



**OFCOM'S SECOND PUBLIC SERVICE BROADCASTING REVIEW
Phase One: The Digital Opportunity**

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Executive Summary

Introduction

SMG welcomes Ofcom's Consultation under the first phase of its Public Service Broadcasting Review. There is an uncertain future for public service broadcasting as the viability of maintaining competition to deliver plurality of supply is called into question. Ofcom's Consultation document published on 10 April 2008 openly recognises the jeopardy facing public service broadcasting (PSB). Licence obligations to deliver PSB can no longer be imposed upon commercial broadcasters as their licences go into deficit.

We operate within Scotland where the issues of the core "at risk" PSB are our every day reality - the unsustainability of regional news production; and the well-documented falling levels of network production outside the M25. Ofcom recognises that the licences of the Scottish Channel 3 licensees will be the first to go into deficit – from 2010 – with the cost of news alone exceeding the benefits of public service broadcaster status by that date [see paragraphs 1.50 and 9.34]. Indeed by our calculations, it is 2009.

That stark reality is against a recognition of the hunger of Scottish viewers for relevant programming – network offerings reflecting the Nation back at itself, and local programming tailored for the Scottish market [as outlined at paragraphs 9.27 and Fig 52 Attitude Statements]. Regional news remains a viewer priority, with plurality of news provision particularly important [paragraph 9.26]. Ofcom suggests that the audience place a lower priority on non-news programming [paragraph 9.10]. That is true, but in Scotland, even our non-news programming can perform well. On Monday 17 June 2008 *Postcode Challenge* – stv's regional gameshow delivered a 26.5% share – on par with ITV Network – and beating all competitors in the slot.

SMG spends £7m per annum on its regional news, but that investment is not sustainable on a purely commercial model. Ofcom's own analysis of cost/benefits of PSB shows all network value of circa £45m – but only around £4m in Scotland. In light of this, Ofcom recognises the need for direct funding to preserve plurality [paragraph 9.38], and indeed that it is a "need to be considered in Scotland ahead of other parts of the UK [paragraph 9.34].

SMG has a solid track record as a producer from the Nations who can deliver network production across a range of genres, but without intervention, centripetal forces operate to pull production inside the M25. See **Appendix 1** – for SMG's Commission Record, and current hours in production. This demonstrates ability and ideas, but our ability to contribute to the diversity of UK original programming will be lost without further intervention through targeted financial support.

We outline our vision of a new model in this Submission. It relies upon a portfolio of services to achieve reach and enhanced offerings to the viewer, continuing to offer the best of network programming whilst delivering a new dedicated Scottish channel. Integrated online services would underpin broadcast delivery, and the hierarchy of services would embrace technological advances and the benefits of regionality offered through the DTT platform to serve Scottish viewers, and permit greater interactivity with local communities.

The media landscape is shifting at an incredibly fast pace but material crafted and imbued with TV production values is still the essence of broadcasting and essential

to preserve. There are more television sets than there are people. It is not a technology on its last legs.

What would the landscape look like in Scotland without stv and PSB, without targeted intervention? Diversity would be eroded; plurality would be lost; and the creative industries stifled. And all this at a time of Scotland reinforcing its national identity within the United Kingdom. The viewers would be the losers.

The year 2012 would dawn over London and the South East polished to showcase the Olympic Games through the lens of the BBC with an empty hinterland stripped of a vibrant mix of diversity, where once there had been regionality and potential to contribute to the United Kingdom's rich and pulsating sense of self.

SMG welcomes this PSB Review and full and informed debate on all the issues. The future of PSB in Scotland cannot be determined by divergent commercial agendas within the ITV Network, and all stakeholders have to be actively and openly contributing to the debate.

Our future

We are very clear that our ambition is to maintain and strengthen our delivery of PSB as the national commercial broadcaster for Scotland; as a network producer with an established reputation and ambition to do more; and as a commercial operator committed to strengthening our relationship with regional advertisers and developing commercial opportunities in the new developing online market.

stv has a 50 year history of delivering content at regional level to a nation with clear regional and local differences and yet a pan-Scottish sense of a distinct national identity.

Whatever the economic trends and our commercial history may have been, that is a heritage to which we remain committed and are building on.

Our turnaround activity is well underway as we re-focus on our core TV business. A rights issue is behind us. We operate with an advanced technological infrastructure across all of Scotland's key cities with new custom-built premises in Glasgow and Aberdeen. Like Ofcom we recognise the "real potential to develop new online services which meet the needs of citizens in the nations, regions and localities of the UK in new ways" [paragraph 9.7]. New media investment and the development of compelling visual delivery is central to our thinking and we have invested heavily behind a new video player and updated online support service within www.stv.tv - to be launched in the summer of 2008. We are seeking out new emerging opportunities to monetise our online services in the classified market, alongside the online activities which will support and enhance PSB delivery on the traditional broadcast platform. We have improved the performance of our regional sales activity. Our regional revenue has increased from 17% (of our total ad revenue including network) in 2006 to over 21% in 2008, as we focus on improving the overall sales pitch for selling to advertisers. We believe in research to deliver bespoke presentation for prospective advertisers, and our research shows the Scots love television – and they like ads. See **Appendix 2** for research demonstrating the particular impact and appeal of advertising for stv viewers. Above all, we recognise the importance of people and talent to growth, not just for SMG, but for the Scottish creative industries. Scotland has a unique creative ecology – an interwoven industry around film, broadcasting, the visual arts and new media, and a strong commercial

television enterprise at its core is a key asset. Alongside a significant cost cutting exercise which has reduced our controllable costs by over 20% (equivalent to more than £5m per annum), we have continued to invest in new talent, and appointments to deliver our ambitions.

The future of PSB in the UK cannot be influenced by any UK broadcaster arguing that commissioning Out of London (OoL) inhibits creativity and is too difficult due to lack of talent pools. Of course, we recognise that there are difficulties (due to issues of proximity and trust), but promoting diversity of supply would only enhance not stifle creativity, and if that is recognised – as it must be – then so too must the need for targeted support to maintain and strengthen core “at risk” PSB and deliver tangible benefits for viewers – indeed to deliver what they are asking for.

We propose:-

- 1) Funding of regional news direct to stv (transparent; clear guidelines around fairness, impartiality and accuracy (i.e. subject to the Broadcasting Code; editorial independence reinforced through arm’s length funding models)) - to ensure plurality alongside the BBC; and
- 2) Contestable PSB funding for network production some of it ring-fenced for Scotland – to stimulate that creative hub; and
- 3) Access to digital spectrum on DTT to launch a dedicated Scottish Channel with a symbiotic relationship with the core stv channel (continuing to carry rich UK wide content and core regional news). The new “digital daughter” would utilise SMG’s infrastructure to launch more effectively and ensure sustainability, and its key drivers would be to (i) showcase the best of Scotland from a variety of sources (be that archive (including BBC); indie-commissions); (ii) promote local news services and (iii) provide outlets for new creative content produced in Scotland. It would be technology-enabled (on the DTT platform), to split at specific times into Local TV, supported by broadband streaming services to serve consumers at even more local level with granularity and depth. Funding issues would likely rest with the Scottish Government, but Ofcom’s role in bringing the channel to fruition would be to ensure that spectrum was put to optimal use (whether released through the Digital Dividend or otherwise available) for public purposes –as indeed Ofcom itself predicated might be appropriate.¹

Those three factors are at the core of our model for the future – to create vibrant PSB relevant to the people of Scotland. On non-news regional programming, we recognise that viewers value it, but future models cannot impose licence obligations around its delivery. It has to be done at commercial risk. We need the flexibility to produce and broadcast where it works for us – at commercial risk. Our example of *Postcode Challenge* is ad funded, has high production values and it attracts significant audiences.

