The Economic Impact of the BBC: 2008/09.

A Report for the BBC

This report has been prepared on the basis of the limitations set out in the engagement letter dated 11th September 2009 and the matters noted in the Important Notice From Deloitte on page 1.

BBC FOREWORD

The BBC’s prime purpose is to provide quality programmes and content to inform, educate and entertain audiences and we will never lose sight of that.

But it is also important to recognise that the BBC’s activities have a significant impact on the UK economy. The privilege of licence fee funding makes the BBC a major player in the UK’s creative industries and we have a responsibility to ensure that our investment in the economy works as a force for good – supporting jobs and businesses across the UK.

This comprehensive study shows that the economic benefits of the BBC stretch far and wide, delivering real value to digital and creative businesses across the UK, which in turn spill over into the wider economy.

In total this contribution generates £7.7bn of economic value, meaning that at least two pounds of economic value is generated by every pound of the licence fee. Many private sector jobs are sustained by the BBC and every region of the UK benefits.

Like its predecessor Planet Earth (which is now the biggest selling HD DVD in the US), our groundbreaking natural history series Life required stable long-term investment which only the BBC can provide. By partnering with other producers nearly two-thirds of the funding for producing Life was generated from overseas.

That investment was then injected into local companies and freelancers who work closely with our Natural History Unit in Bristol. 350 people worked on the production and post-production and companies like BDH, the design company who produced the branding for the TV titles, book and DVD, also benefitted. The relationship with the BBC helps sustain jobs in these companies; meanwhile these companies themselves (and their employees) buy further goods and services, creating a positive “multiplier” effect of economic benefits for the regional economy.

Commissions like these have made Bristol the world centre of the Natural History film industry, with a quarter of the world’s output now coming from the city.

Life is set to be a huge success with BBC Worldwide maximising its commercial potential in the UK and around the world, channelling the benefits back to UK licence fee payers. Having achieved some of the highest audience appreciation figures ever recorded on BBC One last autumn, Life has already sold 147,000 DVD boxsets and over 150,000 books in the UK through BBC Worldwide.

It is expected to reach huge audiences in the US this spring where it will be narrated by Oprah Winfrey, has premiered in Canada and been acquired by several Latin American broadcasters and others around the world.

This is not just a story about how an idea gets from a production meeting in Bristol to a TV screen in Brazil, it shows us that quality is key.

Providing quality content for audiences is at the heart of our future strategy. But it is not a question of either/or. What Life and many other success stories show is the twin aim of delivering excellence in programming and better spreading the benefits of the licence fee can go hand-in-hand. Our BBC North project provides another great example – by better exploiting the creative talents and skills of the North, we can enhance programming for our audiences and provide a shot in the arm for the regional creative economy.

As we strive to ensure that every pound works hard for licence fee payers by investing in quality public service content, we also want to ensure that we secure the maximum benefit for UK PLC. It is therefore important that the BBC commissions research like this to produce evidence of its impact on the UK economy and monitors that evidence regularly. Such evidence will ensure that as we focus on creating quality programming we can also think about how best to spread the knock-on economic benefits to local and regional economies.

Our goal now is to ensure that whatever economic challenges we face in future, the BBC works hard to ensure the licence fee continues to benefit the creative and broader economy alike.

Caroline Thomson

Chief Operating Officer, BBC

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Executive Summary

This report – commissioned by the BBC - provides a measure of the economic impact of the BBC in 2008/09. Its focus is exclusively on the economic impact of the BBC and does not cover the performance of the BBC against its six Public Purposes. Specifically, this report does not include consideration of the value licence fee payers receive from BBC services.

Measuring the economic impact of the BBC

Measuring the economic impact of the BBC requires a definition of the scope of the BBC's activities to be included and a methodology for evaluating both the direct and wider consequential impact of these activities.

The scope of the BBC's economic activities

This report aims to include all the main economic activities of the BBC.

The BBC's principal public services comprise nine domestic free-to-air television channels, contributions to S4C and BBC Alba[1], 54 radio stations[2] and services online including BBC.co.uk and BBC iPlayer. Public service activities also include support for multiple orchestras, educational services (such as Bitesize) and many other initiatives.

