

# Heart of the South West LEP – Response to SSP Consultation

## Do you agree with the Government’s strategic priorities and desired policy outcomes for telecommunications, the management of radio spectrum and postal services?

### Strategic Priority 1 – World-class digital infrastructure

#### 1.1 Full Fibre Connectivity

Whilst the LEP agrees that full fibre offers a future-proofed technology with the greatest capacity, there is a concern that the 2033 target not only underestimates the timeframe required, but also the numbers of premises likely to require public intervention beyond those delivered solely through increased competition and changes to regulation.

Current in-the-field experience of delivering rural full fibre has highlighted significant challenges delivering to some of our most rural communities. Challenges that are not only increasing costs significantly above previous forecasts, but also extending the likely timeframe of delivery by several years. This combined with the smaller market size of more rural regions might mean their capacity to support multiple full fibre networks is limited.

Indeed, the LEP believes the 10% of premises estimated to require subsidy, significantly underestimates the degree of public funds required to reach rural areas with full fibre. Moreover, Government’s proposals to move towards demand-led delivery incentivised by vouchers could stand to reduce the level of control that gap-funded delivery has helped to provide, making it even harder to target funding to those most in need.

Whilst gap-funded delivery also has its challenges, not least dealing with increasingly fragmented rural not spots, such issues might be offset by increasing the cost cap and level of public subsidy provided and increasing the 30Mbps threshold. The LEP also feels that focusing on full fibre needs to go hand in hand with bringing everyone up to superfast levels through alternative technologies that are quicker to deliver. Whilst the USO goes some way to achieve this, we feel the cost cap of £3,400 is too low for some of our most rural premises that have no viable 4G signal. We also feel the 100GB minimum monthly data allowance needs to be increased to at least 200GB and rise with associated UK average annual increases reported by Ofcom.

#### 1.2 Effective Access to Passive Infrastructure in telecoms and other utilities

Access to Openreach’s fibre, ducts and poles are welcome, and will undoubtedly assist in the deployment of full fibre networks. However, this will only help if such assets are easy to access and altnets are willing to utilise them.

One significant rural altnet has to date taken a strategic decision to build a separate network without any dependency on Openreach. However, it is worth noting that another reports Openreach have already started to streamline processes making PIA significantly easier to adopt. Time will tell how well this works in practice going forwards.

Looking to the future, the extent by which Ofcom can regulate, manage price controls, and enforce streamlined processes will be pivotal to this strategic priority being successful. The LEP agrees that access to passive infrastructure from other utilities and transport providers such as Network Rail would be advantageous. However, Ofcom should be working with the infrastructure providers directly (e.g. Network Rail Telecoms and Surf), rather than just the other regulators.

#### 1.3 Stable and Long-term Regulation that encourages network investment

Whilst the LEP welcomes competition in the marketplace, there is a concern that driving down national pricing for broadband will have a detrimental impact for rural connectivity, reducing margins in areas which require far greater amounts of capital investment. We are also concerned that investment decisions will focus on the ‘low hanging fruit’, ignoring hard to reach areas and focusing on areas with reasonable to good connectivity first. This could have further negative knock on effects caused by:

- Over-estimation of take-up by operators – this could be significant if speculative investment simply targets areas already well served by cable and VDSL networks with multiple fibre networks undermining each

operator's potential market share. If this occurs, how sustainable will such investment and associated competition be going forward, and will we see a repeat of the insolvencies of cable companies in the 90s?

- The digital divide and a reduction in comparative competition in rural areas could be exasperated further if a business case for competing fibre networks cannot be made for greater than 10% of premises (the figure government estimates will require public subsidy).

The Government's move towards promotion of network investment over intervention raises a further concern on the basis that public subsidised broadband deployment was founded on the principle that the market was not willing to invest in networks in the most rural areas. Therefore what has changed to promote network investment considering the final 10% is deemed even less of a viable proposition for the market?

Overall the LEP supports regulation which will foster network investment and competition. However, this should not be onerous for suppliers and a barrier to fibre deployment. Emphasis on competition should also be mindful of smaller market size in rural contexts and the impact this has on potential business case viability (even with significant levels of public subsidy). For example, it may be that ISPs would benefit from diverging from more traditional models where revenue from customers goes to a single ISP, towards more distributive models supporting shared infrastructure investment from a range of operators in rural contexts. Certainly, the LEP sees great benefits to be had from Ofcom doing more to promote and encourage collaborative investments/joint ventures in rural full fibre networks.

### 1.4 An 'Outside In' Approach to Deployment

The 10% of hard to reach premises Government estimate as being unviable for commercial full fibre investment still face an uncertain future, even with the creation of the USO. Investment in FTTC, satellite or 4G technologies as part of the USO will further exasperate the digital divide as greater numbers convert to full fibre technologies. We would therefore advise Government to rethink the £3,400 cost cap for the USO if it is serious about an outside-in approach to full fibre delivery.

