PSA

Phone-paid Services Authority

Business Plan and Budget 2017/18

Final version post consultation

Issued: 21 March 2017

The UK regulator for content, goods and services charged to a phone bill

Contents

1. Executive Summary

1.1. During 2016/17 we have:

- Achieved the £500k identified budget savings;
- Delivered a significant step-change increase in our day-to-day operational efficiency: total contacts are expected to be 41% higher; total complaints 17% higher; and 24% more substantive cases worked on;
- Focussed on a number of key strategic developments, under our Project 30 umbrella. These have included building a consumer strategy, consulting on changes to our regulatory framework, identifying opportunities for greater regulatory clarity, and delivering our internal cultural shift programme for staff.

1.2. In 2017/18 we will deliver our revised strategic priorities through a combination of our ongoing work, in which we will maintain the levels of efficiency we established during 2016/17, and new initiatives, such as exploring how Alternate Dispute Resolution can be built into the regulatory process to the benefit of consumers.

1.3. We are required by Ofcom to ensure we are sufficiently funded to meet its statutory obligations, and the budget has been built bottom-up to provide the necessary capacity and capabilities we require to deliver our mission. However, we remain mindful of the overall cost of regulation, and continue to identify cost efficiencies where achievable. The budget for 2017/18 has been approved at £3,850k, which represents a 5% saving in real terms over 2016/17, and 16% (£730k) savings in total since 2015/16.

1.4. Following consultation with each of our major funders, we have agreed to maintain the current levy funding model to recover this budget. The adjusted levy for 2017/18 is 0.44%, down from 0.63% in 2016/17, and represents a 31% reduction in the amount of levy required from industry.

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

1.5. We recognise funders' wish to be 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. Individually this is of course dependent on the actual outpayments they make, but on an industry-wide basis, we intend to use the high level of collected fines in 2016/17 to provide much greater levy certainty over the next four years to 2020/21. Assuming (a) we continue our current practice of using collected fines to reduce the amount of levy required from industry funders, and (b) the budgetary requirements for PSA to fulfil its statutory obligations remain relatively constant, we aim to hold the levy required from industry funders for each of these years to the same level or lower than that required for 2017/18.

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 fully 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. Some areas are growing fast (e.g. game downloads), while others are in sharp decline (e.g. directory enquiries). 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.

