Consultation on Business Plan and Budget 2019/20
Draft

13 December 2018
1. Financial overview

1.1. The proposed PSA budget for 2019/20 is £3,939,475 and represents the minimum resources identified to deliver our mission, i.e. to protect consumers from harm in the market and to further consumers' interests through encouraging competition, innovation and growth.

1.2. This business plan and budget is subject to approval by Ofcom and is required to satisfy their statutory requirement that we should be adequately funded to meet our regulatory obligations.

1.3. The budget has been built bottom-up and is the costing of the activities set out in Section 4. There is a reduction of 2.6 full time equivalent (FTE) staff, and overall the budget represents a 1%\(^1\) saving in real terms over 2018/19 (a cash increase of £89,890) and 21% since 2015/16.

1.4. Two years ago, we signalled our intent to provide much greater levy certainty over the four years to 2020/21, by utilising collected fines and admin charges to smooth the amount of levy required from industry. We remain on track to achieve this aim, and for 2019/20 the call on industry is unchanged at £1,800,000.

1.5. We expect the market size in terms of qualifying outpayments to increase to £480m, which means a fall in the adjusted levy to 0.38%.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated market size (outpayments)</td>
<td>£448,342,000</td>
<td>£430,500,000</td>
<td>£430,500,000</td>
<td>£410,000,000</td>
<td>£480,000,000</td>
</tr>
<tr>
<td>PSA full operational budget</td>
<td>£4,444,074</td>
<td>£3,995,266</td>
<td>£3,849,650</td>
<td>£3,849,585</td>
<td>£3,939,475</td>
</tr>
<tr>
<td>Unadjusted levy</td>
<td>0.93%</td>
<td>0.87%</td>
<td>0.83%</td>
<td>0.94%</td>
<td>0.82%</td>
</tr>
<tr>
<td>PSA budget to be funded by adjusted levy</td>
<td>£2,679,581</td>
<td>£2,733,766</td>
<td>£1,874,640</td>
<td>£1,800,000</td>
<td>£1,800,000</td>
</tr>
<tr>
<td>Adjusted levy</td>
<td>0.60%</td>
<td>0.63%</td>
<td>0.44%</td>
<td>0.44%</td>
<td>0.38%</td>
</tr>
</tbody>
</table>

\(^1\) Based on RPI of 3.3% at October 2018
2. **Strategic priorities**

2.1. **About Phone-paid Services Authority**

2.1.1. We are the UK regulator for content, goods and services charged to a phone bill.

2.1.2. We are a non-profit making company limited by guarantee. We are appointed by the Office of Communications (Ofcom) to carry out the day to day regulation of phone-paid services. Ofcom approves our Code of Practice and annual Business Plan and Budget.

2.1.3. We are a designated public body and, as such, an arms-length body of the Department for Digital, Culture, Media and Sport (DCMS). We are audited by the National Audit Office.

2.1.4. Phone-paid services are the goods and services that you can buy by charging the cost to your phone bill or pre-pay account. They include charity donations by text, directory enquiries, voting on TV talent shows and in-app purchases. In law, phone-paid services are referred to as premium rate services (PRS).

2.1.5. We help to look after consumer interests by setting and enforcing rules for providers of phone-paid services. We check every issue that is reported to us and take action when we need to. The information we receive can help us to identify problems in the phone-paid services market, but our role is not to take up individual cases or pursue refunds unless they have been ordered by our independent Code Adjudication Tribunal.

2.1.6. We apply our Code of Practice in a fair and proportionate manner. When enforcing our Code, we seek to resolve concerns with providers where we are able to. Where services are found to breach our Code of Practice we have the power to issue fines, bar services and prohibit companies and individuals from operating in the market, and order refunds.

2.2. **Vision**

Our vision is a healthy and innovative market in which consumers can charge content, goods and services to their phone bill with confidence.

2.3. **Mission**

Our mission in the phone-paid services market is twofold:
- to protect consumers from harm
- to further consumers’ interests through encouraging competition, innovation and growth.
We will seek to do this through:

- improving the consumer experience of phone-paid services\(^2\)
- applying and enforcing an outcomes-based Code of Practice
- delivering a balanced approach to regulation
- working in partnership with Government and other regulators
- delivering high standards of organisational support.

### 2.4. Values and behaviours

Our core values and behaviours underpin everything we do to deliver our mission:

| Right touch | Fair and proportionate | Be fair, reasonable and well-informed.  
Ensure our actions support good regulatory outcomes for all stakeholders and give certainty and confidence. |
|---|---|---|
| Aware of the bigger picture | Anticipate developments that may affect us and those around us.  
Be curious and inquisitive, ask questions and challenge assumptions. Be flexible and enabling of responsible innovation.  
Plan for the future and think of the impact of our work. |
| Collaborative | Open | Look outward, share ideas, listen to others and embrace their knowledge. Collaborate with everyone. Be approachable, transparent and accountable. |
| | Decisive | Make decisions in a timely manner with confidence and clarity. |
| Value for money | Effective and productive | Pursue our priorities energetically.  
Get it right first time and swiftly deliver effective outcomes.  
Innovate to find creative solutions and work more efficiently. |
| | Professional | Be experts: we are role models and we support others.  
Be reliable because we are consistent, pay attention to detail and are focused on quality. |

