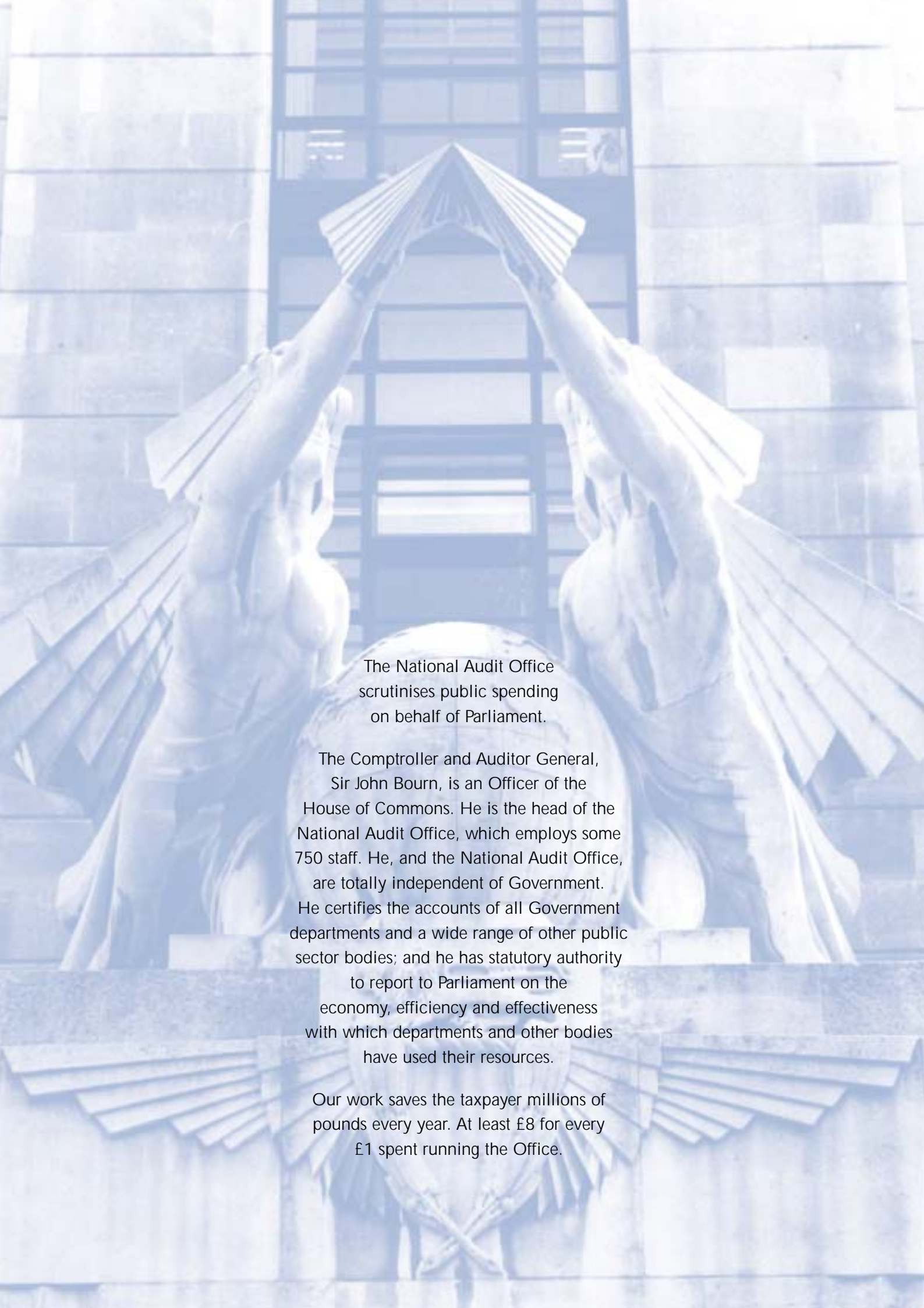


# The BBC: Collecting the television licence fee

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL  
HC 821 Session 2001-2002: 15 May 2002





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# The BBC: Collecting the television licence fee



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HC 821 Session 2001-2002: 15 May 2002

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

*John Bourn* National Audit Office  
Comptroller and Auditor General 26 March 2002

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**Do you need a TV licence?**

**Yaa u baahan Leysanka (Shatiga) Tv-ga?**

**هل تحتاج الى اجازة تلفزيون؟**

**আপনার কি টেলিভিশনের একটি লাইসেন্স দরকার?**

**ਕੀ ਤੁਹਾਨੂੰ ਟੀ ਵੀ ਲਾਈਸੈਂਸ ਦੀ ਲੋੜ ਹੈ?**

**किसको टीवी लाईसेंस की ज़रूरत होगी?**

**کیا آپ کو ٹیلی ویژن (ٹی وی) لائسنس کی ضرورت ہے؟**

**Televizyon ruhsatı almanıza gerek var mı?**

**શું તમને ટી.વી લાયસન્સની જરૂર છે ?**

**Μήπως χρειάζεστε άδεια τηλεόρασης;**

**你需要電視執照嗎？**

**Ju nevojitet lejë për TV?**

**Treba li Vam televizijska pretplata odn.  
dozvola za televiziju?**

**Am bheil feum agad air Cead Cleachdaidh Telebhisean?**



# executive summary

- 1 The television licence fee is collected by the BBC and used to fund public service broadcasting throughout the United Kingdom. In 2000-01 the BBC issued 23.4 million licences, receiving £2,371 million in licence fee income, and estimated, using a statistical model, that some £141 million was lost through evasion.
- 2 The licence fee money collected is passed to the Department for Culture, Media and Sport and surrendered to the Exchequer. The Department issues a grant to the BBC equivalent to the amount of licence fee income collected, less the Department's costs. The Department is also responsible for determining the types of apparatus that need to be licensed, the types of licence (for instance, colour and monochrome) and for setting the level of the licence fee.



- 3 The BBC is responsible for issuing licences, collecting licence fees and enforcing the licensing system. The BBC has contracted out the bulk of the collection and enforcement activity to its TV Licensing agent. The BBC, historically, has been heavily reliant on Consignia (formerly the Post Office) and its subsidiary companies for this work, which ranges from issuing licence fee renewal notices to customers, to collecting payments, and identifying and prosecuting evaders. The BBC has changed these arrangements three times since early 1999, including the recent appointment, following competitive tender, of Capita Business Services Limited to take over responsibility as TV Licensing agent for collection and enforcement activity with effect from 1 July 2002. The AMV consortium will take over the marketing and communications activities from 1 April 2002.
- 4 Licence fee payments can be sent directly to the TV Licensing agent, who in addition handles payment by debit or credit card, direct debits and similar transactions. Payment can also be made over the counter in Post Offices, by cash or cheque, or by using television licence savings stamps. And cash instalments may be made through the PayPoint network of outlets in local shops and newsagents.



## Our examination and main findings

- 5 This report is about increasing the cost effectiveness of licence fee collection, thereby increasing net licence fee revenue. It looks at trends in the cost of evasion and collection and focuses on the quality of information the BBC has about evaders (how many there are, who they are and where they are) and what more could be done to reduce evasion (from encouraging voluntary payment to taking robust enforcement action against evaders). Evasion includes not just those people who use a television without a valid licence, but also those who buy a cheaper licence for a black and white television when a colour set is in use.

## The cost of collection and evasion

- 6 The total cost of collecting the television licence fee was £132 million in 2000-01, representing 5.6 per cent of the £2,371 million collected. The cost of collection per licence was virtually the same, at constant 2000-01 prices, as it was in 1991-92. Over this period the evasion rate, the proportion of potential licence fee revenue that remains uncollected, has fallen - from an estimated 9.9 per cent to 5.2 per cent, although as shown in paragraph 8, revisions to the statistical model on which this is based suggest a higher figure. However, both models show there has been a downward trend in the evasion rate (paragraphs 1.9, 1.11 - 1.12, 2.3).
- 7 The BBC is looking to reduce the combined cost of collection and evasion while recognising that as the overall evasion rate falls, increased effort will be needed to catch hard core evaders. In 2000-01 the cost of collection, combined with the estimated cost of evasion, was £273 million. The BBC has been working to introduce a more commercial approach to the collection arrangements, and moving towards incentivised payment mechanisms where payments to the TV Licensing agent are linked to the number of licences actually sold (paragraphs 1.10, 1.15).

# Television Licence

For **A Sample**  
 Room 319 Henry Wood House  
 3-6 Langham Place  
 London  
 W1A 1AA

TV Licence number: XXXXXXXXXX  
 Valid Until: 31 December 2002



### What this licence allows

you and any person living at the premises occupied by you at the above address (but please see overleaf)

to install and use colour and black and white receivers at the premises and, in the circumstances described overleaf, elsewhere





## Knowing how many evaders there are

- 8 The estimated level of evasion is calculated using a statistical model developed and maintained by the Department for Culture, Media and Sport. This is not a precise science; and the model is subject to change as the definition of licensable properties is extended and the proportion of the population estimated to have a television increases. The Department and the BBC have been revising the model, and are still validating the new version. But the evasion rate suggested by the revised model is 7.6 per cent at March 2001, compared with 5.2 per cent based on the current evasion model, and on some estimates it is higher (paragraphs 2.2 - 2.4).

## Knowing who the evaders are

- 9 The BBC has conducted research into the types of people who evade and their motivation for evading, and used the results of this to inform its strategy for reducing evasion. The TV Licensing agent (at that time Envision Licensing Limited; a consortium of Consignia (then Post Office) Customer Management Limited, WPP Limited and Bull Information Systems Limited) also carried out research between April 1999 and March 2001 which enabled it to identify the characteristics of those most likely to evade. Areas with high evasion rates are most likely to have, for example, a higher than average proportion of younger people, low income households, and students and single parent families, and a level of County Court judgements 50 per cent above the national average (paragraphs 2.5 - 2.7).
- 10 Building on this research, Envision developed a data warehouse. This facility has been used to target mailshots, posters and telephone chasing on specific groups, such as students, and it offers opportunities to focus enforcement activity on places or segments of the population where the likelihood of evasion is greatest (paragraph 2.8).

### Over 75 Television Licence

A Sample  
BBC  
Room 324, Henry Wood House  
3-6 Langham Place  
London  
W1A 1AA

TV Licence number: 9999999999  
Valid until: 31 October 2002  
For colour and black and white receivers  
Notional value: £109.00



#### What this licence allows:

- you and any person living at the premises occupied by you at the above address (but please see overleaf)
- to install and use colour and black and white receivers at the premises and, in the circumstances described overleaf, elsewhere
- subject to the conditions overleaf
- until the end of October 2002

Keep this licence in a safe place.  
It is your proof you are licensed to watch television.

Remember, if you move, that to remain correctly licensed, your licence must be transferred to your new address. Please let us know by calling us on



Validation Stamp

This licence is issued by TV Licensing on behalf of the Licensing Authority under the

## Knowing where the evaders are

- 11 To identify potential evaders and plan enforcement activity, the TV Licensing agent relies on a database of licensable properties and licences in force. It is a constant effort to keep the database up to date as properties are built, demolished or converted to new uses, and as people change address. The BBC believes that significant numbers of properties sharing the same postal address but at which there are multiple licensable places are being created all the time as, for example, houses are converted into flats. These places tend to be identified only through the alertness of enquiry officers. Any inaccuracy in the database, however, presents a risk of undetected evasion and a failure to get the most out of enquiry officers' visits. The BBC therefore looks to reduce inaccuracies by: conducting 'data cleansing' exercises using external data; using visits by enquiry officers specifically to improve data quality; and making it easier for householders to notify address changes electronically. The BBC plans to draw on the results of the 2001 census to test the likely extent of unrecorded addresses (paragraphs 2.11 - 2.13).
- 12 There are structural problems with the database stemming from the limited amount of data that can be stored and inflexibility in the database design. The BBC has been looking to introduce a more technically advanced database to address these problems and strengthen enforcement capability. The BBC contracted Envision Licensing Limited in April 1999, as the then TV Licensing agent, to develop a new database. As mentioned above, a data warehouse, one important part of the project, was completed. But in March 2001 after two years of development work the rest of the task was finally abandoned when it had become clear that the project would not be completed in a realistic timescale. Consignia Customer Management, who had taken over responsibility for the project from Envision, paid the BBC £20 million in compensation (paragraphs 2.14 - 2.15).
- 13 The new database was also planned to be free standing (unlike the existing database) and therefore capable of being transferred between contractors, enhancing the BBC's ability to compete the TV Licensing contract. Once further development work on the new systems had been abandoned, Consignia undertook sufficient work to make the core database portable. Upgrading the database is a key part of the contract with Capita (paragraphs 2.16 - 2.17).
- 14 One important way of keeping data up to date is the requirement on television retailers to notify the TV Licensing agent of a transaction for the sale or rental of television receiving equipment, providing full details of the purchaser or renter. However, comparison of commercially available data on the number of retail sales with the sales volumes notified by dealers suggests that up to 40 per cent of sales may not be notified to the BBC, at an estimated cost to the BBC of up to £7.7 million in 2000-01 (paragraphs 2.18 - 2.19).

