



TV licence fee collection

Report by the Comptroller and Auditor General
presented to the BBC Trust Value for Money Committee,
23 January 2017



BRITISH BROADCASTING CORPORATION

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Auditor General presented to the
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*Presented to Parliament by the Secretary of
State for Culture, Media & Sport
by Command of Her Majesty
January 2017*

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BBC Trust response to the National Audit Office value-for-money review: TV licence fee collection

BBC Trust response

As the governing body of the BBC, the Trust has ultimate responsibility for stewardship of the licence fee. Value-for-money reviews like this one are an integral part of the governance framework through which the Trust fulfils this responsibility and we are grateful to the NAO for their report.

The BBC has improved value for money in core aspects of licence fee collection

We welcome the National Audit Office's conclusion that the BBC has made progress against most of its main performance measures for collecting the licence fee. The amount collected is increasing, collection costs are reducing and the reputation of TV Licensing among the general population is improving. In these core aspects, the NAO concludes that the BBC has improved value for money.

This is a significant achievement given the increasingly challenging collection environment

In recent years, factors such as pressure on household income and the use of social media to encourage evasion have made the collection environment challenging. In this context, the improvements set out above are particularly noteworthy.

The evasion rate has increased mainly because of changes in the methodology used to calculate the number of households that have a TV

The NAO notes that the estimated licence fee evasion rate is between 6.2 and 7.2%. This is higher than previously thought due mainly to a change in the way BARB (an independent organisation which measures television audiences) calculates the number of television households. This change has meant that the estimated number of households watching television has increased which increases the gap between licences issued and television households - the basis for estimating evasion.

Although there is no direct or absolute comparator, the Trust is pleased to note evasion in the UK is much lower than in other countries with a similar approach to collecting licence fees such as Ireland and Denmark where evasion rates were 14% and 10% respectively in 2014-15.

Evasion rates are higher than the levels which the BBC aspired to but it is clear that these aims need to be revisited to ensure they reflect today's collection environment and BARB's methodological changes. The NAO's recommendation to look again at the minimum level of evasion possible is helpful in this context and we are pleased that the BBC Executive intend to implement it without delay.

The BBC's arrangements with its commercial suppliers show a number of elements of good practice

The BBC has a contract with Capita to provide licence fee collection services and with Proximity to provide marketing and printing. The NAO found that the BBC's commercial arrangements with these suppliers show a number of elements of good practice. However, a change in circumstances has meant that the Capita contract has had to be renegotiated. The contract included performance incentives based on BARB's previous way of counting TV households and needed to be altered to reflect the recent change in BARB's methodology.

The contract, which has been extended by two years to 2022, puts the relationship with Capita on a more sustainable footing, provides greater certainty about costs and is expected to result in net revenue which is at least equal to that under the previous arrangements.

The NAO has suggested ways that value for money can be improved further

Under the Charter, the Trust has a responsibility to ensure that arrangements for collecting the licence fee are efficient, appropriate and proportionate - maximising revenue without an excessive approach to enforcement. To this end, we are pleased that the BBC has driven down collection costs and increased overall licence fee revenue year on year without an adverse impact on reputation.

Nevertheless we accept the NAO's conclusion that there is scope for the BBC to improve value for money further and welcome their recommendations to do this.

In April, the Trust will make way for a new governance system and responsibility for the licence fee will pass to the new BBC Board. Effective collection is essential to both the BBC's financial viability and the organisation's relationship with its audiences. To this end, we encourage the new Board to continue to focus on the Executive's performance in this area and ensure that the NAO's recommendations are implemented in full.

BBC Executive response to the National Audit Office's value-for-money review of TV licence fee collection

BBC Executive response

The new BBC Charter maintains the principle of funding the BBC through the licence fee, as essential to ensure its independence and ability to fulfil its public purposes.

In this context, the recognition by the NAO that the BBC has improved value for money through its progress in collecting the licence fee, increasing revenue every year since 2010-11, reducing collection costs, and improving the reputation of TV Licensing among the general population is very welcome.

Indeed, TV licence fee revenue has increased every year since 2010-11, in spite of the cost of the TV licence being frozen after 2010. During the same period, the cost of collecting the TV licence fee fell by 25% in real-terms.

This performance was achieved whilst improving the overall reputation of TV Licensing in the general population, with a number of complaints halved, since 2011.

The NAO also notes that the BBC's commercial arrangements with Capita and Proximity show a number of elements of good practice. This is a testimony to the work the BBC has done in order to ensure the management of its strategic contracts complies with best practice.

We do recognise, as noted by the NAO, we have not achieved the reduction in evasion that we would like and we will now focus on ensuring more licensed households do pay in due course, in the most economic manner. However, as recognised by the NAO, pressure on household incomes can make it harder to collect the licence fee.

We agree with the NAO recommendations, which broadly correspond to actions we have been planning following the changes in legislation around when a licence is needed but also in consumer behaviour:

- We will update our analysis of the minimum level of licence fee evasion that is possible (the 'evasion floor') to identify a current, realistic and achievable ambition that reflects both the latest legal changes around what is licensable content and the new ways of consuming this content.
- We will review, in conjunction with Capita, our strategy to improve the effectiveness of its field activity in generating licence fee sales and catching evaders.
- We are considering how we should upgrade our old ICT systems, and plan to complete this review by June 2017.
- We will be reviewing the skills required for our Licence Fee Unit in the future, whilst noting the team has been very successful so far.

- The Capita contract is the only one where the BBC relies on third-party data for payment or performance reporting. We will however systematically check this is not the case in new contracts, and if appropriate, determine ways of monitoring the quality of their measures (as indeed was the case with BARB data).

Overall, the NAO recognises the good work done by the Licence Fee Unit and its contractors.



National Audit Office

British Broadcasting Corporation

TV licence fee collection

Report by the Comptroller and Auditor General

This report has been prepared under Clause 79 of the Broadcasting Agreement, as amended, between the Secretary of State for Culture, Media & Sport and the BBC dated July 2006

Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

14 December 2016

This report examines whether the BBC is achieving value for money in its management of TV licence fee collection.

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assessment framework 49

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This report can be found on the National Audit Office website at www.nao.org.uk

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Key facts

£3.74bn

TV licence fee revenue
collected in 2015-16

£99.6m

overall TV licence fee
collection costs in 2015-16

**£251m–
£291m**

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

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

Summary

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

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

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

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

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

Our report

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

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

TV household data

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

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

Key findings

The BBC's performance in collecting the licence fee

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

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

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

Operations, enforcement and marketing

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

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

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

Managing strategic contracts for licence fee collection

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

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

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

Conclusion on value for money

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

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

Recommendations

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

Part One

The approach to collecting the TV licence fee

1.1 Everyone in the UK who watches or records television programmes as they are broadcast must be covered by a valid TV licence, this includes, for example, those in residential households, businesses, hotels, and student accommodation. Since 2010, the cost of a colour TV licence has been frozen at £145.50. In 2015-16, the TV licence fee provided £3.74 billion (78%) of the BBC's overall income of £4.83 billion.

1.2 People must be covered by a licence to watch or record live TV on any device, including computers and smartphones. A new law in force from September 2016 also requires those watching or downloading BBC content on iPlayer to be covered by a valid TV licence.³ **Figure 1** sets out the factors that determine whether a licence is needed for a residential household, which form the majority (95% in June 2016) of premises estimated to require a licence.

Roles and responsibilities

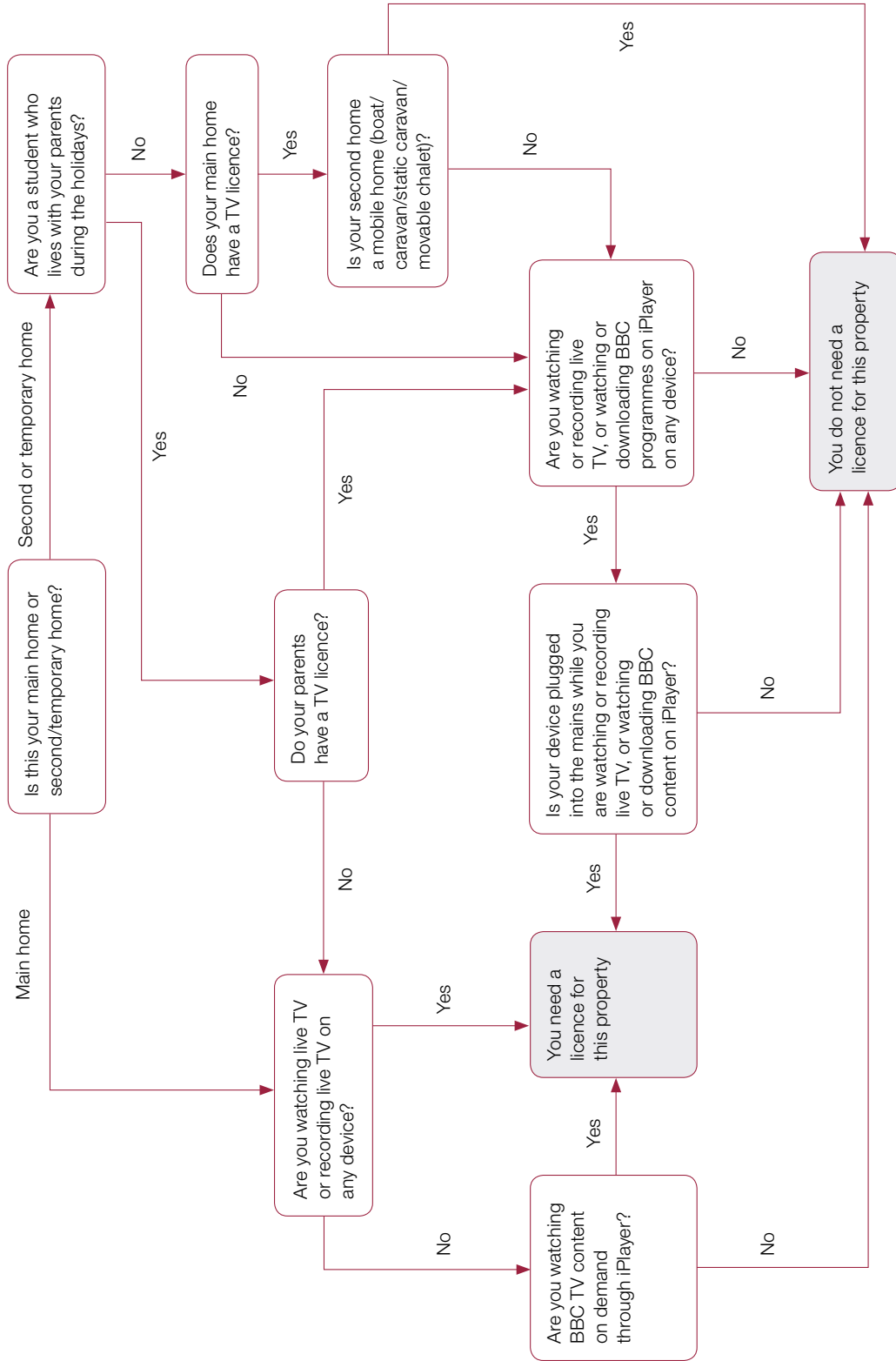
1.3 The BBC is the public authority responsible for issuing TV licences and collecting the licence fee. Its Licence Fee Unit manages eight contracts with various providers. All companies involved operate under the TV Licensing trademark. The two largest contracts by value are with Capita and Proximity. In 2015-16, the BBC paid Capita £58.6 million. Proximity's contract costs formed the majority of the £15.8 million that the BBC spent on TV licence communications and letter campaigns in 2015-16. Both contractors use subcontractors to provide, for example, ICT, printing and research services.

1.4 The BBC's contract with Capita is to manage, collect, administer and enforce the TV licence fee. It began in July 2012 and, following a recent renegotiation, ends in July 2022, with an optional extension for up to five further years. The BBC's contract with Proximity is for marketing, advertising and printing services. It began in April 2010 and has been extended twice. It will end in April 2018. In advance of this contract ending the BBC has begun the process to re-tender it.

3 The Communications (Television Licensing) (Amendment) Regulations 2016.

Figure 1

Determining whether a residential household needs a licence



Note

1 The TV Licensing website provides more detailed information about specific licensing requirements. Available at: www.tvlicensing.co.uk

Source: National Audit Office

1.5 The BBC's Licence Fee Unit is also responsible for:

- setting strategic aims for TV Licensing;
- monitoring TV Licensing's performance; and
- managing risks to the BBC through assurance reviews and research.