¹ **Para 7.125** – Digital Dividend Statement on Ofcom’s approach to the award of the digital dividend spectrum – <http://www.ofcom.org.uk/consult/condocs/ddr/statement/>
“we have decided not to intervene (to provide an additional DTT multiplex for community/citizen focused content) .. but we believe it is important to consider the issues faced by such services that generate broader social value. We will do so in our second PSB review”

Without stv as a strong commercial channel in competition to the BBC, the idea of an innovative, experimental digital channel will not work. Ofcom seeks innovative and good use of the spectrum and sustainable economic models. We believe Ofcom can make recommendations along the lines we propose, and have begun formulating our own ambitious view for the future, identifying the targeted support needed to deliver it.

Broadcasters need a hierarchy of services on multi-platforms delivering network content; local news; local programming and online complementarity if the viewers' and advertisers alike are to receive enhanced offerings with reach and impact.

In summary, our model is developed from that emerging trend and recognises the power of cross promotion; and the need for PSB delivery in a broad mix of niche and mainstream; linear and non linear; event programming and solo surfing; network and ultra local, all of it happening across inter-related platforms.

SMG is making a special case for Scotland, and Ofcom has the powers and the duty to make bold separate recommendations for Scotland, and make a real difference to the creation of an exciting digital PSB future for Scotland.

Critical short term requirements towards a model for the future

Through evolution, stv has the potential to deliver our model for Scotland - with targeted support and a regulatory framework which is capable of adaptation to deliver it. However, we absolutely require recognition of the jeopardy facing PSB in Scotland, and the need for pragmatism. The markets alone will never deliver the vision, and only targeted intervention in the medium to long term will.

However, what is critical for the short term is flexibility around our licence obligations beyond simply considering the case for relaxation as Ofcom suggests at paragraph 8.8.

Non-news regional programming

Gaelic

Ofcom recognises that the cost of news alone will exceed our PSB benefits in the short term [paragraph 9.34], and considers there is a case "for some relaxation in regional obligations" [paragraph 8.8].

The situation is critical for stv, and in our view regulator intervention to provide relaxation is essential. stv needs relief from Gaelic programming obligations which under current obligations will represent one third of quota from 1 January 2009 - double the total quota for non- news regional programming in English for England (0.5 hours in total for England whereas Gaelic forms one hour of the three hour quota for Scotland). We have been plotting a path agreed with Ofcom in 2005 towards losing our requirement to produce and broadcast our own Gaelic material, and the requirement to broadcast material funded by the Gaelic Media Service in peak from 2009, but the change in secondary legislation which Ofcom believes is required to sanction this has not yet been put in place.

A three hour quota (even without Gaelic) is onerous, and we are left facing the continued imposition of PSB obligations beyond our cost capability to deliver them. We believe this is a short term issue within the power of regulators to fix.

The anomaly of Border TV – where viewers in south Scotland need a more relevant local news offering

We are in discussion with ITV plc to provide a local Scottish Borders news service. Under the proposals tabled, we would maintain newsgathering resources in south of Scotland and would produce Scottish Borders bulletins for inclusion as opt-outs within ITV1's larger regional news programme from Newcastle. Alternatively, the Borders material could sit within our Scotland Today programme which would be transmitted in the Scottish part of Border's region. This would guarantee local Borders news at 1800 and 2230, presented within a wider Scottish news context that would be directly relevant to the Scottish Border audience. We believe it is workable within the context of the existing legislation, and discussions with ITV plc are ongoing.

Ensuring that the voice of Scotland is not lost as network broadcasters put forward future strategies

Public Service Content of the future needs a badge of identity, and must represent a trusted source for consumers, and a reliable and verifiable recipient of public funds. stv as the national commercial broadcaster for Scotland provides that.

It is important that regulators recognise that the voice of Scotland could be lost as network broadcasters develop strategies which could be in conflict with the national interests of Scotland. That applies to all network broadcasters be they ITV plc, Channel 4 or BBC (particularly with regard to the BBC's online ambitions with local news). The regulatory objective must surely be to ensure alignment in strategies and audience needs.

The only certainty is that the pace of change will increase. Legislative change is necessary, but the United Kingdom has a 50 year history of plurality of PSB supply and those years have underpinned the creation of strong UK original content as a PSB legacy. There cannot be a Stunde Null approach. Without evolution, plurality, creativity and mass reach will suffer. There has to be a knowledgeable transition from old models to new ones.

Ofcom seeks an answer to its broad questions, but welcomes views beyond the Questions. Our Submission delivers a sustainable model, and we present it ambitiously, albeit in early stages of development. Ofcom's Review is to make recommendations on maintaining and strengthening Public Service Content ("PSC") for the future benefit of society. That surely points towards finding ways to promote and stimulate creativity, innovation and diversity, to secure plurality of news supply to the Nations; and to lend support to creative hubs in the Nations and regions to secure them access to markets. We believe this is a one off opportunity for Ofcom to engage with us, and other key stakeholders in Scotland, to explore our proposals and to recommend ways to provide Scotland with rich and exciting PSC for the Digital future.

End of executive summary

SCOTLAND – THE VIEWER’S FUTURE AND STV’S ROLE IN IT

We believe in the following description of the future – a totality of vision.

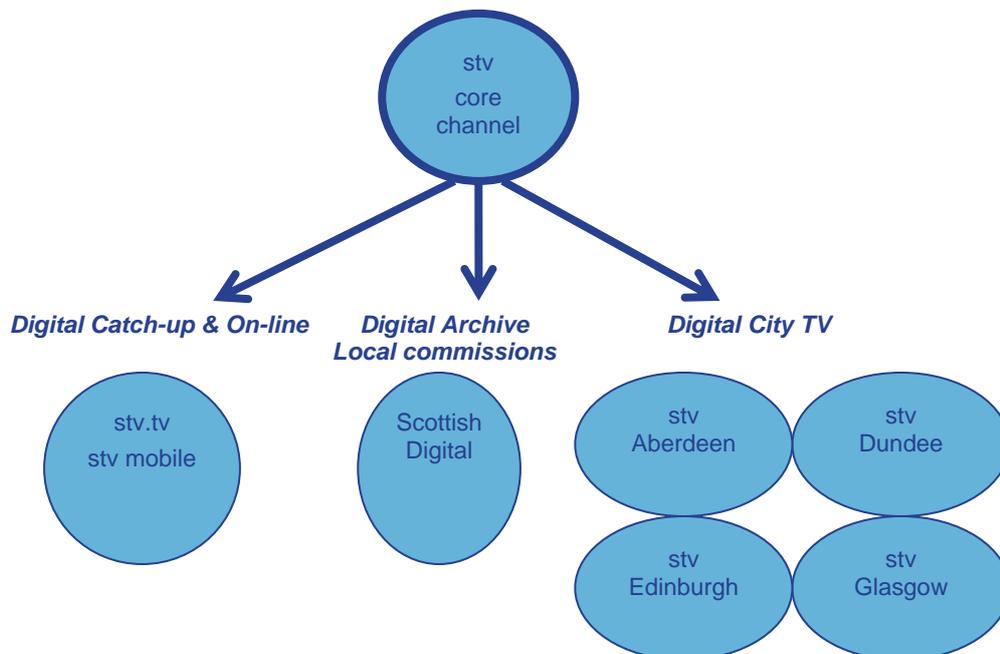
- A continuation of stv – national commercial PSB broadcaster for Scotland (with an integrated TV and online offering) and a network producer of content with a reputation and ability to be at the hub of emerging creative industries. News and current affairs programming would be underpinned through access to guaranteed funding as a counterpoint to the BBC in Scotland. Our news offering has reach; relevance and ratings. We provide plurality competing with the BBC (and currently outstripping them in terms of audience, a demographic which is markedly different, and a granularity and split location delivery which is valued by viewers). But to continue we need guaranteed news funding, and the BBC needs to be held in check online.
- Stimulation of Scotland as a creative hub through access to contestable pots of funding for production which shows on the network, but has an element ring-fenced for Scotland.
- A new digital Scottish channel showcasing the best of Scotland from a combination of sources. Our core Channel “stv” houses the network schedule. A second digital daughter channel is the place to innovate; to experiment. To show that rich archive (both BBC and stv) everyone feels needs seen, and to commission new material from the Scottish creative base. With core channel investment guaranteed around news and current affairs, we could re-purpose this material for the digital channel, and we could offer enhanced local news services for these markets on broadband. We would use our existing infrastructure to host the channel using our four Scottish locations. There would, of course, be spend on capital upgrade for the production and transmission of the new local services. It would also require some additional staffing to guarantee the volume of output required, but economies of scale could deliver tangible benefits in the viewer experience of re-purposed, ultra local news. Costs per minute reduce as news output increases. Building on the success of the micro regional news output that we’ve established, it points the way ahead for news provision in Scotland. Local news services based around a network of local TV services, operating as part of a pan Scotland channel outside news slots. stv is uniquely placed to support and crucially to cross promote this channel. It cannot be stand alone. The digital channel would be able to take those editorial risks – innovation; comedy; local talent. There would be a symbiotic relationship with the core mother channel, and hence sustainability.
- Furthermore, there would be an ultra local approach out of peak – Local Television which, from a programming and editorial basis is exciting. As soon as you go very local, within that local area there will be a lot of content that actually is being produced by bodies and organisations – up to now without a voice. We envisage partnerships at local level and community links to promote talent and deliver new outlets.
- We foresee a one-off opportunity to combine online technological advances and spectrum access in support of local services, and thereby improve the viewer’s experience. This would provide Scotland with a 21st century offering; capitalising on new technology in order to build and better serve our

