British Broadcasting Corporation

Television Licence Fee Trust Statement for the Year Ending 31 March 2018
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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

This report 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 2018. It goes without saying that the BBC is grateful for the continued support that the public show for the Licence Fee.

The statement shows that the last year has seen strong and steady performance in the collection of the licence fee, with growth from revenue collection resulting from the £1.50 increase in the level of the licence fee, the first increase since 2010.

This has also been the first full year following the closure of the so-called iPlayer loophole, ensuring that those who previously consumed BBC programmes on-demand for free (for example on the iPlayer) should pay the same as those watching or recording them live. I’m pleased to say that revenues from these licences have been sustained following the introduction of the change last year.

We must, of course, continue to ensure we collect the Fee efficiently and appropriately. I am pleased to see a further decrease in complaint numbers year on year, so that the level of complaints now accounts for only 0.04% of licences in force.

I believe that the findings laid out in both this statement and the NAO’s value for money review show that the Licence Fee continues to be collected and managed in a strong, proportionate and effective way.

Tony Hall
Lord Hall of Birkenhead CBE
22nd June 2018
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 2018.

Performance Report

Overview

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 Digital, 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, customer communications, 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. Customer communications 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

Licence Fee revenue is impacted by a number of factors including the change in the level of the licence fee, the rate of household growth, the evasion rate, household incomes and changes in audience viewing behaviour.

Household growth

Household growth for 2017/18 has been estimated at 0.94%. 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 decrease slowly over the next two years.

Household incomes

Based on provisional estimates¹, the median household disposable income for the financial year ended (FYE) 2017 is £27,200, an increase of 1.8% compared with FYE 2016 (£26,700). After taking account of inflation and changes in household composition over time, this figure is 5.7% (£1,500) higher than the pre-economic downturn level of £25,700 in FYE 2008. Median household income declined after the start of the economic downturn and by FYE 2013, median income was 4.5% (£1,200) lower in real terms than in FYE 2010. However, since FYE 2013 there has been a real terms increase, with the provisional FYE 2017 figure indicating it is now around 11% higher than in FYE 2013.

¹ ONS Nowcasting household income in the UK: Financial year ending 2017
Evasion is calculated as 7.0% during 2017/18 but the nature of the input data to this calculation means that there is a potential variance of 0.5% either way. The BBC’s evasion model calculates the level of evasion from the licences in force at 31st 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. Further information on calculation of the evasion rate is provided below.

Media Consumption

Audiences continue to embrace other devices to enhance their viewing experiences. For the majority of households these 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 or for watching or downloading BBC television programmes on iPlayer.

Other pressures to traditional television viewing are a result of digital disruption and the move to catch up viewing along with on demand viewing over the internet. However this on demand viewing typically sits alongside linear television viewing which remains the predominant way that audiences watch television.

From 1st September 2016 the law was updated to require those watching or downloading BBC television programmes on iPlayer to be covered by a valid TV licence (referred to as “closing the iPlayer loophole”).

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.

In addition an estimate of the percentage of households impacted by the change has been combined with the BARB data to update the overall percentage of households now requiring a licence.

The most recently published estimate of TV Households from BARB shows a fall in the estimated Television Penetration Rate (TVP) rate by 0.23% from 95.38% in March 2017 to 95.15% in March 2018.

Performance Analysis

Licence sales have been relatively flat with revenue growth due predominantly to the increase in the value of the licence fee. Evasion is calculated as 7.0% but the nature of the input data to this calculation means that there is a potential variance of 0.5% either way.

Gross income in the Trust Statement has increased to £3,288m (2016 £3,262m). Gross income is the value of Licences coming into force in the period excluding free Over 75 Licences. Refunds, revocations, deletions and cancellations have increased to £131m (2016 £121m). Net revenue for the consolidated fund, made up of the gross revenue and deletions plus £17m of premiums on quarterly direct debit, has increased to £3,174m (2016 £3,157m).

Key performance measures are centred on customer experience, reputation and the ability to drive revenue through the management and ongoing improvement of communications with TV Licensing customers. This can be translated to the key objective of maximising the long term net licence fee revenue in a way which sustains public support for the licence fee.

These key performance measures are embedded in the contractual arrangements of the companies contracted by the BBC covering the administration and enforcement of the Licence Fee, customer communications, payment channel management and retail networks. The governance processes surrounding the operation of the contracts and the effectiveness of day-to-day management of work are reviewed regularly. Strong working relationships exist between all of these companies and the BBC. There is also substantial management information shared between the BBC and these sub-contractors.
Increases in revenue will be delivered through uprating the licence fee alongside reducing the cost of collection, reducing evasion and ensuring that household growth (HHG) is captured. However, overall revenue will be reduced in the coming year as a result of changes to funding of the O75 licence.

Despite strong operational performance, the overall environment is becoming increasingly uncertain with the rate of TVP continuing to create risk to Licence Fee income. This has been mitigated by the closing of the iPlayer loophole reducing some of the impacts of the decline in TVP.

The revenue budget is based on underlying assumptions of three key variables: HHG; TVP; and evasion. While there is a defined method for estimating HHG and TVP, they cannot be budgeted precisely. In addition, revenue forecast from the BBC iPlayer is based on a range of assumptions. Each carries a margin of error and, therefore, a level of risk. The method is reviewed regularly to identify possible improvements.

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

<table>
<thead>
<tr>
<th>Table 1 – Increase in Licence Fee Revenue</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net revenue for the Consolidated Fund 2016/17</td>
<td>3,157</td>
</tr>
<tr>
<td>Increase in value of the Licence Fee</td>
<td>23</td>
</tr>
<tr>
<td>Other changes</td>
<td>(6)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,174</strong></td>
</tr>
</tbody>
</table>

Other changes include an increase in refunds and bad debt provision.

**Budgeting and Forecasting**

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

<table>
<thead>
<tr>
<th>Table 2 - Budgeted and actual sales volumes ('000s of licences including Over 75 free licences)</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="Graph showing budgeted and actual sales volumes from 2011/12 to 2017/18" /></td>
</tr>
</tbody>
</table>

Sales volumes for the year were in line with budget. The result represents a growth rate of 0.13%, which is behind the estimated household growth rate. Sales growth in 2017/18 has come from the acquisition of household growth less the decline in the TVP rate.

