

Written evidence submitted by TalkTalk

Introduction

Rolling out gigabit-capable networks and delivering high uptake across the UK is a hugely complex task. It is an infrastructure revolution that will happen on every street in the country and will take time. The high levels of private investment are to be welcomed, as is the Government's commitment to subsidising build in the most rural areas.

The Government's role is two-fold – to remove barriers to roll-out and take-up to make the private investment go as far as and fast as possible, and to administer the rural subsidy scheme. In our response, we consider how the Government is delivering against both tasks, as well as how the wider performance of the broadband market is supporting the gigabit roll-out.

Progress

Since the Committee's first report in November 2020, there has been positive progress in the full fibre market.

- Full fibre availability has increased: the Ofcom Connected Nations Report Summer 2021 showed that full fibre coverage in May 2021 was at 24%, an increase from 18% in September 2020.¹ Gigabit coverage increased from 27% to 40% over the same period.
- The market has matured and developed with operators increasing their full-fibre build ambitions: CityFibre identified more locations within its build plan to cover 8 million homes²; Openreach has increased its build rate target to 3 million premises per year to cover 25 million homes³, while Virgin Media O2 announced its intention to upgrade its fixed network to FTTP by 2028⁴, while reports suggest it is looking to wholesale its services for the first time.
- The importance of customer take-up is increasingly recognised as a key part of a roll-out strategy. The Government-commissioned Gigabit Take-up Advisory Group (GigaTAG) published its report with recommendations for government, regulators and industry to support take-up of new services.
- There has been progress on making full-fibre affordable to promote early take-up, with Openreach proposing a special offer to internet service providers (ISPs) of a lower wholesale rate for fibre products in return for commitments to prioritise FTTP

¹ https://www.ofcom.org.uk/__data/assets/pdf_file/0013/224212/connected-nations-summer-2021.pdf

² <https://www.cityfibre.com/news/cityfibre-extend-world-class-infrastructure-216-additional-towns-villages-across-britain/>

³ <https://www.openreach.com/news/openreach-adds-551-more-locations-to-its-full-fibre-broadband-plan-as-the-build-reaches-five-million-homes-and-counting/>

⁴ <https://www.libertyglobal.com/virgin-media-o2-announces-2028-full-fibre-upgrade-plan/>

orders over legacy technologies (“Project Equinox”). We welcome this offer as an important step to migrating all our customers onto full fibre products.

This progress is to be welcomed. New entrants to the broadband market have created a competitive market, which is pressing operators to roll-out quickly and reach customers.

Challenges

However, there are several issues highlighted in the Committee’s initial response which still remain uncertain and where further clarity is needed.

1) Lessons from superfast project

The superfast roll-out saw over-reliance on Openreach and a failure to build competition in the market. Ofcom’s decision to require legal separation of BT and Openreach in 2016 saw an important change in approach from Ofcom and the Government regarding the future of the communications market, and we strongly support the emergence of new entrants to drive true competition.

However, we are concerned that – five years since the initial discussion –some of this progress is being lost. Openreach’s engagement with its customers (including TalkTalk) has deteriorated over the past year. There has been less collaboration and a move towards actions and decisions by Openreach that ignore the needs of wholesale and retail customers. This behaviour is an example of Openreach exploiting its market power against the interests of customers.

To protect market competition, encourage roll-out and ultimately serve the needs of consumers, Ofcom needs to hold Openreach to account and challenge this behaviour. Strong regulation and effective enforcement is needed to ensure Ofcom meets customer needs, delivers on its FTTP investment, and does not block effective competition between FTTP network builders. We have made several practical recommendations to Ofcom about future activities which will help re-establish the culture of an independent Openreach, including monitoring Openreach’s FTTP build (in particular in rural areas where it has made commitments to the regulator) as well as take-up rates, and new mechanisms for customer engagement and influence. We would be happy to share these suggestions with the Committee. We hope to see Ofcom respond positively to these recommendations; without intervention, there is a real risk that Openreach increasingly exploits its market position, damaging competition in the sector and risking delays to full-fibre roll-out and uptake.

2) Progress of BDUK rural consumers

BDUK Project Gigabit has made important progress over the last year. TalkTalk is a retail provider and therefore has limited engagement with the procurement process. However, in partnership with an alternative network, we have run two voucher schemes.

Voucher scheme

Our experience of the voucher scheme was that the process was overly cumbersome, requiring considerable resource and engagement on our side which was challenging. As

an ISP, we were removed from the process while our customers were confused about what was happening on the ground. The current process requires the individual customer to take action to receive the voucher, with the network provider leading on the engagement with the customer. As an ISP, there is no formal role for us, despite the fact that they are our customers and we are the contracting entity. The voucher scheme should take advantage of the close relationship between an ISP and its customer and use it to drive customer engagement at a local level. An ISP should be able to claim vouchers on behalf of its customer. BDUK should look to make this amendment to the scheme.

