NATIONAL OPERA REVIEW

FINAL REPORT

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Senator the Hon Mitch Fifield
Minister for the Arts
Parliament House
CANBERRA ACT 2600

Dear Minister

We are pleased to present the Final Report of the National Opera Review. It has been a privilege and a significant responsibility to undertake this work on behalf of the Australian Government.

This Final Report provides an integrated package of 118 recommendations that the Panel considers will significantly enhance the financial viability, artistic vibrancy and accessibility of Australia's Major Opera Companies, namely Opera Australia, Opera Queensland, State Opera of South Australia and West Australian Opera.

Individually and collectively, these companies make a significant contribution to Australia's cultural life. While the iconic Sydney Opera House might be a physical manifestation of the role opera plays in the national psyche, it is the quality of the productions of the companies and the artists who have built significant international reputations from our shores that have enhanced Australia's reputation as an innovative and sophisticated nation. Attendances of well over 500,000 Australians at their performances bear testament to that.

Notwithstanding Australia's formidable history and reputation as an opera-loving nation, the Major Opera Companies are currently facing significant challenges: financially, artistically, as well as from an access perspective. Those pressures, which originally emerged following the Global Financial Crisis, have not abated.

The package of recommendations contained in this Final Report is designed to address those challenges and create a cycle of success to restore the vibrancy of the companies. Even though we recognise the many competing demands on Government at the current time, we consider that the timely adoption and implementation of these recommendations is of high priority.

In putting forward these recommendations, we acknowledge and thank the large number of organisations, individuals and government officers who have so willingly given of their time, commitment and wisdom to allow us to gain insight into the challenges facing the companies, as well as suggesting ways of moving forward. In particular, in developing a robust fact-based analysis that underpinned the Discussion Paper and this Final Report, we acknowledge the assistance of staff at each of the Major Opera Companies, the Australia Council, all State Governments as well as the dedicated Review Secretariat who have gone above and beyond in responding to our requests for information. We sincerely thank each and every one of them.

We commend this Report to you and we look forward to the Government's response in due course.

Yours sincerely

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National Opera Review Final Report

EXECUTIVE SUMMARY

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Executive Summary

The National Opera Review was asked, under its Terms of Reference, to make recommendations aimed at promoting the financial viability, artistic vibrancy and accessibility of Australia's four Major Opera Companies, namely Opera Australia (OA), Opera Queensland (OQ), State Opera of South Australia (SOSA), and West Australian Opera (WAO).

In discharging its responsibilities, the Review Panel has sought to be objective, rigorous and fact-based, at the same time as engaging with and understanding the perspectives of multiple stakeholders.

Undertaking the Review has not been easy. Gathering consistent and robust data to provide deep insight has been challenging and time-consuming, but necessary, to test the validity of sometimes entrenched views. Nonetheless, the Panel has stood by its commitment to rigour and objectivity given the importance of the outcome to Governments, audiences, the companies themselves, as well as to artists and the professional staff who dedicate their life to the artform.

The Review faced another major issue. While the four Major Opera Companies operate within *A National Framework for Governments' Support of the Major Performing Arts Sector* (hereafter the Framework), established in 2011 by the Cultural Ministers Council (CMC), so too do Australia's 24 other major performing arts companies from the dance, music and theatre sectors. However, these companies were not included within the Review's Terms of Reference. Many of the Panel's recommendations have the potential to affect these other companies, either directly or indirectly. As a consequence, the Review had to deal with the complexity of crafting its recommendations mindful of the potential impact on the other companies not within its mandate.

Against that backdrop, this Final Report and an updated *Analysis* section of the Discussion Paper, initially released in September 2015, discharge the Review's responsibilities under its Terms of Reference.

The Final Report contains 118 recommendations to Governments that should be regarded as an integrated package. The Panel considers that these recommendations, if implemented in their entirety, will promote a vibrant and dynamic future for opera in Australia.

Broadly speaking, the recommendations fall into seven key categories, as follows.

Overall Government Framework

With only minor modifications, the Review recommends that the Major Opera Companies continue to operate within the 2011 CMC Framework. This recommendation is made because the 24 other major performing arts companies were not covered by this Review's Terms of Reference. Nonetheless, the Review has highlighted weaknesses and pressures inherent in the Framework and considers that it might need to be reviewed in the near to medium term (Recommendation 5.3).

While the Review supports the Framework's premise that each company should have the ability to define its own artistic and strategic direction in a prudent financial way (Recommendation 5.4), it also recommends that those activities funded by Governments should be more specifically defined (Recommendation 5.5) and that the companies should be penalised if agreed funded activities are not delivered (Recommendations 5.6 to 5.9).

The Review also recommends that significant commercial activities, such as Opera Australia's long-run musicals, should not be funded because there are viable independent commercial competitors in the market (Recommendations 5.10 and 5.11). This is a significant conclusion of the Review. This is not to suggest that Opera Australia should not continue to stage musicals on a purely commercial basis.

The other threshold governance questions related to Opera Queensland and Victorian Opera.

Opera Queensland's remaining as a major performing arts company was canvassed in the Discussion Paper because the company has, for some time, been in breach of the criteria to retain such a status. This issue was raised by multiple stakeholders during the course of the Review.

On balance, and after significant discussion with key stakeholders, the Review recommends that Opera Queensland be given three years from the time of the implementation of the Review's recommendations to meet all major performing arts criteria that exist under the current Framework.

It should be supported to do so, provided in the meantime it makes serious efforts to increase private sector support and to reduce its overheads, which are significantly higher on a benchmarked basis than comparable companies. In this context, it is recommended that Opera Queensland should explore the establishment of a shared services model with the Queensland Symphony Orchestra, which has indicated its preparedness to examine such an arrangement.

In return, a Reserves Incentive Matching Scheme should assist Opera Queensland raise funds to repair its balance sheet. The company should also be supported with interim, but progressively declining, financial assistance to make the necessary adjustments in moving to a sustainable operating and financial model (Recommendations 5.12 to 5.15).

Further, the Review recommends that Victorian Opera should be supported to become a major performing arts company, noting that the Review has not undertaken detailed analysis of Victorian Opera's financial and performance data. Nevertheless, the Review formed the view that Victorian Opera meets the criteria to be considered a major performing arts company. It is recognised that this recommendation goes beyond the Review's Terms of Reference (Recommendation 5.16).

How the companies should operate

A key aspect of the Review's Terms of Reference was the extent to which the Major Opera Companies should compete or co-operate within the same geographies; with productions and venues; and in relation to regional touring.

Within the same geographies

Multiple stakeholders raised the issue of where Opera Australia should stage mainstage productions and more specifically, whether it should present mainstage opera in Brisbane, Adelaide and Perth. While, from an access and artistic perspective, extending Opera Australia's geographic mainstage reach outside of Sydney and Melbourne might have appeal, after significant detailed analysis, the Review does not recommend such an approach.

The economics of touring mainstage opera, including a significant differential in ticket price among capital cities, are highly unattractive, and would put at significant risk the viability of all of Australia's Major Opera Companies, including those in whose geography Opera Australia would then perform (Recommendations 6.1 and 6.3).

The Review recognises that these factors also pertain to Opera Australia's staging mainstage opera in Melbourne. While Victorian Opera currently offers opera of a different scale and variety, no other viable option exists to provide a full programme of mainstage opera into Melbourne. The Review, therefore, recommends that Opera Australia continue to stage mainstage productions in Melbourne, although the resulting economic pressure on Opera Australia needs to be closely monitored (Recommendation 6.2).

With productions

Opera Conference received serious and sustained attention from the Review due to recent tensions that have emerged over repertoire selection. Given mainstage opera's high fixed physical production costs, co-operation among the companies to achieve economies of scale are recognised and valued. But revised processes are required to ensure that these benefits can be achieved in a more constructive way.

To that end, the Review has recommended significant changes in the rules governing Opera Conference, including its annual production needing to be approved by only three, rather than all four, companies; its having an independent chair; its only being used for mainstage productions; its using principally Australian creative teams; and its funding being separately administered rather than through the accounts of each company (Recommendations 6.4 to 6.8).

Regardless, greater collaboration is encouraged among the companies where financially viable, including touring more commercially oriented productions (Recommendation 6.9).

With venues

It is recommended that Opera Queensland and SOSA should focus on specific theatres to improve audience engagement and appreciation. They, along with WAO, should also work with their respective theatres and orchestras to reduce dark nights in the theatre, which are a perennial challenge, particularly for the venues (Recommendations 6.10 to 6.12).

With regional touring

It is recommended that within their own state, Opera Queensland, SOSA and WAO alternate by year with Opera Australia in touring to regional centres. Each should be funded to undertake those activities, with Opera Australia receiving funding for its regional activities as part of its core funding, rather than through Opera Conference and Playing Australia (Recommendation 6.13 to 6.18). Opera Australia should continue its regional touring to Tasmania, Northern Territory and the Australian Capital Territory.

Artistic vibrancy

The number, balance and quality of mainstage productions is integral to the future of opera as an artform and the success of the companies.

It is the very lifeblood of each opera company, providing the basis for artistic engagement with audiences and the employment of artists. But, in the wake of the Global Financial Crisis (GFC), it has also been the financial Achilles heel of each Major Opera Company, making a growing negative financial contribution.

Opera Australia and Opera Queensland, in particular, have responded to this challenge by reducing the number of mainstage productions and/or performances they offer and, in the case of Opera Australia, by offering longer runs of frequently repeated popular mainstage operas.

The unintended consequence has been that audience numbers for mainstage opera have declined and employment opportunities for artists have significantly decreased.

The Review considers that such a situation is not sustainable. To that end, it recommends that core funding should be provided for a defined number of mainstage productions. More specifically, it is recommended that a minimum of three mainstage productions should be offered each year by Opera Queensland, SOSA and WAO; while Opera Australia should increase its number of offerings to 11 in Sydney and seven in Melbourne (Recommendations 7.1 to 7.3). The variety, balance and scale of such productions also need to be enhanced and appropriate funding provided for that outcome (Recommendation 7.4).

Other initiatives are required to increase artistic vibrancy, including supporting the development of new Australian works; presenting works in association with festivals; and increasing the use of digital technology. It is recommended that the companies work with other organisations to drive such initiatives and that an Innovation Fund be created to provide support (Recommendation 7.5 to 7.8).

Such recommendations would also support increased employment opportunities for artists. At the same time, it is proposed that the funding agencies engage proactively with the companies in relation to the significantly increased use of non-Australian versus Australian artists in leading mainstage roles (Recommendations 7.9 to 7.13).

Improved access

Despite the decline in mainstage audiences, overall paid capital city attendances for the Major Opera Companies have increased by 37 percent from 2009 to 2015 to well over half a million attendees. This has occurred largely because of bold strategic initiatives by Opera Australia in staging long-run musicals and introducing Handa Opera on Sydney Harbour (HOSH), which is now regarded as an integral part of the city's, and potentially the nation's, cultural life.

While recognising there is much to celebrate with such increased attendances, the Review seeks to encourage more being done to broaden audiences.

In particular, the Review recommends initiatives to improve the quality of audience experiences at venues (Recommendations 8.1 to 8.3); to enhance engagement with subscribers and older audiences; as well as to attract younger audiences (Recommendations 8.4 to 8.6).

Other initiatives should also be undertaken to broaden the market for single ticket sales and to market opera to diverse demographic groups (Recommendations 8.7 and 8.8), along with creating stronger emotional connections between audiences and artists (Recommendation 8.11 and 8.12).

Finally, one of the strongest recurring themes from public consultations was the need to secure future audiences through education programmes in schools. While technically this was not within the remit of the Review, it is provided as a suggestion to State Governments for their serious consideration (Recommendations 8.9 and 8.10).

Financial viability

Subsequent to the GFC, each of the Major Opera Companies, to varying degrees, has been under financial stress, in part due to increasingly negative contributions from mainstage opera and the associated deteriorating cost-revenue dynamics.

In addition to the recommendations outlined in the prior two sections, a variety of further initiatives are proposed to address this challenge.

More specifically, it is proposed that steps be taken to improve digital marketing; to enhance the use of data so boards can better monitor mainstage cost-revenue dynamics; to reduce physical productions costs; and where possible to gain greater control of artistic costs (Recommendations 9.1 to 9.4).

It is also recommended that the cost-revenue dynamics of other activities, such as regional touring, school and community programmes, receive greater attention. Most importantly, and particularly for Opera Queensland and Opera Australia, it is strongly recommended that further initiatives be taken to control overhead costs. On the other hand, SOSA needs to invest to provide a more sustainable infrastructure base and to strengthen its marketing capability so as to generate additional income (Recommendations 9.5 to 9.8).

Generating additional private sector income is essential to the Major Opera Companies. It is proposed that targets be set, linked to the capacity of the geographic market in which a company operates. The achievement of these targets might take time, except for WAO, which has delivered outstanding results in Western Australia (Recommendations 9.9 to 9.12).

Over and above private sector support, other initiatives should be taken to strengthen the companies' balance sheets, particularly those of Opera Australia and Opera Queensland (Recommendations 9.13 to 9.16). In the case of Opera Queensland, it is acknowledged that this will require the support of the Federal and Queensland Governments, recognising that Opera Queensland should also contribute additional funds. The total amount should be put into quarantined reserves that the company cannot access without the prior approval of both funding agencies, which should not readily be granted.

Governance and management

The Review recognises the challenges facing management and the board of each Major Opera Company. Each management and its board must not only display deep understanding and balanced judgement in relation to the delicate trade-offs between financial responsibility and artistic judgement, but must also assess how best to increase box office and private sector support. That is not an easy task.

Recognising the criticality of such decisions, the Review makes a series of recommendations designed to ensure the highest standards of corporate governance. This includes recommendations in relation to the optimal mix of skills on the board; obtaining information—particularly in relation to a company's cost-revenue dynamics—and acting on such data; proactively dealing with the inevitable tensions that develop between artistic vision and financial responsibility; creating a culture of openness of debate; and ensuring the ongoing effectiveness of board dynamics, particularly through effective board evaluation reviews and tenure limits for individual directors (Recommendations 10.1 to 10.7).

More specifically, the Review recommends that the South Australian Government consider SOSA being governed by Corporations law (Recommendation 10.8).

Strong and effective management is essential to ensure each company's cycle of success. To that end, the Review recommends the availability of higher quality and transparent data and that the inherent tensions between artistic aspiration and strong financial management are effectively managed (Recommendations 10.9 to 10.12).

Government funding

Government funding is essential to support the long-term sustainability of the Major Opera Companies. Without such support, the companies' ongoing viability cannot be assured.

However, such funding needs to be provided in ways that do not create unintended consequences.

Thus, while it is recommended that the Major Opera Companies operate within the parameters of the 2011 CMC Framework, significant refinements are proposed in relation to the application of an underlying funding model.

More specifically, it is recommended that a funding model based on benchmarked financial analysis of specific activities be adopted. This provides an underlying rationale for the manner in which the companies are funded. The way this model would operate is outlined in Recommendations 11.1 and 11.2, with a resultant annual increase in ongoing funding for the Major Opera Companies of $2.509 million in 2015 dollars. (Further detail on the composition of this funding is provided at Recommendation 11.3). At the same time, it is recommended that, with the exception of HOSH, the Major Opera Companies be discouraged from applying for project funding. Project funding, which has characteristics of being ongoing, has been incorporated within core funding, with this assumption being embedded in the proposed incremental amount of $2.509 million. (Recommendation 11.4). It is also recommended that penalties be imposed if the companies do not deliver on their defined activities (Recommendation 11.5). Moreover, the 2015 distribution of funding between the Federal and State Governments should be maintained, noting that this arrangement is likely to need to be reviewed over time (Recommendation 11.6).

Additional annual funding of $1.5 million should be provided to support Opera Conference. It is recommended that the basis for funding Opera Conference be redefined, with the Federal Government providing half of the funding and the balance supplied equally by each of the five State Governments in which the Major Opera Companies stage mainstage performances. If, in any year, the companies do not agree to the substantive use of those funds, the amount should revert to the Government funding agencies (Recommendations 11.7 to 11.10).

An Innovation Fund, annually worth $1.2 million, should be established that would fund the development of new works, co-operation with festivals and digital initiatives. That amount would be entirely funded by the Federal Government (Recommendation 11.11).

In addition, a structural adjustment package in two parts is required to set Opera Queensland up for future success. A Reserves Incentive Matching Scheme, designed to restore Opera Queensland's balance sheet, would be worth $1 million over three years, funded equally by the Federal and Queensland Governments. Opera Queensland would need to raise $0.5 million to match the amounts provided by each Government. A further $1.3 million in funding would be provided to Opera Queensland over three years to assist with its making the transition to a more sustainable operating model. Thereafter, it would decline to zero. It is proposed that this be funded by the Federal and Queensland Governments in the same proportion as core funding (Recommendation 11.12).

The implementation of these recommendations is a complex exercise which requires enhanced resources over and above those currently available in the Major Performing Arts Panel (MPAP) of the Australia Council. To that end, an additional amount of $0.250 million should be granted to the Australia Council to acquire staff with the requisite skills to engage with the Major Opera Companies in the way envisaged (Recommendation 11.13).

Overall, and in summary, an additional appropriation is proposed of $6.392 million in Year 1, decreasing in Year 4 to $5.459 million[1]. The Review recommends that this be new

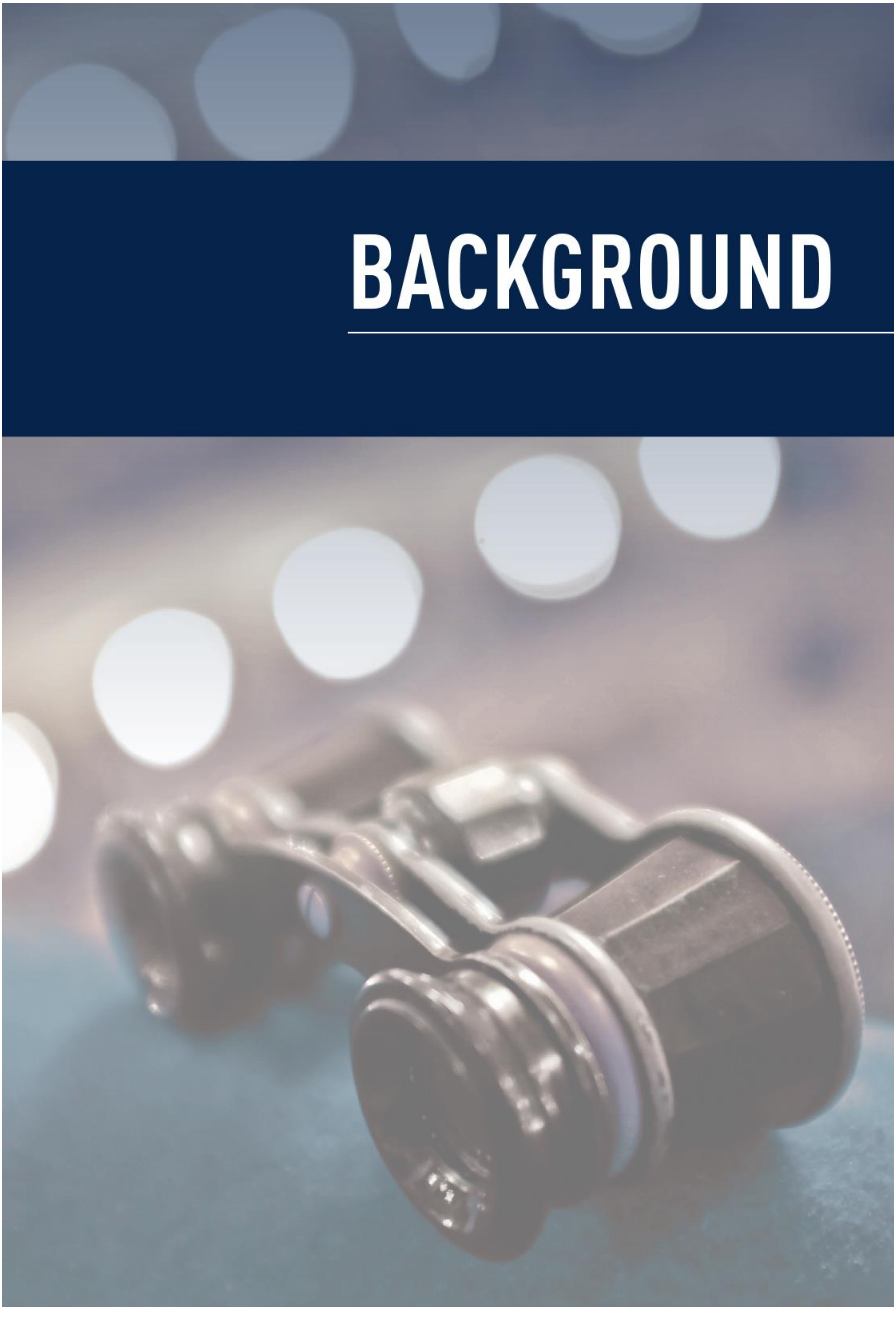
[1] In 2015 dollars, before indexation.

funding rather than coming from any existing arts grant (Recommendations 11.14 and 11.15).

The Review recommends that oversight and funding responsibility remain with the MPAP of the Australia Council, but strongly recommends that modifications occur in the way it currently operates. Decision-making should be jointly undertaken with the State Government funding agencies; the quality of data available to the MPAP should be significantly improved; staff with an appropriate level of seniority and skill should be employed; and the Chair of the MPAP should sit on the Australia Council Board and be appointed by the Federal Minister for the Arts. To this end, it is also recommended that the MPAP undertake an annual survey to gain feedback on whether it is meeting the expectations of the companies and the relevant State Government funding agencies (Recommendations 11.16 to 11.27).

On this basis, and as an integrated package of recommendations, the Review commends this Final Report of the National Opera Review to the Federal Minister for the Arts.

BACKGROUND



1. Introduction

This is the Final Report of the National Opera Review into Australia's four Major Opera Companies: Opera Australia (OA), Opera Queensland (OQ), State Opera of South Australia (SOSA) and West Australian Opera (WAO). Hereafter, these companies are referred to as the Major Opera Companies. This Final Report sets out the Review's conclusions and its recommendations.

The Review was asked to make recommendations aimed at promoting the Major Opera Companies' financial viability, ongoing artistic vibrancy and accessibility. The Review was also asked to examine and report on any other issues it considered relevant or incidental.

More specifically, the Review was asked to identify and report on:

- The companies' ongoing financial viability, including the effectiveness and efficiency of the delivery of opera performances in Australia by the four Major Opera Companies, including their cost-revenue dynamics, balance sheet strength and ongoing sustainability; the competitive dynamics; their workplace arrangements; the cost and value of the assets of each including foundation assets where applicable; and the corporate structure, constitution, management and governance of each company. In addition, the Review was asked to opine on the extent of co-operation among the companies; benchmark information on the delivery of opera; and describe the rationale and role of government funding in supporting the operations of the companies.
- The companies' ongoing artistic vitality, including an assessment of their artistic vibrancy and the relationship with their financial strength; and an analysis of the ways the delivery of opera in Australia contributes to the development of artists, musicians and other practitioners at all stages of their careers.
- The extent of access provided by the companies and the way that interrelates with their artistic vibrancy and financial viability. This was to include an assessment of the delivery of opera in metropolitan and non-metropolitan areas (including regional touring and education programmes); ways to broaden and increase audience engagement; and ways by which the appreciation of opera as an artform can be increased.

This Final Report should be read in conjunction with the revised version of the *Analysis* section of the Discussion Paper which was initially released in September 2015. Together, they acquit the Review's responsibilities under its Terms of Reference.

The *Analysis* section of the Discussion Paper outlined opera's evolving dynamics; the companies' responses; and the impact of those dynamics and responses on each Company's financial, artistic and access performance. For ease of reference, the *Analysis* section of the Discussion Paper is appended to this Report. The material in the *Analysis* section has not been updated with 2015 data that was not available at the time the Discussion Paper was released. However, in some instances, 2015 data has been referenced in the Final Report.

The *Issues to be Addressed* section of the Discussion Paper canvassed 102 options for dealing with the challenges facing the companies. This section of the Discussion Paper has not been included in this Final Report.

Following the release of the Discussion Paper, submissions were sought, and 90 submissions were received from interested parties.

Subsequent to the receipt of submissions, the Review Panel met from late January through to April with the Major Opera Companies, State Governments and a range of other parties whom the Panel considered could help with their final deliberations. (This followed extensive consultation in the lead up to the Discussion Paper, including public consultations). Many key stakeholders provided additional data and comments to the Review that allowed detailed testing of the implications of the options outlined in the Discussion Paper. In addition, the Review has, in some instances, updated the *Analysis* section of the Discussion Paper to reflect comments received in submissions, subsequent input, as well as additional significant analysis undertaken by the Review.

This Final Report is a report to the Federal Government. Its focus is on issues where governments could be expected to have a view. The Final Report, therefore, does not offer a perspective on company specific issues, such as particular choice of repertoire or artists. Nor does it comment on individuals who historically or currently occupy governance or leadership roles within the companies.

As with the Discussion Paper, the Panel acknowledges the extensive support it has received from the companies and other parties. A list of organisations and individuals consulted by the Panel is provided at the end of this Final Report.

In particular, the Panel records its appreciation of the work of Mr Chris Smith and Dr Cathy Brown-Watt PSM, who in addition to staff from the Department of Communications and the Arts, provided support during the Review.

