

From Jeff Moore  
Chief Executive



Lord Carter  
Parliamentary Under-Secretary of State  
(Minister for Communications, Technology and Broadcasting, Joint with the Department  
for Culture, Media and Sport)

Our ref: jpml1203a

13 March 2009

Dear Lord Carter

## **DIGITAL BRITAIN CONSULTATION**

I am writing on behalf of the nine English Regional Development Agencies (RDAs) to provide a joint response on the economic implications for the English Regions of the issues raised in *Digital Britain: The Interim Report* published on 29<sup>th</sup> January 2009.

This joint response seeks to define the RDAs common policy positions. Our response to the consultation is structured in two parts, with the first being this covering letter which underlines the strategic importance of a Digital Britain to the UK economy. The second part is attached as an appendix and looks specifically at the substantive Actions listed in the consultation document.

Each of the nine RDAs has their own Regional Economic Strategy developed through extensive local consultation reflecting their region's diverse economies and priorities. The digital economy is a broad church and we note that this is reflected in the scope of the consultation. Where there are specific regional issues individual RDAs will be making separate representations.

For the purpose of clarity it should be noted that the terms 'digital' and 'Information & Communications Technology' (ICT) are used interchangeably throughout this letter and the appendix.

### **The strategic importance of a Digital Britain**

RDAs welcome the publication of the Digital Britain report and look forward to working closely with Government to deliver the vision of a modern 21<sup>st</sup> Century Knowledge Economy.

The importance of Digital technologies and the underlying network connectivity cannot be understated – they are critical parts of the economic architecture of any modern economy and will have a major role to play in steering Britain out of the current economic downturn. Digital technologies will also play an increasing role in delivering a low carbon economy both through its role in supporting technical innovation but also through influencing and supporting behavioural change.



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The breadth and scope of the Actions contained in the consultation reflect how digital permeates every facet of civil society – public and private. It is now almost impossible to find any corner of civil society without a digital fingerprint on it. We are connected at home and at work and increasingly on the move. As citizens, we shop online buying books and holidays, we bank, we pay our rates, we study our ancestry, we renew our passports and we buy our car tax. The public sector gives us telemedicine, mobile phone parking tickets and the Oyster card. As businesses we complete electronic tax returns, we trade online, we operate across continents, across time zones and along complex supply chains. In a '24x7' world we design, model and develop innovative products in virtual worlds, working with partners from across the planet. Our vehicles have digital hearts that monitor our speed, manage our emissions and plan our routes. We consult digital maps on our desktop, in our cars, and on our phones. Satellites in space tell us where to go and how to get there. Digital cameras give us speed tickets and they charge us for road tolls, but they also give us family photos and pictures from space. We produce digital content that gets played on our TV, our PC, our local cinema and increasingly on our mobile phones - and all of this is available to anyone connected to the digital highway. We do all this and many more things beside in our digital world. We can confidently say we are already living in a Digital Britain.

But the country should not be complacent as we are only at the start of the journey. Although one rarely finds consensus amongst commentators about where technological innovation leads, all agree it brings change. It is now widely accepted that the internet is driving societal change and as such should be recognised as a *General Purpose Technology* on a par with electricity. But change brings both threats and opportunities. Britain needs to be in a position where it can exploit digitally-driven change where and however this materialises. Whether change delivers benefits or threats to Britain will largely be determined by the agility of our businesses, their ingenuity, their innovation and their entrepreneurial flair. But the entrepreneurial behaviour of individual businesses or the support available via RDAs whilst welcome is unlikely to deliver next generation super-fast broadband – this is an investment which will be measured in billions not millions. The Government therefore has a critical role to play in creating the appropriate investment climate to future proof investment and to create not a Digital Britain but a *Next Generation* Digital Britain.

