Federation of Small Businesses
The UK's Leading Business Organisation

October 2014

Dear Sir/Madam,

RE: Digital Communications Infrastructure Strategy

The Federation of Small Businesses (FSB) welcomes the opportunity to respond to the above consultation.

The FSB is the UK's leading business organisation. It exists to protect and promote the interests of the self-employed and all those who run their own business. The FSB is non-party political, and with around 200,000 members, it is also the largest organisation representing small and medium sized businesses in the UK.

Small businesses make up 99.3 per cent of all businesses in the UK, and make a huge contribution to the UK economy. They contribute 51 per cent of the GDP and employ 58 per cent of the private sector workforce. 94 per cent of small businesses already view a reliable internet connection as vital to the success of their business and as business practices and technology evolves, their dependence on high quality, super fast broadband will only increase in future – regardless of the sector or industry in which the business operates.

It is therefore vital that the needs of small businesses are taken into account when considering future digital infrastructure strategy. The FSB believes that these needs are not currently being met.

A step change in ambition is required, alongside a fundamental review of whether the current market structure and regulatory framework are delivering the services small businesses need. We remain concerned that the existing market structure is hindering competition and failing to deliver for the small business sector. In turn, lack of access to 'fit for purpose' broadband is limiting the potential of small firms and acting as drag on productivity and growth.

Any infrastructure plan must be future-proofed and based on the assumption that demand and use will escalate considerably in future. Unless this happens, small businesses will struggle to compete in the global marketplace and UK PLC will therefore fail to reap the full economic benefits on offer. Of the scenarios presented in this consultation, the FSB believes that the assumptions in Scenario 3 are closest to reflecting future demand needs and should therefore form the absolute minimum baseline against which future policy decisions are made.

We trust that you will find our comments helpful and that they will be taken into consideration.

Yours sincerely,

Mike Cherry LIWSc FRSA

National Policy Chairman

Federation of Small Businesses

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FSB response to Digital Communications Infrastructure Strategy consultation paper

October 2014

Introductory note

In July 2014, the Federation of Small Businesses (FSB) published "The Fourth Utility"[1] - a report which investigated current levels of satisfaction with broadband provision amongst the SME community. We found that access to online services was critical to our members, but that many of our members were dissatisfied with the quality of service they received. Moreover, we suggested that under current plans, upgrades to broadband services were not sufficiently ambitious to meet future demand.

As a result, we called for the following policies to be delivered:

- The creation of an ambitious national broadband strategy to deliver universal connectivity throughout the UK, regardless of location.

- By 2018/19, delivery of a minimum 'service level floor' of 10 Mbps to all premises in the UK.

- By 2030, delivery of guaranteed minimum speeds of 100 Mbps to all premises in the UK.

- In the short term, the Government should prioritise the delivery of fibre optic broadband to new and existing business parks and ensure enterprise zones are fully connected.

- The CMA should, at the request of Ofcom, conduct a comprehensive review of the broadband market to examine options to boost competition with the aim of delivering more tailored and affordable options to small businesses. This should include more support for new entrants in the market and an assessment of the impact of the dominant position of BT on competition and the future development of the market, whether that be fixed line, mobile or new technologies not yet on the market.

- Alongside the fixed broadband market, the Government should also explore reforms in the mobile market to address 'not spots', 'partial not-spots' and blackouts. This should include assessing the viability of moving towards national roaming between Mobile Network Operators (MNOs). We welcome the recent commitment by the Secretary of State for Culture, Media and Sport to pursue national roaming unless MNOs take remedial action to address poor mobile coverage. Evidence of the latter must be forthcoming in the immediate short term to justify not going ahead with a system of national roaming that encourages investment in resilient networks.

- All aspects of broadband policy should be tasked to one department with a single Minister assuming responsibility for overseeing the delivery of universal connectivity.

Response to consultation

Q1 Views are sought on:

a) Is this an appropriate role for Government?

[1] FSB The Fourth Utility: Delivering universal broadband connectivity for small businesses across the UK, July 2014

The FSB agrees that it is appropriate for the Government to take a role similar to that envisioned in the consultation document.

Markets such as banking are increasingly online, with many of our major banks offering online services as a replacement for their shrinking number of branches. There is no reason to believe that this trend will not continue. A lack of connectivity not only excludes businesses from the benefits these new services offer. It also risks exacerbating issues around access to finance and in extreme cases, exclusion, should the business not have convenient access to either a bank branch or online service. We see similar issues in other markets, for example the roll-out of smart meters and the ability to control energy consumption remotely.

