BSG
Broadband Stakeholder Group

BROADBAND STAKEHOLDER GROUP ANNUAL PLAN 2013

Capitalising on UK broadband: exploiting the potential benefits

What does broadband provision look like in 2013 and beyond?

2013 marks an interesting point in the debate concerning broadband in the UK. For the past few years, the focus has rested upon prospects for next generation broadband in the UK. Engendered by the 2007 Broadband Stakeholder Group (BSG) *Pipe Dreams* report, energies have been placed on how access to superfast broadband would occur, at what pace, at what cost, through what technology and who would deliver and pay for these network upgrades.

However 2013 marks the point where superfast broadband is no longer a pipe dream for the UK, but a reality.

Ofcom's 2012 Communications Infrastructure Report[1] shows that superfast broadband, defined as a service providing a line-speed of at least 30Mbps, is available to around 65% of UK premises. This is set within the context of current generation broadband being nearly universally available and take-up of fixed broadband at approximately 71% of UK premises.

Moreover international comparisons reveal UK consumers' appetite for mobile connectivity and devices. For the first time, UK consumers are downloading more data on their mobiles and tablets than any other major nation[2]. Today we see over 32 million smartphone data users, 5.1m users of mobile broadband and over a million 3G-enabled tablet users[3].

[1] http://stakeholders.ofcom.org.uk/market-data-research/other/telecoms-research/broadband-speeds/infrastructure-report-2012/

[2] Ofcom international communications market report 2012 http://stakeholders.ofcom.org.uk/market-data-research/market-data/communications-market-reports/cmr12/international/

[3] Ofcom Communications Infrastructure Report 2012 http://stakeholders.ofcom.org.uk/market-data-research/other/telecoms-research/broadband-speeds/infrastructure-report-2012/

2013 also marks a point where, unlike at the genesis of the next generation debate in 2007, we can forecast with relative confidence the nature of broadband infrastructure provision in the UK in the short to medium term.

Going forward the private sector is committed to further investment. Virgin Media is part-way through a programme of upgrading all of its customers to higher speed packages at 20, 30, 60 and 120 Mbps. Openreach is making available new technology to increase speeds on both its Fibre to the Cabinet (FTTC) and Fibre to the Home (FTTH) lines to 80 Mbps and 300 Mbps respectively.

In addition to this we can expect to see some investment and rollout from a few alternative providers. For example, CityFibre continues to offer services over its fibre infrastructure and recently the Gigler service was launched, offering 1 Gigabit per second services to consumers in Bournemouth. We can also anticipate continuing investments in unbundling exchanges over existing copper infrastructure, particularly if competing retail ISPs consider that their target exchanges will not be served by superfast broadband within the period required for a return to be made on the unbundling investment.

2013 will also see widescale commercial provision of 4G services following the forthcoming spectrum auction, allowing for competition amongst providers following the launch of 4G services by EE in October 2012.

In terms of public sector investment, following the recent State Aid approval, 2013 will witness the start of the rollout of the government's £530m public investment plan to gap fund the market to deliver to areas the market might not otherwise serve.

The timescales for this rollout are challenging but the government remains committed to ensuring that this programme delivers superfast broadband to 90% of the population as well as a delivering a minimum threshold of 2Mbps to the remaining 10%.

Through Broadband Delivery UK (BDUK) the government is also taking forward its plans to bring ultrafast connectivity to selected cities through the Urban Broadband Fund as well as aiming to tackle mobile not-spots through the Mobile Infrastructure Project (MIP).

Taking all these developments into consideration, by 2015 we can expect to see high coverage of superfast broadband, mostly provided by cable and FTTC infrastructure with more limited FTTH deployments. Private sector investments will be coupled by the superfast provision offered through the BDUK rollout. 4G services should be widely available and basic broadband should be available in areas where currently provision is poor, provided through a range of technologies including satellite and fixed wireless solutions.

UK and European metrics and targets

Now having the luxury of better understanding where broadband infrastructure will likely be in the short to medium term, the more difficult task is analysing whether this provision is and will continue to be fit for purpose.

The UK government and the European Commission have both announced well publicised targets that benchmark their assessment of what good looks like in the broadband world.

After coming to power in the 2010 general election, the coalition government stated that its objective was to ensure that the UK had the best broadband in Europe by 2015. This would be assessed by a scorecard looking at the issues of coverage, speed, take-up, price and choice. This commitment was built upon in August 2012 by an announcement by then Secretary of State Rt Hon Jeremy Hunt MP that the government also wanted the UK to achieve the status of having the fastest broadband in Europe by 2015.

Ofcom is yet to publish the scorecard that will monitor UK broadband in relation to these provisions. However from what we know it is possible to make some assumptions about how the UK might fare against these metrics.

