British Broadcasting Corporation

Television Licence Fee Trust Statement for the Year Ending 31 March 2020
British Broadcasting Corporation

Television Licence Fee Trust Statement for the Year Ending 31 March 2020

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.

Ordered by the House of Commons to be printed on 15 September 2020
# Contents

PERFORMANCE REPORT 2
Foreword by the Director-General 2
Performance Analysis 4

ACCOUNTABILITY REPORT 9
Statement of the Accounting Officer’s Responsibilities in Respect of the Trust Statement 9
Governance Statement 10

AUDIT REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS 16

FINANCIAL STATEMENTS 19
Statement of Revenue and Expenditure for the Year Ended 31 March 2020 19
Statement of Financial Position as at 31 March 2020 20
Statement of Cash Flows for the Year Ended 31 March 2020 21
Notes to the Trust Statement 22
Annex 1 – Reconciliation to the BBC’s Main Annual Report Licence Fee Income 26

THE COMPTROLLER AND AUDITOR GENERAL’S REPORT TO THE HOUSE OF COMMONS 27

ACCOUNTS DIRECTION GIVEN BY HM TREASURY 40
Performance Report

Foreword by the Director-General

This report is presented each year 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 2019/20 the fee has been the subject of significant attention and debate as the BBC has introduced measures to provide licences for all those aged over 75. Throughout this period though, as this report shows, public support for and revenue from the licence fee have remained high.

In the year, we have seen an overall increase in Licence Fee revenue collected by the BBC (from non-Over 75 Households), derived largely from the inflation-linked increase in the fee put in place at the start of the year. This increase has been offset partially by a decline in sales overall, though it is pleasing to see that the evasion rate remains consistently low, even with the introduction this year of a newer, more detailed model, as recommended by the NAO.

As ever, this report also shows the ways in which we analyse, monitor and predict trends in licence fee collection, including our understanding of household growth and changing audience habits. Our digital transformation and the development of our on-demand services continues to be a focus to ensure we are offering audiences the fullest possible breadth of value for the fee. Allied to this, the continued growth of the TV Licensing website as a service tool for audiences is really welcome – this year it accounted for 2.38% more sales as a proportion of total licences sold, from an 8% increase in customer visits.

Of course this year has been dominated by discussions around the BBC Board’s decision on licences for those over the age of 75. The Board’s decision on this issue was announced in June 2019 and in August 2020 – having delayed the implementation by two months as a result of Covid-19 – we began to contact all those affected to make them aware of the need to apply for a free licence, should they be in receipt of pension credit.

We have, throughout the year, 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. These measures are now being implemented with the utmost care and with additional measures put in place to ensure that all transactions are able to be conducted safely and without risk to the health of those involved.

And we continue, of course, to ensure we collect the licence fee from all those who are eligible to pay as efficiently and appropriately as possible. It was pleasing this year for the Board to be able to approve the extension of the Simple Payment Plan pilot (allowing users to spread the payment of a fee evenly across the life of the licence) to become a permanent scheme, using the same eligibility as the successful trial. Following creation of the necessary regulations by government the scheme went live in July 2020 and we look forward to reporting on its use and impact next year.

I welcome the findings of the NAO and 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.

Tim Davie CBE
Director-General, BBC
2nd September 2020
Management Commentary

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 2020

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 relates 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 this Trust Statement.

In 2019/20 the BBC received a fixed sum Grant-in-Aid from the Department for Work and Pensions (DWP) as a contribution to the cost of 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. These receipts are also outside the scope of this Trust Statement.

The Grant-in-Aid received from the DWP has been phased out over three years, from 2018/19. The BBC was given responsibility for the Over 75 policy and associated costs from 2020/21. From 1 August 2020, anyone aged 75 or over who receives Pension Credit will be eligible for a free TV licence paid for 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., whilst administration of the Simple Payment Plan is contracted to Target Group. 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. We experienced some operational challenges to licence fee collection as customers were in a national lockdown due to Covid-19 which impacted the level of licences collected in March.
**Household growth**

Household growth (HHG) for 2019/2020 has been estimated at 0.74%. This is a small decrease from 2018/2019 where the growth rate was 0.87%. Analysis of the activity in planning and house building indicates that the rate of household growth is likely to show a small decline over the next two years.

**Household incomes**

Based on provisional estimates\(^1\), median household disposable income in the UK was £30,800 in the financial year ending (FYE) 2020, up 2.3% (£700) compared with FYE 2019, after accounting for inflation. The increase in median income in FYE 2020 continues an upward trend since FYE 2013, where average household income increased by an average of 2.1% per year.

**Evasion Rate**

The BBC’s evasion model calculates the level of evasion from the licences in force, the number of premises and the proportion of those premises which should be licensed. The calculation is made from data as at the end of March 2020 and, starting from 2019/20, the calculation is also provided as an average across the fiscal year. The rate 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 only 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.

Much greater pressures to traditional television viewing are a result of digital disruption and the move to catch up on-demand 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 the majority of audiences spend most of their time watching.

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.

The most recently published estimate of TV Households from BARB shows a fall in the estimated Television Penetration Rate (TVP) rate by 0.80ppts from 95.20% in March 2019 to 94.40% in March 2020. Adjustments are then made to the overall BARB rate to remove households that have TV sets but which do not carry out 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 2020 was 93.84% a fall of 0.66ppts compared to the rate of 94.50% at the end of March 2019\(^2\).

**Performance Analysis**

Gross revenue in the Trust Statement has increased to £3,388m (2019 £3,345m). Gross revenue is the value of Licences coming into force in the period excluding free over 75 licences. Revenue growth is driven by the £4.00 increase in the value of the licence fee. This has been partially offset by a decline in licence sales – see Table 1 below.

Refunds, revocations and credit losses have decreased slightly to £137m (2019 £139m).

---

\(^1\) ONS Average household income, UK: financial year ending 2020  
\(^2\) Rates shown are the quarterly rates for the relevant quarters. These are the rates used in the evasion model and are the best reflection of the rapidly changing consumption habits.
Net revenue for the consolidated fund (made up of the gross revenue and refunds, revocations and credit losses plus £16m of premiums on quarterly direct debit), has increased to £3,267m (2019 £3,222m).

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.

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 2019/20, there were over 8% more visits to the website than the previous year. The website also grew as a sales channel, accounting for 2.38% more sales as a proportion of total licences sold.

In 2019/20, over 90% of people buying a licence online opted for a paperless licence, up from just over 88% the previous year.

