



British Broadcasting Corporation

**Television Licence Fee Trust Statement for the
Year Ending 31 March 2017**

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

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Foreword by the Director

General

As we move into the new Charter period, I am pleased that the importance of the licence fee has continued to be recognised by the Government, who have committed to retaining the fee for the next 11 years. The fee is a critical part of the BBC's universality and a tool that ensures we are able both to bring audiences together and to reflect our differences as we are paid for – and accountable to – all audiences.

This report is presented to Parliament in order to give a full view of the state of affairs relating to the collection of the Licence Fee in the last year, to 31 March 2017. It goes without saying that the BBC is grateful for the continued support that the public show for the Licence Fee.

The statement shows that the last year has seen strong and steady performance in the collection of the licence fee, with growth from revenue collection exceeding household growth rates, resulting in an increase in overall revenue (including Over 75s) of £44m.

This has also been the first year in which the so-called iPlayer loophole has been closed by Government, ensuring that those who previously consumed BBC programmes on-demand for free (for example on the iPlayer) should pay the same as those watching or recording them live. Our estimates show that these measures have increased revenue totals by £12m.

We must, of course, continue to ensure we collect the Fee efficiently and account for its use appropriately. On that basis, it is pleasing to see that the number of self-serve purchases through our online portal has increased by over 1million to a total of 8 million in 2016/17 – customers are now taking significant advantage of simpler ways of purchasing. We have also seen a slight decrease in complaint numbers year on year, accounting for only 0.05% of licences in force.

Over the course of last year the NAO has also conducted a value for money review of licence fee collection. We welcome the NAO finding from this review that the BBC has, since 2010/11, reduced collection costs by 25 per cent and increased revenue for programmes and services while, at the same time, reducing complaints by 50%. The NAO has made some helpful recommendations to further improve value for money which we will, of course, pursue.

I believe that the findings laid out in both this statement and the NAO's value for money review show that the Licence Fee continues to be collected and managed in a strong, proportionate and effective way.

Annual Report

The Director General as Accounting Officer presents the British Broadcasting Corporation Television Licence Fee Trust Statement (the Trust Statement) for the year ending 31 March 2017.

Strategic Report

Licence Fee Collection

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

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

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

The Collection Environment

Licence Fee revenue is impacted by a number of factors including the rate of household growth, the evasion rate, household incomes and changes in audience viewing behaviour.

Household growth

Household growth for 2016/17 has been estimated at 0.78%. This is a small increase in the rate from recent years. Analysis of the activity in planning and house building indicates that the rate of household growth is likely to increase slowly over the next two years.

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

Household incomes

Based on provisional estimates¹, the median household disposable income was £26,400 in 2015/16. After taking account of inflation and changes in household composition over time, this figure is £400 higher than the pre-economic downturn level observed in 2007/08 (£26,000). Median household income declined after the start of the economic downturn, with most of that decrease occurring between 2009/10 and 2012/13, with median incomes in 2012/13 £1,300 lower in real terms than in 2009/10. However, since 2012/13 there has been a real terms increase, with the provisional 2015/16 figure indicating it is around 8% higher than in 2012/13

¹ ONS Nowcasting household income in the UK: Financial year ending 2016

Nevertheless, the TV Licensing tracker² shows an increase in the number of delayer and evader respondents, from 65% to 73% year on year, indicating they would find it difficult to find the money to pay towards a TV Licence at the present time.

Evasion is calculated as 6.9% during 2016/17 but the nature of the input data to this calculation means that there is a potential variance of 0.5% either way. The BBC's evasion model calculates the level of evasion from the licences in force at 31st March, the number of premises and the proportion of those premises which should be licensed. This can be revised for previous years as better information is received on numbers of premises or other parameters although revised rates are not published retrospectively. Further information on calculation of the evasion rate is provided below.

Media Consumption

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

Other pressures to traditional television viewing are a result of digital disruption and the move to catch up viewing along with on demand viewing over the internet. However this on demand viewing typically sits alongside linear television viewing which remains the predominant way that audiences watch television.

From 1st September 2016 the law was updated to require those watching or downloading BBC television programmes on iPlayer to be covered by a valid TV licence (referred to as "closing the iPlayer loophole").

The Broadcasters' Audience Research Board (BARB) provides data on households using non-TV devices to watch television and this data is combined by the BBC with the BARB estimate of TV households to give an overall percentage of households requiring a licence.

In addition an estimate of the percentage of households impacted by the change has been combined with the BARB data to update the overall percentage of households now requiring a licence.

The most recently published estimate of TV Households from BARB shows a fall in the estimated Television Penetration Rate (TVP) rate by 0.4% from 95.78% in March 2016 to 95.38% in March 2017.

Performance for 2016/17

Revenue collection has remained strong with growth exceeding the estimated rate of household growth as a result of closing of the iPlayer loophole and improved campaign performance. Evasion is calculated as 6.9% but the nature of the input data to this calculation means that there is a potential variance of 0.5% either way.

Gross income in the Trust Statement has increased to £3,262m (2015 £3,233m). Gross income is the value of Licences coming into force in the period excluding free Over 75 Licences. Revocations, deletions and cancellations have fallen to £121m (2016 £127m). Net revenue for the consolidated fund, made up of the gross revenue and deletions plus £16m of premiums on quarterly direct debit, has increased to £3,157m (2015 £3,122m).

² TV Licensing Brand and Communications Tracking, April 2017. The tracker has been in place for just over 8 years and is conducted by Harris Interactive.

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

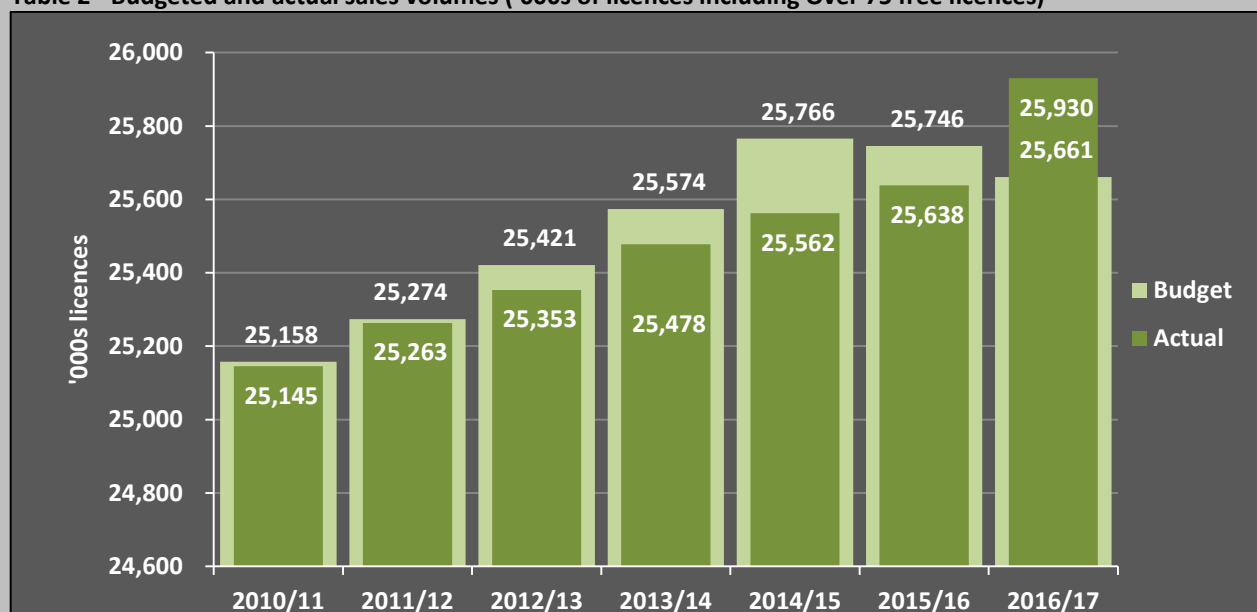
Table 1 – Increase in Licence Fee Revenue	
	£m
Net revenue for the Consolidated Fund 2015/16	3,122
Increase in value of the Licence Fee	0
Increase in volume from closure of iPlayer loophole ³	12
Increase in volume from household growth and improvements in collection	24
Other changes	(1)
	<u>3,157</u>

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

Budgeting and Forecasting

Table 2 shows the budgeted sales against the actual results for the year for the last seven years⁴.

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



Sales volumes for the year grew at a rate of 1.14%, which is ahead of the household growth rate. The additional sales have come from closing the iPlayer loophole and improved collections performance.

Bad Debts, Refunds and Cancellations

The value of deletions has fallen to £121m (2015 £127m). There has been a reduction in debts written off for customers who are removed from schemes with instalment balances outstanding on their Licence together with reductions in refunds and other cancellations of licences.

