The Economic Impact of the BBC: 2009/10

An update by the BBC

Executive Summary

This BBC report provides an assessment of the economic impact of the BBC in 2009/10 based on a model prepared by Deloitte.[1] The report focuses exclusively on economic impact; it does not assess the performance of the BBC against its six Public Purposes and does not include consideration of the public or private value licence fee payers receive from BBC services.

The BBC exists to provide high-quality programmes and services. But in meeting this mission, it delivers broader benefits to the digital and creative industries—which in turn spill over into the wider economy. As part of the BBC's Strategy Review, the BBC commissioned a study by Deloitte to quantify the impact of the BBC's activities on the UK economy. That report - covering 2008/09 - showed that the BBC generated over two pounds of economic value for every pound of the licence fee.

This report updates the Deloitte analysis for 2009-10. It again demonstrates that funding through the licence fee is a vital source of stability across the whole UK broadcasting industry. In a period where other forms of funding, and the economy as a whole, has faced significant pressures, the BBC's ability to deploy the licence fee in ways that benefit the whole UK creative economy has been of significant value. In 2009/10, the BBC contributed over £8 billion to the UK economy (up 5.5%), with a net contribution of over £5 billion (up 14.9%), delivering more than two pounds of economic value for every pound of the licence fee.

The next update will be produced in two years time.

The BBC's GVA and NVA

The approach to estimating the economic impact of the BBC focuses on two measures:

- Gross Value Added ("**GVA**") - an estimate of value generated for the UK economy as a result of the BBC's expenditure on a range of activity including third party suppliers across content, technology, publishing, marketing, and other. It is calculated using standard economic impact analysis which distinguishes three types of GVA impact: direct value added and the wider indirect and induced impacts.

- Net Value Added ("**NVA**") - The estimated 'factual' GVA impact is compared to a hypothetical 'counterfactual' scenario in order to estimate the incremental UK GVA attributable to the BBC's activities; this is the UK economic activity that would not exist but for the licence-fee funded BBC. This also takes into account the alternative use that the funds currently committed to the licence fee would have in the counterfactual and the associated economic activity that would be generated.

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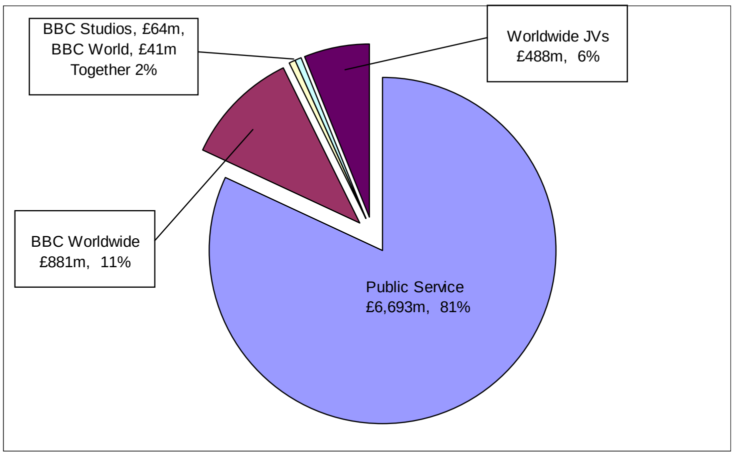
[1] The model was created as part of the project to produce Deloitte's report "The Economic Impact of the BBC: 2008/09", a copy of which can be found at http://downloads.bbc.co.uk/aboutthebbc/reports/pdf/acc_economic_report.pdf

GVA by activity

We have estimated the BBC Group GVA including Joint Venture activity at £8,170m (an increase of 5.56%) and the NVA at £5,087m (an increase of 14.9%)[2]. The increase is driven by an increase in income received (and spent in the UK) by the BBC Public Service and by increased UK expenditure by commercial subsidiaries, particularly BBC WW and its JVs. The BBC has, therefore, again delivered more than two pounds of economic value for every pound of the licence fee.

BBC Group GVA is generated overwhelmingly by the BBC's public service activities, which contribute almost 82% of total BBC GVA. BBC Worldwide accounts for 11%, its JVs 6% and BBC World News and BBC Studios account for less than 2% between them.[3]

Chart 1: Share of BBC GVA



GVA by service

Total BBC public Service GVA can be broken down by public service activity type and by BBC commercial activity and this is set out in table 1 below.

Television is the largest single contributor (£4,527m) followed by Radio (£1,077m) although both have grown less (0.6% and 3.6% respectively) than total BBC GVA (5.56%) due primarily to the relatively small increase in their budgets.

