

Business Plan and Budget 2015/16

A statement by PhonepayPlus following its consultation published 10 December 2014

Issued by PhonepayPlus on 27 March 2015

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1. STATEMENT ON BUSINESS PLAN AND BUDGET 2015/16

Introduction

PhonepayPlus is the UK regulator for premium rate services (PRS). PRS are the goods and services that consumers can purchase by charging the cost to a phone bill, ranging from app store purchases on a smartphone to 118 directory enquiries. Our powers derive from a Code of Practice, which is approved by Ofcom under the Communications Act 2003.

This document sets out our plans for 2015/16:

- to work together with industry to improve compliance levels and trust in the market;
- to help consumers use premium rate services with confidence and thereby contribute to a strong, well-regarded market;
- and to ensure that regulation is efficient and effective, keeping pace with market change and facilitating innovation.

They are drawn from the framework of our Strategic Plan for 2014-17 and informed by our principle of working in cooperation with the industry we regulate.

PhonepayPlus consulted on:

- a budget for 2015/16 which represents a cash freeze and a real terms decrease of 1.1% (in light of RPI in January 2015) on the previous year;
- an overall proposed cost of PRS regulation estimated at £4,444,075 including VAT;
- taking into account RPI, an increase in the registration fee from £150 to £155 plus VAT and retaining the current fee exemption structure in support of market growth and innovation.

This real terms cut in PhonepayPlus' budget follows the period 2011/14 in which we reduced our budget by 24.5% in real terms by improving efficiency while maintaining overall effectiveness, despite rising costs for the organisation.

The adjusted levy has been set at 0.6%.

PhonepayPlus' primary obligation is to be an effective regulator of premium rate services and to ensure that we are funded sufficiently to do so. We will continue to reduce our budget where it can be done without compromising either our effectiveness or outcomes for consumers.

There were six responses to our Business Plan and Budget 2015/16 Consultation, including one joint response. A summary of responses can be seen in Section 2.

In recent years the market has undergone a period of evolution, a recent report for PhonepayPlus by Deloitte MCS suggests scope for market growth through the rollout of direct operator billing as a payment option within a variety of sectors. In addition the ongoing review of and changes to the EU Payment Services Directive have the potential to enable the purchase of small physical goods and quasi-physical services (such as road tolls or tickets) through mobile billing. Moreover, Ofcom's introduction of higher maximum drop charges and costs per minute for 09x numbers also provides the potential for a currently declining voice market to increase existing revenues and create innovation. However, it is clear that the market continues in a state of flux and this is reflected in consultation responses. This diverse market of both services and payment methods brings both

opportunities and challenges for industry and the regulator. While consumers and the UK's digital economy benefit from innovative products, customers must continue to be protected from unscrupulous practices and we are mindful of the damage to the wider industry that could be caused by a minority of providers. The work and the funding allocations set out in our Business Plan are designed to address this challenge.

Payment mechanisms have converged. PhonepayPlus too has been adapting to these changes, ensuring we apply the Code flexibly and accommodating new business models and practices whilst ensuring we deliver on our specific business plan objectives in support of our strategic goals.

The flexibility of PhonepayPlus' outcomes-based Code of Practice (Twelfth Edition) (the Code) has given us an effective framework for to regulate within the digital economy. The new Thirteenth Code will be published and take effect this year. Work is already ongoing to implement it and to inform the industry of the changes.

Our vision is that anyone can use premium rate services with absolute confidence in a healthy and innovative market. Within our remit and expertise, we seek a more consistent approach to regulating micropayments that are like PRS.

In this, PhonepayPlus has both consumers and providers' best interests in mind. It is good business in every sense to have a market in which consumers are free from harm and the industry is free to innovate.

Our Business Plan and Budget for 2015/16 is designed with this aim, and we welcome stakeholders' comments and support for its aims.

Key themes for PhonepayPlus' Business Plan and Budget 2015/16

We have identified the following five key objectives for PhonepayPlus in 2015/16:

Objective 1: To continue to drive up compliance levels and trust in the market

PhonepayPlus recognises its role in supporting a healthy market and protecting consumers, and we work with industry to this end. In 2015/16 we will: update the Code of Practice and Guidance to ensure they are effective and future-proof; engage and share information with industry and the wider value chain; make effective and proportionate use of enforcement powers to tackle the minority of providers that cause the majority of consumer complaints.

Objective 2: To identify and prevent emerging risks to consumers

PhonepayPlus will continue to develop our research and intelligence capabilities, to keep pace with technological change and new risks, and to work with the industry and partners to address the risks posed by issues such as mobile malware. We will continue to develop our strategic partnerships and sustainable joint-working with other bodies in recognition of the convergence in digital payments markets and of the increased effectiveness and potential resource savings that partnership working makes possible.

Objective 3: To help consumers use premium rate services with confidence

PhonepayPlus will continue to engage with the industry on how to improve consumers' experiences, and will continue to review its consumer communication processes. Such improvements, in addition to the benefits to consumer confidence and redress, have the

potential to make a tangible impact on levels of complaints received and therefore costs as many aspects of our regulatory approach are dependent on industry behaviour.

In the first six months of 2014, we estimate that 10% of complaints were from groups who may be judged in one way or another to be vulnerable. Our goal is a clear understanding of consumer vulnerability in this changing digital market, relevant and clear consumer advice, and a decline in the number of complaints about services where consumers may be vulnerable.

Objective 4: To ensure that regulatory frameworks keep pace with market changes

In 2015/16 we will work to ensure that regulation remains relevant and that there is consistency for providers and consumers as premium rate is increasingly offered as a payment option alongside other micropayments for the same digital services. This includes direct operator billing and our pilot project to regulate phone payment in app stores, quasi-physical goods and services, providing flexibility in the Code to enable new entrants and business models in the market, engagement with industry and government around legislative or regulatory issues, and continuing to form new partnerships relevant to areas that are shaping the PRS market and the wider digital content market.