1.6 The BBC Trust (the Trust) holds the BBC to account, including for collecting the licence fee. **Figure 2** sets out this and other roles and responsibilities. The draft Royal Charter, the BBC's constitutional basis, establishes new governance arrangements, with a new unitary board taking on governance roles previously undertaken by the Trust. Following a transition period, the unitary board will fulfil these roles from April 2017.⁴

Paying the licence fee

1.7 People can pay the licence fee in various ways, including through direct debit, card or cash payments. If a customer continues paying their licence fee they will receive only limited communications from TV Licensing, for example when their licence is about to expire. If an individual does not pay for a licence, however, they may receive targeted communications encouraging them to do so. They may also potentially be visited by enforcement officers and, if a licence fee is needed but remains unpaid, may be prosecuted and fined (**Figure 3** on page 16).

1.8 In 2015, an independent review of TV licence enforcement reported on the sanctions for not having a TV licence when it is required.⁵ The review concluded that the current system of criminal deterrence and prosecution should be maintained, as it was appropriate and fair, and represented good value for money. The BBC's approach to enforcement continues to operate within this established legal framework.

Operations

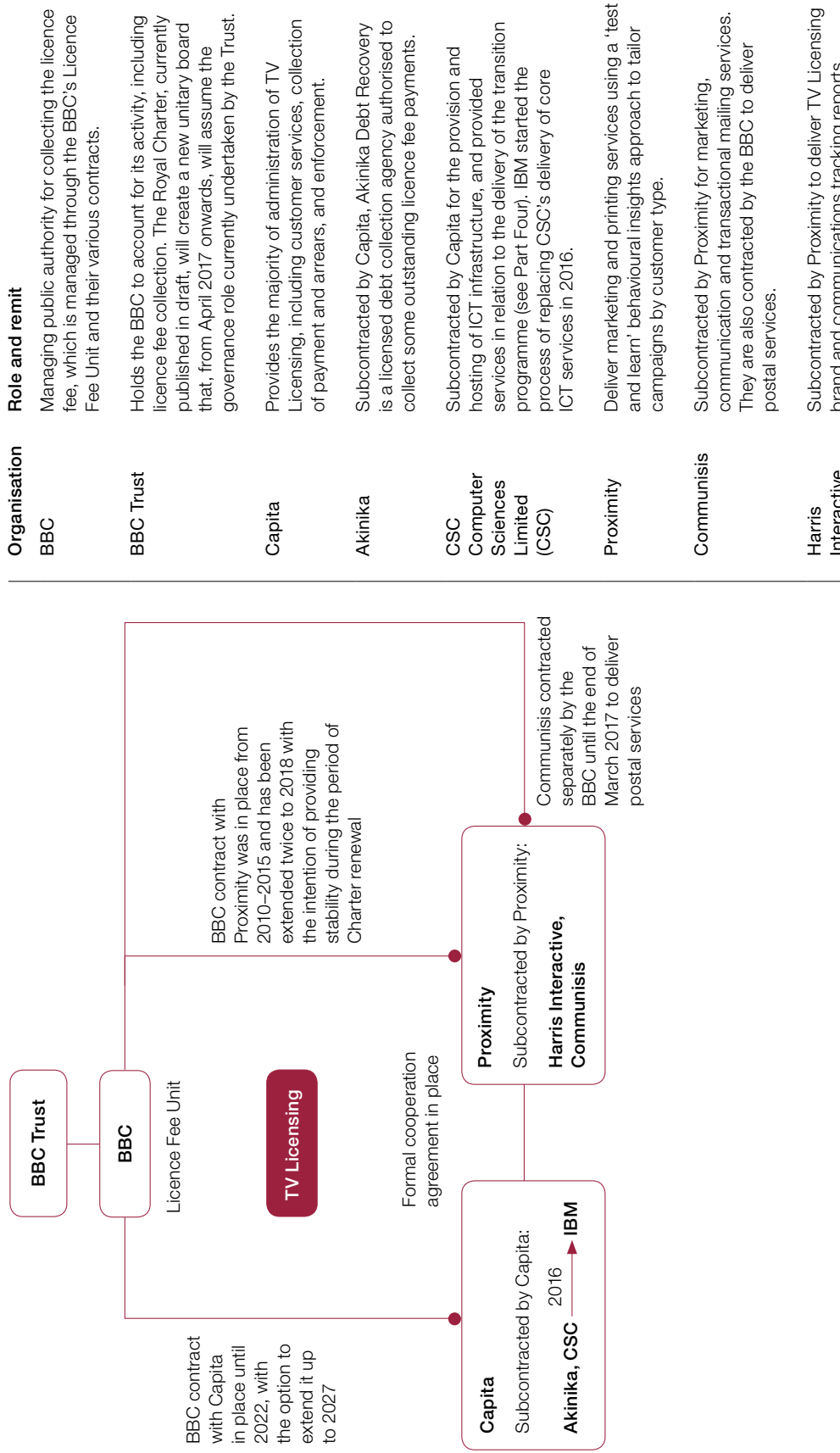
1.9 TV Licensing is a large-scale, complex operation, managing a database of over 31 million addresses, with 28 million premises estimated to require a licence and just over 26 million licences in force. TV Licensing deals with customer queries, including about payment options and whether a licence is needed, and complaints. In 2015-16, TV Licensing:

- responded to nearly 1 million letters and over 500,000 emails;
- answered 5.6 million calls; and
- made 8.3 million calls.

⁴ Department for Culture, Media & Sport, *Draft BBC Charter and Draft Framework Agreement*, September 2016.

⁵ Department for Culture, Media & Sport, *TV Licence Fee Enforcement Review*, July 2015, pp. 6-7.

Figure 2
TV Licensing roles and responsibilities

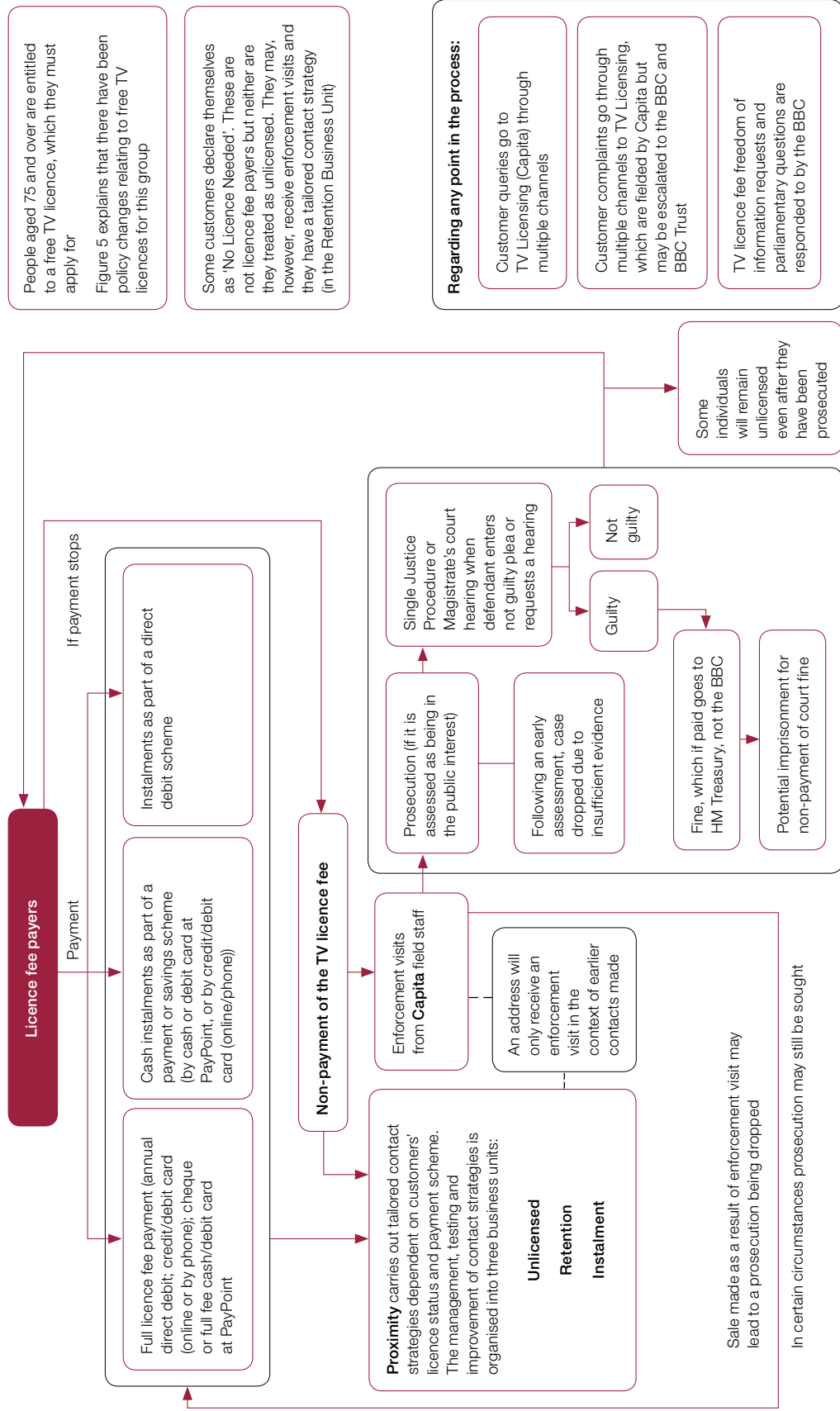


Organisation	Role and remit
BBC	Managing public authority for collecting the licence fee, which is managed through the BBC's Licence Fee Unit and their various contracts.
BBC Trust	Holds the BBC to account for its activity, including licence fee collection. The Royal Charter, currently published in draft, will create a new unitary board that, from April 2017 onwards, will assume the governance role currently undertaken by the Trust.
Capita	Provides the majority of administration of TV Licensing, including customer services, collection of payment and arrears, and enforcement.
Akinika	Subcontracted by Capita, Akinika Debt Recovery is a licensed debt collection agency authorised to collect some outstanding licence fee payments.
GSC Computer Sciences Limited (CSC)	Subcontracted by Capita for the provision and hosting of ICT infrastructure, and provided services in relation to the delivery of the transition programme (see Part Four). IBM started the process of replacing CSC's delivery of core ICT services in 2016.
Proximity	Deliver marketing and printing services using a 'test and learn' behavioural insights approach to tailor campaigns by customer type.
Communis	Subcontracted by Proximity for marketing, communication and transactional mailing services. They are also contracted by the BBC to deliver postal services.
Harris Interactive	Subcontracted by Proximity to deliver TV Licensing brand and communications tracking reports.

Note

1 Including Capita, Proximity and Communis, there are eight main licence fee unit contracts. Others, for example, include a contract with PayPoint (until the end of March 2017) for over the counter cash payments in the UK.

Figure 3
Licence fee collection process



Notes

- 1 In the Channel Islands and the Isle of Man over-the-counter payments are made at their respective Post Offices.
- 2 Certain processes are different in Scotland, the Channel Islands and the Isle of Man.

Source: National Audit Office

1.10 Approximately 1,400 full-time equivalent (FTE) staff from Capita, Proximity and the BBC work on collecting the licence fee. Capita carries out its TV Licensing operations across six locations (**Figure 4** overleaf). In June 2016, Capita employed 1,334 FTE staff, most of whom worked in customer services, and field visit and support teams. Proximity had 47 FTE staff supporting its marketing and printing services contract with the BBC. The BBC's Licence Fee Unit comprised 27 FTE staff.

Strategic objectives

1.11 The BBC's strategic aim in collecting the licence fee is to maximise long-term net licence fee revenue in a way that sustains public support for the TV licence. The BBC's strategy and business plan for collecting the licence fee are jointly owned and agreed each year by the BBC, Capita and Proximity. Up to the present, the BBC Trust approves the annual strategy.

