



**Premium Rate Association response to  
2008/9 Annual Plan and Budget:  
A Phonepay Plus Consultation**

The Premium Rate Association welcome this opportunity to respond to this Budget proposal consultation, although we note that the external responses to the 2007/8 budget proposal still have not been uploaded onto the Phonepay Plus (PPP) Website. We are confident that the contents of these responses were considered in a timely manner but hope that PPP understands the value of consultation, budgetary and policy transparency as held by its stakeholders.

As a membership driven trade association representing commercial businesses operating within the Premium Rate telephony sector we are starkly aware that effective regulation is intrinsically linked to the good levels of consumer trust and in turn a buoyant industry. For this reason we welcome Sir Alistair Graham's comments and the newly adopted challenge undertaken by Phonepay Plus (PPP) to pre-empt, prevent, and protect and hope that the forthcoming year will provide an environment conducive to reviving the industry which as documented has taken a battering over the past 12-24 months.

**The Budget**

The draft budget that has been presented in various sections and a response to each section's contents and statements would seem to be the most appropriate method to respond, therefore this is how we will proceed.

**The 2007/8 market, regulatory performance and the context of our plans.**

We agree that it would be foolhardy and of little value to attempt to anticipate the findings and outcomes of Ofcom's review of the Scope of Premium Rate Service regulation.

With regard to PPP 0871 regulation, we are aware that this project has yet to commence and that regulation will inevitably have costs involved but we hope that your assumptions that this regulation through the Statement of Application will be able to be funded by the levy revenue that will be attracted from 0871 traffic.

We encourage the ongoing development of working relationships with other regulatory bodies in the hope that regulation and responsibilities will be clear and regulation will not be over burdening.

In terms of market developments, as ever new product development and consumer adoption of new technologies moves on and we are pleased to see that PPP in its own work and in conjunction with the ILP are looking at how these may affect the industry, the consumer and regulation. As evident, throughout your document and as a major point in our response we note an estimated fall in the total market sector value for PRS of 17%. This has been a disastrous period for the industry, resulting primarily from the fall out from the Broadcast PRS cases. We are well aware that the cost of regulation is not based on market size alone, but we must stress that PPP must be very aware in their actions and budgetary demands on diligent companies. With this in mind we are keen to encourage best value regulation which include seeking cost savings for compliant businesses wherever possible and are therefore, fully support the “polluter pays” environment described. We currently have an industry which has suffered a massive reduction in revenues and a reported drop in consumer complaints (6000 less year on year) and believe that the regulator must take these factors into consideration when setting its final budget figure.

This is probably a suitable vehicle to once again state our objection to the recent change in the way that Informal Procedures are reported in that, as of 15<sup>th</sup> October these procedures will be published on the PPP website. It is widely believed that this type of publication is most definitely seen as a sanction against companies and as such PPP will find that more and more will not accept the findings of the simple and low cost Informal route and will be forced to continue through to a Standard Procedure in order to protect their company name.

### **Our Approach in 2008/9**

This section of your document encouragingly comments that there is a firm realisation that the industry must not over burdened financially through the levies charged to support regulation. However, we find it a hard pill to swallow that PPP are claiming savings as a result of it's reduced headcount in 2008/9, when it seems clear that the 7% reduction will soon be reduced to a 3% reduction when the 2 new legal posts are created, and certainly when comparing the like for like cost per FTE we find that the real cost per head has actually risen from £43,100 to £47,300 a rise of 9.7% which is significantly over the 3.9% RPI quoted.

When looking at the split of regulatory activity our main and recurrent comment is that PPP should always strive to offer, effective, proportionate and best value regulation and must keep costs firmly confined within their scope of regulation and remit and must not be drawn into other arenas of regulation.

### **A. Pre-empting problems**

The PRA believe that the year ahead is bound to raise new regulatory issues and understand that research focussed on both industry and the consumer is necessary to pre-empt problems but hope that all research is carried out in the most cost effective manner and is always targeted at improving regulatory activities rather than being general in its approach.

We are keen to see work commence on the 12<sup>th</sup> Code of Practice and will certainly be eager to add comment and information to the development of the new document through both consultation and direct input through interaction with the ILP.

### **B. Preventing Problems**

If any regulator can pro-actively offer a service which offers compliance advice to stakeholders this must be a good thing, and for this reason we support the re-launch of the compliance support service, however our fear is that service providers will remain unconvinced of the service's usefulness save to add a compliance advice request as a mitigating factor should breaches be brought against a service at a later stage.

We believe that increased interaction with the industry through workshops, forums, websites and exhibitions is a positive activity to undertake and encourage PPP to develop this activity over the coming year.

### **Transparency and Performance Management**

Echoing our comments above we are very happy to see a collaborative approach to regulation which will explore the potential of working with the ILP and industry and are pleased to note the commitment to share information with stakeholders.