## Making accurate sales forecasts

- 15 In taking on the task of TV Licensing agent in April 1999, following competition, Envision Licensing Limited predicted that it would achieve a significant increase in the number of licence sales over the period of its contract (to March 2006). In the event, although sales increased, they fell below the level anticipated by Envision, and the BBC estimated that revenue could be up to £400 million less than originally predicted over the period of the contract. As Envision was paid only for licences sold this placed the company in financial difficulties, and the contract was terminated at the end of March 2001. The BBC had recognised that the forecasts were heavily dependent on broad



assumptions about household growth and reductions in evasion, that there was little robust support for the forecasts, and that few specific initiatives had been proposed that could confidently be predicted to increase sales significantly. In the recent competition leading to the appointment of Capita, the BBC engaged consultants to review the potential market for television licences against which to assess bidders' proposals (paragraphs 2.20 - 2.22).

- 16** Collection arrangements and prospective sales of television licences have a bearing on the setting of the licence fee because the fee per licence needs to be balanced with the expected number of licences to be sold. Likely future sales were therefore one of a number of factors which informed a review of the television licence completed in February 2000, which resulted in the Secretary of State setting the level of the licence fee for each year from 2000-01 to 2006-07. For that purpose, and for its own financial planning, the BBC used more cautious assumptions than the sales forecasts made by the bidders. However sales achieved nonetheless fell below those assumptions such that net revenue could have been an estimated £200 million lower over the period (paragraph 2.23).

## Marketing the television licence

- 17** There is a range of marketing activity to promote payment of the licence fee. Some of this is designed to retain existing payers and encourage prompt renewal (for example, by switching to direct debit); other initiatives are focused on likely evaders. Since 1996 the BBC has launched four separate national campaigns (in 1996, 1998, 1999 and 2000) and seen an increase (up from 77 per cent in September 1996 to 82 per cent in March 2000) in the number of people who would feel "uncomfortable" if they did not have a current television licence. In addition to marketing, the BBC carries out media relations and community relations initiatives through the TV Licensing agent (paragraphs 3.2 - 3.6).

## Providing a range of payment methods

- 18** An important part of reducing evasion is making it easy to pay the licence fee, and the BBC has been successful at this by introducing a range of payment methods. A 1998 survey commissioned by the BBC showed that only 0.2 per cent of respondents claimed that payment was not possible under any of the methods available (paragraph 3.7).
- 19** Of the various methods, payment by direct debit has several advantages - it ensures timely payment; is highly effective in securing renewals; and, as payment is made direct to the TV Licensing agent, the BBC avoids the need to pay any of its other agents (for example Post Office Counters Limited) for processing the payment. The proportion of people paying their licence fee by direct debit has increased from 15 per cent in 1991 to 49 per cent in 2001. A survey commissioned in 2000 by the then TV Licensing agent suggested an achievable 'longer term goal' of 55 per cent direct debit take-up. The BBC now aims to reach the levels of take-up achieved by the utility companies - which ranged between 35 per cent and 58 per cent in 2001 (paragraphs 3.9 - 3.10, 3.12).

- 20 The new TV Licensing agent, Capita, will have targets for transferring customers to direct debit. There are no explicit contractual incentives for the new TV Licensing agent to increase take-up of direct debit, but there is a contractual incentive to retain customers, which direct debit helps to achieve. We understand that staff incentive schemes will be provided to promote efforts to increase take-up of direct debit (paragraph 3.12).
- 21 The BBC does not have the freedom to offer customers a discount for payment by direct debit, nor can it refuse its services if customers do not accept a particular method of payment, in the way that utility companies and cable and satellite television providers can. Indeed, because payment is partly in arrears, customers on the quarterly scheme are required to pay a premium, and monthly scheme customers are required to pay one and a half times the cost of a licence in the first year (paragraph 3.11).
- 22 The Cash Easy Entry scheme was introduced to help those people who find it difficult to pay the licence fee, and from its inception in August 1996 to March 2001 some 1.38 million people have been accepted into the scheme of whom 0.86 million (63 per cent) were previously unlicensed. A significant number of people join the scheme as a result of visits carried out by the TV Licensing agent's enquiry officers. Of those evaders caught by visits carried out in 1999 - 2000, 47 per cent signed up to the scheme, thereby reducing the risk of prosecution. But there are problems with people leaving the scheme or getting into arrears with their payments. Our analysis of payment records for people who joined the scheme in 1999-2000 showed that of those who had previously been unlicensed, 19 per cent left the scheme without making any payments and a further 29 per cent did not complete the first six months' payments. A factor in this may be that the cost is front-loaded, with the first year's licence to be paid for over six months (paragraphs 3.13 - 3.14, 3.17).
- 23 The direct debit instalment schemes and Cash Easy Entry are regulated by the Department for Culture, Media and Sport and any changes to the payment schemes would need to be in regulations made by the Secretary of State and approved by Parliament (paragraph 3.8).

## Catching potential evaders

- 24 The TV Licensing agent's field force of enquiry officers visits unlicensed properties to establish whether evasion is taking place. Enquiry officers visited some 3.2 million properties in 2000-01 and sold 632,000 licences - one for every five properties visited and worth some £69 million to the BBC. Enquiry officers caught 398,000 suspected evaders, but a high proportion of enquiry officers' visits do not result in any customer contact (79 per cent in 2000-01) because:
- properties are unoccupied or under construction - 646,000, 20 per cent of all visits, in 2000-01 (visits are routinely made to properties recorded in the database of licensable places (paragraph 11) as unoccupied to confirm that this is the case);
  - properties are found not to exist - 70,000, 2.1 per cent, in 2000-01;
  - the occupant is not at home or does not answer the door - 1.8 million, 57 per cent, in 2000-01;
  - the householder had moved or gone away - 22,000 visits, 0.6 per cent in 2000-01.

In addition, 79,000 of the properties visited (2.4 per cent in 2000-01) were already licensed (paragraph 3.18).



- 25 Every additional colour licence sold as a result of a visit would yield at least an estimated £84 net revenue (based on the 2001-02 fee for a colour licence), allowing for the incremental cost of enquiry officers' time, but excluding any additional bonuses or fees payable to the TV Licensing agent. As an illustration, increasing the proportion of visits that result in a sale by ten per cent would result in additional net revenue of at least £5 million (paragraph 3.19).
- 26 The lists of properties to be visited are generated by the database of licensable properties (paragraph 10) and the reliability of the data is therefore important in ensuring maximum benefit is achieved from visits. The BBC is working with the TV Licensing agent to improve the quality of the data and use it to focus enforcement activity more effectively - for example, since September 2000, known unlicensable properties have been filtered out from the list of properties to be visited, and enquiry officers' visits in themselves help to improve the quality of data. Also, since October 2000 enquiry officers have increased the amount of evening and weekend visiting - the times when people are considered most likely to be at home (paragraphs 3.17, 3.20).

## Prosecuting evaders

- 27 Decisions on whether or not to pursue prosecutions of evaders are made by the TV Licensing agent, within the BBC's overarching policy of providing every opportunity for those who are caught without a licence to pay the licence fee and prosecuting those who have consistently refused to pay. The maximum possible fine for failure to buy a television licence is £1,000. The level of fine imposed in any one case is a matter for individual courts, informed by sentencing guidelines issued by the Magistrates' Association which aim that penalties should be proportionate both to the offence and the offender, taking into account the offender's ability to pay. In 2000-01 a total of 128,894 people were convicted and together fined £12,923,610 (an average of £100.26) with, in addition, total costs awarded of £5,228,791 (an average of £40.57) (paragraphs 3.21-3.22).
- 28 Conviction does not mean that the offender automatically buys a television licence. In 2000-01 enquiry officers made 46,963 'prosecution follow-up' visits and took a second prosecution statement in almost one in three cases, suggesting that significant numbers of offenders do not buy a licence following conviction. The BBC is concerned that the levels of fines imposed, over which it has no influence, do not act as a sufficient disincentive to evaders. The TV Licensing agent has sought to address those concerns by liaising with court authorities to emphasise that prosecution is a last resort and that evaders have been given every opportunity to pay prior to court action (paragraphs 3.23 - 3.24).
- 29 The report on the Review of the Criminal Courts of England and Wales undertaken for the Lord Chancellor, the Home Secretary and the Attorney-General, recommended in October 2001 that 'the use of a television without a licence should remain a criminal offence, but that it should be dealt with in the first instance by a fixed penalty notice discounted for prompt purchase of a licence and payment of penalty, and subject to the defendant's right to dispute guilt in court' (paragraph 3.25).

## Our main conclusions and recommendations

- 30** Television licence fee evasion affects all licence fee payers; the cost of evasion, currently estimated at some £141 million, is equivalent to approximately £6 extra being available to the BBC for each licence payer. Estimates of evasion derive from a statistical model which itself depends on estimates, which vary, of the size of the population and the proportion of households with a television set. Alternative estimates suggest that the evasion rate may be more than two percentage points higher than currently reported. Nonetheless, during the period in which the BBC has been responsible for collecting the television licence fee, there has been a downward trend in evasion.
- 31** The BBC has a statutory responsibility to enforce the television licence regime but, unlike cable and satellite television providers, cannot prevent evaders from watching television. The BBC is seeking to reduce evasion while ensuring that, although increased effort may be needed as evasion is brought down, the incremental cost of collecting additional licences is not more than the extra revenue collected. The combined cost of collection and estimated revenue lost through evasion has fallen from £378 million in 1991-92 to £273 million in 2000-01, at 2000-01 costs and licence fee rates.
- 32** The BBC has been taking steps to strengthen the collection and enforcement arrangements and believes a target evasion rate of 3.5 per cent (calculated using the current statistical model) is achievable by the time its current Royal Charter expires in 2006, compared to the 5.2 per cent estimated at the end of 2000-01. This would yield extra licence fee income of £40 million a year. In working to this goal the BBC has put in place contractual arrangements whereby the TV Licensing agent will be paid for licences sold, but accepts that the BBC itself must continue to take an active part in developing the collection arrangements. The table which follows recognises specific areas in which the BBC is taking action, and sets out our comments and recommendations:

**Action the BBC is taking:****The National Audit Office's comments and recommendations:**

Assessing the overall number of evaders and consequent cost of evasion.

The BBC and the Department have been in the process of revising and updating the statistical evasion model since 1998. Validation of the model should now be completed as soon as possible so that up to date estimates of evasion can be presented in the BBC's next report and accounts and the Department's Resource Account.

Seeking to establish a better understanding of where evaders live.

The BBC is already doing much by pursuing, with the TV Licensing agent, steps to verify the accuracy of data in the database of licensable properties. And completion of the data warehouse is allowing the TV Licensing agent to get more benefit from the data already held by targeting enforcement activities.

The database is, however, a cornerstone of enforcement work and as such requires specific and continuing attention. Ensuring that the database is complete - identifying missing addresses and single addresses where more than one licence is due because of multiple occupation - is challenging but an area that merits particular attention. The BBC could usefully complement the work it is already doing by commissioning targeted on the ground surveys of specific locations. There would be cost involved, though it would not be particularly skilled work and the BBC may be able to contract part time workers to do it. The payback would be the identification of additional potentially licensable places, and better data for planning enforcement work. To test the costs and benefits, however, the BBC could begin with a limited trial.

One source of information about the licensable population is notification of sales of television equipment from dealers, but there appears to be under-reporting. The BBC should test annually whether the number of dealer notifications received is reasonable, by comparing dealer notifications against the data which is commercially available. The BBC should also continue to strengthen the dealer notification system by carrying out spot checks.

Providing a range of payment methods.

