

 BDUK Super Connected Cities Programme

 **Connection Vouchers Decision Document**

**Overview**

1. This document sets out the proposed next steps of the Government’s Connection Voucher Scheme (CVS) following the consultation process, and market test outcomes.
2. The final design of the CVS has been informed by responses that Broadband Delivery UK (“BDUK”) received to its public consultation that took place in June 2013 (“the Consultation”)[[1]](#footnote-1) , market research and the outcomes from BDUK’s two month market test, which followed the consultation.
3. On the basis of the outcome of the market tests, commissioned research and supplier consultation, the Government has taken the decision to roll out the scheme to all 22 cities.

**Connection Voucher Scheme - The Market Test**

1. In order to test the demand for vouchers amongst SMEs, the scheme parameters, and the scheme’s administrative arrangements, BDUK conducted a two-month market test in five cities (Belfast, Cardiff, Edinburgh, Manchester and Salford).
2. Evidence from the five participating cities in the market tests indicates that the demand-side measures proposed by BDUK are likely to:
* work with the grain of the market and appeal to a wide range of suppliers, with a range of communications providers registered and competing for SME business both at the wholesale and retail;
* solve identified information and co-ordination failures evident in the market by providing suppliers with demand mapping;[[2]](#footnote-2)
* promote the take-up of productivity enhancing high-speed/high-grade connectivity by SMEs by removing a cost barrier and enabling the use of the chosen connectivity for advanced purposes;
* ‘nudge’ commercial deployment of high-speed/high-grade connectivity in marginal areas;
* have some spill-over effects, with some suppliers developing new products to fill identified gaps in the market and selling other non-voucher related products to SMEs;
* ‘nudged’ the take-up of high-speed/high-grade services by SMEs and in so doing provided an acceptable level of deadweight welfare loss when set against the broader economic gains likely from the scheme; and
* be deliverable at an acceptable level of administrative cost.

**State Aid**

1. The UK considers that the design of its voucher scheme is such that any funding received by voucher recipients would be consistent with the requirements of the De Minimis Regulation. In itself, the funding would be very substantially below the financial thresholds in that Regulation and the scheme will be designed to ensure that the other requirements of the Regulation are met. Accordingly, such funding would be deemed not to meet all the criteria of Article 107(1) of the Treaty of the European Union ("The Treaty") and would therefore be exempt from the notification requirement in Article 108(3) the Treaty.
2. BDUK has been engaged with the European Commission (“the Commission”) for a number of months setting out the case for considering the UK's proposed demand-side measures as non-qualifying aid. The UK has set out its view that competition in the supply chain will not be distorted as a result of the Scheme. In particular, vouchers may be redeemed by recipients with an Internet Service Provider ("ISP") / broadband supplier of their choice who will be paid no more than a commercial/regulated rate for the services they provide. Further, while the presence of a voucher scheme may highlight latent demand in a given area, it can only be used to support the incremental cost of connection to identified SMEs, which are themselves scattered across the cities. Accordingly, the presence of vouchers (as a lump sum transfer directly to voucher recipients) will not give rise to indirect aid to any ISPs / broadband suppliers.
3. Given the UK’s view on the State aid position, the UK is not currently intending to notify BDUK’s CVS or the other activities it will undertake as part of the package of demand-side measures it is intending to introduce.

**Next steps**

1. It is expected that the scheme will run from December 2013 to the end of March 2015.
2. If you have any questions regarding this initiative or enquiries about this document please send these to the BDUK team at, urbanbroadbandfund@culture.gsi.gov.uk. If you do not have access to email, please send correspondence to:

Urban Broadband Fund Voucher Connection Scheme

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**Consultation Process**

**An overview of the Consultation**

1. The final scheme design was informed by extensive collaboration with SMEs, the industry and cities from early 2013, as well as a short formal consultation which ran from 24 June 2013 to 24 July 2013.
2. BDUK received a total of 31 responses to the Consultation on the proposed voucher scheme. This included responses from a range of organisations from across the supply chain. Six of the 31 respondents were from trade bodies, with five (ISPA[[3]](#footnote-3), BSG[[4]](#footnote-4), FCS[[5]](#footnote-5), INCA[[6]](#footnote-6) and ESOA[[7]](#footnote-7)) of the six dedicated to supporting the interests of some 630 organisations operating in the UK communications sector and the other, FSB[[8]](#footnote-8), representing the combined interests of over 200,000 members that are either self-employed or small businesses. BDUK considered that the majority of the responses to our Consultation were either positive or neutral, with stakeholders supportive of our phased approach to the scheme’s deployment. We published a summary of the responses[[9]](#footnote-9) and all the non-confidential submissions[[10]](#footnote-10).
3. There were a number of points of broad agreement in the consultation responses. These included: recognising the importance of raising awareness among SMEs of the benefits of faster broadband; that clarity on how demand aggregation can occur within the scheme is vital; that vouchers should be used to cover 100 per cent of the connection cost but not on-going costs and that a central website should be the primary means of showing which suppliers are participating in the scheme, but not the only means. There were also a number of points raised that required further consideration or testing during the market test. These included: ensuring the voucher value range is appropriate; ensuring connection charges are a genuine barrier to digital connectivity; ensuring that the eligible expenditure categories do not disadvantage particular supplier groups; achieving further clarity on the State aid position and ensuring the scheme remains simple. For further information on the feedback received during the consultation consult the summary of response document and the non-confidential submissions.

