

CANADA MEDIA FUND

Working Group

Date: June 22, 2011

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FOR DISCUSSION

SUBJECT: Multi-Year Program Development Process

ISSUE:

Whether the CMF should implement a multi-year approach to developing its funding programs. With specific reference to Performance Envelopes (PE), should they continue to be calculated on an annual basis or, in the interests of simplification and stability, should they be calculated on a multi-year basis in line with the lifespan of each version of the CMF Guidelines?

DISCUSSION:

Historically, the CMF and its predecessors have developed and implemented program policy on an annual basis. This was to a great extent attributable to the fact that the Fund was renewed annually by the Department of Canadian Heritage (DCH), with DCH providing its funding contribution on a yearly basis, with no guaranteed funding for subsequent years.

On June 6, 2011 the Government of Canada announced its intention to provide ongoing support to the CMF. Thanks to this announcement, and also to align with the objective of simplifying the CMF's policies, programs and processes (identified by the CMF's Board of Directors in the Fall of 2010), the CMF intends to move a multi-year program development process. This change will result in three key impacts:

- The CMF will only conduct its cross-country outreach sessions every 2 years; the annual consultation process will be amended to make greater use of on-line consultation tools and meetings will also be held in conjunction with the several industry events that the CMF partners with across Canada.
- CMF program guidelines will be developed, drafted, and applied on a biannual rather than yearly basis, starting as of the next set of Guidelines to be released in March 2012. These program guidelines will apply from April 1, 2012 to March 31, 2014. In-year amendments could be implemented as required.
- As discussed further below, Performance Envelopes may also be calculated and allocated on a multi-year basis, also starting in March 2012.

Moving to this approach for the development of funding programs will enable the CMF to better monitor the impact of changes made to the program guidelines. In the past, the CMF conducted its industry consultations and announced its program guidelines before all applications were contracted and complete year-end results could be fully analyzed.

The following outlines the proposed schedule to implement the multi-year approach (“Q”=quarter):

2011-2012 (transition year)	
• Q1	Identify key policy issues for next program guidelines
• Q1-Q4	Year-round industry consultation
• Q1-Q4	Evaluate program results
• Q4	Program Guidelines issued for 2012-2013 to 2013-2014
2012-2013	
• Q1-Q4	Year-round industry consultation
• Q1-Q4	Ongoing monitoring and review of the program
2013-2014	
• Q1-Q4	Internal Audit and Summative Evaluation of the CMF by the DCH
• Q1-Q2	Identify key policy issues for next program guidelines
• Q1-Q3	Evaluate program results
• Q2-Q3	Cross-country industry outreach sessions
• Q4	Program amended based on industry consultation and DCH evaluation
• Q4	Guidelines issued for 2014-15 and 2015-16

Multi-year Performance Envelopes

The premise of changing the allocation of performance envelopes from an annual allocation to a multi-year allocation is to provide increased stability and simplification for the industry.

However, if it is decided that envelopes should be transitioned to a multi-year allocation, a number of issues need to be considered with respect to calculating PE credits. Of specific concern would be the determination of what year(s) the multi-year PE allocation would be based on in assessing the performance of each broadcaster. This issue manifests itself into the existing factors in the following manner:

Historic Performance

Historic Performance currently uses a “3-year rolling window” of data for calculation. This calculation methodology could remain unchanged in a multi-year allocation, but would be recalculated at the end of each multi-year span.

The primary purpose of HP is to act as a “modulator”, based on a window that is longer than the other factors being used to calculate the performance envelopes. In order for this “modulation” to remain effective, the window used in HP would have to be longer than that of the other factors,

and in practice should be longer than the period of the allocation (i.e. a 2-year allocation should use an HP window that combines at least 3+ years of data¹).

All other performance factors

(Audience Success, Original First Run, Regional, Above-threshold Licencing, Digital Media Investment)

Currently, all factors outside of Historic Performance are calculated annually, using a single year's worth of performance data to calculate factor allocations. If the CMF were to move to a multi-year allocation, the "window" of data used for each of these factors should in theory also change to be a period equal in length to that of the multi-year allocation.

