

House of Commons
Welsh Affairs Committee

**BROADBAND IN WALES: RESPONSE
OF THE GOVERNMENT
to the First Report of the
Committee of Session 2002-03**

First Special Report of Session 2002-03

Ordered by The House of Commons to be printed 5 February 2003

HC 413
Published on 13th February 2003 by authority of the House of Commons
London : The Stationery Office Limited
£4.00

The Welsh Affairs Committee

The Welsh Affairs Committee is appointed by the House of Commons to examine the expenditure, administration and policy of the Office of the Secretary of State for Wales (including relations with the National Assembly for Wales).

Current Membership

Mr Martyn Jones MP (*Labour, Clwyd South*) (Chairman)
Mr Martin Caton MP (*Labour, Gower*)
Mr Huw Edwards MP (*Labour, Monmouth*)
Dr Hywel Francis, MP (*Labour, Aberavon*)
Ms Julie Morgan MP (*Labour, Cardiff North*)
Mr Albert Owen MP (*Labour, Ynys Môn*)
Mr Adam Price MP (*Plaid Cymru, Carmarthen East and Dinefwr*)
Mr Mark Prisk MP (*Conservative, Hertford and Stortford*)
Mr Bill Wiggin MP (*Conservative, Leominster*)
Mrs Betty Williams MP (*Labour, Conwy*)
Mr Roger Williams MP (*Liberal Democrat, Brecon and Radnorshire*)

The following member was also a member of the Committee during the Parliament:
Mr Chris Ruane MP (*Labour, Vale of Clwyd*)

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No. 152. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk/parliamentary_committees/welsh_affairs_committee.cfm. A list of Reports of the Committee in the present Parliament is at the back of this volume.

Contacts

All correspondence should be addressed to The Clerk of the Welsh Affairs Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 6189; the Committee's e-mail address is: welshcom@parliament.uk

FIRST SPECIAL REPORT

The Welsh Affairs Committee has agreed to the following Special Report:

BROADBAND IN WALES: RESPONSE OF THE GOVERNMENT TO THE FIRST REPORT OF THE COMMITTEE OF SESSION 2002-03

The Welsh Affairs Committee published its First Report of Session 2002–03, on Broadband in Wales (HC 95), on 26 November 2002. The Government's response was received on 17 January 2003, and is published as an Appendix to this Special Report.

APPENDIX

THE GOVERNMENT RESPONSE TO THE WELSH AFFAIRS COMMITTEE'S FIRST REPORT, SESSION 2002–03: BROADBAND IN WALES (HC95)

Memorandum received from the Department of Trade and Industry

The Government welcomes the Committee's Report, particularly at this time of increased broadband growth in the UK. Broadband is making a significant change to the way the country approaches ICT and is an increasingly important policy area for the Government.

The Government's overall target for broadband is for the UK to have the most extensive and competitive broadband market in the G7 by 2005. We are aided in this ambition by the governments of the devolved administrations and by the development agencies in the English regions. The National Assembly for Wales plays a significant role in this, and we welcome its support for broadband as set out in the Cymru Arlein programme.

Broadband will no doubt play an intrinsic part in the development of Wales and the Welsh economy over the coming years, as it will in the rest of the UK. We therefore welcome the Committee's contribution to the ongoing broadband debate, which is useful both for Wales and the whole of the United Kingdom.

The Government's response to each of the Committee's conclusions and recommendations is set out below.

RESPONSE TO CONCLUSIONS AND RECOMMENDATIONS

(a) We fully support the Assembly's aims and objectives as set out in the Cymru Arlein - Online for a Better Wales. Many of these objectives will only be realised with the support of the UK Government. The regulatory framework for telecommunications, which is shortly to be overhauled by a new Communications Act, is the most important aspect of this. The Communications Bill includes a requirement that Ofcom's Consumer Panel contain a member who is capable of representing the interests of Wales, but we believe that it is necessary to ensure that the policy aims of the National Assembly for Wales are taken into account when formulating policy at the UK level. We recommend that there should be a further requirement for Ofcom to consult the National Assembly on telecommunications matters which have a

particular impact on Wales should be included on the face of the Bill when it is presented to Parliament (paragraph 15).

We have included a number of provisions in the Communications Bill to ensure that the interests of the different nations can be represented to OFCOM. As the Committee recognises, these measures include a requirement in the Bill that the Consumer Panel should include a specific member who will be capable of representing the interests of Wales. We expect OFCOM to consult widely about the development of their policies for telecommunications and other matters for which they will have responsibility. We envisage that the mechanisms needed for consulting the National Assembly will be included in a memorandum of understanding to be agreed between OFCOM and the Secretary of State for Wales, and it is not therefore necessary for such arrangements to be included on the face of the Bill.

