CWU SUBMISSION TO DCMS COMMITTEE ON BROADBAND AND THE ROAD TO 5G INQUIRY

Introduction

1. The Communication Workers Union (CWU) is the largest union in the communications sector in the UK, representing approximately 192,000 members in the postal, telecoms, financial services and related industries. We represent over 60,000 members in the telecoms industry working in around twenty companies including BT, Openreach, Virgin Media, Sky and TalkTalk. We are the only trade union with formal recognition for non-management grades in BT and Openreach.

2. The CWU has long campaigned for investment in faster, better quality universal broadband services. We welcome any genuine commitment to achieving this goal. The Government’s pledge to deliver nationwide gigabit-capable broadband by 2025 is very ambitious. However, without a far more detailed, costed and timetabled action plan, it amounts to empty rhetoric. We urge the Committee to do everything in its power to persuade the Government to set clearer plans and be more proactive in fulfilling its stated broadband ambitions.

3. The CWU believes that the UK’s universal broadband network is a natural monopoly given the high barriers to market entry, especially in harder to serve areas. We consider that a national monopoly model is the optimum approach to delivering the Government’s ambitious target. This would be significantly cheaper than the Government’s proposed competition model because network duplication would be avoided and cross-subsidisation would help to fund 100 per cent coverage. A recent report for Government estimated that full-fibre rollout by 2033 would cost a total of £32.3bn under a competition model, whilst under a national monopoly model it would cost £20.3bn.¹ The national monopoly could be a private entity that offers wholesale access at regulated prices, or it could be a state-owned enterprise. The CWU favours the latter approach, with public ownership and democratic control enabling more profits to be reinvested into the network for everyone’s benefit, rather than being paid out in dividends to private shareholders.

4. Regardless of the model used, there must be far greater focus on addressing the current skills gap and ensuring the recruitment and training of the workforce needed to deliver a world class digital network across the UK. This will depend on communication providers being able to invest in new jobs and decent terms and conditions of employment. Regulation can help to achieve this by establishing a level playing field for competition, high quality of service standards across all providers, minimum health and safety standards for all those working on the network, and clear long term investment incentives.

5. Under the proposed competition model scenario, there must be adequate and efficient private sector investment; sufficient public funding properly targeted in areas not served by the market; and the avoidance of network duplication, overbuild and cherry picking which restricts the scope for cross subsidisation and rollout in harder to reach areas.

6. The coronavirus outbreak has highlighted the vital role of the UK’s communications infrastructure to support economic activity, enable remote working and maintain social cohesion. It is right that the Government should be focusing on ensuring this infrastructure is world class and that all citizens and consumers can fully participate in the digital economy and society. These crucial objectives must be properly backed up with a commitment to putting the right plans, funding and regulatory measures in place to make them a reality.

Q: How realistic is the Government’s ambition of nationwide gigabit-capable broadband by 2025, and what measures (regulatory, financial, technical, other) will be needed to achieve it?

7. The Government’s pledge to deliver gigabit-capable broadband nationwide by 2025 has prompted critics to accuse the Prime Minister of operating in dreamland.² It is a massive national infrastructure project that brings the previous already ambitious 2033 target forward by eight years. Nevertheless, the bold ambition shows the Prime Minister understands the popularity of better broadband amongst the electorate. It would be commendable and potentially achievable if it was backed up with substance and a detailed plan of action. The telecoms industry has responded by saying it stands ready to rise to the challenge, but that it needs a Prime Minister who can provide the ‘direction, idealism and commitment’ to fulfil this ambition.³

8. The measures needed to achieve the objective include recruiting and training thousands more skilled engineers to build the network to over 30 million premises at pace; managing the considerable scale of the associated civil engineering work; and securing the substantial level of funding required to pay for it. All of this will rely on strong leadership from Government and a commitment to public investment where necessary. It will also rely on a

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² BoJo’s 2025 fibre promise has no basis in reality, telecoms.com, 17th June 2019, accessed at: https://telecoms.com/497967/bojos-2025-fibre-promise-has-no-basis-in-reality/
³ Telco lobby tells BoJo to show his commitment to fibre goals, telecoms.com, 5th August 2019, accessed at: https://telecoms.com/498880/telco-lobby-tells-bojo-to-show-his-commitment-to-fibre-goals/
joined up approach from Government, industry and the regulator. Ofcom has an important role to play in ensuring the regulatory framework is fit for purpose, especially with regards to incentivising long term network investment.

