Nova Scotia Film, Television and New Media Industry: Impact Analysis and Long-Term Strategy

Nordicity Group Ltd.
in association with Duopoly Inc.

Integrated Report

Prepared for the
Nova Scotia Film Industry Taskforce

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Acknowledgements

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- The many producers who participated in our industry interviews, and the members of the Nova Scotia production community who participated in the online survey.
- All of the members of the Nova Scotia Film Industry Taskforce (a complete list can be found in Appendix E).

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Executive Summary

Rationale and Mandate

After ten years of extraordinary growth, production activity in the film and television industry in Nova Scotia stalled in 2002/03 and 2003/04. Mirroring slowdowns in Canada and the international marketplace, Nova Scotia's producers cite declining levels of funding, retraction in the international marketplace, as well as increasing competition from other jurisdictions, within and outside of Canada, as some of the factors inhibiting the growth of production activity.

In light of these developments, the Nova Scotia Film Industry Taskforce commissioned Nordicity Group Ltd. in association with Duopoly Inc. to undertake a project with a twofold mandate. The first part of the assignment was to prepare an impact analysis for the film, television and new media industry in Nova Scotia.[1] The impact analysis was to be comprised of an economic impact analysis and an investigation of the key socio-economic and cultural benefits to Nova Scotia of the local film and television production industry.

The second part of the assignment required Nordicity Group/Duopoly to recommend a long-term strategy to address the immediate threats to Nova Scotia's film and television industry and, equally important, to ensure that this strategy be robust enough to withstand the volatility inherent in the industry over the next five-year period. Underpinning the approach of the strategy is the assumption that the Province of Nova Scotia and the industry's other stakeholders wish to maintain the leadership position of the Province as Canada's 4th largest production centre - and the first among 'regional' production centres.

Approach

Impact analysis

As part of the impact analysis, the economic impact analysis was based largely on quantitative analysis. Using statistics from the Nova Scotia Film Development Corporation (NSFDC), the Canadian Radio-television and Telecommunications Commission (CRTC), Statistics Canada, as well as information gathered through interviews with producers and an online survey of the Nova Scotia production community, Nordicity constructed an estimate of the direct economic impact of film and television production in Nova Scotia.

Nordicity's estimate of the direct economic impact of film and television production in Nova Scotia was submitted to the Nova Scotia Department of Finance. The Department of Finance used its input-output model of the Nova Scotia economy to estimate the overall economic impact of the film and television production activity in the Province. The results of the input-output analysis were then compared to the value of the Nova Scotia Film Industry Tax Credit (FITC) over the last five years to evaluate the Province's film and television industry.

[1] While the scope of this analysis includes new media, because it represents a small portion of production activity, for this report we will refer to the industry as the "film and television production" industry.

Primary and secondary research was used to establish the socio-economic and cultural impacts for Nova Scotia of film and television production within the Province. The primary research included interviews with industry representatives, and an online survey of the Nova Scotia production community, including actors, crew personnel, directors, writers and producers. In total, approximately 40 persons were interviewed as part of the research for this project. Several members of the Taskforce also provided input to the research. Many of those interviewed provided key insights and data for the economic impact analysis. In the appendices we have included a list of interviewees, and copies of the interview guide and online survey questionnaire.

Long-Term strategy

The approach of this strategy assignment was first to synthesize the primary trends in the global film, television and new media industries. Against this backdrop, we situated the Canadian and Nova Scotian industries. Through original research conducted, we then identified the strengths and weaknesses of Nova Scotia's film and television industry and the opportunities and threats facing its producers and many other stakeholders. From this wide-ranging analysis, we have identified a long-term strategy for the Province of Nova Scotia, a strategy which will secure a viable and sustainable film sector with the capacity to flourish over the next five years.

Impact Analysis Findings

Economic Impact

In the table below, we summarize the results of the economic impact analysis. With the exception of employment, the economic indicators are measured in terms of cumulative five-year totals for the 1999/00 to 2003/04 period. Employment is measured in terms of the annual average number of full-time equivalent jobs (FTEs).

For each economic indicator, we calculated the *direct* economic impact, the *spin-off* economic impact and the *total* economic impact. The direct economic impact measures the total expenditures made in the Nova Scotia film and television production industry, and the household income, industry employment, and government revenue generated by these expenditures.. The spin-off economic impact measures the economic impact that film and television production activity in Nova Scotia has on other industries in the Province. The total economic impact represents the sum of direct and spin-off economic impacts.

Table 1 Summary of Results of Economic Impact Analysis

Indicator	Direct Economic Impact	Spin-Off Economic Impact	Total Economic Impact
Operating Expenditures (cumulative five-year total)	$664.8 M	n.a.	n.a.
Capital Expenditures (cumulative five-year total)	$35.5 M	n.a.	n.a.
Household Income (cumulative five-year total)	$234.3 M	$233.9 M	$468.2 M
Employment, FTEs (annual average)	893	1,405	2,299
Provincial Government Revenue (cumulative five-year total)	$25.7 M	$24.0 M	$49.7 M

n.a. not applicable
Some totals may not sum due to rounding.
Source: Nordicity analysis based on data and analysis from Nova Scotia Department of Finance, NSFDC, CRTC, and Statistics Canada.

When only **direct economic impacts** were taken into account, the Nova Scotia FITC was found to have cost the Nova Scotia government a total of approximately $23.5 million between 1999/00 and 2003/04. The direct provincial government revenue generated by film and television production activity in Nova Scotia totalled $25.7 million between 1999/00 to 2003/04; the total amount paid out by the Province in the form of film industry tax credits amounted to $49.2 million during this period.

Table 2 Summary of Cost-Benefit Analysis of Nova Scotia Film Industry Tax Credit

Indicator	Direct Economic Impact	Total Economic Impact
Provincial Government Revenue, 1999/00 to 2003/04 (cumulative five-year total)	$25.7 M	$49.7 M
Value of Nova Scotia Film Industry Tax Credits Certificates, 1999/00 to 2003/04 (cumulative five-year total)	$49.2 M	$49.2 M
Net benefit (cost) to Nova Scotia Provincial Government (cumulative five-year total)	($23.5 M)	$0.455 M

Source: Nordicity analysis based on data and analysis from Nova Scotia Department of Finance, NSFDC, CRTC, and Statistics Canada.

When the **total economic impact** of Nova Scotia film and television production was taken into account, the Nova Scotia FITC was found to be virtually **revenue neutral** during the 1999/00 to 2003/04 period. Between 1999/00 and 2003/04, Nova Scotia paid out $49.2 million in film industry tax credits. During that same period, provincial government revenues resulting from film and television production activity totalled **$49.7 million**. The Nova Scotia FITC actually generated a net gain to the provincial government of **$455,000** over the five-year period.

Socio-Cultural Impact

The impact of the production industry in Nova Scotia goes beyond the strictly economic picture summarized above. There are major socio-cultural benefits that are less quantifiable, but are nonetheless quite substantial.

During our research, the Nova Scotia film and television production community pointed to the production industry as an attractive career path for youth; one that is relatively environmentally friendly, and which gives Nova Scotia a certain visibility that abets its efforts to attract business to the Province. The industry is also a key element in underpinning a more broadly-based creative workforce, as well as contributing positively to the tourism sector.

Countries around the world recognize the power of film and television as the dominant media for storytelling; many, including Canada, have adopted policies that support artists in film and television. Just as a vibrant film and television production industry is important to affording Canadians the opportunity to tell Canadian stories, a vibrant film and television production industry is critical, so that Nova Scotians can tell stories about Nova Scotia to fellow Nova Scotians, Canadians, and people around the world.

Over the last several years, a number of films and television programs based on Nova Scotia stories have been shot in the Province. Some of the most notable include *Pit Pony*, *New Waterford Girl*, *Marion Bridge*, *Margaret's Museum*, *Men of the Deeps*, *Trailer Park Boys*, and *Shattered City: The Halifax Explosion*. Each of these works was set in Nova Scotia, and depicted events or life in the Province.

Long-Term Industry Strategy

The entertainment industry is characterized by a high level of volatility driven in equal measure by advances in technology and shifts in audience tastes and demand. Although stalled in the last 2-3 years, in Canada and in Nova Scotia, the film and television industry experienced double digit growth – outstripping GDP – over the past 10 years. This growth was due to the combination of a high volume of foreign location production from the United States and a government regime of regulation, incentives, and funding supportive to the indigenous industry. This dual engine of growth – foreign location or 'guest' production and indigenous often 'Canadian content' production has also been characteristic of Nova Scotia's industry. The former provides the critical mass to build necessary infrastructure and skills, and the latter creates the entrepreneurs who deliver the stories of the region to audiences across Canada and around the world. Both make valuable contributions to the local economy and should be treated as key twin ingredients for long-term success.

Nova Scotia's relative early entry into the film and television industry has given the Province a solid base from which to grow and several important competitive advantages relative to other regional production centres in Canada. These competitive strengths include:

- An outstanding and recognized legacy of storytelling and music;
- Spectacular locations;
- Ten years of building infrastructure in facilities and technical skills;

- A number of indigenous production companies with a track record of entrepreneurship and success; and,
- A unique relationship with the CBC and national recognition in Canadian content production.

On the flip side of Nova Scotia's considerable strengths are a number of weaknesses that were identified in this study. Many of these weaknesses would have to be addressed in order to support new growth in the sector and include:

- Insufficient scale in sound stage, studio and post-production facilities;
- Lack of depth in the talent pool with specific vulnerabilities in certain key technical, creative and service roles;
- Decline of competitiveness of provincial tax credit;
- Lack of capital and business development skills among indigenous production companies;
- Inexperience in international distribution and financing; and,
- Absence of locally owned broadcaster with national buying mandates.

The Province faces the immediate challenge of how to maintain its current level of annual production above the $100 million level. As well, the Province is looking forward; in order to embark on a new period of growth, the Province will have to adopt a strategy that also addresses current weaknesses in the industry.

Overall, the industry gave a positive assessment of past provincial initiatives – including the many programs of the Nova Scotia Film Development Corporation. The provincial tax credit was evaluated as the most effective instrument of support because of its dependability and the objectivity inherent in its application. At a time when all the other provinces have financial incentive programs, it would be unthinkable that the industry would sustain itself without similar financial incentives.

Summary of the Long-Term Strategy

In spite of an ever-changing external environment, the Province's investment in film and television to date has reaped considerable economic and socio-cultural benefits as described in the earlier part of this document. Looking forward, the goal is to continue to build upon the many accomplishments of the past 10 years – to create a vibrant, viable and self-sustaining industry.

<u>Proposed Strategic Vision</u>

In order to weather the shifts in the marketplace, the strategic vision proposed is rooted in building a strong and resilient group of entrepreneurs who will drive the future of the business. While government policy and incentives are central to the Canadian film industry – as in all countries around the globe – ultimately, it is the production companies that determine the outcome and success of individual productions and the total volume of activity. For this reason, the recommended strategy focuses on strengthening Nova Scotia's production companies as the primary building block of the industry.

Proposed Goals

The strategy sets out two major goals for the Province's Five-Year Strategy:

#1 *To maintain Nova Scotia's leadership position in Canada as the 4th largest production centre in the country;*

#2 *To stimulate a new period of growth for Nova Scotia's film industry with a target increase of $50-75 million in annual new activity by the year 2010.*

While challenging, the goal of $50-75 million in annual extra production activity assumes an annual growth rate of 10%, which is even less than the growth rate that the Canadian industry experienced as a whole in the late 1990s.

To achieve these goals will require investment of incremental resources from the Province – first and most importantly, in the form of an increase in the provincial tax credit, and second, in the form of increased support to the NSFDC. Both increases are relatively modest, and should help the production industry achieve greater self-sustainability with a more established industry.

Recommendations

In order to achieve the goals above, the specific recommendations of the strategy fall into five primary areas:

- Development of production companies;
- Focus on training and strengthening of infrastructure;
- Shift from a production-driven to distribution-driven model in support to the industry;
- Securing of key competitive tools in growing production activity; and,
- Improved marketing of the Province.

The major specific recommendations in each of these areas are:

a. Enterprise Development
- Greater emphasis on business development in the application of NSFDC financing programs
- Business development loan program for corporate development of production companies

b. Investment in Skills & Infrastructure
- Several initiatives to encourage mentoring and apprenticeships
- Focus on partnering with 'out-of-province' producers to broaden production skills
- Greater consultation and coordination of programs between organizations in education and training

c. International Sales
- Allocation of portion of NSFDC budget to distribution initiatives

- Greater training and coaching of producers for international markets
- Reward production companies that bring international financing to productions seeking NSFDC support
- Seed funding for development of sales capability

d. Competitive Tax Credit
- Increase current tax credit from 30% to 35%;
- Maintain regional bonus of 5% above base tax credit;
- Introduce greater flexibility in application of tax credit between Atlantic Provinces;
- Introduce loyalty program for repeat guest producers.

e. NSFDC Funds for Equity Investment & Development
- Increase NSFDC funding level by 5% annually

f. Marketing the Province
- Increase NSFDC spend from 6.6% to 10% of budget on marketing;
- Expand existing efforts to collaborate with other Atlantic Provinces;
- Extend current initiatives to improve word-of-mouth and to attract United States (US) independent films
- Invest in lobbying efforts within Canada

Conclusions

Impact Analysis

The overall impact is a combination of the economic and socio-cultural impact of the industry on the Province. As stated earlier, the economic impact is **revenue neutral** in the sense that the provincial tax credit generates as much revenue to the Province as it invests in domestic and guest productions. As highlighted above, there are many tangible and intangible positive socio-cultural benefits flowing from the production sector. Since the Province earns as much as it spends on the sector, the **overall impact is overwhelmingly positive** because of the socio-cultural benefits.

Long-Term Industry Strategy

The centerpiece of this strategy is a call for renewed investment in the film and television industry. Without renewed investment, the risks of losing Nova Scotia's competitive position within the Canadian production industry are real. As other provinces have adopted aggressive incentives to attract foreign location production, Nova Scotia has seen business move away from the Province.

The cost of an increased tax credit – from 30% to 35% - is approximately $1.5 million in tax credits at the current level of activity. According to the economic impact assessment, most if not all of this tax incentive is recovered in future tax revenues.

Similarly, the NSFDC's funding programs to indigenous production attract more than 15 times their investment in other financing to the Province – i.e., $2.2 million in NSFDC funding results in $35 million in local production activity. Much of that financing is indeed contributed by sources outside the Province. Over the past five years, NSFDC's annual budget allocation has declined or been held flat. In order to embark on a renewed period of growth, the NSFDC would require additional funds – albeit modest increases – to continue to stimulate growth in the indigenous production sector.

1 Introduction

1.1 Background

The NSFDC and the Film Industry Tax Credit

The government of Nova Scotia has a long history of involvement in the promotion of the Province as a place for film and television production. At the centre of this support infrastructure is the Nova Scotia Film Development Corporation (NSFDC) which was created in 1990 under the Film Development Corporation Act.

The NSFDC is a Provincial Crown Corporation reporting to the Minister of Economic Development. The corporation's activities are directed by a Board of Directors, appointed by the Governor in Council.

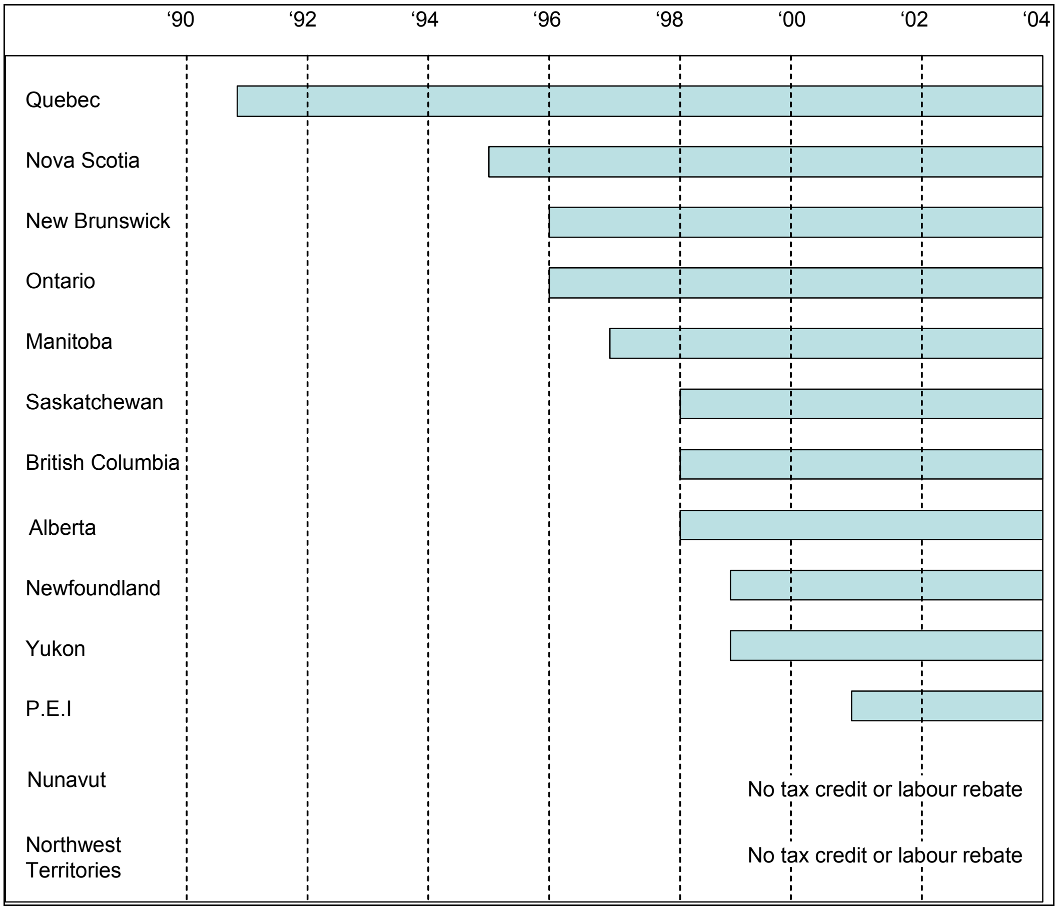
The NSFDC's primary mandate is to:

> *"Grow Nova Scotia's film, television, and new media industries with our partners by stimulating investment and employment and by promoting Nova Scotia's producers, productions, locations, skills and creativity in global markets."*

The NSFDC administers the Nova Scotia Government's Film Industry Tax Credit (FITC). Like many other provinces in Canada, the Nova Scotia tax credit is the primary tool for attracting and stimulating production activity in the Province.

Nova Scotia was one of the first provinces to adopt a tax credit to support film and television production. When the provincial government introduced the FITC on April 1, 1995, the only other province with a tax credit was Quebec. Since the introduction of the Nova Scotia FITC, seven other provinces and one territory have implemented tax credit or labour rebate programs for film and television production.

Figure 1 Provincial Tax Credits and Labour Rebates, Dates of Introduction

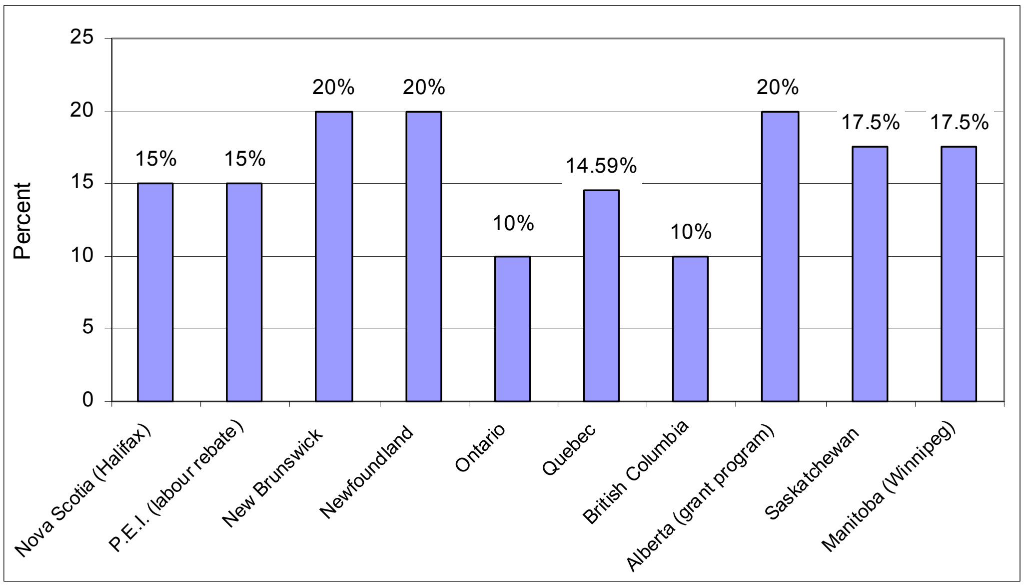


Source: Goodmans LLP, *Playback,* and Alberta Film

Since April 2000, the Nova Scotia FITC has operated with a bifurcated structure. Production spending in the Metro Halifax region is eligible for a 30% tax credit up to a maximum of 15% of the total project budget. Outside of Metro Halifax, the tax credit rate is 35% and the ceiling is 17.5% of the project budget.

Today, Nova Scotia's FITC (Halifax only) translates into a maximum credit equal to 15% of total production budgets (assuming 50% of the budget is spent on labour). This rate puts the Nova Scotia FITC higher than Ontario, British Columbia and Quebec, but lower than New Brunswick, Newfoundland, Saskatchewan, Alberta, and the rate for Manitoba productions shot in Winnipeg as well as in that province's rural areas (productions shot in rural Manitoba are now eligible for a 5% bonus).

Figure 2 Provincial Tax Credit Effective Baseline Rates



See notes in Table 3
Source: Goodmans LLP, and CFTPA, *Guide 2004: Canada's Production Industry Directory.*

Table 3 Notes on Comparisons of Tax Credits

Throughout the report we present comparisons of tax credit rates across the provinces. The different eligibility rules adopted by provincial film agencies make it difficult to construct true effective rates for a pure comparison. For example, some provinces have a ceiling on the total dollar amount of the tax credit that a production can claim. Alberta has such a ceiling; the maximum tax credit is $1.5 million for a dramatic television series. In calculating the effective baseline rates, we have ignored any dollar-amount caps.

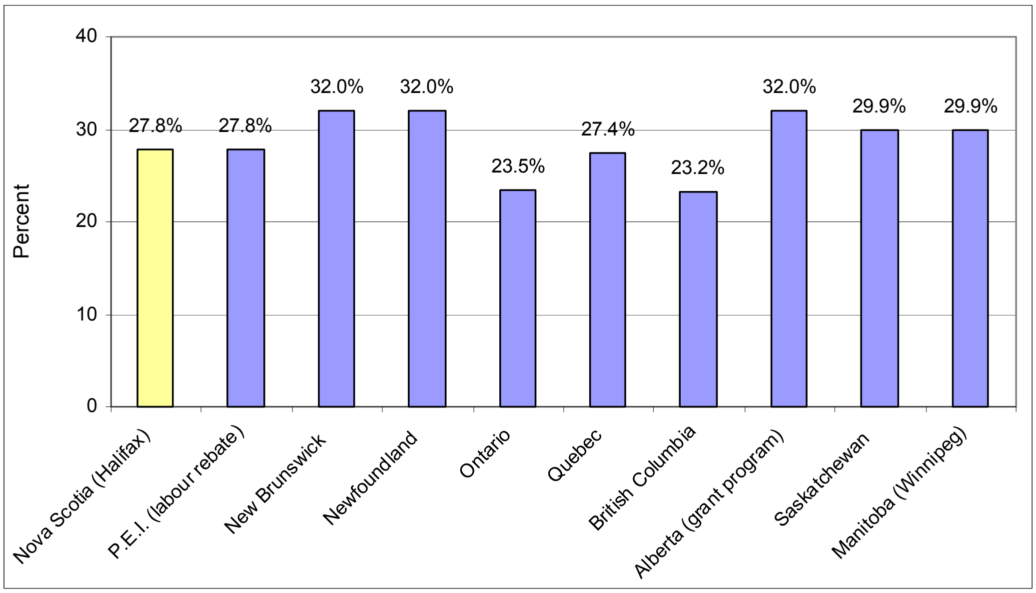
Several provinces cap the eligible labour expenditures upon which the tax credit is calculated. Many provinces stipulate that the tax credit rate is only calculated on eligible labour expenditures up to a maximum of 50% of total production costs; some provinces have no caps on eligible labour expenditures. In cases where the province has no cap, we have assumed that eligible labour expenditures accounted for 50% of the total production budget.

Some provinces offer bonuses for productions shot outside of major cities. We have ignored these regional bonuses in calculating the effective baseline rates.

Also note that Ontario, Quebec and British Columbia offer additional tax credits for special effects, computer animation, and interactive digital media, which film and television producers can access. These additional tax credits have not been incorporated into our calculations and comparisons.

When combined with the federal tax credit, Nova Scotia producers, with a budget comprised of 50% Nova Scotia labour expenditures, can claim tax credits equal to 25.6% of the total project budget for a Canadian content production. Again, this is ahead of Ontario, Quebec and British Columbia, but behind many other provinces.

Figure 3 Canadian Production, Combined Federal and Provincial Tax Credit Rates, Effective Baseline Rates

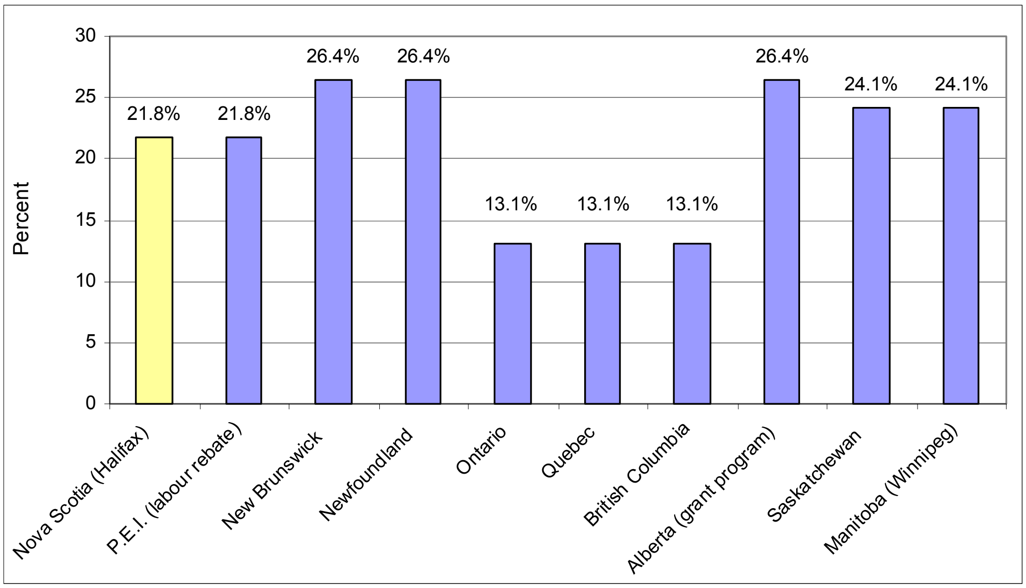


See notes in Table 3

Source: Nordicity calculations based on data from Goodmans LLP, and CFTPA, *Guide 2004: Canada's Production Industry Directory*

For non-Canadian productions, the combination of the Nova Scotia FITC and the federal production services tax credit yields a combined effective rate of 21.8% for Nova Scotia productions. This is higher than Ontario, Quebec and British Columbia, but is below most other provinces.

Figure 4 Non-Canadian Production, Combined Federal and Provincial Tax Credit Rate, Effective Baseline Rates



Note: The calculation of the federal tax credit portion assumes that eligible labour expenditures are equal to 50% of total production costs. See other notes in Table 3.
Source: Nordicity calculations based on data from Goodmans LLP, and CFTPA, *Guide 2004: Canada's Production Industry Directory*

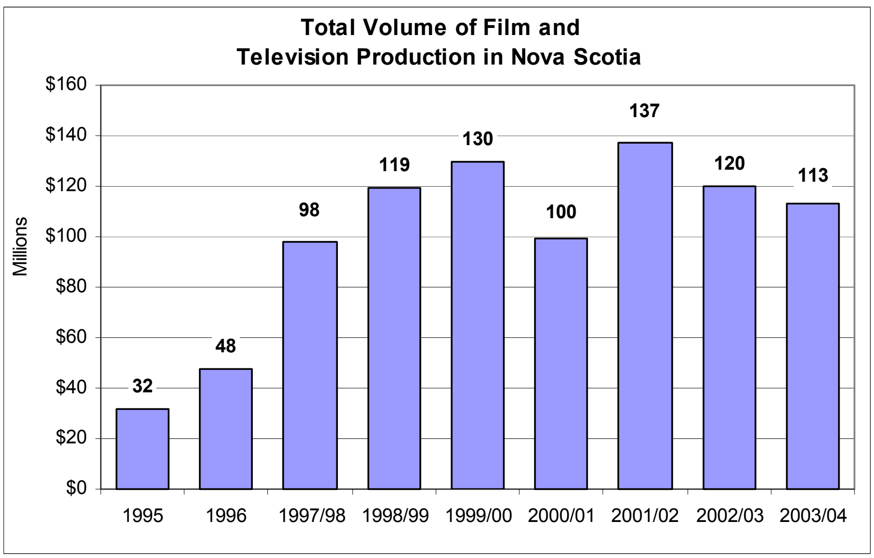
For both Canadian content production and non-Canadian production, the combined federal provincial rates available to Nova Scotia producers are lower than all other provinces – except the major production centres (Ontario, Quebec, British Columbia).

Nova Scotia's Period of Growth

The introduction of the Nova Scotia FITC ushered in a period of strong growth in film and television production in the Province.

Over the past decade, Nova Scotia has established itself as a major centre in Canada and North America for film and television production. Total production spending has grown from $32 million in 1995 (calendar year) to $113 million in 2003/04 (fiscal year). During each of the past six years, total production has exceeded $100 million.

Figure 5 Total Volume of Film and Television Production in Nova Scotia

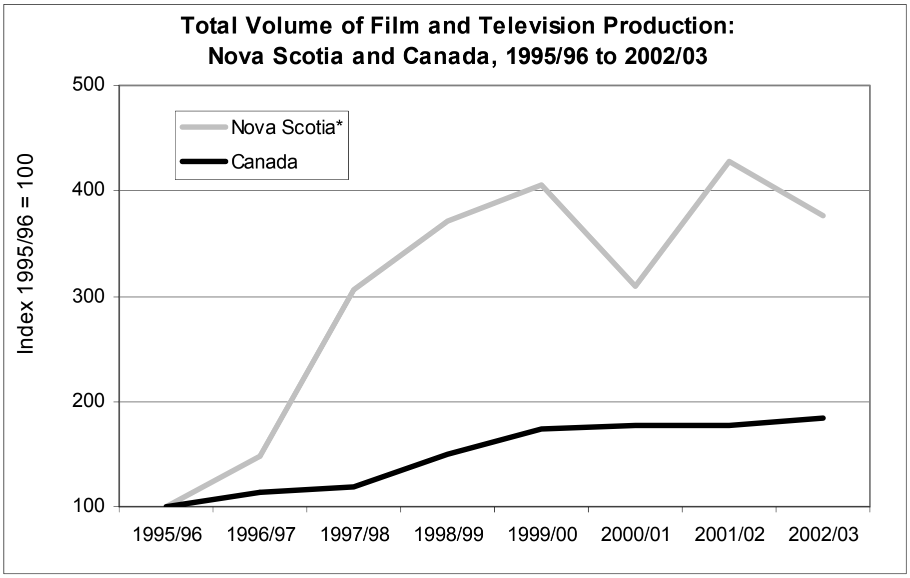


Source: NSFDC

The tremendous growth in the industry since 1995 – a compound annual growth rate of 17% – has been fuelled by increasing levels of domestic indigenous Canadian production (domestic production) as well as guest production, which includes stories developed outside of Canada and productions made by producers resident outside of the Province.

While growth has been strong over the last eight years, the volume of production activity has stalled over the last two years. In fact, the Nova Scotia industry appears to be experiencing a period of actual contraction. While this decline is in part a reflection of trends in the national and global marketplace, it is also due to factors unique to the Nova Scotia industry. These factors – infrastructure, production company size, access to capital, talent pool, location, to name a few – are the centrepiece of any discussion about strategic industry development in the Province.

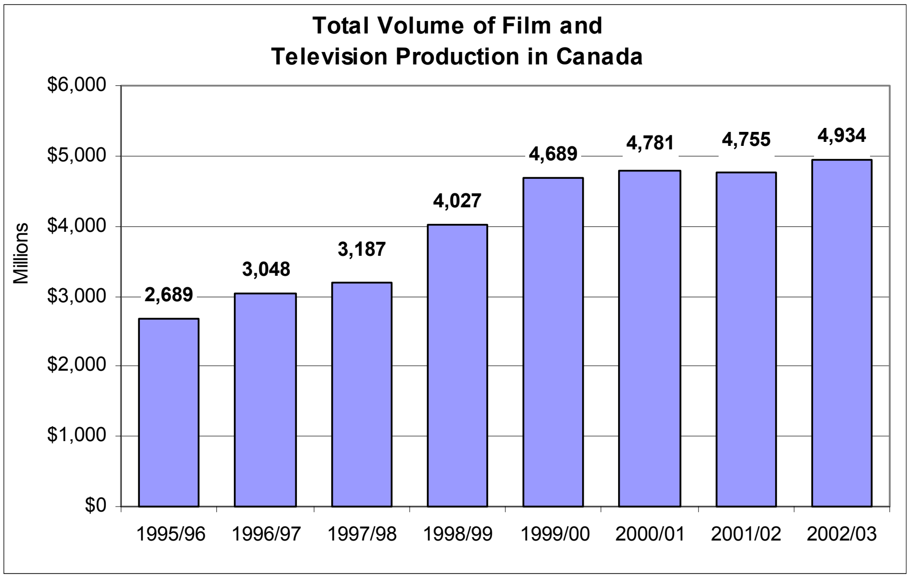
Figure 6 Total Volume of Film and Television Production: Nova Scotia and Canada, 1995/96 to 2002/03



* Data for Nova Scotia for 1995/96 and 1996/97 are for calendar years 1995 and 1996, respectively.
Source: NSFDC and CFTPA, *Profile 2004*

The rest of Canada mirrors Nova Scotia to some extent. Indeed, Nova Scotia's growth was faster than Canada's in the late 1990s. However, it has declined over the last two years, while film and television production activity in Canada merely flattened. Nova Scotia's production is down by 18% since 2001/02, while total Canadian production actually grew slightly during this period – by 3%.

Figure 7 Total Volume of Film and Television Production in Canada



Source: NSFDC and CFTPA, *Profile 2004*

Contributing to the growth of the film and television production industry in Nova Scotia has been the significant investment made by the Nova Scotia provincial government and the NSFDC. This investment has largely been made via marketing and promotion, skills development, and most importantly, financial support to the production side of the industry.

- The Nova Scotia FTIC is, by far, the most important element in the Province's financial support program. Over the five-year period between 1999/00 and 2003/04, the NSFDC certified tax credits totalling $49.2 million.
- Nova Scotia's financial support includes the *Equity Investment Program* and *Development Loans Program* open to Nova Scotia-based producers.
- To attract production to Nova Scotia, the NSFDC actively promotes Nova Scotia as a place to shoot because of its experienced crews, range of locations and industry-standard soundstages, production-support infrastructure, and economic advantages.
- Nova Scotia's *Partnerships in Training* program provides support to training initiatives which help to develop new filmmakers and enhance the filmmaking skills of Nova Scotia's labour force.

The late 1990s growth period coincided with the introduction and early years of the tax credit, which illustrates the pivotal role of this program for the Nova Scotia film sector. The recent gentle decline is partly the result of stiffer competition from other provincial jurisdictions as addressed in the development of the strategic plan for the industry.

Need to Assess the Economic Impact

In April 2000, the Nova Scotia Department of Finance completed a review of the various industry tax credit programs that it operates, including the FITC.[2] In that review, the Nova Scotia Department of Finance found that the FITC generated a net loss to the Nova Scotia government of approximately $7.9 million over the four-year period 1996/97 to 1999/00.

In this study, we update and expand this earlier review by the Nova Scotia Department of Finance. We have captured certain types of television production and production-company capital expenditures that more truly reflect the consequences of the tax credit stimulus. We have also examined other assumptions such as the average equivalent annual salary for the labour component of the Nova Scotian production sector.

Competition for attracting film and television production has increased in Canada and internationally. As noted above, in recent years, provinces such as New Brunswick and Manitoba have been offering more competitive tax incentives than Nova Scotia. In fact, the competition is now keener since the April 21, 2004 announcement by Manitoba to bolster its tax credit. Manitoba will be adding a 5% “Frequent Filming Bonus” to its 35% tax credit rate.[3] That province also announced that it would begin offering a further 5% bonus for rural and northern productions.[4]

Need to Assess the Socio-Cultural Impact

In this study we intend to not only evaluate the economic impact of the Nova Scotia government’s industry support programs, but also explore the socio-cultural benefits that the Province derives from a thriving film and television production industry.

The rationale for the range of support of film and television production by governments in Canada has always been both economic and cultural. The fostering of the arts including its film and television programming expression is deeply imbedded in the goals and objectives of public policy. The recognition that a broader spin-off occurs in terms of social benefits – especially the creation of national and world class jobs in the Province in a highly desired occupation. Thus, the assessment of the overall impact of the industry in Nova Scotia includes the social and cultural as well as the economic.

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[2] Nova Scotia Department of Finance, *Nova Scotia Tax Credit Review: Phase 1 Report*, April 2000.

[3] Manitoba Film & Sound, “Manitoba announces frequent filming bonus! Total of four enhancements to tax credit announced,” media release, April 21, 2004.

[4] Manitoba Film & Sound, “Manitoba announces frequent filming bonus! Total of four enhancements to tax credit announced,” media release, April 21, 2004.

1.2 Scope and Mandate

After ten years of extraordinary growth, production activity in the film and television industry in Nova Scotia stalled in 2002/2003 and 2003/2004. Mirroring slowdowns in Canada and the international marketplace, Nova Scotia's producers cite declining levels of funding, retraction in the international marketplace, as well as increasing competition from other jurisdictions, within and outside of Canada, as some of the factors inhibiting the growth of production activity.

The mandate of Nordicity Group/Duopoly in this project was twofold. First, Nordicity Group/Duopoly was commissioned to prepare an impact analysis for the film, television and new media industry in Nova Scotia.[5] The impact analysis was to be comprised of an economic impact analysis and an investigation of the key socio-economic and cultural benefits to Nova Scotia of the local film and television production industry.

For the economic impact analysis, the Taskforce asked Nordicity to quantify and evaluate the economic impact of film and television production. The evaluation involved a cost-benefit analysis that compared the provincial government revenues generated by the economic activity attributable to film and television production to the cost of the FITC to the Nova Scotia government.

To complement this economic impact analysis, the Taskforce asked Nordicity to investigate and articulate the socio-economic and cultural benefits of the industry to Nova Scotia. Most of these are not quantifiable, so this component of the impact analysis was largely qualitative in nature.

The second part of the mandate required Nordicity Group/Duopoly to recommend a strategy to address the immediate threats to Nova Scotia's film and television industry and, equally important, to ensure that this strategy be robust enough to withstand the volatility inherent in the industry over the next five-year period. Underpinning the approach of the strategy is the assumption that the Province of Nova Scotia and the industry's other stakeholders wish to maintain the leadership position of the Province as Canada's 4th largest production centre - and the first among 'regional' production centres.

[5] While the scope of this analysis includes new media, because it represents a small portion of production activity, for this report we will refer to the industry as the "film and television production" industry.

1.3 Approach and Methodology

While both the impact analysis and strategy development process relied on extensive secondary and primary research, they were completed using very different analytical paths.

Impact Analysis

As part of the impact analysis, the economic impact analysis was based largely on quantitative analysis. Using statistics from the NSFDC, the Canadian Radio-television and Telecommunications Commission (CRTC), Statistics Canada, as well as information gathered through interviews with producers and an online survey of the Nova Scotia production community, Nordicity constructed an estimate of the direct economic impact of film and television production in Nova Scotia. A detailed description of the methodology used to construct the estimate of the direct economic impact can be found in Appendix A.

Nordicity's estimate of the direct economic impact of film and television production in Nova Scotia was then submitted to the Nova Scotia Department of Finance. The Nova Scotia Department of Finance used its input-output model of the Nova Scotia economy to estimate the overall economic impact of the film and television production activity in the Province. A summary of the Nova Scotia Department of Finance's input-output modelling can be found in Appendix B.

The results of the input-output analysis were then compared to the value of the Nova Scotia FITC over the last five years, to evaluate the Province's film and television industry.

Primary and secondary research was used to establish the socio-economic and cultural impacts for Nova Scotia of film and television production within the Province. The primary research included interviews with industry representatives, and an online survey of the Nova Scotia production community, including actors, crew personnel, directors, writers and producers. In total, approximately 40 persons were interviewed as part of the research for this project. Several members of the Taskforce also provided input to the research. Many of those interviewed provided key insights and data for the economic impact analysis. In the appendices we have included a list of interviewees, and copies of the interview guide and online survey questionnaire.

The online survey was completed by approximately 180 respondents from the Nova Scotia production community. Of these respondents, 20 producers completed the economic data section, which gathered key data for this report. A supplementary online survey was conducted to capture additional factual information from production companies as to their capital expenditures and wages for overhead and development functions beyond specific productions.

Nordicity also consulted some literature that formed part of our research of the socioeconomic and cultural impacts. A list of references can be found at the end of the report.

Long-Term Industry Strategy Development

The approach of the strategy assignment was first to synthesize the primary trends in the global film, television and new media industries. Against this backdrop, we situated the Canadian and Nova Scotian industries. Through original research conducted, we then identified the strengths and weaknesses of Nova Scotia's film and television industry and the opportunities and threats facing its producers and many other stakeholders. From this wide-ranging analysis, we have identified a long-term strategy for the Province of Nova Scotia, a strategy which will secure a viable and sustainable film sector with the capacity to flourish over the next five years.

2 Summary of Impact Analysis

2.1 Introduction

The impact analysis is comprised of an **economic impact** analysis, and an investigation of the key **socio-economic and cultural benefits** to Nova Scotia of the local film, television, and new media production industry.[6]

For the economic impact analysis, Nordicity quantified *direct* and *spin-off* economic impacts of film and television production in Nova Scotia and evaluated the economic impact of film and television production. The evaluation involved a cost-benefit analysis that compared the provincial government revenues generated by the economic activity attributable to film and television production to the cost of the FITC to the Nova Scotia government.

Using statistics from the NSFDC, the CRTC, and Statistics Canada; as well as information gathered through interviews with producers and an online survey of the Nova Scotia production community, Nordicity constructed an estimate of the direct economic impact of film and television production in Nova Scotia.

This estimate of the direct economic impact was then supplied to the Nova Scotia Department of Finance. The Department of Finance utilized its input-output model of the Nova Scotia economy, to model the spin-off economic impact. This spin-off economic impact was combined with the direct economic impact to form an estimate of the total economic impact of film and television production in Nova Scotia. The estimate of provincial government revenue from this analysis was then used to complete the cost-benefit analysis for the 1999/00 to 2003/04 period.

To complement this economic impact analysis, Nordicity also investigated and articulated the socio-economic and cultural benefits of the industry to Nova Scotia. Most of these were not quantifiable, so this component of the impact analysis was largely qualitative in nature.

Primary and secondary research was used to establish the socio-economic and cultural impacts of film and television production for Nova Scotia. The primary research included interviews with industry representatives, and an online survey of the Nova Scotia production community, including actors, crew personnel, directors, writers and producers. In total, approximately 40 persons were interviewed as part of the research for this project. Several members of the Taskforce also provided input to the research. The online survey was completed by approximately 180 respondents from the Nova Scotia production community. Of these respondents, 20 producers completed the economic data section, which gathered key data for this report.

By assembling the various contributions – economic, socio-economic, and cultural – into one impact analysis, Nordicity is able to provide policy makers with a complete portrait of the benefits that the industry brings to the Province. This portrait can then be compared to the costs associated with maintaining the industry.

[6] While the scope of this analysis includes new media, because it represents a small portion of production activity, for this report we will refer to the industry as the “film and television production” industry.

2.2 Economic Impact

2.2.1 Direct Economic Impact

The **direct economic impact** measures the economic impact of film and television production in Nova Scotia in terms of:

- **operating expenditures** and **capital expenditures** (spending on employee wages, and purchases of goods and services);
- the **household income** of Nova Scotia residents employed in the film and television production industry;
- the number of Nova Scotia residents employed in the film and television production industry – measured on the basis of full-time equivalents (FTEs); and,
- the **provincial government revenue** generated for the Nova Scotia government by the household income earned by Nova Scotia residents employed in the film and television production industry.

Between 1999/00 and 2003/04, **operating expenditures** in the Nova Scotia film and television production industry totalled **$664.8 million**. These operating expenditures were largely comprised of spending on production activity. Added to these operating expenditures were an estimated $35.5 million in **capital expenditures** by production companies based in Nova Scotia.

Table 4 Operating and Capital Expenditures in the Nova Scotia Film and Television Production Industry

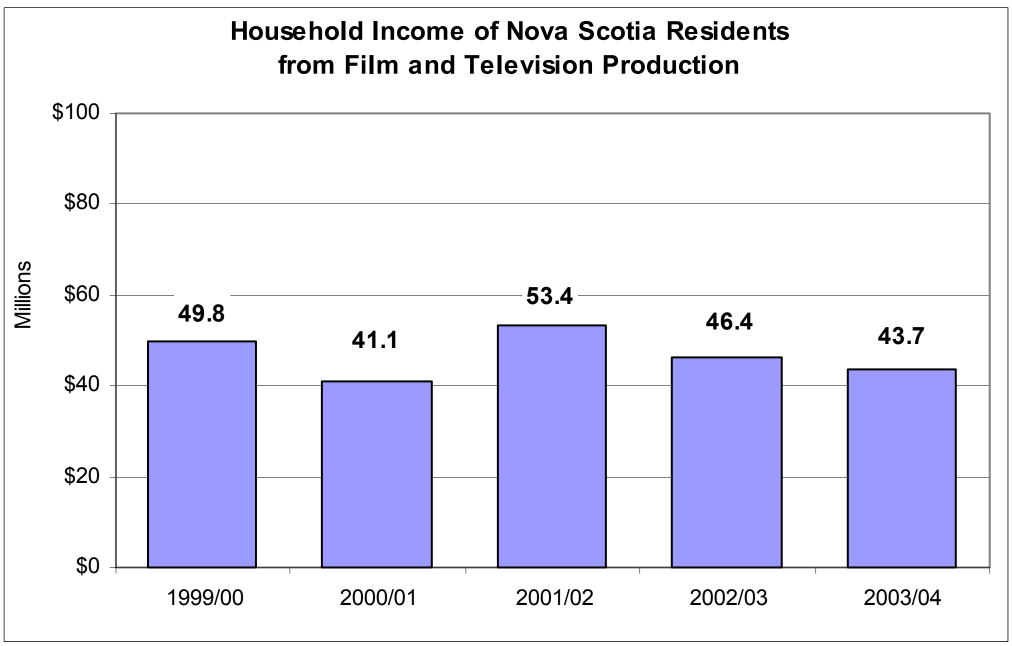
	1999/00	2000/01	2001/02	2002/03	2003/04	Total
Millions of dollars						
Domestic Production	70.0	64.4	88.7	68.3	62.2	353.6
Guest Production	60.0	34.9	48.4	52.0	51.1	246.3
Total NSFDC-Supported Production	130.0	99.3	137.1	120.3	113.3	600.0
CBC	14.0	10.3	9.5	9.9	9.9	53.6
Private Conventional Broadcasters	0.5	0.4	0.5	0.8	0.6	2.7
Pay & Specialty Services	--	--	0.4	0.8	0.8	2.0
Total In-House Television Production	14.5	10.7	10.4	11.5	12.2	58.3
Estimate of Other Film and Television Production (TV Commercials, Education/Instructional Video)	1.3	1.3	1.3	1.3	1.3	6.5
Total Operating Expenditures	**145.7**	**111.2**	**148.7**	**133.0**	**125.8**	**664.8**
Total Capital Expenditures	**7.1**	**7.1**	**7.1**	**7.1**	**7.1**	**35.5**

Note: Some totals may not sum due to rounding.
Source: Nordicity estimates and calculations based on data from NSFDC, CRTC and Survey of Nova Scotia Film and Television Production Sector

The operating expenditures included the production budgets of NSFDC-supported independently produced films and television programs; NSFDC-supported guest productions; and in-house television production of the CBC, privately-owned conventional television broadcasters, and pay and specialty television services. The operating expenditures also included an estimate for expenditures on the production of television commercials and educational or instructional videos. Capital expenditures included estimates for the amount spent by Nova Scotia production companies on construction, or the acquisition of equipment, including equipment for production or post-production services.

The total industry expenditures (operating and capital) generated total direct **household income** of **$234.3 million** between 1999/00 and 2003/04 for Nova Scotia residents employed in the film and television production industry.

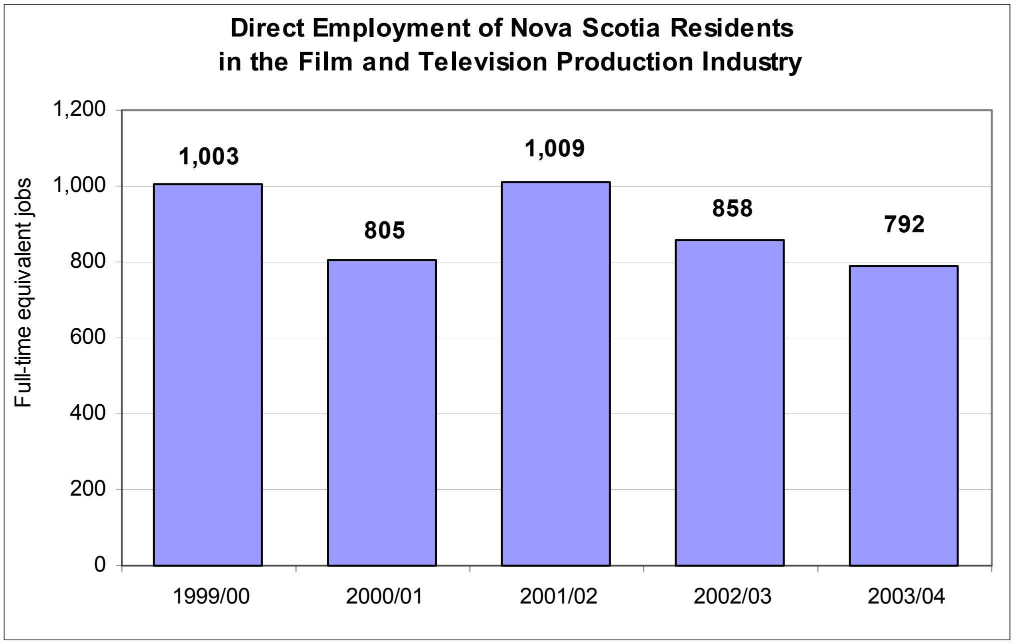
Figure 8 Household Income of Nova Scotia Residents from Film and Television Production



Source: Nordicity estimates and Nova Scotia Department of Finance

Over the five-year period, 1999/00 to 2003/04, film and television production activity in Nova Scotia supported an annual average of **893 full-time equivalent jobs** for Nova Scotia residents. In the most recent production year, 2003/04, total industry expenditures supported 792 full-time-equivalent jobs for Nova Scotia residents.

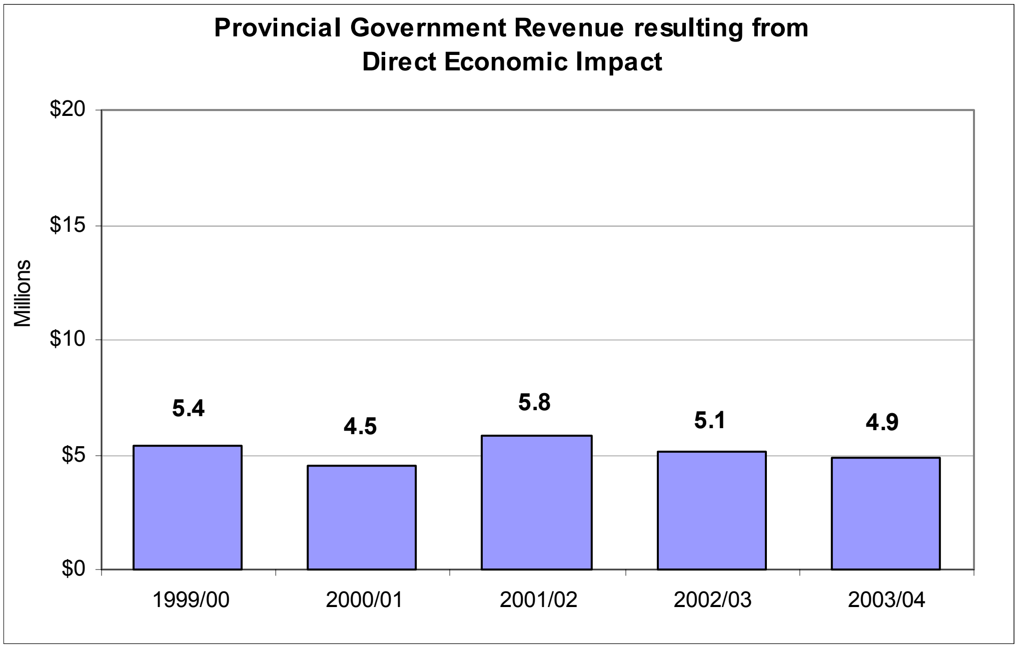
Figure 9 Direct Employment of Nova Scotia Residents in the Film and Television Production Industry (Full-time equivalent jobs)



Source: Nordicity estimates and calculations based on data from Nova Scotia Department of Finance, NSFDC, CRTC and Survey of Nova Scotia Film and Television Production Sector

The direct economic impacts of film and television production activity in Nova Scotia generated total **provincial government revenue** of **$25.7 million** between 1999/00 and 2003/04.