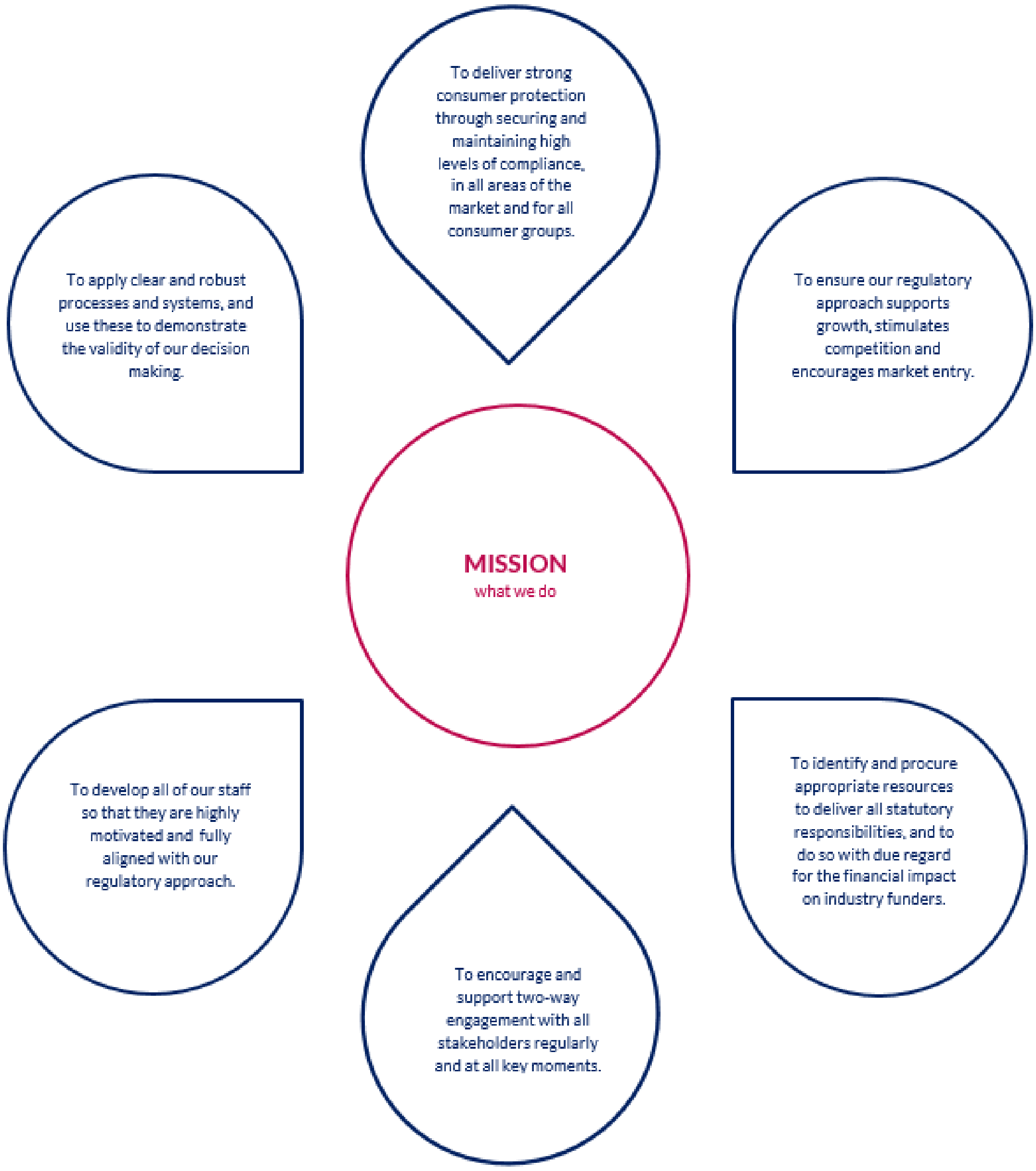
2.4. Values and Behaviours

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

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.

2.5. 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. 2016/17 Review

During 2016/17 we have significantly increased our day-to-day operational efficiency, and, under our Project 30 umbrella, focussed on a number of key strategic developments. Overall we have made strong progress in delivering our strategic priorities through each of our mission statement areas.

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

3.1.1. We forecast to handle around 506,000 contacts from consumers during the year, up 41% from 358,000 in 2015/16. We have developed our communications at each point of contact consumers have with us, to help them better understand the market and are better equipped to use phone-paid services with confidence and seek redress when they encounter problems:

- We have launched our new name and accompanying strapline, and used this to realign how we communicate with consumers to emphasise the nature of our role as a regulator;
- We have increased the automation of our contact handling, with around 93% of all contacts dealt with by an improved online experience (including the web complaint form and front end development of Number Checker) or by our refreshed interactive voice response (IVR);
- We have continued to record complaints as consumer dissatisfaction with a service, however expressed, and we forecast the volume of complaints to increase to 35,000 in 2016/17 (up 17% from 30,000 in 2015/16). We have focussed on assessing those complaints received only after the consumer had engaged (or tried to engage) with the relevant service providers. This is both to ensure that providers are given an opportunity to provide customer care and redress where required to consumers before consumers engage with the regulator. and to ensure that our limited resources are directed where they are most needed;

- Our consumer education work this year has seen the development of new information videos, increased social media engagement and greater clarity provided through our website. Much of this work has been informed by the consumer behaviour research we undertook at the end of 2015/16.

3.1.2. Our Project 30 focus in this area has been to develop and begin implementing a clearly articulated consumer strategy, aimed squarely at delivering strong consumer protection. The intended outcomes are: prevention of harm in the first place; stopping harm from continuing once detected; and repairing harm when it has happened. The consumer facing elements we have developed or identified (see 3.3.2 for industry facing) have included:

- Engaging with leading consumer bodies to further understand how to create better informed consumers;
- Engaging directly with consumers primarily through the large-scale survey conducted as part of the Annual Market Review;
- Achieving a more detailed understanding of the perceived harm experienced by the consumer and the effectiveness of consumer care and redress, through new research into what happens to consumers after they complain;
- Work into refund mechanics, and how we can ensure consumers with valid claims are properly recompensed.