(b) Local loop unbundling has not been a success so far. Opinion is divided as to whether it is an effective method of promoting competition or whether more radical changes are required at the national level. For much of Wales, ADSL provided over BT lines is the only practical broadband technology for the foreseeable future. We recommend that Ofcom give priority to a thorough re-examination of the whole question of LLU, with particular reference to the impact of the failure of LLU on the availability and cost of broadband services in those areas where the local loop is the only viable means of delivering broadband (paragraph 21).

Oftel has continued to drive forward competitive access to BT's local loop via LLU by close monitoring of LLU take-up and the details of implementation. Where necessary, Oftel has intervened in order to ensure fair competition and maximum benefit to end-users, or taken formal action to resolve issues raised by industry.

Over the last year, Oftel has formally intervened on a number of occasions, in order to determine various co-location arrangements and charges, service level agreements and loop prices. This work has been key in developing the framework for LLU. Examples include the directions on co-mingling and LLU backhaul.

A renewed interest in LLU was shown over 2002 and operators using LLU are now offering services nationwide. These include innovative services such as high bandwidth symmetrical products. Operators have seen a rapid take-up of these services and are looking to further expand their rollout using LLU. As well as a significant number of co-location facilities now built and more being ordered, requests for loops are being met in increasing volumes.

At the end of last year, over 2200 loops had been unbundled; 110 physical and 54 distant co-location facilities had been completed with work ongoing at an additional 15 physical and 8 distant location sites.

LLU will be reviewed this year by Oftel as part of its series of market reviews. LLU is but one of many initiatives undertaken by Oftel to help stimulate competition in the broadband market. Other important recent actions include determinations relating to ATM interconnect (requiring BT to offer ADSL broadband interconnection services to enable operators to connect to BT's network and offer more wholesale and retail broadband services in competition with BT), and Partial Private Circuits (finalising a new pricing and quality of service regime for BT's wholesale business broadband services), as well as Oftel's statement on the marketing of broadband services by BT.

(c) We believe that the Government must make robust plans to deal with the possible collapse of one or more of the cable operators. Plans should be aimed at ensuring the

continued operation of the existing network as well as providing further investment for upgrading and expansion in the longer term (paragraph 25).

In the event of the collapse of a telecoms operator, the Government's main concern is to ensure that the interests of consumers are protected and, in particular, that they do not lose service without warning. Experience shows that, in the majority of cases, the failing company's business can be expected to continue to operate until a buyer is found, or should this not prove possible, until customers can be transferred to another operator.

DTI and Ofcom maintain a close watching brief on telecoms markets and will continue to work with operators and users to encourage the maintenance of adequate contingency plans against the possibility of future operator failure.

(d) We accept the view that it is impossible to stimulate or even to measure demand in the absence of an available service (paragraph 30).

While it is more difficult to stimulate or measure demand in the absence of an available service, experience has proven this it is not impossible. Demand registration schemes such as those run by BT and Liberty Broadband, as well as public sector schemes such as the East of England Development Agency's Demand Broadband initiative, either measure a level of demand for broadband in a given area or serve to stimulate that demand. This demand once proven can then lead to a service being implemented once a service provider is satisfied that it would be commercially viable to do so.

It is true that the availability of a broadband service in an area further serves to stimulate demand for that service. The Government is committed to achieving an extensive market as part of its overall target for broadband and we are working to ensure that broadband networks continue to spread throughout the country.

(e) We welcome BT's commitment to a pilot, NHS-based broadband project in Wales. We believe it should be an urgent priority for the Government to organise the telecommunications contribution to the reform of healthcare envisaged in the Wanless report (paragraph 32).

The "21st century IT" strategy published by the Government for the NHS in England clearly set out that the modernisation programme for the NHS in England is based on the availability across the NHS in England of a national broadband infrastructure, including a specific timetable for its implementation. To that end the NHS Information Authority (on behalf of the NHS in England) is embarking on a formal procurement exercise to replace the existing NHSnet infrastructure with a broadband network. The Department of Health and the Authority have been working closely with the Office of the e-Envoy and OGC to align with government broadband policy, and where possible, appropriate and consistent with the Government's policy targets for the modernisation of the NHS in England will seek to coordinate this with other public sector broadband activity.