The FSB therefore believes that Government has a key role to play in ensuring that the benefits of digital communications are available to all small businesses and consumers across the country. The Government also has a role to play in setting ambitious targets for further digital infrastructure development. Setting these targets will act as a signal to the market as to the scale of the Government's commitment to digital services and will provide operators and investors with the certainty they need in order to invest. A failure to set high and ambitious targets for the future will only result in the UK economy falling behind the rest of the world in competitiveness and growth.

The primary reason why the Government needs to play this role is because the market is failing to deliver fit for purpose broadband for customers, including small businesses. Many small businesses have to make the choice between expensive leased line products or broadband which is too slow and which takes too long to repair. For many small businesses, neither of these options is suitable.

The importance of digital services to small businesses should not be underestimated, with 94 per cent of our members saying that a reliable internet connection is crucial to the success of their business. Additionally, 60 per cent of small businesses anticipated that their online presence would increase in the next year.[2]

Despite the importance of these services to SMEs, many are not receiving the broadband service they require nor will they in the foreseeable future. Only 15 per cent of small firms are very satisfied with the quality of their broadband provision; 14 per cent of our members view a lack of reliable and fast broadband as being the main barrier to growing their business.[2]

Critically, there is also a real and growing digital divide in the speed and quality of the services which are available in different areas of the country. Current Government plans would result in the final 5 per cent of population only having access to download speeds of 2 Mbps. Broadband at this speed is insufficient for rural firms to conduct basic day to day business let alone compete with urban overseas competitors. Failure to provide these services will instead condemn many rural economies to stagnation and decline.

This gap between the needs of businesses and the quality of the service they are able to receive is why the FSB is now calling for Government to be more ambitious in planning and funding future digital infrastructure rollout.

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

[2] FSB The Voice of Small Business survey panel, Infrastructure Survey, April 2013.

One principle which the Government should adopt is putting the needs of SMEs at the heart of any future digital infrastructure strategy. That is currently not the case, which is in large part where many of of the current issues stem from. The Government must also take the impact of introducing digital by default Government services into account.

The importance of small businesses to the wider UK economy cannot be overstated. They make up 99.3 per cent of all businesses in the UK, and contribute 51 per cent of GDP. There are currently 4.9 million small businesses in the UK, including 3.7 million sole proprietors. Small businesses employ 11.4 million people, which equates to 58 per cent of the private sector workforce.

Small firms have often fared badly in the roll out of broadband services. Many ISPs have focussed on attracting residential customers with low introductory deals without considering the needs of small businesses. That has largely been driven by commercial rather than wider economic considerations: the returns from residential customers through the provision of paid content such as online streaming and downloading media services are far larger than demand from small businesses, the majority of whom simply do not have the same requirement. The opportunity to sell bundled services has also meant that many ISPs focus on providing services to the residential market. This has led to market distortion and meant that small firms often do not have access to the services they require, notably their requirement for symmetric upload speeds.

In our view, this has led to a divergence between commercial needs and the level of provision that is best for wider economic growth considerations – which we would argue, is to provide small businesses, with a high and reliable level of service wherever they are located. Any future strategy must put those wider economic considerations at its heart, with the needs of small businesses being taken fully into account when considering future investment in broadband networks.

The Government has announced its intention that Government transactions will increasingly be processed online, as part of a "Digital by Default" agenda that promises efficiency and cost savings for citizens, businesses and Government alike. The Government should consider the implications for small businesses if they are not able to access a secure or reliable broadband connection to carry out vital transactions with Government, for instance submitting tax returns to HMRC online. Introducing digital by default Government services puts an additional onus on Government to ensure that businesses have the capability to access these services. Many members already struggle with this requirement: without access to adequate provision, this will only get worse.

As digital by default Government services are increasingly deployed, the importance of reliable broadband connectivity will be even more vital. The Government must take this into account when planning future infrastructure development.

Finally, the development and technological change in this market has been rapid. Every indication is that trend will remain with us. Whatever the approach taken, policy and the regulatory framework should ensure space is allowed for innovations that may offer other ways to deliver broadband services. Within the context of a market that is not perfectly contestable, a dominant incumbent that is threatening to move into mobile services and with significant costs sunk into one technological solution i.e. the copper network, we have concerns whether the UK currently has the right market framework to allow future new technologies to come on stream and to be widely adopted. We would ask that policy makers and regulators carefully consider the current structure of the market, both in the fixed line and mobile markets, to ensure we are fully confident

these conditions are in place. That is in part why the FSB has called for the CMA, at the request of Ofcom, to conduct a comprehensive review of the broadband market.

