

SCOTTISH DIGITAL NETWORK PANEL

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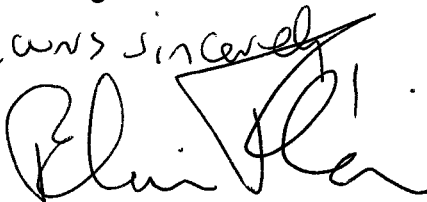
Dear Minister,

I have pleasure in submitting the report and recommendations of the Scottish Digital Network Panel, marking the conclusion of the independent review which you asked us to undertake.

The report aims to build on the widespread public and political support for the SDN by setting out a clear and unambiguous model by which it can be established and funded.

In submitting our report, I would wish to record my deep gratitude to my fellow Panel members – Neil Blain, Charles McGhee, Judith Mackenzie and David Wightman – and to project manager Kathryn Stewart. Their wholehearted engagement and support made the investigation much more enjoyable and the final report much better informed.

We would all hope that our work has contributed to the overwhelming case in favour of the Scottish Digital Network and that both the momentum and the consensus can be maintained for that brighter future for Scottish broadcasting.

Yours sincerely


Blair Jenkins OBE
Chair
Scottish Digital Network Panel

Scottish Digital Network Panel

Final Report

Executive Summary

Scottish Digital Network Panel Final Report

The Panel was asked to make recommendations on how a Scottish Digital Network could be established and funded, taking as a starting point the conclusions of the Scottish Broadcasting Commission. The key requirement for the SDN is to “provide a secure and sustainable source of competition to the BBC for public service broadcasting within Scotland”.

This means three things are essential for the SDN:

1. A very clear PSB role with guarantees on the nature and quality of the service.
2. Secure and adequate funding that is not subject to dramatic variation
3. A high degree of visibility and universal availability to audiences.

Remit

Any proposed remit for the new service would have to include content that is of particular interest and value to audiences in Scotland and some wider obligations:

- Robust journalism that holds government and other powerful institutions to account and is itself of the highest ethical and editorial standards.
- A particular emphasis on celebrating, reflecting and nurturing Scottish culture in its broadest sense, including our distinctive history and heritage and our modern diversity.
- A responsibility to use the broadcast and broadband platforms in pursuit of social inclusion in the digital age and a truly connected society in Scotland.
- An explicit commitment to the strategic development and retention of talent, to enable creative individuals and businesses to achieve their full potential and to increase substantially the size of the Scottish media workforce.
- Programmes and digital content which are outward-looking and connect Scotland to the wider world in the exploration of ideas and issues.
- A greater range, quality and originality in productions for Scottish audiences.
- Regular consumer research to ensure that the new service is providing relevance and value to audiences, including ethnic minority audiences.

The linear television service has to be seen as part of the much wider SDN of digital content and connectivity for audiences in Scotland. This is an important part of preserving a sense of community and continuity as we move towards a more fragmented world. Part of the remit of the SDN should be to persuade more people to explore online content including its own rich online resources.

The new service would be available throughout all of the UK, although the content would be aimed primarily at audiences in Scotland. The estimated annual cost of the SDN was put at £75 million by the Scottish Broadcasting Commission, and this report provides a more detailed analysis of the assumptions underpinning that estimate.

Governance

What is also essential is that the new network is instructed and enabled by its constitution to operate in an independent and impartial fashion. The SDN would be regulated and licensed by the industry regulator Ofcom. Part of this governance framework is having an open and transparent appointments process for the Chair and Members of the independent board of trustees which would be established to monitor and question the performance of management and ensure that the remit of the new service is being properly delivered.

The Panel is minded to suggest one further part of the appointments process for the Chair and possibly for other board members: such appointments should be subject to confirmation by the appropriate committee of the Scottish Parliament. This would serve at least two useful functions: it would act as a further safeguard to prevent politically-motivated appointments, and it would reinforce the role of parliament as the primary guardian of the public interest in these matters.

Funding

The Scottish Digital Network by virtue of its remit would not be attempting to maximise audience numbers at the expense of providing public service content. This immediately tends to point away from advertising as the best means of funding the network. Otherwise the new service ends up in perpetual conflict between remit and revenue.

It is clear from recent developments that the television licence fee is now regarded across the political spectrum as the best source of funding for public service broadcasting in general and not just the BBC. While it will always be the case that the vast majority of licence fee income will be directed towards the BBC, the recent licence fee settlement as part of the comprehensive spending review has allocated very significant funds from that source to the Welsh-language broadcaster S4C (£76 million annually from 2013/14). There is also a one-off

contribution (£25 million) and an ongoing commitment (£5million per annum) to the costs of the proposed new local television services around the UK.

The Panel thinks it is unfortunate that the issues around the distribution of licence fee income were determined in haste in private meetings and not as part of the public consultation process that had been promised for 2011. This prevented the opportunity for public scrutiny and for a more considered view to be taken of the best use of licence fee income. This is particularly disappointing from a Scottish perspective, since a mere 2% of the licence fee had always been identified as a possible source of funding for the SDN.

An allocation from the television licence fee remains the most appropriate source for funding the Scottish Digital Network and that is the recommendation the Panel is making. We feel it would be wrong to make significant claims on other forms of general public funding at a time when all services are suffering reductions for the foreseeable future.

The question of whether or not the television licence fee is immediately available to fund the Scottish Digital Network seems to us to be one that is answerable only in the political domain. We note that the privately concluded deal with the BBC assumes no further call on the licence fee until 2017. If there is a strong public interest need to revisit the terms of that arrangement, as we think there is in respect of the SDN, then we hope that would happen. The Panel feels strongly that it should not be required to look elsewhere for funding simply because an agreement has been reached which took no account of the debate and the demand in Scotland.

If it should prove to be the case that some redistribution of income from the licence fee remains unavailable for Scottish PSB purposes until 2017, then there will be a need to provide bridge funding until that point. The most logical and natural source for that provision would be a ring-fenced allocation from the proceeds of the auction of cleared spectrum after digital switchover in 2012.

We have looked at the viability of other funding models: in particular, we examined the prospects for creating and supporting the SDN from commercial revenues, or from a combination of public funding and advertising. From these discussions and observations, a number of key findings have emerged:

1. No one has suggested to us that the SDN could be fully funded from commercial revenues.
2. Any advertising revenue attracted by the proposed new service if commercially funded would most likely be at the expense of other Scottish media rather than representing additional revenues in the market.

3. Advertising would be an unstable and unreliable funding source for a new service which is committed to a firm PSB ethos rather than actively trying to maximise its audiences in a highly competitive commercial market.
4. Every regional PSB in Europe receives some form of public support or subsidy. None is wholly funded from commercial revenues.

The recent Shott report on the viability of commercial local television in the UK took a very cautious view on likely revenues. It suggested that the proposed new local services could expect combined annual advertising revenues nationally of about £20 million. That is the total sum predicted for a service with a potential audience reach around the UK of about 11 million viewers. If one accepts the Shott assumptions, even in broad terms, it is hard to be more optimistic about the commercial prospects for any new service aimed at Scotland alone, with less than half that population.

There is an inevitable tension between achieving desirable public service outcomes in media and protecting the health of existing commercial services. In fact, the financial precariousness of much of commercial media in Scotland is such that we are convinced public funding rather than any reliance on commercial revenues is the best way to deliver the Scottish Digital Network.