The changes to the voucher scheme over the last year have also created uncertainty amongst providers. Many new entrants (in addition to established operators like Openreach) supported the Gigabit Voucher Scheme as a way of reducing local build costs and incentivising local take-up. The changes to the scheme introduced in March 2020 removed eligibility from 3.2m premises where Openreach has pledged to build in exchange for regulatory approval for higher copper prices (referred to as Area 3). This regulatory approach allows Openreach to recover any losses it makes through higher wholesale charges – creating a regulatory subsidy which is not available to other networks. As a result, Openreach has announced that it will build in many rural areas ahead of altnets, and therefore gigabit vouchers are no longer available in these areas. This combination of Ofcom regulation and BDUK policy has undermined the opportunity for contestable subsidy and competition in rural areas, entrenching Openreach's market dominance. Some of these problems could be avoided with reforms from Ofcom. In particular Ofcom should not allow Openreach to access the regulatory subsidy in those areas where there is already an altnet present with a credible build plan, while BDUK should only remove vouchers from those areas where Openreach are committed to build within a 2-3 year timeframe.

Project Gigabit build projects

We are concerned by the pace of the programme. It seems likely that the first build contracts will be awarded in mid-2022 at the earliest, which will mean that there will not be actual spades in the ground until late 2022 or early 2023. We want to see networks advance as quickly as possible and are disappointed by this slow progress. We would welcome a clear timeframe from BDUK to understand likely deployment over the next five-year period.

We also are concerned that the approach could still see a patchwork roll-out in certain areas, with areas left behind in local roll-outs, creating pockets without connections. This is not just extremely frustrating for residents in those areas, but very challenging and inefficient for both network providers and ISPs like TalkTalk. An uneven roll-out will mean we are not able to migrate all our customers in an area, but will have to provide both full fibre and legacy services at the same time, meaning ISPs need to incur the cost of maintaining their legacy networks. We need to ensure as close to 100% coverage in an area, and should map local procurement areas against current exchange footprints to ensure that whole exchanges are covered. BDUK must show how it is maximising coverage in its procurement process and avoid a patchwork effect.

Finally, we share the Committee's concerns about low levels of consumer choice in rural areas and the risk of localised monopolies. In particular, consumers in rural areas could see higher costs due to the higher roll-out costs for rural altnets. The subsidy programme should seek to ensure that costs to the consumer are broadly the same in rural areas as in the urban areas. This approach is needed to incentivise major ISPs like TalkTalk to partner with rural altnets to support consumer choice in rural areas.

3) Progress on tackling barriers to roll-out

Barrier removal has been a central focus for DCMS over recent years. The Department has made good progress to date; however, we share concerns of other operators that progress has slowed over the past year. The Committee is right to highlight that the significant challenge is to co-ordinate cross-departmental support for barrier removal, and also the need for collaboration between national and local government. We hope to see future progress, particularly on reform of the Electronic Communications Code and ensuring gigabit-capable broadband on all new housing developments.

4) Strategy for take-up and migration – New networks will only deliver wider benefits if they are used by consumers. Promoting consumer take-up needs to be a central plank of the Government's gigabit strategy to ensure these benefits are realised. It is likely that the majority of consumers will be migrated by their ISP over time as part of normal commercial activity e.g. upgrade voluntarily or upgrade when switching provider.

However, there will be some groups who are extremely unlikely to voluntarily migrate to new gigabit services due to a lack of interest or confidence in engaging with new products. The experience of the superfast upgrade supports this supposition – even today, while superfast broadband is available to 96% of the country, only around 60% of those able to have migrated to a superfast connection⁵. However, while the superfast roll-out did not require immediate switchover, this upgrade will require all consumers to migrate since Ofcom has allowed Openreach to progressively force customers onto full fibre: first by stopping selling new legacy services, then by raising price of legacy services and then stopping all legacy services. Openreach has started the process of stopping sales of legacy services in certain areas and has stated its intention to eventually switch-off its copper network and only operate its full-fibre network. Therefore, there is a real need to promote early take-up to support an efficient and fair migration.

There have been important and useful conversations across industry, Government and Ofcom regarding this goal. In particular, Ofcom has recently launched a new programme of work on common standards and terminology on broadband. We support this programme as an important step to building consumer confidence and engagement with gigabit-capable products. We also welcome Ofcom's reforms of switching as another essential component to moving to a competitive market and promoting consumer engagement.

⁵ [Ofcom Connected Nations December 2020](#)

However, none of these projects will be the silver bullet that delivers a swift migration, and we are concerned that there is a degree of complacency here. We need to see Government and Ofcom take a holistic view of the take-up journey to assess progress towards achieving 100% full fibre roll-out and take-up and whether any further intervention is required. We also need more clarity on the timeframes involved in copper switch-off and how it will align with companies migration plans, so that there is real clarity about when customers will be on gigabit-capable services.

We are calling for a more joined-up approach to co-ordinate actions between Government, industry and Ofcom on this migration journey. This approach could support better information-sharing on consumer education, public communications and support for vulnerable customers.

Conclusion

We welcome progress on full-fibre roll-out in the UK in recent years, as we have outlined above. However, now is not the time to rest on our laurels. We are at a key point in the transition to new broadband networks which will determine whether we accelerate towards future progress, or whether we stall at this point. To keep the momentum going, we need to see:

- A reinforced focus on competition, with Government and Ofcom collaborating on an effective oversight regime.
- Government deliver a take-up strategy with co-ordination with Ofcom and industry.
- A revived focus on removing barriers to roll-out.
- A simpler voucher scheme which works for both ISP and network providers.
- Progress on Project Gigabit to deliver certainty to rural altnets.

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