Figure 10 Provincial Government Revenue resulting from Direct Economic Impact



Source: Nordicity estimates and Nova Scotia Department of Finance analysis

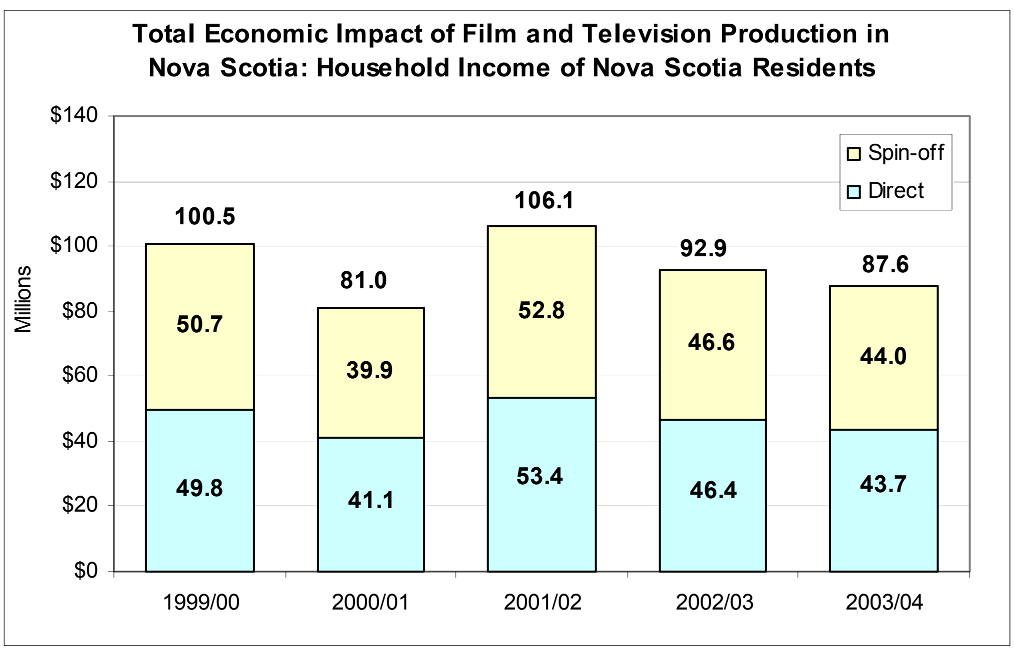
2.2.2 Total Economic Impact

In addition to the direct economic impact of film and television production activity, there are indirect and induced impacts for the provincial economy. The **indirect impact** is the total value of the output generated by suppliers to film and television production activity in Nova Scotia. The **induced impact** is the economic impact that occurs when the wages (household income) earned at the direct and indirect impact stages are spent throughout the Nova Scotia economy. Together, the indirect and induced impacts form the total **spin-off impact**.

The combination of the direct impact and spin-off impact represents the **total economic impact** that can be attributed to expenditures on film and television production in Nova Scotia. The total economic impact is measured in terms of **household income**, **employment**, and **provincial government revenue**. The estimates for the total economic impact are a function of the estimates of the direct economic impact (prepared by Nordicity) and the results of the input-output analysis conducted by the Nova Scotia Department of Finance.

Between 1999/00 and 2003/04, film and television production activity in Nova Scotia generated **total household income** of **$468.2 million** throughout the Nova Scotia economy. This household income was earned by Nova Scotia residents employed in the film and television production industry, and those employed in other sectors of the provincial economy.

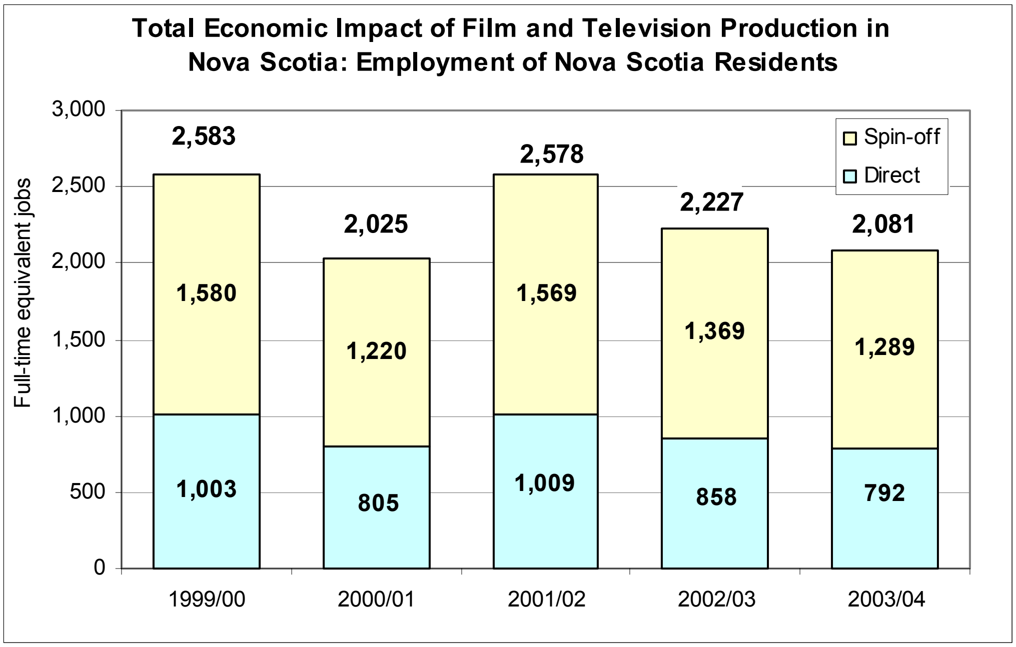
Figure 11 Total Economic Impact of Film and Television Production in Nova Scotia: Household Income of Nova Scotia Residents



Some totals may not sum due to rounding
Source: NGL estimates and Nova Scotia Department of Finance analysis

During the 1999/00 to 2003/04 period, film and television production supported an annual average of **2,299 full-time equivalent jobs** across the Nova Scotia economy. Again, this includes employment directly in the film and television production industry as well as jobs created in other sectors of the economy because of the spending arising from the film and television production industry in the Province.

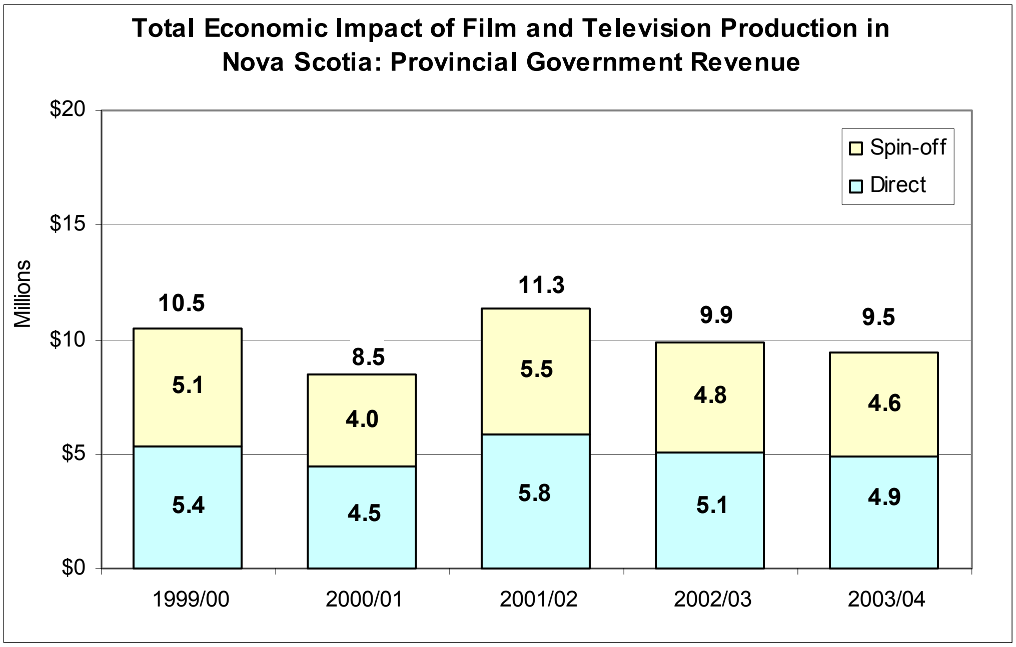
Figure 12 Total Economic Impact of Film and Television Production in Nova Scotia: Employment of Nova Scotia Residents



Note: Some totals may not sum due to rounding
Source: Nordicity estimates and Nova Scotia Department of Finance analysis

The total economic impact of film and television production activity in Nova Scotia generated economy-wide **provincial government revenue** of **$49.7 million** between 1999/00 and 2003/04.

Figure 13 Total Economic Impact of Film and Television Production in Nova Scotia: Provincial Government Revenue



Source: Nordicity estimates and Nova Scotia Department of Finance analysis

2.3 Cost-Benefit Analysis

When only **direct economic impacts** were taken into account, the Nova Scotia FITC was found to have cost the Nova Scotia government a total of approximately $23.5 million between 1999/00 and 2003/04. Direct provincial government revenue totalled $25.7 million, while the total value of the Nova Scotia FITC during the period was $49.2 million.

Table 5 Cost-Benefit Analysis of Nova Scotia FITC, Direct Economic Impacts Only

	1999/00	2000/01	2001/02	2002/03	2003/04	Five-Year Total
Provincial Government Revenue	5,353,000	4,484,000	5,489,000	5,095,000	4,887,000	25,668,000
Value of Tax Credit Certificates	4,100,000	12,600,000	8,600,000	8,900,000	15,000,000	49,200,000
Net Benefit (Cost)	1,253,000	(8,116,000)	(2,751,000)	(3,805,000)	(10,113,000)	(23,532,000)

Source: Nordicity calculations based on data from NSFDC and Nova Scotia Department of Finance

When the **total economic impact** of Nova Scotia film and television production was taken into account, the Nova Scotia FITC was found to be virtually **revenue neutral** during the 1999/00 to 2003/04 period. Between 1999/00 and 2003/04, the value of Nova Scotia FITC certificates totalled $49.2 million. During that same period, provincial government revenues resulting from film and television production activity totalled **$49.7 million**. The Nova Scotia FITC actually generated a net gain to the provincial government of **$455,000** over the five-year period. **Thus, the tax expenditures by the provincial government were completely returned to the Province in the form of incremental tax collected from the economic activity generated by the tax credits.**

Table 6 Cost-Benefit Analysis of Nova Scotia FITC, Total Economic Impact

	1999/00	2000/01	2001/02	2002/03	2003/04	Five-Year Total
Provincial Government Revenue	10,464,000	8,515,000	11,311,000	9,911,000	9,454,000	49,655,000
Value of Tax Credit Certificates	4,100,000	12,600,000	8,600,000	8,900,000	15,000,000	49,200,000
Net Benefit (Cost)	6,364,000	(4,085,000)	2,711,000	1,011,000	(5,546,000)	455,000

Source: Nordicity calculations based on data from NSFDC and Nova Scotia Department of Finance

2.4 Regional Impact

During the last five years, 17 productions shot in regions outside of Halifax/Dartmouth for a total of approximately 228 days. Shooting outside of Halifax/Dartmouth allows producers to make use of locations appropriate to the setting of the story, and to access the somewhat higher tax credit (35% of Nova Scotia labour) available.

Although a significant number of productions do shoot outside of Halifax/Dartmouth, it is unclear how much of the production expenditures actual stay in the region. Outside of accommodations, and food and beverage expenses, it is likely that most purchases of equipment and services flow back to the businesses in Halifax/Dartmouth.

Despite the limited economic impact of regional production, it does probably have a socio-economic impact by exposing the young population in the regions to the film and television production industry. It also provides the youth in these regions with future employment opportunities in the Halifax production community – rather than having to join the exodus out of the Province.

2.5 Socio-Economic and Cultural Impact

Film and television production is a unique combination of both artistic and business pursuit, and so, it makes both an economic and cultural contribution. There is a whole range of socio-economic impacts that cannot be easily measured but in many respects can be attributed to film and television production activity.

Film and television are central parts of the modern cultural sector. Canada has fought to sustain and strengthen our cultural sector in trade negotiations. Canada has created and supported public institutions like the CBC, the National Film Board, and the Canada Council. As well at the federal level, the film and television sector receives more tax and program incentives, and regulatory support than any other cultural sector.

During our research, the Nova Scotia film and television production community pointed to the production industry as an attractive career path for youth; one that is relatively environmentally friendly, and which gives Nova Scotia a certain visibility that abets its efforts to attract business to the Province. The industry is also a key element in underpinning a more broadly-based creative workforce, as well as contributing positively to the tourism sector.

According to one survey respondent, the industry is a "leading career choice among young people", providing the skills needed to live and work in the Province. By offering an attractive career path for young people, the film and television production helps to stem out-migration, and keep many of the best and brightest in Nova Scotia. According to one producer, these young industry leaders will go on to become the community leaders of tomorrow.

Not only does the Nova Scotia film and television production industry stem out-migration, but it also helps to build a creative and innovative workforce that is essential to compete in today's economy. Traditional industries like mining and manufacturing require physical infrastructure – highways, airports, railways, ports – to operate their business by facilitating the movement of business inputs and outputs. In today's economy a cultural infrastructure is just as important. For knowledge-based industries, the key, creative human capital, demands an environment that offers them the opportunity for cultural experiences and cultural expression.[7] To attract a creative workforce, governments must foster an environment that allows the arts to flourish and at the same time gives creative workers a range of career opportunities. Film and television production is one such industry; it gives writers and the myriad of visual artists the opportunity to apply their creative skills.

In relation to many of the traditional industries in Nova Scotia, film and television production is environmentally friendly. The film and television production industry is a "*non-polluting industry which plays on the strengths of this Province – the natural beauty of the area and the team-spirit and creative energy of the people*" (survey respondent). Film and television production consumes electricity and thereby does have an indirect environmental impact like many other industries, but it does not have the same direct negative environmental impact that other resource-based industries can have.

[7] Florida, Richard, op cit.

In today's global economy, regional brand building is paramount to attracting the high-skilled workforce that fuels economic growth. The value of a brand that is not communicated effectively can become diminished. The film and television industry contributes to Nova Scotia's brand building endeavour in two respects.

First, jurisdictions around the world that have invested in supporting local film and television production recognize the effect it can have on their tourist industry. People often just want to visit the actual locations in which their favourite films and television programs were shot. The droves of Japanese tourists to the home of Lucy Maud Montgomery are just one example of this phenomenon. The fans of series such as *LEXX* or *Trailer Park Boys* will make the trip to the location of their favourite show to visit the set, hold their conventions, and possibly meet with the talent.

Second, countries around the world recognize the power of film and television as the dominant media for storytelling; many, including Canada, have adopted policies that support artists in film and television. Just as a vibrant film and television production industry is important to affording Canadians the opportunity to tell Canadian stories, a vibrant film and television production industry is critical, so that Nova Scotians can tell stories about Nova Scotia to fellow Nova Scotians, Canadians, and people around the world.

Over the last several years, a number of films and television programs based on Nova Scotia stories have been shot in the Province. Some of the most notable include *Pit Pony*, *New Waterford Girl*, *Marion Bridge*, *Margaret's Museum*, *Men of the Deeps*, *Trailer Park Boys*, and *Shattered City: The Halifax Explosion*. Each of these works was set in Nova Scotia, and depicted events or life in the Province.

Nova Scotians not only see local film and television production as an important form of storytelling and artistic expression, they also see it as an area where success can build local pride. Television programs produced in Nova Scotia, such as *This Hour Has 22 Minutes*, *Theodore Tugboat*, and *Trailer Park Boys,* have gained recognition in Canada and elsewhere. As one interviewee suggested, the success of these programs and the existence of a vibrant and successful production industry demonstrate to Nova Scotians and Canadians that Nova Scotia is a "place where things can happen".

The presence of a film and television industry and the associated talent base of people contribute immensely to the arts scene and to the diversity and liveliness of local community life.

2.6 Overall Impact of the Film and Television Production Industry

The overall impact is a combination of the economic and socio-cultural impact of the industry on the Province. As stated earlier, the economic impact is **revenue neutral** in the sense that the FITC generates as much revenue to the Province as it invests in domestic and guest productions. As highlighted above, there are many tangible and intangible positive socio-cultural benefits flowing from the production sector. Since the Province earns as much as it spends on the sector, the **overall impact is overwhelmingly positive** because of the socio-cultural benefits.

3 Long-Term Industry Strategy

3.1 The Global Environment

In order to frame a five-year strategy for Nova Scotia's film, television and new media industries, it is critical to step back and to assess the national and international environments within which the Province's industry operates. While the subject is vast, there are several major trends and characteristics of the entertainment business that inform or illuminate the realities of the business:

- First, the global entertainment industry, in most of its parts, has been a growth industry for over three decades, driven by the explosion of channels for content delivery;
- Second, while the industry is seasonal and cyclical in nature, the growth engines – technological change and audience appetite – have not faltered;
- Third, while periods of economic downturn have an impact on the profitability of media enterprises, as an industry overall the entertainment business has consistently demonstrated its robustness during periods of recession;
- Fourth, technology has the capability of rapidly and dramatically changing the production-distribution paradigm in the entertainment business, as witnessed in the recent upset to the music industry's business model;
- Finally, while the Internet boom and bust disrupted a period of phenomenal media expansion and consolidation in the late 1990's, evidence suggests that the marketplace has corrected itself and the industry is returning to a period of greater stability.

The entertainment industry is characterized by a high level of volatility and while growth has been steady, there have been periods of retraction and adjustment as the marketplace shifts. Film and television producers in Canada, the United States and around the globe, must remain flexible and adjust rapidly with the ebbs and tides of the creative and financing demands of the marketplace in order to survive.

a. Health of the International Media Industry After a Period of Convergence, Mergers & Acquisitions

2000-2003: Period of retraction and downturn for producers around the globe. Canadian producers experience downward pressure in license fees.

During the 1990s the media industry, around the globe, experienced the greatest influx of capital in its history. Driven by the promise of the Internet and convergence, the 'conventional' media companies were forced to reconsider and over-haul their business models. The merger of Time Warner and AOL and here in Canada, BCE's acquisition of CTV and the Globe & Mail, stand as the ultimate examples of the prevailing beliefs of the time. Today, after the sale of companies like Vivendi Universal and the lackluster performance of AOL Time Warner (now returned to its previous corporate name of simply Time Warner), the heady days of convergence have faded.

The more sober economic environment post 9/11 resulted in a widespread dampening of exuberance for the new media paradigm shift. In Europe and in North America, large media conglomerates experienced a period of dramatic downsizing, budget reductions, and in some cases, shutdowns. And, most importantly, the primary driver of the television business – broadcast network advertising sales – was in eye-popping decline in 2001 (a decline of 8.8%), and only climbed back to the 2000 level in 2003.

The most immediate impact – felt throughout the production industry – has been on broadcasters' programming budgets. In the international marketplace after a period of oversupply, broadcasters decided to recycle their inventory and stop buying new product. Across the board, shelf-space for new programming declined along with prices paid for acquisitions. The pre-sale market, critical for completion of financing on many Canadian shows (especially in the animation and children's genre), dried up almost entirely. For Canadian and Nova Scotian producers, the past four years have been some of the toughest in terms of the international sales arena. And, at home, the broadcasters' strategy of reducing costs (along with license fees) paralleled their international colleagues.

After a period of gloom and doom, the advertising sales market in the United States began to come back in 2003 and in 2004. As reported in *Variety* (1/1/04), ad revenues in 2003 increased 3% to 4% over the previous year. According to investment banker Smith Barney, ad revenues will grow at 6.7% in 2004, outpacing gross domestic product growth, and reaching $256 billion. PricewaterhouseCoopers (PwC) forecasts that total TV advertising in the United States (US) will grow 10.6% in 2004, although more modestly in future years.[8]

In Canada, advertising on conventional stations has been flat since 1998, actually declining slightly (0.03%) in 2000. There was actually some growth in 2001 (2.3%) and the PwC forecast for the next few years is for growth at the 4% level. The growth of total ad dollars on specialty television has been double digit for the last five years, although the PwC forecasts predict that this growth will slow to the 8-9% level in future years. This growth history and forecast is also reflected in subscription fees, making the specialty channels a more rapidly growing segment. Of course, this growth is spread among an increasing number of channels that are authorized and launched by broadcasters.

[8] PricewaterhouseCoopers, *Global Entertainment and Media Outlook: 2003 - 2007*

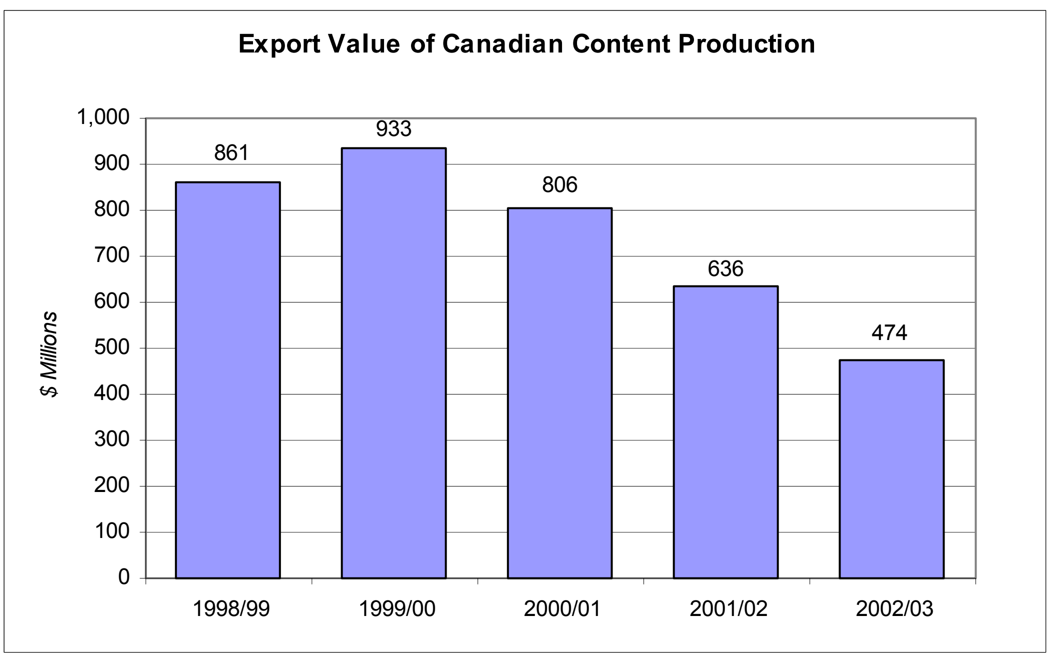
b. Shifts in Audience Tastes & Broadcaster Inventory Demand

Decline in American-style English-language programming in European schedules;
Decline in international pre-sales and slowdown in treaty co-productions;
Emergence of reality TV in primetime;
Climate of uncertainty and change presents challenges for Nova Scotia producers.

While broadcasters struggled to rebalance their business operations in the early 2000s, several other factors contributed to the changing television programming landscape. First, outside of North America, there has been a shift in audience taste away from American-style English-language programming. Canada has been the second largest exporter of English-language programming (after the United States) for many years and this ranking has been due, in large measure, to our co-production treaties and subsequent ability to serve the foreign broadcasters' schedule while meeting their content quotas. But in recent years, the European broadcasters have moved from acquisitions-heavy schedules to a greater emphasis on local and locally-produced programming. Not only does this suit the European broadcasters' budgets and content quotas, but it suits local audiences as well. For Canadians well-versed in co-production financing, this has meant a smaller market for TV movies, dramas and even animation and children's fare.

The decline in broadcast and film markets internationally is evident in the drop in percentage of financing of Canadian productions across the board as the graphic below depicts.

Figure 14 Export Value of Canadian Content Production



Source: CFTPA, *Profile 2004*

Second, around the globe, the emergence of 'reality television' as the dominant format in primetime has had a profound impact on international program acquisitions. Sitcoms and drama

– both series and TV movies – no longer own primetime. In fact, the ability to finance TV movies which were dependent in the past on foreign pre-sales has been largely compromised. Reality TV, by its nature, reflects local experience to the local audience and therefore is driven by reformatting rather than acquisitions. Finally, reality TV, and its accompanying format franchising, is lower cost and therefore margins for producers are tighter. And, in the area of documentaries – a clear strength of Canadian producers – broadcasters around the world have moved away from historical, investigative, in-depth documentaries (with higher budgets) to contemporary, lower cost 'real life' factual programming.

As stated earlier, the entertainment business is seasonal and cyclical by nature and the shifts in audience taste are part of the equation. The game show and variety show craze in the 1950's and 1960's was declared permanently dead, only to resurface as '*Joe Millionaire'* or '*Survivor*' in the 2000's. The critical learning for Canadian and Nova Scotian producers is to remain nimble and flexible and to stay focused on what will sell in the current marketplace. The production companies that have survived the choppy waters of the last five years are those larger companies with a diversified production slate or the smaller companies with a clear niche of programming coupled with a secure broadcaster relationship.

c. Technology and Downward Pressure on License Fees

License fees drop as specialty broadcasters commission higher volume, lower cost product and producers experience margin squeeze as production costs drop.

While external economic factors have caused downward pressure on license fees, so have changes in technology. With the proliferation of specialty channels, satellite delivery and the threat of broadband delivery, the cost model has changed. As predicted, more channels did translate into more programming – but not more programming at the same cost. In fact, for producers around the globe the multi-channel universe has simply meant producing for lower license fees which, in turn, has fed the appetite for lower-cost reality style television. For Canada, this has resulted in a chronic shortfall in financing for higher cost documentary, children's and drama programming.

As producers struggle to produce programming at lower budget levels, the adoption of digital technology has facilitated not hindered this requirement. Digital production and post-production costs have dramatically reduced overall costs of production. Unfortunately, producers have not reaped the benefits as their profit margins have been simultaneously eroded by declining license fees. That said, in areas such as animation, where 'traditional' methods of production have been transformed in the past five years by digital applications such as 'Flash', Canadian producers have demonstrated speed of adoption and developed considerable expertise which should translate into competitive advantage. In Nova Scotia, a company like Collideascope Digital Productions Inc. is a good example of how innovation and competitive pricing can create a significant competitive advantage.

One area where Canadians may have lagged vis-à-vis their international colleagues is in high-definition production. While Canadian broadcasters are behind their US counterparts in the introduction of HD and not requiring delivery in HD, it is highly likely the international marketplace soon will fully adopt the format. The only long-term asset that producers hold is their library of rights and therefore building a library in a future-proof format is an important investment that producers should be encouraged to make now. While there are examples among Nova Scotian and Canadian producers and broadcasters doing individual projects in HD, it is still not an automatic practice to make a digital HD master.

d. The Changing Face of the Motion Picture Business

Trend to bigger budget, commercial films presents danger for emerging filmmakers and auteur-driven, lower budget films from Nova Scotia.

Within the entertainment business, the feature film business holds the greatest promise and the greatest risks. Unlike the television business, where outlets are more numerous, content requirements regulated, and shelf-life longer-lasting, control of the distribution and exhibition of feature films is held by few and functions by a 'live or die' model. The Hollywood studios dominate the world box office accounting for over $20 billion in sales - $9.5 billion in domestic box office and the balance from the world. The average cost of making and marketing a studio film has risen to $102.9 million per title, according to the Motion Picture Association of America (*Variety,* 3/28/04). Bringing home an Oscar can represent a windfall for all involved, not only in terms of increased box office receipts and DVD sales, but in the likelihood of financing their next film.

The obstacles to the production of English-language feature films in Canada are generally cited as:

- The absence of a star system (and the necessary critical mass to generate one);
- The common language and proximity of the behemoth in the industry (and the exodus of our 'best' to Los Angeles);
- The weakness in our feature film talent pool in both writing and directing (due in part to our success in television);
- Until recently the emphasis on "auteur" films and lack of focus on 'commercial' films of the indie market scale.

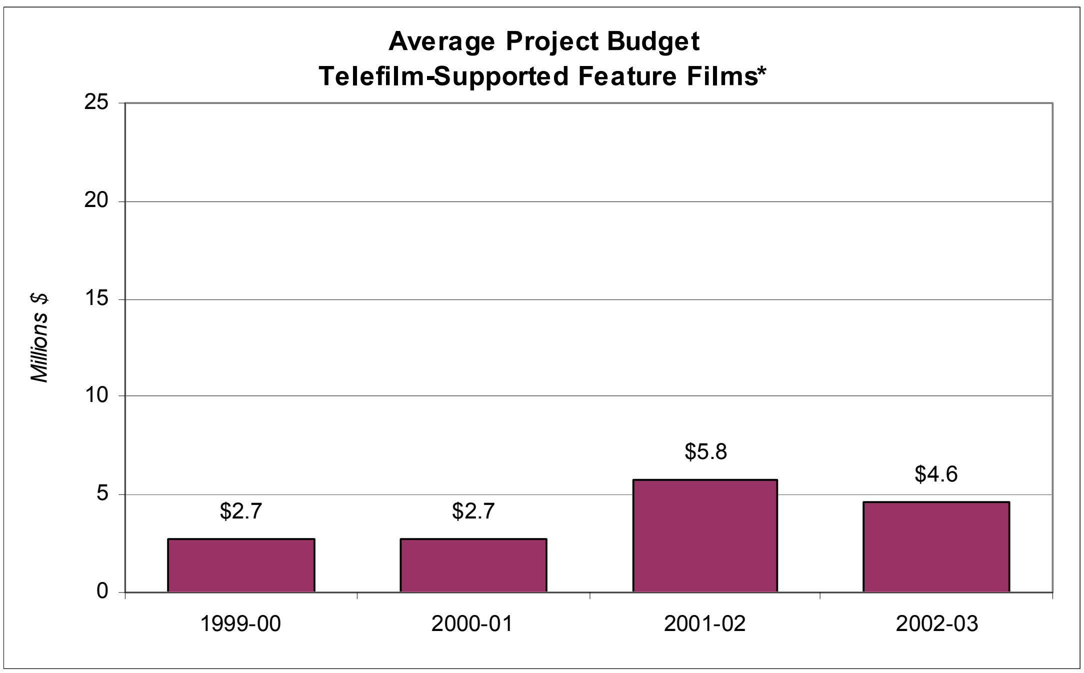
First-time feature filmmakers struggle to live in a world where budgets are relatively tiny, the financing difficult but possible, and audience and payoff are film festivals and critical acclaim. Only occasionally do these early works warrant theatrical release, and at best are licensed by pay-TV and possibly DVD sales.

However, filmmakers can eventually graduate to the "indie" status, which exists in the same hostile "live or die" world as the majors, but have developed their own niche within the larger ecosystem of finance and distribution. Indies hedge their bets on theatrical success with downstream sales in international DVD and pay or conventional television. The upside occurs when an indie film does break through theatrically, which then increases the downstream revenue.

Typically, the situation was that Canadian films (by definition "indie") were handled by distributors who cut their losses by seeking minimal theatrical runs only to qualify for the pay market. So, producers struggled to finance and produce their films only to see them close after a weekend in the theaters. During the renaissance of American independent film in the 1990's, Canadians missed an opportunity to make a mark while many Australian and United Kingdom (UK) independent voices made box office impressions (for example, *The Piano, Shine, The Crying Game,* and *The Full Monty*.)

The current trends in the motion picture business point to ever-larger studio pictures with huge franchise and brand potential (à la *Lord of the Rings* and *Harry Potter*) or the lower budget 'indie'. Of course, it is in the latter not the former that the greatest opportunity resides for Canadian feature film producers. The current policy-makers at Telefilm Canada are struggling to design policies to improve box office performance of Canadian films at home which include measures to increase budgets and star-driven projects as well as greater expenditures on P&A (prints and advertising spends) by distributors. Indeed, average budgets of feature films that Telefilm has funded have about doubled over the last two years, as the following chart illustrates.

Figure 15 Average Project Budget: Telefilm-Supported Feature Films*



* Canada Feature Film Fund and predecessors
Source: Nordicity calculations based on data from Telefilm

The Canadian box office record of independents vs. studio films illustrates the typical difference in these two types of product, although obviously some independent films do extremely well. In the period between 2001 and 2003 for the ***contemporary drama*** genre, the leading independents in English-language films in the Canadian market were *I am Sam* (box office of $5.5 million), with *The Shipping News* at #3 ($4.2 million). Interestingly, in this genre the #9, 10, and 11 respectively were *Whale Rider* ($1.7 million), *21 Grams* ($1.2 million), and Canada's *The Fast Runner* ($1 million). They, in fact, fared rather well against the studio films of the same genre; #1 was *8 Mile* ($12.8 million); however, #2, *Save the Last Dance* dropped to $7 million in box office – but there were 21 titles in all above $1 million.

In the ***comedy*** genre over the same time period for English language releases, *Austin Powers,* classified as an independent topped even the studio ones with $27 million in box office, vs. the top studio comedy, *Bruce Almighty* (coincidentally, both with Canadian leads). In fact, Canadian films were #9 (*Mambo Italiano),* and #12 *(Men with Brooms)* – compared to *La Grande Seduction – Seducing Dr. Lewis,* whose French release earned a whopping $7.9 million and placed 5th among the indies for films in the comedy genre. In that time period there were 67 studio films with a box office of over a $1 million in Canada (with *Death to Smoochie* being the first under $1 million). Clearly, the benchmark for Canadian films should be the independents; depending on the genre, decent box office results can be achieved.

With respect to this focus on more 'commercial' production in the indie segment, the question for Nova Scotia's feature film producers (especially new and emerging ones) will be demonstrating sufficient 'track record' to qualify for larger financing (over $10 million.) One way to address this challenge will be to encourage emerging producers to co-produce, both domestically and internationally, with more experienced partners. Critical to this strategy will be the attractiveness of the financing package (in addition to the creative proposition) that the Nova Scotia producer can bring to the table.

e. New Media and the Dominance of Gaming

New media applications represent an important part of entertainment marketplace but a revenue model still eludes producers in Canada.

As stated earlier, the early enthusiasm for the new media paradigm has faded especially with respect to pure content production for new media. Absent a stand-alone revenue model, the production of new media in the entertainment business has shifted almost entirely to the marketing of television or film projects and the creation of complementary websites. That said, there have been some examples of new media content crossing over to traditional media very successfully (for example, *South Park* in the US and *Chilly Beach* in Canada.) Without widespread broadband capability, the revenue model for new media content will probably remain illusive. The race for full broadband capacity to deliver audio-visual products is on as the incumbent telecommunications carriers seek ways to stave off competition from cable companies. Canadian production companies that are digital and web savvy will be better positioned to adapt as the delivery capability becomes available.

Where the revenue model for new media content has been established and proven is in the game industry. In 2004, the videogame industry in the United States surpassed the motion picture industry in terms of total revenues. While Canadians are big videogame consumers, production of games –often linked to studio-financed motion picture properties – has not been a strength. While the creation of game properties has not been a focus of public policy, it may represent a critical oversight as this industry grows and is widely adopted by Canadian children and youth. In a recent study entitled *In the Name of Cool,* Toronto-based research company, Solution Group Research, found that teens today spend significantly more time than other generations with interactive, screen-based media (internet, DVDs and videogames) and television use has significantly declined among youth in Canada.

For producers of traditional media, capturing these younger audiences through interactive entertainment properties may become increasingly important. One example in Nova Scotia is

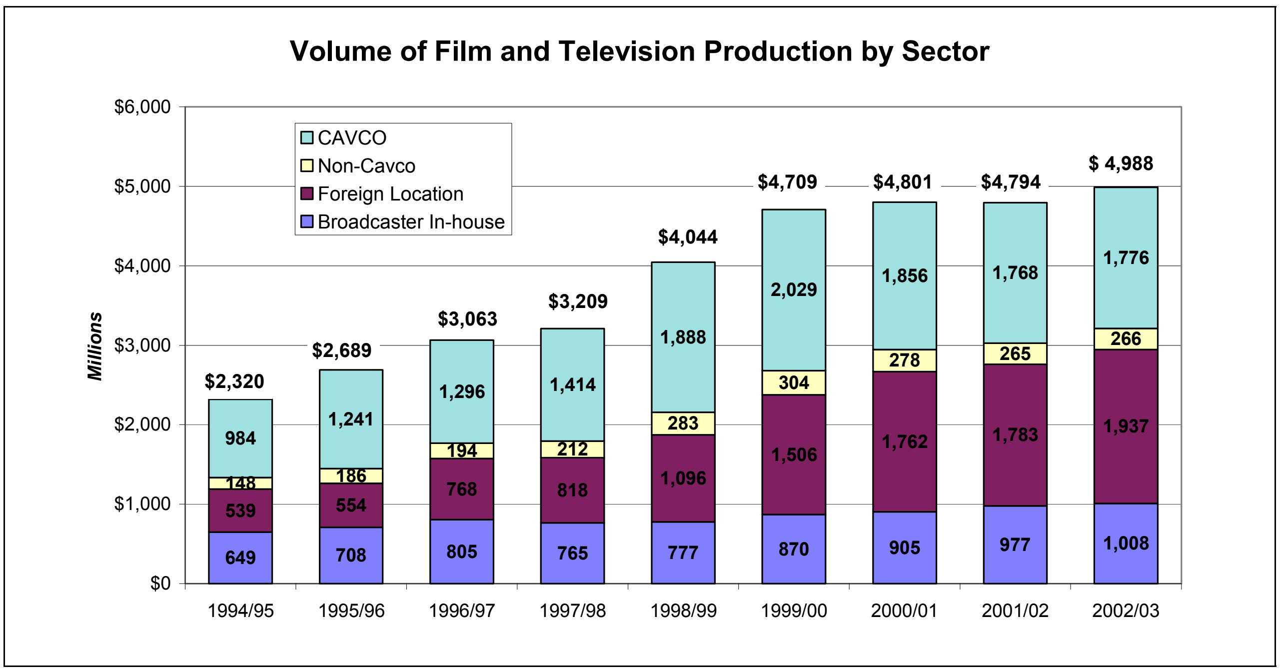
Collideascope, the only company in the Province which has made the exploitation of new media content a cornerstone of its long-term business plan.

f. Rise of Competition for Foreign Location Production

Canada's leadership position as the prime destination for US foreign location production is at risk.

A critical driver in the Canadian film and television production industry has been the business of foreign location and service production, sometimes referred to as 'guest production'. Canada has developed world-class service production infrastructure across the country and has enjoyed a largely 'captive' supplier relationship with the largest buyer in the world – the US film and television studios. In 2002-2003, almost $2 billion of foreign location production occurred in Canada, representing the single largest sector of activity within the industry. As shown in the following chart, foreign location production jumped by 50% in 1999-2000, and has kept climbing since that time. It occupies an increasingly large slice of total production in Canada.

Figure 16 Volume of Film and Television Production by Sector



Source: CFTPA, *Profile 2004*

Canada's competitive advantages in this side of the business have included:

- Proximity to the United States
- Common language with the largest market in the world
- 65-cent dollar
- High quality crews and facilities
- Tax credit incentives
- Outstanding locations
- And over time, good relationships

While many of these advantages remain unchallenged, we now face increasing competition from states within the US (for example, Louisiana) as well as other countries (such as emerging European nations) which have instituted attractive incentives to secure productions that might have traditionally gone to Canada. Recent economic hardship in the media sector in the US has also heightened the awareness of the perceived negative aspects (lost jobs and revenues) of so-called 'runaway' production.

With respect to the foreign location production, the decline in demand for MOWs (in Europe and in the US) will have an impact – especially in the 2nd tier provinces (which includes Nova Scotia) that have depended on these kinds of guest productions. Given its proximity to Los Angeles, Vancouver has had the greatest success in securing American series and, as a result, that city's production infrastructure is arguably the best in Canada. The longevity, the magnitude of the expenditures, and the presence of a continuing series from a US network or cable company would certainly transform the Halifax production community. Given the distance and time zone challenges along with current physical infrastructure limitations, it is hard to imagine any Los Angeles-based producer considering Nova Scotia as a location for a long-running series. However, with the right incentives-package and improved studio and post-production facilities, attracting a series remains an important goal for the Province.

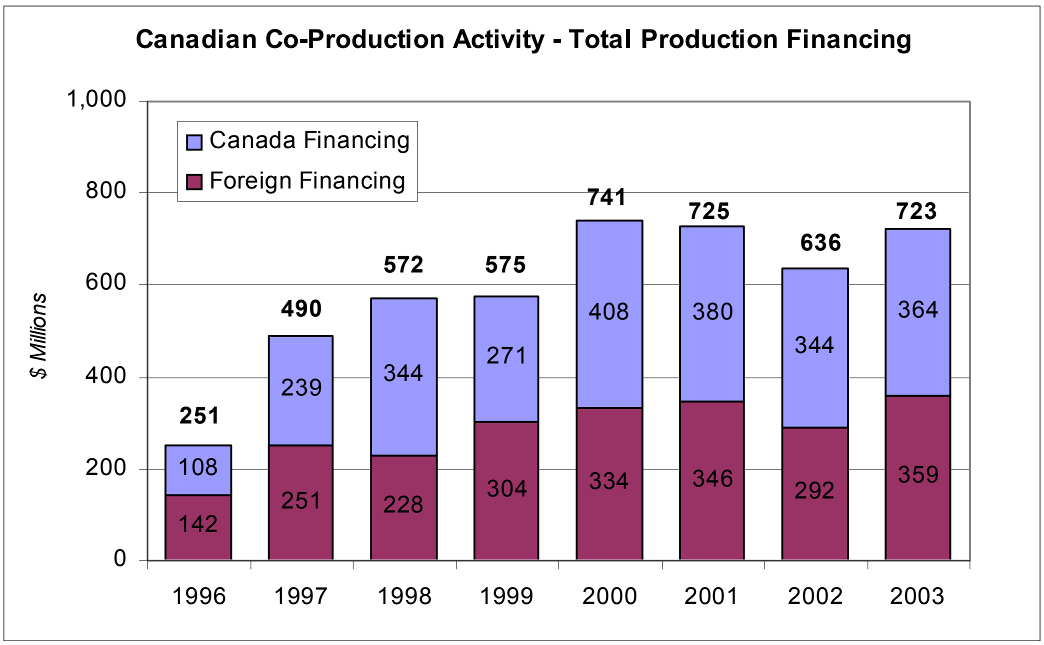
Responding to shifting domestic tastes, a company like Showtime has changed its strategy from a volume MOW-driven schedule (at its height, over 30 per year) most of which were produced in Canada to a few 'event' movies and higher budget series. Competition to secure a diminishing number of higher-risk, high-value movies and series will be fierce among Canada's provinces. In addition, the rising value of the Canadian dollar has a further deleterious effect on the flow of guest production from the United States. At 65 cents, the decision to move a production was simple. As the Canadian dollar edges up towards 80 cents, the costs associated with moving a production, the inconvenience of displacing talent and crew, and the undisputable campaign being launched in Los Angeles to keep production 'at home', the decision to shoot in Canada will become more difficult.   And, in some cases, keeping the production in Los Angeles, at higher cost, to meet talent demands will be a more frequent solution in negotiation with celebrity actors. (For example, *Variety* reported in January of this year that in order to secure Hank Azaria for its new series *Huff,* Showtime agreed to move the series from Vancouver to Los Angeles.)

g. Decline in Canada's competitive position in Co-production

Global situation of film and television industry stabilizing after period of significant turmoil; however, difficult conditions persist for Canadian and Nova Scotia producers as competition between countries becomes more fierce.

Over the last few decades, Canada has been most prolific in signing co-production treaties with other countries. Total co-production activity peaked in 2000, having grown almost three-fold over the previous five years. In a roughly similar trajectory as Nova Scotia total production, the level of co-production has stayed roughly in the same place over the last three years, as the following chart depicts.

Figure 17 Canadian Co-Production Activity – Total Production Financing



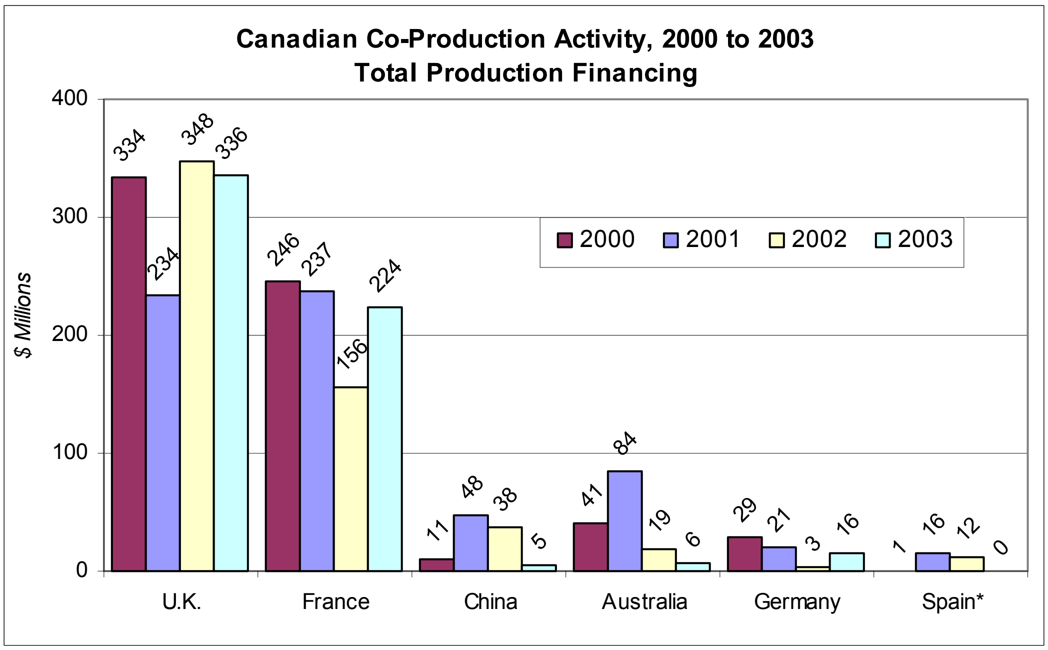
Source: Telefilm Canada

Canada grew its co-production activity first from the special relationship between Canada and France, where both countries heavily supported Canada-France co-productions for French language product for which the global market was inherently more limited than Canadian production. Then, in the heyday of strong European and US license fees, Canada became a bridge to the US market, for example in animation productions which would receive substantial license fees from US broadcasters and be perfectly acceptable fare for the European market.

In the last few years, the UK-Canada co-production activity has become the strongest, based mainly on the complementary tax incentive regimes in Canada and the UK. Until this year, the sale and lease-back tax incentive for private investors, coupled with accountancy-based production partnerships could be galvanized to provide 40-42% of the total financing budget of a project that was deemed an eligible treaty co-production. Canadian tax credit based incentives were perfectly compatible, given that only 20% of the production activity had to be British-based, which effectively allowed producers to take full advantage of the federal and provincial labour-based tax incentives. In this environment, for example, some 20 feature film UK-Canada co-productions were authorized in 2003 alone.

Along with about a dozen other countries that move in and out of Canada's co-production radar, this mix has led to this success in attracting foreign financing for co-productions. The following chart highlights the importance of the UK and France as co-production partners and the shifting importance of other countries.

Figure 18 Canadian Co-Production Activity, 2000 to 2003, Total Production Financing



Source: Nordicity tabulations based on data from Telefilm Canada

Co-production treaties have enabled Canadian producers to work with non-US partners in a range of genres covering features, documentary, animation, television series, and children's programming. Co-productions provide the mechanism for producing with larger budgets, reaching a global audience, and exposing domestic talent and crews to a wider range of development concepts and production processes.

The overall problem with co-productions for Canadian producers is that other countries are taking steps to become more competitive in this international business. In fact, some countries are taking steps to increase production – domestic, treaty co-production, and foreign location – in a more integrated manner. The most serious challenge to Canada of this nature is the two-pronged reforms that the British have launched.

- First, because of the substantial imbalance in Canada's favour, the UK Department of Communications, Media, and Sports (DCMS) changed the guidelines for Canada-UK co-productions in dramatic fashion: raising the minimum threshold for British involvement from 20% to 40%, which effectively terminates the potential for full Canadian location. (In fact, very recently, the UK changed the guidelines for <u>all</u> of its co-production partners to 40%, typically from 30%, so Canada's pain will be shared by all other countries.)

- Second, in a series of pre-budget and budget measures in the last few months, the British government has terminated the accountancy-based production partnerships, thus wiping out almost £1 billion of pent-up investment funds. As well, the sale and lease back regime will be replaced by a "spend" based system, like Canada, which effectively eliminates the compatibility of Canada-UK co-productions.

Canada also faces a situation in which European countries are co-producing with each other more frequently. The European Convention for feature films has a more flexible approach than Canada's typical co-production stipulations against the use of non-treaty writers, directors, and leading performers. The expanded European Union (EU) has a wider pool to draw on anyway, as all EU citizens are permitted to participate in co-productions, even if not from the co-production countries directly involved in the production. Canada, like other non-EU countries, can only participate to the level of 30%, i.e. a minority partner with minority benefits. Moreover, the advent of Eastern European countries with cinema traditions and a low-cost structure is appealing to producers for some types of production.

In a situation not unlike Nova Scotia vis-à-vis other provinces, other countries are catching up to Canada in terms of tax-based incentives. In a recent report for Telefilm Canada, we identified the competitors to Canada in two groups: (i) longstanding competitors, and (ii) new entrants. The following brief synopsis is drawn largely from the recently completed report to Telefilm on Canada's competitiveness in co-productions.

3.1.1 Longstanding competitors

Countries like **<u>Ireland</u>** have been a long time competitor with its tax incentive – called Section 481 Relief. It is available as a tax deduction to Irish investors with the net result of a contribution of up to 12% to the eligible budget of a project. Eligible productions are those certified by the Irish government as contributing economically as well as to the film industry. Thus, it is in part a means to help Irish producers and in part to attract location production.

The **<u>Luxembourg</u>** tax credit, implemented in 1988, is based on expenditure in that country that provides a net 24% of the amount spent in Luxembourg. A key flexibility in the Luxembourg scheme is that expenses in Luxembourg can include non-nationals, although there are other restrictions that have been applied. This tax incentive has been distributing some €50 million per year for about 30 projects.

The **Netherlands** tax credit has been in place for several years and is expected to be revised in the year to come. About €23 million in tax incentives were made available in 2003 under this tax scheme. It appears to be aimed at domestic production of feature films, and not to attract foreign financing. This tax credit scheme was to be jettisoned in 2004 and was saved for an extra year. It will be under review in 2004 and new measures should be implemented in 2005.

The British tend to locate production in Ireland while the French do so in Luxembourg. In almost all cases it eliminates the value of bringing in a Canadian co-producer with a non-compatible, spend-based tax credit system. While Canada has relatively recently signed a co-production treaty with Ireland there is little tradition to structure deals that would involve shooting in those countries – except directly with Ireland as a co-production partner. Basically, these countries remain as Canada's competitors.

3.1.2 New entrants

Recent new entrants have included the new **Belgian** tax shelter which provides an estimated net 25% benefit on expenditures in Belgium. It permits reductions in corporate tax bills in return for guarantees on production spending in Belgium – a 150% corporate tax reduction against their investment. Producers have to spend 150% of the equity portion of the investment in Belgium. The tax-shelter does not set any language or nationality restrictions on a production. As the newest tax shelter, European countries are looking to it as a soft money candidate for financing their productions.

It has been noted before some Eastern European countries are attracting Western Europe co-producers because of the low wage costs and their recent adherence to the EU. In addition, at least one of them - **Hungary** – provides a tax credit equal to 20% of the Hungarian spend (inclusive of third country wages paid for services rendered in Hungary). There is enough concern that some countries are establishing tax incentives to dissuade local production companies from such foreign locations. For example, **France**'s new tax credit system is designed to arrest the flow of production/post production to these countries.

Austrian producers are calling for a tax credit system like Luxembourg. **Italian** producers are promoting the adoption of a system that is either similar to the Canadian tax credit system or to the UK sale and leaseback mechanism. In all, countries are moving toward tax incentive systems to attract location production as well as bona fide co-production.

Canada's traditional co-production partners, led by the UK, are exploring production opportunities with these countries to get the best possible financial deal. Increased use of the European Convention in the case of features and the additional TV co-production requirements undertaken as EU projects result in less of a need for bilateral conventions between adhering countries. This reality builds a "pick and choose" mentality where a single non-EU country like Canada has to compete for attention. In addition, the adherence of many low-cost Eastern European countries has meant that one can combine the healthy incentives of France or the UK with extremely low production costs, all under the more flexible points system of the EU Convention.

