British Broadcasting Corporation

Television Licence Fee Trust Statement for the Year Ending 31 March 2015
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Presented to the House of Commons pursuant to section 2 of the Exchequer and Audit Departments Act 1921 as amended by the Government Resources and Accounts Act 2000.

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Foreword by the Director General

The Licence Fee is the unique means by which the BBC is funded. It is this funding that underpins the BBC’s dedication to all audiences and which ensures that it is able both to bring the nation together and to reflect its differences, because it has no commercial imperative. This statement is presented to Parliament in order to give a full view of the state of affairs relating to the collection of the Licence Fee in the last year, to 31 March 2015. As ever, we remain grateful for the continued support that the public show for the Licence Fee.

As shown in the report, the BBC’s Licence Fee collection performance in 2014/15 has been good. The year has seen an increase in revenue to the consolidated fund (not including over-75 licences) of £22m, to a total of £3,123m. However, growth rates reflect the challenging environment that the BBC faces over the coming years. Household growth, which is a major contributor to overall Licence Fee growth, has been low and has only increased by an estimated 0.7%. This growth has been largely offset by a decrease in the ratio of households with a television set and also by changes in customer viewing behaviour. The report sets out these changes in more detail.

Despite these challenges, the BBC has kept the level of Licence Fee evasion low, at 5-6%, whilst continuing to offer customers a range of options to ensure that they are paying by using the most appropriate schemes for them. This is reflected in the fact that complaints from customers have fallen again for the sixth year in a row – we received almost half as many complaints this year as we did in 2008/9.

I’m also pleased to report that customers continue to make greater use of the TV Licensing website, which has continued to grow throughout the year. We handled more than six million online transactions this year and we have more than doubled the rate of all self-service transactions over the past six years. This shows that the Licence Fee and the processes that support it are well able to adapt in a digital world. We look forward to continuing to work to modernise the Fee during the next Charter period.
Annual Report

The Director General as Accounting Officer presents the British Broadcasting Corporation Television Licence Fee Trust Statement (the Trust Statement) for the year ending 31 March 2015.

Strategic Report

Licence Fee Collection

The British Broadcasting Corporation (BBC) has held responsibility for collection of Licence Fees since 1991 when the processes were transferred from the Home Office. The BBC collects Licence Fee revenue from customers and transfers it to the HM Government’s Consolidated Fund. The revenue collected is passed back to the BBC as Grant-in-Aid from the Department for Culture, Media and Sport (DCMS).

The processes for the collection of Licence Fee revenue are managed by the BBC which has a number of contractual arrangements covering collection, administration and enforcement of the Licence Fee, marketing, payment channel management and retail networks. ‘TV Licensing’ is a trade mark of the BBC and is used under licence by companies contracted by the BBC. The majority of administration is contracted to Capita Business Services Ltd under a contract which was signed in December 2011. Over-the-counter services are provided by PayPoint plc in the UK, and by the Post Offices in the Isle of Man and Channel Islands. Marketing and printing services are contracted to Proximity London Ltd. The BBC is a public authority in respect of its television licensing functions and retains overall responsibility.

The BBC has comprehensive governance arrangements with its suppliers to ensure that the processes for collecting Licence Fee revenue are consistent with regulations and policies and offer customers the best options for paying their Licence Fee. The BBC aims to offer a wide range of schemes and payment channels to enable customers to pay quickly and simply.

The Collection Environment

The environment for the collection of Licence Fee revenue has continued to be challenging. Revenue growth has been affected by low household growth, restricted household incomes and changes in customer viewing behaviour.

Household growth

Household growth for 2014/15 has been estimated at 0.7%. This is a small increase in the rate from recent years. Analysis of the activity in planning and house building indicates that the rate of household growth is likely to increase very slowly over the next two years.

The outlook for household growth will depend on the recovery of the wider economy. However the current year has seen a modest rise in new house completions and the pace of recovery is expected to accelerate over the forecast period as recovery in the UK economy, mortgage finance and property transactions lift private new housing completions.

Household incomes

Real household incomes continued to grow slowly during the recession of 2008 and 2009, in part due to temporary fiscal stimulus measures. Median income then fell by 4.0% from peak in 2009–10 to trough in 2011–12. Projections suggest median (middle) household income in 2014–15 is at around the same level as it was in 2007–08 before the recession, though still more than 2% below its 2009–10 peak. But the recovery in living standards that began in 2011–12 has been much slower than after the
three previous recessions, with median income growing by less than 2% between 2011–12 and 2014–15. The TV Licensing tracker\(^2\) shows a decrease in the number of delayer and evader respondents, from 79% to 65% year on year, indicating they would find it difficult to find the money to pay towards a TV Licence at the present time.

Evasion has been held steady between 5% and 6% during 2014/15 despite the pressures from the collection environment. The BBC’s evasion model calculates the level of evasion from the licences in force at 31\(^{st}\) March, the number of premises and the proportion of those premises which should be licensed. This can be revised for previous years as better information is received on numbers of premises or other parameters although revised rates are not published retrospectively.

**Media Consumption**

Audiences continue to embrace new devices to enhance their viewing experiences with particular growth in tablets. For the majority of households these new devices are used as an addition to the traditional television set but there are some households where the television set is being substituted for viewing on other devices. All viewing devices are captured by the regulations and require a licence for linear television viewing.

The Broadcasters’ Audience Research Board (BARB) provides data on households using non-TV devices to watch television and this data is combined by the BBC with the BARB estimate of TV households to give an overall percentage of households requiring a licence. This has increased the accuracy of the measure of TV penetration for the purposes of Licence Fee collection but this data is relatively immature and the survey’s questions on live viewing are directed at the respondent alone, do not recognise mobile phones which may require a licence and relies on respondents correctly differentiating between on demand and live streaming of programmes.

The most recently published estimate of TV households from BARB shows a fall in the TV penetration rate to 93.95% from 95.46% at the same point in the previous year. However, including data on households using non-TV devices brings the overall estimate to 95.15%.

**Performance for 2014/15**

Revenue collection has remained strong however growth has lagged behind the estimated rate of household growth reflecting the changes in the TV penetration rate. Evasion has been reduced over the year and is estimated at between 5% and 6%.

Gross income in the Trust Statement has decreased to £3,236m (2014 £3,240m). Gross income is the value of Licences coming into force in the period excluding free Over 75 Licences. Revocations, deletions and cancellations have fallen to £129m (2014 £142m). Net revenue for the consolidated fund, made up of the gross revenue and deletions plus £16m of premiums on quarterly direct debit, has increased to £3,123m (2014 £3,114m).

The increase in net revenue due to the Consolidated Fund is analysed in Table 1

**Table 1 – Increase in Licence Fee Revenue**

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net revenue for the Consolidated Fund</td>
<td>3,114</td>
</tr>
<tr>
<td>Increase in value of the Licence Fee</td>
<td>0</td>
</tr>
<tr>
<td>Increase in volume of Licence Fee sales</td>
<td>22</td>
</tr>
<tr>
<td>Other changes</td>
<td>(13)</td>
</tr>
<tr>
<td></td>
<td>3,123</td>
</tr>
</tbody>
</table>

Other changes include customers turning 75 and migrating to the Over 75 scheme.

\(^1\) IFS - Living standards: recent trends and future challenges.
\(^2\) TV Licensing Brand and Communications Tracking, January 2015. The tracker has been in place for just over 7 years and is conducted by Harris Interactive.
Budgeting and Forecasting

Table 2 shows the budgeted sales against the actual results for the year for the last seven years.  

Table 2 - Budgeted and actual sales volumes (‘000s of licences including Over 75 free licences)

Sales volumes for the year were less than budget because the decline in TV Penetration has been greater than expected. The result represents a growth rate of 0.33%, which is behind the household growth rate. Sales growth in 14/15 has come from a combination of household growth and a reduction in the level of evasion, partially offset by the decline in TV penetration.

Bad Debts, Refunds and Cancellations

The value of deletions has fallen to £129m (2013 £142m). There has been a reduction in debts written off for customers who are removed from schemes with instalment balances outstanding on their Licence, this has been in addition to reductions in refunds and other cancellations of licences.

Processes have been changed for some customers to give them longer to get their payments back on track after missing an instalment. There has been a reduction in the volume of licences cancelled, but the average value of debts written off is higher.

Licence Fee Evasion

Licence Fee evasion is measured as the difference between Licences in force and the number of licensable places. Licences in force are identified from the TV Licensing database and the number of licensable places is estimated from statistical sources. Licensable places are made up of households and other non-domestic places requiring a TV Licence.

The BBC makes its own estimate of household growth taking into account estimates published by the Department for Communities and Local Government (DCLG) and prevailing economic conditions such as the increase in the supply of housing. The household growth estimate is applied to the latest information for the number of households published by the DCLG. However, it is becoming more difficult to measure household growth because the economic conditions are more difficult to predict, and therefore the BBC is using multiple sources of information to provide the best estimates of household growth. This includes projections from Glenigan (a construction industry market analysis company) which are based on historic stock data, together with official economic statistics and forecasts and their construction projects database.

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3 Licence Fee sales in table 2 include the volumes of Over 75 free licences. 2015 – 4,502,000; 2014 – 4,328,000; 2013- 4,251,000; 2012- 4,206,000; 2011- 4,156,000; 2010 – 4,088,000; 2009 – 4,000,000; 2008- 3,593,000.
The Broadcasters’ Audience Research Board (BARB) publishes its calculation of the number of households with a television set. The ratio of households with a television set to total households is TV penetration. Estimates, based on BARB and other data, are made for the number of households which do not have a television set but still require a licence because they are watching live broadcasts on other licensable devices. This ratio is applied to the BBC’s estimate of households to provide the number of licensable households.