The BBC's commercial activities include BBC Worldwide which comprises numerous broadcasting channels, sales & distribution and other activities, BBC Studios which is a production facilities provider and BBC World News, the BBC's international news and current affairs television channel.

Through these public service and commercial activities, the BBC has an economic impact both directly through its immediate expenditures on people, infrastructure and services as well as more widely through consequential effects both in the creative sector and beyond.

The methodological framework for assessing the BBC's economic impact

Our approach to estimating the economic impact of the BBC is in two parts.

In the first part, we estimate the gross and net value added of the BBC. Gross Value Added ("**GVA**") is an estimate of value generated for the UK economy as a result of an organisation's activity. We apply standard economic impact analysis which distinguishes three types of GVA impact: direct value added and the wider indirect and induced impacts.[3] The Net Value Added

[1] S4C is the Welsh language channel and BBC Alba is the Scottish Gaelic language channel.

[2] The BBC offers 10 national stations; 39 local stations in the English regions and 5 stations in the Nations.

[3] Direct value added for an organisation is defined as the value of total sales or revenue less expenditure on goods or services purchased from other organisations. This is roughly equivalent to the wage bill and operating surplus of the organisation. Indirect impact is the impact of the organisation on the GVA of firms in the supply chain which supply goods and services purchased by the organisation in question. Induced impacts arise on the GVA of firms outside the

("**NVA**") is the difference between the GVA that we estimate for the BBC and the equivalent measure of GVA that we estimate for a Counterfactual BBC. In the counterfactual we assume that there is an advertising funded PSB that takes the place of the BBC. In this way the NVA represents the incremental value generated by a licence fee funded BBC relative to an advertising funded BBC.

We recognise that there are numerous possible counterfactual funding alternatives. However we were asked to follow the same counterfactual assumptions as previously used in analysis of the economic impact of the BBC commissioned by the BBC Trust.[4] In our approach we also take into account the replacement of the licence fee by advertising funding by considering the wider impact on other advertising media, other commercial broadcasters, the independent production ("**indie**") sector and household disposal income.[5] We also extend the counterfactual to include the BBC's commercial subsidiaries.

In the second part of our methodological framework, we estimate the impact of a number of 'spillover' effects. Spillover effects are by-products of an organisation's activity, experienced by other firms in the same sector or by the economy more generally. In the context of the BBC we consider spillovers relating in particular to the indie sector, the BBC's investment in regional clusters, the provision of training by the BBC, new digital markets and value created for others.

Part I - the BBC's GVA and NVA

We have estimated the BBC's GVA including Joint Ventures (UKTV and 2entertain) at £7,739m and the NVA after considering the consequential impact on the creative sector and on the economy from household disposable income more widely at £2,551m[6].

Composition of the BBC's GVA and NVA

Television is the largest single contributor to the BBC's GVA at £4,497 m.

The counterfactual allows for a reduction in the revenues of not just the BBC but also other commercial broadcasters. This is because the advertising revenues available to fund television are assumed to be insufficient to fully replace the licence fee. Consequently the GVA of the creative sector falls in the counterfactual. And this effect is only partially offset by the release of the licence fee to fund alternative consumer spending because the multipliers used to estimate the wider GVA of this consumer spending are on average lower than the multipliers applied to the expenditure within the creative sector.

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immediate supply chain, as a result of the expenditure of the organisation's own employees and those in the supply chain. The wider indirect and induced impacts are estimated by applying multipliers to the expenditure.

4 The economic impact of the BBC on the UK creative economy July 2008 PricewaterhouseCoopers

5 Households in the counterfactual in place of spending on the license fee have more disposable income to spend in other ways.

6 The GVA and NVA for the BBC's commercial subsidiaries excludes intra-Group transfer payments to avoid double-counting.

Table 1: BBC Net Value Add (2008/09)

	Factual - £m	Counterfactual - £m				Net - £m
		TV	Radio	Online	Other	
BBC Public Service – TV	4,497					
BBC Public Service – Radio	1,040					
BBC Public Service – Online	321					
BBC Public Service - Other (including tax)	534					
BBC Commercial Subsidiaries (including JVs)	1,348					
BBC GVA	**7,739**					**7,739**
BBC Counterfactual		2,336	327	126		(2,789)
BBC Counterfactual Commercial Subsidiaries (including JVs)					594	(594)
BBC NVA						**4,356**
Commercial subsidiary - third party					81	(81)
Other Commercial Broadcasters	7,890	4,321	662			2,907
Online and Other Media	19,777			5,793	12,981	1,003
Alternative use of Licence fee					5,634	(5,634)
Wider Creative NVA						**2,551**

Source: Deloitte analysis

We have estimated how the BBC's spend in the Nations and English Regions contributes to the UK's GVA through the use of UK-level multipliers applied to the BBC regionally allocated budget.[7] This shows that the BBC's GVA is generated across the UK, as set out later in this report.