³ The additional sales value attributable to the closure of the iPlayer loophole has been estimated between £11m - £12m

⁴ Licence Fee sales in table 2 include the volumes of Over 75 free licences. 2017 – 4,385,000; 2016 – 4,363,000; 2015 – 4,362,000; 2014 – 4,328,000; 2013- 4,251,000; 2012- 4,206,000; 2011- 4,156,000;

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

Licence Fee Evasion

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

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

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

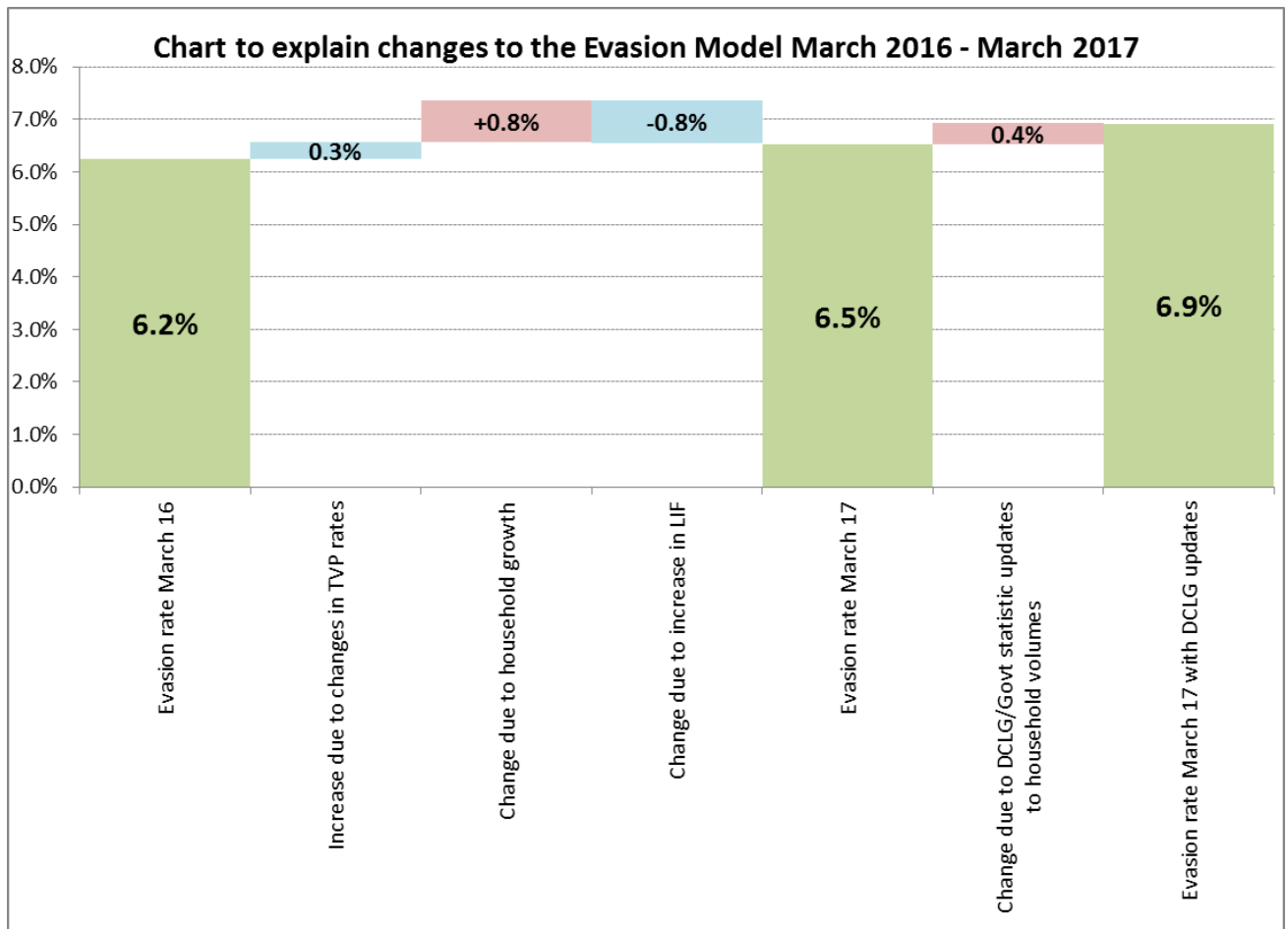
Estimates are made for the numbers of other non-domestic places such as businesses, hotels and student halls of residence. Appropriate estimates of TV penetration are applied to each to calculate licensable places.

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

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

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

The evasion model has been updated with the latest estimates of TVP, household growth and growth in licences in force. These updates bring the calculated rate of evasion from 6.2% in 2015/16 to 6.5% in 2016/17. A further update has been made to the estimate of the total number of domestic households following publication of DCLG's estimate of households as at June 2016 and other Government statistic publications since 2015/16. This raises the calculated rate of evasion to 6.9%. The changes in the rate of evasion are summarised in the table below:



Self-service transactions

The TV Licensing website has continued to grow through 2016/17, delivering 10.7% more sales than in 2015/16 from almost 27m visits, an increase of 34% from prior year. It has become an invaluable tool for the BBC as both a medium for handling transactions and for communicating with our customers with 8 million transactions completed online in 2016/17.

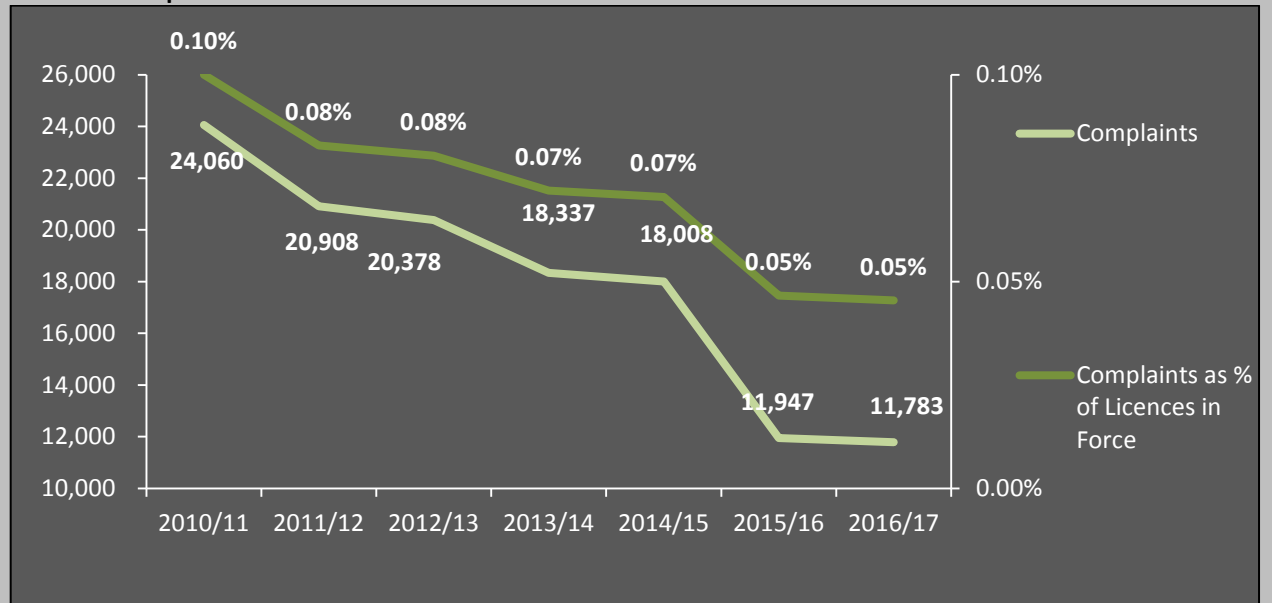
In 2016/17, 71.86% of all customer initiated transactions (16.3m) were completed through a self-serve channel. This has increased from six years ago when 57.6% of all customer initiated transactions (11.3m) were completed through a self-serve channel.

Complaints

The total number of complaints has fallen in 2016/17 to 11,783. The level of complaints to Licences in Force has reduced to 0.05% compared with 0.10% six years ago.

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

Table 5 – Complaints



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

Tony Hall
 Lord Hall of Birkenhead CBE
 22nd June 2017

Management Commentary

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 and in accordance with Section 2 of the Exchequer and Audit Departments Act 1921.

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

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

The Grant-in-Aid received from the Department for Work and Pensions will be phased out over three years, from 2018/19. The BBC will take on full responsibility for these costs from 2020/21, and then take responsibility for the concession policy in June 2020.

Governance

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

During 2016/17 the BBC Trust was responsible under the Charter and Agreement for the governance of the BBC on behalf of Licence Fee payers. In respect of Licence Fee collection the expired Charter states that one of the BBC Trust's specific functions was 'ensuring that arrangements for the collection of the Licence Fee are efficient, appropriate and proportionate'. From 1 April 2017 this function is the responsibility of the BBC Board.

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

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

Information and Data Security

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

In 2016/17 the BBC continued to ensure its data, information and systems meet business needs in a secure and compliant environment, which is sufficiently flexible to meet our business objectives.

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

Basis for the Preparation of the Trust Statement

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

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

Events after the reporting date

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

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

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

Accounting Judgements and Estimates

Impairment of receivables

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

Deferred Income

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

Auditors

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

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



Tony Hall
Lord Hall of Birkenhead CBE
22nd June 2017

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

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

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

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

Under section 2(3) of the Exchequer and Audit Departments Act 1921, the Accounting Officer is responsible for the preparation and submission to the Comptroller and Auditor General of a Trust Statement for the BBC for the financial year 2016/17. In conforming with the Accounts Direction issued by HM Treasury (see page 43 of this Trust Statement), the Trust Statement reports the revenue collected and expenditure in respect of Licence Fees administered by the BBC during the year, together with the net amounts surrendered to the Consolidated Fund.

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

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

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

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

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

Statement on Corporate Governance

The Corporate Governance Framework

The BBC's corporate governance framework is defined in its Royal Charter and the accompanying Framework Agreement. You can find the Charter and Agreement on the BBC's website at:

http://www.bbc.co.uk/bbctrust/governance/regulatory_framework/charter_agreement.html

The Charter requires the BBC to have regard to generally accepted principles of good corporate governance. Although the BBC is not a listed company, it has opted to adopt best practice and follow the provisions of the Financial Conduct Authority's Listing Rules and the Financial Reporting Council's 2014 UK Corporate Governance Code, where appropriate, in order to deliver the same governance standards as companies quoted on an EU regulated stock market.

The BBC has complied with the corporate governance requirements of the Charter and Agreement and has also substantially complied with the UK Corporate Governance Code. There are a number of components of the UK Corporate Governance Code that are either not appropriate to the circumstances of the BBC or where compliance with the BBC's Charter or Agreement overrides compliance with the UK Corporate Governance Code, and these are set out below.

