BDUK'S CONSULTATION ON CONNECTION VOUCHERS: RESPONSE FROM VIRGIN MEDIA

Executive summary

Virgin Media is strongly supportive of the Government's digital ambitions to roll out high speed, high-grade broadband access and connectivity to end-users across the UK.

In particular, Virgin Media welcomes the Government's recent changes to the Super Connected Cities Programme that appear designed to re-focus intervention on demand-side rather than supply-side measures.

Virgin Media believes that vouchers can play an important role in the overall Programme by targeting genuine connectivity problems and meeting demand in very small pockets of the urban landscape without the need for large scale investment in new infrastructure.

Virgin Media therefore welcomes the opportunity to participate in the voucher scheme's Phase 1 market test in selected cities and to work closely with all cities and the Government to help shape the final voucher scheme to ensure it delivers a competitive market for end-users and suppliers and is not overly-burdensome to administer. This document therefore responds to the questions set out by BDUK and provides suggestions as to how the voucher scheme could best be designed in order to satisfy the Government's overall objectives. This response also highlights areas where Virgin Media considers there is a case for change in order for the scheme to function effectively, efficiently and competitively.

Virgin Media is of course happy to discuss any of the points raised in this document or elsewhere with DCMS and/or local authorities.

Introduction

Virgin Media is one of the U.K.'s largest providers of residential broadband internet, pay television and fixed line telephony services by number of customers. To date, Virgin Media has invested over £13.5 billion in the roll out of its network across the UK in order to be able to provide ultrafast broadband to approximately 12.7 million homes and provide un-contended symmetric business connectivity of 100 Gbps across the vast majority of the country. In doing so, Virgin Media has invested extensively in each of the 22 UBF cities (the "**Cities**") which are seeking to implement the voucher scheme.

Virgin Media advocates the Government's digital ambitions and continues to support the Government in meeting its targets to roll out high-grade broadband access to end-users across the UK by 2015. Whilst Virgin Media considers sustainable private investment to be the best way to meet the Government's over-arching objectives, it acknowledges the role for state funding where it is proven that it is not commercial for the market alone to invest in meeting the needs of end-users.

Virgin Media welcomes the Government's changes to the Super Connected Cities Programme (the "**SCCP**") and the decision to focus efforts on demand-side initiatives.

Virgin Media believes vouchers can stimulate demand for world class connectivity in Cities, but shares the views of others in the industry that connection charges are not the only “barrier” to end-users achieving high-grade broadband connectivity. As such, amendments and additions to the current voucher scheme design (as set out in further detail below in response to Questions 3 and 9) could further enable Government to achieve the scheme’s objective of removing “barriers” to end-users connecting to high-grade broadband whilst achieving greater value for public money.

The private sector has already made a great deal of progress in attempting to address the barrier to take up presented by connection charges. For example, there are little or no connection charges associated with NGA connectivity for businesses. **[CONFIDENTIAL]**. In many cases, the main reason why end-users fail to upgrade from current generation to NGA capabilities is as a result of a lack of awareness of both the benefits of such an upgrade and the low level of costs involved. In other cases, factors beyond supplier control such as time delay caused by the need to secure relevant wayleave permissions can deter end-users from completing the connection process.

With respect to dedicated leased line propositions, Virgin Media, along with many other solution providers, offer end-users a range of options which are designed to overcome any “barriers” to connection **[CONFIDENTIAL]**. End-users are instead typically more concerned about the ongoing monthly costs associated with maintaining a leased line.

By virtue of the fact that vouchers can only be used to offset one-off connection charges, the voucher scheme as currently configured will not address other financial barriers. Instead, the voucher scheme as currently designed risks subsidising switching between different suppliers and technologies in already competitive markets rather than addressing a purported market failure - a fundamental tenet of the use of public funds in this manner. It is vital therefore that a sustainable education programme on the benefits of high-grade connectivity is implemented.

In order to drive the maximum number of suppliers involved in the Phase 1 market test – and the wider voucher scheme – it is essential that potential suppliers have clarity on a number of long standing concerns. One such concern is the state aid implications of participation in the voucher scheme. As noted previously, the potential risk that participation in the voucher scheme could carry with it state implications or could be challenged as such, is likely to reduce the number of suppliers that partake in the scheme which in turn risks limiting competition and creating another fund from which the incumbent is the main beneficiary.