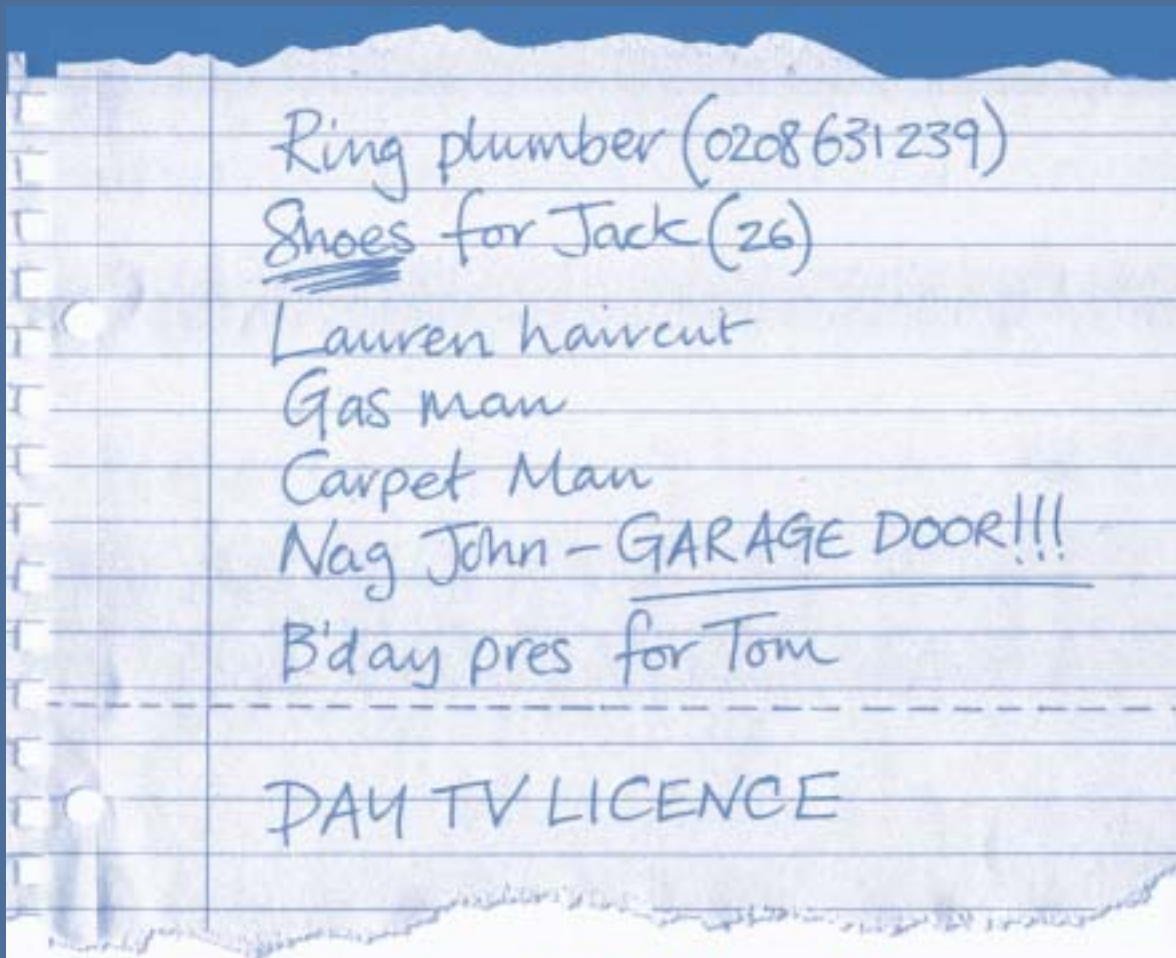
The BBC has ensured that a variety of payment methods is available, including instalment schemes designed to suit those on low incomes. However, a high proportion of those people who sign up to the Cash Easy Entry scheme subsequently drop out, in some cases without making any payments at all, which suggests that the BBC should address the question of whether some people are being encouraged to join the scheme inappropriately.

The most assured way of achieving prompt licence renewals is by promoting payment by direct debit. The BBC has achieved a significant increase in the number of people who pay this way and is looking for further gains. The setting of clear milestones to aim for could help in this, as will continued benchmarking against the level of take-up achieved by other organisations.

Some direct debit schemes and the Easy Entry scheme require the licence fee payer to pay one and a half times the cost of the licence in the first year and, in the case of the quarterly direct debit scheme, pay an annual £5 premium. In working to maximise the potential of these schemes, the BBC and the Department should consider whether the upfront costs are acting as an entry barrier, perhaps by consulting licence fee payers. Clearly there would be some costs involved in the work.

Seeking to catch potential evaders and sell them licences.

The importance of the BBC's work to improve the quality of its data is underlined by the fact that large numbers of door to door enquiry officer visits either result in no customer contact or are to properties where a valid licence is already held. While these enquiry officer visits in themselves help to improve the accuracy of the data, any additional visit that resulted in a sale would yield an estimated £84 at least, allowing for the costs involved. The BBC should set a target for increasing the proportion of visits that result in sales. As an illustration, a ten per cent increase would result in additional net revenue of at least £5 million.



## Pay by Direct Debit and have one less thing to worry about.

Set up a Direct Debit and you won't have to remember to pay for your TV Licence ever again.  
Payments can work out at less than £10 a month.\*

Just call **0870 241 5698** and have your bank details to hand  
or complete and return the form below.

\*Subject to your current licence status.

Ref: DDAP



# Part 1

## Introduction

1.1 This report is about collecting the television licence fee, and what can be done to reduce evasion and increase revenue. In 2000-01 some 23.4 million licences were issued, which generated net income of £2,371 million but an estimated £141 million of licence fee income was lost due to evasion. Licence fee income provides 98 per cent of external funding (87 per cent of the total funding, including transactions with commercial businesses within the BBC group) for the BBC's public service broadcasting in the United Kingdom.

### The different sorts of licence

1.2 The television licence fee is established by statute. Under the Wireless Telegraphy Act 1949, as amended by the Broadcasting Act 1990, it is a criminal offence to install or use, without a television licence, any kind of equipment for the purpose of receiving television broadcasts in the United Kingdom.

1.3 The different sorts of licence, the fee payable for each licence, and the terms of any concessions are set in Regulations made by the Secretary of State for Culture, Media and Sport and laid before Parliament. In February 2000 the then Secretary of State announced that the licence fee would increase each year, up to expiry of the BBC's current Royal Charter on 31 December 2006, by the level of the retail price index plus 1.5 per cent. The current fees for different types of licence are shown in **Figure 1**.

#### 1 The current fees for different categories of television licence

*There are different fees for colour and monochrome licences, and dispensations for the blind, those in residential care and the elderly, and for hotels.*

Category of licence payer	Fee payable in 2000-01
Colour television owners.	£104 (£109 in 2001-02) for each place where a television is used (covering all the televisions installed in the same place). A separate licence is needed for second homes. Both domestic and business premises must be licensed.
Monochrome (black and white) television owners.	£34.50 (£36.50 in 2001-02) for each place where a television is used.
Registered blind people.	Receive a 50 per cent discount on the standard (colour or monochrome) fee.
People living in qualifying residential care accommodation, and who are retired and aged over 60, or are physically or mentally disabled.	£5 per dwelling.
All people over the age of 75.	Nil. In November 2000 people aged over 75 became entitled to a free television licence. Those eligible must still have a valid television licence but the Department for Work and Pensions pays the appropriate fee direct to the BBC in respect of each free licence issued. A new sort of licence, the Short Term Licence, was introduced at the same time for people buying a licence but who will reach their 75th birthday within the next 12 months.
Hotels.	Special licence terms are available for hotels and 'hospitality areas'. The first licence (at the standard colour or monochrome fee) covers up to 15 rooms with a television set. A further licence fee must be paid for each additional five (or fewer) rooms.

Source: National Audit Office

## Responsibility for collecting television licences

- 1.4 The Broadcasting Act 1990 transferred from the Secretary of State (then the Home Secretary) to the BBC functions in respect of issuing and renewing television licences with effect from 1 April 1991. Under the legislation, all the licence fee money collected by the BBC is payable into the Consolidated Fund (the Exchequer). The licence fee money collected by the BBC is passed to the Department for Culture, Media and Sport, and then surrendered to the Exchequer. In practice, the Department issues a grant to the BBC equivalent to the full amount of net licence fee income collected, less the Department's costs.<sup>1</sup> To confirm that all the money collected has been paid over the Department obtains certificates from the auditors of the BBC's agents (paragraph 1.7).
- 1.5 **Figure 2** shows the division of responsibilities between the Department for Culture, Media and Sport and the BBC.

## The operational arrangements the BBC has put in place

- 1.6 The BBC appoints a TV Licensing agent to operate licence fee collection and enforcement arrangements on its behalf. These range from issuing licence fee renewal notices to customers, collecting payments and issuing licences, to identifying and taking enforcement action (which may include prosecution) against evaders. The BBC has been heavily reliant on Consignia plc (formerly the Post Office) and Consignia's subsidiary companies for this work. However, following competitive tendering, the BBC has recently appointed two new contractors. Capita Business Services Limited will take over responsibility for collection and enforcement activity with effect from 1 July 2002. The AMV consortium will take over the marketing and communications activities from 1 April 2002.
- 1.7 The licence fee may be paid in a number of ways and is collected and paid over to the Exchequer through a number of routes (**Figure 3**). The money is collected by the BBC's agents (some licence fee revenue is collected by agents other than the TV Licensing agent) and to confirm that it is all paid over the Department obtains certificates from the agents' auditors which the agents are contractually obliged to provide to the BBC.

## 2 The respective responsibilities of the Department and the BBC

*The Department retains an overall responsibility for licence fee policy, but the BBC is responsible for collecting licences and enforcing payment.*

### The Department's responsibilities

- **Determining the specific types of apparatus to be licensed** (for example, video cassette recorders, satellite television receiving equipment, and television receiver cards for computers as well as television sets);
- **Deciding the types of licence** that will be issued (for example, colour and monochrome licences, instalment licences or concessions);
- **Determining licence fee conditions.** It will normally fall to the BBC to propose changes to conditions, but changes must be agreed with the Department, subject to Parliamentary approval;
- **Setting new levels of licence fee** and the scope of any concessions (such as the discount for registered blind people), subject to Parliamentary approval;
- **Approving new methods of payment** for licences (for example, the amount and timing of instalments), subject to Parliamentary approval;
- **Paying grant** to the BBC;
- **Preparing statistics** (for example, estimates of licences in force and levels of evasion).

### The BBC's responsibilities

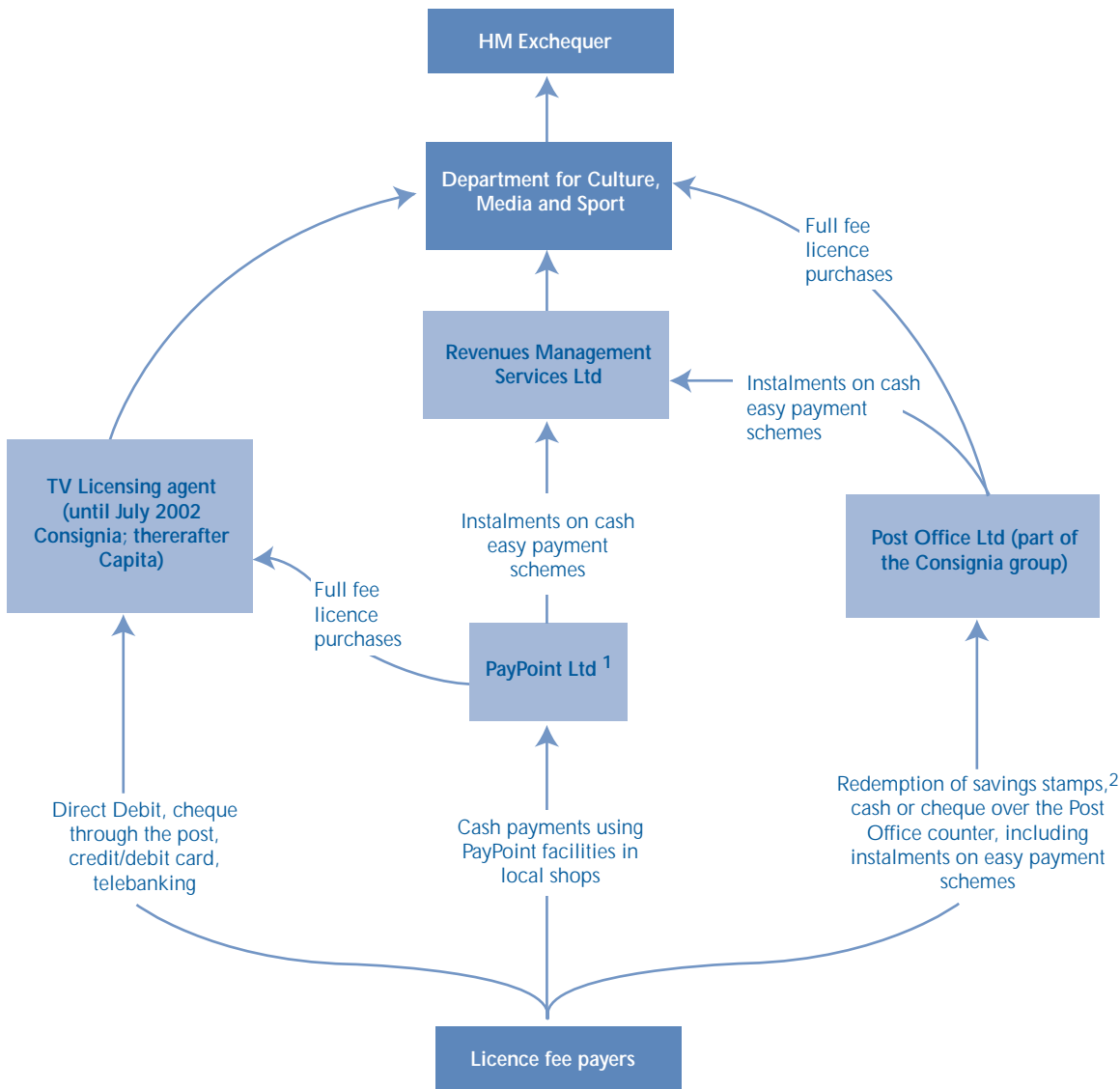
- **Issuing licences**, maintaining licence records and collecting licence fees;
- **Administering a scheme whereby dealers are required to notify the BBC of sales** and rentals of television receiving equipment;
- **Interpreting the regulations** (set by the Secretary of State) in individual cases, including eligibility for concessions;
- **Enforcing** the licensing system;
- **Revoking or altering individual licences**, determining refund policy and making refunds;
- **Paying into the Consolidated Fund** all licence fee revenues, less any refunds made. In practice, the licence fee money collected by the BBC is passed to the Department for Culture, Media and Sport, and then surrendered to the Exchequer.