communities; and it could be provided within the current regulatory and legislative structure.

- The broadcast DTT universal platform remains an important platform to reach out to viewers (offering universal coverage at 98.5%) whilst promoting the online environment as an interactive enhanced service which can provide further granularity and localised cover.
- Scotland has a unique creative ecology – an interwoven creative industry around film, broadcasting, the visual arts and new media with cross sector initiatives to promote skills that can serve it, and nurture talent that can develop it. Funding sources have to be identified to secure PSC for the future, and PSC of the future has to evolve and be delivered multi-platform, and recognise that UK is a multi-layered society. Scotland could benefit from a second channel with localness, experimentation, re-purposed news as its key components. Although SMG proposes that it is a matter for Scottish Government funding, Ofcom could formulate effective ways to access spectrum. We will be considering closely Ofcom’s recently launched Consultation under the latest phase of the Digital Dividend Review² but highlight that in our view it is important that the PSB Review process ensures that regulatory initiatives are linked to achieve the most effective outcome for Scotland.
- Above all stv is committed to strengthening the delivery of PSB to our audiences and can see the ways to embrace new technology to enable us to better serve our local disparate communities. See **Figure 1**.

Fig 1 SMG’S MODEL

Into the future a family of content delivered to our local Scottish audience with stv channel at the core



² <http://www.ofcom.org.uk/consult/condocs/ddrinterleaved/> (Consultation) Closing 21 August 2008

We recognise there are State Aid issues. However, from our initial review of the EU legal framework, the European case law, and the developing principles at play throughout the European Union, we believe that the issues are surmountable where aid is granted in support of the particular democratic, social and cultural needs of a devolved country which otherwise risks being stripped of its ability to compete against the centripetal pull of the South East in terms of production, and losing its regional and national voice in terms of news delivery.

Ofcom's Consultation already stipulates that new funding models are essential for delivery of Public Service Content for the future which will deliver reach and impact. That will be achieved - as we have outlined - through multi-platform delivery of a hierarchy of services combining network offerings with local relevance. State Aid issues will be surmountable provided Ofcom too embraces the need for further delineation of those PSC characteristics to facilitate the delivery of "compatible" State Aid which will meet the requirements of European law.

So what are we asking for?

- **Debate on contestable funding to begin seriously for network production with a pot ring-fenced for Scotland.**
- **Consideration of routes for direct funding for news provision.**
- **Consideration of optimal spectrum use around local tv which ensures sustainability.**
- **Recognition that the agendas of all network broadcasters must be aligned to the needs and requirements of the Nations making up the United Kingdom.**
- **Opportunity to benefit from new technological advances and targeted intervention to deliver an enhanced digital media future for the people of Scotland, and provide a blue print for PSB delivery in the digital age.**
- **And critically, in the short term - support in the form of re-consideration of stv's obligations for non-news programming.**

Questions/Answers

Section 3. How well are the public service broadcasters delivering public purposes?

- i) Do you agree with Ofcom's assessment that television continues to have an essential role in delivering the purposes of public service broadcasting?
- ii) Do you agree that UK-originated output is fundamental to the delivery of public service broadcasting purposes?

Ofcom states: "Television still plays a central role in delivering the purposes of public service broadcasting" [Paragraph 3.17]

"While (digital television and online services) will bring new value, there are likely to be issues around "discoverability" of content available, reducing its reach and impact on citizens" [Paragraph 5.4]

SMG on Question i):-

Yes - for reach and impact there is still the need for television channels committed to the output of PSB – for Scotland that is regional news, and UK original content which reflects the nation back to itself. Without it there is no identity, there is no guarantee of news delivery.

See Appendix 3 - viewer confirmation of the sense of identity and connection delivered by stv.

Niche broadcasting follows the interests and passions of the individual. That is a true benefit of the technological age. Shared identity and reflection of localness, communities in all their variety and diversity will not be served by niche broadcasting.

The internet offers up endless possibilities but it was the BBC iPlayer which drove streaming video because it made PSB/television-like material available online. Content with high production values is all important.

Time and time again, facts and our research shows that people of Scotland will seek out and follow local output. PSBs with diverse output is the only way will attract people to news

The emerging digital world is rich and varied beyond most people's comprehension but it lacks moderation, mediation and accessibility.

There is still a need to shape and nurture material for TV viewing (including VoD), and then by all means to motivate people to go and find more. Material presented with the crafting of TV production values is the first stage, and is still the essence of broadcasting which is worth preserving. It is not all about sourcing information. It is crafting material, infusing it with television production values and making it accessible to a diverse audience representative of the community – be that on national; regional or local scale.

Increased media literacy to navigate the web will not compensate for the loss of PSB, and as far as news is concerned, principally, online services are an enhancement, but there remains a significant part of the audience who value the fact that actually stv aggregates the news and presents it. As a trusted brand, we make journalistic assessments of the importance of stories and present it in a half hour and scheduled way, and in an accessible way, and in so doing continue to serve a significant part of the audience.

- ii) *Do you agree that UK-originated output is fundamental to the delivery of public service broadcasting purposes?*

A key PSB purpose is “reflecting and strengthening UK cultural identity – through original programming at UK, national and regional level, on occasion bringing audiences together for shared experiences”.

According to Ofcom, the public believes that origination is particularly important for the BBC [paragraph 3.29]

SMG on Question ii):-

UK originated material is fundamental to the delivery of public service broadcasting purposes. It is the way the audience can connect with what is on screen. See their lives reflected back. Gain confidence. It is about national identity and national culture, and without it our identity and culture at all levels would simply wither on the vine if we were required to survive on a diet of US imports.

UK originated drama – that is what UK does well and it sells well. Why would it stop doing it? *Taggart; Coronation Street; Emmerdale* do better than expensive US import.

The BBC is not enough. Its production values may be good enough to ensure “high quality”, but creativity and reach need competition. Monopoly power in the hands of one commissioning body could strangle ideas at birth, and the break through of new talent risks being dependent on the whim of one commissioner.