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2 Licence Fee sales in table 2 include the volumes of Over 75 free licences. 2018 – 4,455,000; 2017 – 4,385,000; 2016 – 4,363,000; 2015 – 4,362,000; 2014 – 4,328,000; 2013- 4,251,000; 2012- 4,206,000
Bad Debts, Refunds and Cancellations

The value of write-offs has increased to £131m (2017 £121m). There has been an increase in debts written off for customers who are removed from schemes with instalment balances outstanding on their Licence together with an increase in refunds and other cancellations of licences.

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 Ministry of Housing, Communities and Local Government (MHCLG) 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 MHCLG. However, it is difficult to measure household growth because the economic conditions are 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.

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. A further adjustment has been made to take account of the closure of the iPlayer loophole. 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 £4.1m revenue.

The evasion model has been updated with revised estimates for 2016/17 of TVP, household growth and growth in licences in force. These updates bring the calculated rate of evasion from 6.9% to 7.1% in 2016/17. A further update has been made to the estimate of the total number of domestic households, TVP and licences in force for 2017/18. This reduces the calculated rate of evasion to 7.0% for 2017/18. The changes in the rate of evasion are summarised in Table 3 below:
Table 3 – Evasion Rate Changes

<table>
<thead>
<tr>
<th>Evasion Rate Changes 2016/17 to 2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evasion rate March 17</td>
</tr>
<tr>
<td>6.91%</td>
</tr>
<tr>
<td>Changes in TVP rates</td>
</tr>
<tr>
<td>+0.03%</td>
</tr>
<tr>
<td>Changes in Premises/HH Growth</td>
</tr>
<tr>
<td>+0.18%</td>
</tr>
<tr>
<td>Changes in LIF</td>
</tr>
<tr>
<td>0.01%</td>
</tr>
<tr>
<td>Evasion rate March 17 (Retro)</td>
</tr>
<tr>
<td>7.11%</td>
</tr>
<tr>
<td>Changes in TVP rates</td>
</tr>
<tr>
<td>-0.09%</td>
</tr>
<tr>
<td>Changes in Premises/HH Growth</td>
</tr>
<tr>
<td>+0.14%</td>
</tr>
<tr>
<td>Changes in LIF</td>
</tr>
<tr>
<td>-0.12%</td>
</tr>
<tr>
<td>Evasion Rate March 18</td>
</tr>
<tr>
<td>7.04%</td>
</tr>
</tbody>
</table>

Self-service transactions
The TV Licensing website has continued to be an invaluable tool for the BBC as both a medium for handling transactions and for communicating with our customers. In 2017/18, over 10% more online transactions were completed from around 10% fewer visits to the website than the previous year (visits were significantly boosted in 2016/17 due to the iPlayer law change in September 2016).

In 2017/18, over 83% of people buying a licence online opted for a paperless licence, and visits from mobile phones and tablet devices accounted for 57% of all visits, up from 47% the previous year. These devices accounted for 41% of transactions, a large increase from 23% in 2016/17.

In 2017/18, 72.6% of all customer initiated transactions (16.3m) were completed through a self-serve channel, a significant increase on the 57.6% (11.3m) recorded seven years ago.

Complaints
The total number of complaints has fallen in 2017/18 to 11,033. The level of complaints to Licences in Force has reduced to 0.04% compared with 0.10% seven years ago.

All customer complaints are evaluated and any systematic defects are acted upon and corrected. We will continue do this whilst monitoring the level of 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
22nd June 2018
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 government of Guernsey for the value of free licences issued to customers over the age of 75 which do not form part of the Trust Statement.

The Grant-in-Aid received from the Department for Work and Pensions will be phased out over three years, from 2018/19. The BBC will take on full responsibility for these costs from 2020/21, and then take responsibility for the concession policy in June 2020.

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.

During 2017/18 the BBC Board was responsible under the Charter and Agreement for the governance of the BBC on behalf of Licence Fee payers. In respect of Licence Fee collection the Charter states that 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 Deputy Director General 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 2017/18 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 (see page 40 of this Trust Statement), 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 issued by HM Treasury and the principles underlying International Financial Reporting Standards (IFRS).

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
22nd June 2018
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 2017/18. 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.

As far as the Accounting Officer is aware, the annual report and accounts as a whole is fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.
Statement on Corporate Governance

The Corporate Governance Framework

The BBC’s corporate governance framework is defined in its Royal Charter and the accompanying Framework Agreement. You can find the Charter and Agreement on the BBC’s website at: http://www.bbc.co.uk/corporate2/insidethebbc/managementstructure/bbccharterandagreement.html

The Charter requires the BBC to have regard to generally accepted principles of good corporate governance. Although the BBC is not a listed company, it has opted to apply best practice and follow the provisions of the Financial Conduct Authority’s Listing Rules and the Financial Reporting Council’s 2016 UK Corporate Governance Code, where appropriate. This delivers the governance standards applying to companies quoted on an EU regulated stock market.

The BBC has fully complied with the corporate governance requirements of the Charter and Agreement and has also substantially complied with the UK Corporate Governance Code. There are a number of components of the UK Corporate Governance Code that are either not appropriate to the circumstances of the BBC or where compliance with the BBC’s Charter or Agreement overrides compliance with the UK Corporate Governance Code, and these are set out below. During 2017/18 the BBC’s Charter overrode the UK Corporate Governance Code in relation to the governing bodies.

The BBC was previously required to have a two tier governance structure, consisting of the BBC Trust and the Executive Board. On 3 April 2017, following the granting of a new Charter, this arrangement was replaced by a single Board. During the year, the Board conducted an external review of its effectiveness and performance, to ensure the new governance arrangements under the Charter were working well. The review took views from all members of the Board and made recommendations that have been considered by the Board.

The BBC complied with the requirements of its Charter and was not able to meet the following principle of the Corporate Governance Code:
- Evaluation of the Chairman (UK Corporate Governance Code principle B.6.3)
- Re-election of Directors (UK Corporate Governance Code principle B.7)
- Responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors (UK Corporate Governance Code principle C.3.7)

In addition, there are two areas where the UK Corporate Governance Code is not relevant to the BBC, these are:

- Make up of remuneration (UK Corporate Governance Code principle D.1.1): The BBC sets levels for executive remuneration that should be sufficient to attract, retain and motivate directors of the quality required to run the organisation successfully, in line with this principle. However, this principle also requires aligning executive remuneration to the notion of enhancing shareholder value by making performance-related elements of remuneration a significant proportion of total remuneration. Due to the BBC’s licence fee funding and its status as a public corporation, the BBC has determined that the amount of variable (or performance related) remuneration that may be earned by staff within the public service should be limited. There is no variable pay for any BBC Public Service executive director and bonuses are not paid. Tim Davie receives an element of performance related pay in his role as Chief Executive Officer of BBC Worldwide, the BBC’s wholly-owned commercial subsidiary.
- Interaction with shareholders (UK Corporate Governance Code principles B.7.1, B.7.2, D.2.4 and section E): The BBC is not a profit-oriented company with shareholders and so provisions relating to interaction with shareholders do not apply.
The Board is responsible for ensuring the BBC fulfils its mission and public purposes as set out in the Charter. It replaced the two-tier structure of the BBC Trust and the BBC Executive Board as the Corporation’s governing body from 3 April 2017.