3.2. Applying an outcomes-based Code of Practice.

3.2.1. In July 2016 we launched Code 14 and its accompanying Supporting Procedures, following informal pre-consultation with industry and a full formal consultation and subsequent Ofcom approval of the Code.

3.2.2. The new Code strengthens our investigations and adjudicatory processes, and we have held industry workshops to ensure the impact of this is fully understood.

3.2.3. We completed the recruitment of our new Code Adjudicatory Panel (CAP), adding market, operational, consumer and technical experience to the extensive scope of legal and adjudicatory expertise across panel members. Training for the CAP and the new Investigation Oversight Panel (IOP) was completed in time to allow the Code to be implemented ahead of schedule.

3.2.4. The implementation of Code 14 is generating learning points coming from the Executive, the IOP and the CAP, and a full review will be completed by the end of the financial year to ensure that implementation is meeting the objectives of the original Code Review.

3.2.5. During the year we have supported industry to comply with the Code:

- We expect to provide over 1,000 pieces of compliance advice;
- We have issued new guidance on Vulnerable Consumers, Advice Services, Enabling Consumer Spend, and Digital Marketing and Promotion. In addition, as part of our ongoing review of all guidance, we have started the process of reviewing Consent to Charge guidance.

3.3. Delivering a balanced approach to regulation.

3.3.1. The Project 30 work in this area has been the development of our regulatory framework, with the aim of ensuring it supports growth, stimulates competition and encourages market entry. To this end we have worked very closely with industry, including informal and formal consultation, to:

- Extend the use of special conditions and exemptions within the remit of the existing Code. We have developed a risk assessment framework and special conditions for online competitions and online adult services, and have sought to do so collaboratively alongside related industry initiatives, such as the MNO's Project Slimline;
- Develop greater clarity around the regulatory environment;
- Scope the possibility of achieving economies of scale and operating efficiencies through shared compliance monitoring.

3.3.2. The development of our regulatory framework is a key industry facing element of our consumer strategy (see 3.1.2.), supporting both high levels of compliance and helping to create greater opportunities to prevent harm. Additional industry facing work that supports our consumer strategy has included:

- Initiating a formal project to develop our ability to undertake horizon scanning of technological and market developments, with a view to identify potential harm or potential impacts on our regulatory framework earlier;
- Enhancing our own compliance monitoring capabilities, including deploying Sentinel (our cutting edge tool for monitoring web advertisements), leading the way on detecting malware in apps, and knowledge sharing with commercial audit houses;
- Providing ongoing compliance support to operators through sharing relevant and authorised consumer complaint data;
- Consulting with MNOs on the possible options for a shared compliance monitoring function.

3.3.3. More broadly, all our ongoing policy work in 2016/17 has been informed by:

- Our programme of formal and informal industry engagement, including the Industry Liaison Panel, Spring and Autumn industry forums, as well as regular meetings with trade bodies and individual service providers;
- Our research programme. During this year we have disseminated and explored in more detail the consumer behaviour research undertaken for us by Craft, and commissioned follow-on research into the consumer complaint journey. We have also once again commissioned our Annual Market Review, with an increased focus this year on consumer perceptions;
- Our continued analysis of a wide range of market issues, underpinned by the detailed intelligence we receive from compliance monitoring;
- Information and patterns arising from complaint data, including valuable insights into consumer protection from all cases worked on, irrespective of whether they progress down an enforcement path or not.

3.3.4. In terms of enforcing compliance with our Code, we are anticipating the need to initially consider 550 substantive cases in 2016/17 (up 24% from 445 in 2015/16). Of these, based on experience of the first six months of 2016/17, we estimate around 100 will be subject to the enforcement procedures set out in the Code, and around 40 of these are forecast to be Track 2 cases heard by Tribunal during the year.

