

**British Broadcasting Corporation**

**Television Licence Fee Trust Statement for the  
Year Ending 31 March 2012**

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## **Television Licence Fee Trust Statement for the Year Ending 31 March 2012**

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

The BBC's Licence Fee collections showed excellent performance in 2011/12, delivering over 116,000 additional licences and £19m more than 2010/11 including Over 75 free licences. The increase in revenue to the consolidated fund is £10m.

Over the past three years, the BBC has faced a continuously challenging environment for the collection of the Licence fee. Household growth has remained considerably lower than the period before the economic downturn, mainly due to slowed growth in the construction industry. With the rate of inflation currently more than double the rate of wage increases, many households are faced with a situation of decreasing real income making it increasingly challenging for them to pay for their Licence Fee.

However, even within such a challenging economic climate, the BBC has managed to keep the level of evasion at 5.2%, the same as 2010/11, whilst improving the public's perception of the value of the Licence Fee as illustrated by a 1% increase in TV Licensing's reputation index. This is further illustrated by a reduction of complaints in 2011/12 by 13%.

Maintaining the rate of evasion at this level has largely been made possible through improvements in our collection processes. 60% of transactions are now completed without the need for agent intervention and over 2.5m licences were bought through the website in 2011/12.

Developments in online marketing and communications have made it easier to communicate with many customers, enhancing the relationship with customers and have allowed Licence Fee collection to move towards becoming a truly digital business.

The Licence Fee was fixed for the remainder of the Charter period which means that growth in income is more reliant than ever on acquiring household growth and tackling evasion.

The BBC has entered into new contract arrangements with its suppliers beginning in 2012/13 which will drive additional revenue through reductions in evasion and continue to improve the reputation of TV Licensing with its customers.

# Annual Report

## Management Commentary

The Director General as Accounting Officer presents the British Broadcasting Corporation Television Licence Fee Trust Statement (the Trust Statement) for the year ending 31 March 2012.

### Licence Fee Collection

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

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

Contracts are awarded through competitive tender using EU regulated procurement processes. In 2011/12, the contracts currently held by Capita Business Services and iQor UK Ltd were tendered and, after a rigorous tendering process a new contract was signed with Capita Business Services for the provision of services currently provided under both contracts.

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

### The Trust Statement

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

### Governance

The BBC is constituted under Royal Charter. The relationship between the BBC and the government is set out in the Charter and the Agreement between the BBC and the DCMS. The BBC is independent from government, but receives its funding through Grant-in-Aid from the DCMS, the Department for

Work and Pensions and the Foreign and Commonwealth Office, as well as revenue generated from commercial activities.

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

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

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

## The Collection Environment

Revenue collection in the year has been in the context of an increasingly difficult economic environment. The key issues affecting collection are outlined below.

### Household growth

The BBC's budget household growth assumption of 0.65% for 2011/12 was based on a forecast that household growth would recover towards the long running average of 0.8% in 2012/13. This assumption was made from looking at forecasts for GDP growth which have a correlation to household growth.

However, the economic recovery remains very slow, particularly in the construction sector, and household growth has not been as high as was hoped. The BBC has estimated actual household growth for 2011/12 at 0.5% based on the most recent statistics of house building and demolitions from the construction industry.

The slow economic growth and reduced forecasts for future performance have led us to reduce the assumption for household growth in 2012/13. The assumption has been revised down to 0.5% with a slow recovery from 2013/14.

The BBC is continually looking to improve the estimates for household growth and other drivers to income. During 2012/13 we will incorporate new data sources which identify new housing supply, to provide more accurate short-term household growth forecasts.

### Household incomes

Inflation has been higher than the increase in wages for several months and, with unemployment rising, many households are facing reductions in real income. Household budgets are becoming increasingly strained leaving customers having to prioritise payments of bills and debts.

The TV Licensing tracker<sup>1</sup> shows a steady increase in the number of delayer and evader respondents, from 45% to 60% year on year, indicating they would find it difficult to find the money to pay towards a TV Licence at the present time. This indicates that many customers may begin to de-prioritise payment.

Evasion has not increased in the three years since the economic downturn. There is evidence from sales performance that some customers are paying later, but more customers are paying by direct debit and other instalment schemes and more customers are being telephoned if they miss a payment. These initiatives have helped mitigate against the risk of increased evasion and will be further developed in the new collection contract.

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<sup>1</sup> TV Licensing Communications and Attitude Tracking, January 2012. The tracker has been in place for just over 3 years and is conducted by Harris Interactive.

## Media Consumption

There is a continued threat to the growth in TV Licence sales from the increasing number of people consuming television in a way that does not need to be licensed. However, recent research carried out for the BBC shows that this type of viewing is growing slowly and the number of people not requiring a licence because they consume media in this way remains very low.

The TV Licensing tracker confirmed the BBC's analysis<sup>2</sup> that video on demand viewings (which are not licensable) do not seem to have not grown significantly this year<sup>3</sup>. There remains a risk that new devices or services (such as tablets or IPTV) or special events, such as the Olympics, may increase such usage by increasing the accessibility of or demand for these services.

The BBC is improving the data on non linear TV consumption through additional research with BARB. In 2011/12 the BBC agreed with the Broadcasters' Audience Research Board (BARB) to research data on customers without a TV to assess licensable viewing on PCs. The data will be available in 2012/13 and will increase the accuracy of the measure of TV penetration for the purposes of Licence Fee collection.

The assumption for TV penetration used for Licence Fee sales growth remains at 97.3%<sup>4</sup> until further data from the change to BARB's survey methodology can be assessed.

## Performance for 2011/12

Revenue collection has remained strong despite household growth being lower than budgeted for. Evasion has been maintained at about 5%; a very positive sign considering the growing pressures on household incomes.

In 2011/12 the Licence Fee value remained unchanged and so the additional licences were entirely from the growth in the number of households and managing the rate of evasion.

Gross income in the Trust Statement has increased to £3,244m (2011 £3,242m). Gross income is the value of Licences coming into force in the period. Revocations, deletions and cancellations have fallen to £150m (2011 £158m).

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

	<b>£m</b>
Net revenue for the Consolidated Fund 2010/11	3,101
Increase in value of the Licence Fee	0
Increase in volume from household growth	15
Other changes	(5)
	<u>3,111</u>

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

<sup>2</sup> BBC analysis of iPlayer figures, December 2011. This shows that iPlayer catch-up % of BBC TV minutes over 2011 was stable over time and did not show signs of consistent growth.