Notwithstanding their input and those of other individuals, the recommendations in this Final Report are entirely those of the Panel.

The Panel also acknowledges the pro bono assistance received from Macquarie Group and the Melbourne Recital Centre, which have provided facilities for the Review Panel's meetings.

The Panel, consisting of Dr Helen M. Nugent AO (Chairman), Ms Kathryn Fagg, Mr Andrew McKinnon and Mr Moffatt Oxenbould AM, are grateful for all the assistance that has been received. National Opera Review Panel Member biographies are included at the end of this Final Report.

This Report is commended to Government.

2. Opera: Defining characteristics

This chapter provides a brief overview of some specific defining characteristics of opera as an artform and Australia's Major Opera Companies in particular. These characteristics underpin the recommendations in this Final Report. More detail is provided in the appended Discussion Paper.

Opera is a distinctive performance artform that unites the powerful forces of music, the narrative of a drama or the wit of a comedy, along with attendant performance disciplines, in ways that heighten the emotions.

The strong emotional responses that great opera performances evoke have been fundamental to the operatic experience for more than four centuries of composition, performance and evolution.

Some operas are epic in scale, while others are intimate chamber works.

Opera is very labour intensive. The large number of highly skilled participants; the magnitude of scenic expectations; and the variety of specialised skills necessary to support performances demonstrate this labour intensity. Opera typically engages not only principal singers, but a chorus, an orchestra, often dancers and actors, a team of specialist backstage musicians, stage managers, technicians, wardrobe, wigs and makeup staff.

The labour intensive nature of the artform drives costs, which cannot easily be controlled. An operatic score has many separate vocal and instrumental parts which all need to be sung or played to realise the composer's creation. While it may be possible to reduce the number of instruments or chorus voices performing a particular part (8 rather than 12 first violins for example), a minimum level of participants is required to ensure artistic integrity, which could be compromised by eliminating specific orchestral instrumental sections or voice types from a score. This does not mean that cost control should not be exercised. But cost control beyond a certain point poses a risk to artistic vibrancy and the quality of performance offered to the public.

Australia has a long and proud history of operatic practitioners who have aimed high and succeeded at a global level. In 1886, Mrs Nellie Armstrong from Melbourne sang at a student concert in Paris under the name of Nellie Melba. The following year, she made her operatic debut in Brussels, subsequently conquering the operatic world, arguably to become the most famous Australian of her generation. After Melba, audiences worldwide have acclaimed a star-studded procession of illustrious Australian singers, conductors, directors and designers. In that distinguished company, Dame Joan Sutherland, among others, became a household name. More recently, 119 years after Melba's debut, another soprano from Victoria, Ms Nicole Car, won a major international vocal competition leading to auspicious debuts in Dallas, Berlin and at the Royal Opera House, Covent Garden in London. As a former member of Victorian Opera's and Opera Australia's Young Artist Development Programs, she had the advantage over Mrs Armstrong of her talent having previously been recognised and nurtured in her homeland. Before embarking on a major international career, she had the opportunity to perform, on stage, roles both large and small. This is a consequence of Australia having opera companies that aspire to the highest artistic standards and performance practice.

Opera is evolving rapidly. While the operatic repertoire of earlier days retains its capacity to entertain and excite—especially because of the excellence and virtuosity of today's performers—opera in the 21st century is flexibly adapting to the use of increasingly sophisticated technology as well as responding to and leveraging an ever-changing array of competitive arts entertainment options. Such innovation is impacting not just the way opera is staged, but also on how, globally, it is disseminated to audiences. The regular development of new works is also critical to the continuing artistic vibrancy of the artform.

Australia's Major Opera Companies play a vital role in the nurturing of artists and the evolution of the artform. They are an integral part of Australia's rich opera ecosystem that encompasses both larger and smaller companies in all parts of the country. Their interactions with other companies and practitioners in other disciplines also increasingly define the way opera is evolving.

While Australia's four Major Opera Companies have much in common, each has a distinctive character that reflects the community and geography in which each performs.

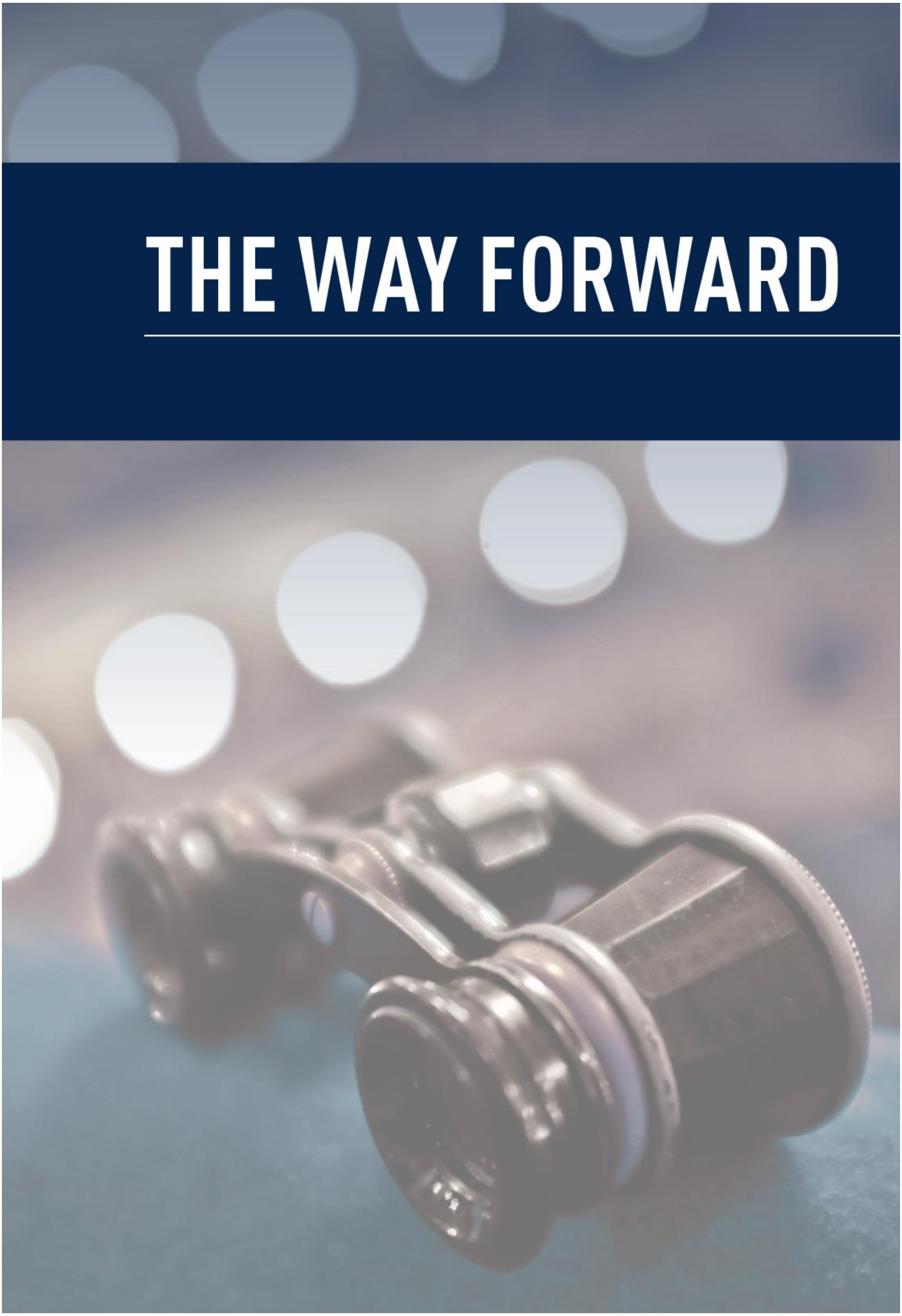
Opera Australia celebrates its 60th anniversary this year. It is a globally recognised repertory[2] company that puts on a significant number of performances each year in Sydney and Melbourne. It also tours regionally. It plays a critical role in sustaining Australia's opera ecosystem.

WAO, SOSA and Opera Queensland are *stagione*[3] companies. SOSA celebrates its 40th anniversary in 2016, while WAO has a milestone 50th anniversary in 2017. While these companies present fewer mainstage productions each year than Opera Australia, they are deeply embedded in their local communities. They present performances of the highest quality that engage with local audiences, in part because many of their leading artists are residents or originally came from that state.

Against this backdrop, this Final Report of the National Opera Review provides recommendations to assist Australia's Major Opera Companies move forward to overcome current challenges. Through the implementation of these recommendations, the Review seeks the continuation of Australia's distinctive leadership role in the operatic landscape in ways that reflect both the highest artistic standards, as well as providing flexibility to facilitate the artform's evolution.

[2] See Discussion Paper Glossary
[3] See Discussion Paper Glossary

THE WAY FORWARD



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3. The Way Forward: Opportunities and challenges

The Australian economy is at a critical inflection point in its history. While the resources sector remains critically important, Australia increasingly wants to be recognised globally as a creative and innovative country known for its skilled and well educated workforce, its technology capability and leadership, and the quality and agility of its services sector. The increased importance of education and tourism is indicative of that change. Technology underpinned by great ideas, creative insight and the will to succeed will undoubtedly redefine the future for companies, industries and the country.

The arts have a vital role to play in the transformation of the Australian economy. It is not just because the arts are economically important in their own right, but because they also make our cities and towns more attractive as places for a vital and creative people to live and work, while presenting an image to the rest of the world of a dynamic and progressive society with whom to trade and interact.

Within the broader arts ecosystem, Australia's major performing arts companies and more specifically the Major Opera Companies, play a crucial role. They stimulate creativity, they enliven and challenge, and they engender engaged conversations that help define an image of Australia as a nation at the forefront of creative thinking. Emblematic of that deep connectivity is the iconic image of Australia: the Sydney Opera House.

Handa Opera on Sydney Harbour (HOSH), which Opera Australia began staging in 2012, provides one example of that connectivity, creativity and innovation. Similar to the annual Bregenz Opera Festival on Lake Constance, which attracts over 200,000 patrons annually, Opera Australia has staged a popular opera each year in full outdoor sight of the sails of the Sydney Opera House and the Sydney Harbour Bridge. In 2015, 55,011 local, interstate and overseas attendees were attracted to HOSH to see Verdi's opera, *Aida*. In 2016, Puccini's *Turandot* has reinforced our connection to China in the way it has been presented.

Indeed, in 2015, the creativity of Australia's Major Opera Companies was evident to 563,043 individuals who attended the 475 performances that were staged. This was a 26 percent increase from the 446,668 attendees at 332 performances in 2009, following a stellar year in 2014 when over 693,000 people attended 576 performances. Indeed, and more specifically, Opera Australia gives more performances than almost any other opera company in the world.

But while the overall statistics are impressive and a tribute to the hard work of the Major Opera Companies, they conceal an underlying and deep-seated vulnerability confronting these companies, which fundamentally arises from challenges facing mainstage opera, the core underpinning of the artform.

That vulnerability, which emerged in the wake of the Global Financial Crisis (GFC), also reflected rapidly evolving changes in consumer behaviour and technology. These forces unleashed fundamental shifts in demand and supply which have highlighted the fragility of Australia's Major Opera Companies from an artistic, access and financial perspective.

While other artforms were not immune to the same forces stemming from the GFC, as well as related consumer and technology shifts, Australia's Major Opera Companies, and for that matter opera companies globally, were less able to readily adjust. That is because of opera's long planning cycles, its intrinsically higher cost structure, its far higher ticket prices, and lower reserves, all of which have led to reduced financial resilience.

Recognising the constraints imposed by its underlying economics, Opera Australia, as an example, reacted to the GFC by reducing its Sydney mainstage productions from 13 in 2009 to 12 in 2010, while putting on longer runs of popular operas. The initial 6 percent decline in audience numbers was then a catalyst that caused the company to initiate two further reductions in the number of mainstage productions, so that by 2015, 9 productions over 122 performances were offered, versus 13 productions over 163 performances in 2009. In that process, Sydney mainstage opera attendances declined by 25 percent.[4]

As part of its strategic response to these challenges, Opera Australia not only moved to present HOSH, but also initiated a commitment to staging long-run Broadway musicals, recently in association with the Gordon Frost Organisation. It is these bold strategic initiatives that account for the significant increase in audience numbers that occurred between 2009 and 2015.

But while the overall increase in attendees is to be applauded, the underlying challenges facing the four Major Opera Companies need to be addressed. In the absence of that, the continued ability of the Major Opera Companies to make an ongoing contribution to Australia's cultural life and creativity will be threatened.

More specifically, the key sources of vulnerability addressed in this Report are outlined below.

3.1 Artistic vulnerability

Mainstage[5] opera underpins the artform's ongoing success. It provides the platform for long-term artistic success and artistic careers and is the basis from which innovation occurs. However, mainstage opera in Australia faces significant challenges.

The number of mainstage productions and performances has significantly reduced, as has the number of new mainstage productions. In the case of Opera Australia, when combined with an increasing proportion of longer run popular and frequently repeated operas and a narrowing of the repertoire—with a greater focus on popular Italian operas—the consequence has been reduced choice for audiences and declining attendances.

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[4] See Discussion Paper 6.1.1
[5] See Discussion Paper Glossary

At the same time, because of the cost and risk, relatively few new Australian works have been developed. This means that, despite the recent development of works such as *The Rabbits, Cloudstreet, The Riders* and *The Divorce,* the renewal of the repertoire and Australia's distinctive voice is not being heard and seen to the extent considered desirable. That trend is being amplified because new productions of existing works are increasingly being brought in from overseas or developed in partnership with an international company, which usually is the lead commissioning partner. While economically responsible, because it achieves economies of scale in the significant cost of physical productions, it deprives audiences of Australian-led creativity.

Opera Australia's reduced number of mainstage opera productions and performances, combined with the increasing use of international singers in principal roles, has also had consequences for artists. There are fewer principal roles available for Australian singers and reduced ongoing employment opportunities for ensemble singers, choristers, orchestral musicians and technical staff. Young artist programmes have also seen cuts in the number of remunerated positions. These are trends that are a cause for concern which this Review seeks to address.

Opera Australia's increased focus on long run musicals has also had implications for artists. Musicals are welcome because they have an ability to reach a broader cross-section of Australians and, as opposed to opera, their touring economics are usually more attractive, in part, because cast sizes and the number of orchestral players are often smaller. Nonetheless, there can be adverse consequences for opera singers. More specifically, many musicals offer limited opportunities for operatic artists and, in Sydney, several mainstage opera productions in the Joan Sutherland Theatre at the Sydney Opera House have been displaced by musicals. This has reduced the number of available opera roles and performance opportunities for classically trained opera singers.

These are all indicators of the significant artistic pressures on the Major Opera Companies and run contrary to their aspirations to lead the artform with a high degree of innovation and the highest artistic standards.

3.2 Access vulnerability

While between 2009 and 2015, the Major Opera Companies experienced a significant 37 percent increase in paid capital city attendances, long-run musicals and HOSH were the major reasons for that rise. For instance, in 2015, long run musicals and HOSH together accounted for 191,652 attendees, following an extraordinary year in 2014, with 320,296 attendees at HOSH and two musicals running at different venues throughout Australia.

In contrast, reflecting the artistic pressures elaborated on above—particularly the reduced number of mainstage productions and performances—mainstage audiences for the four Major Opera Companies reduced from 312,012 in 2009 to 225,563 in 2015, a decline of 28 percent.

In that process, subscribers purchased fewer tickets, which declined by 41 percent from 126,221 in 2009 to 74,136 in 2015. The marked reduction in the number of Opera Australia's productions in Sydney over this period, together with the frequency of revivals of popular repertoire, was a significant contributor to this decline. Melbourne held up relatively well until 2014 with only a 13 percent decline, reflecting a steady 7 productions but fewer performances. However, when Melbourne productions reduced from 7 to 5 in 2015, the number of tickets sold to subscribers dropped by 25 percent.

The number of productions, the repertoire profile and venue availability issues have also been factors in declining total attendees for the other Major Opera Companies, where the decline between 2009 and 2015 has been 56 percent for Opera Queensland, 22 percent for SOSA, and 4 percent for WAO.

A clear challenge is to provide an adequate number of mainstage productions of a balanced repertoire of popular and innovative mainstage programming that will reach broader opera audiences and meet the needs of regular opera-goers. In that process, greater demographic diversity needs to be achieved, addressing income, education, age, ethnicity and time availability. Venue challenges in Brisbane and Adelaide also need to be dealt with.

Attendances at regional performances increased by 103 percent between 2009 and 2014, before a cyclical decline occurred in 2015.

A persistent theme during the Review's public consultations was the decline in music programmes in schools and the impact this was having on music and opera appreciation. Over time, this trend will potentially have negative consequences.

3.3 Financial vulnerability

At the core of the companies' artistic and access challenges lie the financial pressures they face. Despite often significant and bold strategic initiatives to address these challenges, each of the Major Opera Companies has come under varying degrees of financial pressure.

That stress is reflected in key financial measures.

3.3.1 Overall deficits

Each of the companies experienced deficits in at least one financial year between 2009 and 2015, with two of the companies reporting significant accumulated deficits.

Opera Queensland was the most acutely impacted, relative to its size, incurring an aggregate deficit of $2.443 million between 2009 and 2015. The company reported a deficit in all years except for 2015. In that year, the surplus, while welcome, was largely achieved on the back of reduced activity, while government funding stayed at a similar level.

Opera Australia, at an operating level, experienced a deficit in four of the seven years, aggregating to $4.381 million between 2009 and 2015. At a consolidated level—including results from the activities of its Capital Fund—Opera Australia generated a surplus over that time of $2.633 million, with a deficit in three years.

WAO experienced a loss in two of the seven years, but generated an overall surplus from 2009 to 2015 of $1.299 million. SOSA ran a deficit in two of the seven years with an aggregate surplus of $0.574 million between 2009 and 2015.

The pattern of these deficits is a cause for concern.

3.3.2 Mainstage economics

The economics of mainstage opera predominantly, but not exclusively, explain these results.

The negative annual contribution[6] towards overheads from mainstage opera increased for each company between 2009 and 2014: from $13.2 million to $17.6 million for Opera Australia; from $1.6 million to $2.2 million for SOSA; from $1.7 million to $1.9 million for Opera Queensland; and from $1.6 million to $1.9 million for WAO.[7]

This was a function of an adverse movement in the cost-revenue dynamics for mainstage opera for each of the companies. Between 2009 and 2014, Opera Australia's mainstage performance revenue reduced by 24.1 percent, but costs only declined by 7.6 percent. Over the same period, the negative contribution per production almost doubled.

The companies in the other states experienced similar pressure in relation to the economics of mainstage opera. From 2009 to 2014, Opera Queensland's mainstage performance revenue declined by 23 percent, but costs only went down by 8.2 percent. WAO experienced an 11.4 percent reduction in box office revenue from 2009 to 2014, at the same time as costs increased by 9.3 percent.[8] SOSA, which, on a financial year basis,[9] staged an additional production in 2014, saw performance revenue increase by 33 percent from 2009, but costs rose more quickly by 36 percent.

The companies have recognised that these trends are not sustainable and need to be addressed, responding in a variety of ways in 2015. Opera Australia and Opera Queensland made a conscious decision to reduce the number of mainstage productions. Opera Australia contained its mainstage costs by offering two fewer productions in Melbourne, while increasing its overall revenue by repeating more popular operas in Sydney. This improved its mainstage cost-revenue dynamics from a deficit of $17.6 million to $13.1 million between 2014 and 2015.

Opera Queensland also reduced its mainstage deficit from $1.9 million to $1.5 million by offering one less mainstage production.

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[6] See Discussion Paper Glossary.
[7] Estimate for 2009 based on available data.
[8] Due to data availability, the analysis for WAO only includes box office and excludes any other mainstage performance revenue for both 2009 and 2014.
[9] Unlike the other Major Opera Companies, SOSA operates on a financial, rather than a calendar, year. The Final Report indicates where SOSA data has been converted to a calendar year basis for comparability purposes.

WAO improved its mainstage cost-revenue dynamics by separately undertaking a festival production which resulted in the mainstage deficit reducing from $1.9 million to $1.6 million.

SOSA, consistent with its strategic intent to periodically provide specialist (less familiar) programming, on its reporting financial year basis, staged five productions, including the Philip Glass *Trilogy.* This resulted in revenue declining by almost 50 percent, while costs only declined marginally. Its mainstage deficit increased from $2.2 million to $3.1 million.[10]

These financial pressures are challenging the mainstage artistic vibrancy of the companies and their ability to reach a broader cross-section of Australians.

3.3.3 Regional, schools and community economics

Regional touring, schools and community programmes are very important to the companies, but, to varying degrees, they also made a negative contribution to the overheads of each company before specific funding or sponsorship is taken into account.

In the case of Opera Australia, the overall negative contribution was $2.7 million in 2014, an increase of 6.9 percent since 2009. Opera Queensland, which has an extensive touring programme to support the state's decentralised geography, incurred a negative contribution of $0.8 million in 2014, representing an increase of 89 percent over 2009. SOSA incurred a modest deficit of $0.199 million, reflecting a low level of activity; while the non-mainstage deficit in WAO's case was $0.751 million, an increase of 251 percent over the 2011 result.[11]

In 2015, deficits incurred for these programmes reduced for Opera Australia, Opera Queensland and SOSA due to reduced activity or cost containment, but the deficit increased for WAO due to increased investment in development workshops.

3.3.4 Overheads

Relatively speaking, overheads are modest for the smaller Major Opera Companies. Although some variability exists, they have not changed significantly since 2009.

SOSA's are arguably too low at around $1 million, with minimal staffing levels compared to the other companies.

On the other hand, those for WAO and Opera Queensland, on a comparable basis in 2014, were $1.5 and $2.1 million respectively. In 2015, WAO reduced its by around $100,000, while Opera Queensland's marginally increased. It appears (relative to WAO), Opera Queensland needs to do further work to reduce its overheads, even though they have been significantly reduced from the highest point in 2011.

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[10] This analysis relates SOSA's financial performance which is on a financial year basis to its programming, also on a financial year basis. This differs from other analysis in this Final Report, which sometimes appears on a calendar year basis for comparability with the other companies.
[11] 2009 financials for WAO were done on a different basis.

Opera Australia's overheads—which include company infrastructure costs as well as the core labour associated with maintaining a repertory company—were $20.310 million in 2014 and $19.693 million in 2015. This was a major step up from $17.509 million in 2009 or $17.889 million in 2011.

3.3.5 Private sector income

Private sector income constitutes an important source of income for the companies, without which they could not survive nor thrive.

In the case of Opera Australia, including the Capital Fund, private sector income increased 54 percent to $7.9 million from 2009 to 2014, remaining steady in 2015. Including revenue from musicals, however, it was a quite low 6.8 percent of total operating revenue in 2014. If revenue from musicals is excluded, private sector income as a percent of operating revenue is still relatively low at 9.8 percent.

In 2014, WAO generated the next highest level of private sector income at $1.3 million, representing 23.7 percent of total revenue. It rose in 2015 to $1.6 million, which was more consistent with prior experiences in 2012 and 2013. Nonetheless, the concern remains as to the sustainability of this level, given the pressures on the resources sector in the Western Australian economy, notwithstanding the outstanding work done by WAO in generating a superior level of private sector support.

In 2014, Opera Queensland generated around $1 million, constituting 14.2 percent of revenue. This amount almost halved in 2015 given Opera Queensland's low level of activity.

Reflecting its more challenging Adelaide home base, in 2014, SOSA only generated $0.380 million in private sector support, representing a low 6.3 percent of total revenue. This amount reduced to $0.271 million in 2015, marginally reducing the proportion of income to 5.8 percent.

3.3.6 Government funding

Over the period from 2009 to 2015, increases in core Government funding have been below the rate of inflation for each of the companies.

Nonetheless, Government support for the Major Opera Companies is significant, standing at $36.8 million in overall funding, with core funding being $32.6 million in 2014. Overall core funding rose by 3.23 percent per annum between 2002 and 2014. In 2015, the overall level of core funding was $33.1 million, representing an increase of 1.7 percent over 2014.

Reflecting its much larger size, Opera Australia received 74.1 percent of core funding in 2015, with Opera Queensland, SOSA and WAO respectively receiving 9.6 percent, 9.1 percent and 7.1 percent.

Historically, Opera Conference funding has been included in core funding for each company. Opera Australia receives funding of $220,000 for its regional touring activities, with the balance of the total amount of $1.47 million in 2015, being allocated to each of the companies to assist with the development of a new jointly-owned annual production.

3.3.7 Cash and balance sheet strength

The cash generation ability of Opera Queensland and Opera Australia has been under pressure with the funding agencies being asked to cash flow both companies in recent years.

Their reserves have also eroded significantly.

In 2014, Opera Queensland had negative equity, a situation that has been remedied by its making a small surplus in 2015. Without other action, many years of strong surpluses would be required to put its balance sheet into robust health.

While, in 2015, Opera Australia had modest reserves of around 21 percent of costs on a consolidated basis (including the Capital Fund)[12] and has not reported a revaluation of its property assets, on an operating basis its net operating equity reduced to a very low $1.221 million by 2014, increasing slightly to $1.458 million in 2015. Such a situation is not sustainable.

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Thus, the financial situation of the Major Opera Companies is consistently of concern and is the fundamental reason they have not been able to deliver on their underlying artistic and access potential.