*Source: Department for Culture, Media and Sport*

<sup>1</sup> These arrangements are in accordance with the Agreement dated 25 January 1996 and presented to Parliament (Cm 3152), between the BBC and the then Secretary of State for National Heritage (clauses 10.1-10.2). Instalments paid by the Department to the BBC during the year are based on an estimate of the amount of licence fee revenue expected to be collected. A small adjustment for over or under payment is made in the following year.

**3 Licence fees are collected through a variety of payment methods**

Licence fee payers can buy a licence using a variety of payment methods provided by the BBC's different agents. All receipts are paid, via the Department, to the Exchequer.



**NOTES**

1. PayPoint Limited provides a national network of over 9,000 outlets, located in local convenience stores and on petrol forecourts, which allow people to make payments to TV Licensing and many other bill issuing companies.
2. TV Licence savings stamps, available from post offices, can be redeemed against the cost of a television licence. Stamps are essentially a savings scheme. Money from sales of stamps is held by the BBC until they are used to buy a licence.

Licence fee revenue is also received by the Department from the Channel Islands and Isle of Man Post Offices.

Source: National Audit Office

1.8 The TV Licensing agent maintains records of licence payers and licensable places, processes licence fee payments and pursues evaders. However, the BBC has changed these arrangements three times since early 1999 (Figure 4). The contract with Envision Licensing Limited (a special purpose consortium of what was then Post Office Customer Management Limited, WPP Limited and Bull Information Systems Limited) was terminated in March 2001 after just two of the seven

years it was intended to run because, although sales increased, Envision did not achieve its forecast sales volumes and as a result experienced financial difficulties. The BBC then entered interim arrangements with Consignia and, as mentioned earlier, has now awarded the TV Licensing contract to Capita. Marketing work has been provided separately by WPP, and from 1 April 2002 will be provided by AMV.

#### 4 Changes to the TV Licensing contractor

*The BBC has substantially changed the TV Licensing arrangements three times (including consequential interim arrangements) since early 1999.*

Date	Contractor	
April 1991 to April 1999	<b>Subscription Services Limited<sup>1</sup></b>	<p>The BBC inherited arrangements with Subscription Services Limited from the Home Office in 1991. The BBC subsequently renegotiated the terms in the first year and again, on renewal of the renegotiated contract, in 1996. They signed a five year contract for the period 1 April 1996 to 31 March 2001, which was terminated by the BBC in March 1999.</p> <p>In February 1998 the BBC opened the TV Licensing contract to competition, having given Subscription Services Limited notice of its intention to terminate, with the aim of boosting licence fee sales and reducing evasion through a more commercial, sales driven approach to licence fee collection.</p>
April 1999	Contractor changed to <b>Envision Licensing Limited</b>	<p>Envision Licensing Limited was awarded the contract for seven years starting on 1 April 1999. Envision was a special purpose consortium of:</p> <ul style="list-style-type: none"> <li>■ <b>Post Office Customer Management Limited<sup>1</sup></b> (for licence fee collection and enforcement)</li> <li>■ <b>WPP Limited</b> (for marketing)</li> <li>■ <b>Bull Information Systems Limited</b> (for IT services)</li> </ul> <p>Although licence sales increased, Envision did not achieve the sales volumes forecast in its contract and as a result experienced financial difficulties. After unsuccessful attempts had been made to renegotiate the terms of the contract, Consignia, which had been meeting the bulk of Envision's losses, told the BBC that unless new terms could be agreed it would cease funding Envision at the end of January 2001. To maintain continuity of licence fee collection the BBC and Consignia entered an agreement whereby Envision continued to administer the licence fee regime until 31 March 2001 under the terms of its existing contract. The contract was then terminated.</p>
April 2001	Interim arrangements with <b>Consignia Customer Management Limited<sup>1</sup></b>	<p>With effect from 1 April 2001 the BBC set up interim arrangements with Consignia Customer Management Limited pending the outcome of a competitive tender.</p> <p>The BBC has a separate contract with <b>WPP Limited</b> for marketing services running for 12 months from 1 April 2001.</p>
July 2002	Contractor will change to <b>Capita Business Services Limited</b>	<p>Capita will take over responsibility for collecting and enforcing television licences from Consignia.</p> <p>On 1 April 2002 the <b>AMV consortium</b> will take over marketing and communications activities from WPP Limited.</p> <p>The BBC will act as contract integrator, with a co-operation agreement governing the way all three parties (Capita, AMV and the BBC) will work together. Under the new arrangements the BBC will have a much greater role in day to day management of the television licence collection regime than was the case with Envision or other previous contractors.</p> <p>The contracts with the AMV consortium and Capita Business Services Limited are for a period of ten years, with clauses providing for early termination.</p>

#### NOTE

1. Subscription Services Limited (a subsidiary of the Post Office) was renamed Post Office Customer Management Limited which in turn was renamed Consignia Customer Management Limited.

Source: National Audit Office

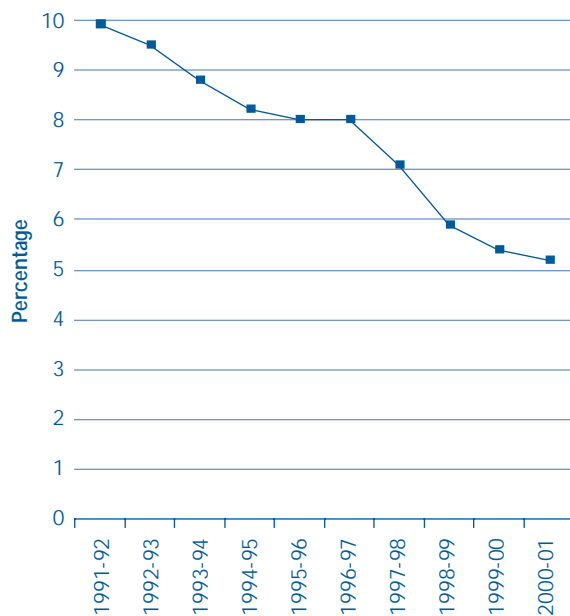


## The cost of evasion and collection

1.9 The cost of evasion is calculated using a statistical model which is under review (paragraphs 2.2-2.4). Between 1991-92 and 2000-01 the evasion rate, the proportion of potential licence fee revenue that remains uncollected, has fallen - from an estimated 9.9 per cent to 5.2 per cent, although revisions to the statistical model on which this is based suggest a higher figure (Figure 5). The BBC estimates that in 2000-01 some £141 million licence fee revenue was lost because of evasion. The cost of evasion includes not just those people who use a television without a valid licence, but also 'hidden evasion' - those who buy a cheaper, licence for a black and white television when a colour set is in use. The BBC believes a target evasion rate of 3.5 per cent is achievable by the time its current Royal Charter expires in 2006. Achieving this would represent extra licence fee income of over £40 million a year.

### 5 The estimated cost of evasion as a percentage of licence fee revenue at the end of each financial year, 1991-92 to 2000-01

The estimated evasion rate has virtually halved since 1991-92.

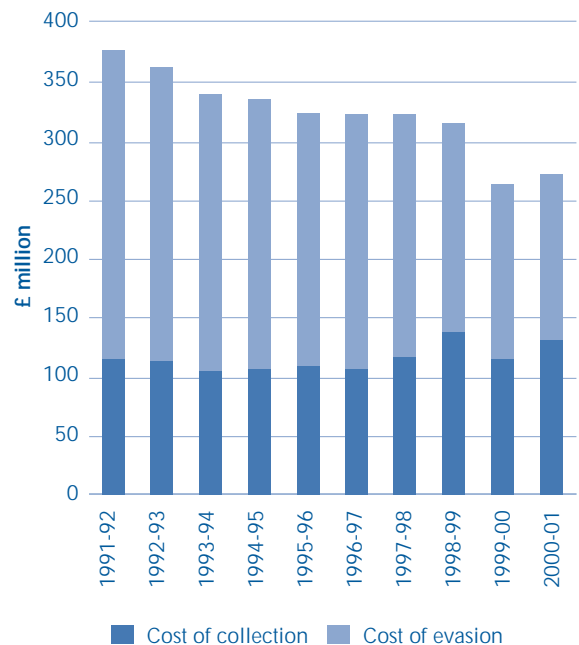


Source: The BBC, and Department for Culture, Media and Sport

1.10 The cost of collecting the television licence is paid out of licence fee revenue. The BBC is looking to reduce the combined cost of collection and evasion, while recognising that as the overall evasion rate falls, increased effort will be needed to catch hard core evaders. Figure 6 shows that the combined cost of evasion and collection, at 2000-01 prices and licence fee rates has gradually fallen from £378 million in 1991-92 to £273 million in 2000-01, and that this has been achieved because of reductions in the estimated cost of evasion.

### 6 The cost of collection and estimated cost of evasion at 2000-01 prices and licence fee rates

The combined cost of collection (at constant 2000-01 prices) and estimated revenue lost through evasion (expressed at 2000-01 licence fee rates) has gradually fallen since 1991-92.



#### NOTE

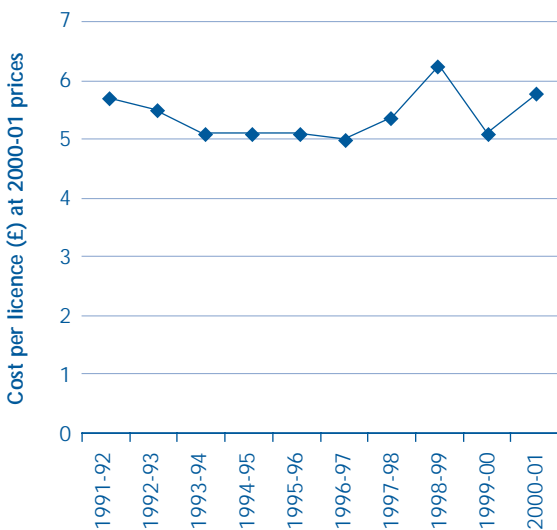
Collection costs have been converted to constant 2000-01 prices using the Treasury's GDP deflator.

Source: National Audit Office

1.11 Year on year comparisons of the cost of collection expressed as a percentage of revenue are complicated by the fact that the licence fee increases every year, and because the proportion of monochrome licences sold, at a lower fee than colour licences, has steadily declined. To allow for the increasing numbers of licences sold each year, **Figure 7** shows how the absolute cost of collection per licence sold, net of licences cancelled during the year, has remained between £5 and £6 per licence (at constant 2000-01 cost) for most of the period between 1991-92 and 2000-01. The cost of collection per licence in 2000-01 (£5.75) is virtually the same, at constant 2000-01 prices, as it was in 1991-92 (£5.73), while the evasion rate has fallen by almost half over the same period (Figure 5).

**7 The cost of collection per licence at 2000-01 prices**

The cost of collection per licence has remained between £5 and £6 (at 2000-01 prices) for most of the period since 1991-92.



**NOTE**

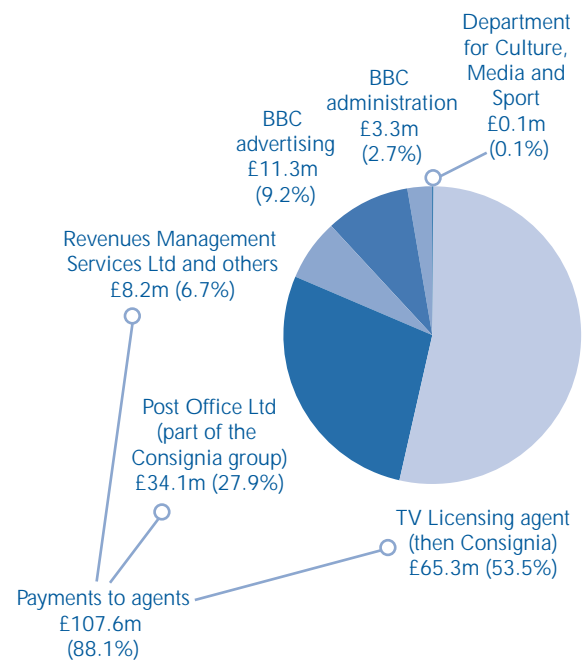
Collection costs have been converted to constant 2000-01 prices using the Treasury's GDP deflator.

Source: National Audit Office analysis of data provided by the BBC and Department for Culture, Media and Sport

1.12 The total cost of collecting the television licence fee was £132 million in 2000-01, representing some 5.6 per cent of the £2,371 million net licence fee revenue collected. **Figure 8** shows how 88 per cent of the cost of licence fee collection and enforcement is made up of payments by the BBC to its agents, with 54 per cent accounted for by payments to the TV Licensing agent.

**8 How the cost of collection in 2000-01 breaks down**

The bulk of the cost of collecting licences represents payments to agents, and payments to the TV Licensing agent in particular.



**NOTE**

The total cost of collection as shown in the BBC's published accounts was £131.9 million, after accounting adjustments including a £12 million provision for potential liabilities arising on the change to a new TV Licensing contractor.

