# Analysis of Reduced Spending on Independent PNI Production

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Prepared by

Nordicity

# Context

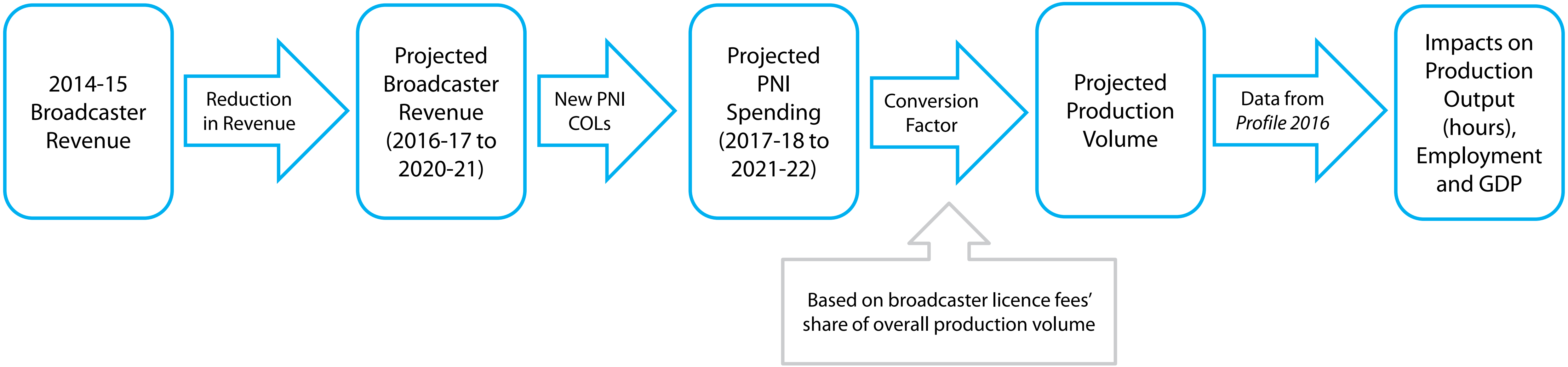
- In Broadcasting Decision CRTC 2017-148 (May 15, 2017), the CRTC introduced its renewal of the group-based licences of Bell, Corus and Rogers.
- Among other changes, the CRTC revisited its requirements regarding expenditures on "programs of national interest" (PNI), which include:
  - Fiction (including drama and comedy), documentary, children's and youth, music/variety, and certain awards programs.
- Conditions of licence (COLs) regarding such programs were introduced in the previous group licence renewals as a % of total revenue:
  - For example, prior to 2017, Bell's PNI COL requirement was 5%, Corus' was 9%, and Rogers' was 5%. Other groups whose services were acquired by one of these three groups included Astral (whose PNI expenditure COL requirement was 16%) and Shaw (5%).
  - Individual discretionary services owned by these groups sometimes exceeded these PNI COLs, e.g., Corus' Teletoon spent 26%, while Astral/Bell's TMN spent 18%.
- With Broadcasting Decision CRTC 2017-148, the CRTC imposed a single PNI expenditure requirement of 5% for all of Bell, Corus and Rogers.

# Mandate

- In light of the preceding context, the Canadian Media Producers Association (CMPA) has asked Nordicity to conduct an analysis of the likely changes in PNI expenditures as a result of the new COL requirements, and the impact on Canada's independent production community.
- More precisely, Nordicity has estimated changes in **production volume** (and output), **employment**, and **GDP** contribution for the five production years between 2017-18 and 2021-22.
- This analysis is based on the broadcasters adhering to their regulatory minimum spending on *independent production in PNI genres*.
- As such, it does not take into account spending that may occur above those regulatory minimums, nor does it account for broadcaster spending on non-PNI genres.
- Further detail on the methodologies used in this analysis can be found in Appendix A.

# Approach

- The following graphic illustrates Nordicity's approach to estimating the impact of changes to PNI expenditure COLs:



# Broadcaster Revenue Projection 2014-15 to 2016-17

- Broadcasting groups' revenue is likely to decline from $2.9 billion in 2014-15 to **$2.81 billion** in 2016-17 (at an average decline of 1.48% annually).

| Broadcast Group | Revenue ($ millions) | | | Annual change (%) |
|---|---|---|---|---|
| | Actual 2014-15 | Estimate 2015-16 | Projection 2016-17 | |
| Bell | $1,359.7 | $1,338.8 | $1,318.3 | -1.54% |
| Corus | $1,255.5 | $1,238.2 | $1,221.2 | -1.37% |
| Rogers | $282.5 | $277.8 | $273.2 | -1.67% |
| **TOTAL** | **$2,897.7** | **$2,854.8** | **$2,812.6** | **-1.48%** |

Source: Nordicity based on Boon Dog (2016) and CRTC *Communications Monitoring Report* (2016).
Note: Corus revenue figures exclude revenues derived from Disney Channel. Disney Junior, and Disney XD as they were not available at the time of the analysis.

