



**Ofcom: Small Screen: Big Debate - Consultation
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**Submission from STV Group plc
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By email to smallscreen.bigdebate@ofcom.org.uk

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Introduction

- STV Group plc (“STV”) is pleased to respond to Ofcom’s review on how to maintain and strengthen public service broadcasting across the next decade and beyond.
- STV is the commercial public service broadcaster for Scotland, and owns the two regional Channel 3 licensees, operating wholly within Scotland.
- Our submission includes
 - details of our delivery of PSM to date (**Section 1**)
 - proposals for how the system (PSB/PSM) in Scotland can be maintained and strengthened (**Section 2**), and
 - our answers to Ofcom questions 1 to 7 (**Section 3**).

Executive Summary

- Channel 3 is the largest commercial PSB provider with the reach and scale to compete with the BBC, matching its investment and delivering news – national, international, and in STV’s case also regional and local – to mass audiences.
- Channel 3 is the only regionalised public service network, and as such has a key role to play in any proposals for maintaining and strengthening PSB in the UK. STV ensures universality of reach across the UK with its coverage across central and north Scotland.
- The past 12 months have been extraordinary with the renewed appreciation of public service broadcasting as a trusted medium for news and entertainment to support and engage a nation in all its diversity. The audience may have been more captive, and its needs more acute than at any point in our past 60 year history, but our audience figures speak volumes for our reputation built over decades, our readiness to adapt and evolve over that period, and the importance of a framework that ensures accountability day in and day out.
- Putting aside the impact of lockdown on viewing in general, and STV’s news performance in particular, over the past three years we have been steadily winning viewing share in Scotland. That is in large part the result of the strong performance of our *STV News at 6* at the start of peak-time. We are delighted to have drawn such large audiences to our news. That is down to the quality of our news team and also to the modernisation programme we have pursued since 2018, where we have invested £3m in news and current affairs through technology and training, resulting in a more flexible, mobile approach to journalism that has delivered positive results across Scotland and across our broadcast and digital businesses, to the benefit of our viewers. This year sees continued investment with an upgrade to native HD across all five of our news studios due to be completed around Easter 2021.
- STV has demonstrated in this past year, and before, that we have the PSB credentials to serve relevant local and national news for Scotland, alongside strong UK original network programming contributing to the nation’s entertainment, mirroring its diversity and supporting its creative industries. However, critically we are also a digital success story, developing the STV Player into the fastest-growing UK broadcaster streaming service.
- STV is also the leading commercial producer in Scotland, creating content in a variety of genres for all of the PSB networks, as well as a growing range of UK and international TV and digital partners. We are committed to developing talent and skills across the UK, and particularly from our position in Scotland we recognise the cultural, economic and creative benefits that could be derived from a sustainable production hub achieved through continued and targeted dispersal of production outside of London.

- As a PSB, we are acutely aware that our role goes beyond our obligations to deliver high quality diverse output onscreen. We know the contribution we can make to the local economy in Scotland, and in preparing this submission, we commissioned Mediatique to produce the evidence. See [section 2](#) below where we speak to that work in more detail. But equally importantly, we understand the social impact of a PSB.
- There is an unquantifiable benefit of being a free-to-air universally available PSB, and with that comes responsibility. From the first month of lockdown we were able to channel funds from STV Appeal to families in need of support, and our fundraising activity has continued throughout, reaching record levels, over £3m, in 2020. We engaged early with local businesses, doubling investment - to £20m - in our STV Growth Fund which targets support towards small local businesses, ensuring they have a viable means to access our advertising. And from day one, throughout the months of lockdown, we have ensured that the editorial on our news has reached into the heart of communities across the whole of Scotland, giving them a voice.
- On the wider issues now so vividly to the fore – sustainability, diversity and inclusion, mental health - we have been using our privileged position as a producer and a public service broadcaster to help lead the way in the media sector. In the summer we set firm targets to improve diversity across STV – the profile of our teams, our on air programming, our commercial relationships and our supplier base. We have broadcast on air campaigns to champion the need for change, and intervened to ensure we see and hear more Black, Asian and Minority Ethnic voices on screen in the programming we control. Alongside this work, we have promoted mental health and wellbeing, playing our full part in “Britain Get Talking” and launching a comprehensive local partnership with Scotland’s Mental Health Charity SAMH to raise awareness with our audience and our own staff. Earlier this year, we also launched STV Zero committing us to being a carbon zero business by 2030.
- To be successful in the future as both a public service broadcaster and a listed public company we need to accelerate our transformation over the years ahead. In 2018 we set out a plan to re-establish ourselves as an independent creative force, simplify our business and pivot STV towards the most exciting areas of growth in digital and production. Despite Covid, we’ve made good progress and demonstrated that we can grow STV profitably, even in a tough market characterised by Brexit uncertainty and the ongoing decline of linear advertising revenues, achieving our key strategic target of generating one third of our profit from outside traditional advertising by the end of 2020. That is what we must continue to do over the next 3 years and beyond, though the market context is likely to be even more challenging.
- It is why earlier this week we set out a refreshed 3-year plan to accelerate change. During the last 12 months we have made cost savings and conserved cash, raised new capital from our shareholders and outperformed the wider market in local and digital advertising. We have, as a result, been able to ringfence £30m to invest in growth over the next 3 years, setting ourselves new targets to double the size of our digital streaming business, quadruple our Studios revenues and deliver more than half our profit from these growth areas by 2023. It is an ambitious but achievable plan.

