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Summative Evaluation of the Canadian Television Fund Program

Evaluation Services
Corporate Review Branch
Department of Canadian Heritage

Final Report

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Canada 

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Executive Summary

This report presents the results of a summative evaluation of the Canadian Television Fund (CTF), conducted by the Corporate Review Branch of the Department of Canadian Heritage (PCH). The evaluation is based on research performed on behalf of the Branch between August and December 2004, by the Nordicity Group Ltd. Original audience research was subcontracted to CBC Research.

INTRODUCTION

The objective of this evaluation was to provide an evidence-based assessment of the CTF's relevance, success and cost-effectiveness. Research was oriented by three evaluation questions:

- Does the Program address an actual need, and is it still consistent with departmental and government-wide priorities (relevance)?
- To what extent has the CTF achieved its objectives and expected outcomes?
- Are the most appropriate and efficient means being used to achieve objectives, taking into account alternative design and delivery approaches?

Program Profile

Established in 1996 as an independent, private-public initiative, the Canadian Television Fund offers assistance to ensure the cultural value, quality and quantity of Canadian television programming. The CTF distributes approximately \$250 million a year to Canada's independent television and film production industry for the production and broadcast of high-quality Canadian programming. It is funded by contributions from the federal government, cable television companies and direct-to-home satellite service providers.

Since the CTF's inception, the Government of Canada has allocated nearly \$100 million to it on a yearly basis. For 2003–04 the contribution was reduced to \$87.1 million but the 2004 Budget contribution restored the amount to near \$100 million.

Objectives of the CTF

The 2001 Terms and Conditions of the Program define the objective of the Canadian Heritage contribution to the Canadian Television Fund as follows:

To assist the creation and broadcast in prime time of high-quality, culturally-significant Canadian television programs in both official languages in the genres of drama, children, documentaries, variety and performing arts. The Canadian Television Fund will: (i) Maintain an appropriate mechanism for the support of Aboriginal-languages productions in the eligible genres; (ii) Subsequently provide approximately one-third of remaining support to French-language productions; and (iii) Encourage production by both the majority and minority official-language sectors.

Those objectives are reflected as “direct” and “ultimate” outcomes in the Results-based Management and Accountability Framework (RMAF) attached to the Department’s contribution agreement with the CTF. The RMAF also includes an “ultimate outcome” specifically related to reaching audiences; it reads, “Canadians continue to seek out Canadian programs on television and CTF-supported programs.” The evaluation therefore also had to assess the extent to which that outcome was achieved.

Delivery

From its inception to the past fiscal year, the CTF consisted of two separate programs: the Licence Fee Program (approximately \$145 million) and the Equity Investment Program (approximately \$85 million). Since 2004–05, the CTF has three funding streams:

- an English-language drama stream
- a broadcaster performance envelope stream
- a stream to fund special initiatives

French-language production, including drama, now falls within the broadcaster performance envelope stream. An exception is French-language production outside Quebec, funded from a sub-envelope in the special initiatives stream. Eligible productions are supported through licence fee top-ups and equity investments. The broadcaster envelope stream is administered by the CTF corporation (CTFC), which allocates licence fee top-ups and equity investments. The other two streams are administered by Telefilm, which also administers licence fee top-ups and equity investments.

Governance

The CTF corporation is an independent, non-profit corporation. Its Board of Directors includes nominees from the television, cable, production, and film and video distribution industries, as well as of the Department of Canadian Heritage and Telefilm Canada. The Department sets the objectives and operating parameters determining eligibility for CTF funding. Both are specified in annual contribution agreements with the CTFC. The Department is also responsible for ensuring that the CTF submits to it all required reports. The agreements are administered by Broadcasting Programming Services, which is part of the Broadcasting Policy and Innovation Branch of the Department’s Cultural Affairs Sector. PCH requires approximately two FTEs to administer this program. The Department also needs resources to prepare related studies and due diligence reports.

Data collection

The evaluation used various data collection methods: key informant interviews; a comprehensive document review; an analysis of CTF and Telefilm project files; and audience research and analysis. During this evaluation, Broadcasting Programming Services conducted a separate consultation and decision-making exercise on governance of the CTF. For this reason, although governance had been identified as a major issue, it was not included as a main research topic of the evaluation.

EVALUATION FINDINGS

Relevance and Rationale

The federal government's support for the creation and broadcast of Canadian content is rooted in the *Broadcasting Act* (last revised in 1991). Contributing to the CTF is one of the activities by which PCH pursues its strategic outcome related to "creation of Canadian content and performance excellence."

When the Fund was established, it was expected that the contribution of Canadian Heritage would eventually be phased out. However, several factors combine to necessitate continued funding: the reduced availability of private funding (particularly from foreign sources) for CTF-eligible productions; increasing audience fragmentation; and the rapid growth in Canadian programming commitments as a result of CRTC licensing of new Canadian specialty channels.

In its second response to the "Lincoln" Report (April 4, 2005), the Government explicitly recognized the CTF as "an essential component of the Canadian broadcasting system" and as "the most appropriate tool to support high-quality, distinctively Canadian television programming in five genres: drama, documentary, children's and youth, variety, and performing arts, in both official languages and in Aboriginal languages."¹

It is thus clear that the CTF addresses an actual need and aligns with departmental and government-wide priorities.

Objective Achievement: production and broadcasting of high-quality, culturally significant Canadian programming
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Quantity. For each year of the reference period, the CTF assisted the production and prime-time broadcast of more than 2,000 hours of television. From a peak of 2,822 hours, reached in 2001–02, CTF-funded programming declined sharply to 2,178 hours in 2003–04. Several factors contributed to the decline, including the shift to higher budgets, the drop in documentary production and the decrease in other available funding. During the overlapping period of 1998–99 to 2002–03, the supply of television programming available to Canadian viewers increased by 50% for English television and 42% for French television. CTF-funded programming has not maintained its share of the total supply (offer) of programming.

Quality. This evaluation treats quality as a set of attributes including production values (measured by budget), critical acclaim and public perceptions. The findings show that budgets for CTF-supported productions have increased and are generally higher than budgets for non-CTF productions. Over the last three years, the gap has widened in the case of French-language television: on average, budgets have risen for CTF-supported productions and fallen for non-CTF productions. In English-language drama, the trend is far less pronounced. In 2003–04, however, the average cost per hour in drama was \$952,000 in the English market — almost double the cost in the French market (\$494,000). Critical acclaim is higher for CTF-financed productions, which tend to earn awards more consistently than non-CTF productions.

¹ See Section 2.1.2.2 of this report, p. 18.

For each \$10 million of production spending in 2003–04, CTF-supported productions earned 1.4 awards, compared with 0.98 awards for non-CTF productions. Public opinion polls indicate that English-speaking Canadians prefer U.S. drama to Canadian programming, while French-speaking Canadians believe their television is on a par with U.S. productions.

Culturally significant. The CTF appears critical to the production of programs achieving 10 points out of 10 on the CAVCO scale of Canadian content, in all target genres. In drama, for example, CTF-funded programming now accounts for 75% of all 10-point CAVCO-certified projects (based on total budgets). Moreover, the CTF has imposed more stringent requirements (the four “Essential Requirements”) for programs to be considered distinctively Canadian.

Evaluation findings show that that benchmarks have been met for leverage and proportions for genres, French/English, Aboriginal and regional production, and production in minority official languages. However, no specific targets have been set, in terms of total number of hours. It is thus impossible to evaluate the extent to which the Program has reached this objective.

<p>Objective Achievement: Canadians continue to seek out Canadian programs on television and CTF-supported programs</p>
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In terms of audience appeal, Canadian French-language programming is far more likely to be watched than Canadian English-language programming: of total prime-time viewing, the market share is 63% for French television but only about 25% for English television. These viewing levels have been fairly constant on a historical basis, back to the period predating the CTF. However, in under-represented genres in both English and French markets, CTF-funded programs account for a third of total viewing of Canadian programming in prime time. In 2002–03, the target genres (for both CTF-financed and non-CTF-financed programming) accounted for about 40% of the total Canadian programming in English and nearly 50% in French. The rest of prime-time viewing of Canadian programming was of news, sports, information and other categories.

The total audience share of CTF-financed programming slipped from 4% in 1998–99 to 3.3% in 2002–03 for English television, and from 13.3% to 10.1% for French television over the same period. In the target genres, CTF-financed programming represents one third (32%) of all prime-time tuning of Canadian programs, by both French and English audiences. This means that the non-CTF programming share is double the CTF share in both English and French for prime-time programming in the target categories. In terms of audience appeal, all the top 10 Canadian drama/comedy series in French are financed by the CTF, and 7 of 10 specials/mini-series in the top 10 are also CTF-financed. In English, the top 3 Canadian programs are not CTF-financed but most of the rest of the top 10 programs are. Only 2 of the top 10 Canadian drama/comedy specials are CTF-financed in English.

Since no targets were set for audience reach, it is impossible to assess the extent to which the Program has met its objectives, except in a very general manner. The evaluation findings suggest that tuning to programming that meets CTF objectives would have declined more precipitously without the CTF. While the tuning share has declined slightly for CTF-financed

programs in the last few years, the rapid fragmentation of the television offering could have led to a much worse outcome without the CTF. Audience tuning is turning inexorably toward specialty TV services. Total viewing of specialty English Canadian TV has risen from 31.6% in 1998–99 to 40.8% in 2002–03. Most Canadian producers and broadcasters interviewed agree that without the CTF, broadcasters would need to resort to other genres, low-cost equivalents, minority Canadian co-productions, and the like.

Cost-Effectiveness and Alternatives

For the period under consideration, the CTF has been operating within its mandated 7% of funding resources. Broadcaster envelopes have eliminated oversubscription, thereby considerably reducing the administrative cost of delivering the Program (\$800,000 a year for CTFC alone). In addition, CTF users are strongly in favour of the more flexible schedule for submitting applications, the predictability of the process and the simplified application procedure. Administrative costs are substantially increased by the role played by the CTF in development and the requirement for it to be regionally accessible. The cost is proportionately much higher to deliver support for Aboriginal and French minority-language production, development projects and regional offices, rather than to simply process applications from experienced producers.

Stakeholders identified a few issues related to the design and delivery of the new three-stream funding model:

- CTF's approach to English-language drama is not consistent with its approach in the case of the other two streams.
- The new envelope system transfers a considerable amount of operational decisions into the hands of very few players (producers and broadcasters), who both decide and benefit from their decisions.
- Producers and broadcasters questioned the cost-effectiveness of recoupment on equity investments by Telefilm. However, it remains uncertain whether further changes in recoupment policies would benefit the development of Canadian television programming more than current practices.
- There is a perceived lack of transparency in some elements of project administration at CTFC and Telefilm.

Industry stakeholders perceive the CTF and the Canadian Tax Credit Program (CTCP) as complementary. Producers pointed out that the CTCP's original purpose was to help finance development and working capital for production companies. However, it is now expected (and even required, in contracts with broadcasters) that tax credits will be automatically included in the financial structure of a project. From a producer's viewpoint, the two programs are indeed highly complementary.

RECOMMENDATIONS AND MANAGEMENT RESPONSE

Considering:

- the continuing need for government support of the production and broadcasting of high-quality, culturally relevant television programming, as established by the evaluation findings;
- the impact of the Department of Canadian Heritage contribution on the production of high-quality, culturally relevant television programming;
- the essential role played by the CTF in the broadcasting system, as recognized by the Government in its second response to the Report of the Standing Committee on Canadian Heritage; and
- the effective contribution of the CTF to achievement of Canadian Heritage's strategic outcomes, specifically "Canadians express and share their diverse cultural experiences with each other and the world";

1) It is recommended that the Department of Canadian Heritage proceed with renewal of the Canadian Television Fund.

Management Response:

This recommendation is being addressed. First, the Minister of Canadian Heritage announced in Banff on June 12, 2005, that the Government's funding commitment to the Fund was extended through 2006-07 and that the issue of long-term funding of the CTF would be considered in the context of the 2006 budget.

Considering that:

- in its second response to the Report of the Standing Committee on Canadian Heritage, the Government outlined new strategic priorities for the Canadian broadcasting system that include reaching audiences, reflecting ourselves, investing in excellence, harnessing the opportunities provided by new technologies and reaching the world;
- the total number of CTF-supported hours is decreasing, while the supply of programs is substantially increasing; and
- the overall audience share of CTF-funded programs in prime time is modest (3.3% of English and 10.1% of French programming);

2) It is recommended that the Department adopt a more strategic approach to its funding of the CTF as this relates to current government strategic priorities. The approach might set:

- a target for the overall audience share for Canadian culturally relevant programming in prime time, to ensure the sustainability of the industry and the availability of Canadian content to Canadians;

- objectives for the overall annual number of hours to be produced with CTF funding, based on an evaluation of the Canadian content requirements, and considering changes in production costs and the use of new technology (e.g., HDTV).

Management Response:

This recommendation is being addressed. The Fund is now able to report on the CTF-supported programs' share of television viewing. The next logical step is to establish specific objectives in terms of audience share that CTF-funded programs can achieve (broken down by language and genre). Discussions will begin with the CTF on this issue in 2005-2006.

The Department will continue to expect the CTF to support approximately 2,000 hours a year of new television productions. Nevertheless, given increases and/or changes in demand, this expectation could be altered over time. The Department will launch a second phase study to capture more specific data regarding the demand for CTF eligible programs to better monitor the issue.

As for the use of HDTV, DGBP will take the issue of the support for HDTV into account when it makes recommendations on long-term funding for the CTF.

Considering evaluation findings and conclusions regarding the Program's design and delivery:

3) It is recommended that the Department of Canadian Heritage ensure that:

- **the CTF Board consider the possibility of moving English-language drama to the broadcaster envelope system;**

Management Response:

This recommendation is being addressed. The CTF Board is expected to consider this issue as it develops its program guidelines for 2006-2007. This process will take place over the fall 2005.

- **Telefilm assess the cost-effectiveness of its recoupment policy with regard to financing Canadian television programming;**

Management Response:

This recommendation is being addressed. DGBP, in collaboration with Telefilm Canada and the Canadian Television Fund launched a study on the cost-effectiveness of equity investment in the television sector in August, 2005. Recommendations are expected in November, 2005. The study will assess the efficiency of the equity investment provided by the CTF, benchmark the efficiency and rate of recoupment of equity investment, examine the pros and cons of acquiring an ownership interest and providing recoupable production financing and, finally, provide recommendations to improve the efficiency and reduce the irritants associated with recoupable financing.

- **any change to the governance structure of the Fund as a result of the process undertaken in parallel with this evaluation enhance the CTF's efficiency, simplify and clarify its administrative structure, and establish controls and governance practices/guidelines that guarantee a proper balance between differing interests represented on the Board; and**

Management Response:

This recommendation is being addressed. Canadian Heritage consulted extensively on the issue of the governance of the Fund with key stakeholders in May, 2005. Key principles and tests for three CTF governance models were identified:

1. Does it maximize administrative efficiency?
2. Does it simplify the access to funds - "one-stop" shopping" for applicants?
3. Does it clarify the role of the CTF administrator(s)?
4. Does it improve the independence of the CTF board?

In June, 2005, the Minister of Canadian Heritage made public a proposed approach on the governance of the CTF which is designed to be consistent with these principles: a one board (CTF Board) and one administrator (Telefilm Canada) model with more independent directors on the Board. A new governance structure proposal will be finalized in 2005-2006 and completed in Fall 2006.

- **the \$15 million earmarked by the CTF for feature film production be either redirected to Telefilm's Canada Feature Film Fund, or kept by the CTF and used for television production and broadcasting activities.**

Management Response:

The Department is in agreement with this recommendation and will propose that the CTF's feature film support be transferred to the Feature Film Fund. This issue will be considered as part of a proposal dealing with CTF long-term funding and governance framework in 2005-2006.

1 Introduction

This report presents the results of a summative evaluation of the Canadian Television Fund (CTF), conducted by the Corporate Review Branch of the Department of Canadian Heritage (PCH). The evaluation is based on research performed on behalf of the Branch between August and December 2004, by the Nordicity Group Ltd. Original audience research was subcontracted to CBC Research.

1.1 Program Profile

Established in 1996 as an independent, private-public initiative, the Canadian Television Fund offers assistance to ensure the cultural value, quality and availability of Canadian television programming. The CTF distributes approximately \$250 million a year to Canada's independent television and film production industry for the production and broadcast of high-quality Canadian programming. It is funded by contributions from the federal government, cable television companies and direct-to-home (DTH) satellite service providers.

Since the CTF's inception, the Government of Canada has allocated nearly \$100 million to it on a yearly basis. For 2003–04 the contribution was reduced to \$87.1 million but the 2004 Budget restored the amount to \$100 million.

Table 1: Department of Canadian Heritage Contribution to the Canadian Television Fund Budget, 2000–01 to 2003–04

	2000–01	2001–02	2002–03	2003–04	Total
Operating Costs	\$0.45 M	\$0.45 M	\$0.45 M	\$0.41 M	\$1.76 M
Grants and Contributions	\$99.55 M	\$99.55 M	\$99.55 M	\$87.1 M	\$385.75 M
Total	\$100.00 M	\$100.00 M	\$100.00 M	\$87.5 M	\$387.5 M

1.1.1 Governance

A public-private partnership, the Canadian Television Fund corporation (CTFC) is an independent, non-profit body. Its Board of Directors includes nominees from the television, cable, production, and film and video distribution industries, as well as of the Department of Canadian Heritage and Telefilm Canada.

Through two contribution agreements, the Department provides financial assistance to the CTF corporation and to Telefilm Canada for the production of culturally significant, distinctively Canadian television programs. The agreements are administered by Broadcasting Programming Services, which is part of the Broadcasting Policy and Innovation Branch of the Department's Cultural Affairs Sector. PCH requires approximately two FTEs to administer this program. The Department also needs resources to prepare related studies and due diligence reports, such as internal audits. They account for the remaining \$0.45 million.

The Department sets the objectives and operating parameters determining eligibility for CTF funding. Both are specified in the annual contribution agreements with the corporation and

Telefilm Canada. The Department is also responsible for ensuring that the CTF submits to it all required reports.

