

DEAR PRUDENCE -- CCA'S ANNUAL ANALYSIS OF THE FEDERAL BUDGET

April, 2004 – Like the Beatles' song that bears the above title, the theme of this year's Federal Budget Analysis is prudence, particularly its implications for those in the arts and cultural sector. The new Paul Martin government, hot off a scandal around the Sponsorship Program, and soon to be hot on the campaign trail, is acting extremely cautious when it comes to both spending and policy-making. With a Cabinet Committee mandated to review all government expenditures, a general election soon in the offing, and a disinclination for elaborating policy orientations on arts and culture, the sector would seem to be in a holding pattern under Prime Minister Martin. Just like the little girl Lennon and McCartney beseech to "smile again", it seems difficult to coax a smile from the current government when it comes to culture (even though, as this analysis reveals, there are some things to smile about!).

The political and bureaucratic environments are deeply affected by numerous factors: the sponsorship scandal, the pending election, the ongoing expenditure review process, enhanced focus on management and oversight of government spending, and rumours of further machinery of government changes. These factors have created a climate of considerable uncertainty in the cultural sector over the adequacy, stability and continuity of funding, and serve to underline the importance of adequate, sustained, and multi-year funding continues to be a dominant theme for the sector. The public service must be experiencing challenges of its own, as it was more difficult this year to connect with people in the Department and in departmental agencies.

This year's Budget speech was silent on arts and cultural matters, even though, as documented in this analysis, the immediate future is not totally bleak for the sector. The *Tomorrow Starts Today* funding, announced for three years in 2001, was extended into 2004/5, and funding levels held steady for most arts and cultural organizations, agencies and programs (with the notable exception of the cancellation of the History Museum).

What is far less clear is the future after 2004/5. Planned spending beyond 2004/5 would ordinarily be documented in departmental *Reports on Plans and Priorities* – the preparation and tabling of these documents have been significantly delayed this year. What's more, while programs are ordinarily renewed for three or five year periods, the *Tomorrow Starts Today* funding was only renewed for a single year. This challenges planning, administration and management for those organizations seeking funding via these programs. As documented in last year's Budget analysis, the cultural sector remains vulnerable. With so many political and administrative issues up in the air, will the sector have a place to land? And with a federal election soon to take place, could some of these questions become moot? What might a new government undertake to do (or not to do!) in the cultural sector?

This analysis proceeds in four sections. The first looks at the "big picture" of federal funding levels to arts and culture. The second examines recent funding and organizational changes at the Department of Canadian Heritage. The third undertakes a

detailed examination of crucial funding issues, trends, challenges and opportunities on a subsector-by-subsector basis. The final section looks at current developments in the sector beyond federal funding (e.g. legislative developments, tax and regulatory issues, etc.).

THE BIG PICTURE

Table 1 below shows spending levels for the Department of Canadian Heritage and selected agencies and crown corporations for the period 2003/4 to 2004/5. The column marked 'Planned Spending 2003/4' contains the estimates of actual spending for last fiscal year from the Main Estimates and the Supplementary Estimates (estimates of actual spending for 2003/4 are not yet available). The figures in brackets for fiscal year 2004/5 are the Planned Spending figures from the 2003/4 Part III Estimates, the Department's *Report on Plans and Priorities*. Each of these organizations will be examined in greater detail further on in this Budget analysis. This section discusses overall federal funding levels across the cultural sector.

Table 1 – Spending for the Department of Canadian Heritage and Selected Agencies and Crown Corporations, 2003/4 to 2004/5 (millions of dollars)

Organization ¹	Planned Spending 2003/4 in Main and Supplementary Estimates			Main Estimates 2004/5
	Main Estimates	Supplementary Estimates	Total	
Department of Canadian Heritage	964.0	156.7	1,120.7	1,127.1 (1,200.9)
Canada Council for the Arts	151.3	2.1	153.4	151.0 (125.1)
Canadian Broadcasting Corporation	997.4	67.7	1,065.1	1,034.3 (957.4)
National Archives of Canada	49.5	9.6	59.1	55.9 (52.8)
National Library of Canada	41.8	1.6	43.4	40.6 (41.1)
National Arts Centre	26.3	4.7	31.0	31.5 (26.3)
National Gallery of Canada	41.3	3.1	44.4	44.6 (41.3)
Canadian Museum of Civilization	84.3	16.8	101.1	94.7 (81.6)
Canadian Museum of Nature	33.9	57.9	91.8	61.1 (35.2)
Canada Science and Technology Museum Corporation	35.3	-	35.3	29.7 (29.1)
National Film Board of Canada	63.2	4.4	67.6	63.7 (63.4)
Telefilm Canada	130.1	-	130.1	129.7 (129.6)

¹With the exception of the National Archives of Canada and the National Library of Canada, all of these organizations also generate annual revenues.

Sources: Government of Canada, *2004-2005 Estimates, Parts I and II: The Government Expenditure Plan and The Main Estimates*; Government of Canada, *Supplementary Estimates (A), 2003-2004*, Government of Canada, *Supplementary Estimates (B), 2003-2004*; Department of Canadian Heritage, *2003-2004 Estimates, Part III: Report on Plans and Priorities*.

Clarification

Prior to explaining the figures in the table, a point of clarification is in order. The CCA's Budget analysis of last year, *Cents and Sensibility*, (available on the CCA website at www.ccarts.ca, under Resources then Reports), included planned spending figures for a

number of fiscal years into the future. These were drawn from the Department's 2003/4 *Report on Plans and Priorities*. This year, the Treasury Board Secretariat has instructed departments to hold off submitting their RPPs to the Secretariat until the end of April, for a tentatively scheduled public release in late May. A number of organizations, including the Department of Canadian Heritage, have been instructed to submit their reports to the Secretariat even later than this – on July 30, 2004.

Sources in the Department maintain that the delay in submission dates resulted from the machinery of government changes effected by the Martin government on December 12, 2003. According to the Department, the delay is meant to enable departments to reflect and incorporate their new departmental structures into their Reports on Plans and Priorities.

