THE BBC TRUST CONCLUSIONS:
The economic impact of the BBC on the UK creative and broadcasting sector
INCLUDING AN INDEPENDENT ASSESSMENT AND REPORT BY PRICEWATERHOUSECOOPERS (PwC)

July 2008
BBC TRUST CONCLUSIONS

Background

The BBC Trust commissioned PwC in January 2008 to conduct research into the economic impact of the BBC's publicly funded services on the UK broadcasting and creative sector. Of course, this is not the only work in the area: the Department for Culture Media and Sport (DCMS) Creative Economy Programme and the DCMS paper, “Creative Britain: New Talent for the New Economy” have estimated the overall value of the creative industries. This report is also published at a time when both OFCOM is conducting its second Public Service Broadcasting (PSB) review and the Scottish broadcasting Commission is surveying the current state of television production and broadcasting in Scotland.

Whilst the role of the BBC has been debated in a wide body of literature, the economic impact of the BBC has only been assessed in relation to the launch of specific services, such as iPlayer or the Gaelic Digital Service. This report aims to bridge this gap and provide a broader assessment of the economic impact of BBC's licence fee funded activities on the creative economy. Because the report was limited to the BBC's licence fee funded activities, the report does not include BBC World Service (funded by Grant in Aid from the Foreign and Commonwealth Office) and BBC Worldwide which is a commercial subsidiary of the BBC.

The objective of this report

The BBC Trust bases its decisions on evidence. Many of the BBC’s economic decisions provoke strong opinions ranging from those who call for the end of the licence fee, a BBC reduced in scale or that the BBC should do more in certain genres or geographic locations. At the same time we know from independent research commissioned by DCMS that the creative industries are major contributors to the UK economy.

The purpose of this report is to provide the Trust with a factual basis to engage with a range of public debates and as a guide for those areas of the BBC’s activity the Trust should pay the closest attention to in future.

The report does not assess either the policy behind the current funding model or how efficiently the BBC spends its income, but rather seeks to understand the economic impacts of current and planned expenditure on the wider creative sector. Hence the report’s focus is to provide a qualitative assessment of the by-products of the BBC’s expenditure on the UK’s media and broadcasting sector. The report has three main objectives:

➢ To provide the Trust with a qualitative assessment of both the positive and negative economic impacts generated by the BBC on the wider creative sector. This assessment was not designed to question the current funding model for the BBC or how efficiently the BBC spends that money, but rather the economic impacts of that expenditure on this sector. Hence the report’s focus is to provide a qualitative assessment of the by-products of the BBC’s current and planned expenditure on the UK’s media sector;
➢ To attempt to quantify these benefits and costs of the BBC’s economic impact in this area;
➢ To provide an assessment of the benefits and costs at a UK plus nations and regions level.

The main evidence from the PricewaterhouseCoopers Review

PwC undertook a comprehensive review which utilised independent experts, relevant literature and a wide ranging consultation with stakeholders. Because of this, the report has been able to draw on a diverse range of opinions.

The report identifies the BBC as having a pivotal role in the stimulation, development and sustenance of the creative sector in the UK. Significant investment in both in-house and independent production by the BBC underpins a sector which is becoming increasingly important to the UK economy. The stable nature of this BBC investment in creative production helps sustain a level of vibrant creative activity in all parts of the value chain. Many stakeholders identified the stability the BBC brings to the sector as a major benefit.

Alongside this impact on investment, the report identifies the BBC as having a number of positive impacts within the creative sector. Firstly, the BBC plays a key unique role in training staff within the sector. Secondly BBC investment in the regions has led to creative clusters, such as Bristol or South Wales. This is helping to make broadcasting less London centric than it has been historically. It also brings the benefits of licence fee funded investment to the wider economy. Finally, the BBC has played a leading role in promoting early adoption of new technologies and platforms, such as digital television or DAB radio.

Against this, the report acknowledges that the BBC may generate both direct and indirect negative impacts on commercial business models. One direct negative impact stems from the BBC attracting audience share away from commercial broadcasters. This might make it harder for other broadcasters to increase advertising or subscription revenues. The indirect impacts of the BBC stem from how its investment decisions might have wider and unforeseen ramifications in the broadcasting sector. For example, the BBC has been dynamic in launching a range of free services, such as iPlayer. Whilst this service has been praised widely, it may impact on the ability of potential competitors to launch or sustain equivalent services on a paid for basis.

The relationship between the BBC and its commercial partners and suppliers was also identified by the report as an area which may warrant further consideration. Feedback from some stakeholders suggests that the BBC may further enhance its positive economic impact by improving how it works with partners and suppliers, particularly in the regions.

The overall positive economic impact of the BBC’s expenditure on creative activities, including expenditure on overheads and infrastructure, was estimated to be approximately £6.5bn per annum or more than £5bn in the creative sector alone. In addition, PwC have estimated that, when compared to a hypothetical scenario which replaces the BBC with a commercial broadcaster, the current structure delivers an estimated £4.4bn of additional economic impact.
Finally, the report suggests that whilst the BBC has had a positive role in promoting new technology, it questions whether sometimes this may lead to the market not adopting what is proved to be ultimately the best technological solution.

**The Trust’s conclusions**

| The stable funding of the BBC, through a long-term licence fee, is a privilege for the BBC, but also a vital source of stability for the whole UK broadcasting industry. |

Assessing the economic impact of any organisation is inherently complex. This is especially true of the BBC which has a uniquely broad and diverse remit. Nevertheless, it is clear that the BBC plays a pivotal role in the UK broadcasting sector. The qualitative and quantitative aspects of this role appear to be largely positive. The report suggests that the BBC plays a leading role in the UK creative and broadcasting sector by helping to stimulate, develop and sustain investment in high quality broadcast content. This role will only be enhanced by the growing importance of the creative sector to the UK economy. Without the positive impact of the BBC, other parts of the creative sector, ranging from the UK film industry to orchestras and language services to the nations, could be greatly diminished or lost.

In addition to the direct impact of BBC’s investment in the UK’s creative industry, there are also several spillover effects. The BBC’s ability to provide significant and stable investment, even during periods of economic downturn, has provided critical mass to many creative and broadcasting companies and the sector as a whole. The BBC’s leading role as a trainer of talent, from journalists to production staff, has provided the sector with a pool of talent to draw upon. The BBC’s role in developing new technology and platforms, such as digital television or DAB radio, has helped develop and grow the sector.

| The BBC generates around twice the economic value of the licence fee invested in it. For the most part the value of the BBC is additive – commercially-funded broadcasters would not gain significantly from a BBC funded by commercial means, although a smaller or commercially-funded BBC would mean lower investment in the production sector. |

The report estimates the overall economic impact, or the ‘Gross Value Added’ (GVA) of the BBC at approximately £6.5bn, and £5bn of that is in the creative sector alone. Given the diverse portfolio of activities undertaken by the BBC, this quantification can be only a broad approximation. Nevertheless, even allowing for a margin of error, it is clear that the BBC does generate substantial GVA to the UK creative sector and the wider economy.

Interestingly, attempting to refine this estimate to take account of potentially different market structures does not generate significantly different results. The report considered a number of different hypothetical scenarios with different funding models (a mix of licence fee, subscription and advertising revenues) for the BBC. It was found that unless an advertising funded BBC significantly increased the level of advertising expenditure in the sector, the overall economy of the commercial broadcasting sector is not highly sensitive to these scenarios.
In other words, a substantial reduction in or removal of licence fee funding would serve to reduce the available funding for the broadcasting sector as a whole. Indeed, a commercially funded BBC would simply serve to draw advertising revenue away from other broadcasters.

**Although the study looked for negative impacts, there was limited evidence of these and of them being clearly attributable to the BBC. However, there are areas to be watched carefully including the impacts on commercial radio and choice of technology. The BBC can increase its positive economic value by seeking to minimise negative impacts in these areas.**

The Trust recognises that in fulfilling its Public Purposes, there is an inherent potential for the BBC to create negative economic impacts within the creative and broadcasting sector. Other broadcasters can be directly affected through their potential audiences being attracted to BBC services. Many stakeholders also expressed concern that their ability to profitably launch new services may be undermined by the presence of the BBC in that market. However, it is clear that these concerns over the potential negative economic impacts of the BBC have to be placed in the context of both a rapidly changing market place which is impacting all broadcasters as well as an increasingly complex relationship between the BBC and the commercial sector. Most importantly, the report suggests that there is little evidence to date that either of these effects are substantial or can be attributed to BBC activities alone.

Some stakeholders identified the level of expenditure in some markets, particularly commercial radio, as a potential source of negative impacts on their business models.

An assessment of the scale of such an impact is not straightforward and cannot be focused on the BBC alone. As PwC note, this assessment would have to be made as part of a broader analysis of market structure and behavioural issues (e.g. such as management conduct or regulation of the commercial sector) which may or may not have had a greater impact on the performance of commercial radio broadcasters.

Whilst there is clear evidence that the BBC’s radio channels have been performing well, as demonstrated by their consistently high approval ratings from a diverse group of listeners, the Trust is not aware of compelling evidence as to the negative impacts of BBC radio on the commercial sector. Nevertheless, the Trust will pay particular attention to the issue of distinctiveness in radio services as part of its programme of service reviews. The Trust will also ask the BBC Executive to examine how it can improve co-operation with the radio industry.

The BBC has played a key role in promoting new technology within the sectors it operates, such as digital television or DAB radio. Some stakeholders have argued that there is a danger that the BBC may promote one technological solution when a different solution may prove to be better ultimately for the wider sector. The Trust believes that this risk is inherent to the process of technological innovation and that such a risk is common to any organisation investing in new technology, however that organisation is funded.
There is strong potential for economic impact in nations and regions, especially through stronger partnerships. The BBC’s increased investment at the four nations and regional level has meant that this positive economic impact is starting to be felt more directly at a local level.

BBC investment has helped develop clusters of creative activity outside of London, most notably in Bristol and Wales. Such a trend will be enhanced by the Pacific Quay facility in Scotland and the planned relocation of some operations to Salford. However, the Trust is conscious that the BBC needs to consider which patterns of regional investment may ultimately provide a greater positive economic impact on the wider creative sector.

Many stakeholders suggested that the positive economic impact of the BBC could be enhanced through better working relationships with partners and suppliers. Stakeholders identified both the location and size of suppliers and partners as potential barriers to the development of a working relationship with the BBC. In addition, some suppliers and partners argued that an increase in the BBC’s external commissioning of long running series would foster a more stable investment profile in the creative sector. The Trust believes that the BBC should not compromise its own quality or ability to deliver value for money, in the development of new content. However, in line with the challenge it set the Executive as part of the BBC response to the Ofcom PSB review, it will request that the Executive consider whether existing or potentially new contractual arrangements with partners and suppliers can be enhanced.

Final remarks

Whilst the primary purpose of the BBC must be to deliver quality public service broadcasting in an efficient manner; the size and scope of the BBC means that it generates a significant economic impact within the UK’s creative sector. That impact, through the funding provided by the licence fee means the BBC is mostly additive to the broadcasting market and does not draw revenue away from commercial providers.

The Trust believes that the enhancement or focusing of that economic impact should not compromise the BBC’s Public Purposes and their high quality and cost effective fulfillment for the licence fee payer. It is the Trust’s view that a BBC, better able to reflect the whole UK that it serves, will better fulfill its public purposes and it looks forward to more detailed proposals from the Executive in the autumn for building sustainable production investment throughout the BBC network.

However, the Trust recognises that any potential positive impacts from the BBC’s investments in new services or technologies will need to be balanced carefully against the potential for adverse impacts on the wider market. We are publishing the PwC report as we do all studies commissioned by the Trust, so the evidence which informs our judgements is available to others who have an interest in the BBC and its role within the United Kingdom. More information about the Trust and other evidence gathered by us is available at www.bbc.co.uk/bbctrust.

BBC Trust
July 2008
BBC Trust

The economic impact of the BBC on the UK creative economy

Summary and Main Reports

July 2008
Important Notice

This report has been prepared by PricewaterhouseCoopers LLP ("PwC") for the BBC Trust in connection with the economic impact of the BBC on the creative economy under the terms of the PwC engagement letter with the BBC Trust dated 9 January 2008 (the "Engagement"). This report contains information obtained or derived from a variety of sources as indicated within the report. PwC has not sought to establish the reliability of those sources or verified the information so provided. Accordingly no representation or warranty of any kind (whether express or implied) is given by PwC to any person (except to the BBC Trust under the relevant terms of the Engagement) as to the accuracy or completeness of the report. Moreover the report is not intended to form the basis of any investment decisions and does not absolve any third party from conducting its own due diligence in order to verify its contents.

PwC accepts no duty of care to any person (except to the BBC Trust under the relevant terms of the Engagement) for the preparation of the report. Accordingly, regardless of the form of action, whether in contract, tort or otherwise, and to the extent permitted by applicable law, PwC accepts no liability of any kind and disclaims all responsibility for the consequences of any person (other than the BBC Trust on the above basis) acting or refraining to act in reliance on the report or for any decisions made or not made which are based upon such report.

UK Copyright Notice

© 2008 PricewaterhouseCoopers LLP. All rights reserved. “PricewaterhouseCoopers” refers to PricewaterhouseCoopers LLP a limited liability partnership incorporated in England or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate legal entity.
Contents

Summary Report

OVERVIEW OF FINDINGS AND RECOMMENDATIONS .................................................. 5
Key findings .................................................................................................................. 5
Recommendations for enhancing the BBC’s economic role in the creative economy ........ 6
The economic impact of the BBC in context ................................................................. 7

1 HIGHLIGHTS FROM MAIN REPORT ...................................................................... 8
   1.1 Context and scope ............................................................................................ 8
   1.2 Key findings .................................................................................................... 9
       1.2.1 Summary of most important economic impacts .................................... 9
       1.2.2 Roles of the BBC in the creative economy ............................................ 11
       1.2.3 Competitive impacts .............................................................................. 15
       1.2.4 BBC impact in the Nations and Regions .................................................. 17
   1.3 Issues for consideration and recommendations .............................................. 22

Main Report

2 INTRODUCTION ...................................................................................................... 27
   2.1 Context ............................................................................................................ 27
   2.2 Objectives and scope of the study .................................................................. 28
   2.3 Relationship with BBC Public Value framework .......................................... 29
   2.4 Acknowledgements ....................................................................................... 30
   2.5 Structure of the report ................................................................................... 30

3 RELEVANT LITERATURE AND THE CREATIVE ECONOMY .............................. 32
   3.1 Introduction .................................................................................................... 32
   3.2 The literature .................................................................................................. 32
   3.3 The creative economy ................................................................................... 36

4 APPROACH ............................................................................................................ 38
   4.1 Introduction .................................................................................................... 38
   4.2 Overview of the approach ............................................................................. 38
   4.3 Literature review ............................................................................................ 39
   4.4 Seminar .......................................................................................................... 39
   4.5 Evidence ......................................................................................................... 39

5 THE BBC ................................................................................................................. 41
   5.1 Introduction .................................................................................................... 41
   5.2 Remit and Public Purposes ............................................................................ 42
   5.3 TV .................................................................................................................. 44
   5.4 Radio .............................................................................................................. 48
   5.5 Online ............................................................................................................ 51
   5.6 Other activities .............................................................................................. 53

6 THE COUNTERFACTUAL .................................................................................... 55
   6.1 Introduction .................................................................................................... 55
   6.2 The need for a counterfactual ......................................................................... 55
   6.3 Generating a counterfactual ............................................................................ 56
6.4 The counterfactual scenario used in this study .......................................................... 59
6.5 Summary of selected counterfactual against actual BBC ........................................ 64
6.6 Impact of the counterfactual ...................................................................................... 65
6.7 Concluding remarks on the counterfactual ............................................................... 66

7 INTRODUCTION TO IMPACT ASSESSMENT .................................................................. 67

8 NET ECONOMIC VALUE ADDED IMPACT ................................................................ 68
8.1 Introduction .................................................................................................................. 68
8.2 Economic impact estimation using multipliers ......................................................... 68
8.3 Economic multipliers ............................................................................................... 69
8.4 Multipliers for the creative industries ..................................................................... 70
8.5 TV, radio and online multipliers .............................................................................. 71
8.6 Net value added of the BBC .................................................................................... 73
8.7 Economic value add of licence fee revenues ......................................................... 77
8.8 Conclusion ................................................................................................................ 78

9 INDUSTRY LEADERSHIP IMPACTS ......................................................................... 79
9.1 Introduction ................................................................................................................ 79
9.2 The BBC ................................................................................................................... 79
9.3 Quality leadership .................................................................................................... 80
9.4 Industry leadership, critical mass and sustaining the creative industries .......... 88
9.5 Content innovation and imitation by competitors ............................................... 92
9.6 Promotion externalities .......................................................................................... 94
9.7 Concluding remarks ............................................................................................... 96

10 IMPACTS ON COMPETITOR REVENUES AND BUSINESS MODELS ................. 98
10.1 Introduction .............................................................................................................. 98
10.2 The BBC ................................................................................................................ 98
10.3 Lessons from Ofcom MIAs ................................................................................... 98
10.4 Restriction of competitors ability to attract audiences ........................................ 100
10.5 Barriers to entry and market conditioning ........................................................... 104
10.6 Impacts on advertising revenues ......................................................................... 106
10.7 Use of licence fee revenues ................................................................................ 107
10.8 Cross-media competitive advantage ................................................................... 108
10.9 Talent and content costs ....................................................................................... 110
10.10 Poaching staff and talent .................................................................................... 111
10.11 Sponsorship ......................................................................................................... 112
10.12 Concluding remarks ........................................................................................... 113

11 INDEPENDENT PRODUCERS .................................................................................... 115
11.1 Introduction ............................................................................................................ 115
11.2 The BBC ................................................................................................................ 115
11.3 Commission of independent productions ............................................................. 115
Summary Report
Overview of findings and recommendations

The BBC Trust commissioned this study to examine the economic impacts of the BBC on the UK creative economy.

Key findings

• In many respects, the BBC is the core of the broadcasting (and related) segments of the creative economy. It is the creative infrastructure around which much of this segment of the creative economy has developed, and by which much of it is sustained. This finding is consistent with Ofcom’s view of the BBC being seen by audiences as “the cornerstone of public service broadcasting”.

• The BBC leads the development of the creative economy by:
  - Providing significant and stable investment throughout the creative economy. The most important impacts result from the BBC’s investment in content production both in-house and independent, and support of specific genres (e.g. factual documentaries) and other creative activities that may not be supported to the same degree, or at all, without the investment of the BBC (e.g. orchestras, independent radio production, film production, minority-language creative industries, classical and folk music festivals);
  - Funding the development and training of talent – the BBC is the largest single contributor to training within the broadcast industry;
  - Developing regional creative clusters (particularly in Bristol and South Wales to date); and
  - Stimulating consumer demand for new technologies and platforms, often working in partnership with others in the creative industry.

• The negative impacts of the BBC’s activities on competitors arise directly as a result of the BBC delivering its remit of creating public value for audiences. The negative impacts relate to:
  - The potential impact of the BBC attracting audiences away from commercial services, particularly in radio and possibly in online services. While we identified many positive impacts of the BBC’s activities in radio (such as the identification of new talent and support for specific music genres and new music), some stakeholders argued that commercial radio may be impacted negatively by the relative size of BBC radio services. It is not straightforward to identify the specific impact of BBC on the current health of the commercial radio sector given the impact of other factors in the sector and the countervailing impact of the BBC not competing for advertising revenue; and
  - The potential impact on commercial business models, such as conditioning consumers to expect content to be available for free. Several stakeholders argued strongly that the BBC’s decisions on market entry are likely to have an adverse impact on decisions taken by competitors in relation to entry and choice of service provision. However, there appears to be little evidence that such negative impacts have been substantial. Furthermore, absent the BBC, some businesses may adopt business models which are subsequently unsustainable.

---

• Much of the debate about the impact of the BBC considers its impact on specific markets, and has characterised the impact as either negative or positive, particularly in relation to the impact of new BBC services. We consider there is an under-acknowledged complementarity between some of the activities of the BBC and other organisations in the creative economy, particularly in developing partnerships and clusters and setting quality standards.

• We recognise the challenges inherent in generating multiplier-based economic value added estimates. Moreover, the overall economic impact of the BBC on the creative economy cannot be distilled into one number. Notwithstanding these challenges and caveats, we consider that the BBC’s spending on creative activities (approximately 80% of total BBC spending) contributes a gross value add (GVA) of around £5bn per year to the UK economy (based upon 2006/07 data). If we add in the BBC’s expenditure on overheads and infrastructure, the total GVA of the BBC increases to around £6.5bn. Owing to the BBC’s funding mechanism, much of this GVA is additive to the creative sector rather than at the expense of other broadcasters operating in the sector.

• We have undertaken a detailed counterfactual analysis to compare the impacts of the BBC against a hypothetical commercial broadcaster. Estimating the net value added (NVA) – i.e. the difference between gross value added of the BBC and of the hypothetical commercial broadcaster – is inherently complex and is discussed further in our report.

• Estimates of these impacts are additional to the audience and cultural value generated for audiences in return for the licence fee; while beyond the scope of our study, these impacts have been found to be substantial. Additionally, there are further economic impacts of the BBC outside the creative economy (e.g. set top box manufacturers).

Recommendations for enhancing the BBC’s economic role in the creative economy

• We consider that the BBC could enhance its positive impact, for instance by:

- Working with more partner organisations in the Nations and Regions and in non-traditional sectors (such as those providing new technologies) for example through the provision of more long-term investment and expenditure, greater leverage of the brand and greater transfer of expertise.

- Reconsidering the way it contracts with external suppliers and partners for example through increased external commissioning of long-running and returning series.

- Improving perceptions of its impacts among stakeholders by developing how it works with smaller organisations, as partners or suppliers. A perception existed among some stakeholders that the BBC may be better at working with large organisations.

• The BBC should consider an economic impact objective when planning services and making decisions, tackling the following questions:

- What is the relative importance of economic impact – as opposed to existing objectives (e.g. public value, market impact) – in the development of new services and in strategic planning in respect of existing services? If economic impact deserves more focus, what new methodologies and data gathering processes will be required?

---

1 Defined as spending on content and distribution.
2 These data also relate to the financial year 2006/07.
3 We note that market impact could be considered as one component of economic impact.
- To what extent is it the BBC’s role to build new markets actively? This “market-building” has positive impacts for the creative economy through leadership and committed investment, but creates a risk that the BBC could steer the market towards specific technologies or platforms.

* Our findings inform the development of BBC Nations and Regions policy. The BBC Trust and BBC Executive may wish to consider the following policy questions that arise from our work:

  - How important is it for the BBC to have a *substantial* (e.g. larger than current) economic presence in every region in light of the financial constraints of the licence fee settlement? That is, what is the appropriate balance between spreading impacts of increased future out of London expenditure evenly across the UK versus the efficiency of concentrating this *extra* expenditure in a smaller number of “clusters”? This is not to be confused with the notion of the BBC *exiting* a specific region or regions.

  - To what extent should an economic impact objective influence future location investment decisions?

**The economic impact of the BBC in context**

The study focuses on the BBC’s economic impact on other businesses in the creative economy. Consequently, important impacts on audiences such as the value of the BBC that arises through quality, independence and provision of content without advertising are beyond the scope of the study and are therefore not included. These audience impacts have however been estimated to be substantial in a number of studies – for example the BBC’s value to consumers and citizens has been estimated to exceed the cost of the licence fee in a number of studies, commissioned separately by the Department of Culture, Media and Sport (DCMS) and the BBC6. Further evidence of the value of the BBC to audiences is provided in (among others) Ofcom’s Second Public Service Broadcasting Review:

“For many, the BBC was considered to be the prime provider of public service broadcasting and many thought it an international, respected brand and that it was a priority to preserve its role in meeting public purposes.”


---

1 This relates to new technologies, platforms and other innovations generally. It is beyond the scope of this report to consider whether specific technologies are optimal or not.

1 Highlights from main report

1.1 Context and scope

We, PricewaterhouseCoopers LLP (‘PwC’), were asked by the BBC Trust to examine the economic impact of the BBC’s activities on the UK creative economy, with a focus on businesses. This report provides the findings of our work, conducted between January 2008 and April 2008. We would like to thank all who contributed to the study – members of the BBC Trust and Trust Unit, the BBC, a range of stakeholders from the creative economy and a number of distinguished academics who contributed to a seminar on this subject. All are cited in the main body of the report.

The assessment of the BBC’s economic impacts in this study is intended to inform current and future debates facing the BBC and public service broadcasting more generally about future priorities and specific investment decisions. This study informs the following policy debates: the Department of Culture Media and Sport (DCMS) creative economy programme (CEP); Ofcom’s second public service broadcasting (PSB) review; the Creative Scotland bill; the Scottish Broadcasting Commission’s investigation into the current state of television production and broadcasting in Scotland and BBC Trust assessments of future proposed BBC services.

We note that any conclusions of the study and recommendations on how the BBC could enhance the (net) positive impact should be viewed in the context of maintaining or improving the performance of the BBC against the Public Purposes. That is, our findings do not include the BBC’s role in delivering audience value through delivery of high quality content, the benefits audiences might receive from the BBC raising quality in the marketplace, or the positive audience value placed on the BBC’s advertising-free status and other consumer/citizen benefits.

Our findings cover the impact of the BBC on the UK creative economy. An exception is our “value-add” findings (discussed in Section 8 of our main report) which consider the impact of spending on creative activities (defined as content and distribution) on the UK economy as a whole. The BBC is also likely to have substantial impacts outside the creative economy (for example, set-top box manufacturers, construction companies or event organisers). Furthermore, as stated in a recent report for DCMS, “…there is growing recognition of the… linkages between… the creative core, the creative industries beyond and creativity in the wider economy.” We expand on the context to this study in Section 2 of our main report.

This report provides a base of evidence regarding the most important types of impacts and covers all aspects of the BBC’s public service activities across platforms and services, and across the Nations and Regions of the UK.

---

7 A relevant definition of the creative industries is that proposed by DCMS in its Creative Industries Mapping Document, 2001.
8 See http://www.ofcom.org.uk/tv/psb_review
9 See http://www.scottishbroadcastingcommission.gov.uk
The scope of our Terms of Reference is confined to the BBC’s public service output and hence excludes the BBC’s commercial subsidiaries, including BBC Worldwide. That said, a number of stakeholders expressed views regarding the following potential impacts of BBC Worldwide¹:

• The commercial revenues of BBC Worldwide make a positive contribution to funding the BBC’s public service output (via a dividend paid to the public service BBC);

• Exports generated by BBC Worldwide are a net positive contribution to the UK economy;

• Some stakeholders argued that the remit of BBC Worldwide should be more closely tied to the BBC’s broader public service remit; and

• Some stakeholders were critical of BBC Worldwide’s recent investment activities.

1.2 Key findings
1.2.1 Summary of most important economic impacts

The key findings described here result from the evidence gathered and analysis undertaken as part of this study. In assessing the economic impact of the BBC, we undertook a detailed analysis to compare the impacts of the BBC against a hypothetical commercial broadcaster (the ‘counterfactual’ – see Section 6 of the main report for further details).

The most important impacts identified by our analysis are summarised in Figure 1.

¹ A number of stakeholder comments have been communicated to the Trust.
Figure 1: Important economic impacts of the BBC on the creative economy

<table>
<thead>
<tr>
<th>Impact</th>
<th>Reason for importance</th>
<th>Example parties affected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Talent search and development</td>
<td>Whilst likely to be of relatively small magnitude, a large proportion of the benefits of BBC talent search accrue to other organisations in the creative economy than the BBC</td>
<td>Talent, competitor broadcasters and producers</td>
</tr>
<tr>
<td>Training of BBC staff and others</td>
<td>The BBC provides more training to the market than might occur in the counterfactual</td>
<td>Trained workers, competitor broadcasters and producers</td>
</tr>
<tr>
<td>Investment in specific creative activities</td>
<td>The BBC sustains small but culturally important creative industries that otherwise might not exist</td>
<td>Orchestras, film industry, workers in Gaelic, Welsh, Irish creative industries</td>
</tr>
<tr>
<td>Driving take-up of new technologies</td>
<td>The BBC has, through investment and promotion, increased the take-up of technologies such as DDT which provide other broadcasters with greater access to audiences</td>
<td>Competitor broadcasters</td>
</tr>
<tr>
<td>Spend on creative inputs</td>
<td>BBC expenditure supports substantial economic activity and provides a stabilising influence on the UK creative economy</td>
<td>BBC employees, supply chain and whole economy</td>
</tr>
<tr>
<td>Impact on revenues through attracting</td>
<td>Large BBC audience share depresses revenues of some competitors. When the BBC’s audience share is high, this impact tends to outweigh the impact of non-competition for advertising revenues (set out below)</td>
<td>Commercial radio stations</td>
</tr>
<tr>
<td>audiences away from commercial services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-competition for advertising revenue</td>
<td>The BBC (unlike an advertising-funded commercial broadcaster) does not compete for advertising revenue. This increases net advertising revenues (NAR) for competitors, relative to the counterfactual. When the BBC’s audience share is moderate, this impact outweighs the impact of attracting audiences from commercial competitors</td>
<td>Competitor TV broadcasters, other forms of advertising media</td>
</tr>
<tr>
<td>Impact on business models</td>
<td>The BBC’s involvement in markets may lead consumers to expect free content or to use particular technologies, preventing or restricting use of potentially profitable business models and technologies</td>
<td>On-demand competitors</td>
</tr>
</tbody>
</table>

Source: PwC analysis

Note: Given the mixture of qualitative and quantitative evidence we have not ranked impacts by importance; hence important impacts are presented in no specific order. The term ‘importance’ is defined in relation to the evidence we collated for this study.

We note that we identified relatively little evidence to estimate the scale of many economic impacts. Moreover, some impacts may tend to offset each other; in particular impacts on competitors tend to be offset to some extent by the BBC’s positive industry development effects.

Ultimately, the BBC’s activity is driven by its remit. The focus of much of the BBC’s remit is on delivering public value, i.e. delivering content that is of high quality and benefits audiences. The BBC is not tasked with maximising economic impact as an objective in its own right. The BBC’s value to audiences was investigated in a 2006 The Work Foundation study for DCMS, which estimated the average willingness to pay for BBC services of £138.24 per annum\(^4\). More recently, a study for the BBC estimated the average willingness to pay for BBC services to lie in the range £20.43 to £31.57 per month\(^5\) (which translates to £245.16 to £378.84 per annum).

---

\(^4\) The Work Foundation (2006), “Willingness to Pay for the BBC during the next Charter period”, study for DCMS.

\(^5\) Human Capital (2008), “Public Service Broadcasting Now and in the Future – Audience Attitudes”, study for the BBC.
The roles that the BBC plays in generating its economic impacts appear to result from two fundamental aspects of BBC activity and expenditure:

• The BBC **deliberately sets out to generate certain positive impacts**, because of their relevance to its Public Purposes. An example of this is the BBC’s role in encouraging digital switchover — in fulfilling its remit to take “...a leading role in the switchover to digital television” the BBC has engaged in active promotion of digital platforms (particularly DTT and more recently free digital satellite), taken a leading role in the Digital UK partnership and developed digital-only services; and

• Other **positive impacts arise as a result of “spillovers”**, impacts that occur as a result of other activities carried out by the BBC, but which are not the explicit focus of the BBC’s actions. An example of this is that the BBC’s technological innovation is often targeted at improving the service the BBC provides to audiences. However, if this leads to technological developments that other businesses can leverage to generate revenue, then this constitutes a spillover benefit. – i.e. other businesses are (positively or negatively) impacted as a by-product of the BBC’s activities.

1.2.2 Roles of the BBC in the creative economy

Our analysis suggests that the BBC’s **industry leadership** role underpins its economic impacts on other businesses in the creative economy. In many respects, the BBC is the “core” of the broadcasting (and related segments of the) creative economy. It is the “creative infrastructure” around which much of this segment of the creative economy has developed, and by which much of it is sustained. This in turn contributes to innovation and growth in the rest of the UK economy; this link is recognised in a recent report into the UK creative industries:

“...innovation and creativity in the wider economy are stimulated by the creative industries... ...a dynamic creative sector has an important role in helping to revive British cities and regions...”


We identified the BBC’s industry leader status from stakeholder views, in which it is seen as leading the quality and development for the sector and maintaining its ongoing health. This could be compared with (and may complement the role of) Channel 4, which has been labelled the “angel investor” in the creative economy through identification and fostering of creative and management talent. Using a similar analogy, the BBC would be seen as a larger “institutional investor”.

We identified a number of key roles performed by the BBC which we believe confer its industry leadership status insofar as it relates to economic impact upon the creative economy: the BBC acts, in short, as “developer”, “stimulator”, and “sustainer”.

These activities impact businesses throughout the creative industries, particularly the BBC supply chain (including independent producers), BBC partners, competitors and employees. A large proportion of economic impacts occur in and around London (we discuss the dispersion of the BBC’s impacts around the UK below\(^\text{10}\)) although there are also important economic impacts in and around specific clusters (particularly in Bristol and South Wales to date) and more generally across the Nations and Regions. The breadth and depth of the BBC’s impact is such that impacts occur across the creative economy: especially in broadcasting, across different media and genres, at different positions in the value chain, across different size of independent producers and across different regions.

\(^{10}\) We note that the concentration of impacts in London will reduce with BBC plans to move departments to Salford and further plans to increase out of London production and spending.
The types of economic impacts range widely, from direct, indirect and induced expenditure effects and the critical mass the BBC provides to the UK creative economy, its role in talent development, training and development of new technologies through to developing and sustaining small creative sectors such as minority languages and orchestras.

We summarise this structure of the BBC’s roles and impacts on the UK creative economy in Figure 2.

**Figure 2: Summary of the BBC’s economic roles and impacts on the UK creative economy**

Developing talent, new markets and specific creative sectors

The most important impact areas we identified in the BBC’s role of a developer are in:

- Identifying and supporting new talent;
- Training its staff and supplying training to others, such as freelancers;
- Developing new markets and technologies, particularly through encouraging take-up; and
- Development of specific genres (e.g. factual documentaries) and types of creative production (e.g. wildlife filming), leading to the development of the UK as a global centre of excellence.

We discuss each in brief.
Identifying and supporting new talent

Stakeholders recognise that the BBC plays a valued role both in identifying new British talent and in supporting that talent in reaching a wider audience. This impact is particularly prevalent in music, where BBC Radio 1 (e.g. the Klaxons), Radio 2 (e.g. folk music) and Radio 3 (e.g. Alison Balsom) all play substantial roles in the development of musical talent, development that has resulted in awards, record deals and substantial record sales of the artists in question. We understand that BBC local and national radio may act as a “test bed” for talent that may go on to appear on TV (BBC or commercial) or commercial radio. However the economic impact of this role is difficult to estimate in quantitative terms.

It is notable that aside from its fulfilment of Public Purposes, the BBC benefits relatively little directly from this new music talent identification. Rather, the main beneficiaries are the talent themselves, record labels (for example) who may sign up the talent identified by the BBC and other broadcasters who can play tracks knowing that the music’s popularity is already confirmed. The BBC also plays a role in new talent identification and development in TV (particularly off-screen) but radio was cited by stakeholders as having a more important impact. Outside of radio, the BBC’s “New Talent” website provides advice to those seeking careers in the creative industries.

We note that a recent report was commissioned by the BBC Trust to investigate the BBC’s impact on talent costs. This study found that there is no evidence that the BBC is paying more than the market price for leading TV talent, nor evidence that the BBC is systematically pushing up prices in the talent market”.

Training its staff and supplying training to others, such as freelancers

Stakeholders informed us that the BBC trains its staff more than commercial broadcasters and that the BBC trains its workers beyond the level necessary for their specific role. This approach to training has the impact of creating a national “pool” of skilled resource that other broadcasters, producers etc. can employ – in effect the BBC enables other businesses to benefit from its significant investment in training.

The BBC also supplies training to others, including freelancers. The BBC plays important roles in schemes to encourage skill development, such as through supporting Skillset. Other broadcasters also provide some training for their workers and larger independent producers are increasingly conducting in-house training. However, while alternative training is available, many stakeholders agreed that the BBC is the industry trainer. The BBC provides a larger range of high-quality training than alternative providers, particularly in certain skills, such as broadcast engineering. It is unlikely that such a level and range of training would occur in the counterfactual due to the potential market failure in training which arises from the option for trained workers to take their skills to other employers. The BBC, in keeping with its responsibility outlined in the Charter Agreement to “train the industry”

Developing new markets and technologies, particularly through encouraging take-up

We found evidence that the BBC has developed many new markets and technologies and has encouraged take-up of a variety of services and technologies over its history, including playing important roles in the development of colour TV, in the development of computer literacy with the BBC Micro and more recently leading other broadcasters in the provision of content online through bbc.co.uk. Recent examples include:

---

12 As described at http://www.bbctraining.com/aboutUs.asp
• Freeview – the BBC played a larger role in a faster introduction of successful DTT in the UK than would have occurred in the counterfactual, which impacted positively other broadcasters but probably impacted negatively pay TV retailers; and

• DAB radio – the BBC has played an instrumental role in the development and marketing of DAB to consumers to a much greater extent than might have been expected in the counterfactual.

**Development of specific genres and types of creative production leading to the development of the UK as a global centre of excellence**

Stakeholders informed us that the BBC has played an important role in the development of the UK as a global centre of excellence for specific activities and genres, in particular natural history and factual documentaries\(^6\). Such development has been directly assisted by the BBC’s sustained funding, and the high standards this has supported have encouraged expertise to develop in the UK and foreign talent to migrate to the UK, particularly to Bristol and the cluster formed around the BBC’s Natural History Unit.

**Sustaining the industry through significant and stable investment**

The most important impact areas we identified in which the BBC plays the role of a sustainer are in:

• Large and relatively stable expenditure on creative inputs, including the commissioning of independent productions;

• Multiplier effects on the economy of its large, relatively stable spend; and

• Provision of critical mass to the UK creative industries and to specific creative activities, such as film, orchestras and creative industries in minority national languages that are considered culturally important.

**Large and relatively stable expenditure on creative inputs, including the commissioning of independent productions**

Our report assesses the most important economic impacts of the BBC’s role in the UK creative economy. We have quantified some of this impact on both a gross value added (GVA) and a net value added (NVA) basis. Forming such estimates is challenging and to some extent dependent on the specific assumptions adopted. Indeed, owing to such complexities, any quantification of economic impact is unlikely to include all the potential impacts (both positive and negative)\(^6\).

We estimate the gross value add (GVA) to the UK economy as a result of the BBC’s spending on **creative activities** (defined as content and distribution and excluding overheads and infrastructure) as approximately £5bn. If we include the BBC’s expenditure on overheads and infrastructure, the total GVA of the BBC increases to around £6.5bn\(^7\).

We have also undertaken a detailed counterfactual analysis to compare the “net” impacts of the BBC against a hypothetical commercial broadcaster. Net impacts are potentially important because estimation of gross impacts ignores the possible alternative use of resources that would occur in the absence of the BBC. The net value added (NVA) – i.e. the difference between gross value added of the BBC and of the hypothetical commercial broadcaster – is particularly complex as it is based on a range of assumptions which underpin the counterfactual analysis. Based upon the counterfactual scenario we selected, we estimate the net quantified impact of the BBC to be in the region of £4.4bn\(^8\).

---

\(^6\) We understand also that the BBC plays an important role in sustaining the children’s TV (for ages 6-10) production sector in the UK.

\(^7\) These include the positive impacts from the BBC’s investment in training, cluster development, contribution of significant and sustained expenditure to the development of critical mass and market-building (which tend to increase the overall net impact), and any potential negative effects of the BBC’s impact on competition.

\(^8\) These data relate to the financial year 2006/07. See Section 8 of the main report.

\(^9\) This includes the difference between the GVA of the BBC and the GVA of the hypothetical broadcaster, plus the impact of the BBC on other broadcasters’ expenditure and GVA. See Section 8 of the main report.
Provision of critical mass to the UK creative industries and to specific creative activities, such as film, orchestras and creative industries in national languages that are considered culturally important

Stakeholders stressed that the BBC is crucial as a provider of critical mass within specific subsectors of the creative industries. For example, its relatively stable funding provides support during economic downturns and it provides state of the art infrastructure that production companies can use.

Specific activities that otherwise would not occur, such as production of specific genres, language based creative sectors, certain skills and creative industries in certain regions all rely on the BBC to provide critical mass to their specific sectors, critical mass that might not be sustained by a more commercially-orientated broadcaster. The BBC also plays an important role in sustaining UK film production and sustains orchestras around the UK. The BBC’s partnership with the Gaelic Media Service in the provision of the Gaelic Digital Service appears to provide an example of a successful partnership the BBC has undertaken in the Nations and Regions that has important local economic impacts.

Stimulating consumer demand

The BBC contrasts to other broadcasters in its approach to creative development, such that new and innovative ideas tend to be given more time, rather than being required to generate audience success immediately. This, along with the BBC’s specific remit to generate new ideas, encourages the take-up of new technologies. This can benefit other businesses by stimulating consumer demand for these products and opening up opportunities for commercial businesses to benefit. For example, following the development of Freeview and DAB, new advertising revenue streams were stimulated. Another example is the stimulation of the demand for music downloads following the BBC’s development and promotion of the service. The iPlayer may play a positive role in broadband take-up and appears to have stimulated the market for on-demand content (audiovisual and particularly audio downloads). However, we were informed by stakeholders that the iPlayer has probably increased costs for some Internet Service Providers operating close to capacity by increasing the demand for bandwidth, at least in the short-run. Stakeholders also acknowledged that this impact could be short-lived as bandwidth requirements in the counterfactual would most likely rise to similar levels in time.

In addition, the BBC historically has been involved in many technological innovations in the broadcasting industry and appears to continue to play a particularly important role as an innovator in the research behind, and development of, new technologies that other businesses may be able to exploit to reach audiences and earn revenues.

1.2.3 Competitive impacts

The BBC’s competitive impacts may occur in both nascent markets and mature markets. We note, however, that much of the debate about the impact of the BBC on specific markets, particularly in relation to the impact of new services, has characterised the impact as either negative or positive. In fact, we consider there is an under-acknowledged complementarity between some of the activities of the BBC and other organisations in the creative economy, such as Channel 4 in particular in public service broadcasting and Skillset in training. This complementarity arises particularly through the following channels:
• Partnerships – the BBC tends to have positive impacts on those organisations with which it partners. For example training has benefitted from the BBC’s partnership with Skillset, and the Gaelic Digital Service has benefitted from the BBC’s involvement (in partnership with the Gaelic Media Service). A successful service is also a benefit for the BBC;

• Cluster formation and creating a skilled talent pool – production companies and other broadcasters cited the importance of the BBC in these areas. Once such a pool is self-sustaining, this benefits both the BBC and other businesses; and

• Quality benchmarking – other broadcasters cited the importance of the BBC in encouraging competition in content quality. In effect the BBC sets the bar for quality content. In addition to potential impacts on secondary sales (such as exports, DVD sales etc.) high quality public service content programming may generate an appetite for programmes that would not otherwise exist, which competitors may be able to earn revenue by providing.

However, as a result of its size and conduct, the BBC can have impacts that may disadvantage other businesses, particularly competitors. The most important potentially negative competitive impacts we identified include:

• Specific impact on revenues; and

• More general impacts on business models.

Impact on revenues

The large audiences/users attracted to the BBC’s programmes and services may render competitors unable to attract sufficient audiences/users to generate sufficient advertising revenue to make their businesses profitable.

Commercial revenue is the example raised most often by stakeholders, and for which this potential impact could be most relevant.

In recent years the BBC’s share of radio listening has increased23 and commercial radio has experienced a decline in advertising revenues from Q1 2005 to Q1 200724 (although there has been growth in total commercial advertising revenues to the first quarter of 2008) and a decline in its share of total display advertising from Q1 2004 to Q1 200725.

It is important, however, to consider wider context to the commercial radio market before drawing conclusions regarding the impact of the BBC. In particular, it has been argued that the rise of the internet and multi-platform TV as alternative locations for advertising26 has created extra competition for advertising revenue and that radio advertising (and advertising more broadly) may recently have experienced and/or currently be experiencing a cyclical downturn. Furthermore, the performance of the UK commercial radio sector is strongly linked to the performance of a small number of companies that make up a large share of commercial radio, and hence could easily be affected by company-specific performance (i.e. it is difficult to disentangle company-specific effects from market effects) and a number of commercial radio companies have experienced a degree of uncertainty related to potential and actual merger and acquisition activity which could have impacted performance.

If commercial radio is experiencing a market downturn (whether structural or cyclical), then a negative impact of the BBC may occur. The BBC’s stable and non-cyclical spending, while advantageous to much of the creative economy, particularly upstream, may become a disadvantage to competitors experiencing a decline in revenues as it becomes increasingly difficult to compete with the BBC which has an increasing (in relative terms) revenue advantage.

23 See http://www.rajar.co.uk/listening/quarterly_listening.php
24 See http://www.rab.co.uk/rab2006/showContent.aspx?id=243
25 See http://www.rab.co.uk/rab2006/showContent.aspx?id=243
26 We acknowledge there are both potential complementary and substitution effects between different forms of advertising.
To draw strong conclusions regarding the BBC’s impact on commercial radio would require an in depth market impact analysis which is outside the scope of this report. One area which may merit further consideration, however, is a strategy for BBC Radio if the commercial radio listening share were to continue to decline – what is the appropriate balance between the BBC delivering quality and satisfying audiences, and the BBC facilitating plurality in UK radio broadcasting?

Impact on business models

In the UK, the BBC provides all its content for free (i.e. with no subscription or pay-per-access charge – except content distributed by BBC Worldwide). This may condition whether, and how much, consumers will be willing to pay to access other content. One example is online video-on-demand provision, in which a number of competitors reportedly decided not to adopt subscription models when it became clear that the BBC was to introduce a free service. A counterfactual broadcaster would be incentivised to develop a profitable business model, and would most likely have less brand strength to be able to determine the direction of the market. In relation to provision of content on-demand, we note that market trends in other countries (particularly the USA) appear to be tending towards advertising models rather than subscription models (in keeping with the majority of online content). However there is some evidence to suggest that some providers have (and would) opt for a “transition” stage of subscription provision between launch of an on-demand product and eventual advert-funded provision. Potentially therefore, the BBC’s impact could have been to reduce the length of this transition phase and “fast forward” the market to a free model.

Ofcom noted in its MIA that:

“it seems reasonable to conclude that the BBC proposal has already had some effect on the business models that are likely to be sustainable for internet based catch-up TV, and that this effect is likely to continue if the service goes ahead as proposed...

...an ad-funded model would limit the ability of service providers to extract value from consumers who would otherwise be willing to pay a transaction or subscription based charge; and

reliance on advertising funding would introduce an additional uncertainty into what are already likely to be seen as risky investments, because the revenues associated with a given level of usage would be much more difficult to predict.

...The impact of this additional revenue uncertainty is potentially significant.”


It is important to note that with respect to this potential impact, it tends to be counterbalanced, in some respects, by possible industry development effects. Furthermore, under the counterfactual scenario, some businesses may adopt business models which are subsequently unsustainable.

In respect of an impact on the feasibility of the pay TV business model, we note that we have not found evidence that the BBC currently has a substantial negative impact on the uptake of pay TV.

1.2.4 BBC impact in the Nations and Regions

We were asked to identify, where possible, impacts across the UK’s Nations and Regions. The impacts identified here (as per the others we identified) relate to economic impacts on businesses only, and do not relate to the BBC’s role in supporting local culture, informing people of local developments and other audience benefits.
Our key findings relate to the following impacts in specific Nations and Regions:

- The impact of direct spending and multiplier effects, including the direct impact of commissioning spend from indies;
- Keeping skills in the Nations and Regions;
- Sustaining language-specific services in the Nations;
- Regional development; and
- Cluster formation.

We describe each in brief.

**The impact of direct spending and multiplier effects**

Estimating the economic impact of regional expenditure is subject to several challenges and complexities. In particular:

- BBC regions for which expenditure data exist do not correspond to regions for which multiplier estimates exist;  
- While the BBC provided estimates on the region in which budgets were *allocated*, it was unable (within the time available) to locate exactly in which region money was *spent* following the allocation. Some of the allocated budget could be spent in other regions, or even outside the UK (for example post-production spend and filming may occur outside the UK); and
- Spillovers from regional activity to other regions within the UK exist which means that aggregating region-by-region GVA would underestimate the UK-wide economic impact.

Budget allocations used in our estimates throughout this report overstate the expenditure in London. This is because much more expenditure that originates from London tends to be spent outside the M25, as compared to expenditure originating from outside the M25 that is subsequently spent in London.

Outside of London, individual nations receive considerably higher allocations (and probably expenditure) than individual English regions, reflecting the additional nation-specific services as compared to region-specific services.

Using multiplier analysis we estimated the contribution of BBC content and distribution budget allocations in each region (assuming budget allocations correspond broadly to expenditure) to the UK economy as a whole and to the region to which the budget is allocated. The resulting figures for within-region GVA understate the true contribution of the BBC to economic activity within each region because:

- Estimates do not include the location of multiplier effects for budget which is allocated outside London, but for which the BBC was unable to locate (within the time available) a specific region;

---

18 We have used “standard” regions rather than BBC regions to ensure compatibility with multiplier estimates and reflecting our methodology which aimed to ensure stakeholder representation from each of the Screen Agency regions. Expenditure was allocated on a pro rata basis according to our understanding of BBC presence across regions.
• Within-region GVA estimates do not incorporate spillover impacts from other regions (e.g. purchase of inputs from other regions). For example, the East Midlands could receive a positive impact from BBC expenditure in the West Midlands – the scale of this impact is captured within the GVA spillover from the West Midlands to the rest of the UK, however the location of these spillovers (i.e. the impact of budget allocation in the West Midlands on the East Midlands) is unidentifiable from existing data; and

• Within-region GVA estimates do not account for the proportion of budget allocations to London that are actually spent outside London.

Table 1: GVA contribution to UK and regional economies, by region

<table>
<thead>
<tr>
<th>Nation/Region</th>
<th>Allocated content and distribution budget*</th>
<th>Total GVA contribution to UK economy</th>
<th>Within region GVA contribution to regional economy</th>
<th>GVA spillover from region to rest of UK economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>92</td>
<td>193</td>
<td>83</td>
<td>110</td>
</tr>
<tr>
<td>Wales</td>
<td>90</td>
<td>162</td>
<td>72</td>
<td>90</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>60</td>
<td>132</td>
<td>48</td>
<td>84</td>
</tr>
<tr>
<td>East</td>
<td>17</td>
<td>38</td>
<td>18</td>
<td>20</td>
</tr>
<tr>
<td>East Midlands</td>
<td>15</td>
<td>32</td>
<td>14</td>
<td>18</td>
</tr>
<tr>
<td>North East</td>
<td>9</td>
<td>16</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>North West</td>
<td>15</td>
<td>29</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>South East</td>
<td>16</td>
<td>31</td>
<td>17</td>
<td>14</td>
</tr>
<tr>
<td>South West</td>
<td>28</td>
<td>62</td>
<td>26</td>
<td>37</td>
</tr>
<tr>
<td>West Midlands</td>
<td>15</td>
<td>29</td>
<td>13</td>
<td>16</td>
</tr>
<tr>
<td>Yorkshire &amp; Humberside</td>
<td>16</td>
<td>38</td>
<td>14</td>
<td>24</td>
</tr>
<tr>
<td>Unallocated outside London*</td>
<td>246</td>
<td>512</td>
<td>228</td>
<td>284</td>
</tr>
<tr>
<td>London</td>
<td>2,003</td>
<td>3,806</td>
<td>2,203</td>
<td>1,603</td>
</tr>
<tr>
<td>Total outside London</td>
<td>618</td>
<td>1,275</td>
<td>556</td>
<td>720</td>
</tr>
<tr>
<td>Total</td>
<td>2,621</td>
<td>5,081</td>
<td>2,759**</td>
<td>2,322**</td>
</tr>
</tbody>
</table>

Source: PwC analysis

* Unallocated by the BBC within the time available.

**These sum to the total GVA contribution to the UK economy.

Additional to these figures are other impacts discussed throughout this report and audience value (which is outside the scope of this study).

