

CCWLSIR IIC 25

Senedd Cymru | Welsh Parliament

Pwyllgor Diwylliant, Cyfathrebu, y Gymraeg, Chwaraeon, a Chysylltiadau

Rhyngwladol | Culture, Communications, Welsh Language, Sport, and

International Relations Committee

Effaith costau cynyddol / Impact of increasing costs

Ymateb gan Ofcom / Response from Ofcom

Ymateb i ymchwiliad Costau

Byw

Response to Cost of Living

inquiry

15 Medi / September 2022

Ofcom

making communications work for everyone

sicrhau bod cyfathrebiadau'n gweithio i bawb

Cynnwys / Contents

Cymraeg

Cyflwyniad	Error! Bookmark not defined.
Cystadleuaeth a Buddsoddiad	Error! Bookmark not defined.
Fforddadwyedd a bregusrwydd ariannol	Error! Bookmark not defined.
Prisio	Error! Bookmark not defined.

English

Introduction	1
Competition and Investment	1
Affordability and financial vulnerability	2
Pricing	2

Introduction

Ofcom is the UK's communications regulator with responsibilities across broadcasting, telecoms, spectrum, postal services and online safety. The cost of living crisis affects millions of consumers who use services regulated by Ofcom and the aim of this submission is to highlight the work we do in the telecoms sector to help protect those who face difficulty paying their bills. Although less immediately critical than food and heating, telecoms services – broadband and mobile - are vitally important to the lives of businesses and families. We have been working actively on these issues in recent months and welcome the opportunity to share our views with the Committee as part of its Cost of Living Inquiry.

Competition and Investment

The promotion of competition is central to Ofcom's duties. Competitive markets are the starting point for driving growth and investment and ensuring good consumer outcomes. Market incentives ensure that providers seek to offer better and more affordable services in order to attract and retain customers.

Over the next decade it is clear that the UK needs new commercial investment in our telecoms networks. We share the UK Government's ambition for gigabit capable networks to be rolled out across the UK, to meet the future demand for higher speed and better quality services for consumers. We also recognise the intervention of the Welsh Government through its Superfast Cymru programme, the Local Broadband Fund and of course the Access Broadband Cymru Scheme. We further acknowledge the work of the Barrier Busting Taskforce, of which Ofcom is a member, and look forward to the Minister for Climate Change in the Welsh Government publishing the Taskforce's recommendations on improving digital infrastructure in Wales.

Last year Ofcom set out a new regulatory framework for fixed telecommunications services in our [Wholesale Fixed Telecoms Market Review](#) (WFTMR) in support of this objective. We have put in place a regulatory framework that is designed to remove barriers and promote competition and investment in gigabit-capable networks and provide the best possible conditions for companies to invest in these networks. We allowed Openreach wholesale copper prices to rise in line with CPI inflation, providing a margin for investment, while still protecting consumers during the transition. This framework, together with the UK Government's plans to subsidise the areas where commercial roll-out is unlikely, has resulted in the deployment of new full fibre networks.

The decisions include Openreach having to continue to be required to allow all network operators to lay their own fibre networks using Openreach's infrastructure; as well as Ofcom taking different regulatory approaches in different parts of the UK, depending on the intensity of network competition in those areas. Most of Wales is what Ofcom classifies as Area 3, where Openreach is the only operator providing a large-scale network and here we will set prices annually depending upon Openreach's fibre investment, but prices will initially be lower than in Area 2.

According to our latest figure¹ for Wales, full fibre is now available to 32% of premises and gigabit capable broadband coverage is around 46% of premises in Wales. In the WFTMR, we estimated that commercial investment would deliver gigabit capable networks to 80% of premises in the UK by 2026, and we are confident that this will be achieved. The current UK figure stands at 70%

Competition has also delivered in the mobile sector. Although we do not regulate mobile services in the same way as fixed broadband – as there is no single operator with significant market power – our approach is to support competition and investment. This approach has successfully delivered continued investment in mobile services to meet consumer and business demand, most recently through the roll-out of 5G.

Affordability and financial vulnerability

We know that those on the lowest incomes can struggle to afford the telecoms services they need. In February this year, we published [research](#) which showed that around five per cent of customers struggled to afford their broadband service and a similar number had affordability issues with mobile.

During the Covid lockdowns we worked closely with industry and the UK Government to push for more widespread protections for vulnerable people, including the introduction of social tariffs for those on Universal Credit, which can provide an important safety net to ensure that the financially vulnerable remain connected and are at less risk of falling into debt. As a result, these are now available from nearly all major broadband providers, with some 75% of eligible UK broadband customers able to access a social tariff from their existing provider. However, while the number of people on a social tariff is increasing, the overall level of take-up in February remained a small proportion (1.2%) of the 4.2 million currently eligible.

Our review of industry practices showed that low-income households could save an average of £150 per year if they moved to their provider's social tariff. However, lack of awareness and information coupled with difficulty navigating the sign up process are key barriers. These issues are common to social tariffs in other sectors. The UK Government's Department of Work and Pensions recently announced an instant eligibility checker which will help ease the sign-up process for eligible customers. We believe that the Welsh Government has its part to play here too and to work with UK Government departments to raise awareness and thus increase take-up. We have also called on the industry to do more to promote social tariffs in an effort to increase take up and we will continue to hold them to account. We will publish our latest review of the situation before the end of September.

Pricing

Strong competition in both broadband and mobile markets has driven affordable pricing for consumers. Over the past eight years, broadband household spend has held broadly flat in real

¹ The latest data will be published shortly in our 'Connected Nations' summer update 2022

terms despite huge increases in data usage (on average 453 GB per month in 2021, compared to 315 GB in 2019). [Customer spending](#) on mobile has fallen and UK pricing compares favourably with international peers (lowest among France, Germany, Italy, Spain and the US in 2020). Overall spend on communications services accounted for 6% of average household monthly expenditure in 2020.

Even with competitive pricing, it is very important that consumers are treated fairly by their providers so they can engage with confidence and make the most of deals that are on offer. Over the past 5 years, Ofcom has made a number of interventions to support this, including mandatory end-of-contract notifications, significantly simpler switching on both broadband and mobile, and an automatic compensation scheme for when things go wrong. These changes have significantly strengthened consumer power and protections.

Over the past two years, we have seen many providers introduce above-inflation price rises for some consumers, particularly those who are out-of-contract or who have signed up to a contract which allows for a mid-contract price rise. These are typically 3-4% above CPI or in some cases RPI. This year some providers decided not to apply the price increases for existing customers that were set out in the terms of their contracts, in view of the current pressure on consumer finances. However, many went ahead and further large increases are likely next spring.

Ofcom does not generally have the power to set retail prices, because our markets are competitive and price controls can seriously hamper growth and investment. But we do require that mid-contract price rises are transparent and clearly explained to customers when they sign up. We are currently monitoring compliance in this area very closely.

We also continue to discuss with providers their plans for future price rises, bearing in mind potential future inflation levels, which are of course significantly higher than expected when most contracts were taken out.

We understand that the Cost of Living crisis is an important issue and we will be including updates on this as we commission research in the future. I hope that this information is helpful to the Committee.