Part II - the BBC's spillovers

Spillover effects are by-products of an organisation's activity, experienced by other firms in the same sector or by the economy more generally. In the context of the BBC we consider spillovers relating in particular to the indie sector, the BBC's investment in regional clusters, the provision of training by the BBC, new digital markets and value created for others.

The BBC's impact on the indie sector

The indie sector in the UK is of substantial economic importance, generating some £2,160m of revenues in 2008/09[8].

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7 Actual expenditure in regions may be different from regionally allocated budgets but we have assumed that in practice it is closely correlated.

8 PACT policy survey and financial census 2009

The BBC and other broadcasters' commissions from the indie sector generate substantial GVA that would be reduced in the Counterfactual due to the fall in available revenues. We have estimated that this is worth some £893m in net terms (included in BBC NVA estimated above).

In addition, the BBC has spillover impacts first, from the ability of the indie sector to derive more secondary revenues from UK commissions than in the counterfactual and, second, as a result of the stability of funding that the BBC's licence fee provides. We have estimated the secondary revenue and stability of funding spillover effects generate additional NVA of £227m in aggregate compared to the Counterfactual.

Overall we have estimated that £1,433m indie sector GVA would be foregone in the Counterfactual in aggregate as a result of less UK commissions, spillover effects and lower multipliers on remaining spend. This would represent a loss of 33% of indie GVA, from an estimated total indie GVA of £4,320m (based on £2,160m indie sector revenues in 08/09[9]).

The economic impact of the BBC's creative clusters

The BBC's presence outside London is generally recognised as having been critical to the formation of creative sector clusters in Bristol, Cardiff and Glasgow. The commitment to move nearly 2,500 staff to Salford will create another significant media cluster in the UK. Organisations in a cluster benefit from easier and cheaper communication and trade with each other, with their customers and with potential employees. Clusters bring particular benefits to the creative sector, in terms of innovations to products and business models.

Quantifying the benefits of BBC-driven creative clusters is not straightforward. Clusters develop over a long time period, which makes it hard to understand what would have happened in a counterfactual scenario with less or no BBC regional presence. But to provide some quantification, we assume a counterfactual scenario in which the BBC moves all its employees out of Bristol and Cardiff, and reduces its presence in Glasgow to levels consistent with its public service responsibilities in a "typical" region. We assume that this has knock-on effects on non-BBC creative sector employment in each city.

Overall, we estimate that the BBC's presence in these clusters generates higher employment (3,457 in Glasgow, 1,684 in Bristol and 1,763 in Cardiff) compared to the assumed Counterfactual. This is equivalent to 0.8%, 0.5% and 0.6% of GVA in each city-region respectively. In the Counterfactual we quantify the consequent reduction in productivity of the creative sector firms remaining in each of the three city-regions, as a result of the reductions in cluster size, to be around 3.5%. However this is offset by an increase in productivity arising from the assumed transfer of employment to a larger cluster, London.

Our estimates do not allow for any (regional) distributional weighting. It could be argued that a job or pound of GVA in less prosperous areas is "worth" more to society than an equivalent job or GVA in a more prosperous area. Our estimates also do not attempt to value the cultural and social benefits of the BBC producing content outside London.

[9] PACT policy survey and financial census 2009, p7

The economic impact of BBC training

The BBC is the main provider of training services in the creative sector. It spent nearly £45m on training in 2008/09, which is substantially more than ITV and Channel 4. The cumulative impact of current and past BBC training on the productivity of the sector is likely to be significant. BBC training increases the productivity of its own staff, and raises the productivity of staff in the rest of the sector through training of non-BBC creative sector workers, and as a result of BBC-trained staff moving to other parts of the sector.

