



**British Broadcasting Corporation**

**Television Licence Fee Trust Statement for the  
Year Ending 31 March 2016**

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## **Television Licence Fee Trust Statement for the Year Ending 31 March 2016**

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

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# Foreword by the Director

## General

During the past year, the subject of the Licence Fee has been debated to a significant degree and has been a fundamental part of the discussion around the future shape of the BBC. The Government, in both its Green and White Papers on the BBC's Charter Review, has outlined potential changes to the Fee and alternative approaches to how it could be collected in future. The debate around these proposals has been detailed, passionate and wide-ranging – it demonstrates just how important the Fee is to the very nature and purpose of the BBC.

It is the Licence Fee that underpins the BBC's dedication to all audiences and which ensures that it is able both to bring the nation together and to reflect its differences, because it has no commercial imperative. I was, therefore, pleased to see the Government confirm in its White Paper on Charter Review that the Licence Fee settlement announced by the Chancellor in July 2015 will be honoured in full. That settlement means that the BBC's main mode of funding has been secured for the next 11 years, and that necessary and important changes will be made to the collection of the Fee, to ensure that it is fit and able to react to modern viewing and listening habits.

The Government has committed to modernising the licence fee to include BBC on-demand programmes, and to close the so-called iPlayer loophole. This will ensure that those who currently consume BBC programmes on-demand (for example on the iPlayer) for free will pay the same as those watching or recording them live.

In the meantime, however, we must continue to ensure we collect the Fee efficiently and account for its use appropriately. As such, this statement is presented to Parliament in order to give a full view of the state of affairs relating to the collection of the Licence Fee in the last year, to 31 March 2016. It goes without saying that the BBC is grateful for the continued support that the public show for the Licence Fee.

As shown in the report, the BBC's Licence Fee collection performance in 2015/16 has remained consistent with previous years, whilst overall revenue increased by £8m. The year has seen a slight decrease in revenue to the Consolidated Fund (not including over-75 licences) of £1m, to a total of £3,122m. Growth rates also reflect the challenging environment that the BBC faces over the coming years.

Given these challenges, it is important that the BBC continues to offer customers a range of options to ensure that they are paying by using the most appropriate schemes for them. We continue to improve our digital services, allowing self-service payment of the Fee and, in the last year, the TV Licensing website handled 6.7 million transactions from almost 20 million visits – a 7.3% increase on last year.

These improvements in accessibility and flexibility of payment have contributed to a further fall in the number of complaints received in 2015/16. The total fell this year by a third to just under 12,000, representing only 0.05% of Licences in force.

As we move into a new Licence Fee period and new Charter, I believe that the findings laid out in this statement show that the Licence Fee continues to be collected and managed in a strong, proportionate and cost-effective way.

# Annual Report

The Director General as Accounting Officer presents the British Broadcasting Corporation Television Licence Fee Trust Statement (the Trust Statement) for the year ending 31 March 2016.

## Strategic Report

### Licence Fee Collection

The British Broadcasting Corporation (BBC) has held responsibility for collection of Licence Fees since 1991 when the processes were transferred from the Home Office. The BBC collects Licence Fee revenue from customers and transfers it to the HM Government's Consolidated Fund. The revenue collected is passed back to the BBC as Grant-in-Aid from the Department for Culture, Media and Sport (DCMS).

The processes for the collection of Licence Fee revenue are managed by the BBC which has a number of contractual arrangements covering collection, administration and enforcement of the Licence Fee, marketing, payment channel management and retail networks. 'TV Licensing' is a trade mark of the BBC and is used under licence by companies contracted by the BBC. The majority of administration is contracted to Capita Business Services Ltd under a contract which was signed in December 2011. Over-the-counter services are provided by PayPoint plc in the UK, and by the Post Offices in the Isle of Man and Channel Islands. Marketing and printing services are contracted to Proximity London Ltd. The BBC is a public authority in respect of its television licensing functions and retains overall responsibility.

The BBC has comprehensive governance arrangements with its suppliers to ensure that the processes for collecting Licence Fee revenue are consistent with regulations and policies and offer customers the best options for paying their Licence Fee. The BBC aims to offer a wide range of schemes and payment channels to enable customers to pay quickly and simply.

### The Collection Environment

The environment for the collection of Licence Fee revenue has continued to be challenging. Revenue growth has been affected by low household growth, restricted household incomes and changes in customer viewing behaviour.

#### Household growth

Household growth for 2015/16 has been estimated at 0.7%. This is in line with the rate from recent years. Analysis of the activity in planning and house building indicates that the rate of household growth is likely to increase slowly over the next two years.

The outlook for household growth will depend on the performance of the wider economy. However the current year has seen a modest rise in new house completions and this is expected to recover progressively over the forecast period as recovery in the UK economy, property transactions and improved mortgage availability lift private new housing completions.

#### Household incomes

Based on provisional estimates, the median household disposable income was £25,600 in 2014/15. After taking account of inflation and changes in household composition over time, this figure is broadly comparable to the pre-economic downturn level observed in 2007/08 (£25,400). Median household income declined after the start of the economic downturn, with most of that decrease occurring between 2009/10 and 2012/13, with the median income in 2012/13 being £1,200 lower in

real terms than in 2009/10. However, since 2012/13 there has been a real terms increase, with the provisional 2014/15 figure indicating it is around 6.5% higher than in 2012/13<sup>1</sup>.

The TV Licensing tracker<sup>2</sup> shows an increase in the number of delayer and evader respondents, from 65% to 73% year on year, indicating they would find it difficult to find the money to pay towards a TV Licence at the present time.

Evasion is calculated at between 6% and 7% during 2015/16. The BBC's evasion model calculates the level of evasion from the licences in force at 31st March, the number of premises and the proportion of those premises which should be licensed. This can be revised for previous years as better information is received on numbers of premises or other parameters although revised rates are not published retrospectively. Further information on calculation of the evasion rate is provided below.

## Media Consumption

Audiences continue to embrace other devices to enhance their viewing experiences. For the majority of households these devices are used as an addition to the traditional television set but there are some households where the television set is being substituted for viewing on other devices. All viewing devices are captured by the regulations and require a licence for linear television viewing.

Other pressures to traditional television viewing are a result of digital disruption and the move to catch up along with on demand viewing over the internet. However this on demand viewing appears to be complementing rather than replacing linear television viewing.

The Broadcasters' Audience Research Board (BARB) provides data on households using non-TV devices to watch television and this data is combined by the BBC with the BARB estimate of TV households to give an overall percentage of households requiring a licence. This has increased the accuracy of the measure of TV penetration for the purposes of Licence Fee collection but this data is relatively immature and the survey's questions on live viewing are directed at the respondent alone and relies on respondents correctly differentiating between on demand and live streaming of programmes.

The BARB estimate of TV households has increased year on year as the result of a change in the way the Establishment Survey defines TV households. The effect of this has been to produce an increase in the TV households universe estimate and in the proportion of all households reported as having a TV set (TVP). This estimated TVP rate has increased by 0.63% from 95.15% in March 2015 to 95.78% in March 2016.

## Performance for 2015/16

Revenue collection has remained strong however growth has lagged behind the estimated rate of household growth reflecting the changes in the TV penetration rate. Evasion is estimated at between 6% and 7%.

Gross income in the Trust Statement has decreased to £3,233m (2015 £3,236m). Gross income is the value of Licences coming into force in the period excluding free Over 75 Licences. Revocations, deletions and cancellations have fallen to £127m (2015 £129m). Net revenue for the consolidated fund, made up of the gross revenue and deletions plus £16m of premiums on quarterly direct debit, has decreased to £3,122m (2015 £3,123m).

The decrease in net revenue due to the Consolidated Fund is analysed in Table 1

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<sup>1</sup> ONS Nowcasting household income in the UK: Financial year ending 2015

<sup>2</sup> TV Licensing Brand and Communications Tracking, January 2016. The tracker has been in place for just over 8 years and is conducted by Harris Interactive.

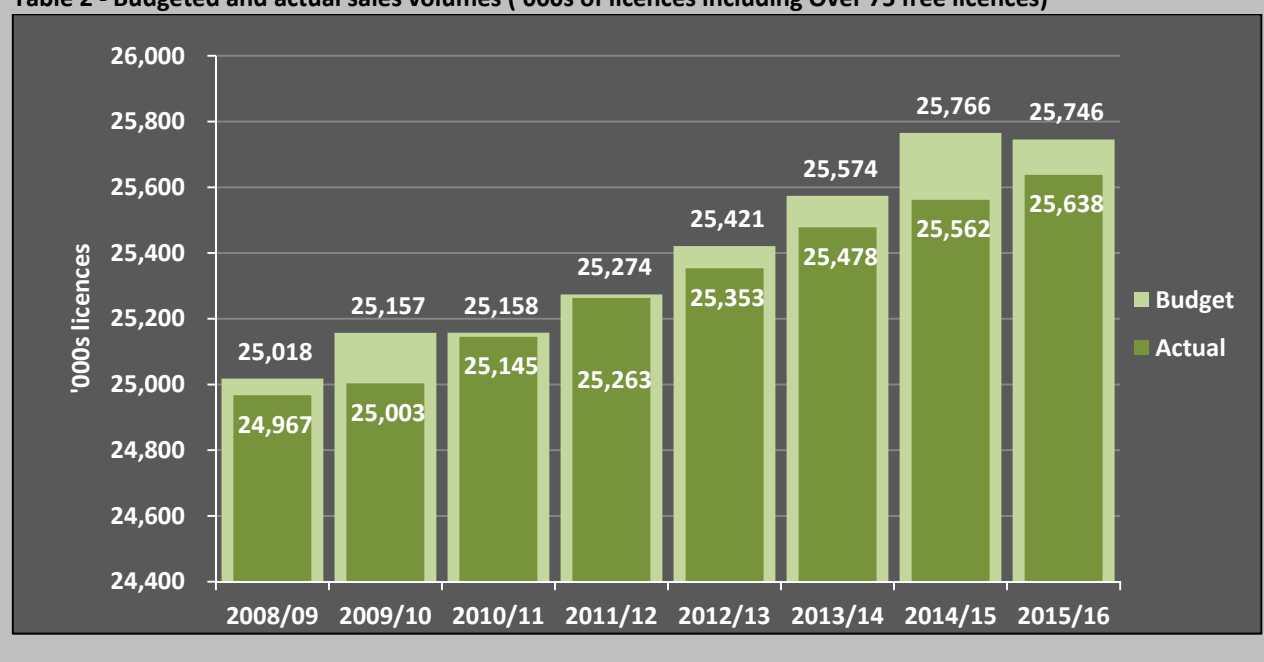
<b>Table 1 – Decrease in Licence Fee Revenue</b>	
	<b>£m</b>
Net revenue for the Consolidated Fund 2014/15	3,123
Increase in value of the Licence Fee	0
Increase in volume from household growth	22
Other changes	(23)
	<u>3,122</u>

Other changes include customers turning 75 and migrating to the Over 75 scheme.

## Budgeting and Forecasting

Table 2 shows the budgeted sales against the actual results for the year for the last eight years<sup>3</sup>.

**Table 2 - Budgeted and actual sales volumes ('000s of licences including Over 75 free licences)**



Sales volumes for the year were less than budget because the level of TV Penetration at the start of the financial year was lower than expected. The result represents a growth rate of 0.30%, which is behind the household growth rate. Sales growth in 15/16 has come from household growth.

## Bad Debts, Refunds and Cancellations

The value of deletions has fallen to £127m (2015 £129m). There has been an increase in debts written off for customers who are removed from schemes with instalment balances outstanding on their Licence, this has been offset by reductions in refunds and other cancellations of licences.

Processes have been changed for some customers to give them longer to get their payments back on track after missing an instalment. There has been a reduction in the volume of licences cancelled, but the average value of debts written off is higher.

<sup>3</sup> Licence Fee sales in table 2 include the volumes of Over 75 free licences. 2016 – 4,363,000; 2015 – 4,362,000; 2014 – 4,328,000; 2013- 4,251,000; 2012- 4,206,000; 2011- 4,156,000; 2010 – 4,088,000; 2009 – 4,000,000; 2008- 3,593,000.



