



Australian Government

**Department of Communications,
Information Technology and the Arts**

A NEW ERA – Orchestras Review Report 2005



Australian Government
Orchestras Review 2005

Senator the Hon Rod Kemp
Minister for the Arts and Sport
Parliament House
Canberra ACT 2600

Dear Minister

I take pleasure in submitting for your consideration the report of the Orchestras Review 2005. The report comprehensively addresses its terms of reference and examines a range of operational, marketplace and governance issues faced by professional orchestras in Australia.

The review received a large number of submissions from key stakeholders and other interested parties, and consultations were held with the boards and management of the orchestras, the musicians and their union representatives, State Governments, opera and ballet companies and individuals with knowledge and experience in the sector. The submissions and consultations were crucial in assisting to formulate the recommendations of the review.

The decision by the Australian Government to commission the review was welcomed by the sector.

The review found that significant reform is required if orchestras in Australia are to be sustainable in the years to come. The key areas of reform are to establish the orchestras as fully independent companies with a similar structure to the other major performing arts companies, to improve accountability and financial diligence through responsible governance, to ensure realistic financing of orchestras by governments, to assist sustainability through more viable employment arrangements for musicians, and to make structural change to some orchestras where without this occurring financial problems would recur.

I would like to express my gratitude to the other review panel members Professor Malcolm Gillies and Mr Peter Grant. Throughout the review process we worked as a team and their advice and expertise was invaluable.

The secretariat staff who carried the significant workload for the review were a delight to work with and provided high standards of professional support.

I commend this report to you and urge the Australian Government to give high priority to its response to the findings and recommendations.

Yours sincerely

A handwritten signature in black ink that reads 'James Strong'.

James Strong

Contents

Executive summary.....	1
Recommendations.....	5
Chapter 1 – The review in context.....	9
1.1 Change and challenge	10
1.2 History of the orchestras	12
1.2.1 <i>Reviews and policy statements affecting the orchestras</i>	13
1.3 Major Performing Arts Inquiry	14
1.4 Orchestras Review 2005	15
Chapter 2 – A sector under pressure.....	18
2.1 Revenue and income sources	19
2.1.1 <i>Government funding</i>	22
2.1.2 <i>Revenue from the marketplace</i>	25
2.2 Expenditure and costs	36
2.2.1 <i>Ensemble costs by orchestra</i>	40
2.2.2 <i>Superannuation and workers’ compensation insurance costs</i>	42
2.2.3 <i>Guest artist costs</i>	45
2.2.4 <i>Marketing expenditure</i>	46
2.2.5 <i>Administrative expenditure</i>	48
2.3 Financial results and net assets	49
2.4 Financial outlook	51
Chapter 3 – Responsible governance.....	54
3.1 The path to full independence.....	55
3.1.1 <i>A new corporate structure</i>	55
3.1.2 <i>Funding to eliminate accumulated deficits</i>	56
3.1.3 <i>Continuing relationship with the ABC</i>	57
3.1.4 <i>Superannuation benefits</i>	58
3.2 The role of orchestra boards and management	58
3.3 Financial responsibility	59
3.4 Risk management.....	59
3.5 Accountability for public funds	60
Chapter 4 – Realistic financing.....	62
4.1 Current funding arrangements	62
4.2 Issues raised in submissions.....	65
4.3 Indexation arrangements and the ‘efficiency dividend’.....	66
Chapter 5 – Viable employment arrangements.....	72
5.1 Musicians’ working conditions.....	72
5.2 Workplace flexibility	74
5.2.1 <i>Definition of calls and call limits</i>	75
5.2.2 <i>Playing in small ensembles</i>	75
5.2.3 <i>Loss of proficiency</i>	75
5.2.4 <i>Formal proficiency management</i>	76
5.2.5 <i>Contract employment</i>	76
5.5 Productivity.....	77
5.6 Remuneration arrangements	78
5.7 Government funded initiatives.....	79

<u>5.7.1</u> <i>Loss of proficiency program</i>	79
<u>5.7.2</u> <i>Superannuation supplementation</i>	79
<u>5.7.2</u> <i>Improved occupational health and safety</i>	81
Chapter 6 – Sustainable structures	82
6.1 Adapting to marketplace realities	82
6.2 Size and structure of the symphony orchestras.....	84
6.3 Orchestral services to opera and ballet companies	90
6.4 Territory orchestras.....	95
6.5 Artistic and administrative services.....	97
Chapter 7 – Comments on implementation	100
APPENDIX 1	101
APPENDIX 2	103
APPENDIX 3	104
APPENDIX 4	105
APPENDIX 5	107

Executive summary

This review has been commissioned by the Australian Government to address the issue of the sustainability of Australia's symphony and pit orchestras. Professional orchestras in Australia are facing constant financial pressure, as are many orchestras around the world.

The review makes 20 recommendations to address the terms of reference issued by the Australian Government in May 2004 to build the sustainability of these orchestras over the medium-term.

Orchestras make an important contribution to cultural life throughout Australia, playing a valuable role in the music community in every state and territory. To foster and support orchestral music, governments contribute significant public funds, totalling \$57 million in 2004. For this investment, governments expect orchestras to strive for artistic excellence, to be accountable for how they spend these funds and to demonstrate high standards of governance.

The orchestras have a complex history and each operates in very different circumstances, in terms of size of audience and market, and therefore, commercial opportunities. This means that there was no single and straightforward approach that could be applied to the whole sector.

In today's world, the structure of a symphony orchestra presents an economic challenge. The number of musicians is an orchestra's largest cost component and its capacity to earn income through performance is limited in comparison to the investment in rehearsal and preparations to attain high performance standards. Therefore, orchestras require reasonably large population centres to provide sufficient audience numbers, as well as significant government investment. As costs have escalated, orchestras in the medium or smaller population centres around the world have come under increasing financial pressure. This process is certain to continue, and has, in the past, required the amalgamation of orchestras in Australia.

Focus of review

Within its terms of reference and timetable, this review has concentrated on the financial viability of the orchestras, individually and collectively. As is well known, the review was not an artistic evaluation, nor a 'consultancy' analysis of marketing or other detailed performance measures by individual orchestras. The review proceeded on the basis of identifying specific steps to enhance the prospects of all orchestras over the next decade.

While many actions have been taken by orchestras to change and adapt, this has not been sufficient to assure the sustainability of all orchestras in the sector.

The review acknowledges that there has been a huge contribution by large numbers of people to produce orchestral music under challenging circumstances over many years. This includes board members contributing time and effort for no payment, administrators working on relatively low

salaries (as in most other fields of the arts) and musicians who perform for the love of music rather than simply for financial reward.

Full independence and responsible governance

One of the hallmarks of the review is the recommendation to implement finally and fully the separation of the state symphony orchestras from prior ownership and administrative control arrangements, to become stand alone public companies limited by guarantee clearly responsible for their own futures. This is a new era for orchestras in Australia.

Further steps in the governance and ownership arrangements of the six state symphony orchestras are required also to continue the process of cultural change. The review considers that rapid implementation of actions to make the six state symphony orchestras fully independent is a major priority. In some cases, lack of clarity in terms of responsibility has led to problems not being tackled, or to the deferment of hard decisions which are threatening the future of the orchestras.

It is clear that the era of Australian Broadcasting Corporation (ABC) establishment and responsibility for the six state symphony orchestras in Australia was of great significance and has left the country a wonderful heritage. However, it appears that this background may have had the effect of insulating some orchestras to varying degrees from the pressures and changes in their marketplaces. In addition, it appears there may have not been sufficient realism about the financial performance of orchestras, or the size of orchestra ensemble in relation to audience, or different levels of salaries able to be supported in different locations. In the context of today's marketplace and governance arrangements, the conditions and standards associated with that structure are not sustainable going forward.

To implement this new era of full independence, one-off assistance from governments is necessary. This one-off funding will enable changes to establish an appropriate corporate structure and robust governance arrangements for each orchestra. The funding is tied to structural changes which are paramount for sustainability in the medium term.

Realistic financing

The terms of reference for this review preclude changes to the ongoing base grants for the symphony and pit orchestras.

However, the review does accept that a contributing factor to the financial pressures experienced by orchestras is the rate at which government base grants have been indexed due to the requirement to pay an 'efficiency dividend'. While not the only factor, it is a critical factor threatening the financial future of the orchestras. The review recommends it should be discontinued. If a total change is not possible, a detailed review should establish a modified formula for orchestras, taking into account that the cost of players is the single largest component, not capable of significant efficiency or productivity improvements in terms of numbers. To leave the efficiency

dividend as at present will lead inevitably to further financial difficulties at an early date.

Governance and funding reforms should contribute to significant improvements in the ongoing viability of the sector. These reforms will not be sufficient on their own to ensure sustainability and need to be supported by changes to employment arrangements for musicians and to the size and structure of some orchestras.

Viable employment arrangements

In recent years following a number of reviews, the orchestras and musicians have negotiated some improved flexibility in the working arrangements for musicians. However, these are modest compared with changes in general industry.

Further improvements to flexibility in workplace arrangements are necessary to help achieve medium to longer term viability of the orchestras. The orchestral sector has not made as many changes to workplace arrangements as have occurred in the broader community. The review has identified some key areas for continuing change. Lack of further progress will threaten the future of orchestral music in Australia. While change is difficult and painful, it is vital today in every area of corporate and community activity.

Sustainable structures

In order to ensure that the size and structure of each orchestra is appropriate and reflects its marketplaces and attendances, the review reached the conclusion that the size of the ensemble of three of the six state symphony orchestras needs to be reduced. Government assistance will be required to facilitate this, tied to the implementation of change.

Orchestral services

The changes recommended by the review apply for the most part to the six state symphony orchestras. The terms of reference also required consideration of orchestral services to opera and ballet companies around the country. Only Sydney and Melbourne have specialist opera and ballet orchestras, with orchestral music provided to opera and ballet in the other state capital cities by the resident symphony orchestra.

For Sydney the review has concluded that significant change is needed and has made some preliminary recommendations for how this should proceed. This change is linked to the operations of both Opera Australia and The Australian Ballet and requires a re-examination of how orchestral services in Sydney are funded. It was not possible to carry out such a comprehensive examination under the terms of reference of this review. Further attention is needed urgently to this issue, including any consequential issues for orchestral services in Melbourne.

Territory orchestras

The review was also asked to examine the roles of the two territory orchestras in Canberra and Darwin. These have not in the past received ongoing support

from the Australian Government. The review considers that these orchestras could greatly benefit from a closer relationship with the state symphony orchestras and has recommended some government funding to facilitate this.

Implementation

The package of recommendations proposed by the review will require significant investment from governments and rapid action from the orchestras themselves – their boards of directors, their management and their musicians. Major decisions are needed quickly if the recommendations of this review are to be implemented effectively. All recommendations are inter-dependent and it is suggested that additional one-off funding is conditional upon acceptance and implementation by the orchestras of the related restructuring. None of the components can on its own improve the outlook for the sector. They must be implemented together and as soon as possible.

Recommendations

The review makes 20 recommendations set out below to improve the sustainability of symphony and pit orchestras in Australia.

Responsible governance (see Chapter 3)

1. The six symphony orchestras which are currently subsidiaries of the ABC should be divested from the ABC, be wound up and reconstituted as public companies limited by guarantee. This change should be made as soon as possible, but in any event completed by no later than 1 January 2006.

Governments should provide up to \$100 000 per orchestra to facilitate establishing the new public companies, for the necessary legal, accounting and administrative services involved.

2. In order to satisfy the requirements for their incorporation as public companies limited by guarantee, governments should provide the funding required to eliminate accumulated deficits of the six symphony orchestras at the point of incorporation. Any increases in an orchestra's deficit beyond its 2005 budget as previously approved by the Australia Council and the relevant state funding agency have to be deducted from its base grant for 2006.
3. Service-level agreements should be negotiated between each symphony orchestra and the ABC to preserve the mutual benefits of current arrangements in terms of promotion and broadcasting of performances. These agreements should be negotiated and concluded before 1 January 2006 as a condition of funding for each orchestra.
4. Existing employees of the six symphony orchestras should maintain their current superannuation benefits, including their membership of the Australian Government superannuation schemes, when the companies are reconstituted as public companies limited by guarantee. However, new employees from the date of incorporation should have access to an accumulated benefits scheme providing benefits at the current community standard.
5. The appointment of directors to the new boards of the independent state symphony orchestras should have regard to the level of responsibility required for public companies limited by guarantee. To begin this new era of governance, the initial chair of each new board should be appointed following close consultation between the Australian Government and the relevant state government.
6. Each of the eight professional orchestras should be required to publish an annual report of its artistic, educational, commercial and other activities which includes a set of audited financial statements and an outline of its achievements against key performance measures. Annual reports are to be issued within four months of the end of a company's financial reporting period.

Realistic financing (see Chapter 4)

7. Governments remove the current 'efficiency dividend' and provide full indexation of their ongoing base grants to the eight professional orchestras. Full indexation should be made conditional upon the orchestras accepting and committing to implement the changes recommended in this report as adopted by governments.
8. In the event that the efficiency dividend is not removed for the eight professional orchestras, a new funding model needs to be developed which makes realistic assumptions as to the limited flexibility of the predominant cost of people and to the growth in non-government income which can be achieved to offset the declining value of government funding.

Viable employment arrangements (see Chapter 5)

9. Orchestra management and musicians must continue to negotiate to achieve improvements in workplace flexibility and productivity, particularly in the following areas:

(a) The exclusion of non-playing calls from musicians' daily and weekly call limits and annual call count.

(b) The removal of the small ensemble loading to enable increased opportunities for orchestras to earn revenue.

(c) The reduction of the maximum entitlement payable to musicians under loss of proficiency provisions from 77 weeks of salary to 48 weeks of salary, in line with the *Orchestral Musicians Award 1999*. Processes surrounding the management of loss of proficiency cases should also be reviewed and streamlined in the interests of greater efficiency.

(d) The development and implementation by musicians and management of a formal and transparent procedure for managing artistic proficiency.

(e) Other innovations to improve the efficiency and productivity of orchestras and thereby the future career prospects of musicians.

10. A program should be established to assist orchestras with the funding of loss of proficiency cases, on the condition that the maximum payout is 48 weeks pay at the relevant salary rate and dependent on length of service. A one-off amount of \$4 million over two years should be provided by governments for this program.

Payments under this program are only available to orchestras that have implemented a formal proficiency management procedure as described in Recommendation 9(d).

11. The six state symphony orchestras should be supplemented for increases in their public sector superannuation costs on the same basis as

Australian Government departments and agencies. This supplementation should commence from 1 January 2006.

12. Governments should provide one-off financial support of \$0.5 million to engage specialist services to develop and implement improved occupational health and safety injury prevention strategies in the eight professional orchestras.

Sustainable structures (see Chapter 6)

13. The review recommends that The Queensland Orchestra reduce the size of its ensemble to triple wind or approximately 74 full-time equivalent musicians and governments provide up to \$1.1 million in one-off funding to assist The Queensland Orchestra to meet its redundancy cost obligations, depending on actual costs incurred. The funding proposed in Recommendation 2 to eliminate the orchestra's deficit should be made conditional upon acceptance and implementation of this recommendation.
14. The review recommends that Adelaide Symphony Orchestra reduce the size of its ensemble to double wind or approximately 56 full-time equivalent musicians and governments provide up to \$1.3 million in one-off funding to assist Adelaide Symphony Orchestra to meet its redundancy cost obligations, depending on actual costs incurred. The funding proposed in Recommendation 2 to eliminate the orchestra's deficit should be made conditional upon acceptance and implementation of this recommendation.
15. The review recommends that Tasmanian Symphony Orchestra reduce the size of its ensemble to that of a small double wind orchestra of approximately 38 full-time equivalent musicians and governments provide up to \$1.1 million in one-off funding to assist Tasmanian Symphony Orchestra to meet its redundancy cost obligations, depending on actual costs incurred. The funding proposed in Recommendation 2 to eliminate the orchestra's deficit should be made conditional upon acceptance and implementation of this recommendation.
16. In addition to the funding recommended under Recommendations 13, 14 and 15, governments should provide one-off funding of \$300 000 in total to assist The Queensland Orchestra, Adelaide Symphony Orchestra and Tasmanian Symphony Orchestra to manage the consequential process of structural adjustment.
17. Governments need to initiate an urgent examination of future governance and funding arrangements to apply to the delivery of orchestral services in support of the Sydney and Melbourne seasons of Opera Australia and The Australian Ballet. The examination should be conducted in accordance with the principles established by the current review (responsible governance, realistic financing, viable employment arrangements, and sustainable structures), and be completed to allow all new arrangements to be implemented by 1 January 2006.

18. As an interim measure only, the review recommends that governments provide \$1.5 million in 2005 to assist Opera Australia to cover the operating costs of the Australian Opera and Ballet Orchestra until the new arrangements are agreed and implemented.
19. The Australian Government should provide \$100 000 annually to each of Canberra Symphony Orchestra and Darwin Symphony Orchestra to enable them to build their relationships with the six state symphony orchestras and to access the support services available to those orchestras.
20. The orchestras should determine and implement alternative arrangements for the delivery of the services and programs currently provided by Symphony Australia, in consultation with the ABC. All new arrangements should be implemented no later than 1 January 2006.

Chapter 1 – The review in context

The orchestras within the scope of this review represent a significant national asset, and make a major contribution to the cultural life of Australia. Their concerts and other performances attract nearly one million attendances each year,¹ and many thousands more enjoy those performances via public radio broadcasts.² The orchestras help to support other art forms, notably opera and ballet, provide opportunities for Australian composers through the performance of their works, and are an important source of musical creativity and innovation in their own right.

The orchestras form a critical part of the infrastructure for classical music in their communities. They play a major role in the mentoring, support and artistic development of aspiring professional musicians. Through a wide range of educational activities, they encourage large numbers of school children to take an interest in and develop an understanding of classical music. Many orchestral musicians have substantial teaching responsibilities over and above their orchestral commitments, imparting their knowledge and skills to a younger generation. Many are leaders or key participants in smaller groups which specialise in innovative and contemporary music-making, thereby promoting the continuing vitality of classical music in its various forms.

Australia has eight full-time large-scale professional orchestras. There is a symphony orchestra based in each state capital city and two opera and ballet orchestras – one each in Sydney and Melbourne. Each of the territory capitals also supports a part-time orchestra comprising a mix of professional and freelance musicians. All these orchestras have a proud record of performing a broad range of classical and contemporary music for Australian audiences.

In economic terms the orchestras are significant employers of musicians, with a combined workforce totalling some 850 across the country and an annual payroll close to \$60 million. They also play a subtle but important role in economic development. It is now well recognised that a ready supply of employment opportunities is no longer a sufficient incentive on its own to attract the highly talented ‘knowledge workers’ on whom success in the modern economy so critically depends. The quality of a region’s amenities, cultural facilities and environment is also vital. As the Victorian Government’s submission to the review commented, Australia’s orchestras, along with other cultural institutions such as art galleries, museums and opera houses, serve as “global symbols of affluence, economic prosperity and cultural endurance, helping to make our cities desirable places in which to invest, live and work”.³

Although located in the capital cities and catering predominantly to that market, the orchestras are sensitive to their state-wide and regional

¹ Appendix 3 includes information on the orchestras’ total attendance numbers for 2001–2003.

² The orchestras’ major concert performances are largely broadcast on ABC Classic FM network.

³ Victorian Government submission, July 2004.

responsibilities. Most orchestras undertake some level of periodic regional touring, and one – Orchestra Victoria – commits nearly half of its resources in that direction. In practice, however, both cost considerations and physical constraints, including the difficulty of finding suitable performance venues in many regional centres, mean that the orchestras are more restricted in their ability to tour than are many other major performing arts companies. For this reason, access to orchestral music via radio broadcasts continues to be important.

In recognition of the orchestras' major contribution to the cultural life of the nation, the Australian and state governments commit significant funds to ensuring that the majority of Australians can gain access to high-quality orchestral music. Government funding to the eight full-time professional orchestras amounted to nearly \$57 million in 2004 – well over half of all government funding provided to the 29 companies which make up the major performing arts sector. Of this total, the Australian Government contributed some \$44 million and state governments collectively more than \$12 million. The two territory orchestras are funded by their respective governments and received a total of some \$400 000 in 2003. Without this substantial level of government support, the ticket prices charged by the orchestras would be prohibitively expensive and beyond the reach of most Australians and orchestras would not exist in their current form.

1.1 Change and challenge

Despite their many artistic accomplishments and contributions, Australia's orchestras face some major issues and challenges, both in the immediate future and the longer term. Over the past decade or more, many orchestras in Australia and around the world have had to confront a number of harsh realities, including flat or declining attendances, an ageing audience profile, shifting audience expectations, a declining base of subscriptions, increases in guest artist fees, reductions in corporate sponsorship and private philanthropy, dwindling cash reserves, and increased demands for accountability from governments. Under the burden of these pressures, even many of the leading orchestras in the United States and Canada have struggled to remain financially viable, with some three-quarters of the 25 top US orchestras posting deficits in 2002. At the community level the picture is bleaker still, with many regional orchestras in North America either closing their doors or in serious financial trouble.⁴ Governments in Europe have shielded most of the larger European orchestras from the full force of these changes, but the same underlying pressures are evident there as well.

Part of the explanation for these trends lies in the sheer size and high level of fixed costs of the modern symphony orchestra. In the Australian context, for example, salaries, wages and artists' fees represent more than 60% of total

⁴ Among large US orchestras to have gone bankrupt in recent times are the Florida Philharmonic, the San Jose Symphony and the San Antonio Symphony. Despite having access to an endowment of some US\$190m, the New York Philharmonic ended last financial year with a deficit estimated at US\$3m.

expenditure by the orchestras, and the nature of the orchestral business means that unlike in most other areas of economic and business activity, there is limited scope to reduce this percentage through productivity improvements or technological innovation. This would not matter greatly if the market for orchestral services was buoyant and growing over time, but for a variety of reasons this has not been the experience of recent years.

With rapid growth in the range and forms of entertainment options on offer, consumers have become more sophisticated, discriminating and volatile in their choices. One manifestation of this is that modern audiences are reluctant to commit to purchasing concert subscriptions for a full year in advance, as was customary as recently as the late 1980s. In consequence, there has been a marked shift in the balance between subscription and single-ticket sales, with a significant percentage of tickets now sold in the last few days before a performance.

Adding tension to the marketing challenges faced by the orchestras is the demographic profile of their traditional supporters. A significant proportion of non-renewing subscribers cite ageing, health or access issues as the primary reason for that decision.⁵ Many of these older audience members have been supporters of their orchestra for many years, and in some cases decades. Often conservative in their musical tastes, they know what they like and do not favour any changes which they view as populist or excessively radical. The development of new audiences, especially among the young, is an important priority for all Australian orchestras, but this will have to be managed in a way which does not compromise quality or antagonise existing supporters. In practical terms, this means different strategies and formats are needed for different market segments.

There are other tensions to be managed as well. Innovation in programming is important for artistic development, and to ensure that our orchestras remain dynamic and relevant institutions. At the same time, experiments in programming, however laudable on artistic grounds, need to carry their audiences with them if they are to pass the demanding test of commercial viability. Some of the programming innovations tried by Australian orchestras in recent years have not been successful on this count, exacerbating financial pressures and turning audiences away. The natural tendency is to retreat to highly conservative programming, but this is not the only option available. An alternative used successfully by a number of the orchestras in recent times has been an approach which mixes the familiar and the new in carefully chosen proportions.

Despite the high level of financial support they attract from governments, many Australian orchestras have faced serious financial difficulties in recent years, and the outlook for several remains extremely challenging. Like any other business, an orchestra must balance its costs and investments against its ability to earn income. This requires a close understanding of the marketplace for orchestral services, a disciplined approach to financial

⁵ Sydney Symphony submission, July 2004.

management, and the development of strategies which meet the expectations and preferences of both existing and potential customers. Some of our orchestras have recognised these realities and responded to them both creatively and effectively. Others have incurred debts by trying to preserve past arrangements or not taken unavoidable and tough decisions in a timely manner.

1.2 History of the orchestras

The evolution of Australia's orchestras through the ABC and their progress since that phase has created its own set of issues and circumstances different from those facing orchestras overseas. The following section gives a brief overview of that history.

The then Australian Broadcasting Commission (now Corporation) has a major role in the support of orchestral music in Australia, initially by establishing broadcast orchestras, which evolved over time into concert platform symphony orchestras. Under the auspices of the ABC, the six symphony orchestras, one in each state capital city, were centrally managed both financially and artistically and shared the same workplace arrangements.

From the mid 1990s, following a number of reviews, the symphony orchestras were progressively corporatised as subsidiary companies of the ABC with their own boards of directors, management teams and artistic administration. The key objectives of corporatisation were to move towards making each orchestra accountable for its own performance both financially and artistically, and enabling the orchestras to respond more flexibly and effectively to issues and opportunities in local environments.

From 1 July 1997, Australian Government funding for the orchestras was removed from the ABC's general appropriation and administered directly by the then Department of Communications and the Arts. The Department channelled the funds through a subsidiary company of the ABC, Symphony Australia, which had been established to deliver those services to the orchestras which had previously been the responsibility of the ABC itself.

Further changes followed. From January 2000 to March 2001, funds for the orchestras were provided to Orchestral Network Australia, established specifically to administer the funding to the individual orchestras and Symphony Australia. From April 2001, in line with the recommendations of the Major Performing Arts Inquiry, the Australia Council assumed responsibility for administering Australian Government funding to the orchestras and other major performing arts companies.

Australia's two opera and ballet orchestras, the Australian Opera and Ballet Orchestra and Orchestra Victoria, were established to provide orchestral

services to the opera and ballet companies in Sydney and Melbourne.⁶ Both orchestras were established by the Elizabethan Theatre Trust. The Australian Opera and Ballet Orchestra is now a subsidiary of Opera Australia, while Orchestra Victoria is an independent company.

The territory orchestras were established as independent non-profit associations to provide all forms of orchestral services in their respective cities. The Canberra Symphony Orchestra was established in 1950 and incorporated in 1957. The Darwin Symphony Orchestra performed its first concert in 1989.

1.2.1 Reviews and policy statements affecting the orchestras

The eight symphony and pit orchestras have been the subject of a number of reviews and government policy statements over the past two decades. A key theme for many of these reviews was the need for the symphony orchestras to have a measure of independence from the ABC.

The ABC in Review: National Broadcasting in the 1980s by Mr Alexander Dix, published in 1981, recommended the establishment of an independent authority to manage the six state symphony orchestras.

The 1985 report, *Study into the future development of orchestras in Australia* chaired by Mr Ken Tribe, recommended the divestment of the orchestras from the ABC to independent local ownership. This course of action was not pursued at the time. The report also recommended that the Elizabethan Theatre Trust Orchestras be divested to Opera Australia, in the case of the Australian Opera and Ballet Orchestra (as it is now called) and to the Victorian Arts Centre in the case of Orchestra Victoria (as it is now called). Neither of these recommendations was implemented at the time.

A report by Mr Nathan Waks to the ABC Board in 1992 recommended that the symphony orchestras be allowed to make their own programming decisions and that there should be enhanced transparency of procedures between the orchestras. The report noted that there was some cross-subsidy between the Sydney and Melbourne orchestras and the other four orchestras located in the smaller states.

In 1994, the then Australian Government's cultural policy statement *Creative Nation* announced the transfer of Sydney Symphony from the ABC to local control. It also provided additional funding from 1995–96 to increase the size of the orchestra to 110, increase musicians' salaries, provide support for more international quality guest artists, and allow for more national and international touring and recording ventures. The Sydney Symphony Orchestra was incorporated in February 1996.

⁶ Pit orchestral services in Adelaide, Brisbane, Perth and Canberra are provided by the local symphony orchestra. Historically there were separate opera and ballet orchestras in Perth and Brisbane, but these have been merged with the local symphony orchestras.

In early 1996, as part of its arts policy election statement, *For Art's Sake – A Fair Go*, the newly elected Australian Government undertook to give each of the symphony orchestras managerial autonomy to pursue interests outside the ABC. Subsequently, the December 1996 meeting of the Cultural Ministers Council endorsed the divestment of the other five symphony orchestras from the ABC, issuing a media release which stated:

'Ministers agreed to monitor the corporatisation process to ensure that no orchestra was financially disadvantaged. ... Each orchestra will be established with its own board to pursue artistic and operational practices tailored to local circumstances and requirements.'

The report *The challenge of a better ABC* by Mr Bob Mansfield, released in January 1997, recommended the complete divestment of the orchestras to local control, but recognised the mutually beneficial nature of a continuing close association between the ABC and the symphony orchestras.