Many scripts are "international", i.e. they float around looking for homes and places to produce. Knowing that co-production is the only way to finance a project, producers option scripts with multi-country potential. Canadian tax credits will be correspondingly smaller when the Canadian spend is smaller. For example, one prolific UK producer who has been involved in at least twenty UK-Canada co-productions now develops scripts with a European shooting capability, and states that Canada is no longer competitive in terms of the bottom line number (12-15% as opposed to 18-20%) engendered by the new 40% minimum by the new UK-Canada treaty guidelines.

While Canada has many non-incentive advantages, the tax credit mechanism has been an important part of the package. While it was not alone, now there are others – either small countries looking to attract more activity, or traditional countries looking to preserve what they have developed. Canada is partly an unintended casualty in this case, and is becoming less unique as these other schemes develop.

Canada is now actively reviewing its international treaty co-production policy and strategies in face of this new competitive environment. This review is both fundamental (evaluation of cultural and international relations objectives as well as the industrial ones) and strategic (what treaties to revise, how to make them more effective, and what new ones to negotiate). Nova Scotia producers will need to devise their own strategies within the context of the overall approach by Canada.

a. Responses by Other Countries

Countries and jurisdictions are responding in different ways. For instance, reference has been made to Louisiana among other states. Various tax forgiveness incentives are among the chief measures by US states (see section 3.1.3 for more information on recent initiatives in Louisiana).

At the national level, as mentioned above there are new tax measures in countries like France, which recently established an incentive precisely aimed at stemming erosion of the post-production business for French companies. The UK is overhauling its financial support system, and in fact, is also rethinking entirely its approach to co-production treaties. In the latter case, the UK will likely concentrate on a few compatible countries – and Canada is not automatically part of that club. To promote distribution of its film projects, the UK Film Council is also committing substantial sums to facilitate the introduction of digital cinema in over 200 screens in the UK, with time reserved for British content.

At the regional level, few other countries have as extensive a regional base as Canada. One country where the regions play a more prominent role is Germany. In the past, German producers would do "road movies" in order to spread location shooting across multiple Länder (states), each of which would contribute project financing. However, they have now worked it out so that there is less inter-state competition as long as a reasonable balance is achieved over time. The German regional funds typically require the producer to spend a multiple of the regional grant in production activities within their jurisdiction. It is also interesting to note that part of the regional funds is provided by the local broadcasters.

With varying traditions in government involvement, tax measures, and in the production industry itself, other governments have evolved their own tools to stimulate production. While measures differ, the trends are for more accountability as expressed by "spend-based" incentives. There is greater recognition that many projects require an international approach, including more co-production. Nova Scotia producers will require ever increasing sophistication to operate in this international environment.

3.1.3 The Canadian Industry in 2004

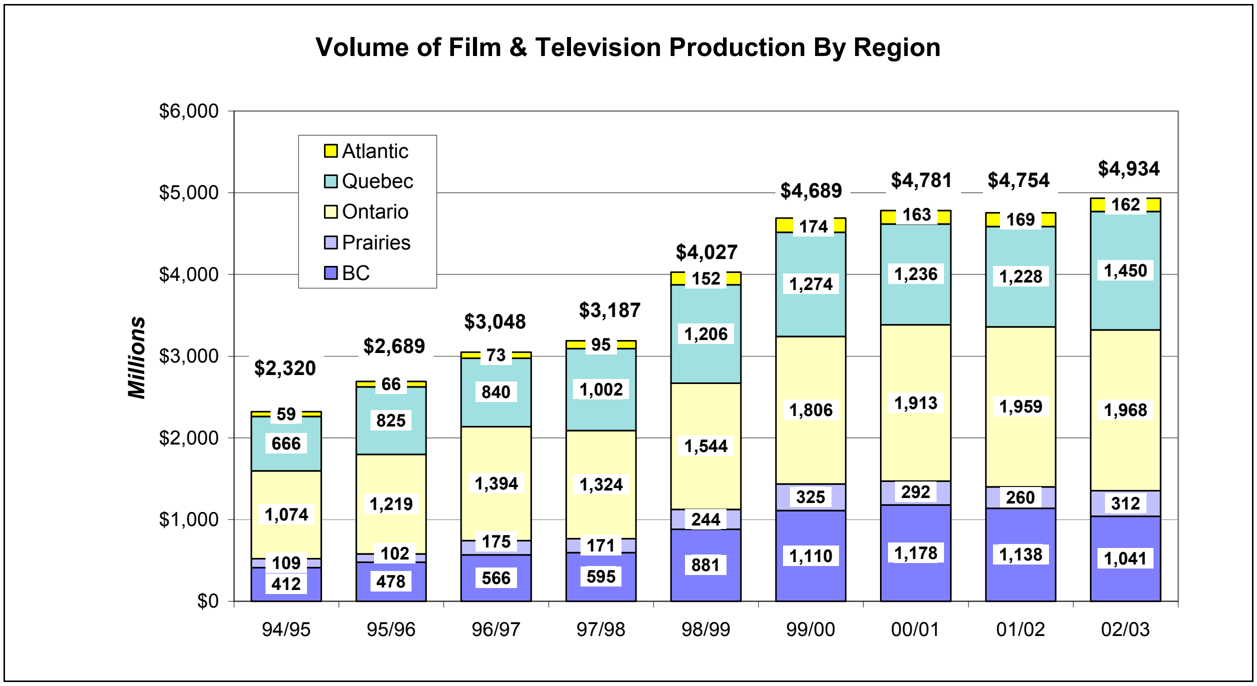
Canadian film and television industry has undergone dramatic changes in the past five years which in turn has had a negative impact on the nation's competitive position vis-à-vis the rest of the world. Many of these same factors have also affected Nova Scotia and the Province is now at a critical junction with respect to its competitive position vis-à-vis the rest of Canada.

b. Profile of Canada's Production Industry: Importance of Foreign Production; Production Activity Across the Country

The Canadian production industry grew 78% between 1995/96 and 2000/01, and only 3% between 2000/01 and 2002/03 (as reported in *Profile 2004: An Economic Report on the Canadian Film and Television Industry*) The softening of the global market for film and television during the early 2000's was clearly reflected in a similar slowdown in production activity growth across Canada as well. Nevertheless, the total Canadian industry in 2002/3 still represented an impressive $4.93 billion in activity with foreign location production representing the largest single sector of activity at $1.9 billion followed by CAVCO-certified production at $1.78 billion in activity. The total number of full-time equivalent jobs generated by film and television production increased by 4% in 2002/3 to 133,400 (51,300 in direct jobs and the balance in indirect.)

With respect to regional production activity during 2002/3, Ontario production remained flat at $1.97 billion; Quebec's activity increased by 18% to $1.45 billion; British Columbia's activity decreased 9% to $1.04 billion; the Prairie Provinces increased by 20% to $312 million; and Atlantic Canadian production decreased by 4% to $162 million.

Figure 19 Volume of Film & Television Production by Region



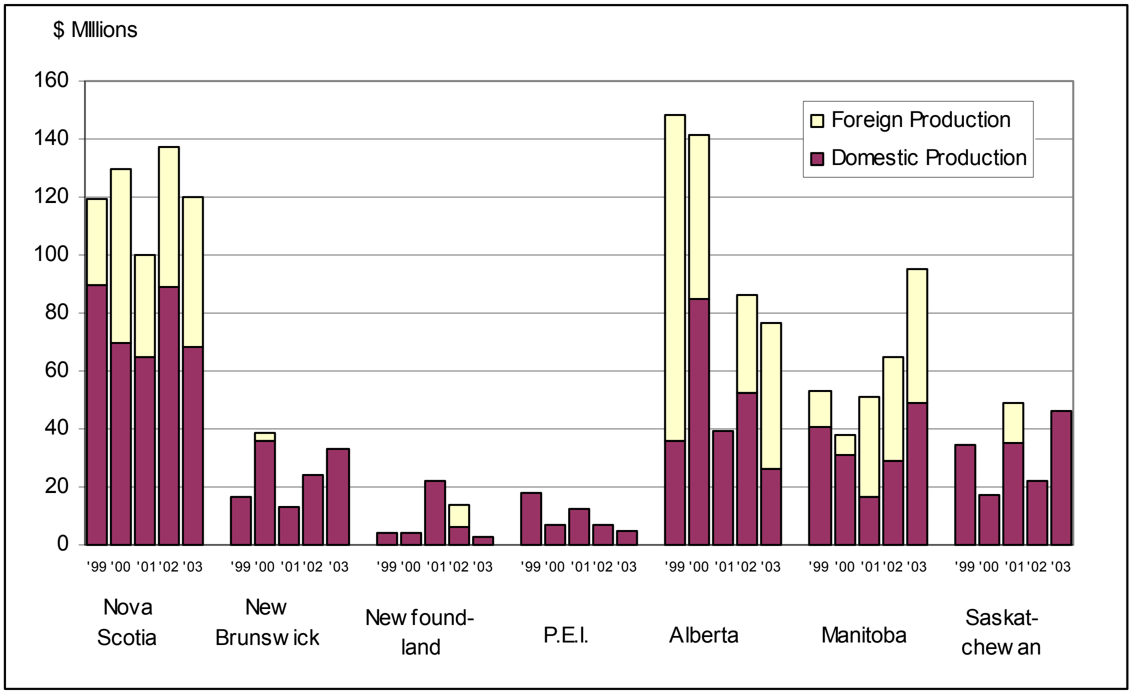
Source: CFTPA, *Profile 2004*

Nova Scotia has distinguished itself as a leader among Canada's provinces in the film and television industry. Halifax currently ranks 4th in terms of production centres, behind Toronto, Montreal and Vancouver. The dramatic growth of Nova Scotia's industry from $14 million in production activity in 1995-96 to over $100 million annually in each of the past 5 years is due to the Province's investment via the FITC and the NSFDC's equity and assistance programs. However, the environment has shifted recently and Nova Scotia's leadership position is threatened by copycat initiatives in other provinces such as Manitoba and, to a lesser extent, New Brunswick.

A closer look at the provinces with which Nova Scotia should compare itself reveals how volatile the industry is. The table below shows fairly substantial swings in all the provinces – to the point that Nova Scotia looks very stable in comparison! Part of the provincial fluctuations is derived from differences as to when production companies complete their financing and their projects.

Besides leading the pack across this time period, Nova Scotia has the best domestic record of the seven provinces that do not contain major production centres (as do British Columbia [BC], Ontario, and Quebec). The figures also show that only three of the seven provinces below Quebec, Ontario, and BC are in the foreign production game.

Figure 20 Film and Television Production, Selected Provinces



Sources:
All Saskatchewan figures are from the Saskatchewan Film Employment Tax Credit database as at June 4, 2004
Manitoba data from InterGroup Consultants, *Economic Impact Analysis of Manitoba's Film Industry*, 2003, and Manitoba Film and Sound
Other data from Department of Canadian Heritage, *Annual Survey of Provincial Film Agencies*, 2002; NSFDC and Association of Provincial Film Agencies

Total production activity has stalled across the country, though some provinces have experienced outstanding growth.
Halifax's position as 4th largest production centre may now be upset by aggressive initiatives in other provinces – Manitoba in particular.

c. Strengths in Broadcasting; Vulnerabilities in Feature Films; Unknown Potential in New Media

Broadcasting

The Canadian film and television industry - despite its peaks and valleys – has benefited from an extraordinary legacy of cultural policy focused on sovereignty and the importance of nurturing distinctive Canadian voices in the cacophony generated south of our borders. The federal government's support by means of regulation and upholding the principles of the Broadcast Act, by means of direct and indirect funding, and by keeping Canada's cultural industries 'off the table' in the context of NAFTA, are all key contributors to the industry. It is important to remember, that the United States is the only country in the world that does not provide such incentives to protect and develop its indigenous industry, although individual states have indeed established various financial and tax incentives to attract production. And, in fact, as emerging nations in Europe join the EEC and seek to stimulate economic growth, support to the film and television industry is expanding not shrinking.

Canadian content regulation in the broadcast industry has provided the single greatest vehicle for building an indigenous, 'home grown', television industry in Canada. Over the past 20 years, Canada's producers have demonstrated world-class skill in the production of drama, children's, lifestyle, documentary and comedy/variety programming. Nova Scotia's producers have distinguished themselves in this context with some of the country's most popular programs such as *Theodore Tugboat, This Hour Has 22 Minutes, Trudeau* and *Shattered City: The Halifax Explosion.* Popularity is measured in audience ratings and these programs, produced in Nova Scotia, have delivered some of the highest national audiences in the country. Furthermore, a number of producers in Nova Scotia have demonstrated success in securing US partners for their series and as such have broadened the reach of these programs dramatically (two examples are Eco-Nova's *Sea Hunters* and Ocean Entertainment's *Food Hunters.*)

In the broadcast arena, current issues facing policy-makers and regulators in Ottawa include:

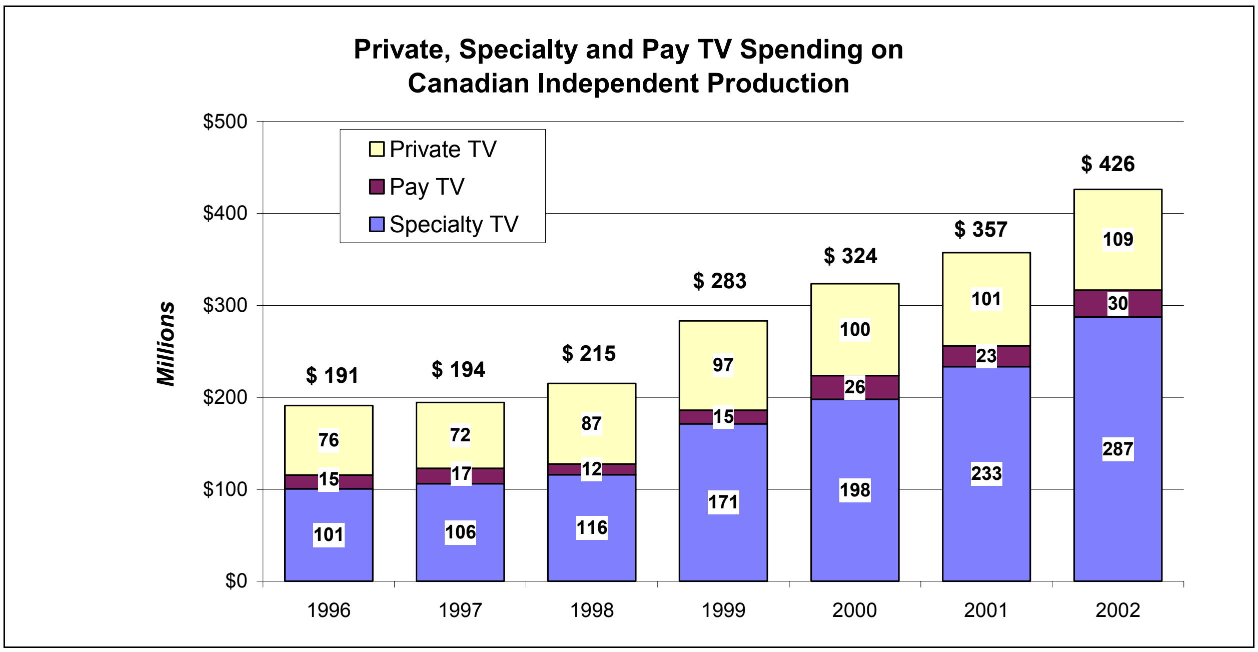
- The decline in Canadian drama production (due in part to an erosion of CRTC Canadian content requirements for broadcasters as well as the changing international market and production financing environment; the withdrawal from the marketplace of the largest drama player – Alliance Atlantis Communications - is a direct response to these less favourable conditions);
- The increasing demand for funding (both license fee top-up and equity) from the Cable Television Fund and Telefilm Canada, particularly for instructional, magazine, and documentary programming which represent the fastest growing segments of the production industry.

The CRTC's preliminary recommendations with respect to Canadian drama suggest a new regime of incentives for broadcasters to increase their spending on this genre of programming. It is widely anticipated that a greater emphasis on Canadian drama will result in more funding and broadcaster spending for this category of programming. The restoration of the CTF budget to the $100 million level in the most recent federal budget is a critical component to the financing of drama and other indigenous TV programming.

The CBC has been a driver in the Canadian production arena, especially since its mandate shifted to 80% Canadian content in prime time and 75% Canadian content over its schedule. In the last 3 years, Global Television has been less of a player in Canadian production, while CTV has stepped up its commitment dramatically, driven in part by the BCE benefits package.

Of even greater importance, Canada's specialty channels on an aggregate basis have increased their spending on Canadian production at a much faster pace. As the chart below shows, the specialties now spend almost 3 times the expenditures of conventional private broadcasters. Specialties have become real ratings players on the dial with programs such as *Sea Hunters, Trailer Park Boys* and *Olliver's Adventures.* Unfortunately for producers, their license fees are typically much lower, as discussed earlier in terms of the downward pressure on prices paid for product.

Figure 21 Private, Specialty and Pay TV Spending on Canadian Independent Production



Source: CRTC

The absence of a locally-based private broadcaster in Atlantic Canada has meant that Nova Scotia's producers have had to travel to Toronto to develop and nurture their client relationships. There is capable locally based production development staff among private broadcasters, staff who commission documentary and other programming and help Nova Scotia producers through the head office system in Toronto. In fact, the major buying decisions are made in Toronto. This distance from the 'gatekeepers' is certainly an impediment to easy business development, especially for first-time producers.

Some of the Western Canadian provinces have benefited from corporate transactions by CHUM Limited, CanWest Global Communications Corp., Corus Entertainment Inc./Shaw Communications Inc., and Craig Media Inc. that have resulted in the creation of production funds in the West. Yet, in spite of lack of the creation of new funds and the distance, Nova Scotia has had a disproportionately high record with respect to the volume and quality (measured by audience ratings) in its indigenous production of drama, comedy and children's programming for the CBC. This started because the CBC could undertake some high profile projects at some economic advantage in Nova Scotia, and was confident in the producers' ability to deliver. This represents an important competitive advantage in the marketplace – a hard-earned position that should be sustained and protected.

CTV has established a regional presence in Nova Scotia and has commissioned a number of projects locally (for example, *Liocracy.*) In fact, CTV's top-rated Canadian series – the best rated series on Canadian television which is consistently beating its American competitors - *Corner Gas,* is written by a Nova Scotia-based creative producer, Mark Farrell. However, this is also an example of the difficulties in keeping all of Nova Scotia talent in the Province. Mr. Farrell is absent from the Province; as well, *Corner Gas* is not being shot in Nova Scotia.

Overall, the Canadian Television Fund (CTF) system is moving toward competitive performance, which will be supported by the CRTC once it implements the drama incentives that are now the subject of a public hearing (Broadcasting Public Notice CRTC 2004-32 *Proposed incentives for English-language Canadian television drama*). The new broadcaster envelope system adopted this year by Telefilm Canada, for all CTF-supported genres except English-language drama, has a bonus for triggering "regional" projects that would increase the broadcaster's envelope in the next year. Maintaining the national production centre role of Halifax for the CBC would be critical for its future participation in new drama programming. It is not known at this time what will be the regional distribution of projects that private broadcasters will trigger.

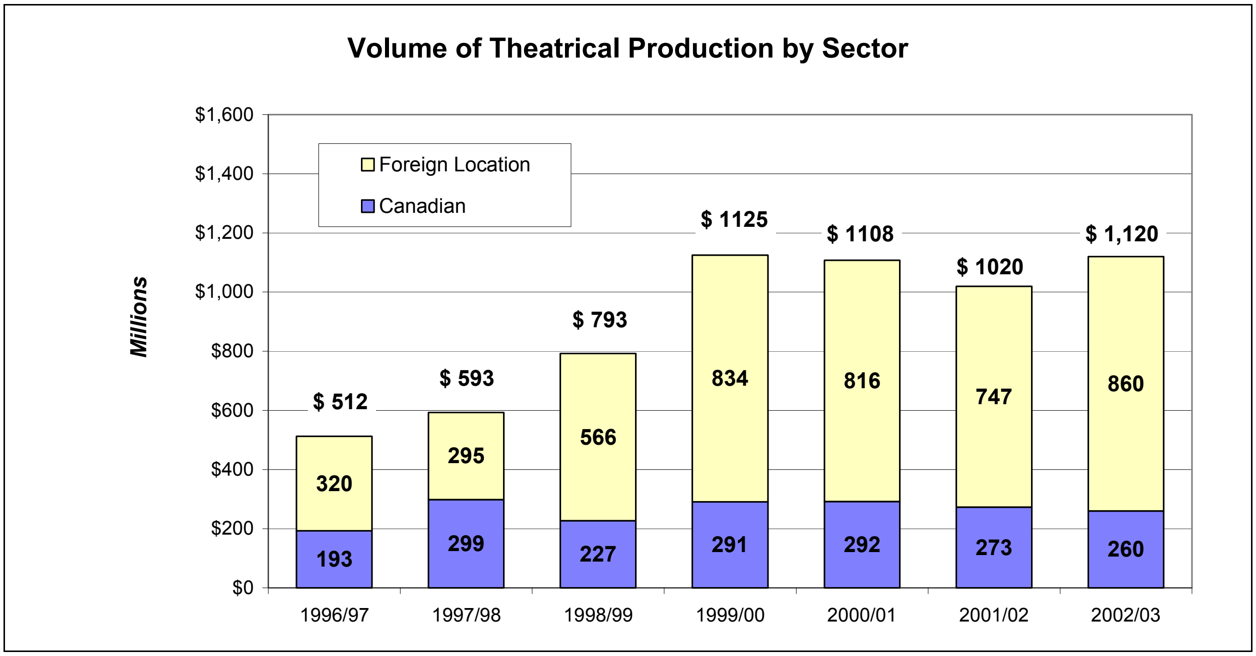
As noted above, the outcome of the CRTC's Public Notice 2004-32, which addresses "Proposed incentives for English-language television drama", will likely lead to some changes to the landscape for Canadian drama production. Assuming no major upset to current provincial incentives, Nova Scotia with its track record in drama and children's programming is well-positioned to benefit from an increased focus on this type of production.

Feature Films

In a speech given to the UK film industry in 2002, Alan Parker, Chairman of the British Film Council proclaimed that 'direct subsidy in production – whatever the amount – will never, ever form the basis of a successful film industry…' He went on to argue in favour of a feature film industry driven by distribution with a focus on the international market, buttressed by an outstanding workforce and infrastructure. The same argument could apply to Canada – our feature film industry has been largely production-driven not distribution or market-driven. In the UK, the government has put in place a new methodology for the deployment of development funds to address this issue. In order to improve the development-to-production ratio, public funding for development of feature films will now be awarded through 'development franchises' to companies that have demonstrated capability in getting projects made and into the marketplace rather than on individual project development.

As described earlier, the Canadian feature film industry – particularly English language – represents a relatively smaller part of the total production activity in the country a 22% share vs. 78% for television production. However, as shown by the following graph 75% of the over $1 billion theatrical production volume over the last four years entailed foreign location features.

Figure 22 Volume of Theatrical Production by Sector



Source: CFTPA, *Profile 2004*

The Federal Government established a new feature film policy in 2000, including the doubling of financial support, from $50 million to $100 million. It is interesting to note that after the full effect of the additional support over the last two years, the total volume of production has not increased – in fact it has declined slightly. However, as discussed below, the films now produced seem to be achieving greater box office results than in the past.

To implement the new federal feature film policy, Telefilm Canada has changed its focus to larger budget films, with recognizable stars that have the potential to deliver box office, along with greater commitments to P&A (expenditures on number of prints and advertising to support a film's release) from distributors. The stated objective was to raise the box office percentage represented by Canadian films in Canadian theatres from 2.7% to 5.0% within five years. In fact, led by the phenomenally successful French-language films, this national figure was achieved by February of this year, two years ahead of schedule! While there have been successes in English Canada, e.g., the feature length documentary, *The Corporation* (over $1 million in box office), and comedies like *Men with Brooms* ($3.8 million) and more recently the Quebec produced *Mambo Italiano (*$3 million in English and another $2 million in French), English language productions have not achieved box office objectives.

While this commercial orientation is a worthy goal, the methodology proposed may threaten the auteur-driven, lower budget films that have been the cornerstone of the Canadian – and Nova Scotian - feature film industry. Looking forward, the provincial support to fledgling feature filmmakers may become even more important as the federal government strives to build a commercially viable motion picture industry.

New Media

Finally, in the new media arena, the business model for content continues to elude most producers. With few exceptions, the Canadian new media content business functions as a marketing support to broadcast properties. This function should not be understated as entertainment properties – especially for the children's and youth audiences – are launched on multiple platforms simultaneously. However, the generation of significant and self-sustaining revenue streams from content on the Internet, beyond videogames, has yet to occur in the Canadian new media landscape.

In Canada, the Bell New Media Fund suffered cutbacks to its budget in 2003 and Telefilm Canada has redesigned its program of support to new media producers. In Nova Scotia, new media content production remains a tiny portion of the NSFDC's funding activity (well under 10%). However, to abandon new media production would represent folly in light of advances in technology and the ubiquity of the Internet as a media distribution tool. In the absence of an aggressive, forward-thinking policy framework for the production of Canadian new media content, it is unlikely that the country will be able to compete with the American juggernaut.

New incentives for drama programming under consideration by CRTC present an opportunity for Nova Scotia producers;
Nova Scotia's distinguished track record with the CBC – an important asset;
Nova Scotia's feature film producers may require more support from Province in commercially-focused federal policy environment;
Policy makers and producers continue struggle to make new media financially viable.

d. Production Company Model: A Period of Transition

Disappearance of large, publicly-traded production companies, emergence of midsize companies with modest levels of vertical integration.

The Canadian production industry has undergone staggering transformation over the past ten years. Many of the original 'players' which experienced phenomenal growth and became public companies through the 1990s (CINAR, Nelvana, Alliance Communications, Atlantis Communications, Salter Street Films, Paragon, Telescene) have been acquired, merged, or simply gone out of business. In the period of turmoil in the capital markets in the 2000s, only one of these public companies, with its roots in prime-time drama production, has survived to become the largest vertically integrated entertainment company in Canada and that is, Alliance Atlantis Communications (AAC). However, the focus of AAC is no longer production, but rather broadcasting and distribution, both businesses with steady, predictable, positive cash flow. Alliance Atlantis announced its withdrawal from the production business due to the company's assessment of a 'permanent downturn' in the marketplace. For observers, financiers and other producers, we should remember the cyclical nature of this business and the fact that, to date, there has never been a 'permanent' downturn in this industry. And countering AAC's announcement - Michael Hirsch, the ex-CEO and founder of Nelvana – one of Canada's most successful international children's and animation production companies ever - has recently returned to the Canadian scene with a significant acquisition of the assets of CINAR valued well over $130 million.

The large publicly-traded companies aside, Canada's production community is primarily made up of small, highly entrepreneurial companies that survive from production to production. In recent years, a few new leaders have emerged as midsize companies with annual production revenues in the $25 to $50 million range: Barna Alper Productions (recognized as Canada's leading drama producer, based in Toronto), Rhombus Media (with its international reputation for high quality performance television programming and 'art' films, based in Toronto), Breakthrough Films (with its reputation for low cost, volume production, based in Toronto), Minds Eye (until recently, the regional success story, based in Regina), Muse Entertainment (the leader in the US-output production business, based in Montreal), and Decode (the undisputed leader in children's and animation, based in Toronto). Some of the distinguishing characteristics that these midsize companies share include:

- some level of modest vertical integration (e.g. distribution, some post facilities in-house);
- longevity and organic growth through incremental expansion of production slate;
- excellence in one or two niche areas of production;
- international (and very important US) relationships and sales capability to finance their shows;
- focus on indigenous production (as opposed to service producing foreign location production) with key Canadian broadcaster relationships;
- understanding of sophisticated financing such as co-productions, UK sale leasebacks, German tax funds, and gap financing;
- key functions – business affairs, accounting, head of production, head of development, and often sales – are staffed on a full-time basis, in-house.

With the demise of Salter Street Films in 2002-2004, there is currently no midsize production company operating in Nova Scotia. While the newly formed Halifax Film Company and Big Motion Pictures could fall into the lower end of the $10-$20 million range of production activity, neither has built significant infrastructure at this time. There are a number of 'up and coming', promising candidates in Nova Scotia, among them Collideascope Digital Productions Inc., Topsail Productions, Ocean Entertainment Limited, Arcadia Entertainment Inc. and Eco-Nova Productions.

While the midsize companies still suffer from chronic under-capitalization compared to like-size companies in other industries, they operate with a higher degree of stability than the remainder of their colleagues in the production industry. Most production companies in Canada are extremely small shops with under five employees, often one or two people, working on one production at a time. They are characterized by highly creative individuals who combine business and artistic skills, not always in equal measure. The funding environment in Canada is extraordinarily paper-heavy due to the number and variety of government agencies involved and the required administration can represent a crippling load to a small production company. These small producers represent the majority and are extremely vulnerable to interruptions in cash flow, cutbacks in development financing, and any shifts in the marketplace. Many producers in this category are forced to supplement their indigenous production projects with commercial or industrial work.

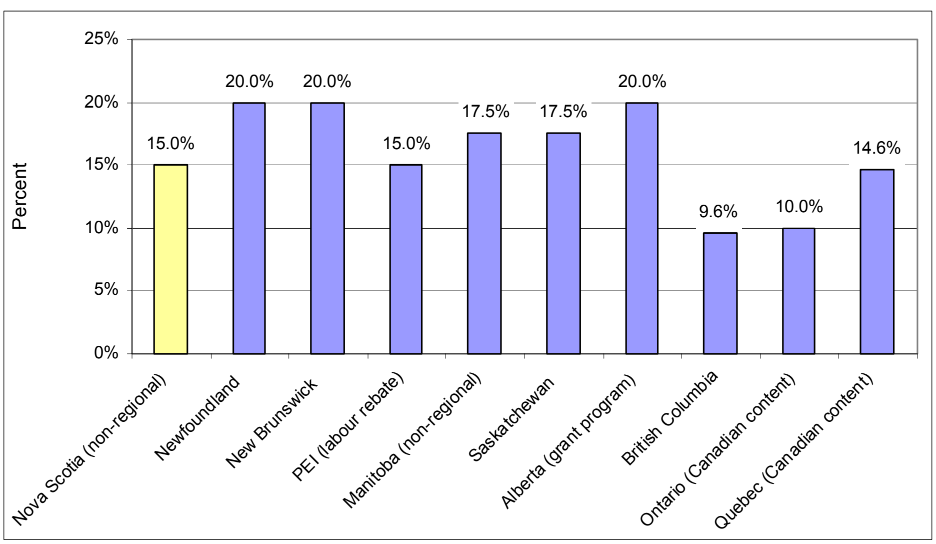
While the profile of the Canadian production industry is perhaps not as robust as some would hope, when compared to our US counterparts, Canada's independents have managed quite well. The growth of several companies into public-traded entities in the 1990s and the survival of a number of midsize companies which retained their libraries of titles are unique to the Canadian landscape. The total dominance of the studio system and of the huge media conglomerates has squeezed the independent production sector in the US. Most independents work 'for hire', function in a 'guerrilla financing' mode, do not retain rights to their work, and have little hope of scaling their businesses unless they produce a 'hit'.

The gaping hole in the Canadian film and television industry's current infrastructure is that of viable and well-financed distributors, both in domestic film distribution and in international television sales. In the case of feature films, this is largely due to the dominance of the Hollywood majors in our domestic marketplace. In the case of television, this weakness is a direct result of the decline in the international marketplace described earlier. In Nova Scotia, the absence of a strong international sales company, especially on the television side of the business, represents a significant long-term challenge.

e. Regional Characteristics of Production Activity

As indicated earlier, while Nova Scotia's production volume has levelled off in the past three years, production activity in other provinces has rebounded or increased due to newly instituted measures – largely tax credit-driven. In the chart below, the current tax credit regimes across the country present in bold relief the competitive nature of this incentive.

Figure 23 Effective Baseline Rates, Tax Credit Rates for Canadian Content Production in Various Provinces



See notes in Table 3

Source: Nordicity calculations based on data from Goodmans LLP, *Location Canada: A Guide to Producing in Canada and Doing Business with Canadians*, June 2003; *Playback,* and CFTPA, *Guide 2004: Canada's Production Industry Directory*.

Competitive Analysis

In interviews conducted with both foreign location producers from Los Angeles and domestic producers seeking more advantageous locations to complete their project financing, the critical factors influencing the decision on 'Where to shoot?' are, in order of importance:

- Financial incentives;
- Costs associated with moving to location (inconvenience, time zone, etc);
- Aesthetic considerations (locations suited to creative material);
- Availability and competency of local talent and crew (infrastructure to support demands of production);
- Previous experience in the location and a positive relationship with 'host' producer;
- Word-of-mouth recommendation from industry colleague with experience in location;
- Flexibility in the application of tax credits (e.g., deeming of non-residents as residents for the purpose of the tax credit).

The importance of the financial 'package' offered by the host location cannot be underestimated in the foreign-location decision. In fact, several producers cited examples of aggressive offers by American states and Canadian provinces (other than Nova Scotia) in order to secure their productions – offers that tipped the scale in terms of locating production in those locales rather than in others.

American states that interview respondents cited as having stepped up to the plate to try to attract guest production include Louisiana and New Mexico. In a review of the incentives employed by many American states, Louisiana's mix of tax credits and incentives appear to rival or better similar plans in other states:

- A point-of-purchase sales tax credit which entitles production companies a refund of state sales taxes paid on expenses in Louisiana, for productions over $250,000 (Arkansas has similar legislation);
- A 20% tax credit on aggregate labour costs to Louisiana residents;
- A 10% investment loss tax credit which allows investors to write off a portion of their investment (for investments from $300,000 to $8 million); 15% credit for investments over $8 million.

From 1992 to 2002, Louisiana averaged about $20 million to $30 million per year in production activity. Since the introduction of the above incentives, production activity has grown to about $200 million per year.

Ranking individual states or provinces' package of incentives or initiatives employed to attract guest production is a highly problematic exercise. As experience in Nova Scotia demonstrates, a competitive package of incentives can be upset by copycat measures from another jurisdiction which may also benefit from variables that cannot be replicated such as location or weather. While Louisiana's package of incentives may not add up to the same dollar value as Nova Scotia's, for example, the level of financial benefit combined with the convenience of shooting ‘at home’ may be sufficient to attract a Hollywood studio. The critical learning is that support to the film industry has become far more widespread than in the previous decade and that the need to maintain a dynamic and flexible system of incentives is paramount to maintaining a jurisdiction’s competitive position.

3.1.4 The Nova Scotia Industry in 2004

a. Profile of Nova Scotia’s Current Production Industry: 4th Largest Production Centre in Canada

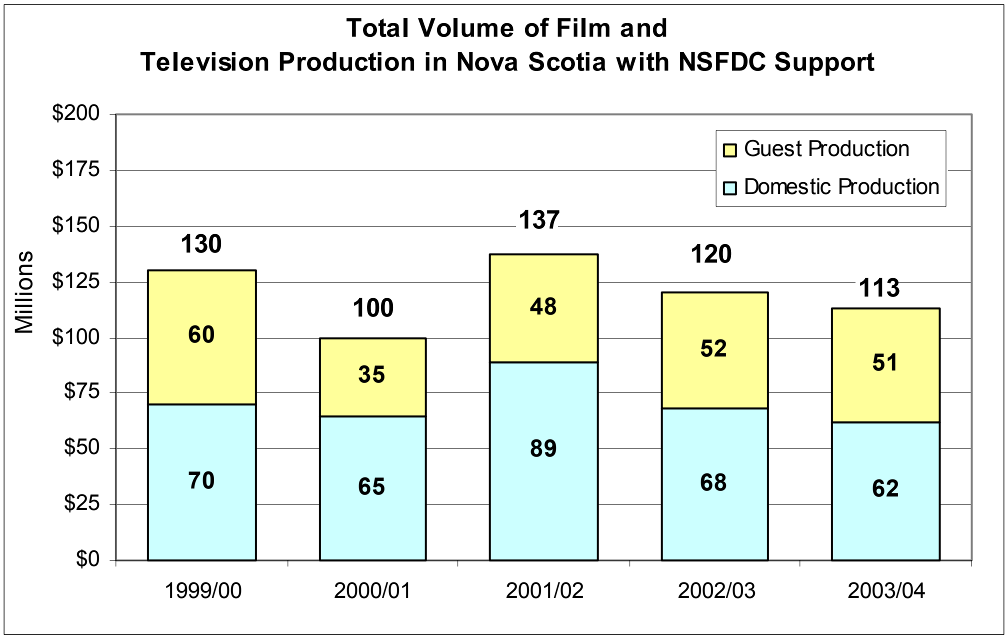
Nova Scotia’s early entry into the film and television industry has given the Province a solid base and important competitive advantages. However, growth in guest production has stalled and indigenous production suffered a decline of 9% in 2003/04.

Nova Scotia stands out among Canada’s provinces as the most forward-thinking and ambitious with respect to film and television policy. The prescient move to introduce a tax credit for film and television in 1995/96 galvanized the development of an industry in the Province and became a beacon for the rest of the country. Thanks to these initiatives, Halifax grew to become the 4th largest production centre in the country, an enviable position – now under siege - in such a high profile industry with a proven ‘halo effect’ (the *Lord of the Rings* phenomenon in New Zealand.)

The average mix of production activity in the Province over the past 3 years is a healthy balance of about 55% indigenous and 45% guest production. British Columbia, for example, is more heavily weighted or dependent on foreign location production with 80% of its production activity in this area in 2002/03. Manitoba, in its 2003 annual report, indicated that 45% of its total production activity was indigenous production (although 60% of that was “indigenous domestic co-productions”), and 55% was foreign location.

Maintaining a balance between foreign and indigenous production is important given the volatility inherent in the business. The contribution of foreign location shooting to Nova Scotia has been undeniable and has supported the building of important infrastructure and training of skilled crews. Foreign location production also provides the critical mass necessary to keep film industry professionals employed over the year. However, indigenous production has arguably longer term benefits especially with respect to local pride and many of the socio-cultural spill-over benefits described earlier in this document. In this regard, Nova Scotia’s greatest accomplishment may be its development of an outstanding community of indigenous producers capable of producing world-class productions in all genres.

Figure 24 Total Volume of Film and Television Production in Nova Scotia with NSFDC Support



Source: NSFDC

In 2002/03, local producers shot 3 feature films, 19 television series, 1 movie of the week, and 34 television specials. Foreign producers shot 1 feature film, 9 movies of the week, and 3 specials in the Province. In 2003/04, total production activity from indigenous producers totalled $62 million, representing a direct spend of $45 million in the Province. On the guest production front, 6 movies of the week, 1 animated series, and 1 television miniseries shot in Nova Scotia representing approximately $51.1 million of production activity and $20.9 million of direct spend in the Province.

With respect to indigenous production, the volume of activity has fluctuated quite dramatically, year to year, since the introduction of government support. Peaking at $92.5 million in 1997/98 and down to its lowest level in 6 years in 2003/2004, these numbers have been primarily affected by the activities of the largest companies (ramping down of production at Salter Street Films beginning at the end of 2001) and the declining number of big budget dramas on Canadian broadcaster schedules which were produced in Nova Scotia (*Emily of New Moon, Pit Pony,* and *Black Harbour,* for example.)

b. Mix of Company Growth Strategies and Product Specialization

Nova Scotia has approximately 65 film producers and 50 production companies who earn the majority of their livelihood through film and television production activity. In the area of crews, the various unions have the following Nova Scotian members: IATSE 849 has 397 members; IATSE 667 has 40 members; the Directors Guild has 133 members; and ACTRA has 497 members.

In terms of size, the breakdown of companies operating in Nova Scotia reflects, to a large extent, their colleagues in the rest of the country – a handful of medium- to small-sized companies and many very small companies. It is important to note, however that in *Playback's 2003 Annual Production Company Survey* (published May 10, 2004) only two of Nova Scotia's larger companies are listed and they rank, in terms of production volume in that year, 44th for Big Motion Pictures and 83rd for Ocean Entertainment.

Nevertheless, unlike the other regional production centres in Canada, Nova Scotia has produced a company like Salter Street Films – the only publicly-traded company of any scale with a strong indigenous production slate outside of Toronto or Montreal. Again, this speaks to Nova Scotia's track record and competitive advantage in the area of indigenous production. On the flip side of this reputation is the focus of Nova Scotia's producers on the domestic marketplace. With a few exceptions, most of the Province's indigenous producers have adopted a Canadian-centric business plan. That is, they are primarily focused on producing Canadian content shows for Canadian broadcasters. As a result, they are particularly vulnerable to shifts in Canadian cultural policy and funding, and have not developed strong international financing or sales capacity.

While Salter Street Films and Cochran Entertainment (another Nova Scotia success story) are no longer in business, there are a number of new players who are demonstrating the entrepreneurial drive and business acumen necessary to build larger, more stable companies. Many of the producers interviewed in the Nordicity survey indicated reticence with respect to building their businesses in light of the following factors:

- cost of maintaining overhead in a funding environment that is constantly changing and unpredictable;
- inability to attract capital for the purpose of building company infrastructure and capacity;
- fear of over-extending current capability and high risk of bankruptcy given cash flow challenges in the industry;
- absence of skill-set (and resources necessary to gain skill set) required to build company;
- general nervousness and low appetite for risk given current uncertainty in the industry.

Nova Scotia's most successful producers have each focused on building a reputation for high quality, often niche, programming. The strategies of the larger production companies ($2 million plus in annual production turnover) in Nova Scotia's indigenous production community are highlighted below:

Arcadia Entertainment Inc.: Arcadia was established three years ago and has built its business on a niche model – focusing on the production of ocean documentaries such as *Marine Machines* with international sales potential. The company employs four core staff and grows to 12 employees to support production. In 2003, production volume was in the range of $1.8 million and in 2004, this went up to $4 million. Arcadia's primary clients in Canada are History Television, CBC, Discovery; and in the US, National Geographic International. Arcadia's foreign sales are handled by Parthenon, a UK-based distributor.

Big Motion Pictures Limited: In business in Nova Scotia from its headquarters in Chester since 1999, Big Motion has quickly gained a reputation for excellence in drama production. The company employs four to five people and has produced in the range of $10-$12 million in production for each of 2003 and 2004. Primary broadcast clients include CBC, CTV, and W and production titles include *Trudeau, Snakes & Ladders, A Guy and A Girl, Blessed Stranger: After Flight 111,* and *Sleep Murder.*

Collideascope Digital Productions Inc.: Focused on innovation, animation, and new media, Collideascope has been in business nine years, employs 12 full-time staff and another 110 contract employees. The company has experienced significant growth over the past two years, increasing its production output from $250,000 in 1999 to $7 million in 2004 (including $1 million in new media.) The strategy of the company has been to innovate and to produce highly distinctive animation at a competitive price point. Collideascope's primary clients are Teletoon, the CBC, Treehouse, and for service production – Decode in Toronto. Production titles include *Olliver's Adventures, Rock Camp, and The Heart of Laughter.*

Eco-Nova Productions: Eco-Nova has been in business for over ten years and employs 12 full-time people. The Eco-Nova Group specializes in high quality documentaries and counted $2.2 million in production in 2003, $2.1 million in 2004 and anticipates $3-$4 million in 2005. Eco-Nova's stated strategy is to produce for the international marketplace and to build its business on solid franchises, such as *Sea Hunters.* Eco-Nova's international sales are handled by Parthenon in the UK.

Ocean Entertainment Limited: Nova Scotia's leader in lifestyle programming, Ocean Entertainment has been in business since 1994/95. With its roots in post-production, Ocean Entertainment has built its company on high volume, lower budget programming for specialty channels. The company achieves economies of scale over its volume of production and, as a result, has been able to hire and keep good staff. Ocean Entertainment and Ocean Digital, its post-production arm, together employ 10 people. In 2003, Ocean generated about $2 million in production activity and in 2004 anticipates $2.5 million. The company counts among its primary broadcaster clients Alliance Atlantis Broadcasting's Food Network Canada, Food Network (US), and Global Television's Men TV.

The Halifax Film Company: Recently established by Michael Donovan and Charles Bishop of Salter Street Films, The Halifax Film Company opened its doors with a production slate representing an expected $17.5 million in activity.

Topsail Productions: Topsail Productions (no longer associated with Topsail Entertainment) is primarily focused on its 'hit' franchise – *Trailer Park Boys* – which it produces in partnership with the creative team of Trailer Park Productions for Showcase. *Trailer Park Boys'* claim to fame is creating the first-ever hit low-budget "mockumentary"/drama series in Canada. The company's annual production turnover was about $5 million in 2003, $3 million in 2004 and is now growing its slate beyond its core property. *Trailer Park Boys* is in its 5th season in Canada, has been released on DVD in Canada to great success, has been sold to BBC America and is being developed as a feature film.

c. Why the Current Plateau in Production Activity?

Nova Scotia's plateau due to shutdown of Salter Street Films, Cochran Entertainment; CTF cutbacks; international downturn hits periphery harder; no growth in provincial government funding; tax credit no longer sufficiently competitive; poor financial state of companies; rising dollar.

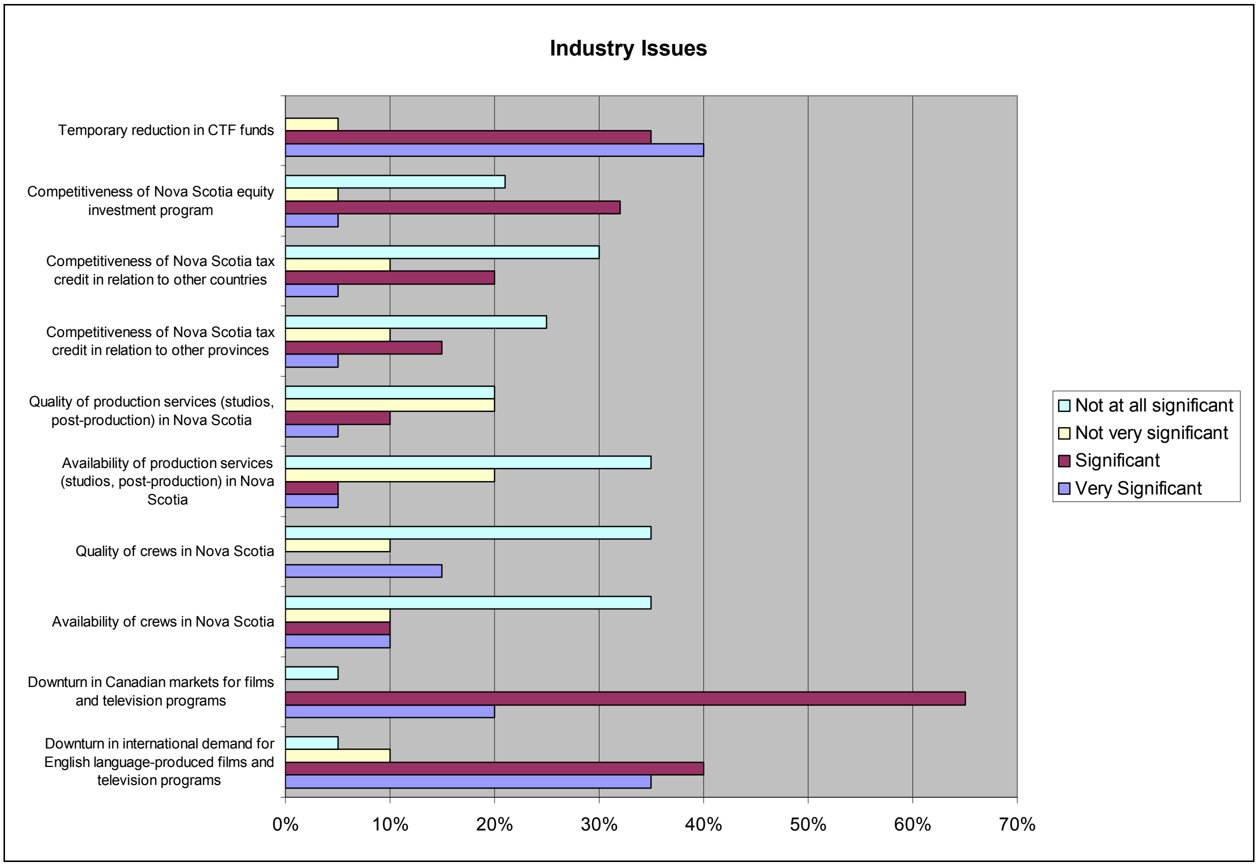
In each of the past five years, Nova Scotia's film industry has exceeded $100 million in production activity. In 2001/02, the industry's production activity peaked at $137 million. In order to understand why production seems to have stalled at current levels, we should first examine the characteristics of the Province's 'best' year. First, in the two years prior to the Province's peak year, the NSFDC's program budgets were at their highest ($2.6 million in 1999 and $2.3 million in 2000). The corresponding level of investment in indigenous productions, which would have actually been shot and reported in 2001/02 was therefore at its highest. Second, Hollywood was experiencing an unprecedented threat of strikes, both writers and actors, and the studios responded by accelerating production in 2001/02 in anticipation of a shutdown. Third, Salter Street Films – Nova Scotia's largest production company at the time – was still delivering its backlog of production activity (well over $40 million per year) during 2001/2002, before AAC shut down the company.

The many external factors – both international and domestic - that have contributed to the current plateau in production activity in Nova Scotia have been described earlier. In the survey conducted of industry participants, a variety of specific factors in the Province were identified:

- Declining and now flat level of equity funding available to indigenous producers from the NSFDC;
- Tax credit of 30% (35% outside of Halifax/Dartmouth municipality) is no longer adequately competitive;
- Demise of industry leaders such as Salter Street Films and Cochran Entertainment;
- During periods of economic hardship and retraction in the film and television industry, producers operating on the 'periphery' or at a distance from the centres of decision-making are at a greater disadvantage and are ultimately more vulnerable to dramatic downturns, cutbacks in funding, etc.

In the online survey, producers responded much the same way to the question of the reasons for the Nova Scotia production level at a stall, as the following graphic illustrates.

Figure 25 Industry Issues

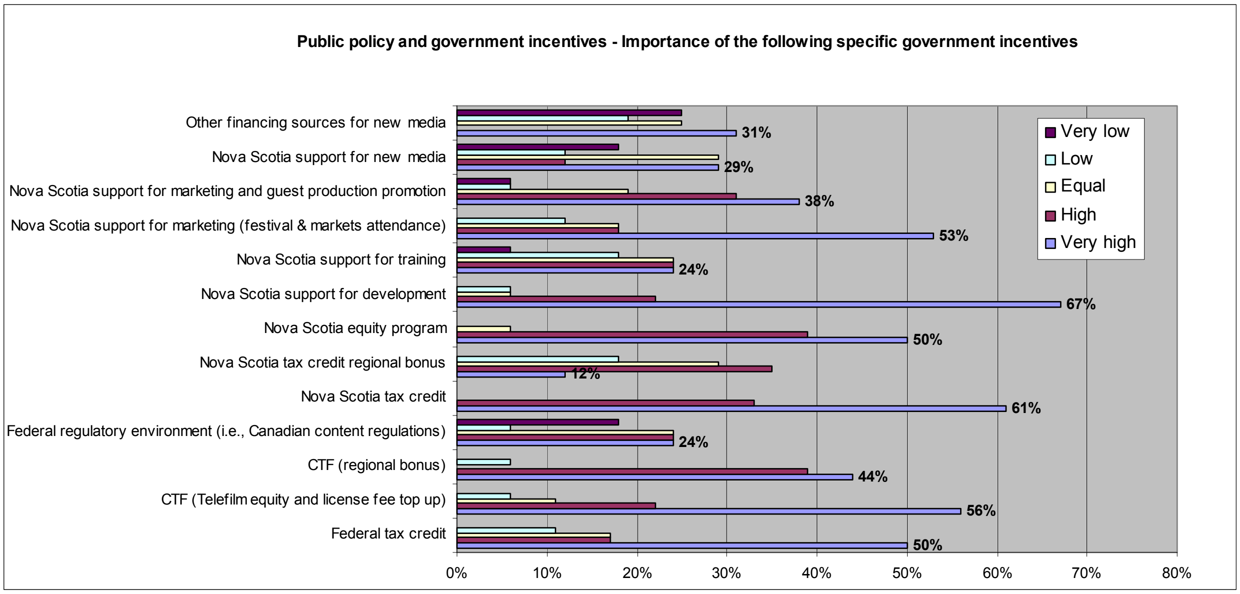


Source: Survey of Nova Scotia Film and Television Production Industry

Clearly, the downturn in Canadian and foreign markets, as well as the reduction of the CTF, were cited as major reasons for the decline in production. Just as clearly, the availability and quality of the infrastructure was not considered a major factor affecting production levels. As well, the responses from this online survey suggest that Nova Scotia was competitive with other provincial and foreign jurisdictions in terms of tax credit (though less so in equity financing), this is a comment on the *past* experience, primarily regarding indigenous production (as most of the producer respondents concentrate on indigenous production).

With respect to how to address or affect a 'turnaround', producer respondents to the online survey suggested a range of important incentives as shown in the chart below, including support for marketing, support for development, the equity program, the Nova Scotia (and federal) tax credit, and CTF funding. In the interview process, producers were in fact more focused in identifying the tax credit as the first and most compelling tool to jumpstart the levels of production in the Province. In these interviews, second to raising the level of the tax credit, was increasing the level of equity funding available through the NSFDC.

