

HBF Response: Ofcom Strategic Review of Digital Communications

October 2015

The HBF is the principal trade association for private sector home builders in England and Wales and our members produce about 80% of the new homes built each year.

I am grateful for the opportunity to contribute on behalf of the Home Builders Federation (HBF) to Ofcom's Strategic Review of Digital Communications.

Our comments relate specifically to the supply of broadband services to new build homes. In this respect we have an interest both as the foremost trade association representing house builders who, in the main, are wholesale customers of Openreach, and also the households who purchase new homes. In relation to the concerns for business and residential customers of Openreach, referenced in Section 13 (pp. 146) of the Discussion Document, developers' priorities cut across most of these.

Whilst HBF is not well placed to offer a technical response to the questions posed in the Discussion Document nor present fully formed suggestions for regulatory reform, we focus here on the quality of service provided by Openreach.

Equipping newly built homes with the best possible communications services represents an excellent opportunity to future proof the homes of tomorrow. However, we are concerned that insufficient service quality for house builders and their customers means that we are missing a vital opportunity to edge closer to meeting the ambitions for the UK to be a world leader in the rollout of superfast broadband.

During the construction of a new housing development, house builders put in the facilities to carry cables but are entirely reliant on broadband infrastructure providers to make the necessary connections from the local exchange or cabinet to each new dwelling.

Digital communications have become an indispensable part of daily life and with more and more individuals working from home, a reliable and well performing service to residential addresses is important for the country's households and businesses alike.

Over the past 18 months we have grown increasingly concerned at the persistent failure of BT Openreach to connect new build homes in a consistent and timely fashion. These

concerns were highlighted in a letter from HBF to the Minister for the Digital Economy in November 2014.

Since the turn of the year we have been working closely with Openreach to address specific cases where households are occupying new homes with little or no connectivity, and also attempting to support Openreach in putting in place systems to better plan its investment, not only in physical infrastructure but also in human resources to ensure it has capacity to respond to likely future demand. We do not doubt the intentions or commitment of Openreach management – indeed, we welcome the candour they have displayed in recognition of the issues they face – but to date progress has been frustratingly slow.

Our members pride themselves on delivering the best possible customer experience. We recognise that for most people buying a home will be the biggest and most important purchase of their lives. The ease and smoothness of purchasing and moving-in process should, therefore, reflect the magnitude of this life event.

The growing political consensus around the need to tackle the country's housing crisis, government policies to create a more supportive planning framework and support first-time buyers especially on to the housing ladder, and the resulting investment by our members in land and labour has seen house building rates increase by more than 50% since the depths of the recession. This level of effective demand is unlikely to cease in the near future but Openreach currently seems unable to forecast future workloads by geography in spite of basic indicators of future house building activity being available either publicly, or through low cost services.

In terms of personnel, I understand that Openreach has initiated a significant recruitment programme for new engineers but our members report that the benefits of this are still not being felt by their customers.

The poor performance of Openreach in connecting many new build homes to broadband services within a reasonable timeframe is now having an impact on the customer satisfaction levels obtained by house builders. With broadband now seen as an essential utility it is unsurprising that customers moving in to new homes with little or no connectivity feel dissatisfied even when, in some cases, house builders provide mobile broadband services in the interim.

The situation is even more serious for developers of specialised homes for older people. Occupants of these homes will often be more vulnerable and their ability to communicate is of great importance, especially where 24 hour emergency assistance is a feature of the development. In some instances, retirement home builders are providing temporary mobile telecommunications facilities to provide peace of mind.

As well as delays in connecting new homes to broadband services, house builders have often found that procedures for dealing with complaints or enquiries seem to be inadequate in spite of comparatively high costs for services such as diversion enquiries, for instance.

Indeed, in some cases the failure to install basic fixed line services on a development site in a reasonable time has actually affected the ability of house builders to get on-site and begin construction.

In concurrence with paragraph 1.67 of the Discussion Document, it is difficult to look beyond the lack of incentive for investment or to provide high quality services to wholesale customers in a non-competitive market as a basis for the poor service that house builders routinely receive from BT Openreach. I appreciate that for some it may be perceived that connecting new households is a peripheral part of the overall Openreach business strategy and relatively low level investment priority but the scale is sizeable and growing with more than 200,000 new homes granted planning permission in the last year.

Section 4 of the Discussion Document outlines Openreach's *nominal* capital expenditure over the last decade which has remained constant over the period (ranging from £0.9bn to £1.1bn). Again, whilst new build residential developments constitute a small part of Openreach's activities, it is striking that capital expenditure before inflation is taken into account was the same in 2014 as in 2010 when the number of newly built homes was at an historic low.

We note the discussion on page 125 of the Discussion Document about the regulatory framework for Openreach and the influence that its relationship with BT Group may have on investment decisions. In particular, the Document provides 'the provision of broadband to new housing developments' as an example of where global expenditure controls within the business may have led to inadequate service outcomes (paragraph 11.49). HBF would concur with this analysis and urges Ofcom to consider alternative approaches that would allow for greater flex within capital budgets in a way that both is more responsive to demand and forecasted future demand. Figure 31 on page 129 of the Discussion Document outlines some of the arguments as to why the structural separation of Openreach from BT Group might lead to greater emphasis on investment but whether such action is appropriate is a much broader question for consideration by the regulator.

The house building industry welcomes the minimum standards imposed by Ofcom on Openreach which came into effect on 1st July but would invite the regulator to consider further targets that specifically address the connectivity requirements of a house building industry that is trying to gear up to deliver on Government aspirations to significantly increase the supply of housing. Indeed, we would propose a specific review to be conducted by Ofcom into the performance of Openreach in servicing new build developments.

The Home Builders Federation would be very pleased to provide more information, or present specific examples, to Ofcom on any of the issues discussed above.

David O'Leary

Policy Director

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