



British Broadcasting Corporation

**Television Licence Fee Trust Statement for the
Year Ending 31 March 2021**

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Presented to the House of Commons pursuant to section 2 of the Exchequer and Audit Departments Act 1921 as amended by the Government Resources and Accounts Act 2000.

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Performance Report

Foreword by the Director-General

This report is presented 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 2020/21 the BBC introduced the new policy for licences for those aged over 75 while at the same time making adjustments to collection services as a result of Covid-19.

The policy for over 75 licences was implemented through a programme which included comprehensive customer communication and support and provision of a new bespoke payment plan to help people spread the cost of their licence. Additional measures were put in place to ensure that all transactions could be conducted safely and from people's homes when needed. By the end of the year 3.5m people had moved to the new arrangements with 2.8m people buying a licence and over 0.7m free licences issued that are paid for by the BBC. We are enormously grateful for the high levels of support for the licence fee that have been shown from over 75s.

This year, we have seen an overall increase in Licence Fee revenue collected partly as a result of the inflation-linked increase in the fee although this was offset partially by a small fall in sales to the non over 75 audiences in part because of changing audience habits.

The year has been dominated by Covid-19 and, as was the case for many organisations, the operation of TV Licensing was impacted. This meant that, at times during the year, service standards fell below those we demand while TV Licensing was making the necessary adjustments to its services. Standards have now been restored and we thank customers for their patience this year.

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. I'm delighted that we were able to make the Simple Payment Plan permanently available this year. So far results are encouraging with payers on this scheme better able to keep up with their payments.

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
Director-General, BBC
18 June 2021

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 2021.

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 and are consequently outside the scope of this Trust Statement.

Up until 2019/20 the BBC received a fixed sum Grant 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. This Grant has now been phased out and from 2020/21, the BBC has had the responsibility for the full cost of the over 75 concession. From 1 June 2020, the BBC had the responsibility to set the policy for age related concessionary licences and from 1 August 2020, the policy was changed so that anyone aged 75 or over who receives Pension Credit will be eligible for a free TV licence paid for by the BBC¹.

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 RAPP Ltd. (formerly 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.

In July 2020, we expanded our range of payment schemes by making the Simple Payment Plan permanently available following an earlier trial. The Simple Payment Plan is targeted at those who find it most difficult to pay and allows the cost of the licence to be spread evenly over the life of the

¹ Licence holders who are aged 75 and over and resident in an ARC scheme with Preserved Rights are also eligible for a free licence. For the Crown Dependencies, equivalent arrangements were put in place, starting from 1 January 2021, based on local benefits.

licence (most other payment schemes require full payment up-front or require at least half of the licence fee to be paid ahead of the licence issue date). The BBC works with TV Licensing to ensure that all eligible customers who could benefit from the Simple Payment Plan have access to it.

Over 75 Licences

As described above, from 1 August the BBC implemented changes to the policy for age related licence fee concessions so that anyone aged 75 or over who receives Pension Credit is eligible for a free TV licence paid for by the BBC and those who are not in receipt of Pension Credit now need to pay for their licence.

The BBC launched a programme to transition customers holding a free over 75 licence to the new policy arrangements. The programme was designed to make it as easy as possible for customers to transition to the new arrangements and included:

- Extensive communications programme with letters direct to households supported by radio trails
- Creation of the 75+ Plan which is a bespoke scheme to allow customers to transition to a paid-for licence without the up-front payment element found in other TV licence payment schemes – payments are spread evenly over the duration of the licence in a similar way to the Simple Payment Plan. Customers can pay monthly using Direct Debit or weekly, fortnightly, monthly by cash / debit card using a membership payment card
- A dedicated contact centre and additional resources to provide telephone services, back office services and scanning
- New processes for customers to apply for their free licence by providing evidence that they are in receipt of Pension Credit.
- Extensive changes to the TV Licensing website and Interactive Voice Response to provide information, to allow for online applications for a free or paid-for licence and to guide over 75 customers to the best payment schemes for them
- Other changes to TV Licensing systems to support the capabilities above.

The BBC anticipated that some people would need up to a year to adjust to the new arrangements. By the end of March 2020/21, we estimate that 91-92% of customers had successfully transitioned to the new arrangements.

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. In 2020/21, in common with many other businesses, licence fee collection was impacted by Covid-19 requiring TV Licensing to adapt its operating model by introducing social distancing in contact centres and moving onsite staff to home working. In addition, field visiting had to be suspended when required to ensure compliance with all government guidance. The disruption to services caused an initial dip in the level of revenue collected but this recovered over the course of the year. The initial impact did mean, however, that we were not always able to meet the service standards we usually provide for customers. An intensive recovery plan was put in place and service standards are now restored.

Household growth

We have estimated household growth for 2020/2021 at 0.55%. This is a decrease from 2019/2020 (estimated at 0.74%) and is also lower than the latest ONS projections based on 2018 data tables and published in 2020 (0.66%) which obviously do not take into account any effects of Covid-19. Our estimate takes into account the likely impact of the pandemic on household numbers based on analysis of the underlying drivers of household growth. We expect that the rate of household growth will increase over the next two years.

Household incomes

Based on the latest published data^[1], median household income in the UK was £29,900 in the financial year ending (FYE) 2020, the period leading up to the Covid-19 pandemic. The increase in median income in FYE 2020 continues an upward trend since FYE 2011, where median household income has increased by an average of 0.8% per year, after accounting for inflation.

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 usually derived from data as at a point in time at the end of the financial year and as an average across the year. For 2021, the rate cannot be calculated with sufficient accuracy because Covid-19 has prevented collection of key data needed to make the calculations. Further information on calculation of the evasion rate is provided below.

Media Consumption

Audiences continue to embrace other devices in addition to television to enhance their viewing experiences. For the majority of households these devices are used to supplement 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 on-demand viewing. 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. This data is usually published by BARB each quarter based on its Household Establishment Survey. This data is then combined by the BBC with the BARB estimate of TV households to give an overall percentage of households requiring a licence. Further 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 Subscriber Video On Demand only which does not need a licence); 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).

For 2020/21 however, Covid-19 has prevented BARB from completing its survey which means that there has been no quarterly data reported for Q2 2020 (June), Q4 2020 (December) or Q1 2021 (March). This means that the Television Penetration (TVP) rate, i.e. the percentage of households that require a TV licence, cannot be estimated based on BARB data.

Performance Analysis

Gross revenue in the Trust Statement has increased to £3,856m (2020 £3,388m). Gross revenue is the value of Licences coming into force in the period, including licences purchased by customers who previously held a free over 75 licence. Revenue growth was primarily driven by the change in policy for over 75 licences and by the £3.00 increase in the value of the licence fee.

Refunds, revocations and credit losses have decreased slightly to £125m (2020 £137m).

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 £3,747m (2020 £3,267m).

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

^[1] ONS Average household income, UK: financial year ending 2020

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.

