



TV licence fee collection

Report by the Comptroller and Auditor General
presented to the BBC Trust Value for Money Committee,
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Key facts

£3.74bn

TV licence fee revenue
collected in 2015-16

£99.6m

overall TV licence fee
collection costs in 2015-16

**£251m–
£291m**

the estimated cost of TV
licence fee evasion in 2015-16

- 25%** real-terms reduction in the overall cost of collecting the licence fee, between 2010-11 and 2015-16
- 50%** reduction in complaints made to TV Licensing between 2010-11 and 2015-16
- 105** the TV licence reputation index score for the general population in 2015-16, against a 2010 baseline of 100
- 99** the TV licence reputation index score for those delaying or evading paying the licence fee, in 2015-16, against a 2010 baseline of 100
- 6.2% to 7.2%** estimated TV licence fee evasion rate in 2015-16
- 18%** reduction in TV licence fee evaders caught between 2010-11 and 2015-16
- £27.8 million** the contractual value of planned service and system improvements not delivered – and not paid for by the BBC – as part of the Capita contract

Summary

1 Everyone in the UK who watches or records television programmes as they are broadcast must be covered by a valid TV licence. This includes, for example, people in residential households, businesses, hotels, and student accommodation. In June 2016, there were just over 26 million licensed premises. A licence is required to watch or record live TV on any device, including computers and smartphones. A new law in force from September 2016 also requires those watching or downloading BBC content on iPlayer to be covered by a valid TV licence.

2 The TV licence fee is the main component of the BBC's funding. It represented £3.74 billion (78%) of the BBC's overall £4.83 billion income in 2015-16. The Secretary of State for Culture, Media and Sport sets the level of the TV licence fee, including any concessions, and the types of payment plan through which the licence fee can be paid. In 2010, the government froze the annual cost of a colour TV licence at £145.50. In 2016, the government's white paper, *A BBC for the future: a broadcaster of distinction*,¹ announced that increases in the licence fee will be linked to inflation from 2017-18 to 2021-22.

3 The BBC is responsible for issuing TV licences and collecting the licence fee. It holds contracts with various providers for activities related to collection. The two largest contracts are with Capita and Proximity. In 2015-16, the BBC paid Capita £58.6 million. Proximity's contract costs formed the majority of the £15.8 million that the BBC spent on TV licence communications and letter campaigns in 2015-16. Capita provides customer services, processes payments, collects arrears, and enforces licence fee collection. Its current contract began in July 2012 and, following a recent renegotiation, ends in 2022, with an optional extension of up to a further five years. Proximity provides marketing and printing services, under a contract that began in 2010 and that has been extended to 2018. Both contractors are supported by subcontractors which provide, for example, information and communication technology (ICT), and printing and research services. Along with the BBC, all companies operate under the TV Licensing trademark.

4 The BBC's overall aim in collecting the licence fee is to increase long-term net revenue in a way that sustains public support for the TV licence. Maximising net revenue depends on increasing revenue, while reducing evasion and collection costs. To sustain public support, the BBC focuses on improving reputation and ensuring service continuity. The BBC has related aims to improve the operational and contractual performance of the contractors that support collecting the licence fee.

¹ Department for Culture, Media & Sport, *A BBC for the future: a broadcaster of distinction*, May 2016.

Our report

5 This report examines whether the BBC is achieving value for money in its management of licence fee collection. It builds on previous NAO reports on *The BBC: Collecting the television licence fee (2002)* and *The BBC's management of strategic contracts with the private sector (2009)*,² as well as annual reviews we carry out as part of the BBC's Television Licence Fee Trust Statement. The report has four parts:

- Part One outlines the background and main organisations involved in collecting the licence fee, and changes to the operating environment.
- Part Two assesses performance against TV Licensing's four main objectives.
- Part Three reviews the operational and marketing approaches taken to improve TV Licensing's performance.
- Part Four evaluates how well the BBC has managed its two main TV Licensing contracts.

TV household data

6 In evaluating TV Licensing's performance, we have recognised the impact of recent changes in external data the BBC uses to estimate the number of households requiring a TV licence. In 2015-16, the Broadcasters' Audience Research Board (BARB), which measures television audiences, revised its calculation of how many households use televisions. In recent years, BARB data had shown the number of households with a TV on a sharp downward trend, particularly from 2014. The BBC queried these data, and a resulting BARB review concluded that it had underestimated the number of TV households. This means that some recent BBC revenue collection targets, contractor payments and evasion rate estimates were calculated using inaccurate data. For instance, BARB's revised measure increased the estimated licence fee evasion rate by 1.3% in 2015-16. The BBC is now using BARB's revised data to underpin future revenue forecasts and evasion rate estimates.

² Comptroller and Auditor General, *The BBC: Collecting the television licence fee*, Session 2001-02, HC 821, National Audit Office, May 2002; Comptroller and Auditor General, *The BBC's management of strategic contracts with the private sector*, National Audit Office, March 2009.

