CBI THE VOICE OF BUSINESS

Towards a future Digital Britain

CBI response to interim Digital Britain report

Introduction

The digital economy will play a pivotal role in Britain's economic recovery and future competitiveness. Going forward, UK companies will be unable to compete globally on the basis of cost. They must seek to retain their competitive advantage by providing higher value added goods and services. A world-class digital infrastructure will be an essential enabler of this knowledge economy and is therefore critical if the UK is to emerge from the recession as a world leader.

But access to broadband is not just about achieving commercial goals, it can also play a fundamental role in achieving wider public policy objectives such as the transformation of public services and enabling the transition to a low carbon economy.

The Government has a crucial role in setting out the vision and a clear framework to make this happen. We therefore welcome the iDBR as an important first step.

In commenting on the details of the iDBR we believe that:

- Extending infrastructure to provide greater access to digital services is the right way forward, but there must be agreement with suppliers on how this is funded.

- The market must lead the way in terms of next generation infrastructure but government has a vital role in incentivising demand and creating the right regulatory environment for this investment.

- Increasing access is not just about infrastructure. Ultimately increased take-up and use of digital services by both citizens and businesses will be created by demand for high quality digital services and content, skills to utilise the technology, and confidence in the safety and security of the digital environment. These factors are just as important as the infrastructure elements of the strategy and the government has a key role in stimulating demand particularly in areas where there is a large mismatch between availability (90% plus) and uptake.

INVESTOR IN PEOPLE

Sara Draper, Head of Knowledge Economy - Company Affairs
DL: +44 (0)20 7395 8131 **E:** sara.draper@cbi.org.uk

CBI Centre Point 103 New Oxford Street London WC1A 1DU
T: +44 (0)20 7379 7400 **F:** +44 (0)20 7240 1578 **W:** www.cbi.org.uk
Director-General: Richard Lambert President: Martin Broughton

1. Building the digital highway: investing in the infrastructure of the future

The UK is facing a unique moment. In the context of the current economic downturn the UK has the opportunity to rebalance its economy to include a greater role for knowledge intensive businesses which rely on a world class digital infrastructure. Going forward the deployment of next generation broadband will act as a catalyst for a host of new products and service offerings, not just in the private sector but also as a crucial enabler of public service reform. High-speed broadband will also help to address other key challenges facing our economy and society such as the shift to a low carbon economy.

i. Extending the reach of broadband is the right objective, but serious discussions are needed about how this is paid for

The CBI believes that extending the reach of broadband is the right objective. But there must be a dialogue with industry on how this can be achieved. The goals that the iDBR envisages for a Universal Service Commitment are attainable provided that a sensible agreement can be reached on the scale of coverage, the nature of the service definition within the commitment, and the mix of technologies used. To achieve maximum coverage the government must be open to a combination of solutions including fibre, wireless and satellite technologies. It is also critical that any decisions taken on a USC do not prejudice future moves towards NGA or crowd out market solutions. Furthermore the significant costs of the investment to achieve this commitment will require a serious discussion between providers and the government about how this will be paid for. It would be unreasonable to expect market players to bear in full the cost of extending the reach of broadband to areas where there is no commercial case for it.

ii. As NGA has the potential to be transformative for UK economy and society, regulation and incentives must provide the right framework to unlock crucial investment

Extending the reach of current generation broadband is important but is unlikely to be socially and economically transformative in the same way as next generation technologies. High speed next generation broadband could provide a significant platform for the development of innovative and widespread services for businesses and consumers, give a major boost to ongoing economic growth, competitiveness and value-adding. It could also play a vital role in enabling the transformation of healthcare and education and assisting the shift to a low carbon economy. This makes UK investment in NGA crucial.

The economic environment has changed drastically since the Caio Review was published last September. Plans for investment in next generation broadband are still progressing but have become subject to increasing scrutiny as the economic circumstances have worsened. The economic downturn makes it even more important that inappropriate, inadequate or misjudged regulations and policy frameworks are avoided as they could weaken competition and investment and lead to supply-side bottlenecks.

Estimates of the cost of NGA deployment vary according to the technology used (e.g. FTTC or FTTH) and the penetration rates assumed. A Broadband Stakeholder Group report into costs of NGA in the UK, for example, estimates the cost of delivering an FTTC solution in the UK at approximately £5 billion whereas a full FTTH solution would be nearly £30 billion. These figures only assume about 31% take-up across the UK. Higher take-up rates would reduce the cost per home but increase the overall costs.

