



Association of Accounting Technicians response to Department for Digital, Culture, Media & Sport on *“A new broadband Universal Service Obligation: consultation on design”*

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1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the consultation paper on “A new broadband Universal Service Obligation: consultation on design” published on 30 July 2017.
- 1.2. AAT has added comment in order to add value or highlight aspects that need to be considered further.
- 1.3. AAT has focussed on the operational elements of the proposals and has provided opinion on the practicalities of implementing the measures outlined.
- 1.4. Furthermore, the comments reflect the potential impact that the proposed changes would have on SMEs and micro-entities, many of which employ AAT members or would be represented by AAT’s 4,250 licensed accountants.

2. Executive summary

- 2.1. **The USO, funded by taxpayers, should clearly be restricted to individuals and businesses who cannot otherwise access these speeds from any other provider.** The USO must remain as originally intended and that is as a safety net for those who cannot access a commercially available alternative.
- 2.2. **The success of Making Tax Digital (MTD), the government’s £1.3bn investment programme for HMRC to become the most digitally advanced tax administration in the world, will probably be enhanced by the USO.** MTD will see the introduction of digital record keeping and quarterly updates for most businesses, self-employed people and landlords. It is essential that DCMS and HMRC work together to maximise the effectiveness of the USO.
- 2.3. **The cost threshold should be £3,350 not £3,400.** The average cost per property in the final 1% needing a connection ranges from £2,780 for standard broadband to £3,350 for superfast broadband. According to Ofcom’s modelling, this threshold also covers over 99% of premises. AAT also suggests a matching scheme between affected individuals and industry for those facing costs over £3,350.

3. AAT response to the consultation paper

Question 1 - Do you have any further evidence of commercial or publicly funded rollout during this period which will influence the scale of the footprint?

- 3.1. The Autumn 2016 Government announcement of a £1.1bn package of measures to support investment in digital infrastructure, set out in the Digital Strategy, was welcomed by AAT because it came just months after the Treasury had confirmed its commitment to a £1.3bn investment programme (MTD) to ensure HMRC becomes the most digitally advanced tax administration in the world.
- 3.2. As part of MTD, companies are required to digitally provide quarterly updates on their tax affairs, something that those in rural and remote areas, especially farmers, have been particularly concerned about due to digital accessibility concerns.

- 3.3. For the same reason, AAT welcomed the additional announcement of the £400m Digital Infrastructure Investment Fund in July 2017. Clearly steps to help accelerate the roll out of full fibre networks by increasing access to private finance for companies delivering them is another important step in ensuring HMRC can meet its MTD ambitions and that businesses, especially SMEs can meet the necessary requirements.
- 3.4. On 3 November 2016 AAT stated¹ that in relation to exemptions from MTD, “*Any business that is unable to access a basic, reliable broadband service with speeds of at least 10 Mbps should be exempt. 10 Mbps is the speed identified in the current Digital Services Bill as being the minimum acceptable under the new broadband Universal Service Obligation (“USO”).*”
- 3.5. AAT therefore suggests that the roll-out of MTD should be considered when assessing the scale of the footprint. AAT also suggests that DCMS and HMRC should work closely together on this issue.

Question 2 - Are upload speed, contention, latency and data caps the right quality parameters to specify alongside the minimum download speed?

- 3.6. Upload speed, contention, latency and data caps and the minimum download speed do appear to be the right quality parameters to specify.
- 3.7. With regard to speed, the Government should look at what more could be done to ensure consumers, including SMEs, are not taken advantage of by the unscrupulous marketing practices of some Internet Service Providers in relation to exploiting the difference between Megabits and Megabytes.
- 3.8. As most in the IT industry know, Mbits are used to measure the speed of communication and bytes to measure the amount of data. As an example, an 8 Mbps (bits) broadband connection means consumers can download 1MB (byte) of data per second (at maximum speed) i.e. 60 MB of data per minute. The public are largely unaware of this distinction and will often base their decisions on the highest advertised number alone.
- 3.9. So, given 1 byte is 8 bits, some ISP’s tend to present their allowance in bits rather than bytes to make their offer seem faster than it actually is. ISPs who mislead consumers in this way do not appear to be breaking any laws and therefore no action is taken against them. They are simply exploiting public ignorance. EE has made this “mistake” on numerous occasions² but it should be noted that the issue isn’t the preserve of ISPs - the European Commission claimed it had given state aid approval for the Connecting Cumbria project in 2013, resulting in most of Cumbria being able to enjoy broadband speeds, “...in excess of 30 megabytes per second” which would have meant a staggering 240Mbps at the time rather than the reality of 30Mbps³.
- 3.10. The Advertising Standards Authority (ASA) is currently investigating ISPs use of the term ‘fibre’ to describe both part-fibre and full-fibre broadband services in their advertising⁴. The ASA should investigate use of the bits/bytes terminology issue too.

Question 4 - Is £3,400 the right level to set the cost threshold in order to balance the need to extend coverage as far as possible at reasonable cost?

- 3.11. AAT agrees that there must be a reasonable cost threshold when it comes to helping the hard to reach and similarly recognises that the costs for delivering the USO will be considerably higher for the hardest to reach areas given this is why they have not benefitted from a commercially available alternative in the first place.

