



Federation of Small Businesses
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Broadband

Steps for an incoming Government

Marie-Claude Hemming and Clive Davenport



Contents

About the authors	2
Introduction	3
Why small businesses need better broadband	5
FSB research	5
Public service	7
The reality of the small business experience	8
What small businesses want	8
Lack of service	9
The small business vision for the future	11
First steps for an incoming Government	11
Definition of speed	13
A market driven solution	13
How a solution could be achieved	15
The mechanism	15
Funding sources	16
Conclusion	17
Glossary	18
Acknowledgements and thanks	19
Benefits of joining the FSB	20

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Introduction

A fast, reliable and guaranteed broadband service direct to the UK small business customer is key as we look towards economic recovery and retaining our status as a major economic player in the 21st century. Whilst the Federation of Small Businesses (FSB) welcomed the announcement in April 2010 that the controversial 50p landline tax to help pay for Next Generation Access (NGA) would be dropped, the FSB is of the view that the Digital Economy Act was a lost opportunity in terms of improving the provision and access to broadband.

The European Commission is currently consulting on how to guarantee broadband internet connections to all citizens. The FSB believes this consultation provides a significant opportunity to improve UK broadband provision, combined with the transposition of the EU Telecoms reform package to UK law which must come into force by June 2011. Part of the implementation of this EU package took place through the Digital Economy Act and the remainder is likely to be implemented via an amendment to the Communications Act 2003. Furthermore, EU Ministers responsible for Telecommunications and Information have now adopted the Granada Declaration for the Digital Agenda and it is expected that this year the EU will agree on a strategy.

The FSB now calls on the Government to go further than ensuring a universal service commitment for broadband at a basic speed and to make this a universal service obligation.

Small businesses make up 99.3 per cent of all businesses in the UK, and make a huge contribution to the UK economy. They contribute 51 per cent of the Gross Domestic Product (GDP) and employ 58 per cent of the private sector workforce. In a recent survey by CISCO systems¹, the UK came 25th out of 66 in terms of the quality and reach of its networks. The UK was listed among countries whose broadband is "meeting the needs for today" – ranking third out of four categories. This means that Latvia and Bulgaria are better prepared than the UK for next-generation net access applications. With a half of small businesses relying on the internet for up to 50 per cent of their

¹ <http://news.bbc.co.uk/1/hi/technology/8282839.stm>

annual turnover², now is the time for any incoming Government to make significant changes to ensure that the UK remains a key global competitor in the 21st century.

Clive Davenport
Chairman
Trade and Industry Committee

May 2010

² FSB member survey, June 2009

Why small businesses need better broadband

The FSB believes that guaranteed, fast and reliable broadband direct to the small business customer will play an important role in offering new opportunities for small businesses. In terms of economic growth as a whole we note estimates from the National Endowment for Science, Technology and the Arts which indicate that the provision of universal super-fast broadband could directly create 600,000 new jobs, with £18 billion added to GDP and that the indirect effects could be far larger³. According to a poll for the BBC World Service almost four in five people around the world believe that access to the internet is a fundamental right⁴.

The internet can play a key role in economic growth. Web applications, services and platforms improve productivity and make it easier for small businesses to collaborate and access new markets both locally and further afield via digital distribution and online retail. Internet access increases consumer choice and competition and is essential as public services move towards greater online access. The wave of innovation that we have seen in the last two decades will only intensify as bandwidth constraints are removed by improvements in infrastructure and the roll out of high-speed broadband across the UK, firstly by fibre and secondly by secure high-capacity microwave links.

FSB research

In June 2009, the FSB carried out an online member survey on broadband speed. It received 6,656 responses, which were spread across the UK reflecting the FSB's membership. The results showed that small businesses, especially rural businesses, did not seem to trade as much online as they could because of a lack of reliable and fast enough for the purpose broadband speed with appropriate IP throughput. With small businesses dominating our rural economies – 27 per cent of England's enterprises are rural – this is a significant barrier to growth and breaking this barrier must be the priority for any incoming Government.

