



British Broadcasting Corporation

**Television Licence Fee Trust Statement for the
Year Ending 31 March 2019**

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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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Performance Report

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 year to 31 March 2019. As ever, the BBC is enormously grateful for the high levels of support that continue to be shown for the Licence Fee, as the figures in this report show.

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 increase, at the rate of inflation, in the level of the licence fee.

At the same time, the number of licences declined slightly this year, partly as a result of a slowdown in household growth and partly because of changing audience habits. We are very mindful of the need to continue to provide high-quality content and innovation in our services – including through our proposed reforms to iPlayer – to ensure that the near-record levels of licences remain in the future.

We must, of course, also continue to ensure we collect the licence fee efficiently and appropriately. I am pleased that we have been able to trial a new payment plan this year, the Simple Payment Plan, aimed at providing an easy and flexible option for those facing difficulty in paying the licence fee. The trial will allow the BBC to assess whether or not the new plan supports licence fee payers in being able to make their payments and I look forward to a full evaluation of the scheme in 2019/20.

Of course, during the year 2018/19, the BBC also consulted on the policy for provision of free licences to those over the age of 75. On 10 June 2019 the BBC announced the Board's decision on the future of this concession, following analysis of that full and thorough consultation with the public.

The decision the Board took was a very difficult one, but we believe it was the fairest option for all Licence Fee payers. From 1 June 2020 free TV Licences will be available for any household where someone is aged 75 or over and in receipt of Pension Credit. These licences will be paid for by the BBC.

We have developed an implementation approach to transition to the new scheme which includes customer communication and support and provision of a new payment plan to help those customers who will need to move from a free licence to a paid-for licence.

This transition will be a significant undertaking and we recognise the necessity of making this process as helpful and as simple for customers as possible.

I believe that the findings laid out in this statement 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
Director-General, BBC
25th June 2019

Overview

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 2019.

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 relate to credit losses. 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 a fixed sum Grant-in-Aid from the Department for Work and Pensions for free licences issued to customers aged 75 or over and reimbursements from the governments of Guernsey and the Isle of Man for the value of free licences issued to customers aged 75 or over which do not form part of the Trust Statement.

The Grant-in-Aid received from the Department for Work and Pensions is being phased out over three years, from 2018/19. The BBC will take on full responsibility for these costs from 2020/21, and then from June 2020, anyone aged 75 or over who receives Pension Credit will be eligible for a free TV licence paid by the BBC.

Licence Fee Collection

The BBC collects Licence Fee revenue from customers and transfers it to the 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 and amended in 2016. 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 (HHG) for 2018/19 has been estimated at 0.87%. This is a small decrease 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 remain the same over the next two years although the HHG rate projection from the ONS is lower.

Household incomes

Based on provisional estimates¹, the median household disposable income for the financial year ended (FYE) 2018 is £28,400, an increase of 1.2% compared with FYE 2017 (£28,000). After taking account of inflation and changes in household composition over time, this figure is 7.5% (£2,000) higher than the pre-economic downturn level of £26,400 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 2018 figure indicating it is now around 13% higher than in FYE 2013.

Evasion Rate

Evasion is calculated as 6.57% during 2018/19 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. 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 0.33ppts from 95.50% in March 2018 to 95.17% in March 2019. Adjustments are then made to the overall BARB rate to remove households that have TV sets but which do not do any licensable activity (e.g. households that use TV sets for SVOD only); and to add households that do not have TV sets but who nevertheless need a licence (because they use non-TV equipment for licensable activity). The adjusted TVP rate at the end of March 2019 was 94.47% a fall of 0.68ppts compared to the rate of 95.15% at the end of March 2018.

Performance Analysis

Gross revenue in the Trust Statement has increased to £3,345m (2018 £3,288m). Gross revenue is the value of Licences coming into force in the period excluding free over 75 licences. Revenue growth is driven by the £3.50 increase in the value of the licence fee. This has been partially offset by a small decline in licence sales – see *Table 1* below.

¹ ONS Nowcasting household income in the UK: Financial year ending 2018

Refunds, revocations and cancellations have increased to £139m (2018 £131m). This is predominantly driven by an increase in refunds due to those eligible for a free over 75 licence.

Net revenue for the consolidated fund (made up of the gross revenue and refunds, revocations, and cancellations plus £16m of premiums on quarterly direct debit), has increased to £3,222m (2018 £3,174m).

Other 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. These support the key objective of maximising the long term net licence fee revenue in a way which sustains public support for the licence fee.

These 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.

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 2018/19, there were almost 9% more visits to the website and 6.74% more online transactions than the previous year.

In 2018/19, over 88% of people buying a licence online opted for a paperless licence, up from just over 83% the previous year.

Visits from mobile phones and tablet devices accounted for 58% of all visits, up from 47% the previous year.

In 2018/19, almost three-quarters (74.58%) of all customer initiated transactions (17.6m) were completed through a self-serve channel, up from 16.3m last year and a significant increase on the 57.6% (11.3m) recorded eight years ago.

The total number of complaints in 2018/19 was 12,452. The level of complaints to Licences in Force is 0.05% compared with 0.10% eight 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.

Despite strong operational performance, the overall collection environment is becoming increasingly uncertain with the rate of TVP and evasion continuing to create risk to Licence Fee sales and income.

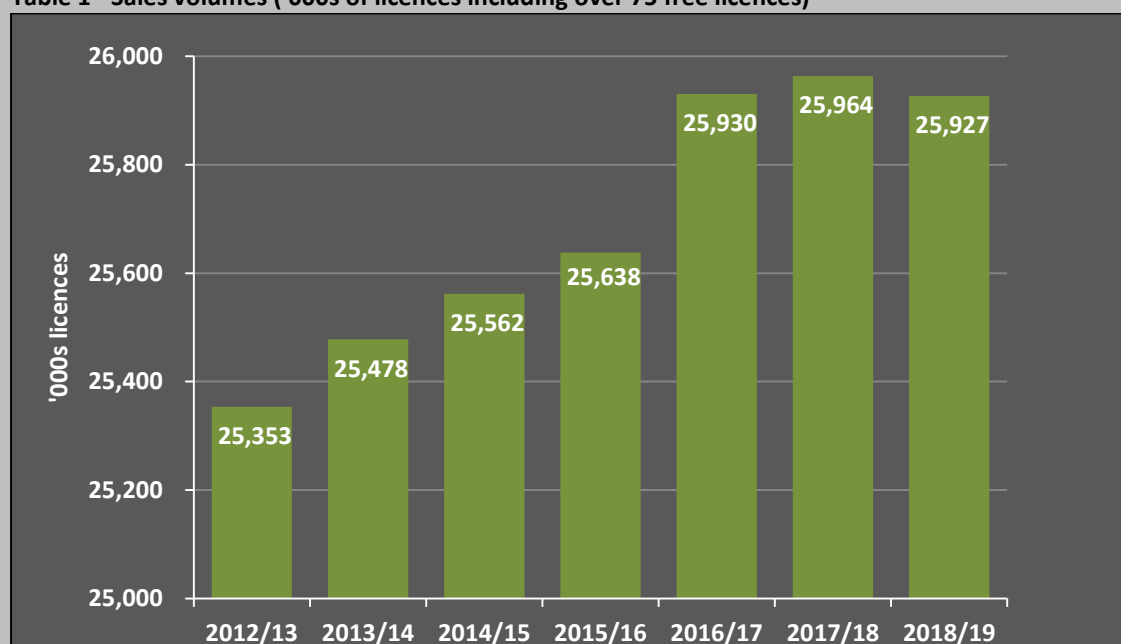
Budgeting and Forecasting

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, there exists a level of uncertainty and 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.

Table 1 shows the sales volumes for the last seven years excluding accommodation for residential care (ARC) sales².

² Licence Fee sales in table 1 include the volumes of over 75 free licences. 2019 – 4,465,000; 2018 – 4,340,000; 2017 – 4,243,000; 2016 – 4,197,000; 2015 – 4,423,000; 2014 – 4,414,000; 2013- 4,060,000

Table 1 - Sales volumes ('000s of licences including over 75 free licences)



Sales volumes for the year were 0.6% below budget and 0.14% below 2017/18. This was driven by a combination of factors:

Household Growth

- The number of households and the rate of household growth used in the budget (taken from the ONS Household Projections 2016) were downgraded when the ONS issued updated estimates in December 2018.