The largest percentage increase in GVA year-on-year was experienced by the "Other" category of BBC Public Service expenditure, including on the Digital Help Scheme and investment in content for S4C. Public Service online activity also experienced above average growth (at 14.9%).

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2 The GVA and NVA for the BBC's commercial subsidiaries exclude intra-Group transfer payments to avoid double-counting. The NVA figure quoted here is equivalent to the "BBC NVA" figure quoted by Deloitte but has been adjusted as described in the appendix to this report.

3 BBC Worldwide acquired 100% of 2E during the year. However, for comparative purposes 2E has been included within BBC WW's JVs.

Table 1 also includes an entry for BBC commercial activity (including JVs). BBC commercial activity – driven primarily by BBC Worldwide - also experienced above average growth (9.5%).

Table 1: BBC Gross Value Add by service type (2009/10)

£m	2009/10	2008/09	% change
BBC Public Service GVA – TV	4,527	4,497	+0.6%
BBC Public Service GVA – Radio	1,077	1,040	+3.6%
BBC Public Service GVA – Online	369	321	+14.9%
BBC Public Service GVA – Other	720	534	+34.8%
BBC Commercial Subsidiaries and JVs	1,476	1,348	+9.5%
BBC GVA	**8,170**	**7,739**	**+5.56%**

Source: BBC analysis based on Deloitte model

Nations and Regions contribution to UK GVA

We have also estimated how BBC Group's expenditure in the Nations and English Regions contributes to the creation of GVA by the BBC across the UK.

Table 2: Expenditure and UK GVA by Nation and English Region (2009/10)

REGIONS 2009-10 (£m)		Expenditure	UK GVA	GVA Change on 08-09
Nations	England	3,758	7,064	6.83%
	Scotland	173	355	7.51%
	Northern Ireland	66	138	5.66%
	Wales	162	292	17.93%
	Unallocated	167	321	-23.39%
English Regions	North*	166	327	6.88%
	London	3,039	5,623	5.62%
	Midlands**	127	254	5.72%
	South***	426	861	15.80%
	Total UK	**4,325**	**8,170**	5.56%

*Notes: * North includes North East, North West and Yorkshire & Humberside*
*** Midlands includes East & West Midlands and East of England*
**** South includes South East and South West.*
Source: BBC analysis based on Deloitte model

The Director General, in his foreword to the BBC Annual Report noted that "*Network production from Scotland, Wales and Northern Ireland increased both in quantity and quality*"[4] in 2009/10 and this is borne out by our analysis.

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4 BBC Annual Report, Part Two: The BBC Executive's Review and Assessment, page 2-6 (see http://downloads.bbc.co.uk/annualreport/pdf/bbc_executive_2009_10.pdf)

We found that the GVA generated in Wales and Scotland in particular experienced above average increases, driven specifically by the BBC's commitment to increase production for its network services outside of London. The BBC plays a unique role in supporting the creative industries across the UK. 50% of network television programmes will be made outside London by 2016, with 17% made in Scotland, Wales and Northern Ireland. 40% of radio spend will be outside London by 2016. The economic benefits of this investment will be captured in future reports.

The increase in GVA for the South – which exceeded average growth in England - was driven primarily by increased activity by the BBC's commercial subsidiaries.

Net Value Added

The BBC's Gross Value Added estimates need to be compared against a hypothetical 'Counterfactual' scenario as some of the GVA may be generated elsewhere in the absence of a licence-fee funded BBC. We have compared the estimated GVA impact to a 'Counterfactual' scenario in order to estimate the incremental GVA attributable to the BBC's activities. The counterfactual used assumes that the BBC is replaced by an advertising funded PSB. The outcome of our analysis is set out in table 3 below.

BBC NVA has grown significantly more than BBC GVA because of the significant decline in the GVA of the counterfactual, driven in large part by the challenging market conditions faced by the commercial PSBs in the TV advertising market in 2009/10.

Table 3: BBC Net Value Add by service type (2009/10)

£m	2009/10	2008/09	% change
BBC GVA	**8,170**	**7,739**	**+5.56%**
BBC Counterfactual	(3,083)	(3,313)	-6.9%
BBC NVA	**5,087**	**4,426**	**+14.9%**

Source: BBC analysis based on Deloitte model

The volatility of the value to the UK economy contributed by an advertising funded counterfactual BBC is a clear demonstration of the benefit (and economic value) offered by the certainty of the BBC's licence fee funding.

1 Introduction

The BBC's prime purpose is to provide quality programmes and content to inform, educate and entertain audiences. But it is also important to recognise that the BBC's activities have a significant impact on the UK economy. The privilege of licence fee funding makes the BBC a major player in the UK's creative industries and we have a responsibility to ensure that our investment in the economy works as a force for good – supporting jobs and businesses across the UK.