It should be noted that is an estimate of the impact in 2006/07. The BBC’s plans for moving departments to Salford by 2012 for example will significantly alter the picture above, mostly with a reallocation of budget allocation, spending and impacts from London to Salford and the surrounding area, but potentially a smaller reallocation of impacts from other areas of the UK. We understand that the BBC intends to increase the proportion of out-of-London spend during the current Charter period. The Director-General has stated that:

“By the end of this charter period in 2016, I believe that nearly half of all TV network commissions will be produced outside the M25 – that compares with broadly a fifth in the early 1990s.”

Mark Thompson, “Keynote opening address at Television From The Nations And Regions conference in Salford Quays”, 2008.
The impact of BBC commissioning expenditure on indies

Part of the positive NVA the BBC contributes to the UK economy is direct expenditure on commissioning content from independent producers. Our estimates suggest that, relative to the counterfactual broadcaster, the extra spend by the BBC on indie commissioning outside London is £130m (TV £122m, radio £6m and online £3m^9), rising to a total of £181m including London. To calculate this estimate of the net impact, we assumed that the counterfactual broadcaster would be subject to a 10% “out of London” quota, as per the Channel 5 service licence.

Table 2: estimated total net expenditure on TV, radio and online independent commissioning 2006/07

<table>
<thead>
<tr>
<th>Nation/Region</th>
<th>Regions included</th>
<th>Net expenditure £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>Scotland</td>
<td>32.3</td>
</tr>
<tr>
<td>Wales</td>
<td>Wales</td>
<td>9.3</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>Northern Ireland</td>
<td>5.0</td>
</tr>
<tr>
<td>Northern England</td>
<td>North East, North West, Yorkshire &amp; Humberside</td>
<td>55.1</td>
</tr>
<tr>
<td>Midlands</td>
<td>East Midlands, West Midlands</td>
<td>2.4</td>
</tr>
<tr>
<td>Southern England (excluding London)</td>
<td>East, South East, South West</td>
<td>23.6</td>
</tr>
<tr>
<td>Unallocated outside London*</td>
<td>-</td>
<td>2.2</td>
</tr>
<tr>
<td>London</td>
<td>London</td>
<td>51.1</td>
</tr>
<tr>
<td>Total outside London*</td>
<td>All except London</td>
<td>129.9</td>
</tr>
<tr>
<td>Total</td>
<td>All</td>
<td>181.0</td>
</tr>
</tbody>
</table>

Source: PwC analysis
* Unallocated by the BBC within the time available.

Several stakeholders stated that this impact could be increased if more programmes were commissioned from outside London, in particular the increased commissioning of long-run series, or programmes that could become long-run series. These actions would be expected to encourage the further development of the indie sector in the Nations and Regions.

Keeping skills in the Nations and Regions

The BBC invests more in training its own staff and external workers in the Nations and Regions than is likely in the counterfactual. Creative businesses in the Nations and Regions benefit from having a pool of skilled local labour available, rather than being required to tempt potential new workers to move home in order to join their business.

Sustaining language-specific services in the Nations

The BBC plays a role in producing and commissioning production in languages (Welsh, Irish, and Gaelic) that a counterfactual broadcaster may not find profitable. A case study of the BBC’s role in the introduction of Gaelic services shows that it can have significant economic impacts on a (relatively small) group of businesses, and particular regions that are most skilled in these languages.

Regional development and cluster formation

We consider that most Nations and Regions benefit from the BBC’s spend outside of the M25, since (while many outcomes are possible) it seems plausible that a greater amount of money is spent outside of London than would likely be the case under the counterfactual. We note that, relative to the counterfactual there are probably some regions which benefit more than others.

As the counterfactual broadcaster would probably concentrate production (and spend) in a smaller...
number of regions outside London, those regions might actually receive increased expenditure in their region in the counterfactual. Other regions (which constitute the majority of regions) would lose out from reduced expenditure.

In cluster formation, we consider that the BBC can play a major role in developing successful clusters, such as in Bristol. However, there are doubts about whether this success can be replicated in new clusters such as Pacific Quay. Some stakeholders argued that creative businesses prefer to be based in cities rather than purpose-built “media cities” and others suggested that the BBC needs to engage more with local businesses in areas in which it aims to develop clusters. It is possible, however, that cluster formation is at a very early stage around BBC centres such as Pacific Quay and needs further time to develop. For example, the successful cluster in Bristol has developed over many years. We note also that the BBC may be the only organisation able to commit to such a long-term investment.

Lessons from BBC impact in the Nations and Regions

It is clear that stakeholders value a BBC presence in their region and that such a presence generates direct economic benefits through employment and supply of inputs. It is also clear that the BBC’s presence can have further knock-on or “indirect” benefits, through clustering, the development of a pool of expertise and other sustained economic activity.

The key outstanding characteristics of the regions which reported a greater level of satisfaction with the BBC’s economic impact in their regions (particularly the South West and Wales to date) are:

- **Interconnectedness** – There is an existing, successful cluster formed around a specific BBC production unit that uses external expertise from other businesses within the cluster.

- **Specialisation and reputation** – The cluster has specialised and earned a reputation for expertise in specific genres or types of creative activity that others in the cluster can benefit from.

- **Production type** – These clusters are notable for a large TV production base. It would appear that currently the scale of inputs into radio and online broadcasting may not be large enough to generate substantial economic impacts that significantly affect a region as a whole.

We note three further points that arise from the mixed reactions to the BBC’s new and future major out-of-London developments:

- **Scale of expenditure** – Stakeholders in the North West cited a large positive benefit from the BBC’s relocation of a number of departments from London to Salford. One of the key drivers of this benefit is the scale of the centre that will be formed at Salford Quays - the bigger the expenditure in a location (all other things equal) the bigger the economic impact the BBC will have.

- **Taking a long-term view** – Stakeholders reported mixed views on the impact to date of the new centre at Pacific Quay. However, the BBC has had a presence at Pacific Quay since autumn 2007 only - it is very early for significant clustering to develop. This suggests that in planning future developments (including Salford Quays) it should be acknowledged that substantial clustering benefits may take substantial time to be realised.

- **Substitution from other regions** – A number of stakeholders in other regions were disappointed at the location of the new BBC centre in Salford Quays. In part this may be attributed to other regions preferring the centre (and surrounding benefits) to be located in their region. However, we were also informed that the move to Salford has already seen some transfer of activity away from other Nations and Regions. The extent of this is unclear, and it is notable that the major impact is a transfer of activity from London to Salford. However, with a Nations and Regions quota structure that focuses on “out-of-London” it seems possible that a large out-of-London centre could have substitution effects on other out-of-London activity, as well as the intended additional effects. We note that in the context of the BBC’s plans that “By the end of the current Charter, more than half of the people working on the BBC’s UK public services will be based outside London and nearly half of all TV network commissions will be produced outside the M25”\(^2\), impacts in the Nations and Regions should be mainly additional rather than substitutional.

\(^2\) Mark Thompson, “Keynote opening address at Television From The Nations And Regions conference in Salford Quays”, January 2008.
Stakeholder opinion in the Nations and Regions is summarised in Figure 3, which relates stakeholder views of economic impact in each region and evidence of the BBC’s contribution to clustering in that region.

Figure 3: High level summary of stakeholder views of economic impact in the Nations and Regions

1.3 Issues for consideration and recommendations

It is important to review the BBC’s economic impacts in the context of its remit. Stakeholders raised the issue of whether the BBC has a remit to maximise its impact on the creative economy or not. Many compared the BBC to Channel 4, the latter focussing more explicitly on this role of developing the creative economy. Interviewees argued that the BBC focuses on delivering against its Public Purposes which, by their nature, have an intended benefit for the creative economy but that the BBC is not as explicitly tasked with this objective.

It is clear from our assessment of the impacts against a counterfactual, together with stakeholder commentary, that substantial positive value would be lost if the BBC were reduced in scale, or if its funding or scale or range of activities were cut. That said, we also identified potential negative impacts of the BBC. Highlighting these impacts could enable the BBC to consider where improvements could be made while still delivering its Public Purposes.
Based on our analysis, the key areas to consider include the following:

**Increasing positive impact**

- **Partnership strategy** – our research identified that partnerships provide a potentially effective means through which to conduct activities that contribute to the remit and Public Purposes, while generating potentially greater economic impact. Specific examples of successful partnerships to date exist particularly in technological innovation and encouraging take-up of new technologies and platforms (DAB and DTT are prime examples) but also, the recently approved Gaelic Digital Services (the BBC partnership with the Gaelic Media Service).

We note that the BBC’s choice of partners is important – since these partnerships are beneficial to those within, but can be detrimental to those excluded. We note also that more out-of-London partnerships would increase positive impacts in the Nations and Regions and that increasing the number of partnerships would transfer benefits further into the creative economy. The BBC’s engagement with new partners, however, may be constrained by the availability of suitable partner organisations.

Opportunities provided in the new media space seem to provide opportunities for further engagement in partnerships. Patricia Hodgson suggests that: “Partnerships based on the use of expensive resources, whether in production or distribution, might be another way in which the BBC could support public service offered by other suppliers without destroying the clarity of competing operators and funding mechanisms.”

To do so, the BBC may need to consider carefully engaging in potential partnerships in activities that traditionally have been in-house, or in the strategy taken towards the introduction of new services in the future. Peter Dale notes that TV’s saliency “depends on broadcasters seeking to extend their notion of what constitutes a creative partnership. Healthy relationships with producers must of course continue to evolve but television also needs to forge relations with minds from worlds other than broadcasting – people who can bring those much needed new perspectives and the knowledge of how to carry new ideas into everyday life.”

- **Working better with small organisations** – A perception existed among some stakeholders that smaller organisations find it less easy than larger organisations to do business with the BBC and that many small firms find that the BBC can be slow to react and indecisive.

- **Increasing impacts of external commissioning** – Particular examples of actions the BBC could take which, stakeholders argue, would increase the positive impact on the creative economy include more external commissioning and increased external commissioning of returning series and high end productions.

---

30 As noted by Lord Puttnam (2008): “If we are to intervene to protect the plurality of public service media it is critical that it retains the reach and scale to ensure that everyone is able to benefit. Perhaps that will involve greater partnership in the new media space between the existing big players and the smaller providers of content with public value”. “Puttnam, D (2008) “Lessons from the First Communications Act”, Chapter in Gardam, T. and Levy D. ed “The Price of Plurality”.


---
Reducing/managing potential negative competitive impact

- **Existing services** do not undergo a PVT process. However we understand that, as part of its Fair Trading requirements, the BBC must apply the requirements of the Competitive Impact Principle³². This requires that the BBC ensures compliance with Fair Trading obligations. The BBC Trust is responsible for holding the BBC accountable to these obligations. Some stakeholder views suggest, however, that these policies and guidelines might not go far enough and argue that economic impact should become more central to all of the BBC’s decisions and activities.

Balancing economic impact against BBC objectives

- **Increasing focus of economic impact** – Many stakeholders argued that the impact on the creative economy should have a greater weight in BBC strategy and decision-making. This raises the following question - should there be a greater emphasis on positive (and negative) economic impact, as well as the market impact, in future decision-making, either at a broad strategic level, or in relation to individual BBC service applications?

- **Explicit market building** – Some stakeholders argued that the BBC’s role in technological research and innovation, and training, steers technology and training in directions that are beneficial to the BBC (and audiences) but which may impact negatively on other businesses. It was suggested to us that these activities could have an increased positive impact if the economic impact became an explicit objective (i.e. explicitly undertaking research and training that would benefit other businesses).

- **Expenditure and output quality** – The BBC is tasked with providing high quality, original content and in doing so may spend more on content provision than competitors. This raises a broader policy question - could the BBC’s success in delivering service quality and attracting audiences, at some point, begin to impact on plurality of provision? If so, how should this impact be estimated and controlled, whilst ensuring that the aim of quality content provision is maintained?

- **Generating certainty and allowing long-run planning** – Stakeholders cited the non-cyclical nature of BBC revenues as an important positive impact. This helps to sustain the creative industries and the broadcasting supply chain generally, in particular during economic downturns. It is important to note that this is an extension of the argument that the BBC provides certainty, through its longer-term planning horizon and more stable funding. The value of this stability should continue to be emphasised in future debates over BBC and broader Public Service Content funding and strategy.

- **Data gathering** – If the BBC were to take economic impact more explicitly into account when making strategic decisions in the future, we consider it likely that its data reporting may need to be amended. In particular it would need to measure explicitly the level of spend per region, in addition to a London/Out-of-London split.

---

³² As described at http://www.bbc.co.uk/info/policies/commercial_guides/pdf/fairtrading_guidelines_0707.pdf
Broader Nations and Regions policy

• How important is it for the BBC to have a substantial (e.g. larger than current) economic presence in every region in light of the financial constraints of the licence fee settlement? That is, what is the appropriate balance between spreading impacts of increased future out of London expenditure evenly across the UK versus the efficiency of concentrating this extra expenditure a smaller number of “clusters”? This is not to be confused with the BBC exiting a specific region or regions. Stakeholders suggested that substantial economic impact arises with a notable BBC TV production presence. BBC Local Radio, whilst providing valuable audience benefits, was cited as having comparably less economic impact than a TV production presence. Clearly there is an equity-efficiency trade-off here that needs to be taken into consideration – spread the BBC too thinly across regions and costs may rise, but concentrate too much additional expenditure in a small number of out-of-London centres and remaining regions will receive relatively little beneficial impact. A similar trade-off applies to efficiency versus plurality – excessive concentration in London or in a small number of regions may result in a lower than desired level of plurality (of ideas or partners, for example) but could represent one of the more efficient organisational solutions. If economic impact were to be a criterion in future investment location decisions, it would be necessary to develop criteria by which economic impact is assessed.

• Impact across the UK – How best should the BBC increase its impact in the Nations and Regions within the licence fee settlement? Some of the BBC’s initiatives to benefit the Nations and Regions (e.g. Salford Quays) have received mixed reactions from stakeholders. Others cautioned that the BBC should ensure that its focus on Salford Quays in its Nations and Regions policy should not come at the expense of other Nations and Regions. In Section 2.4 we set out some key lessons for cluster formation, as one example of a specific benefit of the BBC’s involvement in the Nations and Regions, which should inform this debate.
Main Report
2 Introduction

In this section we set out the background to and scope of the study, provide an overview of our approach to the study, acknowledge those who provided important inputs to our work and outline the structure of the report.

2.1 Context

BBC Trust asked us to examine the economic impact of the BBC’s activities on (businesses in) the wider UK creative economy\(^{33}\); the impact on audiences has been studied extensively\(^ {33a} \) and is outside the scope of this study. Furthermore, this study examines the overall economic impact of the BBC, and is a more aggregated approach than that adopted in the Market Impact Assessments (MIAs) of the BBC’s proposals for individual new services.\(^ {33b} \)

Debates on the definition and health of the creative economy and public service broadcasting provide the context for this study. The RTS Fleming Memorial Lecture Speech (1 November 2007)\(^ {33c} \) by Sir Michael Lyons, the Chairman of the BBC, provided focus on the issues the study should cover:

• “Our new duties focus, as they should, on getting wonderful programmes to audiences. But they also emphasise the importance of the choices made in the creation of those programmes and the wider social and economic benefits that the BBC can deliver.”

• “The public do not see their relationship with the BBC as simply transactional – “we give you the licence fee, you give us great programmes”. Their expectations of the BBC go much beyond that.”

• “How should the BBC translate this [the call “to represent the UK, its nations, regions and communities”] into concrete actions – into programmes, but also into the way it conducts its business?”

• “Audiences are telling us that the BBC is too London-centric.”

• “The BBC makes an obvious contribution to the creative economy of the UK. The UK remains the second-largest exporter of TV programmes in the world – only the US does better. Part of that success rests on the heavy investment in training made by the BBC as, in effect, “trainer to the industry.”

• “The BBC also supports some particularly uncertain areas of creative endeavour by British talent.”

• “One key quality here is distinctiveness – content that takes creative risks, or sets standards for the whole industry, or that you simply won’t ever get from other broadcasters.”

• “We will simply not allow the BBC to act in an anti-competitive way or in a manner that stifles enterprise and innovation outside the BBC.”

---

\(^{33}\) A relevant definition of the creative industries is that proposed by DCMS in its Creative Industries Mapping Document 2001.

\(^{33a}\) See, for example, “Measuring the Value of the BBC – A report by the BBC and Human Capital”, October 2004

\(^{33b}\) For example, Ofcom’s “Market Impact Assessment of the BBC’s High Definition Television Proposals” or “BBC new on-demand proposals – Market Impact Assessment”; and the accompanying BBC Governors/BBC Trust Public Value Assessments.

Further context for timing of this study is provided by a number of other reports, notably those concerning the future of the creative economy and public service broadcasting. These include the Department of Culture Media and Sport (DCMS) creative economy programme (CEP)\(^{35}\), Ofcom’s second public service broadcasting (PSB) review\(^{36}\) and the Creative Scotland bill\(^{37}\).

The assessment of the BBC’s economic impacts informs current and future debates facing the BBC and public service broadcasting more generally about future priorities and specific investment decisions\(^{38}\).

- How could the BBC increase its positive impact or reduce its negative impact through changes in its focus, structure or conduct whilst still delivering the remit set out in the Charter and Agreement?
- How would a change in funding base for the delivery of public service content affect the BBC’s impact on the creative economy?

Given the prominence and timing of these areas of policy debate, the BBC Trust set out to conduct this study, stating in its forward work plan 2007/8\(^{39}\):

“The BBC is a major investor not only in the content produced by the BBC itself, but also in the health of the wider UK broadcasting and creative sector – for example around a third of the licence fee (£1.1bn) is invested directly in independent production. The BBC invests across the creative industries including British film and unsigned musicians. The BBC’s own productions engage a wide range of sub-contractors across the full range of trade and craft skills and BBC training. The Trust will look carefully at the value the BBC creates in a published study commissioned later this year.”

2.2 Objectives and scope of the study

The main objectives of this study are to:

- Identify the most important types of benefits and costs to other broadcasters and creative businesses;
- Provide evidence on the scale of these benefits and costs, either in monetary terms, where relevant, or using other indicators where this is more meaningful; and
- Present the benefits and costs both at the level of the UK as a whole, and for each of the four nations and the English regions (where relevant).

\(^{35}\) See http://www.cep.culture.gov.uk and in particular the recent strategy document, “Creative Britain: New Talent for the New Economy”.

\(^{36}\) See http://www.ofcom.org.uk/tv/pab_review


\(^{38}\) In addition to those referenced above, other relevant policy debates include the Scottish Broadcasting Commission’s work investigating the current state of TV production and broadcasting in Scotland and BBC Trust assessments of future proposed BBC services.

\(^{39}\) See www.bbc.co.uk/bbctrust/assets/files/pdf/about/workplan2007.pdf
The scope of this study covers all media (TV, radio and internet distribution) in upstream (e.g. talent and independent producers) to downstream (e.g. secondary and additional income streams) activities. Within the UK, and where data permit, impacts are identified separately for the four Nations – England, Scotland, Northern Ireland and Wales. Within England, separate regional impacts are to be identified. For the purposes of the study, we consider the nine English Regions: the North East, North West, South West, East of England, West Midlands, East Midlands, Yorkshire and the Humber, the South East and London. Examples of the range of activities include (and this list is by no means exhaustive) the identification of new talent, provision of training, investment in production (both in-house and externally) and involvement in the roll-out of new technologies such as DAB and DTT and services, such as the iPlayer.

The study scope is therefore potentially very wide as a result of the breadth and depth of the BBC’s activities. Each of the activities potentially has an economic impact that varies by geography. In some cases the economic impact may be positive (e.g. by supporting employment in the creative economy) and in others negative (e.g. by crowding out investment). We focused on the most important impacts as a way of managing the long list of impacts within the scope of the study. Our definition of ‘important’ was informed by the evidence collated throughout the study.

In addition to setting out what is within the scope of our work, it is important to specify what is outside the scope of this study, and also to highlight what this study is not about. With respect to scope, the focus is on activities funded by the licence fee so that BBC Worldwide activities fall outside the scope of our work. Similarly, BBC World Service activities are outside the scope.

While this study concerns the economic impact of the BBC, it is important to note that this study is not about supporting or challenging the existence, level or structure of the licence fee – the starting point of our work is based on the premise that there is a public policy intervention in the form of a licence fee funded BBC. The study also is not about opining on whether BBC could spend its money more effectively to deliver its Public Purposes, how efficient the BBC is at delivering those Purposes (although we do comment on its effectiveness), or is it a Public Value Test of the BBC as a whole. A final point to note is that the BBC is driven by and evaluated by its contribution to consumer and citizen (i.e. public) value. The revised remit in the DCMS White Paper states that as well as having to "inform, educate and entertain", the BBC has six Public Purposes:

- Sustaining citizenship and civil society;
- Promoting education;
- Stimulating creativity;
- Reflecting the identity of the UK’s nations, regions and communities;
- Bringing the world to the UK and the UK to the world; and
- Building digital Britain.

In fulfilling its public value objectives in the way it does, one of the by-products is its economic impact on the creative economy. This study attempts to identify these impacts and, where feasible, quantify them. We note also that the BBC has substantial impacts outside the creative economy (for example, set-top box manufacturers, construction companies or event organisers).

2.3 Relationship with BBC Public Value framework

Our study attempts to assess the economic impacts of the BBC’s activities overall, focussing on the impacts on businesses in the creative economy. In this respect it differs from the Public Value Assessments (conducted by the BBC Trust) and the MIAs (conducted by Ofcom) conducted for new BBC services or major changes in BBC service provision in at least three important ways, as discussed below.

---

41 See http://www.bbc.co.uk/bbctrust/research/economic_impact/index.html
2.3.1 Aggregate versus specific
The Public Value framework used to assess proposed substantial new BBC services or major changes in existing services examines the public value and the market impact of specific proposals, such as the introduction of HD channels, on-demand services or Gaelic language services. This study, however, takes a broader view of the whole of the BBC (focused on its public service elements), rather than evaluating specific services in depth.

2.3.2 Impact on businesses versus impact on consumers
The Public Value Test considers consumer benefits, taking into account the net impact on businesses. A consumer welfare approach is usually used, based on the Charter requirement to work in the interests of licence fee payers.

In this study however, we do not consider impacts on consumers directly, for example we do not consider consumer willingness to pay for BBC services. Our study, as per the Terms of Reference\textsuperscript{46}, focuses on the impacts on \textit{businesses}, particularly those in the creative economy. We note that there will be knock-on effects of impacts of businesses on consumers (e.g. BBC services might impact the amount that consumers pay to receive pay TV, or the quality of pay TV service that they can receive).

2.3.3 Use as a decision tool
The Public Value Assessments and MIAs are used directly as decision tools to evaluate specific proposed services – whether the proposals should be accepted and whether alterations to the proposals should be made. In contrast, this study is not designed to be used as a decision document \textit{per se}, although we acknowledge that its findings may inform the BBC and BBC Trust’s future strategy and planning.

2.4 Acknowledgements
During the course of our work we have been guided by members of the BBC Trust Unit and the BBC Trust. We would also like to thank the BBC representatives who have inputted to the study. Thanks also go to all stakeholders who participated in our programme of interviews.

We are also grateful to the speakers at the seminar – Sir Michael Lyons, Dieter Helm, Andrew Graham, Shaun Day, Jeremy Peat, Will Hutton, Patrick Barwise and Mark Williams, and the Chair, Diane Coyle – as well as the participants for a lively and informative discussion. We would also like to thank Patrick Barwise for hosting the seminar at London Business School, and for also for providing comments on our report.

2.5 Structure of the report
The remainder of this report is structured as follows:

- In Section 3 we provide an overview of the relevant literature, introduce concepts and definitions in respect of the creative economy and outline how this study may relate to the BBC Public Value framework;

- Section 4 provides detail on the framework for conducting the analysis and sets out the methods and processes we followed during the study including our approach, an overview of the key discussion points of the seminar, the stakeholders we consulted, the hypotheses we developed, and the evidence base we compiled;

• The BBC’s remit and purposes is introduced in Section 5, together with an overview of the BBC’s activities in TV, radio and online;

• A discussion of possible counterfactuals and the counterfactual developed for this study is provided in Section 6;

• Section 7 introduces our assessment of the main economic impacts identified in the study:
  – Section 8: Net economic “value added” impact
  – Section 9: Industry leadership impacts
  – Section 10: Impacts on competitor revenues and business models
  – Section 11: Independent producers
  – Section 12: Training and talent
  – Section 13: Technological impacts
  – Section 14: Investment in specific creative activities

• In Section 15 we discuss the BBC’s economic impacts across the Nations and Regions of the UK; and

• In Section 16 of the report we summarise the key findings of the study and provide some concluding remarks.

There are in addition 7 appendices attached to the report as follows:

• Appendix 1 – Our terms of reference;

• Appendix 2 – Literature review;

• Appendix 3 – Key findings from seminar;

• Appendix 4 – List of hypothesised impacts;

• Appendix 5 – List of stakeholder submissions;

• Appendix 6 – Estimation of revenues in the counterfactual; and

• Appendix 7 – Further gross value added and net value added results.
3 Relevant literature and the creative economy

3.1 Introduction

In this section we provide a brief summary of our findings from the literature review (the review in full is attached at Appendix 2), discuss our preferred definition of “the creative economy” for the purposes of this study and describe the context of this study in relation to Public Value Tests of BBC services as undertaken by Ofcom and the BBC Trust.

3.2 The literature

3.2.1 Introduction

To frame our work we conducted a review of the literature most relevant to this study. We selected the literature for review with the following objectives in mind:

• To obtain a workable definition of the creative economy;

• To highlight hypotheses to test and counterfactuals from previous academic and policy literature based upon the rationale for intervention in public service broadcasting, and the role of the BBC in particular;

• To consider the implications of the findings of a selection of other economic impact studies for the methods used in our study;

• To set the context for this study with respect to existing impact assessments of the BBC’s activities, which also inform the selection of counterfactual scenarios; and

• To summarise best practice impact assessment methods, to be used as guidelines for methods in this study.

Much of the academic literature on public service broadcasting and the creative industry has largely focused on the rationale for intervention in the market, i.e. the economic (or political and social) justifications for public service broadcasting, rather than its economic impact. However, we include a brief summary of this literature as it does provide important context.

This literature review focuses on economic impacts to businesses in line with the terms of reference for this study. Therefore we have not included the wide ranging literature on social and political impacts or audience impacts (including assessments of consumers’ willingness to pay for the BBC\(^5\)).

Below we summarise in brief a number of key points emerging from our literature review, noting that various other additional methodological points were incorporated at a later stage of our work – as a result of the seminar, or from insights uncovered during stakeholder and BBC interviews.

3.2.2 The creative economy

Key findings for this study from our review of literature relating to the creative economy include:

• There was a degree of consensus around the DCMS (2001)\(^6\) definition (for policy and measurement purposes) which defines 14 sectors as “creative industries”; however the literature indicates that there are overlaps with various other sectors and creative workers exist both within creative industries and in other industries.

• The creative industries are significant for the UK economy and employment, representing a larger share of the economy than in other countries.


• The creative industries have high economic value added, paying higher wages than the UK average (although wages are growing less quickly than the UK average) and it is argued that the presence of creative industries may raise the attractiveness of regions as places in which to live. This has implications both for multipliers used when calculating overall impacts but also for the role of creative industries in regional development and regeneration.

• The BBC accounts for a more than half of revenues in the radio broadcasting industry and nearly a quarter of revenues in the TV broadcasting industry\(^6\). While similar figures have not been identified for online services, the BBC is a significant player, gaining a weekly reach of 14.8 million unique users in the UK\(^6\).

### 3.2.3 Rationale for intervention

The literature we reviewed relating to the rationale for intervention in the broadcasting sector yielded the following insights:

• Some of the traditional market failure arguments in respect of PSB may have reduced as the development of excludability via TV signal encryption means that TV broadcasting is no longer a pure public good, unlike radio. However, a consensus does not exist on the implications of potential excludability on the rationale for intervention.

• Armstrong and Weeds (2007)\(^7\) state that public service broadcasting (PSB) may have a smaller role to play in the future as increased choice means that less audience chooses to watch PSB programmes.

• However, other papers, including those by Gavyn Davies\(^8\) and the BBC’s 2008 submission to the Convergence Think Tank\(^9\) have argued that a large number of market failures would continue to hold in a digital environment and that continued PSB intervention is justified.

• Robin Foster\(^10\) provides a summary of how the rationale for intervention persists and may evolve in the future, particularly given the switch to digital and convergence:

  – “...there remains a public interest rationale for intervention in the sector to achieve important social objectives, alongside a well-functioning competitive market, but the scale and nature of that intervention may well differ;

  – An end to spectrum scarcity and increased competition will undermine the old model of implicit subsidies for public objectives. New measures will almost certainly be needed if it is decided to continue to secure plurality in the provision of public interest content – involving support for Channel 4 and/or for other providers of such content;

  – The provision of public interest content will need to be fit-for-purpose in the broadband world – this means increasing use of on-demand and interactive content, rather than conventional scheduled channels.”

---

\(^7\) BBC, “Annual Report and Accounts 2006/07”.
\(^10\) “Convergence Think Tank – BBC Submission to Seminar One” (2008).
3.2.4 Externalities

In respect of the specific externalities of intervention in the broadcasting sector in general and the BBC in particular, key findings for this study from our review of the literature include:

- Any activity undertaken by the BBC which could be supported in a purely commercial market may also have negative impacts, particularly on competitors.

- A range of positive and negative impacts have been identified in the literature, including both crowding in and crowding out effects. The literature suggests a large number of hypotheses that this study should test, including:
  - Training/education externalities;
  - Regeneration externalities;
  - Network-building externalities;
  - Clustering externalities;
  - Other possible positive impacts, including talent, brand and promotion externalities, supply chain, risk-taking and innovation benefits have not been considered as extensively in relevant literature but could also be considered in this study;
  - Potential negative impacts identified by DCMS include the areas of:
    - “crowding out” (reduction in private sector investment resulting from investment by the public sector);
    - foreclosure or marginalisation of markets to competitors, or poaching staff;\(^{51}\)
    - “innovation” (designing, making and/or sustaining markets and technology which might not otherwise prove viable);
    - “exclusivity” (imposing exclusivity agreements on contracts it enters that disadvantage competitors); and
    - excessive use of, and/or influence within, joint ventures\(^{52}\).

- Other possible negative impacts include uncertainty and the negative impact on competitors resulting from BBC provision of non-subscription, advertising-free content.

\(^{51}\) DCMS refers to these impacts as “predation”.

\(^{52}\) DCMS refers to these impacts as “collusions”.
• Robin Foster\textsuperscript{43} summarises the focus of broadcasting-related competition concerns as:
  
  – “Rights issues, including exclusive contracts for premium content and the terms on which such content is supplied to third parties; purchase of programmes by broadcasters from independent producers; and especially new media rights;”
  
  – Control of gateways to the consumer, such as conditional access systems (and other bottlenecks in the broadcasting value chain);
  
  – Impact of public broadcasters on competition; and
  
  – Vertical integration – commonplace in the media sector – is an added complexity, leading to the possibility that an operator could lever any market power it has in one part of the value chain into adjacent downstream or upstream activities.”

• Creative industry spillovers can be classified as knowledge spillovers, product spillovers and network spillovers.

3.2.5 Other impact studies

We reviewed a number of UK impact studies, from which key points to emerge include:

• The BBC may support many jobs indirectly as well as directly in the creative industries and this will likely have implications for the wider UK economy.

• Forward linkages between the creative industries and other areas of the economy are important, for example the impact of encouraging digital terrestrial television take-up on manufacturers of set-top boxes.

• It is important to consider leakage – where estimated multiplier effects may not apply due to leakage from the UK creative industries, or from the UK entirely.

• Most impact studies reviewed used an implicit counterfactual of the subject organisation (e.g. S4C\textsuperscript{44} or the UK film industry\textsuperscript{45}) ceasing to exist. This is useful for understanding the size of the subject organisation but not for considering whether the existing organisation is any better or worse than alternatives.

• It will be important to distinguish the impacts of the BBC from those of other PSBs; also to consider carefully the role of other PSBs in the counterfactual.

• One potential counterfactual to consider is of a purely commercial organisation (as used in a Channel 4 economic impact study\textsuperscript{46}).

\textsuperscript{43} Foster, R. (2007), “Future Broadcasting Regulation – An independent report by Robin Foster commissioned by the Department for Culture, Media and Sport.”

\textsuperscript{44} DTZ/Welsh Economy Research Unit (2007), “The Economic Impact of S4C on the Welsh Economy 2002-2006”, report for S4C.

\textsuperscript{45} Oxford Economic Forecasting (2005), “The Economic Contribution of the UK Film Industry”.

\textsuperscript{46} PricewaterhouseCoopers (2007), “The impact of Channel 4 on the UK independent sector, creative industries and the economy.”
3.2.6 Reviews of BBC services and MIAs
We reviewed a selection of BBC service reviews and MIAs, from which we drew (amongst others) the following points:

- The BBC recycles a large proportion of its revenue directly into the creative industries through spending including spending on commissioning from independent producers.
- Estimating a single “impact” figure in quantitative terms has practical difficulties and does not show a true representation of impacts on different sections of the industries (plurality effects) – for a large benefit to one large commercial business may not “equal” a significant benefit to a number of much smaller businesses.
- BBC has contributed substantially to the development of digital TV and radio.
- The digital TV and radio reviews demonstrate that estimated impacts can vary substantially with assumptions regarding the counterfactual.
- The BBC’s impacts may substantially change behaviour and pricing strategies of commercial competitors, for example it is expected that the launch of PSB Freesat (as a joint venture including the BBC) may cause Sky to change pricing for its Freesat services, and potentially for its subscription satellite services also.
- BBC intervention can open up new opportunities for commercial competitors, for example if subscription TV services are launched on Freeview.
- Both static and dynamic impacts should be considered.

3.2.7 Best practice impact assessment methods
Our review of best practice impact assessment methods yielded the following insights (as well as framing our methodology):

- It is important to consider both substitution and market creation effects.
- The impact of altering one BBC service on use of another BBC service may have important knock-on effects for both markets.
- The Treasury Green Book suggests that the study should be able to answer the following questions:
  - What exactly is to be evaluated and how can past outturns be measured?
  - What is the alternative state of the world against which the impact is to be assessed?

3.3 The creative economy
As discussed in Section 3.2.2 the literature uses a range of definitions for “creative sectors”, “creative industries” or “the creative economy”. One definition discussed at the seminar held to inform this study (described further in Section 4.4) posited that an inclusive definition of the creative sectors would include “creative workers” working in non-creative industries, for instance where “creativity” exists somewhere in the supply chain. We note that while this is a valid definition for some purposes, such an approach would present a significant challenge for this project as it would be difficult to identify creative workers across all industries.
We consider that for clarity, the most useful definition for this project is the DCMS (2001)\textsuperscript{57} definition of creative industries: advertising, architecture, the art and antiques market, crafts, design, designer fashion, film and video, interactive leisure software, music, the performing arts, publishing, software and computer services, television and radio.

This definition has been supported in stakeholder responses where we found that, although individual definitions did vary, there was a degree of consensus that the DCMS definition was plausible and reasonably comprehensive.

4 Approach

4.1 Introduction
This section provides an overview of our approach, a brief summary of the seminar held to inform the study (further details attached at Appendix 3), and a discussion of the evidence base we compiled during our work.

4.2 Overview of the approach
The approach to this study followed that outlined in Figure 4.

Figure 4: Composition of the approach

The steps in the approach are described further below:

- **Remit and funding** – Section 5 sets out the activities and funding base of the BBC, which is required in order to understand the impacts the study needs to analyse.

- **Data collection/analysis** – We collected a range of data from the BBC, and supplementary evidence sent to us from stakeholders. We used this evidence and data to investigate hypotheses developed, against the selected counterfactual.

- **Impacts** – We developed a list of hypotheses of impacts to test, which was informed by the literature review, the seminar conducted for this study (see Appendix 3), and discussions with representatives of the BBC Trust, BBC Trust Unit, BBC Executive and stakeholder discussions and submissions. We discuss each in turn below.

- **Counterfactual** – To identify the impact of the BBC we need to compare the BBC against an alternative (“counterfactual”) state of the world. We discuss the counterfactual for this study in Section 6.
4.3 Literature review

As discussed in Section 3.2, we conducted a review of recent, publicly available literature relating to the study. The purpose of this review was to collate existing knowledge and experience that benefits this study, rather than to provide a comprehensive summary of all the literature that exists. In particular, there exists a large body of literature on the rationale for intervention that we have chosen not to incorporate as it is context to this study, rather than the focal point. The literature review in full is attached at Appendix 2.

4.4 Seminar

On Thursday 28 February 2008 the BBC Trust held a seminar at London Business School to raise awareness of this project and to provide an occasion in which stakeholders could discuss the project, appropriate methods and likely important impacts⁶⁵.

A distinguished panel of speakers (see Table 3) provided their insight into the topic, and opportunities were provided for delegates to respond and discuss the BBC’s Economic impact in general, and specific issues raised by speakers. The seminar enabled us to add to and revise both our list of hypotheses and our list of stakeholders we invited to submit responses, as well as assisting further the development of methods to be employed.

Table 3: Seminar speakers

<table>
<thead>
<tr>
<th>Speaker</th>
<th>Organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sir Michael Lyons</td>
<td>BBC Trust</td>
</tr>
<tr>
<td>Dieter Helm</td>
<td>Oxford University</td>
</tr>
<tr>
<td>Andrew Graham</td>
<td>Oxford University</td>
</tr>
<tr>
<td>Shaun Day</td>
<td>BBC Executive</td>
</tr>
<tr>
<td>Will Hutton</td>
<td>The Work Foundation</td>
</tr>
<tr>
<td>Jeremy Peat</td>
<td>BBC Trust</td>
</tr>
<tr>
<td>Mark Williams</td>
<td>NERA</td>
</tr>
<tr>
<td>Patrick Barwise</td>
<td>London Business School</td>
</tr>
<tr>
<td>Diane Coyle</td>
<td>BBC Trust</td>
</tr>
</tbody>
</table>

Source: BBC Trust

A summary of the key findings from the seminar for this study is attached at Appendix 3.

4.5 Evidence

In his review of BBC online in 2004, Philip Graf describes competitors’ claims of “unfairness” of the BBC’s online activities as “rich in assertion though poor in reliable and convincing data”⁶⁶. Our experience in conducting this project is that there is a wide range of views on the BBC’s impacts. While the submissions we received were well-considered, thought provoking, reasonable and had logical arguments, we received very limited hard data. Empirical evidence to support many views and assertions was not usually available. Given the paucity of data on the BBC’s activities as a whole, we sought (and received) specific examples of impacts that informed our understanding of how impacts occur and who is affected. A number of the more illuminating of these case studies are presented in this report.

⁶⁵ We are particularly grateful to Patrick Barwise and London Business School for providing use of its facilities and hosting of the seminar.
We note that there is considerable scope for further work in developing the evidence base behind specific impacts, such as through in depth financial or survey analysis focused on specific impacts. Such work was however beyond the objectives of this project.

We collated data from the following sources:

• BBC Executive – we requested various data on the BBC’s spending and other data by medium and by geography in connection with a range of hypothesised impacts.

• A substantive stakeholder consultation process – we invited a wide range of stakeholders to contribute submissions (oral and/or written) to the study. Submissions inevitably tended to be focused on the specific activities and impacts of the BBC most relevant to the stakeholder in question, however our questionnaire and discussions allowed for (and we received) contributions regarding broader views on the overall economic impacts. Further areas of discussion included: Which impacts are most important? What is an appropriate counterfactual? How do the BBC’s economic impacts compare to those of other broadcasters? We aimed to ensure we consulted a wide-ranging and representative sample of stakeholders that we would expect ex ante to be benefitted or disadvantaged by BBC activities. We received (oral or written) submissions from 55 stakeholder representatives listed in Appendix 5;

• In tandem with stakeholder interviews and receipt of written submissions, we conducted interviews with representatives of BBC Executive and representatives from various BBC activities, connected to the specific hypothesised impacts we considered. In total we interviewed 12 BBC representatives;

• A number of stakeholders contributed evidence in addition to their interviews or responses to our questionnaire. We would like to thank all stakeholders that submitted evidence in the form of reports, brochures and other written submissions; and

• In addition to the above sources of data, we conducted desk research related to each hypothesised impact. This involved a review of publicly available sources, including the internet, relevant press reports and annual reports and websites of the BBC, a number of its competitors and other stakeholders.

Where data allowed, we conducted economic impact modelling and other quantitative analysis to estimate the scale of individual impacts. We note that for many impacts such data were not available. Data we did receive was mostly received from the BBC, which does not usually provide data for this purpose. We based our economic multiplier estimates on those calculated in Cambridge Econometrics (2005)\(^\text{61}\), discussed further in Section 8.

---

\(^{60}\) We are grateful for the BBC’s assistance in the provision of the data that we received its co-operation throughout this study.

\(^{61}\) Cambridge Econometrics (2005), “Economic impact of the UK Screen Industries” a study for the UK Film Council and the National and Regional Screen and Development Agencies.
5 The BBC

5.1 Introduction

This section provides an overview of the BBC as it exists today. We outline the remit and Public Purposes of the BBC, as laid down in its Charter and accompanying agreement. We then provide an outline of the major content services offered by the BBC, namely: television services; radio services; its online offering; and other activities, including those of its commercial subsidiaries. This section concludes with the BBC’s own perspective on the activities of the Corporation.

It should be noted that this section provides an overview of the BBC’s services, and it is not designed to be an exhaustive list of the activities of the Corporation. Further detail on the BBC’s activities is given, where appropriate, in the relevant sections of this report.

5.1.1 Brief history

The BBC was incorporated as a non-commercial entity under Royal Charter in 1927. Initially the organisation offered radio broadcast services, but then commenced a regular television broadcast service in 1936. Television broadcasting was suspended during the Second World War, and upon its resumption in 1946, the BBC began deriving its revenue from a television licence fee levied on all owners of a television set.

Until 1955, the BBC was the only broadcaster licensed to operate within the UK. It is now one of four Public Service Broadcasters (“PSBs”) and remains the only broadcaster which does not carry advertising, in order to ensure it remains independent of commercial interests.

5.1.2 Corporate structure

The BBC can be segmented into four main segments: its content groups; its support services/professional services groups; the BBC Trust; and its commercial subsidiaries.

- Content groups include the BBC’s television, radio, and new media output units;
- Support services/professional services include central group functions, such as strategy, BBC People, finance and marketing;
- The BBC Trust is the sovereign body of the BBC, its independent trustees acting in the public interest; and
- The BBC’s commercial subsidiaries are BBC Worldwide and BBC Resources, which are for-profit organisations. They are wholly-owned by the BBC but operate autonomously from the main BBC group. The BBC’s commercial subsidiaries contribute financing to the BBC in the form of dividends, which contribute to revenue used for public service purposes.

This report focuses on the economic impact of the BBC’s content groups but also makes reference to BBC Worldwide where referenced by stakeholders.

---

62 The section on the BBC’s perspective has been prepared by compiling responses given by relevant Corporation personnel during interviews we have conducted with them.
63 The BBC was established under Royal Charter to replace a private venture – the British Broadcast Company Ltd – which had been set-up by a group of telecommunications companies in 1922 in order to test experimental radio broadcast services.
64 It should be noted that restrictions on advertising only cover the Corporation’s domestic services which come under its public service remit. Commercial activities undertaken by the BBC’s commercial subsidiaries, both domestically and overseas, are exempt from this rule.
65 BBC Resources was put up for sale in August 2007. On 30 March 2008 it was announced that the wigs and costumes department had been sold to Anglia Costumiers. As of 1 April 2008, the Outside Broadcast unit was sold to Satellite Information Services Limited. The remaining units – Post-production and Studios – remain within the BBC at the time of writing.
5.1.3 Funding and expenditure

The television licence fee remains the BBC’s primary source of funding. In 2006/7 this amounted to revenue of £3.243bn. The Public Service Broadcasting Group (i.e. excluding World Service and commercial operations) receives the whole of the licence fee income, which makes up over 99% of Public Service Broadcasting Group income, with the remainder sourced from the provision of content and services to overseas broadcasters, concert ticket sales, exploitation of the programme archive and £1.4 million contributed by other broadcasters towards the cost of Digital UK Limited66.

Around 70% of the BBC’s public service expenditure is on television output, with just under 17% spent on radio services and 4.6% on online (see Figure 5).

![Figure 5 BBC Public Services Expenditure 2006/7](image)

Source: BBC Annual Report and Accounts 2006/7

**“Other” comprises Licence fee collection costs (£134m), Orchestras and Performing Groups (£22m), Provision of Welsh language programming to S4C (£25m), Development Spend (£38m), DAB Digital Radio (£9m), Digital Text (£8m) and Exceptional Restructuring Costs (£44m).**

5.2 Remit and Public Purposes

The core remit of the BBC, which was established under the Corporation’s first Director-General, Lord Reith, is to “inform, educate and entertain”. Over time this core remit has been supplemented by Public Purposes.

The remit and Public Purposes of the BBC are set out in its Royal Charter of incorporation, and an accompanying agreement between it and the Department for Culture, Media and Sport ("DCMS"). The current versions of these documents came into effect on 1 January 2007.
5.2.1 Public Purposes

The six Public Purposes of the BBC are as follows:

- Sustaining citizenship and civil society;
- Promoting education and learning;
- Stimulating creativity and cultural excellence;
- Representing the UK, its nations, regions and communities;
- Bringing the UK to the world and the world to the UK; and
- In promoting its other purposes, helping 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.

It is the responsibility of the BBC Trust to ensure that the BBC delivers on these purposes. The BBC Trust was established as part of the 2007 Charter renewal process, thereby replacing the BBC Board of Governors.

5.2.2 Purpose Remits

Additional remits exist for each of the BBC’s six Public Purposes. These “purpose remits” are established by the Trust via consultation with the public, and must be in some way measurable.

The purpose remits were last revised in December 2007. A summary of these purpose remits is given below:

- **Sustaining citizenship and civil society**: providing independent journalism of the highest quality; engaging a wide audience in news, current affairs and other topical issues; encouraging conversation and debate about news, current affairs and topical issues; building a greater understanding of the parliamentary process and political institutions governing the UK; and enabling audiences to access, understand and interact with different types of media.

- **Promoting education and learning**: stimulating informal learning across a full range of subjects and issues for all audiences; engaging audiences in activities targeted to achieve specific outcomes that benefit society; and engaging audiences in activities targeted to achieve specific outcomes that benefit society.

- **Stimulating creativity and cultural excellence**: providing output that is distinctive and creative on all its platforms; ensuring enrichment for all audiences by covering a wide range of cultural activities; encouraging active participation in cultural activities; providing a wide range of enjoyable and entertaining content; and fostering creativity and nurturing and supporting UK talent across a wide range of genres.

- **Representing the UK, its nations, regions and communities**: representing the different nations, regions and communities to the rest of the UK; catering for the different nations, regions and communities of the UK; bringing people together for shared experiences; encouraging interest in, and conversation about local communities; reflecting the different religious and other beliefs in the UK; and providing output in minority languages.

---

43 Taken from http://www.bbc.co.uk/bbctrust/framework/purpose_remits.html
• **Bringing the UK to the world and the world to the UK**: building a global understanding of international issues; enhancing UK audiences’ awareness and understanding of international issues; and broadening UK audiences’ experience of and exposure to different cultures from around the world.

• **Emerging communications**: making engaging digital content and services available on a wide range of digital platforms and devices; working with the industry to deliver a UK-wide network of digital television; increasing coverage of Digital Audio Broadcasting (DAB); supporting Digital UK’s communications activity to build awareness of, and readiness for, digital switchover; working in partnership with other organisations to help all audiences understand and adopt emerging communications technologies and services; and supporting the Government’s targeted help scheme to help the most vulnerable during digital switchover.

### 5.3 TV

#### 5.3.1 Overview

The BBC operates two free-to-air analogue (and digital simulcast) TV channels and six free-to-air digital-only TV channels in the UK, as well as distributing content through BBCi – an interactive feature on digital television that provides services such as multi-screen news or sports coverage, among others.\(^\text{44}\)

The BBC’s UK television channels are:

• **BBC One** is the BBC’s primary television channel, and is simulcast on analogue and digital platforms. The channel features a mix of mainstream entertainment, drama, comedy, and movies, as well as news and current affairs, and some sport, children’s and religious programming.

• **BBC Two** is the BBC’s secondary television channel, and is also simulcast on analogue and digital platforms. The channel differs slightly from BBC One by broadcasting more educational programming, documentaries and current affairs output, and less mainstream drama and comedy programming.

• **BBC Three** is one of the BBC’s digital-only channels. It is targeted at younger audiences in the 25-34 age range, as is an outlet for new drama and talent, and British comedy. BBC Three only broadcasts 9 hours per day, as it shares digital terrestrial bandwidth with the CBBC channel.

• **BBC Four** is one of the BBC’s digital-only channels. It replaced the channel formerly known as BBC Knowledge in 2002 and broadcasts a mixture of documentaries, vintage drama, and non-English productions. BBC Four, like BBC Three, only broadcasts for 9 hours per day as it shares digital terrestrial bandwidth with the CBeebies channel.

• **CBBC** is one of the BBC’s digital-only channels. It targets the 6-12 year old age range, and broadcasts repeats of children’s programming aired on BBC One and BBC Two, as well as original content.

• **CBeebies** is one of the BBC’s digital-only channels. It targets children under the age of 6, and is a sister channel to CBBC.

---

\(^{44}\) Some BBCi content is also made available as a stream on the BBC website.
• BBC News is one of the BBC’s digital-only stations\textsuperscript{69}. The channel is a 24-hour rolling news channels, which also broadcasts pre-recorded news and information programmes, or interviews.

• BBC Parliament is one of the BBC’s digital-only stations. The channel broadcasts live footage from the House of Commons and the House of Lords, as well as Parliamentary committee hearings. Footage from the devolved assemblies is also broadcast, alongside repeats of archived parliamentary footage.

• BBCi is the BBC’s interactive service (via the red button) that enhances specific channels with a number of additional features such as news, alternative coverage for sports, information such as weather and travel, and a facility for joining in with programmes.

Through its commercial subsidiary, BBC Worldwide, the BBC owns a non-controlling stake in two commercial ventures which operate a total of eleven digital-only television channels in the UK. In addition, BBC Worldwide operates several overseas channels, including BBC World. By virtue of being commercial ventures, these channels are outside of the scope of this study.

5.3.2 Expenditure on television services

Almost 70% of the BBC’s annual UK Public Service budget is spent on its television services. The majority of the BBC’s television expenditure for 2006/7 – almost 85% – was on the two main analogue channels, BBC One and BBC Two (see Figure 6).

**Figure 6: BBC Television expenditure by service 2006/7 (£m)**

![Figure 6: BBC Television expenditure by service 2006/7 (£m)](image)

*Source: BBC Annual Report and Accounts 2006/7*

5.3.3 Television services audience share and reach

The BBC’s television services, when taken as a whole, reach just over 83% of the population on average each week, and account for just under a third of total audience share. BBC One and BBC Two are the best performing BBC television services, due in part to their analogue legacy and continuing availability on analogue TV.

\textsuperscript{69} BBC News 24 was rebranded as BBC News on 21 April 2008.
Figure 7: Average weekly reach and audience share of BBC services (%) 2006/7

Data are for multi-channel homes.
Source: BBC Annual Report and Accounts 2006/7

5.3.4 Nations and Regions
The analogue channels (BBC One and BBC Two) vary their programming schedules in the Nations and Regions. Typically this involves opt-out slots after network news programmes, but also includes specific slots for regional output (e.g. Inside Out).

For the nations – Northern Ireland, Scotland and Wales – network output is sometimes replaced by content specific to that nation (e.g. Spotlight in Northern Ireland, Dragon’s Eye in Wales and Newsnight Scotland in Scotland).

