

Communications Consumer Panel response to DCMS' BDUK Urban Broadband Fund Consultation on Connection Vouchers

The Communications Consumer Panel welcomes this opportunity to respond to DCMS' BDUK Urban Broadband Fund Consultation on Connection Vouchers.

The Panel is an independent body of eight experts who work to protect and promote people's interests in the communications sector. We were established by the Communications Act 2003. The Panel carries out research, provides advice and encourages Ofcom, Government, the EU, industry and others to look at issues through the eyes of consumers, citizens and small businesses.

The Panel pays particular attention to the needs of older people and people with disabilities, the needs of people in rural areas and people on low incomes, and the needs of small businesses, which face many of the same problems as individual consumers. There are four members of the Panel who represent the interests of consumers in England, Northern Ireland, Scotland and Wales respectively.

The Panel is not an SME or a service provider - our response is from a broad consumer and small business (up to 10 employees) perspective.

Response

Anything that helps SMEs and consumers go online, stay online and benefit from digital development is to be welcomed - so the voucher initiative is encouraging. However, the Panel has some reservations about the scope and the direct long-term outcome of the proposed scheme; whether the voucher scheme will give the very best value for money and return on investment in terms of rapidly enhancing cities' digital capabilities; and we would welcome clarity on some specific concerns about some aspects of the proposal.

The internet economy is now a major driver for the UK. The Panel agrees that the existence of, and access to, a robust and reliable digital infrastructure - in both urban, suburban and rural areas - is vital in underpinning the digital economy. We note that the Booz and Co 2009 study *Digital Highways: The Role of Governments in 21st Century Infrastructure*¹ found that 10 per cent higher broadband penetration in a given year is correlated with 1.5 per cent greater labour productivity growth over the following five years, and those countries in the top tier of broadband penetration have exhibited two per cent higher GDP growth than countries in the bottom tier.

The proposal to issue connection vouchers - in the main to SMEs within the participating Super Connected Cities - for the installation of superfast and ultrafast broadband will undoubtedly be of benefit to some businesses and we welcome the proposal that businesses will be able to aggregate vouchers to have a greater chance of enabling

¹ <http://www.booz.com/global/home/what-we-think/reports-white-papers/article-display/digital-highways-role-government-21st>

broadband access. We are also pleased to see that the initiative is based on a technology neutral approach.

The SME Experience

There is a wealth of research and other material about the experience of SMEs in the emerging digital world.

Recent research published by Lloyds Banking Group (*Britain's Digital Opportunity: A Study of Digital maturity within Britain's Businesses and Charities*²) notes that, at the start of 2012, there were over 4.7 million SMEs (0-249 employees) in the UK private sector, employing over 14.1 million people, and with a turnover of over £1,500 billion. SMEs accounted for 59% of private sector employment and 49% of private sector turnover at the start of 2012³. Small businesses alone (0-49 employees) accounted for 47% of private sector employment and 34% of private sector turnover.

And there is undoubtedly a need to support SMEs - the 2012 Booz and Co report *This is for Everyone - The Case for Universal Digitisation*⁴ estimated that the annual turnover of UK SMEs could be boosted by as much as £18.8 billion if all of these firms sold and marketed online. There is also an increasing expectation that businesses will have the capacity to offer clients and consumers wifi access within their premises.

However, although vital, SMEs' connectivity is only a part of the jigsaw. The recent FSB/IntellectUK online survey of businesses (*The Digital Imperative: small businesses, technology and growth*⁵) noted "International comparisons suggest that UK SMEs are relatively good at harnessing digital technology but the UK is still some way behind lead nations such as the US and those in Scandinavia. The opportunity is to go from good to great and there are a number of things which need to be addressed: encouraging and supporting more businesses to trade online at home and abroad; tackling digital skills gaps; educating small businesses about cyber threats and the steps they can take to mitigate them; improving and enhancing business support at a central and local level; and improving the nation's digital infrastructure should be key priorities."