TV Penetration:

- TV Penetration rate used in the budget was higher than the actual rate of TV calculated based on BARB data.

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 Office for National Statistics (ONS) 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 ONS. 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.

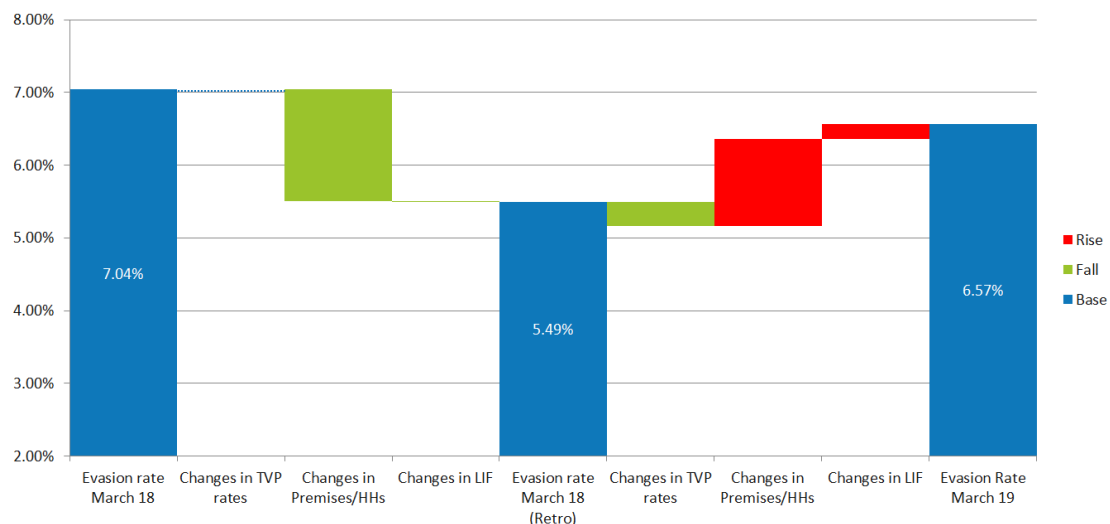
The aggregate of all licensable places is compared with the number of Licences in force to calculate the evasion percentage.

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 currently considered possible to improve the accuracy of the calculated figure to one decimal place as the input data requires a level of estimation although the BBC is commissioning further work to review this. A change of one decimal place in the rate of evasion is the equivalent of £3.5m revenue.

The evasion model has been updated with the latest estimates of TVP (as provided by BARB with appropriate adjustments), household growth and the number of licences in force. A further update has been made to the total number of domestic households following the publication in December 2018 by the ONS of the number of households in 2016. Other updates include changes to the estimates for second homes and lodgers, based on extensive research conducted by the BBC in 2018/19. These updates bring the calculated rate of evasion from 7.04% in March 2018 to 6.57% in March 2019. This change is not considered to be statistically significant.

Table 2 – Evasion Rate Changes



In 2018/19 the BBC made progress in developing collection improvements needed to reduce evasion, including addressing hidden evasion and making data improvements:

- For customers that do not need a licence, TV Licensing operate a system whereby a voluntary declaration that a licence is not required can be made by the customer. In Q4 2018/19 the BBC

launched the first TV Licensing campaign related to iPlayer use that was successful in converting users to buy licences.

- Manual data cleansing activity in 2018/19 generated approximately 10,000 new licence sales. This activity will continue until new systems (see *Future Developments and Initiatives* below) are in place when additional third party data sources will be introduced to support and enhance address information provided by Royal Mail.

Future Developments and Initiatives

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 over75 licence.

Over 75s

On 10 June 2019 the BBC announced the Board's decision on the future of free TV licences for the over 75s following a full and thorough consultation with the public. From 1 June 2020 free TV Licences will be available for any household where someone is aged 75 or over and in receipt of Pension Credit. These licences will be paid for by the BBC.

The BBC has developed an implementation approach to transition to the new scheme which includes customer communication and support and provision of a new payment plan to help those customers who will need to move from a free licence to a paid-for licence. This approach will require changes to collection processes and systems, the planning for which is underway.

This transition will be a significant undertaking and the BBC recognises the necessity of making this as helpful and as simple for customers as possible.

Simple Payment Plan

In 2018/19, the BBC started a trial of the Simple Payment Plan (SPP) in response to the recommendation in the Perry Review to "allow simple and flexible payment plans for those facing difficulty in paying the licence fee". Recruitment to the trial started on 1 April 2018 and was completed by 30 September 2018 by which time 170k customers had been recruited (comfortably exceeding the 150k customers needed for a valid trial).

The structure of the scheme creates risk to the level and timing of revenue received from SPP customers and trialling allows the BBC to assess this risk. As SPP allows the cost of the licence to be spread evenly over the life of the licence, it impacts BBC cashflow compared to other schemes which either require full payment up-front or require at least half of the licence fee to be paid in advance of the licence issue.

Evaluation can only be completed once we have sufficient data on SPP licence renewals which start in April 2019. The evaluation will be presented to the BBC Board with recommendations as to whether or not the BBC should request Government to make the regulations needed for a permanent scheme. The recommendation will be presented to the BBC Board in the autumn of 2019 to allow time for the regulations to be in place by 1 April 2020, should that be agreed.

Technology Refresh

In 2018/19, the BBC Board approved the Investment Case for the replacement of the TV Licensing Campaign Management System (CMS) and Data Management System (DMS, together "CMS Modernisation").

The new CMS/DMS platforms will deliver all existing business requirements with minimal need for customisations and are in line with the agreed architectural principles and other technologies across

the BBC. The platforms will provide the foundation for further rationalisation and architecture improvements across TV Licensing and have the flexibility and scalability to be leveraged across the wider BBC. The DMS will provide the capability to ingest data from a variety of data sources, both structured and unstructured data, including BBC systems as well as TV Licensing systems and third parties. In due course, this will enable ambitions for increased data integration including the creation of a BBC-wide data model encompassing TV Licensing views of customers/households and BBC views of audiences.

A handwritten signature in black ink, appearing to read 'Tony Hall', is positioned above the typed name.

Tony Hall
Lord Hall of Birkenhead CBE
Director-General, BBC
25th June 2019

Accountability Report

Basis for the Preparation of the Trust Statement

The HM Treasury accounts direction (see page 43 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.

The revenue and associated expenditure contained in these statements are those flows of funds which we handle on behalf of the Consolidated Fund and where we act as agent rather than as principal. Although showing net liabilities because of the differences between the recognition of revenue and the payment of cash these accounts are prepared on a going concern basis.

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 2018/19. In conforming with the Accounts Direction issued by HM Treasury (see page 43 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.

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. The C&AG's fee for the audit of the 2018-19 Trust Statement was £112,000 (2017-18 £110,000) which is charged on a notional basis. No non-audit work was carried out by the auditors.

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.

Statement on Corporate Governance

The BBC's corporate governance framework is defined in its Charter and the accompanying Framework Agreement. The Charter and Agreement can be found on the BBC website at: <https://www.bbc.com/aboutthebbc/governance/charter>.

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 applicable 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 2016 UK Corporate Governance Code.

For 2019/20, the Financial Reporting Council's 2018 UK Corporate Governance Code will become voluntarily applicable to the BBC. Work is underway to ensure the BBC's continued compliance with corporate governance requirements and during 2018/19 an effectiveness review of the Chair, the Board and its Committees was conducted.

There are a number of components of the 2016 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 2016 UK Corporate Governance Code, these are set out below:

- 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 2016 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. 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 there should be no variable pay for any BBC Public Service executive director and bonuses are not paid. However, Tim Davie received an element of performance related pay in his role as Chief Executive Officer of the BBC’s commercial operation, BBC Studios.

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 BBC Board along with its sub-committees are responsible for the oversight of the Trust Statement. Further detail on the role of the Board and its sub-committees is provided in the sections below.