The Board is chaired by Sir David Clementi and consists of ten nonexecutive directors, including the Chairman, and four executive directors, including the Director-General.

The Chairman and the four nations’ non-executive directors are appointed by HM The Queen on the recommendation of Ministers and the remainder of the Board are appointed by the BBC through the Board’s Nominations Committee. The Board member for Northern Ireland is yet to be appointed. Full biographies of all Board members, including their other roles, can be found on the BBC’s website. The Board delegates some of its responsibilities to a number of subcommittees which are predominantly made up of non-executive directors, as required by the Charter. The full membership of all the subcommittees, their minutes and terms of reference can be found at: http://www.bbc.co.uk/aboutthebbc/insidethebbc/

During 2017/18 the Board met 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/

Table 1 – Attendance of directors at the Board

<table>
<thead>
<tr>
<th>Board Ordinary</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of meetings for the period</td>
<td>11</td>
</tr>
<tr>
<td>Chairman</td>
<td>David Clementi</td>
</tr>
<tr>
<td>Executive Directors</td>
<td>Tony Hall</td>
</tr>
<tr>
<td></td>
<td>Anne Bulford</td>
</tr>
<tr>
<td></td>
<td>Tim Davie</td>
</tr>
<tr>
<td></td>
<td>Ken MacQuarrie</td>
</tr>
<tr>
<td>Non-executive Directors:</td>
<td>Simon Burke</td>
</tr>
<tr>
<td></td>
<td>Tanni-Grey Thompson</td>
</tr>
<tr>
<td></td>
<td>Ian Hargreaves</td>
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<tr>
<td></td>
<td>Tom Ilube</td>
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<tr>
<td></td>
<td>Steve Morrison</td>
</tr>
<tr>
<td></td>
<td>Nicholas Serota</td>
</tr>
<tr>
<td></td>
<td>Ashley Steel</td>
</tr>
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<td></td>
<td>Elan Closs Stephens</td>
</tr>
</tbody>
</table>

The Audit and Risk Committee (ARC) is a sub-committee of the Board. The main purpose of the ARC is to review and maintain oversight of the BBC’s corporate governance particularly with respect to financial reporting, internal control and risk management. In 2017/18 this included: reviewing the effectiveness of the system of internal controls, taking account of findings from internal and external audit reports, reviewing the Trust Statement and overseeing the relationship with NAO and the scope and approach to their audit. The ARC’s full report is provided in the BBC’s Annual Report and Accounts 2017/18.

The Director-General chairs an Executive Committee, which is responsible for the day-to-day running of the BBC. Nine directors, who manage large operational areas of the Corporation, also sit on this Committee. They are:
The Executive Committee is responsible for delivering the BBC’s services in accordance with the strategy agreed by the Board, and for all aspects of operational management.

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 joint risk registers 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 BBC Board is responsible for the operational management of the BBC, 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 BBC 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 audits annually the organisations with substantive responsibility for the collection of 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.

The BBC operates an 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.

Conformance 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 it is completed by all staff. 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 put in place a Data Protection Compliance Framework to ensure that the key Data Processors work to a common Data Protection Policy for all 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
The BBC anti fraud manual establishes how the risk of fraud is managed. 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 Audit and Risk 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
22\textsuperscript{nd} June 2018
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 2018 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 including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

• the British Broadcasting Corporation Television Licence Fee Trust Statement gives a true and fair view of the state of affairs of the collection and settlement of television Licence Fees as at 31 March 2018 relating to 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 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 ‘Audit of Financial Statements of Public Sector Entities in the United Kingdom’. My responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council’s Revised Ethical Standard 2016. I am independent of the British Broadcasting Corporation in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accounting Officer for the audit of the financial statements

As explained more fully in the Statement of Accounting Officer’s Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor’s responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Exchequer and Audit Departments Act 1921 as amended by the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a
material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the British Broadcasting Corporation’s internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on this. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor’s report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the Annual Report, other than the financial statements and my auditor’s report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.
Opinion on other matters

In my opinion:

• the information given in the Performance 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 Statement on Corporate Governance 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 27 to 39.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

29th June 2018
## Financial Statements

### Statement of Revenue and Expenditure for the Year Ended 31 March 2018

<table>
<thead>
<tr>
<th>Note</th>
<th>2018 £m</th>
<th>2017 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value of Licences</td>
<td>1.3</td>
<td>3,288</td>
</tr>
<tr>
<td>Value of refunds</td>
<td>(64)</td>
<td>(60)</td>
</tr>
<tr>
<td>Value of premiums on quarterly direct debit</td>
<td>17</td>
<td>16</td>
</tr>
<tr>
<td><strong>Net Revenue</strong></td>
<td></td>
<td>3,241</td>
</tr>
<tr>
<td><strong>Less expenditure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>2.2</td>
<td>(67)</td>
</tr>
<tr>
<td><strong>Net Revenue for the Consolidated Fund</strong></td>
<td></td>
<td>3,174</td>
</tr>
</tbody>
</table>

There were no recognised gains or losses accounted for outside the above Statement of Revenue and Expenditure. All income is from continuing activities. The notes at pages 23 to 25 form part of this statement.
Statement of Financial Position as at 31 March 2018

<table>
<thead>
<tr>
<th>Note</th>
<th>2018 £m</th>
<th>2017 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables 2.1</td>
<td>401</td>
<td>395</td>
</tr>
<tr>
<td>Cash held for customers on savings schemes</td>
<td>17</td>
<td>18</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>418</strong></td>
<td><strong>413</strong></td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables 3</td>
<td>(282)</td>
<td>(278)</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td><strong>136</strong></td>
<td><strong>135</strong></td>
</tr>
</tbody>
</table>

Represented by:

Balance on Consolidated Fund Account as at 31 March 4 136 135

The notes at pages 23 to 25 form part of this statement

Tony Hall
Lord Hall of Birkenhead CBE
22\textsuperscript{nd} June 2018
Statement of Cash Flows for the Year
Ended 31 March 2018