The NHS Wales Broadband Network Service was launched in July 2002. All Trusts in Wales had successfully migrated from the Digital All Wales Network (DAWN) by June 2002 and to date over 80% of GP practices are directly connected to a new Broadband network service using BT's IPVPN (Internet Protocol Virtual Private Network) technology (known as "dawn2").

Although the NHS in Wales is a matter for the devolved administration, the Department and Authority do liaise with their counterparts in the Welsh administration and will coordinate

procurement activity where this is possible, appropriate and consistent with the Government's policy targets for the modernisation of the NHS in England.

(f) The Government's emphasis on the electronic delivery of public services offers an ideal opportunity for the development of new, high-bandwidth applications, the availability of which is an essential part of stimulating the demand for broadband. We recommend that the Government incorporate targets into its next annual UK online strategy for the development of on-line services which exploit to the full the possibilities offered by current generation broadband technology. We recommend that separate targets for Wales should be identified within the national targets and that the Government should consult with the National Assembly when setting the targets for Wales (paragraph 34).

We agree in principle with the Committee's conclusion. Broadband has tremendous potential to enhance the delivery of online public services. The Government is committed to stimulating the production of new broadband content and applications in the public sector. Examples include: Curriculum Online, Culture Online and the National electronic Library for Health.

The Government is committed to ensuring that departments meet the Prime Minister's target for electronic service delivery, which requires all services to be delivered online by 2005, with key services achieving high levels of use. Other targets along the lines of those suggested by the Committee will be considered in drawing up the next UK Online Annual Report.

(g) We welcome the provision by BT of many broadband services at geographically averaged prices, even where their Universal Service Obligation does not require them to do so (paragraph 38).

The Government agrees with the Committee's endorsement. It is preferable that service providers charge geographically consistent prices so that neither consumers nor businesses are disadvantaged through higher costs as a result of their location. Geographically averaged prices have the further advantage of ensuring a simple price regime, engendering in the consumer greater confidence in the market.

(h) We do not believe that it would be right to wait until social or economic exclusion caused by lack of access to high bandwidth services became apparent before including those services in the USO. Nonetheless, we believe that Oftel is right to proceed with caution for the time being, at least until the effects of the new Universal Service Directive on the availability of narrowband services become clear. We have no doubt that broadband services will be adopted by the majority in the fullness of time and we believe that the position of these services should be revisited by Oftel in future consultations on the level of the USO. We note that in September 2000, Oftel declined to include narrowband ISDN in the USO because to do so might result in picking the wrong technology. We endorse this approach. Any move to include higher-bandwidth service in the USO in the future should be on a technology-neutral basis (paragraph 39).

We welcome the Committee's endorsement of Oftel's conclusions in the last USO review. We agree with Oftel that it would be premature to impose on BT a universal service obligation for broadband. Broadband is far from being a mass-market product (around 4% of UK households currently have a broadband connection in the UK), there is rollout of competing delivery routes and BT is looking at ways of extending ADSL rollout.

DTI and OfTel will review how the Universal Service Directive's provisions should be implemented, and plan to consult as appropriate later this year.

(i) It is not enough to encourage the take-up of broadband so that Wales may become a consumer of digital services produced elsewhere. If it is to avoid the perils of a digital divide, Wales must also become a producer of internet content. We welcome the inclusion in the UK Online Strategy of a commitment to "consider how best to raise the capacity of UK online centres to support the development of locally inspired community content". We also welcome the e-fro project initiated by Coleg Digidol. We recommend that the next Online Strategy should include firm targets for the production of local internet content in each UK region (paragraph 43).

The Government welcomes the Committee's recommendation and will take it into account in developing the next UK Online Strategy.

Currently, the Government is currently working with the industry to promote broadband content development. Following a recommendation by the Broadband Stakeholder Group, the DTI and the Digital Content Forum jointly commissioned OC&C Strategy Consultants to undertake a scoping study into the need for, and scope of, broadband content pilots. The aim of this report was to identify existing work underway in connection with the development of broadband content, the gaps in activity and the input required to address these gaps.

The outcome of this report included key recommendations for a number of pilot projects, of which three show sufficient promise to be taken to feasibility study stage. These are a Creative Industries Cluster Pilot, a Tourism Portal, and a Broadband Channel/Incubator.

Clearly all of these pilots would have relevance to Wales, and we will ensure that the National Assembly for Wales is kept closely informed as this develops.

The feasibility study will investigate and identify the feasibility of each of the projects and provide a fully worked up project plan and coherent report for each of the pilots, addressing the fundamental issues. It will also help to inform governmental decisions on whether or not each of the pilot projects should be carried out.