- Self-help should always be the starting point but will not take us the whole way. We need a new regulatory framework and PSB settlement that preserves what’s working and positively incentivises the public service broadcasters – including nations PSBs like STV – to invest in the change required to survive and thrive over the next decade, and thereby continue to fulfil the public purposes that the last 12 months has reminded us are so fundamental to our society.
- Our five priorities are:
 1. **Long term 12-year multiplex and 10-year PSB licences, with no break rights**, underpinning the confidence required for long term investment in infrastructure and content.
 2. **Digital inclusion, prominence and fair value on all key TV platforms**, where STV’s need for regulatory intervention is even more acute than the national PSBs because as a smaller player **we struggle to get the attention of the global platforms, firstly to include us in their app line-up and then to reoffer us sufficient prominence when we are included**. STV is the commercial PSB for Scotland with a licence to deliver PSB to a uniquely granular level – a mix of regional and local alongside our network output - and it is critical to ensure the unique nature of our service can migrate online. The joint PSB submission¹[1] to which STV is a signatory provides detail around a framework for widening delivery of PSB beyond broadcast.
 3. **Consideration of new regulatory interventions for the nations and regions** to support the now widely held policy objective of dispersing production around the UK in order to counter market forces and the natural pull inside the M25. Scotland’s share of spend on returning series in the UK has been declining in recent years and this needs to be reversed to realise the creative and economic potential of the UK’s nations and regions.
 4. **A level regulatory playing field between TV and online players**, in order that UK PSB TV content delivery can survive and compete effectively with the digital-only, commercially driven, global streaming platforms; with the potential ban on HFSS advertising on television the latest example of potentially unfair and imbalanced treatment of TV vs online.
 5. **Modernisation of key terms of existing licences** from the legacy “broadcast-only” era where specific provisions around advertising minutage etc. are updated in a new framework and ‘quotas’ become ‘outcomes’.

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¹ https://www.smallscreenbigdebate.co.uk/_data/assets/pdf_file/0027/208818/psb-submission-broadcasters.pdf

Section 1

STV's delivery of PSB (and indeed PSM) to date

There is no more powerful case for the value and worth of PSB than the extraordinary engagement that we have seen in the past twelve months of the coronavirus pandemic. The need for trusted, impartial news and current affairs; the ability to reach mass audiences with public health advice and information; and the quest for entertainment, sport and drama reflecting all aspects of UK culture have combined to deliver the biggest rise in audience figures seen by STV in well over a decade.

However, in telling STV's story, it is of course not just about the past 12 months. STV's PSB credentials, necessary to deliver that result, have been formed not only by building close relationships with audiences across decades but also through evolution, continuous improvement and self help to secure commercial sustainability.

There is much more to PSB than the delivery of public service programming obligations. The scale and reach of our service brings with that unquantifiable, but no less tangible, benefit in terms of social impact. STV has a unique connection with the audience that we serve, reflecting communities in our news, supporting business growth with locally targeted advertising opportunities, and nurturing talent to become the next generation of content creators. We have built up and enjoy the benefits of a unique position in Scotland, and we are well aware of, and we meet head on the responsibilities that come with it - not just in lockdown, although never more acutely to the fore as during this time.

STV's Social Impact

We launched the STV Children's Appeal a decade ago and it has developed into a strong fundraising force. Since 2011, the STV Children's Appeal has raised over £25m towards child poverty in Scotland. Our associated programming turning the spotlight on related issues was a driving factor towards a full scale review of the care system for young people conducted over the past two years.

As society now rightly clamours for diversity and inclusion to move towards actions and outcomes, this year we have set clear diversity targets to align the profile of our organisation, and representation within the programmes we make, with the audiences that we serve.

And on sustainability and the role we must all play, STV has recently announced STV Zero, our commitment to becoming a net zero carbon business by 2030, with an associated £1m investment in the new *STV Green Fund*, supporting Scottish SMEs who are promoting a sustainable product, service or message.

STV steps towards securing PSB for the future

Society is changing, the environment for PSBs is changing and in response the evolution of business models is key. STV knows that its survival depends on dynamism and flexibility, and a relentless focus on innovation and growth opportunities. In the past three years, we have taken the steps necessary to shape our business for a viable future, and below we set down the highlights among them:

- Establishing a strong new management team who have in turn attracted exciting new talent to their teams
- Divesting the non-core assets of the STV2 local TV channel and our lottery operation in order to focus fully on our growth priorities
- Overtaking BBC1 to become the biggest peak time TV channel in Scotland
- Investing over £3m in our news operation with new technology and training to embrace new ways of working and improved connectivity
- Delivering cost savings to self-fund the first phase of the growth plan
- Launching an innovative £20m Advertising Growth Fund to support Scottish business, bringing in over 200 new advertisers so far
- Putting digital front and centre in the organisation and developing STV Player into the fastest-growing UK broadcaster streaming service
- Investing in and strengthening STV Studios' creative pipeline to own more valuable IP, both through the in-house team and three acquired production companies
- Producing two new critically acclaimed dramas for BBC1, with a third in production for C4 and a 4th greenlit for BBC1
- Striving to embed an entrepreneurial, creative and supportive culture across STV

In the next three years our focus, and our aim, is to become a truly **digital-first, IP-focused media company**, diversifying further away from linear spot advertising revenues by building profitable, scale businesses in digital streaming and production.

In particular we are targeting:

- Double digital viewing, users and revenues to £20m
- Quadruple production revenue to £40m
- 50% of operating profit from outside our traditional Broadcast business, from 34% today

When we set out our initial diversification strategy 3 years ago we re-structured our business into three distinct, accountable and complementary business units to drive growth. These are **Broadcast**, home to our TV licence operations, **Digital**, delivering the STV Player with our own and others' content and **Studios**, a multi-label production operation working with a range of channels and platforms.

Each area has a clear remit for growth which we have recently unveiled as part of our three year plan. The detail is provided below, but the headlines reveal our ambition.

