



Cost and value of communications services in the UK

Cost and value supplement

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Section 1

Introduction

It is now ten years since Ofcom began regulating communications services in the UK. Over that period the prices of core telecoms services – broadband, landlines and mobile – have fallen to levels which compare well with anywhere in the world.

This document is a review of the development of services and their cost over that period. It sets the UK communications sector in its national and international context. It also considers the cost of core communications services for UK consumers.

Cost and value in communications services will continue to be a central area of focus for Ofcom. We will continue to work hard to ensure that good value-for-money services are available for all consumers across the sectors that we regulate.

Key points

The UK communications sector has developed and expanded significantly over the past ten years. Competition has underpinned declines in real prices with the exception of postal services and some pay TV services. At the same time investment and innovation have delivered new networks and services and increased quality and choice. Consumers' views on the value for money of communications services are positive and the UK communications sector is competitive in terms of cost and value when benchmarked against international comparators. In summary:

- **Broadband availability and use have increased while prices have declined.**
- **Broadband speeds have at the same time increased significantly.**
- **Consumers are using mobile services more and for an increasing range of functions and the prices of services have fallen significantly.**
- **The price of a typical bundle of fixed line services has also fallen.**
- **The price of access to free-to-view TV has decreased in real terms while choice and functionality have increased.**
- **Trends in pricing for pay TV are mixed. Some pay TV prices have gone up while there is evidence that choice and functionality have also increased.**
- **The UK ranks cheapest, or second cheapest, in the US and EU5¹ for most mixed baskets of communications service.**

Consumers can match their communications service requirements to their budget by choosing the best service for their needs and taking advantage of the low cost deals available in the market. Our analysis shows that a basket of typical 'core' services for a household – a basic broadband connection, two basic mobile packages, a basic landline package and a TV licence – costs around £46 a month, or 1.7% of average household income. A single person elderly household with low fixed voice usage, taking a free TV

¹ The EU5 refers to a subset of the countries which Ofcom uses as central comparators to the UK in the International Communications Market Report.

licence and BT Basic (subject to eligibility), as well as a basic mobile and broadband service, could pay as little as £20 per month for the core services. If the consumer wanted only the very minimum of fixed line voice access, they could buy BT Basic at £5.10 per month².

Our long term work will continue to focus on ensuring that markets are competitive and working well for consumers and citizens, with widespread innovation and the ability for new players to enter markets providing competitive pressure on prices.

In our *Draft Annual Plan 2014/15*³, we set out a number of priority areas which have important links to cost and value. We will focus on:

- **Promoting competition and informed choice.** This includes ensuring effective competition and investment in both current and superfast broadband; promoting effective choice for consumers by ensuring that clear and relevant information is readily available; and developing and implementing policies that will improve the ease of switching between communications providers.
- **Promoting opportunities to participate.** Evaluate and report on the affordability of electronic communications services which might be regarded as essential. This will enable us to understand whether there are situations in which affordability is a barrier to use.
- **Protecting consumers from harm.** This includes protecting consumers in a range of priority areas including non-geographic numbering and unexpectedly high bills.
- **Availability.** We will work in collaboration with government and industry to promote widespread availability of fixed and mobile superfast broadband. We will continue to provide expertise and advice to help the government and the devolved administrations meet their objectives. One particular area of focus will be mobile coverage, including availability of services for the small number of households in currently unserved locations, and on parts of the UK's road and rail networks.
- **Quality of service.** In spring 2014 we will finalise our proposals on quality of service in the local access market. This includes proposals for obligations on the timeliness of fixed line voice and broadband installations and repairs. During the year we will work to ensure the successful implementation and monitoring of the new quality of service regime for voice and broadband services and consider whether additional measures are required for business services. In mobile we will conduct work on the provision of consumer information regarding the quality of experience and broadband speeds. We will also continue our work in the area of traffic management, and monitoring the quality of postal services.

² <http://www.bt.com/includingyou/other-products-services-bt-basic.html>

³ <http://stakeholders.ofcom.org.uk/binaries/consultations/draft-annual-plan-2014-15/summary/draft-annual-plan-2014-15.pdf>

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The analysis does not cover postal services as this was recently analysed in detail in Ofcom's *The Affordability of Universal Postal Services*⁴, published in March 2013.

⁴ <http://stakeholders.ofcom.org.uk/post/affordability/>

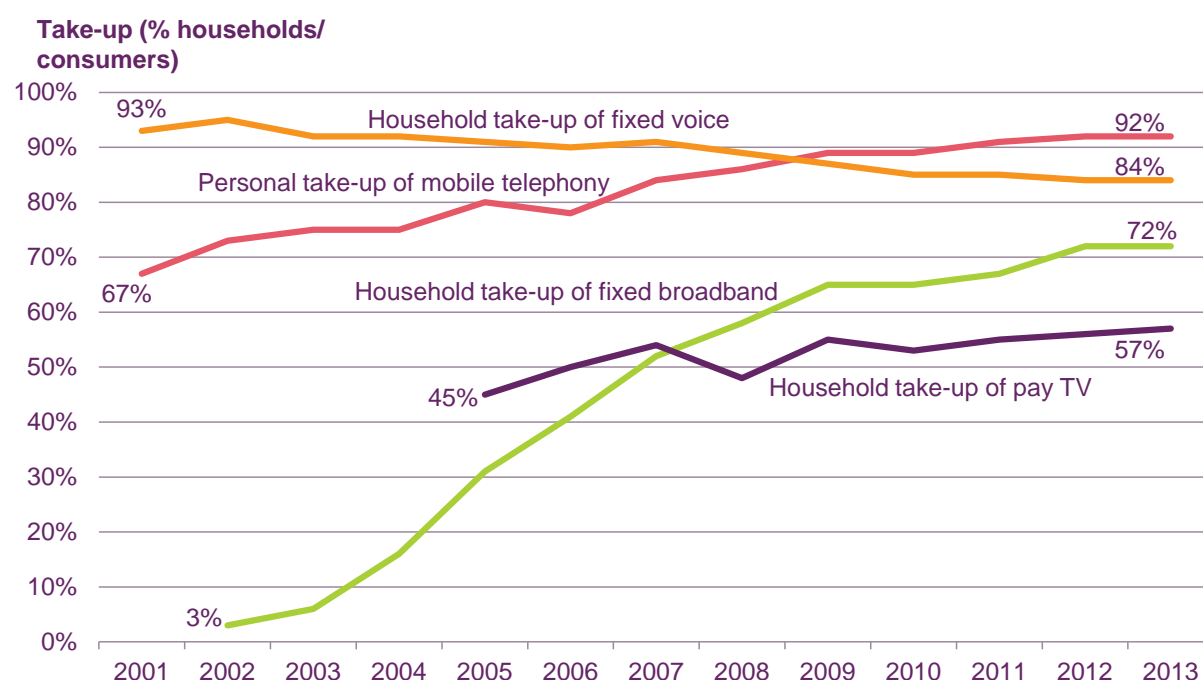
Section 2

Historical trends in services and prices

2.1.1 Take-up of the main communications services has increased significantly

Communications services are increasingly embedded in people's lives. In the ten years since Ofcom's creation take-up of broadband in particular has grown significantly. Take-up of mobile telephony and pay TV have also increased. Take-up of fixed voice (landlines) has fallen somewhat, as some people have elected to rely exclusively on a mobile service. There were 84 million active mobile connections in the UK at the end of 2012, equivalent to 132 connections per 100 people⁵.

Figure 1 Take-up of communications services



Source: Ofcom and legacy regulator research, data as of Q1 each year. Notes: Based on survey data of consumers aged 16+. Fixed broadband and fixed voice data based on household take-up. Mobile take-up based on personal take-up of one or more device. Pay TV data survey question wording changed in 2008.

2.1.2 Broadband availability and use have increased while prices have declined

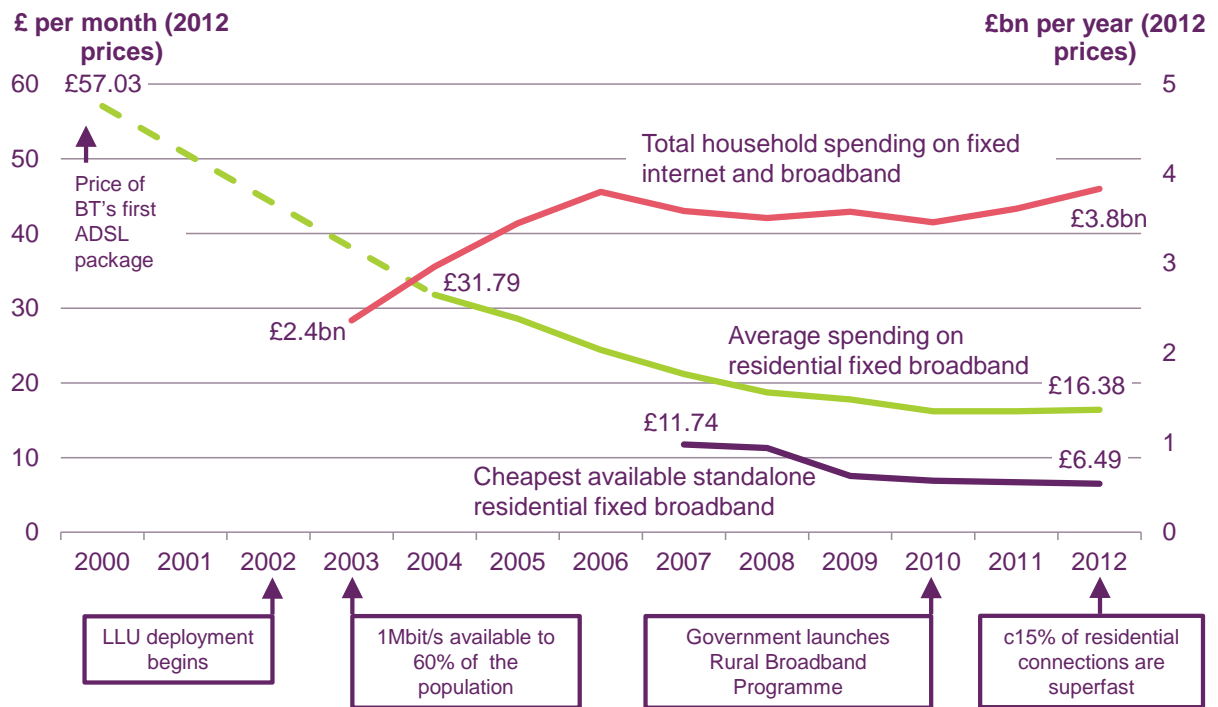
Broadband customers have benefited from radically improved levels of service coupled with decreasing prices over the past ten years, bringing improved value for money. The average price of a broadband package decreased by 48% between 2004 and 2012. Competition has driven the availability of low cost broadband deals, some now starting at £2.50 a month plus

⁵ See page 44 of the "Consumer Experience Report 2013".

line rental⁶. This trend has been underpinned by regulatory intervention to support increased competition in the long term interests of consumers.

