



British Broadcasting Corporation

**Television Licence Fee Trust Statement for the
Year Ending 31 March 2013**

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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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Table of Contents

FOREWORD BY THE DIRECTOR GENERAL	2
ANNUAL REPORT	3
Management Commentary	3
Statement of the Accounting Officer's Responsibilities in Respect of the Trust Statement	11
Statement on Corporate Governance	12
AUDIT REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS	18
FINANCIAL STATEMENTS	20
Statement of Revenue and Expenditure for the Year Ended 31 March 2013	20
Statement of Financial Position as at 31 March 2013	21
Statement of Cash Flows for the Year Ended 31 March 2013	22
Notes to the Trust Statement	23
Annex 1 – Reconciliation to the BBC's Main Annual Report Licence Fee Sales	26
THE COMPTROLLER AND AUDITOR GENERAL'S REPORT TO THE HOUSE OF COMMONS	27
ACCOUNTS DIRECTION GIVEN BY HM TREASURY	39

Foreword by the Director General

We recognise that pressures in the economy have made 2012/13 a difficult year for Licence Fee payers with some people finding it hard to find the money to pay and we are grateful that people are continuing to make buying their TV Licence a priority.

The BBC's Licence Fee collection performance in 2012/13 reflects the difficult economic conditions. Household growth, a major contributor to overall Licence Fee revenue growth, has also remained lower than the period before the economic downturn. In 2012/13 overall Licence Fee revenue was increased by £8m, including Over 75 licences. The revenue to the consolidated fund, which does not include Over 75 licences, decreased by £2m to £3,109m.

Even within this challenging climate, the BBC has kept the level of evasion steady at around 5% while continuing to improve the public's perception of the value of the Licence Fee as illustrated by a 1% increase in TV Licensing's reputation index. The number of complaints also fell by 2.5%, building on the 40% reduction achieved over the previous three years.

New contract arrangements with suppliers started this year which has delivered new capabilities for our collection processes. These capabilities are expected to deliver reductions in evasion over the next few years. At the same time, the new arrangements will further develop the services to improve the convenience and experience for 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 2013.

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 new 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 service start date for the new contract with Capita Business Services was July 2013. The new contract replaces the arrangements in place with iQor UK Ltd to deliver the cash schemes and the previous contract with Capita. The contract provides incentives to increase net revenue to the BBC through reduced evasion and lower collection costs as well as improving the reputation of TV Licensing and maintaining the reliability of the services.

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 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.

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 and Business 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

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

Household growth

Household growth for 2012/13 has been estimated at 0.5%. There has been no increase in the rate for three years. Analysis of the activity in planning and house building indicates that the rate of household growth is not likely to increase significantly over the next two years.

The estimated level of household growth has been verified by comparison to the results of the census in 2011. The number of households predicted by the BBC model is within 0.1% of the number calculated from the census data.

The outlook for household growth will depend on the recovery of the wider economy. There is demand for new housing, but the relative stagnation in the construction industry and the housing market is only likely to be resolved as lending to house builders and individuals becomes more freely available.

Household incomes

Real household incomes are at the same level as 2003. Although incomes have started to rise more rapidly than inflation in the latter part of 2012 and into 2013, there is a risk that inflation will outstrip increases in household incomes, pushing down real incomes further. Unemployment has been decreasing slowly, but evidence shows that people are being paid for fewer hours than in previous years, decreasing their income, but not becoming unemployed.

The TV Licensing tracker¹ shows a steady increase in the number of delayer and evader respondents, from 60% to 68% 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.

¹ TV Licensing Communications and Attitude Tracking, January 2013. The tracker has been in place for just over 5 years and is conducted by Harris Interactive.

Evasion has been held steady at around 5% during 2012/13 despite the pressures from the collection environment. 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.

Media Consumption

Audiences are embracing new devices to enhance their viewing experiences with particular growth in tablets. For the majority of households these new 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.

BARB is now providing data on households using non-TV devices to watch television and this data is combined by the BBC with the BARB estimate of TV households to give an overall percentage of households requiring a licence. This has increased the accuracy of the measure of TV penetration for the purposes of Licence Fee collection.

The most recently published estimate of TV households from BARB shows a fall in the TV penetration rate to 96.1%, from 96.6% at the same point in the previous year. However, including data on households using non-TV devices brings the overall estimate to 97.4% which represents a much smaller year on year change (less than 0.1%).

Performance for 2012/13

Revenue collection has remained strong although growth did not quite keep pace with the estimated rate of household growth. Evasion has been maintained at about 5%; a positive sign considering the growing pressures on household incomes.

Gross income in the Trust Statement has decreased to £3,243m (2012 £3,244m). Gross income is the value of Licences coming into force in the period excluding free Over 75 Licences. Revocations, deletions and cancellations have risen slightly to £151m (2012 £150m). Net revenue for the consolidated fund, made up of the gross revenue and deletions plus £17m of premiums on quarterly direct debit has decreased to £3,109 (2012 £3,111).

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

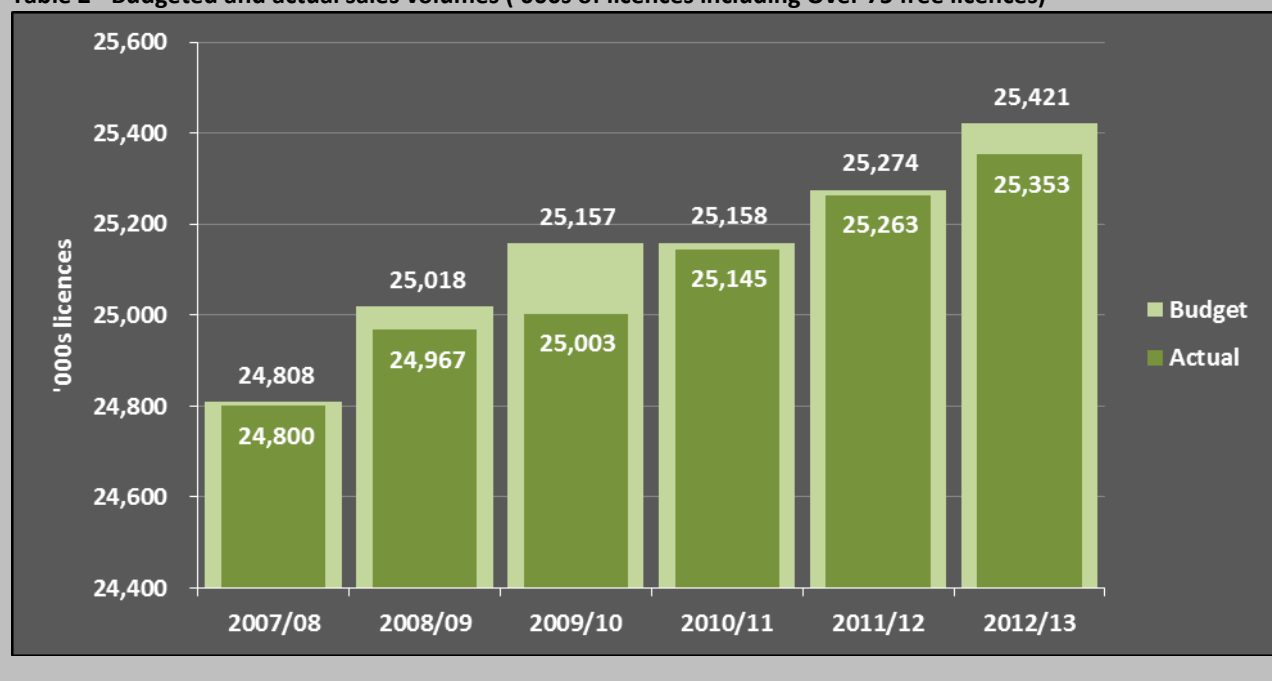
	£m
Net revenue for the Consolidated Fund 2011/12	3,111
Increase in value of the Licence Fee	0
Increase in volume from household growth	16
Other changes	(18)
	<u>3,109</u>