\(^2\) We reviewed our mission statement in September 2018, and updated this bullet from ‘providing clarity about the market for content, goods and services charged to a phone bill’.
2.5. Strategic priorities

Our mission describes what we do as an organisation. The six strategic priorities set out below provide the emphasis as to how we want to deliver our mission:

- To deliver strong consumer protection, through securing and maintaining high levels of compliance in all areas of the market and for all consumer groups
- To ensure our regulatory approach supports growth, stimulates competition and encourages market entry
- To identify and procure appropriate resources to deliver all statutory responsibilities, and to do so with due regard for the financial impact on industry funders
- To apply clear and robust processes and systems, and use these to demonstrate the validity of our decision making
- To encourage and support two-way engagement with all stakeholders regularly and at all key moments
- To develop all of our staff so that they are highly motivated and fully aligned with our regulatory approach
3. 2018/19 Review

In pursuing our mission in 2018/19, our broad areas of delivery have included a focus on:

- expanding our consumer engagement, while at the same time repositioning our role with them
- developing our investigations and enforcement systems
- policy interventions in higher risk areas
- increasing our market understanding
- developing a digital transformation framework.

Outlined below is the more specific work we have delivered, by each area of our mission.

3.1. Improving the consumer experience of phone-paid services:

3.1.1. In 2018/19 we have undertaken a range of different activities aimed at supporting the improvement in consumer confidence in the phone-paid services market:

- we have continued to embed existing market and consumer knowledge into all our policy work and informal engagement with service providers
- we have added to our body of consumer knowledge through:
  - publication of our Annual Market Review for 2017/18
  - research carried out with the University of Nottingham into consumer interaction with Information, Connection and/or Signposting Services (ICSS). This research subsequently informed our detailed monitoring of the ICSS market and resulting programme of enforcement, and the PSA’s contribution to Ofcom’s review of the scope of the Premium Rate Services Condition
  - as part of our policy work into phone-paid services charged for on a subscription basis, we commissioned Jigsaw to carry out research into consumer interaction with these services. This work included drawing on the experiences of consumers who had previously reported issues to us
  - recruitment of a cost-effective consumer panel to give us further insight into consumer expectations of their interaction with PRS
  - engaging with a range of consumer bodies, including Ofcom’s Communications Consumer Panel, Essential Services Access Network and Consumer Forum for Communications.
- we have continued to use the Industry Liaison Panel (ILP) as a forum to discuss and share best practice on consumer satisfaction and trust issues
- we have ensured that where there are areas of regulatory overlap, we have used our good working relationships with other consumer protection regulators to minimise the potential for confusion among both consumers and service providers e.g. we have worked with Ofcom, DCMS and industry partners to provide clarity and consistency of messaging to consumers on spending caps and service bars
we have carried out detailed work into refund mechanics, with a view to improving customer care and consumer redress and building trust in the market. In doing so, we have paid due regard to the wide range of consumer feedback we received during the year and enhanced the requirements we have of service providers. We have supported the development of Alternative Dispute Resolution (ADR) provision in the market and have also sought to manage consumer expectations of us both in the process of seeking redress and in providing greater clarity around claiming refunds ordered as part of a Tribunal adjudication.

3.1.2. During the year we have invested significantly in the development of our communications with consumers:
• we have launched a new website, aimed at providing a much greater consumer focus
• we have refined our core consumer messaging to provide much greater clarity about our role as a regulator and their role in reporting issues to us. We have applied this messaging consistently through our new website, the Interactive Voice Response (IVR) on our telephone system, our service information and assessment team’s communication with consumers, social media and in our published Annual Report
• we have begun to build good working relationships with the PR teams of each of the Mobile Network Operators (MNOs) to ensure consistency of public messages
• we have established our digital transformation framework, which allows us to consider in detail proposed investments in technology to deliver a significant step change in our consumer service offering. Initial projects considered included:
  ▪ replacing our online consumer enquiry service, Number checker, with an enhanced Service checker tool that utilises our enhanced Registration data to enable consumers to be better informed about services and the organisations providing them
  ▪ developing Chat bot improvements on our Facebook page, to support the ability of consumers to self-serve resolution of queries and problems via social media platforms.

3.1.3. We have continued to respond to consumer contacts with efficiency during 2018/19. Total contacts are expected to be around 250,000 for the year, and 93% of these have been handled quickly and effectively through automation. We have enhanced this approach through the introduction of new requirements for service providers to register more detailed service information, and this ongoing commitment to support the ability of consumers to self-serve has meant that our service information and assessment team have been able to:
• work more closely with MNOs to identify where their customer support handling is resulting in consumers being directed to us before they have attempted to contact the service provider
• best support the experience of consumers when they do contact us to report issues with services. We expect complaint volumes for the year to be around 21,000 in total, and we have been able to focus on assessing those complaints where the service provider has been identified
• ensure the efficient and effective initial processing of complaint data and case creation, including more detailed information requests of service providers. We have developed clear prioritisation criteria to enhance the process of allocating cases and make efficient use of the resources available
• undertake more detailed and systematic monitoring of services, including testing of service providers customer services through mystery shopping
• continue to resolve a large proportion of cases through quick, fair and proportionate informal action, with 75% of the 400 cases we expect to work on in 2018/19 being dealt with in this manner.

3.2. Applying and enforcing an outcomes-based Code of Practice.

3.2.1. We committed in 2018/19 to provide regulatory certainty to industry by retaining the current Code of Practice (Code 14) for at least the next three years.

