

2010/11 Annual Plan and Budget

**A Statement by PhonepayPlus following its consultation published on
2 December 2009**

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STATEMENT ON BUSINESS PLAN AND BUDGET 2010/11

PhonpayPlus regulates phone-paid premium rate services (PRS) in the UK. These are the premium rate goods and services that you can buy by charging the cost to your phone bill and pre-pay account.

PhonpayPlus issued a public consultation on its Business Plan & Budget for 2010/11 on 2 December 2009, with a closing date for responses of 15 January 2010. Sixteen responses from stakeholders were received 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 this document; the full responses can be found on the PhonpayPlus website¹.

There was widespread support for the proposed Business Plan and Budget 2010/11 from stakeholders. PhonpayPlus therefore submitted the plan and budget to Ofcom for approval without alteration. Following a period of scrutiny, Ofcom approved the Business Plan and Budget in February 2010.

The Business Plan set out an ambitious programme of work for the coming year, including:

- A new PhonpayPlus Code of Practice based on clear outcome-based rules
- Revised guidance for the industry and for specific services
- Improvements to the PhonpayPlus Number Checker to enable coverage of nearly all PRS numbers
- A new approach to consumer complaints handling and redress, working in partnership with industry
- A strategic focus on monitoring and testing phone-paid services in order to intervene more proactively and quickly where non-compliance is suspected
- An extension to our compliance advice service, following significant growth in usage by industry
- The development of a new Three-Year Strategic Plan for PhonpayPlus

Also in PhonpayPlus' Business Plan for 2010/11 is the introduction of a registration scheme for providers of phone-paid services, which will support the new Code of Practice and allow for regulation to be targeted at the main provider of the service. The combination of the new Code of Practice with registration will usher in a significantly different regulatory regime for the PRS sector.

In spite of this demanding agenda, we acknowledge that the market, and the wider economy, is facing difficult challenges. That is why we have taken a robust look at our costs and activities and proposed a 3% budget reduction for the coming year. With a frozen budget in 2009/10, PhonpayPlus now costs around 9% less in real terms than it did in 2008/9².

¹ <http://www.phonpayplus.org.uk/output/responses-2010-11-budget-consultation.aspx>

² Taking into account the effect of consumer price index inflation.

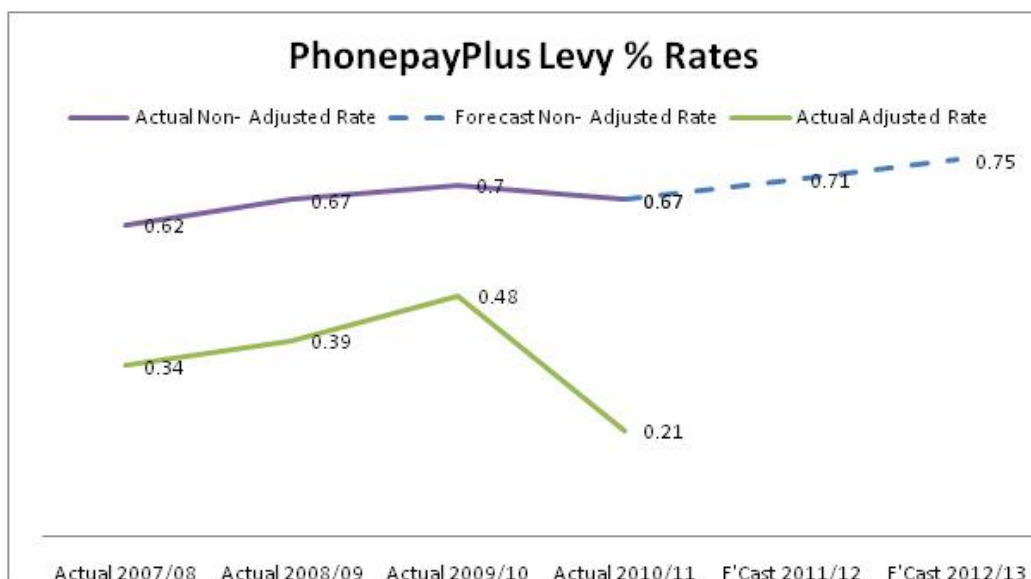
PhonepayPlus has announced that its industry levy for 2010/11 will be 0.21%. The levy applies to all outpayments payable by network operators to service providers in respect of revenue generated by premium rate services. The levy is calculated as a proportion of every outpayment to ensure that PhonepayPlus continues to receive adequate funding to carry out its activities, as required by Section 121 of the Communications Act 2003.

This year's levy is a substantial decrease on last year's rate of 0.48%. However, the decrease is due in large part to the impact that PhonepayPlus' enforcement action has on its funding. In 2009/10, PhonepayPlus has continued to focus its investigations and enforcement work on the services that cause the most consumer harm. This has subsequently led to an exceptional level of fines being raised by the independent Code Compliance Panel on premium rate service providers who have been found in breach of the PhonepayPlus Code of Practice. The success in collection of these fines means that PhonepayPlus is able to offset this income against the costs of regulation for the wider industry, resulting in a much reduced levy requirement in the coming financial year. It is important to note that PhonepayPlus does not expect this level of fine income to continue; in fact, it believes the tough action taken this year should lead to greater compliance in the market and a related fall in fines levied going forward. The recently reported 62% fall in consumer complaints about premium rate services also underlines that the market is showing a trend towards greater compliance.