#### **RDA National Priorities for Digital**

The British economy currently faces difficulty and uncertainty but this will not last. We have an opportunity following this consultation to put in place the building blocks for the Next Generation Digital Britain. To support this aspiration the RDAs would urge that Government considers that ICT be identified as the sixth driver of UK productivity alongside Competition, Enterprise, Innovation, Skills and Investment. In addition, the RDAs have jointly identified four key principles for delivering a Digital Britain which are explored in more detail in the attached report:



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- The internet is a *General Purpose Technology* which should be affordable, accessible and used by all.
- A 'two-speed' Next Generation Digital Britain would diminish UK competitiveness.
- Fibre should be pushed deeply into the network to future proof investment and UK competitiveness.
- Intelligent procurement across the public sector estate should be used to further demand for next generation broadband networks.

I hope this response is of use in taking forward the final Digital Britain report.

Yours sincerely

A handwritten signature in black ink, appearing to read "Jeff Moore", written in a cursive style.

**J P Moore**



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## Appendix:

### RESPONSES TO THE SPECIFIC ACTIONS LISTED IN THE CONSULTATION

#### **Action 1: The Government's Proposal—*We will establish a Government-led strategy group...***

RDAs strongly endorse the Government's proposal to set up a strategy group and would welcome the opportunity to contribute to its deliberations. Any group must be broadly based but must include DEFRA because of the potential impact on rural economies.

RDAs agree with Francesco Caio that: *NGA will become a critical infrastructure*<sup>1</sup>. Where RDAs have an issue is with timing. We note that many of our international competitors are significantly more advanced in both planning and implementation of fibre roll-out. It is not yet apparent, that for all the public announcements about planned investment in fibre, that the situation is much different to that described by Steven Timms in September 2007 when he observed that: *Unlike elsewhere, there are in the UK hardly any fibre to the home connections. In fact, I don't know of a single one*<sup>2</sup>.

There has in recent years been considerable debate about the timing of investment in next generation broadband but very little actual delivery on the ground. This is a situation considerably at odds with what is happening with our international competitors. We accept that there is much disagreement on what this means for Britain and whether this apparent investment delay will lead to any long term prejudicial impact on UK productivity. To break out of this situation the Government should adopt the precautionary principle and, at a minimum, set out a transition timetable. We strongly urge Government to commit to publish - before the end of the year - a long-term UK fibre roll-out programme along the lines of the *u-Japan Strategy* – this should include clear targets and milestones to deliver a Next Generation Digital Britain. In what is clearly a very difficult economic environment this would give the market, consumers and developers a degree of certainty over the future. This approach, which argues that Britain should take steps to plan investment in critical infrastructure, is entirely in line with Ofcom's own recommendation for delivering super-fast broadband which argues that: *any process for migration should be well signalled and managed in ways that minimise the level of disruption to consumers and the industry*<sup>3</sup>. This approach would also appear to follow the recent shift in strategic thinking by Ofgem who now accept the need to plan for "*anticipatory investment*".

RDAs welcome recent announcements by BT and Virgin Media on their intentions to roll-out faster broadband networks. However, in the current climate we have some concerns that the investment planned will actually materialise in the timescale originally envisaged. Whilst competition is to be welcomed the Government should acknowledge that, if investment follows historical patterns, with BT and Virgin investing in broadly similar geographical locations, this could lead to both wasteful duplication and maintain next generation broadband deserts. In the absence of a comprehensive national plan for a Next Generation Digital Britain the Government should, as a minimum, follow their own example which they have successfully pursued with the digital switchover and set an end date for when next generation broadband should be available

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<sup>1</sup> *Review of Barriers to Investment in Next Generation Access, Final Report, Francesco Caio, (Sep 2008:46)*

<sup>2</sup> *Speech to Broadband Stakeholder Group - Next Generation Access, Commonwealth Club, 18 September 2007*

<sup>3</sup> *Delivering super-fast broadband in the UK Promoting investment and competition (Ofcom, 3<sup>rd</sup> Mar 2009:para.1.34)*

across Britain. This approach would at least provide a structure within which all affected parties would have sufficient time to develop and plan their own responses and provide much needed clarity about what the market will do and the policy gap that remains to be filled.