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 six years².

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



Sales volumes for the year were less than budget because the reduction in evasion in the budget was not realised. The result represents a growth rate of 0.36%, marginally below the estimated household growth rate of 0.5%. Sales growth in 2012/13 has come entirely from acquisition of household growth.

Bad Debts, Refunds and Cancellations

The value of deletions has risen slightly to £151m (2012, £150m). There has been an increase in debts written off for customers who are removed from schemes with instalment balances outstanding on their Licence, but this has been offset by reductions in refunds and other cancellations of licences.

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

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.

² Licence Fee sales in table 2 include the volumes of Over 75 free licences. 2013- 4,251,000 2012- 4,206,000 2011- 4,156,000; 2010 – 4,088,000; 2009 – 4,000,000; 2008- 3,593,000.

The BBC makes its own estimate of household growth taking into account estimates published by the Department for Communities and Local Government (DCLG) and prevailing economic conditions such as the increase in the supply of housing. The household growth estimate is applied to the latest information for the number of households published by the DCLG. However, it is becoming more difficult to measure household growth because the economic conditions are more difficult to predict, and therefore the BBC is using multiple sources of information to provide the best estimates of household growth.

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 are made for the number of households which do not have a television set, but still require a licence because they are watching live broadcasts on other licensable devices. This ratio is applied to the BBC's estimate of households to provide the number of licensable households.

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.

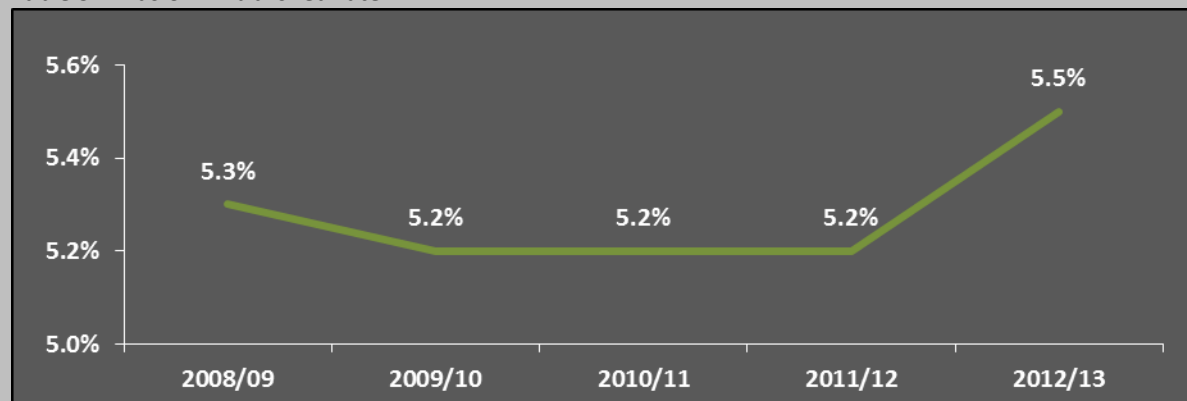
The evasion percentage is reported each year in the BBC's Annual Report and Account. Comparatives in the Annual Report and Accounts have not been changed even though the latest calculation of evasion for that period may be different from that originally reported.

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 increased marginally to 5.5% in 2012/13. 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.

Whilst the new contract arrangements did not produce a reduction in evasion in 2012/13, 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

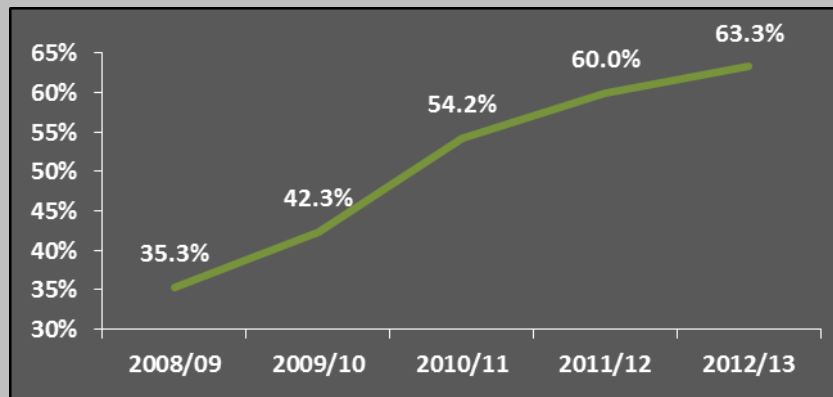


Self-service transactions

The TV Licensing website has continued to grow through 2012/13, delivering 10% more sales than in 2011/12. It has become an invaluable tool for the BBC as both a medium for handling transactions and for communicating with our customers with over five million transactions completed online in 2012/13.