Total spending over the past ten years has increased, driven by increased take-up of broadband and progressively higher speed packages⁷. Availability of superfast broadband should reach 95% by 2017⁸. Consumers are using their broadband more and more; laptop and desktop internet users spend at least 35 hours online each month and the average household now owns more than three types of internet-enabled device, with one in five owning six or more. Take-up of fixed broadband services has now increased to 71% of households, with more and more of these connections being superfast.

Figure 2 Residential spending on broadband services and cheapest prices



Source: Ofcom / operators / Pure Pricing. Notes: All stated in real terms; adjusted to RPI 2012. Includes estimates where Ofcom does not receive data from operators. Includes VAT. Residential spending is based on reported household spending data. Average spending on broadband is calculated using total revenues and total number of fixed residential connections. Average broadband and cheapest broadband package exclude line rental. Dotted line is indicative trend.

2.1.3 Broadband speeds have, at the same time, increased significantly

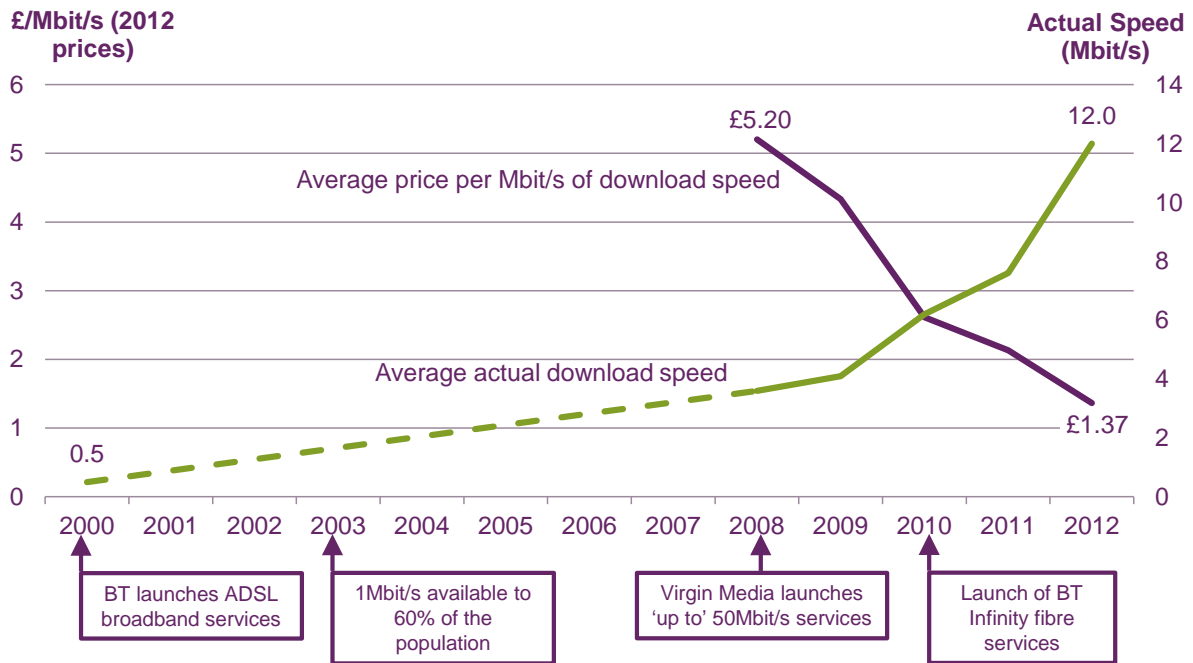
Broadband speeds have increased due to competition, investment and technological innovation. These include the roll-out of fibre optic broadband and upgrades to Virgin Media’s cable network.

⁶ TalkTalk offers an unlimited broadband package for £2.50 a month plus monthly line rental of £15.40.

⁷ For this and the following analysis in this section, we have looked at trends in spending and pricing for individual services. In reality, these services are often sold to consumers as bundles with each other, and therefore identifying trends in the individual services requires us to make reasonable assumptions.

⁸ “Investing in Britain’s Future” June 2013. <https://www.gov.uk/government/publications/investing-in-britains-future>

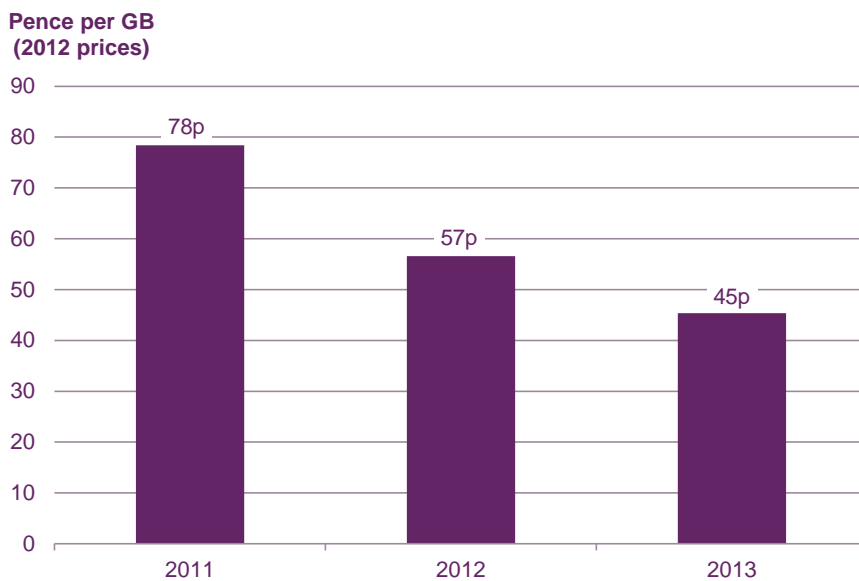
Figure 3 Average residential fixed broadband speed and average price per Mbit/s of available download speed



Source: Ofcom / Samknows. Notes: All stated in real terms; adjusted to RPI 2012. Includes estimates where Ofcom does not receive data from operators; includes VAT. Actual residential broadband speeds are provided by Samknows. The average price per Mbit/s of broadband speed is derived from average broadband/internet spending and average broadband speeds. Average cost excludes line rental. Dotted line is indicative trend.

With increased speeds the time taken to download data has decreased and the cost of downloading data has fallen. The effective cost of downloading data fell by a third between 2011 and 2012. At the same time all of the main broadband suppliers offer unlimited packages with no data download limits. This means that each additional download is effectively free of charge at the point of use.

Figure 4 Imputed effective cost of using 1GB of data (download or upload)



Source: Ofcom / operators. Notes: All prices in real 2012 terms. Calculated from total internet/broadband revenues and total data use. Figures from March 2011, June 2012 and June 2013.

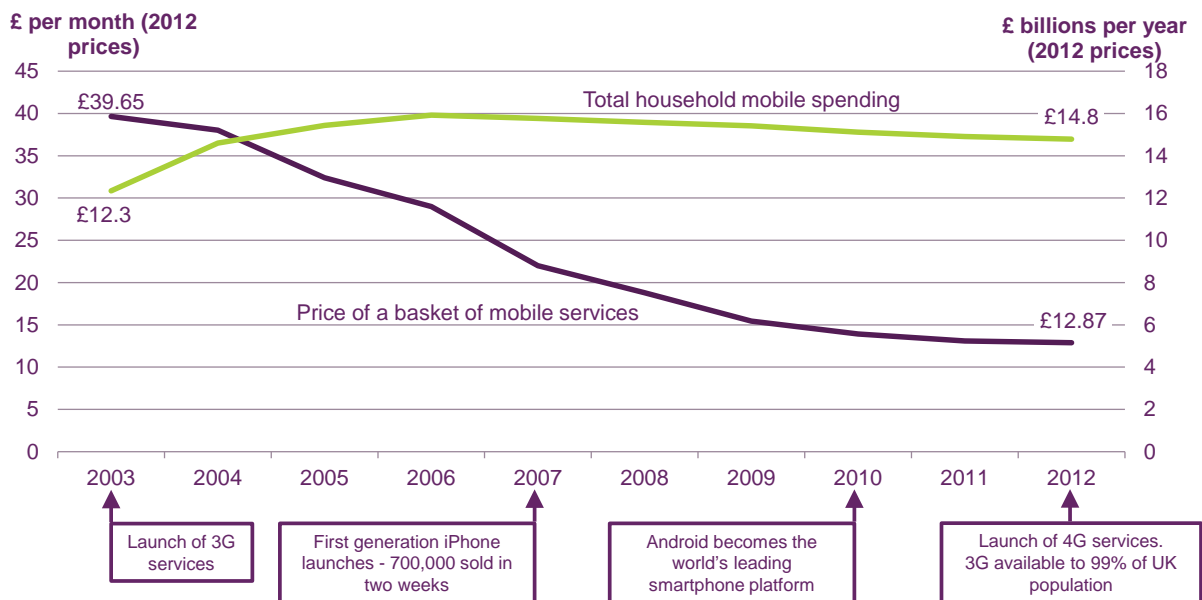
2.1.4 Consumers are using mobile services more and for an increasing range of functions and the prices of services have fallen significantly

Mobile phones are now embedded in the daily lives of nearly all UK consumers. The past ten years have seen the introduction of 3G and 4G networks. With the rise of mobile data over smartphones and other mobile devices like tablets, people are using their mobiles for an ever-increasing range of functions.

Despite dramatic increases in the capability and use of phones, prices for mobile phone services have fallen significantly over the past ten years. The price of a typical bundle of mobile services⁹ has more than halved.

There is a wide range in the level of mobile services available. At the high end, consumers can buy packages with 4G mobile data, unlimited consumption and smartphones. At the other end of the spectrum there are entry level handsets costing less than £10. Package allowances of 150 minutes, 5000 texts and 500Mb of data cost from £15. Some mobile operators have recently begun offering SIM-only tariffs from around £5 per month¹⁰.

