



Experts in Business

Digital Connectivity in Scotland

FSB response to the Scottish Affairs Committee

Federation of Small Businesses Scotland
January 2018

About

FSB is Scotland's leading business organisation. As experts in business, we offer our members a wide range of vital business services including advice, financial expertise, support and a powerful voice in government. Our mission is to help smaller businesses achieve their ambitions. These micro and small businesses comprise the majority of all enterprises in Scotland (98%), employ around one million people and contribute £68bn to the economy.

Summary

- Improving Scotland's digital infrastructure is a key priority for the country's small business community. Following 2016's Scottish Parliament election, improving the country's broadband and mobile provision was identified by FSB members as their second top priority for the country's decision-makers.¹ In a 2017 survey of business owners on Scotland's islands, poor local broadband coverage was identified as their third top concern.²
- However, Scotland's level of digital connectivity has lagged behind other UK nations, especially England,³ as well as other leading European countries. While progress has been made to close the digital gap – and FSB wants to see improvements in digital infrastructure in every part of the UK – questions remain regarding whether current private and public initiatives will be sufficient to deliver a level of connectivity acceptable to the Scottish business community.
- FSB strongly supports the Scottish Government's commitment to delivering universal superfast broadband. We also support UK Government and local government initiatives to bring enhanced broadband to many parts of Scotland. All such efforts must be carefully coordinated and focus on delivering improvements for the end user of telecom services.
- FSB has been very disappointed regarding the lack of substantial progress regarding geographic mobile coverage north of the border. As official statistics demonstrate that smart phones are increasingly important to people's lives⁴, and that many new technologies (e.g. internet of things) are dependent on mobile connections, it is unacceptable that so little progress has been made.
- We note that Ofcom recognises that insufficient progress has been made and propose that future spectrum auction sales should be tied to improved coverage.⁵ We would strongly argue that nation-specific coverage obligations should be attached to close the gap between England and Scotland. While we understand that UK-wide coverage conditions have been attached to previous sales, the evidence suggests that these are not delivering for large parts of Scotland.
- Three quarters of Scottish businesses say that new technologies are vital to their plans for growth.⁶ In our view, Scottish firms will not be able to realise

¹ FSB member survey, May 2016

² FSB member survey of island businesses, October 2017

³ Ofcom, Connected Nations - Scotland, December 2017

⁴ Scotland becomes a 'smartphone society' – Ofcom – August 2015

⁵ Ofcom, Connected Nations - Scotland, December 2017

⁶ Scottish Government – Digital Economy Survey – March 2015

- these ambitions without access to the right skills and to infrastructure fit for 2018.
- Further, large public (e.g. HMRC) and private institutions (e.g. banks) are making it increasingly difficult for firms to transact offline. In our view it is unacceptable for both the state and large institutions to demand this channel shift without adequate infrastructure in place.

Superfast broadband and 4G availability

Scotland's digital infrastructure is improving. Specifically, figures from Ofcom show a substantial improvement in relation to superfast broadband availability for both domestic and non-domestic premises:⁷

	All Scottish premises	Scottish small and medium sized enterprises' (SME) premises
2017	87%	78%
2016	83%	72%
2015	73%	-

However, Scotland's digital infrastructure still lags behind England on every measure:

Superfast broadband availability (premises)

	2017	2016	2015
UK	91%	89%	83%
England	92%	90%	84%
Scotland	87%	83%	73%

4G Mobile coverage

	Geographic 4G coverage, % of landmass		Indoor 4G coverage, % of premises	
	2017	2016	2017	2016
UK	43%	21%	58%	40%
England	60%	32%	60%	42%
Scotland	17%	6%	53%	33%

Superfast broadband availability for Scottish smaller firms' premises lags behind availability for Scottish domestic premises. Evidence suggests that this is principally due to the high share of smaller firms in rural areas, alongside issues regarding servicing firms in premises such as business parks.⁸ FSB has regularly argued that government at all levels should address this problem. For example, in

⁷ Ofcom, Connected Nations - Scotland, December 2017

⁸ Ofcom - [Speech from chief executive Sharon White to FSB conference in Glasgow](#) - March 2016

correspondence to the Scottish Government, FSB made the argument that future interventions should attempt to close the gap between domestic and non-domestic connectivity.⁹

While there's less evidence available regarding mobile phone coverage for business premises, it would be fair to infer that Scotland's relatively poor mobile phone coverage will have a disproportionate impact on smaller firms in rural areas.

Digital and the economy

Improving the digital capacity of business is a key priority for both the UK and Scottish Governments. Both the UK Government's Industrial Strategy and the Scottish Government's Digital Strategy reveal ambitions to grow the specialist digital sector with enhanced government support outlined by governments both north and south of the border.

