

FCS response to DCMS consultation on Urban Broadband Fund Voucher Scheme.

Introduction

The [Federation of Communication Services](#) represents over 350 businesses delivering products and services via wireless, copper, radio and fibre technology throughout the United Kingdom. Over 50% of FCS members provide services in the fixed markets and many of these are smaller CPs or new entrants. These FCS members deliver telephony and connectivity services into both the residential and business markets, but most specialise in serving business customers, a sector which is continuing to grow.

Overview

We welcome the opportunity of responding to this consultation on the proposed Connection Voucher scheme to encourage SME businesses in the 'superconnected cities' to take advantage of high-speed connectivity to improve and streamline their business and trading processes. In order for this scheme to succeed, entry must be open to as many willing Communications Provider (CP) participants as possible, subject to suitable checks to ensure only bona fide businesses participate, and are capable of delivering the results the scheme expects.

All FCS members are all required to sign up to a code of professional conduct as a condition of membership. Companies are only accepted into membership after a process of peer review. And their annual Membership certificates all carry a copy of the quality declaration. Thus:

- Members of the FCS are committed to offering the highest standards of professional and ethical service to their customers
- Members will comply with relevant obligations as set out in the Communications Act 2003 and with the Codes of Practice and Standards or Regulations agreed from time to time by the FCS Board of Directors or relevant members' Groups
- Members ensure that staff receive appropriate training and are encouraged to obtain relevant qualifications in order to maintain their professional skills
- Members carry an appropriate level of public liability insurance, the certificate for which will be displayed in all operating premises
- In cases where the FCS has evidence that a member has breached the FCS Ethical Code of Practice and no arbitration is possible, the FCS Board of Directors retains the right to expel the offender from membership of the FCS

FCS would be willing to work with DCMS and BDUK to develop any additional safeguards necessary for our members to participate in this scheme.

We note the expression 'voucher' is used throughout the consultation. In reality, there will be no need for physical vouchers except as a marketing gimmick. The entire process can and should be handled efficiently by e-commerce software.

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

All SME owners already have a relationship with an existing communications provider (CP). They trust their CPs to provide the specialized blend of communications appropriate for their business needs. So the most effective means is to leverage existing professional relationships. CPs have a vested commercial interest in encouraging customers to upgrade and purchase additional functionality (particularly cloud-based business tools or secure e-commerce platforms). And markets within the superconnected cities are already highly competitive (with the exception of Belfast and Londonderry, where the lack of a separately-branded functionally-separated infrastructure supplier means the BT brand enjoys a far greater prominence than elsewhere).

To ensure consistency of messaging, the scheme should make it a condition of participation that CPs restrict specific marketing statements about how the scheme works to reproducing agreed wording or circulating a generic information leaflet/PDF for business customers. This could broadly follow the pattern set by the current light-touch licencing regime Digital Radio UK use for the D-love character.

FCS considers broad-brush poster or magazine advertising campaigns will be the least likely to create awareness among business users.

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)?

FCS is a trade association, many of whose members are SME CPs ISPs or network operators. We offer simply a high-level observation.

(a) The economics of running fibre to residential areas are fundamentally different from those for business users. For this reason we would argue members of the public and 'home office' businesses should be excluded from the scheme as a default position. To simplify administration (and as an additional check against potential fraud), the scheme should be limited by default to VAT-registered businesses.

Local authorities who wish to encourage high-tech start-ups working from home might wish to extend the subsidy as an incentive. But in reality, it is likely any 'home business' connection package would be provided by one of the residential providers, (whether high volume, high profile operators like TalkTalk, Virgin, BT Retail etc. or local and niche specialists) simply as a premium version of the standard domestic packages they offer to other homes in the neighbourhood. In practice, also, it is likely LAs wishing to encourage home working would offer connection subsidies as just part of a wider package of local authority incentives. So the connection subsidy may be most efficiently handled in practice by way of a discount on the business rates bill amortised over, say, the first two years of occupancy, and re-claimed by the LA en-bloc from BDUK upon proof of tenancy.

(b) The biggest dis-incentive for CPs to participate in this scheme is uncertainty over how and by whom they will be paid, and how long this will take. FCS urges that in order to ensure maximum take-up, and reduce unnecessary complications and on-costs, the process should be as close as possible to normal commercial practice.

That is to say: The CP will arrange connection, as would normally be the case in any commercial provisioning situation. The CP will then bill the SME Customer for connection charges. This may be a separate bill, or the connection costs may be included as a once-off cost element, separately itemised, within the invoice for the customer's first month's rental. The CP will expect to be paid in full by the customer under normal contract terms. The onus will then be on the customer to re-claim the installation element of the bill from its local authority.

This approach ensures a minimum number of contractual relationships exist, and that redress is proportionate. Local accountability should motivate the LA to disburse funds to the customer in a timely manner. And commercial contractual obligations should motivate the customer to pay the CP to terms. The existence of a VAT invoice between registered traders in the context of an on-going commercial relationship makes the possibility of fraud significantly less likely, and thus minimizes due diligence costs to the LA.

The scheme should be open to as many bona-fide CPs as possible, subject to their ability to demonstrate competence to undertake provisioning of this kind and meet professional standards. Membership of an appropriate communications industry trade body should confer, *de facto*, automatic ability to participate in the scheme. To ensure free competition and customer choice, there should be no suggestion that participation by suppliers can be restricted to CPs domiciled within individual LA's postcode areas.

