

Ofcom: Analyst and Investor Briefing (5 October 2023)

Rohit Goel (Ofcom): For those who have not met me before, I'm Rohit Goel, the Analyst and Investor Relations Lead here at Ofcom.

Just going to do some basic housekeeping before I hand over to Melanie. So, we're not expecting any fire alarms this afternoon. If there are any, then please follow Ofcom colleagues out of the building. They'll direct you.

The toilets are out of the room to the left, down the corridor, past the lifts if you need them. And just to remind everyone that the event is being webcast, it is being recorded and replay will be made available once we have finished.

Also, just to state that everything will be discussing today is already in the public domain. So in the Q&A there may be some areas that we're not able to go into too much detail and depth on, and we will be taking questions at the end. So if you could just please wait for that section of the briefing.

With that, I'll hand over to Melanie.

Melanie Dawes (Ofcom): Thank you and welcome to everybody. Welcome to those of you who've joined us in the room and also welcome to those online. We're very glad to be hosting this event. I think it's some years since we last did one, about five years perhaps, certainly before COVID and certainly we haven't had such a big event in my time as chief executive, mainly because of COVID, actually. But we have engaged with many of you in smaller groupings, and it's good to see many familiar faces certainly here in front of me.

So I hope you'll find it useful. As Rohit said, we're going to do a mix of a presentation, which I'll be turning to my colleagues for in a moment, which will be about 15 to 20 minutes, and then there'll be a good 40 minutes for questions. So, hold the questions until then and we'll be ready to answer whatever you have to put to us.

Let me just say a couple of things by way of overview about Ofcom at the moment and how we approach our job as the communications regulator.

As you know, we are a converged regulator. We have a brief that cuts across all elements of the TMT value chain, now with telecoms networks in the broadest possible sense. Also, of course, broadcasting and media, and now very shortly to be a particular role on online safety. So getting us into regulating the big platforms.

We see that role as making a huge amount of sense across that broad remit. And we're very aware of the change that's going on across that value chain at the moment. And that's why we actually think it makes so much sense that we're able to see across the piece.

So whether it's being able to grapple with the challenges of regulating companies such as Amazon that are postal distributors, they're are logistics provider, they're a cloud provider, they have a gaming platform, they are in the TV production business. Or whether it's thinking about how we serve consumers increasingly, for example, watching content or using their mobile devices across different forms of technology in the course of a few minutes, in any day. We think that the fact that we can do that in an integrated way is quite powerful.

You've seen today as an example of that, that we've finalised our cloud market study. We've referred that sector to the CMA, but that's an example of us thinking ahead and thinking broadly about our role as the communications regulator, particularly in this instance on the network side.

And the second thing I'd say though, is that despite the disruption that I know you will be very familiar with and what's going on commercially and the degree of change that's being driven particularly by technology, and particularly right now, in a way that's very hard to look into I think in many ways.

What you will always get from Ofcom is a commitment to competition as the bedrock of a good, well-functioning market. And you will also get in the context of the issues we're going to be discussing today, an understanding that when people are investing in networks, these are long term decisions which require stability and do require a fair rate of return above the cost of capital in order to be able to be financed and delivered to the country in the way that we all need.

So those remain are absolute priorities despite the change that we're all seeing. And we actually think they're the right things to hang on to through that change, as I hope we've demonstrated today in our cloud work.

But I'm going to pass over now to Lindsey. We'll take you through some slides. I hope it'll be pretty familiar, actually. But a good reminder perhaps of some of the facts and detail from which we can then have a conversation. So Lindsey.

Lindsey Fussell (Ofcom): Thank you, Melanie, for those who I haven't met, I'm Lindsey Fussell, I'm Ofcom's Group Director of Networks and Communications. And I'm going to cover four things really briefly. I'm going to start by talking a little bit about fixed regulation, move on to pricing across both broadband and mobile, both fixed and mobile, touch very briefly on net neutrality and then finish with the mobile sector. I am going to move at pace to allow as much time for questions at the end.

So let's start with fixed. So the first part of this I think will be really familiar to all of you in the room. We saw a significant shift in our regulatory strategy towards fixed, starting really from the digital communications review in 2016, which ultimately really underpinned the WFTMR in 2021. And that was all about taking a view that what we wanted to try and encourage and incentivise was investment in high speed, gigabit capable networks. And the fact that we thought that the best way to do that was to incentivise network competition, wholesale network competition.

What did we expect back in 2021? Well what we said was we thought that it was possible that around 80% of the UK could be covered commercially through commercial investment with gigabit capable networks. And in terms of levels of competition, we didn't expect competition everywhere by any means, but we thought that possibly around a third of the country could see around three scale networks, a further 40% up to around 70% could support two with the remaining third, perhaps seeing only one scale network. Although important to say, we did expect local pockets of competition on top of that.

So what have we seen since then? Well, that's really the graph there. And the answer is we've seen an awful lot of investment, not just from the incumbent Openreach, but from a whole range of players.

And as of our last numbers back, which were published back in September, you can see there gigabit capable I think has reached 75% and full fibre at 52%.

So I think it's fair to say that we do expect those final few percent to be quite hard won, but nonetheless we are in good in good shape towards that, that 80% that we that we expected to see commercial investment achieve.

As that competitive intensity has moved on, has started to play out. We have of course seen other issues come to the fore. Of course, some of the higher costs of financing because of the broader macroeconomic situation and in particular a move of focus towards take up alongside investment and build. Although there is quite a lot of build still to go.

I think that moves me quite neatly to our next WFTMR, which will be due in March 2026 and where we expect to launch our work formally next year.

I think it's important to start with saying that when we, as Melanie said, when we started this process, we very much recognised that this was a long-term investment that would need a long-term framework to support it. And what we said in 2021 is that if the market was developing broadly as we expected, we would expect to continue our framework.

