

Infrastructure and Capital Investment Committee: Call for views on broadband infrastructure in Scotland

November 2011

Introduction

The FSB is Scotland's largest direct-member business organisation, representing over 20,000 members. The FSB campaigns for an economic and social environment which allows small businesses to grow and prosper. An adequate broadband infrastructure, capable of delivering higher connection speeds, is a key part of this environment. Feedback from our members suggests that the importance of broadband is only set to increase in the coming years, with increasing numbers reporting that they trade online, for example.

We therefore welcome the opportunity to submit evidence to the Committee on the subject of our members' experience of the internet and broadband coverage.

Basis for evidence

The FSB has, in 2011, surveyed members on their experience of broadband across the UK, as well as in some specific areas of Scotland. Many of our findings chime with those set out in the Scottish Government's *'Research on Broadband and Business in Scotland'*¹ published in February 2011 and Consumer Focus Scotland's report, *'Scotland's Digital Needs'*², published in September 2011. Supplementing this information, we have gathered some case studies, illustrating in a little more detail

¹ <http://www.scotland.gov.uk/Publications/2011/02/23091236/14>

² <http://www.consumerfocus.org.uk/scotland/publications/scotlands-digital-needs>

the small business experience in Scotland of broadband and how it affects their business.

The Committee may be interested in the short policy paper the FSB published in October 2011 on the broadband landscape UK-wide³.

Finally, we have attached at Annex 1 and 2 some of our survey results relating to FSB members on their use of the internet and broadband experience for the Committee's information.

Small businesses' current and future internet use

The FSB's bi-annual survey of its membership UK-wide last carried out in Autumn 2009⁴, showed that around 90% of Scottish businesses used the internet for business purposes.

For the majority of small businesses, particularly those outwith the IT/communications sector, internet usage continues to be dominated by:

- Email;
- Internet browsing for advice, information, research purposes; and
- Basic website content management.

The range of uses businesses make of the internet is increasing. As the figures in Annex 1 show, a sizeable and growing proportion of our membership trading online, offering a greater opportunities to trade outwith the UK. Recent research⁵ also shows that online sales for small and medium sized businesses grew at a faster rate than those for larger companies during the period 2004-2008.

In addition, anecdotal feedback from those in the IT business support sector, suggests that there is growing demand from a wide range of business users for remote working (accessing a server remotely from your desktop wherever you are to view and edit work files). This requires higher internet upload speeds than those that basic broadband can deliver.

Finally, as statutory services and regulatory functions (such as online VAT returns) increasingly use the internet, so the usage by businesses, whose use thus far has been limited, will increase.

Small businesses' satisfaction with their internet provision

The FSB's findings on current usage of broadband shows that there is a marked difference in the typical speeds received across the UK, with 26% of small businesses

³ Please see the PDF document enclosed with this submission: *'Small Business and infrastructure: Broadband'*, by Ulrika Diallo and Clare Chapman, FSB

⁴ http://www.fsb.org.uk/policy/rpu/scotland/assets/publi_survey_fsbicmscotland_2009.pdf

⁵ *'The Connected Kingdom'*, Boston Consulting Group, 2010

having access to speeds of 2 Mbps or less, while only 14% receive access to speeds between 10-24 Mbps. This equates to the proportion of our members UK-wide who said they were dissatisfied with their broadband provision this year.

In areas with more patchy internet coverage such as Aberdeenshire, where the FSB conducted a regional survey in July 2011, the proportion of those receiving lower speeds was higher, with over 40% receiving speeds lower than 2 Mbps, and dissatisfaction greater with 32% being dissatisfied with their provision.

Typical reasons cited for dissatisfaction relate to tariff versus speed and reliability of service (See Annex 2) rather than more general aspects of customer service. This suggests that the dissatisfaction is related more closely to the infrastructure in place than the quality of service delivered through that infrastructure.

While current satisfaction rates and current usage by business are useful in providing a snap shot of business experience of broadband, these should not be taken as an overall indication that the current broadband infrastructure is adequate. Internet connectivity and broadband is already considered to be a basic utility by our members and as new technology requiring higher speeds and a more reliable connection develops, businesses will expect the infrastructure to support its use. Given the fast pace at which technology is developing, a longer term view of the broadband network's capacity is required.