To quantify the size of these impacts, we estimate the proportion of staff in the creative sector that would receive training in the counterfactual scenario. As the Counterfactual BBC would have lower and commercially-derived revenues, we have assumed that its training spend-per-employee would equate to existing average ITV levels. This implies a reduction in BBC training spend from £44m to £6m a year. ITV's training spend would also fall in the counterfactual scenario. We estimate the impact of this reduction in training on sector productivity using the results of a study of training in UK firms. Our central estimate is that sector productivity would be £59m a year lower in the counterfactual.

The BBC's impact on new digital markets

The BBC's remit includes "to deliver to the public the benefit of emerging communications technologies and services and, in addition, taking a leading role in the switchover to digital television". 10 Consequently the BBC plays an important role in developing digital markets.

We consider the BBC's contribution to the developments of digital market in the UK by focussing on Freeview, the collection of free to air services on the Digital Terrestrial Television ("**DTT**") platform, and Video-on-demand ("**VoD**") services delivered through bbc.co.uk and iPlayer.

We estimate the economic impact that the BBC has generated from its contribution to accelerating digital switchover. We find that, for financial year 2008/09, the spill over effects from the BBC's contribution to accelerating DSO can be estimated to be in the range of £52m to £263m depending on the assumptions (at least £95m assuming that in the absence of the BBC's contribution, DSO would have been postponed to 2016). We were not able to quantify the impact of the iPlayer.

Other impacts of the BBC on creating value for others

[10] Royal Charter for the continuance of the British Broadcasting Corporation, The Public purposes (f)

We consider spillover impacts of the BBC surrounding the creation of value for others. These comprise effects such as the impact of the BBC on the value of UK exports – through quality leadership and the impact of the BBC brand; the impact of the BBC's research and development activities on the economy; the creation of value for BBC Worldwide's Joint Venture ("**JV**") partners, associates and high-street retailers; and the contribution of the BBC in encouraging interest in cultural products and events, in particular new UK music.

Two of these impacts – creating value for JV partners and associates, and expanding retail and other third party markets – are quantifiable. We assume that the profits accruing to JV partners as a result of BBC Worldwide's operations are incremental, and estimate the net spillover impact to be approximately £26m in JV profits. We estimate that the value created for associates and third parties is not incremental.

The other impacts – the effect of the BBC on the value of UK exports, the impact of the BBC's research and development activities, and the creation of interest in cultural products and events – are not quantifiable. We find evidence to suggest that incremental value is generated in these areas, and that there is a positive net impact, but are not able to quantify this impact.

Below is a summary of the spillover effects of the BBC which we have estimated. The 'Net Impact' indicates the size of the estimated spillover effect (the difference between the spillover effect in the Factual and Counterfactual scenarios). However it should be noted that a proportion of these net values are already included in our BBC GVA/NVA estimates presented above. For example, the benefit of the BBC employing highly trained and productive staff is reflected in its GVA. Similarly, of those non-BBC staff that the BBC trains, some will provide content or services directly to the BBC. Again, the benefits of these trained staff are captured in our BBC GVA figures. However, the productivity of non-BBC staff when they provide services to players beyond the BBC is not included in our BBC GVA and is therefore incremental.

The 'Incremental Impact' column indicates the amount of each spillover effect that is incremental to the BBC's NVA estimates.

Table 2: Summary of net spillover estimates(2008/09)

Spillover effects	Description	Net impact, £m	Incremental Impact, £m
Indie sector	The net impact on the scale of the sector as a result of the BBC's funding structure	1,433	333
Clusters (Bristol)	The net regional impact[11] of the BBC locating its activities outside of London	51	19
Clusters (Cardiff)		53	12
Clusters (Glasgow)		105	64
Clusters (London)[12]		-215	-98
Training[13]	The net benefit of the BBC's current training spend portfolio	59	16
Opening up new markets[14]	The net impact of the BBC acting as a spearhead to the UK's transition to digital switchover	95	95
Creating value for others	The incremental profit that accrues to BBC Worldwide JV partners	26	26
Creating value for others	Impact on UK exports, impact of R&D, creation of revenue opportunities for third parties, contribution to new music and cultural activities	Not quantified	Not quantified

Source: Deloitte analysis

Note: this table presents "central" estimates. The range estimates calculated for each spillover effect are presented in the relevant sections of the report.