1.3 Major Performing Arts Inquiry

The *Major Performing Arts Inquiry*,⁷ chaired by Dr Helen Nugent and published in December 1999, was established to make recommendations on actions needed both by governments and the sector itself to ensure that Australia had a financially healthy, artistically vibrant and broadly accessible major performing arts sector. The Inquiry proposed a number of key principles to govern the future operations of the sector. It highlighted the need to make government funding arrangements more transparent, as well as to clarify the responsibilities and accountability obligations of the companies themselves. Governments accepted most of the recommendations of the Inquiry and agreed to increase their investment in the sector by \$70 million over four years to ensure that its key recommendations could be implemented.

The outcomes of the Inquiry carried important implications for the orchestras. The funding model it developed is now used to determine the base level of government funding provided to all major performing arts companies. This funding model was premised on the expectation that the difference between a company's costs and its level of funding from government base grants would need to be covered each year by income earned in the marketplace. As recommended also by the Inquiry, Australian Government funding for the orchestras and other major performing arts companies is now administered by the Major Performing Arts Board of the Australia Council. Under these arrangements, each of the six state symphony orchestras and two pit orchestras signs a three-year rolling tripartite funding agreement with the Major Performing Arts Board and the relevant state government. The agreement includes a number of accountability requirements, including the provision of forward business plans and regular financial reporting.

⁷ Available at: http://www.dcita.gov.au/_data/assets/pdf_file/10700/Securing_the_Future_-_Inquiry_into_the_Major_Performing_Arts.pdf

The Inquiry also identified a need for major performing arts companies to build their capital reserves. In response, Australian and state governments agreed to make available funding specifically to assist companies to build their cash reserves to 20 per cent of their cost base. To date, three of the orchestras have achieved this target.

The Inquiry made several recommendations specifically related to the orchestras.⁸ These included proposals for the mergers of the two orchestras then operating in Victoria and Queensland, improvements to the flexibility of musicians' workplace arrangements, and an increased contribution to funding of the orchestras by state governments. The merger of the two Queensland orchestras was endorsed by governments and has been implemented. However, the merger in Victoria was not supported, and two orchestras continue to operate in that state. Orchestras have negotiated various changes designed to improve the flexibility of their musicians' working arrangements, although the adequacy of those changes remains a matter of debate. The share of base funding provided by state governments has risen from 18 per cent at the time of the Inquiry to 22 per cent currently.

The Inquiry drew attention to the fact that the orchestras were going through a significant period of change due to their recent establishment as subsidiary companies owned by the ABC. Accepting this, and in responding to the recommendations of the Inquiry, Cultural Ministers agreed to a further Australian Government review of the orchestras anticipated to commence in 2004.

In preparation for this review, the orchestras formed a taskforce in 2003 to highlight some of the key issues confronting the sector. The taskforce provided a report to the Australian Government in early 2004, which made a number of recommendations regarding the proposed orchestras review. These have been useful during the course of the current review.

1.4 Orchestras Review 2005

On 28 May 2004, the Australian Government Minister for the Arts and Sport, Senator the Hon Rod Kemp, announced a Review of Australia's Symphony and Pit Orchestras. The review was commissioned pursuant to the Major Performing Arts Inquiry and its terms of reference were developed to address a range of operational, governance and marketplace issues facing the orchestras.

As required by its terms of reference, the review has been conducted within the principles and government-agreed recommendations of the Major Performing Arts Inquiry. The four guiding principles of that Inquiry – artistic vibrancy, cost effective access, financial viability and transparency of funding – provide a robust and proven context for this review. The main area of concern for the orchestral sector in the context of these principles is financial

⁸ The Territory orchestras were not included in the scope of the Major Performing Arts Inquiry.

viability. This is so pressing for some orchestras that the review has taken a predominantly business perspective and has focused on enhancing the medium-term viability of the orchestras. A sound financial basis is a critical factor in establishing a cycle of success.

Following the announcement of the establishment of the review a call for submissions was made and a short issues paper released. Submissions were received from key stakeholders and interested members of the public. In addition, the review panel held face-to-face meetings with key stakeholders in each state and territory capital. Consultations were held with all of the orchestras under review, including management, directors, and musicians, as well as with state and territory Arts Ministers and funding agencies, the managers of major performance venues, related arts organisations and other key interest groups.⁹ The review found considerable value in all these meetings, and particularly appreciated the opportunity to meet directly with orchestral musicians and to hear their views at first hand.

A reference group, comprising senior officials from both Australian and state governments and the Australia Council, was formed to assist the review panel in its deliberations. The review acknowledges the valuable support and assistance provided by this group. The review has also consulted with the chairs of two separate reviews established by the Australian Government into aspects of music education.¹⁰

The review panel agreed from the outset that a prime objective of the review must be to put all of the orchestras on a firm financial footing for the future. It has analysed carefully each orchestra's cost base and revenue streams and sought to identify opportunities to improve its financial performance, while observing the constraint imposed by its terms of reference that its recommendations should not increase annual base funding from government. The review has found a convincing case for reform in several areas, but is also mindful of the fact that there is no single approach. While there are some issues common to the sector as a whole, there is also significant variation in the circumstances and specific challenges faced by individual orchestras.

Although it is clear that the serious financial problems now facing a number of our orchestras require urgent attention, the review has taken the view that a short-term fix will achieve very little if it does not tackle the underlying problems at their source. Its focus has therefore been on the structural changes needed to support the financial viability of the orchestras for the balance of the current decade and beyond. The review has suggested a number of ways in which governments may be able to assist in this regard, including through special funding assistance for structural reform, but the fundamental responsibility must lie with the orchestras themselves. A high quality of leadership and effective management of risk will be vital.

⁹ A list of submissions received is included at Appendix 4.

¹⁰ In this context, last year, the Australian Government commissioned an important review into music education in schools. It also commissioned a review of Australian Government funded elite music training institutions – Australian National Academy of Music and the Australian Youth Orchestra.

The review has focused predominantly on measures to restore the financial viability of the orchestras, but it has also been mindful of the need to sustain the high standards of artistic quality on which the proud reputation of Australia's orchestras has been based. The audiences for Australian orchestral concerts are sophisticated, discriminating and knowledgeable. They have come to expect high standards of performance, and will not be prepared to see those standards eroded. There will always be a tension between the goals of improving financial viability and maintaining high artistic standards, and it will be a continuing challenge for the orchestras to manage the balance between these two vitally important objectives. How this can be achieved most effectively and efficiently within finite resources has been a key focus of the review process.

It is important to recognise that it is unrealistic to expect every orchestra to reach world's best standards regardless of resources.

An issue frequently raised during the review's consultations related to the training of musicians for employment in the professional orchestras. A common view was that much of the music training currently provided in Australian universities is either unbalanced or inappropriate, and that this adds to the difficulties faced by many music graduates in securing employment with the professional orchestras. The review has not attempted to form its own judgements in this area, but believes that the issues raised warrant consideration by government. It has drawn these matters to the attention of the separate review initiated by the Australian Government into the roles of the Australian Youth Orchestra and the Australian National Academy of Music, both of which specialise in the elite training of young musicians.

The following chapter provides an overview of the orchestral sector in Australia in terms of its financial performance and challenges.

Chapter 2 – A sector under pressure

The professional orchestral sector in Australia, like many of its counterparts overseas, is under significant financial pressure. Several of Australia's full-time professional orchestras have recorded operating deficits in recent years, and the accumulated deficits of five of these orchestras now stand at more than \$7 million in total. In the case of three orchestras, Adelaide Symphony Orchestra, The Queensland Orchestra and the Australian Opera and Ballet Orchestra, the size of the accumulated deficit has progressively worsened in each year 2001 to 2003. The Australian National Audit Office has highlighted the unsustainability of this situation for the Queensland and South Australian orchestras in its reports on their 2003 financial statements. For example, in the report on Adelaide Symphony Orchestra it states that:

*'...there is significant uncertainty whether Adelaide Symphony Orchestra Pty Limited will be able to continue as a going concern and therefore whether it will be able to pay its debts as and when they become due and payable and realise its assets and extinguish its liabilities in the normal course of business and at the amount stated in the financial statements.'*¹

This chapter examines the various factors contributing to this situation, while highlighting at the same time the wide variation in financial performance, circumstances and prospects between the different orchestras.

A breakdown of the eight professional orchestras' income and expenditure for 2003 is set out in Table 2.1. This highlights the wide variation in cost-revenue parameters across the sector.

¹ ANAO, independent audit report to the members of Adelaide Symphony Orchestra Pty Ltd.

TABLE 2.1: TOTAL ORCHESTRAL INCOME AND EXPENDITURE, 2003 (\$'000)

(a)

	SSO	MSO	TQO	ASO	WASO	TSO	AOBO	OV	Total	%
Government funding	11,322	10,782	7,316	5,766	6,782	5,883	4,743	4,795	57,389	61%
Performance income (b)	10,690	5,173	1,564	2,257	3,166	1,009	1,507	942	26,308	28%
Private sector income	2,223	1,613	291	1,057	1,951	187	0	620	7,942	9%
Other income (c)	607	428	91	157	279	200	59	253	2,074	2%
TOTAL INCOME	24,842	17,996	9,262	9,237	12,178	7,279	6,309	6,610	93,713	100%
Salaries and wages (d) (e)	12,568	10,138	6,770	6,120	6,291	4,130	6,526	5,044	57,587	61%
Guest artist fees	3,969	1,898	584	697	1,373	728	150	620	10,018	11%
Production costs	2,700	2,660	627	995	1,122	570	88	402	9,164	10%
Marketing costs	2,738	1,276	619	732	1,376	345	0	140	7,226	8%
Symphony Australia service costs (f)	640	622	496	557	531	574	0	0	3,420	4%
Administrative overheads	1,634	483	611	991	1,150	939	403	355	6,566	7%
TOTAL EXPENDITURE	24,249	17,077	9,707	10,092	11,843	7,286	7,167	6,561	93,982	100%
NET RESULT	593	919	(445)	(855)	335	(7)	(858)	49	(268)	

(a) Eight full-time professional orchestras only.

(b) Includes box office income and revenue from commercial hires and fees.

(c) Includes, for example, interest.

(d) Includes salary on-costs such as superannuation and workers' compensation insurance.

(e) Excluding augmentation wages (classified under Guest Artist Fees).

(f) The services of Symphony Australia are artistic administration (including, international artist contracts), music services (including, music library and music editing), artist development, publications and concert programs, information technology, industrial relations, human resources, payroll and advocacy and representation.

(g) Small discrepancies in the financial data are due to rounding errors. This may apply to other tables in the report.

2.1 Revenue and income sources

Total revenue receipts of the eight full-time professional orchestras amounted to \$93.7 million in 2003, an increase of more than \$12 million (14.8 per cent) since 2001 (Table 2.2). The share of revenue from non-government sources has increased gradually since 1999 (Chart 2.1), as several of the orchestras have succeeded in boosting their box office receipts, commercial income and revenue from sponsorship and donations. Government funding continues to be by far the dominant revenue item, accounting for more than 61 per cent of total revenues across the sector as a whole in 2003 (Chart 2.2).² The level of dependence on government funding varies widely across the orchestras

² On the basis of year-end projections for 2004, the level of dependence on government funding is expected to fall to 60 per cent across the sector.

(Chart 2.3), from 46 per cent to 81 per cent, reflecting partly the particular characteristics of their marketplaces but also, to a significant degree, their success or otherwise in generating private sector income and developing their revenue streams.

TABLE 2.2: TOTAL ORCHESTRAL INCOME, 2001–2003 (\$'000) (a)

	2001	2002	2003
1. Government funding			
(a) Australian Government base grant	40,049	43,167	43,973
(b) State government base grant	8,993	11,910	12,126
(c) Other government funding	1,201	1,629	1,290
Subtotal	50,243	56,706	57,389
2. Performance income			
(a) Box office			
(i) Subscription concerts (subscription tickets)	10,107	10,399	10,743
(ii) Subscription concerts (single tickets)	4,333	4,824	6,020
(iii) Other box office income	4,055	3,273	3,971
	18,495	18,496	20,734
(b) Commercial hires and fees	2,338	2,531	3,462
(c) Other performance income	1,749	1,867	2,112
Subtotal	22,582	23,098	26,308
3. Private sector income			
(d) Sponsorship and donation income			
(i) Cash sponsorships	3,237	3,089	4,065
(ii) In-kind sponsorships	1,164	993	1,355
(iii) Private donations	1,752	2,036	2,522
Subtotal	6,153	6,118	7,942
4. Other income	2,629	2,042	2,074
TOTAL INCOME	81,607	87,760	93,713

(a) Eight full-time professional orchestras only.

CHART 2.1: ORCHESTRAL SECTOR REVENUE, 1999–2003

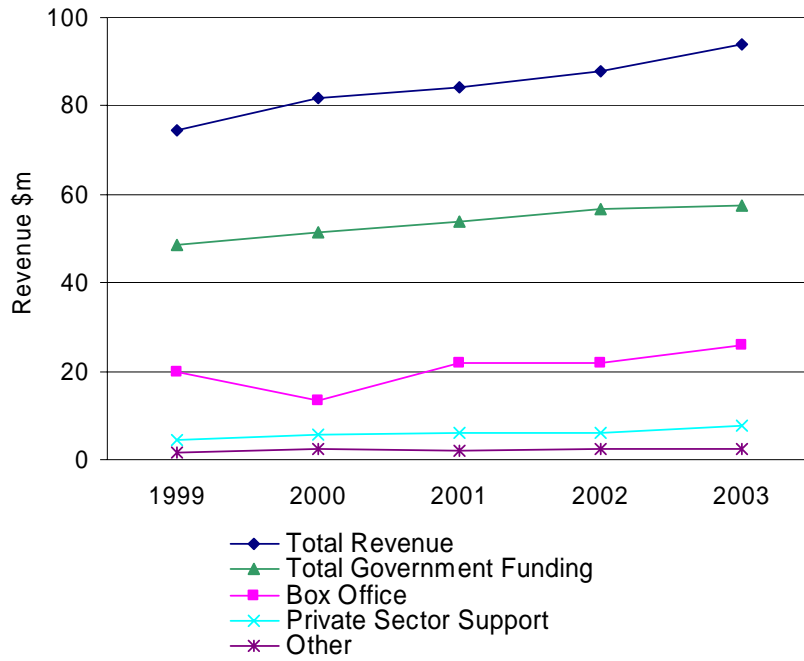


CHART 2.2: ORCHESTRAL INCOME BY REVENUE SOURCE, 2003 (%)

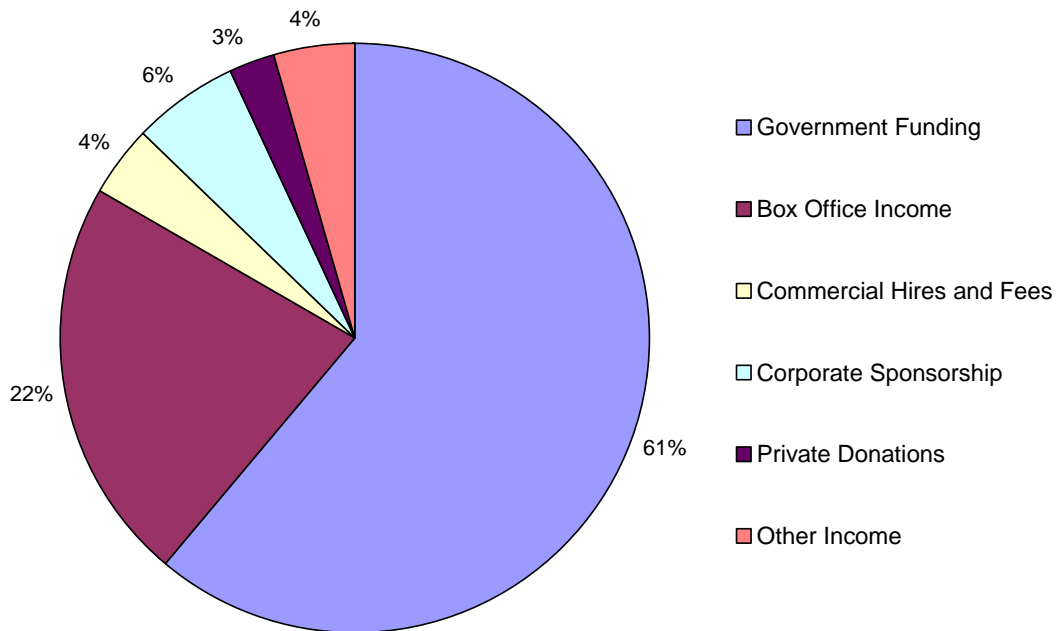
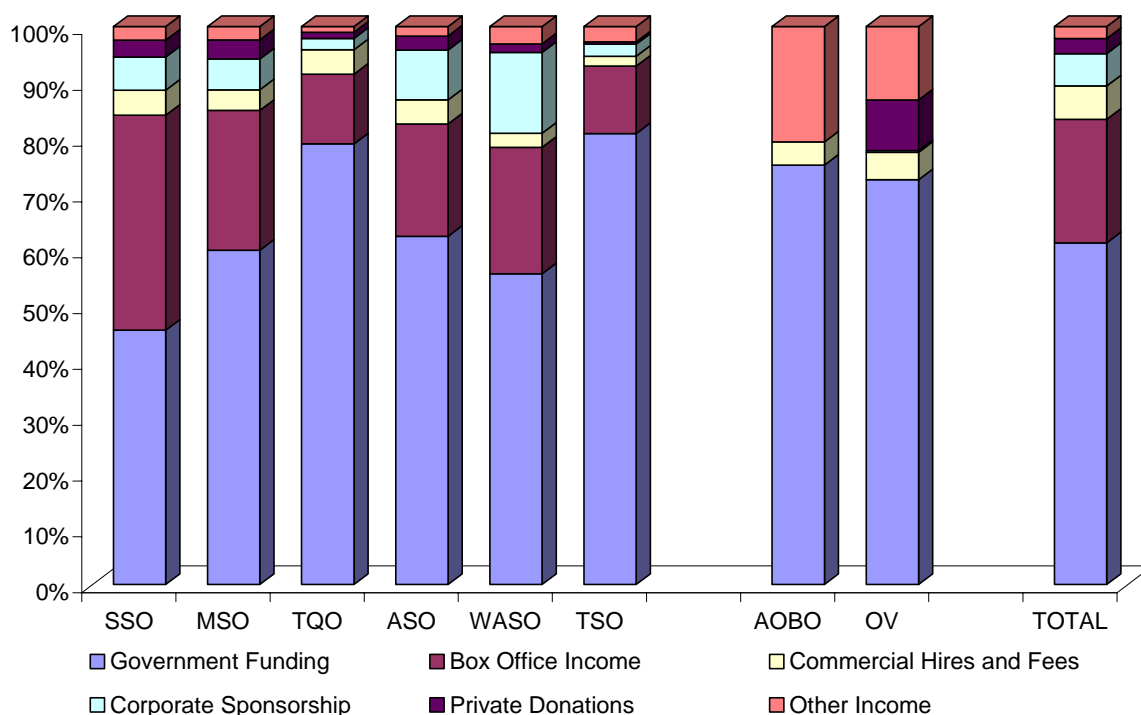


CHART 2.3: COMPOSITION OF REVENUES WITHIN EACH ORCHESTRA, 2003



NB. The revenue from 'other income' for AOBO and OV is predominantly cost recovery from user companies for additional employment costs associated with repertoire.

2.1.1 Government funding

A key recommendation of the Major Performing Arts Inquiry was that government funding to the companies should be made more transparent. Funding levels were set in 2001 according to a funding model developed by the Inquiry, the prime objective of which was to clarify the rationale underpinning government funding and joint Australian / state governments' accountability expectations of the companies, as well as to give them security in this aspect of their revenue. Thus from 2001, each company knew precisely how much government funding it would receive from both Australian and state government sources, and the mechanism by which its base grant would be indexed annually. Such information is vital for effective financial planning, and the review panel supports a continuation of these arrangements. Some specific issues related to the design and operation of the funding model are discussed in Chapter 4.

Government funding is indexed according to a formula set by the Australian Government and this formula is applied both by the Australia Council and by state funding agencies to the base grants of all major performing arts companies. As an inducement to maximising operating efficiency, the formula reduces the base rate of indexation (2.27 per cent for 2004–05) by an efficiency dividend of a full percentage point, such that the effective rate of funding indexation falls to 1.27 per cent. The efficiency dividend is anticipated to increase to 1.25 per cent from 1 July 2005, with the result that the real value of the annual indexation adjustment will be further reduced.

The arithmetic consequence of the current efficiency dividend is that, if government funding accounts for 60 per cent of an orchestra's total revenues and its costs increase by an average of 4 per cent per annum (broadly the average cost movement of recent years), it will need to increase its income from non-government sources by as much as 8 per cent per annum in order to maintain even a neutral financial position. For orchestras with higher levels of dependence on government funding the size of the challenge is even greater.

There is a high level of concern within the sector at the likely long-term effects of these indexation arrangements, and representations were made to the review that the efficiency dividend should not be applied to the orchestras. This issue is taken up in Chapter 4.

As is evident from Chart 2.3 above, current levels of dependence on government funding vary widely between the orchestras. The most self-sufficient of the orchestras, and the only one for which government funding represents less than half of total revenue (45.6 per cent) is Sydney Symphony.³ At the other extreme are The Queensland Orchestra and Tasmanian Symphony Orchestra, both of which draw close to 80 per cent of their total income from government funding.⁴ Some of the reasons for these wide variations are discussed in more detail below, and it is important to note that the biggest single issue is the size of the city and therefore the potential audience where the orchestra is located. However, it is clear that the performance of the orchestras' governing boards and management in managing their financial resources and broadening their revenue base has also been a major factor.

³ In 2004, Sydney Symphony is projecting that less than 44 per cent of its total income will come from governments.

⁴ In 2004, The Queensland Orchestra and Tasmanian Symphony Orchestra are projecting that 78% of their total income will come from governments.

TABLE 2.3: GOVERNMENT FUNDING BY ORCHESTRA, 2003 (\$m)

	Base grant (Australian Government)	Base grant (state government)	Other government funding	Total government funding	Government funding as % of total revenue
	\$'000	\$'000	\$'000	\$'000	%
Sydney Symphony	8,591	2,687	44	11,322	45.6
Melbourne Symphony Orchestra	8,230	1,975	577	10,782	59.9
The Queensland Orchestra	5,201	2,078	37	7,316	79.0
Adelaide Symphony Orchestra	4,419	1,347	-	5,766	62.4
West Australian Symphony Orchestra	5,156	1,591	35	6,782	55.7
Tasmanian Symphony Orchestra	4,710	671	502	5,883	80.8
Australian Opera and Ballet Orchestra	4,033	710	-	4,743	75.2
Orchestra Victoria	3,633	1,067	95	4,795	72.5
Total	43,973	12,126	1,290	57,389	61.2

As in many other respects, the circumstances of the Australian Opera and Ballet Orchestra and Orchestra Victoria are somewhat different from those of the six symphony orchestras, in that most of their activity is tied to the requirements of their user companies. As a consequence, they have limited opportunity to pursue independent lines of business or to seek revenue from private sector sources on their own account. This is particularly the case with the Australian Opera and Ballet Orchestra, which is fully committed to providing orchestral services to the Sydney performances of Opera Australia and The Australian Ballet. By contrast, Orchestra Victoria is committed to its user companies for only some two-thirds of its available time, and has chosen to use its remaining capacity to present a program of symphonic performances in regional Victoria, thereby raising additional revenue.

The high share of government funding in the revenues of the orchestras contrasts with the more modest levels of government funding support provided to many other performing arts organisations, and to the music and theatre production sub-sector, more broadly defined (Table 2.4). This is not to suggest that orchestras do not need, or deserve, their current levels of funding support from governments, but it does underline the fact that the orchestras are very well supported by comparison with many other performing arts organisations, and need to continue to demonstrate both their quality and their value to the community.

TABLE 2.4: MUSIC AND THEATRE PRODUCTION ORGANISATIONS: INCOME SOURCES BY MAIN ACTIVITY OF ORGANISATION, AUSTRALIA, 2002–03

Main activity of organisation	Government funding %	Box office takings (b) %	Fund-raising (b) %	Other %	Total %	Total income (\$m)
Symphonic and choral performance (a)	49.9	29.6	12.6	7.8	100	105.4
Popular music performance	0.5	60.4	4.5	34.5	100	110.9
Drama production	29.3	44.9	10.0	15.8	100	91.4
Dance production	33.8	38.3	13.5	14.4	100	52.0
Musical theatre production	1.3	86.9	0.8	11.0	100	143.4
Opera production	38.4	*	10.8	*	100	75.6
Other	13.9	*	3.9	*	100	43.3
TOTAL	21.6	53.3	7.3	17.8	100	622.1

(a) Includes philharmonic and youth orchestras, vocal ensembles and instrumental groups.

(b) For the purposes of this report, box office takings is box office income and Fund-raising is corporate sponsorship and private donations.

* Not separately identified in the ABS publication.

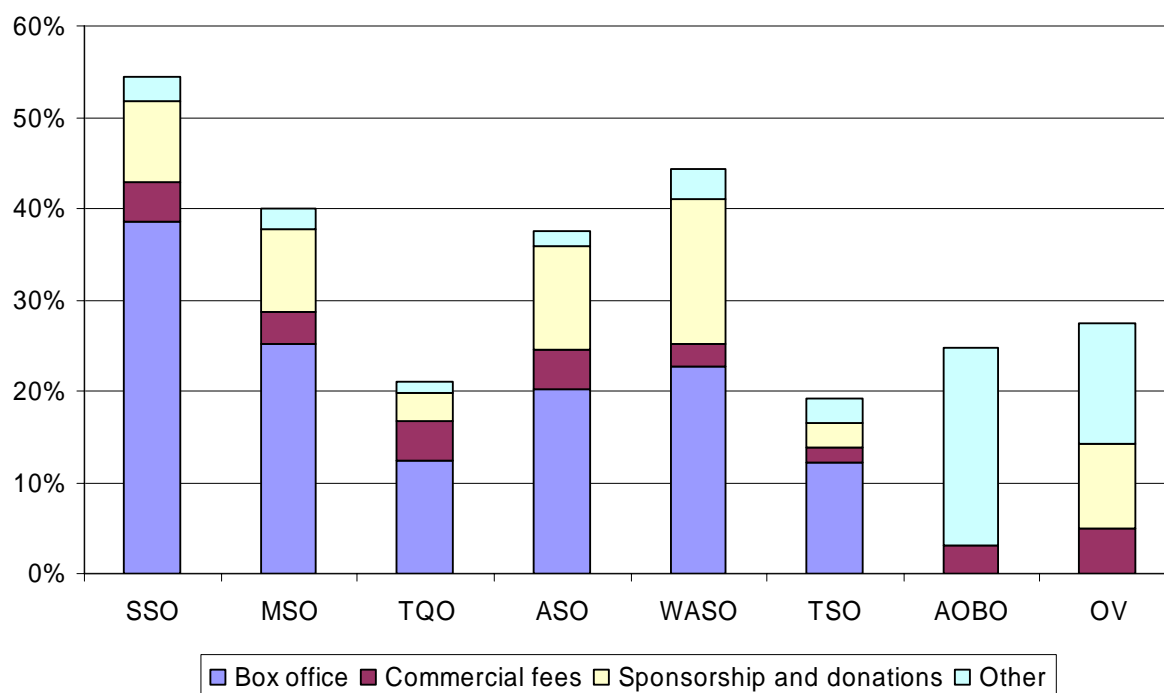
Source: Australian Bureau of Statistics, *Performing Arts 2002–03* (Catalogue No. 8697.0, Table 2.2), September 2004

2.1.2 Revenue from the marketplace

Professional orchestras earn revenue from their marketplace in a variety of ways, including performance income from box office revenue and commercial fees and private sector income from corporate sponsorship and donations. In addition, orchestras earn a small amount of income from selling merchandise and from bank interest. Orchestras providing support services to opera and ballet companies also recover the costs of employing casual musicians directly from these companies.

The proportion of total revenue represented by earned income varies significantly across the orchestras, as shown in Chart 2.4.

CHART 2.4: EARNED INCOME AS A PERCENTAGE OF TOTAL REVENUE, 2003



2.1.2.1 Box office income

A key objective for all the orchestras must be to build their audience numbers over time and thereby to grow their box office income. Audience numbers are affected by many factors, including the size and demographic profile of the population served, repertoire and choice of programming, public perceptions of artistic quality, the loyalty of the existing subscriber base, and the success of an orchestra's marketing efforts in attracting patronage to its concerts. The level of box office income in turn depends not only on the size of audience attracted to each concert but also the number of concerts presented and the average ticket price charged.

Subscription concerts⁵ are both the prime activity and the dominant income-earner for the symphony orchestras, generating more than 80 per cent of their box office income and over 70 per cent of their earned income in total.

