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Dame Meg Hillier MP
Chair, Public Accounts Committee
House of Commons
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27 October 2022

Dear Dame Meg Hillier MP

DCMS Response to PAC letter of 30 August 2022 Re Improving Broadband and Gambling Act review

Please find below our response to [your letter](#) dated 30 August 2022. As requested this includes an update on the progress we have made on Project Gigabit and the Shared Rural Network, and the latest status of the Gambling Act review and The National Lottery Licence competition process.

Improving Broadband and the Shared Rural Network

As we said to the Committee in our 29 June hearing, the Department and its Executive Agency, Building Digital UK (BDUK), is on track to deliver against its challenging Project Gigabit targets. We are pleased to provide further information in response to your questions below.

The cost-of-living crisis:

"Please also share with the Committee any plans that you have for increasing the information that is available to households about the speed and cost of broadband packages they are able to purchase to enable better consumer choice."

As discussed in June, the Department recognises that more needs to be done to ensure those on Universal Credit, and other means-tested benefits, are aware of the social tariffs available to them.

DCMS works closely with the Department for Work and Pensions (DWP) and other government departments to help eligible consumers get access to support. DWP launched a new digital process for operators to confirm social tariff eligibility in collaboration with DCMS this August. This helps eligible consumers get access to these tariffs quicker, with suppliers verifying Universal Credit status in real time. In the longer term, it will also help suppliers counter consumer fraud, ensuring help is kept available for those who need it most.



We also support the telecoms industry to go further and we have made clear our expectation that operators should ramp up their marketing activities for social tariffs. We are working with charities and consumer groups to encourage take-up of these tariffs, targeting groups who find it difficult to navigate the telecoms market. For example; the elderly trying to carry out bespoke activities, those who may not have English as a first language, or those without an existing connection. DCMS also engages regularly with Ofcom, who have a statutory duty to review affordability.

There remains strong competition across the broadband consumer market, with price comparison sites often used by consumers to compare products and deals available to their premises. To assist consumers further, from April 2023, new 'one-touch-switching' rules will be implemented allowing customers to change their service by simply signing up for a new provider who will then manage the switching process on behalf of the customer.

The take up of gigabit vouchers:

"We are concerned at the low take-up of vouchers, especially in areas like Blaenau Gwent. We would be grateful if you could write to the Committee providing your assessment of the reasons for low take-up overall, your plans for remedying this, and how you intend to monitor future take-up of gigabit vouchers. We would also be grateful if you could share information on the make-up of the 2% coverage achieved by BDUK so far and the extent to which this is as a result of the voucher scheme."

The market responded positively to vouchers, which give eligible households and businesses the opportunity to secure a gigabit-capable connection direct to their premises. Vouchers are an important tool for connecting hard-to-reach premises and enable communities to club together to cover the cost of installing gigabit-capable connections. In the last 12 months, vouchers from 93 different suppliers were successfully validated, and we passed 45,000 premises through our vouchers scheme in 2021-22.

As a supplier-led scheme, the take-up for vouchers is linked to suppliers' commercial activity, as well as the demand from communities for specific projects across the UK. This results in local variations in the use of vouchers and changes over time. BDUK works with local authorities, suppliers and communities to encourage take-up in certain areas. For example, we have encouraged suppliers in parts of Essex and on the Isle of Wight to progress large scale voucher projects that we anticipate could deliver greater coverage sooner than could be achieved by a procurement.

BDUK publishes information in its quarterly Project Gigabit updates on the number of vouchers issued, and in its recent Performance Report provided detail on the number of vouchers in each nation and broken down by rurality.

In the Performance Report, BDUK set out how the gigabit-capable coverage provided by BDUK up to the end of financial year 2021-22 had been achieved through the following interventions:

Superfast Programme: 625,200 premises passed

Vouchers: 110,100 premises passed

Hubs: 5,700 hubs connected

We will continue to monitor the vouchers scheme and make changes where necessary to ensure it complements the delivery of our local and regional Project Gigabit procurements.

Further improving overall transparency around rolling out gigabit capable broadband:

“Please provide the Committee with information on how many premises are taking up the gigabit-capable broadband that is available to them, as opposed to how many premises are passed through.”

Market information on the take-up of gigabit-capable broadband is publicly available. BT Openreach’s first quarter results for 2022-23 revealed 2.07 million customers are taking up a Fibre to the Premises (FTTP) gigabit-capable connection, while INCA’s latest aggregate data indicates one million customers across the UK are taking up a gigabit-capable connection through an alternative network provider.

