

**NOTES OF THE ILP (BUDGET) MEETING NO 48th HELD ON
TUESDAY 10th DECEMBER 2015
2.30pm-4.00pm**

Present:

Ann Cook – ITV (Chair)
Gavin Daykin – Ofcom
Eric Feltin – Safari Mobile
Robert Franks – Telefonica
Cathy Gerosa – FCS
Rickard Granberg – UKTA rep
Hugh Griffiths – PP+ Board and Mobile Services
Claire Harding – 118118
Anne Hointink – EE
Nik Hole - 118118
Hamish MacLeod - MBG
Rory Maguire - MBG commercial, AIME
Steve Ricketts - PP+ Board and ATAO
Jeremy Stafford Smith – Vodafone
Mike Steel – BT Agilemedia
Carmen To – Ofcom
Rob Weisz – Fonix

PhonepayPlus

David Edmonds (Chair of PPP)
Jo Prowse (Chief Executive)
Peter Barker
Stephanie Ratcliffe (minutes)

Apologies:

Andrew Ailwood - BBC
Suzanne Gillies – Action4
Michaela Hamm - BBC
Lynn Parker - Ofcom

Welcome:

Ann Cook welcomed representatives to the meeting and thanked everyone for the excellent attendee turnout. New ILP members were welcomed, introductions made and apologies noted.

David Edmonds, Chair of PhonepayPlus, was pleased to announce that Ann Cook has recently been appointed non-Executive industry director onto the PhonepayPlus Board and a public announcement will follow shortly. The ILP congratulated Ann Cook on her appointment, which will commence in January 2016.

The minutes and actions from the previous meeting, held on 29th October 2015, will be covered at the next ILP meeting on 1st March 2016, this meeting being the receipt of the business plan and budget.

1.0 PPP Business Plan and Core Budget 2016/17

Presentation

Ann Cook advised the ILP that Peter Barker will present on the business plan and budget 2016/17. Discussion will then follow.

Peter Barker gave an overview of the draft business plan and budget for 2016/17 and explained how PPP intend to deliver on its strategic objectives over the course of 2016/17, as summarised in the budget consultation document.

The presentation focused on key themes and priorities for 2016/17 and addressed:

- the proposed budget 16/17;
- the current levy model and proposed variation;
- a review of a longer term funding model.

As published in PPP's strategic plan 2014/17 focus will continue on the key objectives:

1. to continue to drive up compliance levels and trust in the market;
2. to identify and prevent emerging risks to consumers;
3. to help consumers use PRS with confidence;
4. to ensure that regulatory frameworks keep pace with market changes;
5. to deliver effective and efficient regulation.

The key deliverables and strategic goals for 2016/17 include:

- working closely with Ofcom and stakeholders to deliver effective PRS regulation and driving further efficiencies;
- systematically reviewing compliance processes;
- extending the depth and range of stakeholder relationships;
- further developing PhonepayPlus's ability to anticipate and understand market changes;
- continuing to enhance data capture and reporting systems;
- contributing to policy development and managing the impact of key legislation on the PRS market;
- engaging constructively with industry, reviewing the levy based funding model and exploring alternatives to work both in theory and in practice.

2016/17 levy and budget

The following points were outlined:

- Three key components affecting the levy: PhonepayPlus budget for 16/17, retained funds from 15/16 (fines/admin charges and over recovery of previous levy), and estimated market size for 16/17;
- The proposed PhonepayPlus budget for consultation is a 5% in real terms reduction from the previous year, with the cost of PRS regulation proposed at £4.27m;
- Retained funds are expected to be significantly lower, with the reduction in fines and admin charges broadly reflecting the current balanced approach to regulation and the nature of the organisations being fined;

- Market size is estimated to fall by 4%, as measured by outpayments from networks. This is based on an analysis of total outpayments in Q1 and Q2 of 2015/16, plus an understanding that while charge to mobile is increasing significantly, all other service channels are in decline;
- The Registration Scheme fees are proposed to remain unchanged at £155 + VAT.

Proposal variation to current levy model

A proposed variation to the adjusted levy model was outlined, to address the levels of uncertainty within the current approach. This variation would see PPP's budget fully recovered initially through an unadjusted levy, with any retained funds collected during the year being redistributed directly back to the network operators.

It was noted that 90% of the current levy is funded by 8 network operators, with evidence that much (if not all) is being retained as a cost of sale rather than being passed along the value chain.