Table 2.5 shows key trends in subscriber numbers and total paid attendances at subscription concerts over the past three years. Table 2.6 shows the total income received from subscription concerts, average revenue per attendance and average paid attendances per concert for each orchestra over the same period.

⁵ A subscription concert is one of a package of concerts presented throughout the year which a subscriber purchases in advance at a discounted price.

TABLE 2.5: SUBSCRIBER NUMBERS AND TOTAL PAID ATTENDANCES AT SUBSCRIPTION CONCERTS 2001 TO 2003

	Number of subscribers			Number of paid attendances at subscription concerts			Subscribers and paid attendances per 1000 of capital city population aged 18 and over (2002)	
	2001	2002	2003	2001	2002	2003	Subscribers	Paid attendances
Sydney Symphony	20,022	18,262	17,574	170,788	164,024	165,181	5.8	52.3
Melbourne Symphony Orchestra	15,700	15,487	15,444	110,520	114,574	113,426	5.8	43.0
The Queensland Orchestra	1,838	1,655	1,529	30,792	29,031	26,134	1.3	23.3
Adelaide Symphony Orchestra	2,420	2,684	3,178	27,056	29,465	39,358	3.2	34.7
West Australian Symphony Orchestra	4,967	4,537	4,573	46,909	45,272	50,930	4.3	48.5
Tasmanian Symphony Orchestra	1,657	1,419	1,748	16,220	14,440	15,744	9.7	98.5
Total	46,604	44,044	44,046	402,285	396,806	410,773	4.8	45.2

TABLE 2.6: SUBSCRIPTION CONCERT INCOME, AVERAGE REVENUE PER ATTENDANCE, AND AVERAGE PAID ATTENDANCES PER SUBSCRIPTION CONCERT, 2001–2003

	Subscription concert income (\$'000)			Average revenue per attendance (\$)			Average paid attendances per subscription concert		
	2001	2002	2003	2001	2002	2003	2001	2002	2003
Sydney Symphony	7,023	6,987	7,614	41.12	42.60	46.09	2,009	1,907	1,921
Melbourne Symphony Orchestra	3,766	4,190	4,228	34.07	36.57	37.28	1,535	1,614	1,644
The Queensland Orchestra	811	838	845	26.34	28.87	32.33	751	726	843
Adelaide Symphony Orchestra	844	1,073	1,626	31.19	36.42	41.31	846	921	820
West Australian Symphony Orchestra	1,419	1,611	1,862	30.25	35.58	36.56	795	781	760
Tasmanian Symphony Orchestra	578	525	588	35.64	36.36	37.35	579	516	583
Total	14,441	15,224	16,763	35.90	38.40	40.80	1,269	1,260	1,252

Across the sector as a whole, the total number of subscribers fell quite sharply – by more than 5 per cent – between 2001 and 2002, but remained virtually unchanged in 2003 at some 44 000 nationally. As in many other respects, there were divergent trends between the orchestras, with subscriber

numbers falling for each of the Sydney and Queensland orchestras, rising sharply for Adelaide Symphony Orchestra and remaining relatively stable for the other three orchestras. Relative to the size of the capital city population served by each of the orchestras, subscription rates are highest in Hobart, with 9.7 subscriptions per 1000 of the population aged 18 and over.⁶ In each of Sydney and Melbourne there are 5.8 subscriptions per 1000 of population, whereas the Queensland Orchestra has by far the lowest subscription rate, with just 1.3 subscribers per 1000 of the Brisbane population.

Paid attendances at subscription concerts have followed a broadly similar pattern. Across the sector as a whole, total attendances declined somewhat in 2002 but then recovered reasonably strongly in 2003. Since 2001, attendances have fallen modestly in Sydney (by about 3 per cent) and more sharply in Brisbane (by more than 15 per cent), but have risen strongly in Perth (by nearly 9 per cent) and especially so in Adelaide (by as much as 45 per cent in just two years). One factor behind these trends has been a change in the number of subscription concerts presented. Whereas The Queensland Orchestra reduced its number of subscription concerts from 41 in 2001 to 31 in 2003, for example, the orchestras in Adelaide and Perth both increased their numbers of subscription concerts significantly (from 32 to 48 in the case of Adelaide and from 59 to 67 in the case of the West Australian orchestra).

An orchestra's choice of repertoire also has a significant influence on concert attendances. In general, concerts with a high proportion of unfamiliar and 'modern' works will attract smaller audiences than those featuring the well-known classical and romantic repertoire. A broad range of repertoire is important for a variety of reasons, but this needs to be carefully balanced with audience expectations and preferences. The consultations conducted by the review highlighted a clear tension between the financial pressures for "safe" and conservative programming and the artistic need for variety, innovation and a measure of experimentation.

The average attendance at each subscription concert presented in 2003 ranged from more than 1,900 in Sydney to less than 600 in Tasmania.⁷ The relativities between the orchestras in this respect accord reasonably closely with state population size, and reflect mainly the different scale of the market for symphonic music in different parts of the country. In Sydney and Melbourne, for example, the same concert can be presented several times to an audience of between 1500 and 2000 on each occasion, whereas the Tasmanian orchestra can rarely perform the same program more than once in Hobart in any given year, and then to a considerably smaller audience.

All the symphony orchestras have raised their ticket prices in recent years, and the average revenue per attendance for a subscription concert now stands at more than \$40. Across the state s, average revenue per attendance

⁶ Comparisons between the states in this respect need to have regard to geographic and access considerations. For example, it may be that more Tasmanians resident outside the capital city are able to subscribe to and attend symphony concerts than would be the case in other states.

⁷ The venue capacity in Sydney is 2100 (in front of the stage) and in Hobart is 1100.

varies from a low of about \$32 in Queensland to a high of \$46 in Sydney (Table 2.6). The relationship between revenue received and attendance numbers is not straightforward. For example, although the Adelaide orchestra had the sharpest increase in average revenue per attendance between 2001 and 2003 (from \$31 to \$41) it also enjoyed the strongest growth in paid attendances over that period. Conversely, the Queensland orchestra raised the lowest average revenue per attendance of any of the orchestras but suffered the sharpest fall in paid attendances between 2001 and 2003. Clearly, factors other than price alone must be at work.

The balance between pre-sold subscription tickets and single ticket purchases has shifted significantly in recent years, as it has for many other performing arts companies. The most recent data are summarised in Table 2.7. Across the six symphony orchestras in total, subscriber ticket attendances fell by some 13 000 or 4.5 per cent between 2001 and 2003, whereas single ticket attendances rose by more than 21 000 or 19 per cent over the same period. As a proportion of all paid attendances, single ticket sales increased from 27.7 per cent in 2001 to 32.4 per cent in 2003. The Melbourne Symphony Orchestra has a significantly lower proportion of single ticket attendances than any other orchestra, reflecting its stable and loyal subscriber base.

The shift towards single ticket sales reflects changes in the purchasing behaviour and preferences of concert audiences, many of whom are now tending to buy both more spontaneously and more selectively rather than committing in advance to a full subscription series of concerts. This increases the financial risk for an orchestra in that it needs to spend more on marketing its individual concerts to sell seats. In addition, revenue received at the beginning of its annual concert season is reduced as is the investment income that can be earned on that revenue. More positively, the increasing share of single ticket purchases provides an opportunity to increase the prices charged for a concert when it becomes evident that demand for tickets is particularly high. Several orchestras are now beginning to exploit the potential created by this opportunity.

TABLE 2.7: SUBSCRIPTION TICKET AND SINGLE TICKET ATTENDANCES AT SUBSCRIPTION CONCERTS 2001–2003

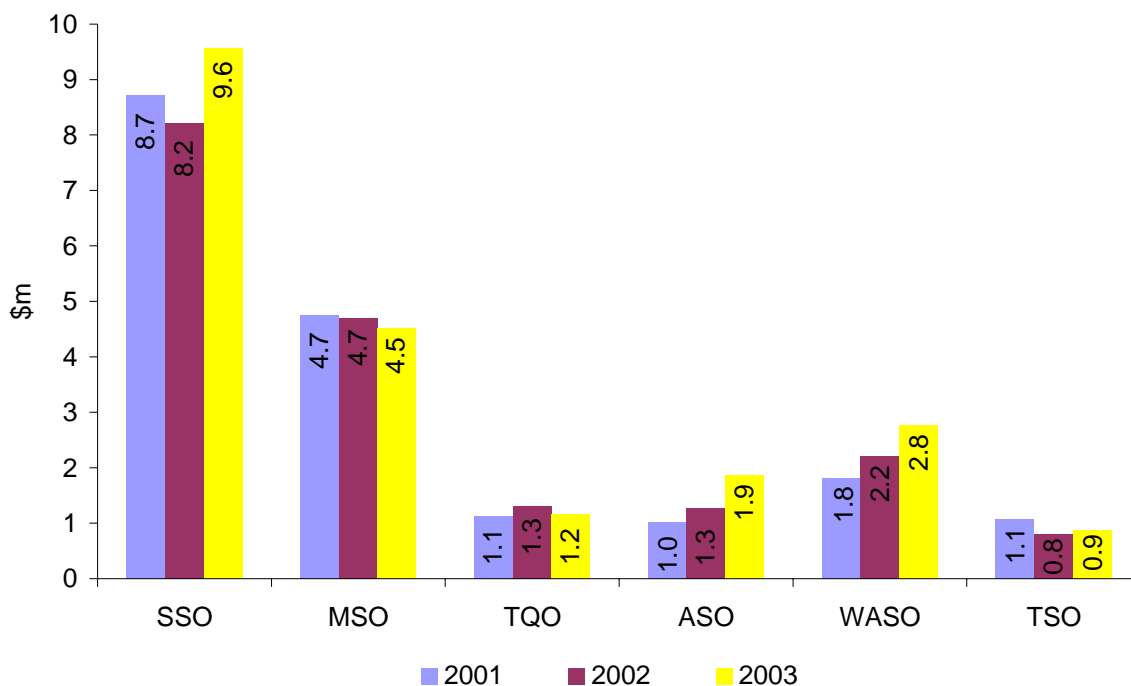
	Subscription ticket attendances ('000)			Single ticket attendances ('000)			Single ticket attendances as percentage of total		
	2001	2002	2003	2001	2002	2003	2001	2002	2003
Sydney Symphony	113.4	111.5	104.1	57.4	52.5	61.0	33.6	32.0	37.0
Melbourne Symphony Orchestra	92.6	94.9	94.8	17.9	19.7	18.6	16.2	17.2	16.4
The Queensland Orchestra	23.0	20.3	17.2	7.8	8.7	9.0	25.4	29.9	34.2
Adelaide Symphony Orchestra	17.4	19.3	22.7	9.7	10.2	16.7	35.7	34.5	42.4
West Australian Symphony Orchestra	32.2	29.0	28.1	14.7	16.2	22.9	31.3	35.8	44.9
Tasmanian Symphony Orchestra	12.2	10.7	10.9	4.0	3.7	4.8	24.6	25.7	30.5
Total	290.8	285.8	277.8	111.5	111.0	133.0	27.7	28.0	32.4

Total income from subscription concerts grew from \$14.4 million in 2001 to \$16.8 million in 2003 across the sector as a whole (Table 2.6). The strongest growth was recorded by the orchestras in Adelaide and Perth, reflecting healthy growth in paid attendances combined with significant increases in average revenue per attendance. In the case of the Adelaide orchestra, income from subscription concerts nearly doubled in the space of just two years – from \$844 000 in 2001 to more than \$1.6 million in 2003. By contrast, the corresponding increases for the orchestras in Queensland and Tasmania were just 4.2 per cent and 1.7 per cent respectively. In both of the latter cases, increases in average revenue per attendance were barely sufficient to offset the effects of lower attendance numbers.

Apart from subscription concert income, other components of box office income include income from educational activities (predominantly concerts to schoolchildren), regional tours and a variety of concerts presented outside the orchestras' regular subscription series. The priority given to these other activities varies widely between the orchestras, reflecting differences both in the scale of their subscription concert commitments and the availability of other income-earning opportunities. As one example only, Sydney Symphony reduced the number of education concerts it presented from 70 in 2001 to 40 in 2003, as it actively sought to raise more revenue from commercial work. By contrast, its Melbourne counterpart increased the number of its education concerts from 32 to 45 over the same period.

Trends in total box office income for each orchestra are summarised in Chart 2.5 below.⁸ The stagnant box office receipts for the Queensland and Tasmanian orchestras in particular are a matter of concern. As noted earlier, both of these orchestras have a very high level of dependence on government funding, and the rate at which revenue from that source increases will not be sufficient to cover the costs of maintaining their current size and structure.

CHART 2.5: TOTAL BOX OFFICE INCOME, 2001–2003



2.1.2.2 Income from commercial hires and fees

In addition to the income they derived from box office receipts, the orchestras earned \$3.5 million in 2003 from fees they charged for a variety of commercial engagements. Income from this source has grown steadily in recent years, and now makes up nearly 4 per cent of total revenue across the eight professional orchestras in total (Table 2.8).

In combination, income earned from box office receipts and commercial hires and fees reached \$24.2 million in 2003, or 25.8 per cent of total revenue in that year. In the case of the six symphony orchestras, total income from box office receipts and fees has risen from some \$18.8 million in 1998⁹ to \$23.9

⁸ For 2004, The Queensland Orchestra and Tasmanian Symphony Orchestra are projecting increases in their box office income to 2002 and 2001 levels, respectively. The Melbourne and West Australian orchestras are projecting increases of more than 15%.

⁹ Includes the box office and commercial fee income for both Queensland Symphony Orchestra and Queensland Philharmonic Orchestra.

million in 2003 – an increase of more than 27 per cent over five years.¹⁰ As a percentage of total revenue, total income from box office receipts and fees ranges from 14 per cent for Tasmanian Symphony Orchestra and 16 per cent for The Queensland Orchestra to as much as 43 per cent for Sydney Symphony (Chart 2.4 and Appendix 2).

TABLE 2.8: INCOME FROM COMMERCIAL HIRES AND PERFORMANCE FEES, 2001–2003 (\$'000)

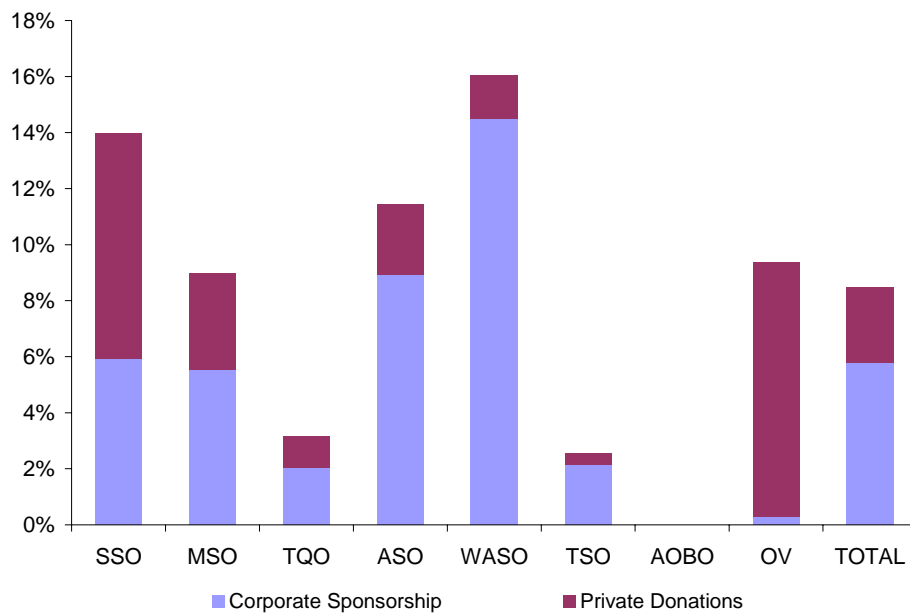
	2001	2002	2003	<i>Commercial hire and fee income as percentage of total revenue, 2003</i>
Sydney Symphony	223	648	1,057	4.3
Melbourne Symphony Orchestra	504	338	665	3.7
The Queensland Orchestra	319	256	394	4.3
Adelaide Symphony Orchestra	308	362	398	4.3
West Australian Symphony Orchestra	92	190	294	2.4
Tasmanian Symphony Orchestra	120	98	129	1.8
-- Subtotal	1,566	1,892	2,937	3.6
Australian Opera and Ballet Orchestra	375	201	201	3.2
Orchestra Victoria	397	438	325	4.9
Total	2,338	2,531	3,463	3.7

2.1.2.3 Private sector income

Income from the private sector, made up of corporate sponsorship and private donations, amounted to \$7.9 million in total in 2003, or 8.5 per cent of total revenues. Again, however, the significance of this income source varied widely across the orchestras (Chart 2.6).

¹⁰ In 2004, the six state symphony orchestras are projecting a further increase of more than 11% in box office and commercial hires and fees income as a percentage of their total income.

CHART 2.6: INCOME FROM SPONSORSHIP AND DONATIONS AS A PERCENTAGE OF TOTAL INCOME, BY ORCHESTRA, 2003



A key objective of the corporatisation process and the establishment of local boards of management was to enable the orchestras to relate more effectively to their communities, and for those communities in turn to have greater 'ownership' of their local orchestra. One anticipated benefit from this closer relationship was an increased ability to raise funds from corporate sponsorship and private donations.

Among the symphony orchestras, by far the most successful orchestras in this regard have been West Australian Symphony Orchestra and Adelaide Symphony Orchestra. Orchestra Victoria has also generated a high level of income from private donations in recent years (Table 2.9). The West Australian orchestra has increased its revenue from sponsorship and donations more than four-fold since 1998, and income from this source now constitutes 16 per cent of its total revenue. The Adelaide orchestra has more than doubled its income from sponsorship and donations, which now makes up 11.4 per cent of its total revenues. The consultations conducted in the course of the review made it clear that much of the success achieved by these two orchestras derives from the initiative and leadership of key individuals on their boards and management.

TABLE 2.9: INCOME FROM CORPORATE SPONSORSHIP AND DONATIONS, 1998, 2001 AND 2003 (\$'000)

	1998	2001	2003	Income from corporate sponsorship and donations as percentage of total revenue, 2003	Percentage Increase in Income from corporate sponsorship and donations 1998–2003
Sydney Symphony	1,989	2,583	2,223	9.0	+12
Melbourne Symphony Orchestra	1,438	1,397	1,613	9.0	+12
The Queensland Orchestra	n.a.	64	291	3.1	n.a.
Adelaide Symphony Orchestra	448	564	1,057	11.4	+136
West Australian Symphony Orchestra	467	1,100	1,951	16.0	+318
Tasmanian Symphony Orchestra	202	216	187	2.6	-7
-- Subtotal	n.a.	5,924	7,322	9.1	n.a.
Australian Opera and Ballet Orchestra	n.a.	-	-	-	n.a.
Orchestra Victoria	n.a.	229	620	9.4	n.a.
Total	n.a.	6,153	7,942	8.5	n.a.

Sources: Data for 1998 are drawn from the report of the Major Performing Arts Inquiry. Data for 2001 and 2003 come from the orchestras' audited financial statements.

Other orchestras, and especially those in Queensland and Tasmania, have been far less successful in this respect. The contrasts among the smaller states are particularly striking: whereas the West Australian orchestra, for example, derives 16 per cent of its total revenue from corporate sponsorship and donations and nearly 60 per cent of this is in the form of cash sponsorship from the corporate sector, the Queensland orchestra derives only 3 per cent of its revenue from this source and just 24 per cent of this is in the form of cash sponsorship.¹¹ The Tasmanian Symphony Orchestra raised less income in sponsorship and donations in 2003 than it did in 1998, when it raised significant funds to support the building of its new concert hall.¹²

Corporate sponsorship

Recent trends in corporate sponsorship of the orchestras are summarised in Chart 2.7 below. Overall, corporate sponsorship income has increased by \$1 million or 23 per cent since 2001. Most of this increase is due to the particular success of the West Australian orchestra, which now raises more revenue from this source than any other symphony orchestra. The Queensland and

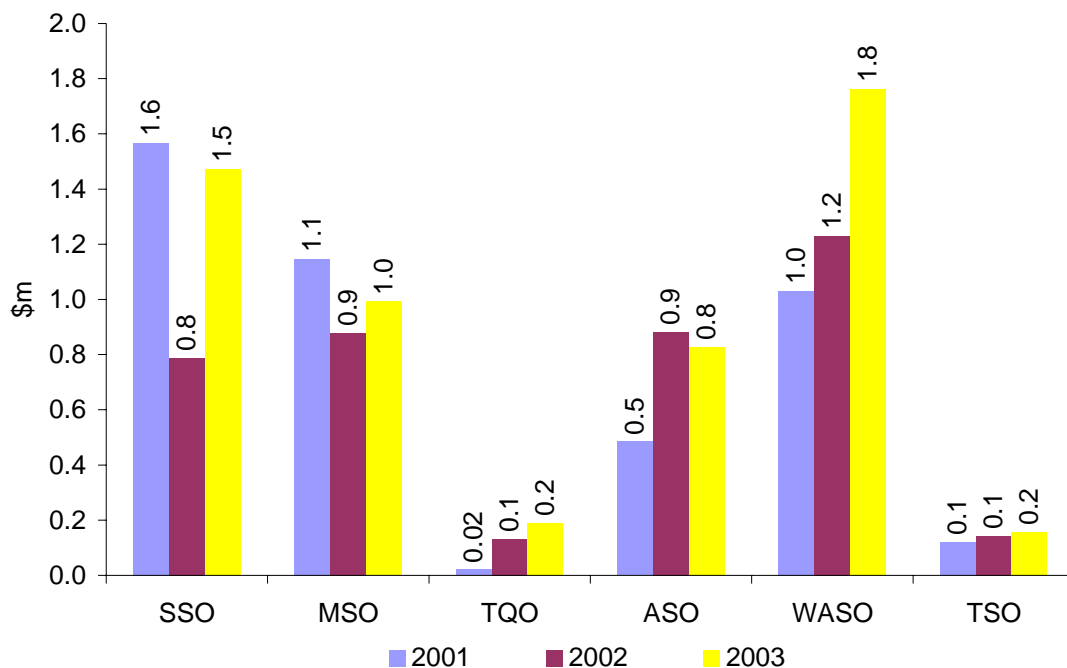
¹¹ This is consistent with the results from the other Queensland major performing arts companies.

¹² In 2004, Tasmanian Symphony Orchestra is projecting a significant increase (more than 50 per cent) in its income from the private sector.

Tasmanian orchestras, by contrast, have struggled to raise significant funds from corporate sponsors. Among other factors, this appears to be due in part to lower levels of major corporate headquarters in those two states and less of a tradition of private sponsorship of the arts.

Data provided by the orchestras shows increasing levels of cash sponsorship from 2001 to 2003, and five of the six symphony orchestras report an increase in in-kind support. The balance between cash and in-kind support varies widely from orchestra to orchestra. In 2003, for example, the Queensland orchestra received 41 per cent of its sponsorship support by way of in-kind assistance, whereas the corresponding figure for the Sydney orchestra was just 3 per cent.

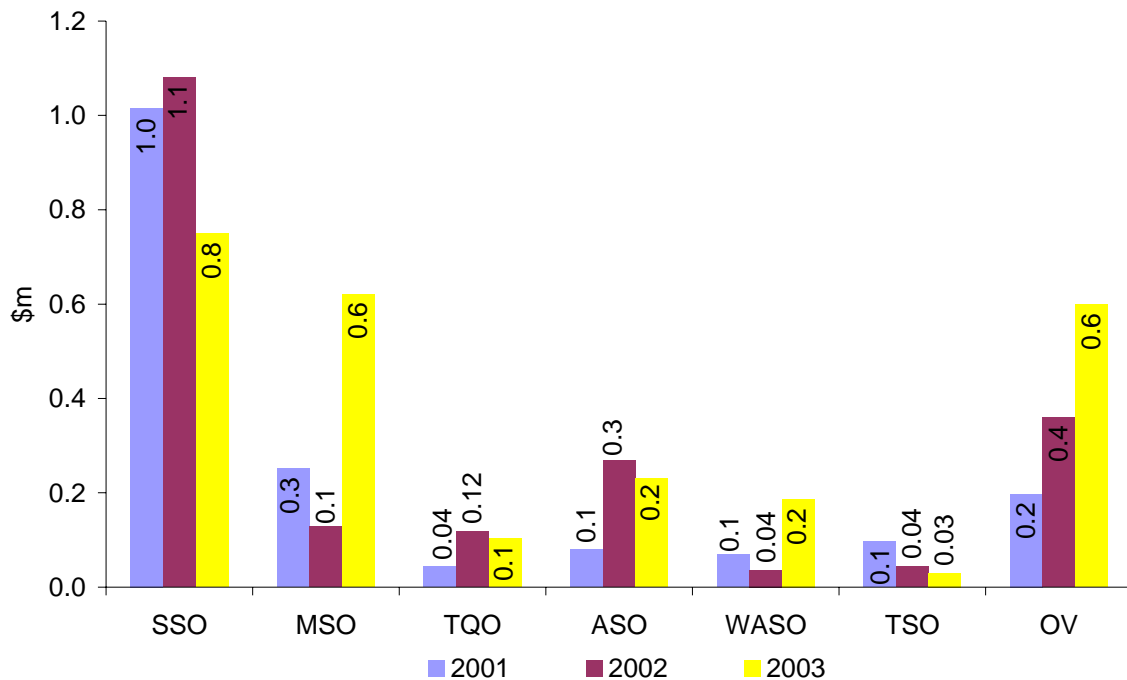
CHART 2.7: TOTAL CORPORATE SPONSORSHIP, 2001–2003



Private Donations

The Major Performing Arts Inquiry highlighted the potential for all major performing arts companies to increase their income from private philanthropy, citing the increasing concentration of private wealth in Australia. While five orchestras have reported an increase in private donations since 2001, only Orchestra Victoria has achieved consistent and relatively substantial growth in this revenue stream (Chart 2.8). Total revenue nationally from this source amounted to \$2.53 million in 2003, an increase of 39 per cent since 2001. The Australian Opera and Ballet Orchestra does not solicit private donations on its own account, and draws no revenue from this source.

CHART 2.8: TOTAL DONATIONS, 2001–2003



While there is still potential for the orchestras to raise additional revenue from philanthropic donations, any significant growth in this revenue source will require a change in public attitudes towards giving to the arts. The Australian Government has introduced a range of initiatives in recent years to increase the incentives for such donations.

2.2 Expenditure and costs

Total expenditure by Australia's eight full-time professional orchestras amounted to almost \$94 million in 2003, having risen from \$85.5 million in 2001 (Table 2.10).

Expenditure in the orchestral sector is dominated by spending on salaries and performance fees (Chart 2.9). The nature of symphonic music is such that it requires a large ensemble of musicians, numbering from around 50 to more than 100. Similarly, most opera and ballet orchestral music is written for a large-scale ensemble. Ensemble costs (the salaries and on-costs of ongoing members of the orchestras) amounted to \$46.1 million in 2003 or 49 per cent of all expenditure in that year, and other wage and salary payments (to infrastructure support staff) made up a further 12 per cent of total expenditure. In addition, some \$8.3 million was paid in performance fees to guest artists and \$1.7 million in "augmentation fees" for the engagement of casual musicians, either to cover for the absence of regular players or to increase the size of an orchestra to meet particular programming requirements.

TABLE 2.10: TOTAL ORCHESTRAL EXPENDITURE, 2001–2003 (\$'000) (a)

	2001	2002	2003
1. Salaries and wages (b)			
<i>Ensemble salaries and wages (c)</i>	41,720	43,658	46,054
<i>Administrative salaries and wages</i>	9,998	10,594	10,664
<i>Booking office salaries and wages</i>	779	784	869
	52,497	55,036	57,587
2. Performance fees			
<i>Guest artist fees</i>	7,589	7,226	8,279
<i>Augmentation fees</i>	1,708	1,701	1,739
<i>Other performance fees</i>	3	0	0
	9,300	8,927	10,018
3. Production costs			
<i>Venue costs</i>	4,244	3,911	4,519
<i>Production overheads</i>	852	956	1,079
<i>Other production costs</i>	3,694	3,567	3,566
	8,790	8,434	9,164
4. Marketing costs			
<i>Direct marketing costs</i>	4,020	4,489	5,364
<i>Marketing overheads</i>	1,058	1,346	1,279
<i>Development overheads</i>	528	428	583
	5,606	6,263	7,226
5. Symphony Australia service costs (d)	3,445	3,367	3,420
6. Administrative overheads	5,836	5,226	6,566
TOTAL EXPENDITURE	85,475	87,253	93,981

(a) Eight full-time professional orchestras only.

(b) Includes salary on-costs such as superannuation and workers' compensation insurance.

(c) Excluding augmentation wages (classified under Performance Fees).