Figure 5 Typical mobile prices and residential spending on mobile services



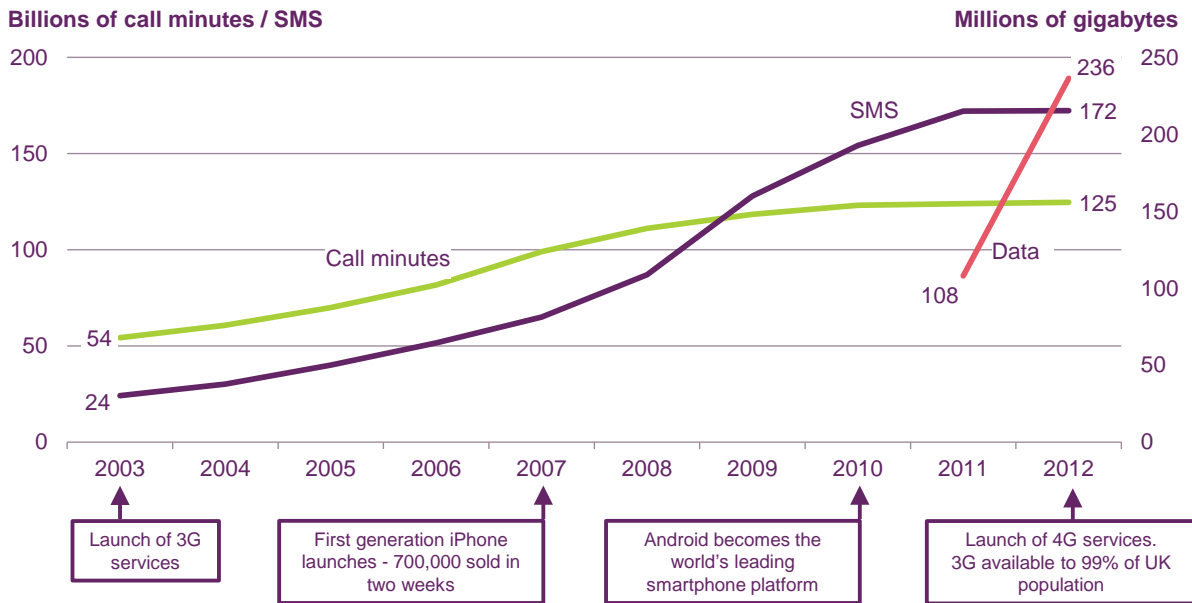
Source: Ofcom / operators. Notes: All stated in real terms. Includes estimates where Ofcom does not receive data from operators; adjusted to RPI 2012; includes VAT. The basket is based on average use of line rental and calls (local, national, international and calls to mobiles) in 2012. We calculate the cost of the basket over time by calculating an average cost per unit in each year and applying these to average use in 2012 to give an indication of what this use would have cost in each year.

While prices have fallen, use has increased significantly. The volume of voice calls via mobile has more than doubled in the past ten years. The volume of SMS has increased from 24 billion to over 170 billion. 92% of adults now use a mobile phone. The proportion of mobile users who have smartphones has also increased, rising from 27% in Q1 2011 to 51% in Q1 2013.

⁹ Defined as the average price for a standardised level of use over time. Mobile data consumption has been estimated.

¹⁰ Price information available on price comparison websites, January 2014.

Figure 6 Outgoing mobile call, SMS and data volumes

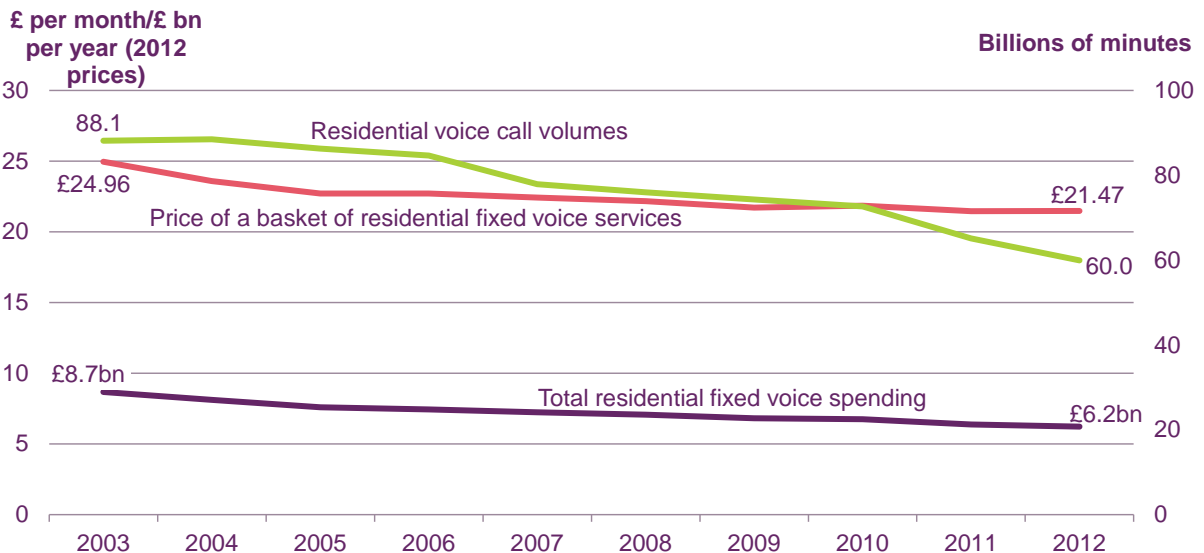


Source: Ofcom / operators. Notes: All stated in real terms. Includes estimates where Ofcom does not receive data from operators; adjusted to RPI 2012; includes VAT. Annual mobile data throughput (upload and download) extrapolated from a single month in each year; data collection began in 2011.

2.1.5 The price of a typical bundle of fixed line services has also fallen

Average fixed line connection and usage charges have fallen over the past ten years. This is despite a significant fall in fixed voice volumes.

Figure 7 Fixed voice spending and volumes



Source: Ofcom / operators / ONS. Notes: All stated in real terms. Includes estimates where Ofcom does not receive data from operators; adjusted to RPI 2012; includes VAT. The basket is based on average use of pre-pay contracts, calls (UK geographic, on-net, off-net, international calls) and messages (SMS and MMS) in 2012. We calculate the cost of the basket over time by calculating an average cost per unit in each year and applying these to average use in 2012 to give an indication of what this use would have cost in each year.

Call volumes have fallen partly because people have used mobiles more. Mobile call volumes have risen significantly over the ten-year period. Consumers with internet access

can also use voice over IP (VoIP) services such as Skype to avoid paying call charges altogether. This is an increasing trend: Ofcom's consumer research shows that 33% of households have used VoIP to make voice calls at home¹¹.

2.1.6 Some standalone line rental charges have risen over recent years but cheaper alternatives are available

There is an active market in the UK for standalone (i.e. not bundled) fixed line rental services. Retail competition is enabled by regulated access to wholesale line rental, the price of which has fallen and will continue to fall. This has enabled the provision of competitive services by other providers. For example, the Post Office currently offers a standalone landline service for £12 per month.

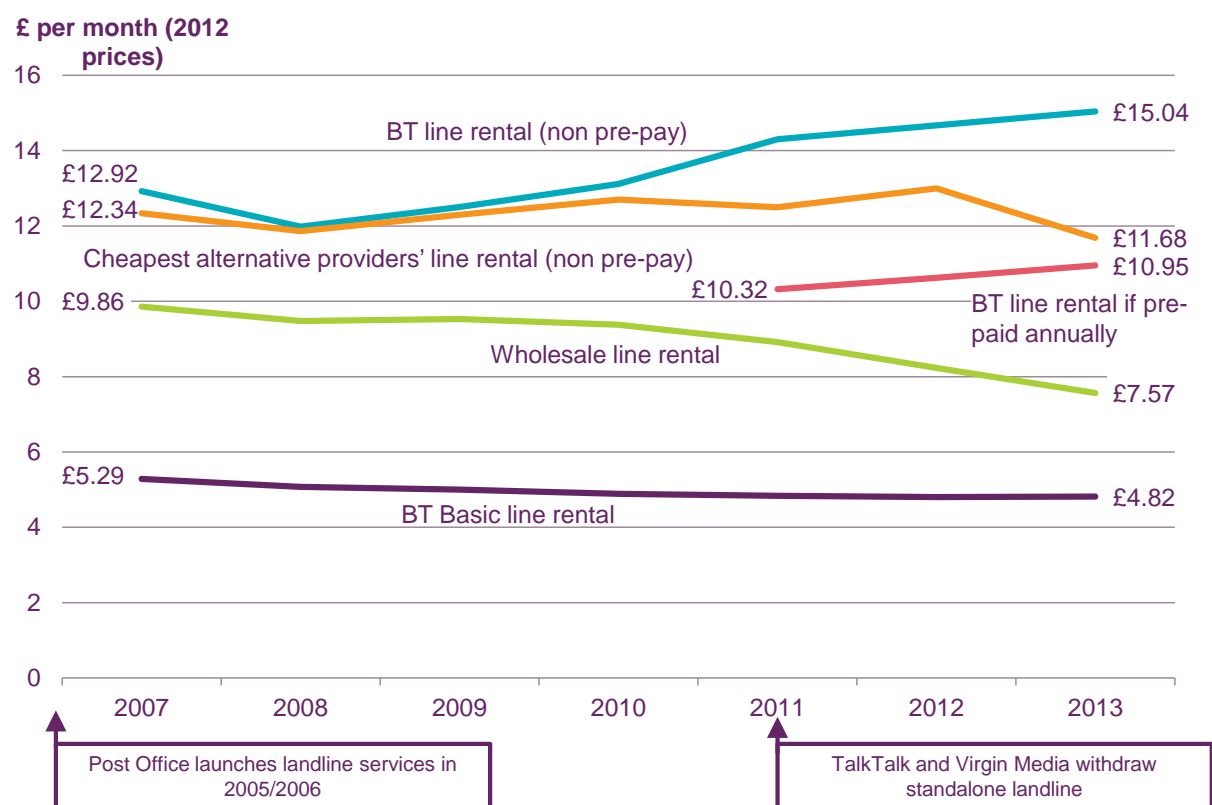
Social tariffs are also available as a low cost option for low income users. The price of BT Basic, the principal social tariff, is lower now in real terms than it was six years ago. This is a good choice for eligible consumers with low outbound call usage (for example, for consumers who rely more on receiving than making calls to keep in touch). Eligibility is defined as being in receipt of certain benefits available to low income households¹².

Despite this range of choice and the overall positive trend in fixed voice costs, some retail prices for line rental have increased in recent years. This is related to the fact that landlines generally tend to be sold as a bundle with other products – historically with voice calls, more recently with broadband. Market competition has tended to focus on the headline price of the bundle, which has generally fallen. Consequently consumers buying a landline service without broadband may not benefit fully from the effects of competition. Furthermore, some providers (TalkTalk and Virgin Media) have recently ceased their standalone landline service. Ofcom will continue to monitor this situation carefully.

¹¹ Wave 2 2013 Tech Tracker survey

¹² Consumers are eligible for BT Basic, the principal social tariff, if they are in receipt of the following benefits: Income Support, Income Based Jobseeker's Allowance, Pension Credit (Guaranteed Credit), Employment Support Allowance (Income Based) or Universal Credit (and are on zero earnings).