Given these circumstances, Australia has a choice. It can allow the companies to remain under pressure and see their artistic vitality and creativity erode. Or, in a way that is fiscally prudent, action can be taken to ensure the companies are reinvigorated so as to restore their artistic vibrancy and accessibility. In adopting that approach, Australia would also be acknowledging the key role that the arts and the Major Opera Companies, in particular, play in underpinning Australia's vision of being a vital and creative country.

This Review concludes that the Major Opera Companies in all states have opportunities for increased success, should circumstances be created in which they can flourish. The Review, therefore, recommends a course of action that restores the companies to financial health and puts them back on the road to a vibrant artistic future, reaching out to an ever increasing number of Australians. Increased innovation lies at the heart of many of those initiatives.

More specifically, and to that end, the Review Panel recommends the endorsement of a number of key guiding principles outlined in Chapter 4 of this Final Report.

[12] Costs exclude musicals.

4. The Way Forward: Guiding principles

The Panel has concluded that the following four fundamental guiding principles should drive recommendations in relation to the Review of the Major Opera Companies. These principles, while different at the margin, are consistent with those implemented by the Cultural Ministers Council (CMC) in 2000 and later re-articulated in 2011 as *A National Framework for Governments' Support of the Major Performing Arts Sector (*hereafter the Framework).

They are as follows:

4.1 Australia should have Major Opera Companies that are integral to an artistically vibrant and evolving opera artform that enriches society and enhances Australia's image as an innovative and sophisticated nation;
4.2 Australia should make opera as accessible as possible through the Major Opera Companies in ways that are consistent with the economics of delivering opera;
4.3 Australia should have financially viable Major Opera Companies that support artistic vibrancy and increased accessibility; and
4.4 Government support for the Major Opera Companies should be based on a fair, explicit and transparent understanding of the responsibilities of all parties.

These and additional supporting principles are elaborated on below.

4.1 Support artistically vibrant Major Opera Companies

Australia should have Major Opera Companies that are integral to an artistically vibrant and evolving opera artform that enriches society and enhances Australia's image as an innovative and sophisticated nation.

This is because the Major Opera Companies:

- Enrich Australia's cultural life artistically through the breadth and scale of their activities, and the important role they play in developing and sustaining Australian talent at all stages of an artist's career;
- Enhance perspectives of Australia abroad and among visitors to Australia as a sophisticated and innovative country; and
- Play a potentially important innovative role within Australia's opera ecosystem and the arts more broadly.

The appended Discussion Paper more specifically outlines the extensive nature of the artistic footprint of Australia's Major Opera Companies.[13]

For the Major Opera Companies to continue to play their role in enriching society and enhancing Australia's reputation abroad, a commitment to five additional specific principles is recommended.

[13] See Discussion Paper, Chapter 2.2.

4.1.1 Australia's Major Opera Companies should aspire to the highest artistic and performance standards;
4.1.2 Australia should nurture the ability of the Major Opera Companies to flexibly evolve the artform in response to changing consumer behaviour, demographics and technology as well as a more competitive environment;
4.1.3 Australia should support mainstage opera as fundamental to the continuing vitality of the artform;
4.1.4 Australia should commit to increasing innovation in opera as an artform; and
4.1.5 Australia's Major Opera Companies should be leading exponents of Australia's cultural distinctiveness within opera's artistic traditions.

Additional perspectives on each of these principles is elaborated on below.

4.1.1 Aspire to the highest artistic and performance standards

Australia's Major Opera Companies should aspire to the highest artistic and performance standards.

This principle is supported because:

- With six decades of regular high quality performances, Australian audiences are discerning, understand the quality being presented by leading opera companies throughout the world, to which they have increasing access, and want to experience performances of those standards;
- Australia should continue to be known internationally for its artistic excellence in the opera artform and for being a creative country; and
- Artistic excellence is essential if the Major Opera Companies are to play a key role in nurturing the careers of Australian artists throughout their careers.

4.1.2 Support flexible evolution

Australia should nurture the ability of the Major Opera Companies to flexibly evolve the artform in response to changing consumer behaviour, demographics and technology, as well as a more competitive environment.

This principle is supported because:

- Flexibility is required for the artform and the Major Opera Companies to respond increasingly to fast paced developments in audience expectations and shifts in technology;[14]
- The competitive entertainment environment is rapidly changing, including the ready availability of a vast array of alternative and innovative products;
- Flexibility is essential to support artistic vibrancy in response to those changes;
- Flexibility and experimentation are critical to attract the next generation of Australian audiences and artists; and
- Flexibility will increase the ability of the Major Opera Companies to interact with and support the important work of other innovative but smaller companies.

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[14] See Section 5.1 of the Discussion Paper

4.1.3 Support mainstage opera

Australia should support mainstage opera as fundamental to the continuing vitality of the artform.

This principle is supported because:

- Mainstage opera underpins the vibrancy and traditions of the artform;
- Australia has a rich ongoing tradition of excelling globally in operatic performance;
- The rich fusion of voice, drama and music represented in mainstage opera is critical to the development of Australian artistic talent; and
- Challenges facing mainstage opera primarily arise from the Major Opera Companies' financial situations and the exogenous circumstances facing the companies, rather than from inherent issues with the artform.

4.1.4 Commit to increasing innovation in opera as an artform

Australia should commit to increasing innovation in opera as an artform.

This principle is supported because:

- Increased innovation is required in opera as an artform to ensure its ongoing artistic vibrancy;
- In the face of significant financial pressures, there has not been the opportunity to pursue the level of innovation seen in other artforms; and
- Artforms and companies where innovation has increasingly occurred have demonstrated the power of such vibrancy in attracting audiences and reducing financial pressures.

4.1.5 Present Australia's distinctiveness in opera

Australia's Major Opera Companies should be leading exponents of Australia's cultural distinctiveness within opera's artistic traditions.

This principle is supported for the following reasons:

- The presentation of repertoire, whether existing or new, with a distinctively Australian character, helps audiences define what it means to be Australian;
- The presentation of distinctively Australian works helps define Australia internationally as an innovative country; and
- Distinctively Australian works support the evolution of the artform, the development of Australian artists, and the process of engagement with audiences and smaller opera companies as part of the vibrancy of a broader classical musical and dramatic environment.

4.2 Make opera accessible consistent with its economics

Australia should make opera as accessible as possible through the Major Opera Companies in ways that are consistent with its economics.

Prima facie, delivering broad access to the opera artform across geographies would appear to be a matter of fairness and equity. In support of this, during the Review's consultations, some parties put the view that Opera Australia (sometimes referred to as the "national" opera company) should perform mainstage opera in capital cities other than Sydney and Melbourne.

However, the fundamental conundrum is that mainstage opera is the most expensive of live performing artforms, involving as it typically does principal and chorus singers, an orchestra, technical support and a vast array of other staff. The need to move significant numbers of people makes the economics of presenting operas of the highest artistic standards in diverse cities very challenging. Such challenges are increased by the cost of moving a physical production from one city to another or having to re-rehearse a mainstage opera with a different orchestra or on different sized stages. These difficulties are exacerbated by the typically sophisticated staging as well as the involvement of a large number of singers and orchestral musicians. The inability of opera singers in leading roles to perform on consecutive nights, because of demands on their voices, exacerbates these challenges.

Indeed, it is for these reasons that very few of the world's leading opera companies regularly perform in more than one major city. In these respects, the economics of touring opera differ significantly from that of dance, ballet or chamber music. Thus, while The Australian Ballet and the Australian Chamber Orchestra tour regularly and successfully, the same is not true for an opera company. Moreover, significant variation in pricing among cities makes it very difficult to recover the additional and high costs associated with touring a mainstage opera production.

For these reasons, analysis undertaken by the Review demonstrated that the economics of Opera Australia's touring mainstage opera to other states would significantly increase costs and potentially require a much higher level of government subsidy than would otherwise be the case.

Given the intrinsic tensions between the competing principles of inherent equity and fiscal prudence, the Review recommends the following guiding principles.

4.2.1 Geographic

Australia should cost-effectively deliver broad geographic access to the major performing arts.

4.2.1.1 Australians in the most populous cities should have cost-effective access to a Major Opera Company.

Sydney, Melbourne, Brisbane, Perth and Adelaide should have on-stage access to the mainstage seasons of a resident Major Opera Company. Because the costs are prohibitively high, mainstage touring to other capital cities should be minimised (with the exception of Opera Australia's delivering mainstage opera to Melbourne).

Opera Australia's performances in Melbourne reflect its long history of presenting opera in that city.

While Opera Australia's touring to Melbourne undoubtedly puts additional economic pressure on the company, it reflects the current reality and its future prospects, notwithstanding the emergence of Victorian Opera as a significant source of innovative opera in Melbourne. Moreover, the current model of Opera Australia's presenting in both cities means that, while the variable cost of Melbourne seasons are high, it allows its fixed and semi-fixed costs to be shared among productions and performances in both cities. Moving forward, the number of productions and performances of opera in Melbourne may increase given its rapid population growth.

This guiding principle does not relate to long-run musicals whose economics are typically different from those for mainstage opera, as they can be performed on consecutive nights with a specific group of performers and their ticket sales support performances over many weeks or months.

4.2.1.2 Other capital cities and regional and rural Australia should have access to cost effective touring by the Major Opera Companies.

Hobart, Canberra and Darwin, along with cities and towns in regional Australia, should have access to cost effective touring of high quality productions by the Major Opera Companies, tailored to fit specific venues and the economics of touring.

4.2.1.3 Technology should be utilised to make opera more accessible to all Australians.

Technology is making opera and the arts more accessible to audiences both in capital cities and regional Australia, as well as throughout the world. While it is recognised that technology does not, at this stage, substitute for the engagement achieved through a live performance, nonetheless, the Review considers that technology can be even more fully leveraged to make opera available to a broader cross section of audiences within Australia, as well as to take Australian opera to the world.

4.2.2 Demographic

Australia should cost-effectively deliver broad demographic access to opera performances.

Encouraging a broader cross section of attendees at opera is critical to the success of the Major Opera Companies going forward.

More specifically, engagement should be encouraged from individuals:

- **With diverse income backgrounds:** Opera needs to continue to work to shed its outdated "silver-tail" image and to engage more broadly with a cross section of audiences;
- **With diverse education backgrounds:** Opportunities need to be found to include more individuals irrespective of their education background and academic qualifications;
- **From diverse age groups:** While older audiences need to be nurtured as Australia confronts an aging demographic, young people and parents with children also need to be encouraged to attend performances. Increasing innovation and variety both in the repertoire and the mode of delivery will be important;

- **From diverse ethnic backgrounds:** Ways of engaging with, and encouraging the participation of individuals, irrespective of their ethnic heritage, need to be explored. Asia's increasing engagement with and excellence of performance in opera and classical music demonstrates the value of such an approach; and
- **With diverse time needs:** Ways of engaging with individuals who are time poor and constrained by their need to meet work and family commitments should be considered.

4.3 Ensure financial viability

Australia should have financially viable Major Opera Companies that support artistic vibrancy.

As with any major performing arts company, financial viability is essential for Australia's Major Opera Companies to sustain a long term cycle of success. Unless a company is financially viable, it will not have the funds to invest; be able to respond to the rapidly changing external environment; and ensure artistic vibrancy. In turn, access will come under pressure.

More specifically, building this cycle of success requires financial resilience on the part of the companies. This should be built through support for the following principles.

4.3.1 Strategically, each Major Opera Company should have the flexibility to define its own strategic and artistic direction within a prudent financial framework;
4.3.2 Each Major Opera Company should maximise box office while efficiently using resources;
4.3.3 Each Major Opera Company should cost effectively maximise private sector income;
4.3.4 Each Major Opera Company should be required to maintain adequate financial reserves to allow it to take appropriate artistic risk; and
4.3.5 Each Major Opera Company should be required to maintain appropriate corporate governance and management.

Each of these principles is elaborated on below.

4.3.1 Provide strategic and artistic flexibility with prudent financials

Strategically, each Major Opera Company should have the flexibility to define its own strategic and artistic direction within a prudent financial framework.

The external challenges facing the Major Opera Companies necessitate that they have the ability to respond flexibly within the opera artform given their long planning cycles and high cost structure. The companies have responded to these pressures in diverse ways.[15] This has involved changes in what, where, how and who are delivering programmes. As described in Chapter 6 of the appended Discussion Paper, some of

[15] See Discussion Paper, Chapter 5.

those responses have been effective, while others have put the companies under increasing financial, artistic and access pressure.[16]

Even though not all responses have been effective, the Panel is of the view that each Major Opera Company should have the ability to chart its own course and adapt to the changing environment in a flexible and responsive way. Such flexibility is critical to artistic vibrancy and strategic responsiveness.

4.3.2 Maximise box office while minimising the use of resources

Each Major Opera Company should maximise box office, while minimising the use of resources.

Fundamental to creating a cycle of success for any major performing arts company is the requirement that box office is maximised by achieving high venue utilisation from paying customers. Sustaining strong support from regular opera-goers, particularly multiple ticket buyers, is an imperative in that equation.

Doing so involves the sophisticated management of trade-offs. For instance, one major challenge is to balance the potential conflict between generating additional audiences, while minimising the use of resources. A theatre can be filled by discounting the price of tickets, but this does not address the costs associated with delivering a performance. Audiences can be attracted by a company's making a significant investment in production staging or by bringing in international artists at a higher cost, but this does not necessarily allow a company to recover the full additional performance costs.

Getting the balance right between revenue and costs is not easy. It is a key and critical management challenge and a matter of artistic and financial judgement for each Major Opera Company.

There has been much success to celebrate, but challenges remain.

4.3.3 Cost effectively maximise private sector income

Each Major Opera Company should cost effectively maximise private sector income.

Generating significant private sector income is important to each Major Opera Company. This comes from both private individuals, as well as from corporations that see benefits from a shareholders' perspective of engaging in a relationship with a company. Bequests are also increasingly important, but these require the long-term commitment of engaged opera-goers.

Growing private sector income depends on having a large and growing audience whose association a corporation might value. The demographics of the audience are often important in this regard.

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[16] See Discussion Paper, Chapter 6.

The challenge, however, is to ensure that the benefits of generating additional private sector income do not outweigh the costs. The trade-offs involved in this process need to be tightly managed.

4.3.4 Maintain adequate financial reserves

Each Major Opera Company should be required to maintain adequate financial reserves to allow it to take appropriate artistic risk.

It is vital that each major performing arts company maintains adequate reserves to allow for the impact of its artistic endeavours not realising its perceived box office potential. Given the higher cost associated with opera and the accelerated need for innovation, reserves may need to be higher than for other artforms.

Moreover, it is essential that if those reserves are encroached on at any time, the company must be required to reinstate them at the earliest possible date.

Under no circumstances should a company be allowed to budget to draw down below a defined level of reserves.

4.3.5 Maintain appropriate corporate governance and management

Each Major Opera Company should be required to maintain appropriate corporate governance and management.

Good governance and management lie at the core of the success of each Major Opera Company, as they do with any company.

To this end, it is essential that governing bodies have an appropriate array of skills to ensure that the management of the organisation can be overseen; and that the board approaches the task of overseeing its operations in an appropriate way.

In turn, management needs to have a view not just about the artistic vibrancy of the company, but also about the impact of its artistic vision on accessibility and financial viability, both in the short and longer term.

In so doing, the board and management should regard themselves as stewards of the artform, as well as champions for the company and its heritage.

4.4 Provide explicit and transparent government funding

Governments' support for the Major Opera Companies should be based on a fair, explicit and transparent understanding of the responsibilities of all parties.

More specifically, the following supporting principles underpin the Review's recommendations.

4.4.1 Governments should provide appropriate support for each Major Opera Company to help ensure their ongoing financial viability;
4.4.2 Funding levels should support sustainability, while promoting fiscal prudence;
4.4.3 Governments should be explicit about what will be funded;

4.4.4 Funding should be agreed on a fair basis; and
4.4.5 As stewards of the artform, the expectations and responsibilities of the Major Opera Companies to all stakeholders should be clear and transparent.

Each of these principles is discussed below.

4.4.1 Governments: provide appropriate funding

Governments should provide appropriate support for each Major Opera Company to help ensure their ongoing financial viability.

Government funding is essential to the financial viability of the Major Opera Companies, as it is to the major performing arts sector more broadly. The vitality and accessibility of the artform cannot be sustained without continued government funding.

All major Western countries subsidise the non-commercial activities of the major performing arts sector and, more specifically, major opera companies, in one way or another. In Europe, this occurs through direct funding. Alternatively, in the United States of America, it predominantly occurs indirectly through a generous tax system, where private philanthropists receive significant benefits.

Governments' funding (either direct or indirect) increases accessibility by keeping ticket prices at somewhat more affordable levels. This is particularly the case with opera where production and operational costs are so high that ticket prices would be prohibitively expensive and inaccessible to most sections of the public. Moreover, without Governments' support, none of the Major Opera Companies would generate adequate revenue to cover their direct performance costs, particularly for mainstage opera.

Government funding allows the companies to invest in artistic quality and to take artistic risk, both of which are critical to artistic endeavour. It also makes it possible for opera performances to be delivered in regional Australia and to the community more generally.

4.4.2 Governments: provide appropriate levels of funding

Funding levels should support sustainability, while promoting fiscal prudence.

Without a sustainable level of government funding, Australia would have no Major Opera Companies, given the economics of the artform.

In other words, a level of Government funding is required that sustains the ongoing viability of each company having regard to what activities Governments decide to fund.

At the same time, the level of funding should be fiscally responsible and create incentives for the companies to act in a prudent way.

To that end, as much as possible, benchmark data should be used to provide insight as to what level of funding is appropriate on a best practice basis.

4.4.3 Governments: be explicit about what is funded

Governments should be explicit about what will be funded.

Principle 4.3.1 in this Final Report clarified that each Major Opera Company should be in a position to determine its own strategic and artistic direction in response to major shifts that are occurring in the external environment.

Notwithstanding this need for strategic flexibility, the Panel considers that Governments should be clearer as to what activities should be delivered in return for Government funding. This view was articulated by a number of Government funding agencies in the process of consultation.

Given this situation, the Review recommends that a key principle that should guide specific funding recommendations lies in setting specific expectations for key deliverables in return for Government funding.

If those deliverables are not met, Government funding for that specific activity should be withdrawn and the overall status of the company as a Major Performing Arts Company should be reconsidered.

4.4.4 Governments: the basis of funding should be fair

Funding should be agreed on a fair basis.

The basis of funding agreed in response to the 1999 Major Performing Arts Inquiry (MPAI) has since been superseded by the 2011 changes known as *A National Framework for Governments' Support of the Major Performing Arts Sector* (the Framework). Under this Framework the underpinnings for a logical basis for funding the Companies were removed.

At the same time, feedback has been received via submissions from diverse stakeholders that the 2011 Framework should not be significantly changed because it affects all of the other major performing arts companies and the sole focus of this Review is the Major Opera Companies. This has made the Panel's task more challenging and has imposed constraints on the recommendations that are being made.

While recognising the legitimacy of that concern, the Review recommends that some specific anomalies in relation to the fairness of funding in relation to the Major Opera Companies should be addressed.

4.4.5 Companies' responsibilities should be clear and transparent

As stewards of the artform, the expectations and responsibilities of the Major Opera Companies to all stakeholders should be clear and transparent.

Building a flexible, but supportive, partnership between Governments and the sector requires that the expectations and responsibilities of the Major Opera Companies be clear.

The investment of Government funds should bring with it obligations on the part of the Major Opera Companies which should be met through specific performance requirements that are clear, measurable and transparent from a public perspective. They should cover artistic, access and financial issues, including the overall financial health of the company and the robustness of its balance sheet.

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The four major principles and 17 additional supporting principles set out in this chapter have shaped the recommendations put forward in the balance of this Final Report.

5. Actions by Governments: Where the companies should head

The Review has considered the strategic role Governments should play in determining the financial performance, artistic vibrancy and audience engagement of Australia's four Major Opera Companies. This issue has been assessed within the context of the rationale for and role of Government funding in supporting the operations of the companies.

In this context, a number of threshold issues have been considered. They are:

5.1 The strategic basis on which the Major Opera Companies should receive support from Governments;
5.2 The criteria for being designated as a major performing arts company;
5.3 The role Governments should play in relation to the companies' strategic direction;
5.4 What type of activities should be supported; and
5.5 Which companies should be supported.

5.1 The strategic basis for Governments' supporting the companies

The Federal Government, along with the State Governments of New South Wales, Queensland, South Australia, Victoria and Western Australia, through their direct and indirect support, are key stakeholders in Australia's major performing arts companies, including the Major Opera Companies.

The rationale for this support is outlined in the Guiding Principles that underpin the 2011 CMC agreement embodied in the Framework. The four guiding principles are:

Exhibit 5.1: Cultural Ministers Council Framework 2011: guiding principles

1.	Australia should have a vibrant major performing arts sector that enriches Australian life and builds its image as an innovative and sophisticated nation
2.	Australia should cost-effectively deliver broad access to the major performing arts
3.	Australia should have a financially viable major performing arts sector that supports artistic vibrancy
4.	Government support for the major performing arts should be transparent and based on an understanding of the responsibilities of all parties

The Review assessed whether these guiding principles remain appropriate.

Recommendation 5.1: The guiding principles articulated in the 2011 Framework should continue to apply to the Major Opera Companies, although they should be amplified and reinforced by the 17 subsidiary guiding principles outlined in this Final Report.

This recommendation is supported because:

- The strategic rationale is clear;
- The guiding principles articulated in the 2011 Framework are supported by the other major performing arts companies; and
- They could benefit from greater definition as outlined in Chapter 4.

5.2 Designation as a major performing arts company

The Discussion Paper raised concerns and sought submissions on the current definition used for designation as a major performing arts company. Those criteria were defined in the 2011 CMC Framework.

They are as follows:

Exhibit 5.2: 2011 CMC Framework: definition for recognition as a major performing arts company

Guiding principle	*Definition*
Artistic vibrancy	Present work of a high artistic quality
	Foster a vibrant and sustainable cultural sector, including building the sector's economic and artistic potential through collaborations with small to medium performing arts companies on the development and / or presentation of works
	Demonstrate a leadership role in the development of performing arts encompassing the development of artists, a commitment to the creation of professional development opportunities for young and emerging artists, artists in multicultural communities and indigenous [sic] and artists with disabilities
Audience Development	Demonstrate a leadership role in the development of audiences including young and disadvantaged audiences, multicultural audiences and more equal access for people with disability
	Demonstrate a commitment to engaging with audiences in regional communities
Financial viability	Be governed by a responsible board that plans future activities in accordance with best practice governance guidelines and with respect to the company's financial capacity
	Have strong financial management which includes a mix of strong reserves, working capital and operating margin
	Make ongoing improvements to its business which strengthen sustainability and reduce reliance on government subsidy over time including through productivity gains and establishing a broad income base comprising strong box office, sponsorship and philanthropy
	Achieve annual earned (non-grant) income of $1.6 million adjusted annually for CPI ($1.75 million at December 2015)

The issue of the ongoing suitability of those criteria was canvassed because of a concern that the breadth of activities and obligations imposed on all major performing arts companies, irrespective of the economics of the artform, might be a factor contributing to the financial stress confronting the Major Opera Companies. It was also recognised that the criteria had only been in place since 2011, having replaced the narrower criteria that operated from 1999 to 2011.

Recommendation 5.2: The criteria in the 2011 Framework should be maintained, subject to changing the artistic quality criteria from "high" to "highest". Nonetheless, the criteria should be monitored for the next 3 years to understand their impact on the financial performance of all major performing arts companies, particularly the Major Opera Companies.

This recommendation is supported because:

- The current criteria explicitly address key areas where the Major Opera Companies need to be more proactive. More specifically, the current criteria recognise the need to:
  - Embrace co-operation with the small to medium performing arts companies, which will be important to the ongoing artistic vibrancy of the Major Opera Companies;
  - Take a leadership role in the development of artists' careers, which is not occurring to the extent considered appropriate;
  - Increase audiences, where there are current shortcomings, particularly in relation to mainstage opera;
  - Achieve a minimum level of non-grant income;
  - Have a responsible board and be governed by best practice management, where improvements are possible;
  - Achieve strong financial management (reserves, working capital and operating margin); and
  - Reduce reliance on government subsidy, which is not always occurring to the extent considered desirable.
- The wider array of activities, that are undoubtedly putting additional financial pressures on the companies, are to a large extent offset by the social and engagement benefits that are being achieved;
- Nonetheless, "high" artistic quality is considered an inadequate benchmark given the importance of these companies to Australia's cultural life, with the accompanying potential risk that may be posed to the commitment to artistic excellence; and
- At this point, wholesale change to the criteria would have broader implications for the rest of the major performing arts companies, whereas the adjustment of "high" to "highest" can be achieved without significant disruption.

Monitoring is, however, recommended because the Review is concerned that the financial issues that have initially manifest themselves with the Major Opera Companies may, over time, and indeed within the next three years, become more apparent in other artforms and other major performing arts organisations.

5.3 Governments' role in strategic direction

The 2011 Framework removed the prior system of categorisation of the companies, which, in large measure, defined the top-down strategic role that the companies played.