The Scottish Broadcasting Commission estimated that the Scottish Digital Network in its most ambitious and wide-ranging form would require funding of about £75 million a year. However, it is also right to look around Europe at what happens with broadcasting in larger states which contain significant smaller nations and distinctive regions within their territories. In Germany, for example, the regional public service broadcaster for Hesse (population 6m) receives public funding for television of about £170m a year. In Spain, the PSB service for the region of Valencia (population 5m) is publicly funded in 2011 to the tune of roughly £150m a year. These figures are typical for regional broadcasting provision in both countries.

The extraordinary thing in Scotland is not to be looking for £75 million to fund a dedicated PSB. The extraordinary thing in 2011 is that Scotland does not have its own PSB and £75m is a realistic and modest sum in a European context.

Gaelic

The Panel discussed whether it would make sense in future for publicly-funded Gaelic language programmes to be part of a unitary Scottish Digital Network rather than forming the separate service of BBC Alba. We have given serious consideration to the idea that the existing BBC Alba channel – currently available on satellite and soon to be carried on Freeview - could be

expanded and extended into the wider Scottish Digital Network. There are some obvious and immediate attractions:

- We would be building on a channel that already exists and is publicly funded - £12.4 million from the Scottish Government in the current financial year.
- We would be enlarging significantly the potential audience for the Gaelic programmes
- Gaelic would be acknowledged as part of the mainstream cultural and linguistic life of the nation, and presented as an integral part of a coherent whole rather than in digital isolation.

As against this, speakers and supporters of the language would have to be satisfied that Gaelic programmes would be given appropriate prominence in the Scottish Digital Network and that the advantages of wider exposure to Scottish audiences outweighed the loss of outright control that goes with a dedicated channel. The idea merits further consideration.

Local services

We were asked to take account of “relevant findings on the viability of local television as they emerge from Nicholas Shott’s review, which has been commissioned by the UK Government”.

In essence, the Shott review (published on December 14) found that local television could be commercially viable in the long term with a low-cost model based on broadband distribution. Shott also envisaged a transitional period during which 10-12 large conurbations could have a local service delivered on digital terrestrial television (DTT), backed by a supporting national programme network and advertising sales house.

It seemed to the Panel that the Scottish Digital Network would be the natural or logical national service to which more local Scottish-based services could be connected to offer a more granular level of content to different parts of the country. We think it should be possible to overcome the fact that the preferred funding model for local television in the UK plans is commercially-based – advertising revenue and private sponsorship – while our view is that the SDN is best seen as a publicly-funded venture.

A broad public service vision for the SDN could see different parts of the day allocated to the core network programming, the local content and Gaelic language material – each with its own source of funding. We should say quite clearly that it is not *necessary* in making the case for the SDN to link either Gaelic programmes or local services to the wider national proposal, but we can see some advantages in these connections and put them forward for consideration. It seemed to the Panel that these elements combined to offer a much stronger “national” service

for Scotland, and that was preferable to offering them in isolation or in a much more fragmented way.

Distribution

It would seem to us axiomatic that the SDN should be distributed on all of the main digital television platforms – DTT (Freeview), satellite (both BSkyB and Freesat) and cable. We have factored these costs into our £75 million total as the SDN will require linear and on-demand delivery across multiple platforms.

Media consumption continues to be dominated by the major channel brands. A start-up on broadband only would find it very much harder (and a much longer process) to build up significant scale and reach. The Scottish Digital Network has the best chance of building scale if it is launched as a broadcast service while we are still in a largely linear environment.

There are technical issues in relation to the placing of the SDN on the Freeview (DTT) platform. There is no question that capacity can be found, but there would be a decision to be made on the best allocation of spectrum for the new service.

The issue is complicated if it is also hoped to offer a number of more local services on DTT as part of the overall SDN proposition. Such an arrangement would work best with the creation of a new public multiplex in Scotland, a proposition often referred to in industry debates as “the seventh mux”. This is a way of ensuring that the spare capacity of so-called “interleaved spectrum” in Scotland is organised to enable 3-7 local digital TV services to be offered from each of the main transmitters, with coverage levels approaching the same high percentage as the existing PSB multiplexes.

The SDN Panel is not making a recommendation on how many local television services might be desirable or affordable on the DTT platform. It is clear that there is sufficient support and interest around the country to enable at least some to go ahead. The Scottish Local TV Federation envisages as many as 16 services targeted at distinctive parts of the country. These services are not seeking public funding support at a national level but would operate on low cost business plans geared to local circumstances, perhaps a combination of advertising, sponsorship and local authority support.

Where public funding might be required is in doing whatever upgrading or installation work is required at the transmitters around Scotland to enable local services to be technically deliverable. The Scottish Digital Network Panel thinks it is important that an accurate picture is provided of the costs of enabling local services to go ahead. We would urge that Ofcom be directed to do this work as part of their advisory function in relation to questions raised by the Shott review. Only when this information is available will it be possible to do a costs/benefits

analysis on DTT distribution of local services in Scotland and to determine the optimal number of such services.

Benefits and Impact

The SDN would act as a huge boost to the audiovisual content industries in Scotland, perhaps creating thousands of important new jobs and certainly adding many millions of pounds to the annual value of the sector. A report from Scottish Enterprise in 2009 said that the SDN, combined with envisaged increases in network television production from Scotland, could result in a near-doubling of direct employment in the industry to nearly 5,700 and additional income of more than £200 million. While such predictions should always be treated with a degree of caution, there would undoubtedly be a very significant economic impact.

We were told repeatedly in the course of our work that the SDN should be seen as part of a wider vision for digital connectivity in Scotland, potentially as the creative and technical hub from which much of genuine value will develop.

The network would encourage take-up of high-speed broadband as it becomes increasingly available throughout Scotland in line with the policies of governments in both London and Edinburgh. New and attractive forms of Scottish content could drive take-up just as the Scottish Government is seeking to lead the UK in connectivity. We have an acute problem currently with both social exclusion and geographic exclusion and a range of attractive content and services linked to the SDN will help to get all of Scotland connected and participating in the benefits of the digital age. Scotland has the lowest level of broadband penetration in the UK, at 61%, and take-up in Glasgow and parts of the surrounding area is significantly lower at 53%.

The SDN would reinvigorate democracy both locally and nationally. It would connect to and reinforce policy initiatives and imperatives in health, education and social inclusion. It would help us develop into a well-informed society, culturally enriched and with shared civic values. It would also be a point of departure for a bigger and better vision for media and communications in Scotland.

INTRODUCTION

On September 13th 2010 the appointment of the Scottish Digital Network Panel was announced by Fiona Hyslop, Minister for Culture and External Affairs. The Panel was given a very specific remit and was asked to submit its report by January 14 2011:

“Taking as a starting point the conclusions of the Scottish Broadcasting Commission, to conduct an independent investigation into different options and models for establishing and funding a Scottish Digital Network which would be able to provide a sustainable source of competition to the BBC for public service broadcasting within Scotland. The Panel should produce recommendations on how such a network could be established and funded. In doing so, the Panel should take account of:

- The need for any new public service broadcasting network to be demonstrably independent of Government in its editorial policies and management;
- The economic, cultural and democratic importance of broadcasting to a modern, outward-looking Scotland and its creative industries;
- Relevant findings on the viability of local television as they emerge from Nicholas Shott’s review, which has been commissioned by the UK Government;
- The potential market impact on other Scottish media organisations of any proposed funding sources; and
- The impact of technological convergence on the way in which media content is consumed.”