3.2.2. During the year, however, we have continued to review the scope and application of Code 14 to ensure its ongoing effectiveness. In doing so, we have undertaken a wide range of detailed policy work in conjunction with industry that has included making calls for inputs, undertaking pre and full consultation exercises, and commissioning supporting research. This has led to changes in our regulatory requirements under Code 14 in the following areas:
• Subscription services
• Society lottery services
• Specified Service Charges and Call Duration Caps
• Directory enquiry services
• Refunds
• Registration of services
• Due diligence risk assessment and control
• ICSS, following Ofcom’s review of the definition of Controlled Premium Rate Services to include within our remit ICSS on any number range.

3.2.3. We have developed our industry engagement during the year, with the aim of making our regulatory remit as clear as possible. This work has included:
• undertaking a review of how we communicate with industry, with a focus on clearly identifying which informal or formal part of the investigation and enforcement process the communication relates to
• publishing blogs by both our Chairman and CEO, setting out their clear aims for the year
• offering workshops on our investigations and enforcement processes, both to new entrants to the market and as a refresher to existing service providers.
3.2.4. We have continued to support industry to comply with the Code in 2018/19, through:
- ongoing provision of compliance advice, with around 800 requests for advice expected to be handled during the year. We have provided both general compliance advice and bespoke compliance advice for more complex issues or for proposed market innovation by service providers
- reviewing and issuing or consulting on new guidance, including on consent to charge and direct buy advertising.

3.2.5. With regard specifically to the General Data Protection Regulation (GDPR) that came in during 2018/19, we have worked to achieve full compliance with the GDPR, issued industry notices setting out our legal position and consulted with industry on GDPR retention periods.

3.3. Delivering a balanced approach to regulation.

3.3.1. In 2018/19 we have continued to manage our resources to both maintain compliance across the large majority of the phone-paid services market and enforce against non-compliant behaviour where fair and proportionate to do so. To support this approach, we have expanded our industry engagement programme to regularly meet with major networks, aggregators and service providers at a strategic level, with broad discussions focussing on:
- how to maintain and enhance a healthy phone-paid services market
- ensuring our regulatory approach does not unnecessarily hinder new product implementation and growth.

3.3.2. During the year we have sought to maintain compliance in the market through a combination of broad industry engagement, intelligence gathering and policy development. As well as that set out in 3.2.2 above, this work has included:
- an industry forum, held in October 2018, with the theme of building consumer confidence in the phone-paid services market
- close collaboration with MNOs on research into Level 1 aggregator payment platform standards
- detailed industry-wide engagement on Android malware issues
- offering workshops for industry partners, e.g. as part of the consultation exercise on Registration and briefings on our work for industry and government stakeholders
- improving communications overall with industry, through reviewing all written templates and website content for clarity, tone and use of language
- ensuring the exemption process is open and transparent to service providers, highlighted through making operational the exemption from Registration for Level 2 service providers operating exclusively through a single Level 1 aggregator
- developing our market intelligence (more timely, accurate and granular data) through enhanced network return information, data flowing from our new
registration requirements, and the implementation of a new Annual Market Review (AMR) service type taxonomy

- utilising this market intelligence to review our overall approach to monitoring, allowing for:
  - better targeted monitoring to support policy development
  - the creation of more opportunities for the identification of issues, including pinpoint analysis as evidence of non-compliance
  - the ability to better support industry initiatives through proactive monitoring work.
- implementing increased intelligence gathered from research, an enhanced AMR delivering greater insight into revenues and users, and our horizon scanning initiative.

3.3.3. We have continued to ensure our formal investigative activities are both fair and proportionate, and effective in deterring non-compliant behaviour in the market. We again expect to work on around 100 enforcement cases during the year, combining Track 1, Track 2 and post-adjudicatory work. While we have aimed to process cases as fast as we can, our greater emphasis has been on ensuring we investigate each individual case robustly and comprehensively. We have supported this approach in 2018/19 through:
- continuing to build the industry knowledge of our investigators, allowing them to proceed with confidence and with industry trust in their capabilities e.g. development of their skills as part of the Track 1 investigations into direct buy advertising through Google
- beginning to build a specific understanding of cyber fraud and how that may relate to our investigative work
- using feedback from the Code Adjudication Panel (CAP) and Investigations Oversight Panel (IOP) to continuously refine and develop our investigative processes
- developing an enforcement priority framework, to ensure resources are utilised as efficiently as possible
- increasing our overall case management effectiveness, through reviewing the process of allocating cases to individual investigators.

3.4. Working in partnership with Government and other regulators.

3.4.1. In 2018/19 we have continued to invest in and build on our strong working relationships with partners to ensure we are able to act with regulatory clarity. Work in this area has included:
- agreeing Memorandums of Understanding with the Gambling Commission, Information Commissioners Office, Advertising Standards Authority and the Competition and Markets Authority
- liaison with the Gambling Commission regarding Society lottery services consultation and Special conditions
- working in tandem with Ofcom to manage our respective consultations into directory enquiry services
• aligning spending caps on phone-paid services with those regulated by the Financial Conduct Authority under Payment Services Regulations
• collaboration with the Advertising Standards Authority to identify and address common GDPR implementation issues
• participation in Operation Linden, the multi-agency initiative aimed at combatting unsolicited messages and calls
• regular engagement with DCMS and Ofcom on a range of policy issues.