In **Broadcast**:

- Maintain STV as Scotland's most watched peak-time channel
- Remain ahead of the rest of ITV Network in all-time and peak-time share
- Maintain STV News at 6's position as Scotland's most watched news programme
- Increase STV News digital pages views by 67% to 25m per month

In **Digital**:

- Double digital viewing and revenues by 2023
- Continuously strengthen content offer – one new boxset every week
- 5 million registered users
- Drive usage through enhanced personalisation and a new loyalty strategy
- Deliver advanced advertising capability, inventory 100% addressable by 2023

And in **Studios**:

- Quadruple Studios revenue by 2023
- Double the number of returning series across the genres
- Achieve commissioning success with global streamers as well as broadcasters
- Take acquisitions to profit and consolidate ownership
- Deliver targeted new investments and partnerships

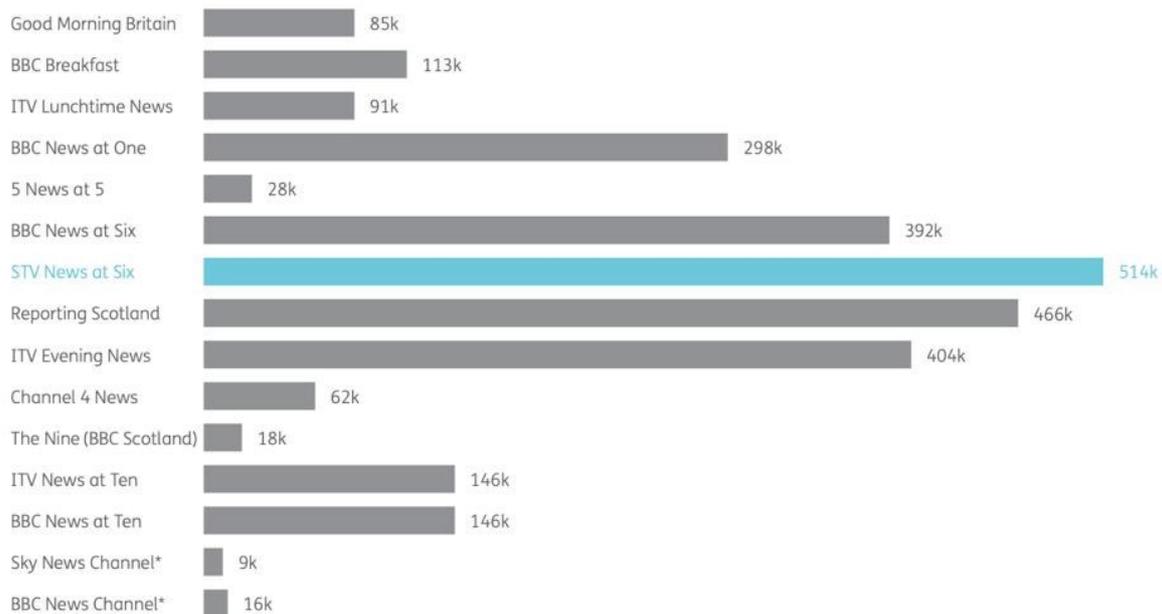
These ambitious targets will underpin the evolution of STV's business. They recognise and reflect the changing environment that we are operating in, a process of self renewal, and the business imperative to ensure the business adapts, and positions itself competitively, to be fit for purpose to deliver high quality, relevant content that engages audiences and creates a connection with advertisers.

Broadcast

Throughout 2020, STV reached four out of five people in Scotland every month, with our audience growing 14%, its largest ever increase. Across the day, we saw the highest rise in viewing of any channel and we retained our position as the most popular channel in peak time, with a share larger than the next ten commercial channels combined.

As the chart below shows, *STV News at 6* cemented its position as the country's most watched news programme, with an average audience of over half a million people a night, up 32% on 2019.

Average News audiences in STV licence areas across 2020



*Average audience across a day (09:30-24:00)
Source: BARB Jan-Dec 2020, individuals, Mon-Fri

At a time when audiences in England gravitated towards the BBC as a source of news, in Scotland, the opposite happened with STV increasing its lead over the Corporation's output.

Our *Scotland Tonight* programme remains Scotland's largest current affairs output, with the 20 highest rated editions in the show's nine year history achieved last year following our decision to move one episode a week into STV peak time.

The network schedule that we share with ITV's licence regions also performed strongly. *I'm A Celebrity* recorded its highest ever launch audience, and *Des* was our biggest drama in 18 years. Overall, STV delivered 97% of commercial TV programmes with an audience greater than 500,000.

The trust and engagement that underpins the past year's exceptional audiences have been built by STV over six decades of PSB delivery, continuously evolving in the face of significant change, both technological and political.

Through four different localised editions of *STV News at 6* produced out of studios in Aberdeen, Dundee, Edinburgh and Glasgow, STV provides the most localised TV news service in the UK. Not only does this deliver the highest news audience of the day, the programme is frequently the most watched across all genres and channels. In 2018 we invested £3m in our news service to introduce new technology and workflows that support improvements in newsgathering, including an upgrade to native HD across all five of our news studios which is due to be complete in the next month. It is the changes made by us over the past few years that have consolidated STV News' number one position in recent years. *STV News at 6* now consistently out-performs the BBC's *Reporting Scotland* programme, often achieves double the viewing of the BBC's *News at Six* and an audience on par with Channel 4 News UK-wide.

The ability to tailor our news for individual areas has been a significant factor in the success of the service. In **Appendix 1**, we have included charts that show the progress over the past three years for total viewing to *STV News at 6*, as well as the localised editions in the central belt (east/west) and north regions where we deliver distinct news programming.

With devolution having moved responsibility for many areas of administration from Westminster to Holyrood, STV is able to properly contextualise stories from both parliaments by maintaining a journalistic presence at each. This is a vital component of covering Scottish and UK affairs, and it sits alongside the national and international news service provided by ITN and the local stories included in our geographically targeted bulletins. All of our news programmes are available to watch online through our STV Player and in 2020, the STV News website attracted 20m unique users who spent a total of 670,000 hours online.

STV news and current affairs programmes are at the forefront of our diversity initiatives. We have set targets for representation of gender, ethnicity and disability in line with population both within our news team and wider business and on-air participation. Our initiatives include collaboration with groups such as Women In Journalism and Pass The Mic, with whom we are working to provide media training to encourage greater participation by women and people of colour.

Whilst this performance of the broadcast service has been remarkable across the past year, it is of course the case that there has been a long term decline in TV viewing as more viewers migrate to digital platforms and enjoy greater choice through a growing range of SVOD services.

