

Your response

| Question | Your response |
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| <p>Question 1: Do you agree with our provisional view that the retention of the stricter rules that apply only to PSB channels is not justified? If not, please explain why.</p> | <p><i>Is this response confidential? – N</i></p> <p>We agree with the view that the retention of the stricter advertising rules that apply only to PSB channels is no longer justified. These rules were put in place nearly 30 years ago reflecting a very different broadcasting landscape. The television industry has been transformed and survival for PSBs has never been a greater challenge. Ofcom, Government and audiences all agree that a strong PSB system is desirable. We therefore agree that the current COSTA rules are an unnecessary barrier which reduces the efficiency of the commercial PSB model, hampering their efforts to compete with the new global competitors and ultimately affecting their future sustainability.</p> <p>We are specifically responding to this consultation as we believe that it has particular importance to Scotland and its broadcasting sector. Although these regulations are national in their application, they will have a great impact on the one local independent PSB in the UK which is STV.</p> <p>STV has an important position with the Scottish broadcasting sector. Over half of all individuals in Scotland watch STV each week.¹ It delivers a plurality of news and current affairs for Scotland, within a high budget programme schedule acquired from ITV. Through its production arm, STV Studios, it attracts network drama</p> |

¹ BARB. Average weekly reach % 15+ consecutive minutes. Network and ITV Scotland area (for STV)

commissions to Scotland and It trains and employs skilled television practitioners, who then help to grow a local skill base, which attracts other producers.

It is therefore of great importance that the local PSB in Scotland is given as much flexibility as possible, in which to deliver successful business models, ensuring its future sustainability.

This approach is very much in keeping with the sentiment expressed in Ofcom's SS:BD research and in Ofcom's Recommendations to Government in July 2021, which warned about a serious threat to the future sustainability of the PSB landscape without significant reform of the existing PSB framework.

We therefore welcome this consultation as one of the possible reforms that will assist the PSBs to continue to deliver for audiences all over the country.

Whilst STV and ITV are intertwined in relation to the selling of advertising, any benefit that might accrue from these suggested changes will proportionately benefit STV, as possible increased advertising revenue. This will inevitably assist in the future sustainability of the broadcaster.

In Ofcom's recent Section 229 Report into the Licensing of Channel 3 and Channel 5, Ofcom identified STV as facing a greater threat in the future than other PSBs. For a smaller PSB the PSB benefits versus PSB obligations are particularly challenging.

Overall, we think the current PSB obligations could be commercially sustainable, such that the licensees could continue to deliver them over the next licence period. This would be strengthened if proposed reforms to establish new

*prominence and availability regulation for PSB online TV services are implemented. Based on our analysis and the information provided by the licensees we think that: the Channel 3 PSB obligations could be sustainable over the next licence period as a whole but could represent a small annual net cost towards the end of the period. **However, on an individual licensee basis, STV's PSB obligations could represent a small net cost in each year of the next licence period;***²

In view of the increased threat to sustainability for STV, we believe that any regulatory change that can assist their future business model would be a positive one.

And although sustainability remains a challenge for STV, their financial modelling for the next ten year licence period was positive, if certain regulatory changes were made.

*STV said the sustainability of its licence obligations depended on i) UK Government reforms, in particular updated prominence rules, being introduced as soon as practicable and ii) Ofcom giving consideration to additional benefits that could flow to licence holders such as liberalising the COSTA rules*³

We therefore believe that changes, as suggested within this consultation, will help in maintaining a PSB system within Scotland, which delivers for Scottish audiences and contributes to the creative economy.

However our key focus must also be to ensure that the audience experience is not

² https://www.ofcom.org.uk/data/assets/pdf_file/0011/240203/s.229-report-channel-3-and-5-licensing.pdf

³ https://www.ofcom.org.uk/data/assets/pdf_file/0011/240203/s.229-report-channel-3-and-5-licensing.pdf

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| | <p>impaired. We therefore welcome the research and evidence that Ofcom have compiled which leads us to the conclusion that audience expectation has also changed dramatically since these regulations were first designed.</p> <p>The fact that viewers can experience 12 minutes of advertising per hour, in some peak time slots, at the moment, and it does not affect their decision to watch, is an indication of a much higher tolerance and understanding of advertising. It is also interesting to note that non PSB channels, who have the higher advertising flexibility, have attracted significant audiences since launch, again indicating a higher tolerance for advertising in a modern audience.</p> <p>It is also important to note that these changes are not compulsory. We believe that the commercial PSBs will be self regulatory. There is a strong commercial incentive for those PSBs to show only <i>acceptable</i> volumes of advertising, to ensure that audiences are not turned off by excessive interruptions. It is in their own interests to ensure that the balance is correct.</p> <p>The main thing that will lose audiences for the commercial PSBs is if the quality of the programming drops. We believe that by giving them this commercial flexibility, it will not only help with their financial sustainability, but will also support an increase in investment in new content.</p> |
| <p>Question 2: Do you have a preference between the proposals under Option 1 and Option 2? If you do not agree with the proposals under either option, please explain why.</p> | <p><i>Is this response confidential? – N</i></p> <p>Our preference is for Option 2. We accept that that Ofcom’s audience research has highlighted an area of concern around potentially increasing the frequency of</p> |

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| | <p>advertising breaks and therefore agree with Ofcom's preferred route which is Option 2.</p> |
| <p>Question 3: In the event that we proceed with Option 1 or 2, we suggest a one-year period before implementation. Do you agree? If not, please explain why.</p> | <p><i>Is this response confidential? – N (delete as appropriate)</i></p> <p>We agree that a one-year period before implementation would be useful. We believe that this would give the commercial PSBs and the advertising agencies time to fulfil current contractual obligations, whilst at the same time allowing them to put in place contracts which reflect the new arrangements.</p> |
| <p>Question 4: Is there any further information you wish to provide regarding changing the stricter rules in COSTA?</p> | <p><i>Is this response confidential? – N</i></p> <p>No</p> |

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