Virgin Media welcomes the fact that the Government is pursuing the scheme on the basis that it will not be aid attracting. We are also encouraged by the Commission’s initial view that the voucher scheme is pro-competitive and pleased that it has indicated, for the purposes of the Phase 1 market test at least, that the scheme will not give rise to such concerns as would cause it to intervene of its own accord on State aid grounds.

Virgin Media commits to participate in the Phase 1 market test on this basis and looks forward to contributing to a robust assessment as to whether the scheme design meets Government objectives and most importantly, end user needs.

Response to BDUK's Questions

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

In order to stimulate awareness and demand for the connection voucher scheme across a wide range of SMEs in each of the Cities, marketing and educational initiatives should be undertaken at both national and local levels by BDUK and local authorities respectively. This could include:

- *Press articles* – in both local and national newspapers and in trade magazines etc setting out details of the scheme, eligibility criteria, the range of different products available and any success stories of how higher-grade broadband connectivity has helped SMEs in some of the areas. With respect to any case studies used, care needs to be taken to ensure a balanced view is conveyed to end-users regarding the range of different technologies and suppliers that are participating in the scheme.

- *Local advertising* – in local newspapers, trade magazines, radio adverts and direct mail – in particular setting out links to the online portals which can provide further information. Eligible suppliers should also be encouraged to advertise locally informing end-users of their participation in the scheme, the types of products which are available and where to find more information.

- *Online portals* – both at a local and national level, setting out key information on how the scheme operates and the main benefits of the scheme. At a local level, the online portal needs to provide details of how end-users can apply and links to each of the eligible suppliers in the area. Eligible suppliers should also be encouraged to advertise their participation in the voucher scheme on their websites so as to provide information to voucher recipients as to the products that are available if they make use of the vouchers and provide links to the different Cities' online portals which can set out the relevant eligibility criteria and parameters of the scheme in each of the local areas.

- *Direct mail* – following on from the demand mapping exercise[1], Cities should directly mail end-users which are likely to qualify for the scheme to provide information regarding how the scheme works and invite them to local workshops designed to educate them on the benefits of higher-grade broadband for their businesses. Details of these end-users should be provided to each of the eligible suppliers in the area so that they can also carry out direct mailing to end-users so that they are made aware of the different types of technologies on offer.

- *Local workshops* – these should be run in conjunction with local and national trade bodies/associations and each of the local eligible suppliers so that SMEs can be made aware of the benefits of higher-grade connectivity and the different types of technology that are available.

[1] As referred to in paragraph 2.2.8 of the Consultation.

Question 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)?

As set out above, Virgin Media believes that vouchers can play an important role in the overall SCCP by targeting genuine areas of demand in very small pockets of the urban landscape without the need for large scale investment in infrastructure.

Virgin Media sets out in response to Questions 3 and 9 below some further conditions which it thinks could further improve the effectiveness, efficiency and competitiveness of the scheme.

As a matter of priority, and whilst recognising the need for expediency, Virgin Media urges DCMS and the Cities to consider extending the Phase 1 market test period beyond the current two-month period which commences at the beginning of August. It is vital that the Government satisfies itself that the market test will be sufficiently representative and will provide a robust, credible platform from which all stakeholders can learn valuable insights on which to base the final voucher scheme.

While Virgin Media fully appreciates the scheme's overall time constraints (i.e. the scheme will run until April 2015), running the market test during the holiday months of the summer risks reducing the number of end-users that might apply in some of the Cities thereby undermining the end-results produced by the market test. In addition, suppliers have not yet been provided with full details as to how the market test will operate and there is only a limited period of time in which suppliers will be able to carry out the level of demand stimulation activity necessary to educate end-users as to the benefits of the scheme and encourage participation in the market test.

By way of example, only a few weeks away from the launch of the Phase 1 market, suppliers are still unclear as to:

- which Cities are participating in the Phase 1 market test (to date only two cities – Belfast and Cardiff - have been announced);
- which specific areas in those Cities are the focus of the trial;
- what local conditions will be imposed in those Cities participating in the market test, the precise nature of the costs which will be recoverable under the scheme in relation to each type of technology; and
- which suppliers will be eligible to participate in the scheme.