[11] Regional cluster impacts are estimated using ONS 'direct' GVA data. This GVA excludes indirect and induced impacts.

[12] London Cluster figures are negative because we assume that in the counterfactual BBC employment and non – BBC creative sector employment would have been located in London instead of the other cluster cities. There is a small net increase in GVA in the Counterfactual compared to the Factual due to this assumption. This is because the move of employment from a series of smaller clusters to a larger cluster produces a small net increase in productivity in aggregate.

[13] Training impacts are estimated using ONS 'direct' GVA data. This GVA excludes indirect and induced impacts.

[14] These values are the total consumer and producer surplus. They are not GVA values, but are included in the table for completeness

1 Introduction

This report provides a measure of the economic impact of the BBC in 2008/09, including the BBC's Public Service and Commercial Subsidiaries. It assesses the economic impact of the BBC in terms of the BBC's Value Added, and the economic benefits that arise as 'by-products' of the BBC's activities ('spillover effects').

1.1 Aims

This report provides a measure of the economic impact of the BBC. Although the creation of economic value for the UK is not a primary purpose of the BBC, the Trust has set the BBC the challenge of ensuring that, wherever possible, it delivers positive benefits to other stakeholders in the sector[15].

1.2 Scope

The focus of this report is exclusively on the economic impact of the BBC and does not cover the performance of the BBC against its six Public Purposes. Specifically, this report does not consider the consumer and citizen value generated by the BBC's services or the value for money delivered by the BBC in terms of the quality of its programming.

Measuring the economic impact of the BBC requires a definition of the scope of the BBC's activities to be included and a methodology for evaluating both the direct and wider consequential impact of these activities. This report includes the BBC Public Service and Commercial Activities:

- The BBC's principal public services comprise nine domestic free-to-air television channels, contributions to S4C and BBC Alba[16], radio stations reaching two thirds of listeners and online services including BBC.co.uk, BBC iPlayer and other digital services. Public service activities also include support for multiple orchestras, educational services (such as Bitesize) and many other initiatives.

- The BBC's commercial activities include BBC Worldwide which comprises numerous broadcasting channels, sales & distribution and other activities, BBC Studios & Post-production which is a production facilities provider and BBC World, the BBC's international news and current affairs television channel.

This report does not include the activities of the BBC World Service and BBC Monitoring.

Our report assesses the economic impact of the BBC in the UK, including the impact on creative and non-creative sectors. Therefore our assessment includes the BBC's activities and expenditure across a variety of areas such as content, distribution, publishing, sales and marketing as well as infrastructure and overheads.

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15 Annual Report 2008/09, Part One, page 54

16 S4C is the Welsh language channel and BBC Alba is the Scottish Gaelic language channel.

1.3 Report structure

Our report assesses the economic impact of the BBC in terms of the BBC's Value Added as well as spillover effects generated by the BBC's activities which benefit other industry players. The Value Added of the BBC comprises the value generated by the BBC for the UK economy as a result of its expenditure, as well as the resulting 'ripple' effects as the initial expenditure continues to flow through the supply chain and the UK economy. The Spillover Effects consist of the economic benefits that arise as by-products of the BBC's activity, experienced by other firms in the same sector or by the economy more generally.

The report begins by describing:

- the scope of the BBC's economic activities (Section 2); and
- the framework for assessing the BBC's economic impact (Section 3).

The body of the report is structured in two parts:

- Part I discusses the Gross and Net Value Added; and
- Part II contains our analysis of BBC spillover impacts.

Part I

In Part I we consider the Gross Value Add ("**GVA**") of the BBC in 2008/09 as a result of its expenditure on remunerating employees as well as on a range of third party suppliers across content, technology, publishing, marketing, and other. The estimated 'Factual' GVA impact is compared to a hypothetical 'Counterfactual' scenario in order to estimate the incremental UK GVA attributable to the BBC's activities, this is the UK economic activity that would not exist but for the licence-fee funded BBC. We refer to this as Net Value Added ("**NVA**"). This also takes into account the alternative use that the funds currently committed to the licence fee would have in the Counterfactual and the associated economic activity that would be generated.