1.1.2 Operations

From 1996 to the past fiscal year, the CTF had two components:

- The **Licence Fee Program (LFP)**, a market-driven fund, was administered by the Canadian Television Fund corporation. The LFP provides a matching contribution to the licence fee paid by broadcasters for the right to air programs. The funds go to planned television productions, selected using objective industry-oriented criteria and a ranking test that scores each project within its genre and language. In 2002–03, this program had an annual budget of approximately \$145 million; the funds were provided equally by the Department and Canadian cable companies.
- The **Equity Investment Program (EIP)** was administered by Telefilm. It had separate English, French and Aboriginal funding envelopes, each of which is now subdivided by programming genre. The program has three funding sources: Telefilm, through its Parliamentary appropriation; other revenues; and Canadian Heritage, through a contribution agreement with Telefilm. PCH and Telefilm have signed a memorandum of understanding on Telefilm's appropriation moneys used to fund EIP. In 2002–03 the program had an annual budget of approximately \$85 million, with funds provided by the Department and Telefilm Canada.

In June 2003, the House of Commons Standing Committee on Canadian Heritage recommended simplification of the CTF's operations and structure. On November 17, 2003, the CTF announced changes to its operations for 2004–05, with the aim of simplifying Fund administration and putting more emphasis on audience impact.

The CTF now has three funding streams:

- an English-language drama stream
- a broadcaster performance envelope stream
- a special initiatives stream

French-language production, including drama, now falls within the broadcaster performance envelope stream. An exception is French-language production outside Quebec, funded from a sub-envelope in the special initiatives stream, with funds taken from the overall French-language envelope. Eligible productions are supported through licence fee top-ups and equity investments.

The CTFC administers the broadcaster envelope stream, while Telefilm administers the other two streams.

The redesign has solved coordination problems: each administrative group now handles its own applications.

To be considered for funding, a production must generally meet four “Essential Requirements” (ER) . These serve as guidelines to ensure that funding goes to projects meeting the CTF’s spirit and intent.

- 1) The project speaks to Canadians about, and reflects, Canadian themes and subject matter.
- 2) The project will be certified by the Canadian Audio-Visual Certification Office (CAVCO) and has achieved 10 out of 10 points (or the maximum number of points appropriate to the project), as determined by the CTF using the CAVCO scale of Canadian content (theme/subject, copyright ownership and locale).
- 3) Underlying rights are owned by Canadians. Canadian creators must have significant and meaningful involvement in the project, from concept to final script. The project may not be based on a foreign television production, a foreign format buy, a foreign feature film (except one based on a published Canadian literary work) or a foreign fully developed final-version script.
- 4) The project is shot and set primarily in Canada.

1.1.3 Resources

The CTF derives its revenues from three sources: the Department of Canadian Heritage; Telefilm Canada; and broadcasting distribution undertakings (BDUs) — that is, cable companies and direct-to-home satellite service providers. (See Table 2 for a breakdown of contributions by source.)

Table 2: Canadian Television Fund Contribution Breakdown, 2000–01 to 2003–04

	2000–01	2001–02	2002–03	2003–04	Total
Canadian Heritage	\$99.55 M	\$99.55 M	\$99.55 M	\$87.1 M	\$385.75 M
Telefilm Canada	\$50.0 M	\$45.0 M	\$45.0 M	\$45.0 M	\$185.0 M
Cable	\$68.0 M	\$67.4 M	\$69.5 M	\$64.5 M	\$269.4 M
Direct-to-Home Satellite	\$23.0 M	\$32.5 M	\$45.5 M	\$49.5 M	\$150.5 M
Reserves	--	--	\$37.0 M	--	\$37.0 M
Total	\$240.5 M	\$244.4 M	\$296.5 M	\$246.1 M	\$1,027.5 M

1.1.4 CTF Objectives

The objectives of the CTF have evolved over time, focusing more on culture rather than building industrial capacity. They were described as follows in the 2000 *Report of the Review of the Canadian Television Fund*,² Section III.B:

- To increase the broadcast presence of high quality Canadian television programs in all regions of Canada, in both official languages, created by both the majority and minority official-language sectors.
- To enhance the Canadian broadcasting and production sectors' capacity to produce and distribute television programming in Canada, and where appropriate, abroad.
- To create increased employment.

The executive summary of the report notes:

In administering the program, the CTF is required to make trade-offs and balance what are sometimes competing imperatives. The government has not prioritized its objectives. Over time the focus has been on trying to address multiple cultural and industrial priorities with a growing emphasis on supporting the production of distinctively Canadian productions. Whether this has been the result of a need to rationalize the allocation of scarce resources, a recognition that funding can only be justified on cultural grounds, or because the support of distinctly Canadian productions is actually a top priority is not clear.

In accordance with the report's recommendation, greater prominence was given to the Fund's cultural objective rather than its industrial function. In 2001, the objective of the Canadian Heritage contribution to the CTF was defined as follows:

To assist the creation and broadcast in prime time³ of high-quality, culturally-significant Canadian television programs in both official languages in the genres of drama, children, documentaries, variety and performing arts. The Canadian Television Fund will: (i) Maintain an appropriate mechanism for the support of Aboriginal-languages productions in the eligible genres; (ii) Subsequently, provide approximately one-third of remaining support to French-language productions; and (iii) Encourage production by both the majority and minority official-language sectors.⁴

Those objectives are reflected as “direct” and “ultimate” outcomes in the Results-based Management and Accountability Framework (RMAF) attached to the contribution agreements. The logic model from the RMAF (see Figure 1) also includes an “ultimate outcome” specifically related to reaching audiences. This evaluation assessed the extent to which that outcome has been achieved.

² *Report of the Review of the Canadian Television Fund*, March 23, 2000 (<http://www.pch.gc.ca/progs/ac-ca/progs/ctf-ctf/pubs/report-rapport/english.html>).

³ The CTF normally defines prime time as the hours from 7:00 P.M. to 11:00 P.M. Some exceptions are made for specific genres and categories of production.

⁴ CTF Terms and Conditions: Contributions in Support of the Canadian Television Fund, 2001.

Figure 1: Canadian Television Fund Program (CTFP) Logic Model

CTFP ACTIVITIES	CTF ACTIVITIES AND OUTPUT	CTF DIRECT OUTCOME	CTF ULTIMATE IMPACT
<p>PCH provides, through a Contribution Agreement, financial assistance to the CTFC to support the production of culturally significant, distinctively Canadian television programs</p>	<p>The CTF corporation oversees two programs by establishing guidelines and procedures for assistance, by reporting on activities, and by publishing an annual list of funded productions.</p> <p>The CTFC provides assistance to eligible development projects.</p> <p>The CTFC provides assistance to support eligible productions in its two programs (EIP-LFP) by way of equity investment, grant or contribution, or any combination thereof in the EIP, and by way of a matching contribution in direct relationship to a broadcaster's licence fee in the LFP.</p>	<p>Guidelines and procedures are prepared and published, CTF programs are administered, applications are processed with due diligence, integrated interim reports and integrated business plan are submitted to PCH, and an integrated Annual Report is made public by the CTF.</p> <p>Development projects funded to assist producers to fully develop their projects prior to commencing production, thereby enhancing the project's chances of success.</p> <p>Highest-ranking eligible productions are supported to the extent of available financial resources as per published criteria.</p>	<p>Canadian producers create more high-quality, distinctively Canadian television programming, particularly in the drama, variety, children's, documentaries and performing arts genres; and in both official languages and Aboriginal languages.</p> <p>Canadian broadcasters license and schedule more high-quality Canadian television programs in CTF-eligible genres in prime time.</p> <p>Canadians continue to seek out Canadian programs on television and CTF-supported programs.</p> <p>Continued support for regional production, official-minority language production, and Aboriginal-languages production in CTF-eligible genres</p>

1.2 Evaluation

This summative evaluation assesses:

- the CTF Program's relevance in an evolving Canadian television production and broadcasting environment;
- the impact of the CTF across a range of key performance measures; and
- the cost-effectiveness of the Program through an examination of its current design and delivery structure, considering potential alternative approaches.

1.2.1 Evaluation questions

To assess the Program's relevance, success and cost-effectiveness, the following questions are examined:

- **Relevance.** Does the Program address an actual need, and is it still consistent with departmental and government-wide priorities?
- **Success.** To what extent has the CTF achieved its objectives and expected outcomes?
- **Cost-effectiveness.** Are the most appropriate and efficient means being used to achieve objectives, taking into account alternative design and delivery approaches?

1.2.2 Data collection

The evaluation used various data collection methods: key informant interviews; a comprehensive document review; an analysis of CTF and Telefilm project files; and audience research and analysis.

1.2.2.1 Interviews

In-person and telephone interviews were conducted with key informants, in both official languages. Included were 47 senior management and professional staff in producer and broadcaster organizations, the creative sector, BDUs, the CTF, Telefilm Canada, the Department of Canadian Heritage, and other public-sector organizations. The interviewees were chosen in consultation with PCH, and were selected for their knowledge of the CTF and experience with the Program.

1.2.2.2 Document review

The document review sought to collect qualitative information and quantitative data for addressing the evaluation issues and research questions developed for the study. The review included a number of approaches: research on findings and results from previous evaluations and other studies; a review of relevant policy and program documents and other research sources, including public opinion research; and assembling of statistical information drawn from Program data and other sources.

1.2.2.3 Project files analysis

Project files were analyzed primarily to determine whether CTF funding activities were in line with the Program's stated objectives. The CTF's performance against its objectives was evaluated by looking at the aggregate activity statistics. A further analysis of project files helped evaluate the extent to which the CTF approves projects that meet the objectives, spirit and intent of the fund. CTF-funded and oversubscribed projects were compared with non-funded and withdrawn projects.

1.2.2.4 Audience research

Audience research sought to address issues related to CTF performance on reaching audiences for the years 1998–99, 2000–01 and 2002–03. Conducted by CBC Research, the research used their unique coded database, with all programs viewed or available for viewing listed by origin and type. The source for the viewing data was Nielsen Media Research's meter panel. The research was based on a 42-day sample representative of the entire broadcast year. The margin

of error was plus or minus 3%, 19 times out of 20. The evaluators tabulated and analyzed audience trends for different genres and Canadian population groups/regions. The implications of the findings were examined in terms of the relation to the success of programs funded and not funded by the CTF.

1.2.3 Constraints and limitations

Throughout the time that the evaluation was being planned and research conducted, it was evident that the governance of the CTF was a major issue. However, PCH was conducting a separate consultation and decision-making exercise on the issue. For this reason, governance was excluded from the evaluation mandate. However, evaluators considered it to the extent that it seemed directly related to the overall cost-effectiveness of the Program.

An inherent limitation is that the audience research conducted for the evaluation used a different methodology from that recently implemented by the CTF. The discrepancy accounts for some of the differences in audience results as reported in the evaluation and in the CTF 2003–04 Annual Report. The methodology used for the evaluation was based on a 42-day sample, representative of the entire broadcast year; the data in the CTF Annual Report covered only certain periods of the year (fall/winter) and excluded some viewing sources. In addition, the data presented in the evaluation pertained to the peak viewing period of 7:00 P.M. to 11:00 P.M., while the data in the CTF Annual Report related to the entire day. The differences in methodology make it impossible to compare the two sets of results.

2 Evaluation Findings

2.1 Relevance

Relevance is first assessed by considering whether there is still a need for the CTF Program, and whether the Program is in line with departmental/government objectives and priorities.

2.1.1 Need for the CTF Program

To assess whether the Program is still needed, a review was undertaken of the circumstances behind its creation and how they have changed. Also considered were stakeholders' perspectives and Canadian public opinion, as indicated in public opinion research on related topics.

2.1.1.1 *Original need for the CTF*

The federal government's support for the creation and broadcast of Canadian content is rooted in the *Broadcasting Act* (last revised in 1991), as well as in a long series of regulatory decisions by the Canadian Radio-television and Telecommunications Commission (CRTC) seeking to improve the way in which Canadian broadcasters meet Canadian content obligations.

Originally, the standard Canadian content regulations were broad quantitative stipulations; in the case of private conventional broadcasters, the rules required 50% of overall content to be Canadian, with the proportion going up to 60% from 6:00 P.M. to midnight. This approach failed to ensure that more than a token amount of Canadian drama, children's, documentary and variety programming (called "under-represented" programming categories) was produced and aired by Canadian broadcasters in peak viewing hours (7:00 P.M. to 11:00 P.M., now referred to as "prime time"). Apart from news/information/sports programming, Canadian content in English-language television was typically confined to off-peak hours. In French-language television, the typical prime-time programming fare was either dubbed U.S. shows or very cheaply made domestic serial dramas (*téléromans*). In general, economic reasons drove broadcasters to prefer low-cost programming in off-peak hours as a way of meeting Canadian content requirements.

To address this problem, the Commission imposed conditions when major conventional station groups and networks applied to renew their licences. Major broadcasters were required to commit more resources to drama and other underserved programming categories, and to schedule a number of hours in prime time.

In addition, the Commission sought to increase investment in Canadian production by placing significant obligations on broadcasters that acquired other licensed broadcasters. During its Structural Public Hearings in 1993,⁵ the CRTC became convinced that Canadian programming needed additional funding. As a result, and as proposed by cable companies, it created the Cable Production Fund, eventually requiring cable operators to place up to 5% of

⁵ See <http://www.crtc.gc.ca/archive/eng/Notices/1993/PB93-74.htm>.

their broadcasting revenues into programming funds. Under the auspices of the CRTC, a stakeholder board was established to oversee the allocation of funds; this public oversight responsibility was eventually transferred to PCH from the CRTC.

When the CTF corporation was established in 1996, it brought together Telefilm's Broadcast Production Development Fund (\$50 million) and the Cable Production Fund (\$44 million). Matching funds of \$100 million from the federal government doubled the amount available for prime-time programming in the under-represented genres. Two converging trends supported this new approach:

- Demand for Canadian programming in the under-represented genres was growing in response to the regulatory obligations imposed on private conventional broadcasters. In other words, the increased demand was policy-driven rather than market-driven.
- Budget cuts forced the CBC to meet its Canadian programming requirements in the under-represented programming categories by working with independent producers. Without outside support, the French and English CBC could not afford to produce or commission as much programming in the under-represented genres as in the past.

The need for additional funding was expected to be temporary. After a few years, it was thought, the production/broadcasting system would be mature enough to fund programming itself, and annual contributions from BDUs would grow, gradually replacing government funding.

2.1.1.2 A continuing need

Is there still a need for substantial public funding of Canadian television production and broadcasting in the under-represented genres?

Trend in the demand for Canadian programming

As a result of the emergence of specialty TV services with substantial Canadian content commitments, pressure increased on the CTF's funds. A 2003 study conducted for the Department of Canadian Heritage⁶ found that these services' Canadian prime-time programming requirements almost tripled in volume from 1996–97 to 2002–03. The increase was greater in the case of English-language specialty services, reaching 31% a year.

According to the study, broadcasters assumed that CTF financial incentives would enable producers to meet the CRTC-triggered demand for Canadian programming. From 1997–98 to 2002–03, Canadian broadcasters (both conventional and specialty) collectively increased their expenditures on Canadian programming at a rate of 10% a year. However, over that period the hours of required Canadian content grew by 20% a year, from 33,000 hours in 1996 to over 90,000 hours in 2003. Demand consequently exceeded the supply of CTF funds, leading to what has been called a “disconnect” between policy-driven demand and government funding.

⁶ Wall Communications Inc., *Study of the Demand for Canadian Programming within the Canadian Broadcasting Industry*, September 2003.

Since analog specialty TV services have expenditure commitments tied to their sales, their programming needs will grow over time. Moreover, the new “diginets” (specialty TV services available only on the BDUs’ digital tiers) will also expand their original programming as they grow. Pressure on CTF funds will increase accordingly.

Counter-trends in English-language drama

While changes in the broadcasting system increased the overall demand for hours of original programming in the under-represented categories, several factors led to reduced production of Canadian drama series in English:

- The 1999 TV policy eliminated expenditure commitments for private conventional broadcasters. As a result, from a regulatory perspective, private broadcasters were less interested in producing English-language Canadian TV drama series.
- Despite relatively high fees, broadcasters can gain from licensing U.S. shows with proven audience appeal. They also take advantage of simultaneous substitution provisions for Canadian airplay of programs broadcast by U.S. border stations. In some respects, conventional broadcasters thus are forced to conform to the schedules of U.S. border stations. As a result, it is not economically viable for them to provide scheduling consistency to Canadian programming,
- The demand has grown for reality programming in place of scripted drama or comedy TV programming. This shift has provided private broadcasters an alternative to drama, again lessening the incentive for them to produce and air drama programming.
- Although specialty TV services license original programming in the drama category, their production budgets are lower. The bulk of the specialty services’ demand lies in the children’s and documentary genres in both English and French programming.

These factors did not affect French conventional broadcasting to the same degree. Overall, audiences for Canadian prime-time programming in French are steady, with significant audience transfers between networks depending on program quality, audiences’ tastes and networks’ ability to effectively promote programs. In the 1990s, French-language conventional broadcasters wooed audiences back to Canadian programming from dubbed U.S. series by producing and airing expensive drama series (*séries lourdes*). They then began to shift to less expensive but still popular *mi-lourd* drama and *téléromans*, which delivered higher profits. As a result, French drama/comedy production has not diminished but the type of drama programming has evolved. In the face of competitive challenges from reality programming and new specialty services, as well as funding cutbacks, producers have become more cost-effective and responsive to audience tastes (e.g. by producing fewer episodes with a quicker turnaround).

Production industry capacity to finance high-quality prime-time programming

The industry’s financial capacity for production has decreased in the last few years, for a number of reasons:

Decline in foreign financing. There has been a rapid decline in foreign financing for production with high Canadian content, and especially for English-language drama. In a study of 20 countries on three continents conducted for PCH in 2003,⁷ it was found that domestic programs occupied most or all of the top 10 spots in audience tuning — with the exception of Canada. This represented a marked change over the last several years as rising domestic production values in these countries attracted larger audiences. The first casualty was “American-lite” programming aimed at international audiences; a Canadian specialty, this involves producing drama series that would get 6 to 8 points on the 10-point CAVCO scale of Canadian content. Opportunities remain for Canadian projects of this kind, but the market has shrunk substantially.⁸ According to the Canadian Film and Television Production Association (CFTPA), foreign investment is less than half of what it was at its peak in 1999–2000.⁹ This sharp decline of an international market did not affect French-language programming since it has always depended solely on the Quebec market for financing. In the children’s and documentary genres (both French- and English-language programming), in the last few years we have seen an increase in international treaty co-productions as a way to gain foreign financing. Often these are minority Canadian co-productions that are less likely to qualify for CTF financing, or else qualify for financing of only a small part of the budget.