The main areas where the BBC's Charter overrode the UK Corporate Governance Code during 2016/17 were related to the governance structure and the operation of the BBC's former governing bodies. During this period the BBC had a two-tier governance structure, consisting of the BBC Trust and the Executive Board. On 3 April 2017, following the granting of a new Charter, this arrangement was replaced by a single Board. The BBC complied with the requirements of its Charter, and therefore was not able to meet the following principles of the Corporate Governance Code:

- Division of responsibilities between Chairman and Chief Executive (UK Corporate Governance Code principle A.2.1 and A.3.1)
- Evaluation of the Chairman (UK Corporate Governance Code principle B6.3)
- Make up of Board (UK Corporate Governance Code principle B.1.2)

Due to the impending change in the governance arrangements, the BBC also did not comply with the following principle:

- External evaluation of the Board (UK Corporate Governance Code principle B.6.2)

In addition, there are two areas where the UK Corporate Governance Code is not relevant to the BBC, these are:

- Make up of remuneration (UK Corporate Governance Code principle D.1.1): The BBC sets levels for executive remuneration that should be sufficient to attract, retain and motivate directors of the quality required to run the organisation successfully, in line with this principle. However, this principle also requires aligning executive remuneration to the notion of enhancing shareholder value by making performance-related elements of remuneration a significant proportion of total remuneration. By virtue of the BBC's licence fee funding and its status as a public corporation, the BBC has determined that the amount of variable (or performance-related) remuneration that may be earned by staff within the public service should be limited. There is no variable pay for any BBC Public Service executive director and bonuses have been stopped. Tim Davie receives an element of performance-related pay in his role as Chief Executive Officer of BBC Worldwide, the BBC's wholly-owned commercial subsidiary.
- Interaction with shareholders (UK Corporate Governance Code principles B.7.1, B.7.2, D.2.4 and section E): The BBC is not a profit-oriented company with shareholders and so provisions relating to interaction with shareholders do not apply.

During 2016/17 the Executive Board met monthly (except for August), although additional Board meetings are convened during the year as and when required. Summary minutes of the monthly meetings are available online at <http://www.bbc.co.uk/aboutthebbc/insidethebbc/managementstructure/seniormanagement/>

Table 1 – Attendance of directors at the Executive Board

	Executive Board Ordinary
Number of meetings for the period	12
Executives	
Tony Hall	12
Helen Boaden	6/7
Anne Bulford	12
Tim Davie	10
James Harding	12
Mark Linsey	11
Charlotte Moore	8/9
James Purnell	10
Non-executive directors:	
Simon Burke	11
Dame Fiona Reynolds	12
Sir Howard Stringer	9
Alice Perkins	11
Nicholas Serota	7/8
Dharmash Mistry	11

During 2016/17 the Executive Board received information on the collection strategy for the Licence Fee and the performance of the collection organisation. The Board has found this to be of high quality to identify risks and issues facing the Licence Fee collection operation and accurate to predict the level of Licence Fee income for the year.

The Executive Board delegates some of its responsibility to other managerial groups and, in accordance with the requirements and provisions of the Charter, during 2016/17 the following Committees of the Board continued to operate:

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

Any delegation from the Executive Board is stated in the relevant standing orders for each Committee and a framework for reporting and review is established. See: bbc.co.uk/aboutthebbc/insidethebbc/managementstructure/seniormanagement/subcom.html

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

During 2016/17 the EAC has:

- reviewed the effectiveness of the system of internal controls, taking account of the findings from internal and external audit reports
- reviewed and approved an action plan from management in response to the Trust review of the effectiveness of risk management in the BBC and will monitor completion of those actions
- overseen the relationship with external audit, including the scope and approach to their work, their fees, their performance and independence

- reviewed the BBC's group financial statements and the Trust Statement, including accounting policies, compliance with legal and regulatory requirements, and the findings of the external auditors
- Approved the plan work for the coming year, ensuring that it is risk based and strikes a balance between providing assurance over core business processes and areas of significant strategic risk
- considered the findings from audit activity, focusing on audits with unsatisfactory outcomes and management's plans to address these
- considered the resource requirements for Internal Audit and its capability

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

Internal audit and risk management combine to form our Business Assurance function, which is led by the Director of Risk and Assurance. Internal Audit's authority and independence is assured by the Director of Risk and Assurance's independent and direct access to the Director-General and to the EAC.

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

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

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

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

Risk Assessment

The BBC Board is responsible for the operational management of the BBC, 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 BBC Board, which is responsible for identifying risks and opportunities that might impact on the BBC's audiences, strategy and operations. External and internal factors – as well as advice from a range of in-house and independent specialists – are taken into account when assessing a business plan and deciding the most appropriate course of action.

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

Maintaining Internal Controls with Outsourced Collection Arrangements

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

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

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

Data and Information Security

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

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

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

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

All staff in the BBC receive training in data protection which is monitored to ensure it is completed by all staff. Our Licence Fee collection suppliers also provide their staff with comprehensive data protection training relevant to their role. Training records for BBC staff working on Licence Fee collection and staff working for key suppliers are monitored every six months. The BBC has put in place a Data Protection Compliance Framework to ensure that the key Data Processors work to a common Data Protection Policy for all handling of personal information across TV Licensing.

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

Fraudulent activity

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

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

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

Internal Control Framework

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

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



Tony Hall
Lord Hall of Birkenhead CBE
22nd June 2017

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

I have audited the British Broadcasting Corporation Television Licence Fee Trust Statement for the year ended 31 March 2017 under the Exchequer and Audit Departments Act 1921 as amended by the Government Resources and Accounts Act 2000. The financial statements comprise: the Statement of Revenue and Expenditure; the Statement of Financial Position; the Statement of Cash Flows; and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the British Broadcasting Corporation Television Licence Fee Trust Statement gives a true and fair view of the state of affairs as at 31 March 2017 relating to the collection and settlement of television Licence Fees and of its net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

My report on the British Broadcasting Corporation's arrangements for the assessment, collection and proper allocation of revenue is at pages 26 to 42.

Sir Amyas C E Morse
Comptroller and Auditor General

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

18th July 2017

Financial Statements

Statement of Revenue and Expenditure for the Year Ended 31 March 2017

	Note	2017 £m	2016 £m
Income			
Value of Licences	1.3	3,262	3,233
Value of refunds		(60)	(60)
Value of premiums on quarterly direct debit		16	16
Net Revenue		<u>3,218</u>	<u>3,189</u>
Less expenditure			
Bad debt expense	2.2	(61)	(67)
Net Revenue for the Consolidated Fund		<u><u>3,157</u></u>	<u><u>3,122</u></u>

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

Statement of Financial Position as at 31 March 2017

	Note	2017 £m	2016 £m
Current Assets			
Receivables	2.1	395	392
Cash held for customers on savings schemes		18	19
Total Assets		413	411
Current Liabilities			
Payables	3	(278)	(275)
Net Assets		135	136
Represented by:			
Balance on Consolidated Fund Account as at 31 March	4	135	136

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



Tony Hall
Lord Hall of Birkenhead CBE
22nd June 2017

Statement of Cash Flows for the Year Ended 31 March 2017

	Note	2017 £m	2016 £m
Net cash inflow from revenue activities	A below	3,157	3,111
Cash paid to the Consolidated Fund	4	(3,158)	(3,113)
(Decrease) in cash in the period		<u>(1)</u>	<u>(2)</u>

Notes to the Cash Flow Statement

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

Net Revenue for the Consolidated Fund	3,157	3,122
(Increase) / Decrease in Receivables	(3)	(11)
Non-cash adjustment	-	-
(Decrease) / Increase in Payables	3	-
Net Cash Flow from revenue activities	<u>3,157</u>	<u>3,111</u>

B: Analysis of Changes in Net Funds

Decrease in Cash in this Period	(1)	(2)
Net Funds at 1st April (Net Cash at Bank)	19	21
Net Funds at 31st March (Closing Balance)	<u>18</u>	<u>19</u>

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

Notes to the Trust Statement

1. Statement of Accounting Policies

1.1 Basis of Accounting

The Trust Statement is prepared in accordance with the accounts direction issued by HM Treasury under section 2(3) of the Exchequer and Audit Departments Act 1921. The Trust Statement is prepared in accordance with the accounting policies detailed below. These have been agreed between the BBC and HM Treasury and have been developed in accordance with the HM Treasury Financial Reporting Manual (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 HM Government bank account managed by the BBC.

1.8 Impairment of Receivables

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

1.9 Payables

1.9.1 Licence Fee Payables

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

1.9.2 Customer savings

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

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

1.9.3 Deferred Income

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

2. Receivables

2.1 Amounts due at 31st March

	2017	2016
	£m	£m
Licence fee Receivables	420	417
Cash in transit	2	3
Total before estimated impairments	422	420
Less estimated impairments	(27)	(28)
	395	392

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

2.2 Losses and Write Offs

	2017	2016
	£m	£m
Balance as at 1 April	28	26
Actual amounts written off in the year	(62)	(65)
Bad debt expense	61	67
Balance as at 31 March	27	28

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

3. Payables

	2017	2016
	£m	£m
Licence fee payables	233	228
Customer savings	18	19
Deferred income	27	28
	<u>278</u>	<u>275</u>

4. Balance on the Consolidated Fund Account

	2017	2016
	£m	£m
Balance on Consolidated Fund Account at 1 April	136	127
Net Revenue for the Consolidated Fund	3,157	3,122
Less amount paid to the Consolidated Fund	(3,158)	(3,113)
Balance on Consolidated Fund Account at 31 March	<u>135</u>	<u>136</u>

5. Related parties

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

These transactions are not considered to be material.

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

6. Events after the Reporting Period

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

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

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

	2017 £m	2016 £m
Licence fee sales contributing to Consolidated Fund	3,157	3,122
Add		
Over 75 sales	<u>630</u>	<u>621</u>
BBC Licence Fee Sales in Annual Report and Accounts note A2	<u><u>3,787</u></u>	<u><u>3,743</u></u>

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

Summary

1. The British Broadcasting Corporation (BBC) is responsible for issuing television licences, enforcing the licensing system and collecting licence fee revenue which is then surrendered to the Exchequer. In 2016-17, £3.2 billion (2015-16: £3.1 billion) of revenue was collected by the BBC and paid over to the Exchequer, as reported in the Trust Statement. The BBC also received £630 million (2015-16: £621 million) from the Department for Work and Pensions for licence fees for the over 75s making the total licence fee revenue for 2016-17 £3.8 billion (2015-16: £3.7 billion).
2. Collection of the licence fee is managed by the BBC Licence Fee Unit (the Unit) which works together with its service providers: Proximity London deliver the Unit's marketing services and Capita Business Services Ltd (Capita), administers licence fee collection. They operate collectively under the brand name "TV Licensing" (TVL). The Unit also calculates the licence fee evasion rate.
3. Section 2 of the Exchequer and Audit Departments Act 1921 requires me to carry out a review of the systems in place to collect TV licence fee revenue payable to the Exchequer and to report my findings to the House of Commons. I am required to ascertain whether adequate regulations and procedures have been framed to secure an effective check on the assessment, collection and proper allocation of revenue, and whether they are being duly carried out. This report records the outcome of my review and my conclusions as to the adequacy of the systems in place during 2016-17.