Figure 8 Standalone line rental costs

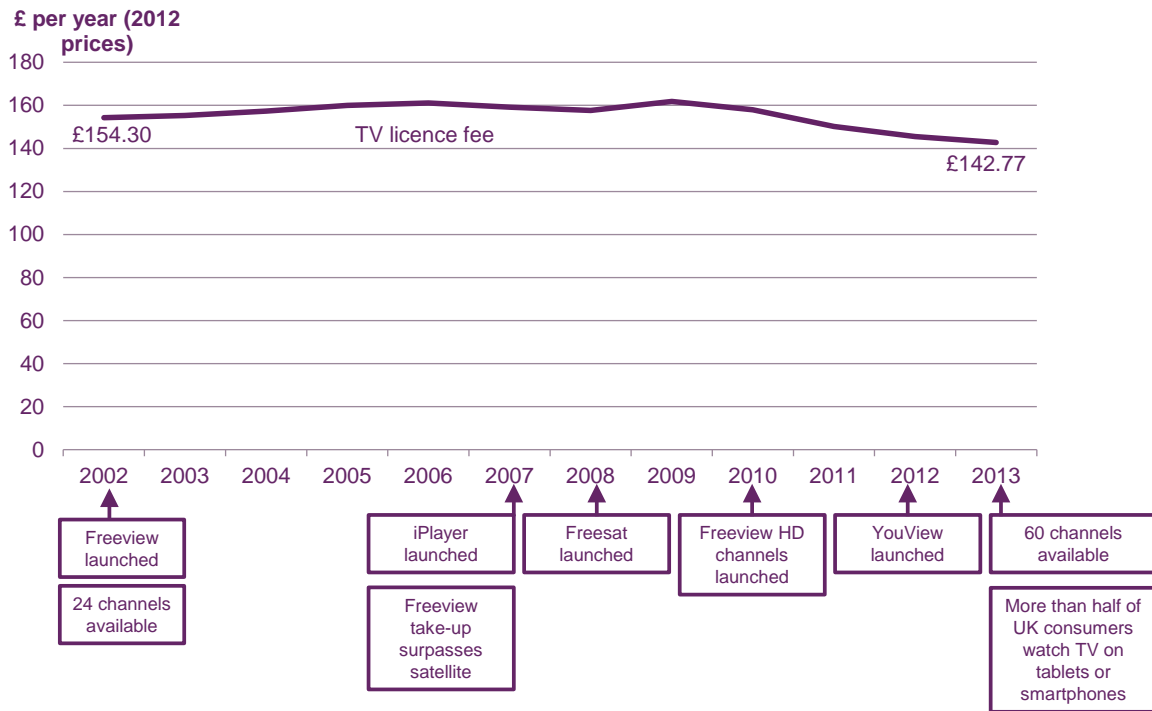


Source: Ofcom / operators / ONS. Notes: All stated in real terms. Adjusted to RPI 2012; includes VAT. BT Basic was called 'Low User Scheme' before 2007. Alternative providers offer different amounts of bundled calls, which this analysis does not attempt to standardise.

2.1.7 The price of access to free-to-view TV has decreased in real terms while choice and functionality have increased

The price of free-to-view TV – the TV licence fee – has remained broadly stable over time and has been falling in real terms since it was frozen by the government in 2010.

Figure 9 Price of TV licence fee



Source: BBC Trust, Annual reports and accounts. Notes: All figures in real terms. RPI 2012.

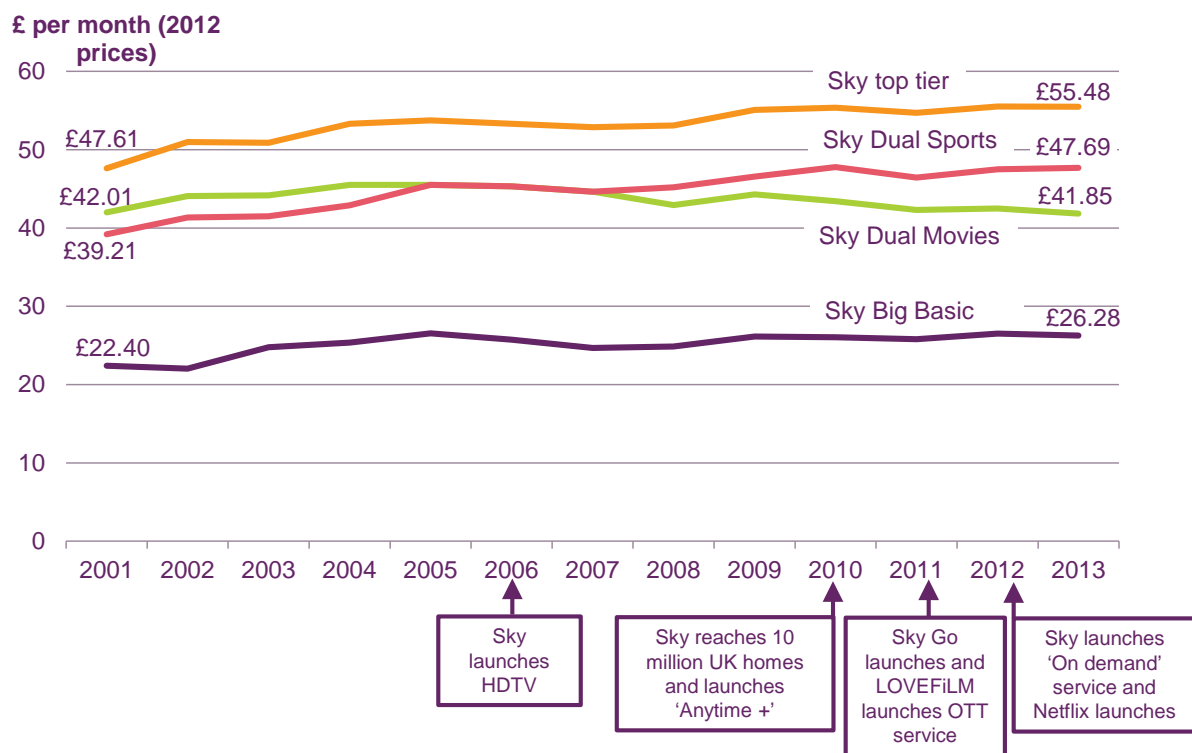
Choice and functionality have increased at the same time, although not directly related to the TV licence fee. Since switchover to digital TV began in 2007 the choice in free-to-view channels has increased significantly. Freeview now offers high definition (HD) channels and catch-up functionality. Freesat offers a satellite alternative to the Freeview service on digital terrestrial television, with a broadly similar selection of channels available without subscription for users purchasing a receiver. YouView was introduced in 2012 and provides the capability of catch-up, on demand, the ability to pause, rewind, record and the full range of 70 digital channels. This is a rapidly evolving sector of the market.

2.1.8 Trends in pricing for pay TV are mixed. Some pay TV prices have gone up while there is evidence that choice and functionality have also increased

Some pay TV consumers have seen small real terms price increases over the past ten years for some packages. At the same time there are choices available to consumers in terms of traditional pay TV offerings as well as new ‘over the top’ (OTT) alternatives, which utilise consumers’ internet connection. This means that some consumers, depending on their choice of available services, will have seen their spending on pay TV services decline over time.

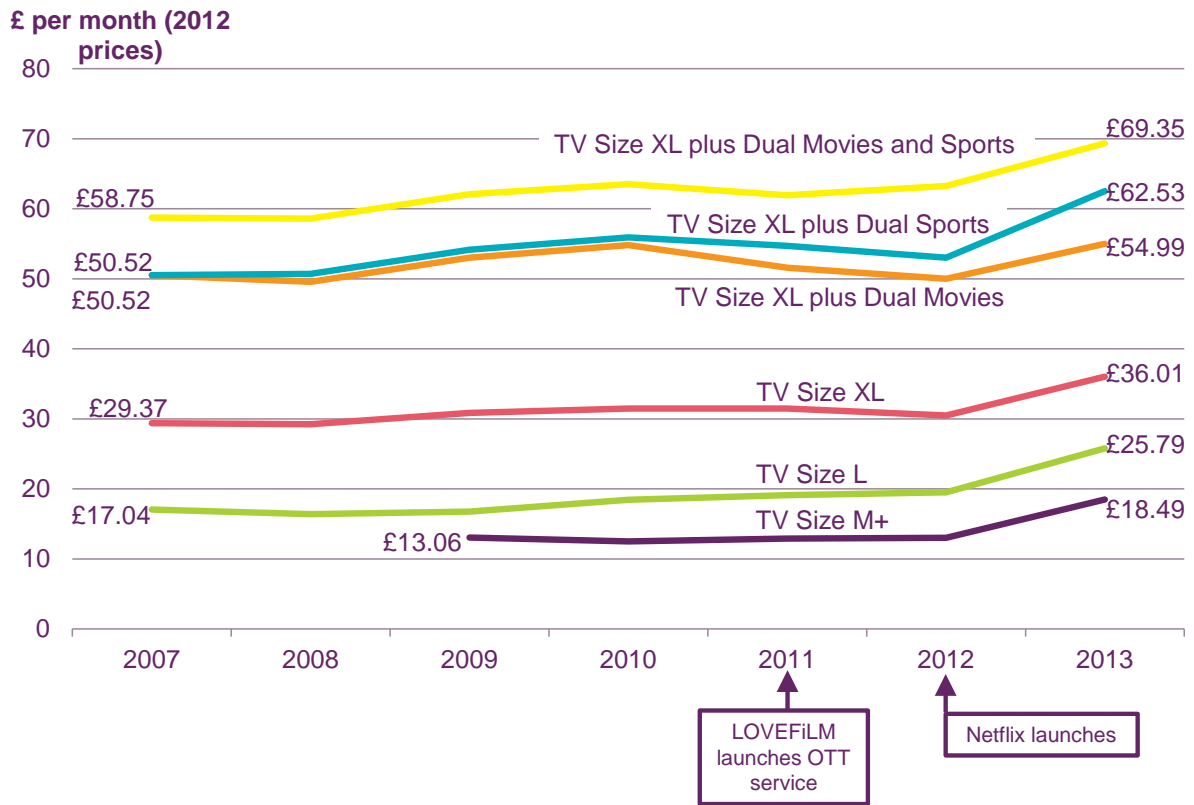
The figures below are illustrative and present headline prices for major operators. It is worth noting our understanding that many consumers are able to negotiate discounts on the advertised package price. Examples of Sky and Virgin Media package prices are presented here as these are the two largest pay TV providers. There are other pay TV providers, including BT TV and TalkTalk TV, offering different packages at a variety of prices. The increasing number of OTT alternatives offer options for relatively low cost content packages. For example, consumers primarily interested in films (beyond the Freeview channels) can buy a package of TalkTalk broadband and TV for around £8 per month (before line rental) and either Netflix or Lovefilm for around £6 per month.

Figure 10 Example Sky pay TV prices



Source: Sky and <http://stakeholders.ofcom.org.uk/binaries/broadcast/reviews-investigations/pay-tv/trends.pdf>.
 Notes: All prices stated in real terms. Adjusted for RPI 2012. Includes VAT. Where prices have changed mid-year, September prices have been used. 'Sky Big Basic' is defined for these purposes as the most "basic" premium service available, i.e. before movies, sport and most premium content is added. "Sky Big Basic" was calculated using Sky 6 Mix from 2001-2009. 6 Mix ceased to exist in 2010, after which the Sky Entertainment Extra package price is used. All packages have changed in content over time, for example, since March 2012 the Dual Sports package has included an additional channel, Sky Sports F1. Sky top-tier prices do not include High Definition charge.