Specifically, prior to 2011, Opera Australia was defined as an Australian Flagship Resident Company; SOSA as a Specialist Company; and WAO and Opera Queensland as State Flagship Companies. Such categorisation defined the strategic role of each company—in large measure reflecting each company's economics—as well as the funding rationale; and the proportion funded by the Federal Government versus that provided by each relevant State Government. More specifically, the Federal Government's share of funding was 80 percent for Australian Flagship Companies; 50 percent for Specialist Companies; and 20 percent for State Flagship Companies, with the relevant State Governments funding the balance.

Such categorisation was removed in 2011 and the associated language is no longer used. According to the 2011 Framework, it was agreed that each company's strategic direction would be negotiated individually with the relevant government funding bodies. This means that each company has the ability to pursue its own artistic ambitions without the constraints imposed by their prior strategic designations. In so doing, it shifted the weight of effective influence from the relevant funding agencies to the management and boards of directors of each individual company.

However, it also meant that the rationale for the distribution of funding between the Federal Government and the States was no longer obvious. The resultant loss of any strategic rationale underpinning the distribution of funding was the subject of extensive comment during the Review's consultations. This has been exacerbated by the fact that not all states have provided annual indexation increases to funding, so the funding proportions have started to shift from what was agreed by Ministers in 2000.[17]

On balance, the Review makes the following seven recommendations (from Recommendation 5.3 to 5.9), which should be regarded as an integrated package.

Recommendation 5.3: The current approach to the distribution of funding between the Federal Government and the relevant State Government should be maintained, recognising that it lacks internal cohesion and an articulated rationale; and within the near to medium term is likely to require a more comprehensive review.

The Review makes this recommendation because:

- Changes cannot be made to the Major Opera Companies in isolation without there being flow on implications for the rest of the major performing arts companies;
- The Review has no mandate to examine the other major performing arts companies;
- The system will need to be closely monitored because the rationale for how it currently operates is no longer transparent; and
- Clear tensions are building up among states as to what are perceived as inequities in the funding distribution given the removal of the initial categorisation for each company that provided the underpinning rationale for the distribution of funding.

[17] See Discussion Paper Chapter 3.2.3.

Recommendation 5.4: Each Major Opera Company should be given the flexibility to define its own artistic and strategic direction within a prudent financial framework.

The Review makes this Recommendation for the following reasons.

- In a rapidly changing environment, the companies need the ability to flexibly respond to changing circumstances;
- The pace of change is accelerating;
- Greater flexibility should lead to more diversity, which is more likely to encourage increased creativity and innovation;
- Prudence is required to ensure that new financial pressures do not develop that threaten the artistic vibrancy of the companies; and
- Greater co-operation among the companies is not inconsistent with this approach.

Recommendation 5.5: Funded activities should be clearly defined by Governments.

The Review recommends that, even though the Major Opera Companies should have the flexibility to pursue their desired strategic direction in line with Recommendation 5.4, Governments should be explicit about the activities they fund. Currently, this does not occur. Rather, each Major Opera Company (and major performing arts company) is given a block of funds without a defined articulation of the activities for which the funds are intended.

The Review makes this recommendation because:

- Governments have asked for greater clarity in relation to their expectations, more so because the relative power in the strategic discussion has shifted from the Governments to the boards of the companies as a result of the 2011 changes that resulted in the emergence of the Framework;
- Expectations are not clear; and
- In some cases, companies are undertaking less work in areas Governments consider core, without the companies' obtaining prior agreement from the relevant Governments in relation to such a change.

Recommendation 5.6: Governments should monitor outcomes to ensure that activities that are funded are delivered.

- Such an approach is consistent with the principle of accountability; and
- Governments rightfully have an expectation that if an activity is funded, it should be delivered.

Recommendation 5.7: If a company does not deliver on funded activities, a proportion of the funding provided for that activity should be withheld from future grant payments unless a prior renegotiation has been agreed with the relevant Government funding agencies.

- Companies should not be funded for activities they do not deliver;
- Such an approach would encourage greater and earlier dialogue between the companies and the relevant Governments; and

- Such an approach would strike a more appropriate balance between the flexibility suggested under Recommendation 5.4 and the need for increased accountability.

Recommendation 5.8: If a company fails for three years in a row or consistently fails to deliver on a major commitment for which it is funded, it should lose its status as a major performing arts company. The company should receive one year's advance notice (after the second year) of the funding agencies' intention to change its status.

- Consistently failing to meet a stipulated funding requirement is a serious breach; and
- The ultimate penalty is loss of the privilege of being a major performing arts company.

This would represent a change to the criteria for being a major performing arts company, which in the near term would apply only to the Major Opera Companies.

Recommendation 5.9: Overall, the companies should remain subject to Government requirements to maintain specific overall financial and balance sheet requirements.

- Such an approach allows the companies to pursue their own strategic agenda while ensuring fiscal prudence;
- Such an approach is consistent with the overall requirements to become and remain a major performing arts company; and
- Additional rigour could be added to the overall approach by setting specific targets in relation to fiscal requirements.

5.4 What type of activities should be supported

The approach articulated in Chapter 5.3 about Government funding necessitates that a decision be made in relation to what activities should be supported for Government funding.

This issue was thoroughly canvassed in the *Issues to be Addressed* section of the Discussion Paper, which focussed particularly on whether long run commercial musicals should be an activity that receives Government funding.

This issue takes on greater significance in some years given the volatility of revenue from musicals. In 2014, box office revenue from Opera Australia's musicals represented 48 percent of its total performance revenue and 51 percent of its total number of performances, whereas in 2015, musicals constituted 28 percent of performance revenue and 41 percent of performances.

Musicals, including *South Pacific, The King and I*, and *Anything Goes*, have been staged with the involvement of the commercial producer, the Gordon Frost Organisation. Other commercial producers compete for audiences with those productions, creating the potential for a perceived unequal playing field because of Opera Australia's status and the access it obtains to venues such as the Joan Sutherland Theatre in the Sydney Opera House.

Recognising that the list is not exhaustive, Exhibit 5.3 provides a snapshot of commercial runs of musicals currently being presented in Sydney.

Exhibit 5.3: Musicals being staged in Sydney 2016

Production	*Venue*
Ghost the Musical	Theatre Royal
Fiddler on the Roof	Capitol Theatre
Georgy Girl: the Seekers Musical	State Theatre
The Original Grease	Seymour Centre
The Detective's Handbook	Hayes Theatre Co
We Will Rock You	Lyric Theatre
Xanadu	Hayes Theatre Co
Heathers	Sydney Opera House
Singin' in the Rain	Lyric Theatre
Little Shop of Horrors	Roslyn Packer Theatre
Aladdin	Capitol Theatre
My Fair Lady	Sydney Opera House
Dream Lover: The Bobby Darin Musical	Lyric Theatre

This is not to suggest that it is inappropriate for Opera Australia to perform works of this genre or to enter commercial arrangements, such as it has with the Gordon Frost Organisation.

The issue also arises because the economics of musicals are very different from those of mainstage opera. Their upfront staging costs are typically significantly higher than for a mainstage opera, but the longer runs that can be achieved reduce the per performance cost.[18] In large part, this is possible because not all leading roles have the same vocal challenges; performances are amplified; the same cast can be used for up to eight performances per week; and orchestral costs are usually lower. This stands in contrast to repertory opera,[19] in which classical singers of major roles, because of the demanding vocal nature of such roles, typically need to rest for two to three days between performances. As a result, unlike mainstage opera, the potential to make a profit from musicals is higher, although the risks may also be greater.

Having regard to these circumstances, the Review makes the following recommendations.

Recommendation 5.10: Core funding, on a benchmarked basis, should be provided to support selected non-commercial activities. In contrast, core funding should not be provided for activities where there are viable commercial competitors.

Core funding support should be provided for mainstage opera, concerts, regional touring, community and education programmes on a benchmarked basis. This should also include, on a benchmarked basis, a contribution towards infrastructure and overhead costs needed to support such activities. For the avoidance of doubt, *The Ring*, when and if it is performed, should be considered as four mainstage productions and should be eligible for core Government funding.

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[18] See Discussion Paper, Chapter 6.1.1.3.
[19] See Discussion Paper Glossary.

While HOSH has increasingly become a core activity of Opera Australia, project—rather than core—funding is recommended because of the high level of dependence on the private sector support generously provided by Dr Handa. In addition, State Government funding comes from Destination NSW rather than from Arts NSW, thereby complicating any potential funding model.

In contrast, core funding should not be provided for activities where there are viable commercial competitors (such as long run musicals). The companies would not be prevented from undertaking such commercial activities, but would not receive government funding for those activities. This stands in contrast to short runs of musicals or operettas that are included as repertory works in a regular opera season, but are not then staged commercially in other capital cities. Moreover, in any calculation of funding ratios, revenue from such commercial activities should be explicitly excluded from total revenue.

This recommendation is supported because this approach:

- Is consistent with the principle of competitive neutrality for activities where there is a viable commercial competitor;
- Reinforces the strategic ability of the companies to undertake commercial activities; and
- Makes clear what is funded and what is not.

Recommendation 5.11: Significant commercial activities should be ring-fenced and separately accounted for by any company that derives a large part of its income from such a source.

Costs and revenue for significant commercial endeavours should be separately accounted for, with an appropriate level of overheads ascribed to those activities. Accounts should be disclosed to the funding body on that basis, as well as being disclosed publicly. For instance, this would apply to Opera Australia's staging of long-run musicals, which since 2012 have been presented in the majority of capital cities.

This recommendation is supported because:

- The financial outcome for commercial activities should be transparent;
- Commercial activities often incur greater risk and should be able to be separately assessed by funding agencies; and
- Commercial activities should not be cross-subsidised by Governments.

5.5 Which companies should be supported

Each of the Major Opera Companies is under some degree of pressure in meeting the criteria defined in the 2011 Framework for being a major performing arts company.

However, the removal of the criterion to "show evidence of a sizeable and increasing audience base" (that existed under the pre-2011 CMC Framework) in favour of "demonstrating a leadership role in the development of audiences" has made it easier to ensure that declining audiences do not lead to a breach. While this change in the criterion was not necessarily desirable, maintaining it as it stands is consistent with not making recommendations that significantly affect other major performing arts companies that are not within the Terms of Reference of this Review.

However, Opera Queensland does not currently meet the criteria under the 2011 Framework. Specifically, it is in breach of a number of financial criteria.

One of the key issues canvassed in the Discussion Paper was what approach should be taken to Opera Queensland, including whether it should be given time or should be exited as a major performing arts company.

There was overwhelming support in submissions to the Review and in meetings with key stakeholders for Opera Queensland to be given time to address its difficulties, with significant support being expressed for the importance of opera to Queenslanders. The Review's conclusions in respect of Opera Queensland are presented in Recommendations 5.12 to 5.15, which should be considered as an integrated package. Taking into account the views of stakeholders and the support for opera in Queensland, the Review considers the proposed approach represents an appropriate balance between exercising financial prudence and restraint, while allowing Opera Queensland time to respond.

Recommendation 5.12: Opera Queensland should be given a three year period from FY 2017-2018 to meet all criteria to be a major performing arts company.

- Without continued Government support, it would not be possible for Opera Queensland to continue to operate;
- Other alternatives for providing opera in Queensland are less fiscally attractive than supporting Opera Queensland in the near term;
- Opera Queensland has the ability to deliver opera of the highest quality that meets audience expectations; and
- Opera Queensland has been taking steps to address its situation, although this needs in future to be done in a way that does not result in continuing to do less mainstage work, while retaining the same level of Government funding.

Recommendation 5.13: Opera Queensland should take additional action to improve its financial situation and consider whether to establish a shared service model with the Queensland Symphony Orchestra (QSO) and/or other options for mutual artistic collaboration, increasing access, improving private sector income and driving overhead efficiencies.

- Opera Queensland's overheads, which appear to be significantly higher on a benchmarked basis than WAO or SOSA, should be further reduced;
- A shared service model with QSO might allow Opera Queensland to reduce its overhead costs;
- Other efficiencies might be possible with such a model including:
    - More efficient use of the QSO when it works with the opera company;
    - Reduction of dark nights in the theatre; and
    - Efficiencies and improved services in relation to the regional touring activities of both organisations.
- QSO's audience base could be leveraged to assist with the process of Opera Queensland's working to increase audiences and private sector support;
- Reciprocal advantages might exist for the QSO;

- All parties have indicated that they support the possibility of exploring such a model; and
- There is little reason to consider that the artistic vibrancy of Opera Queensland would be adversely affected by a shared services approach.

Recommendation 5.14: An adjustment package for a capped amount of additional funding should be provided to repair Opera Queensland's balance sheet, provided it can demonstrate a clear path to recovery.

- Without an adjustment package, Opera Queensland is unlikely to meet all of the financial viability criteria defined in the Framework to remain a major performing arts company within a three year period;
- Its reserves need to be restored to ensure it can undertake the type of artistic innovation that would warrant its maintaining its status as a major performing arts company; and
- Audiences need to have confidence that they can put their faith in the company and re-engage with it.

Recommendation 5.15: Any adjustment package should require Opera Queensland to generate additional funds to build quarantined reserves.

An adjustment package should take the form of a Reserves Incentive Matching Scheme, where the Federal and State Governments each contribute a dollar for each dollar that Opera Queensland raises. Given the constraints under which the company is currently operating, such an incentive scheme is more likely to work if it was possible to leverage QSO's audience base, thereby further supporting consideration of a closer relationship between the two companies. This approach, rather than being perceived as a "bail-out", is recommended for the following reasons:

- Opera Queensland's problems have persisted for at least a decade, even though they now appear to be turning the corner;
- It would be inappropriate to reward financial underperformance by the company without a requirement for it to make a contribution;
- Reserves that are built should not be accessible to Opera Queensland to support operating costs; and
- Opera Queensland might benefit from the marketing leverage that QSO could bring to bear.

Recommendation 5.16: Victorian Opera should be supported now to become a major performing arts company.

- Victorian Opera meets all but one criteria to become a major performing arts company;
- The criterion that it currently does not meet, namely requiring six years continuous funding by the Australian Government, will begin to be met in 2017 when Victorian Opera receives $300,000 per annum from the Australia Council through its four year funding programme;
- Victorian Opera makes a valuable contribution to opera and audiences in Victoria where it is clearly meeting unmet demand;
- Victorian Opera offers repertoire which complements that of Opera Australia; and

- Victorian Opera appears to be well governed.

It is recognised that technically this recommendation is not within the Review's Terms of Reference. The Panel also notes that it has not undertaken the same level of analysis on Victorian Opera that it has in relation to the four Major Opera Companies.

Recommendation 5.17: In future, other opera companies that meet the criteria to become a major performing arts company should be supported for admission.

It is recognised that no other opera company is currently close to meeting these criteria. Nonetheless, it is recommended because:

- The process for consideration of the admission of Victorian Opera has not been clear cut;
- The funding approach is no longer obvious subsequent to the introduction of the 2011 Framework by the CMC;
- It is hoped that the vibrancy of the sector will increase; and
- It is hoped that this recommendation will be a source of encouragement to other opera companies that are currently much smaller.

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These recommendations are designed to be a strategic response that provides flexibility for the Major Opera Companies to pursue an artistically vibrant and innovative future, at the same time as recognising that Governments should clarify the activities they expect will be delivered in return for the funding they provide. It also recognises that the Major Opera Companies need to operate within the 2011 Framework that governs the funding arrangements for the rest of the major performing arts companies that are not covered by the Review's Terms of Reference.

6. Actions by Governments: How the companies should operate

In examining the strategic question of *How the Companies Should Operate,* a key consideration for the Panel, under its Terms of Reference, was the extent to which the companies should compete versus co-operate.

In so doing, the intent was not strategically to constrain the Major Opera Companies or to reduce their flexibility to evolve in innovative ways. However, given the high cost of delivering opera, Governments need to examine what (if any) are the trade-offs among greater accessibility, increased artistic vibrancy and financial stability.

More specifically, recommendations are presented in the following four areas as to the extent to which the Major Opera Companies should compete or co-operate:

6.1 Within the same geographies;
6.2 In relation to productions;
6.3 With venues; and
6.4 With regional touring.

Each of these is addressed in turn.

6.1 Within the same geographies

One of the core strategic issues canvassed during the course of the Review was the geographies within which the companies should be funded to stage mainstage opera.

The particular focus of the Review's deliberations has been on whether Opera Australia should regularly deliver mainstage opera seasons to Brisbane (and implicitly Adelaide and Perth), as well as to Melbourne.

6.1.1 Delivery of opera in Brisbane

In relation to Brisbane, a key issue that was raised was whether Opera Australia should deliver opera into Brisbane, either separately from or in association with Opera Queensland. This issue also involved consideration of whether Opera Queensland retained its status as a major performing arts company.

Given that Recommendations 5.12 to 5.15 support an integrated package to give Opera Queensland time to retain its status, this section of the Final Report only deals with whether Opera Australia should deliver opera into Brisbane.

In examining this issue, the Panel has taken into account the advantages of Opera Australia's delivering mainstage performances in more capital cities, versus the costs to Opera Australia and to Governments of extending its mainstage reach, more so given the financial stress facing Opera Australia.

Recommendation 6.1: Opera Australia should not receive specific core Government funding to deliver mainstage performances in Brisbane (or Adelaide or Perth).

The core challenge associated with touring mainstage performances is that the incremental revenue generated does not cover the significant additional costs incurred in taking a production to a venue in another city. Incremental costs are driven by travel costs and touring allowances for a large number of artists and staff, freight costs, additional artists and technical staff, and venue hire fees.

More rehearsal time is needed, not just because different artists may be used, but also because a local orchestra is usually employed. The high costs associated with touring an orchestra, if that were to be considered, would exacerbate the adverse cost-revenue dynamics.

The number of performances for each production plays into this equation. The fewer the number of performances, the more adverse the economics are likely to be, given that higher incremental fixed costs are unable to be amortised over a larger number of paid attendees. In addition, the size of the city, the population's propensity to attend mainstage opera, and the relative familiarity of the opera are factors that influence the number of attendees and hence the overall production economics. Fewer performances per production also reduces the ability to generate word of mouth to attract incremental attendees. The large seating capacity of the Lyric Theatre at the Queensland Performing Arts Centre (QPAC) would exacerbate this situation.

Relative ticket prices are also a factor. For instance, opera ticket prices in Brisbane are typically up to 25 percent less than in Sydney.

A further factor that impacts on the financial outcome is the number of productions that can be staged during a season. Unless double casting occurs,[20] it is not possible to perform the same opera with the same cast on consecutive nights because of the potential to damage the voices of the major principal artists when they are singing large technically demanding roles. Thus, ideally at least three productions would need to be included in a season to minimise the number of venue dark nights. Dark nights become an additional impost on the opera company or represent foregone revenue for the venue. Neither is an attractive proposition.

Thus, in summary, the economics of touring mainstage opera are highly unattractive. In this regard, because of the need to move large numbers of artists and staff, touring mainstage opera has more in common with the economics of touring symphony orchestras than it does with that of ballet, theatre or chamber music. As a consequence, on a global basis, very few opera companies regularly perform in more than one city.

The contrary point of view is that Opera Australia's mainstage performances should be made more accessible to populations in other capital cities. In part, this issue is often tied to Opera Australia's perceived obligations as a so-called "national" company,

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[20] See Discussion Paper 4.5.2.1.

with key stakeholders, particularly in Queensland, indicating they desired this outcome.

The lack of clarity as to the nature of Opera Australia's obligations has possibly been exacerbated by four factors.

- First, the 2011 abolition of the strategic designation of the companies has removed the reinforcing mechanism as to why touring mainstage opera presented significant financial challenges. (Between 1999 and 2011, because of the nature of its economics, Opera Australia was categorised as an Australian Resident Flagship Company, with its primary base in Sydney and a secondary presence in Melbourne);
- Second, with the greater strategic flexibility offered by the changes made by CMC in 2011, in 2012, Opera Australia presented a season of mainstage opera in Brisbane, increasing awareness of the potential for Opera Australia to travel to Queensland. While this was done with significant project funding from both the State and Federal Governments, nonetheless, Opera Australia incurred a moderately negative contribution to overheads on this tour;
- Third, conflicting signals might have emerged from the public's perspective through Opera Australia's increasing presence in other markets, particularly through the staging of longer run Broadway musicals in all mainland capital cities. It is unlikely that a widespread public understanding exists of the difference in the economics of staging long-run musicals versus those of mainstage operas, hence an expectation might have been created about the delivery of mainstage opera. Public perceptions might also have been influenced, for instance, by, in 2014, the holding of other events, such as *The Magic Flute* on the Gold Coast in the form of Opera on the Beach. The economics of Opera on the Beach were also challenging; and
- Fourth, Opera Australia's historic presence in Melbourne raises questions of why it cannot present mainstage opera in other capital cities.

Against this backdrop, while increased accessibility is clearly desirable, the Review has examined the overall public benefit of such a policy change.

On balance, and after careful consideration, the Review considers that, given the highly unattractive economics of touring mainstage opera, Opera Australia should not be funded to tour mainstage opera to other capital cities, other than where it currently performs. This was a difficult decision, but it was not considered that the economics of Opera Australia's touring mainstage opera to Brisbane would be sustainable, despite the benefits of greater accessibility. The factors that have been considered in relation to Melbourne are outlined below. This is consistent with the Guiding Principles articulated in Chapter 4.2.1.1 of this Final Report.

This does not mean, however, that Opera Australia should not stage long-run musicals or that artistic collaboration among the Major Opera Companies should not be encouraged. Under the strategic framework articulated in Recommendation 5.4, each company should have the ability to determine its own strategic direction.

6.1.2 Delivery of mainstage opera in Melbourne

An examination of the economics of touring mainstage opera to Brisbane, as well as the potential entry of Victorian Opera as a major performing arts company, has led the Review to consider the provision by Opera Australia of mainstage productions into Melbourne.

Recommendation 6.2: Opera Australia should be funded to continue providing mainstage opera productions in Melbourne as well as in Sydney.

This was a complex issue for the Review because the economics of Opera Australia's touring mainstage productions into Melbourne puts significantly greater financial stress on Opera Australia.

On a contribution basis (but excluding the costs of the permanent orchestra in both cases),[21] in 2014, the aggregate mainstage deficit incurred for nine Sydney productions was $3.926 million versus a negative contribution of $5.955 million in Melbourne for seven productions. On a per production basis, this translates to a deficit of $0.436 million in Sydney, with Melbourne showing a figure of $0.851 million almost double the deficit incurred in Sydney. These adverse economics led Opera Australia to reduce the number of productions in Melbourne in 2015 from 7 to 5, causing audiences to reduce by 21 percent and subscribers by 25 percent.

Notwithstanding the greater mainstage deficit incurred in Melbourne on a per production basis, the Review makes this recommendation for the following reasons:

- Opera Australia already has an important and significant presence in both Sydney and Melbourne, which are Australia's most populous cities. It has performed in each of those cities over the past 60 years;
- Importantly, and a key consideration, is that Opera Australia's staging seasons in both Sydney and Melbourne provides greater consistency and regularity of employment for artists;
- Victorian Opera currently presents opera of a different range and character than Opera Australia, a situation which is likely to continue for the foreseeable future, even if Victorian Opera is admitted as a major performing arts company;
- Opera Australia's not presenting mainstage opera in Victoria would have significant implications for Orchestra Victoria and hence for The Australian Ballet, which now has ownership of the orchestra; and
- Opera Australia's not presenting mainstage opera in Victoria would have significant implications for Victorian audiences in relation to the variety and range of opera they would see, notwithstanding the valued contribution of Victorian Opera.

[21] To provide comparability between Sydney and Melbourne, Australian Opera and Ballet Orchestra permanent musician costs are excluded from Sydney because musician costs are not incurred in the same way in Melbourne. Orchestra Victoria, which is owned by The Australian Ballet, provides pit services under a service level agreement for Opera Australia when it performs in Melbourne. This is similar to what occurs with Opera Queensland, SOSA and WAO and their respective state symphony orchestras.

In other words, in the case of Opera Australia and Victoria, the decision at this stage has been made in favour of accessibility, with the issue of artistic vibrancy and greater consistency of employment for artists being key considerations. However, the emergent role of Victorian Opera and the economics of Opera Australia's offering mainstage opera in Melbourne will need to be closely monitored over time to ensure that it does not continue to put Opera Australia under significantly greater economic pressure. If that were to occur, this recommendation should be reconsidered.

6.1.3 Delivery of mainstage opera in Perth and Adelaide

Recommendation 6.3: Mainstage opera in Perth and Adelaide should be delivered by WAO and SOSA respectively.

This recommendation is made because:

- The economics of delivering opera locally support this approach;
- Such an approach is consistent with providing support for local artists in those states, which is also welcomed and appreciated by audiences and each State Government; and
- The economics of another approach (say Opera Australia touring mainstage opera to those states) are not attractive.

6.2 With productions

The high cost of new physical productions has been a significant factor in encouraging co-operation over time among the Major Opera Companies.

Most frequently, such co-operation has taken the form of other Major Opera Companies hiring-in productions from Opera Australia. This avoids the cost of a new build, while providing a new interpretation of an existing work for an audience in a different geography. It also allows significant mainstage opera productions to be seen by audiences beyond Sydney and Melbourne, while generating additional income for Opera Australia for its physical productions.

Since 1995, Governments have also encouraged co-operation through the provision of funding for Opera Conference.[22] This partnership has broadened the variety of productions available for presentation by the four Major Opera Companies, providing benefits to audiences and artists alike.