5.3.5 Other output
On 25 December 2007, the BBC launched a full version of its internet based catch-up service, iPlayer (a beta version had been tested for the second half of 2007). A proportion of the BBC’s output is now made available through iPlayer as an on demand feature on a catch-up basis with a seven day window.70

In addition to iPlayer, the BBC continuously streams content from BBC News Channel and BBC Parliament on their website, bbc.co.uk. Visual content from BBC News and clips from many BBC shows are also made available on the site. The BBC also places some of this content on its dedicated YouTube channel.

We address online delivery of the BBC’s visual content in more detail in the online section.

70 See http://www.bbc.co.uk/bbctrust/consult/closed_consultations/ondemand.html for details of the content available via the iPlayer and the seven-day catch-up restrictions (and exceptions).
5.3.6 Regulation

The BBC is subject to a number of statutory commitments with regard to its television output.

The Communications Acts 2003 outlines the BBC’s primary obligation to ensure that not less than 25% of output across all its television channels, and on each of BBC One and BBC Two individually, are produced independently from the BBC. Other commitments, so-called “Tier 2” commitments, cover other aspects of the BBC’s output and are reviewed by Ofcom on a yearly basis.

The current applicable quotas for BBC television output are listed below.

<table>
<thead>
<tr>
<th>Table 4 Production/Output Quotas imposed on the BBC’s UK Television services</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quota Type</strong></td>
</tr>
<tr>
<td>Independent Production quota</td>
</tr>
<tr>
<td>Regional programme making (the “M25 commitment”)</td>
</tr>
<tr>
<td>Regional programming</td>
</tr>
<tr>
<td>News and current affairs programmes</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Original production levels(^{\text{71}})</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Source: BBC Annual Report and Accounts 2006/7

\(^{\text{71}}\) Original productions include all BBC commissioned programmes produced in-house or externally including repeats but exclude programmes repeated on BBC Three and BBC Four first shown on another channel.
5.4 Radio

5.4.1 Overview
The BBC operates 56 radio stations in the UK – 10 national stations, 6 stations catering for the nations, and 40 local radio stations in England. In addition, the BBC World Service is also broadcast from its London base.

5.4.2 Expenditure
Total expenditure on the BBC’s Radio Services totalled £523m in the 2006/7 financial year. The majority was spent on the BBC's national analogue and digital radio services (e.g. BBC Radio 2, BBC Radio 4, BBC 7), which accounted for just under two-thirds of the total expenditure on radio services (see Figure 8).

Figure 8: Share of Radio Service Expenditure (%) 2006/7

Distribution costs amounted to £42.6m in 2006/7, with infrastructure and support costs totalling £88.4m.

5.4.3 National stations
The BBC operates ten national stations:

- **BBC Radio 1** broadcasts in the UK on FM, DAB, digital television and the internet. The output of the station is a mix of contemporary music and speech, and is targeted at the 15-29 age range.

- **BBC Radio 2** broadcasts in the UK on FM, DAB, digital television and the internet. The station broadcasts a mix of music and speech and targets a broad audience, mainly the over 35 age range.

- **BBC Radio 3** broadcasts in the UK on FM, DAB, digital television and the internet. The station has a broad remit to offer a mix of music, including classical, jazz and world, as well as cultural programming, such as drama and religious programming. Radio 3 does not have a target age range, but must appeal to listeners of all ages.

- **BBC Radio 4** broadcasts in the UK on FM, Long Wave, DAB, digital television and the internet, and in some parts of the UK on Medium Wave. The output of the station is speech programming, particularly news and current affairs but also drama, comedy and factual programmes.

\[\text{Source: BBC Annual Report and Accounts 2006/7}\]

---

72 The primary reference for the station profiles are the station licences issued by the BBC Trust, available from: http://www.bbc.co.uk/bbctrust/framework/bbc_service_licences/radio.html
• **BBC Radio 5Live** broadcasts in the UK on AM, DAB, digital television and the internet. Radio5Live is a continuous news and live sports station with a target audience of 25-44 year olds.

• **BBC Radio 5Live Sports Extra** broadcasts in the UK on DAB, digital television and the internet. It broadcasts a restricted schedule of live sports programming that is not carried on its sister station, BBC Radio 5Live.

• **1Xtra** broadcasts in the UK on DAB, digital television and the internet. The station broadcasts contemporary black music, with a focus on live music and new UK artists, as well as offering its own news service and specially commissioned documentaries. The target audience for 1Xtra is the 15-24 year-old age range, particularly those from ethnic minorities.

• **BBC 6 Music** broadcasts in the UK on DAB, digital television and the internet. The output of the station is a mixture of non-mainstream contemporary music and older material from the 1960s onwards.

• **BBC 7** broadcasts in the UK on DAB, digital television and the internet. The station broadcasts speech-based content, predominantly from the BBC’s radio archive. Its content includes comedy and drama. BBC 7 is also the ‘home’ for children’s speech radio for the BBC.

• **BBC Asian Network** broadcasts in the UK on DAB, digital television and the internet, and is available in certain parts of the country on medium wave. The station provides a mix of speech and music for the British Asian community. Some of the station’s output is broadcast in a range of South Asian languages, although the main language of the station is English.

5.4.4 Stations for the Nations

The BBC operates two stations in each of the nations.

• In **Scotland**, the BBC operates one English language station (BBC Radio Scotland) and one Gaelic language station (BBC Radio nan Gàidheal). BBC Radio nan Gàidheal does not broadcast 24 hours a day, but simulcasts BBC Radio Scotland content overnight. BBC Radio Scotland has opt-out slots for BBC Radio Orkney and BBC Radio Shetland;

• In **Wales**, the BBC operates one English language station (BBC Radio Wales) and one Welsh language station (BBC Radio Cymru);

• In **Northern Ireland**, the BBC operates two stations: BBC Radio Ulster and BBC Radio Foyle. BBC Radio Foyle is technically an opt-out from the BBC Radio Ulster transmission, and only broadcasts from breakfast to early evening during the week, and for a few hours on weekends.

5.4.5 BBC Local Radio

The BBC operates 40 local radio services in England. The service area for these stations is typically defined by county boundaries. BBC Local Radio stations broadcast on analogue radio and the internet, serving a target audience of the over-50s. BBC Local Radio services are primarily speech based, complemented by music.

Not all BBC local radio stations are available on DAB, as this is contingent on local digital multiplex licences having been awarded in their service area. The process the awarding of new local digital multiplex licences by Ofcom is ongoing. Some BBC Local Radio stations are available on digital television.
5.4.6 BBC World Service

The BBC World Service broadcasts in over 33 languages around the world using a variety of radio technologies (although historically the BBC World Service used short-wave radio technology). In 2007 it launched an Arabic TV News Channel aimed at the Middle East.

The Service reported an average weekly audience of 183 million people around the world in 2006/7. It is funded through grant-in-aid by the UK Government's Foreign and Commonwealth Office. Expenditure for 2006/7 was £242.3 million.

The BBC Trust ensures that the World Service meets its Charter obligations and agrees the strategic direction of the World Service with the Foreign and Commonwealth Office.

The BBC does not receive funding to transmit the World Service to the UK, although it is available via DAB radio, digital TV and medium wave analogue radio in the UK, as well as online. The impacts of BBC World Service are outside the scope of this report.

5.4.7 Regulation

Each BBC radio station has certain conditions imposed upon it by the BBC Trust in order for them to meet the Public Purposes and purpose remits. These conditions vary by station. Specific licence conditions are derived from the remit assigned to individual stations, as described in Section 5.4.3, 5.4.4 and 5.4.5.

The regulations are too numerous to be listed in full here. However, key conditions and quotas typically relate to:

- Programming content – including type of music (including live, specialist and new music content), amount of news/current affairs output, and amount of speech/documentary output; and
- Use of independent production companies.

For example, Table 5 below supplies a sample of specific conditions (which form a subset of broader licence requirements) for Radio 4, Radio Wales, and Local Radio.
Table 5: Sample of BBC Radio service licence conditions

<table>
<thead>
<tr>
<th>BBC Radio 4</th>
<th>BBC Radio Wales</th>
<th>BBC Local Radio</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBC Radio 4 should (among others):</td>
<td>BBC Radio Wales should (among others):</td>
<td>BBC Local Radio should (among others):</td>
</tr>
<tr>
<td>⊗ Broadcast at least 2,500 hours of news and current affairs programmes each year</td>
<td>⊗ Broadcast at least 24 hours of news and current affairs each week should carry extensive sports coverage and use its ability to split Medium Wave and FM frequencies to offer simultaneous commentaries on different games in different parts of the country.</td>
<td>⊗ Broadcast an average of at least 60% speech content in core hours and 100% at the breakfast peak each year mount regular outside broadcasts at events across the local area and report on their local sports teams, including minority sports when appropriate to the local area.</td>
</tr>
<tr>
<td>⊗ Broadcast at least 600 hours of original drama and readings each year</td>
<td>⊗ Support Welsh music and arts, and should commission work from new and established talent. It should broadcast music-making found within Wales.</td>
<td>⊗ Broadcast at least 85 hours of original, locally-made programming each week opportunities for new and emerging musicians from the local area and support local arts and music events by providing event information.</td>
</tr>
<tr>
<td>⊗ Broadcast at least 180 hours of original comedy each year</td>
<td>⊗ Should carry extensive sports coverage and use its ability to split Medium Wave and FM frequencies to offer simultaneous commentaries on different games in different parts of the country.</td>
<td>⊗ Take advantage of their structure – small teams and no formal commissioning structure - to act as a test bed for new production ideas and ways of working, and for developing new talent.</td>
</tr>
<tr>
<td>⊗ Contribute to BBC Radio’s commitment to commission at least 10% of eligible hours of output from independent producers</td>
<td>⊗</td>
<td></td>
</tr>
<tr>
<td>⊗ Broadcast at least 200 hours of original documentaries each year</td>
<td>⊗</td>
<td></td>
</tr>
<tr>
<td>⊗ Broadcast at least 200 hours of original religious programming each year</td>
<td>⊗</td>
<td></td>
</tr>
<tr>
<td>⊗ Provide daily reports of Parliamentary proceedings when Parliament is sitting</td>
<td>⊗</td>
<td></td>
</tr>
<tr>
<td>⊗ Offer regular coverage of subjects such as consumer affairs, education, health, business, law, farming and disability</td>
<td>⊗</td>
<td></td>
</tr>
</tbody>
</table>

Source: BBC Radio Service Licences

5.5 Online

5.5.1 bbc.co.uk

bbc.co.uk is the main website of the BBC and acts as a portal for all of the BBC’s online content. The main remit of bbc.co.uk is to extend other BBC output through “innovative and distinctive online content”, as well as being a “trusted guide” to the wider internet for its users73. The BBC’s website has to be compatible with all internet-enabled devices and internet software.

bbc.co.uk aggregates a collection of written, audio, and visual content, including streams of output from some of the BBC’s television and radio services. The site also contains interactive elements, such as the ‘Have Your Say’ news debate forum.

73 bbc.co.uk Service Licence, April 2007
In the 2006/7 financial year, £116m was spent on bbc.co.uk, of which £83.2m (or just under 72%) was expenditure on content for the site. The remainder was spent on distribution and infrastructure.

bbc.co.uk averaged 14.8 million unique users from the UK over the 2006/7 financial year, and 28.3 million unique users when international users are included.

Like the BBC’s other public services, bbc.co.uk does not carry advertisements. The only explicit quota imposed on bbc.co.uk by the BBC Trust relates to commissioning. It is a condition of bbc.co.uk’s service licence that the site commissions no less than 25% of eligible content from external suppliers, as measured by value. It is notable, however, that a significant proportion of bbc.co.uk content is “non-eligible” for the purposes of this quota.

5.5.2 iPlayer

The iPlayer is the BBC’s on-demand catch-up service. The application, which launched in December 2007, allows users to download some BBC output up to seven days after first transmission. Users can also stream content from the BBC iPlayer site and the Virgin Media cable network. The BBC’s pre-existing radio catch-up service was incorporated into the iPlayer on launch.

In its first two weeks following full launch, around 1 million users streamed or downloaded over 3.5 million programmes.

It was announced in April 2008 that a version for the Nintendo Wii games console was also being launched. We understand that the service is due to be launched on more platforms in the future.

5.5.3 Other

The BBC has, in recent months, embarked on other web-initiatives to increase the availability of its content. Examples of these initiatives are given below:

- In March 2007, the BBC announced a deal with YouTube. It now has three channels on the video-sharing website, which all host clips of BBC content. The BBC share in the internet advertising revenue generated from the channels;
- BBC content is also distributed via the social-networking site Bebo; and
- In the autumn of 2007, the BBC reached an agreement with Wi-Fi provider The Cloud. As a result of the deal, users can freely access BBC sites via The Cloud’s Wi-Fi hotspots, without having to pay a charge.

---

11 BBC Annual Report and Accounts 2006/7.
12 Eligible content is defined as eligible spend on eligible activity. Eligible spend includes whole website commissions, creative inputs, content ingest costs, application technologies, content rights, customised software licences and contractors/freelancer/solicitors engaged on a “deliverables” basis. Eligible spend excludes standard software licences for desktop support, contractors/freelancer/solicitors employed on an ongoing/time basis and all other non-production costs. Non-eligible activities include:
- Stand-alone hosting and distribution investment (already 100% outsourced through the BBC’s existing SLAs);
- News and News-related content (News, Sports News and Local News); and
- The “Where I Live” websites, because of their reliance on local news content production.
See http://www.bbc.co.uk/commissioning/futuremedia/statement_of_online.doc
13 http://news.bbc.co.uk/hi/technology/7187967.stm
14 http://news.bbc.co.uk/hi/technology/7338344.stm
15 http://news.bbc.co.uk/hi/entertainment/7094136.stm
5.6 Other activities

In addition to its core activities as a broadcaster, the BBC also engages in other activities which help contribute to its delivery of the Public Purposes. Examples of such activities are given below.

5.6.1 Promotion of digital switchover

The BBC's Charter, and its accompanying agreement between the BBC and DCMS, makes explicit reference to the BBC's responsibility to promote uptake of digital television. In particular, the BBC must:

• Continue to broadcast its television services in both analogue and digital until the agreed analogue switch-off date;
• Ensure that, by the agreed switch-off date, that the same proportion of the population that can receive an analogue television signal can also receive a digital television signal;
• Co-operate with other public service broadcasters in relation to the process of digital switchover;
• Take responsibility for any public education campaigns that may be necessary in the run up to digital switchover;
• Take responsibility for the establishment of targeted help schemes for certain demographics to ensure they can continue to access public service television post switch-over (e.g. the elderly); and
• Contribute financially towards the costs of switch-over.

In 2007, the BBC contributed £10.2m to Digital UK Limited\textsuperscript{41}. This contribution covered 100% of Digital UK Ltd’s communication expenditure, and 56% of all other expenditure.

5.6.2 Events

The BBC organises many events each year which seek to extend their public service offering. Many of these events are musical in nature, thus fitting with live-music quotas the BBC’s radio stations must fulfil. Typically these events are free to attend, although some (e.g. The Proms) set a modest entry fee to cover costs. Examples of such events include:

• Live music events such as BBC Radio 1’s ‘Big Weekend’ and ‘Radio 1 Presents…’; as well as a “BBC Introducing” stage at festivals (e.g. Bestival 2007);
• Other live music concerts, such as Neil Diamond and Radiohead for BBC Radio 2;
• Classical concerts such The BBC Proms;
• Charitable events such Children in Need, Comic Relief and Sports Relief;
• Awards ceremonies, such as the BBC Jazz awards and BBC Sports Personality of the Year; and
• Roadshows promoting the BBC’s work (e.g. News and Sport tour).

Through a joint venture arrangement with an events management business, BBC Worldwide annually organises many events themed around some of the BBC’s most popular brands. As these are commercial events, they fall outside of the scope of this report.

\textsuperscript{41} Digital UK is a non-profit organisation set up to aid digital switchover through provision of information to consumers and coordination of the technical rollout of digital TV.
5.6.3 R&D
The BBC has an active research and development department (BBC Research) which supports its core needs as a traditional broadcaster, as well as providing technological solutions for the BBC’s digital media offering.

Some of the output from BBC Research is made available is ‘open source’, whilst some constitute licensable technologies which provide the BBC with an additional revenue stream.

Many of the projects that the BBC’s R&D team work on at any given time are collaborative efforts, either with licensing and standards bodies, other broadcasters or with academic institutions, such as universities.

5.6.4 Training
The BBC’s Training and Development department provides training for internal members of the Corporation, as well as interested external parties for a fee.

In addition, the department makes some training available free of charge on their website, as well as offering a range of paid-for ‘face-to-face courses’ across television, new media, broadcast technology, radio journalism and health and safety.

Examples of training opportunities include the BBC’s College of Journalism and bespoke training packages for broadcast organisations.

5.6.5 Other
Other activities the BBC engages in include investment in British films through BBC Films; studio tours at its main sites; and recruiting audiences for live programme recording.
6 The Counterfactual

6.1 Introduction

In this section we discuss potential counterfactuals, against which we could compare the impacts of the BBC on the creative economy, and present our selected counterfactual.

By counterfactual we refer to a hypothetical state of the world in which the BBC does not exist (at least, not in its current role). Observing the BBC’s activities relative to this counterfactual allows us to estimate the net economic impacts of the BBC. Net impacts are important because estimation of gross impacts ignores the possible alternative use of resources and employees that would occur in the absence of the BBC. The requirement for establishing a counterfactual in order to estimate net impacts is discussed in more detail below.

6.2 The need for a counterfactual

6.2.1 The gross impact

The gross economic impact of the BBC on the creative economy is the total impact on activity in the economy that is associated with the BBC through its expenditure in the creative economy either directly or indirectly. This comprises direct, indirect, induced and spillover impacts, as summarised in Table 6.

**Table 6: Direct, indirect, induced and spillover impacts**

<table>
<thead>
<tr>
<th>Impact-type</th>
<th>Description of impact</th>
<th>Proportion of impacts that relate to the creative sector</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>Income received by persons employed by the BBC.</td>
<td>High proportion of impacts</td>
<td>Salary of a cameraperson employed in BBC productions.</td>
</tr>
<tr>
<td>Indirect*</td>
<td>Income received as a result of spending by the BBC.</td>
<td>High (but lower than the above) proportion of impacts</td>
<td>Income of an independent producer commissioned by the BBC to make a programme and wages of its staff.</td>
</tr>
<tr>
<td>Induced*</td>
<td>Income received by other firms and employees as a result of spending by those receiving money directly or indirectly from the BBC.</td>
<td>Very few impacts</td>
<td>Income received by retailers as a result of spending out of extra income earned by the cameraman and the independent producer’s staff.</td>
</tr>
<tr>
<td>Spillover</td>
<td>Impacts that result from the actions of the BBC affecting others in the industry.</td>
<td>High proportion of impacts</td>
<td>Benefit an independent producer receives by hiring a cameraman that has received high quality training from the BBC.</td>
</tr>
</tbody>
</table>

*Source: PwC

* Numerically these sum to the multiplier (to the direct effect).

The focus of this study is on the creative economy, rather than the UK economy. Therefore the relevant categories of impacts are mainly direct and spillover impacts, with some indirect impacts and relatively small induced impacts.
6.2.2 The net impact

The gross impact is not the most appropriate measure of the BBC’s actual impact on the creative economy as it does not take into account that if the BBC did not exist in its current state, another organisation(s)/intervention(s) would exist in its place generating its (their) own gross impact. We refer to this alternative scenario as the counterfactual. Without a counterfactual, the effects of substitute activities would not be taken into account and the impact assessment would overestimate the actual impact of the BBC. The difference between these two gross impacts is the net impact of the BBC (see Figure 9).

**Figure 9: Demonstration of the net impact**

<table>
<thead>
<tr>
<th>Gross impact of the BBC</th>
<th>Gross impact of the counterfactual broadcaster</th>
<th>=</th>
<th>Net impact of the BBC</th>
</tr>
</thead>
</table>

*Note: Not to scale. The diagram implicitly assumes that overall impact is positive for the gross impact, the counterfactual, and the net impact.*

*Source: PwC*

As described above, the net impact equals the gross impact of the BBC minus the gross impact in the counterfactual scenario and essentially answers the question:

*What impacts does the BBC have as a result of the activities it carries out, as compared to the hypothetical organisation in the counterfactual?*

In the context of this question it is important to note that BBC does not exist to maximise this impact – its motives are to fulfil Public Purposes and, as a by-product of this, economic impacts occur.

6.3 Generating a counterfactual

6.3.1 Approach to generating counterfactuals

There are many possible counterfactuals. The choice of counterfactual is important because it is likely to affect the overall measured net impact of the BBC, and also influence the extent to which we are able to shed light on the influence of particular characteristics of the BBC. For example, counterfactuals could be developed that differ from the BBC in any or all of the dimensions described in Figure 10 (these are illustrative examples – other dimensions and options exist both within and outside of the ranges shown here).
Counterfactual scenarios could therefore be developed that vary across different combinations of the variables for each dimension.

Moreover, the wider broadcasting ecology could vary in each potential counterfactual. A world where the BBC was different from what it is today and, indeed, its history differed, might have implications for the activities and obligations of other firms in the broadcasting sector. Consequently the selection of variables for the counterfactual has knock-on impacts on the behaviour of organisations within the creative economy and the interaction between them. Similarly, regulatory policy could differ in the counterfactual world – might PSB, for example, have a different policy focus under the counterfactual?

Appropriate scenarios could also depend on external factors including:

- Growth in delivery on content online vs. traditional TV platforms might suggest a potential reduction in intervention and/or switch of intervention towards genres/content that are underprovided in this new converged market;
- Growth in provision and use of on-demand might reduce the need for requirements such as 24 hour content provision;
- Intervention could be tilted towards supporting access to the wealth of online content, rather than the creation of content per se;
- The increased fragmentation of the market might require more intervention in content, if it increased the risk of declines in quality provision by the market; or

---

**Figure 10: Dimensions of possible counterfactuals**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Small</th>
<th>Size (revenue) of broadcaster</th>
<th>Larger than current licence fee revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>TV distribution only</td>
<td></td>
<td>Range of services</td>
<td>Multi-platform output (TV, radio, online)</td>
</tr>
<tr>
<td>100% public funding</td>
<td></td>
<td>Public/commercial split of funding</td>
<td>100% commercial funding</td>
</tr>
<tr>
<td>Advertising</td>
<td></td>
<td>Method of commercial funding (if applicable)</td>
<td>Subscription</td>
</tr>
<tr>
<td>Allocation from license fee / government revenues</td>
<td></td>
<td>Method of public funding (if applicable)</td>
<td>Contestable funding</td>
</tr>
</tbody>
</table>

Source: PwC

We note that this approach is similar to the “scenario-planning” approach adopted in Robin Foster's report “Future Broadcasting Regulation” (2007) for DCMS, although while his focus is on regulatory issues, our focus is on economic impact.
The increased number of content sources to which audiences were accustomed to accessing content might engender an argument for spreading public funding among many sources.

As described above, the number of possible counterfactual scenarios is vast and uncertain. The potential scenarios also feed into policy debates as summarised, for example in Robin Foster’s recent paper for the DCMS “Future Broadcasting Regulation”83.

Specific examples of possible counterfactuals include those described in Table 7.

Table 7: Example counterfactual scenarios

<table>
<thead>
<tr>
<th>Elements of counterfactual broadcaster</th>
<th>Smaller licence-fee funded PSB</th>
<th>Subscription funded PSB</th>
<th>“Channel 4”-type PSB</th>
<th>Smaller advertising-funded PSB</th>
<th>Large non-public service broadcaster</th>
<th>Large commercial public service broadcaster</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size (Revenue) of broadcaster(s)</td>
<td>20% current licence fee revenues</td>
<td>67% current licence fee revenues</td>
<td>50% current licence fee revenues</td>
<td>10%–20% of total TV and radio NAR (separately)</td>
<td>30%–40% of total TV and radio NAR (separately)</td>
<td>30%–40% of total TV and radio NAR (separately)</td>
</tr>
<tr>
<td>Range of services</td>
<td>TV, radio separate, small online</td>
<td>TV, radio and large online presence</td>
<td>TV, radio and large online presence</td>
<td>TV, radio separate, small online</td>
<td>TV, radio separate, small online</td>
<td>TV, radio separate, small online</td>
</tr>
<tr>
<td>PSB obligations</td>
<td>More than Channel 4</td>
<td>More than Channel 4</td>
<td>Similar to Channel 4</td>
<td>More than Channel 4</td>
<td>None</td>
<td>Similar to ITV</td>
</tr>
<tr>
<td>Public/commercial split of funding</td>
<td>Public</td>
<td>Commercial</td>
<td>Commercial</td>
<td>Commercial</td>
<td>Commercial</td>
<td>Commercial</td>
</tr>
<tr>
<td>Method of commercial funding (if applicable)</td>
<td>n/a</td>
<td>Subscription</td>
<td>Advertising</td>
<td>Advertising</td>
<td>Advertising</td>
<td>Advertising</td>
</tr>
<tr>
<td>Method of public funding (if applicable)</td>
<td>Licence fee</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Other</td>
<td>Similar to the BBC but with scaled down PSB obligations</td>
<td>More commercially orientated than the BBC</td>
<td>No in-house production</td>
<td>Relatively low share of NAR, produces mostly PSB programming</td>
<td>Completely commercial, no PSB programming, Advertising revenue based on audience share</td>
<td>Advertising revenue based on audience share</td>
</tr>
</tbody>
</table>

Source: PwC

Our approach to these questions is to select a counterfactual that is plausible and informative. For simplicity, clarity, and manageability, we consider only one counterfactual.

We note that it would be possible to consider a counterfactual scenario in some depth, and evaluate exactly which services the counterfactual broadcaster would provide, which licences it would be allowed to hold and so on. We consider however that, for the purpose of simplicity of analysis and to keep the study focused on the BBC, rather than on the counterfactual itself, we specify characteristics of the counterfactual broadcaster such as revenue sources and PSB obligations, but do not specify specific services that it would provide, since these are not necessary details for the purpose of our impact estimation.

---

Furthermore we note that, as we investigate specific impacts, it is necessary to define the likely activities of the counterfactual in more detail, such as its spend on indie commissioning or the extent to which it carries out research and development on new technologies. These details are discussed in the relevant impact sections of this report.

6.3.2 Selecting a counterfactual scenario

The counterfactual scenario we choose to use, out of the many scenarios available, should be plausible, should have resonance with stakeholders, and should make our analysis relevant to ongoing and future debates. In our view, the counterfactual should inform us about the impact of the BBC in terms of how the BBC is different from other broadcasters. We consider that the most relevant differences are the funding mechanism and the BBC’s PSB obligations. Indeed, perhaps the most distinctive aspect of the BBC is that it exists to fulfil Public Purposes, not for commercial gain. Hence it does not have a profit motive or shareholders, for example. Building on this, our view is that in order to illustrate fully the impacts of the BBC, it is likely to be most useful to select (from the many plausible counterfactuals) a counterfactual that differs substantially from today’s BBC in these key respects. We note that examination of potential counterfactuals will, no doubt, be the focus of the future debates on the funding of public service content in the UK.

6.4 The counterfactual scenario used in this study

The counterfactual scenario we have developed against which to compare the economic impact of the BBC is a generic commercial broadcaster granted the spectrum instead of the BBC, which produces a channel similar to ITV1 instead of BBC1, a smaller (probably more “niche”) commercial channel instead of BBC2, has a number of digital-only TV channels, and has commercial national and local analogue and digital radio stations (where commercially viable) instead of the BBC’s radio stations. Online, it has a presence similar to that of other commercial broadcasters’ online services. Further, we assume that the counterfactual broadcaster is privately, rather than publicly, owned. We explore this counterfactual in more detail below with respect to the use of spectrum; public service broadcasting obligations and restrictions; range of services/cross-media ownership; funding method; size; and independent production quotas and activities outside the M25.

6.4.1 Use of spectrum

We could assume that in the counterfactual where the BBC did not exist the spectrum used by the BBC for TV and radio broadcasting could instead be used for mobile telephony, wireless data transmission or other non-broadcast applications. However, as the analogue spectrum assigned to the BBC has particularly good technical properties for broadcast services, and since the TV broadcaster five, 3 independent national radio operators and numerous local radio stations have been licensed over time subsequent to the spectrum having been allocated to the BBC for broadcasting purposes, we assume that in the counterfactual this spectrum would still be allocated to broadcasting services. Furthermore, in respect of digital services, our reasoning is the same. Ofcom has identified that there is demand for further national standard definition TV channels (as part of the Digital Dividend Review) and further local and national DAB stations in its various reviews of radio.

Hence, our first assumption in forming a counterfactual is that a broadcaster would exist, using the spectrum currently used for BBC TV and radio services.
6.4.2 Obligations and restrictions

To understand the impact of the BBC’s remit, and the way in which its distinctive characteristics affects its impact compared with other broadcasters, we consider that a plausible and illuminating counterfactual is a broadcaster with analogue terrestrial channels subject to the minimum obligations on analogue terrestrial broadcasters today. With respect to TV, we have characterised these minimum obligations as those imposed on Channel 3 regional licences or the Channel 5 licence for TV. For radio, obligations are much more limited and we assume that the broadcaster’s obligations would be limited to relevant service-type obligations (e.g. pop music, classical music or speech). Some of the most important obligations we have assumed the counterfactual broadcaster would be subject to are described in Table 8:

<table>
<thead>
<tr>
<th>Obligation placed on counterfactual broadcaster</th>
<th>Comparison to commercial broadcaster</th>
</tr>
</thead>
<tbody>
<tr>
<td>No charges for the service.</td>
<td>Channel 3 Service regional licences, Channel 5 Service licence</td>
</tr>
<tr>
<td>At least 10% of the expenditure on programmes made in the UK shall be allocated to the production of programmes produced outside the M25 area and must be referable to a suitable range of production centres outside the M25 area. At least 10% of the hours of programmes made in the UK shall be produced outside the M25 area and will constitute a range of different types of programmes.</td>
<td>Channel 5 Service licence</td>
</tr>
<tr>
<td>Broadcast of independent productions exceeds 25% of total broadcasting time.</td>
<td>Channel 3 Service regional licences, Channel 5 Service licence</td>
</tr>
<tr>
<td>At least 365 hours per calendar year of high quality national and international news programmes between 9.25 am and midnight of which at least 125 hours must be shown in peak viewing time.</td>
<td>Channel 3 Service regional licences</td>
</tr>
<tr>
<td>At least 78 hours per calendar year of high quality national and international current affairs programmes between 9.25 am and midnight of which at least 35 hours must be shown in peak viewing time.</td>
<td>Channel 3 Service regional licences</td>
</tr>
<tr>
<td>At least 65% by time of programmes broadcast are originally produced or commissioned and that at least 85% by time of programmes in peak viewing time are originally produced or commissioned.</td>
<td>Channel 3 Service regional licences</td>
</tr>
<tr>
<td>The total amount of advertising in any one day must not exceed an average of seven minutes per hour of broadcasting; and in the periods 6pm-11pm and 7am the total amount of advertising must not, without Ofcom’s prior permission, exceed an average of eight minutes an hour on any one day.</td>
<td>Rules on the Amount and Distribution of Advertising (Ofcom), as apply to Channels 3-5 and digital simulcast services.(^4)</td>
</tr>
<tr>
<td>The counterfactual broadcaster would be restricted from controlling more than 20% of the national newspaper market and TV services would be subject to competition law.</td>
<td>Amended from conditions applied to ITV in the Communications Act 2003.</td>
</tr>
</tbody>
</table>

Source: Channel 3 Service regional licences and Channel 5 Service licence (both obtained from www.ofcom.org.uk), Ofcom “Rules on the amount and distribution of advertising”, Communications Act 2003.

\(^4\) We note that these Rules are subject to consultation by Ofcom (See “Review of Rules on the Amount and Distribution of Advertising”: http://www.ofcom.org.uk/tv/rad/marketreviews/raa/). Note that we assume that the current rules stay in place for the purpose of this counterfactual.
In addition we assume that the digital-only channels provided by the counterfactual broadcaster are subject to the same advertising rules as for current digital channels:

“The total amount of spot advertising in any one day must not exceed an average of nine minutes per hour (15 per cent) of broadcasting.”

6.4.3 Cross-media ownership
We assume that, following a government announcement regarding the introduction of the Communications Act 2003, the counterfactual broadcaster would be split into two or more organisations possibly, but not necessarily along service (i.e. TV and radio) lines. We note that these restrictions are relevant only for discussing the BBC’s cross-media ownership and for simplicity we shall continue to refer to a single counterfactual broadcaster66.

6.6.4 Funding method
Commercial versus public funding
One objective of this study is to understand how the BBC's impact differs from that of other broadcasters and one of the key defining features of the BBC is its funding by the public. We therefore assume that the counterfactual broadcaster would be financed entirely by commercial revenues on a similar basis to ITV and five (on TV) and the INRs and ILRs (on radio), i.e. advertising and sponsorship (see below).

Contestable versus non-contestable funding
Since the selected counterfactual is financed entirely by commercial revenues, this distinction (which relates to methods of public funding support) is not applicable. Were there a contestable funding model in the counterfactual, different content providers or broadcasters would be able to compete for the funds.

Advertising versus subscription funding
It would be plausible to consider either an advertising-based or subscription-based funding method for the counterfactual's services; however we assume an advertising funded model (see above). Historically, encryption of analogue signals was not possible, although this is no longer the case. Nevertheless, given that analogue TV licences-holders are restricted from charging for their services, that the digital-only services of ITV, Channel 4 and five are also funded from advertising rather than subscriptions, and that no significant subscription radio market sector currently exists in the UK, we assume that all services are provided on an advertising funding model. We recognise that this is a simplifying assumption.

6.4.5 Size
Our approach to estimating the size of the counterfactual broadcaster is based on estimating scenarios of TV viewing and radio listening – and the corresponding impact on net advertising revenue (“NAR”) that results. We assume that total TV viewing and radio listening are the same in the counterfactual as they are in reality. Furthermore, we assume that the extra advertising impacts associated with the replacement of the BBC with the counterfactual commercial broadcaster translates into 10% higher NAR on TV across the market as a whole and 20% higher market NAR on radio. These assumptions are based on analysis of existing estimates of the impact of advertising on the BBC and an analysis using estimates of advertising revenue elasticities. From these estimates we used assumptions over view share to “divide up” the market revenue among broadcasters.

66 Ofcom “Rules on the amount and distribution of advertising”.
67 We note that UTV is an example of a broadcaster providing both TV and radio services. However as the counterfactual broadcaster would have access to significantly more spectrum, we consider it is reasonable to assume that it would be permitted to operate as a single organisation.
We estimate plausible revenues for the counterfactual broadcaster of £1.39 billion, based on 29.6% assumed viewing share on TV (based on viewing figures for existing commercial services), 33.0% assumed listening share on radio (based on listening figures for existing commercial services) and online income equivalent to the sum of ITV’s online income (excluding Friends Reunited) and Channel 4’s “New Media” income. The estimated revenues including alternative scenarios, based on alternative listening/viewing shares are summarised in Table 9 and a comparison of the total revenue difference and revenue substitution between broadcasters, is described in Figure 11 and Figure 12. Our method and estimates are described in Appendix 6 to this report.

Table 9: Total revenues of counterfactual broadcaster

<table>
<thead>
<tr>
<th>Revenue (£million)</th>
<th>Central scenario</th>
<th>Low scenario (Alternative Scenarios A)*</th>
<th>High scenario (Alternative Scenarios B)**</th>
</tr>
</thead>
<tbody>
<tr>
<td>TV</td>
<td>1,092</td>
<td>1,051</td>
<td>1,189</td>
</tr>
<tr>
<td>Radio</td>
<td>237</td>
<td>122</td>
<td>359</td>
</tr>
<tr>
<td>Online</td>
<td>62</td>
<td>62</td>
<td>62</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,390</td>
<td>1,235</td>
<td>1,609</td>
</tr>
</tbody>
</table>

*Source: PwC analysis

Figure 11: TV Actual and Counterfactual NAR

Source: PwC analysis
6.4.6 The wider broadcasting ecology

It is necessary to define a counterfactual broadcasting ecology in which the counterfactual broadcaster would sit.

For example, a different level of PSB requirements placed on the counterfactual broadcaster, as compared to the BBC, could mean that additional PSB obligations would be placed on other broadcasters, who would then take over the activities that the BBC conducts in the real world. If all the BBC’s activities to fulfil its remit were transferred to another organisation then the net change in impact across all markets could be zero. For simplicity (and because we are interested in the impacts associated with how the BBC differs from other broadcasters) we assume that no further PSB obligations are placed on other broadcasters and we do not attempt to hypothesise on different activities that other broadcasters might undertake in the counterfactual world. In effect, absent an increase in the level of public service content provided by commercial organisations, our assumption implies that the overall level of public service content is lower in this counterfactual than it is in reality.

Alternatively, it might be posited that, in the absence of the BBC, existing players would expand to fill the area in which the BBC, currently sits – by increasing the number of channels and stations and their audience share, for example.

Similarly, the counterfactual broadcaster might, in different scenarios, compete in a variety of market structures. We assume, for simplicity and to maximise resonance with stakeholders that the existing competitors to the BBC also exist in the counterfactual scenario used.

6.4.7 Independent production quotas and production outside the M25

We assume that the counterfactual broadcaster commissions the minimum allowable proportion of content from independent producers. Above, this quota is assumed to be 25%. This approach follows ITV; its 2007 Review / 2008 Statement of Programme Policy reports ITV’s independent production commissioning to be equal to its quota of 25%.
Similarly, we assume that the counterfactual broadcaster restricts production from outside the M25 to the minimum of 10% by value and time (as per the Channel 5 licence agreement). The condition states that there must be a range of production centres outside the M25, suggesting that not all of this 10% can be concentrated in one area or located just next to the M25, however we suggest that the counterfactual broadcaster would be likely to have relatively few production centres outside the M25 and that a substantial proportion of this production might take place close to the M25.

6.5 Summary of selected counterfactual against actual BBC

We present below in Table 10, Table 11 and Table 12 summaries of the selected counterfactual, as compared to actual BBC activities in TV, radio and online respectively.

Table 10: Summary of TV counterfactual

<table>
<thead>
<tr>
<th></th>
<th>BBC in reality</th>
<th>Counterfactual broadcaster</th>
</tr>
</thead>
<tbody>
<tr>
<td>PSB obligations</td>
<td>Public Purposes as defined in the BBC Charter</td>
<td>Minimal PSB requirements as apply today to ITV or five</td>
</tr>
<tr>
<td>Funding method</td>
<td>Licence fee</td>
<td>Advertising, subject to restrictions imposed on ITV and five in reality</td>
</tr>
<tr>
<td>Size</td>
<td>TV expenditure of £2,319m</td>
<td>TV revenues of £1,092m</td>
</tr>
<tr>
<td>PSB policy in the wider</td>
<td>Channel 4, ITV and five subject to PSB requirements</td>
<td>As in reality</td>
</tr>
<tr>
<td>broadcasting ecology</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal and regulatory</td>
<td>As defined in Communications Act, BBC Charter etc.</td>
<td>Subject to same legal and regulatory restrictions as commercial broadcasters in reality</td>
</tr>
<tr>
<td>restrictions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Location in the Nations and</td>
<td>At least 30% of qualifying programme spend and at least 25% of qualifying</td>
<td>Minimum presence outside London, as per existing restrictions applied to the Channel 5 licence.</td>
</tr>
<tr>
<td>Regions</td>
<td>programme hours.</td>
<td></td>
</tr>
</tbody>
</table>

Source: PwC

Table 11: Summary of radio counterfactual

<table>
<thead>
<tr>
<th></th>
<th>BBC in reality</th>
<th>Counterfactual broadcaster</th>
</tr>
</thead>
<tbody>
<tr>
<td>PSB obligations</td>
<td>Public Purposes as defined in the BBC Charter</td>
<td>Minimal PSB requirements as apply today to commercial radio sector</td>
</tr>
<tr>
<td>Funding method</td>
<td>Licence fee</td>
<td>Advertising</td>
</tr>
<tr>
<td>Size</td>
<td>Radio expenditure of £564m</td>
<td>Radio revenues of £237m</td>
</tr>
<tr>
<td>PSB policy in the wider</td>
<td>Relatively few PSB requirements applied to commercial radio sector</td>
<td>As of today</td>
</tr>
<tr>
<td>broadcasting ecology</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal and regulatory</td>
<td>As defined in Communications Act, BBC Charter etc.</td>
<td>Subject to same legal and regulatory restrictions as commercial broadcasters in reality</td>
</tr>
<tr>
<td>restrictions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Location in the Nations and</td>
<td>Local radio stations present across the UK</td>
<td>Minimum presence outside London – presence necessary to provide local services only</td>
</tr>
<tr>
<td>Regions</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: PwC
6.6 Impact of the counterfactual

As the counterfactual broadcaster is advertising funded, we assume that audiences would not be required to purchase a licence fee. Hence, (colour TV) licence fee payers would be £135.50 (the current price of a colour TV licence) better off per annum, of which a fraction (corresponding to the “marginal propensity to consume broadcasting and creative services”) of this may be spent on the broadcasting and creative industries.

6.6.1 Impact on pay TV

It is argued by, amongst others, Armstrong and Weeds\(^8\), that the licence fee reduces willingness to pay for pay TV because consumers object to having to pay over and above the licence fee to access extra services. In economic terminology this might be referred to as declining marginal utility of TV services – consumers are willing to pay substantial amounts to receive any TV at all, but become less willing to pay for further channels as the amount of channels received increases\(^8\). This argument might suggest that, in the absence of a compulsory licence fee, pay TV services may thrive due to increased demand and increased revenues. Similarly, reduced free to air TV quality in the counterfactual might drive more consumers to purchase pay TV, and the elimination of licence fee-funded content might reduce the price of some content. Both these trends would tend to benefit pay TV.

However, if households view the licence fee as a compulsory tax, rather than as a purchase of TV services, then it is not clear that pay TV providers would benefit from removal of the licence fee, since TV would still be available free at the point of use. We note, however, that if the quality of free TV were lower in the counterfactual then this would indeed suggest that more consumers might choose pay TV, but if the counterfactual broadcaster were to compete more vigorously to provide popular programming (rather than PSB programming) then, conversely, demand for pay TV could be lower in the counterfactual.

---

Table 12: Summary of online counterfactual

<table>
<thead>
<tr>
<th>PSB obligations</th>
<th>BBC</th>
<th>Counterfactual broadcaster</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Public Purposes as defined in the BBC Charter</td>
<td>None</td>
</tr>
<tr>
<td>Funding method</td>
<td>Licence fee</td>
<td>Advertising (and cross-subsidisation from primary broadcasting activities)</td>
</tr>
<tr>
<td>Size</td>
<td>Online expenditure of £154m</td>
<td>Online revenues of £62m</td>
</tr>
<tr>
<td>PSB policy in the wider broadcasting ecology</td>
<td>N/A to online</td>
<td>N/A to online</td>
</tr>
<tr>
<td>Legal and regulatory restrictions</td>
<td>As defined in Communications Act, BBC Charter etc.</td>
<td>Subject to same legal and regulatory restrictions as commercial broadcasters in reality</td>
</tr>
<tr>
<td>Location in the Nations and Regions</td>
<td>No requirement to locate activities outside London</td>
<td>No requirement to locate activities outside London</td>
</tr>
</tbody>
</table>

Source: PwC


\(^9\) The marginal benefit of paying for extra TV is low because of the high utility provided by high quality free to air channels, making it less likely that the marginal benefit exceeds marginal cost – and hence less likely that consumers will choose to purchase pay TV.
Overall, therefore the impact on pay TV is unclear, although it seems that there exists a potential benefit to pay TV providers in the counterfactual, relative to reality. This is discussed in more depth in Section 10.4 below. We note that if pay TV were to benefit from the absence of the licence fee in the counterfactual, it would be at the expense of free-to-air broadcasters (including the counterfactual broadcaster).

6.6.2 Impact on the creative economy

In the absence of a compulsory licence fee, households would spend a proportion\(^9\) of the money saved on other goods and services, some of which will directly or indirectly impact the creative economy. Total household expenditure in 2006 was £800bn. Calculation of a “marginal propensity to spend on broadcasting and creative services” would allow estimation of how much of the saved licence fee would be recycled into the creative industries, although it is notable that this is likely to be a very small proportion (net of any direct impacts on pay TV as discussed above).

6.7 Concluding remarks on the counterfactual

In this study we compare (qualitatively and/or quantitatively) the estimated impacts of the counterfactual developed above, to the estimated impacts of the BBC, for the major impacts we identified.

The following sections assess the impact of the BBC, against the counterfactual outlined above. As we address each impact, it is necessary to define in more detail the activities (and hence impacts) of the counterfactual broadcaster. This is addressed as we discuss and analyse each of the main impacts identified.

\(^9\) This proportion is termed the marginal propensity to consume.
7 Introduction to impact assessment

In the sections that follow, we describe each of the major impact areas identified during our work. For each impact area we discuss the stakeholder views, examine any quantitative evidence we have uncovered through our research and impact modelling work and discuss any further qualitative evidence.

Throughout, we present case studies, at varying levels of detail, which are intended to provide specific examples to aid understanding of the broader impacts that the BBC has on the creative economy. These case studies are by no means exhaustive – and have been selected based on their resonance with stakeholders (and with the BBC itself), the availability of data and information and the extent to which the case studies form meaningful examples of the wider impacts of the BBC.

The impact areas discussed in this section are as follows:

- **Net economic “value added” impact:** This consists of the direct, indirect and induced impacts of the BBC’s spending, against the estimated impacts of the counterfactual broadcaster.

- **Industry and quality leadership:** This comprises the impacts of the BBC’s quality benchmarking and overall industry leadership, in particular the provision of critical mass and as a “sustainer” of the creative economy. Also included here are potential impacts associated with knowledge spillovers and promotion externalities.

- **Impacts on competitor revenues and business models:** These are impacts on the BBC’s competitors of the BBC’s presence in markets, particularly where that presence leads to an impact on revenues or business models for some or all of the BBC’s competitors. We include a brief discussion of the BBC’s impacts on talent and content costs.

- **Impacts of commissioning independent production:** This examines the impacts of the BBC’s commissioning of independent productions, particularly on independent producers themselves.

- **Training and talent development:** The impacts of the BBC in providing training and developing new UK talent. In particular, the training impacts discussed include the provision of more training, more types of training, provision of training to more people and the provision of training at lower cost than might occur in the counterfactual. The talent impacts discussed focus on the BBC’s impact on uncovering new talent – and how those discoveries benefit the creative economy.

- **Technological impacts:** The BBC’s impacts in the area of technology, particularly its leadership and innovation in developing new technologies, and in driving the success and take-up of technologies, which other creative businesses may be able to use as an opportunity to reach consumers.

- **Investment in specific creative activities:** This impact area comprises the impacts resulting from the BBC’s direct investment in creative activities that the counterfactual broadcaster might not invest in, for example film and orchestras.
8 Gross and net economic “value added” impact

8.1 Introduction

In this section we discuss and present an estimate of the direct, indirect and induced impacts of the BBC’s spending (definitions provided below). The estimates are based around the impacts on the creative economy although, as discussed below in more detail, there is some overlap with non-creative sectors. We follow convention and apply an economic multiplier analysis to estimate the direct, indirect and induced impacts; and present our results both as gross-value added (GVA), which constitutes the total economic activity in the economy supported by BBC spending without considering what would occur in the counterfactual, and an estimate of the “net value added” against the counterfactual (i.e. the difference between the estimated GVA associated with the BBC and the estimated GVA associated with the counterfactual broadcaster).

The estimates presented here are estimates of the value added to the UK economy (i.e. not just the creative economy), of the BBC’s creative activities (in practice, this means that we have excluded spending on overheads and infrastructure).

8.2 Economic impact estimation using multipliers

Multiplier analysis aims to estimate the knock-on effects of direct income-generation through indirect and induced impacts. Multiplier estimates aim to capture the following effects of economic activity:

- **Direct effects** comprise the economic value of the output of the BBC, which can otherwise be described as the income earned by factors of production of the BBC, particularly the income earned by BBC employees.

- **Indirect effects** comprise the income generated among the regional and national economies in supplying the BBC’s inputs.

- **Induced effects** comprise the income generated by those directly and indirectly supported by the BBC spending that income on other goods and services.

At each stage of the income “chain”, a proportion of the money is used to generate further economic activity and a proportion is saved. Hence, as the income is passed further down the chain of income the proportion of the (original) expenditure that is recycled into new economic output falls. Hence, the additional indirect and induced effects of an additional link in the income chain tend to zero as the length of the income chain becomes very large. Figure 13 illustrates (assuming a marginal propensity to save – the amount of an extra pound of income received that is saved rather than spent – of 0.3 for illustrative purposes only) how the size of the incremental induced effect diminishes as money passes down the chain of transactions, and how the cumulative induced effect levels off as the number of transactions in the chain increases.
8.3 Economic multipliers

HM Treasury provides guidance\(^9\) on the assessment of economic impacts in the context of government intervention. A key concept addressed is that of additionality (i.e. is the impact additional to what would have occurred without the intervention) of the impact, which emphasises the importance of considering the net impact, as well as estimates of gross impact. We capture the net impact estimates here by comparison to the counterfactual.

The Green Book emphasises the importance of considering three types of economic effects:

- ‘Leakage’ effects benefit those outside of the spatial area or group which the intervention is intended to benefit’. The key relevant leakage effects for this study are the following:
  - This study considers impacts on the creative economy only. There will be leakage from these sectors to the wider UK economy that is additional to impacts described in this report;
  - There will be leakage from the UK economy to overseas, for example from imports or from employees spending money earned overseas; and
  - There will be leakage from individual regions to other regions of the UK, from intra-UK trade and movement of people. This impact is included in estimates of impacts on the UK creative sector as a whole, but not in the estimated impacts on the creative sector within individual regions.


---

**Figure 13: Value of direct, indirect and induced impacts (Illustrative)**

![Graph showing the value of direct, indirect, and induced impacts over time.]

*Source: PwC analysis*
• *Deadweight* refers to outcomes which would have occurred without intervention*. We address “deadweight” in this report by comparison to a counterfactual to estimate a “net” impact.

• *Displacement* and *substitution* impacts are closely related. They measure the extent to which the benefits of a project are offset by reductions of output or employment elsewhere.* That is, these effects constitute the “crowding out” of private sector investment or expenditure as a result of the intervention. These are discussed qualitatively with respect to various impact areas below.

Numerous studies\(^1\) have attempted to estimate quantitatively economic multipliers for various economic activities at various different levels of aggregation (project, firm, regional, national). Multipliers are used to calculate aggregate indirect and induced impacts based on the estimated direct impacts.

There are certain criticisms that can be levelled at this approach – it does not include displacement or leakage effects to outside the UK (as defined above) and a number of studies have been criticised for issues associated with sample selection. An important issue associated with this method is that the calculated multiplier can only account for tangible economic effects. In this study, however, we are interested in the impacts on the creative industries of creative activities by the BBC, and creative activities typically have a substantial intangible aspect to their output and it might be expected that multipliers calculated based on financial data would tend to underestimate the true direct, indirect and induced effects. The qualitative analysis in this report aims to understand some of these less tangible or unquantifiable effects.

### 8.4 Multipliers for the creative industries

We have based this study on the economic multipliers calculated specifically for the UK screen industries by Cambridge Econometrics\(^2\). We consider that these are the most appropriate estimates for the purpose of this study, in terms of their sectoral focus, time period and the inclusion of both regional and national estimates.

It is not the purpose of this report to describe in detail the methods and outputs of the multiplier estimation model. We note however the following key points for the use of these multipliers for this study:

- The model takes into account displacement and leakage effects through a regional accounting process that disaggregates the components of both consumer and industrial spending.

- The model bases its estimates on an assumed exogenous shock to the UK (in the form of increased demand for UK exports). The important concept here is that it is an external injection into the system, similar to that of the licence fee – hence the (gross) direct impact is entirely additional. We note that the counterfactual broadcaster gains its revenue from advertising and sponsors, thus the counterfactual broadcaster would divert some resources away from another part of the UK economy and hence the gross impact of the counterfactual will tend to be overestimated – which will tend to underestimate the net impact of the BBC (when compared against the counterfactual).