Figure 11 Example: Virgin Media pay TV prices

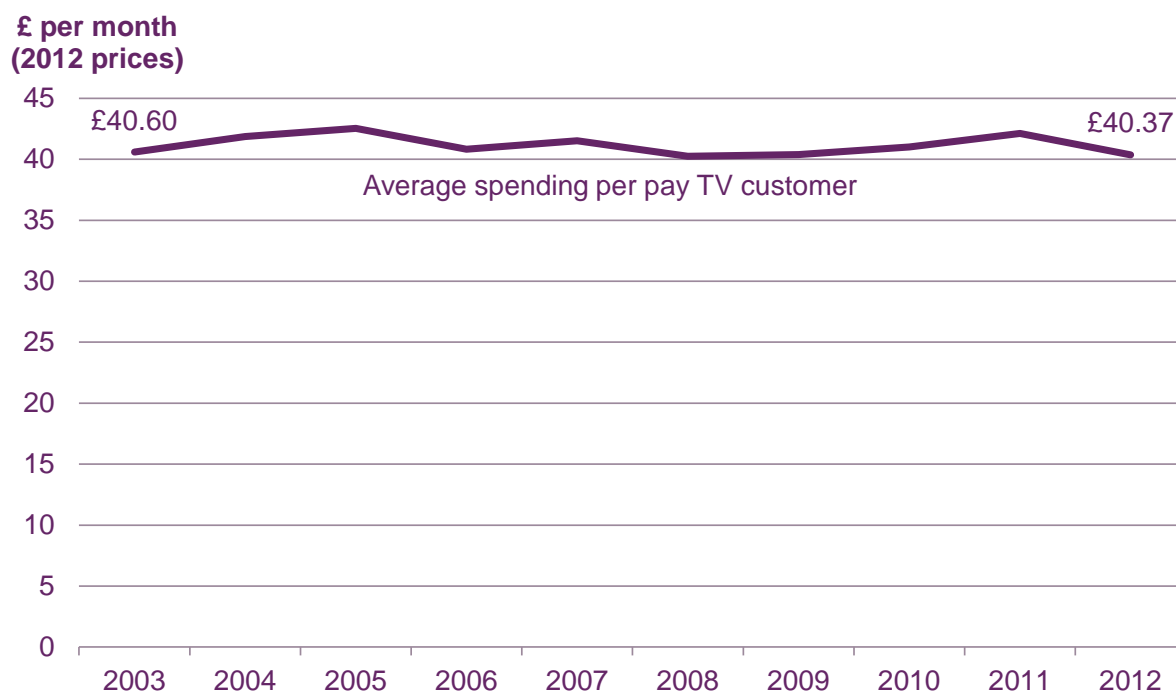


Source: Virgin and <http://store.virginmedia.com/digital-tv/channels/sky-movies.html>. Notes: All prices stated in real terms. Adjusted for RPI 2012. Includes VAT. Some prices have been calculated on the basis of average monthly pricing.

Note on pay TV Figures 10 and 11 above: These charts are intended to facilitate a consideration of trends over time. The packages shown are a selection from many available packages, are not equivalent to each other and therefore cannot be compared. These charts look at standalone pay TV prices only, not prices of pay TV when it is sold in a bundled package with other services such as broadband. In many cases the cheapest pay TV prices may in fact be available as part of a bundle. We note that many customers do not pay headline prices as a result of discounts and offers. The TV packages shown above have changed over time; the number of basic channels has increased for some packages, High Definition is included in some later package prices for Virgin (but not for Sky), On Demand is included in some later packages, and the functionality of the set top box has improved over time.

As the number of pay TV subscriptions has grown, packages have changed over time and consumers are able to switch between different packages, it is also interesting to look at what consumers have paid on average for their pay TV service. The figure below shows that average real terms spending on pay TV has remained fairly constant over time.

Figure 12 Average spending on pay TV services over time

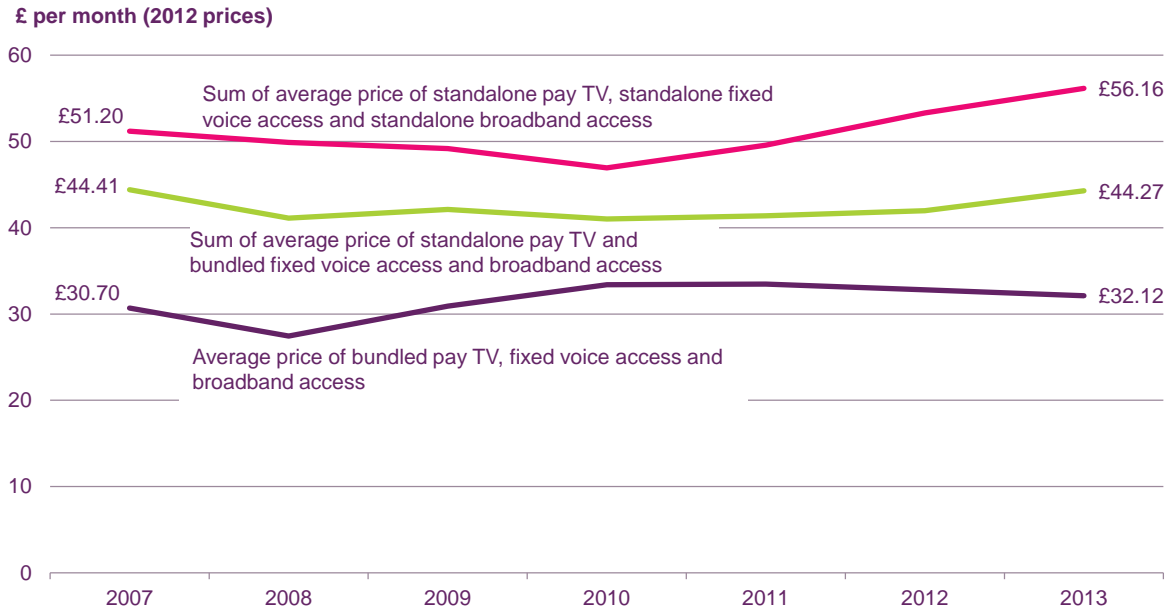


Source: Ofcom analysis of operator data. Notes: Figures are approximate and based on pay TV revenues and subscriber numbers for major operators.

2.1.9 Buying services as bundles typically offers better value than buying standalone services

Consumers have the choice of buying services in a bundle or individually as standalone services. For example some consumers may buy a landline service from one provider and a broadband service from another. Other consumers may buy both together as a bundle from a single provider. Prices for bundled services are typically cheaper than the equivalent total price of standalone services.

Figure 13 Comparison of bundled and standalone prices for pay TV, fixed voice access and broadband access



Source: PurePricing, Ofcom, operators. Notes: Average prices of packages are unweighted averages of prices offered by BT, Virgin Media, TalkTalk, Sky and Orange/EE for basic offerings of each service where offered. Standalone pay TV based on Sky and Virgin Media prices for basic offering. Where package prices changed mid-year, September price has been used. Adjusted to RPI 2012.

Section 3

The distinction between core and discretionary services

Consumers have discretion as to which communications services they use. Some services may substitute for others – for example mobile for fixed voice. Within a service there is typically a wide range of options. For example, mobile phone handsets and services range from basic and low use to very sophisticated with unlimited use. Consumers are able to make choices about which services to consume and match these choices to their budgets.

3.1.1 There is an important distinction in the communications sector between core and discretionary services

For the purposes of a simple comparison we have constructed a working definition of the services which might be considered 'core' for the modern UK household.

Core	Discretionary
Free-to-view TV	Pay TV
Basic broadband connection	Unlimited and/or superfast broadband
Basic mobile telephony	High end mobile – high use, including data
Basic landline access	High end landline packages – anytime use, international calling

3.1.2 The best available price for a basket of core services is £46 per household per month; less for low income and elderly consumers

To examine the price of these core services we have modelled a hypothetical set of monthly household use:

- Fixed line voice with 100 call minutes
- Fixed broadband with 10Mbit/s minimum headline speed
- Two mobile connections, both with 50 call minutes and 50 texts per month
- Free-to-view television, i.e. a TV licence

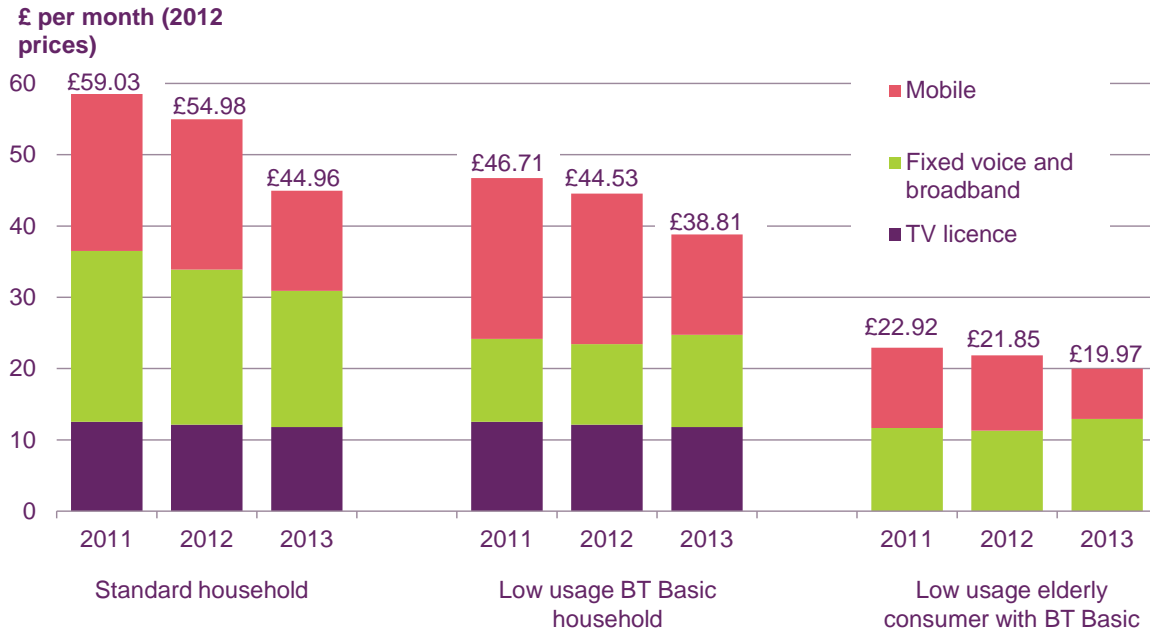
We have examined the prices on offer for these services across all the main players in the market. The best price available for the basket of services described above is currently around £46 per month.

Cheaper packages are available for more vulnerable consumers. A household eligible for BT Basic and with lower fixed voice consumption needs could pay £39 per month for the core services. A single person elderly household with low fixed voice usage, taking a free TV licence and BT Basic (subject to eligibility), as well as a basic mobile and broadband service, could pay as little as £20 per month for the core services. If the consumer wanted

only the very minimum of fixed line voice access, they could buy BT Basic at £5.10 per month¹³.

The price of each of these baskets has declined since 2011.