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

The existing and growing importance of digital infrastructure means that the Government should invest the resources needed to ensure that all business and residential consumers can access the services they require.

At a strategic policy level, and to reflect the issue's importance, we see clear merit in appointing a single minister with full responsibility for the delivery of future communications infrastructure. All funding for digital infrastructure development should also be held within a single department.

At present, funding for different broadband initiatives is split across a range of different departments. Funding and political accountability are therefore dispersed, leading to confusion and a lack of focussed planning. Bringing all the responsibility for the delivery of digital infrastructure development within a single department will allow any resources which the Government commits to be effectively managed and will reduce the risk that resources will be wasted or duplicated

We welcome the creation of the DCMS/BIS Digital Economy joint unit, and hope that this team will be effective in streamlining policy across Government. Creating this unit could be a good first step in ensuring that policy is coordinated across Government.

Q2 What potential opportunities are there for Government to leverage its combined buying power to support policy objectives?

The Government should reassess the success of various initiatives and consider whether funds could be more usefully allocated.

One example would be the 'super connected cities' project, which had around £150 million allocated to it to provide broadband vouchers to households and businesses. These vouchers can be used to pay for the installation of higher speed broadband, but cannot be used to cover the cost of buying these services after installation.

There is low awareness of this scheme, but even where the FSB has promoted this to their membership, we found low interest in participating. It is possible that businesses do not want to improve their broadband connection if this then ties them into using far more expensive services. We also note that some service packages on the market have a five year contract term, which may be too inflexible for many business users especially compared to their contracts with other utilities.

The FSB raised concerns about the voucher program during the initial consultation and welcome the recent changes which have been made to the scheme. We are however concerned that the Government is running out of time to allocate these funds. As a result we believe the funds could be reallocated to more effectively promote the roll out of broadband services.

One option would be for these funds to be used by the LEPs, who could competitively tender bids for local providers to bring fibre services to enterprise zones and business parks, with administrative support where

required from central Government. The Government would also need to ensure that all the LEPs had the capability to carry out this role effectively before they received public money. LEPs would be best placed to identify local priority needs among businesses and gaps in existing provision, and the policy would fit well with current moves to localise decision-making. Such a measure would also help to support new entrants to the ISP market, and bring much needed connectivity to business parks.

The Government could also look at whether national procurement policies could be altered to allow for small ISPs to compete for Government contracts. Supporting these firms would increase competition and help to further drive innovation.

The Government should also investigate whether further skills training would help small businesses to compete in the global economy. Small businesses need to be able to recruit new employees who have the digital skills necessary to do this effectively. Building these skills into the workforce will also encourage innovation and the further uptake of digital services as employees demonstrate the value of using online services.

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

Assuming current technology to deliver broadband remains in place, along with a bias in provision toward residential rather than business users; in our view it is inevitable that there will be disparity in speed and availability in future. The urban/rural population divide, and the affluence of the area play a part in determining commercial returns and will affect the provision of services. The Government must commit to reducing this gap as far as possible, both through improving competition and in setting more ambitious national targets. Not taking such an approach will undermine any wider attempts to rebalance the economy away from London and the South East.

To help resolve this, the FSB has called for more ambitious minimum floor speed targets to be introduced. This will have the effect of ensuring that all businesses can access broadband at sufficient speeds to carry out essential business functions. This would mitigate any disparity in broadband services due to topology or geographic issues. Introducing a minimum floor would also ensure that there were not significant regional disparities in speed and quality of the broadband network.

As highlighted at the outset to this response, we have called on Ofcom to refer the broadband market to the CMA for them to carry out a full competition assessment of the market. Low levels of competition in the business market mean that access to fit for purpose services is limited for many small businesses. This is in contrast to the residential market, where higher levels of competition has helped to deliver low costs and improving quality of service for many consumers. This issue is particularly relevant in rural markets where there are very few options available to businesses. Our research has shown that 51 per cent of small businesses do not believe that there is sufficient competition in the business market at present.