In this context government and regulators must provide consistency, clarity and certainty in the implementation of policy with the right set of regulations and incentives to encourage the substantial investment of private capital required to build a digital economy.

Radio spectrum is a vital resource for the knowledge economy and forms a crucial part of the regulatory and incentive structure around NGA deployment. Overall, the CBI supports a liberalised, market-based approach to spectrum management but this must take into account the need for certainty of return on investments made. An industry-agreed solution to future spectrum allocation must be found to unlock the necessary investment in broadband. To this end we support the government's steps to reach an industry-agreed solution to drive forward the liberalisation of radio spectrum.

The government must also work with Ofcom to consider early opportunities for bringing forward the release of spectrum from the 'digital dividend'. We understand that this is not planned until 2014 and given the importance of starting investment in NGA now, we would encourage any possible steps to accelerate this release.

2. Promoting demand and building a fully functioning Digital Britain

Infrastructure provision crucial but it must be accompanied by business and consumer demand for these services. There remains a substantial proportion of UK premises, 30% in some estimates, that currently have access to broadband at 2Mbs or more but do not use it. Therefore alongside the issues of infrastructure provision the government must give serious consideration to mechanisms to increase the uptake and the demand for both current generation and next generation services. The demand for broadband can be divided into three key areas:

i) Providing innovative high quality online service and content offerings that creates business and consumer demand for broadband, both current and next generation.

ii) Giving people the skills to be able to access this technology.

iii) Creating consumer and business confidence in the safety and security of the systems they use.

Throughout this work, the Government must remain conscious of the needs of all users – in particular older citizens, and those with disabilities which prohibit or hinder their use of technology.

i. Digital Britain is not just about entertainment

The issues relating to online media and entertainment content are very important but are in no way the sole or even primary driver of demand for next generation broadband - Digital Britain cannot just be about "plumbing and poets". NGA offers an opportunity for a radical transformation of private and public service delivery in a low carbon economy. The current focus on conceiving access to broadband both current generation and next generation in relation to households, (e.g. video-on-demand entertainment services) in the UK is too restrictive. NGA deployment will enable a raft of applications and services of variable nature and bandwidth, from flexible working to tele-medicine, which rely on consistent levels of quality of service provision and more complex relationships between consumers and service providers than more linear entertainment services.

Investment in e-commerce services can be expected to grow as transaction costs are reduced through business demands for productivity gains and new service possibilities subsequently emerge.

In 2003, a CBI report on business use and demand for broadband found that, even though businesses could get leased line (including fibre-optic) provision for high data transfers, they saw value in development of public broadband provision. This was because, while leased lines could provide high capacity data transfers with particular groups of suppliers or distributors, broadband offered lower per unit prices. For example, low cost broadband offers the potential to connect with digital markets, not just regional or corporate centres, or select groups of suppliers and distributors. In addition, because it lowered average production costs through replacement of differing legacy systems with common, often off-the-shelf technologies, broadband provided a mass basis for engagement with customers (and thus economies of scale) in ways that leased lines could never do. So businesses have an incentive to develop advanced broadband applications and services.

The CBI/Google 2006 survey of business and consumer use of the Internet, and the CBI's 2008 survey of how IT services contribute to UK business competitiveness and value-adding took this analysis further, indicating how consumer centricity was becoming the focus of companies' service development. Nevertheless, though the 2008 survey also revealed that a competitive communications market was considered a major regulatory plus, demand for NGA was currently quite low amongst many companies – the highest at around 25% being amongst medium sized ones. Therefore the CBI believes the government should seek ways to encourage business demand alongside consumer demand if as broad a range of NGA investors and services as possible is to be developed. In particular government focus on support and education for SMEs in their use of innovative ICT could be a productive way to stimulate demand.

a) NGA could also deliver public service transformation

As well as enabling private sector transformation, digital infrastructures can facilitate the delivery of existing and new public services online. The US government has already expressed its commitment to the transformation of public services with initiatives in E-health and E-government. This transition will in time permeate across a range of sectors, allowing transparency and efficiency gains in the delivery of public services. The UK must similarly follow suit. Extension of existing services such as online completion of forms and bill payment is important but the government needs to be more ambitious. NGA provides the opportunity for a radical rethink of the way services are provided ranging from online medical consultations via video links, to enhanced monitoring of people in their homes thereby reducing demands on the health service and enabling people to maintain independence. Although we appreciate that the iDBR cannot cover all aspects of digital government in one report, it currently contains very little on public service reform. The government must lead by example and provide a vision for its own services, particularly if providing greater access to public services is one of the key rationales for extending access to broadband.