3.5. Delivering high standards of organisational support.

3.5.1. We have continued to deliver our governance, legal, finance, business systems, human resource and communications functions to the high standards we have set ourselves, ensuring the whole organisation is best placed to deliver our regulatory approach. Key areas of work delivered in 2018/19 included:
• reviewing Board and CAP membership to ensure we have the optimum number of members necessary to fulfil their responsibilities
• undertaking Board, Audit Committee and Resources Committee annual evaluations, including having due regard for the principles of good regulation
• planning and implementing new policies and processes to ensure full compliance with GDPR
• strengthening our internal investigations and enforcement processes, through implementing recommended changes and confirming with a follow-up external audit
• ensuring we undertake effective treasury management in response to changes in interest rates and PSA cash flow requirements
• achieving a clean audit report on our financial statements from the National Audit Office
• developing financial procedures to audit MNOs quarterly network returns, and to use this process to generate more accurate and timely market information
• making a significant investment in our cyber security, including annual security penetration testing. During 2018/19 we have achieved a Microsoft Secure Score (a measurement of the controls in place to prevent an attack) ten times higher than the average
• developing the management information capabilities of our new customer relationship management system, both in terms of regulatory decision-making and stakeholder relationships
• continuing to invest in our staff through a range of initiatives including:
  ▪ launching an employee health and well-being programme
  ▪ enhancing our commitment to diversity and inclusion, through e.g. changes in our recruitment practices
  ▪ implementing findings from our bi-annual staff engagement survey
  ▪ creating more opportunities for staff at all levels to contribute to our strategic delivery, through enhanced cross-team working and continued investment in our organisation culture
  ▪ Investors In People re-accreditation.
4. 2019/20 Business Plan

Our plan for 2019/20 is based on our expectation that we will be regulating an increasingly healthier phone-paid services market, in which a changing landscape of new players and new services enables a growing and more confident consumer base. We also anticipate this market to be bigger financially, with both the Annual Market Review and quarterly data in 2018/19 (see Appendix B) indicating growth in operator billing.

With much of the preparation for this established during 2018/19, we will therefore continue to evolve our regulatory approach in 2019/20 to broadly focus on:

- laying the foundations for a new Code of Practice (to come into effect in 2021/22)
- integrating insights from our consumer panel and ensuring high standards of customer care are delivered throughout the value-chain
- implementing and reviewing the key policy work developed in 2018/19, and supporting these policy interventions with prioritised enforcement
- developing how we manage and share our intelligence to maximum effect
- using our increased market understanding to target regulatory interventions with increased precision
- maintaining market compliance, including through developing key stakeholder relationships with new, major market entrants
- delivering greater efficiency and effectiveness through digital transformation projects, including anticipating any significant changes in the market and our regulatory landscape
- ensuring our cyber security keeps pace with emerging threats.

This evolutionary approach is based on a number of key assumptions, including:

- the market-wide conditions that consumers currently experience will lead to a continued overall improvement in consumer satisfaction and trust in phone-paid services
- the increased use of app stores and high-profile services (as they increasingly offer phone-paid as a payment option) will see a growth in the number of active users of phone-paid services
- we have the potential to learn more about consumer expectations, and are able subsequently to build that knowledge into our regulatory approach and communications with consumers
- the market will increase financially from 2018/19, with growth in operator billing more than offsetting a continued decline in voice services (in line with the general decline in voice revenues in the wider telecommunications market). Appendix B sets out how we have arrived at our outpayments estimates of £440m-£460m for 2018/19 and growth to £480m in 2019/20, based on 2018/19 Q1 and Q2 data
- the impact of regulatory actions taken in 2018/19, alongside commercial actions by MNOs to manage their value chain risks, will reduce the overall volume of complaints we receive
- as we implement targeted strategies to maintain compliance and prevent consumer harm from occurring in the first place, the overall number of cases we consider will
fall. However, we expect that improvements in our monitoring effectiveness, possible changes in the prioritisation of case types, and the continuing potential for consumer harm in some areas, will mean the number of formal enforcement cases we deal with will remain at the same level.

- following the expansion of our responsibility in 2018/19 to include all ICSS regardless of number range, our regulatory remit will remain unchanged during 2019/20. We do not expect any direct legislative impact arising from Brexit.
- the levels of technical complexity in the delivery of phone-paid services will increase with wider digital developments.
- the current balance of our resource capabilities will be flexible enough to adapt to shorter-term changes in market conditions. However, we expect to identify during the year the need for longer-term skills development in certain areas, and emerging gaps in our investigative and enforcement powers.

Outlined below are the specific range of activities we plan to undertake to deliver our mission in 2019/20.

4.1. Improving the consumer experience of phone-paid services

4.1.1. We will continue to drive improvements in consumer confidence at every opportunity in 2019/20, which we plan to support through:

- fully integrating our new consumer panel into all our work, harnessing their insight and challenge from the consumer perspective.
- building stronger working relationships with consumer representative bodies.
- reviewing and enhancing our customer care guidelines for industry, ensuring service providers have full clarity of our expectations and how we will fairly and proportionately enforce breaches of Code provisions in this area.
- commissioning the AMR for 2018/19, including building on the enhanced consumer engagement and analysis from 2017/18.
- continuing to engage with industry, including through the ILP, to identify and discuss areas where consumer confidence may be improved.
- further developing our work on supporting consumers to obtain appropriate redress as quickly and simply as possible, including:
  - commissioning research into consumer expectations and experience with different refund mechanics.
  - developing our relationships with ADR providers.
  - recognising examples of high-quality customer service practices by all parties in the value chain, building them into renewed regulatory guidance.