Broadcast television remains resilient. It still constitutes two thirds of daily video viewing time for the average adult at over 3 hours per day. In Scotland that figure was 14% higher at 3 hours 30 minutes per day in 2020. Within that the public service broadcasters dominate, constituting c.60% of all viewing.

However, among 16-24 year olds it's a very different picture, with TV only constituting a third of all viewing and this cohort on average spending longer watching YouTube or an SVOD service than they do watching television on any given day. While total viewing levels went up in 2020 due to Covid (+14% on STV), the pandemic has also accelerated the shift to streaming services, both free and pay, such as Netflix and Amazon Prime.

Digital

The starting point for PSM migration to digital must be to preserve the best of what audiences value. For the Channel 3 network and STV as regional providers of PSB, that means new platforms must deliver regionality too. Our affiliation with ITV affords us exclusive use of the network schedule in our licence areas and our business model depends on the commercial value this brings. Advertising and sponsorship fund our contribution to network programmes as well as the key PSB material we produce ourselves, primarily news and current affairs. We believe it is imperative that any new PSM framework that includes digital delivery alongside broadcast must preserve STV's association with Channel 3 programmes and the value derived.

Although STV has established a strong and growing online presence from initially launching STV Player in 2008, as a regionalised service we face additional barriers to achieving carriage and prominence on digital platforms, which without exception are many times larger than we are. Our route to securing presence has been tougher and in most cases much longer than other PSBs, mostly operating across the UK. Firstly, it has taken us significantly longer to negotiate access to the main platforms for STV Player than the other PSBs. Secondly, when we're on the global platforms it is very challenging to secure any sort of prominence for STV Player, and the UI and presentation of services on different apps and devices fails to afford STV Player prominence commensurate with our PSB status.

The unique challenge for STV as part of the regionalised Channel 3 network is evident. Digital presence is vital for all PSB services, not just the largest, in order that the content that we provide is as accessible to our audiences in Scotland as is the case for those with audiences elsewhere in the UK.

STV Player both supports and enhances the distribution of our core PSB offering within our licence area, with live and catch-up viewing of network programmes and all our regional production including news and current affairs. However, our commercial ambition for Player goes much further than that, and we have procured a range of content in different genres which forms the basis of a wider roll out across other parts of the UK. This is an advertising supported, AVOD service, free to view and now available on major platforms including Sky, Virgin, Freeview Play, iOS and Android, Fire TV and Now TV.

Last year, despite all the disruption, STV Player grew faster than any other broadcaster streaming service, both in terms of viewing (+68%) and revenue (+12%), and we were able to lay strong foundations for further growth with key distribution deals and content partnerships. We have doubled both viewing and digital ad impressions since 2018. Our Player-only content offer has been a big factor, accelerating to a third of all digital viewing from a virtual standing start (4%) in 2019, at a time when overall streams have been rising sharply (+68% in 2020).

Studios

The third component of STV's strategy alongside broadcast and digital is production. In the past three years we have invested heavily to build STV Studios which comprises a number of different production businesses with individual track records and expertise. With regionality a defining element of both PSB, in general, and Channel 3, in particular, STV is well placed to contribute geographical diversity through investment in production in Scotland. We are building on the success of recent drama commissions for BBC One, *The Victim* and *Elizabeth is Missing*, both BAFTA nominated and with the latter achieving a best actress win for Glenda Jackson. Channel 4 has now commissioned prison drama *Screw*, set to be a potential returning series. This is a significant win for STV Studios and for the Scottish creative community. In collaboration with Screen Scotland we are creating a bespoke set within Glasgow's Kelvin Hall for location filming, and this one production alone will support over 100 new roles. In factual entertainment, *Antiques Road Trip/Celebrity Antiques Road Trip* now into their 30th series for BBC One/Two, one of the most successful daytime returners, and we have recently announced a new cross-genre commission, *Murder Island*, mixing drama and factual for Channel 4, again with a significant production cast and crew – upwards of 90 roles – already working to set up filming on the Scottish island of Gigha. In entertainment, the Channel 3 favourite *Catchphrase* continues to attract upwards of 4m viewers and was the first show to return to production through the pandemic following the careful introduction of Covid protocols.

Over the past three years there has been a process of creative renewal within STV Studios to position the business for the ambitious growth that our strategic plan outlines. We secured a record 19 new commissions in 2020 and our projected revenue of £20-£25m in 2021 is already three times larger than 2020, with our aim being to increase to £40m by 2023.

As the largest commercial producer in Scotland, we recognise the importance and value of growing the sector through talent and skills development thereby securing enough work to enable people, primarily freelance contributors, to sustain themselves and progress in their careers without having to move south. It is here that continued intervention to achieve this public policy PSB objective will be required and as part of our submission to this review and Ofcom's related document, *Call for evidence: public service broadcasters and the UK production sector*, we have commissioned Meditique to provide an analysis of production in the nations and regions to understand the potential drivers, barriers and outcomes of dispersing more productions around the UK. Their research highlights the challenges facing producers in Scotland. It shows that PSB production is still dominated by London where half of programmes are made; that Scotland's share of Out-Of-London production fell between 2014 and 2019; and that its share of spend is still significantly lower than its share of the UK population due primarily to high amounts of lower tariff genres being commissioned. In 2019 only one returning drama was made in Scotland, *Shetland*.

Section 2

STV Proposals for strengthening and maintaining PSB

As we have shown above, while STV remains absolutely committed to our status as a PSB, and our ability to deliver, we recognise the challenges of transitioning the traditional linear channel business model into a digital environment. We agree with Ofcom that it is vital to consider new methods of distribution, potential providers and funding methods to sustain public service media in the future. We must not overlook the ability of the existing model (based on free to view, universally available services via DTT, satellite and cable) to play a major role as the backbone of public service provision, both in terms of actual viewer engagement and reach, and as the basis for distribution and access via new digital platforms. STV will continue to migrate content and audiences to new devices and distribution, but we know how important it will be secure and strengthen what we currently have.