**The need for regulation to support job creation and decent labour standards**

9. The success or otherwise of the Government’s broadband ambitions will rest largely on whether the labour force is in place with the right skills and training. Industry has said that to extend full-fibre to all 32 million homes by 2025, the workforce would have to be drastically increased. BT has said it would have to hire another 30,000 field engineers to meet the demands of connecting an average of 20,000 a week to stick to the accelerated timeline.\(^4\)

10. As a starting point, it is encouraging that Openreach has announced its intention to roll out a fibre to the premises (FTTP) connection to 4 million UK homes and businesses by March 2021, with an ambition for 15 million by around 2025 and then beyond if the right government support and investment conditions are in place.\(^5\) Openreach has recruited and trained 3,000 field engineers during 2019 to help deliver its fibre network ambitions.\(^6\)

11. It is crucial that the additional resources needed for this work are fully reflected in Ofcom’s charge control modelling. This must include the costs of secure jobs, decent labour standards and proper training, all of which are fundamental to delivering high quality services. Any weakening of pay and conditions for employees will inevitably be detrimental to recruitment, retention, productivity and service quality.

12. The CWU is concerned about poor employment standards in some commercial network operators. Much of the investment for rollout by new operators such as CityFibre and Hyperoptic is from foreign commercial investment funds who are likely to seek a swift return at the lowest possible price. This will almost certainly impact negatively on labour standards, quality of service and network resilience in the UK telecoms sector.

13. We already know that companies that build fibre networks typically use subcontractors at least to some extent to carry out service provision work, as well as the construction, build and commissioning of networks. These subcontractors tend to be in insecure employment, on low rates of pay, and often work on a day rate or a piece rate according to the number of jobs they carry out. The CWU has called on Ofcom to address this by building in the cost of secure jobs, decent employment standards and training when setting the regulatory mechanisms which are key to investment decisions.

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\(^4\) Telco lobby tells BoJo to show his commitment to fibre goals, telecoms.com, 5\(^{th}\) August 2019, accessed at: [https://telecoms.com/498880/telco-lobby-tells-bojo-to-show-his-commitment-to-fibre-goals/](https://telecoms.com/498880/telco-lobby-tells-bojo-to-show-his-commitment-to-fibre-goals/)


The need for long term investment to fund network upgrades

14. As mentioned above, the CWU favours a publicly funded national monopoly model which is the most cost efficient approach and would maximise the reinvestment of profits back into the network to the benefit of society as a whole. The £20 billion needed in public funding for network build would more than pay for itself, with forecasts suggesting that rolling out full-fibre across the UK could boost the economy by £59bn by 2025. The CWU will continue to make the case for this approach, although we recognise it is anathema to the Conservative Government’s pro-market agenda.

15. Under the Government’s proposed competition model, one of the key factors that will determine the success of the full-fibre ambition will be ensuring that the regulatory framework encourages long term network investment. This means regulatory stability is needed to create a degree of certainty for investors over a reasonable period of time. There must also be the possibility of fair, reasonable returns on investment by companies that commit to high risk long term infrastructure projects.

16. It is widely accepted that the cost of rolling out full-fibre across the nation will be in the region of £30 billion. However, the market will only commit to part of this, due to the high costs and risks of delivering to remote and difficult to serve areas. A report for Government estimated that it would cost around £7.6bn in public funding to cover the 25% of premises not served by 2033 due to hold up issues or being commercially unviable.

17. Most of Openreach’s fibre rollout is focused on profitable urban areas, but Openreach is rolling out some FTTP into remote rural areas through the ‘Building Digital UK’ linked state aid schemes. This demonstrates that Openreach is willing and capable of delivering networks to less economic areas where public funding makes this viable. It is welcome that Ofcom plans to support investment by Openreach in more sparsely populated areas where there is no prospect of multiple networks being built, recognising that Openreach is the only operator with a large scale rural network.

18. It is also welcome that Ofcom will work closely with the Government on its plans to invest £5 billion of public money to support the rollout of gigabit-capable broadband in the hardest to

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9 ISP Review, 26th January 2020, ibid
10 Ofcom start major review to boost UK full fibre broadband market, ISP Review, 8th January 2020, accessed at: https://www.ispreview.co.uk/index.php/2020/01/ofcom-start-major-review-to-boost-uk-full-fibre-broadband-market.html
reach 20 per cent of the country.\textsuperscript{11} It is vital that this commitment from Government is carried through if we are to rebalance the regions of the UK economically and avoid leaving rural and remote areas the wrong side of a growing digital divide. There is also the likelihood that £5 billion will not be enough, if the estimate of £7.6 billion for reaching commercially unviable areas by 2033 is accurate. It is a concern, therefore, that the new Conservative Government is already being criticised by the Industrial Strategy Council for neglecting its industrial strategy.\textsuperscript{12}

\textbf{Addressing the threat of cherry picking by alternative network operators}

19. The CWU has called on Ofcom to help ensure that private and public sector funding for broadband is allocated efficiently, including to those areas genuinely in need of support. Public money must not end up contributing to the network duplication and overbuild in profitable areas that is happening due to cherry picking by alternative fibre network operators such as CityFibre and Hyperoptic. Cherry picking undermines the investment case for BT Openreach – which is currently the only operator with the scale and capability to deliver fibre networks across the whole of the UK – to roll out networks in rural and remote areas. This is because it reduces revenue potential in more profitable areas and with it the scope for cross-subsidies.

