



**British Broadcasting Corporation**

**Television Licence Fee Trust Statement for the  
Year Ending 31 March 2011**



# **British Broadcasting Corporation**

## **Television Licence Fee Trust Statement for the Year Ending 31 March 2011**

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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# Table of Contents

|  |           |
|--|-----------|
| <b>FOREWORD</b>  | <b>2</b>  |
| <b>ANNUAL REPORT</b>   | <b>3</b>  |
| Management Commentary  | 3         |
| Statement of the Accounting Officer's Responsibilities in Respect of the Trust Statement | 9         |
| Statement on Internal Control  | 10        |
| <b>AUDIT REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS</b>       | <b>13</b> |
| <b>FINANCIAL STATEMENTS</b>  | <b>15</b> |
| Statement of Revenue and Expenditure for the Year Ended 31 March 2011                    | 15        |
| Statement of Financial Position as at 31 March 2011                                      | 16        |
| Statement of Cash Flows for the Year Ended 31 March 2011                                 | 17        |
| Notes to the Trust Statement   | 18        |
| Annex 1 – Reconciliation to the BBC's Main Annual Report Licence Fee Sales               | 21        |
| <b>THE COMPTROLLER AND AUDITOR GENERAL'S REPORT TO THE HOUSE OF COMMONS</b>              | <b>22</b> |
| <b>ACCOUNTS DIRECTION GIVEN BY HM TREASURY</b>   | <b>31</b> |

# Foreword

The BBC's Licence Fee collections showed excellent performance in 2010/11, delivering over 140,000 additional licences and £77m more than 2009/10.

Over the last two years the BBC has faced the toughest environment for collecting the Licence Fee since it took responsibility for collection in 1991. Household growth is low compared to the long run trend experienced until 2008 and customers find it increasingly hard to pay as household budgets are squeezed by prices increasing faster than incomes.

In this environment the BBC has improved its processes to maintain evasion at 5.2% in 2010/11 whilst improving its relationship with customers by changing the tone of many of our communications and identifying and altering processes that lead to complaints. As a result complaints have fallen by 19% in 2010/11.

We are also making it easier for customers to make their payments. Transactions completed over the web or automatically over the telephone have increased from 42% to 54% of all transactions in the last year.

We expect that the collection environment will remain tough for 2011/12, but we will continue to improve our relationships with customers and make our processes more effective to collect the most revenue for the BBC whilst remaining fair and proportionate in what we do.

# Annual Report

## Management Commentary

The Director General as Accounting Officer presents the British Broadcasting Corporation Television Licence Fee Trust Statement (the Trust Statement) for the year ending 31 March 2011.

### 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 of 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., with cash related payment schemes contracted to iQor UK Limited. Over-the counter services are provided by PayPoint in the UK, and by the Post Office in the Isle of Man and Channel Islands. Marketing and printing services are contracted to Proximity London Ltd as are public relations and advertising services. The latter are subcontracted by Proximity to Fishburn Hedges Boys Williams Ltd, Abbott Mead Vickers BBDO Ltd and PHD Media Ltd. The BBC is a public authority in respect of its television licensing functions and retains overall responsibility.

Contracts are awarded through competitive tender using EU regulated procurement processes. The contracts currently held by Capita Business Services and iQor UK Ltd are currently being retendered and a new contract is expected to be awarded in late 2011.

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 easily.

### The Trust Statement

The Trust Statement shows the revenue receivable from Licence Fee payers which is due to the Consolidated Fund for the year. The BBC is required to produce the Trust Statement in accordance with the Accounts Direction given by HM Treasury 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 for the value of free licences issued to customers over the age of 75 which do not form part of the Trust Statement.

## 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, the Department for Work and Pensions and the Foreign and Commonwealth Office, 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 objective and directors' remuneration can be found in the BBC's Annual Report and Accounts.

Licence Fee collection is part of the BBC's Finance Division 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.

## Performance for 2010/11

Gross income in the Trust Statement has increased to £3,242m (2010 £3,162m). Gross income is the value of Licences issued in the period. Revocations, deletions and cancellations have risen to £158m (2010 £155m).

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

**Table 1 – Increase in Licence Fee Revenue**

|   | <b>£m</b>    |
|---|--------------|
| Net revenue for the Consolidated Fund 2009/10 | 3,024        |
| Increase in value of the Licence Fee          | 64           |
| Increase in volume from household growth      | 15           |
| Other changes                                 | (2)          |
|   | <u>3,101</u> |

The increase in revenue is affected by the number of new households, the level of Licence Fee evasion, and by the value of the Licence Fee itself. In 2010/11 the only material changes were as a result of the change in the Licence Fee value and the additional licences from the growth in the number of households.

### Household growth

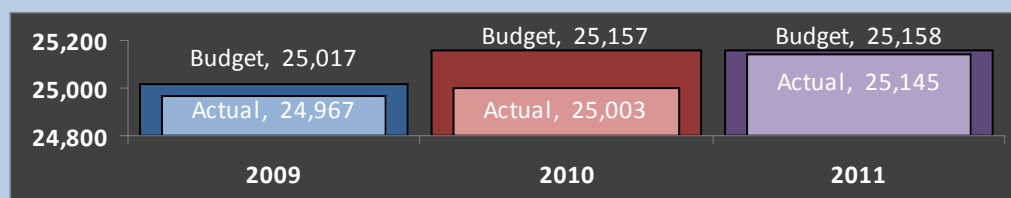
The BBC estimates the number of households has grown by just 0.5% in 2010/11 compared to an average of 0.8% for the three years prior to 2008/09. The BBC estimates household growth figures itself rather than using the Department of Communities and Local Government data because the latest estimates relate to 2008. The estimate used by the BBC is tested against statistical models and against other indicators for consistency.



## Budgeting and Forecasting

Table 2 shows the budgeted sales against the actual results for the year for the last three years.