While Opera Conference has evolved over time, tensions have recently emerged relating to repertoire choice as well as the process for selecting the repertoire.[23] These were significant issues that were raised by almost all involved parties with whom the Panel met.

As a consequence, the Panel has spent significant time examining these issues. Given the sensitivity of the issues and to avoid any doubt, the following

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[22] See Discussion Paper Chapter 3.3.1.2.
[23] See Discussion paper Chapter 5.1.3.2.

recommendations (Recommendation 6.4 to 6.8) are detailed and should be regarded as an integrated package.

Recommendation 6.4: Opera Conference should be retained but its objectives and approach should be broadened.

More specifically, the objectives should be re-defined to provide an opportunity for formal discussion and collaboration among the Major Opera Companies and other companies as well as to address the formal business of Opera Conference. More specifically, the agenda should seek to address:

- Common challenges and opportunities;
- Advanced repertoire planning;
- Other partnership collaborations among the Major Opera Companies;
- Possible partnership collaborations with other companies within and outside the artform; and
- Agreement to an annual mainstage Opera Conference production.

This recommendation is supported because Opera Conference should be encouraged to play a broader role to encourage co-operation among the companies. This might extend to the ability to exchange company specific productions and to find other ways of encouraging artistic innovation and driving economies of scale.

Recommendation 6.5: An independent non-voting Chair should be appointed to preside over Opera Conference.

This recommendation is supported to help encourage a broader and more inclusive set of conversations among the Major Opera Companies. Such an approach could bring greater objectivity to discussions and ensure that the agreed rules are being appropriately applied.

The Chair should be appointed on the recommendation of the Australia Council and the other funding agencies, following consultation with the members of Opera Conference. That person should be independent of the Companies and the funding agencies. They should be knowledgeable and hold the respect of the members of Opera Conference.

Recommendation 6.6: Opera Conference should make an annual decision on a mainstage opera production to gain economies in physical production costs.

More specifically, it is recommended that:

- Opera Conference should develop a programme of mainstage opera productions to provide a balance of standard repertoire and less well known works in a proportion determined by the participants according to need and informed by casting and other marketplace considerations;
- Opera Conference funding should only be used for mainstage works, which might be either existing or new works;
- Each Major Opera Company (including any company subsequently admitted) should have one vote in relation to an Opera Conference production;

- Agreement must be reached annually by **at least three companies** on the choice of mainstage opera; its creative team; and which company commissions and manages the project on behalf of Opera Conference;
- Those three companies must stage the production within three years of its commissioning; and
- If no decision is taken or agreement cannot be reached annually on the choice of repertoire, the annual funding should revert to Government.

This recommendation is supported because it will facilitate more effective collaboration. It is designed to achieve an appropriate balance between artistic vibrancy and innovation, while also delivering economies of scale among those companies who seek such benefits. Governments should not continue to support Opera Conference in the event that this co-operation cannot be achieved. Moreover, companies that do not use an Opera Conference production will lose the implicit benefit it provides, while others will benefit. It also makes explicit that a broader range of repertoire can be chosen for an Opera Conference production.

Recommendation 6.7: To support Australian artistic vibrancy, specific rules should govern the operation of Opera Conference productions.

- The production must use a principally Australian creative team;
- The set design needs to be flexible enough to be performed on any of the stages on which the Major Opera Companies regularly perform;
- The physical build needs to be robust enough to allow multiple users to stage the production in different locations;
- Subject to the testing of costs and appropriate quality specifications, preference should be given to the production being manufactured in Opera Australia's workshops;
- Separate accounting, which would include Government funding, should be maintained for Opera Conference productions, rather than such funding being channelled through the accounts of each company;
- A part-time administrator should be employed to oversee the accounts and other activities of Opera Conference;
- The commissioning partner should act as trustee and administrator for the production funds, while applying only a minimal cost for fulfilling those responsibilities;
- Any underutilised funds can be reinvested in a production in a subsequent year;
- Each commissioned production is owned by Opera Conference and is available to all Major Opera Companies;
- Production costs for Opera Conference productions should cover:
    - Fees and per diems for the director, set designer, costume designer, lighting designer, choreographer, assistant director, including remount fees and per diems for the creative team for each revival of the production when presented for the first time by an Opera Conference partner;
    - Cost of manufacture of sets, costumes and properties;
    - Purchase or hire of containers for transport;
    - Freight costs to move the production to each Opera Conference partner's venue; and

    - Refurbishment of sets, costumes and properties where necessary to bring the production back to the standard of the original production.
- Production costs will not cover the following expenses:
    - Artists' fees, including conductor, travel, per diems and accommodation;
    - Orchestral costs;
    - Chorus, stage management, dancer and actor costs;
    - Venue costs including backstage labour, booking fees;
    - Marketing costs; and
    - General administration costs.

Recommendation 6.8: Opera Conference funding should not include funding for regional touring, which will be separately direct line funded to Opera Australia for its annual regional tour.

Recommendations 6.4 to 6.8 as a package are supported for the following reasons.

- They promote collaboration, while addressing the tensions that currently exist within Opera Conference;
- They promote the potential to achieve economies of scale given the high fixed costs of opera production;
- They are consistent with promoting the use of Australian artists and creative teams;
- They are consistent with the principle of allowing the Major Opera Companies flexibly to adapt;
- Regional touring activity is recognised as a core activity of Opera Australia;
- They are workable operationally; and
- The proposed approach to accounting for Opera Conference funds does not distort the economics of any specific company.

Recommendation 6.9: Greater collaboration among the Major Opera Companies should be encouraged.

Over and above the opportunity afforded by Opera Conference funding, greater collaboration among the Major Opera Companies is encouraged for the following reasons.

- It allows the fixed costs associated with the physical build to be amortised over a greater number of performances. This is particularly the case with new works or productions of lesser known works, which might otherwise not be seen in other Australian geographies;
- It provides greater opportunities for audiences to see interesting and innovative work;
- It provides additional opportunities for artists; and
- It is an appropriate use of resources given constrained Government funding.

Adopting such an approach would require increased co-operation among Artistic Directors, for which Opera Conference meetings might provide a forum. In some circumstances, it might also even be possible for shows to be sequenced so as to retain the same cast, although such an approach is only likely for more commercially oriented productions, such as *Sweeney Todd* or the forthcoming presentation of *Kiss Me, Kate* by Opera Queensland.

6.3 With venues

A strong relationship with venues is critical for developing a cycle of success for the Major Opera Companies.

Equally, it is recognised that State Governments, who own most of the major venues, may have objectives for the venues that support broader cultural priorities that exist independently of the major performing arts companies.

This may include their wanting their venues to be a dynamic part of the liveability of their cities and to use the venues to attract overseas, interstate and local audiences. It is also recognised that State Governments have made a significant investment in their major venues and are looking to generate an adequate return on that investment. More often than not, this is achieved by maximising venue utilisation, including through minimising dark nights; generating income beyond ticket sales from audiences attending performances; and achieving efficiencies in operating performance.

However, this understandable approach is, in some instances, creating uncertainty for the Major Opera Companies in relation to venue availability. This is particularly the case in Adelaide and Brisbane. While venue managements are looking to support the companies, the pressures on them are resulting in their not committing to the Major Opera Companies too far in advance to ensure the venue has the flexibility to accept a longer running hire, overlapping with the same period as the opera company wishes to book. Given the long lead times associated with efficient planning for an opera production, this can create significant issues for a Major Opera Company.

This situation is exacerbated by the dark nights currently associated with Opera Queensland's and SOSA's rehearsal and performance patterns in the venue. This is not the case with Opera Australia which, within the Joan Sutherland Theatre at the Sydney Opera House, largely operates a repertory model. Nor is it the case with WAO at His Majesty's Theatre, where the State Government places a priority on optimising the use of the venue by the resident opera and ballet companies. The initiative under consideration by the Western Australian Government for WAO to manage His Majesty's Theatre would reinforce this objective, as is currently the case with the approach adopted by the Government of Western Australia in relation to West Australian Symphony Orchestra (WASO) at the Perth Concert Hall.

To address the issues in Brisbane and Adelaide, the following recommendations are made:

Recommendation 6.10: SOSA should support the South Australian Government's announcement to redevelop Her Majesty's Theatre in Adelaide for the staging of long run musicals, enabling greater access for SOSA to the Festival Theatre. In the meantime, the co-operation of the venue in staging SOSA productions needs to be forthcoming.

This recommendation is supported because:

- Increasingly, SOSA is unable to gain access to the Festival Theatre because it is booked out for long-run musicals, despite the best efforts of theatre management;
- A revamp of Her Majesty's will take pressure off the Festival Theatre, allowing SOSA to secure appropriate time in the theatre well in advance;
- SOSA's audiences expect performances to occur in the Festival Theatre. The current use of multiple theatres is showing signs of stressing audience loyalty, particularly when the company is being forced to use venues such as the Freemasons Hall; and
- Without access to the Festival Theatre, SOSA is also likely to see a decline in its average ticket price, affecting its financial position.

Recommendation 6.11: Opera Queensland should be supported to utilise more appropriate venues that meet audience expectations.

Recognising that there is public interest in attending what is viewed as grand opera in the Lyric Theatre, Opera Queensland should use this venue for large scale productions. The use of acoustic enhancement, though not normally desirable for opera, may benefit audiences in the Lyric Theatre, which also hosts musicals and other amplified productions.

When a production calls for a more intimate experience, or when large audiences are unlikely to attend because of the relative unfamiliarity of the opera, the more favourable acoustic of the Playhouse Theatre or the Concert Hall in lyric mode should be preferred.

All these venues are located within QPAC, which should be seen as the natural home for Opera Queensland's presentations.

Recommendation 6.12: Opera Queensland, SOSA and WAO should work proactively with the respective theatre complexes and the relevant orchestra to reduce dark nights in the theatre.

- By working proactively with the theatre and the relevant orchestra, it might be possible to identify ways of scheduling performances to reduce dark nights; and
- Proactive interactions might identify rehearsal efficiencies with a view to reducing dark nights.

Alternatively, double casting or working with a relevant ballet or dance company might be another way to reduce dark nights.

6.4 With regional touring

The 2011 Framework introduced a mandatory requirement that all major performing arts companies "demonstrate commitment to engaging with audiences in regional communities".

The positive outcome of that requirement has been increased engagement. The average annual reach of the Major Opera Companies to regional attendees has increased to 25,944 over the period 2012 to 2014, up from 17,149 in the prior three years, while recognising that variations occur from one year to another.

However, that has come at an increased cost. The average annual cost of meeting this commitment over the four years from 2012 to 2015 was $2.2 million compared with $1.7 million over the prior three years.

In other words, increased regional engagement has come at the cost of increased financial pressures.

As a result, the Review examined options for how best to engage with regional communities, recognising the importance of this commitment.

Having considered a range of options and engaged in consultation, the Review provides Recommendations 6.13 to 6.18 as an integrated set of proposals.

Recommendation 6.13: Annually, Opera Australia should tour regionally, going every second year to each state and territory, including Tasmania, Northern Territory and the Australian Capital Territory.

Recommendation 6.14: Opera Queensland should maintain a regular regional biennial opera touring programme within Queensland in the year that Opera Australia does not tour there. In addition, it should continue its community and outreach programme.

Recommendation 6.15: WAO should continue its community and outreach programmes (which currently includes Opera in the Park which is simulcast to regional Western Australia). It might also want to consider greater regional activities in the year that Opera Australia does not tour there.

Recommendation 6.16: SOSA should continue its community and outreach programmes. It might also want to consider greater regional activities within South Australia in the years that Opera Australia does not tour there.

These recommendations are supported because:

- They constitute a comprehensive package of touring that will help engage with all regions on an annual basis;
- It leverages the skills of Opera Australia, but also allows Queensland, South Australia and Western Australian regions to see the best of what their respective companies can offer; and
- The nature of the engagement will differ dependent on the company, thereby promoting greater variety and interest for regional communities.

The amount included in core funding for SOSA should include their paying the venues for the delivery of regional touring by Opera Australia, given the different funding arrangements for regional venues that exist in South Australia relative to other states.

Recommendation 6.17: Funding arrangements should be changed for Opera Australia. Funds for regional touring currently directed via Opera Conference should be allocated directly to Opera Australia. Project funding currently allocated to Opera Australia through Playing Australia should be direct line

funded to Opera Australia, thereby producing greater certainty of funding and reducing the administrative burden.

Recommendation 6.18: The appropriate overall level of Government funding for each of the Major Opera Companies for regional touring should be considered as part of the activity based funding approach outlined in Recommendations 5.5 to 5.9.

This approach is recommended because:

- The negative contribution for regional and community activities is significant for each of the Major Opera Companies;
- Regional touring is an important activity that needs to be actively supported by the relevant Governments;
- The cost of regional touring is significant relative to the box office revenue that can be generated; and
- Engagement with the arts, including the Major Opera Companies, has significant benefits for regional communities, including for children and is consistent with Australia's desire to create a more innovative and productive nation.

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Encouraging the Major Opera Companies to co-operate, at the same time as allowing them the flexibility to respond strategically to the challenges they face, is important. The Review seeks to encourage that balance by the way mainstage opera is delivered in the key capital cities; by the way they work together to gain economies of scale in productions through Opera Conference; by working with venues; and through greater co-ordination in relation to their touring activities.

7. Improving artistic vibrancy

Artistic excellence, innovation and vibrancy lie at the core of each Major Opera Company's cycle of success. It is central to their ability to retain existing and engage with new audiences, as well as to attract the best artistic talent. It is also critical to Australia's creative vitality as a nation.

However, significant evidence exists that the artistic vibrancy of the Major Opera Companies is under pressure.

This chapter makes recommendations to address those challenges.

More specifically, the initiatives proposed by the Review are as follows:

7.1 Increase the number of mainstage productions;
7.2 Increase the variety of mainstage repertoire choice;
7.3 Support the development of new Australian works;
7.4 Support the presentation of innovative works in collaboration with festivals;
7.5 Increase the use of digital technology for innovation;
7.6 Encourage the use of Australian artists;
7.7 Optimise the use of the ensemble, chorus and orchestra; and
7.8 Enhance initiatives for young artists.

Both Governments and the companies have an important role to play in these initiatives.

7.1 Increase number of mainstage productions

The number, composition, balance and quality of mainstage productions is critical to the artistic vibrancy of an opera company. They underpin the variety of opera that audiences see on stage, as well as the performance opportunities offered to artists.

Opera Australia, Opera Queensland and, to a lesser extent SOSA, have reacted to the financial pressures they face by reducing the number of productions they put on stage. WAO has indicated that, while they would like to stage a fourth production, they are not able to do so because of WASO's availability and because they do not have the necessary financial resources.

The way in which the reduced number of productions has occurred can be seen in Exhibit 7.1.

Exhibit 7.1: Mainstage opera productions by Major Opera Companies 2009 to 2015 (number)

Company	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
Opera Australia - Sydney	13	12	12	10	10	9	9
Opera Australia – Melbourne	7	7	7	7	7	7	5
Opera Queensland*	3	3	3	2	2	3	2
State Opera of South Australia**	3	3	3	3	3	5	2
West Australian Opera***	3	4	3	3	3	3	3
Total	**29**	**29**	**28**	**25**	**25**	**27**	**21**

* Excludes concert presentations of *Macbeth* in Concert (2012) and *St Matthew Passion* (2013).
** Includes the Philip Glass *Trilogy* in 2014 and excludes Verdi *Requiem* in 2015. Shown on a calendar year basis for comparability purposes, even though SOSA's accounting year is on a financial year basis.
*** Includes productions undertaken in conjunction with the Perth International Arts Festival.

In other words, in aggregate, the overall number of mainstage opera productions staged has declined by 28 percent over the six years from 2009 to 2015.

The considered view of the Panel is that increasing the number of mainstage productions has significant benefits from an artistic, audience and potentially a financial perspective. It is a major point of leverage and should be supported.

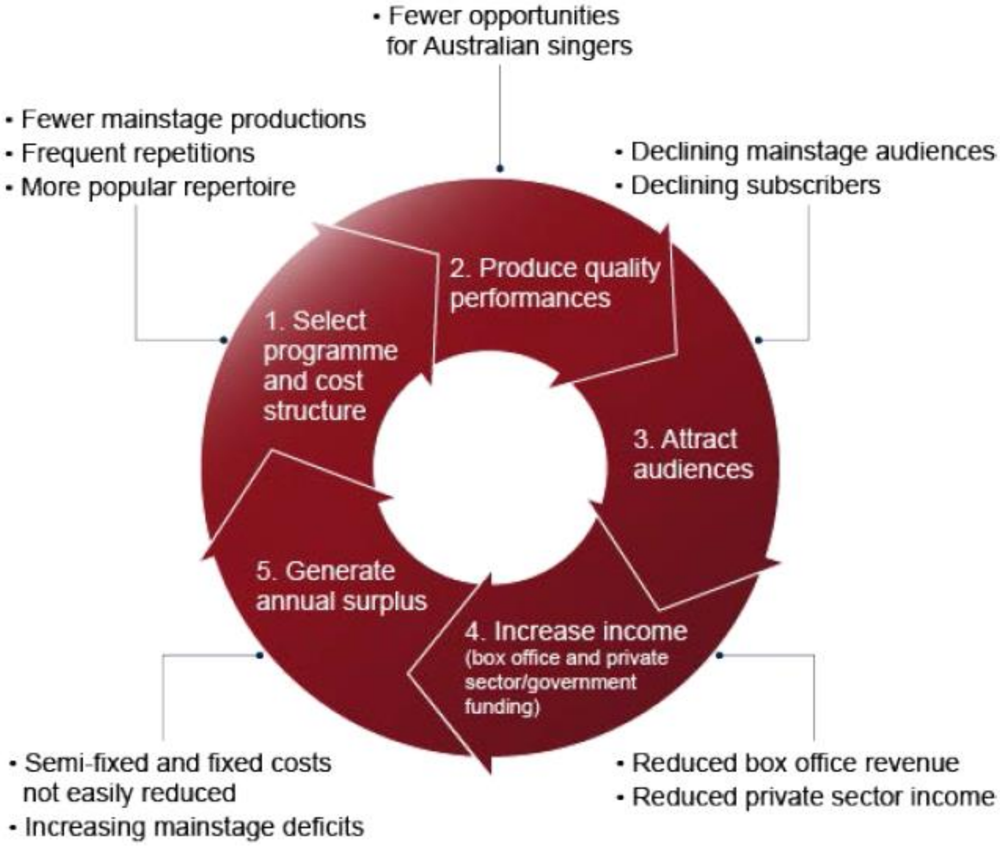
Recommendation 7.1: Governments' core funding should be targeted to increase the overall number of mainstage productions offered by the Major Opera Companies.

The Review makes this recommendation with a view to reversing the dynamics that have interrupted the cycle of success for the Major Opera Companies. More specifically, the Review considers that the Companies' cycle of success has been disrupted by a reduced number of performances in the following ways.

- Fewer mainstage productions, along with frequent repetition of existing repertoire (and in the case of Opera Australia musicals in Sydney using theatre time) reduce the opportunities to attract both subscribers and single ticket buyers to mainstage opera;
- Reduced audiences contribute directly to lower box office income;
- Reduced income from box office is a significant factor in driving the increasingly negative contribution of mainstage opera towards overheads;
- Declining attendances reduce the ability of the companies to generate private sector income:
  - Through generating sponsorship from business; and
  - By engaging with individuals to support the company's endeavours.
- The larger negative contribution to overheads from mainstage opera, combined with increasing pressure on private sector income, reduce the ability of the company to generate an annual surplus; and
- Pressure on the company's financial results encourages the company to further reduce the number of productions, further amplifying disruption to the company's cycle of success.

This negative cycle is shown graphically in Exhibit 7.2.

Exhibit 7.2: Interruptions to cycle of success



The initial trigger to this form of disruption was undoubtedly a response to declining audiences caused by the GFC. However, the seemingly fiscally responsible reaction of reducing the number of mainstage productions has, in fact, created its own significant adverse consequences, which have further magnified the challenges facing the companies.

This trend can, however, be reversed, as is recently the case with Los Angeles Opera's 2015 season. Through diverse opera repertoire and the use of star artists, it generated an increase in ticket sales and box office of 20 percent and 28 percent respectively over the prior period.

Increasing the number of productions and performances lies at the core of reversing this adverse trend.

Through the support of Governments to take this action, the artistic vibrancy of the companies should increase by providing additional employment opportunities for artists, as well as by giving audiences greater variety and choice in the productions available for them to see. Importantly, in restoring a cycle of success, based on greater artistic vibrancy, audiences for opera will increase.

Recommendation 7.2: Governments should support a minimum of three mainstage productions each year for Opera Queensland, SOSA and WAO.

This recommendation is supported for the following reasons.

- With the exception of WAO, the number of mainstage productions has recently reduced for each company;
- The Panel considers, on a benchmarked basis, in Brisbane, Adelaide and Perth, the minimum number of mainstage productions that are required to maintain an adequate market presence and to engage with audiences, particularly subscribers, is three productions;
- The companies can choose to offer more than three mainstage productions if they can responsibly finance such a level of activity; and
- Offering a minimum of three mainstage operas appears to be consistent with the current market appetite in those states.

Recommendation 7.3: Opera Australia should be funded to support a specified annual number of mainstage productions in Sydney and Melbourne:

- **Two seasons in Sydney with a minimum of 11 mainstage productions overall;**
- **Two seasons in Melbourne, with a minimum number of 7 mainstage productions overall.**

This recommendation is supported for the following reasons.

- It seeks to reverse the downward spiral created by the disruption to Opera Australia's cycle of success that has seen a significant reduction in the number of productions it has offered;
- It seeks to underpin a re-engagement with audiences, particularly subscribers who are integral to supporting Opera Australia's cash flow;
- It seeks to enlarge employment opportunities for artists, which have been significantly eroded by the reduced number of productions;
- It seeks to underpin the ability to offer a broader choice of repertoire; and
- By re-engaging with audiences, it seeks to provide a basis for greater support from corporate sponsors and individual benefactors.

The core funding implications for each of the Major Opera Companies are outlined in more detail in Chapter 11. If these recommendations are accepted by Governments, each Major Opera Company would be held accountable for delivery of the minimum number of mainstage productions based on the perspectives outlined in Recommendations 5.5 to 5.9.

7.2 Increase the variety of mainstage repertoire choice

Repertoire choice is a matter for each Major Opera Company's artistic direction and needs to be determined in a way that allows each company to attract audiences; provide employment opportunities for Australian artists; and balance financial prudence with artistic risk.

However, as outlined in the Discussion Paper, the financial pressures facing the Major Opera Companies have caused a significant narrowing of the repertoire. More specifically, the following has occurred.

- The proportion of popular versus less familiar operas has significantly increased,[24] resulting in potential over-exposure of more popular operas;
- The number and proportion of frequently repeated operas has increased;[25]
- The proportion of operas staged by century of composition has narrowed;[26] and
- The proportion of operas staged by country of origin has narrowed[27].

The Panel considers that the narrowing of the repertoire has also had implications for artists as well as for audiences.

Consistent with the guiding principle outlined in Chapter 4.3.1, the Panel does not want to impose constraints on repertoire choice. Nonetheless, in the interest of ensuring greater awareness of the issues relating to repertoire choice, the Review makes the following recommendation.

Recommendation 7.4: Each Major Opera Company should proactively engage in ongoing discussions with the funding agencies about decisions in relation to the variety, balance and scale of their repertoire choice before such decisions are finalised.

This Recommendation is supported for the following reasons.

- Repertoire choice is a key point of leverage that has the ability to reverse the current dynamics that are adversely impacting artists and audiences;
- The proposed approach strikes an appropriate balance between Governments' being light-handed in a key artistic area versus improving outcomes for artists and audiences; and
- Realistic budgets by opera production should be prepared and agreed with the funding agencies in advance.

7.3 Support the development of new Australian works

New work that reflects Australia's national character and is emblematic of its own time and place is essential to the ongoing artistic vibrancy of the artform.

However, the Major Opera Companies' track record for the development of such works has been sporadic. Indeed, until 2014, the last mainstage new Australian work staged by Opera Australia was *Bliss* in 2010.[28]

[24] See Discussion Paper 5.1.1.1 and specifically Exhibit 5.6.
[25] See Discussion Paper 6.2.3 and specifically Exhibit 6.109 and 6.110.
[26] See Discussion Paper 6.2.3 and specifically Exhibit 6.111.
[27] See Discussion Paper 6.2.3 and specifically Exhibit 6.111.
[28] See Discussion Paper 6.2.4 and specifically Exhibit 6.112.

This situation has more recently improved with new works being staged by the Major Opera Companies, including *The Rabbits, The Riders, Snow White*, *Cloudstreet* and *The Divorce*.

The Review considers it vital that the vibrancy of the artform be supported through the development of new works. To this end, the following two recommendations are made.

Recommendation 7.5: Governments should support the development of new work, particularly through experimentation, workshops and smaller scale activities.

This recommendation is supported because:

- Artform innovation is the lifeblood of the artform going forward;
- The cost and risk of staging new mainstage works that have not been adequately workshopped is high; and
- Workshops and experimentation offer a lower risk and cost environment in which to support and develop new Australian works.

Recommendation 7.6: Governments should create an Innovation Fund which will include discrete competitive funding to encourage the development of new works to which the Major Opera Companies can apply either on their own or in conjunction with smaller companies.