In 2019/20, over three-quarters (75.7%) of all customer initiated transactions (17.6m) were completed through a self-serve channel, up from 74.6% last year and a significant increase on the 57.6% (11.3m) recorded nine years ago.
Sales Volumes

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales Volumes (1,000 licences including over 75 free licences)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/14</td>
<td>25,478</td>
</tr>
<tr>
<td>2014/15</td>
<td>25,562</td>
</tr>
<tr>
<td>2015/16</td>
<td>25,638</td>
</tr>
<tr>
<td>2016/17</td>
<td>25,930</td>
</tr>
<tr>
<td>2017/18</td>
<td>25,964</td>
</tr>
<tr>
<td>2018/19</td>
<td>25,927</td>
</tr>
<tr>
<td>2019/20</td>
<td>25,671</td>
</tr>
</tbody>
</table>

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 and bespoke research. Licensable places are made up of households and other non-domestic places requiring a TV Licence.

Estimates are made for the numbers of non-domestic places such as businesses, hotels and student halls of residence. Appropriate estimates of TV penetration – to identify which place needs a licence – 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 calculates it to two decimal places 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.
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 (TVP). 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 in 2016. This ratio is applied to the BBC’s estimate of households to provide the number of licensable households.

The recorded level of evasion varies over time for statistical reasons and due to behavioural factors such as changes in the way media is consumed. In 2019/20, following recommendations from the NAO, the BBC commissioned a refresh of the evasion model so that changes in evasion resulting from statistical variation could be separated from underlying changes in the rate. The revised model also identifies behavioural drivers behind changes in evasion.

The re-calculated evasion rate was largely consistent with the reported rates in 2018/19, with just a 0.13%pts difference. Once updated for 2019/20, with the most recent data covering Households, non-household premises and Television Penetration rates, the calculated rate of evasion as at the end of March 2020 is 7.25%. Due to the methodological changes mentioned, it is now also possible to report on the estimated level of evasion over the whole fiscal period (an average evasion rate over the 12 months of that year) which is calculated to be 6.95% for 2019/20 (compared to 6.69% in 2018/19). As described above, because the input data include a level of estimation, the evasion rate is significant at zero decimal places although the calculation is performed to two decimal places to provide trend insight.

**Future Developments and Initiatives**

**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 (the largest ever undertaken by the BBC) with the public. From 1 August 2020 free TV Licences are 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.

Implementation of the scheme was originally planned to take place on 1 June 2020 but due to the coronavirus outbreak this was delayed until 1 August 2020. Starting in August the BBC began writing to those people who had a free TV Licence up to 31 July 2020 to explain what they needed to do to set up their next licence. A new payment scheme, known as the 75 plus plan, enables the cost of a licence to be spread over 12 months which is similar in structure to the Simple Payment Plan.

**Simple Payment Plan**

In 2018/19, the BBC trialled a 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”.

The structure of the scheme creates risk to the level and timing of revenue received from SPP customers and trialling allowed 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 adversely 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.

In September 2019, following evaluation of the trial scheme, the BBC Board approved the extension of the SPP as a permanent scheme using the same eligibility as the trial. Following creation of the necessary regulations by government the scheme went live in July 2020.

Decriminalisation
In February 2020 the Government began an eight week consultation on decriminalising TV licence evasion. This consultation sought the views on whether the Government should proceed with the decriminalisation of TV licence evasion by replacing the criminal sanction with an alternative civil enforcement scheme. The BBC believes that any civil system would increase evasion, be worse for the most vulnerable in society and reduce investment in the creative economy by over £1 billion for the remainder of the Charter period. The results of the consultation have yet to be published.

Technology Refresh
In 2019/20, work started on replacement of the TV Licensing Campaign Management System (CMS) and Data Management System (DMS, together “CMS Modernisation”). However, progress on the programme stalled because of the need for key resources to support the programme of changes for the new over 75 policy which took priority. Due to delays and increased costs the BBC decided to cancel the CMS Modernisation programme at a cost of £7m and work is now underway to extend the life of the existing systems.

Tim Davie CBE
Director-General, BBC
2nd September 2020
Accountability Report

Basis for the Preparation of the Trust Statement
The HM Treasury accounts direction (see page 40 of this Trust Statement), issued under Section 2 of the Exchequer and Audit Departments Act 1921, requires the BBC to prepare the Trust Statement to give a true and fair view of the state of affairs relating to the collection and settlements of Licence Fees and the revenue income and expenditure and cash flows for the financial year. Regard shall be given to all relevant accounting and disclosure requirements given in HM Treasury’s Financial Reporting Manual and other guidance issued by HM Treasury and the principles underlying International Financial Reporting Standards (IFRS).

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

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. 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 2019/20. In conforming with the Accounts Direction issued by HM Treasury (see page 40 of this Trust Statement), the Trust Statement reports the revenue collected and expenditure in respect of Licence Fees administered by the BBC during the year, together with the net amounts surrendered to the Consolidated Fund.

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

In preparing the Trust Statement, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:
• observe the Accounts Direction issued by HM Treasury including relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
• make judgements and estimates on a reasonable basis;
• state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed and disclose and explain any material departures in the accounts;
• prepare the Trust Statement on a going concern basis.

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

As far as the Accounting Officer is aware, the annual report and accounts as a whole is fair, balanced and understandable and 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 2019-20 Trust Statement was £114,000 (2018-19 £112,000) 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.

Governance Statement
The 2018 UK Corporate Governance Code, issued by the Financial Reporting Council is applied by the BBC Group on a voluntary basis where appropriate. Disclosure of how the BBC complies may be obtained from www.bbc.co.uk/annualreport.

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, Simon Burke, stood down from the board and was replaced by Shirley Garrood as non-executive director and Chair of the Audit and Risk Committee. 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

<table>
<thead>
<tr>
<th>Non-executives</th>
<th>Board Ordinary</th>
</tr>
</thead>
<tbody>
<tr>
<td>David Clementi</td>
<td>11</td>
</tr>
<tr>
<td>Simon Burke</td>
<td>5 of 5</td>
</tr>
<tr>
<td>Shirley Garrood</td>
<td>7 of 8</td>
</tr>
<tr>
<td>Elan Closs Stephens</td>
<td>11</td>
</tr>
<tr>
<td>Tanni-Grey Thompson</td>
<td>11</td>
</tr>
<tr>
<td>Ian Hargreaves</td>
<td>10</td>
</tr>
<tr>
<td>Tom Ilube</td>
<td>11</td>
</tr>
<tr>
<td>Steve Morrison</td>
<td>10</td>
</tr>
<tr>
<td>Nicholas Serota</td>
<td>10</td>
</tr>
<tr>
<td>Ashley Steel</td>
<td>11</td>
</tr>
<tr>
<td>Executives</td>
<td>Board Ordinary</td>
</tr>
<tr>
<td>Tony Hall</td>
<td>11</td>
</tr>
<tr>
<td>Fran Unsworth</td>
<td>11</td>
</tr>
<tr>
<td>Tim Davie</td>
<td>11</td>
</tr>
<tr>
<td>Ken MacQuarrie</td>
<td>11</td>
</tr>
</tbody>
</table>

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 over-75s policy and the approval of the Licence Fee Collection Strategy.

### 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 services, in accordance with the strategy agreed by the Board, and for all aspects of operational management.

