

CWU Response to DCMS

Digital Communications Infrastructure Strategy

1st October 2014

Introduction

The Communication Workers Union (CWU) is the largest trade union in the communications sector, representing over 200,000 employees in the postal, telecommunications and financial services industries.

The CWU responded to the first stage of the DCMS consultation on the Digital Communications Infrastructure Strategy, when we put the case for greater government intervention to bring superfast broadband to all homes and businesses across the UK.

We welcome the opportunity to comment further on this strategy, and we repeat our call for more action from government to create a world class digital network for the UK in the interests of jobs, growth and social connectivity. A modern digital network is essential for a thriving, competitive UK economy, and a strategic plan from Government is necessary to ensure the right digital infrastructure is in place for the long term. We focus our response on those questions that are most pertinent to the CWU and its membership.

Summary of Key Points

- The absence of adequate broadband availability in certain parts of the country is the result of market failure to deliver services to those areas where the business case for investment is weak. Government intervention is essential to address this issue.
- The UK Government target for broadband should be more closely aligned with the European Commission's target, which aims for the entire EU to have access to broadband speeds of at least 30Mbit/s by 2020.
- The most effective way for the Government to address the disparity of broadband provision is to introduce a statutory Universal Service Obligation (USO) for broadband. This will allow all consumers and citizens to access a quality broadband connection.
- The Government should set up an Infrastructure Commission for the UK with a remit to recommend schemes to deliver digital infrastructure projects based on projections of future needs. The Commission should interact with existing infrastructure bodies, including Broadband Delivery UK (BDUK) and Ofcom, in regard to formulating long term infrastructure investment plans.
- A mix of technologies including fixed, mobile and satellite will be required to extend fast, reliable broadband services to certain parts of the country. The Government's commitment to investing in 5G technologies is welcome and will help meet the needs of users in underserved areas.
- Users will demand more symmetrical networks as they seek to upload and share more data. The Government must create a more ambitious set of targets for minimum universal broadband speeds in the UK, which rise with average speeds and reflect the growing demand for faster download and upload connections.

- The Government should seek to keep pace with those nations investing heavily in digital communications infrastructure. The UK's £1.45 billion of public investment for broadband is small by comparison with other leading economies and means we risk falling behind our international competitors.
- The CWU would like to see a revision to communications legislation which places more emphasis on the regulator's duty to encourage investment in communications infrastructure and services.
- The regulatory environment must allow communication network providers to fully fund their network costs and associated labour costs, including through appropriate pricing mechanisms.
- The Government should commit further public investment to help build a Fibre to the Premises (FTTP) network that will provide a future proof solution and deliver more jobs, generate stronger growth and create more social cohesion.
- The CWU firmly believes that the Government should invest to gain an 'early mover advantage'. The predictions for future demand mean that a bold approach will pay dividends in terms of jobs and growth, whilst a reluctance to invest will damage UK competitiveness.
- The Government should seek to invest sufficiently in the training and skills that employers in the communications sector will require from their employees in the future.

Q1 a) Is this an appropriate role for Government?

The CWU believes the Government has a vital role to play in ensuring the right digital communications infrastructure is in place and that both standard and high speed broadband services are affordable and accessible to all, including those on low incomes and those living in rural areas.

The latest Ofcom data shows that 8% of fixed broadband connections across the UK still operate at less than the standard 2Mbit/s¹, which is the minimum speed required to stream live video. In rural areas, this figure rises to nearly 20% of connections, and deprived urban areas also experience slower speeds than urban areas on average². Furthermore, the UK falls behind sixteen other EU nations, including Germany and Spain in respect of superfast broadband coverage³.

The absence of adequate, reliable broadband availability in certain parts of the country is the result of market failure to deliver services to those areas where the business case for investment is weak. Government intervention is essential to address this issue, and we believe the role outlined in the consultation represents a good basis for intervention. In particular we support the role of Government to intervene in the event of market failure, including a failure to invest.

We note that the Government's digital infrastructure objectives include the near universal provision of current generation broadband at 2Mbit/s minimum by 2017, and superfast broadband for at least 95% of the population by 2017 through targeted Government intervention. However, the Government's superfast broadband plan has already slipped from its original target of reaching 90 per cent of premises by 2015, and we are concerned that based on current progress the timescales could be pushed back further.