Section 4. The changing market environment

- i) Do you agree with Ofcom’s conclusions about the way that other digital channels and interactive media contribute towards the public purposes?

Ofcom concludes non PSB Channels spend less on UK originated UK content. [4.26], and still have less reach – ITV2 the most viewed digital television channel outside the main PSBs in 2007, still only commanded an audience share of 2% in multichannel homes [4.29].

But Ofcom determines that there is a substantial volume of rich public service content provided by the public and voluntary sector – i.e. where there is a strong mix of well-funded, committed providers pursuing sustainable operating models. [4.42].

SMG on Question i):-

On spend of non PSB Digital Channels – we agree completely. They have no money. Overtime as they mature, they have shown they might do some PSB, but budgets have been on a shoe-string. They will line up cheap programming from wherever they can get it.

There are two key points to make in relation to them:

- 1) they have low levels of origination; and
- 2) core PSB delivery by broadcasters adhering to the standards and values which is the legacy of 50 years of plurality provide the benchmark. Without the benchmark there are no standards to emulate, nor potential created for innovative delivery.

As Ofcom points out, the digital channel ITV2 still only attracted a 2% audience share. We consider it is worth highlighting that its low share was in spite of the benefits it derives from its heavy reliance on PSB content from ITV1 – acquired through transfer pricing mechanisms.

On online rich variety of sources - Yes there is a huge amount of rich public service content, we agree with Ofcom on that - but the audience still has to find its way through it, and the sources are not verified and necessarily accurate. Online services offer complementarity, they are not substitutes for the experience of television and the production values which imbue it.

Section 5. Prospects for the future delivery of public service content

- i) *Do you agree with Ofcom's assessment of the implications of different economic scenarios for the UK TV market for the future prospects for delivery of the public purposes?*

Ofcom sets out four scenarios – Consolidation; Gradual Transformation; Radical Fragmentation; Stagnation. Plotting each of them on a graph demonstrates for all of them consistent and steady drop in commercial PSBs revenues.

Ofcom concludes that **abundance of provision + extreme fragmentation = significant new barrier to PSC achieving reach and impact**, and asks “how will people become aware of, or discover, interactive public service content which meets their needs as citizens [paragraph 5.58]

Ofcom's research tells them that search engines can be less than helpful as results are generated algorithmically and therefore prone to manipulation. [Paragraph 5.61]

SMG on question i):-

We agree with Ofcom's depiction of four possible scenarios, and recognise that each of them demonstrates a consistent and steady drop in revenues for commercial PSB revenues.

But whatever the economic models devised, there are two compelling truths which should not be overlooked. Firstly, as long as advertisers need to chase viewers, then premia will attach. And secondly, television is watched.

Indeed, research shows that the more technology goes into homes, then the more people watch TV.

“People don't get DTRs to avoid ads; they get them to find content they want to watch. Owners are not militant anti-commercial ad avoiders. The Skyview panel (Sky's audience panel of 20,000 Sky Digital Homes) shows that, when a home gets Sky+, 14% more commercial TV is watched than before (20 minutes more a day), about 87% of viewing is still to live broadcast and, of the viewing that is timeshifted, 44% of ads are watched "as live". The net effect of all this is that Sky+ owners see about 6% more ads at normal speed than they did before they had it”.

Source: Thinkbox

We do agree that the pricing premia in the short, medium and long term will stay as long as we can retain volume of audience through one channel. New emerging digital channels are never likely to reach the impact of *Coronation Street* and *Emmerdale*.

We do not necessarily agree that reducing investment in programming leads to smaller audiences – *Deal or No Deal* gets a big audience in Daytime and will be cheaper to make than a network drama daytime repeat.

With regard to Ofcom's Fig 34 – radical fragmentation would have a significant adverse impact on revenues of a commercial PSB, namely the scenario whereby *“consumers divide into niches with divergent media use – blending linear on-demand, interactive and user-generated”*. Where an audience gravitates to one channel to service all television entertainment needs (like the “Dave Channel”), a channel which has to satisfy all audiences – like stv – cannot compete. But Dave has no PSB on it.

stv's goal of a sustainable infrastructure whereby the core channel and the digital daughter co-exist supported by integrated online services lends itself to avoiding each of the four scenarios. Advertisers could be sold a combination of viewer online + on channel. That way, stv could combine declining audience with an increasing audience on digital channel (albeit with smaller audience numbers). Its success would depend on making a commercial proposition out of the smaller numbers, but it is a vision with a future.

Whilst regionality is stv's strength - Regional news / Regional advertising / Regional programme - stv needs access to a network schedule. The two are inextricably linked for the future sustainability of Digital PSB. Without outlets for talent to develop and grow, there will be no feeder pools for UK original programming. Without access to a network schedule, regionality will not survive. Moreover, recent developments have shown that all major deliverers of PSB recognise that they need multi-platform delivery and a portfolio of channels to have reach.

IN SUMMARY, our model is developed from that emerging trend and recognises the power of cross promotion; and the need for PSB delivery in a broad mix of niche and mainstream; linear and non linear; event programming and solo surfing; network and ultra local , all happening across inter-related platforms.

If stv had the best programmes, it will mean people stay with stv. If not, and *Coronation Street* appears on ITV2, then people will simply go to ITV2, but

there will be no more regionality around that programming to fulfil the PSB needs of a devolved nation. The ITV federation delivered regionality, and stv has built on that regionality and how it underpins PSB. We urge regulators and legislators not to oversee the break-up of the federation at the discretion of commercial operators (whose interests lie in promoting a family of channels and not the federal network), and pay no heed to the consequences of lost PSB.

Watching of television-like programming will carry on, and increase through whatever delivery platform. TV advertising funds will still go to TV.

But there will be no provision of regionality without the bankers which attract the big audiences to keep broadcasting away from radical fragmentation, and erosion of PSB.

If ITV plc's actions and regulator acceptance of them resulted in the loss of the core commercial channel in Scotland, then viewers would be left with the BBC and the digital world. That would signal the loss of plurality, the loss of regionality and the ultimate loss of identity. The year 2012 would dawn over London and the South East polished to showcase the Olympic Games through the lens of the BBC with an empty hinterland stripped of a vibrant mix of diversity, where once there had been plurality and potential to contribute to the United Kingdom's rich and pulsating sense of self.

On "discoverability" of online services. There are two clear facts. Firstly, navigation is not sophisticated. There is still a search process, and secondly the material is not aggregated and not verified. There is a true and valid public purpose in delivering information with reach and impact through a recognised delivery method, and a trusted banner. The BBC iPlayer has been the driver of video streaming for this very reason. Online services have a supporting role to play. They offer more detailed information and granulation, but operate optimally when traffic is being driven both ways - to and from them. stv has an advantage - it has the ability to offer an integrated set of services at network; regional and local level. Our data demonstrates the attractiveness to viewers as we see it in audience figures. When split news was introduced, the share figures increased. See Appendix 5, and our further comments on news at Section 6. We can also track how online traffic can soar, driven by cross promotion or indeed triggers on air.

stv has a vision to engage with local communities to provide a quality news service; to construct partnerships in Scotland; to nurture and promote talent in Scotland; to represent the different, political, cultural and social values of Scotland, but it is not viable on a 100% commercial model.

All digital businesses have to ensure that material has a life and experience beyond its first broadcast and can be found by search engines. These businesses must make sure that content they have invested in is made available to as wide an audience as possible. That it is just out there - forever. With the launch of its new player, www.stv.tv is structuring itself to maximise its position through search engines. The future for digital content producers means having the content working for you - far beyond the past of one showing with possible two repeats, and accessible whenever and wherever well into the future.