## Licence Fee Evasion

Licence Fee evasion is measured as the difference between Licences in force and the number of licensable places. Licences in force are identified from the TV Licensing database and the number of licensable places is estimated from statistical sources. Licensable places are made up of households and other non-domestic places requiring a TV Licence.

The BBC makes its own estimate of household growth taking into account estimates published by the Department for Communities and Local Government (DCLG) and prevailing economic conditions such as the increase in the supply of housing. The household growth estimate is applied to the latest information for the number of households published by the DCLG. However, it is becoming more difficult to measure household growth because the economic conditions are more difficult to predict, and therefore the BBC is using multiple sources of information to provide the best estimates of household growth. This includes projections from Glenigan (a construction industry market analysis company) which are based on historic stock data, together with official economic statistics and forecasts and their construction projects database.

The Broadcasters' Audience Research Board (BARB) publishes its calculation of the number of households with a television set. The ratio of households with a television set to total households is TV penetration. Estimates, based on BARB and other data, are made for the number of households which do not have a television set but still require a licence because they are watching live broadcasts on other licensable devices. This ratio is applied to the BBC's estimate of households to provide the number of licensable households.

Following a review of their methodology BARB have recently made some alterations to the way in which TV households are counted resulting in an increase in the TV penetration rate.

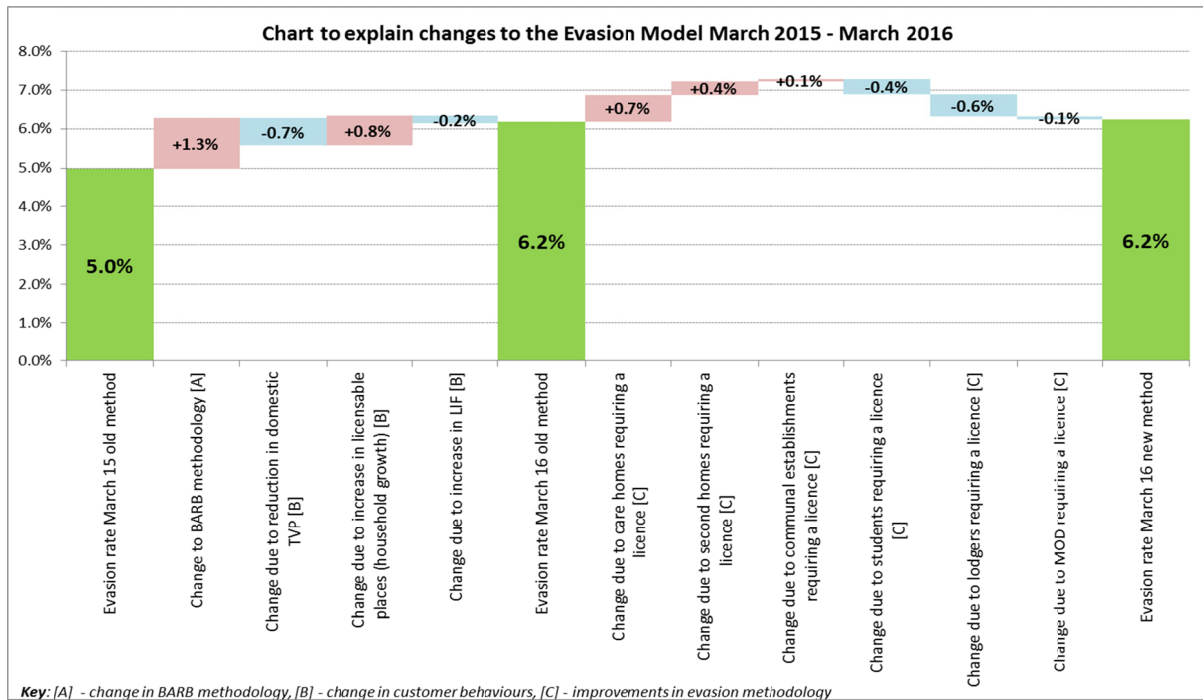
Estimates are made for the numbers of other non-domestic places such as businesses, hotels and student halls of residence. Appropriate estimates of TV penetration are applied to each to calculate licensable places.

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

The data used to estimate the evasion rate does not mature for several years, particularly the information on the number of households. This means that the evasion percentage can be revised after it has been reported because more mature and accurate information has been received.

Studies have shown that the evasion percentage is statistically significant to zero decimal places even though the BBC calculate it to one decimal place in order to show some trend in the rate of evasion. It is not considered possible to improve the accuracy of the calculated figure to one decimal place as the input data requires a level of estimation. A change of one decimal place in the rate of evasion is the equivalent of £4.2m revenue.

After restating the TV penetration rate for the change in BARB methodology, changes in customer behaviours and improvements in the evasion model, the calculated rate of evasion has increased to 6.2% in 2015/16 compared to the calculated rate of 5.0% in 2014/15. The changes in evasion are summarised in the table below:



### Self-service transactions

The TV Licensing website has continued to grow through 2015/16, delivering 5.6% more sales than in 2014/15 from almost 20m visits, an increase of 7.3% from prior year. It has become an invaluable tool for the BBC as both a medium for handling transactions and for communicating with our customers with 6.7 million transactions completed online in 2015/16.

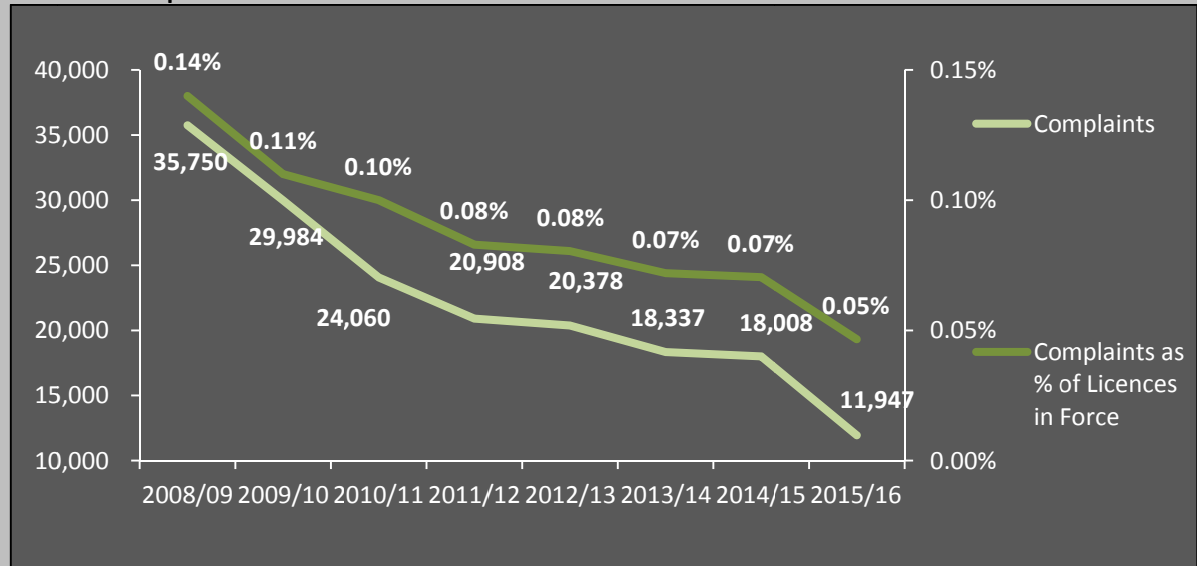
In 2015/16, 67.05% of all customer initiated transactions (13.9m) were completed through a self-serve channel. This has increased from five years ago when 57.6% of all customer initiated transactions (11.3m) were completed through a self-serve channel.

### Complaints

The total number of complaints has fallen in 2015/16 to 11,947. The level of complaints to Licences in Force has reduced to 0.05% compared with 0.14% seven years ago.

All customer complaints are evaluated and any systematic defects are acted upon and corrected. We will continue do this whilst monitoring the level of complaints.

**Table 4 – Complaints**



All operational activities and initiatives are planned and assessed taking into account the impact on reputation. This is one of the key foundations of the arrangements with suppliers. Licence Fee collection strategies need to be balanced between effective revenue collection and the need to maintain the public acceptability of the Licence Fee.

A handwritten signature in black ink, appearing to read 'Tony Hall', with a stylized, cursive script.

Tony Hall  
Lord Hall of Birkenhead CBE  
16<sup>th</sup> June 2016

# Management Commentary

## The Trust Statement

The Trust Statement shows the revenue received from Licence Fee payers which is due to the Consolidated Fund for the year. The BBC is required to produce the Trust Statement in accordance with the Accounts Direction given by HM Treasury and in accordance with Section 2 of the Exchequer and Audit Departments Act 1921.

The scope of the Trust Statement includes any expenditure deducted from the revenue collected before being passed to the Consolidated Fund. The only expenditure shown in this Trust Statement is the movement on the provision for bad debts. The costs of collecting Licence Fees are paid from the money received from Grant-in-Aid and are consequently outside the scope of the Trust Statement.

The BBC receives Grant-in-Aid from the Department for Work and Pensions and reimbursements from the governments of Guernsey and the Isle of Man for the value of free licences issued to customers over the age of 75 which do not form part of the Trust Statement.

The Grant-in-Aid received from the Department for Work and Pensions will be phased out over three years, from 2018/19. The BBC will take on full responsibility for these costs from 2020/21, and then take responsibility for the concession policy in the next Parliament. The governments of Guernsey and the Isle of Man are amending their policy on free licences issued to customers over the age of 75 which will restrict those who are eligible to receive this concession.

## Governance

The BBC is constituted under Royal Charter. The relationship between the BBC and the government is set out in the Charter and the Agreement between the BBC and the DCMS. The BBC is independent from government, but receives its funding through Grant-in-Aid from the DCMS and the Department for Work and Pensions, as well as revenue generated from commercial activities.

The BBC Trust is responsible under the Charter and Agreement for the governance of the BBC on behalf of Licence Fee payers. In respect of Licence Fee collection clause 24 (2) (m) of the Charter says one of the BBC Trust's specific functions is 'ensuring that arrangements for the collection of the Licence Fee are efficient, appropriate and proportionate'.

The Director General is responsible for the operations of the BBC including the collection of the Licence Fee. Further information on how the overall governance of the BBC is managed, including the BBC's objectives and directors' remuneration, can be found in the BBC's Annual Report and Accounts.

Licence Fee collection is part of the BBC's Finance and Operations group and is led by the Head of Revenue Management who is responsible for the operations of TV Licensing, the organisation comprising the BBC and the companies contracted to collect the Licence Fee.

## Information and Data Security

Keeping information secure continues to be a BBC-wide priority. Our primary concern is that we respect the level of trust placed by the public in TV Licensing, especially when submitting personal information which is held in our databases.

In 2015/16 the BBC continued to ensure its data, information and systems meet business needs in a secure and compliant environment, which is sufficiently flexible to meet our business objectives.

The BBC's policies for information security and data protection are based on industry best practices. The BBC ensures Licence Fee collection suppliers also conform to best practice and provide appropriate levels of information security and data protection.

## Basis for the Preparation of the Trust Statement

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

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

## Events after the reporting date

There are no events after the reporting date that materially affect these financial statements. These accounts were authorised for issue by the Accounting Officer on the date the Comptroller and Auditor General signed the accounts.

## Going Concern and Position of the Business at the End of the Year

After making enquiries, the directors have a reasonable expectation that the Licence Fee collection process has adequate resources to continue in operational existence for the foreseeable future, and accordingly the going concern basis continues to be adopted in the preparation of the accounts.

## Accounting Judgements and Estimates

### Impairment of receivables

The value of the impairment of receivables is estimated from the amounts written off for bad debts in the current year and adjusted for growth in the number of licences collected.

### Deferred Income

Cash collected from customers renewing their licences who have paid for their licence in full before the licences come into force is accounted for as deferred income.

## Auditors

The Comptroller and Auditor General has a statutory duty under the Exchequer and Audit Departments Act 1921 and the Accounts Direction from HM Treasury to audit this Trust Statement.