Other than some limited demand stimulation activity taking place in Belfast and Cardiff (both of which have launched online portals and hosted supplier open days), no other demand stimulation exercise has, to our knowledge, been conducted and, due to the fact that suppliers have yet been selected as eligible suppliers by the Cities, they have been unable to carry out any targeted demand stimulation activity of their own to date. As such, there may be a delay before end-users start to apply for vouchers which result in a lower number of end-users being able to complete the application process within the 2 month period, thereby suppressing the range of information available to the Government and Commission on which to base the decision regarding the validity of the final voucher scheme.

Virgin Media also encourages the Government to ensure that there is sufficient time to conduct a robust, detailed post-market test review process. Public money is a scarce resource, therefore it is critical to ensure that its use is fostering a competitive environment and is not simply subsidising the supply of connectivity by the incumbent supplier. A broad consultation process with suppliers, end-users and Cities is also vital to ensure a plurality of voices on practical aspects of the market test and the final form voucher scheme are heard.

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

In order to maximise the potential of the voucher scheme whilst ensuring value for taxpayer's money, Virgin Media considers that vouchers should be conditional on the following:

- End-users that already have a leased line **should not be eligible** to receive vouchers even if they would otherwise meet the "step change" criteria (e.g. securing higher speeds above 30Mbit/s). If the principle rationale for the voucher scheme is to overcome barriers imposed by the level of connection charges, it does not seem appropriate for vouchers to be made available to end users that are able to support the level of ongoing costs associated with maintaining a leased line. These end-users have clearly demonstrated that they have the means and resources available to secure such services and therefore public funds should not be used to subsidise any further upgrades to their service. To do so would not seem the best use of public funds and would be potentially market distorting.

- End-users that already have NGA capability **should not be eligible** to receive vouchers unless their connectivity needs require a step-change to a business grade connectivity service i.e. in the case of a fixed line technology, a dedicated, uncontended leased line which enables symmetrical download/upload speeds. To assist end-users simply to switch between competing NGA products again appears to have the potential for market distortion and does not target those SMEs that are genuinely prevented from achieving a "step change" to a higher-grade connectivity due to the level of connection charges. Those SMEs that already have NGA capability have, by definition, demonstrated their ability to afford the typical connection charges associated with NGA products and as such that they do not face any "barrier" due to connection costs.

- In those Cities where the voucher scheme will extend to residential broadband as well as business connectivity, private individuals should only be eligible for vouchers in circumstances where they are able to demonstrate that they:

  i. are subject to broadband speeds of less than 2mbps; or
  ii. have a genuine need for increased connectivity, based on objective criteria, which providers are unable to meet.

  Putting safeguards/criteria in place is essential to prevent individuals from applying for vouchers to upgrade their broadband service for ancillary uses such as the viewing of sports matches which would not be best use of public money. The inclusion of residential candidates within the voucher scheme will inherently place a greater burden on Cities during the eligibility assessment stage.

- End-users need to confirm that they have not received any public funding for a broadband supply previously at the designated installation address. This would include any funding from any public body such as a local authority or any other government body.

- SMEs should not be eligible to receive connection vouchers unless they provide confirmation that they have not received financial support from a local authority or other government body over the last 3 fiscal years exceeding the *de minimis* ceilings for the sector in which they operate.

- The scheme needs to be made conditional on the award of one connection voucher per end-user/business entity.

- End-users should have 3 months from the date on which they receive their Conditional Letter of Offer to request two or more quotes, allow surveys to be undertaken, select their preferred provider and to have their voucher award confirmed by the relevant City.

- Prior to final receipt of the voucher, end-users should confirm that (i) they have been made aware of the different technologies available in their local area; (ii) they have discussed with the eligible suppliers (or at least with those eligible suppliers from whom they received quotes) the different products and capabilities that might best suit their needs (i.e. they have made an informed choice not solely limited to consideration of headline speeds); and (iii) they are aware that the final choice of supplier/product is theirs alone and is not restricted to the lowest price option.

