

## Fibre rates - is it time to repeal the 21st Century Window tax?

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Why would anyone tax windows? Well it seemed like a good idea to some in late 17<sup>th</sup> century England and in both 18<sup>th</sup> century Scotland and France, as it was thought to be less intrusive than income tax but would still scale progressively according to property assets. The more windows you have over a base number, the more light enters your house, the more you pay. Although it was easy to assess, it was intensely unpopular and controversial, causing windows to be blocked up and is probably the origin of the phrase, "daylight robbery".

A similarly troubling tax exists today, but for light that passes underground rather than overhead – fibre rates. Not everyone realises it, but there is a tax to pay for each metre of previously dark fibre when it is lit. For those in the business of providing networks, this is a problem.

Fibre rates have to be paid via the Valuation Office Agency (VOA) of Her Majesty's Revenue and Customs, as it works from the Local Government Finance Act 1988 sections relating to non-domestic rating. The request for information form from the VOA, VO 6053 is a mere 8 pages, but has to include full details of lit fibres, cables, ducts and sub-ducts. This is then used as part of the assessment for business rates. Taxes need to be gathered, but there are some particular issues with this 21<sup>st</sup> century parallel to the window tax.

The strategy for the future of the UK's broadband infrastructure was honed through various studies and reports culminating in the publication of Digital Britain in the summer of 2009. Although it was a decent pulling together of various strands and it did contain a push to universal consumer access to broadband services, these were based on delivering the somewhat un-ambitious target of 2megabits per second. Fine for email and some gentle web surfing, but not exactly fast compared to many of the UK's competitors.

Since then the new UK coalition government appears to have sharpened the focus on broadband networks towards higher speeds and wider deployments of fibre networks with its most recent announcement, but it too seems to have missed the point about 'next generation networks'. It is not about putting fibre in bits of the infrastructure (fibre to the cabinet, FTTC), and leaving the last mile connection to remain copper, but fibre all the way to the premises – home or business (FTTP, FTTH).

This is too expensive for government to fund in its entirety but will not happen if left solely to BT, who despite having the advantage of being a former incumbent with huge technical resources, as a private company has to maximise shareholder value. BT's efforts towards fibre have only been marginally adventurous with some FTTP in completely new developments, and elsewhere it generally reverts to FTTC approaches to support its network. BT competes harder when other players enter any given market, so this should be encouraged.

Other network providers will be required to widen the reach of Digital Britain to all premises, and deepen the capacity to maximise bandwidth for all. This will only be delivered using a 'patchwork quilt' of technologies and network providers. This means that other fibre network providers; like Virgin Media with large national footprints, some extending reach to specific regions and others serving public sector organisations or businesses in specific vertical market segments, will have to be allowed to compete with BT on a level playing field.

Sadly this is not the case, and the rating system used to levy the tax on fibre is not only costly, but also unfair.

Firstly laying fibre is not without cost. While the fibre optic strands and driver technology costs have been falling, it's still very expensive to dig trenches, pull strands through sewers or otherwise find somewhere to lay the fibre optic cables. On top of this, fibre rates have been

increasing. While the rating cost per consumer connection to next generation networks has remain static over the last 5 years at £20 per household, the average rateable cost per kilometre of lit fibre has soared. That's hardly an incentive for deploying long lengths of fibre to those harder to reach rural communities.

However the worst effect of the fibre rates is their disproportional favouring of the incumbent, BT. New entrant carriers and small scale community fibre projects are likely to be paying anything up to around £750 per kilometre, whereas BT will be paying a tiny fraction due to the way the VOA rate BT compared to everyone else. BT is assessed as a 'utility operator' using a 'receipt & expenditure' method, i.e. the average profit of the network, but all other providers are assessed using the 'tone list' method as ordinary businesses.

At a time when the UK broadband communications infrastructure needs a major overhaul and significant investment, it seems very restrictive to use something that looks like a throwback to the dark days of the window tax. By applying a business fibre tax which falls most heavily on those trying to innovate round the edges of the incumbent operator, competition is being stifled and the pace of Digital Britain is being slowed. A light needs to be switched on in government thinking before the UK is left even further behind.

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Through researching perceptions, Quocirca uncovers the real hurdles to technology adoption – the personal and political aspects of an organisation's environment and the pressures of the need for demonstrable business value in any implementation. This capability to uncover and report back on the end-user perceptions in the market enables Quocirca to advise on the realities of technology adoption, not the promises.

Quocirca research is always pragmatic, business orientated and conducted in the context of the bigger picture. ITC has the ability to transform businesses and the processes that drive them, but often fails to do so. Quocirca's mission is to help organisations improve their success rate in process enablement through better levels of understanding and the adoption of the correct technologies at the correct time.

Quocirca has a pro-active primary research programme, regularly surveying users, purchasers and resellers of ITC products and services on emerging, evolving and maturing technologies. Over time, Quocirca has built a picture of long term investment trends, providing invaluable information for the whole of the ITC community.

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