Now of course, as part of the next market review, we will assess competition in the market and think about that in detail. But I think that's an important point to make in terms of our starting mindset.

There are some really important issues we'll need to tackle in the next market review, for example, whether there is sufficient competition in any area to deregulate and also very importantly, copper switch off, which clearly is going to be a programme that lasts a long time. But we expect to perhaps start to see happening from the next market review period.

I'm going to move off fixed now. I know there'll be a lot of questions, but I'll move on.

So moving on to pricing, again, as I say, across both fixed and mobile here. I'm not going to explain the charts, you'll be glad to know. But what they broadly say to us is that we believe that we've still got a very competitive retail market in both broadband and mobile. And that's demonstrated by pricing and the impact that's had.

So the top chart, which is about broadband, basically says that broadband prices have broadly held flat in in real terms, perhaps fallen slightly over the past five or six years. And mobile prices have fallen in both real and nominal terms over that period.

So we are beginning to see in broadband and I'll come on to this in the next slide, some of the impacts of the in-contract price rises that have been put in place in the last couple of years. The CPI plus 3.9%. But broadly a very competitive picture.

So in the context of that competitive market, our consumer interventions have very much been focused on encouraging consumers, helping consumers to navigate the complex market, as it were, to use that competition, to be able to use it, to get to get good deals. And also to protect more vulnerable consumers for whom navigating the market is always going to be complex.

And I think it's important to say, you can see some of our interventions that took place between about 2016 and 2020.

Largely in this space now, in the consumer space, we are in monitoring mode. We're not anticipating significant new regulation required, although of course we are always there to keep monitoring and step in if there's to be a problem. In the in-contract space, as I said, we have had some concerns about the fact that the type of rises we've seen, the CPI plus formulation.

But again, we see that very much from a purpose of consumer transparency and the ability of consumers to be able to understand and make choices, rather than because we have any concerns about the absolute level of pricing. Again, I'm sure there might be a few questions about that.

So moving on to net neutrality, I wanted to touch on this briefly because I think it does go to the part that Melanie was saying that as the communications regulator, we need to be really aware that our traditional markets, our traditional fixed and mobile markets are increasingly being challenged by different players at different parts of the value chain. And it was in that space really that we commenced our work on net neutrality. Obviously in a post Brexit situation where we were no longer bound by the EU's rules and the guidance on net neutrality.

Important to say, of course, I think you're probably all very aware of this, that we monitor and enforce the legislation. And so our role is to think about our guidance and the way we enforce a monitor. The legislation itself, the rules itself are set out by Parliament and only parliament can change those. We will be statementing on this work in a few weeks now, but I think it's fair to say even at this point that what we've said and what we said in our consultation is these rules have worked pretty well, in terms of safeguarding consumers access to an open Internet and also in allowing innovation to flourish in that Internet, which I think we've all seen.

But where we thought that there might be some scope for improvement is around whether they are allowing networks to innovate in the same way and allowing also networks to be efficiently managed. And so the changes we proposed in our consultation were all about how we can help that innovation, support that innovation by ISPs and networks.

I'm not going to touch too long on the exciting charging debate and fair share. Happy to pick it up in questions. It's obviously very live in the EU in particular and to a certain extent in other countries as well.

I think the thing I would say in terms of our net neutrality work, we looked at this very much through the lens of efficient network management, which is one lens. And we in that lens thought in our consultation said that we couldn't see much evidence of a case for charging because generally networks are being pretty efficiently managed. Of course, there is a broader debate that's playing out about fair share to network investment and the contribution. That I think is rightly a matter for public policy, which is why it's really being played out between governments at the moment.

And then finishing on mobile, just a single slide here. So this draws very much on the work that we did last year and our approach to mobile markets document. And what we said in that was pretty simple.

One is that obviously investment has been vital in this market and pretty much consistent investment. You look at the chart on the top right, which shows that sort of year on year that competition has been the driver of that investment. And broadly, we expect those things to continue. Investment will be essential and competition will drive it.

But we are obviously aware that this is very much a changing market, that we're seeing different players eating away at different bits of the value chain.

And as we said in our document, two of the players in the market are struggling to achieve returns above their WACC when we look at recent years.

So we do think this is a market which we will want to continue to actively monitor. Clearly, our regulation is very different here, but to the extent that we do regulate, we will want to think about how we can be as pro investment as possible.

We also said, and clarified, our position on consolidation, that it depends on not on the number of competitors, but on the specific circumstances and the effectiveness of competition.

Obviously, there's a live merger ongoing, and as you'd expect, we're not really going to be able to comment on that today. As my colleagues at the CMA think about that. So that was all I was going to say. I'm going to hand over, I think, to David.

David Willis (Ofcom): Hello. Expect many of you don't know me, so I'll introduce myself. I'm David Willis. I'm a Group Director for Spectrum here at Ofcom.

Now I always start this with dragging everybody back to their high school physics because it's sometimes not everybody understands what we do in this space, but it's really about achieving optimal use of a finite resource across a large range of services.

So the group really looks after managing spectrum from three hertz all the way through three terahertz, which is the radio spectrum, primarily up to 300 gigahertz.

And in that you have a whole variety of services. We start our work with both horizon scanning, particularly working with international partners. We do domestic allocations, authorization and licensing frameworks, including auctions. And then we go out and we make sure it works in the field, resolving interference and dealing with anything that might come up, making sure that people are respecting their license terms.