Source: The BBC

## The challenge for the BBC

- 1.13 The challenge for the BBC is to maximise the net licence fee revenue collected, by making the collection and enforcement arrangements as cost effective as possible, so that as much money as possible is available for programming, rather than absorbed by the cost of administering the licence fee regime. The BBC has a statutory responsibility to enforce the television licence regime, and is seeking to reduce evasion while ensuring that, as evasion is brought down, the incremental cost of collecting additional licences is not more than the extra revenue collected.
- 1.14 The BBC's collection and enforcement activities are inter-related and reinforce each other. Initiatives to encourage voluntary payment, such as instalment schemes to make the licence fee easier to pay, help to achieve sales to people who might otherwise evade. Marketing campaigns maintain the licence fee at the front of people's minds as an important payment, encouraging regular licence payers to pay promptly rather than be tempted to delay, discouraging evasion, and making actual evaders feel at risk of detection. Messages are reinforced and made more credible by visible enforcement work on the street. The TV Licensing agent's enquiry officers catch evaders on the doorstep, but their work also encourages others to pay. To get the most value from its licence fee collection arrangements, the BBC needs to have a clear understanding of how potential and actual evaders are likely to respond to enforcement activities and to work with the TV Licensing agent to refine and target its various approaches.
- 1.15 Most of the collection and enforcement work is done for the BBC by its TV Licensing agent. The BBC has been looking to achieve a more commercial approach in these arrangements, both to reduce the cost of collection and incentivise its agent to pursue sales with more vigour. In its contracts with Envision and now Capita the BBC has sought to move away from arrangements with cost plus elements (actual cost plus profit) towards highly incentivised payment mechanisms, under which fees are due in respect of the number of licences actually sold.

## Our study scope and methodology

- 1.16 Against this background this report looks at ways to increase the cost effectiveness of licence fee collection, thereby increasing net licence fee revenue.
- Part 2 of the report considers the quality of information the BBC has about evaders - how many there are, who they are and where they are.
  - Part 3 examines what more could be done to reduce evasion - by encouraging voluntary payment through effective marketing and providing a variety of convenient ways to pay, and taking robust enforcement action against evaders.
- Our study was confined to a review of the arrangements put in place by the BBC for the collection and enforcement of the licence fee. Whilst the Comptroller and Auditor General audits the accounts of the Department for Culture, Media and Sport he has no access to the BBC to examine and report to Parliament on how the Department's grant to the BBC is spent, other than in respect of the licence fee arrangements. The BBC's TV Licensing agent and its subcontractors co-operated fully with our enquiry. We did not examine in detail the arrangements now put in place with Capita, since the competition to appoint the TV Licensing agent was still ongoing at the time we carried out our fieldwork.
- 1.17 The methods we used are outlined at Appendix 1.



## HE ISN'T THE ONLY ONE WITH A LIST OF HOMES TO VISIT.

It's not just Santa's busiest time of year. More people watch television at this time of year than any other. And TV Licensing Officers don't stop working just because it's Christmas. So, if you've got a television and need a TV Licence, make sure you're left off our Christmas list by getting one. There are lots of ways to pay and you can even spread the cost. For more information call TV Licensing on **0800 085 0133** and ensure the only visit you get this Christmas is from Santa.





# Part 2

## Knowing the evaders

2.1 This Part of the report is about the extent and quality of the BBC's knowledge and understanding of licence fee payers and evaders. A sound understanding of the number of evaders, the characteristics of evaders, the scale of enforcement activity required and the scope to increase licence fee revenue, is necessary to make realistic projections of future income. This is important because:

- cost effective enforcement activity requires accurate and complete information about evaders so that collection and enforcement work can be planned and carried out in the most efficient and effective way;
- when the BBC invites tenders for undertaking licence fee collection work, potential contractors are likely to view uncertainty about the scope to increase licence sales as presenting a risk to their own revenues, and may seek to reflect this risk in a higher price for taking on the task. The perception of risk is likely to be higher if there is a lack of complete and reliable information about the number of evaders and what motivates them to evade.

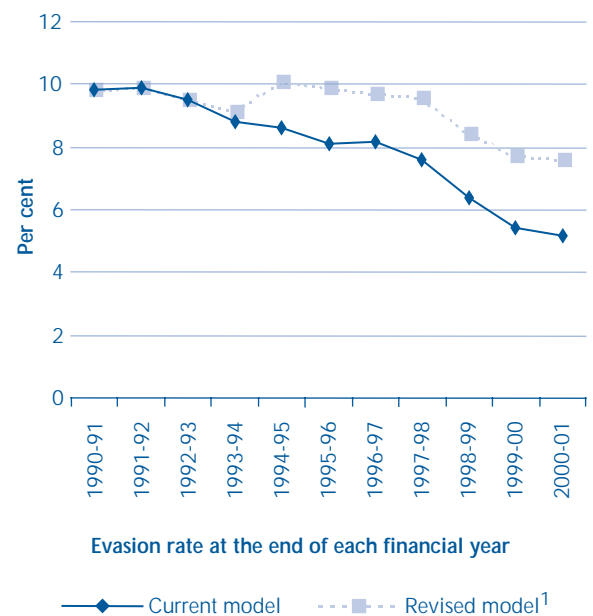
### How many evaders there are

2.2 Estimated evasion rates (from which an estimated cost of evasion is derived) are calculated using a statistical model developed and maintained by the Department for Culture, Media and Sport. In summary, the model estimates the level of evasion by subtracting the number of licences currently in force from the estimated number of properties for which a licence should be held. The model simply gives a broad indication of the overall evasion rate - it reveals nothing about the susceptibility of evaders, individually or collectively, to enforcement action.

2.3 The Department and the BBC have been revising the evasion model since 1998 and although the model is still being validated the indications are that the level of evasion has previously been under-estimated. **Figure 9** shows that both the current model and the revised model show an overall downward trend in the evasion rate over the period during which the BBC has been responsible for collecting the television licence fee. However the revised model calculates a consistently higher evasion rate.

### 9 Estimates of evasion calculated by the old and new evasion models

*Both old and revised evasion models show an overall downward trend in the evasion rate.*



#### NOTE

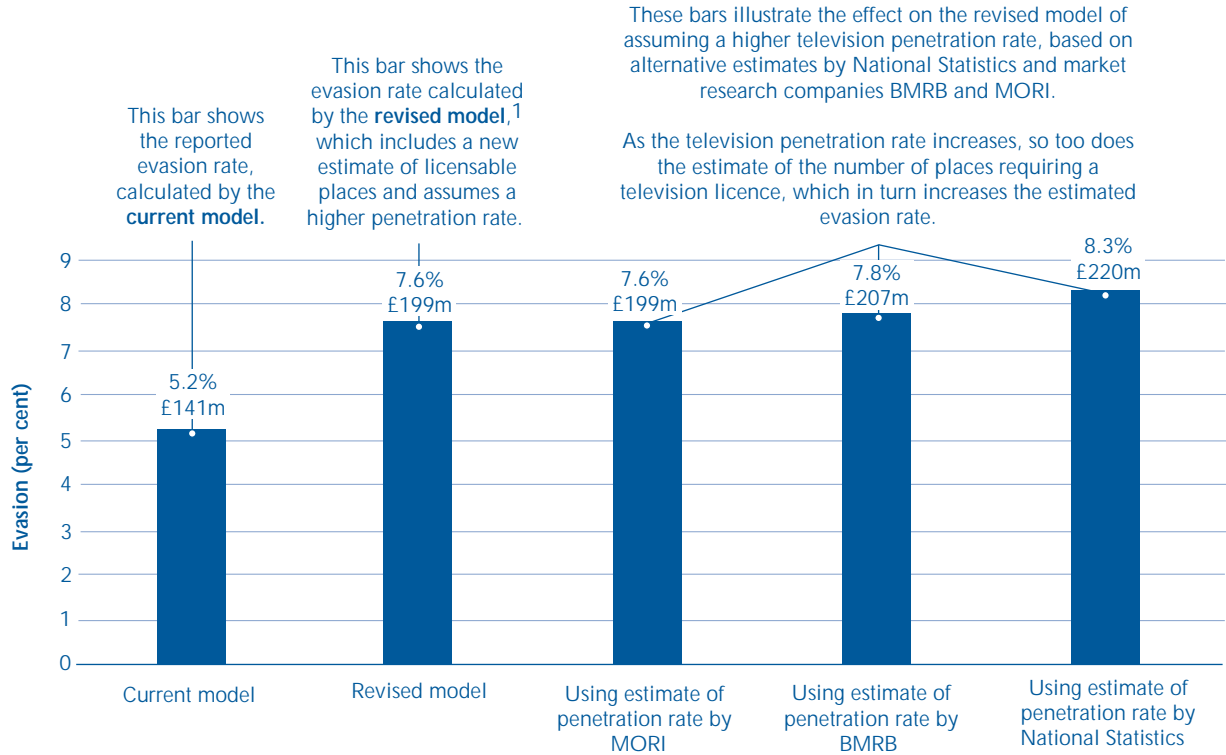
1. The revised model is still being validated.

*Source: Department for Culture, Media and Sport evasion models*

2.4 Based on the current model the evasion rate reported by the BBC as at March 2001 was 5.2 per cent (equivalent to £141 million in uncollected income in 2000-01). The revised model calculates an evasion rate of 7.6 per cent at March 2001 (equivalent to £199 million in uncollected income). The change is mainly because the new model adds previously excluded properties and assumes a higher proportion of the population owns a television set. **Figure 10** illustrates the extent to which the model is sensitive to small changes in assumptions about how many people own a television set. The alternative surveys are conducted on different bases and there is no 'right answer', but on some estimates the evasion rate is higher.

**10 Revised estimates of evasion as at March 2001**

The Department's revised evasion model calculates a higher evasion rate than currently reported, but is sensitive to estimates of the proportion of the population with a television.



**NOTE**

1. The revised model is being validated by the Department and the BBC.

**The key changes in the revised model**

**a) Adding previously excluded licensable places** - these are places for which a licence is needed if a television is in use. The current evasion model omits second homes, students in halls of residence, military establishments, hotels and hostels. The Department and the BBC believe it also under-estimates the number of lodgers and business premises requiring a licence. The BBC estimates that together these represent an additional 532,000 potentially licensable places. Making this change to the original model increases estimated evasion by 39 per cent, or 2.1 percentage points on the evasion rate, equivalent to £55.3 million in 2000-01.

**b) Increasing the television penetration rate** - this is the estimated percentage of households that own a television and therefore require a licence. The current model is based on an assumption that 97.25 per cent of households have a television in working order, a figure that has remained unchanged throughout the time the BBC has collected the licence fee. The new model increases the penetration rate to 97.60 per cent as at March 2001, and continues to update the penetration rate monthly, extrapolated from annual figures estimated by the Broadcasters' Audience Research Board (BARB) in June each year. Making this change to the original model increases the estimated evasion rate by 0.4 percentage points, equivalent to an extra £9.2 million in 2000-01. Separate industry surveys carried out during 2000-01 estimated, using different sampling methods, headline rates of television ownership ranging from 97.6 per cent to 98.4 per cent:

- Omnibus, prepared by MORI (97.6 per cent);
- the Target Group Index (April 2000 - March 2001), © BMRB 2001 (97.9 per cent);
- the General Household Survey 2000-01, undertaken between April 2000 and March 2001, prepared by the Office for National Statistics (98.4 per cent).

The different surveys were conducted on slightly different bases, but this Figure illustrates the financial effects of applying alternative penetration rates to the new model.

**c) Other changes** - other technical changes in the way the revised model calculates evasion account for the remaining difference (a net reduction of 0.1 percentage point) between the old and new estimates of the evasion rate.

Source: National Audit Office analysis of the Department's evasion models

## Who the evaders are

2.5 To design strategies to encourage people to pay the licence fee voluntarily, and to focus enforcement efforts on evaders, it is important to know what sort of person evades and their motivation for evading.

2.6 Market research programmes commissioned by the BBC over a number of years show that evaders vary both in their behaviour and in their attitude to the licence fee. But, overall, this research indicates that non-payers are more likely to be younger people and less well off. They also tend to regard the licence as unfair or 'just a tax you get nothing for'.<sup>2</sup> Answers given to the market researchers by people claiming to be evaders or ex-evaders suggest that:

- roughly half appear to be 'opportunistic delayers' who are playing the system. Some of these people claim that the licence slipped their mind, or that they have recently moved or just set up home, and have not got round to it yet. Others, some of whom may have genuine difficulty paying, say that they are waiting until they have the money, that they know they should have renewed a few months before, but are delaying for a while, or are waiting until the TV Licensing authorities actually knock on the door.
- the others are 'deliberate evaders' trying to cheat the system. Some people questioned by the market researchers said they wrote to the TV Licensing agency claiming that they no longer live at the address. Others, in rented accommodation, claimed it is the landlord's responsibility to buy a licence. A further group of conscious evaders, some 19 per cent of the respondents, claimed never to have had a television licence; others said they have bought some TV Licence savings stamps but no licence yet, or that they have a monochrome licence for a colour television.

2.7 Envision Licensing Limited, when acting as the TV Licensing agent, carried out further research to model the evader population by matching evasion rates for postcode areas with commercially available data on income and lifestyle. Using this information Envision identified the characteristics of those most likely to evade. Areas with high evasion rates are most likely to have, for example, a higher than average proportion of younger people, low income households, and students and single parent families, and a level of County Court judgements 50 per cent above the national average.