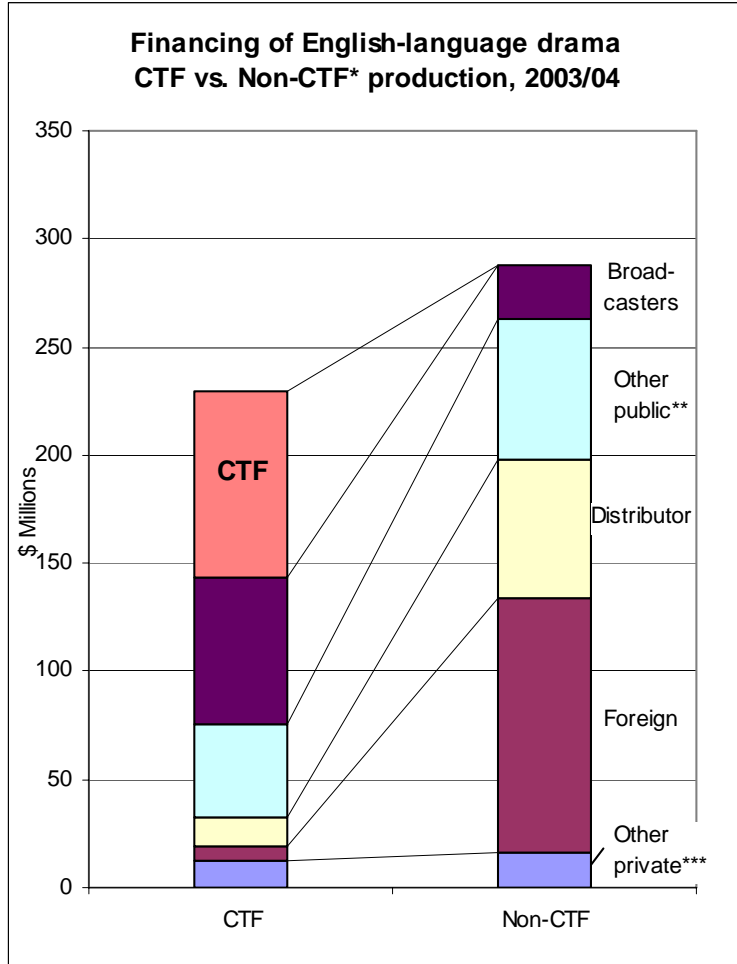
Figures 2 and 3 show the need for CTF funding in the financial structure of English- and French-language production. For English-language production, foreign financing (while less available than previously) is still critical to the funding of a large proportion of drama production. Where such funding is not available, the CTF fills the gap. Obviously, foreign financing is available only for projects that would have a foreign market, ruling out many 10-point Canadian productions. For the French-language market, there is very little prospect of foreign financing. Accordingly, the amount of French-language drama production financed outside of the CTF is only a fraction of the total with CTF backing. For the French-language market, drama programming is very dependent on the CTF.

⁷ Nordicity Group Ltd., “Summary of Broadcasting Regulations and TV Viewing for Selected Foreign Countries,” prepared for PCH, 2003.

⁸ With some exceptions, there are no longer international pre-sales commitments or distribution advances for TV drama series. For example, *Da Vinci’s Inquest* used to receive \$175,000 an episode from foreign markets but its foreign sales are now insignificant.

⁹ See Canadian Film and Television Production Association, *Profile 2005: An Economic Report on the Canadian Film and Television Production Industry*, Ottawa, 2005 (http://www.cftpa.ca/newsroom/pdf_profile/profile2005-english.pdf).

Figure 2: Financing of English-language drama, CTF versus non-CTF production, 2003-04



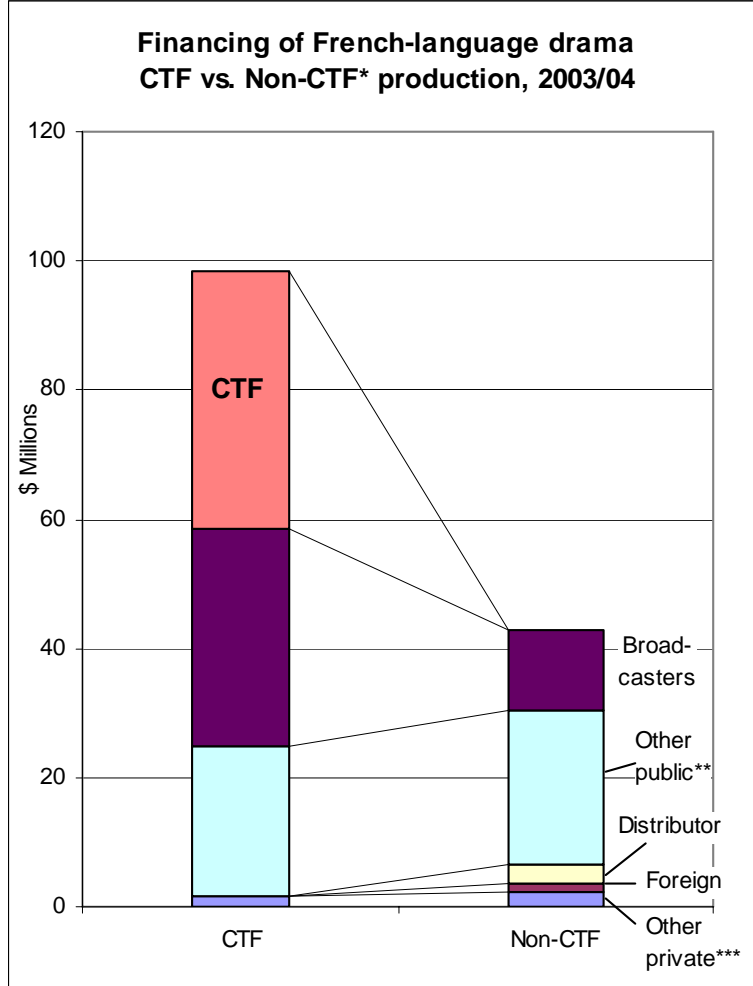
¹ Includes any CAVCO-certified production without CTF funding, with 6 or more points on the CAVCO scale, and with television as the primary release window.

² Includes financing from tax credits, other federal government sources and provincial governments.

³ Includes financing from production companies, corporate production funds and other private investors.

Source: Nordicity Group calculations, based on data from CTF Annual Reports, CFTPA and CAVCO.

Figure 3: Financing of French-language drama, CTF versus non-CTF production, 2003-04



Rise in production costs for English-language Canadian programming. Production costs for English-language Canadian programming are rising as demand for competitive TV programming becomes more intense. Since the competition for audiences comes from U.S. prime-time programming, there is constant pressure to strengthen production values for English Canadian programming. French and English producers face many of the same financial pressures. However, in response to competitive pressures and funding cutbacks, French-language producers have been able to cut costs. In the face of increasing competition from specialty services, reality TV and non-programming entertainment (e.g., gaming), French-language broadcasters have been able to maintain or enhance advertising revenues earned by CTF programming via strong cross-promotion, product placement and the star system.

Finite lifespan of regulatory-induced financing. As a result of CRTC decisions concerning significant benefits required in broadcaster licence transfers of control, several small production funds have been created. The BDU-supported funds are permanent; the broadcaster-financed funds each have a lifespan limited to the obligations for broadcasters to fund them. The very substantial commitment by CTV following its acquisition by BCE is

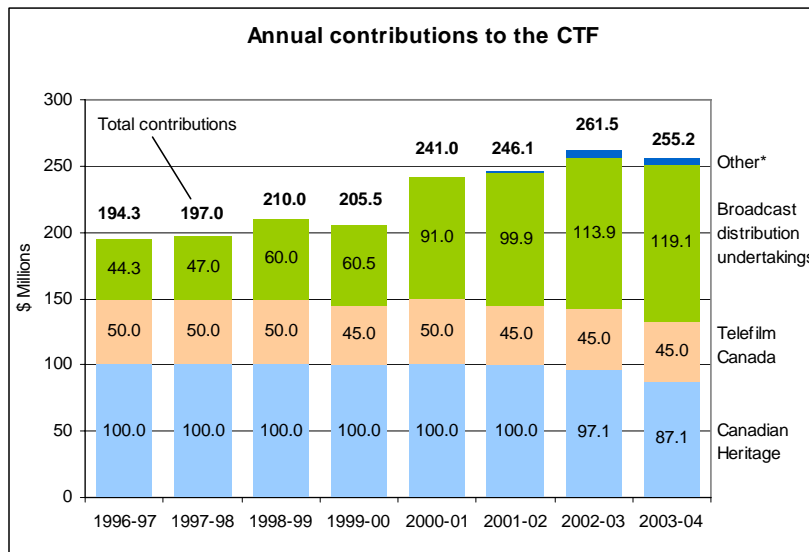
financing high-quality Canadian programming, such as the highly successful *Corner Gas*. However, this commitment will end within a few years. There will probably be more broadcaster acquisitions, but there will be an end to the funding now available specifically for shows such as *Corner Gas* (which would have been CTF-eligible) and *Canadian Idol* (which would not have been CTF-eligible).

As a result, there remains a need for public money to support the creation and prime-time airing of high-quality Canadian-content programming. The basic economics of project financing have not changed substantially. If anything, without a foreign component, broadcast licence fees and tax credits are even less able to meet the financing requirements of prime-time Canadian productions.

Trend in funds available for the CTF

The same period also saw an increase in the total funding available for the CTF. With the growth of the Direct-to-Home component, the contribution of the BDUs has risen substantially over the last few years, as shown in Figure 4.

Figure 4: Annual contributions to the CTF



Since the advent of DTH providers in the late 1990s, the BDU share has risen from 23% to 47% of total funds. The DTH contribution per subscriber is higher than that of cable operators (5% versus 3% of regulated revenues, because the larger cable operator typically spends the other 2% on its own community channel). The CTF therefore grows faster if DTH operators take market share from cable. However, stronger demand has offset this growth. In fact, the lower federal contribution in 2003–04 immediately jeopardized several high-profile English-language projects. The cutbacks had less impact on the prime-time schedule of French-language broadcasting, although the nature of programming changed.

Capacity to meet demand

Despite the rise in total funding and stricter eligibility criteria (projects must be visibly Canadian and must earn 10 points on the CAVCO scale), demand continued to outstrip the supply of available funds by an average of 33 percent in 2002–03 and 2003–04. This rate of oversubscription indicates that millions of dollars worth of distinctively Canadian television programs did not receive CTF support and, in most cases, did not succeed in reaching Canadian television screens. Statistics from the CTF activity reports indicate that oversubscription was common in both the Licence Fee Program and the Equity Investment Program, in both official languages, and in all genres.

Figure 5: Oversubscription to the CTF, measured in terms of applications, 2002–03 and 2003–04

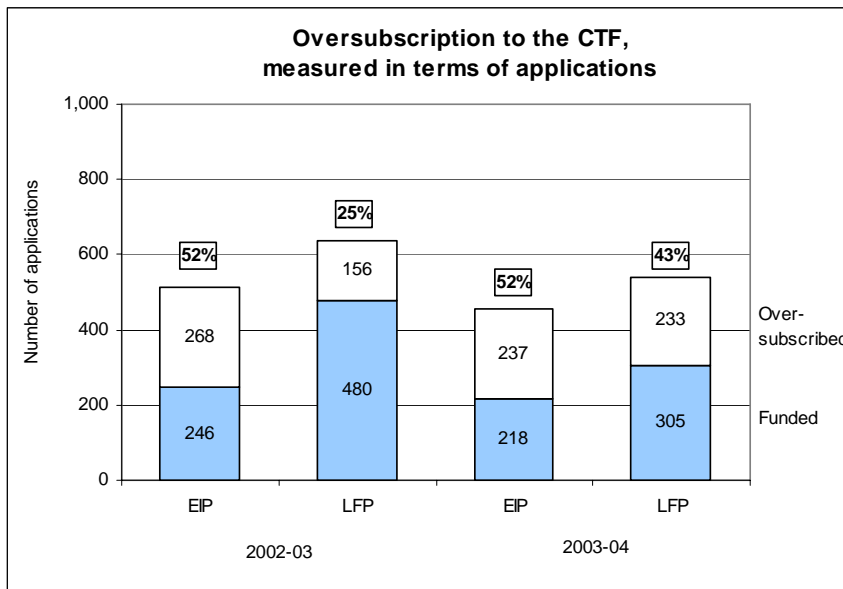
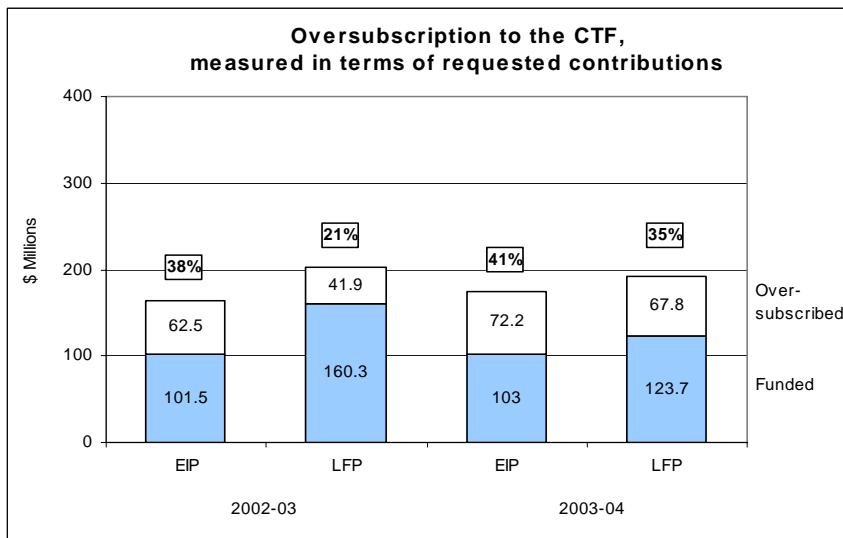


Figure 6: Oversubscription to the CTF, measured in terms of requested contributions, 2002–03 and 2003–04



Source: CTF Annual Reports.

During the past two years, the only instance of undersubscription was in the category of French-language children's programming, in 2003–04.

The file analysis showed that projects not funded tended to be lower priorities for broadcasters. With the implementation of the broadcaster envelope system, the official oversubscription should disappear. The one exception is English-language drama, which is still based on applications to Telefilm that fall under the selective system.

2.1.1.3 Stakeholder and public perspectives

The perspectives of stakeholders and the general public were also considered in determining the relevance of the Program's objectives.

Canadian public opinion

Public opinion surveys consistently show that Canadians want high-quality Canadian television programming and favour government support for it.

- Some 78% of Canadians believe that Canadian content and programming is important overall, and 73% believe it is important in terms of helping to build and maintain Canadian culture and identity.¹⁰
- This is consistent with other research findings, according to which 78% of Canadians believe it is important to have access to programs made by Canadians.¹¹
- The strength of Canada's media ranks lower in importance to Canadians than other needs such as health care, the environment and Canada–U.S. relations, but 57% still believe it is important or extremely important.¹²

While these surveys do not isolate CTF-supported programming, they show that the long-standing support for quality Canadian programming remains high.

Canadians are concerned that the volume of foreign media in Canada is threatening to overwhelm Canadian voices, and they believe that government has a role to play in creating some balance in the system.

- Some 61% of Canadians agree that the volume of U.S. or international media presence (e.g., via the Internet or satellite services) threatens to overwhelm Canadian voices in our own media.¹³

¹⁰ Ipsos-Reid (2004), *Broadcasting Issues and Canada-US Relations*, May 2004.

¹¹ Strategic Inc. (2003), *Canadian Television-Audience Attitudes/Brand Attitudes*, prepared for the Canadian Television Fund, July 2003.

¹² Decima Research Inc. (2003), *Attitudes Towards Canadian Media, Final Report*, prepared for the Canadian Association of Broadcasters and the Canadian Newspaper Association, November 2003.

¹³ *Ibid.*

- Some 73% of Canadians agree that lower funding for Canadian content will lessen broadcasters' ability to tell Canadian stories.¹⁴
- Some 88% of Canadians believe it is important for the Canadian government to work to maintain and build a culture and identity distinct from the United States.¹⁵

Industry and government stakeholders

Stakeholders had little interest in discussing whether CTF objectives were industrial or cultural. The consensus was that they were cultural but that their achievement depends on a sound industrial base and marketplace dynamics. This view represented a shift from the 2000 evaluation.

Many stakeholders noted conflicts in the CTF's set of objectives. According to some, the objective of producing high-quality Canadian programming of high appeal to Canadian audiences would not be furthered by support for French-language producers outside Quebec or (to some extent) for producers outside the main production centres. Some stakeholders felt that there were too many objectives, or that there should be a single overall objective (e.g., development of Canadian popular culture), or that support for underdeveloped parts of the system (e.g., Aboriginal programming) was laudable but should fall under a different budget. Many interviewees commented on what is meant by "high-quality" Canadian programming. Production values (measured in terms of the project's budget) were considered important. Some interviewees saw the four "Essential Requirements" as barriers to audience success.

2.1.2 Alignment of CTFP with Departmental Objectives and Government Priorities

The federal government has expressed its priorities regarding the television industry through the 1991 *Broadcasting Act*, Parliamentary committee reports and government responses to them, and statements of government intentions (e.g., Throne speeches).

2.1.2.1 *The Broadcasting Act as an expression of government objectives*

The *Broadcasting Act* of 1991, section 3, states the government's policy for the broadcasting system in Canada. Among other matters, the Act stipulates the French- and English-language nature of the broadcasting system, and declares that the broadcasting system should:

- (i) serve to safeguard, enrich and strengthen the cultural, political, social and economic fabric of Canada,
- (ii) encourage the development of Canadian expression by providing a wide range of programming that reflects Canadian attitudes, opinions, ideas, values and artistic creativity, by displaying Canadian talent in entertainment programming and by offering information and analysis concerning Canada and other countries from a Canadian point of view,
- (iii) through its programming and the employment opportunities arising out of its operations, serve the needs and interests, and reflect the circumstances and aspirations, of Canadian men, women and children, including equal rights,

¹⁴ Ibid.

¹⁵ Ipsos-Reid.

the linguistic duality and multicultural and multiracial nature of Canadian society and the special place of aboriginal peoples within that society.

The Act also refers to the contribution of the independent production sector and the need for programming that reflects Canada's Aboriginal cultures.

Section 3 further specifies that “each element of the Canadian broadcasting system shall contribute in an appropriate manner to the creation and presentation of Canadian programming.” It also calls for “private networks and programming undertakings . . . [to] contribute significantly to the creation and presentation of Canadian programming.”

The CTF's objective — to assist the creation and broadcast in prime time of high-quality, culturally significant Canadian television programs — is thus fully consistent with the provisions of the Act.