Objective 5: To deliver effective and efficient regulation

PhonepayPlus will deliver on specific plans in collaboration with industry on tackling the cost drivers of regulation, including around improving market compliance, improving the consumer journey, and a review to identify drivers of legal costs and any changes which could reduce them. We will also work to reduce costs through savings in discretionary budgets, productivity gains, and savings in overheads. We will conduct end-to-end process and data reviews, make further improvements to time recording, and tender a systems upgrade with the aim of providing greater resilience and lower support costs. We will continue to build our staff and management capability.

Business Plan and Budget 2015/16 Consultation

PhonepayPlus issued a public consultation on its Business Plan and Budget 2015/16 on 10 December 2014, with a closing date for responses of 28 January 2015. Six responses from stakeholders were received, including one joint response, and a meeting of the Industry Liaison Panel (ILP) was also held to discuss the proposals.

A summary of the responses is set out in Section 2 of this document along with our comments on the issues raised; the full stakeholder responses can be found on the [PhonepayPlus website](#). The minutes of the ILP Business Plan & Budget meeting can be found in Annex C.

Following consideration of the consultation responses and the ILP discussion, PhonepayPlus submitted the Business Plan and Budget 2015/16 to Ofcom for approval without alteration. Following a period of scrutiny, Ofcom approved the Business Plan and Budget in March 2015.

The Budget

Total cost of PRS regulation in 2015/16

The total cost of PRS regulation in 2015/16 is £4,444,075 including VAT. This comprises a core levy budget of £4,075,087 including VAT and a Registration Scheme budget of £368,988. The total cost of regulation has been frozen in cash terms and will decrease by 1.1% in real terms taking account of inflation (RPI as measured in January 2015).

Responses from stakeholders to the Business Plan and Budget 2015/16 Consultation are summarised at Section 2. Full responses to the consultation can be seen on our website: www.phonepayplus.org.uk

The cost of each area of activity is broken down in figure 1 below.

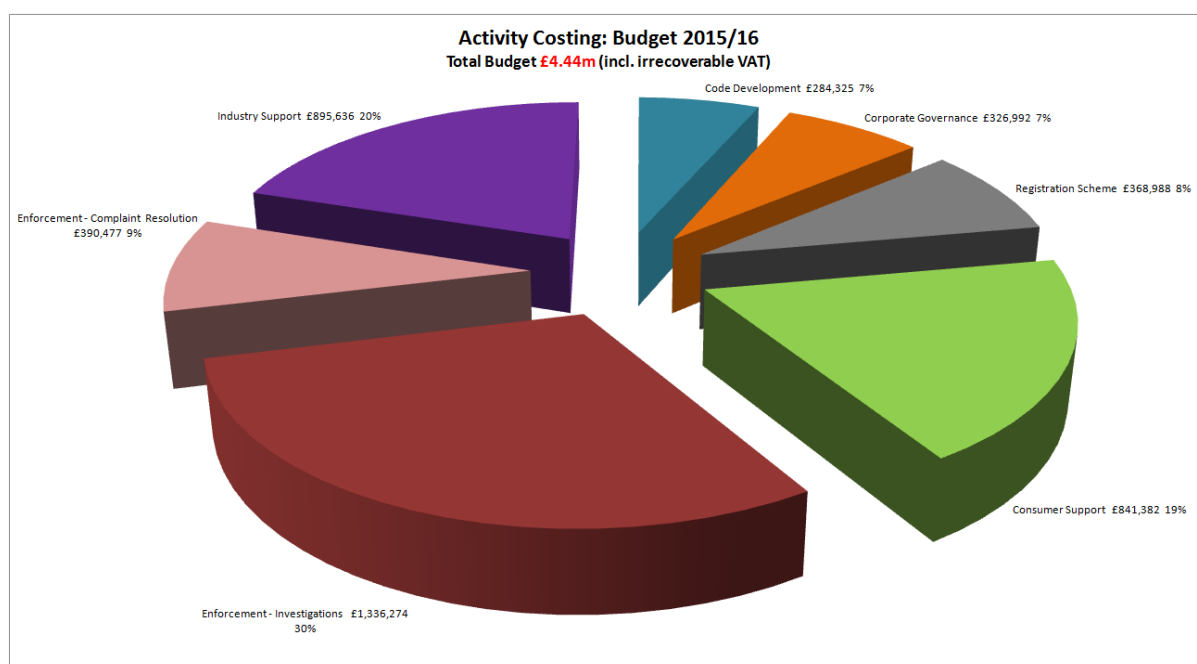


Figure 1.

The activity-based model below aligns costs against the core functions that PhonepayPlus delivers for consumers and the industry, to make clear where resources are being allocated year-on-year:

- *Consumer support: this activity includes consumer advice, the PhonepayPlus contact centre, and other activity on behalf of consumers*
The higher percentage of resources allocated to consumer support, up by 9.4% from £768,812 to £841,382 incl. VAT, reflects increases in consumer support costs and in communications time being spent on this area in line with rises in consumer complaint and contact volumes in recent years;
- *Enforcement – Complaint Resolution: this activity covers work with providers to resolve consumer complaints*
The balance of activities within enforcement, with funding for complaint resolution increased by 33.5% from £292,397 to £390,477 due to an increased focus on resolving complaints and supporting consumers proportionately using our informal enforcement routes and other non-enforcement approaches. These changes propose to increase funding to complaint resolution and consumer support teams

and allocate fewer resources within this activity to legal and formal investigatory costs.

- *Enforcement – Investigations: this activity relates to formal investigations and the work of the Code Compliance panel*

Fewer resources have been allocated to investigations, down by 10.6% from £1,494,385 to £1,336,274. This reflects an increased focus in other activity areas on complaint resolution and communications that support consumer advice. Within the activity area of Enforcement – Investigations, provision has been made for increased legal costs in light of recent trends.

- *Industry Support: this includes advice for industry and events such as PhonepayPlus' industry forums*

There is a small change in the split of activities allocated to industry support, reflecting the savings made in PhonepayPlus' research commissioning described below at page 17 above. It is reduced by 4.3% from £935,949 to £895,636.