1. Certainty around licences

In order to maintain and strengthen PSM for the future, we need certainty and confidence to plan investments in technology, rights and programme development, both for STV's own delivery and as part of the Channel 3 network. As Ofcom identifies, key features of a new PSM system include "*companies with scale to compete and reach audiences*" as well as "*financial stability to allow for innovation.*"² As a publicly listed company STV relies on shareholder investment and access to capital markets and these sources of funding require the confidence of long term certainty. The licences for the D3/4 and Multiplex B platforms on which we rely for DTT distribution are soon to expire with the government currently considering options for renewal. As we pointed out to DCMS³, the agreements entered into for transmission with Arqiva were subject to regulatory scrutiny and agreed assumptions on the life of assets by broadcasters extending out to 2034, with significant termination fees payable in the event of an earlier break. Even an accelerated timeline emanating from the 2023 World Radiocommunication Conference, as a possible catalyst for change in government policy towards current spectrum usage, is highly unlikely to result in switch off of existing DTT services prior to 2034. However, uncertainty resulting from a notice period being added would, from day one of new licence terms, have a negative effect on (i) the perceptions of shareholders and capital markets towards broadcasters such as STV who are also public companies, as well as (ii) our ability to commit to long term capital expenditure directly or by third parties in order to deliver our services.

² Small Screen: Big Debate Consultation 5.1

³ <https://www.gov.uk/government/consultations/consultation-on-the-renewal-of-digital-terrestrial-television-dtt-multiplex-licences-expiring-in-2022-and-2026/consultation-on-the-renewal-of-digital-terrestrial-television-dtt-multiplex-licences-expiring-in-2022-and-2026>

Renewal of the multiplex licences for 12 years from the end of 2022 would facilitate the extension of PSB service licences for a further 10 years from 2024, and this we believe is the best way to protect maintain and strengthen current provision.

2. PSB prominence, inclusion and fair value on Digital

Discoverability is a key characteristic of public service provision, both in terms of content being freely available and easy to find through prominent positioning.

The traditional method of achieving this prominence for linear channels has served broadcasters, platforms and audiences well over past decades, allowing content from public service operators to be clearly found by appearing as the first services on electronic programme guides (EPG). However, in the transition to digital, there are significant factors that make replicating the prominence of the linear environment challenging. For example, “digital” refers to a growing of devices and distribution networks, from connected TVs to set top boxes and IP services with voice control. As Ofcom noted in its advice to government⁴ on updating the prominence regime, it is not immediately clear for icons and menus what constitutes the prominence achieved at the top of EPG lists. This plethora of different environments, be it TV sets or streaming platforms, is almost entirely controlled by global giants who dwarf even the largest UK PSB networks. For STV, this is a particularly acute problem. For us, the biggest challenge in many cases has been getting on to new platforms in the first place. Often, we have to spend time explaining who we are and that we alone have the PSB status associated with Channel 3 in our licence areas. If you consider, as we passionately do, that local and regional content will continue to form an important element of PSM going forward then we must (i) find a way to ensure this content has a pathway to digital, with clear and easy discoverability by its intended audiences and (ii) update the requirements of the legacy EPG code to reflect this and other public policy objectives.

Commercially, we face the same challenge as other PSB services in trying to achieve fair value for our content being carried on digital services and retaining a relationship with our audience to optimise our advertising as the single source of funding on which we rely to fund our programming. Again, the disparity in size, exacerbated for STV as a smaller PSB operator, between us and global platforms hands commercial power to Amazon, Apple, Samsung and many others, and without a clear framework underpinned by regulation, UK PSB including STV will struggle to achieve presence and terms commensurate with PSB status. We have laid out the basis of such a framework in the joint submission by all PSBs on this issue which Ofcom has included as part of the consultation process.

⁴ https://www.ofcom.org.uk/_data/assets/pdf_file/0021/154461/recommendations-for-new-legislative-framework-for-psb-prominence.pdf

⁵ See **Appendix 2** for STV timeline to platform carriage

3. Nations & Regions – making shows in Scotland

STV has an ambition to build a world class production business based in Scotland. As much of the focus of the PSB review is on distribution and consumption, creation of content is pivotal too. In particular, ensuring that the nations and regions of the UK contribute to and benefit from the creative economy, and culturally that there is geographical diversity in terms of representation. As we noted above STV Studios has been successful in securing commissions from all UK PSBs and an increasing number of other partners. These high value drama productions in particular, and the development of the wider sector more generally, need a healthy pipeline of projects to enable cast and crew members to progress and for new talent to emerge. However, as the analysis that we have commissioned from Mediatique, shows, the dispersal of production around the UK and in particular into the nations remains a significant challenge and inhibitor to the growth of the creative sector. London and the southeast still accounts for half of PSB output, despite having only 13% of the UK population. By contrast, Scotland, with 8% of population attracts only 5% of production by PSBs. In addition, of all PSB content made in the nations and regions, Scotland's share has fallen from 20% in 2014 to 17% in 2019, the last year for which figures are available. Of this total, there is an uneven balance across genres, Scottish output is highest in comedy, current affairs, entertainment and religion/arts but lowest in key scripted content such as drama and soaps. The skew towards less expensive genres means that Scotland's share of expenditure is far lower than the percentage of hours. In 2014 Scotland accounted for 16% of PSB expenditure in nations and regions, by 2019, this was only 12%. The importance of regulation as a driver to effect change is stark – the two UK PSBs with discrete nations targets, BBC and Channel 4 account for almost all (98%) of PSB expenditure in Scotland.