On the broadcast platform, the only manipulation is through the EPG prominence which still has a value – to the broadcaster and to the viewer. As for the niche channels, their raison d'être is to go after niche audiences, and Public Service Content ("PSC") has no place within niche offerings. It belongs on those channels which retain reach and a broad offering and can offer PSC in the mix. And yet PSC will always benefit from being surrounded by popular offerings which will bring an audience with them to PSC content.

At paragraph 5.51 Ofcom confirms some commercial PSBs have complained that the new ToT are a drain on monies in the system, and that the terms are out of step with the way the content market is evolving.

SMG – there is no going back. Indeed it is likely that producers will become vertically integrated as they embrace and develop delivery outlets. And in considering the future regulatory framework around independent production and quotas, it is important to remember that the primary objective of intervention should be to permit vertical integration whilst controlling resultant market power. Vertical integration on its own should not be sufficient to justify intervention.

- ii) Do you agree with Ofcom's analysis of the costs and benefits of PSB status?

Yes – we believe that in the short term – indeed from 2009 – the costs of our public service obligations will exceed the benefits of public service status, and we submitted evidence to this effect in the early stages of the PSB Review process in December 2007.

Whilst we would agree with the labelling of "regionality" as a benefit of PSB status, we do stress that SMG has developed it further into a commercial opportunity in recent years. SMG developed the micro-regional selling model at its own cost and investment and it has in large part proved very successful. The model allows SMG to approach advertisers within Scotland who see a benefit in targeting viewers within a localised area. SMG actively promotes the sale of "micro region" campaigns and this has generated more cash into Scotland directly as opposed to network advertising monies which are handled by SMG's sales agent, ITV Sales, who take commission. See Appendix 4 a) for detail of the product; and Appendix 4 b) for a visual representation of delivery [micro region map of Scotland].

It has been off the back of that micro sales proposition that SMG decided to run micro regional news and introduced split news in January 2007 which has led to growth in viewer shares.

Section 6. Meeting audience needs in a digital age

- ii) *Do you agree with Ofcom's vision for public service content?*

Ofcom outlines a vision [6.3] and says that commercial and community providers will make an increasing contribution to some parts of the vision, but not all of it. [6.5] Therefore, there needs to be intervention, and it needs to be intervention that will deliver value [6.5]

The vision is powerful:-

- a. High levels of new UK content to meet the psb purposes
- b. Content which is innovative, original, challenging, engaging
- c. Available in a form, and on a range of platforms to have sufficient scale to achieve reach and impact
- d. Ensures competition with BBC
- e. Exploits the distinctive benefits of different delivery platforms; and
- f. Supplies diverse content which meets the needs of all communities with the UK

SMG answer on ii):-

We agree broadly with Ofcom's vision but a key component of Digital PSB of the future which embraces the benefits of technological improvements is missing – delivery of quality network offerings within a mix which provides LOCALNESS. Our advertising model whereby we have developed the micro region sell underpins its potency. Moreover, whilst “commercial and community providers” will make an increasing contribution to some parts of the vision, the most valued material – news – is not expressly mentioned.

The United Kingdom is not just one society. It is multi-layered, and localness and people's desire for localness has to be at the top of the list. It is in localness and regionality that stv adds value, and Ofcom should make explicit that feature of distinctiveness delivered by the broadcasters from the Nations. Share and impact at local level has potency too for maintaining and strengthening PSB for the future.

- iii) How important are plurality and competition for quality in delivering the purposes of public service broadcasting, and in what areas?*

SMG answer on iii):-

Regional news / high quality UK content sourced in diversity of supply is critical to stimulate creativity and originality, and to promote democracy and diversity.

As far as high quality UK original programming is concerned, there cannot be simply one source. That leads to worthy and dull. There needs to be plurality and competition is essential to sustain quality of PSB which is being delivered 24/7.

People will find content in as many ways as the diverse media market can offer and there will be more ways tomorrow than there are today. Therefore, to get reach of Public Service Content to diverse demographics you need to be an operator capable of realising multi-platform delivery.

As far as news and current affairs is concerned, for Scottish audiences plurality is essential. Our audience share is high for news and our demographic differs significantly from the BBC. While the BBC's audience is

proportionately higher among ABC1s, we score well in C2, Ds and Es. Moreover, BBC Scotland only provides one pan-Scotland service whereas stv (in the central and north of Scotland respectively) has always provided two evening news bulletins, and now even more granularity through split news opt outs providing separate five minute bulletins of local news broadcast with the half hour programmes (which are also available online as video news). Our investment and development of our news split news opt-outs came directly out of our research for the last PSB Review.

Since summer 2006, stv has significantly enhanced its news delivery:-

- 1) Re-formatting of the evening news bulletins for central and North Scotland, summer 2006;
- 2) Split news introduced January 2007;
- 3) Reduction of news minutage through removal of lunchtime news output in 2005 offset by more relevant local offering throughout 2007 and beyond;
- 4) Launch of “*Five Thirty Show*” in January 2008.

News delivers a stronger share now than in the past. Scotland Today has consistently outperformed the ITV Network:-

“Early evening news bulletins on stv attracted a share of 25% during 2007, relative to the UK average of 20%, highlighting the success of stv in increasing the popularity of commercially-funded news in Scotland relative to other Channel 3 licensees in other parts of the UK”³.

We have plotted the share growth on the chart at [Appendix 5](#) using BARB/Infosys data, providing also a comparison with BBC Scotland and BBC National evening news.

- iv) *In maximising reach and impact of public service content in the future, what roles can different platforms and services play?*

SMG answer on iv):-

On UK originated content - different platforms house content but operating optimally, they should serve to drive the audience back to the main broadcast event, and offer a more granulated interactive experience through online.

Take the example of *Dr Who* – a range of platforms increase range and impact. That range is not intended to cannibalise *Dr Who* on a Saturday night, prevent it becoming the “appointment to view”. On the contrary, the DVD; the time shifted transmissions; the clips, they are all driving the audience back to the TV-like experience. And the online offshoots “hook” the younger audiences and drives them back to the “event” appointment to view.

On news – Local news enhancement can be built around the model for a Scottish Digital Channel on DTT, delivering more local news provision, and stronger local engagement with audiences. From its own example, stv has shown that broadcast programmes and their associated online content contribute to a more informed and engaged electorate in Scotland with their

³ Source: Ofcom – The Communications Market Report Nations & Regions Scotland publication 22 May 2008

performance assessed and monitored through audience share as the main measure. stv's news share is up 3 points year on year.

Online and on-demand news and current affairs content provide an enhancement of our linear broadcast services, allowing more local content delivery and viewer engagement.

- v) Do you agree that the existing model for delivering public service broadcasting will not be sufficient to meet changing needs in future?

SMG answer on v):-

On a basic level, yes, we agree. It is impossible to impose licence obligations around delivery with licences going into deficit. Take news, even with good audience share, it can only be viewed as a cost - £7million p.a. - that we struggle to offset against income.

But on another level, it is very difficult to encapsulate an “existing” model. All models are evolving. They have to. stv for its part is developing its broadcast and online platforms as integrated models to develop a model that allows a commercial company to deliver Public Service Content of the future. We want to do it but it is not commercially viable.

We have invested in building infrastructure (new premises summer 2006), in people (reducing costs, but hiring new talent), in launching a new video player (by summer 2008) for www.stv.tv; we have worked hard to create more compelling ad sales propositions – high level presentations/bespoke presentations actively selling TV. We have positioned the business for growth, but there is a funding gap, and there needs to be targeted intervention.

Section 7. Future models for funding and providing public service content

- i) What are your views of the high-level options for funding public service broadcasting in future?

Ofcom's Fig 47 outlines the new funding solutions by way of 1) direct public funding; 2) licence fee; 3) regulatory assets (i.e. give access to scarce spectrum); increase ad minutage; give psb status for additional channels and 4) industry levies.