(d) The services of Symphony Australia are artistic administration (including, international artist contracts), music services (including, music library and music editing), artist development, publications and concert programs, information technology, industrial relations, human resources, payroll and advocacy and representation.

In total, spending on salaries and performance fees made up almost 72 per cent of total expenditure in 2003. Chart 2.10 highlights the dominance of these items as drivers of total orchestral costs over the period since 1999.

The performance of symphonic music requires a suitable venue with a large concert platform, appropriate acoustics to ensure the best possible sound quality, and a large seating capacity. Australia's orchestras spent some \$4.5 million on venue hire in 2003, making this the largest single item in their production budgets. A similar amount was spent on other production requirements, such as the hire of sheet music, ticketing services and lighting. In addition, fees totalling \$3.4 million were paid to Symphony Australia for the purchase of a range of orchestral network services, most of which relate to production or administrative costs, and a further \$6.6 million was spent on various administrative overheads such as leasing costs, administrative offices and the purchase of equipment.

Effective marketing is essential if orchestras are to meet their box office targets and promote their services in the community. Orchestras have increased their marketing efforts significantly in recent years, and total expenditure on marketing and promotion reached some \$7.2 million nationally in 2003. The key objectives of the orchestras' marketing strategies are to achieve growth in ticket sales, to attract sponsorship from the corporate sector and to encourage private donations.

CHART 2.9: ORCHESTRAL COSTS BY CATEGORY OF EXPENDITURE, 2003 (%)

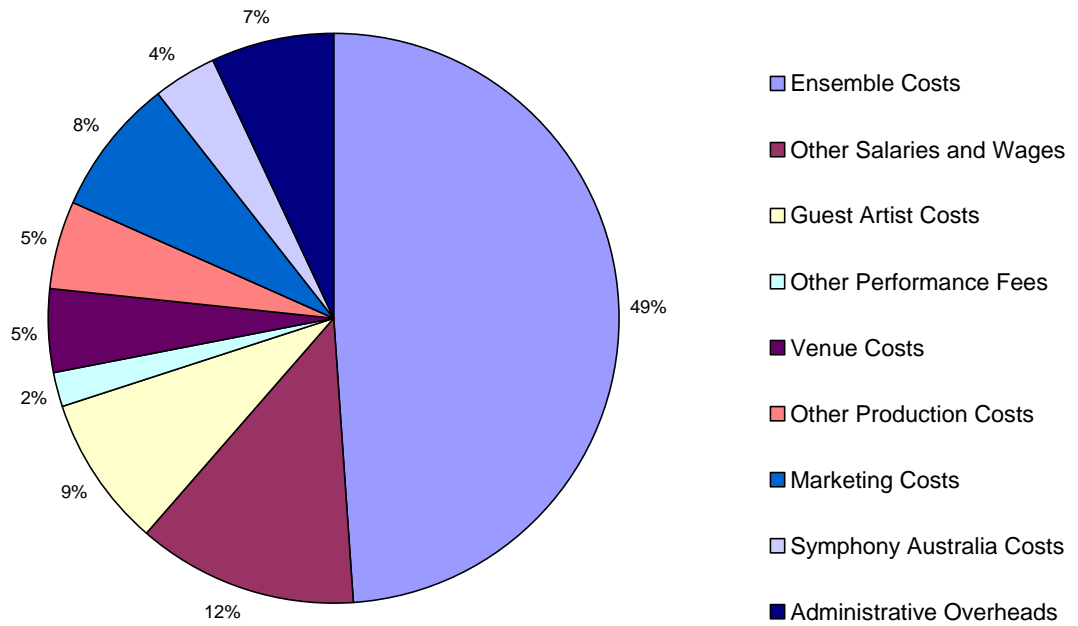
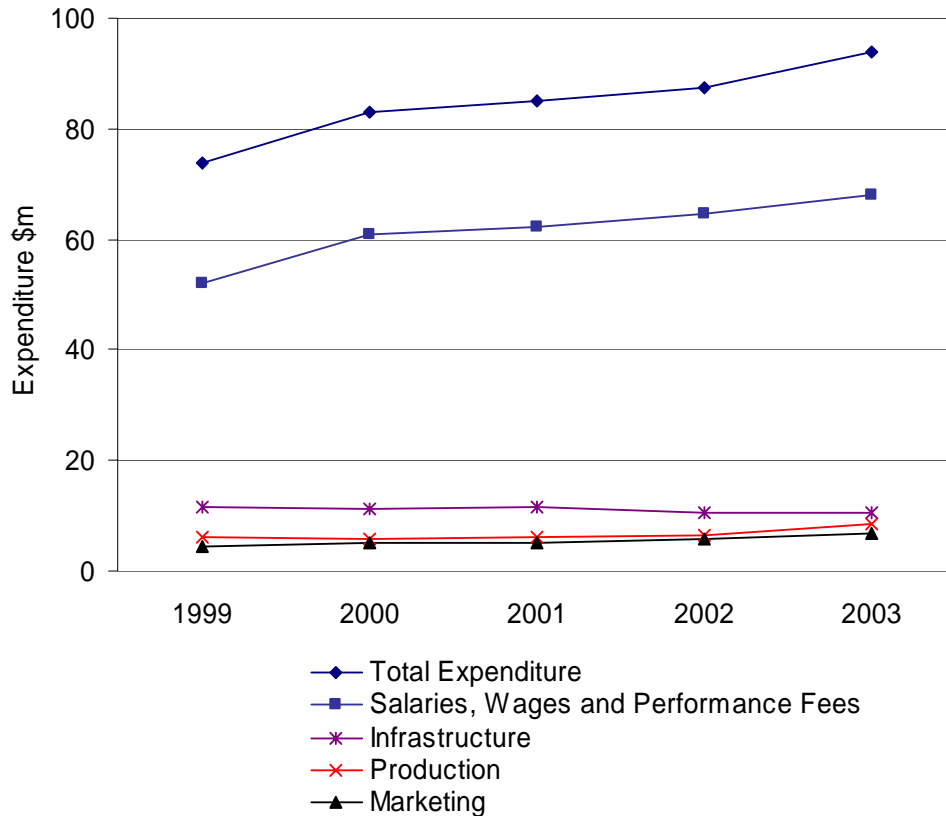
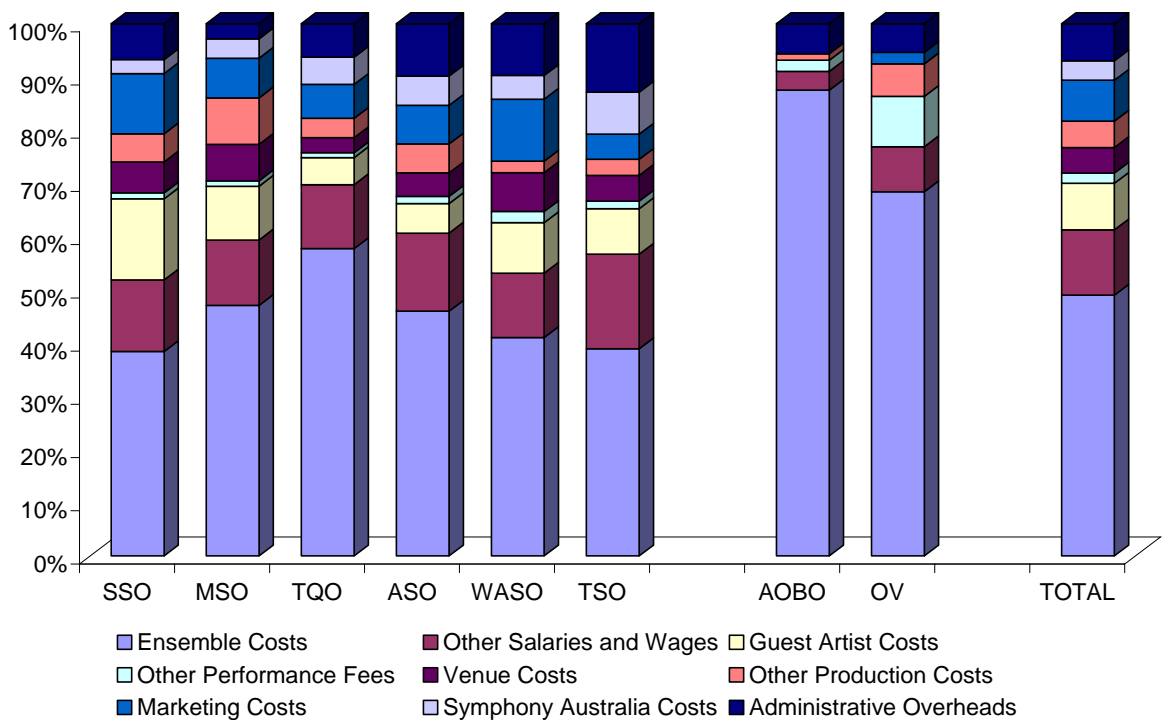


CHART 2.10: ORCHESTRAL SECTOR EXPENDITURE, 1999–2003



The information just presented relates to the professional orchestral sector as a whole, and masks some significant variations in the composition of expenditures across the different orchestras (Chart 2.11). Most obviously, the two orchestras whose primary role is to provide orchestral services to opera and ballet companies have different business models and cost structures from the six symphony orchestras. These orchestras operate principally in a support role, and a number of functions (such as marketing and venue hire) are performed mainly by the opera and ballet companies. In addition, neither the Australian Opera and Ballet Orchestra nor Orchestra Victoria buys administrative or production services from Symphony Australia. Reflecting these and other differences, ensemble costs represent a much higher proportion of these orchestras' total expenditures, 87.5 per cent and 68.4 per cent respectively, than is the case with the six symphony orchestras. The difference between the two orchestras themselves is explained mainly by the fact that Orchestra Victoria undertakes a significant program of regional touring, independently of the services it provides to Opera Australia and The Australian Ballet in Melbourne, and this element of its activity has a cost structure more akin to that of the symphony orchestras.

CHART 2.11: COMPOSITION OF EXPENDITURE WITHIN EACH ORCHESTRA, 2003



2.2.1 Ensemble costs by orchestra

Even within the symphony orchestra network ensemble costs vary significantly, from \$9.3 million for Sydney Symphony to \$2.8 million for Tasmanian Symphony Orchestra in 2003, reflecting differences both in ensemble size and average salary levels (Table 2.11). The orchestras in Sydney and Melbourne have the largest ensembles and pay the highest salaries to their musicians, by a significant margin. Even so, their ensemble costs as a proportion of total expenditure are not markedly different from those of the other orchestras.¹³

¹³ The average ensemble cost as a percentage of total expenditure for the Sydney and Melbourne orchestras is 42.8 per cent, compared with 45.9 per cent for the other four symphony orchestras.

TABLE 2.11: ENSEMBLE COSTS BY ORCHESTRA, 2003

	Ensemble costs (\$m)	% of total expenditure	Salary Level (a)	
			New entrants (b)	Experienced (c)
Sydney Symphony	9.3	38.4	64,000	76,800
Melbourne Symphony Orchestra	8.0	47.1	50,799	66,038
The Queensland Orchestra	5.6	57.7	37,656	47,596
Adelaide Symphony Orchestra	4.6	46.0	38,237	48,332
West Australian Symphony Orchestra	4.9	41.0	38,754	48,984
Tasmanian Symphony Orchestra	2.8	38.9	37,309	47,158
Australian Opera and Ballet Orchestra	6.3	87.5	48,337	57,038
Orchestra Victoria	4.5	68.4	37,350	46,630

(a) Salary data is for 2004, as contained in the orchestra musicians' employment agreements.

(b) Salaries for new recruits to rank and file positions.

(c) Salaries for rank and file players with 10 years' experience.

Given that salaries account for such a high proportion of their expenditures overall, the orchestras need to maintain effective control over salary costs if they are to meet their financial targets, especially as their principal revenue source (government funding) is indexed to rise at significantly less than the general rate of increase of wages and salaries in the community.¹⁴ At the same time, however, they need to offer remuneration which is sufficiently attractive to recruit and retain talented musicians and to sustain artistic standards within their budgets. This is a difficult balancing act which different orchestras have managed with varying degrees of success. In some cases, modest salary rises have been financed by delaying the filling of vacancies or similar temporary measures. Overall, however, it is clear that there is limited scope for any significant increase in salaries within the resources currently available to the orchestras. Equally it is clear that there is limited scope to reduce salary costs significantly while maintaining the current size of ensembles.

Across the eight orchestras, aggregate ensemble costs have risen by some ten per cent over the past three years, but the rate of increase has varied widely – from just 5 per cent in the case of Orchestra Victoria to 26 per cent in the case of the Sydney-based Australian Opera and Ballet Orchestra

¹⁴ The movement in the labour price index published by the Australian Bureau of Statistics was 3.2 per cent in 2003. By contrast, the index factor used to increase government funding to the orchestras was 1.27 per cent, after application of the 'efficiency dividend'.

(Table 2.12). The latter increase can be explained by a number of factors. The principal ingredients are salary rises to gain a greater comparability with Sydney Symphony, the filling of several key vacancies, and increased workers' compensation costs related to the pit conditions in the Sydney Opera House. However the resultant blow-out in ensemble costs has been fundamentally unaffordable, and is the major reason for the orchestra's significant operating deficits in recent years. Government funding for the orchestra was set in 2001 based upon the cost structures prevailing at that time. No allowance was made for the increase of \$1.3 million in ensemble costs which has actually occurred.

TABLE 2.12: ENSEMBLE COSTS BY ORCHESTRA, 2001–2003 (\$m)

	2001	2002	2003	% increase, 2001-2003
Sydney Symphony	8.6	8.8	9.3	8%
Melbourne Symphony Orchestra	7.5	7.8	8.0	7%
The Queensland Orchestra	5.2	5.1	5.6	8%
Adelaide Symphony Orchestra	4.2	4.5	4.6	10%
West Australian Symphony Orchestra	4.4	4.6	4.9	11%
Tasmanian Symphony Orchestra	2.5	2.7	2.8	12%
Australian Opera and Ballet Orchestra	5.0	5.9	6.3	26%
Orchestra Victoria	4.3	4.4	4.5	5%
Total	41.7	43.8	46.1	10%

2.2.2 Superannuation and workers' compensation insurance costs

All eight professional orchestras have faced increased costs in meeting their employee superannuation and workers' compensation insurance obligations.

When the six symphony orchestras were corporatised, beginning in the mid-1990s, there was an agreement that the existing terms and conditions of employees, including their superannuation entitlements, would not be changed. The effect of this was that staff of the orchestras who had been members of an Australian Government superannuation scheme under the former ABC arrangements retained their membership of that scheme. The benefits available under the Australian Government schemes are generous by comparison with those applying in the community more generally, and the costs involved in meeting employers' superannuation liabilities are correspondingly higher.

After falling relatively sharply between 2001 and 2002, expenditure on superannuation has increased from some \$4.7 million in 2002 to an estimated \$6.1 million in 2004 across the sector as a whole, principally reflecting increases in the premiums payable under Commonwealth superannuation schemes (Table 2.13).

TABLE 2.13: SUPERANNUATION COSTS BY ORCHESTRA, 2001–2004 (\$'000)¹⁵

	2000–01	2001–02 (b)	2002–03	2003–04	2004–05 (c)
Sydney Symphony	1,069	785	890	1,068	1,208
Melbourne Symphony Orchestra	1,016	585	843	1,125	1,320
The Queensland Orchestra	545	538	664	750	763
Adelaide Symphony Orchestra	550	481	604	633	614
West Australian Symphony Orchestra	642	432	549	667	649
Tasmanian Symphony Orchestra (d)	388	232	360	457	524
-- Subtotal	4,209	3,053	3,909	4,700	5,082
	2000	2001	2002	2003	2004
Australian Opera and Ballet Orchestra	–	304	324	420	416
Orchestra Victoria (a)	–	368	473	559	582
TOTAL	–	3,725	4,706	5,679	6,080

Source: ComSuper for the six state symphony orchestras, provided on financial year rather than calendar year basis. The Australian Opera and Ballet Orchestra and Orchestra Victoria figures are sourced directly from the orchestras and are provided on a calendar year basis.

- (a) Orchestra Victoria was established mid way through 2001 and therefore, the 2001 figures also incorporate superannuation costs for its previous incarnation as the state Orchestra of Victoria.
- (b) There is a significant anomaly in the trend overall, due to the Australian Government contribution rates being abnormally low for 2001–02 and 2002–03. These temporary low rates were calculated after it was determined that a number of agencies were well in advance of their liabilities. The orchestras were advised that this was a temporary measure, and were aware that following this anomalous decrease, rates would again quickly rise.
- (c) 2004–05 figures for the six symphony orchestras are ComSuper estimates only.
- (d) Tasmanian Symphony Orchestra also pays superannuation premiums to non-government schemes on behalf of its employees.

The six symphony orchestras belong to the Australian Government's workers' compensation scheme, managed by Comcare, whereas employees of the

¹⁵ The rates for the six state symphony orchestras only account for their Australian Government superannuation contributions. Some of the orchestras make contributions to private schemes on behalf of their employees.

Australian Opera and Ballet Orchestra and Orchestra Victoria are covered by private sector workers' compensation arrangements. Before they were corporatised the symphony orchestras formed part of a much larger group of ABC employees for workers' compensation purposes and premium payments were relatively modest, reflecting the low risk of compensable injury associated with a pool composed largely of administrative and sedentary workers. Since corporatisation, however, each of the orchestras has been treated as an agency in its own right for Comcare purposes, and premium rates have risen sharply in line with the higher rates of injury incurred by physical workers in the performing arts. Comcare currently sets a premium rate for each agency each year, with that rate set to reflect the particular agency's claim frequency and average claim cost as well as general trends in the cost of administering the scheme as a whole.

Expenditure on workers' compensation premiums increased steadily over the whole period, from more than \$0.75 million in 2001 to an estimated \$1.7 million in 2004 (Table 2.14). This level of increase is not unique to orchestras, but has been seen across the major performing arts sector and more generally in the community.

TABLE 2.14: WORKERS' COMPENSATION COSTS BY ORCHESTRA, 2000-01 to 2003-04 (\$'000)

	2000-01	2001-02	2002-03	2003-04	2004-05 (a)	2003-04 as % of salaries and wages costs, 2003 (c)
Sydney Symphony	123	97	112	136	142	1.1
Melbourne Symphony Orchestra	76	99	79	125	180	1.2
The Queensland Orchestra	–	128	183	326	335	4.8
Adelaide Symphony Orchestra	66	81	114	157	217	2.6
West Australian Symphony Orchestra	114	139	128	223	226	3.5
Tasmanian Symphony Orchestra	61	74	87	144	194	3.5
Subtotal	440	618	703	1,111	1,294	2.4
		2001	2002	2003	2004	
Australian Opera and Ballet Orchestra	–	56	178	244	337	3.7
Orchestra Victoria (a)	–	73	83	98	98	1.9
TOTAL	–	747	964	1,453	1,729	2.5

Source: Comcare for the six state symphony orchestras, provided on financial year rather than calendar year basis. The Australian Opera and Ballet Orchestra and Orchestra Victoria figures are sourced directly from the orchestras and are provided on a calendar year basis.

(a) Orchestra Victoria was established mid way through 2001 and therefore, the 2001 figures also incorporate superannuation costs for its previous incarnation as the State Orchestra of Victoria.

(b) 2004-05 figures are estimates from the Australian Government agency, Comcare.

(c) See Table 2.1.

Whereas the two largest orchestras, Sydney Symphony and Melbourne Symphony Orchestra, have been successful in containing their premiums to around one per cent of their total salary bills, a number of the smaller orchestras have experienced major increases in their Comcare payments in recent years. In the case of The Queensland Orchestra premium rates have risen more than 150 per cent since 2001–02, and in 2003 represented nearly 5 per cent of the orchestra's total salary bill. The premiums paid by the West Australian and Tasmanian orchestras and the Australian Opera and Ballet Orchestra have both risen to more than 3 per cent of total salary payments.

As discussed in Chapter 5, the management of occupational health and safety is now an important issue for orchestras world-wide, and there is reason to believe that the practices used by some Australian orchestras could be significantly improved. The effective strategies implemented by a number of other performing arts companies, such as The Australian Ballet, could serve as a model for adaptation to the orchestral setting.

2.2.3 Guest artist costs

Guest soloists and conductors are an important component of each orchestra's activities. They are very valuable for attracting audiences and improving artistic quality. During consultations on the review, many orchestral musicians commented that high quality guest artists are an inspiration to the ensemble and help to lift an orchestra's artistic standards. It is widely accepted also that the engagement of leading guest artists can increase ticket sales and generate additional revenue. Despite these advantages, it is becoming increasingly difficult for symphony orchestras in the smaller population centres to secure the services of guest artists of international renown.

National expenditure on guest artist fees totalled \$8.3m in 2003, but the great majority of this – some 65 per cent – was accounted for by the two symphony orchestras in Sydney and Melbourne (Table 2.15). Many international guest artists have demanding performance schedules and spend only a relatively short time in Australia, typically choosing to visit just one or two of the larger capital cities. Moreover, the fees charged by most of these artists are set in the global marketplace, and are beyond the capacity of many smaller orchestras to afford. Expenditure on guest artists by the Queensland and Adelaide symphony orchestras has been notably low. The West Australian orchestra, on the other hand, has increased its expenditure in this area in recent years by gaining corporate sponsorship specifically to cover the costs of guest artist fees. Expenditure in this area by Tasmanian Symphony Orchestra is comparatively high relative to the size of its budget (8.6 per cent of its total expenditure compared to 5.6 per cent for Adelaide Symphony Orchestra and 5.1 per cent for The Queensland Orchestra).

TABLE 2.15: EXPENDITURE ON GUEST ARTISTS, BY ORCHESTRA, 2001–2003 (\$m)

	2001	2002	2003
Sydney Symphony	3.2	3.1	3.7
Melbourne Symphony Orchestra	2.0	1.9	1.7
The Queensland Orchestra	0.5	0.5	0.5
Adelaide Symphony Orchestra	0.5	0.3	0.6
West Australian Symphony Orchestra	0.7	0.8	1.1
Tasmanian Symphony Orchestra	0.6	0.6	0.6
--Subtotal	7.6	7.2	8.2
Australian Opera and Ballet Orchestra	-	-	-
Orchestra Victoria	0.1
Total	7.6	7.2	8.3

2.2.4 Marketing expenditure

Marketing expenditure also varies significantly between the orchestras, both in absolute terms and as a proportion of their total budgets.¹⁶ Direct marketing expenditure¹⁷ in 2003 ranged between \$2.7 million for the Sydney Symphony and \$1.4 million for West Australian Symphony Orchestra to less than \$0.3 million for Tasmanian Symphony Orchestra (Chart 2.12). As a proportion of total expenditure, direct marketing costs ranged from 5 per cent for the orchestra in Tasmania to 12 per cent for West Australian Symphony Orchestra (Chart 2.13).¹⁸

¹⁶ In 2003, the six state symphony orchestras spent a total of \$7m on marketing. They are projecting a decrease of nearly 26% in this area in 2004 to around \$5.3m.

¹⁷ Expenditure on promoting and marketing the orchestras' annual subscription season, and marketing for single ticket sales at subscription and other concerts.

¹⁸ The Australian Opera and Ballet Orchestra does not have its own marketing budget, as it has no need for this function. Orchestra Victoria has minimal marketing expenditure as it does not have a subscription season or need to promote single ticket sales.

CHART 2.12: TOTAL MARKETING EXPENDITURE, 2001–2003¹⁹

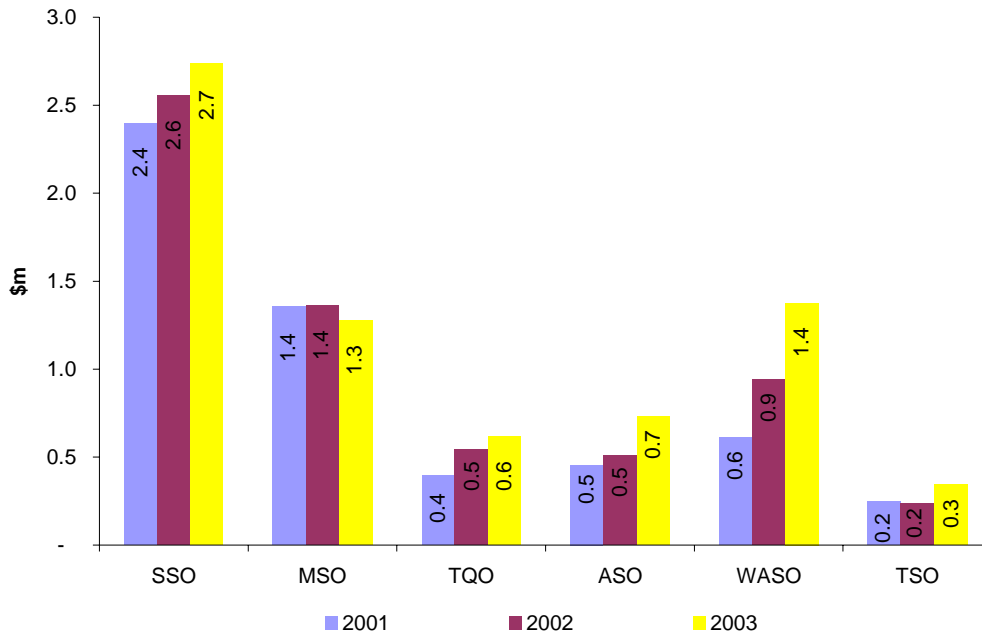
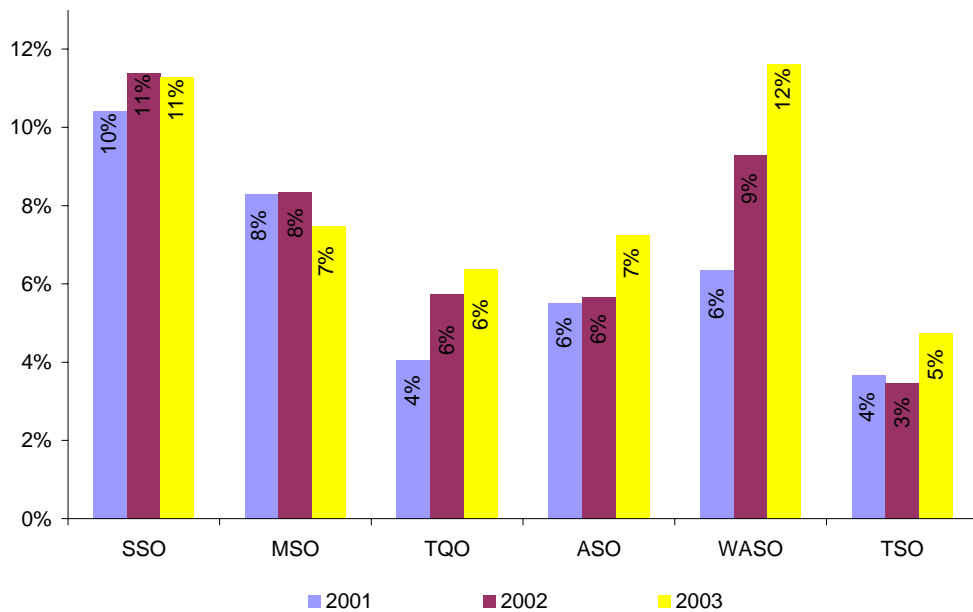


CHART 2.13: TOTAL MARKETING EXPENDITURE AS A PERCENTAGE OF TOTAL EXPENDITURE, 2001–2003



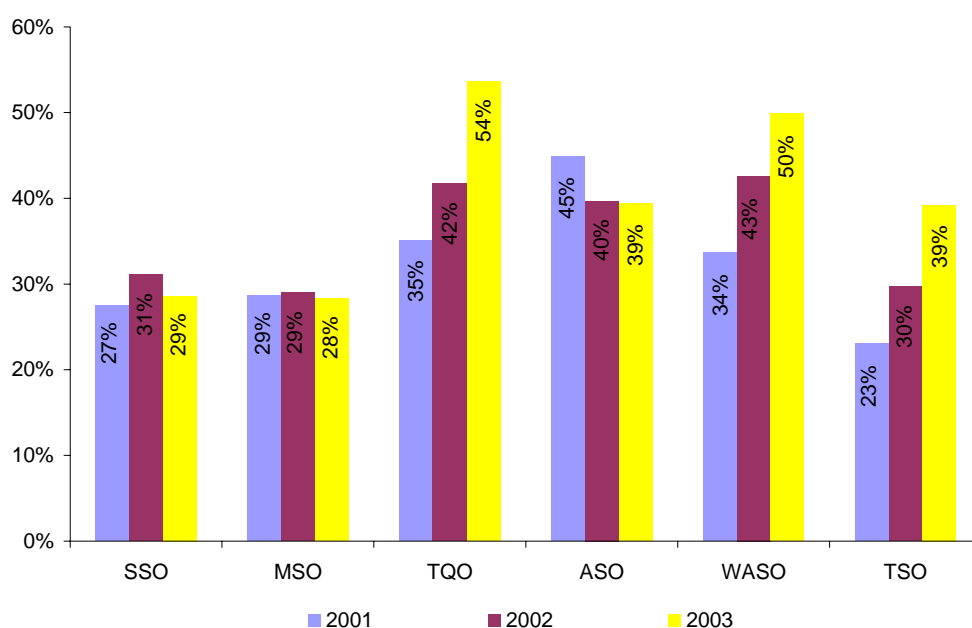
The different priorities attached to marketing across the various orchestras reflect differences both in marketplace conditions and in the corporate strategies adopted by their governing boards. The West Australian orchestra, in particular, has increased its marketing expenditure significantly over the past three years, and has secured healthy increases in its box office income

¹⁹ Includes expenditure on sponsorship development and servicing.

and corporate sponsorship. By contrast, box office income has remained flat for the orchestras in Melbourne, Queensland and Tasmania.

