

# Economics

BT Social and  
Environmental report



THE QUEEN'S AWARDS  
FOR ENTERPRISE:  
SUSTAINABLE DEVELOPMENT  
2003

# Economics

BT is one of the largest telecommunications companies in the world and a significant economic force in its own right.

Here we discuss some of our direct and indirect economic impacts, highlighting their social and environmental consequences.

## Direct impacts

BT's direct economic impacts can be measured with traditional financial indicators, such as turnover, dividends and taxes paid.

These measures can be used to demonstrate how our economic performance affects each stakeholder group.

The figures here measure the financial flows between BT and our key stakeholders – customers, suppliers, employees, and shareholders and creditors – as well as governments. We also provide a geographical breakdown of BT's markets.

All data relate to our activities during the 2004 financial year.

## Customers

BT turnover of £18,519 million, distributed as follows:

BT Retail:	£12,630 million
BT Wholesale:	£ 3,445 million
BT Global Services:	£2,410 million
Other:	£34 million

Total turnover is boosted to £18,914 million when our share of associates' and joint ventures' turnover (£395 million) is added.

Find more details in the BT profit and loss account on page 24 of the 2004 Annual Report and Form 20-F.

## Suppliers

- Total spend with suppliers: approximately £800 million. See more detail on operating costs on pages 34 of the 2004 Annual Report and Form 20-F.

- Total capital expenditure: £2,673 million. See more detail on expenditure on page 34 of the 2004 Annual Report and Form 20-F.

## Employees

- BT employs 99,600 people, including 91,600 in the UK and 8,300 abroad.

- Total expenditure on employees:

Wages and salaries	£3,672 million
Social security costs	£316 million
Pension costs	£404 million
Employee share ownership	£20 million
<b>Total</b>	<b>£4,412 million</b>

## Shareholders and creditors

- Total dividend paid to shareholders: £732 million.

- Net debt reduced from £9.6 billion to £8.4 billion.

- Total interest payable on continuing activities: £941 million.

- Total amount falling due to creditors within one year is £8,548 million.

More details on page 83 of the 2004 Annual Report and Form 20-F.

## Governments

- Total taxes paid to governments was £539 million, comprising £568 million on the profit before taxation, goodwill amortisation and exceptional items, offset by tax relief of £29 million on certain exceptional charges.

- Non-UK taxation: £174 million.

More details of our total taxes paid are available on page 25 of the 2004 Annual Report and Form 20-F.

## Geography

The geographical breakdown of BT's turnover is:

UK	£17,190 million (93%)
Europe (excluding UK)	£1,124 million (6%)
Americas	£151 million (1%)
Asia and Pacific	£54 million (<1%)

- BT's share of the UK residential fixed-voice call market, as measured by volume of fixed-to-fixed voice minutes is 70% compared with an estimated 73% last financial year.

- BT's share of the business sector fixed-voice call market is 42%, compared to 45% for the 2003 financial year.

## Profit and re-investment

- Profit retained was £685 million.

- Return before goodwill amortisation and exceptional items on the average capital employed was 15.3%, compared to 15.7% for the 2003 financial year.

## Indirect impacts

BT's indirect economic impacts are:

- Income and employment
- Growth and productivity
- Regional development
- Knowledge economy.

## Income and employment

### Indirect impact

Indirect economic impacts arise from the income and employment created in businesses that supply goods and services to BT.

Our expenditure in the UK injects over £2.6 billion into the UK economy. This supports the employment of almost 135,600 people:

Indirect income and employment created in BT suppliers		
	Income £ million	Employment
From capital expenditure	918.7	47,600
From revenue expenditure	1,697.4	87,950
<b>Total</b>	<b>2,616.1</b>	<b>135,550</b>

Source: DTZ Piedad Consulting. Based on the following 2003 financial year figures for BT:

- Total Supplier Expenditure: £3.7 billion
- Total Capital Investment: £2 billion

### Induced impact

Further indirect (or 'induced') impact is created when incomes created directly and indirectly by BT are spent in the economy. People employed directly and indirectly will spend part of their incomes within the economy – for example on food, clothing and entertainment – which represents an extra source of employment.

The DTZ Piedad Consulting report estimates these induced impacts to be £3.4 billion of income and 173,780 employees.