- End-users should provide evidence that, as a result of receiving the voucher, they received a “step change” in terms of the level of broadband connectivity which they are provided. This should be a two-step process with end-users providing details of their current broadband service (including identity or supplier and bandwidth) prior to receipt of the Conditional Letter of Offer. Following connection, evidence should be provided of the service provided which can either demonstrate an upgrade in capability from current generation to next generation services or a change in the nature of the service from broadband to dedicated leased line service.

- Vouchers must only be redeemed against products available on a national basis i.e. products offered by suppliers as part of the scheme need to be made available on a national basis (or in all areas in which they have a presence) rather than suppliers tailoring certain products in certain areas simply to take advantage of the scheme.[2] To do otherwise, may have market distortive effects and would enhance the “selective” nature of the scheme. It may also result in certain suppliers/technologies being favoured over others who are less able from a commercial or regulatory perspective to design products on such a reactive basis.

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[2] For the avoidance of doubt, given the bespoke nature of business connectivity products, vouchers should not be predicated on providers offering such products at a common price point across all Cities.

- As set out below in response to Question 10, BDUK should consider making receipt of vouchers conditional upon participation in a post-connection review process so as to facilitate the efficient and effective monitoring of the voucher scheme as a whole. At all times, BDUK would need to emphasise to end-users that their participation would not be onerous or time-consuming but that the results would be highly informative to the voucher scheme as a whole.

For the avoidance of doubt, the vouchers cannot limit the period of time within which a supplier must carry out and complete the installation. Whilst it may be incumbent upon suppliers to demonstrate, within a reasonable time period (e.g. one month), that it has commenced the process for connecting to the premises, there should be no deadline imposed for completion of connection given the time that can be incurred in obtaining all of the necessary consents, wayleaves etc and to carry out any necessary construction work. Virgin Media has experience of wayleaves taking a number of months (sometimes years) to obtain despite its best efforts to receive permission in as short time period as possible. Therefore, the imposition of a time constraint on the completion of works is potentially not network neutral - favouring incumbent networks – which could inhibit competition.

Question 4: Which costs do you consider should be eligible for funding by the connection voucher?

Virgin Media considers that the following connection costs should be eligible under the voucher scheme:

- construction costs
- survey costs
- labour
- costs of new ducts or cables (including wayleave costs)
- migration charges from other suppliers
- one-off costs for allocation of core network
- customer premises equipment costs such as a router, network termination point or other similar equipment
- external customer equipment such as wireless antennae or satellite receiver
- installation fee including any third party installation costs, additional labour costs for out of hours working or missed/repeat appointment charges

Understanding precisely what falls within the definition of eligible costs is essential for any provider in order to participate in the scheme. We understand that BDUK is currently drafting a paper clarifying those costs which are considered recoverable under the voucher scheme. We would urge BDUK to publish this paper as soon as possible and to make the list of eligible costs available to all suppliers as a matter priority in advance of the Phase 1 market test being conducted.

Virgin Media also requests further clarity as to what evidence, if any, will be required of its connection costs and when and to whom such evidence will need to be provided. Virgin Media considers that it is necessary for BDUK to implement some form of systematic, rather than ad hoc, monitoring process to ensure that there is no potential for gaming of the system by suppliers who may choose to inflate upfront costs or create new bespoke products in selected Cities to take advantage of the voucher scheme. This may benefit certain suppliers over others, distorting the market and increasing the chance that the scheme may be challenged on competition law/state aid grounds.

Virgin Media notes that the VAT charged by suppliers to end-users as part of the connection charge cannot be recovered as part of the voucher scheme. Instead, end-users will be wholly liable for the VAT which could amount to up to £600 based on a £3000 voucher being awarded. This has a number of implications:

- End-users need to be made fully aware of this upfront cost which they will incur in addition to the ongoing monthly subscription charge. This may have the effect of deterring some potential voucher recipients from participating in the scheme if they are unable to afford the 20% VAT charge.

- This also has non-trivial implications for suppliers who will need to implement changes to their internal billing systems and/or manage invoicing for voucher schemes on a manual basis to ensure that the bill amounts can be split between different payees (i.e. either the end-user or the local council).

Question 5: Do you think the current value range proposed for the connection vouchers (£250 to £3,000) is appropriate?