Estimates are made for the numbers of other non-domestic places such as businesses, hotels and student halls of residence. Appropriate estimates of TV penetration are applied to each to calculate licensable places.

The aggregate of all licensable places is compared with the number of Licences in force to calculate the evasion percentage.

The data used to estimate the evasion rate does not mature for several years, particularly the information on the number of households. This means that the evasion percentage can be revised after it has been reported because more mature and accurate information has been received.

Studies have shown that the evasion percentage is statistically significant to zero decimal places even though the BBC calculate it to one decimal place in order to show some trend in the rate of evasion. It is not considered possible to improve the accuracy of the calculated figure to one decimal place as the input data requires a level of estimation. A change of one decimal place in the rate of evasion is the equivalent of £3.9m revenue.

The calculated rate of evasion has reduced to 5.0% in 2014/15 compared to the calculated rate of 5.5% in 2013/14. The BBC has worked to improve its processes to ensure that customers are paying using the schemes that are most appropriate for them and they are encouraged to make up payments quickly if they fall behind.

**Self-service transactions**

The TV Licensing website has continued to grow through 2014/15, delivering 1.5% more sales than in 2013/14. It has become an invaluable tool for the BBC as both a medium for handling transactions and for communicating with our customers with more than six million transactions completed online in 2014/15.

In 2014/15, 64.4% of all customer initiated transactions (12.9m) were completed through a self-serve channel. This has increased from six years ago when 31.4% of all customer initiated transactions (5.2m) were completed through a self-serve channel.
Complaints
The total number of complaints has fallen in 2014/15 to 18,008. The level of complaints to Licences in Force has reduced to 0.07% compared with 0.14% six years ago.

Complaints will continue to be monitored to ensure that they do not rise above 0.07% of Licences in Force.

Table 5 – Complaints

All operational activities and initiatives are planned and assessed taking into account the impact on reputation. This is one of the key foundations of the arrangements with suppliers. Licence Fee collection strategies need to be balanced between effective revenue collection and the need to maintain the public acceptability of the Licence Fee.

Tony Hall
Lord Hall of Birkenhead CBE
16th June 2015
Management Commentary

The Trust Statement
The Trust Statement shows the revenue receivable from Licence Fee payers which is due to the Consolidated Fund for the year. The BBC is required to produce the Trust Statement in accordance with the Accounts Direction given by HM Treasury and in accordance with Section 2 of the Exchequer and Audit Departments Act 1921.

The scope of the Trust Statement includes any expenditure deducted from the revenue collected before being passed to the Consolidated Fund. The only expenditure shown in this Trust Statement is the movement on the provision for bad debts. The costs of collecting Licence Fees are paid from the money received from Grant-in-Aid and are consequently outside the scope of the Trust Statement.

The BBC receives Grant-in-Aid from the Department for Work and Pensions and reimbursements from the governments of Guernsey and the Isle of Man for the value of free licences issued to customers over the age of 75 which do not form part of the Trust Statement.

Governance
The BBC is constituted under Royal Charter. The relationship between the BBC and the government is set out in the Charter and the Agreement between the BBC and the DCMS. The BBC is independent from government, but receives its funding through Grant-in-Aid from the DCMS and the Department for Work and Pensions, as well as revenue generated from commercial activities.

The BBC Trust is responsible under the Charter and Agreement for the governance of the BBC on behalf of Licence Fee payers. In respect of Licence Fee collection clause 24 (2) (m) of the Charter says one of the BBC Trust’s specific functions is ‘ensuring that arrangements for the collection of the Licence Fee are efficient, appropriate and proportionate’.

The Director General is responsible for the operations of the BBC including the collection of the Licence Fee. Further information on how the overall governance of the BBC is managed, including the BBC’s objectives and directors’ remuneration, can be found in the BBC’s Annual Report and Accounts.

Licence Fee collection is part of the BBC’s Finance and Operations group and is led by the Head of Revenue Management who is responsible for the operations of TV Licensing, the organisation comprising the BBC and the companies contracted to collect the Licence Fee.

Information and Data Security
Keeping information secure continues to be a BBC-wide priority. Our primary concern is that we respect the level of trust placed by the public in TV Licensing, especially when submitting personal information which is held in our databases.

In 2014/15 the BBC continued to ensure its data, information and systems meet business needs in a secure and compliant environment, which is sufficiently flexible to meet our business objectives.

The BBC’s policies for information security and data protection are based on industry best practices. The BBC ensures Licence Fee collection suppliers also conform to best practice and provide appropriate levels of information security and data protection.

Basis for the Preparation of the Trust Statement
The HM Treasury accounts direction, issued under Section 2 of the Exchequer and Audit Departments Act 1921, requires the BBC to prepare the Trust Statement to give a true and fair view of the state of affairs relating to the collection and settlements of Licence Fees and the revenue income and expenditure and cash flows for the financial year. Regard shall be given to all relevant accounting and disclosure requirements given in HM Treasury’s Financial Reporting Manual and other guidance.

The BBC has worked closely with HM Treasury to ensure that the accounting policies that underpin these accounts are comprehensive, appropriate, and supported to a sufficient level of detail by reports from business systems.

**Events after the reporting date**

There are no events after the reporting date that materially affect these financial statements. These accounts were authorised for issue by the Accounting Officer on the date the Comptroller and Auditor General signed the accounts.

**Going Concern and Position of the Business at the End of the Year**

After making enquiries, the directors have a reasonable expectation that the Licence Fee collection process has adequate resources to continue in operational existence for the foreseeable future, and accordingly the going concern basis continues to be adopted in the preparation of the accounts.

**Accounting Judgements and Estimates**

**Impairment of receivables**

The value of the impairment of receivables is estimated from the amounts written off for bad debts in the current year and adjusted for growth in the number of licences collected.

**Deferred Income**

Cash collected from customers renewing their licences who have paid for their licence in full before the licences come into force is accounted for as deferred income.

**Auditors**

The Comptroller and Auditor General has a statutory duty under the Exchequer and Audit Departments Act 1921 and the Accounts Direction from HM Treasury to audit this Trust Statement.

As far as the Accounting Officer is aware, there is no relevant audit information of which the auditors are unaware and the Accounting Officer has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

Tony Hall
Lord Hall of Birkenhead CBE
16th June 2015
Statement of the Accounting Officer’s Responsibilities in Respect of the Trust Statement

Under the Memorandum of Understanding between the BBC and Home Office dated March 1991, the Director General has been deemed as Accounting Officer of the BBC with overall responsibility for preparing the Trust Statement and for transmitting it to the Comptroller and Auditor General.

The Accounting Officer for the BBC is responsible for ensuring that there is a high standard of financial management, including a sound system of internal control; that financial systems and procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity; that financial considerations are fully taken into account in decisions on policy proposals; and that risk is considered in relation to assessing value for money.

The Accounting Officer is responsible for the fair and efficient collection of Licence Fees, including the collection and proper settlements of revenue.

Under section 2(3) of the Exchequer and Audit Departments Act 1921, the Accounting Officer is responsible for the preparation and submission to the Comptroller and Auditor General of a Trust Statement for the BBC for the financial year 2014/15. In conforming with the Accounts Direction issued by HM Treasury (see page 40 of this Trust Statement), the Trust Statement reports the revenue collected and expenditure in respect of Licence Fees administered by the BBC during the year, together with the net amounts surrendered to the Consolidated Fund.

The Trust Statement is prepared on an accruals basis and must give a true and fair view of the state of affairs of the BBC, including a Statement of Revenue and Expenditure, a Statement of Financial Position, and a Statement of Cash Flows. The Trust Statement includes a Statement on Corporate Governance which sets out the governance, risk and control arrangements for the BBC. The Statement on Corporate Governance process is firmly and clearly linked to the risk management process in the BBC.

In preparing the Trust Statement, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by HM Treasury including relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed and disclose and explain any material departures in the accounts;
- prepare the Trust Statement on a going concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the BBC’s assets, are set out in the Accounting Officers’ Memorandum issued by HM Treasury and published in Managing Public Money.
Statement on Corporate Governance

The Corporate Governance Framework

The BBC’s corporate governance framework is defined in the Royal Charter (the Charter). You can see the Charter on the BBC Trust’s website at http://www.bbc.co.uk/bbctrust/governance/regulatory_framework/charter_agreement.html

The BBC Trust is responsible under the Charter and Agreement for the governance of the BBC on behalf of Licence Fee payers. In respect of Licence Fee collection clause 24 (2) (m) of the Charter says one of the BBC Trust’s specific functions is ‘ensuring that arrangements for the collection of the Licence Fee are efficient, appropriate and proportionate’.

The Director General is responsible for the operations of the BBC including the collection of the Licence Fee. Further information on how the overall governance of the BBC is managed, including the BBC’s objectives and directors’ remuneration, can be found in the BBC’s Annual Report and Accounts.

Licence Fee collection is part of the BBC’s Finance & Operations group and is led by the Head of Revenue Management who is responsible for the operations of TV Licensing, the organisation comprising the BBC and the companies contracted to collect the Licence Fee.

The Charter requires the Executive Board to have regard to generally accepted principles of good corporate governance. Although the BBC is not a listed company, it has opted to adopt best practice and follow the provisions of the Financial Services Authority’s Listing Rules in accordance with the 2010 Corporate Governance Code and the Financial Reporting Council’s 2012 UK Corporate Governance Code in order to deliver the same governance standards as companies quoted on an EU regulated stock market. The BBC also complies with the requirements of the Government Financial Reporting Manual issued by HM Treasury (FReM) and the Corporate Governance Code for Departments.