Performance management is key to PPP's success and we were happy to note in recent communications that PPP was moving away from simply reporting on those KPI's that were easy to measure like the time it takes to answer contact centre calls and instead looking at those factors like setting benchmarks on case handling and total regulatory costs. These, we believe are far more useful going forward.

## **Spending Plans**

Unfortunately we find the draft budget and spending plans as laid out fall short of our expectations in terms of fully assessing the current market situation and applying this to the next year's projections. There seems to be a woeful lack of description, reasoning or explanation behind the figures quoted.

On paper, even if you can justify divorcing the state of the market (-17% estimate year on year with fewer complaints) from the cost regulating it. The 7.3% increase requested seems to have been made possible by balancing increasing costs in areas such as the average cost per FTE, external professional services and website development against seemingly unreasoned or undescribed savings in printing costs, overheads and telecoms.

To take the budget line by line-

### **0871 services**

We fully understand the difficulty with measuring the potential costs of regulating this new arena, but emphasise that all 0871 attributable costs should be covered by the levy funds paid over to PPP by 0871 providers in line with the light touch regulation of this range.

### **Staff**

As quoted earlier in our response, we note that the total staff cost figure has only increased by 2% when disregarding 0871 however we are more than surprised to see the substantial increase in the cost per FTE (9.7%) year on year. The PRA strongly believe that PPP must invest in its people but on face value this doesn't look like a sensible move to reduce the headcount (physical resource) and spend significantly more per head when tasked with fulfilling your daily duties unless it can just be justified by having more experienced staff will result in greater efficiency.

### **Events**

Interaction, sharing of information and the general understanding of what the regulator is doing from the point of view of the stakeholders is a must and for this reason we back investment in these areas.

### **External Professional Services**

Outsourcing can deliver a business with immediate, skill specific and expert resource to cater for most eventualities and therefore setting aside funds for these services is a must but we would have certainly expected to find cost savings in staff cost as a result. This has not happened.

## **Overheads**

This is one of the areas that really needs further explanation, an 18.4% reduction in overheads is significant to say the least but without further information on what this cost covers we have no idea as to how these savings will be made and whether indeed this is a reasonable and achievable figure. At present it looks more like a method to balance the increased budgetary requirements of other lines in the budget.

## **Printing**

Once again a massive decrease in printing costs has been forecast here (22.8%), is this really achievable by increasing online publishing? Surely for the same reasons as the Gambling Commission struggled to allow web entry as a free entry route for Prize Competitions. PPP must look at its stakeholders and note who could potentially be excluded from receiving regulatory advice, help and guidance if hard copy materials are replaced by web based publications.

## **Telecoms**

This line is not clear from the budget. The figures seem to show an 18.4% decrease in costs, yet the description in section 4 notes an increase is expected in response to SMS messaging telephone contact. Clarity here is required.

## **Website**

The increased costs are attributed to increased hosting requirement for the coming year, however, this does seem to be a huge figure and we would welcome further description on this line.

## **Capital Expenditure**

We are unsure why this cost is still described as “Depreciation” and again we would have expected much more description of this item in order to add useful comment. The only question that has been raised from the information supplied is whether the old telephone system is fully written off when the new system replaces it? If not then depreciation will be greater than forecast

## **Premises**

This line has no comment in the description, but we are pleased to see a small reduction in costs here, although how this is to be achieved is not stated

On a related note, a common question regarding Premises cost is whether PPP would not be better positioned away from Central London to provide better value regulation.

## **Revenue Sources**

We have no particular comment on this section.

## **The 2008/9 Market**

We have no great feeling of optimism about market growth over the next year and assuming there will be no more major crises in the PRS market to the detriment of the industry we would expect PPP to base its projections on a growth neutral situation.

These thoughts lead into the Levy setting section. Obviously we acknowledge the fact that PPP has certain unavoidable fixed costs in the way that it operates and that a smaller market will inevitably mean a higher levy, but hope that PPP will always look to minimise regulatory costs in this diminished market.

## **Conclusions**

In summing up our response, the main comments revolve around whether an increased budget is required or suitable when considering current market and consumer complaint conditions.

We also must make it clear that this year's budget document is so vague in its description of the financial requirements listed that it makes it very hard to make constructive comment, it would also be of benefit when repeating this exercise to make the previous periods accounts available for comparison. This point was reiterated on presenting this budget document to a chartered accountant who was amazed that a budget of this size could be authorised on the back of a proposal with such a lack of financial information and justification.

We are aware that PPP do not need "sign off" regarding the budget proposal from any party other than Ofcom but hope that PPP still see the value in public consultation and the positive results that can be achieved from undertaking such an activity. This can only be realised if the consultation documentation is clear and fully descriptive in its reasoning.

As ever, should PPP require further comment we will always make ourselves available.

**For, and on behalf of the members of the Premium Rate Association.**