While many people associate the digital sector with very large businesses (e.g. Google, Skyscanner, Amazon), FSB would highlight that official statistics show that of the 10,415 businesses that operated in the ICT sector in Scotland in 2017, all but 95 of them are small or medium sized.¹⁰ Anecdote suggests that these sorts of businesses will move their operations to ensure their firm has access to appropriate levels of digital connectivity.

Figures from ScotlandIS, Scotland's specialist digital membership organisation, suggest that Scotland's digital industry is clustered in the central belt¹¹ - with around 60 per cent of the domestic industry principally based in the wider Glasgow / Edinburgh area. In our view, it may be too simplistic to suggest that this geographic concentration is due to historically poor levels of connectivity in rural Scotland - but alongside demographic and skills issues - may be a contributing factor.

However, we would also underline that digital connectivity is not only a matter of importance for Scotland's digital sector. A 2014 large-scale study of Scotland's business community revealed that 75 per cent of Scottish firms stated that digital technology was essential or important to the future growth or competitiveness of their business, 71 per cent stated that they have used the technologies to aid the development of new products and services, and 65 per cent of exporters agreed with that using digital technologies had increased the number of international markets to which they export.¹²

FSB's 2015 report *Digital Disruption and Small Businesses in Scotland* looked at threats and opportunities for firms associated with an era of rapid technological change.¹³ The report warned that the dramatic changes that we've seen in sectors such as retail are likely to come to other sectors. The study urged Scottish smaller firms to build their digital capabilities to improve all parts of their business - including on occasion re-examining their fundamental business model. The report urged policy makers to ensure the country's tax and regulatory systems were fit

⁹ Letter from FSB to Cabinet Secretary for Connectivity regarding R100 programme - July 2017

¹⁰ *Businesses in Scotland 2017* - Scottish Government - November 2017

¹¹ *Scotland IS - Scottish Technology Industry Survey* - 217

¹² Scottish Government - Digital Economy Survey - March 2015

¹³ *Digital Disruption and Small Businesses in Scotland* - FSB - December 2015

for the modern marketplace – as well as arguing that nationwide connectivity is a prerequisite for Scottish digital success.

As a consequence of strategic decisions made by large public and private institutions, FSB would argue that good digital connectivity isn't simply required for business growth, but increasingly a necessity for firms of all sizes. For example, the decision by the banking industry to close the vast majority of UK branches, makes it far more difficult to run a business in an area with poor connectivity. Similarly, the UK Government's Making Tax Digital programme is predicated upon business owners having fast and reliable digital connections. In a number of submissions to government, and in stand-alone reports, FSB has argued that UK firms regard quality digital connectivity as a key utility, vital to running a business in the modern age.¹⁴

Improving the quality of service

The increased importance of digital connectivity to Scotland's business community means that FSB strongly supports the ambitions of the Scottish Government's R100 programme. FSB has asked Ministers whether this programme could also deliver improvements in Scottish mobile coverage.¹⁵

While debate regarding digital infrastructure rightly focuses on rural areas, FSB also regularly receives member complaints regarding connectivity in urban areas. Specifically, we would highlight complaints regarding 4G availability in cities and towns beyond the central belt, alongside complaints from business owners with poor broadband connections in urban areas, who are often in areas outside the scope of market interventions.

Further, FSB regularly receives feedback from members in Scotland, and elsewhere in the UK, regarding the quality of telecom services that they receive. For example, we often hear from our members about the amount of time it takes to fix line faults, as well as lower than expected broadband speeds. FSB welcomed Ofcom's recognition of these issues in their Strategic Review of Communications.¹⁶

To address these persistent service quality problems, FSB also made the case to the Scottish Government that a key performance indicator for the procurement/s associated with their R100 programme should be the satisfaction of the end user of the services. In practise, this could mean payment for these could be withheld until residents and businesses within the intervention zone are satisfied with their telecom services.

FSB accepts that interventions in the Scottish telecoms market have delivered a step-change in the quality of infrastructure north of the border, and that many thousands of businesses and residents would have had poorer quality connectivity without this investment. However, we would highlight that we are regularly contacted by business owners who are dissatisfied with the quality of their connection. This is likely due - at least partially - to the rapidly rising expectations of users alongside the digitisation of the economy and society.

¹⁴ "Reassured, Optimised, Transformed: Driving Digital Demand Among Small Businesses", FSB, September 2015.

¹⁵ Letter from FSB to Cabinet Secretary for Connectivity regarding R100 programme – July 2017

¹⁶ FSB media release – February 2016

However, we would also argue that ineffectively targeted and designed communications from both private telecoms operators and public sector actors have inflated household and business expectations.

FSB was pleased when the Committee of Advertising Practice ruled that telecoms operators have a duty to be more transparent in their advertising, especially when they advertise with claims of “speeds of up to X mbps”.¹⁷ Ongoing work is required by governments and regulators to ensure that telecoms operators communicate clearly with potential customers.