The Executive Board has complied with the requirements of the Charter which has also secured substantial compliance with the UK Corporate Governance Code. There are, however, a few areas of the UK Corporate Governance Code that are either not appropriate to the circumstances of the BBC or where compliance with the Charter over-rides compliance with the UK Corporate Governance Code.

- The BBC is not a profit-oriented company with shareholders and so provisions relating to interaction with shareholders clearly do not apply.
- As permitted by the Charter, the Chairman of the Executive Board is the Director-General, the chief executive officer of the BBC, this does not comply with the UK Corporate Governance Code. The strategic oversight by the BBC Trust ensures that no single individual has unfettered powers.
- At 31 March 2015, the Executive Board comprised 13 directors, of whom seven are executive directors and six are non-executive directors, this complies with the Charter, but not the UK Corporate Governance Code which requires that at least half the board, excluding the chairman, should be independent non-executive directors.
- The Director General of the BBC, being the Chairman of the Board, has his performance evaluated by the Trust as opposed to the Senior Independent Director, as stated in the UK Corporate Governance Code.

The last external evaluation of the board was completed in 2009; therefore provision B.6.2 of the UK Corporate Governance Code has not been complied with. The Executive Board undertook an internal evaluation of its operations during the year. The Executive Board believes that this does not compromise the quality of the governance arrangements in place during 2014/15 or the execution of the Executive Board’s responsibilities.
For the first five months of the year the Audit and Remuneration Committees only comprised two members which, despite being quorate, is non-compliant with principle C.3.1 and D.2.1 of the UK Corporate Governance Code; this was due to lack of available non-executive directors to fulfil these roles. A new non-executive director was appointed as a member of both the Audit and Remuneration Committees in September 2014; therefore the BBC was compliant with these principles for the remainder of the financial year.

The Executive Board meets monthly (except for August), although additional Board meetings are convened during the year as and when required. Summary minutes of the monthly meetings are available online at [http://www.bbc.co.uk/aboutthebbc/insidethebbc/managementstructure/seniormanagement/](http://www.bbc.co.uk/aboutthebbc/insidethebbc/managementstructure/seniormanagement/)

<table>
<thead>
<tr>
<th>Table 1 – Attendance of directors at the Executive Board</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Executive Board</strong></td>
</tr>
<tr>
<td><strong>Number of meetings for the period</strong></td>
</tr>
<tr>
<td><strong>Executives</strong></td>
</tr>
<tr>
<td>Tony Hall</td>
</tr>
<tr>
<td>Helen Boaden</td>
</tr>
<tr>
<td>Anne Bulford</td>
</tr>
<tr>
<td>Danny Cohen</td>
</tr>
<tr>
<td>James Harding</td>
</tr>
<tr>
<td>Tim Davie (appointed 1 April 2014)</td>
</tr>
<tr>
<td>James Purnell</td>
</tr>
<tr>
<td><strong>Non-executive directors:</strong></td>
</tr>
<tr>
<td>Sir Nicholas Hytner (appointed 1 April 2014)</td>
</tr>
<tr>
<td>Simon Burke</td>
</tr>
<tr>
<td>Dame Fiona Reynolds</td>
</tr>
<tr>
<td>Alice Perkins (appointed 1 April 2014)</td>
</tr>
<tr>
<td>Sir Howard Stringer</td>
</tr>
<tr>
<td>Dharmash Mistry (appointed 1 September 2014)</td>
</tr>
</tbody>
</table>

Lucy Adams resigned 31 March 2014  
Brian McBride resigned 31 March 2014

The Executive Board receives information on the collection strategy for the Licence Fee and the performance of the collection organisation. The Board has found this to be of high quality to identify risks and issues facing the Licence Fee collection operation and accurate to predict the level of Licence Fee income for the year.

The Executive Board delegates some of its responsibility to other managerial groups and, in accordance with the requirements and provisions of the Charter, the following Committees continued to operate last year:

- Audit Committee
- Fair Trading Committee
- Nominations Committee
- Remuneration Committee

Any delegation from the Executive Board is stated in the relevant standing orders for each group and a framework for reporting and review is established. See [http://www.bbc.co.uk/aboutthebbc/insidethebbc/managementstructure/seniormanagement/subcom.html](http://www.bbc.co.uk/aboutthebbc/insidethebbc/managementstructure/seniormanagement/subcom.html)

The Executive Audit Committee (EAC) is a sub-committee of the Executive Board made up of non-executive directors. The external auditors and the Director of Risk and Assurance meet independently with the chairman of the EAC during the year.
During 2014/15 the EAC has:

- reviewed the effectiveness of the system of internal controls, taking account of the findings from internal and external audit reports
- considered the processes for managing significant risks within the BBC
- commissioned a report to review our arrangements by which staff may raise concerns regarding potential impropriety
- overseen the relationship with EY, including the scope and approach to their work, their fees, their performance and independence
- reviewed the BBC’s group financial statements and the Trust Statement, including accounting policies, compliance with legal and regulatory requirements, and the findings of the external auditors
- approved the work plan of Internal Audit

The Executive Board and its sub-committees are responsible for the delivery of BBC services and day-to-day operations across the organisation including the collection of the Licence Fee.

The BBC’s structure of assurance includes an internal audit and risk management function which, until April 2015, combined with investigation services to form our Business Assurance function, led by the Director of Risk and Assurance (from April 2015 the investigations services has been realigned with the BBC’s security team). Internal Audit’s authority and independence is assured by the Director of Risk and Assurance’s independent and direct access to the Director-General and to the Executive Audit Committee. Internal Audit regularly tests our control systems and core business processes to ensure they are fit for purpose and consistently applied. The work plan, which takes into account a continuing assessment of key risks, is agreed annually with the EAC and covers financial, operational and compliance controls, including the exercise of the BBC’s right of audit over external suppliers including Licence Fee collection service providers. Any significant control failings or weaknesses identified are reported to appropriate levels of management; corrective actions and updates are reported back to the EAC.

Key elements of the corporate governance framework specific to Licence Fee collection include:

- the Head of Revenue Management is responsible for identifying and managing the risks facing the Licence Fee collection process, and maintaining a risk register, together with mitigations
- specialist functions oversee the management of certain major areas of risk, such as information security, ensuring appropriate frameworks are in place and effective ownership at a senior level
- the Board receives regular reports and updates on the BBC’s risk exposure and mitigation strategies
- audits of the controls over the accounting for receipts from customers
- audits of suppliers’ information security controls
- reviews of the risk registers within the BBC department and with suppliers to ensure that risks are documented and that mitigating actions have been completed
- comprehensive monthly, quarterly and annual reporting processes, both within business groups and up to the Board. This includes the system of financial monitoring and reporting to the Board, based on an annual budget, monthly reporting of actual results, regular re-forecasting and analysis of variances and key drivers
- processes to ensure compliance with all applicable laws and regulations
- formal policies and procedures concerning all material business processes, to ensure risks are managed and that timely, relevant and reliable information is available across the business
- processes to ensure that our staff are professional and competent, such as recruitment policies, performance appraisals and training programmes.

The remainder of this Governance Statement considers governance as it relates to the collection of the Licence Fee.
Risk Assessment
The Executive Board is responsible for the operational management of the BBC (excluding the Trust Unit), which includes safeguarding its assets and achieving value for money by ensuring there is a process in place for managing significant risks to the BBC as well as maintaining an effective system of internal control.

Managing risk within the BBC is integral to the delivery of our business objectives and public purposes. We believe that this is most effectively achieved through the engagement of the entire Executive Board, which is responsible for identifying risks and opportunities that might impact on the BBC’s audiences, strategy and operations. External and internal factors – as well as advice from a range of in-house and independent specialists – are taken into account when assessing a business plan and deciding the most appropriate course of action.

The Head of Revenue Management is responsible for maintaining the risk register for the BBC’s Licence Fee collection activities. The key risks which are identified and managed relate to the external factors which affect the size of the licensable population and customers’ ability to purchase a licence, risks to the reputation of the BBC and TVL brands which may affect customers’ willingness to purchase a Licence and risks relating to the relationships and operations of the BBC’s key suppliers for the collection of the Licence Fee.

Maintaining Internal Controls with Outsourced Collection Arrangements
The BBC contracts with other companies to provide the majority of the services for collecting the Licence Fee. Each of these organisations has its own internal control responsibilities which are set out in their contracts with the BBC. The Director General, as Accounting Officer, has ultimate responsibility for ensuring that there is an appropriate level of control over all of the BBC’s operations whether performed directly or by other organisations.

The internal control and governance structure is embedded in the contract with Capita Business Services Ltd. There are schedules to the contract which relate to the internal controls over the management of funds collected and to the governance of the collection operations and the contract management.

The BBC commissions an annual audit at all the organisations which collect customer money. These audits are designed to ensure that the cash which has been transferred to the consolidated fund and the number and value of licences issued are complete and accurate and include tests and reports on the internal controls over the main databases which record sales of licences.

Data and Information Security
TV Licensing core functions encompass the management and maintenance of its address databases containing details for over 30 million addresses in the United Kingdom, the Isle of Man and the Channel Islands and payment details for over 25 million licensed customers.

The BBC ensures that responsibilities for data protection and information security are specifically included in contracts with suppliers for the collection of the Licence Fee.