Statements by the Secretary to the Treasury Board, Jim Judd, to the Senate Standing Committee on National Finance on March 30, 2004 support the contentions of the Department. Judd indicated that the two submission dates for Reports on Plans and Priorities were put in place to provide additional preparation time to departments heavily affected by the reorganization.

Non-governmental sources in the cultural sector venture an alternative interpretation, suggesting that further changes may lie behind the delay. As will be discussed in the following section, it has been rumoured for some time that the Department of Canadian Heritage could experience significant modification to its roles and responsibilities. If more departmental sectors or branches are hived off to other departments, this would clearly bear consequences for planned spending and strategic directions in future years – not to mention possible policy consequences for the sector.

The government has even stated that it will re-table the Main Estimates in the fall in order to provide Parliament with a more accurate depiction of government spending in light of the major reorganization of December 12, 2003. It is not known with certainty at this time whether the government will take action on this proposal although Secretary to the Treasury Board Jim Judd verbally reiterated the government's commitment to re-tabling the Main Estimates in response to a question following his May 6th 2004 remarks to the Canada School of Public Service's *Annual University Seminar*. Clearly, an election call could become an important intervening variable.

Funding Levels

As the table shows, overall funding levels have remained relatively steady from last fiscal to this fiscal year. The Main Estimates figures for 2004/5 show little change from the total planned spending figures for 2003/4. Total planned funding to the Department of Canadian Heritage, the Canada Council for the Arts, the Canadian Broadcasting Corporation, the National Arts Centre, the National Gallery and Telefilm Canada all remained at relatively stable levels (these organizations will be discussed in greater detail in the third section). Total planned funding to museums and to the Library and Archives has experienced a decline from last fiscal year, but, as discussed in a subsequent section,

this is largely because of one-time expenditures incurred in 2003/4 for specific capital projects or organizational transition costs.

“Reallocation”. As reported in last year’s Budget analysis, the federal government committed in Budget 2003 to reallocate \$1 billion annually in existing program funding “from lower to higher priorities”. Last year, it was rumoured that the Department had been directed to “find” \$60 million of unexpended program dollars for reallocation and that the *Publications Assistance Program* and the *Canada Magazine Fund* were vulnerable. This appears to have been a fairly accurate assessment of things to come for the Canada Magazine Fund -- the Fund has experienced a decline in this year’s Main Estimates. The Department is currently working on this year’s reallocation strategy. Sources in the Department were unable to comment on either the amount of funds the department will be reallocating or the potential targets for reallocation. It is known, however, that reallocation applies to both the Department and departmental agencies. In a recent interview, Canadian Heritage Minister H el ene Chalifour Scherrer stated that the monies initially set aside for the History Museum formed the Department’s portion of the allocation.

“Cabinet Committee on Expenditure Review”. One of Prime Minister Martin’s first initiatives upon taking office was to establish a Cabinet Committee on Expenditure Review to “conduct a fundamental review of all programs and expenditures to ensure that spending remains under control and is closely aligned with the evolving priorities of government”. The Committee seeks to identify \$3 billion in program savings over four years for “ever-evolving priorities of Canadians – in health care, learning and innovation, communities, Aboriginals, people with disabilities”. The Committee is chaired by the President of the Treasury Board, Reg Alcock, and is scheduled to report to the Prime Minister this fall. The expenditure review exercise is in addition to the \$1 billion annual reallocation process discussed above.

This expenditure review process has generated a context of considerable uncertainty over, and instability in, future funding. Sources within and outside the Department expressed concern over this issue. As mentioned in last year’s Budget analysis, the cultural sector could be quite vulnerable in expenditure reduction and reallocation exercises because virtually all funding for arts and culture is *nonstatutory*, i.e., requires annual Parliamentary approval (as opposed to being enshrined in existing legislation). Will the expenditure review process lead to significant expenditure reductions? If so, to what programs and by what means? The CCA will continue to monitor events as they unfold.

“Contingency reserve”. This year’s Budget also contained a \$3 billion contingency reserve to address unanticipated crises such as SARS, avian flu, terrorist attacks, BSE or forest fires. While some in the sector speculate that this money could serve as a pre-election goody-bag, others are more inclined to take the government at its word (particularly in the post-sponsorship scandal era, where the government may not be inclined to divert these monies for electoral purposes). The Budget also contains

\$1 billion in economic prudence to provide “a buffer to protect the annual balanced budget targets against the impact of possible negative economic developments”.¹

THE DEPARTMENT OF CANADIAN HERITAGE

The Canadian Heritage Portfolio includes the Department of Canadian Heritage, six departmental agencies² (including the National Archives, the National Film Board, the National Library, and the Canadian Radio-television and Telecommunications Commission) and ten Crown Corporations (including the Canada Council for the Arts, the Canada Science and Technology Museum, the Canadian Broadcasting Corporation, Telefilm Canada, the Canadian Museum of Civilization, the Canadian Museum of Nature, the National Arts Centre, and the National Gallery). The Department maintains 26 points of service in five regions across Canada and five Cultural Trade Development Offices abroad that aim to stimulate international cultural trade.

Last year’s Budget analysis contained a thorough examination of the Department’s organizational structure, strategic objectives, and Planning Reporting and Accountability Structure. This information remains largely unchanged from last year. Table 2 from last year’s Budget analysis is reproduced in Annex 1 of this document (readers wishing to see a full discussion of the Department should consult last year’s Budget analysis, *Cents and Sensibility*, on the CCA web site). Given the current context of bureaucratic and political uncertainty, the Department appears to be in a ‘holding pattern’ as to its future orientations and directions.

On a formal basis, it is not likely that much new will be known of the Department’s future strategic directions prior to the results of a general election or to any further machinery of government changes. As mentioned earlier, the government has delayed preparation and tabling of departmental *Reports on Plans and Priorities*. These documents, ordinarily tabled in March, contain planned spending, programming and strategic objectives for a three year period. As explained above, the Department of Canadian Heritage will be submitting its report to the Treasury Board Secretariat at the end of July. It is not known when the report will be made public.