In 2012/13, 63.3% of all customer initiated transactions were completed through a self-serve channel. 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



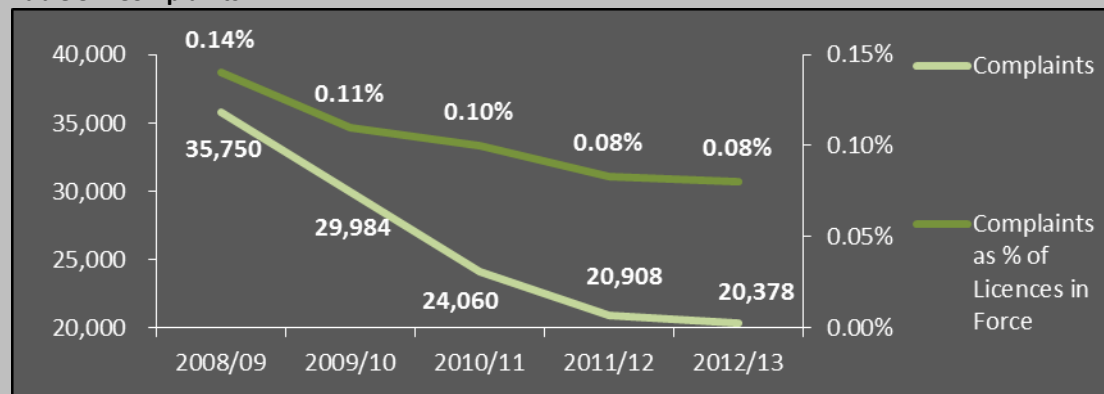
The TVL website will continue to be developed over the coming year to further improve the experience and convenience for our customers.

Complaints

The total number of complaints has fallen in 2012/13 to 20,378. The level of complaints to Licences in Force is now stable at 0.08% compared with 0.14% five years ago.

Complaints will continue to be monitored to ensure that complaints do not rise above 0.08% of Licences in Force.

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.

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 2012/13 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.

A handwritten signature in black ink, appearing to read 'Anthony Hall', written in a cursive style.

Anthony Hall
Lord Hall of Birkenhead
21st June 2013

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 2012/13. In conforming with the Accounts Direction issued by HM Treasury (see page 39 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*.

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/

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

The Charter requires the Executive Board to have regard to generally accepted principles of good corporate governance. 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 (FReM) and the Corporate Governance Code for Departments.

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

- The BBC is not a profit-oriented company with shareholders and so provisions relating to interaction with shareholders clearly do not apply.
- As permitted by the Charter, the Chairman of the Executive Board is the Director-General, the chief executive officer of the BBC, this does not comply with the UK Corporate Governance Code. The strategic oversight by the BBC Trust ensures that no single individual has unfettered powers.
- At 31 March 2013, the Executive Board comprised 11 directors, of whom seven are executive directors and four 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.

Non-compliance with a further provision of the UK Corporate Governance Code has arisen during the year, with the last external evaluation of the board being completed in 2009. As noted below, there have been a number of changes to the Board during the course of the year which has meant it has not been practical to carry out an external evaluation. Following an internal review, a number of changes have been made, however, with the aim of improving governance.

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/>

Board structure during 2012/13

There have been a number of changes to Board membership during the year in terms of chairmanship, non-executive representation and acting directorships. The unusual appointment of two Director Generals in the year, as well as an Acting Director General for a period also resulted in a number of acting positions on the Board. Apart from one particular instance when the individual stepped in for a short period, and at short notice, in all cases the appropriate governance procedures were followed, with the Director General appointments being ratified by the Trust and the terms for the acting and permanent positions being approved by the Executive Remuneration and Nominations Committees as appropriate. Appointments were made in as timely a manner as was practicable and there were no significant periods where a role was not filled by either a permanent or acting director. All acting positions (including that of the Acting Director General, who was already a member of the Executive Board) were appointed from within the organisation thereby mitigating risk, ensuring continuity and retention of existing knowledge. The new Senior Independent Director was also drawn from within the existing non-executive membership. Executive Board meetings continued with formal agendas as normal and additional meetings were convened as and when required to handle extraordinary business. Close interaction with the Trust Unit and Trustees continued throughout the year, as appropriate.

Table 1 – Attendance of directors at the Executive Board

	Executive Board	
	Ordinary	Extra-ordinary
Number of meetings for the period	15	4
Lucy Adams*	9/10	1/2
Helen Boaden**	11	2
Tim Davie	15	4
Graham Ellis	8/8	0/0
George Entwistle	7/7	3
Roger Mosey	10/11	2/2
Zarin Patel	14	3
James Purnell***	0/0	0/0
Ralph Rivera	13/13	4
Mark Thompson	5/5	2/2
Caroline Thomson	5/5	2/2
Non-executive directors:		
Marcus Agius	7/8	2
Simon Burke	13	4
Mike Lynch	8/9	2
Sally Davis	13	2
Brian McBride	11	2
Fiona Reynolds	13	4

* Lucy Adams rejoined the Board in September 2012

** Helen Boaden stepped aside from the Board for a short period between November and December 2012. Fran Unsworth was Acting Director, News during this period.

*** James Purnell joined the Board part way through March 2013

During 2012/13 a number of conference calls and extraordinary meetings were convened at short notice or included content that prevented some members from attending.

There were three Director Generals in the year 2012/13: Mark Thompson stepped down from the post on 16th September 2012 after serving for eight years in the role, George Entwistle was Director General from 17th September until 10th November 2012 and Tim Davie was the Acting Director General from 11th November 2012 until 1st April 2013. Tony Hall was appointed by the Trust as Director General on 22nd November 2012 and started in the role on 2nd April 2013, outside of the period of this annual review, and so does not appear in the table above.

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 2012/13 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. 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 new contract with Capita Business Services Ltd. There are schedules to the contract which relate to the internal controls over the management of funds collected and to the governance of the collection operations and the contract management.

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

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 and information security 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 over 40 organisations working directly and indirectly for the BBC to collect the Licence Fee.

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

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

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

Fraudulent activity

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.



Anthony Hall
Lord Hall of Birkenhead
21st June 2013

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 2013 under the Exchequer and Audit Departments Act 1921. 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. 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 2013 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 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 27 to 38.

Amyas C E Morse
Comptroller and Auditor General

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

28th June 2013

Financial Statements

Statement of Revenue and Expenditure for the Year Ended 31 March 2013

	Note	2013 £m	2012 £m
Income			
Value of Licences	1.3	3,243	3,244
Value of refunds		(70)	(72)
Value of premiums on quarterly direct debit		17	17
Net Revenue		<u>3,190</u>	<u>3,189</u>
Less expenditure			
Bad debt expense	2.2	(81)	(78)
Net Revenue for the Consolidated Fund		<u><u>3,109</u></u>	<u><u>3,111</u></u>

There were no recognised gains or losses accounted for outside the above Statement of Revenue and Expenditure. The notes at pages 23 to 25 form part of this statement.

