



Vodafone Response: Financial reporting for standalone landline telephone services

May 2017

Importance of regulation in this market

1. As we stated in our response to Ofcom's market review for standalone landline telephone services¹ in the case of this market it is apparent that there is a clear market failure. This is evident in the lack of active participation by other communication providers (including us) in the stand alone voice space and the huge ~70% market share that BT enjoys. This can be attributed to both the reluctance of customers in this segment to switch and the failure of competition and regulated remedies. It appears that standalone voice consumers have proven to be less inclined to switch away from BT and unsurprisingly far less likely to purchase online. This drives higher marketing acquisition and support costs that mean the cost of gaining market share would be considerable to alternative suppliers. This has allowed BT to make significant profit from these consumers with barriers for other suppliers to particulate in the market remaining stubbornly high.
2. It is clear from the evidence presented by Ofcom that consumers using BT's voice services on a standalone basis have not had their loyalty rewarded, with BT pushing through disproportionate increases in line rental charges in recent years. While other providers' line rental charges may have also tracked up, these price rises attributed to line rental need to be seen in the context of the overall voice and broadband package offered to the market, with line rental often sold alongside a heavily discounted broadband service, ensuring the package price is competitive. Consumers of other providers also show willingness to switch supplier should they wish, having usually done so on at least one occasion before. This helps act as a constraint on suppliers' prices across the retail market.
3. For these reasons discussed in our response to the main consultation, we agree with the need for regulation of this market in order to protect vulnerable customers. However, because this regulation is on the retail price in a sector which is part of the wider WLA marketplace, which is rapidly changing with technology evolution, government funding, and commercial investment the need to actively monitor and provide transparency in this sector is extremely high. We therefore support Ofcom's focus on the financial regulatory reporting which will support the regulation in this area.

¹ Vodafone response, <https://www.ofcom.org.uk/consultations-and-statements/category-1/review-of-landline-telephone-services>



We support Ofcom's proposals

4. We support Ofcom's introduction of publically available volume information, we consider it is important for us and other stakeholders in the market to understand how this sector is changing as a results of market developments and this regulation. We also agree with Ofcom's breakdown of the volume information needed and the breakdown between additions, losses, plan type, and migration route.
5. In addition to this information we do consider it necessary that BT provide profitability and costing information in this area. As mentioned above, this is an area where BT has SMP and both the ability and track record of increasing prices significantly above cost. However, Vodafone acknowledges that retail costing information is not something that Ofcom has reviewed for some time (since 2009) and is not included in BT's current regulatory reporting system.
6. BT has provided Ofcom with evidence that apparently demonstrates that the inclusion of retail costing information would involve significate investment on their part. Ofcom's current proposal takes this into account and proposes to accept BT's 'work around' of basing their regulatory submission on management accounting information, as opposed to their usual regulatory accounting system Refine.

Does BT's track record of producing accurate regulatory information justify the proposal of a manual error prone solution?

7. Vodafone considers that although including BT's retail reporting within its regulatory accounting system may involve investment, it seems that a one-off investment to ensure accurate reporting may be warranted and may actually save costs in the medium term compared to the manual 'work-around' BT proposes. Notwithstanding the challenges that BT seems to encounter in trying to product accurate regulatory reporting² relying on a manual system that is open to a greater degree of error may be problematic.
8. If Ofcom are going to rely on BT providing regulatory financial information via their management accounts outside of the normal regulatory accounting

² As discussed in many of our responses BT has a track record of producing regulatory reports that contain significant errors, for example see "Annex 2- Error corrections 2015 impacts" which was published after the 2016 regulatory accounts.

<http://btplc.com/Thegroup/RegulatoryandPublicaffairs/Financialstatements/2016/index.htm>



system it is imperative that the information is (a) reconciled to the regulatory financial statements, (b) produced in accordance with the regulatory accounting principles in line with the RFS, ensuring all allocations are causally related, and (c) audited by an external source, as proposed by Ofcom. Additional rigour is needed to ensure the accuracy of the information produced, taking into account the fact it will be used to monitor the success of Ofcom's regulatory intervention and any future remedies that may be needed in this market to protect the consumer interest.