The BBC's commitment to maintaining investment in original content, ideas and entertainment right across the UK is increasingly important given the challenging economic conditions that we all face. In a period where other forms of funding, and the economy as a whole, will be under a good deal of pressure, the BBC's ability to deploy the licence fee in ways that benefit the creative economy as a whole will be of significant value.

This report is an update to Deloitte's original and comprehensive study. It provides a measure of the economic impact of the BBC in 2009/10, including the BBC's Public Service and Commercial Subsidiaries. It assesses the economic impact of the BBC in terms of the BBC's Value Added. Although the creation of economic value for the UK is not a primary purpose of the BBC, the Trust has set the BBC the challenge of ensuring that, wherever possible, it delivers positive benefits to other stakeholders in the sector.[5]

The analysis shows how the economic benefits of the BBC continue to stretch far and wide, delivering real value to digital and creative businesses across the UK. BBC investment in creative activity across the UK is injected into the local economy via local companies and freelancers working closely with the BBC. This helps sustain jobs in these companies; meanwhile these companies themselves (and their employees) buy further goods and services, creating a positive "multiplier" effect of economic benefits for the regional economy. Overall, many private sector jobs are sustained by the BBC and every region of the UK benefits.

In total, the BBC's UK activities generated over £8.1bn of economic value, meaning that the BBC continues to generate at least two pounds of economic value from every pound of the licence fee.

In future, the BBC will:

- Strive to maintain an economic value of at least twice the value of the licence fee while recognising the importance of spreading that value across the UK
- Report every two years on the economic value it delivers to the UK, updating the Deloitte analysis as necessary

[5] Annual Report 2008/09, Part One, page 54

1.1 Aims

As an integral part of developing its Strategy Review, [6] the BBC worked with Deloitte to construct a standard methodology to measure its 'gross value added' (GVA) to the UK economy. In its report ("the Deloitte Report") - commissioned by the BBC to assess the economic impact of the BBC and published in 2010[7] - Deloitte estimate the BBC's GVA in 2008/09 to be around £7.7bn.

The BBC also commissioned a model from Deloitte to allow it to report on its performance regularly and to monitor the promise made in the Strategy Review that the BBC would "*strive to carry on benefiting the UK economy by at least double the amount that it receives through the licence fee.*" [8] The purpose of this report is to update the analysis the economic impact of the BBC for 2009/10.

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

1.2 Measuring the economic impact of the BBC

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

Measuring the economic impact of the BBC requires a definition of the scope of the BBC's activities and a methodology for evaluating the consequential impact of these activities.

The scope of the BBC's economic activities

This report examines the same economic activities of the BBC – both public service and commercial - as described in the Deloitte report. Through these public service and commercial activities, the BBC has an economic impact both directly through its immediate expenditures on people, infrastructure and services as well as more widely through consequential effects both in the creative sector and beyond.

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

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[6] The BBC's Strategy Review document can be found at: http://downloads.bbc.co.uk/aboutthebbc/reports/pdf/strategy_review.pdf

[7] See footnote 1.

[8] *Ibid*. page 15

The methodological framework for assessing the BBC's economic impact

Our approach to estimating the economic impact of the BBC follows that established by Deloitte and focuses on two measures:

- Gross Value Added ("**GVA**") - an estimate of value generated for the UK economy as a result of the BBC's expenditure on a range of activity including third party suppliers across content, technology, publishing, marketing, and other. It is calculated using standard economic impact analysis which distinguishes three types of GVA impact: direct value added and the wider indirect and induced impacts.[9]

- Net Value Added ("**NVA**") - The estimated 'Factual' GVA impact is compared to a hypothetical 'Counterfactual' scenario in order to estimate the incremental UK GVA attributable to the BBC's activities; this is the UK economic activity that would not exist but for the licence-fee funded BBC. We refer to this as NVA. This also takes into account the alternative use that the funds currently committed to the licence fee would have in the Counterfactual and the associated economic activity that would be generated.

We have adopted the same counterfactual assumptions used by Deloitte and described in detail in the Deloitte Report. It assumes that there is an advertising funded PSB that takes the place of the BBC. In this way the NVA represents the incremental value generated by a licence fee funded BBC relative to an advertising funded BBC.

The Deloitte Report also described and estimated the impact of a number of 'spill over' effects, i.e. by-products of the BBC's activity, experienced by other firms in the same sector or by the economy more generally. In their report, Deloitte assessed spill overs relating in particular to the indie sector, the BBC's investment in regional clusters, the provision of training by the BBC, new digital markets and value created for others. The BBC has not updated this element of the Deloitte analysis for 2009/10 but may return to this area in future.