3.3.5. Other areas in which we have enhanced our ability to deliver a balanced approach to regulation include:

- Stakeholder engagement surveys, creating opportunities for constructive feedback from different stakeholders and setting a benchmark against which we are able to measure the impact of future actions;
- Scoping the development of the Registration system to ensure more accurate and comprehensive market data at service provider level, and to better support industry due diligence and risk control;
- Improved data reporting, allowing for a greater demonstration of evidence behind our analysis of issues, and providing greater clarity of the market and our operating context. Alongside this we are developing appropriate outcome measures, and have continued to explore how we can link our data to that available from industry;
- Building our market understanding through developing our technological capabilities. We aim to have provided core telecoms and market training for all staff, improved our knowledge management systems, and clarified the use of expert witnesses within case investigations and presentation.

3.3.6. During the year we have also reviewed our levy funding model, to see if the "polluter pays" principle could be better applied through a different model. Following consultation with each of our major funders, we have agreed to maintain the current model (see section 6), but remain open to exploring alternatives in the future.

3.4. Working in partnership with Government and other regulators.

3.4.1. As part of our Project 30 work we aim to identify where greater regulatory clarity may be possible and build relationships to bring this about. In addition to our strong day-to-day stakeholder relationships with Ofcom and the Department for Media, Culture and Sport (DCMS), our work during the year in this area has included:

- Working closely with Ofcom to explore the definition of controlled premium rate services (CPRS), and therefore provide greater clarity on the extent of our remit;
- Supporting Ofcom's engagement with Trading Standards around the Primary Assured Advice they have given to industry regarding Consumer Contract Regulations;
- Providing legal clarity regarding e-money and how that relates to our regulatory remit;

3.4.2. In 2016/17 we have also worked on a range of other issues affecting our regulatory environment, including:

- Working with DCMS on the EU Regulatory Framework for electronic communications;
- Supporting DCMS in understanding how we approach Age Verification as part of their development of provisions which are now part of the Digital Economy Bill;
- Facilitating meetings on the revised EU Payment Services Directive (PSD2) with industry to help them coordinate a position to feed into HM Treasury's consultation and subsequent implementation by the Financial Conduct Authority (FCA). This followed our arrangement of HMT's presentation at the Industry Liaison Panel in May;
- Working with Ofcom and DCMS to ensure that the Investigatory Powers Bill did not impact adversely on our ability to investigate consumer harm;
- Clarifying our classification as a Central Government body through the development of a framework agreement with DCMS.

3.5. Delivering high standards of organisational support.

3.5.1. We have a Balanced Scorecard approach to evaluating our organisational performance, which ensures we remain focused on internal factors such as how we allocate resources, the processes we follow, and how we support our people. During 2016/17 key activity has included:

- Implementing detailed financial controls, to ensure the real-term £500k savings identified in the 2016/17 budget have been delivered;
- Developing our analysis of organisational risk, and ensuring we clearly identify sufficient reserves to underpin any mitigation;
- Investing in development at all levels within the organisation (including Board, Leadership Team, Management), and specifically as part of Project 30, completing our Cultural Shift programme for all staff. This investment has enabled us to achieve a step-change in our overall efficiency, and, through identifying and embedding new values (see 2.4), realign our behaviour in line with our priorities. Our work in this area has enabled us to achieve Investors in People Silver accreditation;
- Enhancing our approach to data capture and reporting, with increased CRM functionality allowing for clear audit trails to be established and maintained.

4. 2017/18 Business Plan

In 2017/18 we will deliver our strategic priorities through a combination of our ongoing work and new initiatives. We will maintain the levels of efficiency we established during 2016/17, and seek to develop through a constant process of review and evaluation.

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

4.1.1. During 2015/16 and much of 2016/17, our focus on improving the offer to consumers has been through revising the regulatory framework and steering industry to more compliant behaviour. In 2017/18 we aim to concentrate more on the consumer experience, and help them be able to make better informed choices. Planned work in this area includes:

- Engaging with Alternative Dispute Resolution providers, and, alongside work on refund mechanics, exploring how their role can be systematically built into the regulatory process to the benefit of consumers;
- Continuing to build stronger relationships with other consumer protection regulators, and exploring areas of overlap and mutual benefit;
- Implementing new consumer intelligence generated through a range of sources including the 2016/17 consumer research into complaint journeys, the Annual Market Review, and any other consumer survey findings. We will also use this work to determine what further consumer research we need to undertake to shape our regulatory approach.