SMG on question i)

In SMG's view it is inconceivable that there could be a future where only the BBC is the recipient of public funds whereby £4.3 bn would be spent on a public service broadcasting system which delivers no plurality.

SMG favours 1) and 3) as there is a need for targeted support by way of access to spectrum for a Scottish digital channel and public funding for news and current affairs direct to stv, with contestable funding around network production with a ring-fenced pot for Scotland. However, the reality is that any future scenario needs evolution. There is no “overnight” solution to deliver effective Digital PSB.

In seeking public funding for provision of news and current affairs, a critical issue would be to ensure that funding settlement does not bring pressure from the political arena which seeks to influence the editorial agenda of the broadcaster, either in reality or in the public's perception. Therefore, an arm's length approach is preferable, where the level of funding and the "value for money" assessment or "public value test" is evaluated by some third party body or organisation which is independent of government or party political influence.

- ii) Are the proposed tests of effectiveness for future models for public service broadcasting the right ones?

Ofcom's Figure 48 sets out tests:-

Reach and impact/ plurality/flexibility/governance/complementarity/distribution to best meet audience needs/sustainability.

SMG on question ii)

SMG agrees that there needs to be clearly defined tests and criteria as outlined at Figure 48 of Ofcom's Document. There is no more compelling reason in support of the view that Public Service Content of the future needs a badge of identity, and must represent a trusted source for consumers

However, in SMG's view the tests should include an express stipulation of the need to secure dispersal of network production around the UK.

Indeed further specification around the roles of public service broadcasters and the definition of Public Service Content of the future is needed to surmount the State Aid issues which Ofcom flags. If State Aid is to be compatible with European law, it must be applied to transparent delivery of public service content and proportionate to the costs incurred.

This is new territory for the UK and for UK regulators as UK PSB moves from the existing models delivered by competition between the BBC and its commercially funded competitors to new models. Ofcom openly recognises that the new models need public support through funding, but if its recommendations arising from this Review are to be valuable ones to maintain and strengthen PSB delivered thereunder, then it is for Ofcom to take the necessary steps to ensure the necessary specification if the models are to pass muster in Brussels.

In this document Ofcom has already confirmed its findings that within the devolved state of Scotland, plurality of news supply is essential, and that in Scotland – from around 2010 (we argue 2009) – even if all the other licence requirements were removed, the cost of news along would exceed the benefits of public service broadcaster requirements.⁴

⁴ Paragraph 1.50 of Consultation Document

Our proposals are in the early stages of development but they are made in full recognition of the need for funding to be proportionate, transparent, and applied to activities for the benefit of the Scottish audience which meet the “democratic, social and cultural needs of (that) society”⁵.

- iii) *Of the four possible models for long term delivery of public service content, which, if any, do you consider the most appropriate and why? Are there any alternative models, or combination of models that could be more appropriate, and why?*

Ofcom sets out four models (1) evolution of existing PSBs; (2) BBC only; (3) BBC + Channel 4 plus limited competitive funding; (4) broad competitive funding for public service content beyond the BBC.

SMG answer on iii)

We refer you to our introductory comments to this Submission and the model for Scotland which we have proposed. We believe in evolution, but there needs to be recognition that access to competitive funding must extend beyond BBC and Channel 4.

Support has to be targeted at lost, or “at risk”, PSB, and be applied in such a way as to enhance its delivery in the digital age. Funding sources have to be identified to secure PSB of the future, and PSB of the future has to evolve & be delivered multi-platform.

There can be no Stunde Null approach. The UK has a 50 year history of plurality of PSB supply, and those years have seen the development of a UK creative media industry with a world wide reputation. Without evolution, plurality, mass reach and creativity will suffer. This applies particularly to consideration of the ITV federation which delivers regionality to Scotland combined with access to network programming. Divergent strategies within the federation could destroy PSB for Scotland.

Section 8. Options for the commercial PSBs

- i) *What do you think is the appropriate public service role for Channel 4 in the short, medium and long term? What do you think of Channel 4's proposed vision?*

SMG on question i):-

As far as SMG is concerned, SMG's production business, and stv the broadcaster aims to deliver the public purposes of nurturing new talent and original ideas and championing alternative voices and fresh perspectives (two of Channel 4's stated four core purposes). Channel 4 does not have a monopoly over them.

The issue to bear in mind with stv is that we must operate as a commercial broadcaster and not a pure PSB visionary, but we are no less valid a recipient of public funds.

⁵ As required by the European Commission's 2001 Broadcasting Communication on the application of state aid rules to public service broadcasting (IP/01/1429)

Furthermore, within Channel 4's remit, is the requirement to "appeal to the tastes and interests of a culturally diverse society". Ofcom's remit is to recommend ways to strengthen and maintain PSB for the future. The two remits must surely have a common purpose of examining Channel 4's role in contributing to the vibrancy and sustainability of a creative hub in Scotland, and ensuring the delivery of commissions from the Nations.

- ii) *Which of the options set out for the commercial PSBs do you favour?*

SMG on question ii)

SMG favours evolution involving access to funding in the form of direct funding for regional news, and contestable funding for network production with a pot ringfenced for Scotland.

It is very difficult to voice views on the future of the Channel 3 licences post 2014. For now the situation is simply one of great uncertainty around the future of ITV. Only one of the four models envisages the continuation of the ITV federation, and yet SMG is focused and committed to continuing as a public service broadcaster in its role as the national commercial broadcaster for Scotland. The short term needs informed debate with all voices able to be heard and no dominant voice. ITV plc with its family of digital channels and www.itv.com (not a federal offering) is not on a path to a PSB future which involves regionality (indeed as is fully recognised, ITV has publicly signalled its retreat from regionality), and yet regionality is at the core of stv as the Channel 3 licensee in Scotland.

Section 9. Scenarios for the UK's nations, regions and localities

- i) *To what extent do you agree with Ofcom's assessment of the likely future long term issues as they apply to the nations, regions and localities of the UK?*

SMG on question i):-

Ofcom recognises the threat to the businesses of Channel 3 licensees outwith the ownership of ITV plc in the event of surrender of PSB status by ITV plc [paragraphs 5.46 and 8.6]. Indeed it is a threat to PSB in Scotland.

SMG has concerns that its voice and valid aspirations should not be lost amongst the pronouncements and strategies being played out by the network broadcasters including ITV plc. Clearly continued access to rich ITV content (at a current contribution of £45m per annum for playout within our sovereign territory under the stv brand) is critical to the sustainability and viability of stv's future model (as outlined in our introduction).

SMG hopes that regulators will ensure that the future of PSB in Scotland will not be determined by the commercial agenda of ITV plc, and is the topic of informed debate will all stakeholders. SMG has no ability to influence the agency or decision making of ITV plc, and requires regulatory support to ensure our voice is heard.

- ii) Which model(s) do you think will be most appropriate in each of the nations and in the English regions in the long term, and why?

SMG on question ii):-

We point you to our model outlined in the Introduction. We propose the following core elements to create vibrant PSB relevant to the people of Scotland:-

1. Funding of regional news direct to stv (transparent; clear guidelines around fairness, impartiality and accuracy (i.e. subject to the Broadcasting Code; editorial independence reinforced through arm's length funding models)) - to ensure plurality alongside the BBC; and
 2. Contestable PSB funding for network production some of it ring-fenced for Scotland – to stimulate that creative hub; and
 3. Access to digital spectrum on DTT to launch a dedicated Scottish Channel with a symbiotic relationship with the core stv channel (continuing to carry rich UK wide content and core regional news). The new “digital daughter” would utilise SMG’s infrastructure to launch more effectively and ensure sustainability, and its key drivers would be to (i) showcase the best of Scotland from a variety of sources (be that archive (including BBC); indie-commissions); (ii) promote local news services and (iii) provide outlets for new creative content produced in Scotland. It would be technology-enabled (on the DTT platform), to split at specific times into Local TV, supported by broadband streaming services to serve consumers at even more local level with granularity and depth. Funding issues would likely rest with the Scottish Government, but Ofcom’s role in bringing the channel to fruition would be to ensure that spectrum was put to optimal use (whether released through the Digital Dividend or otherwise available) for public purposes –as indeed Ofcom itself predicated might be appropriate⁶.
- iii) What are your views on short/medium-term issues referred to, including the out of- London network production quotas?