The UK has led Europe in **coverage** of first generation fixed broadband availability and this looks set to continue in terms of superfast coverage, though the UK is unlikely to lead the league tables in FTTH provision. For wireless services, other countries have had a head-start on the UK for 4G, but we can expect competition to be fierce amongst operators on driving coverage and take up of 4G services from 2013. Rural availability of LTE is more difficult still to predict and will in part depend on the success of the MIP initiative. However technical solutions do exist to deliver such connectivity in hard to reach areas, the challenge now is to ensure that these commercial offerings can be effectively realised.

In terms of **speed**, Ofcom's latest communications infrastructure report, the average fixed-line broadband speed is now 12.7Mbps, an increase of 69% on the previous year. The average speed across superfast connections is 45.5Mbps. Assessing speeds on mobile services is more difficult to measure. Ofcom's initial work in 2010 suggested that users using datacards and dongles achieved an average speed of 2.1Mbps though this varied significantly with the time of day, location and network quality. In launching 4G services in October 2012, EE marketed these as achieving average speeds of 8-12Mbps. In addition, UK Broadband market fixed wireless services as offering downloads speeds of up to 40Mbps.

In terms of what this means comparatively, this is incredibly difficult to benchmark given the lack of robust data that allows one to compare like for like across Europe. Moreover comparisons can sometimes fail to offer real insight. For example, if

French or German consumers have average speeds of 0.5Mbps higher than UK consumers, is that of real competitive benefit? Speed data will continue to be of interest to consumers, but in benchmarking the success or otherwise of a national broadband strategy speed is primarily important in relation to what type of usage that speed supports, an issue that BSG believes deserves far greater scrutiny.

On the issue of **take-up**, the UK is strong on first generation take-up but at 71% of premises, this rate of growth will likely to continue to slow overall as the UK market reaches a saturation point. This is in itself a policy challenge as addressing users that remain offline will continue to be a concern for government as it seeks to increase access to internet based services, including public services as part of the digital by default programme. A related challenge will be how to upskill users towards meaningful digital engagement.

The introduction of 4G services into the market will offer more choice for consumers and it will be interesting to see if 4G will affect take-up of other services, which has occurred in other markets such as Sweden which saw a decline in the number of ADSL subscribers when 4G was introduced.

Ofcom reports take-up of superfast services to be 7.3% of the 65% of UK premises which have access to them. This might seem a low figure, but as the BSG report on demand for superfast broadband[4] makes clear, demand for superfast services has built gradually in all markets, including those markets in the Far East which pursued major network upgrades a decade ago.

Finally, taking **price** and **choice** together, Ofcom's latest International Communications Market Report 2012 shows the UK coming second only to Poland in having the cheapest average fixed broadband revenue per person in 2011 at £54. This reflects the pressure on pricing created by vigorous competition between cable, BT Retail and Local Loop Unbundling (LLU) providers and is clearly a benefit to UK consumers. However such measures also relate to the attractiveness of the UK as an environment for investment which is arguably another factor that should be included on the scorecard.

Choice and price will also need to be closely monitored as superfast services become increasingly available and are taken-up more by consumers. Ensuring an effective transition from high levels of competition in the first generation world to a superfast environment is incredibly important and it is right and proper that Ofcom has identified this as a priority in 2013.

At a pan-European level, the Digital 2020 targets for broadband access and take-up are well established: 100% availability of 30Mbps+ services and take-up of 50% of 100+Mbps services. The former target for the UK is within its grasp, though driving

[4] www.broadbanduk.org/superfastbroadband

provision to a level of 30Mbps within the last 10% does provoke some operational challenges. The latter target will be exceptionally challenging across the whole of Europe in light of global trends in the take-up of superfast broadband and the decision by the European Commission to set this latter speed at 100Mbps.

So in benchmarking our assumption of broadband provision against these targets, the headlines are that the UK is set to do well on:

- Coverage of superfast services
- Take-up, particularly of current generation and mobile services
- Competitive pricing and choice of products for consumers

Against these targets and metrics, it is likely that the UK will feature less strongly on the issues of:

- Coverage of FTTH infrastructure
- Speed (depending on how this is benchmarked)
- Achieving 50% take-up of 100Mbps services (though the UK is unlikely to be alone in Europe in this respect)

<u>What does fit for purpose mean and how do you measure it?</u>

What does this summary of broadband provision mean in evaluating the prospects for broadband and what this will indicate for policy making beyond 2015?

At the Broadband Stakeholder Group we are exposed to a variety of different perspectives on this fundamental question.

At one end of the spectrum there is the view that the direction that broadband provision is taking in the UK is not ambitious enough. This view argues that falling behind on metrics such as FTTH coverage risks the UK being left behind on the global stage of international competitiveness, service innovation and achieving a wide array socioeconomic benefits.

Others believe that the UK is broadly heading in the right direction. Private sector investments are being made, coupled by targeted public sector investments in areas that the market will not reach. What is important is securing superfast coverage which is already being achieved and demand is growing for superfast services, albeit gradually, and this should rightly be driven by consumer behaviour.