BBC Board

The Board is responsible for ensuring the BBC fulfils its mission and public purposes as set out in the Charter. The Board is chaired by Sir David Clementi and consists of up to ten non-executive 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. The remainder of the Board are appointed by the BBC through the Board’s Nominations Committee. During the year, the Nominations Committee approved one change to Board membership – Anne Bulford, Deputy Director-General, stepped down from the Board on 31 March 2019 and was replaced by Francesca Unsworth, Director of News and Current Affairs from 1 April 2019. 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/>

Attendance of directors at the Board

	Board Ordinary
Number of meetings for the period	11
Non-executives	
David Clementi	11
Simon Burke	10
Tanni-Grey Thompson	10
Ian Hargreaves	11
Tom Ilube	11
Steve Morrison	11
Nicholas Serota	11
Ashley Steel	11
Elan Closs Stephens	11
Executives	
Tony Hall	11

Anne Bulford	10
Tim Davie	11
Ken MacQuarrie	10

The Board agendas covered several topic areas throughout the year including those with specific relevance to the Trust Statement. This included the approval of the Licence Fee Collection Strategy and approval of the funding for the new Campaign and Data Management Systems.

Executive Committee

To support and implement the work of the Board the Director-General chairs an Executive Committee, which is responsible for the day-to-day running of the BBC.

The Executive Committee is responsible for delivering the BBC's service, in accordance with the strategy agreed by the Board, and for all aspects of operational management. During the year, the membership of the Executive Committee expanded, to ensure representation of all significant areas of output, operations and management. Anne Bulford, Deputy Director-General, left the BBC in April 2019 and stood down from the committee on 31 March 2019. Since year end, two more members have been added to the Committee – Bob Shennan as Group Managing Director, and Group General Counsel Sarah Jones. The members as at June 2019 were:

Tony Hall, Director-General	Charlotte Moore, Director, Content
Kerris Bright, Chief Customer Officer	Matthew Postgate, Chief Technology and Product Officer
Tim Davie, Chief Executive, BBC Studios	James Purnell, Director, Radio and Education
Valerie Hughes D'Aeth, Chief HR Officer	Gautam Rangarajan, Director, Strategy
Glyn Isherwood, Chief Financial Officer	Bob Shennan, Group Managing Director
Sarah Jones, Group Legal Counsel	John Shield, Director, Communications and Corporate Affairs
David Jordan, Director, Editorial Policy and Standards	Clare Sumner, Director, Policy
Ken MacQuarrie, Director, Nations and Regions	Francesca Unsworth, Director, News and Current Affairs

Audit and Risk Committee

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 2018/19 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.

During the year the Committee undertook an exercise to assess its own effectiveness. This was part of a wider review of BBC Board and sub-committee effectiveness facilitated by Internal Audit. The findings of the review were presented to Committee members.

The ARC's full report is provided in the BBC's Annual Report and Accounts 2018/19.

Nominations Committee

The Board Nominations Committee is responsible for appointments to the Board (with the exception of the Chairman and the nations' members) and the Board Committees.

The Nominations Committee consists of the Chairman, David Clementi; Simon Burke, the senior independent director; the Director-General and non-executive directors Nicholas Serota and Ashley Steel. An additional non-executive director, Elan Closs Stephens, has been appointed to the Committee with her term of appointment to start on 1 April 2019.

This year the Nominations Committee has met five times. Its work on appointments has included recruiting and appointing two new members to the Board, one executive and one non-executive, and a number of appointments to sub-committees of the Board.

This year the Nominations Committee also conducted an exercise to ensure that the BBC's governance structure was aligned with the requirements of the most recent Corporate Governance Code published in July 2018. As a result of that work the Nominations Committee is now responsible for evaluating the performance of the Board and its associated sub-committees.

The Nominations Committee's full report is provided in the BBC's Annual Report and Accounts 2018/19.

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. Each risk is assigned an owner and scored with a risk rating based on

severity and likelihood. There are regular meetings to review the risk register, note any mitigating factors and assign actions where necessary.

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, Target Group and PayPoint plc. There are schedules to the contracts 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 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.

In 2018/19 Internal Audit performed audits of the Simple Payment Plan and TV Licence Regulation of Investigatory Powers Act (RIPA) Compliance, the findings of which were reviewed by the Audit and Risk Committee. As a result of these audits actions were agreed to improve the control environment and all of these are completed.

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.

The BBC takes Information Security seriously, as demonstrated by the fact that BBC Information Security visited India to carry-out compliance checks on both Capita and IBM's facilities, despite them having the appropriate ISO 27001 certification. We found areas for improvement and are working with Capita & IBM on a work plan to resolve them.

The BBC ensures that any data breaches or security incidents are recorded, reviewed and investigated, and where a risk to a customer is seen as likely these are notified to the ICO, and sometimes to customers directly, in accordance with the law and best practice.

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
Director-General, BBC
25th June 2019

Audit Report of the Comptroller and Auditor General to the House of Commons

Opinion on financial statements

I have audited the financial statements of the British Broadcasting Corporation Television Licence Fee Trust Statement for the year ended 31 March 2019 under the Exchequer and Audit Departments Act 1921. 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 2019 and of the 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.

Conclusions relating to going concern

I am required to 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 the British Broadcasting Corporation's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. 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. I have nothing to report in these respects.

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 and report on the financial statements in accordance with the Exchequer and Audit Departments Act 1921.

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.
- 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 but does not include 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 Accountability 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.

Gareth Davies
Comptroller and Auditor General
National Audit Office

157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

27th June 2019

Financial Statements

Statement of Revenue and Expenditure for the Year Ended 31 March 2019

	Note	2019 £m	2018 £m
Revenue			
Value of Licences	1.4	3,345	3,288
Value of refunds		(35)	(30)
Value of revocations		(41)	(34)
Value of premiums on quarterly direct debit		16	17
Net Revenue		3,285	3,241
Less expenditure			
Credit losses	2.2	(63)	(67)
Net Revenue for the Consolidated Fund		3,222	3,174

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 26 form part of this statement.

Statement of Financial Position as at 31 March 2019

	Note	2019 £m	2018 £m
Current Assets			
Receivables	2.1	403	401
Cash held for customers on savings schemes		16	17
Total Assets		419	418
Current Liabilities			
Payables	3	(288)	(282)
Total Net Assets		131	136
Represented by:			
Balance on Consolidated Fund Account as at 31 March	4	131	136

The notes at pages 23 to 26 form part of this statement



Tony Hall
Lord Hall of Birkenhead CBE
Director-General, BBC
25th June 2019

Statement of Cash Flows for the Year Ended 31 March 2019

	Note	2019 £m	2018 £m
Net cash inflow from operating activities	A below	3,226	3,172
Cash paid to the Consolidated Fund	4	(3,227)	(3,173)
(Decrease) in cash in the period		<u>(1)</u>	<u>(1)</u>

Notes to the Cash Flow Statement

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

Net Revenue for the Consolidated Fund	3,222	3,174
(Increase) in Receivables	(2)	(6)
Increase in Payables	6	4
Net Cash Flow from operating activities	<u>3,226</u>	<u>3,172</u>

B: Analysis of Changes in Net Funds

Decrease in Cash in this Period	(1)	(1)
Net Funds at 1st April (Net Cash at Bank)	17	18
Net Funds at 31st March (Closing Balance)	<u>16</u>	<u>17</u>

Note that the closing balance of Net funds at 31st March above (£16m) is held at a commercial bank.

The notes on pages 23 to 26 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 (FRoM). The accounting policies contained in the FRoM apply International Financial Reporting Standards (IFRS) as adopted or interpreted for the public sector context.

The income and associated expenditure contained in these statements are those flows of funds which the BBC receives and surrenders on behalf of the Consolidated Fund and where the BBC is acting as agent rather than as principal.

1.2 Changes in accounting policy and disclosures

The following new standards have been considered for the first time, as they became effective for this financial year:

- IFRS 9 Financial Instruments: This standard is deemed to be outside the scope of the Trust Statement as taxes are not financial instruments/trade receivables, but the expected credit loss model has been applied to uncollectable licence fees for consistency across government.
- IFRS 15 Revenue from Contracts with Customers: This is a new standard but it has not been applied to revenue recorded in the Trust Statement because revenue, such as taxes and duties that are not retained are outside the scope of IFRS 15.