If you look, it's not just we often you think it's all commercial, mobile. It's a huge variety of services. It's everything from the key fob that opens your car door, the satellite service that talks to your either TV or that's providing Internet in hard to reach areas. It's data hotspots, it's the Wi-Fi in your house and it goes on. There's in effect over 40 different wireless services, and making sure they each get their chunk of the spectrum includes things even like sea surface temperature monitoring by measuring the water content in the atmosphere.

If we look at it more from a mobile industry perspective. Right now, these are the projects that are effectively in our spectrum pipeline. Probably in order of priority for our workplan. We've recently made a number of announcements around millimetre wave spectrum for mobile where we're releasing six Gigahertz. We're releasing it on a new model primarily in high density areas around major cities, and then making it more open access for shared access licensing in the other parts of the country. 1400 megahertz, which is a mid-band, sort of both a good coverage, and capacity, spectrum would be the next thing we're looking at.

There's an ongoing debate both internationally and domestically around a large amount of capacity spectrum and upper six gigahertz, where both the Wi-Fi industry and the mobile industry are both interested in having access to that spectrum.

We've tried to push a model to look at sharing and various ways that both could be compatible, but that's still a very live debate. But that's probably the third thing that would come.

We continue to work with small and medium enterprises, with ports and some of the MNOs who are taking out licenses for shared local networks. So private 5G or various local area networks.

And finally, in terms of the spectrum pipeline internationally. What spectrum is going to become available for 6G? And there's a lot of interest in work looking at 7 to 24 gigahertz, but not a lot of consensus as to what will happen there because it is shared with a number of satellite, fixed and other services in the wireless domain.

So that's just a quick, quick whistle stop on the spectrum pipeline and we'll hand it back to Rohit.

Rohit Goel (Ofcom): Well, thank you very much, Melanie, Lindsey, David. So just before we move to questions, could I please ask you to wait for a microphone before asking your questions. And if you could please introduce yourself and who you represent.

For those who are following us online, there should be a link towards the right-hand side of your screens to enable you to submit a question. So that we can get round to as many of you as possible, please could I ask that you restrict yourself to just one question. We'll probably start with questions in the room before moving online. And just in case we don't get round to everyone, then please feel free to follow up with me afterwards.

We'll start with Robert.

Robert Grindle (Deutsche Bank): Thank you. Robert Grindle from Deutsche Bank. And thanks for the presentation.

At the beginning you mentioned that Ofcom's brief has got bigger. It's very exciting. Media, GB News and Love Island must keep you particularly busy. Cloud, data security, whatever. It's a big brief.

Do you accept INCA's view, the Altnet Trade Association, that because everything else is so busy, you've taken been a bit softer perhaps on BT Openreach, is that a fair criticism? Thank you.

Melanie Dawes (Ofcom): No, I don't. You'll be surprised to hear me say I really don't accept that at all. I mean, just to give you a few facts really to ground that. So because of the way our fees work, we are funded by our industries. The money that we receive in fees for all our work on the telecom side is the same as it's ever been. I mean, it's actually been fixed in cash terms because we're subject to a Treasury budget cap. But broadly, because we make efficiencies, we've managed to maintain the same level of overall resourcing in terms in terms of people.

So as our remit expands, what we're not doing is diverting resource from our traditional areas onto the new ones. They remain resourced through our fee structure as they've always been. So I don't accept that, no. And I think on the substance of our approach to BT, or to fixed telecoms in general, no, I mean, look, you're all, I'm sure very familiar and Lindsey has explained again the overall approach to the access review, which is to try to get competition going at the network layer. And we did change our regulatory approach towards that in 2016.

We want BT to be able to compete and build and they are building, alongside others. But we're also very pleased to see the way the rest of the industry is responding as well. Whether it's looking at the use of ducts and poles, whether it's looking at the fibre rollout itself. So, you know, we can continue on this. You may want to follow up, but we believe I believe, as I said at the beginning, that that broad brief is actually an asset for us. It gives you a bigger, more skilled, more capable regulator.

Rohit Goel (Ofcom): To Nick, please.

Nick Lyall (SocGen): Thanks very much, Nick Lyall at SocGen. We seem to be sort of in election mode now as well. So could you maybe give us an update on how quickly your remit would be changed by maybe a change of government? What the process is? Would that be early enough to affect the fixed market review as well? Is there a possibility of that or is that just too far out?

Melanie Dawes (Ofcom): Well, any change to our remit, or pretty much any change anyway, would require primary legislation. So obviously I can't predict where any government might be after the next election, which as you say, is probably maybe a year, a little bit longer, thereabouts, away from now. But primary legislation requires consultation on proposals. It requires bringing bills before Parliament. It's not a quick process. But I can't say where any government might be after that. We

will, as Lindsey said earlier, start gearing up on the work next year because we know it's important. But we also set out a ten year framework in 2021 and that remains our guiding principle.

Rohit Goel (Ofcom): To John, please.

John Karidis (Numis): Thank you for holding this meeting. It's good to see you in 3D. So my name is John Karidis from Numis. So last week I think the Minister for Digital Infrastructure said, and I quote: "We remain firmly committed to wholesale competition in the broadband market being the best strategy to meet our strategic objectives", unquote. Now, as you said, you've done quite a lot to encourage the rollout of alternative networks. But I guess the elephant in the room is that BT and Sky still with very large shares of the retail market, clearly are refusing to give any of their business to altnets.

So what can you do? What powers do you have, soft or hard, specifically to make BT or Sky start giving some of their business to the alternative operators? Otherwise, as they'll end up being simply a means to an end, i.e. to get Openreach to roll out fibre and then you'll have to go back and price regulating Openreach again. Thank you.

Lindsey Fussell (Ofcom): Yeah, of course. Thank you. Thank you for the question, John. I mean, I think the answer is that what we've done, and as we've been discussing here, is set a framework to encourage an incentivised wholesale competition. And we are certainly seeing that. I think there are around 100, to 150, players now in the market, in the altnet market, who have some capital and are doing some building, and the use of PIA I think supports the contention that that that remedy is working.