Judgements on the effectiveness of marketing expenditure are ultimately a matter for decision by the boards of the orchestras, but with the marketing budgets of three orchestras representing 50 per cent or more of total box office income (Chart 2.14), the returns delivered by those investments will need to be closely monitored.²⁰ Marketing has to be appropriately targeted and based on a detailed knowledge of the needs and preferences both of existing subscribers and potential new audiences. Access to specialist marketing expertise varies considerably across the orchestras, and their marketing strategies vary accordingly. The Australia Council provides periodic marketing training programs to assist the major performing arts companies in this regard.

CHART 2.14: TOTAL MARKETING EXPENDITURE AS A PERCENTAGE OF TOTAL BOX OFFICE INCOME, 2001–2003



2.2.5 Administrative expenditure

Expenditure on the salaries of administrative staff also varies considerably between the orchestras, both in absolute terms and as a proportion of total expenditure (Table 2.16).

²⁰ In 2004, projected expenditure on marketing fell for five of the six state symphony orchestras, with the maximum marketing spend of any of the orchestras as a proportion of box office income falling to around 33%.

Although Orchestra Victoria and the Australian Opera and Ballet Orchestra spend considerably less on administrative support than the other six orchestras, this reflects mainly the different nature of their role and activities rather than necessarily any greater efficiency in their operations. Within the six state symphony orchestras Melbourne Symphony Orchestra and West Australian Symphony Orchestra have the lowest expenditure on administrative salaries as a percentage of total costs (11 per cent in each case), just ahead of Sydney and Queensland (both 12 per cent). The orchestras with the highest levels of administrative expenditure, relative to the size of their operations, are Tasmanian Symphony Orchestra and Adelaide Symphony Orchestra (16 per cent and 14 per cent respectively in 2003). While scale-related factors may play some part in accounting for these differences, there appears to be scope for the latter two orchestras in particular to gain greater control over their administrative costs.

TABLE 2.16: EXPENDITURE ON ADMINISTRATIVE SALARIES, 2001–2003

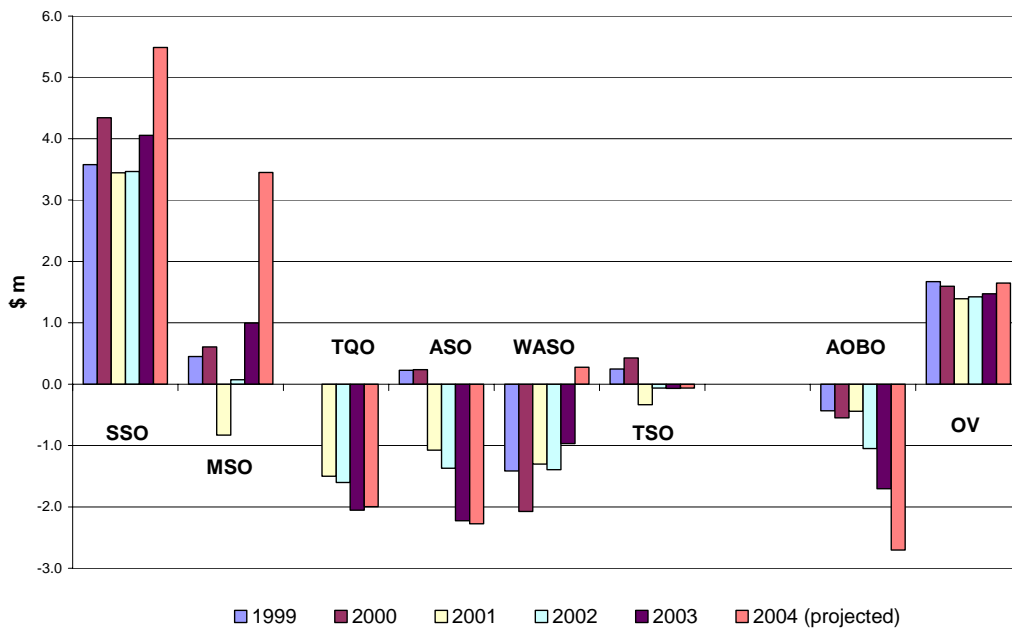
	\$m admin. salaries	% of total expenditure
Sydney Symphony	3.0	12%
Melbourne Symphony Orchestra	1.9	11%
The Queensland Orchestra	1.2	12%
Adelaide Symphony Orchestra	1.4	14%
West Australian Symphony Orchestra	1.3	11%
Tasmania Symphony Orchestra	1.1	16%
Australian Opera and Ballet Orchestra	0.3	4%
Orchestra Victoria	0.6	8%

2.3 Financial results and net assets

Key information from the audited accounts of each of the eight orchestral companies on net assets held at the end of each of the past six years is summarised in Chart 2.15 below.²¹ Four of the orchestras are projecting accumulated net deficits at the end of 2004. Of these, three in particular give cause for significant concern.

²¹ In the case of The Queensland Orchestra only three years' data are available, as the orchestra was not corporatised until 2001.

CHART 2.15: ORCHESTRAS' NET ASSET POSITION, 1999–2004²²



The Queensland Orchestra has recorded net operating deficits from 2001 to 2003, with its accumulated deficit projected to reduce slightly in 2004 to just under \$2 million, or some 20 per cent of its annual revenue. Similarly, Adelaide Symphony Orchestra has suffered net operating deficits in each of the past four years, and its accumulated deficit at the end of 2004 is projected to be some \$2.3 million or 24 per cent of its annual revenue. After recording a modest operating surplus in 2001, the Australian Opera and Ballet Orchestra reported significant operating deficits in both 2002 and 2003, and is again expecting a deficit in 2004. Its accumulated deficit is projected to be \$2.7 million, or some 38 per cent of its total annual revenue.

The circumstances of these three orchestras are quite different in many respects, and no single factor can be cited to explain the deterioration in their financial circumstances. In the case of the Adelaide orchestra, the deterioration has occurred despite an impressive performance in boosting both box office income and corporate sponsorship revenue. The Queensland orchestra, by contrast, has performed poorly in both of these respects, with the result that it has fallen well short of covering its operating costs. The Australian Opera and Ballet Orchestra draws no income in its own right from box office receipts or from corporate sponsorship and donations, and is therefore wholly dependent on government funding and support from its parent company, Opera Australia. As noted earlier in this chapter, government funding for the orchestra was set in 2001 and based upon the cost structures prevailing at that time. No allowance was made for the large increase in ensemble costs (of \$1.3 million, or 26 per cent) which has been the major source of the blow-out in the orchestra's accumulated deficit.

The other two orchestras with an accumulated deficit at the end of 2003 were West Australian Symphony Orchestra and Tasmanian Symphony Orchestra.

²² Projected 2004 results are based on year-end estimations for all orchestras.

By increasing both its revenue from ticket sales and its level of corporate sponsorship, the West Australian orchestra has managed to convert an accumulated deficit of more than \$2 million in 2000 into a projected net asset position of nearly \$0.3 million at the end of 2004.²³ The Tasmanian orchestra's deficit is projected to be just \$63 000 at the end of 2004. However, as discussed below, this modest deficit conceals a precarious situation for the future.

The three orchestras with the strongest balance sheets, on the basis of their recent results, are the symphony orchestras in Sydney and Melbourne and Orchestra Victoria. Sydney Symphony is projecting accumulated reserves of \$5.5 million, or 20 per cent of its annual revenue, at the end of 2004. Melbourne Symphony Orchestra has produced healthy financial results in each of the past three years to transform an accumulated deficit of \$859 000 at the end of 2001 into projected net reserves of \$3.5 million at the end of 2004 (about 19 per cent of its annual revenue).²⁴ Orchestra Victoria has maintained net reserves of more than \$1 million in each of the past five years mainly by tight control over costs.

2.4 Financial outlook

A key question for the review concerns the financial outlook for the orchestras over the next several years, and whether there is any realistic prospect that those orchestras with sizeable net deficits at present can recover their financial health within the framework of current funding, policy and marketplace constraints. To inform its judgements in this area the review projected the net asset position of each orchestra on the assumptions that costs would rise by four per cent per annum and earned income increase by four per cent per annum²⁵ over the period to 2010. While earned income for the total sector rose by eight per cent from 2001 to 2003, this figure is not indicative of the forward trend. Two orchestras undertook major restructuring of their concert programs in those years and achieved one-off growth of around 34 per cent in earned income for the period. This clearly affects the average across the sector. Therefore, the review used an earned income growth of four per cent based on sector wide averages over recent years for the other orchestras. From 2001 to 2003, the orchestras' expenditure rose by five per cent. A lower figure has been used, reflecting the expectation that the outcomes of the review will assist orchestras to contain their costs further.

²³ In 2004, West Australian Symphony Orchestra received one-off Reserves Incentive Scheme funds of \$256,500 from both the Australian and State Governments from the Reserves Incentive Scheme – an initiative of the Major Performing Arts Inquiry to assist companies build their cash reserves.

²⁴ In 2004, Melbourne Symphony Orchestra received one-off Reserves Incentive Scheme funds of \$773 000 from both the Australian and State Governments – an initiative of the Major Performing Arts Inquiry to assist companies build their cash reserves.

²⁵ Except for the Australian Opera and Ballet Orchestra which has minimal capacity to earn income from the marketplace as it is fully occupied in the provision of orchestral services to Opera Australia and The Australian Ballet. Costs are projected to rise at 4 per cent in line with the rest of the sector.

Government funding was assumed to increase by 1.27 per cent per annum until 2005, consistent with current funding arrangements, and by 1.02 per cent per annum from 2006, in line with the proposed increase in the efficiency dividend to 1.25 per cent. The results of this projection are summarised in Table 2.17 below.

TABLE 2.17: PROJECTED NET ASSET/DEFICIT POSITION 2004 to 2010 WITH ED AT 1.25% COSTS 4% EARNED INCOME 4%

	Actual 2003	Projected result for 2004 ²⁶	2005	2006	2007	2008	2009	2010
SSO	4.1	5.5	6.1	6.0	5.6	4.9	3.7	2.2
MSO	1.0	3.5	4.1	4.5	4.6	4.3	3.8	2.9
TQO	-2.1	-2.0	-2.6	-3.4	-4.5	-5.8	-7.4	-9.4
ASO	-2.7	-2.3	-2.5	-2.9	-3.5	-4.3	-5.3	-6.5
WASO	-1.0	0.3	0.1	-0.3	-0.9	-1.7	-2.78	-4.1
TSO	-0.1	-0.1	-0.2	-0.5	-1.0	-1.7	-2.7	-3.8
AOBO	-1.7	-2.7	-4.2	-5.9	-7.9	-10.2	-12.7	-15.6
OV	1.5	1.6	1.7	1.6	1.4	1.0	0.4	-0.3
Total	-1.0	3.8	2.6	-0.8	-6.2	-13.5	-22.9	-34.6

On the assumptions summarised above it seems clear that the sector is not sustainable in its current form. The accumulated deficit across the sector as a whole is projected to rise to nearly \$35 million by 2010, with all orchestras other than Melbourne Symphony Orchestra projected to have an accumulated deficit by the end of the decade. In the case of three orchestras, The Queensland Orchestra, Adelaide Symphony Orchestra and the Australian Opera and Ballet Orchestra, the size of the accumulated deficit by 2010 would approach or exceed the orchestra's total annual revenue in that year.

The results produced under this projection need to be qualified in at least two important respects. The assumptions made on costs and earned income are based on sector-wide averages, and take no account of the considerable variability in the financial performance of individual orchestras or their ability to manage costs within their revenue streams. Further, there is also some reason to believe that the revenues generated by several of the orchestras in recent years have fallen well short of their income-earning potential, and that some useful gains could be made in this area through improvements to market research, marketing strategies and programming.

Even allowing for these qualifications, however, there seems little doubt that major financial challenges lie ahead for most of the orchestras unless costs

²⁶ Based on orchestras' unaudited projections for year-end 2004.

can be brought more closely into line with achievable revenue levels, or revenues significantly boosted to cover rising costs. To underline the size of this challenge, however, Table 2.18 shows the average annual increase in earned income which would be needed for each orchestra in order to achieve break-even operating results to 2010, all other factors held constant including the continued application of the efficiency dividend.

TABLE 2.18: AVERAGE ANNUAL GROWTH IN EARNED INCOME REQUIRED TO ACHIEVE FINANCIAL VIABILITY BY 2010, BY ORCHESTRA (%)

Sydney Symphony	6%
Melbourne Symphony Orchestra	6%
The Queensland Orchestra	19%
Adelaide Symphony Orchestra	10%
West Australian Symphony Orchestra	8%
Tasmanian Symphony Orchestra	14%
Australian Opera and Ballet Orchestra	40%
Orchestra Victoria	12%

The review panel considers that earned income increases of more than 10 per cent per annum, achieved consistently over a period of years, are ambitious to the point of being unrealistic. Equally, it seems speculative at best, and probably unrealistic, to expect any major increases in revenue from sponsorship or donations over the next five years, or that cost increases could be contained to very low single digit increases without risking long-term damage to artistic quality, the attraction of talent, and audience appeal. In these circumstances the panel is forced to the conclusion that some fundamental changes are needed to the ways in which the orchestras are currently governed, managed, structured and funded if they are to remain both artistically vibrant and financially viable organisations in the future. The changes in question are discussed in following chapters, and will require a shared commitment on the part of orchestra boards, management, musicians and governments.

Chapter 3 – Responsible governance

Despite a series of reviews and recommendations favouring moves to independence for orchestras, this has not been fully implemented. This review has considered the completion of this process as one of its key objectives in order to drive cultural change of full responsibility by each orchestra for its future.

As noted in Chapter 1, prior to 1996 the six state-based symphony orchestras formed part of the Australian Broadcasting Corporation (ABC) and operated under uniform policies set centrally by the Corporation. Subsequently, following recommendations made as early as 1985 by Mr Ken Tribe in his report *Study into the Future Development of Orchestras in Australia*, and reinforced by Mr Bob Mansfield in his review of the ABC in 1997, the orchestras were given greater independence as subsidiary companies wholly owned by the ABC.¹ Sydney Symphony was the first orchestra to be corporatised, in 1996, and The Queensland Orchestra was the last, in 2001.²

The key advantages expected to flow from greater independence were that the orchestras would be 'more accountable for their performance financially and artistically', that they could 'respond more flexibly to problems and opportunities in their local environment', and that each orchestra would have 'the maximal opportunity to develop a particular identity and to build to its highest capability its own standards'.³ This vision was predicated on two key factors: namely, local management and stewardship, and local ownership.

Under the centralised arrangements applying prior to 1996 the orchestras had been restricted in their ability to respond to demand in their marketplace and to foster a sense of local community ownership. Following corporatisation each orchestra gained its own board of directors drawn largely from its local community, and could make its own artistic and strategic decisions. Choice of repertoire, for example, could be targeted to local audience expectations, and each orchestra had the opportunity to develop its own unique identity.

While all the orchestras can demonstrate some notable achievements in the period since corporatisation, the review considers that the vision set out in the Tribe report has not yet been fully achieved, and that further significant benefits can be derived if the orchestras are established as fully independent companies and given a greater degree of control over their own destinies. This review is a timely opportunity to complete the process that Tribe began and to give the orchestras the best chance for both artistic and financial success in the future.

¹ Mansfield B, *The challenge of a better ABC*, 1997, p. 44

² With regard to the two opera and ballet orchestras, Orchestra Victoria is an independent public company limited by guarantee. The Australian Opera and Ballet Orchestra is a subsidiary of Opera Australia, and its governance arrangements are discussed in Chapter 6.

³ Tribe, K *Study into the Future Development of Orchestras in Australia*, March 1985, p. 41

3.1 The path to full independence

In 1997, in his report on the ABC, Bob Mansfield argued that '[b]ecause the oversight of the six orchestra subsidiaries will continue to represent some workload, cost and risk for the ABC, I consider that complete divestment must remain the ultimate goal'.⁴ The premise for this argument was that the provision of orchestral music is not the responsibility of the ABC. Mansfield was concerned that maintaining oversight of the orchestras would be a distraction for the ABC's board and management, whose principal responsibility was 'to meet the challenges facing the ABC as a broadcaster.' At the same time, he recognised that there were several important benefits flowing from the relationship between the orchestras and the ABC, and thus recommended that 'arrangements should recognise the mutually beneficial nature of a continuing close association between the ABC and the orchestras.'⁵

Following consultations with both the orchestras and the ABC, this review concurs with Mansfield's arguments. Today, there is an even stronger case for complete divestment of the orchestras from the ABC, while ensuring all parties continue to enjoy the benefits which flow from a continuing relationship. From this viewpoint, the process by which the orchestras were established as subsidiary companies of the ABC should be seen as an intermediate step in their longer-term transition to full independence.

While the ABC maintains the right to nominate the majority of the directors of the orchestras, in order to give it fiduciary and financial control, in practice it no longer does so. This is understandable given that the ABC no longer controls the funding of the orchestras. As Mansfield pointed out, the orchestras present a risk to the ABC which it should not be expected to bear in view of its primary function as a broadcaster.

3.1.1 A new corporate structure

The majority of Australia's major performing arts companies are incorporated as public companies limited by guarantee. The review considers this to be an appropriate corporate structure for the orchestras as well, allowing the liability of members to be limited while at the same time making directors solely responsible for the strategic and financial success of the companies. The review examined several other possible corporate structures, including the options of establishing the orchestras as private companies limited by shares or as companies wholly owned by the Australian Government, but concluded that none of these provided a better alternative from the perspective of the overall objectives of this review. This new corporate structure for the six state symphony orchestras should be implemented no later than 1 January 2006.

The review recognises that winding up existing entities and establishing new companies limited by guarantee will require specialist legal and accounting

⁴ Mansfield B, 1997, p. 44

⁵ Ibid. p. 45

services for each of the symphony orchestras, not contemplated as part of ordinary operations.

To enable this work to proceed quickly, a grant of up to \$100 000 per orchestra should be made available against actual costs incurred. There may be scope to have this work carried out on a national basis by a national law firm and a national accounting firm, possibly with some pro bono contribution.

Recommendation 1

The six symphony orchestras which are currently subsidiaries of the ABC should be divested from the ABC, wound up and reconstituted as public companies limited by guarantee. This change should be made as soon as possible, but in any event completed by no later than 1 January 2006.

Governments should provide up to \$100 000 per orchestra to facilitate establishing the new public companies, for the necessary legal, accounting and administrative services involved.

3.1.2 Funding to eliminate accumulated deficits

Corporations law does not permit the corporate structure of an existing company to be changed to become a public company limited by guarantee. In order to implement recommendation 1 above, therefore, the current orchestral companies need to be wound up and subsequently reincorporated. Among other things, this process requires the directors of the existing companies to make a declaration of solvency prior to winding up. As matters stand, however, this would not be possible for three of the symphony orchestras due to their accumulated deficit positions, totalling an estimated \$4.4 million at the end of 2004.⁶

The review considers that, as a means of enabling the full independence of the six symphony orchestras in the future, governments should provide the funding required to eliminate any accumulated deficits of the current orchestral companies at the point of their winding up. Funding should be pegged to deficit levels as set out in 2005 budgets approved by the Australia Council and the relevant state funding agency, and any increase to an orchestra's deficit should be deducted from its base grant for 2006. Any funding provided by governments under Recommendation 2 below should be applied either to extinguish existing debts or to build reserves for the future. It is particularly important that proper provision is made for employee entitlements.

Government funding is a prerequisite to enable the new independent companies to be formed, but must be tied to implementation of orchestra

⁶ Adelaide Symphony Orchestra: \$2.3m; The Queensland Orchestra: \$2m; Tasmanian Symphony Orchestra: \$0.06m.

restructuring as recommended in chapter 6 to improve future financial viability.

Recommendation 2

That in order to satisfy the requirements for their incorporation as public companies limited by guarantee, governments should provide the funding required to eliminate accumulated deficits of the six symphony orchestras at the point of incorporation. Any increases in an orchestra's deficit beyond its 2005 budget as previously approved by the Australia Council and the relevant state funding agency have to be deducted from its base grant for 2006.

3.1.3 Continuing relationship with the ABC

There are two key benefits which flow from the current relationship between the orchestras and the ABC. One is that the ABC is able to promote the orchestras' seasons and performances on television and radio. All the orchestras acknowledge the benefit of this promotion, and consider that it generates increased ticket sales both for their subscription seasons and for individual concerts. The other key benefit is access by the ABC to the orchestras' performances for recording and broadcast purposes. Performances are broadcast on the ABC's Classic FM radio station, and occasionally on television, providing access to orchestral music for thousands of Australians across the country. The ABC meets all the costs of recording orchestral concerts, but does not pay any additional broadcast or royalty fees.

It is paramount that these benefits be maintained for the foreseeable future. The review sought legal advice on how this might be possible under the new corporate structures it is proposing. It is satisfied that the maintenance of these benefits does not depend on continued ABC ownership of the orchestras, but can equally well be achieved through service-level agreements between the ABC and the individual orchestras. The ABC supports this view.

Recommendation 3

Service-level agreements should be negotiated between each symphony orchestra and the ABC to preserve the mutual benefits of current arrangements in terms of promotion and broadcasting of performances. These agreements should be negotiated and concluded before 1 January 2006, as a condition of funding for each orchestra.

3.1.4 Superannuation benefits

By virtue of their ownership by the ABC, the orchestral companies are considered public sector companies for superannuation purposes. In consequence, musicians and other staff are currently members of one of the two Australian Government superannuation schemes. The cost of these superannuation schemes is high in comparison to private sector schemes and the benefits to members are superior. Divestment of the orchestras would mean that these schemes would need to be 'grandfathered', such that existing employees could retain their membership of the public sector schemes. New employees from the date of incorporation would not qualify for membership of the Australian Government schemes, but would have access to a private sector accumulated benefits scheme offering benefits at the current community standard. This would result in a cost saving to the orchestras over the longer term.

Recommendation 4

That existing employees of the six symphony orchestras should maintain their current superannuation benefits, including their membership of the Australian Government superannuation schemes, when the companies are reconstituted as public companies limited by guarantee. However new employees from the date of incorporation should have access to an accumulated benefits scheme providing benefits at the current community standard.

3.2 The role of orchestra boards and management

The governance arrangements under which the orchestras currently operate have come about through an accumulation of historical events, rather than by design. The constitutions of the orchestral companies were drawn up under the assumption that the ABC would maintain control by nominating the majority of directors. However, this is not occurring in practice and, moreover, it is an inappropriate assumption for the new governance arrangements being proposed. Discussions held by the review with the boards and management of the orchestras indicate that there is significant uncertainty in relation to lines of accountability under current arrangements. This is not surprising in the circumstances. Indeed, one of the key benefits of fully divesting the orchestras would be to clarify lines of accountability and to ensure that the new constitution documents meet better practice governance requirements.

The establishment of the orchestras as companies limited by guarantee will require the appointment of new boards of directors. As with any other public company, the directors appointed will need to be prepared to take full responsibility for the company's financial and operational health. The review notes that the current constitutions of the orchestras include the following clause on the appropriate composition of an orchestra's board:

‘the Board is comprised of people with skills and experience in any or all of the areas of orchestral music, commerce, finance, accounting, law, marketing, industrial relations and fundraising’.

The review agrees that this is an appropriate mix of skills at a general level, but notes the increasing importance of tight business management to the future of orchestras. As applies widely to corporations in Australia, selection of board members should primarily be the responsibility of the chair as appointed in consultation with governments and the board’s nominations and governance group. The review takes the position that appointment to the new boards should not be automatic for existing directors.

Recommendation 5

That the appointment of directors to the new boards of the independent state symphony orchestras should have regard to the level of responsibility required for public companies limited by guarantee. To begin this new era of governance, the initial chair of each new board should be appointed following close consultation between the Australian Government and the relevant state government.

3.3 Financial responsibility

A key objective of the move to full independence is to improve the level of financial responsibility demonstrated by the boards of some of the orchestras. While the review acknowledges the significant financial challenges which orchestras have faced, it is an expectation of the major stakeholders (Australian and state governments) that the companies pay careful attention to their revenue levels and ensure that their costs are controlled so as not to exceed revenue. It is a requirement of the funding agreements with governments that no major performing arts company should budget for a deficit. This requirement needs to be strictly observed, and there should be no expectation in the future that governments will take responsibility for deficits, especially any occurring through poor or imprudent financial management.

The responsibilities of directors under the new arrangements being proposed would be identical to those of the directors of any other public company. These are clearly articulated in the principles of corporate governance published by the Australian Stock Exchange (ASX). The review supports the recent decision of the Australia Council and state funding agencies to introduce new governance provisions into the tripartite funding agreements of all major performing arts companies, based upon the ASX principles.

3.4 Risk management

One of the key principles of the ASX’s corporate governance principles is to ‘recognise and manage risk’, and a vital role of any board of directors is to

manage the risks of the organisation for which it has fiduciary responsibility. Good risk management is demonstrated by a thorough analysis and assessment of risks and the development of effective strategies to manage those risks, while at the same time maintaining operational efficiency and improving financial performance. There are many different approaches to risk management, and there is no shortage of literature on the subject. A good set of high-level principles is the risk management standards endorsed by the Australian Standards Authority (AS4360: 2004).

The new governance provisions developed by the Australia Council place an emphasis on financial responsibility and risk management. It is now a requirement of the current funding agreements for the orchestras (and other major performing arts companies) to prepare a risk management plan for use by the board, ensure the plan is regularly updated, and to make it available to government funding agencies. The review's assessment is that there is considerable variation in the quality of risk assessment and management practices across the orchestras, and some significant opportunities for improvement.

3.5 Accountability for public funds

The funding agencies, both Federal and state, have an important role in administering public funds and are key stakeholders in the orchestras' lines of accountability. Tripartite funding agreements between the arts companies, the Australia Council and state funding agencies were introduced following the *Major Performing Arts Inquiry* to honour a key principle of that Inquiry, transparent funding arrangements. The agreements are intended to ensure companies are aware of precisely what governments expect by way of accountability for their receipt of public funds. Key considerations for governments in this regard are the discharge of all agreed commitments, the achievement of value for money, and the demonstration of a high level of financial responsibility.

To demonstrate they have met their agreed commitments and are achieving value for money, the orchestras are required to prepare and publish an annual report on their activities and performance. This report provides an opportunity not only to satisfy accountability obligations to government but also to serve as an instrument of public accountability, highlighting an orchestra's success in responding to the demands of its local community and achieving high standards of artistic excellence. The requirement to produce an annual report is separate from, and additional to, the mechanisms for monitoring financial responsibility, namely the requirements to produce detailed business plans, to produce break-even budgets, and to prepare audited financial statements.

In 2003, only two of the six symphony orchestras published an annual report.⁷ In many instances, there appears to be an assumption that the preparation of

⁷ Orchestra Victoria publishes an appropriate annual report and the activities of the Australian Opera and Ballet Orchestra are summarised in the annual report of its parent company, Opera Australia.

audited annual financial statements is sufficient to fulfil the requirement of the funding agreement, but this assumption is both flawed and short-sighted. The review proposes it be a requirement for all orchestras to produce an appropriate annual report in the future, and this requirement is stipulated clearly in the terms of the next round of funding agreements. More generally, it is critical for the funding agencies to continue their role in working with the orchestras to ensure the requirements set down in funding agreements are clearly understood and fully met.

Recommendation 6

Each of the eight professional orchestras should be required to publish an annual report of its artistic, educational, commercial and other activities which includes a set of audited financial statements and an outline of its achievements against key performance measures. Annual reports are to be issued within four months of the end of a company's financial reporting period.

Chapter 4 – Realistic financing

Current arrangements for government funding of the orchestras are based upon the funding model developed by the Major Performing Arts Inquiry in 1999. Designed to apply across all companies within the major performing arts sector, the model was intended to provide a more objective, transparent and equitable basis for government funding than had applied to that point.