The Panel held its first meeting on October 11th and agreed on a thorough but necessarily fast-moving schedule for gathering information and hearing views from various interested parties. Much of the detail on meetings held and submissions received can be found in the annexes to this report. We also held a public conference in November 2010 to discuss the economic, cultural and democratic benefits which would flow from a Scottish Digital Network, and to hear about the challenges and opportunities involved in creating more local services around Scotland.

We are grateful to all of those who gave us their time and their ideas. We present this report and recommendations as the unanimous and honest conclusions of a Panel keen to do justice to the remit with which it was entrusted. We also hope it is fully representative of the enthusiasm and goodwill we encountered in the course of our investigation.

1. ACHIEVING THE SCOTTISH DIGITAL NETWORK

In the two years since publication of *Platform for Success* (the final report of the Scottish Broadcasting Commission) a great deal has changed in the media landscape of the UK. Some of those developments arise from advances in technology and some are to do with industry responses to continuing market pressures, while others reflect a new set of policy priorities following the election in May of the coalition Government. The process of digital switchover will be completed in Scotland by the middle of this year.

What has not changed is the overwhelming case for the creation of the Scottish Digital Network. In fact, many of the arguments that helped to form the original recommendation to create a new public service broadcaster have strengthened in the intervening period. There is a significant shortfall in the range and volume of high-quality Scottish PSB content available from the existing broadcasters and little prospect of bridging that gap with the opt-out model that is a legacy of the analogue age.

For the BBC, Scottish programmes will always be marginal and something of an afterthought in the schedules of BBC1 and BBC2 in Scotland. The BBC responded to criticism from the Scottish Broadcasting Commission by increasing its network television production from Scotland. But the range and volume of programming made for Scottish audiences has not changed. For STV, it has proved impossible in the face of competitive pressures to sustain the pre-devolution levels of public service content. There is a widespread view that television services in Scotland have not kept pace with the scale of change represented by political devolution and its wider social and cultural effects.

But the perception that television has been in decline in Scotland is only part of the picture. Broadcasting is located within a wider media landscape, and a significant increase in the presence of the London-based press in the Scottish newspaper market further affects the nation's distinctive voice. Not only Scotland's national newspaper titles, but also its local press, are struggling to maintain quality and sometimes even to survive in the face of commercial pressures. Local commercial radio has lost much of its substance and distinctiveness of content. In addition, the consequences of future developments in the commercial television marketplace offer uncertain longer-term prospects for Scottish viewers.

There is clear demand from audiences in Scotland for more content that reflects our distinctive politics, culture and identity – not just in terms of history and heritage, but also the diversity and energy of Scotland in the 21st century. There are also exciting opportunities, as high-speed broadband becomes universally available within five years, to redefine the public service broadcasting mission for the digital age.

The Scottish Digital Network as conceived and recommended by the Scottish Broadcasting Commission would consist of an integrated broadcast and broadband service combining a core linear television channel with an extensive and innovative network of content on all other digital platforms – drama, news, entertainment, arts and all the rest. It was regarded by the Commission as a necessary intervention to provide secure and sustainable PSB competition to the BBC in Scotland. The estimated annual cost of the new service was £75 million. In a separate exercise, the industry regulator Ofcom came up with a virtually identical number. The Commission defined broadcasting in its widest sense to mean the distribution of television-type content on any platform for any device.

Our own task as a Panel was not to restate or improve the case for the SDN, which was unanimously accepted and endorsed by the Scottish Parliament two years ago, but to investigate the different options for establishing and funding the new network. However, much of the evidence we received focused on the many benefits and impacts of making such a clear public interest intervention in Scottish broadcasting, and we reflect on these matters in more detail later in this report.

The key characteristic of the SDN, as our remit indicates, is that it should “provide a sustainable source of competition to the BBC for public service broadcasting within Scotland”. It is immediately apparent that meeting that condition requires that the new body should have at least three essential elements:

- a very clear PSB role with guarantees on the nature and quality of the service
- secure and adequate funding that is not subject to dramatic variation
- a very high degree of visibility and availability to audiences – that is, both scale and reach

Those requirements provide the framework for the rest of this document with, as indicated, the addition of a final section looking at the transformational benefits and impacts – the return on investment - of creating the new service.

2. A CLEAR REMIT FOR THE SDN

The UK has evolved a number of different models for guaranteeing the delivery of public service broadcasting, but they tend to share certain core similarities. They are generally established and described in legislation, which sets out in some detail the nature of the programmes and services which must be provided and the source and degree of public support to be offered in return. BBC compliance with the terms and conditions of its Royal Charter and Agreement is monitored on the public's behalf by the BBC Trust. The commercial PSBs (ITV, Channel 4 and Five) are publicly accountable via the industry regulator Ofcom.

More generally, Ofcom has defined public service broadcasting as a set of four purposes and six characteristics to be observed.¹ The characteristics of PSB are to be high-quality, original, innovative, challenging, engaging and widely available. The purposes are:

- Informing our understanding of the world
- Stimulating knowledge and learning
- Reflecting UK cultural identity
- Representing diversity and alternative viewpoints.

More recently, Ofcom has been asked by the DCMS (Department for Culture, Media and Sport) to consider how PSB might be redefined or the existing regulatory framework adjusted to give increased emphasis to "localness". Ofcom has published some initial thoughts on how this concept might be given greater prominence, in line with the UK Government's wider policy goal of creating new local television services. This initiative does have some bearing on how we might establish and define the Scottish Digital Network and we refer to it in more detail below.

The vision for Scottish broadcasting embodied in the Scottish Digital Network would indeed reflect the purposes and characteristics of the UK definition. But clearly any proposed remit for the new service would have to go much further in relation to content that is of particular interest and value to audiences in Scotland. From evidence received by this Panel and previously by the Scottish Broadcasting Commission, it is clear that some or all of the following criteria would be appropriate:

¹ Ofcom's Second Public Service Broadcasting Review – Phase One: The Digital Opportunity, p.18, Ofcom, 2008 – http://stakeholders.ofcom.org.uk/consultations/psb2_1/

- Robust journalism that holds government and other powerful institutions to account and is itself of the highest ethical and editorial standards.
- A particular emphasis on celebrating, reflecting and nurturing Scottish culture in its broadest sense, including our distinctive history and heritage and our modern diversity.
- A responsibility to use the broadcast and broadband platforms in pursuit of social inclusion in the digital age and a truly connected society in Scotland.
- An explicit commitment to the strategic development and retention of talent, to enable creative individuals and businesses to achieve their full potential and to increase substantially the size of the Scottish media workforce.
- Programmes and digital content which are outward-looking and connect Scotland to the wider world in the exploration of ideas and issues.
- A greater range, quality and originality in productions for Scottish audiences.
- Regular consumer research to ensure that the new service is providing relevance and value to audiences, including ethnic minorities.
- Bringing more international content to Scotland that is of particular interest to Scottish audiences, and distributing Scottish content more widely to international audiences.

These aspirations reflect the role of television as the dominant medium by which most people in Scotland continue to receive news and other information. It is also one of the most important mechanisms by which we celebrate and reflect our culture in its broadest sense.