The Executive Committee meets regularly and oversees key strategic projects and proposals of importance to the whole organisation. It takes regular reports on audience and financial performance, as well as maintaining oversight of pan-BBC HR and organisational design issues. It also discusses and approves all relevant papers discussed at the Board. During 2019/20 the following membership changes took place on the Executive Committee: Bob Shennan and Sarah Jones were appointed to the Executive Committee; Valerie Hughes-D’Aeth resigned as Chief HR Officer and stepped down from the Executive Committee on 31 October 2019. She was replaced by Wendy Aslett and Rachel Currie, who share the role of Group HR Director; June Sarpong joined the BBC in November 2019 as Director of Creative Diversity. The members at the end of the year were:

<table>
<thead>
<tr>
<th>Tony Hall, Director-General</th>
<th>Charlotte Moore, Director, Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kerris Bright, Chief Customer Officer</td>
<td>Matthew Postgate, Chief Technology and Product Officer</td>
</tr>
<tr>
<td>Wendy Aslett, Group HR Director</td>
<td>Rachel Currie, Group HR Director</td>
</tr>
<tr>
<td>Tim Davie, Chief Executive, BBC Studios</td>
<td>James Purnell, Director, Radio and Education</td>
</tr>
<tr>
<td>June Sarpong, Director, Creative Diversity</td>
<td>Gautam Rangarajan, Director, Strategy</td>
</tr>
<tr>
<td>Glyn Isherwood, Chief Financial Officer</td>
<td>Bob Shennan, Group Managing Director</td>
</tr>
<tr>
<td>David Jordan, Director, Editorial Policy and Standards</td>
<td>John Shield, Director, Communications and Corporate Affairs</td>
</tr>
<tr>
<td>Sarah Jones, Group Legal Counsel</td>
<td>Clare Sumner, Director, Policy</td>
</tr>
<tr>
<td>Ken MacQuarrie, Director, Nations and Regions</td>
<td>Francesca Unsworth, Director, News and Current Affairs</td>
</tr>
</tbody>
</table>
**Audit and Risk Committee**
The Audit and Risk Committee (ARC) is a sub-committee of the Board. The membership consists of the Chair, Shirley Garrood who replaced Simon Burke when she joined the Board in July 2019; Tom Ilube and Ashley Steele.

The main purpose of the ARC is to review and maintain oversight of the BBC’s corporate governance particularly with respect to internal control and risk management. In 2019/20 this included: the implementation of the Board’s decision on television licences for the over-75s and the implementation of the systems required to begin collecting the licence fee from eligible over-75s; reviewing and assuring the basis for the BBC Group’s statements of going concern and viability; developing our ongoing relationship with the NAO, including approving their audit plan, taking an update at every meeting on progress with their work, and approving the BBC’s responses to actions arising from their value for money reviews; close review of the regularity of the BBC’s financial transactions, including any significant issues, and how these are presented in the accounts.

The effectiveness of the Committee was reviewed this year as part of the Board’s external review of overall effectiveness. Changes next year, including an extra meeting of the Committee, to allow more time to consider any issues relating to the commercial businesses, will be implemented in 2020/21. The ARC’s full report is provided in the BBC’s Annual Report and Accounts 2019/20.

**Nominations Committee**
The Board Nominations Committee is responsible for appointments to the Board (with the exception of the Chairman and the nations’ members) and making recommendations on Board Committees.

The Nominations Committee consists of: the Chairman, David Clementi; Nicholas Serota, the senior independent director; the Director-General; and non-executive directors Ashley Steel, and Elan Closs Stephens, who commenced her term on 1 April 2019.

This year the Nominations Committee has met three times, with some business conducted offline. The Committee’s work on appointments has consisted of recruiting and appointing Mai Fyfield as a non-executive Director on the BBC’s Commercial Holdings Board. As part of its responsibilities for succession planning and performance assessment, the Committee also proposed the re-appointment for a further three years of two of the BBC Board’s non-executive Directors, Ian Hargreaves and Tom Ilube, which the Board approved at its February meeting.

The Nominations Committee has led the process for recruiting the new Director-General, in conjunction with the wider group of non-executive Directors of the Board, through a series of formal and informal meetings.

In fulfilment of its responsibility for evaluating the performance of the Board and its associated sub-committees, Nominations Committee asked an independent reviewer, Christopher Saul, to assess the performance of the Board and sub-committees this year. After a positive review, Christopher Saul’s additional recommendations have now been considered by the Board and an implementation plan has been completed.

The Nominations Committee’s full report is provided in the BBC’s Annual Report and Accounts 2019/20.

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

- the executive 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 executive 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.
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 has completed a number of reviews, including the visit to India to review IBM delivery for Television Licensing (TVL). This visit and the other reviews have highlighted a number of areas of improvement required not only for IBM but also across the whole TVL estate. These findings were briefed to the BBC Audit and Risk Committee in March 2020.

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.

Tim Davie CBE
Director-General, BBC
2nd September 2020
Audit Report of the Comptroller and Auditor General to the House of Commons

I have audited the financial statements of the British Broadcasting Corporation (BBC) Television Licence Fee Trust Statement for the year ended 31 March 2020 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 BBC 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 2020 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the BBC’s use of the going concern basis of accounting in the preparation of the BBC Television Trust Statement’s financial statements is not appropriate; or
- the BBC has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the BBC’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.
Responsibilities of the Accounting Officer for 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 BBC’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.
- conclude on the appropriateness of the BBC’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 BBC’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my 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 report. However, future events or conditions may cause the BBC to cease to continue as a going concern.
- 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 Governance Statement does not reflect compliance with HM Treasury’s guidance.

Report

I have no matters to report on these financial statements. My report, under Section 2 of the Exchequer and Audit Departments Act 1921 on the BBC Television Licence Fee Trust Statement can be found on pages 27 to 39.

Gareth Davies
Comptroller and Auditor General
National Audit Office

157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

3rd September 2020
## Financial Statements

Statement of Revenue and Expenditure for the Year Ended 31 March 2020

<table>
<thead>
<tr>
<th>Note</th>
<th>Revenue</th>
<th>£m</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value of Licences</td>
<td>1.4</td>
<td>3,388</td>
</tr>
<tr>
<td></td>
<td>Value of refunds</td>
<td>(31)</td>
<td>(35)</td>
</tr>
<tr>
<td></td>
<td>Value of revocations</td>
<td>(39)</td>
<td>(41)</td>
</tr>
<tr>
<td></td>
<td>Value of premiums on quarterly direct debit</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>Net Revenue</td>
<td>3,334</td>
<td>3,285</td>
</tr>
</tbody>
</table>

### Less expenditure

<table>
<thead>
<tr>
<th>Note</th>
<th>Credit losses</th>
<th>2.2</th>
<th>(67)</th>
<th>(63)</th>
</tr>
</thead>
</table>

