PSA
Phone-paid Services Authority

Business Plan and Budget 2018/19

Public Consultation

Issued: 14 December 2017
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The UK regulator for content, goods and services charged to a phone bill

Contents

1. Financial Overview

1.1. Last year we signalled our intent to provide much greater levy certainty over the four years to 2020/21. The amount to be funded by the levy in 2017/18 was £1,875,000, and our stated plan was to hold this as a maximum to be paid in each of the subsequent three years.

1.2. We are able to deliver on this intent in 2018/19 through:

- continuing to deliver real-term budget savings (4% over 2017/18; 20% since 2015/16)
- fines and administrative charges in 2017/18 being collected in line with expectations and therefore available to offset the total levy required.

1.3. For 2018/19, the amount of levy required from industry has been further reduced to £1,800,000 (4% down from 2017/18). Although the expected market size in terms of qualifying outpayments falls to £410m, the adjusted levy for 2018/19 will remain unchanged at 0.44%.

Levy summary	2015/16	2016/17	2017/18	**2018/19**
Estimated market size (outpayments)	£448,342,000	£430,500,000	£430,500,000	**£410,000,000**
PSA full operational budget	£4,444,074	£3,995,266	£3,849,650	**£3,849,585**
Unadjusted levy	0.93%	0.87%	0.83%	**0.94%**
PSA budget to be funded by adjusted levy	£2,679,581	£2,733,766	£1,874,640	**£1,800,000**
Adjusted levy	0.60%	0.63%	0.44%	**0.44%**

1.4. The PSA budget for 2018/19 represents the minimum resources we need to be able to satisfy Ofcom's statutory requirement that we should be adequately funded to meet our regulatory obligations. We have built this budget bottom-up, based on the assumption that market revenues and compliance will remain similar to that in 2017/18. Our current allocation of resources (staff, overheads and project expenditure) remains broadly right in terms of balancing how we protect consumers from harm while furthering their interests through encouraging competition, innovation and growth in the market.

1.5. In 2018/19, as set out in Section 4, we will:

- provide greater regulatory stability alongside financial stability, through committing to keep the current Code of Practice (Code 14) in place for at least three years
- continue to make effective and productive use of our resources (as set out in Section 3 for 2017/18), so that we 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.

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. This includes TV voting lines, competitions, adult entertainment, chat lines, business information services, gambling, technical helplines, game downloads, directory enquiries and charity text giving.

2.1.2. In law these are called premium rate services (PRS), but we know that for many consumers the term is not well understood. Instead we aim to use terminology that everyone can recognise.

2.1.3. As a regulator our role is to make sure that consumers are protected when paying for content, goods and services through their phone bill. We do this by upholding the standards we set through our Code of Practice, and by eradicating scams and sharp practices in the market.

2.1.4. For clarity, it is not our role to get refunds for individual consumers (other organisations provide dispute resolution between consumers and providers), although this may happen as a consequence of any investigations we undertake and in particular as a result of decisions made by our independent Code Adjudication Tribunal.

2.1.5. The market for content, goods and services charged to a phone bill is very diverse and, for much of it, fast changing. Appendix A provides an overview of the various factors currently shaping our regulation of the market.

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

2.3.1. Our mission is twofold:

- to protect consumers from harm in this market, including where necessary through robust enforcement of our Code of Practice
- to further their interests through encouraging competition, innovation and growth in the market.

We will seek to do this through:

2.3.2. Providing clarity about the market for content, goods and services charged to a phone bill:

- helping consumers to understand how purchases can be made to a phone bill, and how they can do so with confidence
- setting out our role as a regulator and directing consumers to those who can help with their enquires
- explaining how consumers can get redress if things have gone wrong
- working with industry, consumer and Alternative Dispute Resolution bodies to improve every part of the consumer experience.

2.3.3. Applying an outcomes-based Code of Practice:

- building on industry-wide consultation and securing required approval from Ofcom
- supporting with clear guidance and compliance advice
- developing new Code versions to best address identified issues and opportunities
- achieving recognition for being fair and proportionate.

2.3.4. Delivering a balanced approach to regulation:

- applying informal and policy-based solutions as well as robust formal enforcement activity
- enhancing our market and consumer behaviour knowledge, and identifying emerging trends
- engaging positively and constructively with industry, both collectively and with individual organisations.

2.3.5. Working in partnership with Government and other regulators:

- establishing regulatory clarity where there is overlap both in terms of (a) content, goods and services; and (b) payment mechanism
- identifying relevant regulatory issues and influencing their potential impact on the market.

As a public body, we will underpin the delivery of our mission through:

2.3.6. Delivering high standards of organisational support:

- maintaining our commitment to the principles of good governance
- ensuring our business systems are appropriate and fit for purpose
- managing our finances in line with our regulatory remit and market context
- developing and rewarding a highly motivated workforce
- providing responsive and accurate legal guidance.