Changes to the operating environment

1.12 In recent years, changes to policy, audience behaviour and the number of TV households have altered the circumstances in which the BBC and its contractors manage the licence fee. The number of viewers watching programmes through non-TV devices has increased rapidly, as has the number consuming BBC content on-demand, for which a TV licence was not required until recently. Between 2010 and 2015, the number of households that did not use a TV increased by 44% to around 1.3 million. However, the majority continue to watch licensable content on their televisions.⁶

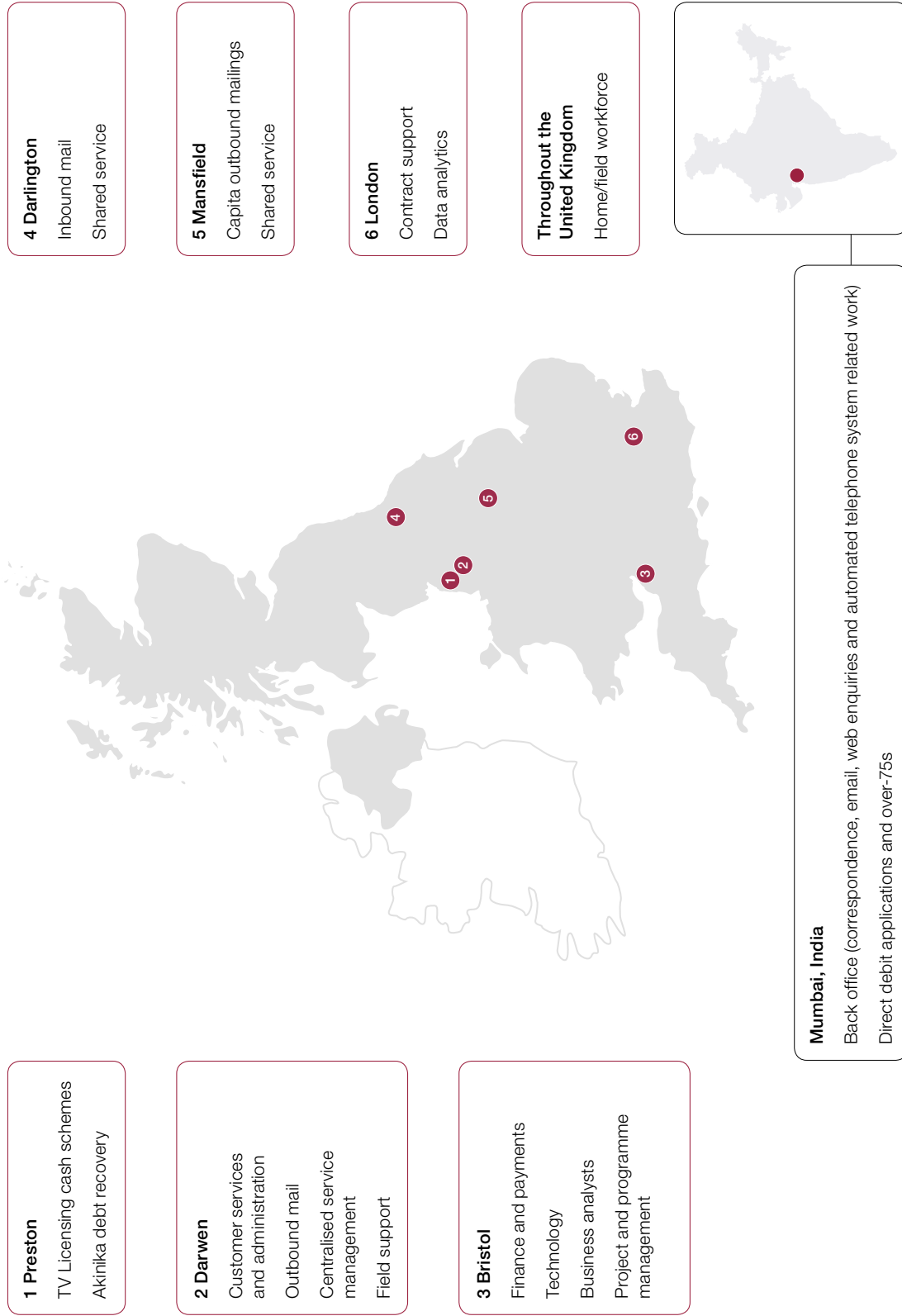
1.13 Partly to respond to these changes, the government's 2016 white paper on the future of the BBC brought forward proposals to ensure the organisation had "a modern, sustainable funding model" in future.⁷ **Figure 5** on page 19 provides further details.

1.14 Some changes create opportunities for the BBC to increase its revenue but others will reduce it. The BBC will need to alter its approach to both marketing and enforcement. It will also have to update its ICT systems and the TV Licensing website. Finally, some changes bring reputational risks for the BBC to manage, for example in communicating with those aged 75 and over about their option to make voluntary payments.

⁶ Broadcasters' Audience Research Board (BARB), *The UK Television Landscape Report: Q4 2015*, July 2016.

⁷ Department for Culture, Media & Sport, *A BBC for the future: a broadcaster of distinction*, May 2016.

Figure 4
Capita's TV Licensing operations by location



Source: Capita

Figure 5

Policy changes relating to the TV licence fee

Linking future increases in the licence fee to inflation between 2017-18 and 2021-22. The government estimated in May 2016 that the licence fee would reach £160.50 by 2021-22.

Ending separate government funding for free licences for those aged 75 and over. Following a three-year transition, this will cost the BBC an estimated £725 million by 2020-21.

Enabling those aged 75 years and over to make voluntary payments, while protecting their free licences during the current Parliament. The BBC has subsequently estimated between 0.5% and 6% of those aged 75 and over will make voluntary payments, which may take the form of partial donations rather than paying the licence in full.

Making the viewing of on-demand BBC content licensable. BBC analysis suggested this would lead to around £40 million of extra revenue a year by 2021-22.

Trialling clearer, more flexible payment plans, especially for those facing payment difficulties. The exact nature of these schemes is to be decided.

Sources: Department for Culture, Media & Sport, *A BBC for the future: a broadcaster of distinction*, May 2016, p. 91–103; HM Treasury, *Budget 2016*, March 2016, p. 88; the BBC

1.15 The BBC Licence Fee Unit's annual strategy, business plan and internal reporting acknowledge the scale of the effort required. Planning for most changes is at an early stage with some new measures still to come into effect. In response to the new law requiring people to have a TV licence to watch on-demand content from September 2016, the BBC has already set up two projects:

- **Project BBC On-Demand** has established a marketing and communications strategy to ensure changes in regulations are communicated effectively to the public and to make the associated operational and technological changes required.
- **Project Validate** will consider whether it is appropriate, and if so how, to ensure only those who have a valid TV licence can use the BBC's iPlayer and other platforms to watch on-demand BBC content. The BBC now displays notices on iPlayer and other applications asking viewers to confirm they have a licence. Project Validate will consider what more is required in future. The draft BBC Framework Agreement requires this work to be completed by 31 December 2020.

Part Two

The performance of TV Licensing

2.1 As noted in Part One, the BBC aims to increase long-term net revenue in a way that sustains public support for the TV licence. This part of the report evaluates performance on revenue collection, evasion, collection costs and reputation in the period from 2010-11 to 2015-16.

Changes to the measurement of TV households

2.2 In evaluating TV Licensing's performance, we have recognised the impact of important recent changes in external data the BBC uses to estimate the number of households requiring a TV licence. In 2015-16, the Broadcasters' Audience Research Board (BARB), the industry's standard television audience measurement service jointly-owned by the BBC and other broadcasters,⁸ revised its calculation of how many households use TVs. In recent years, BARB data had shown the number of households with a TV on a sharp downward trend, particularly from 2014. The BBC queried these data, and a resulting BARB review concluded that it had underestimated the number of TV households.⁹ This means that some recent BBC revenue collection targets, contractor payments, and evasion rate estimates have been calculated using inaccurate data. For instance, BARB's revised measure increased the estimated licence fee evasion rate by 1.3% in 2015-16. The BBC is now using BARB's revised data to underpin revenue forecasts and evasion rate estimates.

Performance against TV Licensing's strategic objectives

Licence fee revenue collection

2.3 The amount of TV licence fee revenue collected has increased every year since 2010-11, from £3.51 billion to £3.74 billion in 2015-16 (**Figure 6**). This increase is despite the cost of the TV licence being frozen since 2010. Under the current Capita contract, which began part way through 2012-13, revenue increased for three of the four years at a higher rate than the BBC's estimate for household growth, adjusted for the number of households using a TV.

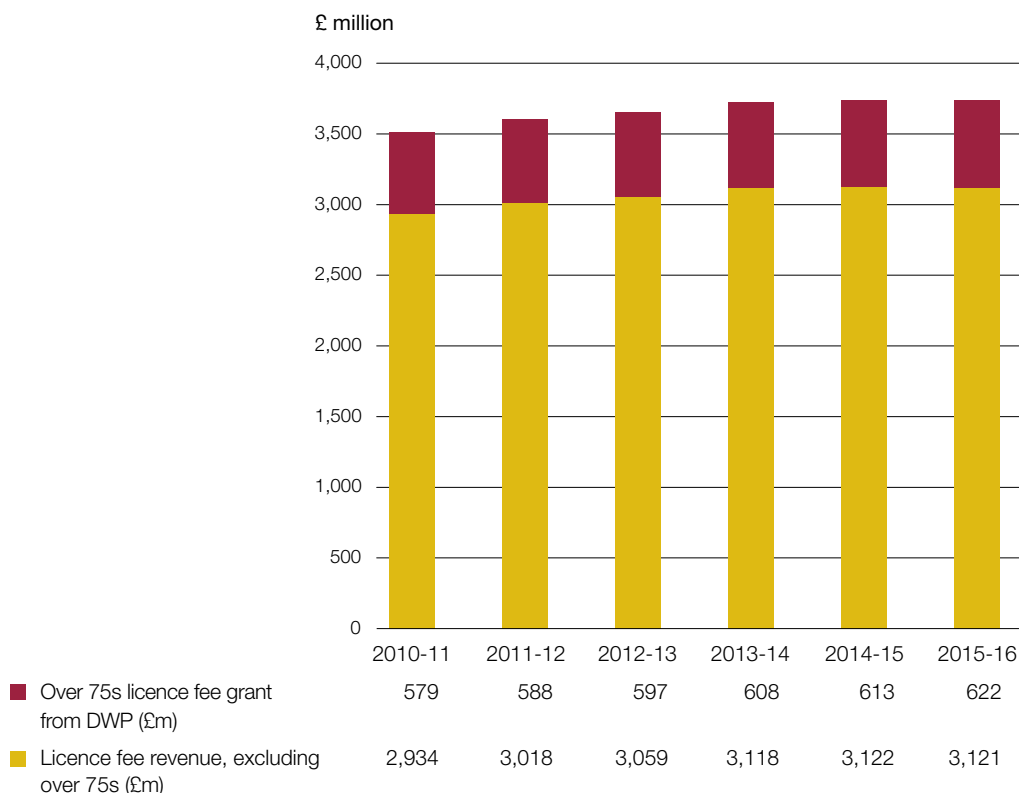
⁸ www.barb.co.uk/about-us/frequently-asked-questions/

⁹ BBC, *Television Licence Fee Trust Statement for the Year Ending 31 March 2016*, July 2016, pp. 6-7.

Figure 6

Gross TV licence fee revenue collection, 2010-11 to 2015-16

The amount of TV licence fee revenue collected has increased every year since 2010-11, to £3.74 billion in 2015-16



Source: BBC Full Financial Statements, 2010-11 to 2015-16

2.4 The overall amount collected includes £622 million of grant-in-aid from the Department for Work & Pensions (DWP) to cover free licences for those aged 75 and over. This has increased in line with the ageing population. The grant is calculated on the basis of data provided by DWP and the BBC on the number of licences issued to those aged 75 and over.

Licence fee evasion

Evasion rate

2.5 The BBC's Licence Fee Unit estimates the rate of licence fee evasion. To do so, it makes an assessment of the proportion of premises (including households, hotels and businesses) where licensable content is being watched without a licence.¹⁰

2.6 Over the six years to 2014-15, the BBC consistently estimated that the evasion rate for residential households – the largest category of premises – was between 5% and 6%. But following the identification of BARB's underestimate of how many households use a TV (see paragraph 2.2) the BBC now knows its evasion rate estimates were too low from 2012 onwards. At the end of 2015-16, the BBC used BARB's revised data to calculate a new evasion rate: at that point, the rate stood at between 6.2% and 7.2%.¹¹

2.7 Small changes in the evasion rate equate to millions of pounds of potential lost revenue. Reducing the evasion rate by one percentage point would bring in an additional £40.5 million. This means that the current estimated cost of evasion is between £251 million and £291 million.

How the evasion rate compares

2.8 According to available data, the rate of evasion varies considerably across the UK (**Figure 7**). This data is less accurate than that used to calculate the national evasion rate, but TV Licensing nonetheless believes it represents the true picture in broad terms. In Scotland, some of the difference may be explained by a different regulatory environment: the BBC does not have the same power as elsewhere to decide, without reference to other authorities, whether to prosecute evaders it catches. Evasion also varies significantly within nations, for example it is estimated to be higher in urban areas with younger populations.

2.9 In terms of UK TV licence fee collection as a whole, there is no direct or absolute comparator, but we looked at information about licence fee collection in other countries and at some UK public sector organisations. We found a mixed picture. The TV licence evasion rate is lower than in other countries with a similar approach to collecting licence fees. For example, in 2014-15, the evasion rates in Ireland and Denmark were 14% and 10%, respectively.¹² However, the rate is higher than for other UK public sector revenue collection exercises. For vehicle excise duty the estimated evasion rate is 1.4%,¹³ while for council tax in England and Wales it is 3%. However, different legislation and enforcement tools underpin collection activities in each instance.