Audit approach

4. My review of systems, data management and other key elements of the licence fee life cycle is primarily undertaken as part of my audit of the BBC Licence Fee Trust Statement (the Trust Statement), where I examine the correctness of the sums brought to account and report the results to the House of Commons. I have issued an unqualified opinion on the Trust Statement and no major control weaknesses were identified during the 2016-17 financial year.
5. I undertake a focused review of the other elements of the licence fee life cycle on a rolling basis. My 2015-16 report⁵ outlined the areas which have been reviewed in recent years, with my last report focusing on the Unit's activities to detect, monitor and take enforcement action against those evading the licence fee while accessing live TV through the use of the internet and non-TV devices.
6. The requirement for a television licence is mandated under the Communications Act 2003 and Communications (Television Licensing) Regulations 2004 (as amended). In 2016, the Act and Regulations were amended to extend licence requirements to include accessing all BBC on-demand (iPlayer) services. This report reviews the BBC's response to the amendment, examining the Unit's approach to: informing the public of the new requirement; deterring unlicensed individuals from accessing iPlayer; and enforcing the requirement. I have also examined the Unit's processes for estimating the level of licence fee evasion to establish whether the iPlayer requirement has been appropriately reflected.

⁵ [BBC Television Licence Fee Trust Statement for the year ending March 2016, pages 26 and 27](#)

7. Part 2 of this report provides an update on my recommendations from 2015-16.

Conclusions

8. The Unit ran successful campaigns to inform the public of the new licensing requirement. It undertook general campaign activities alongside targeted campaigns for the two key groups that were most likely to be impacted by the new requirement. The Unit's campaign activities were effective in increasing awareness of the changes in these key groups.

9. The introduction of the new licensing requirement coincided with an increase in licences purchased. The Unit estimated that £12 million of extra revenue was due to the new requirement in 2016-17. This is exactly in line with its prediction of revenue that would be raised although this was based on the requirement being in place for the full year. There are a number of assumptions underpinning both estimates that were not fully supported. The Unit is aware of the limitations of its methodology for ascribing actual revenue and is looking for different ways to estimate the number of licences purchased solely as a result of the change in the law to corroborate its current estimates. The Unit also considered that it was impractical to commission the data needed to obtain a more accurate estimate of projected revenue within the short timeframe between the agreement to change the law and the date the law became effective.

10. The Unit has not made major modifications to its approach to detection and enforcement as a result of the new licence requirements. This is understandable as the BBC took an interim policy decision not to require verification by potential viewers of iPlayer.

11. The Unit has updated its evasion model to reflect the impact of the new requirement on households. Using an alternative methodology, based on the BARB Establishment Survey results, suggests that the level of evasion may be understated by 0.1 percentage points – approximately £3.6 million. The Unit informed me that it did not use the BARB figures because it considered them to be too volatile for its purposes.

12. While recognising that no collection system can ensure that all those who have a liability meet their obligations, the work of my staff has confirmed that adequate regulations and procedures have been framed to secure an effective check on the assessment, collection and a proper allocation of revenue and that these regulations and procedures are being duly carried out. This assurance is subject to the observations on specific aspects of the administration of licence fee collection noted in this report.

Recommendations

13. I recommend that the Unit improve its methodology for identifying the number of premises that are now licensable solely due to the change in the law. Improved data may be obtainable through appropriate questions in the Broadcasters' Audience Research Board (BARB) Establishment Survey or other specifically-commissioned research. Where assumptions are used, these should be corroborated with supporting evidence. This will provide more reliable information which can then be used to update the Unit's revenue prediction, evasion model and to direct campaign activities.

14. The BBC has made some progress in following up recommendations from my 2014-15 and 2015-16 reports, but should progress these with a greater sense of urgency. These are detailed in paragraphs 2.1 to 2.9. I recommend that the BBC prepares a schedule outlining when it will review each aspect of the evasion model and implement the recommendations from my 2014-15, 2015-16 and 2016-17 reports.

Part One: The BBC's response to the new licensing requirement for BBC on-demand programme services

Introduction

1.1 The Office of Communication's (Ofcom's) research⁶ indicates that the widespread availability of on-demand services on a range of devices is changing viewing habits. Time spent watching conventional television is continuing to decline while time spent watching video on demand increased from 27% of adults⁷ using on-demand services in 2010 to 59% in 2015 (although growth has slowed since it reached 51% in 2013). The increase has been particularly noticeable for 16-24 year olds, for whom free and paid on-demand and short video clips represent half of their overall viewing.

1.2 In May 2016, the (then) Secretary of State for Culture, Media and Sport issued a White Paper "A BBC for the future: a broadcaster of distinction"⁸ in which he proposed that the licence fee be modernised in order for the BBC to have "a sustainable funding model that is fair, accountable and fit for the future". One of the proposed measures was to ensure that those who consume BBC programmes on-demand for free pay the same as those watching or recording them on television as they are being shown live.

1.3 The Communications (Television Licensing) (Amendment) Regulations 2016 came into force on 1 September 2016, modifying the Communications Act 2003 and the Communications (Television Licensing) Regulations 2004. This introduced the requirement for a television licence in order to receive "on-demand programme services" provided by the BBC. These services are only accessible through BBC iPlayer and so this requirement is commonly referred to as closing the iPlayer loophole.

1.4 Revenue from closing the iPlayer loophole was expected to offset some of the annual shortfall that will result from the removal, in 2020-21, of the Department for Work and Pensions' funding for TV licences for the over 75s. This is currently £630 million but the shortfall is expected to rise to £725 million by 2020-21. The BBC predicted that closing the iPlayer loophole would result in £12 million additional income for 2016-17 rising to £41 million in 2021-22 (i.e. £155 million for the 5 years to 2021-22). I review the BBC's forecasting methodology and the revenue attributed to the new requirement in paragraphs 1.17 to 1.36.

Informing the public about the new licensing requirement

1.5 Informing viewers about when they need to have a licence and methods of payment is a central part of the TV licensing strategy. This aspect of the Unit's strategy increased in importance in 2016-17 as it was the first time that a new licensing requirement had been introduced in recent years. The Unit had a comprehensive marketing strategy to inform the public about the new licensing requirement. Paragraphs 1.6 to 1.13 outline some of the Unit's marketing activities.

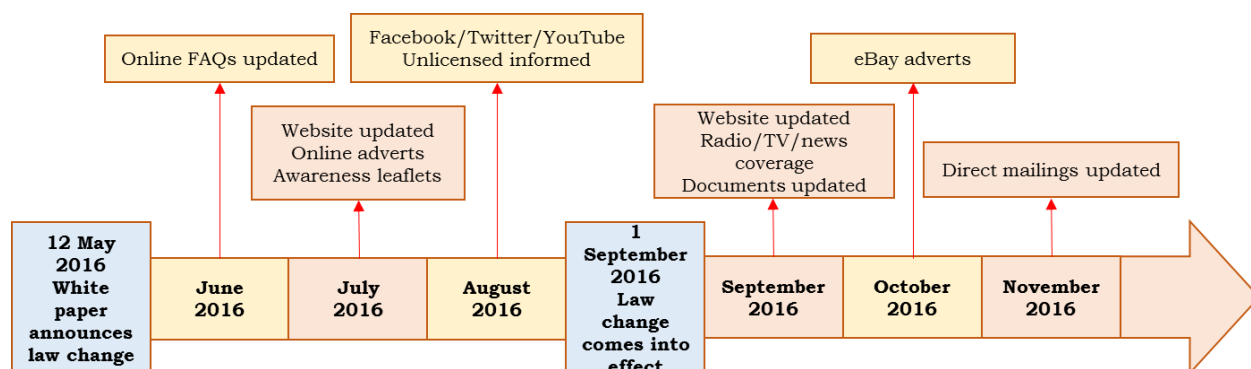
1.6 The Unit had a general campaign of activities for the wider public and more targeted activities for specific groups. The activities to inform the public of the new licensing requirement used a variety of media, as illustrated in Figure 1.

⁶ https://www.ofcom.org.uk/_data/assets/pdf_file/0026/17495/uk_tv.pdf

⁷ Adults were defined as over individuals over the age of 15.

⁸ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/524863/DCMS_A_BBC_for_the_future_linked_rev1.pdf