Sources in the sector strongly suspect that the Department will undergo a fundamental restructuring in any upcoming machinery of government changes. It is rumoured that the departmental organization of arts and culture may return to an arrangement resembling organizational configurations prior to the major reorganization of 1993 – the

¹ Department of Finance, *New Agenda for Achievement: The Budget Plan 2004*, Tabled in the House of Commons by the Honourable Ralph Goodale, P.C., M.P., Minister of Finance, March 23, 2004. (Ottawa: Public Works and Government Services Canada, 2004), 53.

² Parks Canada, formerly a departmental agency in the Canadian Heritage Portfolio, is now a departmental agency of the Environment Portfolio.

reorganization that created the Department of Canadian Heritage. The Department could be split into two broad organizations: a Secretary of State responsible for Canadian identity issues (including, for example, official languages, multiculturalism, and citizenship), and a Department of Communications responsible for cultural affairs (for example, including arts and heritage, cultural industries, copyright, and cultural sector investment review). Another potential scenario could see cultural industries, copyright and cultural sector investment review transferred to Industry Canada. It is perhaps noteworthy, in this light, that Industry Canada is another department that will be submitting its *Report on Plans and Priorities* on the later of the two dates, July 30. (In this context, it is interesting to note that Suzanne Hurtubise, a former Deputy Minister of Canadian Heritage, has just been appointed DM at Industry Canada.)

Table 2 below shows spending for the three business lines of the Department of Canadian Heritage for the period 2003/4 to 2004/5.³ The table utilizes the same format as Table 1: the column 'Planned Spending 2003/4' shows estimates of actual spending for that fiscal year from the main and supplementary estimates. The figures in brackets in the final column are the Planned Spending figures from the Department's 2003/4 *Report on Plans and Priorities*.

Table 2 – Planned Spending for Department of Canadian Heritage Business Lines, 2003/4 to 2004/5 (millions of dollars)

Business Lines	Planned Spending 2003/4 in Main and Supplementary Estimates			Main Estimates 2004/5
	Main Estimates	Supplementary Estimates ¹	Total ²	
Cultural Development & Heritage (includes arts, heritage, broadcasting, cultural industries)	413.0	102.1	515.1	459.3 (448.7)
Canadian Identity (includes Official Languages, identity, citizen participation, multiculturalism, sport)	473.0	49.0	522.0	567.1 (670.4)
Corporate Management (includes strategic planning and policy coordination, financial and HR management, communications)	78.0	NA	78.0	100.7 (81.8)
Total	964.0	156.7³	1,120.7⁴	1,127.1 (1,200.9)

¹The supplementary estimates figures differ slightly from Table 1 because the Supplementary Estimates do not separate out additional funding for operating expenses by Business Line. Only new funding for grants and contributions is broken down by business line.

²Totals may differ slightly from actual figures due to the manner in which figures are displayed in the Supplementary Estimates (see Note 1 above).

³Total is higher by \$5.6 million because of additional funding for operating expenses included in supplementary estimates.

⁴See Note 3 above.

³ Note that because the Department's *Report on Plans and Priorities* is not yet available, Full Time Equivalent figures are not available.

Sources: Government of Canada, *2004-2005 Estimates, Parts I and II: The Government Expenditure Plan and The Main Estimates*; Government of Canada, *Supplementary Estimates (A), 2003-2004*, Government of Canada, *Supplementary Estimates (B), 2003-2004*; Department of Canadian Heritage, *2003-2004 Estimates, Part III: Report on Plans and Priorities*.

A number of key issues and questions emerge from the table:

- Although total departmental spending appears to have increased by close to 17% between the Main Estimates of 2003/4 and 2004/5 (from \$964.0 million to \$1,127.1 million), when additional spending from the supplementary estimates is factored in, the total level of departmental spending has remained relatively steady (\$1.12 to \$1.13 billion). The vast majority of additional spending in the supplementary estimates was for grants and contributions in the Cultural Development & Heritage and Canadian Identity business lines. The largest of these additional expenditures were targeted to: funding to the Canadian Television Fund (\$87.5 million), grants and contributions to Aboriginal groups (\$37.5 million), grants and contributions in support of Official Languages (\$11.4 million), and a grant to the Trans Canada Trail Foundation (\$15.0 million).
- While total departmental spending has held relatively steady from last fiscal year to the current year, both the Canadian Identity and Corporate Management business lines have seen an increase in their funding levels (from \$522.0 to \$567.1 million for Canadian Identity and from \$78.0 to \$100.7 for Corporate Management). Cultural Development & Heritage has experienced a decline (from \$515.1 million to \$459.3 million). Programs suffering funding declines in this latter business line are discussed below, as are those experiencing funding increases.
- Expenditures on Corporate Management reported in the Main Estimates have increased significantly. They are up by close to 30%, from \$78.0 million in the 2003/4 to \$100.7 in 2004/5. Sources in the Department indicate the increased expenditures to Corporate Management were required to keep pace with increases over the last number of years in expenditures on grants and contributions. According to the Department, spending on the Corporate Management business line held relatively steady despite the Department's increased grant and contribution activity.

SECTOR-LEVEL DEVELOPMENTS

Table 3 below compares funding in this year's and last year's Main Estimates for a range of grants and contributions at the Department of Canadian Heritage. As noted earlier in this analysis, these figures should be interpreted cautiously as the government may re-table the Main Estimates in the fall. The sections below examine key developments in the arts, heritage, and cultural industries sectors.