### 1.5 Switchover Process

We agree that given significant investment in superfast next generation access operators will have to offer a wide range of tariffs and speeds aligned to those offered over copper and copper-hybrid technologies to incentivise the transition from copper to full-fibre,

However, the LEP sees two potential barriers to uptake by residents:

1. The desire of residents (particularly of older demographic) to retain a landline service due to safety concerns and a lack of understanding/complexity of setting up alternative VOIP services. We welcome proposals to ensure voice only services are offered, but these need to be backed up by suitable battery requirements to ensure services function during power cuts and Ofcom would be wise to promote best practice in all aspects of the VOIP switchover.
2. The number of premises past by Altnets will likely be significantly below the thresholds required for wholesale uptake by ISPs such as Sky, Talk Talk, BT etc. Whilst smaller ISPs may provide services, altnets may find residents are reluctant to switch to lesser known ISPs and instead decide to stick with their known providers, even if that means remaining on hybrid copper-fibre services. Certainly, this is something that Connecting Devon and Somerset has witnessed from residents served by altnets - itself reducing the uptake of superfast services delivered to such communities.

### 1.6 Mobile and 5G Connectivity

The LEP welcomes proposals for rural roaming and agree that combined with the 700MHz auction, coverage should stand to improve significantly if implemented well (especially for rural communities). However, we feel that 100% geographic coverage should be the target rather than 95%. Also roaming should not just be 'looked at' but enforced in rural areas right now, if not for data then certainly for voice services (especially now that 4G voice services are mature).

The ECC changes are welcome, although greater advice is required for land owners on how to negotiate new rates as and when contracts come to an end. There is already evidence of confusion and conflicting advice regarding the implications of the recent ECC changes and related code powers, and the LEP is concerned this might result in currently functioning sites becoming redundant if landowners are unable to agree suitable agreements going forward.

The LEP is also keen to emphasise the importance of greater transparency and openness from Ofcom with regards to assessing coverage data and future coverage plans. This is essential if any public intervention is to help reduce not spots in future by evidencing market failure as required under State Aid regulations. Similarly, the LEP would appreciate greater guidance on what is considered "covered" under State Aid – for example indoor or outdoor coverage, and associated signal strength and speed thresholds. It is also worth mentioning that we have had fixed line operators question our approach of treating the mobile and landline markets as distinct. Such operators arguing that

the mobile sphere is increasingly encroaching on the fixed line market with greater use of 4G to serve traditional landline data services. Hence, they have argued that we might be at risk of challenge under State Aid, unless we factor in current fixed line NGA coverage within our not spot assessments of 4G. It would be helpful for Government to clarify whether 4G is a next generation access technology under State Aid and the distinctiveness of the markets going forward, if it believes further public intervention will be required to reduce mobile not spots in future.

## 1.7 Spectrum Management

The LEP welcomes proposals for spectrum sharing in rural areas but are concerned that point 37 undermines the need to develop true use-it or lose-it regulation of spectrum in rural areas. For example, none of the four ways identified under point 37 underline the need for release of already allocated spectrum in rural areas to other uses than mobile. In other words, use-it or lose-it regulation should not just apply to new spectrum allocations but also to existing underutilised spectrum allocations in rural areas.

We feel that point 39 is important but it should have a date attached - ideally public reporting at a 1kmsq basis of spectrum usage by band for each operator within 9 months and thereafter annually. Usage including average and peak usage of the spectrum and not just whether a base station uses the spectrum (i.e. the proportion of the band carrying radio signals at peak daily utilisation).

With regards to point 38, we feel this needs to be strengthened to include forcing mobile operators to allow other uses of underutilised spectrum assets. The technology has already been developed to do this through the TV whitespace work of a few years ago.

Finally, the LEP would also suggest that Government and Ofcom seriously considers making point-to-point microwave links for backhaul of BDUK funded broadband networks exempt from fees for build and 7-year service periods, in order to improve the cost effectiveness of these networks and therefore reduce the need for gap funding or other public sector interventions.

## Section 4: Postal services

Competition within the postal services market as with any market has the potential to drive down costs for the end user, however the Government and Ofcom need to make sure that this is not at the expense of service.

The LEP supports Ofcom's role in monitoring Royal Mail's standards to ensure the current services are acceptable, as well as future proofing for the long term, however it should ensure any rules/regulations introduced are comparable to regulation of alternative postal service operators to ensure a fair and level playing field.

## **Does this document set out clearly the role of Ofcom in contributing to the Government's strategic priorities and desired outcomes?**

Overall, we feel the changes outlined are clear and a positive step with potential to compliment and aid the delivery of Government's strategic priorities and desired outcomes. However, the reality of how effective such changes will be will depend on the detail of Ofcom's response to the SPP and Ofcom's resource to effectively enforce such changes.