Figure 26 Public policy and government incentives - importance of the following specific government incentives



Source: Survey of Nova Scotia Film and Television Production Industry

d. Marketing Nova Scotia

Traditionally, Halifax has competed with Toronto, Montreal, and Vancouver for its foreign location production. Clearly, it has been a distant 4th in terms of production centre, but it has been the unchallenged 'regional' centre. New Brunswick raised its tax credit above the level of Nova Scotia and began attracting productions which might have otherwise gone to Nova Scotia.

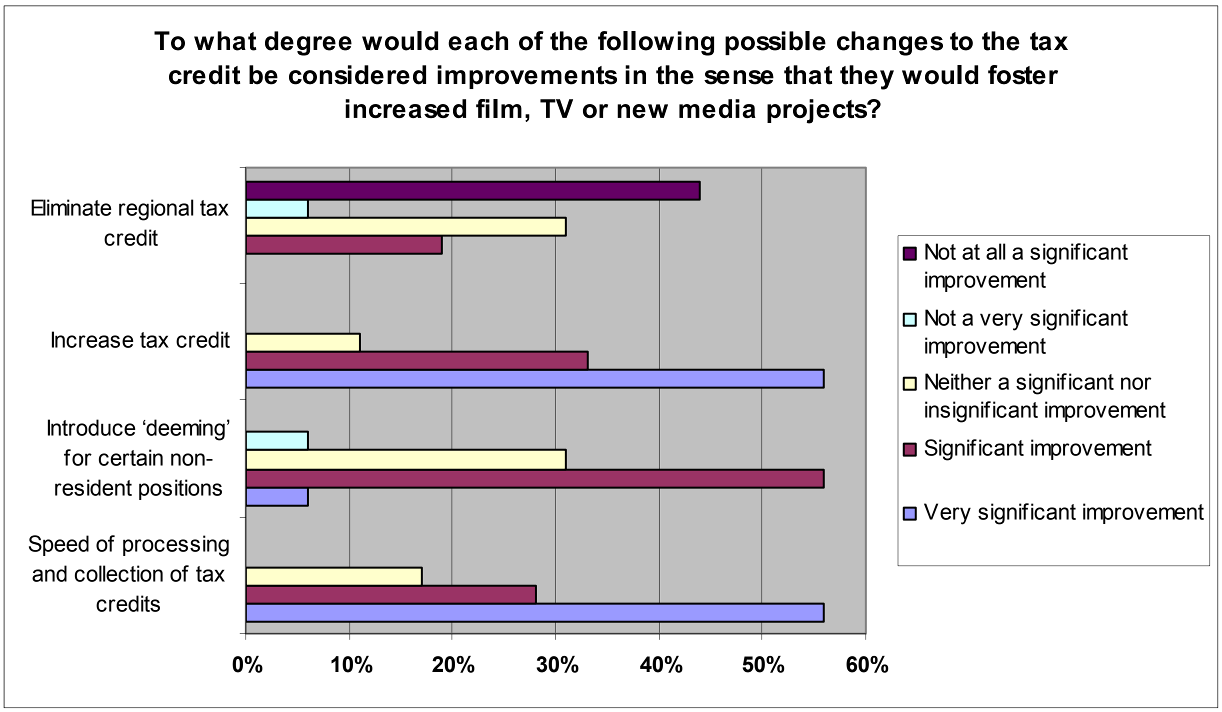
Most recently, Nova Scotia's leadership position has been challenged by Manitoba. Manitoba introduced its tax credit in 1997 and watched its foreign location business grow from $6.5 million in 2000 to $45.9 million in 2003. Total production activity in 2003 was $82.8 million and is purported to exceed $100 million in 2004. The Manitoba government announced in April 2004, several key initiatives which are impressive in their scope and in their enhancement of that province's competitive position:

- First, Manitoba has a base tax credit of 35% - already higher than Nova Scotia.
- The province announced the extension of the tax credit to 2008 which promises a level of stability and predictability for producers operating in that province.
- In addition, Manitoba has introduced a 5% "Frequent Filming Bonus" for foreign location producers who shoot more than three films in the province and an added 5% credit for shooting in rural and northern locations. This translates into a 45% tax credit for some qualifying productions.

While survey respondents suggest that the level of the financial benefit is the single most important selling point for selecting a location, the manner in which individual provinces market their locations can make a difference. A high degree of flexibility in the application of tax credits (e.g., deeming) and other enticements such as deep discounts on facilities and services offered by film commissions or agencies can also make a difference. Some guest producers with experience in multiple provinces in Canada suggested that the 'newer' players were extremely agreeable and willing to make a project happen in their province, whereas Nova Scotia was perceived as less willing to 'bend over backwards' to get a deal done. (Caution is expressed about this perception as it was derived from a very small sample, and could be based on circumstances that would need to be explored in more depth.).

In the online survey, besides a higher tax credit, producers emphasized faster payment as being a very significant improvement (see chart below). A cautious approach to deeming came across as a "significant" potential improvement as well.

Figure 27 Rating of Various Potential Changes to Nova Scotia Film Industry Tax Credit



Source: Survey of Nova Scotia Film and Television Production Industry

Across the different provinces, the marketing spend and initiatives do not vary greatly. Most film commissions attend location markets, key industry events and festivals, produce location guides and databases, operate websites and make direct marketing trips to Los Angeles – to attract business. In this regard, the NSFDC has earmarked $182,000 for marketing and advertising activities in 2004/05. This represents 6.6% of the NSFDC's total budget.

The success of the Atlantic Canada Film Festival in building an awareness of film in Nova Scotia as well as developing a highly regarded international reputation represents another important marketing activity in Nova Scotia. The box office is growing 15%-20% per year over the last five years, according to its executive director, and is now at the 30,000 level in terms of attendance. The five-year plan for the Festival is to triple that attendance level, and to firmly establish the event as the cultural event in Atlantic Canada. It aims to become the "real"

Sundance and showcase rising independent filmmakers – all the while remaining rooted to the Nova Scotia industry.

The Festival in many ways acts as an important bridge between the Nova Scotia industry and broader Canadian and international industry. In its 7th year the affiliated “Strategic Partners” program brings together Nova Scotia producers with outsiders leading to the development of co-productions. As Canada’s premiere, international, co-production/co-venturing conference, it features the effective project-driven, pre-scheduled meeting format. According to conference organizers, business flowing from Strategic Partners as measured by an Atlantic Canada Opportunities Agency (ACOA) survey amounted to $11 million in direct business after last year. It has a national footprint in that other agencies financially support their producers to participate in the “Strategic Partners” program. As last year the 2004 focus is on the UK, US, and Ireland connections; as the Halifax location showcases Nova Scotia as a location setting and one with a wealth of indigenous producer talent. As Strategic Partners continues to grow in stature and quality of participants, it will continue to provide significant and tangible marketing benefits to the Nova Scotia production industry.

The industry sessions during the festival focus on areas of relevance to the particular nature of the Nova Scotia film industry, for example, the opportunities for Nova Scotia musicians to market to the film industry. These examples of Festival activities indicate the symbiotic relationship between the Festival and the “marketing” of Nova Scotia and its creative talent.

e. Training of Film Professionals

Nova Scotians interested in acquiring film and television production skills have a number of options – both within formal educational and professional training environments. These include:

- The Atlantic Filmmakers Cooperative (AFCOOP) which offers workshops on most aspects of filmmaking;
- Centre for Art Tapes (CFAT), a member-run media arts organization which offers a range of workshops and access to facilities and equipment;
- Moving Images Group (MIG), a non-profit partnership of various organizations (ACTRA, AFCOOP, DGC, DOC, NB Film Co-op, PARC, WFNS, WGC) whose mandate is to provide professional development opportunities to people working in the independent production community in Atlantic Canada;
- Nova Scotia Community College (NSCC) which offers a two-year diploma in the fundamentals and techniques to short film and video production;
- Nova Scotia College of Art and Design (NSCAD) currently offers a degree program in media arts and film and is developing a graduate degree program in film.

While there are a number of avenues to pursue professional development or training in film-related skills, producers surveyed were not specific in their comments on the quality of these individual programs. The three organizations offering courses have different approaches and emphases (AFCOOP on film and emerging filmmakers, CFAT on video, and MIG on intermediate level professional development and above-the-line skills.) A general comment was that while there is professional development available in Nova Scotia, it tends to be of a grassroots, community-based nature and what is lacking is in-depth, university-level training. Furthermore, some commented on the uneven quality in programs offered by under-funded non-profit organizations without sufficient budgets to promote or expand their activities.

While the NSFDC provides support to each of AFCOOP, MIG and CFAT, as well as other training opportunities for Nova Scotia's producers available through the National Screen Institute, there is consensus that greater coordination of programs is desirable. As the Atlantic Film Festival also extends its activities into the skills development area (described below), there is an opportunity to focus resources and avoid duplication.

Overall, survey respondents indicated that the Nova Scotia Community College is doing a good job of training young people, and giving them the technical skills required to enter the film and television industry. The emerging filmmakers interviewed spoke with enthusiasm about the 1-minute film and Program 5 initiatives of AFCOOP which facilitate filmmakers in the making of their first short films. With respect to learning the writing, acting and directing skills necessary for producing high quality programs and films, most respondents felt that there are far too few outlets in Nova Scotia for aspiring talent to develop their skills and gain the experience necessary to launch and sustain their careers. In fact, the danger of out-migration of writers, directors and especially actors to Toronto – where work is more plentiful – was repeatedly expressed.

Most respondents were unaware of the graduate-level film program currently in development at NSCAD. As a group, the industry professionals interviewed expressed the view that a film program at NSCAD should be industry-oriented with a focus on honing skills that will translate into a commercial production environment. Concern was expressed that NSCAD's mandate as an art school and its focus on artistic expression would be less valuable to feeding the industry than a 'practical', hands-on program taught by working professionals from the field. With that in mind, all respondents felt that a well-designed, high quality 'world class' Film School in Nova Scotia could address the shortage and shallowness of the current talent pool. In fact, at its best, the Film School could draw talented individuals from across the country, from the US and abroad to Nova Scotia – many of whom would end up working on productions via internships during their studies, forming important relationships for the future.

Just as the National Screen Institute in Manitoba was cited by one survey respondent as an example of how an educational institution can feed and nurture talent, a number of people pointed to the role of the Atlantic Film Festival in Nova Scotia's film community. Besides its value in promoting the industry as cited earlier, the Festival has several activities which support the skills development of Nova Scotians, including the following:

- One initiative is a script development competition in its 9th year geared to emerging writers, whereby four to five of the winners spend three months with a senior script writer.
- Another initiative brings together 16 documentary applicants for sessions with seasoned documentary producers like Ron Mann, Steve James, and Kate Davis.
- A kids' festival whose purpose is to interact with youth turned on to the visual media; this includes a nine-day digital movie camp. This acts to some degree as a feeder for NSCAD.
- The Atlantic Film Festival is also complementary with the Film School as meeting ground for students whose "school" for the nine days of the Festival is the Festival itself.
- There are also master classes associated with the Festival, e.g., on sound scoring.

f. Looking Ahead: Profile of a Successful, Sustainable and Growing Production Industry

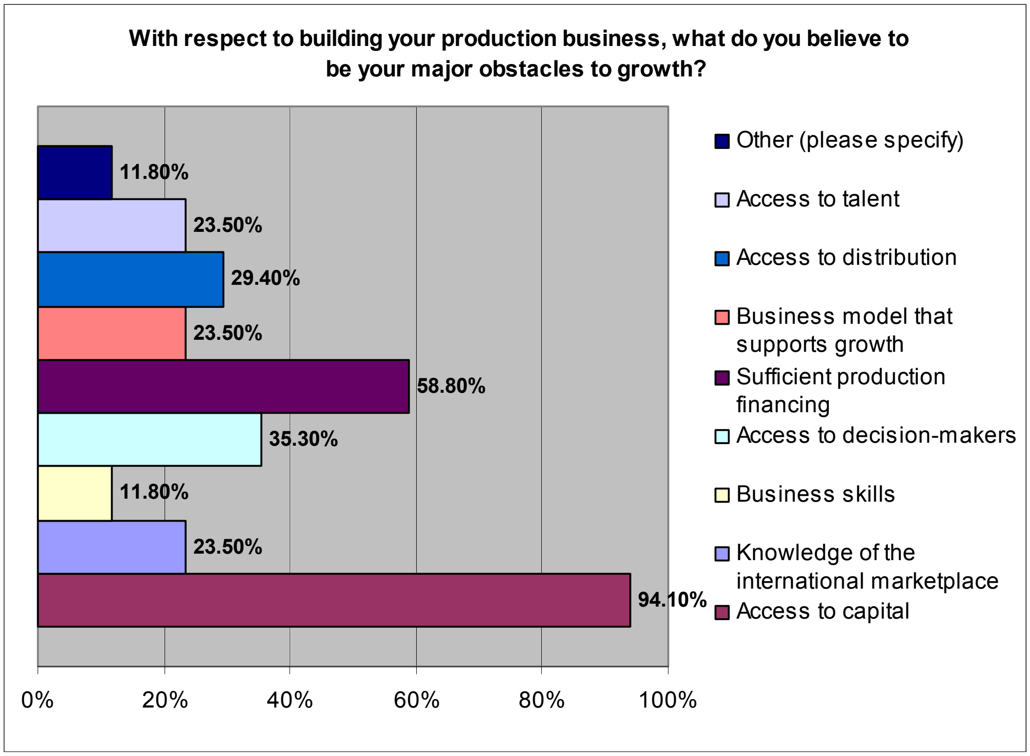
There is no doubt that Nova Scotia's film and television industry stands at a critical junction in its development. After almost ten years of growth and expansion, Nova Scotia's film industry is experiencing a period of contraction. To reverse the trend will require a re-energized, collaborative and focused strategy to prevent erosion of the hard-earned position of Nova Scotia's film industry and ideally, to reclaim the Province's leadership position.

While funding and financial incentives are the centerpiece of a growth strategy, other factors will contribute to the further revitalization of the Nova Scotia film industry. These factors include:

- Measures to assist company development and stability;
- Measures to foster the distribution and international sales and marketing strength of Nova Scotia's producers;
- Measures to deepen the pool of talent in Nova Scotia (including education and skills development);
- Measures to develop business skills within production companies.

When asked about obstacles to growth, Nova Scotia producers tended to focus on financial factors, namely lack of access to enterprise capital as well as project financing. The graph below indicates that their specific level of response. Further comment is to be made on these subjects in the analysis of strengths and weaknesses.

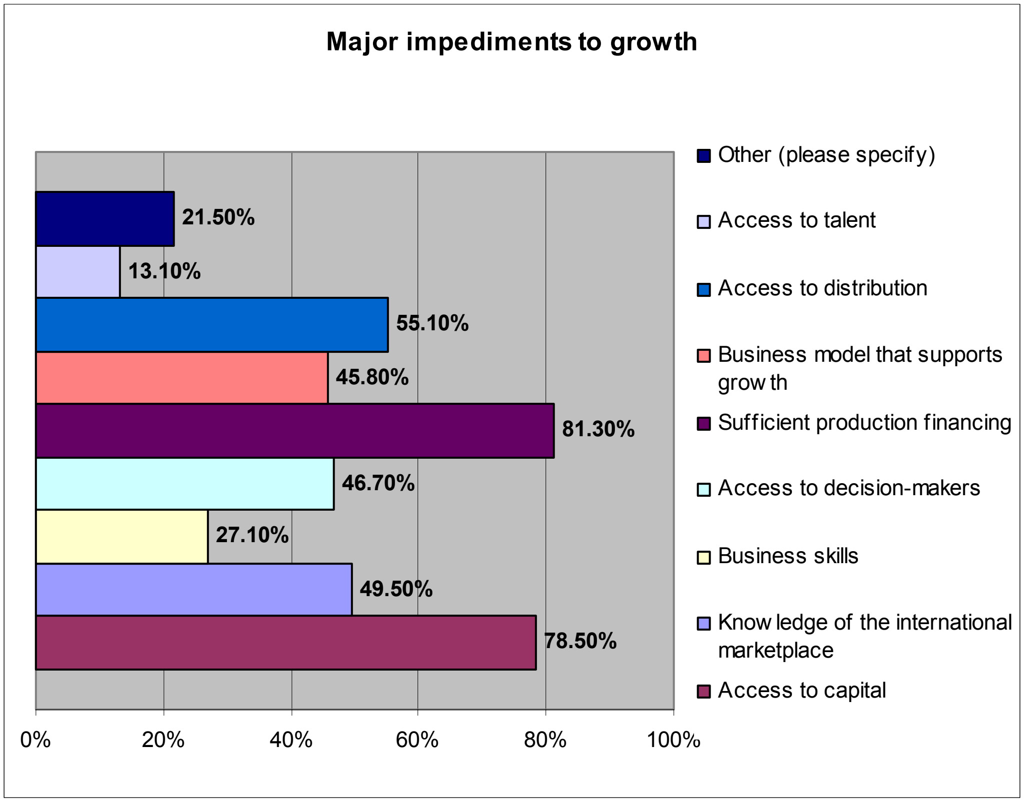
Figure 28 Obstacles to Growth



Source: Survey of Nova Scotia Film and Television Production Industry

Other stakeholders in the production business in Nova Scotia were roughly in agreement, as the online survey indicates in the chart below.   Non-producers placed more emphasis on production financing rather than access to capital, and on access to distribution, access to decision-makers, and business skills gaps.

Figure 29 Major Impediments to Growth



Source: Survey of Nova Scotia Film and Television Production Industry

A vision for Nova Scotia's film and television industry as successful, sustainable and growing would include several strong midsize production companies (with annual production volume in the plus $15 million range); another 10 to 15 'up and coming' companies (with annual production volume in the $2-$5 million range); and a vibrant community of emerging and first-time filmmakers. In addition to this profile of producers, the presence of one or two strong distributors with solid backing and experience in the international sales arena would be critical to driving future growth.

3.2 SWOT Analysis

The following discussion of the strengths and weaknesses of Nova Scotia's film industry and the opportunities and threats that the industry faces are drawn entirely from Nordicity's survey of producers, broadcasters, funders, and industry professionals – within Nova Scotia, from other parts of Canada as well as US foreign producers with experience shooting in the Province.

3.2.1 Discussion of Strengths

a. Talent: Drama, Storytelling, Music

Nova Scotia's strong tradition in the creative arts and in particular, in storytelling and music, is identified by local producers and domestic broadcasters as a unique strength of the Province. The populations that settled Nova Scotia have provided an important cultural history and an appreciation for the arts which are key components to the future success of the Province as a centre of filmmaking. According to survey respondents, the ways in which this talent base has translated into a natural resource include:

- An outstanding record of performance with the CBC – in particular, in the genres of drama, comedy, variety and performing arts;
- A greater number of 'auteur' driven feature films than other regions of the country;
- An equally strong base of indigenous producers as service or foreign location producers as compared to provinces such as British Columbia or Manitoba where foreign production dominates;
- A track record of producing 'hits' in the domestic marketplace such as *Theodore Tugboat, Margaret's Museum, This Hour Has 22 Minutes, Trailer Park Boys and Black Harbour.*

b. Locations

There is no doubt that Nova Scotia has spectacular locations and a range of locations suitable for many film and television projects. While locations are often sited as one of the Province's strengths, several other geographical factors were cited by survey respondents that mitigate against it. These are the absence of a concentrated urban cityscape and the weather – specifically noted was the lateness of the summer season (for greenery.)

c. Experience: Ten Years of Building

Without hesitation government agencies, unions, broadcasters and producers agree that the past ten years have been seminal in the formation of a viable film and television industry in Nova Scotia. Accomplishments identified by those surveyed include:

- Development of technical skills to support several full crews (assessment of actual number of crews, however, varied between 3 and 5);
- Development of production infrastructure (sound stages and post-production facilities) which is assessed as professional, competitive and sufficient to support all the needs of television production;
- Development of several strong production companies which compete head-to-head with like-sized or larger companies across the country;
- Emergence of reputation as a region of high-quality indigenous production.

d. Presence of CBC in Halifax

The presence of the CBC in Halifax as one of three remaining regional centres of the corporation in English Canada (besides Toronto and Vancouver) remains a significant strength for the Province. Until policy changes in response to government budget cuts over the last several years, there were a number of regional centres in Canada. They produced programming for the region as well as local programming. In that period, it could be argued that St. John's was the dominant regional centre in Atlantic Canada. However, budget cuts forced the CBC to make choices. The presence of a cost-effective, proven production community in Halifax was a critical part of the "business case" for keeping Halifax as a production centre for national programming. Otherwise, CBC's "comedy" centre might have been developed in Newfoundland. Thus, the presence of the CBC in Halifax is a major strength for the industry in Nova Scotia. The local staff has sufficient budget to support important development projects in the Halifax area, and it has facilitated the development of strong relationships between Halifax based producers and CBC Television network executives in Toronto.

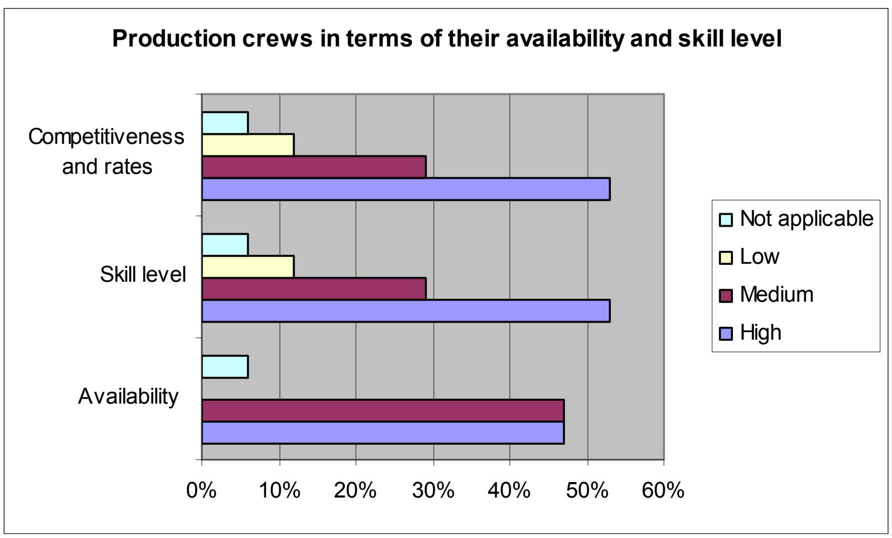
e. Infrastructure Built: Accomplishments in crew and post-production

Over the past 10 years, Nova Scotia has developed its crews and in almost all areas is now adequately served. According to foreign location and domestic guest producers, the areas of strength in Nova Scotia's crews are:

- Positive attitude, pleasant manner, and general professional conduct are ranked as high among Nova Scotia's crew;
- High degree of competence;
- All departments are well served – however, the lack of depth or numbers of senior crew (department heads) can present a problem.

In the online survey, producers rated the crews very highly in terms of competitiveness/rates and skill level, as indicated in the following graph. Availability scored slightly less well, but still there was no indication of any significant problem.

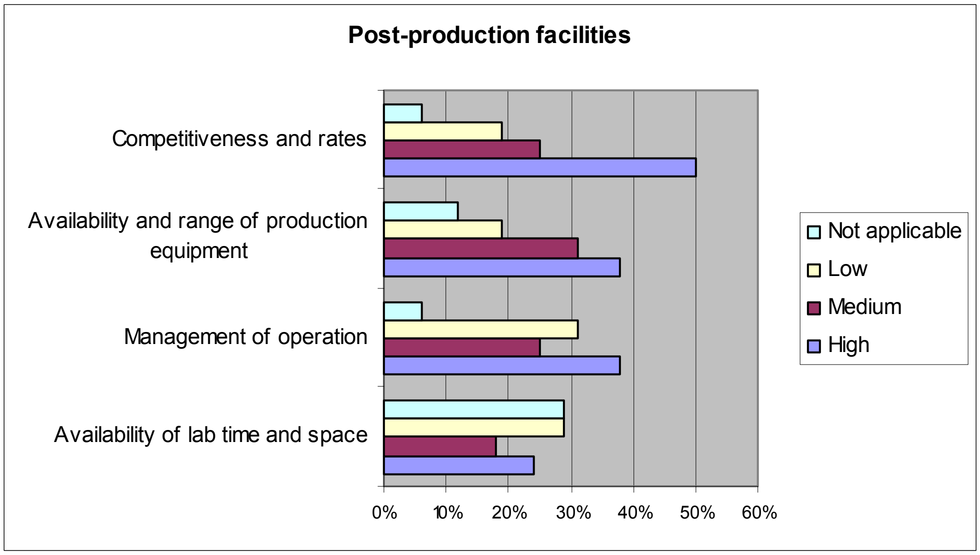
Figure 30 Rating of Production Crews



Source: Survey of Nova Scotia Film and Television Production Industry

With respect to post-production facilities, the Province is well served by companies, particularly by Power Post Production (successor to Salter Street Digital). Indigenous producers rated the post-production facilities and services quite highly in the online survey. Somewhat curiously, they rated competitiveness and rates most highly, yet availability received a much more mixed reaction. Some producers feel that some of the facilities are more tightly aligned with some producers than others, which may be one of the causes of this reaction.

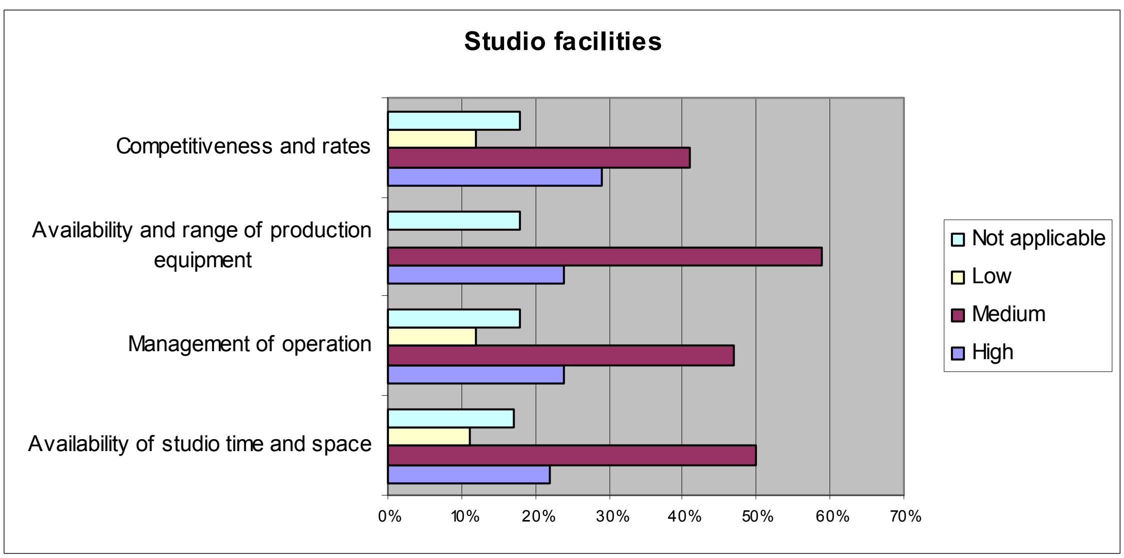
Figure 31 Rating of Post-Production Facilities



Source: Survey of Nova Scotia Film and Television Production Industry

With respect to studios and sound stages (mainly CBC, Tour Tech, and Electropolis), indigenous producers judged the number and size available in Halifax as adequate, as the following graph portrays. Producers generally considered the Shelbourne soundstage as a 'lost cause' due to its distance from Halifax and the inadequate support facilities and amenities in its immediate vicinity.

Figure 32 Rating of Studio Facilities



Source: Survey of Nova Scotia Film and Television Production Industry

In interviews with producers whose focus is guest production, however, the assessment of post-production and studio facilities differs. According to this group, in order to attract foreign production – and in particular a long-running series – Nova Scotia will have to further upgrade its post-production and studio facilities. Service producers consider the current infrastructure to be inadequate to support a growing volume of guest production. Some observed that ownership of facilities/studios by a particular production company has caused problems in the management of facilities where internal productions are favoured over external ones.

IATSE members also reflected on the conditions for foreign producers and strongly concluded that facilities are important. In particular, a top line sound stage was thought to be key to extending the season, and to attracting productions whose talent preferred not to operate out of a warehouse. So, instead of a strength, the lack of suitable facilities may be a weakness could be addressed.

Other provinces and production centres have been wrestling with the adequacy and value to their community of sound stages and post-production facilities. Where the facilities are good, the industry can see that incremental production occurs in their locale. For example, a recent Winnipeg sound stage, a product of a private-public partnership, is considered by Manitoba officials to have been key to the location of some productions in that province.

However, the issue to be addressed always is whether any facility can pay for itself – will there be enough bookings to generate the revenue required to recover the original cost and on-going operations? For example, entrepreneurs in Montreal developed new facilities, but that did not stop recent erosion of production and the collapse of some of the financial structure of these facilities. It is an ongoing question in Calgary as to whether to move forward on new facilities front. The question in Halifax is moot until there is evidence that a private sector initiative to champion new facilities, even before the question of public support is addressed.

f. Reputation of Excellence: CBC, Nova Scotia's winners

Nova Scotia's ten-year investment in the film and television industry has contributed to the establishment of the most valuable competitive strength in the entertainment business – a reputation for delivering programs that attract audiences. Certainly, several broadcasters interviewed in this study expressed unequivocal enthusiasm for several of Nova Scotia's producers – describing them as among the most creative and professional in the country.

The value of this reputation for excellence cannot be underestimated. As any producer will attest, securing a broadcaster order is much easier the second time – especially if your first show was a 'hit'. More than any other industry, success breeds success in the entertainment business. And success in film and television is measured by audience ratings and international sales. For Nova Scotia, the creative and business accomplishments of Salter Street Films, for example, has demonstrated to the rest of the country, and to other Nova Scotians, that this level of success is absolutely possible at a distance from the primary centres of production, Toronto or Montreal.

Most importantly, Nova Scotia's producers have developed a unique relationship with the CBC, the largest buyer of Canadian content programming in the country. The legacy of Salter Street Films and newer players such as Big Motion Pictures has contributed to an extraordinary relationship – in terms of volume of productions ordered as well as the ambition or scope of the projects - with the CBC. Projects such as *The Halifax Explosion* or *Trudeau* are as high in production values as any other miniseries or TV movie produced in the country.

g. Established and emerging producer community

While the shutdown of Cochran Entertainment and Salter Street Films was a disappointment to many in the community, the emergence of a new group of entrepreneurs representing a 'second wave' of talent is promising for the long-term health of the industry. Companies like Eco-Nova, Ocean Entertainment, Collideascope, and Topsail Productions are in an earlier stage of development, with respect to size, but each has shown considerable ingenuity and business acumen in the identification of a market niche. It is important to note that these companies share a similar strategy which is a focus on specialty channel programming – not the bigger budget network MOWs and series. (Topsail's recent order for a large mini-series is the exception.) Broadcasters also observed that the number of 'senior' producers with the breadth of competencies to produce higher budget drama series is very limited in Nova Scotia and that there appears to be little to no 'succession' planning. Nevertheless, broadcasters interviewed all remarked at how far Nova Scotia's industry had come since the early 1990s and how their experiences with Nova Scotia's producers had greatly improved over these last ten years.

The disparity between experienced producers and emerging producers, however, is quite stark. Some respondents observe a 'dual' class of producer emerging in the Province – those who are repeat customers at the NSFDC and those who are chronically underfinanced and struggling. In terms of numbers, it is these producers – who live project to project – who form the majority. While there will always be struggling first-time filmmakers in the industry, closing the gap – or rather developing the middle – is an important goal.

With respect to the first-time or emerging producers and filmmakers, the challenges remain similar to like-sized companies across the country. Breaking into the business and building broadcaster relationships are significant hurdles – exacerbated by distance from the key decision-makers. While CTV has had a representative in Nova Scotia for over six years, and the recently launched Independent Film Channel – and indirectly its parent AllianceAtlantis Broadcasting - is also represented locally, these two broadcasters are the exceptions in maintaining a physical presence in the region. Clearly, CTV has already made a significant contribution in the development and commissioning of documentaries, movies and series from local producers. The Independent Film Channel (IFC), with its more limited resources, is also playing an important role in the fostering of new and emerging talent. The NSFDC's *Broadcaster/Distributor Forum* program, where broadcasters and distributors are brought into Halifax to meet with producers, was identified by many survey respondents as an extremely valuable service. So, too is the Strategic Partners conference discussed earlier.

Nova Scotia's key strengths are: its legacy of creative output, its ten years of industry development and resulting infrastructure, its unique relationship with the CBC, and the entrepreneurial culture of its producers.

3.2.2 Discussion of Weaknesses

a. Vulnerabilities in Infrastructure: Talent & Services

The discussion and review of the Province's film and television infrastructure was broad and wide ranging. Not all respondents agree on the assessment of specific weaknesses in the talent pool, but all do agree that the talent pool is shallow in certain key areas. ACTRA data on total gross fees earned shows that the Canadian acting pool from outside the Province collectively earns double the annual gross fees of local talent. However, the foreign SAG fees are double again what ACTRA members outside Nova Scotia receive from working in Nova Scotia. While not unexpected at this stage of the maturity cycle of development, it does indicate that both Canadian (from Nova Scotia and elsewhere) and foreign productions rely fairly heavily on imported talent for their productions.

Respondents generally agreed that Nova Scotia lacks depth in the following key skill sets:

- DOP's (director of photography)
- Editors (especially for feature films)
- First AD's (Assistant Directors)

Other areas cited as weak included:

- Casting Directors
- Agents
- Stills photographers
- Production designers
- Picture editor
- Sound editors for feature films

Finally, many of the guest producers expressed the opinion that Nova Scotia did not have sufficiently experienced 'keys' or department heads and indicated that they were required to bring these positions in from Toronto. Another guest producer suggested that while Nova Scotia's crews were good, Toronto's were better and the only solution to this disparity would be a higher volume of uninterrupted work.

For indigenous producers, the survey focused on an assessment of readily available creative talent in the areas of writing, acting and directing. Again, most producers felt that while the Province has produced talent in all disciplines, the depth of the pool is inadequate and the opportunities for developing talent within the Province are too limited. This assessment was held generally by both producers of drama and non-fiction, though for documentary producers the situation appears less serious. Specific creative gaps identified include:

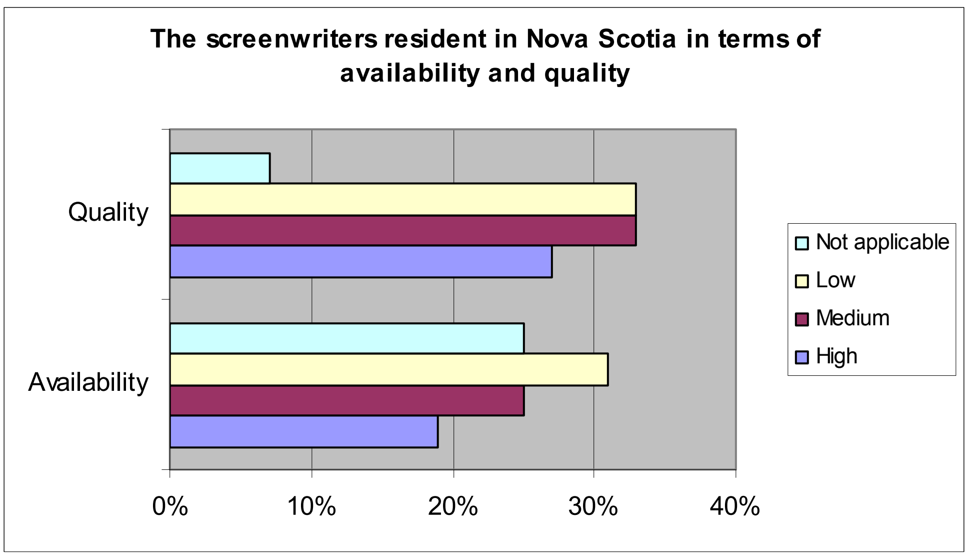
- Limited choice of professional actors
- Few fully professional writers, directors or other key 'above-the-line' personnel
- Absence of professional training

The greatest area of risk is the out-migration of acting talent to Toronto due to greater opportunities for work and career development. Furthermore, the absence of a well-developed sector of casting directors and agents who would support performers in the Province remains a significant impediment to deepening the acting pool in Nova Scotia. Again, the critical mass of production activity ultimately feeds these key functions within the industry – and without sufficient volume, it will be difficult to build viable agency or casting businesses.

It is commonly agreed that continuous production experience is the best way to improve one's skills, whether technical, acting, writing, producing, or other business or creative skills. When series production was in high gear (i.e. several at once), writers and actors get worked into the productions and increase their on-the-job experience. The absence of critical mass hampers the development of the skill sets that are fundamental to work at the highest quality levels.

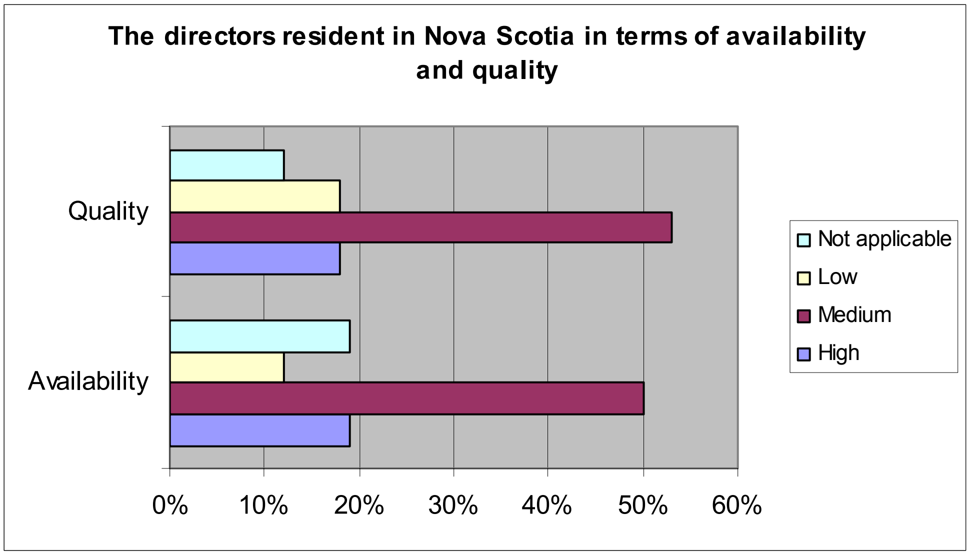
The following charts show the ratings provided by producers in the online survey:

Figure 33 Rating of Screenwriters



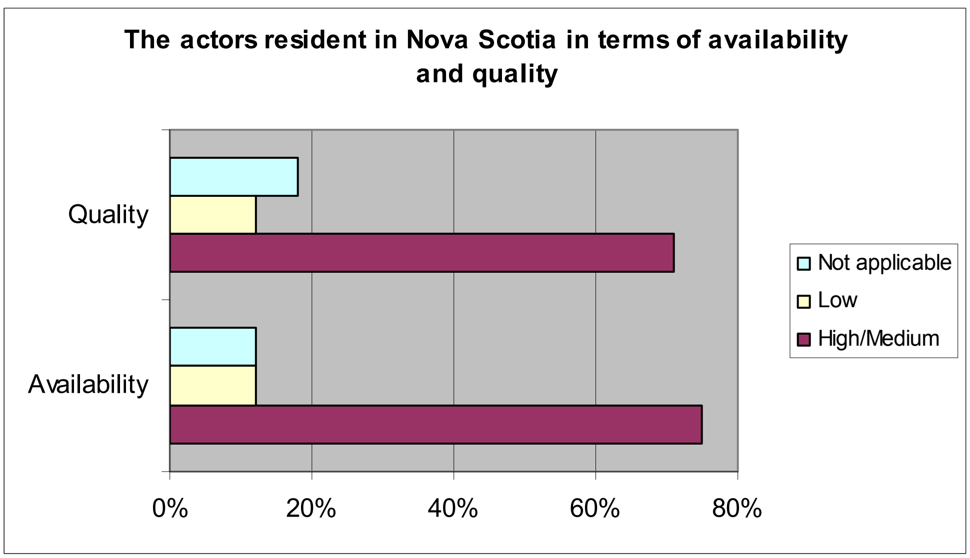
Source: Survey of Nova Scotia Film and Television Production Industry

Figure 34 Rating of Directors



Source: Survey of Nova Scotia Film and Television Production Industry

Figure 35 Rating of Actors



Source: Survey of Nova Scotia Film and Television Production Industry

In a meeting with ACTRA, some of the discussion focused on the growth in experience of the acting talent. Typically, a Canadian TV series would favour Toronto-based or other non-Nova Scotia talent at the outset. Gradually, for example the case of *Black Harbour,* local talent was inserted into good roles as the producers became more confident in the talent. It was mentioned, too, that there was not the critical mass of acting talent in Nova Scotia to drive the services of a locally based agent. So, in guest production opportunities, for example, Nova Scotia actors tended to represent themselves, which reinforced their image as not being adequately experienced or professional.

To some extent this same phenomenon applied to directors and writers. Indigenous TV series allow for opportunities over time, but short-term guest productions did not do so.

b. Dependence on inexpensive labour pool

While Nova Scotia's film and television crews were assessed by survey respondents, and in particular by guest producers (both foreign and domestic) as good, the issue of pricing of labour was identified by some as a problem. In some instances, Nova Scotia's producers are seen as 'undercutting' market prices in order to appear more competitive and to secure work. And, in the case of indigenous production, producers often feel obligated to discount their production costs in order to meet the lower budgets demanded by broadcasters. Clearly, the risk associated with these tactics over the long term is chronic undervaluing of the labour pool.

c. Competitive Position of Nova Scotia

All respondents indicated that the competitive position of Nova Scotia has slipped as compared to other provinces in the past three years. Concern was expressed that the provincial government's commitment to continued or increased support to the film and television industry appears to be flagging in favour of other priorities. Reasons identified for the loss of the Province's competitive edge include:

- Tax credit no longer unique, and versus some provinces no longer competitive – both in terms of level and in terms of application;
- Aggressive marketing and promotional strategies of 'emerging' provincial production centres (Manitoba, New Brunswick and Saskatchewan all cited).

A number of guest producers indicated that other provinces demonstrate a greater flexibility and increased incentives than Nova Scotia to help get a production made in their region. Concessions include a high degree of flexibility in the application of tax credits through 'deeming' of non-residents as residents, access to heavily discounted services and facilities, as well as greater access to equity funds. All guest producers named financing as the first determining factor in choosing a location to shoot; and therefore, the costs associated with moving a production to Halifax plus a reduced financial 'package' would make the Province less attractive overall.

d. Business Skills

A majority of Nova Scotia's producers pointed to the need to develop business skills in order to grow their businesses. Many expressed concern regarding the vulnerability of their businesses due to:

- Constant environment of uncertainty in the marketplace – mostly with regards to financing;
- Seemingly mercurial policy changes from governments with respect to Canadian content requirements, funding levels and criteria for eligibility;
- Lack of predictability in most aspects of the business cycle – from broadcaster priorities to government funding – prevents any kind of long-term planning.

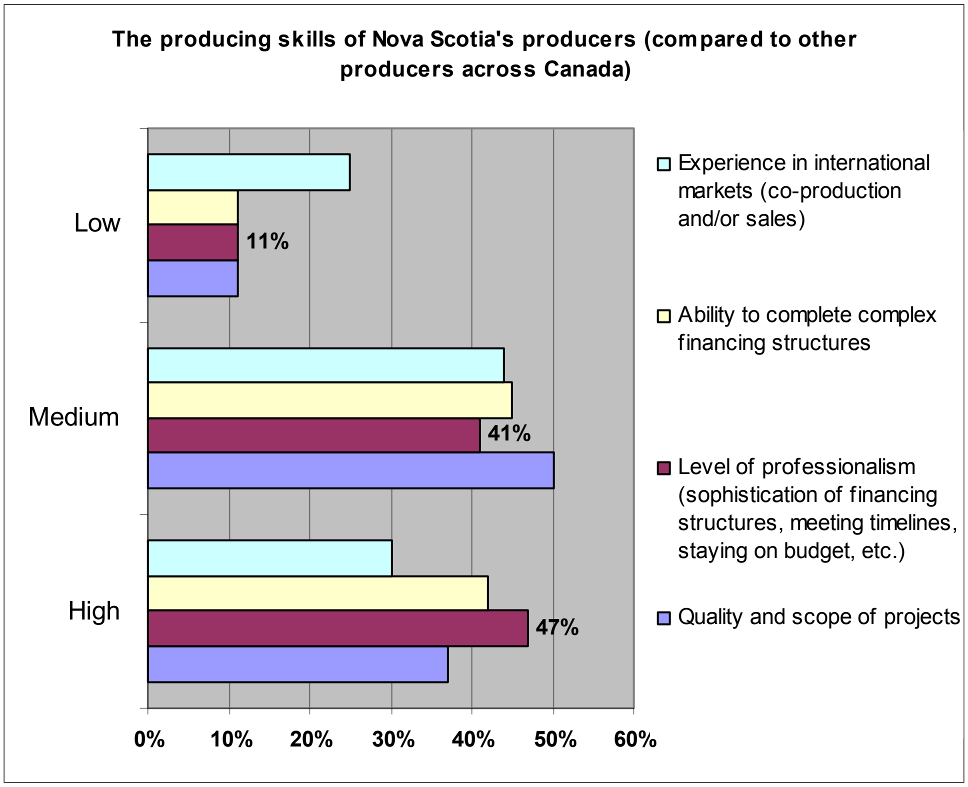
And, with respect to their skill set to deal with a high degree of uncertainty in the entertainment business, producers cited the following factors:

- Demanding administrative load (both accounting and business affairs) that goes along with government funding;
- Lack of pure business and legal skills in house to deal with growing level of complexity in the business;
- Limited to no experience with respect to financing companies;
- Insufficient time and resources necessary to develop a business plan;
- Project-focused not company-focused business;
- No interest from banks to invest in or provide bridge loans to production companies;
- Where producers have sought capital to grow their businesses, many cited little interest among local investment community in entertainment business which is considered high risk.

Broadcasters interviewed in the survey were invited to rate Nova Scotia's producers in terms of level of professionalism, sophistication in complex financing, and scope of creative projects. In general, broadcasters observed, and complimented, the extraordinary accomplishment and development of producers in Nova Scotia over the past ten years. In describing the Province's producers, broadcasters identified a clear division between a few highly rated and even exceptionally skilled producers and a much larger number of less experienced and less skilled producers. For this latter group, several broadcasters recommended partnering with more experienced producers in or outside of Nova Scotia as a requirement for production financing. Another broadcaster expressed concern that there is an urgent succession challenge in Nova Scotia and specifically, insufficient development of 'junior' producers by 'senior' producers. This broadcaster cited the mentoring and training programs in Manitoba where funding is provided to producers who hire less experienced producers in job 'shadowing'. Two broadcasters observed that as their networks turn to higher-budget, higher-risk projects in order to attract audiences, the number of producers in Nova Scotia that they consider qualified to take on such ambitious projects is extremely limited.

The non-producer respondents to the online survey had their own views on the ability of Nova Scotia producers as the following chart shows. On the whole, producers score quite well, earning a high or medium ranking for financial structuring abilities, level of professionalism, and quality/scope of projects. "Experience in international markets" drew a low ranking twice as much as for the other criteria, but there were still more highs than lows.

Figure 36 Producing Skill of Nova Scotia's Producers



Source: Survey of Nova Scotia Film and Television Production Industry

e. Absence of Local Broadcaster

Survey respondents pointed to the absence of a broadcasting entity headquartered in Atlantic Canada as a significant weakness in the industry. The advantage of proximity to the gatekeeper cannot be underestimated in the development of business relationships. While little can be done to rectify this structural issue, efforts to bring producers to the decision makers in Toronto and to bring those broadcasters to Nova Scotia remain of utmost importance.

A related deficiency is the absence of any new regional private funds, established as an "significant benefit" contribution by broadcasters pursuant to an acquisition. While we have already mentioned the notable efforts of CTV and the IFC in assisting local producers, the absence of a local broadcasting owner/management team and/or regional funds puts Halifax at some disadvantage to other jurisdictions in Canada.

f. Absence of Distributor or Distribution Expertise

The absence of a strong independent distribution company in Nova Scotia is another critical weakness in the industry's infrastructure. While the international distribution business in Canada has suffered setbacks during the past five years, there are still a number of companies in operation with the capacity to distribute, though few have any capacity to offer distribution advances. In addition, few producers in Nova Scotia have developed international sales expertise in-house. While a number of the survey respondents expressed the desire to develop international sales capability, most felt that they did not have sufficient resources, at this time, to build the capacity.

In an environment where international saleability of Canadian film and television projects is becoming more important (as demand for pure Canadian content dollars increases), many of Nova Scotia's producers are at a disadvantage with respect to other Canadian producers. Interview respondents identified several factors that perpetuate this situation:

- Focus on CBC – to the exclusion of more international-flavoured projects;
- Dependence on Canadian funding system – and its requirements for Canadian-focused projects;
- Lack of corporate funding to support development of international sales capability;
- Limited resources and principals feeling 'stretched to thin' to make international marketplace a priority.

g. Existing on the Periphery: Influence on Decision-Making

A majority of individuals interviewed expressed concern that Nova Scotia and the interests of the Province's production community are not well-represented enough in Ottawa and at the central agencies such as CTF and Telefilm Canada. Producers suggested that the Province's senior producers who in the past had committed significant amounts of time to lobbying efforts had not been replaced by the 'second wave' of producers and that this new group did not carry the same clout at the bargaining tables. Greater collaboration with other 'regional' provinces and an increase in funding for lobbying were two suggestions to address this weakness.

Nova Scotia's key weaknesses include the declining competitiveness of its tax credit, the shallowness of its talent pool, the relatively under-developed business skills among its producers, the absence of distribution and international sales expertise, and the limited influence the local industry is able to exercise in Ottawa and Toronto.

3.2.3 Discussion of the Opportunities and Threats

a. Opportunities:

Several opportunities for the film and television industry in Nova Scotia emerged from discussion with representatives from the industry. In an environment of competitive challenge from other provinces, Nova Scotia still possesses some important and distinguishing competitive strengths. The opportunities which Nova Scotia's producers face include:

- As the CRTC and federal agencies address new incentives for Canadian drama in 2005, Nova Scotia, with its track record of success in this genre, could be well-positioned to benefit from an increase in production orders.
- Similarly, on the specialty channel front, demand for lifestyle programming, reality and reality-soap or docu-drama programming, as well as lower-cost factual programming is growing. Again, several of Nova Scotia's producers have established excellent broadcaster relationships in the specialty channel arena and will be well-positioned to expand their production slates based on their record of previous successes.
- In the area of animation, the new, well-financed entrant – Cookie Jar Entertainment – could provide valuable service production and partnership opportunities for the Province's animation producers.
- The Ontario Government's recent announcement (May 18, 2004 budget) to maintain its tax credit at 20% with minor enhancements is a positive for Nova Scotia. Ontario's producers will continue to be highly motivated to seek regional co-producers.
- As NSCAD moves ahead with plans to introduce a graduate-degree-level Film Program, then Halifax will benefit from a new influx of young talent from across the country, and even internationally, on an annual basis.
- CHUM Television's recent acquisition of Craig Media will result in a benefits package (usually 10% of the purchase price.) Through the CRTC public hearing process, Nova Scotia producers and their colleagues in the rest of Atlantic Canada could argue that this $25 million one-time package be directed, in part, to regional producers.
- As the US dollar weakens against the Euro, it is likely that there will be recovery in the international television sales marketplace. Initiatives to improve Nova Scotian producers' expertise in the international marketplace will be more successful during an upswing in the market.
- Television commercials are making somewhat of a comeback as a source of revenue for Nova Scotia talent. About 10% of ACTRA fees are derived from commercial production (in the most recent year, $420,000 in gross fees). The local ad agencies are a strength as well, e.g., the Halifax Extreme Group won nine Craft Awards at this year's Bessies in Toronto.

b. Threats:

While there are many opportunities to seize in the next five years, there are also significant threats that could destabilize Nova Scotia's film and television industry. The most immediate threats to the health of the industry include:

- Nova Scotia's leadership position among regional centres of production is lost to another province and competition for guest production becomes more fierce.
- Nova Scotia's government, under continuing fiscal pressure, curtails its current level of support to the film and television industry; in fact, the need to feed the persistently growing health care budget was viewed as a major factor affecting any potential new initiative in film/TV production or any other area of activity.
- The recently elected minority government at the federal level does not focus on cultural policy and initiatives to the same extent as previous governments and programs such as the CTF are cut back or cancelled and agencies such as the CRTC or CBC are substantially eroded.
- Nova Scotia's producers are unable to access capital to grow and stabilize their businesses.
- Further decline in guest production due to appreciating Canadian dollar; competition from other jurisdictions; and US campaign against runaway production.
- Further decline in the total annual production activity in the Province leads to exodus of talent, crew and producers to other parts of the country seeking work.
- CBC continues to lose market share and shifts its focus from continuing series to fewer, large-scale event programs; or CBC faces further budget cuts and further rationalizes national production.
- Private broadcasters shift to more commercial higher-budget projects and Nova Scotia's producers, because of a lack of experience in these types of productions, do not qualify for them.