Key findings

The BBC's performance in collecting the licence fee

7 The BBC's overall aim for collecting the licence fee is to increase long-term net revenue in a way that sustains public support for the TV licence. It has performed well in increasing revenue, reducing collection costs and maintaining its reputation overall, but it has performed less well in reducing evasion:

- **TV licence fee revenue has increased every year since 2010-11, from £3.51 billion to £3.74 billion in 2015-16.** This increase was in spite of the cost of the TV licence being frozen after 2010. Under the current Capita contract, which began part-way through 2012-13, revenue increased for three out of four years at a higher rate than the BBC's estimate for household growth adjusted for the number of households that use a TV. However, in three of the four years covered by Capita's contract, the amount collected was below the levels targeted (payments to Capita were also lower than forecast as a result) (paragraphs 1.1, 2.3 and 4.8).
- **The cost of collecting the TV licence fee fell by 25% in real-terms between 2010-11 and 2015-16.** The amount of revenue collected per pound spent on collection increased from £28 to £38 over the same period. Most collection costs relate to call centres, field officers, detection, over-the-counter services, customer communications and postage (paragraphs 2.14 and 2.15).
- **Performance measures relating to reputation have improved, and the volume of complaints has halved, since 2010.** TV Licensing tracks public attitudes monthly, separating the views of the general population from those of people who delay or evade paying their licence fee. The overall reputation of TV Licensing in the general population had improved to 105 by March 2016, against a 2010 baseline of 100. For delayers and evaders, it stood at 99 against the same 2010 baseline, having reached a high of 104 at the end of 2013-14. Complaints have reduced by 50% since 2010-11, with 11,947 complaints made in 2015-16 (paragraphs 2.16 to 2.19).

8 The BBC's estimated evasion rate – the percentage of premises that should have a TV licence but do not – is between 6.2% and 7.2%. It has not moved towards the level targeted by the BBC and Capita. The evasion rate appeared to be steady from 2010-11 to 2014-15, at between 5% and 6%. However, in 2015-16 it increased mainly because of changes in BARB's calculation of the number of households that use a TV. This means it is increasingly unlikely that Capita will achieve its aim of 3.95% evasion by 2020 – an aspiration the BBC considered credible in 2011, and which is very close to the lowest feasible rate of 3.4%, calculated by BBC research in 2004. Every one percentage point reduction in the evasion rate equates to around £40.5 million of extra revenue. Therefore reducing evasion to 3.95% would increase the BBC's annual revenue by at least £91 million (paragraphs 2.5 to 2.7, 2.10 and 2.11).

Operations, enforcement and marketing

9 The operational performance of TV Licensing has improved in most areas through using more efficient, cost-effective customer services.

Since 2012, TV Licensing has focused on reducing calls to contact centres and increasing visits to, and transactions via, its website. TV Licensing customers' increasing use of direct debit payments – 74% paid this way in 2015-16 – compares well to relevant benchmarks. Capita has also focused on improving processes to make specific activities more efficient. In December 2015, a large majority (80%) of inbound calls to call centres were resolved correctly at the first attempt (paragraphs 3.2 and 3.3).

10 While overall operational performance has largely improved, fewer evaders have been caught on visits to premises between 2010-11 and 2015-16, despite increased numbers of visits.

Of three million enforcement visits in 2015-16, around 298,000 resulted in an evader being caught. This was 18% fewer evaders than were caught in 2010-11, when only 2.7 million visits were made. The BBC and Capita explain this performance as, in part, being caused by challenges recruiting and retaining field staff, and, in part, due to visits being focused on a more challenging group of delayers and evaders than in the past. While there is an annual process to develop enforcement and sales initiatives, this has not to date formed part of a clear, long-term strategic approach. This would, for example: set out how intended outcomes will be measured and reported; and outline resources and savings requirements. The BBC's objective for its visits is to improve compliance levels, and it prefers, where possible, for visits to result in a licence fee payment rather than a prosecution (paragraphs 3.4 to 3.8).

11 TV Licensing's marketing and campaigns, primarily contracted to Proximity, are well developed.

Proximity's understanding of customer behaviour is based on data and evidence. For example, it trials all marketing and customer communications to test their effectiveness. Proximity's tailored approach to contacting different customer groups, and the complementary work of TV Licensing's three business units, is clear and rational. The BBC and its contractors will now need to adapt their approach to both marketing and enforcement to take account of policy changes, including voluntary payments from those aged 75 and over and the trialling of new, flexible payment plans (paragraphs 1.13 to 1.15 and 3.12 to 3.14).