As far as the Accounting Officer is aware, there is no relevant audit information of which the auditors are unaware and the Accounting Officer has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.



Tony Hall  
Lord Hall of Birkenhead CBE  
16<sup>th</sup> June 2016

# Statement of the Accounting Officer's Responsibilities in Respect of the Trust Statement

Under the Memorandum of Understanding between the BBC and Home Office dated March 1991, the Director General has been deemed as Accounting Officer of the BBC with overall responsibility for preparing the Trust Statement and for transmitting it to the Comptroller and Auditor General.

The Accounting Officer for the BBC is responsible for ensuring that there is a high standard of financial management, including a sound system of internal control; that financial systems and procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity; that financial considerations are fully taken into account in decisions on policy proposals; and that risk is considered in relation to assessing value for money.

The Accounting Officer is responsible for the fair and efficient collection of Licence Fees, including the collection and proper settlements of revenue.

Under section 2(3) of the Exchequer and Audit Departments Act 1921, the Accounting Officer is responsible for the preparation and submission to the Comptroller and Auditor General of a Trust Statement for the BBC for the financial year 2015/16. In conforming with the Accounts Direction issued by HM Treasury (see page 44 of this Trust Statement), the Trust Statement reports the revenue collected and expenditure in respect of Licence Fees administered by the BBC during the year, together with the net amounts surrendered to the Consolidated Fund.

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

In preparing the Trust Statement, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction issued by HM Treasury including relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed and disclose and explain any material departures in the accounts;
- prepare the Trust Statement on a going concern basis.

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

As far as the Accounting Officer is aware, the annual report and accounts as a whole is fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

# Statement on Corporate Governance

## The Corporate Governance Framework

The BBC's corporate governance framework is defined in the Royal Charter (the Charter). You can see the Charter on the BBC Trust's website at

[http://www.bbc.co.uk/bbctrust/governance/regulatory\\_framework/charter\\_agreement.html](http://www.bbc.co.uk/bbctrust/governance/regulatory_framework/charter_agreement.html)

The BBC Trust is responsible under the Charter and Agreement for the governance of the BBC on behalf of Licence Fee payers. In respect of Licence Fee collection clause 24 (2) (m) of the Charter says one of the BBC Trust's specific functions is 'ensuring that arrangements for the collection of the Licence Fee are efficient, appropriate and proportionate'.

The Director General is responsible for the operations of the BBC including the collection of the Licence Fee. Further information on how the overall governance of the BBC is managed, including the BBC's objectives and directors' remuneration, can be found in the BBC's Annual Report and Accounts.

Licence Fee collection is part of the BBC's Finance & Operations group and is led by the Head of Revenue Management who is responsible for the operations of TV Licensing, the organisation comprising the BBC and the companies contracted to collect the Licence Fee.

The Charter requires the Executive Board to have regard to generally accepted principles of good corporate governance. Although the BBC is not a listed company, it has opted to adopt best practice and follow the provisions of the Financial Services Authority's Listing Rules in accordance with the 2010 Corporate Governance Code and the Financial Reporting Council's 2014 UK Corporate Governance Code in order to deliver the same governance standards as companies quoted on an EU regulated stock market. The BBC also complies with the requirements of the *Government Financial Reporting Manual* issued by HM Treasury (FReM) and the Corporate Governance Code for Departments.

The Executive Board has complied with the requirements of the Charter which has also secured substantial compliance with the UK Corporate Governance Code. There are, however, a few areas of the UK Corporate Governance Code that are either not appropriate to the circumstances of the BBC or where compliance with the Charter over-rides compliance with the UK Corporate Governance Code.

- The BBC is not a profit-oriented company with shareholders and so provisions relating to interaction with shareholders clearly do not apply.
- As permitted by the Charter, the Chairman of the Executive Board is the Director-General, the chief executive officer of the BBC. This does not comply with the UK Corporate Governance Code. The strategic oversight of the Corporation by the BBC Trust ensures that no single individual has unfettered powers.
- The Director General of the BBC, being the Chairman of the Board, has his performance evaluated by the Trust as opposed to the Senior Independent Director, as required in the UK Corporate Governance Code.

The last external evaluation of the board was completed in 2009; therefore provision B.6.2 of the UK Corporate Governance Code has not been complied with. In 2013 the BBC Trust and Executive Board undertook an extensive review of its governance procedures and the results were published. The Executive Board also undertook an internal evaluation of its operations during 2014/15. The Executive Board believes that non-compliance in this area has not compromised the quality of the governance arrangements in place during 2015/16 or the execution of the Executive Board's responsibilities.

The Executive Board meets monthly (except for August), although additional Board meetings are convened during the year as and when required. Summary minutes of the monthly meetings are available online at

<http://www.bbc.co.uk/aboutthebbc/insidethebbc/managementstructure/seniormanagement/>

**Table 1 – Attendance of directors at the Executive Board**

	<b>Executive Board Ordinary</b>
<b>Number of meetings for the period</b>	<b>12</b>
<b>Executives</b>	
Tony Hall	11
Helen Boaden	11
Anne Bulford	12
Danny Cohen (resigned 12 November 2015)	4/7
James Harding	10
Tim Davie	11
James Purnell	11
Peter Salmon (appointed 13 October 2015, resigned 1 March 2016)	5/5
<b>Non-executive directors:</b>	
Nicholas Hytner (resigned 31 December 2015)	5/7
Simon Burke	11
Fiona Reynolds	12
Alice Perkins	11
Howard Stringer	10
Dharmash Mistry	12

The Executive Board receives information on the collection strategy for the Licence Fee and the performance of the collection organisation. The Board has found this to be of high quality to identify risks and issues facing the Licence Fee collection operation and accurate to predict the level of Licence Fee income for the year.

The Executive Board delegates some of its responsibility to other managerial groups and, in accordance with the requirements and provisions of the Charter, the following Committees continued to operate last year:

- Audit Committee
- Fair Trading Committee
- Nominations Committee
- Remuneration Committee

Any delegation from the Executive Board is stated in the relevant standing orders for each group and a framework for reporting and review is established. See

<http://www.bbc.co.uk/aboutthebbc/insidethebbc/managementstructure/seniormanagement/subcom.html>

The Executive Audit Committee (EAC) is a sub-committee of the Executive Board made up of non-executive directors. The external auditors of the BBC Group Accounts and the Director of Risk and Assurance meet independently with the chairman of the EAC during the year.

During 2015/16 the EAC has:

- reviewed the effectiveness of the system of internal controls, taking account of the findings from internal and external audit reports



- reviewed and approved an action plan from management in response to the Trust review of the effectiveness of risk management in the BBC and will monitor completion of those actions
- overseen the relationship with EY, including the scope and approach to their work, their fees, their performance and independence
- reviewed the BBC's group financial statements and the Trust Statement, including accounting policies, compliance with legal and regulatory requirements, and the findings of the external auditors
- Approved the plan work for the coming year, ensuring that it is risk based and strikes a balance between providing assurance over core business processes and areas of significant strategic risk
- considered the findings from audit activity, focusing on audits with unsatisfactory outcomes and management's plans to address these
- considered the resource requirements for Internal Audit and its capability
- reviewed and approved a plan to restructure the Internal Audit function from a largely in-house resourced team to one primarily resourced from an approved external provider. This transition is underway and the Committee will continue to monitor its implementation and effectiveness.

The Executive Board and its sub-committees are responsible for the delivery of BBC services and day-to-day operations across the organisation including the collection of the Licence Fee.

Internal audit, risk management and, until April 2015, investigation services combine to form our Business Assurance function, which is led by the Director of Risk and Assurance. (From April 2015 the investigations services has been realigned with the BBC's security team.) Internal Audit's authority and independence is assured by the Director of Risk and Assurance's independent and direct access to the Director-General and to the EAC.

Internal audit regularly tests the BBC's control systems and core business processes to ensure they are fit for purpose and consistently applied. The work plan, which is based on a continuing assessment of key risks, is agreed annually with the EAC and covers financial, operational and compliance controls, including the exercise of the BBC's right of audit over external suppliers such as independent production companies and service providers. Any significant control failings or weaknesses identified are reported to appropriate levels of management. The status of corrective actions is reported back to the EAC.

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

- the Head of Revenue Management is responsible for identifying and managing the risks facing the Licence Fee collection process, and maintaining a risk register, together with mitigations
- specialist functions oversee the management of certain major areas of risk, such as information security, ensuring appropriate frameworks are in place and effective ownership at a senior level
- the Board receives regular reports and updates on the BBC's risk exposure and mitigation strategies
- audits of the controls over the accounting for receipts from customers
- audits of suppliers' information security controls
- reviews of the risk registers within the BBC department and with suppliers to ensure that risks are documented and that mitigating actions have been completed
- comprehensive monthly, quarterly and annual reporting processes, both within business groups and up to the Board. This includes the system of financial monitoring and reporting to the Board, based on an annual budget, monthly reporting of actual results, regular re-forecasting and analysis of variances and key drivers
- processes to ensure compliance with all applicable laws and regulations
- formal policies and procedures concerning all material business processes, to ensure risks are managed and that timely, relevant and reliable information is available across the business
- processes to ensure that our staff are professional and competent, such as recruitment policies, performance appraisals and training programmes.

The remainder of this Governance Statement considers governance as it relates to the collection of the Licence Fee.

## **Risk Assessment**

The Executive Board is responsible for the operational management of the BBC (excluding the Trust Unit), which includes safeguarding its assets and achieving value for money by ensuring there is a process in place for managing significant risks to the BBC as well as maintaining an effective system of internal control.

Managing risk within the BBC is integral to the delivery of our business objectives and public purposes. We believe that this is most effectively achieved through the engagement of the entire Executive Board, which is responsible for identifying risks and opportunities that might impact on the BBC's audiences, strategy and operations. External and internal factors – as well as advice from a range of in-house and independent specialists – are taken into account when assessing a business plan and deciding the most appropriate course of action.

The Head of Revenue Management is responsible for maintaining the risk register for the BBC's Licence Fee collection activities. The key risks which are identified and managed relate to the external factors which affect the size of the licensable population and customers' ability to purchase a licence, risks to the reputation of the BBC and TVL brands which may affect customers' willingness to purchase a Licence and risks relating to the relationships and operations of the BBC's key suppliers for the collection of the Licence Fee.

## **Maintaining Internal Controls with Outsourced Collection Arrangements**

The BBC contracts with other companies to provide the majority of the services for collecting the Licence Fee. Each of these organisations has its own internal control responsibilities which are set out in their contracts with the BBC. The Director General, as Accounting Officer, has ultimate responsibility for ensuring that there is an appropriate level of control over all of the BBC's operations whether performed directly or by other organisations.

The internal control and governance structure is embedded in the contract with Capita Business Services Ltd. There are schedules to the contract which relate to the internal controls over the management of funds collected and to the governance of the collection operations and the contract management.

The BBC commissions an annual audit at all the organisations which collect customer money. These audits are designed to ensure that the cash which has been transferred to the Consolidated Fund and the number and value of licences issued are complete and accurate and include tests and reports on the internal controls over the main databases which record sales of licences.

## **Data and Information Security**

TV Licensing core functions encompass the management and maintenance of its address databases containing details for over 30 million addresses in the United Kingdom, the Isle of Man and the Channel Islands and payment details for over 25 million licensed customers.

The BBC ensures that responsibilities for data protection and information security are specifically included in contracts with suppliers for the collection of the Licence Fee.

During 2010, the BBC implemented an information security management system for its Licence Fee collection suppliers. It is a framework of policies and processes which must be adhered to by the BBC, its suppliers for collection of the Licence Fee, and their subcontractors. It enables all parties to know exactly what is required to ensure the security of TV Licensing data, and to monitor and measure compliance on a formal and on-going basis.

During the year, the BBC ensured that the processes of monitoring and review of the information management system were in place and working effectively. The information security management system has now been used by over 40 organisations working directly and indirectly for the BBC to collect the Licence Fee.

Accreditation to the international best practice information security standard ISO27001 is a contractual requirement for the main service providers and their relevant subcontractors.