The CWU would like to see a bolder commitment from Government on intervention and investment to achieve its objectives, as well as setting out a plan for universal access to high speed broadband. We believe the UK target should be more closely aligned with the European Commission's target, which is more ambitious and aims for the entire EU to have access to broadband speeds of at least 30Mbit/s by 2020.

There is no doubt that the social and economic benefits of universal broadband access justify such an ambition from Government. As noted in the consultation document, the Gross Value Added (GVA) to the economy through the provision of greater broadband speeds is projected to be around £17 billion by 2024, and £20 of economic benefit is produced for each £1 of public money invested in superfast broadband⁴. In London alone the Mayor's Office predicts a boost of £4 billion to the capital's economy if 99% of all properties have access to superfast broadband by 2018.⁵

Furthermore, the information and communications sector is comparable to the energy and transport industries in terms of its importance to the UK economy and jobs, but receives a disproportionately low level of public investment. The Federation of Small Businesses (FSB) has highlighted this disparity in a recent report, contrasting the £1.45 billion public

¹ *Infrastructure Report 2013 Update*, Ofcom, 24th October 2013

² *Availability of Communications Services in UK Cities*, Ofcom, June 2014

³ *The European Broadband Scorecard*, Ofcom, 12th March 2014, London

⁴ *Digital Communications Infrastructure Strategy*, Consultation Document, DCMS, HM Treasury, 6 August 2014, Page 8.

⁵ *'London Infrastructure Plan 2050 – A Consultation Document'*, Mayor of London, London, 30th July 2014.

investment in broadband with funding for other major infrastructure projects, such as £42.6 billion for HS2, £50 billion for roads and £16 billion for the Hinkley Point Nuclear plant.⁶

b) What other high level principles might the Government adopt?

The CWU believes the Government should support the regulator in its role of incentivising investment by providing greater certainty for long term risk investment. This should include the introduction of a more stable regulatory regime to avoid the external shocks to revenues and costs that increase investment risk. We agree that the mandate to assess markets every three years under the current UK regulatory framework is not sufficient for investment certainty and that this should therefore be reviewed.

In addition the CWU believes it is important for the Government to cross-reference its Digital Communications Infrastructure Strategy with its Digital Inclusion Strategy if it is to equip UK citizens across society with the necessary skills and competencies, as well as with the physical networks, to enable them to navigate a digital future.

c) What resources do you consider the Government should aim to deploy to effectively manage its role?

The CWU believes the Government should set up an Infrastructure Commission for the UK with a remit to evaluate and recommend schemes to deliver digital infrastructure projects based on projections of future needs. This would help to overcome the obstacles that have hindered long term investment in the UK's infrastructure in the past, which include a lack of long term strategic planning; uncertainty of politicians over the electoral benefits of investment programmes leading to reversals of policy; and a lack of transparency around funding.⁷

We would suggest the Commission should interact with existing infrastructure bodies, including Broadband Delivery UK (BDUK) and Ofcom, in regard to formulating national long term infrastructure investment plans.

We also believe the Government should review the way public funding is allocated for future broadband projects. The original BDUK funding process was hampered by problems, including lengthy time delays and contradictory decisions by local authorities and district councils, resulting in an inconsistent approach to broadband roll out across the country. It would be more straightforward if funding was allocated centrally rather than through local authorities, which lack the resource or the expertise to plan for a superfast broadband network. Such an approach would have provide more consistency and clarity for those communications providers bidding for BDUK projects.

Q4 Is an ongoing disparity of provision of broadband services inevitable? If so should this be addressed and how might this be done most effectively?

Disparity of broadband provision is inevitable without government intervention

The CWU believes that without greater intervention by Government to address market failure, it is inevitable that the provision of broadband services will continue to be disparate across the UK, particularly with regards to network speed. Furthermore, if the current market led approach is allowed to continue, the digital divide is likely to become even more

⁶ 'The Fourth Utility: Delivering universal broadband connectivity for small business across the UK', Federation of Small Businesses, London, July 2014.