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[9] Direct value added for an organisation is defined as the value of total sales or revenue less expenditure on goods or services purchased from other organisations. This is roughly equivalent to the wage bill and operating surplus of the organisation. Indirect impact is the impact of the organisation on the GVA of firms in the supply chain which supply goods and services purchased by the organisation in question. Induced impacts arise on the GVA of firms outside the immediate supply chain, as a result of the expenditure of the organisation's own employees and those in the supply chain. The wider indirect and induced impacts are estimated by applying multipliers to the expenditure.

2 The BBC's Gross Value Added

2.1 Summary

We have estimated that the Public Service and Commercial subsidiaries generated a GVA of £7,681m – a 5.8% increase over 2008/09. If the JVs (UKTV and 2entertain[10]) are included then the total Gross Value Add generated by the BBC is £8,170m.

2.2 Our assessment

2.2.1 The BBC's total direct and supply-chain spend

BBC total operating expenditure in the UK for 2009/10 – including both public service and commercial subsidiary[11] UK expenditure - was £4,325m (excluding inter-group re-charges); a 5.8% increase on 2008/09. This expenditure was incurred in paying wages to employees, taxes, as well as expenditure with the supply chain across content (in-house, indie and acquisitions), distribution, infrastructure and overheads, publishing and sales and marketing.

This compares with ITV's reported total expenditure (both in the UK and overseas) for 2009 of £1.6bn.[12] The scale of expenditure compared with ITV, as well as other broadcasters, emphasizes the importance of BBC's spending power in the creative industries.

2.2.2 BBC Public Service and Commercial subsidiaries GVA

Figure 2.1 below shows the GVA of each part of the BBC Group in 2009/10. In total, BBC GVA in 2009/10 was £8,170m, an increase of 5.56% compared to 2008/09.

The Public Service, Commercial Subsidiaries and JVs generated GVA of £6,693m, £986m and £488m respectively, increases of 4.7%, 13.9% and 1.2% respectively.

Excluding BBC Worldwide's JVs, the BBC's GVA was £7,681m.

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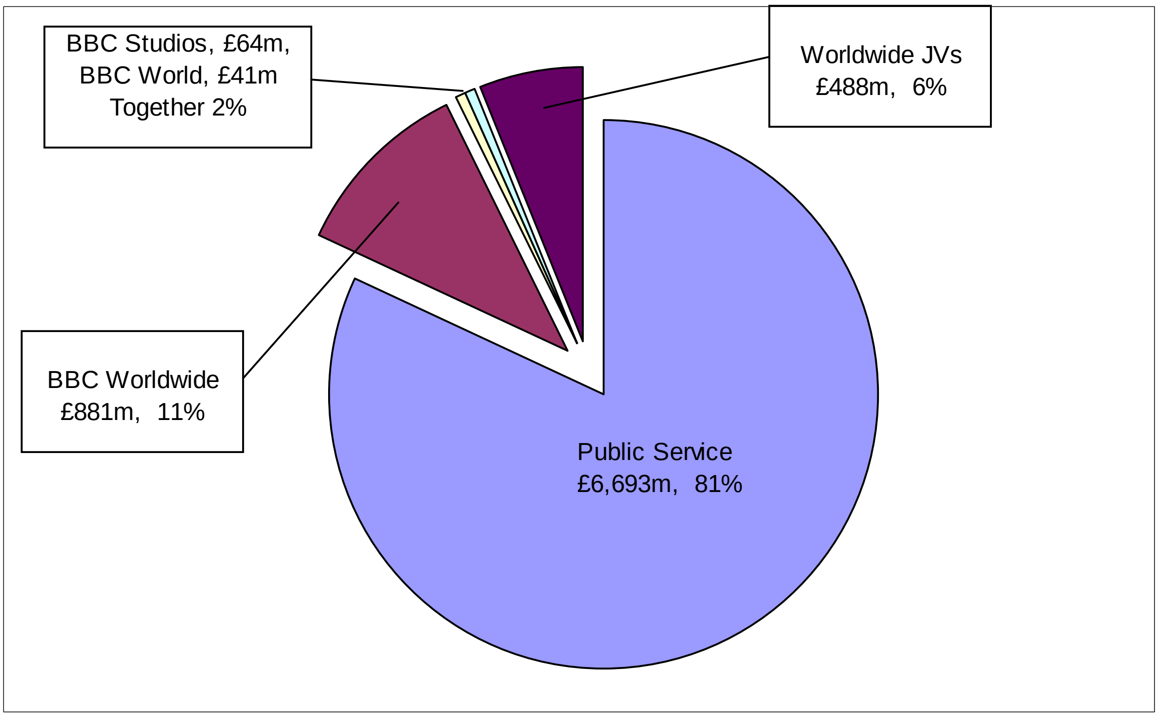
10 Although BBC Worldwide purchased 100% of 2E during the year, we have continued to treat it as a separate joint venture for the purposes of this report to maintain consistency with Deloitte's work.