Net cash inflow from revenue activities
A below

Cash paid to the Consolidated Fund

(Decrease) in cash in the period

Notes to the Cash Flow Statement

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

Net Revenue for the Consolidated Fund

(Icrease) in Receivables

Increase in Payables

Net Cash Flow from revenue activities

B: Analysis of Changes in Net Funds

Decrease in Cash in this Period

Net Funds at 1st April (Net Cash at Bank)

Net Funds at 31st March (Closing Balance)

The notes on pages 23 to 25 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

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licence fee Receivables</td>
<td>423</td>
<td>420</td>
</tr>
<tr>
<td>Cash in transit</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Total before estimated impairments</td>
<td>430</td>
<td>422</td>
</tr>
<tr>
<td>Less estimated impairments</td>
<td>(29)</td>
<td>(27)</td>
</tr>
<tr>
<td></td>
<td>401</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>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as at 1 April</td>
<td>27</td>
<td>28</td>
</tr>
<tr>
<td>Actual amounts written off in the year</td>
<td>(65)</td>
<td>(62)</td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>67</td>
<td>61</td>
</tr>
<tr>
<td>Balance as at 31 March</td>
<td>29</td>
<td>27</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>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licence fee payables</td>
<td>237</td>
<td>233</td>
</tr>
<tr>
<td>Customer savings</td>
<td>17</td>
<td>18</td>
</tr>
<tr>
<td>Deferred income</td>
<td>28</td>
<td>27</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>282</strong></td>
<td><strong>278</strong></td>
</tr>
</tbody>
</table>

4. **Balance on the Consolidated Fund Account**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance on Consolidated Fund Account at 1 April</td>
<td>135</td>
<td>136</td>
</tr>
<tr>
<td>Net Revenue for the Consolidated Fund</td>
<td>3,174</td>
<td>3,157</td>
</tr>
<tr>
<td>Less amount paid to the Consolidated Fund</td>
<td>(3,173)</td>
<td>(3,158)</td>
</tr>
<tr>
<td>Balance on Consolidated Fund Account at 31 March</td>
<td><strong>136</strong></td>
<td><strong>135</strong></td>
</tr>
</tbody>
</table>

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></th>
<th>2018 £m</th>
<th>2017 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licence fee sales contributing to Consolidated Fund</td>
<td>3,174</td>
<td>3,157</td>
</tr>
<tr>
<td>Add Over 75 sales</td>
<td>656</td>
<td>630</td>
</tr>
<tr>
<td>BBC Licence Fee Sales in Annual Report and Accounts note A2</td>
<td>3,830</td>
<td>3,787</td>
</tr>
</tbody>
</table>
The Comptroller and Auditor General's Report to the House of Commons

Summary
1. Everyone in the UK who watches or records television programmes as they are broadcast must be covered by a valid TV licence. This includes, for example, people in residential households, businesses, hotels, and student accommodation. Since September 2016, a licence has also been required to watch or download BBC content via iPlayer. The BBC is responsible for issuing TV licences, enforcing the licensing system, and collecting licence fee revenue.

2. Collection of the licence fee is managed by the BBC Licence Fee Unit (the Unit) which works together with two principle service providers: Proximity London, which delivers marketing services, and Capita Business Services Ltd (Capita), which administers licence fee collection. Together they operate under the “TV Licensing” trademark (TVL). In addition, the Unit is responsible for calculating an annual estimate of the licence fee evasion rate.

3. This report is our commentary on the BBC’s collection of the licence fee in 2017-18, compiled in accordance with Section 2 of the Exchequer and Audit Departments Act 1921. It sets out our findings with regard to the sums that the BBC has collected from licence fee payers in the past year and in respect of licence fee evasion. On the basis of these findings we reach a conclusion about the adequacy of the BBC’s arrangements for assessment, collection and proper allocation of the licence fee. We also make recommendations aimed at improving licence fee collection in future. Figure 1 provides more detail on what this report covers as well as a summary of other important information sources.

Figure 1

Scope of this report

This year, our report has two parts:

Part One
- sets out the total amount of licence fee income collected in 2017-18;
- explains significant changes since 2016-17, including the results of the first full year of collection following the closure of the iPlayer loophole; and
- looks at the management of key IT systems insofar as this has affected licence fee collection.

Part Two
- examines what progress TVL has made in tackling evasion; and
- looks at the Unit’s work to set a new target evasion rate.

In this part, we also follow up on a number of previous recommendations we made in respect of the BBC’s model for calculating evasion. In our 2016-17 report, we indicated that a number of these recommendations should be taken forward with a greater sense of urgency.
In addition to this report, the following sources contain relevant information about licence fee income:

**BBC Television Licence Fee Trust Statement for the year ending 31 March 2018**

This statement is the BBC’s detailed report on the licence fee revenue it collected in 2017-18. It was published at the same time as this report and the information in it has been used to compile this report. The Comptroller and Auditor General (C&AG) has certified that the BBC’s Trust Statement for the year ending 31 March 2018 is true and fair, and that the BBC has used the income and expenditure recorded in the financial statements for the purposes Parliament intended.

**BBC Annual Report and Accounts, 2017-18**

This report contains details of how the BBC spent its income from the licence fee. For the first time in 2017-18, under the terms of the 2016 Royal Charter, the C&AG has audited the BBC’s Annual Accounts and certified that they are true and fair, and that they had been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The C&AG has also provided an opinion on regularity, that 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 conformed to the authorities which govern them.

Source: National Audit Office

**Key findings**

**Licence fee collection in 2017-18**

4 In 2017-18, the BBC issued almost 26 million TV licences, resulting in income of £3.8 billion. Overall, the number of licences the BBC issued was broadly in line with forecasts: 25.96 million compared to a forecast of 25.98 million. In the majority of cases, TVL collected the licence fees, which brought in some £3.2 billion of revenue. This revenue was paid by the BBC to the Exchequer, as reported in the Trust Statement, and a matching amount was paid back to the BBC in grant income by the Department for Digital, Culture, Media and Sport. The BBC received a further £656 million of funding from the Department for Work and Pensions as payment for the TV licences that are made available for free to those aged 75 and over.

5 Total income relating to issuing TV Licences in 2017-18 (£3,830m) was higher than in 2016-17 (£3,787m). The main reasons were:

- the higher cost of a licence fee, which went up from £145.50 to £147.00 on 1 April 2017, generating additional income of £23 million; and

- the increased number of households with someone aged 75 or over entitled to a free licence.