⁷ The Armitt Review – An independent review of long term infrastructure planning commissioned for Labour's Policy Review, Sir John Armitt CBE, September 2013.

pronounced as greater bandwidth is rolled out in profitable areas, whilst those areas with less market power are left to fall behind.

The digital exclusion arising from this disparity in provision will be compounded by the growing importance of fast, reliable broadband for full participation in society and the economy. Citizens and consumers will increasingly need a decent broadband connection to access government services, to search for jobs and to purchase goods online. Businesses will rely on faster broadband to compete effectively, to interact with customers and to reach out to new markets. The growth of cloud data storage and the Internet of Things, which will network billions of smart devices from home appliances to energy and health monitoring equipment, will make broadband access even more important to modern life.

Government action to address the disparity of broadband provision

The CWU has long held that the most effective way for the Government to address the disparity of broadband services is to introduce a statutory Universal Service Obligation (USO) for broadband. This will allow all consumers and citizens to access a quality broadband connection, enabling full participation in the digital economy and society. It will bring significant benefits for the UK in terms of growth, jobs, access to public services and global competitiveness.

The CWU recognises the high cost of extending fibre networks to remote areas, and believes that a mix of technologies including fixed, mobile and satellite will be required to extend fast, reliable broadband services to certain parts of the country. The Government's commitment to investing in 5G technologies to boost economic growth is welcome and it will help meet the needs of users in remote areas where the extension of fibre is uneconomic.

Q5 How symmetrical will digital communications networks have to be in the future? Will this differ across user types? What implications does this have for fixed and wireless broadband provision?

Users are increasingly uploading content to cloud based storage services, using real time two way video communications, and sending large files over the internet. The indications are therefore that users will demand more symmetrical networks as they seek to upload and share more data.

Research from Ofcom shows that average actual upload speeds for fixed line broadband services were 1.8Mbit/s in May 2013, significantly lower than average download speeds of 14.7Mbit/s.⁸ A standard broadband connection of 2Mbit/s is therefore likely to have a far lower upload speed, severely restricting the ability to use cloud based storage services.

The Government's targets for broadband are based on download rather than upload speeds, and given the growing demand for file sharing and real time two way video communications, this approach is starting to look outdated.

A study by NLkabal and Cable Europe predicts the average consumer demand for broadband download speeds will be 165Mbit/s and for uploads 20Mbit/s by 2020⁹. Accordingly the demand for bandwidth is expected to "*grow exponentially*" with the compound annual growth rate predicted to be 40.3% for downstream and 43.9% for upstream traffic demand.

⁸ *UK fixed-line broadband performance May 2013*, Ofcom, 7 August 2013

⁹ *'Fast Forward » How the speed of the internet will develop between now and 2020'*, NLkabel & Cable Europe, Utrecht, 25th June 2014.

Consequently, the CWU believes the Government must create a more ambitious set of targets for minimum universal broadband speeds in the UK, which rise with average speeds and reflect the growing demand for faster download and upload connections. The Policy Exchange has expressed a similar view, suggesting that to keep pace with changing internet use the commitment to universal standard broadband should be modernised to accommodate a relative rather than absolute standard of service.¹⁰

Q6 Which countries should be our benchmarks on communications infrastructure to ensure that businesses remain in the UK and continue to invest?

The CWU believes that the Government should seek to keep pace with those nations taking a lead in the roll out of a national digital communications infrastructure. Whilst the Government's ambition is to have the best broadband network in Europe by 2017, there are other European countries aiming for higher broadband speeds and greater coverage than the UK, and many countries are further ahead than the UK in their progress to date.

As cited in our response to the first consultation, recent research from Ofcom shows the UK is performing well against other major EU countries on standard broadband coverage. However, when it comes to superfast broadband coverage we fall behind sixteen other EU nations, including Germany and Spain. A comparison on FTTP (Fibre to the Premises) growth over the last year shows the UK's relative position is again less favourable. As of December 2013 the UK passed 234,000 homes but Spain passed 2.4 million homes, France 710,000 and Portugal and Sweden both passed 550,000.¹¹

We believe that in a global economy we must compare ourselves with our competitors both inside and outside of Europe, and research from Akamai¹² shows that Hong Kong, South Korea, Japan and Singapore currently have the fastest broadband speeds in the world based on their FTTP networks. Not only that, but as the consultation document notes, many leading global economies are investing far higher levels of public funding in improving their national digital communications infrastructure, including Germany, China, South Korea and Australia.