**Net Revenue for the Consolidated Fund**  

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3,267</td>
<td>3,222</td>
</tr>
</tbody>
</table>

There were no recognised gains or losses accounted for outside the above Statement of Revenue and Expenditure. All income is from continuing activities. The notes at pages 22 to 25 form part of this statement.
## Statement of Financial Position as at 31 March 2020

<table>
<thead>
<tr>
<th>Note</th>
<th>2020 £m</th>
<th>2019 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>2.1</td>
<td>407</td>
</tr>
<tr>
<td>Cash held for customers on savings schemes</td>
<td></td>
<td>15</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td></td>
<td>422</td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>3</td>
<td>(293)</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td></td>
<td>129</td>
</tr>
</tbody>
</table>

Represented by:

<table>
<thead>
<tr>
<th>Note</th>
<th>2020 £m</th>
<th>2019 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance on Consolidated Fund Account as at 31 March</strong></td>
<td></td>
<td>129</td>
</tr>
</tbody>
</table>

The notes at pages 22 to 25 form part of this statement

Tim Davie CBE
Director-General, BBC
2nd September 2020
Statement of Cash Flows for the Year Ended 31 March 2020

<table>
<thead>
<tr>
<th>Note</th>
<th>2020 £m</th>
<th>2019 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>3,268</td>
<td>3,226</td>
</tr>
<tr>
<td>4</td>
<td>(3,269)</td>
<td>(3,227)</td>
</tr>
</tbody>
</table>

Increase / (Decrease) in cash in the period

(1)   (1)

Notes to the Cash Flow Statement

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

Net Revenue for the Consolidated Fund

3,267   3,222

(Increase) in Receivables

(4)     (2)

Increase in Payables

5       6

Net Cash Flow from operating activities

3,268   3,226

B: Analysis of Changes in Net Funds

Decrease in Cash in this Period

(1)     (1)

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

16      17

Net Funds at 31st March (Closing Balance)

15      16

Note that the closing balance of Net funds at 31st March above (£15m) is held at a commercial bank.

The notes on pages 22 to 25 form part of these accounts
Notes to the Trust Statement

1. Statement of Accounting Policies

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

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 and revised standards and Interpretations have been considered for the first time, as they became effective for this financial year:

- IFRS 16 Leases
- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Annual Improvements to IFRS Standards 2015 - 2017 Cycle
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- IFRIC 23 Uncertainty over Income Tax Treatment

None of these have been applied as they are not relevant to the Trust Statement.

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 initially recognised in full as a receivable from the Licence Fee payer at the point the licence comes into force. This is gross revenue. Net revenue for the consolidated fund represents the value collected and expected to be collectable after deducting refunds, revocations and credit losses.

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 outside the scope of the financial statements in this Trust Statement. The level of evasion in the year is discussed in the management commentary.

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 Trust Statement is outside the scope of Accounting Standard IFRS 9 Financial Instruments, as the licence fees are taxes rather than trade receivable financial instruments. However, as required by the FReM, the principles of IFRS 9 are applied to licence fee receivables expected credit loss model, for consistency across government. This impairment value is estimated based on the value of cancellations in the previous year, as adjusted to reflect the current and future economic environment. The movement in the year on year impairment balances is included with actual prior year debt written off 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

<table>
<thead>
<tr>
<th>Note</th>
<th>2020 £m</th>
<th>2019 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licence fee Receivables</td>
<td>437</td>
<td>432</td>
</tr>
<tr>
<td>Cash in transit</td>
<td>0</td>
<td>(1)</td>
</tr>
<tr>
<td>Total before estimated impairments</td>
<td>437</td>
<td>431</td>
</tr>
<tr>
<td>Less estimated impairments</td>
<td>2.3</td>
<td>(30)</td>
</tr>
<tr>
<td></td>
<td>407</td>
<td>403</td>
</tr>
</tbody>
</table>
Receivables represent the amount due from licensees where at 31 March:
  i) demands for payment have been issued but not paid for; or
  ii) where licensees have outstanding instalments.

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

2.2 Credit losses

<table>
<thead>
<tr>
<th>Note</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Debts written off</td>
<td>(65)</td>
<td>(64)</td>
</tr>
<tr>
<td>Change in the value of impairments</td>
<td>2.3</td>
<td>(2)</td>
</tr>
<tr>
<td></td>
<td>(67)</td>
<td>(63)</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Balance as at 1 April</td>
<td>(28)</td>
</tr>
<tr>
<td>Change in estimated value of impairments</td>
<td>(2)</td>
</tr>
<tr>
<td>Balance as at 31 March</td>
<td>(30)</td>
</tr>
</tbody>
</table>

Receivables in the statement of financial position are reported after the deduction of the estimated value of impairments. This estimate is based on the value of cancellations in the previous year, as adjusted to reflect the current and future economic environment. The movement in the year on year impairment balances is included with actual prior year debt written off as credit losses in the Statement of Revenue and Expenditure.

3. Payables

<table>
<thead>
<tr>
<th>Note</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Licence fee payables</td>
<td>1.10</td>
<td>253</td>
</tr>
<tr>
<td>Customer savings</td>
<td></td>
<td>15</td>
</tr>
<tr>
<td>Deferred income</td>
<td></td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>293</td>
<td>288</td>
</tr>
</tbody>
</table>

No payables fall due after one year.

4. Balance on the Consolidated Fund Account

<table>
<thead>
<tr>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Balance on Consolidated Fund Account at 1 April</td>
<td>131</td>
</tr>
<tr>
<td>Net Revenue for the Consolidated Fund</td>
<td>3,267</td>
</tr>
<tr>
<td>Less amount paid to the Consolidated Fund</td>
<td>(3,269)</td>
</tr>
<tr>
<td>Balance on Consolidated Fund Account at 31 March</td>
<td>129</td>
</tr>
</tbody>
</table>

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.

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

<table>
<thead>
<tr>
<th></th>
<th>2020 £m</th>
<th>2019 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licence fee sales contributing to Consolidated Fund</td>
<td>3,267</td>
<td>3,222</td>
</tr>
<tr>
<td>Add</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over 75s contribution from DWP</td>
<td>253</td>
<td>468</td>
</tr>
<tr>
<td>BBC Licence Fee Income in Annual Report and Accounts note A2</td>
<td>3,520</td>
<td>3,690</td>
</tr>
</tbody>
</table>

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 August 2020, anyone aged 75 or over who receives Pension Credit will be eligible for a free TV licence paid by the BBC.
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 Charter requires that the BBC’s Board ensures “that arrangements for the collection of the licence fee are efficient, appropriate and proportionate”.

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.

This report is our commentary on the BBC’s collection of the licence fee in 2019-20, 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, and identify areas which we will return to in next year’s report.

Figure 1 provides more detail on what this report covers as well as a summary of other important sources of relevant information about licence fee income.

