

James Heath
Digital Infrastructure Director
DCMS

Katie Pettifer
Public Policy Director
Mobile: [redacted]
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25 November 2019

Dear James,

Statement of Strategic Priorities

Further to section 2B(3) of the Communications Act 2003 (the “Act”), I am writing to explain what Ofcom proposes to do in consequence of the UK Government’s Statement of Strategic Priorities (SSP) for telecommunications, management of radio spectrum and postal services designated under section 2A of the Act. Ofcom is required to provide this explanation within 40 days of the designation of the SSP, which took place on 29 October 2019. We are also required to make this explanation public in such manner as we consider appropriate. Having considered the Cabinet Office guidance on the pre-election period, we consider it appropriate to defer publication until after the General Election.

The SSP identified the following strategic priority areas:

1. world-class digital infrastructure;
2. furthering the interests of telecoms consumers;
3. secure and resilient telecoms infrastructure; and
4. postal services.

The SSP had been published in draft for consultation at the time Ofcom was preparing its Annual Plan 2019/20. We therefore had regard to the draft SPP when finalising our work programme for this year. Having now considered the final SSP, we are satisfied that no further changes to our Annual Plan are needed. We will continue to have regard to the SSP wherever relevant as we carry out the work set out in our Annual Plan, and as we set our work programme for subsequent years. As you know, we make our decisions independently and on the basis of the available evidence, including any relevant section of the SSP.

I have summarised below the work in our Annual Plan which is particularly relevant to the priorities set out in the SSP.

World-class digital infrastructure

Promoting investment in fibre networks

We share the Government’s strategic objective to ensure that the UK has world class digital infrastructure. To do this, we agree that regulation needs to support investment in the next generation of fast, more reliable fibre networks.

We have been actively working to use our regulation to promote investment in fibre networks from both Openreach and alternative fibre providers. Our approach has supported the industry in increasing coverage of full fibre networks across the UK. Availability of full fibre is now increasing at a rate of over 1m homes per year for the first time.

In May 2019, we published our decision to allow other network operators greater access to Openreach's ducts and poles so they can deploy their own fibre networks. We also put in place new rules for the business connectivity market, including the introduction of dark fibre in 'inter-exchange circuits': a part of the market in which we do not believe duct and pole access will be sufficient to deliver network competition.

We are now in the process of setting the regulatory framework for business and residential markets that will apply from 2021 onwards. We set out initial proposals in March 2019, and we plan to publish a further consultation in December this year. Our initial proposals to help promote competition and investment in fibre networks across the UK included:

- Taking different regulatory approaches in different parts of the country, depending on the intensity of network competition in those areas.
- Incentivising Openreach to invest by promoting competition and allowing a fair return on risky investments under a 'fair bet' framework.
- Enabling a smooth transition from older copper networks to full fibre, while protecting consumers during the migration process. We have also published a consultation with measures we are proposing to support Openreach's trial of switching off its copper network in Salisbury.

The SSP sets out the Government's views on how regulation can further support investment in fibre, and we will continue to have regard to these views as we develop the regulatory framework that will apply from 2021 onwards.

The Government will have a role to play in taking forward some other priorities described in the SSP. For example, the Government can support stable and long term regulation by legislating to lengthen the standard period of Ofcom's telecoms competition assessments from three years to five. We also agree with the Government that beyond what can be achieved by regulation, there will be some parts of the country which are not commercial for operators to deploy fibre networks to. These rural and remote areas will require public intervention to deliver improved network coverage, alongside interventions already planned by the devolved Governments in Scotland, Wales and Northern Ireland. We note that, since the SSP was laid before Parliament, the Chancellor of the Exchequer has announced that he intends to make £5bn of public funding available to support gigabit capable connectivity in the hardest to reach parts of the country.

Helping to improve mobile coverage, particularly in rural areas

Ofcom plays an important role in improving connectivity for people across the UK. Ensuring better broadband and mobile services, wherever people are, is a priority in Ofcom's annual plan for 2019/20.

Ofcom is preparing to award the 700 MHz and 3.6-3.8 GHz spectrum bands in 2020. 700 MHz airwaves can be used for improving current mobile coverage and performance over wider areas, while 3.6-3.8 GHz spectrum has been identified as a pioneer band for the roll out of 5G in Europe.

In December 2018, we published a consultation proposing to offer two bidders in our spectrum auction a discount on spectrum in return for coverage obligations. These would require that, within four years of the award of spectrum in these bands, the winning bidder(s):

- delivers good quality mobile coverage outdoors to at least 90% of the UK landmass (as well as meeting specific thresholds for good quality outdoor coverage in each of the UK nations);
- deploys a minimum of 500 new wide area macro sites (mobile masts); and
- provides new coverage to at least 140,000 premises to which it currently does not provide good coverage.