2.4. Values and Behaviours

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

<table>
<tr><td rowspan="2">Right Touch</td><td>Fair and Proportionate</td><td>Be fair, reasonable and well-informed.
Ensure our actions support good regulatory outcomes for all stakeholders and give certainty and confidence.</td></tr>
<tr><td>Aware of the Bigger Picture</td><td>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.</td></tr>
<tr><td rowspan="2">Collaborative</td><td>Open</td><td>Look outward, share ideas, listen to others and embrace their knowledge. Collaborate with everyone. Be approachable, transparent and accountable.</td></tr>
<tr><td>Decisive</td><td>Make decisions in a timely manner with confidence and clarity.</td></tr>
<tr><td rowspan="2">Value for Money</td><td>Effective and Productive</td><td>Pursue our priorities energetically.
Get it right first time and swiftly deliver effective outcomes.
Innovate to find creative solutions and work more efficiently.</td></tr>
<tr><td>Professional</td><td>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.</td></tr>
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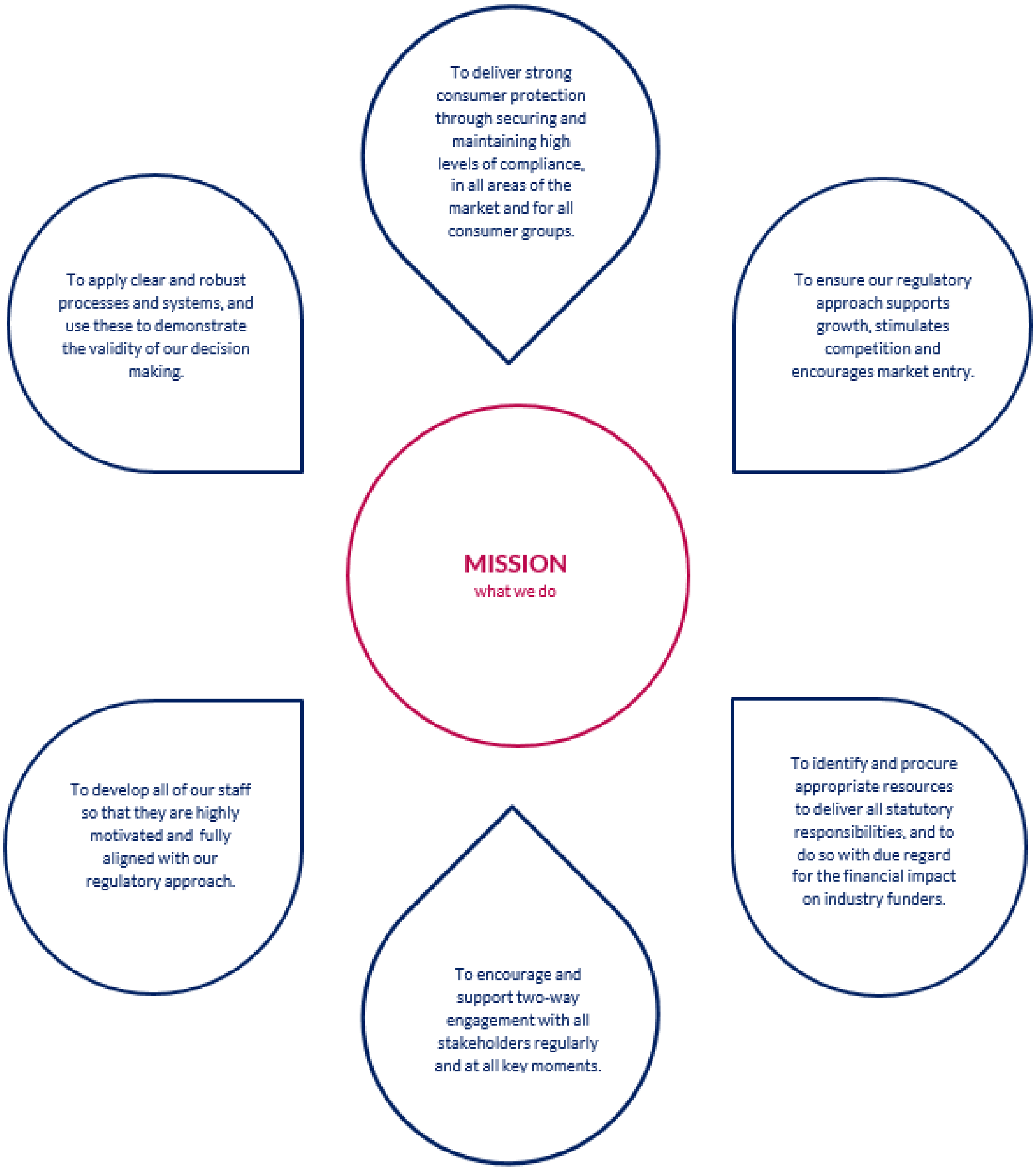
2.5. Strategic Priorities

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:



3. 2017/18 Review

In 2017/18 we have made strong progress in delivering our mission and ensuring that our strategic priorities have been met. We have maintained the levels of operational efficiency established in 2016/17 and made effective and productive use of our resources – balancing their allocation in response to changing external factors and regulatory priorities.