2.8 Envision Licensing Limited also developed a data warehouse which has been functional since April 2000. It provides data mining tools which can be used to match the details of licensable places held by the TV Licensing agent with external commercially-available data to identify specific places or segments of the population for targeted enforcement activity. The facility has been used to target mailshots, posters and telephone chasing on specific groups, such as students, and offers opportunities to focus enforcement activity on places or segments of the population where the likelihood of evasion is greatest. The BBC secured ownership of the software tools and related documentation for the data warehouse before Envision was wound up - which will transfer to the BBC at the end of the interim arrangements entered into with Consignia.

2.9 To confirm eligibility for free television licences available to people aged over 75, the BBC and the Department for Work and Pensions have put in place arrangements to check individual entitlement. The TV Licensing agent obtains details of an applicant's National Insurance Number and date of birth from the Department for Work and Pensions. If the data held is insufficient individuals must prove their entitlement at a local post office by presenting evidence such as a passport or birth certificate.

## Where the evaders are

2.10 Broad estimates of the evasion rate in different parts of the United Kingdom, derived from the Department for Culture, Media and Sport's evasion model (paragraph 2.2), show that there is uneven distribution across the country (**Figure 11 overleaf**). The security situation in Northern Ireland, where the evasion rate is more than three times the United Kingdom average, has made enforcement activity difficult and in places dangerous. Despite these challenges, the evasion rate has reduced appreciably, from 30.4 per cent at the end of 1994 to an estimated 17.6 per cent in March 2001. There are also some legislative differences in different parts of the United Kingdom. In Scotland, for example, the BBC does not have the same power it has in other parts of the United Kingdom to decide, without reference to other authorities, whether to prosecute evaders who are caught.

<sup>2</sup> One question in a market research study tracking attitudes towards the television licence, carried out for the BBC by Hall and Partners, measures the proportion of people agreeing with the proposition that the TV licence is 'just a tax you get nothing for'.

**11 The estimated evasion rate in different parts of the United Kingdom**

*There is uneven distribution of evasion across the country, with evasion in Northern Ireland three times the United Kingdom average.*

**Estimated numbers of evaders and evasion rates as at March 2001**

Country	Estimated number of unlicensed premises	Unlicensed premises as a percentage of licensable premises (%)
England	905,765	4.5
Scotland	167,881	7.8
Northern Ireland	110,196	17.6
Wales	66,685	5.5
United Kingdom total	1,250,527	5.2

Source: BBC

**The LASSY database**

2.11 At a local level, the TV Licensing agent relies on a database of licensable properties and licences in force ('LASSY') to identify potential evaders house by house. The database holds records of potentially licensable properties and basic details (such as the name of the licence holder and the licence expiry date) of those for which valid licences are held. Using this information, the TV Licensing agent identifies potential evaders for follow-up action, including door to door visits by a field force of enquiry officers.

2.12 The database is a cornerstone of the job of selling licences and combating evasion. There are a number of reasons why omissions and inaccuracies arise as properties are built, demolished, or converted to new uses, and as people change address:

- **Some addresses are missing from the database.** The underpinning list of addresses in the LASSY database is Consignia's list of mail delivery addresses (the Postal Address File), from which the database is updated each month. Despite frequent updating, this database may still lag behind changes as new properties are built or converted from other uses.
- **Some recorded addresses no longer exist.** In 2000-01 enquiry officers visited a total of 70,022 addresses drawn from the database which proved to relate to non-existent properties, for instance, because they had been demolished. This represented 2.1 per cent of the 3.2 million visits made during the year.

- **There may be multiple licensable places at the same postal address.** The purpose of the Postal Address File is to identify mail delivery points and it is not designed to identify licensable places that share the same postal address (for example, houses that have been converted into flats). If the flat units are self-contained then each one should be separately licensed, but if the building is recorded on the LASSY database as a single address the TV Licensing agent has no way of knowing this. The BBC believes that significant numbers of such properties are being created all the time, but these places tend to be identified only through the alertness of enquiry officers on their visits to an area. One enquiry officer we accompanied on visits in London, for example, came across two such properties out of some 40 visits made.

- **Some historical data on whether there is a valid licence for an address may be out of date.** The BBC is dependent on notification by licence payers of change of address to keep records up to date and to indicate when properties become vacant or occupied by another householder who may not be licensed. A television licence only allows use of a television at a specified address. In order to remain properly licensed, licence payers should notify the TV Licensing authority when they move, but the BBC has no way of knowing how many may fail to do so.

2.13 Any inaccuracy in the LASSY database presents a risk of undetected evasion and a failure to get the most out of enquiry officers' visits. It is a constant effort to keep the database up to date. The BBC therefore looks to reduce inaccuracies through:

- **conducting 'data cleansing' exercises on the LASSY database** - including comparison with the Postal Address File, the electoral roll, and other commercially available data - to identify missing addresses, properties in multiple occupation, and properties that were believed vacant but may have been re-occupied.
- **using visits by enquiry officers, employed by the TV Licensing agent, specifically to improve data quality** as well as to carry out their primary role of catching evaders. Overall, some 45 per cent of the properties listed in the LASSY database as unlicensed are shown as unoccupied. Enquiry officers routinely visit a sample of such properties to confirm that they are not licensable.
- **making it easier for householders to notify address changes** by using internet-based services to forward details electronically.

The BBC also aims to use the results of the 2001 census to help provide an up to date assessment of the number of potentially licensable addresses nation-wide.

- 2.14 There are also structural problems with the database stemming from the limited amount of data that can be stored and inflexibility in the database design. In particular, data is structured around addresses rather than customers so information that would assist in targeting enforcement activity - such as individuals' previous addresses and payment history, including analysis of the specific payment method and channel they have used, cannot be incorporated in the LASSY database.
- 2.15 The BBC sought improvements to the LASSY database through its contract with Envision Licensing Limited (then the TV Licensing agent). Envision undertook to deliver a new, more technically advanced database, referred to as 'TRACE'. However, development of TRACE fell behind schedule and the predicted response times for the system did not meet the technical specification. In March 2001 the project to deliver a new database was abandoned and Consignia Customer Management, who had taken over responsibility for the project from Envision, paid the BBC £20 million in compensation (Figure 12).
- 2.16 In addition to enhancing enforcement capability, the TRACE database was to be free standing, and therefore portable - that is, capable of being transferred to another contractor. For the BBC to be able to open the TV Licensing contract to competition in the market, the core database must be portable. The LASSY database is owned by the BBC, but the computer systems on which it runs are owned by Consignia. Without the TRACE system, inability to transfer the LASSY database into a new business environment remained a potential constraint on future competitions for the TV Licensing contract. To give the BBC the capability to transfer the database to a new contractor, Consignia Customer Management Limited has 'unpicked' the database from its supporting computer systems.
- 2.17 The BBC put further development work on hold until it had appointed a new TV Licensing contractor. Upgrading TV Licensing systems, and particularly the database, is a key part of the new contract with Capita which will start on 1 July 2002. The current systems will continue to be provided as a managed service by Consignia for up to two years, while the systems are modernised by Capita.

## 12 Development of the TRACE database

*Development of 'TRACE', the planned replacement for the core database of licensable places ('LASSY'), was abandoned a year after the delivery date originally planned.*

### April 2000

Original contract deadline for delivery of TRACE.

### September 2000

Revised contract deadline.

### October 2000

Decision that TRACE was not deliverable in a predictable timescale.

### December 2000

The BBC terminated that part of Envision Licensing Limited's contract relating to the development of TRACE.

Consignia Customer Management Limited (then Post Office Customer Management Limited) undertook to develop the existing LASSY database at no cost to the BBC, in return for the BBC not invoking a £20 million penalty in its contract with Envision.

### March 2001

The BBC and Consignia Customer Management Limited agreed that the development of the existing LASSY database could not be completed in a realistic timescale. The project was abandoned and Consignia Customer Management paid the BBC £20 million in compensation.

*Source: National Audit Office*

## Television sales reported by dealers

- 2.18 Television dealers are required to notify the TV Licensing agent within 28 days of a transaction for the sale or rental of television receiving equipment, providing full details of the purchaser or renter. Failure to do so, or to retain records for inspection by the BBC, is a criminal offence carrying a maximum penalty of a £1,000 fine.<sup>3</sup> Dealer notifications are one way to identify unlicensed properties where a television is in use.
- 2.19 To assess the extent to which dealers are complying with the requirement to report sales of television equipment we consulted GfK Marketing Services (providers of marketing information to business) who advised us that in 2000-01 there were approximately 10.6 million sales of television receiving equipment in Great Britain, excluding Northern Ireland. This figure is based on a monthly audit of retailers selling television equipment to the public. However, figures provided to the BBC by Envision Licensing Limited, including sales in Northern Ireland, indicated that in 2000-01 it received 6.7 million dealer notifications, suggesting that up to 40 per cent of sales may not be notified to the BBC. As a direct result of the dealer notifications received in 2000-01 some 127,000 licences, worth over £13 million, were sold. On this basis, if all sales had been notified, up to 74,000 additional licences worth some £7.7 million to the BBC could have been sold in that year.



2.20 The importance of the system will increase if, as the BBC expects, television sales increase significantly with the advent of digital television, as people replace older analogue television sets. But with more retail outlets now selling televisions, the challenge of enforcing notification obligations on dealers is increasing. Over the last two years TV Licensing has been taking action to strengthen enforcement by:

- developing a database to record notifications in more detail than is possible in LASSY so as to show, for example, the exact type of equipment purchased. This information can be used by enquiry officers to challenge suspected evaders more convincingly;
- strengthening the arrangements for ensuring compliance by visiting television dealers;
- prosecuting dealers who fail to comply with the system.

### The need for accurate sales forecasts

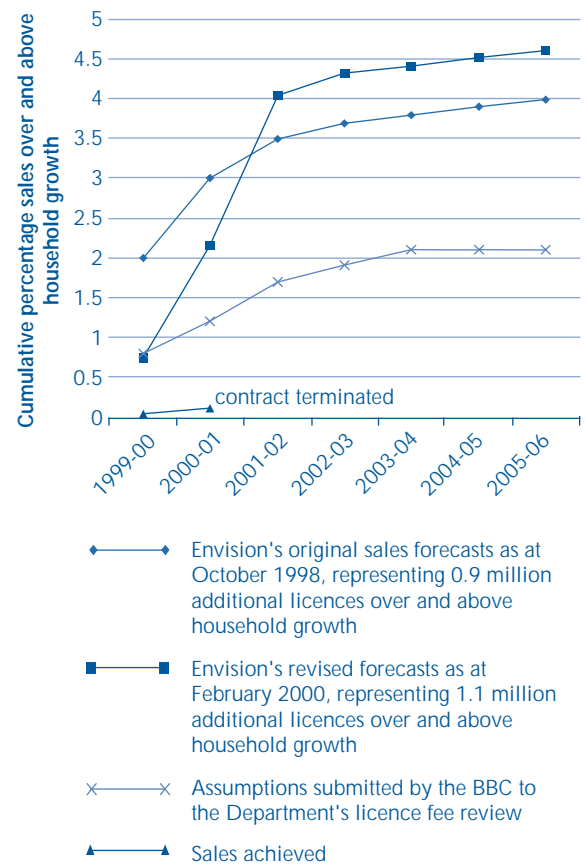
2.21 The BBC's TV Licensing agent between April 1999 and March 2001, Envision Licensing Limited, initially predicted that it would be able to increase sales by more than the rate of household growth - thereby reducing the evasion rate - by two percentage points in the first year and four percentage points over its seven year contract term (**Figure 13**). The early increases were not achieved. Because Envision was paid for each licence sold, the shortfall in sales against forecast had a significant impact on the company's income, placed Envision in financial difficulty and led ultimately to termination of the contract at the end of March 2001:

- In February 2000, after 11 months of the contract, the BBC and Envision agreed revised sales forecasts in the contract to reflect lower than predicted sales in the first period. Forecast sales were reduced in the first two years, but compensating increases were agreed for the remainder of the contract so that, taken overall, there would be no loss to the BBC.
- In October 2000, eight months later, the BBC estimated that, on the basis of predictions of licence fee income then expected to be achieved, revenue could be up to £400 million less than Envision originally predicted over the contract period. Envision advised the BBC that, despite the fact that it had achieved year on year sales growth and expected to continue to do so, it did not now believe forecast levels of sales required over the remainder of the contract could be achieved. For example, Envision had found that identifying and adding new addresses or multiple licensable places at the same postal address to the database of licensable properties was proving more difficult and expensive than anticipated.

- In 1999-2000 actual sales were 0.1 per cent in excess of household growth. In 2000-01 sales increased by 0.06 per cent above household growth but this was well below the target, as revised, of 1.4 per cent.

### 13 Sales achieved against the original and revised licence fee sales forecasts

*Neither the original nor revised targets for licence fee sales agreed between Envision and the BBC were achieved. More cautious assumptions were used to inform the licence fee review, but outturn nonetheless fell short.*



Source: Envision Licensing Limited contract with the BBC and contract amendments; Envision Licensing performance reports; Department for Culture, Media and Sport.