Online all the time

The linear service has to be seen as part of a much wider vision of digital content and connectivity for audiences in Scotland. This is an important part of preserving a sense of community and continuity as we move towards a more fragmented world. Part of the remit of the SDN should be to persuade more people to explore online content including its own rich online resources.

In building these tracks towards future consumption patterns of media, it is not possible to predict exactly what kinds of services and interactivity people will want in years to come. What is important is that we put in place a technical infrastructure that allows experimentation to be promoted and enabled. Allowing this creative ecology to run on the back of the SDN service may just seed that world-class spark from our production, education or technical sectors.

One attractive option advocated by the SBC was to make much of the television content and any associated material available online for people not only to view but also to re-edit and remix. The new platform could very easily become a space where the creative young talent of Scotland can experiment and innovate, potentially with thousands of hours of usable material. If the network was established as an “open source” platform with accessible source code and software, there would be the potential for users to learn new skills and develop new and experimental applications.

On broadband, the SDN would offer a wider variety of related additional material with more depth and context than can be provided in the linear schedule. It would also provide links to other sites offering content that enriches our understanding and encourages debate and discussion. Moving beyond television catch-up, it would be a destination for social gaming, news and educationally-focused creativity. The greater depth and context than is available in the linear service would include more localised content. The SDN could also be a springboard for traffic to other local media portals by acting as a trusted conduit to destinations that may not have the brand power or impact to promote a story or service by themselves.

The Panel thinks this would include but not be limited to: partnerships with schools, further education institutions and universities; lifelong learning projects; encouragement of consumer-led internet engagement to partner the rollout of fast broadband; material reflecting the special needs of rural and remote communities; delivery of health and education materials; online support for Gaelic and for ethnic minority languages.

Having a comprehensive online infrastructure will allow engagement with trends, devices and services as and when they become relevant. It also allows for the international promotion of producers and content featured on the SDN.

The new multiplatform service would be available throughout all of the UK, although the content will be aimed primarily at audiences in Scotland.

Governance

Our remit encourages the Panel to make recommendations which are consistent with “the need for any new public service broadcasting network to be demonstrably independent of government in its editorial policies and management”. This fundamental requirement will have to be built in to any arrangements for establishing the SDN, in line with the principles reflected elsewhere in UK public service broadcasting.

What is essential is that the new network is instructed and enabled in its constitution to operate in an independent and impartial fashion. The SDN would be regulated and licensed by the industry regulator Ofcom and should report annually on its performance to the relevant

committee of the Scottish Parliament. Part of this governance framework is having an open and transparent appointments process for the Chair and Members of the independent board of trustees which would be established to monitor and question the performance of management and ensure that the remit of the new service is being properly delivered.

In Scotland, the process and outcome of such public appointments is usually overseen by the independent regulator OCPAS (Office of the Commissioner for Public Appointments in Scotland) and this framework should apply in respect of the SDN board.

The Panel is minded to suggest one further part of the appointments process for the Chair and possibly for other board members – that such appointments should be subject to confirmation by the appropriate committee of the Scottish Parliament. This would serve at least two useful functions: it would act as a further safeguard to prevent any risk of politically-motivated appointments, and it would reinforce symbolically the role of parliament as the primary guardian of the public interest in these matters – thereby also offering a distinctive Scottish form of political oversight.

3. FUNDING THE SCOTTISH DIGITAL NETWORK

Much of the thinking of the Panel in relation to funding models stems from our view of the nature and content of the service to be provided. It seemed right – indeed it seemed to us to be the only logical approach – to define clearly the purpose and remit of the new service before addressing the respective merits of different financial options.

The Scottish Digital Network would be quintessentially public service in nature. It would attempt to serve all audiences in Scotland, including those which are largely marginalised by the existing broadcasting arrangements. In industry jargon, its success would be judged in terms of weekly *reach* – the percentage of the population accessing the service on a regular basis – rather than weekly *share* – the average size of the audience in relation to other broadcast services. Share of audience tends to be the crucial measurement for commercial broadcasting services trying to maximise ratings in order to optimise advertising revenues, whereas audience reach is the preferred yardstick for public service broadcasters trying to ensure that they provide something for everyone at some point in their schedules.

The Scottish Digital Network by virtue of its remit would not be attempting to maximise audience numbers at the expense of providing public service content. This immediately tends to point away from advertising as the best means of funding the network. Otherwise the new service ends up in perpetual conflict between remit and revenue.

It is clear from recent developments that the television licence fee is now regarded across the political spectrum as the best source of funding for public service broadcasting in general and not just the BBC. While it will always be the case that the vast majority of licence fee income will be directed towards the BBC, the recent licence fee settlement as part of the comprehensive spending review has allocated very significant funds from that source to the Welsh-language broadcaster S4C (£76 million annually from 2013/14). There is also a one-off contribution (£25 million) and an ongoing commitment (£5million per annum) to the costs of the proposed new local television services around the UK.

It is unfortunate that the issues around the distribution of licence fee income were determined in haste in private meetings and not as part of the public consultation process that had been promised for 2011. This prevented the opportunity for public scrutiny and for a more considered view to be taken of the best use of licence fee income. This is particularly disappointing from a Scottish perspective, since a mere 2% of the licence fee had always been identified as a possible source of funding for the SDN.

An allocation from the television licence fee remains the most appropriate source for funding the Scottish Digital Network and that is the recommendation the Panel is making. We feel it would be wrong to make significant claims on other forms of general public funding at a time when all services are suffering reductions for the foreseeable future.

The question of whether or not the television licence fee is immediately available to fund the Scottish Digital Network seems to us to be one that is answerable only in the political domain. We note that the privately concluded deal with the BBC assumes no further call on the licence fee until 2017. If there is a strong public interest need to revisit the terms of that arrangement, as we think there is in respect of the SDN, then we hope that would happen. The Panel feels strongly that it should not be required to look elsewhere for funding simply because an agreement has been reached which took no account of the debate and the demand in Scotland.

If it should prove to be the case that some redistribution of income from the licence fee remains unavailable for Scottish PSB purposes until 2017, then there will be a need to provide bridge funding until that point. The most logical and natural source for that funding would be a ring-fenced allocation from the proceeds of the auction of cleared spectrum after digital switchover in 2012. An auction of broadly equivalent spectrum in Germany last year raised close to £4 billion so we might expect a sum of between £3-4 billion in the UK. A population-based share of that windfall to the Treasury (say £300 million) would be sufficient to fund the Scottish Digital Network until the licence fee deal concludes in 2017 and that source properly becomes the longer-term funding instrument.

In the course of our deliberations, we have looked at the viability of other funding models: in particular, we examined the prospects for creating and supporting the SDN from commercial revenues, or from a combination of public funding and advertising. We held a series of meetings and discussions with existing commercial media operators, advertising agencies and industry observers. We have also looked at various industry and market forecasts of the likely size and shape of the advertising market in the UK in the next few years. From these discussions and observations, a number of key findings have emerged.

1. No one has suggested to us that the SDN could be fully funded from commercial revenues.
2. Any advertising revenue attracted by the proposed new service if commercially funded would most likely be at the expense of other Scottish media rather than representing additional revenues in the market.
3. Advertising would be an unstable and unreliable funding source for a new service which is committed to a firm PSB ethos rather than actively trying to maximise its audiences in a highly competitive commercial market.

4. Every regional PSB in Europe receives some form of public support or subsidy. None is wholly funded from commercial revenues.