2.1.2.2 Government Responses to the “Lincoln” Report ¹⁶

In its first response to the “Lincoln” Report, the Government acknowledged:

There is a need to ensure the clarity of the mandates of the agencies and programs with which it supports Canadian broadcasting, and to ensure that they are aligned and integrated in pursuit of the goals of the broadcasting system.¹⁷

In accordance with that response and with previous evaluation findings and recommendations,¹⁸ the mission of the Fund has been clearly defined as cultural rather than industrial.

The first response enunciated the Government's objective of moving beyond fostering content creation to connecting viewers with Canadian programs, and beyond simply making Canadian content accessible. It stated, “Success cannot be equated with simply making Canadian content available on television screens.”¹⁹

In its second response to the Report of the Standing Committee on Canadian Heritage, p. 9, the Government stated the following strategic priorities:

- **reaching audiences** by ensuring a healthy supply chain continuum from creator to citizen, so that Canadian content is available and accessible to Canadians;

¹⁶ *The Government of Canada's Response to the Report of the Standing Committee on Canadian Heritage*, November 2003 (http://www.pch.gc.ca/progs/ac-ca/progs/ri-bpi/pubs/lincoln/index_e.cfm); *Reinforcing Our Cultural Sovereignty — Setting Priorities for the Canadian Broadcasting System: Second Response to the Report of the Standing Committee on Canadian Heritage*, April 2005 (http://www.pch.gc.ca/progs/ac-ca/progs/ri-bpi/pubs/lincoln2005/Reinforcing_Our_Cultural_Sovereignty.pdf). The Standing Committee report, entitled *Our Cultural Sovereignty: The Second Century of Canadian Broadcasting* (<http://www.parl.gc.ca/InfoComDoc/37/2/HERI/Studies/Reports/herirp02-e.htm>) was tabled in June 2003.

¹⁷ See p. 2 of the Response (http://www.pch.gc.ca/progs/ac-ca/progs/ri-bpi/pubs/lincoln/03_e.cfm).

¹⁸ Department of Canadian Heritage, *Report on the Review of the Canadian Television Fund*, 2000 (<http://www.pch.gc.ca/progs/ac-ca/progs/ct-cft/pubs/report-rapport/english.html>).

¹⁹ See p. 2 of the Response (http://www.pch.gc.ca/progs/ac-ca/progs/ri-bpi/pubs/lincoln/03_e.cfm).

- **reflecting ourselves** by reflecting Canada’s rich linguistic, ethno-cultural, Aboriginal, and regional diversity as our shared citizenship and common values;
- **investing in excellence** by focusing on cultural excellence and rewarding success;
- **harnessing the opportunities of new technologies** by taking a proactive approach to technological change in order to take full advantage of its benefits; and
- **reaching the world** by developing international markets so that we can share Canadian talent and culture with the world.

Explicitly recognizing that the CTF helps fulfill these priorities, the Government stated that the Fund is “an essential component of the Canadian broadcasting system” and is “the most appropriate tool to support high-quality, distinctively Canadian television programming in five genres: drama, documentary, children’s and youth, variety, and performing arts, in both official languages and in Aboriginal languages.”²⁰

2.1.2.3 *Speech from the Throne, October 2004*

On October 5, 2004, in the Speech from the Throne, the Government referred to culture only once, as follows:

What makes our communities vibrant and creative is the quality of their cultural life. The Government will foster cultural institutions and policies that aspire to excellence, reflect a diverse and multicultural society, respond to the new challenges of globalization and the digital economy, and promote diversity of views and cultural expression at home and abroad.²¹

This reference could be interpreted as expressing support for policies that assist the production and exhibition of high-quality and distinctively Canadian television programming.

2.1.2.4 *Departmental strategic outcomes*

The following strategic outcomes are stated in the Program Activity Architecture of the Department of Canadian Heritage:

- Canadians express and share their diverse cultural experiences with each other and the world; and
- Canadians live in an inclusive society built on intercultural understanding and citizen participation.

The CTF Program relates directly to the first strategic outcome through its goal of assisting the creation and broadcast in prime time of high-quality, culturally significant Canadian television programs in both official languages. By doing so, it contributes to the three objectives of the Broadcasting Policy and Innovation Branch, namely:

²⁰ *Reinforcing Our Cultural Sovereignty*, p. 9.

²¹ *Speech from the Throne to Open the First Session of the Thirty-Eighth Parliament*, p. 11 (http://pm.gc.ca/grfx/docs/sft_e.pdf).

- Achieve Canadian programming, reflective of Canadian society;
- Build the capacity of the Canadian broadcasting system; and
- Ensure access to a diversity of Canadian content.

At a higher level, by pursuing its objectives, the CTF aligns with the Program Activity defined as “creation of Canadian content and performance excellence.”

It would also appear to be at least broadly supportive of the Department’s second strategic outcome, which is echoed in the Branch’s diversity objective — especially important given the growing proportion of the population belonging to a visible minority and/or born outside Canada. However, there is no explicit mention of this aspect of the Department’s strategic outcomes in the provisions of the contribution agreement governing the federal component of the CTF.

Another area of departmental priorities has not been formally addressed by the CTF objectives. With the advent of high-definition television (HDTV), there is increasing concern in the Department (expressed in interviews) that the production industry should be producing more of its content in digital formats. Despite the additional production cost, the CTF Board has not attempted to deal with HDTV, for example, by developing guidelines. This gap is another potential disconnect between government objectives and the Program’s expected outcomes.

2.2 Success in Achieving Objectives

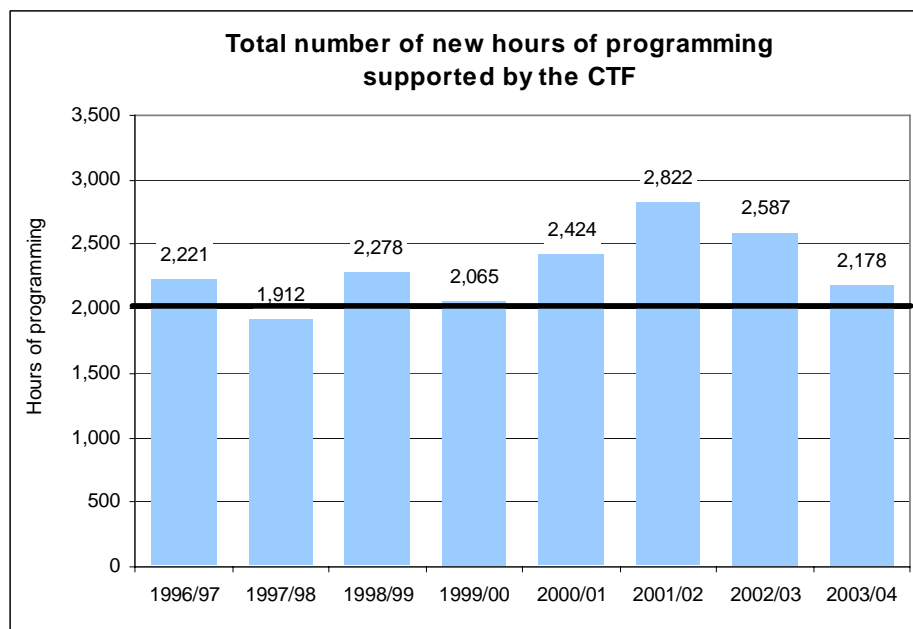
To what extent has the Department of Canadian Heritage achieved its objectives through its contribution to the CTF? Based on the RMAF and the contribution agreements, the objectives are:

- to provide support for programming of satisfactory quantity and quality, also meeting targets for distributing support within certain categories of language, genre and producer group; and
- to ensure some kind of audience measurement demonstrating the extent to which Canadians seek out Canadian programs on television, and especially CTF-supported programs.

2.2.1 Achievement of the production objectives

With the exception of 1997–98, the CTF has supported more than 2,000 hours of new television programming²² in every fiscal year since 1996–97, despite declines in the past two consecutive years (see Figure 7).

Figure 7: Total number of new hours of programming supported by the CTF



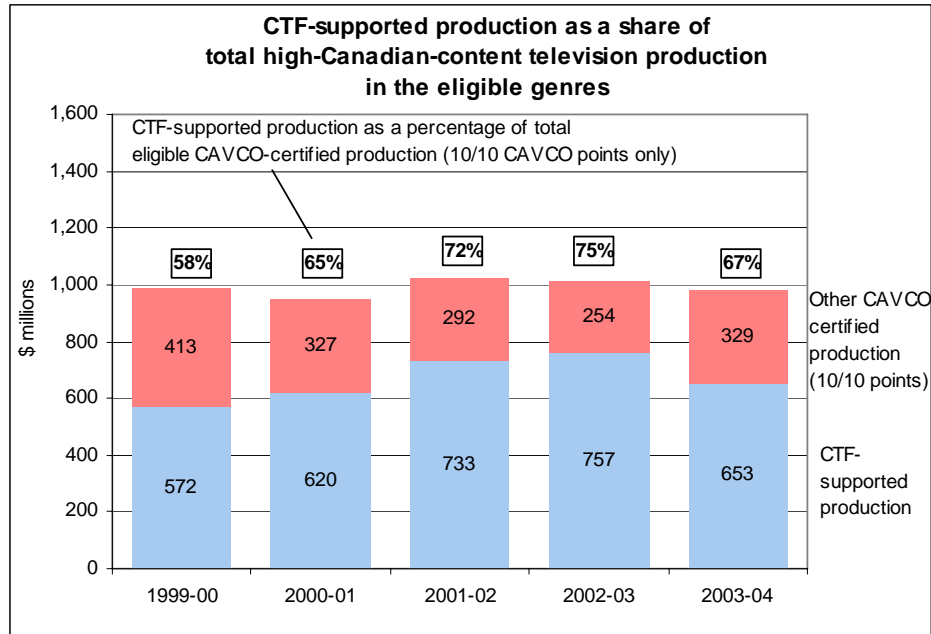
Source: CTF Annual Reports.

On an aggregate basis, CTF-supported production (excluding feature films) accounted for two thirds of eligible CAVCO-certified production in 2003–04. Since 1999–2000, only one third

²² New television programming is original television programming or newly filmed television programming, as opposed to repeat television programming.

of “10 out of 10” Canadian television production has taken place without financing from the CTF.

Figure 8: CTF-supported production as a share of total high-Canadian-content television production in the eligible genres



Source: Nordicity Group calculations, based on data from CTF Annual Reports, CFTPA and CAVCO.

Following is an examination of the extent to which the hours supported were “high-quality, culturally significant TV programs,” and whether they fell within the targeted categories.

2.2.1.1 High-quality, culturally significant Canadian TV programs

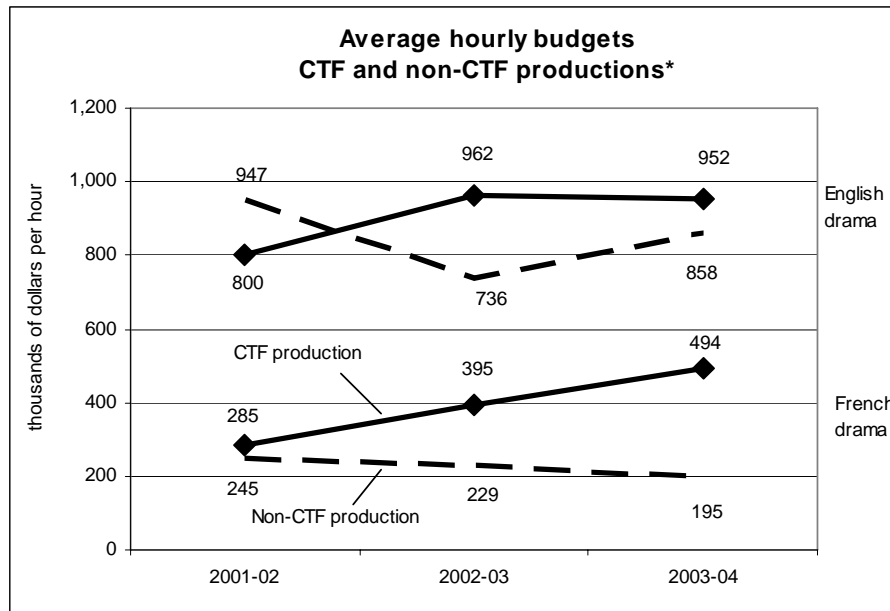
Quality in television programming can be viewed as a set of attributes, including production values, critical acclaim and audience appeal.

Production costs

To assess the quality of CTF programming in terms of production values, the average per-hour production budgets of CTF programming were compared with the budgets of similar non-CTF programming. For example, CTF drama was compared with other CAVCO-certified television dramas (series, mini-series, made-for-television films) that attained 10 out of 10 points on the CAVCO scale of Canadian content.

During the last three years, production values were in most cases higher for CTF-supported television drama programming than for non-CTF television dramas with a similar level of Canadian content (maximum Canadian content points). The only exception was English-language drama in 2000–01.

Figure 9: Average hourly budgets, CTF and non-CTF productions



* Non-CTF production includes only television productions that have applied to CAVCO for certification and have attained 10 out of 10 points on the CAVCO scale of Canadian content.

On an average cost-per-hour basis, production values for CTF-supported programs have improved somewhat, assuming that production cost is an indicator of production values. The average cost increased from almost \$300,000 per hour in 1999–2000 to \$340,000 in 2003–04. The average cost per hour, however, varies greatly by genre and language. For example:

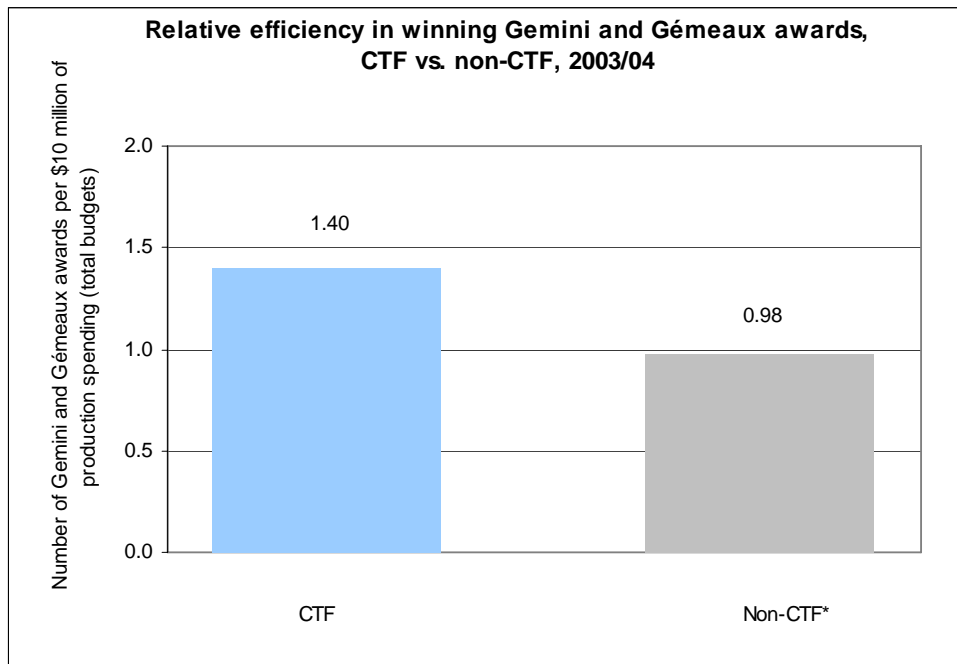
- In English in 2003–04, the average cost per hour was \$952,000 for a CTF-supported drama, compared with \$252,000 for a CTF-supported documentary.
- In French in 2003–04, the average cost per hour was \$494,000 for a CTF-supported drama, compared with \$122,000 for a CTF-supported children’s program.

Critical acclaim

The quality of CTF programming in terms of critical acclaim was assessed by examining the number of Gemini and G meaux awards won by CTF-supported productions. In 2003–04, CTF-supported productions won the majority of Canadian television awards in the categories for which such productions were eligible. CTF productions took 103 of a possible 181 awards.

To assess the critical-acclaim success of CTF productions, we also looked at the efficiency with which the CTF earned its Canadian television awards. While CTF productions won the majority of the applicable awards in 2003–04, they also constituted the majority of the supply of Canadian television programming in the eligible genres. An indicator such as “number of awards per \$10 million of production spending” can control for different total volume levels of production. In 2003–04, for each \$10 million of production spending, CTF-supported productions earned 1.4 awards while non-CTF productions earned just under 0.98 awards.

Figure 10: Relative efficiency in winning Gemini and Gémeaux awards, CTF versus non-CTF, 2003–04



Public appeal

Public opinion data can cast light on the overall appeal of Canadian programming for its target audience.

Canadians are evenly divided in their assessment of the quality of Canadian programming:

- Some 40% of Canadians believe that Canadian programming is of lower quality than foreign programming, while 41% believe it is of equal quality.²³
- Canadian entertainment programming is increasingly embraced for its technical quality, but not always for its entertainment value or attractiveness.²⁴

2.2.1.2 Distribution within genres, languages and producer groups

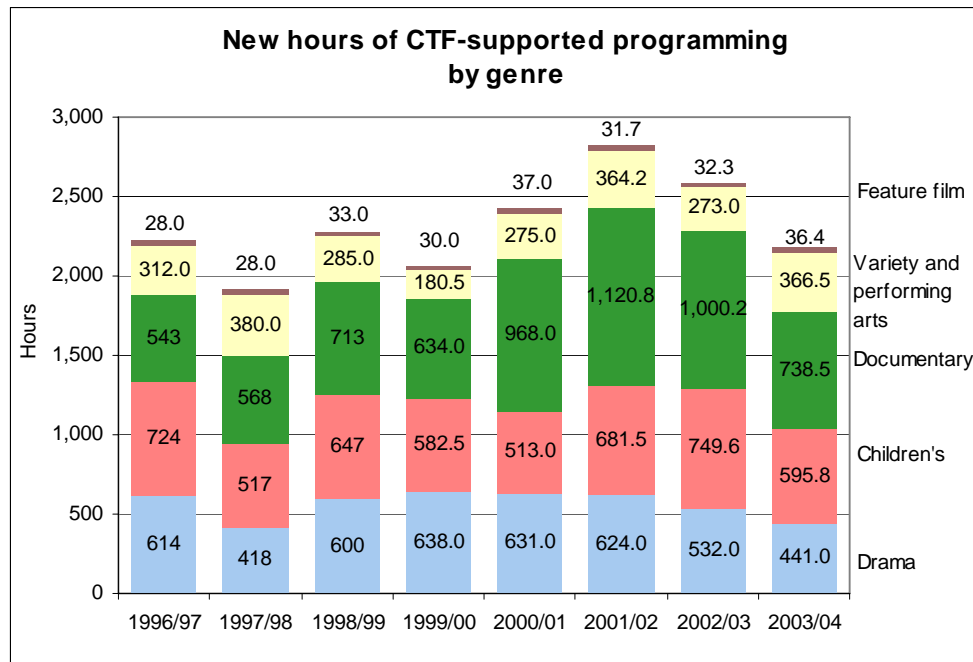
CTF-supported programming by genres

The genres targeted by the CTF are drama, children's, documentary, variety and performing arts. Figure 11 shows the total number of new programming hours within each category per year.