This change would allow all behaviour to be reflected in calculations, not just the second year of a two-year cycle. Without this change, broadcasters' behaviour in year one of the 2-year cycle would have no impact whatsoever on envelope allocations.

Analysis of recent results

The intent of moving to a multi-year allocation in PE calculations would be to provide greater stability to the industry, that is to say a guaranteed level of CMF funding for broadcasters for the period in which the allocation is in effect. A secondary intent is to increase the level of simplicity for broadcasters in terms of administration and comprehension of the calculation process.

Whether such a move will in effect provide the desired stability and simplicity is the subject for discussion at the Working Group. Listed below are some of the pros and cons based on the current PE system and the existing regulatory framework²:

Pros:

- Potential set percentage share allocation per envelope over multiple fiscal years: theoretically, broadcasters would not see a dramatic change in their allocations from one year to the next (although the exact dollar allocation could change due to variances in the program budget from year to year).
- Potential administrative efficiencies for CMF of not having to calculate envelopes on an annual basis.
- Potential administrative efficiencies for broadcasters in not having to submit audience success results on an annual basis.
- Presumed guarantee that performance factors and factor weights themselves will not change over the period of the allocation (thereby providing a simplified understanding of how envelopes are calculated).

Cons

- While the percentage share of envelopes can be set for multiple years, the actual dollar amounts going to the broadcaster cannot be fixed, since the program budget changes from year to year. Because of this, the stated goal of predicable dollar funding will not be entirely attainable.

¹ A 2-year allocation should, in fact, use a 4 year HP window, otherwise some years will be counted once while others counted twice in subsequent allocations. For example, in a 2-year allocation and 3-year HP window, years 1-3 get counted in the first allocation. Two years from now, years 3-5 will get counted. Two years subsequent to that, years 5-7 get counted, etc. So, in essence, performance from years 3 and 5 get counted twice (in two allocations), but performance in years 1, 2, 4 and 6 only get counted once.

² This discussion does not consider the CRTC's group licensing framework as that process has not yet concluded.

- Multi-year allocations tend not to reward current behaviour. The CMF has been moving towards rewarding more recent behaviour (e.g. reduction of audience success program eligibility to 5 years from 7 years). Calculations can take into account all behaviour demonstrated during the length of the window (i.e. 2 or 3 years of data). However, the broadcaster will only see the effects of that behaviour after this calculation, which could be as much as 2+ years after the change in behaviour took place. In single-year allocations, the change in behaviour is visible in the next year.
- Significant variations in envelope allocation for broadcasters could still occur, albeit occurring at the end of each allocation cycle (2 or 3 years). In addition, those broadcasters that have a significant decline in their most recent allocation would not be able to see any remedy in their allocation until the end of the next cycle, even if they have improved performance metrics immediately out of the first year.
- New entrants would be blocked from entering the PE system until the next allocation is calculated. Currently, new entrants can come in annually -- under a multi-year allocation, this waiting period could be at least 2 years.
- A multi-year allocation may make it more difficult for the CMF to introduce minor re-calibrations based on changes in industry performance (which may run counter to a DCH directive to be responsive to changes in the industry), since allocations would be set for at least 2 years.

As an alternative to “multi-year” envelopes, the CMF could consider the concept of freezing the performance factors and factor weights used to calculate envelopes for the duration of the guidelines’ lifespan (i.e. 2+ years). Over the past number of PE allocations, performance factors and factor weights have changed every year, making it difficult for broadcasters to adjust their own behaviour because it was unclear as to how the factors and weights might change in the next year.

If stability in the calculations were guaranteed, broadcasters could plan their behaviour over the course of a full year with a higher degree of certainty as to how their licence fees might provide a higher return in envelope allocations. This would also simplify the PE process for broadcasters by not having to re-adapt to factors that have changed frequently in recent years. Instead, broadcasters would have time to familiarize themselves with the calculation methodology and allocate resources to maximize potential credits in the PE system.

A five-year analysis of the dollar and share allocations by corporate groups, independents and ednets is attached. This summary provides a high level view of the differences in the PE’s year over year.