The combined effect of the additional licences issued by the Unit and the increase in the fee resulted in increased income from the Department for Work and Pensions of £26 million. Additionally, the Unit has sustained the increase in revenue that it first recorded in 2016-17, after the introduction of legislation to close the iPlayer loophole. On a full-year basis, the BBC estimates that closing the loophole has increased its income by £10 million.

6 During 2017-18, the BBC issued more refunds than previously, partially offsetting the increased income it had collected. The BBC has always issued refunds when circumstances require. In 2017-18, it issued approximately £4 million more in refunds than in 2016-17 (£64 million compared to £60 million) owing to two important developments. First, following the cost of a TV licence increased in April 2017, TVL wrote to notify all licensed households. For Direct Debit licence holders this was the first such notification since these notifications had been phased out from November 2011 and led many customers aged 75 or
over to realise for the first time that they were entitled to a free licence. On applying for the free licence these customers were refunded for the value of any licence fee they had paid in error. Secondly, licence fee refund policy changed in 2017-18 to allow customers to request a refund in all circumstances for any month when they did not require a licence (previously the minimum period had been three months for some types of refund).

After taking account of all refunds:

- **total income collected by TVL was £17 million higher in 2017-18 than 2016-17** (£3.174 billion compared to £3.157 billion); and

- **total income available to the BBC, including funding received from the Department for Work and Pensions, was £43 million higher** (£3.830 billion compared to £3.787 billion).

**IT changes have resulted in some operational issues during the year.** The Licence Fee Unit (LFU), via Capita, subcontracts the running of IT systems to third parties. In June 2016 Capita appointed IBM to take over the running of these IT systems and the transfer occurred between November 2016 and January 2018.

Although the systems transferred successfully some operational incidents occurred, including a major incident as a result of system capacity issues. The major incident led to some customer records being credited multiple times with the same payment meaning that a small number of refunds were issued in error. The Unit temporarily paused processing whilst it rectified the issue. Other issues with systems interfaces prevented payment reminder notices from being sent out to some cash scheme customers. These issues caused a temporary delay in receiving cash from affected customers to the value of approximately £1.4 million to £1.9 million, although most of this revenue was subsequently recovered. In total, the Unit estimates a permanent revenue loss of less than £0.1 million.

**Addressing licence fee evasion in 2017-18**

In 2017-18, the licence fee evasion rate was an estimated 7.04%, representing no significant change since 2016-17 (6.91%). Tackling evasion effectively is of great importance in any revenue collection system, both to maximise the revenue collected at a given point in time and to maintain the system’s long-term integrity. Every percentage point reduction in the evasion rate for the licence fee that the BBC is able to achieve equates to around £41.2 million of extra revenue.

The BBC has made improvements to the model it uses to estimate evasion, but there is more to do. Partly in response to recommendations we made in previous reports, the BBC has improved its measurement of evasion, in particular with regard to establishing a periodic review of the various sources of data used to calculate the estimate. The nature of evasion and the evolving technological challenges mean that the precision of these estimates needs to be kept regularly under review.

In recent years, the BBC maintained an unrealistic aspiration for reducing licence fee evasion. Until December 2017, Capita’s aim was to reduce evasion to 3.95% by 2020, which the BBC had previously considered credible. However, the Unit has not succeeded in moving towards this aim in a sustainable way. This level was very close to the estimated lowest feasible rate of 3.4%, based on BBC research from 2004. In 2015-16 the reported evasion rate increased mainly as a result of changes in how the number of television households was calculated by BARB. In our value for money report in January 2017, we recommended that the BBC should update its analysis of licence fee evasion in order to identify a current, realistic and achievable ambition.

In December 2017 the BBC adopted a more realistic target to reduce licence fee evasion. The BBC now aims to reduce evasion by one percentage point by 2020-21 relative to 2016-17 levels. The BBC’s greater realism is to be welcomed but this will need to be combined with focussed action so that evasion levels fall in the coming years. Expressed in concrete terms, the BBC needs to increase the number of
licensed households by approximately 280,000 in order to meet the target and it has developed initial plans to deliver this. However, no statistical model can be exact and given the inherent margin of error in its modelling (+/- 0.5%), the BBC will have to find new ways to demonstrate that apparent falls in the evasion rate are real.

**Conclusion**

13 In fulfilling our statutory duties under the Exchequer and Audit Departments Act 1921, while recognising that no tax collection system can ensure that everyone meets their tax obligations, we conclude that in 2017-18 the BBC had framed adequate regulations and procedures to secure an effective check on the assessment, collection and 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 taxes in this report and our other reports to Parliament.

14 In addition to our statutory duties under the Exchequer and Audit Departments Act 1921, the Comptroller and Auditor General has concluded that:

- the figures in the Trust Statement are true and fair; and
- the BBC has used income and expenditure for the purposes Parliament intended.

15 The 1921 Act also requires the C&AG to consider whether the BBC’s revenue systems to collect taxes are adequate. We found that the BBC’s revenue systems were adequate subject to the observations in this report and our other reports to Parliament.

**Recommendations**

16 To improve the collection of the licence fee further, including by reducing evasion, we make the following recommendations based on our work this year.

17 First, in response to the IT problems experienced following the transfer of core systems to IBM, we recommend that the BBC works with Capita to ensure that:

- Capita and IBM perform a thorough assessment to identify all key areas where there are knowledge gaps with transferred systems and infrastructure. Action plans should then be developed by Capita and IBM to address those gaps by developing standard operating procedures or similar documentation. Capita and IBM’s focus, in the first instance, should be on addressing those gaps and issues with the greatest potential to impact TVL’s day-to-day operations.

- Capita and IBM review their change and incident management processes in the light of the recent major incident described in this report. They should determine whether the current processes operated effectively and whether, particularly while IBM learns its new role, there are any enhancements that need to be made.

18 The BBC has committed to a target to reduce evasion that, under current circumstances, means increasing the number of licensed households by approximately 280,000 by 2021. The target is more realistic than its previous aspiration and we, therefore, expect the target to be achieved. In order to give the BBC the best chance of meeting the target, we recommend that the Unit complete its baselining and planning in the coming months so that fresh efforts to reduce evasion can begin in earnest during 2018-19.

19 In addition, the BBC should not accept as a given that the margin of error (+/- 0.5%) in its model cannot be improved, since it is only targeting a 1 percentage point reduction in evasion by 2020-21. The BBC should therefore explore the possibility of reducing the margin of error further in the coming year.
Part One: Collecting the licence fee in 2017-18

1.1 Everyone in the UK who watches or records television programmes as they are broadcast must be covered by a valid TV licence. This includes, for example, people in residential households, businesses, hotels, and student accommodation. Since September 2016, a licence has also been required to watch or download BBC content, currently via iPlayer. The BBC is responsible for issuing TV licences, enforcing the licensing system, and collecting licence fee revenue.