²³ Goldfarb Report (2003), Book 1. Vol. 1.

²⁴ Strategic Inc. (2003).

Figure 11: New hours of CTF-supported programming by genre



Source: CTF Annual Reports.

The figure reveals a number of trends:

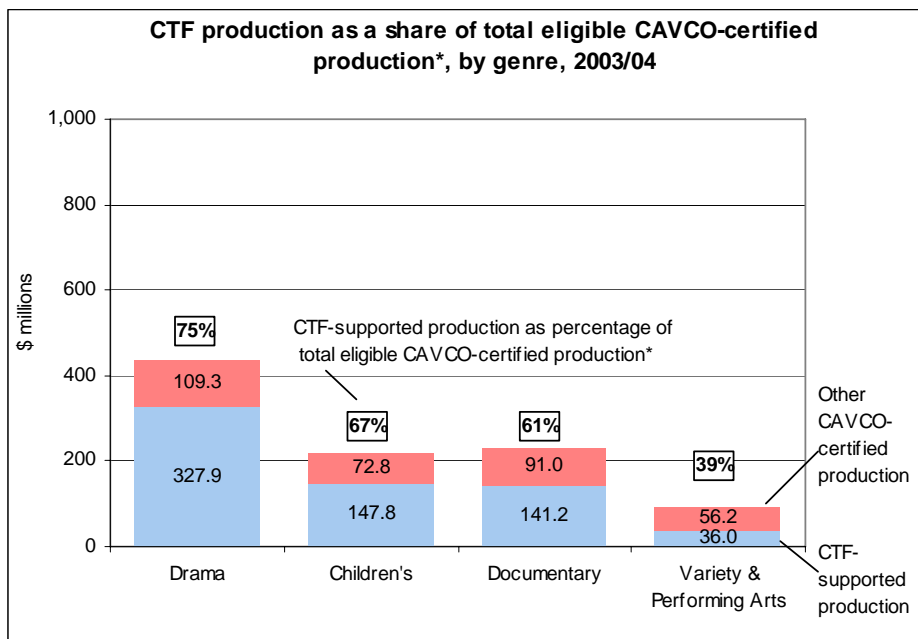
- Support has recently dropped for drama hours. The annual number of drama hours was steady for several years leading up to 2001–02. The years since then have seen a shift away from television series to mini-series and made-for-television films, contributing to a decline in the total number of supported hours in the genre of drama.
- The annual number of children’s programming hours has been quite volatile, rising and falling throughout the last eight years.
- The annual number of documentary programming hours has fallen sharply since 2001–02. Among the reasons for the decline are a drop in CTF funding for the genre, the lower priority given to it by broadcasters, and the shift in recent years away from television series to single-episode documentaries with higher per-hour budgets.
- Like children’s programming, the annual number of hours of variety and performing arts programming has fluctuated considerably from year to year.

For a better understanding of the impact of the CTF, these figures should be examined in relation to the total dollar figures for eligible CAVCO-certified productions.²⁵ Overall, during the past several years, the CTF’s annual production share has ranged from 58% to as high as 75% of CAVCO-certified productions.

²⁵ That is, television productions earning 10 out of 10 on the CAVCO scale of Canadian content.

- In the drama genre, the CTF supported productions worth \$327.9 million (total budget) in 2003–04, or 75% of all eligible CAVCO-certified productions in this genre.
- In children’s programming, the CTF supported productions worth \$147.8 million in 2003–04, or 67%.
- In documentaries, the CTF supported productions worth \$141.2 million in 2003–04, or 61%.
- In variety and performing arts programming, the CTF supported productions worth \$36.0 million in 2003–04, or only 39%.

Figure 12: CTF production as a share of total eligible CAVCO-certified production, by genre, 2003–04

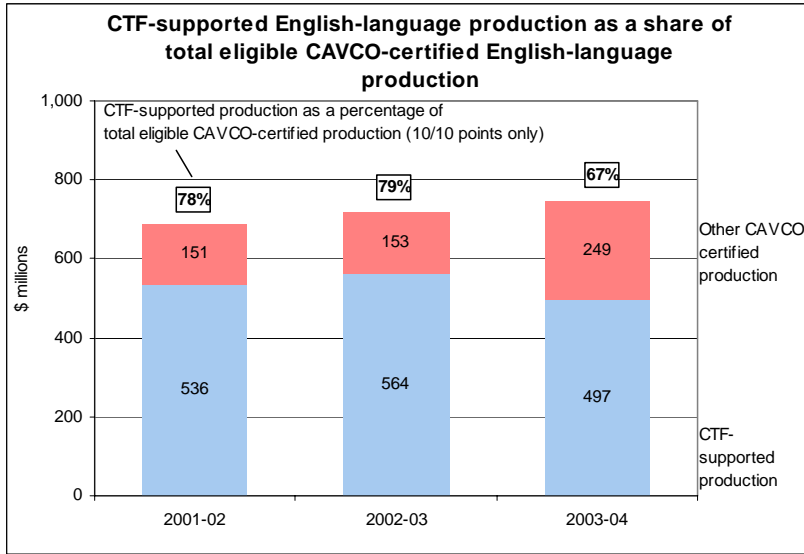


Source: Nordicity Group calculations, based on data from CTF Annual Reports, CFTPA and CAVCO.

CTF-supported programming in both official languages

As Figure 13 shows, the CTF supported \$497 million (total budget) worth of English-language television production in 2003–04. This represented 67% of total eligible CAVCO-certified English-language production in that year. The figure fell from the previous two years, suggesting that CTF-supported programming as a percentage of all CAVCO-certified production is declining, although it remains important in most genres. The trend remains to be confirmed since the contribution from Canadian Heritage in 2003–04 was reduced to \$87.1 million.

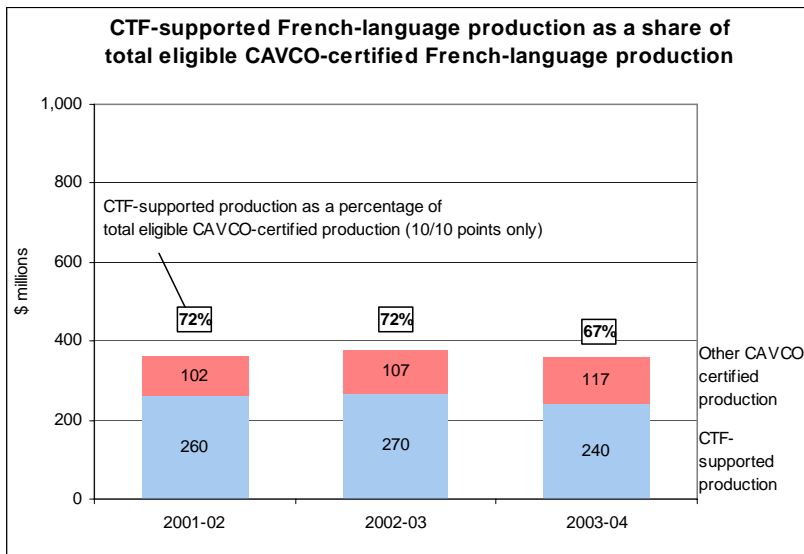
Figure 13: CTF-supported English-language production as a share of total eligible CAVCO-certified English-language production



Source: Nordicity Group calculations, based on data from CTF Annual Reports, CFTPA and CAVCO.

In the French-language market, the CTF supported \$240 million worth of television production in 2003–04, or two thirds of all eligible CAVCO-certified French-language production.

Figure 14: CTF-supported French-language production as a share of total eligible CAVCO-certified French-language production



Source: Nordicity Group calculations, based on data from CTF Annual Reports, CFTPA and CAVCO.

The CTFP objectives also mandate the CTF to provide one third of its total funding support (net of moneys for Aboriginal production) to French-language productions. During the last

three years, the CTF has allocated an average of 33.9% of its total contributions to the French-language market.

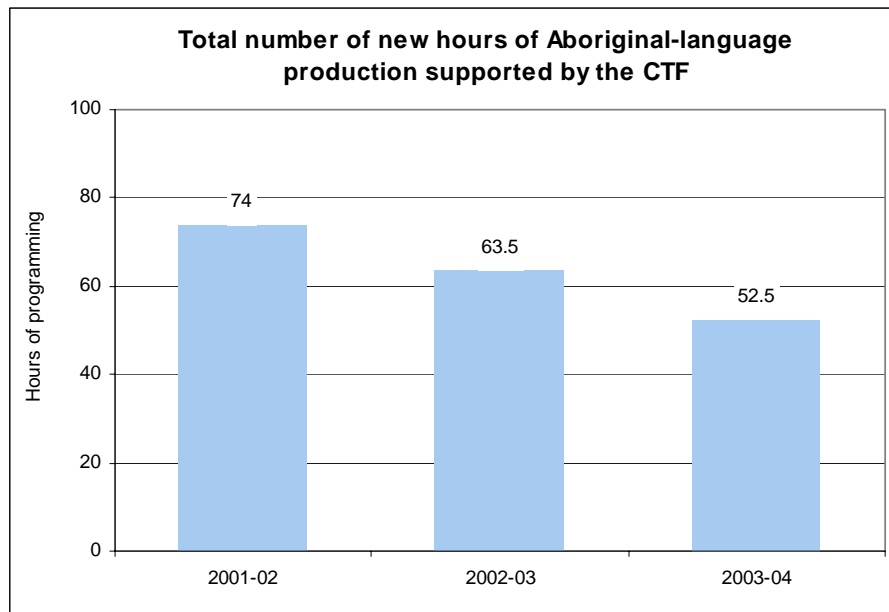
CTF-supported programming in Aboriginal languages

CTFP objectives call for the CTF to “maintain an appropriate mechanism for the support of Aboriginal-languages productions in the eligible genres.” The CTF supports the production of Aboriginal-language television programs as well as the development side of Aboriginal television.

Under its contribution agreement, the CTF sets aside a fixed amount for Aboriginal-language programming, with the result that funding has remained stable over the past few years. However, a shift to financing larger-budget productions has pushed down the annual number of produced hours.

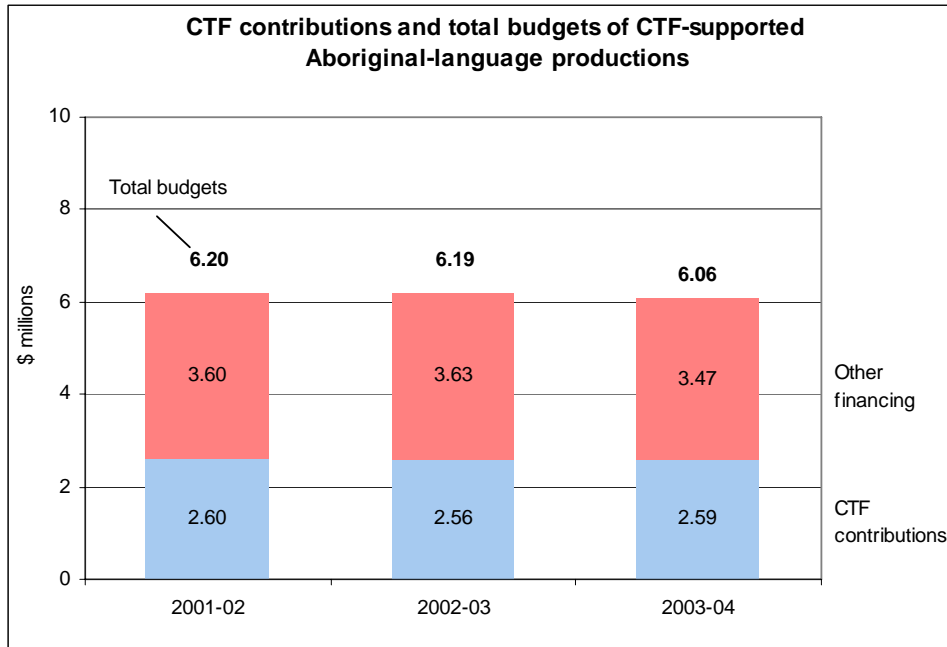
- In 2003–04, the CTF supported the production of 52.5 hours of original Aboriginal-language television programming.
- In 2003–04, the CTF contributed \$2.59 million to total budgets of \$6.06 million in Aboriginal-language television programming.

Figure 15: Total number of new hours of Aboriginal-language production supported by the CTF



Source: CTF Annual Reports.

Figure 16: CTF contributions and total budgets of CTF-supported Aboriginal-language productions



With CTF funds, a core of Aboriginal producers are now considered “players” who are able to generate additional financing from private funds and specialty television services. Aboriginal producers have been successful in improving production quality and diversifying beyond children’s programming and documentaries.

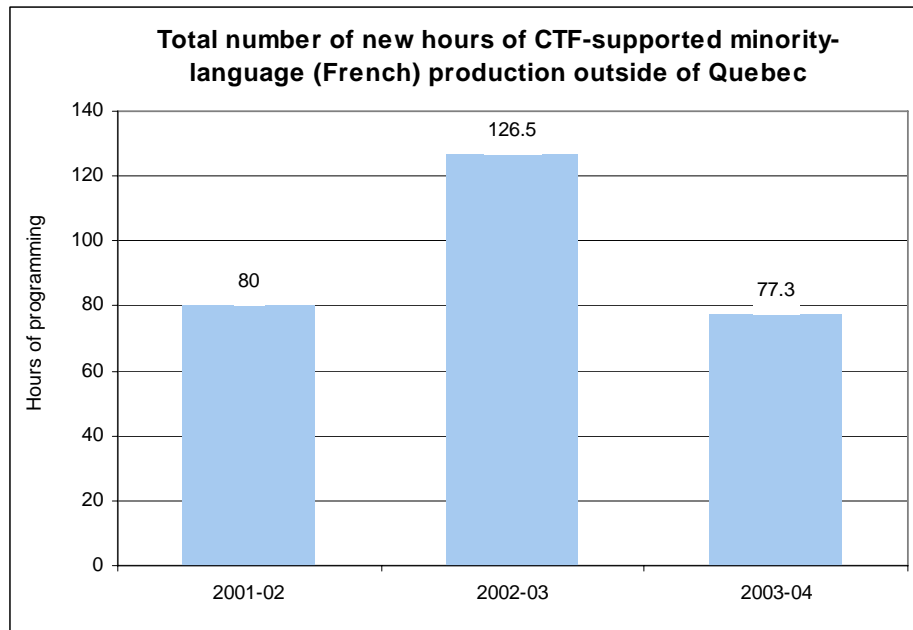
Support for minority official languages

CTFP objectives call for the CTF to encourage production in both minority official languages.

During the last three years, the CTF has contributed \$26.2 million to the production of over 283 hours of French-language television programs made by producers outside Quebec.

CTF funding is helping to build the capacity of minority French-language producers, who now are able to diversify beyond the children’s and documentary genres. CTF funding has given them the financial clout to approach Quebec broadcasters for licensing. They can now access other sources of private financing not available to them in the past.

Figure 17: Total number of new hours of CTF-supported minority-language (French) production outside Quebec



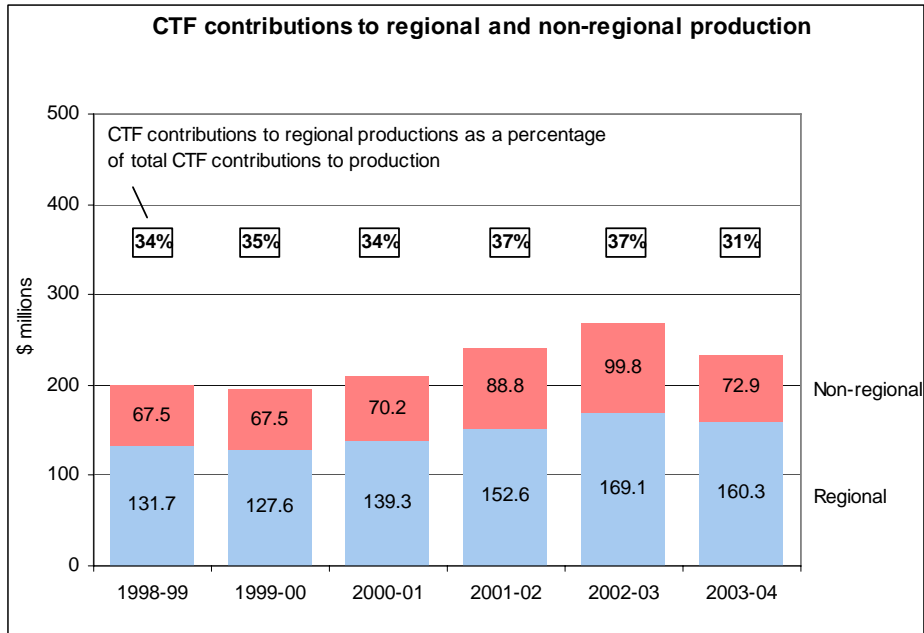
Source: CTF Annual Reports.

Support for regional productions

Under its contribution agreement, the CTF must “include incentives for regionally-based production.” With the implementation of the new envelope system, regional production no longer is a factor in project evaluation. However, use of regional producers is a factor in the calculation of the broadcaster envelope.

In 2003–04, the CTF distributed \$72.9 million, or 31% of its total contributions for production, to producers based outside the Greater Toronto and Greater Montréal areas.