¹⁰ More detail on the evasion model can be found in: BBC, *Television Licence Fee Trust Statement for the Year Ending 31 March 2016*, July 2016.

¹¹ See footnote 8, pp. 6-7.

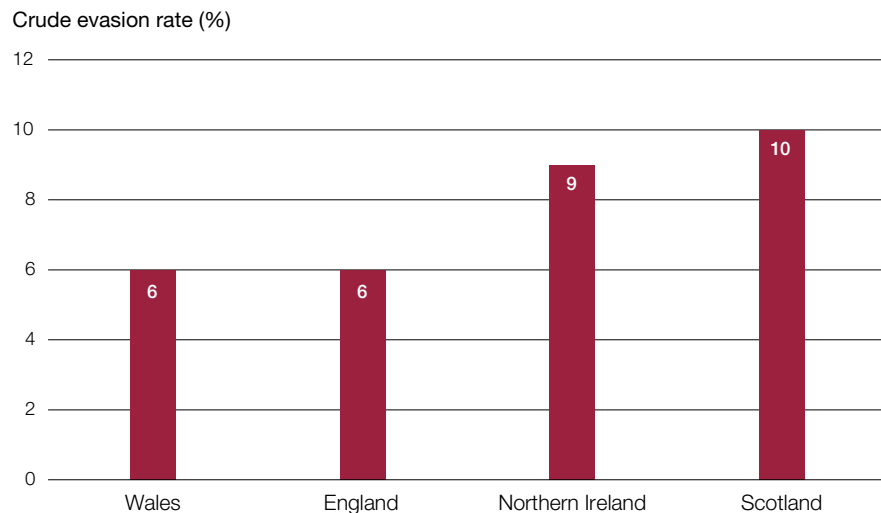
¹² The Irish evasion rate is calculated in the same way as the UK rate; the Danish rate includes more data estimates.

¹³ Vehicle excise duty evasion increased from 0.6% in 2014-15 to 1.4% in 2015-16. This followed the Driver & Vehicle Licensing Agency abolishing the paper tax disc and amending the law so that the duty automatically ends when a vehicle changes ownership, rather than transferring with the vehicle.

Figure 7

Estimated TV licence fee evasion by nation, March 2016

The estimated TV licence fee evasion rate varies between 6% and 10% across the UK

**Note**

1 Sub-national estimates are less robust as they do not account for the number of premises watching licensable TV content. As a result, figures have been rounded to whole numbers.

Source: BBC

Reducing evasion

2.10 For over a decade, the BBC has been aiming to reduce licence fee evasion to below 4%. In 2002, we reported that the BBC believed an evasion rate of 3.5% was achievable by 2006.¹⁴ In 2004, the BBC undertook further research, which found that the lowest feasible rate of evasion was 3.4%. Similarly, in its 2011 business case for the current Capita contract, the BBC stated that a commitment by Capita, as part of its bid, to reduce evasion to 3.95% by 2020 was detailed and credible.

2.11 Reducing evasion to the level targeted under Capita's original contract bid would have generated between £91 million and £132 million of additional revenue for the BBC, compared to 2015-16 levels. However, following restatement of the evasion figure in 2015-16, the BBC and Capita believe reducing evasion to 3.95% by 2020 is unlikely to be achieved.

14 Comptroller and Auditor General, *The BBC: Collecting the television licence fee*, Session 2001-02, HC 821, National Audit Office, May 2002.

2.12 Apart from problems with BARB data, the BBC cites various reasons why evasion has not decreased as intended, including:

- a more challenging operating environment because more evaders are familiar with TV Licensing practices and powers through the growth of online campaigns against paying the licence fee;
- fewer enforcement and sales visits to premises during 2015-16, partly owing to high levels of turnover in Capita's field officer staff (see paragraph 3.7); and
- the failure to upgrade ICT systems as part of Capita's transition programme (see paragraph 4.14). The main TV Licensing database is structured around addresses rather than customers and the BBC has long thought that a customer-based database would help it target operations, enforcement and marketing activity better by improving access to individuals' past addresses and payment history.

2.13 Pressure on household incomes can also make it harder to collect the licence fee. Research commissioned by TV Licensing showed that the percentage of delayers and evaders who said they would find it difficult to pay for their licence increased from 65% in December 2014 to 70% in December 2015. Further research found that the TV licence fee was one of the bills more likely to be deprioritised by households when budgets were tight. It was rated the ninth most important bill to pay on time out of 11 types of bill. Citizens Advice data shows increasing numbers of people seeking advice on council tax arrears, TV licence arrears and fuel bills between 2011-12 and 2015-16. Similarly, more people have been having problems with water bill payments.¹⁵

Collection costs

2.14 The cost of collecting the licence fee in 2015-16 was £99.6 million. Most of this related to call centres, field officers, detection, over-the-counter services, customer communications and postage.¹⁶ Collection costs have fallen by 25% in real-terms between 2010-11 and 2015-16. Accordingly, net revenue collection (revenue collected minus collection costs) increased by 7.5% from 2010-11 to 2015-16.

2.15 Modern technological advances and consumers' increased willingness to perform transactions online and make payments by direct debit have helped many organisations cut costs in recent years. Between 2010-11 and 2015-16, the amount of TV licence fee revenue collected per pound spent increased from £28 to £38. This compares to an increase in the same period from £31 to £43 of vehicle excise duty collected for every pound spent by the Driver & Vehicle Licensing Agency's (DVLA). Furthermore, in 2015-16, the BBC's collection costs were 2.7% of revenue collected compared to a figure of 2.4% in the DVLA. However, different legislation and enforcement tools underpin collection activities by the BBC and DVLA.

¹⁵ Citizens Advice, *Advice trends 2015/16* and *Advice trends four-year snapshot 2011–2015*, available at: www.citizensadvice.org.uk/about-us/difference-we-make/advice-trends/; Ofwat, *Affordability and debt 2014-15*, December 2015, available at: www.ofwat.gov.uk/publication/affordability-and-debt-2014-15

¹⁶ Other costs include administration, contract management, and the depreciation of ICT systems.

Reputation and complaints

Reputation

2.16 TV Licensing wants to maintain and, if possible, improve its reputation. It tracks its reputation using an index that separates the views of the general population from those of delayers and evaders (people who pay the licence fee late or do not intend to pay).

2.17 Proximity, through its subcontractor Harris Interactive, tracks the views of the general population through online surveys distributed to approximately 11,000 households annually. Determining the views of delayers and evaders is more difficult. To do this, Harris Interactive annually undertakes approximately 4,200 on-street interviews with people who self-identify as delayers and evaders.

2.18 In March 2016, the reputation index for the general population was 105. It has been consistently higher in each year since the baseline year of 2010-11 when it was set at 100. For delayers and evaders, results has been more varied, with the index ranging between 97 (2011-12) and 104 (2013-14). At March 2016, it stood at 99 against the 2010-11 baseline (**Figure 8** overleaf).

Complaints

2.19 The BBC sees reducing customer complaints as crucial to improving TV Licensing's reputation. Overall the number of complaints has fallen by 50% since 2010-11, with 11,947 complaints received in 2015-16 (**Figure 9** on page 27). It is known that increasing self-service systems tends to generate fewer complaints. For instance, according to the Consumer Council for Water, there was a 43% reduction in written complaints to water companies between 2010-11 and 2015-16.¹⁷

2.20 A complaints executive forum comprising representatives from the BBC, Capita and Proximity reviews data to identify and respond to risks arising from complaints. One review led to a project to improve contact with customers aged 75 and over after it was identified that repeated communications and process delays were causing larger numbers of complaints from this group.

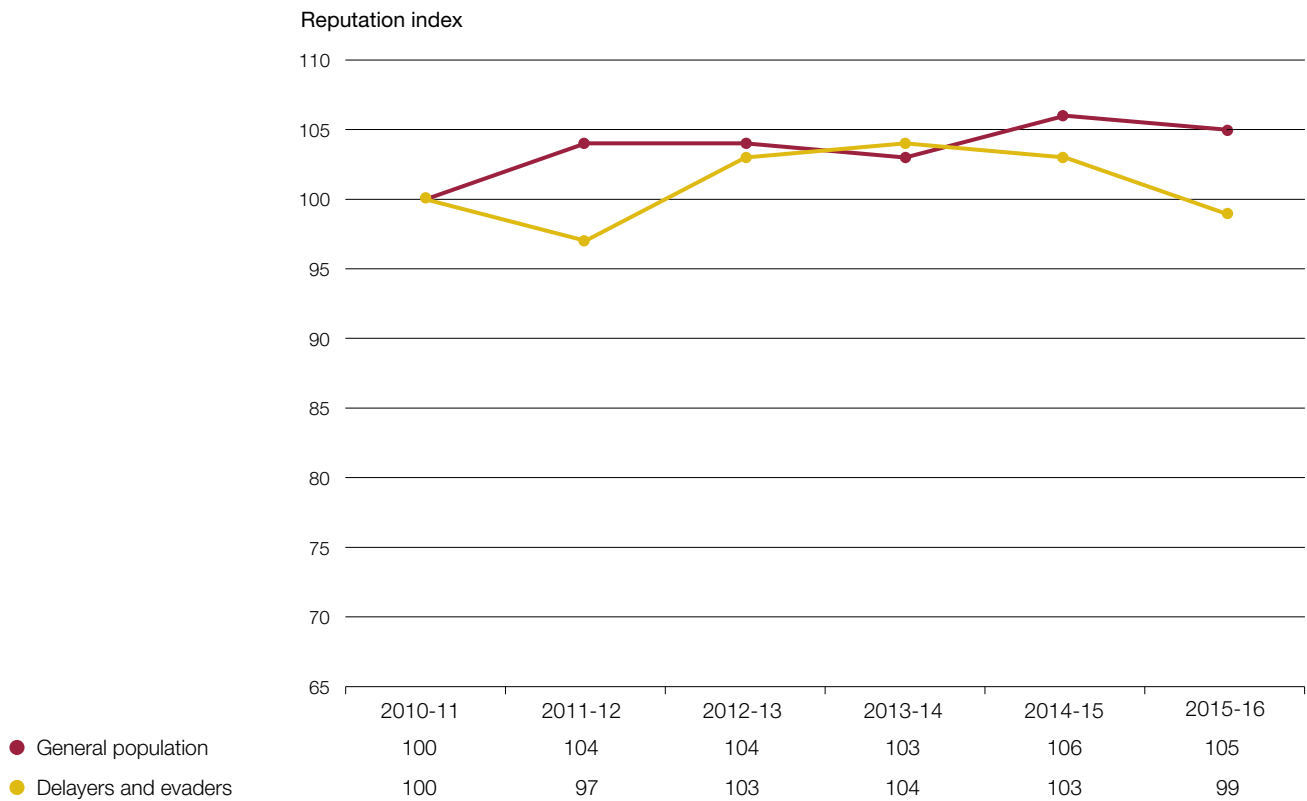
2.21 Capita reports monthly complaints data, grouped by theme, across various BBC and TV Licensing governance forums. The most common types of complaint have remained consistent since 2010-11. These primarily relate to the criteria used to select customers for marketing campaigns, customer service issues, and situations in which a licence is no longer needed. Complaints are received through various channels but mostly resolved by Capita. If a complaint is not resolved there is a clear escalation process through the BBC and up to the BBC Trust.