The following sources contain relevant information about licence fee income:

<table>
<thead>
<tr>
<th>Source</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBC Television Licence Fee Trust Statement for the year ending 31 March 2020</td>
<td>This statement is the BBC’s detailed report on the licence fee revenue it collected in 2019-20. 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&amp;AG) has certified that the BBC’s Trust Statement for the year ending 31 March 2020 is true and fair, and that the income and expenditure recorded in the financial statements were in line with the purposes Parliament intended.</td>
</tr>
<tr>
<td>BBC Group Annual Report and Accounts, 2019-20</td>
<td>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&amp;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 and that the income and expenditure recorded in the financial statements were in line with the purposes Parliament intended.</td>
</tr>
</tbody>
</table>

Key findings

Licence fee collection in 2019-20

5 The licence fee is the main source of BBC income, but income from this fell for the second year in a row. The BBC’s income in respect of licence fees totalled £3,520 million in 2019-20, 71% of its total income for the year. This was £170 million (4.6%) lower than total licence fee income of £3,690 million in 2018-19, and continued the fall in licence fee income experienced by the BBC in 2018-19.

6 The fall of £170 million in licence fee income in 2019-20 was due to a reduction in the grant that the BBC receives from the DWP as a contribution to the cost of providing free licences to over-75s. In 2019-20, the BBC received grant of £253 million from the DWP, £215 million (46%) less than the £468 million it received in 2018-19. This reduction in grant was slightly offset by a £45 million (1.4%) increase in sales of licences which totalled £3,267 million, compared to £3,222 million 2018-19.

7 Although income from the sale of licences increased in 2019-20, in line with recent trends the number of paid-for licences issued in the year fell. The reduction in the number of such licences issued was, as in 2018-19, due to a lower than expected increase in the number of new households created, a fall in the estimated percentage of households which require a TV licence as people, particularly younger ones, switch to viewing content on line via Subscription Video on Demand services (SVODs) and social media, and increasing levels of evasion.

8 The COVID-19 outbreak impacted on licence fee collection towards the end of 2019-20, and the impact on licence fee income in 2020-21 is still being assessed. There were 50,000 fewer licence sales in March 2020 than expected, and the BBC is currently developing its understanding of the extent to which lower than expected volumes were attributable to COVID-19 and of the impact on customer behaviour in 2020-21.

9 In June 2019 the BBC Board decided to establish a new scheme, starting from 1 June 2020, under which only the over-75s in receipt of Pension Credit will be eligible for a free TV licence funded by the BBC, while all others will be required to pay. As required by the Digital Economy Act 2017, the BBC consulted on the implementation of changes to over-75s arrangements as government contributions to the cost of providing over-75s licences ended. Although the BBC delayed the introduction of this new policy until 1 August 2020 due to COVID, it expects that this change will offset some of the reduction in income as government contributions to the cost of providing over-75s licences end, but that the actual amount that will be raised by this is as yet uncertain.

10 There are potential changes in Government policy with regard to the licence fee. In February 2020 the DCMS began a consultation on the possible decriminalisation of non-payment of the licence fee. According to the BBC, such a move could cost it around £300 million initially in increased costs and reduced income, and over £1 billion over the remainder of the Charter period. Under the 2016 Charter, the DCMS is also due to undertake a review of the funding arrangements for the BBC from 1 April 2022.

Levels of licence fee evasion in 2019-20

11 In 2019-20 the BBC’s estimate of the evasion rate as at the year-end increased to 7.25% from 6.57% last year. The BBC also reported a new measure of evasion in 2019-20, the average annual rate for the year, at 6.95%. The BBC is assessing the impact of COVID-19, changing viewing habits and other factors on future forecasts, and accepts there is a risk that evasion could continue to increase, meaning it would not meet its target of a 5.9% evasion rate by March 2021. The BBC’s model for estimating evasion indicates that the main reason for the increase in evasion is changes in viewing habits as people increasingly view less licensable content.
The BBC are using a new evasion model this year. This incorporates certain methodological changes, in part in response to recommendations that the NAO had made in previous years that it improve its understanding of the evasion rate. This generated a similar evasion rate for 2018-19 to that reported last year. The reported evasion rate continues to be based on the difference between the estimated number of households expected to require a licence and the number of licences in force. However, the calculations involved are complex and contain a number of different estimates and assumptions.

The BBC is considering updating the new model earlier than planned. The BBC is concerned that, while the new model has generated significant insights, its ability to do this may not be able to keep up with the rapid pace of market change which the BBC considers is set to continue into the future. As at July 2020, the BBC was considering how to adapt its model to take account of rapid market change, as well as the implementation of over-75s policy changes and the impact of COVID-19 on macroeconomic factors, reviewing assumptions underpinning the model as necessary.

Major operational changes in 2019-20

The BBC's implemented changes to its licence fee collection operations in 2019-20 in preparation for delivery of the new over-75s policy. For example, the BBC had to amend existing, and put in place new, systems and procedures, and recruit extra staff, to deliver the new over-75s licence policy. The BBC delivered these changes in time for the start of the new policy on 1 August 2020. The decision to defer the implementation of the new over-75s policy from June to August 2020 will lead to an increase in implementation costs. We will examine the BBC's collection of the licence fee from over-75s in our future work.

The BBC has cancelled its Campaign Management System modernisation programme. In 2019-20 the BBC had started work on a programme to modernise its Campaign Management System and its system for Data Management Services. These are business critical systems for collection of the licence fee, providing the capability for automated multi-stage marketing campaigns to customers and unlicensed addresses. However, due to problems and delays, in December 2019, nine months after it had first signed contracts with suppliers to deliver the new systems, the BBC decided to cancel the programme. As at July 2020, it was working on a programme to extend the life of its existing systems.

The BBC has decided to roll out nationally its Simple Payment Plan scheme after completing a pilot in 2019-20. The Simple Payment Plan scheme aims to make payment for TV licences easier for those who have difficulty paying using the BBC's other, existing payment methods. In September 2019, the BBC Board approved the national roll-out of the Scheme from April 2020 for reasons of fairness as it recognised that some people have difficulty in paying a for a TV licence. The COVID-19 epidemic delayed roll-out to July 2020.

Conclusion

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 2019-20 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.

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

19 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.

Future considerations

20 In 2019-20, income from the licence fee represented over 70% of BBC’s total income, but the BBC is facing a number of challenges in maintaining this level of income in future. Total licence fee income fell in 2018-19 and 2019-20 as grant funding from the DWP to compensate the BBC for the cost of free licences to over-75s reduced in advance of the grant’s cessation in 2020-21. The BBC has introduced a new policy from 1 August 2020 of providing free licences to those aged over 75 and in receipt of Pension Credit, while others aged over 75 will now pay for their licence. Whilst the BBC anticipates this new policy will offset some of the reduction in income due to the removal of the DWP grant funding that the BBC previously received in relation to over-75s, the actual amount that will be raised by this is as yet uncertain. Licence fee sales to under-75s are also falling, and the evasion rate increasing, as people increasingly watch non-BBC content online. As at July 2020, the BBC was considering how to adapt its evasion model to take account of future developments, such as the continuing changes in audience behaviour and the media market, the impact of COVID-19, and the new policy of charging some over-75s. We will examine any action it has taken as part of our Section 2 report for 2020-21.