The Review supports this Recommendation because:

- Innovation is critical to the ongoing vibrancy of the artform;
- The Major Opera Companies have a responsibility to take a leadership role in the artform, particularly in relation to the development of new Australian works. This initiative may encourage the discharge of this responsibility at a time when the companies are under financial pressures;
- Many of the smaller opera and other artform companies are developing innovative and creative new works, which this initiative—in conjunction with a Major Opera Company—may further encourage; and
- By encouraging co-operation with smaller opera and other artform companies, the potential to incubate new works may occur more expeditiously. For instance, this has recently been seen with *The Rabbits*, which is an Opera Australia and Barking Gecko Theatre Company co-production in association with WAO. It was commissioned by Perth International Arts Festival and Melbourne Festival and was in part supported through the Federal Government's Major Festivals Initiative. It was hailed as a critical success, enjoying capacity audiences, leading to invitations to be performed in the Sydney Festival and in Brisbane.

7.4 Support the presentation of innovative works in collaboration with festivals

Festivals provide a platform to present innovative work to a different and more diverse audience base. The innovative works often presented at festivals also help refresh the artform and provide additional opportunities for artists.

However, the costs associated with staging an opera within a festival environment are often prohibitively expensive, both from an opera company's and a festival's perspective. This is particularly the case relative to dance or theatre.

To enhance artistic vibrancy; to provide greater opportunities for artists; and to encourage a broader and more diverse audience base for opera, the Review makes the following recommendation.

Recommendation 7.7: Governments should create an Opera Festival Fund within the broader Innovation Fund (Recommendation 7.6).

More specifically, the Major Opera Companies should compete for an annual grant from the Opera Festival Fund in collaboration with a specific festival or festivals. Other arts companies may or may not be involved in conjunction with the Opera Festival Fund.

The Review supports this Recommendation for the following reasons.

- It provides a financial incentive for Festival Directors to contemplate staging opera, which is a more expensive artform;
- It will reinvigorate the artform;
- It could reduce the cost of new productions for Major Opera Companies in the less populous states;
- It will provide more time for the development and workshopping of new work;
- It will assist in gaining access to the festival circuit globally;
- It will provide a stronger basis to encourage festival audiences to attend an opera work;
- It should attract a different and expanded audience base;
- It should partially help overcome the challenge of potential audience loss for the Major Opera Companies, due to festivals being held at the same time as the Major Opera Companies are presenting productions; and
- It offers subscribers and committed opera-goers a greater choice of repertoire and productions to attend in a particular year.

7.5 Increase the use of digital technology for innovation

Digital technology is rapidly changing the way opera companies engage with the artform and with audiences. It is affecting both the staging as well as the dissemination of opera. Increasingly, audience expectations will be shaped by the standards set by digital innovation in other forms of entertainment, such as popular music. Digital technology also offers the opportunity, over time, to reduce production costs and to significantly increase audience reach.

However, financial pressures on the Major Opera Companies constrain their ability to undertake experimentation in an arena where there might be an opportunity to take a greater global leadership role.

Recognising this opportunity, the Review makes the following Recommendation.

Recommendation 7.8: To promote a vibrant and innovative future for opera, Governments should establish, within the Innovation Fund, a specific competitive initiative based on using digital technology to enhance the artform, connect with audiences, enhance production design values and/or lower production costs.

The Review supports this Recommendation for the following reasons.

- Artform experimentation and engagement through digital technology is likely to be essential to the evolution of the artform;
- The use of digital technology will increasingly enrich the artform in innovative and creative ways;
- Digital dissemination is already increasing[29] in a core area where Australia should have the ability to experiment and play a leading role;
- The potential exists to enrich production design values through the use of digital technology, which might become increasingly attractive to audiences from a diverse demographic;
- Potential economies of scale may be offered through the development and use of digital staging, which could generate additional financial benefits and make opera more accessible over time;
- Digital communications are allowing more targeted engagement with specific audiences and their needs; and
- Streaming through digital technology might offer the Major Opera Companies a way of engaging new audiences and extending their reach.

7.6 Encourage the use of Australian artists

The Review was explicitly tasked with examining "the way the delivery of opera in Australia contributes to the development of artists.....from the early to later stages of their careers".

More specifically, the issue of perceived declining employment opportunities for Australian artists was a subject that was raised extensively during the course of the Review's public consultations, submissions and subsequent discussions.

The key issues that were examined were both the impact on artists of the reduction in the number of productions and performances, as well as the increased use of international singers.

7.6.1 Decreased number of principal roles

One of the major factors that have affected artists' careers has undoubtedly been the reduction in the number of productions and performances and, subsequently, the number of roles and performances of those roles available to artists. This is particularly the case with Opera Australia, the most significant employer of opera singers in Australia.

[29] See Discussion Paper Section 4.4.3.

As can be seen in Exhibit 7.3, between 2010 and 2015, the total number of on-stage performances by singers in leading, featured and supporting roles in Opera Australia's Sydney mainstage opera productions reduced by 476 or 30 percent, while in Melbourne the reduction was 191 performances or 40 percent[30].

Exhibit 7.3: Principal roles (leading / feature / support) and performances available in Opera Australia's mainstage* opera productions 2010 to 2015 (number)

Sydney

	2010	*2011*	*2012*	*2013*	*2014*	*2015*
Total number of productions	12	12	10	10	9	9
Total number of performances**	165	161	131	111	120	122
Total number leading / feature / support roles	122	102	89	84	80	84
Total number leading / feature / support role on-stage performances	1,607	1,398	1,134	921	1,193	1,131

* Excludes HOSH.
** Mainstage performances from 2012-2015 include the NYE performances of *La bohème* and 2015 also includes the 30 December 2015 performance of *The Magic Flute.*

Melbourne

	2010	*2011*	*2012*	*2013*	*2014*	*2015*
Total number of productions	7	7	7	7	7	5
Total number of performances	51	55	60	31	52	33
Total number leading / feature / support roles	68	51	65	68	58	43
Total number leading / feature / support role on-stage performances	482	416	567	276	438	291

Reducing the number of productions and performances, therefore, has had a significant impact on employment opportunities for artists.

Increasing the number of productions (Recommendations 7.2 and 7.3) is, in part, designed to address this issue from an artist's perspective.

The impact of the reduction in the number of productions and performances can also be seen by analysing the number of employment opportunities available to leading artists. This analysis for Opera Australia (see Exhibit 7.4) includes data on HOSH and New Year's Eve performances, and includes projected opportunities in 2016.

Exhibit 7.4: Opera Australia: number of leading role performances in mainstage opera* and HOSH 2010 to 2016 (number)

	2010	*2011*	*2012***	*2013*	*2014*	*2015*	*2016*
Number of lead role on-stage performances available	838	744	739	567	674	668	634

* Mainstage performances from 2012-2016 include the NYE performances of *La bohème* and 2015 also includes the 30 December 2015 performance of *The Magic Flute.*
** 2012 does not includes performances in Brisbane.

This represents a reduction of 24 percent from 2010 to 2016.

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[30] See Discussion Paper Section 6.2.5, specifically Exhibit 6.113.

In other words, the reduction in the number of productions and performances by Opera Australia has had an adverse impact on the employment opportunities for singers in leading roles.

7.6.2 Greater use of international singers

The second significant trend that has adversely impacted employment opportunities for Australian singers in leading roles has been the greater use of international singers.

As outlined in the Discussion Paper: "The use of acclaimed international singers in Australian performances is attractive to audiences and at the same time provides an often interesting benchmark for Australian artists in stimulating collaborations. International guests have been a part of Opera Australia's programming since its very first season in 1956".[31]

However, as outlined in Exhibit 7.5, the number of international singers has increased.

Exhibit 7.5: Non-Australian principal singers engaged for leading roles in mainstage opera* performances by the Major Opera Companies 2009 to 2015 (number)

Company	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
Opera Australia*	10	6	8	11	19	19	19
Opera Queensland	3	2	1	3	3	5	-
State Opera of South Australia	1	1	2	1	3	-	-
West Australian Opera***	1	3	1	4	1	2	4
Total	**15**	**12**	**12**	**19**	**26**	**26**	**23**

* OA numbers include non-Australian singers engaged for HOSH performances.
** WAO 2010 and 2012 figures include two singers each year engaged by Perth International Arts Festival, and 2015 includes three singers engaged on the same basis.

In 2016, Opera Australia has further increased the number of international singers to 29, with some of those artists performing in more than one production. This represents an increase of 53 percent, from the 19 artists employed in 2015.

International singers undertook an increasing percent and number of performances in leading roles, as can be seen in Exhibit 7.6.

Exhibit 7.6: Opera Australia: Performances by Australian and non-Australian singers in leading roles in mainstage opera* and HOSH 2010 to 2016 (number and percent)

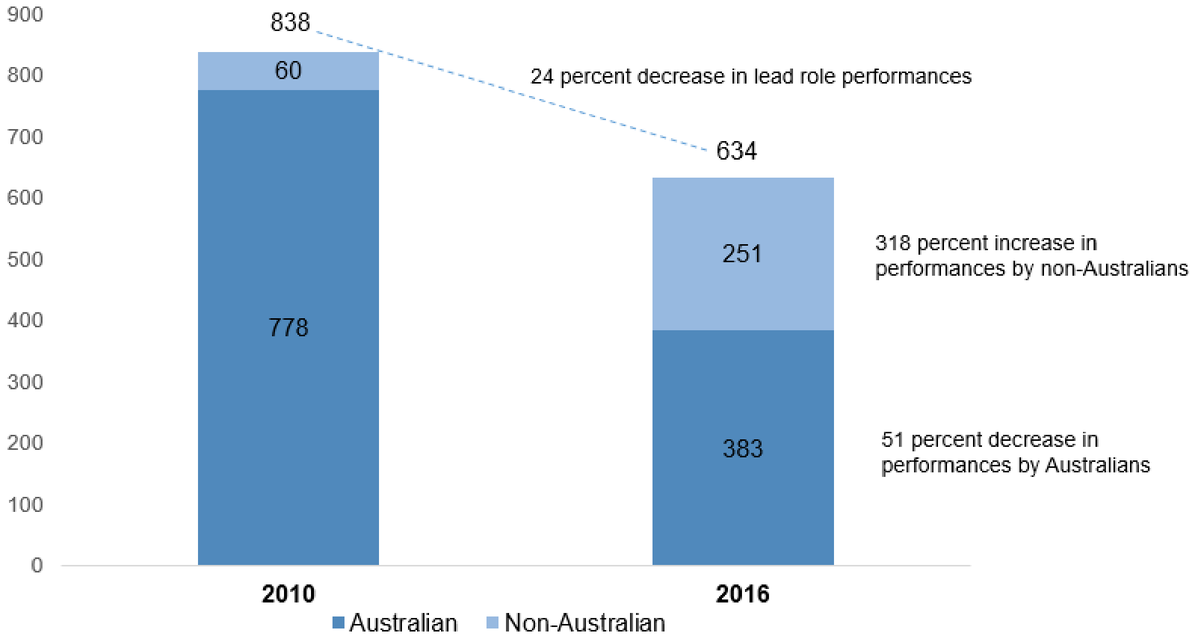
	2010	*2011*	*2012***	*2013*	*2014*	*2015*	*2016*
Number of performances by Australians	778	659	615	390	509	486	383
Percent of performances by Australians	92.8	88.6	83.2	68.8	75.5	72.8	60.4
Number of performances by non-Australians	60	85	124	177	165	182	251
Percent of performances by non-Australians	7.2	11.4	16.8	31.2	24.5	27.2	39.6

* Mainstage performances from 2012-2016 include the NYE performances of *La bohème* and 2015 also includes the 30 December 2015 performance of *The Magic Flute.*
** 2012 does not includes performances in Brisbane.

[31] See Discussion Paper Section 6.2.5.2 for a fuller explanation.

There has, therefore, been a significant reduction in the number of performance opportunities for Australians in leading roles. The extent of this reduction is graphically shown in Exhibit 7.7, which highlights the reduction by 51 percent from 778 to 383 performance opportunities for Australian singers in leading roles.

Exhibit 7.7: Opera Australia: Profile of performances in leading roles 2010 and 2016



Against this background, many experienced singers claim they cannot maintain "artistic match fitness" with only erratic performance opportunities available. Stakeholders have also provided information to the Panel of experienced Australian singers leaving the profession, relocating overseas, retiring early or changing career paths.

Various explanations have been offered for this change. One reason provided is that Australian singers do not have the vocal and dramatic qualities necessary to fulfil particular roles. While this may apply to certain specialist roles, Opera Australia often casts Australian singers in the same season as an imported artist for more standard lyric repertoire. Another explanation is that, particularly for often repeated operas, "offering voices that have not previously been heard on stage is designed to increase interest with audiences".[32]

Regardless, the impact on Australia's community of established operatic singers—whether they are based in Australia or overseas—has been profound. This was one of the most serious and widespread issues raised with the Review during its extensive consultations.

The Panel recognises that Government funding for Australia's Major Opera Companies is, in part, to encourage artistic excellence; to provide a platform for Australian artists at all stages of their careers; as well as to allow Australian audiences to experience Australia's proven and potential operatic talent. It is also recognised

[32] See Discussion Paper Chapter 5.1.4.

that the involvement of outstanding non-Australian artists in leading roles has historically and continues to provide benefits and interest for Australian artists and audiences.

At the same time, and consistent with the guiding principles adopted by this Review, it is not seen as the role of funding agencies to play an overly active role in artistic direction. Finding an appropriate balance among these competing objectives, while marrying them with an appropriate control of costs, is inevitably a delicate and sensitive challenge.

Recognising the importance and sensitivity of these issues, the Review makes the following integrated set of recommendations (from Recommendations 7.9 to 7.13).

Recommendation 7.9: Each Major Opera Company should report annually to the relevant funding agencies on the number of roles and performances by Australian and non-Australian artists employed in leading roles. This analysis should capture trends over time, including data on opening night versus second cast profiles by city.

Recommendation 7.10: On behalf of all funding agencies, the Australia Council should annually report on Australia's most established opera singers and the extent to which they have been employed in leading roles by each Major Opera Company over the prior five years.

Recommendation 7.11: In analysing information provided under Recommendations 7.9 and 7.10, the Government funding agencies should assess whether an appropriate balance is being struck between the career development of Australian artists and the employment of non-Australian artists.

Recommendation 7.12: The funding agencies should proactively engage with the Major Opera Companies in detailed fact based discussions on the engagement of leading Australian artists over time.

Recommendation 7.13: Government funding agencies should have the authority to impose a penalty on any Major Opera Company, who after engaging in serious discussions, does not produce an appropriate balance in the employment of Australian versus non-Australian artists. Such a penalty could range up to $200,000 against its level of core funding.

A trigger for a conversation in relation to an appropriate balance in relation to the percent of performances by Australian singers in leading mainstage opera roles might be set at 80 percent.

These recommendations are supported for the following reasons.

- They represent a genuine effort to find an appropriate balance between light-handed oversight by the funding agencies and promoting the careers of Australian artists;
- They use a fact-based approach to address a serious and sensitive issue;
- They recognise that it is possible for each Major Opera Company to frame its repertoire partly in response to the availability and talent of Australia's most established singers; and

- They attempt to tread gently through the right of each Major Opera Company to manage its own artistic direction, while recognising one of the fundamental reasons why Government funding is provided to the companies.

7.7 Optimise the use of the ensemble, chorus and orchestra

The Discussion Paper outlined how the financial pressures facing the Major Opera Companies, particularly Opera Australia, are making it increasingly difficult for artists to sustain and enhance their craft. This is because Opera Australia is the only opera company in Australia to employ artists on an ongoing basis, whether that is in the ensemble, the chorus or the orchestra.

More specifically, the following summary updates the information provided in the Discussion Paper for the period 2009 to 2015.

- The number of singers employed on 52 week contracts as members of the principal ensemble has decreased by 27 percent (from 15 to 11 singers);[33]
- The number of choristers employed on an ongoing basis has decreased by 24 percent (from 45 to 34);[34] and
- The number of orchestral players employed on an ongoing basis has decreased by 11 percent (from 64 to 57), although casual employment has grown significantly.[35]

The same trend can be seen with technical staff, where for instance, the number of staff engaged on an ongoing basis in wardrobe and wigs has decreased by 46 percent from 26 in 2009 to 14 in 2015, although the total number of staff employed on a seasonal and casual basis increased.

These actions have been taken by Opera Australia in an effort to control fixed and semi-fixed costs. As a consequence of these actions, over the period 2009 to 2015, the following changes in costs have occurred.

- Ensemble labour costs have reduced from $2.136 million to $1.397 million, a reduction of 35 percent or a compound annual growth rate (cagr)[36] of -6.8 percent;[37]
- Chorus labour costs have decreased by 20 percent (or a cagr of -3.6 percent) from $3.394 million to $2.728 million;[38] and
- Overall permanent orchestral musician costs increased from $6.971 million to $7.158 million or a cagr of 0.4 percent.[39]

[33] Updates Discussion Paper 6.2.5.3, and specifically Exhibit 6.117.
[34] Updates Discussion Paper 6.2.5.4, and specifically Exhibit 6.118.
[35] Updates Discussion Paper 6.2.5.5, and specifically Exhibit 6.119.
[36] See Discussion Paper Glossary.
[37] Updates Discussion Paper, 5.3.2.2, and specifically Exhibit 5.35.
[38] Updates Discussion Paper 5.3.2.2, and specifically Exhibit 5.36.
[39] Updates Discussion Paper 5.3.2.2, and specifically Exhibit 5.37.

In other words, Opera Australia has tried to strike a balance between fiscal prudence and providing ongoing employment opportunities for artists.

While that is clearly highly desirable, it is hoped that the proposed increase in the number of productions will go some way to providing additional ongoing employment opportunities for artists as well as for technical staff.

Against this background, the Review makes the following recommendation.

Recommendation 7.14: Ongoing employment opportunities for the ensemble, chorus and orchestra should be optimised within available funding, recognising the proposed increase in the number of productions. While it is highly desirable to provide stability of employment for artists, trade-offs between the needs of artists and financial stability need also to be managed.

This Recommendation is supported for the following reasons.

- Only Opera Australia has the opportunity to provide ongoing employment for artists, but that needs to be done within the framework of prudent financial management to ensure the company's ongoing financial viability; and
- Increasing the number of productions, and thereby creating increased employment opportunities, is a lever that will alleviate pressure on jobs and the company's financial position by reactivating a cycle of success.

7.8 Enhance initiatives for young artists

The Review was tasked with examining how the delivery of opera contributes to the development of artists from the earliest stage of their career. That includes young artist programmes.

The Discussion Paper identified that, while there remains a commitment to young artist development programmes as part of a vital "grow your own" adjunct to performance activity, faced with financial pressures, those initiatives have increasingly been down-scaled.

The Review also recognises that Australia has other fine academic institutions and organisations, such as the Lisa Gasteen National Opera School and the Melba Opera Trust Scholars Program, providing training and expert development opportunities for young emerging artists. Generous opera support groups and competitions that continue to offer significant scholarships for overseas study and membership of young artist programmes with leading international opera companies are also to be commended.

More specifically, it is recognised that between 2012 and 2014 the number of remunerated positions for young artists within the Major Opera Companies reduced from 11 to 3.[40]

The Review acknowledges that young artist programmes are for development rather than for teaching purposes. They provide an opportunity for emerging artists with

[40] See Discussion Paper 6.2.5.7, and specifically Exhibit 6.123.

operatic talent and aptitude to refine and fill skill gaps and to bridge to a professional operatic career. With an individually tailored programme, the young artist benefits from observation by established professionals; access to music, language and production staff resources; and being monitored by expert and established practitioners. In that process, onstage performance exposure is gained, both in mainstage and touring productions. More specifically, Aboriginal and Torres Strait Islander peoples would benefit from the opportunity to be included in such programmes.

At the same time, the difference in scale and scope of the four Major Opera Companies impacts on the type of young artist programmes that can be sustained.

Against this background, the Review makes the following recommendation.

Recommendation 7.15: Each of the Major Opera Companies should be encouraged to develop a remunerated Young Artist Program that is consistent with the programme of its activities and the skills of the young artist. That might include encouraging a beneficial relationship with conservatoria and academic institutions, as well as other young artist programmes.

This recommendation is supported for the following reasons.

- It is consistent with the development obligations of a Major Opera Company;
- It is essential to the development of future Australian operatic talent;
- Being remunerated for the time employed implies a seriousness of purpose and allows a young artist to make the most of the opportunities being presented to them; and
- Co-operation with academic or performance oriented organisations should be encouraged to identify potential talented young artists.

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Artistic vibrancy and quality lie at the core of and underpin the future financial viability of the Major Opera Companies, as well as playing a key role in gaining greater accessibility. While increasing the number of productions is central to the recommendations that have been made, other initiatives where a lighter governmental hand is exercised—including achieving greater balance in the repertoire and employing a higher proportion of Australian singers—are equally vital in opera's playing a decisive role in Australia's being recognised as a leading creative country.

8. Improving access

The role that the major performing arts play in Australian life is valued by Governments. It is not just the Sydney Opera House—Australia's de facto symbol—that sends a message to the world of a nation that is creative, innovative and imbued with energy. It is also the companies that occupy the performing arts venues that create value for the country by enriching the lives of its citizens and by attracting tourists and employees to Australia's shores. In that context, the arts are a relatively low cost form of cultural diplomacy that win hearts and minds and help define who we are as a nation.

In the wake of the GFC, Australia was one of the few countries where attendances at opera performances increased. Indeed, from 2009 to 2015, paid capital city attendances for the Major Opera Companies increased by 37 percent. That is a remarkable achievement. That achievement has primarily come from Opera Australia's diversification into HOSH and musicals, which constituted 47.2 percent of Opera Australia's paid attendances in capital cities in 2015.

On the other hand, from 2009 to 2015, mainstage opera attendances reduced by 28 percent, with all Major Opera Companies experiencing a decline. As can be seen in Exhibit 8.1, this occurred primarily because of the reduced number of stagings.

Exhibit 8.1: Paid mainstage attendances and stagings by Major Opera Companies, 2009 and 2015 (number, percent)

Company	*Attendances and Stagings*	*2009 (No.)*	*2015 (No.)*	*% change 2009-2015*
Opera Australia*	Paid	260,481	190,102	-27
	Stagings	20	14	-30
	Paid per staging	13,024	13,579	+4
Opera Queensland	Paid	22,931	10,195	-56
	Stagings	3	2	-33
	Paid per staging	7,644	5,097	-22
State Opera of South Australia	Paid	12,670	9,929	-22
	Stagings	3	2	-33
	Paid per staging	4,223	4,964	+18
West Australian Opera	Paid	15,930	15,337	-4
	Stagings	3	3	0
	Paid per staging	5,310	5,112	-4
Total	**Paid**	**312,012**	**225,563**	**-28**
	Stagings	**29**	**21**	**-28**
	Paid per staging	**10,759**	**10,741**	**0.2**

* Includes both Sydney and Melbourne

While subscriber attendances and single ticket sales both declined, as can be seen in Exhibit 8.2, subscriber numbers were more adversely affected by the reduced number of stagings, probably reflecting the narrowing of the repertoire and the frequency of repeat productions. In reducing the number of stagings and narrowing of the repertoire, the companies were responding to the financial pressures they faced.

Exhibit 8.2: Paid attendance profile (single and subscriber tickets) by Major Opera Companies, 2009 and 2015 (number, percent)

*Company**	*Ticket type*	*2009 (No.)*	*2015 (No.)*	*% change 2009-2015*
Opera Australia	Single	159,149	125,122	-21
	Subscriber	101,332	64,980	-36
	Av. single per staging	7,957	8,937	+12
	Av. subscriber per staging	5,066	4,641	-8
Opera Queensland	Single	11,931	7,597	-36
	Subscriber	11,000	2,598	-76
	Av. single per staging	3,977	3,799	-4
	Av. subscriber per staging	3,667	1,299	-65
State Opera of South Australia	Single	6,404	6,265	-2
	Subscriber	6,266	3,664	-42
	Av. single per staging	2,135	3,133	+47
	Av. subscriber per staging	2,089	1,832	-12

* Subscriber tickets were not sold for WAO's production of *Madama Butterfly*, thereby distorting WAO's numbers. For this reason, analysis for WAO has not been included

While the actions taken by the companies were completely understandable and fiscally responsible in the short run—reflecting in part the long planning lead times in opera and opera's high level of fixed costs—they have had adverse long-term consequences that, in part, this Review seeks to address.

Given the view of the Panel that artistic vibrancy lies at the heart of audience engagement, many of the recommendations outlined in Chapter 7 are designed to increase attendances. They particularly relate to increasing the number of productions as well as initiatives that are proposed to encourage the widening of the repertoire. They should also be regarded as threshold issues that underpin steps to improve access.

However, other initiatives are proposed that are specifically addressed in Chapter 8. They are as follows:

8.1 Improve the quality of audience experience at venues;
8.2 Enhance engagement with subscribers;
8.3 Broaden the market for single ticket sales;
8.4 Build audiences for the future through education programmes; and
8.5 Create a stronger emotional connection with each Major Opera Company.

Each of these points is discussed in turn.

8.1 Improve the quality of audience experience at venues

While audiences have diverse reasons for attending an opera performance, the quality of the experience at the venue is undoubtedly a major point of engagement for many attendees.