The poor level of provision is illustrated by numerous case studies from our members across the country. Many small businesses have reported that business parks are not being linked up to fibre networks, as residential connections are being prioritised instead. In some cases that the FSB have identified, fibre has been laid to cabinets near to business parks, but local businesses have been unable to get BT or other providers to route fibre to their businesses. There is concern that BT might be protecting their leased line revenue rather than prioritising the delivery of fibre to these businesses. The FSB has called for urgent action in the short term to

ensure that all business parks and enterprise zones have access to fit-for-purpose broadband. We have also argued that new build business sites should provide superfast connections, if necessary as a condition of planning approval. Large property developments in city centres often exist on exchange lines only, limiting download speeds. They are also subject to distance attenuation, interference and low upload speeds.

To date, the industry has failed to stay ahead of the demand curve from small businesses. Small businesses are increasingly dependent on broadband services to engage with clients and suppliers, but the services available to them are often not fit for purpose. As referenced above, 14 per cent of small businesses view a lack of fit for purpose broadband as being the main barrier to the growth of their business. Firms which are able to access good quality and affordable broadband services will be placed at an unfair competitive advantage. If these problems are not addressed through urgent reform of the market then a growing disparity in competitiveness is likely to continue.

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?

Networks should be as symmetrical as possible, with this being especially important for business users.

Many small businesses view upload speeds as being as important as download speeds. This is because they often need to upload and send large files to suppliers and/or customers. Upload speeds are also crucial for remote working and online video conferencing. A focus on download speeds, as has often been the case to date, as the key metric for infrastructure delivery runs the risk that this vital aspect of connectivity for businesses is ignored.

This is a concern for our members with 38 per cent of small businesses being dissatisfied with their upload speed and 48 per cent being dissatisfied with their download speed. This illustrates clearly that there is a significant number of small businesses which do not have the network symmetry which they require to effectively run their businesses.

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

It is crucial that the Government act with sufficient ambition to ensure that UK PLC will be able to compete globally in the future. Without this ambition, it will be increasingly difficult for UK firms to attract inward investment or to compete with firms in overseas markets.

As an illustration of the scale of the challenge the UK faces, looking at the targets being set in countries like South Korea and Finland can be helpful. Finland has set a goal of providing universal download speeds of 100 Mbps by 2015. Denmark is aiming to achieve the same universal target by 2020. Meanwhile South Korea is aiming to roll out services providing 1Gbps by 2017 to 90 per cent of the population. These targets are obviously far more ambitious than existing UK targets and show how quickly foreign competitors could move ahead of the UK.

If these goals are achieved by other countries, UK firms will be at a significant competitive disadvantage. The Government must act now to ensure that the UK has the digital infrastructure to support any further economic expansion.

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

Whilst the FSB has called for minimum download speed floors to be put in place irrespective of location, rising to 100 Mbps by 2030, we also recognise that other metrics have value in setting Government policy.

Nominal download speed should only be one of a range of different metrics, as different aspects of the user experience will have different importance to different users.

All of the below metrics, alongside nominal download speeds, should be assessed at peak/off peak times in addition to an average measure of usual experience. Business users will predominantly use digital services during the day, but any variations in the capacity of the network over a 24-hour cycle will have relevance to the user experience.

As noted earlier, focussing on achieving nominal download speeds hides issues with the quality of connection that businesses actually experience. For many of our members, upload speeds will be as important as download speeds, particularly if they have to upload large documents, share files with customers or suppliers, or use cloud computing. We have found that there can be a high level of asymmetry between the download and upload speeds which business users have access to. This is a problem which is already causing issues for small businesses.

In addition, there is a significant gap between advertised "up to" speeds and the actual download speed business users can experience. This issue has been taken up by the consumer group Which?, which has found that three in five people experience problems with their broadband and nearly half have suffered slow speeds. They have called for broadband providers to give customers written estimates of speed at the start of their contract and to allow them to exit from contracts without penalty at any point if they cannot get the minimum speed, and to obtain refunds for loss of service. Business users need to have the confidence that when they purchase an internet service, the speeds they will receive are close to what is stated by the provider. Too often, this is not the case which simply reduces the incentive for other businesses to upgrade their connections.

Latency and jitter are metrics which will continue to gain importance for our members. This is especially true if home working becomes more of a norm, as appears to the case; but it is also important now for small businesses that need to participate in video conferences to clients or suppliers in the wider national market or abroad and is therefore a barrier to increasing exports.

The overall resilience of the network should also be assessed, in combination with any metrics relating to security.

Finally, the price and availability of services should be taken into account. There is significant variation in the range of products available to many of our members, which can have the effect of forcing small businesses into buying packages of services which may be too expensive or otherwise not fit for purpose. A leased line service, with very high download speeds and strict SLAs relating to fault repair will not be suitable for many members due to the high cost of these services. Similarly, standard residential broadband may not provide a good enough quality of service. The availability of tailored 'intermediate' packages for business users which are

affordable and which provide adequate speeds and repair times could therefore be another metric used in setting policy objectives. Ensuring that consumers have access to appropriate services at competitive prices should therefore be a key focus of Government policy.