All staff in the BBC receive training in data protection which is monitored to ensure all staff complete it each year. Our Licence Fee collection suppliers also provide their staff with comprehensive data protection training relevant to their role. Training records for BBC staff working on Licence Fee collection and staff working for key suppliers are monitored every six months. The BBC has commissioned the creation of a Data Protection Compliance Framework and Assessment toolset to assist more structured monitoring of our handling of personal information across TV Licensing.

There have not been any significant data losses or breaches of data security during the year.

### **Fraudulent activity**

The BBC anti fraud manual establishes how the risk of fraud is managed. All suspected incidents of fraud are investigated.

The key suppliers of Licence Fee collection services have fraud policies in place which are reviewed and updated to reflect changes in processes and risks. Instances of fraudulent behaviour by staff are investigated. Most incidents of fraud identified are carried out by members of the public, for example changing the value of refund cheques. These incidents are reported to the relevant authorities as appropriate.

We have a 'whistle-blowing' (protected disclosure) policy, to facilitate the confidential communication via a number of routes of any incident in which there is a suspicion that the BBC's codes have been breached. Each incident or suspicion reported is independently investigated in a confidential manner, a response is communicated and action is taken as appropriate.

### **Internal Control Framework**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of controls. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the board, the Executive Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

There are no significant control issues relating to the collection of the Licence Fee.



Tony Hall  
Lord Hall of Birkenhead CBE  
16<sup>th</sup> June 2016

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

I have audited the British Broadcasting Corporation Television Licence Fee Trust Statement for the year ended 31 March 2016 under the Exchequer and Audit Departments Act 1921 as amended by the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Revenue and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

## **Respective responsibilities of the Accounting Officer and auditor**

As explained more fully in the Statement of the Accounting Officer's Responsibilities in Respect of the Trust Statement, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and report on the financial statements in accordance with the Exchequer and Audit Departments Act 1921. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the British Broadcasting Corporation Television Licence Fee Trust Statement and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the British Broadcasting Corporation; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

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

## **Opinion on regularity**

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## **Opinion on financial statements**

In my opinion:

- the British Broadcasting Corporation Television Licence Fee Trust Statement gives a true and fair view of the state of affairs as at 31 March 2016 relating to the collection and settlement of television Licence Fees and of its net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and HM Treasury directions issued thereunder.

**Opinion on other matters**

In my opinion:

- the information given in the Strategic Report and Management Commentary within the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which I report by exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Corporate Governance does not reflect compliance with HM Treasury's guidance.

**Report**

My report on the British Broadcasting Corporation's arrangements for the assessment, collection and proper allocation of revenue is at pages 26 to 43.

**Sir Amyas C E Morse**  
**Comptroller and Auditor General**

National Audit Office  
157 – 197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

6<sup>th</sup> July 2016

# Financial Statements

## Statement of Revenue and Expenditure for the Year Ended 31 March 2016

	Note	2016 £m	2015 £m
<b>Income</b>			
Value of Licences	1.3	3,233	3,236
Value of refunds		(60)	(63)
Value of premiums on quarterly direct debit		16	16
Net Revenue		<u>3,189</u>	<u>3,189</u>
<b>Less expenditure</b>			
Bad debt expense	2.2	(67)	(66)
<b>Net Revenue for the Consolidated Fund</b>		<u><u>3,122</u></u>	<u><u>3,123</u></u>

There were no recognised gains or losses accounted for outside the above Statement of Revenue and Expenditure. All income is from continuing activities. The notes at pages 22 to 24 form part of this statement.

# Statement of Financial Position as at 31 March 2016

	Note	2016 £m	2015 £m
<b>Current Assets</b>			
Receivables	2.1	392	381
Cash held for customers on savings schemes		19	21
<b>Total Assets</b>		<b>411</b>	<b>402</b>
<b>Current Liabilities</b>			
Payables	3	(275)	(275)
<b>Net Assets</b>		<b>136</b>	<b>127</b>
Represented by:			
<b>Balance on Consolidated Fund Account as at 31 March</b>	4	<b>136</b>	<b>127</b>

The notes at pages 22 to 24 form part of this statement



Tony Hall  
Lord Hall of Birkenhead CBE  
16<sup>th</sup> June 2016

# Statement of Cash Flows for the Year Ended 31 March 2016

	Note	2016 £m	2015 £m
Net cash inflow from revenue activities	A below	3,111	3,128
Cash paid to the Consolidated Fund	4	(3,113)	(3,134)
(Decrease) in cash in the period		<u>(2)</u>	<u>(6)</u>

## Notes to the Cash Flow Statement

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

Net Revenue for the Consolidated Fund	3,122	3,123
(Increase) / Decrease in Receivables	(11)	14
Non-cash adjustment	-	(7)
(Decrease) / Increase in Payables	-	(2)
<b>Net Cash Flow from revenue activities</b>	<b><u>3,111</u></b>	<b><u>3,128</u></b>

### B: Analysis of Changes in Net Funds

Decrease in Cash in this Period	(2)	(6)
Net Funds at 1st April (Net Cash at Bank)	21	27
<b>Net Funds at 31st March (Closing Balance)</b>	<b><u>19</u></b>	<b><u>21</u></b>

The notes on pages 22 to 24 form part of these accounts



# Notes to the Trust Statement

## 1. Statement of Accounting Policies

### 1.1 Basis of Accounting

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

### 1.2 Accounting Convention

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

### 1.3 Revenue Recognition

Revenue derived from television licences is recognised as a receivable from the Licence Fee payer. This represents the value of licences which came into force in the year, subject to deductions for refunds.

Revenue is recognised when a licensable event has occurred and it is probable that the economic benefits from the licensable event will flow to the Exchequer. A licensable event occurs when a licence comes into force. The full value of the licence is counted as revenue in the period in which the licence comes into force.

### 1.4 Licence Fee Evasion

The value of licences evaded, the difference between the value of licences that could be collected from all licensable addresses and the value actually collected, is out of scope of the financial statements in this Trust Statement. Evasion is discussed more in the annual review. This is referred to as the 'tax gap'.

### 1.5 Refunds, Revocations and Cancellations

Refunds are given to customers where they can demonstrate that they have paid for a licence which is no longer required. Revocations and cancellations are the value of licences revoked and outstanding instalment payments written off where a customer has not kept up their instalment payments.

The value of outstanding instalment payments written off is shown as an expense in the Statement of Revenue and Expenditure, refunds and other cancellations are shown as a reduction in income.

### 1.6 Exemptions

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

### 1.7 Licence Fee Receivables

Licence Fee receivables represent:

- The amounts receivable from customers on instalment schemes where a licence has been issued, but the full amount of the fee is still outstanding.
- Cash in transit that has been collected from customers for licences in force, but has not been transferred to the HM Government bank account managed by the BBC.

## 1.8 Impairment of Receivables

The value of the impairment of receivables is estimated based on the value of direct debit cancellations in the previous year. The value of impairments is shown as the bad debt expense in the Statement of Revenue and Expenditure.

## 1.9 Payables

### 1.9.1 Licence Fee Payables

Licence Fee payables represent the amounts collected from customers on instalment schemes for licences that have yet to be issued.

### 1.9.2 Customer savings

Customer savings represents cash collected from customers on savings card for payment towards their next licence. The cash balance is shown with a corresponding payable as the money is not due to the Consolidated Fund until the customer's licence is due for renewal. Timing differences in payments can result in differences between the cash and the payable balance.

Cash collected from customers on the savings stamps scheme is not included in this statement. The scheme is no longer in use and whilst customers can ask for their money to be refunded or transferred to another scheme, it cannot be used to purchase a licence.

### 1.9.3 Deferred Income

Cash collected from customers renewing their licences who have paid for their licence in full before the licences come into force is accounted for as deferred income.

## 2. Receivables

### 2.1 Amounts due at 31st March 2016

	2016 £m	2015 £m
Licence fee Receivables	417	417
Cash in transit	3	(10)
Total before estimated impairments	420	407
Less estimated impairments	(28)	(26)
	<u>392</u>	<u>381</u>

Receivables represent the amount due from licensees where demands for payment have been issued but not paid for at 31 March.

### 2.2 Losses and Write Offs

	2016 £m	2015 £m
Balance as at 1 April	26	28
Actual amounts written off in the year	(65)	(68)
Bad debt expense	67	66
Balance as at 31 March	<u>28</u>	<u>26</u>

Receivables in the statement of financial position are reported after the deduction of the estimated value of impairments. This estimate is based on analysis of bad debts made in previous years.

### 3. Payables

	2016	2015
	£m	£m
Licence fee payables	228	225
Customer savings	19	21
Deferred income	28	29
	<u>275</u>	<u>275</u>

### 4. Balance on the Consolidated Fund Account

	2016	2015
	£m	£m
Balance on Consolidated Fund Account at 1 April	127	145
Non-cash adjustment	-	(7)
Net Revenue for the Consolidated Fund	3,122	3,123
Less amount paid to the Consolidated Fund	<u>(3,113)</u>	<u>(3,134)</u>
Balance on Consolidated Fund Account at 31 March	<u>136</u>	<u>127</u>

### 5. Related parties

TV Licensing and the BBC have a large number of transactions with related parties. Licences are purchased by the BBC and suppliers involved in collecting the Licence Fee for licensable places which they occupy. BBC directors and staff also purchase Television Licences for their own use.

These transactions are not considered to be material.

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

### 6. Events after the Reporting Period

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

The Accounting Officer authorised these financial statements for issue on the date the Comptroller and Auditor General reported on the accounts.

## Annex 1 – Reconciliation to the BBC’s Main Annual Report Licence Fee Sales

	2016 £m	2015 £m
Licence fee sales contributing to Consolidated Fund	3,122	3,123
<b>Add</b>		
Over 75 sales	<u>621</u>	<u>612</u>
BBC Licence Fee Sales in Annual Report and Accounts note A2	<u><b>3,743</b></u>	<u><b>3,735</b></u>

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

## Summary

### Background

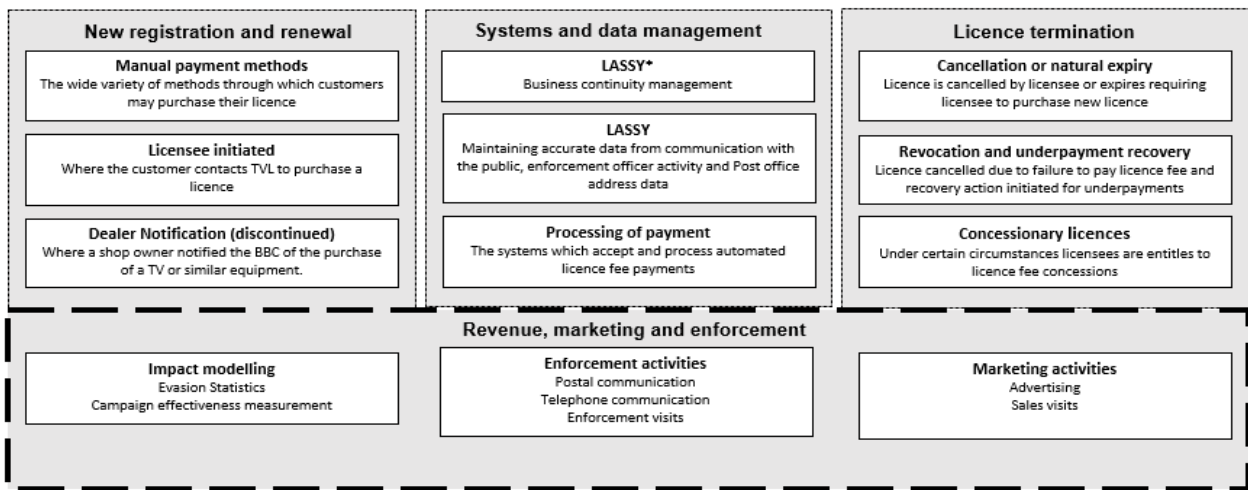
1. The British Broadcasting Corporation (BBC) is responsible for issuing TV licences, enforcing the licensing system and collecting licence fee revenue which is then surrendered to the Exchequer. In 2015-16, £3.1 billion (2014-15: £3.1 billion) of revenue was collected by the BBC and paid over to the Exchequer, as reported in the Trust Statement. The BBC also received £621 million (2014-15: £612 million) from the Department for Work and Pensions for licence fees for the over 75s making the total licence fee revenue for 2015-16 £3.7 billion (2014-15: £3.7 billion).
2. Section 2 of the Exchequer and Audit Departments Act 1921 requires me to carry out a review of the systems in place to collect TV licence fee revenue payable to the Exchequer and to report my findings to the House of Commons. I am required to ascertain whether adequate regulations and procedures have been framed to secure an effective check on the assessment, collection and proper allocation of revenue, and whether they are being duly carried out. This report records the outcome of my review and my conclusions as to the adequacy of the systems in place during 2015-16.