3.1. Providing clarity about the market for content, goods and services charged to a phone bill.

3.1.1. During 2017/18 we have dedicated resources to enhancing the consumer experience:

- we published our commissioned research into complaint handing in July, and are using the findings to increase industry understanding of consumer expectations and to shape how we engage with industry on their Code obligations in this area
- the Annual Market Review (AMR) for 2016/17 was published in August, with its consumer survey element driving greater understanding of consumer trust and satisfaction at a service type level. The PSA's Industry Liaison Panel (ILP) will explore the use of the AMR net promoter scores to measure whether ILP members can successfully deliver improvements in consumer satisfaction.
- we have strengthened our relationships with other consumer protection regulators (e.g. Financial Conduct Authority, Competition and Markets Authority, Advertising Standards Authority, Gambling Commission and the Information Commissioner's Office) and pooled knowledge to ensure we continue to identify best practice for consumers
- our project on refund mechanics and Alternative Dispute Resolution will enable consumers to achieve much better redress when issues arise – from having greater knowledge about who to contact and what to expect from service providers, through to improved ease of getting their money back.

3.1.2. We have continued to invest significantly in how we communicate with consumers:

- as our knowledge about consumers has grown, we have ensured we incorporate this into our own direct engagement with consumers (e.g. we have modified our update messages to complainants to allow for their concerns to be more fully addressed, whilst providing greater clarity about our role as a regulator)
- we have enhanced the presentation and content of our website on the back of detailed consumer testing, so that the content covering issues consumers are most likely to contact us about is both clearer and much easier to find
- we have further developed how consumers can self-serve resolution of queries and problems, including: enhancing our Interactive Voice Response for when consumers call us; refining our online Number Checker to help with bill enquiries (and to provide a starting point for online complaints);and

exploring alternative communication platforms, such as chat bots, to ensure we continue to evolve with consumer behaviour and preferences.

3.1.3. We saw during 2016/17 the continuation of exceptional levels of contacts, principally in relation to non-broadcast online competitions and online adult services. As a consequence, our overall resources were stretched such that staff time was redirected from other core work as a short-term contingency to deal with demand. A combination of action taken by networks and the PSA saw contact levels reduce significantly towards the end of 2016/17 and this has been maintained throughout 2017/18 (although, as shown at 3.3.2., case volumes have remained high). This return to pre-2014/15 levels of contacts has meant we have been able to reduce full time equivalent (FTE) staff time on call handling by around a half and focus our contact management resources back towards stronger and more timely consumer protection:

- we expect to handle around 260,000 contacts from consumers during the year (down 45% from 471,000 in 2016/17) and continue to ensure we direct our resources to where most needed by automating 93% of these contacts
- complaints are expected to total 15,000 in 2017/18 (down 55% from 33,600 in 2016/17) and we continue to focus on assessing those complaints received only after the consumer had engaged (or tried to engage) with the relevant service providers
- freed from the need to respond to exceptional complaint volumes, our contact management team have been able to ensure adherence to all Code 14 processes and return to better supporting consumers through:
    - improving the Request For Information (RFI) process with service providers, to establish at an earlier stage the nature of any service interaction
    - identifying opportunities to protect consumers at the earliest possible stage through taking informal action where appropriate with service providers
    - undertaking more detailed and systematic monitoring of services, which enables call handlers to field questions from consumers with greater expertise
    - carrying out mystery shopping exercises on service providers, testing both the ease of access for consumers and the quality of the customer service being offered.

3.2. Applying an outcomes-based Code of Practice.

3.2.1. In July 2016 we launched Code 14 and its accompanying Supporting procedures and undertook to review its implementation a year later during 2017/18. This has been completed, and has included:

- reviewing our sanctions setting process, on which we publicly consulted and published a final statement in June

- identifying a range of potential procedural enhancements, including improving service providers' understanding of processes under the Code and encouraging better provision of evidence when under instruction
- commissioning and facilitating an external audit of our compliance with our investigations and enforcement processes. The completed audit identified some areas where there was potential to further strengthen our processes, but the overall conclusion was that they are "effective, and those dealing with case management are compliant with established procedures".

3.2.2. During 2017/18 we continued to review the ongoing effectiveness of the Code, looking where policy changes may need to be considered and also identifying potential areas of development requiring future Code changes. Work in this area has included:

- reviewing how we enforce due diligence, risk assessment and control (DDRAC) throughout the whole value chain
- liaising with industry regarding development of proposals for improving the consumer's control over services to which they are subscribed (when Special conditions for online adult services and online non-broadcast competition services were introduced, we took out provisions relating to prescribing method of exit of the service)
- working closely with Ofcom as they review 118 and 070 number ranges and developing our own proposals in parallel. At the end of the year we introduced a price comparison tool enabling greater consumer awareness of the cost of 118 services.
- developing our understanding around which potential developments may require legislative change as well as Code changes. In addition to considering the potential impact of other legislation (such as the Payment Services Regulations 2017 and the Digital Economy Act 2017), examples of the areas under strategic discussion include: how affiliates and other third parties may be regulated; extended investigative powers; authorisation of providers; and maximum fines levels.

3.2.3. We have continued to provide ongoing support for industry to comply with the Code, including:

- reviewing our Guidance and wider regulatory framework on Consent to Charge, through working closely with Mobile Network Operators (MNOs) on a joint-funded project to look in detail at potential technical vulnerabilities of Accredited Payment Intermediary platforms;
- reviewing our overall process of giving compliance advice, so that we provide genuine advice where needed but minimise the impact of those seeking to bend the rules. During 2017/18 we expect to provide around 1,000 pieces of bespoke compliance advice on request.

