

**June 2016**

Dear Sir/Madam,

## **Universal Service Obligation: Call for Inputs**

FSB welcomes the opportunity to respond to this call for inputs.

FSB is the UK's leading business organisation. It exists to protect and promote the interests of the self-employed and all those who run their own business. FSB is non-party political, and with around 200,000 members, it is also the largest organisation representing small and medium sized businesses in the UK.

Small and medium-sized businesses make up 99.3 per cent of all businesses in the UK, and make a huge contribution to the UK economy. They account for 47 per cent of private sector turnover and employ 60 per cent of the private sector workforce.

FSB has repeatedly called for a Universal Service Obligation to be introduced in recent years. It is positive to see that the Government is moving to address this. It is however critical that small business premises are explicitly included within this. As Ofcom have demonstrated, small businesses are not being as well served by the BDUK programme as residential properties. Including small businesses in the USO will help to reduce this gap in availability, and allow all small businesses to take full advantage of the digital economy.

We also believe that an awareness raising programme, targeted towards small businesses, will be an important component in ensuring that this new intervention is a success.

We trust that you will find our comments helpful and that they will be taken into consideration.

Yours sincerely,



Martin McTague, Policy Director

FSB

# **FSB response to Ofcom's Universal Service Obligation: Call for Inputs**

**June 2016**

Digital connectivity is critical to small businesses across the country. It is right that both the Government and Ofcom are now looking at how best to introduce and implement a Universal Service Obligation.

We would like to raise the following key points:

- Small business premises should be explicitly included within the USO to address the gap in availability which will be present at the end of 2017;
- Including upload speeds within the USO would improve the quality of service experienced by small businesses;
- An awareness raising campaign should be implemented to ensure that as many consumers as possible exercise their rights under the USO;
- A referral platform could be introduced to ensure consumers are able identify any Universal Service Providers. This could work in a similar way to new regulations helping small businesses find alternative sources of credit.<sup>1</sup>
- Ofcom should monitor uptake of the USO as part of the annual Infrastructure Reports, and undertake a more formal review of the USO specifications on a tri-annual basis.

FSB primarily bases our response to this call for evidence on two surveys of our membership, carried out in December 2014 (1402 responses) and March 2015 (1216 responses) respectively. Our March 2015 survey was supplemented with interviews we carried out with 65 small business owners.

Much of the analysis in this response is explored in more detail at in our two recent reports on telecoms services.

These are available here:

FSB, Reassured, optimised, transformed, September 2015. Available at [http://www.fsb.org.uk/docs/default-source/Publications/reports/fsb-telecoms-report---september-2015\(2\).pdf?sfvrsn=0](http://www.fsb.org.uk/docs/default-source/Publications/reports/fsb-telecoms-report---september-2015(2).pdf?sfvrsn=0)

FSB, The Fourth Utility, July 2014. Available at <http://www.fsb.org.uk/docs/default-source/fsb-org-uk/policy/assets/fsb-the-fourth-utility-paper.pdf?Status=Master&sfvrsn=0>

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<sup>1</sup> <http://british-business-bank.co.uk/ourpartners/finance-platforms-and-credit-reference-agencies/>

## **Specification and scope of the USO**

### **Small business premises should be explicitly included within the USO**

Ofcom's own analysis has found that small business premises are disproportionately less likely to have access to superfast broadband, or to speeds above 10Mbps. Businesses based on business parks are similarly more likely to have access to low speeds. Small businesses would therefore be a major beneficiary from being included explicitly within the USO.

This gap is also likely to continue without further policy interventions. Leased lines of course do offer one solution, but the expense of these products is prohibitive for most small businesses. Leased lines generally offer service levels in excess of small business requirements, meaning that leased line products are not cost-effective for the majority of small businesses.

Our main priority is therefore to ensure that any new Universal Service Obligation explicitly include both small business premises and business parks. Without this explicit recognition, the clear benefits that a Universal Service Obligation would have for the wider economy will likely be missed.

### **Upload speeds are also important to small businesses**

It is right that Ofcom look at other metrics for quality of service when considering the technical specifications for the USO. Download speeds are an important component of the quality of service for small businesses, but upload speeds are also important for many small businesses.

We have generally found low levels of satisfaction with both download and upload speeds among the small business community. Overall, only 41 per cent of businesses were satisfied with the download speeds available to them. 37 per cent were satisfied with their upload speeds. As would be expected, there was a significant gap in satisfaction levels between small businesses in urban and rural communities.

**Table One:** How satisfied are you with the following elements of different telecommunication services your business uses?<sup>2</sup>

	Urban business		Rural business	
	Satisfaction	Dissatisfaction	Satisfaction	Dissatisfaction
<b>Broadband download speed</b>	50%	37%	30%	61%
<b>Broadband upload speed</b>	43%	39%	28%	62%

Any USO should be designed to meet consumer demand across different facets of consumer experience. Including upload speeds within the USO would therefore increase the benefits for consumers.

### Demand for the USO

Demand for the USO will necessarily be determined by awareness among both households and small businesses of their new legal right to request this service. FSB research has demonstrated that there is generally low understanding and awareness of the telecoms market among small business owners. An awareness raising campaign will be required to make sure that as many consumers as possible are aware of this new right.

In March 2015, we found that only 36 per cent of small businesses were aware that superfast broadband is available in their area. This is below the 56 per cent availability of superfast broadband which Ofcom found at a similar time period. Among businesses which were aware that superfast broadband was available in their area, take up was 56 per cent – suggesting that a lack of awareness is a key barrier to taking up faster services.

In addition to the 27 per cent of small businesses which said they were currently using superfast broadband, 46 per cent said they would like to use these services in future.

This suggests that significant numbers of small businesses who may find superfast broadband beneficial do not take it up for the simple reason that they do not understand how to find out whether it is available or not. Others may not realise that a business will need to upgrade their contract in order to access superfast broadband.

<sup>2</sup> FSB, Communications Services poll, December 2014

A USO based on creating the legal right to request a minimum level of service will therefore only be effective if corresponding action is taken to make small businesses (and other consumers) aware that they have this right.

Designated USPs would presumably be incentivised to raise awareness in areas they are responsible, but a wider effort from local councils and national Government is also needed.

Other communications providers could also be required to refer consumers to a/the designated USP if they are unable or unwilling to satisfy the initial request. This could work in a similar way to the referral method currently being used to improve access to finance for small businesses.<sup>3</sup>

FSB is also willing to work with any other stakeholders to promote awareness of the USO to our members, assuming that small business premises are within scope of the USO.

## **Review of the USO**

We strongly believe that the USO should be reviewed to ensure that it rises in line with consumer demand. A 10Mbps USO is currently appropriate as a backstop option for most small businesses excluded from existing roll out plans, but it is likely that as businesses increase their use of digital technology that demand levels will rise.

Additionally, as ultrafast technology becomes more widely available to consumers, the gap in download speeds available to urban and rural small businesses is likely to widen. This poses an ongoing and increasing risk to digital inclusion.

Ofcom's work in monitoring the availability of superfast broadband for both the residential and small business market as part of the annual Infrastructure Reports / Connected Nations update report is valuable. Monitoring take up of USO services in these annual update reports would be equally beneficial.

Ofcom's statutory duty to carry out a more comprehensive review of digital infrastructure every three years would offer an opportunity to carry out a more detailed review of whether the specifications of the USO are in line with consumer demand.

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<sup>3</sup> British Business Bank <http://british-business-bank.co.uk/ourpartners/finance-platforms-and-credit-reference-agencies/>