SCENARIO 1

Q8 Do you agree with this scenario or elements within it? Where do you agree/disagree? If you disagree what alternative scenario do you envisage?

Scenario 1 envisions more modest changes to demand than the other scenarios do. The other scenarios at present are more plausible visions of future demand.

We agree that differing levels of skills and access will continue to create a digital divide. At present, the bigger issue for small businesses is having access to high speed broadband rather than ICT skills. 36 per cent of small businesses viewed having access to faster internet connections as being something which would have the most positive impact on their business. By contrast, only 6 per cent of small businesses thought greater investment in ICT training for their staff would have the greatest impact.[3]

This scenario envisions that transactions between citizens and Government will increasingly take place online. To focus purely on the interaction between citizen and Government misses the importance of the different interactions which also take place between small businesses and Government. Small businesses have to file tax returns and other documents with the Government on a regular basis and require a reliable and fast internet connection to do this. Even now, many of our members have to travel into towns or cities in order to use the internet to do this.

A report in 2012 from the Country Land and Business Association found that 20 per cent of farmers struggled to access Government services due to a poor internet connection.[4] As Government services increasingly move online, consideration must be taken for small businesses who also are users of different Government services. One pressing issue is around CAP claims, which will have to be processed online from 1 January 2015, and which require the use of geospatial tags. It is concerning that something as significant as this is being introduced whilst many farmers in remote locations will not have the ability to upload this data to complete their applications.

We do not believe that the current Government target of providing 24 Mpbs to 95 per cent of premises is sufficient, and have called for more ambitious targets to be put in place, along with commitments to put minimum floor speeds in place. By 2019, the Government should aim for a minimum floor speed for 10 Mpbs for all consumers. By 2030, this target should be raised to 100 Mpbs as a minimum floor. We are concerned that businesses in more isolated areas will not otherwise receive the speed that they need to effectively compete in the market.

Q9 What are your views on the technology commentary underpinning this scenario? To what extent might the infrastructure/technology discussed evolve irrespective of demand and how far will it be a direct consequence of the level of demand?

[3] FSB The Voice of Small Business survey panel, Infrastructure Survey, April 2013
[4] CLA Broadband Fit For Rural Growth, 2012

The FSB is neutral about what technology is used to provide fit-for-purpose broadband for small businesses. Demand is likely to increase regardless of network capacities, meaning that the Government should focus on delivering a future-proofed infrastructure which can meet any level of demand.

We would envision a mix of different technologies providing a future-proofed solution for all business needs. Fixed and mobile broadband will both continue to be important for business users, and any future infrastructure model should encourage the further development of these technologies. The regulatory framework also needs to be adaptable enough to allow new technologies to be taken up. We view 5G as having the potential to improve levels of connectivity.

We would note that the current market structure may well hinder the adoption of new technologies, which is why a CMA investigation should focus on whether the full separation of BT and Openreach would allow for new technologies to be rolled out more quickly.

SCENARIO 2

Q13 Do you agree with this scenario or elements within it? Where do you agree/disagree? If you disagree, what alternative scenario do you envisage?

We agree with some of the elements of this scenario, however many of the elements in it are already highly relevant to our members today.

As referenced above in Q7, there are several other factors beyond download speeds which are important to business users. The levels of latency and jitter are crucial for video conferencing, and if present trends continue relating to home working, it is likely that these will become more and more important for small businesses and their employees in future. We agree that symmetrical networks are also important for business users who need to upload and share large files on a regular basis.

The FSB agrees that small businesses need to engage with the digital world in order to meet the needs of their consumers. However, this is not something which will take place in 2025. In our most recent survey, only 6 per cent of small businesses were neutral or disagreed with the statement that a reliable internet connection is essential to the success of their business. This near-universal reliance on reliable internet is unlikely to have reduced by 2025. As a result, we urge the Government to be more ambitious in delivering the digital infrastructure necessary for businesses to succeed now and in future.

Q14 What are your views on the technology commentary underpinning this scenario? To what extent might the infrastructure/technology discussed evolve irrespective of demand and how far will it be a direct consequence of the level of demand?