¹⁷ Consumer Council for Water, *Water Industry Complaints Reports* (2010-11 and 2015-16), available at: www.ccwater.org.uk/publications/waterindustrycomplaintsreport/

Figure 8

Reputation indices for the general population, and delayers and evaders, June 2010 to March 2016

In March 2016, the reputation index for the general population stood at 105, and it was 99 for delayers and evaders, against a June 2010 baseline of 100



Note

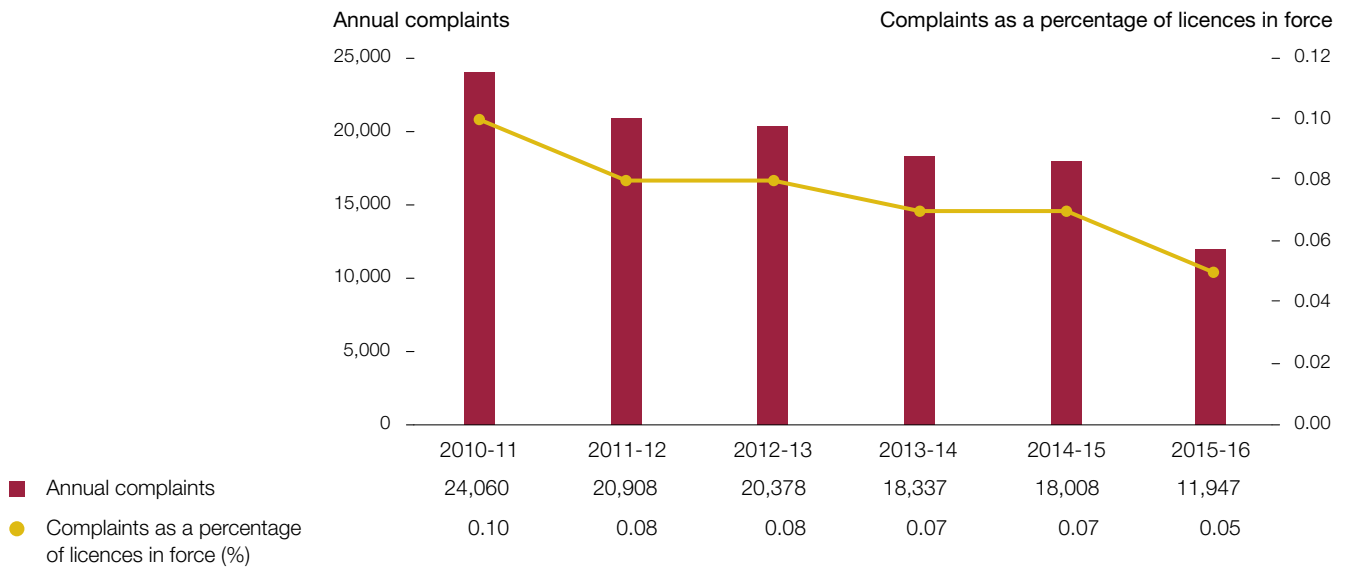
1 The baseline for data was set at 100 in June 2010 with subsequent annual scores taken in March at the financial year-end.

Source: BBC

Figure 9

Complaints to TV Licensing, 2010-11 to 2015-16

The number of complaints has fallen by 50% since 2010-11



Source: BBC, *Television Licence Fee Trust Statement for the year ending 31 March 2016*, July 2016

Part Three

Operations, enforcement and marketing

3.1 Capita and Proximity carry out a range of operational, marketing and enforcement activities as part of the process of collecting the licence fee. This part explores in greater detail how well these activities support TV Licensing's strategic objectives.

Operational performance

3.2 In most areas, Capita's operational performance has improved over time. Capita has focused on switching customers to more efficient and cost-effective payment channels (**Figure 10**), such as direct debits. The proportion of customers who pay using direct debit increased from 70% to 74% between 2011-12 and 2015-16. This compares favourably with the council tax direct debit payment rate, which was 58% in 2014-15.¹⁸

3.3 Capita, through its call centres, and Proximity, through marketing campaigns, have also focused on making interactions with customers more efficient. For example:

- the percentage of customers using self-service channels, such as automated call-centre and online services, increased from 60% to 67% between 2011-12 and 2015-16;
- in 2015-16, 25% of customers chose to receive their licences by email, up from 12% in 2011-12;¹⁹ and
- Capita has improved call-centre processes. In December 2015, 80% of inbound customer calls were resolved correctly at the first attempt.

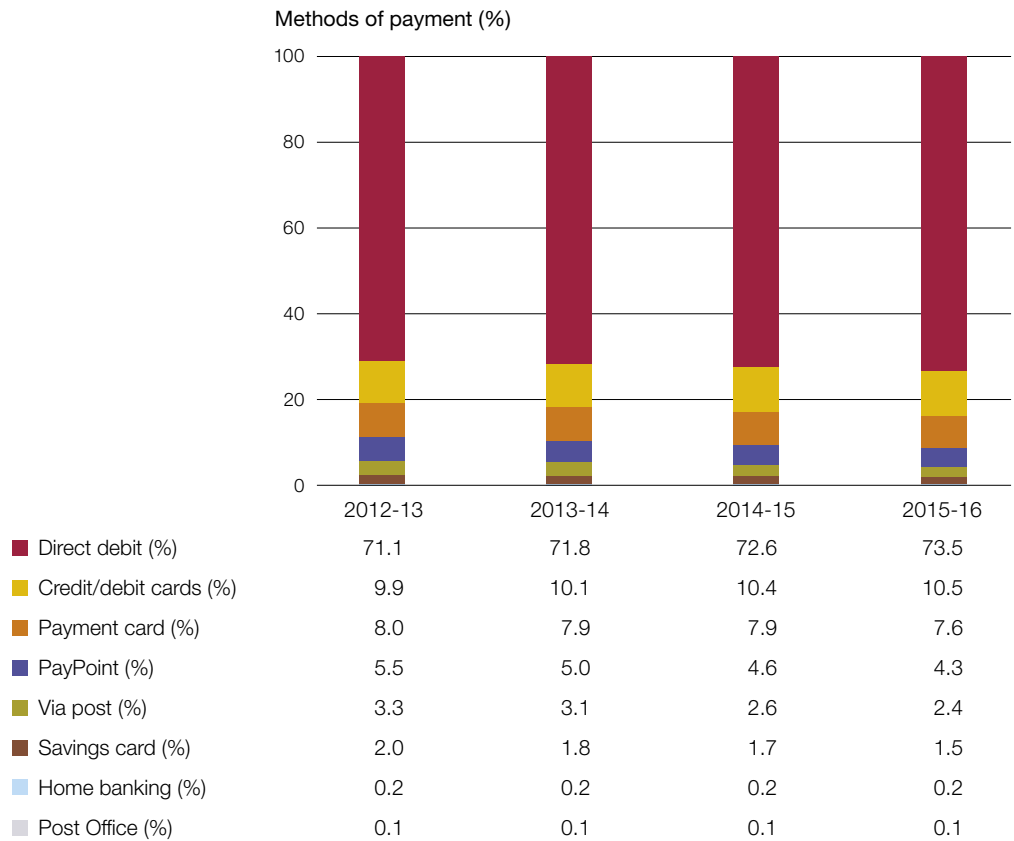
¹⁸ Chartered Institute of Public Finance and Accountancy (CIPFA) data from 129 of 348 local authorities in England and Wales, based on 2014-15 CIPFA revenue collection statistics.

¹⁹ TV Licensing, *The year in figures 2015-16*, 2016.

Figure 10

Methods of TV licence payment, 2012-13 to 2015-16

Direct debit is the main method of TV licence payment, with the number of people paying this way increasing between 2012-13 and 2015-16



Source: TV Licensing, *TV Licensing Annual Reviews*, 2012-13 to 2015-16, available at: www.tvlicensing.co.uk/about/our-performance-AB6

Field and enforcement activity

3.4 Capita carries out visits for the purpose of sales and enforcement. As part of TV Licensing's aim to reduce evasion and increase revenue, Capita has tried to improve enforcement activity, for example by using data to target more effectively which households its officers visit. The BBC and Capita's objective is for visits to increase compliance, and they prefer, where possible, for visits, even enforcement visits, to result in a payment rather than prosecution.

3.5 According to a new contractual key performance indicator first reported in March 2016, 36.5% of visits in 2015-16 resulted in a successful outcome against a target of 35%. Successful outcomes include a payment being made, an evader being caught, and other outcomes, such as establishing that a property does not need a licence. Analysing the outcomes of visits is complex. For instance, in 2015-16, of those evaders caught: 62% made at least one payment towards a TV licence and 53% were convicted.²⁰

3.6 Overall, in recent years, Capita has carried out more enforcement visits (**Figure 11**): 3 million in 2015-16 compared to 2.7 million in 2010-11. Despite this, the number of evaders it has caught has fallen by 18%, with some 67,000 fewer caught in 2015-16 than 2010-11. Furthermore, in 2015-16:

- the number of evaders caught during enforcement visits (around 298,000) was 15% lower than Capita's internal target of 350,000;
- the total enforcement and sales visits made (some 3.3 million) was 8% lower than Capita's internal target of 3.6 million; and
- those visits led to around 604,000 sales (6% lower than targeted).

3.7 We examined the reasons for the apparent underperformance in what has been a major area of focus for TV Licensing. Capita considered that the frequency and success of its field visits had been affected by the following issues:

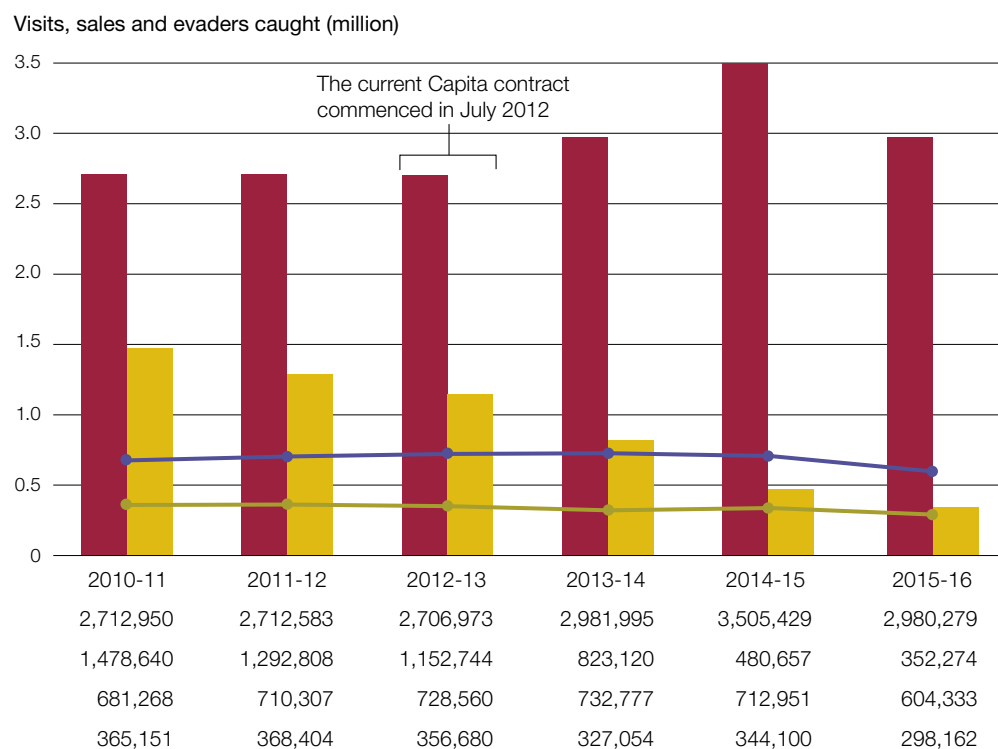
- The number of people leaving field teams outnumbered new staff joining in each month from March 2015 to June 2016. In that month, there were just 327 field FTEs against Capita's target for 380. Capita told us that higher levels of staff turnover were partly due to increased physical and verbal assaults, and instances of staff being photographed and videoed by those they visited. There were 95 physical assaults reported in 2015. Capita told us these included some serious incidents resulting in some officers being hospitalised.
- The number of full-time equivalent (FTE) field staff reduced substantially when Capita introduced a recruitment freeze between April and July 2015. This was introduced while Capita restructured its pay scales and improved basic salaries for field staff in an attempt to improve retention and working practices.
- Some customers who might not have paid for their licence in the past have taken advantage of more convenient and accessible payment schemes, meaning that Capita's visits are now focused on a more challenging group of delayers and evaders.

²⁰ Sales and conviction figures from evaders caught do not add up to 100 per cent as some people make initial payments that do not reach the threshold for their case to be dropped.

Figure 11

Capita field activity and outcomes, 2010-11 to 2015-16

Capita has carried out more enforcement visits, 3 million in 2015-16 compared to 2.7 million in 2010-11, but the number of evaders it has caught has fallen



Source: Capita data

3.8 While TV Licensing's 2016-17 Revenue and Marketing Plan includes measures intended to improve the allocation and outcomes of field visits, and there is an annual process of developing field initiatives, this does not form part of a clear, long-term strategic approach. Such a strategy might, for example:

- articulate desired field outcomes and how they will be measured and reported;
- explain the appropriateness of Capita's plans for the size, training and development of its field workforce; and
- outline resources and savings requirements and challenges (and their potential impact) over the duration of the strategy.

BBC's use of benchmarking to support licence fee collection

3.9 The BBC benchmarks TV Licensing's performance and processes against relevant comparators. Its contracts with Capita and Proximity have clauses that allow it to carry out benchmarking exercises.

3.10 The BBC last carried out a full benchmarking review of licence fee collection in March 2010. This compared the performance of TV Licensing with organisations collecting vehicle excise duty, council tax, the London congestion charge, and water bills. It focused on processes for collection and recovery, customer service and contact centres. In 2010, TV Licensing:

- compared well on telephony performance and key performance indicator scores. It also had the highest level of direct-debit payments as a proportion of all payments.
- compared less well on evasion rates and overall strategy, including how it deals with different customer groups. It was also the second most expensive (of six organisations) in terms of costs per staff member.