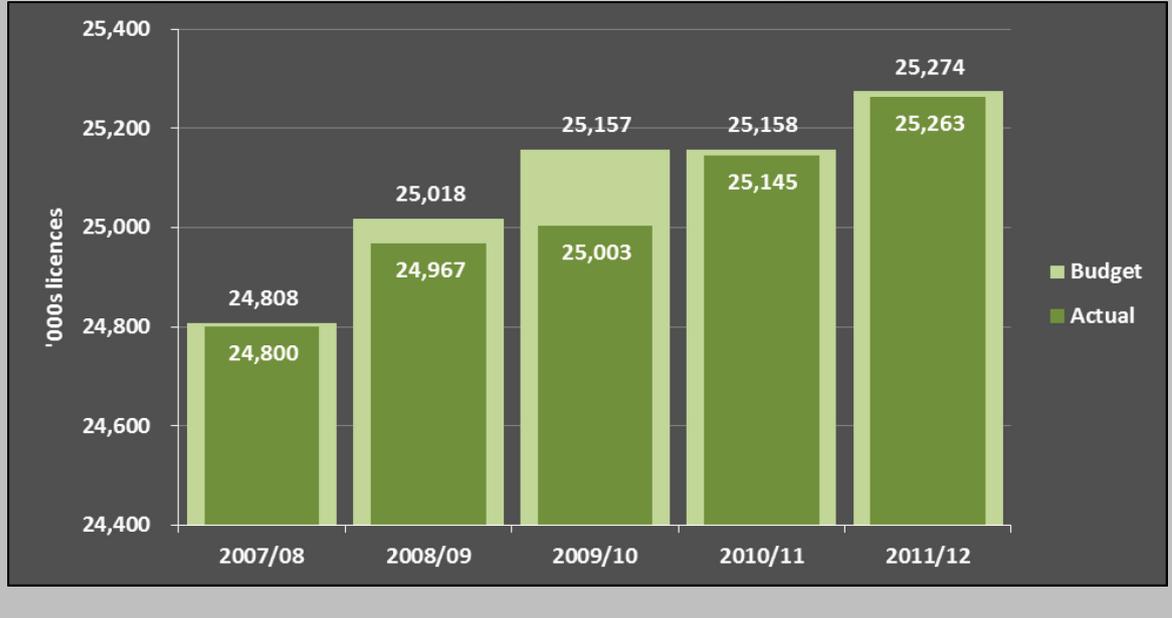
<sup>3</sup> TV Licensing Communications and Attitude Tracking, January 2012, Harris Interactive.

<sup>4</sup> BARB Household survey adjusted upwards by the LFU's estimate of PC-only TV viewing households

## Budgeting and Forecasting

Table 2 shows the budgeted sales against the actual results for the year for the last four years<sup>5</sup>.

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



Sales volumes were very close to budget for the year and represent a growth rate of 0.47%. Sales growth in 2011/12 has come entirely from acquisition of household growth. Evasion and other drivers of sales have remained at the levels experienced in 2010/11.

## Bad Debts, Refunds and Cancellations

The value of deletions has fallen from £158m in 2010/11 to £150m in 2011/12. The reduction has been in debts written off for customers who are removed from schemes with instalment balances outstanding on their Licence.

Significant efforts have been made in the year to contact customers who fall behind in their payments to recover the amounts owed and continue them on the scheme. This means that the value and volume of overall deletions has been reduced even though the value of debts written off is slightly higher than the previous year.

## 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 rate of increase in the supply of housing. The household growth estimate is applied to the latest information for the number of households published by the DCLG. However, it is becoming more difficult to measure household growth because the economic conditions are more difficult to predict, and therefore the BBC is using multiple sources of information to provide the best estimates of household growth.

<sup>5</sup> Licence Fee sales in table 2 include the volumes of Over 75 free licences. 2012- 4,206,000; 2011- 4,156,000; 2010 – 4,088,000; 2009 – 4,000,000; 2008- 3,593.

The Broadcasters' Audience Research Board (BARB) publishes its calculation of the number of households with a television set. The ratio of households with a television set to total households is TV penetration. This ratio is applied to the BBC's estimate of households to provide the number of licensable households.

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

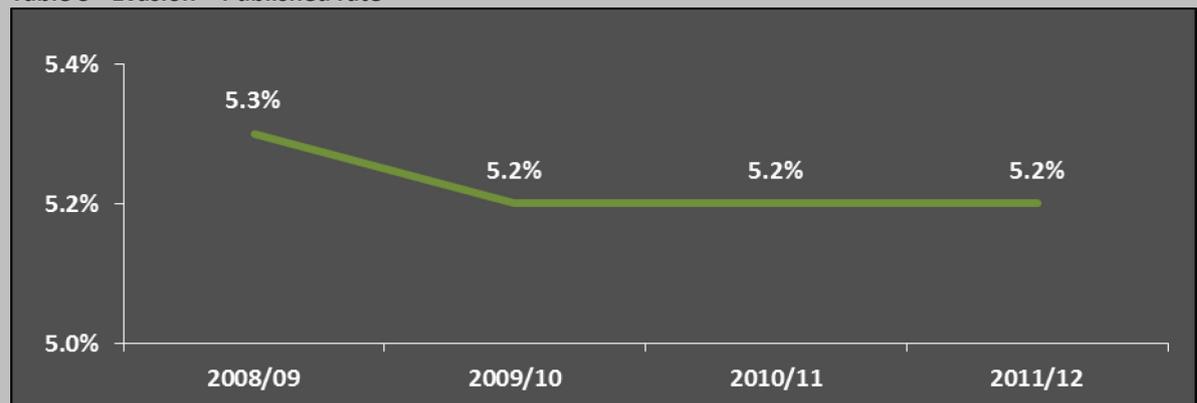
The evasion percentage is reported each year in the BBC's Annual Report and Account. Comparatives in the Annual Report and Accounts have not been changed even though the latest calculation of evasion for that period may be different from that originally reported.

Studies have shown that the evasion percentage is statistically significant to zero decimal places even though the BBC report it to one decimal place in order to show some trend in the rate of evasion. The changes in the rate of evasion after the reporting date are not statistically significant. A change of one decimal place in the rate of evasion is the equivalent of £3.7m revenue.

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

Further progress in managing evasion is expected to come from improvements in the targeting of collection resources enabled by increased use of analytic techniques for deployment of resources.

**Table 3 - Evasion – Published rate**



During 2011/12 the BBC retendered the contracts for the collection of the Licence Fee. After a rigorous retendering process, a new contract was awarded to Capita which will allow the BBC to further improve its collection processes and increase revenue by reducing the level of evasion.