Notwithstanding these objectives, many of the submissions lodged by the orchestras to the current review took issue with aspects of the funding model or claimed that it failed to take adequate account of their particular circumstances. The review has been mindful of the constraint imposed by its terms of reference – that it should ‘assume the continuation of ongoing government funding support for the orchestras at existing levels and in similar proportions from the Australian and state governments’ – but at the same time felt an obligation to examine the various concerns raised in the orchestras’ submissions and to assess whether current funding arrangements are realistic, fair and reasonable.

4.1 Current funding arrangements

The funding model developed by the Major Performing Arts Inquiry established a cost base for each company that reflected its total production and artistic costs, access commitments and overhead expenses in areas such as administration and marketing. The model did not take actual costs as a given, but ‘normalised’ the cost base of each company by reference to industry-wide benchmarks in an effort to ensure that company-specific inefficiencies were not built into ongoing funding arrangements. In addition, judgements were made on the strategic role to be performed by each company, and these were reflected in the allowances made for key cost drivers such as size of ensemble, the quality of guest artists and the level of access commitments, both geographic and demographic.

Specifically, the Inquiry determined the base grant allocation to each orchestra on the basis of its role and earning capacity, i.e.:

- its capacity to generate earned income (box office receipts, commercial fees and private sector income) from its marketplace;
- its regional touring responsibilities within its state; and
- where relevant, requirements that it play for opera and ballet seasons.

In assessing the level of earned income which a company could be expected to generate on its own account, the Inquiry applied a ‘geographic adjustment factor’ to those companies based in Adelaide, Brisbane, Hobart and Perth. This adjustment was intended to support the viability of companies operating in the less populous states, and was expressed as the difference between the earned income that a ‘benchmark’ Sydney or Melbourne art form company could generate as a percentage of its costs and that which could be generated by a company operating in the same art form in one of the smaller

states. The adjustment factors varied both by art form and by city, but for the four orchestras in question were set as follows:

Company	Adjustment to the standard cost base (percentage points)
The Queensland Orchestra	14
Adelaide Symphony Orchestra	14
West Australian Symphony Orchestra	15
Tasmanian Symphony Orchestra	36

To illustrate the application of this adjustment, if Sydney Symphony could be expected to cover 50 per cent of its total costs from earned income, The Queensland Orchestra would be expected to cover 36 per cent of its costs from this source (50 less 14) and Tasmanian Symphony Orchestra just 14 per cent of its costs (50 less 36).

For each major art form the Inquiry assessed the proportion of the normalised cost base which should be met by the Australian and state governments in combination. In the case of the orchestras it judged that this 'art form funding ratio' should be set at 50 per cent of total costs in the first instance, before the application of the geographic adjustment factor. This ratio was significantly higher than that for any other art form: in the case of theatre, for example, the ratio was set at 13 per cent; for chamber music, 15 per cent; for dance, 20 per cent; and for opera, 25 per cent. The Inquiry also proposed, however, that these ratios should be reviewed every three years to ensure that the companies had appropriate incentives to generate additional box office and private sector income, and noted specifically its expectation that the orchestras' ratio of 50 per cent would reduce over time.¹

On the balance of funding between the Australian Government and the states the Inquiry recommended that this should depend upon the art form in question and the designation of a company to one of four broad categories.² In the case of the orchestras, the recommended ratio was either 85 per cent Australian Government: 15 per cent states or 75 per cent Australian Government: 25 per cent states, depending upon an orchestra's categorisation. However, Cultural Ministers rejected the proposed funding categorisation of the orchestras and also the recommended funding

¹ Major Performing Arts Inquiry, *Securing the Future*, Final Report, December 1999, page 39.

² Global company, Australian Flagship company, Niche company, and Regional Flagship company. The nomenclature of three categories was changed by Cultural Ministers: Global company to International company, Niche to Specialist company and Regional Flagship to State Flagship company. The Inquiry recommended that Sydney Symphony and Melbourne Symphony Orchestra be designated as Australian Flagship companies, and the other orchestras as Regional Flagship companies, but this recommendation was not taken up by governments. The Australian Opera and Ballet Orchestra was categorised by the Inquiry as Australian Flagship, by virtue of the categorisation of its parent company, Opera Australia, and Orchestra Victoria was not categorised due to the Inquiry's recommendation that Orchestra Victoria and Melbourne Symphony Orchestra merge to become a community of musicians.

proportions from Australian and state governments. In practice, therefore, the funding shares contributed by the two levels of government have varied somewhat from the Inquiry's recommendations, with the Australian Government contributing some 78 per cent of total government funding across the sector in 2004 (Table 4.1).

TABLE 4.1: AUSTRALIAN GOVERNMENT AND STATE GOVERNMENT FUNDING FOR THE ORCHESTRAS, 2004

	Australian Government (\$m)	% of total	State government (\$m)	% of total	TOTAL (\$m)
Sydney Symphony	8.700	76.2	2.722	23.8	11.423
Melbourne Symphony Orchestra	8.338	80.7	2.000	19.3	10.338
The Queensland Orchestra	5.267	71.5	2.104	28.5	7.371
Adelaide Symphony Orchestra	4.475	76.6	1.365	23.4	5.840
West Australian Symphony Orchestra	5.222	76.4	1.611	23.6	6.833
Tasmanian Symphony Orchestra	4.555	83.6	0.895	16.4	5.449
Australian Opera and Ballet Orchestra	4.085	85.0	0.719	15.0	4.804
Orchestra Victoria	3.679	77.3	1.080	22.7	4.759
TOTAL	44.321	78.0	12.498	22.0	56.818

The inter-orchestra salary relativities applying at the time of the Inquiry were accepted largely as a given in the design of the funding model. While some adjustments were made in the normalisation process to the actual costs incurred by different orchestras on marketing and administration, no similar adjustments were made in the area of artistic costs. Rather, there was a *de facto* acceptance that the large differentials in salaries between the more and less populous states were a reasonable reflection of marketplace realities.³

A key premise underlying the design of the funding model was that the gap between the funding provided by government and total costs incurred would need to be bridged by a combination of performance income and private sector income (principally from sponsorship and donations). While improvements over time in salary levels or changes to the scope or scale of an orchestra's activities were not ruled out, the implication was clear that any such changes would need to be financed from revenue generated by the orchestra itself. The incentive was therefore compelling – or should have been – for an orchestra to manage its costs effectively and to grow its income from sources other than government. Some orchestras have taken these messages to heart, and responded highly effectively. Others, unfortunately, have not.

³ This was also the case for the major performing arts dance companies.

4.2 Issues raised in submissions

The submissions lodged by several orchestras raised questions about the accuracy of their funding model cost base. A common concern was that, as the orchestra had only recently been corporatised (or in some cases, had yet to be corporatised) at the time of the Major Performing Arts Inquiry, the cost base assumptions which underpinned the funding model were little more than guesses.

The review has examined these claims but found no evidence that the cost data used in the design of the funding model introduced serious distortions or inequities which need to be corrected. It is true that, at the time that the funding model was developed, only partial data were available in the area of infrastructure costs, reflecting the fact that many of the orchestras still drew their infrastructure and overhead support from the ABC. Even in this area, however, there were four years of data available for Sydney Symphony (which had been corporatised in 1996) and one to two years of data for three of the other orchestras. These data were used to produce normalised estimates of each orchestra's infrastructure costs, and those estimates have proven to be both reasonable and relatively robust over time.

The Queensland Orchestra has argued strongly that, in its case, the level of earned income anticipated by the funding model was unrealistic and should be revised. Again, however, the review has found no compelling evidence to support this contention.

The earned income expectations set for The Queensland Orchestra at the time of the Major Performing Arts Inquiry were based upon the actual revenues of the two previously separate orchestras⁴ which merged to form the new orchestra, once revenues from fees for orchestral services were removed. In addition, the lower income-earning potential of an orchestra operating in Brisbane, relative to Sydney or Melbourne, was recognised by the application of a 'geographic adjustment factor' as described above.

The review acknowledges that the earned income record of The Queensland Orchestra has fallen well short of the assumption built into the funding model, but considers that this has more to do with its difficult transition following the merger than with any defect in the design of the funding model. As noted in Chapter 2, The Queensland Orchestra has earned significantly less from box office receipts and other private sector income in recent years than either of the orchestras in Adelaide and Perth. As a proportion of total revenue, its income from the marketplace is markedly lower than for any symphony orchestra other than Tasmania. It is also clear that there were some serious flaws in the management of the merger process itself, with damaging consequences both for cost control and artistic quality, and these in turn had implications for its revenue from box office income.

⁴ The Queensland Symphony Orchestra and the Queensland Philharmonic Orchestra.

The review notes that two of the other three major performing arts organisations in Queensland – Opera Queensland and the Queensland Theatre Company – have met the earned income targets built into the funding model and are continuing to increase their revenue from this source. Pleasingly, also, The Queensland Orchestra is projecting that for the first time since its corporatisation in 2001, it will achieve a surplus result in 2004 as a consequence of increased box office receipts, higher corporate sponsorship income and some additional funds from the Queensland Government.

Adelaide Symphony Orchestra raised a concern that the total level of government funding it receives under the funding model is lower than the amounts allocated to the orchestras in Queensland and Western Australia, and questioned why this should be so. The short explanation lies in differences in the scale of commitments of the three orchestras, and consequently in their income-earning capacity. West Australian Symphony Orchestra and The Queensland Orchestra are required under the terms of their funding agreements to accompany their respective state opera and ballet companies for up to 17 weeks each year, during which time they have limited opportunities to earn income from main stage concerts. In contrast, because South Australia has no resident ballet company, Adelaide Symphony Orchestra is required to accompany only the state Opera of South Australia's season, for approximately six weeks.⁵ The potential income-earning advantage enjoyed by the Adelaide orchestra by reason of this lower level of commitments is reflected in the application of the funding model, and is the primary reason for the higher level of government funding allocated to the other two orchestras.

There is no such thing as perfection in the design of a funding model and there will always be scope for debate about matters of detail, but the review has found no compelling evidence to suggest that the funding model developed by the Major Performing Arts Inquiry is flawed in any significant respect, or that its treatment of the various orchestras is either unreasonable or inequitable. It believes that the model continues to be an appropriate basis for determining the level of base government funding to each orchestra, meeting the key tests of transparency, equity and an appropriate incentive structure. The review does not support any artificial reduction in the 'art form funding ratio' of 50 per cent set for the orchestral sector in 1999.⁶ The incentives to generate additional box office and private sector income are already clear, and pose significant challenges for several of the orchestras even under current funding arrangements.

4.3 Indexation arrangements and the 'efficiency dividend'

A closely related issue, although separate from the funding model as such, concerns the indexation arrangements applying to government funding for the orchestras. All orchestras raised concerns with the reasonableness and

⁵ When the orchestra accompanies The Australian Ballet during its Adelaide season, it does so on a fee-for-service basis outside the scope of the base funding grant for the orchestra.

⁶ Sydney Symphony's success in 2004 has meant that government funding now represents only 44 per cent of its total revenue.

sustainability of these arrangements as they currently operate, arguing forcefully that they put their financial stability at risk. The sentiments expressed in the submission of Sydney Symphony were typical:

*'The application of the "Efficiency Dividend" to subsidy funds is a serious issue for all orchestras given the limited capacity to earn additional income through additional programming, ticket pricing and non-performance revenue sources and to make further reductions to operating expenses. Its impact will be felt by all orchestras, some sooner than others, and is having a serious impact on the sustainability of the sector as a whole.'*⁷

It is a compelling situation because such a significant proportion of the orchestras' expenditure is on a fixed number of people necessary to perform symphonic music, and a high proportion of the orchestras' revenue is from governments. The challenge for orchestras is that the costs associated with people increase at a greater rate than government grants.

As noted in Chapter 2, government funding for the orchestras is indexed in accordance with a formula set by the Australian Government. The formula is the same as that applied to the funding of other public bodies, such as government departments and agencies and government-owned companies, whereby base funding is increased annually at a pre-determined rate (currently 2.27 per cent). This base rate of indexation is then reduced by an efficiency dividend of 1 percentage point as a means of ensuring that bodies drawing public funding can demonstrate ongoing efficiencies in their operations. In the case of the orchestras (and the other major performing arts companies), state governments index their own funding contributions at the same rate as the Australian Government.

The efficiency dividend will increase from 1 per cent to 1.25 per cent from 1 July 2005, with the result that the nominal rate of funding adjustment each year will fall to little more than 1 per cent at the current rate of indexation. This implies an annual decline of between 2 and 3 per cent in the purchasing power of government funding, compounding over time. The orchestras have argued strongly that, by eroding the real value of their government funding, the efficiency dividend is already contributing significantly to their financial difficulties. Several points need to be made in this regard.

The efficiency dividend removed some \$570 000 in government funding from the eight full-time professional orchestras combined in 2004. For any single orchestra the impact was material rather than pronounced. Sydney Symphony, for example, received some \$115 000 less than it would otherwise have been allocated, and The Queensland Orchestra about \$74 000 less. It could be argued, with some justification, that reductions of this order should generally be manageable within the framework of an orchestra's annual budget provided that resources are managed prudently and costs contained.

⁷ Sydney Symphony submission, July 2004.

The real effect of the efficiency dividend, however, is felt not within a single year but cumulatively over time. That is, the reduction suffered in any one year is carried forward and compounded in each of the following years, to a point where the cumulative effect is very substantial indeed. For an orchestra of the size of Sydney Symphony, for example, the effect by the fifth year is a reduction of more than \$700 000 in that year alone relative to the funding which would have been received if no efficiency dividend had been applied, and the compound effect over the five-year period is a loss of some \$2.2 million. Even for an orchestra the size of Tasmania's the effects are substantial, with a reduction in the fifth year of more than \$350 000 and a cumulative loss over a five-year period in excess of \$1 million.

Whether the current indexation arrangements are sustainable for the future depends ultimately on the earned income test: that is, whether it is realistic and reasonable to expect the orchestras to offset the progressive erosion of the value of their government funding through increases in the revenue they derive from non-government sources. As noted in Chapter 2, the effective consequence of current indexation arrangements is that, if government funding accounts for 60 per cent of an orchestra's total revenue and its costs increase by an average of 4 per cent per annum (broadly the average cost movement of recent years), it will need to increase its income from non-government sources by more than 8 per cent per annum in order to maintain a neutral financial position. The size of the challenge rises steadily for orchestras more heavily dependent on government funding (Table 4.2). In the case of the Queensland and Tasmanian orchestras, for example, compound annual increases of 15 per cent or more would be needed in non-government income to counter the eroding value of government funding. The review considers that continuing increases of this order are neither achievable in practice nor reasonable to impose as a condition of funding.

TABLE 4.2: PERCENTAGE INCREASES IN NON-GOVERNMENT INCOME REQUIRED TO COVER ANNUAL COST INCREASES OF 4 PER CENT, BY LEVEL OF DEPENDENCE ON GOVERNMENT FUNDING (a)

EFFICIENCY DIVIDEND OF 1.25%

Level of dependence on government funding	Increase in non-government funding required
40%	6.0%
50%	7.0%
60%	8.5%
70%	11.0%
80%	15.9%

(a) Assuming a base indexation rate of 2.27 per cent p.a. and an efficiency dividend of 1.25 per cent.

Even the current base rate of indexation, without the application of the efficiency dividend, would pose a significant challenge for many of the orchestras in their current circumstances. In this case, and again assuming cost increases of 4 per cent per annum, the annual increases in non-government revenue required would vary between 5.2 per cent for an orchestra drawing 40 per cent of its funding from government to 10.9 per cent for an orchestra with 80 per cent reliance on government funding (Table 4.3). Of course, these requirements could be reduced to some extent if annual cost increases could be contained to significantly less than the 4 per cent assumed. However, with salaries and wages accounting for more than 60 per cent of the total costs faced by the orchestras, it seems unlikely that this outcome could be achieved and sustained over any extended period of time without risk of damage to artistic quality and ultimately box office appeal.

TABLE 4.3: PERCENTAGE INCREASES IN NON-GOVERNMENT INCOME REQUIRED TO COVER ANNUAL COST INCREASES OF 4 PER CENT, BY LEVEL OF DEPENDENCE ON GOVERNMENT FUNDING (a)

NO EFFICIENCY DIVIDEND

Level of dependence on government funding	Increase in non-government funding required
40%	5.2%
50%	5.7%
60%	6.6%
70%	8.0%
80%	10.9%

(a) Assuming a base indexation rate of 2.27 per cent p.a. and no efficiency dividend.

The review accepts that the efficiency dividend is a whole-of-government measure, and that it would be unusual to exempt a particular class of organisation – in this case, the eight professional orchestras – from the scope of a measure which applies to the vast majority of bodies drawing the bulk of their operational funding from the Australian Government. However, the capacity of the orchestras to achieve efficiencies in their operations is different both in scale and in kind from that of large public sector bodies, such as government departments. As one orchestra argued in its submission:

‘The imposition of the efficiency dividend on orchestras is not as effective as it might be in other industries. In the clerical environment, efficiencies using available technologies and techniques can and have been achieved within the Company. (But) the Orchestra itself is not able to play the same repertoire with

fewer members and is therefore unable to produce efficiencies in the same way'.⁸

Moreover, whereas government departments and agencies have regular opportunities to seek additional resources for their operations through new policy proposals in the annual budget process, the orchestras and other major performing arts organisations have no similar opportunity. For these and other reasons, the practical effects of the application of the efficiency dividend vary significantly from organisation to organisation.

The review does not support the claim which some have made that the application of the efficiency dividend has been the key cause of the orchestras' financial problems in recent times. On the contrary, the evidence is clear that other factors also have been at work, more within the power of the orchestras to control, and that the efficiency dividend has been an important contributory factor rather than the sole or dominant factor in any sense. Looking to the future, however, it also seems clear that a continuation of the current indexation arrangements will ultimately prove unsustainable, to the extent that some of the more financially marginal orchestras will either be driven to bankruptcy or, if governments are unwilling to let that happen, will need to be rescued periodically through a process of funding reviews and special financial assistance.

The review believes that this would be an undesirable outcome and, for the various reasons just discussed, supports the provision of full indexation of the base government funding provided to the orchestras. The current partial indexation arrangements are beginning to have a significant impact on the cost-revenue dynamics of all the major performing arts companies and particularly the orchestras, due to the relatively high proportion of the total revenue they receive from government. It is important to stress again that, even without the application of the efficiency dividend, the base rate of indexation for government funding constitutes a robust incentive for the orchestras to achieve efficiencies in their operations and to grow their income from non-government sources.

Should the decision be taken to leave current indexation arrangements as they stand, the review considers that new funding arrangements will need to be developed which make more realistic assumptions as to the growth in non-government revenue which can be achieved to offset the declining value of government funding.

The review considers that the removal of the efficiency dividend and the provision of full indexation of the eight professional orchestras' base grants should be conditional upon the orchestras' agreement to implement the reforms recommended by this review.

⁸ West Australian Symphony Orchestra submission, July 2004.

Recommendation 7

Governments remove the current 'efficiency dividend' and provide full indexation of their ongoing base grants to the eight professional orchestras. Full indexation should be made conditional upon the orchestras accepting and committing to implement the changes recommended in this report as adopted by governments.

Recommendation 8

In the event that the efficiency dividend is not removed for the eight professional orchestras, a new funding model needs to be developed which makes realistic assumptions as to the limited flexibility of the predominant cost of people and to growth in non-government income which can be achieved to offset the declining value of government funding.

Chapter 5 – Viable employment arrangements

The largest expense component for an orchestra is people and other employment costs. This is due to the size of an ensemble and continually increasing salary levels. The review did not wish to race to a position of asserting that economic difficulties are caused solely by employment costs and drastic cuts in this area are the only solution to future viability. However, it is obvious that the review needed to consider current employment practices as reflected in enterprise bargaining agreements as an important factor in the future viability of each orchestra.

It is important to note that workplace agreements in Australia have the force of law. Generally they are varied by agreement after consultation and negotiation. Therefore, the review can only make recommendations which it considers to be in the best interests of the future of orchestras. If necessary, implementation could be encouraged or required by conditions attached to funding. However, the preferred process is for the parties themselves to achieve efficiency, cost containment and increased productivity. This is a continuing requirement of every organisation today.

It must be acknowledged that orchestras and musicians have already travelled down this path to varying degrees.

There does appear to have been a heavy reliance on financial trade-offs to achieve improvements in conditions. Continuing financial pressures will require incremental productivity through the removal of restrictive or costly work practices, some of which were unwisely introduced in the first place.

It is clear that generally boards and managements, and musicians have moved to take responsibility for the net impact of salary movements and this trend will be reinforced by the implementation of full independence.

5.1 Musicians' working conditions

A career as an orchestral musician requires many years of training and a high level of commitment to the art form. In Australia, the employment of orchestral musicians falls under the *Orchestral Musicians Award 1999*, approved by the Australian Industrial Relations Commission.

In the eight professional orchestras, musicians are employed under enterprise bargaining agreements, which supersede the Award and which each orchestra negotiates with its own musicians. The agreements bind the musicians, the Media Entertainment and Arts Alliance (the peak organisation representing employees in the entertainment and arts sectors) and the orchestra. As a result of the independent negotiation process, there is variation from agreement to agreement. However, there are many common features.

Working arrangements for musicians take into account their particular workplace environment, including high levels of concentration, frequency of performances in the evenings, split shifts and weekend work, the need for musicians to practise to be performance ready and occupational health and safety issues, such as loud noise, potential repetitive strain injury (RSI) and pressures associated with performing in front of an audience.

Orchestral musicians generally work on a four-week cycle of between 32 and 36 calls. The standard working week is made up of eight calls with no more than two calls per day. In general, a call is a rostered duty of two-and-a-half hours for activities, which include playing calls (rehearsals, performances, recordings, education and training activities) and non-playing calls (travel time, orchestra meetings, balance calls, auditions, and promotional activities). A three-hour call may be required for certain activities specified in the enterprise bargaining agreement. Each call, unless specified and regardless of the actual time allocated to that call, is counted as three hours of work for the purposes of pay and leave related matters.

Most enterprise bargaining agreements specify an annual call count. This call count can vary depending on the 'position' he/she holds within the orchestra. For instance, a principal musician generally works fewer calls than a rank and file musician given the position's added responsibilities. Musicians who participate in specified committees (e.g. Management, Artistic, Programming, Players' Association) will be allocated calls for these activities which count towards their annual call count.

The enterprise bargaining agreements are quite specific about how and when a call may be rostered. For example, they stipulate the time lapse required between calls, the number of Sundays that can be worked in any year and the necessary break following any intra or inter-state travel before a rehearsal or performance.

Orchestral musicians also receive a dress allowance and an instrument allowance.

Generally, musicians receive five weeks of annual leave with an additional mid-year break of one week. The mid-year break is often made up of 'credited' calls which accrue when musicians are required to work, for instance, on a public holiday.

In addition to these working conditions, it is relevant to note that the workplace arrangements for musicians employed in the six state symphony orchestras also incorporate Australian Government public service conditions that were applicable when the musicians were employed as part of the ABC, such as an expectation of ongoing employment (tenure) and access to the Australian Government superannuation and workers' compensation schemes.

5.2 Workplace flexibility

In 1999, the Major Performing Arts Inquiry recommended that orchestras should work to increase the flexibility of their work practices in order that they be able to meet their 'variable musical and access requirements'.¹ The Inquiry made this recommendation because it considered that effectively utilising orchestral musicians' professional skills – individually, in small groups and collectively – could assist in developing earned income opportunities for the orchestras and would improve their financial position.²

In their submissions to the review, most orchestras noted that they had been successful in negotiating improved flexibility arrangements in their enterprise bargaining agreements and had established a culture of informal flexibility and open dialogue between musicians and management. The view was put a number of times that provisions in the orchestras' workplace agreements remain overly restrictive and are a hindrance to the effective and efficient operations of the orchestras. As one submission stated, it is 'difficult to achieve all the Orchestra's artistic goals and in the process bring the musicians any closer to 'full utilisation', within the current restrictive [enterprise bargaining agreement]'.³

The contrary view was also made that musicians' employment conditions are highly flexible and help rather than hinder the orchestra to respond to audience demand. As the orchestral musicians' union put it: 'It is not [enterprise bargaining agreements] that restrict activity in Australian orchestras. Current utilisation levels reflect other factors such as financial constraints, the demands of repertoire and the availability of commercial opportunities'.⁴

In the review's judgement, the reality lies somewhere between these two positions.

The review considered the extent to which improvements to workplace flexibility could assist in improving the medium to longer term financial viability of the orchestras and identified a number of key areas where employment arrangements are restrictive in terms of the operational efficiency and revenue earning potential of the orchestras. It believes that removing restrictive practices will create efficiency and productivity gains for the orchestras and the potential for some decrease in costs or increase in revenue, dependent on marketplace demand.

¹ Recommendation 16.1.1 of the Major Performing Arts Inquiry Final Report, *Securing the Future*, page 75.

² Major Performing Arts Inquiry Final Report, *Securing the Future*.

³ West Australian Symphony Orchestra submission, July 2004.

⁴ Symphony Orchestral Musicians Association submission, November 2004.

5.2.1 Definition of calls and call limits

The review considers that there is a clear case for making a distinction between playing and non-playing calls, and for non-playing calls not be included as part of the annual call count. This would result in improved flexibility and would not expose musicians to risk of injury as long as the number of playing calls did not exceed the agreed current daily and weekly limits. Non-playing calls include such activities as travel, meetings and administrative tasks and represent about 5 per cent of total call utilisation. Including these in a musician's call limits effectively reduces the number of playing calls that a musician can undertake and therefore has an impact on an orchestra's operational and artistic capacity.

The review acknowledges that the current limits on the amount of playing calls a musician can work have been established to prevent injury and to ensure high performance standards are maintained. This will not be compromised by removing non-playing calls from general call counts.

5.2.2 Playing in small ensembles

Under the current enterprise bargaining agreements, a musician performing in an ensemble of fewer than eight players is paid a loading of 33 $\frac{1}{3}$ per cent in addition to his or her regular salary.

Apparently this loading is meant to compensate for the increased pressure and 'exposed playing' when musicians perform in small ensembles. In reality, it simply inhibits and penalises orchestras in terms of opportunities to earn greater revenue by flexibility in this format. The success of Australia's chamber orchestras indicates there is increasing demand for this type of performance.

Musicians and management should remove the 33 $\frac{1}{3}$ per cent loading for musicians when they play in small ensembles as this can only assist the orchestras' long-term sustainability.

5.2.3 Loss of proficiency

One of the key responsibilities of an orchestra's management and its musicians is to ensure that the artistic standards of the ensemble are maintained or improved. Another is to take responsibility for occupational health and safety issues.

Given the nature of the work of musicians it is not unreasonable to expect that some will suffer an injury that will affect their ability to play at the required performance standard. This is commonly referred to as loss of proficiency. In a few cases it is permanent and necessitates early retirement from that standard of musical performance.

The orchestras' enterprise bargaining agreements include provisions for early retirement due to loss of proficiency. For the majority of orchestras, the current arrangements stipulate that a musician retiring for this reason is entitled to up to 77 weeks of pay at their salary level depending on length of service. This is well above the industry award standard.

In their submissions orchestras indicated that it is prohibitively expensive to fund the required loss of proficiency cases.

The inability to fund loss of proficiency cases has a direct impact on the artistic standards of an orchestra. In turn, it can be argued that if the artistic standards of an orchestra are affected then its box office returns may suffer and thus its financial and artistic success is threatened.

The review notes that the 'loss of proficiency' provisions are currently complex and lengthy to implement and that some streamlining in these arrangements may be justified. This should be a medium-term objective of orchestra boards and management. Due to financial constraints there are a number of loss of proficiency cases outstanding in some orchestras. This is putting the artistic standards of these orchestras at significant risk and prompt action is required to address this.

5.2.4 Formal proficiency management

A number of submissions indicate that an artistic proficiency management process would assist in maintaining and improving artistic standards. The orchestras have indicated that they have established artistic committees to take responsibility for oversight of artistic standards issues. The process is currently largely informal and there would be benefits to a more formalised and transparent procedure. A formal process is used in most of today's workplaces and it is anomalous that one does not exist for orchestral musicians.

5.2.5 Contract employment

The review has noted there are relatively few musicians employed on medium or longer term contracts or on Australian Workplace Agreements. The use of contracts is now common in modern workplaces. In many cases, it has advantages over ongoing or tenured employment as it increases flexibility and minimises redundancy costs. There appear to be instances where engaging musicians on contracts makes sense, for example when attracting a high profile musician to work with the orchestra, to allow job sharing within an orchestra or across two or more orchestras, or where a full-time position is not justified. While the orchestras' current employment bargaining agreements present no legal impediment to employing musicians on contract, in practice such arrangements are rare.