4.1.2. We will continue to ensure our communications with consumers inspire confidence and enhance their engagement with us. Work in 2019/20 will include:

- launching a new front-end user experience of Service checker, with new functionality drawing on the enhanced registration database. We expect this
development will enable consumers to have a much better understanding of services and the organisations that provide them, through:

- receiving more accurate and comprehensive data when they base their search on a number or other information shown on their bill
- having the ability to access the same information from other search options e.g. brand name, service name, service description
- utilising our digital transformation framework to consider any new proposals that would enhance our consumer service offering e.g. through providing a chat platform on our website
- continuing to identify and explore opportunities to drive up awareness of the PSA (e.g. through providing free content to regional news outlets, consumer-facing and specialist sectoral publications) in ways that both clearly allow consumers to understand our role and the phone-paid services market better
- developing consumer education content and continuing to pursue opportunities to promote this content through industry partners with significant audience reach.

4.1.3. We will continue to support consumers to self-serve enquiries as best as possible, whilst ensuring we are available to receive and understand any issues with services they wish to report to us. Assuming we receive similar contact volumes in 2019/20 of 250,000 (although this number is uncertain since while we aim for our regulatory impact to increase compliance in the market, we recognise any reduction in contacts arising from this may be offset by greater awareness of us and phone-paid services in general), we have in place the capacity to handle the vast majority of these (93%+) automatically. This means we are able to successfully reduce call handling to minimal levels, and, through whatever touchpoints consumers may have with us, balance our contact management team resources to deliver the most positive experience for them through focussing on:

- continually reviewing our communications, ensuring we tailor them to the feedback we receive. In 2019/20 this will include ensuring we are able to clearly explain ADR and how it relates to our role as a regulator
- ongoing engagement with MNOs, to minimise the impact of any instances of poor customer service where consumers contact their network first
- developing the teams’ working knowledge of individual services through monitoring, so that they are better able to inform consumers about their possible engagement with that service. This work will also enable the team to identify and share best practice of compliant service delivery, as well as being an initial step in gathering evidence of potential non-compliance with our Code
- separating out enquiries from complaints and carrying out a thorough assessment of issues being reported to us. As a consequence of our regulatory interventions in 2018/19, we are expecting a fall in total complaints to around 10,000 for the year
in carrying out this thorough assessment, ensuring we engage with industry in the most efficient and effective way. Work in this area will include:
- reviewing how we request information from aggregators and service providers, ensuring we communicate clearly and with precision
- exploring whether we can access information directly through an application programming interface (API) with aggregator systems
- developing the evidence gathering capabilities of the team.
- continuing to resolve potential issues quickly and informally. We still expect to resolve a large majority of cases in this way, including through earlier identification of potential consumer harm in the market
- bringing forward cases of potentially serious consumer harm for allocation to our formal investigation and enforcement procedures, with a solid initial evidence base and to clearly identified prioritisation criteria
- building in consumer insights and research findings into all of the above work.

4.2. Applying and enforcing an outcomes-based Code of Practice.

4.2.1. We have committed to provide regulatory certainty to industry by retaining the current Code of Practice (Code 14) until at least 2021. However, during 2019/20 and into 2020/21 we will begin to lay the foundations for Code 15 through:
- identifying the areas of potential change required to ensure the Code remains fit for purpose for the market we are regulating
- working with Ofcom to ensure our regulatory approach dovetails effectively with their broader objectives
- setting out a clear long-term timetable for consultation and implementation of a new Code
- considering with DCMS any areas of potential legislative change which could support our effective enforcement of the Code.

4.2.2. In the meantime, we will continue to develop our application and enforcement of Code 14, and in 2019/20 work to maximise its effectiveness is likely to include:
- reviewing the effectiveness of our risk assessment framework against prevailing market conditions
- reviewing the implementation of key regulatory changes made in 2018/19, including:
  - targeted monitoring of subscription services to ensure desired outcomes are being achieved, with close attention paid to any transfer of potential consumer harm to other areas of the phone-paid services market
  - working closely with MNOs on the application of agreed standards of L1 aggregator platform security, to ensure we collectively maximise consumer confidence that their consent to charge has been properly obtained
assessing the impact on ICSS, directory enquiries and society lottery services, and consulting on any identified revisions

- ensuring that the new Registration requirements are not proving to be unduly onerous on service providers.
- continuing to manage the process of considering Code exemptions with transparency, with clear communication around the decisions to agree pilot exemptions and whether to make them permanent or not
- delivering robust and professional legal oversight of policy and enforcement decision making, and providing clear internal guidance on the interpretation of the law, Code and Supporting Procedures
- maximising the effectiveness of our sanctioning process, through
  - improving the efficiency of the interim measures process, allowing for earlier imposition of withhold directions and suspensions
  - managing the comprehensive debt recovery process of unpaid fines and admin charges.

4.2.3. We will continue to make our regulatory remit as clear as possible to industry and during the year we will:

- review the communications changes we made in 2018/19, including building in feedback on how we can ensure our processes are best understood by all levels of experience and engagement within the industry
- offer further workshops on our investigations and enforcement processes, both to new entrants to the market and as a refresher to existing service providers.