Given this likely trend downwards in fine income, it is important that the industry understands that the levy requirements for 2011/12 are likely to increase. The graph below shows the non-adjusted levy requirement for the last few years and projecting for the next period. 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) and is relatively stable, as it relates the total PhonepayPlus budget to the size of the regulated market. The adjusted rate is the amount PhonepayPlus is required to levy once the costs of regulation are offset by other income. As this amount is subject to great variation, the actual rate levied can appear to change dramatically from year to year. Further information on how the PhonepayPlus levy is calculated can be found in our consultation document on our business plan and budget³.

³ <http://www.phonepayplus.org.uk/upload/Business%20Plan%20and%20Budget%202010-11%20-%20Final.pdf>

This consultation has now closed.



In the consultation document, we set out a number of options for funding PhonepayPlus' work in increasing consumer literacy regarding phone-paid services. We proposed continuing to fund this work from the industry levy, although with a sizeable reduction in spend for the coming year to reflect the difficulties in the market. We also suggested using a percentage of fine income to pay for consumer campaigns, so that industry "polluters" would pay for work designed to build and restore trust in the use of premium rate services.

There were a range of views expressed by the industry on our consumer literacy work and on the most appropriate method of funding. However, there was not a clear consensus and so we have opted to continue to fund the work through the industry levy for the coming year, as set out in our budget. We will be engaging with the industry during 2010/11 in an effort to build partnerships with providers and networks to deliver better consumer understanding of PRS and to further explore how such work should be funded. PhonepayPlus strongly believes in the value of this work, both to consumers and the PRS industry. We were proud to win the prestigious 2010 Hollis Award for Education Sponsorship for our PhoneBrain campaign, which is designed to better inform young people about phone-paid services and the costs involved, as well as to raise awareness of the opportunities associated with them.

Alongside this statement, we are publishing our latest report on the current and future market for premium rate services⁴. The report estimates that premium rate revenues, excluding VAT, totalled £810 million in 2009. This includes £78.2 million generated through 087x numbers⁵, leaving a premium market value excluding 087x of £731.8 million, an 11.4% decline compared to the 2008 equivalent of £826.2 million. We set out further key themes emerging from the report later in this document.

⁴ Thinktank (2010) *Current and future market for premium rate services*
<http://www.phonepayplus.org.uk/upload/Current-and-future-market-FINAL-Thinktank.pdf>

⁵ PhonepayPlus began regulating the 0871/2/3/4 number ranges in August 2009

SUMMARY OF RESPONSES TO THE CONSULTATION

We received 16 formal responses to the consultation on the PhonepayPlus Business Plan and Budget for 2010/11.

This section summarises the responses received to the questions set out in the consultation, with our response where appropriate.

Consultation Questions

Our purpose and role

The question that we asked was:

Q1. PhonepayPlus will be developing a new Three-Year Strategic Plan in 2010. Do you think our purpose and role as set out above still describes the principles for regulation in the phone-paid services sector? If not, how do you think this should develop?

There was broad agreement that the purpose and role set out in the Business Plan document contained the basis for a new Three-Year Strategic Plan for PhonepayPlus. However, respondents raised a number of issues they felt needed to be considered as part of the development of the new strategy.

Some respondents raised the issue of the scope of PRS regulation, including whether there was enough clarity over what services fell within PhonepayPlus' remit. There were suggestions that Ofcom's recent review of the scope of PRS regulation had not fully addressed this question.

There were views that PhonepayPlus could take its aim to pre-empt and prevent consumer harm further by closer working with industry and using new technologies to detect non-compliant services.

PhonepayPlus should also be aware of convergence and developing technologies when drawing up its new strategy, for example, smart metering could result in the promotion of premium rate services via in-home displays which show real-time energy consumption and other information.

Some stakeholders questioned PhonepayPlus' role in consumer education, with the view that this could be delivered by Ofcom and the industry.

There was also the sense that the current enforcement regime was having a detrimental impact on investment in the UK market.

Our response:

PhonepayPlus has begun the process of informally consulting stakeholders on the key themes for the next Strategic Plan, ahead of a full consultation in Summer 2010. The issues raised by stakeholders from this consultation will be fully considered as part of that process.

In terms of the scope of PhonepayPlus' remit, this is a matter for Ofcom. In its statement on the review of the scope of regulation for PRS⁶, Ofcom set out an analytical framework that could be used to determine whether a service falling within the legal definition of PRS, as set out in the Communications Act 2003, should be a controlled PRS and therefore subject to PhonepayPlus' regulation. Ofcom has stated that it intends to apply the analytical framework to PRS where the status quo may not be sufficiently protecting consumers, or where regulation may no longer be necessary.