1.3 Accounting Convention

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

1.4 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.

1.5 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'.

1.6 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.

1.7 Exemptions

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

1.8 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 has not yet been paid.
- 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.

1.9 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 credit losses in the Statement of Revenue and Expenditure.

1.10 Payables

1.10.1 Licence Fee Payables

Licence Fee payables represent the amounts collected from customers on instalment schemes for licences that have yet to be issued. Once these licenses have been issued, this money will be paid to the Consolidated Fund.

1.10.2 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.

1.10.3 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

	Note	2019 £m	2018 £m
Licence fee Receivables		432	423
Cash in transit		(1)	7
Total before estimated impairments		431	430
Less estimated impairments	2.3	(28)	(29)
		<u>403</u>	<u>401</u>

Receivables represent the amount due from licensees where at 31 March:

- demands for payment have been issued but not paid for; or
- where licensees have outstanding instalments.

All debt will be due to the Consolidated Fund when realised.

2.2 Credit losses

	Note	2019 £m	2018 £m
Debts written off		(64)	(65)
Change in the value of impairments	2.3	<u>1</u>	<u>(2)</u>
		<u>(63)</u>	<u>(67)</u>

Debts are written off when collection activity is formally ceased. These debts are considered to be irrecoverable when all practical means of pursuing the liability have been exhausted.

2.3 Change in the value of impairments

	2019 £m	2018 £m
Balance as at 1 April	(29)	(27)
Change in estimated value of impairments	<u>1</u>	<u>(2)</u>
Balance as at 31 March	<u>(28)</u>	<u>(29)</u>

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

	Note	2019 £m	2018 £m
Licence fee payables	1.10	245	237
Customer savings		16	17
Deferred income		<u>27</u>	<u>28</u>
		<u>288</u>	<u>282</u>

No payables fall due after one year.

4. Balance on the Consolidated Fund Account

	2019 £m	2018 £m
Balance on Consolidated Fund Account at 1 April	136	135
Net Revenue for the Consolidated Fund	3,222	3,174
Less amount paid to the Consolidated Fund	<u>(3,227)</u>	<u>(3,173)</u>
Balance on Consolidated Fund Account at 31 March	<u>131</u>	<u>136</u>

5. Financial Instruments

On behalf of the Consolidated Fund, the BBC is party to financial instrument arrangements as part of its normal operations. These financial instruments include bank accounts, receivables and payables. IFRS 7, 'Financial Instruments: Disclosures', requires disclosure of the role that financial instruments have had during the year in creating or changing risks an entity faces in the course of its operations. As the BBC is acting as agent on behalf of the Consolidated Fund and surrendering these funds when received, it cannot incur losses through the Trust Statement. Write-offs and impairment charges disclosed in the Revenue and Expenditure Statement reflect the non-recoverability of gross debt since

its obligation to surrender financial penalties is limited to the amount it is able to collect in revenue. The BBC, on behalf of the Consolidated Fund, has no requirement to borrow or invest surplus funds. As such, the BBC, in its capacity as agent, is not exposed to the degrees of financial or market risk facing a business entity acting as principal.

6. 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.

7. Events after the Reporting Period

There are no events after the reporting period that materially affect these financial statements. However, on 10 June 2019 it was announced that the BBC Board has decided that, from June 2020, anyone aged 75 or over who receives Pension Credit will be eligible for a free TV licence paid by the BBC.

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 Income

	2019 £m	2018 £m
Licence fee sales contributing to Consolidated Fund	3,222	<i>3,174</i>
Add Over 75s income	468	<i>656</i>
BBC Licence Fee Income in Annual Report and Accounts note A2	3,690	<i>3,830</i>

Households in which one or more persons over the age of 75 reside, as their primary residence, are entitled to a free licence. The government decided to stop funding free TV Licences from June 2020, and parliament passed a law to give responsibility to the BBC to consult, decide and fund any future scheme. DWP reduced its funding on a phased basis from April 2018 and from 2020/21 the BBC will no longer receive any funding from the Department of Work and Pensions for over 75s. The BBC has consulted and decided that, from June 2020, anyone aged 75 or over who receives Pension Credit will be eligible for a free TV licence paid by the BBC.

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 or who watches or downloads BBC content via iPlayer must be covered by a valid TV licence. The BBC is responsible for issuing TV licences, enforcing the licensing system, and collecting licence fee revenue. The BBC Royal Charter³ requires that the BBC's Board ensures "that arrangements for the collection of the licence fee are efficient, appropriate and proportionate".

2 Collection of the licence fee is managed by the BBC Licence Fee Unit (the Unit) which works together with two principal 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 2018-19, compiled in accordance with Section 2 of the Exchequer and Audit Departments Act 1921. It sets out our findings regarding the sums that the BBC has collected from licence fee payers in the past year and in respect of licence fee evasion. Based on 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 the 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 | <ul style="list-style-type: none">• sets out the Unit's performance in collecting licence fee income in 2018-19;• looks at the future outlook for licence fee collection including the challenges posed by changing demographics and audience behaviour;• provides an update on operational matters affecting collection, including IT infrastructure. |
| Part Two | <ul style="list-style-type: none">• looks at what progress TVL has made in tackling evasion; and• looks at examples of new initiatives to tackle non-compliance, including the introduction of the Simple Payment Plan. |

In addition to this report, the following sources contain relevant information about licence fee income:

³ Paragraph 20 (7) (b) of the BBC Royal Charter - https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/577829/57964_CM_9365_Charter_Accessible.pdf

BBC Television Licence Fee Trust Statement for the year ending 31 March 2019	This statement is the BBC's detailed report on the licence fee revenue it collected in 2018-19. 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 2019 is true and fair, and that the income and expenditure recorded in the financial statements were in line with the purposes Parliament intended.
BBC Group Annual Report and Accounts, 2018-19	This report contains details of how the BBC spent its income derived from the licence fee. 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 qualified his audit opinion on regularity in relation to the BBC Group financial statements 2018-19 which states that, except for £12m costs associated with a provision referred to in Note F10 of the BBC Group financial statements 2018-19, in all material respects, the income and expenditure conforms to the authorities which govern them. The provision relates to the BBC's decision to settle, <i>ex gratia</i> , historic third-party tax liabilities arising against presenters where they engaged with the BBC through personal services companies. Note F10 to the BBC Group financial statements and the C&AG's Audit Certificate upon those financial statements provides further details on this matter. There is no implication for the C&AG's audit opinion on regularity on the BBC Television Licence Fee Trust Statement financial statements 2018-19 since the provision is recognised in the BBC Group financial statements 2018-19 only.

Key findings

Licence fee collection in 2018-19

4 Total revenue reported in the Trust Statement for paid for licences increased by £48 million from £3,174 million (2017-18) to £3,222 million (2018-19). This revenue, which excludes government funding for the over 75s free licence concession, was paid by the BBC to the Exchequer, as reported in the Trust Statement. A matching amount is paid back to the BBC in grant income by the Department for Digital, Culture, Media and Sport.

5 Revenue from paid for licences did not increase by as much as expected. The main reason for the increase in revenue was the higher cost of a TV licence, which went up from £147 to £150.50 on 1 April 2018, generating additional income of £79 million in 2018-19. However, that has been partly offset by lower than expected sales of paid for licences and higher than expected numbers of free licences issued to over 75s.

6 The growth in free licences issued to those aged over 75 years has outstripped the increase in licensable household growth. The BBC issued 4.47 million free over 75s licences in 2018-19⁴, an increase of 3% compared to 2017-18 (4.34 million). Excluding free licences, the BBC issued 21.46 million⁵ paid licences in 2018-19, down 0.7% compared to 2017-18 (21.62 million). The impact of this change was a decrease in revenue collected by the unit of approximately £37m.

7 Overall volumes of licences coming into force were 0.6% below forecast and 0.14% below the previous year. The BBC issued 25.93 million TV licences in 2018-19, compared to 25.96 million in 2017-18. These figures include sales of licences to those aged over 75 which are issued free. These differences were

⁴ Source: Capita internal data on number of licences issued to those aged over 75 in 2018-19

⁵ Source: Capita internal data on number of licences issued in 2018-19

driven by downgrades in ONS Household Projections statistics and lower actual rates of TV penetration based on the latest BARB data.