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



Licence Fee sales in table 2 include the following volumes of Over 75 free licences. 2011- 4,156,000; 2010 – 4,088,000; 2009 – 4,000,000.

Sales volumes were lower than budget in 2008/09 and 2009/10 when the economic downturn caused household growth to drop below the estimates in our budget. The budget for 2010/11 was adjusted for new estimates of household growth and the results were shown to be much closer to the budget.

## Bad Debts, Refunds and Cancellations

Whilst the value of refunds, revocations and cancellations has increased, the proportion of refunds, revocations and cancellations to Licences issued is less in 2010/11 than 2009/10. The BBC has worked with its collection partners to increase the revenue collected from instalment customers.

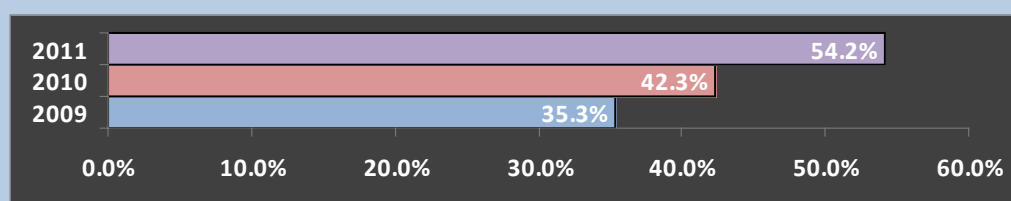
Collection is more flexible now than ever before, and is supported by a new, more customer-friendly website, and promotional trails like the recent *Push a Little Button* campaign to raise public awareness.

## Other key performance indicators

**Self service transactions** - The BBC has invested in the TV Licensing website over many years and launched an improved site in October 2009. The BBC has worked with its collection partners to improve the interactive voice recognition for telephone calls so that more transactions are completed automatically over the telephone than ever before.

These initiatives mean that self service transactions have increased from 35.3% in 2008/09 to 54.2% in 2010/11 and are expected to increase further in 2011/12.

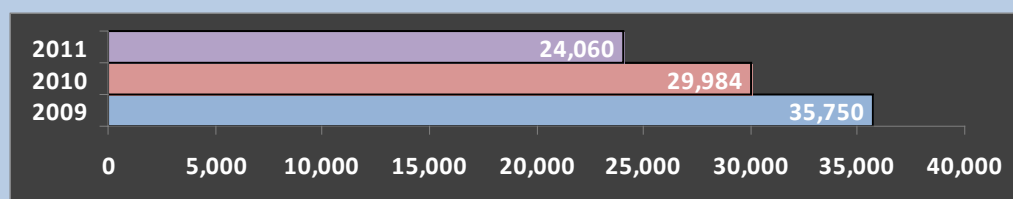
**Table 3 - Self-serve transactions**



**Complaints** – The BBC has worked with all of its collection partners to reduce the level of complaints by identifying the sources of complaints and improving our processes to enhance customers' experiences with us.

The result is that customer complaints have fallen by more than 10,000 over two years whilst the volume of customers and licences issued has increased. Complaints per thousand licences sold were 0.96 in 2010/11 compared with 1.43 in 2008/09.

**Table 4 - Complaints**



## 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 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 rate of increase in supply of housing. The household growth estimate is applied to the latest information for the number of households published by the DCLG.

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. This ratio is applied to the BBC's estimate of households to provide the number of licensable households.

Estimates are made for the numbers of other 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 better information has been received.

The evasion percentage is reported each year in the BBC's Annual Report and Account. Comparatives in the Annual Report and Accounts have not been changed even though the latest calculation of evasion for that period may be different from that originally reported.

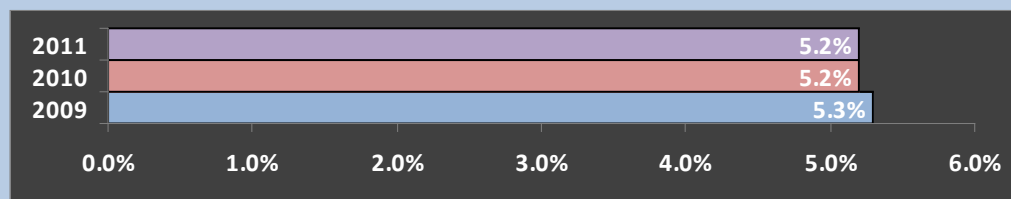
Studies have shown that the evasion percentage is statistically significant to zero decimal places even though we report it to one decimal place in order to show some trend in the rate of evasion. The changes in the rate of evasion after the reporting date are not statistically significant.

The published rate of evasion has been maintained at 5.2% in 2011/12. The BBC has worked to improve its processes to ensure that customers are paying using the schemes most appropriate for them and that they are encouraged to make up payments quickly if they fall behind.

The BBC is currently retendering its collection arrangements and the new contract which will come into force from 2012 will give the BBC a greater opportunity to change and improve its processes and reduce evasion further.

Progress in managing evasion is expected to come from improved targeting of collection resources enabled by increased use of analytic techniques for deployment of resources.

**Table 5 - Evasion – Published rate**



## 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 and our delivery partners, especially when submitting personal, and often sensitive, information which is held in our databases.

In 2010-11 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 allocations 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.

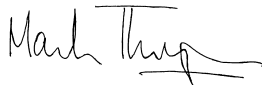
### Deferred Income

The value of deferred income is calculated as the value of cash collected from customers who have paid for their licence in full before the licence comes into force. Only full fee licences are considered because the value of instalment licences is accounted for in the period in which the licence comes into force.

## Auditors

The National Audit Office (NAO) have 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.



Mark Thompson  
27 June 2011

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

HM Treasury has appointed the Director General 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 allocation 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 2010/11. In conforming with HM Treasury direction (see page 31 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. The Trust Statement 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 Internal Control (SIC) which sets out the governance, risk and control arrangements for the BBC. The SIC 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:

- observe the 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 have been followed and disclose and explain any material departures in the account.