PhonepayPlus will be assessing the scope of extending pre-emptive and preventative regulation as part of the new strategic plan, with the recognition that for this to be truly successful it will need strong support from industry. The new strategic plan will also aim to ensure that regulation keeps pace with developing technologies and services in the sector, a key reason why we are currently reviewing our Code of Practice to create a more outcomes-based, flexible regulatory regime.

Although we are committed to developing our consumer literacy work, we recognise that more could be achieved here through closer working with industry. We will be discussing this matter further with our Industry Liaison Panel (ILP) in the months ahead.

2009 has been an exceptional year for our enforcement action, in terms of the fines levied against the industry by our independent Tribunal. However, the industry has repeatedly asked for the regulator to more effectively target those providers that cause consumer harm and taint the market for the whole industry. We continue to carefully assess our enforcement activity to ensure we are acting proportionately, but we are also committed to driving out consumer harm from the PRS market.

The market and other external conditions

We asked three questions in this section:

Q2. What information or evidence do you have about market trends and about the overall size of the phone-paid services market in 2009/10?

As you might expect, we received a range of responses to the question of market size, from modest growth to a decline, which undoubtedly reflects the view from different sectors of the industry. Some felt that the market contraction was ending, but that the overall picture would remain flat for the foreseeable future.

There was a view that consumer trust in PRS, mobile pricing and the economic downturn provided significant challenges to future growth.

In terms of growth areas, interactive broadcast and the corporate market for mobile technologies were given as examples of areas where demand had increased.

Our response:

Our market report shows a further decline in the PRS market (excluding 0871) for 2009. We believe there are a number of factors that may explain this, not least the economic

⁶ Published in October 2009: http://www.ofcom.org.uk/consult/condocs/prs_scope/prs_statement/

downturn. However, we remain committed to ensuring our actions as a regulator contribute to a healthy PRS market through tackling consumer harm and thereby building consumer trust. We are also continuing to develop our regulatory regime to ensure it does not act as a barrier to legitimate businesses in growing and developing their services.

Q3. What information or evidence do you have about specific segments or content areas and their potential for real growth or decline over 2009/10?

Steady growth was reported in the interactive broadcast market and Payforit web-based services.

There may also be an increase in alternative billing/payment facilities, but this was dependent on how regulation developed in this area.

There was some concern over the future of Psychic and Adult Participation TV services and how the new rules and their treatment as advertising might impact on revenue.

It was felt that subscription services have declined considerably, chiefly as a result of non-compliant services being removed from the market due to PhonepayPlus' mobile review.

Q4. How do you see the phone-paid services market developing in 2010/11?

There was no clear view on this question, with some consensus that the next year would not bring any significant developments in PRS. Some felt there would be growth in the mobile sector, particularly led by applications.

It was clear that some felt regulatory measures would have a big impact on developments in the PRS market, with the new registration scheme being singled out as a potential tool for improving consumer confidence in PRS. There was also the sense that past regulatory issues and the failure to tackle them effectively might impinge on legitimate PRS growth. However, action now to tackle PRS fraud would have long-term benefits for the sector.

Our response:

It seems clear that traditional PRS have failed to encourage new consumers to the market and our market report shows that it is the lack of attractive services that is the main barrier to growth in the industry. While there are a number of potentially exciting developments on the horizon, particularly in terms of mobile internet services and applications, it is not yet clear how this market may develop and whether PRS will be part of the monetisation of this content.

PhonepayPlus is keenly aware that regulation has a significant impact on market developments, which is why we are keen to both improve our pre-emptive and preventative work with industry to minimise the risk of consumer harm and take strong enforcement action when we discover serious consumer detriment in the market.

Looking forward to 2010 and the financial picture

The remaining questions came in this section:

Q5. What comments do you have on the priorities for 2010/11? Are there other projects or issues that you think PhonepayPlus should consider for the coming year?

There was a clear view that the major priority for 2010/11 for PhonepayPlus was the introduction of the new Code of Practice and the industry registration scheme. It was felt to be very important that significant effort was made to communicate the changes to regulation across the industry. Stakeholders also wanted to see improvements to the Number Checker facility for consumers delivered.

There was also a hope that PhonepayPlus would continue to work with fellow regulators in the PRS market to improve regulatory clarity for business.

The shift in resources from consumer-facing work towards further industry support was welcomed, but there was a request that this was monitored to ensure that the quality of support offered to consumers was not diminished.

Tackling the lack of transparency in the pricing of PRS on mobiles was also cited as a major priority for the year ahead. A connected point was improving the experience of consumers seeking redress or refunds from PRS services and tightening up the rules on subscription and reverse-billed SMS services.

Our response:

We agree that the introduction of the new regulatory regime, incorporating the new Code of Practice and registration, must be the main priority for delivery in 2010/11.

We recognise the other issues raised also have an important impact on the success of the PRS market for industry and consumers alike and we plan to take work forward in each of these areas in the coming year.

Q6. Do you agree that PhonepayPlus should increase consumers' PRS literacy, in so far as it builds an appropriate level of trust in the market?

Q7. How should PRS literacy work be funded, through the industry levy or through a new fine sanction imposed for breaching the PhonepayPlus Code of Practice?