Statement of Financial Position as at 31 March 2013

	Note	2013 £m	2012 £m
Current Assets			
Receivables	2.1	396	397
Cash held for customers on savings schemes		32	40
Cash held on behalf of the Consolidated Fund		-	2
Total Assets		428	439
Current Liabilities			
Payables	3	(278)	(276)
Net Assets		150	163
Represented by:			
Balance on Consolidated Fund Account as at 31 March	4	150	163

The notes at pages 23 to 25 form part of this statement



Anthony Hall
Lord Hall of Birkenhead
21st June 2013

Statement of Cash Flows for the Year Ended 31 March 2013

	Note	2013 £m	2012 £m
Net cash inflow from revenue activities	A below	3,112	3,114
Cash paid to the Consolidated Fund	4	(3,122)	(3,145)
(Decrease) / Increase in cash in the period		<u>(10)</u>	<u>(31)</u>

Notes to the Cash Flow Statement

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

Net Revenue for the Consolidated Fund	3,109	3,111
Decrease / (Increase) in Receivables	1	(2)
Increase in Payables	2	5
Net Cash Flow from revenue activities	<u>3,112</u>	<u>3,114</u>

B: Analysis of Changes in Net Funds

Decrease in Cash in this Period	(10)	(31)
Net Funds at 1st April (Net Cash at Bank)	42	73
Net Funds at 31st March (Closing Balance)	<u>32</u>	<u>42</u>

The notes on pages 23 to 25 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 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 direct Debit instalment saving (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. 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 2013

	2013	2012
	£m	£m
Licence fee Receivables	425	420
Cash in transit	<u>1</u>	<u>6</u>
Total before estimated impairments	426	426
Less estimated impairments	<u>(30)</u>	<u>(29)</u>
	<u>396</u>	<u>397</u>

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

2.2 Losses and Write Offs

	2013	2012
	£m	£m
Balance as at 1 April	29	29
Actual amounts written off in the year	(80)	(78)
Bad debt expense	<u>81</u>	<u>78</u>
Balance as at 31 March	<u>30</u>	<u>29</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

	2013	2012
	£m	£m
Licence fee payables	215	208
Customer savings	33	38
Deferred income	30	30
	<u>278</u>	<u>276</u>

4. Balance on the Consolidated Fund Account

	2013	2012
	£m	£m
Balance on Consolidated Fund Account at 1 April	163	197
Net Revenue for the Consolidated Fund	3,109	3,111
Less amount paid to the Consolidated Fund	<u>(3,122)</u>	<u>(3,145)</u>
Balance on Consolidated Fund Account at 31 March	<u>150</u>	<u>163</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.

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

	2013 £m	2012 £m
Licence fee sales contributing to consolidated fund	3,109	3,111
Add		
Over 75 sales	597	588
Adjustment for early renewals	-	(1)
	<hr/>	<hr/>
BBC Licence Fee Sales in Annual Report and Accounts note A2	3,706	3,698
	<hr/>	<hr/>

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 2012-13, £3.1 billion (2011-12: £3.1 billion) of revenue was collected by the BBC, as reported in the Trust Statement, and £3.1 billion (2011-12: £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 2012-13.

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 follow-up on recommendations previously made 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

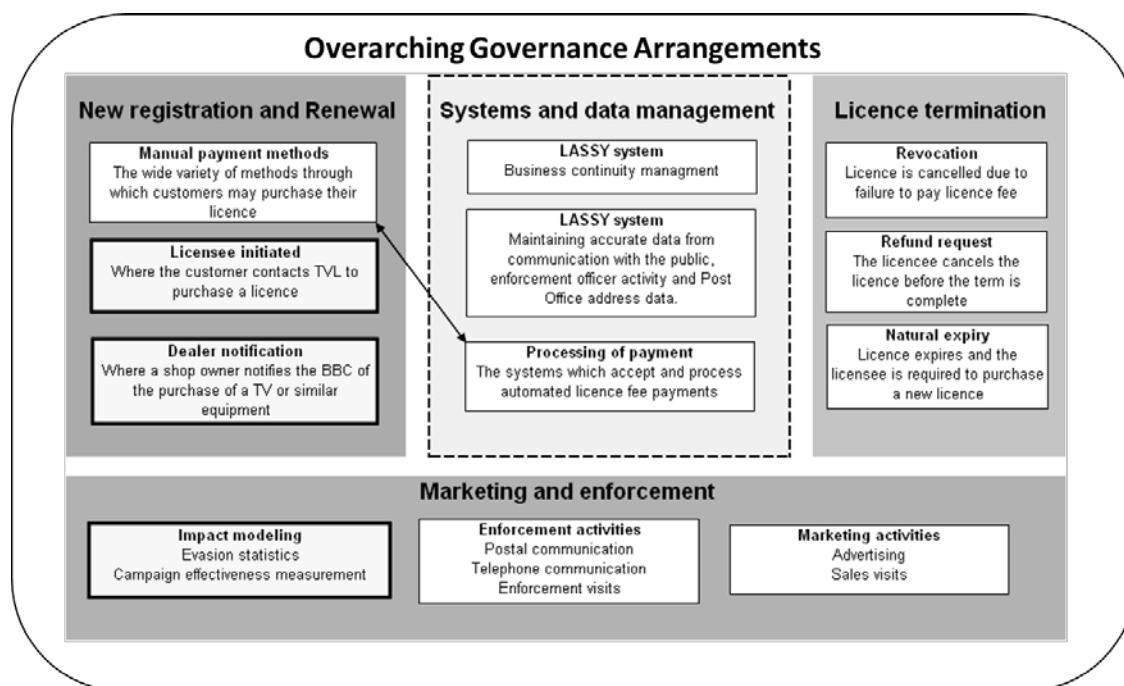


Figure Source: National Audit Office

- 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 2012-13 financial year. A focused 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. In the second year of my review, I focused on the TV licence termination processes, and how these processes are undertaken and managed. I specifically reviewed the processes around natural expiry and renewal, cancellations, refunds and revocation and the over 75 licence fee concession process. I have followed up on the recommendations made in both years at the end of this report.
- During 2011-12 the main service contract for TV Licensing outsourced arrangements was retendered and awarded to Capita Business Services Ltd (Capita) as the preferred partner to administer the TV Licensing service. The new contract was signed in December 2011, with service commencing on 1 July 2012. Under the new contract, Capita is expected to develop the current service delivery model to make improvements in technology and the use of analytics (i.e. using data analysis and predictive modelling to inform decisions) to increase the TV Licensing revenues collected, while also reducing the current servicing costs.

9. To reflect this contractual change, this year's report provides a landscape review of the new contract and the overarching governance put in place by the BBC to oversee these new contractual arrangements and to manage the risks associated with these changes.
10. My review of marketing and enforcement procedures, originally due to be carried out this year, has been deferred to next year to allow the effects of the contractual changes to be fully implemented. Subsequent reports will seek to assess the effectiveness of the new contract and associated governance structures generally.