Not only is the in-theatre vocal acoustic appeal a significant factor, but other intangibles come into play. That can include car parking; the extent of utilisation at the venue creating a sense of buzz and excitement; the theming of the theatre around a production; and the availability of food and drink to make the evening complete.

In the case of the Joan Sutherland Theatre and Opera Australia, many patrons—particularly tourists—come precisely for the Opera House experience. The technical upgrades to the theatre occurring in 2017, which will result in its closure for most of the year, present a challenge for Opera Australia. This Review has not attempted to address this issue as it is not part of its Terms of Reference.

As noted in Chapter 6.3 of this Final Report, for SOSA and Opera Queensland, venue availability and suitability is posing a key challenge for each company.

More specifically, Opera Queensland has utilised a variety of venues over the past five years including the Lyric, the Playhouse and the Concert Hall in QPAC, as well as the Conservatorium. The lack of consistency in its choice of venue, as well as other specific venue challenges in relation to each venue is considered by the Review to have exacerbated Opera Queensland's difficulties.

Against this background, the Review makes the following recommendation in relation to the Major Opera Companies and the venues.

Recommendation 8.1: In the near to medium term, Opera Queensland should maximise the use of the venues within QPAC.

This recommendation is made for the following reasons.

- The Conservatorium, while arguably cheaper, does not appear to promote adequate engagement with audiences;
- In addition, more performances are needed to achieve the required total sales to cover the cost of a specific production; and
- The Playhouse, while not necessarily optimal, is located within QPAC, with a good acoustic and gives the company the ability to fill the theatre given attendance numbers. It also offers a better balance between the number of performances and the number of tickets that need to be sold.

Recommendation 8.2: SOSA should strive to use the Festival Centre to the maximum extent possible.

Consistent with Recommendation 6.10, SOSA should support the South Australian Government's initiative to revamp Her Majesty's Theatre so as to alleviate the pressure on the Festival Theatre. The Festival Theatre is the ideal venue for SOSA because:

- The acoustic with the LARES sound system[41] has proven acceptable to audiences;
- The venue size is supportive of SOSA's economics;

[41] An electronic sound enhancement system using microprocessors to control multiple loudspeakers and microphones in the performance space.

- The ambience is what audiences expect; and
- Other venues that SOSA has been using (such as the Freemasons Hall) are undermining the quality of the audience experience and promoting a less professional image, which is inconsistent with SOSA's history and aspirations.

Recommendation 8.3: The Western Australian Government should be encouraged to hand over control of His Majesty's Theatre to WAO to create a tighter symbiosis between the venue and the opera company.

- WAO and West Australian Ballet are already the principal occupants of His Majesty's Theatre;
- The Western Australian Government appears to be supportive of this proposal;
- WAO has proven strong managerial skills;
- WAO is prepared to maximise the opportunity this might create; and
- WASO has already successfully trialled this model with the Perth Concert Hall.

8.2 Enhance engagement with subscribers

The Panel considers that subscribers (or those that purchase tickets for multiple productions in a season) are the lifeblood of an arts company. A strong subscriber base increases certainty in relation to ticket sales; lowers marketing costs; enhances utilisation; and where the company undertakes its own ticketing, can provide valued cash flow long in advance of the date of a production.

However, between 2009 and 2015, each of the Major Opera Companies experienced a decline in attendances by subscribers, as is evident in Exhibit 8.3.

Exhibit 8.3: Subscriber tickets sold for the Major Opera Company mainstage operas 2009 to 2015 (number, cagr)*

Company	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*cagr 2009-2014*	*cagr 2009-2015*
OA	101,332	98,371	105,608	87,966	61,069**	75,363	64,980	-5.7	-7.1
OQ	11,000	10,824	9,201	7,031	5,943	5,546	2,598	-12.8	-21.4
SOSA	6,266	6,768	6,081	7,215	6,503	4,127	3,664	-8.0	-8.6
WAO***	7,623	7,014	6,297	5,903	7,292	5,909	2,894	-5.0	-14.9
Total	**126,221**	**122,977**	**127,187**	**108,115**	**80,807**	**90,945**	**74,136**	**-6.3**	**-8.5**

* Subscribers to mainstage seasons. Does not include Opera Australia subscription tickets sold to *South Pacific*, *King and I, Anything Goes* or HOSH from 2012-15, or New Year's Eve concerts. Does include some concerts that were included as part of a season.
** Excludes *The Ring*.
*** WAO's 2015 subscriber result was artificially reduced because *Madama Butterfly*, which was part of the Perth International Arts Festival, was not included in WAO's subscriber offering.

These were significant declines ranging from 36 percent (Opera Australia) up to 76 percent (Opera Queensland) from 2009 to 2015. In large measure, this reflected the impact of offering fewer productions, and the resultant financial pressures facing the companies.

Reinforcing the value of a subscriber, ticket prices in 2015 for a subscriber in Sydney were over 35 percent higher than the average for a single ticket sale, while in

Melbourne, they were 5 percent higher, despite any discounts which might apply to subscriber tickets. This probably reflects the premium seats that subscribers can reserve, which motivates many opera-goers to continue to subscribe.

The management of more than one of the Major Opera Companies questioned the sustainability of the subscriber model, arguing that it was outdated.

The Review does not support that view. At least ten of Australia's major performing arts companies have demonstrated their capacity to increase the percent of tickets sold to subscribers. For instance, between 2010 and 2014, in Queensland, two of the other companies respectively increased their subscriber attendances by 15 percent and 82 percent. In Sydney and Melbourne, other relatively comparable companies increased their subscriber base by 7 and 23 percent. In this way they have reduced the pressure on having to make single ticket sales. The same is also true overseas for some of the world's leading opera companies, although alternate descriptors are used for subscribers in some circumstances.

Thus, while the term "subscriber" appears now to be less used, the trend remains for audience members to purchase tickets for multiple productions. Given that background, the Review makes the following recommendations to strengthen the commitment between each Major Opera Company and its subscribers and dedicated attendees.

Recommendation 8.4: The funding agencies should require the Major Opera Companies to put forward concrete proposals to strengthen their engagement with subscribers and should closely monitor the outcomes.

The Review makes this recommendation for the following reasons.

- Strengthening the relationship with subscribers and generating audience loyalty will create significant economic value for each Company;
- Increasing the number of subscribers will reduce the cash flow burden that Opera Australia and Opera Queensland are currently placing on the Australia Council and Arts Queensland with their drawing down advances on their funding;
- Engaging more fully with subscribers can change the adverse cost-revenue dynamics that the companies are currently experiencing;
- Undertaking this initiative complements other recommendations made to improve artistic vibrancy, particularly by increasing the number of productions and widening the repertoire choice; and
- Holding each Major Opera Company accountable for the outcome of maintaining and building their subscriber base is important.

Recommendation 8.5: Each Major Opera Company should find ways to engage with and value older audiences who represent a higher proportion of subscribers.

Against the backdrop of an aging population with the time, money and inclination to attend opera performances, older audiences provide a significant opportunity.

The challenge with subscribers, particularly older subscribers, is to understand better their needs and engage with them in a way they value. To that end, each company should undertake detailed needs-based analysis on a "segment of one" basis. That would facilitate the process of grouping subscribers and engaging with them in a way they value. That involves genuinely initiating a dialogue with them, not just undertaking surveys where no or little subsequent feedback is provided. Subscribers are loyal until they consider they are not being respected and listened to. Getting to know them as individuals is at the heart of that engagement. Over time, they might also form the core of a group with whom to engage around a potential bequests development programme.

Such engagement and dedication is likely to bear fruit, not just in selling more seats at a higher value, but also in philanthropic engagement as well as bequests.

Recommendation 8.6: Each Major Opera Company should find ways to engage with younger audiences.

Engaging with younger attendees is the lifeblood that will sustain audiences over time and build a new and vibrant subscriber base. Some of the key issues in building such a base are time demands on individuals at the early stages of building their careers; family commitments; as well as the price of opera tickets relative to the cost of accessing other artforms.

To that end, it is recommended that each Major Opera Company should either individually or collectively explore the potential to offer tailored performances at more family friendly times (including Sunday matinees); child minding facilities; and differential pricing, including for families. The appeal of specific works should also be considered.

8.3 Broaden the market for single ticket sales

Increasing single ticket sales is an imperative for the companies, which, in part, the proposed increase in productions and the widening of the repertoire is designed to address.

However, other initiatives can be taken with a view to widening the catchment pool.

More specifically, the following two recommendations are made.

Recommendation 8.7: The Major Opera Companies should utilise enhanced data analytics to target audiences, including a broader demographic.

This will require staff with deeper digital skills to utilise existing and new data sets in sophisticated ways. Significant evidence suggests that this is not currently the case for all Major Opera Companies. It is strongly recommended that each company seeks feedback on whether their digital engagement is currently at the cutting edge of refined data analytics techniques designed to attract new customers and whether their website is user friendly and engaging.

Utilising such skills can allow staff to segment potential pools of customers with a high propensity to become purchasers. Sophisticated data analytics can then target consumers so that they undertake a trial of the opera product. To this end, underutilised venue capacity can be used to make a targeted offer to such consumers.

In this context, the challenge associated with targeting a broader demographic can be addressed, more so if the propensity to consume a comparable type of product can be identified.

A research paper undertaken in the UK that analyses demographic data suggests that a key attendance driver is the physical proximity of attendees' homes and the venues. Utilising insights from such data and targeting comparable audiences might be beneficial in the Australian context.

Such skills could be developed in-house, but more likely will need to be accessed externally.

Recommendation 8.8: The Major Opera Companies should identify diverse product offerings to attract different demographic groups.

Initiatives suggested as Recommendations 8.6, 8.7 and 8.8 are designed to diversify the audience base for opera, backed up by the development of non-mainstage opera product that appeals to a variety of audience types.

HOSH has already demonstrated the power of this approach, with musicals being another powerful example, even though the extent of cross-over to mainstage opera to date has been limited.[42]

However, the introduction of initiatives designed to encourage co-operation with smaller, innovative companies, as well as with festivals and to explore digital capability and new channels for distribution hold the promise of diversifying the traditional audience opera base on which the Major Opera Companies have traditionally relied. This has more recently been seen with *The Rabbits* and *The Divorce.*

8.4 Build audiences for the future through education programmes

A persistent, strong and recurrent theme through the Review's public consultation phase was the lack of music appreciation in schools. The strongly expressed concern was that the significant reduction in music programmes in schools would have long term adverse implications not just on opera, but also on symphonic and chamber music.

While this state of affairs is not the case in all states and is not true of all schools in all states, the Review broadly shares the publicly expressed concern.

Against this background, the Review makes the following recommendations.

[42] See Discussion Paper 6.3.4 and specifically Exhibit 6.136.

Recommendation 8.9: State Governments should reflect carefully on the need to strengthen and fund music education programmes in schools.

The Review raises this concern in the context of developing future audiences in Australia for opera and music more generally.

The Review supports this recommendation for the following reasons.

- Music education has been demonstrated to provide long-term educational benefits for students, particularly those from disadvantaged backgrounds; and
- Music education will underpin the appreciation of and development of audiences for classical music, whether it is for opera or other classical music.

Recommendation 8.10: Each Major Opera Company should strengthen and develop educational resources for use by educators and students.

Opera as an artform incorporates elements of relevance to schools' arts curricula. Those elements include music (singing and instrumental), drama; and visual arts/design (through set and costume design). Increasingly, it will also involve the application of detailed technical and digital skills. Opera is also relevant to other curricula areas, including history, dance, English (literature), Italian, French, German and other languages.

The Major Opera Companies should enhance their educational opera activities by developing educational resources for teachers and students in ways that are linked to the companies' production offerings, with the resources being made available on their websites. Such a tool can complement the companies' existing educational activities. The availability of opera-related teaching materials, linked to the educational curricula, will assist teachers incorporate opera into their teaching plans. It is another mechanism that can be used to increase students' engagement with the artform.

To date, the Major Opera Companies' educational activities have mostly been directed to primary school age children. The creation and dissemination of educational resources for secondary school aged students will strengthen the Major Opera Companies' educational activities.

Classroom learning, including digital access through DVDs and streaming, could be complemented by offering special ticketing arrangements for students to encourage younger audience access to opera. Student engagement in professional and community opera productions should also be encouraged.

Examples of recent new Australian opera productions staged by the Major Opera Companies that could be considered to be particularly relevant to the curricula include adaptations of Australian works such as *The Rabbits*, by John Marsden and Shaun Tan, and *Cloudstreet* and *The Riders*, both by Tim Winton.

8.5 Create a stronger emotional connection with each Major Opera Company

Feedback received by the Review during the process of public consultations was that creating a stronger emotional bond between existing and potential audiences and each Major Opera Company enhances the potential to increase audiences now and into the future. This was reinforced by the Review's discussions with a range of other organisations.

To this end, the Review makes two separate and distinct recommendations.

Recommendation 8.11: Each Major Opera Company should work to create a greater emotional connection between artists and audiences.

This would involve a greater promotion of artists, which has not always been actively encouraged. However, it is recommended for the following reasons.

- Audiences are more likely to engage emotionally with specific artists than they are with a composer or the title of an opera;
- This approach has been demonstrated to work successfully in other artforms, such as ballet;
- Doing this would be positive for artists and their careers; and
- An approach of this nature is more likely to garner greater philanthropic support for a Major Opera Company.

Recommendation 8.12: Community engagement programmes should be targeted to initiatives which will enhance public perceptions of each Major Opera Company.

Significant work is currently undertaken by each Major Opera Company in the community. Some of that work, such as WAO's Opera in the Park, which is broadcast throughout Western Australia, is effective in building public support. In other instances, the value is more limited. Given the significant negative financial contribution made by community and education initiatives, it is recommended that each Major Opera Company reflect thoughtfully on whether they are using that spend in ways that are designed to maximise the long term value for the opera company as well as for the community. In this context, it is recognised that the 2011 Framework required that community engagement programmes were an obligation of each Major Opera Company, along with all other major performing arts companies.

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Faced with declining audiences, other than for musicals and HOSH, it is imperative that each Major Opera Company rebuilds mainstage audiences. While increasing the number of productions and widening the repertoire will help with that task, this chapter outlined five different high level initiatives that can be taken to enhance the quality and nature of the experience that audiences have to meet their distinctive needs. The use of data analytics based on digital capability is a very important part of reaching that future potential.

9. Addressing financial viability

The adequacy of financial resources and balance sheet resilience underpins the cycle of success of every Major Opera Company. Without it, a company cannot deliver work of the highest artistic standards and take appropriate artistic risk which are pre-requisites to engaging with and attracting audiences to attend performances.

No arts organisation ever considers it has all the financial resources at its disposal to fulfil its artistic ambitions. However, effective management and governance require that resources be directed in a prudent way to optimise the outcome with available assets. In other words, a balance needs to be achieved between financial prudence and artistic excellence in a way that is responsive to audience needs.

As outlined in Chapter 4.4.1 of this Final Report, Governments have an important role to play in supporting the ongoing financial viability of the Major Opera Companies. The same is true of management and the board of each Major Opera Company. Governments should support management and the boards to fulfil that role.

More specifically, the tasks facing management and the boards are as follows.

9.1 Address the adverse cost-revenue dynamics, particularly for mainstage opera;
9.2 Control costs of other activities;
9.3 Control overheads;
9.4 Generate additional private sector support; and
9.5 Strengthen the balance sheet.

Each point is addressed in this chapter.

9.1 Address adverse cost-revenue dynamics

Each of the Major Opera Companies has to varying degrees been under financial stress since the GFC. That can be seen in their financial results, which demonstrate that, particularly until 2014, Opera Australia and Opera Queensland were under greater financial pressure than SOSA and WAO.

Exhibit 9.1: Overall surplus or deficit 2009-2015 by Major Opera Company ($'000)

Company	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
OA - Operating[43]	-908	-500	480	665	-2,370	-1,985	237
OA - Consolidated	836	-225	-156	2,075	468	-918	553
OQ	-338	-542	-752	-510	-661	-60	420
SOSA	457	199	580	-276	92	259	-737
WAO	227	-138	556	874	61	-558	277

[43] Operating surplus or deficit refers to Opera Australia's operating income (such as box office, government grants and private sector support) minus operating expenses (costs incurred in the production and staging of opera and other activities, as well as overhead costs). Consolidated surplus or deficit refers to Opera Australia's total income minus total expenses, which takes into account the income and expenditure associated with the Opera Australia's Capital Fund.

At the core of these financial outcomes is the challenging nature of their cost-revenue dynamics. As shown in Exhibit 9.2, costs are usually rising faster than earned income, notwithstanding serious efforts being made to change that situation.[44] In the case of Opera Australia, the commercial nature of musicals has allowed the Company to grow income at a faster rate than expenditure. In addition, in 2015, Opera Australia also took additional measures to generate increased income from mainstage and HOSH, while containing costs (see Exhibit 9.2 below).

Exhibit 9.2: Compound average annual growth rate for earned income* and expenses by Major Opera Company: 2009 to 2014 and 2009 to 2015 (percent)

Company	*Earned income 2009-2014*	*Expenditure 2009-2014*	*Earned Income 2009-2015*	*Expenditure 2009-2015*
OA Operating	11.85	9.17	6.69	5.01
OA Operating (without musicals)	0.65	2.94	1.92	1.85
OQ	-3.17	-0.34	-10.07	-4.55
SOSA	5.75	5.81	-4.47	3.73
WAO	-4.00	1.50	-4.35	-1.85

* Excludes Government income.

The main contributor to the companies' financial challenge has been the adverse economics associated with mainstage opera. This can be measured as the direct variable contribution that mainstage opera makes to overheads. This is outlined for each Major Opera Company in Exhibit 9.3.

Exhibit 9.3: Deficit incurred for mainstage opera by Major Opera Company 2009-2015 ($ million)

Company	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
OA*	-13.2	-11.4	-10.3	-15.1	-21.8	-17.6	-13.1
OQ	-1.7	-2.1	-2.0	-1.7	-2.3	-1.9	-1.5
SOSA**	-1.6	-2.2	-1.5	-2.6	-2.2	-2.2	-3.1
WAO***	-1.6	-2.5	-2.2	-1.1	-2.1	-1.9	-1.6

* Includes costs for the musicians of the Australian Opera and Ballet Orchestra.
** Financial year result.
*** 2009 and 2010 are estimates based on available data.

Thus, in all cases, the mainstage deficit incurred is significant relative to the size of each Company. The deficit grew for all Companies from 2009 to 2014, although the situation improved for three of the four Companies in 2015. The exception was SOSA which, consistent with its strategic intent, programmed mostly less familiar repertoire in the financial year ending June 2015.[45]

As seen in Exhibit 9.4, the cost to income ratio for mainstage opera for each of the Major Companies has grown since 2009, despite being volatile, further demonstrating these challenges.

[44] See Chapter 5 of the Discussion Paper for the efforts that have been made to change these dynamics.
[45] SOSA's financial results are on a financial year basis. In the financial year ending June 2015, it programmed the Glass *Trilogy*, *Otello* and *Don Giovanni*.

Exhibit 9.4: Cost to income ratio for mainstage opera by Major Opera Company 2009 to 2015 (percent)

Company	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
OA Operating	140	136	131	147	175	171	148
OQ	188	203	230	208	308	223	268
SOSA	194	251	181	251	245	199	351
WAO	209	266	273	149	256	219	267

This trend in mainstage opera is also reflected in the relative changes in revenue and costs over the period, which has seen costs increase at a faster rate than revenue. This was the case even for SOSA and WAO up to 2014, where income was stable or growing. Growing mainstage revenue is an imperative for all the companies, but particularly for Opera Australia and Opera Queensland.

Exhibit 9.5: Revenue and costs for mainstage opera by Major Opera Company 2009 to 2015 ($ million, percent)

Company	*Item*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*cagr 2009-2014*	*cagr 2009-2015*
OA	Revenue	32.8	31.8	33.7	31.9	28.9	24.9	27.3	-5.4	-3.0
	Costs	46.0	43.2	44.0	47.0	50.7	42.5	40.4	-1.5	-2.1
OQ	Revenue	2.0	2.0	1.5	1.6	1.1	1.5	0.9	-5.0	-12.5
	Costs	3.7	4.1	3.5	3.4	3.4	3.4	2.4	-1.7	-7.2
SOSA	Revenue	1.7	1.5	1.9	1.7	1.5	2.3	1.2	5.9	-5.3
	Costs	3.3	3.6	3.4	4.3	3.8	4.5	4.3	6.4	4.5
WAO	Revenue	1.5	1.5	1.3	2.3	1.4	1.6	1.0*	0.9	-6.9
	Costs	3.1	4.0	3.4	3.4	3.5	3.4	2.6	1.9	-3.1

* WAO's revenue and costs for 2015 reflect its financial arrangement with the Perth International Arts Festival for *Madama Butterfly* and should not be taken as indicative of an underlying trend in revenue.

Managing each company's cost-revenue dynamics requires a careful balance between committing to incur costs and a realistic projection of revenue. This takes a great deal of skill and relies on robust and insightful data from previous activities. It also requires considerable skilled judgement by knowledgeable members of management and the board.

To address that situation, recommendations in Chapters 7 and 8 of this Final Report propose initiatives that will assist in addressing the challenges facing the companies' cycle of success.

Other initiatives, however, are required, as outlined below.

Recommendation 9.1: The companies should invest to lift their website and marketing capability, particularly in digital.

This recommendation is supported for the following reasons.

- Further initiatives can be taken to ensure the most sophisticated data analytics are being used to engage further with subscribers and to target high potential consumers to come to a mainstage performance;
- Theatres for current productions and performances are currently underutilised and, in the near term, the benefits of an uplift in box office can be achieved without programming additional performances and adding performance costs; and
- Deeper segmentation is necessary to generate greater diversity in the audience base.

Recommendation 9.2: It should be a performance requirement that each Major Opera Company improves its mainstage cost-revenue dynamics, with data provided in a standard format and discussed regularly by management and the board with the relevant Government funding agencies.

This recommendation is supported for the following reasons.

- It will direct management and the board's attention to the key issues that are central to each company's economics;
- It will improve the quality of data received by the board and the funding agencies to allow a constructive dialogue to occur, particularly if that data is provided by each company on a consistent basis;
- Regular dialogue by the board of the company with the funding agency is appropriate;
- It will require the funding agencies to better understand, in a fact-based way, the dynamics of what is occurring; and
- It would provide input to Artistic Directors before finalising a season.

Recommendation 9.3: Management and the board of each company should reduce physical production costs, including through sourcing initiatives, reducing scale where possible and potentially through the use of digital technology to reduce the cost of sets. New builds should be avoided where other options exist.

This recommendation is supported for the following reasons.

- Responsibility for managing trade-offs in relation to production costs involves judgements around challenging issues, including:
    - How long a physical production will be in the repertoire given the relative popularity of an opera and the appeal of a specific production;
    - The source of the production and whether a physical production can be hired from another opera company or shared among multiple opera companies to lower the per performance cost;
    - The desire for the new and innovative and the risks associated with that;
    - The ability to utilise new and evolving technology that might over time lower production costs;
    - The scale of the production;
    - The use of simpler stagings for less familiar works that are unlikely to be frequently revived; and
    - The company's overall financial health.

- While the Review can urge the exercise of greater control of costs in managing these trade-offs, such decisions need to be made by each company with an eye to its short-run and longer term economics. In particular, Opera Queensland needs to be thoughtful about undertaking new builds until its financial situation significantly improves, while recognising that much has been done to undertake co-productions in association with other companies, both in Australia and overseas. Particular regard should be given to taking Opera Conference productions;
- The quality of information and the skill of management and the board is critical; and
- Funding agencies can play an important role through the dialogue they have with management and the board, but their role is ultimately that of an informed observer rather than an approver of company specific decisions.

Recommendation 9.4: Management and the board of each Company should responsibly seek to reduce artistic costs consistent with delivering an experience that engages audiences.

This recommendation is made for the following reasons.

- Management and the board are best placed to make trade-off decisions in relation to the artists that are employed, recognising the competing pressures of:
    - Employing artists on an ongoing versus casual basis; and
    - Employing Australian versus non-Australian artists.
- Such consideration needs to take into account the funding and artform obligations of each company, as well as cost and audience engagement considerations.

9.2 Control costs of other activities

Engaging with regional communities, schools and the community is important. Under the 2011 Framework, such engagement requirements were incorporated into the performance obligations of every major performing arts company as core, rather than their being company specific, and/or reflecting a specific company's economics.

While mainstage's significant deficit is the most challenging financial issue the Major Opera Companies need to address, the negative contribution from other core activities, particularly regional touring, schools and community projects, also needs to be recognised. Recognising that such deficits are calculated before specific government funding and sponsorship, the level and trend for each company can vary from year to year, as can be seen in Exhibit 9.6.

Exhibit 9.6: Deficit incurred for regional touring and performances, schools and community projects by Major Opera Company 2009 to 2015 ($ million)

Company	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
OA	-2.5	-2.6	-2.3	-3.0	-2.6	-2.7	-2.1
OQ	-0.4	-0.5	-0.3	-0.5	-0.5	-0.8	-0.3
SOSA	-0.1	-0.1	-0.3	-0.1	-0.2	-0.2	-0.1
WAO	n/a	n/a	-0.2	-0.6	-0.6	-0.8	-0.8

While Government funding and private sector income is sometimes available to help cover these deficits, they nonetheless represent a significant financial burden on the companies. These deficits can be volatile, as seen with Opera Queensland in 2014 where the deficit grew significantly as a result of undertaking Project Puccini. It is, however, recognised that extra Government and private sector support was received specifically for this Project.