Part I contains the following sections:

- Section 4 presents the GVA analysis; and
- Section 5 discusses the Counterfactual and NVA.

Part II

In Part II we analyse the spillover impacts of the BBC. Our report focuses on those BBC spillover impacts that we can quantify; namely impacts across the indie sector, the regional economies of cluster areas, BBC training, the opening up of new digital markets and additional value created for others across a range of activities.

Part II contains the following sections:

- Section 6 discusses our analysis of the impact of the BBC on the indie sector;

- Section 7 sets out the analysis of the impact of regional clusters on the sector's value added;
- Section 8 presents our analysis of the impact of BBC training;
- Section 9 sets out the estimated spillover impact from the BBC opening new digital markets; and
- Section 10 describes other spillover impacts of the BBC relating to creating value for others.

2 The scope of the BBC's economic activities

The BBC is the oldest and largest broadcasting corporation in the world. Funded by licence fee, it creates and distributes audio, visual and online content that aims to inform, educate and entertain UK citizens and promote its public purposes as set out in its Royal Charter.

The BBC plays an important role in the UK's creative economy: stimulating and supporting other creative organisations through investment, training and vigorous competition. It is partly because of the BBC that the UK creative sector is as vibrant, internationally recognised and profitable as it is today.

Although naturally UK-centric, the BBC is also a global brand, widely regarded for the quality and integrity of its content. It monetises this reputation and brand through its commercial holdings, providing additional funds to reinvest in content.

This section briefly describes the full scope of the BBC's economic activities that are included within our analysis in order to provide a comprehensive estimate of the economic impact of the BBC

2.1 The BBC's public service activities

2.1.1 Television

The BBC was founded in 1922 and became a national broadcaster, governed by Royal Charter, in 1927. It has historically been central to the development of broadcasting both in the UK and worldwide. Initially it offered radio broadcast services, but then commenced a regular television broadcast service in 1936.

In 1967, BBC2 became the first TV channel in Europe to regularly broadcast programmes in colour. In 1974 the BBC launched Ceefax, the world's first Teletext service. More recently, it has driven the development of Freeview digital terrestrial TV and Freesat, the free to air satellite service, and is moving to introduce both free HD channels and the hybrid on-demand/broadcast service known as 'Canvas'.

Today, the BBC has nine domestic free to air television channels and contributes substantially to both S4C, the Welsh language channel and BBC Alba, the Scottish Gaelic-language channel. Through these outlets the BBC distributes content created in-house and that created by numerous non-BBC producers – in 2008, 39% of output was produced by such companies.

The nature of this content is notable because, besides core entertainment and sports programming, the BBC is a major source of culturally vital but less economically viable genres such as natural history, religious, children's and educational programming. This contribution sustains the independence and uniqueness of British culture and in part accounts for the UK having substantially less foreign-produced content than other non-US countries.

It should also be noted that much of the BBC's TV output is produced outside London. Extra-London operations, as well as regional independents, accounted for 34.9% of output in 2008.

21.2 Radio

The BBC currently operates ten national analogue and digital stations, 39 local radio stations in England and 5 radio stations serving the Nations.

The BBC's radio properties promote diversity of content beyond that provided by commercial broadcasters, who rightly focus on purely-commercial genres such as popular music – Radio 4, for example, is the largest commissioner of original radio drama in the world. Furthermore, through the Asian Network, Radio nan Gàidheal, BBC Radio Cymru and local stations, the BBC promotes social inclusiveness and cultural distinctiveness that may otherwise not be represented. In 2008, the BBC spent £202m on programming in the Nations and Regions of the UK.

In addition to the above, the BBC has promoted digital radio in the UK, enabling an ecosystem of commercial and PSB channels to address and monetise niche and national markets.

2.1.3 Online

Online, the BBC has been a leader both amongst UK businesses and international media companies. First through bbc.co.uk – online since 1997 – and latterly the iPlayer, the BBC has contributed to the scope and depth of the UK's online media estate and has helped educate people of all ages through the Internet.

BBC.co.uk is the third most visited website in the UK and amongst the top 50 in the world; over four million people are regular users of BBC services on their mobile phones and the iPlayer received over 100 million programme requests per month by the end of 2009.