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 Department's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Managing Public Money*.

# Statement on Internal Control

## Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the BBC's policies, aims and objectives for collection of Licence Fees whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money. 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 [www.bbc.co.uk/bbctrust/about/how\\_we\\_govern/charter\\_and\\_agreement](http://www.bbc.co.uk/bbctrust/about/how_we_govern/charter_and_agreement)

The BBC is responsible for the collection of Licence Fee revenue. The policies for collection and enforcement are set by the BBC in accordance with relevant legislation and agreements with government departments. The BBC Trust review the collection policy and processes to ensure that collection is efficient, appropriate and proportionate.

## The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the BBC's, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place for the licence fee collection for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

## Capacity to Handle Risk

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 Risk and Control Framework

Key elements of the risk and control 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
- a dedicated central risk management team works with stakeholders to ensure the continuous development of the process and appropriate ownership of all risks
- the Board receives regular reports and updates on the BBC's risk exposure and mitigation strategies

The BBC's structure of assurance includes an internal audit and risk management function which combines with Investigation Services to form our Business Assurance function. 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 Executive Audit Committee (EAC). Internal Audit

regularly tests our 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 including Licence Fee collection service providers. Any significant control failings or weaknesses identified are reported to appropriate levels of management; corrective actions and updates are reported back to the EAC.

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

During 2010/11 the EAC has:

- reviewed the effectiveness of the system of internal controls, including those for financial reporting
- considered reports from management on processes for managing significant risks
- 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 work plan of Internal Audit
- reviewed the fraud detection processes and whistle-blowing arrangements
- monitored the implementation actions required as a result of reviews carried out by the National Audit Office

### **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. As Accounting Officer for the BBC, I have 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 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.

Each year KPMG 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 names and addresses 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 are specifically included in contracts with suppliers for the collection of the Licence Fee.

The BBC commissioned a series of reviews of the information security procedures of all the suppliers involved in the collection of the Licence Fee who handle customer data on behalf of the BBC and their major sub contractors. The reviews were completed by April 2009. The auditors made some recommendations which were resolved by the organisations involved by January 2010.

During 2010, the BBC implemented a new 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 ongoing basis.

During the year, the BBC has improved its email connections between Licence Fee collection suppliers and itself to ensure that all information sent by email is fully secure.

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.

### **Fraudulent activity and whistle-blowing**

Our fraud policy establishes a clear framework of controls designed to minimise the risk of fraudulent activity, and assigns responsibility for managing these. All suspected incidents of fraud are investigated.

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. We recognise that there could be sensitivities regarding actual or suspected incidents and so the 'whistle-blowing' hotline is administered by an independent external company to ensure anonymity.

Each incident or suspicion reported is independently investigated in a confidential manner, a response is communicated and action is taken as appropriate. The EAC is responsible for ensuring that there are appropriate arrangements in place for the proportionate investigation of matters reported and for appropriate follow-up action.

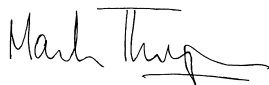
### **Review of Effectiveness**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. 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.

In relation to the Licence Fee collection processes, assurance has been gained from

- 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. It also includes performance reviews tracking achievements against strategy.
- 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.

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



Mark Thompson  
27 June 2011



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

I have audited the British Broadcasting Corporation (BBC) Television Licence Fee Trust Statement for the year ended 31 March 2011 under the Exchequer and Audit Departments Act 1921, as amended by the Government Resources and Accounts Act 2000. The Trust Statement comprises the Statement of Revenue and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. The Trust Statement has 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 Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view of the state of affairs relating to the collection and settlement of the Television Licence Fee as at 31 March 2011 and of the revenue and expenditure and cash-flows for the year then ended. My responsibility is to audit and report on the financial statements in accordance with the Exchequer and Audit Departments Act 1921, as amended by the Government Resources and Accounts Act 2000. 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 BBC Trust Statement and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the BBC; 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. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

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

## **Opinion on Regularity**

In my opinion, in all material respects the revenue and expenditure have been applied to the purposes intended by Parliament and the financial transactions 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 2011 relating to the collection and settlement of television licence fees and of its net revenue for the year then ended; and
- the British Broadcasting Corporation Television Licence Fee Trust Statement has been properly prepared in accordance with the Exchequer and Audit Departments Act 1921, as amended by the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### **Opinion on other matters**

In my opinion:

- the information given in the 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 we are required to 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
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control 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 22 to 30.

### **Amyas CE Morse**

Comptroller and Auditor General  
National Audit Office  
157 – 197 Buckingham Palace Road  
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SW1W 9SP

30 June 2011

# Financial Statements

## Statement of Revenue and Expenditure for the Year Ended 31 March 2011

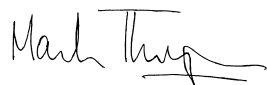
|  | Note | 2011<br>£m   | 2010<br>£m |
|--|------|--------------|------------|
| <b>Income</b>                                |      |              |            |
| Value of Licences                            | 1.3  | <b>3,242</b> | 3,162      |
| Value of refunds                             |      | <b>(82)</b>  | (77)       |
| Value of premiums on quarterly direct debit  |      | <b>17</b>    | 17         |
| Net Revenue                                  |      | <b>3,177</b> | 3,102      |
| <b>Less expenditure</b>                      |      |              |            |
| Bad debt expense                             | 2.2  | <b>(76)</b>  | (78)       |
| <b>Net Revenue for the Consolidated Fund</b> |      | <b>3,101</b> | 3,024      |

There were no recognised gains or losses accounted for outside the above Statement of Revenue and Expenditure. The notes at pages 18 to 20 form part of this statement.