Figure 1: A timeline of the Unit’s marketing efforts for the general public



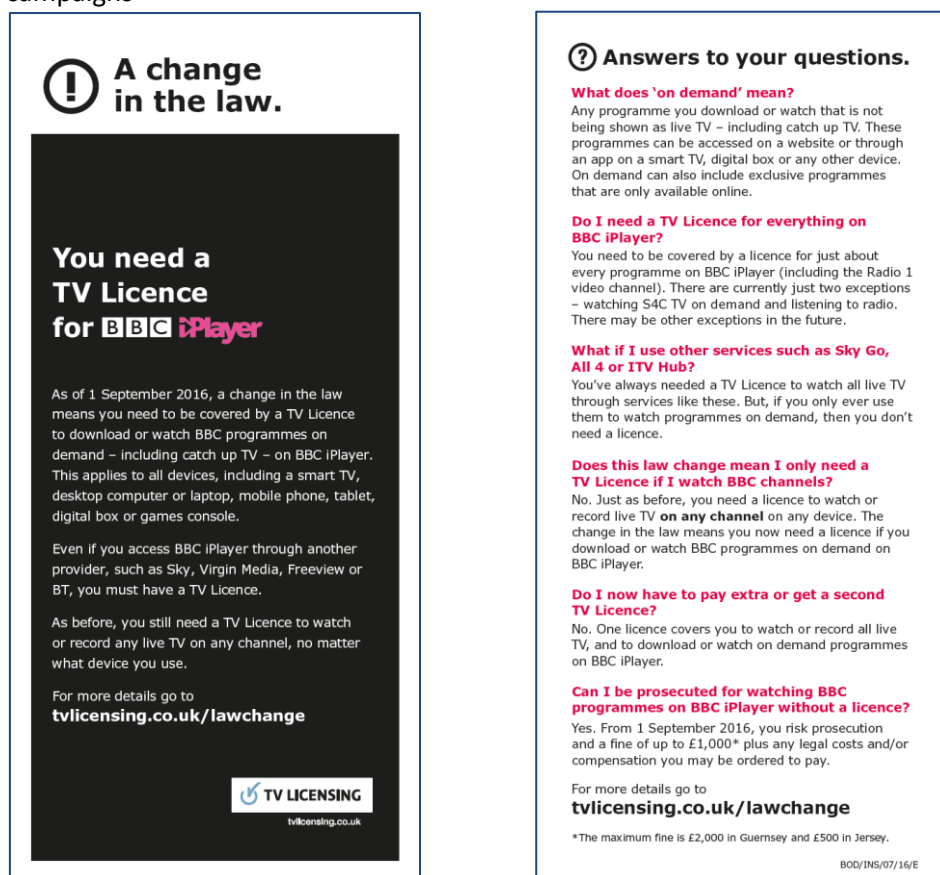
Source: National Audit Office

1.7 In addition to updating standard forms and letters to reflect the change in the law, the general campaign included:

- updating frequently asked questions on the TVL website at <http://www.tvlicensing.co.uk/>;
- highlighting the change on the homepage and on key pages throughout the TVL website by having customer messages indicating the law was changing, which linked to a new dedicated “BBC iPlayer and the TV Licence” page prior to the actual law change;
- updating other pages on the TVL website after the law took effect to make the change clear;
- an awareness leaflet that explained the change (see Figure 2 below) when communicating to households as part of standard communications or other ongoing campaigns;
- placing advertisements online through Google, Bing and related search engines, that redirected people who clicked on them to the TVL website;
- advertising the change through TVL’s Facebook, Twitter and YouTube pages;
- including information about the change in standard communications with unlicensed households;
- issuing press releases and monitoring media coverage, including on the BBC’s own website, at the time of the change in legislation, which provided links to the TVL website; and
- broadcasting radio announcements on BBC 3, BBC 4, BBC 4 Xtra, BBC 5 Live, BBC 6 Music and local radio⁹.

⁹ Advertisements targeted at students and parents were broadcast on Radios 1 and 2. While these were not designed for the general public, those listening to both these radio stations would have been exposed to advertisements on the change in the law.

Figure 2: Awareness leaflets provided to customers who were contacted as part of other existing campaigns

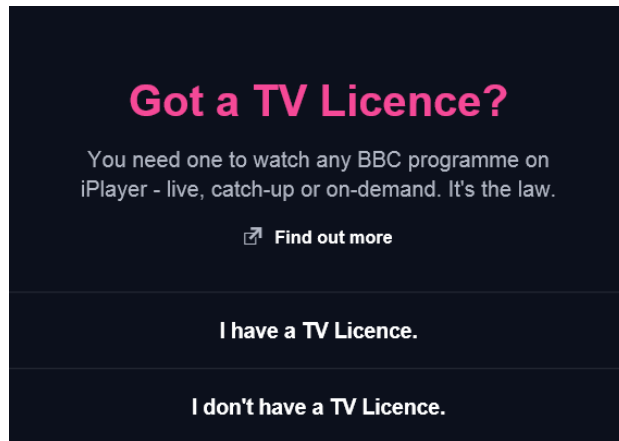


Source: TV Licensing

1.8 iPlayer has also been updated so that anyone accessing it is immediately notified that a licence is required to access any BBC programme on iPlayer (Figure 3). This notification was previously only given to individuals attempting to view live broadcasts.

1.9 If individuals click on either “find out more” or “I don’t have a TV licence”, they are directed to the dedicated page on the TVL website which explains the circumstances under which a licence is needed. This page provides links to frequently asked questions and to the relevant page to purchase a licence. This message appears however iPlayer is accessed. This could be through the iPlayer website on a computer or laptop; through iPlayer apps available on both Android and Apple mobile devices and through televisions with internet-connected smart features. The message is shown (per device) once a month for six months, then once every three months.

Figure 3: Advisory notice received when trying to access BBC programmes on iPlayer

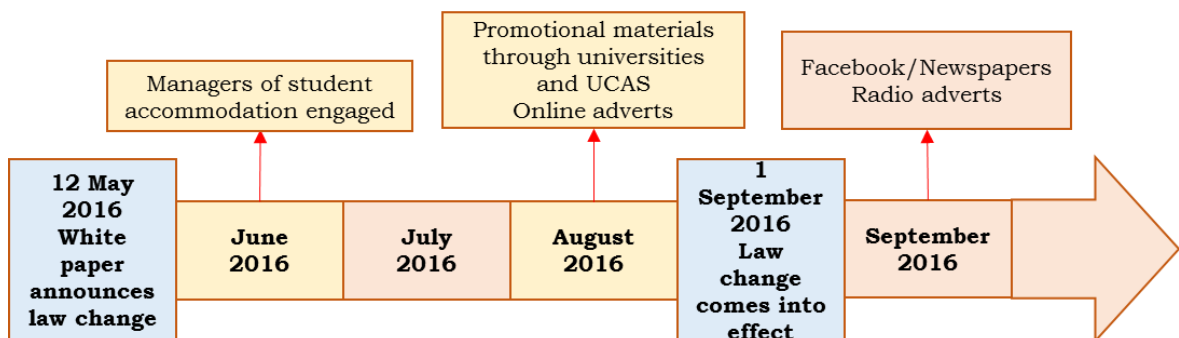


Source: TV Licensing

1.10 In addition to the general campaign activities listed above, the Unit appropriately identified the two key segments of the population that were most likely to be affected by the change and designed and implemented targeted activities for these groups. The key segments identified were students and those who had previously declared that they did not need a licence ("no licence needed" or NLN).

1.11 Of these key segments, the student segment was expected to be most affected by the new requirement, so the Unit carried out specific activities to engage students (Figure 4). Managers of students' accommodation were contacted in June and asked to help raise awareness by displaying banners, posters, postcards and leaflets. These resources were supplied in both paper and digital formats. Student TV licence application forms were also provided with pre-paid postage to encourage application. In addition, students were targeted through advertisements in their universities and the Universities and Colleges Admission Service (UCAS) in August. Advertisements targeted at students and their parents were placed online in The Student Room, a website for the student community, in the *Guardian*, on Radios 1 and 2, and Facebook.

Figure 4: A timeline of the Unit's marketing efforts for students



Source: National Audit Office

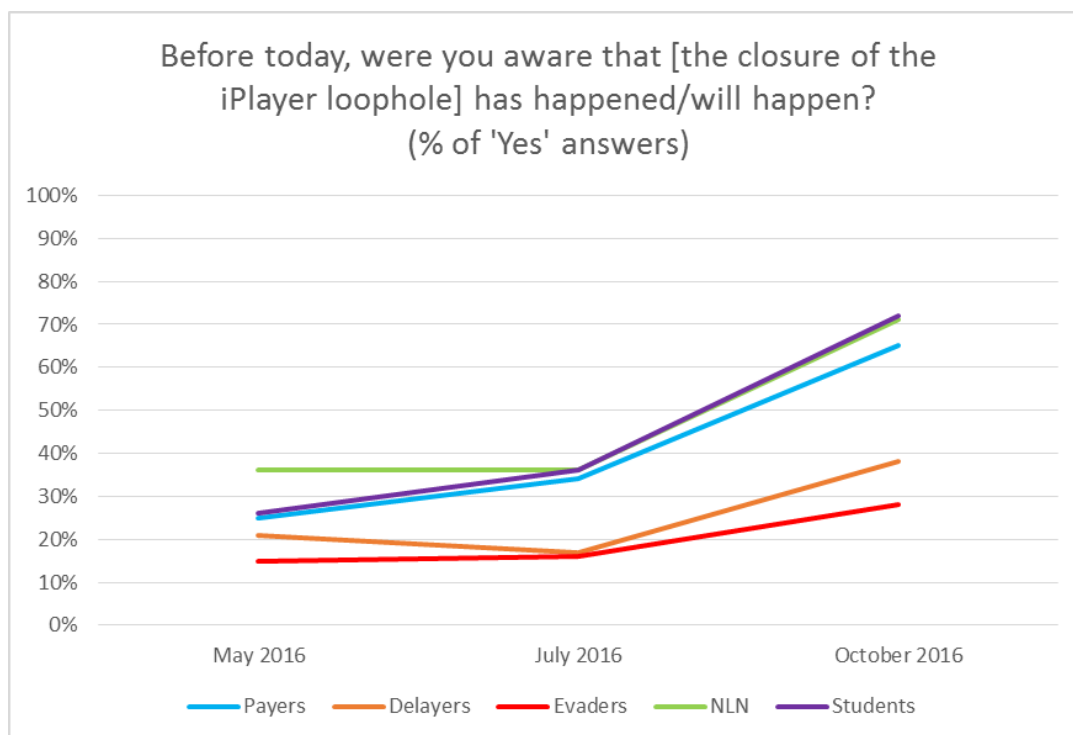
1.12 The other segment that the Unit expected to have been affected by the new legislation was the approximately 1.4 million households that had previously made a declaration that they did not require a licence. The Unit's policy is to contact those who have made a NLN declaration periodically. Where NLN households were due for routine contact, they were given an awareness leaflet to inform them of the new requirement. From July to September 2016, all households making an NLN declaration also received a notification of the change.

1.13 The Unit did not contact existing NLN households who were not due to receive routine contact or contact through other NLN-specific campaigns. In January 2017, the Unit estimated that around 215,000 NLN households would not have received any direct communication from the Unit, although they may have been made aware of the new legislation through the Unit’s campaign of activities for the general public. If these households were consuming licensable content on iPlayer, they would have seen the message illustrated in Figure 3. Notwithstanding this, the Unit planned to run a further NLN-specific campaign (unrelated to the change in the law) from May to June 2017 and provide all households involved in this campaign with an awareness leaflet before running a specific campaign in June to July 2017 to contact any remaining NLN households that still have not received any direct communication from the Unit. Although this marketing activity is occurring several months after the new law came into effect, these households would have been notified of the licensing requirement if they had tried to watch iPlayer content.