Figure 14 Lowest available prices for ‘core’ communications services



Source: Ofcom analysis of best value tariff data supplied by Teligen. Plusnet website for Plusnet broadband price in 2013. Figures in real terms, RPI 2012. Lowest available price for a standard household in 2013 prices is £46 per month in 2013.

To extend the analysis of core services further, Ofcom is currently undertaking further research on the affordability of telecom services which might be regarded as essential. We expect to report on this research during 2014.

3.1.3 The cost of core communications services represents 1.7% of household income on average

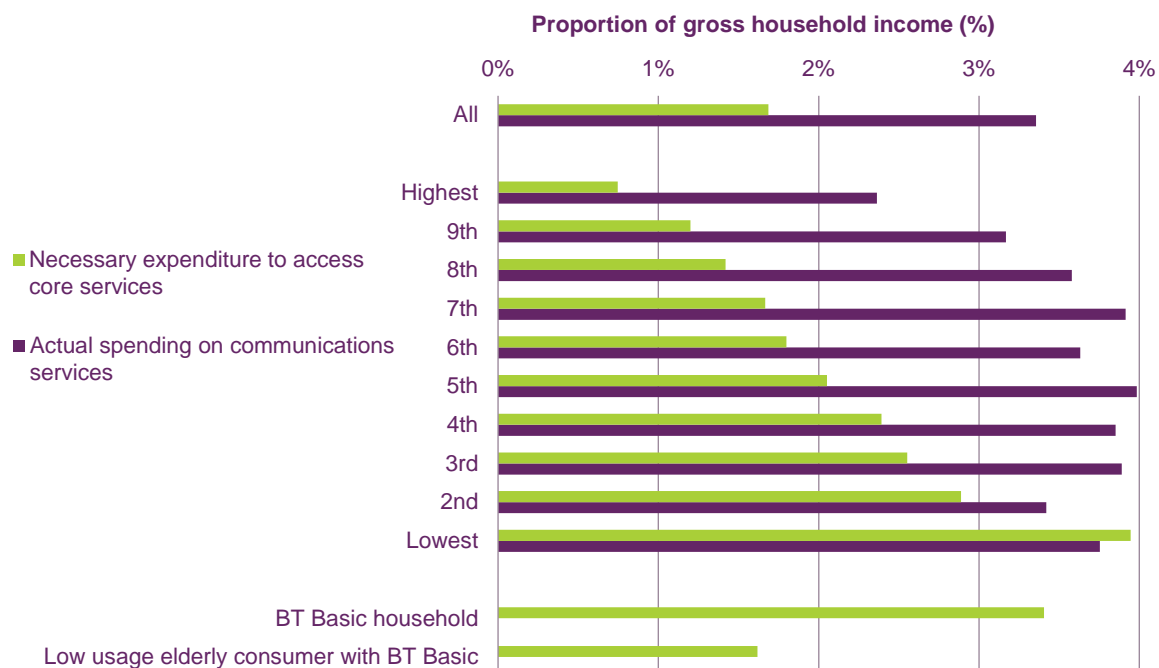
The basket of core services costing £46 is equivalent to around 1.7% of gross household income. We know that the average household spends just over 3% of its income on communications services, suggesting that the average household chooses to buy a reasonable amount of additional, discretionary services.

We have compared this cost to actual household spending on communications in different income groups. The expenditure necessary to access our hypothetical set of core communications services is within or near the bounds of average actual spending across the income distribution (Figure 15 below). These figures are based on average spending levels and therefore conceal variations in actual spending which may be significant. However, the fact that average spending on communications services exceeds the level we estimate required to use such core services suggests that most consumers choose to purchase further discretionary services.

¹³ <http://www.bt.com/includingyou/other-products-services-bt-basic.html>. BT Basic includes a limited number of included calls, after which calls are charged.

For the lowest income decile, average spending is less than necessary expenditure. This could be for a number of reasons (not exclusive to the lowest-income households). It may be that some of these households use fewer communications services than we have modelled as core, perhaps because they are single person households and therefore do not need two mobile phones. Low income households may also be able reduce the cost of the core services by accessing social tariffs and a free TV licence subject to eligibility rules.

Figure 15 Spending on communications services as a percentage of gross household income by income decile



Source: Teligen and ONS data, Ofcom analysis. Note: Calculations of the percentage spent on essential communications services are derived from the 'best pricing' offers identified for a basket of 'core services' (see previous section). Calculations are based on 2013 prices and 2011 income data, adjusted for inflation.

Section 4

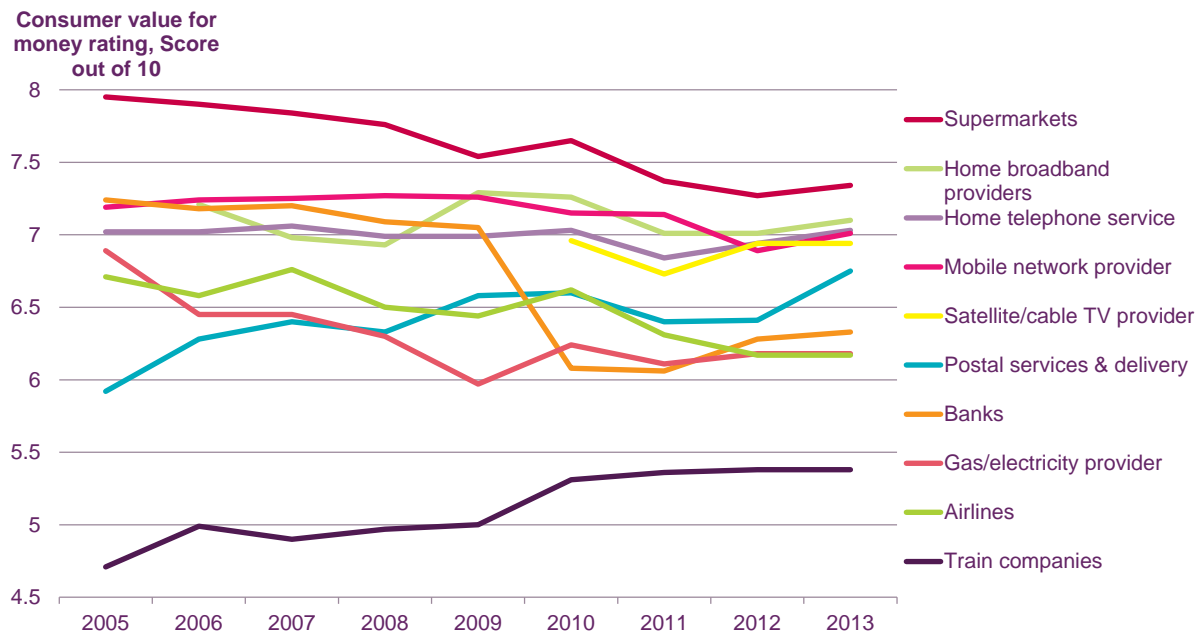
Sectoral and international comparisons

There are considerable differences between the sectors subject to economic regulation in the UK. Nevertheless some comparisons can be made.

4.1.1 Consumers perceive communications services to provide good value for money relative to other regulated sectors

Communications services have consistently outperformed other regulated sectors in terms of consumers' perception of value for money but do not score as well as supermarkets.

Figure 16 Consumers' views on value for money of communications services and other services

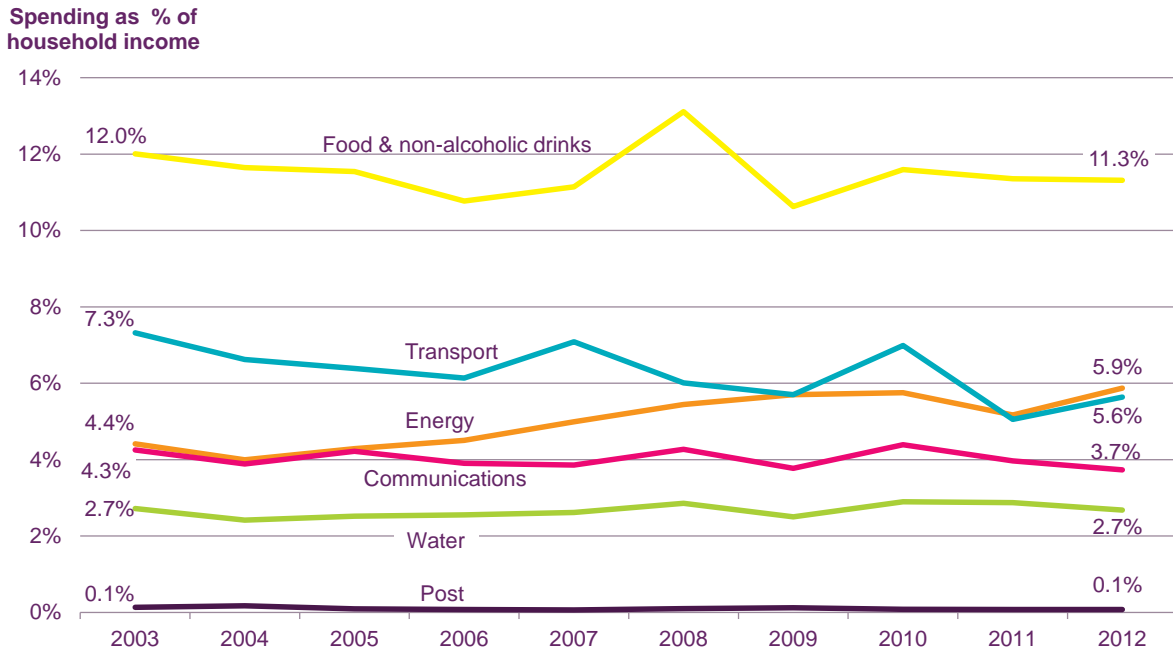


Source: Firebrand Insight. Base: All respondents each year (1000+). Question: Please give a rating for the value for money you receive from your main provider in each category, over the last 12 months. Note: This chart includes relevant sectors taken from a broader series of available data points which are published in the *Consumer Experience Report*.

4.1.2 Low income households spend an increasingly large proportion of income on essential services like energy while spending on communications services has declined

Spending on communications services as a proportion of income has decreased over time for the lowest income decile of households.