4.1.2. We will continue to improve the clarity of information we are able to give consumers about the market through:

- Using consumer testing to ensure we best refresh and refine all of our website content;
- Ongoing development of our consumer education work, including seeking to promote this through industry partners with significant audience reach;
- Using consumer feedback to develop further the ways in which they can self-serve resolution of queries and problems, including, where sufficient resource is available, enhancing the information and functionality available online and through the IVR.

4.1.3. Current estimates suggest total contacts from consumers will fall to around 460,000 (of which 30,000 are forecast to be total complaints) as a consequence of policy and enforcement measures taken in 2016/17 aimed at driving up compliance in the industry. This will allow us to continue to target our contact management resources towards strong consumer protection, through greater assessment of detailed complaints and support into the decision-making process around cases.

4.2. Applying an outcomes-based Code of Practice.

4.2.1. During 2017/18 we will follow up on the outcomes of our review of the implementation of Code 14:

- We will make changes to our processes and application of the Code, including updating Supporting Procedures where material and achievable within the scope of the Code;
- We will support the review with an external audit of the Code's processes in July (one year after its launch), to ensure they are clear and robustly applied.

4.2.2. We will also continue to review our Code of Practice to ensure its ongoing effectiveness including whether current sanctions are sufficiently dissuasive of non-compliant activity. Although difficult to predict at this stage, scoping of key drivers behind a new Code may include:

- The outcomes of reviewing the definition of CPRS (see 3.4.1);
- Changes in the definitions around special conditions and exemptions;
- Greater enforcement around due diligence, risk assessment and control (DDRAC) by all parties in the value chain;
- Exploring whether ADR can be made more effective in relation to phone-paid services;
- Requirements for more detailed data as a condition of Registration.

4.2.3. Our ongoing support for industry to comply with the Code will include:

- Reviewing the process of giving compliance advice, so that we provide genuine advice where needed but minimise the impact of those seeking to bend the rules;
- Continuing to review guidance. In particular, we will implement a review of the updated Consent to Charge guidance given in 2016/17.

4.3. Delivering a balanced approach to regulation.

4.3.1. Over the past two years we have built a solid platform of industry engagement, intelligence gathering through research and monitoring, and policy development alongside enforcement. In 2017/18 we will continue to deliver a balanced approach from this platform, and aim to develop it through:

- Reviewing the effectiveness of the implementation of our risk assessment framework and new special conditions for online competitions and online adult services;
- Providing a policy focus on exemptions to the Code, and their relevance in terms of promoting market growth and availability of services to consumers;
- Extending our programme of formal and informal industry engagement to include more detailed engagement with aggregators, MVNOs and fixed line networks. We will use survey data, including that benchmarked in 2016/17, to ensure our engagement with industry is relevant and effective;

- Implementing increased intelligence gathered from research (e.g. the consumer research into complaint journeys), an enhanced Annual Market Review delivering greater insight into revenues and users, and our horizon scanning initiative;
- Improving the deterrent effect of all compliance monitoring activity undertaken in the market, through e.g. implementing any agreed shared compliance monitoring function or agreed methods of intelligence sharing;
- Sharing relevant outcome measures, and by continuing to develop further how we can reconcile our data with that held by industry, in a safe and collaborative way that allows for improved decision-making on compliance issues;
- Engaging and consulting where appropriate on additional data requirements for the Registration of services with us, and supporting this with any necessary system development to support the easy uploading of information.

4.3.2. Although we are assuming a reduction in total contacts and complaints (see 4.1.3.), we are forecasting to be required to work on at least a similar number of cases, 550, as in 2016/17. This is because any expected reduction in potential cases will be at least offset by the redirecting of resources onto assessing detailed complaints, alongside greater intelligence from monitoring.