1.2 Collection of the licence fee is managed by the BBC Licence Fee Unit (the Unit) which works together with two service providers: Proximity London, which delivers marketing services, and Capita Business Services Ltd (Capita), which administers licence fee collection. Together they operate under the “TV Licensing” trademark (TVL).

Overview of licence fee income in 2017-18

1.3 As reported in the 2017-18 Trust Statement, licence fee income collected by TVL amounted to £3.174 billion (£3.157 billion in 2016-17). This revenue was paid by the BBC to the Exchequer’s Consolidated Fund and a matching amount was paid back to the BBC in grant income by the Department for Digital, Culture, Media and Sport. Additionally, in 2017-18, the BBC received £656 million from the Department for Work and Pensions (£630 million in 2016-17) as payment for TV licences made available for free to those aged 75 and over. The total income received by the BBC in 2017-18 was, therefore, £3.830 billion (£3.787 billion in 2016-17). As shown in Figure 2, the licence fee is the BBC’s main source of income, representing 76% of the total.

Figure 2

Sources of BBC Group Income in 2017-18

Reasons for increases in income

1.4 The revenue TVL has collected in 2017-18 was greater than that collected in 2016-17 for a number of reasons, most importantly because of increases in the cost of the TV licence. The BBC also maintained the increased revenue first recognised in 2016-17 with the closure of the iPlayer loophole. Additionally, the BBC
received more income from the Department for Work and Pensions as the number and value of free TV licences for those aged 75 and over increased.

The cost of the licence fee

1.5  As part of the BBC’s Charter renewal process during 2016, the Government agreed that the licence fee should once again be linked to inflation having been frozen for seven years. Since 2010, the licence fee had remained at a constant level of £145.50. But on 1 April 2017 it increased from £145.50 to £147.00, the first of the annual inflation-linked increases.

1.6  The change was successfully implemented and was the largest factor in increasing the overall revenue collected during 2017-18, contributing approximately an additional £23 million, in line with forecasts. (As noted in paragraph 1.13 this change also caused payment renewal reminder notices to be sent out to Direct Debit licence holders for the first time since they began being phased out, from November 2011, acting as a prompt for some customers to contact the Unit to request changes or claim refunds.)

New licensing requirements for on-demand services

1.7  In September 2016, the Communications (Television Licensing) (Amendment) Regulations 2016 came into force, introducing a requirement to purchase a TV licence in order to receive “on-demand programme services”. This came about following changes in audience behaviour, with more people viewing on-demand services and fewer people watching live TV. As these services are only accessible through the BBC’s iPlayer, the new requirement is commonly referred to as closing the iPlayer loophole.

1.8  Our 2016-17 report noted that the Unit had estimated that closing the loophole had increased the proportion of households with a licence by 0.3 percentage points equating to around 80,000 households. We concluded that the Unit had run successful campaigns to inform the public about the licensing change. This included general campaign activities and specific campaigns targeted at the two key groups that were impacted by the new requirement: students and former ‘no licence needed’ (NLN) households.

1.9  The first full financial year with the new licensing requirement has now ended, allowing data to be analysed and trends in licence fee levels to be compared with prior years. The BBC estimates that legal changes and campaign activities combined increased its revenue by approximately £10 million on a full-year basis in 2016-17. Analysis further suggests that the proportion of households that remained licensed as a result was stable in 2017-18, meaning that the BBC has successfully embedded the change and sustained this level of additional revenue in 2017-18. As households continue to move towards consuming on demand broadcast services rather than through traditional linear viewing of media this will become an increasingly important means of preserving licence fee income.

Licences issued for those aged 75 and over

1.10 People aged 75 and over are entitled to a free TV licence and these are also issued by TVL. While no revenue is directly collected from such customers, the BBC currently receives equivalent funds from the Department for Work and Pensions. In 2017-18, 4.3 million free licences were issued to customers aged 75 and over, a 2.3% increase on 2016-17 (4.2 million).

1.11 The BBC received £656 million in funding from the Department for Work in Pensions in respect of these licences during 2017-18, a £26 million increase on 2016-17 (£630 million). The BBC has agreed to a phased reduction in the level of this central government funding, so that, from 2020-21, it will have to

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3 Copy of Royal Charter for the continuance of the British Broadcasting Corporation
issue free licences without receiving any funding whatever. As the population continues to age, this will represent a growing challenge to the BBC’s overall finances.

**Refunds and factors decreasing revenue**

1.12 The increases in income reported above were partially offset during this period by other changes which decreased revenue by approximately £6 million. These changes were a combination of refunds and other write-offs. Refunds increased for two main reasons: first, as a consequence of the increased cost of the licence fee and, secondly, because of a new refund policy.

1.13 When the cost of the licence fee increased TVL generated a full set of payment renewal reminder notices for the first time since the previous increase in 2010. These reminders acted as a prompt for many customers to apply for refunds, mostly because someone in their household had turned 75 at some point since the last reminder. During 2017-18, a total of £15.7 million was refunded to 211,350 customers aged 75 and over, an increase of £3.2 million (approximately 25%) in this type of refund. Refunds were backdated to the date that the entitlement to a free licence began and the average amount refunded to customers aged 75 and over was £74.49.

1.14 Secondly, in April 2017 the licence fee refund policy changed to allow individuals to receive refunds for any whole month when they had not required a licence in all circumstances (previously there was a minimum qualifying period of three months for some types of refund). This change meant that individuals living in temporary accommodation for parts of the year, for example university students and those moving in and out of the country, would be more likely to be eligible to claim refunds.

1.15 In 2017-18, 164,151 refunds were paid to customers other than those who had turned 75, an increase of 14% since 2016-17 (143,826 refunds) equating to £0.6m. The BBC’s analysis shows that more refunds were paid but the average amount paid per refund decreased compared to 2016-17, as refunds on average related to shorter periods of time. In particular, the number of refunds paid in June, July and August 2017 was higher than for the same period in 2016, consistent with an increase in students applying for refunds at the end of the university summer term when they moved out of temporary accommodation.

1.16 Overall, taking account of refunds and other write-offs, net licence fee income collected by TVL from licence fee payers increased by £17 million to £3,174 million (2016-17 £3,157 million). Once income from the Department for Work and Pensions is added, total income available to the BBC was £43 million higher (£3,830 million compared to £3,787 million in 2016-17).