While the participants in the film and television industry point to the successes of the sector and its growing contribution to the economic and socio-cultural fabric of the Province, the realities of fiscal constraints that the Province faces cannot be ignored. Positioning the film and television industry high on the list of priorities for the Province remains the single greatest challenge of all for its stakeholders.

Nova Scotia possesses a number of outstanding competitive features and advantages. However, the film and television industry has 'gaps' in competencies which require attention and further nurturing. In a volatile environment, Nova Scotia's production community must be quick to seize opportunities and fend off threats.

3.3 History of Government Support

a. Impact of Government Investment on Nova Scotia

Since the creation of the NSFDC in 1990 and the introduction of the provincial tax credit in 1995, the film and television industry has experienced considerable growth. In each of the past five years, Nova Scotia's film industry has exceeded $100 million in production activity, employed over 2000 Nova Scotians per year, and supported numerous small- and medium-sized businesses.

The NSFDC's annual budget appropriation – which is directed at indigenous production – has fluctuated year to year over the past 5 years. The agency's budget for support to local projects has declined from $2.6 million in 1999 to $1.8 million in 2003. The average amount of local production that benefited from the NSFDC's annual allocation is $34 million, but peaked at $49.8 in 2002. In fiscal 2004, the amount of local production dropped to $33 million.

b. Assessment of NSFDC's programs

Overall, the NSFDC, its administration and its programs ranked highly among producers. The most common complaint was the fixed and declining amount available for equity investments and development. Many producers, especially emerging ones, believe that more of the NSFDC's funding should be directed to script development. Many indigenous producers do not necessarily support the agency's focus on marketing and attracting foreign location production. Most of the programs of the NSFDC were judged useful or valuable and comments emphasizing one program over another tended to reflect the particular position of the interviewee.

c. Assessment of the Tax Credit

And, as described earlier, the introduction of a highly competitive tax credit allowed Nova Scotia's production community to spring forward in indigenous production as well as attracting on average $49 million per year in foreign location production over the past five years. In fact, the tax credit has become a critical component in the financing of film and television production and is assessed by producers in the following way:

- The best instrument of support because it is dependable and objective in its application;
- The most powerful financing tool because it is 'first money in';
- Need to improve speed of processing and payment;
- Rural tax credit not that useful as differential just covers cost of moving a production and does not provide an added incentive to shoot outside of Halifax;
- Need to consider deeming and greater flexibility in application of the tax credit;
- All the producers interviewed indicated that without the Nova Scotia tax credit their production activity would drop to zero.

A majority of producers interviewed indicated an increase in the tax credit as the most desirable action of government in support of the film and television industry. In the online survey, two-thirds of the producers rated it first as the single most valuable incentive, and another quarter of them rated it second. Forty percent also rated "more production financing" as "first" so there is some overlap on what financing is important, but not over whether it is important.

> ***Tax credit, equity investment in productions and development funds are ranked as top instruments of government support by Nova Scotia producers.***

3.4 What Does the Future Look Like?

The stakeholders in the film and television sector in Nova Scotia looking forward must identify key measures in a long-term strategy in order to maintain and grow the industry. As described, the entertainment business is a highly volatile industry – subject to rapid shifts in audience and market demand, technological change, and a range of external market influences. Within this context, the demands on the Province must also be weighed as priorities are established for future economic development in the region.

To summarize, the external factors that will frame the environment for the future development of the Nova Scotia production industry include:

- Evolving buyer-seller market structure of the global and Canadian market, and the nature and level of demand for product that Nova Scotia can produce;
- Government policies in foreign countries as well as federal and other provincial policies affecting the financial and structure of support for film and TV production;
- Technology developments and new products that can substantially alter the production, distribution, and consumption of film and video product;
- And closer to home, the level of priority that the film and television industry – relative to other engines of economic growth and social policy demands – is accorded by the Province.

To assist the development of the most effective strategy for Nova Scotia, it is useful to forecast what type of production environment there will be over the next three to five years. Since such a complex environment cannot be forecast with any degree of certainty, we have proceeded by sketching alternative scenarios, each reflecting some mix of the principal drivers identified above.

3.4.1 Scenario One: No Action - Continued Slide

The first scenario describes a future where federal and provincial governments are less inclined to support Canada's cultural industries given shifting priorities. In addition, with increased demand on diminishing funds, policy-makers are forced to make hard choices and only the most 'culturally-significant' projects receive funding. Under Scenario One, Canada loses ground to international competitors and restricts its support to the domestic-focused industry.

- *Canada's past leadership position on the global stage in terms of audiovisual exports continues to decline due to inability to build distribution-driven model;*
- *Other countries recognize importance of film and television sector while Canada and its provinces do not adequately respond to the growing competition;*
- *No new policy direction or money in the system – governments retrench and only support culturally-significant projects.*

In response to this environment, Nova Scotia would consider really focusing on domestic production and retaining industry's positioning with CBC, and perhaps more tightly aligning Atlantic Canada's support systems for guest production.

3.4.2 Scenario Two: Action Results in Modest Recovery

Under Scenario Two, the federal and provincial governments respond to increased competition around the globe and maintain or increase funding to the film and television sector. As a result, the sector recovers from the recent slowdown and growth resumes; there is a modest recovery in Canada, though it would not necessarily be even across Canada and across genres.

- *National and international demand for film and TV programming show growth and license fees sustained with modest growth;*
- *Competition for guest production intensifies and Canada and provinces maintain or adjust present incentives without materially changing their budgets;*
- *There are some improvements overall in funding for Canadian production. There is greater policy and regulatory coherence that supports Canadian production;*
- *Canadian government puts major emphasis – new funds, new regulatory incentives - on indigenous drama.*

In response to this scenario, Nova Scotia would focus on indigenous production, building more capacity to undertake series drama/comedy, building mid-sized firms, relationships with a broader group of Canadian broadcasters.

3.4.3 Scenario Three: Commercial Success Becomes the Dominant Paradigm

Under Scenario Three, governments attempt to address chronic under-performance of Canadian content programming with respect to market share and audiences. As a result, incentives and funding begin to target more commercial, higher-budget projects. This process is already underway in feature film since the new Feature Film Policy in 2000 and as a result of the broadcaster-led envelope system created for parceling out the CTF funds to all CTF-supported genres except English-language drama. In this scenario, however, it dominates the policy direction as Canada races to stay competitive in the international entertainment marketplace.

- *Public policy shifts evaluation criteria and incentives to commercial product;*
- *Emphasis on fewer, higher-budget, commercially oriented feature film projects and ratings driven TV projects;*
- *Producers work more closely with broadcasters and specialize in low cost specialty fare or TV series with international prospects.*

In response to this scenario, Nova Scotia would focus on building the international business capacity, partnering with Canadian producers who have the international relationships; developing relationships with Canadian private broadcasters, and building guest production.

3.4.4 Scenario Four: Technology Drives the Future

Scenario Four describes a future where the current production and distribution model in the film and television industry are altered substantially in the near term by the rollout and adoption of "content on demand" broadband systems, and by the same file sharing behaviour that has bedevilled the music industry. At the same time, consumers take up HD at an accelerating pace, forcing broadcasters and producers to produce in complementary formats. Commercial success relies more on ancillary gaming, wireless and interactive tie-ins. Digital production technology is a must to keep costs down and take advantage of new distribution business models including video on demand and E-cinema. Canadian content regulation and funding conditions are less effective in this volatile technology driven environment.

- *Rapid acceleration in the adoption of new delivery systems, including e-cinema;*
- *Broadband piracy proves to be as disruptive as in music business;*
- *New media/interactive provides greater stickiness;*
- *Production moves mainly to digital.*

In response to this scenario, Nova Scotia would try to develop more effective linkages between producers and software, gaming, interactive, and other new media companies. Tighter linkages with the music industry in development and promotion would form part of a broader strategy as cross-over projects emerge.

3.5 Strategy and Vision Roadmap

While the external environment may be volatile, difficult to predict and constantly changing, it is important to emphasize that the Province's investment in its film and television industry to date has reaped enormous rewards and benefits. The total economic impact combined with socio-cultural benefits has been outstanding. Halifax has held a leadership position as the 4th largest production centre in the country and gained a reputation as the source of some of the country's most creative and successful talent. There is a 'virtuous circle' that has been established where the Province's investment has fostered talent, which in turn produces success, which in turn attracts more talent to produce more success. It is this positive momentum that the strategy for the next five years will attempt to capture and build upon.

Canadian broadcasters surveyed in this study all noted and applauded the unique 'voice' of Nova Scotia's producers and creative talent. While there are 'gaps' in infrastructure and there is a need for development in certain areas, the industry as a whole demonstrates distinct competitive advantages. Ultimately, support to the film and television industry will give life to the many 'voices' and stories of Nova Scotia and will drive further economic and socio-cultural benefits.

Clearly, the future of the global and national film and television industry will unfold in ways that cannot be predicted at this time. Similarly, the priorities of the Province will play a key role in the future of the industry. As a result of this dynamic situation, we propose a strategic vision for Nova Scotia's film industry that best accommodates any combination of the scenarios described above.

3.5.1 Strategic Vision for Nova Scotia

The strategic vision for Nova Scotia – to the extent possible - must be immune to the volatility inherent in the film and television business. While provinces, states, and countries jockey to attract valuable foreign location production, Nova Scotia must also plan its course with a strategy that addresses the structural foundations of the industry and its long-term viability. The strategic vision cannot be a 'quick fix' to address today's immediate threat, but should aspire to a greater goal of continuing to build a vibrant, viable and self-sustaining industry.

As a result, we are proposing a strategic vision for Nova Scotia that is rooted in the private sector – in the entrepreneurs who will drive the business. The strategic vision proposed combines the following:

- *The strategic vision for Nova Scotia is to foster a <u>highly entrepreneurial culture</u> among existing and emerging producers to enable them to reach the next plateau in maturity as an industry.*

- *The vision for the industry is to <u>grow a few mid-sized production companies</u> with a revenue volume of $10-30 million annually, supplemented by a couple of dozen of emerging producers with $1 million + production – that are constantly challenged by an influx of new entrants to the business.*

- *The vision is for the Province to achieve sufficient breadth that it can operate successfully in <u>different segments of the industry</u> that require different skills and levels of support. The sector can build on strengths developed already, e.g., the larger budget drama/comedy TV series vs. the lower budget lifestyle/documentary genre programming for feeding the specialties vs. guest production in MOWs and movies.*

- *The vision for the industry is to develop skills among production companies in the areas of <u>business development as well as distribution and international sales expertise</u> to allow them to compete more effectively on a global level.*

- *This entrepreneurial and skills-driven vision covers as well the development of the <u>talent and technical infrastructure</u>, elements that are vital to any serious growth ambitions.*

This entrepreneur-based strategic vision encompasses the survival and growth of the industry that will depend on the ability of the Province's producers to move toward market niches and opportunities as they develop. As well, Nova Scotia-based producers need to partner in order to compete in a more commercially oriented feature film industry, the foreign location business, and for supplying domestic broadcasters with exactly the kind of product that meets their scheduling needs.

The growth of a few firms into the mid-size ranks will help professionalize the industry, and lower the vulnerability to market forces, or to the sudden fall of any particular firm. The profile of the industry structure in the main production centres in Canada shows that there is a mix of small, medium and large production companies which provide a full range of experience and capabilities in production. While it is not expected that Nova Scotia could reach a similar plateau, taking companies to the next "mid-size" level is an important part of the strategy and thus the vision as stated.

How does this vision measure against the different futures scenarios? Obviously, it fares better if the production industry is firmly supported at all three levels of government. However, an entrepreneurial and professional approach will enable Nova Scotia producers to seize the opportunities that arise, possibly earlier than others and thus retain a competitive advantage. At the moment, the industry is possibly more suited to thrive in a heavy 'Cancon' environment than in a more commercial/international one. Thus, the element of partnering with Toronto-based or other larger production companies is required in case and to the extent that international markets and co-productions become the chief imperative. Organizational flexibility, adaptability, and staying power will also be the chief bulwark against losing ground in a technology driven future.

In order to frame the strategic vision, we have articulated two goals for the Five-Year Strategy. The first goal is to maintain and to secure the accomplishments and investment made by the Province and Nova Scotia's industry to date. The second goal is to build upon the accomplishments of the past ten years and to embark on a new growth phase for the industry in Nova Scotia.

GOALS:

#1 MAINTAIN NOVA SCOTIA'S LEADERSHIP POSITION

To ensure that the province sustains its no. 1 status outside the three major film and television production centres in Canada. This means a faster rate of growth than other areas of Canada, and tight focus on what NS-based producers can do well.

#2 EMBARK ON A NEW GROWTH PERIOD

To enable Nova Scotia to attain critical mass, another <u>$50-75 million</u> in annual production would be highly beneficial. To achieve this objective within the next five years, it would require a year-over-year growth rate of 10+%. While several small and large provinces have shown this growth rate, especially in the late 1990s, realistically it would likely mean growing at a rate that is <u>double</u> that of the film and television production industry in the rest of Canada.

To meet these goals will require investment and commitment to grow and develop the industry – production companies and new producers, crews and facilities, and Nova Scotia actors, writers, and directors. It means synchronizing the energy in training and skills development, marketing and brand development, and domestic and international partnering. The gaps that have been identified earlier must be addressed through an interrelated set of initiatives as outlined in the following section.

If Nova Scotia makes the kind of investment and commitment as outlined above, there is no guarantee that the goals will be reached. If external factors are favourable reaching these goals should be quite possible. If they are unfavourable, the investment will pay off if it manages to sustain the existing level of production. In either case, a long-term commitment will bring rewards to this vital sector of the Nova Scotia society.

3.5.2 Recommended Initiatives for Nova Scotia to Achieve the Vision

In order to achieve the dual goal of maintaining Nova Scotia's leadership position among all the regional provinces and increasing production levels by approximately 10% annually, requires a combination of initiatives that address the following:

- Development of production companies;
- Focus on training and strengthening of infrastructure;
- Shift from production-driven to distribution-driven model in support to industry;
- Maintaining key competitive tools in growing production activity;
- Improved marketing of the Province.

Wherever possible, we have identified the associated costs of introducing a proposed initiative. In some cases, more analysis and industry consultation or provincial discussion may be necessary before implementation is possible.

The recommended initiatives for Nova Scotia to achieve its dual goal of maintaining its leadership position <u>and</u> embarking on a new period of growth for the film and television industry are:

a. New Focus on Enterprise Development

The key drivers in the film and television industry are the entrepreneurial individuals and producers who manage the day-to-day complexities of the creative process, financing, and actual production. Nova Scotia's production companies will be the engine of growth over the next 5 years and most agree that in order to build their businesses, they require more business skills, more planning, and access to capital.

- *Expand the current assessment of enterprise development in the eligibility criteria in project equity investment (for example, introduce the participation of an external financial planning expert);*
- *Introduce a formal assessment process of business plans and corporate strategies set out by applicants to NSFDC programs;*
- *Create a formal business development 'envelope' or fund for film and television production companies either within the NSFDC or in association with an existing lending entity (A pilot program of 3 loans of $150,000 each is recommended.).*

Other provinces have realized that enterprise development should be strengthened. For example the Manitoba Motion Picture Industry Association has launched a program to lead producers through the development of strategic plans (Manitoba Music & Motion Pictures Development Project). In Alberta's rebate program, emphasis is placed on companies that retain at least some territorial rights in order to build up the value of the production companies themselves.

At the national level, the Department of Canadian Heritage is beginning to recognize cultural producers should be the focus of attention in addition to cultural production. For example, Telefilm Canada manages the Music Entrepreneur Program created two years ago, which finances the expansion and growth of Canadian music production companies.

The Canadian Film and Television Producers Association (CFTPA) is also focusing on this issue via a survey of the working capital, equity, and other financial needs of its members. The outcome is expected to be a campaign to influence funding policies that will improve the viability of production companies.

b. Investment in Skills Development

The development of specific skills – at the talent and crew level – requires a longer timeframe and a growing critical mass of production activity within which individuals can be trained and gain experience.

- *Formalize industry consultation via the Film Taskforce with NSCAD as it develops its Film School strategy and program; and the other education, training and skill development organizations – AFCOOP, NSCC, MIG, CFAT, and the Atlantic Film Festival;*
- *Review the benefits of the Ontario Apprenticeship Tax Credit initiative and consider an additional tax credit bonus for the training of local crew members in identified priority positions (First AD, Director of Photography, for example);*
- *Consider the creation of a Mentor Funding initiative for the placement of 'junior' producers with 'senior' producers on larger scope, higher budget productions;*
- *Review current assistance to organizations (AFCOOP, MIG and CFAT) and identify opportunities for greater collaboration, coordination and planning of skills development programs between these groups;*
- *Work with one of the training organizations to develop a comprehensive program of Producer Skills Development courses;*
- *Extend the strategic partnering program for Nova Scotia producers with more experienced producers across Canada – and consider a 'matching' program for first-time filmmakers;*
- *Work with the Atlantic Film Festival Association as it prepares its own ambitious five-year plan, to ensure complementary initiatives to support skills development.*

Education and training are perceived to be important in all other Canadian provinces in this sector. It is recognized that there is no substitute for practical experience and on-the-job training in the film and TV production industry. However, where there are gaps or lack of depth in the creative and business elements of production, focused training assumes even greater significance.

c. Encourage International Distribution and Sales

The need to reorient Canadian producers from exclusively domestic production to broader international production has become necessary as demand for limited domestic funding increases. The same applies to Nova Scotia where Canadian content production has been the primary focus of many of its producers. Ultimately, success in the international markets and improved recoupment on investments in film and television projects will result in more funds being available for new productions.

- *Review the emphasis of the NSFDC's current programs with an eye to reposition their emphasis to encourage a greater focus on international sales training and expertise;*
- *Assign $100,000 per year of the NSFDC's current budget to International Sales and Distribution Initiatives;*
- *Consider individualizing the Trade Mission model as per the approach of Nova Scotia Business Inc. for a focused approach and improved results with larger more experienced companies only. (This would be an additional service to the broader-based introductory missions for groups of emerging producers.);*
- *Introduce pre-market attendance coaching and workshops for first- and second-time producers;*
- *Reward development of international sales and financing expertise among midsize companies by targeting equity investments to projects that bring external financing to the table;*
- *Provide matching seed funding to eligible production companies for the development of international sales capability in house (hiring of sales personnel) and/or for the outreach effort to secure third-party distribution on Nova Scotia-supported programs;*
- *Maintain and even expand the international sales companies and distributor forums held in Nova Scotia.*

Other provincial jurisdictions are placing substantial emphasis on making their production industry more competitive in the international marketplace. Because of the large impact of the CBC and specialty-TV services as buyers, Nova Scotia producers on the whole would not have been as exposed as others. However, initiatives like the Strategic Partners conference, hook-ups with international savvy production companies, and participation on foreign missions indicate the international predisposition does exist for Nova Scotia producers.

In terms of implementation, one initiative in Western Canada is interesting to note in terms of the concept of foreign sales and international distribution. Several Western Canadian companies collaborated in the development of a business plan for the creation of a foreign distributor specializing in the high-end documentary genre. Some version of this collaborative initiative may be applicable to Nova Scotia.

d. Competitive Tax Incentives

The results of this study indicate that the tax credit is the most direct and effective instrument of support currently available in the film and television industry. In order to set in motion a renewed growth cycle for the Nova Scotia film industry and to maintain its leadership position, the level of the current tax credit will have to be revisited. The following measures are recommended:

- *Increase the tax credit incentive base by five percentage points to 35%. This measure carries an approximate cost of $1.3 million for existing production and 10% increase on the new base every year (As per the Nordicity Impact Assessment, of course, most, if not all, this tax incentive is recovered from future tax revenues.);*
- *Maintain the regional tax credit bonus of five percentage points (therefore, raise it from 35% to 40%);*
- *Introduce additional five percentage-point bonus to address key areas of policy importance including: one-time bonus for first-time feature filmmakers or one-off documentaries for emerging talent; bonus for indigenous producers who bring international financing to their budgets; loyalty program for frequent guest producers (over 3 shoots in Nova Scotia);*
- *Consider introducing greater flexibility in the application of tax credits among the Atlantic Provinces (e.g., deeming) to attract more guest production to the region and to foster greater collaboration between producers, crew and talent in the region;*
- *Extend the current new media tax credit (now restricted to film- and television-related projects) to include pure new media projects, such as video game development.*

Any review of the impact of tax credits on the production sector can quickly conclude that there is a strong correlation between production levels and tax credits. As Pauline Couture noted in a recent report commissioned by the Ontario Media Development Corporation in Ontario, some $710 million of potentially Ontario-based production is estimated to have been lost to other provinces over the last three years, representing 57% of Ontario's total domestic production. While there are several contributing factors, the most important one is the lack of competitive financing in relation to other provinces (including Nova Scotia).

Quebec has also suffered as a result of the lowering of its tax credit, and Alberta proved the point by the virtual disappearance of production after killing its incentives a few years ago. Alberta has now reinstated a program that operates as an up-front rebate for production, which also credits <u>any</u> expenditure in Alberta. Other provinces are arranging loan guarantees and other devices to enable producers to bridge the time gap it takes to collect the tax credit.

With respect to new media, the federal government has added program incentives for new media as part of Telefilm Canada's mandate. Some provinces, like Ontario include new media among the eligible beneficiaries of tax credits, although the latter has not been very effective as yet to induce companies to use the tax credit for new media production. Nova Scotia would be in the vanguard among provinces using the tax credit system to boost new media.

e. NSFDC Funds for Equity Investments and Development

The results of this study clearly point to a demand for more funding for the NSFDC, for both its equity investments and especially development funding.

- *Increase NSFDC funding level by 5% in each of the next five years – at a total cost of under $700,000 – to allow local production activity to grow to approximately $36 million per year;*
- *In the absence of new funding for the NSFDC, the agency should consider re-aligning its programs and cutting some of its activities in order to focus on the new initiatives recommended above;*
- *In an environment of increasing competition among indigenous producers for limited funds, the NSFDC will be under growing pressure to declare its priorities through its funding practices. The NSFDC should consider whether an 'envelope' system could improve the communication of its objectives and priorities with the community. A clear allocation of its funds between emerging filmmakers and more experienced producers with a track record, between development and production funding, and even between genres of programming, would be based on the NSFDC's ongoing assessment of the production environment in the Province;*
- *Linked to the 'envelope' system, the NSFDC may wish to consider the creation of a 'bonus' or 'top-up' fund which would provide additional equity (perhaps to a maximum $50,000) for projects with confirmed international pre-sales in the financing (this measure could be an alternative to a tax credit bonus);*
- *In the case of more experienced producers, the NSFDC should consider introducing eligibility criteria for returning producers which would include return on previous investments, international financing secured in budget, audience ratings.*

Equity programs are relatively the exception in provinces across Canada. Some budgets are so small that most of the assistance is for smaller producers. Nevertheless, equity programs are highly regarded as ways of sustaining competitiveness in the attraction of projects to a particular jurisdiction. Although not a large budget, Nova Scotia's equity program is a third to half the amount of tax credits granted to producers for indigenous production. Designing equity programs more along the lines recommended above would enable the Province to support corporate development through the project financing process.

f. Marketing the Province

In an environment of increased competition, selling Nova Scotia to guest production companies in other parts of Canada, the US and in Europe is a top priority.

- *Increase the spend on Marketing and Advertising from 6.6% of budget to 10.0% of budget;*
- *Focus on word-of-mouth campaign: for example, include contact information from US producers (as references) in Production Guide;*
- *Include guest producer reference section – target domestic guest producers - on website;*
- *Include the marketing of the province's capabilities for television commercial production;*
- *Transfer some portion of the responsibility for direct marketing to studios and US/European producers from the NSFDC staff to Nova Scotia's producers (i.e. send producers on specific 'selling' trips) in order to foster personal relationships between production companies;*
- *Increase collaboration with other Atlantic Provinces for combined marketing spend; linked websites; location guides; group ad buys; increased ACOA funding in support would be useful;*
- *Expand efforts to attract US independent films to the region and introduce an 'Indies Shoot in Nova Scotia' campaign focused on US independent feature film sector.*

Other provinces are as active as Nova Scotia in this area, if not more so. One lesson learned is the use of provincial Ministers and even Premiers to support the export activity, which is of course what the forthcoming Los Angeles trip by a Premier-led Nova Scotia delegation is designed to accomplish.

g. Outreach to Canadian Buyers and Federal Decision-Makers

- *Part of the loyalty program, partnerships, and marketing to buyers should be oriented to Toronto-based network broadcasters*.
- *Invest in Ottawa-Toronto lobbying efforts at the highest levels: engage senior executives in industry and government to get Nova Scotia's message out*.
- *Consider allocating funds to Atlantic association of funding bodies to step up lobbying efforts beyond current volunteer level*.

With regional funds fairly widely embedded in the federal support system, the efforts of Nova Scotia and other "regional" provinces need to be sustained and agendas promoted. The targets are the CRTC, CTF, Telefilm Canada, Canadian Heritage, and the CBC. Each has different approaches to support regional production, and these organizations are apt to make changes without fully considering the consequences for individual regions.

3.5.3 Implementation Plan and Timeframe

With respect to implementation, it is suggested that the Taskforce itself should work with the recommendations in this report. From this analysis and other inputs, the following plan is recommended.

a. Set priorities among the initiatives

The key priority will be the extension of the tax credit, including the capability of adding flexibility to its application. The second priority is to establish new enterprise oriented guidelines to the equity program. The third is to pull together the educational, training and skills development organizations for more concerted focus and action. The fourth is to develop an event calendar, target markets, and marketing approach for aligning Nova Scotia producers to key clients and partner production firms.

b. Develop road map – timetable and implementation plan

This requires fitting into the budget cycle for the tax credit extension, and working through the revised guidelines before next production cycle.

c. Develop measurement framework to evaluate progress

Establish annual cost-benefit analysis measurement – productions that produce the highest return and enterprise development.

d. Communicate plan to key decision-makers

Work with Taskforce on a communications and consultation program around strategy.

As a concluding remark, it is proposed that the key to raising the level of production is to establish an environment which can lead to more sustainability and predictability. As the human capital base in Nova Scotia matures in this industry, it will reach a more self-sustaining position. While project related assistance will always be a part of the production environment, it will achieve a higher benefit-to-cost ratio in a more mature human capital base and enterprise environment. Once production has reached a certain level of activity, Nova Scotia could even become a net importer of talent rather than a net exporter. From a cost-benefit perspective, the "cost" of supporting the industry should decline in relation to the depth and breadth of the activity. Nova Scotia has not yet reached that stage, but would be better positioned at the proposed target level of annual production, and thus more likely to improve its return on the annual investment in this industry.

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Glossary of Terms

Atlantic Canada	The region that includes Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland.
Direct Employment (Jobs)	Refers to the number of jobs or FTEs directly involved in the production of television programs and feature films.
Direct Impact	The economic impact attributable to expenditures on film and television production in Nova Scotia.
Domestic Production	Films and television programs produced by Nova Scotia residents.
Full-time Equivalents (FTEs)	A unit of measure used to quantify the number of persons employed in an industry if all the persons employed held a full-time job.
Guest Production	Films and television programs shot on location in Nova Scotia by producers who are not residents of Nova Scotia.
Household Income	The sum of all wages earned by persons employed in a particular industry.
Indirect Employment (Jobs)	Refers to the jobs created in other industries by the economic activity generated in the film and television production industry. It includes all jobs created outside of production companies. It includes jobs across all other sectors of the economy such as the services, retail and construction sectors.
Indirect Impact	The economic impact associated with the total value of the output generated by suppliers to film and television production activity in Nova Scotia.
Induced Impact	The economic impact that occurs when the wages (household income) earned at the direct and indirect impact stages are spent throughout the Nova Scotia economy.
In-House Broadcaster Television Production	In-house broadcaster television production refers to spending on productions conducted internally by private conventional television broadcasters, the CBC, and specialty and pay television services.
Input-Output Analysis	The use of an input-output model to measure the economic impact that a stimulus in one sector of the economy has on other sectors of the economy and the overall economy. An input-output model is comprised of a set of equations that map the inter-relationships of industries and households within a regional economy.
Spin-Off Impact	The sum of the indirect and induced impacts generated by an economic stimulus.
Volume of Production	The volume of production refers to the total expenditures on film and TV production. (i.e., the sum of all the production budgets).

Appendix A - Impact Analysis

1. Introduction

1.1 Background

The NSFDC and the Film Industry Tax Credit

The Government of Nova Scotia has a long history of involvement in the promotion of the Province as a place for film and television production. At the centre of this support infrastructure is the Nova Scotia Film Development Corporation (NSFDC) which was created in 1990 under the Film Development Corporation Act.

The NSFDC is a Provincial Crown Corporation reporting to the Minister of Economic Development. The corporation's activities are directed by a Board of Directors, appointed by the Governor in Council.

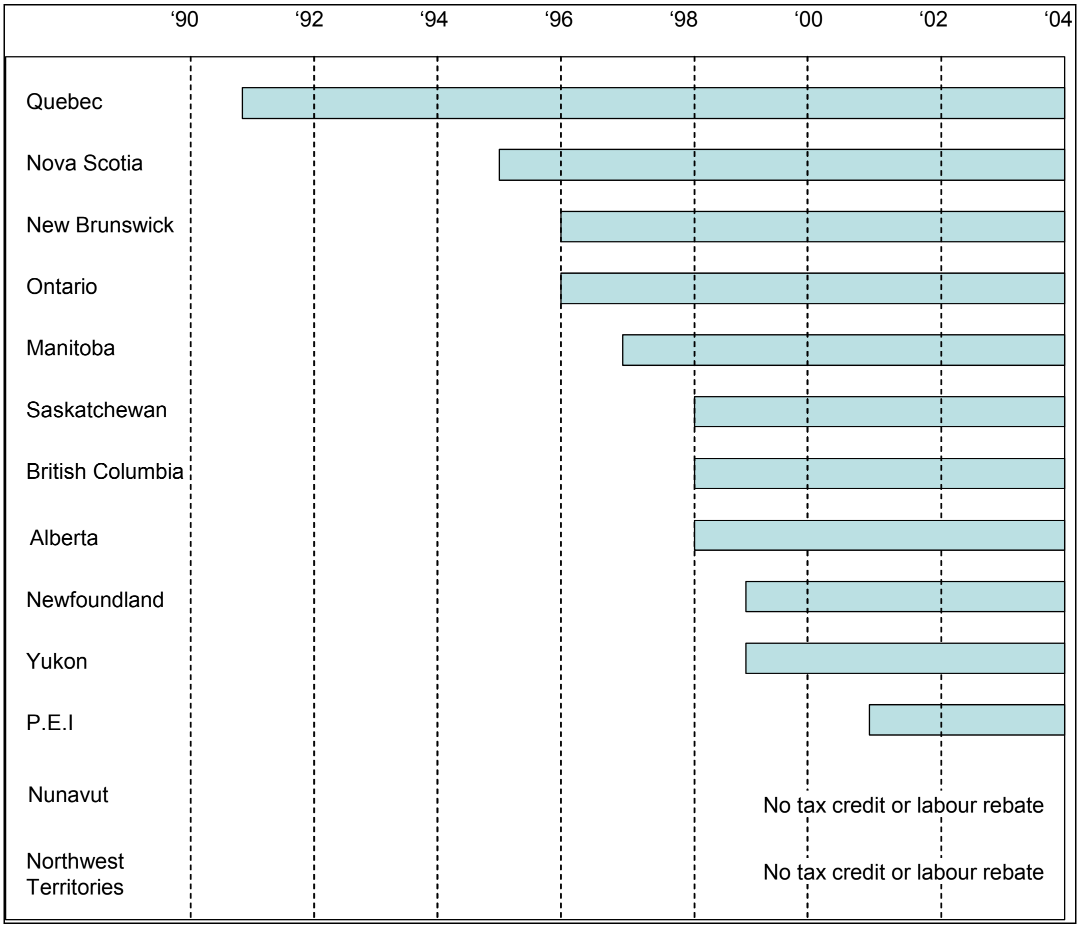
The NSFDC's primary mandate is to:

> *"Grow Nova Scotia's film, television, and new media industries with our partners by stimulating investment and employment and by promoting Nova Scotia's producers, productions, locations, skills and creativity in global markets."*

The NSFDC administers the Nova Scotia government's Film Industry Tax Credit (FITC). Like many other provinces in Canada, the Province's tax credit is the primary tool for attracting and stimulating production activity in Nova Scotia.

Nova Scotia was one of the first provinces to adopt a tax credit to support film and television production. When the provincial government introduced the FITC on April 1, 1995, the only other province with a tax credit was Quebec. Since the introduction of the Nova Scotia FITC, seven other provinces and one territory have implemented tax credit or labour rebate programs for film and television production.

Figure 37 Provincial Tax Credits and Labour Rebates, Dates of Introduction

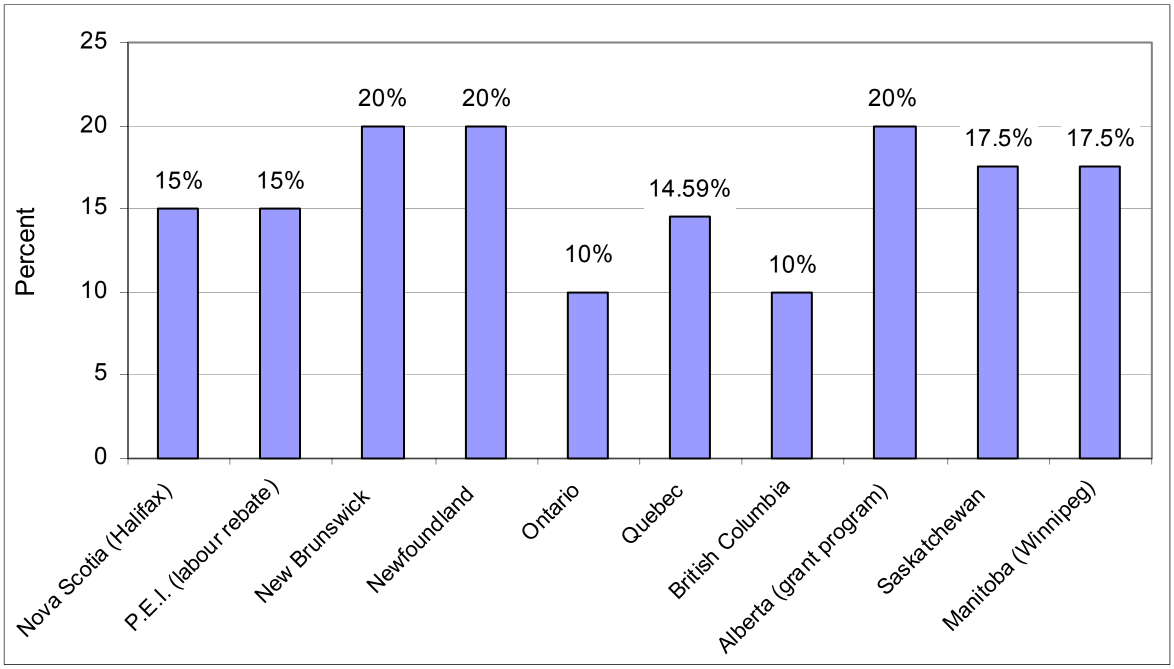


Source: Goodmans LLP, *Playback,* and Alberta Film

Since April 2000, the Nova Scotia FITC has operated with a bifurcated structure. Production spending in the Metro Halifax region is eligible for a 30% tax credit up to a maximum of 15% of the total project budget. Outside of Metro Halifax, the tax credit rate is 35% and the ceiling is 17.5% of the project budget.

Today, Nova Scotia's FITC (Halifax only) translates into a maximum credit equal to 15% of total production budgets (assuming 50% of the budget is spent on labour). This rate puts the Nova Scotia FITC higher than Ontario, British Columbia and Quebec, but lower than New Brunswick, Newfoundland, Saskatchewan, Alberta, and the rate for Manitoba productions shot in Winnipeg as well as in that province's rural areas (productions shot in rural Manitoba are now eligible for a 5% bonus).

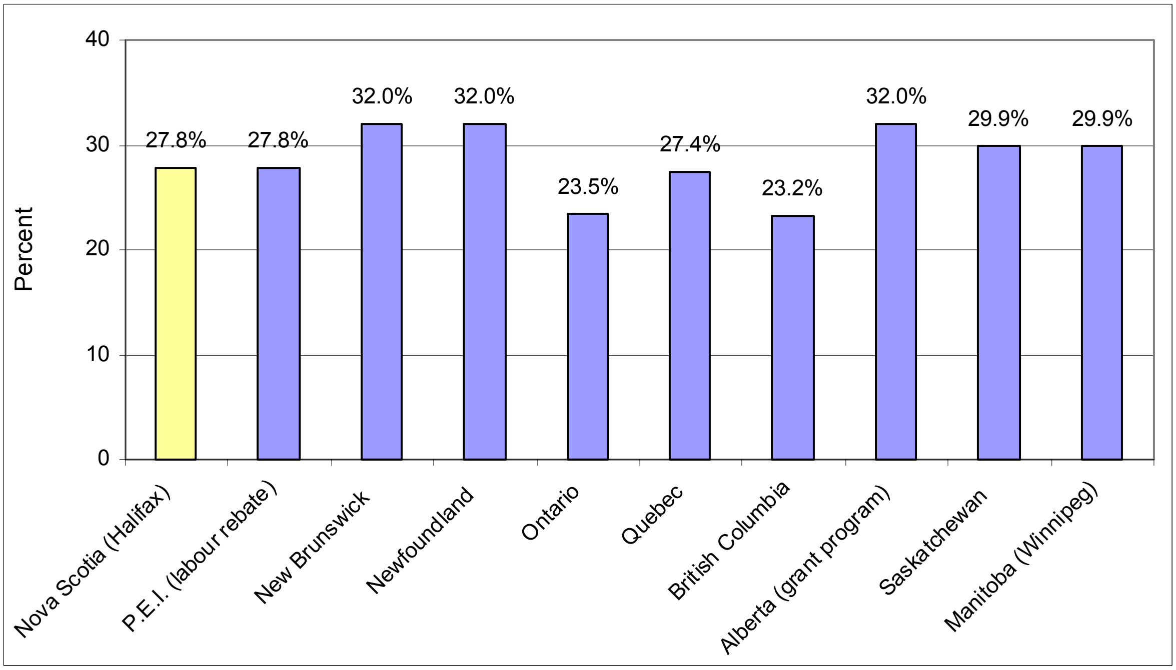
Figure 38 Provincial Tax Credit Effective Rates, Selected Provinces



See notes in Table 3
Source: Goodmans LLP, and CFTPA, *Guide 2004: Canada's Production Industry Directory.*

When combined with the federal tax credit, Nova Scotia producers, with a budget comprised of 50% Nova Scotia labour expenditures, can claim tax credits equal to 25.6% of the total project budget for a Canadian content production. Again, this is ahead of Ontario, Quebec and British Columbia, but behind many other provinces.

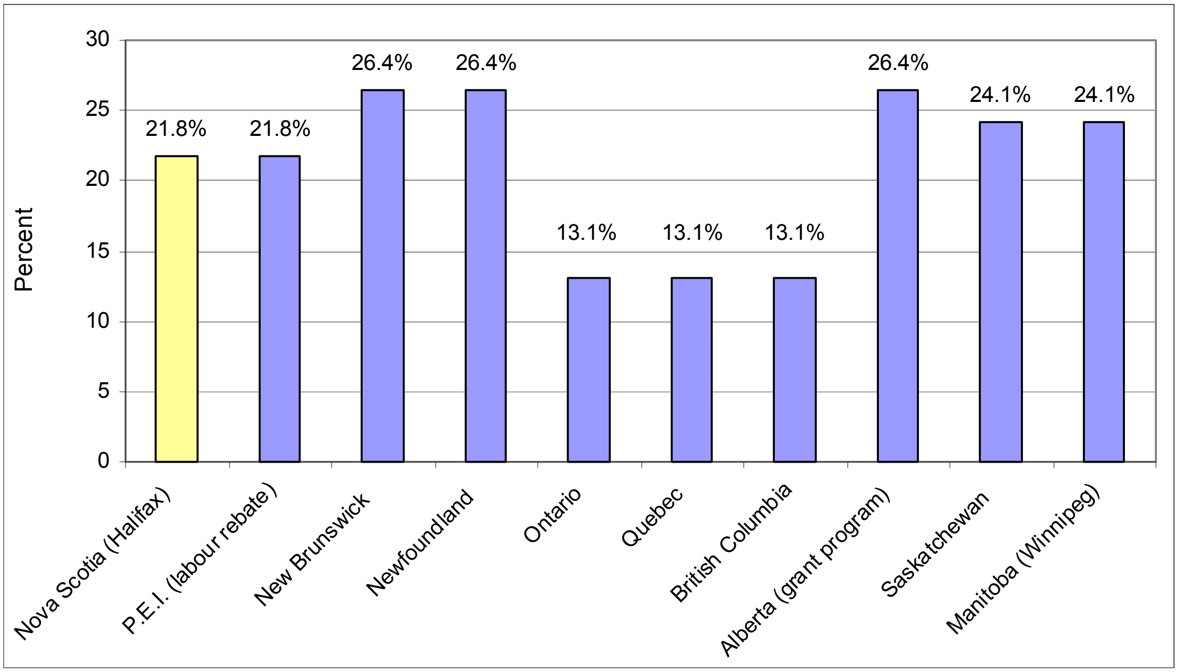
Figure 39 Effective Combined Federal and Provincial Tax Credit Rates, Selected Provinces



See notes in Table 3
Source: Nordicity calculations based on data from Goodmans LLP, and CFTPA, *Guide 2004: Canada's Production Industry Directory*

For non-Canadian productions, the combination of the Nova Scotia FITC and the federal production services tax credit yields a combined effective rate of 21.8% for Nova Scotia productions. This is higher than Ontario, Quebec and British Columbia, but is below most other provinces.

Figure 40 Non-Canadian Production, Combined Federal and Provincial Tax Credit Rate, Selected Provinces



Note: The calculation of the federal tax credit portion assumes that eligible labour expenditures are equal to 50% of total production costs. See other notes in Table 3.
Source: Nordicity calculations based on data from Goodmans LLP, and CFTPA, *Guide 2004: Canada's Production Industry Directory*

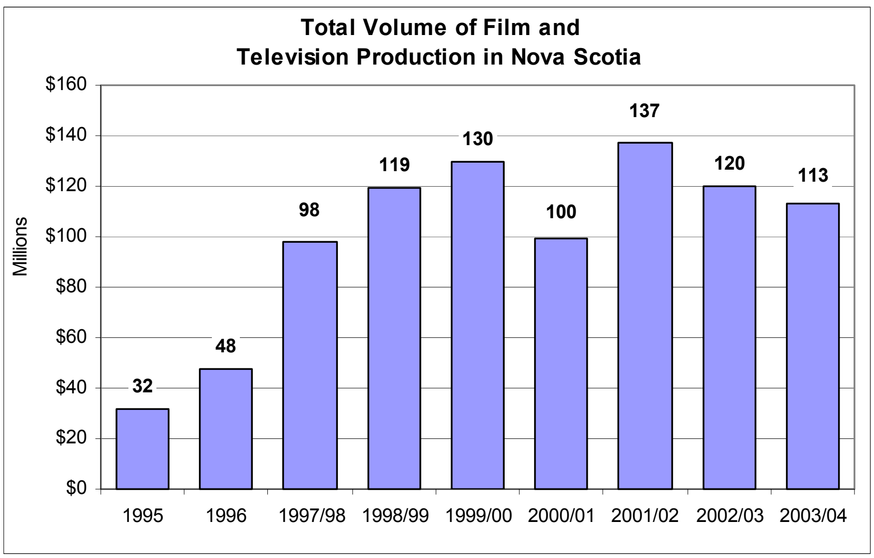
For both Canadian content production and non-Canadian production, the combined federal provincial rates available to Nova Scotia producers is <u>lower</u> than all other provinces – except the major production centres (Ontario, Quebec, British Columbia).

Nova Scotia's Period of Growth

The introduction of the Nova Scotia FITC ushered in a period of strong growth in film and television production in the Province.

Over the past decade, Nova Scotia has established itself as a major centre in Canada and North America for film and television production. Total production spending has grown from $32 million in 1995 (calendar year) to $113 million in 2003/04 (fiscal year). During each of the past six years, total production has exceeded $100 million.

Figure 41 Total Volume of Film and Television Production in Nova Scotia

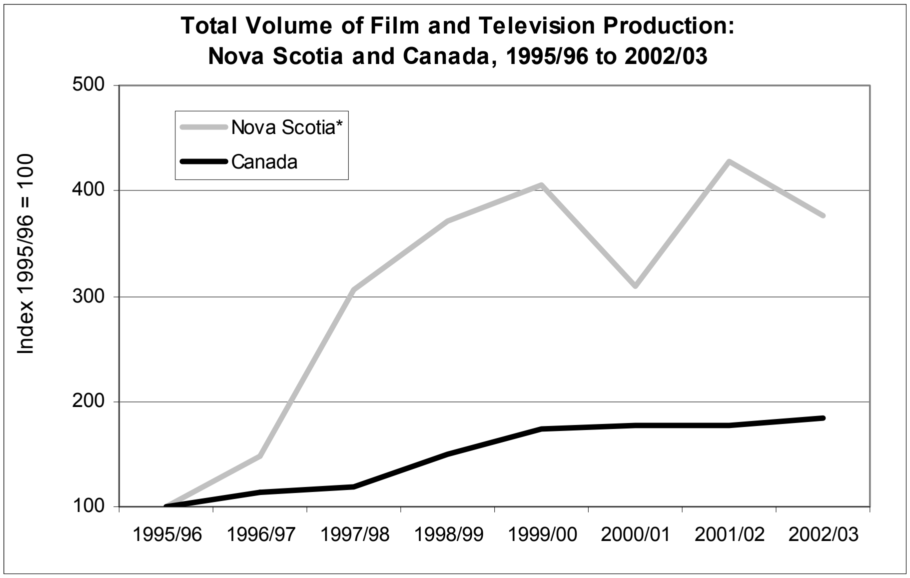


Source: NSFDC

The tremendous growth in the industry since 1995 – a compound annual growth rate of 17% – has been fuelled by increasing levels of domestic indigenous Canadian production (domestic production) as well as guest production, which includes stories developed outside of Canada and productions made by producers resident outside of the Province.

While growth has been strong over the last eight years, the volume of production activity has stalled over the last two years. In fact, the Nova Scotia industry appears to be experiencing a period of actual contraction. While this decline is in part a reflection of trends in the national and global marketplace, it is also due to factors unique to the Nova Scotia industry. These factors – infrastructure, production company size, access to capital, talent pool, location, to name a few – are the centrepiece of any discussion about strategic industry development in the Province.

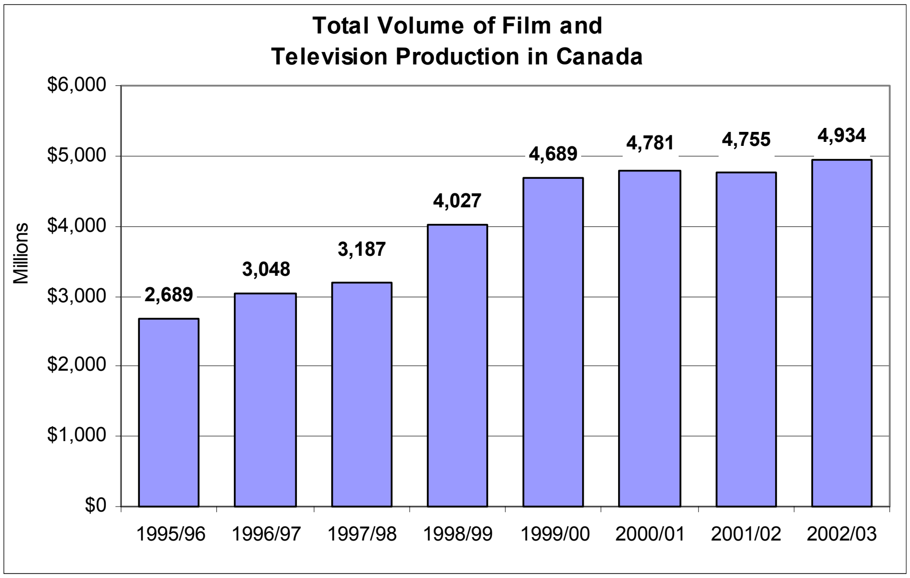
Figure 42 Total Volume of Film and Television Production: Nova Scotia and Canada, 1995/96 to 2002/03



* Data for Nova Scotia for 1995/96 and 1996/97 are for calendar years 1995 and 1996, respectively.
Source: NSFDC and CFTPA, *Profile 2004*

The rest of Canada mirrors Nova Scotia to some extent. Indeed, Nova Scotia's growth was faster than Canada's in the late 1990s. However, it has declined over the last two years, while film and television production activity in Canada merely flattened. Nova Scotia's production is down by 18% since 2001/02, while the total Canadian production actually grew slightly during this period – by 3%.

Figure 43 Total Volume of Film and Television Production in Canada



Source: NSFDC and CFTPA, *Profile 2004*

Contributing to the growth of the film and television production industry in Nova Scotia has been the significant investment made by the Nova Scotia provincial government and the NSFDC. This investment has largely been made via marketing and promotion, skills development, and most importantly, financial support to the production side of the industry.

- The Nova Scotia FTIC is, by far, the most important element in the Province's financial support program. Over the five year period between 1999/00 and 2003/04, the NSDFC certified tax credits totalled $49.2 million.
- Nova Scotia's financial support includes the Equity Investment Program and Development Loans Program open to Nova Scotia-based producers.
- To attract production to Nova Scotia, the NSFDC actively promotes Nova Scotia as a place to shoot because of its experienced crews, range of locations and industry-standard soundstages, production-support infrastructure, and economic advantages.
- Nova Scotia's *Partnerships in Training* program provides support to training initiatives which help to develop new filmmakers and enhance the filmmaking skills of Nova Scotia's labour force.

The late 1990s growth period coincided with the introduction in and early years of the tax credit, which illustrates the pivotal role of this program for the Nova Scotia film sector. The recent gentle decline is partly the result of stiffer competition from other provincial jurisdictions as addressed in the development of the strategic plan for the industry.

Need to Assess the Economic Impact

In April 2000, the Nova Scotia Department of Finance completed a review of the various industry tax credit programs that it operates, including the FITC.[9] In that review, the Nova Scotia Department of Finance found that the FITC generated a net loss to the Nova Scotia government of approximately $7.9 million over the four-year period 1996/97 to 1999/00.

In this study, we update and expand this earlier review by the Nova Scotia Department of Finance. We have captured certain types of television production and production-company capital expenditures that more truly reflect the consequences of the tax credit stimulus. We have also examined other assumptions such as the average equivalent annual salary for the labour component of the Nova Scotian production sector.

Competition for attracting film and television production has increased in Canada and internationally. As noted above, in recent years, provinces such as New Brunswick and Manitoba have been offering more competitive tax incentives than Nova Scotia. In fact, the competition is now keener since the April 21, 2004 announcement by Manitoba to bolster its tax credit. Manitoba will be adding a 5% "Frequent Filming Bonus" to its 35% tax credit rate.[10] That province also announced that it would begin offering a further 5% bonus for rural and northern productions.[11]

Need to Assess the Socio-Cultural Impact

In this study we intend to not only evaluate the economic impact of the Nova Scotia government's industry support programs, but also explore the socio-cultural benefits that the Province derives from a thriving film and television production industry.

The rationale for the range of support of film and television production by governments in Canada has always been both economic and cultural. The fostering of the arts, including its film and television programming expression, is deeply imbedded in the goals and objectives of public policy. The recognition that a broader spin-off occurs in terms of social benefits – especially the creation of national and world class jobs in the Province in a highly desired occupation. Thus, the assessment of the overall impact of the industry in Nova Scotia includes the social and cultural as well as the economic.

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[9] Nova Scotia Department of Finance, *Nova Scotia Tax Credit Review: Phase 1 Report*, April 2000.

[10] Manitoba Film & Sound, "Manitoba announces frequent filming bonus! Total of four enhancements to tax credit announced," media release, April 21, 2004.

[11] Manitoba Film & Sound, "Manitoba announces frequent filming bonus! Total of four enhancements to tax credit announced," media release, April 21, 2004.

1.2 Scope and Mandate

In April 2004, the Taskforce selected the Nordicity Group Ltd. ("Nordicity") to prepare an impact analysis for the film, television and new media industry in Nova Scotia.[12] The impact analysis is comprised of an economic impact analysis and an investigation of the key socio-economic and cultural benefits to Nova Scotia of the local film and television production industry.

For the economic impact analysis, the Taskforce asked Nordicity to quantify and evaluate the economic impact of film and television production. The evaluation involved a cost-benefit analysis that compared the provincial government revenues generated by the economic activity attributable to film and television production to the cost of the FITC to the Nova Scotia government.

To complement this economic impact analysis, the Taskforce asked Nordicity to investigate and articulate the socio-economic and cultural benefits of the industry to Nova Scotia. Most of these are not quantifiable, so this component of the impact analysis was largely qualitative in nature.