### Audit approach

3. My review of systems, data management and other key elements of the licence fee life cycle is primarily undertaken as part of my audit of the BBC Licence Fee Trust Statement (the Trust Statement), where I examine the correctness of the sums brought to account and report the results to the House of Commons. I have issued an “unqualified” opinion on the Trust Statement and no major control weaknesses were identified during the 2015-16 financial year.
4. A focused review of the other elements of the licence fee life cycle is undertaken on a rolling basis, with this year, 2015-16, the sixth part of my continuing review. Figure 1 illustrates, at a high level, the systems and processes in place to collect the licence fee and illustrates the scope and timing of my rolling programme over the last six years.

**Figure 1**

Overview of the licence fee cycle



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## NOTES

The box with the dashed outline – Revenue, marketing and enforcement – indicates the focus of this report with this year's report looking at the BBC's response to the growth in online media consumption.

\* LASSY is the BBC's database of licensable properties and licences in force.

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### 5. My previous reports on the other elements of the licence fee lifecycle covered:

- 2010-11: the BBC's procedures around licence initiation, the licence fee evasion model and how the 'Tax Gap' is estimated and managed by the BBC. The Tax Gap is the difference between the licence fee legally due and the licence fee received, and has also formed part of my subsequent reviews, including this year's.
- 2011-12: I reviewed licence termination processes, specifically the processes around natural expiry and renewal, cancellations, refunds and revocation, and the over 75 licence fee concession process.
- 2012-13: in response to the retendering of the main service contract for TV Licensing and its award to Capita during 2011-12, my 2012-13 report provided a review of the new contract and the overarching governance framework overseeing these new contractual arrangements.
- 2013-14: following on from my review of the new contract in 2012-13, my report last year began to examine the marketing and enforcement activities of the BBC Licence Fee Unit. This was the first over a three year life cycle of reports on marketing and enforcement, and focused on how the Unit uses contracts with third parties to deliver its strategy and brand through direct communication with customers.
- 2014-15: my report examined how the BBC Licence Fee Unit uses data to estimate the level of evasion – the tax gap. I also examined how the BBC Licence Fee Unit uses and analyses data to direct campaign activity and to assess the effectiveness of revenue collection campaigns.

### 6. Continuing on from the 2014-15 report, my 2015-16 report looks at marketing and enforcement, specifically examining what the BBC Licence Fee Unit does to detect, monitor and take enforcement action against those evading the licence fee while accessing live TV through the use of the internet and non-TV devices.

### 7. Part 2 of this report provides an update on my recommendations from 2014-15.

## Conclusions

8. The BBC recognises that new technological developments and changes to viewing behaviour pose a risk to future licence fee income. The number of people who own a television is falling, and the number of people watching live television online is growing. This creates the risk of declining TV licences and associated revenue resulting from audiences moving away from watching live television, not understanding that they need a licence or avoiding paying because they think their evasion cannot be proven. The BBC has limited influence over viewers' preferences for on demand TV as opposed to live viewing and currently its efforts are focused on ensuring that viewers understand the licensing requirements and curbing evasion.
9. The BBC's communications with householders clearly state the range of viewing devices for which a licence may be required and it conducts campaigns to all unlicensed households although its campaign activities are not targeted at the groups they have identified as being most likely to watch television through non-TV devices and not paying the licence fee. The BBC considers that the number of people who watch live television only through the internet on a non-TV device is too small to warrant specific intervention, but do recognise the risk to future licence fee income from this group. The BBC has a campaign for students in halls of residence, who are amongst the 18-34 year old age group which is most likely to be using non-TV devices. However, the BBC's enforcement activities with this group are driven by their accommodation type and others in this age group are not specifically targeted. The BBC also plans for a significant decline in the number of student licences each year, but we have not seen sufficient evidence that the level is appropriate.

10. There is currently no requirement for broadcasters to alert viewers to the need for a TV licence when they access live broadcasts online, although this is done by the BBC on iPlayer. It will become increasingly important for viewers to be aware of the need for a licence for all live viewing as more viewers watch live television online from a growing range of providers.
11. Following my 2014-15 report, the BBC has made progress in updating its evasion model, but more needs to be done to obtain reliable data for businesses and those watching television online through a non-TV device and to ensure that significant changes to the model are appropriate.
12. While recognising that no collection system can ensure that all those who have a liability meet their obligations, the work of my staff has confirmed that adequate regulations and procedures have been framed to secure an effective check on the assessment, collection and a proper allocation of revenue and that these regulations and procedures are being duly carried out. This assurance is subject to the observations on specific aspects of the administration of licence fee collection noted in this report.

## Recommendations

13. The BBC should consider how it can respond to the risk of declining licence fee income as a result of changing viewing habits. In recognition of the growth of alternative ways of watching television, the BBC should consider how it can effectively target campaign and enforcement activity at groups which are most likely to evade as a result of changing technology and audience behaviour.
14. The BBC's revenue collection strategy assumes an annual, 13 per cent decline in the number of licences issued to students in halls of residence. The BBC should reassess whether this is appropriate. It should also address the inconsistency between the number of licensable student residences in its revenue targets and its evasion model.
15. The BBC already warns iPlayer viewers that a TV licence is required to watch live iPlayer content and is aware that this will need to be updated to cover both live and on demand iPlayer content when the new licensing requirements are introduced. The BBC should make the case for Government to require other online broadcasters to alert viewers to the need for a licence for watching live TV content online.
16. Following my 2014-15 report, the BBC has improved its evasion model, but further enhancements are required. The BBC is in the process of identifying current, reliable data which can be used for business inputs into the evasion model and has not yet identified a reliable data source for comprehensive estimates of the level of online viewing using non-TV devices. The BBC is analysing methodologies to measure the viewing of live TV online through non-TV devices, and I recommend that this is concluded to ensure decisions informed by the estimated level of evasion are driven by reliable data. I also recommend that, where significant changes are made to the evasion model, the BBC subjects the changes to independent scrutiny to ensure that they are defensible.

# The BBC's response to the growth of online media consumption and changing audience behaviour

## Introduction

- 1.1** Everyone in the UK who watches or records live programmes is required to have a valid TV licence regardless of whether they are watching on a television or a non-TV device. Ofcom's research indicates that the growth of alternative technology through which an individual can watch television has contributed to a fall in television ownership from 98 per cent of the population in 2012 to 95 per cent in 2015. New technology for watching live television has created the potential for confusion around when a television licence is needed and this could present a risk to the BBC's future income.
- 1.2** This fall in television ownership, coupled with changes in the way people access programmes, could lead to a fall in licence fee income for three reasons:
- **Viewers no longer need a licence:** some members of the public may only watch 'on demand' (and not live) television and would not need a licence to do so;
  - **Viewers do not understand that they need a licence:** members of the public may have misconceptions about whether they need a TV licence, particularly if they associate the need for a TV licence with using a television or watching BBC channels;
  - **Viewers knowingly do not pay:** members of the public may deliberately evade because they do not think watching live television online can be detected.
- 1.3** Collection of the licence fee is managed by the BBC Licence Fee Unit (the Unit) which works together with its service providers, Proximity London (Proximity) and Capita Business Services Ltd (Capita), to deliver its marketing services, under the brand name "TV Licensing" (TVL). The Unit also calculates the licence fee evasion rate. This involves estimating the number of premises that should have a licence by applying "TV penetration rates" to different types of premises. The TV penetration rate is an estimated percentage of premises that need a licence. The penetration rate is applied to the number of premises in each category to predict the number of licences required. The Unit then compares licences required to the number of licences in force with the difference being the level of evasion. The evasion rate is the estimate of the percentage of licensable premises where live television is viewed or recorded but a valid licence is not held. The Unit estimated that the evasion rate remained between 5 per cent and 6 per cent for 6 years to 2014-15. The evasion rate was estimated to be between 6 per cent and 7 per cent by the end of 2015-16 but, as explained in the Annual Report, this was largely due to changes in the BBC's and Broadcasters' Audience Research Board's (BARB's) methodology. Further analysis of the evasion rate is contained in Part 2 of this report.

## Defining 'live TV' for licensing purposes

- 1.4** A television licence is required to watch all live television regardless of device, service provider, or the country from which the programme is being broadcast. It does not matter how the broadcast is accessed, whether through a digital aerial, cable connection, satellite dish or via the internet. Figure 2 illustrates the licensing implications for an individual watching the same film in different ways.
- 1.5** Live TV viewing encompasses any television broadcasts, except programmes that can be described as on-demand or catch-up. Live TV therefore includes:
- watching any television broadcast at the time of transmission;
  - watching a recording of any television broadcast, when the recording was made at the time of transmission; and,
  - watching a live television broadcast that has been paused and subsequently played or rewound and played after broadcast.



- 1.6** Currently, a TV licence is not required to watch on demand television. Video on demand systems allow users to select and watch video content when they choose rather than having to watch it at the time of broadcast. Forms of video on demand can range from popular catch-up TV vehicles (such as BBC iPlayer, ITV Hub, Channel 4 On Demand and Sky Go) to airplane in-flight entertainment.

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## Figure 2

### Ways of watching television and the licence fee requirement

Viewing method	Is a licence needed?
Watching the film as it is broadcast live	Yes
Pausing live TV and watching the film after it has been broadcast	Yes
Watching the film that was recorded at the time of broadcast	Yes
Watching the film on catch-up or video on demand	No
Watching the film on DVD	No
Watching the film as it is being broadcast by an overseas TV channel	Yes

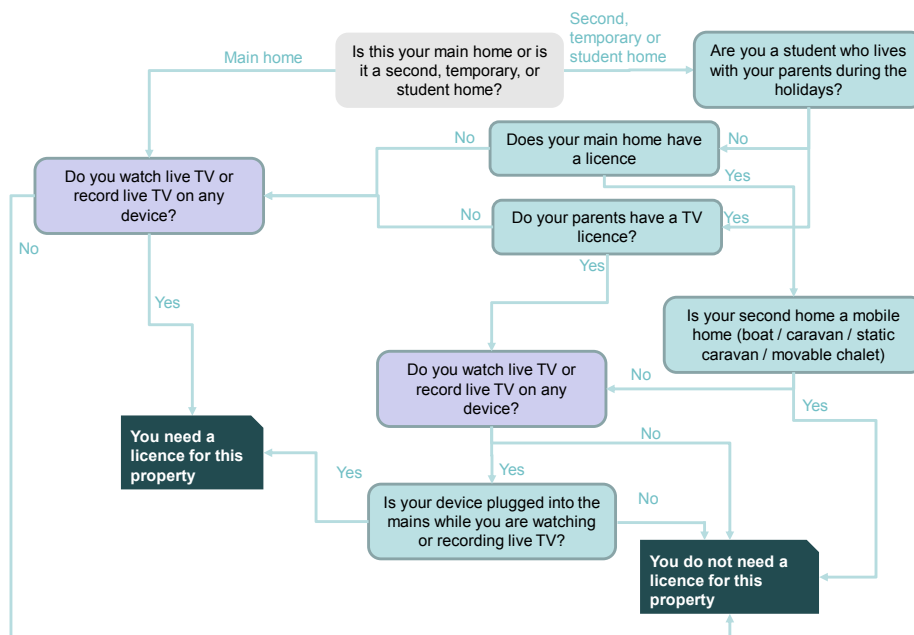
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Source: National Audit Office

- 1.7** Whether an individual needs a TV licence also depends on the type of residence and tenancy. Most licence holders fall into the “general householder” category for TV licensing purposes. This includes all home owners and those who rent. For residential accommodation there are other factors to consider in determining whether a licence is required, such as whether the accommodation is considered to be the main, temporary or second home and whether the device is being viewed while it is plugged in. Figure 3 illustrates the circumstances under which a TV licence is required for a residential property.