Industry levy

PhonepayPlus has a responsibility to the industry and consumers to provide effective regulation. As described earlier we have reduced our budget in real terms by 24.5% over the last three years, and we have reduced the budget by 1.1% in real terms for 2015/16. As a number of consultation responses noted, in recent years the PRS market has contracted, in part due to technological change and the development of new services on smartphones, such as free online search engines and location-based apps which consumers have used in place of PRS. PhonepayPlus has cut the cost of regulation, but a smaller market means PhonepayPlus' adjusted levy for 2015/16 will rise to 0.6% from 1 April 2015.

The levy rate is affected by a number of issues:

- The cost of regulation – the budget amount that the levy and other sources of funds have to cover;
- The expected size of the market – the amount of expected outpayments on which the levy would be payable and any predictions of growth based on new transactions and service types;
- Fines and administrative charges collected in 2014/15 – these monies are always returned to funders insofar as they go towards reducing the cost of the future year's regulation and, therefore, reduce the amount we need to collect through the levy. The amount of fines and charges issued varies from year to year, as a result it cannot and should not be considered a core part of PhonepayPlus' budget;
- Market developments in the preceding year – if the PRS market exceeds expectations in 2014/15, the additional levy collected would go towards covering the costs of 2015/16. On the other hand, a fall in the market in 2014/15 would involve the repayment of excess levy collected from Network operators and this deficit would need to be made good in the following year;
- Any need to make changes to our contingency reserves – these exist to deal with any exceptional 'spike' problems that require extra staff and legal or other resources, and to deal with the winding-up the organisation if required at some future point; and
- The overall impact of UK taxation policy as it affects a non-profit making company such as PhonepayPlus.

The adjusted levy applies to all outpayments payable by Network operators to providers in respect of revenue generated by PRS. The PhonepayPlus levy is calculated as a proportion of every outpayment to ensure that PhonepayPlus continues to receive adequate funding to

carry out its activities, as required by Section 121 of the Communications Act 2003. The budget for levy-funded activity does not include the costs of administering the Registration Scheme, as this is funded separately through registration fees. The registration fees and structure have also been confirmed for 2015/16 and are detailed in a later section.

The first graph below shows changes in the core levy budget in actual and real terms since 2007. It shows that on a like-for-like basis (i.e. excluding the impact of VAT changes), PhonepayPlus has reduced its core budget by 24.5% in real terms since 2010/11.

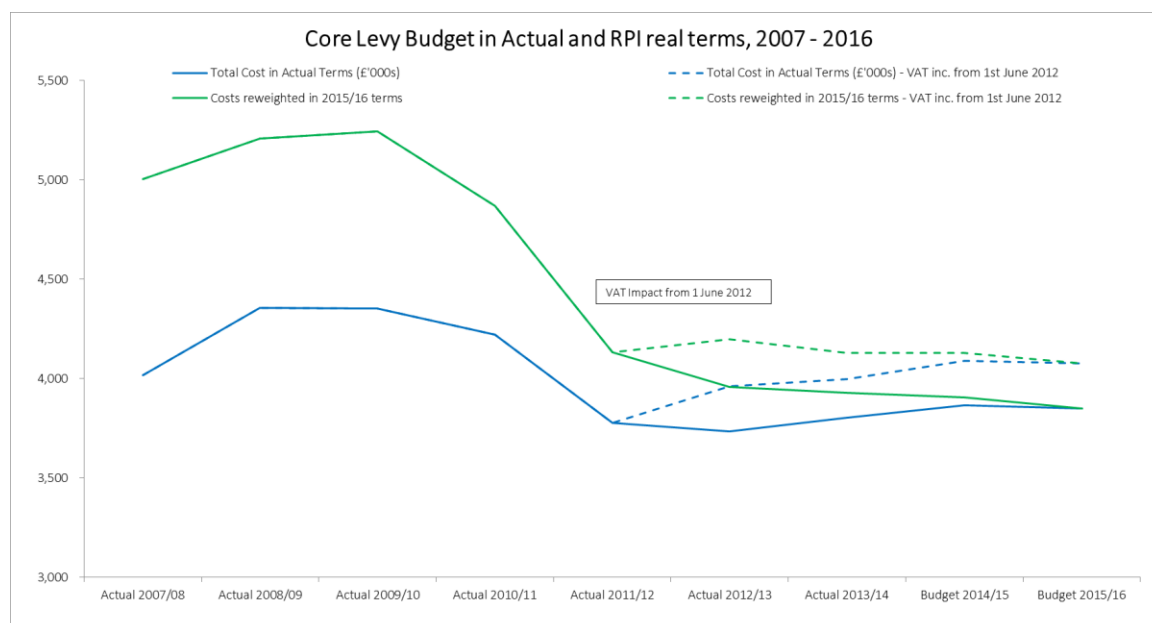


Figure 2.

Figure 3 below shows changes in the non-adjusted and adjusted levy rates over the same period.