Managing strategic contracts for licence fee collection

12 The BBC's commercial arrangements with Capita and Proximity show a number of elements of good practice. Both contracts resulted from procurement processes in which there was sustained competition. The BBC uses key performance indicators that offer incentives for strong operational performance, which has been achieved with performance against these measures at or above 88% in every year of both contracts. Management of both contracts has also benefited from their inclusion in the BBC's strategic contracts portfolio. This provides regular reporting and an annual review process that shares lessons learned and provides various contract benchmarks. The BBC collects information on the market of providers that are currently delivering customer or enforcement services similar to TV Licensing but in different sectors. This helps the BBC to understand providers' capabilities to bid for future work. The BBC also delivers training and workshops to commercial staff. It does not, however, assess systematically its current or future commercial staff and skills needs (paragraphs 4.2 to 4.4, 4.7 to 4.10, and 4.20 to 4.24).

13 The BBC's contract with Capita transferred high levels of financial risk to the contractor but, due to altered circumstances, the two organisations renegotiated the contract in 2016. The original contract's payment mechanism offered strong incentives for Capita to increase the amount of revenue it collected. Capita was paid more for each pound collected if it managed to collect higher levels of revenue. Following revisions to BARB data on the number of households with a TV, the levels of revenue that Capita needed to achieve over the remainder of the term made the contract less profitable, creating a risk that Capita would reduce its spending to the detriment of TV Licensing's objectives. As a result, the BBC and Capita have agreed contractual changes, including: revising the payment mechanism so that the BBC and Capita have greater certainty about costs; and preventing Capita from reducing the amount it spends on the contract, without BBC approval. The BBC forecasts that the net revenue that will be collected under the new terms is at least equal to that under the previous arrangements, but that the risk to sustainability of the contract is substantially reduced. The BBC and Capita have also agreed to extend the contract by two years to 2022 (paragraphs 4.7, 4.8 and 4.15 to 4.19).

14 Alongside day-to-day services, Capita was supposed to modernise data and technology systems through a transition programme. Despite certain improvements, this part of the contract has faced major difficulties, with the BBC paying Capita only £22.9 million out of a £50.7 million budget. Capita has made improvements through the transition programme, including restructuring contact centres, updating the TV Licensing website, and upgrading handheld units for field staff. But the programme failed to update legacy ICT systems by a target date of July 2016. Problems emerged over time, with the BBC aware of the need to replan certain aspects of the programme's scope and milestones from 2012-13. The programme has now been stopped. As a result, it is currently more resource-intensive than intended to support TV Licensing's understanding of customer behaviour and the realisation of efficiencies has been delayed as the BBC reconsiders its approach. It has been a long-standing ambition of the BBC to upgrade its legacy ICT systems. The BBC told us it will review its intentions to modernise its systems after the new Royal Charter comes into effect in 2017 (paragraphs 4.11 to 4.14).

Conclusion on value for money

15 The BBC has made progress against most of its main performance measures for collecting the licence fee, increasing revenue every year since 2010-11, albeit often below target levels, reducing collection costs, and improving the reputation of TV Licensing among the general population. In these core aspects of its activities, it has improved value for money.

16 This progress is welcome but the BBC has had less success delivering its aim to reduce licence fee evasion. The evasion rate is higher than was previously thought and it is now unlikely that the aspiration to reduce it to 3.95% will be achieved. In this context, catching fewer evaders than previously is worrying. Furthermore, due to the incomplete transition programme, the BBC's optimisation of efficiency and effectiveness has been delayed. The BBC, therefore, has scope to improve further the value for money of licence fee collection.

Recommendations

- a **The BBC should update its analysis of the minimum level of licence fee evasion that is possible (the ‘evasion floor’) to identify a current, realistic and achievable ambition.** The BBC last refreshed its analysis of the evasion floor in 2004, before significant changes to licence fee policy and the collection environment. It should update its analysis and use it to check and, if necessary, change contractor revenue targets in future.
- b **The BBC, in conjunction with Capita, should develop a clear, long-term strategy to improve the effectiveness of its field activity in generating licence fee sales and catching evaders.** Figures for evaders caught have been below levels targeted by Capita. For the remainder of the contract, a more coherent, long-term approach needs to be taken, which sets out and justifies, for example: desired field outcomes and how they will be measured; and resources and savings requirements. The strategy should, along with performance data, be included within the annual process for approving the overall licence fee collection strategy.
- c **Following the transition programme’s termination, the BBC should clarify how, and over what time frame, it will upgrade old ICT systems.** As it reviews its plans in the light of the new Royal Charter, the BBC should clarify what additional technology it needs, and how and when it intends to modernise its systems, learning lessons from previous attempts to upgrade the structure of its core database.
- d **The BBC, as part of its strategic contract reporting process, should assess its commercial skills and future requirements.** The BBC currently reports contract management costs and staff numbers for its strategic contracts. However, additional information on skills will be important given changes to the licence fee collection environment, the BBC’s greater oversight of Capita’s cost base in future, and the need to find new ways to upgrade existing technology and ICT systems.
- e **The BBC should review all of its strategic contracts to identify where it places reliance on third-party data for payment or performance reporting, and consider whether this exposes it to any risks.** The significance of BARB’s understatement of the number of TV households – on contractual payments, collection costs and evasion – shows the importance of understanding risks from third-party data. This is particularly important if minor data changes can have sizeable effects on payments.