⁶ **Para 7.125** – Digital Dividend Statement on Ofcom’s approach to the award of the digital dividend spectrum – <http://www.ofcom.org.uk/consult/condocs/ddr/statement/>
“we have decided not to intervene (to provide an additional DTT multiplex for community/citizen focused content) .. but we believe it is important to consider the issues faced by such services that generate broader social value. We will do so in our second PSB review”

SMG on question iii):-

Ofcom explains it will return to the topic of Network out of London production in Phase 2 of its Review.

However, we agree with Ofcom's medium to long term objective – competition and plurality of content, at nation, and local and/or regional levels, and we agree that the Nations need to be differentiated [Paragraph 9.16].

As far as SMG is concerned, we do not subscribe to the view that intervention to guarantee productions from Scotland would have an impact on creativity and restrict commissioning freedom adversely. We see no prospect of representing the UK as a whole, and thereby stimulating creativity and innovation, if ITV plc (as it asks for) were to have commissioning freedom. We acknowledge that it is difficult for London commissioners to do so (because no direct and consistent contact) but it would not stifle their ability to bring creativity and innovation to our screens. There is currently a serious situation playing out within the ITV Network as ITV has failed to meet the OoL quota for 2006 and 2007 – a business direction which SMG (and all other Channel 3 licensees outwith the ownership of ITV plc) have been powerless to influence,

This is a ludicrous situation for SMG to be put in. We are committed to strengthening commissioning from Scotland, and we are lobbying hard for independent status to facilitate commissions coming into Scotland, and yet we find ourselves in breach of our licence to meet OoL quota. This situation serves to emphasise the need to find a system of support which brings about change, and actually stimulates the creative industries in Scotland. For it is that stimulation which will contribute to strong UK original programming delivering creativity and diversity and reflecting the UK nation back at itself. Programme making centred on the metropolis will never deliver this, if market forces are left at play.

There has to be targeted intervention which will achieve this end. In our view, funding needs to be attached to pitches coming out of Scotland. It is not about paucity of ideas or talent. Good ideas will float with money attached, and the remoteness barrier can be broken down. There are many strong examples of sectors which have been able to flourish through the attachment of grants/subsidies/inward investment. This includes Australia, Canada, and closer to home – the Republic of Ireland and the Isle of Man.

The OoL quota at present is operating to move production out of London, but still keeping it within England. There needs to be recognition that the Nations and the regions are not the same. The Nations need targeted support. Whatever the outcome of the final deliberations around quota levels for ITV, the key point is that future regulation needs to deliver tangible support for the Nations. Initiatives of themselves have not borne fruit, and quotas have been missed.

Furthermore, the spotlight has to be turned on the BBC and Channel 4 to be more accountable for delivery of commissions into the Nations. Commissions follow commissioning power, and some of that power could be re-located to Scotland. That factor was behind the BBC's decision to move to Manchester. It is an untenable proposition that intervention which has brought about revival, should stop short at the north of England. The BBC reneged on its undertaking to locate a commissioner in Scotland (in Entertainment). Channel

4 has no appointed commissioning role in Scotland. Furthermore, with regard to BBC's failings, the BBC Service Licences contain commitments around dispersal, namely:

- *BBC One is committed to commissioning from outside the M25 from independent suppliers in accord with its statutory commitments and the operation of the WoCC.*
- *Drama should be one of the biggest creators of BBC One's impact with its viewers.*
- *BBC Four should support the BBC's statutory commitment to commission a range of output from outside the M25.*

However, commitments alone have not proved enough, and initiatives fail.

- iv) *What are your initial views on the preliminary options set out relating to ITV plc's regional news proposal? (Please note that Ofcom will put forward firm options on these issues, and consult also on ITV plc's regional news proposal, in phase 2 of this Review)*

SMG on iv):-

We are in discussion with ITV plc to provide a local Scottish Borders news service. Under the proposals tabled, we would maintain newsgathering resources in the south of Scotland and would produce Scottish Borders bulletins for inclusion as opt-outs within ITV1's larger regional news programme from Newcastle. Alternatively, the Borders material could sit within our Scotland Today programme which would be transmitted in the Scottish part of Border's region. This would guarantee local Borders news at 1800 and 2230, presented within a wider Scottish news context that would be directly relevant to the Scottish Border audience. We believe it is workable within the context of the existing legislation, and discussions with ITV plc are ongoing.

SMG rebuts the suggestion at paragraph 9.7 that its online service www.stv.tv is an equivalent activity to ITV Local.

www.stv.tv is being positioned to be the first stop digital portal for all things Scottish – entertainment/news + address Scottish cultural identity. ITV Local accessed through the www.itv.com portal is not about cultural identity. www.stv.tv is a hybrid of www.itv.com and www.itvlocal.com/ i.e. it is the best of Network and the best of Scottish content. This reinforces the way in which the Network underpins regionality. With www.stv.tv we recognise – as Ofcom does [paragraph 9.7] – that there is real potential to develop new online services which meet the needs of citizens in the nations, regions and localities of the UK in new ways.

Section 10. Prospects for children's programming

- i) *Do you agree with our assessment of the possible short term options available relating to children's programming; are there any other options available?*

SMG on i):-

What happened to Children's demonstrated what happens when "at risk" PSB is actually lost through lack of commercial sustainability. Talent pools dry up, creative clusters cannot be sustained. This future must be avoided for regional programming and regional production, otherwise the direct consequence will be loss of UK original programming from the Nations and regions.

We agree that Children's needs targeted support through funding. The BBC is currently the only commissioner of Children's programming, and the talent feeder pools in the regional centres of excellence (notably Scotland) have dried up. SMG believes children's programming had an important role to play in the nurturing of talent as this is where talent can cut its teeth.

The BBC is not enough. Creativity and reach demand competition.

Section 11. Timetable for implementing a new model

- i) *Do you agree that new legislation will need to be in place by 2011 in order to ensure continued delivery of the public purposes in the medium and long term?*

It would be a threat to the future of PSB in Scotland to introduce new legislation sweeping away the federal structure of ITV without anything to replace it. New legislation is certainly needed but the PSB Review needs to be comprehensively conducted and concluded in order to inform the structure and content of that new legislation.

In our view, what is essential is to ensure that the regulatory framework is fit for purpose. Amended where appropriate, but at the same time also adhered to where appropriate.

We need relaxation around licence obligation relating to non news regional programming, and we need the protections we were granted under the Merger Undertakings. If not, medium to long term legislative change will come too late to sustain PSB in Scotland.

Gaelic

As Ofcom confirms [paragraph 1.50], Gaelic services are now increasing, supported by direct intervention from the Scottish Government. SMG seeks urgent re-consideration of the continued imposition of Gaelic obligations upon it when Gaelic is now supported elsewhere. SMG itself is busy in production making programming for the new Channel – see Appendix 1b). The obligation upon stv to continue to provide Gaelic programming requirements puts at further risk its ability to provide English language services to serve its viewers. Stv needs support, and public service broadcasting obligations must take into

account the financial ability of an operator to provide them (as the Communications Act requires).