By assembling the various contributions – economic, socio-economic, and cultural – into one impact analysis, Nordicity can provide policy makers with a complete portrait of the benefits that the industry brings to the Province. This portrait can then be compared to the costs associated with maintaining the industry.

1.3 Approach and Methodology

The economic impact analysis was based largely on quantitative analysis. Using statistics from the NSFDC, the Canadian Radio-television and Telecommunications Commission (CRTC), Statistics Canada, as well as information gathered through interviews with producers and an online survey of the Nova Scotia production community, Nordicity constructed an estimate of the direct economic impact of film and television production in Nova Scotia. A detailed description of the methodology used to construct the estimate of the direct economic impact can be found in Appendix B.

Nordicity's estimate of the direct economic impact of film and television production in Nova Scotia was then submitted to the Nova Scotia Department of Finance. The Nova Scotia Department of Finance used its input-output model of the Nova Scotia economy to estimate the overall economic impact of the film and television production activity in the Province. A summary of the Nova Scotia Department of Finance's input-output modelling can be found in Appendix C.

The results of the input-output analysis were then compared to the value of the Nova Scotia FITC over the last five years to evaluate the Province's film and television industry.

Primary and secondary research was used to establish the socio-economic and cultural impacts for Nova Scotia of film and television production within the Province. The primary research

[12] While the scope of this analysis includes new media, because it represents a small portion of production activity, for this report we will refer to the industry as the "film and television production" industry.

included interviews with industry representatives, and an online survey of the Nova Scotia production community, including actors, crew personnel, directors, writers and producers. In total, approximately 40 persons were interviewed as part of the research for this project. Several members of the Taskforce also provided input to the research. Many of those interviewed provided key insights and data for the economic impact analysis. In the appendices we have included a list of interviewees, and copies of the interview guide and online survey questionnaire.

The online survey was completed by approximately 180 respondents from the Nova Scotia production community. Of these respondents, 20 producers completed the economic data section, which gathered key data for this report. A supplementary online survey was conducted to capture additional factual information from production companies as to their capital expenditures and wages for overhead and development functions beyond specific productions.

We also consulted some literature that formed part of our research of the socioeconomic and cultural impacts. A list of references can be found at the end of the report.

2. Economic Impact Analysis

The economic impact analysis measures and describes the contributions that the film and television production industry makes to Nova Scotia in terms of **jobs**, **household income**, and **provincial government revenue**.

The economic impact analysis begins by measuring the **direct economic impact** of film and television production in Nova Scotia. This exercise entails quantifying the total dollar expenditures made in the industry and the household income, film and television production industry employment, and provincial government revenue generated by these expenditures. In section 2.1 we present the direct economic impact for this analysis.

The economic impact of film and television production activity does not stop with the direct economic impact. Any economic activity also has a **spin-off impact**, as households' earnings are spent throughout the local economy. As such, a complete picture of the economic impact comes from quantifying the direct and spin-off impacts associated with film and television production.

To quantify the spin-off impact requires an **input-output analysis** or a set of economic multipliers that can be applied to the direct economic impact. The input-output analysis simulates the transactions and economic relationships within an economy, and yields a measurement of the spin-off impact of any economic stimulus. In this case, that stimulus is the expenditures on film and television production made in Nova Scotia.

For this impact analysis, the Nova Scotia Department of Finance's input-output model was used. The results of the Nova Scotia Department of Finance's input-output analysis are found in section 2.2 and detailed in Appendix C.

Both the direct economic impact and the total economic impact can then be compared to the costs that the provincial government faces in supporting the industry. The resulting cost-benefit analysis offers an evaluation of the Nova Scotia FITC from both a public finance and job creation perspective. The cost-benefit analysis is presented in section 3.

2.1 Direct Economic Impact of Film and Television Production

We begin the impact analysis by quantifying the direct economic impact of film and television production in Nova Scotia. The direct economic impact includes the **expenditures** in the Nova Scotia film and television production industry, the **household income** earned by Nova Scotia residents, the **total employment** in the film and television production industry created for Nova Scotia residents, and the **provincial government revenue** generated by the economic activity.

2.1.1 Expenditures

Film and television production industry expenditures were divided into four segments for the purposes of this analysis. The four segments are (1) independent film and television production, (2) in-house television production, (3) other film and television production, and (4) capital expenditures.

Independent Film and Television Production

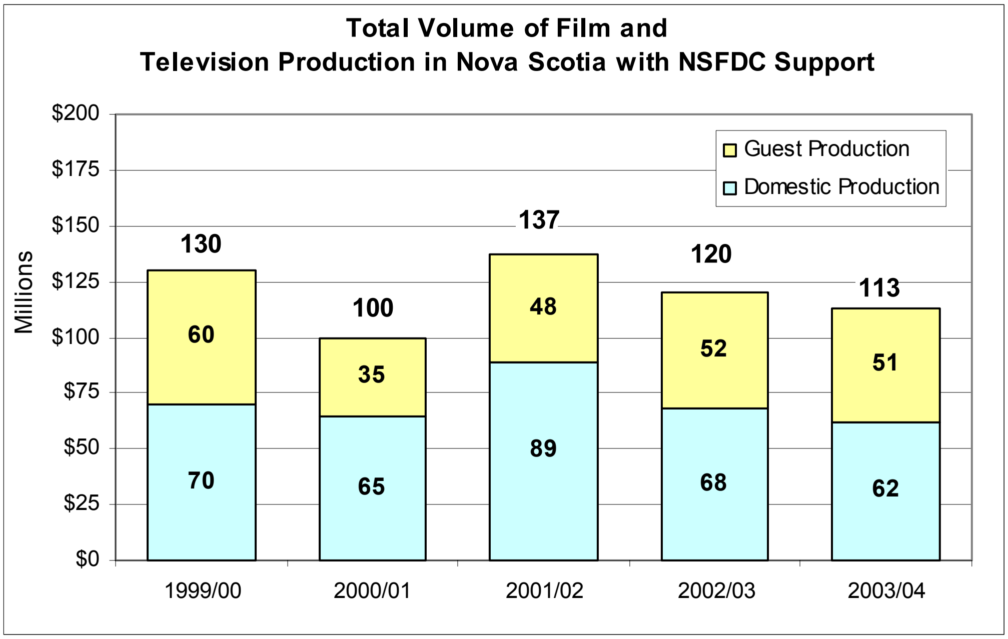
Independent film and television production includes films and television programs made by producers who are independent of television broadcasters. We make this distinction because later in the report we examine the direct economic impact of television production made by Canadian broadcasters and their own producers.

In 2003/04, the NSFDC supported $113 million in expenditures in independent film and television production. This is essentially equal to the total budgets spent by producers to make films, television programs and new media productions in the Province.

Approximately $62 million, or 55% of total production, was domestic production. An additional $51 million, representing 45% of total production, was comprised of guest production. Guest production includes films and television programs developed outside of Nova Scotia by non-Nova Scotia producers, but shot in the Province.

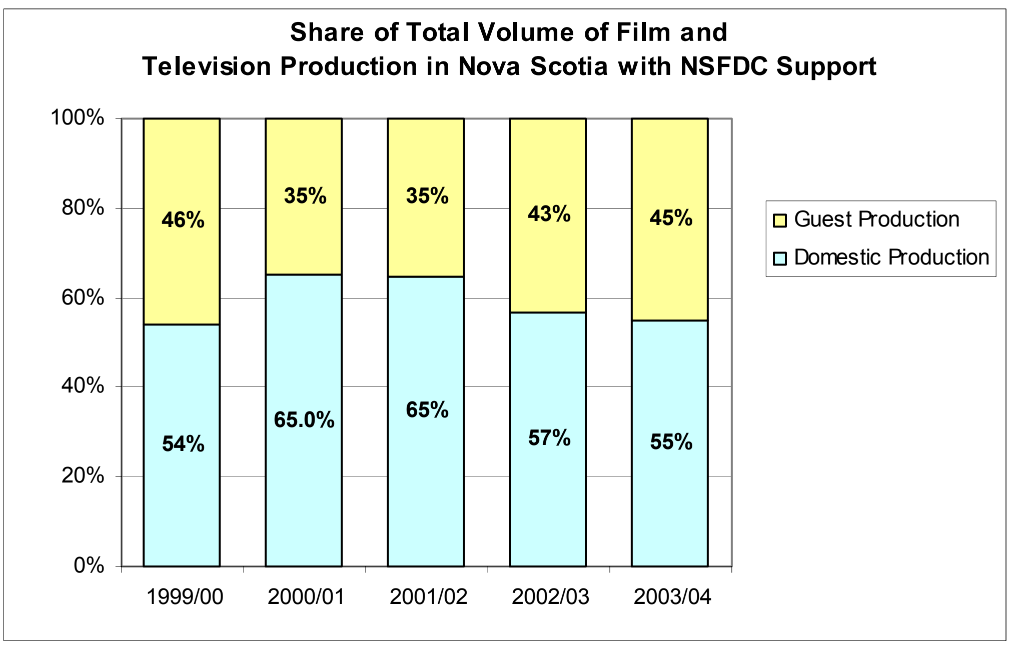
During each of the last five years, total film and television production in Nova Scotia was either equal to, or well above $100 million. Both domestic and guest production has made a significant contribution to the industry during this period. Over the five-year period, domestic production averaged 59% of total production. In 2000/01 and 2001/02 domestic production accounted for as much as 65% of total production; in 1999/00 it accounted for 54%.

Figure 44 Total Volume of Film and Television Production in Nova Scotia with NSFDC Support



Source: NSFDC

Figure 45 Share of Total Volume of Film and Television Production in Nova Scotia with NSFDC Support



Source: NSFDC

In-House Television Production

For this analysis, Nordicity sought to capture not only independently produced film and television production activity supported by the NSFDC, but also production activity outside of the NSFDC's purview – that is, production not eligible for the tax credit. The types of productions not eligible for the tax credit include television commercials and other advertising, industrial, corporate or educational videos, and certain types of television programming (e.g., current events or public affairs programming, and talk shows) typically produced in-house by television broadcasters.

The rationale behind including non-credit as well as credit production is that the non-tax credit assisted production would not have occurred if there were little or no production infrastructure in the Province. Whether it benefits directly from the tax credit or not, the skills and infrastructure to create in-house television or commercial production would not have developed if the Nova Scotia financial incentives did not exist. Many film and television producers work in both the tax credit and non-tax credit realm. They will make both types of productions, but are largely dependent on the tax credit production for the lion's share of their business. Based on this relationship, we argue that if you remove the tax credit, producers would be forced to exit the business or leave the Province, taking with them both the tax-credit and non-tax-credit productions.

Our interviews with Nova Scotia producers validated the view that this causal relationship is a plausible assumption for any analysis of the Nova Scotia industry. As such, we have sought to include all forms of production, other than local television news and sports (which *would* be produced by local television stations as part of their operations), in our measurement of the production industry expenditures that can be related back to provincial government support.

In-house television production in Canada can be separated into three key segments: (1) Canadian Broadcasting Corporation (CBC), (2) privately owned conventional (over-the-air) television broadcasters, and (3) privately-owned pay and specialty television networks. We collected data for each segment and made estimates of the levels of production in Nova Scotia.

Canadian Broadcasting Corporation - The CBC owns and operates six television stations in Atlantic Canada (CBNT St. John's, CBCT Charlottetown, CBAT-TV Fredericton, CBAFT Moncton, CBIT Sydney, and CBHT Halifax). However, among the Atlantic region stations, the majority of programming production emanates from the Halifax station.

CBC considers that the existence of an active production community in Nova Scotia was a necessary condition for Halifax to be deemed one of the three national English-language production centres in Canada. For over 30 years since the inception of television service, regional centres like Halifax and St. John's produced regional as well as local programming. Due to budget cuts, CBC changed its policy in the mid 1990s and phased out <u>regional</u> production. Only Toronto, Vancouver, and Halifax remain as production centres for the network (vs. Edmonton, Calgary, Winnipeg, St. John's, etc.). According to our interviews with the CBC, we learned that the presence of a film industry in Halifax was a critical part of the "business case" for keeping Halifax as a production centre for national programming. Otherwise, much of the CBC comedy/drama series programming might have been developed in Newfoundland or in Toronto.

The Nordicity team used public data sources and information from interviews with the CBC to derive estimates for in-house production spending by the CBC. Figures later released to the study team by the CBC indicated that we were conservative in our calculations.

In deriving the estimates for CBC in-house production, our goal was to estimate what portion of production activity can be related back to the fact that Halifax has grown to become a major production centre in Canada. Recognizing this, we needed to remove locally-oriented production activity that could very well have proceeded without the existence of a significant film and television production community in Nova Scotia. In effect, we were interested in the CBC in-house production in Nova Scotia that was created for national audiences. It is this type of production that a national broadcaster such as the CBC could have shifted to another location, but did not because of the production infrastructure in Halifax.

The following table summarizes the calculations behind the estimation process. In Appendix B, we discuss in more detail the estimation process.

Table 7 Calculation of Estimate for CBC In-House Production Spending in Nova Scotia

Fiscal Year Ending	2000	2001	2002	2003	2004*
Total in-house production spending – Atlantic Canada ($) (Source: CFTPA, *Profile 2004*)	41,600,000	33,000,000	31,800,000	36,000,000	36,000,000
Deduct: In-House production spending by private conventional broadcasters – Atlantic Canada ($) (Source: CRTC Financial Summaries)	13,626,882	12,377,266	12,819,435	16,162,634	16,162,634
Estimate for CBC in-house production spending in Atlantic Canada ($)	27,973,118	20,622,734	18,980,565	19,837,366	19,837,366
Assumption: Share of CBC Atlantic Canada spending in Nova Scotia	75%	75%	75%	75%	75%
Estimated amount of CBC Nova Scotia in-house production spending	20,979,839	15,467,050	14,235,424	14,878,025	14,878,025
Assumption: Share of CBC Nova Scotia in-house production spending that is created for national audiences	$66^2/_3$%	$66^2/_3$%	$66^2/_3$%	$66^2/_3$%	$66^2/_3$%
Estimated amount of CBC Nova Scotia in-house production that is created for national audiences	**13,986,559**	**10,311,367**	**9,490,283**	**9,918,683**	**9,918,683**

* Estimate for 2004 based on data for 2003.

Source: Nordicity calculations based on data from CFTPA, *Profile 2004*; CRTC, *Financial Summaries*; and interviews with CBC.

Our calculations indicate that CBC in-house production spending in Nova Scotia was just under $14 million in 1999/00. During the last five years it has averaged $9.9 million per annum.

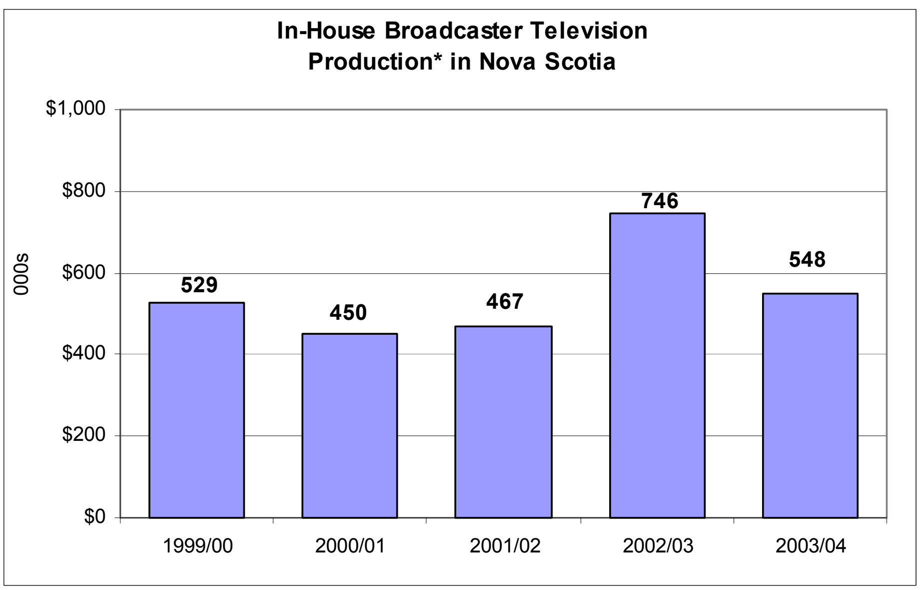
Private conventional (over-the-air) television broadcasters - According to the CRTC, there are eight conventional (over-the-air) television broadcasting licensees in Atlantic Canada. Included among these eight broadcasters are CHUM Television's Atlantic Satellite Network (ASN); CJON-TV, St. John's (NTV); CIHF-TV Halifax (Canwest Global); and CTV's ATV affiliates, CJCH-TV Halifax, CJCB-TV Sydney, CKCW-TV Moncton, and CKLT-TV Saint John.

While a large part of these broadcasters' schedules are comprised of programming produced elsewhere in Canada or the U.S., they do produce a certain amount of local programming.

To estimate the dollar amount of private conventional broadcasters' television production in Nova Scotia, we used the CRTC's published data for broadcast licensees programming expenditures. While data were only available for Atlantic Canada as a region, we proportioned these data on the basis of population to estimate the share of the total attributable to Nova Scotia television production by private conventional broadcasters.[13] In Appendix B, we describe in more detail the estimation process.

With the exception of 2002/03, in-house broadcasting spending on production other than news and sports amounted to approximately $500,000; in 2002/03 it was estimated to be just under $750,000. For the most part, the in-house television production included human interest shows, analysis and interpretation programming (talk or panel shows, consumer affairs or reviews, newsmagazines), and religious and educational programming.

Figure 46 In-House Broadcaster Television Production* in Nova Scotia

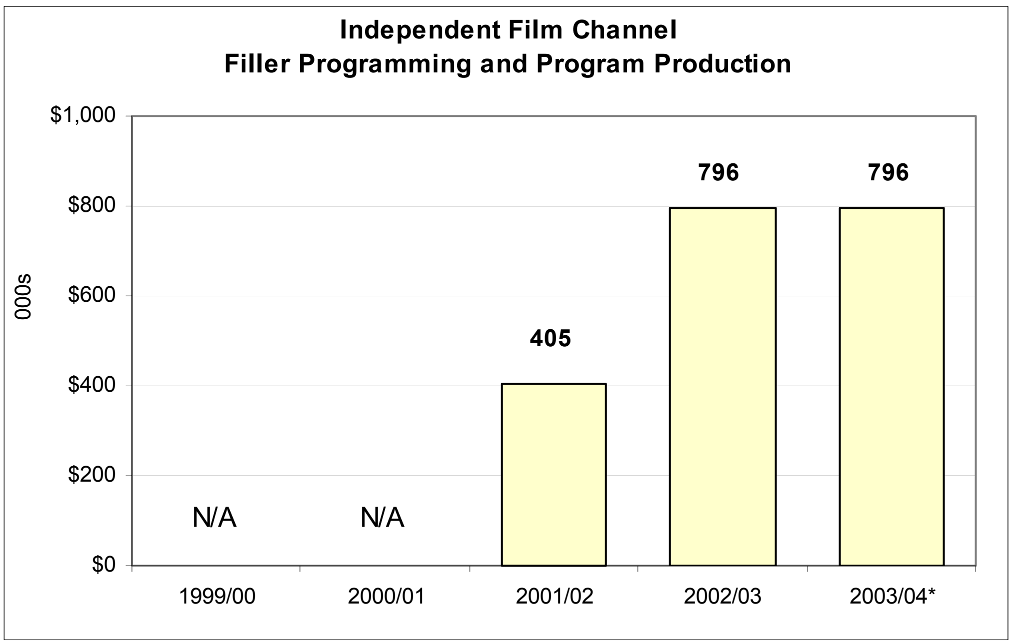


* Excludes expenditures to produce news and sports programming.
Source: Nordicity estimates based on data from CRTC, *Television: Statistical and Financial Summaries*, 1999 - 2003.

[13] A population-based approach may underestimate Nova Scotia's share, but we chose to use the most conservative approach available.

Pay and Specialty Television Networks - One pay and specialty television network, the Independent Film Channel (IFC), is based in Halifax. The IFC launched service in September 2001 as a mandatory-carriage digital tier specialty channel. The IFC acquires most of its programming from independent producers; however it does make some expenditures on in-house programming. In the 2002 broadcasting year (2001/02), the IFC spent $405,000 on filler programming and program production; in the 2003 broadcasting year (2002/03), it spent just over $795,000. Data are not yet available for the 2004 broadcasting year (which concludes in August 2004). For the 2003/04, we assumed that production spending would be equal to the level in 2002/03 – that is $796,000.

Figure 47 Independent Film Channel - Filler Programming and Program Production



* Nordicity estimate
N/A - data not available; network not in operation
Source: CR TC, *Individual Pay and Specialty Services: Statistical and Financial Summaries*, 1999 - 2003; Nordicity estimate (2003/04).

The IFC was established by Salter Street Films Ltd., which was a production company based in Halifax (before it was acquired by Alliance Atlantis Communications Inc.). Salter Street grew its production company by producing film and television programs in Nova Scotia (among other places), and doing so with the support of the Nova Scotia FITC. Had there not have been a Salter Street seeking to establish the IFC in Halifax, then another licence bidder may have won a licence for a similar service, but located it in Toronto, Montreal or Vancouver.[14]

[14] It should be noted that only 12 of the 111 pay and specialty television networks in operation in Canada in 2003 were based outside of Toronto, Montreal or Vancouver.

Other Film and Television Production

In addition to the in-house television broadcaster production, our online survey indicated that there was at least another $1.3 million of spending per year in other types of production, namely television advertising production. We consider this estimate to be highly conservative. One company, CENEX Inc., which specializes in television commercial production for regional advertisers in Atlantic Canada, produced $500,000 worth of production in 2001/02[15] and $900,000 in 2002/03[16].

Capital Expenditures

The expenditures measured thus far represent operating expenditures in film and television production in Nova Scotia. We also sought to include capital expenditures made by Nova Scotia producers in Nova Scotia. Again, our online survey and interviews gave some direction with respect to the capital expenditure spending practices of Nova Scotia producers.

In total, we found that Nova Scotia producers spent approximately $6.1 million per year on capital expenditures to improve facilities or acquire production, post-production, or office equipment. In addition, local post-production facilities invested an additional $1 million per year in post-production equipment.

Most of these capital expenditures were spent on acquiring production equipment. Based on the data from the online survey, we estimate that Nova Scotia producers spent, on average, $4.2 million per year on the acquisition of production equipment.

Nova Scotia producers and post-production houses have spent in the neighbourhood of $1.5 million per year during the last five years on the acquisition of post-production equipment.

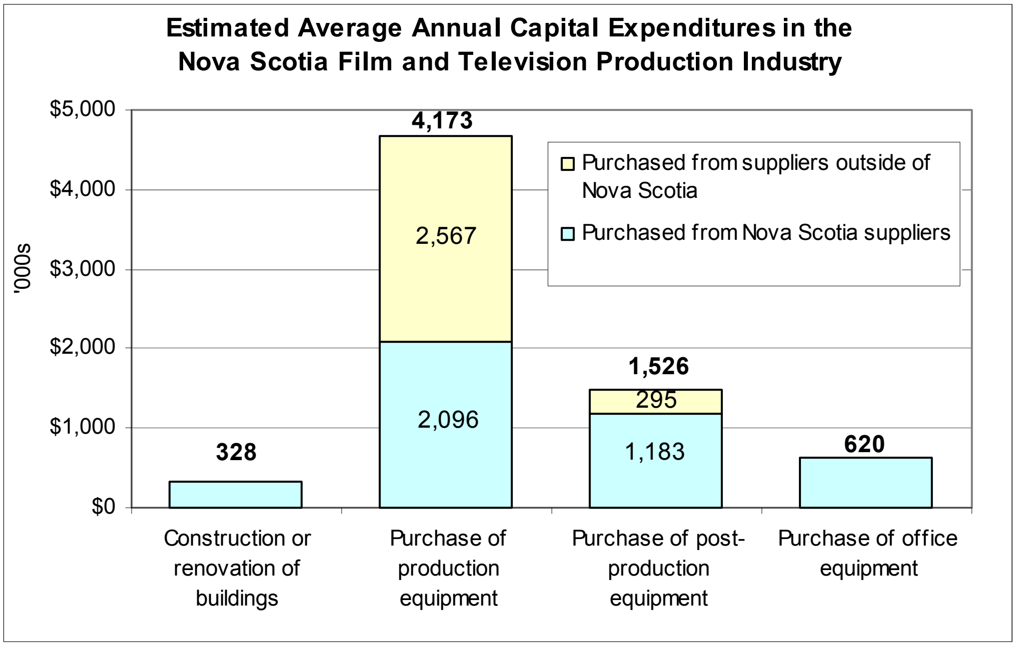
Purchases of office equipment are estimated to have been in the range of $620,000 per year; while investment in the construction or renovation of buildings averaged just over $328,000 during the last five years.

Of this estimated $7.1 million in annual capital expenditures, approximately 60%, or $4.2 million, was spent on equipment acquired from suppliers outside of Nova Scotia. According to producers responding to the online survey, all construction expenditures were made through Nova Scotia service suppliers, as were all purchases of office equipment.

The survey results indicated that 45% of spending on production equipment was through suppliers located inside the Province. For post-production equipment purchases, approximately 80% were made through Nova Scotia suppliers.

[15] Bracken, Laura, "Regional prodcos shine in east and west", *Playback Magazine*, October 28, 2002.
[16] Source: http://www.cenex.ca/about_us.htm

Figure 48 Estimated Average Annual Capital Expenditures in the Nova Scotia Film and Television Production Industry



Source: Nordicity estimates based on data from survey of Nova Scotia film and television producers and post-production facilities.

Total Expenditures

The table below details the operating and capital expenditures observed in the Nova Scotia film and television production industry during the 1999/00 to 2003/04 period.

In total, the Nova Scotia film and television production industry generated just under $132.9 million in total operating and capital expenditures in 2003/04, and $700.1 million over the past five years.

Table 8 Operating and Capital Expenditures in the Nova Scotia Film and Television Production Industry

	1999/00	2000/01	2001/02	2002/03	2003/04	Total
Millions of dollars						
Domestic Production	70.0	64.4	88.7	68.3	62.2	353.6
Guest Production	60.0	34.9	48.4	52.0	51.1	246.4
Total NSFDC-Supported Production	130.0	100.0	137.1	120.3	113.3	600.0
CBC	14.0	10.3	9.5	9.9	9.9	53.6
Private Conventional Broadcasters	0.5	0.5	0.5	0.8	0.6	2.7
Pay & Specialty Services	--	--	0.4	0.8	0.8	2.0
Total In-House Television Production	14.5	10.8	10.4	11.5	12.2	58.3
Estimate of Other Film and Television Production (TV Commercials, Education/Instructional Video)	1.3	1.3	1.3	1.3	1.3	6.5
Total Operating Expenditures	**145.8**	**112.1**	**148.8**	**133.0**	**125.8**	**664.8**
Total Capital Expenditures	**7.1**	**7.1**	**7.1**	**7.1**	**7.1**	**35.5**

Note: Some totals may not sum due to rounding.
Source: Nordicity estimates and calculations based on data from NSFDC, CRTC and Survey of Nova Scotia Film and Television Production Sector

Table 9 Star Spending

Our estimate for total industry expenditures attempts to capture all spending in the Province related to film and television production activity. Our methodology has been designed to capture the spending by non-Nova Scotia crews working in Nova Scotia. In Appendix B, we describe this methodology. While we have captured the money left in the Province by non-resident crews, we have not captured the money left in the Province by Hollywood stars.

A review of guest production activity in Nova Scotia since 1999 indicates that there have been 29 different productions starring notable Hollywood performers. (A notable Hollywood performer was defined as any actor with a *Yahoo! Actors* web page with a biography and filmography.) Some of these 29 productions had a single Hollywood star performer; some had several notable Hollywood performers in starring or supporting roles. All told, these 29 productions generated 970 days in Nova Scotia and 1,843 star days – days in Province multiplied by the number of Hollywood stars in each production.

Since 1999, Nova Scotia has hosted the production of numerous Hollywood feature films and made-for-television movies. Hollywood actors such as Judi Dench, Julianne Moore, Kevin Spacey, Cate Blanchett, Harrison Ford, Liam Neeson, Sean Penn, Sissy Spacek, Beau Bridges, and Sandra Bullock to name just a few, performed in some of these productions.

While we do not have quantifiable data on the amount of spending by Hollywood performers, through our research we came across a number of stories describing spending habits of Hollywood stars.

Hollywood stars are known to frequent Halifax's restaurants, particularly The Press Gang. Hollywood stars are also known to be, in many cases, generous to their crews. It is not uncommon for crews to receive gifts from Hollywood actors, e.g. hand knit sweaters for the whole crew.

Some Hollywood stars (and others from Toronto and elsewhere) have even purchased property in Nova Scotia after visiting the Province for a shoot.

While we have not quantified the impact of Hollywood stars, it appears that it is positive, and brings into the Province a level of spending that does not accompany corporate executives or temporary workers in other industries.

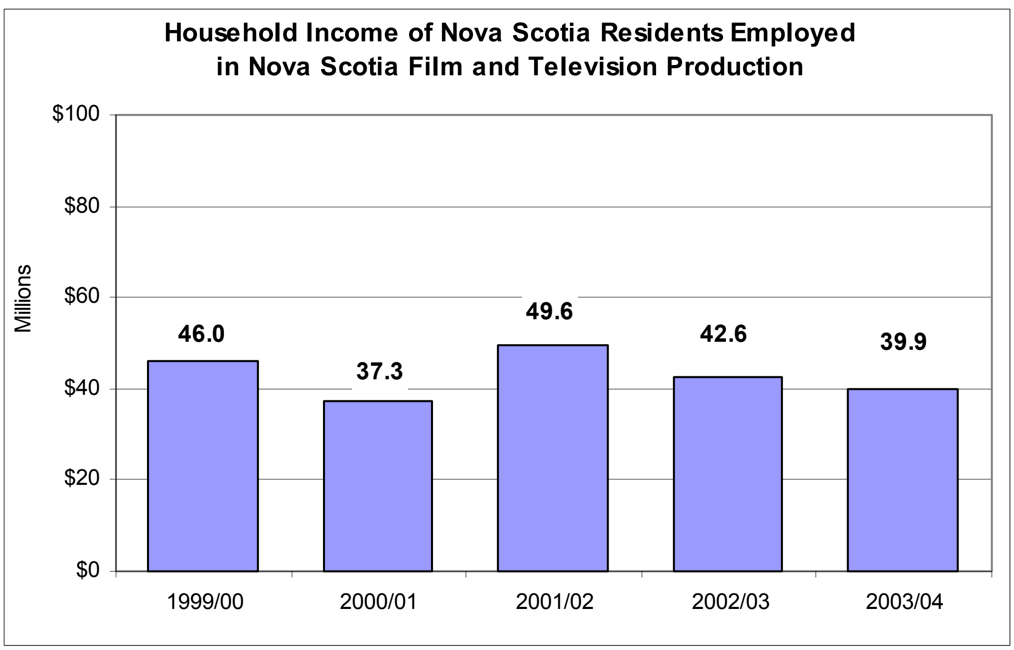
2.1.2 Household Income

In measuring the direct household income in the Nova Scotia film and television production industry, we considered three types of labour income. The first type, **labour spending**, refers to the labour bill portion of production budgets for NSFDC-supported films and television programs. The second form of household income, **other employment compensation**, captures the labour spending earned by production-company employees outside of production budgets. These employment earnings are derived from production-company overhead or other revenue streams related to film and television production. The third source of household income is that which arises from the **capital expenditures** made in the industry.

Labour Spending

The labour spending portion of household income includes the salaries and wages earned by Nova Scotia residents employed in the production of films and television programs produced by independent producers, television broadcasters, and producers of other types of programs (e.g., television advertising, educational or industrial videos). In 2003/04, Nova Scotia residents working in film and television production earned household income totalling $39.9 million. During the five-year period of this analysis, household income totalled $215.3 million, and averaged $43.1 million per year.

Figure 49 Household Income of Nova Scotia Residents Employed in Nova Scotia Film and Television Production



Source: Nordicity estimates and calculations based on data from NSFDC, CRTC and Survey of Nova Scotia Film and Television Production Sector

Other Employment Compensation

While the vast majority of employment earnings and household income is captured by the labour income in production budgets, a certain amount of employee earnings are also paid out of production-company overhead and operating income from other revenue streams. We sought to include this type of labour income in our estimate of the direct household income generated in the Province by production activity. To do this, we asked production companies to report to us the amount of labour compensation not allocated to specific production projects. In other words, employee compensation not already captured as Nova Scotia labour spend in tax credit productions.

The results for the online survey for 2002 and 2003 indicate that across the industry, there was an additional estimated $3.3 million annually in labour compensation in the form of salaries and bonuses paid to production company employees and contractors outside of production budgets.

Household Income Induced by Capital Expenditures

The capital expenditures in the Nova Scotia film and television production industry also generated direct household income. According to the results of the input-output analysis, annual capital expenditures generated annual household income of $511,000. The annual amount is constant across the five-year period because it is based on the annual level of capital expenditures, which were measured as a constant annual average.

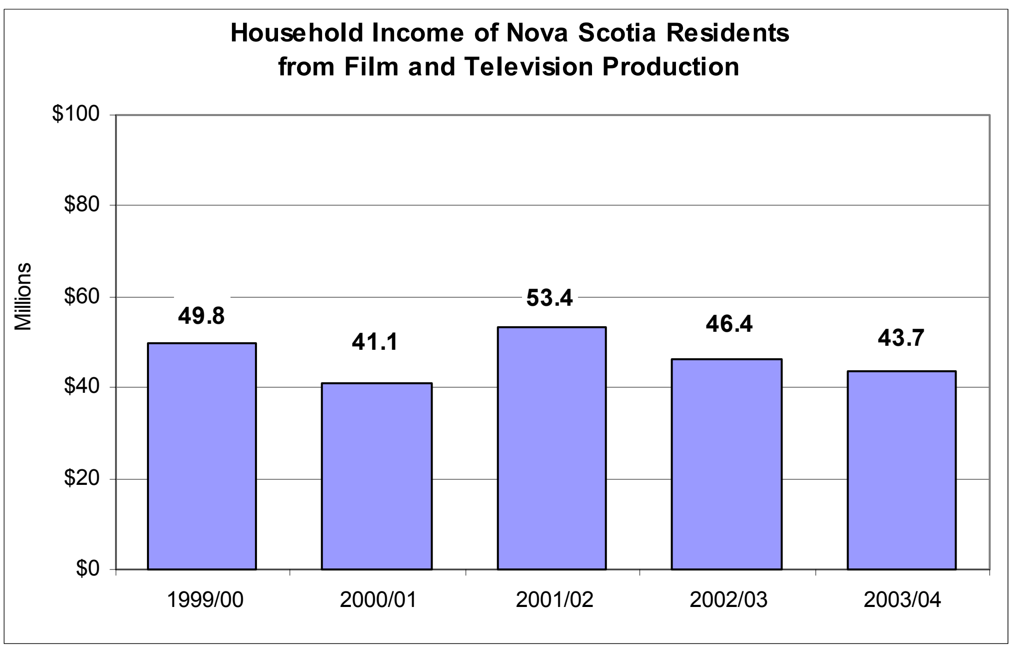
Total Household Income

To estimate total household income for the Nova Scotia production industry we have combined the household income from the following areas (each of which have been detailed in the preceding sections):

- **Labour spending:** The amount spent by producers on the labour required to produce films and television programs. This includes labour spending associated with in-house broadcaster production and other types of production.
- **Other employment compensation:** This includes the salaries and bonuses paid by production companies to the employees and contractors outside of production budgets. These amounts often come out of production-company overhead.
- **Household income induced by capital expenditures:** This is the level of household income attributable to the annual capital expenditures made by Nova Scotia producers. This amount is determined by the Nova Scotia input-output model.

In total, these three sources generated household income in the range of $41.1 million to $53.4 million during the five-year period, 1999/00 to 2003/04.

Figure 50 Household Income of Nova Scotia Residents from Film and Television Production

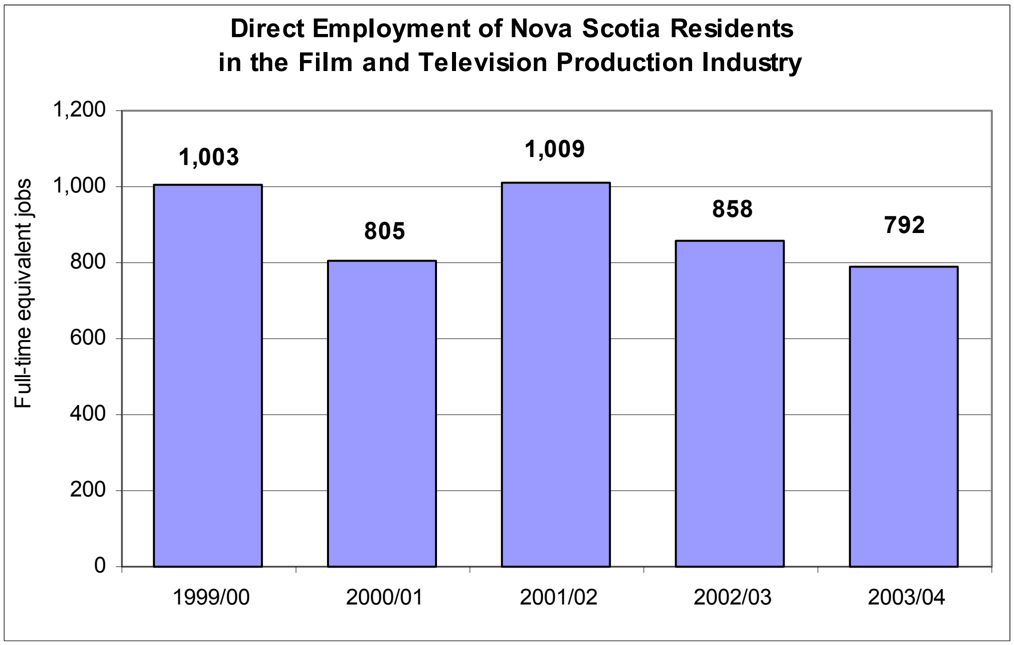


Source: Nordicity estimates and Nova Scotia Department of Finance

2.1.3 Employment

In 2003/04, operating and capital expenditures in the film and television production industry supported 792 FTEs for Nova Scotia residents. Annually, the industry supported an average of 893 FTEs during the last five years. The annual total of FTEs fluctuated with the annual levels of production activity in the Province.

Figure 51 Direct Employment of Nova Scotia Residents in the Film and Television Production Industry (Full-time equivalent jobs)



Source: Nordicity estimates and calculations based on data from Nova Scotia Department of Finance, NSFDC, CRTC and Survey of Nova Scotia Film and Television Production Sector

The average annual salary of Nova Scotia residents employed in the film and television production industry was estimated to be $44,783 in 2003/04 (In Appendix B, we describe how the annual average salary estimate was derived.).

Table 10 Average Annual Salary of Film and Television Production Industry Employees in Nova Scotia

	1999/00	2000/01	2001/02	2002/03	2003/04
Average annual salary*	40,289	41,471	42,909	43,874	44,783

* The average salary estimate excludes any fringe benefits or payroll taxes paid by employers. It includes taxes paid by employees.
Source: Nordicity calculations based on data from NSFDC and Statistics Canada.

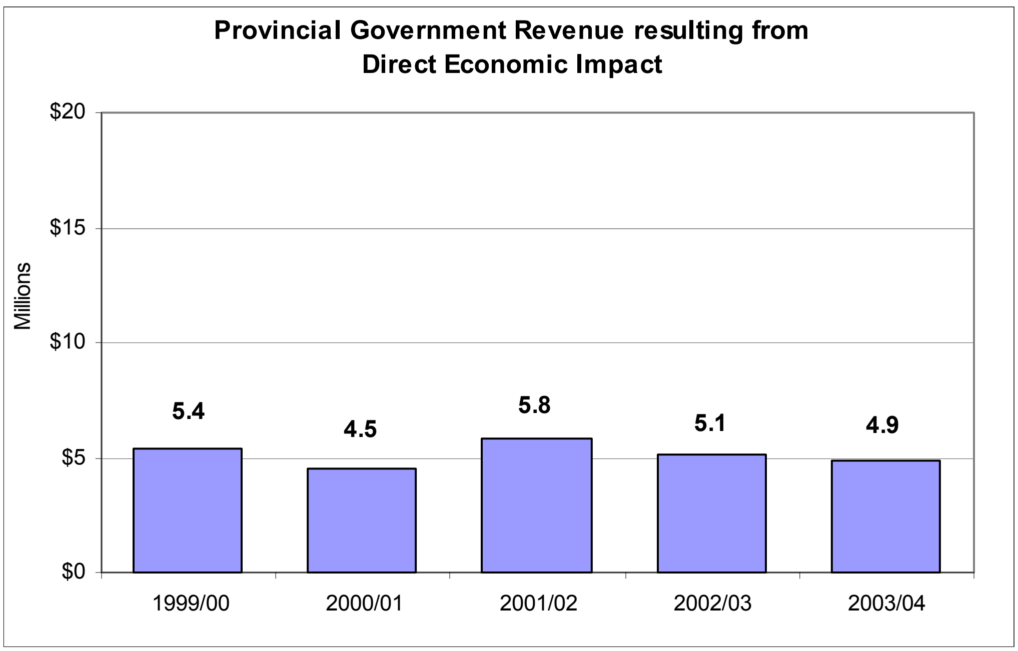
2.1.4 Provincial Government Revenue

Provincial government revenue can be derived from three main sources: (1) taxes paid by households; (2) corporate income taxes; and (3) sales taxes paid by businesses on business inputs. For this analysis the third source is zero because Nova Scotia businesses do not pay Harmonized Sales Tax (HST) on their business inputs.[17]

Taxes Paid by Households

The Department of Finance's input-output analysis indicates that direct economic activity in the film and television production industry in Nova Scotia generated provincial government revenue of $4.9 million in 2003/04. During the five-year period of our analysis, provincial government revenue from direct economic impacts totalled $25.7 million.

Figure 52 Provincial Government Revenue resulting from Direct Economic Impact



Source: Nordicity estimates and Nova Scotia Department of Finance analysis

[17] Nova Scotia Department of Finance, *Nova Scotia Tax Credit Review: Phase 1 Report*, April 2000. See Appendix B.

Corporate Taxes

The Nova Scotia Department of Finance collected data on the provincial corporate tax paid by film and television production companies based in Nova Scotia. Due to a time lag in the availability of tax files from the federal Department of Finance, tax data were only available for 1996 to 2001.

The tax data retrieved by the Nova Scotia Department of Finance indicate that Nova Scotia production companies paid a total of approximately $203,000 in provincial corporate taxes during the 1996 to 2001 period – an annual average of just under $34,000.

Due to the time lag in the data and the apparent low amounts actually paid, we have excluded corporate taxes from our estimates of provincial government revenue.

2.2 Total Economic Impact of Film and Television Production

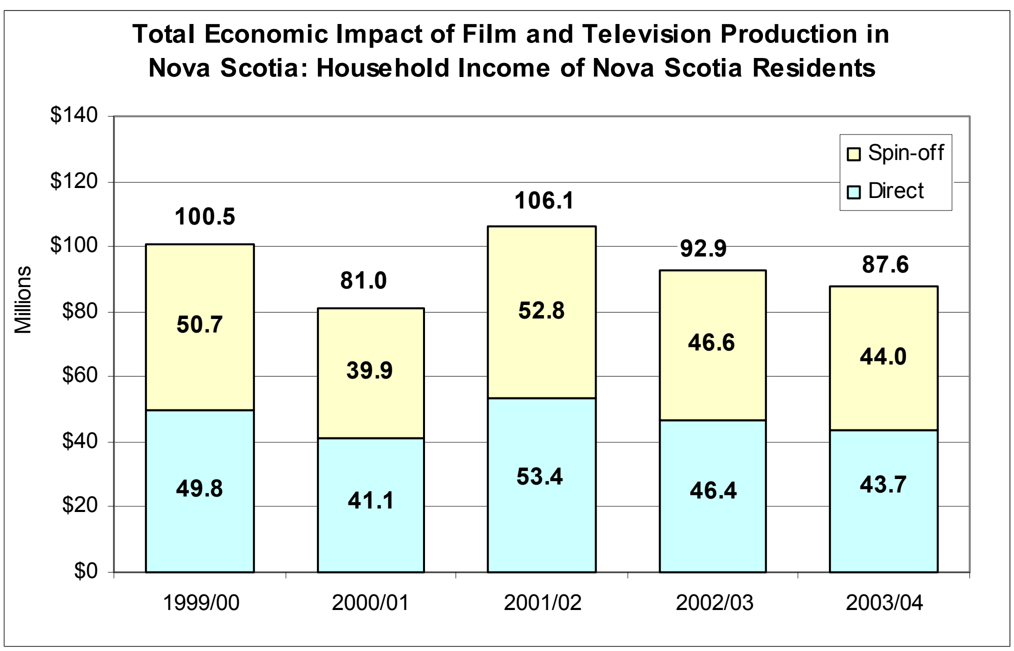
In addition to the direct economic impact of film and television production activity, there are indirect and induced impacts for the provincial economy. The **indirect impact** is the total value of the output generated by suppliers to film and television production activity in Nova Scotia. The **induced impact** is the economic impact that occurs when the household income earned at the direct and indirect impact stages is spent throughout the Nova Scotia economy. Together, the indirect and induced impacts form the total **spin-off impact**.

The combination of the direct impact and spin-off impact represent the **total economic impact** that can be attributed to expenditures on film and television production in Nova Scotia. In this section we summarize the total economic impact of film and television production activity in Nova Scotia. The total economic impact is measured in terms of **household income**, **employment**, and **provincial government revenue**.

2.2.1 Household Income

In addition to the $43.7 million in household income earned by film and television production workers in Nova Scotia in 2003/04, the Nova Scotia Department of Finance's input-output analysis found that $44.0 million in spin-off household income was also earned in the Province. In total, film and television production activity in Nova Scotia yielded $87.6 million in household income for Nova Scotia residents in 2003/04.

Figure 53 Total Economic Impact of Film and Television Production in Nova Scotia: Household Income of Nova Scotia Residents



Source: NGL estimates and Nova Scotia Department of Finance analysis

Over the last five years, film and television production activity in the Province generated household income of $468.2 million. Of this amount, $234.3 million was earned by film and television production workers; $233.9 was earned by workers in other sectors of the economy.

Table 11 Total Economic Impact of Film and Television Production in Nova Scotia: Household Income of Nova Scotia Residents

	1999/00	2000/01	2001/02	2002/03	2003/04	Five-year total
Millions of dollars						
Direct	49.8	41.1	53.4	46.4	43.7	234.3
Spin-off	50.7	39.9	52.8	46.6	44.0	233.9
Total	**100.5**	**81.0**	**106.1**	**92.9**	**87.6**	**468.2**
Implied multiplier	2.02	1.97	1.99	2.00	2.01	2.00

Note: Some totals may not sum due to rounding.
Source: Nordicity calculations based on data from NSFDC and Nova Scotia Department of Finance

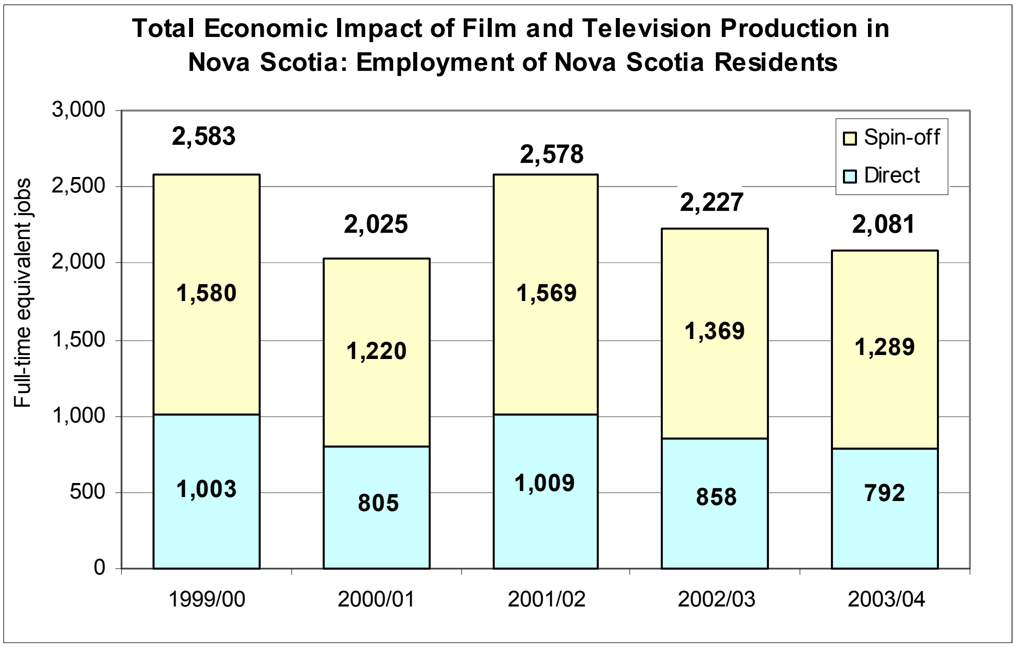
The input-output analysis points to a household income multiplier in the range of 1.97 to 2.02. Over the five-year period of analysis, the average household income multiplier was 2.00. In a recent study in Manitoba, a similar analysis was commissioned.[18] The Manitoba analysis used a labour income multiplier of 2.00 for its 'Low' scenario; it used a multiplier of 2.50 for its 'High' scenario.[19] The 'Low' scenario yielded mixed results on the cost-benefit analysis, while the 'High' scenario was clearly positive from a government revenue perspective.[20] The Nova Scotia 2.00 labour income multiplier implied by the Nova Scotia Department of Finance input-output analysis is the same as the 'Low' scenario used in the Manitoba analysis.

[18] Please see InterGroup Consultants and OARS Training Inc., *Economic Impact Analysis of Manitoba's Film Industry 2003*, report prepared for the Manitoba Motion Picture Industry Association, 2004.
[19] *ibid*
[20] *ibid*

2.2.2 Employment

Between 1999/00 and 2003/04, film and television production activity in Nova Scotia supported an average of 2,299 FTEs for Nova Scotia residents. Of these total FTEs, an average of 893 FTEs was employed directly in the film and television production industry. An additional 1,405 FTEs were in other industries, and resulted from spin-off economic activity.

Figure 54 Total Economic Impact of Film and Television Production in Nova Scotia: Employment of Nova Scotia Residents



Note: Some totals may not sum due to rounding
Source: Nordicity estimates and Nova Scotia Department of Finance analysis

The input-output analysis conducted by the Nova Scotia Department of Finance points to an employment multiplier in the range of 2.52 to 2.63. Over the five-year period of analysis, the average employment multiplier was 2.57. In effect, for each FTE created in the film and television production industry in Nova Scotia, an additional 1.57 FTEs are created throughout the rest of the Nova Scotia economy.

Table 12 Total Economic Impact of Film and Television Production in Nova Scotia: Employment of Nova Scotia Residents (Full-time equivalent jobs)

	1999/00	2000/01	2001/02	2002/03	2003/04	Average
Full-time equivalent jobs						
Direct	1,003	805	1,009	858	792	893
Spin-off	1,580	1,220	1,569	1,369	1,289	1,405
Total	**2,583**	**2,025**	**2,578**	**2,227**	**2,081**	**2,299**
Implied multiplier	2.58	2.52	2.56	2.60	2.63	2.57

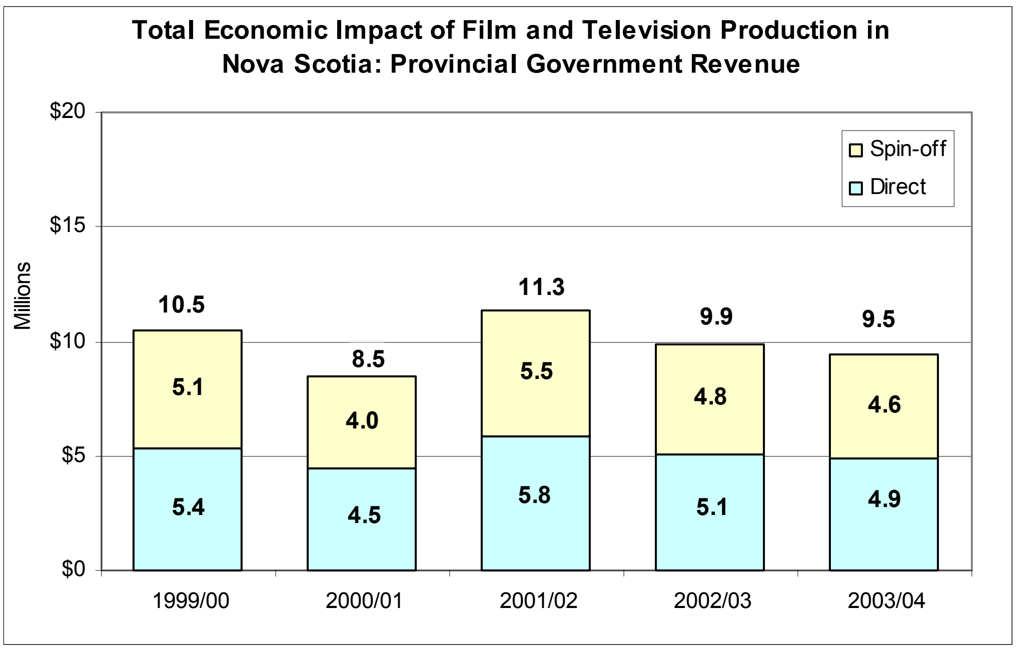
Source: Nordicity calculations based on data from NSFDC and Nova Scotia Department of Finance

2.2.3 Provincial Government Revenue

The Department of Finance's input-output analysis indicates that film and television production in Nova Scotia generated provincial government revenues of $9.5 million in 2003/04. About $4.9 million of these government revenues can be traced back to the taxes generated by the household income of industry employees (direct impact); an additional $4.6 million can be traced back to the taxes generated by spin-off economic activity.