11 Commercial Subsidiaries is defined as including BBC Worldwide, Studios & Post-production, BBC World News and BBC Worldwide's JVs - UKTV and 2entertain.

12 Amounts quoted are operating costs before amortisation and impairment of intangible assets and exceptional items. ITV 2009 annual accounts, viewed on 27th October 2010, http://www.itvplc.com/investors/reports/?year=2009

Figure 2.1: GVA breakdown of the BBC (2008/09)



Source: BBC analysis

Activity by the BBC's commercial subsidiaries grew considerably in 2009/10; BBC Worldwide's financial results in 2009/10 showed sales increasing 7% to £1,074m and profit rising 36.5% to £145m.[13] As a result, BBC commercial activity became an increasingly important component of BBC GVA and the share of total GVA generated by commercial subsidiary activity increased to nearly 12% in 2009/10.

Nonetheless, the Public Service remains the largest single contributor to total BBC GVA; accounting for 81.9% (down from 82.6%). Joint ventures (JVs) accounted for 6% (down from 6.2%).

BBC GVA – by Nation and Region

Table 2.1 below shows a breakdown of BBC expenditure and the associated UK GVA across the Nations and English regions (North, Midlands, South and London).[14]

London accounts for the largest share of BBC GVA at 69%, the same share it had in 2008/09 and the change in London generated GVA since 2008/09 is broadly average; 5.62% compared to total GVA growth of 5.56%.

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[13] Sales include Group revenue and the Group's share of joint-ventures' revenue, and profit refers to operating profit before specific items

[14] We have assumed – consistent with Deloitte's methodology - that expenditure by region is closely correlated to the budget allocated to each region but recognise that this may not always be the case.

Table 2.1: Expenditure and UK GVA by Nation and English Region (2009/10)

REGIONS 2009-10 (£m)		Expenditure	UK GVA	GVA Change on 08-09
Nations	England	3,758	7,064	6.83%
	Scotland	173	355	7.51%
	Northern Ireland	66	138	5.66%
	Wales	162	292	17.93%
	Unallocated	167	321	-23.39%
English Regions	North*	166	327	6.88%
	London	3,039	5,623	5.62%
	Midlands**	127	254	5.72%
	South***	426	861	15.80%
	Total UK	**4,325**	**8,170**	5.56%

*Notes: * North includes North East, North West and Yorkshire & Humberside*
*** Midlands includes East & West Midlands and East of England*
**** South includes South East and South West.*
Source: BBC analysis based on Deloitte model

Scotland, Wales and England (excluding London) all experienced above average increases in their contribution to UK GVA of 7.51%, 17.93% and 11.8% respectively. In Scotland and Wales, we believe this to be a direct outcome of the BBC's Network Supply Review which has led to an increase in the volume of network TV programmes commissioned from outside London.

The BBC will continue to play a unique role in supporting the creative industries across the UK. 50% of network television programmes will be made outside London by 2016, with 17% made in Scotland, Wales and Northern Ireland. 40% of radio spend will be outside London by 2016. The economic benefits of this investment will be captured in future reports.

Scotland

A number of key programme strands have so far transferred to Scotland, including arts programmes *The Review Programme* (formerly *Newsnight Review*) and *Imagine*. These have joined an already impressive roster of network arts programmes from Scotland, including *The Culture Show* and *Artworks*. *Wallander*, the award-winning adaptation of the Henning Mankel novels, set in Sweden and starring Kenneth Branagh, was produced by BBC Scotland and proved a hit with audiences: a second series was commissioned and has broadcast.

In addition, about one fifth of all BBC children's programming is commissioned from Scotland, and most of it is made in-house. *Nina and the Neurons* continued to bring to life science and technology for the under-6s on CBeebies, and *Ed and Oucho's Excellent Inventions* did likewise for older children on CBBC. *Raven* is now in its tenth series, and new animated series *OOglies* got its first outing. Innovative multiplatform game show *Mission 2110* went on air in the spring.