3.11 Since 2010, the BBC has not repeated a benchmarking review of similar scale. However, it has carried out benchmarking exercises in discrete areas, for example on debt collection, and marketing and printing services, and has used benchmark data on an ad-hoc basis in areas like complaints. The review of TV Licensing's debt collection organisation found it compared favourably with most comparators but with some areas for improvement. The marketing review found Proximity's rates were competitive compared to similar organisations. The BBC has also shared good practice and learning informally with organisations such as the Driver & Vehicle Licensing Agency.

Marketing and campaign activity

3.12 Proximity communicates with customers through targeted marketing campaigns to support revenue collection. The scale of its activity is considerable. In 2015-16, there were 51.8 million direct mailings and 11.8 million emails to individuals. TV Licensing also carries out wider marketing campaigns on television, radio and, increasingly, online. As well as their primary purpose, these campaigns aim to maintain and improve the reputation of the TV licence and TV Licensing by contacting customers efficiently and effectively.

3.13 Customising communications is an important part of the approach. Premises within the TV Licensing database are assigned to one of three business units depending on licence or payment status:

- **unlicensed** – for premises without a TV licence;
- **instalment** – for licensed premises paying through instalments; and
- **retention** – for licensed premises not paying through instalments.

Within each unit there is further tailoring, for example based on past payment methods or areas with high levels of evasion.

3.14 Many elements of the overall approach to marketing and communications demonstrate good practice. There is a robust understanding of customer behaviour, based on data and evidence. This is well integrated with wider TV Licensing activities. TV Licensing uses a ‘test and learn’ approach to evaluate the impact of changes in its communication materials (**Figure 12**). TV Licensing also considers whether marketing activities are likely to increase demand elsewhere in its operations, for instance on call centres.

Figure 12

An example of the ‘test and learn’ approach to marketing

Proximity used behavioural economics techniques to improve response rates and TV licence sales from its hardest-to-reach group – the unlicensed population. This involved changing letters to these customers to highlight incentives to act by: allowing a specified time to get a licence before further action was taken; informing them when an investigation into non-payment had been launched; and making information about paying and contacting TV Licensing as easy to understand as possible.

Proximity carried out a pilot test of the amended letters between September and December 2013. This generated £347,000 of additional sales with the test group compared to a control group that did not receive the new letters. Further analysis showed that customers in the test group were also more likely to make contact with TV Licensing and less likely to make complaints.

Proximity subsequently rolled out the test approach more widely. It generated estimated extra revenue of £3.3 million in 2015-16.

Source: National Audit Office review of Proximity information

Part Four

Managing the strategic contracts for licence fee collection

4.1 In 2015-16, the BBC had 11 strategic contracts on which it spent £464 million: 12% of licence fee income.²¹ Both the main licence fee contracts, with Capita and Proximity, are included in this group. This part of the report assesses how the BBC manages these two strategic contracts.

Contractual and operational governance

4.2 In 2012-13, we reported that the BBC had governance structures capable of monitoring all aspects of the performance of Capita and its other contractors.²² The Licence Fee Unit has authority to deal day to day with operational and contractual issues, but there is a clear route for the BBC and its contractors to escalate issues to the BBC Executive Board and the Trust if required (**Figure 13**). These governance structures are supported by a group that shares information across all 11 contracts in the BBC's strategic contracts portfolio. A strategic contracts board receives quarterly contract performance and savings reports, with an annual review process to share lessons learned and provide contract benchmarks. The strategic contracts portfolio infrastructure also delivers training and workshops to commercial staff.

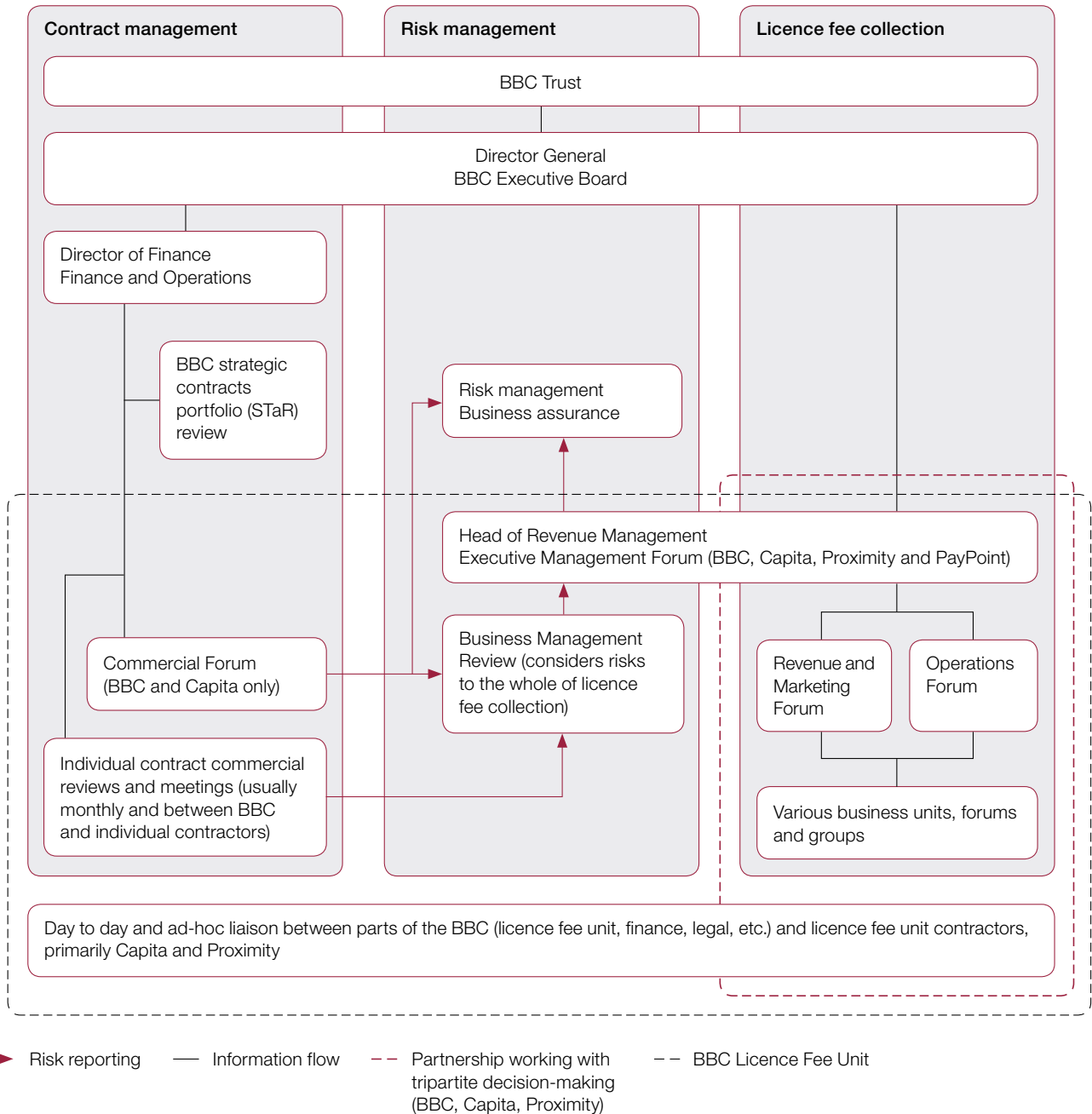
Procurement processes

4.3 Before a procurement exercise, the BBC's Licence Fee Unit collects information on the wider market of providers delivering customer or enforcement services similar to that of TV Licensing but in different sectors. The BBC does this to understand providers' capability to bid for future BBC contracts. This supports the Licence Fee Unit's oversight and commercial management of its eight contracts.

²¹ Includes a human resources contract, which ended in March 2016 with services now delivered within the BBC.

²² BBC, *Television Licence Fee Trust Statement for the Year Ending 31 March 2013*, July 2013, p.36.

Figure 13
TV Licensing contract and wider governance structures



Note
1 The BBC Trust is being replaced by a unitary board in 2017.

4.4 Capita and Proximity have both been involved with collecting the licence fee, within different consortia and commercial arrangements, since 2002. The current Capita and Proximity contracts resulted from multiple-stage procurement processes. In both cases, the BBC sustained market competition throughout the process, with three shortlisted bidders submitting final offers for each contract. All final offers met quality and cost requirements. For each contract, Capita's and Proximity's bids were the highest rated for quality and the lowest in terms of cost. Both procurements also consolidated several previous contracts into single contracts.

Commercial approach

The Capita contract

4.5 The Capita contract is based on four critical success factors:

- continuously improve the cost of operational and support services;
- improve collection rates through innovation, process improvement and commercial incentives;
- enhance the public acceptability of the licence fee; and
- ensure service continuity in collecting the licence fee.

Contract performance

4.6 The contract planned to save £227 million over eight years, compared with previous contract costs. The BBC reports it is on track to exceed these savings, forecasting lifetime contract savings of £238 million.

4.7 Under its original terms, the Capita contract offered strong incentives to increase revenue, as a means to increase the BBC's income and reduce evasion. The main payment mechanism gave Capita higher rates of payment for achieving higher collection rates:

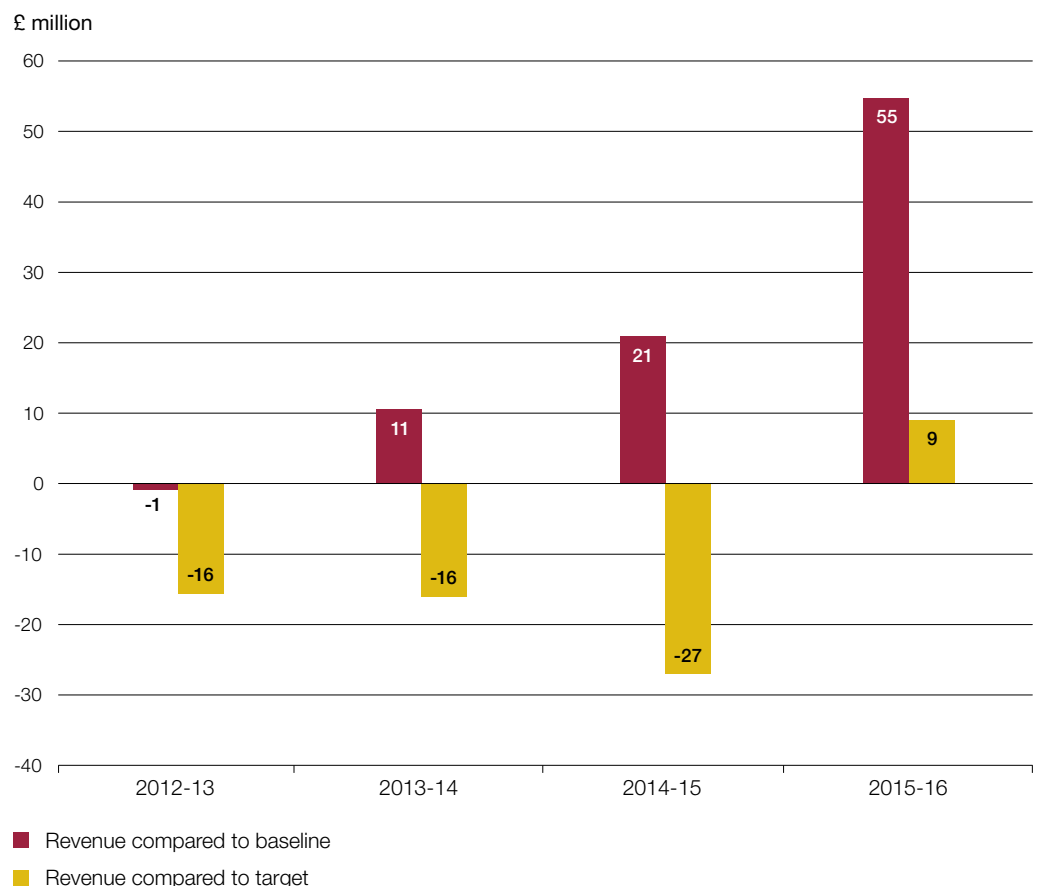
- Each year, the BBC agreed a minimum revenue collection level it expected Capita to deliver (the contractor baseline). This was adjusted for estimated household growth, the estimated number of households watching TV, and any changes in the licence fee's cost (though the cost has been frozen in recent years).
- The BBC also agreed more stretching targets with Capita to improve collection rates (the contractor forecast), thereby reducing evasion. Capita's performance against these targets determined the size of its revenue-based payments.