8 The BBC has seen a fall in income of £204 million in 2018-19 because of the phased reduction in funding provided to it by the Department of Work and Pensions (DWP) to cover the costs of free licences for the over 75s. Until 31 March 2018 the BBC received grant funding to cover the full cost of the over 75s TV licence concession from the DWP. This funding is being phased out over three years, with the BBC taking on full responsibility for this concession from 2020-21. In 2018-19, as part of the first year of the transitional arrangements, DWP funding for this concession was capped at £468 million. The BBC issued 4.47 million free licences to those aged over 75 with a value of £672 million. The funding cap means that the BBC received £204 million less than it would have done when the concession was fully funded by the government.

9 Net revenue received by the BBC in relation to sales of TV licences and grant funding was therefore £3.7 billion, down 3.6% from 2017-18 (£3.8 billion). This was made up of

- £3.2 billion from the sales of licences (2017-18: £3.2 billion); and
- £0.5 billion received from DWP (2017-18: £0.6 billion) for over 75's licences.

10 The BBC has announced that from 2020, free over 75s licences will be means tested. On the 10 June 2019, the BBC announced its decision on the future of the free over 75s licence concession following a consultation exercise. From June 2020, those over 75s who are also in receipt of Pension Credit, a means tested benefit for those on lower incomes, will be eligible for a free TV licence funded by the BBC. It estimates that approximately 1.5 million of the current 4.5m over 75s households could be eligible for a free TV licence funded by the BBC, of which 900,000 currently receive Pension Credit. The BBC estimates that the cost of these free licences will be approximately £250 million per year, depending on take up of the new scheme.

11 Implementing the new licence fee arrangements for the over 75s will be a significant challenge. The BBC currently estimates that the new arrangements will require around 3.75 million over 75s who currently have a free over-75 licence to pay for their TV licence from June 2020. The BBC has told us that it is developing its marketing, communication and payment plans to support over 75s affected by this change. Alongside this it has also told us that it is working to develop and implement the necessary changes to its collection processes and systems. We have not examined the BBC's progress or plans in this area but, given the significance of this change to licence fee operations, expect to return to this in our report next year.

12 In early September TVL experienced an issue with its website's security following a technical update. For an eight day period over the end of August and early September, in some cases, information was not encrypted when it was transmitted from the customer's computer. The issue did not affect debit and credit card details, but it may have affected customers' personal details, including bank details. TVL suspended the website between 5-8 September while it investigated and fixed the issue. TVL has assessed the risk to customer data and to the TV licensing systems as low and is not aware that any customer's or licensing information has been inappropriately accessed as a result. As well as fixing the immediate issue, TVL have put in procedures that it expects to prevent any re-occurrence

13 In response to IT problems last year Capita have established a service improvement programme and implementation of a number of remedial actions is ongoing. The Unit's IT infrastructure plays a key role in licence fee collection. The Unit, via Capita, subcontracts the running of IT services to third parties. In 2017-18, in light of the IT problems it experienced, we highlighted operational issues arising from the transfer of IT support functions to IBM and recommended that clearer business processes were put in place to address them. While progress is being made in remediating these matters, the service improvement programme is

not yet complete. Our work in 2018-19 identified a number of minor incidents indicating that there remains further work to do.

Addressing Licence fee evasion in 2018-19

14 In 2018-19 the BBC's estimated evasion rate has decreased to 6.57% from 7.04% last year, with the decrease mainly driven by changes in the underlying assumptions and base data the Unit uses in its estimates. The reported evasion rate is based on the difference between the estimated number of households expected to require a licence and the number of licences in force. The main reason for the decrease in 2018-19 is that the current estimate reflects a reduction in the estimated number of households requiring a licence.

15 Every percentage point reduction in the evasion rate for the licence fee that the BBC can achieve equates to around £34.5 million⁶ of extra revenue for the BBC. 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.

16 It is hard for the Unit to demonstrate that small changes in the evasion rate are real and it is difficult for the Unit to establish clear links between specific initiatives and reductions in the reported evasion rate. This is because of the inherent uncertainty in its evasion model and the impact on the evasion rate of changes to underlying assumptions. 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 (6.91%). This would reduce the evasion rate to 5.91%. All estimates include a measure of statistical uncertainty. The level of precision in the Unit's evasion model is +/- 0.5%. Coupled with the impact of changes in key assumptions, this makes it difficult to conclude on whether small changes in the reported rate represent a statistically significant increase or decrease in the actual level of evasion, or whether changes in the evasion rate are due to TVL's interventions. The Unit, therefore, intends to undertake further analysis which aims to separate the effects of changes in the underlying assumptions from the effects of its own activity on movements in the evasion rate.

17 The Unit is using improvements to its underlying data, assumptions and understanding of different customer groups to help it develop and target its enforcement activities to best effect. The Simple Payment Plan was piloted during the year as a means of making it easier for people to pay where customers are facing difficulty paying the licence fee. Around 170,000 customers joined the pilot scheme between 1 April and 30 September 2018. While it is too early to evaluate the success of the pilot, it is a specific example of the BBC's 'test and learn' approach to reducing evasion by making it easier for people to pay.

Conclusion

18 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 2018-19 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.

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

⁶ Based on the number of paid for licences.

- the figures in the Trust Statement are true and fair; and
- the income and expenditure recorded in the Trust Statement were in line with the purposes Parliament intended.

20 The 1921 Act also requires the Comptroller and Auditor General 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

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

22 After experiencing problems in the prior year with the transfer of IT functions to IBM, and more minor IT issues and a website security incident this year, we recommend that:

- a) the BBC works with Capita to ensure that Capita and IBM complete its ongoing remediation and improvement programme as a matter of priority. This should include assessing whether the issues experienced this year indicate a need to re-scope or re-prioritise improvement activities, with changes made to plans as needed; and
- b) as well as considering business-as-usual operations, this assessment should specifically consider issues with the greatest potential to impact the development and implementation of the new licence fee arrangements for the over 75s and the new Campaign Management and Data Management systems.

23 The Unit is targeting a 1% reduction in evasion to 5.9% by 2020-21 and this year the changes to the underlying assumptions have driven a reported decrease of 0.47% to 6.57%. We have previously recommended that the Unit should not accept as a given that the level of precision (+/- 0.5%) in its model cannot be improved. Considering this, we recommend that:

- a) the Unit completes its analysis of this year's changes in assumptions and takes forward its plans to develop a better understanding of the relative impact of the underlying assumptions and TVL's activities on the evasion rate;
- b) the Unit uses these analyses to help it assess whether it is on track to meet its 2020-21 evasion target. If necessary, the Unit should make changes to its revenue and marketing plans so that it can be confident it will meet its target and demonstrate that it has achieved this through TVL's performance, rather than because of changes in assumptions or statistical variability in its model; and
- c) the Unit should use these analyses to help inform its approach when setting evasion targets in the future.

Part One: Licence Fee collection in 2018-19

1.1. Everyone in the UK who watches or records television programmes as they are broadcast or who watches or downloads BBC content via iPlayer must be covered by a valid TV licence. This includes, for example, people in residential households, businesses, hotels, and student accommodation. 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 principal service providers: Proximity London Ltd, which delivers marketing services, and Capita Business Services Ltd (Capita), which administers licence fee collection. Together they operate under the “TV Licensing” trademark (TVL).