Northern Ireland

In Northern Ireland, locally-produced programmes for network BBC television are increasing, with creative and economic benefits. The volume of commissions has risen significantly and there have been some early (and important) successes in this area. *Occupation* and *Five Minutes of Heaven* were notable productions and the BBC's role as a Northern Ireland production centre for network current affairs programmes, including *Panorama* and documentaries such as *Girls on the Frontline*, continues to grow.

Wales

In Wales, network drama continued to develop in 2009/10. *Torchwood: Children of Earth* drew almost seven million viewers every night during its week-long showing on BBC One. And Doctor Who gave us a remarkable Christmas 2009 finale. Factual production is Wales also excelled with *Last Chance to See* on BBC Two, as Stephen Fry and naturalist Mark Carwardine set out on a worldwide journey in search of animals teetering on the edge of extinction. The BBC Wales factual team also spearheaded a Moon season on BBC Four. Among its many highlights, *Being Neil Armstrong* saw Andrew Smith, author of the best-selling Moondust, journeying across America to discover the real Neil Armstrong.

England

English Regions excluding London together also saw an above average increase in GVA, driven primarily by increases in the South due to increased activity by the BBC's commercial subsidiaries. In addition, some of the increase was accounted for by a better allocation of what were previously unallocated funds.

Going forward, BBC network production in England (outside London) will continue to expand as the BBC begins operating from its new development in Salford, with several key production divisions currently based in London - such as BBC Sport - moving in the near future.

2.2.3 BBC Public Service GVA by service

BBC Television GVA

The Public Service spent £2,351m on television activity[15] in the UK and overseas in 2009/10. Its UK expenditure rose only slightly in 2009/10 and generated GVA of £4,527m, a 0.6% increase on 2008/09.

BBC Radio expenditure

In 2009/10, BBC Public Service expenditure on Radio rose slightly to £604m in the UK and overseas. Its UK expenditure generated GVA of £1,077m, a 3.6% increase on 2008/09.

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[15] The definition of television, radio, online and 'other' activity is taken from note 2a of the BBC's Annual report and Accounts.

BBC Online expenditure

Online spend increased in 2009/10 was from £179m in 2008/09 to £199m in the UK and overseas. This is reflected in the fact that its UK expenditure generated GVA of £369m, a 14.9% increase on 2008/09.

Other expenditure

BBC expenditure outside the service licences for TV, Radio and Online include such activities as: Licence fee collection costs; S4C; Development spend[16] and Digital Switchover expenditure.

BBC expenditure on 'other' activity in 2009/10 amounted to £405m in the UK and overseas. The UK expenditure generated GVA of £720m, a 34.8% increase on 2008/09 and driven primarily by an increase in spending on digital switchover activity.

2.2.4 BBC Group GVA from commercial activity

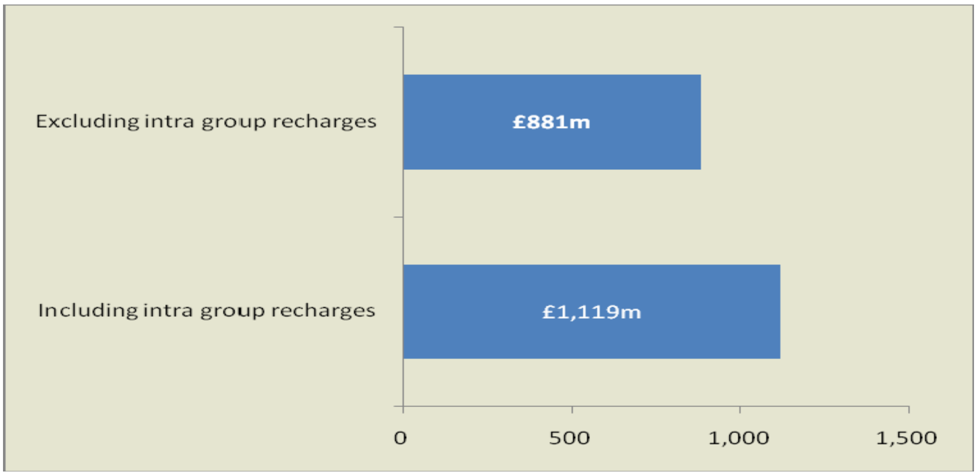
BBC Worldwide expenditure and GVA

As a consequence of its global nature and its objective of *"taking the best of British creativity to the world"*, a significant proportion of BBC Worldwide expenditure is spent outside the UK and so contributes only indirectly to UK economic activity. Nonetheless, BBC Worldwide's UK expenditure (excluding JVs and recharges from other BBC entities) grew to £451m in 2009/10 (from £333m in 2008/09).