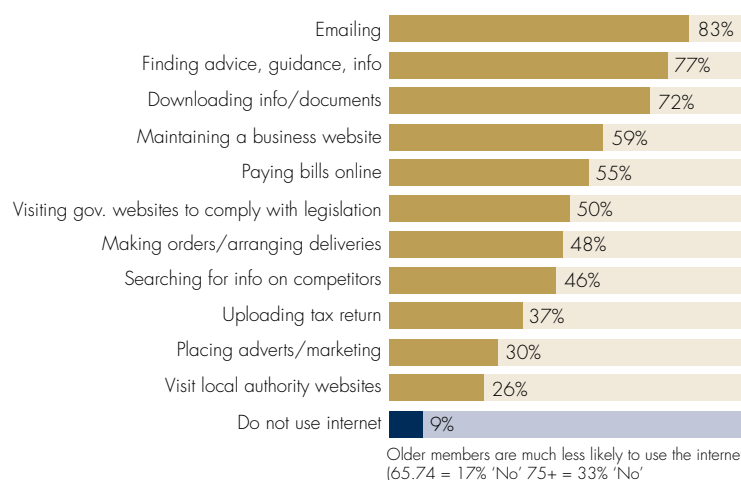
3 http://www.nesta.org.uk/publications/policy/assets/features/getting_up_to_speed

4 http://news.bbc.co.uk/1/shared/bsp/hi/pdfs/08_03_10_BBC_internet_poll.pdf

In January 2010 the FSB published the FSB-ICM 'Voice of Small Business' Annual Survey which found that the vast majority of FSB members use the internet when running their main business (Table 1), with email – mentioned by 83 per cent – the most popular function. Three-quarters (77%) go online for advice, guidance and information while 72 per cent use the internet to download information or documents.

Three-fifths (59%) maintain a business website, 55 per cent pay bills online and half (50%) of businesses visit government websites for information on how to comply with legislation.

Table 1: The FSB-ICM 'Voice of Small Business' Annual Survey



The overwhelming picture is of a high level of internet dependence with nine in 10 using the internet in the running of their business. It is notable that those whose profitability has stayed the same or decreased over the last year are significantly more likely not to use the internet for business purposes than those whose profitability has increased.

Recent analysis commissioned by the FSB from Robert Gordon University identifies the introduction of an increasing use of e-commerce and the internet to cope with the recent economic downturn, with younger firms' usage greater than their longer-operating counterparts. It is also worth pointing out that the biggest difference in the overall usage of the internet for business purposes is between the oldest and youngest firms. Small businesses in operation for more than 20 years reported the highest proportion of non-users (15%); whereas younger firms reported that only four per cent did not use the internet for business, compared with nine per cent overall. Furthermore, the research found that businesses throughout the UK, with greater reliance on e-commerce, recorded more stable profits or increasing profits, rather than with decreased profits. This continues to point to an increase in the use of online technology to promote, expand and diversify small firms' products and services⁵.

⁵ A comparison of newer firms with more established firms in the recession. Alistair R. Anderson and Ellina O. Russell, Aberdeen Business School, Robert Gordon University. March 2010

Public service

Public services and Government are increasing their online focus. Pricewaterhousecoopers (PWC) has estimated that Government can save £900m a year just by bringing those who do not have access to the internet online so they can carry out transactions with public services more quickly and efficiently⁶. They claim that every transaction with a public service that is carried out online, rather than over the telephone, can save around £3.30 per transaction in administration and staffing costs. Furthermore, PWC estimate that using the internet, as opposed to filling in paper forms or writing letters, can typically save £12 each time and total savings would be far bigger if all public services could be accessed online. Government itself is increasingly demanding that PAYE, VAT and other returns are made online but has failed to ensure that all businesses can access stable internet connections operating at acceptable minimum speeds to their premises, to make this a practical reality.

⁶ Gordon Brown speech in London, *Building Britain's Digital Future*.
March 2010

The reality of the small business experience

Despite the potential that online access promises, the reality is very different for small businesses. FSB research has found marked differences in speeds promised by suppliers and actual speeds received by small businesses at their premises. The FSB found that 29 per cent of UK small businesses were promised less than two Megabits per second (Mbps) and 27 per cent between two and 4 Mbps per second. However, 94 per cent of FSB members felt that their service providers' offerings were failing to match their advertising claims⁷.

Members indicated that it was not uncommon to be promised, and pay for up to 8 Mbps but in reality to receive less than 1 Mbps. Advertised speed is being used to mislead and misdirect the confidence of the user. Suppliers are aware of the speed a user is able to receive at their premises and therefore this should be stated rather than relying on the generic 'up to' claim which differs widely across the UK and fluctuates at different times of the day.

