

BT SCOTLAND

WRITTEN SUBMISSION

Introduction

BT Scotland welcomes this opportunity to provide the Infrastructure & Capital Investment Committee (ICI) with evidence as part of its call for views on the Scottish Government's draft budget 2014-15. BT Scotland has confined its views to the digital economy and associated infrastructure, particularly the 'step change' projects that are now live. This evidence was also submitted to the Rural Affairs, Environment and Climate Changes as part of its inquiry into the Draft Budget.

Digital economy & digital public services

BT agrees with the Scottish Government that improving connectivity will support the delivery of a digital economy and help shape public service delivery.

One of the benefits of the Scottish Government's approach to the delivery of improved digital infrastructure is the aggregation of public service demand for infrastructure and services to achieve value for money and facilitate the transformation of public services underpinned by digital services.

Scotland's 'step change' projects

In March 2013, BT was awarded a contract by Highlands & Islands Enterprise (HIE) to deliver high speed fibre broadband across the Highland & Islands region. This project will deliver fibre to around 84 per cent of homes and businesses in the region by the end of 2016. The public sector investment towards the contract is £126.4m, with BT investing £19.4 million in the project, on top of its investment in its wider commercial roll-out for the region, taking the total value of the contract to around £146 million.

In July 2013, BT was awarded a contract by the Scottish Government to deliver the Digital Scotland (also known as the Rest of Scotland) project. This is being supported through £157.6million public funding and BT investment of £106.7million. The public funding includes fourteen local authorities who are investing around £50 million to increase coverage, meet local priorities and address the digital divide in their areas.

Combined, these two step change programmes will deliver access to over 85 per cent of premises across Scotland by the end of 2015/16 and 95 per cent by the end of 2017/18.

The projects represent a significant 'step-change' in terms of coverage. If the intervention was not to take place it is estimated that Scotland would achieve 66.4 per cent coverage from industry investment rather than the 85 per cent with Rest of Scotland at 71.5 per cent and HIE at 20.9 per cent.

It is important to consider that the HIE project is the most complex broadband project in Europe. Unique to this project is the fact that entirely new backbone

infrastructure is being installed which includes a network using more than 800KM of new fibre on land and 400KM of subsea cables involving 20 crossings to remote islands. The sub-sea programme will be the largest sub-sea cable-lay BT has undertaken in the UK, and the first ever with so many seabed crossings.

A report by Regeneris¹, commissioned by BT, has also shown that over a rural area of reasonable size superfast broadband could lead to:

- An annual increase in GVA of 0.3% per annum over 15 years. For every £1 a business invests in superfast broadband, this will create nearly £15 in additional GVA for the UK economy.
- 1,470 business start-ups as a result of Cloud Computing and support for 7,780 home workers.
- Around 1,810 jobs created through business creation and improved business performance.

It is vital, for Scotland's economic and social prosperity, that significant effort is put in to supporting individuals, businesses and communities exploit this investment in the coming years, in parallel with the infrastructure employment itself.

Reaching the 'final 10 per cent'

Communities in the 'final 10 per cent' of the UK are understandably anxious to ensure that they obtain access to higher speed broadband services.

In a report by Analysys Mason the commercial realities of deploying broadband in rural areas is demonstrated²:

- The final 33 per cent of premises (the final third) is expected to contribute to almost 60 per cent of the total cost of deployment.
- The estimated total costs of providing coverage for fibre to the cabinet (FTTC) and fibre to the home (FTTB) across the UK to be £5.1 billion and £24.5-28.8 billion, respectively.
- The mechanism for delivering to 95 per cent by 2017 has yet to be defined by governments (the UK Government has extended funding by a further £250 million).

It becomes more difficult for the industry to use its existing network assets to provide superfast broadband to the 'final 10 per cent', due to, for example, issues that arise relating to the dispersed nature of the population and the low density of customers. Therefore, the costs of providing broadband to those premises can increase markedly as more expansive network upgrades are required.

As part of the Highlands & Islands project, BT and HIE will also be assessing new and emerging technology options through a £2.5 million innovation fund,

¹ [Social Study 2012](#): The Economic Impact of BT in the United Kingdom and Scotland

² Analysys Mason, white paper, The realities of connecting the 'final 10%' of the UK with superfast broadband, September 2013

with a view to extending faster and sustainable broadband to the most remote places in the region.

Community Broadband Scotland

BT welcomes the creation of Community Broadband Scotland (CBS). It will provide a useful resource for communities wishing to explore solutions to get connected quicker than the public funded projects might deliver.

BT particularly welcomes the role CBS will have to provide communities with workable solutions that will adhere to the European Commission's state aid rules on funding of broadband infrastructure.

BT Scotland recognises that CBS's primary function is to provide communities unable to receive greater than 2 mbps with start-up support to deliver a local solution for those communities least likely to benefit from the core infrastructure deployment by the HIE and Rest of Scotland projects.

A risk associated with self-built closed networks is that there is only one retail provider and no choice for consumers. Whilst expedient in the short term, evidence from the past shows that customers seek capabilities, and choice, available to those in more urban areas and, as such, open-access networks, including alt-networks (whereby local communities support a small-scale, privately funded operator to invest in its local area) offer an alternative to these risks.

Public funding is unlikely to help address the financial sustainability risks of small-scale networks, irrespective of whether they are self-built or built by a local altnet, since the main risk relates to operating costs over the long-term, and it is generally considered to be bad practice to fund these costs on the ground of both value for money and sustainability.

BT is working with a number of community projects across the UK on a partnership approach that is seeing BT provide ducting to local communities for them to install, but which is then 'adopted' into the BT network for operation. This allows the communities to benefit from BT's purchasing power and ensure that communities have access to the same level of retail choice as the rest of the country.

Conclusions

BT welcomes the Draft Budget 2014-15 providing funding to deliver the step-change projects that will, in turn, deliver 85 per cent of homes and business with access to superfast broadband by the end of 2015/16 and growing towards the target of 95 per cent by 2017/18.

In order to reach the 'final 10 per cent', policy makers must be cognisant of EC state-aid rules where public monies are used to support community projects and the risks involved to consumers by self-build projects that do not deliver open-access networks.

CBS provides an opportunity to provide professional advice to communities that will possibly not be covered by the step-change projects. It is vital that CBS helps to ensure that any community broadband projects are sustainable,

represent best value for money from public funds, and provide open-access solutions and choice for the end consumer.

BT Scotland
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