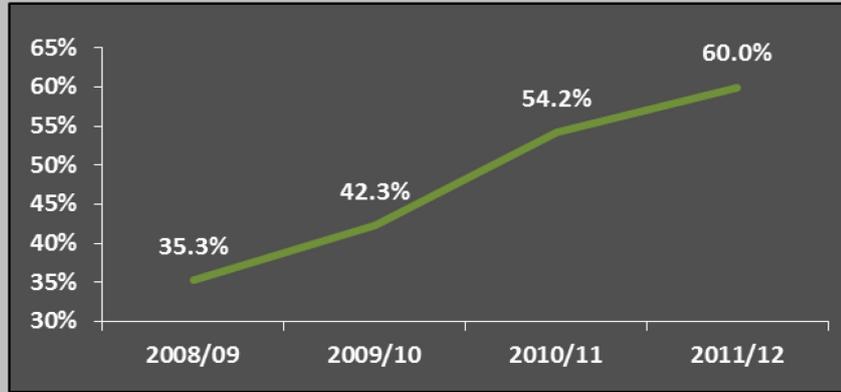
### Self-service transactions

The TV Licensing website has matured to become an invaluable tool for the BBC as both a medium for handling transactions as well as communicating with our customers. Further enhancements were

made throughout the year and in 2011/12 enabled the BBC to collect revenues of c£360m, collecting close to 2.5m licences online, making it one of the biggest sales channel for TV Licensing<sup>6</sup>.

In 2011/12, 60% of all customer initiated transactions were completed through a self-serve channel, exceeding the target of 58%. Whilst the interactive telephony system (IVR) remains an extremely important customer channel, trends indicate a shift towards self service via the website.

**Table 4 - Self-serve transactions**



The TVL website will continue to be developed over the coming year to further improve the experience and convenience for our customers.

### Complaints

The total number of complaints has fallen in 2011/12 to 20,908, a reduction of 13% from 2010/11. The level of complaints to Licences in Force is now 0.08% compared with 0.14% four years ago.

The reduction in complaint volumes has been made across all categories of complaints and this achievement is the culmination of several years of focused effort which started with an audit of complaints commissioned by the BBC in 2007.

**Table 5 – Complaints**



Licence fee collection approaches need to be balanced between effective revenue collection and the need to maintain the public acceptability of the Licence Fee. All operational activities and initiatives are planned and assessed taking into account the impact on reputation and this will continue to be the case under the new service arrangements.

<sup>6</sup> (excluding automatically renewed DD and O75 licences)

## **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 2011/12 the BBC continued to ensure its data, information and systems meet business needs in a secure and compliant environment, which is sufficiently flexible to meet our business objectives.

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

## **Basis for the Preparation of the Trust Statement**

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

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

## **Events after the reporting date**

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

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

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

## **Accounting Judgements and Estimates**

### **Impairment of receivables**

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

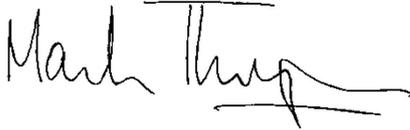
### **Deferred Income**

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 National Audit Office (NAO) have a statutory duty under the Exchequer and Audit Departments Act 1921 and the Accounts Direction from HM Treasury to audit this Trust Statement.

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

A handwritten signature in black ink, appearing to read 'Mark Thompson'. The signature is written in a cursive style with a horizontal line above the 'T' and another below the 'p'.

Mark Thompson  
2 July 2012

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

HM Treasury has appointed the Director General as Accounting Officer of the BBC with overall responsibility for preparing the Trust Statement and for transmitting it to the Comptroller and Auditor General.

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

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

Under section 2(3) of the Exchequer and Audit Departments Act 1921, the Accounting Officer is responsible for the preparation and submission to the Comptroller and Auditor General of a Trust Statement for the BBC for the financial year 2011/12. In conforming with HM Treasury direction (see page 35 of this Trust Statement), the Trust Statement reports the revenue collected and expenditure in respect of Licence Fees administered by the BBC during the year, together with the net amounts surrendered to the Consolidated Fund.

The Trust Statement is prepared on an accruals basis. The Trust Statement must give a true and fair view of the state of affairs of the BBC, including a Statement of Revenue and Expenditure, a Statement of Financial Position, and a Statement of Cash Flows. The Trust Statement includes a Statement on 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:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed and disclose and explain any material departures in the account.

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

# Statement on Corporate Governance

## The Corporate Governance Framework

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

[www.bbc.co.uk/bbctrust/about/how\\_we\\_govern/charter\\_and\\_agreement/](http://www.bbc.co.uk/bbctrust/about/how_we_govern/charter_and_agreement/)

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

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

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

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

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

- The BBC is not a profit-oriented company with shareholders and so provisions relating to interaction with shareholders clearly do not apply.
- As permitted by the Charter, the Chairman of the Executive Board is the Director-General, the chief executive officer of the BBC, this does not comply with the UK Corporate Governance Code. The strategic oversight by the BBC Trust ensures that no single individual has unfettered powers.
- The Executive Board currently comprises 13 directors, of whom seven are executive directors and six are non-executive directors, this complies with the Charter, but not the UK Corporate Governance Code which requires that at least half the board, excluding the chairman, should be independent non-executive directors.
- The Director-General of the BBC, being the Chairman of the Board, has his performance evaluated by the Trust as opposed to the Senior Independent Director, as stated in the UK Corporate Governance Code.

The Executive Board believes that these areas do not compromise the quality of the governance arrangements in place nor the execution of the Executive Board's responsibilities.

The Executive Board usually meets monthly (except for August); summary minutes of 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	Extra-ordinary
<b>Number of meetings for the period</b>	<b>10</b>	<b>5</b>
<b>Director, News Group</b>		
Helen Boaden	9	5
<b>Director, Audio &amp; Music</b>		
Tim Davie	10	4
<b>Director, Vision</b>		
George Entwistle	9	4
<b>Chief Financial Officer</b>		
Zarin Patel	9	5
<b>Director, Future Media</b>		
Ralph Rivera	10	5
<b>Director-General</b>		
Mark Thompson	9	5
<b>Chief Operating Officer</b>		
Caroline Thomson	10	1
<b>Non-executive directors:</b>		
Marcus Agius	10	3
Simon Burke	9	3
Val Gooding	6/7	1/3
Dr Mike Lynch*	7	2
Sally Davis	3/3	2/2
Brian McBride	1/1	0/0
Robert Webb	9/9	4
Dame Fiona Reynolds	3/3	2/2

\* In August 2011 Autonomy Corporation of which Dr Lynch serves as CEO was unexpectedly acquired requiring the presence of Dr Lynch in the US during the integration period.