**Figure 3**

Determining whether a licence is needed for a residential property



Source: National Audit Office

### Watching live television online

**1.8** The way in which the public views live television has evolved. There are a number of devices through which users can watch live TV via an internet connection (figure 4). These include (but are not limited to) personal computers, laptops, tablets, games consoles, phones, and other specialist products such as Apple TV, Chromecast or the Amazon Fire Stick that can broadcast live TV to a television or other monitor. The table below provides examples of the devices viewers can use to watch live television online:

**Figure 4**

How users can access live television online

Device	How users access live TV
Laptop or PC	Via a web browser – e.g. iPlayer, Sky Go or Other TV company website Via a TV tuner – requires the purchase of a TV tuner card
Games Console	Via a web application – e.g. iPlayer, Sky Go or Other TV company app
3G/4G ready phones or tablets	Via a web browser – e.g. iPlayer, Sky Go or Other TV company website Via a web application – e.g. iPlayer, Sky Go or Other TV company app
Smart TV and players	Via a web browser – e.g. iPlayer, Sky Go or Other TV company website Via a web application – e.g. iPlayer, Sky Go or Other TV company app
TV-connected internet streaming device	Specialist product - e.g. Amazon Fire Stick, Apple TV
Wi-Fi routed projectors (in tandem with another device, above)	Specialist product – e.g. Chromecast

Source: National Audit Office

- 1.9** In order to watch TV through a PC, laptop or tablet, users must have an internet connection (via a Local Area Network (LAN), Wi-Fi or 3/4G network) before visiting a broadcaster's site where they can gain direct access to live shows e.g. BBC iPlayer. Users accessing via games consoles can access live TV directly through their console by ensuring that their device is connected via a High-definition Multimedia Interface (HDMI) cable to their console if their console has internet access. Alternatively, Smart TVs and Players, which have built-in Internet connectivity, enable users to stream content via a broadband connection and gain access to view live TV.

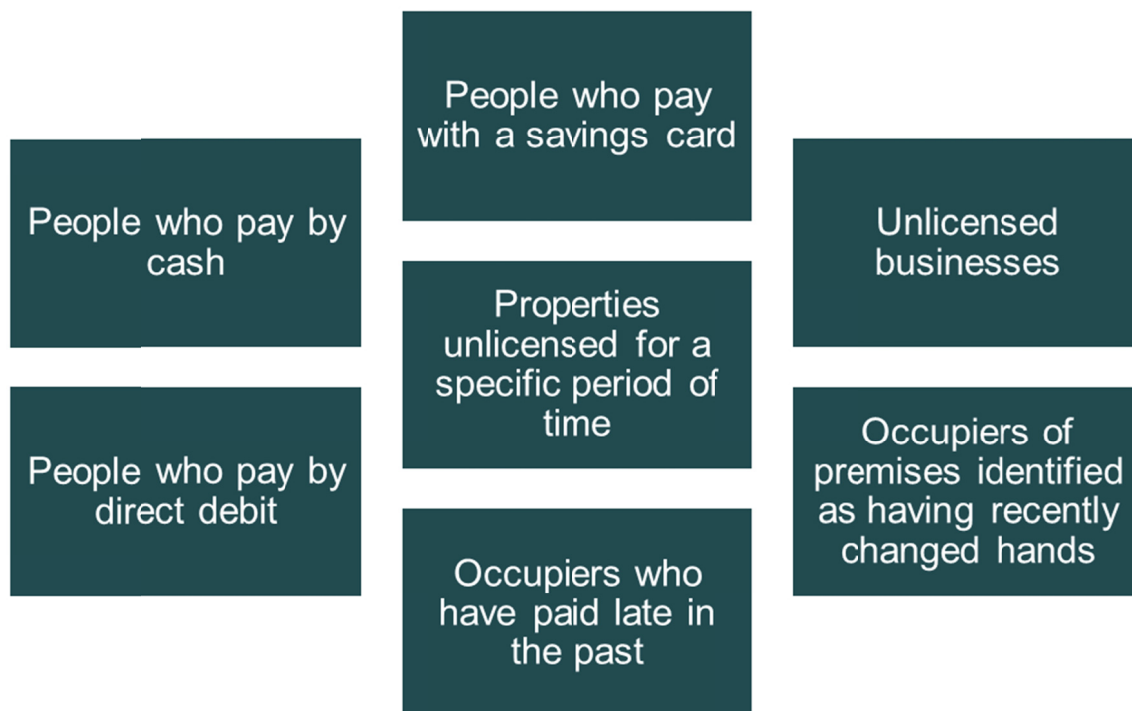
### **How the BBC is currently tackling evasion**

- 1.10** The BBC recognises that television ownership is in decline and that more people are watching television content online. As outlined above, this does not necessarily mean that viewers no longer need a television licence, but it does mean that there is potential for confusion about when a licence is needed and how the licence fee can be enforced.
- 1.11** The current TVL Business Plan outlines how the BBC aims to maintain licence fee income through maintaining current licence fee payers, and encouraging non-payers to get a licence through education, detection and enforcement activity. Central to this effort is educating the public about when they need a licence, particularly given the new ways to consume television content and the different payment options. This complements detection and enforcement activity.
- 1.12** TVL segments non-payers and uses this segmentation to support their contact, detection and enforcement activity. The segmentation is based primarily on past payment activity (such as method of payment, or periods of non-payment) and does not consider demographic or geographic indicators of whether non-payers are likely to consume television content online, or through a non-TV device (figure 5).
- 1.13** TVL operates tailored contact strategies for each segmented group shown in figure 5 which involve a series of written communications explaining the need for a licence, and how the occupier can pay. The contact strategies are tailored to the specific group shown in figure 5 (this is often related to past payment method). TVL gradually increases the severity of letters, moving from explanatory letters to letters which warn the occupier about potential penalties for non-payment. Once TVL has written to occupants of unlicensed properties, if they do not respond by either purchasing a licence or declaring that no licence is needed, it is likely that a TVL enforcement officer will visit the properties. The BBC also has a fleet of detection vans which it can use to detect whether occupants of a property are watching live television.
- 1.14** If, following contact and visits, TVL establishes that the occupier of a licensable property has not paid for a licence, the BBC can seek a prosecution for evasion. In 2015-16, the BBC prosecuted 175,555 people for licence fee evasion.

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## Figure 5

Example of the segmentation strategies used by TVL



Source: National Audit Office

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### The BBC view of changing audience behaviour

- 1.15** The BBC recognises that declining TV ownership indicates a trend towards more households watching television online which increases the risk of evasion (whether occupants do this knowingly or unintentionally).
- 1.16** The BBC's research indicates that the people most likely to watch TV on a non-TV device are amongst those least likely to have a TV licence, but they are not targeting education activity at this specific group. Current enforcement activity is instead determined by accommodation type and past payment activity.
- 1.17** TVL uses research from the BARB to estimate that 0.79 per cent of people watch TV exclusively on a non-TV device. Currently the BARB questionnaire asks whether the respondent personally uses the internet to watch live television, but does not ask about other householders. The BBC uses data generated from this question and adjust it to generate its own estimate of the percentage of people who watch television on non-TV devices, who should be paying for a licence.
- 1.18** While the BBC does not know how many of the 0.79 per cent of people who watch live TV on a non-TV device are evading the licence fee, it recognises that they are among the most likely not to have a licence. The BBC's analysis of BARB data shows that watching TV on a non-TV device is most prevalent among younger audiences and people living in densely populated urban areas. BBC data shows that 53 per cent of 25-34 year olds, and 79 per cent of 18-24 year olds say they are more likely to watch TV on a non-TV device than they are on a traditional television set. BBC data also shows that young renters in urban areas are the demographic group second most likely to not have a television licence (after people in social housing). In total, 14 per cent of estimated non-payers of the licence fee are aged 26-35 and living in rented accommodation in densely populated urban areas, including London. My staff questioned why the BBC does not have a specific strategy to target this population. The BBC considers that these individuals will be covered adequately in TVL's general campaigns covering unlicensed households.

- 1.19** The BBC views the number of people watching TV on a non-TV device as too small to warrant a specific strategy to tackle evasion using new technology. As context, 0.79 per cent of licensable properties equates to 235,000 licences generating potential total revenue of £34 million, although it is not possible to know how many of these households are already covered by an existing licence or not. Use of non-TV devices is growing quickly: in January 2009 there were 1.6 million requests for TV programmes received through iPlayer each day. By January 2016, this had grown to 8.1 million requests per day. The BBC estimates that approximately 8 per cent of these requests are for live television. BARB expects live television watching online to continue to grow into the future. Its research estimated that 855 million minutes of live TV were watched online in one week in late 2015. This reflects viewing on all devices (TV and non-TV), all platforms and all households, including those with a valid licence.
- 1.20** There are imminent changes to licence requirements which will require viewers to be covered by a licence when watching video on demand services via iPlayer. At the time of writing, watching TV programmes through on demand services, does not require a licence. The Department for Culture Media and Sport white paper “a BBC for the future: a broadcaster of distinction” states that the government will introduce legislation which will make it necessary to have a licence for watching BBC iPlayer. This creates greater urgency for the BBC to understand online television watching habits. The BBC is aware that, if it is to capitalise on this opportunity, it will need a clear approach to manage the risk of evasion amongst those watching video on demand services (such as iPlayer) who do not currently need a licence.
- 1.21** As a licence is not currently required for on-demand services, the remainder of this report focuses on live TV on non-TV devices as opposed to on demand services.

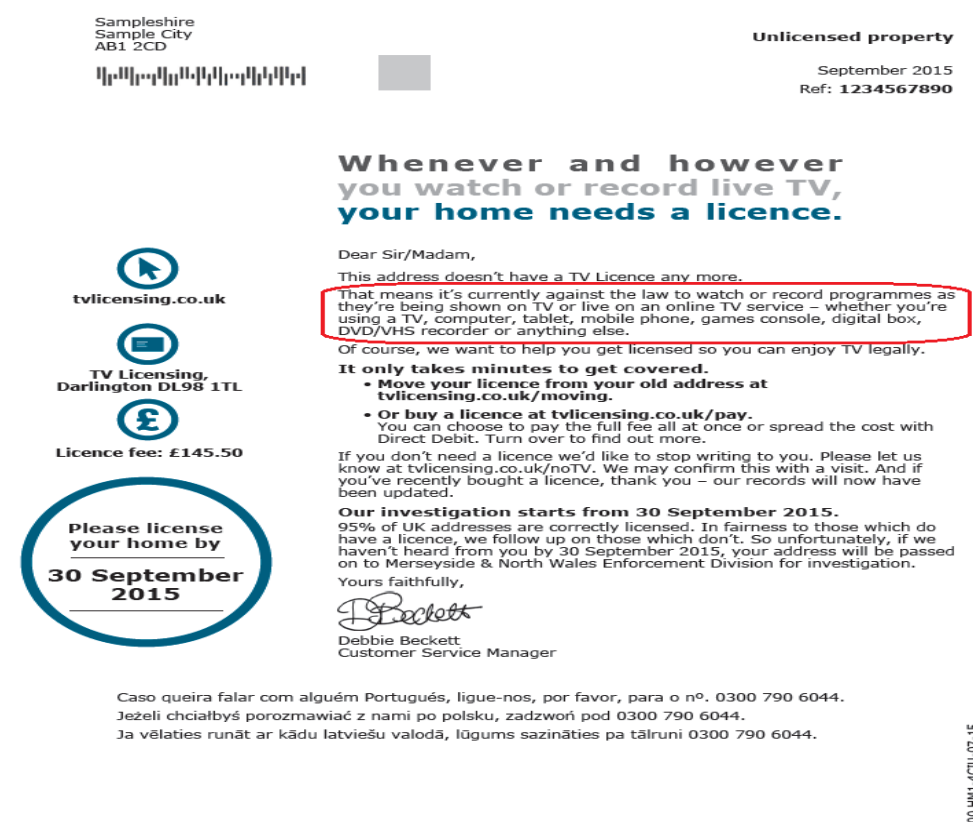
## The BBC strategy to address changing online behaviour

### Educating the public about the need for a licence for non-TV viewing

- 1.22** Educating television viewers about when they need to have a licence and methods of payment is a central part of the TVL strategy. Its current Business Plan commits TVL to delivering a “programme of media stories ... supported by digital content, which focus on TVL key audiences, concessions, ways to pay, and education about licensing requirements and new technology”.
- 1.23** Since 2010, the BBC’s communications have included an explanation of TV licence requirements in all of their existing communication, which includes specific explanations of when a licence is needed for watching using a non-TV device. This is part of the segmented contact strategies explained in paragraph 1.13. Figure 6, below shows what this communication includes.
- 1.24** The BBC sends reminders to all unlicensed households. The BBC also has some targeted marketing activity, such as a campaign for students living in halls of residence (discussed in paragraphs 1.26 - 1.30). These activities are targeted around household type, but are not targeted around demographic groups who are most likely to evade.
- 1.25** The BBC told us that it was doing work to engage younger audiences and sectors of its audience who are most likely watch live television online. This is part of a wider strategy to maintain brand awareness, which seeks to keep the licence fee relevant to audiences and includes BBC projects such as My BBC, which will enable users to log into the BBC websites and tailor what they see to their own preferences. This does not include specific activity to address the potential for future falls in revenue as a result of evasion in this group.