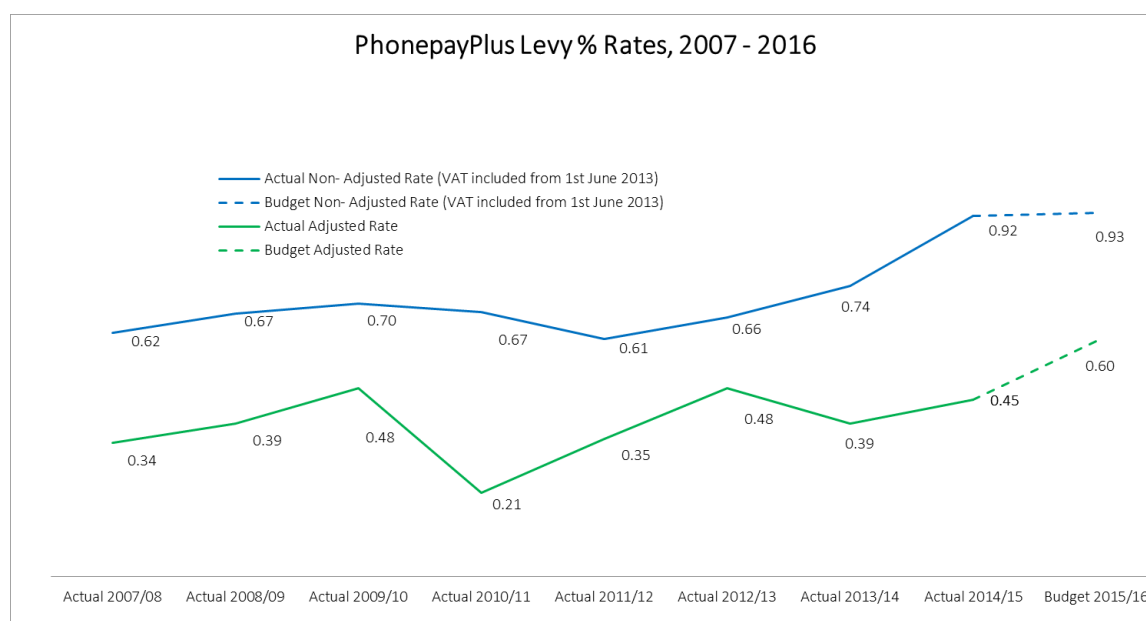


Figure 3.

This non-adjusted rate would be the levy PhonepayPlus would need to raise if it did not receive any other income (such as fines, administration charges or bank interest). The

decline in the market has significantly contributed to the rise in the non-adjusted levy. The adjusted rate is the amount PhonepayPlus is required to levy once the costs of regulation are offset by other income. Further information on how the PhonepayPlus levy is calculated can be found in our Business Plan and Budget 2015/16 Consultation.

A number of respondents to the consultation referred to the recent Judicial Review and asked its possible effects on PhonepayPlus' funding. In recent weeks PhonepayPlus has considered the judgment in the case and has held discussions with the parties involved. Following legal advice, PhonepayPlus lodged an appeal on a limited basis against the finding that Ordanduu and Optimus were entitled to damages. Following the lodgement of the appeal, Ordanduu and Optimus have reached a settlement with PhonepayPlus (the terms of which are confidential). There is no 2015/16 budgetary impact due to the cost of the case and all costs will be borne in 2014/15. The levy range consulted on was between 0.45% and 0.65% with the 2015/16 levy set at 0.6%.

Registration Scheme

Registration is mandatory for most providers operating in the premium rate market and sits alongside the Code of Practice. The benefits of the Registration Scheme to PhonepayPlus and the industry include: providing transparency of the market, assistance in Due Diligence Risk Assessment and Control, easy access for consumers to customer care arrangements.

The cost of the Scheme for the year 2015/16 is £368,988 (an increase of 3.5%), which consists of the depreciation costs for the development and build of the system and ongoing operational costs associated with the support and operation of the Scheme. These costs are recovered by means of a registration fee which is paid annually by all those providers registered on the Scheme except for those who are eligible for an exemption.

The registration fee for 2015 will rise by £5 to £155 plus VAT, as forecast in the consultation on the Business Plan and Budget 2015/16. We will continue to support both charities and new entrants (in their first year of operation) in bringing innovation to the market with an exemption from charges. We do not therefore propose to amend the fee structure and the levels of exemption in place for 2015/16.

In line with our outcomes-based approach to regulation this year we introduced a 12 month pilot scheme which allows app stores to apply for an exemption from the Registration Scheme on behalf of the developers who sell apps in their store via direct operator billing. This exemption is granted in cases where app stores operate sufficient controls of their own and it does not exempt developers from the Code of Practice more generally. Google Play is the first participant in this pilot, which demonstrates the flexibility of the Code in registration and more broadly. We remain committed to the concepts of transparency, assistance with Due Diligence Risk Assessment and Control, and ease of consumer access to customer care information. Exemptions will continue to need to reflect the same standards as the Registration Database in these areas.

PhonepayPlus is committed to reviewing the level of the fee and the exemption criteria annually.

2. SUMMARY OF RESPONSES TO THE CONSULTATION

We received six formal responses to the consultation on the PhonepayPlus Business Plan and Budget for 2015/16, including one joint response, which are summarised below. All responses are published in full on our website.

Q1. What information or evidence do you have about market trends and about the overall size of the phone-paid services market in 2015/16?

AIME: Non-Geographic Call Services (NGCS) changes will create greater transparency for consumers and stimulate growth in new voice-based sectors not previously viable. PSD exemption changes would make possible opportunities for digitally 'ticketed' consumer goods. PRS has lost its dominance as a convenient payment mechanism. It is vital to have a regulatory regime that does not disadvantage PRS. PhonepayPlus should benchmark itself against the combined application of regulation by FCA, ASA, Trading Standards and OIC.

TNUK: It is difficult to believe the market could grow in the short term. Further decline appears inevitable before a levelling off to a smaller market than previously.

PhonepayPlus response: We are working to help the industry prepare for NGCS and the accompanying regulatory changes. Our Code is also being addressed within this work. In recent years we have worked increasingly closely with other regulators when there are complimentary areas or overlap between us. In addition to our longstanding relationships with Ofcom, the Advertising Standards Authority, the ICO and others, we have worked with the FCA on consumer credit services which use PRS and, in addition to our work with AIME and the Treasury, on the EU Payment Services Directive, and with the CMA on the issue of children running up high bills through in-app purchases.

Overall the market is in a period of uncertainty with traditional PRS sectors in decline. However longer-term prospects remain more positive. We commissioned a study from Deloitte that estimates that direct operator billing has the potential to access a total market of over £500 million by 2019. Ofcom's NGCS changes will begin to take effect in July 2015, when, amongst other things, the maximum rate for using 09 numbers will be increased. Correspondingly we have consulted on raising service caps. We believe that these factors may allow new service models to become viable for use as PRS.

Q2. What information or evidence do you have about any specific segments or content areas and their potential for real growth or decline over 2015/16?

AIME: Growth will occur in Direct Operator Billing through the use of App stores provided by Google, Windows etc. We anticipate a further decline in Directory Enquiry services due to the competitive nature of free search engines and location aware apps.

