

The BBC: Collecting the television licence fee



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

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: XXXXXXXXXXXX
 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.