3.3. Delivering a balanced approach to regulation.

3.3.1. During 2017/18 we have continued to deliver a balanced approach to regulation, building on a solid platform of industry engagement, intelligence gathering through research and monitoring, and policy development alongside enforcement. Key activity during the year has included:

- ensuring we fully utilise our resources to bring about quick and informal resolution of cases, where consumer harm is minimised and it is fair and proportionate to do so. Of the 500 cases worked on in 2017/18, we have resolved 80% in this way.
- reviewing our Special conditions for online adult services and online non-broadcast competition services, to make sure they are not inadvertently restricting willing and knowing consumer engagement
- launching an exemptions pilot for Level 1 aggregators (L1s), allowing some Level 2 merchants (L2s) to be exempt from registration with us where they only provide phone-paid services through a single L1 whose general compliance record and control of complaint escalation are deemed to be robust. Our intention was to help support growth in operator billing, and we will review the success of this as we go into 2018/19.
- working more closely on a bilateral basis with MNOs and L1 aggregators, through which we have developed a much greater understanding of industry issues in general, as well as specific concerns of individual organisations. This in turn has led to more detailed engagement around examining barriers to growth and innovation.
- developing ways in which to best harness monitoring intelligence to support increased compliance. We have liaised closely with MNOs regarding the potential for a shared compliance monitoring function and reached agreement with them to receive their monitoring intelligence for use, where appropriate, in informal and formal enforcement activity.
- establishing a clear means of assessing the long-term effectiveness of the ILP, through the use of net promoter scores to measure actions members can take to improve customer satisfaction across different service type areas
- using our new internal compliance assessment framework to set a benchmark for the compliance of individual service types in the market and then to consider whether improvements have been made over the year
- consulting on changes in Registration requirements for service providers and implementing changes to support greater Code compliance, better market information and enhanced due diligence
- putting in place a structural approach (Project Horizons) to anticipate and evaluate future trends and issues in the phone-paid services market
- concluding our initial in-depth survey of stakeholders and using the findings to further improve our delivery and understanding of what we do. The work arising out of our response to the feedback has included:
    - providing greater clarity around our strategy through seeking to define what we mean by a healthy and innovative market

- developing our engagement programme to include major L2 merchants and Mobile Virtual Network Operators (MVNOs)
- helping new market entrants to understand the complexity of the regulatory landscape they are operating in
- considering further how to raise awareness of the PSA and its role with consumers
- exploring further system automation to see if the speed of informal resolution can be enhanced, alongside providing further clarity as to how and why formal Track 2 investigations take the time they do.

3.3.2. We expect to work on 500 cases in 2017/18. This is a reduction of 17% on 2016/17 and it reflects both a greater diversity of case type and differing concentrations of complaint volumes (the previous exceptional levels of complaints were concentrated in high numbers against fewer cases). We are also operating in a climate where there is increased legal complexity, greater external challenge within cases and a degree of unwillingness of service providers to co-operate. Within this environment, and while ensuring that all Code 14 processes are followed robustly, we anticipate we will have:

- continued to resolve most cases (400) quickly and informally
- worked on around 100 enforcement cases, with our investigations team operating at full capacity to deal with the increasing complexity and challenges of the cases in front of them
- reviewed our approach to monitoring post-adjudication cases, with the aim of ensuring any potential for repeated consumer harm is stopped at the earliest opportunity.

3.4. Working in partnership with Government and other regulators.

3.4.1. We have continued to maintain and develop strong working relationships with a range of Government departments and regulatory bodies. Specific work in 2017/18 has included:

- finalising and joint publishing of our Framework Agreement with the Department for Digital, Culture, Media and Sport (DCMS)
- providing expert support to industry regarding the implementation of the Payment Services' Directive v2, including through facilitating engagement with HM Treasury (HMT) and the Financial Conduct Authority (FCA). Our submission to the HMT consultation on the draft Payment Services Regulations 2017 argued successfully that the regulations should extend the electronic communications exemption contained in the Directive throughout the value chain and not merely to network providers.
- working in partnership with Ofcom to consider the scope of the Premium Rate Service Condition and whether that might lead to changes in the scope of PSA's remit
- we also provided input into Ofcom's review of the consumer protection provisions contained in the General Conditions of Entitlement – the revised

general conditions reflect our input and will come into effect in October 2018.
- providing clarity to industry on the (limited) impacts of the Digital Economy Act 2017 on the phone-paid services market
- engaging constructively with other regulators with adjacent or overlapping remits (e.g. Information Commissioners Office (ICO), Advertising Standards Authority (ASA), Competition and Markets Authority (CMA), Gambling Commission)
- refreshing the use and content of our Memorandums of Understanding with the ASA, ICO and Gambling Commission.

3.5. Delivering high standards of organisational support.

3.5.1. We apply a Balanced Scorecard approach to evaluate our organisational performance and ensure we remain focused on internal factors such as how we allocate resources, the processes we follow, and how we support our people.

3.5.2. In 2017/18 we have continued to ensure effective organisational oversight, including through:
- ongoing delivery of robust and timely governance procedures, including annual reviews of:
  - Board engagement and effectiveness
  - Board sub-committees' terms of reference and performance
  - Code Adjudication Panel engagement and effectiveness.
- continuously reviewing our analysis of organisational risk, and ensuring we clearly identify sufficient reserves to underpin any mitigation
- undertaking a full assessment of the impact of the General Data Protection Regulation and putting in place resources and controls to ensure we meet the new requirements by 25 May 2018.