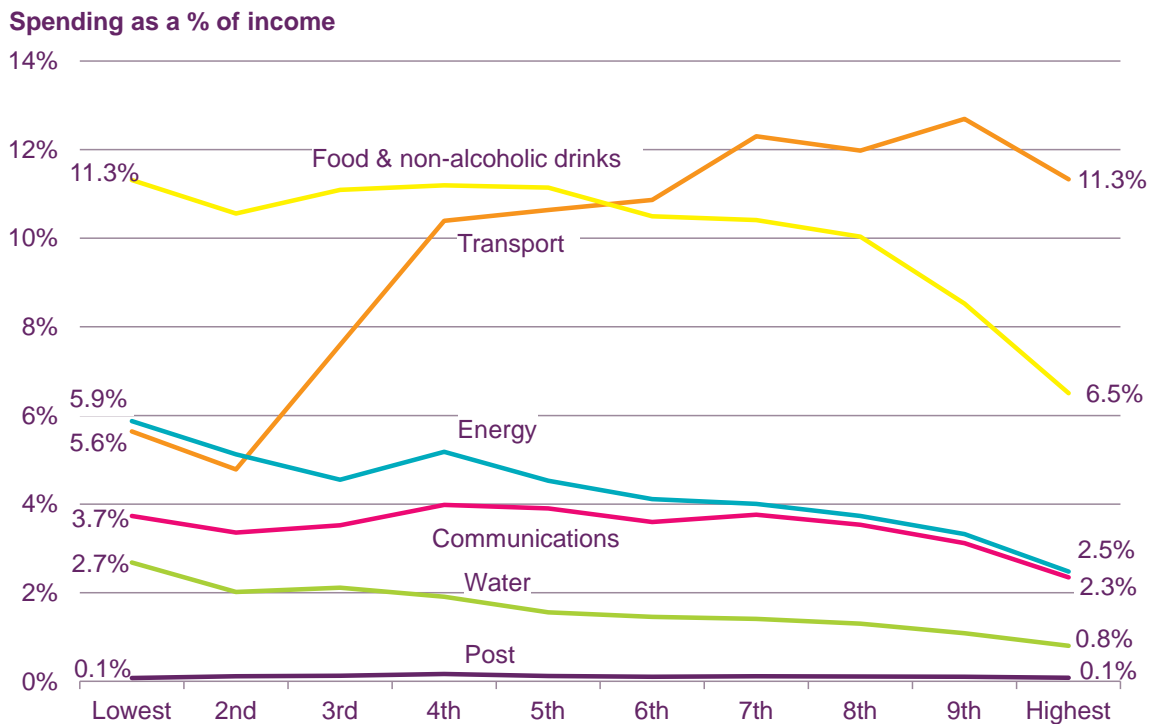
Figure 17 Household spending as a percentage of income for the lowest income decile



Source: ONS, Family Spending data and Ofcom analysis. Communications spending includes telephone purchase, TV licences, fixed line, mobile, internet and pay TV services. Income figures are gross.

Looking across all income groups, communications spending as a percentage of income varies less for communications than it does for energy and water. This might suggest that consumers are better able to manage spending on communication services to match their disposable income.

Figure 18 Household spending by income decile, 2012



Source: ONS, Family Spending data and Ofcom analysis. Communications spending includes telephone purchase, TV licences, fixed line, mobile, internet and pay TV services. Income figures are gross.

It is important to compare the communications sector in the UK to that in other countries in order to establish the UK's relative performance. The *International Communications Market Report* (ICMR), published by Ofcom in 2013, has done this¹⁴. It finds that UK consumers are benefiting from lower priced communications services than those in other major European countries and the US.

4.1.3 The UK ranks cheapest, or second cheapest, in the US and EU5 for most baskets of communications service

As an example of the analysis contained in the ICMR, we conducted a basket comparison of the UK with the US and the EU5. We looked at a range of baskets of communications services that include services including line rental, call bundles, broadband and TV services, ranging from low cost/low use (Basket 1) to high-end (Basket 5).

¹⁴ <http://stakeholders.ofcom.org.uk/market-data-research/market-data/communications-market-reports/cmr13/international/>

Figure 19 International ranking for pricing of a range of typical baskets

Basket 1: A low use household with basic needs		
<u>Country</u>	<u>Price (£ per month)</u>	<u>Ranking</u>
Italy	28	1
UK	34	2
Germany	34	3
France	36	4
Spain	40	5
USA	50	6

Basket 2: A broadband household with basic needs		
<u>Country</u>	<u>Price (£ per month)</u>	<u>Ranking</u>
UK	34	1
Italy	39	2
Germany	41	3
France	45	4
Spain	50	5
USA	73	6

Basket 3: A mobile 'power user'		
<u>Country</u>	<u>Price (£ per month)</u>	<u>Ranking</u>
UK	54	1
Italy	63	2
France	70	3
Germany	101	4
USA	112	5
Spain	119	6

Basket 4: A family household with multiple needs		
<u>Country</u>	<u>Price (£ per month)</u>	<u>Ranking</u>
France	77	1
UK	80	2
Italy	98	3
Germany	131	4
Spain	155	5
USA	217	6

Basket 5: An affluent two person household		
<u>Country</u>	<u>Price (£ per month)</u>	<u>Ranking</u>
Italy	100	1
Germany	109	2
France	115	3
UK	127	4
Spain	142	5
USA	198	6

Source: Ofcom using data supplied by Teligen. Notes: Based on 'best offer' pricing. Includes multi-play. TV includes licence fee. We have constructed five household types, and for each of these have defined an appropriate basket of fixed line voice, fixed broadband, mobile voice, mobile messaging, mobile broadband and TV services. When taken together, the usage patterns of these households are designed to be representative of average use across our countries, in order to address the potential for bias associated with the baskets being more closely aligned with the usage profiles of some countries than of others. Further information about the composition of services within these baskets can be found in the 2013 ICMR.

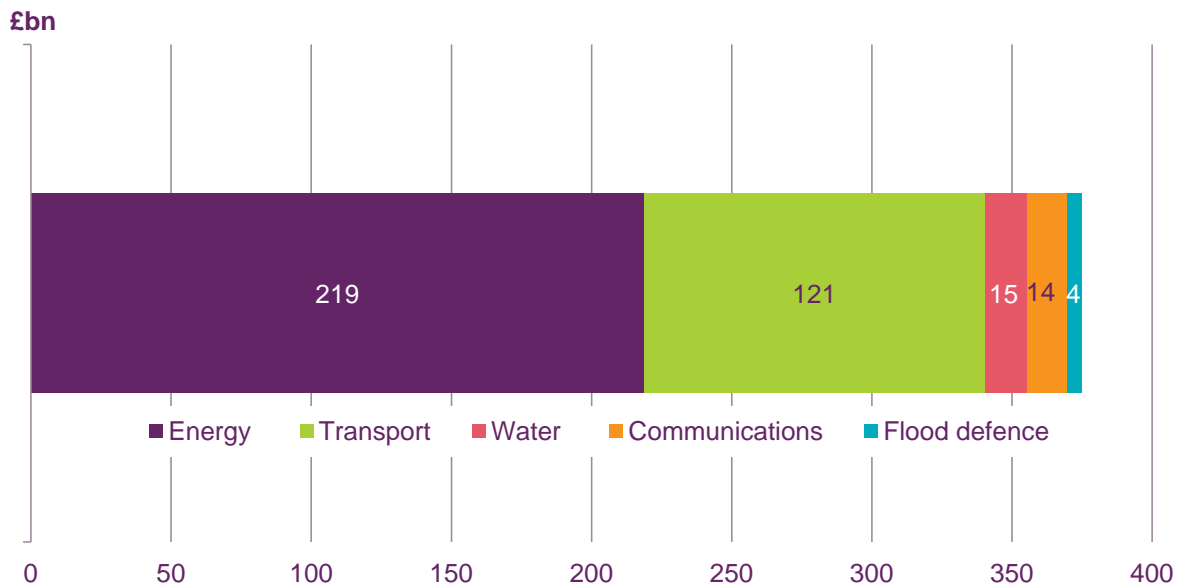
Section 5

Future market development

The government has summarised the infrastructure investment pipeline in its *National Infrastructure Plan 2013*¹⁵. The investment pipeline in communications is relatively modest by comparison with some other sectors. This suggests that this will not be a major source of upwards pricing pressure.

We also note that much investment in energy and water in particular is required to replace existing capacity as it comes off line. Investment in communications is predominantly about delivering new and better services (such as superfast broadband or 4G mobile services).

Figure 20 Government pipeline of known investment in the UK



Source: *National Infrastructure Plan 2013*, HM Treasury <https://www.gov.uk/government/publications/national-infrastructure-plan-2013>. Government analysis based on data from company accounts, regulators, ONS and government departments. The infrastructure pipeline is a forward-looking, bottom-up assessment of potential large infrastructure investment to 2020 and beyond. It covers projects that are currently under way, in design or in scoping, whether they are being delivered through public or private investment.

5.1.1 We will continue to promote long term effective competition

Ofcom’s overarching approach to economic regulation is to enable well-functioning markets with a high degree of competition and consumer choice. It is therefore important that we continue to pursue effective competition in the sector. Consumer behaviour is central to this. We will continue to ensure that consumers have access to the information they need to make effective choices, and to ensure they can switch suppliers conveniently and easily when they want to.

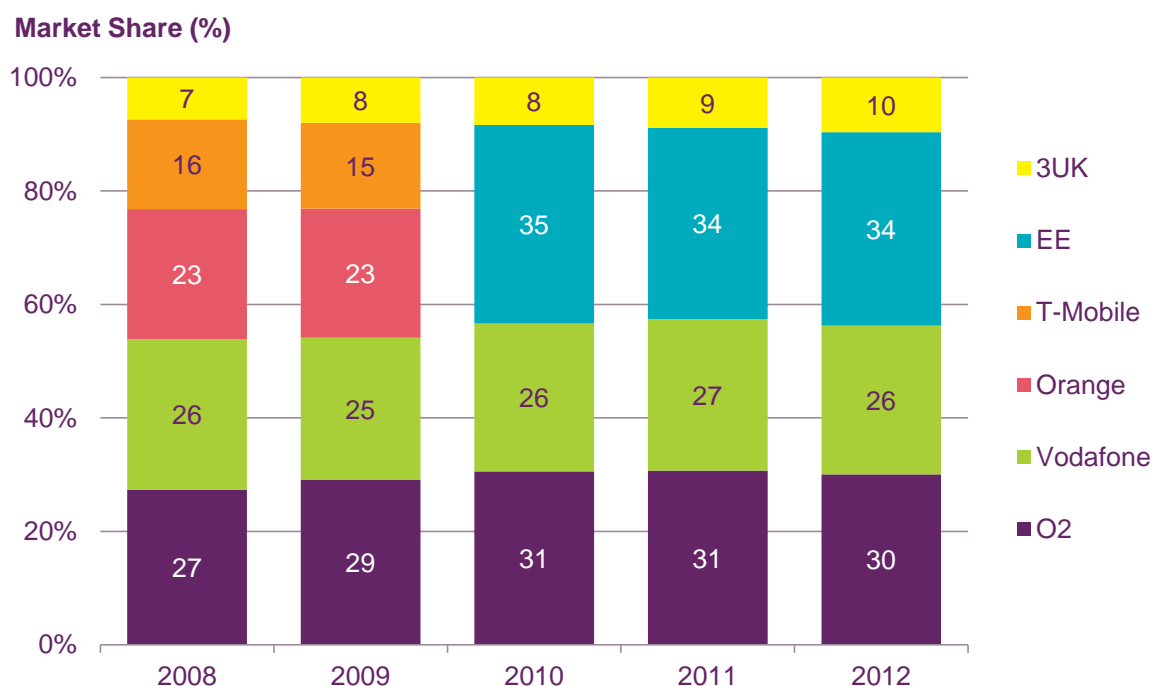
¹⁵ <https://www.gov.uk/government/publications/national-infrastructure-plan-2013>

Both broadband and mobile markets have become somewhat more concentrated in recent years, as markets have matured. The growth in convergence and bundling means that the overall picture is also changing in respect to technology, competition and consumer demand.