In addition to branded online and linear consumption, almost ten million people also use the 'Red Button' to enhance their viewing experience and access new services. BBC podcasts are regularly featured in the top-ten most downloaded items on Apple's international iTunes service.

2.1.4 Journalism and other activities

The BBC covers local, national and international news through radio, television and online channels. It provides a counterpoint to commercial and international news services and reaches a weekly average of 34m adults through TV news, 25m on the radio and 10m online.

Additionally, BBC Journalism is the only always-on conduit for political debates in the National and Regional Houses, through BBC Parliament, a service that is culturally important but commercially non-viable in the UK.

The BBC has five full orchestras within its organisation, performing a cultural function through year-round live performances as well as the enduringly popular Proms season at the Albert Hall. Its principal orchestra, the BBC Symphony Orchestra, rated as one of the best in the UK, employs around 100 performers at any one time and forms a key part of the schedule of Radio 3 as well as the lynchpin for the Proms.

The orchestras are just part of the BBC's contribution to music in the UK. Besides being a substantial publisher of music through BBC Worldwide, it plays host to, and promotes popular events such as Radio 1's "Big Weekend" and Radio 3's regular regional concerts.

In addition to the well-known public-facing activities, the BBC is a major stakeholder in drives to Digital Switchover of both TV and radio in the UK and is likely to take on a significant role in the Government's Digital Britain initiative.

2.2 The BBC's commercial activities

As we have seen above, the BBC is a large scale producer and acquirer of content on behalf of the British public. In order to ensure that public value is best served, the BBC seeks to monetise secondary rights to its content via a series of commercial ventures. Alongside content rights monetisation, the BBC's Commercial Subsidiaries invest in original content on audio, visual and print media, provide facilities through BBC Studios and Post Production that enable the BBC and other producers to create original programmes and undertake other value-additive activities. Finally, BBC World News provides an international news service.

2.2.1 BBC Worldwide

BBC Worldwide is the largest of the Commercial Subsidiaries, with annual revenues in excess of £1bn. Operating under a charter that ensures commercial efficiency, fit with public purposes and market fairness, it monetises BBC content assets through a number of operating units.

Notable amongst these operations are Channels, which manages a global portfolio of 44 wholly-owned and JV channels, including UKTV – a UK market JV with Virgin and Home Entertainment (which contains 2Entertain - the UK's largest producer and distributor of DVDs). Other interests include Sales & Distribution (responsible for content syndication) and Magazines, which produces high-volume titles such as Radio Times and Top Gear.

2.2.2 BBC Studios & Post production

BBC Studios & Post production (BBC S&PP) is a facilities house for the production of content, incorporating studio premises and production technology, which it leases to the BBC and other producers on a short-term basis. 75% of the business's £70m annual revenue comes from the public service side of the BBC, with the remainder sourced from outside. BBC S&PP is a significant and important part of the facilities industry in the UK.

2.2.3 BBC World News

BBC World News is the BBC's international news and current affairs television channel and is a key part of the UK's international marketing. Through operations and syndicates in major international markets, BBC World News provides an international conduit for the BBC's brand values and helps promote the UK overseas, thereby accentuating the success of other BBC commercial businesses and of UK content and non-media businesses (such as tourism).

2.3 The BBC's geographic and social reach

The BBC is primarily a buyer and employer of UK skills, not just in the creative hub that exists in London, but also in the Nations and Regions of the UK, where it spent nearly £1 bn in 2008/09. The BBC is therefore an employer of significant scale in the UK and outside of London, with all the associated benefits to regional skills and education.

The BBC continues to invest substantially in access services for deaf, blind and disabled consumers of its services, through persistent commitments to sign language, speech-to-text and other functionality.

Through its compliance with its statutory obligations, the BBC provides support to UK cultural diversity through providing a broad array of regional and national content. This includes minority language content such as Gaelic, Welsh and Irish.

Alongside direct TV, radio and online content the BBC provides Welsh services through the Welsh television channel (S4C). Under a strategic partnership with S4C, the BBC provides substantial programming investment. In 2008/09 this was £23.8m. The BBC manages a direct line to S4C to feed its live and pre-recorded content to the channel. Annually, the BBC provides over 520 hours of programming free of charge to the channel. Providing this core programming support, which includes some of the most popular programming such as Pobl y Cwm and the Newyddion news service, enables S4C to invest more in independently produced, locally sourced programmes.