4.2.4. We will review our compliance and industry support in line with anticipated changes in our stakeholder landscape, although over the course of 2019/20 we still expect to meet industry demand for:

- compliance advice both on general Code enquiries and on areas of complexity or innovation, with an estimated 800 requests likely to be made during the year
- updated or new guidance on areas of high interest and impact.

4.3. Delivering a balanced approach to regulation.

4.3.1. We expect 2019/20 to see an increased use of app stores alongside high-profile digital services increasingly offer phone-paid as a payment option, creating the climate for a continued overall improvement in consumer satisfaction and trust in phone-paid services. We will foster this positive environment for consumers through continuing to engage collaboratively with industry:

- we will continue to meet regularly with major networks, aggregators and service providers at a strategic level
- we will expand this programme to incorporate new relationships with high-profile service providers as they either enter or increase their engagement in the phone-paid services market
we will continue to support industry with regulatory guidance as they consider possible new services
as we review the impact of our recent regulatory changes (4.2.2), we will continue to seek to confirm that our approach is supportive of consumers benefitting from new product implementation or growth.

4.3.2. With consumer confidence and trust already high and/or increasing in many areas of the phone-paid services market (e.g. donations to charities, music, books), we aim for our regulatory role to become more weighted towards maintaining compliance in each of the different sectors of the market. The nature of our work in this area will be wide-ranging, and in 2019/20 is likely to include:

• supporting industry to consider and implement changes in their business practices that will allow for operator billing to achieve its growth potential. We aim to provide industry focus on this through an ILP working group
• understanding the potential impact of the widespread introduction of e.g. Rich Communication Services (RCS) text messages and eSIMs, including any risks to informed consumer consent
• delivering our annual industry Forum, at which we can share and debate key themes in the phone-paid services market
• continuing to engage with specific industry groupings on a more formal basis, including through the ILP and with representative bodies and trade associations such as aimm and Mobile UK
• continuing our regular programme of informal engagement with individual organisations, utilising operational data to identify areas of possible concern and to resolve them quickly
• continuing to offer workshops for industry partners on policy and enforcement matters as they arise
• enhancing the support we are able to give to individual service providers regarding the Registration process for their organisation and services
• maximising the effectiveness of our overall monitoring capabilities, combining:
  ▪ initial understanding of services, including identifying and sharing best practice
  ▪ harnessing intelligence shared by MNOs and their compliance audit houses
  ▪ targeted monitoring as part of the investigations process (pre and post allocation of cases)
  ▪ targeted monitoring in support of policy development
  ▪ detailed forensic monitoring of complex market issues e.g. identifying malware issues and their potential impact on consumers.
• ongoing delivery of Project Horizons, through which we consider the potential impacts of longer-term changes in service types and service delivery in the market.
4.3.3. However, where there are issues still to be tackled, we will continue to ensure we are fair and proportionate in applying enforcement around the outcomes we expect in all areas of the Code. We will retain capacity to work on around the 100 most serious cases, whether Track 1, Track 2 or post-adjudicatory, while balancing our case management capabilities to adjust to improvements in our monitoring effectiveness, possible changes in the prioritisation of case types and the shifting potential for consumer harm in different parts of the phone-paid services market. The ongoing development of our investigations and enforcement team during the year will include:

- applying our enforcement priority framework, to target our resources more appropriately and strategically. In doing so we aim for our enforcement action to have the maximum impact on those services generating the most consumer harm
- developing specific areas of expertise within the team to manage particularly complex cases (e.g. potential due diligence, risk and control breaches of the Code by Level 1 aggregators) and to be able to work effectively in a climate of increasing legal challenge
- ensuring we investigate each individual case robustly and comprehensively, while having due regard for the length of the investigation
- ongoing review of all parts of our investigations and enforcement procedures, including auditing these procedures where required.

4.4. Working in partnership with Government and other regulators.

4.4.1. We will continue to work closely with regulatory partners on issues as they arise. In 2019/20 we expect our work is likely to include:

- continuing our regular engagement with DCMS and Ofcom on a range of policy issues
- working specifically with DCMS to consider any areas of potential legislative change (e.g. maximum fines per breach), to support our effective enforcement of both the current Code and any planned developments for Code 15
- liaising with the Gambling Commission as we assess the impact of our regulatory requirements for Society lottery services
- continuing to participate in Operation Linden
- utilising our MoUs to identify ways in which we can work with sister organisations to bring about the best overall regulatory outcome for shared consumer audiences. We expect to increasingly engage with HM Insolvency Service, and we will make referrals to other enforcement bodies, especially where it is clear their regulatory remit would have primacy.