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# Levels of "Net PNI Spending" (2017-18)

- The 5% PNI expenditure COL would yield a net decrease in PNI expenditure of **$38.9 million** across 61 channels/services:
  - Most channels/services (41) would see *no change* in PNI expenditure;
  - A small number of channels/services (8) would see an *increase* in PNI expenditure;
  - Some channels/services (12) would see a *decrease* in PNI expenditure.

| Category of channels/services | Number of channels/ services | Historical PNI Expenditure (millions) | New PNI Expenditure (millions) | Change (millions) |
|---|---|---|---|---|
| No change | 41 | $115.6 | $115.6 | $0 |
| Increase | 8 | $0.2 | $2.9 | $2.7 |
| Decrease | 12 | $63.7 | $22.1 | -$41.6 |
| **TOTAL (Net Change)** | **61** | **$179.6** | **$140.6** | **-$38.9** |

Source: Nordicity based on Boon Dog (2016) and CRTC *Communications Monitoring Report* (2016).

  - Two channels (TMN and Teletoon) account for $30 million of the total decline.

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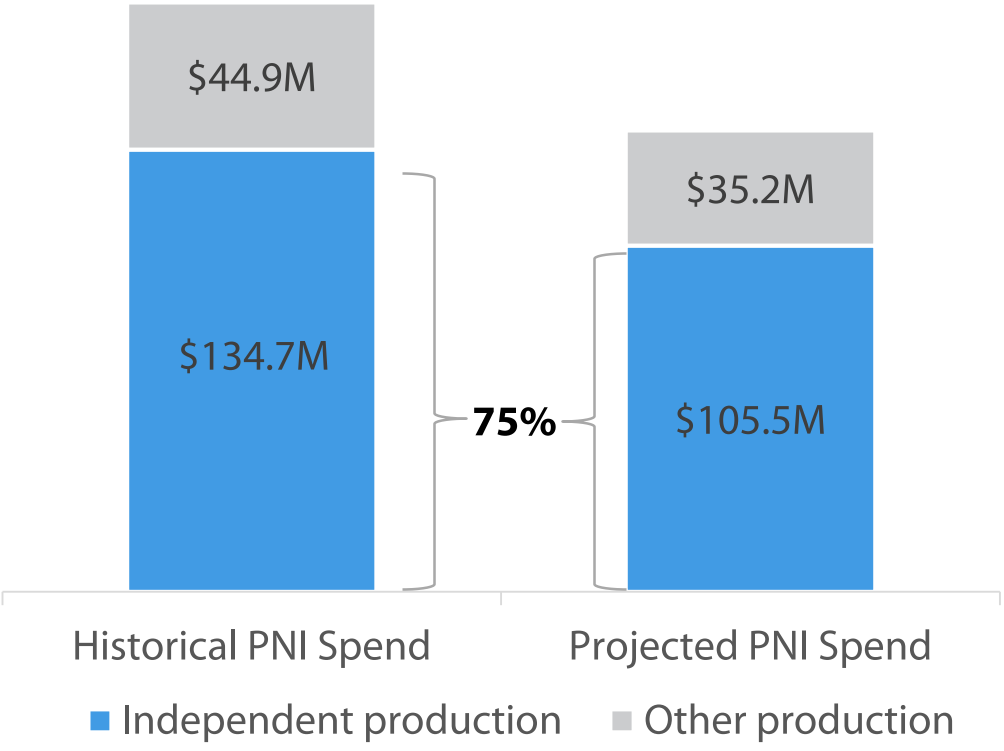
# Effects on Independent Production in Canada

- 75% of PNI expenditures are mandated to be spent on independently-produced programming.
- As such, PNI spending on independent production would have been $135 million in 2016-17, but is now projected to be **$105 million.**
- As the decrease in broadcaster spending follows the same logic, it can be assumed that broadcasters would spend **$29.2 million** less on PNI from independent producers (a 22% decrease).