BBC Worldwide's UK activities are mainly carried out in London, although it undertakes some activity in the South West at its Audio books business (in Bath) and its Magazines division (in Bristol).

[16] The categories of expenditure included in cost are set out in note 2a to the BBC Annual Report and Accounts. It includes Development Spend, which is the cost incurred on the development of new Service Licences, investment in technological innovation or R&D or investment in the development of new functionality/technology for existing Services.

Figure 2.2: BBC Worldwide UK GVA comparison including and excluding intra-Group purchases (2009/10)



Source: BBC analysis based on Deloitte model

BBC Worldwide's UK expenditure generated UK GVA of £881m in 2009/10, a near 34% increase from 2008/09. This increases to £1,119m if purchases from other BBC entities and JV partners are included.[17]

BBC World News and BBC S&PP expenditure and GVA

The combined expenditure of BBC World News and BBC Studios and Post-production (S&PP) in the UK in 2009/10 (excluding intra-Group recharges) was £58m – a significant decline (46%) from 2008/09 reflecting both efficiency savings within the businesses and tough trading conditions in the UK and overseas.

UK GVA for BBC World News and BBC S&PP is estimated at a combined £106m, a 49% decline from 2008/09 and reflecting the decline in their UK expenditure.

2.2.5 Aggregate position

When the activities of the BBC public service, its commercial subsidiaries and BBC Worldwide's joint ventures are taken together, we estimate that the BBC Group generates a total GVA for the UK economy of £8,170m – more than £2 for every £1 of licence fee received.

[17] This additional GVA amount has been reported in the GVA figures of the BBC Public Service and so is shown separately here.

Table 2.2: BBC Gross Value Add by service type (2009/10)

£m	2009/10	2008/09	% change
BBC Public Service GVA – TV	4,527	4,497	+0.6%
BBC Public Service GVA – Radio	1,077	1,040	+3.6%
BBC Public Service GVA – Online	369	321	+14.9%
BBC Public Service GVA – Other	720	534	+34.8%
BBC Commercial Subsidiaries and JVs	1,476	1,348	+9.5%
BBC GVA	**8,170**	**7,739**	**+5.56%**

Source: BBC analysis based on Deloitte model

3 Part I: The BBC's Net Value Added

3.1 Summary

To provide a proper picture of the BBC's contribution to the UK economy, it is important to compare the Gross Value Added estimates described above against a hypothetical 'Counterfactual' scenario as some of the Gross Value Added may be generated elsewhere in the absence of the BBC licence-fee funded BBC. The estimated 'Factual' GVA impact is therefore compared to a 'Counterfactual' scenario[18] in order to estimate the incremental GVA attributable to the BBC's activities.

We have estimated, using the Deloitte model, that if the BBC was an advertising funded PSB, £5,087m of the BBC's contribution to the UK economy would be lost.

The significant decline in BBC activity in the counterfactual would have a consequential effect on other parts of the broadcasting industry. In addition, there would be a reduction in the value added of other commercial broadcasters as a result of the activities of a commercially funded BBC Counterfactual.[19]

Overall, we estimate that the economy would lose value added of over £2,849m in the counterfactual when the alternative use of the licence fee is included.[20] This is because total UK expenditure by broadcasters would decline as the licence fee is withdrawn – additional advertising revenue would be attracted to the industry by the newly available commercial BBC channels and the audiences they attract, but not in sufficient quantities to offset the lost licence fee.

3.2 GVA and NVA of Counterfactual public service BBC

Counterfactual BBC GVA

Using Deloitte's counterfactual assumptions and model, the Counterfactual GVA for a commercially funded alternative to the BBC Public Service is estimated at £2,518m.

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[18] We adopt the same counterfactual assumptions set out by Deloitte in their report, i.e. that the licence fee funded BBC is replaced by a generic commercial PSB which uses the same spectrum as the current BBC for similar purposes (for radio, terrestrial and digital broadcasting rather than say mobile telephony and wireless). This Counterfactual PSB BBC is commercially funded through advertising revenues rather than by subscription.

[19] While there is an increase in TV NAR in the Counterfactual, it is not sufficient to replace the licence fee. In consequence, we assume that the allocation of TV NARs across the Counterfactual BBC and its rival commercial broadcasters results in reduced revenues for all relative to the Factual scenario. As a result, there is also less expenditure in the Counterfactual on commissioning from independent production companies.

[20] The alternative use of the licence fee by households does not fully compensate for the decline in the BBC GVA because on average, household expenditure is characterised by lower multipliers than are relevant to the creative sector.