**The Market Tests & Evaluation**

**Introduction**

1. Integral to the approach to scheme deployment was the use of market tests. These were used to test the demand for vouchers amongst SMEs, the scheme parameters and the scheme’s administrative arrangements.
2. The market tests were undertaken in five cities (Belfast, Cardiff, Edinburgh, Manchester and Salford) over a two month period and BDUK allocated a total of £2.25 million for that purpose. This funding allowed for a limited voucher deployment in areas identified by each city as SME priority zones, and was supported by a range of complementary demand side measures designed to support take up. This included the launch of a web ‘portal’ to enable SMEs to search for a registered supplier (<https://www.connectionvouchers.co.uk/>).

**Evaluation of the Market Tests**

1. The market tests were assessed in terms of a number of key success factors and associated measures. The summary results against each are shown within the table below:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Success Factor** | **Measure** | **Summary of Evaluation Results** |
| A | Broad support for the aims and objectives of the scheme | No challenge is made by a supplier, organisation, individual or the Commission | * No indication from any stakeholder that the scheme will be challenged
* Supportive feedback from the Commission regarding the objectives, principles, and parameters of the scheme
 |
| B | There is clear competition for the vouchers | Multiple suppliers are registered per city, backed up by at least two quotes given to applicants | * 58 registered suppliers across all cities, with minimum of 44 registered suppliers per city
* Quotes provided by 28 suppliers
* Average of 2.5 quotes received per voucher issued
 |
| C | There is no obvious distortion of the market and  | The number of vouchers won by communications providers broadly reflect their current market share, or are higher for new entrants | * 11 suppliers successful in the allocation of vouchers
* <10% vouchers allocated to the two largest UK suppliers
 |
| D | There is an indication/initial appraisal of the likely level of demand by SMEs | The number of SMEs who register an interest in better broadband and for a voucher. | * 689 SMEs expressed interest in better connectivity
 |
| E | The scheme has proportionate administration costs resulting in good value for money | Less than 10% of overall voucher scheme total, or up to 20% where the city has demonstrated that these costs are critical to delivery and add value | * Four cities below the 10% target for admin costs, with overall average of 6.9%
 |

**The Evidence Base for Connection Vouchers**

**The UK Broadband Impact Study**

1. In November 2012, the Department for Culture, Media and Sport commissioned the UK Broadband Impact Study to provide a comprehensive assessment of the outcomes of the government’s investments in the UK’s Broadband network.
2. The UK Broadband Impact Study – literature review[[11]](#footnote-11), published in February 2013 extracted and summarised the most reliable and relevant findings of the impacts of broadband, using just over 100 previously published papers and reports.
3. The UK Broadband Impact Study – Impact Report[[12]](#footnote-12) published in November 2013 translates the findings from the literature review and further analysis into quantified estimates of the potential impact of the Government’s broadband projects.
4. The analysis is the most in-depth and rigorous forward-looking quantification of broadband impacts developed to date in the UK and concludes that the Government’s broadband projects (including the Connection Voucher Scheme) will deliver a significant boost to the UK economy (both short-term and long-term) and represents excellent value for money. Modelling the period to 2024 these interventions are projected to return approximately £20 in net economic impact for every £1 of public investment.

**Scheme Design Changes resulting from the Consultation and Market Test**

1. The following table describes the changes that have been made to the scheme in advance of full rollout and in light of the stakeholder feedback during the consultation, following the market test, and during the evaluation period.