# Independent PNI Spending Change by Genre (2017-18)

- While the decrease in spending on independent production would vary across the PNI genres, the genre most affected would be fiction (drama/comedy), where spending on independent production would decrease by **over 35**%.
- The impacts on independent production by genre are shown in the table below:

| PNI Genre | PNI Expenditure Using Historical COLs (millions) | PNI Expenditure Using New COLs (millions) | Change in Independent PNI Spending | % Change |
|---|---|---|---|---|
| Fiction | $71.6 | $46.2 | -$25.4 | -35.5% |
| Documentary | $37.3 | $36.2 | -$1.1 | -3.0% |
| Children's | $15.5 | $13.5 | -$2.1 | -13.4% |
| Variety | $10.3 | $9.7 | -$0.6 | -5.7% |
| **TOTAL** | **$134.7** | **$105.5** | **-$29.2** | **-21.7%** |

Source: Nordicity based on Boon Dog (2016) and CRTC *Communications Monitoring Report* (2016).

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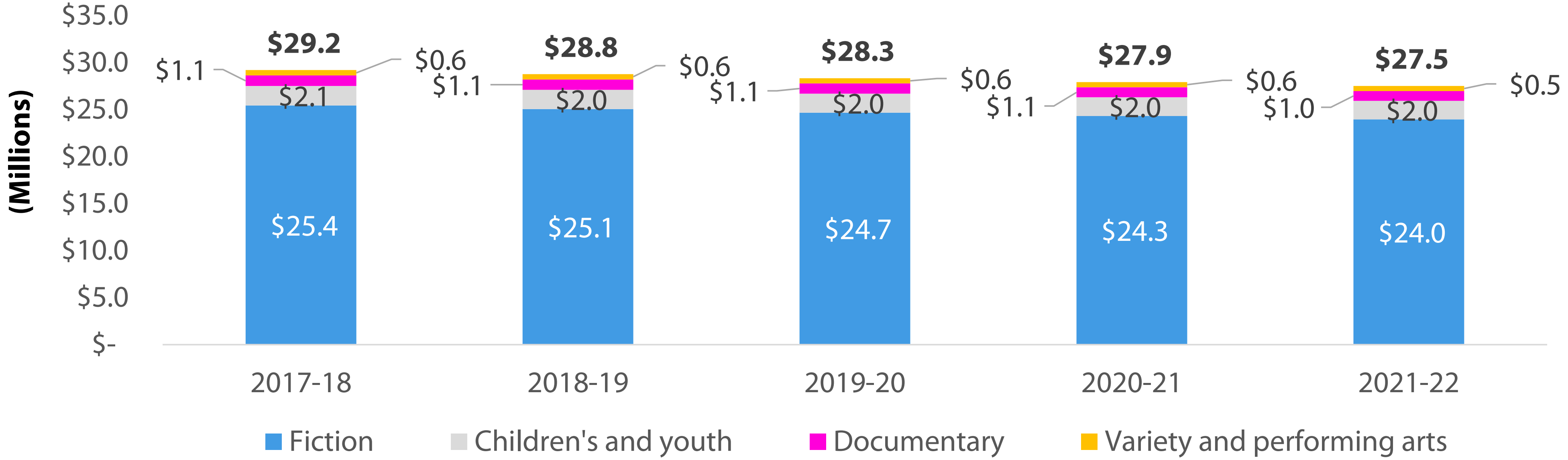
# Change in Independent PNI Spending: Five-year Projection

- When projected from 2017-18 through 2021-22, the annual reduction in broadcaster spending on independently-produced PNI programming lessens slightly (due to the on-going reduction in broadcaster revenue).




- Over the five-year period, broadcasters would spend **$141.8 million** less on independently-produced programming in PNI genres.

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# Converting Broadcaster Spending into Production Volume (2017-18)

- Broadcaster spending on independently-produced programming in PNI genres forms part of a larger project budget, which (when totalled) is referred to as "production volume."
- Based on broadcaster licence fees' share of the total TV production volume in 2015-16, the reduced spending on independent PNI would result in a drop of **$190 million** in production volume.

| Genre | Change in spending on independent PNI production ($ millions) | Conversion Factor ($s for every $1 of broadcaster licence fee) | Change in independent PNI production volume ($ millions) |
|---|---:|---:|---:|
| Fiction | -$25.4 | 6.83 | -$173.6 |
| Documentary | -$1.1 | 4.21 | -$4.7 |
| Children's | -$2.1 | 5.19 | -$10.8 |
| Variety | -$0.6 | 1.67 | -$1.0 |
| **TOTAL** | **-$29.2** | **6.51** | **-$190.1** |

Source: Nordicity based on CMPA *Profile 2016* (Figure 4-21).