Mediatique have identified a number of policy interventions that could help improve the share of particularly returnable series which are major drivers of long term value within the nations. These are included in the report which we have attached to our submission and are summarised as follows:

- Including specific genres/formats within Out Of London quotas to address the current disparity
- Extending OOL quotas to the nations for all PSBs, not just BBC/Channel 4
- Extending tax credits to encourage Nations and Regions production
- Creating direct funding sources targeted at Nations and Regions

In aiming to increase production in Scotland, STV is uniquely placed to help stimulate growth, in part by using our own schedule and channel to help promote and test new programming, working in partnership with other channels and platforms. Over the past few years we have started to commission collaboratively with other channels, and this model brings financial support from STV as a broadcaster. We see real potential for a wider coalition, possibly with an agency such as Screen Scotland alongside UK or other partner(s) as well as STV. If specific funds are to be made available as part of future PSM provision, the outcomes need to be clearly defined. STV has a role to play here as an established provider with

reach and impact that could provide space within our schedule to help test new shows and formats and create a track record for them to be sold across the UK and potentially globally. Such a scheme could be open to new and existing producers alike, and could go some way to addressing the reduction in scripted formats being produced in Scotland that is identified in the Mediatique research. This type of initiative recognises the challenges of fully funding commissions of any kind, diversifying the investment required across multiple sources, including possibly public funding to support skills development and cultural representation.

What's clear from Mediatique's analysis is that without conscious and deliberate intervention, production in the nations is unlikely to grow given the trends of the past five years. More commissions for returning and returnable series in particular are required to sustain a critical mass within the creative community.

4. Online level playing field in terms of advertising

STV's competitive character is enshrined in our Channel 3 licences. In fact the networking arrangements that are the "glue" of the network are specifically designed *"for the purpose of enabling regional Channel 3 services (taken as a whole) to be a nationwide system of services which is able to compete effectively with other television programme services provided in the UK."*⁶ This we have successfully achieved, acting as a strong counterpoint to the BBC in Scotland, where STV is the most watched channel in peak-time and, as outlined above, where STV News has moved ahead of all other providers to become the most-watched bulletin. This competition is good for viewer choice, and drives innovation and creativity amongst broadcasters. However in order for competition to be fair, the same rules must apply to all competitors. In the case of the television broadcast licence regime and online provision that is not the case, particularly when it comes to advertising. As a case in point, STV is concerned that the government's proposed ban on HFSS advertising on television prior to the 9pm watershed may not be enacted in the same way for online platforms. Compliance with broadcast TV regulations is a mandatory requirement of our licences with the jeopardy of significant sanctions for transgressions. Online providers by contrast currently have no statutory regime for the regulation of advertising and have suggested a self-regulatory approach, based around age-gating and targeting, which cannot be regarded as equivalent to a pre-9pm ban based in statute. In a world where digital platforms are as much a part of the competitive landscape as broadcast TV services, and viewers become used to moving between different methods of delivery, it is vital that as far as possible a level playing field exists for commercially-sound regulation across the board. Otherwise advertising monies that cannot be accommodated on television are likely to move to online platforms, particularly disadvantaging PSB providers who are the largest commercial investors in original UK content, and who include STV whose distinctive character delivers unique regional news and is infused with high profile social purpose strands making up our distinctive character.

⁶ Communication Act 2003 Section 290(4)

5. Additional considerations, making the licences fit for purpose and sustainable to 2024 and beyond

Consistent with a new framework for delivery and accountability of public service obligations, STV believes that existing obligations and quotas within our Channel 3 licences will need to evolve over time. The PSM contribution that we make in future will be spread across wider distribution than just broadcast TV channels, with additional distribution included in any assessment or review for the purposes of accountability.

We agree with Ofcom's view that *"In terms of obligations, we consider that a combination of qualitative outcome focused requirements and some quotas may be most effective."*⁷ That will mean consideration given as to what should be included in the PSB licences for the next term and how this is framed. This is important for clarity and assessing the costs involved in fulfilling obligations in addition to transparency as to the contribution from PSB channels on television as part of a wider framework for delivery.

We note the consideration reportedly being given as to how the BBC might become more responsible for the detail of its existing set of 124 quotas⁸, and a system that vested greater responsibility in the broadcaster/licensee, whilst at the same time permitting flexibility as to how outcomes are achieved, is we think a workable model for commercial PSBs also.

A good example of where greater flexibility has successfully delivered relevant public service programming is STV's regional news service through the pandemic. Whilst our two regional licences have specific quotas for news that each must produce, by working together, we were able to broadcast a service that drew on the newsgathering resources across all of Scotland to create a single programme. This bulletin as we have noted earlier performed extremely strongly across the course of 2020. As part of identifying outcomes and goals, we look forward to working with Ofcom on how qualitative outcomes might be included as part of a new accountability regime, alongside some quotas as the regulator has suggested.

STV also suggests that PSM could be strengthened through a degree of greater greater commercial flexibility. For example, in the way in which advertising minutage is regulated. PSB channels are currently subject to stricter rules on the quantum of advertising minutes than non-PSB services or indeed AVOD streaming platforms.

⁷ Small Screen: Big Debate Consultation 5.17

⁸ The Times, 24 February 2021

Although we believe that differentiation for PSB TV channels is broadly appropriate, greater flexibility on placement and lengths of breaks and the ability to upweight ad minutes within peak would help modernise the regime, with more control and responsibility delegated to channels to self-regulate within broad agreed parameters.

We also believe that the rules on undue prominence within the Broadcast Code require to be updated to allow product placement to be more of a valuable and viable source of revenue for broadcasters. Product placement is regarded as too restrictive by advertisers and broadcasters, and the over-arching consideration of undue prominence works against the very type of placements that were meant to be enabled when the Code was amended to permit them. We would welcome a review of this area to create more meaningful opportunities for commercial partners.

Section 3

Ofcom Consultation Questions

Question 1: Do you agree that a new regulatory framework for PSM delivery should support a more flexible ‘service neutral’ delivery approach that is more outcomes focused? p 39

We agree that there should be a new regulatory framework to support PSM delivery, recognising that audiences are spending increasing amounts of time watching online and naturally expect public service content on digital platforms as well as via traditional TV broadcast distribution. PSM like PSB has to be high quality, delivered by strong brands with reputation, free to consume; universally available, bringing return to providers. The markets alone will not provide this.