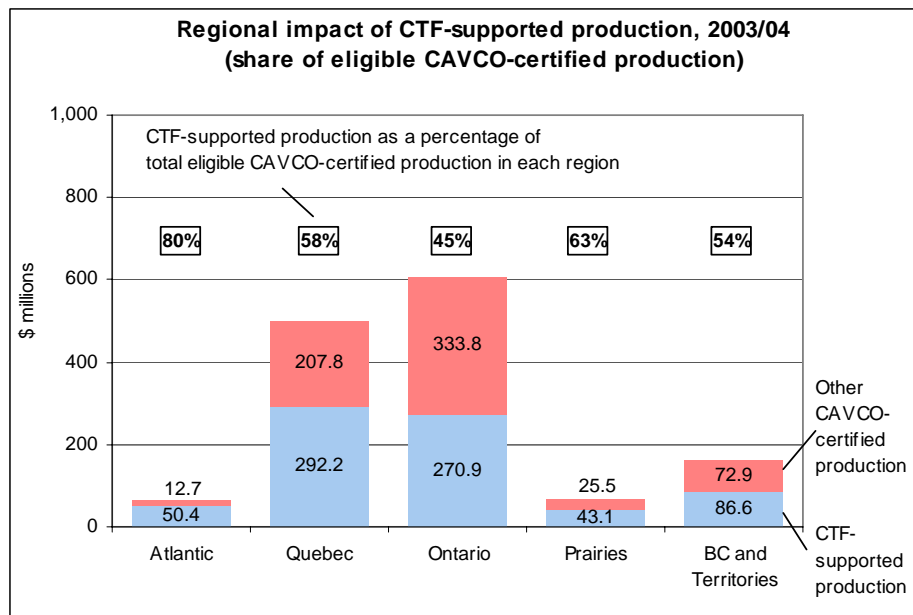
Figure 18: CTF contributions to regional and non-regional production



As the largest production centres in Canada, Quebec and Ontario benefit most from the CTF in absolute terms.

However, on a relative basis, Atlantic Canada and the Prairie Provinces benefit more from the CTF. In 2003–04, 80% of eligible CAVCO-certified production in Atlantic Canada received CTF support. In the Prairie Provinces, the share was 63%.

Figure 19: Regional impact of CTF-supported production, 2003–04 (share of eligible CAVCO-certified production)



Source: Nordicity Group calculations, based on data from CTF Annual Reports, CFTPA and CAVCO.

2.2.2 Audience success for CTF-funded programs

The second aspect to consider while assessing success of the Program is the extent to which Canadians continued to seek out Canadian programs on television, and especially CTF-supported programs. This was done by examining results from audience research commissioned for the evaluation,²⁶ as well as analyzing the top 10 programs in tuning.

2.2.2.1 Total prime-time viewing

Prime-time viewing of CTF-supported programs overall is low relative to viewing of foreign programming and Canadian news and sports programming. However, it is significant when considered in the context of how Canadian entertainment programming in prime time performs overall.

- English Canadian programming outside Québec has consistently garnered about 25% of total television viewing in prime time. In Québec, French programming performs much better, garnering 63% of total viewing in prime time.²⁷ Within prime-time hours, Canadian programming in the under-represented genres (children's, documentary, drama/comedy, variety and performing arts) accounts for 41% of Canadian program viewing in English and 51% of Canadian program viewing in French. These results are consistent with

²⁶ As mentioned in Section 1.2.3 (p. 7), the research was conducted using a different methodology from that recently implemented by the CTF. The result is that rigorous comparison of the two sets of results is not possible.

²⁷ According to the CTF 2003–04 Annual Report, in the fall and winter of 2003–04, 40% of total viewing hours for English-language programming were devoted to Canadian programming. The difference (25% versus 40%) could reflect the fact that the data generated for this evaluation include only prime-time viewing. For French-language television, the percentages appear to be similar (63% versus “up over two-thirds of all viewing of French-language programming”).

longer-term historical patterns. In 1992–93, viewing of Canadian programs accounted for 27% of all viewing on English TV in prime time and 66% on French TV.

- In the case of prime-time viewing of Canadian programming in the under-represented genres, CTF-supported programs account for 32% of the total for English Canadian programming outside Québec and 32% of the total as well for French Canadian programming in Québec..

2.2.2.2 CTF-supported share of total viewing

Tables 3 and 4 also illustrate that the share of total viewing garnered by CTF-supported programs has not increased or maintained its relative share in the face of expanded choice:

- Viewing of CTF-funded English language programming in prime time, in the under-represented genres, dropped from 4.0% of all viewing in 1998–99 to 3.3% in 2002–03.
- Viewing of CTF-funded French language programming in prime time, in the under-represented genres, declined from 13.3% of all viewing in 1998–99 to 10.1% in 2002–03.

Table 3: Audience Share, Prime Time — English Television

		1998–99	2000–01	2002–03
Canadian	CTF-funded: under-represented genres (children's, documentary, drama, variety, performing arts)	4.0%	3.2%	3.3%
	Non-CTF: under-represented genres (children's, documentary, drama, variety, performing arts)	6.0%	6.9%	6.9%
	Other Canadian (news, sports, information)	13.1%	15.5%	14.7%
	Total Canadian	23.1%	25.6%	24.9%
Foreign	Total foreign	76.9%	74.4%	75.1%
Total		100%	100%	100%

Table 4: Audience Share, Prime Time — French Television

		1998–99	2000–01	2002–03
Canadian	CTF-funded: under-represented genres (children's, documentary, drama, variety, performing arts)	13.3%	12.1%	10.1%
	Non-CTF: under-represented genres (children's, documentary, drama, variety, performing arts)	21.4%	20.6%	21.9%
	Other Canadian (news, sports, information)	30.3%	29.4%	30.9%
	Total Canadian	65.0%	62.1%	62.9%
Foreign	Total foreign	35.0%	37.9%	37.1%
Total		100%	100%	100%

CTF-financed projects have not kept up with the market in terms of total hours of available programming. Although CTF-supported programs rose in volume to a high of 2,822 original hours in 2000–01, the number dropped back to 2,178 hours in 2003–04. Roughly covering the same period, from 1998–99 to 2002–03 there was an increase of 50% in the availability of programs for viewing on English television, and 42% on French television. The difference in audience tuning performance may thus be attributed partly to the significant difference in the volume of available programming, itself the result of the introduction of new specialty TV services and of time shifting (duplication of conventional signals from different time zones) available on DTH. CTF programs represent a small nucleus of original programming in the system; they compete for the attention of viewers against a vast array of other programming, much of it repeat or shelf product.

2.2.2.3 Audience shares, by genre

In the English children's genre, CTF-supported programs account for 46% of all tuning generated by Canadian children's programs. The situation is quite different for French language programming where CTF-supported programs account for only 15% of all tuning to Canadian children's programming.

In the documentary genre, CTF-supported programs are equally important in English and French, capturing 36% (English) and 35% (French) of all viewing of Canadian documentary programming.

In the drama genre, the situation differs in English and French. CTF-supported programs represent 38% of all viewing of Canadian drama programming in English, but 52% of all viewing of Canadian drama programming in French. The discrepancy reflects the existence of foreign financing for some English-language products, increasing the viability of creating non-CTF drama programming.

In variety and performing arts, CTF-supported programs account for a very small proportion of total viewing of Canadian programming. The difference between this genre and the others,

particularly in French, is that the market can often support such programming, with the result that the CTF plays a much smaller role here than it does in other genres.

Table 5: Audience Share, Prime Time — By Genre

		English	French
Children	% of total viewing	0.6%	0.2%
	% of total Cdn genre	46.0%	15.0%
Documentary	% of total viewing	0.4%	0.7%
	% of total Cdn genre	36.0%	35.0%
Drama/Comedy	% of total viewing	2.1%	8.7%
	% of total Cdn genre	38.0%	52.0%
Variety & Performing Arts	% of total viewing	0.2%	0.5%
	% of total Cdn genre	9.0%	4.0%
Total	% of total viewing	3.3%	10.1%
	% of total Cdn genre	32.0%	32.0%

Audience analysis shows very light viewing of French-language CTF-financed programming supplied by producers outside Quebec in 2003–04. One four-episode series drew a rating of nearly 500,000 on the French-language CBC, and one other surpassed the 100,000 mark (on TVA). However, most programming was shown on specialty TV stations, with ratings under 10,000.

2.2.2.4 Analysis of top 10 programs in tuning

A comparison of top programs shows that, for English TV, most of the top 10 slots were occupied by foreign programming, while foreign programs were virtually non-existent on French TV. In drama/comedy, the results are quite different for English- and French-language television.

- English TV has two CTF-funded programs that ranked in the top 10: *Shattered City* (CBC) and *Men of the Deeps* (documentary). *Shattered City* was the program with the highest viewing among drama/comedy specials, including foreign. In the top 10 Canadian drama/comedy series, the top three are not CTF-financed (two are CBC comedies and one is *Corner Gas*, financed by CTV’s significant benefits funding); however, most of the rest of the top 10 are CTF-financed. Only two of the top 10 English drama/comedy specials are CTF-financed.
- As for French TV, all of the most popular drama/comedy series on French TV received CTF funding, while 7 of 10 drama specials were CTF-financed. This finding suggests that the CTF appears to be virtually the only potential financing source for prime-time drama/comedy series.

2.2.2.5 Shift toward specialty services

Over the last four years, there has been a shift in viewing from conventional to specialty services.

- In English, specialty TV's share of total viewing increased from 31.6% in 1998–99 to 40.8% in 2002–03.
- In French, the rise of specialty TV has been even more pronounced, with specialty TV's share of total viewing increasing from 15.5% in 1998–99 to 30.8% in 2002–03.

Specialty services now capture a larger share of total viewing of Canadian programming than conventional TV in English, though this is not the case for French-language TV. The overall shift in viewing toward specialty services is reflected in the audiences that specialty TV garners from its Canadian programming.

- In 1998–99 in, specialty TV's English programs accounted for 8.9% of total viewing, compared with 14.3% for conventional TV. Four years later the reverse was true. In 2002–03, specialty TV accounted for 13.2% of viewing of Canadian programming; conventional TV accounted for 11.7%.
- Conventional TV still dominates viewing of French programming but its share is being eroded by specialty TV. In 1998–99, conventional TV accounted for 56.2% of viewing of Canadian programs, compared with 8.8% for specialty TV. In 2002–03, Canadian programs on conventional TV still captured 46.7% of all prime-time viewing, but the share of viewing captured by specialty TV had increased to 16.1%.

While the overall share of tuning to Canadian programming has remained relatively stable, there have thus been important shifts within the industry from conventional to specialty TV.

Conventional TV accounts for 61% of all viewing of CTF-funded programs; specialty TV accounts for 39%. The distribution of CTF support has also changed: specialty services receive a growing share, reflecting the shift in overall viewing.

Table 6: Audience Share, Prime Time — English Television

		1998–99	2002–03
Total Viewing	Specialty TV	31.6%	40.8%
	Conventional TV	68.4%	59.2%
	Total	100.0%	100.0%
Total Canadian Viewing	Specialty TV	8.9%	13.2%
	Conventional TV	14.3%	11.7%
	Total	23.1%	24.9%
Total CTF-Funded Viewing	Specialty TV	1.1%	1.4%
	Conventional TV	2.9%	2.0%
	Total	4.0%	3.3%

In Québec, viewing of conventional TV (both domestic and foreign) has declined to 69%, keeping pace with the trend in the rest of Canada. However, a critical viewing mass still favours Canadian programming (47% versus only 12% in English). The 16% viewing share of domestic specialty services is comparable to the 13% share of such services in English. As is the case in English, CTF funding support reflects this distribution of viewing.

Table 7: Audience Share, Prime Time — French Television

		1998–99	2002–03
Total Viewing	Specialty TV	15.5%	30.8%
	Conventional TV	84.5%	69.2%
	Total	100.0%	100.0%
Total Canadian Viewing	Specialty TV	8.8%	16.1%
	Conventional TV	56.2%	46.7%
	Total	65.0%	62.9%
Total CTF-Funded Viewing	Specialty TV	0.7%	1.5%
	Conventional TV	12.6%	8.5%
	Total	13.3%	10.1%

2.3 Cost-Effectiveness and Alternatives

This section considers the efficiency of the means used to achieve objectives, as compared with alternative design and delivery approaches.

To determine whether the CTF is being delivered in the most cost-effective manner possible, the following were examined:

- administrative costs of the CTF, compared with those of other funding programs;
- the dual administrative structure and the new “three-stream” funding model; and
- Telefilm’s “recoupment” policy.

2.3.1 Administrative costs of delivering the CTF

The cost of administering the CTF has increased over the years from 5.3% of total contributions in 2001–02 to 6.4% of contributions in 2003–04, but it remains within the limits set by the contribution agreement with the Department of Canadian Heritage (specified in Appendix A of the agreement). The agreement limits CTF’s administrative costs to a maximum of 7% of contributions (combined costs for both the EIP and LFP programs). The previous ceiling was only 5%. The Department of Canadian Heritage authorized the higher administrative costs to give the CTF the resources and flexibility for implementing the initiatives required to change the focus of the fund and improve its governance.

Both administrations (Telefilm and CTFC) have initiated a number of improvements to keep costs below the 7% threshold and enhance effectiveness. For example, last year Telefilm implemented its standard recoupment policy to rationalize the process of making equity investments (and also to make the process less onerous for Canadian producers. As well, Telefilm overhauled its processes and procedures to achieve greater consistency and ensure that higher-risk projects receive the most attention.

The adoption of the broadcaster envelope stream has substantially reduced the number of applications to be evaluated by CTFC, yielding significant cost savings. Under broadcaster envelopes, the broadcasters follow pre-set guidelines to decide who should obtain funds. CTF’s decision-making process is therefore more predictable and oversubscription is a problem of the past. According to one interviewee, the number of applications has dropped from about 900 to 400. The workload reduction has led to cost savings, put by CTFC at about \$800,000 a year. The number of applications evaluated by Telefilm has declined even more dramatically. The agency’s activity-based costing (ABC) system makes it difficult to determine the exact cost reduction for a specific program (as opposed to an activity); with the introduction of the three-stream system, however, Telefilm was able to pinpoint a reduction of 25 full-time equivalents — although some were rehired to strengthen other programs, such as international co-production. Moreover, Telefilm is still responsible for the labour-intensive English drama projects and the special initiatives stream (Aboriginal and Francophone outside Quebec). Further, all projects that have an equity investment component still require

Telefilm's administrative oversight to ensure conformity with Telefilm's standard recoupment policy.

The envelope approach is more efficient for users as well because it responds to a production cycle that is a function of the financing and development of a project, rather than to an artificial deadline. In other words, projects proceed under the envelope approach when they are ready, rather than according to an application deadline.

Administrative costs are much higher for special initiatives (e.g., Francophone producers outside Quebec and Aboriginal productions) than for other types of production. For example, Telefilm officials said the approximate administrative cost for Aboriginal production was almost \$1 million to administer the \$2 million allocated to Aboriginal production. Some CTF users suggest that the new design has not yielded real administrative savings at Telefilm because the same administrative resources are being applied to a smaller volume of applications, which simply are subjected to closer scrutiny.

2.3.1.1 Comparative analysis

The evaluation compared the administrative cost of the Program to other funds in the television industry and to similar federal programs.

Other funds

Comparing administrative costs with those of other programs is one way of assessing the CTF's cost-effectiveness. However, this approach has its limitations.

The most direct comparison available is with the smaller private-sector funds. In Public Notice 1999-29, the CRTC stipulated that each of the private-sector funds it acknowledged must not spend more than 5% of contributions from BDUs on fund administration. The CRTC's goal was to ensure that the maximum resources possible were directed to production.

Some CTF users have suggested that if these other funds can function using only 5% of contributions for administrative expenses, the CTF should be able to do the same. However, there are other factors to consider.

- The smaller funds typically "tag on" to the decisions of the CTF and others in deciding on projects in which to invest (although broadcaster delays in deciding on which projects to back this year caused some of the smaller funds to decide on their own).
- The CTF's due diligence on a project is often considered an asset to other fund administrators, and they rely on the CTF for risk management. Other funds accordingly take on a smaller share of such work, and this may partly account for their proportionately lower costs.
- The CTF's costs are also pushed up by the need for outreach and extra handling of applications by producers in target Aboriginal and minority official language categories.

- Most of the private-sector funds focus on a particular genre of programming (e.g., children’s or documentary) and provide a particular type of financial support (e.g., equity investment or interim financing). CTF covers a range of under-represented genres and, unlike the other funds, it focuses on distinctively Canadian programs.

Similar federal programs

Comparing the CTF with other federal funding programs is problematic given the differences between them. However, two other federal programs were reviewed for comparison purposes:

- The Canada Council for the Arts provides grants to Canadian artists through a peer review system. Its administrative costs are significantly higher than those of the CTF: 15.2% of revenues in 2003–04, versus 6.4% for the CTF. However, it should be noted that the CCA operates with a jury system, which is by nature more expensive than a formula based system such as the CTF.
- The Technology Partnerships Canada program makes equity investments in Canadian technology companies. Its administrative costs are much lower — only 3.3% of total contributions.

The differences may be largely due to the size of awards under a program. Awards are small in the case of the Canada Council for the Arts and large in the case of Technology Partnerships.

2.3.2 Design and delivery issues

Although three-stream funding was implemented only in 2003–04, stakeholders were asked about design and delivery issues that might be related to the new model.

2.3.2.1 *English drama envelope*

There appears to be a consensus among French-language producers and broadcasters that the new envelope system is the right approach and should be given a chance to prove itself – with only minor adjustments over the next few years. However, the CTF’s approach to English-language drama is not consistent with its approach in the case of the other two streams. The decision to take English-language drama out of the envelope stream and make it subject to Telefilm’s evaluation process was adopted as a compromise by the CTF Board. Regional producers and organizations representing the creative community also distrusted broadcasters to make decisions, even with specific guidelines. Smaller regional producers believed that without a “forcing mechanism,” broadcasters would exclude them from their English drama projects. As well, some broadcasters regarded Telefilm’s administration of the English drama stream as useful in “correcting” some of the unforeseen outcomes of the envelope stream. In fact, there are incentives to encourage regional production: a broadcaster’s record in that regard is factored into the formula for determining the size of its envelope. The regional incentive has become a component in the criteria for allocating funds to broadcaster envelopes. At the moment it is not clear whether there is justification for the concerns of English-language regional producers about the envelope approach. Under the envelope

system, early indications from Quebec are that regional producers are obtaining their historical share of production.

2.3.2.2 Dual administration

Despite the reallocation of responsibilities in the three-stream approach, Telefilm does not have the authority to delegate the issuance of payments to a third party, such as the CTFC. As a result, the CTFC is responsible for funding decisions under the envelope stream, and makes decisions on licence fee top-ups and equity investments within that stream; however, it is still Telefilm that must issue the commitment letter and cheque to the producer for the equity investment portion of the CTF contribution. Similarly, Telefilm did not possess the legislative mandate to issue grants, which is what licence fee top-ups effectively are; consequently, it has delegated that responsibility for its two streams back to the CTFC. Telefilm and the CTFC had to create a process to “delegate” licence fee responsibilities back to the CTFC, even though it is Telefilm that makes decisions on the applications for the two streams under its management. The result is that while the new model provides a clearer separation between the two administrations than existed before 2004–05, ongoing coordination and cooperation is still needed between the two.