---

\(^1\) See, for example:

\(^2\) Cambridge Econometrics (2005), “Economic impact of the UK Screen Industries” a study for the UK Film Council and the National and Regional Screen and Development Agencies.
• The estimates are split into the 16 screen industries identified according to the 2003 UK Standard Industrial Classification. The 16 comprise TV, film, corporate video and advertising, each of which is further sub-divided into pre-production, production, post-production and distribution. The estimates do not cover radio or online activity.

• The multipliers are sub-divided into regional and UK-wide multipliers. The regional multipliers indicate the total economic activity that results in the region concerned and the UK-wide multipliers include both the regional multiplier in question, and the estimated “spillovers” of economic activity into other regions of the UK. Figure 14 demonstrates how the regional and national multipliers are interpreted for both regional and UK-wide analysis. The regional division for multiplier purposes is presented in Table 13 below.

**Figure 14: Interpretation of regional and UK economic and employment multipliers**

![Diagram showing the interpretation of regional and UK economic and employment multipliers.]

Source: PwC analysis

8.5 TV, radio and online multipliers

8.5.1 TV

The multipliers estimated by Cambridge Econometrics for TV are described below. Estimates for UK value multipliers range from 1.8 in Wales and the North East, to 2.2 in the South West. Regional multipliers range from 0.8 in Wales and Northern Ireland to 1.1 in the East, South East and London. Factors contributing to high regional multipliers (for TV, radio and online multipliers) include: a larger geographic region, a higher concentration of screen industries and a higher concentration of industries providing inputs to the screen industries. Increases in these factors reduce the leakage from the region at each link in the chain of transactions.
Table 13: Economic multipliers for TV

<table>
<thead>
<tr>
<th>Region</th>
<th>UK multipliers for value added output</th>
<th>Regional multipliers for value added output</th>
<th>UK multipliers for employment</th>
<th>Regional multipliers for employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>2.1</td>
<td>0.9</td>
<td>58</td>
<td>23</td>
</tr>
<tr>
<td>Wales</td>
<td>1.8</td>
<td>0.8</td>
<td>40</td>
<td>16</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>2.2</td>
<td>0.8</td>
<td>48</td>
<td>14</td>
</tr>
<tr>
<td>East</td>
<td>2.3</td>
<td>1.1</td>
<td>61</td>
<td>28</td>
</tr>
<tr>
<td>East Midlands</td>
<td>2.1</td>
<td>0.9</td>
<td>70</td>
<td>34</td>
</tr>
<tr>
<td>North East</td>
<td>1.8</td>
<td>0.9</td>
<td>38</td>
<td>14</td>
</tr>
<tr>
<td>North West</td>
<td>2.0</td>
<td>1.0</td>
<td>42</td>
<td>19</td>
</tr>
<tr>
<td>South East</td>
<td>2.0</td>
<td>1.1</td>
<td>50</td>
<td>27</td>
</tr>
<tr>
<td>South West</td>
<td>2.2</td>
<td>0.9</td>
<td>63</td>
<td>30</td>
</tr>
<tr>
<td>West Midlands</td>
<td>2.0</td>
<td>0.9</td>
<td>47</td>
<td>18</td>
</tr>
<tr>
<td>Yorkshire &amp; Humberside</td>
<td>2.4</td>
<td>0.9</td>
<td>51</td>
<td>17</td>
</tr>
<tr>
<td>London</td>
<td>1.9</td>
<td>1.1</td>
<td>36</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: Cambridge Econometrics

8.5.2 Radio

The Cambridge Econometrics study does not calculate equivalent estimates for radio and our research has not identified any such estimates. We make the following observations regarding likely multipliers for radio:

- The multipliers for radio are likely to be lower, overall, than for TV, since TV production requires a much greater range of resources, more of which tend to be sourced outside of the BBC, for instance actors, producers, costume designers, script writers and set designers. In contrast, much of the radio broadcast in the UK requires relatively few external inputs, with the exception of royalty payments which may be paid to other areas of the UK or abroad.

- The difference between national and regional multipliers may be smaller for radio than for TV activities, since the resources used for radio are more likely to be located close to the main radio activities, whereas the diverse nature of supply to TV means that more inputs may be sourced some distance away from the main TV activities. The greater provision of local radio, relative to local TV, supports this hypothesis, although the payment of royalties to other regions tends to weaken this evidence.

Based on the above observations, we have conducted our analysis using 3 scenarios for multipliers applicable to radio expenditure:

- Scenario 1 assumes that all radio multipliers are equal to TV multipliers. We expect this to be an overestimate for the reasons outlined above;

- Scenario 2 assumes that all radio multipliers are equal to 75% of TV multipliers; and

- Scenario 3 assumes that all regional multipliers are equal to 75% of TV multipliers but that national multipliers are equal to 67% of equivalent TV multipliers. This has the effect of drawing the national and regional multipliers closer together, representing the expected lower level of spillovers from each region.
8.5.3 Online

Similar to radio, we have not identified specific estimates for the multiplier effects of online activities. We make the following observations regarding likely multipliers for online activities:

- The multipliers are likely to be similar, or slightly lower, overall, for online activities than for TV. We would expect them to be slightly lower for similar reasons to those applied to radio, however there is some evidence to suggest that IT and Software (of which a small subset comprises online Indies) might have a similar value-added multiplier to Media and Performing Arts (of which TV is a subset)23.

- Again, it seems possible that the difference between national and regional multipliers may be smaller for online activities than for TV, for reasons similar to those applied to radio, although since there is not the same extent of local online services, we would expect this to be closer to TV than radio.

Given this uncertainty, we use a scenario approach, and use the same three scenarios as described above for radio.

8.6 Net value added of the BBC

8.6.1 BBC expenditure

The multipliers used in this study apply to screen industry activities. Similarly, this study is focused on the economic impact of the BBC on the UK creative economy. Hence we exclude the BBC’s spending on non-creative activities (i.e. overheads and infrastructure) for most of the following analysis. The areas of spending included in these estimates are: distribution, content, BBC staff costs, in-house production and independent production - representing approximately 80% of total BBC spending.

Since the indirect and induced effects of the BBC’s expenditure on creative activities impact on both creative and non-creative industries, these estimates will encompass the GVA impacts of the BBC’s expenditure on creative activities on both the creative and non-creative sectors (i.e. the UK economy as a whole). Hence, strictly speaking, these estimates tend to overestimate the impacts on the creative sectors alone.

Notwithstanding the above, we also estimate the gross value added of the BBC’s total activities (i.e. including overheads and infrastructure). However, given our focus on the creative economy, our net value added analysis focuses on the value added by spend on creative activities.

8.6.2 Gross and net value added estimates

Gross Value Added of the BBC

We estimate the gross value added (GVA) to the UK economy of the BBC’s spending on creative activities (defined as content and distribution and excluding overheads and infrastructure) to be approximately £5bn. This is calculated by:

- Subtracting the BBC’s expenditure on infrastructure and overheads from its total spend, for each BBC Nation/Region;
- Translating the expenditure per Nation/Region as defined by the BBC into expenditure per Nation/Region using standard regions24;
- Multiplying expenditure per region by appropriate multipliers (which include the impacts on other Nations/Regions of expenditure in each Nation/Region – i.e. intra-UK spillovers) to generate the estimated contribution of BBC spending per Nation/Region to the total UK economy; and
- Aggregating the impacts across Nations/Regions to generate an estimate of the total GVA contribution of BBC expenditure on creative activities to the UK economy.

---

24 We have used “standard” regions rather than BBC regions to ensure compatibility with multiplier estimates and reflecting our methodology which aimed to ensure stakeholder representation from each of the Screen Agency regions. Expenditure was allocated on a pro rata basis according to our understanding of BBC presence across regions.
If we include the BBC’s expenditure on overheads and infrastructure, the total GVA of the BBC increases to around £6.5bn\(^95,96\).

**NVA of the BBC**

We also estimate a net value added (NVA) of the BBC, based on a hypothetical situation\(^97\) in which a commercial advertising-funded broadcaster exists instead of the BBC\(^98\). Using plausible assumptions on view-share and total market advertising revenue, we estimate that this hypothetical commercial advertising-funded broadcaster may generate revenues of approximately £1.4bn, of which £1.1bn would be spent on creative activities. Based on this expenditure together with plausible assumptions on multipliers, this would contribute approximately £2bn GVA to the UK economy.

If this GVA estimate of the counterfactual broadcaster (£2bn) is subtracted from the GVA of the BBC (£5bn), we derive an estimate of the net value added (NVA) of the BBC’s expenditure on creative activities of approximately £3bn.

**Impact on revenue (and hence GVA) of other broadcasters**

The NVA estimate we discuss above focuses on the GVA of the BBC’s expenditure on creative activities compared to that of the counterfactual broadcaster. It does not incorporate the impact of the counterfactual commercial broadcaster on the existing commercial broadcasters. Because we assume in the counterfactual world that most of the advertising revenue earned by the counterfactual broadcaster will be at the expense of its competitors, the revenues of those competitors will be reduced. This reduction in revenue will lead to a consequent reduction in expenditure by these broadcasters in the creative sector\(^99\). This revenue impact in turn would have knock-on effects on the GVA generated by competitor broadcasters – the total GVA contribution (to the UK economy) of other broadcasters would be lower under the counterfactual than it is today.

Based on multiplier analysis and estimated competitor broadcaster revenues (and expenditure), we estimate the extra GVA generated by competitor broadcasters from additional expenditure on creative activities to be approximately £1.4bn (compared to the counterfactual scenario)\(^100\). In other words, in the counterfactual world the substitution effect dominates and we assume that a significant proportion of the GVA created by the counterfactual broadcaster is at the expense of other broadcasters in the sector.

Adding the extra GVA of competitor broadcasters (£1.4bn higher in reality versus the counterfactual scenario) to the NVA of the BBC calculated above (£3bn) yields an estimate of £4.4bn for the net impact of the BBC’s expenditure on creative activities against the hypothetical counterfactual scenario we have outlined.

**Quantified net impact of the BBC**

The tables below set out how we used our counterfactual framework to estimate the quantified net impacts of the BBC: the NVA of the BBC versus the counterfactual broadcaster; plus the extra GVA of competitor broadcasters. Table 14 sets out our estimate of both the BBC’s and other broadcasters’ GVA contribution to the creative sector, based on the UK broadcasting sector as it exists today.

As the table shows, we estimate the GVA of the BBC at £5.1bn. Similarly, we estimate that creative expenditure of other broadcasters (financed by advertising revenues) generates a GVA contribution of £6.3bn. Hence we estimate that the GVA contribution of creative expenditure by the BBC and other broadcasters’ creative expenditure (financed by advertising revenues)\(^101\) together generate a GVA contribution to the UK economy of £11.4bn.

---

95 These data relate to the financial year 2006/07. The additional £1.5bn GVA impact of including overheads and infrastructure is calculated by applying multipliers to the expenditure on infrastructure and overheads for each region. Summing across regions generates an additional £1.5bn of GVA to the UK economy.

96 While the overall approach to estimating GVA is broadly similar across most studies that generate a GVA is expected to be using multiplier analysis, differences in the nature of the activities and impacts undertaken and investigated means that estimates are often not directly comparable. For example, if assessed on a comparable basis to PwC’s estimate of the economic impact of Channel 4 (PricewaterhouseCoopers (2007) “The impact of Channel 4 on the UK independent sector, creative industries and the economy”), the GVA estimate of the BBC is likely to be greater than £6.5bn.

97 This is a static or “snap-shot” comparison used to generate the estimate of the NVA during 2006/07. It does not take into account possible future developments in the market place.

98 We acknowledge that there are many other possible hypothetical states. We have chosen this comparison for the purposes of plausibility and resonance with stakeholders. See Section 6.

99 We have derived estimates of a 10% increase in total TV NAR and 20% increase in total radio NAR in the counterfactual scenario. See Appendix 6.

100 We present the derivation of these figures in Table 1.

101 For simplicity, we do not consider potential impacts on pay TV revenues in this analysis. See Section 9 for a discussion of the potential impact on pay TV.
Table 14: Derivation of gross quantified impacts of the BBC and advertising-funded expenditure of commercial broadcasters

<table>
<thead>
<tr>
<th>£bn</th>
<th>BBC</th>
<th>Counterfactual broadcaster</th>
<th>Other broadcasters</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Estimated Expenditure</td>
<td>2.6¹</td>
<td>0.0</td>
<td>3.2²</td>
</tr>
<tr>
<td></td>
<td>Estimated GVA*</td>
<td>5.1</td>
<td>0.0</td>
<td>6.3</td>
</tr>
</tbody>
</table>

* The multiplier ratios (GVA/expenditure) may be distorted by rounding – note that the multipliers used for the BBC and other broadcasters are similar. The BBC GVA is calculated on a bottom-up basis by region whereas the other broadcasters’ estimate uses an aggregate multiplier estimate.

Notes:
1) Source: BBC
2) £3.2bn = Market NAR * (% expenditure on creative activities). Note we do not include revenues from pay TV subscriptions in this analysis.

In Table 15 we provide estimates of the equivalent figures for the counterfactual scenario. Based on our analysis the GVA contribution of the counterfactual broadcaster’s creative expenditure is approximately £2.1bn. In the counterfactual scenario, the creative expenditure of other broadcasters is lower (due to increased competition for advertising revenues). We estimate the GVA contribution of other broadcasters’ (advertising-financed) creative expenditure in the counterfactual as approximately £4.9bn.

Table 15: Derivation of gross quantified impacts of the counterfactual broadcaster and advertising-funded expenditure of commercial broadcasters in the counterfactual

<table>
<thead>
<tr>
<th>£bn</th>
<th>BBC</th>
<th>Counterfactual broadcaster</th>
<th>Other broadcasters</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Estimated Expenditure</td>
<td>0.0</td>
<td>1.1³</td>
<td>2.5⁺</td>
</tr>
<tr>
<td></td>
<td>Estimated GVA*</td>
<td>0.0</td>
<td>2.1</td>
<td>4.9</td>
</tr>
</tbody>
</table>

* The multiplier ratios (GVA/expenditure) may be distorted by rounding – note that the multipliers used for the BBC and other broadcasters are similar. The BBC GVA is calculated on a bottom-up basis by region whereas the other broadcasters’ estimate uses an aggregate multiplier estimate.

Notes:
3) £1.1bn = [Market NAR * (1 + % uplift in market NAR in counterfactual scenario) * (counterfactual broadcaster share of market NAR)] * (% expenditure on creative activities)
4) £2.5bn = [Market NAR * (1 + % uplift in market NAR in counterfactual scenario) * (1 – counterfactual broadcaster share of market NAR)] * (% expenditure on creative activities)
In Table 16 we use the GVA figures estimated above to estimate the scale of these net impacts. We estimate the NVA of the BBC’s creative expenditure against that of the counterfactual broadcaster at £3.0bn and the NVA of other broadcasters’ (advertising-funded) creative expenditure against their expenditure in the counterfactual scenario as £1.4bn. Together, these comprise an estimate of the quantified net impacts of the BBC of approximately £4.4bn.

Table 16: Derivation of net quantified impacts of the BBC and advertising-funded expenditure of commercial broadcasters

<table>
<thead>
<tr>
<th>£bn</th>
<th>BBC</th>
<th>Counterfactual broadcaster</th>
<th>Other broadcasters</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated GVA</td>
<td>5.1</td>
<td>0.0</td>
<td>6.3</td>
<td>11.4</td>
</tr>
<tr>
<td>Estimated GVA in counterfactual scenario</td>
<td>0.0</td>
<td>2.1</td>
<td>4.9</td>
<td>7.0</td>
</tr>
<tr>
<td>Estimated NVA</td>
<td>3.0&lt;sup&gt;5&lt;/sup&gt;</td>
<td>-</td>
<td>1.4&lt;sup&gt;6&lt;/sup&gt;</td>
<td>4.4</td>
</tr>
</tbody>
</table>

Notes:
5) £3.0bn = (BBC GVA) – (Counterfactual broadcaster GVA<sub>counterfactual scenario</sub>) = £5.1bn – £2.1bn
6) £1.4bn = (Other broadcasters’ GVA <sub>real world</sub>) – (Other broadcasters’ GVA<sub>counterfactual scenario</sub>)
   = £6.3bn – £4.9bn

Additionally, the net economic impact of the BBC should also include other impacts that have not been quantified. These include the positive impacts from the BBC’s investment in training, cluster development, contribution of significant and sustained expenditure to the development of critical mass and market-building (which tend to increase the overall net impact), and any potential negative effects of the BBC’s impact on competition.

8.6.3 Employment estimates

As discussed in Section 15.2 below, we constructed 12 scenarios, based on the three elasticity assumptions above and 4 assumptions over location of the counterfactual broadcaster’s expenditure<sup>102</sup>. The estimated net impact of the BBC on employment for 2 illustrative scenarios (selected as those with the minimum and maximum out of London budget allocations) relative to the counterfactual broadcaster is described in Table 17. We note that these estimates do not include the impact of other broadcasters changing their expenditure in the counterfactual (as a result of competition from the counterfactual broadcaster for advertising revenue). Given the assumptions discussed above, it is likely that the gross estimates are a better approximation of the BBC’s positive impact on employment.

<sup>102</sup> The location of the counterfactual broadcaster’s spend impacts the total GVA calculated due to the variation in economic multipliers across regions.
Table 17: Employment impact of the BBC

<table>
<thead>
<tr>
<th>Scenario</th>
<th>UK employment supported by BBC’s expenditure on creative activities</th>
<th>UK employment supported by counterfactual broadcaster’s expenditure on creative activities</th>
<th>Net UK employment supported by BBC’s expenditure on creative activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario 2A</td>
<td>97,137</td>
<td>39,590</td>
<td>57,547</td>
</tr>
<tr>
<td>Scenario 1B</td>
<td>103,713</td>
<td>41,992</td>
<td>61,721</td>
</tr>
</tbody>
</table>

Source: PwC analysis

Comparing these employment estimates to GVA per employee estimates from the Department for Business, Enterprise and Regulatory Reform\(^3\) suggests a relatively high GVA per employee, in the context of Nesta estimates that incomes of creative workers\(^4\) were 37% higher than the average wage in the UK in 2006.

Table 18: GVA per head comparison

<table>
<thead>
<tr>
<th></th>
<th>Scenario 2A</th>
<th>Scenario 1B</th>
</tr>
</thead>
<tbody>
<tr>
<td>GVA of the BBC’s expenditure on creative activities*</td>
<td>£4.7bn</td>
<td>£5.1bn</td>
</tr>
<tr>
<td>Gross employees supported by the BBC’s creative activities</td>
<td>97,137</td>
<td>103,713</td>
</tr>
<tr>
<td>Estimated GVA per head</td>
<td>£48,385</td>
<td>£49,174</td>
</tr>
<tr>
<td>BERR estimate of London GVA per head (2005)*</td>
<td>£27,088</td>
<td></td>
</tr>
<tr>
<td>BERR estimate of London GVA per head inflated to 2008 prices at 2.5%**</td>
<td>£29,166</td>
<td></td>
</tr>
<tr>
<td>37% uplift for creative industries*</td>
<td>£39,957</td>
<td></td>
</tr>
</tbody>
</table>

* GVA figures presented here correspond are calculated from two illustrative scenarios.
** The London GVA per head is used, given that a large proportion of BBC activity occurs in London. The 2.5% inflation rate and 37% uplift are sourced from NESTA (2008), “Beyond the Creative Industries.”

8.7 Economic value add of licence fee revenues

The BBC is funded by means of the licence fee (£3.243bn in 2006/07). In the counterfactual, a large proportion of this revenue would be spent by consumers on other goods and services. Hence there would be alternative multiplier effects associated with alternative uses of this money. We have not estimated these here to retain focus on the BBC’s impact on the creative economy since:

- The majority of the GVA and NVA of the BBC’s spend on creative activities probably accrues to the creative and broadcasting sector; and
- Only a very small proportion of the licence fee revenues in the counterfactual would most likely accrue to the creative economy.

\(^4\) NESTA use a definition of “creative workers” consisting of 26 creative occupation groups including town planners and graphic designers; advertising managers and furniture makers; actors and librarians; journalists and software professionals; architects and archivists.
8.8 Conclusion

We recognise the challenges inherent in generating multiplier-based economic value added estimates. Moreover, the overall economic impact of the BBC cannot be distilled into a number. Notwithstanding this point, we consider that the BBC’s spending on *creative activities*\(^{105}\) (approximately 80% of total BBC spending) contributes a gross value add (GVA) of around £5bn per year to the UK economy (based upon 2006/07 data). If we add in the BBC’s expenditure on overheads and infrastructure, the total GVA of the BBC increases to around £6.5bn\(^{106}\). Based on plausible assumptions regarding a hypothetical situation where a commercial broadcaster exists instead of the BBC, this gross estimate translates into a net value add of around £3bn. Additionally, unlike the counterfactual broadcaster, the BBC generates a significant positive impact on competitors’ value add by not competing for advertising revenues. Adding this extra GVA of competitor broadcasters (£1.4bn versus the counterfactual) to the NVA of the BBC calculated above (£3bn) yields an estimate of £4.4bn for the net impact of the BBC’s expenditure on *creative activities* against the hypothetical commercial broadcaster we have outlined.

---

\(^{105}\) Defined as spending on content and distribution.

\(^{106}\) These data also relate to the financial year 2006/07.
9 Industry leadership impacts

9.1 Introduction

In this section, we consider the BBC’s industry leadership impacts on other businesses. Industry leadership impacts include, amongst others, impacts associated with quality, content innovation and imitation by competitors and promotion externalities. We exclude here impacts associated with the BBC’s leadership in training or cluster formation, or in developing new technologies or encouraging their take-up. These are addressed elsewhere in the relevant sections of this report. We note that the impacts we consider here are specific industry leadership impacts which are a subset of the concept of industry leadership outlined in the Executive Summary.

9.2 The BBC

The BBC is the UK’s leading broadcaster, measured by audience share. Part of its remit is to stimulate creativity and cultural excellence; bring the UK to the world and the world to the UK; and in promoting its other purposes, help to deliver to the public the benefit of emerging communications technologies and services and, in addition, take a leading role in the switchover to digital television.

These purposes commit the BBC to take a leading role in the industry and to generate, and encourage the generation of, quality content. It is part of the BBC public purpose remit to provide distinctive and creative programming.

“The BBC’s secure funding through the licence fee puts it in a stronger position than commercial broadcasters to take creative risks. The BBC also has an important role to play in innovating on the internet and other new platforms.”

BBC Public Purpose Remit: Stimulating creativity and cultural excellence

The BBC also recognises the role it plays in undertaking new initiatives and investments that the industry can learn from, even if it might not always be at the forefront of technological developments:

“…We also have a wider role, that of creative R&D for the UK. With the BBC Trust approval framework for new services, we will not always be able to be number one to market. But that does not mean we can’t and shouldn’t still be innovators, taking the risks, piloting and trialling new services, and sharing our findings, helping to create the right market environment – be that new rights frameworks that we negotiate with industry bodies on behalf of the whole content industry, or open standards that help all boats rise on the tide.”


With its secured funding and its public service remit, the BBC arguably has a greater willingness and ability to take the risk in investing in new talents, programme genres and technologies. It is possible that the industry has gained from the BBC’s innovations, in particular being able to learn from the successes and failures of the BBC’s innovations.

The BBC, over the course of its history, has also built a strong brand, which may have impacts on those the BBC works with, or competes against.
9.3 Quality leadership

9.3.1 Stakeholder views

The BBC is recognised as a leader in the quality of its output – both in-house and the quality of content that it commissions\(^ \text{107} \). This is a theme reported by a variety of stakeholders (indies, competitors, trade associations, Screen Agencies), across TV, radio and online.

We were told that the BBC is “less driven by audience success” (i.e. ratings) than commercial broadcasters, because it does not have to attract audiences to generate advertising revenue and because it has greater patience and willingness to develop programmes over time rather than opt for formats that have a proven success with audiences or low costs. The BBC was described by one stakeholder as “the cornerstone of quality”.

“The BBC is less driven by audience success and looks more for critical acclaim and awards than other broadcasters. It is more willing to grow programmes over time.”

Stephen Garrett, Kudos Film and TV

“The BBC is the cornerstone of quality and it would be a disaster economically and culturally for the broadcasting sector if the BBC didn’t exist.”

Alex Graham, Wall to Wall

Online, the BBC was described as having built up “phenomenal expertise”, and that its high standards and provision of educational content “would not be replicated without the BBC”.

“The BBC has built up phenomenal expertise in this area [online] in recent years... …It would be a huge loss if we don’t have BBC Online”

Simon Brickle, Monterosa

We were also told that the BBC has been “fundamental in setting standards such as access for disabled people”, particularly online.

“The quality of output without the BBC would fall. The BBC has been fundamental in setting standards such as accessibility. These issues sometimes seem very much secondary when dealing some other broadcasters.”

Simon Brickle, Monterosa

Across TV, radio and online, genres cited as specific examples of the BBC’s extra quality included factual documentaries, natural history and news. We were told that the BBC “represents a gold standard of factual journalism”. Stakeholders reported that the BBC’s areas of expertise have spread to the industry as a whole, and has helped Britain become “a centre of excellence” for specific genres.

Whilst the focus of this study, and of our interviews, relates to economic impacts, stakeholders referred to the cultural value of the BBC – arguing that the BBC helps sustain the production of UK content, and reduces the reliance on imports of programming from the USA.

---

\(^ {107} \) The definition of “quality” used in the BBC Performance Measurement Framework provides an appropriate working definition for “quality” as used in this report: “Audience approval of BBC One and perceptions of it as high quality and innovative. Also, the proportion of originated programmes across all hours”, BBC Trust, “BBC One Service Licence”, issued 7 April 2008.
“A life with a substantially reduced BBC would be an absolute ecological disaster – it would be cultural global warming – Britain would drown under a flood of American imports!”
Alex Graham, Wall to Wall

Stakeholders, including competitors, reported that not only does the BBC produce high quality output, but that it drives industry quality upwards, across different forms of media and different activities – it “pushes up standards across the industry”. Competitors reported that the BBC has pushed them in quality of production and innovation and stated that this has impacted substantially on TV in the UK today.

“Commercial players admit that the BBC keeps them honest and raises the benchmark.”
Bob Wootton, ISBA

“It has historically pushed everyone else on in the market in quality and innovation”
Industry expert

“The BBC is critically important as we would not have the TV industry that we have today without it - for instance the quality of production would be different. The BBC is absolutely crucial to the industry…”

…the BBC is very much a positive influence because it provides a benchmark for quality which becomes a competing factor as well as price.”
Martin Stott, five

We were told that the BBC’s standards encourage creativity and the development of new ideas, and that competition on quality encourages innovation in the creative industries. One stakeholder commented that “if the BBC downgraded its quality this wouldn’t necessarily be in the best interests of the industry”.

The main mechanisms by which the BBC’s quality leadership impacts on others, according to stakeholders, are that it has helped the UK become the world leader for specific genres, encouraging business from abroad, and because the higher quality generated in the industry as a result of quality competition with the BBC has helped exports of the UK creative economy.

“Without the BBC, quality would fall across all channels and international sales would fall.”
Alice Morrison, Northwest Vision and Media

“The BBC is one of the key reasons why the UK punches above its weight internationally.”
Industry expert

Whilst the BBC’s quality of output and influence on industry output quality were unquestioned, some stakeholders suggested that high BBC quality might have some negative impacts for other businesses in the creative economy.

Some stakeholders remarked that other businesses do not need the BBC in order to compete abroad – that competitors and indies, for example, can develop their own brands overseas without the BBC’s help.

Moreover, some stakeholders reported that the BBC might, in certain circumstances, make it more difficult for other businesses to achieve success overseas. In particular, some stakeholders found themselves “drowned out” by the presence of the BBC overseas – that the overseas perceptions of the UK creative sector are limited to the BBC, and that it is difficult to build alternative brands, since the BBC is perceived to be UK broadcasting.
“Most people that are overseas think that most stuff that comes out of the UK is from the BBC anyway so there is no direct impact of the BBC in promoting formats abroad for indies.”
Steven Garrett, Kudos Film and TV

Other stakeholders accepted the BBC’s role in raising quality, however they expressed concern that the BBC’s quality is being “squeezed” and that its quality benchmarking role might decline.

“There is a feeling in the industry that the BBC is trying to do more with less and quality will suffer as a result of this. Quality differentiation will suffer as expensive programmes like Spooks and Hustle will be out of reach.”
Stephen Garrett, Kudos Film and TV

Also, it was suggested by some stakeholders that the BBC’s higher quality might simply be a result of having more money to spend. This might impact negatively on stakeholders if they cannot raise sufficient revenue to mount effective quality competition. Stakeholders referred to the UK radio industry as a particular example of this – arguing that the BBC’s ability to spend much more on the provision of higher quality output has led to declining audience share and advertising revenues for commercial competitors.

“The BBC is brilliant in what it does but these things are being funded in a way that the private sector could not do. If I gave you £10m to do a £1k job I’d expect you to do a pretty good job!”
Bob Wootton, ISBA

Stakeholders did not, however, report that this high quality benchmark has impacted substantially on the costs of production (a higher cost of production would translate into a cost for broadcasters but would translate into a benefit for at least one of the inputs into production) or damaged competitors’ revenues by making their output appear relatively lower quality, with the notable exception of radio, in which a number of stakeholders suggested that the BBC’s much larger expenditure than competitors can match from advertising revenues has led to declining commercial audience shares and advertising revenues.

“BBC [radio] historically has outspent commercial players and produced output in speech and live music that could not be afforded otherwise.”
Industry expert

Furthermore, it was suggested by one stakeholder that the BBC’s high quality restricts the ability of pay TV providers to charge for provision of additional choice and quality of content. This argument states that consumers in the UK have access to a variety of high quality content in return for paying the licence fee, hence the incentive to pay subscription (or pay per view) fees, on top of the licence fee, for other content is reduced.

In contrast, another stakeholder argued that quality isn’t actually as high in the UK as some people like to argue, and that the USA has more creative TV.

“Our creative economy is stunted relative to the US, which is much more free-flowing as the total market has more freedom of manoeuvre.”
David Elstein
In summary, based on the stakeholder views outlined above, there appears to be some consensus among stakeholders that the BBC provides particularly high quality output and most stakeholders agreed that this has boosted quality across the industry. A number of stakeholders suggested that this may have had a beneficial impact on exports and in helping the UK become a place of expertise for specific genres and types of output. However, based on our stakeholder consultation discussions, the BBC’s high quality may have placed constraints on pay TV operators, particularly in respect of the prices they can charge.

Some stakeholders did, however, express concern that the BBC’s superior quality in radio might be substantively disadvantaging competitors as commercial radio is unable to obtain sufficient advertising revenues to compete effectively with the BBC. This impact is addressed further in Section 10.

9.3.2 Evidence and analysis

Most stakeholders agreed that the BBC produces high quality output. This is associated with its relatively secure funding, ability to invest more long-term than commercial rivals and its public service remit. This increased quality may have both positive and negative impacts on commercial rivals:

- They may have to pay more to produce higher quality output in order to compete for audiences (which could be both a negative and positive impact); or
- They may be able to exploit their higher quality output in secondary markets more than would be the case with lower quality output (positive impact).

There are also potential impacts of the BBC’s high quality output on pay TV providers. These are discussed in Section 10.

A study published in 2003\(^{108}\) investigated the TV content spend per head across countries, concluding that expenditure per head of domestic population was higher in the UK than in any other country in the world. These findings are summarised in Figure 15. The study concludes that this “current high investment enables the UK’s TV industry to play a prominent role in reflecting and reinforcing UK culture and national identity”\(^{109}\).

---

If the BBC’s increased quality impacted positively on other broadcasters, enough to compensate for any increased costs required, then it would be rational to invest in this level of quality independently of whether it is required to compete at home. Hence, the main beneficiaries might be indies – who might be contracted to produce higher quality content, both by the BBC and its competitors, than in the counterfactual. They would then be in a strong position to exploit this content in secondary markets. As indies cannot determine the budget required for TV programme production, if lower prices were paid for lower quality content in the counterfactual, then we would expect to see lower exports of programmes and formats than occurs in reality. It is notable also that the quantity of new originations (which some stakeholders attribute to the BBC’s leadership) might have a positive impact on the number of programmes and formats exported or obtaining revenue in other secondary markets.

An alternative means by which to view the impacts of the BBC’s quality leadership is of correcting a market failure. If the risks of investing in high quality content are high, and producers are excessively risk-averse (or high quality inputs are not available), then they will not produce as high quality output as is optimal. If this were the case then the BBC’s quality leadership would force them to produce at a higher quality which earns extra revenue. However, in the absence of this force pushing high quality, risk averseness might prevent sufficient investment in quality.

Stakeholders were unsure whether they would be incentivised to produce or purchase productions of equally high quality in the counterfactual. However, the number of stakeholders that suggested how important BBC quality benchmarking was as a driver suggests indeed that quality, and hence perhaps secondary sales of UK TV output, might be lower in the counterfactual. The case study below investigates whether the UK is successful in TV programme exports.

Source: "UK television content spend highest per head in the world says new report", BBC Press Release (2003), PwC analysis.
Case study – Exports of TV programmes

DCMS estimates that the total revenue from international sale of UK TV programmes and associated activities was £593m in 2006, an increase of 20% on 2005. The most recent data we identified for an international comparison are from 2003. Strong growth of UK TV exports since 2003 suggests that the 2003 figures are more likely to understate rather than overstate the strength of UK TV exports.

2003 data suggests that the UK has a relatively high share of the finished made-for-TV exports market, in absolute terms or as a share of GDP.

Figure 16: Share of TV programme export market vs. share of global GDP (2003)

Source: “Rights of Passage – British Television in the Global Marketplace” a report by Television Research Partnership for UK Trade & Investment, PwC analysis

These data suggest that the UK was (in 2003) second only to the US in terms of share of the TV programmes global export market. It was, with a 10% share, substantially ahead of its nearest rival Canada (with 3.9%). The UK has certain advantages in that it has a relatively large GDP and produces content in the English language, which is more popular for exports. Comparing TV export hours against share of global GDP shows the UK to have a high ratio of share of TV exports to share of GDP, with a higher ratio (further above the dotted line representing a 1:1 ratio) than Australia or Canada.

This suggests that the UK, even after adjusting for English language and the power of its domestic economy, has a TV export share higher than that of other countries, with the exception of the USA. This does not however provide evidence on whether the role of the BBC has been important in obtaining this position.

The following case study investigates in more detail the exports of TV programme formats which, while a relatively small share of TV exports, demonstrate innovation in generating new formats that can be successfully used both domestically and overseas.

Case study - Exports of TV programme formats

Britain is the leading originator of TV formats in the world. In the nine months to September 2007, the UK’s share of the global format market stood at 33%, with independent producers accounting for 88% of the UK’s format export. This is supported by evidence from a report for UK Trade & Investment in 2003 that compared UK format exports to format exports from other countries. The findings are summarised below.

Figure 17: Global share of TV format exports (2003)

Source: “Rights of Passage – British Television in the Global Marketplace” a report by Television Research Partnership for UK Trade & Investment

This lends itself to the following conclusions:

- The UK appears to have a relatively high level of innovation in the development of exportable programme formats; and

- The high proportion of formats from indie producers in the total suggests that indies are not being squeezed out of the format export market by the BBC’s in-house productions (although it is not clear how many of the indie formats were shown on BBC TV prior to the formats’ export).

Source: “Rights of Passage – British Television in the Global Marketplace” a report by Television Research Partnership for UK Trade & Investment, PACT, The Guardian, 27 December 2007, “British TV show originators are still the world’s leaders”

Having established that the UK does export more TV programmes and programme formats than other countries, the following case study considers how important an impact exports and other secondary sales might be to other businesses, specifically to TV independent production companies.
Case study – Secondary and additional rights income for TV indies

One key signal for the quality benchmarking hypothesis is whether110 the BBC’s quality leadership translates into increased secondary and additional rights sales* for other businesses. For this purpose, other businesses can be divided into “other broadcasters” and “indies”. In this case study, we discuss briefly patterns in TV indie exploitation of secondary and additional rights.

Oliver & Ohlbaum (2006) reported that the 2004 ratio of secondary and additional rights income to primary commissions income for TV indies was 17%. This was described as encouraging, since the overall UK ratio was 21% (16% excluding children's) and indies did not have the broadcasters’ vast archives to exploit.

The Producers Alliance for Cinema and Television (PACT) (2008) reports figures of £146m for secondary and additional rights income in 2007/08 and primary commissions revenues of £1.35bn. This corresponds to a ratio of secondary and additional rights income to primary commissions income for TV indies of approximately 11%, substantially down from the 2004 ratio of 17% reported by Oliver and Ohlbaum.

PACT (2008) also notes that “Primary commissions remain by far the greatest source of revenue for the UK independent production sector. They are also growing faster and more consistently year-on-year than secondary or additional rights.”

What are the implications for this study? It suggests that, for indies, primary commissioning is a vastly more important source of income than secondary and additional rights. Hence, the direct impact of BBC commissioning is likely to outstrip the economic impact from increased secondary rights incomes resulting from quality benchmarking. (Primary commissions are much more important to indies than secondary incomes – therefore major impacts on primary commission levels are likely to be more important than impacts on secondary incomes).

In addition, however, we note that if higher quality benchmarks imply higher spend on production, then indies may benefit from higher quality benchmarks associated with BBC quality.

* Secondary and additional rights sales comprise all forms of income other than initial commissioning, including exports of programmes, exports of formats and DVD/VHS sales.


While the UK’s exports have performed relatively well, as described above, some have argued that this has occurred despite, rather than assisted by, the UK broadcasting environment (and the BBC). Robin Foster110 states:

“The UK has been reasonably successful to date in building its domestic TV and radio production sector, and has achieved recent growth in its exports, both in programmes and formats. Nevertheless, some would argue that performance has been disappointing, given the amount of public funding available to the sector, and the advantages we have in producing content in the English language. In some respects, our focus on public broadcasting in the UK could have hindered the more rapid development of our international programming potential – given the inevitable focus of producers on the highly specialised needs of the main PSBs here.”

In addition the BBC generated almost £23m of co-production funds from overseas in 2006/07, which is a net contribution to the UK creative economy. It is unclear how much of this would be likely to be generated in the counterfactual but it seems plausible, given the BBC’s quality and reputation, that it would be lower than in reality, implying a net positive economic impact of the BBC.

9.3.3 Conclusion

The qualitative analysis above leads us to draw the following conclusions:

- It is clear from stakeholder views that the BBC is a quality leader, which may have impacts on content spend (benefitting producers but damaging commissioners) and on the level of secondary and additional rights incomes;

- It is not clear that quality leadership would boost revenues from primary TV (i.e. relatively fixed overall audience and advertising revenues) hence it is unlikely that there is a large positive impact on other broadcasters from the BBC's quality benchmarking. However, content costs per head are higher in the UK than other countries which may be associated with BBC quality leadership and if so would impact other broadcasters (negative) and suppliers of inputs including independent producers (positive) – essentially the quality benchmark may have pushed the required cost of independent commissioning upwards; and

- Secondary and additional rights incomes form a relatively small part of producers’ income, and hence impacts of changes in these incomes are likely to be small, relative to impacts on the much larger primary commission revenues.

9.4 Industry leadership, critical mass and sustaining the creative industries

9.4.1 Stakeholder views

A range of stakeholders stated that they consider that the BBC plays an important role as an industry leader in a number of areas such as cluster formation, spectrum management, and innovation in content and new technology (we discuss several of these impacts elsewhere in this report). However it was suggested to us by a number of stakeholders that the BBC has an overall industry leadership role across many activities.

Stakeholder support for the BBC’s “industry leadership” was often linked to its role in providing critical mass, or as a “sustainer” of the creative industries, both as a customer (for businesses upstream in the supply chain) and in leading the broadcasting industry in the development of new ideas.

One of the major impacts of the BBC is that it provides critical mass and some stakeholders argued that as a consequence there “is more UK-generated content than in other countries, except the US (which is much bigger).”

“There is more nationally generated content than in other countries, except the US (which is much bigger). A significant chunk is directly attributable to the BBC and the higher total suggests that there is additional investment beyond what the market would generate.”

Industry expert

In its role in “sustaining” the creative economy, stakeholders suggested that the BBC generates some stability in the sector, largely owing to its longer planning horizons and because its revenues are not linked to economic cycles, unlike advertising-funded competitors.
[The BBC plays the role of an] “anchor” tenant within a production sector, whose ecology includes large and small independent production companies; digital media agencies; post production and graphics facilities; studios, crews and associated services; IP lawyers and PR firms.”

South West Screen

We were informed that this “sustaining” role has placed the BBC as a “guardian of British culture” and that the whole UK creative industry, rather than just the TV, radio and online sectors, rely on the BBC.

“Unequivocally it would be a disaster for the UK creative industry if the BBC did not exist”.

Industry expert

We were also informed that, in addition to quality benchmarking, the BBC has actively grown specific genres, such as factual documentaries, in the UK. The BBC’s ongoing commitment to genres such as these has led to industries becoming “world class”, attracting talent from around the globe and contributing to increased creative output in the UK.

“As the BBC commissions certain types of productions, with Channel 4, Britain has become an international centre for factual documentaries. Bright people who enter this area can become world class – if these people were in another country… …they may choose a different career path because they might not have the same opportunities to become world class.”

Industry expert

The BBC’s ongoing commitment to the development of new formats has, we were informed, allowed other businesses to copy successes and avoid failures.

“Diversity and range of output is promoted by the BBC and it takes risks that allow others to cherry pick the formats or sub-genres that prove successful with the audience.”

Lorraine Heggessey, Talkback Thames

Some stakeholders stated that the UK has developed into an international centre for factual documentaries for a number of reasons:

• There is money here to make this type of programming and this attracts people to come here to make these programmes. BBC and Channel 4 have consistently purchased documentaries over many years hence documentary makers know that there is an income stream. This attracts talent and capabilities are built up. As the UK’s reputation has grown, it has attracted new talent to become more self-sustaining;

• The remit means that BBC (and Channel 4 to some extent) can approach documentaries without commercial pressures; and

• The UK has a natural advantage through the English language.

“The BBC is the market for specialist factual and has helped Britain become a centre of excellence for natural history and high end CGI.”

Lorraine Heggessey, Talkback Thames

We were also informed that the BBC’s industry leadership extends to the way in which it invests in new projects. Stakeholders reported that its unique funding and motives mean that it is different to work with, compared to other broadcasters and that indies, in particular, can develop more interesting and innovative projects.
“The single biggest impact is that the BBC as a broadcaster not driven by commercial goals which affects commissioning decisions. This means that far more interesting projects are commissioned and that risks are taken to try new things. In the new media environment it is really useful to be able to go to a client like that and not have to back up ideas with short term returns on investment.”

Simon Brickle, Monterosa

The aspects of industry leadership described above generally relate to the BBC’s scale, that it does not need to chase audience success to ensure revenue (to the same extent as commercial competitors) and that it has public service motives at the core of what it does. Stakeholders suggested that these characteristics have led to behaviour that “leads” the industry towards more successful outcomes. Moreover, we were also told that the BBC engages in leading industry initiatives - the BBC “does lobbying that benefits other broadcasters” and that it has, “brought the industry together” to agree common standards, for example in technology or in training.

Based on the stakeholder views expressed in respect of the BBC’s industry leadership, it is clear that many stakeholders consider that the BBC’s role as an “industry leader” is important and that many stakeholders value the BBC’s leadership role across a variety of sectors and activities.

Specific impacts that stakeholders referred to as “industry leadership” include the BBC’s:

• Provision of critical mass to the UK creative industries;
• Development of specific genres and types of creative production leading to the development of the UK as a global centre of excellence;
• Leadership in the development of new formats and creative output, from which other businesses can learn from, by copying and building on successes and by avoiding mistakes;
• Brand strength extending to encapsulate the UK “creative brand”;
• Different (to other broadcasters) approach to development such that new and innovative ideas are given sufficient time to develop, rather than being required to generate audience success immediately; and
• Direct leadership role in lobbying and in standard-setting, particularly in technology and training.

9.4.2 Evidence and analysis

Many stakeholders argued that the BBC’s industry leadership was especially important in two roles:

• Giving the UK creative industries critical mass; and
• Sustaining the UK creative industries.

Our analysis suggests that, relative to a commercial counterfactual, the BBC spends a greater amount on creative inputs, thus demanding more creative output to use as inputs. This is most clearly exhibited in the use of indies and in-house production, but applies at all levels of the supply chain – post production, graphics designers, actors/actresses, choreographers, costumer designers etc. By injecting a larger amount of funds into the creative economy than would occur in the counterfactual, the BBC directly supports a larger creative economy than would probably be sustainable in the counterfactual. Furthermore, while revenues (and hence expenditure on creative economy inputs) are falling for some broadcasters, the BBC’s spending is enhanced (in some areas) by the licence fee settlement.
It is notable also that the BBC’s spend on creative economy inputs is probably wider and deeper than the equivalent spend in the counterfactual, for example the BBC carries out a much broader range of activities than the counterfactual broadcaster probably would – thus sustaining areas of the creative economy that might otherwise be unviable – and demands inputs from a greater range of the supply chain (directly from actors, set designers etc. through to independent producers that supply the BBC with content that is a “finished article”).

Furthermore, it appears that the BBC does provide a stabilising role for the creative economy in terms of reducing cyclicality. Advertising revenues tend to be highly cyclical and, because advertising revenues are crucial drivers of production expenditure by certain broadcasters, all inputs to commercial broadcasting experience this cyclicality, to a greater or lesser extent. Figure 18 demonstrates the relative stability of the BBC’s revenues in the recent advertising downturn.

Figure 18: Revenue trends of major advertising-funded TV broadcasters

![Revenue trends chart]

Source: Annual Reports

The BBC’s relatively stable funding shields the creative economy upstream from this cyclicality to some extent, which has a number of positive impacts including:

- Creative economy workers are less likely to be made unemployed in cyclical downturns, which in turn makes them more likely to remain in the creative economy;
- Businesses in the creative economy are less likely to be forced to close than in the counterfactual, since the BBC continues to demand inputs to creative production, even in cyclical downturns; and
- Firms may be more able to invest over longer time-periods than in the counterfactual, since there is a reduced danger of over-investing and forced closure in cyclical downturns.

On the other hand, stable BBC funding may disadvantage competitors who experience cyclical or declining market conditions. In these circumstances, commercial rivals would face an increasing funding gap as market conditions worsen but the BBC’s revenues remain steady.
9.4.3 Conclusion

In summary, stakeholders identified that the BBC plays particular roles in generating critical mass for the creative economy in the UK, and in providing a sustaining role in the UK creative economy, particularly through reduced volatility of revenues and hence expenditure. In addition, the qualitative evidence above suggests that the BBC provides a leadership role across many areas of the creative economy.

We consider that particular impacts of the BBC’s industry leadership include:

• Critical mass – the BBC causes spend in across the creative economy, and specific sectors and subsectors, to be substantially higher than would be the case in the counterfactual. This has beneficial “virtuous circle” impacts on the UK’s development as a centre for excellence, which generates further businesses and attracts expertise from abroad.

• Wider and deeper spend – the BBC contributes to funding of more creative businesses, in more sectors, at more stages of the supply chain, than would the counterfactual broadcaster, because it (the BBC) is embedded deeply across the creative economy and has the resources and the remit for this involvement and expenditure.

• Stabilising role – the BBC’s spending helps to stabilise revenues of creative businesses upstream in the supply chain and of employment of creative workers. We would expect to see greater fluctuation (driven by variable advertising revenues) of creative businesses’ revenues in the counterfactual.

9.5 Content innovation and imitation by competitors

9.5.1 Stakeholder views

A number of stakeholders reported that the BBC innovates more and creates more opportunities for competitors to imitate and learn from the BBC’s innovations than would occur in the counterfactual. We acknowledge the possibility that other broadcasters might be tasked with, or choose to take up, the innovation of the BBC. Similarly, that the BBC’s innovation does not preclude the innovation of others, for example Channel 4’s innovative programming was described by some stakeholders as “complementary” to the BBC.

“If the BBC acted as a commercial station it is debatable how innovative the UK music industry would remain to be. This risk taking is supported by the licence fee. It pays off for both parties as it gives the BBC an audience. This is across the BBC music stations.”

Industry stakeholder

In addition, the BBC, and other stakeholders, expressed the view that the industry tends to follow its lead in introducing new programming.
“Others can piggy back on innovation through knowledge spillovers. Innovation is expensive but a good use of public funds.”

Alice Morrison, Northwest Vision and Media

Rowena Webster and Susannah Simons of BBC Radio also stated that the BBC radio player “paved the way for on-demand radio in the UK” and that podcasting of radio programmes was “pioneered” in the UK by the BBC. Some stakeholders supported this, arguing that the provision of short audio downloads helps promote artists and was positive for the industry.

Furthermore, a radio indie argued that the BBC plays an important role in finding new talent. Other businesses (record companies, other broadcasters) may then be able to benefit from the talent uncovered by the BBC that goes on to achieve success.

“The BBC absolutely helps find and foster new talent...

...BBC Northampton invites tapes from new bands which is a brave thing to do. It gives new air time.”

Nick Barraclough, Smooth Operations

However, some stakeholders felt that the BBC’s risk taking was not universal across everything that it does.

“On the mainstream channels factual programme making has become less innovative and more conservative and there appears to be a desire to ‘manage away’ risk during the development process.”

Alex Graham, Wall to Wall

Summarising the above, it is not clear whether the BBC innovates more in content or has been more willing to undertake risky content investments than a counterfactual commercial broadcaster. While some stakeholders considered that the BBC is innovative and the industry benefits from learning from those innovations, others felt that the BBC’s content is conservative and is becoming more risk-averse. In uncovering new music and giving it airtime, however, the BBC does appear to have a positive impact, discussed in more depth in Section 12. We note that the mixed views regarding BBC content innovation corresponds to the BBC Trust identification of an “innovation gap” in its Purpose Remit Survey conducted in February 2007.

9.5.2 Evidence and analysis

In 2006, the BBC launched a new format of talent search programmes for West End musicals, with “How Do You Solve A Problem Like Maria?” Following its success, similar talent search programmes returned to UK television in the form of the BBC’s “Any Dream Will Do” and ITV’s “Grease is the Word”.

In July 2007, the Director-General of the BBC launched an attack on ITV for copying BBC’s programmes such as “How Do You Solve A Problem Like Maria?,” “Apprentice” and “What Not to Wear.”
“If you look at programmes like “Who Do You Think You Are?”, “Maria”, “The Apprentice”, “What Not to Wear”, you may find other programmes surprisingly like these. “Tycoon”, which was shown, and very quickly not shown, on ITV, is very like “The Apprentice” and a bit of “Dragon’s Den”, and “Grease” bears more than a passing resemblance to “Maria”. You see in some forms of entertainment - factual entertainment - very rapid ‘copycatting’”

Mark Thompson

While there is evidence of the BBC innovating on programme formats, it also appears that the BBC does not aim to share all its successes in format innovation. While there is no evidence that the BBC will openly share its innovations with other broadcasters, it is still possible for unintended knowledge spillover effects to take place, as long as the BBC is willing to take the risks to innovate in the first place. Furthermore, we note that it is possible that the BBC “copycats” other programme formats as much as they might copy ideas from the BBC, although this is likely to fall under the BBC’s Purposes regulation. Hence, we have not uncovered convincing evidence that there are substantially more content innovations by the BBC which competitors can imitate or learn from than might occur in the counterfactual.

Conclusion

Overall we have found little evidence that the BBC is systematically more innovative in programme content than other broadcasters, or when compared to the counterfactual broadcaster. All broadcasters have an incentive to innovate to develop the “next big thing” and attract audiences, and all broadcasters have an incentive to copy successful formats from competitors. Whilst the BBC’s incentive to copy others may be less than a commercial broadcaster’s, we have found no evidence to support this potential impact.

9.6 Promotion externalities

9.6.1 Stakeholder views

Stakeholders agreed that the BBC brand is an extremely valuable brand, stating, for example, that “the reputation of the BBC is very strong, the brand is loved by the nation” and that the BBC brand embodied “confidence and creativity” and it has “made the UK recognised as a centre of excellence”.