Virgin Media considers the proposed value range to be appropriate.

Question 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.

Virgin Media does not consider it necessary for connection vouchers to be conditional on end-users contributing an amount towards the cost of connection. If the aim of the scheme is to overcome the "barriers" faced by end-users, costs payable by end-users should be minimised to the extent possible.

Virgin Media notes that under the terms of the scheme, end-users will continue to pay all VAT costs. End-users will therefore remain liable for up to £600 of VAT costs (depending on the value of the voucher) in addition to the monthly subscription costs. To require end-users to contribute a certain proportion of the connection charge would likely deter some potential applicants from participating in the scheme as they will not wish to incur or be able to afford the increased level of costs. This has the potential to disincentivise a number of the smaller SMEs / SOHOs from participating (i.e. those for whom the scheme is committed to assisting) and appears to directly undermine the main purpose of the scheme.

To require end-users to contribute to the cost of the connection charge adds another level of complexity for the suppliers in terms of billing and for the Cities in terms of monitoring the scheme.

Virgin Media therefore does not see any benefit to end-users being required to contribute a proportion of the connection charges and instead considers that it could have fundamentally negative implications for the success of the scheme.

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

Virgin Media supports the proposals put forward by BDUK and considers that an online portal would be the most useful tool which the Cities could use to introduce end-users to eligible suppliers in the local area.

The portal must be easy to use and provide easy to understand information to potential end-users regarding the steps they need to take once they have successfully been awarded a voucher e.g. the need to contact and obtain quotes from two or more suppliers. High level information with respect to the different type of technology solutions should also be made available on the online portal.

Given the need for a neutral approach to technology and suppliers, each of the suppliers should be given equal prominence on the portal as far as is practicable, with direct links being provided to each of the eligible suppliers' websites for more detailed information.

It is critical that any online portal provided by the City and/or BDUK should only be used as an information hub and should not become a price comparison site. Successful voucher applicants should be directed to the list of pre-qualified suppliers in their area (who in turn will be able to contact the applicants directly) but should not be directed to a list of potential price points. Doing so would undermine the vital task of educating consumers as to the benefit of a step change in connectivity by reducing choice simply to a cost basis. This would be detrimental to the overarching objective of the scheme.

It is also important that the online portal is not seen in isolation. As set out above in response to Question 1, there are a number of different mechanisms which can be employed by Cities to stimulate awareness of the voucher scheme as a whole and to promote the different suppliers participating in the local schemes. In particular, the online portal needs to be considered in conjunction with the local workshops which are designed to educate local businesses as to the benefits of the scheme and promote the different suppliers/technologies available.

Question 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?

Virgin Media favours the creation of a national voucher scheme (i.e. a scheme which applies consistent terms, conditions and principles across all Cities) rather than one which adopts a more fragmented approach allowing varying degrees of localisation. The greater degree of local specificity is likely to complicate the scheme from a supplier's perspective, increase the burden on BDUK in terms of administering and monitoring the operation of the scheme in each of the Cities and potentially raise the scope of challenge. Different criteria and conditions in each of the Cities may also give rise to confusion (both with end-users and suppliers) and place a greater burden on suppliers to ensure compliance with the various schemes that are implemented.

As set out in more detail in response to Question 9 below, depending on the nature of the conditions which are imposed, certain technologies/suppliers may be favoured over others which has the potential to lead to market distortion and deviates from the staunchly technology neutral position which is advocated by the Government and Commission.

Virgin Media believes that, to the extent possible, standardisation of the scheme forms and processes across each of the Cities will maximise the effective and efficient operation of the voucher scheme as a whole. If standard practices are adopted, a greater degree of generic information can be provided by BDUK on its central portal and through national, regional and local advertising which will in turn increase the level of the demand awareness.

Question 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; and

b) Whether the operation of the proposed scheme is likely to give rise to any regulatory concerns.

As put forward in earlier representations to Government, Virgin Media considers that the Commission's Broadband Guidelines were not designed with demand-side initiatives in mind but were instead focused on the management of large scale infrastructure-based projects.