As mentioned above, the FSB is neutral about what technology is used to provide fit-for-purpose broadband for small businesses. Demand is likely to increase regardless of network capacities, meaning that the Government should focus on delivering a future-proofed infrastructure which can meet any level of demand, and ensuring the market is contestable with low barriers to entry for firms with new, innovative technologies.

We would envision a mix of different technologies providing a future-proofed solution for all business needs. Fixed and mobile broadband will both be important for business users, and any future infrastructure model

should encourage further development of these technologies. The regulatory framework also needs to be adaptable enough to allow new technologies to be taken up. We view 5G as having the potential to improve levels of connectivity.

We would note that the current market structure may well hinder the adoption of new technologies, which is why a CMA investigation should focus on whether the full separation of BT and Openreach would allow for new technologies to be rolled out more quickly.

SCENARIO 3

Q18 Do you agree with this scenario or elements within it? Where do you agree/disagree? If you disagree, what alternative scenario do you envisage?

The FSB views many elements of this scenario as the most likely to have taken place by 2025. We would however again state that much of what is envisioned in this scenario would be recognisable to business users already.

The speed with which technology has been adopted and the extent to which user expectations have grown in the past decade suggests that more growth is to be expected by 2025. As a consequence of this, it is essential that any future digital communications infrastructure strategy is future-proofed to meet any level of future demand.

If the different elements identified in this scenario come to pass, it is even more crucial that the infrastructure needed to deliver this functionality is rolled out across the country. Otherwise, the digital divide will become all but unmanageable for small businesses which cannot access the network in this manner.

We have made the case that the Government should set a medium to long-term objective of delivering minimum speeds of 100 Mbps to all premises by 2030. We envision a mix of technologies being used to deliver connectivity. Whilst speed is important, reliability, security, latency and jitter will also be of increasing importance to our members. New service metrics may well need to be taken into account as a result.

Many of our members already believe that seamless connectivity would be highly useful to them, with 79 per cent of small businesses believing that mobiles should pick up the strongest connection regardless of network.

We would stress that the fact that many of the elements mentioned in this scenario are identifiable as issues our members face today shows the need to be more ambitious in planning future digital communications infrastructure.

Q19 What are your views on the technology commentary underpinning this scenario? To what extent might the infrastructure/technology discussed evolve irrespective of demand and how far it be a direct consequence of the level of demand?

As mentioned above, the FSB is neutral about what technology is used to provide sufficient fit-for-purpose broadband for small businesses. Demand is likely to increase regardless of network capacities, meaning that the Government should focus on delivering a future-proofed infrastructure which can meet any level of demand.

We would envision a mix of different technologies providing a future-proofed solution for all business needs. Fixed and mobile broadband will both be important for business users, and any future infrastructure model should encourage further development of these technologies. The regulatory framework also needs to be adaptable enough to allow new technologies to be taken up. We view 5G as having the potential to improve levels of connectivity.

We would note that the current market structure may well hinder the adoption of new technologies, which is why a CMA investigation should focus on whether the full separation of BT and Openreach would allow for new technologies to be rolled out more quickly.

General

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?

The FSB believes that there is a role for both Government and commercial providers to deliver future digital infrastructure.

Public intervention is required where the market has failed to provide access to small businesses and other consumers. Whilst the private sector has made good progress in rolling out fibre networks where commercially viable, the Government must step in to fund and develop networks where the private sector has failed to do so.

In the case of business parks and enterprise zones, we do not believe that the market is working effectively to provide broadband services to small businesses. In part this is due to issues around collective purchasing, and the difficulty to organise a disparate set of businesses to purchase connectivity. Additional complexity comes through free riders either through current businesses who are unwilling to meet any upfront connectivity costs, and because the benefits of improved connectivity will accrue to future businesses. To address such issues, the Government should aim to provide funds or other incentives to roll out fibre services to business parks as a priority.

Our membership surveys reveal pent up demand for faster and more reliable broadband connections throughout the country. This demand suggests that businesses are being held back by poor broadband. If these barriers were removed, businesses would be able to expand to take advantage of the opportunities offered by digital access. The FSB has called for more ambitious targets with regards to bandwidth speeds in recognition of the fact that businesses will only ever require greater access to quicker broadband.

Q25 Which current or draft legislation might prevent or facilitate the emergence of any of the scenarios?

We would encourage the Government to examine whether there is a case for introducing a new Communications Act.

Since the existing legislation was introduced in 2003, there have been massive changes to the demand and supply of digital services. Both the regulatory framework and wider market have also changed significantly in the past 11 years.