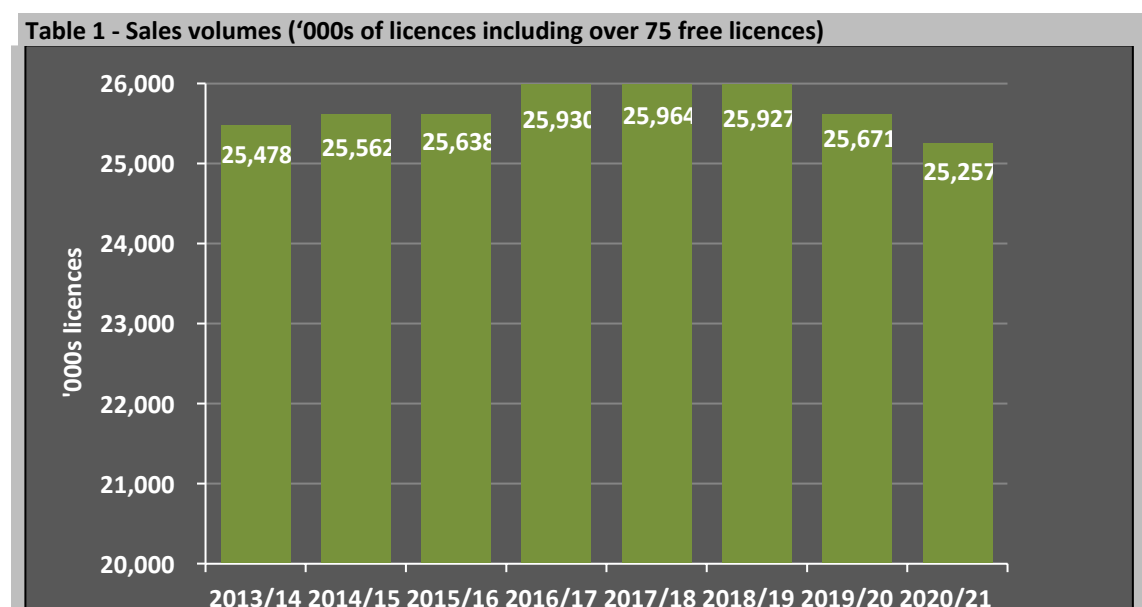
These performance measures are embedded in the contractual arrangements of the companies contracted by the BBC covering the administration and enforcement of the Licence Fee, customer communications, payment channel management and retail networks. The governance processes surrounding the operation of 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 2020/21 significant enhancements were made to the TV Licensing website to support the transition to the new over 75 policy. These enhancements included the facility for customers to apply for their free licence online, uploading confirmation of their receipt of Pension Credit and a portal for the 75+ Plan for customers to review their payment plans and make payments. In addition, we expanded the Simple Payment Plan portal so that new customers could sign up as well as review their plans and make payments; and we launched the “TVL Pay” app so that customers who pay in regular cash payments can pay through a mobile phone app. As a result, in 2020/21, licence sales on the website grew by nearly 13%.

In 2020/21, nearly four-fifths (79%) of all customer-initiated transactions were completed through a self-serve channel, up from 75.7% last year.

Sales Volumes

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



² Licence Fee sales in table 1 include the volumes of over 75 free licences. 2021 - 1,481,000 ; 2020 - 4,504,000; 2019 - 4,465,000; 2018 - 4,340,000; 2017 - 4,243,000; 2016 - 4,197,000; 2015 - 4,423,000; 2014 - 4,414,000;

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.

A key input to calculation of the evasion percentage is the TVP rate which gives the ratio of households that need a licence. As described in the Media Consumption section above, household TVP is normally calculated using survey evidence from the quarterly BARB Household Establishment Survey. This is a robust survey conducted in home of c13,600 households every quarter that asks respondents about their TV ownership, viewing device ownership and device usage. The outputs of this survey enable the BBC to calculate a robust estimate of the TVP rate each quarter. The BARB-reported TVP rate is adjusted by the BBC *upwards* to account for households watching licensable content on non-TV devices, and *downwards* to account for households using a TV to watch non-licensable content only. The updates provided each quarter take the form of a quarterly view and an annualised view reflecting a rolling 12 month period. The evasion model uses the updates from the quarterly view as this gives the most current information.

For 2020/21 however, Covid-19 has prevented BARB from completing its surveys which means that there has been no quarterly data reported for Q2 2020 (June), Q4 2020 (December) or Q1 2021 (March). This means that the Television Penetration (TVP) rate, i.e. the percentage of households that require a TV licence, cannot be estimated because BARB data is not available. This means that it has not been possible to make a reliable estimate of any changes to the evasion percentage for this year.

Although it has not been possible to calculate the TVP rate or evasion percentage, the rate of licence sales for 2020/21 suggests that the long term trends seen in the TVP rate and evasion have continued this year. Since 2016-17, the estimated evasion rate as at the year-end has varied between 6.57% and 7.25% and the budget assumption for 20/21 was that evasion would be within this range. Licence fee revenue collected (excluding that from over 75s) was in line with our forecast assumptions for TVP and evasion - both assumptions made to reflect changing audience media consumption. The BBC view is therefore that these assumptions were broadly correct although it is not currently possible to determine contribution of each variable to revenue – if TVP declined less then evasion rate will have grown by more and vice versa.

BARB has indicated to the BBC that it is likely to publish an update to TVP in August 2021. This will be an annualised view for the period August 2020 to June 2021, based on all surveys that BARB were able to complete over that 12 month period. The annualised views, because they are based on data across a year, give a less current view than the usual quarterly views but will nevertheless enable updates to the evasion model to be resumed next year.



Tim Davie
Director-General, BBC
18 June 2021

Accountability Report

Basis for the Preparation of the Trust Statement

The HM Treasury accounts direction (see page 41 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 2020/21. In conforming with the Accounts Direction issued by HM Treasury (see page 41 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;
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

As far as I am 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.

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*.

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 2020-21 Trust Statement was £116,000 (2019-20 £114,000) 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 Richard Sharp and consists of up to ten non-executive directors – including the Chairman – and four executive directors, including the Director-General.

The Chairman and the four nations' non-executive directors are appointed by HM The Queen on the recommendation of Ministers. The remainder of the Board are appointed by the BBC through the Board's Nominations Committee. During the year the former Chairman, Sir David Clementi, left the Board, along with Ken MacQuarrie and Dr Ashley Steel. Leigh Tavaziva joined the Board as an Executive member in February 2021 and Richard Sharp joined as Chairman later that month. Since year-end, Tom Ilube announced that he would be standing down from the Board at the end of June 2021. In May, Sir Robbie Gibb was appointed by HM The Queen as the non-executive nation member for England. The full membership of all the subcommittees, their minutes and terms of reference can be found at: <http://www.bbc.co.uk/aboutthebbc/insidethebbc/>

Attendance of directors at the Board

	Board Ordinary
Number of meetings for the period	15
Non-executives	
David Clementi	13 of 13
Richard Sharpe	2 of 2
Shirley Garrood	15
Elan Closs Stephens	14
Tanni-Grey Thompson	15
Ian Hargreaves	14
Tom Ilube	15
Steve Morrison	15
Nicholas Serota	15
Ashley Steel	11 of 11
Executives	
Tony Hall	7 of 7
Fran Unsworth	15
Tim Davie	15
Leigh Tavaziva	3 of 3
Charlotte Moore	8 of 8
Ken MacQuarrie	12 of 12

The Board agendas covered several topic areas throughout the year including those with specific relevance to the Trust Statement. This included the delay to implement the over-75s policy.

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. The members at the end of the year were:

Tim Davie, Director-General
Kerris Bright, Chief Customer Officer
Francesca Unsworth, Director, News and Current Affairs
Bob Shennan, Group Managing Director
June Sarpong, Director, Creative Diversity
Leigh Tavaziva, Chief Operating Officer
Charlotte Moore, Chief Content Officer
Gautam Rangarajan, Group Director of Strategy & Performance
Rhodri Talfan Davies, Director, Nations
Tom Fussell, CEO, BBC Studios

Audit and Risk Committee

The Audit and Risk Committee (ARC) is a sub-committee of the Board. The membership consists of the Chair, Shirley Garrod; Tom Ilube (resigned from the Board 30 June 2021) and Ashley Steel (resigned from the Board 30 November 2020).