Table 3 – Department of Canadian Heritage: Selected Grants and Contributions (dollars)

Grant/Contribution	2003/4 Main Estimates	2004/5 Main Estimates	Percentage Increase (Decrease)
Arts and Heritage Sustainability Program			
Stabilization Funds	6,728,430	4,026,436	(40.2)
Capacity Building	11,516,014	6,500,814	(43.5)
Endowment Incentives	13,278,161	15,500,000	16.7
Arts Presentation Canada Program	25,707,278	22,829,278	(11.2)
Book Publishing Industry Development Program	39,266,742	38,743,742	(1.3)
Canada New Media Fund	2,750,000	8,150,000	196.4
Canadian Magazine Publishing Industry (Canada Magazine Fund)	35,000,000	22,000,000	(37.1)
Canadian Culture On-line	7,750,000	7,500,000	(3.2)
Canadian Television Fund	87,500,000 ¹	100,000,000 ²	14.3
Cultural Spaces Canada Program	28,201,000	37,067,000	31.4
Museums Assistance Program	8,400,000	9,400,000	11.9
National Arts Training Contribution Program	15,216,200	16,292,750	7.1
New Media Learning Fund	2,500,000	500,000	(80.0)
Publications Assistance Program	49,400,000 ³	45,400,000	(8.1)
Trade Routes	2,000,000	2,000,000	0

¹This \$87.5 million does not appear in the 2003/04 Main Estimates; it appeared in the Supplementary Estimates. It represents the \$75 million of CTF funding announced in the 2003 Budget plus \$12.5 million that was shifted from fiscal year 2004/5 to 2003/4 following the public outcry over the reduction in federal funding to the CTF.

²The figure in the 2004-05 Main Estimates was \$62.2 million (see Note 1 above) but in this year's Budget, the government announced it would restore funding to the CTF to \$100 million for each of 2004-05 and 2005-06.

³The Publications Assistance Program received an additional \$3 million in the Supplementary Estimates, bringing the total from \$46.4 million in the 2003/4 Estimates to \$49.4 million. The CCA is awaiting word from the Department as to the reason for this increase.

Source: Government of Canada, 2003-2004 Estimates, Parts I and II: The Government Expenditure Plan and Main Estimates.

Note: Given the huge increase for the Canada New Media Fund indicated in Table 3, and the frequent references in Departmental documents to “cultural content on-line and other digitization projects”, CCA intends to examine this issue in a separate analysis.

-----ARTS-----

TOMORROW STARTS TODAY. The fate of the May 2001 *Tomorrow Starts Today* funding continues to concern many in the sector – both inside and outside the Department. Fiscal year 2003/04 was officially the final year of the three-year \$568 million funding package; the Department was successful in securing approval for a one-year renewal of the funding. While this was certainly welcome news, it is a somewhat mixed blessing.

Sources in the Department indicate that they are working on a renewal strategy for 2005/6 and beyond, but that timing the submission of such a request is extremely challenging in the current environment. With an expenditure review in progress and a general election in the offing, it is difficult to find a window to make the request. However, sources in the Department seemed hopeful that the request could be made soon. CCA will maintain a watching brief on this.

As Table 3 shows above, some of the key elements of the *Tomorrow Starts Today* package have been renewed but at different funding levels than in the 2003/4 fiscal year. The Arts and Heritage Sustainability Program, Arts Presentation Canada and Cultural Spaces Canada have all been renewed but with different budgets – lower in the case of Stabilization Funds and Capacity Building and Arts Presentation Canada, and higher in the case of Endowment Incentives and Cultural Spaces Canada.

Sources in the Department indicated that funding had been renewed at the same levels and some seemed surprised that the Main Estimates showed variation in funding levels. Upon further discussion with departmental officials, it became clear that a number of the funding level changes resulted from evolutions in or characteristics of the programs themselves, as well as the need to better reflect and take into account the cost of administering the programs. In the case of Cultural Spaces Canada, the change in funding level is more apparent than real: for reasons of project timing, a number of program investments were “reprofiled” (transferred) into the current fiscal year. In the case of Arts Presentation Canada, departmental officials stated that although funding arts presenters is the priority, the Department had to reallocate funds within the program from contribution funds to funds required to manage, administer and evaluate the program.

A large number of cultural festivals and events were left in the lurch this year when the sponsorship funds were frozen. DCH was able to step in, with new money, and provide a certain amount of additional funding for these groups. However, as many had already experienced cutbacks through Arts Presentation Canada (a combination of administration costs explained in the previous paragraph, and more organizations applying for limited funding), cultural festivals and events are scrambling to remain afloat.

According to the Department, fluctuations in funding to the Canadian Arts and Heritage Sustainability Program arise from similar needs to better reflect and take into account administrative and management costs of the program. They also reflect evolution in the program elements. Demand for the Stabilization Funds has begun to decline as more communities have applied for and received funding. Increases to the Endowment Incentives have been put in place in part to enable the program to reallocate funds in December 2004 should the need arise. The Endowment Incentive funds are grants (rather than contributions) and, as such, offer the Department some flexibility. If a lesser amount of these funds is utilized by December 2004 than was projected, some of these monies can then be reallocated to the other elements of the program (Stabilization Funds and Capacity Building Funds). Changes to the Capacity Building funds also reflect changes in administrative costs associated with the program. Administration has been

decentralized to regional offices, which has changed the administrative costs attributed to this element of the Canadian Arts and Heritage Sustainability Program.

Cultural Capitals of Canada. The five winners of the second round of *Cultural Capitals of Canada* (2004) were: Regina, Saskatchewan; Kelowna, British Columbia; Owen Sound, Ontario; Powell River, British Columbia; and Lethbridge, Canmore, Drumheller, and Crowsnest Pass, Alberta, and Fernie, British Columbia (this last group of communities submitted a joint application for a project to celebrate Canada's Coal Culture). The uncertainty around future funding may hit this program quite hard because funds are allocated for the calendar year. Applications for 2005 were submitted in March 2004. Given that program funding is currently set to lapse March 31st 2005, applicants were in a position of having to prepare and submit applications with no guarantee that the funding would be renewed. To date, winners have been announced in the fall of the previous year – will the funds be renewed in time for an announcement of the 2005 winners to be made this fall?