A lack of broadband speed and acceptable IP throughput reduces productivity for a third of small businesses. Other areas of difficulty due to speed restrictions are: the use of email (49%) information back-up (23%), the processing of payments (27%) and online marketing (20%). Furthermore, 60 per cent of members said a lack of broadband speed seriously impacted upon their use of new technologies, such as video conferencing, webcasts and podcasts⁸.

What small businesses want

When asked what Government could do now to most effectively help small businesses with online access, 60 per cent indicated that they wanted a guaranteed universal minimum download speed of 8 Mbps for all users⁹. A universal minimum asymmetric or preferably symmetric (when necessary) upload speed must also be guaranteed, which is essential for the use of new technologies.

⁷ FSB member survey, June 2009

⁸ FSB member survey, June 2009

⁹ FSB member survey, June 2009

To be able to operate effectively, small businesses must ensure that they can have confidence in the speed as well as the reliability of their broadband connection. Broadband is not an added luxury to small businesses but an essential service similar to utilities such as gas and electricity.

Lack of service

Small businesses are not getting the broadband they require. Figures from a recent FSB survey of 1,300 small firms show that 24 per cent of respondents are dissatisfied with their broadband service¹⁰.

Of those small firms that are dissatisfied, 63 per cent said they are unhappy with the speed and reliability of their internet connection supplied by their service provider. Thirty per cent said the area they live in has an unreliable broadband connection and 13 per cent said they would consider moving business premises to an area with faster broadband. Furthermore 33 per cent reported noticing particular times of the weekday when broadband internet speed was slower than usual.

13 per cent said they would consider moving business premises to an area with faster broadband

CASE STUDY 1

East Anglia: A 2008 survey of FSB members in the East Anglia region revealed that 40 per cent found that their service dropped out or slowed down at least once a week. When asked what sort of problems members in this region experienced with their broadband service 18 per cent reported technical failure, 12 per cent reported customer support and 17 per cent reported problems with BT lines¹¹.

CASE STUDY 2

South West: FSB members in the South West have noted that current broadband provision means that many small businesses in rural areas are 'timed out' before they can complete their online filing. This has been reported for DEFRA forms where the security based on email prevent the business using someone else's computer to make the return. Many small businesses are paying their accountants to file accounts online because of earlier experiences with the HMRC website.

In 2009, Point Topic produced a regional breakdown of areas that currently have basic levels of broadband speed. Northern Ireland appears to be the most poorly placed with over 30 per cent of households out of the reach of 2Mbps. A full breakdown can be found at Table 2 below. However, the FSB notes that in far too many cases small businesses cannot get broadband at all.

¹⁰ FSB member survey, March 2010 <http://www.fsb.org.uk/News.aspx?loc=pressroom&rec=6007>
¹¹ 907 members were surveyed

Table 2: The percentage of UK which is out of the range of 2Mbps

The percentage of UK which is out of the range of 2Mbps	
East Midlands	15%
East of England	15%
London	1%
North East	16%
North West	11%
South East	14%
South West	20%
West Midlands	10%
Yorkshire/Humber	16%
Northern Ireland	32%
Scotland	16%
Wales	27%

(Source: Point Topic)

The small business vision for the future

First steps for an incoming Government:

Clarity and independence

An incoming Government has the opportunity to ensure all UK small businesses are able to compete in the global marketplace. It is essential that good broadband infrastructure is put in place to deliver the service expected. The FSB is calling for transparency at all levels of decision making, clarity, and independence. This means independent, professionally qualified technical advice. It means scrutiny, validation of contractors and their contracts and good engineering practice at every level.

Any incoming Government must agree to promote and finance one technical standard for transmission on the main highways and Ofcom, as communications regulator, must act truly independently of industry and not have any influence on the design of standards or specifications.

A dedicated Minister

As a first step, the FSB recommended that the Prime Minister appoint a Minister with the sole responsibility for broadband to maintain the momentum for moving towards an increasingly online future and to oversee its development. With the recent appointment of a Minister for Broadband the FSB recommends that whilst the Minister should work with all departments, those involved in the Treasury and the Department for Business, Innovation and Skills should have direct accountability to the new Minister. The Minister, through information provided from local and regional public bodies should have direct oversight of the national broadband infrastructure; its improvement, maintenance and roll out. The Minister must be accountable to all stakeholders and must co-ordinate the availability of internal or external funding and ensure any development meets a standard acceptable to the major network providers to enable them to take over the maintenance of future installation and services if necessary.