3.5.3. We have reinforced our financial probity through:
- working closely with the National Audit Office as our new auditors, including confirmation of the financial treatment of our funding model and use of fines and administrative charges
- delivering financial control in line with our commitment to value for money, ensuring we achieve the ongoing real-term savings identified in the 2017/18 budget.

3.5.4. In 2017/18 we developed our processes to support our operational delivery and organisational understanding, with work in this area including:
- investing in our core IT systems:
  - enhancing our ability to better serve consumers
  - strengthening our implementation of Code 14 processes
  - supporting the generation of more accurate and timely management information

- developing new tools to allow us to better assess our performance. These have included:
  - a compliance assessment framework with a benchmark established for this year
  - feedback received from the stakeholder survey, again with a benchmark being established for future measurement
  - a detailed assessment of our case management effectiveness
  - our bi-annual staff engagement survey.

3.5.5. We value our staff and their capabilities highly, and with the aim of building on our Investors in People Silver accreditation, continued to invest in their development in 2017/18:

- delivering comprehensive training at all levels, including integrating consumer and industry intelligence where relevant
- embedding our approach to performance management, ensuring clear links between individual roles and the strategic priorities of the organisation
- delivering a comprehensive job evaluation, grading and pay benchmarking exercise to ensure we reward and motivate our staff appropriately and in line with the market.

4. 2018/19 Business Plan

Our plan for 2018/19 is focussed on driving consumer protection through maintaining and enhancing a healthy and innovative market, and 4.1 – 4.5 sets out the range of activities we will undertake to achieve this.

We recognise that our approach may be shaped by a number of external factors (including the impact of Payment Services Directive v2 on the market, the nature and amounts of investment in phone-paid services by networks, and levels of consumer trust in the phone-paid services they buy) and we will respond accordingly to the potential impacts of these factors (whether incremental or step change, up or down). However, in seeking to balance the deployment of resources for 2018/19 we are working on the following key assumptions:

- market revenues in total will remain approximately the same as 2017/18, although variation of revenues between service types will continue
- compliance in the market will also remain broadly static. We assume the number of complaints we will handle will be at 2017/18 levels, although we are prepared for the possibility that they may increase with increased consumer awareness of PSA.
- our current allocation of resources (staff, overheads and project expenditure) is broadly right in terms of balancing how we protect consumers from harm while furthering their interests through encouraging competition, innovation and growth in the market.

4.1. Providing clarity about the market for content, goods and services charged to a phone bill.

4.1.1. In 2018/19 we will continue to enhance the experience of consumers in the phone-paid services market. We will drive service providers to improve consumer confidence through a range of activity including:

- carrying on embedding existing market and consumer knowledge into all our policy work and informal engagement with service providers
- adding to our body of consumer knowledge through:
  - commissioning the AMR for 2017/18
  - applying models of consumer purchasing behaviour to the phone-paid services market
  - exploring the recruitment of a cost-effective consumer panel to give us further insight into the way that consumers interact with PRS
  - surveying our complainant database.
- working with ILP members on actions to develop enhanced consumer satisfaction and trust (which may be reflected in improved net promoter scores for individual service types)
- ensuring that where there are areas of regulatory overlap, we use our good working relationships with other consumer protection regulators to minimise the potential for confusion among both consumers and service providers

- implementing best practice arising out of our work on refund mechanics and Alternative Dispute Resolution (ADR). Possible work in this area may include:
    - developing an automatic refund sanction notification to improve consumer redress and build trust in the market
    - ensuring strong working relationships with ADR partners are in place, so that we are able to refer consumers with confidence
    - recognising examples of high quality customer service practices by building them into renewed regulatory guidance.

4.1.2. We will continue to ensure our direct communications with consumers inspires confidence and enhances their engagement with us. Work in 2018/19 will include:

- exploring whether investments in technology can deliver a significant step change in our consumer service offering. This could include:
    - investigating the feasibility of a consumer portal to track the progress of their contact with the PSA
    - testing different channels of communication to maximise accessibility for all audiences (e.g. introducing a live chat platform on our website)
    - identifying new opportunities for consumers to self-serve resolution of queries and problems (e.g. via social media platforms).
- identifying opportunities to drive up awareness of the PSA, in ways that both clearly allow consumers to understand our role and attract new audiences to phone-paid services
- continuing to modify our core communications (website, Annual Report, contact emails) in response to consumer feedback, ensuring we apply the right tone and level of formality
- scoping the development of targeted consumer education content (e.g. users of directory enquiries, or elderly users). We will continue to seek to promote this content through industry partners with significant audience reach.

4.1.3. We are assuming that around 260,000 contacts will again be handled in 2018/19. Notwithstanding any further technological developments as described in 4.1.2. above, we aim to handle at least 93% of these automatically and therefore ensure our contact management team resources are freed up to:

- best support the experience of consumers when they contact us to provide us with complaint data. We expect volumes to continue at a "normal" level of around 15,000 complaints and as with current practice, we will continue to focus on assessing those received only after the consumer had engaged with the relevant service providers.
- ensure the efficient and effective initial processing of complaint data and case creation, including more detailed RFI from service providers and undertaking more detailed and systematic monitoring of services. Of the 500 cases we expect to work on in 2018/19, we aim to continue to resolve 80% of these through quick, fair and proportionate informal action in 2018/19.