You know, we don't regulate the retail ISPs and ultimately on, on, on the way that they choose to, to purchase those services. And ultimately that is a matter for the commercial market. It's up to them to decide who they want to buy their services from.

Now, clearly some of the altnets have been successful in retailing to some of the providers. We obviously see TalkTalk and Vodafone who are using a range of different companies, alongside Openreach, to provide wholesale services. And clearly that we want to see that continue. But in the context of it being a commercial decision.

I think the other thing I'd just say is that, you know, this is a long-term play. We knew that in 2021, we said it could be a ten-year, ten-year framework for ten year investment. It's been a very lively two and a half years, but we are still only two and a half years into that.

I think we are still seeing competition play out, and so for us the right thing to do is to allow that to happen whilst of course continuing to be vigilant, as Melanie was saying in response to the last question, to making sure that the playing field is, you know, is level and everyone's playing by the rules.

Rohit Goel (Ofcom): Could we come to Maurice please.

Maurice Patrick (Barclays): Yeah, thanks. It's Maurice Patrick from Barclays. Just a question on pricing, please. If I understood correctly from your comments earlier, you said that you weren't worried about absolute levels of pricing. You're more focused on the transparency. But, you know, given where inflation sits, we're likely to be looking at for next year from April, maybe another five, 10% increase in pricing for the operators that have CPI links, which is now pretty much all of them. I guess, are you relaxed about that? I note at the beginning of this year, I think you publicly said you

encouraged the industry to think about pricing given the potential increases that were coming. So, your thoughts about that be very helpful. Thank you.

Melanie Dawes (Ofcom): Yeah. Well, look, we're in a cost of living crisis, that is once in 40 years in terms of levels of inflation. I started my career many years ago forecasting inflation and it had fallen to two and a half percent. And we've not really seen anything like the levels we have today in the intervening period. And I think everyone's concerned about that.

So you know, from Ofcom's perspective, we began a programme of work on social tariffs in 2020 during COVID, and I think that was a good decision at that time. And we think the industry responded really well in making offers available to those who needed them most.

But as Lindsey said earlier, we don't regulate retail pricing. We are not seeking to regulate retail pricing. What we do think is really important is that consumers are given the right information when they sign up to contracts. So that's what we're exploring now. Given that we know from our research that many, if not most people, don't really quite understand the concept of inflation or how it affects their bills, that's what we're looking into now. And you'll see you'll hear more from us on that later in the autumn.

Rohit Goel (Ofcom): And to Georgios please.

Georgios Ierodias (Citi): Thank you. It's Georgios Ierodias from Citi. I have two questions. The first one is around returns on capital employed and you highlighted that some players in mobile, two specifically, don't cover the cost of capital. Obviously a lot of altnets are facing rising cost of capital. Curious as to how you can help, I know antitrust is not the remit you fully control, but you control some other things like Spectrum. So curious to hear how you are thinking about perhaps helping the industry improve its returns as the capital costs rise.

And my second question is specific actually on fibre connections. The rollouts are happening pretty smoothly, but connecting customers is very costly and sometimes there are difficulties in getting permissions to enter buildings for connections. Is that something you're looking at? Is that something you can influence? Thank you.

Lindsey Fussell (Ofcom): I might do a little bit on the first question and then in fact, I'll try and do a bit on both and then I'll bring David back in on the first on the spectrum side. So I think the first question is really about cost of capital and rates of return.

Look, I think the most important thing perhaps that a regulator can do is around certainty in terms of investment. And we've talked already about the fixed framework and wanting to provide as much stability and certainty as we can in our approach there.

In mobile, obviously we don't have the same, quite the same, situation because we don't regulate an incumbent on a wholesale basis. But I think what we said in our approach to mobile markets is that when we are making regulatory decisions in mobile, what we will do is very carefully assess and set out what we think the impact on investment will be, and where we can look to, look to take decisions which promote investment, consistent obviously with our overall duties and framework.

I'll just bring in I'll just answer your second and then I'll bring in David to add on that on spectrum. So I think your second question is about fibre take up.

I think it's a really interesting point you make. I mean, we've seen that when we look at some of the trial areas where Openreach have tried to roll out full fibre to 100% of properties in a particular area, they can get an awful long way, almost to 100% by using a range of different solutions and options,

even in quite challenging situations. But there is no doubt, there are some particular there are some particular issues I think you were raising, perhaps particular access to MDUs with absentee landlords, for example, which is certainly something we hear not just from Openreach but from all sorts of providers.

Obviously, we are probably a bit limited in what we can do with that within Ofcom's powers. But I think more broadly we will want to think in the next access review about where fibre rollout isn't quite working and what the reasons for that are. And if there are reasons sort of specific types of reasons like that, is there anything that we can do in our regulation to support, consistent as I say, with what we're able to do in our duties.

David do you want to add on the spectrum piece.

David Willis (Ofcom): Yeah, I guess on the spectrum piece there's probably a bunch of different aspects to it. Some of it's making a pipeline available, so that's there so they can satisfy demand. I think millimetre wave is a piece of that. And you saw a couple of additional bands later on.

I think on the fee structure, and making a lot of it available at once, does help with the pricing side in the investment side because it tends to not drive the auction price maybe as much as as historical auctions.

I think there's also aspects we've been asked to look at, our annual licensing fees. Those do serve a very useful purpose in terms of making sure that, that what is a public asset gets a reasonable return. It's being used by the right users and it incentivises investment so that you're not just sitting on it when somebody else might use it. We are looking at them and we continually review are they at the right level, are they structured properly. And we'll have more on that in the next couple of months because we're due to report back to government on that later in the year.