As you know, in response to our proposals, the mobile operators presented the Government with their own proposal to improve coverage the Shared Rural Network (SRN), which they have described as an alternative to Ofcom's coverage obligations. We were pleased to see this industry cooperation and welcomed the Secretary of State's announcement on 25 October 2019 that the Government had agreed in-principle support and partial funding for the SRN programme.

Under the SRN proposal, each operator will commit to bind licence obligations that will require them to deliver good 4G coverage to at least 92% of the UK landmass within six years, and individual coverage improvements for each UK nation. In light of this, we no longer propose to use our auction to improve coverage, since improvements to coverage will be delivered in another way. We have therefore consulted on an alternative auction design, without coverage obligations. We will take final decisions on the auction following this consultation.

The SSP suggests that Ofcom should conduct a review of rural roaming. Ofcom looked at rural roaming last year as part of our advice to the UK Government on options for improving mobile coverage. We concluded that while roaming could introduce coverage improvements in partial not-spots, it also introduces investment risks and problems with the quality of customers' experience. We also noted that the most effective way to introduce such an arrangement would be with the cooperation of the operators. Since providing this advice, the mobile operators' have proposed a different way of addressing partial not spots in their SRN proposals. We consider that infrastructure sharing provides an effective way of addressing partial not-spots in rural areas, and one which is likely to provide a better customer experience than roaming for people living and working in those rural areas.

Ofcom will continue to keep the question of rural roaming under consideration, but we have no immediate plans to conduct a specific review, given the work done last year on this and the Government's in-principle support for the operator's Shared Rural Network proposals.

Preparing for the launch of 5G mobile services

We share the Government's ambition for the UK to be a world leader in 5G. We are also supporting businesses – large and small – to access the spectrum they need to innovate and improve services, including in rural areas. Spectrum sharing can support all of these ambitions and earlier this year we launched a new spectrum sharing framework. The decisions we set out in our “Enabling wireless innovation through local Licensing” statement in July are aligned with, and in some places go beyond, a number of the objectives set out in the SSP. In particular, we have:

- a) Established a sharing framework that will support the development of 5G services from existing and new players by allowing access to 5G spectrum;
- b) Gone beyond the Government's objective to release 1 GHz of spectrum in the 26 GHz band, by making 2.25 GHz available for indoor, shared use;
- c) Made 3.8-4.2 GHz available for shared use;
- d) Identified that there is opportunity to share already licensed mobile spectrum and have implemented a process for localised access. Our approach does not rely on commercial arrangements being struck but allows for these where appropriate and consequently removes any need to introduce spectrum leasing to the mobile bands.

We have been convening conversations with representatives of different sectors in the UK to discuss how wireless technology could help them to innovate. Our publication “Supporting the expanding role of wireless innovation in UK industry” explains how Ofcom can help encourage the development of innovative 5G technologies and other wireless services.

Ofcom is leading the UK delegation to the World Radiocommunications Conference 2019 (WRC). In the run up to the WRC, Ofcom worked closely with DCMS and engaged with UK stakeholders and European partners to develop UK and European regional positions to take into Conference, with the aim of achieving outcomes which are best aligned with UK interests.

Our Annual Plan 2019/20 also set out that we are continuing to develop our spectrum management strategy. As work on this progresses, we will continue to have regard to the spectrum management aspects of the SSP.

Furthering the interests of telecoms consumers

Fairness for customers is a priority within Ofcom's Annual Plan. Ofcom's principal duty is to “further the interests of citizens in relation to communications matters and to further the interests of consumers in relevant markets, where appropriate by promoting competition”. We aim to make communications work for everyone, whether through our campaign to help people boost their broadband by raising awareness of how they could get faster, cheaper broadband, through our recent policy action such as automatic compensation for broadband and landline customers, or our switching reforms that help people switch mobile provider through a simple text message.

We welcome the Government's articulation of its strategic priorities for telecoms consumers, and we already have work in train in many of these areas. We will have regard to these strategic priorities as we continue to plan and take action over the coming years.