In Germany the proceeds from the sales of radio frequency bands, currently estimated at between €20bn-€34bn, will be used to finance broadband infrastructure expansion and deliver at least 50Mbit/s broadband across the country by 2018.¹³ China is investing \$160 billion by the end of 2015, and Australia is investing \$29.5 billion to deliver very fast broadband on a national scale. The UK's £1.45 billion of public investment is insignificant by comparison, and means we risk falling considerably behind our international competitors in the quality and reach of our national communications infrastructure.

Q7 What metrics do you think should or will become relevant in comparing network performance in different countries? What metrics should most appropriately be used as the basis to set objectives for government policy?

The CWU believes the most appropriate metrics for the Government to use when comparing network performance with other competitor countries are: fixed line download and upload speeds; mobile download speeds; the coverage and take up of both standard and superfast

¹⁰ 'The Superfast and the Furious, Priorities for the future of UK broadband policy', Policy Exchange, December 2012, London.

¹¹ 'European and Global Ranking', FTTH Council, 19th February 2014, Stockholm, Sweden.

¹² 'The State of the Internet, 1st Quarter 2014 Report', Volume 7, Number 1, Akamai, 2014, Zurich, Switzerland.

¹³ 'Will Germany have the last laugh on broadband availability? Thinkbroadband.com, 11th March 2014.

broadband to individual homes and premises; and the level of digital literacy within the wider population.

We understand that currently Ofcom has not identified appropriate datasets that would allow accurate, comparable estimates of national download and upload speeds, and that currently measures of speed are not included in Ofcom's European Broadband Scorecard. However, Akamai has been producing international broadband speed comparisons for some time, and its latest report from Q1 2014 put the UK in 15th place globally with an average download speed of 9.9 Mbit/s.

Q24 Do you expect commercial providers to deliver future infrastructure and meet demand on a purely commercial basis, or is some form of public intervention likely? If public intervention is likely how might that work with the commercial provision of infrastructure? What form might that intervention take?

As we have already stated, the CWU considers that public intervention will be necessary to deliver future digital communications infrastructure, given the failure of the market to invest in areas where the business case is weak.

For example, in April 2011 Fujitsu announced plans to offer a FTTP network to five million homes in rural and remote areas through the Broadband Delivery UK (BDUK) funding process but later pulled out of bidding because it could not see a reliable business case for investment. The main challenges it faced were uncertain demand, physical infrastructure access (PIA) restrictions, a lack of expertise amongst the contractors (local councils) and insufficient sharing of risk.

The BDUK process serves as an example of why public intervention is likely and necessary in the event of market failure. It is also an example of why even with a level of public sector funding available, many private companies are not prepared to invest in rural broadband projects. This reinforces the case for strategic clarity and further investment from government, so that communications providers have the certainty and the support they need to invest in communications infrastructure in rural and remote areas.

It is also the case that any public funding commitment for digital infrastructure must ensure value for money for UK taxpayers. On that basis, it is important that publicly funded broadband projects take full advantage of economies of scale. BT has been successful in securing all of the BDUK match funded contracts as a result of its ability to meet the needs of the project at a lower cost than other providers, primarily because it is a national network provider with economies of scale. BT also has a well trained workforce with the necessary skills to deliver a high quality digital network fit for the modern economy.

Furthermore, it is important to recognise that BT is a responsible employer offering quality, skilled jobs with reasonable rates of pay. At a time when many workers across the UK economy face low pay and job insecurity, this kind of employment model should be prioritised by the Government as a factor when awarding contracts for publicly funded infrastructure. Good levels of pay help to support the economy through higher consumer spending and tax returns, and high employment standards will help to maintain and improve the quality of communications networks.