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## Economics continued

### Total impact

The total economic impact of BT in terms of income generation and employment is calculated by adding the direct, indirect and induced impacts:

Total Income and Employment Impact of BT in the UK		
	Income (£ billion)	Employment
Direct	2.974	122,423
Indirect	2.616	135,550
Induced	3.354	173,780
<b>Total</b>	<b>8.944</b>	<b>431,753</b>

Source: DTZ Pidea Consulting, February 2004

The table shows that BT's activities generate income of £8.9 billion and support the employment of 431,753 people throughout the British economy – almost 1.7% of all jobs in the UK.

### Notes

- These figures take account of 'leakages' of expenditure from the local economy in the form of non-UK purchases, savings and national taxes. They are calculated using 'input-output' tables showing the flows of expenditure between sectors of the economy and allow the impact of a given level of expenditure on income and employment to be calculated. Indirect impacts are not restricted to the 'first round' effect of purchases by BT. Suppliers to BT will purchase some of their inputs from other suppliers in the UK and so on.
- The study is based on BT employing 122,423 people in the UK, either directly by BT or as contractors.

### Growth and productivity

One of our main indirect economic impacts is on economic growth and the productivity of individual enterprises, industrial sectors and the wider economy.

The character of these impacts can be best understood using data for the UK Information and Communications Technology (ICT) sector.

There are two main types of impact:

- The ICT sector – its size and technological progress – has a direct impact on national-level growth and productivity figures.
- The use of ICT by companies to improve their own efficiency and productivity has a significant impact on national-level growth and productivity.

### ICT sector

Information available from the UK Office of National Statistics enables an assessment of the impact of ICT activity on the UK economy.

The rapid growth in both ICT production and investment was an important contributor to UK economic growth and productivity growth throughout the 1990s.

In 2001 (most recent data available), the contribution of ICT to UK Gross Value Added (GVA) was £63.5 billion of a total of £880.9 billion – 7.2%.

The contribution of the telecommunications portion of the ICT sector grew from around £12.5 billion in 1992 to around £21 billion in 2001.

GVA for the ICT sector grew by 109.8% between 1992–2001, compared with growth of GVA for the whole economy of 61.2% over the same period.

This money has been distributed to various stakeholders:

- Employees (67.3%; £42.8 billion) – highly labour-intensive
- Operating Surplus (31.1%; £19.8 billion)
- Government – taxes on production (1.5%; £1 billion).

According to the Organisation for Economic Co-operation and Development (OECD), the

contribution of investment in ICT capital to GDP growth in the UK was under 0.3% in 1990 – 1995, and over 0.5% between 1995 – 2001.

### ICT and productivity

Some characteristics of ICT – such as increased bandwidth and processing power and the plummeting cost of communications – enable organisations and economies to become more efficient and productive.

The evidence for this is strongest in companies where ICT is used to innovate in response to client demand, customise services, expand product ranges and lower costs in procurement, production, selling and distribution.

For example, the UK Broadband Stakeholder Group highlighted that direct internet bookings to airline carriers, combined with ticketless travel arrangements, reduced an average cost of sale from around £9 per ticket to less than £0.20.

Many economists use this type of example to argue that ICT has increased productivity and global competition while holding down inflation, allowing higher economic growth without the need to check inflationary pressures with higher interest rates.

Statistical evidence for ICT increasing productivity across the economy has been hard to identify. As Diane Coyle and Danny Quah argue in *Getting the Measure of the New Economy*, a report from the Work Foundation's iSociety project, top-line productivity figures often show little of this impact. Coyle and Quah call this the 'productivity paradox': one can see the evidence of the computer revolution everywhere apart from in the productivity figures.

Coyle and Quah argue that it will take time, indeed decades, for ICT to filter through into the whole economy. We are only beginning to see the wholesale restructuring of business, industrial and organisational models made possible by the diffusion of ICT.

As the OECD highlights, the diffusion of new technologies can be slow and companies can take a long time to adjust while they change operational arrangements, re-skill people and implement new business processes. Other

factors, such as the regulatory environment, the availability of skills and organisational change, affect the ability of firms to seize the benefits of ICT.

The OECD concludes that it is too early to tell for certain how the role of ICT growth and productivity performance will develop in the first decade of the 21st century. But some general trends are emerging to suggest that ICT will continue to drive growth.

For example, the OECD cites evidence that those sectors that have invested most in ICT – such as financial services, health, retail, business services, wholesale trade – have experienced more rapid growth in productivity than those that have not. ICT is more appropriate for some sectors than others and is not suited to all business models – agriculture, mining, manufacturing, construction have benefited less from the ICT revolution.