Ofcom also publishes data on take-up. The latest figure for gigabit-capable services take-up from FTTP connections was 24% (from September 2021).

In the future, BDUK will publish take-up data for each of its local and regional Project Gigabit contracts as they enter into delivery, and evaluate the benefits of Project Gigabit accordingly. Take-up data, when available, will be published as part of BDUK’s annual Performance Report.

All of the subsidised premises delivered through BDUK vouchers are connected to a gigabit-capable network.

Providing transparency to households in areas not yet reached by gigabit-capable broadband roll-out:

“Please write to us setting out how you plan to give households sight of roll-out plans in their areas. This should include a particular focus on plans for those living in very hard to reach areas, setting out as a key first step precisely where you define those areas as being located.”

We are committed to transparency and publish quarterly updates on the progress of Project Gigabit. Our plan to meet our 85% target is set out in BDUK’s Corporate Plan, and BDUK has published data on its total delivery so far in its 2021-22 Performance Report. We will continue to publish our rollout plans as we deliver Project Gigabit.

As the majority of premises will be connected through local and regional contracts, BDUK will be able to publish information enabling households to see the plans in their areas after each contract has been awarded, including a map of the areas due to be upgraded.

Further detail relating to the premises due to be upgraded as part of the contract will then be available once the supplier has completed preparatory survey work. However, the premises scheduled to be reached by each contract is subject to change during the lifetime of the contract, as suppliers may descope premises from our contracts. We will provide regular updates to planned delivery areas, showing which premises remain within the scope of each intervention area.

BDUK will also make clear the reasons why some premises are not currently within the planned contract build.

Very Hard to Reach Premises are defined as those which are beyond both commercial and government value for money limits due to their often very rural, remote and isolated nature. The Department has previously noted that it believes there to be approximately 100,000 such premises, with a disproportionate number located in the devolved nations. The Department expects to be able to release further information on Very Hard to Reach premises policy before the end of the year.

Plans for maintaining gigabit-capable broadband after roll-out is complete:

“Please share with the Committee your plans for what occurs when government-subsidised gigabit-capable broadband has been rolled out in local areas. This should include clarification of where risk will sit overall, where responsibility will sit for maintenance of gigabit infrastructure, and contingency plans for the action you will take in cases where providers are unable to maintain this.”

Under Project Gigabit, the contracted supplier will keep ownership of the network assets. On top of building the network, they are responsible for its maintenance and for any upgrades needed to ensure gigabit-capable services remain available for the full life of the contract.

Our contracts use a gap funding model i.e. the government funds the minimum amount required to make a project viable for the private sector to deliver. They also include clawback mechanisms, which take back public money if a subsidised connection is more profitable than expected, to ensure value for money.

Infrastructure deployed using Project Gigabit funding must meet a range of technical requirements, including suppliers providing wholesale access to Internet Service Providers at benchmarked price points. This keeps these networks open for competitive suppliers to reach the market. Any subsequent supplier who takes over the subsidised network would need to offer the same access for the life of the contract. For contingency plans in the event of supplier failure, please see below.

The risk of provider failure:

“Please share with the Committee any plans that you have in place for how to maintain broadband access to consumers in the event of any providers ceasing to trade, for example, as a result of inflationary pressures.”

BDUK has a range of contractual mitigations in place which protect customers from the risks of supplier failure for premises covered by its local and regional Project Gigabit contracts. The contracts include provisions that support the handover of build to a replacement supplier and the requirement for an exit plan in the event of supplier insolvency or default, allowing the replacement supplier to easily identify assets and continue the works. In the event of financial distress, the contracts include provisions for monitoring, reporting and remedial action to be taken to mitigate against any risk to continued performance of the contract.

Other mitigations to protect public money against supplier failure include:

- having financial robustness checks for suppliers trying to qualify for our procurements, including financial standing checks and the ability for the supplier to become a 'monitored company' if they meet the thresholds but there may still be concerns.
- BDUK will monitor all contracts and suppliers throughout the life of the programme, including financial health checks where suppliers have multiple contracts, and reviewing reports from credit rating agencies, for example.

At-risk suppliers will be formally monitored through a 'monitored company' status, with enhanced reporting requirements to BDUK. This is regularly reviewed through formal contract management meetings and is escalated or accelerated depending on severity.

After deployment is complete and the contract is delivered, standard insolvency law applies. The Universal Service Obligation ensures a legal minimum standard of connection, and Ofcom regularly monitors the market to identify any firms in financial distress.

It should be noted that digital infrastructure remains an attractive asset for investment, especially in cases where there is only one gigabit-capable infrastructure provider in a given area.