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# Decline in Available CMF Financing

- In considering the future impact of the reduction in broadcaster spending on independent PNI, one must also consider the decline in available financing from the Canada Media Fund (CMF).
- This decrease in financing lessens the degree to which broadcaster spending translates into production volume (in the following production year).

| PNI Genres | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|---|
| Fiction | 6.80 | 6.78 | 6.75 | 6.73 | 6.71 |
| Children's and youth | 5.15 | 5.11 | 5.08 | 5.05 | 5.02 |
| Documentary | 4.08 | 3.97 | 3.87 | 3.79 | 3.73 |
| Variety and performing arts | 1.64 | 1.62 | 1.60 | 1.58 | 1.56 |

Source: Nordicity based on CMPA *Profile 2016*, CMF *2015-2016 Annual Report*.

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# Adjusted Changes in Independent PNI Production Volume (2017-18)

- Taking the reduction of available CMF financing into account, a $29.2 million reduction in broadcaster spending on independent PNI would result in a decrease in production volumes of $**189.2 million** (or 8% less than 2015-16), or **147 fewer hours** of programming in 2017-18.

| Genre | Change in spending on independent production ($ millions) | Change in independent production volume ($ millions) | Change in total hours of independent production |
|---|---|---|---|
| Fiction | -$25.4 | -$173.0 | -121.0 |
| Documentary | -$1.1 | -$4.5 | -12.9 |
| Children's | -$2.1 | -$10.7 | -10.3 |
| Variety | -$0.6 | -$1.0 | -2.4 |
| **TOTAL** | **-$29.2** | **-$189.2** | **-146.6** |

Source: Nordicity based on CMPA *Profile 2016*.

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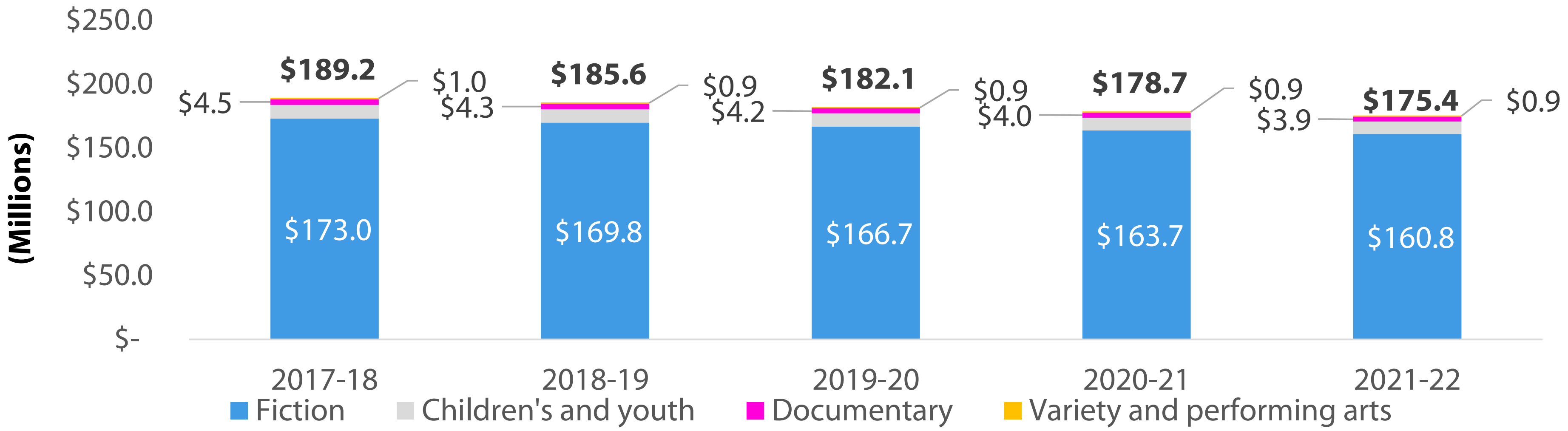
# Changes in Independent PNI Production Volume: Five-year Projection

- Over the five-year period, the reduction in production volume will lessen, due to the reduced broadcaster spending on PNI and the decline in available CMF financing.




Source: Nordicity based on CMPA *Profile 2016*, CMF *2015-2016 Annual Report*.

- Regardless, over the five-year period there would be a cumulative reduction of **$910.9 million** in independent PNI production volume.