During the five-year period of our analysis, provincial tax revenues totalled $49.7 million. The tax revenues of direct economic activity accounted for $25.7 million; tax revenues from spin-off economic activity totalled $24.0 million.

Figure 55 Total Economic Impact of Film and Television Production in Nova Scotia: Provincial Government Revenue



Source: Nordicity estimates and Nova Scotia Department of Finance analysis

3. Cost-Benefit Analysis

To evaluate the economic impact of the Nova Scotia FITC, we compared the cost of the FITC to the total provincial government revenue generated by film and television production activity in the Province.

First, we compared the cost of the FITC to the provincial government revenue generated by the direct economic impact of film and television production in Nova Scotia. Following this, we compared the cost of the FITC to the total economic impact of film and television production in the Province.

Direct Economic Impact

Between 1999/00 and 2003/04, the provincial government revenue generated by the direct economic impact of film and television production in Nova Scotia was 48% less than the total value of the FITC certificates issued during that period. Between 1999/00 and 2003/04, the total value of FITC certificates was **$49.2 million**. During that same period, the direct economic impact of film and television production in Nova Scotia yielded provincial government revenue of **$25.7 million**.

The Nova Scotia FITC generated a shortfall of **$23.5 million** for the provincial government, when only direct impacts are taken into consideration.[21]

Table 13 Cost-Benefit Analysis of Nova Scotia FITC, Direct Economic Impacts Only

	1999/00	2000/01	2001/02	2002/03	2003/04	Five-Year Total
Provincial Government Revenue	5,353,000	4,484,000	5,489,000	5,095,000	4,887,000	25,668,000
Value of Tax Credit Certificates	4,100,000	12,600,000	8,600,000	8,900,000	15,000,000	49,200,000
Net Benefit (Cost)	1,253,000	(8,116,000)	(2,751,000)	(3,805,000)	(10,113,000)	(23,532,000)

Source: Nordicity calculations based on data from NSFDC and Nova Scotia Department of Finance

[21] While provincial government revenues remained relatively stable during the 1999/00 to 2003/04 period, the annual value of FITC certificates displayed some considerable fluctuation. This fluctuation was largely due to backlogs in tax credit applications in certain years.

Because of the annual fluctuation in the value of FITC certificates issued, the economics of the FITC also fluctuated from year to year. In order to smooth out the impact of these year-to-year fluctuations, the cost-benefit analysis was done on the basis of the five years as a total.

This approach also accounted for the fact that because of the tax credit application backlogs in certain years, the year in which the tax credit certificate was issued was not necessarily the same year that principal photography took place. For these reasons, it was more appropriate to assess the tax credit on the five-year basis, rather than an annual basis.

Total Economic Impact

When the total economic impact of Nova Scotia film and television production was taken into account, the Nova Scotia FITC was found to be virtually **revenue neutral** for the provincial government. As indicated above, between 1999/00 and 2003/04, the value of FITC certificates totalled $49.2 million.[22] During that same period, the total provincial government revenues resulting from film and television production activity were **$49.7 million**. The Nova Scotia FITC actually generated a net gain to the provincial government of **$455,000** over the five-year period.

Table 14 Cost-Benefit Analysis of Nova Scotia FITC, Total Economic Impact

	1999/00	2000/01	2001/02	2002/03	2003/04	Five-Year Total
Provincial Government Revenue	10,464,000	8,515,000	11,311,000	9,911,000	9,454,000	49,655,000
Value of Tax Credit Certificates	4,100,000	12,600,000	8,600,000	8,900,000	15,000,000	49,200,000
Net Benefit (Cost)	6,364,000	(4,085,000)	2,711,000	1,011,000	(5,546,000)	455,000

Source: Nordicity calculations based on data from NSFDC and Nova Scotia Department of Finance

The Nova Scotia Department of Finance's 2000 tax credit analysis found that the FITC cost the provincial government $7.9 million over the four-year period 1996/97 to 1999/00. The 2000 analysis considered the economic impact of both tax-credit and non-tax-credit production activity. Our analysis broadened the range economic impacts to include capital spending by production companies, as well as broadcaster in-house television production.

As discussed earlier, other provincial jurisdictions are taking a careful look at the benefit of industry support programs such as tax credits. The Manitoba Motion Picture Industry Association (MMPIA) recently released an economic impact assessment of the Manitoba tax credit program. It found the Manitoba tax credit to be revenue neutral to revenue-positive for the Province.[23] The major difference between Manitoba and Nova Scotia lies in the difference in treatment of provincial sales taxes. Whereas in Nova Scotia businesses do not pay HST on their business inputs[24], in Manitoba businesses do pay provincial sales tax. The analysis of the Manitoba tax credit assumes that 7% of business spending goes toward provincial sales tax. This sales tax effect is good for a 30% boost to the personal taxes estimate in the Manitoba analysis.

Even without the effect of any provincial sales tax income (as was the case in Manitoba), the Nova Scotia FITC is virtually revenue neutral for the Nova Scotia government, when the total economic impact of film and television production is taken into account.

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[22] Please see footnote 15 for discussion of the annual fluctuations in the value of tax credit certificates issued by the NSFDC.
[23] InterGroup Consultants and OARS Training Inc., *Economic Impact Analysis of Manitoba's Film Industry 2003*, report prepared for the Manitoba Motion Picture Industry Association, 2004.
[24] Nova Scotia Department of Finance, *Nova Scotia Tax Credit Review: Phase 1 Report*, April 2000. See Appendix B.

4. Impact of Film and Television Production on Nova Scotia Regions

During the last five years, 17 productions have shot in regions outside of Halifax/Dartmouth. Shooting outside of Halifax/Dartmouth allows producers to make use of locations appropriate to the setting of the story, and to access the somewhat higher tax credit (35% of Nova Scotia labour) available.

According to statistics from the NSFDC, since 1999, there have been approximately 228 days of shooting in the regions outside of Halifax/Dartmouth.

Table 15 Film and Television Programs Partially Shot in Regions of Nova Scotia outside of Halifax Regional Municipality

Title	Year	Region	Days of Shooting outside of Halifax
La Veuve de Saint Pierre	1999	Louisburg	N/A
One Heart Broken into Song	1999	Falmouth	20
Weight of Water	1999	Chester	42
Deeply	1999	Ironbound Island	30
Songs in Ordinary Time	1999	Windsor	14
A Rumor of Angels	1999	Chester, Lunenburg	6
Catch a Falling Star	1999	Lunenburg	5
Bailey's Mistake	2000	Bridgewater, Little Harbour	15
Blessed Stranger: After Flight 111	2000	Prospect	15
A Town Without Christmas	2001	Lunenburg, Hubbards	14
My Little Eye	2001	Digby	N/A
Phase IV	2001	Cape Breton	N/A
Virginia's Run	2001	Shelburne, South West Shore	34
Rush of Fear	2002	South Shore	3
Shattered City: The Halifax Explosion	2003	South Shore	7
Wilby Wonderful	2003	Shelburne	23

Source: NSFDC

Although a significant number of productions do shoot outside of Halifax/Dartmouth, it is unclear how much of the production expenditures actual stay in the region. Outside of accommodations, and food and beverage expenses, it is likely that most purchases of equipment and services flow back to the businesses in Halifax/Dartmouth.

Despite the limited economic impact of regional production, it does probably have a socio-economic impact by exposing the young population in the regions to the film and television production industry. It also provides the youth in these regions with future employment opportunities in the Halifax production community – rather than having to join the exodus out of the Province.

5. Socio-Economic and Cultural Impact of Film and Television Production

It is important to remember that film and television production is a unique combination of both artistic and business pursuit, and so, it makes both an economic and cultural contribution. In the preceding sections – the economic impact analysis – we presented a view of the quantifiable economic effect of the film and television production industry in Nova Scotia. However, the quantifiable economic impact is only one element in the benefits equation. There is a whole range of socio-economic impacts that cannot be easily measured but in many respects can be attributed to film and television production activity.

What is more, film and television are central parts of the modern cultural sector. Canada has fought to sustain and strengthen our cultural sector in trade negotiations. Canada has created and supported public institutions like the CBC, the National Film Board, and the Canada Council. As well at the federal level, the film and television sector receives more tax and program incentives and regulatory support than any other cultural sector. This support at the federal level has been sustained for decades whatever the governing party. While the provincial objectives for supporting the production sector have been more economic, provinces have justified support certainly in part because they buy into this cultural rationale. Accordingly, in this impact assessment, we examine the particular cultural benefits that Nova Scotia derives from a vibrant film and television production industry. While these cultural impacts cannot be quantified, they can be identified and substantiated by anecdote, reference, and example.

In this section, we examine both the socio-economic and cultural impacts that the local film and television production industry has on Nova Scotia and its population. These impacts buttress the economic contribution discussed earlier and demonstrate the wide-ranging positive influence that the film and television production industry has on the region, its workforce, and its population.

The arguments presented in this section were based on secondary research and the viewpoints of the Nova Scotia film and television production community – collected through the online survey plus the personal in-depth interviews. As previously described, Nordicity conducted an online survey of the Nova Scotia film and television production community, including producers, crew persons, and actors. Over 180 persons participated in the online survey in April, 2004, and many offered their views on what they saw as the most important socio-economic and cultural impacts of a vibrant film and television production industry in Nova Scotia. In the personal interviews of another 30+ producers and stakeholders in Nova Scotia, largely conducted for the Long-term Strategy part of the engagement, we also canvassed their views on the socio-cultural benefits of the production industry.

5.1 Socio-Economic Impact of Film and Television Production

The Nova Scotia film and television production community pointed to the industry as one which is an attractive career path for youth, is relatively environmentally friendly, and gives Nova Scotia the visibility it needs to support its efforts to attract business to the Province. The industry is also a key element in providing the underpinning for a creative workforce. It also adds positively to the tourism sector.

Film & TV Industry Attracts Youth and Inhibits Out-Migration

Nova Scotia and Atlantic Canada have, for a long time, had a high level of out-migration by their working-age population, particularly young workers. Since 1996, Nova Scotia's population has virtually stayed the same, declining by only 0.1% - compared to New Brunswick which declined by 1.2% and Newfoundland by 0.7%. Nevertheless, only Saskatchewan in the rest of Canada shows a net population loss over that period. Clearly, exporting its brains and talent may deprive Nova Scotia of the resource pool to bring greater prosperity.

A growing workforce – particularly a highly skilled one – is critical to the economic growth of any region. The film and television production industry is seen as one of the industries that is critical to Nova Scotia's efforts to stem the out-migration of its young workforce.

> *"…it is a leading career choice for young people. It provides them with skills, a trade, and an ability to live at home and work and gain experience from a wide range of people."* (survey respondent)

Out-migration not only has an economic impact, but also a long-term social impact. As one producer explained to the consulting team, the business leaders of today become the community leaders of tomorrow. Out-migration of a young skilled workforce invariably depletes a region's pool of potential future community leaders. Without "the best and brightest" to offer the necessary political and community leadership, any region will face additional social and economic difficulties in its future. And in economic difficulties or any other social difficulties, it is "the creative" not the economic element that holds the spirit up.

Nova Scotia's film and television production industry employs a significant number of young people. According to the Maritimes Branch of Alliance of Canadian Cinema Television and Radio Artists (ACTRA), 44% of its Nova Scotia members are under the age of 35. According to IATSE Local 849, the guild that represents production technicians in Atlantic Canada, 40% of its members are under the age of 41. The membership profiles for each of these industry guilds points to workforce that has a high share of workers at the younger end of the age scale.

The film and television production industry builds employment for young Nova Scotians by offering them compelling opportunities to return to Nova Scotia after studying or training elsewhere. Some examples of people who studied or trained outside of Nova Scotia and returned to the Province to work include Paul McNeil, Kent Sobey, Geoff Turnbull, Chaz Thorne, and Tim Anderson.

The Film and TV Industry Helps Attract and Retain a "Creative Class"

Not only does it stem out-migration, but the industry helps to build a creative and innovative workforce that is essential to compete in today's economy.

Today's leading companies across all sectors of the economy gain their competitive advantage through innovation and the development of new products and services. This innovation requires a combination of scientific discovery and creative thinking. Just as companies need to attract creative and innovative workers, cities and regions need to attract creative and innovative workforces – the creative class – to attract businesses.[25] As one interviewee pointed out, the film and television production sector

> *"…plays to a modern, contemporary society, one which will be dominated by trade in knowledge assets. It is creative, technological, and certainly environmentally friendly."* (personal interview)

Traditional industries like mining and manufacturing require physical infrastructure – highways, airports, railways, ports – to operate their business by facilitating the movement of business inputs and outputs. In today's economy a cultural infrastructure is just as important. For knowledge-based industries, the key, creative human capital, demands an environment that offers them the opportunity for cultural experiences and cultural expression.[26] To attract a creative workforce, governments must foster an environment that allows the arts to flourish and at the same time gives creative workers a range of career opportunities. Film and television production is one such industry; it gives writers and a myriad of visual artists the opportunity to apply their creative skills.

The Film and Television Industry Creates High-Value Jobs

The film and television industry generates jobs that are diverse, often complex, in their intellectual capital. As a result, the value of these jobs, over the long-term, can be greater than other knowledge industry jobs. As one interviewee pointed out,

> *"The film and television industry is not like the call-center business. The jobs are higher value and the skills more complex."* (personal interview)

Because of the range of jobs in the industry, and the natural gaps in talent that exist in any region at any time, film and television productions attract talent from other parts of the country. Each time an actor, director of photography, or production designer is exposed to Nova Scotia, to a producer and his/her team working in Nova Scotia, relationships are formed and networking for future business occurs. In fact, while film and television production prohibits out-migration of youth, it also attracts migration to the Province from a highly skilled group of Canadians. There are many examples of producers, crew, and talent who have moved to Nova Scotia (or purchased second homes) after being exposed to working in the Province.

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[25] Florida, Richard, "The Rise of the Creative Class", *The Washington Monthly*, May 2002.
[26] Florida, Richard, op cit.

> *"A vibrant film industry brings in people who support good restaurants, theatre and the arts in general. A community with a well-developed cultural scene brings in-migration from researchers, entrepreneurs, investors etc. who choose where they want to live for quality-of-life reasons."* (survey respondent)

During our research, we learned about many of the notable artists who either returned to or relocated to Nova Scotia to take advantage of the opportunities in the Province's burgeoning production industry. Award-winning performers such as Nigel Bennett (*Forever Knight, LEXX*), Peter Blais (*Psi Factor*), Robert Bockstael (*North of 60*), Heidi Von Plaleske, and Jeremy Webb (*Pit Pony, Olliver's Adventures*) all relocated to Nova Scotia. Newfoundland performers Cathy Jones (*This Hour Has 22 Minutes*) and Brian Downey (*LEXX*) now make their homes in Nova Scotia. On the production side, the team of Chris Cuthbertson and Nico Lorenzutti who produce *Afterdark TV* moved their production company to Nova Scotia and now have several projects in development. Wayne Grigsby (*Trudeau*), David MacLoed (*Blessed Stranger: After Flight 111*), Jan Miller (Atlantic Film Festival), and Camelia Frieberg (*The Sweet Hereafter*) also moved to Nova Scotia, where they continue to have success as leading producers and developers in Canada.

Other highly creative Nova Scotians who returned to the Province after working elsewhere include director Stephen Reynolds (*Corner Gas, This Hour Has 22 Minutes, Made in Canada, The Eleventh Hour*), and writer/performer Mark Farrell (*Corner Gas, This Hour Has 22 Minutes, Made in Canada*).

Adding to the complexity of the skill-set required, the film and television industry has international 'legs', as another survey respondent described it. This means a growth potential inherent in the business and again, a level of complexity and interest in the jobs generated by the industry. Many of Nova Scotia's producers who have pursued international co-productions have brought their partners to the Province to do business. Again, film and television producers become emissaries for the Province at international television markets and film festivals around the globe – selling themselves, their products and the Province.

Film and TV Production is a Renewable Resource and Environmentally Friendly

In relation to many of the traditional industries in Nova Scotia, film and television production is environmentally friendly. The film and television production industry is a

> "*non-polluting industry which plays on the strengths of this Province – the natural beauty of the area and the team-spirit and creative energy of the people*" (survey respondent);
>
> *"[It is] relatively environmentally responsible industry that not only keeps people here in Nova Scotia, but attracts much-needed new people."* (survey respondent);

While Nova Scotia's economy today is largely service-industry based, the Province has at times looked to fishing, agriculture, forestry, mining and manufacturing for jobs. These industries have benefited the Province, but often not without environmental and, in some cases, direct human costs. Film and television production consumes electricity and thereby does have an indirect environmental impact like many other industries, but it does not have the same direct negative environmental impact that can afflict resource-based industries.

Many of the traditional resource-based industries are finite. Whether the natural resource is oil or coal or fish, it ultimately becomes depleted and leaves communities economically abandoned. The media industry, by comparison, is only limited by the demand side – that is, the amount of media that can be consumed by the market. The industry supply is only limited by human capital and the financial resources that can be made available.

The Production Industry is a Positive Image-Builder and Brands the Province as a Great Place to Visit, Live and Work.

The production community also recognizes that film and television production is a key part of any regional brand building initiative.

In today's global economy, regional brand building is paramount to attracting the high-skilled workforce that fuels economic growth. The value of a brand that is not communicated effectively can become diminished. The film and television industry contributes to Nova Scotia's brand building endeavour in two respects.

First, it is part of the brand, in that it is an example of a knowledge-based industry with successful growth in the region. In contrast to a traditional vision of an isolated Atlantic Province, abandoned by generations of Canadians who left it in search of better employment opportunities elsewhere in Canada, Nova Scotia has emerged as a cosmopolitan center, attracting both production shooting crews, actors, and tourists from around the world. Today, Halifax is a vibrant city, combining a romantic harbour image, beautiful shooting locations with fascinating historical landmarks and a unique assortment of specialty Atlantic Canada boutiques and restaurants.

In another respect, the film and television industry is one of the main communication channels for the brand. No other medium can so efficiently reach such a mass audience. Each film and television program, that is recognizably Nova Scotian in origin, adds to the Nova Scotia brand built around attracting businesses, skilled workers and tourists to the Province.

As one survey respondent pointed out:

> *"The 'editorial' content and images imbedded in Nova Scotia-produced films and programs [sic] reaches audiences - including business and community leaders - around the world; thus promoting NS as a place to visit, live and with which to do business. No amount of paid advertising can match this. It has a direct impact on the imaginations of our viewers and audiences everywhere and is an invaluable promotion for Nova Scotia and its potential."* (survey respondent)

Even film and television programs that are not recognizably Nova Scotian – for example, American movies-of the-week or Hollywood films – contribute to the brand building process, when they can be incorporated into messages centering around the region's capabilities. New Zealand's production of the *Lord of the Rings* trilogy is a prime example of this form of brand building. Communicating that the films were shot in New Zealand was not left to chance; it was consciously publicized, and has played a major role in the brand building of New Zealand. A visit to Tourism New Zealand's www.newzealand.com web site reveals that the *Lord of Rings* is part of country's business attraction and tourism promotion campaigns. While Nova Scotia has a long way to go to reach the height of such a global franchise, there are examples of lesser but significant effects in other jurisdictions. One example is the impact of *Crocodile Dundee* on boosting Australia's image.

Another example of how a cultural property can brand a region is, of course, the association of *Anne of Green Gables* and Prince Edward Island. Again, it is difficult to quantify the value of this brand and exactly how much of PEI's tourist dollars are linked to this cultural franchise – however, there is no denying its contribution to the local economy. The film and television industry – like no other industry – has the potential to create franchises that become associated with a location and, in turn, with enormous merchandising and tourism spin-offs.

While Nova Scotia does not yet have such "franchises", the association of excellence in comedy programming generated by *This Hour Has 22 Minutes* and Rick Mercer himself is somewhat analogous. *Trailer Park Boys* may be heading in the same direction, although creating as association possibly of more narrow appeal.

A Production Community is Symbiotic with Tourism

Jurisdictions around the world that have invested in supporting local film and television production recognize the effect it can have on their tourist industry. People often just want to visit the actual locations in which their favourite films and television programs were shot. The droves of Japanese tourists to the home of Lucy Maud Montgomery is just one example of this phenomenon. The fans of series such as *LEXX* or *Trailer Park Boys* will make the trip to the location of their favourite show to visit the set, hold their conventions, and possibly meet with the talent.

Cultural events like the East Coast Music Awards and the Atlantic Film Festival are important to the tourism industry in addition to the cultural life of the Province. The Atlantic Film Festival would not enjoy the success it has with its sponsors and the community without the film industry. Now, it draws about 30,000 attendees with plans to grow to 100,000 in five years, and is arguably Atlantic Canada's premier cultural event. It has expanded beyond the confines of cinemas to open air, free movies on the harbour front.

The production industry's technical and acting talent is also the mainstay of live theatre and live entertainment. Such a diversity of events dots the summer calendar of any local event brochure and plays a role in the tourism industry.

5.2 Cultural Impact of the Film and Television Production

The audiovisual industries including the film and television production industry are unlike many other industries. They do not merely produce goods and services to sell to consumers; the audiovisual industries generate artistic works that have a major influence on what people "know, believe and feel, and plays a crucial role in the transmission, development and even construction of cultural identities."[27]

Film and TV are the Most Powerful Storytellers.

Film and television is a form of storytelling. It uses a combination of words, images and music to convey a message. Storytelling is an important form of artistic expression for any society or culture because it gives people a sense of belonging, fosters their self-identity, and gives them a perspective on their part in the world.[28]

Film and television is now the dominant form of storytelling around the world. In today's world of electronic media, history is more often than not told through the lens of a camera. Like no other medium, films and television programs develop the way that we look at others, and ourselves, and how our local stories shape us as individuals, and how we relate to each other.[29]

> *"Without question, TV and film shapes opinions and views about the world around us like no other media."* (survey respondent)
>
> *"Nationally, film, television and new media are the quickest and most cost efficient method of showing Canadian culture to the population. It allows us to identify with the rest of Canada and show our wonderful diversity."* (survey respondent)

Countries around the world recognize the power of these media; many, including Canada, have adopted policies that support artists in film and television. Just as a vibrant film and television production industry is important to affording Canadians the opportunity to tell Canadian stories, a vibrant film and television production industry is critical, so that Nova Scotians can tell stories about Nova Scotia to fellow Nova Scotians, Canadians, and people around the world.

> *"We can tell our own stories - stories that are unique to our region, and we can tell universal and international stories from home, with a unique perspective."* (survey respondent)
>
> *"A vibrant industry in NS provides funds, skills and opportunity for Nova Scotians to tell their stories to the world."* (survey respondent)

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[27] Commission of the European Communities, *Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions: Principles and Guidelines for the Community's Audiovisual Policy in the Digital Age*, December 14, 1999.
[28] Film Industry Strategic Review Group, *The Strategic Development of the Irish Film and Television Industry 2000 - 2010*, August 1999.
[29] Parker, Sir Alan, *Building a Sustainable UK Film Industry: A Presentation to the UK Film Industry*, November 5, 2002.

> *"…films and television programs shape the way the rest of Canada (more importantly than the world) sees Nova Scotia."* (survey respondent)

> *"…the beginnings of this great country are rooted in the Maritimes. There is a feast of culture and heritage here to be shared with the world."* (survey respondent)

In a world where film and television are the dominant form of popular artistic communication, without a local industry, only a fraction of Nova Scotians' stories would ever be told, and even fewer would be heard.

> *"When our productions are seen nationally and around the world, it increases our visibility and proves that we indeed represent a unique culture and society. It is imperative that we see ourselves reflected through all of the arts including film, television and new media; it enriches our lives as Nova Scotians and as Canadians and defines what makes us unique."* (survey respondent)

> *"This industry and this Province are a good match because of the cultural sensibility of Nova Scotians with their centuries-old history of story-telling and singing."* (personal interview)

Over the last several years, a number of films and television programs based on Nova Scotian stories have been shot in the Province. Some of the most notable include *Pit Pony*, *New Waterford Girl*, *Marion Bridge*, *Margaret's Museum*, *Men of the Deeps*, *Trailer Park Boys*, and *Shattered City: The Halifax Explosion*. Each of these works was set in Nova Scotia, and depicted events or life in the Province.

Cultural Success Stories Build Local Pride, Morale and Confidence

Nova Scotians not only see local film and television production as an important form of storytelling and artistic expression, they also see it as an area where success can build local pride.

> *"The cultural industries build local (in this case Nova Scotia) morale and confidence. Good morale leads to positive self image which leads to pride of community which leads to better communities. This in turn attracts new and better people to our communities from across Canada and around the world."* (survey respondent)

Television programs produced in Nova Scotia, such as *This Hour Has 22 Minutes*, *Theodore Tugboat*, and *Trailer Park Boys,* have gained recognition in Canada and elsewhere. As one interviewee suggested, the success of these programs and the existence of a vibrant and successful production industry demonstrates to Nova Scotians and Canadians that Nova Scotia is a "place where things <u>can</u> happen". For any Nova Scotian, the experience of being an audience member at a taping of *This Hour Has 22 Minutes* at the CBC studio supports this point. Apart from the entertainment value of the experience, there is nothing like the collective pride of ownership of a top-rated series that for over ten years has been a favourite across the country.

Furthermore, the presence of a film and television industry and the associated talent base of people make an important contribution to the diversity and liveliness of the local community where they are found.

> *"Imagine Nova Scotia without the artists, without the cultural activity…we are a vital force of modernization in Nova Scotia."* (personal interview)

> *"The film and television industry enriches the lives of all Nova Scotians. It demonstrates to the world that we are a creative, vibrant and tolerant community."* (personal interview)

Appendix B - Impact Analysis Methodology

Introduction

In this appendix, we describe in more detail the methodology used to measure the economic impact of film and television production in Nova Scotia. We begin by describing the overall approach. We then describe the process followed for estimating the direct impact of film and television production in terms of expenditures, household income and FTEs. The direct impact estimates comprised the key input data that were used by the Nova Scotia Department of Finance to estimate the spin-off impacts of and provincial government revenue generated by film and television production activity.

In Appendix C, we have included a copy of the results of the Nova Scotia Department of Finance's input-output analysis.

Overall Approach

The overall approach was two-fold. First we estimated the overall expenditures in the Nova Scotia film and television production industry. Following this, we converted these expenditures into a format that could be input to the input-output model of the Nova Scotia economy. This model was then used to quantify the spin-off and total economic impact of film and television production in the Province.

Once we arrived at an estimate for overall direct expenditures in the Nova Scotia film and television production industry, these expenditures had to be allocated to the following four categories.

1. Nova Scotia Labour
2. Nova Scotia Equipment and Services
3. Non-Nova Scotia Labour
4. Non-Nova Scotia Equipment and Services

Each of these four categories received a different treatment in the input-output modelling process.

The **Nova Scotia Labour** component represents the household income of Nova Scotia residents working in the film and television production industry, and was a key input to the input-output modelling process.

The **Nova Scotia Equipment and Services** amount was further allocated to various industry groupings before it was input to the Nova Scotia input-output model. This industry allocation reflected the equipment and services expenditures made by a typical production. The allocation process is discussed further below.

Non-Nova Scotia Labour is income earned by non-residents of Nova Scotia working on productions in Nova Scotia. In calculating the direct impact of production in Nova Scotia, it is important not to ignore the out-of-pocket spending by non-resident crews and performers while they are in Nova Scotia. Non-Nova Scotia Labour was treated in much the same way as it was in the Nova Scotia Department of Finance's 2000 tax credit analysis. As in the Nova Scotia Department of Finance's 2000 tax credit analysis, we assumed that 50% of the income earned by non-Nova Scotia labour was spent within Nova Scotia. This amount was then split across the *Retail Trade Industries*, and *Accommodation, Food and Beverage Services* industries in order to capture its impact on the Nova Scotia economy.

Spending on **Non-Nova Scotia Equipment and Services** was excluded from the analysis. Any amounts allocated to this category were removed from total expenditures and not included in the input-output analysis.

Domestic Production

The largest component of film and television production activity in Nova Scotia is domestic production. The annual total budgets of domestic productions were allocated as described in the table below.

Table 16 Nova Scotia Domestic Production: Allocation to Spending Categories

	1999/00	2000/01	2001/02	2002/03	2003/04	Percent of total budgets
Millions of dollars						
Total budgets	69.9	64.4	88.7	68.3	62.2	100%
Total NS spend	52.5	48.3	66.5	51.2	46.6	75%
Labour	28.0	25.8	35.5	27.3	24.9	40%
Goods and Services	24.5	22.5	31.0	23.9	21.8	35%
Total Non-NS spend	17.5	16.1	22.2	17.1	15.5	25%
Labour	10.5	9.7	13.3	10.2	9.3	15%
Goods and Services	7.0	6.4	8.9	6.8	6.2	10%

Note: Some totals may not sum due to rounding.
Source: Nordicity estimates and calculations based on data from NSFDC

Key Assumptions

- The total Nova Scotia spend was calculated as 75% of total budgets. This rate was implied by the NSFDC production statistics for 2003/04.
- The Nova Scotia labour spend was calculated as 40% of total budgets. This rate was implied by the NSFDC production statistics for Nova Scotia labour for 2003/04.
- To calculate the non-Nova Scotia labour, we first determined how much of the total budget was spent directly on labour. The amount spent on Canadian labour as reported in the NSFDC production statistics was taken to represent the total amount of labour spend. This was found to be approximately 55% of total budgets. The Nova Scotia labour amount was then deducted from the total labour amount to arrive at an estimate of non-Nova Scotia labour.
- The amounts for spending on equipment and services were calculated by subtracting the estimates for labour spend from the total Nova Scotia spend and total non-Nova Scotia spend amounts, respectively.

Because we did not have detailed data for each year of the 1999/00 to 2003/04 period, the domestic production expenditures were allocated to the spending categories on the basis of the ratios observed in 2002/03 and 2003/04.

2003/04 was the first year for which NSFDC started to collect production budget statistics on the basis of total Nova Scotia and total non-Nova Scotia expenditures. These 2003/04 statistics indicated that in that year, 75% of total budgets was spent on Nova Scotia labour, and equipment and services. This rate was applied to all five years of the analysis.

NSFDC statistics for 2002/03 and 2003/04 indicated that approximately 40% of total domestic production budgets were spent directly on Nova Scotia labour. The assumption of 75% for Nova Scotia expenditures and 40% for Nova Scotia labour implied that 35% of domestic production budgets was spent on Nova Scotia equipment and services.

NSFDC statistics for 2003/04 indicated that approximately 55% of domestic production budgets was spent on Canadian labour. Since domestic productions are, for the most part, developed, created and produced by Canadians, the rate of 55% was taken as the proportion of total budgets spent on all labour – Nova Scotia and non-Nova Scotia. Given that 40% of total budgets was assumed to be spent on Nova Scotia labour, the proportion for non-Nova Scotia labour was 15% of total budgets.

The allocation of Nova Scotia labour and purchases of equipment and services, and the allocation of non-Nova Scotia labour left 10% of total domestic production budgets for spending on non-Nova Scotia equipment and services.

The total amount of Nova Scotia equipment and services spending had to be allocated to various input-output model industry groupings before it could be analysed. The Nova Scotia Department of Finance's input-output model is comprised of the following 42 industries in addition to household income.

Table 17 Nova Scotia Input-Output Model: Industry Categories

1	Agricultural and Related Service Industries	24	Non-Metallic Mineral Products Industries
2	Fishing and Trapping Industries	25	Refined Petroleum and Coal Products Industries
3	Logging and Forestry Industries	26	Chemical and Chemical Products Industries
4	Mining, Quarrying and Oil Well Industries	27	Other Manufacturing Industries
5	Fish Products Industry	28	Construction Industries
6	Other Food Products	29	Transportation and Storage Industries
7	Beverage Industries	30	Communication and Other Utilities Industries
8	Tobacco Products Industries	31	Wholesale Trade Industries
9	Rubber Products Industries	32	Retail Trade Industries
10	Plastic Products Industries	33	Finance and Insurance and Real Estate Industries
11	Leather and Allied Products Industries		
12	Primary Textile Industries	34	Business Service Industries
13	Textile Products Industries	35	Educational Service Industries
14	Clothing Industries	36	Health and Social Service Industries
15	Wood Industries	37	Accommodation, Food and Beverage Service Industries
16	Furniture and Fixtures Industries		
17	Paper and Allied Products Industries	38	Other Service Industries
18	Printing, Publishing and Allied Industries	39	Operating, Office Cafeteria and Laboratory Supplies
19	Primary Metal Industries		
20	Fabricated Metal Products Industries	40	Travel, Entertainment, Advertising and Promotion
21	Machinery Industries		
22	Transportation Equipment Industries	41	Transportation Margins
23	Electrical and Electronic Products Industries	42	Non-Profit Institutions Serving Households
		43	Households (Labour Income)

To develop an allocation model, we examined an audited budget for a typical television production shot in Nova Scotia in 2003. Each type of expenditure for equipment and services was matched with a Standard Industrial Classification (SIC) code and categorized to one of the 42 industry groupings. The result was the following allocation model.

Table 18 Domestic Production: Equipment and Services Expenditure Allocation Model

I-O Model Industry Grouping	Industry	Percent of total NS equipment and services spending	SIC Code
31	**Wholesale Trade Industries**	**10.1%**	
	Construction Materials	2.7%	563 Lumber and Building Materials, Wholesale
	Props	1.7%	563 Lumber and Building Materials, Wholesale
	Art Supplies	0.2%	598 General Merchandise, Wholesale
	Wardrobe Supplies	2.2%	531 Apparel, Wholesale
	Make-up/Hair Supplies	0.1%	523 Drugs and Toilet Preparations, Wholesale
	Set Dressing	3.1%	598 General Merchandise, Wholesale
33	**Finance and Insurance and Real Estate Industries**	**16.1%**	
	Site expenses	4.8%	751 Operators of Buildings and Dwellings
	Indirect costs (50%)	6.9%	712 Business Financing Companies
	Completion Bond	4.3%	733 Property and Casualty Insurers
34	**Business Service Industries**	**23.5%**	
	Indirect costs (50%)	14.1%	779 Other Business Services
	General Expenses	4.7%	779 Other Business Services
	Production office expenses	4.8%	779 Other Business Services
37	**Accommodation, Food and Beverage Service Industries**	**4.6%**	
	Travel and Living Expenses (50%)	2.4%	91 Accommodation Service Industries
	Unit expenses	2.2%	9214 Caterers
38	**Other Service Industries**	**42.0%**	
	Special Effects	0.2%	9619 Other Motion Picture, Audio and Video Services
	Studio expenses	1.7%	9611 Motion Picture and Video Production
	Production laboratory	5.5%	9613 Motion Picture Laboratories and Video Production Facilities
	Camera Equipment	2.6%	9912 Audio-Visual Equipment Rental and Leasing
	Electrical Equipment	2.7%	9912 Audio-Visual Equipment Rental and Leasing
	Grip Equipment	1.3%	9912 Audio-Visual Equipment Rental and Leasing
	Sound equipment	0.7%	9912 Audio-Visual Equipment Rental and Leasing
	Editorial Equipment	0.9%	9912 Audio-Visual Equipment Rental and Leasing
	Video Post Production	4.6%	9613 Motion Picture Laboratories and Video Production Facilities
	Music	2.2%	9614 Sound Recording Services
	Titles	0.9%	9619 Other Motion Picture, Audio and Video Services
	Versioning	2.6%	9619 Other Motion Picture, Audio and Video Services
	Contingency	9.4%	9611 Motion Picture and Video Production
	Transportation	6.7%	992 Automobile and Truck Rental and Leasing Services
40	**Travel, Entertainment, Advertising and Promotion**	**3.7%**	
	Travel & Living Expenses (50%)	2.4%	996 Travel Services
	Unit publicity	1.3%	774 Advertising Services
	Total	**100%**	

Summary of the Allocation Process

- Each non-labour production-budget category was matched to a Standard Industrial Classification (SIC) code.
- Each budget category was then assigned to the appropriate input-output-model industry grouping.
- For each budget category, we calculated the percentage of non-labour expenses attributable to the category. This calculation was based on information from the budgets of the two Canadian movies of the week.

- Certain budget line items, such as *indirect costs* and *travel and living expenses* were split across two different industries.

Guest Production

The total expenditures for Nova Scotia guest production were allocated in a similar manner to domestic production, however on the basis of different spending ratios.

Table 19 Nova Scotia Guest Production: Allocation to Spending Categories

	1999/00	2000/01	2001/02	2002/03	2003/04	Percent of total budgets
Millions of dollars						
Total budgets	60.0	34.9	48.4	52.0	51.1	100%
Total NS spend	24.0	13.9	19.4	20.8	20.4	40%
Labour	12.0	7.0	9.7	10.4	10.2	20%
Goods and Services	12.0	7.0	9.7	10.4	10.2	25%
Total Non-NS spend	36.0	20.9	29.0	31.2	30.7	60%
Labour	21.0	12.2	16.9	18.2	17.9	35%
Goods and Services	15.0	8.7	12.1	13.0	12.8	25%

Note: Some totals may not sum due to rounding.
Source: Nordicity estimates and calculations based on data from NSFDC

Key Assumptions

- The total Nova Scotia spend was calculated as 40% of total budgets. This rate was implied by the NSFDC production statistics for 2004.
- The Nova Scotia labour spend was calculated as 20% of total budgets. This rate was implied by the NSFDC production statistics for Nova Scotia labour for 2004.
- To calculate the non-Nova Scotia labour, we first determined how much of the total budget was spent directly on labour. We used the same rate (55% of total budget) as was used for domestic productions. The Nova Scotia labour amount was then deducted from the total labour amount to arrive at an estimate of non-Nova Scotia labour spend.
- The amounts for spending on equipment and services were deduced by subtracting the estimates for labour spend from the total Nova Scotia spend and total non-Nova Scotia spend amounts, respectively.

NSFDC production statistics for 2003/04 indicated that 40% of total budgets for guest productions was spent on Nova Scotia labour, and equipment and services. The NSFDC statistics for 2003/04 also indicated that Nova Scotia labour accounted for 20% of the total budgets of guest productions. That left 20% of total budgets for spending on Nova Scotia equipment and services. Because similar statistics were not available for other years, these proportions were applied across all five years of the analysis.

The total Canadian labour cost share of 55% observed for domestic productions in 2002/03 and 2003/04 was used as the assumption for all labour (Canadian and foreign) working on a guest production. The basis for this assumption was the belief that the labour structure of a guest production was similar to that of a domestic production. That is, whether the production was domestic or guest, labour costs would comprise about 55% of the total budget.

The assumption of 55% implied that non-Nova Scotia labour accounted for 35% of the guest production spending, and expenditures for equipment and services outside of Nova Scotia accounted for 25%.

Before being input to the input-output model, Nova Scotia equipment and services expenditures for guest productions were allocated to the industry groupings in the same manner as for domestic productions. The allocation was done using a different allocation model, which was developed by examining the audited budget of a guest production.

Table 20 Guest Production: Equipment and Services Expenditures Allocation Model

I-O Model Industry Grouping	Industry	Percent of total NS equipment and services spending	SIC Code
31	**Wholesale Trade Industries**	**8.7%**	
	Construction Materials	2.3%	563 Lumber and Building Materials, Wholesale
	Props	1.5%	563 Lumber and Building Materials, Wholesale
	Art Supplies	0.2%	598 General Merchandise, Wholesale
	Wardrobe Supplies	1.9%	531 Apparel, Wholesale
	Make-up/Hair Supplies	0.1%	523 Drugs and Toilet Preparations, Wholesale
	Set Dressing	2.7%	598 General Merchandise, Wholesale
33	**Finance and Insurance and Real Estate Industries**	**13.9%**	
	Site expenses	4.1%	751 Operators of Buildings and Dwellings
	Indirect costs (50%)	6.0%	712 Business Financing Companies
	Completion Bond	3.7%	733 Property and Casualty Insurers
34	**Business Service Industries**	**20.3%**	
	Indirect costs (50%)	12.1%	779 Other Business Services
	General Expenses	4.0%	779 Other Business Services
	Production office expenses	4.2%	779 Other Business Services
37	**Accommodation, Food and Beverage Service Industries**	**10.9%**	
	Travel and Living Expenses (50%)	9.0%	91 Accommodation Service Industries
	Unit expenses	1.9%	9214 Caterers
38	**Other Service Industries**	**36.3%**	
	Special Effects	0.2%	9619 Other Motion Picture, Audio and Video Services
	Studio expenses	1.4%	9611 Motion Picture and Video Production
	Production laboratory	4.7%	9613 Motion Picture Laboratories and Video Production Facilities
	Camera Equipment	2.2%	9912 Audio-Visual Equipment Rental and Leasing
	Electrical Equipment	2.3%	9912 Audio-Visual Equipment Rental and Leasing
	Grip Equipment	1.1%	9912 Audio-Visual Equipment Rental and Leasing
	Sound equipment	0.6%	9912 Audio-Visual Equipment Rental and Leasing
	Editorial Equipment	0.7%	9912 Audio-Visual Equipment Rental and Leasing
	Video Post Production	4.0%	9613 Motion Picture Laboratories and Video Production Facilities
	Music	1.9%	9614 Sound Recording Services
	Titles	0.8%	9619 Other Motion Picture, Audio and Video Services
	Versioning	2.2%	9619 Other Motion Picture, Audio and Video Services
	Contingency	8.1%	9611 Motion Picture and Video Production
	Transportation	5.8%	992 Automobile and Truck Rental and Leasing Services
40	**Travel, Entertainment, Advertising and Promotion**	**10.0%**	
	Travel & Living Expenses (50%)	9.0%	996 Travel Services
	Unit publicity	1.1%	774 Advertising Services
	Total	**100%**	

Summary of the Allocation Process

- Each non-labour production-budget category was matched to a Standard Industrial Classification (SIC) code.
- Each budget category was then assigned to the appropriate input-output-model industry category. In this case, each category could be assigned to one of seven different industry categories.
- For guest productions, we set the travel and living expenses to 10% of the total non-labour budget, and recalculated the other percentages. This adjustment was informed by our review of the sample budget for an American movie of the week shot in Nova Scotia.
- Certain budget line items, such as *indirect costs* and *travel and living expenses* were split across two different industries.

CBC In-House Television Production

While data were not available from the CBC, we used public data sources and information from interviews with the CBC to derive estimates for in-house production spending by the CBC.

In deriving the estimates for CBC in-house production, our goal was to estimate what portion of production activity can be related back to the fact that Halifax has grown to become a major production centre in Canada. Recognizing this, we needed to remove locally-oriented production activity that could very well have proceeded without the existence of a significant film and television production community in Nova Scotia. In effect, we were interested in the CBC in-house production in Nova Scotia that was created for national audiences. It is this type of production that a national broadcaster such as the CBC could have shifted to another location, but did not because of the production infrastructure in Halifax.

Table 21 Methodology to Derive Estimates of CBC In-House Television Production Spending

Fiscal Year Ending	2000	2001	2002	2003	2004*
Total In-House production spending – Atlantic Canada ($) (Source: CFTPA, *Profile*)	41,600,000	33,000,000	31,800,000	36,000,000	36,000,000
Deduct: In-House production spending by private conventional broadcasters – Atlantic Canada ($) (Source: CRTC Financial Summaries)	13,626,882	12,377,266	12,819,435	16,162,634	16,162,634
Estimate for CBC in-house production spending in Atlantic Canada ($)	27,973,118	20,622,734	18,980,565	19,837,366	19,837,366
Assumption: Share of CBC Atlantic Canada spending in Nova Scotia	75%	75%	75%	75%	75%
Estimated amount of CBC Nova Scotia in-house production spending	20,979,839	15,467,050	14,235,424	14,878,025	14,878,025
Assumption: Share of CBC Nova Scotia in-house production spending that is created for national audiences	$66^2/_3$%	$66^2/_3$%	$66^2/_3$%	$66^2/_3$%	$66^2/_3$%
Estimated amount of CBC Nova Scotia in-house production that is created for national audiences	**13,986,559**	**10,311,367**	**9,490,283**	**9,918,683**	**9,918,683**

* Estimate for 2004 based on data for 2003.

Source: Nordicity calculations based on data from CFTPA, *Profile 2004*; CRTC, *Financial Summaries*; and interviews with CBC.

We employed the following approach to estimating the amount of CBC in-house production spending that was created for national audiences. First, we had to derive an estimate for CBC in-house production activity in Nova Scotia. To do this we obtained data for total (CBC and private broadcasters) in-house production in Atlantic Canada from the CFTPA's annual industry profile, *Profile 2004:An Economic Report on the Canadian Film and Television Production Industry* .[30] From this amount, we deducted the total amount of in-house production spending by private conventional Canadian broadcasters. These data were available for the CRTC's annual financial summaries for the Canadian television broadcasting industry.[31] The residual amount was taken to be an estimate for total CBC in-house production spending in Atlantic Canada.

From the estimate for CBC Atlantic Canada in-house production spending, we needed to isolate an amount for Nova Scotia. For private conventional broadcasters, we used Nova Scotia's population share to apportion an amount. For CBC, we did not take this approach. Because Halifax has become one of the CBC's national production centres – serving both Atlantic Canada and all of Canada – we considered it more appropriate to use a share higher than Nova

[30] With the exception of 2004, the data were not published in the CFTPA's report. We had to calculate the annual amounts by deducting from total Atlantic Canada film and television production the amounts for CAVCO production, non-CAVCO production and foreign location production. Please see Exhibits 19, 19b, 20 and 21.in *Profile 2004: An Economic Report on the Canadian Film and Television Production Industry.*

[31] Please see CRTC, *Television: Statistical and Financial Summaries.*

Scotia's 40% population share. Instead, we used a rate of 75%. As such, 75% of the estimated level of CBC in-house production activity in Atlantic Canada was assumed to be in Nova Scotia.

The CBC Nova Scotia production estimate represents a combination of local and national programming. Since we did not have any information or proxies that could be used to estimate the national share, we had to make an assumption. In this case, we assumed that $66^{2}/_{3}$% of the total Nova Scotia in-house production spending was national, with the other $33^{1}/_{3}$% being locally oriented.

The locally oriented programming includes largely local news programming that is considered less susceptible to the production environment. To a large extent, local programming such as local news would have proceeded regardless of the state of the local production community. The national programming however is much more a function of the local production community. With a significant production community in Halifax, there was an infrastructure of creative and technical talent from which the CBC could create programming. Without this infrastructure, it would have been less likely that this type of national programming would have been made by the CBC in Nova Scotia.

Because in-house television production is domestic production, the CBC in-house production was allocated to spending categories and industry groupings using the same proportions as domestic production.

Table 22 CBC In-House Television Production: Allocation of Spending

	1999/00	2000/01	2001/02	2002/03	2003/04	Percent of total budgets
Millions of dollars						
Total spending	13.99	10.31	9.49	9.92	9.92	100%
Total NS spend	10.49	7.73	7.12	7.44	7.44	75%
Labour	5.59	4.12	3.80	3.97	3.97	40%
Goods and Services	4.90	3.61	3.32	3.47	3.47	35%
Total Non-NS spend	3.50	2.58	2.37	2.48	2.48	25%
Labour	2.10	1.55	1.42	1.49	1.49	15%
Goods and Services	1.40	1.03	0.95	0.99	0.99	10%

Note: Some totals may not sum due to rounding.
Source: Nordicity estimates and calculations based on data from CRTC, NSFDC and Statistics Canada

Conventional Broadcasters' In-House Television Production

Data from the CRTC was used to estimate amounts for production spending on in-house television production of certain programming.

Because data were only available for Atlantic Canada, the total production amounts were adjusted by the Nova Scotia share of Atlantic Canada's total population in order to arrive at an estimate for Nova Scotia production.

Table 23 Estimate of Nova Scotia Conventional Broadcaster In-House Television Production

	1999/00	2000/01	2001/02	2002/03	2003/04*
Program Categories (excluding news and sports)					
Other information	939,780	975,570	1,002,275	1,709,306	--
Drama	--	--	--	--	--
Music	--	1,000	1,000	1,000	--
Game shows	--	--	--	--	--
Human interest	383,951	148,230	165,202	154,528	--
Other information	--	--	--	--	--
Total	1,323,731	1,124,800	1,168,477	1,864,834	1,370,461
Nova Scotia share of Atlantic Canada population	40%	40%	40%	40%	40%
Estimated Total Expenditures	529,492	449,920	467,391	745,934	548,184

* Data for program categories was not available. The average total for the 1999/00 to 2002/03 was used.
Source: Nordicity estimates and calculations based on data from CRTC and Statistics Canada

Because in-house television production is domestic production, it was allocated to spending categories and industry groupings using the same proportions as domestic production.

Table 24 Nova Scotia Conventional Broadcaster In-House Television Production: Allocation of Spending

	1999/00	2000/01	2001/02	2002/03	2003/04	Percent of total budgets
Millions of dollars						
Total spending	0.53	0.45	0.47	0.75	0.55	100%
Total NS spend	0.40	0.34	0.35	0.56	0.41	75%
Labour	0.21	0.18	0.19	0.30	0.22	40%
Goods and Services	0.19	0.16	0.16	0.26	0.19	35%
Total Non-NS spend	0.13	0.11	0.12	0.19	0.14	25%
Labour	0.08	0.07	0.07	0.11	0.08	15%
Goods and Services	0.05	0.04	0.05	0.07	0.05	10%

Note: Some totals may not sum due to rounding.
Source: Nordicity estimates and calculations based on data from CRTC, NSFDC and Statistics Canada

Pay and Specialty Television Network In-House Television Production

The data for the pay and specialty television in-house production was obtained directly from the CRTC's financial summary (CRTC, *Individual Pay and Specialty Services: Statistical and Financial Summaries*, 1999 - 2003) for the Independent Film Channel. Again, for the input-output modelling process, the Independent Film Channel's total in-house production spending was allocated to spending categories and industry groupings using the same proportions as domestic production.

Table 25 Nova Scotia Pay and Specialty Television Network In-House Television Production: Allocation of Spending

	1999/00	2000/01	2001/02	2002/03	2003/04	Percent of total budgets
Millions of dollars						
Total spending	--	--	0.40	0.80	0.80	100%
Total NS spend	--	--	0.30	0.60	0.60	75%
Labour	--	--	0.16	0.32	0.32	40%
Goods and Services	--	--	0.15	0.28	0.28	35%
Total Non-NS spend	--	--	0.10	0.20	0.20	25%
Labour	--	--	0.06	0.12	0.12	15%
Goods and Services	--	--	0.04	0.08	0.08	10%

Note: Some totals may not sum due to rounding.
Source: Nordicity estimates and calculations based on data from CRTC, NSFDC and Statistics Canada

Other Production Expenditures

On the online survey distributed to the Nova Scotia production community, we asked producers to estimate the average annual dollar value of expenditures for the production of television commercials, educational or instructional videos, business or industrial videos, local television production, and other non-theatrical production. A total of 14 producers responded to the questions. We summed the dollar amounts provided by respondents in order to derive an estimate for the annual average level of other types of production.

The responses indicated that production spending in other types of production (television commercials, educational or instructional videos, business or industrial videos, local television production, and other non-theatrical production) amounted to approximately $1.3 million per annum. Most of the production was in the category of television commercials. In this case, we did not have a method to inflate the actual results to an overall industry estimate. As such, we took the total amount reported by respondents as the industry-wide estimate. Because of this, we consider the industry estimate highly conservative for this segment of production activity.

It should be noted that the estimate for other types of production was based on unverifiable information supplied by survey respondents. Survey respondents were asked to recall and report the average annual dollar expenditures made by their firms. These data were then used to extrapolate the annual expenditure amounts for each year of the analysis. We considered this simplification acceptable, since the total expenditures over the five-year period were more important to our analysis than year-to-year fluctuations in activity.

The other-production expenditures were allocated to spending categories and industry groupings using the same proportions as guest production. This was considered the most conservative approach, considering that these types of productions are outside of the Nova Scotia tax credit, and therefore have limited incentive to maximize the employment of Nova Scotia Labour.

Table 26 Other Production Expenditures: Allocation of Spending

	1999/00	2000/01	2001/02	2002/03	2003/04	Percent of total budgets
Millions of dollars						
Total budgets	1.30	1.30	1.30	1.30	1.30	100%
Total NS spend	0.52	0.52	0.52	0.52	0.52	40%
Labour	0.26	0.26	0.26	0.26	0.26	20%
Goods and Services	0.26	0.26	0.26	0.26	0.26	25%
Total Non-NS spend	0.78	0.78	0.78	0.78	0.78	60%
Labour	0.46	0.46	0.46	0.46	0.46	35%
Goods and Services	0.33	0.33	0.33	0.33	0.33	25%

Note: Some totals may not sum due to rounding.
Source: Nordicity estimates and calculations based on data from online survey of Nova Scotia film and television production industry and NSFDC.