PhonepayPlus response: We are working to support innovation within PRS and digital payments whilst protecting consumers. In line with our outcomes based approach to regulation, this year we introduced a 12 month pilot scheme which allows app stores to apply for an exemption from the Registration Scheme on behalf of the developers who sell apps in their store via direct operator billing. Google Play is the first participant in this pilot. This pilot demonstrates the flexibility of the Code specifically in areas of registration as well as more broadly. We note AIME's points regarding Directory Enquiry services.

Q3. What information or evidence do you have as to the types and overall volume of services which are likely to operate at higher price points and the most popular higher price points so far requested as a result of Ofcom's NGCS review?

AIME: This is too early to predict with surety. Anticipated growth will initially be on competitions, advice and entertainment services.

FCS/Action4: We hope that higher price points will lead to new value-add services. There may be a slight rise in 0870 services charged to higher rate.

PhonepayPlus response: We welcome respondents' comments and will continue to work with industry members to ensure consumers are protected whilst businesses look to develop new value-add services. PhonepayPlus will be publishing the Market Review shortly. This research will utilise network level data and a consumer usage survey to obtain insight into the phone-paid premium rate services market, including developments in direct operator billing. The research will focus on market segmentation and trends in usage. It will also look at drivers and inhibitors of service usage and trust in promotional techniques and different ways to pay for digital goods and services.

Q4. How do you see the phone-paid services market developing in 2015/16?

AIME: The PRS market could develop if several constraining factors were removed. This includes regulatory application, where the business risk of using one payment mechanism is no greater than any other if you comply with the rules as written. AIME is committed to work with PhonepayPlus to promote business confidence.

FCS/Action4: Year on year decline is unlikely to be reversed. We do not expect new, innovative services in PRS.

TNUK: PhonepayPlus will have to review its budget and funding model in a far more fundamental manner in the future.

PhonepayPlus response: A recent report for PhonepayPlus by Deloitte MCS suggests scope for market growth through the rollout of direct operator billing as a payment options within a variety of sectors. In addition the ongoing review and changes to the EU Payment Services Directive have the potential to enable the purchase of small physical goods and quasi-physical services (such as road tolls or tickets) through mobile billing. Further still, Ofcom's introduction of higher maximum drop charges and costs per minute for 09x numbers also provide the potential for a currently declining voice market to increase existing revenues and create innovation.

PhonepayPlus is working for a level playing field of regulation across payment mechanisms and a healthy market in which industry can innovate. We are in cooperation with other regulators such as Ofcom, the FCA, CMA and the new Payment Services Regulator on this and will continue the work, alongside industry, to make the Payment Services Directive work in the PRS market. PhonepayPlus will continue to work collaboratively with industry to support a healthy market.

We recognise the need to continue to assess our processes, funding, and approaches and adapt them in light of changing circumstances. As one consultation response noted, PhonepayPlus conducted a funding review some time ago. Since then, the shape and size of the PRS market has changed with new entrants and new business models. We will

continue to consider the funding model in light of market evolution are we open to examining necessary changes for the future.

Q5. What comments do you have on the priorities for 2015/16? Are there other projects or issues that you think PhonepayPlus should consider for the coming year?

AIME: Developing strategies for future cost reduction in line with practices deployed by commercial entities is critical for this financial year to enable a leaner organisation for future years. The potential levy could be nearer 1% representing a 100% increase in costs to industry depending on costs outcome of the Judicial Review which is likely to affect reserves. Review of all cost areas and developing opportunities to create additional income must be a priority.

FCS/Action4: Delivering effective and efficient regulation should be PhonepayPlus' first priority. We welcome confirmation that PhonepayPlus does not differentiate between residential and business consumers. We fully support work to deal with international non-content PRS.

Mobile Broadband Group: The Mobile Broadband Group would like to see: greater emphasis on improving productivity; more automation in monitoring of services; improvements in Number Checker to make it more comprehensive and up to date; and, better information to providers – MNOs should receive more detail about the nature of complaints so that they can follow-up and try to eliminate issues that are giving rise to complaints.

Anton May, Micro Software and Computers LTD: PhonepayPlus should bid for government funding. Registration costs are too high. A priority should be a smooth transition from £1.50 per minute prices to £2.50-£3.60 per minute services.

PhonepayPlus response: We recognise that we need to continually examine our cost base and our cost drivers. This not something PhonepayPlus can do in isolation and many aspects of our regulatory approach and workloads are dependent on industry and on effective cooperation between PhonepayPlus and PRS providers. We will continue to work with AIME and others in this area. We plan a review of cost drivers to address these and linked issues. We will undertake a range of work to maintain effective regulation whilst reducing costs as detailed at 4.19-4.22 of the Business Plan and Budget consultation document.

As described above in regard to the Judicial Review, there is no 2015/16 budgetary impact due to the cost of the case and all costs will be borne in 2014/15. The levy range consulted on was between 0.45% and 0.65% with the 2015/16 levy set at 0.6%.

We welcome the Mobile Broadband Group's comments and they will inform our work plans in these areas as detailed at 4.19-4.22 and 4.8 of the Business Plan and Budget Consultation document. We will consider possible improvements to Number Checker.

PhonepayPlus' budget for 2015/15 is a real-terms decrease on the previous year. This follows a real terms reduction of 24.5% in PhonepayPlus' budget since 2010, which reflects an ongoing commitment to efficiency that goes beyond the current size of the market. We will be seeking to retender the Registration Scheme to realise potential savings. We are working to prepare for the impact of Ofcom's NGCS changes and a smooth transition to new pricing points.

Q6. Do you support our proposed resource allocation for 2015/16, having regard to the activities and strategy that drives the changes? If not, please explain why.

AIME: Please refer to our comments in “General” section above. We do not entirely agree with the resource allocation as disproportionate for the ultimate objectives. Dispute resolution would be better handled by an “ombudsman” type entity that would encourage consumers to go through appropriate steps for their dispute first and can pass back to PhonepayPlus trends and irresolvable complaints. This could remove approximately £1m of costs. The excessive registration scheme costs have to be resolved within a year. Other cost areas such as PhoneBrain should be reviewed for effectiveness as the increased “savvy” passed to young consumers may not be having an effect on complaints from young people or their parents.