Assessing the effectiveness of campaigns

1.14 To assess the effectiveness of their marketing campaign, the Unit commissioned surveys, which were carried out by Harris Interactive UK. The surveys were performed in three waves: May, July and October 2016, with about 1,850 responses being received in each wave. In order to cover a range of customer types, people from the five key customer groups – payers, delayers, evaders, NLN households and students – were asked to respond to the survey. Delayers and evaders were questioned in face-to-face surveys in London, Plymouth (replaced by Portsmouth in the second and third wave), Cambridge, Leicester, Manchester, Sunderland, Cardiff and Edinburgh, whilst respondents in the other categories were surveyed online.

Figure 5: Results from the questions on awareness of the requirement for a TV licence: respondents to the survey were prompted with a description of the law change and asked if they were aware of it



Source: National Audit Office review of Harris Interactive UK results

1.15 The responses to the May 2016 wave were prior to the Unit's activities to publicise the change. The survey results from the subsequent two waves indicate that the campaigns were successful in increasing general understanding of the change in the law, with all five groups displaying increased awareness from 15% to 36% before campaign activity to 28% to 72% by the time of the third wave in October 2016.

1.16 The survey further indicates that the targeted campaigns increased awareness from 26% to 72% and from 36% to 71% for students and NLNs respectively, while awareness for the general population, who would not have been specially targeted, rose from 25% to 65%. It is not possible to determine whether similar levels of increased awareness would have been achievable for students and NLNs through the general campaign alone. However, in the normal course of business, the Unit would have carried out campaigns targeting students and NLNs, albeit with different messages, so any incremental expenditure to raise awareness of the change in the law would be negligible.

Establishing whether there has been an appropriate increase in licences purchased following the new requirement

Performance against predicted levels of income

1.17 One approach to measuring whether an appropriate increase in licences has been achieved is to compare actual licences purchased to predictions of revenue from the new legislation. I reviewed the model used by the Unit to predict the revenue due from the change in the law over the next five years, which draws its assumptions and data from a range of both internal and external sources.

1.18 The starting point for this model is to determine the TV saturation rate. This is the maximum percentage of the population that would watch live or on-demand television from any broadcaster. The model then predicts the penetration rate for live TV, or the proportion of the population that will watch live TV in the future, and assumes that the difference between the predicted live TV penetration rates and the saturation rate is attributable to people who may watch programmes on-demand. Further assumptions are made to determine the percentage of this difference that is attributable to households that watch iPlayer content and this forms the basis of the predicted income from the new legislation.

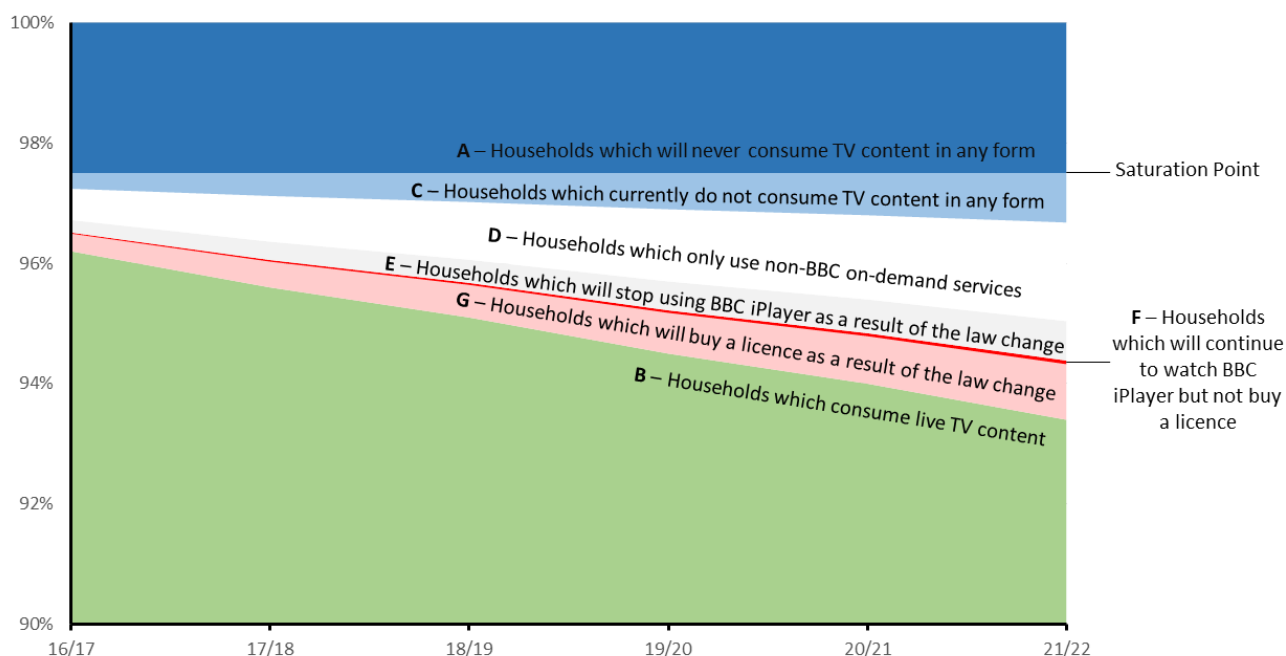
1.19 The Unit has taken the highest TV penetration rate recorded over the last four years to be a proxy for the saturation rate; 97.5% (see Figure 6). The inference is that 2.5% of the population does not and will never watch live TV or on-demand content from any broadcaster and would never need a licence (Figure 6, segment A). The saturation rate is determined at a specific point in time and the model assumes that it is constant. The recent general trend is that penetration rates are on the decline. While this could be due to more people only watching on-demand programmes, it could also indicate that the rate of saturation is decreasing, rather being a constant 97.5% as assumed in the model.

1.20 To predict the future TV penetration rates for live TV, the Unit created a straight-line projection based on the TV penetration rates for the last two years. This has been calculated using data from the Broadcasters' Audience Research Board (BARB)¹⁰. This proportion of the

¹⁰ BARB is jointly owned by the BBC, ITV, Channel 4, Channel 5, BSkyB and the Institute of Practitioners in Advertising and is widely considered to be an objective data source. Data from the BARB Establishment Survey used by the BBC is derived from the results of a survey of 53,000 respondents. This is the largest survey of television viewing in the UK with the nearest comparators surveying significantly fewer premises making BARB data the most accurate television viewing data available.

population would need a TV licence regardless of any change in the law (figure 6, segment B). The difference between this projected future penetration rate and the maximum saturation rate represents the segment of the population who do not watch live TV in any form, but may watch on-demand (Figure 6, segments C to G).

Figure 6: Segmentation of the population to determine the proportion that will buy a licence as a result of the change in law



Source: National Audit Office review of TV Licensing’s revenue prediction model

1.21 The model then uses modified results from Ofcom’s Communications Market Report¹¹ 2015 to identify the percentage of this segment that actually use iPlayer content and are therefore affected by the change in the law. The Ofcom report states that 59% of UK adults used video on-demand services in 2015, and 32% specifically used iPlayer. However, the Unit’s revenue prediction model instead assumes 80% of UK adults that do not watch live TV use on-demand services (Figure 6, segments D to G) and 50% of those (i.e. 40% overall) use iPlayer (Figure 6, segments E to G). This uplift is based on the assumption that people who do not watch live TV are more likely to use on-demand services. Since the Ofcom report does not distinguish people who use on-demand services exclusively, it is reasonable to apply an uplift. However, the Unit does not have evidence to support its assumption of the appropriate percentage increase. In the absence of evidence, there is a risk that the model could misstate the predicted income from the change in the law.

1.22 A further assumption of the model is that 60% of people who become licensable as a result of the law change will continue to watch iPlayer, and thus need to buy a licence whereas the remaining 40% (Figure 6, segment E) will cease to watch iPlayer. This figure is based on research commissioned by the BBC from Populus Research Agency. The research indicates that roughly 60% of people who watch iPlayer but who do not own a television would be willing to pay for BBC services. However, it does not necessarily follow that the other 40% would stop watching iPlayer.

¹¹ <https://www.ofcom.org.uk/research-and-data/multi-sector/communications-market-reports>

1.23 Of this 60%, the model then assumes that 6% will evade payment of the fee (Figure 6, segment F), in line with the evasion rate currently predicted by the evasion model. The remaining 94% are expected to buy licences and the size of this segment is used to forecast income due from the closure of the loophole (Figure 6, segment G). However, survey data commissioned by the Unit from Harris Interactive suggests that the balance of opinion amongst NLN and student households – the two groups most likely to be affected by the change – is that the law change will make it harder for the Unit to enforce the licence fee. The assumption that the same evasion rate will apply may therefore not be fully supportable.

1.24 The Unit's revenue prediction model is an estimate, so it is not expected to be precise. We have not been able to obtain sufficient evidence in support of all of the assumptions made but the Unit is aware of the need to update the model with more recent and appropriate data as it becomes available. Ofcom's research indicates that people watching video on-demand is a growing segment of the population. While these people may also watch live TV, this does indicate that it is an area of increasing importance for the Unit to obtain as accurate data as possible.

Measurement of licences purchased

1.25 The main challenge that the Unit has faced in measuring the increase in licence fee revenue that is due to the new legislation is that there is no definitive way for the Unit to know why a TV licence has been purchased. The Unit has used the methodology outlined below to estimate that £12 million of new licences bought in 2016-17 can be attributed to the change in the law in September 2016. The Unit predicted the revenue it would receive under the new requirement in 2016-17 (assuming the change in the law occurred at the beginning of the financial year) would also be £12 million.

1.26 These figures suggest that actual revenue collection from August 2016 to March 2017 has matched the full year's prediction of £12 million. However, my staff have questioned the calculations of actual and predicted revenue and concluded that, given the uncertainty around figures in both elements, it may not be appropriate to compare the two.