“The BBC is an absolutely trusted brand.”

David Strachan, Tern TV

Stakeholders cited news reporting as partly responsible for the BBC brand-building overseas, as the brand ‘has impacted ethical reporting around the world and the World Service was described as a “flagship” for the BBC brand overseas.

We were also told that the BBC brand can substantially aid the development of a programme or format in both the UK, particularly in the expansion to multiple forms of media, and overseas.

“The use of its brand allows the BBC to draw people in that no other broadcasting company could do.”

Richard Paterson, BFI

It was suggested to us that the BBC’s brand could aid exports for other businesses, particularly if they manage to associate themselves with the BBC in some way, for example in their past work, or even through their location.

http://www.guardian.co.uk/media/2007/jul/03/bbc.broadcasting1
“The quality of the BBC brand abroad rubs off on other British companies, particularly if they can associate themselves with the BBC in some way.”

Alice Morrison, NW Vision

The BBC brand was cited as a key element in the UK’s status as a centre for original production and the development of high quality creative output. Some stakeholders argued that the BBC brand has positive impacts abroad for the UK creative industries and for “UK plc”.

“The BBC has made itself a world brand and the BBC brand has made the UK recognised as a centre of excellence.”

Independent producer

“The BBC brand globally is very important to UK plc.”

Richard Paterson, BFI

However, some stakeholders did not consider that the BBC brand has positive connotations. For example, the BBC brand was described by one stakeholder as “a huge asset built up over decades of economic activity and dominant supply”.

Stakeholders suggested that the BBC brand may have large positive impacts for those involved in a joint venture on partnership but it was suggested to us that it might have negative impacts on others. One stakeholder remarked that “partnerships are only a positive if they are equally applied across the marketplace, otherwise they become a negative”.

9.6.2 Evidence and analysis

An example of the potential positive impacts (and limitations) of association with the BBC brand is provided by a case study of “Who Do You Think You Are” – a TV format produced by independent producer Wall to Wall.

Case study – “Who Do You Think You Are”

“Who Do You Think You Are” is the title of a TV programme and format produced by the independent TV producer Wall to Wall. The programme was first shown on BBC Two in 2004 and the first two series were so successful that it was migrated to BBC One for the third series in 2006. The success of the show grew, partly thanks to the profile received through the BBC, with a monthly magazine of the same title released in October 2007 and the export of the format to Canada, Australia and the US (yet to be shown) as well as a website, computer software, books and a 3 day show at the Olympia in London. Alex Graham, CEO of Wall to Wall noted that the BBC’s association with the format has been “incredibly valuable” although Wall to Wall has also played a very large role.

However, we were also informed that the BBC originally chose not to develop a “Who Do You Think You Are” website within bbc.co.uk because it was unsure of the longevity of the programme relative to the BBC’s own long-term goals to providing family tree research facilities. Wall to Wall therefore developed its own commercial site in association with BBC Worldwide. When the programme became hugely successful and sustained, the BBC decided to rebrand its family tree portal with the “Who Do You Think You Are” brand.

This case study suggests that the BBC brand can play an important role in the success of a programme and, in particular, the extension of a brand to other forms of media. However, the BBC can also benefit from association with specific brands that are (at least partly) developed by other creative businesses, in this case the “Who Do You Think You Are” format.
9.6.3 Conclusion

We consider that the stakeholder views and case study evidence above suggest that there are substantial positive impacts from association with the BBC brand. Products associated with the BBC brand are likely to yield greater revenues than those associated with weaker brands and it is likely that the BBC’s brand (and hence the positive impacts of its extension to other products or businesses) is stronger than would be the case in the counterfactual.

We note that it is possible that association with the BBC’s brand may disadvantage competitors who have not received such a brand association. We have not however found any evidence to support or refute this hypothesis.

9.7 Concluding remarks

Many stakeholders argued that the BBC provides particularly high quality output and most stakeholders agreed that this has boosted quality across the industry. It was suggested to us that this may have had a beneficial impact on secondary rights sales and exports. We have not found evidence to refute this – the UK has one of the highest TV exports in the world for example – but statistics on secondary and additional rights incomes suggest that this remains a relatively minor source of additional income and hence may not form a particularly large (monetary) impact, as compared to, for example, the benefit indies receive from additional commissioning spend. The difference, however, is that secondary sales are likely to be predominantly extra income to the creative sector, whereas increased commissioning spend (by non-BBC broadcasters) is a zero net impact – independent producers receive a positive impact of extra revenue but broadcasters have higher costs to face.

It is not clear that quality leadership would boost revenues from primary TV (i.e. relatively fixed overall audience and advertising revenues) hence we find it unlikely that (despite the BBC’s quality leadership contributing to higher quality of output across UK broadcasting) there is a large positive economic impact on other broadcasters from the BBC’s quality benchmarking. However, content costs per head are higher in the UK than other countries which may be associated with BBC quality leadership and if so would imply an economic impact on other broadcasters (negative) and on suppliers of inputs including independent producers (positive) – essentially the quality benchmark may have pushed the required cost of independent commissioning upwards.

It is also apparent that many stakeholders believe that the BBC’s role as an “industry leader” is important. They value the BBC’s leadership role across a variety of sectors and activities, in particular the critical mass that the BBC generates in the UK creative industries and the development (led by the BBC) of the UK as a world leader in specific genres and creative activities. The BBC also plays the role of a “sustainer” of the creative industries, particularly upstream in the supply chain, and provides some revenue stability, particularly during economic downturns. This may however have knock-on negative impacts for the BBC’s competitors, which are discussed further in Section 10.

With respect to content innovation and imitation by competitors, there is no consensus among the stakeholders on whether the BBC innovates more than others (excluding technology, which is addressed in Section 13) or has been more willing to undertake risky investments than a commercial broadcaster. Although there is some evidence that the BBC has innovated in some areas, such as new programme formats, there is no conclusive evidence on whether other industry players have benefited from its behaviour more than might occur in the counterfactual. Indeed, some stakeholders argued that Channel 4, in particular, tends to be more innovative in programming. It is however worth noting that as other broadcasters would probably not be willing to share the credit for their successes with the BBC, there is an inherent difficulty in finding evidence that suggests that they have benefitted by learning from or imitating the BBC’s innovations or investments.
Finally, while we consider there are (potentially substantial) positive promotion externalities to be gained by companies/individuals that manage to associate themselves with the BBC brand in some way, several stakeholders indicated that these can also have negative impacts if others are competitively disadvantaged. We found no evidence to support or refute this potential impact.
10 Impacts on competitor revenues and business models

10.1 Introduction

We note that many of the economic impacts identified elsewhere in this report constitute positive market impacts, such as innovating, stimulating, and developing new and growing markets and in sustaining established markets. In this section however we consider a number of the BBC’s potentially negative market impacts, i.e. ways in which the BBC may change the nature, form or scale or degree of competition by virtue of its differences to commercial broadcasters, such as size, funding method or motives for competing in the market.

The focus of this study is on the public service aspects of the BBC’s activities. Accordingly the activities and resulting impacts of the BBC’s commercial subsidiaries are outside the scope of this study.

10.2 The BBC

The BBC has a larger scale than many of its commercial rivals, in terms of revenue and audience share, and it has a greater brand recognition and cross-media presence than its competitors. Moreover, its motives for involvement in a market should be predicated with the aim of generating public value to fulfil its Public Purposes; its objectives are therefore arguably non-commercial. Its behaviour may however generate unpredictability or other competitive impacts in a market which impact on other businesses.

That the BBC is funded by the licence fee, rather than by advertising may be a competitive impact, but also one that may benefit rather than damage competitors.

10.3 Lessons from Ofcom MIAs

Below, we summarise in brief some of the conclusions from the MIAs carried out by Ofcom that are relevant to this section.

Table 19: A summary of the findings of the Market Impact Assessment of the BBC’s High Definition Television Proposals

<table>
<thead>
<tr>
<th>Impact type</th>
<th>Description of estimated impact for the proposed service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact of BBC content on different platforms</td>
<td>Increased consumer interest from provision of BBC HD Channel likely to be spread across all platforms on which it is available, including supporting both established and new platforms and both free and pay TV platforms.</td>
</tr>
<tr>
<td>Market stimulus</td>
<td>Likely to increase the rate of take-up of DTT and maintain the position of the platform in the longer-term.</td>
</tr>
<tr>
<td>Platform bias</td>
<td>Introducing BBC HD on other platforms before DTT risks platform erosion but this is unlikely to be significant in the short-run. Failure to introduce BBC HD to DTT at all risks longer-term platform erosion. Lack of bandwidth availability likely to restrict provision via IPTV or generate costs of network upgrading.</td>
</tr>
<tr>
<td>Barrier to competitor entry</td>
<td>Recognised danger that introducing BBC HD to DTT could (because of spectrum limitations) prevent entry by other HD channels, subject to technical limitations.</td>
</tr>
<tr>
<td>Impact on competitor audience share</td>
<td>Potential small impact of BBC HD introduction on competitor audience shares. Ofcom consumer research found that channel viewing is shaped more by content than picture quality.</td>
</tr>
</tbody>
</table>

Table 20: A summary of the findings of the Market Impact Assessment of the BBC’s On-Demand Proposals

<table>
<thead>
<tr>
<th>Impact type</th>
<th>Description of estimated impact for the proposed service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market stimulus</td>
<td>Proposed BBC services expected to have a considerable effect in expanding the new market for on-demand content, which is mostly likely to be “new demand”, rather than substitution for existing services. Audio downloads also expected to stimulate market for audio downloads and could do the same for new or non-mainstream classical music.</td>
</tr>
<tr>
<td>Impact on competitor audience share</td>
<td>The proposed simulcast service was identified as relatively uncontroversial, mainly because other broadcasters expected to introduce similar services. Free downloads of popular classical music or book readings and the proposed series stacking and 13 week online storage functions would have presented a substantial potential negative impact on competing products. It is notable that these proposals were substantially revised ahead of service launch.</td>
</tr>
<tr>
<td>Content costs</td>
<td>Ofcom finds no available evidence to suggest that the budget for acquisition of on-demand content rights would constitute an overpayment for content rights.</td>
</tr>
<tr>
<td>Platform bias</td>
<td>The potential damage to suppliers of incompatible platforms is acknowledged with respect to Real Player and non-Windows operating systems.</td>
</tr>
<tr>
<td>Cross-promotion of commercial services</td>
<td>Ofcom acknowledged the potential risk of cross-promotion of commercial services offered by BBC Worldwide either to or from the iPlayer platform. Ofcom stated that the Fair Trading Guidelines and rules on cross-promotion should be used.</td>
</tr>
<tr>
<td>Impact on competitors</td>
<td>SMG could benefit from being relieved of its own commitments as a result of the new service, however it might suffer from non-independent status if it continues to produce Gaelic output. Other competitors did not indicate substantial negative impacts from the service.</td>
</tr>
</tbody>
</table>


Table 21: A summary of the findings of the Market Impact Assessment of the Gaelic Digital Service

<table>
<thead>
<tr>
<th>Impact type</th>
<th>Description of estimated impact for the proposed service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact on independently produced Gaelic TV programmes</td>
<td>Ofcom noted stakeholder concern that the BBC may come to exert substantial control over the Gaelic broadcast sector. However Ofcom notes that overall funding available to independents for Gaelic programming is likely to increase as a result of the service and hence the overall sector is unlikely to suffer a negative impact. There are legitimate concerns, however, over the plurality of a diverse production base of Gaelic programming.</td>
</tr>
<tr>
<td>Impact on competitors</td>
<td>SMG could benefit from being relieved of its own commitments as a result of the new service, however it might suffer from non-independent status if it continues to produce Gaelic output. Other competitors did not indicate substantial negative impacts from the service.</td>
</tr>
</tbody>
</table>


Table 22: A summary of the findings of the Market Impact Assessment of the BBC’s Digital TV and Radio Services

<table>
<thead>
<tr>
<th>Impact type</th>
<th>Description of estimated impact for the proposed service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution to digital uptake which helps the emergence of more effective competition in the broadcasting market</td>
<td>Ofcom noted a ‘real risk’ that the BBC’s involvement in same market segments (for instance speech radio) may leave insufficient revenues for commercial operators wishing to supply those segments now or in the future. It is highly unlikely that this is the case for BBC3 and entertainment TV channels focused on young adults. There is also a risk that the BBC’s services might grow market share by pursuing more commercial audiences, for instance cartoons on CBBC and CBeebies.</td>
</tr>
<tr>
<td>Restriction of competitors’ market share/creating barriers to entry</td>
<td>Ofcom noted a ‘real risk’ that the BBC’s involvement in same market segments (for instance speech radio) may leave insufficient revenues for commercial operators wishing to supply those segments now or in the future. It is highly unlikely that this is the case for BBC3 and entertainment TV channels focused on young adults. There is also a risk that the BBC’s services might grow market share by pursuing more commercial audiences, for instance cartoons on CBBC and CBeebies.</td>
</tr>
<tr>
<td>Uncertainty of entry</td>
<td>Ofcom found that uncertainty over future BBC strategy may exacerbate the risks associated with new market entry or content innovation, which might lead to reduced competition, investment and innovation.</td>
</tr>
<tr>
<td>Bidding up content costs</td>
<td>Ofcom finds a risk that BBC3 could undermine competition or investment if its uses its large budget to pursue a more commercial strategy and drive up the costs of acquired programming.</td>
</tr>
<tr>
<td>Limiting access to key rights</td>
<td>The BBC’s services might limit competitors’ access to key rights, for instance BBC7 might lead to limitations on rivals’ access to the BBC speech archives.</td>
</tr>
</tbody>
</table>

Source: Ofcom (2007) “Assessment of the Market Impact of the BBC’s New Digital TV and Radio Services” – conducted as an input into the independent reviews of the BBC’s digital TV and radio services
Based on the above summary the following are important observations for this study:

- The Ofcom finding that consumers are content-driven suggests that the platforms on which BBC content is available may have important impacts on consumer platform choice. For example platform bias (availability of BBC content on some platforms but not on others) may have significant impacts on platforms, and the introduction of BBC content to new or developing markets may have substantial impacts on the development of that market – in terms of the feasibility of business models, the benefit to other providers of the development and/or negative impacts of competitors of attempting to compete with superior BBC content.

- While some demand generated for BBC content is likely to be incremental demand (i.e. it does not detract from audience numbers accessing competitor content), it is also likely that some will also be substitutional demand away from competitors.

- Ofcom expressed in its MIA of the BBC’s on-demand proposals (see source reference to Table 20), that there was a need to ensure “that the BBC does not use its ability to cross-promote its services to secure an unfair competitive advantage for the commercial services offered by BBC Worldwide, in terms of access to or from the iPlayer platform.” Ofcom also stated that, “The Fair Trading Guidelines and rules on cross-promotion should be used for this purpose”.

- The BBC may exert a substantive influence on a market (cf. Gaelic TV) but, in growing the market, still have a net positive impact on an industry of group of businesses. Hence, the negative impacts identified in this section should be read in conjunction with the other impacts described throughout this report.

- Ofcom noted a “real risk” (for digital TV and radio) that BBC presence in (these) markets could potentially reduce competitors’ audience share, create barriers to entry or reduce potential entry through uncertainty over the BBC’s decisions on when, where and how it is likely to enter new markets12.

10.4 Restriction of competitors’ ability to attract audiences

10.4.1 Stakeholder views

Stakeholders reported to us that the BBC has a large presence in any market in which it is active and that this “is hard to compete against”.

Some stakeholders argued that the large presence of the BBC in certain markets, particularly radio, may marginalise competitors and that certain services might be more appropriately provided by a commercial broadcaster. We were informed that some services that are potentially commercially viable without BBC competition may become unviable with BBC entry into that market.

“In radio, the BBC tries to do too much – Radio 1 and Radio 2 should be in the commercial sector, as the BBC can undermine commercial services by reducing the oxygen for the commercial sector.”

Industry expert

“Who determines the economics of the market? Is it the market or is it the BBC? The BBC may argue that it enters markets to prevent market failure but is this always the case? For example, ITV local has significant PSB value but ITV hope to make it a viable business. However, it is unlikely to be viable if the BBC then also decides to enter the market.”

Industry expert

Some stakeholders suggested to us that the BBC might compete “too much” for audiences with commercial broadcasters, and that it is incentivised to do so by the way it measures its own success.

---

12 We note that the subsequent PVT process aims to increase ex ante transparency of any such potential impacts.
“One new measure of BBC success is "household value". However, this rewards and encourages activity to drive viewing and listening to all audiences, even those already well-served by commercial alternatives. Arguably, a much better approach for the measurement of public service value would be to measure household reach and the provision of services that are not otherwise being met by commercial operators.”

RadioCentre

Some stakeholders argued that it may be appropriate for “the BBC to draw out of certain industries” or release resources for competitors to grow, given its remit to support the industry as a whole.

“Gaelic programming has always been an honourable obligation for the BBC, but now there’s a lot of private money in this area and the BBC should release talent in its organisation to allow this area to grow.”

David Strachan, Tern TV

One stakeholder argued that the BBC’s presence in UK markets has prevented UK media companies from competing on the global stage and that UK companies are vulnerable to takeover by larger firms from abroad that are not restrained by the presence of the BBC in their own domestic markets. However, another stakeholder argued against this, citing the examples of ITV and BSkyB as large successful UK media companies.

10.4.2 Evidence and analysis

It is not possible to capture all the potential examples of restriction of competitor market share in all markets in which the BBC operates113. One such example referred to by stakeholders is of the failure of OneWord. A number of stakeholders associated the decline and eventual closure of OneWord with the launch and success of BBC7, which these stakeholders claimed had similar content. It is difficult to establish clear causality from examples such as this, beyond noting that any BBC services that are perceived by consumers as similar in nature to commercial services will tend to attract audiences away from those commercial services, with negative potential consequences for commercial revenues. Tim Gardam’s independent review of the BBC’s digital radio services noted that “there has been fall-out for the commercial sector – most notably in the case of OneWord, whose fate was in part determined by the success of BBC7”114.

However, should the BBC have significant negative impacts on broadcast markets, this may, inter alia, be demonstrated by significantly suppressed competitor revenue in the UK compared with overseas markets in which the BBC is not present.

Charts describing cross-country advertising, subscription and public revenues per head are presented below. We consider that considerable care must be taken in drawing conclusions from data such as these, since there is a large number of unknown variables impacting these outcomes. It is notable however that in both TV and radio, UK advertising revenues per head are comparable to those in other countries, with the exception of the USA and Canada for radio and of the USA and Japan for TV advertising revenues. Furthermore, the UK has the second-highest subscription TV revenues per head of the countries included. Hence, these data provide some evidence that the UK advertising and subscription TV and radio markets might not be significantly marginalised, given their ability to raise comparable revenues to broadcasters abroad.

113 We received a number of confidential submissions citing specific examples of marginalisation. They supported similar themes to that in the OneWord example presented here (which is based on publicly-available information).
Figure 19: Radio industry revenues per head

Source: Ofcom
Exchange rates are 2006 average market rates

Figure 20: TV industry revenues per head

Source: Ofcom
Exchange rates are 2006 average market rates
As stated, to draw strong conclusions from cross-country data such as these would not be without risk, since the number of unknown variables is very large. However, we suggest that these data, while not ruling out a negative impact of the BBC on competitor advertising and subscription revenues as compared to the counterfactual, might imply either that a negative impact is offset by other features of the UK broadcasting sector, or that commercial broadcasters in the UK have found means by which to reduce any negative impacts to the extent that they can generate similar or greater revenue per head than other countries. It is notable that the USA, with its low public funding, has notably higher advertising TV and radio advertising revenues than other countries, but we do not consider it appropriate to draw conclusions on optimal levels of intervention based on a single data point.

10.4.3 Conclusion

A number of stakeholders, largely competitors (but also others), argued strongly that the BBC has a negative impact through restricting audience, and hence revenue share. The example of OneWord radio appears to suggest that, for some individual examples, this might hold true – the BBC has the scale (in terms of funding and brand power, in particular) to impact substantially on specific competitors in niche markets. Ofcom’s Market Impact Assessment of the BBC’s Digital Radio and TV Services cited this as a risk.

We conclude therefore that in individual markets, particularly niche markets, there is a risk that BBC activities can reduce competitor market shares and indeed may have contributed to the decline of specific businesses. We note that this impact is likely to be more strongly felt in industries where the BBC has a relatively larger share of expenditure and hence suggest that the BBC’s impact on commercial radio is a high risk area. By comparison, while the counterfactual broadcaster would be likely to compete aggressively in the markets it entered, we have assumed it would not have the funding and scale advantages of the BBC.

Commercial radio was cited by stakeholders most often as an example of a market in which it is claimed the BBC might unduly restrict competitors’ market share. While the BBC’s relatively large expenditure and powerful brand suggests that there could be some validity in these claims – the quote below from Enders Analysis shows that commercial radio’s share of listening fell to 41% in Q1 2008, the lowest share in 15 years - we consider it important to note that the commercial radio industry has enjoyed more recent success in overall revenues.

Enders noted in June 2008 that “Commercial radio revenues in Q1 2008 were up 6.7% year-on-year to £158.8 million, with national revenues up 9.4%, branded content (‘sponsorship and promotions’) up 11.4% and local revenues up 2.1%. Commercial radio has experienced four consecutive quarters of growth for the first time since 2004…Commercial radio’s share of listening (compared to the BBC) fell to 41.1% in Q1 2008, a 15-year low.”

Commentators have cited factors not related to the BBC that could explain some of the financial performance, including short-termism (as a result of public ownership), over-investment in digital channels and hence an excess of advertising inventory, the relative appeal of radio versus other media outlets (e.g. online advertising).

Overall, data on cross-country comparisons suggests that the TV and radio industries in the UK have been able to attract comparable levels of advertising and subscription revenues, despite competition from the BBC, suggesting that they are not, as an overall market, “overwhelmed” by the presence of the BBC. This may also lend further support to a more general conclusion that, to a large extent, the BBC is additive to the market.

10.5 Barriers to entry and market conditioning

10.5.1 Stakeholder views

Some stakeholders reported that the BBC’s presence may marginalise competitors, or potential competitors, to the extent that barriers to entry are erected in those markets – any potential new entrants might decide against entry and incumbent providers may consider leaving the marketplace.

The scale of the BBC’s expenditure (sometimes considerably greater than its rivals) was cited as contributing to market foreclosure.

“The spend of the BBC is wholly out of proportion and so it is hard for the market to predict the BBC spend as it isn’t based on economics. This deters entry from competitors.”

Industry stakeholder

“A huge broad market impact is the foreclosure of markets. Everything the BBC does is a potential foreclosure example.”

Industry stakeholder

The conditioning of markets – restricting the way in which consumers will choose to access content, for example – was cited by a number of stakeholders as one of the most important negative impacts of the BBC. In particular, that the BBC provides all its content for free was suggested to condition what a commercial provider can sell to consumers, since consumers have become accustomed to accessing content at no charge.

“The provision of high quality content for free is good in many respects but clearly has an impact business models and consumer expectations.”

Industry expert

Stakeholders informed us that the impact of the BBC’s provision of content free at the point of use is especially important when new markets are growing, and business models are still being developed. One stakeholder pointed to a number of new media examples including classical music downloads and podcasts. However, we were also informed by stakeholders that negative impacts should be considered together with positive effects – the BBC’s classical music downloads and podcasts were for example perceived to have helped grow these markets.

10.5.2 Evidence and analysis

Stakeholders reported that particular examples of market conditioning include pay TV and the provision of video-on-demand content online.

For pay TV, it appears to be a logical hypothesis that the provision of high quality content for free would tend to reduce consumers’ willingness to pay for pay TV. However we have not identified any evidence that supports this hypothesis. Data on pay TV revenues suggest that the UK is comparable to other countries on this metric.

In respect of video-on-demand provision online, the market conditioning hypothesis argues that the BBC’s provision of large amounts of content for free via the iPlayer will reduce consumer willingness to pay fees to receive other content. Ofcom’s Market Impact Assessment for the BBC’s on-demand proposals16 provides the following summary of the argument:

“Some respondents [to Ofcom’s consultation] argued that the free BBC internet catch-up service would have a negative impact on the development of business models for commercial VOD. Following the introduction of the BBC internet catch-up service, consumers would be far less willing to pay for online catch-up or VOD services. As a result, other broadcasters would effectively be forced to adopt an advertising funded model for their catch-up content, and would not be able to sustain services based on subscription or pay per view (PPV) models.”

Both ITV and Channel 4 reported in the Ofcom consultation that their choice of business models was substantially impacted by the BBC’s planned provision of on-demand content for free. Ofcom states that “it seems reasonable to conclude that the BBC proposal has already had some effect on the business models that are likely to be sustainable for internet based catch-up TV, and that this effect is likely to continue if the service goes ahead as proposed”. Ofcom concludes that, while there is a great deal of uncertainty, the iPlayer might have significant implications for commercial video-on-demand providers’ revenues.

The BBC cited the example of the USA in arguing that the market would most likely tend towards an advertising-funded market, rather than a subscription-funded market. For example, digital cable companies in the US have offered catch-up for zero additional cost (a model replicated in the UK), suggesting that the iPlayer may not have influenced business models here. There do exist, however, a variety of models for content access online in the US, including:

“The network broadcasters are offering downloads of some key programming shortly after first transmission – either via intermediaries like AOL and Apple, or via their own websites. Typically, a new episode of a popular drama, like CSI would be offered for $1.99 (without ads) or $0.99 (with ads) and most recently, ABC has announced it will offer streamed access to programmes free of charge, but with advertisements included in the streamed content.”

This suggests that any impact, of the iPlayer in particular, of steering the market towards a free model, is most likely to be confined to the provision of content online, rather than via digital TV signals. Counter to this however, is evidence from a 2003 paper suggesting that consumers have relatively low willingness to pay for online content (other than “niche premium content”) since a large amount of content is available free elsewhere, although this conclusion is not arrived at specifically with reference to video content.

10.5.3 Conclusion

Stakeholder’s cited the importance of balancing positive and negative impacts and Ofcom notes in its MIA of the Gaelic Digital Service that the BBC may exert a large influence on a market but still generate a net positive impact. We consider that based on stakeholder evidence, the BBC’s decisions on market entry are likely to impact competitor entry decisions and choice of service provision when entry is made. However, there is little evidence as to whether this has had substantial negative impacts and we note that in the counterfactual, some businesses are still likely to introduce business models that prove unsuccessful in the face of competition from others.

119 Human Capital (2006) “Independent advice to BBC Management on the potential for market impact of the BBC’s new on-demand proposals”
120 KPMG,(2003) “Market Impact Assessment of BBC’s Online Service”.
10.6 Impacts on advertising revenues

10.6.1 Stakeholder views

The BBC does not compete with commercial competitors for advertising revenues because it is funded by the licence fee. Essentially this leaves more advertising revenue for other broadcasters to earn. This was described as an important economic impact and that some broadcasters would struggle to survive if the BBC began competing for advertising revenues.

On the other hand, it was suggested to us by a small number of stakeholders that if the BBC were to carry advertising then this might actually stimulate demand for advertising, particularly on radio, and hence raise overall advertising revenues substantially (although a share would accrue to an advertising funded BBC). Other stakeholders argued that the total amount of advertising expenditure would change relatively little in the counterfactual, relative to reality, but that the BBC’s provision of advertising-free content may mean that consumers are less tolerant of advertising on TV and radio than they would be in the counterfactual.

10.6.2 Evidence and analysis

Based on the counterfactual scenario described in Section 6, one estimate of the benefit to commercial broadcasters of the BBC’s licence fee funding (rather than competition for advertising revenues) is in the range £750m to £850m for TV and £0 to £240m for radio. This estimate of course relates to one out of many possible counterfactuals and the figures above are a direct function of the assumptions made about overall advertising expenditure and share of viewing in the counterfactual. In Section 8 we use multiplier analysis to estimate the GVA impact of this effect on other broadcaster’s revenues and hence spending on creative activities as approximately £1.4bn.

That said, we have reviewed other estimates of how much advertising revenue would be available in the market, should the BBC be advertising funded. One comparison estimate is provided by ITV\(^{120}\) in its submission to the Select Committee on Culture, Media and Sport in 2004. It estimates that if the BBC (as it is, with reputation etc. intact) were allowed to carry as much advertising as commercial channels are currently allowed, then this would have a negative impact on commercial broadcasters’ net advertising revenues of approximately £1.6bn per annum, as illustrated in Table 23.

\(^{120}\) ITV here refers to the Channel 3 licence-holders – ITV plc, Scottish Media Group, Ulster Television and Channel.
Interestingly, assumptions would potentially contribute to higher estimates of advertising revenues. We note however that this is mainly driven by an assumed high audience share (50%) of the counterfactual broadcaster.

We further note that, in the counterfactual, other broadcasters (not the counterfactual broadcaster) would probably receive less advertising revenue than they do in reality. This would also reduce the gross value add that these broadcasters contribute to the UK economy.

### 10.7 Use of licence fee revenues

#### 10.7.1 Stakeholder views

One stakeholder argued that the BBC constitutes the “biggest media intervention in the world”, and some stakeholders criticised the BBC’s presence in markets where there is no evidence of market failure.

---

Table 23: ITV estimates of impacts of advertising on the BBC

<table>
<thead>
<tr>
<th></th>
<th>Individuals viewing %</th>
<th>Adult impacts %</th>
<th>Premium (index relative to 100)</th>
<th>NAR %</th>
<th>NAR £m</th>
<th>Change relative to estimated 2007 base case*</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBC1</td>
<td>24.6%</td>
<td>28.2%</td>
<td>116.9</td>
<td>32.9%</td>
<td>1,263</td>
<td>1,263</td>
</tr>
<tr>
<td>BBC2</td>
<td>10.0%</td>
<td>9.8%</td>
<td>111.9</td>
<td>11.0%</td>
<td>421</td>
<td>421</td>
</tr>
<tr>
<td>Other BBC</td>
<td>2.6%</td>
<td>2.0%</td>
<td>76.8</td>
<td>1.5%</td>
<td>58</td>
<td>58</td>
</tr>
<tr>
<td>BBC total</td>
<td>37.2%</td>
<td>40.0%</td>
<td>n/a</td>
<td>45.4%</td>
<td>1,742</td>
<td>1,742</td>
</tr>
<tr>
<td>ITV1</td>
<td>21.2%</td>
<td>24.5%</td>
<td>103.8</td>
<td>25.3%</td>
<td>971</td>
<td>-789</td>
</tr>
<tr>
<td>GMTV</td>
<td>1.5%</td>
<td>1.5%</td>
<td>54.7</td>
<td>0.8%</td>
<td>31</td>
<td>-23</td>
</tr>
<tr>
<td>C4/S4C</td>
<td>8.8%</td>
<td>9.0%</td>
<td>100.1</td>
<td>9.0%</td>
<td>344</td>
<td>-306</td>
</tr>
<tr>
<td>Five</td>
<td>6.1%</td>
<td>6.2%</td>
<td>85.0</td>
<td>5.2%</td>
<td>201</td>
<td>-100</td>
</tr>
<tr>
<td>Commercial terrestrial total</td>
<td>37.6%</td>
<td>41.2%</td>
<td>n/a</td>
<td>40.3%</td>
<td>1,548</td>
<td>-1,218</td>
</tr>
<tr>
<td>Commercial non-terrestrial</td>
<td>25.2%</td>
<td>18.8%</td>
<td>75.8</td>
<td>14.2%</td>
<td>546</td>
<td>-342</td>
</tr>
<tr>
<td>Commercial total</td>
<td>62.8%</td>
<td>60.0%</td>
<td>n/a</td>
<td>54.5%</td>
<td>2,094</td>
<td>-1,559</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
<td>n/a</td>
<td>100.0%</td>
<td>3,836</td>
<td>183</td>
</tr>
</tbody>
</table>

* Base case is ITV’s estimated revenues for 2007, with BBC carrying no advertising.
Source: ITV (2004), “Submission to Select Committee on Culture, Media and Sport”

---

10.6.3 Conclusion

It is plausible, based upon the illustrative estimates above, that the scale of the benefit to competitors of the BBC not competing for advertising revenues might be at least £700m and potentially as high as £1.6 billion per annum. However, we note that the estimates are dependent on the assumptions made and that alternative estimates could be derived with different assumptions.

Interestingly, we note that one outcome from our counterfactual scenarios suggests it may be possible that the commercial radio industry receives zero net benefit (in terms of net advertising revenues) from the BBC not carrying advertising. We note however that this is mainly driven by an assumed high audience share (50%) of the counterfactual broadcaster.

We further note that, in the counterfactual, other broadcasters (not the counterfactual broadcaster) would probably receive less advertising revenue than they do in reality. This would also reduce the gross value add that these broadcasters contribute to the UK economy.
“Some of the content that the BBC says the market wouldn’t deliver might actually be delivered by the market if the BBC did not exist. Nobody knows because the BBC has always been there.”

BSkyB

“No other countries have an intervention [with] the scale and level of funding of the BBC.”

Industry expert

Other stakeholders criticised the efficiency of the BBC in spending licence fee revenues, describing it as “hugely inefficient” and “immensely top-heavy”. Other stakeholders criticised the BBC’s mind-set and use of the licence fee for self-interested purposes, rather than in support of the creative industries.

“The £3bn licence fee spending is spent on BBC corporate survival, not the creative industries.”

David Elstein

10.7.2 Evidence, analysis and conclusion

While these are issues beyond the scope of this study, these are stakeholder views that we consider it appropriate to report.

10.8 Cross-media competitive advantage

10.8.1 Stakeholder views

Some stakeholders argued that the BBC’s cross-media ownership and promotion would not be permitted if the BBC was a commercial company and that, as a result, other broadcasters are competitively disadvantaged. This, we were told, impacts both directly on competitors in attracting audiences, but also in the development of new platforms and technologies, on which the BBC can have a substantial impact, possibly to the benefit of some parties and detriment of others.

“The BBC’s airtime has very high commercial value so the free advertising to promote Freeview was a huge advantage. There is a pattern of substantial cross-promotion – the BBC leverages its strength and dominant core to drive new services.”

BSkyB

10.8.2 Evidence and analysis

The BBC has cross-media platforms that would probably not be permitted for a counterfactual commercial broadcaster because of cross-media ownership rules. It may be able to leverage this cross-media ownership to gain a competitive advantage over rivals, such as through cross-media promotion or offering talent or content providers cross-media deals.

When the Communications Act 2003 was passed, Lord McIntosh of Harringay stated that it would be the Government’s intention to use its powers to intervene in mergers which would have a damaging effect on plurality in a number of specific circumstances. Examples of these specific circumstances include the following hypothetical mergers:

- ITV and a national radio station;
- Five and a national radio station; and
- Two national radio stations.
The BBC’s current analogue properties comprise two TV channels that are at the very least equivalent to ITV and five, and 5 major national FM radio stations. This suggests that, if equivalent criteria were applied to the BBC, then it is possible that it would possibly be split into separate TV channels, separated in turn from the major BBC radio stations (Radio 1, Radio 2 and possibly Radio 5 Live).

However, we note two examples that suggest that under the counterfactual the current BBC’s structure might not be completely fragmented if this interpretation of the Communications Act merger powers were applied to it:

- Channel 4’s “4radio” bid won the right to operate the second digital radio multiplex. It intends to launch a number of Channel 4-branded radio stations, including Channel 4 radio, a “contemporary speech station with public service values infusing a blend of lively debate and entertainment” and a spin off of digital TV channel E4. This demonstrates that if the BBC was subject to the same cross-media restrictions it might still be permitted one of the major TV channel slots plus a number of digital-only stations.

- UTV runs the Channel 3 licence in Northern Ireland, in addition to its ownership of national analogue radio station talkSport and 17 local analogue radio stations. This suggests that an alternative ownership structure for the BBC if commercial merger restrictions were placed on it could involve regional TV ownership, in combination with national and local radio stations.

The BBC Trust introduced in June 2007 a “Code on cross and digital TV promotion” for the BBC, which is intended to guard against cross-promotion of the BBC’s commercial services, or other businesses’ services, and to provide platform neutrality guidelines in cross-promotion of digital TV.

An additional impact, however, is the competitive impact of the BBC promoting its other non-commercial output across platforms, such as promoting Radio 1 on BBC 2. We have not identified evidence that may support estimates of the scale of this impact but we make the following observations:

- Stakeholders expressed concern that this cross-promotion gives the BBC a competitive advantage; and

- The BBC would not have an incentive to cross-promote its non-commercial services if it didn’t think that by doing so it would improve its reach/audience, for example with the aim of reaching out to new audiences.

10.8.3 Conclusion

The Fair Trading framework and rules on cross-promotion are designed to protect against cross-promotion of commercial services and it is outside the scope of this study to investigate the effectiveness of these rules.

In terms of cross-promotion of BBC (non-commercial) services within the BBC we consider this to be an advantage over competitors, as are potential economies of scale and scope resulting from the BBC’s size and cross-sector portfolio. Whilst the BBC may use these advantages with the aim of improving its delivery of Public Purposes, they also represent a competitive disadvantage to rival broadcasters in attracting audiences.

---

2 Source: http://is.tv/, http://www.utvradio.com/
10.9 Talent and content costs

10.9.1 Stakeholder views

The BBC’s impact on talent and content costs was raised by a large number of stakeholders, although there was a range of views regarding whether the BBC has a substantial impact on these costs.

On talent costs, competitors were split, with some TV broadcasters suggesting that the BBC does not inflate talent costs, but others and radio competitors arguing otherwise.

Some stakeholders supported a hypothesis that the BBC may exert some upwards pressure on talent costs, including the suggestion that the BBC may prevent talent costs falling in market downturns.

In respect of content costs, a number of stakeholders, including both TV and radio competitors supported the hypothesis that the BBC may raise content costs, including the costs of acquiring US TV programmes and sports rights. Other stakeholders argued that the BBC is able to outbid its commercial rivals if it decides to and criticised the level of its bids for content that would otherwise be shown by commercial broadcasters.

“The BBC should not be involved in the acquisitions market in the 21st Century, as all this does is forces up price. For example, Heroes was a programme that was already a hit and then the BBC bought it. Obviously there are programmes that only the BBC would buy, but this was not one of them.”

Martin Stott, five

The RadioCentre argued that the indie quota on radio, while beneficial for radio indies because it guarantees commissions, could also have a negative impact because it results in BBC setting market rates beyond commercial broadcasters’ range of affordability.

10.9.2 Evidence and analysis

We note that the BBC Trust commissioned separately a report on the BBC’s impact on talent costs.123 We therefore have not investigated this potential impact in depth.

This report124 suggests that there is no evidence that the BBC is paying more than the market price for leading TV talent and that there is no evidence that the BBC is systematically pushing up prices in the talent market.

With respect to content costs, we note that relatively few stakeholders cited this as an important impact. Based on our criteria for selecting important impacts, we therefore suggest that this is probably not one of the BBC’s most important impacts.

Potential exceptions to this include sports rights and US drama imports. For sports rights, the BBC has been accused of “hoarding” sports rights for Radio 5 Live, particularly by talkSPORT, its main competitor for those rights,125 and there have been discussions about the BBC’s bid for UEFA Champions League rights.

110

http://www.bbc.co.uk/bbctrust/research/value_for_money/talent_review.html
124 http://www.guardian.co.uk/media/2004/sep/27/bbc.radio
The Guardian\(^6\) suggests that the winning bid could reach up to £150m per annum and reports that "commercial broadcasters are loudly questioning whether the BBC should be using licence fee money to bid up the asking price and highlighting the premium it will have to pay. Because UEFA's sponsorship partners, including Ford and Sony, are guaranteed advertising credits either side of commercial breaks, the BBC's rivals claim it will have to pay up to £10m extra in compensation".

The BBC's revenue might imply that it is competitively advantaged in bidding for large rights, such as UEFA Champions League rights, in that it can bid more than a rival advertising-based broadcaster could expect to recoup through extra advertising revenue. We consider therefore that this is an important potential negative impact on competitors, particularly other free to air broadcasters; however we have seen little evidence that this has substantially impacted competitors.

The case of US drama imports may be different however. In this case, whilst the BBC may have an overall funding advantage, it still faces cost pressures and is required to broadcast substantial amounts of original UK-produced content. Hence, it cannot outbid competitors for all popular US drama series\(^7\) and evidence suggests that it does not do so. Relatively few of the highest profile US series are broadcast on BBC, with a much larger number being shown on Channel 4's network of channels (e.g. Friends, Desperate Housewives) or Sky (e.g. Lost) as well as other commercial channels.

We note also that a commercial broadcaster may have a greater incentive to broadcast popular proven US series to attract audiences, than the BBC, which is more focused on original UK content and PSB-programming.

10.9.3 Conclusion
We identified little evidence that the BBC systematically bids up the cost of content. However it was presented to us that some stakeholders consider that the BBC should not bid competitively for sports and USA programme rights. Others questioned whether bidding for content rights is an appropriate use of licence fee funds.

10.10 “Poaching” staff and talent

10.10.1 Stakeholder views

A number of stakeholders reported that the BBC has poached important staff or key talent from them. It was suggested to us that the BBC can offer staff and talent a better deal than commercial competitors are able to, either because of funding or because of advantages the BBC holds as a result of its publicly-owned status and cross-platform ownership. This was cited as a potential example that reflects the BBC “not working to build up the industry” and it was suggested that it might cause some disincentive to invest in training. However, “poaching” by the BBC or any other organisation is a benefit for the labour pool, since they will receive more job offers.

10.10.2 Evidence and analysis

Similarly to talent costs, relatively few comments about the BBC poaching staff and talent from competitors or indies were made. While it is clear that the BBC does recruit from other businesses, in the absence of other evidence we note the following:

The BBC has the remit to lead the industry and provide high quality output. Given that remit, it clearly wants to hire the best staff and talent that it can within its budget constraints given its overall remit. It would appear to be appropriate for the industry leader to choose to recruit the best staff it can within these constraints;

If a vacancy arises at the BBC, for example because of new services or a departure then it must fill the vacancy from somewhere. If no suitable candidates are available from within the BBC then the most appropriate candidates are likely to be from businesses that the BBC works with or competes against; and

We note that commercial businesses frequently “poach” staff from each other and from the BBC. This is normal practice in any market.

\(^6\) http://www.guardian.co.uk/media/2008/mar/13/sportsrights.television?psrc=rss&feed=media

\(^7\) That is, if the BBC were to bid aggressively for one set of major US drama rights, there will be others which it does not acquire.
10.10.3 Conclusion
We have identified no evidence that the BBC “poaches” staff more than a counterfactual broadcaster would, or that commercial broadcasters “poach” from the BBC or from each other. We do not therefore consider this an important impact of the BBC.

10.11 Sponsorship
10.11.1 Stakeholder views
We received relatively few comments regarding the impact of sponsorship of BBC events. One stakeholder expressed concern that if the BBC were to start “bending the rules” to obtain commercial funding then the whole broadcast funding system in the UK could become destabilised.

“The licence fee settlement put pressure on the BBC to find ways round raising money commercially. Sponsorship raises a lot of money for the public service BBC. The set up is that the BBC is publicly funded and the rest is commercial. If the BBC begins to use loopholes to compete for funding then the model breaks down. The loophole is changing charity broadcasting from just a programme into large events and then getting sponsorship. The BBC claims that this helps cover the cost of the programme but if ITV did this they would have to bear the costs themselves.”

Industry expert

10.11.2 Evidence and analysis
The BBC has recently been criticised for seeking sponsorship revenues for its large events. These criticisms led to the BBC closing down its sponsorship website for a period in March 2007. Critics have suggested that, by accepting sponsorship for events the BBC is breaking down the boundaries between public and commercial funding. This might impact competitors in two particular ways – by reducing the demand for sponsorship or advertising on their channels or stations; and, if the BBC’s sponsorship payments are below market rates, it may put downward pressure on sponsorship fees, leading to potentially lower revenues for commercial competitors. We identified insufficient data available to assess the scale of these impacts.

10.11.3 Conclusion
We consider that a commercial counterfactual broadcaster would have every incentive to explore sponsorship as well as advertising funding. While it may not be able to attract fees as large as the BBC potentially could, owing to lower view-share and lower brand-association benefits, it probably (because it is assumed to be commercially funded) would provide more competition to existing commercial broadcasters for sponsorship revenue than the BBC currently does. Indeed, current criticisms of the BBC have suggested that it under-prices its sponsorship, which shouldn’t therefore draw large amounts of revenue from commercial businesses (although it may condition the market to seek lower prices generally). We note that this area is of considerable current debate and consider that to comment on rules regarding BBC sponsorship funding is outside the scope of this report.

http://www.guardian.co.uk/media/2008/mar/07/bbc.mediacompany
10.12 Concluding remarks

We note that the BBC, if it is to fulfil its remit, must necessarily impact other companies (by competing for market share, content and employees) so it is to be expected that these companies will experience possibly adverse effects of the BBC. The key issue is whether given the remit it has, could the BBC’s negative impacts be reduced?

A major difficulty is that absent a profit motive it could be more difficult for competitors (and others) to predict what the BBC’s strategy should be to fulfil its remit and subsequently to predict key decisions. Equally, this might tend to make it more difficult for others to determine after the event whether the right decisions were taken.

Furthermore, the nature of the BBC (as an intervention) is that it generates an additional degree of uncertainty in markets (it is much less certain how the BBC will behave because the BBC’s objective function is much less clear than that of a commercial firm).

We therefore consider that the BBC may have a number of negative market impacts, particularly in niche markets where its large presence can have a major impact on competitors. However, generally we uncovered relatively little hard evidence to support these impacts, or with which to estimate their scale. The introduction of MIAs as part of the PVT for new services or substantial changes in services allows potential market impacts to be identified and, if potential negative impacts are identified, adjustments to the services may be considered. There is also a potentially substantial positive impact arising from the BBC not carrying advertising, when compared to an advertising-funded counterfactual. Below we summarise our conclusions on those impacts that we consider to be of greatest importance.

10.12.1 Restriction of competitors’ ability to attract audiences

A number of stakeholders, particularly competitors, argued strongly that the BBC has a negative impact through restricting audience, and hence revenue share. A number of specific examples were presented to us to support this hypothesis although only one (OneWord radio) is non-confidential. Based on the evidence received, it appears that the BBC might impact substantially on specific competitors’ audience numbers and hence revenue in niche markets more than a counterfactual broadcaster might do. We conclude therefore that in individual markets, particularly niche markets, there is a risk that BBC activities can reduce competitor market shares and indeed may have contributed to the decline of specific businesses. This impact is likely to be more strongly felt in industries where the BBC has a relatively larger share of spend and hence we suggest that the BBC’s impact on commercial radio is a high risk area.

However, data on cross-country comparisons do tend to suggest that overall the TV and radio industries in the UK have been able to attract comparable levels of advertising and subscription revenues, despite competition from the BBC, suggesting that they are not generally undermined by the presence of the BBC.

10.12.2 Barriers to entry and market conditioning

We consider that, based on stakeholder evidence, the BBC’s decisions on market entry are likely to impact competitors entry decisions and choice of service provision when entry is made. However, there is little evidence as to whether this has had substantial negative impacts and we note that in the counterfactual, some businesses are still likely to introduce business models that prove unsuccessful in the face of competition from others. Similarly, we cannot rule out that, in the counterfactual, there could be more market entrants, more competition and potentially more innovation if the BBC was not present.
10.12.3 Impacts on advertising revenues
Illustrative estimates of the scale of the benefit to competitors of the BBC not competing for advertising revenues might be at least £700m and potentially as high as £1.6 billion per annum. However, these estimates are strongly assumption driven and alternative estimates could be derived through an alternative set of assumptions.

10.12.4 Cross-promotion of BBC services
We consider that the BBC has an advantage over competitors through being able to cross-promote some of its services. Whilst the BBC may use these advantages with the aim of improving its delivery of its Public Purposes, they also represent a competitive disadvantage to rival broadcasters in attracting audiences. We found no evidence to support or refute this or estimate the potential cost of this disadvantage to the BBC’s competitors.
11 Independent producers

11.1 Introduction

Independent production companies ("indies") are commissioned by broadcasters to produce content by the BBC across its television, radio and online platforms. The expenditure by the BBC on commissioning content production from indies translates into a direct expenditure by the BBC in the creative economy, with associated multiplier effects. Some of the revenues accrued from BBC spend on independent production commissioning will be spent in the local economies that the indies operate in (both in the creative and other sectors), having an impact upon other local businesses and supporting jobs. Hence the interaction between the BBC and indies may have important implications for the creative economy at both a UK-wide and local level.

The BBC has a much larger spend on commissioning from TV indies than radio or online indies both because the quotas for TV are larger than those for radio and online and the relatively high production cost-per-programme for TV. Hence, the majority of our interviews with indies were with "TV indies" (i.e. those that exclusively or mainly produce content for TV), although we also consulted with radio and online indies.

11.2 The BBC

The Communications Act 2003 set quotas for the amount of original television content screened by the BBC that must be produced by an indie. This is set at 25% of total hours of qualifying content (UK new productions excepting news). Further, the Window of Creative Content (WOCC) covers an additional 25% of TV production by hours, and aims to create a level playing field between indies and BBC in-house production in the pitching of ideas to the BBC. Furthermore, the BBC has quotas for radio (voluntary) and online, set at 10% (hours) and 25% (value) respectively.

In 2006/07 the BBC spent £399m on independent production commissioning from over 250 indies. Renowned examples of content produced by indies for the BBC include Spooks (Kudos) on TV, The Cambridge Folk Festival (Smooth Operations) on radio and children’s TV series Tommy Zoom (Alternative View) which began online.

11.3 Commission of independent productions

11.3.1 TV

Stakeholder views

Stakeholders, particularly (but not exclusively) indies, emphasised the importance of the BBC’s commissioning of independent productions for the health of the independent sector. Stakeholders suggested that “the prospect of being without the BBC is appalling” and “a life with a substantially reduced BBC would be an absolute ecological disaster”. Stakeholders accredited the BBC with creating the vibrant TV industry that is seen today through its emphasis on new production and the associated pressures this generated (and continues to generate) for competitors also to produce new content.
“A life with a substantially reduced BBC would be an absolute ecological disaster – it would be a cultural global warming – Britain would drown under a flood of American imports.”
Alex Graham, Wall to Wall

We were also informed that the BBC has been willing to take risks by supporting investment in new programme formats with uncertain appeal. This was contrasted to some other broadcasters in the UK and overseas, with stakeholders suggesting that others might want to buy proven programme formats only, because they have a track record of audience appeal.

“The BBC operates as a venture capital fund in building the market for content.”
Independent production company

Stakeholder views on the impacts of the BBC’s commissioning in the Nations and Regions were varied. One respondent questioned the out of London quota, claiming that “people are being bussed out (of London) to fill the quotas” because “there isn’t necessarily the skills base for post production when you get out of London”. This, it was claimed, “creates pressures and then has knock-on impacts on quality”. Another thought that “government has a larger commitment to Nations and Regions than audiences care about and there is a danger that there is a lot of money being wasted in the Nations and Regions, where production may wither in a few years, so wasting money”. Furthermore, one stakeholder stated that it is “important not to confuse moving a few internal departments with creating diversity across the country” in reference to the BBC’s move to Salford.

While some stakeholders expressed enthusiasm about the BBC’s commissioning in the Nations and Regions, a greater number of stakeholders reported that the BBC’s Nations and Regions policy did not have as large an economic impact as the BBC claims, with one stakeholder commenting that “it [the BBC] does not (contribute to regional development) in so far as an externality to the industry in terms of boosting development outside of a BBC project.”

“There are not enough returning commissions in the Nations and Regions and not enough long series. Predicting the success of a format is difficult but the BBC should commission series that could be returning series.”
Charles Wace, Twofour Group

Some stakeholders remarked that to develop successfully clusters with thriving independent production sectors, the BBC needs, in tandem to the infrastructure created via projects such as Pacific Quay and Salford Quays, to commission long-running programmes at these places to provide incentives to relocate or set up a new production centre. Interviewees noted that commissioning a one-off six-part series in the nations or regions provides temporary work only and gives no incentive for indies or talent to relocate permanently out of London. It was suggested by one stakeholder that the BBC’s role in cluster formation in Scotland might be inferior to that of Channel 4.