The most recent evaluation of the effectiveness of the Executive Board, its Committees and its interaction with the Trust took place during 2009. This was conducted by external consultants and included interviews with Executive Board members (both executive and non-executive), an assessment of the governance protocols, and the administrative support to the Executive Board. The report concluded that although direct comparisons or benchmarking with corporate boards was difficult given the unusual governance structure of the BBC, the Board had been assessed as broadly working well according to the most important criteria.

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

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

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

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

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

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

During 2011/12 the EAC has:

- reviewed the effectiveness of the system of internal controls, including those for financial reporting
- considered reports from management on processes for managing significant risks
- reviewed the BBC's group financial statements and the Trust Statement, including accounting policies, compliance with legal and regulatory requirements, and the findings of the external auditors
- approved the work plan of Internal Audit
- reviewed the fraud detection processes and whistle-blowing arrangements
- monitored the implementation actions required as a result of reviews carried out by the National Audit Office

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

The BBC's structure of assurance includes an internal audit and risk management function which combines with Investigation Services to form our Business Assurance function. Internal Audit's authority and independence is assured by the Director of Risk and Assurance's independent and direct access to the Director-General and to the Executive Audit Committee (EAC). Internal Audit regularly tests our control systems and core business processes to ensure they are fit for purpose and consistently applied. The work plan, which takes into account a continuing assessment of key risks, is agreed annually with the EAC and covers financial, operational and compliance controls, including the exercise of the BBC's right of audit over external suppliers including Licence Fee collection service providers. Any significant control failings or weaknesses identified are reported to appropriate levels of management; corrective actions and updates are reported back to the EAC.

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. It also includes performance reviews tracking achievements against strategy.
- processes to ensure compliance with all applicable laws and regulations.
- formal policies and procedures concerning all material business processes, to ensure risks are managed and that timely, relevant and reliable information is available across the business.
- processes to ensure that our staff are professional and competent, such as recruitment policies, performance appraisals and training programmes.

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

## **Risk Assessment**

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

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

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

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

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

The BBC commissions an annual audit at all the organisations which collect customer money. These audits are designed to ensure that the cash which has been transferred to the consolidated fund and the number and value of licences issued are complete and accurate.

Each year KPMG tests and reports on the internal controls over the main databases which record sales of licences.

## **Data and Information Security**

TV Licensing core functions encompass the management and maintenance of its address databases containing 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 are specifically included in contracts with suppliers for the collection of the Licence Fee.

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

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

During the year, the BBC ensured that the processes of monitoring and review of the information management system were in place and working effectively. The information security management

system has now been used by 22 organisations working directly and indirectly for the BBC to collect the Licence Fee.

All staff in the BBC receive training in data protection which is monitored to ensure all staff complete it each year. Our Licence Fee collection suppliers also provide their staff with comprehensive data protection training relevant to their role.

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

### **Fraudulent activity**

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

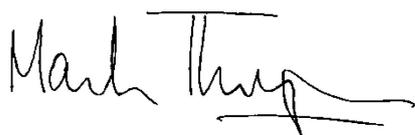
The key suppliers of Licence Fee collection services have fraud policies in place which are reviewed and updated to reflect changes in processes and risks. Instances of fraudulent behaviour by staff are investigated. Most incidents of fraud identified are carried out by members of the public, for example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



Mark Thompson  
2 July 2012

# 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 2012 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 Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and report on the financial statements in accordance with the Exchequer and Audit Departments Act 1921, as amended by the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the 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. 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 reported 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 2012 relating to the collection and settlement of television Licence Fees and of its net revenue for the year then ended; and
- the financial statements has been properly prepared in accordance with the Exchequer and Audit Departments Act 1921, as amended by the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### **Opinion on other matters**

In my opinion:

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

### **Matters on which we are required to report by exception**

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

- adequate accounting records have not been kept or 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 34.

**Amyas CE Morse**  
**Comptroller and Auditor General**

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

5 July 2012

# Financial Statements

## Statement of Revenue and Expenditure for the Year Ended 31 March 2012

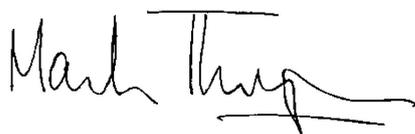
	Note	2012 £m	2011 £m
<b>Income</b>			
Value of Licences	1.3	<b>3,244</b>	3,242
Value of refunds		<b>(72)</b>	(82)
Value of premiums on quarterly direct debit		<b>17</b>	17
Net Revenue		<b>3,189</b>	3,177
<b>Less expenditure</b>			
Bad debt expense	2.2	<b>(78)</b>	(76)
<b>Net Revenue for the Consolidated Fund</b>		<b>3,111</b>	3,101

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

# Statement of Financial Position as at 31 March 2012

	Note	2012 £m	2011 £m
<b>Current Assets</b>			
Receivables	2.1	397	395
Cash held for customers on savings schemes		40	39
Cash held on behalf of the Consolidated Fund		2	34
<b>Total Assets</b>		<b>439</b>	<b>468</b>
<b>Current Liabilities</b>			
Payables	3	(276)	(271)
<b>Total Net Assets</b>		<b>163</b>	<b>197</b>
Represented by:			
<b>Balance on Consolidated Fund Account as at 31 March</b>	4	<b>163</b>	<b>197</b>

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



Mark Thompson  
2 July 2012

# Statement of Cash Flows for the Year Ended 31 March 2012

	Note	2012 £m	2011 £m
Net cash inflow from revenue activities	A below	3,114	3,100
Cash paid to the Consolidated Fund	4	(3,145)	(3,068)
(Decrease) / Increase in cash in the period		<u>(31)</u>	<u>32</u>
<b>Notes to the Cash Flow Statement</b>			
<b>A:</b>			
<b>Reconciliation of Net Cash Flow to Movement in Net Funds</b>			
Net Revenue for the Consolidated Fund		3,111	3,101
Increase in Receivables		(2)	(8)
Increase in Payables		5	7
<b>Net Cash Flow from revenue activities</b>		<u><b>3,114</b></u>	<u><b>3,100</b></u>
<b>B: Analysis of Changes in Net Funds</b>			
(Decrease)/Increase in Cash in this Period		(31)	32
Net Funds at 1st April (Net Cash at Bank)		73	41
<b>Net Funds at 31st March (Closing Balance)</b>		<u><b>42</b></u>	<u><b>73</b></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 account managed by the BBC.