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 2020/21 this included: reviewing and assuring the basis for the BBC Group's statements of going concern and viability; overseeing our relationship with the NAO, including approving their audit plan, reviewing their assessment of risk and accounting judgements and taking an update at every meeting on progress with their work; overseeing the timely completion of actions arising from the NAO's audit and value for money reviews; providing oversight on the BBC's strategic and operational risks and the effectiveness of the risk management framework; maintaining oversight of whistleblowing cases and subsequent investigations. "Deeper dives" into selected initiatives and risk topics were also conducted including the over-075s licence fee change and learnings from last year's decision to cancel the implementation of a campaign management system Licence Fee Unit; Child Protection and Safeguarding; Information Security; Data Protection and, HR and People Risk. The impact of the coronavirus on the BBC was reviewed by the Committee, with particular reference to the health and wellbeing of the BBC's workforce, the resilience and security of infrastructure and the impact on the BBC's control environment.

Nominations Committee

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

The members of the Committee have changed this year with the appointment of a new Chairman of the BBC, Richard Sharp, who was appointed from 16 February 2021, and the appointment of a new Director-General, Tim Davie from 1 September 2020. The other members of the Committee are: Nicholas Serota, the senior independent director; and, non-executive directors Elan Closs Stephens and Shirley Garrod, who joined the Committee on 19 November 2020 in preparation for the departure of Ashley Steel.

This year the Nominations Committee has met six times. The Covid pandemic restrictions meant that its meetings took place by video conference rather than in person. The Committee's work on appointments focussed on the appointment of the new Director-General in the first half of the year, supported by a wider panel of non-executive directors through a series of formal and informal meetings. As a result, the Nominations Committee recommended the appointment of Tim Davie as the new Director-General, which was approved by the BBC Board at an extra-ordinary meeting in June.

In other appointments, Nominations Committee recommended the re-appointment of Dharmash Mistry as a non-executive director on the BBC's Commercial Holdings Board. It also recommended the appointments of two executive directors of the Board; Charlotte Moore, Director, Content, and Leigh Tavaziva, Chief Operating Officer joined the Board this year for two year terms. The Committee also recommended the re-appointment of Fran Unsworth, Director of News, as an executive member of the Board for a further two years from 1 April 2021. The appointment of Tanni Grey-Thompson as a non-executive member of the Board was extended for nine months until December 2021 as a result of the exceptional circumstances arising from the Covid pandemic. The Committee considered the membership of the Board's sub-committees throughout the year as part of its responsibilities for succession planning and performance assessment. With the upcoming arrivals of the new non-executive members for Northern Ireland and England the Committee structure will be re-examined in due course. The fulfilment of its responsibility for evaluating the performance of the Board and its associated sub-committees was made difficult this year, given the impact of the coronavirus pandemic on personal meetings and the transition to a new Chairman. However, an evaluation survey to be carried out remotely is planned.

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

2020/21.

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.

The full BBC risk assessment is provided in the BBC's Annual Report and Accounts 2020/21.

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 places a high value on Information Security and continues to identify areas for improvement across the whole TVL estate by completing reviews, audits and risk assessments. The impact of the pandemic has led to adjustments in approach for some activities – such as audits, risk assessments, location visits and Industry Certifications – with these being completed remotely rather than on location. This adjustment has ensured that Infosec improvements or risks which are identified within TVL, continue to be regularly briefed to Senior Stakeholders, as well as the BBC Audit and Risk Committee in line with previous years.

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
Director-General, BBC
18 June 2021

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

Opinion on financial statements

I have audited the financial statements of the British Broadcasting Corporation (BBC) Television Licence Fee Trust Statement for the year ended 31 March 2021 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. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual.

In my opinion:

- the British Broadcasting Corporation (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 2021 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 for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law 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 report.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I am independent of the British Broadcasting Corporation in accordance with the ethical requirements that are relevant to my audit of 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

In auditing the financial statements, I have concluded that the British Broadcasting Corporation's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the British Broadcasting Corporation's ability to continue to adopt the going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this report.

Other Information

The other information comprises information included in the Performance and Accountability Reports but does not include the financial statements and my auditor's report thereon. The Accounting Officer is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my report, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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, based on the work undertaken in the course of the audit the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In the light of the knowledge and understanding of the British Broadcasting Corporation (BBC) Television Licence Fee Trust Statement and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance and Accountability Report. 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.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities in Respect of the Trust Statement, the Accounting Officer is responsible for:

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;

- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error.
- assessing the preparation of the British Broadcasting Corporation (BBC) Television Licence Fee Trust Statement on a going concern basis, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless this becomes inappropriate.

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

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes my opinion. 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.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, the British Broadcasting Corporation's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the British Broadcasting Corporation's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the British Broadcasting Corporation's controls relating to the collection and settlement of the television licence fees including the Broadcasting Act 1990, the Communications Act 2003, the Digital Economy Act 2017 and associated regulations, and the Royal Charter for the Continuance of the British Broadcasting Corporation.
- discussing among the engagement team, involving relevant internal specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition, and the estimation of licence fee receivables
- obtaining an understanding of the British Broadcasting Corporation's framework of authority as well as other legal and regulatory frameworks that the British Broadcasting Corporation operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations over the collection and settlement of television licence fees. The key laws and regulations I considered in this context included the Exchequer and Audit Departments Act 1921 and Managing Public Money.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of manual adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

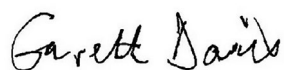
A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my report.

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

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

Report

I have no observations to make 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 40.



Gareth Davies
Comptroller and Auditor General
National Audit Office

157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

21st June 2021

Financial Statements

Statement of Revenue and Expenditure for the Year Ended 31 March 2021

	Note	2021 £m	2020 £m
Revenue			
Value of Licences		3,856	3,388
Value of refunds		(29)	(31)
Value of revocations		(37)	(39)
Value of premiums on quarterly direct debit		16	16
Net Revenue		<u>3,806</u>	<u>3,334</u>
Less expenditure			
Credit losses	2.2	(59)	(67)
Net Revenue for the Consolidated Fund		<u><u>3,747</u></u>	<u><u>3,267</u></u>

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 2021

	Note	2021 £m	2020 £m
Current Assets			
Receivables	2.1	494	407
Cash held for customers on savings schemes		14	15
Total Assets		508	422
Current Liabilities			
Payables	3	(297)	(293)
Total Net Assets		211	129
Represented by:			
Balance on Consolidated Fund Account as at 31 March	4	211	129

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



Tim Davie
Director-General, BBC
18 June 2021

Statement of Cash Flows for the Year Ended 31 March 2021

	Note	2021 £m	2020 £m
Net cash inflow from operating activities	A	3,664	3,268
Cash paid to the Consolidated Fund	4	(3,665)	(3,269)
Increase / (Decrease) in cash in the period		<u>(1)</u>	<u>(1)</u>

Notes to the Cash Flow Statement

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

Net Revenue for the Consolidated Fund	3,747	3,267
(Increase) in Receivables	(87)	(4)
Increase in Payables	4	5
Net Cash Flow from operating activities	<u>3,664</u>	<u>3,268</u>

B: Analysis of Changes in Net Funds (cash held for customers on savings schemes)

Decrease in Cash in this Period	(1)	(1)
Net Funds at 1st April	15	16
Net Funds at 31st March	<u>14</u>	<u>15</u>

Note that the closing balance of Net funds at 31st March above (£14m) 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 (FRoM). The accounting policies contained in the FRoM apply International Financial Reporting Standards (IFRS) as adopted or interpreted for the public sector context.