Reviewing the Communications Act would allow the Government to review the wider regulatory framework for communications services and assess whether barriers have emerged which hinder a competitive market delivering the services which consumers need. Further powers could be given to Ofcom and the CMA to ensure that they are able to effectively regulate existing and new markets; further changes to how the communications market is regulated could also be investigated as well.

An updated Communications Act would provide an opportunity for Government to legislate for the next decade of development of digital infrastructure.

As a parallel exercise, a market investigation led by the CMA would help to ensure that there is sufficient competition in the market to allow for the developments envisioned in the above scenarios.

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

It is vital that the Government takes steps to future-proof the UK economy by building an infrastructure which can support even the most optimistic expectations of broadband use in future.

As referenced above, many of the trends which have been identified in these scenarios are already taking place to a greater or lesser degree. Our research has demonstrated that there is a pent-up demand for suitable broadband services across the UK. In addition, usage trends over the past decade have shown rapid growth in demand for connectivity, often beyond that which was expected.

For the above reasons, we have called on the Government to be far more ambitious in their plans for future broadband development. At the very minimum, the Government should use the assumptions in Scenario 3 as a baseline for future policy development and set the goal to match those countries currently leading in terms of provision.

Q 27 How might efficient investment in communications infrastructure be supported, for example by changes in the regulatory framework?

We believe that there are several steps which could be taken to support more efficient investment in infrastructure investment.

The FSB has called for the following actions to take place, but recognises that this is not an exhaustive list and would welcome any further action which would help to promote competition and promote further investment into communications infrastructure.

- **Competition and Markets Authority (CMA) investigation into broadband markets**

Ofcom should ask the CMA to conduct an assessment of the state of the broadband market and the probable competitive landscape after 2017. This investigation should examine any methods which could serve to improve competition in the commercial customer market, with a particular focus on small and micro businesses. As noted earlier, we have concerns whether the current market structure is conducive to delivering the full potential offered by new technologies.

This investigation should also look into any geographical imbalances in the level of competition in local business markets.

Whilst Ofcom are investigating the business market in their Business Connectivity Market Review, the needs of small businesses need to be taken into account during this process. It is not enough to just look at the leased line market to account for business need, as for many small firms a leased line product is not an option due to the expense involved. The CMA could look at this as part of their investigation.

This investigation should also examine whether fully separating BT and Openreach would serve to allow more competition within the broadband market. Ofcom should in the first instance consider whether to impose passive infrastructure access obligations on BT. Further reasoning for why a full separation of BT and Openreach could be considered is given at Q34.

- **Supporting new entrants into the broadband market**

New entrants in the broadband market should be supported through more effective regulation and government intervention.

Smaller local providers should be able to compete on a level playing field for contracts from BDUK. At present, all of the contracts from BDUK have been won by BT, which has stopped local initiatives from being able to develop their own infrastructure.

Ofcom should take further action to end the practice of existing providers stepping in to build their own infrastructure where viable community networks already exist.

Tax incentives and open access to passive infrastructure should be used as a means of allowing new entrants or community initiatives to build infrastructure where supply would otherwise be limited or non-existent.

- **Government reform**

All aspects of broadband policy should be run out of a single department with a single minister assuming responsibility for the delivery of further infrastructure developments. Having a single minister in charge would provide more policy certainty and would ensure that broadband delivery is given the priority it deserves.

At the moment, different pots of funding for different initiatives are spread across different departments. This is unnecessarily complex and adds the risk of duplication of efforts.

As discussed above, the creation of a joint DCMS/BIS working group is a welcome first step, but having a single minister based in a single department would ensure that policy delivery is streamlined and effectively coordinated.

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

We welcome the recent endorsement of national roaming in the mobile market by the Culture Secretary. It is welcome that he publically recognised that there are indeed "vast swathes of our countryside" where it is impossible to get a mobile phone signal. We look forward to working with the Government to help deliver this important reform in the most effective way possible.

We support the Government considering further regulatory reforms in the mobile market, through assessing the viability of moving towards a system of national roaming. This is due to both the importance of mobile services to our members and the poor levels of coverage many of them are currently experiencing. We also view it as a way of providing competitive pressure in the market.

Many of our members rely on mobile services to operate their businesses, with only 10 per cent not viewing mobile phone signal as important to them. The importance of mobile is likely to only increase; Cisco has found that mobile traffic grew by 70 per cent in 2012, with smartphone and tablet use also rapidly increasing.