During 2010, the BBC implemented a new information security management system for its Licence Fee collection suppliers. It is a framework of policies and processes which must be adhered to by the BBC, its suppliers for collection of the Licence Fee, and their subcontractors. It enables all parties to know exactly what is required to ensure the security of TV Licensing data, and to monitor and measure compliance on a formal and on-going basis.

During the year, the BBC ensured that the processes of monitoring and review of the information management system were in place and working effectively. The information security management
system has now been used by over 40 organisations working directly and indirectly for the BBC to collect the Licence Fee.

Accreditation to the international best practice information security standard ISO27001 is a contractual requirement for the main service providers and their relevant subcontractors.

All staff in the BBC receive training in data protection which is monitored to ensure all staff complete it each year. Our Licence Fee collection suppliers also provide their staff with comprehensive data protection training relevant to their role. Training records for BBC staff working on Licence Fee collection and staff working for key suppliers are monitored every six months. The BBC has commissioned the creation of a Data Protection Compliance Framework and Assessment toolset to assist more structured monitoring of our handling of personal information across TV Licensing.

There have not been any significant data losses or breaches of data security during the year.

**Fraudulent activity**

Our fraud policy establishes a clear framework of controls designed to minimise the risk of fraudulent activity, and assigns responsibility for managing these. All suspected incidents of fraud are investigated.

The key suppliers of Licence Fee collection services have fraud policies in place which are reviewed and updated to reflect changes in processes and risks. Instances of fraudulent behaviour by staff are investigated. Most incidents of fraud identified are carried out by members of the public, for example changing the value of refund cheques. These incidents are reported to the relevant authorities as appropriate.

We have a ‘whistle-blowing’ (protected disclosure) policy, to facilitate the confidential communication via a number of routes of any incident in which there is a suspicion that the BBC’s codes have been breached. Each incident or suspicion reported is independently investigated in a confidential manner, a response is communicated and action is taken as appropriate.

**Internal Control Framework**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of controls. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the board, the Executive Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

There are no significant control issues relating to the collection of the Licence Fee.

Tony Hall  
Lord Hall of Birkenhead CBE  
16th June 2015
Audit Report of the Comptroller and Auditor General to the House of Commons

I have audited the British Broadcasting Corporation Television Licence Fee Trust Statement for the year ended 31 March 2015 under the Exchequer and Audit Departments Act 1921 as amended by the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Revenue and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor
As explained more fully in the Statement of the Accounting Officer’s Responsibilities in Respect of the Trust Statement, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and report on the financial statements in accordance with the Exchequer and Audit Departments Act 1921. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the British Broadcasting Corporation Television Licence Fee Trust Statement and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the British Broadcasting Corporation; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity
In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements
In my opinion:

- the British Broadcasting Corporation Television Licence Fee Trust Statement gives a true and fair view of the state of affairs as at 31 March 2015 relating to the collection and settlement of television Licence Fees and of its net revenue for the year then ended; and
the financial statements have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and HM Treasury directions issued thereunder.

Opinion on other matters
In my opinion:
- the information given in the Strategic Report and Management Commentary within the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception
I have nothing to report in respect of the following matters which I report to you if, in my opinion:
- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury’s guidance.

Report
My report on the British Broadcasting Corporation’s arrangements for the assessment, collection and proper allocation of revenue is at pages 25 to 39.

Sir Amyas C E Morse
Comptroller and Auditor General

National Audit Office
157 – 197 Buckingham Palace Road
Victoria
London
SW1W 9SP

1st July 2015
## Financial Statements

### Statement of Revenue and Expenditure for the Year Ended 31 March 2015

<table>
<thead>
<tr>
<th>Note</th>
<th>2015 £m</th>
<th>2014 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value of Licences</td>
<td>1.3</td>
<td>3,236</td>
</tr>
<tr>
<td>Value of refunds</td>
<td>(63)</td>
<td>(68)</td>
</tr>
<tr>
<td>Value of premiums on quarterly direct debit</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>Net Revenue</td>
<td></td>
<td>3,189</td>
</tr>
<tr>
<td>Less expenditure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>2.2</td>
<td>(66)</td>
</tr>
<tr>
<td><strong>Net Revenue for the Consolidated Fund</strong></td>
<td></td>
<td>3,123</td>
</tr>
</tbody>
</table>

There were no recognised gains or losses accounted for outside the above Statement of Revenue and Expenditure. The notes at pages 21 to 23 form part of this statement.
Statement of Financial Position as at 31 March 2015

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>2.1</td>
<td>381</td>
</tr>
<tr>
<td>Cash held for customers on savings schemes</td>
<td>21</td>
<td>27</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td></td>
<td>402</td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>3</td>
<td>(275)</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td></td>
<td>127</td>
</tr>
</tbody>
</table>

Represented by:

<table>
<thead>
<tr>
<th>Balance on Consolidated Fund Account as at 31 March</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>127</td>
<td>145</td>
</tr>
</tbody>
</table>

The notes at pages 21 to 23 form part of this statement

Tony Hall
Lord Hall of Birkenhead CBE
16th June 2015
Statement of Cash Flows for the Year
Ended 31 March 2015

<table>
<thead>
<tr>
<th></th>
<th>2015 £m</th>
<th>2014 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net cash inflow from revenue activities</strong></td>
<td>3,128</td>
<td>3,114</td>
</tr>
<tr>
<td><strong>Cash paid to the Consolidated Fund</strong></td>
<td>(3,134)</td>
<td>(3,119)</td>
</tr>
<tr>
<td><strong>(Decrease) in cash in the period</strong></td>
<td>(6)</td>
<td>(5)</td>
</tr>
</tbody>
</table>

Notes to the Cash Flow Statement

A: Reconciliation of Net Cash Flow to Movement in Net Funds

Net Revenue for the Consolidated Fund 3,123  3,114
Decrease in Receivables 14  1
Non-cash adjustment (7) -
(Decrease) / Increase in Payables (2) (1)
Net Cash Flow from revenue activities 3,128  3,114

B: Analysis of Changes in Net Funds

Decrease in Cash in this Period (6) (5)
Net Funds at 1st April (Net Cash at Bank) 27  32
Net Funds at 31st March (Closing Balance) 21  27

As a result of overstating cash scheme debtors in previous accounting periods the decrease in receivables requires an adjustment of £7m to reflect the movement in the current year.

The notes on pages 21 to 23 form part of these accounts.
Notes to the Trust Statement

1. Statement of Accounting Policies

1.1 Basis of Accounting
The Trust Statement is prepared in accordance with the accounts direction issued by HM Treasury under section 2(3) of the Exchequer and Audit Departments Act 1921. The Trust Statement is prepared in accordance with the accounting policies detailed below. These have been agreed between the BBC and HM Treasury and have been developed in accordance with the HM Treasury Financial Reporting Manual (FReM). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adopted or interpreted for the public sector context.

1.2 Accounting Convention
The Trust Statement has been prepared on an accruals basis and in accordance with the historical cost convention.

1.3 Revenue Recognition
Revenue derived from television licences is recognised as a receivable from the Licence Fee payer. This represents the value of licences which came into force in the year, subject to deductions for refunds.

Revenue is recognised when a licensable event has occurred and it is probable that the economic benefits from the licensable event will flow to the Exchequer. A licensable event occurs when a licence comes into force. The full value of the licence is counted as revenue in the period in which the licence comes into force.

1.4 Licence Fee Evasion
The value of licences evaded, the difference between the value of licences that could be collected from all licensable addresses and the value actually collected, is out of scope of the financial statements in this Trust Statement. Evasion is discussed more in the annual review. This is referred to as the ‘tax gap’.

1.5 Refunds, Revocations and Cancellations
Refunds are given to customers where they can demonstrate that they have paid for a licence which is no longer required. Revocations and cancellations are the value of licences revoked and outstanding instalment payments written off where a customer has not kept up their instalment payments.

The value of outstanding instalment payments written off is shown as an expense in the Statement of Revenue and Expenditure, refunds and other cancellations are shown as a reduction in income.

1.6 Exemptions
There are no exemptions in the legislation and regulations for Licence Fee collection.

1.7 Licence Fee Receivables
Licence Fee receivables represent:
- The amounts receivable from customers on instalment schemes where a licence has been issued, but the full amount of the fee is still outstanding.
- Cash in transit that has been collected from customers for licences in force, but has not been transferred to the HM Government bank account managed by the BBC.
1.8 Impairment of Receivables
The value of the impairment of receivables is estimated based on the value of direct debit cancellations in the previous year. The value of impairments is shown as the bad debt expense in the Statement of Revenue and Expenditure.

1.9 Payables
1.9.1 Licence Fee Payables
Licence Fee payables represent the amounts collected from customers on instalment schemes for licences that have yet to be issued.

1.9.2 Customer savings
Customer savings represents cash collected from customers on savings card for payment towards their next licence. The cash balance is shown with a corresponding payable as the money is not due to the Consolidated Fund until the customer’s licence is due for renewal. Timing differences in payments can result in differences between the cash and the payable balance.

Cash collected from customers on the savings stamps scheme is not included in this statement. The scheme is no longer in use and whilst customers can ask for their money to be refunded or transferred to another scheme, it cannot be used to purchase a licence.

1.9.3 Deferred Income
Cash collected from customers renewing their licences who have paid for their licence in full before the licences come into force is accounted for as deferred income.