As we have outlined above, STV is already straddling the broadcast and online world to be a provider of PSM. A key aspect of any new framework must be regulatory protection in the online environment in order for PSM to remain discoverable. Extending and migrating core PSB programming to the digital world will play an important role in helping audiences make the transition with the ability to discover related content through metadata and search that is not possible through a linear schedule alone. STV makes available all our broadcast output online including all four editions of our regional news.

STV’s broadcast licences deliver this rich PSB mix as it is together with an accountability regime, with the DTT requirement of the licences and traditional broadcast platforms DSAT, DCAB. This established existing provision through broadcast media will need to be incorporated within any new framework that extends benefits of public service provision and consideration of its value measured through goals and outcomes. In short a new framework needs to work for all PSM provision, existing and future and will need to be considered alongside the licence regime that provides certainty, predictability, compliance with Ofcom’s Broadcast Code with related reporting and accountability.

Question 2: Do you agree with our proposals for a clear accountability framework? p 39

STV agrees in principle with Ofcom’s proposals for a clear accountability framework. We believe that such a regime would be better suited to the expansion of PSM on to digital platforms than a pure licensing regime and should be designed to be dynamic and responsive to changes in consumption and technology. That said, it’s clear that STV’s Channel 3 broadcast service will continue to be a primary source of PSM for the foreseeable future and with its obligations for universal, free to air distribution, the licence regime will remain pivotal and will need to form part of the overall framework. Overall, a new framework must be clear enough to provide comfort for audiences and regulator as to what is being provided and clarity for PSM providers on what the obligations are and what are the costs associated. The principles that we think will be important for any new framework are:

- Simplicity – setting out clear goals and objectives as to what a PSM provider will deliver and how this will be measured

- Flexibility – rather than specific quotas and obligations that currently attach to PSB broadcast licences, a future PSM accountability regime needs to provide for delivery across digital media as well as broadcast. This is more easily achieved in the context of a set of principles laid out in legislation but with flexibility and discretion vesting in Ofcom to approve and hold accountable PSM providers.
- Holistic approach – In moving beyond PSB provision linked to broadcast licences, consideration of the performance of PSMs needs to reflect the production and availability of content more widely distributed on other digital platforms. That includes, but is not limited to origination for a broadcast service – in STV’s case our Channel 3 output with regional programming which will remain the mainstay of our PSM activity. It may be that over time, different elements of STV output appear on some or all media associated with our PSM provision and that each could provide “credit” towards our high level PSM requirements as part of an accountability framework.

Question 3: What do you think should be included in the PSM ‘offer’? p 43

STV is party to the joint submission from all the PSBs⁹ which aims to lay out a framework for the inclusion of our services on digital platforms.

As part of a regionalised network, what is most important to STV is ensuring that any new model for migrating traditional TV services online includes the service that we provide for our territory of central and north Scotland. As the joint submission notes there is a “well-established principle that predominantly commercial activities cross-subsidise commercially-challenging PSB content”. That is true for our business as it is for others and our commercial viability depends on being able to generate a return for the exclusive rights to the Channel 3 network schedule to sustain investment in areas such as news and current affairs.

As the joint submission outlines, we agree that the regulated PSM offer should become a guaranteed baseline offer which is fair for both PSM providers and platforms and enables the public policy objective of making PSM content as widely and freely available as possible. This is built around **guaranteeing access** for PSB channels on to digital platforms and supply of relevant services to those platforms, **prominence** for PSB channels including qualifying VOD Players, **control** over the content and signal – ensuring for example that any additional functionality included by platforms – e.g. ad skipping becomes an additional benefit for which PSB channels receive fair value and **attribution and data**, facilitating a customer relationship around targeted advertising, personalised recommendations etc.

The main benefits of the model as outlined are:

Consistency and certainty – creating a transparent reference for what inclusion of PSM services online looks like and how creators and distributors collaborate to make this content available.

⁹ https://www.smallscreenbigdebate.co.uk/_data/assets/pdf_file/0027/208818/psb-submission-broadcasters.pdf

Targeted and proportionate – establishing a regulated PSM offer focuses all parties on the key objective of making public service content universally available. It would neither compel PSB operators to provide the entirety of their commercial offer, nor oblige platforms to give prominence to any material that a PSB presented beyond the core PSB offer.

Facilitate commercial negotiation – by designing a regulated offer mechanism that forms the terms for digital carriage and presentation of PSM and makes clear what is/is not included, platforms and providers are free to negotiate the commercial value transfer of other programmes, functionality and services on a purely market basis.

Question 4: What options do you think we should consider on the terms of PSM availability? p 43

STV agrees with Ofcom's note in the consultation that "Any new framework must effectively balance the promotion and sustainability of PSM, against the general benefits of consumer choice and the regulatory impact on others, such as platform operators, device manufacturers and commercial content providers."¹³⁰ As we have experienced repeatedly, the barrier to achieving presence with appropriate prominence on digital platforms is high. This is particularly true in the case of STV as a regionalised operator within Channel 3. The "promotion and sustainability" that Ofcom refers to requires, at the very minimum, being able to get onto platforms in the first place. It also requires that platforms are regionalised to ensure that the principle of exclusive rights to Channel 3 content in each licence area is respected, otherwise viewers will simply migrate to ITV's on demand service in Scotland. Without a regime that secures this for all PSBs, the benefit of consumer choice will not be realised. We believe that the model set out in the joint PSB submission serves as a reasonable starting point for a future regulatory framework, with the terms of PSM availability falling into two broad categories. Firstly, the regulated offer which clearly defines the basis of how the core PSM offer is to be provided by the operator and accommodated by platforms. Secondly, an acknowledgement that where commercial value is created by platform operators over and above the straight pass-through via the regulated offer, for example a subscription that includes the ability for consumers to ad-skip, a negotiated agreement would need to be concluded between platform and provider. This would also cover areas such as customer relationship and the ability to serve targeted advertising. We do not consider that the technical considerations to facilitate these elements of PSM provision are onerous or unreasonable – in our experience, the commercial power and sovereignty of increasingly global platforms and device manufacturers presents more of an issue.