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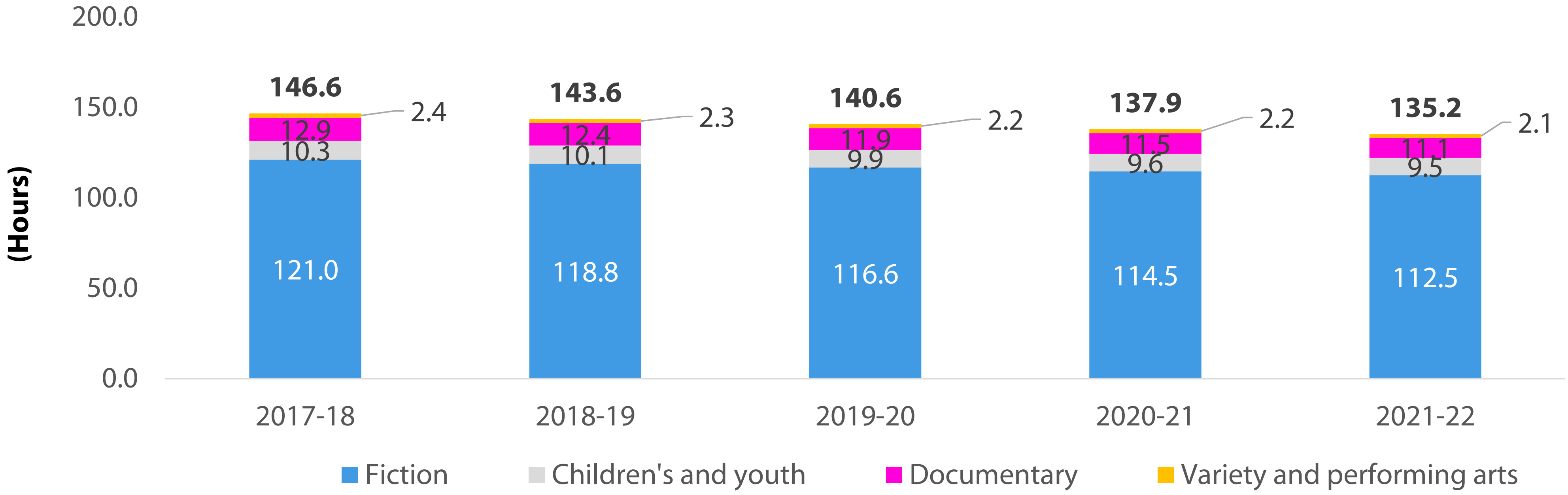
# Changes in Independent PNI Hours of Production: Five-year Projection

- Using the same logic, the 5-year period will see a reduction of **704 hours** of independent production in PNI genres.




Source: Nordicity based on CMPA *Profile 2016*, CMF *2015-2016 Annual Report*.

# Change in Number of Independent PNI Projects (2017-18)

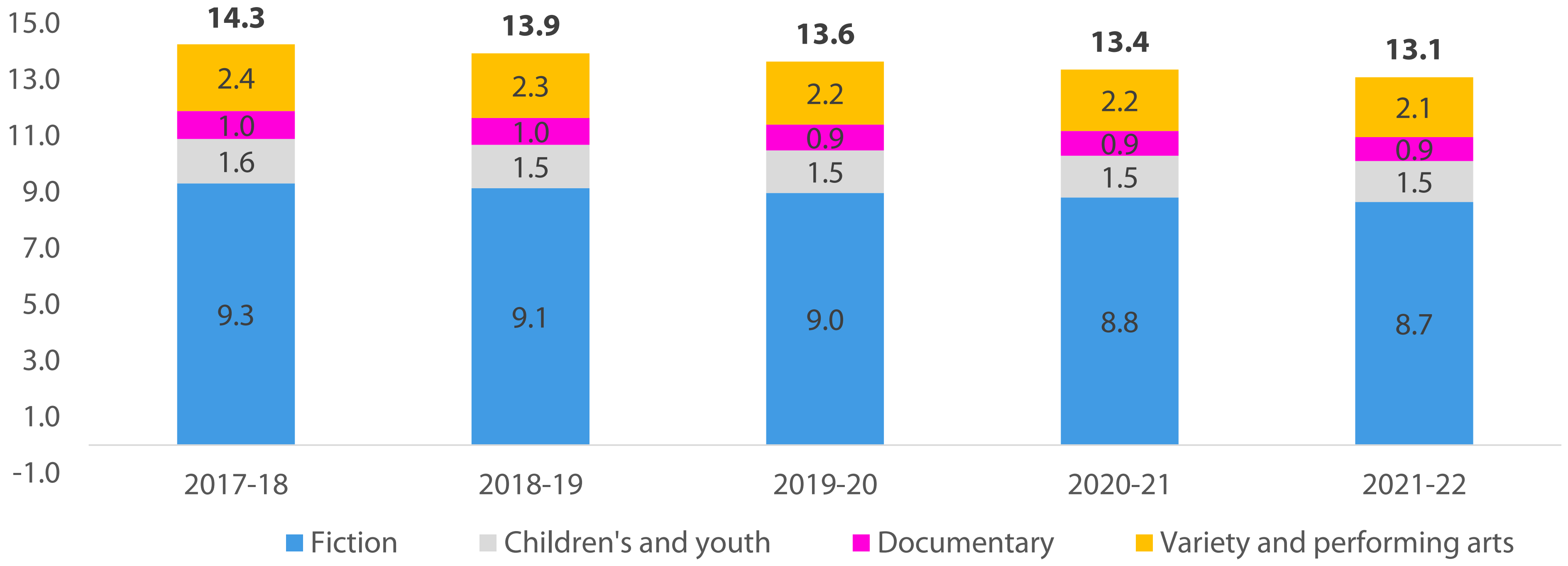
- To illustrate the effect of a reduction in the independent PNI hours of production it may be useful to examine the potential impact on the number of independent PNI projects.
- In terms of the number of projects produced, we assume that:
  - 1 fiction or documentary project is equal to 13 hours,
  - 1 children's project is equal to 6.5 hours, and
  - 1 variety project is equal to 1 hour.
- We therefore estimate that there would be **14 fewer independent PNI projects**.