# Statement of Financial Position as at 31 March 2011

|  | Note | 2011<br>£m | 2010<br>£m |
|--|------|------------|------------|
| <b>Current Assets</b>                                      |      |            |            |
| Receivables  | 2.1  | 395        | 387        |
| Cash held for customers on savings schemes                 |      | 39         | 41         |
| Cash held on behalf of the Consolidated Fund               |      | 34         | -          |
| <b>Total Assets</b>  |      | <b>468</b> | <b>428</b> |
| <b>Current Liabilities</b>                                 |      |            |            |
| Payables   | 3    | (271)      | (264)      |
| <b>Total Net Assets</b>                                    |      | <b>197</b> | <b>164</b> |
| Represented by:  |      |            |            |
| <b>Balance on Consolidated Fund Account as at 31 March</b> | 4    | <b>197</b> | <b>164</b> |

The notes at pages 18 to 20 form part of this statement



Mark Thompson  
27 June 2011

# Statement of Cash Flows for the Year Ended 31 March 2011

|   | Note       | 2011<br>£m | 2010<br>£m |
|---|------------|------------|------------|
| Net cash inflow from revenue activities     | A<br>below | 3,100      | 3,012      |
| Cash paid to the Consolidated Fund          | 4          | (3,068)    | (3,015)    |
| Increase / (Decrease) in cash in the period |            | <u>32</u>  | <u>(3)</u> |

## Notes to the Cash Flow Statement

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

|  |                     |                     |
|--|---------------------|---------------------|
| Net Revenue for the Consolidated Fund        | 3,101               | 3,024               |
| Increase in Receivables                      | (8)                 | (16)                |
| Increase in Payables                         | 7                   | 4                   |
| <b>Net Cash Flow from revenue activities</b> | <u><b>3,100</b></u> | <u><b>3,012</b></u> |

### B: Analysis of Changes in Net Funds

|  |                  |                  |
|--|------------------|------------------|
| Increase/(Decrease) in Cash in this Period       | 32               | (3)              |
| Net Funds at 1st April (Net Cash at Bank)        | 41               | 44               |
| <b>Net Funds at 31st March (Closing Balance)</b> | <u><b>73</b></u> | <u><b>41</b></u> |

The notes on pages 18 to 20 form part of these accounts

# Notes to the Trust Statement

## 1. Statement of Accounting Policies

### 1.1 Basis of Accounting

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

### 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 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 an expense in the Statement of Revenue and Expenditure.

## 1.9 Payables and Deferred Revenue

### 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 or DDI schemes 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.

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 can not 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.

## 1.10 First Time Reporting

This is the first time that this Trust Statement has been prepared. The transfer of cash collected from customers to the Consolidated Fund was previously managed by the DCMS and the cash held in the Government Banking Services account was previously accounted for at the DCMS.

The comparatives in this statement show the position as if the BBC had accounted for the Trust Statement in 2009/10 with the cash balance managed by the BBC being zero.

## 2. Receivables

### 2.1 Amounts due at 31st March 2011

|                                    | <b>2011</b> | <b>2010</b> |
|------------------------------------|-------------|-------------|
|                                    | <b>£m</b>   | <b>£m</b>   |
| Licence fee Receivables            | <b>417</b>  | 408         |
| Cash in transit                    | <b>7</b>    | 9           |
| Total before estimated impairments | <b>424</b>  | 417         |
| Less estimated impairments         | <b>(29)</b> | (30)        |
|                                    | <b>395</b>  | 387         |

Receivables represent the amount due from licensees where demands for payment have been issued but not paid for at 31 March 2011.

## 2.2 Losses and Write Offs

|  | <b>2011</b> | <b>2010</b> |
|--|-------------|-------------|
|  | <b>£m</b>   | <b>£m</b>   |
| Balance as at 1 April                  | 30          | 29          |
| Actual amounts written off in the year | (77)        | (77)        |
| Bad debt expense                       | 76          | 78          |
| Balance as at 31 March                 | <u>29</u>   | <u>30</u>   |

Receivables in the balance sheet 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 and Deferred Revenue

|                      | <b>2011</b> | <b>2010</b> |
|----------------------|-------------|-------------|
|                      | <b>£m</b>   | <b>£m</b>   |
| Licence fee payables | 201         | 190         |
| Customer savings     | 39          | 41          |
| Deferred income      | 31          | 33          |
|                      | <u>271</u>  | <u>264</u>  |

## 4. Balance on the Consolidated Fund Account

|  | <b>2011</b> | <b>2010</b> |
|--|-------------|-------------|
|  | <b>£m</b>   | <b>£m</b>   |
| Balance on Consolidated Fund Account at 1 April  | 164         | 155         |
| Net Revenue for the Consolidated Fund            | 3,101       | 3,024       |
| Less amount paid to the Consolidated Fund        | (3,068)     | (3,015)     |
| Balance on Consolidated Fund Account at 31 March | <u>197</u>  | <u>164</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. Post Balance Sheet Events

There are no events after the balance sheet date that materially affect these financial statements.



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

|   | 2011<br>£m   | 2010<br>£m   |
|---|--------------|--------------|
| Licence fee sales contributing to consolidated fund         | 3,101        | 3,024        |
| <b>Add</b>  |              |              |
| Over 75 sales   | 580          | 557          |
| Adjustment for early renewals                               | <u>(2)</u>   | <u>(2)</u>   |
| BBC Licence Fee Sales in Annual Report and Accounts note 2a | <u>3,679</u> | <u>3,579</u> |

The adjustment for early renewals represents the difference between licences issued as recognised in the BBC’s main Annual Report and Accounts and licence start date as recognised in the Trust Statement.

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

## Summary

### Background

1. The British Broadcasting Corporation (BBC) is responsible for issuing television (TV) licences, enforcing the licensing system and collecting licence fee revenue which is then surrendered to the Exchequer. In 2010-11, £3.1 billion (2009-10: £3.0 billion) of revenue was collected by the BBC, as reported in the Trust Statement, and £3.1 billion was paid over to the Exchequer.
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 that adequate regulations and procedure have been framed to secure an effective check on the assessment, collection and proper allocation of revenue, and that 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 2010-11.