Rohit Goel (Ofcom): Could we move to Carl, and then we'll come to Matthew and Karen.

Carl Murdock-Smith (Berenberg): Thank you. Carl Murdock-Smith from Berenberg. Firstly in the last access review, one of the comments you said was that you wanted to insert more margin into the network layer in order to incentivise investments. And obviously we're seeing that, if I look at BT's last numbers, seeing EBITDA growing faster than revenue in Openreach.

I guess what I find interesting is if I look at BT's consumer division, we're seeing EBITDA growing faster than revenue there as well. So you've got margins increasing at the network level, but also at the downstream layer due to the difference between CPI price increases in Openreach, but CPI plus 3.9% in consumer. So my question is, are you comfortable with the pricing differential? I mean, following on from Maurice's question, in terms of that, are you comfortable with that?

And then as a second knock on that, you've talked about the work you've done on vulnerable customers and on social tariffs. I guess that's drawing a distinct line between vulnerable and non-vulnerable customers.

We're in a cost-of living-crisis. I was wondering, what are you doing with regards to the working poor, those who don't necessarily fall into a social tariff background and again, kind of back to the consumer point, are you comfortable that inertia driven customers saw their bills going up 14%, yet we're seeing that ARPU's going up by significantly less than that. So doesn't that suggest a fairness gap growing again between front book and back book and potentially impacting those working poor. Thanks.

Lindsey Fussell (Ofcom): I'll have a go and then I might want to bring in one or two of my colleagues just so you hear the odd different voice.

I mean, I think on your first question, I mean, you're absolutely right of course, we made a deliberate decision to allow CPI on the on the copper product precisely to allow that margin for investment. Didn't price regulate the FTTP products, to allow competition to determine what the right wholesale price was for for that, subject to some of the conditions we put on Openreach.

I don't think it stacks up necessarily to say that CPI plus 3.9 is what is needed for investment. We looked at what we thought was needed for investment in our wholesale regulation and put that in.

Clearly, companies have very different business models, and therefore the way they adjust their retail pricing will depend on on those business models and a whole a whole range of factors within that, you know, what their salary increases are, whether they what their supply chain costs are and all of those kinds of things.

I think the point we were making was, however, that we don't regulate we don't want to regulate the price level. What want to ensure is that consumers can make a choice about the contract they want and the price they're going to get because there is good levels of retail competition. So we know that prices are good and they are affordable, for most people. I'll come back to social tariffs.

I think our concern about in-contract price rises is less about whether 3.9 is the right figure or whether a different one would be correct, and more whether customers are really able to judge when they sign up to a contract what they are signing up to and what that price level is, which obviously enables them to make an objective choice between different providers and think about what the right choice for them could be. Because if they're not able to do that, then that clearly does dampen and weaken competition potentially. So that's why we that's the frame that we're looking at this in. But before I do social tariffs, Dave, do you want to add anything on the wholesale retail question?

David Clarkson (Ofcom): I can I think very quickly. So yeah. So clearly we are talking wholesale retail margin type point here. I mean, so at the wholesale level, and as Lindsey says, you know, it was about incentivising that investment.

So the CPI, which is obviously there to give some inflation protection as well because because that does flow through, in terms of the short-term it's probably right that because of the way inflation's gone, which I think is fair to say, we didn't necessarily fully predict, you know, a couple of years ago, that in the short-term that probably has led to higher sort of margins there.

I guess I wouldn't necessarily jump on that too quickly, because as we keep saying, you know, we saw this as a ten year plan and, you know, inflation can hop up and down a bit and we could very quickly see in a year or two that it's gone the other way, and some of that we're back to sort of business as usual.

So I think that's where we are there. And yeah, the retail price, you know, I don't really need much more to add that that's not an area that we regulate or want to regulate. You know, we want the transparency for consumers there, whether the providers will really earn CPI plus 3.9% or whether in fact it gets competed away through consumer sort of churn action and sort of spinning down to better packages or renegotiating, I think we will see a lot of that happen as well.

Lindsey Fussell (Ofcom): And then I think your second question is about sort of social tariffs, but also more broadly affordability across across the market.

Obviously, I mean, first thing to say, social tariffs are available to universal credit recipients, which is quite a large portion of consumers in reality. So I think it goes more you know, it does cover quite a lot of people on relatively low incomes.

And when we look at affordability across the market, I think what we see is that, and we've also done a lot of survey research on this for most people, they do find their services affordable. They are actually a shrinking proportion usually of their household income, compared to some of the very other other very big costs.

But what we are really keen, given that we know that there are cheaper prices out there, particularly for those who fall out of contract, is they're able to take advantage of that. And that's where end-of-contract notifications, easier switching and so on plays in.

So that people know when they are able to switch and feel confident in being able to do so. So that's why I think it's right that our social tariff work very much focuses on the most financially vulnerable in society for whom even, you know, relatively cheap broadband prices of £25, £30 a month may still be out of reach.

Rohit Goel (Ofcom): Come to Matthew, please.

Matthew Howett (Assembly Research): Thank you. Matthew Howett from Assembly Research. Just a question on the government's consultation, on I think they're calling it smart data, open communication, which would give consumers potentially more information about the speeds that they're getting, the prices that they're paying to kind of encourage more. How involved have you been with that work or is it sort of new? Was it a surprise to you? Given that there could be a bit of a cost to the industry of implementing that and that sort of goes away from this sort of monitoring mode that you said that we were in?

Lindsey Fussell (Ofcom): Well it wasn't a surprise to us. No. We were aware that the government were thinking about this and it's obviously I've been been, I think, something perhaps that's come up and down the agenda a bit over the years. We ourselves did a bit of work on it, goodness, probably two or three years ago now to look at what the potential benefits and costs could be. I think, look, it's we clearly support anything that would help make it easier for consumers to navigate what can be a complex set of markets.