TV Licensing Service Contractual Arrangements

Introduction

11. Organisations outsource business functions for a number of reasons, including the aim of carrying out activities in the most cost-effective manner. The BBC has outsourced the collection of the licence fee to numerous organisations operating together under the brand of TV Licensing since taking over responsibility for the licence fee from the Home Office in 1991. The main contract for administration, collection and enforcement was most recently held by Capita Business Services Ltd (Capita), with a separate contract held by iQor UK Ltd (iQor) for the administration of cash schemes and specialist collection services. With the Capita contract approaching its natural expiry in 2012, the BBC took the opportunity to reconsider their requirements and consolidate them into a core set of services.
12. The BBC additionally has contracts with Proximity London Ltd for marketing and printing services, and PayPoint plc (in the United Kingdom) and the Post Offices (in the Channel Islands and Isle of Man) for over-the-counter payment services. These arrangements did not form part of the retendering and are unaffected, although the new core services contract expects the provider to enter into co-operative agreements with these other parties.
13. The main aims of the retendering were fourfold: to reduce costs to the BBC; to improve collection; to improve the public's acceptance of the licence fee; and to and maintain the service during the changeover. These are reflected in the evaluation criteria against which the tender proposals were assessed. Prospective bidders were also required to meet certain minimum economic and financial requirements to ensure the successful tenderer has the operational capacity to provide the service .
14. The contract was awarded to Capita on 5 December 2011 and came into force on 1 July 2012. It runs for an initial term of 8 years, with an option to extend for up to 7 more years. It also contains break options in the event of fundamental changes to the licence fee, the BBC's responsibilities or its funding arrangements. One such break point is when the current BBC Charter falls due for renewal at the end of 2016.
15. The overall value of the contract over its maximum duration of 15 years is expected to be in the region of £1.10bn - £1.55bn.

Changes to Service Delivery

16. The main services to be provided under the new contract are: customer services including the call centres and TV Licensing website; payment processing and licence management; collection of arrears; and enforcement including detection and premises visiting. Capita is also obliged to operate and maintain the underpinning technology, although the intellectual property remains with the BBC. In addition, the new contract provides for greater use of data and analytics to improve the way different customer groups are treated and this is discussed further below.
17. The BBC's key aim for the new arrangements is to maximise licence fee revenue whilst reducing the cost of collection. The contract reflects this in the revised basis on which Capita is paid. Under the previous Capita contract, the payment formula was based on a combination of TV Licence sales and cash receipts, despite the fact that not every sale necessarily resulted in cash being received (for example, if a licence is purchased and issued but the payment is dishonoured). Conversely, the previous iQor contract (from 2008) was cash-based, whereby iQor was paid solely on the basis of cash collected. The BBC recognised the additional incentive that this provided and the cash basis was carried forward into the new arrangement. However, there are contractual safeguards to ensure that customers are not pursued inappropriately, and the new contract contains performance measures for improving the accuracy and quality of data held in the main TV Licensing database and reducing customer complaints.
18. Under the new arrangements the BBC has a single contract with Capita, which is responsible for ensuring that the services are provided as specified in the contract. It is entitled to appoint subcontractors, but retains responsibility for their management, so reducing the BBC's own need to manage contractual interdependencies. Capita's subcontractors have no direct contractual relationship with the BBC, although the BBC reserves the right to require Capita to replace a non-performing subcontractor. The key subcontractors are Computer Sciences Corporation (CSC) for the provision, hosting and modernisation of the IT infrastructure, and iQor for collection and arrears services, although Capita has since acquired the UK operations of iQor with effect from 1 March 2013. The contract also provides for other subcontractors to be used, with the approval of the BBC, and they are used in a number of specialist areas.
19. An important development under the new contract is the greater use of data analytics (the use of data analysis and predictive modelling to inform decisions) and segmentation to support enforcement activities and to encourage customers to pay by the method which is most appropriate to their circumstances. Customers are divided into different groups based on their past payment history and different approaches are adopted for each group. The BBC is mindful of the need to balance fee collection arrangements against maintaining the public acceptability of the licence fee. This means, for example, that 'willing strugglers' can expect to be treated differently from repeat offenders and 'wilful evaders'. This approach is similar to that adopted by other organisations such as HM Revenue & Customs and accords with good practice - a more tailored approach to dealing with different customer groups promotes more equitable treatment overall .
20. The new contract is designed to increase revenue collection whilst reducing costs to the BBC. While Capita is paid on the simple measure of a percentage of the licence fee actually collected, it is incentivised to recover a higher proportion of licence fee revenue through reducing evasion by rewarding the collection of amounts which are more difficult to secure with a higher payment percentage. There is also a profit sharing arrangement with the BBC if Capita's revenue collection performance exceeds a defined threshold.
21. The change in the basis of payment from sales of new licences to cash collected aligns Capita's basis of funding to the BBC's own. The contract sets an income baseline for Capita with fee rates adjusted annually to reflect the household growth rate, the TV penetration rate (i.e. the ratio of households who watch television to total households), and changes in the licence fee itself.

22. The BBC makes its own estimate of household growth based on data supplied by the Department for Communities and Local Government and from other sources, such as house building activity in the construction sector. The BBC is aware that if the assumptions used are incorrect then growth may be overstated, leading to unrealistic targets. Growth data is therefore reviewed regularly and is used to inform the setting of the following year's annual baseline adjustment factor, although there is no contractual provision for the current year's factor to be recalculated once it has been agreed. The TV penetration rate is currently estimated by the Broadcasters' Audience Review Board (BARB). It has recently been extended to include measurement of online viewing and is estimated to be 97.4%. The contract allows for the methodology to be changed over time, and the BBC will share it with Capita and commission external audits to review it periodically.
23. In order to give effect to the incentive to collect an increased proportion of licence fee revenue, the contract specifies different fee rates for different levels of income above the agreed baseline. The rates progressively increase to reflect the difficulty of collection, so that the fee for the highest band is considerably greater than for the baseline band. This is consistent with the recommendations of the BBC Trust in their 2009 Review of TV Licence Collection, which stated: "whilst we welcome the BBC Executive's efforts to reduce the costs of collection, we recommend that the BBC re-evaluates its efforts to place more emphasis on targeted enforcement even if there is a modest additional cost attached." This incentive to pursue is underpinned by a contractual obligation for all postcode areas to be covered by enforcement activity.