Boards and orchestra management need to consider carefully the appropriate mix of ongoing, contract, full-time and part-time employment taking into

account the views of the musicians, and the artistic and financial success of the organisation.

Recommendation 9

Orchestra management and musicians must continue to negotiate to achieve improvements in workplace flexibility and productivity, particularly in the following areas:

- (a) The exclusion of non-playing calls from musicians' daily and weekly call limits and annual call count.
- (b) The removal of the small ensemble loading to enable increased opportunities for orchestras to earn revenue.
- (c) The reduction of the maximum entitlement payable to musicians under loss of proficiency provisions from 77 weeks of salary to 48 weeks of salary, in line with the *Orchestral Musicians Award 1999*. Processes surrounding the management of loss of proficiency cases should also be reviewed and streamlined in the interests of greater efficiency.
- (d) The development and implementation by musicians and management of a formal and transparent procedure for managing artistic proficiency.
- (e) Other innovations to improve the efficiency and productivity of orchestras and thereby the future career prospects for musicians.

5.5 Productivity

Examination of the orchestral musicians' workplace agreements over time points to a situation where, for some orchestras, annual increases in remuneration have not been the result of productivity bargaining. For many in the workforce leave loadings, higher duties payments and other miscellaneous allowances have been relinquished to enable organisations to offer pay increases to their staff.

The focus of the orchestras has been to increase earned income or reduce expenditure in other areas of the organisation to pay for musicians' annual salary increases. This should not be the sole means by which salary rises are

afforded. Orchestras should adopt an increased focus on productivity bargaining for increases to remuneration.

It is essential that improvements in flexibility of workplace practices and in productivity bargaining support the sustainability of the professional orchestras. It is the firm opinion of the review panel that it is the responsibility of all parties to the enterprise bargaining agreements to contribute to the longer term viability and success of their company. Further, as independent entities, it is the responsibility of the boards of directors to bring about the required change.

5.6 Remuneration arrangements

As previously noted, orchestras are under pressure to increase musicians' salaries in line with the labour price index (3.2 per cent in 2003 according to Australian Bureau of Statistics figures). Given that government grants are currently indexed at about 1.25 per cent, one of the key challenges for the orchestras is to cover further salary increases by means of growth in earned income and by improved productivity and efficiency.

All orchestras report increases in their ensemble costs in recent years, principally due to increasing salaries and superannuation costs.

There is considerable variation in salary levels across the eight orchestras. Several submissions to the review indicate that there is pressure on orchestra managers to increase salaries to be more closely aligned to those paid by Sydney Symphony and Melbourne Symphony Orchestra, in order to attract high quality musicians.

Salary variations are partly due to differences in the cost of living in each of the cities, but also reflect each orchestra's ability to pay. When the orchestras were managed by the ABC, there were standardised salary arrangements for musicians. Since corporatisation and the move to a decentralised model, salary levels are negotiated through enterprise bargaining. In this environment it is inevitable that salary variation will occur and salary levels will depend on what each orchestra can afford.⁵

The review supports the decentralised model by which orchestras negotiate their musicians' salaries through individual enterprise bargaining agreements and believes that varying salary levels should rightly be a reflection of the size and economic factors of each marketplace. Equally, the review stresses the responsibility of each orchestra board for maintaining a viable financial position for its orchestra.

⁵ Details of musicians' salaries are at Table 2.11.

5.7 Government funded initiatives

The submissions and consultation process highlighted to the review a number of areas where one-off support from governments could have a positive impact on the employment arrangements for the staff of orchestras. The review proposes the following initiatives to assist the orchestras in medium to longer term sustainability.

5.7.1 Loss of proficiency program

Most orchestras have expressed concern that their artistic standards are being compromised because of their inability to fund loss of proficiency cases. As noted previously, the review has concluded that this is a significant issue and needs to be addressed urgently. This can only be achieved with additional assistance from governments. The review is therefore recommending that a program be established to assist with the funding of loss of proficiency cases for orchestral musicians in the short-term. Access to this program is to be on the basis of demonstrated risk to artistic standards.

Loss of proficiency cases funded under this scheme should be limited to a maximum of 48 weeks pay, depending on length of service at the musician's salary rate. This is in line with the *Orchestral Musicians Award 1999* and the arrangements which applied when the musicians in the six state symphony orchestras were employees of the ABC.

The scheme should be administered by the Australia Council's Major Performing Arts Board.

Recommendation 10

A program should be established to assist orchestras with the funding of loss of proficiency cases, on the condition that the maximum payout is 48 weeks pay at the relevant salary rate and dependent on length of service. A one-off amount of \$4 million over two years should be provided by governments for this program.

Payments under this program are only available to orchestras that have implemented a formal proficiency management procedure as described in Recommendation 9(d).

5.7.2 Superannuation supplementation

Following their corporatisation, the employees of the six state symphony orchestras were offered employment in the new companies with their existing terms and conditions. This included access to the Australian Government's superannuation schemes. These superannuation schemes are more costly for employers than most commercial schemes, primarily because they are

defined benefits schemes. From 1 July 2005, superannuation for Australian Government employees is changing from a defined benefits to an accumulated benefits scheme for all new employees.

Each of the six state symphony orchestras identify their superannuation costs as a significant budgetary pressure. Superannuation contributions to Australian Government schemes have increased for their employees from \$4.2 million in 2000 to \$5.1 million in 2004. The orchestras have had to absorb this cost increase within their current revenue levels. Australian Government departments and agencies, on the other hand, receive budgetary supplementation to assist them to meet increased public sector superannuation costs.

The principal issue is the contention that the orchestras are paying higher rates than they would be if their employees were members of commercial superannuation schemes. This is demonstrated by comparing an orchestra that uses a commercial scheme with those using public sector schemes. Orchestra Victoria pays 10 per cent of a musician's salary towards superannuation, whereas the state symphony orchestras pay between 16 per cent and 23 per cent.

The review notes that the orchestras have had to absorb a 21 per cent increase in their Australian Government superannuation contributions over the last four years.

The six state symphony orchestras are not able to transfer their existing employees to commercial superannuation funds, as their employees have the option to access a public superannuation scheme, and therefore these orchestras have no direct control over their superannuation costs.

It is appropriate that these orchestras receive supplementation from the Australian Government to assist them to manage their superannuation costs.

The review has previously recommended that no new employees of the state symphony orchestras should have access to public sector superannuation schemes following their establishment as public companies limited by guarantee (recommendation 4).

Recommendation 11

The six state symphony orchestras should be supplemented for increases in their public sector superannuation costs on the same basis as Australian Government departments and agencies. This supplementation should commence from 1 January 2006.

5.7.2 Improved occupational health and safety

Orchestras have relatively high workers' compensation insurance costs and these have risen for the eight professional orchestras from \$0.5 million in 2001 to \$1.5 million in 2004. There is variation from orchestra to orchestra in the overall level of these costs with one orchestra paying only \$0.098 million in 2004 and another over \$0.337 million. This indicates there is potential for some orchestras to improve the way in which they manage their occupational health and safety responsibilities.

Given the importance of minimising injury rates both in the context of artistic standards and controlling costs, the review believes that a more pro-active approach to managing occupational health and safety would be of significant benefit both to the musicians and to the orchestras' finances.

Details obtained by the review of workers' compensation claims made by the orchestras indicate that the most common injuries are repetitive strain and hearing damage. Claims are also made for psychological injury associated with anxiety about performing in front of an audience.

The time and expertise available to the review has not permitted a detailed examination of the strategies employed by individual orchestras to manage their occupational, health and safety responsibilities.

Therefore, the review proposes that financial support be provided to engage professional services to develop better practice occupational health and safety strategies for each orchestra in order to minimise injuries and contain insurance premiums. In developing these strategies, better practice principles in occupational health and safety should be shared across the sector. Each orchestra's occupational health and safety provisions should be stipulated in a set of guidelines available to all staff and included in all business plans and enterprise bargaining agreements.⁶

Recommendation 12

Governments should provide one-off financial support of \$0.5 million to engage specialist services to develop and implement improved occupational health and safety injury prevention strategies in the eight professional orchestras.

⁶ Orchestra Victoria currently sets out its occupational health and safety strategy in its enterprise bargaining agreement. The Australian Ballet also runs a comprehensive program for managing occupational health and safety.

Chapter 6 – Sustainable structures

6.1 Adapting to marketplace realities

Chapter 2 highlighted the major financial challenges facing many of the orchestras within the scope of this review. Three orchestras already have accumulated deficits of some \$2 million or more, and there is a high risk that these deficits will deteriorate further over the remainder of the current decade. On reasonable assumptions as to future movements in costs and revenue, the review has projected that The Queensland Orchestra, Adelaide Symphony Orchestra and the Australian Opera and Ballet Orchestra could all face accumulated deficits by 2010 which approach or exceed the orchestra's total annual revenue in that year (Table 2.17). The financial situation of Tasmanian Symphony Orchestra is similarly precarious, with a projected accumulated deficit by 2010 of \$3.8 million or 44 per cent of the orchestra's projected revenue in that year.

The terms of reference for the review stipulate that it should assume a continuation of government funding for the orchestras at existing levels. The review has interpreted this to mean that governments expect the orchestras to ensure that their activities do not require expenditure beyond the combined revenue they receive from government funding and earned income from the marketplace. In practical terms, this means that those orchestras facing sizeable projected deficits will need either to boost their earned income significantly, markedly reduce their costs, or achieve some viable combination of the two.

Assuming that costs continue to increase by an average of 4 per cent per annum and that current government funding arrangements remain, the four orchestras at greatest financial risk would need to achieve average annual increases in their earned income of between 10 per cent and 40 per cent in order to break even each year to 2010 (Table 2.18).

The review considers that increases of this order, sustained over a period of years, are unrealistic under any plausible projection of future marketplace conditions. As shown in Table 6.1 below, the required rates of growth in earned income would reduce somewhat if future government funding for the orchestras was to be fully indexed, but even so, the increases which would be needed for those orchestras currently in financial difficulty go beyond any realistic estimates of achievable growth.

TABLE 6.1: AVERAGE ANNUAL GROWTH IN EARNED INCOME REQUIRED TO ACHIEVE FINANCIAL VIABILITY BY 2010, BY ORCHESTRA (%)

	With partial indexation	With full indexation
Sydney Symphony	6%	5%
Melbourne Symphony Orchestra	6%	5%
The Queensland Orchestra	19%	15%
Adelaide Symphony Orchestra	10%	8%
West Australian Symphony Orchestra	8%	7%
Tasmanian Symphony Orchestra	14%	11%
Australian Opera and Ballet Orchestra	40%	35%
Orchestra Victoria	12%	8%

As discussed in Chapter 3, a major challenge for the boards and management of the newly independent orchestras will be to maintain effective control over costs while at the same time preserving artistic standards and boosting box office earnings. Under current structural arrangements, the review considers it will be very difficult to contain future cost increases to low single digit increases without risk of damage to artistic quality, to the attraction and retention of talented musicians, and ultimately to audience appeal and box office income. Inevitably, therefore, this turns the focus of attention on the only remaining degree of freedom in the sector's financial arithmetic, namely the size and structure of the orchestras.

The review has come reluctantly to the conclusion that the permanent ensemble size of three of the state symphony orchestras will need to be reduced if they are to regain and retain their financial viability. The balance of factors leading to this conclusion varies somewhat across the three orchestras in question, but in each case there is a high risk that the maintenance of existing orchestra size and cost structures would lead to a financial crisis and probable insolvency within the next four to five years. In these circumstances, and within the constraints imposed by the terms of reference, structural change is the only responsible alternative.

The details of the changes proposed for The Queensland Orchestra, Adelaide Symphony Orchestra and Tasmanian Symphony Orchestra are set out in the following section, but several general points need to be made at the outset.

The review acknowledges that, while the structural changes it is recommending have been driven primarily by financial viability considerations, artistic considerations are also of vital importance. Accordingly, the review has taken expert advice on the particular form of structural change which will allow each of the orchestras not only to reduce its overall cost structure and meet

its financial objectives but also to retain its artistic integrity and preserve its current performance standards.

In estimating the savings which could be expected to flow from the changes proposed, the review has assumed in the first instance that there would be no changes to an orchestra's programming or repertoire. The overall savings flowing from the proposed reduction in the size of the permanent ensemble have therefore been discounted by an estimate of the augmentation costs involved in engaging other, non-permanent musicians to meet programming and production requirements at their present levels. The resultant net savings are substantial in each case, and sufficient to restore financial viability within a reasonable period of time on plausible projections of growth in box office income.

The review accepts a reduction in the size of permanent ensembles is likely to have an impact on repertoire choice and programming over time, and in particular, there may be more limited scope for the performance of some of the larger works in the orchestral repertoire. It also acknowledges the argument put to it by a number of the orchestras and players that a greater reliance on non-permanent musicians could run the risk of damaging artistic standards over time. It will be the responsibility of the individual orchestras to identify and manage the range of risks involved in making the transition to more sustainable structures.

6.2 Size and structure of the symphony orchestras

In order to meet governments' access objectives for Australian audiences, the review has concluded that each state capital city should continue to have a full-time professional orchestra. It considers that Sydney is the only city where two such orchestras can clearly be justified. Demand for orchestral services in Melbourne goes beyond the capacity of a single orchestra to service, but falls short of requiring two professional orchestras on a full-time basis. The result, in practice, has been that Orchestra Victoria has dedicated its spare capacity to presenting concerts in suburban and regional areas of Victoria, an area of demand which is not as consistently identified in other states. Future structural arrangements for Orchestra Victoria and the Australian Opera and Ballet Orchestra are discussed in Section 6.3 below.

As discussed in the previous section, the review considers there is no realistic alternative, consistent with its terms of reference, but to reduce the size of the permanent ensembles of The Queensland Orchestra, Adelaide Symphony Orchestra and Tasmanian Symphony Orchestra, if these orchestras are to become and remain financial viable. The details of the changes being proposed for each orchestra are set out below.

The Queensland Orchestra

The review proposes The Queensland Orchestra be reduced from a quadruple wind orchestra of 89 full-time equivalent players to a triple wind

orchestra of approximately 74 players (in full-time-equivalent terms).¹ Savings in permanent ensemble costs are estimated at \$0.9 million per annum, and additional augmentation costs at \$0.2 million per annum (based on comparable repertoire). Annual net savings should therefore be at least \$0.7 million once the changes have been fully implemented.

The most obvious factor necessitating a reduction in the size of The Queensland Orchestra is the orchestra's very low level of earned income – at just 21 per cent of its total revenue, the second lowest in the country. Whereas a full-time professional orchestra of quadruple wind size is appropriate for Sydney and Melbourne, where earned income in 2003 accounted for 54 per cent and 40 per cent respectively of total revenue, the evidence of recent years strongly suggests it is not sustainable in Queensland, at least under present conditions.

The Queensland Orchestra argued in its submission that its government grant should be increased to enable it to maintain its current ensemble size. The review sees no case to support this proposal. Indeed, it would be contrary to its terms of reference, and inequitable from the viewpoint of the other orchestras, if it were to do so. It considers the orchestra should continue to focus on improving its income from box office receipts and corporate sponsorship.

The orchestra also argued it needed to maintain a quadruple wind permanent ensemble to enable it to divide the orchestra into two or more groups as circumstances required. In some cases, for example, when part of the orchestra has been engaged in providing orchestral services to the Queensland opera and ballet companies, the remainder of the musicians have performed in smaller groups either in Brisbane or in regional areas of Queensland.

The practice of dividing the orchestra in this way had not by 2003 assisted the orchestra to grow its earned income levels, and has drawn some criticism from other interested parties. In particular, the Queensland opera and ballet companies have expressed their dissatisfaction with this arrangement on the grounds that the frequent unavailability of key players has compromised the artistic quality of the orchestra when it has been playing for opera and ballet performances.

The review acknowledges it is an expectation of the Queensland Government that the orchestra present some performances in regional areas, and a reduction in the size of the orchestra may limit its capacity in this regard. However, regional touring is inherently an expensive business, and unlikely to improve the orchestra's balance sheet. Its first priority, above all else, must be to address its low levels of earned income and ensure its long-term sustainability.

¹ The proposed structure is: woodwind (3,3,3,3), brass (5,3,3,1), percussion (3), 1 harp and strings. The configuration is similar to that of the Springfield Symphony Orchestra.

The review considers that, in order to assist the orchestra to meet its redundancy cost obligations associated with the proposed restructure, it would be appropriate for governments to provide one-off structural adjustment funding of \$1.1 million.

Recommendation 13

The review recommends that Queensland Orchestra reduce the size of its ensemble to triple wind or approximately 74 full-time equivalent musicians and governments provide up to \$1.1 million in one-off funding to assist The Queensland Orchestra to meet its redundancy cost obligations, depending on actual costs incurred. The funding proposed in Recommendation 2 to eliminate the orchestra's deficit should be made conditional upon acceptance and implementation of this recommendation.

Adelaide Symphony Orchestra

The review proposes Adelaide Symphony Orchestra be reduced from a triple wind orchestra of 74 players to a double wind orchestra of approximately 56 players (in full-time-equivalent terms).² Savings in permanent ensemble costs are estimated at \$1 million per annum, and additional augmentation costs at \$0.45 million per annum (based on comparable repertoire). Annual net savings should be at least \$0.55 million once the changes have been fully implemented.

Adelaide Symphony Orchestra is considered to be achieving a high standard of artistic quality, and many of its recent performances have attracted critical acclaim. Demand for orchestral music is also stronger in Adelaide than in Brisbane, and this is reflected in the orchestra's relatively healthy percentage of earned income as a proportion of its total revenue (36 per cent in 2003). The fundamental problem facing the Adelaide orchestra is simply that its costs have outstripped its revenue growth and resulted in a substantial accumulated deficit. Adelaide Symphony Orchestra is now under intense pressure to reduce its costs and produce breakeven financial results.

In its submission, Adelaide Symphony Orchestra argued it received the lowest level of government support of all the six full-time symphony orchestras, and that this was the primary cause of its current financial position. As discussed in Chapter 4, the relative levels of government funding which the various orchestras attract can largely be explained by reference to the design and structure of the funding model developed by the Major Performing Arts Inquiry. In the case of Adelaide Symphony Orchestra, for example, the

² The proposed structure is: woodwind (2,2,2,2), brass (4,2,3,1), percussion (2), 1 harp and strings. The configuration is similar to that of the Edmonton Symphony Orchestra in Canada and other overseas orchestras serving populations of similar size to Adelaide's.

funding model made allowance for the fact that the orchestra does not face the same demands in providing orchestral services to opera and ballet as the orchestras in Brisbane and Perth, and could therefore devote more of its call time to revenue-raising activities. The review does not see a compelling case to increase the level of base funding provided.

In recognition of the redundancy costs which the orchestra would face in managing the proposed restructure, the review considers it would be appropriate for governments to provide one-off structural adjustment funding of \$1.3 million.

Recommendation 14

The review recommends that Adelaide Symphony Orchestra reduce the size of its ensemble to double wind or approximately 56 full-time equivalent musicians and governments provide up to \$1.3 million in one-off funding to assist Adelaide Symphony Orchestra to meet its redundancy cost obligations, depending on actual costs incurred. The funding proposed in Recommendation 2 to eliminate the orchestra's deficit should be made conditional upon acceptance and implementation of this recommendation.

Tasmanian Symphony Orchestra

The review proposes Tasmanian Symphony Orchestra be reduced from a symphony orchestra of 47 players to a small double wind orchestra of approximately 38 players (in full-time-equivalent terms).³ Savings in permanent ensemble costs are estimated at \$439 000 per annum, and additional augmentation costs at \$175 000 per annum (based on comparable repertoire). Annual net savings should be at least \$260 000 once the changes have been fully implemented. Further savings in administrative costs should also be possible.

The financial results of the Tasmanian orchestra have been positive over the last three years, and its accumulated deficit was reduced from \$336 000 in 2001 to \$69 000 in 2003. However, the orchestra is predicting a significant operating deficit in 2005, due mainly to expected cost increases of about 6 per cent compared with projected revenue growth of just over 2.5 per cent. For the longer term also, as already noted, the orchestra's financial position seems unsustainable if existing structures are maintained. The problem in this case is primarily one of scale and limited growth prospects. Although community demand for orchestral services is quite healthy relative to the size of its population, and subscription levels in particular are being maintained, the costs of maintaining a symphony orchestra are very high for a state of

³ The proposed structure is: woodwind (2,2,2,2), brass (2,2,2), percussion (1) and strings. The configuration is similar to that of the Saint Paul Chamber Orchestra in Minneapolis, USA.

Tasmania's size and there is no clear prospect that earned income can be boosted significantly beyond current levels.

In 2003, Tasmanian Symphony Orchestra raised less than 20 per cent of its total revenue from ticket sales and sponsorship. This relatively low proportion of earned income is understandable given the very small size of the Tasmanian marketplace, and the review considers it is not realistic to simply place additional pressure on the orchestra to increase this proportion significantly. Full indexation of government funding, as recommended in Chapter 4, would relieve some of the financial pressure on the orchestra, but not to a point where its solvency could be assured within existing structures. The only feasible alternative to structural change would be for governments to accept the Tasmanian orchestra in its current form will require ongoing government funding of between 85 per cent and 90 per cent of its total revenue. The orchestra is already the most heavily reliant of the six symphony orchestras on government funding, drawing more than 80 per cent of its revenue from this source, and the review sees no case to increase this proportion even further.

In its submission to the review, Tasmanian Symphony Orchestra articulated its ambition to become a national touring orchestra specialising in Australian and classical repertoire, arguing this would enable it to increase its earned income. The costs of touring a symphony orchestra are prohibitively expensive, and a move in this direction would be likely to aggravate rather than ease the orchestra's financial problems.

The review acknowledges the reputation which Tasmanian orchestra has gained for high standards of artistic excellence within its current repertoire range, and that a change from its current size to a smaller double wind orchestra would require the orchestra to review some aspects of its repertoire and current marketing strategies. Difficult and controversial though these changes will be, the review sees no alternative consistent with its terms of reference if the orchestra is to remain financially viable for the remainder of the current decade and beyond.

In recognition of the redundancy costs which the orchestra would face in managing the proposed restructure, the review considers that it would be appropriate for governments to provide one-off structural adjustment funding of \$1.1 million.

Recommendation 15

The review recommends that Tasmanian Symphony Orchestra reduce the size of its ensemble to that of a small double wind orchestra of approximately 38 full-time equivalent musicians and governments provide up to \$1.1m in one-off funding to assist Tasmanian Symphony Orchestra to meet its redundancy cost obligations, depending on actual costs incurred. The funding proposed in Recommendation 2 to eliminate the orchestra's deficit should be

made conditional upon acceptance and implementation of this recommendation.

Structural Adjustment Assistance

In addition to the redundancy costs they will need to meet under the terms of their enterprise bargaining agreements, the restructuring process will entail a range of other costs for the three orchestras concerned. These include, for example, the costs of developing new business plans, reviewing communications and marketing strategies, and generally managing a significant process of change. The review considers a moderate level of government support is warranted as a contribution to meeting these costs, and to ensure the transition is implemented in the most timely and efficient manner.

Recommendation 16

In addition to the funding recommended under Recommendations 13, 14 and 15, governments should provide one-off funding of \$300 000 in total to assist The Queensland Orchestra, Adelaide Symphony Orchestra and Tasmanian Symphony Orchestra to manage the consequential process of structural adjustment.

Other orchestras

The financial circumstances of the other three symphony orchestras – those in Melbourne, Sydney and Perth – were discussed in some detail in Chapter 2. The Sydney and Melbourne orchestras have the strongest balance sheets of any of the orchestras, assisted substantially by the large populations of their host cities. In addition, the Sydney orchestra in particular draws marketplace advantages from the high level of inbound tourism into Sydney and its performance venue at the Sydney Opera House, while the Melbourne orchestra benefits from its highly loyal subscriber base. In neither of these cases is there any justification for major change to the existing size and structure of the orchestra, although both will need to continue their efforts to grow box office and sponsorship income and to maintain effective control over their costs.

By increasing both its box office revenue and its level of corporate sponsorship, West Australian Symphony Orchestra has recovered from an accumulated deficit of more than \$2 million at the end of 2000 to achieve a net asset position of some \$300 000 at the end of 2004. While this has been an impressive turnaround, and the board and management deserve credit for their achievements, the relatively high dependence on corporate sponsorship

income in particular makes the West Australian orchestra more vulnerable than other orchestras to swings in the business cycle or increased competition for corporate support.

The review notes the orchestra has already acted to reduce the size of its permanent ensemble from 91 to 83 by not filling vacancies, and has argued that any further reduction in the size of the ensemble would be self-defeating in financial terms, given the relatively small pool of casual musicians in Perth and the high costs of bringing musicians from other states to augment the size of the orchestra. The review is sufficiently persuaded by these arguments not to recommend any structural change to West Australian Symphony Orchestra at this time, and to support the retention of an ensemble of 83 full-time equivalent musicians. Should its financial circumstances deteriorate in the future, however, there may be little option but to consider structural change options similar to those being recommended for the orchestras in Queensland, Adelaide and Tasmania.

6.3 Orchestral services to opera and ballet companies

The Australian Opera and Ballet Orchestra in Sydney and Orchestra Victoria in Melbourne were established principally to provide orchestral services to Opera Australia and The Australian Ballet. The symphony orchestras in Adelaide and Brisbane provide orchestral services to The Australian Ballet annually on a fee-for-service basis and the orchestras in Perth and Canberra provide these services intermittently, also for a fee. In addition, the symphony orchestras in Brisbane, Adelaide and Perth are required under the terms of their funding agreements to provide orchestral services to their local opera and/or ballet companies.

Several concerns regarding current arrangements for the provision of orchestral services have been raised in submissions to the review. The contention of the orchestras is that the compensation they receive does not adequately cover the costs of providing the service. Some of the symphony orchestras have also argued the amount of time they are required to spend supporting opera and ballet companies is excessive, and some of this time could be better spent earning revenue through additional main stage concerts or other commercial opportunities.

For their part the opera and ballet companies have also expressed concerns, principally about the quality of the services provided by the orchestras. A common complaint is that they cannot rely on having the same ensemble for each performance due to the frequent use of casual musicians.

The review accepts these issues are of some concern, but considers the arrangements operating in Brisbane, Adelaide and Perth are workable and do not justify any major changes to current practice. Recent improvements to these arrangements have been implemented by the Major Performing Arts Board of the Australia Council, with additional provisions inserted into the relevant funding agreements. These have clarified the responsibilities of the

orchestras and the opera and ballet companies in Perth and Brisbane, in particular.

Of greater concern, however, are the orchestral services arrangements currently operating in Sydney and Melbourne. The issues at stake here vary significantly between the two cities, as discussed below.

Sydney

As noted earlier in this chapter, demand for orchestral services in Sydney requires the deployment of two full-time professional orchestras. Sydney Symphony has a demanding program of concert engagements and other commitments, while the Australian Opera and Ballet Orchestra is fully occupied providing orchestral services to its parent company, Opera Australia, and to The Australian Ballet.

With the sole exception of 2001, the Australian Opera and Ballet Orchestra has reported an operating deficit in every year since 1997. The operating deficit for 2003 reached \$657 000 and is projected to reach \$1 million in 2004, with further increases expected in the future. The orchestra's accumulated deficit at the end of 2004 is estimated at some \$2.7 million, or 45 per cent of its total annual revenue. Clearly, this is an unsustainable situation, unacceptable to governments and contrary to the principles of good corporate governance.

The orchestra's operating deficits have been carried to date by the Opera Australia balance sheet, with The Australian Ballet making its first cash contribution in 2003. However, the growing operating deficits incurred by the orchestra are now placing increasing pressure upon the finances of both user companies, and particularly those of the orchestra's parent company, Opera Australia.

In a submission provided to the review by Opera Australia and The Australian Ballet on behalf of the Australian Opera and Ballet Orchestra, the user companies put the view that the principal cause of this situation is inadequate government funding. Noting the orchestra is fully committed to providing services to opera and ballet, and has no capacity to earn revenue in its own right, they argued that the orchestra's total operating costs, other than the costs of augmentation beyond its regular ensemble of 69 permanent musicians, should be fully met by governments.⁴

The Australian Opera and Ballet Orchestra's current funding agreement states that the orchestra is fully funded in principle, but the reality has been very different. While the orchestra was nominally fully funded to meet its costs in 2001, this was on the implied assumption it could cover any cost increases from its annual growth in government funding of 1.27 per cent and from contributions by user companies. In practice, the major expenditure item in its

⁴ User companies have always been required to cover any costs related to augmentation, overtime or penalty rates incurred by the orchestra. The same principle has also been applied to the orchestral services provided by Orchestra Victoria and the symphony orchestras.

budget, its ensemble costs, increased by 16 per cent between 2001 and 2002 alone and by a further 7 per cent between 2002 and 2003, due principally to a round of salary increases and a series of new appointments. These increases were approved at the time by the board of Opera Australia in an effort to improve the orchestra's artistic quality.