## 1.8 Impairment of Receivables

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

## 1.9 Payables and Deferred Revenue

### 1.9.1 Licence Fee Payables

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

### 1.9.2 Customer savings

Customer savings represents cash collected from customers on savings card or DDI schemes for payment towards their next licence. The cash balance is shown with a corresponding payable as the money is not due to the Consolidated Fund until the customer's licence is due for renewal.

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

### 1.9.3 Deferred Income

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

## 2. Receivables

### 2.1 Amounts due at 31st March 2012

	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
Licence fee Receivables	420	417
Cash in transit	6	7
Total before estimated impairments	<u>426</u>	<u>424</u>
Less estimated impairments	<u>(29)</u>	<u>(29)</u>
	<u><b>397</b></u>	<u><b>395</b></u>

Receivables represent the amount due from licensees where demands for payment have been issued but not paid for at 31 March 2012.

### 2.2 Losses and Write Offs

	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
Balance as at 1 April	29	30
Actual amounts written off in the year	(78)	(77)
Bad debt expense	78	76
Balance as at 31 March	<u><b>29</b></u>	<u><b>29</b></u>

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

### 3. Payables and Deferred Revenue

	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
Licence fee payables	<b>208</b>	201
Customer savings	<b>38</b>	39
Deferred income	<b>30</b>	31
	<b><u>276</u></b>	<b><u>271</u></b>

### 4. Balance on the Consolidated Fund Account

	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
Balance on Consolidated Fund Account at 1 April	<b>197</b>	164
Net Revenue for the Consolidated Fund	<b>3,111</b>	3,101
Less amount paid to the Consolidated Fund	<b>(3,145)</b>	<i>(3,068)</i>
Balance on Consolidated Fund Account at 31 March	<b><u>163</u></b>	<b><u>197</u></b>

### 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.

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

	2012 £m	2011 £m
Licence fee sales contributing to consolidated fund	3,111	3,101
<b>Add</b>		
Over 75 sales	588	580
Adjustment for early renewals	<u>(1)</u>	<u>(2)</u>
BBC Licence Fee Sales in Annual Report and Accounts note 1b	<u>3,698</u>	<u>3,679</u>

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

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

## Summary

### Background

1. The British Broadcasting Corporation (BBC) is responsible for issuing Television (TV) Licences, enforcing the licensing system and collecting Licence Fee revenue which is then surrendered to the Exchequer. In 2011-12, £3.1 billion (2010-11: £3.1 billion) of revenue was collected by the BBC, as reported in the Trust Statement, and £3.1 billion (2010-11: £3.1 billion) was paid over to the Exchequer.
2. Section 2 of the Exchequer and Audit Departments Act 1921 requires me to carry out a review of the systems in place to collect TV Licence Fee revenue payable to the Exchequer and to report my findings to the House of Commons. I am required to ascertain that adequate regulations and procedure have been framed to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are being duly carried out. This report records the outcome of my review and my conclusions as to the adequacy of the systems in place during 2011-12.

### Conclusion

3. Whilst recognising that no collection system can ensure that all those who have a liability comply with their obligations, the work of my staff has confirmed that adequate regulations and procedures have been framed to secure an effective check on the assessment, collection and a proper allocation of revenue and that these regulations and procedures are being duly carried out.
4. This report contains a number of recommendations for the BBC to consider, which may further enhance the processes in place.

## Audit Approach

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

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

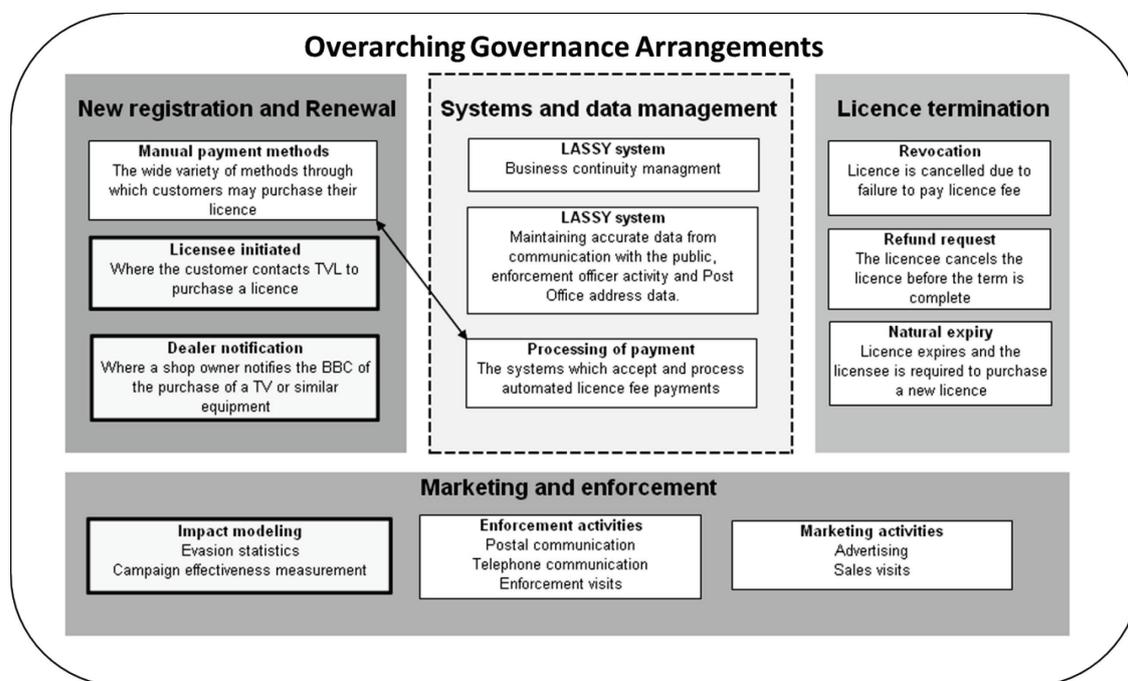


Figure Source: National Audit Office

- My review of systems and data management and other key elements of the Licence Fee lifecycle is primarily undertaken as part of my audit of the BBC Licence Fee Trust Statement (The Trust Statement), where I examine the correctness of the sums brought to account and report the results to the House of Commons. I have issued an unqualified opinion on the Trust Statement and no major controls weaknesses were identified during the 2011-12 financial year. A focussed review of the other elements of the Licence Fee lifecycle will be undertaken on a rolling basis.
- In the first year of review, in 2010-11, I focused on the BBC's Licence Fee evasion model and on how the 'Tax Gap', the difference between the Licence Fee legally due and the Licence Fee received, is estimated and managed by the BBC. I also examined procedures around the licence initiation and the dealer notification process. I have followed up on the recommendations made in 2010-11 at the conclusion of this report.
- In this second year of my review, I have focused on the TV licence termination processes, and how these processes are undertaken and managed by TV Licensing (TVL). I have specifically reviewed the processes around natural expiry and renewal, cancellations, refunds and revocation and the Over 75 Licence Fee concession process. The remainder of this report presents the findings of my review.
- I have decided to defer my review of marketing and enforcement procedures as a result of contractual changes to the outsourced TVL arrangements that have occurred this year. Capita has been reselected as the preferred partner to administer the TV Licensing service (which includes marketing and enforcement activity) for an 8 year term under a revised contract. The