### Conclusion

3. Whilst recognising that no collection system can ensure that all those who have a liability comply with 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.
4. This report contains a number of recommendations for the BBC to consider, which may further enhance the systems in place.

## Audit Approach

- The diagrammatic 'Overview of the Licence Fee lifecycle' (Figure 1) illustrates, at a high level, the systems and processes in place to collect the TV licence fee and is used to inform the scope and timing of my audit approach.

**Figure 1 - Overview of the Licence Fee lifecycle**

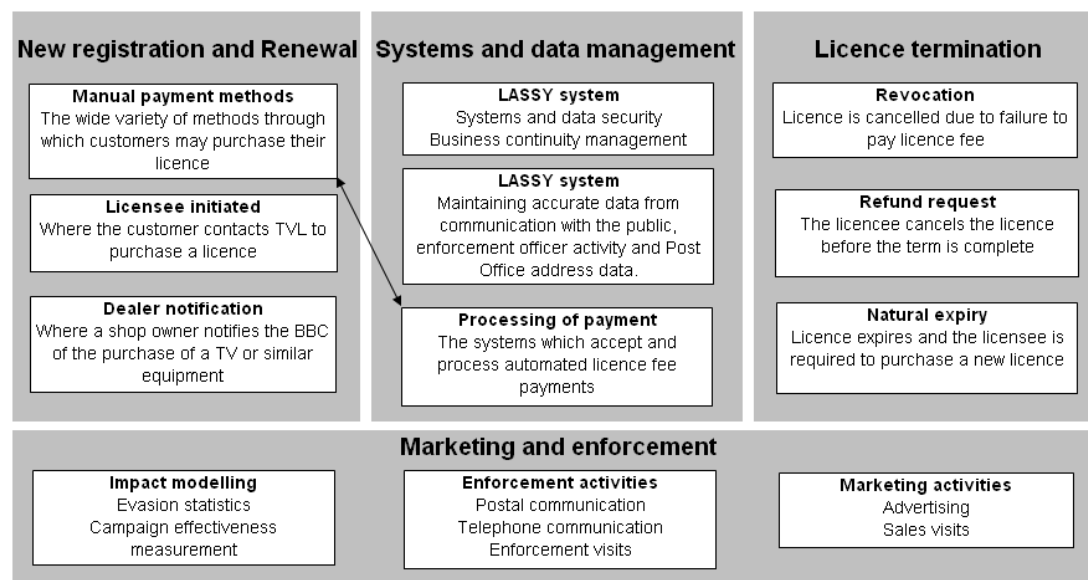


Figure Source: National Audit Office

- My review of systems and data management and other key elements of the licence fee lifecycle 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 controls weaknesses were identified during the 2010-11 financial year...A focussed review of the other elements of the licence fee lifecycle will be undertaken on a rolling basis.
- In this first year of my review, I have focused on the 'Tax Gap'<sup>1</sup>, and how this percentage (estimated by the BBC at approximately 5%) of evaded licence fee revenue is estimated and managed by the BBC. I have specifically reviewed the licence fee evasion model and how the BBC reduces evasion through encouraging purchasers of TV equipment to apply for licences (dealer notification). In addition, I have reviewed the process of 'short dating', whereby the BBC issues a shorter licence to remove the incentive for delaying licence purchase, further reducing the level of evasion. The remainder of this report presents the findings of my review.

<sup>1</sup> The tax gap is the difference between the licence fee legally due and licence fee received. It is effectively the cost of evasion.

# Evasion Model

## Introduction

8. Users of equipment capable of receiving TV transmissions are required by law to pay a TV Licence<sup>2</sup>. On an ongoing basis, the BBC uses a model to estimate the rate of licence fee evasion. The model (Figure 3, overleaf) compares the estimated number of households and non-domestic properties requiring a licence to the actual number of licences issued by the BBC, or 'licences in force'. This provides an estimate of the number of households and properties requiring a licence for which one is not present.
9. From this evasion model, the BBC are also able to extrapolate an estimated 'cost of evasion', this is calculated by multiplying the estimated number of licences evaded by the cost of a licence. The evasion rate and the cost of evasion figure are used by the BBC to determine the proportionality of their costs in reducing the licence fee evasion and provide a high-level means of reviewing the effectiveness of their marketing and enforcement activities.
10. The BBC report on movements in the evasion rate in their annual report and the figures generated by the model feed into one of their key performance indicators, the combined cost of collection and evasion as a percentage of the licence fee revenue received. This figure in particular demonstrates the proportionality of the BBC's response to tackling evasion.
11. The BBC has estimated that in March 2011, 5.2% of properties requiring a TV licence were evading payment. A 5.2% evasion figure would represent £200m in lost revenue, and an individual cost to licence fee payers of £8. The historic movement in the evasion rate is presented in Figure 2 below.