“Channel 4 was the main instigator of clusters in Scotland.”
David Strachan, Tern TV

In contrast to the above, some stakeholders were very enthusiastic about the BBC’s role in commissioning in the Nations and Regions. In particular, stakeholders based in and around the Bristol cluster reported that the BBC’s influence has been directly linked to the development of a thriving indie cluster and has had a large contribution towards development at all levels of the supply chain.
“The basing of Casualty in the city has led to the growth of a thriving drama production economy for the entire region. In the last six months alone audiences have been gripped by ‘Cranford’, ‘Lark Rise to Candleford’, ‘Mistresses’, ‘Moving Wallpaper’ and ‘Skins’. All these were shot in the West Country and rely on the infrastructure that has slowly but surely been developed by situating a long running drama series in the region. That single intervention – which incidentally brings in £10m into the Bristol economy – has a huge multiplier effect. The strong crew and services infrastructure means that more and more feature films choose to shoot in the region - contributing £40m to the South West economy last year.”

South West Screen

Evidence and analysis

According to data provided by the BBC, it spent £364.5m\textsuperscript{129} on the commissioning of programmes from 270 UK TV indies in 2006/07\textsuperscript{130}.

We base our estimate of the counterfactual broadcaster’s expenditure on indie commissioning on ITV’s indie commissioning expenditure. ITV’s NAR in 2007 was £1.5bn\textsuperscript{131}, and its investment in programming (both in-house and externally commissioned) was £1bn\textsuperscript{132}. Hence, production costs were 67% of NAR. We apply the same ratio to the estimated revenue of the counterfactual broadcaster to calculate its spend on production\textsuperscript{133}, which gives an estimated spend of £731.6m.

We assume that the counterfactual broadcaster would comply with a 25% (of hours) independent commissioning quota, and that it would minimise indie commissioning at the quota level, based on stakeholder views that indie commissioning is more expensive than in-house. ITV observed this lower bound of 25%\textsuperscript{134} and spent £285m on indie commissioning to fulfil this quota (approximately 28.5% of total spend on production). We make the assumption that the counterfactual broadcaster would (similarly to ITV) spend 28.5% of production spend on independent commissioning. Therefore, with overall revenues of £1,092m and total production spend of £731.6m, we estimate that the counterfactual broadcaster would spend £208.5m on commissioning of independent production for TV.

Subtracting the estimated counterfactual spend on commissioning independent productions from the BBC spend on commissioning independent productions gives the BBC’s net spend on commissioning independent productions relative to the counterfactual. We estimate this net spend to total £156m.

We note that, in the context of approximately 60% lower total TV content spend by the counterfactual broadcaster, relative to the BBC, £156m lower indie spend (43% lower total BBC indie spend) by the counterfactual is a smaller percentage decline. This reflects the assumed 25% indie quota of the counterfactual broadcaster (and hence the assumed 28.5% share of spending taken by external commissioning)\textsuperscript{135}.

\textsuperscript{129} Data compiled for us by the BBC reports that it spent £383.6m on independent productions in 2006/07, of which £19.1m was on commissioning from non-UK indies.

\textsuperscript{130} Broadcasted programmes only. Excludes news and sport.

\textsuperscript{131} http://www.itvplc.com/itv/about/businesses.

\textsuperscript{132} Implicitly assuming constant returns to scale and similar strategies re: indie commissioning between ITV and the counterfactual broadcaster.

\textsuperscript{133} ITV 2007 Review, 2008 Statement of Programme Policy, p.3.

\textsuperscript{134} The implied proportion of BBC in-house spend that would occur in the counterfactual is 36% \textit{i.e.} (100% - 36%) = 64% or £348m lower than the BBC.
Conclusion
The importance of the BBC to the independent TV production sector is clear; absent the BBC revenues in the sector would be greatly reduced. The counterfactual of a commercial player rather than the BBC would likely reduce the amount of production it commissioned, relying much more heavily on imported programming as imports have a proven track record of attracting audiences. Of the original content that would be commissioned, the counterfactual might maximise in-house production subject to quota restrictions because it is more economic, although the total net impact would depend substantially on the level of the quota. For example, ITV's commissioning of independent content by hours is the minimum allowable by its quota.

11.3.2 Radio
Stakeholder views
Stakeholders reported that the BBC commissions much less from radio indies than it does from TV indies. Despite this, we were informed that, without BBC commissioning from radio indies, the sector would struggle to survive. Radio indie quotas were described as “woefully low” and we were told that “in-house has become less tolerant of internal dead wood but there is still a big problem in going out and employing indies when the BBC already has people on the books”.

Similarly to TV, we were told that it used to be the case that most radio indie employees were ex-BBC but that this has changed and that “now there are many producers who have never been at the BBC”.

“Without the BBC there would be no independent radio sector to speak of. Without the BBC the creative part of the sector would grind to a halt leaving a few to pick up the odd crumb thrown by commercial radio.”

Nick Barraclough, Smooth Operations

Evidence and analysis
The BBC spent £16.7m on content commissioned from radio indies in 2006/07. We understand from our stakeholder interviews that spend by the commercial sector on content commissioned from radio indies116 is negligible, and hence we assume that all gross spend by the BBC equates to net spending.

Based on the above we estimate the net impact of the BBC's indie spend (equal to its gross spend) to be £16.7m.

Conclusion
Stakeholder views suggest that in the absence of BBC commissioning, the size of the independent radio sector would be negligible. Evidence from the commercial radio sector tends to support these views – there is little commissioning by commercial radio stations from the independent production sector. Therefore, we assume that the counterfactual broadcaster does not commission any independent radio production. This implies that all spend by the BBC on radio indies accrues an economic benefit to these indies.

116 Indeed, looking at the websites of radio indies Smooth Operations, Whistledown Productions, Somethin’ Else, Above the Title, Soundscape Productions and Falling Tree Productions, almost all, if not all, of the previous radio productions and working progress productions listed have been commissioned by the BBC.
11.3.3 Online
Stakeholder views

Online indies remarked that the BBC’s demand for content was a driver of their sector, and that “there would be a large net negative impact on the new media sector if the BBC had never existed”. Stakeholders argued that the BBC was able to bear more risk itself instead of its suppliers because of the lack of commercial pressures it faces, in comparison to other industry participants. If bbc.co.uk was a commercial site, it was suggested that the large education section might not exist. Much of the content contained within the education section is supplied by indies; hence this would be detrimental to online indies.

Furthermore, one stakeholder remarked how the BBC “maintains high standards, especially in online education, compared to its competitors”. However, echoing opinions expressed by TV indies, it was felt that “the BBC does struggle to understand small businesses because the BBC is such a large organisation - you do have to spend a long time going through layers of bureaucracy”.

“The single biggest impact is that the BBC is a broadcaster is not driven by commercial goals which affects commissioning decisions. This means that far more interesting projects are commissioned and that risks are taken to try new things. In the new media environment it is really useful to be able to go to a client like that and not have to back up ideas with short term returns on investment.”

Simon Brickle, Monterosa

“The quality of output without the BBC would fall. The BBC has been fundamental in setting standards such as accessibility. These issues sometimes seem secondary when dealing with some other broadcasters.”

Simon Brickle, Monterosa

Stakeholders reported that the online indie industry is located mainly in London – one interviewee noted that “85% if not more [companies] are based in London, but this probably doesn’t have anything to do with the BBC. If this spend was to be moved to elsewhere in the country it would be difficult to get the skills and people to move out of London”, while another remarked that “the industry is increasingly becoming less London based but it is still centred on London”.

Evidence and analysis

Spending on external online commissioning by the BBC amounted to £14.5m in 2006/07. We consider it unlikely that the commercial counterfactual would be set a similar quota to the BBC’s quota for the use of online indies for bbc.co.uk. However, it is also unlikely that the counterfactual broadcaster would have all the required technical expertise to supply all online content itself.

We do not have access to spending data on total content or independent commissioning of any of the BBC’s commercial competitors. Therefore, we take the percentage of ITV’s spend relative to revenues for TV once again for our estimate of the counterfactual broadcaster’s total online spend and the BBC ratio of online independent commissioning to overall online spend (9.4%) as the assumed spend on online indies by the counterfactual. All percentages give upper bound estimates. This gives an estimate of the upper bound of the counterfactual broadcaster’s spend on online independent commissioning equal to £5.8m, £8.7m less than the BBC’s spend.

Some of bbc.co.uk, such as news and sport, is replicated on the commercial market, and indies tend not to be commissioned to produce this content. However, some other sections of the site are more specialist and it is here that new media companies benefit directly from the BBC’s existence. Learning content is an example of this, and much of the BBC’s educational content, including its Bitesize brand, is provided by external providers.
Although there is demand from other sources for educational content for websites, the BBC is a substantial buyer. We found that there are three main benefits to online indies of the BBC’s presence:

• Firstly, these indies earn revenues that they may not otherwise have earned;

• Secondly, these indies may have obtained further business through a quality signal as a result of working with the BBC. As part of its spend on independent online service and content creation, the BBC has developed a kite-mark system through which it allows independents who undertake work under contract with the BBC to advertise that they are a BBC-approved supplier. Whilst this has, anecdotally at least, made it easier for these independent suppliers to get new business, it creates an ‘insider-outsider’ system where those who haven’t undertaken work for the BBC are competitively disadvantaged; and

• Thirdly, because of its multi-platform output, the BBC has been able to encourage online indies to diversify into TV production to produce computer animated series. An example of this is Tommy Zoom, the children’s animated TV series produced by Alternative View, which began life as an online proposition.

**Case Study – Tommy Zoom**

Tommy Zoom is a children’s animated series produced by Alternative View (an independent production company).

Alternative View originally won a tender to produce 3 to 4 short animations and a game for Cbeebies online. The idea was then taken to the broadcast controller of Cbeebies, and a 30 episode TV series was commissioned. Without the BBC’s cross-platform commissioning, the TV series is unlikely to have been commissioned.

**Conclusion**

Based on the responses of stakeholders and the type of commissioning that the BBC undertakes in the new media sector, we conclude that the presence of the BBC on the internet generates revenue for online indies that would not otherwise be available. Furthermore, the quality of output appears to be higher which may result in other benefits, such as generating a reputation that can be used to gain business from other potential buyers of online indie production.

**11.4 Increased certainty for independent producers**

**11.4.1 Stakeholder views**

Although there is inherent uncertainty on whether the pitching of a new idea will be taken up by the BBC, it was suggested to us that, once an idea is commissioned, indies have access to a stable revenue stream. In stakeholders’ experiences, the production of BBC-commissioned programmes “is less driven by audience success” and it “is more willing to grow programmes over time”. Furthermore, we were told that the licence fee brings stability to the sector as it does not fluctuate with economic cycles.
11.4.2 Evidence, analysis and conclusion

The only evidence we identified on this impact was anecdotal evidence from stakeholders. Hence, while it seems likely that the BBC increases certainty for independents, there is little evidence by which to confirm this. Section 9.4 discusses this impact in the context of stability for the broadcasting supply chain.

11.5 “Cream-skimming” of independent producers

11.5.1 Stakeholder views

“Cream-skimming” of indies would occur if the BBC commissioned significant content from high quality indies and if by doing so, it prevented other broadcasters from working with those indies (i.e. by taking up all their production capacity). No stakeholders suggested that the BBC “cream-skims” indies, as indies always have an incentive to grow through commissioning from non-BBC broadcasters. Kudos was cited as an example by one stakeholder, who reported that Kudos’ success with Spooks and Hustle has led to it working hard to get more business from other broadcasters: “Kudos have produced quality productions with Spooks and Hustle. However, they have not been “cream-skimmed” – they are trying very hard to get business from ITV, which they have now achieved”.

11.5.2 Evidence, analysis and conclusion

Owing to lack of evidence in support of this hypothesised impact and stakeholder opinion that the BBC does not cream-skim, we conclude that this is probably not an important impact of the BBC.

11.6 Independent producers’ experiences from working with the BBC

11.6.1 Stakeholder views

Many indies expressed the view that the BBC appears not always to understand the implications of its actions. Stakeholders felt that the BBC appears not to take into consideration other businesses when implementing its own strategy. One stakeholder felt that “Channel 4 is better to work with [and] has a more honourable reputation with indies” than the BBC.

“There are positive upstream impacts on indies, but there is a tendency by the BBC to fail to understand how to manage a unit of production has an uncertain income stream e.g. delays in payment, lack of understanding of cash flow etc that undermines some of the benefits.”

Alex Graham, Wall to Wall

“The BBC doesn’t understand how uncertain indies’ business models are and it doesn’t appreciate the implications of its actions.”

Independent production company

“The BBC can seem a huge monolith that is incapable of understanding its impacts on others.”

David Strachan, Tern TV

11.6.2 Evidence and analysis

The evidence on this impact was largely anecdotal. Further evidence on stakeholder views is included in the Broadcast “Annual Survey of the UK’s Independent TV Producers 2007”, which cites 47.1% of surveyed indies as naming the BBC as the worst broadcaster to deal with. The BBC has had the title of “worst broadcaster” by this measure each year since 2005. The criticism is particularly strong from small indies, as half of indies with a turnover of less than £7m citing the BBC as the worst broadcaster, but a smaller proportion (37.5%) of indies over £15m sharing that opinion. Balancing this, we note that 17.2% of indies voted the BBC the “best broadcaster” to deal with in 2007, placing it third after ITV and five, and it did come first by this measure in 2006.
Particular criticisms and praise of the BBC in the Broadcast survey include that it is:

“slow, cumbersome, political, indecisive, inflexible, impenetrable and bureaucratic. Indies say its tariffs are unreasonable, that it fails to communicate or to care about smaller indies. But others praise the BBC for fully funding development and being the most interested in film-makers.”

Broadcast “Annual Survey of the UK’s Independent TV Producers 2007”

11.6.3 Conclusion

A strong theme coming out of our interviews with stakeholders is that for smaller companies the BBC is difficult to deal with because of its lack of understanding of how smaller businesses work and the layers of bureaucracy that companies must go through when interacting with the BBC.

11.7 Impact on commissioning of specific genres

11.7.1 Stakeholder views

Several stakeholders stated that some genres would be significantly ‘under-produced’ in the UK absent the BBC. Not all stakeholders identified the same areas, with one respondent claiming that only children’s production might disappear without the BBC’s active support, while another identified specialist factual and natural history as genres supported by the BBC. It was noted that a number of genres in which the BBC “specialises”, such as period dramas, other broadcasters also produce this type of content and it is by no means an exclusive genre to the BBC.

“BBC is the market for specialist factual and has helped Britain become a centre of excellence for NH and high end CGI.”

Lorraine Heggessey, Talkback Thames

However, it was suggested by some stakeholders that the BBC has a tendency to keep leading specialist genre programmes in-house – although the BBC pursues higher cost programming through its remit, a number of stakeholders reported that it tends not to commission external production of its most expensive programmes, such as period dramas. Similarly, some stated that it does not tender production of long-running programmes such as soap operas that would offer greater income certainty for indies. These long-running programmes are often relatively low cost. Hence, it was asserted that the programming that the BBC commissions from indies tends to be in the mid-range of production costs.

“Period drama (which is costly) is by and large not available to indies. The BBC makes both the most expensive and the cheapest dramas and the indies get something in between.”

Alex Graham, Wall to Wall
11.7.2 Evidence and analysis

Particular genres for which UK original production would reduce, possibly significantly, are likely to be children’s TV (for ages 6-10), natural history and specialist factual. The work of the Natural History Unit in Bristol in particular was a much cited example of programming that would not be fully provided by the market in our stakeholder interviews and submissions. Many stakeholders drew attention to the quality of such programmes e.g. “Life in Cold Blood”.

We understand, however, from stakeholder interviews, that much of the specialist, high cost content broadcast by the BBC is produced in-house, for instance natural history or historical drama. Regarding drama, indies tend to be commissioned in cheaper, contemporary drama. Hence there might be a relatively limited direct impact on indies of a reduction in output of high cost specialist production. We note however that inputs to the supply chain for in-house production certainly would be worse off in a counterfactual of reduced output of this content.

The indirect economic impact on indies may be significant, however. Few stakeholders disputed that the BBC sets the benchmark in the quality of programming it broadcasts and that it supports the generation of new content producers. This may then increase the quality required and the amount of new content and hence, perhaps commissioning from indies, expected from the whole broadcasting industry. In the counterfactual, both quality and quantity of commissioning of the independent production sector might be lower, reducing revenues in this sector.

11.7.3 Conclusion

The main impact arising from the above appears to be that the quality of programmes the BBC commissions from indies is higher than might be the case from a counterfactual broadcaster, which might imply that spend per programme could be higher than it would be in the counterfactual.

11.8 Commissioning of small indies

11.8.1 Stakeholder views

Stakeholders did not comment on the size of indies that the BBC most commonly commissions from.

11.8.2 Evidence and analysis

Compared to other PSBs, the proportion of the BBC’s external TV commissioning from small indies (less than £5m) is higher than others. The BBC proportion of £10m - £20m indies out of total BBC commissions is particularly low (lower than the equivalent percentage for Channel 4 or ITV) but the share for £50m - £100m indies is higher than the equivalent figures for other PSBs. Fewer of the BBC’s external commissions are won by £100m+ indies than the equivalent figures for other PSBs.

The BBC also provides non-monetary input into the development of the ideas of indies through meetings with BBC producers, known as ‘hidden help’. The Terms of Trade for the BBC quantify this input by stating that the BBC is entitled to 15% of the revenues net of distribution costs that accrue from that idea. In addition, to aid the development of ideas in the regions, the BBC has a £900,000 development fund for indies based outside of the M25.

11.8.3 Conclusion

It is unclear which indies the counterfactual broadcaster would most often commission from, although it seems feasible that it might tend to be the larger indies, based on ITV’s commissioning patterns, although this is highly uncertain. We note that the BBC’s reputation with smaller indies is less positive than with larger indies and based on stakeholder comments it appears that the pressures that smaller indies face may not always be fully appreciated by the BBC.
11.9 Concluding remarks

The BBC is the largest investor in UK independent production of all of the UK broadcasters, and hence has a large economic impact upon this sector. We estimate that the BBC has a net impact on independent production revenues of £181m. We estimate a net impact on TV independent production revenues, relative to our counterfactual, of £156m (41% of the BBC’s spend on TV indies). For radio, we estimate an impact of £16.7m (100% of the BBC’s spend on radio indies), while for online indies it would be at least £9m (60% of the BBC’s spend on online indies). We note that these figures are subsets of, rather than additions to, the impacts estimated in Section 8 above.

In our view, the BBC’s commissioning means that, relative to the counterfactual, the TV and online independent production sectors are substantially larger in terms of number of indies and in terms of revenues. We consider that without the BBC, there would still be demand for TV and online indies (particularly because of the rise of multichannel television and the increase in the number of outlets for new media content) but this demand would be considerably reduced. Based on the evidence that we have collected from stakeholders and information available from radio indies, we consider that the radio indie sector would struggle to survive. Therefore, the current contribution that the radio indie industry makes to the creative economy could disappear.
12 Training and Talent

12.1 Introduction

Training and talent development is an often-cited area of potential market failure in economics. The market failure hypothesis is that employers may not be fully incentivised to produce the “socially optimal” amount of training because they do not fully accrue the benefits of their investment in training. This is because the product of their investment, an increase in the skills of a worker, could be lost if the trainee (or talent identified) switches companies. Unlike investment in physical capital, the investor does not hold the rights to the human capital that it has developed. Furthermore, companies may have incentives to “free ride” on others’ training and development of human capital, by not training their own workers but by “poaching” skilled workers or identified talent from other companies.

The BBC may have training and talent benefits to other companies as follows:

• Explicitly aiming to benefit the creative industries: As a public policy intervention with the aim to maximise public value rather than shareholder returns, it is possible that the BBC might invest more in training and talent search than the counterfactual broadcaster would, with the aim of benefitting “UK plc” and the creative industries in particular, irrespective of where these skills are employed.

• BBC training and talent search that it carries out for its own benefit may benefit others (spillovers): Alternatively, other aspects of the BBC, such as its size, focus on quality and range of services, may mean that it is better equipped to train workers and seek new talent than the counterfactual broadcaster, which in turn may have positive spillovers for other firms.

12.2 The BBC

Under the terms of the BBC Agreement, the BBC must train staff who in their role help to provide a UK Public Service or make programmes that help to make up any of these services. This training must: promote the BBC’s Public Purposes, particularly in the fields of creativity and cultural excellence; prepare and maintain a highly skilled media workforce in the UK audiovisual industry; and maintain competitiveness and increase productivity in this industry. Where possible, the BBC should enter partnerships in order to plan and provide this training across the whole industry.

12.3 High provision of training

12.3.1 Stakeholder views

Many stakeholders saw the BBC’s role in training as pivotal, commenting that “the BBC plays a very valuable role in industry training and developing talent, both in TV and radio”, and that “the BBC is a very useful training ground for the creative industries”. Many stakeholders regarded the BBC as being the trainer in the industry, and numerous interviewees referred to the BBC as the “unofficial university of the creative economy”.

“Historically the BBC has been the main trainer of the industry…this has changed in the last few years as the industry has been restructured but the BBC is regarded as still doing the most complete coverage of training of any broadcaster.”

Nik Powell, National Film and Television School

Many stakeholders recognised that the BBC has a duty to provide training both to its own staff and to workers in the creative economy more generally. One respondent stated, “the BBC has a considerable responsibility to ensure it has high quality staff and to educate freelancers. If the BBC became more inward on training it would be very damaging”. Another noted that “it has a stronger commitment to support and contribute to training through its unique funding mechanism”. The role played by the certainty of funding of the licence fee was recognised to support the training undertaken by the BBC because of the focus on public value (rather than profits). Hence, the BBC may be less concerned about not being able to capture the full returns on training its employees and might not have the same free-riding incentives as commercial businesses.
One stakeholder further noted that “the critical mass of the BBC allows it to have a large impact on training and hence the industry”, and that the BBC is able to provide high levels of practical “on the job” learning since it “has a long tradition of training, enormous experience and is ‘doing it’ in terms of actual audiovisual production”.

We were also informed, however, that the impact of skilled BBC workers moving to other firms should not be overstated, since “it is not just the BBC that provides training” and that a large number of skilled workers also pass from other broadcasters to the BBC.

“Lots of people pass through the BBC on the way to other broadcasters and vice-versa.”

BSkyB

Other stakeholders argued that although the spend by the BBC on training is large, it is distortive and that some of this spend is focused on training that benefits the BBC rather than on training activities that are useful for other businesses in the creative industries.

“Not all of the BBC’s training is on core skills and the loss of some of this training wouldn’t be a great loss.”

Industry expert

“BBC training is distortive of the marketplace, geared towards the BBC and constitutes one of its biggest negative impacts.”

David Elstein

12.3.2 Evidence and analysis

The BBC spent £40m on training and development in 2006/07. In contrast, ITV spent around £6m and Channel 4 spent £4m. The two largest areas of the BBC’s investment in training are in production, which takes up almost one quarter of the budget (£9m), and journalism (£6.3m). Overall the BBC provided 67,000 days of training to both BBC staff and the wider industry in 2006/07, of which 6,000 days were delivered to non-BBC staff. In total, 380 freelancers received training from the BBC. Training covers a diverse range of areas including training in the use of HD cameras and script writing.

Training is overseen by four boards; the Journalism Training Board; the Production Training Board; the Creativity Training Board and the Leadership Training Board. These boards oversee 19 trainee schemes, which range from a production trainee scheme, and a specific Northern Irish scheme supplementary to this, to an East Midlands Local Radio trainee scheme, with the aim to attract new talent to the BBC and training of BBC staff. The BBC also has external partnerships with Skillset (to support creativity in the industry, spending £830,000), the Broadcast Journalism Training Council (allowing around 300 students to gain practical experience each year) and higher education establishments (supporting their media-related degree courses), such as the National Film and Television School.

Footnote: These figures were provided by the BBC and are not directly comparable, but indicate scale of magnitude.
Source: BBC, PwC analysis

The quantitative evidence indicates the gross direct impact of the BBC’s involvement in training, but the net impact of these activities relative to the counterfactual is much more uncertain. Absent BBC, would the commercial broadcasters (including the counterfactual broadcasters) invest more than they do today?

It seems apparent from the stakeholder interviews that the BBC provides more training than would be provided by the free market and according to the BBC some of the training that it invests in would not be provided by the free market in the absence of the BBC. Particular beneficiaries of this training appear to be other broadcasters.

For example, the BBC informed us that it is the sole provider of broadcast engineering training in the industry. It could be argued that the lack of suppliers of this type of training exists because the BBC crowds out commercial providers. However, the BBC informed us that it offered the provision of this training out to tender to external providers and received no proposals that it considered would have been able to fill the gap left by the BBC. In other areas of training we understand that the BBC is more expensive than other providers, such as for location camera training, because of the pricing guidelines that BBC training must abide by. However, despite this price differential the BBC reports that demand for its training is high because of the perceived quality that it offers compared to other providers.

Some stakeholders suggested that the BBC may achieve economies of scale in training, leading to higher levels of training and passing of economies of scale on to purchasers of its training through cost savings. Economies of scale exist where substantial fixed costs exist and mean that, as the quantity of output (in this case training) increases, the cost per unit of output (training) declines. There are fixed costs associated with training, for example the overheads associated with the BBC training department. Because the BBC provides so much training, the cost of the BBC’s training department per hour of training is smaller than the equivalent cost to a smaller commercial provider of the same training. Therefore, because each hour of training is cheaper to provide, the BBC provides more of it, at a lower cost than a commercial supplier.
However, as noted above, we understand that the BBC’s training is expensive relative to other providers. This would suggest that the BBC may not have achieved very large economies of scale, relative to other providers or that it provides higher cost, higher quality training.

The BBC offered thirteen areas of training in 2005/06. In addition to the example of broadcast engineering training given above and talent development examples discussed below with respect to talent development, an example of training that may not be provided by the commercial market at all is the training in trust that the BBC provides with regard to its news reporting. However, some stakeholders suggested that this type of training may have relatively little value for the rest of the broadcasting sector.

Below, we present a case study of the BBC’s work with Skillset in training for the creative economy.

---

138 In assessing the impacts of the BBC’s training, we study activity from 2005/06 (the earliest data we received from the BBC). Assessing the impact of training in the year 2006/07 gives little time for the skills invested in by the BBC to disseminate, and so may give an inaccurate picture of the BBC’s contribution to the skills base of the economy.
**Case Study - Skillset**

Skillset is the sector skills council for creative media in the UK. The objectives of Skillset include the promotion, advancement and provision of “training and education for persons working or intending to work whether as employees or independent contractors in the film, radio, television, video, interactive media, photography, photographic processing, digital imaging and associated industries”. In July 2007, Skillset and the BBC signed a Memorandum of Understanding to promote education and learning across the audio and visual industry in order to stimulate creativity and cultural excellence. The BBC is one of several contributors to the Skillset TV Freelance Fund, which includes ITV, Channel 4, Five, Pact and cable and satellite companies. The Skillset TV Freelance Fund has a total training expenditure of £1.5 million per year.

The BBC has been recognised as playing an important role in its support of Skillset:

“The Government commended the BBC for its support of Skillset and highlighted the pivotal role the BBC has to play in delivering Skillset’s Sector Skills Agreement for TV.”

Skillset Welcomes BBC White Paper, 2006

“It would be an absolutely major blow to the economic competitiveness of the UK audiovisual industry and the creative economy as a whole if the BBC disappeared. Skills and talent development are key issues in maintaining and growing the sector’s productivity and competitiveness in our sector in the UK. The BBC is like a hub in talent and skills development. This is because of its critical mass and expertise developed over many years and now because of its growing support to the rest of the industry.”

“People from other countries approach Skillset with their worries for talent development in their country and they recognise the role that the BBC plays in supporting talent development in the UK creative economy.”

Dinah Caine, Skillset

Although other broadcasters such as ITV, Channel 4 and Channel 5 contribute directly to Skillset, the BBC is the largest single contributor, funding £830,000 directly to Skillset’s budget. Furthermore, the BBC has 20 of its employees sitting on Skillset boards.

We consider that, without the BBC, the scale of the investment into Skillset could be substantially reduced, as a commercial broadcaster without the same public service remit as the BBC would have neither the incentive nor the ability of the BBC to invest into Skillset. As a result, the support that Skillset provides for training in the creative industries would probably be substantially lessened in the counterfactual.

Source: Memorandum of Understanding between Skillset Sector Skills Council and the BBC, 28 June 2007, BBC and Skillset set framework for collaboration on skills, 9 July 2007 and stakeholder consultation

**12.3.3 Conclusion**

Due to commercial companies being unable to accrue the full benefits of investing in training economic theory suggests that they tend to under-invest. We assume that the counterfactual, in order to maximise profit, would undertake the minimum training possible, and would not have the incentive to contribute to external trainers such as the National Film and Television School. Therefore, we conclude that the BBC invests more than the counterfactual in training, provides a wider scope of training and supports training that would not be provided at all by the free market.
12.4 Movement of trained BBC employees to other businesses

12.4.1 Stakeholder views

Respondents suggested that the BBC plays a useful, but possibly not critical, role in providing skills to the independent production sector. One indie commented that “the training infrastructure would be more fragile without the BBC but the indies have their own arrangements”.

“Indies have become very important places to develop talent. While training is less structured than the BBC it is no less important and there is now a lot of talent working in indies that has never worked for a broadcaster.”

Stephen Garrett, Kudos Film and TV

Further comments made were that when commissioning indies, the BBC purchases expertise and hence there is a flow of expertise from indies to the BBC rather than the other way round. We were told that “there is a tendency in the BBC to assume that the traffic of talent is one way (BBC to industry) but there is a whole generation (of indie producers) that were spawned by Channel 4”. Furthermore, it was noted that the BBC does not necessarily equip workers with the required skills to work in the indie sector, notably entrepreneurial and commercial skills.

“The BBC is not so good at entrepreneurial skills which are needed in the indie sector.”

Alex Graham, Wall to Wall

“BBC is good at training craft skills but, by definition, has no requirement to train selling skills.”

RadioCentre

12.4.2 Evidence and analysis

The percentage of staff that have left the BBC since March 2005 having received training in the year 2005/06 varies from around 15% to around 35% according to training type (see Figure 22 below). Journalism training and radio operations training had the lowest proportion of leavers of 14.1% and 14.5% respectively. Training for new media production, the BBC World Service and TV production operations had the highest proportion of leavers at 31%, 33.8% and 35.7% respectively. This suggests that the BBC may have played a relatively large role in disseminating workers with these skills to the rest of the creative economy.
Figure 22: Proportion of Staff that attended BBC training courses in 2005/06 that have subsequently left the BBC*

![Proportion of Staff that attended BBC training courses in 2005/06 that have subsequently left the BBC](image)

Source: BBC, PwC analysis

*Note: these are effectively cumulative (since March 2005) annual staff turnover rates

12.4.3 Conclusion

It appears that BBC training may have relatively more impact for broadcasters than for indies. In particular stakeholders argued that the BBC does not equip its staff with some of the entrepreneurial skills that are an important component of success at an indie. A job as a producer in the BBC’s in-house production does not necessarily correspond to the role of a producer in a small indie, as one role requires the production of content only whereas the other may also require business acumen.

However, turnover of BBC staff suggests that there is a significant flow of workers from the BBC to other companies. These workers then employ the human capital that the BBC has invested in for the benefit of other firms in the creative economy and the UK economy as a whole.

12.5 Talent

12.5.1 Stakeholder views

Many stakeholders noted the important role that the BBC plays in finding new talent. Some stakeholders commented that the BBC is “more prepared to take risks with talent which allows them to be given a break” and without the BBC there “would be less development of UK talent”; while another said that the BBC “has a reputation for training new-comers”. It was remarked that the BBC has many outlets for talent, for example “BBC3 and BBC4 allow the BBC to give experience to talent while testing audience figures” where “audience pressure is not immediate” and “because BBC has presence across platforms it can cross promote and encourage talent to work in different areas”.

“The BBC absolutely helps find and foster new talent.”

Nick Barraclough, Smooth Operations
“The BBC’s role in providing a training ground for technical and creative talent (for example in comedy - one of Scotland’s stronger television genres) would undoubtedly be a loss.”

Scottish Screen

One example of talent promotion is the BBC’s role in folk music - an interviewee commented that “the Young Folk Awards promotes new talent of 15 and 16 years old, and some of the current best selling folk artists were promoted this way”.

“The BBC has also worked closely with South West Screen to ensure a new generation of talent is nurtured. Together we have run a range of training and development programmes – many targeted at recruiting people from diverse backgrounds into the media and creative sector.”

South West Screen

However, not all stakeholders were positive about the BBC’s approach to talent. The BBC’s reach into the Nations and Regions in their talent search was questioned, with respondents saying “there doesn’t appear to be a co-ordinated development of talent in Scotland” and that the “BBC network commissioning has to seek to build relationships across the UK to seek out talent”.

“Sky develops lots of off-screen talent, some of which then moves to the BBC.”

BSkyB

Opinion was divided as to whether the BBC raises the cost of talent, with comments received ranging from “I don’t believe that the BBC inflates talent costs” to “the BBC drives up talent prices on Radio 1 and Radio 2” and “when the commercial sector experiences a downturn, the cost of talent does not fall - the BBC creates a one-way ratchet on talent costs”. The impact of the BBC on the cost of talent is discussed further in Section 10.

12.5.2 Evidence and analysis

Based on stakeholder discussions, the BBC appears to encourage and nurture talent more than would likely be the case in the counterfactual, particularly in radio.

Radio 1 is used to give exposure to new bands, including a weekly nation-specific show called “BBC Introduces” to showcase new talent. Bands that have come through local radio are invited to a recording session at Radio 1’s Maida Vale recording studios, which is then broadcast on the station. Below we present a number of relevant case studies.
### Case Study - The Klaxons

The Klaxons distributed 500 copies of their debut single on vinyl in March 2006. One of these copies was picked up by Radio 1 DJ Steve Lamacq, who invited the band to do a session at the Maida Vale studios for his show. Their second single was featured by another Radio 1 DJ Zane Lowe, and was given daytime airing. By October, the band had signed a record deal with Polydor, and their third single was added to the Radio 1 playlist and entered the Top 40.

In 2007, the band played live at Radio 1’s One Big Weekend and was the most played new act on Radio 1’s daytime schedule in 2007. The year culminated in success for the band as they won the Mercury Music Prize for their debut album.

Some stakeholders suggested that without the BBC’s investment in talent in radio the UK radio sector would converge to a mainstream model. Commercial players are less likely to take risks on giving new bands airtime because they are an unknown quantity and could prove a “turn-off” for listeners. Without the BBC’s investment in new talent, it could be significantly more difficult for some bands such as the Klaxons to become established.

*Source: BBC and stakeholder consultation*

Radio 2 supports a number of specific genres including UK folk, jazz and blues talent. The Cambridge Folk Festival is an example of this, as it was funded by the BBC when in its infancy until it grew to a stage where commercial interest was strong enough to contribute. From more mainstream genres, UK female singers Katie Melua and Amy McDonald and the band the Hoosiers have acknowledged the role of Radio 2 in their success.

Radio 3 supports classical music, commissioning 40 pieces of new music in 2007, has many partnerships with orchestras with a commitment to broadcast their music, and organises the BBC proms, the biggest classical music event world wide.

### Case Study – Radio 3 New Generation Artists Scheme

The New Generation Artists Scheme was launched in 1999 to support new musicians at the beginning of their career. The Scheme is two years long and has twelve artists/ groups taking part at any one time.

Participants get the opportunity to perform with the BBC’s orchestras and in concerts such as the Proms, and successful participants can benefit from the BBC’s collaborative venture with record label EMI to co-produce CDs.

One of the most successful artists that have graduated from the scheme is Alison Balsom, who won the young British Classical Performer of the Year at the Classical BRIT Awards in 2006.

Classical music has been traditionally underfunded because it is not profitable. Therefore, it is unlikely that the counterfactual broadcaster would invest in a similar scheme as it would not yield a positive return.

*Source: BBC*

Radio 4 has introduced new talent and formats such as Dead Ringers, the Mighty Boosh and Little Britain which later were commissioned for television.
In television the BBC acknowledged that their role in developing on screen talent has not been as prominent as that of radio. In the development of off screen talent the BBC has had a larger impact, as the case study on the Drama Writers’ Academy and the Vision Design Scheme below show. As of 2008, the Production Trainees Scheme has been launched, which aims to find new talent in the production of TV, radio and interactive content from across the UK. The aim is for trainees to secure a contract as a researcher (or higher grade) by the end of the scheme.

Case Study - The Drama Writers’ Academy and the Vision Design Scheme

Over the last three years the BBC has run the Drama Writers’ Academy, where students learn about all aspects of drama production. The students are given master classes from drama writers and directors, and are given the opportunity to gain experience by writing for a continuing drama.

The aim of the course is to create a pool of writing talent for BBC series such as Eastenders and Holby City. 22 of the 24 graduates from the course’s three year history, now work in TV writing, for example one graduate, Mark Catley, is now head writer on Casualty.

The Vision Design Scheme is a similar initiative run by the BBC in order to give designers from across the UK experience in BBC departments on a 12 month placement, at a cost to the BBC of £332,000. The aim is to provide trainers for both television and film, and graduates from this scheme have gone on to work on programmes such as Doctor Who and Torchwood.

Source: BBC

While the BBC’s role in on-screen TV talent development may be less prominent than radio talent development, there are still notable examples: the BBC gave David Tennant his first big role in 1994; Matt Lucas, most renowned for Little Britain, had been given his break in BBC comedy shows Reeves and Mortimer and Catterick; and Comedian Alan Carr won the BBC New Comedy Stand-Up award in 2001 and was given his radio debut by Radio 2. Unlike Tennant and Lucas however, most of Carr’s most high profile work has not been done with the BBC. Hence he is an example of the BBC’s talent search benefitting other broadcasters, although we have found that such examples have not been commonplace in our research.

12.5.3 Conclusion

The BBC’s talent search is much broader than what a counterfactual broadcaster would be likely to sustain because much of it is not profitable and the majority of benefits do not accrue to the BBC. Examples of this are the promotion of new bands and the encouragement of teenagers to become more creative through BBC Blast.

Based on the evidence compiled, including the above case studies, we conclude that the BBC undertakes many unprofitable activities in the search and encouragement of new talent for the benefit of the creative industries. These unprofitable activities would most likely not be replicated in the counterfactual.

12.6 Concluding remarks

In a commercial market, training may be underprovided as firms can not realise the full benefits of their investment due to labour turnover. The BBC as a public policy intervention might address this market failure by increasing the level of training in the industry above the level that a free market might invest in.
The evidence above suggests that the BBC invests more than a counterfactual commercial broadcaster would in training, and also invests more in talent development than would be supported in a fully commercial market. The BBC’s investment in training and talent development has given a platform to new talent and has provided new skills to the broadcasting industry, from the training of freelancers in the use of HD cameras to the development of new script writers.

Several studies have investigated the impact of training on productivity. Dearden, Reed and van Reenen (2005)139 find that a 1% increase in the proportion of trained staff has a 0.6% increase in productivity and Konings (2008)140 found that firm level productivity is 1% to 2% higher for firms that provide on-the-job training compared to those who do not. Based on these studies and the evidence of the training that the BBC provides (given above), we consider that the BBC, as compared to the counterfactual, has a positive impact upon the productivity of the BBC and, via the movement of skilled personnel to other businesses, on the rest of the creative sector and UK economy.

We note also that the BBC’s commitment to learning impacts positively on the education standards of the UK as a whole. In particular, BBC initiatives encouraging participation in creative activities will tend to encourage participation in the creative industries and benefit these sectors.

139 Dearden, L., H. Reed and J. van Reenen “The Impact of Training on Productivity and Wages: Evidence from British Panel Data”, IFS working paper.
13 Technological impacts

13.1 Introduction

The BBC plays an important role in the development of broadcast technology within the UK, across the value chain. From developing technologies and licensing them, to promoting their use; from procuring technological services; to setting the standards by which broadcasters operate – the BBC has an ‘end-to-end’ impact upon technological development and adoption in the UK.

In this section we discuss the key commercial impacts of the BBC’s innovation projects across its core offering of TV, radio and online services. We also discuss briefly the BBC’s role as a procurer of technology and in setting industry standards for technology.

The BBC has developed many new markets and technologies and encouraged take-up of a variety of services and technologies over its history, including playing important roles in the development of colour TV, in the development of computer literacy with the BBC Micro and more recently leading other broadcasters in provision of content online through bbc.co.uk.

Owing to the breadth and depth of the activities relating to technology in which the BBC engages, we focus on recent case studies. It is beyond the scope of this study to examine all the quantitative and qualitative effects of the BBC’s activities relating to technology, or the introduction of technologies in the distant past. The case studies offered are illustrative of the impact of the BBC’s involvement in technological innovation, development and penetration, and are not meant to be exhaustive.

13.2 The BBC

13.2.1 Activities

Historically, the BBC has been at the forefront of technological advancement amongst broadcasters in the UK and it remains active in developing technology today. Below we outline, in broad terms, the most important roles the BBC takes in technological development. The BBC:

• Invests in product innovation to support its core broadcasting and digital and new media operations;
• Supports relevant academic research through funding or in-kind assistance;
• Licenses technology to third parties;
• Procures technology from third parties for own use;
• Advises standards and licensing bodies on technical standards; and
• Publishes technical white papers on in-house research.

Figure 23 is a diagrammatic representation of the BBC’s technology activity. At its core is its development of technology which relates to its Public Purposes; further from this core is its role in procurement and licensing technology; and further still is its influence on standards and platform development.
13.2.2 Expenditure

In 2007, the BBC spent £14.6m on R&D, down from £16.2m a year earlier. The BBC writes off expenditure on research and development as it occurs. Total BBC R&D expenditure amounts to a fraction of one percent of total R&D expenditure in the UK.

13.3 The Counterfactual

The counterfactual we have developed for the purposes of this study – an advertising-funded broadcaster with minimal PSB obligations – needs to be expanded upon when considering research and innovation given there are a variety of other organisations which could, theoretically at least, pursue the research the BBC currently undertakes. It is therefore appropriate to develop a more suitable characterisation of the counterfactual given the BBC’s activities relating to technology.
The BBC's funding arrangement enables it to make long-term investment in product development. This contributes to its ability to deliver on its Public Purposes, as well as to ensure that the BBC continues to be at the forefront of technological developments. However, an advertising-funded broadcaster might find it difficult to justify large research and development expenditure; particularly should it face short-term commercial pressures – in which case, it might prefer to 'free-ride' on the research expenditure of other organisations owing to the risk and uncertainty that surrounds any research expenditure.

It may be unlikely that an advertising-funded broadcaster would invest at levels comparable to the BBC even where there are potentially significant benefits of doing so (both in terms of extending the technology frontier, as well as in improving efficiency of existing technology). Therefore product innovation may appear a risky proposition, particularly with the high risk of failure and the limited on-sale market for licensing resultant products.

We consider it likely that, in the counterfactual, technological development would come from one of four main sources: universities and other research institutions; commercial product manufacturers; UK based broadcasters; and/or overseas broadcasters. It is likely, for the reasons outlined, that UK-based advertising-funded broadcasters would predominantly look to buy-in new technology, and only engage in technological innovation on a limited basis. Therefore the first two of these potential sources of innovation are likely to be the most important.

Our counterfactual broadcaster would, however, have a greater role to play in promoting the adoption of new technologies in the absence of the BBC, than in developing the technologies itself.

13.4 Stakeholder views

Based on the views expressed by stakeholders, it appears as if the BBC's impact on technological development has had an ambiguous effect in the markets in which it operates; many of the BBC's activities in developing technology and driving uptake derive clear positive benefits for the consumer and other broadcasters; but they often have indirect negative impacts, and the BBC may crowd out other investment.

13.4.1 General comments

Stakeholders generally acknowledged the BBC as being active in developing new technologies, and certainly more advanced than its core competitor group.

"With regards to technological development, the BBC is streets ahead of other broadcasters."

Industry expert

It was suggested that the BBC is able to take a long-term view of research and innovation, which provides freedom for risk-taking. But the outcomes of this are not necessarily viewed as being wholly beneficial, for example through leading the market towards technologies that might not be the most beneficial for commercial companies, even if they might be the most appropriate technology for the BBC and/or consumers.
“The BBC, because of its funding structure, takes the longest view (next to Sky). Hence it can take a view on innovation and technology ahead of its competitors. This leads to: some benefits; some false starts; and getting trapped using some old or suboptimal technologies (e.g. DTT).”

David Elstein

A number of stakeholders argued that the BBC’s commitment to research and development might crowd out other potential investment. The BBC’s commitment to high standards was recognised, but one stakeholder suggested that the BBC’s technological activities might prevent least cost technology from being commonly adopted.

“The BBC crowds out investment that the market would otherwise make in both content and technology.”

BSkyB

“[The BBC] has a role in setting benchmarks for quality and pushing the boundaries in technological take-up, changing consumer behaviour. The iPlayer on one hand may have a crowding out effect as it is free-to-air but the great success suggests that it is drawing people to a new technology which develops demand for other commercial players…

… there may be circumstances where it is better for the BBC to draw out of an industry. The question is what value is the BBC having in the market? The BBC’s presence can help to drive up standards.”

Industry expert

13.4.2 TV

The BBC is widely regarded as having had a positive impact in the development of the digital terrestrial market in the UK through its involvement with Freeview, and this was reflected in some comments made by stakeholders we interviewed.

“The BBC’s participation in Freeview made it happen big time and there wouldn’t have been these new advertising slots without it. So the BBC’s net impact must be positive.”

Industry expert

However, some stakeholders emphasised that whilst the BBC contributed to the development of digital terrestrial TV uptake, the Corporation was not the only factor behind Freeview’s recent popularity.

“Freeview’s success is not only due to the BBC – there were market and BBC reasons. For instance, there was already demand for multichannel TV and flat-screen upgrading. The BBC and other PSBs provided a suite of channels.”

Industry expert

More generally, the BBC emphasised its credentials in the development of digital television, outlining two decades of experience in developing technologies and technological standards, in addition to showcasing the possibilities of the technology to the public, press and policymakers.

However, the BBC itself recognises that it is not the only organisation that could have developed DTT chipset technology, for example – which underlines the potential crowding out effect of the BBC’s research and innovation activity.
“[The BBC] built up intellectual property rights and technical knowledge for a digital terrestrial television (DTT) demodulator chipset which was used in most of the early generations of set-top boxes for DTT/OnDigital/Freeview. The development of this chipset was a commercial partnership between BBC R&I and LSI Logic, exploiting the BBC’s knowledge and expertise in this area that had contributed hugely towards the open standard developed within the international Digital Video Broadcasting Project. Few other consumer electronics / IC manufacturers and broadcast organisations had sufficient knowledge and experience of DVB-T to achieve this... The LSI Logic / BBC chip was used as it was one of the best in terms of performance at that time and it served as an enabler for the successful launch and take-up of DTT/Freeview in the UK and elsewhere.”

Dr Andy Bower, Head of Broadcast Research & Innovation (Acting), BBC

13.4.3 Radio

The BBC’s involvement in driving the digital audio broadcast (“DAB”) technology standard was referred to by a number of stakeholders. It was suggested to us that the BBC’s large share of analogue listening meant they weren’t strong advocates of the DAB standard.

“The BBC has played a beneficial role [in the development of DAB], but not as much as it could have. It is the dominant player in analogue radio, so has not wanted to drive digital.”

RadioCentre

However, this view was contradicted by other responses we received, which acknowledged the role the BBC had in driving DAB penetration. The BBC has made efforts to get manufacturers interested in developing DAB – for example, it has held discussion with Ford, amongst others.

One stakeholder we consulted was concerned that the BBC may be at least partly responsible in tying the UK into use of a potentially transient technology as other countries may adopt next generation digital radio technology.

13.4.4 Online

Several stakeholders emphasised impacts of the BBC iPlayer, particularly its impact on internet service providers (ISPs). Stakeholders recognised the positive impact the BBC has had on internet content consumption, but were concerned about the increase in industry costs arising from the increased demand for bandwidth.
“The iPlayer has had a negative impact on ISPs.”
Industry expert

“The iPlayer is having a massive impact on broadband consumption. Consumers want high consumption at a low price. This will hasten the net neutrality debate which will ask whether it is right for ISPs to bear the cost of people being able to watch TV online.”
Industry expert

However, some stakeholders identified the positive demand effect of the BBC’s investment in the iPlayer for their own commercial services – they told us that the iPlayer is drawing people to a new technology and boosting demand for on-demand services, which will provide commercial opportunities for other broadcasters.

“The BBC has the ability through its positioning in the technological space to drive technological take-up (e.g. iPlayer).”
Industry stakeholder

“The great success [of the iPlayer] suggests it is drawing people to a new technology which develops demand for other commercial players.”
Industry expert

While most of the comments made by stakeholders that relate to online innovation focused on the iPlayer (potentially as a result of its recent launch), we received some views about the BBC’s impact in the wider online market.

The BBC argued that because it spends a proportion of its online budget on new media technology from independents, it has an indirect role in developing the new media industry in the UK. The BBC described itself like a “hub” around which smaller organisations in a fragmented market can coalesce. However, one independent new media company we consulted suggested the size of the BBC posed issues for their business.

“The BBC does struggle to understand small business because the BBC is such a large organisation and you do have to spend a long time going through layers of bureaucracy.”
Online independent producer

13.5 Case-Study evidence – TV
13.5.1 Freeview
Introduction

In line with its public service remit to make its digital TV services available to as many licence fee payers as possible on a subscription-free basis, the BBC bid alongside Crown Castle for the three multiplex licences that were returned by ITV Digital when it went into administration in 2002.

The awarding of the licences to the partnership enabled it to launch Freeview, the umbrella brand for a subscription-free service offering 30 digital TV channels (and 20 radio channels) at the time of the launch. A joint venture, Digital Television Services Ltd, was formed between the BBC, Crown Castle and BSkyB, to provide technical and marketing support for Freeview.
In the final quarter of 2007, the proportion of homes in the UK with Freeview (37.4%) exceeded the proportion with a pay satellite set-top box (36.5%).

Evidence and analysis

We did not identify evidence to suggest that without the BBC, another commercial broadcaster would have stepped in to fill the gap left by ITV Digital. The NAO’s review of BBC’s investment in Freeview reported that although the take-up of digital terrestrial television (DTT) among households and the cost to the BBC of each household were important to the BBC for calculating the value for money of this investment, they were not the main objectives for the BBC investing in Freeview.

From 1998 to the end of March 2002, when ITV Digital went into administration, the BBC spent £50 million on transmitting television services on digital terrestrial. If the DTT platform had been left to fail, the BBC would not have been able to make use of what it had already invested in the technology. A commercial broadcaster without the same agenda to promote the take-up of digital television might not have the incentive or the same appetite for risk to set up a subscription-free digital terrestrial TV service, given the uncertainty of the future of the DTT platform following the collapse of ITV Digital. It is notable that BSkyB was the only commercial broadcaster willing to partake in the joint venture of the Digital Television Services Ltd.

Ofcom and the National Audit Office (NAO) both considered that the BBC played an important role in the success of Freeview:

“…the BBC contributed significantly to the quick and successful launch. Since the launch of Freeview, take-up of digital terrestrial television has significantly exceeded the BBC’s projections and this has helped make progress towards digital switchover.”

Source: “The BBC’s investment in Freeview, NAO review presented to the BBC Governors’ Audit Committee”, May 2004, by the Comptroller and Auditor General, and a response to the review from the BBC’s Board of Governors

“In digital TV, the BBC’s main overall impact has been via its involvement in Freeview. By backing and cross promoting digital terrestrial TV (‘DTT’) and enhancing its offering with attractive new services, the BBC has been central to DTT’s recent success.”

Assessment of the Market Impact of the BBC’s New Digital TV and Radio Services, Ofcom, 13 October 2004

Freeview has not only encouraged the take-up of digital TV services in the UK and therefore facilitating the precursor to formal digital switchover, its promotion of multi-channel television has also benefitted broadcasters who have launched their channels on Freeview:

“E4 has more than doubled its share of the multi-channel TV audience year-on-year this autumn following its launch on Freeview…”

Andy Duncan, Chief Executive of Chanel 4, 12 October 2005

The BBC’s digital channels are available on Freeview, digital satellite and digital cable. Although the BBC’s digital campaigns gave emphasis to Freeview in 2004, alongside references to satellite and cable, the BBC states that all platforms will be treated in a neutral way.