4.4. Working in partnership with Government and other regulators.

4.4.1. We will continue to maintain and develop strong working relationships with a range of key stakeholders. Specific work we have identified for 2017/18 includes:

- Working with Ofcom to implement any agreed actions arising from the work in 2016/17 on exploring the possibility of amending the definition of CPRS;
- Continuing to work with DCMS on the current revision of the EU Regulatory Framework for electronic communications, and any implications of the UK's withdrawal from the EU;
- Refreshing the use and content of our Memorandums of Understanding (MoU) with the Advertising Standards Authority, Information Commissioner's Office, and Gambling Commission. We will also explore new MoUs where appropriate with new partners;
- Deepening our relationship with other regulatory bodies such as Competition and Markets Authority and Financial Conduct Authority, to ensure that we are well-placed to identify areas of regulatory overlap (and therefore provide industry with clearer mapping) and efficient management of issues.

4.5. Delivering high standards of organisational support.

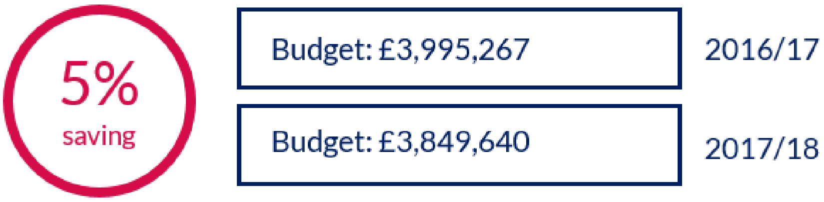
4.5.1. We will continue to use our Balanced Scorecard approach to evaluate our organisational performance and ensure we remain focused on internal factors such as how we allocate resources, the processes we follow, and how we support our people. Key activity identified at this stage for 2017/18 includes:

- Ongoing review of our governance procedures, including Board engagement and effectiveness, and all aspects of our company administration;
- Managing the transition to the National Audit Office as our new auditors;
- Delivering the savings identified in the 2017/18 budget (see section 5);
- Continued review of our organisational risk and mitigation;
- Undertaking our bi-annual staff engagement survey. We will compare the findings with that of Spring 2015, and communicate with staff the changes and actions to be taken;
- Implementing a new grading and pay band structure, to allow for greater flexibility in our ability to motivate and reward staff;
- Ensuring we have sufficient in-house expertise and access to external advice to fully support our adjudicatory processes and organisational functions.

5. 2017/18 Operating Budget

5.1. The operating budget for 2017/18 is £3,849,640, as set out in Appendix B.

5.2. This budget represents a 5% saving in real terms (4% in cash terms) over 2016/17, and 16% (£730k) savings in total since 2015/16.



5.3. We are able to achieve this budget and deliver the levels of work outlined in the business plan for 2017/18 through:

- Continuing to drive operational efficiencies in our working practices, particularly in the areas of contact management and investigations and enforcement. The staff cost budget is reduced marginally in real terms, but within this we are able to manage our capacity flexibly to meet changes in external pressures (e.g. complaint volumes) and operational priorities (e.g. depth and breadth of investigatory work);
- Identifying and implementing savings in systems and telecoms costs, including those arising from the 2016/17 migration of our core business systems to the cloud;
- Limiting the extent to which we can undertake policy projects in response to identified need or industry demand – we have sufficient budget to continue commissioning the Annual Market Review and undertake one other similar sized research project;
- Reducing our day-to-day external legal costs, through a combination of increased in-house legal capabilities and the expected impact of strengthened adjudicatory processes under Code 14;
- Continuing to benefit from the savings arising from our office relocation to Canary Wharf;
- Careful management of our fixed assets and the timing of our capital expenditure, generating significant savings in depreciation.