Q8. What is an appropriate initial level of funding for our PRS literacy programme? As an indicator, the PhoneBrain initiative described below cost in the region of £100,000 as a single campaign.

The next three questions were designed to provoke debate about PhonepayPlus' role in consumer literacy around PRS services, as well as proposing a new way of funding such work and consulting on what level of spending was appropriate.

It is fair to say that there are mixed feelings within the industry on the role of PhonepayPlus in consumer literacy and to what extent this kind of activity is better delivered with, or wholly by, industry, Ofcom or consumer groups. However, this matter has been the subject of consultation on a number of occasions and we are strongly of the view that a modest amount of work in this area is an important part of our work supporting consumers. Ofcom has consistently supported our proposals as set out in our business plans for this work and we believe we have delivered a strong track record of success in raising consumers' literacy of PRS, as demonstrated by our recent award for education sponsorship for our PhoneBrain campaign.

In terms of funding, there was broad support for this work being funded through existing fine revenue, rather than the industry levy. However, the following question on levels of spending to be allocated was less conclusive, with many stakeholders understandably wishing to see a clear, costed proposal for this work before feeling able to state a view.

Our response:

We do recognise that it is important that our work in PRS literacy fairly reflects the range of legitimate services that utilise the PRS payment mechanism and also that we properly reflect to consumers the level of risk associated in using PRS. We believe our work in this area should encourage consumers' safe use of PRS and not provide a block or deterrent to market growth. For this reason, we intend in the coming year to explore closer working with industry on our PRS literacy programme in the hope this may lead to stronger, more far-reaching campaigns.

Given the support for exploring a new funding arrangement for this work using fine income, we intend to investigate this option further this year. However, we accept that without a clear plan on the programme of work we expect to carry out and the level of spending we believe is necessary, it is difficult for stakeholders to commit support. For this reason, we have opted to continue as before with this work being funded in 2010/11 as part of our overall budget, albeit with the total spending reduced by one third to £65,000. We will bring forward further options in this area in our next business plan consultation later in 2010.

Q9. What areas should PhonepayPlus focus its core research programme in the coming year? Do you have knowledge of any industry research initiatives in these areas that we could leverage?

Again, there are a range of views on PhonepayPlus' research programme, with a number of respondents keen that any research spending is focused on regulatory activity and not wider market research. However, other stakeholders see value in an annual review of the sector, particularly in relation to consumer behaviours and attitudes.

It was felt that PhonepayPlus might gain information and intelligence through closer working with industry and that this might in part offset the need to carry out research.

Our response:

PhonepayPlus believes that a thorough understanding of the PRS market is essential to carrying out its functions as a regulator. In particular, monitoring developments in consumers' behaviours and attitudes to PRS must inform our developing programme of

work. We intend to continue with this annual reporting, although we will seek to gain as much information as possible for the report from industry and other resources, to ensure that the money spent on bespoke research is minimised. We also plan to tie the cycle of the market review to our annual planning cycle so that these become more closely aligned.

Our other research work is only carried out to support particular policy developments, regulatory activity or operational improvements. We will continue to ensure that robust business cases underpin our research spending.

We have also set out how we intend to improve our intelligence gathering and analysis from internal and external sources over the next year. We expect this will bring a number of benefits in terms of better data and more efficient use of resources.

Q10. Do you support our proposed budget changes for 2010/11 having regard to the activity and strategy that drives the changes? If not, please explain why.

Although the reduction in the budget was welcomed, some stakeholders felt that further reductions should be made given the current economic climate. Others welcomed the shift in resources into more proactive work with industry. Further work on identifying where consumer harm was taking place in the market would be welcomed, as this may lead to more targeted and cost-effective regulation. Some industry stakeholders wished to see more details of Key Performance Indicators (KPIs) and specific costs to help drive reductions in the budget.

Our response:

PhonepayPlus has made a concerted effort to drive down costs for the coming year and we believe we have taken tough decisions, such as freezing staff salaries and cutting our PRS literacy budget by a third, to deliver savings to the industry. However, we also firmly believe that, overall, we offer excellent value to the industry and that a headline levy of around 0.7% of PRS outpayments is a small price to pay for an independent and dedicated regulator for the sector. Our activities in tackling consumer harm, supporting the industry around compliance with the Code of Practice and managing market risks bring real value to businesses. While we are not complacent around our costs and will continue to look for efficiency savings, we also believe radically cutting our budget and activities may have unintended and detrimental impacts on stability and consumer trust in the PRS industry.

We have developed a new set of KPIs for the coming year, which we intend to publish and report on throughout 2010/11. These are designed to give greater transparency in terms of our delivery and efficiency. Our budget is approved by Ofcom, which undertakes a thorough and robust analysis of our costs and spending plans to ensure we are delivering best value for stakeholders and meeting our legislative and regulatory duties.

Q11. Do you have any comments on any other risks that PhonepayPlus might face that are not identified above as part of the business plan design?

Additional risks mentioned by respondents that were not included in our plan included the potential of a change of government during the life of the Business Plan. It was felt this might have an impact on regulatory activities and responsibilities for PhonepayPlus.