- 2.22 The BBC told us they had taken assurance that the original sales forecasts proposed by Envision in its bid for the contract were achievable from the fact that each of the shortlisted bidders had independently forecast that they would achieve similar levels of licence fee revenue. The BBC had recognised that the forecasts were heavily dependent on broad assumptions about household growth and reductions in evasion, that there was little robust support for the forecasts, and few specific initiatives proposed by bidders that could be confidently predicted to increase sales significantly. However, they considered that with evasion rates then (1996-97) running at about eight per cent (based on the current evasion model) there was scope for generating considerably more revenue. In the recent competition leading to the appointment of Capita, the BBC engaged consultants to review the potential market for television licences against which to assess bidders' proposals.
- 2.23 Collection arrangements and prospective sales of television licences have a bearing on the setting of the licence fee because the fee per licence needs to be balanced with the expected number of licences to be sold. Likely future sales were therefore one of a number of factors which informed a review of the television licence completed in February 2000, which resulted in the Secretary of State setting the level of the licence fee for each year from 2000-01 to 2006-07. For that purpose, and for its own financial planning, the BBC used more cautious assumptions than the sales forecasts made by the bidders (Figure 13 above). However sales achieved nonetheless fell below those assumptions such that net revenue could have been an estimated £200 million lower over the period.

A Sample  
Room 319 Henry Wood House  
3-6 Langham Place  
London  
W1A 1AA

71200

Dear Ms A Sample

Your TV Licence expired on 31 January 2002.  
You need to pay immediately.

Our records show that you have not renewed your TV Licence. If you have purchased a licence in the last 10 days, please ignore this notice. However, if you use television receiving equipment to receive or record television programme services without a valid licence, you are breaking the law and are risking prosecution and a fine of up to £1,000.

If we do not receive your payment shortly your details will be passed to a TV Licensing officer in your local area.

A colour licence currently costs £109.00, which needs to be paid immediately. The quickest way to pay is by phone. Call 0870 607 11 88. Other payment options are shown overleaf.

If you have any questions, or if you would like this information in an alternative format, please call 0870 607 11 88.

Yours sincerely,



YOU ARE BREAKING THE LAW IF YOU ARE  
USING A TELEVISION WITHOUT A VALID TV LICENCE

A Sample  
Room 319 Henry Wood House  
3-6 Langham Place  
London  
W1A 1AA

71200

**Final reminder**

**TV**  
LICENSING

**TV**  
LICENSING

Bristol 0398 111

**RENEWAL  
OVERDUE**

Your TV Licence  
number is  
XXXXXXXXXX

RENEWAL AMOUNT  
**£36.50**

**Direct Debit**



# Part 3

## Reducing further the level of evasion

3.1 This Part of the report is about the actions that the BBC and the TV Licensing agent take to collect the licence fee and reduce evasion. Unlike cable and satellite television providers, the BBC is unable to prevent evaders from watching television, so to reduce evasion the BBC depends on:

- marketing;
- providing a range of payment methods;
- catching potential evaders;
- prosecuting evaders.

### Marketing

3.2 There is a range of marketing activity to promote payment of the licence fee: posters (**Figure 14**), newspaper and magazine advertising; direct mail and telechasing; radio and commercial television advertising. Television trails - broadcasts on BBC channels to inform the public of easy payment methods - are produced by the BBC in-house. Responsibility for other marketing material is contracted out, although the BBC approves all material before use to ensure it does not damage the BBC brand. The BBC spent £11.3 million on marketing activities in 2000-01, including trails broadcast by the BBC, commercial television and radio advertising, press and posters, and research.

3.3 Some of this marketing activity is designed to retain existing payers and encourage prompt renewal (for example, by switching to payment by direct debit). Other initiatives are focused on evaders, and the categories of people the BBC's research suggests are most likely to evade.

3.4 The BBC uses focus groups and regular attitude surveys carried out for the BBC by market research companies to help design marketing campaigns and to assess the overall effectiveness of its marketing effort. This research tests the likely public reaction to marketing material before release, and is used afterwards to test recall - whether people remembered seeing or hearing the campaign - and impact.

#### 14 A poster from one of TV Licensing's recent campaigns

*Some marketing material is closely targeted on actual and potential evaders.*



#### NOTE

This poster was used in a London campaign in February 2000.

*Source: BBC*

3.5 Since 1996 the BBC has mounted four campaigns: 'Freeloading' in 1996, 'Consequences' in 1998, 'Risk Reward' in 1999 and 'Seeds of Doubt' in 2000. In September 1996, 77 per cent of people questioned said they would feel "very anxious and uncomfortable" or "quite worried and uncomfortable" if they did not have a current television licence. By March 2000 this proportion had risen to 82 per cent. And compared with the earlier 'Consequences' marketing, people responded to 'Seeds of Doubt' with stronger perceptions that, for instance, "they mean business", "if you don't pay you'll get fined", and "they're watching you".

3.6 In addition to marketing carried out by the BBC itself, media relations and community relations activities are conducted by the TV Licensing agent. A national press programme targets regional and local newspapers, radio and television, so that local people know that TV licensing enforcement activity is taking place in their area. The TV Licensing agent also has a programme of liaison with housing associations, Citizens' Advice Bureaux and community associations to ensure that they have the most up-to-date information on flexible payment methods which may be able to help their clients.

## Providing a range of payment methods

3.7 There are various ways to pay for a television licence: by cash or cheque, credit or debit card, internet and telephone banking. Payment may be made direct to the TV Licensing agent, across the counter at a post office or, for cash instalment payment schemes, through the PayPoint network in newsagents and other local shops (Figure 3 on page 13 above). Market research carried out for the BBC in October 1998 found that only 0.2 per cent of people questioned said there was no payment method possible for them.

3.8 We focused on two particular methods of payment:

- direct debit - because it virtually guarantees prompt payment;
- the Cash Easy Entry scheme - because this is aimed at people experiencing difficulty paying the licence fee.

Both of these payment schemes are regulated by the Department and any changes would need to be in Regulations made by the Secretary of State and approved by Parliament.

## Direct debit

3.9 Payment by direct debit from a bank or Building Society ensures timely payment of the licence fee and, with a cancellation rate of two per cent, is highly effective in securing licence renewals. Also, as payment is made direct to the TV Licensing agent, the BBC avoids the need to pay any of its other agents (for example Post Office Counters Limited) for processing the payment.

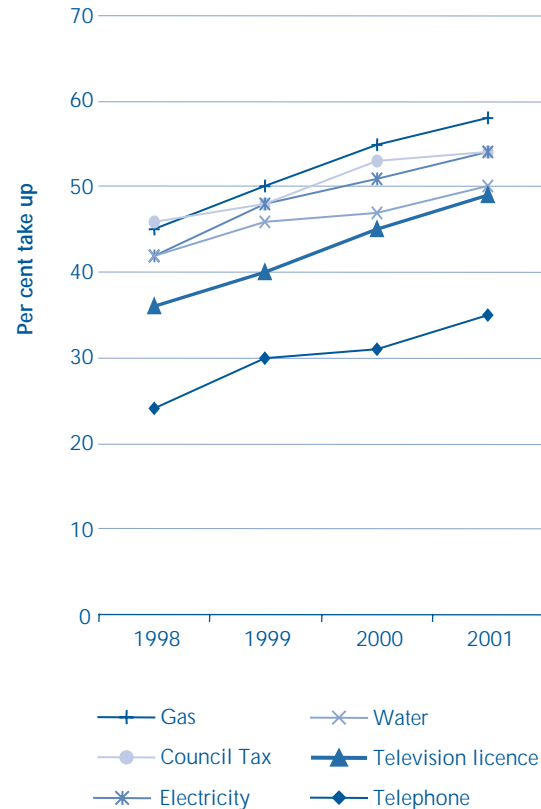
3.10 Figures provided by BACS (Figure 15) show that between 35 per cent and 58 per cent of people used direct debit in 2001 to pay telephone and utility charges (gas, water and electricity) and council tax bills. The proportion of customers paying by direct debit for the television licence fee was 49 per cent, having increased from 36 per cent in 1998 and 15 per cent when the BBC took on responsibility for collection in 1991. Rates of take-up are higher still, at over 70 per cent, for such things as mortgages, and cable or satellite television, but some providers of these services are able to make contracts conditional on customers entering into a direct debit agreement.

3.11 The BBC does not have the freedom, under the current legislation, to offer a discount for this method of payment in the way that utility companies and cable and satellite television providers do, nor can it refuse or withdraw its services if customers do not accept a particular method of payment. And, because payment under the instalment schemes, defined in legislation, is partly in arrears and partly in advance, the BBC requires customers on its quarterly scheme to pay a £5 premium, and monthly scheme customers are required to pay one and a half times the cost of a licence in the first year.

3.12 Nonetheless, the BBC is looking to increase the take-up of direct debit and aims to match the levels of direct debit take-up achieved by the utility companies. The results of a survey commissioned in 2000 by the then TV Licensing agent suggested a 'longer term goal' of 55 per cent (including the proportion of people who "might consider direct debit"). It also suggested that an 'absolute ceiling' could be 67 per cent (including people who would "rather not pay by direct debit"). To encourage greater take-up the BBC's new TV Licensing

### 15 Take-up of direct debit

Take-up of direct debit to pay regular bills, including the licence fee, has increased.



Source: BACS



agent, Capita, has targets for transferring customers to direct debit, and we understand that incentives are offered to staff at the TV Licensing agent to sign up customers to direct debit. There are no explicit contractual incentives for Capita (which will take over as the new contractor in July) to increase take-up of direct debit, but there is a contractual incentive to retain customers, which direct debit helps to achieve.

## Cash Easy Entry

3.13 The Cash Easy Entry scheme was introduced in 1996 to help people in receipt of income-related State benefits, some of whom may find it difficult to pay the licence fee and who might not have a bank account from which a direct debit can be taken. Under the scheme, people pay a fixed amount each week. To begin with, the weekly payment is set so that the first licence is paid for over six months. At this point (and for all subsequent licences) payments are made fortnightly and scheme members can pay over 12 months. So the second and all subsequent licences are paid for six months in advance and six months in arrears (**Figure 16**).

3.14 From its inception in August 1996 up to March 2001, some 1.38 million people have been accepted into the scheme, of whom 0.86 million (63 per cent) were previously unlicensed. While the scheme has been successful in increasing licence fee revenue, the cost to the customer is front-loaded. This may have contributed to problems with people leaving the scheme or getting into arrears with their payments. Our analysis of payment records for people who joined the scheme in

1999-2000 showed that there was a high drop out rate. Of those scheme joiners who had previously been unlicensed, 19 per cent left the scheme without making any payments at all and a further 29 per cent did not complete the first six months' payments.

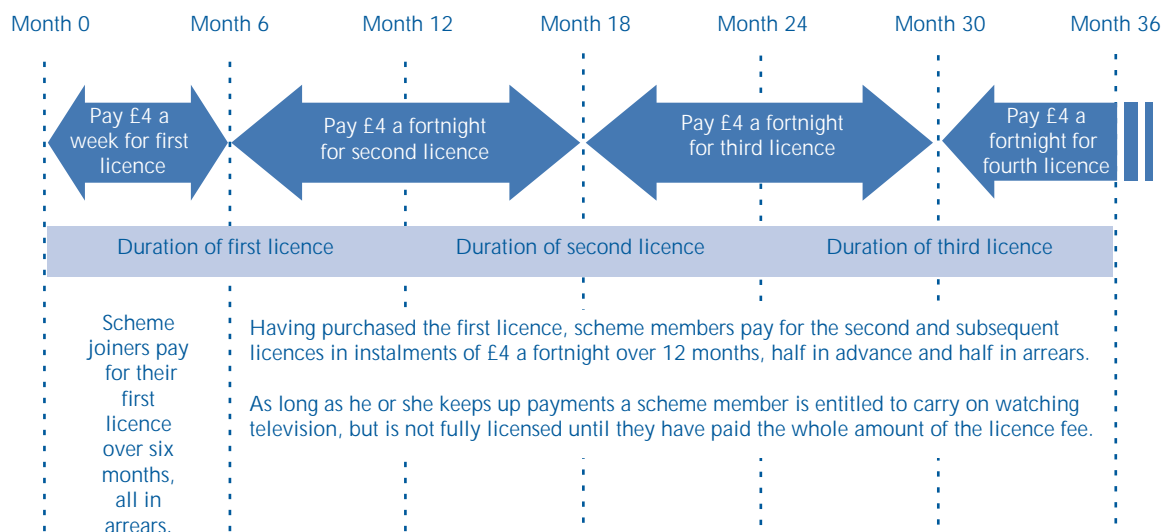
3.15 A significant number of people join the scheme as a result of visits carried out by the TV Licensing agent's enquiry officers (paragraph 3.16). Of those evaders caught by visits carried out in 1999-2000, 47 per cent signed up to the scheme, thereby reducing the risk of prosecution. However, over the lifetime of the scheme, 58 per cent of people who signed up as a result of enquiry officers' visits have subsequently dropped out before completing their payments.

## Catching potential evaders

3.16 Once potential evaders have been identified (by reference to unlicensed properties in the LASSY database - paragraph 2.11) the TV Licensing agent sends out letters to the relevant addresses. If people do not respond to letters or telephone chasing, visits are carried out by the TV Licensing agent's field force of enquiry officers. To see how this enforcement activity works in practice, we accompanied enquiry officers on visits in Belfast, Birmingham, Glasgow and London. We experienced at first hand the reactions from householders. In the majority of cases people who were caught were co-operative. Others made excuses (claiming, for example, simply to be childminding); refused to answer the door; or, in a few instances, were hostile or aggressive.