This is supported by the OECD's figures for the contribution of various sectors to aggregate productivity growth in the UK between 1996 and 2001:

- ICT manufacturing 0.1%.
- ICT producing services (for example, telecommunications) 0.2%.
- ICT using services (e.g. financial services, retail, etc) 0.8%.

The OECD concludes that there is a range of factors that contribute to productivity. Countries and sectors that have invested more in ICT in the 1990s have often also seen the largest increase in productivity growth in the 1990s.

### Regional development

Against a backdrop of potentially enhanced economic growth, many countries and regions are increasingly looking to the productivity benefits of ICT to improve their competitiveness.

For example, the European Union established the strategic goal in Lisbon in 2000 to become "the most competitive and dynamic knowledge-based economy in the world...regaining the conditions for full employment and to strengthen social cohesion".



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## Economics continued

The UK Government set these targets for 2005:

- Everyone in the UK to have internet access.
- All Government services to be online.
- The most extensive and competitive broadband market in the G7 group of countries.

In turn, the UK Regional Development Agencies see e-business as key to economic development. The South West Regional Development Agency has worked in partnership with BT to spread broadband to remote rural areas with considerable success. A total of 14,500 broadband connections were set up in 20 months, bringing the uptake of broadband in Cornwall to 7%, a full 2% higher than other similar rural areas. The project has delivered 1,200 jobs and a £20 million boost to regional GDP.

### Globalisation

The growth in communications technology has also enabled previously undreamed-of business, personal and cultural connections between billions of people.

The 1999 United Nations Human Development Report took globalisation as its main theme and focused on the potential of the internet for human development as well as exclusion.

The report recognised not just the potential of the internet to drive efficiency improvements, but also its potential to foster major advances in health and education, to empower small businesses and organisations, and to provide remote communities and poorer countries with easy and cheap access to information.

Crucially, however, the report also recognised that these advantages are not automatically going to be delivered to those who need them most. For this reason, digital inclusion has been selected as one of the main sections of this site.

One particular trend made possible by improved communications technology is 'offshoring' – the transfer of company functions, such as call centres or software development, to a low-cost country.

This shifting 'geography of jobs' is discussed in more detail in our Hot Topic 'Good

Migrations?', an independent study commissioned by BT exploring the social and economic impacts of offshoring through the lens of corporate social responsibility. The paper covers issues such as protectionism and international trade, job creation and the impact of call centres on local economies.

### Knowledge economy

We are living in a knowledge economy, in which value is as much a function of ideas, creativity and imagination as it is of traditional capital investment.

Critical to the development of the knowledge economy is the roll-out of ADSL broadband technology. Broadband means a high-speed connection to the internet that is always on. It is called broadband because it has a much larger capacity to send and receive data than a standard telephone connection.

Broadband will bring its own specific economic impacts, which are expected to be most marked in the Small and Medium-sized Enterprise (SME) sector – as in most cases small businesses cannot afford dedicated leased lines into the internet, making broadband the only option for high-speed internet access.

More information about the social, economic and environmental impacts of broadband are available in the Sustainability and Digital inclusion sections of our online Social and Environmental report.

As the largest capacity telecommunications network in the UK we have an important part to play in enabling the knowledge economy.

This economy is leading to rising demand for advanced data, mobile, broadband and internet services. Consequently we are building a new national network, capable of meeting customers' needs now and in the future. We are refocusing our investment away from today's technology in order to spend more on future technologies.

### A digitally literate workforce

There is growing concern in Europe, which we share, about the gap between supply and demand for information technology professionals.

This is why we:

- Work with the European Union to improve the supply of ICT professionals.
- Encourage women and ethnic minorities into ICT careers.
- Promote ways that ICT can enable more flexible working patterns, bringing excluded people into employment.

But the challenge is wider than simply meeting the demand for information technology professionals. Digital literacy is becoming an increasingly essential element of basic employability.

For this reason, we have launched a digital inclusion campaign – Everybody Online – to support the UK Government's aim to give all citizens online access by 2005 and demonstrate how communications can help improve society.

The campaign aims to increase access to communications technology in underprivileged areas and to deepen the understanding of the causes and effects of the digital divide and how they may be addressed nationally.

Further details are available in the Digital inclusion section of our online report.



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### Offices worldwide

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