**Figure 2 – Historic evasion rates**

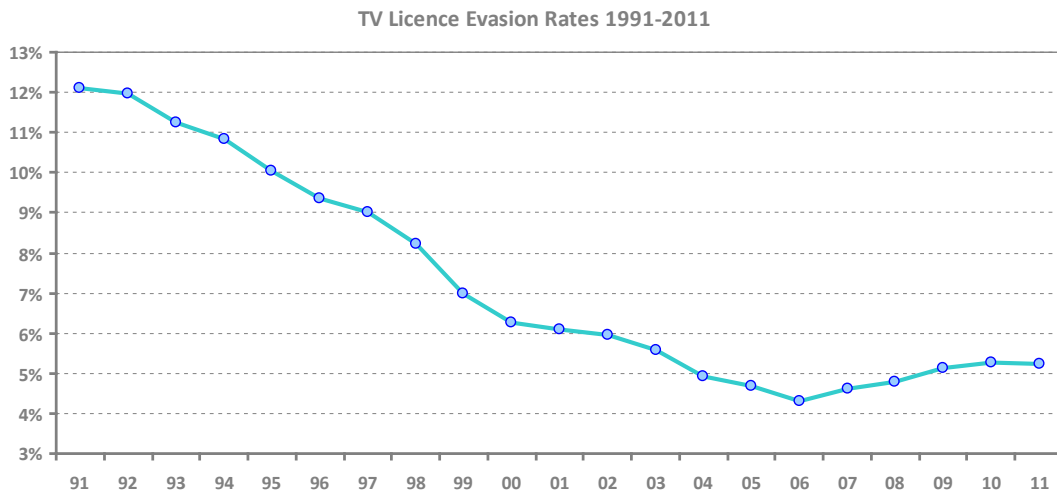


Figure source: data from BBC evasion model

## Review of the Evasion model

12. A simplified presentation of the evasion model is shown in Figure 3 below. I have reviewed the model to determine the key factors which impact on its accuracy, and consider these to be the estimate of domestic households, the penetration rate of TVs into domestic households and the

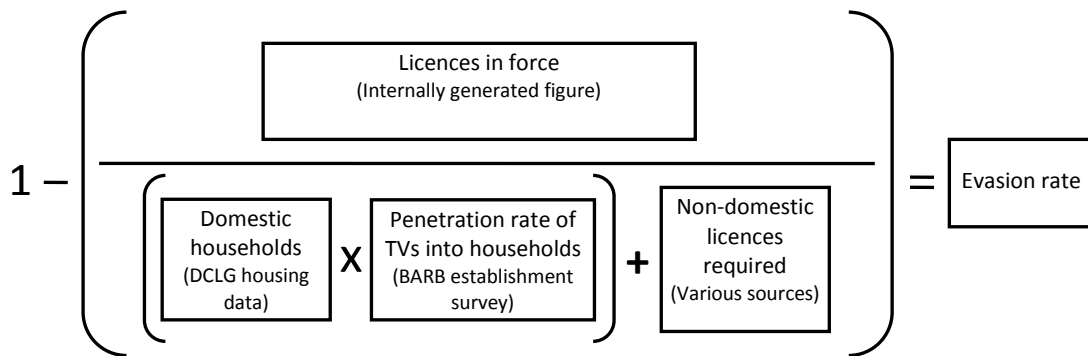
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<sup>2</sup> Communications Act 2003 Section 363(1)

estimate of non-domestic premises requiring a TV licence. These are discussed in further detail below.

13. The Licences in force figure is a key component of the model but as it is drawn from the BBC's internal systems, which were subject to review as part of my audit of the Trust Statement, I am content that this figure is has a high level of accuracy.

**Figure 3 – The Evasion model's basic formula**



Data source: Produced by NAO

### Domestic Households

14. The data for domestic households is taken from the Department of Communities and Local Government (DCLG) housing projections. However, as these figures are generally released two years in arrears, the BBC uses a household growth estimate to uplift the number of households to a current figure.
15. The DCLG housing projections data provides the best available estimate of the number of UK households, two years in arrears. While the data does provide an expected annual growth rate, this is a long term projection and as such is deemed by the BBC as not suitable for its needs. The BBC estimates its own short term household growth rate and applies it to the most recently available estimate of domestic households, currently June 2008. The BBC growth rate is estimated by multiplying the number of house building completions (DCLG data) by historic average factors to adjust for the percentage of building completions which are dwellings and the proportion of household growth which relates to new builds<sup>3</sup>.
16. Following the recommendation from a BBC commissioned report in 2009 to review the methodology applied in predicting household growth, the BBC have completed further analysis of the growth rate estimate. The BBC found a reasonable correlation between its estimate (based upon household completions) and growth estimates using GDP growth which it considered to be a leading indicator of household growth.
17. Given the difficult nature of such predictions, I believe that the BBC has used the most appropriate figures available and I am content to see that it has performed work to demonstrate the accuracy of its estimates using other sources of data. It is worth noting that the growth rate used does not have a large impact on the evasion rate. For illustrative purposes, a 10 percentage point increase in the growth estimate in each year since 2008, the most recently available household data from DCLG, would only result in a 0.3 percentage point increase in the March 2011 evasion rate.

<sup>3</sup> A considerable proportion of household growth derives from splitting existing properties.

## Domestic penetration rate

18. The rate of penetration of TV sets into households is estimated using data from the Broadcasters' Audience Research Board (BARB) establishment survey, which collects data from over 50,000 homes. This survey is intended to allow BARB to prepare a statistically representative panel of TV viewers, whose viewing habits can be extrapolated to form overnight viewing figures but also provides data on the penetration of TVs into homes. As demonstrated in Figure 4 below, the penetration rate has decreased significantly over the last few years.
19. Historically, the number of licences required for households could be estimated through the number of homes with TVs. Over the last decade however, this measure has become less reliable with the rise of content downloadable over the internet. Whilst a TV licence is not required for watching 'on demand' or 'catch-up' content, a licence is required for watching live TV streamed over the internet. The BARB establishment survey does not capture TV viewing not occurring through a television.
20. A recent OFCOM communications market report showed that nearly 40% of people claim to watch TV services online and in the first quarter of 2010, catch up TV was used by 31% of internet users.<sup>4</sup> This is broadly in line with the results of a one-off BARB survey on households with no BARB defined TV set, which asked 'Do you use a computer to watch TV via internet?' 28% of households with no TV said yes, equating to 0.95% of total households.
21. The BBC believe that the rise in online viewing and the reduced penetration rate are related and therefore, an uplift is required to ensure that households viewing live TV over the internet, without a TV set, are represented in the evasion model. This uplift to the BARB penetration rate would result in a 'true' penetration rate. The BARB survey, which suggests an uplift of 0.95%, would bring the penetration rate up to the 2007 position of 97.6%. The BBC considers that it is a fair assumption that the 'true' penetration rate has not dropped. The uplift is demonstrated in Figure 4 below.