When the counterfactual activities of the wider BBC Group are taken into account, total GVA of the counterfactual BBC reaches £3,083m – a 6.9% decline on 2008/09.[21]

The BBC's Net Value Add

The BBC's NVA - the difference between the GVA of the BBC in the Factual (£8,170m) and the counterfactual (£3,083m) - is £5,087m. It has grown significantly more than BBC GVA because the counterfactual GVA declined, driven in large part by the challenging market conditions faced by the commercial PSBs in the TV advertising market in 2009/10.

Table 3.1: BBC Net Value Add 2009/10

£m	2009/10	2008/09	% change
BBC GVA	**8,170**	**7,739**	**+5.56%**
BBC Counterfactual	(3,083)	(3,313)	-6.9%
BBC NVA	**5,087**	**4,426**	**+14.9%**

Source: BBC analysis based on Deloitte model

3.3 Impact on the wider media sector

Competitor broadcasters' GVA in the Counterfactual

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

Table 3.1 shows the GVA of other broadcasters in the counterfactual. This reflects a less vibrant creative sector supply chain absent the size, stability and the certainty of revenues for Indies provided by the BBC in its current form.

We have also included here the change in GVA for print and other media that occurs as a result of the reduction advertising revenues for this sector in the Counterfactual.

[21] In producing this update, we have identified two data points that were incorrect in the Deloitte model for 2008/09. Both were in the counterfactual calculation. We have corrected those entries and this led to an adjustment in the counterfactual GVA based on 2008/09 data of some £10m. Further details are provided in an appendix to this report.

Table 3.2: GVA of non-BBC media in counterfactual (2009/10)

Activity	GVA - £m	% change on 2008/09
TV	3,954	-8.3%
Radio	645	-2.6%
Online	6,205	7.1%
Print and Other Media	10,823	-16.6%

Source: BBC analysis based on Deloitte model

Table 3.2 demonstrates clearly the decline in value added in the counterfactual compared to 2008/09. This decline arises because the counterfactual is calculated based on actual advertising revenue in 2009 and therefore reflects the challenging advertising market faced by all media companies at that time.

The large swing also offers a stark illustration of the significant swings in economic activity and economic value that can arise if the media sector were solely reliant on advertising funding.[22] By contrast, the volatility of the value to the UK economy contributed by an advertising funded counterfactual is a clear demonstration of benefit (and economic value) offered by the certainty of the BBC's the licence fee - as an alternative revenue source for the media sector.

The GVA of the alternative use of the licence fee

For completeness, we have also identified the GVA that would be generated by households retaining and spending the licence fee.

A proportion of the £3,4474m licence fee will be put to alternative use by households in the Counterfactual. We follow Deloitte in assuming that 13%[23] of this amount will be expended outside the UK such as on imported products and holidays and a further 5%[24] of this would be committed to savings. The resulting GVA is £5,559m.

22 The counterfactual does not include analysis of the impact of subscription revenue – which held up well during the recession – because very little of that revenue is reinvested into content in the UK.

23 ONS data on the ratio of domestic and import supply for household consumption final demand.

24 Eurostat, UK average gross household savings rate from 1997-2007

Appendix – Restating the Deloitte Counterfactual for 2008/09

Summary

In this report we have revised upwards the value added generated in Deloitte's counterfactual in 2008/09 by £10m. Consequentially, the Net Value Added of the BBC in 2008/09 is reduced by the same amount – to £4,436 million.

Detail

Deloitte's description of the counterfactual against which it calculates the BBC's net value added in 2008/09 is described in Chapter 5 of its report. Overall, it found that the counterfactual BBC (commercially funded by advertising revenue) generated value added of £3.303bn.

In revising and updating the inputs of the model for 2009/10, the BBC identified two instances where the inputs used in the model to generate Deloitte's report needed to be readdressed:

- The viewing shares of commercial broadcasters - used in the model to calculate the counterfactual:
    - The BARB data used by Deloitte for 2008/09 was based on people in multi-channel homes only. This led to the viewing figures for terrestrial channels being lower than when the total viewing universe is considered; partly because of the greater choice in digital multi-channel homes and partly because, counter-intuitively, people in analogue-only homes watch more TV per head than those in digital homes.
    - The methodology used to calculate the 08/09 data cannot be used accurately for 09/10 data, as reporting in the new BARB 2010 contract is in a different format, and the multi-channel universe used previously no longer exists.
    - A channel was omitted incorrectly from the dataset.
- A typographical error was made in entering the inputs for one broadcaster.

Once these two adjustments are made, the total Value Added attributable to the counterfactual in 2008/09 increases by around £10m leading to a consequential reduction in the BBC's Net Value Added of the same magnitude.