There remains a considerable amount of competition in the market, as the figures below show. We will continue to use our sectoral and competition powers to respond effectively to risks to effective competition as they arise.

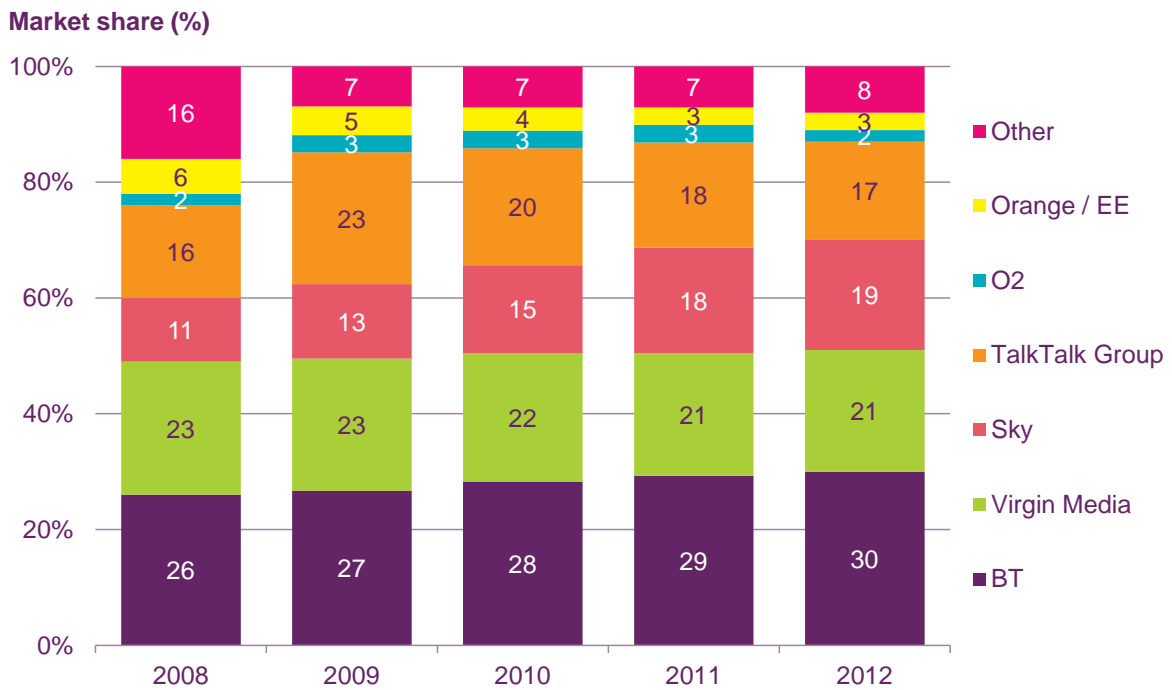
At the same time there is reason to believe that competitive disruption and innovation – a feature of UK communications markets – will continue to exert downward pressure on prices. This is underpinned by the fact that technological advances and variety of demand are likely to persist as strong characteristics of the sector, particularly at some points in the value chain. Regulation also has a role to play. Changes in regulation can enable market entry and stimulate competition, for example through releases of new spectrum or effective network access regulation.

Figure 21 Mobile market shares



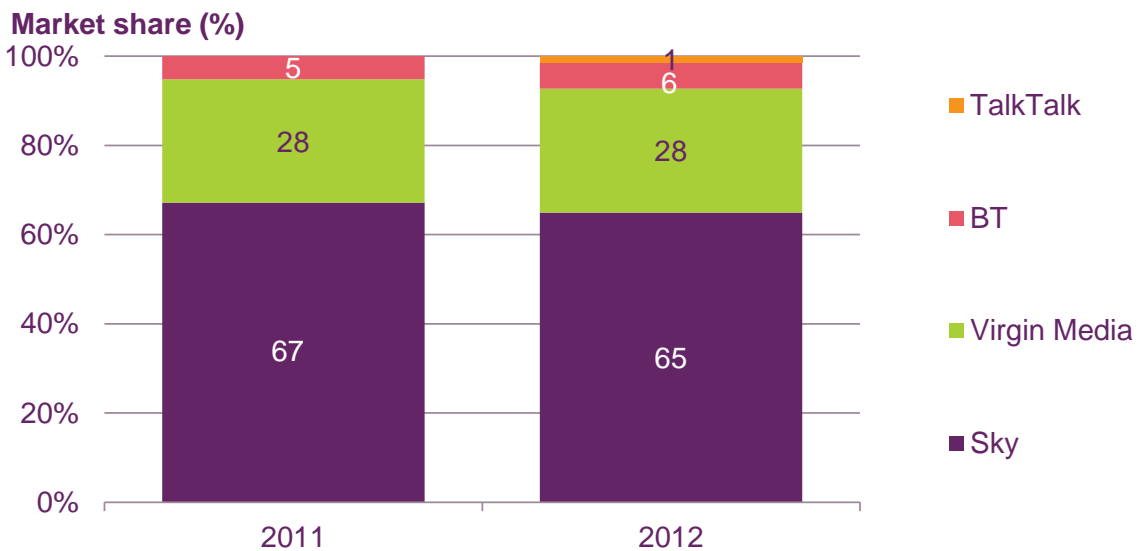
Source: Data derived from Ofcom analysis of company annual reports. Market share based on reported revenues. Note: T-Mobile and Orange merged to form EE in 2010. Re-branding took place in 2012.

Figure 22 Broadband market shares



Source: Ofcom / operators, reported in the Ofcom *Communications Market Report 2013*. Market share based on subscriber numbers. Note: Orange Broadband was rebranded as EE Broadband in 2012 following the 2010 merger. TalkTalk figures include Tiscali from 2009 onwards. Tiscali was included in 'Other' in 2008.

Figure 23 Pay TV market shares



Source: Enders Analysis, *Triple Play Forecast 2013*. Market share based on subscriber numbers.

Section 6

Ongoing work

Consumers of communications services have benefited from competition, innovation and falling prices over the last decade. Ofcom recognises that these benefits are not automatically guaranteed and that the benefits are not always felt equally by all consumers. Therefore we have a role to ensure that the sectors we regulate continue to deliver good value and that vulnerable consumers are protected where necessary. We will continue to prioritise work in these areas.

6.1.1 Our Annual Plan priorities will support our efforts to ensure continuing value for money and affordability

In our *Draft Annual Plan 2014/15*¹⁶, we set out a number of priority areas which have important links to cost and value. We will focus on:

- **Promoting competition and informed choice.** This includes ensuring effective competition and investment in both current and superfast broadband; promoting effective choice for consumers by ensuring that clear and relevant information is readily available; and developing and implementing policies that will improve the ease of switching between communications providers.
- **Promoting opportunities to participate.** Evaluate and report on the affordability of electronic communications services which might be regarded as essential. This will enable us to understand whether there are situations in which affordability is a barrier to use.
- **Protecting consumers from harm.** This includes protecting consumers in a range of priority areas including non-geographic numbering and unexpectedly high bills.
- **Availability.** We will work in collaboration with government and industry to promote widespread availability of fixed and mobile superfast broadband. We will continue to provide expertise and advice to help the government and the devolved administrations meet their objectives. One particular area of focus will be mobile coverage, including availability of services for the small number of households in currently unserved locations, and on parts of the UK's road and rail networks.
- **Quality of service.** In spring 2014 we will finalise our proposals on quality of service in the local access market. This includes proposals for obligations on the timeliness of fixed line voice and broadband installations and repairs. During the year we will work to ensure the successful implementation and monitoring of the new quality of service regime for voice and broadband services and consider whether additional measures are required for business services. In mobile we will conduct work on the provision of consumer information regarding the quality of experience and broadband speeds. We will also continue our work in the area of traffic management and monitoring the quality of postal services.

¹⁶ <http://stakeholders.ofcom.org.uk/binaries/consultations/draft-annual-plan-2014-15/summary/draft-annual-plan-2014-15.pdf>

6.1.2 Affordability of essential telecoms services

There may be a range of barriers to take-up of those telecoms services that might be regarded as essential. One of these barriers may be affordability and we are currently investigating this issue.

Our research will look at which telecoms services might be regarded as ‘essential’, and will aim to capture a UK-wide perspective, representing all consumers and citizens. Within this we will focus our analysis on potential affordability issues for those consumers most likely to be at risk of not being able to afford universal telecoms services. We envisage that this project will result in the publication of a report on the affordability of essential telecoms services in summer 2014.

6.1.3 We will continue actively to monitor market developments

We are currently addressing a small number of specific areas of focus, aligned with our Annual Plan priorities. We give examples of these below; they are covered in more detail in the *Consumer Experience Report*.

Figure 24 Specific areas of focus

Area of focus	Ofcom activity
Switching	In August 2013, announced that switching between providers on the Openreach network would be harmonised to a gaining provider-led process. In December 2013, announced new requirements for improvements to switching processes to make them easier for consumers. Work will continue beyond these reforms to ensure that switching works as well as possible for consumers.
Quality of service	Ensure that the market continues to deliver high quality services, and continue to publish comparative information on service quality where it is needed to enable consumers to make effective choices.
Unexpectedly high bills / unauthorised handset use	Build on improvements made as a result of our engagement with mobile operators (such as usage alerts, spend monitoring systems and compliance with Roaming Regulations) and our consumer guides. Focus on unexpectedly high bills as a result of unauthorised use of lost or stolen phones. Work with the government and industry towards the introduction of a monetary cap on customer liability for charges associated with unauthorised use of a lost or stolen phone.
Mid-contract price rises	Issued guidance on how General Condition 9 should be applied to increases in recurring monthly subscription charges for fixed term contracts to enable consumers to exit without penalty. This took effect on 23 January 2014. Continue actively to monitor compliance with GC9 and take action as required.
Non-geographic numbers	Imposed new tariff principles and price caps on non-geographic numbers to improve transparency of charges,

	<p>consumer understanding and to ensure confidence in the use of these numbers. The new regulations come into force in July 2015. They will specifically require freephone (080) numbers to be free to callers from all fixed and mobile phones (most mobile operators currently charge for these calls). Require the prices for the remaining 08/09/118 numbers to be presented in two parts – an access charge which covers the component of the price retained by the telephone company, and a service charge which covers the component of the charge passed through to the company being called. Caps imposed on the service charge. These changes and associated rules on the advertising of the cost of calls will enable consumers unambiguously to identify and compare the cost of calls.</p>
<p>Ensuring that markets work well for all consumers, including those that are vulnerable</p>	<p>Continue to ensure widespread availability of services. Complete a project to understand the affordability and take-up of essential services, which will look into this issue further. Ensure that consumers have information to make effective choices and can switch easily and conveniently when they want to.</p>