**Action 2: The Government's Proposal—*The Government will work with the main operators and others to remove barriers to the development of a wider wholesale market in access to ducts and other primary infrastructure.***

In our collective response to the Ofcom consultation on Duct Access RDAs took the view that conceptually duct sharing was a good idea but we were not convinced that wholesale duct access was likely to be a panacea for enabling market access and investment. In our response we questioned whether it would ever prove practical or economic for providers to share existing telecommunication ducts once the first operator had deployed fibre. We took the view that there would seem to be a stronger case for focussing on an Active Line Access approach to nurture a fibre market. Whilst duct access might have a role to play, RDAs remain to be convinced that in the absence of comprehensive mapping of ducts, or any agreed mechanism to both manage and police access, then any duct policy will be of limited value in helping drive this market. We await with interest the conclusions of the Ofcom study of BT's Ducts.

**Action 3: The Government's Proposal—*The Valuation Office Agency has provided new, clear guidance which addresses the problem of clarity over business rates...***

Whilst guidance on the rating of fibre is welcomed the Government should amend the current rating regime which is inhibiting the roll-out of fibre. This should incentivise and accelerate the fibre market.

**Action 4: The Government's Proposal—*We will have considered the value for money case for whether public incentives have a part to play in enabling further next generation broadband deployment, beyond current market-led initiatives.***

The RDAs note that funding investment in the next generation broadband networks will be of several orders of magnitude more expensive than the deployment of first generation broadband. It is worth recalling that first generation broadband was rolled out relatively cheaply because it either 'piggy-backed' on BT's existing copper telephone network or utilised an existing cable network infrastructure. This will not be the case with next generation broadband which requires a fundamental and expensive re-engineering of the network. The costs to complete this have been estimated by the BSG to be in the range of £5bn-£29bn<sup>4</sup>. These cost need to be seen in context. In 2002, RDAs nationally received £30m from the then DTI to accelerate the roll-out of first generation broadband. Today, existing RDA budget commitments and any realistic assessment of the scale of investment required suggests that, even where interventions are planned, RDAs are likely to be operating at the margins of the market. It is worth recalling that in the July 2008 press release BT announced their intention to commit £1.5bn in fibre roll-out<sup>5</sup>, a figure which sits well below the £5bn BSG figure, which is at the bottom end of the cost range. If we accept that a modern telecommunications infrastructure is a critical building block of a knowledge economy then it must be a concern that, even if current investment plans by telecoms companies were fully realised, there would remain a large part of the country without next generation broadband

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<sup>4</sup> *Final report for the Broadband Stakeholder Group, The costs of deploying fibre-based next-generation broadband infrastructure, (8 September 2008)*

<sup>5</sup> *BT plans UK's largest ever investment in Super-Fast Broadband, BT press release, NR08-262, July 15, 2008*

and no indication when they might get it. We might reasonably ask what impact would this have on competitiveness and business productivity.

With substantial experience gained from supporting the roll out of first generation broadband and with a number of RDAs already actively supporting a Next Generation Digital Britain we are well placed to help deliver this agenda and we would be keen to be involved. We also believe there are still opportunities to leverage existing ongoing public sector spending to enable next generation networks and many RDA's are looking to be a partner in pilot schemes acting as test-beds. It must be pointed out that whilst RDAs will continue to work to shape this agenda we acknowledge that currently our ability to influence this agenda in our regions will be shaped by RES priorities and the funding climate within which we operate.

***Action 5: The Government's Proposal—The Government will help implement the Community Broadband Network's proposals for an umbrella body...***

The Community Broadband Network have been a long standing and powerful advocate for community engagement in broadband. RDAs believe that there is a compelling case for fibre given its capacity to future proof investment, however, we acknowledge that 100% next generation broadband coverage will likely be delivered through a variety of different technologies. Experience in this area suggests that sustainable networks deliver both technical solutions and a robust business case. RDAs welcome the government's proposal to support CBN to act as a umbrella body for local and community networks but would welcome clarity on how the Government proposes to support CBN in ensuring these twin objectives will be secured.

***Action 6: The Government's Proposal—We are specifying a Wireless Radio Spectrum Modernisation Programme.***

The Government should ensure the regulator allocates sufficient spectrum that will both attract commercial operators and ensure that a robust, viable business case can be produced to guarantee sustainable delivery of 100% coverage of 3/4G data networks. This is an area where we envisage continuing technical innovation and we would expect spectrum allocation would not be so rigid as to handicap deployment of these future technologies and the raft of new products and services that would likely follow.