Longer Term Service Improvement Plans

24. The BBC envisaged that the retendering exercise would result in customer service enhancements as well as improving the efficiency of operations. Some developments, such as introducing a wider range of self-service options and payment methods, contribute towards both of these aims. The period from the commencement of the contract up to 30 December 2015 is defined as a transition period. During this time, Capita is expected to make such changes as are necessary to implement the Target Operating Model, the outline plan for streamlining and developing the TV Licensing service as per the proposals in their tender response documentation. The Target Operating Model envisages changes in respect of people, processes and technology and the main developments are outlined in the following paragraphs.
25. Capita is contractually obliged to make such systems changes and developments as are necessary to achieve the Target Operating Model referred to above. Thereafter, the technology must be maintained to ensure it effectively supports all business requirements, and remains current and fit for purpose. Capita is required to maintain and implement a technology refresh strategy to achieve this. There are also contractual provisions designed to ensure that the technology can support agile change methods, and the BBC is not committed to increased costs or measures which may adversely affect the IT's transferability.
26. The new contract includes a technology replacement programme over a four year period as part of the transition phase. This encompasses replacement of LASSY (Licence Administration and Support System), the main TV licensing database, and greater integration with other systems to support the development of analytics capability referred to above. The overarching aim is to achieve and maintain an up-to-date database of all locations which potentially require a TV licence, and understand the true situation and history of customers so that the content and tone of communications is the most appropriate for the individual circumstances.

27. Thereafter, the service will settle into a state of continuous improvement. This is a business philosophy whose essence is the identification and implementation ways of delivering the service more efficiently and being agile in reacting to opportunities and changes in the external environment. Such changes could include developments in technology, viewing behaviour, household growth and the economic situation, as well events with a potentially more direct impact on the BBC such as the forthcoming General Election in 2015 and the Charter renewal in 2016. Continuous improvement may encompass small scale and incremental improvements as well as larger scale developments. The new contract sets the expectation that these will be articulated in a Continuous Improvement Plan.
28. The timescales and proposed main developments are illustrated diagrammatically in Figure 2 below.

Figure 2 - Timeline of transition and service improvements

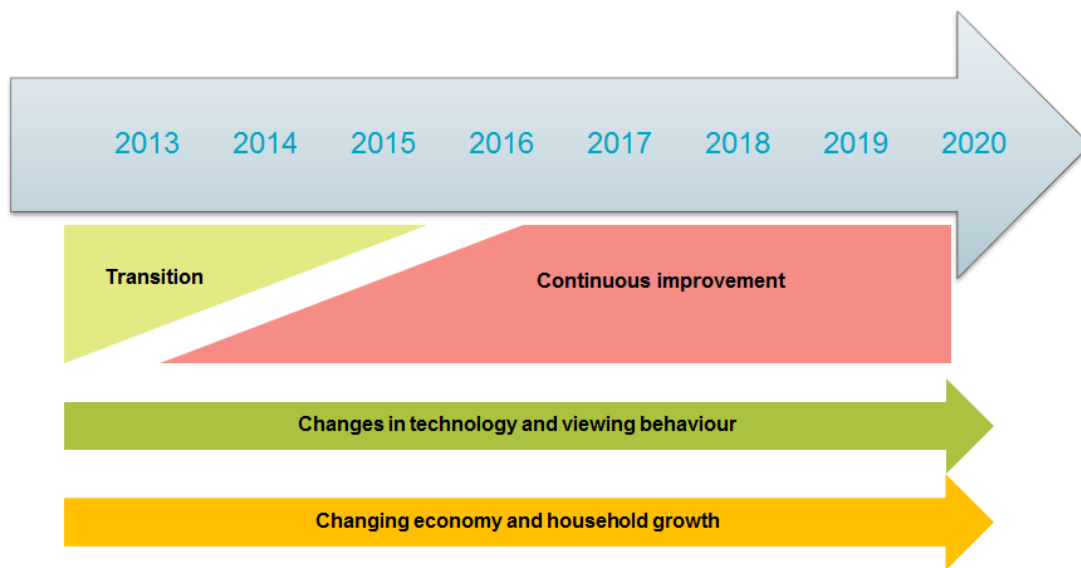


Figure Source: BBC

29. Changes to service delivery are being made in respect of operating locations, use of data and analytics to segment customers into different groups, and enforcement activities.
30. Capita has undertaken some aspects of TV Licensing administration from locations outside the United Kingdom since 2004, and has progressively increased the amount of work processed overseas each year. Further opportunities have been identified to continue this trend in ways which Capita believes will increase the efficiency of operations without having a detrimental impact on customer service. Capita also monitors the quality of the work and complaints which are attributable to overseas locations so that quality can be monitored and compared to UK based operations. No TV Licensing call centre operations are currently located overseas. The BBC's permission is required before work can be transferred to a different location, so Capita could not make a unilateral decision to relocate the call centres offshore.

31. Under the new contract, Capita has started to make greater use of data in order to identify and predict the behaviour patterns of different customer groups according to risk and previous history. This information is being used to refine the targeting of collection interventions so as to avert, as far as possible, the possibility of customer default and increase the likelihood of recovery. Rather than adopting a 'one size fits all' approach to enforcement, the aim is to recognise different personal situations and adapt the approach to customer contact accordingly. For example, a customer on a cash scheme who has fallen behind with payments but continues to exhibit a paying behaviour is likely to be placed in a group which is offered the ability to continue making payments to settle their arrears, as an alternative to having their licence revoked. On the other hand, a direct debit customer who has failed a number of consecutive payments and has not responded constructively to further contact is more likely to be included amongst those liable to debt enforcement action.
32. As the use of analytics develops, the information gleaned will be used to help identify 'wilful evaders'. This is also highly dependent on data quality and the contract contains specific performance measures relating to the completeness and accuracy of the main addresses database and compliance with the BBC's policy in respect of 'No Licence Needed' declarations. The contract requires that in order to provide completeness of coverage, enforcement activities are undertaken in respect of each postcode area. To support this, a specific exercise is in progress to verify the occupancy of unregistered addresses. Teams are also being established to assist more specialised properties, such as hotels and care homes, in checking that they are aware of and meeting their TV licensing obligations.
33. In order to ensure that customers are treated even-handedly, Capita and its subcontractors are contractually bound to observe the BBC's policies on licence fee collection. These govern different situations relating to whether a TV licence is required (for example, change of address, licensable places and "No Licence Needed" declarations), and enforcement actions (i.e. dealing with evasion and proceeding to prosecution).

Conclusion

34. The benefits of a reduction in the BBC's costs and an improvement in licence fee collection are both capable of objective measurement as they will be reflected in the payments from the BBC to Capita under the contract. Enhancing public acceptability and support for the licence fee is measured by a combination of monitoring of complaint volumes and the development of a 'reputation index'. Annual targets are set for both and these are incorporated into the performance indicator regime, which is discussed further under the Governance section below.