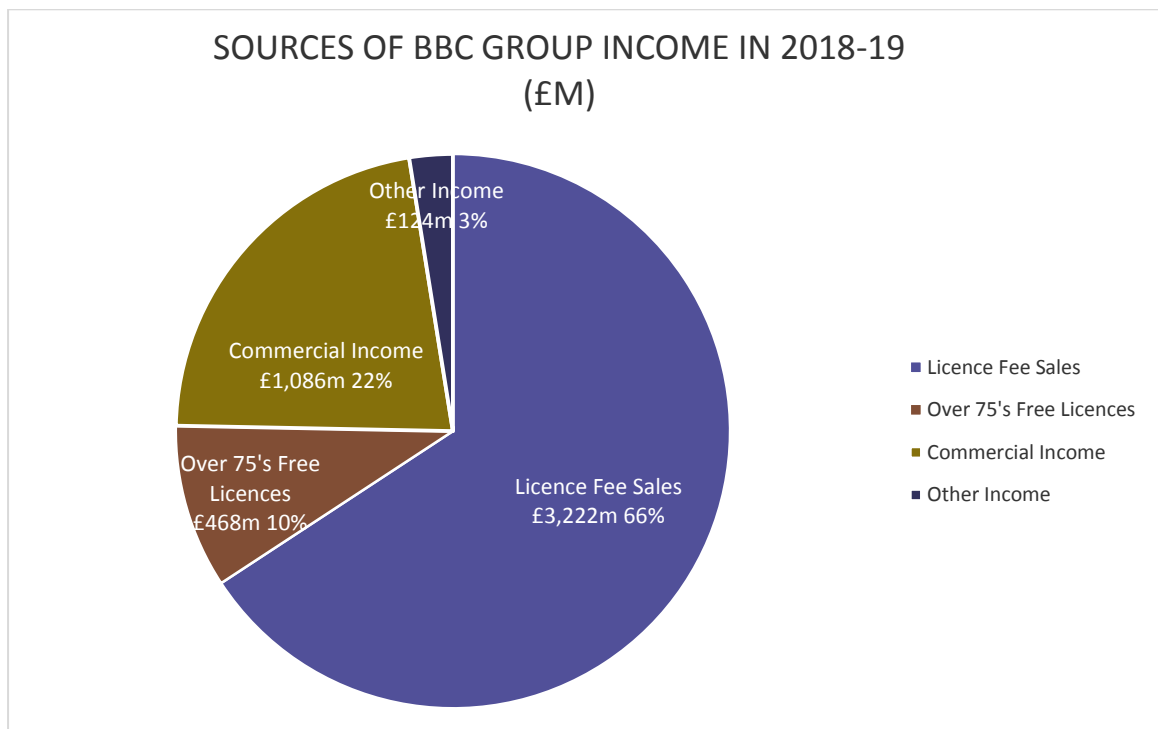
Overview of licence fee income in 2018-19

1.3. As reported in the 2018-19 Trust Statement, licence fee revenue collected by TVL amounted to £3.222 billion (£3.174 billion in 2017-18). 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 2018-19, the BBC received £468 million from the Department for Work and Pensions (£656 million in 2017-18) as partial payment for TV licences made available for free to those aged 75 and over.

1.4. The net licence fee revenue received by the BBC in 2018-19 was, therefore, £3.690 billion (£3.830 billion in 2017-18). 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 2018-19



Source: Figures taken from BBC Annual Report and Accounts 2018-19 and BBC Trust Statement 2018-19

1.5. As part of the BBC's Charter renewal process during 2015, the Government agreed that the licence fee should be linked to inflation having been frozen for seven years. On 1 April 2018 it increased from £147.00 to £150.50, the second of the annual inflation-linked increases. The increase was the largest factor in increasing overall revenue collected during 2018-19, contributing approximately an additional £79 million.

In year licence sales

1.6. Although licence fee income reported in the 2018-19 Trust Statement increased, the volume of licence sales was not as strong as expected. The Unit had a budget for sales of 26,083 million and actual sales were 25,927 million. Therefore, sales were 0.6% less than forecast and 0.14% less than sales in 2017-18. This is due to lower than budgeted household growth and an increase in the number of free licences issued to those aged over 75. The table below shows the volume of new, as opposed to recurring, TV licence sales in each of the last four years.

Figure 3

New Licences Issued (millions)

The number of new licences issued has remained broadly static except for 2016-17 when the iPlayer legislation came into force.

2015-16	1,776,400
2016-17	1,933,900
2017-18	1,747,400
2018-19	1,769,700

Source: Capita internal data on new licence issues

1.7. As can be seen in **Figure 3**, in 2018-19 new licences issues increased by 22,300 (1.3%). In 2018-19 household growth is estimated to be 0.72% (2017-18: 0.95%)⁷ whereas the Unit saw a 3% increase in the number of free licences to the over 75s in 2018-19. The increase shown in 2016-17 largely related to when iPlayer legislation came into force in September 2016, which clarified that a TV licence was still required for those people who were watching the BBC on the iPlayer catch-up or streaming services. As I reported in 2017-18, that change was successfully implemented, and those licences are now part of the standard annual renewal process.

1.8. The net increase in revenue of £48 million was lower than expected because the number of paid for licences issued decreased. After excluding free licences issued to the over 75s the BBC issued 21.5 million paid for TV licences in 2018-19, down from 21.6 million in 2017-18. This is due to a combination of lower than expected household growth and a decrease in TV penetration rates, which both have an impact on sales.

1.9. Expected household growth is a key part of the Unit's forecasting and budgeting process. It is estimated based on a range of external sources including the ONS and industry research bodies, taking into account factors such as overall expected changes in the population and estimated household occupancy. The latest estimates from the ONS show expected annual household growth of 0.72% for 2018, down from

⁷

<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/datasets/householdprojecti-onsforengland>

the previous estimate of 0.95% growth. This suggests that previous expectations of levels of annual growth, and therefore forecast sales, have been too high.

1.10. The Unit estimates that the current household TV penetration rate is at 94.5%. This is an estimate of the percentage of households requiring a TV licence because they watch broadcast services or watch iPlayer content live or on demand. Where households do not undertake any licensable activity, they can declare that they do not need a licence. The numbers of households doing this increased by 5% to 2.3 million in 2018-19 from 2.2 million in 2017-18. The Unit believes that this is partly due to changes in how media is consumed, as more people use only subscription-only services.

Licence sales outlook

1.11. The BBC believes that the operating environment is set to become increasingly challenging for TV Licensing. The continued popularity of subscription video on demand (SVOD) services (currently used by around 40% of households⁸) has changed how, where and when many people watch TV. The use of catch-up services has also changed perceptions of value, with more people now used to the concept of a tailored subscription-based service.

1.12. Traditional TV viewing continues as the key reason why households need a TV licence⁹ with 81% of the UK population watching live TV on a TV set at least once a week, and the BBC iPlayer remaining the most popular catch-up service used by 63% of adults. However, this landscape continues to change as more services are consumed through the internet, where smartphones dominate internet use with 62% of adults spending most of their internet time on their smartphone.

1.13. The changing viewing habits of different customer sectors pose different challenges to TV Licensing. The BBC's latest research suggests younger viewers have experienced the biggest change in how they consume content, leading to significant declines in licensable activity among some groups of customers. It is important, therefore, that the BBC's approach to licensing and enforcement is baselined and informed by data which accurately reflects the customer group it is aimed at (see Part Two).

Licences issued for those aged 75 and over

1.14. People aged 75 and over are currently entitled to a free TV licence and these are issued by TVL. While no revenue is directly collected from such customers, the BBC currently receives funding from the Department for Work and Pensions (DWP). In 2018-19, this funding was capped at £468 million (2017-18 £656 million) as part of a phased transfer of responsibility for free licences for the over 75s from DWP to the BBC.

1.15. The BBC's 2018-19 Annual Plan¹⁰ was prepared in the expectation of there being a £200 million reduction in licence fee income due to the phased transfer. In 2018-19, 4.47 million free licences were issued to customers aged 75 and over¹¹ with a total value of £672 million. This is £204 million more than DWP is funding and represents a decrease in the BBC's overall funding position.

1.16. In 2018-19, the BBC also issued more refunds than previously, which further offsets the increased revenue it collected through the licence fee increase. In 2018-19, the BBC issued approximately £4 million more in refunds than in 2017-18 (£34 million compared to £30 million). The main reason for this increase was increased contact with TVL from customers following the BBC's consultation on free licences for the

⁸ <https://www.barb.co.uk/download/?file=/wp-content/uploads/2018/02/BARB-Establishment-Survey-Annual-Data-Report-Volume-1-TV-Network-and-Appendices-Jan-2017-to-Dec-2017.pdf>

⁹ BBC internal research data

¹⁰ https://downloads.bbc.co.uk/aboutthebbc/insidethebbc/howwework/reports/pdf/bbc_annual_plan_2018.pdf

¹¹ Excludes 240,000 free licences issued to those aged over 75 who live in sheltered or residential care accommodation.

over 75s with some paying customers realising that they were entitled to a free licence. Of the £4 million increase in refunds, £3.2 million related to the over 75s.