Figure 6

Example letter sent to a household



Source: BBC Licence Fee Unit

## The Student Campaign

- 1.26** The BBC has an ongoing campaign to target education and enforcement activity to students in halls of residence. This is not a response to changes in viewing habits; campaign activities for students have been an ongoing area of campaign activity for a number of years based on their accommodation type. The student campaign involves targeted marketing through material on websites frequently visited by students, radio adverts, letters, posters and other materials delivered to halls of residence. The online adverts direct students to a section of the TVL website designed specifically for students. This explains the licence fee requirement and includes an explanation of whether a licence is required for watching live television on non-TV devices. The BBC told us that one advert on the HexJam student website generated over 20,000 visits to the TVL student website during the last student campaign.
- 1.27** The number of students living in halls who require a licence is a very small proportion of the number of people in need of a licence nationally, but the BBC's evasion model shows that they have a high likelihood of evasion. The BBC estimates that only 9.36 per cent of students need a licence (compared to 95.12 per cent of households nationally), which amounts to 43,322 students. The BBC estimates that only 12 per cent of students in halls watch live television, but a fifth of these do so without the device being plugged in and therefore do not need a licence. This is about 0.14 per cent of the 30 million licensable premises in the evasion model, and it is significantly smaller than the 235,000 people that the BBC estimates watch TV only on a non-TV device. The BBC issued 22,582 licences to such students in 2014-15, suggesting an evasion rate of 48 per cent (compared to between five and six per cent for the general population).

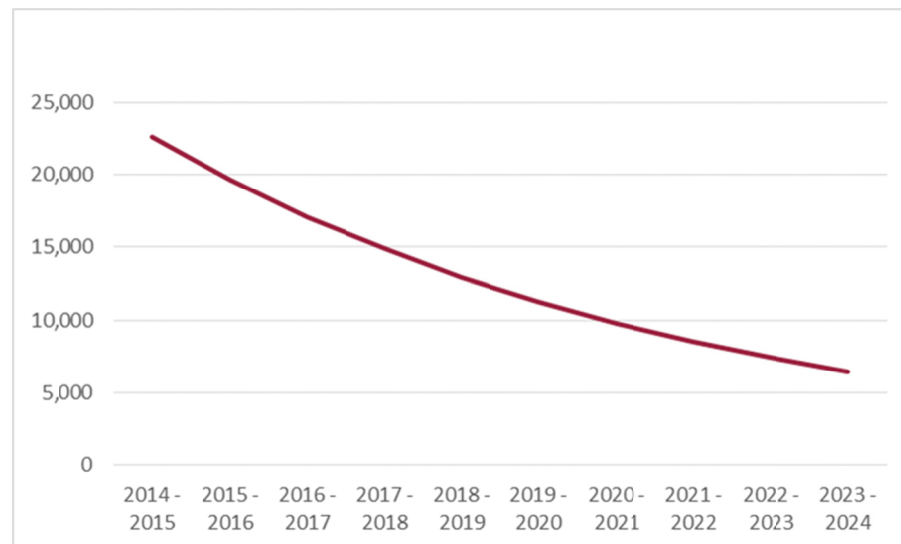
- 1.28** The BBC recognises that students would be among the groups of people changing their television viewing behaviour and the TVL marketing plans state that students are the “licence fee payers of the future”. The BBC’s approach focuses on students on the basis of their accommodation type and its targeted activity does not include other “licence fee payers of the future” such as non-students who have recently left home, or students who are living in rented private sector accommodation. The BBC explained that these people would be covered through its wider education and enforcement activity.
- 1.29** The BBC has accepted steep declines in licence fee revenue from students in halls of residence and the Licence Fee Unit considers that it is the result of changing technology leading to a trend in falling penetration rate in this group. It has set a target of reducing the year-on-year decline in licence fee collection from students in halls to 13 per cent. The Unit’s staff told my staff that this was because of changing technology, and that it would not be possible to reverse the trend in falling TV penetration rate in this group. However, given the current high evasion rate of 48 per cent (from paragraph 1.27), TVL’s target lacks ambition.
- 1.30** Following the 2014-15 student campaign, the BBC recorded an 11 per cent decline in the number of licences given for students living in halls, slightly better than its target of a 13 per cent decline. Overall, the BBC collected fees for 22,582 licences from this group. Over 10 years, a year on year 13 per cent decline would lead to a reduction in licences in halls of residence to 28 per cent of the current volume. If this trend continues, the BBC would be issuing 6,448 licences to students in halls by 2024-25, representing a £2.3 million fall in revenue from this group (see figure 7). The BBC has not provided evidence to support its acceptance of a 13 per cent decline for this group.

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## Figure 7

### Projected decline in licences for students in halls of residence

Number of students in halls of residence paying for licences, year on year projection



#### NOTES

NAO analysis of future licence numbers for students in halls of residence

Source: National Audit Office

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## Monitoring online television watching

**1.31** The internet is essential to accessing live TV through a non-TV device. If the BBC was able to monitor individuals' access to streaming sites on the internet, it could have reliable data on streaming live TV through the internet, including to non-TV devices. The BBC rightly acknowledges that this would be an inappropriate invasion of privacy. The only mechanism that the BBC has for establishing the use of non-TV devices is associated with detection activities, where the BBC has the technology to detect whether a TV or non-TV device is being used to view live TV. In order to acquire the evidence required for prosecution, the BBC has to identify the live broadcast which was being viewed by the unlicensed householder.

## Collaborating with other providers to secure compliance

**1.32** In July 2015, an independent review of TV Licence Fee Enforcement<sup>4</sup> found the BBC's investigation and enforcement process would be more efficient if cable and satellite companies were required to share their subscription information with the BBC and made a recommendation to this effect. The BBC does not currently work with other providers to

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<sup>4</sup> The independent review was led by David Perry QC and looked at options for changing the current enforcement measures, including the decriminalisation of TV licence evasion offences, and whether these options would represent an improvement to the existing system.  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/445212/166926\\_Perry\\_Review\\_Text-L-PB.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/445212/166926_Perry_Review_Text-L-PB.pdf)



reduce the risk of evasion. The BBC has considered this but there are legal barriers to sharing personal data with other organisations, particularly around potential breaches of data privacy. The BBC told us that it cannot request lists of subscribers to other providers of television services, and therefore cannot cross check these lists against the TV Licence database. Other television service providers would have to inform subscribers that their information could be shared in this way at the time of taking out their subscription to allow the providers, such as Sky or Virgin, to share customer data with the BBC. Otherwise, this would be a breach of data protection principles. The only alternative would be for providers to request approval for data sharing from all of their subscribers. This would be a significant undertaking and the BBC expect significant provider resistance to such a proposal.

- 1.33** Currently, the BBC informs all viewers watching live TV through BBC iPlayer that they need a licence. There is no requirement for the providers of other online TV streaming services to tell users that they need a TV licence in order to use their services. As a result, there is a risk to licence fee revenue from viewers of live TV from other providers not being aware of their obligation to purchase a licence.

### Detection and enforcement

- 1.34** As noted earlier, the BBC has a series of contact strategies for particular customer segments. Once a household has been contacted through the contact strategy, if the occupier does not pay for a licence they will be visited by an enforcement officer, and may be subject to detection activity.
- 1.35** The enforcement officer handbook details the procedures for establishing whether a property should have a television licence. The handbook now includes guidance for officers for signs of online evasion, including a specific explanation of when a licence is needed and a procedure for asserting whether the individual in question therefore needs a licence.
- 1.36** The enforcement officer is also given a “record of interview” form to complete, which they pass back to TVL. The form asks the enforcement officer to state whether the occupier has a television set, but the form does not include an option to note other hardware which can be used to watch live television, such as computers, laptops, or phones. The form also asks how the television is receiving its signal (e.g. through an aerial, satellite set top box), but does not include any reference to online means to receive live programming on a television set (such as a fire stick).
- 1.37** The BBC’s final detection and enforcement option is its fleet of detection vans. Where the BBC still suspects that an occupier is watching live television but not paying for a licence, it can send a detection van to check whether this is the case. TVL detection vans can identify viewing on a non-TV device in the same way that they can detect viewing on a television set. BBC staff were able to demonstrate this to my staff in controlled conditions sufficient for us to be confident that they could detect viewing on a range of non-TV devices.

### Enforcement activity

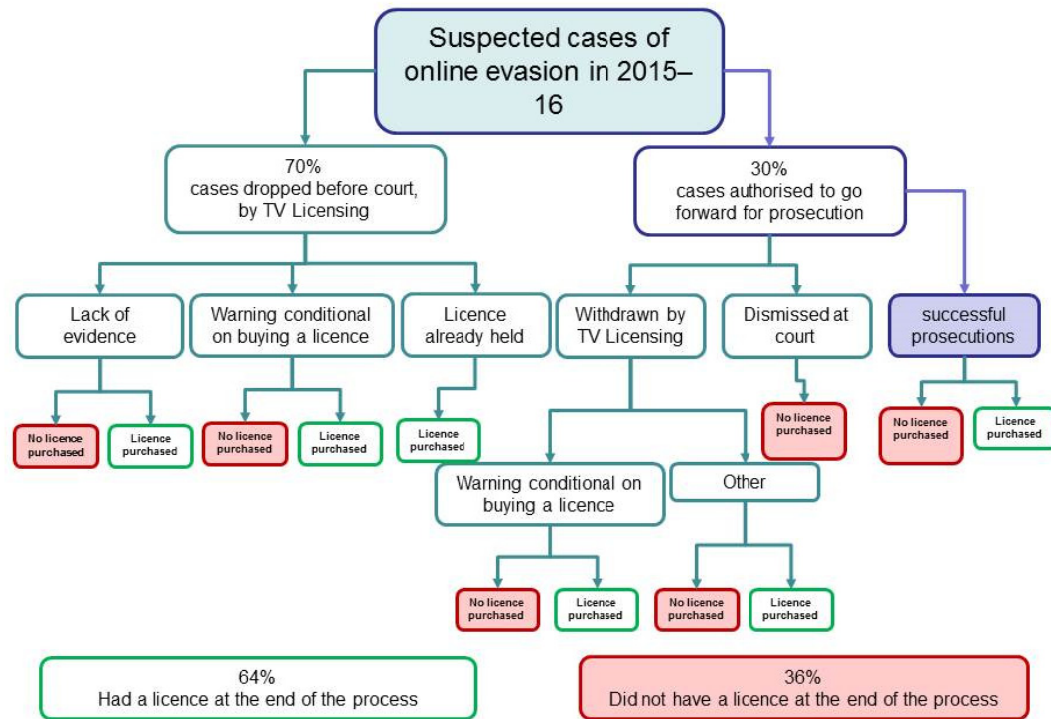
- 1.38** TVL enforcement officers identified a number of households where it was suspected that the occupants were watching live broadcasts online without a TV licence in 2015-16. Figure 8 illustrates how these cases progressed. 64 per cent of the households bought a licence after having gone through TVL’s enforcement process. 36 per cent of households did not buy a licence at the end of the process, and 73 per cent of these had not been prosecuted or fined,

although all unlicensed households remained in the pool of unlicensed properties which would be subject to further enforcement activities.