Overarching Governance Arrangements

35. The BBC's governing body is the BBC Trust, whose role is to set the BBC's overall direction, approve high level strategy and budgets, and to assess the performance of the Executive Board in managing and delivering the BBC's services and activities. The BBC Trust also has a specific duty under the Charter to ensure that the arrangements for the collection of the licence fee are efficient, appropriate and proportionate. The BBC Trust primarily fulfils this function through reviewing and approving the licence fee collection strategy each year although, at its discretion, it may undertake more in-depth reviews such as the Review of TV Licence Fee Collection which was published in March 2009.
36. The Executive Board is headed by the Director General, who is appointed by the BBC Trust. The Executive Board has overall responsibility for operational management and for the delivery of BBC services according to the plans that have been agreed with the BBC Trust. The BBC organisation is made up of various management and operating divisions with management of the licence fee being undertaken by the dedicated Licence Fee Unit (LFU) which forms part of the BBC's Finance and Business division and reports to the Chief Financial Officer.

37. A new governance structure was introduced with the commencement of the new contract for the oversight of TV Licensing which reflects the changes in the contract. The general principle is that the BBC's oversight of the operational aspects of TV Licensing is separated from the commercial management of the contracts of the partners who provide the service. The new structure comprises a number of boards and forums whose membership is made up of representatives from both the BBC and its contractors. The Revenue and Sales Board is concerned with the collection of the licence fee, whereas the Commercial and Relationship Forum assesses whether performance indicators and other contractual obligations are being met. Both receive monthly information packs to form the basis of discussions, and records of meetings and action logs are maintained. Both also report to the Executive Management Forum which is chaired by the Head of Revenue Management and whose role is to consider the wider strategic issues that face TV Licensing as a whole. This also comprises representatives of the BBC and the suppliers.
38. The governance arrangements are summarised diagrammatically in Figure 3 below.