We will return later in this document to the Shott report on the viability of commercial local television in the UK, but it is worth recording here the conclusions reached by Nicholas Shott and his Steering Group on likely commercial revenues.² They suggest the proposed new local services could expect combined annual advertising revenues nationally of about £20 million. That is the total sum predicted for a service with a potential audience reach around the UK of about 11 million viewers. If one accepts the Shott assumptions, even in broad terms, it is hard to be more optimistic about the commercial prospects for a new service aimed at Scotland alone, with less than half that population.

The funding model that is most stridently resisted by existing Scottish media is one that would blend a combination of financial support from the public purse with the pursuit of advertising revenue. This dual funding model – the hybrid model as it is sometimes called – is very common around Europe as a means of sustaining public service broadcasting. Usually, the majority of income for such broadcasters is publicly sourced, with a smaller dependency on advertising revenue which is secured in competition with purely commercial broadcasters.

It is noteworthy that in Ireland the national public service broadcaster (RTE) operates on this dual income stream, but unusually the majority of its funding (55%) comes from commercial revenues with the balance (45%) derived from the Irish television licence fee. This model has come under sustained challenge from the private media sector in Ireland, originally in respect of RTE's broadcasting services but increasingly now focused on the online activities of the national broadcaster. Irish newspapers in particular are claiming they face unfair competition from an online media competitor attracting significant advertising revenue while simultaneously being substantially underwritten by public funds.

Impact on other media in Scotland

We have noted that our deliberations on the best funding model for the SDN were heavily influenced (as our remit stipulated) by consideration of the possible market impact on other Scottish media if the new service were to be created. Certainly it is important to avoid the unintended consequence of damaging existing players. But the public interest has to be paramount in this matter: in a period of profound and fast-moving change, there is a natural tendency to wish to protect the status quo, but it is just as important to be very clear about the public policy priorities which are involved.

² Commercially Viable Local Television in the UK – A Review by Nicholas Shott, p. 4, 2010 – <http://www.culture.gov.uk/publications/7655.aspx>

An organisation that would seem to be affected by the launch of a new Scottish PSB is the commercial broadcaster STV. Although that company has recently reported a return of advertising revenues and therefore profitability, there is a larger question mark over its future relationship with ITV and potentially its access to ITV network programmes such as The X Factor and Coronation Street. ITV has signalled a corporate plan to keep control of its own content.

The process for renewal of the existing ITV licences (including those of STV) is expected to begin later this year, and there will have to be consideration given to what limited public service elements can be expected or required of either broadcaster in future.

STV told us in its submission: "We are very concerned at the suggestion that the Scottish Digital Network could seek to compete against existing commercial media for revenue....Such a new network will not grow the market therefore any commercial media monies it attracted would be at the expense of, and detrimental to, existing services."

Newspapers have looked particularly vulnerable to changes in the dynamics of media revenues in recent years, both the daily titles and the more local weekly press. The Scottish Newspaper Society told us that "those pressures are unrelenting and given structural changes arising from internet based competition there is a significant permanent loss in certain revenue streams."

The Scottish News Consortium (SNC) – combining DC Thomson, Johnston Press and the Herald & Times Group – put it even more bluntly: "There is not enough revenue in Scotland to fund existing media let alone a new entrant."

The SNC titles, while making clear that they do not accept the need for the Scottish Digital Network, are in no doubt about the best funding model if it should go ahead:

"A Scottish Digital Network (SDN) would need to be publicly funded. A part-commercial, part publicly-funded model is not an option due to potential conflicts of interest. There is no viable commercial model as market funding is not available for the proposed content."

As we have noted, there is an inevitable tension between achieving desirable public service outcomes in media and protecting the health of existing commercial services. In fact, the financial precariousness of much of commercial media in Scotland is such that we are convinced public funding through a fairer redistribution of the television licence fee income is the best way to deliver the Scottish Digital Network, rather than relying on commercial revenues.

Costs

The Scottish Broadcasting Commission estimated that the Scottish Digital Network in its most ambitious and wide-ranging form would require funding of about £75 million a year. It is worth doing a more detailed breakdown of that figure and what assumptions lie behind it. According to the most recent figures from Ofcom, the average cost per hour of television programmes currently made for Scottish audiences is £30,000.³ On a simple arithmetical calculation, using this figure, a Scottish Digital Network seeking to provide 4 hours of original production per day would spend about £44 million annually on such programmes with additional costs in management and distribution.

But there are important distinctions behind these large numbers. The average cost per hour (cph) of news is £20,000, current affairs cph is £35,000, and other forms of content come in at an average of £48,000. A sample SDN peak-time schedule might encompass one hour of news, one hour of current affairs, and two hours of other forms of content (arts, drama, documentaries, entertainment etc.) Such a model would incur direct costs (using current spending as a rough benchmark) of closer to £55 million.

The Panel envisages a service that would wish to keep a central headquarters function to a minimum and would seek to ensure that as much as possible of any funding went into creative content and not into indirect costs and overheads. A reasonable figure for management and administration might be £5 million; distribution and marketing would probably account for a further £5 million; and a budget of £10 million for the online and interactive services would exceed the commitment (proportionally) of any other broadcaster, in keeping with the multimedia and multiplatform vision for the new service.

One reason for mentioning these costs in more detail is to enable consideration to be given to a service launching with a smaller operating budget than £75 million. With the possible inclusion of Gaelic programming and local services (options which we explore in the next section), it might be that the SDN itself is looking to fund only 3 hours of original production on a daily basis. Potentially, this might reduce the total costs from £75 million to something closer to £60 million. The Panel is not recommending a lower cost model, but felt it was right to point out that costs are scalable.

³ Ofcom Communications Market Report: Scotland 2010, p.58, Ofcom, August 2010 – <http://stakeholders.ofcom.org.uk/market-data-research/market-data/communications-market-reports/cmr10/scotland/>

However, it is also right to look around Europe at what happens with broadcasting in larger states which contain significant smaller nations and distinctive regions within their territories. In Germany, for example, the regional public service broadcaster for Hesse (population 6m) receives public funding for television of about £170m a year. In Spain, the PSB service for the region of Valencia (population 5m) is publicly funded in 2011 to the tune of around £150m a year. These figures are typical for regional broadcasting provision in both countries.

The extraordinary thing in Scotland is not to be looking for £75 million to fund a dedicated PSB. The extraordinary thing in 2011 is that Scotland does not have its own dedicated PSB and £75m is a realistic and modest sum in a European context.

Some respondents to the Panel (including Creative Scotland) suggested that a viable second-best option to the SDN would be the provision of a new dedicated fund for creative content in Scotland – essentially, helping to stimulate the commissioning of more Scottish material for use in the schedules of existing broadcasters. Creative Scotland noted that “Even £25 million invested in production and cultural content could make a transformational difference.”

While recognising the truth of that statement, we do not believe that creating a general content fund would be nearly as effective as creating a digital network with a distinctive brand and a clear identity. The SDN will offer the best branding and profile opportunity for the commissioning and distribution of multimedia and multiplatform content in addition to the linear service. There is also difficulty in seeing where such funded material could be placed within the existing broadcasting landscape. STV would seem to be the only possible outlet, but it will be increasingly difficult for a commercial broadcaster to place PSB material in a competitive evening schedule.