6. 2017/18 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 Phone-paid Services Authority 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 Phone-paid Services Authority 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 2017/18 are:

	2016/17	**2017/18**
	£	**£**
Phone-paid Services Authority budget	3,995,266	**3,849,640**
Budgeted other income	(262,500)	**(275,000)**
Amount to be funded by unadjusted levy	3,732,766	**3,574,640**
Retained funds available	(1,000,000)	**(1,700,000)**
Amount to be funded by adjusted levy	2,732,766	**1,874,640**
Estimated market size	430,500,000	**430,500,000**
Unadjusted levy	0.87%	**0.83%**
Adjusted levy	0.63%	**0.44%**

6.5. This is a 31% reduction in the amount of levy required from industry, and is based on:

- Savings in the Phone-paid Services Authority budget, as set out in section 5;
- Expected increases in the level of fines and admin charges to be collected in 2016/17, due to the particular nature of many of the cases brought to Tribunal during the year and the settlements achieved through having revenue withholds implemented earlier;
- An assumption that the market in 2017/18 will be at the same level as estimated for 2016/17. This reflects a broad view that the forecast growth in Operator Billing will offset the expected continued decline in other areas of the market. Appendix C provides a detailed breakdown.

6.6. We recognise funders' wish to be 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. Individually this is of course dependent on the actual outpayments they make, but on an industry-wide basis, we intend to use the high level of collected fines in 2016/17 to provide much greater levy certainty over the next four years to 2020/21. Assuming (a) we continue our current practice of using collected fines to reduce the amount of levy required from industry funders, and (b) the budgetary requirements for PSA to fulfil its statutory obligations remain relatively constant, we aim to hold the levy required from industry funders for each of these years to the same level or lower than that required for 2017/18.

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 2016/17 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;
- To continue to contribute to the ongoing running costs of registration (staff, systems and share of overheads).

7.3. For 2017/18 we have budgeted for 1,450 paying organisations. We propose to leave the fee for registration unchanged for 2017/18, which will generate £224,750. This income forms part of the current levy model and will be used to offset the amount to be funded by the adjusted levy.

Appendix A: Market Context – Regulatory Impact

The market for content, goods and services charged to a phone bill is fast changing. 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;
- Some of these areas are experiencing significant financial growth (e.g. gambling, games, music and video content), while others are in steep decline (e.g. directory enquiries);
- 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 70% 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 Culture Media and Sport, to whom we are designated as an Arms-Length Body;
    - the Financial Conduct Authority 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**
People costs Salaries, NI, pension costs, training and recruitment	2,666,057	2,587,849	**2,609,463**
Policy, External Relations and Communications Research, forums, seminars, publications, consumer education and other communications activity	335,649	197,736	**174,080**
Legal Fees External advice, debt recovery and non-recoverable hearing costs	171,396	115,028	**91,028**
IT Systems Business continuity, office systems (including printing), contact information handling, case management, data analysis, and Registration Scheme	357,819	316,560	**265,529**
Telecoms Line rental (including handsets), incoming and external call charges, call data storage, Broadband, mobile monitoring	72,027	81,093	**70,657**
Premises Rent, service charge, rates, utilities and facilities management	475,397	410,304	**409,073**
Overheads Insurances, audit and other finance costs, office supplies, travel, couriers and postage, meeting costs	134,005	127,814	**124,082**
Depreciation Leasehold improvements, equipment and furniture, IT and systems, asset disposals	231,726	158,883	**105,728**
Total	4,444,075	3,995,267	**3,849,640**

Appendix C: Market Size by Outpayments

	2014/15 Q1	2014/15 Q2	2014/15 Q3	2014/15 Q4	2014/15 **Total**
3rd Party - Landline	17,524,567	16,366,013	17,886,609	13,805,951	**65,583,140**
Own Services - Landline	1,852,190	1,840,274	1,782,999	1,748,438	**7,223,901**
Total Landline	19,376,757	18,206,287	19,669,608	15,554,389	**72,807,041**
3rd Party - Mobile	35,593,309	41,003,510	45,333,296	37,278,207	**159,208,322**
Voice Shortcode	4,217,788	3,880,839	4,286,871	3,697,445	**16,082,943**
Operator Billing	13,224,919	15,378,135	21,222,793	22,581,168	**72,407,015**
Total Mobile	53,036,016	60,262,484	70,842,960	63,556,820	**247,698,280**
3rd Party - DQ	4,452,968	4,574,513	4,219,686	3,619,552	**16,866,719**
Own Services - DQ	15,517,815	15,661,610	14,764,968	12,500,040	**58,444,433**
Total DQ	19,970,783	20,236,123	18,984,654	16,119,592	**75,311,152**
3rd Party - 087	12,557,506	12,018,974	8,811,448	9,131,896	**42,519,824**
Own Services - 087	1,298,510	1,365,413	1,262,208	1,327,845	**5,253,976**
Total 087	13,856,016	13,384,387	10,073,656	10,459,741	**47,773,800**
Total Outpayments	**106,239,572**	**112,089,281**	**119,570,878**	**105,690,542**	**443,590,273**