Arts Presentation Canada Program. This Program seeks to “give Canadians more access to diverse, high-quality artistic expression through the support of presenters of arts festivals, performing arts series, and other artistic experiences”. In the wake of the December announcement that the Sponsorship Program would cease to exist as of April 1st, 2004, Arts Presentation Canada has invited qualifying festivals to apply to the program.⁴ In March 2004, Arts Presentation Canada sent a letter to clients of both programs and to festivals that had received Sponsorship Program money in 2003-04 that would potentially qualify for funding via Arts Presentation. The letter invited participants to apply to Arts Presentation Canada for a non-recurring supplement for 2004/5. The supplement could reach up to a maximum of 50% of funding received via the now defunct Sponsorship Program. The deadline for these applications was in April and the Department will begin to review applications received shortly. This supplement will be crucial for festivals, many of which are currently planning -- and budgeting -- for events in 2005. Only festivals that had received Sponsorship Program funding in 2003-04 were eligible to apply for the nonrecurring supplement – festivals that were not clients of the Sponsorship Program in 2003-04 but that had planned to apply for 2004-05 were not eligible for the supplement.

Arts Presentation Canada is currently undertaking a public opinion survey with Decima Research examining public perceptions of the contribution of the arts. This follows the 2001 benchmark survey, *The Arts in Canada: Access and Availability*, which is available on the Culturescope website (www.culturescope.ca). The results of the 2004 survey should be available later on this summer. Arts Presentation Canada is also currently undertaking a user study in collaboration with Cultural Spaces Canada to assess the extent to which funding from these programs enables users to improve their operations.

⁴ Departmental programs in Official Languages and sport have also been working, where possible, to assist organizations that have lost potential funding for 2004-05 due to the termination of the Sponsorship Program.

National Arts Training Contribution Program. The NATCP supports “independent, non-profit, incorporated, Canadian organizations which train Canadians for professional national/international artistic careers”.⁵ Funding to the Program showed a slight increase from \$15.2 million in 2003/4 to \$16.3 million in 2004/5 (see Table 3).

Canada Council for the Arts. As shown in Table 1, federal funding to the Canada Council held steady at roughly \$150 million. The \$25 million per year top-up to the Council’s funding from the *Tomorrow Starts Today* funds was renewed for 2004/5. The Council is hopeful that this amount will be incorporated into its permanent ongoing budget, but given the current climate of uncertainty, it is difficult to predict what the future will hold. Sources at the Council indicate that the only certainty is that the 2004/5 \$25 million top-up has been received. The Council did not draw on its endowment fund in either 2003-04 or 2004-05. Its Investment Committee is of the view that the markets have not yet sufficiently recovered to allow the organization to draw from the endowment.

Sources at the Council expressed some concern over the organization’s prospects in upcoming rounds of government-wide funding reallocation exercises. The Council was not affected by last year’s round of reallocation because the government did not want to affect programs to *individuals* and because it was aware that the organization had already suffered from the severe downturns in financial markets. This time around, things may be different.

In the 2003/4 Supplementary Estimates, the Council received \$2.1 million in incremental funding for “enhancing the development of Official Language Minority Communities”, “increased support for Canadian artists and arts organizations”, and “activities to advance the creation of cultural content on-line and other digitization projects”.

The Council is undertaking a corporate planning exercise and will be making changes to the implementation of its programs to better align them with its new objectives (for further information on this initiative, see Canada Council Director John Hobday’s speeches at the May 25, 2003 and February 27, 2004 Chalmers Conferences at www.ccarts.ca or on the Canada Council web site at www.canadacouncil.ca).

As shown in Table 1, funding to the **National Arts Centre** held steady at roughly \$31 million. In the Supplementary Estimates of 2003/4, the NAC received incremental funding in the amount of \$4.7 million for outreach activities and for creating “cultural content on-line and other digitization projects”. Funding to the **National Gallery** also held steady at roughly \$44.5 million. The Gallery received \$3.1 million in incremental funding to support outreach activities and for purchasing objects for the Collection.

⁵ Department of Canadian Heritage website.

-----HERITAGE-----

Built Heritage. As part of the December reorganization of government, responsibility for built heritage was transferred to Environment Canada. Parks Canada, historic sites and monuments, federal heritage buildings, and the Historic Places Initiative are now part of the Environment Portfolio, along with Infrastructure Canada, the Canada Mortgage and Housing Corporation, and the Canada Lands Company. Sources in the built heritage sector view this organizational restructuring as an opportunity for the sector to work alongside other property-based organizations to strengthen the retention, reuse and restoration of built heritage. The sector is working to position the retention, restoration and reuse of built heritage not only in terms of sound cultural and historic sense, but also in terms of sound economic, environmental and sustainable community sense. Heritage Canada, the non-profit organization established in 1993, has been working with organizations like the Federation of Canadian Municipalities and the National Roundtable on the Environment and the Economy to this end.

The sector was delighted to see the federal government's commitment to communities in the Budget. Although the Budget was very vague regarding the purposes that new funding for communities will serve, sources in the sector are hopeful that some of the funds may support built heritage preservation.

Last year's Budget announced a \$30 million contribution program (\$10 million for each of three years) to encourage the private sector to restore and preserve historic landmarks and properties. The program, called the Commercial Heritage Properties Incentive Fund, is now in its second fiscal year of operation, although it did not get 'up and running' until November 2003. Initial demand for the program was low. Sources in the sector maintain this does not indicate there is a minimal need for the program, but rather it reflects the program's low profile, limited resources, and narrow eligibility requirements. Only revenue-generating properties owned by incorporated organizations can apply for funds, and some companies (banks, for example) are hesitant to put forward applications fearing backlash from the public and the media, who may react negatively to corporations receiving government funding.

Government officials maintain that the program seeks to test the national register, national conservation standards and guidelines, and certification process put in place as a precursor for a future tax-based program. The sector would prefer tax-based measures, as they are not subject to funding fluctuations and less open to political interference. Sources in the sector expressed concern that if limited uptake in the program continues, the government may conclude that there is inadequate demand or need to justify enacting tax measures. Clearly, this would be a very disappointing outcome: tax incentives to encourage the restoration and preservation of historic landmarks and properties are the ultimate objective for the sector.

Museums. One of the most notable announcements in the museums sector this year was the cancellation of the proposed History Museum. This initiative of the Chrétien

government, announced last May, was intended to provide “access to our political and civic history”. The Museum was to be located in the former government Conference Centre in Ottawa and some \$90 million in funding over five years was provided for in last year’s Budget. The CCA is awaiting word from the Department regarding the funding that had been made available for this initiative – will it be reallocated to another purpose or will it disappear from the sector? Sources in the sector suspect the latter.