Broadband improvements focus

The reality remains that improvements in broadband infrastructure, without intervention, are likely to be concentrated in urban centres such as Edinburgh and Glasgow and driven by domestic demand as has been the case in the past. The result of this will be to disadvantage regional economies further within Scotland, creating an overall economic drag, and the FSB believes that the risk that inadequate broadband will cause Scotland to fall behind its EU competitors in terms of innovative business practices, productivity and connectivity is real.

This is why the FSB has recommended that the UK's ambitions for broadband should at least be kept in line with EU targets. The FSB in Scotland believes that this should go for Scotland's ambitions as well. It is also why we have called for joint working between the Scottish and Westminster Governments in the roll-out of next generation broadband.

The advantage of faster broadband, in theory, releases businesses from the constraints of their location. It is interesting to note that, despite its apparent impact on productivity, the quality of broadband provision is not cited as a deciding factor for business location. Any proposition that infrastructure development be concentrated in regeneration areas, may be one of many factors that entice certain businesses into an area, but it is likely to have little traction for existing small and medium sized enterprises, at least for those outwith the IT/communications sector. There may be a case for improving infrastructure in existing business parks and industrial estates where broadband speeds and reliability are low. We have had indications from some

members, that businesses might be willing to contribute to infrastructure development costs where they could see potential for real productivity gains.

Role of public funding and public scrutiny

The FSB welcomes the Committee's intention to monitor and review the progress towards rolling out better broadband infrastructure in Scotland and keeping track of the public funding spent in this regard. The importance of public scrutiny and monitoring in this regard cannot be overemphasised. Factors which the FSB has identified as being key drivers for closer public scrutiny include the following:

1. The limited public funds available will need to leverage other sources of funding intelligently, to address market failure and scrutiny is required to ensure that it is put to the use that will yield the greatest impact.
2. Limited funding may give rise to proposals for quick fixes and low cost interim solutions, which in the long term will allow the country to fall even further behind its competitors.
3. While solutions for broadband infrastructure upgrade may vary from locality to locality, there is a general lack of technical expertise in communities about what the best solutions are and how best they might be arrived at. This is coupled in some areas with a need for better co-ordination and concerted action to address the failings of the current infrastructure.

In some areas, such as Aberdeen City and Shire, the area Economic Forum (ACSEF) has brought together key stakeholders including those from the business community to take forward investigations into how best to roll out better broadband locally. FSB members have been closely involved in the Forum's efforts to assess feasibility and cost and prepare a bid for matched public funding. Our survey of Aberdeenshire members contributed to this.

By contrast, we estimate that other areas with low uptake of internet services in general, and little cohesion between public and private sector partners, cannot rely on such mobilisation, with broadband as a lower priority than other socio-economic factors. Lack of broadband infrastructure will inevitably leave these areas further behind.

4. The role and level of commitment of the Scottish Parliament and Scottish Government in ensuring Scotland's next generation broadband infrastructure needs to be determined, not just for this financial year but for future years.
5. At the very least, the FSB believes this Committee has a role in ensuring regular assessment of uptake and broadband speed variation across Scotland over time, and of the impact of Scotland's broadband infrastructure on the nation's competitiveness relative to its neighbours.

Case studies

Urban/rural contrast

One of our members located in the central Highlands (Carrbridge), runs a freelance IT company and specialising in developing web services, such as online shopping systems. He reports experiencing connection speeds of around 2 Mbps (the current basic broadband requirement), but this dips well below 2 Mbps at 4 pm every day as school pupils return home and log on. He relocated his business to the Highlands from Edinburgh, where he had reliably been receiving speeds of 50-100 Mbps several years ago. He estimates that he is around 20% less productive since his move. An example he gave was that uploading photographs on a website he was developing took him 5 hours in his current location due to slow upload speeds and time-outs compared with 10 minutes in the Capital. Moreover, he recognised that many of the businesses around him had worse speeds even than he did.

Average business user

A second member we spoke to located in South West Fife (Dalgety Bay), was content with the broadband she received, although she acknowledged that the same could not be said for businesses in all parts of Fife. She runs an employment law consultancy and most of her internet usage involves email communication, online research and referencing, website maintenance and blogging/social media, the use of which the business has embraced wholeheartedly.

