



**Small Screen Ofcom Big Debate Public Service
Broadcasters and the UK Production Sector**

**Call for Evidence
Submission from STV Group plc
March 2021**

Non-Confidential version

STV is pleased to take this opportunity to respond to Ofcom's Call for evidence: Public service broadcasters and the UK production sector.

STV Group plc (STV) is a successful PSB provider, with interests in:-

- broadcasting as the holder of two Channel 3 licences,
- digital, where we operate STV Player as a growing AVOD service available not just in Scotland but across the UK and, of particular relevance to Ofcom's Call for Evidence,
- as an **established production business** STV Studios, home to an increasing number of discrete labels and with ambitious plans for growth in the coming years.

In fact, as part of STV's corporate strategy just published, we aim to quadruple our production revenue by 2023. That, we believe is achievable. Our Studios business is starting to realise its potential after a period of creative renewal. The in-house teams feel rejuvenated, and last year's 19 commissions are evidence that the perception of STV as a producer is changing. Two of the three businesses we've invested in (Primal and Two Cities) have won substantial commissions and are on their way to profitability.

2021 looks set to be STV Studios' transformative year, assuming no further Covid disruption. We already have £20-25m of revenue booked for the year, 2.5x last year's turnover.

We operate from our headquarters in Scotland where we base the majority of our production work as well as maintaining a London presence. One of our associated businesses, Two Cities, is based in Belfast.

STV Studios works with every UK PSB and a growing range of other UK and international partners and streamers. For the BBC we make *Antiques Road Trip* and *Celebrity Antiques Road Trip* totalling 30 series. We produced BAFTA award winning drama, *Elizabeth Is Missing* and *The Victim* for BBC One, and we created one of the most successful series for the new BBC Scotland channel, the observational documentary *Inside Central Station*. Our *Catchphrase* and *Celebrity Catchphrase* entertainment series are highly successful entertainment shows for ITV network, and two new programmes are currently in pre-production for Channel 4. One is a prison drama, *Screw*, the other is *Murder Island*, an innovative mixed genre, part drama, part factual series. These two commissions alone will support around 200 hundred roles across cast and crew. In the context of the Scottish production sector, that is significant, with STV Studios the largest commercial producer in Scotland.

Regionality is very much part of our DNA. STV's ambition is to build a world class production business of scale based in Scotland. To achieve that, we will need a healthy pipeline of strong commissionable ideas and that, as well as production of programmes, requires a strong talent pool able to compete effectively and deliver.

The dispersal of production around the UK is also a fundamental characteristic of today's PSB. There are two significant elements to this approach – firstly cultural representation, ensuring that a range of voices are heard on the national stage and secondly, nurturing creative communities across the UK. These two objectives are closely linked – the latter

facilitates the former through skills and talent development providing the critical mass necessary for progression and security within the sector.

During 2020, the drive for greater diversity across media came to the fore and STV has set a number of targets across our business to improve representation across gender, ethnicity and disability. STV Studios are committed to diversity both on and off screen and are spearheading a number of initiatives to ensure this is achieved.

In responding to Ofcom's Call For Evidence, we aim to shine a light on reducing levels of production being commissioned from Scotland, and on the challenge of increasing or even sustaining levels of production in the nations and regions due to what appear to be systemic barriers.

We also offer a perspective on the commissioning and production process as a Non Qualifying Independent Producer (NQI). We note that Ofcom's questions are framed around the workings of the regime for independent production which was originally set up to nurture a successful independent production sector, ensuring that producer/broadcasters could not simply commission themselves. However, the binary classification of producers as either independent or not continues to disadvantage small operators such as STV Studios who are designated an NQI across the UK by virtue of their association with a broadcast licence holder for less than 10% of the country and with no market power in commissioning. Our lack of market power to commission was enshrined within the new networking arrangements signed in March 2012. These arrangements provide for ITV plc to take on sole responsibility for network programming – in terms of funding, acquisition and scheduling of content – and the Network Schedule is made available to STV as an affiliate member of the network for a fixed costs.

To inform our submission, we have commissioned analysis from Mediatique looking at (i) trends in nations and regions production by examining Ofcom's Made Outside London register over the past five years, (ii) possible incentives as a way to encourage more activity around the UK and (iii) the importance of long term returning series as vehicles to create deep and lasting impact. Their report is included in full at Appendix 1.