2. Receivables
2.1 Amounts due at 31st March 2015

<table>
<thead>
<tr>
<th></th>
<th>2015 £m</th>
<th>2014 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licence fee Receivables</td>
<td>417</td>
<td>423</td>
</tr>
<tr>
<td>Cash in transit</td>
<td>(10)</td>
<td>-</td>
</tr>
<tr>
<td>Total before estimated impairments</td>
<td>407</td>
<td>423</td>
</tr>
<tr>
<td>Less estimated impairments</td>
<td>(26)</td>
<td>(28)</td>
</tr>
<tr>
<td>Total before estimated impairments</td>
<td>381</td>
<td>395</td>
</tr>
</tbody>
</table>

Receivables represent the amount due from licensees where demands for payment have been issued but not paid for at 31 March.

2.2 Losses and Write Offs

<table>
<thead>
<tr>
<th></th>
<th>2015 £m</th>
<th>2014 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as at 1 April</td>
<td>28</td>
<td>30</td>
</tr>
<tr>
<td>Actual amounts written off in the year</td>
<td>(68)</td>
<td>(76)</td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>66</td>
<td>74</td>
</tr>
<tr>
<td>Balance as at 31 March</td>
<td>26</td>
<td>28</td>
</tr>
</tbody>
</table>

Receivables in the statement of financial position are reported after the deduction of the estimated value of impairments. This estimate is based on analysis of bad debts made in previous years.
3. Payables

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licence fee payables</td>
<td>225</td>
<td>221</td>
</tr>
<tr>
<td>Customer savings</td>
<td>21</td>
<td>26</td>
</tr>
<tr>
<td>Deferred income</td>
<td>29</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td><strong>275</strong></td>
<td><strong>277</strong></td>
</tr>
</tbody>
</table>

4. Balance on the Consolidated Fund Account

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance on Consolidated Fund Account at 1 April</td>
<td>145</td>
<td>150</td>
</tr>
<tr>
<td>Non-cash adjustment</td>
<td>(7)</td>
<td>-</td>
</tr>
<tr>
<td>Net Revenue for the Consolidated Fund</td>
<td>3,123</td>
<td>3,114</td>
</tr>
<tr>
<td>Less amount paid to the Consolidated Fund</td>
<td>(3,134)</td>
<td>(3,119)</td>
</tr>
<tr>
<td>Balance on Consolidated Fund Account at 31 March</td>
<td><strong>127</strong></td>
<td><strong>145</strong></td>
</tr>
</tbody>
</table>

As a result of overstating cash scheme debtors in previous accounting periods the net revenue for the Consolidated Fund requires an adjustment of £7m to reflect the movement in the current year.

5. Related parties

TV Licensing and the BBC have a large number of transactions with related parties. Licences are purchased by the BBC and suppliers involved in collecting the Licence Fee for licensable places which they occupy. BBC directors and staff also purchase Television Licences for their own use.

These transactions are not considered to be material.

None of the directors or other related parties has undertaken any material transactions relating to TV Licensing in the year.

6. Events after the Reporting Period

There are no events after the reporting period that materially affect these financial statements.

The Accounting Officer authorised these financial statements for issue on the date the Comptroller and Auditor General reported on the accounts.
## Annex 1 – Reconciliation to the BBC’s Main Annual Report Licence Fee Sales

<table>
<thead>
<tr>
<th>Description</th>
<th>2015 £m</th>
<th>2014 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licence fee sales contributing to consolidated fund</td>
<td>3,123</td>
<td>3,114</td>
</tr>
<tr>
<td><strong>Add</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over 75 sales</td>
<td>612</td>
<td>608</td>
</tr>
<tr>
<td><strong>BBC Licence Fee Sales in Annual Report and Accounts note A2</strong></td>
<td>3,735</td>
<td>3,722</td>
</tr>
</tbody>
</table>
The Comptroller and Auditor General’s Report to the House of Commons

Summary

Background

1. The British Broadcasting Corporation (BBC) is responsible for issuing television licences, enforcing the licensing system and collecting licence fee revenue which is then surrendered to the Exchequer. In 2014-15, £3.1 billion (2013-14: £3.1 billion) of revenue was collected by the BBC and paid over to the Exchequer, as reported in the Trust Statement. The BBC also received £612 million (2013-14: £608 million) from the Department for Work and Pensions for licence fees for the over 75s making the total licence fee revenue for 2014-15 £3.7 billion (2013-14: £3.7 billion).

2. Section 2 of the Exchequer and Audit Departments Act 1921 requires me to carry out a review of the systems in place to collect TV licence fee revenue payable to the Exchequer and to report my findings to the House of Commons. I am required to ascertain whether adequate regulations and procedures have been framed to secure an effective check on the assessment, collection and proper allocation of revenue, and whether they are being duly carried out. This report records the outcome of my review and my conclusions as to the adequacy of the systems in place during 2014-15.

Conclusion

3. The BBC’s licence fee evasion model is an important indicator of the success of the BBC in ensuring collection of the licence fee. The model estimates the level of evasion for each month and indicates that evasion rates have remained at between 5% and 6% over the last 5 years. The BBC has put in place arrangements to assess the validity of the data used to populate the model and the principal inputs to the model are appropriate. My review indicates that the BBC needs to do more, however, to ensure the continuing appropriateness of some of the other data sources. There is insufficient justification for a number of adjustments to the evasion model or for the continued use of some sets of historic data. In addition, the BBC does not at present seek to reconcile at a broad level the number of households indicated in its evasion model with those in its detailed TV Licence database.

4. The BBC’s Licence Fee Unit, working with its service partners, Capita and Proximity, has established an effective framework for exploiting the data held in its TV licence database to target its operational activities. All three parties have contributed to enhancing the Unit’s ability to understand, predict and influence the behaviour of the licensed and unlicensed customer base. However, in the context of relatively static estimates of evasion rates, the BBC could do more to understand the factors influencing evasion rates, such as wider economic conditions, the increasing use of non-TV devices, and the effectiveness of collection activities, in order to target sustained improvements in the level of evasion.

5. While recognising that no collection system can ensure that all those who have a liability meet their obligations, the work of my staff has confirmed that adequate regulations and procedures have been framed to secure an effective check on the assessment, collection and a proper allocation of revenue and that these regulations and procedures are being duly carried out. This assurance is subject to the observations on specific aspects of the administration of licence fee collection noted in this report.
Recommendations

6. The BBC should better document the rationale for its choice of data and confirm on a rolling basis the continuing appropriateness of its use of historic data sources, to ensure that the data sources for its evasion model are fit for purpose.

7. While the different nature and source of inputs to the database and evasion model means that they cannot be reconciled precisely, the Licence Fee Unit should do more to confirm that they are consistent.

8. The BBC should do more to understand the factors influencing evasion rates, such as wider economic conditions, the increasing use of non-TV devices, and the effectiveness of collection activities, in order to target sustained improvements in the level of evasion.

Audit Approach

9. My review of systems, data management and other key elements of the licence fee lifecycle is primarily undertaken as part of my audit of the BBC Licence Fee Trust Statement (the Trust Statement), where I examine the correctness of the sums brought to account and report the results to the House of Commons. I have issued an unqualified opinion on the Trust Statement and no major control weaknesses were identified during the 2014-15 financial year.

10. A focused review of the other elements of the licence fee lifecycle is undertaken on a rolling basis, with this year, 2014-15, the fifth part of my continuing review. Figure 1 illustrates, at a high level, the systems and processes in place to collect the licence fee and illustrates the scope and timing of my rolling programme over the last 5 years.

Figure 1 – Overview of the licence fee lifecycle

<table>
<thead>
<tr>
<th>New registration and renewal</th>
<th>Systems and data management</th>
<th>Licence termination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manual payment methods</td>
<td>LASSY (Licence Administration and Support System)</td>
<td>Revocation</td>
</tr>
<tr>
<td>The wide variety of methods through which customers may purchase their licence</td>
<td>Systems and data security</td>
<td>Licence is canceled due to failure to pay licence fee</td>
</tr>
<tr>
<td></td>
<td>Business continuity management</td>
<td></td>
</tr>
<tr>
<td>Licensees initiated</td>
<td>LASSY system</td>
<td>Refund request</td>
</tr>
<tr>
<td>Where the customer contacts TVL to purchase a licence</td>
<td>Maintaining accurate data from communication with the public, enforcement officer activity and Post Office address data</td>
<td>Licence cancels the licence before the terms complete</td>
</tr>
<tr>
<td></td>
<td>Processing of payment</td>
<td>Natural expiry</td>
</tr>
<tr>
<td></td>
<td>The systems which accept and process automated licence fee payments</td>
<td>Licence expires, and the licence is required to purchase a new licence</td>
</tr>
</tbody>
</table>

Revenue, marketing and enforcement

Impact modelling

Finance feasibility

Campaign effectiveness measurement

Enforcement activities

Postal communication

Telephone communication

Enforcement visits

Marketing activities

Advertising

Customer research and trading

Note
The box with the dashed outline — Revenue, marketing and Enforcement — indicates the focus of this and future reports, with the focus of this year’s report on the use of data.

Source: National Audit Office
11. My previous reports on the other elements of the licence fee lifecycle covered:

- 2010-11: the BBC’s procedures around licence initiation, the licence fee evasion model and how the ‘Tax Gap’ is estimated and managed by the BBC. The Tax Gap is the difference between the licence fee legally due and the licence fee received, and has also formed part of my subsequent reviews, including this year’s.

- 2011-12: I reviewed licence termination processes, specifically the processes around natural expiry and renewal, cancellations, refunds and revocation, and the over 75 licence fee concession process.

- 2012-13: in response to the retendering of the main service contract for TV Licensing and its award to Capita during 2011-12, my 2012-13 report provided a review of the new contract and the overarching governance framework overseeing these new contractual arrangements.