Faced with an explosion of choice, people will need a reliable and identifiable source to provide them with new Scottish programming. They will welcome a trusted curatorial brand for Scottish content. The SDN will represent quality of content, technology that is user-friendly and reliable, and navigation software that is easy to use. The concept of a general “Scottish Digital Content Fund”, accessible on a competitive basis, would seem to meet some of our requirements. But it does not create a distinctive distribution brand with a clear identity.

In a world in which television may eventually be delivered mainly on broadband, and consumer choice will continue to multiply, the distinctiveness of Scottish broadcast provision and the economic value of the Scottish media industry will depend on a high profile showcase for Scottish public service programming. The advantages of the Scottish brand are well proven in the cultural world already, with distinctive national institutions for music, theatre and other fields in which Scotland excels. A Scottish digital network with a clear public service remit is a logical partner to existing creative and cultural enterprises.

The SDN will also be the provider of a new journalistic voice, an important consideration in underpinning informed democracy in a devolved Scotland where much of traditional media including our distinctive national press is in long-term decline.

Furthermore, the proposal of a structural change in the Scottish broadcasting landscape – a digital channel and accompanying network – offers a long-term strategic investment which funds, which come and go, never can. Scotland needs its own distinctive broadcasting space, with its own commissioning autonomy.

Gaelic language content

With this vision for the new service and its funding, a number of other considerations arise. One is whether it would make sense in future for the publicly funded Gaelic language programmes to be part of a unitary Scottish Digital Network rather than forming the separate service of BBC Alba. The Panel has given serious consideration to the idea that the existing BBC Alba service – currently available on satellite and soon to be carried on Freeview - could be expanded and extended into the wider Scottish Digital Network. There are some obvious and immediate attractions:

- We would be building on a channel that already exists and is publicly funded - £12.4 million from the Scottish Government in the current financial year
- We would be significantly enlarging the potential audience for the Gaelic programmes
- Gaelic would be acknowledged as part of the mainstream cultural and linguistic life of the nation, and presented as an integral part of a coherent whole rather than in digital isolation.

As against this, speakers and supporters of the language would have to be satisfied that Gaelic programmes would be given appropriate prominence in the Scottish Digital Network and that the advantages of wider exposure to Scottish audiences outweighed the loss of outright control that goes with a dedicated channel.

In statutory terms, it is the Gaelic funding body MG Alba that is empowered to make the best possible decisions on behalf of broadcast services in the language. BBC Alba was created in 2008 as a partnership with the BBC in what was regarded at the time as the best strategic and tactical decision to make on behalf of Gaelic-speaking audiences. If a new decision was made by MG Alba to pursue the SDN option outlined here, the service would clearly have to become editorially detached from the BBC and from the current service licence.

The SDN Panel recognises that there would need to be further work and consideration in this area to achieve an outcome that would be generally accepted and welcomed. However, we

believe that there is real merit in the idea. Indeed, it would have seemed somewhat negligent, in the context of discussing a new dedicated public broadcasting service for Scotland, not to open up a debate about the inclusion of publicly funded Gaelic programmes in such a service. There is also the value-for-money consideration of building on something that is already there rather than duplicating the costs of transmission and other support services. As part of the Scottish Digital Network, the Gaelic service might present a better case in terms of return on investment.

The question about Gaelic can be framed in a different way. If there is to be established a new dedicated public service broadcaster serving audiences throughout Scotland with a broader vision and a wider range of high-quality Scottish content than has ever been available before, why would Gaelic speakers and programme-makers not wish to be part of such a service?

Local services

We were asked in our own remit to take account of “relevant findings on the viability of local television as they emerge from Nicholas Shott’s review, which has been commissioned by the UK Government”. There is of course no necessary connection between these two initiatives – the SDN and commercially-funded local television around the UK – but it has certainly been helpful to have engaged with the Shott review and to have studied its conclusions, published on December 14.

If there is to be encouragement and some measure of public support for more localised and commercially-based television services around the UK, should such services in Scotland be established as affiliates of the SDN?

We do not think it is necessary here to spend a long time summarising the Shott report, which can be readily accessed in its entirety. But it is helpful to touch on some of the main findings. Shott takes the view that local television can be commercially viable in the long term with a low cost model based on broadband distribution as and when IPTV (internet protocol television) becomes more widely available. He also envisages a transitional period during which delivery will have to be (primarily) on digital terrestrial television (DTT). The costs of DTT distribution are such that he thinks only about 10 or 12 services based on large conurbations will be viable, each producing a minimum of two hours of content per day.

From a Scottish perspective, this raises the interesting question of whether any of those proposed services would be in Scotland? Shott stresses that he is not being prescriptive in determining how such licences should be awarded, but that “determining these areas should be

based substantially on the quality and sustainability of business plans together with transmission considerations.”⁴

He goes on to add: “The inhibitive nature of costs mean that it is likely that only the largest population conurbations or major cities have a chance of supporting local TV.”⁵

We draw the conclusion from this that a Glasgow service might be the only Scottish DTT licence awarded, given the key criteria of total population coverage achieved and absence of technical constraints. However, it would be ironic indeed if the only public support to be offered to local television in Scotland was for a service in Glasgow – which is already and unarguably the best-served and most media-rich location in Scotland.

This demonstrates the real difficulty of trying to reconcile public service motivation with commercial viability. In Scotland, a public service initiative for local television would not select Glasgow for early and preferential treatment. A commercial focus undoubtedly would. If only one initial licence in Scotland is to receive public support then a strong case could be made for the South of Scotland, which in recent years has lost its distinctive regional news service from Border Television.

It could also be argued that the Shott review conclusions, while undoubtedly well-intentioned, demonstrate the problem of the absence of any clear UK Government policy framework for broadcasting in Scotland.

It seemed to the Panel that the Scottish Digital Network would be the natural or logical service to which more local Scottish-based services could be connected to offer a more granular level of content to different parts of the country. We think it should be possible to overcome the fact that the preferred funding model for local television in the UK plans is commercially-based – advertising revenue and private sponsorship – while our view is that the SDN is best seen as a publicly-funded venture.

A broad public service vision for the SDN could see different parts of the day allocated to the core network programming, the local content and Gaelic language material – each with its own source of funding. With the unlimited online capacity of the network, each of these different content sources could be offered at all times on broadband, both on-demand or as a continuous stream, only coming together as a blended schedule in the linear broadcast service.

We should say quite clearly that it is not *necessary* in making the case for the SDN to link either Gaelic programmes or local services to the wider national proposal, but we can see some

⁴⁺⁵ Commercially Viable Local Television in the UK – A Review by Nicholas Shott, p. 3 and p. 26, 2010 – <http://www.culture.gov.uk/publications/7655.aspx>

advantages in these connections and put them forward for consideration. It seemed to the Panel that these elements combined to offer a much stronger “national” service for Scotland, and that was preferable to offering them in isolation or in a much more fragmented way.

4. DISTRIBUTION AND ACCESS ISSUES

All public service broadcasters seek to be available on all possible distribution platforms, reflecting their responsibility to provide the easiest and widest access for the people who fund their services. It would seem to us axiomatic that the SDN should be distributed on the main digital television platforms – DTT (Freeview), satellite (both BSkyB and Freesat) and cable. We have factored these costs into our £75 million total as the SDN will require linear and on-demand delivery across multiple platforms.