new contract will commence on 1 July 2012. Under the new contract Capita will develop the current service delivery model and make improvements in technology and use of analytics to increase the TV Licensing revenues collected, while also reducing the current servicing costs. Capita will continue to work closely with iQor UK Ltd (iQor) and Computer Sciences Corporation (CSC) with iQor's payment card arrears recovery services being extended to other payment methods, and CSC continuing to manage and modernise the IT systems.

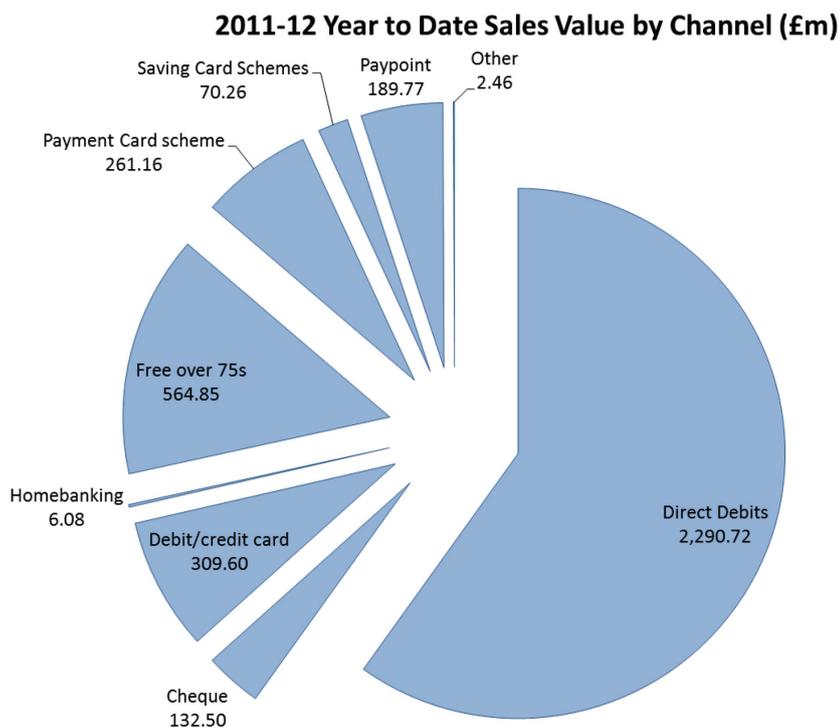
- As a result of this contractual change which impacts on marketing and enforcement, my review has been delayed until the new changes have had sufficient time to be fully implemented. As a consequence, this report will cover termination processes only up to the point of hand over for enforcement activity.

## Licence Termination

### Introduction

- Users of equipment capable of receiving TV transmissions are required by law to pay a TV Licence<sup>7</sup>. To facilitate the payment of the licence, the BBC offers a range of different payment methods. These are shown in Figure 2 below:

**Figure 2 – Sales Value of Transactions by Payment Method**



*Figure source: data from internal BBC monthly performance report*

- The most prevalent payment method is via direct debit. This has a comparatively low cost of collection and a better renewals rate due to the continual direct debit payment process. In total, 130m direct debit payment requests are made per year, of these only 2.1m (1.6%) are returned unpaid. In the past, the BBC has tried to encourage Licence Fee payers to pay by direct debits. However, the BBC's emphasis has now changed to allowing the Licence Fee payer to use

<sup>7</sup> Communications Act 2003 Section 363(1)

a payment method that most suits the customer's situation, thus making it more likely that the customer will continue to pay for their licence.

13. The different payment schemes are operated by different contracted bodies, with most schemes being managed and operated by Capita. The exception to this is the card schemes (including the savings card scheme) which are managed by iQor UK Ltd (iQor), with PayPoint contracted to provide over the counter sales. Under the retendered contract, which will commence in July 2012, Capita and iQor will continue to run the processing operations. The new contract does not affect PayPoint operations.
14. The cost of the licence is currently £145.50, which has been frozen until the end of 2016/17. The BBC is taking advantage of this set period to reduce its mailing costs by issuing four year payment plans instead of on an annual basis. This started in November 2011.

## Natural Expiry and Renewal

### *Direct Debits*

15. The most popular method of direct debit payment is through a monthly direct debit payment plan. This is designed so that customers pay the full cost of their first licence over the first six months and then their subsequent licences over following twelve months. This results in a position where the customer is making six monthly payments in advance of the issue of the next new licence and six payments after its issue. Where the first licence is purchased late then cost will be spread over an even shorter period to get the customer to the six months in advance. The risk of non-payment of a TV Licence is reduced by using this six months in advance payment profile as it gives the TVL six months to get the customer back on to a payment plan if they stop paying.
16. In addition to the monthly direct debit payment plan, there are also the quarterly and annual payment plans. Unlike the annual payment plan, the quarterly payment plan does not require the customer to pay the entire Licence Fee amount in advance. However, this payment plan is subject to an additional £5 annual charge. The charge is spread over the quarters by adding £1.25 to the direct debit payment. Licences issued on the quarterly plan will be cancelled and backdated to the last payment date, if at any point, customers fails to complete the payments in accordance with the quarterly payment plan.
17. The direct debit payments schemes are fully automated with payments being taken automatically from the customer's account and licences and payment plans being automatically renewed and issued by the TVL IT systems on expiry. The direct debit payment process requires a relatively low amount of processing staff intervention compared to the other processes. The TVL systems automatically link payments to the Licence Fee payers' accounts and ensure that all expected payments have been received. Where payments are missed then the customer will be chased, leading to potential enforcement activity.