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

1.2 Changes in accounting policy and disclosures

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

- Amendments to references to the Conceptual Framework in IFRS Standards
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Definition of a Business (Amendments to IFRS 3)

These have been applied where 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

	Note	2021 £m	2020 £m
Licence fee Receivables		512	437
Cash in transit		14	0
Total before estimated impairments		526	437
Less estimated impairments	2.3	(32)	(30)
		<u>494</u>	<u>407</u>

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

	Note	2021 £m	2020 £m
Debts written off		(58)	(65)
Change in the value of impairments	2.3	<u>(2)</u>	<u>(2)</u>
		<u>(60)</u>	<u>(67)</u>

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

2.3 Change in the value of impairments

	2021 £m	2020 £m
Balance as at 1 April	(30)	(28)
Change in estimated value of impairments	<u>(2)</u>	<u>(2)</u>
Balance as at 31 March	<u>(32)</u>	<u>(30)</u>

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

	2021 £m	2020 £m
Licence fee payables	257	253
Customer savings	14	15
Deferred income	<u>26</u>	<u>25</u>
	<u>297</u>	<u>293</u>

No payables fall due after one year.

4. Balance on the Consolidated Fund Account

	2021 £m	2020 £m
Balance on Consolidated Fund Account at 1 April	129	131
Net Revenue for the Consolidated Fund	3,747	3,267
Less amount paid to the Consolidated Fund	<u>(3,665)</u>	<u>(3,269)</u>
Balance on Consolidated Fund Account at 31 March	<u>211</u>	<u>129</u>

5. Financial Instruments

On behalf of the Consolidated Fund, the BBC is party to financial instrument arrangements as part of its normal operations. These financial instruments include bank accounts, receivables and payables. IFRS 7, 'Financial Instruments: Disclosures', requires disclosure of the role that financial instruments have had during the year in creating or changing risks an entity faces in the course of its operations. As the BBC is acting as agent on behalf of the Consolidated Fund and surrendering these funds when

received, it cannot incur losses through the Trust Statement. Write-offs and impairment charges disclosed in the Revenue and Expenditure Statement reflect the non-recoverability of gross debt since its obligation to surrender financial penalties is limited to the amount it is able to collect in revenue. The BBC, on behalf of the Consolidated Fund, has no requirement to borrow or invest surplus funds. As such, the BBC, in its capacity as agent, is not exposed to the degrees of financial or market risk facing a business entity acting as principal.

6. Related parties

TV Licensing and the BBC have a large number of transactions with related parties. Licences are purchased by the BBC and suppliers involved in collecting the Licence Fee for licensable places which they occupy. BBC directors and staff also purchase Television Licences for their own use. These transactions are not considered to be material.

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

7. Events after the Reporting Period

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

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

	2021 £m	2020 £m
Licence fee sales contributing to Consolidated Fund	3,747	3,267
Add		
Over 75s contribution from DWP	<u>3</u>	<u>253</u>
BBC Licence Fee Income in Annual Report and Accounts note A2	<u>3,750</u>	<u>3,520</u>

In previous years, households in which one or more persons over the age of 75 reside, as their primary residence, were entitled to a free licence. The BBC was not reimbursed for these free licences but received a fixed amount of from the Department for Work and Pensions (DWP) instead. The obligation for the BBC to take over the funding for free TV licences for the over-75s was phased in from April 2018 and was handed over in full during 2020.

From 2020/21, the BBC will not receive any funding from the DWP for over-75s licences but received £3m in relation to refunded over-75 licences. The BBC has decided to collect over-75s income from 1 August 2020 for those not on pension credit.

The Comptroller and Auditor General's Report to the House of Commons

Summary

- 1 Everyone in the UK who watches or records television programmes as they are broadcast or who watches or downloads BBC content via iPlayer must be covered by a valid TV licence. The BBC is responsible for issuing TV licences, enforcing the licensing system, and collecting licence fee revenue. The BBC Royal Charter³ requires that the BBC's Board ensures "that arrangements for the collection of the licence fee are efficient, appropriate and proportionate".
- 2 Collection of the licence fee is managed by the BBC Licence Fee Unit (the Unit) which works together with two principal service providers: RAPP Ltd (previously 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). In addition, the Unit is responsible for calculating an annual estimate of the licence fee evasion rate.
- 3 This report is our commentary on the BBC's collection of the licence fee in 2020-21, 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.
- 4 **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.

Figure 1: Information about the licence fee

The following sources contain relevant information about licence fee income:

BBC Television Licence Fee Trust Statement for the year ending 31 March 2021	This statement is the BBC's detailed report on the licence fee revenue it collected in 2020-21. It was published at the same time as this report and the information in it has been used to compile this report. The Comptroller and Auditor General (C&AG) has certified that the BBC's Trust Statement for the year ending 31 March 2021 is true and fair, and that the income and expenditure recorded in the financial statements were in line with the purposes Parliament intended.
BBC Group Annual Report and Accounts, 2020-21	This report contains details of how the BBC spent its income derived from the licence fee. Under the terms of the 2016 Royal Charter, the C&AG has audited the BBC's Annual Accounts and certified that they are true and fair, and that they had been properly prepared in accordance with International Financial Reporting Standards in conformity with the requirements of the Royal Charter for the continuance of the British Broadcasting Corporation and that the income and expenditure recorded in the financial statements were in line with the purposes Parliament intended.

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

Key findings

Licence fee collection in 2020-21

5 In line with many other organisations, TV Licensing experienced unprecedented operating challenges arising from the COVID-19 pandemic in 2020-21. In March 2020, the BBC Board postponed the establishment of the new scheme in respect of over-75s from 1 June to 1 August 2020 due to the pandemic. The pandemic also had a significant impact on TVL operations to collect the licence fee, with, at various points in 2020-21, offices being shut, staff working at home, and field visits cancelled. As a result, service levels were impacted, with, for example, backlogs in handling queries developing. Towards the end of 2020-21, the main backlogs had been cleared and service quality was achieving required standards.

6 Despite the operational challenges, total licence fee income in 2020-21 increased, compared to 2019-20, even after a fall in licence fee payments in the early part of the year. The BBC's income in respect of licence fees totalled £3,750 million in 2020-21, £230 million (6.5%) higher than total licence fee and over-75s grant income of £3,520 million in 2019-20, despite COVID-19. The outturn of £3,750 million was also higher than both the BBC's original and COVID-revised forecasts for the year. Although the level of licence fee payments did fall in April to July 2020 as people delayed renewing their licences during lockdown, once this ended, payments increased as people renewed licences.

7 The £230 million increase in total licence fee income in 2020-21 mainly arose from the new policy of charging some over-75s for their TV licence. From 1 August 2020, as allowed under the Digital Economy Act 2017, the BBC established a new scheme under which any household with someone aged 75 and over who receives Pension Credit is eligible for a free TV licence funded by the BBC. All other over-75s are required to pay for their licence. As a result, from 1 August 2020 the BBC raised £186 million more licence income from those already aged 75 and over at that date than the amount of over-75s grant it received from DWP in 2019-20 - £439 million compared to £253 million. However, the £439 million was £217 million less than the grant of £656 million the BBC received in 2017-18, the last year in which the Department for Work and Pensions (DWP) met in full the costs of free licences to all over-75s. This reduced level of income is to be expected, given that, previously, the DWP funded in full the costs of providing free licences to all over-75s, while, under the new policy, the BBC is now bearing the cost of free licences to over-75s in receipt of Pension Credit itself and is only charging those not receiving this benefit for their licences.