**Figure 4 – Historic penetration rate and its uplift for new media**

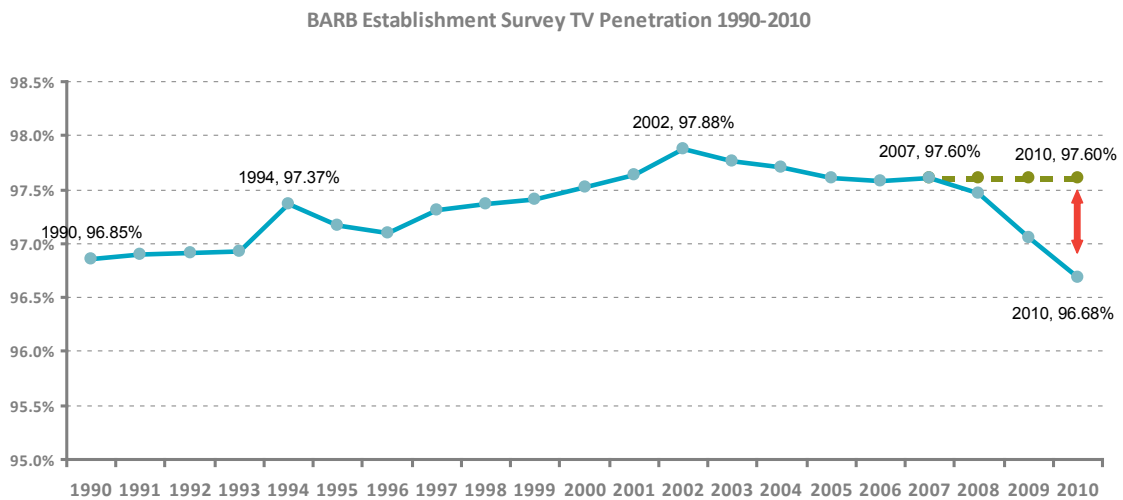


Figure Source: BBC, data from BARB Establishment Survey.

<sup>4</sup> <http://stakeholders.ofcom.org.uk/market-data-research/market-data/communications-market-reports/cmr10/>

22. However, the framing of the question in the BARB survey may have led to misinterpretation by individuals surveyed. Those surveyed may have been unclear as to whether they were being asked about live streamed or catch up content. If a proportion of the respondents had only watched catch up content but had stated that they did watch TV over the internet, this would result in the penetration rate uplift being overstated.
23. There is limited data available on the internet TV viewing habits of those who do not possess a TV, however the BBC iPlayer performance statistics indicate that live streaming represented up to 15% of iPlayer content requests in 2010-11 (with the residual being requests for 'on demand' content).<sup>5</sup>
24. While the interpretation of the question asked in the survey is unclear, as is the consistency of online viewing habits of TV owners and non-TV owners, I consider that the available evidence suggests that applying the full 0.95% to penetration rate may be an overstatement.
25. If the BBC assumption that the 'true' penetration rate has not dropped is incorrect and in fact, fewer households are watching live TV and requiring a licence, then there are implications to be considered in respect of the cost of the BBC's enforcement activities. The proportionality of enforcement costs would naturally reduce as the evasion rate decreases.
26. The BBC is aware of the significance of new technology in changing TV viewing habits, and has marked the resolution of the penetration rate issue as a key objective for 2011-12.

### **Non-domestic licences required**

27. The estimate for non-domestic licences required is considered by the BBC to be the most uncertain element of the evasion model. However, it is also significantly less material than the domestic element. The estimate draws on a large number of sources and represents the licences required for, amongst others, students, people in military accommodation, businesses and hotels.
28. The data used to populate this element of the model is in many cases quite dated, particularly where it uses 2001 census data and extrapolations based on trends over the period 2000-01. In 2009 the BBC commissioned a review of these inputs which recommended that more relevant figures could be used. The BBC has not implemented these recommendations on the basis that the resultant change to the evasion rate was immaterial and that it was inappropriate to change the model based on desk research. The BBC is planning to undertake a full review of the inputs for non-domestic populations and penetration rates in 2011-12. This will be important in the interim before the 2011 census data is released, as the assumptions and data become further out of date.
29. I understand the BBC's wish to ensure that amendments to the evasion model are based on solid evidence, however, there are some data sources which can be updated in confidence, such as the 'students in halls of residence' population for which there is a more recent issue of the original data source.

### **Assessment of Accuracy**

30. In 2003, the BBC commissioned a statistical review of the evasion model which returned a precision on the evasion model of around  $\pm 1\%$ . The review concluded that the model was fit for its purpose of providing estimates of TV licence evasion. I consider that the methodology of the review was appropriate and that the underlying assumptions made in the evasion model have not changed significantly since the review was issued. However, I note that in 2011 the model is

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<sup>5</sup> [http://www.bbc.co.uk/blogs/bbcinternet/img/BBC\\_iPlayer\\_performance\\_monthly\\_march\\_final.pdf](http://www.bbc.co.uk/blogs/bbcinternet/img/BBC_iPlayer_performance_monthly_march_final.pdf)

reliant on extrapolation of increasingly aged data, particularly in the estimation of non-domestic premises requiring TV licences. This, in parallel with the uncertainty around the penetration rate uplift, further reduces the accuracy of the model.

## Conclusion

31. I have reviewed the evasion model - its calculations, underlying assumptions and source data and have concluded that it is well prepared for the purpose intended. Such models can never be perfect and should not be expected to be and I welcome the BBC's ongoing efforts to ensure that the model is robust.
32. The BBC is considering future amendments to the model to account for changes in the UK's viewing habits and the increasing age of elements of the model. I look forward to seeing these refinements applied to the model.