There was also a perceived risk that pre-emptive work to prevent consumer harm may lead to reduced fine income, but relatively unchanged costs, leading to an increased industry levy. If this were to happen, it was suggested that changes to the funding model may need to be considered.

Some felt the key risk in the coming year was establishing a fit regulatory model and a workable Code of Practice. It was also raised that, rather than needing to strike a balance between consumer protection and industry interests, PhonepayPlus should realise that these interests go hand-in-hand.

Our response:

In drawing up our Business Plan, we have thought carefully about any external factors that might have an impact on our activities, including the impending General Election. Our key activity this year will be to deliver a new regulatory regime that is designed to create a more flexible approach to regulation and allow us to better target providers who deliberately set out to harm consumers. We believe this approach is in line with a modern approach to regulation across the political spectrum. Should there be policy changes or other political impacts following the election, we will of course have to adapt to them, but at this stage we feel it would be unwise to try and pre-empt such changes.

In terms of the impact of the new regulatory regime on fine income, we have considered this, but believe that reduced fines are actually a sign of successful regulation. Should this prove to have a significant impact on the levy, then we would be open to consider other funding models, subject to full consultation and approval by Ofcom.

PhonepayPlus' key function is to protect consumers from harm when using premium rate phone-paid services. However, we believe that one clear way we can achieve this aim is by working with the industry to pre-empt and prevent harm through clear guidance and advice, as well as dialogue around emerging and developing services. We are committed to working with the industry to deliver better outcomes for consumers.

One risk that was set out in the Business Plan consultation that has now been resolved was what would happen at the end of our current lease, which expires November 2010. Following a property search, we have been able to negotiate an improved deal with our current landlord that we could not match in the wider market. We will therefore be staying in our current premises post-November.

Market Trends

PhonpayPlus commissioned the research agency Thinktank to carry out a review of the current and future market for premium rate services in the UK. Thinktank delivered its report in February 2010 and this is published in full alongside this statement.

One objective of the PRS market report is to assess the commercial health of the market and its constituent service areas and to gauge the likely market developments in the short to medium term. We believe this information is critical to PhonpayPlus, as it provides an indication of the impact that regulation and other factors have had on the PRS market, or a particular sector, which then informs our regulatory activity.

The other key objective is to gain an understanding of developments in consumers' behaviours and attitudes to the PRS market, which is critical to ensure our Code of Practice and consumer support work is delivering an effective and proportionate regulatory regime. For that reason, we commissioned Thinktank to carry out both qualitative consumer discussions and a quantitative study of 5,001 consumers to inform the report.

Going forward, the market report will be built in to PhonpayPlus' strategic planning process, with this report informing a new Three-Year Strategic Plan being delivered in this business year.

Key Findings

Thinktank estimates that premium rate revenues, excluding VAT, totalled £810 million in 2009. This includes £78.2 million generated through 087 numbers, leaving a premium market value excluding 087 of £731.8 million, an 11.4% decline compared to the 2008 equivalent of £826.2 million.

The research suggests that at least part of the decline in the premium rate market is due to more stringent regulation and heavier fines driving out some companies who may not have played by the rules. While that decline is, then, in some ways a 'positive' for the consumer, it is clearly an issue for the industry that legitimate services have so far failed to make up the shortfall.

As in previous years, the single biggest reason why consumers are not using premium rate services is simply that they don't find the services on offer interesting. Among 11-19 year olds, however, only 48% cited this as the reason for not using PRS, compared to 77% of adults. A major factor likely to drive further usage should therefore be innovation and development of new service offerings that are really compelling to end-users. By comparison, lack of trust is a far less substantial barrier to usage. Combined, only 14% of non-users of PRS say they don't trust paying in this way or don't trust the companies advertising PRS services.

Both the quantitative and qualitative research suggests that, for consumers, lack of clarity of pricing for services billed by premium rate remains a big obstacle. In the quantitative study, 45% said they were typically not certain how much they'd be charged when they saw PRS services advertised. Of this audience, 71% said this uncertainty had stopped them from using services. Those uncertain about the cost are also, in all cases

apart from using Directory Enquiries, less likely to have used PRS services in the past six months. It is clearly a barrier to growth.

Much of the service innovation that could have taken place within the premium rate sphere is currently focused on other platforms – such as the internet and mobile applications, which are not necessarily paid through the phone bill. Certain PRS services are also starting to move to other platforms, in particular online, and with this to other payment mechanisms.

Content providers have a number of reasons for migrating services away from PRS to other payment platforms. This includes the ability to have a closer relationship with users and cross-marketing services when billing this way. Content providers also like the fact that credit card billing allows greater flexibility in price points. Some also cite stringent regulation and what they consider to be inconsistent issuing of high fines in the premium rate space.

Nevertheless, the expectation is that the number of providers offering consumers a range of different payment alternatives to choose from will increase. Ultimately, then, the user may decide where the market goes.

Increasing use of internet-capable mobile devices is, meanwhile, leading to a shift from some premium rate services to free options, as both information and entertainment is accessible for free from search engines or websites on the phone's browser. Increased use of data services does, however, also equal a shift in user-behaviour. Consumers with more user-friendly, feature-rich phones access more services than those without these devices. This could simultaneously encourage use of more paid-for services on the mobile internet, or through mobile applications, going forward. Not all this usage is likely to be paid for through PRS, however.