| PNI Genre | Change in total hours of Independent PNI production | Change in number of Independent PNI projects |
|---|---|---|
| Fiction | -121.0 | -9.3 |
| Documentary | -12.9 | -1 |
| Children's | -10.3 | -1.6 |
| Variety | -2.4 | -2.4 |
| **TOTAL** | **-146.6** | **-14.3** |

Source: Nordicity based on CMPA *Profile 2016*.

# Change in Independent PNI Projects: Five-year Projection

- Over the five-year period, the reduction in hours of independently-produced programming in PNI genres can be illustrated as **68 fewer projects.**




Source: Nordicity based on CMPA *Profile 2016*.

# Economic Impacts (2017-18)

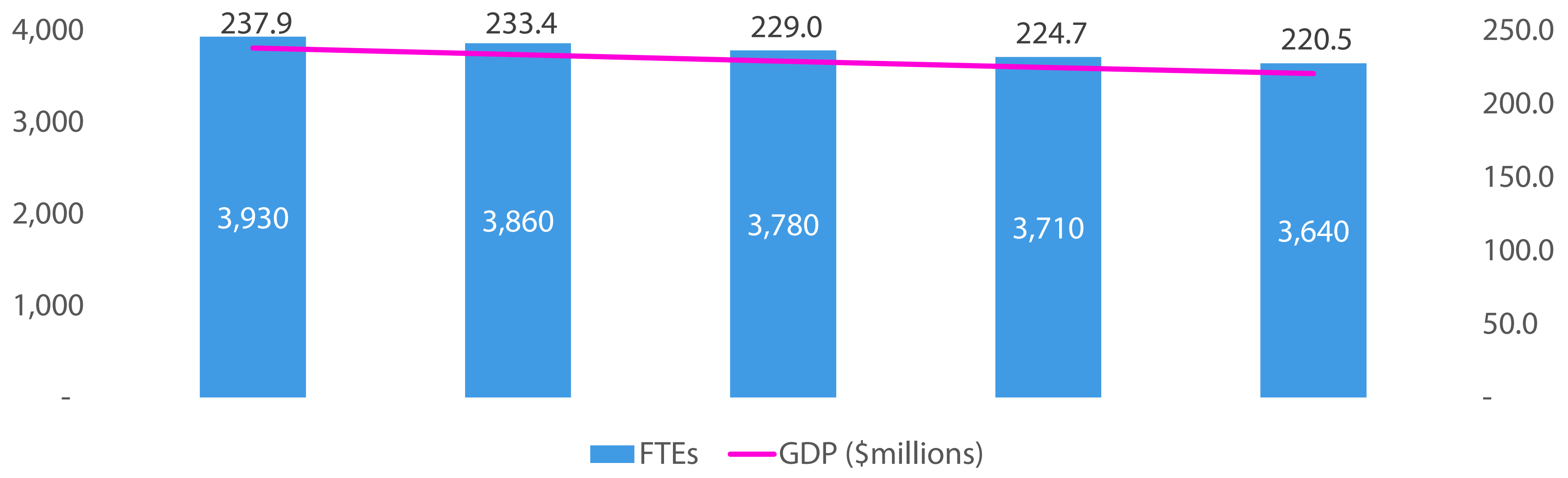
- The change in independent production volume in PNI genres (a $189 million decrease) can be expected to translate into decreases in GDP and employment in Canada's independent production sector.
- In 2017-18, there would be a loss of approximately **3,900 FTEs** (direct and indirect) and **$238 million** in total GDP (direct and spinoff).