Capital Expenditures

Based on the results from the supplementary online survey, we made the following estimates for capital expenditures by film and television production companies in Nova Scotia. Capital expenditures reported by production companies were multiplied by 7.13 to arrive at an estimate for the overall industry. The multiplier reflects the fact that the production spending by respondents represented approximately 14% of total Nova Scotia domestic production activity during the 1999/00 to 2003/04 period.

Table 27 Online Survey Results, Capital Expenditures

	Reported amount of Capital Expenditures	Multiplier*	Estimate for Overall Industry	Add: Amounts Reported by Post-Production Companies	Estimate for Category Total
Construction or renovation	46,000	7.13	328,000	0	328,000
Purchase of production equipment	654,000	7.13	4,663,000	0	4,663,000
Purchase of post-production equipment	67,000	7.13	478,000	1,000,000	1,478,000
Purchase of office equipment	87,000	7.13	620,000	0	620,000

* A 14% survey coverage rate implies a multiplier of 7.13 to gross up reported amounts to overall industry estimate.
Source: Nordicity estimates and calculations based on data from online survey of Nova Scotia film and television production industry and NSFDC.

In the case of capital expenditures on post-production equipment, we added an amount $1 million. This represented the annual average capital spending level reported to us by Nova Scotia-based post-production companies.

For each category of capital expenditure, we also used data from the online survey to estimate the share spent through Nova Scotia suppliers (Nova Scotia spend). For construction and renovation spending, and purchases of office equipment, we assumed that 100% of expenditures were made through Nova Scotia suppliers. For purchases of production equipment, we assumed that 45% of spending was made through Nova Scotia suppliers. For purchases of post-production equipment, we assumed that 80% of expenditures were made through Nova Scotia suppliers. The Nova Scotia spend rates for production equipment and post-production equipment were actually based on the amounts reported on the supplementary online survey.

Table 28 Capital Expenditures of Nova Scotia Production Companies: Allocation of Spending

	1999/00	2000/01	2001/02	2002/03	2003/04
Millions of dollars					
Total capital expenditures	7.09	7.09	7.09	7.09	7.09
Total Nova Scotia spend	4.23	4.23	4.23	4.23	4.23
Construction or renovation	0.33	0.33	0.33	0.33	0.33
Purchase of production equipment	2.10	2.10	2.10	2.10	2.10
Purchase of post-production equipment	1.18	1.18	1.18	1.18	1.18
Purchase of office equipment	0.62	0.62	0.62	0.62	0.62
Total Non-Nova Scotia spend	2.86	2.86	2.86	2.86	2.86
Construction or renovation	0.00	0.00	0.00	0.00	0.00
Purchase of production equipment	2.57	2.57	2.57	2.57	2.57
Purchase of post-production equipment	0.30	0.30	0.30	0.30	0.30
Purchase of office equipment	0.00	0.00	0.00	0.00	0.00

Note: Some totals may not sum due to rounding.
Source: Nordicity estimates and calculations based on data from online survey of Nova Scotia film and television production industry.

Again, it should be noted that the estimates for capital expenditures were based on unverifiable information supplied by survey respondents. Survey respondents were asked to recall and report the average annual dollar amount of capital expenditures made by their firms in various categories. Respondents were also asked to estimate the share of capital expenditures spent within Nova Scotia. These data were then used to extrapolate the annual capital expenditure amounts for each year of the analysis. We considered this simplification acceptable, since the total capital expenditures over the five-year period were more important to our analysis than year-to-year fluctuations in activity.

Before including the estimates for capital goods purchases in the input-output analysis, we applied a retail margin of 19.6%. This is the average retail margin published by Dun&Bradstreet and used by the Nova Scotia Department of Finance for their economic modelling.

Table 29 Adjusted Capital Expenditures

	1999/00	2000/01	2001/02	2002/03	2003/04
Millions of dollars					
Total Nova Scotia spend	1.09	1.09	1.09	1.09	1.09
Construction or renovation	0.33	0.33	0.33	0.33	0.33
Purchase of production equipment (19.6% margin)	0.41	0.41	0.41	0.41	0.41
Purchase of post-production equipment (19.6% margin)	0.23	0.23	0.23	0.23	0.23
Purchase of office equipment (19.6% margin)	0.12	0.12	0.12	0.12	0.12

Note: Some totals may not sum due to rounding.
Source: Nordicity estimates and calculations based on data from online survey of Nova Scotia film and television production industry, and Nova Scotia Department of Finance and Dun&Bradstreet.

<u>Key Assumptions</u>

- 100% of construction and renovation expenditures were assumed to be spent in Nova Scotia and were allocated to *Construction Industries*.
- 45% of production equipment expenditures were assumed to be spent in Nova Scotia and were allocated to the *Retail Trade Industries.*
- 80% of post-production equipment expenditures were assumed to be spent in Nova Scotia and were allocated to the *Retail Trade Industries.*
- 100% of office equipment expenditures were assumed to be spent in Nova Scotia and were allocated to the *Retail Trade Industries.*
- A retail margin of 19.6% was applied to capital expenditures for production equipment, post-production equipment, and office equipment.

Other Employment Compensation

The results of the supplementary online survey for 2002 and 2003 indicate that across the industry, there was an additional $3.3 million in labour compensation in the form of salaries and bonuses paid to production company employees and contractors outside of production budgets. This entire amount was allocated to the household income of Nova Scotia residents.

Survey respondents were asked to estimate the annual amounts of other employment compensation during each of the last five years. These reported amounts were grossed up by a multiplier for each year in order to arrive at an estimate for the overall industry.

Table 30 Online Survey Results, Other Employment Compensation

	Reported amount of Other Employment Compensation	Multiplier*	Estimate for Overall Industry
1999	30,000	8.62	1,206,810
2000	60,000	9.17	1,157,731
2001	268,000	4.54	2,798,234
2002	276,000	10.62	**3,344,394**
2003	495,000	3.25	**3,323,034**

* For each year, the survey coverage rate – based on share of domestic production spending – was used to derive the multiplier to gross up reported amounts to overall industry estimate.
Source: Nordicity estimates and calculations based on data from online survey of Nova Scotia film and television production industry and NSFDC.

The estimates for 2002 and 2003 were each approximately $3.3 million. Because these two years had the highest number of production companies responding to this particular question, they were taken to be the most indicative of other employment compensation during the five-year period of the analysis.

As with the other data based on information from the online survey, it should be noted that the estimates for other employment compensation were based on unverifiable information supplied by survey respondents. Survey respondents were asked to recall and report the annual dollar amount of other employment compensation made by their firms. These data were then used to extrapolate the annual amounts for each year of the analysis. We then took the most indicative years to represent an annual average for the whole period.

Annual Average Salary and FTEs

The input-output modelling process also required that we develop estimates for the average annual salary for a full-time employee in the film and television production industry, the annual average employee cost, and the number of FTEs employed in the industry.

To arrive at an estimate for the average annual salary for a full-time employee, we used data from Statistics Canada. According to the 2001 *Census of Canada*, the average employment income for full-time workers in the *Motion Picture and Sound Recording Industries* was $46,693 in 2000. For Nova Scotia, the corresponding figure was $42,286, or approximately 90% of the national average. This salary figure reflects all occupations, including producers, directors, writers and below-the-line positions. And because it is for only full-time workers, it represents the best estimate of the average salary for a full-time equivalent worker.

Table 31 Average Salary, Motion Picture and Sound Recording Industries

	Canada	Nova Scotia	Nova Scotia Ratio
Average employment income, 2000, total - full-year, full-time workers, Motion Picture and Sound Recording Industries, $	46,693	42,286	90.6%

Source: Statistics Canada, *Census of Canada*, 2001, Cat. No. 97F0012XCB01049

Of course, the census data for Nova Scotia requires two adjustments before it can be incorporated into the input-output modelling process.

First, the census data point was only for 2000; a method was required to convert the data point into a time series for the 1999 to 2003 period.

Second, the data point was for the combination of the *Motion Picture and Sound Recording Industries*. As such, some type of adjustment needed to be made to remove the effect of employees in the sound recording industry. As our research below will indicate, the average salary of motion picture industries employees is actually very close to of the average for the *Motion Picture and Sound Recording Industries* because close to 93% of the workers in this industry category are actually employed in the *Motion Picture and Video Industries*.

The 2000 data point was converted into a time-series by applying the average annual wage increase for organized labour in the *Information and Cultural Industries*. The data can be found in the table below. We considered these rates the most appropriate because most of the personnel working in the film and television production industry do so within an organized labour environment.

Table 32 Organized Labour Wage Increase Rates, Information and Cultural Industries

	1999	2000	2001	2002	2003
Annual wage increases in collective agreements, Information and Cultural Industries, %	2.6	..	3.2	..	2.5

.. data not available
Source: Statistics Canada, CANSIM, table 278-0007

Because data points for the organized labour wage increase rates were not available from Statistics Canada for 2000 and 2002, we substituted the annual national consumer price inflation rates for those years (see italicized numbers in table below).

Table 33 Wage Inflation Rates

	1999	2000	2001	2002	
Annual wage inflation rates, %	2.6	*2.7*	3.2	*2.2*	2.5%

Source: Statistics Canada, CANSIM II, table 326-0002

The wage inflation rates were then applied to the 2000 employment income data for Nova Scotia to derive a time series for the full-time equivalent average annual salary for the 1999 to 2003 period (see table below).

Table 34 Average Employment Income, Motion Picture and Sound Recording Industries

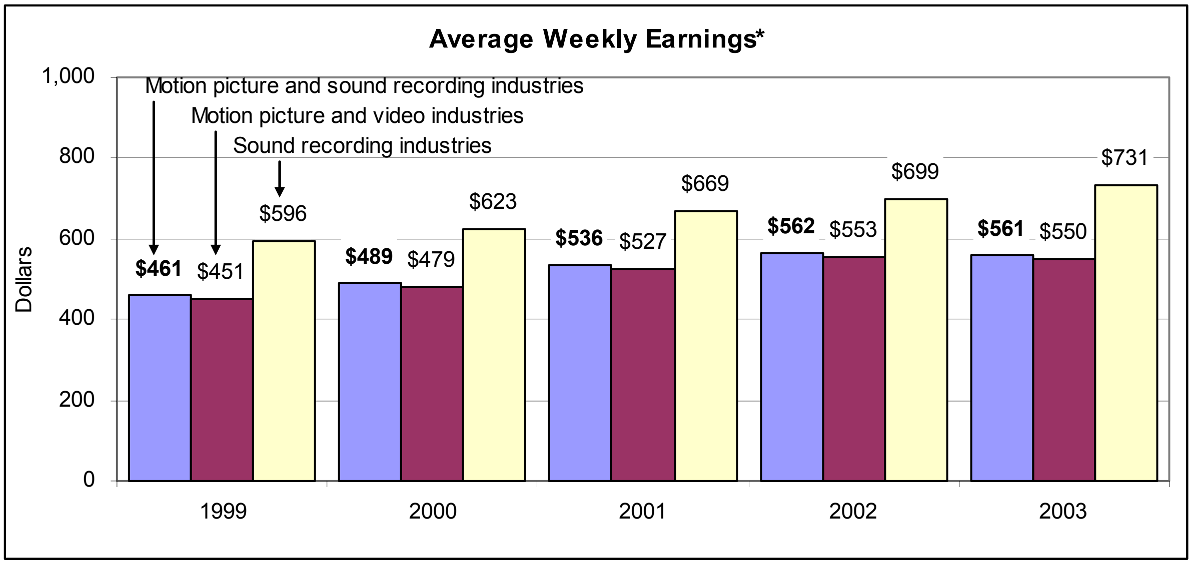
	1999	2000	2001	2002	2003
Average employment income , total - full-year, full-time workers, motion picture and sound recording industries, Nova Scotia, $	**41,174**	**42,286**	**43,639**	**44,599**	**45,714**
Annual wage inflation rate, %	2.6	2.7	3.2	2.2	2.5

Source: Nordicity calculations based on data from Statistics Canada

Of course, this time series reflects employment in both the motion picture industries and sound recording industries. In order to separate the industries, or remove the effect of the sound recording industries, we used data from Statistics Canada's *Survey of Employment, Payrolls and Hours* (SEPH). Like the Census of Canada, the SEPH is based on North American Industrial Classification System (NAICS) categories, so it has wage and employment information for *Motion Picture and Sound Recording Industries*, and the related sub-industries of *Motion Picture and Video Industries* and *Sound Recording Industries*.

According to the SEPH, for average weekly earnings (CANSIM Table 281-0026), earnings in the *Sound Recording Industries* were considerably higher than in the *Motion Picture and Video Industries*. In 2003, average weekly earnings (including overtime) for all employees (including salaried employees and employees paid by the hour) in the *Sound Recording Industries* were $731 or 33% higher than the average for all employees in the *Motion Picture and Video Industries* ($550), and 30% higher than the combined average for the *Motion Picture and Sound Recording Industries* ($561).

Figure 56 Average Weekly Earnings*



* Average weekly earnings of all employees (includes overtime)
Source: Statistics Canada, *Survey of Employment, Payrolls and Hours (SEPH)*, CANSIM Table 281-0026.

While the average earnings in the *Sound Recording Industries* were considerably higher then those in the *Motion Picture and Video Industries*, they did not raise the combined average by a significant amount, because for each sound recording employee there were approximately 14 employees in the *Motion Picture and Video Industries*. Approximately 93% of the employees in the North American Industry Classification System (NAICS) category of *Motion Picture and Sound Recording Industries* are persons actually working in the *Motion Picture and Video Industries*.

The SEPH data also indicated that, on average, between 1999 and 2003, the level of average weekly earnings in the *Motion Picture and Video Industries* was approximately 98.1% of the overall average of the *Motion Picture and Sound Recording Industries*. This ratio was relatively consistent across the time 1999 to 2003 period.

Table 35 Ratio of Earnings, Motion Picture and Sound Recording Industries and Motion Picture and Video Industries

	1999	2000	2001	2002	2003
Motion Picture and Sound Recording Industries, $ per week	461	489	536	562	561
Motion Picture and Video Industries, $ per week	451	479	527	553	550
Ratio	97.9%	98.1%	98.3%	98.4%	98.0%

Source: Nordicity calculations based on data from Statistics Canada, *Survey of Employment, Payrolls and Hours (SEPH)*, CANSIM Table 281-0026.

For each year, the ratios were applied to derive a time-series for average full-time employment income in the *Motion Picture and Video Industries*.

Table 36 Calculation of Average Employment Income in the Motion Picture and Video Industries

	1999	2000	2001	2002	2003
Average employment income , Total - Full-year, full-time workers, Motion Picture and Sound Recording Industries, Nova Scotia, $	41,174	42,286	43,639	44,599	45,714
Ratio	97.9%	98.1%	98.3%	98.4%	98.0%
Average employment income , Total - Full-year, full-time workers, Motion Picture and Video Industries, Nova Scotia, $	**40,289**	**41,471**	**42,909**	**43,874**	**44,783**

Source: Nordicity calculations based on data from Statistics Canada, *Census of Canada*, 2001, and Statistics Canada, *Survey of Employment, Payrolls and Hours (SEPH)*, CANSIM Table 281-0026.

In order to calculate the number of FTEs employed in the industry, the average annual salary was converted to an annual average employee cost. The average annual salary was grossed up by 17.00% to account for health and union benefit payments, 4.39% for the employer portion of Canadian Pension Plan (CPP) payments, 2.46% for the employer portion of Employment Insurance (EI) benefit payments, and 0.75% for worker's compensation payments. These rates were derived by examining the fringe benefit schedules for Nova Scotia film and television productions.[32]

In total, the average annual salary was grossed up by 24.60% to derive the annual average employee cost.

Table 37 Average Employee Cost in the Nova Scotia Film and Television Production Industry

	1999/00	2000/01	2001/02	2002/03	2003/04
Average annual salary* ($)	40,289	41,471	42,909	43,874	44,783
Annual average employee cost ($)**	**50,201**	**51,672**	**53,465**	**54,667**	**55,800**

* The average salary estimate excludes any fringe benefits or payroll taxes paid by employers. It includes taxes paid by employees.
** The annual average employee cost is equal to the average annual salary plus fringe benefits and payroll taxes paid by employers. The annual average employee cost was used to calculate the total number of FTEs.
Source: Nordicity estimates and calculations based on data from NSFDC, CRTC and Survey of Nova Scotia Film and Television Production Sector, Statistics Canada, and EP Canada Inc.

[32] The fringe benefit rates were obtained from Entertainment Partners Canada, *2004 Rate Book: Atlantic Canada*, EP Canada Inc., 2004. It is available at www.epcanada.com.

Appendix C - Department of Finance Input-Output Analysis

Economic Impact
of the
Nova Scotia Film Industry

Prepared for
Nordicity Group Ltd.

Prepared by
Economic Policy and Analysis Division
Nova Scotia Department of Finance
June 2004

EXECUTIVE SUMMARY

This report is part of a larger study being undertaken by the consultant firm, Nordicity Group Ltd., of the film industry in Nova Scotia. The Economic Policy and Analysis Division of the Nova Scotia Department of Finance has been asked to participate by providing its expertise in assessing economic impacts of project activity on Nova Scotia's economy.

An economic impact analysis is provided on Nova Scotia of the film industry's capital costs and annual operational expenditures incurred over the time frame 1999-2004 to determine impacts on employment, household income and generation of provincial government revenues.

Nova Scotia Film Industry Expenditures in Nova Scotia

The following table represents film industry total expenditures in the Nova Scotia economy over the time period 1999-2004:

Annual Film Industry Expenditures in Nova Scotia 1999-2004, $Millions

Year	Capital Expenditures	Operations Expenditures	Total Expenditures
1999	7.1	120.8	127.9
2000	7.1	145.7	152.8
2001	7.1	111.2	118.3
2002	7.1	148.7	155.8
2003	7.1	133.0	140.1
2004	7.1	125.8	132.9
Total	42.6	785.2	827.8

Economic Impact

The following table summarizes the economic impact results of film industry activity on the Nova Scotia economy over the time frame 1999-2004. The impacts are economic incremental activity in the Nova Scotia economy, but because of the business nature of the film industry they are one-time impacts only, both for capital and operations activity, and are not ongoing continuing impacts.

Economic Impacts of Film Industry Capital and Operations Expenditures of $827.8 Million on the Nova Scotia Economy, 1999-2004, One-time Impacts Only

	Direct	Spin-off	Total
Employment (PYs) 1999-2004:			
Capital	118	57	175
Operations	5,283	8,375	13,658
Total	5,401	8,342	13,833
Household Income ($'000), 1999-2004			
Capital	3,066	1,860	4,926
Operations	277,284	275,964	553,248
Total	280,350	277,824	558,174
Provincial Government Revenue ($'000)			
Capital	265	189	454
Operations	30,300	28,209	58,509
Total	30,565	28,398	58,963
Tax Rates (%)*			
Capital	9.94%	11.64%	10.79%
Operations	13.62%	11.64%	12.63%

*Note: Provincial government revenue is derived by applying tax rates on household income net of fringe benefits. The household income, stated above, includes fringe benefits.

INTRODUCTION

The Economic Policy and Analysis Division of the Nova Scotia Department of Finance has been asked to participate in a study of the Nova Scotia film industry. It has been asked to provide its expertise in assessing economic impacts of project activity on Nova Scotia's economy. This report focuses on the quantifiable economic impacts that are measured with the application of the Nova Scotia Input-Output (IO) Model on data collected by the consultant firm of Nordicity Group Ltd. on the film industry.

METHODOLOGY AND DATA

This study provides an economic impact analysis on Nova Scotia of the film industry's construction costs and annual operational expenditures over the time frame 1999-2004 to calculate impacts on employment, household income and provincial government revenue.

The consultant firm of Nordicity Group Ltd. provided cost information on the film industry operating in the Province. Data collected includes capital construction costs and annual operational expenditures of domestic production, guest production, in-house production and ancillary production of the film industry in Nova Scotia.

Capital expenditure data includes yearly expenditures of Nova Scotia producers on construction or renovations and purchases of equipment. Imported equipment is excluded as leakage from the Nova Scotia economy. Annual operations expenditures includes wage and salary information on Nova Scotia labour (household income) and expenditures, itemized by IO sector, of the film industry in the Province. Non Nova Scotia labour income is excluded from analysis in this report in the determination of direct employment, household income and provincial government revenue impacts but is included in the estimated spending of that income in the Province.

The Nova Scotia IO Model is used for economic impact analysis. Data is applied to Impact Model 2 of the Nova Scotia IO Model which derives spin-off employment and household income. The impact results are supplemented with wage and salary data from Statistics Canada (Cat. No. 72-002) in determining spin-off employment impacts. Economic impacts are divided into three components: direct, spin-off and total impacts. Direct impacts are those that result directly from project expenditures on, or purchases of, goods and services in Nova Scotia. Spin-off impacts are the sum of indirect impacts (due to inter-industry transactions) and induced impacts (from the repercussive effects caused by household spending and re-spending). Total impacts are the sum of direct and spin-off impacts.

The direct impact to provincial government revenue, comprised of personal income, sales taxes, and other indirect taxes is estimated from wages, salaries and benefits given and estimated by the IO Model and applied to tax proformas developed by the Department of Finance. Spin-off provincial government revenue is also estimated from spin-off wages and salaries and from the tax proformas developed by the Department of Finance. The provincial personal income tax rate on household income is based on a single wage earner with one dependant and two kids. No provision is made for the inclusion of corporate income tax (CIT). In 2001, Nova Scotia CIT represented a mere 0.34 per cent of estimated operational expenditures for the film industry. All businesses are considered to produce a taxable supply, which implies that they do not pay HST on their business inputs.

ECONOMIC IMPACT OF CAPITAL EXPENDITURES

Assumptions

- Dollar values are stated in current dollar terms
- Approximately 95 per cent of total capital expenditures consists of equipment purchases which are imported directly into the Province or purchased through Nova Scotia retailers. Equipment brought in directly from outside of Nova Scotia has no economic impact. A retail margin of 19.6 per cent is applied to purchases through a Nova Scotia retailer and $764,200 is placed in the Retail Trade industry sector of the IO Model.
- $328,000 of construction and renovations expenditures is placed in the Construction industry sector of the IO Model.
- Average annual construction and retail trade wages are sourced from Statistics Canada Cat. No. 72-002
- Fringe benefit rates are assumed to be the average rate for Nova Scotia as sourced from Statistics Canada Cat. No. 13F0016XPB for each year 1999-2004. The 2003 fringe benefit rate is used for 2004 since 2004 data is unavailable.
- Taxation data is sourced from Department of Finance's taxation templates. The tax template for 2004 includes tax changes announced in the April 22, 2004 Budget. The tax template assumes a family demographic of two adults (one income earner and one dependent) and two children.

Annual Film Industry Construction Expenditures

Year	$
1999	7,089,000
2000	7,089,000
2001	7,089,000
2002	7,089,000
2003	7,089,000
2004	7,089,000

Economic Impact of Film Industry Incremental Capital Expenditures on the Nova Scotia Economy 1999-2004 (one-time impacts only)

	Direct	Spin-off	Total
Employment (PYs):			
1999	20	5	10
2000	20	5	10
2001	20	5	10
2002	20	5	10
2003	19	5	10
2004	19	5	10
Household Income ($'000):			
1999	511	310	821
2000	511	310	821
2001	511	310	821
2002	511	310	821
2003	511	310	821
2004	511	310	821
Provincial Gov't Revenue ($'000):			
1999	42	31	73
2000	43	31	74
2001	44	31	75
2002	44	32	76
2003	45	32	77
2004	47	32	79

ECONOMIC IMPACT OF ANNUAL OPERATIONS EXPENDITURES

Assumptions

- Wage inflation rates of 2.6%, 2.7%, 3.2%, 2.2%, and 2.5% were assumed by Nordicity Group Ltd. for the years 1999-2003, respectively.
- All other dollar expenditures are stated in current dollar terms.
- Operational expenditures were provided by IO Model industry sectors and were allocated into these sectors for economic impact simulations.
- Expenditures have been aggregated for domestic production, guest production, in-house production, specialty pay, other labour income and ancillary production of the film industry in Nova Scotia.
- The direct average annual employee wage bill includes a fringe benefit rate of 24.6% as determined by Nordicity Group.
- It is assumed that there are no HST rebates on spending by non-Nova Scotia labour in the Province.
- Taxation data is sourced from Department of Finance's taxation templates. The tax template assumes a family demographic of two adults (one income earner and one dependent) and two children.

Annual Film Industry Total Operational Expenditures

Year	$ Millions
1999	120.8
2000	145.7
2001	111.2
2002	148.7
2003	133.0
2004	125.8

Economic Impact of Film Industry Incremental Annual Operations Expenditures on the Nova Scotia Economy 1999-2004 (one-time impacts only)

	Direct	Spin-off	Total
Employment (PYs):			
1999	914	1,395	2,309
2000	983	1,570	2,553
2001	785	1,210	1,995
2002	989	1,560	2,549
2003	839	1,360	2,199
2004	773	1,280	2,053
Household Income ($'000):			
1999	45,479	43,655	89,134
2000	49,342	50,340	99,682
2001	40,585	39,585	80,170
2002	52,854	52,482	105,336
2003	45,864	46,266	92,130
2004	43,160	43,636	86,796
Provincial Gov't Revenue ($'000):			
1999	4,855	4,380	9,235
2000	5,310	5,080	10,390
2001	4,440	4,000	8,440
2002	5,805	5,430	11,235
2003	5,050	4,784	9,834
2004	4,840	4,535	9,375

Appendix D - List of Interviewees

Table 38 List of Interviewees

Name	Company/Organization
Gregor Ash	Atlantic Film Festival
Robert Aske	Stewart McKelvey Stirling Scales
Lazlo Barna	Barna-Alper Productions
Andrea Baynes	Alexander/Enright
Charles Bishop	The Halifax Film Company
Kelly Bray	Legal services
Jason Buxton	Festina Lente Productions
John Wesley Chisholm	Arcadia Entertainment
David Clark	NSCAD
Steven Comeau	Collideascope
Ron Crocker	CBC
John Davis	Eco-Nova Productions
Michael Donovan	The Halifax Film Company
Paul Donovan	Independent producer
Barrie Dunn	Trailer Park Productions Ltd.
Johanna Eliot	Ocean Entertainment Ltd.
Ann Foley	Showtime
Camelia Frieberg	Palpable Productions
Paul Greenhalgh	NSCAD
Wayne Grigsby	Big Motion Pictures
Elizabeth Guildford	Production Manager
Valerie Halman	Magic Rock Productions
Ralph Holt	Telefilm Canada
Robin Johnston	CTV
Slawko Klymkiw	CBC
Madeleine Lévesque	Teletoon
Ann MacKenzie	NSFDC
David MacLeod	Big Motion Pictures
Michael Mahoney	Magic Rock Productions
Laura Michalchyshyn	Showcase and IFC
Jan Miller	Strategic Partners conference
Bill Niven	Idlewild Films Ltd.
Rob Power	Power Post Production
Charlotte Shurko, Ruth Leggett, Rob Grani, David Reilly, Ross Sangster, Bob Petrie	IATSE 849
Anna Stratton	Triptych Media
Randy Sutter	Los Angeles-based producer
Chaz Thorne	Standing 8 Productions Inc.
Andrew Tench	Cultural Production Learning Studios
Gary Vermeir, Jeremy Webb, Jamie Bradley	ACTRA - Maritimes Branch
Michael Volpe	Topsail Entertainment Ltd.
Shelley Wallace	Moving Images Group
Linda Wood	NSFDC
Chris Zimmer	imX communications inc.

Appendix E - Taskforce Members

Table 39 Nova Scotia Film Industry Taskforce Members

Name	Company/Organization
Rob Aske	SMSS
Chris Bryant	Nova Scotia Office of Economic Development
Mike Chisholm	Nova Scotia Department of Finance
David Clark	NSCAD University
Rachel Clark McDearmid	ACOA Nova Scotia
Steven Comeau	Collideascope Digital Productions Inc.
Ron Crocker	Canadian Broadcasting Corporation (CBC)
Walter Forsyth	Atlantic Filmmakers Cooperative (AFCOOP)
Elizabeth Guildford	Production Manager
Ralph Holt	Telefilm Canada
Robin Johnston	CTV Television Inc.
Johanna Lunn Montgomery	IFC - Independent Film Channel
Ken MacIntosh	RBC Financial Group
Ann MacKenzie	NSFDC
Rob Riselli	Production Services Atlantic
Charlotte Shurko	IATSE 849
Bruce Tawse	Nova Scotia Community College (NSCC)
Gary Vermeir	ACTRA Maritimes

Appendix F - Interview Guide

Introduction

The Nova Scotia Film Development Corporation in partnership with Nova Scotia Film Industry Stakeholders Taskforce (“Taskforce”) has commissioned Nordicity Group Ltd. to prepare an economic impact analysis and strategic plan for the film, television and new media production industries in Nova Scotia. As part of the research for this project, the Taskforce has asked Nordicity Group to interview executives from the film, television and new media industries.

The interview is comprised of two parts. **Part A** forms the core of the interview discussion and seeks your insights on topics such as the critical success factors for Nova Scotia, the role of technology, skills and infrastructure, government incentives, and production financing. The interview is comprised of about 40 questions and requires approximately <u>one hour</u> to complete.

In **Part B** we present some questions seeking specific observations on various aspects of production spending, and out-of-pocket spending by crews and performers. This part may be completed outside of the interview. We ask that you pass along a copy of these questions to your company’s chief financial officer, or comptroller for consideration. You may submit your answers to Part B to Nordicity Group by fax at 613-234-0616.

We thank you for your participation.

(see over)

Part A Industry Issues

1. State of the NS Industry: How far we've come

i. Identify interviewee's role in the industry:
Producer [feature, TV, new media]
Service Producer
Government
Education
Creative
Union
Broadcaster
Other

ii. The NS film & TV industry generates about $100 million in production activity annually. In the past couple of years, growth has stalled. Do you have thoughts on why this has happened? What types of projects getting financed? No longer getting financed?

- General industry downturn
  - Specific problems with incentives (tax credits, regional bonuses, equity programs, etc)
  - Specific problems with NS industry (infrastructure, skills, talent pool, etc)

iii. Compared to where you were last year, or 3 to 5 years ago, would you assess your business as improved?

Deteriorated Not at all Somewhat Greatly

Comments on why for each major part of the industry:

a. How is the Film & Television Industry Critical to the Future of Nova Scotia?

iv. Can you give some general comments on why a film & TV industry is important to Nova Scotia?

Films/TV shape the way we see the world
Films/TV shape the way the world sees us
Films/TV great employer
Films/TV contribute to local economy
Films/TV leading career choice among young people (great inhibitor of out-migration)
Films/TV point of pride

v. What cultural or social benefits are obtained by the direct/indirect activities of the production industry in Nova Scotia?

Shape way world sees us
Improves image of NS in Toronto, elsewhere
Helps tourism
People in the industry give time to arts in the community
Attracts business and executives to NS
Offers youth highly desirable career option

b. What is the Role of Technology in the Film & TV Landscape?

vi. Do you believe that Nova Scotia is a leader in content applications in the (digital) new media business?

vii. And if not, should we be? What specialization? Where do we have specific talents?

viii. How is digital technology affecting the production landscape and is the industry in Nova Scotia taking advantage of new tools?

a. Digital video shoots and editing systems
b. HD
c. CGI

ix. Do you see broadband delivery, “video file sharing” or other end runs on the distribution system as a relatively near term threat to your current business model?

2. Building Blocks of an Industry: Infrastructure & Skills

a. Industry Infrastructure: Assessment

i. Do you believe that NS has adequate infrastructure to support a growing film & TV industry?

ii. Please evaluate the following services (availability & quality in Nova Scotia):

Studio Facilities: Availability Well-run Fully-equipped

Comments on specific studios:

Post Production Services: Availability Well-run Fully-equipped

Comments on specific post companies:

Craftspeople: Availability (all departments)
Level of skill
Crew (camera operators, technicians, set builders, costume & makeup…)

Nordicity Group Ltd.
Le Groupe Nordicité ltée

Comments on specific technical abilities and possibly areas that need attention:

b. Creative Skills: Assessment

iii. Please evaluate the following creative services (availability & quality in Nova Scotia):

Writers:	High	Medium	Low
Actors:	High	Medium	Low
Directors:	High	Medium	Low

Comments on specific limitations or inhibitors in the area of competencies in key creative skills:

What kinds of film and video production projects?

iv. In what ways could or should the proposed Film School benefit the industry?

National and international attention to the region
Develop specific talent
Deepen specific talent
Attract new talent to the region
Attract professionals from across Canada and the world to the region
Build new relationships

What other training and education programs fill some of the need? What more is needed if not a Film School?

c. Producer Skills: Assessment

v. Question for non-producer interviewees:
Please evaluate the producing skills of Nova Scotia's producers (compared to other producers across Canada):

	Low	Medium	High
Quality and scope of project	O	O	O
Level of professionalism (sophistication re financing structures, meeting timelines, staying on budget, etc)	O	O	O
Ability to complete complex financing structures	O	O	O
Experience in international markets (co-production and/or sales):	O	O	O

Comments on interviewee's experience working with Nova Scotia producers:

vi. Are there any gaps in the Nova Scotia film & TV skill set?
Distribution
Broadcasting
Private Equity

3. *Vehicles for Growth: Public Policy and Government Incentives*

a. *Existing Government Incentives: Assessment*

i. General discussion on what's working and what's not working. Relative to all of the government incentives available to producers in Nova Scotia, how would you rate the importance of following specific government incentives:

	Very High	High	Equal	Low	Very Low
Federal tax credit	O	O	O	O	O
CTF	O	O	O	O	O
CTF (Telefilm equity and license fee top up)	O	O	O	O	O
Federal regulatory environment (i.e., Canadian content regulations)	O	O	O	O	O
Nova Scotia tax credit	O	O	O	O	O
Nova Scotia tax credit regional bonus	O	O	O	O	O
Nova Scotia equity program	O	O	O	O	O
Nova Scotia support for development	O	O	O	O	O
Nova Scotia support for training	O	O	O	O	O
Nova Scotia support for marketing (festival & markets attendance)	O	O	O	O	O
Nova Scotia support for marketing and guest production promotion	O	O	O	O	O
Nova Scotia support for new media	O	O	O	O	O
Other financing sources for new media	O	O	O	O	O

Comments

ii. What is the single most valuable financing vehicle that the provincial government can provide? What could be down-sized or eliminated to pay for increases in the most valuable vehicles?

Higher tax credit/earlier cash flow/
More flexible expense eligibility rules in tax credits
More production financing
Assistance for distribution
More money for training & skills development
More money for international markets
More script development money
Better lobbying in Ottawa
More marketing for service production industry
More development funding for new media
More investment in production companies rather than projects

iii. Are you aware of other funding mechanisms in other provinces or countries that you believe could be applied with success to Nova Scotia?

iv. Is the Nova Scotia tax credit competitive with other Provinces? Internationally (when combined with the federal content or service tax credit)?

v. Does NS have sufficient regional clout with respect to national institutions like the CRTC, Telefilm, CTF, CFTPA

vi. During the last five years, approximately what share of your film and television projects would have proceeded without the existence of provincial incentives, namely the tax credit? What share of production spending dollars does this share translate into?

b. Identifying the Gaps: What's Missing?

vii. Does Nova Scotia lose business to other provinces because of any of the following?
Level of tax credit
Talent pool
Availability of crews
Facilities
Locations
Distance

Is the business lost mainly for guest productions from the US or from domestic productions?

viii. With respect to building your production business, what do you believe to be your major obstacles to growth?

Access to capital
Knowledge of the international marketplace
Business skills
Access to decision-makers
Sufficient production financing
Business model that supports growth
Access to distribution
Access to talent

ix. Question for non-producer interviewees:
What do you believe to be the major impediments to the growth of a stronger production community in Nova Scotia?

Access to capital
Knowledge of the international marketplace
Business skills
Access to decision-makers
Sufficient production financing
Business model that supports growth
Access to distribution
Access to talent

x. Please give specific examples, from your experience in the industry, has the policy & funding environment improved or deteriorated in the last 5 years?

4. A Vision for Tomorrow: Recommendations & Strategic Goals for the Next 5 Years

xi. What are the Province's greatest success stories?

xii. What are the industry's greatest threats? Opportunities?

xiii. Do you have thoughts and specific recommendations on what needs to be improved in Nova Scotia's film & television industry?

xiv. Finally, if you look forward 5 years, what is your vision for the film and television industry in Nova Scotia? What does it look like? What level of production?

End of interview.
Thank you for your participation
(Please see Part B below)

Part B Economic Impact of Film and Television Production in Nova Scotia

In this section we present some questions seeking specific observations on various aspects of production spending, out-of-pocket spending by crews and performers. This part may be completed outside of the interview. We ask that you pass along a copy of these questions to your company's chief financial officer, or comptroller for consideration. You may submit your answers to Part B by fax to Dustin Chodorowicz, Nordicity Group Ltd., (Fax) 613-234-0616, (Tel) 613-234-9429.

To measure the economic impact of film and television production, it is useful to have an idea of how much is spent by non-resident crews and performers, while they are on location in Nova Scotia.

i. Based on your industry experience what would you estimate is the average daily rate of out-of-pocket spending by non-resident location production crew members? In general, we are referring to meals, accommodation, and transportation expenses not paid for by the production company. Do non-resident location crew members receive a fixed stipend – over and above their wages – to cover living expenses while working away from home?

ii. Based on your industry experience can you make a similar estimate for non-star performers and Hollywood star performers? If so what would you estimate to be the spending habits of non-star and Hollywood star performers?

In many cases, location productions in Nova Scotia are shot in regions outside of Halifax-Dartmouth. To measure the distribution of economic benefits between the regions and Halifax-Dartmouth, it is useful to understand what proportion of production spending on regional shoots is actually spent in Halifax-Dartmouth as opposed to the immediate region of the shoot.

iii. For a typical project, what proportion of various production services expenditures is actually spent within the region of shooting? Please consider expenditures such as:

	Amount	Halifax-Dartmouth %
a. accommodation		
b. food services		
c. transportation		
d. art, make-up, wardrobe		
e. props, construction		
f. auto leasing		
g. facility rental		
h. electrical power		

(The following question is only for Nova Scotia-based producers.)

To measure the economic impact of film and television production, it is useful to have an idea of how much, in addition to production spending, is spent by Nova-Scotia producers on the building of facilities such as studios and post-production labs.

iv. During the last five years, approximately what percentage of your company's spending on the following assets was made within Nova Scotia:
   a. construction of buildings (as opposed to acquisition of buildings)
   b. acquisition of production equipment
   c. acquisition of office equipment

v. What ancillary businesses do you operate as a company that are beyond your actual production projects for which you receive tax credits?

a. TV commercials
b. Equipment rental/other services
c. Local TV production (in-house conventional broadcaster, cable-television programming)
d. Local non-theatrical

Are they a by-product of you being in the production business? What is the approximate dollar amount – even expressed as a percentage of the total production budget – of those activities and how are they allocated (labour, services, etc.)

vi. What are your annual expenditures on business activities that are outside of the financial framework of your production projects, e.g. development, marketing, and overhead activities?

Appendix G - Online Survey Questionnaire

Nova Scotia Film - Online Survey

Introduction

The Nova Scotia Film Development Corporation in partnership with the Nova Scotia Film Industry Stakeholders Taskforce ("Taskforce") has commissioned Nordicity Group Ltd. to prepare an economic impact analysis and strategic plan for the film, television and new media production industries in Nova Scotia. As part of the research for this project, the Taskforce has asked Nordicity Group to conduct an online survey of the Nova Scotia film, television and new media industries.

The survey questionnaire consists of approximately 30 questions and takes about 30 minutes to complete. For some respondents, the total number of questions will be fewer and the time required less. Please answer what you can. Our deadlines are short; so please respond to this survey before April 22, 2004.

The first set of questions seeks your insights on topics such as the critical success factors for Nova Scotia, the role of technology, skills and infrastructure, government incentives, and production financing.

The second set of questions relates to the economic impact of the industry and is mainly for producers and production accountants. These questions seek specific information and data for various aspects of production activity, and corporate spending on facilities and equipment.

For those who are being interviewed directly by the consulting team, you will only be asked to complete a portion of the survey questionnaire.

Your response to this survey will be kept confidential and will only be used as part of the preparation of the Nordicity Group study report. The final report will be published by the NSFDC and respondents to this online survey will be emailed as to how to obtain a copy.

We thank you for your participation.

A. Background Data

1. In which segment of the film, television or new media production industry would you classify your activities? (Please mark all that apply.)

Domestic (Canadian) production
International/service production
Government
Education
Creative
Union/guild
Broadcaster
Other (please specify______________________)

2. Which of the following positions within the production industry do you hold?
(Please mark all that apply.)

Producer
Director
Writer
Actor
Crew/craftspeople
Line producer
Production manager
First artistic director, second artistic director
Camera operator
Below-the-line position
Other (please specify______________________)

3. Have you already completed a research interview with Nordicity Group/Catherine Tait?

Yes/No

*[If **Yes**, got to Section F.]*

4. During the last 24 months were you the lead producer in a Nova Scotia film, television program or new media production?

Yes/No

*[If **No**, go to Section E]*

B. Industry Issues

Note, please answer these questions if you have not been directly interviewed by the project team.

1. The Nova Scotia film and television industry generates about $100 million in production activity annually. In the past couple of years, growth has reached a plateau. Please assess each of the following factors in terms of their significance to the recent slowdown in industry growth?

	Very significant	Significant	Neither significant nor insignificant	Not very significant	Not at all significant	Not applicable
Downturn in international demand for English language-produced films and television programs						
Downturn in Canadian markets for films and television program						
Availability of crews in Nova Scotia						
Quality of crews in Nova Scotia						
Availability of production services (studios, post-production) in Nova Scotia						
Quality of production services (studios, post-production) in Nova Scotia						
Competitiveness of Nova Scotia tax credit in relation to other provinces						
Competitiveness of Nova Scotia tax credit in relation to other countries						
Competitiveness of Nova Scotia equity investment program						
Temporary reduction in CTF funds						

2. Please comment further on the reasons for the recent stall in growth in film and television production activity in Nova Scotia.

3. How would you rate each of the following in terms of their importance in describing the way in which the film and television production industry benefits Nova Scotia?

	Very important	Important	Neither important nor unimportant	Not very important	Not at all important	Not applicable
Films and television programs shape the way Nova Scotians see the world						
Films and television programs shape the way the world sees Nova Scotia						
The industry is a great employer						
The industry contributes to the local economy						
The industry is leading career choice among young people (great inhibitor of out-migration)						
The industry is a point of pride among Nova Scotians						
The industry improves the image of Nova Scotia in Toronto and internationally						
A thriving film and television production industry attracts businesses and executives to Nova Scotia						
Films and television programs made in Nova Scotia attract tourists to Nova Scotia						
A local film and television production industry increases Nova Scotians participation in the local arts community						

4. Please comment further on the importance of the film, television and new media production industry in terms of the social and cultural benefits it brings to Nova Scotia.

C. Infrastructure and Skills

In this section, we are going to ask you questions about the relative quality of the film and television production infrastructure in Nova Scotia. Please answer each question based on your own experiences and involvement with Nova Scotia production projects.

1. Do you believe that Nova Scotia has adequate infrastructure to support a growing film and television production industry?

Yes/No

2. Please rate Nova Scotia's **studio facilities** in terms of their availability, quality of operation, availability and range of production equipment, and competitiveness and rates.

	High	Medium	Low	Not applicable
Availability of lab time and space				
Management of operation				
Availability and range of production equipment				
Competitiveness and rates				

3. Please rate Nova Scotia's **post-production facilities** in terms of their availability, quality of operation, availability and range of production equipment, and competitiveness and rates.

	High	Medium	Low	Not applicable
Availability of lab time and space				
Management of operation				
Availability and range of production equipment				
Competitiveness and rates				

3. Please rate Nova Scotia's **production crews** in terms of their availability and skill level.

	High	Medium	Low	Not applicable
Availability				
Skill level				
Competitiveness and rates				

4. Please add any further comments on the availability and quality of production facilities, post-production facilities and crews in Nova Scotia.

5. Please rate the **screenwriters** resident in Nova Scotia in terms of availability and quality?

	High	Medium	Low	Not applicable
Availability				
Quality				

6. Please rate the **directors** resident in Nova Scotia in terms of availability and quality?

	High	Medium	Low	Not applicable
Availability				
Quality				

7. Please rate the **actors** resident in Nova Scotia in terms of availability and quality?

	High	Medium	Low	Not applicable
Availability				
Quality				

8. Please comment on the availability and quality of creative talent resident in Nova Scotia. Please indicate if there is any seasonality dimension to your answers.

7. In what ways could or should the proposed Film School (including the initial NSCAD manifestation of the school) benefit the industry?
(Please mark all that apply.)

National and international attention to the region
Develop specific talent
Deepen specific talent
Attract new talent to the region
Attract professionals from across Canada and the world to the region
Build new relationships
Other (please specify_____________________)

D. Public Policy and Government Incentives

1. Relative to all of the government incentives available to producers in Nova Scotia, how would you rate the importance of the following specific government incentives?

	Very High	High	Equal	Low	Very Low	Not applicable
Federal tax credit						
CTF (Telefilm equity and license fee top up)						
CTF (regional bonus)						
Federal regulatory environment (i.e., Canadian content regulations)						
Nova Scotia tax credit						
Nova Scotia tax credit regional bonus						
Nova Scotia equity program						
Nova Scotia support for development						
Nova Scotia support for training						
Nova Scotia support for marketing (festival & markets attendance)						
Nova Scotia support for marketing and guest production promotion						
Nova Scotia support for new media						
Other financing sources for new media						

2. Please comment on the government incentives available to film, television and new media producers in Nova Scotia.

3. What is the single most valuable financing vehicle that the provincial government can provide? (Please indicate which vehicles you would rank as first [most valuable], second and third.)

	First	Second	Third
Higher tax credit			
More flexible expense eligibility rules in tax credits			
More production financing			
Assistance for distribution			
More money for training & skills development			
More money for international markets			
More script development money			
Better lobbying in Ottawa			
More marketing for service production industry			
More development funding for new media			
More investment in production companies rather than projects			

4. What could be down-sized or eliminated to pay for increases in the most valuable vehicles? (Please indicate which vehicles you would eliminate rank as first, second and third.)

	First	Second	Third
Higher tax credit			
More flexible expense eligibility rules in tax credits			
More production financing			
Assistance for distribution			
More money for training & skills development			
More money for international markets			
More script development money			
Better lobbying in Ottawa			
More marketing for service production industry			
More development funding for new media			
More investment in production companies rather than projects			

5. Is the Nova Scotia tax credit competitive with other provinces?

Yes/No

6. Is the Nova Scotia tax credit competitive with other countries (when combined with the federal content or service tax credit)?

Yes/No

7. During the last five years, approximately what share of your film, television or new media projects (in terms of total production spending) would have proceeded without the existence of provincial incentives, namely the tax credit?

_________%

8. To what degree would each of the following possible changes to the tax credit be considered improvements in the sense that they would foster increased film, television and new media production in Nova Scotia?

	Very significant improvement	Significant improvement	Neither a significant nor insignificant improvement	Not a very significant improvement	Not at all a significant improvement
Speed of processing and collection of tax credits					
Introduce 'deeming' for certain non-resident positions					
Increase tax credit					
Eliminate regional tax credit					

8. Does Nova Scotia lose business to other provinces because of any of the following?
(Please mark all that apply.)

Level of tax credit
Talent pool
Availability of crews
Quality of crews
Availability of facilities
Quality of facilities
Range of suitable locations
Distance from other major production centres (i.e., Toronto, Los Angeles)
Other (please specify____________________)

9. With respect to building your production business, what do you believe to be your major obstacles to growth? (Please mark all that apply.)

Access to capital
Knowledge of the international marketplace
Business skills
Access to decision-makers
Sufficient production financing
Business model that supports growth
Access to distribution
Access to talent
Other (please specify____________________)

[Skip to Section F]

E. Questions for Non-Producer Respondents

1. The Nova Scotia film and television industry generates about $100 million in production activity annually. In the past couple of years, growth has reached a plateau. Please assess each of the following factors in terms of their significance to the recent stall in industry growth?

	Very significant	Significant	Neither significant nor insignificant	Not very significant	Not at all significant	Not applicable
Downturn in international demand for English language-produced films and television programs						
Downturn in Canadian markets for films and television program						
Availability of crews in Nova Scotia						
Quality of crews in Nova Scotia						
Availability of production services (studios, post-production) in Nova Scotia						
Quality of production services (studios, post-production) in Nova Scotia						
Competitiveness of Nova Scotia tax credit in relation to other provinces						
Competitiveness of Nova Scotia tax credit in relation to other countries						
Competitiveness of Nova Scotia equity investment program						
Temporary reduction in CTF funds						

2. Please comment further on the reasons for the recent stall in growth in film and television production activity in Nova Scotia.

3. How would you rate each of the following in terms of their importance in describing the way in which the film and television production industry benefits Nova Scotia?

	Very important	Important	Neither important nor unimportant	Not very important	Not at all important	Not applicable
Films and television programs shape the way Nova Scotians see the world						
Films and television programs shape the way the world sees Nova Scotia						
The industry is a great employer						
The industry contributes to the local economy						
The industry is leading career choice among young people (great inhibitor of out-migration)						
The industry is a point of pride among Nova Scotians						
The industry improves the image of Nova Scotia in Toronto and internationally						
A thriving film and television production industry attracts businesses and executives to Nova Scotia						
Films and television programs made in Nova Scotia attract tourists to Nova Scotia						
A local film and television production industry increases Nova Scotians participation in the local arts community						

4. Please comment further on the importance of the film, television and new media production industry in terms of the social and cultural benefits it brings to Nova Scotia.

5. What do you believe to be the major impediments to the growth of a stronger production community in Nova Scotia? (Mark all that apply)

Access to capital
Knowledge of the international marketplace
Business skills
Access to decision-makers
Sufficient production financing
Business model that supports growth
Access to distribution
Access to talent
Other (please specify_____________________)

6. Please rate the producing skills of Nova Scotia's producers (compared to other producers across Canada).

	High	Medium	Low	Not applicable
Quality and scope of projects				
Level of professionalism (sophistication re financing structures, meeting timelines, staying on budget, etc)				
Ability to complete complex financing structures				
Experience in international markets (co-production and/or sales)				

F. Economic Impact of Film and Television Production in Nova Scotia

In this section we present some questions seeking specific observations on various aspects of production activity ancillary to tax-credit eligible production, corporate spending on facilities and equipment, and out-of-pocket spending by crews and performers.

To measure the economic impact of film and television production, it is useful to have an idea of Nova Scotia production companies' activities <u>outside</u> of tax-credit eligible types of production.

1. What ancillary businesses do you operate as a company that are beyond your actual production projects for which you receive tax credits? (Mark all that apply)

Television commercials
Equipment rental/other services
Local television production (in-house conventional broadcaster, cable-television programming)
Other local non-theatrical production
Other (please specify______________________)

2. Which of the following ancillary activities are <u>not</u> a by-product of you being in the production business?

Television commercials
Equipment rental/other services
Local television production (in-house conventional broadcaster, cable-television programming)
Other local non-theatrical production
Other (please specify______________________)

3. During the last five years what was the estimated average annual dollar amount of production budgets of the following types of projects (not eligible for tax credits) produced by your company?

(dollars)	Annual average
Television commercials	
Educational/instructional, or business/industrial videos	
Local television production (in-house conventional broadcaster, cable-television programming)	
Other local non-theatrical production	
Other (please specify______________________)	
Total	

To measure the economic impact of film and television production, it is useful to have an idea of how much, in addition to production spending, is spent by Nova-Scotia producers on the physical building or renovation of facilities such as studios and post-production labs as well as equipping them.

4. During the last five years, what was your production company's estimated average annual capital spending on the following types of facilities and equipment?

$_______ Construction or renovation of buildings (as opposed to acquisition of buildings)
$_______ Purchase of production equipment
$_______ Purchase of post-production equipment
$_______ Purchase of office equipment

5. During the last five years, approximately what percentage of your company's spending reported in Question 4 was made within Nova Scotia?

_______% Construction or renovation of buildings (as opposed to acquisition of buildings)
_______% Purchase of production equipment
_______% Purchase of post-production equipment
_______% Purchase of office equipment

In many cases, location productions in Nova Scotia are shot in regions outside of the Halifax Regional Municipality (HRM). To measure the distribution of economic benefits between the regions and the HRM, it is useful to understand what proportion of production spending on regional shoots is actually spent in HRM as opposed to the immediate region of the shoot.

6. For a typical regional project, what proportion of various production services expenditures is actually spent within the region of shooting outside of the HRM? Please consider expenditures such as:

(percentage)	Within the region of shooting
Set construction, props	
Electrical/set lighting	
Wardrobe, make-up, hair	
Transportation	
Location	
Catering and craft service	

G. Survey Conclusion

1. Do you have any additional comments about the film, television or new media production industry's growth and development in Nova Scotia?

2. If you would like Nordicity Group to contact you regarding this survey, please provide us with your e-mail address and/or telephone number (optional).

E-mail address: ____
Telephone: (______)_____________________________________

End of Survey

Thank you for your participation