|  |  |  |
| --- | --- | --- |
| **Change Area** | **Stakeholder feedback** | **Changes in advance of full rollout** |
| Administrative Process | A lot of cities and some suppliers wanted to reduce the administrative burden on cities and SMEs. | Simplification of administrative process to permit SMEs to acquire two quotes from registered suppliers (and to have identified a preferred quote) before commencing the application process |
| Indicative Quotes | Some feedback from suppliers that for some products it is not possible to give a firm quote until a survey has been carried out. | Refinement of administrative process to allow voucher offers to be made against indicative quotes (rather than a firm and final quotes). This change also includes a change to scheme terms and conditions for Registered Suppliers to confirm that no cancellation charges can be levied should the SME choose not to proceed with a firm quote on the basis of pricing increase from indicative quote. |
| Step Change Definition | Some cities and suppliers have noted that some SMEs fed back that they value the quality of service elements of business grade services and that a service under 30 Mbit/s can represent a significant upgrade in capability. | A clarification of qualifying speed parameters for business grade connections to the following:Business grade connectionsthese must exhibit both of the following characteristics:  i) offer a minimum of 20 Mbit/s services and are capable of being configured/upgraded to support at least 30 Mbit/s services; and ii) if the SME already has a business grade connection, deliver at least a doubling of speeds when compared to the current connection being consumed.Business grade connections are those that are provided on a dedicated/uncontended basis to customers and are supported with service level guarantees. BDUK recognises that these services can be provided in the form of leased lines (including Ethernet services) or point-to-point microwave links but is not intending to specify particular types of service. For new NGA Connections, these must offer a minimum of 30Mbit/s to the SME. If the existing NGA-based broadband service is 30Mbit/s or greater, then the upgraded NGA-based broadband service must deliver at least a doubling of speeds compared to the service currently being consumed. |
| Eligible Costs | Some supplier feedback requesting clarity on what expenditure is covered for multi-tenancy premises. | Refinement of Eligible Costs definition to permit inclusion of in-building wiring for multi-SME premises. |
| Funding Timescale | None | Confirmation that expenditure must be committed prior to 31st March 2015.  |
| Fraud & Malpractice | None | Enhanced anti-fraud and audit regime including formal Issue Escalation Procedure, as described within the Supplier Registration Document. |
| Supplier Registration | Positive feedback on the ease and speed of the supplier registration process. | Further simplified supplier registration to include on-line registration. This includes a standard taxonomy of supplier services to allow SMEs to locate relevant suppliers more easily. |
| Inclusion of Residential | Clarity requested on whether to include residential in the scheme. | No change i.e. SMEs will be the primary focus of the voucher scheme. Some cities may also consider including residents as a secondary focus where there is a demonstrable market failure in meeting the needs of businesses. |
| On-going charges | A number of suppliers suggested there would be higher voucher take up if some on-going charges were covered. | No change, the scheme can only cover capital costs. |
| Principal of cooperation | Both cities and suppliers asked for clarity on aggregating vouchers. | No change to the principal or scheme design, but for full rollout there is a recognised administrative process for cases where agents (e.g. landlords) coordinate applications from multiple SMEs. Further guidance will be provided to Registered Suppliers. |

1. BDUK Urban Broadband Fund: Consultation on Connection Vouchers, 25 June 2013, at: <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/208734/UBF_Voucher_Consultation_250613.pdf> [↑](#footnote-ref-1)
2. There is some evidence from the pilots that certain suppliers registered to gain access to the demand mapping information and have not sought to sell specific voucher supported products. [↑](#footnote-ref-2)
3. The Internet Services Providers’ Association (ISPA) is the UK’s Trade Association for the internet industry. As well as support, it promotes collaboration and constructive dialogue between its members and the wider internet community (<http://www.ispa.org.uk/>). [↑](#footnote-ref-3)
4. The Broadband Stakeholders Group (BSG) is an advisory group for organisations involved in broadband and provides a forum to discuss and resolve key policy, regulatory and commercial issues, with the ultimate aim of helping to create a strong and competitive UK knowledge economy (<http://www.broadbanduk.org/>). [↑](#footnote-ref-4)
5. The Federation of Communications Services (FCS) is the UK Trade Association for the communications services industry and represents businesses delivering products and services to customers by radio, mobile, fixed and IP telephony (<http://www.fcs.org.uk/Home.aspx>). [↑](#footnote-ref-5)
6. The Independent Network Cooperation Association (INCA) provides support for new infrastructure providers (including small and community based providers). INCA offers advice on the planning, building and operation of sustainable, independent and interconnected next generation networks. It has a particular focus on the ‘final third’ projects (<http://www.inca.coop/>). [↑](#footnote-ref-6)
7. European Satellite Operators' Association (ESOA) represent the interests of the industry with key European organisations, including the European Commission, Parliament, Council and the European Space Agency as well as other international organisations (<http://www.esoa.net/>). [↑](#footnote-ref-7)
8. The Federation of Small Businesses (FSB) has the purpose of promoting and protecting the interests of the self-employed and owners of small firms (<http://www.fsb.org.uk/>). [↑](#footnote-ref-8)
9. <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/239182/BDUK_vouchers.pdf> [↑](#footnote-ref-9)
10. <https://www.gov.uk/government/consultations/connection-vouchers-scheme> [↑](#footnote-ref-10)
11. <https://www.gov.uk/government/publications/uk-broadband-impact-study> [↑](#footnote-ref-11)
12. <https://www.gov.uk/government/news/the-benefits-of-broadband> [↑](#footnote-ref-12)