Question 5: What are the options for future funding of PSM and are there lessons we can learn from other countries' approaches? p 52

STV is fully committed to our role as a commercially funded PSB. The options we have laid out for the migration of public service content online in a way that continues to provide a return on the original investment represents the best way of sustaining PSM that is advertiser funded.

¹⁰ Small Screen: Big Debate Consultation 5.33

We agree that additional sources of funding should be investigated further. STV has direct experience of a successful contestable funding model that was previously used to support production of Gaelic language programming. The administration of funding was undertaken by an independent third party, in this case the Gaelic Media Service, to whom producers would apply. As part of the commissioning process, STV would agree slots in our schedule to broadcast programmes. As a result, a range of Gaelic language programmes appeared regularly on STV, benefitting from carriage on the mainstream Channel 3 service with our significant reach and ability to promote content to audiences across Scotland. We believe a model similar to this could form the basis for other programmes as an alternative or supplementary to funding by the broadcasters themselves. By creating a framework for inclusion as part of a known and trusted brand within our broadcast schedule and/or online VOD player contestable funding can be maximised towards programme production with profile and distribution already agreed.

Question 6: What do you think about the opportunities for collaboration we have referred to? Are there other opportunities or barriers we haven't identified? p 54

STV understands well the value and power of collaboration and we think there is significant potential for the PSBs to join forces in the on demand world around platform development, navigation and search, single sign-on, ad tech, and potentially even ad sales, in order that they can focus their resources and investment on the thing that really matters – competing for audiences with their distinctive content. Our core business as holder of Channel 3 licences depends on us having arrangements in place with ITV as the other licensee in order to make the network competitive, giving us access to programmes and sharing the costs. In Channel 3's case, these collaborative arrangements are regulated by Ofcom and we believe that this is an important characteristic when considering how PSB services of different sizes and relative power might work together. Our experience tells us we will need regulatory oversight to ensure parity and fairness for ourselves and other smaller operators, often seen as having less to offer and therefore less important but just as important for the audiences that each of us serves.

We also recognise the importance of competition in driving innovation and creativity amongst PSB operators and the subsequent benefits for viewer choice. However, in the same way that all PSBs rely on the same DTT, DSAT and DCAB infrastructure for distribution, IP delivery of services has largely settled down around standards and functionality to the point where we believe there is merit in UK PSBs being able to collaborate in order to make digital distribution and inclusion on new services straightforward and predictable for platform operators and manufacturers without stifling innovation. A significant barrier for any combined PSB app or presence remains the difference between the publicly funded BBC, with no requirement for the infrastructure necessary to serve advertising and commercial PSBs include STV whose business relies on it.

Question 7: What are your views on the opportunities for new providers of PSM? p 60

STV welcomes the ambition to grow PSM provision, connect with younger audiences, find ways to collaborate with other media and to be innovative in terms of content creation. At the same time, there is a role and an appetite for existing players to evolve and adapt too. In 2014 in the run up to the referendum on Scottish independence, STV worked with Facebook to produce a live leaders' debate carried by us as broadcaster and

on the social media platform to reach two distinct audiences. Last year, STV Studios and Reach, publisher of The Daily Record collaborated on Pride of Scotland, an awards ceremony recognising community heroes across the country. These are just two examples of where STV has worked together with other media to create projects of greater scale and with larger reach than if we had progressed them by ourselves.

The challenge, we believe, is not a shortage of ambition or creativity so much as funding for some elements of PSM. In this regard, the same considerations will apply to new players and established providers alike.

We are committed to playing a lead role in the evolution of PSM, both as a Channel 3 licence holder in our own right and through collaboration with others. As a producer and just as importantly a publisher of content, our presence – on TV and increasingly on digital platforms through STV Player - can provide a high profile destination for our own and others' content, facilitating the discoverability aspect of PSM just as much as its production.

Conclusion

As Ofcom's fieldwork shows, PSB remains highly valued by audiences but needs support to be able to compete against global giants. Otherwise the risk is that the contribution made by PSB as the largest investment in production of UK content, representing British values, informing, entertaining, educating will be diminished. Digital provides new opportunities to make and distribute content but new global gatekeepers hold the key to connect with audiences. If UK PSB is to be strengthened and maintained, legislation is required to secure a guaranteed place for it that platform operators and device manufacturers alone will not provide.

As a strong contributor to PSB across six decades, STV has continually adapted and evolved. Our strategy is to concentrate on the strengths of our broadcast business and its comprehensive, highly trusted news service, build a digital VOD service and a strong commitment to STV Studios as a producer of scale in Scotland supporting PSM in the future. But it's not just about programmes. Social impact is a fundamental characteristic of public service provision – the STV Children's Appeal, our commitment to diversity and sustainability, the STV Growth Fund support to grow new businesses in Scotland.

We are ready for the next chapter of PSM and are clear on what is required to protect and strengthen future provision. Clarity around renewal of existing broadcast licences that will continue to be the bedrock of PSM provision, adding digital distribution in a way that replicates the prominence that is required for discoverability and returns fair value to operators. This will necessitate specific consideration around regionality to ensure STV and other smaller PSBs are not disadvantaged and that the unique service that we provide can migrate to digital too. The totality of PSM in future will need a new framework that captures every element, not just legacy quotas in linear schedules. New funding models and incentives will be important, particularly where the market alone will not deliver – for example continued dispersal of production around the nations and regions.

Most of all, STV agrees that whilst the provision of PSM faces jeopardy and challenge as digital services compete for audiences' attention, such is the strength and resilience of PSB that the unique content we provide can flourish too. The provision of PSM has always relied on intervention such as the original commitment of spectrum for delivery. The mechanism may have changed across the decades but the need for legislative and regulatory levers for PSM remains and we look forward to working with Ofcom and government to secure a future framework for continued delivery.

End