4.8 The contractor baseline was achieved in every year of the contract apart from 2012-13.²³ However, in three of the four years covered by the original terms of Capita's contract, the amount collected has been below the contractor forecast (**Figure 14**), which meant BBC payments to Capita were lower. In 2015-16, when the contractor forecast was met, this was largely because of the Broadcasters' Audience Research Board's (BARB's) underestimate of the number of households with a TV (see paragraph 2.2). In essence, the target was easier to achieve than it should have been. This has been addressed in a contract renegotiation between the BBC and Capita (paragraphs 4.15 to 4.19).

Figure 14

TV licence fee revenue collected against contractor baseline and targets, 2012-13 to 2015-16

The contractor baseline was achieved in every year of the contract apart from 2012-13; while in three of the four years the amount collected has been below the contractor forecast



Notes

- 1 The baseline is the contracted minimum expected revenue collection level. It is adjusted for estimates of household growth and licensable premises.
- 2 The revenue compared to baseline for 2012-13 includes only nine months (July 2012 to March 2013) as the Capita contract commenced in July 2012. The revenue compared to target includes the full 12 months of 2012-13.

Source: BBC data

²³ July 2012 (when the contract began) to March 2013.

4.9 The Capita contract also imposes financial penalties (service credits) if performance in defined areas drops below agreed levels. Penalties can amount to a maximum of 11% of total contract charges. Key performance indicators can be changed annually, but currently relate to:

- enhancing the TV Licensing brand;
- contact centre performance, including measures on call response times and the resolution of customer email queries;
- the availability of technology, including self-service channels, core business systems and the website;
- field performance, including measures relating to visits; and
- data quality and completeness measures.

4.10 Overall key performance indicator scores have been high since 2012-13. In 2015-16, 97% of key performance indicators were at or above contractually-agreed levels (**Figure 15**). Capita carries out analyses to understand any underperformance. Since 2012-13, most underperformance has related to the availability of technology and systems, with £565,000 in service credits deducted from the BBC's payments to Capita between 2012-13 and 2015-16.

The transition programme

4.11 An important part of the BBC's contract with Capita was a transition programme that was due to be fully completed by July 2016. The programme has achieved various improvements including: restructuring contact centres; updating the TV Licensing website; and upgrading handheld units that field staff use to input visit attendance and outcome information. However, the programme has not delivered significant planned changes to old ICT systems.

4.12 As noted in our 2002 report on collecting the licence fee, the BBC has had a long-standing ambition to improve its main TV licensing databases so that their structure would become based on individual customers rather than households.²⁴ This would enable it to target its activity better by analysing individuals' past addresses and payment history. Additionally, the BBC believes it would improve efficiency and its wider understanding of customer behaviour, as well as allowing it to respond better to changes in licence fee policy or how people access licensable broadcast content.

²⁴ Comptroller and Auditor General, *The BBC: Collecting the television licence fee*, Session 2001-02, HC 821, National Audit Office, May 2002, paragraph 2.14.

Figure 15

Capita contract key performance indicator levels, 2012-13 to 2015-16

Key performance indicator (KPI) scores have been high with 97% of indicators at or above contractually-agreed levels in 2015-16

**Note**

1 The period 2012-13 covers July 2012 to March 2013.

Source: BBC data

4.13 Capita substantially subcontracted the transition programme to CSC Computer Sciences Limited (CSC), which also provides the core ICT systems to support TV Licensing. In all years of the contract, the BBC's contract reporting noted concerns about achieving intended milestones for some parts of the transition programme. There were revisions to the programme in 2012-13, and further revisions were agreed in March 2014. However, in September 2015, following a dispute between Capita and CSC, the transition programme element of the contract was terminated. The BBC told us that it is reviewing its approach to upgrading its ICT systems, and will delay implementation for at least two years while it responds to licence fee policy changes. The BBC gave approval to Capita for IBM to start the process to replace CSC as the provider of existing core systems in 2016.

4.14 The BBC has only paid Capita for elements of the transition programme that were delivered. Of the £50.7 million that would have been paid for full delivery, only £22.9 million has been paid. The BBC has also had to allocate £9 million of the remaining £27.8 million, over three years, to support the ongoing use of old systems that were due for replacement. But this is likely to be only part of the negative financial impact of the transition programme's partial abandonment. The BBC has not sought to quantify the revenue foregone by the programme not being delivered in full. Without the new databases and other improvements, however, and given the delay of at least two years, there is a risk that TV Licensing will be left with less flexible ways of working and increasingly expensive, aged ICT systems. This could result in:

- more being spent on licence fee collection;
- less capability to increase revenue;
- risks to future service continuity if legacy systems cannot be fully supported; and
- additional complexity and expense to respond to changes in licence fee policy.

The BBC told us it will review its intentions to modernise its systems after the new Royal Charter comes into effect in 2017.

The Capita contract renegotiation

4.15 The BBC's contract with Capita transferred high levels of financial risk to the contractor. Under the payment mechanism, Capita's failure to meet stretching revenue targets reduced its profit on the contract, and it was also not paid for the aspects of the transition programme that have not been delivered.

4.16 The financial risks to Capita increased when problems with BARB's estimate of TV household data were discovered (paragraph 2.2). BBC analysis suggested that, if the previous contract payment mechanism had been maintained using revised BARB data, Capita would have had to make additional savings beyond those already planned, which would have increased the risk of less TV licence revenue being collected. In the interests of sustaining the contract and maximising net licence fee revenue, the BBC and Capita agreed to renegotiate the contract. The BBC's Executive Board and the BBC Trust approved new contractual arrangements in October and November 2016, respectively. These included:

- Providing greater cost certainty for both the BBC and Capita, to reduce risks to the sustainability of the contract. Payment to Capita will be based primarily on a fixed charge equating to Capita's existing operational costs, with more modest incentives and penalties than under the previous terms for performance above or below target. If Capita exceeds its annual target by up to £20 million, the BBC will pay up to an additional £4 million. The BBC stated this level was calculated following a review of contract performance over the last five years. An equivalent arrangement applies in reverse with up to £4 million deducted from Capita's payment if it misses the target by up to £20 million.

- Changing revenue targets to align with the BBC's central estimate of expected licence fee income, adjusted for household growth and the number of TV households (what the BBC calls its budget estimate) rather than the more stretching contractor forecasts (paragraph 4.7).
- Ensuring that Capita does not reduce the amount it spends – or the number of people it employs – on its licence fee collection contract without the approval of the BBC. The BBC and Capita would share any savings from future cost reductions, which the BBC intends to validate using pre-existing open-book monitoring of Capita's costs and operations. This may require additional BBC investment in contract management in order to oversee routinely Capita's costs and profits.

4.17 The BBC and Capita also agreed to extend the contract for two years, up to the end of June 2022. The BBC's rationale for doing this was to align the contract with the mid-term review of the Royal Charter²⁵ and avoid contract extension negotiations happening in 2020, when the BBC will become responsible for licence fee concessions for those aged 75 and over (paragraph 1.13).

4.18 Overall, the BBC told us that it expects the new arrangements to have no impact on the net revenue collected, compared with its current revenue expectations. It will, however, pay Capita £25 million more than under the previous payment mechanism, over the duration of the original contract term. The BBC considers that this will be offset by:

- retaining £13.6 million that it had held as a provision to pay Capita for achieving high levels of revenue collection in 2015-16. The BBC considered that Capita achieved its contractor forecast, and earned this additional amount, because of BARB's underestimate of the number of TV households; and
- increasing the revenue target for 2016-17, so that it is £12 million above the BBC budget of £3.74 billion, which forms the basis of the revenue target under the new contractual terms. Any changes, resulting from the new licence fee settlement (Figure 5) that have an impact on Capita's costs or ability to collect revenue will be managed through separate contractual change processes.

4.19 While the contract has been renegotiated to improve its sustainability by changing the balance of financial risk, and the BBC forecasts that net revenue levels will be at least equal to that under the previous arrangements, there remains a risk that the revised terms will provide insufficient incentives for Capita to increase revenue and reduce evasion to the levels originally planned when the contract was awarded in 2011.

The Proximity contract

4.20 The majority of Proximity's payments relate to staff costs at contractually-agreed rates. Some payments are, however, performance-related and linked to objectives that the BBC sets. In 2015-16, these objectives related to licence fee income, reputation, complaint levels, and Proximity's contribution to the transition programme. Proximity achieved a high proportion of these performance-related measures.

4.21 Separately, Proximity can be penalised for underperformance, for instance on the accuracy and delivery of campaigns, and the availability of core systems. Proximity must also provide the BBC with a report explaining campaign errors. If it delivers this report late it can incur a service credit.

4.22 Generally since 2010-11, Proximity has incurred few penalties under the contract, with the vast majority of indicators being achieved (**Figure 16**). In total, between 2010-11 and 2015-16, the BBC deducted £77,500 from payments to Proximity. Most of this related to campaign errors. Proximity carries out analyses to understand any underperformance.

Commercial capability

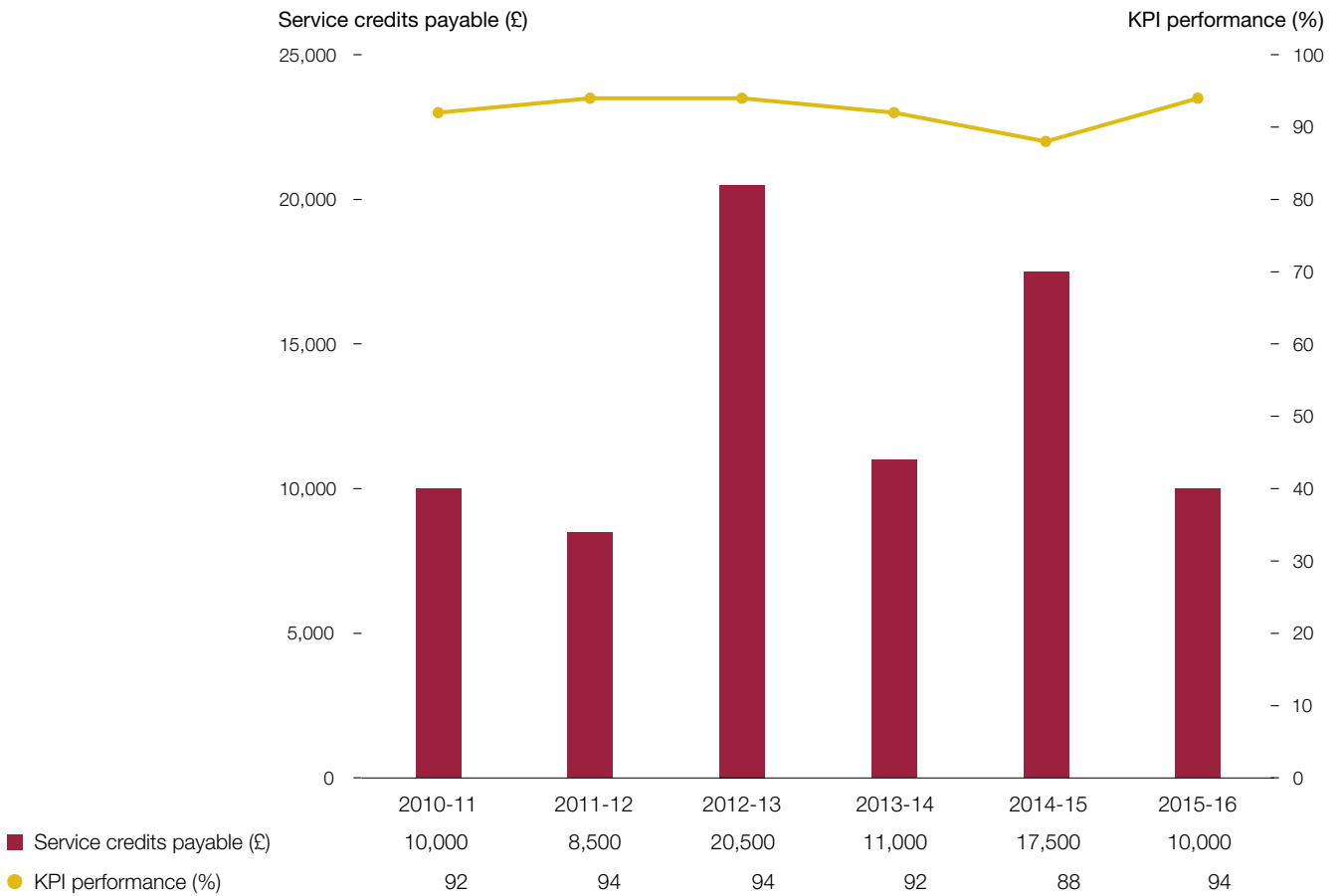
4.23 The BBC's Licence Fee Unit manages its contracts with support from wider BBC finance, procurement, legal and analytical staff, when necessary. In 2015-16, some 2.2 full-time equivalent (FTE) staff managed the Capita contract, including 10% of a manager's time to provide the BBC with assurance over the progress of the transition programme, with 0.5 FTE staff managing the Proximity contract. Contract management costs, respectively, accounted for 0.4% and 0.5% of contract costs. This is lower than the average of 0.8% across the BBC's 11 strategic contracts.