Another issue with the dual administration model is difficulty in providing consistent and accurate financial reporting. CTFC and Telefilm operate under incompatible accounting systems — CTFC on an accrual basis and Telefilm on a cash basis. The incompatibility complicates preparation of integrated financial statements, as required each year under the contribution agreement.

2.3.2.3 Governance issue

Broadcasters and producers approved of the broadcaster envelope system overall, but some producers found it objectionable that broadcasters could exert pressure on their budgets. English Canadian broadcasters seemed to delay their decisions until they saw how much funding producers were able to raise for their productions. French Canadian broadcasters in Québec did not act in this way. While this is not a fundamental issue, it indicates the power exercised by broadcasters in the broadcaster envelope system.

However, some concerns about the broadcaster envelope system were raised by key informants among administrator stakeholders. They saw a potential for problems if broadcasters and producers were able to manipulate the CTF guidelines in their favour. Of course there are government nominees on the CTF Board, including public servants and others familiar with certain aspects of the business; but funding guidelines effectively are set by those intimately involved with the producing and exhibiting of TV programming. There are checks and balances; after all, producers and broadcasters are separate parties required to negotiate with each other. However, they are still joint beneficiaries of a quarter of a billion dollars of government and government-induced funds, and for the most part they determine the specific conditions (guidelines) for allocating the funds.

Underlying this preoccupation is the possibility that industry stakeholders will set guidelines favouring economically safe behaviour. Instead of risk taking in major drama projects, for example, the tendency could be to license projects that cost less or that follow a tried-and-true

approach. The opposing view is that whatever the governance configuration, the federal government would still retain ultimate authority over funding or could intervene in the decision-making process. However, some believe that the government or independent parties should have more say in the process to counterbalance the strength of the broadcasters and producers. That issue, if need be, could be addressed through the contribution agreement, which sets out government requirements and program objectives related to funding.

2.3.2.4 Recoupment

Telefilm's equity investments through the EIP have always had recoupment privileges; that is, if the project succeeds financially, Telefilm recovers some of its investment. The amount recouped is plowed back into production and totals around \$9 million a year. While this is certainly a significant sum, some key informants among broadcasters and producers were highly critical of recoupment policies.

According to critics, Telefilm's recoupment policies sometimes pose a real barrier to the completion of financing, especially from foreign sources (which are said not to understand why the "natural" financial positioning does not apply). Negotiating recoupment can cause delays and certainly cuts out a source of payback for the producer. As indicated earlier, in the more demanding financial environment of the last few years, the typical production company's corporate situation has deteriorated. Telefilm has improved the process by standardizing recoupment policies, although apparently not all projects can meet the standards.

Producers believe that tracking projects over several years, along with other aspects of administration, remains very costly for Telefilm. Some producers suggest that Telefilm should at least limit its interest in rights to a finite period, such as five years. The agency counters that tracking efficiency is now quite high, and that a considerable part of the overall return to equity results from revenue earned after five years.

The rationale for recoupment on equity investments is certainly understood: that the public investment merits a return if the equity investment is successful. Although recoupment is recognized as a long-standing condition of Telefilm's funding, it averages only a few percentage points of the total equity advanced. In fact, when the Canadian Film Development Corporation (the forerunner to Telefilm) was first established, it was supposed to be replenish its fund from the proceeds of its equity investments in films. At issue is whether that approach remains sound.

Supposing that changes in recoupment policies lowered returns to Telefilm by \$5 million, the question is how much production companies would benefit. Would they use the extra funds to help develop their next projects? Would they attract more than the \$5 million from foreign sources of financing? Clearly, further examination is needed of recoupment policies and their net impact on the financing of targeted Canadian television programming.

2.3.2.5 Application and evaluation process

Before 2004–05, the application process was shaped by the dual administration structure and an evaluation grid system, giving rise to inefficiencies:

- For projects seeking both LFP and EIP funding, producers had to submit two separate applications, necessitating a degree of coordination in decision making that was sometimes lacking.
- The application process imposed a uniform timetable on producers, forcing them all to follow the same production cycle. As a result, they had to compete for access to crews and other production resources, as well as other funding.

The changes to CTF's funding approach for 2004–05 addressed these problems:

- Under the broadcaster envelope system, applications can be submitted whenever broadcasters and producers consider their projects to be ready or sufficiently developed. CTF users view this as a major improvement.
- A broadcaster knows the size of its envelope in advance and puts forward a production slate that does not exceed its own envelope. This delegation of responsibility has removed competition from the application process and greatly reduced the number of applications to the CTF.
- Where two applications previously were required, a single application now suffices.

Other changes should also yield benefits:

- For its evaluation of English-language drama applications, Telefilm has introduced nationwide comparison. This reduces regional inconsistencies in decision making.
- CTF has standardized its evaluation approaches and its documentation requirements. Producers now can apply on-line.

CTF users regard the changes as major improvements in efficiency and effectiveness.

Figure 20 presents differences between the new three-stream approach and the LFP-EIP structure of previous years. (For the sake of simplicity, not all the variations of earlier years are shown.)

Figure 20: CTF Project Evaluation Processes

		2003-04 (and prior years)		2004-05	
		LFP-CTFC	EIP-Telefilm	Broadcaster Envelope Stream - CTFC LFP/EIP	English Drama/Special Initiatives Streams-Telefilm LFP/EIP
<i>Rules-Based Process</i>		Eligible Genre Essential Requirements	Eligible Genre Essential Requirements	Eligible Genre Essential Requirements Licence Fee Level	Eligible Genre Essential Requirements
<i>Selective Process</i>		Broadcaster Interest	Broadcaster Interest Audience Potential Quality of Script and Creative Team		Broadcaster Interest Broadcaster Track Record Audience Potential Quality of Script and Creative Team

Some key informants regarded the CTF as less transparent than it could be, particularly in its criteria requiring subjective judgments. An examination of the application process showed that the applicant community considered the rules-based evaluation processes at CTFC and Telefilm (i.e., to determine whether a project is eligible) to be highly transparent. The genre definitions and four “Essential requirements” are clearly stated, although some subjectivity is required to evaluate them. The CTFC refers to an internal database of precedents if project eligibility is borderline, and it has escalation procedures to deal with cases of real ambiguity.

The examination showed Telefilm’s selection process to be quite transparent. The CTF Guidelines and related workshops communicate to applicants the parameters or benchmarks of success. However, a review of the project files indicated a potential for increasing the transparency of the evaluation process by enriching the information in the CTF Guidelines — for example, the broadcaster track record, the template used to evaluate the marketing element in the selective evaluation, and the scoring of project quality. Telefilm is already moving in this direction by communicating broadcaster track record scores at the outset of the 2005–06 funding cycle.

2.3.3 Alternatives

The evaluation examined overlaps, duplications or complementarities with other programs administered by other organizations, agencies or government departments. Evaluators also had to determine whether the Fund should still be overseen by the Department of Canadian Heritage or whether it would be more effective to shift responsibility to another federal department, provincial organizations or the private sector.

The evaluation did not consider governance structures, a subject that is being examined separately. However, there are governance implications to the findings of the evaluation of alternatives.

2.3.3.1 Overlaps, duplications and complementarities

A complex system has evolved to fund creation of Canadian television programming. In addition to support from the CBC, CTFC and Telefilm, there are federal and provincial tax credits, international co-production treaties, Telefilm's other audiovisual support programs, and private-sector funds set up in compliance with CRTC decisions.

The CTF is the largest single funding source, distributing \$246 million in 2003–04 (public and private funding together). It plays a significant role in supporting distinctively Canadian programming in the genres of drama, children's, documentary, and variety and performing arts.

Tax credits

Provincial tax credits support and help develop the industrial base of the film and television industry in each region of the country. Provincial equity financing has almost disappeared.

Federal tax credits play largely the same role on a national level, notably the Film or Video Production Services Tax Credit for Canadian-content production. Producers often argue that tax credits were originally intended to help finance development and working capital, but are now expected to be included in the financial structure of a project. Credits are thus an automatic component of any eligible project, and are highly complementary to the CTF. Producers generally assemble projects using the optimum combination of all sources of financing, along with the broadcaster licence fee and any foreign sources that they might be able to obtain. Even then, typically all or part of the producer fees must be deferred to complete the financing package. It is therefore difficult to argue that an overlap exists between CTF funding programs and tax credits.

Private funds

Each of the various private funds has its own focus: a particular type of programming; production within a specific region only; or a certain type of support, such as bridge financing or loan guarantees. Among private funds are the following:

- Bell Broadcast and New Media Fund
- Canadian Independent Film and Video Fund
- Cogeco Program Development Fund
- Fonds de Développement du Savoir
- Independent Production Fund

- Harold Greenberg Fund
- Rogers Documentary Fund
- Shaw Television Broadcast Fund
- Small Market Local Programming Fund

From the viewpoint of producers and other CTF stakeholders, far from duplication, the private funds enhance the system:

- The amount that any one fund can contribute to the project-financing package is quite small.
- Each fund has its own unique focus, typically a genre. There is no duplication between funds.
- Private funds help producers complete their financing and thus support a wide range of cultural and more industrially oriented production.
- While some private funds have secure, ongoing funding, most are temporary, being mandated by the CRTC for a specific period. As they are private-sector initiatives, the government has no authority to dissolve them and redirect the resources elsewhere.

Canadian Feature Film Policy

Each year the CTF allocates \$15 million of its resources (\$14.4 million in 2003–04) to the support of feature films, with Telefilm administering the support. The allocation dates back to the early days of the Cable Production Fund, when there was minimal funding support available for feature films in the system. In 2001, however, the government introduced the Canadian Feature Film Fund (CFFF), which now contributes over \$80 million annually to the support of Canadian feature films in an effort to improve Canada’s share of the domestic box office. The CTF’s allocation of \$15 million has become part of the CFFF funding structure.

From an administrative perspective, there is no benefit to directing a certain amount of funding to CTF and in turn having it direct a portion of that to Telefilm for a program over which the CTF has no jurisdiction. If the government determines that the \$15 million allocated by the CTF each year to Telefilm for the CFFF is an essential part of CFFF resources, it should allocate the funding to the CFFF directly.

2.3.3.2 Options for consolidating funds

It has been suggested to consolidate private funding programs under the CTF in order to deliver support for Canadian television production more cost-effectively. Given the many separate funds and programs and the obvious duplication of administrative effort, some consolidation could well prove beneficial to the system.

However, almost all the stakeholder groups regard the diversity of funding sources as essential to the sound operation of the independent production sector.

An example is the Independent Production Fund (IPF). The CTF's English-language drama stream, administered by Telefilm, still has an application deadline (e.g., March 1). Broadcasters typically wait until the last minute before deciding what to present to the CTF for support. IPF's deadline, however, is about a month earlier. The result is that broadcasters must make a commitment to English drama projects before the CTF's deadline to ensure financing from IPF.

The private-sector funds are smaller and more flexible. They help to fill programming gaps that the CTF does not or cannot address because of its focus and stricter eligibility requirements.

Since the funds vary in size, administrative overlap is not really an issue. For example, the administrative cost for the CTF, with a \$246 million budget, was \$16.3 million in 2003–04. By comparison, the administrative cost for a \$5 million fund would be no higher than about \$250,000. Such a fund, established under CRTC guidelines, would have its overhead limited to 5%, less than that of the CTF. Apart from the difficulties in a forced consolidation of funds, there would be little material advantage.

Finally, all the private-sector funds are initiatives that have arisen through the CRTC's licensing process or through its approval process for the significant benefit proposals submitted by broadcasters in cases of transfer of ownership or control of broadcasting assets. The government has no authority to dissolve them and redirect the resources.

In fact, one creative suggestion was to reallocate the CTF's budget to the private funds. While they would need tools to handle sharply increased resources, the funds would provide greater specialization since most of them are genre-specific. There is some merit to this suggestion, but the existing private funds do not cover all genres and regions. In addition, there would be disadvantages to reducing the critical mass of the CTF as a single private-public partnership, as well as other substantial obstacles to dismantling and fragmenting the CTF. Finally, it makes little sense to allocate a permanent fund among a group of funds with various degrees of permanency and funding security.

2.3.3.3 Most appropriate overseer of CTFP

One half of the CTF originated in 1995 as the Cable Production Fund, a private initiative. The other half involved new government funding and also integrated Telefilm's Broadcast Development Production Fund. The logical conduit for the new funds was the Department of Canadian Heritage since it was responsible for Telefilm as well as the film/television production programs.

Transfer to another federal organization

The CTF is a public-private initiative. Canadian Heritage sets its broad objectives and public funding levels through contribution agreements. The Department names nominees on the

Board and provides administrative oversight. Under the terms of the contribution agreement, the Program is directly administered by a private corporation, the CTFC.

As explained earlier, the stakeholders recognize that the CTF's mandate is cultural. Its industrial dimension is a means to an end. That is, it supports the development of a production industry to achieve cultural objectives, and uses market forces to optimize the desired outcome of the Fund. Given this cultural mandate, the option of transferring the CTF to Industry Canada is unlikely to receive consideration. Indeed, there was no support for such a transfer among stakeholders.

The adoption of audience objectives, both for the feature film program and television production support, could be interpreted as a shift toward an overall industrial objective. However, it is the CTF Board that chooses the mechanisms for making the Fund as effective as possible, and it has the appropriate expertise. The government's role is to ensure that the cultural intent is maintained, and this role is properly filled by Canadian Heritage since it is the department responsible for culture.

Transfer to provincial jurisdiction

Provincial support is viewed as a necessary component of production financing. However, stakeholders found it inconceivable that the CTF would be divided up into provincial funds. The provinces have focused almost entirely on labour-based financial incentives, with all but Alberta offering tax credits. Each desires more production activity in its own jurisdiction, but they have all rationalized the federal government's lead role in funding.

The economic logic for providing tax credits to the film sector is relatively stronger than the federal government's rationale for funding the sector: the credits generate a higher or at least equivalent return to provincial treasuries. If the federal portion of the CTF was transferred to the provinces, provisions would be needed to maintain the requirements for Canadian elements. That would necessitate the development of expertise to administer an already complex program.

For the most part, Quebec would bear sole responsibility for French-language programming, and there would be no provision for minority official-language programming within or outside Quebec. No Quebec-based stakeholder who was interviewed advocated such an approach.

By nature, production financing is national in market scope. For most of the projects funded, the broadcaster is national — typically a network, a large station group or a national specialty-TV service. Broadcasting regulation is a national responsibility. Fragmenting the source of licence fee top-ups and equity funding on a provincial/territorial basis would create a nightmarish situation for Canadian producers and broadcasters.

Transfer to a private organization

The CTF is already a public-private organization, where the public interest is served through a contribution agreement with Canadian Heritage as well as through nominees of the Department on the Fund's Board. Should it become a more preponderantly private-sector

organization, a contribution agreement or another appropriate mechanism would still be needed to ensure that the CTF met public objectives.

Instead of further privatizing its structure, another option would be to administer the CTF through a new private-sector board that would be totally independent from the user community. The disadvantage of this option is the loss of highly specific industry expertise.

3 Conclusions

3.1 Relevance and Rationale

The relevance and rationale for the existence of the Program was assessed by examining whether there is still a need for the CTF Program, and whether the Program is in line with departmental/government objectives and priorities

3.1.1 Continuing need

There is clear evidence of continued need for the CTF Program. When the Program was established, it was expected that the contribution of Canadian Heritage would eventually be phased out. However, several factors combine to necessitate continued funding:

- Structural changes in the global television marketplace have reduced the availability of private funding, particularly from foreign sources.
- Increasing audience fragmentation has reduced the market share of conventional television broadcasters.
- CRTC licensing of new Canadian specialty channels has caused rapid growth in Canadian programming commitments.

Broadcasting and production stakeholders recognize the need to develop capacity in minority-language, regional and Aboriginal production, but many object to financing development from existing CTF budgets. They do not fully accept the government commitment to a developmental role that diverts funds away from mainstream production.

Canadians solidly support high-quality Canadian programming, and the federal government's initiatives to maintain and build a culture and identity distinct from the United States. According to surveys, about three quarters of Canadians believe that Canadian content is important overall and that Canadians should have access to programming made by Canadians. Almost 90% believe it is important for the Canadian government to strengthen Canadian identity.

Stakeholders fully support the cultural justification of the program. Rather than seeing cultural objectives as opposed to industrial ones, they recognize that market mechanisms are the most effective means of achieving cultural objectives in television programming. While there is much debate over mechanics, stakeholder interviews indicate that the measurement of audience success is widely accepted as a key performance indicator. However, consensus has not yet been achieved on points such as the measurement of overall tuning versus average minute audience, or the relative value of viewers tuning to original plays versus audience building over repeat plays.

3.1.2 Alignment with departmental and government priorities

Evaluation findings amply demonstrate that the CTF aligns well with departmental objectives.

As stated in Section 2.1.2.4, the Department's Program Activity Architecture sets two strategic outcomes:

- Canadians express and share their diverse cultural experiences with each other and the world; and
- Canadians live in an inclusive society built on inter-cultural understanding and citizen participation.

The CTF Program is directly related to the first strategic outcome, through its goal of assisting the creation and broadcast in prime time of high-quality, culturally significant Canadian television programs in both official languages. At a higher level, by pursuing its objectives, the CTF aligns with the Program Activity defined as "creation of Canadian content and performance excellence." Although CTF would also appear to be at least broadly supportive of the second strategic outcome, the Department's Program Activity Architecture does not explicitly make such a link.

There is another area of departmental priorities that has not been formally addressed by the CTF objectives. Because of the advent of high-definition television, there is increasing concern in the Department (expressed in stakeholder interviews) that the production industry should be producing more of its content in digital formats. Despite the additional production cost, the CTF Board has not attempted to deal with HDTV, for example, by developing guidelines. This gap is another potential disconnect between government objectives and the Program's expected outcomes.

Evaluation findings also clearly establish that the Program is consistent with government-wide priorities. In its second response to the Report of the Standing Committee on Canadian Heritage, the government stated the following strategic priorities:

- **reaching audiences** by ensuring a healthy supply chain continuum from creator to citizen, so that Canadian content is available and accessible to Canadians;
- **reflecting ourselves** by reflecting Canada's rich linguistic, ethno-cultural, Aboriginal, and regional diversity as our shared citizenship and common values;
- **investing in excellence** by focusing on cultural excellence and rewarding success;
- **harnessing the opportunities of new technologies** by taking a proactive approach to technological change in order to take full advantage of its benefits; and
- **reaching the world** by developing international markets so that we can share Canadian talent and culture with the world.

Explicitly recognizing that the CTF helps fulfill these priorities, the Government stated that the Fund is "an essential component of the Canadian broadcasting system" and "the most appropriate tool to support high-quality, distinctively Canadian television programming in five genres: drama, documentary, children's and youth, variety and performing arts in both official languages and in Aboriginal languages."