Funding to museums via the *Museums Assistance Program* increased slightly this year to \$9.4 million. Sources in the sector welcome funding via the Program, particularly funding that supports smaller museums across Canada. MAP funding has declined 47% from its peak of \$15 million in 1977. Furthermore, a Canadian Museums Association analysis of the MAP in 2001 indicated that the program should be funded at \$30 million in 1972 dollars just to keep pace with inflation. The Canadian Museums Association continues to advocate for the development of a national heritage policy framework. Given the ongoing expenditure review and heightened attention to accountability in the wake of the sponsorship scandal, movement forward may be slow at this time, but the CMA is optimistic that progress will be made.

The CMA is also working with the Department on means of addressing the skyrocketing costs of insurance for museums. A feasibility study is underway to assess the possibility of putting in place a self-insurance program. The study will be completed by the end of fiscal year 2004-05.

As Table 1 shows, federal funding to the Canadian Museum of Civilization, the Canadian Museum of Nature, and the Canada Science and Technology Museum Corporation has been somewhat lumpy over the last two years, largely due to capital projects at various stages of completion. The *Canadian Museum of Civilization* received \$53.6 million in 2003/4 for construction of the War Museum (\$15.6 million via the Supplementary Estimates to address cost over-runs in construction), and another \$62.1 million in 2004/5. The Museum also received \$1.2 million in the 2003/4 Supplementary Estimates for the “creation of cultural content on-line and other digitization projects”.

Renovations of the Victoria Memorial Museum Building account for most of the funding fluctuations at the *Canadian Museum of Nature*; \$17.9 million were allocated to these renovations in 2003/4, and \$36 million in the 2004/5 Main Estimates are dedicated to this purpose. The Museum also received \$50 million in incremental funding via the Supplementary Estimates of 2003/4 for “buy-back of the capital lease” of the Natural Heritage Building in Aylmer Québec.

The decline in the budget of the *Canada Science and Technology Museum Corporation* owes to provision of funding in 2003/4 for the construction of two new buildings for the National Aviation Museum.

National Archives of Canada and the National Library. Funding to the National Archives and the National Library is set to decline from total planned spending of 2003/4

(see Table 1). Although it was announced last year that the two institutions would be integrated and become the *Library and Archives Canada*, legislation creating the new institution only received Royal Assent in April 2004. It has not yet been proclaimed by Cabinet, but it will be very shortly. Once proclamation has been received, transition plans that have been developed over the last year will be implemented. The first crucial step in this process is the appointment of a single individual to head the new organization. Once this has been undertaken, a new organizational structure integrating the two entities will be put into place. The Library and Archives will continue to operate the 395 Wellington Street location as the public access point for the new institution. Most of the staff of the new organization will be housed at an office tower in Gatineau that is close to the Preservation Centre. It is expected that the lion's share of transition activities will be completed within a year.

Sources at the Library and Archives stressed that this organizational change was not motivated by budget-cutting or staff-cutting rationales, but rather, was motivated by the strategic objective of better meeting the information needs of Canadians. The proposal to integrate the two organizations originated from the organizations themselves – it was not imposed on them externally. Canada is one of the first countries in the world to integrate their library and archives, and the move has generated considerable interest internationally. The Library and Archives has received delegations from Europe and the United States, and the organization has been invited to make a presentation on its transformation to the annual conference of international archivists.

The National Archives received \$3.2 million in transition funding for the merger in the Supplementary Estimates of 2003/4, and funding for Corporate Services at the Archives increased from \$13.3 million in the 2003/4 Main Estimates to \$17.7 million. The CCA is awaiting word from the Archives as to the requirements for this increase. The two organizations also received an additional \$5.8 million (\$4.2 to the National Archives and \$1.6 to the National Library) for the creation of “cultural content on-line and other digitization projects”.

The design and development stage for the *National Portrait Gallery* continues with opening anticipated in early 2007. The Gallery anticipates going forward to Treasury Board for the necessary approvals within the next few months to put in place contracts to construct the building. Exhibition design development and design of other programming (education and interpretative programming) are proceeding. The Gallery plans to allocate half of the building space to exhibits and the other half to temporary exhibitions and thematic shows. Consultations are ongoing with stakeholders regarding exhibits. Ever since the announcement of the Portrait Gallery, staff there have been delighted by the number of families, dealers and institutions that have come forward offering potential acquisitions for the Gallery.

-----CULTURAL INDUSTRIES-----

Broadcasting and Audiovisual Production

Canadian Television Fund. The *Canadian Television Fund (CTF)* is a public-private fund that stimulates financing and broadcasting of high quality Canadian television programs. The federal government (Department of Canadian Heritage and Telefilm Canada) and the cable and satellite television industries contribute to the fund. In the 2003 Budget, the government announced that federal funding to the CTF would decline by \$50 million (\$25 million for each of the following two years), a 25 percent decrease in the Department of Canadian Heritage's contribution to the Fund. This decrease provoked an outcry from the sector and a well organized – and successful – advocacy campaign seeking restoration of the funding. In this year's Budget the government announced that it will restore funding to the CTF to \$100 million for the 2004-05 and 2005-06 fiscal years. As noted in Table 3 above, it is unclear whether funding was restored to its full level.

Canadian Broadcasting Corporation. As shown in Table 1, total planned spending to the CBC stood at \$1,065.1 million in 2003/4, and is set to decline slightly to \$1,034.3 in the 2004/05 Main Estimates. The Corporation received \$67.7 million in incremental funding in the 2003/4 Supplementary Estimates to “strengthen and enhance English and French radio and television programming”, and to fund Radio Canada International, the creation of cultural content on-line and the Canadian Antiques Roadshow. With respect to the Roadshow, the CCA notes that it is unusual for a single show to receive advance recognition of direct funding.