4.5. Delivering high standards of organisational support.

4.5.1. In 2019/20 we will continue to underpin the delivery our regulatory approach through first rate governance, legal, finance, business systems, human resource and communications functions. Areas of focus for 2019/20 include at this stage:
• managing Board succession planning, with clear periods of overlap to deliver effective ongoing governance

• validating our approach to managing anti-bribery and conflicts of interest through auditing the current application of our policies and processes

• maximising the security of our processes around the storage, management and sharing of legal and investigative intelligence

• ensuring we continuously review and test our ongoing compliance with GDPR

• working closely again with the National Audit Office on the auditing and filing of our financial statements, and with DCMS on the reporting of relevant financial and operational data

• as part of our digital transformation framework, maximising the effectiveness of existing systems and utilising both in-house resources and free/low cost applications to deliver bespoke systems where appropriate

• continuing to prioritise cyber security, including undertaking annual system penetration testing and implementing any findings. We aim to achieve the National Cyber Security Centre certification “Cyber Essentials”

• investing in our people’s ability to reach and deliver their full potential, through:
  ▪ reviewing our organisational structure and job design to ensure we have sufficient flexibility to respond to market changes as necessary
  ▪ conducting a skills audit and investing in the development of technical skills where required
  ▪ developing our approach to talent management, to ensure we attract and retain individuals with the skills, experience and knowledge we need
  ▪ implementing findings from the IIP assessment
  ▪ carrying out our bi-annual engagement survey and implementing actions to maintain areas of high engagement and/or target areas identified for improvement.
5. **2019/20 Operating budget**

5.1. The operating budget for 2019/20 is £3,939,475, as set out in Appendix A.

5.2. This budget represents a 1% \(^3\) saving in real terms over 2018/19 and 21% (£1m) real term savings in total since 2015/16.

5.3. The budget has been built on a zero-based approach for each cost item, and we have continued to identify and apply operational efficiencies in all our working practices. In terms of the different cost areas identified in Appendix A:

- our people costs continue to represent over two-thirds of our total costs, and we have budgeted for wage inflation in line with the market for our staff resources and our retention and recruitment policies. We continue to manage the mix of our staff resources so that we are able to balance overall costs in this area with the ability to have sufficient flexibility to meet our regulatory responsibilities and priorities. In doing so, we have identified savings that has enabled us to manage our budgeted staff headcount down to 45.4 Full Time Equivalent (FTE) from 48.0 FTE in 2018/19
- we have increased our policy budget to ensure we are able to fully implement the changes we have made in 2018/19 to our regulatory requirements. However, our ability to realistically undertake policy projects in response to identified need or industry demand remains constrained e.g. as with 2018/19 we are only able to budget for a single industry forum
- our legal fees budget remains unchanged, but in practice actual expenditure will vary with the number of oral hearings during the year and the level and nature of legal complexity we have to deal with
- our IT systems costs are budgeted to be higher overall, reflecting both inflationary pressures on software (e.g. our Microsoft licences are expected to be some 20% higher) and the costs of our commitment to annual penetration testing of our systems
- the budget for premises costs is primarily fixed (two thirds relates to the annual cost of our lease), but we have had to allow for increased business rates
- we have been able to hold our telecoms costs, general overheads and depreciation at broadly the same levels as 2018/19.

---

\(^3\) Based on RPI of 3.3% at October 2018 and in line with methodology used by Ofcom.
6. **2019/20 Levy**

6.1. The levy funding model, as set out in Annex One to the Code of Practice, is the way in which providers of content, goods and services charged to a phone bill pay for the cost of regulation of their market, i.e. the PSA budget as approved by Ofcom.

6.2. The levy is applied to the actual size of the market, as measured by outpayments from network operators to their industry clients, i.e. after retaining their network charges from total revenues received.

6.3. The unadjusted levy is the rate that would be required to recover the full cost PSA operating budget (after income from Registration Scheme fees and bank interest), but an adjusted levy is applied in practice after further deductions are made from available retained funds. These funds are principally collected fines and admin charges, along with any over or under recovery of levy in previous years.

6.4. The levy calculations for 2019/20 are:

<table>
<thead>
<tr>
<th></th>
<th>2018/19</th>
<th>2019/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phone-paid Services Authority budget</td>
<td>£3,849,585</td>
<td>£3,939,475</td>
</tr>
<tr>
<td>Budgeted other income</td>
<td>(255,000)</td>
<td>(250,000)</td>
</tr>
<tr>
<td>Amount to be funded by unadjusted levy</td>
<td>£3,599,585</td>
<td>£3,689,475</td>
</tr>
<tr>
<td>Retained funds available</td>
<td>(1,799,585)</td>
<td>(1,889,475)</td>
</tr>
<tr>
<td>Amount to be funded by adjusted levy</td>
<td>£1,800,000</td>
<td>£1,800,000</td>
</tr>
</tbody>
</table>

| Estimated market size | £410,000,000 | £480,000,000 |
| Unadjusted levy       | 0.94%       | 0.82%     |
| Adjusted levy         | 0.44%       | 0.38%     |

6.5. In 2017/18 we reduced the amount of levy required from industry by 31% (to £1,874,640 from £2,733,766 in 2016/17) and we reduced it further in 2018/19 to £1,800,000. For 2019/20 we will hold the levy required at the same level, which is in line with our stated aim to provide much greater levy certainty over the four years to 2020/21.

6.6. Appendix B provides the detail behind our assumption that the estimated market size will be £480,000,000 for 2019/20. With a fixed funding requirement from industry of £1,800,000, the adjusted levy rate falls to 0.38%. This adjusted levy will continue be applied to individual network’s outpayments, with our aim remaining that networks are able to accurately budget for their levy payments, with a high degree of confidence that it will remain at a reduced level and with minimal annual variance.
7. PSA registration fees

7.1. As set out in section 3.4 of our Code of Practice, all network operators, Level 1 and Level 2 service providers must register with us (subject to any exemptions we may make).