FCS/Action4: We would ask PhonepayPlus to consider the amount of market research that is commissioned.

Mobile Broadband Group: Overall the budget envelope is reasonable. Third party services should be regularly reviewed and tendered.

TNUK: PhonepayPlus will have to be clearer as to the areas of PRS on which it spends its time and by extension on which parts of the industry are causing PhonepayPlus to incur costs. It is unclear what the principle of time recording means in practice and how it is applied.

Anton May, Micro Software and Computers LTD: Does not agree with proposed allocation and believes expenditure is too high.

PhonepayPlus response: We have an allocation based on PhonepayPlus’ strategic plan goals and the organisation’s priorities. We will be considering cost drivers and our business’ processes to ensure best value, over the course of the year and we will continue to engage with industry in these areas.

We have reviewed the PhoneBrain consumer education campaign in recent months and have changed our approach for effectiveness and value for money; outsourcing delivery of the competition on a payment by results basis to a charity that specialises in children’s education and internet safety.

We have reduced the research budget for 2015/16 and will continue to keep it under review.

Time recording is used to identify where each team’s time and resources are spent, for example during investigations this allows the accurate assessment and recouping of costs incurred and their recovery through administrative charges.

PhonepayPlus continues to work with the industry to identify and resolve areas that are causing consumer contacts and issues.

We will continue to share data and will seek to improve it where possible. In February 2014 PhonepayPlus published a major piece of research into the PRS consumer journey. Since then, we have made a number of changes to our processes to improve customer services. We are also working with the PRS industry to help them implement changes to their customer care processes. This is a key project for PhonepayPlus, both in order to ensure a

healthy and innovative market for consumers and because it is integral to tackling our cost drivers.

The Registration Scheme's costs primarily represent in-house staff time allocated to administering the Scheme and for infrastructure, such as the software licences required to operate it. This year we plan to re-tender the hosting and operation of the Registration Scheme in order to realise a potential reduction in running costs that newer 'cloud' database technology is bringing. We anticipate reducing operating costs and minimising the requirement to upgrade software every three to five years, which will make the costs of operating the Registration Scheme viable ongoing. Any reduction realised will take effect from the 2016/17 budget; however, the Registration Scheme is a major piece of infrastructure and in order to keep the Registration Fee and increases relatively low, it is £155 plus VAT for 2015/16, PhonepayPlus is paying down the scheme's capital costs over a longer period.

We will continue to review and tender our third party processes for best effectiveness and efficiency.

We recognise the need to continue to assess our processes, finding, and approaches and adapt them in light of changing circumstances. The aim, to reduce our budget where it can be done without compromising our effectiveness or outcomes for consumers, continues and is reflected in this budget for 2015/16.

Q7. Do you agree with our approach to the charging model, during 2015/16? If not, please explain why.

AIME: In relation to the Registration Scheme system, AIME supports the charging model and would like to see a continuation of the zero cost for new market entrants and charities. AIME cannot understand the costs to support the Registration Scheme system. The overhead for Registration Scheme is one third of the overhead for the entire regulator. It is unclear why the Registration Scheme requires £100k of staff to look after it.

FCS/Action4: Any retendering of the registration scheme should look to a new system that would recoup its costs in a short time-frame, following which costs will be reduced for registrants. Would like to understand how PhonepayPlus will pay for legal costs incurred in recent Judicial Review.

Mobile Broadband Group: Yes. £155 is reasonable.

Anton May, Micro Software and Computers LTD: PhonepayPlus should be government funded.

PhonepayPlus response: We will continue the model of zero costs for new entrants to the scheme and charities.

As described above at question six, this year we plan to re-tender the hosting and operation of the Registration Scheme to realise a potential reduction in running costs that 'cloud' database technology is bringing.

As described above at question five, PhonepayPlus has agreed a settlement in the recent Judicial Review, there is no 2015/16 budgetary impact due to the cost of the case and all costs will be borne in 2014/15. The levy range consulted on was between 0.45% and 0.65% with the 2015/16 levy set at 0.6%.

We welcome Mobile Broadband Group's response.

General comments made by respondents:

AIME: AIME recognises the significant changes underway at PhonepayPlus to cater for increasingly complex technological/regulator environment. It is reassuring to see AIME/PhonepayPlus engagement creating renewed confidence and building of trust. The Budget is the same level as last year – this is unsustainable in the long term. In 2016/17 as a result of cost driver reviews, the levy should be set at no more than 0.5%. AIME calls on PhonepayPlus to focus on cost drivers and review its operational structure and recommends a consultant on consumer services operation to review changes and cut costs. AIME also recommends generating income from appropriate activities/services and welcomes the commitment to review investigations processes, and committed to working with and supporting it.

FCS/Action4: This response suggests outsourcing the complaints and enquiry line to an ADR operator. FCS/Action4 believe that increased calls to PhonepayPlus are primarily a result of practices by MNOs' customer services teams.

Mobile Broadband Group: We trust the recent court judgment will not deter PhonepayPlus from tackling illegal and fraudulent practice in the future. MBG remains confident that there is a robust commercial future for PRS. The method of setting fines should be more transparent, and MBG is happy to meet with the Chair of the CCP to discuss it. MBG would welcome the chance to work further with PhonepayPlus to eradicate fraudulent and illegal behaviour.

TNUK: TNUK believes PhonepayPlus manages its budget efficiently, and congratulates PhonepayPlus on cutting its budget since 2010 without loss of effectiveness. The current funding model is not sustainable long term as the market size shrinks but consumer harm stays steady. TNUK calls for a review of the funding model and a reassessment of the definition of polluter pays so that sectors pay more depending on consumer contact/problems caused by sector.

Robin Chittenden Bird and Wildlife photographs: There should be a variable or tiered registration fee, dependent on the amount of revenue generated from the service in the previous financial year.