And I think there is quite a lot of interesting learning for what's happened in open banking, where I think perhaps it's been less about helping consumers navigate and more about growth of fintech and kind of innovative banking models and so on.

So there's some work to do to think about how that could really apply in the telecoms markets. I think it's fair to say the government consultation they have consulted is at an early, early stage, which probably would take some legislation to see this one through.

So we certainly follow it with interest. And if it was to come to pass, it's clearly something that we would want to do some more analysis and thinking on to determine how best it would work in the telecom sector. But I think there's probably a bit of a road to travel before we get there.

Rohit Goel (Ofcom): We'll come to Karen.

Karen Egan (Enders Analysis): Thank you. Karen Egan from Enders Analysis. If I could come back to the altnet sector, and if we were to see some of the smaller altnets no longer being financially viable and to the extent that they're actually abandoning their networks, would you see that as a regulatory problem or a regulatory failure or would you see it just as competition playing out?

Melanie Dawes (Ofcom): Well, look, we have a lot of altnets now building. Actually, most of them using Openreach's ducts and poles as well, so it's a pretty active market, as you know. And at some point we expect that there will be some consolidation and indeed, there's already been consolidation quite recently. In fact, there's been a couple of deals, as you know. So I'm sure we'll see change over the next few years. I go back to what Lindsey said earlier about what we expected. What we wanted to see was competition. We've never expected to see multiple competitors across the whole country.

There are some parts of the country where we would definitely want to see two players at scale and in some other parts, three perhaps, but it could come from a range of providers. But we we've never put a number on that. So we expect to see consolidation. And again, as Lindsey was saying and as I was saying earlier, we we need to see that play out. And how it plays out will be one of the things that we're taking into account in the next access review, but also in the one after that. I mean, I don't know if Dave wants to come in again.

David Clarkson (Ofcom): So yeah, I mean look, you know, I mean, it's clearly not a great outcome if we actually see, you know, sort of investments and infrastructure that's being deployed literally end up rotting in the ground, that's not a great outcome. I mean, you know, with 150 players, and obviously the tail is quite long and there's a lot of small players in there, you know, I guess we have to be realistic. It's a very fierce market out there. We probably will see a little bit of that.

But you know I think, you know, beyond what are the outcomes for us, either these companies can survive as individual players, local players in their own right and carry on, and that's fine.

You know, I do think in anyone that was around during the sort of the cable franchise, we all know that there are scale economies in this game, and so consolidation is probably quite likely. And if we get that consolidation and those assets get sort of rolled up into a fewer number of larger players, well, I think that equally that is also a good outcome.

So, you know, I think that's where we think we're heading. There probably will be a little bit of wastage, which is clearly not ideal, but it's probably is the nature of the beast of how it's played out. So I think that's how I would see the market.

Rohit Goel (Ofcom): All right. So just head over to some questions that we're getting online. So one that we've got come in from Kester Mann, CSS Insight. What do you consider to be the biggest changes at Ofcom as a direct result of leaving the EU?

Melanie Dawes (Ofcom): Gosh, I'll take that one. Well, I mean, we still have a very kind of strong dialogue with our EU partners, both amongst the member States and also with the Commission and the history of telecoms regulation, but also media regulation is one that's very shared. And so, you know, many of the companies operate across the whole of Europe and particularly when we think about Ireland, where there are particular synergies and common issues, it's a very, very close dialogue indeed.

So that dialogue continues, but clearly we don't anymore operate within the European framework of rules. So our work on net neutrality is a good example of where actually we've taken that opportunity to explore the issues in a way that actually most EU regulators haven't yet done. So we've been a bit ahead of the curve on that one.

So I think it's still quite early days, of course in our in our years outside the EU for the UK. But across all of our work, whether it's telecoms or elsewhere, international cooperation really to my mind only gets more important, not less. And when I think about the online safety work we're doing, that's

particularly where we're we're regulating big global players And our cloud market study today likewise.

So it's, you know, some things stay the same but but opportunities will arise, I think, for us to take slightly different paths in Ofcom over the future as well.

Rohit Goel (Ofcom): Right. Thank you. Any other questions? John.

John Karidis (Numis): Thank you. So it's John Karidis here again from Numis. I just wanted to come back to my to the question and maybe sort of add a little bit more, because essentially I thought your answer meant that there's nothing you could do about the fact that BT, Sky and Virgin don't want to resell altnets, whether it's CityFibre or Netomnia, Community Fibre, it's just tough.

Did I understand that correctly? Given that Sky, BT and Virgin Media control about 80% of the retail market, you need 30 to 40% take up in order to make a return as an altnet, and Vodafone that is a global company, has been at it for a very long time, still has only 6% retail market share.

So it sort of shows you the the the scale of the challenge that alternative network operators have. If Sky, Virgin and BT don't want to give any of their business, particularly as the coverage is not identical between Openreach and the altnets. There's a big difference between the two and therefore there are consumers that are losing out because they are not being they're not taking up this fibre.

Melanie Dawes (Ofcom): Shall I start on that? And then David, Lindsey might want to come in again. Through the access review, we regulate the wholesale layer, but we don't regulate the retail layer. So no, we don't have any restrictions on BT or Sky or TalkTalk or Vodafone or any of the other retailers as to which networks they provide their services over. But what we were aiming to do in the access review is to open that market up to make it possible for there to be other competitors to Openreach and that has succeeded and it is still playing out. Now we know it's very tough out there, of course, but there are a range of different business models and we think it's still quite early to judge whether or not we're going to see that meaningful wholesale competition over the next few years.