The SDN has always been envisaged as having a very substantial and innovative online dimension, with the unlimited capacity afforded by broadband offering the opportunity to supplement the linear broadcasting service with a wealth of additional material. This would range from simple catch-up or on-demand opportunities to view material previously transmitted on the main channel, through to a wide range of interactive services providing information, participation and innovation.

The consumption of television-type content via broadband is likely to increase exponentially over the next five to ten years as a number of IPTV (internet protocol television) services are launched. Television receiver manufacturers are producing new sets with built-in internet connections and there are also new set-top boxes with similar functionality. In the UK, one of the main initiatives in this area will be the arrival of the YouView service, scheduled for launch later in 2011. YouView brings together a number of partners from broadcasting and telecommunications, including the BBC and BT, to create a new platform offering internet-delivered video content directly into the main television set in the home alongside the live feeds of digital broadcasting.

YouView is only one of a number of similar ventures – others include Google TV and Apple TV – which will lead to mainstream adoption of IPTV services. There are many within the industry who predict – although this point is disputed – that over time IPTV might become the dominant if not the universal system for distribution and consumption of television, with other platforms to be regarded only as intermediate technology. It is not possible to be certain on this point. While mainstream adoption of IPTV looks certain, there remain advantages in other forms of distribution and these are likely to be with us for as far into the future as it makes sense to predict. But there is no doubt that more and more online content will be watched on the television in the living room.

YouView is expected to be in 20% of homes by 2014 and could become over time the primary UK vehicle for consumption of video material. TV content will drive digital connectivity, and get broadband into homes which might never otherwise connect to the internet. We believe

providing universal high-speed broadband is critical and we fully support the work that is planned to ensure that existing broadband networks are upgraded.

However, media consumption continues to be dominated by the major channel brands. A start-up on broadband only would find it very much harder (and a much longer process) to build up significant scale and reach. The Scottish Digital Network has the best chance of building scale if it is launched as a broadcast service while we are still in a largely linear environment.

There are technical issues in relation to the placing of the SDN on the Freeview (DTT) platform. There is no question that capacity can be found, but there would be a decision to be made on the best allocation of spectrum for the new service. Clearly, as a designated PSB, the new network would be entitled to carriage on one of the PSB multiplexes. These have the highest degree of coverage of the population in Scotland, reckoned by Ofcom to be in the region of 98% at the point of digital switchover.

However, the issue is complicated if it is also hoped to offer a number of more local services on DTT as part of the overall SDN proposition. Such an arrangement would work best with the creation of a new public multiplex in Scotland, a proposition often referred to in industry debates as “the seventh mux”. This is a way of ensuring that the spare capacity of so-called “interleaved spectrum” in Scotland is organised in such a way as to enable 3-7 local digital TV services to be offered from each of the main transmitters, with coverage levels approaching the same high percentage as the existing PSB multiplexes.

The SDN Panel is not making a recommendation on how many local television services might be desirable or affordable on the DTT platform. It is clear that there is sufficient support and interest around the country to enable at least some to go ahead. The Scottish Local TV Federation envisages as many as 16 services targeted at distinctive parts of the country. These services are not seeking public funding support at a national level but would operate on low cost business plans geared to local circumstances, perhaps a combination of advertising, sponsorship and local authority support.

Where public support might be required is in doing whatever upgrading or installation work is necessary at the transmitters around Scotland to enable local services to be technically deliverable. There is currently no accurate costing of this work and this information is required to enable informed decisions to be made. In his report to the DCMS, Nicholas Shott also makes the point that further information is needed to determine where in the UK it will make financial sense to offer local services over DTT.

“The Steering Group recommends the Secretary of State discusses technical options with Ofcom. The final decision on technical delivery options should take into account cost, ability to localise, and total population coverage achieved.”

The Scottish Digital Network Panel thinks it is important that an accurate picture is provided of the costs of enabling local services to go ahead on DTT from transmitters around Scotland. We would urge that Ofcom be directed to do this work as part of their advisory function in relation to the questions raised by the Shott review. Only when this information is available will it be possible to do a costs-benefits analysis on DTT distribution of local services in Scotland and to determine the optimal number of such services.

As we discussed earlier in this report, the implication of the Shott findings is that only one location (most probably Glasgow) would receive public support for DTT-delivered local television in Scotland. This would be an unsatisfactory and extraordinary outcome, but it is where commercial logic takes you. Subject to the more detailed costing work that needs to be done, the Panel would suggest that 5 or 6 local services around Scotland would constitute the very minimum necessary to qualify as a truly new and more local level of service, while the view that as many as 16 could be editorially and financially self-sustaining certainly deserves further examination.

Another point needs to be made in relation to distribution of the Scottish Digital Network on the main broadcast platforms. One of the benefits of being a designated PSB is the entitlement to “appropriate prominence” on electronic programme guides. In Wales, for example, the Welsh-language channel S4C is given page one listing as the fourth channel on the EPGs of the two main platforms, Freeview and BSkyB. EPG prominence is an important element in securing a high degree of visibility and usage for the public service broadcasters. The UK Government has powers (and is considering taking more) to ensure that the platform operators give due prominence to designated PSBs and we are confident that this will ensure a high placing (most probably channel 6) for the SDN in Scotland.

5. BENEFITS AND IMPACT OF THE SDN

The main and most conclusive argument for creating the Scottish Digital Network is the need to provide audiences in Scotland with a greater volume and range of high-quality Scottish programming than is currently available. As our remit says, it should “provide a sustainable source of competition to the BBC for public service broadcasting within Scotland.”

But we are convinced, and have heard from others in the course of our work, that there would be very substantial social and cultural benefits more broadly across Scottish society and a real stimulus for the Scottish economy.

The new service would act as a huge boost to the audiovisual content industries in Scotland, creating thousands of valuable new jobs and adding many millions of pounds to the annual value of the sector. A report from Scottish Enterprise in 2009 said that the SDN, combined with envisaged increases in network television production from Scotland, could result in a near-doubling of direct employment in the industry to nearly 5,700 and additional income of more than £200 million.⁶ While such predictions should always be treated with a degree of caution, there would undoubtedly be a very significant economic impact.

In its submission to the Panel, Channel 4 thought it could “recognise the benefits for Scotland of a dedicated network providing high-quality Scottish content.” C4 also believed that the SDN would strengthen the Scottish independent production sector and “may create a larger and more sustainable base of independent companies that C4 and other broadcasters can then commission from”.

C4 was then more specific in relation to the partnership opportunities:

“Given the likely similarities between C4 and the SDN – for example a mutual interest in innovative television and digital media projects and status as a publisher-broadcaster with a public service remit – we would be open to considering partnership opportunities that could strengthen the SDN’s status as a provider of high-quality regional media content. These partnerships could be strategic, commercial or involve co-production investment.”

This sentiment was echoed in a speech given by David Smith, managing director of Matchlight Productions, at our public event in November: “The Scottish Digital Network is a potential game changer. It offers Scotland an opportunity to achieve a place in the premier league of global

⁶ Building the ‘Platform for Success’ Economic Development Strategy for Scotland’s Broadcast Sector, p. 3, Scottish Enterprise, March 2009 – <http://www.scottish-enterprise.com/~media/SE/Resources/Documents/Sectors/Creative%20industries/EconomicDevStrategyBroadcastSector.ashx>

content creators.....It would give us the confidence we need to invest in new genres, to develop new talent and to grow the vital intellectual property that funds all of the significant growth we have seen elsewhere in the UK's production sector."