The full impact of open mobile internet browsing on the market will only be felt once all obstacles to regular use disappear. The 18-34 year-olds who are most likely to use many premium rate services are also the ones most likely to be looking at acquiring a mobile internet device, get a flat rate data plan and regularly use the mobile internet, according to our quantitative study. This would, then, suggest that services will come under increasing pressure from free information and entertainment available over the internet.

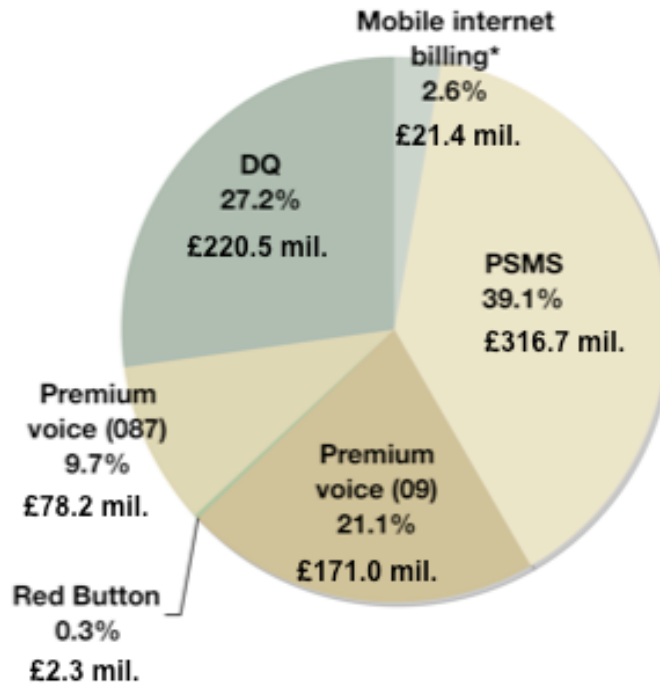
Premium rate payment mechanisms

All premium rate payment mechanisms suffered to some extent in 2009, but premium lines (outside of the Participation TV sphere) appear to be the hardest hit. Directory Enquiries represented 27% of the total market in 2009, compared to 39% for PSMS/PMMS and 31% for all premium voice.

The market for premium rate voice is in steady decline, according to industry. In 2009, traditional premium voice lines generated revenues of £171.0 million, while the 087 range is estimated to have generated £78.2 million.

Industry sources argue that the upper limit of £1.50 per minute charge is not sufficient for some services, which instead are moving online and being billed via credit card. Other

Market size by payment mechanism



Source: Market Sizing, Thinktank (based on data from PhonepayPlus)

*Including Payforit

barriers to further usage include the increasing shift of voice traffic to mobile devices, given the uncertainty of price points for these numbers from mobiles.

According to industry sources, there has been some shift of usage to 0844 and use of 087 has declined in the past year. Earlier interviews conducted by Thinktank suggested there was concern in the industry about regulation for 087 becoming more stringent as PhonepayPlus took over this responsibility.

The market for premium messaging has also contracted in 2009, generating £316.7 million during the year. In our industry interviews, there was a general consensus that the premium messaging market was down. However, only half of those responding to the industry survey concurred – 20% believed it was stable and 32% that there had been some growth. This suggests that at least certain segments of the market are growing.

Overall, however, the industry's outlook for PSMS is more positive than expectations for premium voice. This sentiment is supported by consumer attitudes to using text as a payment mechanism. In the consumer groups, there was some very clear affection around paying by text. It is seen as hugely convenient, quick and simple. It extends an activity consumers were already used to (texting) into a way of paying, voting or donating to charity. Clarity of pricing is also a significant positive.

Mobile internet payments, including Payforit, the cross-operator mobile internet billing scheme which can also be used on the fixed internet, is estimated to have generated some £21.4 million in 2009, taking a 2.6% share of the market.