- 2013-14: following on from my review of the new contract in 2012-13, my report last year began to examine the marketing and enforcement activities of the BBC Licence Fee Unit. This was the first over a three year life cycle of reports on marketing and enforcement, and focused on how the Unit uses contracts with third parties to deliver its strategy and brand through direct communication with customers.

12. This year my report looks at how the BBC Licence Fee Unit uses data to estimate the level of evasion – the tax gap. Then, continuing on from the 2013-14 report, my report looks at marketing and enforcement activity, specifically considering how the BBC Licence Fee Unit (the Unit) utilises data to: set targets for revenue collection; segment the market for operational purposes; and plan, implement and assess campaign activities.

13. Part 2 of this report provides an update on my recommendations from previous years.
Part One
The BBC’s use of data to direct and assess the impact of revenue collection campaigns

Introduction

1.1. Everyone in the UK who watches or records live television programmes is required to have a valid TV licence. Having a television is not a prerequisite for needing a licence; a licence is required to watch or record live broadcasts on any device including computers and smartphones.

1.2. Collection of the licence fee is managed by the BBC Licence Fee Unit (the Unit) which works together with its service providers, Proximity London (Proximity) and Capita Business Services Ltd (Capita), to deliver its marketing activities. The work undertaken by the three parties is carried out under the brand name ‘TV Licensing’ (TVL). Proximity provides marketing and print services while Capita provides customer services, payment processing, collection of arrears, and enforcement.

1.3. The Unit uses a combination of external and internally generated data to direct and assess operating activities. The effective use of data is critical to establishing processes for collecting licence fee income which are efficient, appropriate and proportionate to the revenue collected. It is therefore important that the Unit uses data which is suited for its intended use and that any assumptions underpinning models are justified. I have examined how the Unit uses data to estimate the level of evasion, set targets for revenue collection, segment the market for operational purposes and plan, implement and assess campaign activities.

Using data to estimate the level of evasion: the tax gap

1.4. The tax gap is a key measure used by the BBC to estimate the shortfall between the licence fee that should be paid and the amount that is actually collected.

1.5. The BBC uses three key data sets in its evasion model to estimate the tax gap. The first two, estimates of the number of premises in the UK and the proportion of premises in which live television is watched or recorded, are collated from external sources. The third, the number of licences in force, is taken from the TV Licensing database. Figure 2 shows the sources of data for the components of the evasion model.
## Figure 2: Data sources for the evasion model

<table>
<thead>
<tr>
<th>Evasion model input</th>
<th>Number of premises</th>
<th>Data source</th>
<th>Penetration rate</th>
<th>Data source for penetration rate</th>
<th>Licensable premises</th>
<th>% of total licensable premises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic households</td>
<td>27,459,768</td>
<td>Department of Communities and Local Government Household Estimates</td>
<td>95.15%</td>
<td>BARB Establishment Survey data adjusted to allow for non-TV households</td>
<td>26,127,969</td>
<td>97.1%</td>
</tr>
<tr>
<td>Permanent lodgers</td>
<td>141,917</td>
<td>English Housing Survey</td>
<td>95.15%</td>
<td>As domestic rate</td>
<td>135,034</td>
<td>0.5%</td>
</tr>
<tr>
<td>Temporary lodgers</td>
<td>106,000</td>
<td>English Housing Survey</td>
<td>50.00%</td>
<td>Reduced rate</td>
<td>53,000</td>
<td>0.2%</td>
</tr>
<tr>
<td>Second homes</td>
<td>223,846</td>
<td>English Housing Survey</td>
<td>80.00%</td>
<td>Original Model Assumption from Deloitte</td>
<td>179,077</td>
<td>0.7%</td>
</tr>
<tr>
<td>Students in halls</td>
<td>455,563</td>
<td>Higher Education Statistics Agency</td>
<td>33.30%</td>
<td>Harris Interactive research</td>
<td>151,703</td>
<td>0.6%</td>
</tr>
<tr>
<td>Personnel on military bases</td>
<td>66,033</td>
<td>TVL/Ministry of Defence</td>
<td>60.00%</td>
<td>Originally the same as students and military personnel behaviours seem to have diverged since last update</td>
<td>39,620</td>
<td>0.1%</td>
</tr>
<tr>
<td>Non Accommodation for Residential Care (ARC) Communal establishments</td>
<td>2,596</td>
<td>Deloitte Study</td>
<td>n/a</td>
<td>Only licensable establishments counted</td>
<td>2,596</td>
<td>0.0%</td>
</tr>
<tr>
<td>Miscellaneous communal establishments</td>
<td>14,021</td>
<td>Deloitte Study</td>
<td>95.15%</td>
<td>As domestic rate</td>
<td>13,341</td>
<td>0.0%</td>
</tr>
<tr>
<td>Hostels and common lodging houses</td>
<td>21,348</td>
<td>Deloitte Study</td>
<td>33.30%</td>
<td>As students</td>
<td>7,109</td>
<td>0.0%</td>
</tr>
<tr>
<td>Hotels</td>
<td>106,912</td>
<td>Dun &amp; Bradstreet business data</td>
<td>n/a</td>
<td>Only licensable no of rooms counted</td>
<td>106,912</td>
<td>0.4%</td>
</tr>
<tr>
<td>Businesses</td>
<td>530,654</td>
<td>Deloitte Study</td>
<td>n/a</td>
<td>Only licensable businesses counted</td>
<td>530,654</td>
<td>2.0%</td>
</tr>
<tr>
<td>Accommodation for Residential Care (ARC) establishments</td>
<td>(430,861)</td>
<td>TVL Database</td>
<td>100.00%</td>
<td>(430,861)</td>
<td>26,916,154</td>
<td>97.1%</td>
</tr>
</tbody>
</table>

Source: National Audit Office review of BBC data
**Estimated total number of premises**

1.6. The first data set used in establishing the level of evasion is the estimated number of premises in the UK. This comprises data from various sources on households, businesses and other premises.

1.7. The number of households in the UK is derived from statistical predictions from the Department for Communities and Local Government (DCLG) of population levels to which predictions for the size of households are applied to give an estimate of the number of households. The DCLG predicted this information for June 2013 and June 2014 and the BBC interpolated to arrive at the predicted number of households at March 2014. The Unit then uplifted this figure by the predicted growth in the housing stock (provided by the construction company analysts, Glenigan) to arrive at March 2015 levels.

1.8. The Unit commissioned Deloitte in both 2006 and 2009 to review its methodology for estimating household numbers. The review concluded that the methodology and data sources were reasonable, but could be refined. In particular, it noted that DCLG’s estimates for household growth were subject to significant levels of error. In response, the Unit now uses information from Glenigan’s survey of construction planning requests to update DCLG data.

1.9. The Deloitte review also recommended that the Unit confirm the continuing validity of the assumptions underpinning DCLG’s model. Council tax records could provide an alternative source of data for the number of households. The Unit informed me that it does not currently have a data source for accumulated council tax records across the UK, but accepted that this option may be worth exploring further.

1.10. The BBC makes a further adjustment to household data to remove those who are in Accommodation for Residential Care as it assumes that these people would have been included in the household data. However, DCLG’s methodology on household projections states that its household data specifically excludes people living in communal establishments and nursing homes. I have therefore concluded that there is insufficient justification to reduce the number of households by 431,000 for residential care occupants. The BBC has accepted that 198,000 of the adjustment may not be warranted, indicating an understatement of at least £27 million (0.66 percentage points or 14%) in the true level of evasion, and is currently investigating the remainder.

1.11. Household data also includes statistics for lodgers, second homes and those living in student accommodation or military bases. At the time of my review, data for permanent and temporary lodgers was based on statistics for 2001 and assumed that the change in the number of temporary and permanent lodgers between 2000 and 2001 had remained constant for the last 14 years. Lodgers represented 0.7% of the 28.5 million households in the evasion model and the Unit considers that any changes to this population are unlikely to have a material impact on the level of evasion. The Unit has, however, reviewed its use of this data source since the year end and, in the latest version of the evasion model, uses data from the English Housing Survey of 2007, uprating this using the same assumption as previously noted.

1.12. Figure 2 also illustrates the sources of data used to estimate the number of business and other non-household premises. Based on information from Deloitte Consulting, the BBC
estimates that there are 531,000 businesses (excluding hotels, hostels and other residential businesses) which require a TV licence. This was based on 2001 data to which the same annual uplift has been applied for the last 14 years. This is a significant input into the evasion model, as a 1% change in this estimate would result in a £773,000 change in the estimated level of evasion. The Unit plans to assess the continuing validity of these inputs to the model during 2015-16.

Estimated proportion of premises from which live television is viewed or recorded

Households

1.13. Each quarter, the Broadcasters’ Audience Research Board (BARB) publishes statistics on TV penetration, which is the ratio of households with a television to the total number of households. BARB also provides data on households using non-TV devices to watch television. The BBC combines these data with the BARB estimates of TV penetration to construct a proxy for the percentage of households which require a TV licence.

1.14. In my 2013-14 report, I explained that the BBC had questioned the accuracy of BARB’s penetration rates for non-TV devices that was derived from the BARB survey. This was because the survey:

- only requested information for the respondent, not everyone in the household;
- did not recognise mobile phones or internet connected gaming devices; and
- relied upon the respondent being able to differentiate between on-demand and streaming of live programme services.