Using unprompted sales as an indicator

1.27 In order to establish the increased revenue that could be attributed to the new licensing requirement, the Unit identified the incremental variance from previous years of 'unprompted' purchases of licences (i.e. those that were not preceded by direct correspondence or a visit from the Unit) from households that previously declared they did not need a licence or that were unlicensed, were due to the change in the law. However, the Unit used a different methodology for the months of August and September, when the increase in the level of licence sales was at its peak, increasing the estimate of revenue received in 2016-17 that was attributable to the new requirement from £9.3 million to £12.1 million.

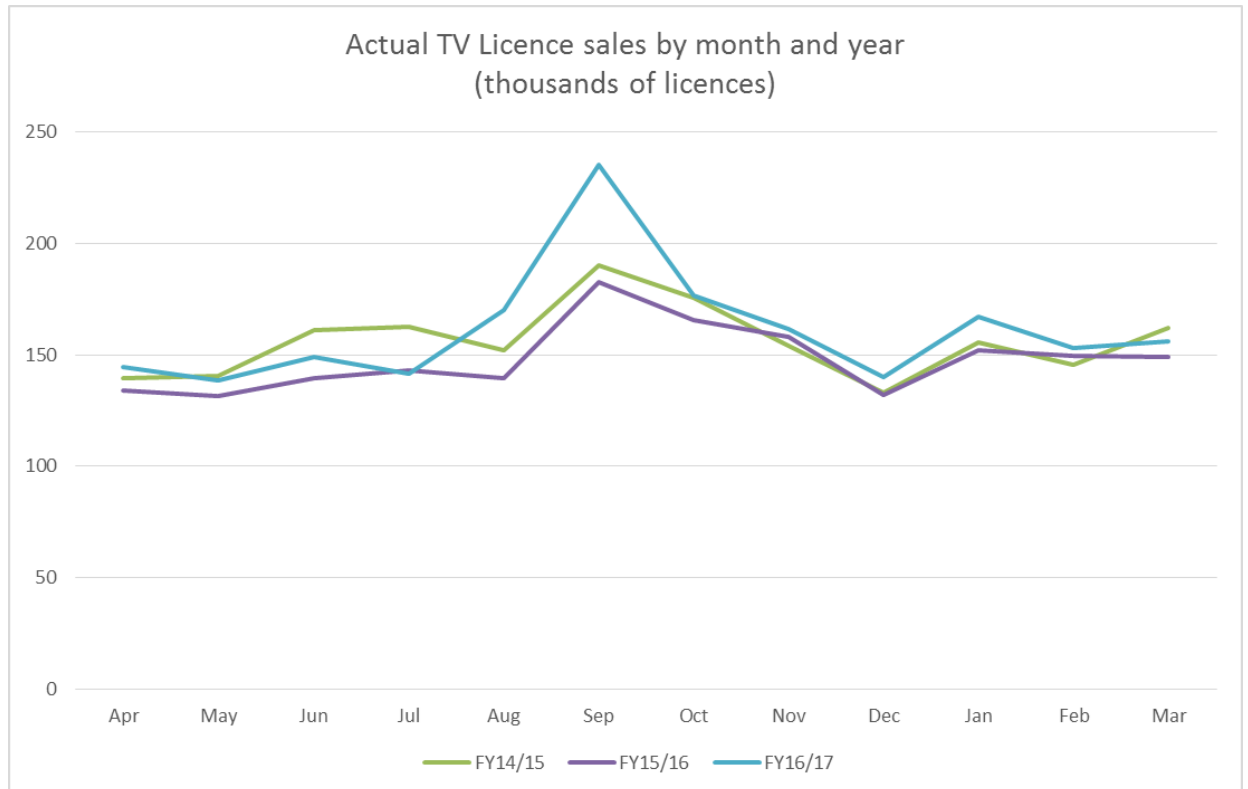
Using historic trend variations as an indicator for August and September

1.28 The methodology for August and September used historic trend data for August and September to estimate the expected increase in the sale of new licences that would have occurred, regardless of the change in the law. It then identified other factors that would have contributed to increased licence sales that were unrelated to the new legislation. Once expected trend data and revenue from other factors were removed from the actual sales for 2016-17, the remainder was attributed to the new licensing requirement.

1.29 Figure 7 illustrates that there has been a significant increase in licence sales since 2015-16 with approximately 83,000 more new licences purchased in August and September 2016 combined compared to the prior year, which correlates with the time that the new law became

effective. The revenue trend for this year from August 2016 to March 2017 broadly follows the trends established in previous years but with increased sales of approximately 131,000 new licences for the year.

Figure 7: Number of new licences sold



Source: National Audit Office review of TV licence sales data

1.30 The Unit identified two factors, other than the new licensing requirement, that could have led to an increase in sales: people purchasing licences to watch the summer Olympics in August 2016; and increased licence sales resulting from marketing campaigns run by the Unit which were unrelated to the change in the law. The Unit’s working assumption was that the remaining, unexplained increase in the issue of new licences, was fully attributable to the change in the licence requirements.

1.31 The Unit estimated the additional licence sales from the 2016 Olympics by taking the difference between new licences sold in July 2012 (when the last summer Olympics were held) and July 2011. This assumes that the only explanation for the difference between these two years was the increased number of households watching the Olympics and that the same number who watched the 2012 Olympics live will also have watched the 2016 Olympics live. The Unit made the decision not to take account of the increased national interest that would have been generated from London hosting the 2012 Olympics, and to assume that the four-hour time difference between Rio de Janeiro and the UK would not have impacted on individuals’ inclination to watch events live because it did not have a reliable method to estimate actual interest. This element of the methodology gave rise to the Unit attributing 7% of the sales made above the forecast amount in August and September to people purchasing TV licences to watch the Olympics to obtain a conservative estimate of the revenue attributable to the change in the law.

1.32 The Unit then estimated the increased revenue that resulted from its campaign activities which were unrelated to the change in the law. These figures were derived comparing actual licence sales for the groups that were subject to the campaign with forecast sales for the group. The Unit assumed that the variance was wholly due to the campaign. It is inevitable that some households within this variance will have obtained a licence due to the change in the law, so this assumption understates the Unit's estimate of income attributable to the new legislation. This element of the methodology gave rise to the Unit attributing 24% of sales made above the forecast amount in August and September to these campaign activities. Once the Unit removed the impact of the Olympics and campaign activities, the remaining 69% of the difference between forecast and outturn was attributed to the new requirement.

1.33 The Unit's methodology for August and September increased the revenue attributable to the change in the law by £2.8 million. It is expected that the new requirement would have the greatest impact at the time it became a legal requirement, so it is important that the Unit's methodology for August and September is appropriate. The Unit was unable to provide me with the evidence required to determine whether its methodology used for these months was appropriate. I have therefore been unable to corroborate the increased revenue of £2.8 million that it has attributed to the new licensing requirement for these months.

1.34 The new law became effective on 1 September 2016 and my staff queried the reasons for attributing £3.9 million of revenue in August to the change in the law. The Unit considered that the extensive media coverage in August 2016 would have influenced households that needed a licence under the new law to obtain a licence and they may have purchased the licence in preparation for the new requirement.

1.35 In summary, the Unit estimated the actual revenue received in 2016-17 as a result of the new legislation. The methodology for August and September sought to use trend analysis to determine the additional revenue that was collected. The assumptions that are fundamental to this approach are that: the Unit can forecast sales based on historic trend analysis; these forecasts provide a reliable baseline; and that the Unit can reliably estimate the increased licence purchases that were due to other factors, namely the 2016 Olympics and other campaign activities. The Unit reviewed the number of unprompted purchases of licences from households that previously did not need a licence. It compared purchases from October 2016 to March 2017 with unprompted purchases in same months in the previous year and assumed that the difference was due to the change in the law. The Unit's own analysis indicated that there were a mix of reasons apart from the change in the law why some (approximately 18%) of these households may have purchased a licence.

1.36 The Unit is aware of the limitations of its methodology and is performing further analysis to confirm whether there are any other reasons for the variance in sales compared to the forecast. It is also looking for different ways to estimate the number of licences purchased solely as a result of the change in the law to corroborate its current estimates. At the time of writing this report, this work had not been concluded. While the Unit's analysis of the causes of increased licence sales is plausible, there is significant uncertainty surrounding the revenue figure attributable to the new licensing requirement.

The impact of the new requirement on the BBC's approach to detection and enforcement

1.37 Customer services and enforcement staff have been trained on the new requirements to enable them to carry out their work effectively. Their manuals and all relevant forms have been updated for the change in the law. The Unit considers that, beyond this, its existing approach to detection and enforcement is adequate, appropriate and needs no amendment for the change in the law.

1.38 My staff reviewed the revised manuals and forms to confirm that these have been updated as appropriate. They reviewed the training materials to verify the training that took place in these workshops. They also reviewed a sample of records from field officer visits and confirmed that officers had asked appropriate questions on the household's viewing of on-demand content on iPlayer.

1.39 Prior to the change in the law, the Unit considered different options for accessing iPlayer, including permitting viewing of iPlayer content only with a sign-in identification containing full information about the individual (e.g. name, address and TV licence information). However, the programme board for this project decided that, at present, this option would not be cost-effective, so advisory notices (Figure 3) were used instead. The BBC considers that this strikes an appropriate balance between enforcement and maintaining ease of access. These notices do not block access to iPlayer content or enforce the purchase of a licence even if "I don't have a TV licence" is selected. There is also nothing preventing the individual who has selected "I don't have a TV licence" from going back a page and selecting the option "I have a TV licence" as this does not require any further validation.

1.40 The Unit's data on the numbers of people buying a licence through these advisory notices indicates that, of the 5.2 million visits to the TVL website redirected through these advisory notices since August 2016, approximately 12,000 (0.23%) have resulted in the purchase of new licences; the Unit has assumed that these are due to the change in the law. This represents £1.7 million of the estimated £12 million of licence fee revenue that is being attributed to the change in the law.

1.41 The Unit considers these advisory notices to be sufficient as it estimates that only a small, albeit growing, segment of the population is affected by the change in the law because they exclusively watched previously 'unlicensed' content through iPlayer's videos on-demand. Moreover, the expected additional revenue generated as a result of the new licensing requirement is in line with expected forecasts.