**Forecasting licence sales**

1.17 Forecasting accuracy is key to estimating and planning for future revenue growth. After experiencing some difficulties with forecasting in 2016-17, the Unit performed well in its core forecasts of licence sales in 2017-18.

1.18 Figure 3 shows the Unit’s forecasts of licence sales, and the actual numbers, for the most recent three years. Overall, the number of licensed premises went up from 25.93 million in 2016-17 to 25.96 million in 2017-18, which was close to the Unit’s forecast for the year of 25.98 million.
Figure 3

Sales of TV licences, 2015-16 to 2017-18

Television licenses sales (volumes)

<table>
<thead>
<tr>
<th></th>
<th>Forecast</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-16</td>
<td>25.75m</td>
<td>25.64m</td>
</tr>
<tr>
<td>2016-17</td>
<td>25.66m</td>
<td>25.93m</td>
</tr>
<tr>
<td>2017-18</td>
<td>25.98m</td>
<td>25.96m</td>
</tr>
</tbody>
</table>

Source: BBC Trust Statement

1.19 In 2016-17, the Unit forecast the number of licensed households at 25.66 million, some 270,000 fewer than were actually sold. This was primarily because it had not allowed for the growth caused by closing the iPlayer loophole. Figure 4 (below) shows the volume of new, as opposed to recurring, TV licence sales in each of the last three years, with a clear monthly increase in September 2016, when the iPlayer legislation came into force. As can be seen, subsequently and throughout 2017-18, new monthly licences issued broadly reverted to previous patterns.

Figure 4

New TV licences issued, 2015-16 to 2017-18

Source: Capita internal data on new licence issues
Transfer of IT infrastructure

1.20 Effective collection of the licence fee also depends on reliable IT systems to support the business and maintain licence fee records. The core IT systems for TVL are operated by Capita, which contracts out a range of IT support activities. These include system administration, hosting and maintaining application infrastructure, and change management. In June 2016, Capita contracted with IBM to take over these activities from the previous suppliers. This involved the transfer of application management and infrastructure support from DXC (formerly CSC) to IBM, and also the migration of data centres from DXC and Akinika (owned by Capita) to IBM.

1.21 Application management and infrastructure support transfers took place in 2016-17, while the data centre migrations occurred in three phases during 2017-18. The first two phases involved transferring activities managed by DXC and these were completed by September 2017. The final phase involved transferring production services, applications and data from Akinika in January 2018. This phase included the systems used to manage customers paying for the TV licence through cash and savings schemes.

1.22 For this phase, a detailed transfer of service project was established, jointly managed by Capita and IBM. This involved:

- Testing physical infrastructure, such as servers and storage arrays;
- Testing that applications and data had been migrated and the functionality of applications and databases continued to function as expected; and
- Operational testing to confirm that the systems still operated as expected in production conditions.

1.23 After detailed testing was complete, formal approval and sign off for the TVL systems to go live on IBM servers was given in mid-January 2018, at which point IBM had taken over the operational running of the TVL systems.

1.24 In early February 2018, while the TVL systems were in live operation but within early life support (hyper-care period where resources from the transfer programme supported the operational resources), IBM encountered system capacity issues as it processed files relating to payments via card schemes and PayPoint outlets. This led to payment files not being processed, while subsequent attempts to reprocess these files caused errors in allocating payments to some customer accounts generating some erroneous refunds. Management have stated that such issues with payment files had arisen in the past, but the previous suppliers had acquired experience in how to correct them effectively, experience which IBM lacked. While IBM was trying to resolve the issues, Capita took the decision to suspend processing activities for all cash schemes for 10 days. This led to the problems being categorised a major incident. It took until mid-March 2018 for the major incident to be formally assessed as resolved and then closed.

1.25 In a separate incident, problems were also identified with hardware problems causing file server interfaces to not get transferred to Proximity in January 2017. Proximity use this data to generate payment reminder notices, meaning that these prompts were not sent out to some cash scheme customers during this period.

1.26 The Unit estimates that the total impact of the problems was a temporary delay in receiving cash from affected customers to the value of approximately £1.4 million to £1.9 million. The Unit has already recovered or will recover most of this revenue. Additionally, a small number of refunds (118 in total) were issued to some customers in error before the data corruption was identified. In total, the Unit estimates that there will be a permanent revenue loss of less than £0.1 million.
Part Two: The BBC’s response to licence fee evasion

2.1 Not everyone who is required to purchase a TV licence does so. Combatting licence fee evasion is a key area of focus for the Unit and the level of evasion is a crucial measure of its performance. With changing demographics and new threats to revenue from changes to viewing habits, tackling evasion successfully is crucial both to effective collection and to the long-term funding of the BBC.

Level of licence fee evasion

2.2 In 2017-18, the licence fee evasion rate was estimated at 7.04%, representing a statistically insignificant change from 2016-17 (6.9% - Figure 5). The licence fee evasion rate is calculated as the difference between the number of licences in force and the estimated number of premises that should have a licence.

2.3 This means that, as at March 2018, the BBC calculated that there were an estimated 2.0 million licence fee evaders, costing £300 million in lost revenue. This represents £10.60 per licence fee payer, or 7.8% of licence fee revenue collected.

Figure 5

Changes in licence fee evasion levels over time

<table>
<thead>
<tr>
<th>Year</th>
<th>% Evasion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010/11</td>
<td>5.20%</td>
</tr>
<tr>
<td>2011/12</td>
<td>5.20%</td>
</tr>
<tr>
<td>2012/13</td>
<td>5.50%</td>
</tr>
<tr>
<td>2013/14</td>
<td>5.50%</td>
</tr>
<tr>
<td>2014/15</td>
<td>5.00%</td>
</tr>
<tr>
<td>2015/16</td>
<td>6.20%</td>
</tr>
<tr>
<td>2016/17</td>
<td>6.90%</td>
</tr>
<tr>
<td>2017/18</td>
<td>7.04%</td>
</tr>
</tbody>
</table>

NOTES
Source: National Audit Office review of BBC information

2.4 As shown in Figure 5, the reported evasion rate increased significantly after 2014-15. This increase was due to changes in how the number of television households was calculated by BARB, a key source of data for the BBC, and, from 2016-17, also due to the inclusion of watching or recording TV on iPlayer, following the closure of the iPlayer loophole.

Measuring evasion for specific groups

2.5 A number of our previous reports have made recommendations about how the BBC might enhance its measurement of the evasion rate, including by improving its understanding of specific customer groups and changes to household and business data. In 2016-17, we noted that the BBC had made some progress in
following up these and other recommendations, but we said that it should make further progress with a greater sense of urgency in future. We also recommended that the BBC should prepare a schedule outlining when it would review each aspect of the evasion model in the coming years.