7.2. The fee for registration in 2018/19 was £155 plus VAT. The principles underlying the fee are:
   - to ensure that it is set at a level that does not provide an unreasonable barrier to entry to the phone-paid services market
   - to provide perceived value to the process of registration, including a mechanism through which all industry participants provide a direct contribution to the cost of regulation
   - to realise this value through the functionality of organisations being able to undertake due diligence on other organisations, and for organisations to have due diligence undertaken upon them
   - to continue to contribute to the ongoing running costs of Registration (staff, systems and share of overheads).

7.3. For 2019/20 we have budgeted for 1,400 paying organisations. We propose to leave the fee for registration unchanged for 2019/20, which will generate £217,000. This income forms part of the current levy model and will be used to offset the amount to be funded by the adjusted levy.

7.4. We also propose to leave unchanged the current exemptions to paying the fee, i.e.:
   - for service providers who have revenue below £10,000 per year. In this case registration is free for the first year only
   - for registered charities.
8. Consultation process

8.1. Please structure your consultation response as answers to the following questions:

Q1 – Do our plans for 2019/20 sufficiently deliver our role as a regulator? What else do you think we should be doing or not doing?

Q2 – Do you have any comments on the proposed budget for 2019/20? If you recommend any changes, please clearly identify which areas of activity you expect this to impact upon.

Q3 – Do you have any comments on the proposed levy for 2019/20?

Q4 – What is your view on the estimated size of the market for 2019/20?

Q5 – Do you have any other comments on the Business Plan and Budget 2019/20?

8.2. We plan to publish the outcome of this consultation and to make available all responses received. If you want all, or part, of your submission to remain confidential, please clearly identify where this applies along with your reasons for doing so.

8.3. The closing date for responses is 25 January 2019, which is designed to allow the time necessary to issue notices regarding changes to the levy in good time for the start of the financial year on 1 April 2019.

8.4. Where possible, comments should be submitted in writing and sent by email to: pbarker@psauthority.org.uk

Copies may also be sent by mail to:

Peter Barker
Director of Corporate Services and Operations
Phone-paid Services Authority
25th Floor, 40 Bank Street
Canary Wharf
London E14 5NR

Tel: 020 7940 7405

If you have any queries about this consultation, please telephone or email Peter Barker using the above contact details.
## Appendix A: Budget

### Expenditure breakdown by cost area

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>People costs</td>
<td>2,666,057</td>
<td>2,587,849</td>
<td>2,609,463</td>
<td>2,721,123</td>
<td>2,744,024</td>
</tr>
<tr>
<td>Salaries, NI, pension costs, training and recruitment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy, External Relations and Communications</td>
<td>335,649</td>
<td>197,736</td>
<td>174,080</td>
<td>127,248</td>
<td>147,853</td>
</tr>
<tr>
<td>Research, forums, seminars, publications, consumer education and</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>other communications activity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal Fees</td>
<td>171,396</td>
<td>115,028</td>
<td>91,028</td>
<td>41,288</td>
<td>41,288</td>
</tr>
<tr>
<td>External advice, debt recovery and non-recoverable hearing costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT Systems</td>
<td>357,819</td>
<td>314,560</td>
<td>265,529</td>
<td>255,696</td>
<td>280,722</td>
</tr>
<tr>
<td>Business continuity, office systems (including printing), contact</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>information handling, case management, data analysis, and Registration</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telecoms</td>
<td>72,027</td>
<td>81,093</td>
<td>70,657</td>
<td>61,726</td>
<td>60,869</td>
</tr>
<tr>
<td>Line rental (including handsets), incoming and external call charges,</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>call data storage, Broadband, mobile monitoring</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premises</td>
<td>472,817</td>
<td>410,304</td>
<td>409,073</td>
<td>418,988</td>
<td>438,639</td>
</tr>
<tr>
<td>Rent, service charge, rates, utilities and facilities management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overheads</td>
<td>134,005</td>
<td>127,814</td>
<td>124,082</td>
<td>131,536</td>
<td>132,593</td>
</tr>
<tr>
<td>Insurances, audit and other finance costs, office supplies, travel,</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>couriers and postage, meeting costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>231,726</td>
<td>158,883</td>
<td>105,728</td>
<td>91,980</td>
<td>93,487</td>
</tr>
<tr>
<td>Leasehold improvements, equipment and furniture, IT and systems, asset</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>disposals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4,444,075</td>
<td>3,995,267</td>
<td>3,849,640</td>
<td>3,849,585</td>
<td>3,939,475</td>
</tr>
<tr>
<td>Total at 2019/20 prices</td>
<td>4,986,457</td>
<td>4,425,344</td>
<td>4,119,846</td>
<td>3,984,320</td>
<td>3,939,475</td>
</tr>
</tbody>
</table>
Appendix B: Market Size by Outpayments

2018/19 calculation
- In February 2018 we estimated the market size for 2017/18 would be in the region of £400.0m - £420.0m (compared with the actual size of £421.2m).
- Our prudent and cautious estimate for 2018/19 was £410.0m.

2019/20 calculation
- Based on quarterly data for 2018/19 received to date and industry insights given by networks, L1s and L2s, we are forecasting that the market for the whole year will be in the region of £440.0m - £460.0m.
- Our assumption for 2019/20 at this stage is that continued growth in operator billing will more than offset declines in other market areas, and that the levy can be based on an estimated market size of £480.0m.