WRITTEN EVIDENCE FROM OFCOM

Oftcom welcomes the opportunity to submit written evidence to the Committee following our oral evidence on 16 November 2011. We note the Call for Views and the scoping exercise.

Our role

Oftcom is the independent regulator and competition authority for the UK communications industries, with responsibilities across broadcasting, telecommunications and postal services. Everything we do flows from the primary duty set for us by the UK Parliament in the Communications Act 2003 to further the interests of citizens and consumers.

We publish high quality information about the communications sector in Scotland and the rest of the UK, in particular through our annual Communications Market Reports and, as of this year, our Communications Infrastructure Report to the UK Government. The data in this submission is based on our 2011 Communications Market Report published in August and our first Communications Infrastructure Report published earlier in November. The data in the latter did not include Avanti satellite broadband subscribers and services or any local wireless projects which we know are providing solutions for some areas of Scotland. In this first report we focused on the networks and services which are most commonly and widely used by consumers. These are the publicly available electronic communications networks and services. In particular, we reported on only the largest providers of residential services in each sector. Therefore this report does not provide a complete picture of the state of the UK’s communications infrastructure but does give an indication of the majority of the residential market. This year’s report also does not include superfast broadband take up data. We intend to collect data next summer to quantify the extent to which take up of services on these new networks is leading to higher average speeds and coverage of 2Mbit/s broadband.

Fixed broadband

Across Scotland, 99.87% of households are connected to an ADSL-enabled exchange (and are therefore generally able to receive a broadband service). Speeds and services vary throughout Scotland but this year we published a comprehensive set of data on fixed broadband coverage and performance as part of our Communications Infrastructure Report.

<table>
<thead>
<tr>
<th></th>
<th>Average modem sync speed (Mbit/s)</th>
<th>Receiving less than 2Mbit/s</th>
<th>Superfast availability</th>
</tr>
</thead>
<tbody>
<tr>
<td>England</td>
<td>7.6</td>
<td>14%</td>
<td>61%</td>
</tr>
<tr>
<td>Scotland</td>
<td>7.6</td>
<td>13%</td>
<td>41%</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>6.3</td>
<td>23%</td>
<td>97%</td>
</tr>
<tr>
<td>Wales</td>
<td>6.5</td>
<td>19%</td>
<td>31%</td>
</tr>
<tr>
<td>Total UK</td>
<td>7.5</td>
<td>14%</td>
<td>58%</td>
</tr>
</tbody>
</table>

The table above shows promising data on speeds in Scotland. Scotland has the lowest percentage of people receiving less than 2Mbit/s than anywhere else in the UK despite having lower levels of superfast broadband rollout than some other areas of the UK. However, we know that speeds are not uniform across Scotland with particular issues in rural areas. Our research into broadband speeds in 2010 showed that, because of greater distances between households and their exchange in rural areas, speeds there tend to be around half of those in urban areas.
The table above, from our 2011 Communications Market Report, depicts a poor picture for Scotland but the most concerning statistic is that take up of broadband, at 61%, is the lowest of any nation. Indeed, that figure has flat lined for the past 2 years, now at 13% less than the UK average and 10% less than any other nation. However the figures also show a relatively higher level of take up of broadband in rural areas of Scotland where we know less competition is present and supply of faster, new technologies is lower as opposed to urban areas. Scotland’s figure for take up in urban areas – and overall – is affected by a lower than average take up of 50% in Glasgow. (This is echoed by data from the most recent Scottish Household Survey.) The reasons for this are complex but lower income levels and older age groups are less likely to take broadband services. In Scotland 34% of over 55s have taken up broadband compared to the UK average of 55% and in households with an income of £17.5k per year or less, we see a take up level of just 26%, half that of the same demographic in the UK as whole. Take up among DE socioeconomic groups is also lower in Scotland at 30% than in the UK as a whole at 55%.

Another issue highlighted by our 2011 research is take up in the 16-34 age group. Normally considered to be digitally aware and wedded to digital services, this group should be driving take up, but here too, take up in Scotland at 65% is significantly below the UK average of 82%. The most frequently cited reasons for lack of take up relate to lack of knowledge or need. Costs are cited as a barrier for only a minority.

An interactive mapping tool accompanying our Communications Infrastructure Report shows statistics for every local authority area in Scotland, which should prove useful for the development of local authority broadband plans and strategies. It also assesses a range of metrics rated on a scale of 1 to 5 (1 being best) and gives a composite rating for each local authority area. Within Scotland 3 areas rated a composite rating of ‘1′ – Edinburgh, East Renfrewshire and East Dunbartonshire. All of these areas have good superfast broadband availability and above average take up in the context of Scotland. However:

- No local authority in Scotland rated ‘1’ for take up i.e. take up above 80%.
- No local authority in Scotland rated ‘1’ for superfast broadband availability (availability of 90% or above)
• No local authority in Scotland rated ‘1’ for average speed (which would need to be 16 MBit/s or faster).

There are five local authority areas that show more than 20% of the broadband connections receive less than 2.2MBit/s. These are Clackmannanshire, East Ayrshire, Midlothian, Orkney and Na h-Eileanan an Iar. Three of these five areas present below average take up for Scotland.

The reasons for lack of speed can be due to household equipment or poor infrastructure connections to and from local exchanges. Low availability can be because roll out is at early stages such as in the case of superfast broadband or that the area in question presents high costs with little ability for the communications companies to recoup their investments in building out infrastructure.