b) And enable the transition to a low carbon economy

As well as enabling new services, digital infrastructures can help reduce costs and emissions in existing applications and services. Information and Communication technologies produce 2% of the carbon emissions – in the EU- but they can contribute to reduce the remaining 98% by enabling changes in the way services and applications are used. For instance, the deployment of high-speed and reliable broadband can reduce the need for travel in many instances, and smart energy technologies can help manage demand for energy cutting costs and reducing carbon emissions. The vital role of greener technologies has already been acknowledged as part of the strategy to reach the EU's 2020 climate change goals, and it should similarly be contemplated in the government's iDBR in relation to the objectives set in the low carbon industrial strategy.

It is also important that the various parts of government work together to ensure synergies between ICT programmes are maximized to reduce the carbon impact and maximize the benefits of these networks e.g. linking government plans for smart meter deployment with the Digital Britain broadband network objectives to ensure efficient allocation of investment and resources.

c) Providing high quality online content is also important

The iDBR focuses on driving increased citizen demand for broadband through online media and entertainment offerings, and whilst we do not think this should be the sole, or even the primary focus of the strategy, it is nonetheless very important. The CBI is not best placed to comment on the future of public service broadcasting but the report also contains important recommendations to deal with the unlawful sharing of copyrighted material in the UK. A strong yet flexible IP framework is an important driver of economic growth and competitiveness in the UK. Currently, creative industries contribute on more than 2 million jobs and £60 bn to the UK economy. As knowledge and ideas will form the backbone of our economic advantage going forward and the Government must ensure that the UK can continue to be a fertile home for intellectual property creation and exploitation.

Digital technologies make lawful access to copyrighted work easier than ever. However, illegal sharing of copyrighted material is a significant issue for creative companies and leads to a substantial loss of potential income, particularly in the music industry. Against this background, industry and government must work together to produce an effective response. The policy proposals put forward in the iDBR are wide-ranging and bold. From industry's perspective it is important to put an end to the current uncertainty around the introduction of legislation in this area. Some of the suggestions in recommendation 13 within the iDBR have potential to deliver a balanced, workable, industry-supported response to this problem, subject to agreement on specific points.

Whatever policy framework is put in place, it will also be vital for a range of credible legal alternatives to be provided for customers. To this end the business community is already developing more efficient transaction mechanisms, and will continue to improve methods that allow copyright holders to be quickly identified and paid. The government also has a role to play in improving media literacy and shaping consumer values. Education regarding the key online issues of safety, privacy and respect for intellectual property must be a priority for government.

However, the government must recognise that any UK centric response will not provide a comprehensive solution to the problem. Many sites hosting copyrighted material are registered overseas and therefore an international response must be sought.

ii. People need the skills to access these new services

The CBI welcomes efforts made in the direction of improving media literacy by the government through e-skills UK. Currently, gaps in skills create a burden to employers across the country. CBI surveys as recent as 2008 identify lack of ICT skills as a major deficiency among employees' skills, with 56% of employers showing concerns about the IT skills of their workforce. In addition, current frameworks and qualifications must take account of the recent transformation of ICT usage. Internet familiarity, awareness of E-crime and the value of copyright protection are some of the new skills that are increasingly important in a digital media environment. We would therefore propose that the government gives consideration to a web driving licence, along the lines of the ECDL introduced a decade ago.

iii. Businesses and consumers must also feel confident about the safety and security of the online environment

Even with high quality infrastructure, innovative and exciting service offerings, and sufficient skills among users, fear of e-crime could still act as serious deterrent to business' and citizens' engagement with digital technologies. The CBI has consistently called for the establishment of a central body for the reporting of e-crime to achieve greater coherence in tackling e-crime amongst law enforcement agencies. We have therefore welcomed the announcement of the Police Central E-crime Unit that will be up and running shortly. However, we are concerned about whether the level of resourcing for this body is sufficient particularly as the digital environment grows. Businesses and citizens must not only have a central facility to report e-crime but must also have confidence that it will be addressed. Education for businesses and consumers about the threats of cybercrime and the need for secure systems should also play a part in ensuring a safe digital environment. We would recommend that the government gives consideration to this issue as the Digital Britain progresses.