We heard submissions on the importance of sustainable careers within the industry. The SDN would provide the resources and the opportunity for a major investment in training and skills development in the creative industries, to help to meet skills gaps and shortages in one of the priority sectors of the Scottish economy.

Creative Scotland told us: "Our key message is that a digital network could be transformational – for the cultural sector and for the engagement of audiences, but the key will be investing in content."

Equally valuable would be the contribution to the creative and cultural life of the nation, with the new service becoming a shop window for the very best of performances and provision in Scotland – music, theatre, dance, design, architecture - and indeed a global distribution platform for such content. Creative Scotland said:

"There are (at least) 181 festivals across Scotland, 71 in the Highlands and Islands alone. ...A digital channel could shine a light on some of the hidden world class events and be a creative medium itself for participatory projects."

We were told repeatedly in the course of our work that the SDN should be seen as part of a wider vision for digital connectivity in Scotland, potentially as the creative and technical hub from which much of genuine value will develop.

As discussed earlier in this report, the network would encourage take-up of high-speed broadband as it becomes increasingly available throughout Scotland in line with the policies of governments in both London and Edinburgh. New and attractive forms of Scottish content could drive take-up just as the Scottish Government is seeking to lead the UK in connectivity. We have a problem currently with social exclusion and geographic exclusion and a range of attractive content and services linked to the SDN will help to get all of Scotland connected and participating in the benefits of the digital age. Scotland has the lowest level of broadband penetration in the UK, at 61%, and take-up in Glasgow and parts of the surrounding area is significantly lower at 53%.⁷

⁷ Ofcom Communications Market Report: Scotland, p.58, Ofcom, August 2010–
<http://stakeholders.ofcom.org.uk/market-data-research/market-data/communications-market-reports/cmr10/scotland/>

As one recent report on Scotland's broadband provision put it; "Communications infrastructure has now become as crucial as transport and power to a country's economic and social well-being." ⁸

Part of the benefit of a truly connected Scotland would be the opportunity to deliver both local and national public services more easily to people in more remote locations or with mobility difficulties. We can see scope for remote delivery of public services, for distance learning and for the opportunity to shop around for the best bargains in a range of goods and services. Often it is the people who would benefit most from such opportunities who are currently excluded from participation. Partnerships with local authorities, higher education institutions and wider civic society would be not just appropriate but essential.

The SDN could be an integral part of digital healthcare, delivering information about services online in a way that helps to promote independent living and social care. Currently broadband use is lowest among older people, among the C2DE social category, and among those with health difficulties. So the irony is that many of those who would benefit most from digital technology are currently denied the opportunity to use it.

In our vision for the SDN, consumers in Scotland will be able to choose from a much wider range of Scottish content, some of it being broadcast but much of it being made available on demand by selection from an extensive menu. For viewers, the technology deployed will be largely invisible, and the transition between platforms will be as seamless as it is simple.

We must give everybody the ability and the means to communicate and participate. It is possible to imagine individuals and communities feeling much more engaged and valued through digital technologies. The SDN would give people a voice and a sense of empowerment. The recent severe weather episodes in Scotland afforded an interesting example of where good use of digital communications in a connected Scotland could have achieved a much higher and more effective level of professional and voluntary assistance to those in difficulties.

A Scottish Digital Network committed to the success and growth of Scotland's creative industries would see it as part of its remit to encourage company growth in international markets. SDN funding could enable pilots to be made and ideas developed, with broadcast use in Scotland and sales potential in North America and elsewhere. It would also be of assistance in the crucial area of talent development and retention. We need to focus not just on what goes into it, but also on what we get out of it.

⁸ Digital Scotland, p. 6, The Royal Society of Edinburgh, October 2010 – http://www.royalsoced.org.uk/enquiries/Digital_Scotland/index.htm

That is true as much for journalism as for anything else. We need good and insightful analysis of what is happening in our world. We need to give people more information, more depth of understanding and more space to discuss and challenge what they have heard. It is important not to underestimate audiences or indeed their appetite for this kind of approach.

The Scottish Digital Network would commission and broadcast serious investigative journalism, perhaps in a funding partnership with others such as not-for-profit entities with an interest in promoting a free and open society. That kind of collaboration to support good journalism needs to be further explored. We need funding for new voices and not just to sustain the existing ones. It is an investment in our democracy, an investment in our creative economy and an investment in our culture and our confidence.

The SDN would reinvigorate democracy both locally and nationally. It would connect to and reinforce policy initiatives and imperatives in health, education and social inclusion. It would help us develop into a well-informed society, culturally enriched and with shared civic values. It would also be a point of departure for a bigger and better vision for media and communications in Scotland.

January 2011

ANNEX A: Members of the Scottish Digital Network Panel

Blair Jenkins (Chair), former Chair of the Scottish Broadcasting Commission

Prof Neil Blain, Head of Department of Film, Media & Journalism, University of Stirling

Charles McGhee, Media Consultant, former editor of The Herald

Judith Mackenzie, Investment Director at Downing Corporate Finance

David Wightman, former member of the Scottish Broadcasting Commission and former founder and CEO of Creative Edge Software

Secretariat

Kathryn Stewart

ANNEX B: List of individuals with whom the Panel held meetings or conference calls

Tasmina Ahmed-Sheikh

Ed Brooke, Leith Agency

Graham Bryce, Bauer radio

Lluís Burrell, Analysys Mason

Donald Campbell, MG Alba

Eliza Dashwood, Feather Brooksbank

Brendan Dick, BT

Andrew Dixon, Creative Scotland

Janette Dobson, Analysys Mason

Greg Dyke

Charles Fletcher, Scottish Community Broadcasting Network

Murdo Fraser MSP, Scottish Conservative Party

Stuart Gibson, Reform Scotland

Mike Grant, Caru Ventures

Bobby Hain, STV

Richard Halton, YouView

Mairi Henderson, Scottish Local Television Federation

Michael Johnston, Scottish Newspaper Society

Mike Kidd, Creative Scotland

Pauline McNeill MSP, Scottish Labour Party

Vicki Nash, Ofcom

Dr Anne O'Connor, RTÉ

Caroline Parkinson, Creative Scotland

Brian Quinn, University of the West of Scotland

Jim Raeburn, Scottish Newspaper Society

Ed Richards, Ofcom

Andrew Richardson, Scottish News Consortium

Jason Robertson, University of the West of Scotland

Dave Rushton, Scottish Local Television Federation

Arvind Salwan, New Media Corp

David Shearer, Mediacom

Tavish Scott MSP, Scottish Liberal Democrats

Nicholas Shott

Iain Smith MSP, Scottish Liberal Democrats

David Strachan, PACT

David Thomson, Scottish News Consortium

Tom Thomson, Scottish News Consortium

Jim Wolfe, Leith Agency

Rob Woodward, STV

ANNEX C: List of organisations which submitted written evidence⁹

Bauer Media Scotland

The Caledonian Mercury

Channel 4

Consumer Focus Scotland

Creative Scotland

RadioCentre

Royal Society of Edinburgh Digital Scotland Working Group

Scottish Local Television Federation

Scottish News Consortium

Scottish Newspaper Society

Skillset Scotland

STV

Wyvex Media

⁹ See - <http://www.scotland.gov.uk/Topics/ArtsCultureSport/arts/Broadcasting/sdnpanel/submissions>

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