We have been plotting a path agreed with Ofcom in 2005 towards losing our requirement to produce and broadcast our own Gaelic material, and the requirement to broadcast material funded by the Gaelic Media Service in peak from 2009, but the change in secondary legislation which Ofcom believes is required to sanction this has not yet been put in place. SMG for its part has committed the £1.2m spend which was to be in consideration for removal of the obligations. Ofcom's stated position is that SMG should lose its requirement to produce and broadcast its own Gaelic material, and its requirement to broadcast GMG-funded Gaelic in peak when the first UK region achieves digital switchover⁷. If further legislative change is still deemed necessary (which remains Ofcom's view), then secondary legislation should be forthcoming to allow removal from 1 January 2009, regardless of any other proposals which may take develop to introduce new primary legislation.

Non Gaelic

Further SMG seeks flexibility around counting material towards the quota which may be at shoulder peak rather than the current strict peak requirement.

Conclusion

In the short term, the priority should be to ensure regulation "fit for purpose" to maintain and strengthen PSB, with legislative change needed in the medium to long term, and certainly by 2011.

Furthermore, we urge the regulators to reinforce the benefits of regulation where there is a wider public purpose, and not simply to consider relaxation in response to majority views. Within the ITV Network that is particularly relevant for Merger Undertakings (involving the Networking Arrangements and Clean Feed) which were put in place for the protection of the minorities, and in the public interest, and where we have voiced our concerns about non compliance.

END

⁷ Ofcom 2005 PSB Review: Statement on programming for the Nations and Regions 9 June 2005 (paragraph 4.44)

Appendix 1a)

SMG Commissions Record

- *Taggart, Rebus, Goodbye Mr Chips* – ITV
- *Jack Osbourne/Adrenaline Junkie x 3* – ITV2
- *DNA Stories* – Sky
- *Club Reps x 3* – ITV
- *How 2/Fun House/Uncle Dad* - CITV
- *Extreme Celebrity Detox* – C4
- *Secret History* - C4
- *Paul Merton's History of the Comedy Store* – BBC1
- *Highlands* – UK History
- *Yorkhill* – Discovery UK

Appendix 1b)

Current hours in production – 59 hours

- ***Taggart*** 10 x 60' – ITV
- ***Jack Osbourne/Adrenaline Junkie 4***
8 x 60' – ITV2
- ***Working Britney*** 1 x 60' – E4
- ***Take Me to the Edge*** 6 x 60' – Virgin
- ***DNA Stories*** 10 x 30' – Sky
- ***Postcode Challenge*** 40 x 30' – stv, adfunded
- ***Merchant Navy*** 6 x 30 – stv, adfunded
- ***5 x Gaelic series*** – Gaelic Media Service
- ***Berghaus cinema Ad***

Appendix 2

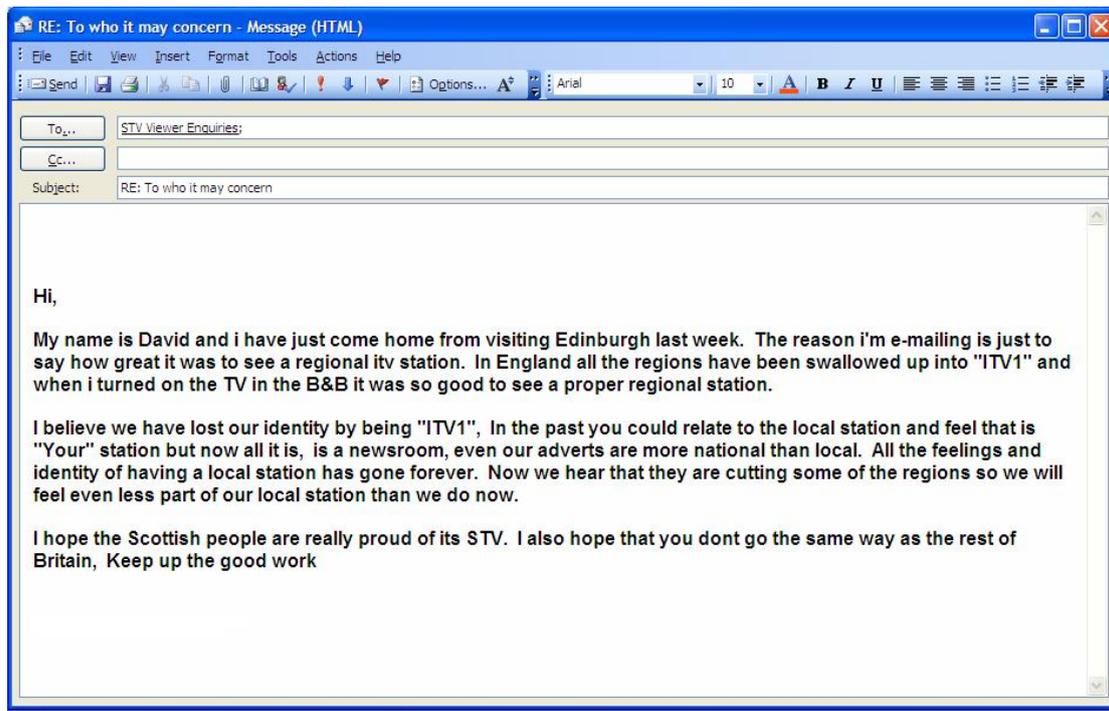
And we love TV ... and advertising

Index

- advertising influences purchasing 115%
- use TV ads as talking points 116%
- TV is favourite pastime 117%
- enjoy the ads as much as programmes 127%
- buy products from co's who sponsor TV progs 144%

Appendix 3

The Viewer's View (email received 04 June 2008)



Appendix 4 a)

Micro Regions – the product

- Offers flexibility of geographically targeted testing/upweights or store opening/support to national advertisers
- High local commercial production values – seamless breaks (stv in-house production can produce low cost high quality ads - over 400 made in 2007)
- The micro regions are sold as bespoke spot packages against an Adult audience
- Bookings are subject to availability and can be handled directly by stv sales outside of UK national arrangements
- Advantage of a [shorter than norm] three week Advance Booking and no late premium the closer to transmission

Appendix 4 b)

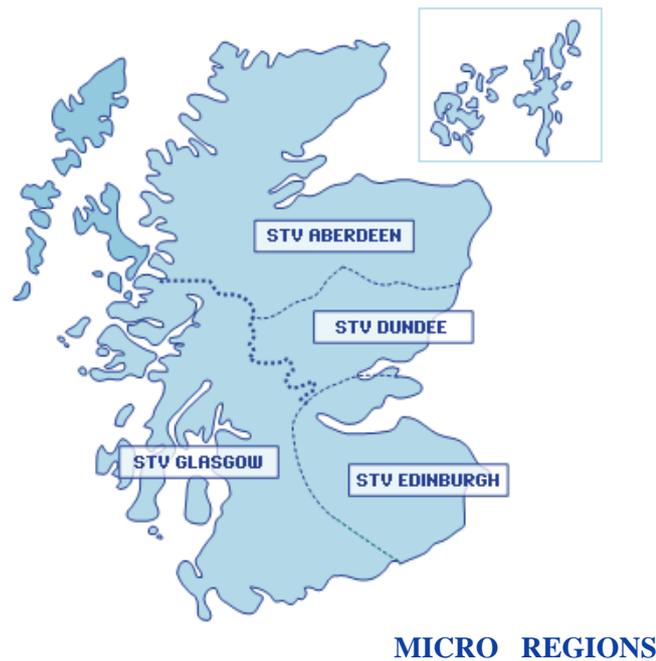
Micro Regions – Scots & TV

stv

The same -but different

Scots & TV

Micro Regions



The same -but different

Appendix 5

Share growth in stv regional news

The audience for Scotland Today has increased since 2005 – and currently indexes at 111