Considerable private investment has already been made by broadband suppliers across cities in the UK with the result that the UK is well advanced in meeting the European Commission's Digital Agenda before 2020. Vouchers are therefore intended to be a "light-touch" means by which the UK Government can target genuine demand in very small pockets of the urban landscape without the need for large scale investment in infrastructure. Virgin Media believes that consideration of the voucher scheme in the same context as the UK's rural scheme would be disproportionate and risks stifling competition since only the incumbent provider has benefitted from state aid intervention in rural areas.

Virgin Media welcomes the fact that the Government is pursuing the scheme on the basis that it will non-aid attracting and is further encouraged by the Commission's initial view that the voucher scheme is pro-competitive and, for the purposes of the Phase 1 market test at least, that the scheme will not give rise to such concerns as would cause it to intervene of its own accord on State aid grounds.

In order to drive the maximum number of suppliers involved in the Phase 1 market test – and the wider voucher scheme – it is essential that potential suppliers have clarity on a number of long standing concerns. One such concern is the state aid implications of participation in the voucher scheme. As noted previously, the potential risk that participation in the voucher scheme could carry with it state implications or could be challenged as such, is likely to reduce the number of suppliers that partake in the scheme which in turn risks limiting competition and creating another fund from which the incumbent is the main beneficiary. We would therefore welcome further dialogue with the Government on this matter as part of the Phase 1 market test review.

Virgin Media sets out below further challenges to effective operation of the voucher scheme and its objectives:

- Virgin Media understands that SMEs will only receive a maximum of £3000 to put towards the cost of connection and notes DCMS' position that vouchers should therefore be exempt from state aid notification under the De Minimis Regulation. However, there is currently no explicit requirement on end-users to confirm that they (a) have not previously received any other form of state funding for the provision of broadband services; and (b) that they have not received financial support from a local authority or other government body over the last 3 fiscal years exceeding the *de minimis* ceilings for the sector in which they operate. As noted above, vouchers must be conditional upon receipt of this confirmation.

- As set out in response to Question 8 above, Virgin Media is concerned about the degree to which Cities can set and apply criteria at a local level as, depending on the precise nature of the criteria, there is the potential that certain suppliers will be favoured above / be more able to compete than others – heightening the degree to which it may be argued that the scheme supports regional selectivity and/or that the scheme is no longer technology neutral. In particular, Virgin Media notes that, in discussions with certain Cities e.g. York, they have put forward plans which are designed to be "future proof" and only allow vouchers to be offered in cases where end-users receive services offering 100Mbit/s symmetrical connectivity. It is clear that 100Mbit/s far exceeds the 30Mbit/s download speeds currently proposed as part of this consultation and the need for symmetry limits the project not only to a limited set of technologies but also to the type of end-users for whom this level of service would be affordable in terms of ongoing monthly costs. This has implications in terms of limiting the technologies which may be able to compete for voucher funds and could lead to distortions of competition. Awareness of the precise parameters of each of the Cities is essential to enable suppliers to determine the potential risk of distortion on competition in each of the Cities and across the market as whole.

- As above, there remains a degree of caution regarding the state aid implications that may result from the flow of state funds directly from the City to the supplier as is currently proposed. These concerns are heightened when considered in conjunction with the potential issues regarding selectivity:
  - at the level of end users, based in part on their status (i.e. the primary focus appears to be SMEs in each of the Cities with only a small number of Cities proposing to direct a minimal proportion of funds towards residential broadband) and in part on their location (i.e. the potential for regional selectivity noted above as a result of localisation); and
  - at the level of operators/suppliers on the basis that a voucher scheme for broadband singles out a specific segment of the electronic communication's market.

- As set out in response to Question 3 above, Virgin Media shares the concerns as expressed by the industry, that the voucher scheme has the potential to lead to distortion in the market if certain suppliers choose to design new products or offer voucher recipients different price points for the same products only in the selected Cities so as to take advantage of the voucher scheme. It is questionable whether this accords with DCMS's statement that the voucher scheme will "*work* *with the grain of the market*". DCMS, together with the Cities, must ensure that the suppliers are subject to close scrutiny to ensure that there is no potential for "gaming" to take place.