1.42 Users of BBC services can create an online account – known as a BBC ID – but this was previously not required to access iPlayer. From June 2017, the BBC required all users of iPlayer to log in with a personal account. From late September 2016, BBC ID holders had to add a postcode to their accounts.

1.43 The BBC has confirmed that the purpose of the requirement to use a BBC ID is to allow its users to enjoy more personalised content. Understanding its audience may also allow the BBC to better tempt them with programmes in which they may be interested. Furthermore, since postcodes are not necessarily unique to addresses, this data alone could not be used solely for enforcement purposes. However, the details provided to register for a BBC account can provide some intelligence on iPlayer users, which the Unit may take into account as part of its detection and enforcement strategies.

1.44 The Government has asked the BBC to review by 2020 whether a verification system for accessing iPlayer should be introduced, so the BBC continues to consider all its options. However, currently, there have been no significant operational changes to its overall approach to detection and enforcement with the change in the law.

Reflecting the new requirement in the Unit's evasion model

1.45 The evasion model is a key measure used by the BBC to estimate the shortfall between the licence fee that should be paid and the amount that is actually collected. To estimate the level of evasion the Unit takes the number of premises and estimates the proportion that is engaged in licensable activity: this proportion is the TV penetration rate. The difference between the estimate of the number of premises engaged in licensable activities and the actual licences in force is considered to be the level of evasion.

1.46 The penetration rate that was previously used in the evasion model represented the percentage of households that watched live broadcasts. In order for the evasion model to reflect the new requirement, the Unit had to amend the penetration rate to reflect the percentage of households which watch live broadcasts or iPlayer content.

1.47 The Unit has estimated that an increase of 0.3 percentage points from 95.2% to 95.5% is required to reflect households which now need a licence. The estimate has been generated from the model used to predict the revenue due over the next five years from the change in the law (see paragraphs 1.17-1.24).

1.48 In the past, the Unit has used information from the BARB Establishment Survey to determine the penetration rate. The 2012 to 2015 BARB Establishment Surveys suggest that 1.2% of the population watch on-demand programmes from BBC and other providers only; they do not watch live broadcasts. Using the Unit's prediction model, half of the 1.2% watch TV content from iPlayer and 60% of those continue to watch after the law change. This would indicate that the increase in the penetration rate should be 0.4 percentage points, rather than the 0.3 percentage points used in the Unit's model. Applying this difference in penetration rate changes the average evasion rate (from August 2016 to March 2017) from 6.36% to 6.45%; this would equate to approximately £3.6 million of additional revenue. The Unit informed me that it did not use the information from the BARB Establishment Survey because it considered it too volatile for its purposes (in the eight quarters to December 2015, the percentage of those only watching Video on Demand ranged from 0.68% to 1.2%).

1.49 There are nine different types of premises in the evasion model, each of which has an associated TV penetration rate. 91.9% of the 30.5 million premises are domestic households while 2.2% are businesses and hotels for whom the penetration rate is not used as these have different licensing rules. The remaining 5.9% are second homes, students in halls of residence and other premises. The Unit is currently carrying out work to obtain updated information about the TV penetration rate for students in halls (which represents 1.6% of total premises). This work was not complete at the time of my review so the TV penetration rate had not been amended for students in halls, thus understating the level of evasion. An increase of 6% of the TV penetration rate for students in halls would result in a 0.1% increase in the level of evasion.

Part Two: Follow up on recommendations made in the 2015-16 Report to the House of Commons

2.1 In my 2015-16 report, I made four recommendations relating to licence fee income and the evasion model. My first recommendation was that the BBC should consider how it can effectively target campaign and enforcement activity at groups which are most likely to evade as a result of changing technology and audience behaviour.

2.2 In this report, I have explained that the Unit has provided training to its staff to inform them of the new licensing requirements for iPlayer and the implications for their operations. The Unit also updated guidance manuals for customer service and enforcement staff. However, my report also indicates that there has been no substantive change to detection and enforcement practices so there may still be a higher risk of evasion from people watching licensable content through non-TV devices, as noted in my 2015-16 report, and now, through accessing iPlayer content by any means. The BBC is in the process of designing enhanced detection and enforcement practices and is aiming to implement them during 2017-18.

2.3 My second recommendation was in respect of the BBC's revenue collection strategy, which assumed an annual 13% decline in the number of licences issued to students in halls of residence. I recommended that the BBC should reassess whether this is appropriate and should also address the inconsistency between the number of licensable student residences in its revenue targets and its evasion model. Current research indicates that younger people are more likely to use on-demand and online services, so my recommendation is increasingly important following the change in the law to require a television licence to view on-demand programmes provided by the BBC through iPlayer.

2.4 The Unit has not reassessed the assumption of the 13% decline. It recognised that the new licensing requirement would have a significant, but unquantified, impact on the penetration rate for students. Data at the end of the financial year indicates that there was a 28% increase in licence sales to students in 2016-17, which is likely to be largely due to the change in the law. The Unit is currently analysing the data for students, which is likely to affect future sales projections, licence fee income and the TV penetration rate for students in the evasion model.

2.5 With respect to the inconsistency between student revenue targets and the evasion model, the Unit has indicated that the reconciliation exercise it completed last year was a one-off exercise. It does plan, however, to revise the TV penetration rate for students in the evasion model based on the latest results from the student survey conducted by Harris Interactive UK. This should provide a more accurate prediction of the level of evasion for students.

2.6 My third recommendation was that the BBC should make the case for the Government to require other online broadcasters to alert viewers to the need for a licence for watching live TV content online. The BBC wrote to the Department for Culture, Media and Sport at the end of May 2017 to request that the Department considers this along with the recommendations of the Perry Review¹² to introduce a requirement for cable and satellite TV companies to share their subscription information with the BBC in order to improve the investigation and enforcement process.

¹² The Perry Review was an independent review looking at the current sanctions in place for failure to hold a TV licence. It can be found at <https://www.gov.uk/government/news/independent-review-on-tv-licence-enforcement-published>.

2.7 My final 2015-16¹³ recommendation was with regard to the evasion model based on my follow-up on recommendations made in my 2014-15 report. I reported that, while the BBC had improved its evasion model, further enhancements were required. The BBC was in the process of identifying current, reliable data which could be used for business inputs into the evasion model but had not yet identified a reliable data source for comprehensive estimates of the level of online viewing using non-TV devices. The BBC was analysing methodologies to measure the viewing of live TV online through non-TV devices, and I recommended that this was concluded to ensure decisions informed by the estimated level of evasion are driven by reliable data. I also recommended that, where significant changes are made to the evasion model, the BBC subjected the changes to independent scrutiny to ensure that they are defensible. I have provided an update on each element below:

- **Statistics for businesses:** My 2014-15 review found that the number of businesses that required a TV licence was based on 2001 data to which the same annual uplift had been applied for the last 14 years. At the time of my 2015-16 report, the Unit was in the process of researching current, reliable data to be used for business inputs into the evasion model. This work is still ongoing.
- **Online viewing using non-TV devices:** The data for penetration rates is taken from the BARB survey. I previously reported that the survey only asked respondents whether they watched live TV on non-TV devices as opposed to anyone in the household. This aspect of the survey has not yet been changed but the BBC intend to ask BARB to amend the 2017-18 survey questionnaire so that it addresses the household and not just the respondent.
- **Subjecting significant changes to the evasion model to scrutiny:** I recommended that where significant changes are made to the evasion model, the BBC subjects the changes to independent scrutiny. The BBC has committed to using Internal Audit to provide an independent review and challenge of the evasion model when significant changes are made in future; no significant changes were made in 2016-17.

2.8 The key aspects of evasion model that required updating are included in paragraph 2.7, but there were other aspects which required enhancement:

- **The number of households in the UK:** This is derived from statistical predictions from the Department for Communities and Local Government (DCLG) of population levels. A review by Deloitte, commissioned by the Unit in 2009, recommended that the Unit confirms the continuing validity of the assumptions underpinning DCLG's model. The Unit has informed me that, because the DCLG data was updated following the 2011 census, the Unit remains satisfied that this provides sufficiently reliable, relevant information for its purposes.
- **Statistics for lodgers:** I raised concerns in my 2014-15 report that information on lodgers was based on 2001 data, which had been updated by the same factor for 14 consecutive years. My review in 2015-16 then found that lodgers were excluded from the evasion model as the Unit believed this data was already captured within the data for households. Following my reservations on the validity of this assumption, the Unit has reinstated lodgers into its evasion model to identify the number of licences attributable to individuals falling into this category. Prior to 2015-16, the official data source for lodgers was produced by DCLG but it has since stopped collecting this data. For the 2016-17 evasion model, the Unit has relied on data provided in a report commissioned by Liverpool Victoria, an insurance firm, to quantify the number of lodgers.

¹³ [BBC Television Licence Trust Statement 2015-16, page 28](#)

The Liverpool Victoria data does not differentiate between temporary and permanent lodgers but considers lodgers as a single category. This is likely to have a minimal effect on the evasion model. There is ongoing work to find a permanent, credible source of data for these individuals.

- **Penetration rate for lodgers:** The March 2015 evasion model used penetration rates of 95.15% for permanent lodgers and 50% for temporary lodgers. Lodgers are no longer classified as permanent and temporary and the penetration rate decreased in the March 2016 evasion model to 9.36% when the Unit used the student penetration rate as a proxy for lodgers. The Unit was not able to justify the change and this rate is still being used in 2016-17.
- **Penetration rates for second homes and military bases:** As described in my 2015-16 report, these penetration rates were revised from 80% to 60% and 60% to 28% for second homes and military bases respectively. The changes were based on assumptions that could not be supported by evidence. These penetration rates remain unchanged and unsupported.

2.9 In conclusion, while some data sources in the evasion model have been updated for the most recent data, a significant number of the issues previously identified in my reports remained unresolved at the end of 2016-17. The Unit has indicated that it is not practicable to review all aspects of the evasion model each year. It looks at elements of the model on a rolling basis: this year, it reviewed its data sources for students, lodgers and businesses.

Sir Amyas CE Morse
Comptroller and Auditor General
National Audit Office
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18th July 2017

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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