We would also note that the recent rejection by mobile phone companies of the DCMS proposal to share network infrastructure will continue to leave many users in rural areas without mobile coverage for the foreseeable future. This is further evidence of the unwillingness of communications providers to meet public demand and expectations if there is insufficient financial return for their investment and demonstrates the necessity of more effective public intervention to ensure Government targets are met.

Q26 Do you have views on which scenario of future demand (or combination of scenarios) is most likely and should influence the development of future strategy?

The consultation document outlines three future scenarios describing how the UK's digital landscape and demand for digital services might look in ten years' time.

Scenario 1 describes a situation in which users' skills are not keeping pace with technological changes, and online users in densely populated urban areas see continued improvements in the level and capacity of services.

Scenario 2 depicts a world in which online services are accessible wherever and whenever people want and where the user experience is a good one. The digital divide has narrowed in terms of availability of high speed connectivity, but there is differing levels of confidence in being able to use services.

Scenario 3 describes a world in which coverage and connectivity are taken for granted, and in which fixed, mobile and WiFi seamlessly work with each other. A significant increase in demand requires superfast speeds of 1Gbps for both uplink and downlink. Resilience will be expected, delivered by having fixed and mobile networks covering the country. All broadband prices are relatively affordable.

Scenario 3 is therefore the most desirable, in that it envisions a world in which high speed digital networks are ubiquitous across the UK and no one is excluded from the digital economy based on availability or affordability. Such a situation would allow the UK to derive maximum social and economic benefits from the roll out of universal, high speed digital networks.

However, based on current levels of government intervention and public funding in digital infrastructure roll out, the CWU believes that the market characteristics set out in scenario 3 are unlikely to be achieved in ten years' time. It is also questionable, given current levels of digital exclusion due lack of high speed coverage, that the high quality universal broadband experience set out in scenario 2 will be achievable. We believe there is a danger that scenario 1 will be the reality in 2025, in that online users in densely populated areas will see continued improvements to services, whilst those in other parts of the country will be left the wrong side of a widening digital divide.

The CWU believes the Government should set an ambition to make the vision set out in scenario 3 a reality, but this can only be achievable with a much greater commitment to government intervention and public funding.

Q27 How might efficient investment in communications infrastructure be supported, for example by changes in the regulatory framework?

The CWU would like to see the regulator place more emphasis on its duty to encourage investment in communications infrastructure and services. We believe this is essential at a time when the UK's international competitors are moving ahead in terms of superfast broadband speed and coverage, and when a modern and reliable communications infrastructure will play a central role in underpinning a successful economy with high employment levels.

It is also essential for the benefit of the sector as a whole that the regulatory environment incentivises large scale private infrastructure investment such as that carried out by BT, which has committed £2.5bn to take high speed broadband to two thirds of premises across the UK, with additional funds for rural broadband projects. This is important because the

high entry barriers to establishing a new network mean that other communication providers rely heavily on BT's network to provide their own superfast broadband services.

As the consultation document states, Ofcom made a decision not to set prices for active wholesale access to the BT superfast broadband network, noting that it was concerned not to undermine the investment case for rolling out fibre. This approach is welcome, but Ofcom has since indicated that it will set a minimum margin that BT must maintain between its wholesale Virtual Unbundled Local Access (VULA) and retail superfast broadband prices.

The proposals aim to ensure that other communication providers can compete with BT in the supply of superfast broadband to consumers, but as we have put to Ofcom, there has been no sign of any competition problems either in the supply of VULA or in the development of the retail market. The growth in the profitable provision of fibre broadband services by other CPs, including Sky and TalkTalk¹⁴, suggests that BT's VULA margin is enabling the development of effective competition in the market.

Any margin set by Ofcom for wholesale broadband access should be careful not to deter BT's programme of long term investment in Next Generation Access (NGA) broadband which is essential for the UK economy and society as a whole, and is also important for those other communications providers who rely on access to BT's network for the provision of their own services.

The regulatory environment must also allow network providers to fully fund their network costs and its associated labour costs, including increases in the number of individuals required to deliver the network. For example, growing demand for high speed broadband, combined with competitive and regulatory cost pressures, mean the BT Openreach workforce is thinly stretched and subject to increased workloads, unsociable hours and regular weekend working. The regulator must ensure that prices are allowed to reflect costs if BT is to continue to invest and meet customer demand.