4.2. Applying an outcomes-based Code of Practice.

4.2.1. We will aim to provide regulatory certainty to industry by retaining the current Code of Practice (Code 14) for at least the next three years.

4.2.2. However, we will continue to review the scope and application of Code 14 to ensure its ongoing effectiveness, and in 2018/19 areas that we are likely to develop include:

- implementing any changes in our remit arising out of a review of the definition of Controlled Premium Rate Services (see 3.4.1)
- continuing to work closely with Ofcom on its review of directory enquiry services, including implementing any changes that may need to be made to our own regulatory requirement following consultation
- reviewing the effectiveness of our risk assessment framework
- reviewing the impact of changes in Registration requirements, and making any necessary adjustments
- ensuring we are fair and proportionate in applying enforcement around DDRAC.

4.2.3. We also aim for our regulatory remit to be as clear as possible to industry and during 2018/19 we will aim to create a better understanding of our processes through:

- undertaking a review of the language and format of our formal enforcement communications, including user testing with a range of service providers
- delivering 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 continue to support industry to comply with the Code in 2018/19, through:

- ongoing provision of compliance advice, with resources in place to handle an average of 1,000 requests for advice per year
- continuing to review guidance, especially with regards to areas of high interest and impact (e.g. gambling, marketing of services).

4.3. Delivering a balanced approach to regulation.

4.3.1. In 2018/19 we will continue to manage our resources to both <u>maintain</u> compliance across the large majority of the phone-paid services market (e.g. donations to charities, TV or Radio competitions, customer services), and <u>enforce</u> against non-compliant behaviour where fair and proportionate to do so.

4.3.2. We will look to maintain compliance in the market through a combination of industry engagement, intelligence gathering and policy development, with work in 2018/19 to include:

- providing workshops for industry partners on our informal and formal investigation procedures with a focus on increasing awareness of the purpose of our information gathering stages and engender better engagement, trust and co-operation
- improving communications overall with industry, through reviewing all written templates and website content for tone and use of language
- working with the industry to support opportunities for the phone-paid services market, especially with regard to new products (e.g. ticketing, society lotteries)
- continuing our regular programme of formal and informal industry engagement, ensuring we include more detailed engagement with aggregators, MVNOs and fixed line networks. We will use survey data, including that benchmarked in 2017/18, to ensure our engagement with industry is relevant and effective
- reviewing the success of the L1 exemption pilot and making the exemption permanent if appropriate
- focussing on the security aspects of charging to a phone bill, to underpin consumer confidence in the payment system. Work in this area will include ongoing research into any potential system vulnerabilities in all parts of the value chain, and working closely with industry to find quick and robust solutions.
- reviewing our overall approach to monitoring, to ensure we are able to maximise the deterrent effect of all compliance monitoring activity undertaken in the market. Our aim is to develop a comprehensive strategy that allows for all areas of the market to be monitored and reviewed.
- implementing increased intelligence gathered from research (e.g. the consumer research into complaint journeys), an enhanced AMR delivering greater insight into revenues and users and our horizon scanning initiative
- ensuring our analysis and decision-making is based on clear and relevant market information through implementing a new AMR service type taxonomy aligned with MNO, L1 and our own system categorisation of services.

4.3.3. We will continue to ensure our formal investigative activities are both fair and proportionate, and effective in deterring non-compliant behaviour in the market. We expect to work on around 100 enforcement cases in 2018/19 (the same as for 2017/18), combining Track 1, Track 2 and post-adjudicatory work. While we aim to process cases as fast as we can, our greater emphasis is on ensuring we investigate each individual case robustly and comprehensively. We will support this approach in 2018/19 through:

- maximising our evidence gathering capabilities, including working with MNO compliance houses to structure monitoring information in a way most appropriate for legal use
- continuing to build the industry knowledge of our investigators, to allow them to proceed with confidence and with industry trust in their capabilities

- developing an enforcement priority framework, to ensure resources, where stretched, are directed with clarity towards dealing with services generating the most consumer harm.

4.4. Working in partnership with Government and other regulators.

4.4.1. In 2018/19 we aim to build on our strong working relationships with partners to ensure we are able to act with regulatory clarity. Work in this area may include:

- ongoing engagement with HMT, the FCA and Ofcom around any practical issues arising from the implementation of the new Payment Services Regulations 2017
- continuing to engage with DCMS and Ofcom in relation to the implementation of relevant provisions of the Digital Economy Act 2017, including the introduction of the requirement to offer bill capping as part of mobile phone contracts for consumers
- identifying ways in which we can leverage powers held by sister organisations to bring about greater compliance in the market through a more joined-up regulatory approach
- working with Ofcom to ensure their revised General Conditions of Entitlement (the regulatory rules that all communications providers must follow to operate in the UK) are fully understood across the phone-paid services market, including the specific impacts and requirements.

4.5. Delivering high standards of organisational support.

4.5.1. We will ensure our governance, finance, business systems and HR continue to meet the high standards embedded in the organisation through a process of ongoing review and development. Areas of focus for 2018/19 include at this stage:

- reviewing Board and CAP membership to ensure we have the optimum number of members necessary to fulfil their responsibilities
- ensuring we undertake effective treasury management in response to changes in interest rates and PSA cash flow requirements
- maximising the management information capabilities of our new customer relationship management system, both in terms of regulatory decision-making and stakeholder relationships
- continuing to strengthen our internal investigations and enforcement processes, ensuring external audit recommendations are fully implemented
- reviewing our organisational structure to ensure the management of our staff resources continues to be best aligned with our strategic priorities
- ensuring we implement 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.