“…the emphasis on Freeview is a short term measure to draw attention to a ‘new service’ and that other new subscription-free services would be treated in a similar way.”

142 Digital Television Update (Q4), Ofcom.
143 “The BBC’s investment in Freeview, NAO review presented to the BBC Governors’ Audit Committee”, May 2004, by the Comptroller and Auditor General, and a response to the review from the BBC’s Board of Governor, page 21.
144 Ibid.
“The BBC’s investment in Freeview, NAO review presented to the BBC Governors’ Audit Committee”, May 2004, by the Comptroller and Auditor General, and a response to the review from the BBC’s Board of Governors

While it is possible that Freeview could have drawn subscribers away from existing pay TV services on the digital satellite and cable platforms, or discouraged consumers from subscribing to pay TV services in future, it arguably also had a positive impact on other platforms by enabling other broadcasters an additional means to reach their audience and generate further revenues. BSkyB, which offered pay TV services on its digital satellite platform, was one of the first broadcasters to join Freeview.

“… BSkyB is able to increase the awareness of the Sky brand in a wider range of households and increase its advertising revenue.”

“The BBC’s investment in Freeview, NAO review presented to the BBC Governors’ Audit Committee”, May 2004, by the Comptroller and Auditor General, and a response to the review from the BBC’s Board of Governors

The BBC has also contributed to the development of set-top box technology through a commercial venture with LSI Logic which pre-dates the collapse of OnDigital. BBC Research contributed to the development of a chipset which is now used widely used in DTT receivers. This innovation provided certain key benefits to consumers of digital terrestrial television and might have impacted businesses through either increased revenues or increased costs:

- The chipset was cheaper than the previous technological standard, which other things being equal reduced the cost of set-top box technology to consumers; and
- The chipset was of higher quality than those it replaced, being more robust to signal interference and allowing more households to receive a higher quality signal.

However, the BBC itself concedes that the chipset (or similar technology) could have been developed without its involvement. As such, the BBC’s innovation in this area may have deterred others from investing in research and development.

Conclusion

The BBC’s role in Freeview provides an example where the BBC has both developed and sustained a new platform (DTT) where otherwise such a service would potentially not have existed following the collapse of ITV Digital. If such a platform were developed by the counterfactual broadcaster, it is unlikely that it would have been able to offer in the same time frame the same opportunities to other broadcasters and content suppliers.

The BBC’s innovation in chipset technology has helped to drive down the costs of DTT receivers to consumers, thus potentially promoting uptake, although it is not clear that commercial businesses would not have the incentive to invest in cost-saving chipset technology.

13.5.2 Piero

Introduction

Piero is a live 3D graphics system that allows enhanced ‘tied-to-pitch’ graphics to be overlaid on sports coverage (e.g. graphics showing the distance between a free-kick and the goal in football, or the distance and path a rugby winger has run in order to score a try) in addition to the generation of virtual 3D reconstructions of gameplay using angles not covered by traditional cameras.

The technology was originally developed in-house by the BBC for its sports coverage, but is now commercialised by Red Bee Media (formerly BBC Broadcast).
Evidence and analysis

From its introduction in 2004, the addition of Piero to BBC Sport enhanced the production value of its output by allowing it to cover football in ways it had not previously been able to do. Subsequent to its launch, ITV acquired a licence for the technology in the UK, and it has since been licensed to broadcasters in several other countries.

In theory, technology such as Piero may enhance sports viewing such that it boosts audiences, making the content more attractive to advertisers. In all probability, however, its use will have a potentially negligible effect on audience levels, not least because audiences cannot readily substitute between the same sports output on different channels, nor between sports content and other types of content (e.g. children’s TV programming or soap operas).

While there may not be an appreciable effect on audience levels or advertising revenue for broadcasters who adopt technology such as Piero, the BBC, having adopted the technology, sets a quality benchmark which other broadcasters must meet. Therefore innovation of this sort may increase the production costs of content without a commensurate increase in revenue.

It is notable that the development of applications such as Piero by the BBC hasn’t prevented other operators from innovating. In 2001, Roke Manor Research Ltd launched the “HawkEye” application for use in cricket broadcasting. Hawkeye maps the trajectory and speed of cricket balls thus allowing a range of information to be relayed to the viewer, including whether or not ‘leg-before-wicket’ decisions are correct or not. The HawkEye technology has subsequently been modified and applied to tennis (both for broadcaster and umpire use).

Conclusion

The development of technology such as Piero enhances the consumer value of broadcaster’s output. The main impact on other broadcaster’s of this type of technological development seems to be in the leadership of innovation, which others may be able to follow, or in a quality benchmarking role.

In the counterfactual it is likely that innovation of this sort would still occur, hence the net economic impact on other businesses of this type of technology development by the BBC seems likely to be relatively small.

13.6 Case study evidence – Radio

13.6.1 DAB

Introduction

Commercial digital audio broadcasting (“DAB”) commenced broadcasting in the UK in 1999, following the first national commercial digital radio multiplex licence award by the Radio Authority in 1998. By that time, the BBC had conducted trials of DAB technology over several years.

Since then many local digital radio multiplexes have been licensed, and a second national digital radio multiplex is due to launch in the second half of 2008.

---
It is incumbent upon the BBC to promote uptake of digital radio across all potential digital platforms (i.e. DAB, DTT, Digital Satellite, and the Internet), in line with its sixth Public Purpose.

Digital radio penetration now exceeds 27%, and is forecast to reach at least 30% by the end of 2008.\textsuperscript{148} Cumulative set sales passed 7 million units in March 2008\textsuperscript{149} and DAB listening accounts for 11% of total radio listening, although the majority of this is to services that also broadcast on analogue.\textsuperscript{150}

However, the industry has expressed mixed views about the future potential of DAB. In March 2008, GCap – the then majority shareholder in Digital One, the first national digital radio multiplex – announced its intention to reduce its DAB operations, preferring to focus on an online strategy.\textsuperscript{151} GCap cited the cost pressures of distributing both digital and analogue stations as a major factor behind their decision.

Evidence and analysis

The introduction of digital radio to the UK was designed to offer additional opportunities for the commercial radio sector to compete with the BBC which had hitherto been the main player in the UK radio market – particularly at the national level, where there were only three national analogue commercial licences. DAB was expected to provide some major benefits to the commercial radio sector and associated industries including:

- Increased spectrum supply which, in theory, should provide commercial radio organisations with greater opportunity to launch commercial services (particularly at a national level, where spectrum is scarce), with the effect of increasing advertising inventory;
- Increased services which also increase content choice, which is a key driver of consumer demand (and therefore the commercial proposition of DAB);
- Superior quality - DAB is a better quality product than analogue media (e.g. reliability of signal, ease of tuning, no distortion, the potential for increased bit rate), which could contribute to increased demand;
- Increased consumer demand through marketing spend and cross-promotion which draws audiences in to all digital services, not just the BBC’s (commercial services ‘free-ride’ on BBC promotion of the platform); and
- Stimulation of new product markets - the promotion of DAB technology has stimulated DAB set manufacturing, thereby indirectly supporting industries that rely on DAB as a broadcast medium.

However, given the development of DAB in the UK, not all of the expected benefits have yet been realised for a number of inter-linked reasons. In particular:

- The ongoing research into digital radio and the development of the DAB+ standard has created significant uncertainty for commercial radio operators\textsuperscript{152}, set manufacturers, car manufacturers (in-car radio being a key addressable market), and, not least, consumers. As the government-backed Digital Radio Working Group has acknowledged\textsuperscript{153}, the development of varying digital radio standards across Europe is one obstacle to growth in digital radio set penetration in the UK. Multiple European standards may therefore have deterred investment from non-BBC commercial operators in services for the existing DAB standard;

\textsuperscript{148} RAJAR Q1 2008 and DRDB.
\textsuperscript{149} DRDB.
\textsuperscript{150} RAJAR, Q1 2008.
\textsuperscript{151} Although these plans have been put on hold pending the outcome of a potential takeover by Global Radio.
\textsuperscript{152} The BBC has been instrumental in research into advanced DAB standards which could supersede the current MPEG-2 format. DAB+ uses AAC encoding which would allow either more stations or higher quality (bitrate) broadcasting of existing stations, due to its more efficient use of spectrum.
\textsuperscript{153} Digital Radio Working Group, (2008) “Interim report for the Secretary of State for Culture, Media and Sport”.
• Related to the above, the UK’s pursuit of the DAB standard has not been mirrored elsewhere, with some countries instead opting for DAB+ as the preferred DAB standard within their digital radio strategy (e.g. Australia, France, Czech Republic, Italy, Malta)\(^\text{154}\) – thereby making standardisation of digital radio platforms across countries or regions (e.g. Europe) much more difficult. This has slowed development of chipsets which can cater for the various different digital radio standards\(^\text{155}\).

• The launch of commercial DAB services has demanded large upfront investment with little prospect of a return in its early years, and some organisations have lost money pursuing DAB ventures (e.g. closure of stations including the Jazz, OneWord and Core) – this has reduced choice on DAB platforms, thereby reducing the overall commercial proposition of the platform for other commercial operators;

• Closure of services may have longer-term effects in reducing the appetite for risk-taking behaviour in the industry in future;

• Recent announcements by GCap – the commercial radio sector’s largest investor in DAB to date – that they are reducing their commitment to DAB to the minimum necessary for renewal of their FM licences\(^\text{156}\) could make the future viability of DAB increasingly reliant on the some form of public support;

• The lack of a stated switch off date for analogue radio, creating uncertainty about the overall prospects and penetration of digital radio; and

• The BBC’s digital-only offering might have drawn audiences away from commercial analogue services, which would find it harder to generate advertising revenues as a result.

**Conclusion**

It is clear that the BBC has played a significant role in the development of the digital radio sector, from the original technical innovation to promoting uptake of the medium amongst audiences. The launch of digital radio has also provided additional spectrum capacity which commercial companies have the opportunity to use for commercial services. However, some stakeholders argued that the BBC should not have led the market towards DAB, arguing that it might be a transition technology, and others have criticised the BBC’s digital services for attracting audiences away from commercial services.

---


\(^{155}\) Although it should be noted that chipsets continue to be developed which are capable of receiving multiple standards (e.g. DAB, DAB+, DMB and DRM), all of which are variants of the Eureka 147 standard as defined by European Telecommunications Standards Institute.

\(^{156}\) Ofcom, the communications regulator, encourages DAB investment by tying FM licence renewal to DAB simulcasting.
13.7 Case study evidence – Online

13.7.1 iPlayer

Introduction

In December 2007, the BBC launched an on-demand catch-up service through bbc.co.uk called ‘iPlayer’. The service allows users to catch up on a range of BBC output with most content subject to a seven day window of availability after its initial broadcast.

iPlayer integrates an on-demand video service with the BBC’s radio player and users can choose to download programmes to their computers, or to stream them across the internet. Users in the UK do not pay anything to access the content on iPlayer. However, not all BBC content is available through iPlayer owing to rights issues.

Evidence and analysis

The rationale behind the iPlayer was to maximise the value of BBC-created or commissioned content by allowing audiences to consume more of its output across the BBC’s range of services at a time convenient for them (i.e. making the licence fee more efficient). However, there are other potential positive economic impacts from the launch of iPlayer including:

• Driving broadband internet usage – thereby promoting consumption of broadband services in addition to other internet content;

• Stimulating demand for on-demand services, thereby increasing market opportunities for other broadcasters; and

• Its launch on alternative platforms (e.g. Nintendo Wii and Virgin Media) may promote uptake of these products.

Nonetheless, there are several potential negative impacts of the BBC’s launch of a free-to-view on-demand service. These include:

• Reducing producer surplus of commercial operators by offering content at zero-cost (i.e. inducing an expectation amongst consumers that on-demand content should be delivered for free) – thereby restricting the business models available to commercial operators;

• Increasing costs of broadband provision by inducing bandwidth-intensive demand, and thereby either increasing costs to consumers of internet service provision or reducing profits of ISPs (Ofcom estimated costs (in NPV terms) of incremental broadband use from the launch of iPlayer as being up to £831m\textsuperscript{156}), or both, to some degree; and

• The progressive launch of the iPlayer on different platforms has led to a short term bias towards particular hardware/software. In terms of games consoles, the iPlayer has thus far only launched on the Nintendo Wii platform, and not rival consoles such as the Playstation 3 or XBox 360. The iPlayer is also available on Virgin Media Cable, but not on Sky Digital. In addition, the PC version of the iPlayer originally launched on Windows XP only, and was – for a time at least – not supported by the Mac, Linux and Unix operating systems.\textsuperscript{156}


\textsuperscript{156} It is our understanding that the BBC wishes to launch iPlayer on as broad a range of alternative platforms as is possible, although the ability for it to do so will be determined by consideration of reach and of the cost of providing content in the appropriate form for each potential platform. See, for example: http://www.bbc.co.uk/blogs/bbcinternet/2008/03/bbc_iplayer_on_iphone_behind_t.html or http://www.bbc.co.uk/blogs/bbcinternet/2008/04/bbc_iplayer_on_play_station_3_1.html
Conclusion

BBC iPlayer has only recently been launched and it may be too early to identify fully the impacts of the service on other businesses. The launch of iPlayer has certainly raised the profile of on-demand content which may contribute to encouraging uptake of broadband internet and use alternative broadcasters’ own on-demand services.

However, the BBC, in making such large quantities of content available at no cost to its audiences, has had potentially significant effects on the on-demand business proposition of rival commercial operators, as well as on the cost base of ISPs. In addition, the gradual approach to launching iPlayer on some platforms before others (e.g. Nintendo Wii and Virgin Media) could have short-run impacts on non-compatible platforms and that this impact may become substantial if differential platform availability persists.

13.7.2 OpenSource

Introduction

The BBC states that it is committed to a “horizontal market where many players can share the same technology for different business purposes”158 and as part of this the BBC develop some software on an open source basis, in line with the Building Public Value framework.159 The BBC’s OpenSource software is developed on a royalty/licensing free basis, albeit with certain usage conditions which accompany the software.

Examples of the BBC’s OpenSource work include the development of the Dirac and Dirac Pro video compression standards.

The OpenSource community relies on a positive network externality effect, whereby users who benefit from software contributed to the community are expected to contribute to the body of knowledge themselves (an analogy may be the online encyclopaedia ‘Wikipedia’).

Evidence and analysis

Taking Dirac as an example of the BBC’s OpenSource work, its development allows the BBC to use bandwidth more efficiently, thereby reducing the costs of making audio-visual (AV) content available to its online audiences (a direct effect for BBC audiences). However, the release of the software into the OpenSource community provides software developers external to the BBC the opportunity to develop the compression standard further. This may, in future, yield further additional benefits to the BBC (and other broadcasters of AV content) – an indirect positive effect of the BBC’s participation in the OpenSource community.

In addition, other organisations, including those operating commercially, can utilise OpenSource software to develop or enhance the offering of new technologies, for example compression of AV content for mobile phone use.

Nonetheless, as with other research and innovation activity the BBC undertakes, its development of OpenSource software may deter others from contributing as actively as might otherwise be the case and the BBC’s contribution may establish a standard that is sub-optimal for other potential users (even if it meets the BBC’s own needs). However, unlike the development of proprietary technology, the potential negative effect of the BBC’s activity in the OpenSource community is likely to be mitigated by the fact others are able to build on the BBC’s work and develop software further.

---

158 Source: “BBC Research & Innovation Annual Review, 2006/7”.
Conclusion
The BBC’s participation in the OpenSource community has the potential to yield positive benefits for both its own audiences and the licence-fee payer, but also for the wider creative industries through the feedback mechanism which characterises the community. We consider it likely that the BBC contributes more to OpenSource development than the counterfactual broadcaster probably would, since the BBC probably conducts more technological development and has a greater incentive to share developments to help develop the creative industries.

13.8 Case study evidence – Spectrum

Introduction
Few of the stakeholders we consulted referred to the BBC’s use of spectrum, except representatives from BBC, who highlighted its role in spectrum planning (e.g. for digital switch-over). Spectrum planning projects are typically collaborative, often involving Ofcom, industry bodies, and other relevant stakeholders, in addition to broadcasters. The resources and input the BBC commits to spectrum planning potentially yield positive benefits for both audiences and other broadcasters, although there is also the potential for the BBC to shape such projects to suit its own spectrum needs.

However, our main focus in this section is the BBC’s access to and use of spectrum. Use of spectrum is critical to broadcasters, both as an input to production (e.g. wireless camera and wireless microphone usage), as well as to facilitate the distribution of their services to audiences, either via analogue or digital means.

Evidence and analysis
The BBC has the largest single allocation of spectrum of any broadcaster, due in part to the fact it offers both television and radio broadcast services on a public service basis. This spectrum has historically been licensed to the BBC at zero-cost. However, some of its competitors have faced costs for the spectrum through licence fees payable to Ofcom, and other spectrum users face spectrum costs either through prices set by auction, or through other spectrum licensing arrangements. Because of the scarcity of spectrum, the opportunity cost of use of spectrum can be high.

Of course, the BBC relies on spectrum in order to fulfil its public service remit for its television and radio services. The delivery of services, such as the provision of content and the development of new platforms and associated technology (e.g. Freeview and DAB), is of (largely intangible) benefit to its audiences.

However, the BBC’s spectrum allocation and use of spectrum may also have other, potentially detrimental, impacts which include:

• The BBC’s spectrum allocation is market-distorting – very few spectrum users face zero-cost for their spectrum use;
• Because it has not had to factor its use of spectrum into its costs, the BBC has not necessarily had pressure on it to make efficient use of its spectrum allocation; and
• Related to the above, the supply of spectrum at zero-cost may have led to slower innovation in spectral efficiency than would otherwise have occurred had the BBC faced a market price for its spectrum use – for instance, research into reducing the bandwidth required for wireless cameras or trialling the use of wireless cameras using non-traditional frequencies.

The need for the BBC to consider the wider impacts of its spectrum use was highlighted by a report commissioned by the BBC Trust[161]. In the report it was highlighted that, for example, the BBC has historically focused on the quality of the Freeview platform and its robustness, rather than spectral efficiency and that this has allowed the platform to reach a critical mass for commercial sustainability.[162] However, the authors suggest that the BBC needs, in future, to take greater account of value-for-money of its spectrum use, both on a platform and service basis, particularly in light of increased demand for spectrum for new technologies and services.

It should be noted that as part of its spectrum liberalisation programme, Ofcom has adopted a market-based approach to allocation of spectrum and the BBC is not exempt from Ofcom's new spectrum licensing framework. In future, the BBC will face a cost for its spectrum use which will be set via administered incentive pricing (AIP) or through auction fees (contingent upon the BBC participating in competitive auctions). Indeed, from this year the BBC will face population-based spectrum fees for its analogue radio services for the first time in its history.[163]

It is possible that these new spectrum licensing arrangements will modify the BBC's approach to spectrum management, which may yield further positive benefits for other spectrum users (e.g. innovation in spectral efficiency).

Conclusion

Use of spectrum is vital for the BBC to be able to fulfil its public service remit, and therefore be able to deliver the many positive benefits we outline elsewhere in this report.

However, the BBC's historic allocation of spectrum at zero-cost has potentially been an obstacle to efficiency and innovation that might have occurred otherwise. In future, however, the BBC will face a cost for its spectrum use as it is not exempt from Ofcom's spectrum licensing framework.

13.9 Concluding remarks

The BBC clearly has a positive role to play in the development and adoption of new technologies. Its activities have:

• Been integral to technological innovation and the setting of standards underlying the current move towards a ‘digital Britain’;
• Helped nurture and develop new digital platforms;
• Helped drive uptake of new technologies; and
• Stimulated the development of new product lines and product markets, thereby creating commercial opportunities for other organisations.

[162] The study mainly focused on the use of spectrum for digital terrestrial television. Some analysis of the BBC’s use of spectrum for radio services was undertaken, although the BBC’s use of spectrum for Programme Making and Special Events (PMSE) fell outside the scope of the report. Therefore, the study is not a comprehensive review of the BBC’s use of spectrum.
However, the BBC’s research and innovation also has some potentially negative effects on the creative industries, namely the:

- BBC appears to be driven by how best to develop and utilise technology to meet its audiences’ needs, and thus may cause market conditioning (i.e. the BBC is able to lead the market towards certain technologies that may benefit consumers but possibly impact competitors negatively for instance if they are high cost to implement);
- Presence of the BBC in the broadcasting technology space might crowd out investment by other organisations, including other broadcasters, thereby suppressing competition in innovation; and
- BBC’s research activities might prevent lower-cost alternative technology emerging to compete as industry standard\(^{164}\).

\(^{164}\) While the counterfactual broadcaster might also introduce “suboptimal” technologies, it is unlikely to be able to steer the market, since it would have a lower share of both audiences and research capability than the BBC has.
14 Investment in specific creative activities

14.1 Introduction
All broadcasters spend in the creative economy – they purchase creative inputs such as those required for commissioned programmes, talent and rights. However, the BBC’s reach into the creative economy goes far wider and deeper than simply inputs it uses to produce its broadcasting outputs, and in this section we examine the impacts of a number of specific investments in the creative economy.

14.2 Case study evidence
14.2.1 BBC Innovation Labs
BBC Innovation Labs are five-day long residential courses held at various venues around the UK. Ten indies are selected from an application process to attend each course, and each indie puts forward a team of three participants from different creative disciplines to attend. In 2007/08, labs were held in Scotland, the North East of England and Yorkshire, North West England and Wales and the West Midlands, and were held in partnership with North West Vision, Screen Yorkshire, Codeworks (which is supported by One NorthEast), Scottish Enterprise and Creative Business Wales (a subsidiary of the Welsh Assembly Government).

During the course participants from each indie develop a format with the assistance from BBC commissioners and other mentors. They prepare a pitch supporting this format, which is then presented to BBC commissioners with the aim of winning further development funding.

Developing ideas for programme formats is risky because few ideas are developed into programme formats. Therefore, commercial broadcasters (apart from where it is part of their remit) tend to run fewer initiatives such as Innovation Labs because the return from investment does not match up to the risk associated with such an investment. Therefore, the counterfactual broadcaster would be unlikely to undertake such an activity, which would mean that fewer ideas would be developed and indies would have fewer successful concepts.

14.2.2 BBC Performing Groups
The BBC has five orchestras: the BBC Concert Orchestra, the BBC National Orchestra, the BBC Philharmonic Orchestra, the BBC Scottish Symphony Orchestra and the BBC Symphony Orchestra. Furthermore, the BBC employs the UK’s only full-time professional choir in the form of the BBC singers. Around 380 full time musicians are employed in these groups. Added to this, the BBC part-funds the Ulster Orchestra with £700,000 and helps support the Chorus of Wales and the National Symphony Chorus. In total, the BBC spent £28.4m on performing groups in 2006/07. The geographical distribution of this expenditure is shown in Figure 25.
Figure 25: Distribution of the BBC’s spend on performing groups

![Pie chart showing distribution of spend on performing groups](image)

*Source: BBC, PwC analysis*

The BBC’s spend on performing has an impact through the salaries that it pays to the musicians employed, but more widely it helps support the classical music genre that might otherwise struggle to produce new music in the UK. The exposure that classical music receives from the BBC allows it to reach a wider audience, boosting interest in the genre and sales of classical music. Many stakeholders agreed that without the BBC these orchestras would fold.

The counterfactual broadcaster would have no incentive to provide the extent of support to performing groups that the BBC provides because they are loss making. Therefore, the BBC’s spend on these performing groups has a positive net economic impact, which impacts upon the musicians and the local business which benefit from the influx of custom to the concerts of these groups, as well as the support of this specific section of the creative economy that would not (without an alternative source of funding support) otherwise exist.

### 14.2.3 Concerts and festivals

The BBC hosts or part-hosts many music events, examples of which are the BBC Proms, Radio 1’s Big Weekend (formerly One Big Weekend) and the Cambridge Folk Festival. The BBC Proms is the largest classical music concert in the world and runs for eight weeks during the summer, with most events held in London. Big Weekend is Europe’s biggest free ticketed event, mixing well known music artists with new talent.

The direct impact of these events constitutes the employment of staff to run and organise the events and any fees paid to talent for appearing at the events. The indirect impacts of these events are two-fold. The first is the spending on local goods and services by audiences. This ranges from buying food on the day to the booking of hotel rooms to the hiring of local contractors to help with the logistics of such an event. The Big Weekend events are held at locations that do not usually host music festivals, such as Dundee and Preston, which generates extra revenue for these local economies.

The second indirect impact is the exposure that is given to both new and established bands. This may have knock-on impacts for the music sales of these artists. A recording entitled ‘Last Night of the Proms’ is released on the back of the Proms each year, bringing revenues to the artists that feature.
Owing to the lack of commercial interest shown in the development of classical and folk music in the UK it is unlikely that such festivals would be sustained without the BBC. More mainstream music festivals are common, and are provided by the commercial market. Big Weekend differentiates itself by setting up in areas that do not traditionally host music festivals and could, given BBC radio’s focus on new talent, provide more exposure to new talent than other commercial festivals.

Therefore, based on the loss making nature of the festivals that the BBC hosts (due to the subsidisation of tickets for these festivals, some of which are wholly subsidised) and the new talent that is showcased at these events, we conclude that the BBC’s role in organising concerts and festivals has a positive net economic impact.

14.2.4 BBC Film

BBC Film invested £12m in the UK film industry in 2006/07, and aims to produce six to eight films a year. Recent releases from BBC Films have included The Other Boleyn Girl (starring Nathalie Portman and Scarlett Johansen), Notes on a Scandal (starring Judy Dench and Cate Blanchett) and Becoming Jane (starring Anne Hathaway and James McAvoy).

The UK film industry benefits from the funding it receives from both the BBC and Channel 4. ITV invests little in film as it has little incentive to incur similar losses to those that BBC Film makes. Therefore, the counterfactual broadcaster would likely not be involved in the UK film industry. This would cause a reduction in the size of an industry that contributed £4.3bn in UK GDP in 2006, employing around 33,500 FTE workers and attracting 1 in 10 tourists to the UK. While the BBC’s investment in film production, at £12m, is a small percentage of the sector’s total GVA, it should be noted that:

- The film industry GVA incorporates the distribution and exhibition sector for all UK-made films, whereas the BBC funding only refers to investment in film production;
- The film industry GVA figures include multiplier effects, demonstrating that an investment such as the BBC’s investment in film leads to further positive impacts; and
- The BBC’s role in film production was described as having a more important impact than just the money invested. In particular, the BBC’s involvement in a project tends to encourage investment from others – without the BBC’s partial funding the remaining funds may not be raised.

There is no specific Nations and Regions policy in BBC Film because of the small number of films that are produced each year. However, there is some benefit to the Nations and Regions from location filming. For example, the Other Boleyn Girl used locations in Somerset, Gloucestershire, Cornwall, Wiltshire, Cambridgeshire, Derbyshire and Kent during production, which has positive knock-on effects for local economies from spending that occurs during filming.

The impact of the British film industry is far reaching, impacting on everyone from actors to costume makers to local businesses in the production stage to cinemas, DVD sellers and UK exports. We are informed by the BBC that BBC Film is loss making and therefore it is unlikely that the counterfactual broadcaster would invest in this area.

---

Oxford Economics 2007, “The Economic Impact of the UK Film Industry”.
14.2.5 Languages

The BBC produces output for TV, radio and online in Gaelic, Welsh and Irish. The BBC’s role helps sustain broadcasting in these languages and creates demand for new skills and revenue generation in these nations. For the Gaelic media in particular this has created a new industry in traditionally job-poor areas such as Stornaway.

As well as continued Gaelic radio and an expanded Gaelic section on bbc.co.uk, the BBC plans to contribute £2.9m a year to the new Gaelic Digital service, which will provide 7 hours of TV per day. BBC Gaelic radio programming will make up the rest of the schedule. Of this programming, a quota of up to 50% of commissioning of independents has been set. The Ofcom Market Impact Assessment for this service noted that it expects the service to have large benefits for the Gaelic media sector, particularly because of the increase in scale and the subsequent increase in opportunities for market players.

This impact is discussed in more depth in Section 15.5 below.

14.2.6 Raising profile of the creative industries and encouraging creative skills development

The BBC carries out a large number of small initiatives designed to raise the profile of the creative industries as an industry in which to work, and to help develop creative skills. Much of this activity does not directly benefit the BBC and we would expect the quantity and scale of these initiatives to be much reduced in the counterfactual. For illustrative purposes we summarise a number of initiatives from BBC Radio in Table 24 noting that these are intended to be illustrative of the types of activities the BBC carries out and the impacts they may have.
<table>
<thead>
<tr>
<th>Initiative name</th>
<th>Description</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Radio 1 ‘One Music’ website</td>
<td>Website with virtual studio mixing and sequencer tools, ‘how to’ guides, interviews with experts, and industry careers advice.</td>
<td>Skills training for young musicians and profile-raising of the creative industries as a career option, increases the size and quality of the talent pool.</td>
</tr>
<tr>
<td>Radio 1 Big Weekend Music outreach</td>
<td>Fringe festival - four nights of off-air local music events, gigs and advice for nearly 100 bands across 7 venues, with audiences of 5000. Outreach work including DJ visits and sound technology masterclasses. Preston Council now runs an annual new music festival to further increase the profile of local music creativity, as a result of Radio 1 Big Weekend.</td>
<td>Development of musical talent pool and raising awareness of the creative industries as a career option.</td>
</tr>
<tr>
<td>Radio 1 Big Weekend Social Action outreach</td>
<td>10,000 people attended the interactive One Life tent over two days, featuring classes, workshops, local community groups and DJ question and answer sessions.</td>
<td>Development of musical talent pool and raising awareness of the creative industries as a career option.</td>
</tr>
<tr>
<td>Radio 2 Songwriting Academy</td>
<td>National competition drew 3,000 entries, which were reduced to over 60 participants across four 2-day workshops throughout the UK funded in partnership with BBC New Talent.</td>
<td>Development of songwriting talent pool.</td>
</tr>
<tr>
<td>Radio 2 ‘On Song’ songwriting festival</td>
<td>Month-long festival of concerts providing platform for up-and-coming songwriting talent. The festival included workshops, masterclasses and surgeries attended by 1,500 people.</td>
<td>Development of songwriting talent pool.</td>
</tr>
<tr>
<td>Radio 2 ‘Sold on Song’ website</td>
<td>Website providing guidance to songwriting including music business guides.</td>
<td>Development of songwriting talent pool and assistance in converting talent into a business.</td>
</tr>
<tr>
<td>Folk Virtual sessions</td>
<td>Interactive tool for audience to play along to a variety of folk tunes to improve their skill.</td>
<td>Development of UK folk music talent pool.</td>
</tr>
<tr>
<td>New Generation Artists</td>
<td>Internationally renowned programme to provide unique performance platforms for new classical and jazz artists over two years (six artists per year). It has brought many young UK artists to the attention of the international music scene. Artists gain performance experience and development across structured programme of festival appearances, work with performing groups and recordings over two years.</td>
<td>Development of UK jazz music talent pool.</td>
</tr>
<tr>
<td>BBC Proms Young Composer Labs</td>
<td>Composition competition in partnership with The Guardian for 12 – 18 year olds with winning compositions professionally played at a Proms concert. Includes an ‘Inspire’ day with workshops, talks and performances, for approx. 400 young people.</td>
<td>Development of UK classical music composition talent pool.</td>
</tr>
<tr>
<td>World Music 07</td>
<td>Downloadable World Music education materials for use as part of English for Speakers of Foreign Languages’ course.</td>
<td>Helps contribute to English language development for non-native speakers.</td>
</tr>
<tr>
<td>The Royal Tapes</td>
<td>Short drama writing competition in partnership, with 700 entries. Five free writing workshops for over 250 people across the UK. Five winning original short dramas were broadcast.</td>
<td>Development of UK drama writing talent pool.</td>
</tr>
</tbody>
</table>

Source: BBC, PwC analysis
Like other activity in this section, the counterfactual broadcaster would have little incentive to undertake the activities listed above.

14.3 Conclusion

The presence of the BBC in different areas of the creative economy helps create infrastructure to allow other creative workers and companies to benefit from. For example, the role of the BBC in provision of content in Gaelic, Welsh and English has contributed to job creation, while BBC Film provides support that helps sustain the UK film production sector which has many indirect impacts concerning revenue generation.

We acknowledge that many of these activities help fulfil the BBC’s objective of maximising public value and would generate little or no revenue if run on a commercial basis. It would be highly unlikely therefore that a counterfactual broadcaster would pursue such activities. These activities have an economic impact through spending, job and revenue creation, impacting upon economies at both a local and a national level. Therefore, we conclude that the BBC’s spend on specific creative activities has a positive impact upon the creative economy.
15 Nations and Regions

15.1 Introduction

Creative workers have higher average wages than the average wage in the UK\(^{167}\) and the creative economy tends to comprise higher skilled workers than the UK average. Furthermore, the screen industries tend to have large production costs, particularly in high end drama and film. Hence, broadcasting activity in a local economy can have large implications for the level of income and growth of that economy. Furthermore, the positioning of creative industries such as broadcasting within a local economy can improve the image of the area, making it a more desirable place to work and live. This can trigger skills immigration. The desirability of a spread of creative industries across the UK is recognised in policy literature; for instance Lord Puttnam states:

“We also need to do more to ensure that production is more widely dispersed across the UK to help encourage a diversity of opinion and experience within programme-making.”\(^{168}\)

However, Robin Foster\(^{169}\) notes that measures “…to help sustain regional production, especially for television content… will either prove to be irrelevant in future (i.e. no longer needed, because they have done their job) or difficult to sustain without the design of a new, more explicit approach, backed up with sufficient funding… Measures to support regional production – if still thought desirable – will need to be overhauled [by 2016].”

The BBC can potentially have large impacts in the Nations and Regions, and could have the dual role of both helping to address specific market failures (relating to regeneration and coordination failures in cluster formation) and contributing to regional development. In this section, we draw together some of the key conclusions from the sections above relating to the BBC’s impact in the Nations and Regions, and discuss the role that the BBC may play in regional development and cluster formation. The BBC’s allocation of its content and distribution budget is summarised in Table 25.
Table 25: Breakdown of BBC content and distribution budget in the Nations and Regions\textsuperscript{170}

<table>
<thead>
<tr>
<th>Nation</th>
<th>Type of spend</th>
<th>TV (£m)</th>
<th>Radio (£m)</th>
<th>Online (£m)</th>
<th>Total (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>BBC spend excluding external spend and overheads</td>
<td>32</td>
<td>19</td>
<td>3</td>
<td>54</td>
</tr>
<tr>
<td></td>
<td>External spend</td>
<td>37</td>
<td>0</td>
<td>0.3</td>
<td>38</td>
</tr>
<tr>
<td></td>
<td>BBC spend excluding overheads</td>
<td>69</td>
<td>20</td>
<td>3</td>
<td>92</td>
</tr>
<tr>
<td>Wales</td>
<td>BBC spend excluding external spend and overheads</td>
<td>58</td>
<td>19</td>
<td>3</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td>External spend</td>
<td>10</td>
<td>0</td>
<td>0.02</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>BBC spend excluding overheads</td>
<td>68</td>
<td>19</td>
<td>3</td>
<td>90</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>BBC spend excluding external spend and overheads</td>
<td>41</td>
<td>12</td>
<td>1</td>
<td>54</td>
</tr>
<tr>
<td></td>
<td>External spend</td>
<td>6</td>
<td>0</td>
<td>0.1</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>BBC spend excluding overheads</td>
<td>47</td>
<td>12</td>
<td>1</td>
<td>60</td>
</tr>
<tr>
<td>England</td>
<td>BBC spend excluding external spend and overheads</td>
<td>1,468</td>
<td>436</td>
<td>135</td>
<td>2,038</td>
</tr>
<tr>
<td></td>
<td>External spend</td>
<td>310</td>
<td>16</td>
<td>14</td>
<td>341</td>
</tr>
<tr>
<td></td>
<td>BBC spend excluding overheads</td>
<td>1,778</td>
<td>452</td>
<td>149</td>
<td>2,379</td>
</tr>
<tr>
<td>Total</td>
<td>BBC spend excluding external spend and overheads</td>
<td>1,599</td>
<td>486</td>
<td>141</td>
<td>2,226</td>
</tr>
<tr>
<td></td>
<td>External spend</td>
<td>364</td>
<td>17</td>
<td>14</td>
<td>395</td>
</tr>
<tr>
<td></td>
<td>BBC spend excluding overheads</td>
<td>1,962</td>
<td>503</td>
<td>156</td>
<td>2,621</td>
</tr>
</tbody>
</table>

### English region

<table>
<thead>
<tr>
<th>Region</th>
<th>Type of spend</th>
<th>TV (£m)</th>
<th>Radio (£m)</th>
<th>Online (£m)</th>
<th>Total (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>BBC spend excluding overheads</td>
<td>19</td>
<td>19</td>
<td>2</td>
<td>39</td>
</tr>
<tr>
<td>Midlands</td>
<td>BBC spend excluding overheads</td>
<td>13</td>
<td>15</td>
<td>2</td>
<td>30</td>
</tr>
<tr>
<td>South (out of London)</td>
<td>BBC spend excluding overheads</td>
<td>30</td>
<td>28</td>
<td>3</td>
<td>61</td>
</tr>
<tr>
<td>Unallocated out of London*</td>
<td>BBC spend excluding overheads</td>
<td>209</td>
<td>37</td>
<td>0</td>
<td>246</td>
</tr>
<tr>
<td>Total out of London</td>
<td>BBC spend excluding overheads</td>
<td>270</td>
<td>99</td>
<td>7</td>
<td>376</td>
</tr>
<tr>
<td>London</td>
<td>BBC spend excluding overheads</td>
<td>1,508</td>
<td>353</td>
<td>142</td>
<td>2,003</td>
</tr>
<tr>
<td>Total</td>
<td>BBC spend excluding overheads</td>
<td>1,778</td>
<td>452</td>
<td>149</td>
<td>2,379</td>
</tr>
</tbody>
</table>

Source: BBC, PwC analysis

* Unallocated by the BBC within the time available

Further to the spread of content and distribution budget presented above, the BBC has a number of initiatives to increase the share of spend in the Nations and Regions, in particular regarding BBC North and its Network Commissioning plans. We understand that, by the time the BBC’s property plans are complete, more than half of the BBC’s property estate will be outside London. The BBC intends that, by the end of the current Charter, more than half of the people working on the BBC’s UK public services will be based outside London and nearly half of all TV network commissions will be produced outside the M25\textsuperscript{171}.

### BBC North

The BBC North plans are to create a new centre in the MediaCity:UK development at Salford Quays in Greater Manchester. Five BBC London-based departments, including two TV channels and two radio stations, will move to MediaCity:UK in Salford in 2011. These are BBC Children’s (including CBBC and CBeebies); BBC Formal Learning; BBC Future Media & Technology (including Research & Development); BBC Radio 5 Live (including 5 Live Sports Extra); and BBC Sport. Radio 5 Live news programmes are included and there will be an increased national newsgathering presence with the creation of a news hub with additional correspondents.

\textsuperscript{170} Totals may not sum due to rounding.

\textsuperscript{171} http://www.bbc.co.uk/pressoffice/speeches/stories/thompson_salford.shtml
The BBC will be based in three new buildings at MediaCity:UK, a 200-acre brownfield development and the UK’s first Media City. A separate studio block also forms part of the development, although this is not solely for the use of the BBC.

The plans as of January 2008, are to move 1,620 jobs from London to Salford Quays (a further 800 posts will also move there from BBC Manchester). In terms of spend, the departments account for £225m of BBC production spend and £275m of BBC commissioning spend, although these figures are not mutually exclusive (and therefore should not be totalled or taken away from each other). Consequently, some of the production and commissioning spend will be incurred outside Salford.

15.2 Economic Value Added in the Nations and Regions

We note that a substantial proportion of the BBC’s out of London expenditure could not be allocated to a specific region. We have estimated the impact of this expenditure separately, using an average out-of-London multiplier. Important caveats to this analysis are included in Section 8 above; in addition we note that the spread of impacts across the UK will be more even than as represented here, due to the move of BBC departments to Salford\footnote{MediaCity:UK has stated that it aims to create £225m per year in net value added to the UK economy (www.mediacityuk.co.uk/northern.html). The NWDA estimates that the cluster will support up to 10,000 jobs.} and the BBC’s intention to shift more spend and production outside London in future.

GVA estimates

Below, we present our calculation of the regional value-added output and UK value-added output of the BBC’s content and distribution expenditures (i.e. excluding infrastructure and support). These estimates are broken down into estimates for individual services (TV, radio, online) in Appendix 7. Key findings in the tables below include (subject to caveats above regarding the association between budget allocations and spend; and regarding the relatively large unallocated-out-of-London budget allocation):

- The lowest estimated regional value added output (GVA) is the North East with an estimated GVA of £7m – £8m (plus a proportion of the unallocated out-of-London GVA);
- The highest estimated out of London regional GVA is the South West with an estimated GVA of £22m – £26m (plus a proportion of the unallocated out-of-London GVA); and
- Total UK-wide GVA (taking into account intra-UK spillovers) is estimated as £4.7bn – £5.1bn.

Further detail for these results is presented in Table 26, Table 27 and Table 28. As described above, we have conducted our analysis using 3 scenarios for multipliers applicable to radio expenditure:

- Scenario 1 assumes that all radio and online multipliers are equal to TV multipliers;
- Scenario 2 assumes that all radio and online multipliers are equal to 75% of TV multipliers; and
- Scenario 3 assumes that all radio and online regional multipliers are equal to 75% of TV multipliers but that national radio and online multipliers are equal to 67% of equivalent TV multipliers. This has the effect of drawing the national and regional multipliers closer together, representing the expected lower level of spillovers from each region.
### Table 26: Scenario 1 – Gross value added of BBC expenditure (£ million)

<table>
<thead>
<tr>
<th>Em</th>
<th>Allocated content and distribution budget</th>
<th>Total GVA contribution to UK economy</th>
<th>Within-region GVA contribution to regional economy*</th>
<th>GVA spillover from region to rest of UK economy*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>92</td>
<td>193</td>
<td>83</td>
<td>110</td>
</tr>
<tr>
<td>Wales</td>
<td>90</td>
<td>162</td>
<td>72</td>
<td>90</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>60</td>
<td>132</td>
<td>48</td>
<td>84</td>
</tr>
<tr>
<td>East</td>
<td>17</td>
<td>38</td>
<td>18</td>
<td>20</td>
</tr>
<tr>
<td>East Midlands</td>
<td>15</td>
<td>32</td>
<td>14</td>
<td>18</td>
</tr>
<tr>
<td>North East</td>
<td>9</td>
<td>16</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>North West</td>
<td>15</td>
<td>29</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>South East</td>
<td>16</td>
<td>31</td>
<td>17</td>
<td>14</td>
</tr>
<tr>
<td>South West</td>
<td>28</td>
<td>62</td>
<td>26</td>
<td>37</td>
</tr>
<tr>
<td>West Midlands</td>
<td>15</td>
<td>29</td>
<td>13</td>
<td>16</td>
</tr>
<tr>
<td>Yorkshire &amp; Humberside</td>
<td>16</td>
<td>38</td>
<td>14</td>
<td>24</td>
</tr>
<tr>
<td>Unallocated outside London</td>
<td>246</td>
<td>512</td>
<td>228</td>
<td>284</td>
</tr>
<tr>
<td>London</td>
<td>2,003</td>
<td>3,806</td>
<td>2,203</td>
<td>1,603</td>
</tr>
<tr>
<td><strong>Total out of London</strong></td>
<td><strong>618</strong></td>
<td><strong>1,275</strong></td>
<td><strong>556</strong></td>
<td><strong>720</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,621</strong></td>
<td><strong>5,081</strong></td>
<td><strong>2,759</strong></td>
<td><strong>2,322</strong></td>
</tr>
</tbody>
</table>

Source: PwC analysis

*We understand that budget allocation figures tend to overstate the concentration of spend and hence GVA in London.

### Table 27: Scenario 2 – Gross value added of BBC expenditure (£ million)

<table>
<thead>
<tr>
<th>Em</th>
<th>Allocated content and distribution budget</th>
<th>Total GVA contribution to UK economy</th>
<th>Within-region GVA contribution to regional economy*</th>
<th>GVA spillover from region to rest of UK economy*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>92</td>
<td>181</td>
<td>78</td>
<td>104</td>
</tr>
<tr>
<td>Wales</td>
<td>90</td>
<td>152</td>
<td>68</td>
<td>85</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>60</td>
<td>125</td>
<td>45</td>
<td>80</td>
</tr>
<tr>
<td>East</td>
<td>17</td>
<td>32</td>
<td>15</td>
<td>17</td>
</tr>
<tr>
<td>East Midlands</td>
<td>15</td>
<td>28</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td>North East</td>
<td>9</td>
<td>14</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>North West</td>
<td>15</td>
<td>25</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>South East</td>
<td>16</td>
<td>28</td>
<td>15</td>
<td>13</td>
</tr>
<tr>
<td>South West</td>
<td>28</td>
<td>55</td>
<td>22</td>
<td>32</td>
</tr>
<tr>
<td>West Midlands</td>
<td>15</td>
<td>25</td>
<td>11</td>
<td>14</td>
</tr>
<tr>
<td>Yorkshire &amp; Humberside</td>
<td>16</td>
<td>33</td>
<td>12</td>
<td>21</td>
</tr>
<tr>
<td>Unallocated outside London</td>
<td>246</td>
<td>493</td>
<td>220</td>
<td>273</td>
</tr>
<tr>
<td>London</td>
<td>2,003</td>
<td>3,571</td>
<td>2,067</td>
<td>1,503</td>
</tr>
<tr>
<td><strong>Total out of London</strong></td>
<td><strong>618</strong></td>
<td><strong>1,191</strong></td>
<td><strong>518</strong></td>
<td><strong>672</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,621</strong></td>
<td><strong>4,761</strong></td>
<td><strong>2,586</strong></td>
<td><strong>2,176</strong></td>
</tr>
</tbody>
</table>

Source: PwC analysis

*We understand that budget allocation figures tend to overstate the concentration of spend and hence GVA in London.
Table 28: Scenario 3 – Gross value added of BBC expenditure (£ million)

<table>
<thead>
<tr>
<th>Em</th>
<th>Allocated content and distribution budget</th>
<th>Total GVA contribution to UK economy</th>
<th>Within-region GVA contribution to regional economy*</th>
<th>GVA spillover from region to rest of UK economy*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>92</td>
<td>177</td>
<td>78</td>
<td>100</td>
</tr>
<tr>
<td>Wales</td>
<td>90</td>
<td>149</td>
<td>68</td>
<td>81</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>60</td>
<td>123</td>
<td>45</td>
<td>77</td>
</tr>
<tr>
<td>East</td>
<td>17</td>
<td>30</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>East Midlands</td>
<td>15</td>
<td>26</td>
<td>12</td>
<td>14</td>
</tr>
<tr>
<td>North East</td>
<td>9</td>
<td>14</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>North West</td>
<td>15</td>
<td>24</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>South East</td>
<td>16</td>
<td>27</td>
<td>15</td>
<td>12</td>
</tr>
<tr>
<td>South West</td>
<td>28</td>
<td>52</td>
<td>22</td>
<td>30</td>
</tr>
<tr>
<td>West Midlands</td>
<td>15</td>
<td>23</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>Yorkshire &amp; Humberside</td>
<td>16</td>
<td>31</td>
<td>12</td>
<td>19</td>
</tr>
<tr>
<td>Unallocated outside London</td>
<td>246</td>
<td>487</td>
<td>220</td>
<td>267</td>
</tr>
<tr>
<td>London</td>
<td>2,003</td>
<td>3,495</td>
<td>2,067</td>
<td>1,428</td>
</tr>
<tr>
<td><strong>Total out of London</strong></td>
<td><strong>618</strong></td>
<td><strong>1,163</strong></td>
<td><strong>518</strong></td>
<td><strong>645</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,621</strong></td>
<td><strong>4,659</strong></td>
<td><strong>2,586</strong></td>
<td><strong>2,073</strong></td>
</tr>
</tbody>
</table>

Source: PwC analysis

*We understand that budget allocation figures tend to overstate the concentration of spend and hence GVA in London.

The breakdown of the regional GVA is further described in Figure 26 and Figure 27 below.

Figure 26: London and out of London regional GVA*

Source: PwC analysis

*We understand that budget allocation figures tend to overstate the concentration of spend and hence GVA in London.
15.2.1 Gross value added of the counterfactual broadcaster

We estimated the expenditure of the counterfactual broadcaster, as outlined in Section 6 and as summarised in Table 29. We note that a large proportion of BBC spend outside London is unallocated across the Nations and Regions. This implies that we will not be able to estimate net value-added of the BBC on an individual region-by-region basis.

We have estimated four scenarios for the regional location of the counterfactual broadcaster’s spend, based on plausible assumptions for possible expenditure in the Nations and Regions:

- Scenario A assumes that the counterfactual broadcaster has the same pattern of spend across nations/regions as the BBC, but reduced pro rata for each service according to its reduced expenditure in the Nations and Regions;
- Scenario B assumes that the counterfactual broadcaster’s expenditure in the Nations and Regions is limited to 3 clusters, and the impact of local provision of local radio. We have used an estimate of £500k for the spend associated with one local radio station, based upon data from commercial broadcasters\(^\text{173}\) and have chosen, for illustrative purposes, Bristol, Cardiff and Glasgow as the three areas of further expenditure by the counterfactual broadcaster;
- Scenario C assumes the same three areas of cluster expenditure as in Scenario B, but assumes no local radio expenditure. This expenditure is assumed to revert to London; and
- Scenario D assumes that all Nations and Regions expenditure is concentrated in one area, for which we have chosen (for illustrative purposes) as the North West. Local radio expenditure is assumed to be zero in this example.

\(^{173}\) For example, The Local Radio Company plc reported a turnover of c. £118m in 2007, from c.35 local radio stations.
Online expenditure outside London is pro rated in Scenario A and assumed to equal zero in other scenarios. The assumed distribution of total spend is described in Table 29 below.

Table 29: Scenarios for regional distribution of counterfactual broadcaster expenditure

<table>
<thead>
<tr>
<th>Region</th>
<th>Scenario A</th>
<th>Scenario B</th>
<th>Scenario C</th>
<th>Scenario D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>19</td>
<td>29</td>
<td>28</td>
<td>0</td>
</tr>
<tr>
<td>Wales</td>
<td>18</td>
<td>29</td>
<td>28</td>
<td>0</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>12</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>East</td>
<td>3</td>
<td>3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>East Midlands</td>
<td>3</td>
<td>3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>North East</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>North West</td>
<td>3</td>
<td>2</td>
<td>0</td>
<td>86</td>
</tr>
<tr>
<td>South East</td>
<td>3</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>South West</td>
<td>6</td>
<td>33</td>
<td>29</td>
<td>0</td>
</tr>
<tr>
<td>West Midlands</td>
<td>3</td>
<td>3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Yorkshire &amp; Humberside</td>
<td>3</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Unallocated out-of-London</td>
<td>51</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total out-of-London</strong></td>
<td><strong>126</strong></td>
<td><strong>108</strong></td>
<td><strong>86</strong></td>
<td><strong>86</strong></td>
</tr>
<tr>
<td>London</td>
<td>987</td>
<td>1,005</td>
<td>1,027</td>
<td>1,027</td>
</tr>
<tr>
<td><strong>UK</strong></td>
<td><strong>1,113</strong></td>
<td><strong>1,113</strong></td>
<td><strong>1,113</strong></td>
<td><strong>1,113</strong></td>
</tr>
</tbody>
</table>

Source: PwC analysis

Using the same method as described above, we estimated GVA (at both regional and UK levels) for the counterfactual broadcaster. We use these estimates below to calculate the net value added of the BBC.