4.24 The BBC Licence Fee Unit does not routinely assess its commercial skills and future requirements. This will be particularly important within the context of changes to policy, the wider environment for collecting the licence fee and contract requirements over the next two years and beyond.

Figure 16

Proximity contract key performance indicator scores, 2010-11 to 2015-16

Key performance indicator scores have been high with 94% of indicators at or above contractually-agreed levels in 2015-16

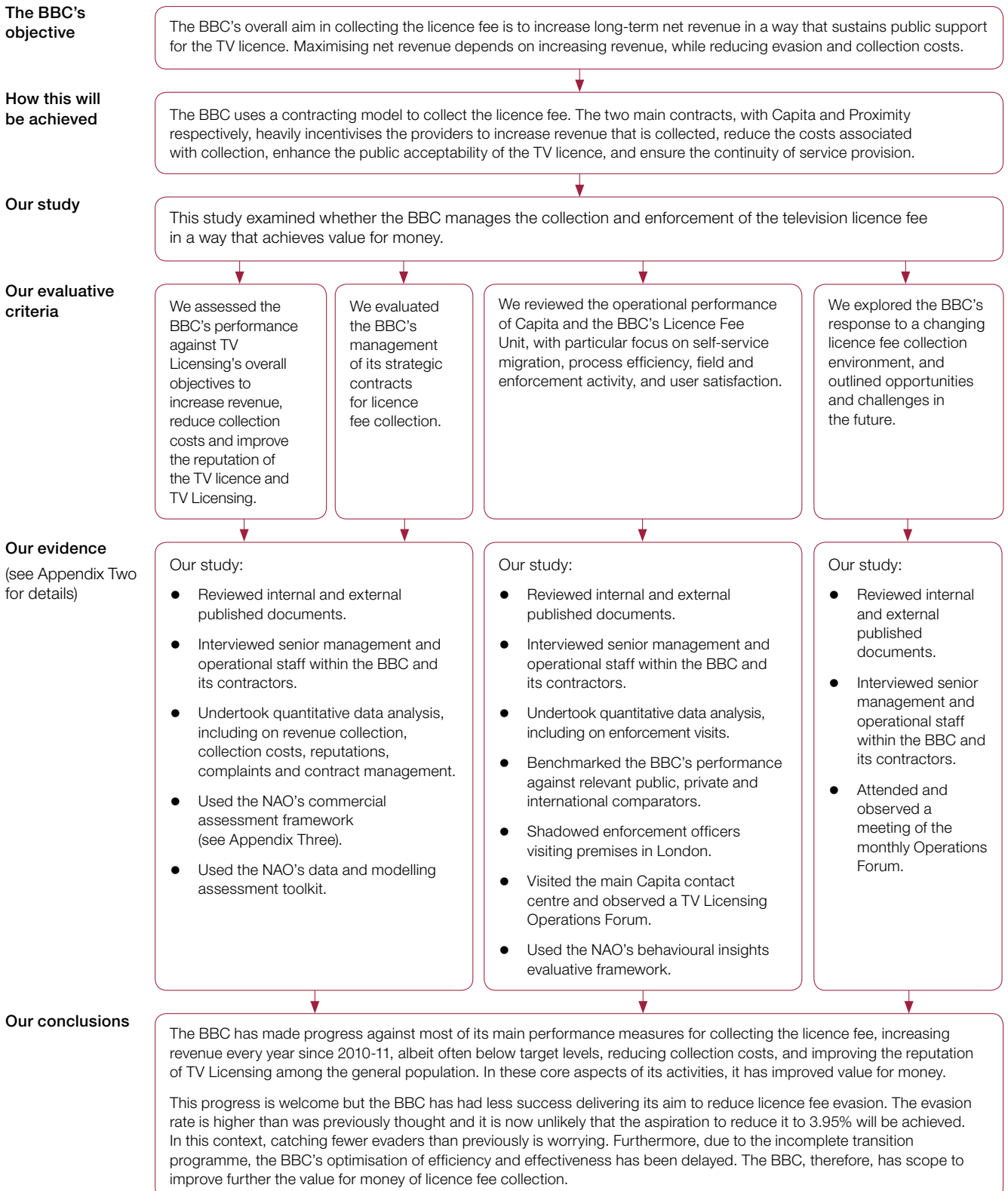


Source: BBC data

Appendix One

Our audit approach

- 1** This study examined whether the BBC's approach to managing the collection and enforcement of the TV licence fee provides value for money.
- 2** Our analytical framework was based on assessing the BBC's ability to maximise licence fee revenue and meet current and future risks. We reviewed:
 - the BBC's performance against its objectives to increase revenue, reduce costs, and improve the reputation of the TV licence and TV Licensing;
 - the BBC's management of its strategic contracts for licence fee collection;
 - the operational performance of Capita and the BBC's Licence Fee Unit; and
 - the BBC's response to a changing external environment, including future opportunities and challenges.
- 3** Our audit approach is summarised in **Figure 17**. Our evidence base is described in Appendix Two.

Figure 17**Our audit approach**

Appendix Two

Our evidence base

1 We reached our conclusions on whether the BBC manages the collection and enforcement of the television licence fee in a way that achieves value for money following analysis of evidence collected between June and August 2016. Our audit approach is outlined in Appendix One.

2 We assessed the BBC's performance against TV Licensing's overall objectives to increase revenue, reduce collection costs and improve the reputation of the TV licence and TV Licensing in the following ways:

- We reviewed internal and external published documents, including revenue and marketing plans, TV Licensing annual reviews, licence fee collection strategies, and reports to the BBC Executive Management Forum.
- We interviewed staff from the BBC, Capita and Proximity across a number of roles including finance, performance and planning, commercial, marketing, and portfolio management to understand how strategic objectives are balanced and prioritised.
- We analysed quantitative data to assess performance in various areas, including revenue collected, collection costs, reputation and complaints.
- We used our modelling review framework, supplementing the Comptroller and Auditor General's reports as part of the BBC's annual Television Licence Fee Trust Statements, to assess whether the BBC's evasion model was reasonable and robust.

3 We evaluated the BBC's management of its strategic contracts for licence fee collection. We did this in the following ways:

- We reviewed internal and external published documents, including original business cases, contract documents, revenue and marketing plans, and relevant annual strategic contract reports that are produced by the BBC across its 11 major outsourced contracts.
- We interviewed staff from the BBC, Capita and Proximity across a number of roles including the finance and contract management teams to explore the BBC's procurement and commercial approaches, including its management of the two main licence fee collection contracts.

- We analysed quantitative data in commercial areas, including on key performance indicators, service credit payments and contract management costs.
- We used our commercial assessment framework to assess the maturity of the BBC's commercial approach in various areas, including its commercial strategy, staffing and allocation of financial and operational risks to contractors (see Appendix Three). We also considered the impact of the recent Capita contract renegotiation.

4 We reviewed the operational performance of Capita and the BBC's Licence Fee Unit in the following ways:

- We reviewed internal and external documents, including TV Licensing annual reviews, external reviews, revenue and marketing plans, licence fee collection strategies, and annual reports to the BBC Executive Management Forum.
- We interviewed staff from the BBC, Capita and Proximity across a number of roles, including front-line operations, planning and performance, and finance to evaluate the approach to operational planning and management.
- We analysed quantitative data on evasion rates, direct debit and self-service use, online sales, complaints, reputation measures, field visits and outcomes, and numbers of full-time equivalent staff.
- We benchmarked the BBC's performance against relevant public, private sector and international comparators in key areas such as direct debit use, rates of evasion and complaints.
- We undertook a site visit to the main Capita contact centre in Darwen and observed a monthly Operations Forum.
- We shadowed two enforcement officers during field visits in West London.
- We used our behavioural insights evaluative framework to assess the approach to marketing and user insight.

5 We explored the extent to which the BBC captures changes to its operating environment and responds appropriately. We did this in the following ways:

- We reviewed internal and external published documents, including BBC Television Licence Fee Trust Statements, the Department for Culture, Media & Sport's white paper *A BBC for the future: a broadcaster of distinction*, independent research reports on audience behaviour and trends, and BBC project documents.²⁶
- We analysed quantitative data on debt and advice trends from Citizens' Advice.
- We interviewed senior staff from the BBC, Capita and Proximity to understand their approach to considering future change, how they identify challenges and opportunities, and to explore their response to upcoming policy, legislative and operational challenges.
- We observed a monthly meeting of the Operations Forum, which included discussion of the Licence Fee Unit's response to future risks and threats.

²⁶ Department for Culture, Media & Sport, *A BBC for the future: a broadcaster of distinction*, May 2016.

Appendix Three

NAO commercial assessment framework

1 To structure part of our review we used the National Audit Office's commercial assessment framework. The framework has been developed to help audit commercial relationships across seven stages of a contract's lifecycle. It uses existing knowledge and experience from across government to identify what good practice looks like.

Figure 18

Findings on the BBC's strategic contracts for collecting the TV licence fee

Area	Summary	Paragraphs
Commercial strategy: Is there an overarching commercial strategy, with a clear rationale for the approach being taken?	The commercial strategy for the Capita contract is based on four critical success measures. These align with the TV Licence Fee Collection Strategy's aim of growing "...long-term net licence fee revenue in a way which sustains public support for the TV licence", which is also supported by the terms and structure of the Proximity contract.	1.11, 4.5 to 4.10, and 4.20 to 4.22
Commercial capability and governance: Does the BBC have the capability needed to manage the contracts and is it developing capability for the future?	Extensive contract governance and reporting are supported by a multi-disciplinary team model and a wider strategic contracts infrastructure. Contract management costs are lower than the average across the BBC's 11 strategic contracts and the BBC Licence Fee Unit does not routinely assess its commercial skills and future requirements.	4.2, 4.23 and 4.24
Market management and sourcing: Has sourcing supported the commercial strategy and followed recognised good practice to optimise value for money?	The contractors have been involved with TV Licensing since 2002 but there was competition throughout the procurement for both contracts. The supplier market is known and managed.	4.3 and 4.4
Contract approach: Does the balance of risk and reward encourage service improvement, minimise perverse incentives and promote good relationships?	The BBC's contract with Capita transferred high levels of financial risk to Capita. Following revisions to BARB data on the number of households with a TV, the levels of revenue that Capita needed to achieve over the remainder of the term made the contract less profitable, creating a risk that Capita would reduce its spending to the detriment of TV Licensing's objectives. In the interests of sustaining the contract and maximising net licence fee revenue, the BBC and Capita agreed to renegotiate the contract, with key terms including a new payment mechanism and providing the BBC with more assurance of Capita's spending on the contract.	4.5 to 4.10, 4.15 to 4.19, and 4.20 to 4.22

Figure 18 *continued*

Findings on the BBC's strategic contracts for collecting the licence fee

Area	Summary	Paragraphs
Contract management: Is the service being managed well, with costs and benefits being realised as expected?	<p>Extensive contract governance and reporting are supported by the strategic contracts infrastructure that provides regular reporting, sharing of lessons learned, and delivers training and workshops.</p> <p>Key performance indicators and service credits for both contracts have incentivised operational improvements. Performance has been high (88% or above) in every year of both contracts. Data is validated through automated contractor systems, supplemented by manual checks.</p>	4.2, 4.4, 4.9 to 4.11, and 4.15 to 4.24
Contract lifecycle: Will the service continue to demonstrate value for money through its lifecycle?	<p>The contract has delivered strong operational performance and incremental improvements, collection costs have decreased and revenue has increased. However, targets to meet stretching licence fee revenue increases (as a means to increase the BBC's income and reduce evasion), and introduce improvements to legacy ICT systems as part of a transition programme, have not been delivered. Furthermore, risks to the financial sustainability of the Capita contract have led to it being renegotiated.</p>	2.3 to 2.21, 3.2, 3.3, and 4.11 to 4.19
Transitions: Is the BBC ready for the end of the contract?	<p>The BBC's contract with Capita was set to end in July 2020, with the option to extend the contract by up to seven years. Recent negotiations have extended the contract to 2022. The BBC's contract with Proximity has been extended twice – to end in April 2018. The supplier market for both contracts is known and managed.</p>	1.4, 4.3, 4.4, and 4.15 to 4.19