PhonepayPlus response: We welcome AIME's offer to work with us on a range of issues and their recognition of our ongoing work. The Business Plan and Budget for 2015/16 proposes a review of cost drivers and the overall business, recognising there are a number of areas that need to be addressed for future years.

We are working with industry, including MNOs, on the consumer journey to try to smooth processes and resolve issues like this; however, the complexity of the issues PhonepayPlus faces is increasing, and so there are multiple issues to resolve.

We welcome TNUK's comments. Our Business Plan and Budget includes plans to tackle the cost drivers of regulation as detailed at 4.19-4.22. The market has been in a state of change in recent years and we recognise the need to continue to assess PhonepayPlus' processes, funding and ways of working as described above in the response to question four.

PhonepayPlus welcomes MBG's offer to work with us to eradicate fraudulent and illegal behaviour. As ever, we would welcome MBG and other industry members' feedback on any

proposed changes that are suggested as a result of PhonepayPlus' planned work to review legal processes.

There is an exemption to the registration fee for new registrants with a projected annual gross outpayment of less than £10,000 and for charities. The market has been in a state of change in recent years and we recognise the need to continue to assess PhonepayPlus' processes, funding and ways of working.

ANNEX A: PhonepayPlus Budget 2015/16

PhonepayPlus Expense Budget 2015/16					
	Budget	Budget	Budget		
	2015/16	2014/15	Variance	%	
	incl VAT	incl VAT	(Inc) / Dec	Change	
	£	£	£		
Staff	2,539,527	2,563,700	24,173	0.9%	
Communications	110,207	114,887	4,680	4.1%	
External expertise	117,852	162,712	44,860	27.6%	
Legal	171,396	126,708	(44,688)	(35.3%)	
Research	132,000	180,000	48,000	26.7%	
External audit & outsourced services	18,702	17,811	(892)	(5.0%)	
Overheads	304,860	332,342	27,482	8.3%	
Premises	457,382	372,762	(84,620)	(22.7%)	
Publications	22,809	18,960	(3,850)	(20.3%)	
Telecoms	72,027	65,664	(6,363)	(9.7%)	
Website	30,436	36,316	5,880	16.2%	
Depreciation	97,889	96,313	(1,575)	(1.6%)	
Total budget funded by Levy	4,075,087	4,088,173	13,086	0.3%	
Registration Scheme	368,988	356,472	(12,516)	(3.5%)	
TOTAL	4,444,075	4,444,645	570	0.0%	

This expenditure budget is presented in traditional accounting style to allow stakeholders to compare the proposed spending in 2015/16 with the previous year.

PhonepayPlus is proposing savings in a number of areas:

- We have rationalised our research and policy teams to deliver these functions more efficiently and more effectively through other means, whilst maintaining products such as the annual premium rate services market review. This 26.7% saving is reflected in the table at 'Research';
- In the area of 'external expertise', which includes PhonepayPlus' use of consultants and other external advice, we have budgeted for a saving of 27.6%;
- Overheads costs are projected to fall by 8.3%.

Our staff remain the largest portion of the core Levy Budget. Our staff's work has allowed us to maintain a high level of service throughout a period of significant increases in the volume of complaints (and to deliver regulation effectively where cases under investigation and adjudication of are of increasing complexity).

We have reduced the Staff budget by 0.9% in cash terms, which equates to a real terms reduction of 2% in light of RPI (as at January 2015). We need to maintain frontline and legal resources to meet ongoing demands; however we have been able to slightly reduce the headcount for the Executive.

The rising cost of premises and other relevant overheads, including utilities have been largely absorbed for a number of years. PhonepayPlus' office lease is approaching the end of its five year term and is due for renewal in November 2015. Property rental prices have risen significantly since 2010, when PhonepayPlus secured very favourable terms. We have begun a review of rental and associated costs to understand best options to tackle this cost driver and to ensure the most cost efficient position with regard to location and premises. We have made some assumptions on these figures as the review is in its initial stages and so we have budgeted for an increase of 22.7% in premises costs for 2015/16. We have started the review at this time as it is the point at which we can best predict and understand the likely market options that will be available when the current lease ends next year.

Legal fees have increased by 35.3% compared to last year's budget. This is in line with actual spend on legal costs in 2014/15, which has been significantly higher than budgeted. The amount budgeted for legal costs in 2015/16 is based on actual costs in 2014/15 and our best forecast of required spend in the next financial year. We plan a review of the drivers of PhonepayPlus' legal costs and any changes that could be made to reduce them in future years.

ANNEX B: PhonepayPlus Expense Budget 2015/16 – The Registration Scheme

	Budget		Budget		Budget Variance	%
	2015/16		2014/15		(Inc) / Dec	Change
	£		£		£	
Staff	100,070		97,103		(2,967)	(3.1%)
External expertise	10,000		10,000		0	0.0%
Overheads	95,851		101,704		5,853	5.8%
Premises	13,319		11,451		(1,868)	(16.3%)
Website	13,567		23,560		9,993	42.4%
Depreciation	133,837		110,639		(23,198)	(21.0%)
Total excluding VAT	366,644		354,457		(12,187)	(3.4%)
Cross-charge VAT impact on Registration	2,344		2,015		(329)	(16.3%)
Total incl irrecoverable VAT impact	368,988		356,472		(12,516)	(3.5%)

ANNEX C: Minutes of the Industry Liaison Panel (ILP) (budget) meeting 9 December 2014

NOTES OF THE ILP (BUDGET) MEETING NO 43rd HELD ON

TUESDAY 9th DECEMBER 2014

Present:

Graham Pottie – BT (Chair of the ILP)
Ann Cook – ITV
Gavin Daykin – Ofcom
Simon Grossman - 118118
Hugh Griffiths – PP+ Board and Mobile Services
Rory Maguire - H3G, MBG commercial, AIME

PhonepayPlus

Jo Prowse (Chief Executive)
Hugh Griffiths - Board
Peter Hinchliffe - Board
Mark Collins
Jonathan Levack
Colin Livingston
Peter Morton
Stephanie Ratcliffe (minutes)

Apologies:

Andrew Pinder (Chair)
Cathy Gerosa – FCS
Suzanne Gillies – Action4
Hamish MacLeod - MBG
Chris Pateman – FCS
Jeremy Stafford Smith - Vodafone

Welcome:

Graham Pottie, welcomed representatives to the meeting and apologies were noted.