Equipping the current and future UK workforce with digital skills, knowledge and support is increasingly critical as small businesses fight to remain competitive. As the FSB and Intellect UK state, "the full growth potential of technology will not be realised if employees and owners of small businesses lack the capability to make the most of the tools at their disposal. This is therefore an issue of critical importance". Similarly, Baroness Lane Fox, the UK's Digital Champion, notes in her foreword to the Lloyds report, "SMEs, then, are a hugely important section of the UK economy, and many of them are not making full use of digital tools... With over a third of SMEs reporting they need support in developing basic online skills, it is vital they get access to the right help to unlock these benefits." And of the 4,000 small businesses polled in one recent survey, 40 per cent identified a lack of basic IT skills as a key factor hindering their growth⁶.

Drawing on this evidence, the Panel's concern is that the voucher scheme may be a narrow approach to what is a very broad issue. In isolation, we worry that the scheme may not represent the best use of the allocated £90m. We would welcome clarification on how the scheme dovetails with other initiatives and how best the investment can be leveraged

² <http://businesshelp.lloydstsbusiness.com/assets/pdf/Britains-Digital-Opportunity.pdf>

³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/80247/bpe-2012-stats-release-4.pdf

⁴ http://www.booz.com/uk/home/what_we_think/uk_campaigns_events/display/this-is-for-everyone

⁵ http://www.intellectuk.org/library/doc_details/6616-the-digital-imperative-small-businesses-technology-and-growth

⁶ Tech SME Index 2013, Simply Business

to maximise the benefits. We have in mind specifically initiatives to encourage online engagement beyond initial connection and how SMEs might best be helped to develop and exploit an online presence.

We are also very conscious of the need for much improved broadband provision in many rural areas. As the Environment, Food and Rural Affairs Committee has noted⁷, “Rural businesses, schools and households have fallen behind their urban counterparts when it comes to broadband access. The Government’s Rural Broadband Programme is running nearly two years behind schedule. The roll-out of superfast broadband to 90% of rural areas will be delivered late and it is unclear when the target of universal access to 2Mbps broadband will be achieved.” Chair of the Committee, Anne McIntosh MP added: “Broadband has become a basic utility yet thousands of people in rural communities have ridiculously slow speeds or no connection at all. The Universal Service Commitment of 2Mbps is crucial and meeting it must be prioritised over increasing speeds for those who already enjoy an adequate service. The Government must be clear when broadband will be available to those currently without access.”

SMEs online engagement

As Lloyds notes, encouraging small businesses to build their online capability therefore has the potential to be advantageous both for the SMEs themselves and the economy as a whole. The research found that in the last two years, approximately 3.1 million SMEs (65%) increased their use of online technology in some way. This is an encouraging finding given the strong link between online development and growth as illustrated by the McKinsey study that found that SMEs with a strong web presence grow more than twice as quickly as those with minimal or no presence, generate more than twice as much from exports and create twice as many jobs⁸.

However, the Lloyds research highlighted that a considerable number of businesses are not keeping pace with digital development:

- Online development has remained static for approximately 1.65 million SMEs.
- Three in ten SMEs use the internet less frequently than once a day.
- Over a third of SMEs do not have a website.
- A fifth do not currently feel the Internet is important to their organisation.
- Only around a third have a website with the functionality for customers to purchase products or services online.

The research also found that there remains a core group of businesses which have chosen not to embrace online technology and who are not yet digitally engaged - 20% of businesses are ‘deliberately disconnected’ from the Internet - often older, more established companies run by people who are less convinced of the value of digital development. Business owners in this category are also often less confident internet users personally. As Lloyds note, in order to effect change amongst these businesses, it will first be necessary to build the general online confidence of these individuals. Not to do so could lead to a considerable number of SMEs putting their future growth at risk, missing out on the potential of the internet to increase productivity further. The Panel is not convinced that the voucher scheme will address these deeper seated issues.