| Factor | Impact |
| --- | --- |
| Change in production volume | -$189.2M |
| Change in total GDP impact (direct and spin-off) | -$237.9M |
| Change in direct and indirect job creation | -3,900 FTEs |

Source: Nordicity Group based previous analysis and on CMPA *Profile 2016*.

# Economic Impacts: Five-year Projection

- Over the five-year period, the cumulative effect on GDP will exceed **$1.145 billion.**




Source: Nordicity based on CMPA *Profile 2016*.

- It should be noted that employment is not cumulative, and so cannot be summed across the five-year period.

# Summary of Key Points

- The new Conditions of License are likely to have a significant impact on Canada's independent production community.
- They are likely to result in a net decrease in broadcaster spending on independent production in PNI genres of **$29.2 million** in 2017-18 ($141 million over five years), with fiction projects seeing the most significant cut (35.5% of PNI spending).
- That decline in spending would result in a net drop of **$189.2 million** in independent production volume in PNI genres ($910.9 million over five years).
- That reduction in production volume would cost **3,900 (direct and indirect) FTEs** and **$238 million of total GDP impact** in 2017-18.
- The cumulative reduction in production spending would incur a **$1.145 billion** reduction in total GDP impact over five years.

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# Appendix A - Methodology

# PNI Changes (by Broadcasting Service)

- Nordicity obtained data from CMPA (1) on total revenue for 2014-15 by individual channel/service for by Bell, Corus and Rogers, and on their current PNI levels (as a % of total revenue).
- To project broadcaster revenue for 2015-16 and 2016-17, Nordicity used the CRTC's 2016 *Communications Monitoring Report* (2)
  - Nordicity used the revenue change from 2013-14 to 2014-15 for *conventional* television to calculate *conventional* broadcaster revenue for 2015-16 and 2016-17;
  - Nordicity used the revenue change from 2013-14 to 2014-15 for all *discretionary* services to calculate each *discretionary* service's revenue for 2015-16 and 2016-17.
- Nordicity used current PNI levels to calculate each service's projected PNI expenditure for 2016-17.

(1) From Boon Dog Professional Services, "Analysis of Canadian Programming Expenditure and Programs of National Interest Proposals Filed by the English-Language Broadcast Groups as Part of their Group Licence Renewal Applications," August 2016 (prepared for ACTRA, CMPA, DGC and WGC in the context of Broadcasting Notice of Consultation CRTC 2016-225).
(2) Table 4.2.5 of that report provides annual revenue of English-language broadcasters by category (conventional, discretionary, etc.).

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# PNI Changes (by Broadcasting Service) (2)

- Nordicity then determined potential PNI expenditure by channel/service, assuming the 5% level established by the CRTC in its most recent group licence renewal decision. (1)
- To estimate the changes on PNI over the five-year period, Nordicity applied the average rate of decline in broadcaster revenue (-1.48%) to the PNI expenditure estimates for 2016-17 – as PNI is a function of revenue.
- Key assumptions:
  1. The change in <u>aggregate</u> revenue for discretionary services over the period considered, i.e. -1.13%, was applied to each <u>individual</u> discretionary service owned by Bell, Corus and Rogers;
  2. Broadcasters would <u>not spend more</u> than the CRTC's proposed 5% of total revenue on PNI – in other words, the 5% level was applied as both a floor and a ceiling on PNI expenditures.

(1) In Broadcasting Decision CRTC 2017-148, May 15, 2017.

# PNI Expenditure by Genre, and Expenditure on Independent Production

- To determine the PNI expenditure on independent production, Nordicity assumed that 75% would be on independently-produced programming.
- With regard to programming genres, Nordicity used categories from the *2016 CMPA Profile*, which correspond roughly to the CRTC's PNI genres. (1)
- To determine the independent production by PNI genre, Nordicity identified the main genres of programming for each channel/service. (2)
  - For conventional channels, it was assumed that 50% of PNI expenditure was on spent fiction productions, 20% each on children's and documentary, and 10% on variety/performing arts;
  - For most discretionary services, it was assumed that 100% of the PNI expenditure was spent on genres corresponding to the mandate or focus of the channel.