- 1.39** TVL drops some cases before court, either because the households subsequently purchased a licence or because their legal advisors judged that they did not have sufficient evidence for a successful prosecution. The NAO examined a sample of 20 anonymised cases and found that in each case the householder was interviewed under caution and had admitted that they were watching live television. When the householder admits that they watch live television, the signed visiting form is provided as written evidence of evasion to the BBC. All but one case which we examined passed TVL's initial evidential test, but nine were later withdrawn due to lack of evidence.
- 1.40** The TVL Visiting Procedures clearly document the evidence that the visiting officer is required to gather and the relative strength of different types of evidence and checks are conducted to confirm that visiting officers are adhering to procedures. However, some evidential checks are conducted after the visit by office based administrators and these may result in the case being dropped as a result of insufficient evidence collected at the time of the visit.
- 1.41** Visiting officers are required to complete a form at the time of their visit which details the evidence identified. The form is out-of-date as it still asks about a "television set" and does not request information for non-TV devices. Our review of cases found that officers had written in details on other types of device, or receiver. The updated guidance that TVL provides to visiting officers clearly articulates that there are different ways that an individual can watch television, including through the internet and on non-TV devices. However, if this is not an option on the officer interview form and TVL are reliant on officers writing this information in, they cannot be sure that all evasion using non-television devices is adequately recorded.
- 1.42** Across the 20 cases that we reviewed, the most common justification given for evading when viewing a live broadcast on a non-TV device was that the occupier did not know they needed a licence. As watching live TV without a licence is a criminal offence, it may be in individuals' interests to claim ignorance of the requirement. It also, however, emphasises the importance of educating the public about the requirement to have a television licence for watching live television on a non TV device.
- 1.43** Figure 8 shows the process flow for cases in 2015–16:

**Figure 8**

Process flow for cases where individuals are suspected of watching television on a non-TV device in 2015–16



**Key:**

Did not purchase a licence

Purchased a licence

Source: NAO analysis of the BBC database

## Follow-up on recommendations made in my 2014-15 Report to the House of Commons

- 2.1 In my 2014-15 report, I made three recommendations relating to the licence fee evasion model. **My first recommendation was that the BBC should better document the rationale for its choice of data and confirm on a rolling basis the continuing appropriateness of its use of historic data sources, to ensure that the data sources for its evasion model are fit for purpose.** In response to this, the BBC has simplified its evasion model, making it easier to trace the variables in the model through to the final level of evasion. It has also produced a handbook which explains the rationale behind its choice of data.
- 2.2 In my last report, I identified some adjustments to the evasion model which the BBC Licence Fee Unit was unable to justify. I commented on the Unit's decision to remove those who are in Accommodation for Residential Care (ARC) from household data and concluded that this was not warranted as it understated evasion. The Unit has revised the evasion model and ARC licences are now included as an individual category.

- 2.3** I also expressed concern that some of the data sources for the evasion model were old. Information on temporary and permanent lodgers was based on 2001 data which had been uprated by the same factor for 14 consecutive years. My concern was that this would not provide a sufficient basis for predicting the changes (population growth, increase in house prices and rent) that influence the current level of lodgers. Following a further review of household data, the Unit decided that the separate categories for permanent and temporary lodgers should be excluded from the model as it believed this data should already be captured under the households' criteria. My staff questioned the validity of the assumptions that led to the removal of temporary and permanent lodgers and the Unit has agreed that they should not have been removed, pending research into possible alternative sources of data on lodgers.
- 2.4** The Unit has also revised the penetration rate for lodgers. The March 2015 evasion model had penetration rates of 95.15 per cent for permanent lodgers and 50 per cent for temporary lodgers. These have both been reduced to 9.36 per cent as the Unit has used the penetration rate for students as a proxy for the rate for lodgers as a means for addressing the challenge of getting reliable data for total lodgers and the appropriate penetration rate. The change in the evasion rate for lodgers has reduced the overall evasion rate by 0.62 percentage points. The Unit is yet to identify a reliable source for current data on lodgers. Similarly, I commented that the data in the evasion model for businesses required updating as it was also based on 2001 data to which the same annual uplift had been applied for 14 years. While the business data in the March 2016 evasion model is still based on uplifted 2001 data, there is now an on-going project to enhance business data, which is due to be completed in summer 2016. **I will continue to monitor progress in this area.**
- 2.5** While reviewing the evasion model, the BBC has also revised its estimate of TV penetration rates for second homes, students in halls and military bases. The penetration rate for second homes was reduced from 80% to 60%. This reduction was based on assumptions of a shift away from these households watching TV solely on a TV set and towards viewing on other devices. The BBC assumes that second home owners may avoid the need for a second licence by viewing live TV on devices not plugged in to a power supply. The BBC has not provided any evidence to support the assertion that this warranted a 20% reduction in the penetration rate. The reduction of the second home penetration rate has resulted in a 94,000 reduction in the prediction for licences required for this category, equating to revenue of £13.7m or a reduction of 0.32 percentage points in the level of evasion at March 2016. The penetration rate for military accommodation was also reduced from 60% to 28%. This was largely to reflect the fact that those residing in military accommodation are more transient than previously envisaged and therefore less likely to watch live TV. The reduction of this penetration rate has resulted in a 16,000 reduction in the prediction of licences required for this category representing a reduction of 0.06 percentage points in the level of evasion at March 2016.
- 2.6** The net impact of the reduction in the penetration rates for lodgers, second homes and military accommodation is that the March 2016 evasion rate has been reduced by 1 percentage point from 7.2% to 6.2% representing £42.3m of potential lost revenue.
- 2.7** The final area in which I questioned the appropriateness of data was in the determination of penetration rates. The BBC uses data from BARB to assess the appropriate penetration rates for households. Part of this data considers the number of people who watch live TV on non-TV devices and I reported in 2014-15 that the BARB data considered only whether the respondent watched live TV on non-TV devices and not other members of the household. The BARB survey also asked whether games consoles were used to view television, but no specific questions were asked about mobile phones and no questions were included to help the respondent

differentiate between on-demand and live TV. I recommended that the BBC secures more information from BARB to address these information gaps. The BARB survey now asks about mobile phones but the BBC has not followed up on the other areas, citing the challenges of getting additional questions added to the survey. The BBC has also questioned the appropriateness of the survey asking individuals to comment on the behaviours of others.

- 2.8 In conclusion, the BBC has made some progress in updating the model but more needs to be done. Where significant amendments are made to the evasion model, these should be subject to independent review and challenge (by Internal Audit for example) to ensure that the changes are warranted. If the BBC is unable to use the BARB survey to acquire information on the use of non-TV devices for anyone other than the respondent, it should explore alternative sources for this information.**
- 2.9 My second recommendation was that, while the different nature and source of inputs to the database and evasion model means that they cannot be reconciled precisely, the Licence Fee Unit should do more to confirm that they are consistent.** The BBC has made some progress with this recommendation by comparing the number of licensable sites in the database which is used for its operational purposes and the number of licensable sites in the evasion model. It has identified a total difference of 1.8 million sites between the two with households and other forms of accommodation being 0.49 million and 1.31 million premises respectively. There are more licensable sites in the database than the Evasion Model and this has largely been attributed to the fact that the BBC relies on occupants of properties with a no licence needed (NLN) status to inform TVL before the database can be updated and the property can be removed from the count of licensable properties. However, some unexplained inconsistencies still remain. For example, the BBC's target for students is based on a 13% reduction on the 22,582 licences for students in halls of residence, yet the evasion model states there are 42,000 licensable students in halls. This inconsistency had not been identified prior to my audit. **In conclusion, the BBC has made progress with its reconciliation but need to do more to ensure the continuing reliability of these inputs and to ensure that its business activities are being driven by reliable data.**
- 2.10 My final recommendation was that the Unit should do more to understand the factors influencing evasion rates, such as wider economic conditions, the increasing use of non-TV devices, and the effectiveness of collection activities, in order to target sustained improvements in the level of evasion.** The Unit has shown some progress in its efforts to understand the role of the external environment in BBC revenues and evasion rates. It undertook research seeking to determine the relationship between wider economic performance and licence fee evasion. This study found little evidence of a significant or stable relationship between the unemployment rate and the TV licence evasion rate. It further concluded that there was no evidence to suggest that customers were taking longer to renew their TV licence and found only weak evidence that the economic downturn was driving down net direct debit acquisition. The study also concluded that the socio-economic profiles of unlicensed addresses reflect those of the general population as a whole and not any particular social group. **The BBC has attempted to understand the factors influencing evasion but it has not identified a sufficiently strong link to determine causality.**

- 2.11** With regards to the increasing use of non-TV devices, the BBC has recognised the potential threat presented by non-TV devices and included it in its risk register with an accompanying action to investigate the different technologies used to view TV content. This issue is examined further in Part 1 of my report for this year. **The BBC is in the process of implementing this recommendation and I will review and report on progress on this, and the recommendations in this year's report, in my 2016-17 report.**

**Sir Amyas CE Morse**  
**Comptroller & Auditor General**  
**National Audit Office**  
**157-197 Buckingham Palace Road**  
**Victoria**  
**London**  
**SW1W 9SP**

**6<sup>th</sup> July 2016**

# Accounts Direction Given by HM Treasury

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

1. This direction applies to the British Broadcasting Corporation (“the BBC”) for the Television Licence Fee receipts.
2. The BBC shall prepare a Trust Statement (“the Statement”) for the financial year ended 31 March 2011 and subsequent financial years in compliance with the accounting principles and disclosure requirements of the edition of the *Government Financial Reporting Manual* issued by HM Treasury (FRM) which is in force for that financial year.
3. The Statement shall be prepared so as to give a true and fair view of the state of affairs relating to the collection and settlement of the Television Licence Fee at 31 March 2011 and subsequent financial year-ends and of the revenue and expenditure and cash flows for the year then ended.
4. The statement shall also be prepared so as to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
5. The BBC shall agree the format of the supporting notes with HM Treasury. The notes shall include: the accounting policies (including the policy for revenue recognition and any estimation and forecasting techniques); breakdowns of income, expenditure assets and liabilities recognised in the primary statements in all cases where users’ understanding would be materially improved by additional detail; disclosure of contingent liabilities; summaries of losses, write-offs and remissions; and post balance sheet events.
6. Regard shall also be given to all relevant accounting and disclosure requirements given in Managing Public Money and other guidance issued by HM Treasury. To this extent the Trust Statement shall include: a Foreword by the Director General; a Management Commentary; a Statement of the Director General’s Responsibilities; and a Statement on Internal Control.
7. Evasion is outside the scope of the Trust Statement and shall not be included in the primary statements or notes. This fact should be disclosed in an accounting policy note with reference to the Management Commentary for further disclosure. The disclosures in the Management Commentary shall include discussion of the level of evasion in the year.
8. The Statement shall be transmitted to the Comptroller and Auditor General for the purpose of his examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to ensure compliance with the administrative deadline for laying the audited accounts before Parliament before the Summer Recess.
9. The Trust Statement, together with this direction, and the Report produced by the Comptroller and Auditor General, under section 2(2) of the Exchequer and Audit Departments Act 1921 as amended by the Government Resources and Accounts Act 2000, shall be laid before Parliament at the same time as the BBC’s accounts.

**CHRIS WOBSCHALL**

Head, Assurance and Financial Reporting Policy

HM Treasury

**10 May 2011**

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