Many of our members regularly experience problems as a result of a lack of mobile phone signal. Even in London, almost half of our members have experienced this issue. Outside of major cities, this is even worse, with 62 per cent of members in the South West experiencing challenges due to a lack of mobile phone reception.

As a result of these difficulties, 79 per cent of small businesses now agree or strongly agree that mobile phones should pick up the strongest signal regardless of network.

National roaming could be introduced across the country for all providers. Alternatively, the problem of poor mobile coverage could be addressed by restricting national roaming in specific circumstances such as with severe outages or persistent black spots.

Another option would see the introduction of intra-provider roaming costs on operators suffering an outage, where they would have to pay other operators to provide service for their customers. This could help to incentivise operators to invest in more resilient networks in the future.

We recognise that any move towards national roaming will be controversial and challenging, but the scale of the problem requires more radical thinking to address the issue.

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?

The FSB believes that there is a strong case to be made for introducing a revised commitment to raise minimum broadband speeds. This will ensure that business consumer's requirements are met and will reduce the existing digital divide.

Setting universal minimum floor speeds would also help businesses by guaranteeing that they will be able to access the speeds they need. The Government needs to set targets which guarantee minimum speeds rather than pledging simply to provide access of "up to" a certain speed. Doing so will send a clear statement of intent to investors and the market.

In the short term we have called for a new commitment to deliver a minimum guaranteed speed of 10 Mbps to all premises by 2018/2019. This will provide a lifeline to many rural businesses, as leaving 5 per cent of premises with 2Mbps by 2016/17 is in the FSB's view insufficient and risks exacerbating the digital divide. In the short term, we have also called on Government to ensure that business parks have access to suitable broadband services.

As a longer term goal, the FSB supports the introduction of an objective of delivering minimum speeds of 100 Mpbs to all premises by 2030. Setting such an ambitious target would show a strong commitment to delivering world leading digital services in the UK.

Q 31 Are there changes to the EU Regulatory Framework that the UK might seek to encourage more competition in UK markets?

Where necessary, the Government should engage with the new Commission to ensure that the regulatory framework incentivises the promotion of competition. It is heartening to see that Jean-Claude Juncker, President of the European Commission, has made spectrum reform one of his key priorities over the next five years.

We would welcome any moves to further ensure that there is effective competition throughout the European single market in both the digital and telecoms market.

Q 34 How can the regulatory framework keep up to date with new business models and changes in technology?

Any significant change in business models would rely on new regulatory frameworks. More flexible regulation would help to ensure that new business models are effectively regulated.

The FSB has argued that the full separation of BT and Openreach could help to drive further competition. We recognise that this would be a large undertaking and would be likely to see a lengthy legal battle. The CMA could at the very least carry out an appraisal of the broadband market to investigate whether a case could be made to do this.

The costs of fully upgrading the copper wire network to fibre will be an expensive task which neither BT or the Government has committed to funding. The reach of this infrastructure however would offer an attractive opportunity for outside investors if they were able to bid for it. If this were to happen, it is possible that a much quicker upgrade to the copper wire network would occur than would otherwise happen.

If a full separation were to take place, the retail arm of BT could also be further incentivised to offer new retail products to business customers. Introducing new products at competitive prices would be a very positive development for the small business market.

Structural separation of BT and Openreach could also incentivise Virgin Media to allow access to its own infrastructure, bringing competition to the wholesale market.

Whilst we recognise that fully separating BT and Openreach would be challenging, not least due to difficulties in splitting the pension fund, the CMA should carry out a full investigation on whether this would benefit the competitive landscape in the broadband market.

Q39. Views are sought on:

b) In what areas in particular the UK should aim to see investment;

As stated above, the FSB believes a short term priority for Government should be to ensure that business parks and enterprise zones have access to fit for purpose broadband services. This would require targeted investment, potentially through the LEP network.

Q43. What role might local bodies in have facilitating the future delivery of digital communications infrastructure?

In England, a set allocation of funding for new digital infrastructure development could, as one option, be devolved down to LEPs who would have a more local understanding of the needs of their local communities.

If funding were provided, they would be able to competitively tender local contracts to small ISPs. This could prove to be a cost effective way of rolling out fibre services to areas such as business parks which currently lack these types of options.

However, as the FSB has argued elsewhere, we would also want to see improvements to the performance of LEPs including steps to boost accountability and transparency across the LEP network. We have previously argued for more robust performance framework for LEPs to support this. The Government would need to ensure that LEPs are able to effectively manage any other funds they receive before reallocating further public money to these bodies.

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