### *Card Schemes*

18. The BBC also operates a Payment Card Scheme which includes both weekly and monthly plans. The cash scheme was introduced in 1996 to help people on income related state benefit schemes to pay for their licence through cash instalments. This was changed to the Cash Payment Plan which made the cash payment option available to all Licence Fee payers. Customers are issued with a payment card which they then make payments against. Customers can pay by cash, online and by using debit/credit cards. The Payment Card scheme is designed in the same way as the direct debit monthly payment scheme to get the customer to a position where they have paid six months paid in advance.
19. In the same way as the direct debit schemes, the systems automatically issue licences and payment plans. However, the onus is now on the customer to make the required payments.

Where customers fail to do so then the system automatically identifies missed payments and the case is then followed up, leading to potential enforcement activity.

20. In addition, TVL also operates a saving scheme which works by allowing customers to make payments into their account using a savings card. To join customers must have 3 months left on their existing licence. A system generated letter is then issued five weeks before their existing licence expires. If the customer has saved the cost of the licence then the licence will be issued at this point. If they have not saved enough through the card then the letter advises the customer how much they have to pay to meet the cost of the new licence.

### ***Counterfoil payments***

21. Counterfoil payments are one off annual payments paid in advance which include cheque payments, debit/credit cards paid over the phone or through the TVL website, payments made through PayPoint and via home banking where the customer arranges the payment to be paid over to the TVL through their bank.
22. For counterfoil payments, a licence renewal letter is sent out prior to the time of expiry. Where payment is received then a TV Licence is issued automatically. Where no payment is recorded on the system then reminder letters are sent out and the customer may be subject to outbound telephone calls. Should payment continue to be outstanding then the case is passed to enforcement for possible field visits in order to determine whether a licence is required.

### **Conclusion**

23. The process of natural expiry and renewal is fully automated for all methods of payment. The systems automatically identify licences due for expiry and issue payment plans. Where payments are received, they are matched to the Licence Fee payers' accounts and TV Licences are issued. Likewise where payments are not received then systems will issue reminder letters and pass the case to processing staff for follow up action.
24. I have reviewed the way the systems process and report different scenarios associated with the licence life cycle including expiry, renewal, payment matching and non-payment next action and consider that the systems/processes are working adequately to ensure that licences are only issued where valid payment is received and that customers are subject to enforcement activity where payment is not made.

## **Cancellation, Refunds and Revocation**

25. During the course of a licence, situations may occur which cause the licence to be cancelled, where a licence is terminated part way through its life and the expiry date is backdated to reflect the sum paid to date. This may occur where the customer situation changes and they no longer need a licence. This results in the customer informing the TVL and normally includes a request for a refund. In addition, a customer may fail to make a payment for a licence which results in TVL cancelling the licence following attempts to get the customer to recommence payment. During the year there are around 208,700 cancelled licences on direct debit schemes (with a value of £41.9m) and 303,500 cancelled on Payment Card schemes (with a value of £35.9m).

### ***Customer requested cancellations and refunds***

26. A customer who no longer needs a licence will inform TVL that their licence is no longer required. TVL will then cancel the licence, backdating the licence's expiry date and will issue a refund in accordance with the BBC refund policy. Under Section 365(4) of the Communications Act 2003 the BBC is entitled, in such cases as it may determine to make refunds of sums

received by the virtue of the Communications (Television Licensing) Regulation 2004. During the course of the year 257,500 refunds were made with a value of £31.7m.

27. Where a customer makes a declaration that they are no longer using a television receiver the case is passed to marketing and enforcement and customers are visited on a sample basis to confirm that the declaration is valid.
28. Customers will make a claim for refund via one of the communication channels. Where a refund is for no more than a quarter or for a deceased person then no evidence needs to be provided. Otherwise, the customer must submit a refund application and provide appropriate evidence in support of the application. The evidence required to be submitted is stated on the TVL website. In most cases, the refund amount is calculated by the TVL system and automatically processed once initiated by processing staff. However, for more complex refunds these are raised manually. All manually raised refunds are reviewed by a dedicated refund checking team within TVL. Depending on the value of the refund, additional checks will be performed as part of the delegated refund payment approval process.
29. All refund applications must be received within two years of the expiry date of the most recently issued licence against which the refund is being claimed. Where there is an error on the part of TV Licensing, a refund for up to six years may be paid. In all other cases, a refund may be paid for a period of up to two years or a period of up to twelve months where the refund is sought due to loss of signal following digital switchover.
30. The refund policy applies different refund periods depending on the circumstance for which the refund is being requested. Generally, where domestic customers request refunds, these will be paid to the nearest quarter rounded down. The exception to this are customers applying for an over 75 concessionary licence and where TVL has made an error which are refunded to the nearest month. Non-domestic customers applying for refunds for hotel licences are also entitled refunds to the nearest month, although hotel refunds only make up less than one per cent of refund volumes. There are therefore, inconsistencies in treatment between the different licence fee groups as a domestic customer who utilises only a small proportion of their licence will still only be entitled to a refund to the nearest quarter rounded down. Thus it is possible for a domestic customer to pay a full quarter for one day's worth of licence coverage, whereas other groups will only pay to the nearest month. Customers are however, entitled to a full refund for all payments made in advance.

**Recommendation (1): I recommend that the BBC reviews its refunds policy to consider whether it remains appropriate to differentiate between different customer groups whereby refunds to non-concessionary domestic customers are only paid to the nearest quarter rounded down.**

31. For processing the complex refunds, guidance is available to processing staff on sufficiency of evidence that needs to be provided by the customer. We note that in one instance the level of guidance provided to processing staff is more detailed than the advice provided to customers on the TVL website or refund application form, although this is in a rarely available area and the BBC is considering an amendment. Of more relevance however, is that in circumstances where a customer is provided with a lesser refund amount as a result of not providing suitable evidence, the customer is not informed of such when they receive their refund, hence compromising them being able to make a new claim for the full amount.

**Recommendation (2): Where customers have not received the full refund due to insufficient evidence being provided by the customer, I recommend that the customer should be informed of such and advised that if they provide more acceptable evidence that they can reclaim the full refund.**

### ***Non-payment cancellations and Revocations***

32. Where a customer fails to make payments against an issued licence and payment plan then TVL systems will identify all such cases and issue a series of reminder letters and/or pass the case to enforcement teams. The licence will then be cancelled and backdated to the date of last payment and the case passed to TVL's field enforcement teams. All identified evasion is dealt with through the criminal courts. Prior to a licence being cancelled or revoked, the customer is given the opportunity to contact TVL to discuss the situation and/or make necessary payment.
33. Where no money has been received for an issued licence then the licence is revoked. In the instance where no money has been received then the revoked licence is deleted from the system with no sale being recorded. This typically happens where a cheque is returned unfunded by the bank or where a first direct debit is set up but no first payment is taken and where the customer fails to supply new funds. The number of revoked licences per year is around 278,400 with an associated sales value of £40.5m. This does not represent a true loss to the BBC as customers may cease payments without informing TVL that they no longer need a licence. There would only be a loss to the BBC where customers cease to pay for a licence but continue to use their unlicensed TV set. These cases are passed to marketing and enforcement.