(1) *Profile 2016* used the following genres: fiction, children's and youth, documentary, variety and performing arts, and lifestyle and other. The CRTC's PNI genres are long-form documentary (category 2b), drama/comedy (category 7), music and variety (categories 8 and 9), and certain awards shows.
(2) Programming genres for the discretionary services were researched on the services' websites and on Wikipedia.

# PNI Expenditure by Genre, and Expenditure on Independent Production (2)

- Key assumptions:
  1. Broadcasters would commission PNI in genres consistent with their programming formats/mandates;
  2. In a small number of cases, discretionary services would commission PNI in more than one genre (e.g. OWN, Sundance, Cosmopolitan TV, W, and G4 would all divide their PNI expenditure equally between fiction and documentary);
  3. Conventional broadcasters would commission all PNI genres, but focus more heavily on fiction;
  4. All of the spending on independent production would be for original productions and not acquisitions of off-the-shelf content from independent producers.

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# PNI Leverage and Production Volume

- To determine the total production volume that would have been leveraged by broadcasters' spending on independently-produced PNI, Nordicity used television production financing data from *Profile 2016*:
  - Exhibit 4-21 shows the breakdown of financing by genre for English-language television production. Public and private broadcaster licence fees leveraged additional financing from tax credits, distributors, the CMF and other sources. The ratio of licence fees to total financing constitutes "leverage."
  - Leverage was calculated separately for each genre.
- The amount of spending on independently-produced PNI was then multiplied it by the leverage for each genre, to arrive at the total production volume that would have been leveraged for that PNI genre.

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# PNI Leverage and Production Volume (2)

- To account for the reduction of available CMF financing, Nordicity extracted the portion of the leverage factor that could be attributed to the CMF in 2015-16 (per *Profile 2016)*.
- Nordicity then applied the rates of decline observed by the CMF in their most recent Annual Report (1) to the CMF portion of the leverage factor for 2016-17 (and each subsequent year), as depicted below:

| Genre | Actual | Actual | % Chg |
|---|---|---|---|
| | 2014-15 | 2015-16 | |
| | $ millions | | |
| Drama | 107.1 | 103.2 | -3.6% |
| Children's and Youth | 37.4 | 34 | -9.1% |
| Documentary | 41.4 | 34.6 | -16.4% |
| Variety and performing arts | 5.6 | 4.6 | -17.9% |
| TOTAL | 191.5 | 176.4 | -7.9% |

(1) Canada Media Fund, *2015-2016 Annual Report*, Convergent Stream Data: http://ar-ra15-16.cmf-fmc.ca/funding/convergent .

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# PNI Leverage and Production Volume (3)

- The adjusted CMF portion of the leverage factor was then re-added and used to estimate production volume.
- Nordicity then calculated the number of hours of production that would have been leveraged:
  - *Profile 2016*, Exhibit 4-8, contains data on average hourly production budgets by genre;
  - Nordicity then divided the total volumes of production (for each genre) by the average hourly production budgets, to arrive at the number of hours that would have been produced.
- Key assumptions:
  1. Broadcasters would spend their PNI commitments on original independent production, rather than on acquired (off-the-shelf) productions;
  2. PNI would all be financed through the same sources (i.e. a combination of licence fees, tax credits, distributor advances, foreign financing, CMF, etc.);
  3. Other than CMF no changes in the financing environment will occur (e.g., to tax credits).

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# GDP and Employment Impacts

- To calculate economic impacts – GDP and employment – the analysis is based on the ratios present in *Profile 2016.*
- For GDP impact:
  - Exhibit 2-4 of the *Profile* provides the GDP impact (direct and indirect) of the Canadian television production sector;
  - Exhibit 4-3 provides total television production volume;
  - Nordicity calculated the GDP impact per million dollars of production and applied this figure to the net production volume calculated earlier.
- For employment impact:
  - Exhibit 2-1 of the *Profile* provides the full-time equivalent (FTE) employment – both direct and spin-off – of Canadian television production (excluding broadcaster in-house production);
  - Exhibit 4-3 provides total television production volume;
  - Nordicity calculated the number of FTEs per million dollars of production volume, and applied this figure to the net production volume calculated earlier.

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