1.15. BARB’s survey for January – December 2014 asked whether the respondent or anyone else in the household had used computers or tablets to watch TV at any time. However, BARB asked only about the respondent’s viewing of live TV, so the BBC’s first concern has been only partly addressed. The survey also asked whether games consoles are used to view television, but no specific questions were asked about mobile phones and no questions were included to help the respondent differentiate between on-demand and live TV. In order to determine a more appropriate penetration rate, the BBC needs to gain more information from the BARB survey on the split between on-demand and live services.

1.16. The BBC has assessed BARB to be a reliable source of data. BARB is jointly owned by competing broadcasters and is widely considered to be an objective data source. The number of licensable households is derived from the results of a survey of 53,000 respondents, which are extrapolated to estimate licensable households in the UK. This is the largest survey of television viewing in the UK with the nearest comparators surveying significantly fewer premises making BARB data the most accurate television viewing data available.

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*BARB is jointly owned by the BBC, ITV, Channel 4, Channel 5, BSkyB and the Institute of Practitioners in Advertising*
Businesses

1.17. The data for businesses that are included in figure 2 already reflect penetration rates, so only licensable businesses are counted. For hotels, the Unit’s methodology for establishing the number of licences required for hotels assumes a direct relationship between number of employees and the number of rooms in hotels and this was used to estimate the number of licensable rooms. This is appropriate and recognises the specific licensing arrangements for hotels. Dun and Bradstreet’s business count data provided a useful level of granularity on establishments and allowed the information to be sense checked against tourist board data.

Number of licences in force (LIF)

1.18. The figure for Licences in force (LIF) is extracted from the TVL database. The base data for licences in force is the actual system count of existing licences in the TVL database. This is deducted from the estimated licensable premises to arrive at the level of evasion. However, there will be some individuals who require a licence but do not have one, not because they are intentionally evading the fee, but simply because they have not paid it punctually. It would be misleading to include such individuals in estimates of evasion. TVL staff analyse payment patterns and are able to identify those who habitually renew their licence shortly after the renewal date. The licences in force figure feeding into the evasion model is adjusted for these later payers so that they are excluded from the evasion figure.

Calculating the tax gap

1.19. The input data described above forms the basis of the evasion model which is used by the Unit to calculate the total cost of evasion. This is done by applying the licence fee for coloured and black and white devices in the appropriate proportion to the estimated level of evasion. As at March 2015, the BBC estimated that there were 1.38 million licence fee evaders with a cost of evasion of £195 million. This represents £7.63 per licence payer or 5.2% of licence fee revenue. However, once this is adjusted for the understatement in accommodation for residential care homes (see paragraph 1.10) the level of evasion is at least £222 million, representing £8.70 per licence payer or 5.9% of licence fee revenue. In the Trust Statement, the BBC discloses the level of evasion as between 5% and 6%, based on the estimated number of evaders as a percentage of licensable premises. This level has been maintained for five years, but is above the level of 4-5% evasion that existed between 2004-05 and 2009-10. The estimated level of evasion remains within this range after the adjustment for the 198,000 residential care homes noted above. In the absence of the appropriate classification of 233,000 residential care homes or current data on businesses (paragraph 1.12), I am unable to establish whether further revisions to the current estimate of the level of evasion may be required.

Setting targets for revenue collection

1.20. In the previous section of this report, I examined the way in which the BBC uses data to estimate the level of licence fee evasion. While the BBC seeks to minimise the level of evasion, it is important to set targets for revenue collection that reflect the realities of the market. The BBC needs to balance the need for revenue with the need to ensure that licence fee evasion is kept to a minimum. The evasion model described above provides a useful tool for calculating the total cost of evasion and for setting targets for revenue collection. It is important that the BBC continues to monitor the level of evasion and adjust its targets as necessary to ensure that it is collecting the revenue that it is due.
evasion, the operating activities of TVL staff are focussed on achieving revenue targets rather than achieving a reduction in evasion, although this objective is implicit in the target.

1.21. The ‘TV Licensing Revenue and Marketing Plan’ (‘the Plan’) is a key component of the BBC’s strategic planning activities. The 2014-15 Plan was developed following collaboration between the BBC Licence Fee Unit’s Marketing and Public Relations departments, Proximity and Capita. It provided an overall framework for the Unit, working with its service partners, to maximise the effectiveness and efficiency of licence fee collection. As part of this collaborative planning process, the Unit carried out a Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis in autumn 2013 and used this to inform its key marketing initiatives for 2014-15. The agreed plan was submitted to the BBC’s Head of Revenue Management, who is a member of the Unit’s senior management, for BBC approval in December 2013. A separate Licence Fee Collection Strategy, which features key changes in the Strategy identified by the Plan, is provided to the BBC Executive Board and the BBC Trust. The tripartite Revenue and Marketing Forum monitors progress against the Plan on a monthly basis.

1.22. The key objectives outlined in Revenue and Marketing Plan for 2014-15 were:
1. to generate £3,761 million of revenue by the end of March 2015; and
2. to maintain the TV Licensing brand reputation at the same level achieved at the end of 2013-14.

I have considered how data has been utilised to achieve the first of these two objectives in this report.

1.23. In determining the annual revenue target, the BBC used the previous year’s revenue outturn as the baseline and adjusted this to reflect expected growth in the number of premises in the UK and changes to the proportion of people watching and recording live TV (the penetration rate). The BBC made a further adjustment to reflect external developments, identified through its SWOT analysis, that were likely to affect the level of evasion. These include the impact of changes in the UK economy, such as levels of employment and the effect of changes in the tax and benefit system on disposable income.

1.24. Data on the number of premises and penetration rate inform the BBC’s evasion model. The Unit’s assessment of the impact of changes in social and economic policy was informed by YouGov’s Household Economic Activity Tracker Report (September 2013) and the Department for Work and Pension’s research into the impact of social policies. The Unit made good use of available data, and developed reasonable assumptions in assessing the impact of these factors on the level of licence fee evasion, when setting its annual revenue target.

**Operational data used in achieving the target**

1.25. I have described above how the BBC uses statistical data to estimate the tax gap and set revenue targets. The Unit does not, however, use statistical data to direct operational...
activities, because the information from DCLG and other sources, is not sufficiently granular. Instead the Unit uses the TV Licensing (TVL) database, which captures information on individual properties and licence holders.

1.26. The main data source for addresses in the TVL database is Royal Mail’s Postal Address File. Royal Mail provides the Unit with updated information on new addresses throughout the year, helping to ensure that the TVL database is kept current. However, the Royal Mail data is based on postal delivery points and may not always identify all households, for example where houses have been converted into flats. The Unit, therefore, uses a combination of data from customer and other third parties and from TVL operational activities to identify individual households and expand upon the data from Royal Mail. Data from Ordnance Survey is being tested to gain assurance on the completeness of household information, and from other third party sources to identify business premises.

1.27. There will always be a degree of uncertainty around some of the data in the operational database because premises are continuously being built and demolished. TVL teams have an ongoing programme of reviewing and updating data in the TVL database to ensure their completeness and accuracy.

1.28. At 31 March 2015, the TVL database included 31.3 million premises, 2.6 million more than the 28.7 million included within the BBC’s evasion model calculations. The TVL database includes entries for households which are unoccupied, where the owners have gone away or died and for businesses and household where TVL staff have been informed that no licence is needed. These numbers are significant and are properly excluded from the evasion model. While the different nature and source of inputs to the database and evasion model means that they cannot be reconciled precisely, the BBC does not attempt to confirm, even at a broad level, the consistency between household numbers in the TVL database with those indicated in its evasion model.

**Segmenting the market for operational purposes**

1.29. The Unit recognises the importance of interrogating data held within the TV Licensing database to inform and develop its revenue collection campaigns. Data analysts at Capita and Proximity help the Unit to investigate data for individual premises and licence holders with a view to splitting the customer base into discrete segments. The three parties then assess the appropriate intervention for each segment. I have reviewed how data is used to segment the market and direct campaign activity.

1.30. The TV licence is a single product so the Unit’s market segmentation is intended to differentiate between customers’ licence status and their method of payment, using data held within the TVL database. This level of segmentation is more straightforward than would be used by most other businesses, but is appropriate for the Unit’s business needs. Figure 3 shows the three main segments, the types of customer and an indication of the sorts of approach used by the Unit in responding to these customer groups.
1.31. The BBC delegates collection of licence fees and campaign delivery to three business units which focus on particular market segments. The first two, the Instalment Business Unit and Retention Business Unit, focus on existing licensed customers. The third, the Unlicensed Business Unit, concentrates on unlicensed addresses and audiences. My review confirmed that each business unit has established knowledge and expertise about their respective customer segments with intelligence being gathered through data collection and analysis.

1.32. 17.3 million (55%) customers pay by instalment with 15 million (87%) of these making payments by direct debit while the remaining 13% of instalment payers use savings cards or cash. The Retention Unit oversees 10.5 million customers, most of whom pay annually and others from whom no direct payment is needed, either because they have declared that they do not need a licence or because they are over 75 and their licence fee is being paid by the Department for Work and Pensions. The remaining 3.5 million entries on the TVL database represent unlicensed premises. This includes businesses which do not need a licence, those who do not need a licence but have not informed TVL and others who require a licence but have not purchased one. The Unit categorised 1.4 million of these customers as ‘inactive’ in March 2015, which meant that they had not responded to TVL’s campaign strategies, so TVL had no certainty over whether these customers required a TV licence.