Of course, there will always be local anomalies and areas where the picture is more complex. One of the key vehicles for information sharing is the Cross Party Group in the Scottish Parliament on Digital Participation which seeks to look at the issues from ‘end to end’, from infrastructure access and availability to the user experience and any barriers to take up.

We have introduced a number of regulatory measures to enhance rollout options in areas – predominantly remote and rural – where competition would otherwise be limited. These include:

• Passive Infrastructure Access (PIA), which allows communications providers to deploy fibre in the access network by sharing BT’s existing ducts and telegraph poles rather than building or digging additional ducts and poles. This will support deployment of both fibre to the cabinet and fibre to the premises technology. PIA is likely to be an important product in supporting superfast broadband deployments by communications providers in the ‘final third’ (BT has already announced plans to deploy superfast broadband in two thirds of the country); and

• our decision to significantly reduce the prices that BT Wholesale can charge internet service providers (ISPs) where it has significant market power. This could benefit around 3 million homes and businesses, mostly in rural areas. Competition has driven the success of the current generation of broadband services. The result has been greater choice, innovation, lower prices and high levels of broadband adoption. Competition in the provision of these retail services depends on effective competition at the wholesale level or, where this is not occurring, effective regulation. The aim of these regulations is to enable other communications providers to purchase wholesale products from the dominant providers at prices that allow them to compete effectively in the provision of retail services. In reducing the charges, we expect ISPs will be incentivised to invest in their own networks and offer cheaper retail prices to consumers.

Our other critical role in this area is to continue to research via our Communications Market and Infrastructure Reports to highlight progress and gaps with regard to coverage to help both the UK and Scottish Governments and other public authorities to target assistance where they see the greatest need or effect will be.

Separately, the UK Government’s Department for Culture, Media and Sport (DCMS) includes Broadband Delivery UK (BDUK), a team focusing entirely on improving the provision of broadband and superfast broadband in all areas of the UK. Recent allocations of funding were based on need, looking at the areas where the market will fail to deliver superfast broadband to enough premises on its own, rather than on the number of people living or working in any particular area. DCMS and BDUK have placed emphasis on the process being driven by community need and led by local authorities and enterprise agencies to develop local plans for broadband. In Scotland the Scottish Government will need to consider how best to use these funds.

Mobile Broadband Networks

As the regulator responsible for the management of spectrum, we are also seeking to use our spectrum clearance and award programme to enable further technological developments for wireless broadband solutions as far as is possible. Two key areas of work are worth highlighting: our plans to auction additional spectrum in the 800MHz and 2.6GHz bands and our work on White Space technology.
It should also be noted that the UK Government has made £150 million available for improvements to the quality and coverage of mobile networks. DCMS are due to make further announcements on this in due course.

800MHz and 2.6GHz spectrum award

We announced plans earlier this year for the largest ever single auction of additional spectrum for mobile services in the UK. This spectrum is essential to meet the UK’s rapid increase in mobile traffic, fuelled by the growth of smartphones and mobile broadband data services such as video streaming, email, messenger services, mapping services and social networking sites. All of these services depend on spectrum.

The new spectrum will provide much needed capacity for the fourth generation (4G) of mobile technology, set to deliver significantly faster mobile broadband services – approaching today's ADSL home broadband speeds.

Between March and May of this year we consulted on our assessment of likely future competition in mobile markets and proposals for award of the 800MHz and 2.6GHz spectrum bands. These included an obligation for one 800MHz licensee to cover at least 95% of the UK population. We also invited comments on the possibility of imposing coverage obligations on areas smaller than the UK.

We received a number of substantial and strongly argued responses to this consultation. We have been reviewing these responses over the summer, and refining our analysis as a result. In light of these responses, and the significance of the decisions that we need to take – decisions that are likely to shape the future of the mobile sector in the UK for the next decade or more – we have decided to undertake a further round of consultation on these issues. We plan to publish a further consultation document around the end of this year. We will then give stakeholders an appropriate period of time in which to comment on our refined analysis and respond to our revised proposals. We then expect to finalise the terms of the award next summer and to commence the auction before the end of 2012.

The 800MHz and 2.6GHz spectrum bands will not be available for new use until 2013 in any case – and will likely not be available in all areas of the UK until later in 2013 – so this step is unlikely to have a material impact on the timeline for the availability of new services to consumers. Nevertheless it continues to be our aim to award this spectrum as quickly as possible, in a manner that best promotes the interests of citizens and consumers, in line with our statutory duties and the UK Government's December 2010 direction to us.

White Space

The UK is the first country in Europe to introduce plans for the introduction of White Space technology. The technology works by searching for unused areas of the airwaves – called ‘White Spaces’ – that exist in bands used for terrestrial TV broadcasts. These White Spaces can be used to transmit and receive other wireless signals that do not interfere with terrestrial TV and are suitable for a wide range of new consumer applications. Recycling spectrum in this way is a highly efficient use of what is a very limited resource. And because the spectrum in question is at frequencies lower than are currently used for mobile communications, signals can travel longer distances and more easily through walls.

White Spaces offer the prospect of significant capacity to help alleviate pressures on existing wireless networks. To put the scale of this capacity into perspective, we expect the amount of white space to be comparable to spectrum that is currently available for 3G services, and significantly more in some locations.

White Spaces could be used to provide rural locations with broadband services. In practice, this could be achieved by building a network of transmitters that use White Spaces to link remote houses and villages to larger towns that are already connected to the internet. Trials are currently being undertaken by industry to test this, including on the island of Bute.