The minutes and actions from the previous meeting, held on 21st October 2014, will be covered at the next ILP meeting on 17th February 2015.

1.0 Business Plan and Core Budget 2015/16

Presentation

Jo Prowse presented an overview of the PhonepayPlus business plan and budget for 2015/16 and explained how we intend to deliver on the PhonepayPlus strategic objectives over the course of 2015/16, as summarised in the budget consultation document.

The presentation focused on highlights of 2014/15, key themes and priorities for 2015/16 and the regulatory budget and proposed levy and registrations fee for 2015/16.

PhonepayPlus is consulting on:

- a budget for 2015/16 which represents a cash freeze - a real reduction of 2.3% on the previous year;
- an overall proposed cost of PRS regulation estimated at £4.44m incl VAT;
- an increase in the registration fee from £150 to £155 plus VAT, taking account of RPI and retaining the current fee exemption structure;
- an adjusted levy forecast to fall in the range of 0.45% to 0.65%.

In response to the increasing technical challenges and market changes in 2015, key highlights will run alongside the strategic plan as follows:

1. Strengthening compliance and enforcement through increased industry collaboration and proportionate regulation;
2. Improving consumer's experience and protecting vulnerable consumers;
3. Future proofing regulation, with the implementation of the new Code of Practice, app store pilot progress, tackling security threats and responding to proposed UK and EU legislative changes;
4. Enhancing regulatory efficiency and effectiveness through developing our engagement with other regulators, and infrastructural and process improvements.

Key deliverables and strategic goals for 2015/16 include:

- tackling cost drivers of regulation and delivery of efficiencies;
- the implementation of the 13th Edition of the Code of Practice;
- new Guidance;
- supporting and improving on the polluter pays principle;
- identifying emerging market issues, joint working and industry engagement;
- improving the consumer journey;
- app store pilot review;
- engaging with industry and government on legislative and regulatory issues.

The ILP noted that the market remains in a period of decline of 14.4% year on year (2013/14 compared to 2012/13) with a further Q2 cumulative decrease of 4.5% on the previous year. However longer term prospects are more positive with growth in operator billing, emerging sectors such as voice short codes and changes resulting from Ofcom's NGCS review. It was further noted that in recent years, PhonepayPlus' costs have grown, primarily relating to increasing volumes of contacts and activity to resolve complaints. Year to date there is a 40% increase on complaints compared to the previous year,

Regulatory budget proposals for 2015/16:

- the overall budget proposal is £4.444m (incl VAT), which represents a cash freeze and a 2.3% decrease in real terms over 2014/15 (in line with RPI at October 2014).
- the proposed core (levy) budget is £4.075m (incl VAT), which represents a 0.3% decrease in cash term and 2.6% decrease in real terms over 2014/15 (in line with RPI at October 2014).

Staff remain the largest portion of the core Levy Budget; despite increases in volumes it is proposed to reduce the Staff budget by 0.9% in cash terms (3.2% reduction in real terms) next year.

The proposals take account of costs increase in the following areas:

- legal costs relating to enforcement and legal challenges (up 35.3%);
- five year lease for office space due for renewal end 2015 and rental market increases (22.7%).

The proposals are offset by key savings identified as follows;

- decrease in overhead costs by 8.3%;
- decrease in consultants and external expertise costs by 27.6%;
- decrease in Intelligence and Research costs through smarter working by 26.7%.

Registration fee proposals for 2015/16:

The proposed registration scheme budget is £369k (VAT exempt), which represents a 3.5% increase in cash and 1.2% increase in real terms over 2014/15 (in line with RPI at October 2014). This is mainly based on the plan to re-tender the hosting and operation of the scheme to realise longer term savings in running costs..

The proposed registration fee of £155 + VAT for 2015/16 represents a slight increase taking account of RPI from £150 + VAT from the previous year.

Levy rate for 2015/16:

The levy rate is affected by the expected market size and the fines and administrative charges collected in 2014/15 and which offset the levy total. It was noted that fines issued this financial year are projected to be 60% down on invoicing levels last year with the fine collection level correspondingly reduced. The adjusted levy is forecasted to fall into a range from approximately 0.45% to 0.65%. Jo Prowse advised this banding is deliberately broad at this stage and is the best estimate accommodating a number of uncertainties, such as market performance across 2014/15 that will be clearer when Q3 figures are available and fine income collection levels are more certain.

2.0 Discussion

In discussion, a number of suggestions were put forward:

- improve on ways for consumers to seek self-help and consumer education;
- consider an internal review of current external legal services to ensure best value for money and services;
- ensure the projection for voice based PRS is factored into the forecasted income from levy;
- monitor and factor in the trend for new business models (i.e e-money providers);
- clarify within the consultation the main factors affecting the setting of levy range;
(Action: J Prowse)
- consider projections as a result of the NGCS changes, the future effects of price points, costs of handling consumer education, complaints and communication.
- Conversion also ensued around the current funding model.

3.0 Conclusion

The ILP noted that focus will continue to be on improving collaboration with industry stakeholders and working programmes which will be developed to address the key cost drivers, improve efficiency, processes and the customer care journey.

The ILP were asked to provide feedback on the consultation, which will be published this week, by the deadline date of 28th January 2015.

A final statement confirming the levy rate and the registration scheme fee will then be published in good time for the start of the financial year 1st April 2015.

4. AoB

The Chairman thanked the ILP for their contributions over the year and wished everyone a happy Christmas.

ILP meetings in 2015 at PhonepayPlus Offices

Tuesday 17th February 10-1pm

Tuesday 12th May 10-1pm

Tuesday 21st July 10-1pm

Tuesday 20th October 10-1pm

Tuesday 8th December Budget Meeting 10-11.30am