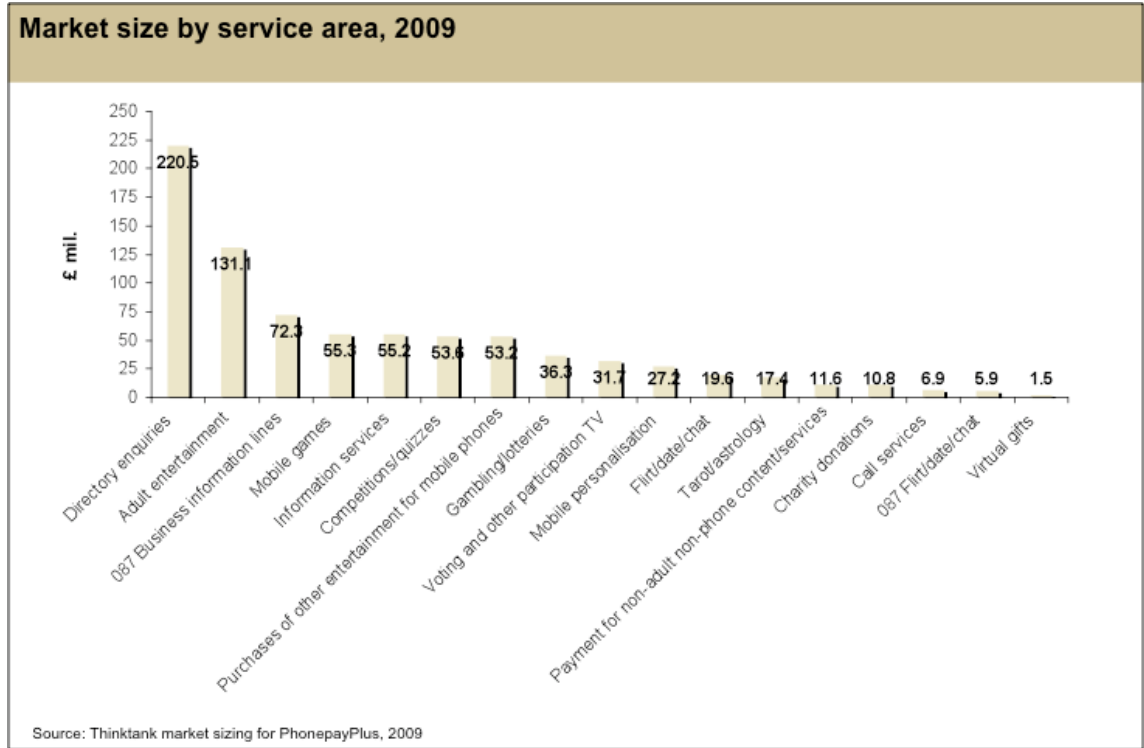
Red Button is estimated to have accounted for 0.3% of the overall PRS market in 2009, generating some £2.3 million in PRS revenues. The quantitative study showed that 26% spontaneously felt happy paying for premium content using Red Button.⁷

Premium rate service areas

Overall, Directory Enquiries (DQ), adult entertainment and 087 business information lines represent the greatest amount of PRS revenues generated in 2009, while competitions were the service consumers said they'd used the most.

The largest single service area remained Directory Enquiries, which generated £220.5 million in 2009, representing 27% of the market. The category is undoubtedly under pressure from both the internet in general and the increasing use of mobile internet services, however. The quantitative study showed that 33% of the total population had called Directory Enquiries in the past six months – but the majority (26% of the total sample) had done so less than once per month.

It is worth noting that specific service areas appear to be doing well. Competitions and Participation TV, in particular voting, is also growing again. The vast majority of revenues are coming from votes cast through premium voice, since many major TV shows are still shying away from using text as a voting mechanism.



⁷ Question asked: Which of the following statements apply to you? - I don't mind paying for things (other than films or TV shows) using the red button on my Sky or Cable remote.

Appendix A – Summary Budget Table of Expenditure 2010/11

	Total Budget 2010/11		Total Budget 2009/10		Total Budget Variance
	£	FTE		FTE	£
Staff, CCP & Board	2,512,578	50.5	2,661,827	50.8	(149,249)
Events & Consumer Education	115,000		150,500		(35,500)
External Professional Services	192,200		145,500		46,700
Legal	155,000		140,000		15,000
Research	170,000		171,000		(1,000)
Other Professional Services	36,140		55,240		(19,100)
Overheads	283,887		267,587		16,300
Premises	412,191		364,259		47,932
Printing	43,000		52,800		(9,800)
Telecoms	69,072		76,772		(500)
Website	82,000		81,000		1,000
Depreciation	150,781		193,446		(42,664)
	4,221,850		4,359,931		(130,881)

Appendix B – Notes of the ILP meeting of 16 December 2009

Present:

Jacqui Brookes (Chair) – FCS

Suhail Bhat – MEF

Jeremy Flynn – AIME

Suzanne Gillies – PRA

Mark Gracey – on behalf of Justin Hornby – UKCTA

Jeremy Hallsworth – BT

Jeff Loan – Ofcom

Neil Pepin – Channel 4

Miranda Roberts – MEF

Michael Traynor – BT

PhonepayPlus

Sir Alistair Graham

Paul Whiteing

Simon Bates

Bradley Brady

Stephanie Ratcliffe – (minutes)

Apologies:

Paul Berney – MMA

Natalie Christian – BBC

Ann Cook - ITV

Neale Dennett – BBC

Michael Eagle – FCS

Stuart Godfree – MDA

Mark Hawkins - MDA

Nik Hole – The Number

Justin Hornby - UKCTA

Robert Keitch – DMA

Hannibal Latuff - BBC

Ritu Manhas – Ofcom

Hamish MacLeod – MBG

Iain McCallum – O2

Claire McLaughlin – BBC

Marianne Pendray - ITV

Caroline Roberts – DMA

Michael Taylor – ITSPA

1.0 Presentation on the Business Plan and Budget 2010/11

Paul Whiteing presented an overview of the PhonepayPlus Business Plan and Budget for 2010/11. He reiterated that the proposals in the Business Plan were a clear response to the priorities that many within the ILP have been demanding over recent times.