**Recommendation (1): I recommend that the key focus in improving the model should be in determining the impact of technology on the requirement for TV licences and how best to incorporate this into the evasion model. This will become increasingly important if the current trend of decreasing TV penetration continues. To ensure the ongoing reliability of the model in determining the proportionality of enforcement costs, the BBC must support its assumption that the domestic requirement for a TV licence has not dropped in line with TV penetration rates.**

**Recommendation (2): The BBC must continue to review the validity of the source data and assumptions on which the model relies, particularly in the case of the non-domestic premises requiring a licence which is reliant on increasingly dated information.**

## New Licences

### Short dating

33. A TV licence purchased on time will expire 11 months after the month in which it is purchased, or, for a renewed licence, 12 months from the previous licence expiry date. A TV licence purchased late should last until it would have expired had it been purchased on time. The BBC achieves this through the process of 'Short dating' whereby an earlier expiry date is applied, as if the licence had been purchased in the month when it was required.
34. The short dating procedure is used by the BBC in the renewal of licences where the licence holder has delayed payment and has therefore benefited from a period of TV usage without licence cover. The BBC estimates that there were 520,000 instances of licence renewal short dating in 2010-11. Where the unlicensed period cannot be demonstrated to be a period of non-use, the expiry date will be set 12 months from the previous expiry date.
35. I believe that whilst the BBC has appropriately designed systems in place to ensure that renewals are correctly short dated, it does not have a consistent approach to ensuring that short dating is applied as far as possible to new licences. An individual is legally required to own a TV licence from the day that TV receiving equipment is in their possession and there is an intention to install it. This is therefore the date from which the short dated expiry should be calculated.
36. Under the main methods of purchasing a new licence, customers are not always asked how long they have needed a licence for. The online application process provides no option to state the date from which the licence has been required and customers are not consistently asked during telephone applications. While not all customers might want to answer this question honestly, it might be expected that many customers would not object to paying in line with their legal requirement. BBC figures show that around 12% of applicants making telephone and postal



applications receive short dated licences. Due to the inconsistency in requesting a date from which the licence has been required, this percentage is expected to be lower than the true potential for short dating.

37. Through communication with the BBC operational team I am aware that the BBC made a decision not to ask customers for the date from which they have needed a licence in the online application process. Whilst not documented, I have been informed that the decision was based upon their experience with call centre operators, who found that few people admitted to a period of unlicensed use. The findings of this consideration might have been different had the new licence applicants been routinely asked about the date from which they had needed a licence.
38. In 2010-11, 2.1 million new licences were issued, representing revenue of up to £306.6m. The BBC have estimated that if the same degree of short dating present in telephone and postal new licence applications was applied to online applications, an additional 107,000 licences would be short dated by a total of 218,000 months. This would equate to increased revenue of £2.6 million for the year. This figure can be considered to be a minimum, as the degree of short dating present in telephone and postal new licence applications, 12%, is likely to understate the true potential for short dating. The BBC aims to increase the up take of online applications and as a result, the impact of changes to the new licence application process will have increasing significance in the future.

**Recommendation (3): The BBC should consider whether the introduction of an explicit question on date of requirement for a licence in the online and telephone application processes for new licences would help to increase revenue and reduce evasion. Consideration of such a change in the application processes should take into account both the cost of adjustment in context of the increased potential revenue, and the potential impact of creating a barrier to application for potential licence fee payers.**

## Dealer Notification

39. Dealers of televisions and associated equipment are required by law<sup>6</sup> to notify the TV licensing authority of sales, and to provide the address of the customer making the purchase. This must be done within 28 days of the sale. The addresses are then checked against the BBC's household database and letters are sent to any property which does not already have a licence.
40. It is important to note that households receiving a notification in relation to a purchase of TV equipment will already be recognised as non-licence payers and subject to other BBC marketing or enforcement activity. The dealer notification acts both as additional evidence of evasion to the BBC and as a clear statement to the customer that the purchase of TV equipment has been noted by the BBC, potentially providing impetus to purchase a licence.
41. According to BBC management information, in 2010-11 there were nearly 10.5 million notifications from dealers, over 660,000 letters sent to customers and 74,600 resulting licence sales. This represents a conversion rate of 11.3% letters to sales.
42. The BBC have demonstrated in recent years how the process is reviewed and amended to reduce complaints and ensure significant resources are not expended in pursuit of small numbers of evaders. For example, the dealer notification process previously would have sent a letter to an address where a licence was present but not in the name of the purchaser of the TV equipment. This was to attempt to capture where an address had been split into a number of separate households. However, this marketing approach had a low yield and a high complaint

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<sup>6</sup> Wireless Telegraphy Act 1967 (as amended)

rate from couples who lived together. The letters are now only sent to households with no licence in place.

43. For the dealer notification process, the BBC and the legislation have kept abreast of technological developments which allow different methods of viewing or recording live TV signals and dealer notifications are now made in respect of PC TV cards and set-top boxes. However, there is no legal requirement for dealers to provide details of the item purchased, only the date of the sale or letting, the name and address of the buyer or hirer, whether the set is designed for reception in colour, and the details of the dealer selling or letting the set.<sup>7</sup>
44. The BBC reviews whether Dealer notification volumes are in line with commercially available data on TV sales and has made progress in reducing the shortfall. This has been achieved in part through the implementation of an account management approach at head office and store level for the key dealers, and spot visits to smaller, non-complying dealers. There have been a number of successful prosecutions of non-complying dealers under the legislation although the new approach has resulted in much higher compliance and no prosecutions have been pursued in 2009-10 and 2010-11.
45. During the course of my work I have suggested that the BBC continues to review the shortfall in dealer notifications as it provides a good measure of dealer compliance.

## Conclusion

46. I have reviewed the dealer notification process and consider it to be well formed and proportionate.

**Amyas CE Morse**  
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National Audit office  
157-197 Buckingham Palace Road,  
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30 June 2011

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<sup>7</sup> BBC Trust Review of Licence fee collection 2009

# Accounts Direction Given by HM Treasury

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

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

**CHRIS WOBSCHALL**

Head, Assurance and Financial Reporting Policy

HM Treasury

**10 May 2011**



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