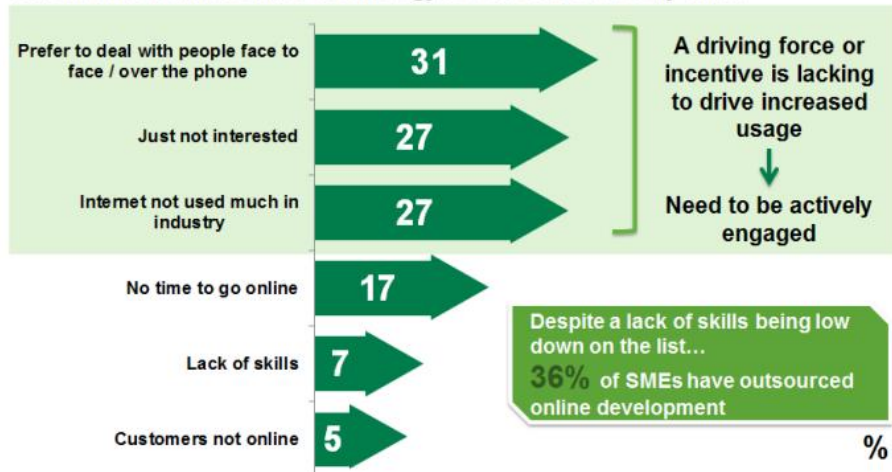
⁷ <http://www.publications.parliament.uk/pa/cm201314/cmselect/cmenvfru/602/602.pdf>

⁸ Internet matters: The Net’s sweeping impact on growth, jobs, and prosperity, McKinsey Global Institute (2011)

Reasons for reduced engagement

Some of the main reasons given in the Lloyds research for not using the internet regularly related to the way the business itself is run, with more of a focus on face-to-face contact with customers and suppliers. Thirty one per cent preferred to deal with people face to face/ over the phone. 27% simply did not feel online technology was relevant to them.

Reasons the internet/online technology is not used on a daily basis



Q4b. Why does your business not use the internet or online services more frequently? Base: All using internet less frequently – Rep sample @Q4a (147)

The FSB and Intellect UK online survey found that the vast majority (88%) of businesses do invest, even at small levels, in technology. Of the 12% that have not invested in technological innovation, the majority said it was due to the investment not being needed or applicable for their business needs. 8% were concerned about their internet connection acting as a barrier for investment.

Q6. Why have you not invested in technology over the past 12 months? (Those who have not invested in technology in the past 12 months)

Our existing technology meets our current business needs	58%
It has not been a priority for my business	28%
We cannot afford to invest in these areas	22%
Concerns over ability of the current broadband supply to accommodate new technology	8%
We do not know enough about technology	5%
We do not have the skills to utilise technology	4%
Lack of time and resources to train staff	4%
This technology is not applicable to my business	3%
Concerns over security	2%

The need for support

Even amongst businesses which already use the Internet, Lloyds found that there was a general lack of awareness of where to find cost effective, quality support. They found that SMEs tend to favour a more local approach, so a scheme which offers support from trusted local online advocates could be effective. The Panel would urge that consideration be

given to seeking ways of enabling any voucher scheme to also contribute to the support, training and development of online activities.

Similarly, the FSB and Intellect UK noted that businesses need to be able to find impartial advice about what technological products or services are appropriate for their business and their sector. They also highlighted that many small businesses, particularly those who are based at home, run their business ICT over a home broadband package without any service-level agreement (SLA). This puts the business at considerable risk as there is no guarantee for repair when faults and disconnections occur. Leased lines are very costly for small businesses and many would benefit from a broadband product that would fall somewhere in between a standard business contract and a leased line. Examples of bespoke packages for small businesses in addition to tailored broadband packages include dedicated 24 hour specialist SME support lines and sessions for SMEs on how to optimise the services and equipment that they have invested.