The Shared Rural Network Programme:

"Please provide the Committee with details of the locations of "total not-spots" in the United Kingdom, which is the government-funded part of the programme."

The Shared Rural Network is structured so that its publicly funded elements are targeted at areas where there is no coverage and which are unlikely to see any rollout in the near future. To address these total not spots, BDUK is committing grant funding of £310 million to Digital Mobile Spectrum Limited (DMSL), a delivery vehicle run jointly by the four mobile network operators. This will fund the construction of new infrastructure in areas of Scotland where there is currently no 4G coverage at all. We are unable to give the exact locations of these sites at this stage as the programme has only recently gone into the site acquisition stage and is still subject to uncertainties, including planning approval.

In addition, £184 million of government funding will be made available to the Home Office and the operators to upgrade Extended Area Service masts being built as part of the Emergency Services Network. This upgrade will make the masts usable by all four mobile network operators, so that they can offer commercial connectivity in areas across England, Scotland and Wales that are currently total not spots. Design and acquisition has already begun on 104 Extended Area Service masts, and we can share their locations once we have progressed the projects far enough to confirm that they will be made commercially viable by the operators.

Coverage uplifts as a result of the Share Rural Network can be found here:

<https://srn.org.uk/forecast-coverage-improvements/>

Gambling Act review

It is a manifesto commitment to review the Gambling Act 2005 and our Ministers are considering the proposals and their potential impacts carefully. We will publish the white paper in the coming weeks, and I will write to you again to give further details on the implementation plan.

As you mention in your letter, we have worked closely with regulators to continue making gambling safer while the review has progressed. Over the last two years the Gambling Commission, government and Committees of Advertising Practice have:

- Tightened restrictions on VIP schemes leading to a reported 70% reduction in number of VIPs
- Made online slots games safer by design
- Raised the minimum age for participation in the National Lottery to 18
- Introduced stringent requirements for online customer interaction to make sure online operators effectively identify and intervene with those at risk of harm
- Changed gambling advertising codes to make sure content cannot be of 'strong appeal' to children – meaning people like top flight footballers and social media influencers are unlikely to be allowed to appear

You asked how the department will deal with such a large volume of consultation and call for evidence responses in future to ensure government responses are not delayed. The department regularly undertakes large public consultation exercises, and we are always improving our approach to analysing the findings, including through using dedicated online survey platforms which quickly gather and summarise views. In the case of the Gambling Act review, alongside the volume of responses the department has worked with the Gambling Commission and others to fill important evidence gaps not addressed by respondents. Given the importance of the issues we have also held substantial discussions across government to ensure we get it right.

The National Lottery

Likely legal costs and funding source

As you noted, the High Court in June 2022 ruled that the Gambling Commission could move forward with formally awarding the 4th National Lottery licence to Allwyn. It is important to note, however, that the High Court's decision was appealed to the Court of Appeal. This was due to be heard on 13-14 September but Camelot and IGT withdrew their appeal in the days beforehand. The Commission was then able to move forward with issuing the 4th licence and signed an Enabling Agreement with Allwyn on 16 September.

There remain the substantive challenges by Camelot and a number of others to the Gambling Commission's competition outcome decision. The Court hearing for this has been scheduled to begin in January 2023.

The legal challenge against the outcome of the 4th National Lottery licence competition is being brought under procurement law, including regulations that were not in place when the last licence was awarded. This complexity, the length of time it took for the process of allowing

transition to begin and the number of parties to the challenge has made it difficult for the Gambling Commission to forecast the total quantum of legal defence costs. Discussions on this are ongoing with DCMS. We will update the Committee with a figure as soon as possible.

The cost of the Gambling Commission's legal defence will be met from the National Lottery Distribution Fund, with the approval of Ministers and HM Treasury. The source of funds if any damages are awarded has not been agreed. A decision will be made at the appropriate time, should this scenario arise.

Lessons learned

In relation to lessons learned, the Committee can be assured that we and the Gambling Commission will carefully review the 4th National Lottery Licence competition process once it has concluded. Such an assessment has been standard practice by the Commission at the close of previous National Lottery competition programmes and the 4th Licence team benefited from its predecessors' analysis of lessons from the 3rd Licence programme. The application of procurement legislation to the competition process has been a new factor to the National Lottery competition in delivering this 4th Licence programme. We and the Commission will ensure this aspect is fully embedded into our review, including the time taken to secure the Court's permission to begin transition. We will be seeking to identify early on any actions that might be taken in preparation for the 5th Licence, which is currently due to begin in 2034.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sarah Healey', with a stylized, flowing script.

Sarah Healey
Permanent Secretary