The benefits of the proposed variation were set out, including providing a clear emphasis to industry that fines/admin charges are wholly independent of the cost of regulation, and that for 16/17 only there would be a one-time double return of retained funds (those held at the start of 16/17, plus those collected during 16/17).

It was also noted that the variation is achievable in 16/17, since it would not require a change to the Code of Practice.

A longer term funding review:

For the longer term beyond 16/17, a comprehensive model of the funding review is proposed. This will aim to establish a consensus on the principles behind funding, and identify the model that both best meets the principles and works in practice.

The Executive confirmed all feedback from the industry is very welcome.

2.0 Discussion

A broad discussion was held, with comments from all present. In summary:

Robert Franks welcomed the transparency within the consultation document and made the following recommendations:

- The establishment of a set of KPIs and processes, by which the degree of compliance in the market can be measured, in order to better understand the cost of regulation in the market. The Executive advised the quarterly operational reports provide detailed data, and this data is being reviewed and improved. The Executive also reaffirmed its commitment to market monitoring and to further identifying ways to measure the success of compliance in the market. Discussions are underway with audit houses in order to assess how to best utilise in-house and external tools to improve understanding of the consumer journey and compliance of PRS services;
- Consider other cost options. The Executive expressed the view that the budget is an efficient budget, taking account of our statutory requirements as the regulatory agent for PRS. In this light, the Executive confirmed that PPP's processes are engineered to ensure we operate as a regulator, not as an agency for alternative dispute resolution;
- Consider alternative funding models. The Executive confirmed we welcome views on alternative options;
- Consider best use of market research and other means to achieve similar outcomes. The Executive explained the process by which PhonepayPlus is best placed to commission an Annual Market Review, both on behalf of the whole PRS industry and for its own information purposes. It was agreed that the AMR could be further developed; feedback continues to be welcomed from the ILP on the request for proposal ('RFP') previously circulated.

Jeremy Stafford Smith outlined the extent of the work done by audit houses, and noted the disproportionate amount of harm caused by very few consumer journeys. PhonepayPlus's role should therefore be assessed in this light.

Eric Feltin recommended outsourcing options are considered, such as monitoring and customer services. A further suggestion was made for fine income to be used to fund projects to build compliance and deliver longer term efficiencies, rather than it be paid back to the mobile network operators. Cathy Gerosa supported the view on outsourcing.

Hamish Macleod expressed the view that PhonepayPlus's budget should be reflective of the size of the PRS market. He recognised that regulation required a certain level of fixed cost, but recommended benchmarking exercises are undertaken on cost drivers (running investigations; handling complaints; carrying out informal investigations) in order to determine what variable costs could be saved to achieve greater efficiencies.

Rory Maguire recommended a review of all PhonepayPlus's cost areas, in light of the need to adapt to rapid market changes. The Executive confirmed that such cost reviews are regularly undertaken, with the aim of ensuring efficient and effective regulation.

Mike Steel noted that an increased levy would now become much more visible as a cost of sale. He also expressed the need for a different funding model that better reflected the levels of risk within the market.

Ann Hointink recommended further transparency, in the form of detailed budget numbers and measurable objectives, would be beneficial to the industry.

3.0 Conclusion

The ILP welcomed PPPs desire to continue to build on the improved collaboration with industry stakeholders.

The ILP were asked to provide feedback on the consultation by the deadline date of 29th January 2016.

(Action: ILP Members)

A final statement confirming the Levy and Registration Scheme fee will then be published ahead of the start of the financial year 1st April 2016, subject to formal approval by Ofcom.

David Edmonds thanked the ILP for their contribution and views on the business plan and budget 2016/17. He advised that PPP will respond to formal submissions and all views will be taken into consideration.

Ann Cook thanked the ILP for their contributions over the year and wished everyone a very happy Christmas.

ILP meetings in 2016 at PhonepayPlus Offices

- Tuesday 1st March 1.00-3.00pm with a networking lunch at 12.30noon-1pm
- Tuesday 17th May 10-12.30pm followed by a networking lunch at 12.30-1.30pm
- Tuesday 19th July 10-12.30pm followed by a networking lunch at 12.30-1.30pm
- Tuesday 18th October 10-12.30pm followed by a networking lunch at 12.30-1.30pm
- Tuesday 6th December Budget meeting 10-11.30am