### 16 Paying for a television licence under the Cash Easy Entry scheme

*People joining the Cash Easy Entry scheme must pay one and a half times the cost of a licence in the first twelve months.*



**NOTE**

The amounts payable illustrated in this Figure are based on the cost of a colour licence in 2000-01 (£104).

Source: National Audit Office

3.17 As the lists of properties for enquiry officers to visit are generated by the LASSY database, the reliability of the data is important in ensuring that the maximum benefit is achieved from visits. The enquiry officers we spoke to considered that the only effective control over evasion is "knocking on doors" and that enforcement must be highly visible to be a credible deterrent. However, there was a strong consensus that poor quality information is the biggest hindrance to increasing the number of evaders contacted and caught.

3.18 To find out how successful enquiry officers' visits are in identifying evaders, we analysed data held by the BBC on the outcome of the 3.2 million visits made in 2000-01 (Figure 17).

3.19 Based on the outcome of visits carried out in 2000-01, there is potential to increase the cost effectiveness of enquiry officers' work by improving the ratio of licence sales per number of visits. In 2000-01 the TV Licensing agent's enquiry officers and 'sales only' staff between them made 3.2 million visits and sold some 632,000 licences as a result (including sales made on the doorstep and subsequent responses to letters enquiry officers left behind) - almost one for every five properties visited and worth some £69 million to the BBC. The BBC estimates that every additional colour licence sold either by enquiry officers or the 'sales only' force would yield some £84 net revenue at least, allowing for the cost of enquiry officers' time but excluding any additional bonuses or fees payable to the TV Licensing agent. As an illustration, increasing the proportion of visits that result in a sale by ten per cent would result in additional net revenue of at least £5 million.

3.20 The BBC is working with the TV Licensing agent to improve the identification of evaders, and the numbers that enquiry officers are able to contact during visits, by ensuring that:

- **enquiry officers focus on potential evaders most likely to respond to this approach, or unlikely to respond to other approaches such as attempted contact by mail or telephone.** The BBC continues to carry out research to identify the types of enforcement activity likely to be effective against different categories of evader and has developed a risk scoring model, based on location and other commercially available information, for predicting the likelihood of selling a licence to individual evaders.
- **known unlicensable addresses are filtered out from the list of properties to be visited.** This initiative, introduced in September 2000, has resulted in an increase in the proportion of visits that are made to licensable properties from 71 per cent in August 2000 to 80 per cent in September 2001.

- **visits are made at times when people are most likely to be at home.** Of the 3.2 million visits made in 2000-01, 1.8 million (57 per cent) resulted in no response, in most cases because there was nobody in (paragraph 3.20 above). Since October 2000 enquiry officers have increased the amount of evening and weekend visiting - the times when people are considered most likely to be at home. Enquiry officers are now required to undertake 12 out of 30 visiting hours (16 out of 30 for new employees) each week in 'prime time' (between 4.30pm and 9.00pm on weekdays, and at weekends). The BBC is reviewing the impact of this initiative.

- **there is a better detection capability.** The BBC is introducing new detector vans with enhanced capabilities to detect when a television is in use. This will make it easier for enquiry officers to establish that an offence is likely to be taking place, although they will still need to secure further evidence for successful prosecution. Detection equipment has been used in conjunction with targeted advertising to act as a visible deterrent.

## Prosecuting evaders

3.21 Not every evader who is caught faces automatic prosecution. In 2000-01 366,388 prosecution statements were taken and 151,312 cases were heard. Decisions in individual cases on whether to pursue prosecution are taken by the TV Licensing agent on the evidence gathered by enquiry officers.<sup>4</sup> These decisions are made within the BBC's overarching policy of providing every opportunity for those who are caught without a licence to pay the licence fee and prosecuting those people who have consistently refused to pay.

3.22 The maximum penalty for licence fee evasion is a fine of up to £1000. The level of fine imposed in any one case is a matter for individual courts, informed by sentencing guidelines issued by the Magistrates' Association which aim that penalties should be proportionate both to the offence and the offender, taking into account the offender's ability to pay. We analysed data provided by the BBC on the penalties imposed by different courts across the United Kingdom. The 128,894 people convicted in 2000-01 were together fined £12,923,610 (an average of £100.26). In addition, costs were awarded totalling £5,228,791 (an average of £40.57).

3.23 Conviction does not mean that the offender automatically buys a television licence so the TV Licensing agent monitors prosecutions and follows up cases where a property remains unlicensed. In 2000-01 data provided by the BBC showed that enquiry officers made 46,963 'prosecution follow-up' visits and took a second prosecution statement in 32 per cent of cases, suggesting that significant numbers of offenders do not buy a licence following conviction.

<sup>4</sup> In England, Wales and Northern Ireland decisions to prosecute rest with the TV Licensing agent. In Scotland the TV Licensing agent presents a case to the Procurator Fiscal, who may continue with prosecution, dismiss the case, or levy a Fiscal Fine out of court.

## 17 The outcome of enquiry officers' visits in 2000-01

*Enquiry Officers made 3.2 million visits and caught 398,000 suspected evaders.*

Visit outcomes	Number of visits
Suspected evaders were caught	Enquiry officers caught 398,000 suspected evaders (12.3 per cent of visits)
There was no contact with the person recorded in the database	On 1.8 million of the visits made (56.7 per cent), the occupier was not at home or did not answer the door.
	On 646,000 visits (20.0 per cent), the property was vacant or under construction.
	On 70,000 visits (2.2 per cent), the property did not exist.
	On 22,000 visits (0.6 per cent), the householder had moved or gone away.
There was contact with the householder, but no evidence of evasion was found or the property was already licensed	On 79,000 visits (2.4 per cent), the property turned out to be properly licensed although it was recorded as unlicensed. The TV Licensing agent tries to minimise this, by providing enquiry officers each day with lists of newly licensed properties to be removed from their visiting schedules, but there is a time lag between the purchase of a licence and the database being updated.
	On 97,000 visits (3.0 per cent), the enquiry officer confirmed that, as claimed, there was no set at the property, or that there was a monochrome set.
	On 49,000 visits (1.5 per cent), the householder claimed to have no set, or a properly licensed monochrome set, but the enquiry officer was unable to confirm this.

In addition, since December 2000, the TV Licensing agent has employed staff who are not trained enquiry officers to carry out additional visiting. These staff are able to sell licences, but do not take evidence to support a prosecution. Between December 2000 and March 2001 these 'sales only' visits led to 43,000 contacts with householders (1.3 per cent of all visits), of which 17,000 (40 per cent) bought a licence.

*Source: BBC*

3.24 The BBC is concerned that the levels of fines imposed by the courts, over which it has no influence, do not act as a sufficient disincentive to offenders. The TV Licensing agent has sought to address those concerns by liaising with court authorities, emphasising that prosecution is a last resort and that offenders have been given every opportunity to pay including, for those in receipt of income-related State benefits, the opportunity to join the Cash Easy Entry scheme.

3.25 The report on the *Review of the Criminal Courts of England and Wales* undertaken for the Lord Chancellor, the Home Secretary and the Attorney-General, recommended in October 2001 that 'the use of a television without a licence should remain a criminal offence, but that it should be dealt with in the first instance by a fixed penalty notice discounted for prompt purchase of a licence and payment of penalty, and subject to the defendant's right to dispute guilt in court'.



# Appendix 1

## The National Audit Office methodology

- 1 We undertook a review of the arrangements put in place by the BBC for the collection and enforcement of the licence fee. Whilst the Comptroller and Auditor General audits the accounts of the Department for Culture, Media and Sport he has no access to the BBC to examine and report to Parliament on how the Department's grant to the BBC is spent, other than in respect of the licence fee arrangements. The Comptroller and Auditor General does not have direct access to the BBC's TV Licensing agent and its subcontractors, although they co-operated fully with our enquiry. We did not examine in detail the arrangements being put in place with Capita, since the competition to appoint the TV Licensing agent was still underway at the time we carried out our fieldwork.
- 2 We sought to establish:
  - the quality of information the BBC has about evaders - how many there are, who they are and where they are;
  - what more could be done to reduce evasion - by encouraging voluntary payment through effective marketing and providing a variety of convenient ways to pay, and taking robust enforcement action against evaders.
- 3 Our methodology for carrying out the study comprised:
  - interviewing staff at the BBC, the Department for Culture, Media and Sport, and the BBC's agents and reviewing key documents;
  - analysis of data provided at our request by the BBC and its agents;
  - critical review, including undertaking sensitivity analysis, of the Department's statistical model used to estimate the evasion rate;
  - observation of TV Licensing operations at Bristol and Cumbernauld, near Glasgow, and accompanying enquiry officers on their visits in Belfast, Birmingham, Glasgow and London.

## Interviews and document review

- 4 In the course of our study we discussed emerging issues extensively with BBC staff: to clarify our understanding of the collection and enforcement process; explain or expand on material provided to the National Audit Office by the BBC and its agents; and to address specific queries. We noted, in particular, any initiatives in place or planned to address specific issues identified by the study.
- 5 We also carried out formal interviews of other key internal stakeholders, including:
  - officials at the Department for Culture, Media and Sport;
  - regional managers responsible for co-ordinating enquiry officers' work at three of the six regional centres operated by Consignia, in Belfast (covering Northern Ireland), Birmingham (covering the Midlands) and Cumbernauld (covering Scotland);
  - the Chief Executive and senior managers at Envision Licensing Limited.
- 6 We reviewed key documents, primarily at the BBC, including management records of the development of the database of licensable properties and licences in force ('LASSY' and the planned replacement database 'TRACE'); the award and subsequent oversight of the TV Licensing contract with Envision Licensing Limited; details of the contracts with Subscription Services Limited, Envision Licensing Limited, Post Office Counters Limited, Revenues Management Services Limited and Consignia (Customer Management) Limited; and monthly management reports provided to the BBC by the TV Licensing agent. We also reviewed papers held by the Department for Culture, Media and Sport.



## Data analysis

- 7 At our request the BBC asked their contractors to provide key data. We also drew on the monthly performance data generated by Envision Licensing (in respect of sales, enforcement, and prosecution activity) and Revenues Management Services Limited (in respect of Cash Easy Entry take-up and payment profiles).
- 8 In particular, we looked at:
  - licence sales volumes by payment channel: to establish the take-up of the different payment methods offered by the BBC;
  - monthly profiles of numbers joining and leaving the Cash Easy Entry scheme, and scheme members' payment history: to establish how successful the scheme has been as an easy way to pay for the television licence for those eligible to join;
  - monthly summary data recording the outcome of all visits carried out by enquiry officers in 2000-01: as one indication of the accuracy of the LASSY database, and to assess the success of visits in identifying evaders;
  - prosecution volumes, case outcomes and prosecution follow-up action: to indicate the extent to which prosecution secures purchase of a licence.
- 9 We sought comparative data from independent sources against which to test the BBC's performance:
  - BACS Limited provided comparative take-up rates of direct debit for television licences and other regular bills (council tax, telephone and utility bills), over the period 1998-2001;
  - GfK Marketing Services Limited provided benchmark data for the volumes of television equipment sold each year between 1998 and 2001, which we compared against sales volumes notified to the BBC by dealers.
- 10 We also analysed time series data tracking changes in the public's attitude towards the licence fee and the risk and consequences of being caught - to establish who licence fee evaders are likely to be, and to assess the overall impact of the BBC's enforcement and marketing activities on people's propensity to evade. And we used records of focus groups used by the BBC to establish public reaction to marketing material.

## Critical review of the licence fee evasion model

- 11 We interviewed statisticians at the BBC and the Department for Culture, Media and Sport, and carried out sensitivity analysis to establish the impact on the estimated evasion rate of changing key assumptions underlying the evasion model. The television penetration rate - the proportion of the population owning a television - has a significant impact on estimated evasion. We tested the sensitivity of the model to changes in this key variable by substituting estimates of the penetration rate by BMRB Limited, MORI and the Office for National Statistics for the estimate used in the revised model, which is derived from BARB data.

## Observation

- 12 To see at first hand the work of enquiry officers and better understand the practical difficulties involved in the task of catching evaders we accompanied four enquiry officers each for half a day, in four major cities:
  - Belfast - we visited an area of the city with a high proportion of low income households;
  - Birmingham - we visited a large public housing estate with a mixture of low rise and high rise buildings;
  - Glasgow - we visited an area of central Glasgow dominated by tenement buildings, and with a high student population;
  - London - we visited an area in South West London, mostly of private rented housing, including properties converted to multiple occupation.
- 13 We also spoke to a number of other enquiry officers at the regional offices we visited (Belfast, Birmingham and Cumbernauld), in order to gain a broader view of what enquiry officers see as the principal difficulties involved in catching evaders, and the likely effectiveness of new enforcement strategies. To gain a complete overview of the television licence collection operation we visited the main TV Licensing processing centre operated by Consignia in Bristol, and a call centre handling television licence payments and enquiries at Doxford, near Sunderland. During these visits we observed how television licences are processed and discussed the work with the TV Licensing staff involved.