3.2 Objectives Achievement

Success in achieving the Program's objectives was assessed by considering two lines of inquiry:

- The evaluation reviewed administrative data and reporting to verify that the Program met its objective relative to the creation and broadcast of high-quality Canadian programming.
- The evaluation commissioned original audience analysis research to establish the extent to which Canadians continued to seek out Canadian programming on television, and especially CTF-supported programs, as stated in the Program's RMAF.

3.2.1 Achievement of the Program's objectives

The primary objective of the CTFP is to assist the creation and broadcast in prime time of high-quality, culturally significant Canadian television programs. This objective is to be reached while ensuring that targets are met regarding the distribution of funding within certain categories of programming and producers.

3.2.1.1 *Quantity*

The evaluation found that the CTF assisted the production and prime-time broadcast of more than 2,000 hours of television for each year of the reference period. There was a sharp decline from a peak of 2,822 hours, reached in 2001–02, to 2,178 hours in 2003–04. Several factors may have contributed to the decline, including the shift to higher budgets, the drop in documentary production and the dip in available funding. Despite these, there is cause for concern: during the overlapping period of 1998–99 to 2002–03, the supply of television programming available to Canadian viewers actually increased by 50% for English television and 42% for French television.

It should be noted that 2,000 hours is simply an indication of the level of production achieved. It is not an objective, nor the result of an analysis of the number of hours needed to meet licensing conditions imposed by the CRTC for new specialty and conventional channels.

3.2.1.2 *High quality*

This evaluation approaches quality in television programming as a set of attributes including production values (measured by budget), critical acclaim, audience appeal and public perceptions.

In both French and English television, the average production value of a CTF-funded project was usually higher than that of non-CTF productions, although the value varied by genre. Over the last three years, the gap has widened in French-language television: the average budget has risen for CTF production and declined for non-CTF production. In English-language drama, the trend is far less pronounced: the average has risen, but the spread between CTF and non-CTF budgets is not significant. In 2003–04, however, the average cost per hour in drama in the English market (\$952,000) was almost double that in the French market (\$494,000).

CTF-funded productions tend to earn awards more consistently than non-CTF productions. To take into account the difference in volume production between the two categories, evaluators measured the number of awards per \$10 million of production spending. In 2003–04, CTF-supported productions earned 1.4 awards per \$10 million of production spending; non-CTF productions earned just under 0.98 awards.

In terms of audience appeal, Canadian French-language programming is far more likely to be watched than Canadian English-language programming: of total prime-time viewing, the market share is 63% for French television but only about 25% for English television. However, in under-represented genres in both English and French markets, CTF-funded programs account for a third of total viewing of Canadian programming in prime time. CTF-funded programming has accounted for a declining market share over the last few years, but this is partly because its share of the total supply (offer) of programming has declined.

Public perception as a general indicator related to overall Canadian programming was assessed by reviewing available public opinion data. A review of public opinion polls found that English-speaking Canadians prefer American drama and soap operas to Canadian programming, while French-speaking Canadians believe that their TV is on a par with U.S. shows. Surveys also show that 40% of English-speaking Canadians believe that Canadian programming is of worse quality than U.S. programming, while 41% believe it is of equal quality. Surveys show as well that 70% to 75% of French-speaking Canadians rank their drama, comedy and children's programming as of good or high quality. Younger Québécois, especially, believe their programming to be better than U.S. programming.

In terms of quality, then, budgets have increased and are generally higher than for non-CTF production; critical acclaim is higher for CTF-financed programming; audience appeal has been demonstrated; and polls show a discrepancy between French and English survey respondents, with the former believing in their shows and the latter much more ambivalent about them. The result is that, by some measures, quality has risen and is better than that of programming not financed by the CTF. However, many English-language viewers still perceive Canadian programming to be inferior.

3.2.1.3 Cultural significance

In all target genres, the CTF appears critical to the production of programs scoring 10 out of 10 on the CAVCO scale of Canadian content. In drama, for example, CTF-funded productions account for 75% of all 10-point CAVCO-certified projects (based on total budgets). Moreover, the CTF has imposed more stringent requirements (the four “Essential Requirements”) for programs to be considered distinctively Canadian.

The significance of the CTF financing for distinctively Canadian drama projects is demonstrated by the completely different financial structure for CTF and non-CTF projects. Non-CTF English projects rely substantially more on distributor advances and other foreign sources; CTF-financed projects depend on the CTF and a comparatively much higher licence fee from broadcasters who must meet Canadian-specific prime-time content requirements. However, there is virtually no foreign market for Canadian drama produced in French, with the result that the financing structure looks the same for CTF and non-CTF projects; there is

simply much less production outside the CTF financial support framework in the target genres in French-language television.

3.2.1.4 *Funding objectives*

The CTF has largely met its objectives in terms of leverage and proportions for genres, French/English, Aboriginal and regional production, and production in minority official languages.

- The CTF typically leveraged two dollars for every one dollar of financing. The total value of the production financed by the CTF in 2003–04 was \$737 million.
- Funding was adequately distributed (one third versus two thirds) between French- and English-language production, with programming in all four target genres.
- Aboriginal production in the target genres was stimulated, resulting in some 52.5 hours in 2003–04 with total production budgets of \$6.06 million.
- Support for minority official languages resulted in the contribution of \$26.2 million by the CTF over the last three years, yielding 283 hours of production.
- Support for regional production has resulted in allocation of between 31% and 37% of total CTF contributions to producers outside Toronto and Montréal.

These results demonstrate success in achieving the objectives, but no specific targets have been set apart from the proportions for English- and French-language production. In addition, the statements are quite broad, leaving the CTF Board and Program administrators to make some fairly important decisions on how to achieve the objectives.

3.2.2 Audience tuning

3.2.2.1 *Canadian programs' share of prime-time viewing*²⁸

Prime-time tuning to English Canadian programming remains relatively weak whereas it is relatively strong for French Canadian programming. In English, the prime-time audience share of all Canadian programming rose slightly from 23.1% in 1998–99 to 24.9% in 2002–03; the rest was foreign. In Québec, although figures were much higher, total Canadian programming actually declined from 65% to 62.9%. These tuning levels have been fairly constant on a historical basis, back to the period predating the CTF.

In 2002–03, the target genres (for both CTF-financed and non-CTF-financed programming) accounted for about 40% of the total Canadian programming in English and nearly 50% in French. The rest of prime-time viewing of Canadian programming was of news, sports, information and other categories.

²⁸ As mentioned in Section 1.2.3 (p. 7), audience research conducted for this evaluation used a different methodology from that recently implemented by the CTF, making comparison impossible with results reported in the CTF 2003–04 Annual Report (see note 27).

There are as yet no meaningful measurements of audiences for French-language programming by producers from outside Quebec, or for Aboriginal programming. Most of the non-Quebec Francophone programming attracts tiny audiences, and Aboriginal programming is very difficult to measure at all.

3.2.2.2 CTF-funded share of prime-time viewing

The total audience share of CTF-financed programming has slipped from 4% in 1998–99 to 3.3% in 2002–03 for English television, and from 13.3% to 10.1% for French television over the same period. In the target genres, CTF-financed programming represents one third (32%) of all prime-time tuning of Canadian programs, by both French and English audiences. That means that the non-CTF programming share is double the CTF share in both English and French for prime-time programming in the targeted categories. In these circumstances, the rationale for CTF support is that non-CTF programming does not meet the cultural objectives of the Fund; that is, it does not score 10 of 10 on the CAVCO scale of Canadian content.

Between 1998–99 and 2002–03, the availability of programs experienced a dramatic growth of 50.1% in English and 42.2% in French. The increase was the result of the growing popularity of a large number of new specialty services, as well as time shifting offered by the DTH operator and, eventually, cable. In 1998–99, total English-language programming availability in prime-time television was almost double the French-language availability; by 2002–03, English-language availability was 2.33 times the French-language availability.

Audience tuning is turning inexorably toward specialty TV services. Total viewing of specialty TV in English has risen from 31.6% of all viewing in 1998–99 to 40.8% in 2002–03. French specialty services' viewing shot up from 15.5% to 30.8% of all viewing in the same period. The implication for the CTF is that demand for specialty TV programming will increase faster than the demand for conventional TV programming. The growth in specialty demand is already being reflected in the genres that are supported by the CTF.

3.2.2.3 Top 10 programs

In terms of audience appeal, all the top 10 Canadian drama/comedy series in French are financed by the CTF, and 7 of 10 specials/mini-series in the top 10 are also CTF-financed. In English, the top 3 Canadian programs are not CTF-financed (2 are CBC comedies and 1 is CTV's *Corner Gas*, which is being financed by CTV's significant benefits funding and would be eligible for CTF support). However, most of the rest of the top 10 are CTF-financed. Only 2 of the top 10 English Canadian drama/comedy specials are CTF-financed. Again, these results show the importance and success of the CTF for French-language television. For English television programming, there is a mix of CTF- and non-CTF-financed Canadian programming.

3.2.2.4 Impact of the CTF on audiences for 10-point programming

From this analysis it can be concluded that tuning to programming meeting CTF objectives would have declined more precipitously without the CTF. While the tuning share has declined slightly for CTF-financed programs in the last few years, the rapid fragmentation of the television offering could have led to a much worse outcome without the CTF. Most Canadian

producers and broadcasters interviewed think that without the CTF, broadcasters would need to resort to other genres, low-cost equivalents, minority Canadian co-productions and the like.

3.3 Cost-Effectiveness and Alternatives

The CTF initially had two funding streams (LFP and EIP) and a dual administration (CTFC and Telefilm). This design has led to program delivery issues and inefficiencies. Following the 2003 Report of the Standing Committee on Canadian Heritage, the CTF administrators conducted a review and implemented a new delivery system, based on a three-stream funding model. However, they maintained the dual administration.

3.3.1 Administrative costs

Although the CTF is operating within its mandated 7% of funding resources, CTF's administrative costs remain higher than those of private-sector funds. However, the higher cost structure is largely due to the Fund's broader mandate, due diligence responsibilities, and legal restrictions imposed on Telefilm.

By eliminating oversubscription, broadcaster envelopes have considerably reduced the administrative cost of delivering the Program (\$800,000 a year for CTFC alone). In addition, CTF users are strongly in favour of the more flexible schedule for submitting applications, the predictability of the process and the simplified application procedure. The administration of the English drama envelope on a selective basis is also perceived as being more cost-effective than previously. The user community has praised the simplified application procedure, the consistency in processing across the country, the allocation of resources to more risky applications, the more rapid response to inquiries, and other improvements introduced by Telefilm.

Administrative costs are substantially increased by the role played by the CTF in development and the requirement for it to be regionally accessible. The cost is proportionately much higher to deliver support for Aboriginal and French minority-language production, development projects, and regional offices, rather than simply to process applications from experienced producers.

3.3.2 Design and delivery issues

Stakeholders identified a few issues related to the design and delivery of the new three-stream funding model.

English drama envelope. There appears to be a consensus among French-language producers and broadcasters that the new envelope system is the right approach and should be given a chance to prove itself, with only minor adjustments over the next few years. However, CTF's approach to English-language drama is not consistent with its approach in the case of the other two streams. Key informant interviews revealed that regional producers and the creative community have concerns about how the envelope system is being applied to English-language drama production. Early experience with other genres in French should lessen these concerns.

Governance. Although governance was excluded from the evaluation mandate, stakeholders reported a governance issue arising from the new envelope system. The CTF Board consists of key representatives of the broadcasting and production community, who have a direct financial stake in the guidelines established for the Fund. The broadcaster envelope system exacerbates the potential for conflict of interest. Under the new system, each broadcaster knows in advance the size of its envelope and puts forward a production slate within that amount, based on guidelines set by the CTF Board. This process eliminates oversubscription but transfers a considerable amount of operational decisions into the hands of very few players (producers and broadcasters), who both decide and benefit from their decisions.

Recoupment. Among producers and broadcasters, some key informants questioned the cost-effectiveness of recoupment on equity investments by Telefilm. There is still a sound rationale for Telefilm to share in returns on the equity investments it makes for the purpose of reinvestment in Canadian productions. However, in an era when project financing is increasingly complex, Telefilm's recoupment policies may deter foreign financing and, indirectly harm the corporate health of production companies. It remains uncertain whether further changes in recoupment policies would benefit the development of Canadian television programming more than current practices.

Application and evaluation. Some elements of project administration at CTFC and Telefilm are perceived as lacking in transparency. Certain aspects of the four "Essential Requirements" require subjective evaluation, which is not totally transparent to the user community. In addition, while Telefilm has implemented important improvements to its decision making, certain aspects of its selective evaluation process could be more transparent to users.

3.3.3 Alternatives and overlaps

The evaluation examined a series of alternatives for the delivery of the Program, including transfer to provincial jurisdiction, consolidation of private funds, and the transfer to a private organization. The direct administration of the CTF can be handled in a number of ways, and stakeholders had differing views on how the CTF should be structured, almost all of them variations of the status quo and the single organization model. Over the last year, Canadian Heritage has consulted with the industry on options for reorganizing the governance of the CTF. The outcome of those consultations is expected to be a specific governance structure.

The CTF was originally conceived as one organization with two funding streams and an administrative responsibility shared with Telefilm. The shared responsibility has created challenges for both organizations and their respective boards. Broadcasters, BDUs and producers are represented on the CTF Board. All have direct interests in the way that funding is allocated. There is thus the potential for conflicts of interest.

Industry stakeholders perceive the CTF and the Canadian Tax Credit Program (CTCP) as complementary. Producers pointed out that the CTCP's original purpose was to help finance development and working capital for production companies. However, it is now expected (and even required, in contracts with broadcasters) that tax credits will be automatically included in the financial structure of a project. From a producer's viewpoint, the two programs are indeed highly complementary.

4 Recommendations and Management Response

Considering:

- the continuing need for government support of the production and broadcasting of high-quality, culturally relevant television programming, as established by the evaluation findings;
- the impact of the Department of Canadian Heritage contribution on the production of high-quality, culturally relevant television programming;
- the essential role played by the CTF in the broadcasting system, as recognized by the Government in its second response to the Report of the Standing Committee on Canadian Heritage; and
- the effective contribution of the CTF to achievement of Canadian Heritage's strategic outcomes, specifically "Canadians express and share their diverse cultural experiences with each other and the world";

1) It is recommended that the Department of Canadian Heritage proceed with renewal of the Canadian Television Fund.

Management Response:

This recommendation is being addressed. First, the Minister of Canadian Heritage announced in Banff on June 12, 2005, that the Government's funding commitment to the Fund was extended through 2006-07 and that the issue of long-term funding of the CTF would be considered in the context of the 2006 budget.

Considering that:

- in its second response to the Report of the Standing Committee on Canadian Heritage, the Government outlined new strategic priorities for the Canadian broadcasting system that include reaching audiences, reflecting ourselves, investing in excellence, harnessing the opportunities provided by new technologies and reaching the world;
- the total number of CTF-supported hours is decreasing, while the supply of programs is substantially increasing; and
- the overall audience share of CTF-funded programs in prime time is modest (3.3% of English and 10.1% of French programming);

2) It is recommended that the Department adopt a more strategic approach to its funding of the CTF as this relates to current government strategic priorities. The approach might set:

- a target for the overall audience share for Canadian culturally relevant programming in prime time, to ensure the sustainability of the industry and the availability of Canadian content to Canadians;
- objectives for the overall annual number of hours to be produced with CTF funding, based on an evaluation of the Canadian content requirements, and considering changes in production costs and the use of new technology (e.g., HDTV).

Management Response:

This recommendation is being addressed. The Fund is now able to report on the CTF-supported programs' share of television viewing. The next logical step is to establish specific objectives in terms of audience share that CTF-funded programs can achieve (broken down by language and genre). Discussions will begin with the CTF on this issue in 2005-2006.

The Department will continue to expect the CTF to support approximately 2,000 hours a year of new television productions. Nevertheless, given increases and/or changes in demand, this expectation could be altered over time. The Department will launch a second phase study to capture more specific data regarding the demand for CTF eligible programs to better monitor the issue.

As for the use of HDTV, DGBP will take the issue of the support for HDTV into account when it makes recommendations on long-term funding for the CTF.

Considering evaluation findings and conclusions regarding the Program's design and delivery:

3) It is recommended that the Department of Canadian Heritage ensure that:

- **the CTF Board consider the possibility of moving English-language drama to the broadcaster envelope system;**

Management Response:

This recommendation is being addressed. The CTF Board is expected to consider this issue as it develops its program guidelines for 2006-2007. This process will take place over the fall 2005.

- **Telefilm assess the cost-effectiveness of its recoupment policy with regard to financing Canadian television programming;**

Management Response:

This recommendation is being addressed. DGBP, in collaboration with Telefilm Canada and the Canadian Television Fund launched a study on the cost-effectiveness of equity investment in the television sector in August, 2005. Recommendations are expected in November, 2005. The study will assess the efficiency of the equity investment provided

by the CTF, benchmark the efficiency and rate of recoupment of equity investment, examine the pros and cons of acquiring an ownership interest and providing recoupable production financing and, finally, provide recommendations to improve the efficiency and reduce the irritants associated with recoupable financing.

- **any change to the governance structure of the Fund as a result of the process undertaken in parallel with this evaluation enhance the CTF's efficiency, simplify and clarify its administrative structure, and establish controls and governance practices/guidelines that guarantee a proper balance between differing interests represented on the Board; and**

Management Response:

This recommendation is being addressed. Canadian Heritage consulted extensively on the issue of the governance of the Fund with key stakeholders in May, 2005. Key principles and tests for three CTF governance models were identified:

5. Does it maximize administrative efficiency?
6. Does it simplify the access to funds - "one-stop" shopping" for applicants?
7. Does it clarify the role of the CTF administrator(s)?
8. Does it improve the independence of the CTF board?

In June, 2005, the Minister of Canadian Heritage made public a proposed approach on the governance of the CTF which is designed to be consistent with these principles: a one board (CTF Board) and one administrator (Telefilm Canada) model with more independent directors on the Board. A new governance structure proposal will be finalized in 2005-2006 and completed in Fall 2006.

- **the \$15 million earmarked by the CTF for feature film production be either redirected to Telefilm's Canada Feature Film Fund, or kept by the CTF and used for television production and broadcasting activities.**

Management Response:

The Department is in agreement with this recommendation and will propose that the CTF's feature film support be transferred to the Feature Film Fund. This issue will be considered as part of a proposal dealing with CTF long-term funding and governance framework in 2005-2006.