Q28 Are there any further measures necessary to incentivise the rollout of future mobile infrastructure in currently underserved areas?

There is clearly a need to improve broadband infrastructure coverage in rural areas, and mobile infrastructure will play a vital role in supporting this objective. Ofcom's figures reveal in the six months to May 2013, the average download speed for urban areas increased to 26.4Mbit/s, up from 21.6Mbit/s 12 months earlier, but in rural communities the increase was only from 5.9Mbit/s to 9.9Mbit/s¹⁵.

As mentioned previously, it is disappointing that the mobile phone companies have rejected the DCMS proposal to share network infrastructure in order to allow users to roam onto different networks in rural areas. The CWU believes that the Government should continue to look for ways to encourage mobile phone companies to share and improve mobile broadband infrastructure in a way that does not compromise their investments.

Government should also commit further investment for mobile broadband development and roll out, including via funds such as the Government's Rural Community Broadband Fund (RCBF). The DEFRA reported latterly that the RCBF will fall short of its target to assist 70,000 premises in remote areas and instead will only help between 20-25,000 premises¹⁶.

¹⁴ 'Fixed Access Market Reviews: Approach to the VULA margin', Paragraph 3.11, Page 12, Ofcom, London, 19 June 2014.

¹⁵ 'UK experiences superfast broadband surge but challenges remain to address speed mismatches', Ofcom, London, 15th April 2014.

¹⁶ 'RCBF Fails Target to Give 70000 Rural Premises Superfast Broadband', ISP Review, 5th July 2014.

There should be more Government funding for research and development activities to encourage innovation in mobile technology. Currently the Government has committed only £10 million to its innovation fund for exploring ways to take superfast broadband to the hardest to reach places, and we believe this should be increased. The recent initiative by BT Openreach of its Mobile Infill Infrastructure Solution is a good example of an innovative new technology designed to improve mobile services in areas with patchy coverage, and this could be used to expand BT's superfast broadband network into more remote locations.¹⁷ The Government could incentivise more innovation like this by making a bigger funding commitment in this area.

Q29 Is there a role for a revised USO or USC to ensure that minimum consumer demand requirements are met and to reduce the potential for a new digital divide? What might this look like?

As stated previously, the CWU believes there is a role for a revised USO to both ensure that minimum consumer demand requirements are met and to reduce the potential for a new digital divide. The rationale behind a USO should be to promote the availability of quality services at reasonable and affordable rates; to increase consumer access to services throughout the country; and to advance the inclusion of all consumers irrespective of ability, income, and geography through uniform pricing. As the consultation points out, broadband is not included in the definition of the USO under European law. However, member states are permitted to define functional internet access to include broadband in the USO based on average speeds. Spain, Malta and Finland have done this and the CWU believes the UK should follow suit.

Q35 Are there any changes to legislation other than the Communications Act that would incentivise the provision of communications infrastructure?

Ofcom's principal duty under the Communications Act 2003 is to further the interests of citizens in relation to communications matters and to further the interests of consumers where appropriate by promoting competition. In performing these duties, it must also have regard for the desirability of encouraging investment and innovation in relevant markets. The CWU would like to see a revision to communications legislation which places more emphasis on the regulator's duty to encourage investment in communications infrastructure and services.

The CWU agrees that the Government should review the terms of the Electronic Communications Code to ensure that CPs are given the necessary rights by law similar to other utility companies to ensure access to land and the ability to erect and maintain infrastructure.

Q37 How might copper access networks evolve over time alongside other access technologies? Is there a role for policymakers in helping manage any transition from copper to other access networks?

The present superfast broadband network roll-out is primarily based on the Fibre-To-The-Cabinet (FTTC) model leaving a copper connection to the premises. It is likely therefore that there will be no sudden replacement of the copper access network. However, the UK's copper network will at some stage need to be upgraded if demand for higher bandwidth services is to be met.

¹⁷ 'BT Openreach Launch New Rural Mobile Infill Solution to Tackle UK Notspots', ISPreview, London, 25th September 2014.