1.17. In September 2018 the BBC's Director General announced a review of TV licences for older people, and the BBC ran a public consultation on this issue between November 2018 and February 2019. The consultation considered three main options of continuing with the existing scheme, abandoning the scheme or reforming the scheme. The options considered for reform of the scheme included:

- Discounting the cost of a licence fee for those over 75;
- Raising the age threshold for the concession from 75;
- Means-testing the concession so that only those in greater financial need will receive a free licence.

1.18. In June 2019, after considering the results of the consultation, the BBC announced¹² its decision to adopt a means tested approach. From June 2020 only a household with someone aged over 75 and who receives Pension Credit will be eligible for a free TV licence. The BBC estimates that approximately two thirds of those currently claiming a free over 75s licence will no longer be eligible after the change. The new scheme is expected to cost the BBC around £250 million to fund by 2021-22 depending on take-up. Protecting licence fee income overall and the Unit's performance in reducing evasion will, therefore, become increasingly critical. We report on this further in Part Two.

1.19. Implementing the new licence fee arrangements for the over 75s will be a significant challenge. The BBC estimates that the new arrangements will require around 3.75 million over 75s who currently have a free over 75 licence to pay for their TV licence from June 2020. The BBC has told us that it is developing its marketing, communication and payment plans to support over 75s affected by this change. Alongside this it has also told us that it is working to develop and implement the necessary changes to its collection processes and systems to implement the new arrangements. We have not examined the BBC's progress or plans in this area but, given the significance of this change to licence fee operations, we expect to return to this in our report next year.

IT Infrastructure

1.20. Effective collection of the licence fee depends on reliable IT systems to support the business and to maintain licence fee records. The core IT systems for TVL are operated by Capita, which contracts out a range of IT support activities to third parties. 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.

1.21. In 2017-18 we found that the IT changes had resulted in some operational problems during the year. These caused system capacity issues and led to some customer records being credited multiple times with the same payment. As a result, the system migration project was extended until it was finally resolved on 27 May 2018. The issues identified in 2017-18 were due to shortfalls in knowledge transfer when IBM took over application hosting and management from the previous subcontractors. We therefore recommended last year that Capita and IBM identify all key areas where there are knowledge gaps and develop action plans to address these as a matter of urgency.

¹² <https://www.bbc.co.uk/mediacentre/latestnews/2019/over-75s-licence-fees-decision>

1.22. In response, Capita and IBM have established a service improvement programme to remediate the problems. The programme is not yet complete and although it has made progress in addressing these issues, during our work this year we identified a number of more minor incidents, indicating that there remains further work to do. These incidents included problems with file transfers and accurate report generation which caused some processing delays, although these incidents did not ultimately lead to any revenue loss.

1.23. In early September TVL experienced an issue with its website's security following a technical update. For an eight day period over the end of August and early September, in some cases, when customers were completing transactions online, their information was not encrypted when it was transmitted from the customer's computer to TVL. The issue did not affect debit and credit card details, but it may have affected customers' personal details such as name, address and email or, if customers entered bank details, the sort code and account number. After it became aware of the issue TVL suspended the website between 5-8 September, while it investigated and fixed the issue. TVL contacted all customers who it believed had submitted bank details during the period at risk. TVL has assessed the risk to customer data as low and is not aware that any customer's information has been inappropriately accessed as a result. The BBC has also concluded that the security of the TV Licensing systems was not impacted. As well as addressing the original issue, management have put in place procedures which, they expect, will prevent a recurrence.

1.24. The Unit has also embarked on an investment programme to replace its existing Campaign Management and Data Management Systems. These systems are critical to the management of customer data, including communication with customers and providing data for enforcement of the licence fee. The programme is intended to improve the Unit's management and integration of this data in order to improve the efficiency of its day to day operations.

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 in viewing habits as set out in Part One, tackling evasion successfully is crucial both to effective collection and to the long-term funding of the BBC.

Levels of licence fee evasion

2.2. In 2018-19, the licence fee evasion rate was estimated at 6.57%, representing a decrease from 2017-18 (7.04% - **Figure 5**). This means that, as at March 2019, the BBC estimated there were some 1.8 million licence fee evaders, costing around £270 million in lost revenue. This is equivalent to £10.40 per licence fee payer, or 8.5% of licence fee revenue collected.

2.3. Reported evasion rates are based on the difference between the estimated number of households expected to require a licence and the number of licences in force. The main reason for the decrease in 2018-19 is that the current estimate reflects a reduction in the estimated number of households requiring a licence. This is calculated by reference to estimates of overall household growth made by the ONS, and the number of those households which are likely to require a licence, or the TV penetration rate, which is estimated by BARB.

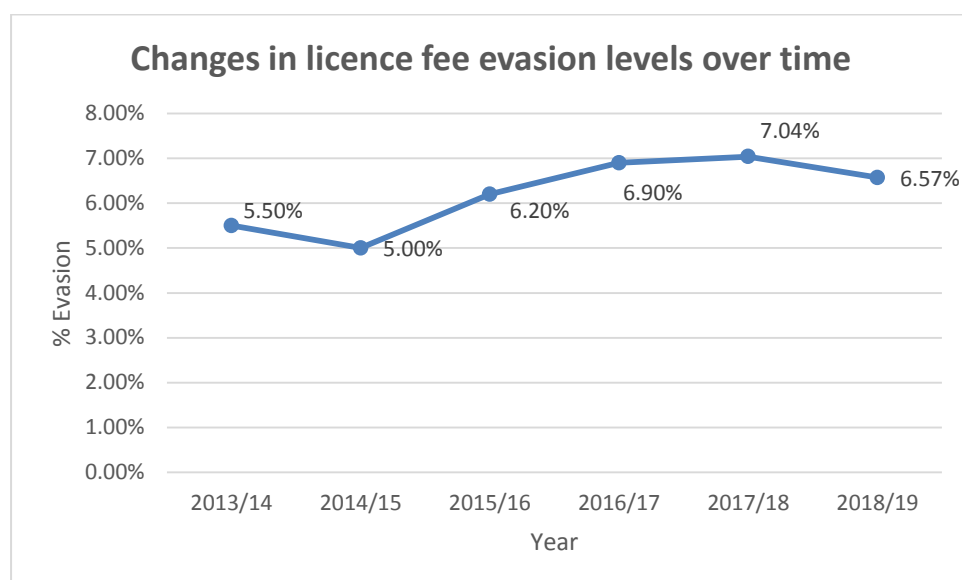
2.4. The most recent data suggests that household growth has not been as strong as previously thought. Therefore, the gap between the expected number of households needing a licence and the number of licences in force has fallen. This has been the primary driver for the fall in the reported evasion rate compared to 2017-18, when household growth was assumed to be higher. The 2017-18 estimates have not been restated to reflect this new data, although had they been it is likely that reported evasion for that year would have been lower.

2.5. As well as revisions to the base data, all estimates include an inherent level of statistical uncertainty. This makes it difficult to conclude whether small changes in the reported rate represent a significant increase or decrease in the actual level of evasion. It is therefore often difficult to compare results year on year and to state definitively whether the underlying performance in tackling evasion has improved significantly year on year.

2.6. Examining trends in estimated evasion over time can therefore be more useful in understanding whether underlying evasion rates are changing. **Figure 5** shows the reported evasion rate since 2013-14. Since 2014-15, when a revised measure of the number of television households was introduced by BARB that increased reported evasion, the reported evasion rates have remained broadly consistent, with no statistically significant change year-on-year.

Figure 5

Changes in licence fee evasion levels over time



NOTES

Source: National Audit Office review of BBC information. The reported evasion rate increased significantly after 2014-15. That increase was due to changes in how the number of television households was calculated by the British Audience Research Board (BARB), rather than being an indicator of underlying performance.

The reported evasion rate decreased significantly in 2018-19 primarily due to the restatement of the number of households calculated by the Office for National Statistics.