One of the Government's strategic priorities is to "remove barriers that consumers face to switching products and services, and ensure that all consumers get better outcomes, even if they are not actively searching for the best deal all of the time". We share this aim, and we agree that such work is especially important for consumers in vulnerable circumstances, who can be particularly at risk from harmful industry practices. We recently published our review of pricing practices in the broadband market and we have announced new rules requiring companies to alert broadband, phone and pay-TV customers when their contract is coming to an end and what the best deals are. In addition, work is on a gaining provider led process for all types of fixed switches to make it easier and smoother for consumers to switch. As you know, Government can play a role in supporting this work by legislating to make GPL switching mandatory for fixed services.

We are exploring the case for a new, targeted, special tariff to protect broadband customers on low incomes. Such a tariff would require broadband companies to offer a simple, low-cost broadband service to eligible customers. As we are currently only able to require providers with significant market power (SMP) to provide a social tariff, Government could also support this work by legislating to require all broadband companies to offer a social tariff.

We will monitor companies' compliance with the new General Condition we introduced last year on the fair and appropriate treatment of consumers in circumstances that may make them vulnerable, and we will monitor how providers respond to our and detailed guide on how to identify customers who may be vulnerable and provide appropriate support. We will also work closely with the UK Regulators Network and other regulators to share best practice and tackle issues that are common across sectors.

We also agree that it is vital that all consumers can access and understand the right data on their usage and the availability of services where they live. Over the last few years Ofcom has made more and more data available in open and easily accessible formats, allowing for innovation from third parties in directly helping consumers. Ofcom is also now working closely with DCMS, BEIS and the Open Data Institute to scope out what a potential Open Communications initiative might look like, and what the benefits to consumers would be.

We have facilitated discussions between fixed broadband operators and price comparison websites to share better coverage and availability data so that consumers can make more informed decisions about the purchase of fixed broadband and landline services. Separately, we have agreed a framework for sharing operators' address-level fixed network availability data with policymakers; data has been provided to BDUK and other public authorities under this framework already.

We will work with DCMS to update to the legal framework where needed – including through transposition of the new European Electronic Communications Code, if appropriate – to better equip us to help ensure consumers can easily access the services they need, get value for money and are protected from harm.

Secure and resilient telecoms infrastructure

Enabling strong, secure networks is a priority within Ofcom's Annual Plan. Our Security and Resilience programme is based on proactive, open and collaborative dialogue with our regulated companies, in order to assess their levels of security and identify and implement any necessary improvements. We also report on the security and reliance of the UK's networks through our Connected Nations reports.

We have held a series of roundtable meetings with chief technology officers from communications providers to ensure senior level commitment to our programme. Our Security and Resilience Assurance Scheme was launched in February, using a detailed questionnaire to enable us to better understand the security and operational resilience issues providers face, and to then monitor their improvement plans. Ofcom took over TBEST - the intelligence-led penetration testing scheme – from DCMS in January, launching our Handbook on roles, responsibilities and processes in March. We are working with relevant communication providers on their implementation of the scheme.

We have an ongoing structured programme of engaging with key equipment vendors. We have supported the Government's Supply Chain Review, which will play an important role in determining the security and resilience framework for the future, and we are working with the Government on the development of the Telecoms Security Requirements.

Postal services

Sustaining the universal postal service is a priority within Ofcom's Annual Plan, and we have a statutory duty to do so. We continue to engage regularly with Royal Mail on its strategy and business plan to understand risks to the future sustainability of the USO. We intend to provide our latest view on the sustainability of the universal postal service later this year in our Annual Monitoring update for postal services.

In light of the continuing decline in the letters market, broader changes in the parcels' market and customers' expectations, and last year's decline in efficiency performance by Royal Mail, we have enhanced our monitoring of Royal Mail. We have done this by bringing forward some of the work we had planned to undertake as part of our next review of the regulation of Royal Mail, due by 2022.

As set out in our Annual Plan, we are conducting:

- a review of Royal Mail's efficiency, including international benchmarking. This work will give us more insights into the likely future sustainability of the universal postal service.
- a review to seek to understand the needs of postal users better. We are carrying out qualitative and quantitative research to review the extent to which the postal market is meeting the reasonable needs of users in light of changes in the market. We will then assess the implications arising from changes in postal user needs.

Following on from our Annual Plan, we have also started a review of the parcels market, which aims to enable us to gain a deeper insight into the growing parcels market.

I hope that this letter is helpful in setting out the work we are carrying out in the priority areas identified by the SSP. We will have regard to the SSP as we set our Annual Plan each year, and will set out in our Annual Report what we have done. We will continue to have regard to the SSP as we carry out all of our work to ensure that telecoms, spectrum and postal services work for everyone in the UK.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'K. Pettifer'. The signature is written in a cursive, slightly slanted style.

Katie Pettifer