for clarification of how this will be a national scheme where there is broad consistency in voucher value availability and the process for allocating vouchers to applicants)

10. What methods do you consider might be most useful and practical to monitor the voucher scheme and evaluate its outcomes?

It is difficult to comment on this directly, given our opening comments about a lack of objectives stated in relation to the scheme and what the criteria for success would be. However, our overall suggestion would be that the scheme needs to monitor take-up, use and benefit in order to demonstrate benefit and value for money.

Doing this in practice could involve:

- The number of applicants successfully applying for vouchers, broken down per city and by size and type of business
- We would recommend that a selection of successful applicants are reviewed after 6 months of being in receipt of the service they applied for. This would add to the evidence base of what benefits SMEs realise from higher speed/grade connections. This would not only help document the benefit of the scheme but could also inform how to promote the scheme going forward, in terms of case studies and benefits.
- The number and types of suppliers offering services through the scheme and take-up rates of those services to better understand which services SMEs value and to see how successful the scheme is/has been in attracting suppliers
- The lead-time between award of the voucher and supply of service to track scheme efficiency

Beyond this and further to our earlier comments regarding both the evidence base and objectives for the scheme it would be beneficial for the government to indicate what wider

socio-economic benefits it would identify and how it would measure these to evaluate success and benefit against the £90m public spend on this scheme.

11. Are there any other aspects that directly relate to BDUK's proposed demand-side measures that you would like to raise?

The proposal that the payment of the voucher will be made on behalf of the end user from DCMS direct to the supplier and that this payment will be made excluding VAT will, we believe cause considerable operational issues and cause complexity in billing. This two stage payment proposal will, in effect, require a non-standard payment mechanism to be instigated by suppliers. This compromises the ambition to have a simple system that is compatible with the way commercial operators process billing and as currently proposed does, we believe, risk supplier participation. This requires further consideration and one option may be for the SME to be reimbursed by DCMS direct following its payment to the chosen supplier.