The Mediatique analysis reveals that:

- London continues to dominate PSB output, accounting for 50% of programmes made despite being only 13% of population.
- Between 2014 and 2019, the latest year for which data is available, the proportion of Nations and Regions (N&R) programmes made in Scotland fell from 20% to 17%.
- Scotland's share of N&R production spend by PSBs is even less than the proportion of volume it accounts for. Across the same five year period, the value of programmes commissioned fell from 16% of the total to just 12% in 2019.
- In particular, spend on drama fell by 36% and scripted formats as a whole were down by 46%.

- As a share of all UK spend on production, Scotland accounts for just 5%, despite being 8% of the population.
- This disparity between volume and value is due to significant reductions in scripted comedy and drama as well as returning series across the reporting period.
- N&R production relies in no small way on the regulatory interventions that impose quotas for some PSBs, in particular BBC and Channel 4 who between them commissioned 98% of programmes from Scotland.

We also asked Mediatique to consider policy options to increase Out of London production which has remained broadly static across the five years to 2019. These options include:

- Extending OOL quotas to specific formats such as drama/scripted or returning series.
- Extending the OOL quotas within PSB licences to include specific requirements for individual nations rather than outside London or aggregated nations targets as is currently the case
- Extending tax credits beyond high end TV and children's to incentivise N&R production
- Creating direct sources of funding for N&R production

We invite Ofcom to consider in full the Mediatique analysis that we have included and look forward to further dialogue regarding any questions that arise.

The other evidence STV Studios offers is our experience as an NQI. This status arises as a result of STV holding two Channel 3 licences for central and north Scotland.

The independent production regime is enshrined in legislation, with specific PSB quotas and definitions governed by The Broadcasting (Independent Productions) Order 1991 (as amended) (the "UK Regulations")¹. The UK Regulations require PSBs to commission at least 25% of programmes from qualifying independent producers (QI). Additional components of the regulatory regime provided a reference offer for commissioning by broadcasters in the form of Terms of Trade, with the value of secondary exploitation following broadcast being largely in favour of producers. The intervention has created highly successful production companies of scale with a great degree of consolidation in the sector which has led to some businesses that are now larger than the broadcasters who commission them.

At the same time, larger in-house production businesses, particularly BBC and ITV continued to secure the lion's share of the remaining 75% of commissions.

¹ <https://www.legislation.gov.uk/uksi/1991/1408/made>

In this way the independent production regime limited the ability of producer broadcasters to self-commission and facilitated the growth of QIs by ring fencing a proportion of spend that only they could access.

Whilst the positive outcome on QIs is evident across the past 30 years, the consequences for STV as an NQI are much less clear. As part of the regionalised Channel 3 network, we are a broadcaster only within our licence areas, less than 10% of the UK and with no commissioning power within the network. Our contractual status within the Channel 3 networking arrangements is “affiliate”. Network operations including commissioning decisions are the responsibility of ITV plc and the schedule they provide constitutes around 95% of our total output with the remainder our regional programmes, primarily news and current affairs. Nevertheless our broadcaster affiliation prevents STV Studios programmes from counting towards PSB 25% indie quotas or indeed non PSB channels’ 10% indie quotas. In competition for commissions, beyond the issue of contribution to quotas, as an NQI STV Studios faces further challenges:

- Broadcaster quotas exist in a matrix and are often intersectional – programmes may have to fulfil several criteria at once, for example made in the nations and specific genre/tariff and must be QI;
- Limited access to published terms of trade (ToT) – whilst there is no practical reason for broadcasters to withhold terms of trade, nor any underlying advantage for STV Studios relative to commissioning by others, ToT have on occasion been withheld for commercial advantage;

In practice, these additional considerations are more of a commercial issue than the raw quotas. PSBs have, to a service, consistently commissioned QIs in excess of the mandated 25% proportion. That is particularly true of the BBC which has in recent years deconstructed the Window of Creative Competition (WOCC) that previously created commissioning “buckets” that could only be filled by producers of particular status.

The particular challenge for STV Studios is that channel commissioners may assume our NQI status somehow confers additional value upon us which could justify their position in not offering ToT. That is simply not the case.

In short, we believe this depressive effect sometimes apparent in our prospects of securing commissions to be an unintended consequence of the intervention to nurture independent production by placing constraints on those with market power to favour themselves. That is not an eventuality that leads to any benefit for STV by virtue of our broadcaster status and we invite Ofcom to include this evidence in their deliberations as to how future interventions might be shaped so as not to disadvantage smaller NQI producers in the way we have described.

ENDS