5. 2018/19 Operating Budget

5.1. The operating budget for 2018/19 is £3,849,585, as set out in Appendix B.

5.2. This budget represents a 4%[1] saving in real terms over 2017/18 and 20% (£1m) savings in total since 2015/16.

5.3. The budget has been built on a zero-based approach for each cost item, but also with the broad assumption that 2017/18 has seen us operate with the right overall level of resources required by Ofcom to meet our statutory obligations.

5.4. In 2018/19 we face strong inflationary pressures on staff costs (two-thirds of our budget), overheads and operating costs, as well as additional necessary budgetary items for:

- legal and other resources necessary to meet the new General Data Protection Regulation requirements
- increased security costs through a government-led obligation to undertake annual systems penetration testing.

5.5. Our ongoing commitment to delivering value for money has allowed us to absorb these additional costs in the budget and achieve continued real term savings overall through:

- carefully managing the mix of our staff resources to meet our regulatory responsibilities and priorities, while ensuring we have sufficient flexible capacity to respond in a timely manner to issues as they arise (e.g. exceptional levels of consumer complaints)
- identifying and applying operational efficiencies in all our working practices to ensure resources are not unnecessarily diverted away from our regulatory priorities
- rebalancing our in-house legal capabilities with the costs of acquiring external legal advice and resource
- continuing to limit the extent to which we can undertake policy and systems projects in response to identified need or industry demand (e.g. there will only be a single Industry Forum in 2018/19 and we have sufficient budget to continue commissioning the AMR and undertake one other similar sized research project).

[1] Based on RPI at October 2017 and in line with methodology used by Ofcom.

6. 2018/19 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 2018/19 are:

	2017/18 £	**2018/19** **£**
Phone-paid Services Authority budget	3,849,640	**3,849,585**
Budgeted other income	(275,000)	**(250,000)**
Amount to be funded by unadjusted levy	3,574,640	**3,599,585**
Retained funds available	(1,700,000)	**(1,799,585)**
Amount to be funded by adjusted levy	1,874,640	**1,800,000**
Estimated market size	430,500,000	**410,000,000**
Unadjusted levy	0.83%	**0.94%**
Adjusted levy	0.44%	**0.44%**

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 plan to reduce it further in 2018/19 to £1,800,000. This is in line with our stated aim to hold the total levy required from industry funders for the period to 2020/21 to the same level or lower than that required for 2017/18.

6.6. Appendix C provides the detail behind our assumption that the estimated market size will be £410,000,000 for 2018/19. With a fixed funding requirement from industry of £1,800,000, the adjusted levy rate of 0.44% remains unchanged. 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). The fee for registration in 2017/18 was £155 plus VAT.

7.2. Historically the fee was set to recover the investment in the underlying computer systems and the ongoing running costs of the scheme. For clarity, the principles underlying the fee are now:

- 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.

7.3. To continue to contribute to the ongoing running costs of Registration (staff, systems and share of overheads). For 2018/19 we have budgeted for 1,400 paying organisations. We propose to leave the fee for registration unchanged for 2018/19, 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.

8. Consultation Process

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

Q1 – Do our plans for 2018/19 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 2018/19? 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 2018/19?

Q4 – What is your view on the estimated size of the market for 2018/19?

Q5 – Do you have any other comments on the Business Plan and Budget 2018/19?

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 26 January 2018, 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 2018.

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: Market Context – Regulatory Impact

The market for content, goods and services charged to a phone bill is evolving rapidly. There is a high pace of technological change, and there are other payment mechanisms competing for consumers (e.g. PayPal, Apple Pay, contactless payments). Our regulation clearly needs to be flexible enough to respond effectively to any market changes.

The market is also very diverse. We need to apply different regulatory approaches, to take into account a wide range of factors:

- there are an estimated 23 million consumers in this market. Their demographics (including the number of users, spend and consumer behaviour) vary across the different types of content, goods and services that can be charged to a phone bill. This is not surprising when the range includes TV voting lines, competitions, adult entertainment, chat lines, business information services, gambling, technical helplines, game downloads, directory enquiries and charity text giving.
- different types of content, goods and services have different consumer satisfaction levels. They operate at different levels of compliance with our Code of Practice, as measured by the consumer queries and complaints we receive, and the monitoring we are able to do.
- mobile-based content, goods and services now account for 75% of the market, and within this the growth area is consumer spend via operator billing (charge to mobile). Voice-based services continue to decline.
- industry players vary, not only in terms of size and profile, but also in their timing of entry into the market. Relatively new major merchants such as Google Play exist alongside long-established providers of text and voice services.
- the market continues to offer opportunities for growth, competition and choice, but threats to consumers and the need for vigilance and protection remains. We know complaints are generally under reported, and that consumer understanding differs with the type of content, goods and services being purchased.
- the ways in which content, goods and services are paid for are converging. This requires constructive engagement with other regulators and government agencies. Those we work closely with include:
    - Ofcom, who approve our Code of Practice
    - Department for Digital, Culture Media and Sport, to whom we are designated as an Arms-Length Body
    - the FCA re: digital payments
    - the ASA re: adverts using charging to a phone as a payments device.
- our different stakeholders value different things from us:
    - industry players want certainty, consistency and to be treated fairly
    - consumers want information, protection and advice
    - other partners want collaboration, professionalism, value for money, and effectiveness.