As shown in Table 1, funding to the *National Film Board* held quite steady from last year's to this year's Main Estimates (\$63.2 million in 2003/4 and \$63.7 million in 2004/5). The NFB received incremental funding of \$4.4 million in the 2003/4 Supplementary Estimates for additional operating expenses.

Canada New Media Fund. The Canada New Media Fund, administered by Telefilm Canada, seeks to “further the development, production, and marketing/distribution of high-quality, original, interactive or on-line Canadian cultural new media works, in both official languages.” It received \$9 million in annual funding over three years as part of the *Tomorrow Starts Today* initiative. Like other *Tomorrow Starts Today* programs, the Fund has been renewed for a single year. Table 3 above shows a considerable increase in funding to the Canada New Media Fund. Sources at Telefilm Canada indicate that the fund has not increased in size, but rather, that the nature of payments is such that the funding levels shown in the Main Estimates fluctuate year over year. Telefilm is currently working on a renewal strategy in conjunction with industry and hopes to go forward with a multi-year renewal proposal shortly. The proposal would likely seek a

higher level of funding given the large number of applications received (the Fund's rejection rate is in the order of 70 to 75 percent).

Telefilm Canada also held steady from \$130.1 million in 2003/4 to \$129.7 million in 2004/5. Telefilm's recently announced pilot agreement with a Hollywood agency to assist in establishing talent and financing packages for Canadian films provoked harsh criticism from many in the sector. Telefilm maintains the agreement will create jobs for Canadians, lead to more financing for Canadian films, and will enable simultaneous distribution in the Canadian and American markets. Time will tell if this was a wise investment.

Publishing

Book Publishing. Sources in the book publishing sector noted that this year's budget was largely one of status quo for book publishing. As noted above, the Canada Council budget held steady and as shown in Table 3 above, federal funding via the *Book Publishing Industry Development Program (BPIDP)* has also remained level. The program received a three-year top-up to its funding as part of the Tomorrow Starts Today program. As with other Tomorrow Starts Today funding components, this top-up was renewed for one year. In fall 2003, the BPIDP passed a Treasury Board audit assessing its adherence to Treasury Board guidelines, with only small deviations requiring correction. The program is up for its five-year renewal in the fall, and is currently undergoing a review to assess program need and effectiveness. This review should be completed in the summer. The only outstanding question mark regarding funding relates to Book Publishing support at the Canada Council, which has not returned to its pre-endowment levels.

The sector continues to work on the issue of succession planning for the future of the industry. The Department of Canadian Heritage created a committee that conducted survey research and prepared a report on this important issue. The Association of Canadian Publishers continues to work on addressing succession planning with Québec's Association nationale des éditeurs de livres.

As reported in last year's budget analysis, *BookNet Canada*, a non-profit organization run by the industry, is focusing on implementing electronic data interchange in the Canadian book publishing, distribution and retailing sectors in order to better integrate and disseminate information along the sector's supply chain. To this end, BookNet Canada is currently establishing a web-based service for publishers that will enable them to interact with retailers. While the organization's activities are integral to the health of the industry, sources in the Canadian publishing sector note that it can be challenging to influence decision-making in this forum, since the Board of Directors includes representation from both Canadian and foreign publishing concerns.

Periodical Publishing. Funding to periodical publishers via the *Canada Magazine Fund* continues to decline. As mentioned in last year's analysis, funding dropped from \$45

million to \$35 million (the Fund contributes to Canadian periodical publishers' editorial costs). The Fund underwent a further decline in this year's Budget from \$35 million in 2003/4 to \$22 million. Sources in the sector indicate that the level will further decline to \$16 million in 2005-06 but will remain at this level going forward. The government cites lack of American presence in the Canadian advertising market as the rationale for reducing funding. Notwithstanding, the reductions in funding and changes to eligibility criteria are proving harmful to Canadian magazines. Magazines utilized the funds "in good faith" for editorial purposes such as increasing payment to writers. Now, their costs have gone up and funding from the government has declined. Moreover, the government decided it would no longer fund controlled circulation magazines (such as those that are circulated in newspapers); only paid circulation magazines now qualify for funding.

The Canadian Magazine Publishers Association is undertaking a project to assess the performance of the fund. It will examine such factors as the amount of funding finding its way to writers and the impact of foreign magazines in the marketplace. Needless to say, the unpredictability and uncertainty are proving very challenging for the Canadian magazine sector.

The Publications Assistance Program helps to offset mailing costs. It underwent an extensive and detailed review which resulted in welcome program changes that broaden eligibility to more magazines and community publications. Funding via the Publications Assistance Program is now more efficient and targeted. It enables smaller magazines to access higher funding levels and has opened up eligibility to more ethnocultural and aboriginal publications.

VARIA:
OTHER CURRENT DEVELOPMENTS

International Convention on Cultural Diversity. The February 2004 *Speech from the Throne* reiterated the Government of Canada's commitment to the International Convention on Cultural Diversity. Although the Convention was not mentioned in the Budget, progress continues apace both at the federal level and via non-government organizations (e.g. the International Network on Cultural Diversity, housed at the CCA). The convention process is moving well: the UNESCO Executive Board is meeting at the end of April to hear a report from the Director General outlining the next steps for the Convention. A preliminary report will be tabled by the Director General in July regarding the intergovernmental negotiating process that will ensue. Sources in the Department believe that intergovernmental work will begin before the end of the year. In addition, the ministers of culture, organized as the International Network for Cultural Policy have struck a Working Group on Globalization and Cultural Diversity which is meeting shortly to prepare for their annual meeting scheduled to take place in Shanghai in mid-October.