FSB would highlight our research which show that roughly half of all Scottish businesses are run from the home, and that this proportion is likely to be much higher in rural areas. In our experience, many home based businesses tend to run their operations using a domestic broadband package, rather than opting for a business product. Typically, a business grade product is significantly more expensive than its domestic counterpart – but comes with enhanced levels of customer service and more consistent speeds, as well as a number of other features. We would argue that extra effort may need to be applied to ensure business owners purchase the correct product for their operations – as well as to ensure the variety of products on the marketplace reflect the variety of UK business models.

Interventions

As effort continues to deliver universal superfast broadband, FSB would argue that businesses and consumers who currently cannot receive a superfast connection should be advised at the earliest opportunity when appropriate infrastructure will be in place.

FSB notes that in the Scottish Government’s ‘Reaching 100% - Superfast Broadband for All’ policy statement it is stated that “a superfast voucher scheme... will deliver a wide range of superfast technologies including fixed wireless, 4G mobile, superfast satellite as well as emerging technologies such as TV White Space.” We do not believe this approach is well understood by those who might benefit from this policy and would suggest extra efforts needs to be applied to ensure communities are well-informed.

On a UK-wide basis, FSB welcomed the DCMS broadband challenge fund. We understand that a number of Scottish local authorities are making bids for this funding, and we would urge the DCMS to prioritise bids which would make the most significant difference to smaller enterprises. In a devolved context, it is important that UK Government initiatives are co-ordinated with action being undertaken by the Scottish Government and local government.

FSB in Scotland has also argued that Scotland’s city deals could have a role in addressing shortfalls in digital infrastructure. We understand that the Aberdeen City Region Deal will work on improving the city region’s digital infrastructure provision. While this work would have to be co-ordinated with other initiatives, we believe that other deals – those in place and those to be agreed – could do more on this front.

¹⁷ [Advertising Standards Authority](#) – November 2017

In Ofcom's latest Connected Nations report, we note the following: *"We are also still considering whether future spectrum auctions can be used improve the availability of mobile services in the UK (e.g. in rural areas and other 'not spots' in Scotland). We intend to do this by attaching coverage obligations to the spectrum we are auctioning..."*

FSB believes that poor mobile coverage has been a persistent problem for Scottish communities and that government intervention is required to address this shortfall. While we look forward to working with Ofcom on this issue, we would strongly argue that future spectrum sales should be tied to addressing this problem. Specifically, we would argue that nation-specific coverage obligations should be introduced to address current problems – with an ambition to ensure that Scottish rural consumers and businesses receive the same level of mobile services as their urban counterparts elsewhere in the UK.

FSB also notes that the Scottish Government and the Scottish Futures Trust have recently consulted on developing an intervention to improve Scotland's mobile phone coverage – dubbed a Scottish 4G Infill Programme. We welcome this initiative to address a persistent problem where Scotland's low population density makes it an unappealing location for commercial mobile coverage. We would suggest that the UK Government and its agencies may like to support this work.

Recommendations

- 1) FSB welcomes the current on improving Scotland's digital infrastructure. We would however warn that the adversarial approach adopted by politicians north and south of the border is unhelpful. The Committee should recommend to the Scottish Government and UK Government to work closely together through the Joint Ministerial Committee to address shortfalls in Scotland's digital infrastructure.
- 2) While there is an ambition to address shortfalls in broadband in Scotland, no such plan exists to address Scotland's poor mobile coverage. We would ask Ofcom, the UK Government and the Scottish Government to develop a joint plan to ensure Scotland's mobile coverage is at least as good as England's. We would argue that nation-specific coverage obligations should be attached to future spectrum sales to drive up coverage in Scotland, Wales, and Northern Ireland.
- 3) The Scottish Government's R100 programme is a substantial public investment. Care needs to be applied in the design of this programme to ensure that it delivers for end users. We have suggested that payment to contractors should not be triggered until evidence has been provided that users – including businesses – are satisfied.
- 4) The UK telecommunications market is complicated – with a large number of public and private players, competing technologies and a complicated regulatory framework. Government and regulators need to ensure that smaller business customers make informed choices to ensure they get access to the most appropriate services.

Further information

For further information, please contact FSB's External Affairs Manager for Scotland Stuart Mackinnon on stuart.mackinnon@fsb.org.uk



Experts in Business

The FSB is Scotland's largest direct-membership organisation. It campaigns for a better social, political and economic environment in which to work and do business. With a strong grassroots structure and dedicated Scottish staff to deal with Scottish institutions, media and politicians, the FSB makes its members' voices heard at the heart of the decision-making process. It is therefore recognised as one of Scotland's most influential business organisations. The FSB also provides a suite of services to help our members reduce the cost and risk of doing good business – from legal and tax protection to business banking.

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