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

If the voucher is to be made available direct to the SME business user, then BDUK needs to ensure the vouchers will be used in a timely manner, rather than hoarded. There should be no incentive for businessmen to acquire vouchers on the off-chance they might use them one day. A 'use by' date would ensure capital is not tied up for long periods because it has been allocated against projects which might or might not materialise.

See answer to question 2(b): It should be a condition of participation that the customer agrees to pay the CP for the non-recurring costs of installation. And to forward a copy of the CP's invoice to the LA in a timely manner, in order to receive reimbursement.

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

Specialist planning, survey and construction costs. Capital cost of telephone, antenna and cabling and associated installation and remediation materials and labour. Contribution to costs of masts or street cabinets if necessary.

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

As long as it is clearly spelt out that several neighbours in, say, the same business park can pool their individual vouchers, the limits seem acceptable. Issues may arise when one business prefers a radio-based solution and another seeks fibre to the premises.

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.

See answer to question 2(a). Micro businesses (sub-VAT threshold) and domestic consumers should have to make a reasoned case to be included. This could be at the discretion of the Local Authority. As the voucher scheme is aimed at encouraging connection, it would be better to enshrine the principle that the envisaged £3k maximum is indicative rather than immovable. In exceptional circumstances, it may be desirable to grant a single business a subsidy equivalent to two or more vouchers, in order to establish infrastructure that can then be more fully utilized in future years by tenants of subsequent build phases.

Question 7: Do you agree that a 'portal' (web based interface) providing 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'?

No. Fundamentally disagree.

Firstly, the act of creating a 'portal' sounds like unnecessary and unproductive cost.

Secondly, the ability of potential suppliers to populate the portal with compelling sales messages will be a function of their marketing resources, in which case the process will be skewed towards larger or more marketing-orientated businesses. If rules are set to prevent this distortion, for example by constraining the messaging which will be included on the portal, then the ability of the consumer to choose will be likewise constrained. The more flexible the messaging, the greater the cost of compliance-testing to make sure no potential supplier is attempting to create a commercial advantage by over-promising.

As a point of principle, government (national, local or 3rd sector) should avoid all temptations to try and control the purchasing process. They will be resented by customers and suppliers alike.

There are only two legitimate roles a central 'portal' could play. Firstly, as part of a marketing programme, to provide a central resource of case studies and a go-to point for FAQs. Secondly as a training resource: many SMEs do not yet understand the potential benefits to their business of superconnectivity. Short e-learning objects, perhaps in the form of video case studies from small business people who have made the switch, could perform a vital role in encouraging others. Such training pieces should NOT be authored by public servants or academics, but by business people.

A portal could also point companies in the direction of the LA websites specific to their particular cities.

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?

There may be a case for a cooperative advertising fund (again, perhaps modeled upon some of the work undertaken by DRUK around the digital radio switch-over), where CPs' individual advertising and marketing approaches could attract a subsidy, subject to inclusion of certain BDUK-licensed images or messages.

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.**
- (a) FCS is concerned that the scheme as currently proposed may risk inadvertently disadvantaging CPs who have already laid 'dark' fibre feeders within commercial areas, as a strategic investment, expecting to recoup the costs of installation at a future date when tenants request high speed connectivity.

At present, such CPs' pricing models aim simply to recoup the sunk costs as an element of the first three years' rental. Addressing this to split out the capital cost of the build should be a comparatively small administrative matter. But to prevent distortions, the voucher scheme will need to be modified in some way to cover the capital costs of existing unlit infrastructure. If a supplier has already invested in a Point Of Presence on site or nearby, it should be best positioned to benefit; the commercial cost of creating a new POP, or taking a wholesale service from an incumbent CP, would need to be absorbed by any 'new entrant' before it could legitimately apply the voucher to construction costs for any ducting into the end user premises and NTE.

- (b) The fundamentals of the scheme are very similar to those of the successful BIS Car Scrappage / Boiler Scrappage schemes: stimulating propensity to purchase more efficient products within an existing competitive resale infrastructure. FCS does not anticipate any obvious regulatory objections.

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

A certain infrastructure of spot checks and audits will be necessary in order to demonstrate due diligence and fraud prevention. FCS would suggest these audits be carried out either in conjunction with or in parallel with a process of detailed facilitated questionnaires, administered face-to-face by market research professionals. It should be a condition of participation in the scheme that business owners agree, subject to arrangement of a satisfactory diary slot, to spend a maximum of one hour of their time during business hours on this process. Anything less than detailed interviewing is unlikely to yield any useful or meaningful insights – particularly in the crucial trial phase.

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

FCS believes the Vouchers scheme represents a powerful new opportunity to gather learnings in the superconnected cities which can be used to inform and focus future development of BDUK.

As things currently stand, superconnected cities are by definition places where the majority of businesses can get Ethernet or FTTx products with very low capital costs associated. Strategically, support is needed for businesses where business-grade connectivity currently has a high price tag. BDUK's very existence is a recognition of this fact.

There is an understanding that the benefits of having a business in a rural area are currently balanced by certain drawbacks, such as limited infrastructure, and this is understood by government and regulatory bodies. The gap is in the 'middle ground' – business parks, science parks, suburban industrial hubs etc which could well be late on FTTx roll-out plans or missed completely because of the bias in FTTx towards the residential market. We certainly know of many stories where high initial connectivity costs have prevented business park occupants from accessing high-speed fibre which has already been laid past their access road *en route* to local consumers.

FCS therefore submits these demand-side measures may represent a useful new opportunity to create a more precise means of focusing BDUK resources where they will achieve the most immediate and demonstrable impact for local economies.

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