**15.2.2 Net value added of the BBC**

The net value added of the BBC is estimated as the difference between the GVA of the BBC and of the counterfactual broadcaster. Combining multiplier estimate Scenarios 1, 2 and 3 and location of spend Scenarios A, B, C and D gives 12 scenarios. The estimated net value added of the BBC for each of these scenarios is presented in Appendix 7.

Key findings from our analysis of the 12 scenarios include the following:

- The maximum net impact (from these scenarios) on total value added in the UK is £2,958bn and the minimum is £2,683bn. Hence, we estimate the total UK-wide net impact of the BBC against the counterfactual outlined in Section 6 as in the range £2.7bn to £3.0bn.

- It is notable that in some scenarios, the BBC is estimated to have a negative value added impact in the North West. This results from the assumption in these scenarios that the counterfactual broadcaster would concentrate all of its out of London spend in the North West. For these scenarios, the net impact equals the gross impact for all regions excluding the North West and London. The finding that BBC net value added might be negative in some regions generates two conclusions:
  - The specific region-by-region estimates of the net value added by the BBC are driven mostly by the assumed regional spread of spending of the counterfactual broadcaster, which is inherently unknown; and

---

174 The total expenditure on creative activities (£1,113) is calculated by subtracting an estimated figure for overheads and infrastructure (based on the BBC’s infrastructure costs) from the estimated counterfactual broadcaster revenues.
One of the major positive impacts of the BBC in the Nations and Regions appears to be that it spreads its out-of-London spending relatively evenly across Nations and Regions, as compared to a counterfactual that might try to concentrate spending in a few areas. The estimated regional impacts are however sensitive to changes in assumptions regarding counterfactual location, activities and spend.

Here, we present results for 2 selected scenarios for further analysis, corresponding to the scenario with minimum out-of-London net value added (Scenario 2A) and the scenario with maximum out-of-London net value added (Scenario 1D).

The gross value added of the BBC (across 3 multiplier scenarios) and the counterfactual in the two selected scenarios is further described in Figure 28.

Figure 28: Selected scenarios comparison of BBC and counterfactual UK GVA

![Figure 28: Selected scenarios comparison of BBC and counterfactual UK GVA](image)

Source: PwC analysis

The key finding to emerge from this assessment is that the total net impact of the BBC is relatively consistent across scenarios used regarding multipliers and the counterfactual broadcaster’s out of London expenditure. We do not present the net value-added impact on a region-by-region basis, since the estimates would be strongly driven by our assumptions over location of out-of-M25 spend and because of the uncertainty surrounding the location of the BBC’s “unallocated out of London” spend.

15.2.3 Net employment impact from multiplier analysis

Using the same method as for the GVA multipliers, it is possible to estimate the employment impact associated with the GVA estimates (excluding spillovers) of the BBC.

Our estimates of the total employment supported by the BBC’s activity are described in Table 30, Table 31, Table 32 and Table 33 for the regional and UK-wide impacts respectively, for Scenario 2A and Scenario 1B, as discussed above.
Table 30: Illustrative net regional employment supported by BBC (Scenario 2A)*

<table>
<thead>
<tr>
<th>Region</th>
<th>Regional employment supported by BBC (Scenario 2)</th>
<th>Regional employment supported by counterfactual broadcaster (Scenario 2A)</th>
<th>Net regional employment supported by BBC (Scenario 2A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Out of London</td>
<td>12,063</td>
<td>2,464</td>
<td>9,599</td>
</tr>
<tr>
<td>London</td>
<td>28,190</td>
<td>13,985</td>
<td>14,205</td>
</tr>
<tr>
<td>UK</td>
<td>40,253</td>
<td>16,449</td>
<td>23,804</td>
</tr>
</tbody>
</table>

Source: PwC analysis
*We understand that BBC budget allocation figures tend to overstate the concentration of spend and hence employment in London.

Table 31: Illustrative net UK employment supported by BBC (Scenario 2A)*

<table>
<thead>
<tr>
<th>Region</th>
<th>UK employment supported by BBC (Scenario 2)</th>
<th>UK employment supported by counterfactual broadcaster (Scenario 2A)</th>
<th>Net UK employment supported by BBC (Scenario 2A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Out of London</td>
<td>15,273</td>
<td>3,104</td>
<td>12,169</td>
</tr>
<tr>
<td>London</td>
<td>37,954</td>
<td>18,709</td>
<td>19,245</td>
</tr>
<tr>
<td>UK</td>
<td>53,227</td>
<td>21,813</td>
<td>31,414</td>
</tr>
</tbody>
</table>

Source: PwC analysis
*We understand that BBC budget allocation figures tend to overstate the concentration of spend and hence employment in London.

Table 32: Illustrative net regional employment supported by BBC (Scenario 1D)*

<table>
<thead>
<tr>
<th>Region</th>
<th>Regional employment supported by BBC (Scenario 1)</th>
<th>Regional employment supported by counterfactual broadcaster (Scenario 1D)</th>
<th>Net regional employment supported by BBC (Scenario 1D)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Out of London</td>
<td>12,948</td>
<td>1,638</td>
<td>11,310</td>
</tr>
<tr>
<td>London</td>
<td>30,047</td>
<td>15,402</td>
<td>14,645</td>
</tr>
<tr>
<td>UK</td>
<td>42,995</td>
<td>17,040</td>
<td>25,955</td>
</tr>
</tbody>
</table>

Source: PwC analysis
*We understand that BBC budget allocation figures tend to overstate the concentration of spend and hence employment in London.

Table 33: Illustrative net UK employment supported by BBC (Scenario 1D)*

<table>
<thead>
<tr>
<th>Region</th>
<th>UK employment supported by BBC (Scenario 1)</th>
<th>UK employment supported by counterfactual broadcaster (Scenario 1D)</th>
<th>Net UK employment supported by BBC (Scenario 1D)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Out of London</td>
<td>31,600</td>
<td>3,621</td>
<td>27,979</td>
</tr>
<tr>
<td>London</td>
<td>72,113</td>
<td>36,964</td>
<td>35,148</td>
</tr>
<tr>
<td>UK</td>
<td>103,713</td>
<td>40,585</td>
<td>63,128</td>
</tr>
</tbody>
</table>

Source: PwC analysis
*We understand that BBC budget allocation figures tend to overstate the concentration of spend and hence employment in London.
Hence, we estimate that the gross employment impact of the BBC lies in the range of approximately 53 thousand to 104 thousand employees across the UK, which translates into an approximate net impact range of 31 thousand to 63 thousand employees. It is notable that the majority of the gross impact is supported by indirect and induced effects, since (according to data received from the BBC), the direct (gross) employment of the BBC in the year to 31 March 2007 was just under 18 thousand.

15.2.4 Concluding remarks regarding the economic multiplier impact

Key qualitative findings from our analysis include the following:

- One of the major positive impacts of the BBC for the Nations and Regions appears to be that it spreads its out of London spending relatively evenly across Nations and Regions, as compared to a counterfactual that might try to concentrate spending in a few areas; and
- The total net impact of the BBC is relatively consistent across scenarios used regarding multipliers and the counterfactual broadcaster’s out of London spend.

To investigate this impact further, particularly on a region-by-region basis, would require further information on BBC expenditure. In particular, it would require full information on spending split by nation and region, which the BBC was unable to provide us with.

Combining this multiplier analysis with the estimated gross value added by the counterfactual broadcaster gives an estimate of the “net value added” by the BBC, relative to the counterfactual broadcaster. We do not present estimates of the net impact vs. the counterfactual on a region-by-region basis, because of the unknown location of the BBC’s “unallocated out-of-London” spend and because the estimates would be strongly driven by assumptions over the location of the counterfactual broadcaster’s out of London spending. However, we estimate that the out of London regional net value added impact of the BBC, versus the counterfactual broadcaster, lies in the range £412m to £481m per annum (not including spillover impacts between regions).

15.3 Independent producers

We estimated that the BBC has a positive direct impact on indies in the Nations and Regions in Section 11, with a net impact of commissioning from independents of £179.7m (this is a subset of the impacts identified in Section 15.2 above), calculated as the difference between our estimates of BBC spend on indie commissioning and the counterfactual broadcaster’s spend on indie commissioning in each region.\(^{166}\)

15.3.1 TV

BBC expenditure

According to data provided by the BBC, it spent £364.5m\(^{175}\) on the commissioning of programmes from 270 UK TV indies in 2006/07.\(^{176}\) 85.2% of this was spent in England (£310.5m), while Scottish indies received 10.2% (£37.2m). 3.0% (£10.8m) was spent on Welsh independent production and 1.6% (£5.8m) was spent on commissioning from indies in Northern Ireland. Of the £310.5m spent on commissioning from indies in England, 71.4% was spent in London, 20.0% was spent in the North of England, 7.9% was spent in the South of England and 0.7% was spent in the Midlands. The breakdown of expenditure is displayed in Figure 29.

\(^{166}\) Regional spend is allocated to where the substantive base of the indie is (unless the indie is London based but the programme still qualifies as a regional production under the Ofcom definitions - in which case it is allocated to the region where most of the spend is).

\(^{175}\) Data compiled for us by the BBC reports that it spent £383.6m on independent productions in 2006/07, of which £19.1m was on commissioning from non-UK indies.

\(^{176}\) Broadcasted programmes only. Excludes news and sport.
Figure 29: BBC TV expenditure on independent productions 2006/07

<table>
<thead>
<tr>
<th>Total PSB Spend</th>
<th>Total TV Content Spend</th>
<th>Total Indie Spend</th>
<th>Out of M25 Indie Spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>£3,316m</td>
<td>£1,836m</td>
<td>£364.5m</td>
<td>£142.7m</td>
</tr>
</tbody>
</table>

Source: BBC, PwC analysis

The geographical distribution of this spend is further broken down as demonstrated in Figure 30 and Table 34 below.

Figure 30: Geographical distribution of BBC expenditure on TV independent commissioning 2006/07

Source: BBC, PwC analysis
Table 34: Estimated total expenditure on TV independent commissioning 2006/07

<table>
<thead>
<tr>
<th>Nation/Region</th>
<th>Regions included</th>
<th>Expenditure £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>Scotland</td>
<td>37.2</td>
</tr>
<tr>
<td>Wales</td>
<td>Wales</td>
<td>10.1</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>Northern Ireland</td>
<td>5.8</td>
</tr>
<tr>
<td>Northern England</td>
<td>North East, North West,</td>
<td>61.9</td>
</tr>
<tr>
<td></td>
<td>Yorkshire &amp; Humberside</td>
<td></td>
</tr>
<tr>
<td>Midlands</td>
<td>East Midlands, West Midlands</td>
<td>2.1</td>
</tr>
<tr>
<td>Southern England (excluding London)</td>
<td>East, South East, South West</td>
<td>24.7</td>
</tr>
<tr>
<td>London</td>
<td>London</td>
<td>221.7</td>
</tr>
<tr>
<td>Total outside London</td>
<td>All except London</td>
<td>141.8</td>
</tr>
<tr>
<td>Total</td>
<td>All</td>
<td>363.5</td>
</tr>
</tbody>
</table>

Source: PwC analysis

Counterfactual expenditure

As estimated in Section 11 above, we estimate that the counterfactual broadcaster would spend £208.5m on commissioning of independent production for TV.

We further assume that the counterfactual broadcaster would have to adhere to the quota setting 10% of production expenditure outside of the M25, as per the current Channel 5 licence requirement. Multiplying total expenditure by 10% gives an out-of-London spend of £73.2m. For simplicity, we make the assumption that the 10% quota is applied to both in-house and external (i.e. indies) commissioning, hence estimate the counterfactual broadcaster’s out-of London spend on indie commissioning as £20.9m. These calculations are summarised in Figure 31.

Figure 31: Estimated counterfactual TV expenditure 2006/07

Source: PwC analysis
Net expenditure

**Figure 32: Estimated BBC TV net expenditure versus the counterfactual on indie commissioning 2006/07**

![Diagram showing net expenditure](image)

Source: PwC analysis

Across the Nations and Regions, this impact is broken down as shown in Figure 33 and Table 35 below\(^{178}\).

---

\(^{178}\) This breakdown has been assigned pro-rata to the distribution of current BBC expenditure.
15.3.2 Radio

BBC expenditure

The BBC spent £16.7m on content commissioned from radio indies in 2006/07. Similarly to TV, the majority of this was spent in England (£16.3m), while Scottish indies received £0.3m and £0.1m was spent on Welsh independent commissioning of radio content. There was no spending on independent content for radio in Northern Ireland.

All BBC commissioning from radio indies in Wales and Scotland was for music related programming. This was also the most popular externally commissioned genre in England, with a BBC expenditure of £5.4m (32%). Factual was second with an expenditure of £3.4m (20%), £2.2m (13%) was spent on sport and £1.9m (11%) was spent on the external commissioning of entertainment content for radio.
In the regions, music related programming from radio indies constituted the largest proportion of independent commissioning expenditure, at £2.4m (14%). The majority of this (£1.4m) was spent in the North West. Factual and drama were the other genres on which the BBC commissioned substantial amounts of radio indie content, at £1.2m each (spread across multiple regions).

**Figure 34: BBC radio expenditure 2006/07**

<table>
<thead>
<tr>
<th>Total PSB Spend</th>
<th>Total Radio Content Spend</th>
<th>Total Indie Spend</th>
<th>Out of M25 Indie Spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>£3,316m</td>
<td>£432.6m</td>
<td>£16.7m</td>
<td>£5.7m</td>
</tr>
</tbody>
</table>

Source: BBC, PwC analysis

The geographical distribution of this expenditure is further broken down as demonstrated in Figure 35 and Table 36 below.

**Figure 35: Geographical distribution of BBC expenditure on radio independent commissioning 2006/07**

Source: BBC, PwC analysis
Table 36: Estimated total expenditure on radio independent commissioning 2006/07

<table>
<thead>
<tr>
<th>Nation/Region</th>
<th>Regions included</th>
<th>Expenditure £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>Scotland</td>
<td>0.3</td>
</tr>
<tr>
<td>Wales</td>
<td>Wales</td>
<td>0.1</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>Northern Ireland</td>
<td>0.0</td>
</tr>
<tr>
<td>Northern England</td>
<td>North East, North West,</td>
<td>2.2</td>
</tr>
<tr>
<td></td>
<td>Yorkshire &amp; Humberside</td>
<td></td>
</tr>
<tr>
<td>Midlands</td>
<td>East Midlands, West Midlands</td>
<td>0.6</td>
</tr>
<tr>
<td>Southern England (excluding London)</td>
<td>East, South East, South West</td>
<td>2.5</td>
</tr>
<tr>
<td>London</td>
<td>London</td>
<td>11.0</td>
</tr>
<tr>
<td>Total outside London</td>
<td>All except London</td>
<td>5.7</td>
</tr>
<tr>
<td>Total</td>
<td>All</td>
<td>16.7</td>
</tr>
</tbody>
</table>

Source: PwC analysis

Counterfactual expenditure

We understand from our stakeholder interviews that expenditure by the commercial sector on content commissioned from radio indies[^176] is negligible, and hence as in Section 11 we assume that all gross spending by the BBC equates to net spending.

Net expenditure

Based on the above we estimate the net impact of the BBC’s indie expenditure (equal to its gross expenditure) is £16.7m, with £5.7m of this impacting outside the M25. The breakdown of this impact is shown in Table 36.

15.3.3 Online

BBC expenditure

Spending on external online commissioning by the BBC amounted to £14.5m in 2006/07. Most, (£14.1m) was spent in England (97.5%). Of the expenditure in England, £10.4m (74%) was spent in London.

Figure 36: BBC expenditure on online independent commissioning 2006/07

Source: BBC, PwC analysis

The geographical distribution of this expenditure is shown in Figure 37 and Table 37 below.

[^176]: Indeed, looking at the websites of radio indies Smooth Operations, Whistledown Productions, Somethin’ Else, Above the Title, Soundscape Productions and Falling Tree Productions, almost all, if not all, of the previous radio productions and working progress productions listed have been commissioned by the BBC.
Figure 37: Geographical distribution of BBC expenditure on online independent commissioning 2006/07

Source: BBC, PwC analysis

Table 37: Estimated total expenditure on online independent commissioning 2006/07

<table>
<thead>
<tr>
<th>Nation/Region</th>
<th>Regions included</th>
<th>Expenditure £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>Scotland</td>
<td>0.3</td>
</tr>
<tr>
<td>Wales</td>
<td>Wales</td>
<td>0.02</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>Northern Ireland</td>
<td>0.06</td>
</tr>
<tr>
<td>English regions (excluding London)</td>
<td>North East, North West, Yorkshire &amp; Humberside, East Midlands, West Midlands, East, South East, South West</td>
<td>3.7</td>
</tr>
<tr>
<td>London</td>
<td>London</td>
<td>10.4</td>
</tr>
<tr>
<td>Total outside London</td>
<td>All except London</td>
<td>4.1</td>
</tr>
<tr>
<td>Total</td>
<td>All</td>
<td>14.5</td>
</tr>
</tbody>
</table>

Source: PwC analysis

Counterfactual expenditure

We consider it unlikely that the commercial counterfactual would be set a similar quota to the BBC’s quota for the use of online indies for bbc.co.uk. However, it is also unlikely that the counterfactual broadcaster would have all the required technical expertise to supply all online content itself.

We do not have access to spending data on total content or independent commissioning of any of the BBC’s commercial competitors. Therefore, we take the percentage of ITV’s spend relative to revenues for TV once again for our estimate of the counterfactual broadcaster’s total online spend and the BBC ratio of online independent commissioning to overall online spend (9.4%) as the assumed spend on online indies by the counterfactual. All percentages give upper bound estimates. This gives an estimate of the upper bound of the counterfactual broadcaster’s spend on online independent commissioning equal to £5.8m, £8.7m less than the BBC’s spend.
Upper bound estimates are also applied to the spend of the counterfactual on indies outside of London, using the ratio of BBC spend on indies outside of London to total indie spend (26%). We assume that there is no in-house out of London spend as we assume that the counterfactual has no incentive to produce its own website content out of London.

**Figure 38: Counterfactual online expenditure 2006/07**

<table>
<thead>
<tr>
<th>Total Revenue</th>
<th>Total Content Spend</th>
<th>Total Indie Spend</th>
<th>Out of M25 Indie Spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>£62m</td>
<td>*67%</td>
<td>£41.5m</td>
<td>*9.4%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>£5.8m</td>
<td>*26%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>£1.5m</td>
</tr>
</tbody>
</table>

Source: PwC analysis

These figures are upper bound estimates because we assume that (unlike the BBC) the counterfactual broadcaster would not commission content in learning, for example, preferring cheaper, mainstream content.

**Net expenditure**

The estimated net expenditure on online indie commissions, calculated as for TV, is presented in Figure 39 below.

**Figure 39: BBC net expenditure versus the counterfactual broadcaster on online indie commissioning 2006/07**

Source: PwC analysis

The estimated spread of this net spend is shown in Figure 40 and Table 38 below. In line with the spending pattern of the BBC in this area, the majority of this net spend is concentrated in London.
Figure 40: Estimated geographical distribution of BBC net expenditure versus the counterfactual broadcaster on online independent commissioning 2006/07

Source: PwC analysis

Table 38: Estimated net expenditure on online independent commissioning 2006/07

<table>
<thead>
<tr>
<th>Nation/Region</th>
<th>Regions included</th>
<th>Net expenditure £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>Scotland</td>
<td>0.19</td>
</tr>
<tr>
<td>Wales</td>
<td>Wales</td>
<td>0.01</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>Northern Ireland</td>
<td>0.04</td>
</tr>
<tr>
<td>English regions (excluding London)</td>
<td>North East, North West, Yorkshire &amp; Humberside, East Midlands, West Midlands, East, South East, South West</td>
<td>2.34</td>
</tr>
<tr>
<td>London</td>
<td>London</td>
<td>6.1</td>
</tr>
<tr>
<td>Total outside London</td>
<td>All except London</td>
<td>2.6</td>
</tr>
<tr>
<td>Total</td>
<td>All</td>
<td>8.7</td>
</tr>
</tbody>
</table>

Source: PwC analysis

15.3.4 Net impact across services

The geographical distribution of the BBC’s total estimated net spend on indies is shown in Figure 41 and Table 39 below. The majority of this net spend (73.54%) is spent in England, and of this the north of England receives the highest proportion (43.3%).

---

These figures do not include the estimated net £2.2m spend outside of London in England. Due to the nature of the data provided by the BBC it was not possible to provide a further breakdown of this spend.
**Figure 41: Estimated geographical distribution of BBC net expenditure on total independent commissioning**

Source: BBC, PwC analysis

**Table 39: Estimated total net expenditure on TV, radio and online independent commissioning 2006/07**

<table>
<thead>
<tr>
<th>Nation/Region</th>
<th>Regions included</th>
<th>Net expenditure £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>Scotland</td>
<td>32.3</td>
</tr>
<tr>
<td>Wales</td>
<td>Wales</td>
<td>9.3</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>Northern Ireland</td>
<td>5.0</td>
</tr>
<tr>
<td>Northern England</td>
<td>North East, North West, Yorkshire &amp; Humberside</td>
<td>55.1</td>
</tr>
<tr>
<td>Midlands</td>
<td>East Midlands, West Midlands</td>
<td>2.4</td>
</tr>
<tr>
<td>Southern England (excluding London)</td>
<td>East, South East, South West</td>
<td>23.6</td>
</tr>
<tr>
<td>Unallocated outside London*</td>
<td>-</td>
<td>2.2</td>
</tr>
<tr>
<td>London</td>
<td>London</td>
<td>51.1</td>
</tr>
<tr>
<td><strong>Total outside London</strong></td>
<td>All except London</td>
<td><strong>129.9</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>All</td>
<td><strong>181.0</strong></td>
</tr>
</tbody>
</table>

*Unallocated within the time available.

The total net expenditure on indies in and out of London is shown in Figure 42 below\(^{181}\).

\(^{181}\) This figure does not include the estimated net £2.2m online indie commissioning spend outside of London in England. Due to the nature of the data provided by the BBC it was not possible to provide a further breakdown of this spend.
As can be seen from Figure 42, we estimate that, in the counterfactual, indies that are located out of the M25 would be most-affected, losing 83% of their revenues that they currently receive from the BBC. This would have negative implications for the economies of the Nations and Regions.

15.4 Training and Talent
15.4.1 BBC training in the Nations and Regions

Stakeholder views
The BBC’s investment in training of its own personnel has a direct impact upon the rest of the creative economy only if these people then leave the BBC. However, it was claimed that the movement of workers from the BBC to other firms in the industry in the Nations and Regions was “very rarely the case, due to the job stability and remuneration offered by the BBC” and that with Northern Ireland a case in point “the BBC does not result in significant linkages within the Northern Irish economy at present”. Another stakeholder commented that “the BBC acts in an almost totally ‘in-house’ capacity. Therefore BBC staff have little connectivity to the UK independent production market until they are made redundant”.

If labour turnover in the BBC is small, its presence may still have a benefit by attracting commercial companies and skilled labour to a region. One stakeholder noted that the presence of the BBC creates talent pools in broadcasting-related skills, partly because of the training that the BBC offers. This has positive implications for the local economy. However, it was also noted that it is very difficult to recruit these skills in areas that the BBC does not have a large presence.

“If you are not in a favoured region it is difficult to recruit people who have had the required training as there is no talent pool and there is talent migration due to a lack of activity.”

Industry stakeholder
Evidence and analysis

Of BBC staff that received training in 2005/06, the majority are now (as of March 2008) based in London (63%). 12% are based in the nations (Scotland, Wales and Northern Ireland), 23% are based in the regions and the remaining 2% are located outside of the UK or have no fixed base (see Table 40 below). The distribution of staff trained in 2006/07 is very similar.

**Table 40: Distribution of BBC workers trained in 2005/06 (%)**

<table>
<thead>
<tr>
<th>Nation/Region</th>
<th>Regions included</th>
<th>% workers trained in 2005/06 based in each region (as of March 2008)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>Scotland</td>
<td>4.3%</td>
</tr>
<tr>
<td>Wales</td>
<td>Wales</td>
<td>4.6%</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>Northern Ireland</td>
<td>3.3%</td>
</tr>
<tr>
<td>English regions (excluding London)</td>
<td>North East, North West, Yorkshire &amp; Humberside, East Midlands, West Midlands, East, South East, South West</td>
<td>23.7%</td>
</tr>
<tr>
<td>London</td>
<td>London</td>
<td>64.0%</td>
</tr>
<tr>
<td><strong>Total outside London</strong></td>
<td>All except London</td>
<td>35.9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>All</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: PwC analysis

*Totals may not sum due to rounding.

The turnover of staff in the Nations and Regions in the year to March 2007 is presented in Table 41.

**Table 41: Staff turnover in the Nations and Regions**

<table>
<thead>
<tr>
<th>Nation/Region</th>
<th>Annual Leavers</th>
<th>Total Staff as of 31 March 2007</th>
<th>Annual Leaver Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>English regions</td>
<td>387</td>
<td>3,368</td>
<td>11.5%</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>64</td>
<td>760</td>
<td>9.1%</td>
</tr>
<tr>
<td>Scotland</td>
<td>316</td>
<td>1,439</td>
<td>22.0%</td>
</tr>
<tr>
<td>Wales</td>
<td>263</td>
<td>1,247</td>
<td>21.1%</td>
</tr>
<tr>
<td><strong>Average outside London</strong></td>
<td><strong>1,031</strong></td>
<td><strong>6,779</strong></td>
<td><strong>15.2%</strong></td>
</tr>
</tbody>
</table>

Source: BBC

These data suggest that the churn of staff in Scotland and Wales is higher than that in the English regions or Northern Ireland. This is most likely associated with the availability of alternative employers in these regions, for example we understand that there are relatively few broadcasting or production companies operating out of Northern Ireland. We note that overall labour turnover in the Nations and Regions, at 15.2%, is relatively high; we understand from stakeholders that this contrasts with historic trends, when BBC employees tended to stay with the BBC for their whole careers.

From a training perspective, these data suggest that the BBC’s export of trained staff to the rest of the creative sector has a larger impact in Scotland and Wales (because of the higher labour turnover) than is the case in the English regions and Northern Ireland.

The BBC has several different trainee schemes to search for off screen new talent in the Nations and Regions, such as the Northern Ireland Production Trainee Scheme, which is supplementary to the BBC Production Trainee Scheme, and the West Midland Broadcast Journalism Trainee Scheme.
Performing artists are given many platforms by the BBC to showcase their talent, with the biggest being Radio One’s ‘BBC Presents’ programme. This show is an opt out programme for all four nations, providing exposure for the artists that are showcased. BBC Blast, the subject of a case study in Section 12, is aimed at encouraging teenagers around the UK to engage with the creative economy, allowing these people to discover new talents.

**Conclusion**

Both the training undertaken and the churn of staff in the Nations and Regions suggests that the BBC has a positive impact on both the skills pools in these economies which are able to be utilised by other companies.

Therefore, we consider that the BBC has a positive net impact on training in the Nations and Regions. Not only would the counterfactual broadcaster have incentives to undertake the minimum amount of training possible, due to the assumed location of the counterfactual broadcaster (see Section 15.6) but also few of those staff that are trained would most likely be located outside of London.

**15.5 Languages**

As highlighted in Section 14, the BBC produces output for TV, radio and online in Gaelic, Welsh and Irish, which helps to sustain broadcasting in these languages, creating demand for new skills and generating revenue in these nations. Of the minority languages, Welsh services currently receive the largest BBC spend at around £40m.\(^{182}\)

For the Gaelic media in particular, the BBC’s involvement has created a new industry in traditionally job-poor areas such as Stornaway. The skill base for each of the languages is in the relevant region: hence by producing this output the BBC necessarily sources some production from the nations that would not otherwise occur.

Gaelic services provided by the BBC are an example of BBC language-related activity that would not otherwise occur. As well as continued Gaelic radio and an expanded Gaelic section on bbc.co.uk, the BBC plans to contribute £2.9m a year to the new Gaelic Digital Service in partnership with the Gaelic Media Service, which will provide 7 hours of TV per day. BBC Gaelic radio programming will make up the rest of the schedule. Of this programming, a quota of up to 50% of commissioning of independents has been set. The launch of the new channel will increase the BBC’s spend on the provision of Gaelic services to £14.7m per annum. The channel itself will receive total funding of £20.8m.

Our stakeholder consultation revealed that the BBC provides a valuable partner for this venture because it provides £11.8m funding for production as well as financing distribution, it leverages funds and is especially useful in bringing consumer brand recognition.

The Ofcom Market Impact Assessment\(^ {183}\) for this service noted that it expects the service to have large benefits for the Gaelic media sector, particularly because of the increase in scale and the subsequent increase in opportunities for market players. Such job creation has both static and dynamic effects, as it creates employment and provides further career options to the future local labour market.

In its consultation with stakeholders on the proposal for a Gaelic digital channel, Ofcom found that some indies had reservations about the BBC’s role in the new service. Some respondents said that they expect a limited increase in commissions relative to what they already have with the Gaelic Media Service because most new productions would be commissioned in-house by the BBC; however we note that the new service has a 50% independent production spend quota.
Furthermore, some respondents expect the BBC to favour indies with which it has long standing relationships, rather than working with new independent producers and encouraging market entry. Despite these concerns, Ofcom noted that the revenues earned by indies are likely to increase because of creation of the Gaelic Digital Service. Hence, the BBC is expected to have a positive impact on Gaelic independent commissioning.

The provision of Gaelic services by the BBC complements the Highlands and Islands Enterprise cultural policy initiative that places Gaelic arts as a driver of economic development as it provides new opportunities for the Gaelic language community. A 2006 study by Glasgow Caledonian University cited unpublished studies identifying important impacts of Gaelic culture and language for the specific regions, such as the Western Isles, where Gaelic is most commonly spoken and Gaelic media most consumed. The linkages described:

“...extended beyond the obvious direct and indirect employment and income associated with the production and distribution of Gaelic artistic products and service to a series of dynamic effects. These arise as a result of the interaction of a set of social and cultural variables (enhanced by Gaelic arts) that contribute to the overall quality of life in these territories, a factor that in turn affects the economic decisions taken by individuals within these areas. Evidence was found of the perceived linkages between the level and quality of Gaelic artistic and cultural activities and decisions to remain resident in the area, locate in, or return to, the area, the number of visitors to the area as tourists, the level of community self confidence and the employment decisions and entrepreneurial behaviour of residents.”

Overall, we consider that the BBC’s Gaelic service provision provides an example of a BBC activity that:

- Has helped to kick-start a negligible market;
- Has both static and dynamic spillover benefits to local economies;
- Would not occur in the counterfactual; and
- Has substantial benefits for a small section of the population.

Countering this, some participants in the commercial Gaelic media sector would like to see the BBC’s activity in Gaelic modified, for instance by cutting down its in-house activities and encouraging more competition and independent production.

We consider that the BBC’s participation in the Gaelic Digital Service provides an example of how, through working with partners (in this case the Gaelic Media Service), the BBC can contribute to creative industry development in the Nations and Regions. This could provide a template for further initiatives to encourage creative industry development though partnerships.

15.6 Clustering and regional development

15.6.1 Stakeholder views

The impact that the BBC has on the clustering of creative companies drew mixed responses from stakeholders. The BBC perceives that its move to MediaCity:UK in Salford and its presence at Pacific Quay will create network externalities, establishing new creative clusters in Salford and Glasgow. Many stakeholders agreed with this view point, with one commenting that “BBC location absolutely encourages talent clusters”, another saying “the BBC drives clusters” and a third commenting that “there has been a definite clustering of skills and producers” in Gaelic media in Scotland because of the BBC’s involvement in the industry.

---

“In some Nations and Regions there wouldn’t be clusters without the BBC.”
Industry expert

“You can’t underestimate the impact of a catalyst like the BBC.”
Ian Robertson, National Council for Graduate Entrepreneurship

Some stakeholders also agreed that the presence of the BBC had an impact on the whole supply chain in a cluster, with Bristol cited as a good example of this. The presence of the BBC, it was argued, had firstly provided employment, and secondly had created a critical mass to attract other firms, raising the profile of the city and the region and making it a desirable place to live and work.

“If you have general commissioning, either in house or out house, then you get skill pools right across the supply chain. The supply chain then talks amongst itself to generate work independent of the BBC…

…there is now a production industry (in Bristol) that supplies many companies, not just the BBC.”
Regional Screen Agencies

“Secondary impacts include critical mass and the BBC brand and its impact on regional image, for example the South West is seen as an attractive/’cool’ place to live due to its creative activities.”
South West RDA

“The basing of Casualty in the city has led to the growth of a thriving drama production economy for the entire region. In the last six months alone audiences have been gripped by ‘Cranford’, ‘Lark Rise to Candleford’, ‘Mistresses’, ‘Moving Wallpaper’ and ‘Skins’. All these were shot in the West Country and rely on the infrastructure that has slowly but surely been developed by situating a long running drama series in the region. That single intervention – which incidentally brings in £10m into the Bristol economy – has a huge multiplier effect. The strong crew and services infrastructure means that more and more feature films choose to shoot in the region - contributing £40m to the South West economy last year.”
South West Screen

In the development of the creative industry ecology in Bristol it was commented that “the BBC plays a key role as an anchor tenant”. The BBC is expected to play the same role in the creation of a cluster in Salford by a number of respondents, who hope that the presence of the BBC will pull other companies to MediaCity:UK.

“The BBC’s presence has led to clustering in the creative sector through its role as a key facilitator or anchor attracting activity and businesses to the area due to its high profile and brand.”
South West RDA

“BBC is only 10% of MediaCity:UK (in Salford) but is crucial in its success in attracting others…

…it’s presence benefits surrounding areas, e.g. freelancers in Sheffield, Leeds.”
Alice Morrison, Northwest Vision and Media
However, some stakeholders had contrasting views. One respondent felt that the BBC does not contribute to cluster development because it “is a self-contained organisation with limited interaction with local companies”. Some commented that Pacific Quay is in danger of becoming a “white elephant” unless the BBC brings long running commissioning to Glasgow, and the opinion was held that the state of the art buildings that have been put in place are not of much use without a supply of commissioning from the BBC.

In tandem to the infrastructure created via projects such as Pacific Quay and Salford Quays, several stakeholders stated that the BBC needed a second prong to its strategy - to commission long-running programmes at these places to provide incentives to relocate or set up a new production centre. Interviewees noted that commissioning a one-off six-part series in the nations or regions provides temporary work only and gives no incentive for indies or talent to relocate permanently out of London. It was suggested by one stakeholder that the BBC’s role in cluster formation in Scotland might be inferior to that of Channel 4.

“Channel 4 was the main instigator of clusters in Scotland.”

David Strachan, Tern TV

One stakeholder believed that “without returning series being commissioned (out of London) then BBC will not hit its 50% out of London commissioning quota by 2011”.

Some stakeholders argued that the amenities and supporting infrastructure at Pacific Quay are currently insufficient and that the BBC “has not, to date, contributed to clustering through the new centre at Pacific Quay”, although we note that Pacific Quay was only opened (officially) on 20 September 2007, approximately 6 months before this comment was made.

However, one respondent noted that “if you view clustering as within a broader geographic area, then patently the contribution to the clustering of creative businesses and talent in and around Glasgow continues to be critical”, while another believed that “there wouldn’t be the same number of independent companies in Glasgow if the BBC wasn’t located there”.

Opinion on Pacific Quay was echoed about the BBC’s move to Salford, with some stakeholders sceptical of the impacts it would have on forming a cluster.

“It is important not to confuse moving a few internal departments with creating diversity across the country. It is good for the BBC culturally, but won’t change the situation of indies…

…Salford is nothing to do with sustainable diversity of supply outside London…

…the BBC is obsessed with buildings and cares much less about people.”

Charles Wace, Twofour Group
Some respondents felt that the BBC’s move to Salford may have a negative impact upon other regions in England. The East of England and Birmingham were cited as losers in the BBC restructuring, with one stakeholder commenting that the “BBC policy decision to move its flagship centre from Birmingham to Manchester (sic) has damaged the TV sector in the city. In particular the freelance TV sector has been threatened as a result of the BBC leaving the area”.

“The BBC should be the voice of the regions but so often it is the voice of London and now Manchester (sic).”
Regional Screen Agency

“Focusing on Salford does not allow the BBC to absolve itself of other Nations and Regions responsibilities.”
Industry expert

Furthermore, the move to Salford, it was commented, does little to increase regional representation because the BBC’s operations will remain highly concentrated. We note, that this reflects a fundamental tension in balancing an equitable spread of economic impact across the UK, versus efficiency gained through economies of scale from a concentration of spend in one or few centres.

Some respondents questioned the economic viability of spreading the BBC across the UK. One respondent said that “maybe 3-4 clusters are the best that can be done and ITV’s model was too decentralised” and that the BBC “shouldn’t necessarily spread broadcasting power around the country – it makes it difficult for indies to contact all of the commissioning power”.

Opinions of the BBC’s impact on regional development reflected those on clustering. In Bristol the BBC was seen to have had a large impact upon the local economy, having an impact “via employment, business creation and clustering effects” and had created a “diversified and flourishing independent sector”. Stakeholders commented that the BBC’s regional presence had positive implications for development even if it had not created a cluster in that region. Examples cited included Yorkshire, where (we were told) the BBC is having a positive impact “via employment at the BBC centres in Leeds and Hull as well as contributing positively to the profile of the area”, and more generally as the BBC “stimulates the local economy through its programming and promotion”.

“Through its network of broadcasting centres across the UK this contributes to the development of the creative economy in those areas.”
Industry stakeholder

However, some stakeholders felt that the BBC was too inward-looking to have an impact upon regional development, stating that the BBC is too London-centric and too focused on in-house production to create linkages with economies outside of London.

“The BBC has insufficient commitment to growing the production industry outside of its favoured preferred suppliers. Opening up to independents is the way forward.”
Industry stakeholder

“BBC is having a limited impact on regional development as the majority of its focus is in-house and within the M25.”
Industry stakeholder

---

184 There are parallels here with ITV’s reduction in the number of production centres as noted by Peter Ibbotson: “Regional news is a key public service feature of ITV, but it needs updating. It is proposed to replace the old licensing map of fifteen regional services with a more affordable and effective concentration on nine centres giving richer overall coverage”, Ibbotson J. (2008) “The Remaining Incentives”, Chapter in Gardam, T. and Levy D. ed. “The Price of Plurality”.
15.6.2 Evidence, analysis and conclusions

Importance of clustering

A study conducted in 2006\textsuperscript{189} investigates the potential benefits of cluster formation around the BBC’s investment at MediaCity:UK. The study names several positive externalities that result from clustering: knowledge spillovers, the broadening of career and training opportunities, making an area more attractive to graduates and the broadening of the skills base to make an area more attractive to businesses.

The study cites work by Cook et al. (2001)\textsuperscript{187} for support for knowledge spillovers. Cook et al. asked businesses located in the Soho cluster in London what the main advantages of being located in the area are. The opportunity to have face-to-face contact with other firms was the most popular response, which implies the importance of social interaction in this media cluster.

The study argues that the location of a cluster at MediaCity:UK in Salford will halt the graduate ‘brain drain’ that is seen from the region to London (although this is dependent on Salford University relocating to the site) as an alternative to London will be offered to graduates in terms of employment. It cites data from the 2001 census as evidence of this ‘brain drain’, noting that all regions had a net outflow of 20 to 24 year olds, while London had a net inflow. Furthermore, the proportion of workers that hold a degree is much higher in London (31%) than it is in the North West (22%) and Yorkshire and the Humber and the North East (21%) according to the Labour Force Survey. The NWDA estimates that the cluster will support up to 10 thousand jobs\textsuperscript{188}.

The role of the BBC in Cardiff was investigated in a study in 2007\textsuperscript{187}. investigated the role of the BBC in Cardiff. It found that BBC Wales doubled its income from network production to over £50m in three years, and the filming of Doctor Who in Cardiff has impacted upon tourism, with one in five tourists saying that they visited the city because of the show and its spin off Torchwood.

Therefore, in theory a ‘critical mass’ of firms in one place can have positive impacts on all businesses in that cluster because of knowledge spillovers and knowledge externalities. However, getting co-ordination between firms to locate in an area is unlikely. Potentially the BBC can help overcome this coordination failure by taking the lead in cluster formation, providing the critical mass necessary to encourage other firms to relocate and new firms to set up.

Impacts of clustering in the Nations and Regions

The polarised responses that we received on clustering appear to be associated with the location of the stakeholder. Respondents located in the East of England, the North East of England and Northern Ireland were not very positive regarding the BBC’s role in their regions and were sceptical of the BBC’s presence in developing a cluster. This may imply that the BBC’s local presence in these regions may have relatively less economic impact than in some other regions.

\textsuperscript{186} Regeners Consulting (2006), “Updated Economic Appraisal of Media Zone Project”.
\textsuperscript{187} Cook, G. S. et al. (2001), “The Dynamics of Industrial Clustering in British Broadcasting”.
\textsuperscript{188} http://www.nwda.co.uk/areas-of-work/business/key-sectors/creative-and-digital.aspx
Stakeholders located in Bristol, however, strongly agreed about the role that the BBC has played in forming a cluster there, and one independent producer interviewed said that the decision to locate in the South West was partly due to the cluster that has built up around the BBC in Bristol. It appears that the BBC has created linkages with other companies through its base in Bristol and has positive spillover effects for these companies.

Responses were mixed on the role that the BBC’s presence at Pacific Quay has had for Glasgow. The BBC believes that it has provided a facility that provides a critical mass to allow cluster development. However, based on responses received from stakeholders in Scotland it seems that the provision of buildings alone is not sufficient to encourage clustering in Pacific Quay because a credible commitment to the commissioning of work is also required to encourage a grouping of creative companies. Therefore, we note that as yet there appears not to be clustering around Pacific Quay to the extent that has been seen in Bristol. This may not be surprising as Pacific Quay opened in autumn 2007. This contrasts with the BBC Natural History Unit which has been based in Bristol for over 60 years, and that in the longer run Pacific Quay may have an increased economic impact if the BBC encourages links with local firms and freelancers (as is the case with freelancers in Bristol).

The impact that the BBC’s move to Salford will have for clustering is unclear. The move will certainly be positive for the local economy because of the jobs that will be brought to the region. However, the move by itself is a relocation of resources rather than revenue generation, and so is unlikely to have a significant impact on the aggregate UK economy (subject to differences in regional multipliers). Where there may be an overall increase in economic impact is if the BBC engages with local firms and freelance workers, encouraging clustering and spillover effects. MediaCity:UK has stated that it aims to create £225m per year in net value added to the UK economy\(^{10}\).

Based on stakeholder responses, we conclude that the BBC has had a positive impact in creating a creative cluster in Bristol and has attracted creative firms to Glasgow through the presence of BBC Scotland in the city.

**Location of the counterfactual broadcaster**

It is highly probable that the counterfactual broadcaster would concentrate production around one production centre in London. This is because there are economies of scale from grouping production in one place, and hence to achieve production at least cost it would not be spread around the UK.

However, in Section 8 we estimate that the counterfactual broadcaster would spend £73.2m on in-house TV production outside of the M25 as part of its quota for production outside of the M25. Once again, because of economies of scale it is expected that the counterfactual would concentrate out of London production on one or a small number of production base(s), and so would spend all of its £73.2m in this/these location(s). The counterfactual broadcaster would also be less likely to lead actively cluster formation, as it would have an incentive to free-ride on investments made by others. As a result, the positive externalities that arise from clustering would be expected to be smaller than those arising from the BBC’s activity.

Two main implications arise from this. The first is that most Nations and Regions benefit from the BBC’s spend outside of the M25, as this means that a greater amount of money is spent outside of London than would otherwise be the case. The second is that, in the counterfactual there would likely be winner and loser regions. As the counterfactual broadcaster would probably concentrate production (and spend) in a smaller number of regions outside London, those regions might actually benefit from increased spend. Other regions (which constitute the majority of regions) would lose out from reduced spend.

\(^{10}\) [www.mediacityuk.co.uk/northern.html](http://www.mediacityuk.co.uk/northern.html)
15.7 Concluding remarks

It is clear that the BBC has a positive net economic impact on the Nations and Regions. This is because the counterfactual broadcaster in TV, radio and online would not be incentivised to commission content either internally or externally beyond its quota requirements.

We estimate that the counterfactual broadcaster would have fewer out-of-London production centres, potentially only one. With an estimated spend of £73.2m on in-house production and £22.4m on total indie commissioning by the counterfactual broadcaster, the total net spend of the BBC in the Nations and Regions is estimated to be £595.6m. Indirectly, through the positive externalities that arise through the clustering of creative industries, this spend generates further income for national and regional economies.

However, the BBC’s economic impact is currently concentrated mainly within the M25, where it spends 80% of its budget. If the BBC wants to play a major economic role out of London then a proportion of this spend would need to be reallocated. The BBC’s move to MediaCity:UK in Salford is a step to redress this imbalance, though stakeholder opinion is mixed as to whether this will have substantial external impacts and the extent to which other regions may suffer as a result.

191 Data provided to us by the BBC shows that the BBC spend £691.2m in 2006/07 out of London.
16 Issues for consideration and recommendations

It is important to review the BBC’s economic impacts in the context of its remit. Stakeholders raised the issue of whether the BBC has a remit to maximise its impact on the creative economy or not. Many compared the BBC to Channel 4, the latter focussing more explicitly on this role in developing the creative economy. Interviewees argued that the BBC focuses on delivering against its Public Purposes which, by their nature, have an intended benefit for the creative economy but that the BBC is not as explicitly tasked with this objective.

It is clear from our assessment of the impacts against a counterfactual, together with stakeholder commentary, that substantial positive value would be lost if the BBC were reduced in scale, or if its funding or scale or range of activities were cut. That said, we also identified potential negative impacts of the BBC. Highlighting these impacts could enable the BBC to consider where improvements could be made while still delivering its Public Purposes.

Based on our analysis, the key areas to consider include the following:

Increasing positive impact

• **Partnership strategy** – our research identified that partnerships provide a potentially effective means through which to conduct activities that contribute to the remit and Public Purposes, while generating potentially greater economic impact. Specific examples of successful partnerships to date exist particularly in technological innovation and encouraging take-up of new technologies and platforms (DAB and Freeview are prime examples) but also, the recently approved Gaelic Digital Services (the BBC partnership with the Gaelic Media Service).

We note that the BBC’s choice of partners is important – since these partnerships are beneficial to those within, but can be detrimental to those excluded. We note also that more out-of-London partnerships would increase positive impacts in the Nations and Regions and that increasing the number of partnerships would transfer benefits further into the creative economy. The BBC’s engagement with new partners, however, may be constrained by the availability of suitable partner organisations.

Opportunities provided in the new media space seem to provide opportunities for further engagement in partnerships\footnote{As noted by Lord Puttnam (2008): “If we are to intervene to protect the plurality of public service media it is critical that it retains the reach and scale to ensure that everyone is able to benefit. Perhaps that will involve greater partnership in the new media space between the existing big players and the smaller providers of content with public value”. Puttnam, D (2008) “Lessons from the First Communications Act”, Chapter in Gardam, T. and Levy D. ed. “The Price of Plurality”.} . Patricia Hodgson suggests that: “Partnerships based on the use of expensive resources, whether in production or distribution, might be another way in which the BBC could support public service offered by other suppliers without destroying the clarity of competing operators and funding mechanisms”\footnote{Hodgson, P. (2008) “Public Purpose versus Pluralism”, Chapter in Gardam, T. and Levy D. ed. “The Price of Plurality.”}.

To do so, the BBC may need to consider carefully engaging in potential partnerships in activities that traditionally have been kept in-house, or in the strategy taken towards the introduction of new services in the future. Peter Dale notes that TV’s saliency “depends on broadcasters seeking to extend their notion of what constitutes a creative partnership. Healthy relationships with producers must of course continue to evolve but television also needs to forge relations with minds from worlds other than broadcasting – people who can bring those much needed new perspectives and the knowledge of how to carry new ideas into everyday life”\footnote{Dale, P. (2008) “The Curious Outsider”, Chapter in Gardam, T. and Levy D. ed. “The Price of Plurality.”}. 

\footnotesize

---

188
• **Working better with small organisations** – A perception existed among some stakeholders that smaller organisations find it less easy than larger organisations to do business with the BBC largely and that many small firms find that the BBC can be slow to react and indecisive.

• **Increasing impacts of external commissioning** – Particular examples of actions the BBC could take which, stakeholders argue, would increase the positive impact on the creative economy include more external commissioning and increased external commissioning of returning series and high end productions.

### Reducing/managing potential negative competitive impact

• **Existing services** do not undergo a PVT process. However we understand that, as part of its Fair Trading requirements, the BBC must apply the requirements of the Competitive Impact Principle195. This requires that the BBC ensures compliance with Fair Trading obligations. The BBC Trust is responsible for holding the BBC accountable to these obligations. Some stakeholder views suggest, however, that these policies and guidelines might not go far enough and argue that economic impact should become more central to all of the BBC’s decisions and activities.

### Balancing economic impact against BBC objectives

• **Increasing focus of economic impact** – Many stakeholders argued that the impact on the creative economy should have a greater weight in BBC strategy and decision-making. This raises the following question – should there be a greater emphasis on positive (and negative) economic impact, as well as the market impact, in future decision-making, either at a broad strategic level, or in relation to individual BBC Service applications?

• **Explicit market building** – Some stakeholders argued that the BBC’s role in technological research and innovation, and training, steers technology and training in directions that are beneficial to the BBC (and audiences) but which may impact negatively on other businesses. It was suggested to us that these activities could have an increased positive impact if the economic impact became an explicit objective (i.e. explicitly undertaking research and training that would benefit other businesses).

• **Expenditure and output quality** – The BBC is tasked with providing high quality, original content and in doing so may spend more on content provision than competitors. This raises a broad policy question – could the BBC’s success in delivering service quality and attracting audiences, at some point, begin to impact on plurality of provision? If so, how should this impact be estimated and controlled, whilst ensuring that the aim of quality content provision is maintained?

• **Generating certainty and allowing long-run planning** – Stakeholders cited the non-cyclicality of BBC revenues as an important positive impact. This helps to sustain the creative industries and the broadcasting supply chain generally, in particular during economic downturns. It is important to note that this is an extension of the argument that the BBC provides certainty, through its longer-term planning horizon and more stable funding. The value of this stability should continue to be emphasised in future debates over BBC and broader Public Service Content funding and strategy.

• **Data gathering** – If the BBC were to take economic impact more explicitly into account when making strategic decisions in the future, we consider it likely that its data reporting may need to be amended. In particular it would need to measure explicitly the level of spend per region, in addition to a London/Out-of-London split.

---

Broader Nations and Regions policy

• How important is it for the BBC to have a substantial (e.g., larger than current) economic presence in every region in light of the financial constraints of the licence fee settlement? That is, what is the appropriate balance between spreading impacts of increased future out of London expenditure evenly across the UK versus the efficiency of concentrating this extra expenditure a smaller number of “clusters”? This is not to be confused with the BBC exiting a specific region or regions. Stakeholders suggested that substantial economic impact arises with a notable BBC TV production presence. BBC Local Radio, whilst providing valuable audience benefits, was cited as having comparably less economic impact than a TV production presence. Clearly there is an equity-efficiency trade-off here that needs to be taken into consideration – spread the BBC too thinly across regions and costs may rise, but concentrate too much additional expenditure in a small number of out-of-London centres and remaining regions will receive relatively little beneficial impact. A similar trade-off applies to efficiency versus plurality – excessive concentration in London or in a small number of regions may result in a lower than desired level of plurality (of ideas or partners, for example) but could represent one of the more efficient organisational solutions. If economic impact were to be a criterion in future investment location decisions, it would be necessary to develop criteria by which economic impact is assessed.

• Impact across the UK – How best should the BBC increase its impact in the Nations and Regions within the licence fee settlement? Some of the BBC’s initiatives to benefit the Nations and Regions (e.g., Salford Quays) have received mixed reactions from stakeholders. Others cautioned that the BBC should ensure that its focus on Salford Quays in its Nations and Regions policy should not come at the expense of other Nations and Regions. In Section 1.3.4 we set out some key lessons for cluster formation, as one example of a specific benefit of the BBC’s involvement in the Nations and Regions, which should inform this debate.