	2015/16 Q1	2015/16 Q2	2015/16 Q3	2015/16 Q4	2015/16 **Total**
3rd Party - Landline	12,917,554	11,751,323	11,274,957	10,498,353	**46,442,187**
Own Services - Landline	1,673,691	1,756,686	1,790,296	1,670,781	**6,891,455**
Total Landline	14,591,245	13,508,009	13,065,253	12,169,134	**53,333,641**
3rd Party - Mobile	35,216,442	36,778,112	43,588,431	41,934,990	**157,517,975**
Voice Shortcode	3,698,358	3,320,915	3,573,445	3,296,926	**13,889,643**
Operator Billing	25,798,209	26,833,489	30,297,876	30,898,145	**113,827,719**
Total Mobile	64,713,008	66,932,516	77,459,753	76,130,061	**285,235,337**
3rd Party - DQ	3,586,289	4,040,922	3,241,858	2,785,510	**13,654,580**
Own Services - DQ	12,172,489	12,163,279	10,266,288	9,200,117	**43,802,173**
Total DQ	15,758,779	16,204,201	13,508,146	11,985,627	**57,456,753**
3rd Party - 087	9,084,295	8,535,679	7,058,277	7,264,027	**31,942,278**
Own Services - 087	1,374,754	1,136,163	1,325,584	1,449,637	**5,286,138**
Total 087	10,459,049	9,671,842	8,383,861	8,713,665	**37,228,417**
Total Outpayments	**105,522,080**	**106,316,568**	**112,417,013**	**108,998,487**	**433,254,148**

	2016/17 Q1	2016/17 Q2	2016/17 Q3	2016/17 Q4	2016/17 **Total**
3rd Party - Landline	11,205,507	11,102,111	11,976,122		**34,283,741**
Own Services - Landline	1,631,508	1,486,544	1,273,442		**4,391,494**
Total Landline	12,837,015	12,588,656	13,249,564		**38,675,235**
3rd Party - Mobile	47,499,581	49,283,123	45,512,141		**142,294,844**
Voice Shortcode	3,493,464	3,254,252	3,384,012		**10,131,727**
Operator Billing	31,976,066	37,516,294	41,260,312		**110,752,672**
Total Mobile	82,969,110	90,053,669	90,156,465		**263,179,244**
3rd Party - DQ	2,906,126	2,777,521	2,379,750		**8,063,396**
Own Services - DQ	9,013,402	8,626,398	7,700,118		**25,339,918**
Total DQ	11,919,527	11,403,918	10,079,868		**33,403,314**
3rd Party - 087	7,684,713	7,156,292	6,921,547		**21,762,553**
Own Services - 087	1,166,947	1,174,908	1,301,973		**3,643,828**
Total 087	8,851,660	8,331,200	8,223,521		**25,406,381**
Total Outpayments	**116,577,313**	**122,377,443**	**121,709,418**		**360,664,174**

2016/17 calculation

- In February 2016 we estimated the market size for 2015/16 would turn out to be £448.3m (compared with the actual size of £433.3m).
- Our estimate for 2016/17 of £430.5m was based on a cautious and prudent assumption for an overall decline in the market of 4%

2016/17 calculation

- Based on quarterly data for 2016/17 received to date, we are forecasting that the market for the whole year will be in the region of £460.0m - £470.0m. This includes the assumption that any areas of additional market decline will be offset by additional growth in operator billing.
- However our assumption for 2017/18 at this stage is to be cautious and base the levy on an estimated market size similar to that originally estimated for the year i.e. £430.5m.