

Rating the next generation

Penalties for new entrant broadband providers

Did you know that the pipes in the ground that deliver your broadband services are really commercial offices?

Well, the Treasury apparently thinks so. They require all non-domestic properties with very few exceptions to be entered in the rating list – and this includes conduit for telecommunications services.

The valuations are revised on a 5 year cycle; the last review occurred in 1998 when the rental values of telecommunications infrastructure were close to the lunatic zenith, with the effect being the 1998 valuations were imposed for a 5 year period from 2000 to 2005. So while the rateable value of these holes in the ground was set at the height of the telecommunications boom, the money was collected during its bust. The next round of valuations will not bite till 2007, which means that all new entrants trying to offer next generation broadband until then are still being forced to pay rates based on boom times.

After a lengthy and, for mere-mortals, expensive legal battle BT successfully forced a review of their own predicament and their ducting was revalued in 2000. The result was that they received a treasury cheque for £250m and further reductions of around £100m per annum.

Whilst arguably the BT valuation remains too high in today's telecommunications climate, it is certain that the largely debt-financed new entrants, many of whom have yet to become cash positive, are unable to meet the burden without compromising business plans; especially as the Goliath of the market is paying less to reach their customers, pro rata, than the often innovative start-ups. New entrants have no choice but to pay those 1998 rateable values in a market twisted by Treasury policy to favour the incumbent over nascent but competitive entrants.

The most recent review comes into effect in 2007, at which point it is hoped that everyone will have a more level, less expensive playing field but the incumbent operator has had several years of Treasury-funded advantage to prepare for a slightly more competitive market.

So how committed is the Government to having the most competitive broadband market in the G8 countries?

If actions speak louder than words, not very, it would seem. Given that the last Government minister with some responsibility for business rates, Stephen Timms, was previously the minister for broadband and a telecommunications consultant, there can be no excuses. For whatever reason, it has been Government policy to skew the market in favour of the incumbent operator.

About

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This document is one of an occasional series of briefing notes to raise general awareness of broadband issues and ideas. Further documents can be found on the Great Technology Company's website (www.great-technology-company.co.uk) and via organisations such as ABC (www.abcampaign.org.uk).