8 More of those who were already aged 75 and over at 1 August 2020 purchased a licence in 2020-21 than the BBC expected, but not everyone that that required a licence under the new policy had obtained one by the end of the year. In August 2020, the BBC estimated that about 2.5 million over-75 households with existing free licences would have bought a licence under the new policy by the end of 2020-21. However, by the end of 2020-21, 2.79 million such households had purchased licences, nearly 300,000 more than expected. By the same date, the BBC had also issued free licences to 702,000 of those who were aged 75 and over at 1 August 2020 and were in receipt of Pension Credit. However, as at 31 March 2021, 376,000 households aged 75 and over as at 1 August 2020 had yet to obtain a licence (either paid for or free) under the new policy.

9 Recent trends in audience behaviour are exerting a downward pressure on licence income. The £230 million increase in total licence fee income in 2020-21, compared to 2019-20, also arose, in part, from the annual increase in the cost of a TV licence. However, this annual increase was partly offset by a reduction of 180,000 to 20.99 million in the number of paid-for licences issued in 2020-21, after excluding the 2.79 million sales of licences to those aged 75 and over as at 1 August 2020. As in previous years, this reduction was in part due to a fall in the estimated number of households which require a TV licence as people, particularly younger people, switch to viewing content online via Subscription Video-on-Demand services and social media. This trend in audience behaviour also contributed in an increase of 178,000 in 2020-21 in the number of domestic customers who inform TVL that they no longer need a licence and therefore do not

purchase one. However, the true impact of this trend in audience behaviour on licence sales is masked this year by the fact that the licence sales figure of 20.99m includes, for the first time, sales to those who reached the age of 75 after 1 August 2020 and were not eligible for free licences under the new policy, but who, in previous years, would have received a free licence.

10 Future licence fee levels are currently under discussion. 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. In November 2020, DCMS and the BBC started negotiations about the level of the licence fee from 2022-23, with a view to completing this process by summer 2021. These negotiations will set the level of the licence fee until at least 2026-27.

Levels of licence fee evasion in 2020-21

11 The BBC has not been able to make a reliable estimate of the changes to the rate of evasion in 2020-21. Due to COVID-19, one of the main sources of evidence for calculating the TV Penetration Rate, a crucial component of the method for calculating the level of evasion, has not been available. However, the BBC considers that, based on the level of licence sales this year, the level of evasion is likely to be in line with longer-term trends around evasion. Since 2016-17, the estimated evasion rate as at the year-end has varied between 6.57% and 7.25%, although with a generally upward trend. The BBC expects to be able to estimate the level of evasion for 2021-22 as COVID-19 restrictions ease, enabling the collection of the data required to do this.

12 The BBC is considering updating its new model for calculating the evasion rate earlier than planned. In 2019-20, the BBC used a new model for calculating the evasion rate, which incorporated a number of methodological changes aimed at improving the comparability of the evasion rate over time and was based on the most up-to-date evidence. The BBC was subsequently 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, the impact of COVID-19 on economic activity and employment and hence on licence fee sales, or the impact of the introduction of charging some over-75s for their TV licence. The BBC has therefore commissioned a review of the evasion model, which may, depending on the review's findings, require another significant revision following that made in 2019-20.

Major operational changes in 2020-21

13 The BBC implemented the necessary changes to its licence fee collection operations in time for the start of the new over-75s policy in August 2020, with further work continuing on less critical changes. As we reported in our report on *The BBC's Strategic Financial Management*⁴, in June 2020, the BBC estimated that implementation would cost £65 million, compared with the budget of £44 million. In December 2020, the BBC formally closed the project for implementing the systems necessary for charging for paid-for, and issuing free, licences as appropriate, with TVL taking over responsibility for delivering the system capabilities remaining at this date. The cost of delivering these remaining capabilities was uncertain as at June 2021. The BBC is currently also preparing for the mass renewal of over-75s licences that are due on 31 July 2021, the first renewal of such licences that TVL will have handled.

14 The BBC cancelled its programme to modernise its Campaign Management System and Data Management Services in December 2019, and is considering proposals to further extend the life of the systems involved. These are business critical systems for collection of the licence fee, but both systems dated from 2007 and were out of support. The BBC is therefore having to continue with these systems and has taken action it believes will mitigate the risks of continuing to use these. According to the BBC, the

⁴ Comptroller and Auditor General, *The BBC's Strategic Financial Management*, Session 2019-2021, HC 1128, National Audit Office 20 January May 2021, paragraph 2.19

relevant software supplier has now decided to continue to offer support to the software product underpinning the systems, and Capita had undertaken work to stabilise the systems. As at March 2021, the BBC was discussing with Capita proposals on how to extend the life of the systems beyond 2023.

15 The BBC began to roll out its Simple Payment Plan Scheme in July 2020 for those having difficulty paying for a TV licence. By March 2021, 139,289 customers had bought licences under the Scheme which were still in force at that date. Of these, 31,506 were customers who had enrolled under an earlier pilot and were still on the Scheme. The BBC had originally expected that up to 400,000 customers would join the Scheme in the first year of roll-out. However, the rate of sign-up has been lower than the BBC expected predominantly due to COVID-19, which resulted, for example, in the suspension of field visits for significant parts of the year. Although it is early on in the roll-out, there seems to be improved performance, compared to the pilot, with relatively lower rates of people leaving or in arrears than on the pilot. During 2020-21 the Scheme generated income of £27.5 million.

Conclusion

16 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 2020-21 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.

17 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.

18 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

19 In 2020-21, income from the licence fee represented 74% of BBC's total income, but the BBC is facing several challenges in maintaining this level of income in future. Total licence fee income increased in 2020-21, after falling in the two previous years, mainly due to more over-75s buying their TV licences under the new scheme introduced from 1 August than the BBC had budgeted. However, this is the first year of this scheme, and there is therefore uncertainty over future payment levels. The BBC is also facing uncertainty over the future levels of licence fee income as negotiations with DCMS on licence fee levels beyond 2021-22 are currently under way, and the full impact of COVID-19 on the wider economy and hence on licence fee collection is as yet unclear. At the same time, underlying trends in audience behaviour, with people increasingly watching non-licensable content online and therefore choosing not to purchase a TV licence, continue. 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 taken by the BBC currently being implemented, we intend to examine the BBC's progress in addressing these challenges as part of next year's Section 2 report.

Part One: Licence Fee collection in 2020-21

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: RAPP Ltd (previously 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). TVL collects the income due which is 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).

Impact of COVID-19

1.3. In line with many other organisations, TVL faced unprecedented operational challenges in collecting licence fee income in 2020-21 due to the COVID-19 pandemic. As we reported in our 2019-20 report, for the safety of staff and customers, in March 2020 TVL closed the call centre and back office functions in its Darwen and Bury offices, and suspended field visits, affecting its ability to communicate with customers and customers’ ability to buy or renew a licence. In March 2020, the BBC Board also postponed the establishment of the new policy to charge some over-75s for their TV licences from 1 June to 1 August 2020, at an estimated cost of £70 million.

1.4. These operational challenges continued into 2020-21. Although the first lockdown was subsequently eased, licence fee collection continued to be disrupted as social distancing requirements meant that Capita offices could accommodate fewer staff. Many staff worked from home, while Capita sub-contracted work out to Mumbai in India. Capita’s main office in Darwen spent a number of months in Tier 3 before going back into national lockdown in December and January 2021. COVID-19 also impacted on field operations. TVL did not undertake field visits during both first and second lockdowns. This resulted in lower licence sales from field visits, but other methods for buying a licence that did not require face-to-face interaction, such as online, ensured total sale levels were not affected.

1.5. The operational challenges arising from COVID-19 meant that Capita had to deal with large backlogs that built up in areas such as refunds and customer queries. Capita therefore recruited extra staff, and retained some of the additional staff it had hired to handle the early application of the new over-75s policy to assist with its normal operations, including clearing the backlogs. By February 2021, Capita had cleared the main backlogs.