Our Annual Market Review provides ongoing detailed information.

Appendix B: Budget

Expenditure breakdown by cost area	2015/16 Budget	2016/17 Budget	2017/18 Budget	**2018/19 Budget**
People costs Salaries, NI, pension costs, training and recruitment	2,666,057	2,587,849	2,609,463	**2,721,123**
Policy, External Relations and Communications Research, forums, seminars, publications, consumer education and other communications activity	335,649	197,736	174,080	**127,248**
Legal Fees External advice, debt recovery and non-recoverable hearing costs	171,396	115,028	91,028	**41,288**
IT Systems Business continuity, office systems (including printing), contact information handling, case management, data analysis, and Registration	357,819	316,560	265,529	**255,696**
Telecoms Line rental (including handsets), incoming and external call charges, call data storage, Broadband, mobile monitoring	72,027	81,093	70,657	**61,726**
Premises Rent, service charge, rates, utilities and facilities management	475,397	410,304	409,073	**418,988**
Overheads Insurances, audit and other finance costs, office supplies, travel, couriers and postage, meeting costs	134,005	127,814	124,082	**131,536**
Depreciation Leasehold improvements, equipment and furniture, IT and systems, asset disposals	231,726	158,883	105,728	**91,980**
Total	4,444,075	3,995,267	3,849,640	**3,849,585**
Total at 2018/19 prices	*4,841,130*	*4,296,370*	*3,999,776*	*3,849,585*

Appendix C: Market Size by Outpayments

	2014/15	2015/16	2016/17					2017/18				
	Total	**Total**	Q1	Q2	Q3	Q4	**Total**	Q1	Q2	Q3	Q4	**Total**
3rd Party - Landline	**65,583,140**	**46,442,187**	11,157,893	12,053,064	12,860,034	11,125,728	**47,196,719**	11,256,411	11,781,891			**23,038,302**
Own Services - Landline	**7,223,901**	**6,891,455**	1,626,068	1,480,844	1,267,941	1,178,851	**5,553,704**	1,135,276	1,343,219			**2,478,495**
Total Landline	**72,807,041**	**53,333,641**	12,783,961	13,533,908	14,127,975	12,304,579	**52,750,424**	12,391,686	13,125,110			**25,516,796**
3rd Party - Mobile	**159,208,322**	**157,517,975**	47,407,835	49,636,131	45,512,140	33,523,264	**176,079,370**	27,967,513	25,715,055			**53,682,568**
Voice Shortcode	**16,082,943**	**13,889,643**	3,585,211	3,254,251	3,393,013	3,010,298	**13,242,773**	3,126,065	3,248,211			**6,374,276**
Operator Billing	**72,407,015**	**113,827,719**	31,976,066	37,816,930	41,260,312	39,380,247	**150,433,555**	45,530,418	41,814,110			**87,344,528**
Total Mobile	**247,698,280**	**285,235,337**	82,969,112	90,707,312	90,165,465	75,913,809	**339,755,698**	76,623,996	70,777,376			**147,401,372**
3rd Party - DQ	**16,866,719**	**13,654,580**	2,908,063	2,779,828	2,382,738	2,020,949	**10,091,578**	2,079,059	2,323,054			**4,402,113**
Own Services - DQ	**58,444,433**	**43,802,173**	9,319,881	8,940,804	7,927,085	8,085,495	**34,273,265**	7,247,977	6,655,062			**13,903,039**
Total DQ	**75,311,152**	**57,456,753**	12,227,944	11,720,632	10,309,824	10,106,444	**44,364,843**	9,327,035	8,978,116			**18,305,151**
3rd Party - 087	**42,519,824**	**31,942,278**	7,963,344	7,531,155	7,164,417	7,243,788	**29,902,703**	6,984,934	6,631,287			**13,616,221**
Own Services - 087	**5,253,976**	**5,286,138**	1,160,770	1,167,004	1,296,931	1,166,559	**4,791,264**	855,597	814,984			**1,670,581**
Total 087	**47,773,800**	**37,228,417**	9,124,114	8,698,159	8,461,348	8,410,346	**34,693,967**	7,840,532	7,446,271			**15,286,803**
Total Outpayments	**443,590,273**	**433,254,148**	**117,105,131**	**124,660,010**	**123,064,613**	**106,735,178**	**471,564,932**	**106,183,249**	**100,326,873**			**206,510,122**

2017/18 calculation

- in February 2017 we estimated the market size for 2016/17 would turn out to be in the region of £460.0m - £470.0m (compared with the actual size of £471.6m)
- our estimate for 2017/18 of £430.5m was based on a prudent assumption for an overall decline in the market from 2016/17 Q3 onwards.

2018/19 calculation

- based on quarterly data for 2017/18 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 £400.0m - £420.0m. This includes the assumption that ongoing areas of market decline will be (partially) offset by overall growth in operator billing.
- our assumption for 2018/19 at this stage is to remain cautious and base the levy on an estimated market size of £410.0m.