21 The existence of these challenges makes it important that the BBC’s collection of licence fee income is as effective as possible. With a number of actions by the BBC currently in the process of implementation, we intend to examine the BBC’s progress in addressing these challenges as part of next year’s Section 2 report. In addition, in light of the nature of these issues and the implications for the BBC’s long-term finances, the National Audit Office intends to report on the financial sustainability of the BBC early in 2020.
Part One: Licence Fee collection in 2019-20

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 2019-20

1.3. The BBC’s income from the Licence Fee and over 75s grant totalled £3,520 million in 2019-20 and represents the BBC’s main source of income, representing 71% of its total income of £4,943 million (Figure 2). This total of £3,520 million was £170 million (4.6%) lower than total licence fee and grant income of £3,690 million in 2018-19, and continues the fall in such income experienced by the BBC in 2018-19 (Figure 3).

Figure 2: Sources of BBC Group Income in 2019-20

Income from licence fee represented 71% of the BBC’s total income in 2019-20

1.4. The £3,520 million consisted of:

- £3,267 million from licence sales (£3,222 million in 2018-19) - as reported in the 2019-20 Trust Statement, this revenue was collected by TVL and then paid by the BBC to the Exchequer’s Consolidated Fund, with a matching amount paid back to the BBC in grant income by the Department for Digital, Culture, Media and Sport (DCMS); and

- £253 million grant from the Department for Work and Pensions (DWP) (£468 million in 2018-19) towards the cost of free TV licences for over-75s.
**Figure 3: BBC Licence Fee Income from 2015-16 to 2019-20**

Licence fee income has fallen in the last two years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Paid-for licences £ million</th>
<th>Over-75 Licences £ million</th>
<th>Total £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-16</td>
<td>3,122</td>
<td>621</td>
<td>3,743</td>
</tr>
<tr>
<td>2016-17</td>
<td>3,157</td>
<td>630</td>
<td>3,787</td>
</tr>
<tr>
<td>2017-18</td>
<td>3,174</td>
<td>656</td>
<td>3,830</td>
</tr>
<tr>
<td>2018-19</td>
<td>3,222</td>
<td>468</td>
<td>3,690</td>
</tr>
<tr>
<td>2019-20</td>
<td>3,267</td>
<td>253</td>
<td>3,520</td>
</tr>
</tbody>
</table>

Source: BBC Annual Report and Accounts 2019-20 and BBC Trust Statement 2019-20

1.5. The £215 million (46%) reduction in the over-75s grant, compared to 2018-19, is slightly offset by a £45 million (1.4%) increase in licence sales to give the overall £170 million reduction in licence fee income, compared to 2018-19.

1.6. The net £45 million increase in licence sales reflects the impact of the annual increase in the cost of a TV licence, offset by a reduction in the overall number of paid-for licences issued (Figure 4). Income from licence sales was £58 million (1.8%) lower than the original forecasted amount for 2019-20 of £3,325 million, due to fewer paid-for licences being issued than expected. The reduction in the number of such licences issued was, as in 2018-19, due to a lower than expected increase in the number of new households created, and a fall in the estimated percentage of households which require a TV licence because they watch licensable content (known as the “TV penetration rate”) as people, particularly younger ones, switch to non-licensable viewing, such as SVODs and social media.

**Figure 4: Number of licences issued from 2015-16 to 2019-20**

The total number of licences issued has fallen in the last two years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Paid-for licences Million</th>
<th>Free licences to over 75s Million</th>
<th>Total Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-16</td>
<td>21.44</td>
<td>4.20</td>
<td>25.64</td>
</tr>
<tr>
<td>2016-17</td>
<td>21.69</td>
<td>4.24</td>
<td>25.93</td>
</tr>
<tr>
<td>2017-18</td>
<td>21.62</td>
<td>4.34</td>
<td>25.96</td>
</tr>
<tr>
<td>2018-19</td>
<td>21.46</td>
<td>4.47</td>
<td>25.93</td>
</tr>
<tr>
<td>2019-20</td>
<td>21.17</td>
<td>4.50</td>
<td>25.67</td>
</tr>
</tbody>
</table>

Source: BBC Trust Statement 2019-20

1.7. The reduction in the number of paid-for licences issued has been accompanied by an increase in the number of domestic customers who self-declare that they “no longer need a licence” - NLN. The number of such declarations from domestic customers has been increasing over time and at an increasing rate and in 2019-20 totalled 1.61 million (2018-19: 1.38 million). According to the BBC, this increase is driven by the change in consumers’ TV viewing.

---

6 From 1 April 2019, the cost of a TV Licence increased from £150.50 to £154.50, in line with inflation
1.8. The reasons for the lower sales figures for 2018-19 and 2019-20 and the increasing NLN figures were confirmed by the BBC’s own analysis of its own data sources, such as the TVL database, and of BARB data, and by separate pieces of research it commissioned in 2019 into Under-35s, those who had declared that they no longer needed a licence (NLNs), and the evasion rate. The COVID-19 outbreak also impacted on licence fee income collected towards the end of 2019-20. For the safety of staff and customers, in March 2020 TVL suspended all field visits and closed the call centre and back office functions in its Darwen and Bury offices. It also suspended any campaign mailings that referred to field visits or arrears chasing. Thus, TVL’s ability to communicate with customers and customers’ willingness to buy or renew a licence over the counter were severely reduced. There were 50,000 fewer licence sales in March 2020 than expected and the BBC is currently developing its understanding of the extent to which lower than expected volumes were attributable to COVID-19 and of the impact on customer behaviour in 2020-21.

1.9. Although lockdown has been eased, as at June 2020, licence fee collection was not operating at full capacity due to social distancing requirements. We intend to cover the impact of COVID-19 in more detail in the 2020-21 Section 2 report.

**Licences issued for those aged 75 and over**

1.10. In 1999, the Government introduced free TV licences for the over-75s, with the cost of this concession paid by the DWP. However, under the Digital Economy Act 2017, responsibility for meeting the costs of this from 2017, and for deciding on the concession’s continuation beyond June 2020, was transferred to the BBC.

1.11. In order to mitigate the cost impact of this on the BBC, the Government agreed that the BBC would receive grant funding from the DWP towards the cost of the concession from 2017, but the extent of this funding would fall from £656 million in 2017-18 to zero in 2020-21 when the grant would cease. In 2019-20, the BBC received grant of £253 million from DWP towards the cost of free TV licences for over-75s, lower than the £468 million received in 2018-19.

