

Consultation response from the Rural Services Network

Designing the broadband universal service obligation

Regulator Ofcom is seeking views about the design of the proposed broadband universal service obligation (USO). This response comes from the Rural Services Network (RSN), a membership organisation which represents 154 local authorities (counties, unitaries and districts) and around 90 other rural service providers (such as police authorities, fire and rescue authorities, housing associations and public transport operators). Thousands of parish/town councils and community bodies are also associate members. The RSN exists to: make representations on issues affecting rural services; promote active networking among rural providers and sectors; and establish and broadcast rural best practice.

The Ofcom cover sheet for consultation responses has also been completed and is submitted along with this document.

The RSN wishes to note that, despite its reservations with some of the current proposals, it supports the principle of a broadband USO. Government intervention through the Superfast Broadband Programme has enabled networks to extend into rural areas where there has been a market failure. This is benefitting many rural households and businesses, albeit often in the easier-to-reach rural areas. Renewed effort is now required to reach the final 5% of premises, most of whom are in rural locations and who still constitute around a quarter of all rural premises.

As information about the USO has been released it has become clear that the proposal is, in fact, simply a 'right to request' access to a broadband network and is not universal provision of access to such networks. This is very disappointing and means that households and businesses in the final 5% are being treated quite differently from those in the 95%.

How should the minimum technical performance of the USO be specified?

Download speeds: the RSN accepts the evidence which indicates that 10 Mbps is currently an acceptable minimum download speed, enabling the average user to conduct everyday online activities. A key issue is that what constitutes an acceptable download speed is continually increasing. This has implication for reviewing the USO (see below). Indeed, depending how quickly the USO is introduced, it may even be that by that stage 10 Mbps is looking out-of-date. Ofcom should therefore review the figure just prior to USO introduction if this does not occur within the next year or two.

Other performance factors: many users find that their connection speed varies quite considerably throughout the day. Contention can seriously affect the user experience and degrade the connection speed, so would be relevant to include within the USO specification. It would also be appropriate to include a minimum upload speed in the USO, since large file sharing and the like will prove difficult at slow connection speeds.

How should we ensure the USO is affordable?

The RSN is clear in its view that premises which cannot currently achieve an acceptable broadband connection should not be financially penalised simply because of where they live or work. Some form of uniform pricing structure is therefore required for USO provision. This would be in line with other USOs, such as that for postage.

We return to the topic of user costs under later questions.

Should there be a social tariff for broadband services?

Given moves towards digital by default services and an (often accompanying) loss of outlet-based services, there is a strong case for introducing a social tariff to help low income groups go online and reap the benefits. Indeed, there will be particular benefits from enabling low income groups to access online services through a decent broadband connection. For example, visiting outlet-based services may be hard if they have no access to a car and (as in many rural areas) there is no or limited public transport. It would also make it easier for low income groups to access online account and bill payment e.g. for utilities, which is typically cheaper.

What might the potential demand for the USO be?

Evidence from the roll out of broadband networks to-date is that the highest take-up of superfast services is typically in places which previously had the slowest connection speeds. This finding has again been reached in the DCMS assessment of the superfast broadband pilot projects. Indeed, high take-up is responsible for the success of claw-back arrangements under the present Superfast Broadband Programme (with BT recycling the public subsidy it received if take-up exceeds a commercial level). Poor broadband connectivity remains a frequent complaint of rural businesses, indicating latent demand.

It seems logical, therefore, to assume that demand for a USO connection will be relatively high in the final 5% areas and that such demand will increase over time.

Cost evidence

Cost evidence: the RSN does not hold technical information about the relative costs of different network technologies. However, from the experience of our members delivering the Superfast Broadband Programme, we note that extending the fibre network is unlikely to prove a realistic option in some deep rural areas. From a practical standpoint it is difficult to see how the USO could be implemented fully and effectively without embracing other technologies e.g. wi-fi networks.

We also believe that experience shows community-run broadband networks can offer good value for money and a flexible approach in rural areas.

The DCMS evaluation of the superfast broadband pilots would seem to back this position, having demonstrated the cost-effectiveness of alternative technologies in the cases it studied.

Proportionality and definition of a reasonable cost

We strongly support the notion that the cost of providing a USO connection to consumers should not be disproportionate. However, the basic design proposal for the USO, as set out in this consultation document, would lead to unreasonable connection costs for some rural consumers, especially in the most remote or sparsely populated areas. By definition the remaining areas are likely to be relatively high cost to provide for. Setting a £3,400 (or similar) connection cost threshold will impose a cost penalty on many rural consumers, which in certain cases could be very high. The USO could be especially unfair to the farming community.