The FSB/Intellect UK study highlighted that while small businesses will be helped by the capital allowance increase from £25,000 to £250,000, they suggest that in general, better digital infrastructure, skills and guidance will help them too. A quarter of businesses said that greater skill levels would help them invest more in technology. When asked what would encourage future investment in technology respondents said improved capital allowances (42%); improved digital infrastructure in their area (40%); more effectively tailored packages for small businesses from ISPs (25%); and enhanced levels of business support and guidance (21%). The FSB suggested that, apart from the more obvious incentives such as capital allowances and sufficient digital infrastructure the figures indicated that there is a gap in the market for support and guidance and for access to appropriate products for small businesses. The Panel would encourage that this aspect of ensuring truly digitally capable cities be examined as part of the proposal to provide vouchers.

Lloyds noted that it is especially important to support businesses when they start trading, as it is at this point where uncertainty is at its highest. 46% of SMEs felt they would have benefitted from more online support when starting out. This could be intrinsically linked to startup registrations and business courses. Lloyds found that of the 64% of SMEs who do have a website, 15% of those have no functionality beyond finding out basic information about the company. As illustrated below, website development was the most frequently mentioned area for support across the range of needs identified.

Support area	
Web design & management	40%
Search Engine optimisation	38%
Basic online skills	35%
Using social media	31%
None of the above	25%

The FSB has also stressed that cyber-crime costs large and small businesses in the UK billions of pounds every year. A 2012 report found that 76% of small businesses had experienced a security breach in the last year, and 54% of small businesses do not have a programme in place to educate their staff about security risks⁹. They note that given that

⁹ Information security breaches survey, PricewaterhouseCoopersLLP (2012)

cyber-crime is becoming more prevalent and more complex, it is critical that small businesses are not only educated about the cyber threat, but also have tangible steps in place to mitigate the threats.

Summary

The Panel broadly welcomes the intentions of the proposed scheme but has reservations that the scheme does not go far enough, and may not achieve the best possible return on investment.

While there is some activity in relation to developing co-ordinated support for SMEs in the areas discussed above, compared to the funds committed to infrastructure there is precious little investment in the wider areas needed to get the most out of digital engagement. As a result, progress is slow and too great a number of UK SMEs - as well as individuals - remain anchored in the offline world. We would suggest that equipping the current and future UK workforce with digital skills, knowledge and ongoing support is increasingly critical as small businesses fight to remain competitive. We therefore urge that this be looked at in combination with voucher scheme. For example, there would, we believe, be merit in exploring the possibility of allowing vouchers to be offset against the costs of improving skills and maximising the value of a well-designed web site.

In relation to other specific points, we would welcome further clarity in relation to understanding:

- how the application process can be kept as straightforward as possible, particularly given that SMEs will be required to evidence that demand exists (that their connectivity 'requires' a step change - 2.2.6) and that connection charges are a genuine barrier to take-up (2.1.4);
- the anticipated ROI from investment in infrastructure connection alone;
- how businesses could be made aware of other likely participants in their area which may have the effect of reducing cost barriers if demand is aggregated;
- the position of SMEs outside the participating cities - and particularly in rural areas - given the geographic variation in average speeds available;
- the parameters surrounding cities' discretion in testing the provision of vouchers to residents as a secondary focus (2.2.4) where there is demonstrable market failure or other common interest objective;
- the position of residents outside the participating cities, given this testing of the provision of vouchers to residents as a secondary focus;
- the parameters surrounding cities' discretion to extend the scheme to include social enterprises, charities, doctors surgeries, libraries or leisure centres, where there is a demonstrable case that this is likely to encourage greater efficiency and/or economic growth.(3.2.4);
- the anticipated numbers of SMEs in the relevant areas who would benefit from connection as a result of the expected value of the vouchers at between £250 and £3000;
- whether it is possible to ensure that the quotes businesses receive for enabling broadband access are capped, in order to reduce uncertainty and allow them to make an informed judgement about the likely ROI;
- the criteria that will be used to assess how much SMEs receive within the £250 - £3000 range; and
- the likely timeframe any vouchers would remain valid for.