Figure 3 - Overview of governance structures

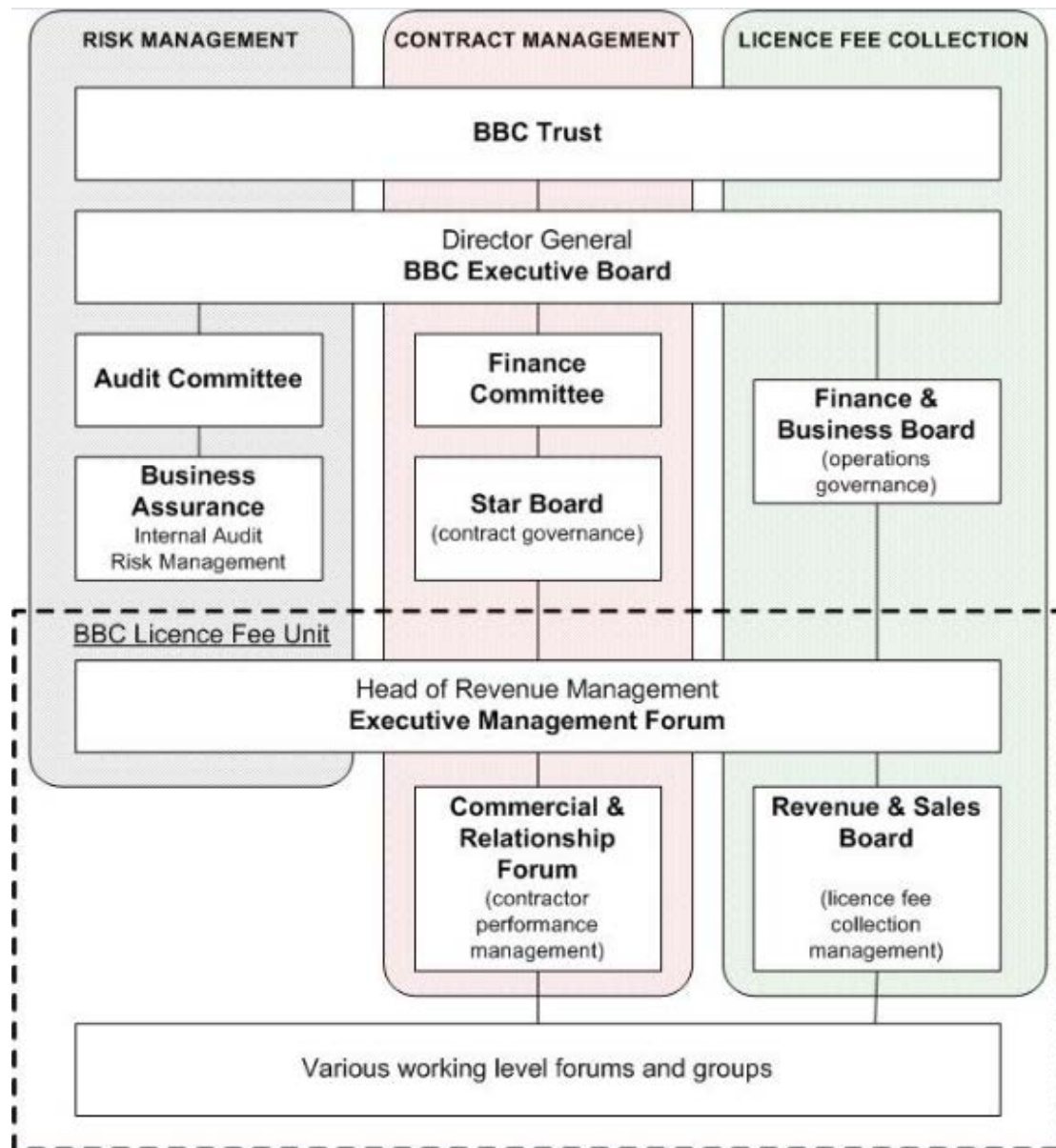


Figure Source: National Audit Office

39. The overall licence fee collection strategy is prepared annually by the BBC Licence Fee Unit and presented to the Executive Board for their consideration and approval for onward submission to the BBC Trust. It sets out the strategic approaches which are to be adopted to meet the overarching objective of maximising revenue for the BBC at the same time as maintaining public acceptability of the licence fee. Whilst the bidders in the retendering exercise were expected to propose their own ideas for achieving these objectives, the strategy sets out the BBC's own expectations and these were communicated as part of the tendering process. The current strategy focuses on methods of improving collection in the current economic climate, through supporting customers who are willing to pay but are in financial difficulty, whilst implementing new contact strategies for unlicensed households. It also recognises challenges to the reputation of TV Licensing following recent coverage of wider events at the BBC.
40. The Licence Fee Unit also sets business performance indicators which are separate from those used to measure the performance of Capita under the contract (see below). The business performance indicators include measures for income, collection costs, evasion, contact methods, complaints, and reputation and positive media coverage. These are used to inform and refine the execution of the overall strategy. By way of example, current indicators relating to collection and renewals point to a trend of continued and increasing pressure on household budgets, suggesting that a greater number of customers may struggle to buy or renew their TV licence promptly. This is being addressed within the overall strategy by increasing the flexibility over the timing and nature of visiting to an address. Rather than being an enforcement visit as a last resort when other methods of communication have failed, visits may now take place earlier but with a supportive tone of helping the customer agree a more flexible payment pattern, depending on their past history (and informed by the developing analytics capability referred to earlier).
41. The new contract places certain obligations on the contractor to monitor, manage and report risks. Capita is required to maintain a joint risk register to with the BBC, and to notify the BBC immediately if any new or emerging risk has become critical. Capita is also required to keep under review any potential risks to successful service delivery and to demonstrate to the BBC how they are being addressed.
42. The Licence Fee Unit maintains a separate strategic risk register which includes consideration of risks relating to income and the customer base, the reputation of the TV Licensing brand, and the performance of the contract providers. It is for the BBC's own use and is reviewed on a quarterly basis by the LFU management team.
43. The new contract defines the reports and detailed operational management information to be provided to the BBC. This information set is known as the Service Review Pack and it is wide-ranging in nature. Monthly Service Delivery Reviews are held which are attended by representatives from the BBC, Capita, iQor and Proximity and operational performance is considered in depth based on this information. The kinds of issues considered include progress on revenue and sales, call centre performance and enforcement visiting updates, as well as issues relating to transition and service development. The outcome of these discussions are summarised and presented to the Revenue and Sales Board who decide what actions to take in response to issues identified.
44. In order to gain assurance over the data provided by Capita, the BBC has commissioned reviews from an independent consultancy, Rapport TeleBusiness Consulting LLP (Rapport), which specialises in analysing and benchmarking data from call centres. Rapport performed some occasional work under the old contract but is now providing regular monthly reports to the BBC. These include a comparison of the base data from the call centre systems to the information reported in the Service Review Pack.

45. As noted above, the contract has two broad phases, a transition period leading to the establishment of a Target Operating Model by the end of December 2015, followed by continuous improvement for the remainder of the contract. Nevertheless, a formal mechanism has been established in which either the BBC or the contractor can propose changes to systems or other processes, including those which require a formal amendment to the contract. Either party may submit a Change Request for consideration, which sets out the nature of the change and the reasons for it, together with an associated timetable and cost. If the BBC proposes the change, Capita may be requested to prepare an impact assessment. If Capita proposes the change, they are required to submit an impact assessment. The proposed change is then jointly discussed and, if agreed, approved by both parties.
46. The new contract defines the service levels to be achieved in terms of Performance Indicators (PIs). These are grouped under the five areas of contact centre, brand enhancement, technology, field (i.e. sales and enforcement) and data. PIs are to be reviewed jointly by the BBC and Capita before the start of each year as part of an Annual Service Level review. This aims to ensure that the PIs continue to be appropriate and effective, and in particular that they incentivise appropriate contractor behaviour, the achievement of the BBC's own priorities, and enhance the public acceptability of the licence fee. Rapport has been commissioned to advise on whether the existing PIs relating to the call centre have an appropriate emphasis.
47. The PIs are underpinned by a service credit regime. This is a points-based system which means that if performance falls below a certain standard, Capita incurs a financial charge. If the accumulated service credits exceed a defined threshold in any one year a review of the service levels themselves is triggered. Capita is also required to notify the BBC if there is a failure to comply any of a contractually defined set of compliance requirements other than performance indicators, for example security and data protection obligations. Each service provider is contractually obliged to comply with the information security standard ISO27001 and to achieve and maintain accreditation.
48. TV Licensing contractor performance and compliance with contractual requirements is considered in detail by the Commercial and Relationship Forum. This feeds into the BBC "Star Board" which has a wider oversight role for all of the BBC's contracts and reports to the BBC Finance Committee.

Conclusion

49. The BBC has put into place a governance structure that has the capability of monitoring all aspects of performance of Capita and the other contractors. The structure ensures there is a clear path when escalation of significant issues to the BBC Trust is required, while giving authority for day to day operational issues to be dealt with at a more appropriate level.

Follow up on recommendations made in the 2010-11 2011-12 Reports to the House of Commons

50. 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. I made three recommendations, two of which were not fully addressed at the time of my last report and I report on those below:

Evasion Model

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:

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.

Update:

The BBC has worked with BARB to seek additional information to identify those households whose residents no longer have TV sets but are watching TV through other devices. The TV penetration estimate in the evasion model is now augmented with the additional information provided by BARB. The methodology for assessing the number of households that require a licence is reviewed regularly with ongoing efforts to improve where possible

Short Dating

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:

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:

The telephone application process now includes an explicit question as to the date of requirement for a licence. The implementation of changes to the TV Licensing website to explicitly seek the date of requirement for a licence is expected to be completed later in 2013.

51. My review last year focused on licence termination processes with the specific focus of natural expiry and renewals, cancellations, refunds and revocation. I also looked at the over 75 licence fee concession process. I made three recommendations as follows:

Refunds

My review of how repayments for cancelled licences are made identified a number of areas for considerations. I recommended that:

- I. The BBC should review 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.

- II. In those cases where a full refund is not made on the grounds of insufficient evidence being provided by the customer, the BBC should inform customers of this fact to allow them to provide additional evidence, where available, to reclaim the full refund.

Update:

- I. **The BBC plans to do further work on wider aspects of the Refund policy during 2013-14 and will consider whether refund periods should be changed as part of this work. At this time, the BBC is of the view there would be increased cost and reduced licence fee income if monthly refunds were to be extended to households.**
- II. **A new standard letter has been created for use when insufficient evidence has been supplied. This letter outlines what the customer needs to demonstrate in order for the BBC to process the refund and provides examples of evidence which may achieve this. Other letters have been amended to make clear the requirement for evidence and to make clear to customers where a refund has been refused because evidence has already been requested but not provided.**

Over 75 Licence fee concessions

I identified that the BBC did not actively seek to identify customers over the age of 75 who are still paying for a licence. I recommended that:

The BBC should undertake an analysis of the customers who are over 75 and 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 this analysis, a more targeted approach for identifying over 75s who have not applied for a free concessionary licence should be considered.

Update:

The BBC has recently reached agreement with the Department for Work and Pensions (DWP) that data provided to them by the DWP can be used to undertake this type of analysis; such analysis is now underway.

Amyas CE Morse

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National Audit office
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London
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28th June 2013

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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