***Action 7: The Government's Proposal—Consider at what point and at what cost the standard offer provided by the Digital Television Switchover Help Scheme could have a return path capability, and we will ensure that such capability is available as an option.***

The inclusion of a return path in digital set-top boxes could provide a powerful stimulus to extending the connected community. The experience of the BBC's iPlayer illustrates the considerable appetite for consuming digital content where this can be easily accessed. Such a facility built into next generation set-top boxes has the potential to massively democratise access to the wider digital economy and all from the comfort of your living room. In essence, this would be a "Trojan horse", a device initially brought into the home solely for the delivery of television services which the purchaser then discovers can be used for other equally valuable purposes.

***Action 8: The Government's Proposal—Examine how the marketing and communications activity around Digital Switchover could be enhanced...***

RDAs consider that any opportunity to promote digital transition should be encouraged and we would welcome the opportunity to work with Government to understand the opportunities that

exist to lever the switchover programme. How and whether this is practical for RDAs would need to be examined regionally given that switchover regions and RDA geographies are not always coterminous.

**Action 17: The Government's Proposal—Develop plans for a digital Universal Service Commitment up to 2Mb/s by 2012...**

RDAs strongly support the principle of a Universal Service Obligation for broadband. We take as read that already in Britain the internet is a general purpose technology and for this reason should be available to all so as not to disenfranchise any citizen. It is possible to argue that consideration of a USO sits independently from the debate on Next Generation Digital Britain but we do not accept this line of argument. In our view taking such an approach would simply hinder the timely transition to a Next Generation Digital Britain and more likely lead to an ossification of a two-speed Britain with slow-speed Britain permanently struggling to catch up.

The proposal as currently drafted for: “*up to 2Mb/s by 2012*” is we believe, limited in ambition particularly given that a recent report by Ofcom indicated that today's average speed is 3.6Mb/s<sup>6</sup>. Our view is that any universal obligation should be universal and accessible to 100% of the population. A universal service framed simply as a ‘commitment’ will always be subject to qualification with the potential to reinforce existing ‘not-spots’ – indeed, depending on how we define ‘universal’ it could be argued that this objective has already been achieved.

We strongly believe that setting our aspiration as 100% of the population has considerable merit in its clarity. Indeed, in the internet age there is a strong case to argue that such an obligation is simply a natural and logical extension of Ofcom's existing statutory duty to *ensure that high speed data services are available throughout the UK (Communications Act 2003)*. We have argued the case for a national plan and this should include targets for a USO which logically would change over the lifetime of the plan as investment rolls out. Whatever targets were agreed they should be challenging, subject to regular review by the regulator, reflected in published plans, and reported on annually.

RDAs are rightly concerned with the pattern of investment in broadband infrastructure which continues to have a disproportionately negative impact on peripheral and more remote rural communities. These communities should not be further disenfranchised by (albeit) welcome investment in urban locations which, in the absence of action (and an appropriately defined USO speed) could have the propensity to accelerate a two-tier broadband Britain.

The consultation appears to be entirely silent on the role of symmetrical services. In the absence of this debate network architecture will continue to be designed looking backwards not forward. And this will be reinforced by the commercial logic of the telecoms market which unlike rail or road infrastructure requires investment to be amortised in years not decades. The result will be that we fail to future proof the requirements of business going forward and – when demand for this type of service materialises – we will be required to invest again in further even more costly re-engineering.

**Action 18: The Government's Proposal—Develop detailed proposals to fund the Universal Service Commitment...**

The telecommunications and broadcasting markets have changed massively, unquestionably making funding a USO a much more complicated proposition but it nevertheless should be

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<sup>6</sup> UK broadband speeds 2008 Consumer experience of broadband performance: initial findings, Ofcom 8th Jan 2009

addressed by Government as a matter of urgency. RDAs are convinced there are considerable economic benefits to UK plc if a funding model can be agreed and we would welcome the opportunity to contribute to this discussion.