The CWU believes that the Government should commit further public investment to help build a Fibre to the Premises (FTTP) network that will provide a future proof solution and deliver more jobs, generate stronger growth and create more social cohesion. As we noted in our response to the first consultation, the FTTH (Fibre-to-the-Home) Council Europe president, Karin Ahl, supports this view with a recommendation that *“If the UK government takes a closer look at the opportunities that FTTH creates in a wide range of public services such as eHealth, eCare for elderly and chronically sick people, eGovernment, eEducation, they will realise that fibre access is the best choice... public funds should only be invested in future-proof infrastructure.”*¹⁸

With regards to providing the investment required for such a project, we repeat our call for the Government to follow Germany’s lead and use the proceeds from the sale of radio frequency bands, including the planned 5G spectrum auction. If the £2.34bn raised by the 2013 4G spectrum auction had been used in the same way this would have been a significant boost for the UK’s digital infrastructure.

Q38 Views are sought on whether there are any additional actions the Government should consider to ensure:

c) That potential investment in the provision of digital communications infrastructure offers a suitable risk and reward profile to ensure that they can be financed by the private sector

The Government should support the regulator in ensuring that wholesale prices reflect the cost of providing services so that high risk investment is properly rewarded. It is useful to note that BT’s £2.5bn investment in superfast broadband is not expected to see a profitable return for 15 years. If the Government wants to continue to incentivise this scale of investment, there must be clarity and certainty for investors that they will be able to seek a profitable return and that they will be able to maintain wholesale prices at a level that incentivises risk investment.

One outcome of the regulator’s emphasis on encouraging competition in the telecoms sector is that broadband prices in the UK are now amongst the lowest in the world. However, price competition puts pressure on profit margins and therefore restricts scope for investment. It is interesting to note that the World Economic Forum has found that whilst consumers pay less for connectivity in Europe than in some other countries, they are missing out on advanced services due to a lack of investment.¹⁹

Q39 Views are sought on:

a) The case for the UK to invest to gain ‘early mover advantage’

The CWU firmly believes that the Government should invest to gain an ‘early mover advantage’. The predictions for future demand would suggest that a too cautious approach will present a higher risk for the UK than a bold approach that matches ambitious investment plans by other leading economies. In this regard the CWU considers there is a pressing need not only to ensure the right digital infrastructure is in place on a universal basis, but that internet literacy is also promoted as widely as possible. This will help drive demand and use of communication technologies, optimising benefits for society as a whole.

¹⁸ ‘Europe praises the UK on superfast strategy’, Broadband-finder.co.uk, London, 18th February 2014.

¹⁹ *Delivering Digital Infrastructure, Advancing the Internet Economy*: World Economic Forum, in collaboration with The Boston Consulting Group, April 2014

b) What areas in particular the UK should aim to see investment

The CWU believes the Government should seek to invest sufficiently in the training and skills that employers in the communications sector will require from their employees in the future. Such investment should also extend to guaranteeing minimum qualification standards for engineering occupations. Such an intervention from the Government will play an important role in ensuring the network is consistently built and maintained to a high standard so that communication providers are able to deliver a high quality service to customers.

Q44 How can councils maximise the digital communications infrastructure in their local area to support their work on economic regeneration?

The CWU has always lobbied hard for local councils to be more involved in the delivery and take up of superfast broadband services. Local authorities have the physical presence within their communities to offer access to superfast broadband networks. Local councils also possess strong local partnerships which can be used to extend access to broadband. This includes local Post Offices especially in more remote and economically deprived areas, as well as social housing providers and community and voluntary sector bodies. Working in partnership with local Job Centre Plus offices and local further education colleges, local councils can also ensure their residents get access to the digital jobs and skills required in the future. Local councils through their own voluntary adult education programmes have many skilled and digitally included residents who offer their knowledge to the rest of the community as digital champions.

For further information on the view of the CWU contact:

Billy Hayes
General Secretary
Communication Workers Union
150 The Broadway
London
SW19 1RX
Tel: 020 8971 7251
Email: bhayes@cwu.org

1st October 2014