A rigorous form of line testing must be put in place to ensure that all faults known to affect broadband services are tested for and detected

An infrastructure inventory

The FSB calls for a comprehensive survey and inventory of the UK's ducts, poles, lit fibre and unused fibre to establish the complete picture of what exists, what is actually being used and what is likely to be used in future. The inventory should also include utility installed duct and fibre. The underground ducts (which the fibre network is laid in) are integral to future roll out. The FSB believes a full inventory would increase competition and investment in the market.

Sharing of infrastructure

One fibre carrying duct should be encouraged on each route motivating service providers and operators to share by coordinating and cooperating, possibly by offering those duct owners an incentive scheme. It is a waste of money (and is disruptive for the road user) to have laid multiple separate ducts in parallel which are all separately rated when lit. An incoming Government should consider allowing access to other passive infrastructure, enabling competitors to become partners in order to lower their increasing investments and to speed up the roll out of fast and reliable broadband.

Appropriate and proven background

The FSB expects all those involved in implementing broadband policy to have proven, professional and relevant technical and practical experience of IT, transmission or communications network telecoms. The roll out of fast and reliable broadband across the UK is one which is increasingly dependent on impartial and proven professional specialist technical and engineering advice.

Good engineering practice

There must be an end to avoidance between BT and internet service providers (ISPs) when it comes to dealing with faults on customers' lines. A rigorous form of line testing must be put in place to ensure that all faults known to affect broadband services are tested for and detected.

Providers must maintain all line plant and exchange equipment up to an expected standard and those standards must be externally audited and refereed.

Good engineering practice must be applied to all provisioning and repairs. All broadband faults must be fixed within 48 hours of first being reported for business connections and individually stipulated for residential customers.

A stronger role for the Telecommunications Ombudsman and Ofcom

The telecommunications Ombudsman must be able to rule directly against all service providers, their contractors or group companies without exemptions.

Customers should be able to cancel all contracts i.e. those of 12, 18, or 24 months, at any time without penalty if their service does not meet

expectations. Compensation must be offered and subject to increases if there are reoccurring faults for both business and residential customers.

ISPs must be obliged to deliver a minimum and guaranteed connection speed of 8Mbps download speed end to end, with guaranteed and consistent upload speed.

There must be a minimum level of service clearly stipulated in writing and notification of any traffic management that may be applied to the broadband connection.

It is essential that IP throughput is not subject to traffic management restrictions or throttling for the service the customer requires.

Small businesses must have confidence in the speed and reliability of their broadband provision. Ofcom must ensure providers give accurate information on connection speeds (IP throughput that is useable by the customer).

Ofcom must ensure there is one UK-wide standardisation and technical specification for the method of transmission on fibre for all network providers. This would ensure a cost-effective consistency and reliability in broadband delivery. Ofcom must be independent of sectoral bias and conflicts of interest and have technically qualified direction and leadership if it is to be credible and competent.

Local and other appropriate authorities must also play a vital overseeing role in infrastructure provisioning and maintenance, especially under and beside all roads.

Definition of speed

Although widely used, the term super-fast or high-speed broadband has not yet been officially defined. The roll out across the UK over the coming years will deliver significant benefits for all, however, it is essential at this stage that there is fast enough broadband for the purpose, reliability and consistency of broadband provision end to end. The Digital Britain strategy outlines a universal commitment for broadband at a basic speed of 2 Mbps by 2012, but this does not go far enough in meeting the requirements of today's small businesses.

A market driven solution

A 50 pence monthly tax on the majority of fixed lines would penalise small businesses, not raise the funds required and deter private companies from spending the money required to innovatively upgrade the country's internet

infrastructure. A highly competitive environment must be created to motivate the private sector into delivering truly competitive solutions which prioritises speed and in particular IP throughput that is useable by the customer. A public funding mechanism should also be put in place to provide fast and reliable broadband to the areas where the market may not deliver.

As we look towards the future, the focus should be on the roll out of fibre optic cables to all areas of the UK (Point to Point Fibre). Whilst technologies such as wifi, wimax and satellite links have potential, the solution must be delivered primarily through fibre or where it is impractical, secure high-capacity microwave links.