It strikes us that in order to evaluate different hypotheses on this issue, there needs to be a far greater understanding of usage of broadband and superfast broadband and the potential benefits that these types of connectivity can bring to society and the economy.

Although usage does feature in broadband debates, in our view it needs to be much more closely allied to infrastructure policy and targets. It is the usage of infrastructure and the ensuing benefits that derive from this that that can determine whether broadband provision is effectively stimulating socioeconomic benefits. This is timely for the status of the broadband debate in the UK as policy thinking starts to look beyond 2015.

Raising the profile of usage also supports the government's ambitions to harness connectivity in driving economic growth and plays to the UK's strengths. Various reports have highlighted the UK's high use of all things digital. Not least the latest Ofcom International Communications Report shows that we have the highest proportion of HD TVs, use of catch up TV (such as iPlayer), with online shopping more popular in the UK than anywhere else and with 23% of UK smartphone users shopping online – the highest in Europe.

However the element that deserves greater prominence in the broadband debate is how we capitalise on that usage for socioeconomic benefit to the UK.

Accordingly the BSG puts this question at the heart of its work programme in 2013; which focuses on the three core strategic priorities of:

1. Fit-for purpose broadband infrastructure
2. Demand, take-up and usage of broadband and superfast broadband
3. Operation and innovation of broadband-enabled services and the regulatory environment

And from these, the following inter-related themes, further extrapolated in the enclosed annex:

1. How best to harness benefit from **usage** and exploitation of broadband connectivity
2. Driving forward the debate around **universality** of access to broadband
3. Ensuring effective **competition** in a superfast environment
4. Identifying the right **regulatory environment** for the evolving market
5. The conditions for **innovation** of broadband-enabled services
6. Driving digital **inclusion** in an increasingly superfast world
7. Ensuring the right environment for ongoing **investment** in broadband and harnessing technology to maximum effect

Broadband Stakeholder Group – key themes and outputs in 2013

1. How best to harness benefit from **usage** and exploitation of broadband connectivity

BSG will instigate a new work-stream around this important issue with the following elements:

- Cross-market review of usage of broadband and superfast broadband to more fully understand the relationship between the nature and level of connectivity with usage and associated benefits

- SMEs and broadband use – in light of evidence of low exploitation of broadband and the internet by SMEs, work with other interested parties to better understand this dynamic and explore how SMEs could be better incentivised to utilise connectivity to support the operation and growth of their businesses

- Continue to track demand for superfast services, building on the 2012 BSG report, *Demand for Superfast Broadband*, holding regular demand clinics to analyse take-up rates, the drivers for this demand and barriers to overcome in further driving demand

2. Driving forward the debate around **universality** of access to broadband

    - BSG will lead and facilitate the debate across industry, government and broader stakeholders on how this debate should be taken forward in the medium to longer term against developments in both the provision and usage of broadband

3. Ensuring effective **competition** in a superfast environment

    - BSG will provide a forum for debate between industry, government and the regulator on this important issue as Ofcom takes forward its priority in 2013 to ensure effective competition in the delivery of superfast broadband

4. Identifying the right **regulatory environment** for the evolving market

    - BSG will establish itself as the home for analysis of the evolving UK value chain and debate over the right regulatory approach for the increasingly converged environment in light of anticipated policy debates engendered in the UK and Europe

5. The conditions for **innovation** of broadband-enabled services

    - BSG will continue to house the UK debate on net neutrality further to its work in 2011 and 2012 on codes of practice for traffic management transparency

and the open internet; explore more fully the links between innovation and bandwidth availability and continue to call for a regulatory environment that incentivises innovation

6. Driving digital **inclusion** in an increasingly superfast world

   - BSG will contribute to the debate on digital inclusion and digital engagement, highlighting the importance of tackling this in harnessing the benefits of broadband for the UK, the barriers to overcome in ensuring demand for basic broadband services and supporting the work of Go ON UK through outputs from our usage programme that may further inform the potential benefits out of reach of the digitally excluded and digitally disengaged

7. Ensuring the right environment for ongoing **investment** in broadband and harnessing technology to maximum effect

   - BSG will continue to support measures to support efficient investment in broadband infrastructure and efficient rollout of this as well as continuing to call for a regulatory environment that is conducive to ongoing investment, continue to promote technology neutrality and the role that a variety of technologies can play; and support the development of an effective long-term spectrum release strategy

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<u>The Broadband Stakeholder Group (BSG)</u>

The Broadband Stakeholder Group is UK government's leading advisory group on broadband. It provides a neutral forum for organisations across the converging broadband value-chain to discuss and resolve key policy, regulatory and commercial issues, with the ultimate aim of helping to create a strong and competitive UK knowledge economy.