An appropriate mechanism for funding the Australian Opera and Ballet Orchestra has never been established. The review acknowledges that the orchestra has almost no capacity to earn income in its own right. However, there is a fundamental problem with the concept of being fully funded by government. This would create a situation in which the orchestra had no clear incentive to contain its costs. Governments would have little alternative but to impose more stringent approval procedures designed to contain any cost increases to manageable proportions. Such an arrangement would be inefficient and unsatisfactory on several counts, not least in that it would undermine the authority and independence of the orchestra's governance.

A more appropriate and realistic alternative, at least under current governance arrangements, would be to start from the premise that the services provided by the orchestra form an essential part of the production of an opera or ballet performance, and that the costs involved in delivering those services should therefore be viewed as an integral part of the operating costs of the user company in question. The review agrees with the position put in the submission lodged on behalf of the Australian Opera and Ballet Orchestra, that 'both companies see orchestral playing as integral to their performances, not simply a support for their performances'.⁵ In similar vein, Opera Australia stated in its own submission that 'the orchestra is an integral component of operatic performance and the artistic vibrancy for the art-form requires an effective partnership between the orchestra and [the] rest of the opera production'.⁶

The logical consequence of this close and inter-dependent relationship is that future funding arrangements for the Australian Opera and Ballet Orchestra should be examined in the light of the operations and finances of its two user companies. The review has been constrained from undertaking this examination on its own account by the fact that its terms of reference did not extend to the two user companies, Opera Australia and The Australian Ballet. It is nonetheless urgent that a review be undertaken, given the seriousness of the orchestra's current financial position and the prospect its operating deficit will continue to grow. Responsibility for the orchestra must continue to rest with the board of Opera Australia. However, Opera Australia is not able to continue to absorb the orchestra's annual operating deficits.

Melbourne

The Major Performing Arts Inquiry of 1999 identified an oversupply of orchestral services in Melbourne and recommended that a 'community of

⁵ Australian Opera and Ballet Orchestra submission, July 2004.

⁶ Opera Australia submission, July 2004.

musicians' be established, made up of the members of Melbourne Symphony Orchestra and the then State Orchestra of Victoria, now Orchestra Victoria. This recommendation was not taken up by governments and the two orchestras have continued to operate under their separate identities. The fact remains, however, that demand for orchestral services in Melbourne, while beyond the capacity of any one orchestra to service on its own, is not sufficient to keep two full-time professional orchestras fully occupied.

Orchestra Victoria is funded by the Australian and Victorian Governments to provide orchestral services to the Melbourne seasons of The Australian Ballet and Opera Australia, and is expected to devote two-thirds of its time to this activity. Performances in support of the two user companies represented 69 per cent of the orchestra's total performances in 2003 (121 of a total of 175). In the same year, however, only half of the orchestra's total working calls (221 of 443 calls) including rehearsal calls – were related to its support for the opera and ballet companies.

Orchestra Victoria has made good use of its spare capacity, responding creatively and effectively to a demand for orchestral music from Victorian regional communities and raising additional funding to cover the costs of touring the orchestra. The orchestra has also demonstrated sound governance practices and exercised fiscal restraint, achieving operating surpluses each year since 2001. The cost of this discipline, however, has been that the salaries paid by the orchestra are now the lowest of any of the eight full-time professional orchestras under review. Despite this, and notwithstanding the orchestra's impressive achievements over recent years, the review sees no compelling case for additional Australian Government funding through Australia Council mechanisms, given that its primary purpose as a major performing arts company is to support the Melbourne performances of Opera Australia and The Australian Ballet.

Orchestra Victoria's current business model has been broadly successful to date, but whether it is sustainable for the longer term may be more open to question. Any significant growth in costs, especially salary costs, would place heavy pressure on the orchestra to raise additional revenue from sources other than government. There are also uncertainties about the scale of future opera productions in Melbourne, pending decisions both by Opera Australia and in response to the review of opera in Melbourne recently commissioned by the Victorian Premier. Any increase in demand for pit services in Melbourne would limit the orchestra's capacity for regional touring and its ability to raise revenue in its own right. Conversely, any reduction in orchestral servicing requirements for Opera Australia and/or The Australian Ballet in Melbourne would strike at the rationale for funding a full-time orchestra to provide orchestral support for these companies.

Recommended Action

It is a matter of great regret for the review members that in the circumstances of time constraints, lack of a clear mandate and the likelihood of future

changes, it is not possible to come to clear recommendations in relation to the pit orchestras.

For the range of reasons discussed above, the review considers an urgent examination is needed of future arrangements for the funding of orchestral services to Opera Australia and The Australian Ballet in Sydney and Melbourne. The examination should start from the premise that the services provided under current arrangements form an essential part of the production of an opera or ballet performance, and that the costs involved in delivering those services should therefore be viewed as an integral part of the operating costs of the relevant user company. The range of alternative options to be considered in the examination should include, but not be limited to, the following:

- (a) Establish the Australian Opera and Ballet Orchestra as an independent company with its own board, and require user companies to pay fees for its services and re-assess its funding model. This would align the corporate structure of the Sydney-based orchestra more closely with that of Orchestra Victoria.
- (b) Merge the Australian Opera and Ballet Orchestra with Opera Australia, rolling government funding for the Australian Opera and Ballet Orchestra into the Opera's base grant. Under this option, a formal agreement would be needed between Opera Australia and The Australian Ballet on the level and terms of the Ballet's access to the orchestra's services.
- (c) Merge each of the orchestras providing orchestral services in Sydney and Melbourne with its corresponding symphony orchestra in the same city. The Australian Opera and Ballet Orchestra would be merged with Sydney Symphony, and Orchestra Victoria would be merged with Melbourne Symphony Orchestra. Under this option, formal service agreements would need to be negotiated between the expanded symphony orchestras and the two user companies in relation to the level and terms of access to orchestral services.

These and other options should be evaluated by reference to the principles guiding the deliberations of the current review, being responsible governance, realistic financing, viable employment arrangements, and sustainable structures. The review acknowledges there are no easy or obvious solutions, and that each of the options identified above has both some potential advantages and some significant risks and drawbacks. It is equally clear, however, the current arrangements are not working, especially in Sydney, and cannot be allowed to continue in their existing form.

In view of the urgency of the issues at stake, and the critical financial situation now facing the Australian Opera and Ballet Orchestra and its parent company, Opera Australia, the review suggests the examination should be initiated as soon as possible with a view to establishing any new governance and funding arrangements by no later than 1 January 2006.

In the interim, additional funding of \$1.5 million will be needed in 2005 to ensure that the Australian Opera and Ballet Orchestra's accumulated deficit does not increase further. This measure recognises the serious pressures which the orchestra's current financial situation is creating for both Opera Australia and The Australian Ballet, and will ensure neither user company will be required to make further immediate contributions to the running costs of the orchestra (other than repertoire related augmentation and potentially respite costs) until the recommended examination is complete.

The review emphasises this financial assistance is a short-term holding measure only, and should not be construed as an endorsement of full funding for the orchestra. As previously argued, the review considers full funding is not an appropriate arrangement, and that the way the orchestra is currently funded needs to be fundamentally re-thought. Any solution must include clear incentives for Opera Australia to ensure the operating costs of the Australian Opera and Ballet Orchestra are contained to realistic levels in the future.

Recommendation 17

Governments need to initiate an urgent examination of future governance and funding arrangements to apply to the delivery of orchestral services in support of the Sydney and Melbourne seasons of Opera Australia and The Australian Ballet. The examination should be conducted in accordance with the principles established by the current review (responsible governance, realistic financing, viable employment arrangements, and sustainable structures) and be completed to allow all new arrangements to be implemented by 1 January 2006.

Recommendation 18

As an interim measure only, the review recommends that governments provide \$1.5 million in 2005 to assist Opera Australia to cover the operating costs of the Australian Opera and Ballet Orchestra until the new arrangements are agreed and implemented.

6.4 Territory orchestras

The orchestras in the Australian Capital Territory and in the Northern Territory are very different in nature from the full-time professional orchestras discussed above.

The Canberra Symphony Orchestra is a part-time, semi-professional orchestra that forms its ensemble on an as-needed basis, mostly from musicians in the Canberra community. Its subscription season consists of four programs with up to 14 performances per year. It also provides orchestral services to visiting arts companies, such as The Australian Ballet, and

undertakes some commercial work. The orchestra draws many of its musicians from staff and students of the Australian National University's Canberra School of Music.

Annual expenditure in 2003 was \$960 000 per annum, towards which the ACT Government contributed some \$290 000. Impressively, the orchestra raised some \$269 000 in sponsorship income, or about 28 per cent of its total revenue.

The Darwin Symphony Orchestra is also a part-time, semi-professional orchestra, presenting around 8 performances annually in Darwin and undertaking periodic regional touring to other parts of the Northern Territory. The orchestra has a close association with the Charles Darwin University, with many of the University's music students volunteering to play with the orchestra. Annual expenditure in 2003 was \$330 000 per annum, towards which the Northern Territory Government contributed some \$200 000. Like Canberra Symphony Orchestra, Darwin Symphony Orchestra has a notable level of support from its community, raising some \$103 000 from sponsorship, or about 30 per cent of its total revenue, in 2003. In 2004, the orchestra is projecting this level of support to increase to \$140 000 or 33 per cent of revenue.

Both Canberra and Darwin Symphony Orchestras requested ongoing Australian Government funding in their submissions to the review. However, neither orchestra meets the criteria set by governments for eligibility as a major performing arts company.⁷ This means that funding via the Major Performing Arts Board of the Australia Council is not open to either of the two territory orchestras. The only other avenue of Australian Government funding potentially available is from the Australia Council's Music Board, which administers a competitive grants process and funds a number of key musical organisations across the country.

The review acknowledges the important role the two territory orchestras play in their communities, and their success to date in building community support. The review considers both orchestras could benefit from a closer relationship with the six state symphony orchestras in terms of access to artistic services, including the ABC's music library, the ability to attract leading orchestral musicians to perform as guest artists, and the training and mentoring of young musicians. Some modest funding assistance is warranted to support the building of these relationships, which will have a positive impact on the artistic success of the territory orchestras.

Recommendation 19

⁷ The criteria for designation as a major performing arts company include a requirement that the company has a minimum average total income of \$1.2m over the previous three-year period. Neither Darwin Symphony Orchestra nor Canberra Symphony Orchestra meets this criterion.

The Australian Government should provide \$100 000 annually to each of Canberra Symphony Orchestra and Darwin Symphony Orchestra to enable them to build their relationships with the six state symphony orchestras and to access the support services available to those orchestras.

6.5 Artistic and administrative services

When the decision was taken to corporatise the symphony orchestras, the support services formerly provided to the orchestras directly by the ABC were transferred to a new company, Symphony Australia, established as a subsidiary of the ABC specifically for this purpose. Symphony Australia has operated on a fee-for-service basis, with each orchestra contributing roughly an equal amount for each service it uses.⁸

The original membership of the board of Symphony Australia included the ABC Chairman, the ABC Head of Finance, three directors appointed by the ABC Chairman, a Ministerial appointee from the then Australian Government Department of Communications and the Arts, and a Managing Director appointed by the Board. In 2000, however, the constitution of Symphony Australia was revised and the membership of its board substantially changed. The current structure includes an independent chair, a representative of each of the six state symphony orchestras, an ABC representative, an Australian Government Ministerial appointee (not filled), an employee representative, and the Managing Director. There is also scope for the board to appoint one other independent director.

The review acknowledges the important role which Symphony Australia has played in the process of transition from the era of centralised administration of the orchestras by the ABC to the greater measure of independence they now enjoy. That transition would have been markedly more difficult for many of the orchestras had they not had access to the corporate knowledge, professional expertise and high-quality services offered by Symphony Australia. However, there are now some clear signs that the need for a body such as Symphony Australia has diminished over time, and that there are other ways of providing such services.

One significant problem is the current structure of the board creates a conflict of interest for the managing directors of the symphony orchestras when, as inevitably must happen from time to time, the best interests of Symphony Australia are at odds with the best interests of the orchestras for which they have responsibility. At the time of writing of this report, it is clear the board cannot continue to operate following a number of resignations. Any changes to the constitution to remedy this situation within the current framework would need to be made by the ABC.

⁸ The services provided by Symphony Australia are artistic administration (including international artist contracts), music services (including music library and music editing), artist development, publications and concert programs, information technology, industrial relations, human resources, payroll and advocacy and representation.

Compounding this problem, all of the orchestras have expressed dissatisfaction at the cost of the services provided by Symphony Australia, and there is a widespread view that at least some of these services could be sourced more cheaply in other ways. Two recent reviews of service provision have generally supported this position and recommended that the role of Symphony Australia be reduced to the delivery of artistic services alone.

The orchestras' requirements for the services delivered by Symphony Australia have changed significantly over time, and there now seems to be little advantage on cost or other grounds in many of these services being provided centrally. In particular, it seems clear the administrative services provided by Symphony Australia can be carried out equally or more efficiently either by commercial entities or by the orchestras themselves. Even in the area of artistic services the review considers alternative arrangements could be made which would prove equally or more cost-effective. For example, the ABC has indicated to the review it feels a sense of ownership of the Young Performer Awards and would wish to retain responsibility for managing this important program. Other artistic services such as the Conductor Development Program and the arrangements for the commissioning of new Australian compositions could also be managed in different ways. The music library is a vital resource for the orchestras and will need to be maintained, but the ABC is well placed to determine how this important asset should best be managed in the future.

In summary, the review has formed the judgement that the current structure of Symphony Australia is inappropriate to the point of being unworkable. It also believes that, while the orchestras will need continuing access to many of the artistic services which Symphony Australia has provided in recent years, these services could be delivered equally effectively by other means, and there is no longer any compelling reason to maintain Symphony Australia in its current form. A greater degree of freedom for the orchestras to determine which services they require, and from whom they will purchase them, would also accord well with the changes in corporate governance recommended in Chapter 3.

As Symphony Australia is a wholly-owned subsidiary of the ABC, any decision to wind up the company will be a matter for the ABC board to determine. One important factor will be the consideration of staff members, many of whom have contributed long and devoted service. It would serve the interests of all parties for this matter to be settled as soon as possible, and for all new arrangements to be implemented by 1 January 2006.

Recommendation 20

The orchestras should determine and implement alternative arrangements for the delivery of the services and programs currently provided by Symphony Australia, in consultation with the ABC. All new arrangements should be implemented no later than 1 January 2006.

Chapter 7 – Comments on implementation

The implementation of the recommendations of this review as adopted by governments will require a great deal of work in a relatively short period of time.

Winding up existing structures and creating new entities and new governance structures is complex in itself.

However, steps to implement other recommendations should not be delayed until after the establishment process has been completed. Early dialogue is vital between governments, orchestras and the ABC.

The report has recommended significant one-off additional funds for the orchestras in order to facilitate the recommended changes. These monies are conditional upon the orchestra boards, management and musicians taking shared responsibility with governments for effecting the necessary change with the appropriate sense of urgency.

The recommendations made are interlinked and mutually dependent. For this reason, they should be seen as an integrated package of proposals, rather than as a set of separate options.

TERMS OF REFERENCE

Review of Australia's Symphony and Pit Orchestras

Objectives

The Review's principal objective is to consider the effective and efficient delivery of high quality orchestral services in Australia.

The Review will make recommendations on ways in which the orchestras and governments can work together to ensure the long term vibrancy and sustainability of Australia's orchestra sector.

The Review will involve broad consultation with relevant stakeholders.

The Review will assume the continuation of ongoing government funding support for the orchestras at existing levels and in similar proportions from the Australian and state governments.

The Review is an outcome of the 1999 Major Performing Arts Inquiry, and is to be conducted within the framework of the Inquiry's principles and government-agreed recommendations.

The Review will report to the Minister for the Arts and Sport. State and territory governments will be consulted on the progress of the review and its outcomes through the Cultural Ministers Council.

Scope

The following orchestras fall within the scope of the Review: Adelaide Symphony Orchestra, Melbourne Symphony Orchestra, the Queensland Orchestra, Sydney Symphony, Tasmanian Symphony Orchestra, West Australian Symphony Orchestra, the Australian Opera and Ballet Orchestra, and Orchestra Victoria.

The Review will also consider the role of the Darwin Symphony Orchestra and the Canberra Symphony Orchestra in the context of the broader orchestral sector in Australia.

The Review will assess the efficacy of the formal and informal orchestra network arrangements, including Symphony Australia, taking into account the findings of the review of service delivery models commissioned by the Chairs of the symphony orchestra boards.

Issues

The Review will encompass the following issues for the sector:

Operational Issues

The Review will examine those factors which have an impact on the orchestras' capacity to contain costs, including the role of the formal and informal network arrangements between the symphony orchestras in relation to cost control. In doing so the Review will assess the financial position of each of the orchestras, including structural and employment issues which impact on cost–revenue dynamics.

Marketplace Issues

The Review will examine factors which have an impact on the orchestras' capacity to expand audiences and increase revenue. It will look at audience demand, community interest and access, the role of each orchestra in servicing local and national needs and the potential to maximise earned income through box office, commercial fees and private sector support.

The Review will also look at issues relating specifically to the provision of pit services.

Governance Issues¹

The Review will look at matters pertinent to the good governance of the orchestras, including the appropriateness of the current structure and composition of orchestra boards, the relationship of the state symphony orchestras with the ABC, and how to ensure better practice standards of governance.

The Review will take account of:

- the recommendations of the report of the Orchestral Taskforce;
- the findings of the Review of the Funding Model; and
- the review of service delivery models, including Symphony Australia, commissioned by orchestra board chairs.

Reporting Date

The review will report by 31 December 2004.

¹ The Australian National Audit Office's *Public Sector Governance - Better Practice Guide* will be used to ensure that appropriate standards are applied.

Audited Financial Results 2003

2003

STATE SYMPHONY ORCHESTRAS

PIT ORCHESTRAS

TERRITORY ORCHESTRAS

	STATE SYMPHONY ORCHESTRAS						PIT ORCHESTRAS		TERRITORY ORCHESTRAS			
	SSO	MSO	TQO	ASO	WASO	TSO	AOBO	OV	CSO	DSO		
SUMMARY OF FINANCIAL PERFORMANCE	2003	2003	2003	2003	2003	2003	2003	2003	2003	2003		
\$' 000's	% t'over	% t'over	% t'over	% t'over	% t'over	% t'over	% t'over	% t'over	% t'over	% t'over		
REVENUE												
Government Funding												
Australian govt base grant	8,591	35%	8,230	46%	5,201	56%	4,419	48%	5,156	42%	4,710	65%
State govt base grant	2,687	11%	1,975	11%	2,078	22%	1,347	15%	1,591	13%	671	9%
Other govt funding	44	0%	577	3%	37	0%	0	0%	35	0%	502	7%
Total	11,322	46%	10,782	60%	7,316	79%	5,766	62%	6,782	56%	5,883	81%
Performance Income												
Box Office	9,572	39%	4,509	25%	1,155	12%	1,859	20%	2,759	23%	880	12%
Commercial Hire & Perf Fees	1,057	4%	664	4%	394	4%	398	4%	294	2%	129	2%
Other	61	0%	0	0%	15	0%	0	0%	113	1%	0	0%
Total	10,690	43%	5,173	29%	1,564	17%	2,257	24%	3,166	26%	1,009	14%
Sponsorship and Donations												
Other income	2,223	9%	1,613	9%	291	3%	1,057	11%	1,951	16%	187	3%
Total	607	2%	428	2%	91	1%	157	2%	279	2%	200	3%
TOTAL INCOME	24,842		17,996		9,262		9,237		12,178		7,279	
EXPENDITURE												
Salaries and Wages												
Ensemble	9,315	38%	8,039	47%	5,603	58%	4,640	46%	4,859	41%	2,835	39%
Administrative	2,957	12%	1,887	11%	1,167	12%	1,424	14%	1,289	11%	1,133	16%
Booking office and other	296	1%	212	1%	0	0%	56	1%	143	1%	162	2%
Total	12,568	52%	10,138	59%	6,770	70%	6,120	61%	6,291	53%	4,130	57%
Performance Fees and Wages												
Guest artist	3,699	15%	1,725	10%	494	5%	561	6%	1,124	9%	623	9%
Augmentation	270	1%	173	1%	90	1%	136	1%	249	2%	105	1%
Other performance fees	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Total	3,969	16%	1,898	11%	584	6%	697	7%	1,373	12%	728	10%
Production Costs												
Venue	1,416	6%	1,171	7%	273	3%	446	4%	862	7%	351	5%
Production overheads	558	2%	233	1%	38	0%	121	1%	55	0%	5	0%
Other production costs	726	3%	1,256	7%	316	3%	428	4%	205	2%	214	3%
Total	2,700	11%	2,660	16%	627	6%	995	10%	1,122	9%	570	8%
Marketing Costs												
Performance marketing	1,700	7%	1,088	6%	297	3%	732	7%	1,363	12%	184	3%
Marketing overheads	754	3%	165	1%	137	1%	0	0%	11	0%	137	2%
Development overheads	284	1%	23	0%	185	2%	0	0%	2	0%	24	0%
Total	2,738	11%	1,276	7%	619	6%	732	7%	1,376	12%	345	5%
Symphony Australia Costs												
Administrative Overheads	640	3%	622	4%	496	5%	557	6%	531	4%	574	8%
Other	1,634	7%	483	3%	611	6%	991	10%	1,150	10%	939	13%
Total	2,274	9%	1,105	6%	1,107	11%	1,548	15%	1,681	14%	1,513	21%
TOTAL EXPENDITURE	24,249	98%	17,077	95%	9,707	105%	10,092	109%	11,843	97%	7,286	100%
Surplus/(Deficit)	593	2%	919	5%	-445	-5%	-855	-9%	335	3%	-7	0%
BALANCE SHEET												
Current assets	14,609		9,956		1,655		578		3,022		2,858	
Current Liabilities	9,421		9,043		3,732		3,109		4,505		3,363	
Total Working Capital	5,188		913		-2,077		-2,531		-1,483		-505	
Non-current assets	559		403		187		1,101		630		528	
Non-current liabilities	1,690		321		164		797		115		92	
NET ASSETS	4,057		995		-2,054		-2,227		-968		-69	

APPENDIX 3

INFORMATION ON ORCHESTRAS' CONCERTS

TABLE 1 TOTAL NUMBER OF PERFORMANCES PRESENTED BY THE 10 REVIEW ORCHESTRAS

	2001	2002	2003	% of 2003 performances
Six state symphony orchestras				
SSO	197	181	182	14
MSO	133	132	132	10
WASO	144	146	184	14
TQO	159	164	146	11
ASO	82	71	97	8
TSO	93	80	74	6
sub total	808	774	815	63
Two pit orchestras				
OV	188	176	175	14
AOBO	250	260	250	19
sub total	438	436	425	33
Two territory orchestras				
CSO	23	33	37	3
DSO	8	8	10	1
sub total	31	41	47	4
Total	1,277	1,251	1,287	100

APPENDIX 4

SUBMISSIONS AND CONSULTATIONS

Submissions were received from:

Organisations

Adelaide Festival Centre
Arts ACT
Arts SA
Arts Tasmania
Arts Victoria
Arts WA
Adelaide Symphony Orchestra
Adelaide Festival Centre
Australian Broadcasting Corporation
Australian Chamber Orchestra
Australia Major Performing Arts Group
Australian National University
The Hon Anna Bligh MP on behalf of the Queensland Government
Canberra Symphony Orchestra
Cultural Facilities Corporation - Canberra Theatre Centre
The Hon Robert J Carr MP on behalf of the New South Wales Government
Charles Darwin University
Darwin Symphony Orchestra
Friends of the WASO
The Hon John Hill MP on behalf of the South Australian Government
Horsham Rural City Council – Cr Bernie Dunn, Mayor
Hydro Tasmania
Mallee Family Care – Prof Vernon Knight
Melbourne Symphony Orchestra
Northern Territory Government
Opera Australia
Opera Australia and The Australian Ballet on behalf of the Australian Opera and Ballet Orchestra
Opera Queensland
Orchestra Victoria
Queensland Ballet
Queensland Performing Arts Centre
Sydney Opera House Trust
Symphony Australia Holdings
Symphony Orchestra Musicians' Association
Sydney Symphony
Tasmanian Symphony Orchestra
The Australian Ballet
The Orchestras of Australia Network
The Queensland Orchestra
University of Western Australia Festival Centre – Perth International Arts Festival

Victorian Arts Centre Trust
West Australian Ballet
West Australian Opera
West Australian Symphony Orchestra

Individuals

Anonymous (2)
Ms Jacinta Allan MP
Mr Martin Buzacott
Prof Margaret Gardner
Mr Steve Gibbons MP
Mr and Ms Jack & Marcia Harrison
Ms Paula Huston
Mr John Jones
Professor Emeritus Andrew D McCredie
Mr Peter McGauran MP
Mr John A Meyer
Mr Donald Munro
Mr Duncan Peppercorn
Mr Neil Thompson
Mr Tony Rees
Mr Trevor Richards (*Yacht Grot*)
Mr Paul Saintilan
The Hon Syd Stirling MLA
Mr Lyndon Terracini
Mr Neil Thompson
Mr David M Williams
Mr Bill Wood MLA

APPENDIX 5

REVIEW PANEL AND STAFF

The review panel comprised:

Mr James Strong, Chair
Professor Malcolm Gillies
Mr Peter Grant

MR JAMES STRONG

Mr Strong has been the Chairman of Insurance Australia Group Ltd since August 2001. He is also Chairman of Woolworths Ltd, Rip Curl Group Pty Ltd, the Sydney Theatre Company and the Australia Business Arts Foundation. He is a Director of the Australian Grand Prix Corporation and was until recently on the Board of Opera Australia.

Mr Strong was Chief Executive and Managing Director of Qantas Airways Ltd from 1993 to 2001. Previous positions he has held include Group Chief Executive of DB Group Ltd in New Zealand, National Managing Partner and later Chairman of law firm Corrs Chambers Westgarth, Chief Executive of Trans Australian Airlines (later Australian Airlines) and Executive Director of the Australian Mining Industry Council. Mr Strong has been admitted as a barrister and solicitor.

PROFESSOR MALCOLM GILLIES

Professor Gillies is a deputy vice-chancellor at The Australian National University, responsible for all educational matters, internationalisation and associated student services. He was previously a pro-vice-chancellor at The University of Adelaide, and a faculty dean at The University of Queensland.

Professor Gillies is the author or editor of a dozen books in the analysis and history of early- to mid-twentieth-century music. He is a former lecturer of the Victorian College of the Arts and the University of Melbourne and is Chair of the ELISION Ensemble which aims to present Australian contemporary music at the highest international level.

Professor Gillies is Deputy Chair of the Australian Youth Orchestra (from 2003), and has been Chair of the contemporary music ensemble Perihelion (1992-97), Chairperson of Australian Music Examinations Board Victoria (1990-92), President of the Musicological Society of Australia (1992-94) and Chair of the Heads of Australian Tertiary Music Schools (1996-97).

MR PETER GRANT

After a career of more than 33 years in the Australian Public Service, Mr Grant retired in 2001 as Deputy Secretary of the then Department of Education, Training and Youth Affairs.

As a junior officer in the 1970s and early 1980s Mr Grant worked for many years in the Tertiary Education Commission, an experience which proved valuable when he again became involved in higher education policy in the late 1980s. Among other responsibilities, Mr Grant led a team which implemented the Higher Education Contribution Scheme (HECS) in 1988. He played a major role in the policy processes which led to the establishment of the Australian National Training Authority (1992) and the radical reshaping of employment services delivery in Australia (1996).

In retirement Mr Grant remains active in the area of education policy and chairs the board of the National Centre for Vocational Education Research. He holds a Bachelor of Music degree from the University of Melbourne.

Reference group

A reference group, comprising senior officials from both Australian and state Governments and the Australia Council, assisted the Review Panel in its deliberations. The group consisted of Dr Alan Stretton, Deputy Secretary at the Department of Communications, Information Technology and the Arts, Ms Jennifer Bott, CEO of the Australia Council and Mr Ken Smith, Director-General at the Queensland Government Department of Education and the Arts.

Review secretariat

Principal staff

Department of Communications, Information Technology and the Arts

Dr Paul Salmond

Dr Stephen Arnott

Ms Sheena Ireland

Australia Council

Ms Elizabeth Tupper

Temporary staff

Ms Katharine Feros

Mr Benjamin Crowley

Consultants

Boston Consulting Group

The review would also like to acknowledge the support of Dr Catherine Brown-Watt, director, and staff of the Major Performing Arts Board at the Australia Council.