1.33. Customers move between the business units as their payment status and method changes, for example as individuals switch from annual payments to direct debit arrangements. Most direct debit customers within the Instalment Business Unit population need little direct intervention from TVL and contact is generally triggered by a missed payment, although cash instalment customers require more significant support. In contrast, premises in the unlicensed segment provide the greatest risk to revenue. TVL teams segment the unlicensed population further based on the history of their interaction with the Unit. Long-term...

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Figure 3 - Market segments, contact strategies and campaigns

<table>
<thead>
<tr>
<th>Segment</th>
<th>Instalment</th>
<th>Retention</th>
<th>Unlicensed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Type</td>
<td>17.3 million</td>
<td>10.5 million</td>
<td>3.5 million</td>
</tr>
<tr>
<td>Objective</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approach</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Source: National Audit Office review of the BBC Revenue and Marketing Plan</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
unlicensed households are treated as a separate segment and, in the first quarter of 2014-15, were subject to more concerted enforcement action.

1.34. TVL resources are focussed on the Unlicensed Unit with 52% of total budgeted direct expenditure for 2015-16 being allocated to monitoring and campaign activities for the 3.5 million customers in this segment. This compares to the Instalment and Retention Units which account for 30% and 18% of projected expenditure respectively, and oversee 27.8 million customers. This demonstrates that TVL teams’ activities are appropriately directed and proportionate to the relative risk presented by the operating segments.

Planning, implementing and assessing campaign activities

1.35. TV Licensing campaigns are designed using operational data and models to improve an aspect of licence fee collection. Data analysis is undertaken by TVL at each stage of campaigning activities: campaign planning; campaign implementation; and campaign review. I noted that TV Licensing teams had utilised research and insights from interrogating the TVL database to devise contact strategies for specific audiences. In order to optimise audience selection for targeted campaign activity, data analytics teams within Capita and Proximity have developed models, to understand and predict customers’ behaviour. These are used to design campaign activities.

1.36. The first stage in the process is identifying the audience displaying the desired or undesired behaviour. TV Licensing teams then use existing data to identify the key variables influencing that behaviour, such as location and payment history, and develop models which weight these variables according to their strength and independence. The audience is then scored on their propensity to display the behaviour, for example paying using on-line facilities. This information is used to segment the audience base and identify the target audience. TVL teams tailor their contact strategy (or part of the contact strategy such as the letter or email copy) to encourage or address a specific behaviour (for example renewing on time). Examples of some of these models are given in Figure 4 below.

Figure 4 Examples of models of customer behaviour

Source: TV Licensing

1.37. The churn model of is one of the most significant for the Licence Fee Unit to monitor as it predicts customers who are at the greatest risk of becoming unlicensed at the point of
licence expiry. TV Licensing staff have researched and analysed high churn customers’ responsiveness to contact, looking particularly at the timing and nature of the contact. Their analysis showed that this audience was more responsive to a more intense contact strategy. As part of the business as usual campaign activities, TVL staff write to customers who pay for their licence annually before their licence expires, asking them to renew. The customers who were identified in the “High Churn” segment, and did not renew on time, were treated with a different test strategy that TV Licensing had developed as a result of their analysis. Those who did not renew their licence on time were contacted soon after expiration using a combination of phone calls and letters. TV Licensing staff initiated contact with this group sooner after the expiration of their licence (in comparison to other customers) and they received fewer pieces of correspondence over a shorter period of time before an enforcement visit occurred.

1.38. The cycle of campaign design is illustrated in Figure 5. Activities begin by identifying the customer behaviour that the TV Licensing wants to address. The objective is to embed successful campaigns in business as usual operations; campaigns which have not had the desired impact may re-enter the design phase in an iterative process.

Figure 5: The process for designing campaign activities

![Campaign Design Process Diagram]

Source: National Audit Office

1.39. The test and learn phase is critical to rolling out or changing the existing strategy campaigns delivered under the Revenue and Marketing Plan. At this stage campaign ideas are tested, often on three cohorts, to determine whether they are effective. TV Licensing teams use this approach to learn which elements worked and then revise the strategy accordingly. Risks of unsuccessful strategies are minimised by testing on a small scale and comparing results with a control population.

1.40. Once the proposed campaign strategy has completed its initial test and learn phase and the Unit are satisfied that the change in strategy is generating an appropriate response without creating adverse behaviour, they then establish a forecast for the impact of the campaign.
Increases in revenue and the volume of sales are the primary objectives but other measures, such as the volume of responses and number of inbound calls, are also used to measure the success of campaign activities. The results of the campaign are compared to the forecast and campaigns which meet their revenue forecasts or, for example, are successful in encouraging customers to use on-line channels, are implemented as business as usual. Those which do not meet the forecast may be redesigned and re-enter the test phase.

1.41. I reviewed the Unit’s 2014-15 campaign activities for those who have declared that they do not need a TV licence. This illustrates how TVL teams utilised knowledge of the market segment and directed campaign activities to improve compliance and secure additional revenue:

**Figure 6**

*Case example to illustrate how campaign activities are directed and assessed for the unlicensed who have No Licence Needed declarations.*

Customers who do not watch or record live TV can inform TVL that they do not need a TV licence. These customers are identified as ‘no licence needed’ or ‘NLN’ by TVL. The Unit’s strategy is generally to have no contact with NLNs for a predetermined period of time unless TVL has reason to believe the circumstances at the address had changed.

TVL staff identified a risk of lost revenue where NLN customers move premises and confirm their NLN status for their new property without confirming whether the NLN status is still valid for the old property. Where this happened there would be no trigger for the Unit to reassess the appropriateness of the NLN status for the first property until the predetermined no contact period had elapsed.

To address this, the Unit tested the use of third party data to identify home-movers and then targeted properties which had changed occupancy using direct mailing. Rather than not contacting the first property for the predetermined period, TVL teams mailed a selection of identified movers and saw an increase in licence sales to 3.2% in the test group compared with 1.8% in the control group.

For premises where there was no response after 5 weeks, the TVL removed the NLN status, and these properties were selected for unlicensed “home-mover” direct mailing campaigns addressed to “The Legal Occupier”. This resulted in an increase of sales, with a sales gap of 8.5% between the control group (4.5% sales) and the test group (13.1% sales) at 4 weeks after the mailing.

Following the success of the campaign, the new strategy was rolled out to all relevant addresses and became part of business as usual activities in May 2014 and is run twice a year.

1.42. During the campaign evaluation phase, TVL teams established the impact of a test strategy by comparing results to a control group, to measure the incremental revenue from individual campaign activities. The Unit also uses sales allocation rules to seek to attribute licence fee income to the last contact with customers.

1.43. In total, as a result of its operational activities during 2014-15, the BBC collected licence fee revenue of £3,735 million, £26 million lower than its target in the Plan of collecting £3,761 million. The BBC has attributed the shortfall to the decline in penetration rates for households over the past year.
Part 2: Follow-up on recommendation made in the 2013-14 Report to the House of Commons

2.1 In my report last year I commented on the progress made by the BBC in implementing the four open recommendations from my earlier reports, dating from 2010-11 and 2011-12. In my 2013-14 report, I recommended that, in the absence of certainty over the required uplift in the evasion model to account for households that do not own a TV set but engage in licensable activities, the Unit should disclose the impact of this uncertainty on its tax gap estimate. In its Performance Review for 2013-14, published in September 2014, the Unit implemented this recommendation and disclosed a range for its estimate of licence fee evasion for the first time.
Accounts Direction Given by HM Treasury

ACCOUNTS DIRECTION GIVEN BY HM TREASURY IN ACCORDANCE WITH SECTION 2(3) OF THE EXCHEQUER AND AUDIT DEPARTMENTS ACT 1921

1. This direction applies to the British Broadcasting Corporation (“the BBC”) for the Television Licence Fee receipts.

2. The BBC shall prepare a Trust Statement (“the Statement”) for the financial year ended 31 March 2011 and subsequent financial years in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by HM Treasury (FRoM) which is in force for that financial year.

3. The Statement shall be prepared so as to give a true and fair view of the state of affairs relating to the collection and settlement of the Television Licence Fee at 31 March 2011 and subsequent financial year-ends and of the revenue and expenditure and cash flows for the year then ended.

4. The statement shall also be prepared so as to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

5. The BBC shall agree the format of the supporting notes with HM Treasury. The notes shall include: the accounting policies (including the policy for revenue recognition and any estimation and forecasting techniques); breakdowns of income, expenditure assets and liabilities recognised in the primary statements in all cases where users’ understanding would be materially improved by additional detail; disclosure of contingent liabilities; summaries of losses, write-offs and remissions; and post balance sheet events.

6. Regard shall also be given to all relevant accounting and disclosure requirements given in Managing Public Money and other guidance issued by HM Treasury. To this extent the Trust Statement shall include: a Foreword by the Director General; a Management Commentary; a Statement of the Director General’s Responsibilities; and a Statement on Internal Control.

7. Evasion is outside the scope of the Trust Statement and shall not be included in the primary statements or notes. This fact should be disclosed in an accounting policy note with reference to the Management Commentary for further disclosure. The disclosures in the Management Commentary shall include discussion of the level of evasion in the year.

8. The Statement shall be transmitted to the Comptroller and Auditor General for the purpose of his examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to ensure compliance with the administrative deadline for laying the audited accounts before Parliament before the Summer Recess.

9. The Trust Statement, together with this direction, and the Report produced by the Comptroller and Auditor General, under section 2(2) of the Exchequer and Audit Departments Act 1921 as amended by the Government Resources and Accounts Act 2000, shall be laid before Parliament at the same time as the BBC’s accounts.

CHRIS WOBSCHALL
Head, Assurance and Financial Reporting Policy
HM Treasury
10 May 2011