So we think we've created the right conditions here, but it isn't our job as the regulator to go in and intervene to fine tune the response of the market. That's just not we're here to do. And, you know, it's interesting, I think you can get from a number of the questions. Quite often we're being asked to do more, but as a regulator, we're really clear we're here to support the market, to give good outcomes to consumers. So sometimes the right answer is for us, not to do more and sometimes even to do less. And that's the balance. We're constantly juggling.

Rohit Goel (Ofcom): Adam, thank you.

Adam Fox-Rumley (HSBC): Adam Fox-Rumley here from HSBC. A simple question I probably should know the answer to, but I wanted just to ask about the next access review. And I think you said you're starting work on it next year, but can you just give us a quick kind of outline of the timing of what's on what's on the agenda kind of through 24, 25? And as a slightly related point, you made the point that you've got this kind of ten year overarching framework. Effectively, if the market is developing in line with your expectations. , I just want to be really sure. I think you were saying that the market is developing in line with your expectations, but I just wanted to double check that, please.

Lindsey Fussell (Ofcom): Yes, happy to pick up pick up those. And so, yeah, I mean, as I said, the next access review needs to be done by March 2026, which sounds a long way away but it won't feel like that once we get underway.

We haven't got a precise timeline of what will happen when over the next two years. But as I say, I would anticipate we'll formally launch the next access review at some point in the middle of next year perhaps, and we will of course have the usual series of consultations and engagement with industry over over that period. So if history is any guide, they'll probably be a few consultations. It would be my guess and there are obviously quite a lot of different aspects for us to for us to think through.

But when we do, when we have firmed that up, we will certainly come out and explain to people what we, what we think the forward timetable looks like to reach the, the magic March 26 moment.

In terms of your point about outcomes. I think that's right, and it's certainly the mindset that we approach it in. What of course I couldn't, and shouldn't, do is prejudge the next access review. We will need to carry out a full assessment of competition in the market as part of that, collecting all the evidence, as we always do, taking views from from all the different industry players.

So we will want to look ahead and see what we expect to happen in the period to 2031. But as we've said, several times, we did anticipate this needing to be a long-term to support long-term investment.

Rohit Goel (Ofcom): Back to Matthew.

Matthew Howett (Assembly Research) : It's Matthew again from Assembly. A bit of a niche one, but do you think there's a good market outcome in Hull? It's still, I think, dominated pretty much by the incumbent. You haven't seen the proliferation of altnets there as you have elsewhere, maybe because there's no DPA obligation.

Lindsey Fussell (Ofcom): Yeah, I'll tell you what I'm going to bring Dave in as I as our resident Hull expert go for it. Fascinating bit of British economic history in absolute.

Melanie Dawes (Ofcom): Yes. If you had to say before Dave says I visited Hull a little while ago and went to visit the council and, it is one of the most beautiful and beautifully ornamented town halls that you will find anywhere in England. And that is because Hull was an extremely rich and prosperous part of the UK back in the early 1900s as a as a shipping sort of stronghold, which I guess is why they held onto their own networks back in the day when the post office hoovered up everything else. But anyway, fascinating history, Dave, about the present.

David Clarkson (Ofcom): So Hull, what would I say, I mean we get clearly a different outcome in Hull and I think some aspects of that are better and some aspects of it are worse.

Quickly on the point of, of duct and pole access. When we looked at the Hull market last time round and this is one of the good aspects in Hull, Hull already had fibre built to all of its residents at that point in time. So it's way ahead of the rest of the UK. And that was sort of true as well of early broadband. They've always actually had a better network in, in truth. So that's the good sort of outcome for Hull.

But the upshot of that was, was when we looked at it, there actually at the time wasn't a lot of interest in other people having duct and pole access to deploy a network in competition with KCOM, you know, and we see that with some of the altnets today, they're looking to make the first mover

advantage and if they don't get it, then they sort of maybe back away. So that's where we were.

We are aware that actually there has been some renewed interest in recent years from providers there, and we are sort of looking to follow that up and that will obviously be a feature of the next review of Hull.

Erm you know, we weren't closed to having a ducts and pole access remedy, and in fact we did explicitly say that we considered that such access would be a reasonable request under the sort of the SMP conditions. So the door was widely left open and so we sort of stand ready there.

I guess on the what's not been so good for the Hull residents, has been the retail choice. You know, because the major ISPs haven't used the KCOM network at any level, whether it's building your own or whether it's just using a wholesale one. And we've spoken to a lot of those ISPs over the years, and it does seem to really be an opportunity cost issue. Hull representing about 0.7% of the UK, they're sort of saying, well, if I've got spare capacity, I'd rather spend that on the 99% than than this sort of less than 1%.

But the upshot of that is, is that there's very poor retail choice in Hull. You know, that's something that we have tried and we will continue to try to try and open up. We were hoping that on the back of the fibre network that that might be an easier proposition, because fibre might be an easier product to interconnect with and resell, because it's more homogenous across the UK. So we continue to push, but that's the area I think, where the outcome has been less good. It's more space.

Rohit Goel (Ofcom): On to Maurice please.

Maurice Patrick (Barclays): Maurice again from Barclays. Just on one touch switching. So if I'm not wrong, that was due to be implemented, it's been delayed. What are you going to do if delayed again? Do you have any sort of teeth that you can be used if it's delayed again, what will you do?

Lindsey Fussell (Ofcom): Christina, do you want to you want to take that one?

Cristina Luna-Esteban (Ofcom): Hi. I'm for those of you who don't know me, I'm Cristina Luna-Esteban Director of Telecoms Consumer Protection.

So on one touch switch, as you rightly said, the regulations that are in place for for this system to go live on April of this year. This didn't happen. And we have got an enforcement program in place to make sure that providers are delivering on the things that they have to do to ensure that one touch switch goes live as soon as possible.