1.6. The operational challenges arising from COVID-19 meant that service provider performance did not meet agreed standards in many areas. For example, average handling times increased, as did response times to handling phone calls. This, in turn, resulted in more queries coming in via post and email, adding to backlogs. By the end of February 2021, both Front and Back Office operations had recovered and were meeting the required performance standards.

Licence fee income in 2020-21

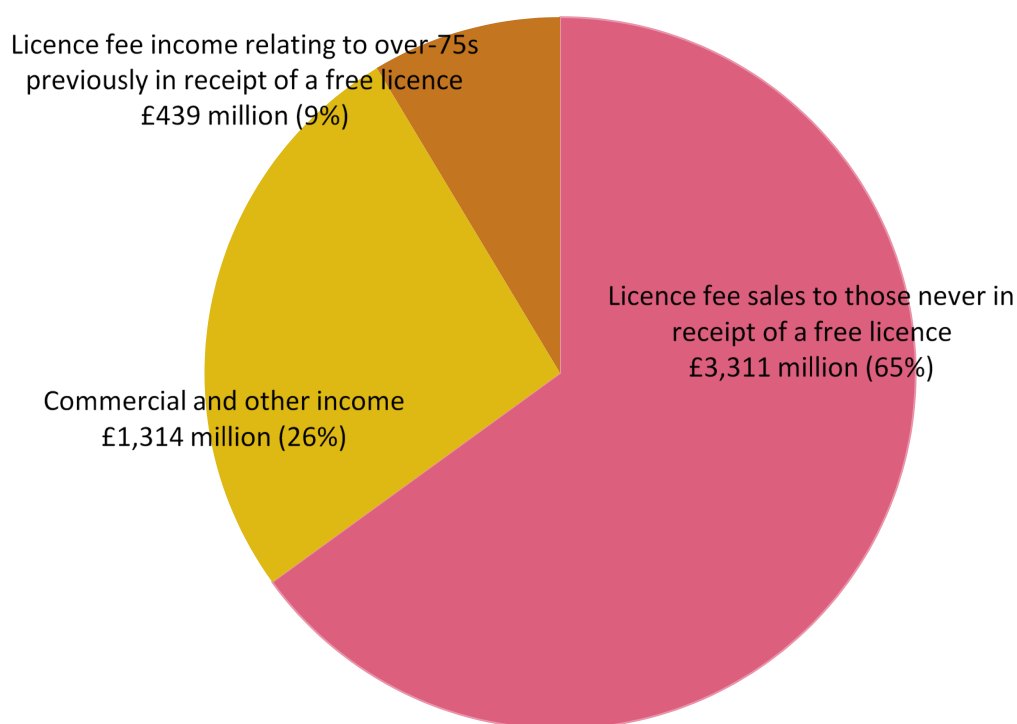
1.7. Despite the unprecedented operational challenges, the impact of the pandemic on licence fee income in 2020-21 has been less than the BBC initially expected. In April 2020, the BBC updated its original forecast for 2020-21 to reflect the estimated worst-case impact of COVID-19, reducing its forecast total licence fee income by £151 million from £3,625 million to £3,474 million. Initially, the level of licence fee payments did

fall in April to July 2020, as people delayed paying for their licence renewal during lockdown. However, payments increased again as people renewed their licences once the first lockdown ended.

1.8. The BBC's income from the licence fee totalled £3,750 million in 2020-21 and represents the BBC's main source of income, representing 74% of its total income of £5,064 million (**Figure 2**). This total of £3,750 million was higher than both the original and the COVID-affected forecasts and was £230 million (6.5%) higher than total licence fee and over-75s grant income of £3,520 million in 2019-20 (**Figure 3**).

Figure 2: Sources of BBC Group Income in 2020-21

Income from licence fee represented 74% of the BBC's total income in 2020-21



Source: BBC Annual Report and Accounts 2020-21 and BBC Trust Statement 2020-21

1.9. In previous years, the BBC received a grant from the Department for Work and Pensions (DWP) towards the cost of free TV licences for all over-75s. However, from 2017-18, the DWP reduced this grant funding in stages from £656 million in 2017-18 to zero in 2020-21 when the grant ceased. In response to the ending of this grant, from 1 August 2020 the BBC established a new policy, under which any household with someone aged 75 or over ("over-75") who receives Pension Credit is eligible for a free TV licence funded by the BBC.⁵ All other over-75s are required to pay for their licence. This new policy was implemented as allowed under the Digital Economy Act 2017.

1.10. In 2020-21, the BBC received income of:

- £3,311 million from licence sales to non-over 75s and those who became over 75 after 1 August

⁵ Licence holders who are over 75, resident in sheltered or residential care accommodation and have preserved rights are also eligible for a free licence without needing to be in receipt of Pension Credit. For the Crown Dependencies, equivalent arrangements were put in place, starting from 1 January 2021, based on local benefits.

2020 and did not qualify for a free licence as they were not in receipt of Pension Credit.

- £436 million from licence sales to those who were aged 75 or over on 1 August 2020 and who previously had received a free licence but were no longer eligible for this from this date under the new scheme; and
- £3 million funding from the DWP for over-75 licences refunded prior to the start of the new policy on 1 August 2020.

Figure 3: BBC Licence Fee Income from 2016-17 to 2020-21

Licence fee income increased in 2020-21 after falling in the two previous years.

	Income from those never receiving free licences £ million	Over-75 Grant £ million	Income from sales to those previously receiving free licences £ million	Total £ million
2016-17	3,157	630		3,787
2017-18	3,174	656		3,830
2018-19	3,222	468		3,690
2019-20	3,267	253		3,520
2020-21	3,311 ⁽¹⁾	3	436	3,750

Note:

1. This figure is not comparable to previous years as it includes licence fee sales to those who reached the age of 75 after 1 August 2020 but who were not eligible for free licences under the new policy. In previous years, such people would have received a free licence.

Source: BBC Annual Report and Accounts 2020-21 and BBC Trust Statement 2020-21

1.11. The increase in total BBC Licence Fee income from 2019-20 to 2020-21 of £230 million (6.5%) was due to two key factors:

- The new policy relating to over-75s; and
- The annual increase in the cost of a TV licence, offset by a reduction in paid for licences issued to under-75s.

The new policy relating to over-75s

1.12. As a result of the policy change relating to over-75s, the BBC raised income of £439 million, £186 million more than the £253 million it received in grant from DWP in 2019-20. However, the £439 million was £217 million less than the grant of £656 million the BBC received in 2017-18, the last year in which the DWP met in full the costs of free licences to all over-75s. This reduced level of income is to be expected, given that, previously, the DWP funded in full the costs of providing free licences to all over-75s, while, under the new policy, the BBC is now bearing the cost of free licences to over-75s in receipt of Pension Credit itself and is only charging those not receiving this benefit for their licences.

1.13. The £439 million of income arose from sales to individuals who were aged 75 and over at 1 August 2020, when the new policy took effect, and therefore had previously been in receipt of a free licence. Income from these has been higher than the BBC expected as more of these people purchased a licence in 2020-21 than was forecast. In August 2020, the BBC estimated that about 2.5 million over-75 households with a free licence as at 1 August 2020 would have bought a licence under the new policy by the end of 2020-21. The BBC's expectation was based on its own forecasts of how successful it would be when

engaging with these households. However, by the end of 2020-21, 2.79 million such households had purchased licences, nearly 300,000 more than originally expected.