Increasingly her business uses Skype as a video-conferencing and document sharing tool. This has enabled the business, which operates out of two sites, one in Fife, one in London, to operate more efficiently. It has also enabled the business to expand its reach more easily into the EU. This is the only application the business currently uses that requires higher download/upload speed. Our member reported that sometimes the picture and connection was poor when using Skype, but that as the function was not yet critical to the business, it was not such a problem.

Industrial/business park in 'middle' Scotland

Finally we spoke to the owner of an IT support company in Glenrothes. He provided an overview of the coverage of broadband in Fife as his company has clients both in the Kingdom and in Edinburgh and Glasgow. Apart from the South West corner, characterised by an affluent commuter population, Fife's internet infrastructure is out of date, still relying for the most part on ADSL1 (a system installed in the early-mid 90s and delivers speeds typically of up to 1.5Mbps). While this was perhaps to be expected in certain parts of the East Neuk, for example, he was frustrated that broadband services to business in what has been called 'the industrial heartland of Fife' cannot even match the service received by the domestic market in the same area. He spoke of several outages in internet service in Fife over the past year resulting in several businesses being without email for up to two weeks. His perception was that this was due to severe weaknesses in the existing infrastructure.

For further information on any of the points raised in this submission, please contact Mary Goodman, Senior Policy Adviser, email: mary.goodman@fsb.org.uk t: 0141 221 0775.

Annex 1: FSB membership Internet usage

FSB Voice of Small Business Survey September 2011

Which one of the following best describes your business's approach to online trading?

	UK	Scotland
Weighted base	1626	163
Currently sell goods and/or services online	32.7%	40.0%
Previously sold goods and/or services online	1.9%	2.3%
Actively considering selling goods and/or services online	8.0%	9.7%
Likely to consider selling goods and/or services online in the future	8.9%	7.4%
Do not sell and not considering selling goods and/or services online	16.1%	13.1%
Not applicable to my business	32.5%	27.4%

In which countries or regions do you have online customers?
(Note: Scotland response numbers are low)

	UK	Scotland
Weighted base	530	65
UK	97.3%	95.7%
Other countries in European Economic Area()	42.7%	51.4%
Republic of Ireland	39.4%	48.6%
North America/Canada	29.2%	50.0%
Australasia	25.3%	41.4%
Asia	15.1%	24.3%
Middle East	11.1%	20.0%
South/ Central America	9.5%	15.7%
Other (please specify below)	3.3%	2.9%
Don't know	1.1%	2.9%

Annex 2: FSB Voice of Small Business Survey February 2011: Broadband

FSB Voice of Small Business Survey February 2010

How satisfied or dissatisfied are you with the broadband provision at your business premises?

	UK	Scotland
Responses	1289	130
Very satisfied	14%	8%
Fairly satisfied	44%	45%
Neither/ nor	15%	16%
Fairly dissatisfied	14%	14%
Very dissatisfied	9%	11%
Total Satisfied	58%	53%
Total Dissatisfied	24%	25%
NET Satisfied	35%	28%
Do not have broadband	3%	4%
Don't know	1%	3%

What reasons best describe why you are dissatisfied with your broadband provision?

	UK	Scotland
Responses	304	32
Unhappy with provider - speed/reliability	69%	50%
The area business is in has unreliable broadband	30%	45%
Unhappy with provider - price	17%	22%
Unhappy with provider - customer service	13%	8%
The rural area my business is in has low speed	4%	3%
Infrastructure does not meet speed reliability requirements	2%	3%
Too far from exchange	1%	3%
Other	2%	-
Not applicable	-	-

Have you looked into changing/changed your business broadband provider in the last 12 months?

	UK	Scotland
Responses	1247	121
Yes	31%	31%
No	68%	67%
Don't know/can't remember	*	2%

Would you consider moving your business premises to an area with faster or more reliable broadband provision?

	UK	Scotland
Responses	1247	121
NET: Yes	13%	8%
Have moved in the past	2%	2%
Would consider moving in the future	11%	7%
No	85%	87%
Don't know	2%	5%