2.6 In response, the Unit has improved its Evasion Model Handbook, including through the addition of a schedule detailing when each aspect of the model is to be reviewed. It has prioritised this schedule based on the size of each customer group, the estimated value of the evasion for which it is responsible, and the cost and availability of data. Accordingly, in 2017-18, the Unit updated the estimation methodologies for Businesses, Hotels and Care Homes.

2.7 Work on the Businesses methodology, for example, has led to more suitable sources of data being identified to enable the Unit to estimate better the number of business sites that require a licence. The Unit has matched this new data to the TVL database to find potentially unlicensed businesses and has subsequently started a campaign targeted at these businesses. It is too early to measure the success of this campaign.

2.8 In other areas, such as statistics for lodgers, the Unit continues to be limited by a lack of data. Here, work is still ongoing to find credible sources. In the meantime, the Unit continues to assume its historic rates for the number of households with lodgers, although there remains little external evidence for its assumptions. The BBC maintains that any changes to the data would likely have a minimal effect on overall evasion estimates.

2.9 In our view, whilst recognising the need to target measurement resources effectively, the lack of meaningful data in some areas, such as lodgers, is likely to make it harder to tackle effectively these subsets of evasion. Therefore, the Unit continues to need to make progress in these areas and all assumptions behind evasion data in the model require regular monitoring.

Changing technology

2.10 Despite the closure of the iPlayer loophole, as reported in Part One, a growing problem facing the BBC relates to households that watch live TV, recorded TV or catch-up/on-demand services through new technology but don’t pay a licence fee. Ofcom’s research into the changing patterns of online media consumption identified that BBC iPlayer was the most popular streaming/on-demand service for UK adults, and the second most popular for teenagers (behind YouTube). With 63% of adults and 54% of teenagers saying they use iPlayer, this poses an increased, and increasing, risk of evasion if appropriate measures to inform individuals of licence fee requirements, and enforce those requirements, are not in place.

2.11 In 2016-17, we recommended that the Unit improve its methodology for identifying the number of premises that are now licensable solely because of the closure of the iPlayer loophole and, furthermore, that the BBC should consider how it could target campaigns and enforcement activity more effectively at these premises' inhabitants.

2.12 To inform the Evasion Model with an estimate of premises where use of the BBC is attributable uniquely to iPlayer usage, in 2017-18 the BBC requested that BARB extend its household survey to include questions relating to Video On Demand for non-TV households. However, BARB declined this request on the basis that the survey is not designed to record behavioural measures and therefore it would be unlikely to yield robust results. The BBC is instead now using alternate sources, such as BARB’s Virtual Meter panel data, which is derived from computers and other online devices.

2.13 This data can provide indications of the number of premises licensable only because their inhabitants use iPlayer, but the Unit still needs to apply significant estimating assumptions to this information. In

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4 Communications Market Report
addition, the BBC is using the LFU Harris Tracking data, which includes some behavioural questions, to estimate the rate of iPlayer usage. Even with both these tools, a considerable amount of estimation uncertainty remains.

2.14 For now, the number of users becoming liable for the TV licence exclusively because of their use of non-TV devices remains low. The Unit’s analysis suggests that less than 1% of households currently need a licence because they watch BBC non-live TV on non-TV devices. This means that, irrespective of the rate of evasion within the group, it is likely to have a very small impact on the overall evasion rate. Nonetheless, with the shift towards on-demand viewing looking likely to grow, the BBC needs to continue exploring with urgency methods to ensure its evasion model remains fit for purpose.

Progress in tackling evasion

2.15 Despite improvements in the measurement of evasion, the lack of improvement in the overall evasion rate remains a concern. An improvement of one percentage point in the evasion rate would amount to approximately £41.2 million in extra revenue for the BBC.

2.16 Tackling evasion successfully begins with high-quality information about evasion levels. We have already described some of the remaining limitations in the Unit’s current evasion model. In addition, the Unit needs to be able to use enforcement resources effectively. In this context, effectiveness means setting realistic and achievable targets and plans and then committing sufficient resources to the right areas to improve enforcement.

New target evasion rate

2.17 In recent years, the BBC had aspired to reducing the evasion rate to 3.95% by 2020. However, as Figure 5 on page 36 shows, the Unit has not succeeded in moving towards this target in a sustainable way. In our January 2017 value for money report on BBC TV Licence Fee Collection, we recommended that the BBC update its analysis of the minimum level of evasion possible and ‘identify a current, realistic and achievable ambition’.

2.18 We welcome the fact that the Unit commissioned fresh analysis to identify a new theoretical evasion floor, meaning the lowest feasible rate of evasion in the event that enforcement and other TVL resources were unlimited. The analysis identified that the theoretical evasion floor was an estimated 2.76%.

2.19 Based on this, and on its analysis of the pattern of evasion, the BBC set a new target to reduce evasion by 1 percentage point by 2021. This would reduce evasion to just under 6%. The BBC estimates that in order to meet this target it will need to ensure that an additional 280,000 households, relative to a 2016-17 baseline, are licensed by 2021.

Meeting the new target

2.20 The BBC’s current strategy to meet the new target is still under development, but it comprises a combination of actions, including making the licence fee easier to pay, improving customer communications, and increasing deterrent activities. So far, the plans we have reviewed show that the BBC hopes to license more households through the Simple Payment Plan it is piloting. Additionally, it intends to licence more households through better field enforcement activities and improved identification of false No Licence Needed declarations. Finally, plans are being developed to improve compliance through targeted and improved customer communications.

2.21 These plans are currently only high-level estimates, and the Unit is still conducting work to determine the feasibility of particular campaigns and approaches. Therefore, the Unit needs to do further work to establish firmer numbers for increases in licence sales for each of the campaigns it intends to adopt. It will
be of critical importance that the Unit develops and adopts new methodical approaches to measure the success of individual campaigns if it is to track progress towards its target in the years ahead. It will also need to monitor carefully to guard against any incremental gains in reducing evasion among newly targeted groups are not at the expense of other evasion reduction activities. Given the fine margins involved in hitting these targets and the inherent uncertainties within any system of estimation (there is a margin of error of approximately +/- 0.5% in the Unit’s own reported evasion rate), the Unit will need to ensure that it can demonstrate that any apparent falls in the evasion rate are both real and sustainable.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

29th June 2018
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 (FReM) 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