1.14. As at March 2021, the BBC had issued free licences to 702,000 of those who were aged 75 and over at 1 August 2020 and who were eligible for such a licence (**Figure 4**). There therefore remained at the end of March 2021 376,000 households aged 75 and over as at 1 August 2020 who had yet to obtain a licence (either paid for or free) under the new policy. Under a General Notice published by the BBC, the pre-existing free licences issued to these households will continue to be valid until such time as they are replaced by a free or paid-for licence under the new policy or until the BBC gives them notice that their licence has been cancelled. Licences for about 305,000 of the 376,000 households will be handled using the relevant over-75 processes, while licences for the remaining 71,000 will be managed via TVL’s usual processes as household circumstances have changed.

Other reasons for the increase in licence fee income

1.15. Annually, the cost of a TV licence increases in line with inflation⁶. However, in 2020-21 the overall inflationary increase in income was partly offset by a reduction in the number of paid-for licences issued, after excluding sales of licences to those aged 75 and over as at 1 August 2020 who were not eligible for a free licence under the new policy. After excluding the 2.79 million such sales in 2020-21 (paragraph 1.13), the total number of paid-for sales fell from 23.78 million (**Figure 4**) to 20.99 million, 180,000 less than non-over 75 sales of 21.17 million. As in previous years, this reduction was, in part, due to a fall in the estimated number of households which require a TV licence because they watch licensable content as people switch to non-licensable viewing, such as Subscription Video-on-Demand services and social media.

Figure 4: Number of licences issued from 2016-17 to 2020-21

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

	Paid-for licences Million	Free licences to over 75s Million	Total Million
2016-17	21.69	4.24	25.93
2017-18	21.62	4.34	25.96
2018-19	21.46	4.47	25.93
2019-20	21.17	4.50	25.67
2020-21	23.78 ⁽¹⁾	1.48 ⁽²⁾	25.26

Note:

- 2. This figure is not comparable to previous years as it includes licence fee sales to those who reached the age of 75 after 1 August 2020 but who were not eligible for free licences under the new policy. In previous years, such people would have received a free licence.
- 3. This figure includes 702,000 free licences issued to those who were aged 75 and over at 1 August 2020 and who were eligible for such a licence.
- 4. The above figures exclude the 376,000 free licences held by over-75s before 1 August 2020 which had yet to be replaced under the new policy as at 31 March 2021.

Source: BBC Trust Statement 2020-21

1.16. The true impact of this trend in audience behaviour is masked this year by the fact that the licence sales figure of 20.99m includes, for the first time, sales to those who reached the age of 75 after 1 August 2020 and were not eligible for free licences under the new policy, but who, in previous years, would have

⁶ From 1 April 2020, the cost of a TV colour Licence increased by 1.9% from £154.50 to £157.50, in line with inflation

received a free licence. The BBC cannot estimate the numbers involved as people are not required to give their date of birth when purchasing a paid-for licence, only when applying for a free licence.

1.17. According to the BBC, the impact of this trend also shows itself in the number of domestic customers who inform TVL that they no longer need a licence and therefore do not purchase one. The number of such customers has been increasing over time and in 2020-21 totalled 1.79 million, an increase of 178,000 on 2019-20's figure of 1.61 million.

Licence fee policy developments

1.18. 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 2019-20, there were 113,979 cases laid, resulting in 105,501 convictions, with an average fine of £170. 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, as at 30 June 2020, there were no people in prison for this reason.

1.19. As we reported in our 2019-20 report, 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.

1.20. In January 2021, the DCMS published its response to the consultation. In this it stated that it intends to continue assessing the potential impact of an alternative sanction on licence fee payers, particularly the most vulnerable, and therefore will keep the issue of decriminalisation under active consideration as part of the April 2022 licence fee settlement negotiations.

1.21. 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. In November 2020, DCMS and the BBC started negotiations about the level of the licence fee from 2022-23, with a view to completing this process by summer 2021. These negotiations will set the level of the licence fee until at least 2026-27.

Part Two: Levels of licence fee evasion in 2020-21

2.1. Not everyone who is required to purchase a TV licence does so; some people are either unwilling to or are unable to on grounds of affordability. Combatting licence fee evasion is a key area of focus for the BBC 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). 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.

2.3. Prior to 2019-20, the BBC only reported the estimated evasion rate as at the end of the financial year. However, as we reported in our 2019-20 report, the BBC commissioned a review of its existing model for calculating the evasion rate last year. As a result of this, the BBC had a new updated model, which incorporated a number of methodological changes aimed at improving the comparability of the evasion rate over time and was based on the most up-to-date evidence. This new model enabled the BBC to report a second measure of estimated annual evasion in 2019-20, namely the average evasion rate over the 12 months of that year.

2.4. As we reported previously, both measures showed an increase in the rate of evasion in 2019-20, compared to 2018-19, mainly due to a reduction in the estimated number of households requiring a licence (Figure 5). However, the BBC has not been able to calculate the estimated evasion rate for 2020-21 as the Broadcasters’ Audience Research Board (BARB) has been unable to carry out its regular survey of household viewing habits due to COVID. The survey is one of the main sources of evidence for calculating the TV Penetration Rate, a crucial component of the method for calculating the evasion rate (paragraph 2.2).

Figure 5: Reported licence fee evasion levels from 2016-17 to 2020-21

BBC has not been able to make a reliable estimate of the level of evasion in 2020-21

	Estimated rates of licence fee evasion	
	As at March	Annual average
2016-17	6.90%	
2017-18	7.04%	
2018-19	6.57%	6.69%
2019-20	7.25%	6.95%
2020-21	Not estimated	Not estimated

Note: The BBC did not calculate the annual average until 2019-20 when it calculated the then current and previous year’s figures.

2.5. Although the BBC has not been able to calculate the evasion rate for 2020-21, it considers that the level of evasion this year is likely to be in line with longer-term trends. Since 2016-17, the estimated evasion rate as at the year-end has varied between 6.57% and 7.25%, although with a generally upward trend. When forecasting in March 2020 the level of licence sales in its budget for the year, the BBC assumed an evasion rate in 2020-21 in line with these trends. Subsequently, actual licence fee income collected has been broadly in line with these budget forecasts and the assumptions contained in these (paragraph 1.8).

2.6. The BBC expects to be able to estimate the level of evasion for 2021-22 as COVID-19 restrictions ease, enabling the collection of the data required to do this. We will continue to monitor developments in this area and will report on evasion as part of next year's Section 2 report.

Assessing evasion

2.7. As we reported in our 2019-20 report, the BBC undertook a number of pieces of research into the evasion rate, including an analysis to develop a better understanding of the changes in the rate over time and the factors behind these changes. This 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 that the largest factor driving this trend was changes in people's viewing habits as they watched less licensable content.⁷ 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. Given the extent of this research and the likelihood that COVID-19's impact on evasion during the pandemic's duration would not be in line with longer term trends in the evasion rate, the BBC has not undertaken any further research in 2020-21 into the rate.

2.8. As we previously reported, the BBC's own analysis of 2019-20's evasion data identified that over half the increase in the evasion rate in 2019-20 could not be explained by the factors identified above. The BBC considered that this large unexplained element reflected an increase in the pace of change in the media market in 2019-20 and the impact of this on viewer behaviour, such as viewers increasingly consuming content via Subscription Video on Demand services. It was concerned that the existence of such an element meant that its model, in terms of its ability to identify the reasons for evasion rate changes, was already becoming outdated, despite its upgrade in 2019-20, and could not keep up with the rapid pace of market change. It was also concerned that the model would not be able to accurately reflect the impact of COVID-19 on economic activity and employment, or the impact of the introduction of charging some over-75s for their TV licence from 1 August 2020 (paragraph 1.9), when calculating evasion rates.

2.9. As a result, in January 2021, the BBC commissioned a review of the evasion model to identify if the factors driving changes in the evasion rate were still the same as previously identified. There is a risk that, if there have been significant changes in these factors, the model will require another significant revision following that made in 2019-20. We will therefore continue to monitor developments in this area and will report as appropriate in next year's Section 2 report.