At the moment, the plan the plan date is 14th of March of next year and we are really keeping providers to account to that. When the time comes, and we hope that's not what is going to happen, of course we do have teeth to enforce against any individual providers that don't meet that deadline.

Rohit Goel (Ofcom): We'll then take another one online. Has the TSA resulted in significant increase in Ofcom monitoring responsibilities on infrastructure security. Is Ofcom's role expected to remain monitoring and reactive or is it likely to be more proactive action on ensuring resilience could be used?

Lindsey Fussell (Ofcom): Yeah, sure. So yeah, so it's obviously referring to our new responsibilities that came in last October. Yeah, I think I've got that right. Under the Telecom Security Act. Probably just important to say that there are two parts of the act, because the bit that tends to get most of

the publicity is the Huawei removal and the high risk vendors for obvious reasons. In fact, our role on that is fairly limited. The Secretary of State has directed us and can direct us to collect information about how providers are doing in terms of their removing of Huawei and other high-risk vendors.

We report that. But it's actually for the Secretary of State then to monitor and enforce that part of the Act.

Our responsibilities are on the second half, which is around telecom security and in particular the outcomes that are set out in the Act, that they need to achieve the security of networks and the code of practice, which the larger tier one and tier two providers need to comply with this obviously is a really important new area of work for us. It is an area where we've expanded our resource.

Government obviously gave us the ability to do that, to take account of this new remit. It is obviously working with players with whom we're very familiar and we've always had some much more limited responsibilities for telecoms security. So it is building on a position of strength rather than entirely new for us.

I think I would say is that the approach we're taking here is very much what we call a supervisory approach. This is very much a long-term situation, as a whole set of deadlines that providers need to meet, some of which are relatively simple telecom security arrangements, which we can probably all understand, like passwords and the way that those are set and managed, right the way through to some very long term ones, which are about technologies that haven't even yet been invented.

So this is going to be a sort of journey process rather than a sort of tick box tick box compliance. Our approach is very much to work with industry, understand where they are on the journey and work with them as they move towards compliance with this, with this whole set of deadlines.

Melanie Dawes (Ofcom): Can I just just add, I think the TSA, the Telecom Security Act, is a good example of how Ofcom actually has quite a range of different roles and partnerships with the government. So the telecom security regime, clearly the clues in the name, the expertise of our national security agencies is absolutely central to setting the strategy and actually also in this case, writing the codes. Ofcom doesn't write the codes. As a regulator, we enforce against them. In the case of Huawei, all we do is actually monitor against them. So that's actually true when you look across our whole remit, there are things like our work on broadcasting cases, TV shows, we are scrupulously independent in law in everything we do.

As an economic regulator in the work that we do on telecoms, which is what we've spent most of our time talking about today. Likewise, as the independent regulator, we are weighing the evidence and we are accountable through the courts.

But there are other parts of our role, including some parts of our spectrum work, where we work very closely with the government because ultimately what we're doing is managing a national resource.

So that's just life for Ofcom and there is a range of different rules that we operate. It all goes back to the primary legislation and the things that set things up. So that's just a little bit of an explanation, I suppose. But I just wanted to make that wider point.

Rohit Goel (Ofcom): We've got time for just one more question. So we go to the back, please.

Philip Carse (Megabuyte): Yeah. Thank you. Philip Carse, Megabuyte. BT Openreach is obviously in the process of winding down the PSTN analogue network, but I think all the evidence is that migration is way behind schedule. So I wonder particularly in among the B2B sectors. So I wonder to

what extent are you monitoring that, what particular aspects of that are sort of high on your agenda in terms of things that you're concerned about? And would you be concerned if it looks like BT is going miss its 2025 deadline?

Melanie Dawes (Ofcom): Look, it's very much a matter for them and, you know, we support the need to at some point move away from some of these legacy technologies. But we've also had some, you know, pretty detailed conversations about making sure that as these migrations take place, more vulnerable customers are properly supported. And in some cases they don't migrate until the very end of the process, if at all, actually, over the timescale that we're currently talking about.

So, would just make a wider point here. I mean, I think we're going to face into more and more of this over the coming years. It's not easy to shift away from old forms of technology, whether it's 3G, PSTN, the wider copper network or indeed traditional TV broadcasting.

Our job is to work out where we can support the industry. But while always making sure that consumers are supported and I don't think these are easy tasks for industry or for us as a regulator, but they're ones that very much require, I think, a very collaborative approach because, you know, the last thing we all want is to get these things wrong, to create problems for individual households that are really serious and ultimately not to make then the progress that that the industry was aiming to achieve.

Lindsey Fussell (Ofcom): I mean, look, I think this we this is an industry led migration. The timetable is BT's. I don't think it's for us to, you know, to hold them to that or otherwise.

But we do absolutely recognise that this is technology that needs to be moved away from it's it's no longer reliable. So we've been supporting that process whilst as Melanie said, being very focused on, on the consumer experience.

Rohit Goel (Ofcom): Great. Thank you. Melanie, just back to you for closing remarks.

Melanie Dawes (Ofcom): Thank you. Well, I don't really have anything to say other than just thank you for joining us today. I hope you found that useful. And it's certainly been good for us to kind of, you know, get engaged in a bit of a to and fro on the issues. And we will continue to have that dialogue.

We actually find it hugely, hugely important. And we welcome the challenge. We welcome your insight, the perspective you bring. So, we'll continue to organise small or larger sessions. I mean give us feedback on whether this has worked for you today and we'll take bear that in mind as we think about what to do next. But thank you very much. And I'm sure as we open the next access review next year, you're going to want to talk to us then, if not before.