20. The problem of cherry picking was brought to Ofcom’s attention in an open letter last year when politicians from 20 Northern towns and cities wrote to Ofcom highlighting the lack of coordination in deploying FTTP networks which is acting against the interests of customers. It said “\textit{We are seeing the needless duplication of full-fibre networks, whilst short distances away other Northern towns and cities with no planned investment risk being left behind.”}\textsuperscript{13}

21. CityFibre is concentrating on 37 UK towns and cities, whilst Hyperoptic is rolling out its network in 39 UK towns and cities. It comes as no surprise that they are building their networks in many of the same places, such as Manchester, Bristol, Coventry and Cambridge. At the same time, these operators have no plans for full-fibre networks in smaller towns and less affluent areas.

\textsuperscript{11} 2019 Queen’s speech sets out UK gigabit broadband plans update, 14\textsuperscript{th} October 2019, ISP Review, https://www.ispreview.co.uk/index.php/2019/10/2019-queens-speech-sets-out-uk-gigabit-broadband-plans.html
\textsuperscript{12} Watchdog attacks Tories for neglecting industrial strategy, Guardian, 19\textsuperscript{th} February 2020, accessed at: https://www.theguardian.com/politics/2020/feb/19/watchdog-attacks-tories-for-neglecting-industrial-strategy-boris-johnson-uk-economy
\textsuperscript{13} City leaders warn UK full fibre rollout is uncoordinated and inefficient, ISP Review UK, 25\textsuperscript{th} March 2019, accessed at: https://www.ispreview.co.uk/index.php/2019/03/city-leaders-warn-uk-full-fibre-rollout-is-uncoordinated-and-inefficient.html
Improving mobile coverage

22. Mobile coverage in the UK is still far from satisfactory, with only 66% of the UK geographically has 4G coverage from all four operators and 9% having no mobile coverage at all.14 A recent analysis of Ofcom mobile coverage data by Which? uncovered that eight in 10 areas of the UK lack full 4G coverage.15

23. It is welcome that the mobile industry has developed its own proposals for a ‘Shared Rural Network’ that involves commitments from all four operators for good quality coverage in exchange for up to £500m funding from the UK Government. It is important that Ofcom does everything within its powers to encourage this project to go ahead and monitors its progress going forward.

24. 5G mobile networks promise to be significantly faster and more reliable than 4G services. Commercial deployment has now begun, but 5G currently has limited availability and is very expensive. More backhaul capacity will be needed to assist in the wider rollout of 5G mobile services, which means building new fibre networks. At present, the lack of fibre infrastructure is said to be a barrier to 5G rollout. This is another important reason why Ofcom must look to incentivise long term investment in fibre.16

The importance of creating consumer demand for new broadband services

25. The latest available data shows that 7% of households have no internet access, and that lack of skills is a factor in this for 34% of these households.17 The 2019 Consumer Digital Index shows that 11.9 million people do not have the digital skills needed for everyday life in the UK.18 In 2014, a Policy Exchange report estimated that £875 million was needed to ensure the whole population has basic digital skills by 2020.19 However, the Government’s digital inclusion strategy, which operated between 2014 and 2017, only invested a fraction of this amount.20 Since then, the Government does not appear to have sponsored any digital inclusion initiatives.

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16 ‘What’s holding up the 5G utopia in Britain? Quit a lot, actually’, The Register, 22 March 2019, accessed at: [https://www.theregister.co.uk/2019/03/22/5g_obstacles/](https://www.theregister.co.uk/2019/03/22/5g_obstacles/)
20 Digital skills and inclusion – giving everyone access to the skills they need, DCMS, 1st March 2017
26. The CWU believes that much more public intervention is necessary to encourage the take-up of broadband services, including through a high profile e-literacy campaign promoting the benefits of getting online and addressing the UK’s online skills deficit. Demand side subsidies such as voucher schemes could also be used to make higher bandwidth services affordable for customers and commercially viable for network investors. This would boost digital inclusion and strengthen the commercial business case for long term infrastructure investment.

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