**Action 19: The Government's Proposal—*Encourage the development of public service champions of universal take-up.***

The RDAs strongly support the principle of universal access but recognise this aspiration has to be matched by a commitment by Government to coordinate universal adoption. The Digital Exclusion Action plan made clear the scale of the problem: *17 million people in the UK still do not use computers and the Internet*<sup>7</sup>. Research evidence shows that there remains a significant minority who see no benefit from being connected to the digital world, with ONS data indicating that we have reached something of a plateau with around 65% of households connected to the internet<sup>8</sup>. We are clear, however, that the economic argument supporting a universal service hinges on the need to address this missing community so that the costs of universal service are shared by universal adoption. We would therefore strongly endorse the Government's proposal to create a Digital Exclusion Champion.

As an agency focussed on delivering sustainable economic growth RDAs natural constituency is business. UK business has already witnessed a digital revolution as internet based technologies have redefined the business landscape – changing how, where and when we work. However, in every region there are significant numbers – in some regions as high as 40% of businesses that have yet to understand how digital technologies can help improve their productivity and there are others that have begun the digital journey but need help and advice to progress further. We have argued above that Government should acknowledge ICT as the sixth driver of productivity and consider reflecting its importance through a new PSA target to embed it across Government. We also encourage Government to consider creating a Digital Inclusion Champion for Business to encourage take up and promote the productivity benefits to business.

**Action 20: The Government's Proposal—*Invite the BBC to play a leading role...***

With its unparalleled reach the BBC has been hugely influential in driving digital life across the UK. With a trusted and widely recognised brand both in the UK and internationally the BBC will have a key role to play keeping Britain at the forefront of digital content innovation. The huge success of the iPlayer – giving consumers control of what and when they watch – shows just how quickly an existing broadcast model can be overtaken by digital innovation. However, the real success of the iPlayer is how it illustrates how quickly traffic projections change and the existence of massive latent demand for this new service, all of which reinforces the critical importance of ensuring that we look forward not backwards when thinking about the networks we need for a Next Generation Digital Britain.

**Action 21: The Government's Proposal—*Develop a Public Service Delivery plan...and encourage the shift to online channels in delivery and service support.***

There are powerful forces operating across the public sector propelling a digital economy not least the economic benefits. The Government's *Transformational* agenda assumes that public services will increasingly be delivered by virtual channels. We would argue that this vision of modern public sector services delivered online presupposes universal access and universal take-up and is a powerful argument in its own right for a USO for broadband.

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<sup>7</sup> *Delivering Digital Inclusion An Action Plan for Consultation, Communities and Local Government* (Oct 2008)

<sup>8</sup> *Internet Access 2008 Households and Individuals*, ONS (26/08/08)

RDAs note the expenditure and experimentation that has taken place around eGovt over the years and, as in business, experience suggests that technical innovation has to be matched with process re-engineering if any service delivery plan is to work effectively. Technical experimentation has illustrated the breadth of talent and expertise within the public sector but many projects struggle to develop a sustainable business plan in the absence of a commitment to re-engineer underlying services.

RDAs welcome the principle of making services more accessible to the public but this is only the first step. The Government should recognise that contained within the vision of *better service for citizens and businesses* as set out by Varney<sup>9</sup> is a strong economic efficiency argument. A logical extension of this would be for the Government to consider how some of this economic dividend from '*transformed*' services might legitimately be used to underpin the universal connectivity that is needed to access these new service channels.

It remains the case that as a major purchaser of connectivity the public sector has yet to fully exploit aggregation opportunities. There would seem to be a compelling argument that the public sector should work together, using intelligent procurement, to directly influence the footprint of next generation broadband networks. The recommendations of the recently published Roots Review<sup>10</sup> give an indication of how public sector procurement might be creatively used to systematically support the development of next generation public broadband networks.

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<sup>9</sup> *Service transformation: A better service for citizens and businesses, a better deal for the taxpayer*, Varney (2006)

<sup>10</sup> *Review of arrangements for efficiencies from smarter procurement in local government* [The Roots Review], Feb 2009