¹ AAT response to the HMRC consultation “Making Tax Digital: Bringing business tax into the digital age”

² 2012: <http://www.ispreview.co.uk/index.php/2012/10/ee-reveals-prices-for-its-new-uk-4g-mobile-and-fttc-fibre-broadband-service.html>
2012: <https://www.facebook.com/ee/posts/315260941914868>

2015: <http://www.ispreview.co.uk/index.php/2015/02/ee-uk-begin-wembley-stadium-test-of-400mbps-4g-mobile-speeds.html>

³ <http://www.ispreview.co.uk/index.php/2013/05/europe-approves-gbp51m-superfast-broadband-bduk-rollout-in-cumbria-uk.html>

⁴ <https://www.asa.org.uk/news/update-asa-to-review-advertising-of-fibre-broadband-services.html>

- 3.12. As Ofcom's USO report indicates that the costs for the final 1% are especially high, with an average cost per property that ranges from £2,780 per connection for standard broadband to £3,350 for superfast broadband, it would seem reasonable to use this £3,350 as the threshold.
- 3.13. AAT is unclear as to why the threshold is marginally higher at £3,400 and suggests this £50 differential be removed as it breaks the linkage to a more robust and logical number with a clear rationale. The only logical explanation for it being set at £3,400 would be because this mirrors the existing USO for basic copper telephone lines. This should not be used as a justification given the benefits derived from the two are so markedly different. This point has already been made by the UK government's leading advisory group on broadband, the Broadband Stakeholder Group (BSG)⁵.
- 3.14. The fact that a figure in the region of £3,500 also covers 99.8% of premises under Ofcom's modelling is a strong argument for its adoption.
- 3.15. Those premises who have to pay more than this figure, such as those in the final 0.5% who could have to pay on average up to £5,100, may express unhappiness with the cost threshold being set as proposed. That said, wherever the threshold is set, many of those who are over it are likely to be dissatisfied.
- 3.16. Rather than trying to justify the figure to the small number of individuals affected, proportionality and overall fairness (equity) must be the guiding principles.
- 3.17. For the most expensive (those premises where the cost could be as high as £45,000) it may be worth considering some form of match funding where the individual or business concerned has to pay 50% of the costs above £3,350 with the remainder being match funded by providers.
- 3.18. This would involve all providers having to contribute into a match funding pot, with the amount paid being determined by the provider's size/existing market share.
- 3.19. This would need to be properly communicated to consumers as match funding would incentivise take up, simply presenting them with a proposed bill with no explanation would not.

Question 5 - What other factors should be considered when determining eligibility?

Question 6 - Are there any categories of premises which should be ineligible for a USO connection?

- 3.20. It seems strange that the question should even be asked as to whether a household or business which is already able to access services, which meet the USO specification from another network provider, should be eligible to be connected under the USO. If this was the case then the cost to the taxpayer would be considerable, the time to implement such a programme would be extensive and the design challenges would increase dramatically.
- 3.21. The USO, funded by taxpayers, should clearly be restricted to individuals and businesses who cannot otherwise access these speeds from any other provider. It must remain as originally intended and that is as a safety net for those who cannot access a commercially available alternative.

Question 8 - Do you have any further evidence on the benefits of the USO?

- 3.22. The Consultation Document and Annex refer to a range of "nice to haves" as benefits that will flow from the USO. These range from increased productivity amongst local enterprises and teleworkers to the increased participation of carers and the disabled. A reduction or potentially the closure of the digital divide is also put forward as a key driver for the policy.
- 3.23. However, amongst this range of benefits, complying with compulsory legal responsibilities is not listed.

⁵ <http://www.broadbanduk.org/wp-content/uploads/2017/05/Plum-May-2017-BSG-Impact-of-a-broadband-USO-in-the-UK-FINAL.pdf>

- 3.24. Given the new MTD requirements will legally oblige all businesses with a turnover above the VAT threshold (including most SMEs) to digitally provide four quarterly tax updates a year from 2019 - with smaller businesses and individuals being required to comply at a later date – it seems reasonable that they should have the capability to do so i.e. suitable broadband access.
- 3.25. The provision of a USO is vital to ensuring rural businesses are able to file their quarterly updates as well as more remote urban businesses or those who are simply located in broadband black spots.
- 3.26. There will be significant benefits for the taxpayer too, as the primary justification given for MTD is HMRC's prediction that enabling businesses to pay the right tax at the right time via quarterly updates will dramatically assist in closing the multi-billion pound tax gap.

Question 11 - Do you agree that uniform pricing for the broadband connection and services should form part of the USO?

- 3.27. It would appear reasonable for uniform pricing to apply to both the broadband connection costs and, equally as importantly, to the ongoing service costs. As the consultation document highlights (Section 6), "...rural areas are disproportionately affected by the lack of access to fast broadband, given their remoteness and low population densities, and consequently the high cost of delivering broadband to them. Our view is that those obtaining connections and services under the USO should pay no more than consumers in areas served by commercial providers."
- 3.28. Although AAT acknowledges the challenges of meeting uniform pricing obligations given the likely lower revenues to be raised from less densely populated areas, it is essential that there is no disparity simply based on geographical location. Uniform pricing will help ensure this is the case.

Question 12 - Do the measures proposed by government sufficiently minimise the risk of market distortion?

- 3.29. If as suggested at 3.20 above, the USO is restricted to individuals and businesses who cannot otherwise access these speeds from any other provider and it remains as originally intended i.e. a safety net for those who cannot access a commercially available alternative, then market distortions should automatically be minimised.

4. About AAT

- 4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are over 4,250 licensed accountants who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.
- 4.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

5. Further information

If you have any questions or would like to discuss any of the points above in more detail then please contact Phil Hall, AAT Head of Public Affairs & Public Policy, at:

E-mail: phil.hall@aat.org.uk Telephone: 07392 310264

Association of Accounting Technicians, 140 Aldersgate Street, London, EC1A 4HY