Charitable status. The 2004 federal Budget committed \$30 million over the next 2 years to support the non-profit sector. The funding will be broken down as follows: \$12 million annually has been allocated to improve tax rules for charities; and \$6 million over two years to support the Voluntary Sector Initiative (VSI), including funds for the grouping of leaders from the sector called the Voluntary Sector Forum (VSF) . The VSI is a collaboration between the non-profit sector and government that has been working since 2000 to improve the relationship with government and the policy environment and the capacity of the non-profit sector (for more information on the VSI, please see www.vsi-ibsc.ca). The Joint Regulatory Table, one of the VSI's working groups, recently released a set of recommendations for regulatory reform, which have been largely accepted by the Canada Revenue Agency and the Department of Finance. The reform initiative includes changes to the CRA's charity policies and programs, as well as changes to the *Income Tax Act*. Overall, the reform measures aim to: improve public access to information about registered charities; increase donor confidence that the CRA effectively monitors charities; increase communications with charities to ensure they understand and are able to fulfill their legal obligations; enhance the CRA's capacity to effectively monitor registered charities; improve registered charities' access to impartial review and appeal; and enhance cooperation and partnership with federal, provincial and territorial governments.

The CCA expects that, ultimately, these reforms will lead to an improved situation for arts organizations that are registered as charities, and for those that aspire to be. The problem of the restrictions on advocacy work by charities, including those like the CCA which have a mandate for policy work, remains unsolved, although slow progress is

being made through discussions with officials and Members of Parliament. The CCA continues to be engaged in this work as a member of the Voluntary Sector Forum.

Voluntary sector bank. This year's Budget also announced the government's support for plans to create a bank to assist organizations in the not-for-profit sector. Banks of this sort exist in other jurisdictions, notably the United Kingdom, where they offer loans, mortgages and investment advice to the not-for-profit sector. The need for alternative forms of financing has grown, as government, corporate and foundation funders increasingly provide project-based funding, leaving organizations struggling to fund basic administrative costs. Traditional banks are often leery of dealing with non-profit groups, which may be perceived as high credit risks. Current plans would see the voluntary sector bank, to be called the "Community Bank", holding deposits and offering a range of financial services. The bank, which would be a registered charity itself, may partner with traditional banks and credit unions to operate branches across the country and could be operating as early as 2005.

Workplace skills strategy. This year's Budget also announced the creation of a workplace skills strategy that would be developed in collaboration with labour unions. This strategy appears to be rooted in an industrial model rather than a knowledge economy model. Although early descriptions of the strategy appear to be rooted in an industrial model, the Cultural Human Resources Council (CHRC) is cautiously optimistic that the strategy will develop in a way that is positive for the sector. CHRC has participated in focus groups as part of a consultation process that is now underway to develop the strategy, and describes the process as highly consultative and transparent. The government appears to be open to collaboratively creating a feasible and workable strategy. In these consultations, CHRC had the opportunity to stress the importance of addressing the needs of the self-employed, notably access to social programs for self-employed workers. The CCA is investigating the development of this strategy and its potential implications for cultural human resources in collaboration with the Cultural Human Resources Council.

In the Speech from the Throne, the government announced its ongoing support for sector councils. CHRC received \$1.5 million in funding over the next three years and was identified by the government as one of the top eight of the thirty sector councils. CHRC believes the government should be commended for its recognition of the value of the Council's work in the cultural sector and views this recognition as evidence of the expanding role and influence of the cultural sector.

Social economy. Social economy enterprises "are run like businesses, producing goods and services for the market economy, but they manage their operations and redirect their surpluses in pursuit of social and community goals".⁶ The Budget announced greater government support for the social economy sector via a number of means which may provide opportunities to arts organizations.

⁶ Department of Finance, *New Agenda for Achievement*, 179.

The Budget stated the government would make social economy organizations eligible for programs offered to small business, such as financing and contribution programs. The Budget also provided \$100 million over the next five years to support lending to social economy enterprises. In addition, \$17 million would go to Industry Canada for a pilot program to support capacity building and strategic planning for community economic development organizations; Industry Canada and the regional development agencies (Western Economic Diversity, Canada Economic Development for Quebec Regions, and the Atlantic Canada Opportunities Agency) will administer the funding.

In the social economy sector, the Budget also allocated \$3 million of additional funds over five years for community-based research on the social economy to the Community University Research Alliance (CURA) program of the Social Sciences and Humanities Research Council (SSHRC).

Communities. Communities emerged as clear beneficiaries of this year's federal Budget. The Martin government previously committed to full relief from the goods and services tax for all municipalities in the *Speech from the Throne*. This year's Budget announced that \$1 billion committed to infrastructure funding in last year's Budget would be allocated over 5 years rather than ten. The government notes that past federal contributions to municipalities have included funding to cultural programs, yet the Budget's mention of infrastructure funding is confined to "hard infrastructure" like roads, water, sewers and transportation. Will some of this funding be allocated to much needed development of "cultural infrastructure"?

Annex 1

'Unpacking' the Department of Canadian Heritage

'Unpacking' the Department of Canadian Heritage

	Description
Strategic Objectives	<ul style="list-style-type: none"> • Promoting Canadian content. • Fostering cultural participation and engagement. • Fostering and strengthening connections among Canadians. • Promoting active citizenship and civic participation.
Departmental Organization	<p>Five Sectors:</p> <ul style="list-style-type: none"> • Cultural Affairs: includes arts, cultural industries, copyright, Canadian culture online, and cultural sector investment review. • Citizenship and Heritage: includes heritage, multiculturalism, aboriginal affairs, official languages, citizenship, and the Canadian Conservation Institute. • International and Intergovernmental Affairs: includes international and intergovernmental affairs, and trade and investment. • Public Affairs and Communications. • Planning and Corporate Affairs. <p>Three corporate branches:</p> <ul style="list-style-type: none"> • Strategic Policy and Research: develops key policy initiatives pertaining to the department's mission and contributes to government-wide research priorities affecting the department's mandate. • Portfolio Affairs: seeks to integrate planning, reporting, policy and communications matters pertaining to the Canadian Heritage portfolio agencies and organizations. • Human Resources and Workplace Management: seeks to ensure that the department is a safe, supportive and efficient workplace.
Planning Reporting and Accountability Structure (PRAS) Business Lines	<ul style="list-style-type: none"> • Cultural Development and Heritage: broadcasting, cultural industries, arts, and heritage. • Canadian Identity: Official Languages, Canadian identity, citizens' participation, multiculturalism and sport. • Corporate Management: includes strategic planning and policy coordination, financial and human resource management, communications, and coordination with portfolio agencies.