2.7. The Unit has adopted a target to reduce evasion by one percentage point by 2020-21 relative to 2016-17 levels, equivalent to an evasion rate of just under 6%. To meet this target the BBC estimates that it needs to increase the number of licensed households by approximately 280,000. **Figure 5** shows that although reported evasion has fallen in 2018-19, in part due to changes in the underlying data, the Unit still needs to improve on current levels of evasion to achieve its target by 2020-21.

Reducing evasion

2.8. The Unit needs to use enforcement resources effectively. Effectiveness means setting realistic and achievable targets and then committing sufficient resources to the right areas to improve enforcement. This encompasses the full range of enforcement activities to maximise collection, from issuing reminder notices through to direct visits and potential prosecution for non-payment.

2.9. The costs and marginal benefits of each of these different activities will vary. Clear customer communications, for example, have the potential to reach a wide customer group and can have a high response rate for a relatively low marginal cost. However, this approach will not be effective in all circumstances, for example with determined or repeat evaders. When targeting these groups, the Unit believes that a more focussed campaign of field enforcement activity is preferable. This may cost more per licence sold but can be the only way to enforce compliance in some cases. Enforcement activity also has a

deterrent effect which is hard to quantify and often both approaches need to operate together to generate the optimal return.

2.10. In 2017-18 we recommended that the Unit should complete its baselining and planning so that fresh efforts to reduce evasion could begin in earnest in 2018-19. The Unit intends to undertake further analysis with the aim of establishing a means to separate the impact of changes in the underlying assumptions from the impact of its own activity on movements in the evasion rate. Better information should enable the Unit to enhance its understanding of the effectiveness of its activities in reducing evasion.

2.11. The Unit also continues to develop a wide-ranging annual revenue and marketing plan designed to reduce evasion. This plan is based around the Unit's objectives of improving customer communications, increasing deterrent activities and making the licence fee easier to pay. It includes a combination of campaigns which are intended to increase revenue and tackle evasion, including field enforcement work and marketing activity, ranked by their ability to generate revenue. The Unit regularly reviews its plan and the effectiveness of these initiatives, considering as far as it is able, the cost of an intervention against the expected additional revenue generated. Examples of initiatives for each area of the plan are set out below.

Figure 6

An example of improving customer communications

The BBC has found that focussing its message when evasion is suspected improves response rates. For example, during 2018-19 the Unit refined its Pulse strategy which aims to target communications to long term unlicensed addresses. For example, when there has been a change of occupier at an address, and the new occupant has not yet bought a licence.

One type of communication was introduced, where notices are sent to unlicensed premises setting a specific date for a field enforcement visit to determine whether a licence is needed. Often this communication acts as a prompt for that property to become licensed without requiring any further field activity. In 2018-19, the Unit estimates that this project led to an incremental £749,000 in revenue (6.4k additional licence sales).

It is not easy, however, to disaggregate the cost of any one initiative. Communications require an up-front cost to develop but have a relatively low cost per customer once in operation. However, they cannot operate in isolation from other activities as without the deterrent of a potential field visit they would not have the same impact.

Source: Proximity London Ltd

Figure 7

An example of increasing deterrent activities

One current example of targeting is that the Unit is trialling a different way of organising field activity deploying intensive visits in a specific geographic area. This approach provides the opportunity to influence the evader's perceived likelihood of being caught and therefore willingness to pay. Being more manually resource intensive, field enforcement has a higher cost activity per revenue generated. However, the majority of licence fee payers will not need to receive a field enforcement visit so TVL targets its activity at those more likely to evade. Successful and cost-effective outcomes therefore depend on having good quality information about where the real risks of evasion lie.

Source: Licence Fee Unit

2.12. Given the costs involved, the BBC applies a "test and learn" approach to each element of its campaign. The success of individual schemes is evaluated by their ability to generate additional revenue compared to business as usual. Individual schemes need to be continually assessed and periodically refreshed where their effectiveness declines over time. In the case of new initiatives this involves operating a pilot scheme and evaluating the results before rolling it out further, amending it or cancelling it based on the results.

Making the licence fee easier to pay

2.13. Some customers struggle to pay their licence fee due to personal finances rather than because of deliberate evasion. One of the recommendations in the 2015 Perry review of TV licence fee enforcement was that there should be simpler and more flexible payment plans for those who wish to pay the licence fee but are unable to fulfil the requirement to pre-pay for a licence¹³.

Figure 8

An example of making the licence fee easier to pay

The Simple Payment Plan (SPP) is one current pilot scheme operating under the “test and learn” approach which is intended to make the licence fee easier to pay for some customer groups. It started on 1 April 2018 and will run until August 2020. The BBC is targeting a 20% improvement in customer retention on this scheme compared to other instalment schemes, contributing up to 100,000 more licences retained if it is successful and rolled out fully. The SPP allows the cost of the licence to be spread evenly over the life of the licence. If payments are missed they can be rescheduled over the remaining life of the licence. The objective of the trial was to establish if by offering this flexible payment plan more customers stay licensed over the longer term.

Approximately 170,000 customers joined the scheme. 81,600 (60%) were signed up during field visits and 54,400 joined having received a direct mail. Another 30,000 customers either paid for a licence in full or joined another instalment scheme as a result of being contacted by TVL, generating an additional £4.5 million.

For those who have remained on the scheme, approval rates have generally been positive. Early survey data by the BBC shows that on average 78% of customers remaining on the scheme are satisfied with it. Of those that have fallen off the scheme the survey indicates that in most cases the scheme itself was not at fault, and that the customer’s financial situation was the primary reason for not keeping up with payments.

It is too early to evaluate the results of the pilot scheme. While a number of customers have dropped out of the scheme, it was designed for customer groups who had already traditionally struggled to pay under other schemes. The real measure of success will be any incremental improvements over previous behaviour for this customer group. The pilot is due to be evaluated fully in September 2019.

Source: Licence Fee Unit

Targeting resources effectively

2.14. Understanding the true level of evasion is key to being able to tackle it. As we reported in 2017-18, 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, and to ensure that it can demonstrate that any apparent fall in the evasion rate is both real and sustainable. In part, this may be due to the difficulty in measuring evasion rates accurately, which we highlight above.

2.15. Our previous reports in 2016-17¹⁴ and 2017-18¹⁵ have made recommendations about how the BBC might enhance its measurement of the evasion rate. This included improving its understanding of specific customer groups and changes to household and business data, as for some customer groups this data was out of date. Some progress has been made on this. For example, in 2018-19 having introduced a schedule outlining when it will review each aspect of the evasion model, the Unit reviewed the data it uses to estimate the number of second homes and the number of lodgers that require a TV licence. The Unit has now developed a questionnaire to better establish its knowledge and understanding of living arrangements

¹³ TV Licence Fee Enforcement Review

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/445212/166926_Perry_Review_Text-L-PB.pdf

¹⁴ <https://www.nao.org.uk/wp-content/uploads/2017/07/BBC-Television-Licence-Fee-Trust-Statement-31-March-2017.pdf>

<https://www.tvlicensing.co.uk/ss/Satellite?blobcol=urldata&blobheadname1=content->

¹⁵ <https://www.tvlicensing.co.uk/ss/Satellite?blobcol=urldata&blobheadname1=content-type&blobheadvalue1=application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1370006473124&ssbinary=true>

and home ownership and associated customers. This has improved the Unit's information relating to this customer group and may indicate ways in which it can target resources more effectively to target evasion in those areas.

2.16. In response to the recommendation made in our 2017-18 report, the Unit has been benchmarking the precision of its evasion model against industry comparators. This work is ongoing, however the changes in the data which led to a decrease in the 2018-19 evasion rate demonstrate that changes in underlying demographic and household trends can have a significant impact on licence fee collection. The BBC's own research suggests that there are differences in how different customer groups consume BBC content, their attitude to the licence fee and TV penetration rates. More recent information on TV penetration amongst lodgers and second homeowners may also affect strategies to ensure compliance in these customer groups. Finally, new data on household growth may also affect the targeted improvements from some initiatives by gaining a better understanding of the licensable population.

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27th June 2019

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 (FRM) 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 WOBSCHELL
Head, Assurance and Financial Reporting Policy
HM Treasury
10 May 2011

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