We do not think it is either fair or reasonable to make consumers responsible for all of the costs above such a threshold. This will result in some deciding to forego a broadband connection and will particularly hit low income rural households or financially marginal rural businesses.

Paragraph 1.22 raises two further complexities, which indicate that a threshold proposal will be all but unworkable (at least in any fair sense). They are:

- How can a requesting consumer know that the connection cost quoted to them by a network provider has been fairly computed and is not inflated to build-in a consumer contribution? and
- How can such a system work when different consumers in an area are bound to seek a connection at different times? Aggregation of demand in an area could prove useful up to a point. But it still seems inevitable that the first consumer(s) to request a USO connection will be asked to pay all of any excess (i.e. above threshold) costs, whilst later consumers can piggy back on that network roll out at no excess cost.

We conclude that the proposed threshold is both fundamentally unfair to the final 5% of consumers and is likely to be unworkable in the real world.

Paragraph 1.23 hints at a better solution for some (though not all) areas. Existing networks, whatever their technology, need to be assisted to extend their reach as far as is possible into the final 5%. This should make best use of innovations such as fibre to the remote node.

Ensuring efficiency

As noted above, we consider that it will be hard to ensure a least cost approach from USPs. There is unlikely to be much (or perhaps any) competition to deliver broadband services in some of the last 5% areas, given their inherently uncommercial geography.

The RSN, does, however think that any public sector funding contribution can be based upon assumptions of relatively high service up-take in these areas (see above).

How should the universal service provider be designated?

It is not easy to see how a USO which applies to more than one organisation (at least within any given geographic area) could be workable. Ultimately there will need to be one designated organisation which is accountable for meeting the USO.

As a matter of principle, however, we support the work of alternative networks and community-based providers to deliver to rural communities. We would not wish to see their efforts in any way financially undermined, including by overbuilding of their networks. If a way can be found to bring them into the USO mix that would be supported and we are open to the proposition that they could be the designated universal service provider in particular hard-to-reach areas.

Funding the USO

There are two issues with the consultation proposal, one relating to the threshold sum and one relating to construction charges which exceed the threshold.

Threshold sum: it would clearly be unfair if all of this cost were to fall on the designated provider of the USO. We do not have a strong view whether the public sector should contribute towards this sum. We do, though, think that all significant industry providers should contribute their share of its cost. This will ensure that providers who chose to cherry-pick the most lucrative markets are not gifted an even greater competitive advantage than they already have.

Excess construction charges: the RSN feels very strongly that it will be unfair if these charges fall on consumers who happen to live or work in last 5% areas (other than in exceptional circumstances). We wish to see a successor to the Superfast Broadband Programme that is focussed on extending (minimum) 10 Mbps networks to these areas. As we have said in the past, it is unfortunate that the current Superfast Broadband Programme has been allowed to deal with so many commercially marginal or easy-to-reach areas instead of focussing on the hard-to-reach areas with significant market failure, where the case for public sector intervention has been clear-cut. We recognise that public expenditure is under pressure, but also that broadband connectivity is a high priority issue that will drive economic growth and generate social benefits. It will enable rural areas to contribute more productively to the national economy. In an ever more digital world it is a matter of basic fairness that final 5% areas are not financially penalised.

One clear way to reduce the costs for providers and customers alike would be to put renewed effort into demand aggregation, raising awareness of broadband, identifying interested customers and promoting take-up. This will require engagement with local authorities, third sector agencies and community groups at the local level.

How could any potential market distortions of competition be minimised?

As noted above the RSN considers it important that the USO does not operate in a way which financially undermines alternative technology and community-based providers by overbuilding their networks. Many are operating in financially marginal areas and need time to become established or recoup investment costs. Rather, we would like to see a USO which encourages their efforts.

In final 5% areas with no such existing networks, however, the risk of market distortion seems (by definition) minimal, since there is apparently no competition to deliver there.

When and on what basis should the USO be reviewed?

It is recognised that the USO cannot be continually altered if it is to be operable for service providers. However, applications for and expectations of online connectivity are constantly changing. What was a fast broadband connection five years ago would now be considered slow.

It will therefore be important for Ofcom to review what constitutes an acceptable minimum download speed (as well as any other specifications) on a regular basis. In our view this would need to be roughly every three years, which in any case fits with the typical public spending cycle.

One question that arises is whether an occasional up-rating of the USO will only apply to customers who in future seek a broadband connection or whether it will apply also to those customers with an existing broadband connection. If it is just the former the concern must be that uncommercial areas, which were previously provided with broadband connectivity, start falling behind once again. Clarity will be required on this point.

Rural Services Network
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