



**Ofcom review of proposed BBC Scotland television channel –
Invitation to Comment**

Response from STV Group plc

31 January 2018

STV appreciated the opportunity to meet Ofcom in Edinburgh on 6 December, and to provide our initial response orally to the formal publication on 30 November of the BBC's Public Interest Test ("PIT") in respect of the proposed BBC Scotland channel.

We are now providing our response more formally. We will cover the main areas as laid out by Ofcom's basic questions, but in narrative form and under our own headings.

Broad methodology

We believe the BBC and its consultants have correctly identified the key markets likely to incur an impact from the launch of BBC Scotland, and covers as it should both static and dynamic market effects. It is also correct to assert that the market most directly affected will be broadcast channels (both external competitors and services within the BBC's own portfolio).

However, we have a number of very real concerns that will require Ofcom and the BBC's attention, as we note in greater detail in the remainder of this submission.

Short period for response and timing of review

The time provided to us to respond is very short and we were reassured to learn that we will have further opportunities to engage with Ofcom during the review period, and in particular we will be able to explore with you the BBC's modelling framework and key assumptions to inform our own impact analysis.

For the avoidance of doubt, we believe that Ofcom should undertake a full BCA, given the scale of the intervention represented by BBC Scotland. In the weeks to come, STV undertakes to conduct further research amongst Scottish consumers/viewers, and to provide its own review of the impact analysis done for the BBC by Frontier CC.

Changes to the proposition under review

The PIT covers a channel proposition that is significantly different to the one initially provided in public disclosures by the BBC. In particular, the channel will run now from noon until midnight, with a simulcast of BBC Two from noon until 7pm for most of the time (subject to up to 150 hours of bespoke schedule for Scotland). The BBC has also said that its schedule will now be 50% first run hours and 50% repeats (changed from 60% and 40% in the original proposition).

We are concerned that the BBC, in its own words, has used evidence based on its initial proposition, not the revised proposition. It is unclear what adjustments have been made to the inputs to financial modelling to arrive at a revised outcome. The PIT as published does not provide us comfort that the implications of these changes have been fully considered in the impact analysis.

In fact, the overall course of the BBC consultation process is not clear with few points raised by respondents including STV referred to within the PIT. Not only is there no indication of any amelioration of the proposition as a result of consultation, the material increase in the scope of the proposals is not reflected by either the consumer research (since it arose post the fieldwork) nor is any stakeholder input cited as being the impetus for the enhanced channel offering.

Lack of transparency regarding methodology for impact analysis

For completeness and transparency, we request sight of the unredacted version of the PIT (and/or the full Frontier CC report). We are keen to fully understand the methodology – how reach and share impacts were calculated, the sensitivity of the methodology to changes in reach and share (for example, the net impact across the revised BBC Scotland schedule and repeats ratio), and the way these assumptions have been translated into intra-BBC and external impacts, including financial impacts specifically for commercial broadcasters.

The report states that “commercial advertising revenues would decline by £700,000-£2million”, but does not provide any information on the links between share, commercial impacts and revenue. Their assumptions on the price offset (responsiveness of price to changes in volume of commercial impact) have not been provided. It is also not clear what effect, if any, on viewing share has been included relating to the proposed 7 hour simulcast of BBC Two being shown by the new channel, since it appears this development was included after the consumer research had been conducted.

In short, we would appreciate greater detail on how share impacts are derived, the links between share and content budgets, and the assumptions around commercial impacts and prices for STV and other commercial broadcasters. We recall that data of this kind was published by Ofcom in its BBC One+1 Market Impact Assessment in 2015, so there is a precedent for disclosure.

Content offering now and in the future

The BBC says that “News provision on the channels...will be different to that offered by the commercial sector” (p. 29, Box 4) but offers no evidence of this. How will the channel be different? The description of the service is remarkably similar to the services already available in Scotland, in particular the bulletin of Scottish, UK and international news launched by STV2 on 24 April 2017.

We are also concerned about how programmes may migrate from “network” to BBC Scotland (with unmeasured implications on viewing), and the precise genre splits for the “opt-out” hours on BBC Two over time. What is to stop a significant change in the genre of opt-out schedule in favour of content that has a higher impact on commercial providers (eg on domestic sport)?

We use sport as an example as it has both downstream (viewing) and upstream (sports rights) impacts. On page 65 of the PIT the BBC states that “BBC Scotland has not allocated specific funds...to sport, but BBC Scotland may spend some of the £18 million budget on additional sports coverage”.

On page 64 of the PIT, the BBC makes two assertions about STV: (1) that there are supposedly strong content differences between “STV1”¹, STV2 and the planned BBC Scotland, and (2) that there is no clear relationship between STV’s revenues and programming investment. The source of these findings is the Frontier CC report which is not published.

Finally, we would seek absolute assurance that the BBC could not materially increase its Scottish online proposition with news and other content without having to go through another approvals process surrounding any enhanced service launch.

¹ “STV1” is the reference ascribed to STV’s Channel 3 services by the BBC in the PIT: these services are branded “STV” on air.

EPG position

The BBC seems confident that its proposed EPG plans (to swap BBC Scotland with BBC Four) are consistent with DUK's LCN policy. We are unclear that this is the case. The BBC quotes the wrong part of the LCN policy (6.1) in suggesting that the DUK may decide it is in the "best interests" of viewers and listeners and/or the platform" to permit a re-ordering. The relevant section is 5.10, which states that sharing a single LCN by two PSB services is only possible where "channels broadcast to distinct areas of the UK, and their coverage does not overlap". BBC Four and BBC Scotland would be overlapping services.²

If the channel cannot be carried at the BBC Four LCN (as is our contention), then what impact does this have? Did Frontier CC run any scenarios where BBC Scotland was not as prominently displayed on DTT in Scotland? What are the results of this sensitivity in the event any were in fact run?

Impact on Operating Licence and performance measures

While we understand that the question of the licence and associated performance measures is a matter for Ofcom and the BBC, we seek assurances that any agreed BBC Scotland proposition will be held to specific account in the aggregate licence terms and performance measures of the BBC's Operating Licence. There is a concern that the BBC may introduce changes incrementally to the proposition that will fundamentally intensify pressures on competitors and lead to changes to competitor strategies in future without due consideration of the net impact across public value and market distortion.

In conclusion, STV welcomes this opportunity to respond to Ofcom's Invitation to Comment on the BBC's proposals for a new Scottish channel. As we have outlined above, we are concerned that the proposition in the PIT has expanded significantly beyond what the BBC originally presented, researched and modelled. The PIT refers to a material financial impact on commercial advertising revenues, which is the lifeblood of STV's Channel 3 and L-DTPS licences, but does not disclose any detail about methodology or pricing for STV to review or comment. The effect on viewing to the existing £11m of opt-out material which is to be moved off BBC Two onto the new service is not clear, nor is any assumption about daytime audiences for the simulcast of BBC Two.

The BBC itself claims that its proposed new channel is "the biggest single investment in broadcast content in Scotland in over twenty years"³. We believe this significant development requires a full and thorough BCA and we look forward to further engagement with Ofcom in due course.

Ends

² http://www.digitaluk.co.uk/__data/assets/pdf_file/0009/86814/Digital_UK_LCN_Policy_v6.0.pdf

³ <http://www.bbc.co.uk/mediacentre/latestnews/2017/scotland-investment>