### **Conclusion**

34. I have examined the processes associated with cancellations, refunds and revocations that are operated by TVL and have reviewed the way the systems process and report different scenarios associated with the licence life cycle and subject to the recommendations that I have raised, consider that the systems/processes are working adequately.

### **Over 75 Concessionary Licences**

35. Under the Communications (Television Licensing) Regulations 2004 households, in the United Kingdom, Guernsey and Isle of Man, with a member aged over 75 are entitled to a free TV Licence. This is funded in the UK by the Department for Work and Pensions (DWP), and in the Crown Dependencies by their respective governments. Initially, the States of Jersey did not opt to apply this concession to their island; but free licences were later introduced for over 75s provided they received an income under £13,000 for single people or £21,000 for couples. In the Isle of Man, pensioners under 75 who receive income support can also receive free licences. The funding for this is provided by the Isle of Man Department of Social Care. The total sales value of Over 75 Licences recovered by the BBC is around £564.9m per annum to around 3.9m people.
36. To apply for an Over 75 free TV Licence, the licence fee payer only needs to provide their National Insurance Number which the BBC uses to cross-check with DWP records to confirm that they are over 75. DWP supply a list of persons over 74 years old every 6 months. Where no National Insurance Number is provided or cannot be matched then in order to get a free licence the Licence Fee payer needs to provide evidence of their date of birth. Customers are entitled to a free licence for their main residence only and can only have one licence. Where customers apply late for an over 75 concession, they are entitled to a full refund to the nearest month instead of the nearest quarter. The refund process follows the same procedures as outlined above, but with evidence based on the confirmation of age through the checking the National Insurance Number to DWP records or to alternative proof of age.
37. Over 75 concessionary licences which are supported by National Insurance Numbers are automatically renewed each year until BBC is notified of the licence holder's death or until the customer is moved into an Accommodation for Residential Care scheme for which different rules apply. On a monthly basis, DWP provide a list of people over 75 who have been registered as deceased. Where matched, the licence is automatically prevented from being renewed annually by setting the account to non-renewal. The licence is left to run until it expires.

38. The BBC raises awareness of the entitlement to a free licence for customers who are over 75 through a variety of ways. In 2011/12, it delivered briefings to 75 key stakeholder organisations (including Age UK and Citizens Advice) which covered the over 75 concession and published an annual article in the TV Licensing stakeholder newsletter. They also run annual news stories promoting the Over 75 Licence through print and multiple regional radio stations. The main message to individuals is communicated in all reminder and direct debit letters and online on the TV Licensing website. When applying for a licence the interactive communication channels provide the customer with the option to purchase an Over 75 Licence.
39. The process for applying for an over 75 concessionary licence is therefore customer driven and is down to the customer to apply for a free licence providing proof of age in the form of National Insurance Number or with another acceptable alternative.
40. The regulations for concessionary licences are framed in a way that states for persons aged 75 years or more that no fee shall be payable for a TV Licence. Due to the level of sales communication with its customers and also because of the limitations around the data provided by DWP and data matching ability of its IT systems, the BBC does not actively seek to identify customers over the age of 75 who are still paying for a licence. Such individuals are therefore not identified with the view of targeting them with direct sales and marketing to ensure that they are informed of their entitlement of a free Over 75 concessionary licence for their main residence. As this targeted approach is not done, it is possible that there may be customers who are unaware that they are entitled to a free Over 75 Licence and who are continuing to pay for a TV Licence.

**Recommendation (3): I recommend that the BBC undertake an analysis of customers over 75 who have not applied for a free concessionary licence to ascertain whether there are a significant number of customers who are over 75 not claiming their entitlement. Dependent on the results of analysis, a more targeted approach for identifying over 75 who have not applied for a free concessionary licence might be considered.**

## Conclusion

41. I have reviewed the Over 75 concessionary licence processes operated by TVL and have reviewed the IT system processes and reporting associated with the licence life cycle including DWP matching, renewal and refunds and subject to the recommendation that I have raised, consider that the systems/processes are working adequately.

## Follow up on recommendations made in 2010-11 Report to the House of Commons

42. In the first year of my review, I focused on the Tax Gap and specifically on the accuracy of the Licence Fee evasion model used by the BBC to manage evaded Licence Fee revenue. In addition, I looked at the process of short dating whereby the BBC issues a shorter licence to remove the incentive to delay purchasing a licence.

43. I made three recommendations as follows:

### *Evasion Model*

44. My review of the evasion model used by the BBC to estimate the number of households and properties requiring a licence for which one is not present, identified a number of refinements which could be applied to the model to improve its accuracy. I recommended that:
  - a. The BBC should further determine the impact of technology on the requirement for the licence and how best to incorporate this into the evasion model.

- b. The BBC should continue to review the validity of the model's source data and assumptions used, particularly around non-domestic premises.

**Update:**

**I. The BBC has commissioned BARB to ask an additional question on non-TV viewing as part of their establishment survey. However, the data is not ready for this year's evasion calculation.**

**II. Work has been done with external partners and research undertaken to improve data on non-domestic properties for volume and penetration rates and these have been updated in the model. In addition, census data has been used to update the number of households on the Channel Islands and the Isle of Man, while research has been carried out to improve the calculation of the number of households in the UK.**

***Short Dating***

- 45. Where a Licence Fee payer has delayed purchasing a new licence then the expiry date should be set so that the licence period reflects the actual period of TV usage. Amending the licence expiry date to reflect the period of usage is called shorting dating. We noted that an explicit question was not asked of customers, either online or as part of telephone applications, as to when they needed the licence to start from. We therefore recommended that:

- III. The BBC should consider whether the introduction of an explicit question as to the date of requirement for a licence in both the online and telephone application process, would increase revenue through identifying the requirement to short date a licence.

**Update: Under the new contractual arrangements, which includes IT system development, the BBC has included a requirement for the short dating question to be included in the transition plan for the new contract. Changes in this area will not be made until 2013.**

**Amyas CE Morse**

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5 July 2012

# 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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