1.12. Following a period of consultation as required under the Digital Economy Act 2017, in June 2019 the BBC Board decided to establish a new scheme, starting from 1 June 2020, under which only the poorest older pensioners, that is, any household with someone aged over 75 who receives Pension Credit, will be eligible for a free TV licence funded by the BBC. All other over-75s will be required to pay for their licence.

1.13. The BBC estimated that up to 3.75 million households would need to pay under the new policy, with 900,000 continuing to receive a free licence under current Pension Credit take-up rates. The BBC estimates this could increase to 1.5 million if all over-75s who were eligible claimed Pension Credit. The BBC expected that this new policy would result from 2020-21 in offsetting some of the reduction in income as government contributions to the cost of providing over-75s licences end, but that the actual amount that will be raised by this is as yet uncertain.

1.14. In March 2020, the BBC Board postponed the establishment of the new scheme from 1 June to 1 August 2020 due to the COVID-19 outbreak, at an estimated cost of £70 million. In July 2020, it confirmed that there would be no further postponement and that some over-75s would be required to pay for their TV licences from 1 August 2020.

**Licence fee policy developments**

1.15. If an individual does not pay for a TV licence that is due, they may receive targeted communications encouraging them to do so, and potentially a visit from an enforcement officer. If the licence fee still remains unpaid, the individual may be prosecuted and fined up to £1,000. In 2018, there were 129,446 prosecutions, resulting in 121,203 convictions, with an average fine of £146. Wilful refusal to pay the court-
imposed fine can result in imprisonment. The number of people jailed for non-payment of TV licence-related court fines has been falling in recent years and totalled five in 2018.\footnote{These are the latest available figures as set out in DCMS’s “Consultation on decriminalising TV licence evasion” 5 February 2020}

1.16. In February 2020 the DCMS carried out a public consultation on the possible decriminalisation of non-payment of the licence fee and its replacement with two potential alternatives to the current system, both involving civil proceedings. In its March 2020 response to the consultation, the BBC opposed this, and estimated that such a move could cost it around £300 million initially, and over £1 billion over the remainder of the Charter period (2022 to 2027), due to higher evasion by licence fee payers and higher transition and operational costs. The consultation closed in April 2020 and DCMS is due to publish its response in summer 2020.

1.17. Under the 2016 Charter, funding arrangements for the BBC are settled until 31 March 2022. Arrangements beyond that date have yet to be determined by the Secretary of State for DCMS. The Secretary of State intends to review these future arrangements by 2021-22 alongside a separate mid-Charter period review of the BBC’s governance and regulatory arrangements.
Part Two: Levels of licence fee evasion in 2019-20

2.1. Not everyone who is required to purchase a TV licence does so; some people are either unwilling to do so or are unable on grounds of affordability. 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 of this report, 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. Each year, the BBC reports its estimate of the evasion rate. The reported evasion rate is based on the difference between the BBC’s estimate of the number of households expected to require a licence and the actual number of licences in force, as recorded in TVL’s licence database. The calculation of the estimated number of households requiring a licence is complex. The BBC has identified nine different types of household, including students in halls, lodgers and care homes, each with its own source of data for the numbers involved which vary in how recent they are. For the less up-to-date sources, the BBC has to estimate how the relevant data has changed in the meantime. The BBC then has to estimate how many of each type of household actually require a licence (known as the TV Penetration rate). In December 2017 the BBC set a new target to reduce evasion by one percentage point by 2020-21, compared to 2016-17 levels, equivalent to an evasion rate of 5.9% in 2020-21.

2.3. Prior to 2019-20, the BBC only reported the estimated evasion rate as at the end of the financial year. This rate has increased over a number of years, with the exception of 2018-19 when there was a fall in the rate to 6.57% from 7.04% in 2017-18. This was mainly due to a reduction in the estimated number of households requiring a licence. The reported year-end evasion rate for 2019-20 increased to 7.25% (Figure 5), and the BBC is forecasting that this increasing trend will continue to at least 2022-23. The BBC will therefore not meet its target of a 5.9% evasion rate by March 2021.

Figure 5: Reported licence fee evasion levels from 2015-16 to 2019-20

The reported evasion rates increased in 2019-20.

<table>
<thead>
<tr>
<th>Year</th>
<th>As at March</th>
<th>Annual average</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-16</td>
<td>6.20%</td>
<td></td>
</tr>
<tr>
<td>2016-17</td>
<td>6.90%</td>
<td></td>
</tr>
<tr>
<td>2017-18</td>
<td>7.04%</td>
<td></td>
</tr>
<tr>
<td>2018-19</td>
<td>6.57%</td>
<td>6.69%</td>
</tr>
<tr>
<td>2019-20</td>
<td>7.25%</td>
<td>6.95%</td>
</tr>
</tbody>
</table>

Source: BBC

2.4. In 2019-20, the BBC also reported a second measure of estimated evasion in a year, namely the average evasion rate over the 12 months of that year. At 6.95%, this measure also showed an increase over the year, compared to 2018-19’s average of 6.69%. However, it was lower than the year-end figure of 7.25% for 2019-20, reflecting the fact that the rate of increase in the monthly evasion rate itself increased towards the year-end.
Changes in the way evasion is measured

2.5. Year-on-year changes in the evasion rate have previously been attributed to two factors: changes in underlying assumptions, and the effectiveness of enforcement activities. This can lead to difficulties in assessing the impact of specific and targeted enforcement activities, and can make year-on-year comparisons challenging. This, in turn, can result in difficulties in forecasting future evasion rates. Last year, we recommended that the BBC develop a better understanding of the relative impact of the underlying assumptions and TVL’s activities on the evasion rate.

2.6. During 2019-20, the BBC undertook a number of pieces of research to develop a better understanding of the changes in the evasion rate and the factors behind these changes. This included an analysis of changes in the evasion rate since September 2015. The analysis evened out the effects of various one-off changes in the way the evasion rate was calculated and in the policy for charging for a licence, to arrive at a closer representation of the underlying trend between September 2015 and March 2019.

2.7. The analysis confirmed the upward trend in the evasion rate between September 2015 and March 2019 as reported by the BBC in previous years. It also identified the factors which drove this trend. The largest such factor was changes in people’s viewing habits as they watched less licensable content, but other factors included the closure of the iPlayer loophole in 2016, changes in people’s earnings and the price of a TV licence, and TVL’s enforcement activities.

2.8. As a result of this analysis, the BBC now have a new model which:

- Incorporates a number of methodological changes aimed at improving the comparability of the evasion rate over time. For example, the changes have simplified how the model estimates the current year households’ numbers, as the previous method replaced one estimate with another and resulted in a restatement of the prior year rate each year;
- Can measure the effect of the various factors, including its own enforcement actions, specified within the model on the movement of the evasion rate. It can do this both in terms of the inputs to the model and economic / market drivers such as licensable content and conviction rates;
- Can generate both a year end and an average evasion rate over the 12 months of a financial year (paragraph 2.4); and
- Can be used to help it forecast future evasion rates.