The BBC provides substantial Gaelic-language content through its partnership with the Gaelic Media Service (BBC Alba) and through its own Gaelic radio services and online Gaelic language presence. At least 50% of BBC Alba's content budget is spent in the independent sector. As the Ofcom Market Impact Assessment notes[17], there are numerous potential dynamic benefits to the local areas where content is provided.

[17] Market Impact Assessment of the BBC/Gaelic Media Service BBC Alba

3 The framework for assessing the BBC's economic impact

3.1 Introduction

This section sets out our overall approach to assessing the economic impact of the BBC. We consider two main types of economic impact: Gross Value Added ("**GVA**") and Spillover effects. We then go on to estimate the Net Value Added ("**NVA**") of the BBC; a measure of the incremental economic impact of the BBC relative to a Counterfactual estimate of the value added in the absence of a licence fee funded BBC.

We begin this section by explaining these measures of economic activity in general terms and then go on to describe our approach to estimating them in respect of the BBC.

3.2 Measuring economic activity

Our overall approach to assessing and quantifying the economic impact of the BBC is based on estimating GVA and Spillover effects.

Gross Value Added

GVA is an estimate of value generated for the UK economy as a result of an organisation's activity, in this case the BBC. Standard economic impact analysis distinguishes three types of GVA impact:

- the organisation's own or **direct value added**, defined as the value of its total sales or revenue less its expenditure on goods or services purchased from other organisations, roughly equivalent to its wage bill and operating surplus;
- **the indirect impact** on the GVA of firms in the supply chain, whereby these firms add value to the goods and services purchased by the organisation in question and in their further transactions with other firms in the supply chain; and
- **induced impacts** on the GVA of firms outside the sector or supply chain, as a result of the expenditure of its own employees and those in the supply chain.

Multipliers – combining GVA impacts

The combined GVA impact of the direct value added and second-round or 'ripple' effects through the economy can be measured by applying multipliers to expenditure. For instance, a multiplier of 1.7 would imply that £100m of activity by the organisation in question results in a total GVA impact of £170m.

The appropriate size of a multiplier applied to an organisation's GVA depends on the extent of linkages between the organisation and its supply chain. The greater the linkages between the organisation and its supply chain the larger the multiplier will be. However, though the expenditure of the organisation will re-circulate through the supply chain and other sectors of the economy, the impact on overall GVA tapers off in each successive round as it is subject to varying forms of leakages.[18]

The magnitude of these effects depends crucially on the spatial unit, the nature of the supply chain under consideration and on the degree of spare capacity in the sector or wider economy. Accordingly, as we discuss further below, for the purposes of our analysis it is necessary to estimate multipliers that are as far as possible specific to the BBC.

Spillover effects

Spillover effects are by-products of an organisation's activity, experienced by other firms in the same sector or by the economy more generally. In the context of the BBC we consider spillovers relating in particular to the indie sector, the BBC's investment in regional clusters and the provision of training by the BBC.

Some spillover effects generated by an organisation over the past (such as its impact on the competitive environment of the sector) will have influenced the structure of the supply chain and therefore should be already reflected in indirect and induced value-added impacts. However, other spillover effects will not be reflected in GVA estimates and can therefore be added to those GVA estimates.

Estimating Net Value Added – using a Counterfactual

For both GVA and spillovers, the estimated 'Factual' impacts can be compared to impacts estimated in a hypothetical 'Counterfactual' scenario. The difference between the GVA and spillover impacts in the Factual and Counterfactual scenarios provides a measure of the incremental economic impact of an organisation. In our analysis of the economic impact of the BBC the use of a Counterfactual allows us to take into account the likelihood that in the absence of a licence fee funded BBC, there would be an alternatively funded Public Service Broadcaster.

Figure 1 below illustrates these concepts.

[18] This may be through the employees of the organisation and in the supply chain spending some of their income on imports such as foreing goods or on overseas holidays. Similarly, firms in the supply chain may import some proportion of their inputs (where imports could be from outside the local area or region, as well as from overseas) which will diminish the subsequent knock-on effects for the economy.