⁷ Households are required to own a TV licence if they watch live programmes shown on any TV channel or on online TV services, such as ITV Hub or Amazon Prime Video, and programmes shown on BBC iPlayer.

Part Three: Major operational changes in 2020-21

3.1 In 2020-21, the BBC spent £136 million (2019-20: £119 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 pandemic (paragraphs 1.3 to 1.6).

3.2 In our 2019-20 report, we reported that the BBC was implementing 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. We provide an update on progress below.

Implementation of new policy for licences for over-75s

3.3 As we reported in our 2019-20 report, 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 1.9). During 2019-20, the BBC established the bespoke contact centre for over-75s, but was still working on implementing the new payment scheme when the COVID-19 lockdown began in March 2020. In line with other licence fee collection operations (paragraphs 1.3 to 1.6), during lockdown, the BBC closed the over-75s contact centre and switched to home-working. Although the centre subsequently re-opened, due to social distancing requirements there was less physical space available to accommodate staff, and over-75 transactions were therefore handled across a number of locations.

3.4 In March 2020, the BBC Board postponed the establishment of the new policy to charge some over-75s for their TV licences from 1 June to 1 August 2020 due to the COVID-19 outbreak (paragraph 1.3). As a result, the BBC paused the campaign it had started at the start of March to contact all over-75 households, inviting customers who were over 75 and receiving Pension Credit to apply for a free licence. In August to September 2020, the BBC wrote again to over-75 households, inviting them to apply for a free licence, buy a licence if they were not eligible, or inform TVL if they did not need one. In doing this, it prioritised the 1.1 million customers who had not received the March 2020 letter. The BBC and TVL also amended their systems to make it possible for people to apply for a free licence without leaving their homes. The systems already allowed people to buy a licence without leaving their homes, including via the new over-75 Payment Scheme. Payments made via this Scheme totalled £78.5 million in 2020-21.

3.5 The BBC implemented in time those changes that were necessary to enable it to start charging for, and issuing free, licences as appropriate on 1 August 2020. However, some system capabilities which were less time-critical were delivered after 1 August 2020, including some being delivered in January to March 2021. In December 2020, the BBC formally closed the project for implementing the systems required to administer over-75 licences, with TVL taking over responsibility for this as part of its normal operations. TVL also assumed responsibility for delivering the remaining system capabilities.

3.6 Implementing the necessary new systems and processes has cost more than the BBC expected. As we reported in our report on *The BBC's Strategic Financial Management*⁸, in June 2020, the BBC estimated that the implementation of the new systems required to charge some over-75s for their TV licence would cost £65 million, compared with the budget estimate of £44 million. Reasons for this cost increase included extra funding for contractors to ensure they delivered on time, and an extra £6 million due to the unexpected impact of COVID-19.

3.7 On project closure in December 2020, the BBC forecast that the final implementation project cost would be within the budget of £65 million, with any remaining budget to be transferred to TVL's normal operations to help meet the cost of delivering the remaining system capabilities (paragraph 3.5). The cost of delivering these remaining capabilities was uncertain as at June 2021.

⁸ Comptroller and Auditor General, *The BBC's Strategic Financial Management*, Session 2019-2021, HC 1128, National Audit Office 20 January May 2021, paragraph 2.19

3.8 The BBC is currently preparing for the mass renewal of over-75s licences that are due on 31 July 2021, the first renewal of such licences that TVL will have handled. As at April 2021, TVL had started to recruit the extra resources needed in time for July 2021 when the first notifications about licence renewal are due to be sent out. We will therefore continue to monitor developments in this area and will report as appropriate in next year's Section 2 report.

Campaign Management System Modernisation programme

3.9 As we reported in our 2019-20 report, 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. In December 2019, nine months after the BBC had signed contracts with suppliers to deliver the new systems, it decided to cancel the programme due to unacceptable delays and increased implementation costs, and the need for it to devote resources to implementing the over-75s policy.

3.10 As a result of the cancellation, the BBC is having to continue with the existing, aged IT systems. However, the risks involved in doing this appear to have reduced. According to the BBC, the relevant software supplier has now decided to continue to offer support to the software product underpinning the systems. Also, during 2019, Capita undertook at its own cost a programme of work to stabilise the systems. As a result, the systems' performance has been maintained at satisfactory levels in 2020-21.

3.11 Towards the end of 2019-20, the BBC engaged contractors to assess how the life of the systems could be extended so that they could continue to support collection operations beyond 2023. As at March 2021, the BBC was discussing these proposals with Capita. Costs and timetable were still uncertain, but the BBC will be liable for the costs of upgrading the systems when this happens. We will continue to monitor this work and will report as appropriate in next year's Section 2 report.

Simple Payment Scheme

3.12 As we reported in our 2019-20 report, in September 2019, the BBC Board approved the roll-out of a Simple Payment Plan scheme (the Scheme) from 1 April 2020. The BBC had previously initiated a pilot for the Scheme in April 2018. Under the pilot, 169,800 customers had enrolled on the Scheme over a six-month window from April 2018.

3.13 The Scheme aims to make payment for TV licences easier for those who have difficulty paying using the BBC's other, existing payment schemes. 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 12-month life of the licence, with payments made monthly or fortnightly, and removes the need for up-front payments which are a feature of other BBC instalment schemes where the first licence fee needs to be paid over the first six months.

3.14 The BBC decided to make the Scheme available on a permanent basis for reasons of fairness as it recognised that some people cannot afford to pay six months in advance for a licence. Although roll-out was originally planned to begin in April 2020, due to the COVID lockdown from March 2020, this was delayed to mid-July 2020.

3.15 During 2020-21 the Scheme generated income of £27.5 million. By March 2021, 139,829 customers had bought licences under the Scheme which were still in force at that date. Of these, 31,506 were customers who had enrolled under the pilot and were still on the Scheme. The BBC had originally expected that up to 400,000 customers would join the Scheme in the first year of roll-out, but the rate of sign-up has been lower than the BBC expected.

3.16 The rate of sign-up during roll-out in 2020-21 has been lower than forecast predominantly due to the impact of COVID-19. The Contact Centre specifically established to handle Scheme business had to close from the end of March 2020. Although a contact service then re-started in mid-May, it was operated by staff

working at home and it was not until late June when the Contact Centre office itself opened, with full COVID-19 controls in place. Field visits were also suspended until August, and, although they then re-started, they had to be stopped again in December as the UK re-entered lockdown. This had a significant impact on the ability of the contractor running the Scheme, Target, to enrol people on the Scheme. On the pilot, over 60% of people who joined were recruited via field visits.

3.17 Although it is in its early stages, there seems to be improved performance on the roll-out, compared to the pilot. For example, the rates of people leaving are lower than on the pilot, including among those leaving without ever having made a payment - 17% compared to 25% on the pilot. The rates of people in arrears are also lower.

3.18 According to the BBC, there are a number of reasons for this improved performance. For example, the service to customers have improved over time. At the start of the pilot in 2018, Target was new to licence fee collection. Since then, Target has been making continual improvements to the service to customers, for example, through the introduction of the PayThru system, which enables customers to make payments via their mobile phones, and increased use of SMS to text customers to remind them of upcoming payments.

3.19 In addition, in response to the operational problems caused by COVID, in September 2020, TVL launched a new customer portal which enables people to enrol on the Scheme online. Such online sign-up encourages customers to pay by direct debit rather than by cash, and such payers are more likely not to leave the scheme and not to incur arrears.

3.20 We will continue to monitor roll-out progress and will report as appropriate in next year's Section 2 report.

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

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HM Treasury

10 May 2011

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