How a solution could be achieved

The mechanism

An incoming Government must focus its first Parliamentary year on the development of a future proof broadband strategy. As previously stated, without some incentive – which is not necessarily financial – the market is unlikely to deliver fast and reliable broadband to all areas of the UK.

Stage 1

Financial support should be allocated or assisted by Government for the provision of fast, reliable and upgradeable broadband to those harder to reach areas on a case-by-case basis. Assistance must be provided where there are difficulties in proving an economic case but there is a business benefit. The FSB proposes that these cases are made directly to the office of the new broadband Minister who would then closely analyse the proposal and decide whether a successful case had been presented within a fixed period of time – three months for example. The role of Ofcom must be reviewed and refocused. Conditions relating to telecommunications licences and performance and service delivery in the public interest must be reviewed.

Stage 2

Notification and reasons for delay must be issued monthly in event of failure to issue decisions. If an area were successful then the office of the Minister would be able to put out to tender the contract for installation and build and offer up to market the future maintenance and ownership of the service. After a specific timeframe it could be reviewed. If an area were unsuccessful, it must be given constructive feedback as to why it had been refused, suggesting steps to be taken for resubmission and be given the opportunity to bid again.

As an industry incentive an incoming Government should consider a reduction, or a temporary removal, of business rates on fibre optic cable especially when major operators combine use of a duct.

The FSB would like to see less money spent more wisely on targeted support

Funding sources

Alongside funding already committed by the previous Government, the BBC could be part of the solution. The provision of broadband is a natural fit with the terms of the organisation's Charter Agreement. The FSB notes the publication in April 2010 of a report from the House of Commons Public Accounts Committee on the scrutiny of value for money at the BBC, concluding that current audit arrangements were unsatisfactory. The FSB calls on the Government to set aside part of the BBC's funding allocation for UK broadband. In the same way, money could also be collected from dormant accounts and the completed move from analogue to digital television roll out surplus funding.

As any incoming Government inevitably looks at ways of reducing public expenditure given the current climate, a percentage of money saved could be allocated to an accruing broadband fund. The same goes when any new project is announced which has a digital, innovative or scientific focus. Furthermore, it is estimated that £10-12 billion are spent every year on government-funded business support¹². However, only five per cent of this goes to the micro-business sector, which accounts for 95 per cent of all businesses together with the lion's share of innovation and job creation¹³. The FSB would like to see less money spent more wisely on targeted support.

An incoming Government must ensure that there is greater transparency by industry on the true cost of delivering fast and reliable broadband across the UK. In the current climate and in order to ensure public money is targeted wisely, the FSB suggests a full audit must be made externally into all IT based Government projects in each of the last six years. This will establish which, if any, contracts were delivered on time and to budget, those that required further work and cost in excess of original contract, those that required contract resubmission, further investment or in particular reworking to effect delivery and to make sure that those involved in supervision, audit and delivery be held to account.

The FSB believes the solution outlined above to be the most fitting given the current economic climate.

¹² *Small Business and Government: The Richard Report*. Submission to Shadow Cabinet, Doug Richard, 2008

¹³ SfEDI, <http://www.sfedi.co.uk/sfedi-news/six-killer-facts> (Nov 2009)

Conclusion

An incoming Government will be forced to make difficult decisions as it plots a course to recovery and ensures the UK retains its competitive edge. A fast, reliable and guaranteed broadband service direct to the UK small business customer will play a vital role in the UK's economic recovery. Based on expert opinion, extensive research and survey data, the proposals outlined in the document are realistic and achievable in the current climate.

The FSB calls on an incoming Government to accept our recommendations to help small businesses thrive in the digital age and seek in future a strategic, future-proof solution.

Glossary

IP throughput: The amount of data that can be exchanged at any given time

Asymmetric: Broadband connection where the asymmetric digital subscriber line (ADSL) technology has a different upload and download data rate, usually the upload rate is less than the download rate

Symmetric: Broadband connection where the symmetric digital subscriber line (SDSL) technology has the same upload and download data rate

Traffic management / throttling: This is the control of the type of material the customer is able to upload and download. For example it is possible that at certain times of day an ISP could restrict traffic down to email only.

ISPs: Internet Service Providers

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