(j) The legal position of educational MAN operators within the telecommunications framework must be clarified, particularly with reference to situations in which their networks are used to provide services to other bodies. We recommend that the Government consult the National Assembly for Wales and the operators of metropolitan and other local networks on the point (paragraph 46).

The new licensing regulations due to come into place in mid 2003 will not require operators who run private networks to hold a licence. The MANS fall into this category. The Joint Information Systems Committee intends to provide formal advice to the MANs about this early in 2003.

(k) The boundaries for the new radio frequency licences must not be drawn in such a way as to promote cherry picking by operators who might bid for an entire franchise with the intention of offering services only in a small part of it. We are pleased that the Radiocommunications Agency included in its consultation an option proposed by the National Assembly for Wales, even though that option was not the one favoured in the consultation exercise. It is important that the final shape of the boundaries reflects the Assembly's priorities. We recommend that further

consideration should be given to the weight of the Assembly's support for its favoured option (paragraph 50).

The Government is committed to building a broadband Britain by offering services through as many platforms as possible and recognises that wireless systems have an important part to play. The Radiocommunications Agency's consultation exercise closed in May 2002. It has been decided that 15 regional licences in the 3.4 GHz band will be made available that offer the best opportunity to increase broadband delivery throughout the UK.

(l) Given that the broadband market is still relatively young, we believe that the Government's technology-neutral approach to the delivery of broadband services, which does not seek to promote one particular method of delivery over any other, is entirely correct. This approach is likely to be particularly beneficial for Wales, where some of the most popular broadband technologies - ADSL and cable modem, for example - are not as widely available as in some other parts of the UK (paragraph 51).

The Government is grateful to the Committee for its support of a technology-neutral approach to broadband, which we will continue to embrace for the foreseeable future. In seeking to extend broadband networks further it will be important that all technology alternatives are explored without prejudicing the chances of any option by favouring others.

(m) There is a strong case for opening the licence-exempt radio spectrum to commercial users, subject to some kind of licencing provision. However, the needs of existing users of the spectrum must be safeguarded and the demands of commercial service providers should not take precedence over educational institutions and community-based groups which have established their own broadband networks (or those which might wish to do so in the future). We are concerned that the RA's consultation on this issue failed to reach a number of institutions, such as the university MANs, with a direct interest in the use of licence-exempt spectrum. We recommend that in future the operators of HE and FE MANs be included in the RA's mail shots on consultation exercises (paragraph 57).

The Radiocommunications Agency will aim to include all interested parties in future consultations. Any organisation with an interest should notify the Agency to ensure they have full contact details.

(n) We welcome BT's commitment to the use of a range of technologies in delivering broadband services. We hope that BT will give consideration to the use of new technologies in the delivery of private circuits over long distances (paragraph 63).

and

(o) We recommend that BT review its arrangements for handling approaches from businesses with complex telecommunications needs in Wales (paragraph 65).

These are matters for BT. The Government supports the Committee's general point that operators should consider all available technologies and strive to meet the increasingly complex needs of business.

Distributed by TSO (The Stationery Office)

and available from:

TSO

(Mail, telephone and fax orders only)

PO Box 29, Norwich NR3 1GN

General enquiries 0870 600 5522

Order through the Parliamentary Hotline *Lo-call* 0845 7 023474

Fax orders 0870 600 5533

Email book.orders@tso.co.uk

Internet <http://www.tso.co.uk/bookshop>

TSO Shops

123 Kingsway, London WC2B 6PQ

020 7242 6393 Fax 020 7242 6394

68–69 Bull Street, Birmingham B4 6AD

0121 236 9696 Fax 0121 236 9699

9–21 Princess Street, Manchester M60 8AS

0161 834 7201 Fax 0161 833 0634

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

18–19 High Street, Cardiff CF1 2BZ

029 2039 5548 Fax 029 2038 4347

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop

12 Bridge Street, Parliament Square

London SW1A 2JX

Telephone orders 020 7219 3890

General enquiries 020 7219 3890

Fax orders 020 7219 3866

Accredited Agents

(see Yellow Pages)

and through good booksellers

© Parliamentary Copyright House of Commons 2003

Applications for reproduction should be made in writing to the Copyright Unit,

Her Majesty's Stationery Office, St Clements House, 2–16 Colegate, Norwich NR3 1BQ

– Fax 01603 723000

ISBN 0-215-00822-7



9 780215 008220