2009 Overview:-

- A reduction in complaints is due to improved complaint handling and consumer interaction. Other consumer interaction activity is showing less of a reduction.
- The polluter pays policy is proving successful
- New commitments include extension of the PhonepayPlus remit to include 0871
- There has been a 20% growth in compliance advice and we continue to work

- effectively with the ILP, mobile services and aggregators
- Ofcom Scope review places more demands on PhonepayPlus in respect of deliverables in 2010

Despite the economic climate and the decline in PRS services, conditions for market growth have been identified. Mechanisms to enable a vibrant market include excellent customer service, pricing clarity, easy and effective redress and a supportive and enabling regulatory environment. Without investment in the right regulatory environment the chances for growth will be diminished.

With reference to business plan priorities for 2010, costs have been forecast and identified under 5 areas:-

1. Consumer Support
2. Industry Support and Intelligence
3. Investigations and Enforcements
4. Code Compliance and Development
5. Corporate and Governance

2.0 Budget and Reserves Proposal

Paul Whiteing informed the ILP of:

- the proposal to reduce the budget by 3%, continue trajectory of reduction and efficiency savings
- the registration scheme start up costs which will be funded in the long term by the fees, any surplus costs in the business will be refunded back to the industry
- the levy, which on current projections is expected to decrease, confirmation will follow in March 2010

3.0 Discussion on Business Plan and ILP Proposals

Paul Whiteing advised the ILP of a common agreement; to continue to seek ways to reduce costs, identify savings and where applicable undertake joint activities with Ofcom.

The year 2010 will be a transition for PhonepayPlus, in particular with the 12th edition of the Code development and registration scheme. The ILP advised the timing of the two schemes needs to be realistic in view of any changes taking place.

Discussion followed with reference to the 5 areas: -

1. Consumer support - a decrease from 23% to 19% of the budget.
2. 3 options for funding of PRS consumer literacy were discussed with the proposal for a cross industry panel to advise on projects; ILP members suggested that this is a sub group of ILP initiated after the 12th code work is complete
3. Industry Support and Intelligence - an increase from 17% to 21% of the budget, mainly due to the anticipated increase in demand for compliance advice as the 12th code is developed and implemented, and for research in order to provide a faster service and enhanced monitoring and testing. The ILP supported the increase for compliance advice and welcomed the plan for the support team to be more proactive and speedier; a dedicated resource team will be trained and multi skilled to meet requirements at all times. The ILP pointed out that emphasis should be given to monitoring the promotion, as well as the services. The Executive explained market research will be more relevant and directly linked to PhonepayPlus acting as a regulator and existing data will be analysed with a more strategic approach.

4. Investigations and Enforcements— a decrease from 39% to 36% of the budget, with some of the costs being recoverable from administration charges and fines. The ILP recommended the publication of a triage system to deal with non compliance and due diligence issues and that further investment on staff training for investigations and placement opportunities be sought. The Executive advised a new team has been set up to formalise a consistent transparent audited allocations process with criteria scoring and emphasised that the CCP are an independent transparent body. More serious cases will be dealt with by the CCP at tribunal; a quicker and less formal approach will be implemented for 'minor' non-compliance cases, which will not be placed in the public domain but kept on record.
5. Code Compliance and Development – an increase from 10% to 14% of the budget, to account for development of the 12th edition of the Code of Practice and registration scheme, (implementation and operational costs), granularity of regulatory responsibilities, new guidance and support materials for the industry. The increase was acknowledged by the ILP.
6. Corporate and Governance – a decrease from 11% to 10% of the budget, due to a freeze in staff wages, the introduction of new KPIs and relocation opportunities. Website costs were explained - 40% are required for maintenance and posting, the remainder kept as a fund for online tools to drive efficiencies.

The ILP were generally encouraged by the business plan and budget 2010/11 along with its recommendations as the plan reflects the industry's requests. However various levels of agreement exist concerning the consumer literacy, which represents circa 1.5% of the overall budget and individual ILP members will respond on the details of importance to them.

Jeff Loan advised that no mandate for Ofcom to fund or subsidize PhonepayPlus activities exists however Ofcom endeavour to undertake joint activities such as research, wherever appropriate.

Appendix C – List of Respondents

PhonepayPlus' consultation on its proposed 2010/2011 annual plan and budget generated the following responses:

Association for Interactive Media & Entertainment (AIME) (Trade Association)

Any Question Answered (AQA) (Industry Stakeholder)

British Telecom (BT) (Industry Stakeholder)

Cellcast UK Ltd (Industry Stakeholder)

Citizens Advice (Consumer Organisation)

Consumer Focus (Consumer Organisation)

Federation of Communication Services (FCS) (Trade Association)

Mobile Broadband Group (MBG) (Trade Association)

MXtelecom (Industry Stakeholder)

The Number UK Ltd (118118) (Industry Stakeholder)

Premium Rate Association (PRA) (Industry Stakeholder)

Skycom Ltd (Industry Stakeholder)

UK Competitive Telecommunications Association (UKCTA) (Trade Association)

Virtual Universe (Industry Stakeholder)

WIN (Industry Stakeholder)

Michael Ward (Consumer)