Assessing evasion

2.9. The BBC’s calculation of the evasion rate is complex, involving different data sources and calculation methodologies, depending on the type of household involved, and a number of estimates and assumptions (paragraph 2.2). Although the BBC endeavours to use the most relevant and up-to-date data sources, the calculated evasion rate is inevitably an estimate and subject to uncertainty.

2.10. Given this uncertainty, one can get a better understanding of how the BBC is performing in tackling evasion by looking at the trend in how this rate has changed over a number of years, rather than over the course of a single year, and at the factors underlying this trend. According to BBC’s estimates, the evasion rate has been increasing for a number of years, with the rate of increase itself increasing in 2019-20 (paragraph 2.3).

2.11. The BBC’s analysis of 2019-20’s data identified that over half the increase in 2019-20 could not be explained by the factors within the model. The BBC considers that this large unexplained element reflects an increase in the pace of change in the media market in 2019-20 and the impact this has on viewer behaviour (such as increasingly consuming content via Subscription Video on Demand (SVOD) services. It is concerned that the existence of such an element means that its model, in terms of its ability to identify the
reasons for changes in the evasion rate, is already starting to become outdated and cannot keep up with the rapid pace of market change which the BBC considers is set to continue into the future.

2.12. The BBC considers that impact of COVID-19 on economic activity and employment, changing viewer behaviour, and recent and prospective changes in policy in respect of the licence fee are likely to have an impact on the evasion rate. For example, it considers that the introduction of charging some over-75s for their TV licence from 1 August 2020 (paragraph 1.140) could have an impact on evasion rates, as, although it believes that most of these new licence fee payers will want to comply with the legal obligation to pay for a licence fee, vulnerable customers may struggle to pay for financial or health reasons and may become unwitting evaders. It also considers that there will be a transitional impact while people move to the new policy. It is also concerned that decriminalising non-payment of the licence fee, as proposed by the DCMS (paragraph 1.16) could increase the evasion rate.

2.13. As at July 2020, the BBC was considering how to adapt its model to take account of developments. We will examine any action it has taken as part of our Section 2 report for 2020-21.
Part Three: Major operational changes in 2019-20

3.1 In 2019-20, the BBC spent £119 million (2018-19: £103 million) on collecting the Licence Fee. The costs of collection are reported in the BBC Group Annual Report and Accounts. This is a large and complex operation and, in line with many other organisations, the BBC was impacted by the COVID-19 outbreak at the end of the financial year.

3.2 In 2019-20, the BBC has implemented a number of major operational changes to its systems which were crucial to continued effective collection of the licence fee. These included changes the BBC believes will enhance support for more vulnerable licence fee payers and those struggling to pay. In 2018-19 the NAO recommended that the BBC assess the issues it had faced on various IT projects in the previous year and evaluate their potential impact on the major changes due in 2019-20. We provide an update on progress below.

Implementation of new policy for licences for over-75s

3.3 The BBC had to amend existing, and put in place new, systems and procedures, and recruit extra staff, to deliver the new over-75s licence policy (paragraph 1.120). Changes included the establishment of a new dedicated call-centre and a new pay-as-you-go scheme specifically for over-75s.

3.4 During 2019-20, the BBC established the bespoke contact centre for over-75s and started to process applications for free licences from those on Pension Credit, but was still working on implementing the new payment scheme when the COVID-19 lockdown began in March 2020. During lockdown, the BBC closed its over-75s contact centre and switched to home-working. Although the centre is now operational again, due to social distancing requirements there is less physical space available to accommodate staff, and over-75 transactions are therefore being handled across a number of locations.

3.5 The BBC implemented the necessary changes in time for the start of the new policy on 1 August 2020. However, the deferral is expected to result in an increase in implementation costs. We will examine the BBC’s collection of the licence fee from over-75s in our future work.

Campaign Management System Modernisation programme

3.6 In 2019-20 the BBC had started work on a programme to modernise its Campaign Management System and its system for Data Management Services. These are business critical systems for collection of the licence fee, providing the capability for automated multi-stage marketing campaigns to customers and unlicensed addresses, but both systems dated from 2007 and were out of support. The BBC Board approved costs of £46 million for this programme, covering £29 million for the new systems’ implementation and the remainder for their operation over nine years.

3.7 In December 2019, nine months after the BBC had signed contracts with suppliers to deliver the new systems, it became apparent to the BBC that the programme’s delivery had become significantly impacted by a number of factors, which had resulted in unacceptable delays and increased implementation costs. These factors included the need for the BBC to devote resources to implementing the over-75s policy. To minimise incurring additional expenditure, the BBC made the decision to cancel the project at an early stage and to identify where spend to date could be repurposed. Of the £11 million expenditure already incurred, the BBC repurposed £4 million with the remaining £7 million expensed in the 2019-20 BBC Group accounts. The BBC anticipates it will incur additional expenditure of between £3 million and £5 million on ensuring that existing systems will continue until the end of 2023. It is likely that we will examine how this work in extending the life of these systems is progressing as part of next year’s Section 2 report.
Simple Payment Scheme

3.8 In September 2019, the BBC Board approved the national roll-out of a Simple Payment Plan scheme from 1 April 2020. In April 2018, the BBC initiated a pilot for the wider introduction of the Simple Payment Plan (SPP) scheme. This scheme aims to make payment for TV licences easier for those who have difficulty paying using the BBC’s other, existing payment methods. The scheme is in response to a recommendation made by the July 2015 Perry review of TV licence fee enforcement that there should be simpler and more flexible payment plans for those who wish to pay the licence fee but cannot pre-pay for a licence. Thus, the scheme allows the cost of a TV licence to be spread evenly over the life of the licence, with payments made monthly or fortnightly, and removes the need for up-front payments which are a feature of the BBC’s other instalment schemes where the first licence fee needs to be paid over the first six months.

3.9 The pilot involved signing up over a six-month period from April 2018 those who were having difficulty in paying the licence fee, as defined by the scheme’s eligibility criteria, and continued until August 2020. 169,800 customers joined the scheme, although a quarter of these then left the scheme without making any payment. 42,345 (25% of those signed up and 33% of those who made at least one payment) were still on the scheme as at 31 March 2020.

3.10 In assessing the results of the pilot, the BBC has found that feedback from customers and stakeholders was positive and, by the end of 24 months, the BBC had collected a similar amount of licence fee payments from these customers as it would have under its other schemes. The BBC decided to roll out the Scheme nationally for reasons of fairness as it recognised that some people cannot afford to pay six months in advance for a licence.

3.11 Although roll-out of the scheme was originally planned to begin in April 2020, due to the COVID lockdown from March 2020, this was delayed to mid-July 2020. We will examine implementation of the roll-out as part of next year’s Section 2 report.

---

8 As provided by the BBC within the Trust Statement audit evidence
Accounts Direction Given by HM Treasury

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

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

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

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

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

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

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

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

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

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

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