- As set out above, Virgin Media has concerns regarding the current definition of "step change" as it appears too broad and has the potential to bring about the subsidisation of already competitive markets without addressing the identified issue. As such, Virgin Media has suggested that (i) end-users that already have a leased line should not be eligible to receive vouchers even if they would otherwise meet the "step change" criteria (e.g. securing higher speeds above 30Mbit/s); and (ii) end-users that already have NGA capability should not be eligible to receive vouchers unless their connectivity needs require a step-change to a business grade connectivity service i.e. in the case of a fixed line technology, an uncontended, dedicated leased line which enables symmetrical download/upload speeds. To include these categories within the definition of "step-change" would not address the connection charges' "barrier" and would not seem to be the best use of public funds. The above suggested approach would seek to minimise the degree to which the voucher scheme will enable the overbuild of existing networks.

Virgin Media shares the views of others in the industry that there remains a potential risk that the scheme may fail to address the issue (i.e. increasing the take-up of high-grade broadband connectivity by those end-users that would otherwise have been dissuaded from upgrading due to level of connection charges) and instead lead to public funds being used to subsidise the upgrade of existing networks across selected cities within already competitive markets. Virgin Media would welcome the opportunity to work with Government to explore how this risk could be mitigated.

Virgin Media urges DCMS and the Cities to re-engage with all stakeholders at the end of the Phase 1 market test and share the results of the information gathered from all participating Cities, suppliers and SMEs. This would provide an opportunity for stakeholders to reflect on how the scheme operated in practice and whether the above concerns have been or need to be addressed further potentially by way of negative clearance from the Commission.

Question 10: What methods do you consider might be most useful and practical to monitor the Voucher Scheme and evaluate its outcomes?

It is essential that monitoring and evaluating of scheme outcomes is conducted consistently across each of the Cities and with feedback from a broad range of stakeholders. Virgin Media suggests that the following range of methods should be employed to ensure that information is captured both from a demand and supply side perspective:

- Suppliers should be required to canvass/conduct surveys of their customers who have participated in the voucher scheme on a rolling 6-monthly basis. As set out above, to ensure that there is a sufficient response rate by end-users, BDUK should consider making receipt of vouchers conditional upon participation in a post-connection review process. At all times, BDUK should emphasise to end-users that their participation would not be onerous or time-consuming but that the results would be highly informative to the voucher scheme as a whole.

- BDUK should request that all suppliers present case studies detailing how the voucher scheme worked in practice and benefitted businesses in local areas. It is essential that BDUK ensures that the case studies represent a broad cross section of end-users, technologies and suppliers across all Cities.

- Cities and BDUK should hold quarterly engagement sessions with eligible suppliers providing a forum for regular review and discussion. As part of the engagement process, suppliers should be free to raise any issues which they face, reactions of the SMEs and whether there are any other factors which they have identified as imposing constraints on end-users receiving higher-grade connectivity over and above connection charges e.g. wayleaves.

- BDUK should conduct a public consultation 6 months after launch to determine how the scheme is working and how the voucher scheme has impacted on the wider market / non-participating industry players. The consultation should be open to end-users to comment on how they have found participation in the scheme, the ease with which it is being managed and the challenges (if any) faced in achieving connection.

- Cities should be required to systematically feed data (which they will have by virtue of the invoices received) back to BDUK who will then be able to compile an aggregated demand picture including, but not limited to: take-up levels, types of products purchased, whether certain suppliers are benefitting more than others, whether the scheme is experiencing active take-up in all local areas and how long connection is taking (i.e. by comparing the date on which the end-user was awarded the voucher to the date on which the City pays out to the supplier following receipt of an invoice for services rendered).

It is also essential that DCMS and the local authorities make full use of the Phase 1 market test process to collate and evaluate as much data as possible to ensure the potential success of the voucher scheme. To derive the most benefit from the market test, all interested stakeholders must be given an opportunity to review the data collated and provide input prior to the launch of the final-form voucher scheme. DCMS should also launch a brief consultation period to reflect on the experience of participants and third party observers. In particular, DCMS should try and reach out to those end-users that received a Conditional Letter of Offer but who ultimately chose not to use the voucher to try and understand why they chose not to participate in the scheme and what the “barriers” to connectivity are in those cases.

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

Virgin Media has no further comments other than the key points raised in response to the questions above.