As outlined in Recommendation 5.2, the Panel supports the continuation of the general obligations on all the Major Opera Companies in relation to regional touring, schools and the community. However, as suggested in that recommendation, ongoing monitoring is required.

More specifically, the Review recommends the following.

Recommendation 9.5: Management and the board of each company should target its regional touring, schools and community projects in the most cost effective way to maximise the benefits the community receives from the significant investment being made.

The Review supports this recommendation for the following reasons.

- The deficits are significant;
- The activities are important; and
- The management of these activities should be tightly controlled to maximise the leverage that is received. That can only be done by management and the board.

It is also suggested that the deficit contribution should be assessed on a per attendee basis to obtain comparative data on relative spend.

9.3 Control overheads

Infrastructure and overhead costs are an essential element of the operation of a Major Opera Company.

The Review has worked to standardise an assessment of overhead and infrastructure costs, recognising that Opera Australia has an entirely different cost structure because of its scale and the complexity of its operations.

The standardisation of overheads among the three smaller companies has allowed the Review to gain a comparative understanding of the appropriateness of each company's cost structure. That work has been refined for the Final Report and the Discussion Paper data up to 2014 has been updated to reflect that methodology.

Overhead and infrastructure costs for each of the four companies are outlined in Exhibit 9.7.

Exhibit 9.7: Overhead and infrastructure costs by company: 2009 to 2015 ($ million)

Company	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*cagr 2009*-2014*	*cagr 2009*-2015*
OA	17.509	16.475	17.889	19.368	19.500	20.310	19.693	3.0	2.0
OQ	2.228	2.155	2.760	2.581	2.140	2.090	2.123	-1.3	-0.7
SOSA	0.930	0.858	0.978	0.917	0.921	0.977	1.010	1.0	1.4
WAO	n/a	n/a	1.553	1.436	1.420	1.493	1.377	-1.3	-3.0

* cagr for WAO is calculated from 2011.

This analysis demonstrates the disparity in the rate of growth of overheads for each of the companies, with WAO having the strongest overall control of its costs. Opera Australia's costs have risen at a faster rate than the other companies.

In addition, the analysis shows the difference in costs among the three smaller Companies. In this context, WAO could be regarded as a benchmark of best practice.

In 2015, SOSA was 27 percent below WAO, whereas Opera Queensland was 54 percent higher than WAO.

Based on that analysis, the Review makes the following recommendations.

Recommendation 9.6: Opera Australia should further reduce its overhead costs.

This recommendation is supported for the following reasons.

- Opera Australia's overheads have increased significantly since 2011;
- Opera Australia is under increasing financial pressures;
- The level of mainstage activity has decreased, while the diversity of its type of activities has increased; and
- Management recognises the importance of controlling overhead and infrastructure costs.

Recommendation 9.7: SOSA should be supported to strengthen its investment in infrastructure, particularly marketing, development and online engagement, with a view to being better positioned to generate additional income.

This recommendation is supported for the following reasons.

- SOSA's level of overheads is unsustainably low relative to other comparable Major Opera Companies;
- SOSA is highly reliant on a very small number of key personnel whose unsustainably high workload is assessed to pose a material risk to the company;
- SOSA could benefit from significant enhancement of its marketing skills, particularly the need to use data to engage with audiences and potential donors;
- Generating additional income by investing in such skills could be highly beneficial; and

- In the absence of such an initiative being supported, SOSA should explore the possibility of a shared service model with an organisation such as the Adelaide Symphony Orchestra.

Recommendation 9.8: Opera Queensland must reduce its overhead costs. To this end, it should explore a shared service model with QSO.

This recommendation is supported for the following reasons.

- Despite significant work to control overheads, Opera Queensland's overhead costs are high relative to other comparable companies;
- Opera Queensland needs to invest to generate additional box office and private sector income, but is constrained by its need to control costs;
- Exploring a shared services approach with QSO might provide greater leverage and skills; and
- All involved parties are supportive of exploring such an option.

9.4 Generate additional private sector support

The Major Opera Companies have taken significant initiatives to increase private sector income.

Private sector income increased at a healthy compound average annual growth rate of 6.1 and 4.6 percent from 2009 to 2014 and 2015 respectively. Opera Australia with close to $8 million in support (which includes the Capital Fund) generated almost five times more in absolute dollars than WAO, the next largest. The composition of private sector support by company is shown in Exhibit 9.8.

Exhibit 9.8: Private sector support by company: 2009 to 2015 ($'000)

Company	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*cagr 2009-2014*	*cagr 2009-2015*
OA Operating	4,881	4,668	5,325	7,635	10,988	7,267	7,117	8.3	6.5
OA Capital	231	264	446	915	1,779	631	788	22.3	22.7
OA Total	5,112	4,932	5,771	8,550	12,767	7,898	7,905	9.1	7.5
OQ	897	862	868	868	777	955	486	1.3	-9.7
SOSA	275	280	355	298	289	380	271	6.7	-0.2
WAO	1,566	1,699	2,473	1,623	1,605	1,335	1,604	-3.1	0.4
Overall	**7,850**	**7,773**	**9,467**	**11,339**	**15,438**	**10,568**	**10,266**	**6.1**	**4.6**

As can be seen in Exhibit 9.9, private sector income as a percent of total revenue varied widely, with WAO generating a significantly higher proportion of its income from the private sector relative to other companies.

Exhibit 9.9: Private sector income as a percent of total revenue 2014 and 2015 (percent)

Company	*2014*	*2015*
OA (operating)	6.8	7.6
OA (consolidated)	7.4	8.4
OA (consolidated without musicals)	10.5	10.0
Opera Queensland	14.2	8.6
SOSA	6.3	5.8
WAO	23.7	29.6

Specific, but different, challenges exist for each company.

Opera Australia

In the case of Opera Australia, significantly increased support from generous individuals, usually came with a requirement to undertake a new endeavour such as HOSH or *The Ring* in Melbourne. These donations and the ability to diversify the companies' business activities are important. However, without additional project funding from Governments, they are not enough to cover the negative contribution to overheads that arise from those activities.

Moreover, when these special initiatives are excluded, the underlying level of private sector support provided for operations is not increasing fast enough to cover increasing mainstage deficits and rising overhead costs.

Generating significant private sector support in the Capital Fund has allowed Opera Australia to build reserves. However, and appropriately, those funds are not readily able to be used for activities that more broadly support the company's activities, other than a relatively small annual payment. They do, however, provide reserves that could be accessed in difficult circumstances. In that regard, they are critically important. They are also a requirement for being a major performing arts company.

In 2014, Opera Australia generated greater private sector support than any other major performing arts company other than The Australian Ballet. Private sector support for The Australian Ballet was 55 percent more than for Opera Australia in absolute dollars, even though its total overall revenue was 46 percent less than that of Opera Australia.

However, when Opera Australia's private sector income (including the Capital Fund) is compared as a percent of total income, the size of the challenge becomes more obvious. In 2014, the average private sector income for all other Sydney based companies was 20.9 percent, versus 7.4 percent for Opera Australia on a consolidated basis, or 6.8 percent if the Capital Fund is excluded. If the revenue from musicals is excluded because they are considered a commercial activity, private sector income stands at 10.5 percent in 2014. On this basis, Opera Australia's percent was at the lower end of the range of Sydney based companies. Other companies ranged from 7.9 percent up to 36.9 percent.

Excluding the income from musicals, bridging the gap between the performance of Opera Australia and the average rate of private sector support earned by the other Sydney companies would be worth close to $8 million in incremental revenue. While this is a goal worth pursuing, it is recognised that it would take time to achieve and a more realistic target should be set in the intervening period.

Opera Queensland

In the case of Opera Queensland, despite funding agreements to the contrary, reserves generated through private sector support in the wake of the establishment of the 2000 MPAI Reserves Incentive Matching Scheme, have been fully drawn down. This was justified to present a balanced budget to the funding agencies.

Opera Queensland has generated less private sector income than any other Queensland based major performing arts company. In addition, in 2014 its percent of revenue at 14.2 percent was lower than the average of the other Queensland companies that stood at 16.7 percent. However, the average for the other Queensland companies is influenced by the very high value and percent of private sector income generated by Queensland Ballet. While Queensland Theatre Company and Queensland Symphony Orchestra generate a higher dollar value of private sector income than Opera Queensland, their percent of overall revenue is lower.

A significant proportion of Opera Queensland's private sector income is received as value in kind. While this is welcome, it does not provide hard cash to support the activities of the company.

SOSA

SOSA's private sector income grew by a compound average annual growth rate of 6.7 percent between 2009 and 2014 off a low base. That growth came primarily from sponsorships. Private sector donations increased by just over 1.5 percent per annum from 2009 to 2014.

SOSA has generated lower revenue from private sector income than the other two South Australian-based major performing arts companies. In addition, its percent of revenue generated from this source is also lower than the other two companies. Overall, its percent in 2014 was 6.3 percent versus an average of 9.7 percent for the other two companies. Closing that gap would be worth around an incremental $0.2 million to SOSA.

WAO

WAO faces a different set of challenges.

The generous grant of Fortescue Metals Group shares provided by Andrew and Nicola Forrest has been subject to significant price volatility, which flows through to its profit and loss statement on an annual basis. Despite the volatility this introduces, the tight management of WAO's financial situation is acknowledged, as is the difficulty of selling the shares given the generosity of the donors.

Having said that, the level of revenue WAO generates from private sector income is less than that from any other Perth-based major performing arts company, although its percent of revenue is the highest of the companies. This reflects the fact that they are the smallest in income terms of the four Perth-based major performing arts companies.

Thus, while much has been and is being done to improve the private sector income generated by the companies, challenges remain. The recommendations below are designed to address those challenges.

Recommendation 9.9: Targets, linked to geography, should be set for private sector income to be generated, which should predominantly be in cash.

This recommendation is supported for the following reasons.

- It provides a specific objective for the companies to generate incremental revenue;
- Private sector income, if untied, does not come with the same level of associated costs as revenue generated from other sources; and
- Setting specific targets linked to a company's own geographic markets is a more realistic approach than setting overall national figures.

Recommendation 9.10: Minimum specific targets (in 2015 dollars) should be set for each of the Major Opera Companies, recognising that the achievement of these targets may take time to achieve:

- Opera Australia $9.0 million
- Opera Queensland $0.9 million
- SOSA: $0.6 million
- WAO: $1.5 million

This recommendation is supported for the following reasons.

- It is realistic and takes into account the geographic location of each company;
- It can be adjusted over time by the funding agencies; and
- It emphasises the importance to the companies of private sector initiatives to achieve strong cost-revenue dynamics.

In particular, Opera Queensland should prioritise generating private sector support in cash over in-kind contributions.

Recommendation 9.11: Greater use should be made of the skills of the board of each Major Opera Company in generating private sector income. Consideration should be given to each director making a financial contribution (regardless of size) and assisting with raising funds.

This recommendation is supported for the following reasons.

- Board members can be selected, at least in part, for their fundraising ability and contacts;
- It has a low incremental cost;
- It can offer significant leverage; and
- It should also involve the requirement, as appropriate, for members of the board to make a contribution.

Recommendation 9.12: A greater focus should be placed by the companies on securing bequests.

This recommendation is supported for the following reasons.

- It can generate significant additional private sector income over time;
- It is consistent with the demographics of the audience; and
- It reinforces the importance of focusing on subscribers.

At the same time, it is recognised that income from such a source is unpredictable.

9.5 Strengthen the balance sheet

The balance sheet of some companies needs to be strengthened.

Opera Australia

Opera Australia's balance sheet is under strain in some respects, but in others it has significant flexibility and room to move. In that regard, a conundrum exists.

On a consolidated basis, Opera Australia appears to have relatively healthy reserves. As at end December 2015, they stood at $16.3 million, up from $14.5 million at the same time in 2009. However, the conundrum is that on an operating basis, Opera Australia's reserves position has considerably weakened, down from $4.9 million in 2009 to a slim $1.5 million in 2015.

The two factors that influence Opera Australia's balance sheet are the strength of its Capital Fund and the properties it owns.

The Capital Fund is set up with a system of checks and balances which, through the control of independent Directors, effectively prevents management from readily accessing the funds for operating purposes. This was a wise precaution by the former founding Chair of the Capital Fund, the late Mr David Clarke AO.

The second factor is the underlying value of Opera Australia's properties in Sydney and Melbourne. The Melbourne property was sold in late 2015 for an amount that the media anticipated would realise around $12 million. Given that this asset is held on the Company's books at a value of close to $1.5 million, a significant gain is expected to be realised, which could be in the order of $10 million. In addition, Opera Australia is contemplating action in respect of its Sydney property, which might also realise a significant profit.

Notwithstanding these intrinsic strengths in Opera Australia's balance sheet, there are two issues that give rise for concern and demonstrate the strain the company is experiencing.

The first is that current liabilities are much greater than current assets.

The second is the weakness of Opera Australia's cash position. Chapter 6.1.1.11 of the Discussion Paper elaborated on those challenges in detail. The bottom line, however, is that because of its rapid expansion and significant investment in new productions and activities, Opera Australia's cash flow position has deteriorated to the point where, in 2013 and 2014, it asked for Australia Council funding for the next year to be brought forward to cover immediate costs. This is not a healthy situation and is a sign of a company under financial stress. This situation is likely to be exacerbated by the closure of the Joan Sutherland Theatre at the Sydney Opera House for part of the year in 2017.

<u>Opera Queensland</u>

Opera Queensland's balance sheet is weak.

While it has returned to positive reserves in 2015 by significantly reducing its mainstage opera programme, it is reliant on guarantees from Government for the directors to be able to sign the accounts. It also depends on Government funding agencies to provide liquidity.

This situation is described in more detail in Chapter 6.1.2.7 and 6.1.2.8 of the Discussion Paper.

<u>SOSA</u>

Despite its periodically higher risk artistic strategy, SOSA has managed its balance sheet tightly.

As described in Chapter 6.1.3.7 and 6.1.3.8 of the Discussion Paper, it has maintained strong reserves since 2008-09 and, despite a reduction of $0.737 million in 2014-15, they remain reasonably strong at $2.309 million. Its cash position is also relatively robust.

In summary, it has been quite conservatively managed, which is appropriate given the higher risk artistic strategic approach it has pursued.

<u>WAO</u>

WAO also manages its financial position tightly and well.

While the Fortescue shares have introduced a degree of volatility that the company had not previously experienced, relative to its size, it maintains solid reserves at $2.957 million and manages its cash flow judiciously. This reflects tight controls by management and its Board of Directors.

Given the various circumstances being experienced by the Major Opera Companies, the Review makes the following recommendations.

Recommendation 9.13: Opera Australia should revalue its property assets to ensure it accurately reflects its financial situation.

This recommendation is supported for the following reason.

- Opera Australia cannot address its balance sheet issues without certainty of its asset position; and
- The funding agencies have an expectation that this will occur.

Recommendation 9.14: A proportion of the proceeds of the sale of Opera Australia's Melbourne property should be deposited in its Capital Fund.

This recommendation is supported for the following reasons.

- The proceeds will generate incremental revenue to the Capital Fund;
- Such an approach is consistent with a longer term approach designed to ensure the stability of the company's balance sheet; and
- It will avoid all the proceeds being used to meet short term operating needs which should be addressed by other means.

Recommendation 9.15: Opera Queensland should be supported over a three year period to rebuild its balance sheet, provided it is able to generate matching private sector funds.

For Opera Queensland to thrive into the future, the current state of its balance sheet needs to be repaired. With a proposed potential cost structure of around $6 million, close to $2 million will need to be achieved if reserves of 30 percent of annual costs are to be met over a three year period.

This should not simply occur through a Government bail-out, but rather through a reserves matching scheme between Government and the private sector. To that end, it is proposed that each of the Federal and the Queensland Governments match a contribution from Opera Queensland of $500,000.

This recommendation is supported for the following reasons.

- It is consistent with giving Opera Queensland time to undertake a turnaround;
- It is consistent with engaging the broader Queensland community to support its endeavours;
- It is a more fiscally responsible way of proceeding; and
- It will require Opera Queensland to build its capabilities to deal with the current challenges it faces.

Recommendation 9.16: Each Major Opera Company should within three years of the implementation of the new funding arrangements ensure it holds a minimum level of reserves of 30 percent of its costs (excluding the cost of musicals in the case of Opera Australia).

It is recognised that such a recommendation is different from the current 20 percent minimum level of reserves that pertains to the other major performing arts companies. However, this recommendation is supported for the following reasons.

- Opera is a higher risk artform than dance, music or theatre and a higher requirement is appropriate;
- SOSA and WAO currently hold more than the recommended 30 percent minimum level of reserves;
- Recommendations 9.13 and 9.14 in relation to Opera Australia mean that its current level of reserves will rise from just over 20 percent; and
- Opera Queensland should be given time and structural adjustment support (as per Recommendation 5.15 and 9.15) to build to a minimum level of reserves.

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In summary, the financial challenges facing the companies, while different, are significant. While Governments can play a role in supporting the companies to overcome these challenges, it also requires management and the board of each company to garner support to ensure the companies survive and thrive into the future.

10. Providing strong governance and management

The Panel recognises that the challenges of managing a major performing arts company have never been greater.

It requires a deep understanding and balanced judgement on multiple dimensions: between financial responsibility and artistic vibrancy in the programming mix; between commercial endeavours and the artistic raison d'être of the company; between attracting government funding versus overreaching in terms of the activities that are undertaken; and between gaining additional private sector income and the incremental costs of doing so, just to name a few.

When the exogenous shocks engendered by the GFC are layered on top of these challenges, the board and management must exercise profound wisdom, accompanied by a deep understanding of the financial realities in which the company's economics are grounded.

Charting a course through these troubled waters is not easy, more so when Boards of Directors typically give of their time without payment. At the same time as being the guardians of the financial soundness of the organisation, they must support management in its artistic aspirations, which can sometimes involve significant financial risk.

This chapter, therefore, provides recommendations to ensure that the companies are well governed and managed in a balanced and responsive way.

10.1 Provide strong governance

In any organisation the Board of Directors, particularly the Chair, plays a crucial role in upholding the highest standards of governance and ensuring that the company survives and thrives. The expectations of a strongly functioning board of a Major Opera Company are no different from those of any other company. This focus is even more important given the freedom that the companies require to allow them to be strategically nimble.

This chapter makes recommendations to ensure those requirements are met and the challenges facing the companies are able to be addressed.

It does so without making any observations or drawing any implications in relation to the Board of Directors of any specific company.

Recommendation 10.1: The board of each Major Opera Company should reconsider its skills and diversity mix relative to the current needs of the Company. The Chair should meet with each relevant funding agency to discuss the rationale and balance of skills and diversity.

Getting the skills and diversity mix right for a Board of Directors of a Major Opera Company is critical. The challenge is to ensure a balance of skills and diversity on the board. This means not erring on the side of appointing a disproportionate number of directors with artistic expertise or those who cannot be objective evaluators of the artform. It also means having directors with deep financial skills on the board who can objectively assess the robustness of the company's finances.

This recommendation is supported for the following reasons.

- The skills and diversity mix is integral to a well-functioning board;
- It is critical to get the balance right in working with management;
- It provides a critical counterfoil to the natural artistic ambitions of management; and
- Given the need for this Review and the challenges facing the companies, the funding agencies, as the largest single stakeholder, have a legitimate right to understand the logic for the composition of the Board of Directors, while being sensitive to each company's corporate structure.

Recommendation 10.2: Each Board of Directors of a Major Opera Company should receive data that provides insight on the key components of the company's cost-revenue dynamics over time.

Having data that allows a board to effectively engage with management is critical. This includes the requirement to provide analysis of the cost-revenue dynamics of the company at every activity level. In large measure, the completion of this Review has taken longer than should have been the case because of the difficulty in getting robust data that provides genuine longitudinal and comparative insight.

This recommendation is supported for the following reasons.

- It allows directors to constructively engage with and question assumptions;
- It deepens directors' understanding of the economics of the business;
- It provides for constructive contention with management about the artistic direction of the company and the longer-term implications of a chosen strategic direction; and
- It also requires the Board of Directors to understand the boundaries between governance and management.

Recommendation 10.3: Each director should be required to undertake a workshop to understand how the cost-revenue dynamics of the company operate. This should also be required as part of an induction programme for new directors.

Understanding the key indicators of the financial performance of a Major Opera Company is a learned skill. It is required of all directors regardless of their background. They must have this skill to discharge their fiduciary responsibilities. However, with changes on a board and within management, those skills can be lost. Regular workshops should be held by each company to help inculcate that skill.

This recommendation is supported for the following reasons.

- It is an important part of the induction of any new director;
- It provides a basis for all directors to communicate within a common framework;
- It is consistent with directors being able to discharge their responsibilities;
- It facilitates critical questioning; and

- It provides a stronger basis for interacting with Government funding agencies, who should also check that the workshop has been undertaken.

Recommendation 10.4: Each Board of Directors should establish protocols for dealing with inherent artistic and financial tensions.

Major Opera Companies are prone to generating tensions between artistic ambitions and financial realities. Having protocols in place that recognise those intrinsic tensions and allow them to be constructively dealt with is essential to the ongoing good functioning of management and the board.

This recommendation is supported for the following reasons.

- It provides a road map that is agreed by management and the board for articulating and resolving inherent tensions; and
- It legitimises being able to deal with the issues.

Recommendation 10.5: Each board should ensure it creates a culture of openness of debate.

At the core of any strongly functioning board is the ability to have open and constructive discussion. The Chair plays a critical role in creating such a culture, as do senior management.

This recommendation is supported for the following reasons.

- It allows any issue, regardless of its complexity, to be dealt with constructively;
- It allows issues to be dealt with respectfully; and
- It enables issues to be called as they are.

Recommendation 10.6: Each board, annually, should undertake an evaluation of the board and of individual directors, with an external facilitator being used every second year. An overview of the process and the results should be shared with the relevant funding agencies.

Undertaking a board evaluation, both of the effectiveness of the operation of the board as a whole and of individual directors, allows issues that exist below the surface to be dealt with. It can also help with discussions about the value and contribution of an individual director.

This recommendation is supported for the following reasons.

- It creates greater accountability on the part of the board;
- It allows for constructive debate in relation to the effective functioning of the board;
- It provides a basis for discussion about the tenure of a director who is not adding as much value as might historically have been the case;
- It is consistent with how any well-functioning board operates; and
- It is consistent with the strategic flexibility that is proposed be given to the companies under this Review.

Recommendation 10.7: Each company should institute tenure limits on the terms of directors.

This recommendation is supported for the following reasons.

- It is consistent with current best governance practice;
- It allows more considered conversations to occur with directors about the timeframe for their involvement with the organisation; and
- It provides greater discipline in dealing with the performance of directors who might not be adding as much value to the board.

Recommendation 10.8: The South Australian Government should contemplate SOSA being governed by Corporations law.

The South Australian Government asked the Review to provide a view on whether SOSA's current structure as a statutory authority should be changed and whether it should be governed under Corporations law.

While the Review recognises that there are some advantages to being under the control of government, on balance, it is recommended—for the consideration of the South Australian Government—that SOSA come under Corporations law.

This recommendation is supported for the following reasons.

- It puts SOSA on the same footing as most other major performing arts companies;
- It may allow the company to attract more private sector income;
- It provides a different basis for the selection of directors of the company;
- It ensures accountability for the governance of the company rests unequivocally with the directors and management rather than with government;
- It allows SOSA to report on a calendar year like the other Major Opera Companies, to enable benchmarking; and
- It removes a level of administration and oversight within the South Australian Government.

Recommendation 10.9: Each Major Opera Company should implement mechanisms for formal dialogue between the full board and the relevant funding agencies.

This recommendation is supported for the following reasons.

- Government funding agencies are major stakeholders in the success of the companies;
- Currently, there are no formal defined mechanisms for such dialogue to occur;
- Such an approach is consistent with how a commercial board would engage with major investors; and
- This would provide a forum for meaningful dialogue on key issues from the perspective of all parties.

10.2 Provide strong management

Strong fact-based management, interacting with great artistic flair and vibrancy, underpins each company's cycle of success.

Artistic issues have been addressed in Chapter 7 of the Final Report. This chapter makes recommendations that are designed to strengthen fact-based management.

Recommendation 10.10: Management accounting should be strengthened.

Given the challenges of gathering reliable and consistent data for this Review, it is recommended that a consistent methodology be applied by the companies to enable ongoing comparisons. That requires a deeper, more consistent and comparable set of management accounting data to be collected, analysed and shared to promote best practice over time. The funding agencies should utilise the same data and establish a detailed basis for the collection of that data.

This recommendation is supported for the following reasons.

- It creates a basis for an ongoing analysis of the economics of each activity;
- It allows companies to embed best practice;
- It provides a basis for more tightly managing costs, including overheads and infrastructure costs; and
- It is the basis on which recommendations in relation to funding have been made.

Recommendation 10.11: A broader understanding should be developed within each company of their cost-revenue dynamics.

Improving the understanding of the relative cost-revenue dynamics of each company and the extent to which a production or event is making a positive or negative contribution to overheads is essential, not just for financial staff and the board, but also for senior artistic staff. It is also essential that the level of overheads and infrastructure be open to scrutiny. Moreover, it is only in this way that artistic ambition can be grounded in financial reality.

This recommendation is supported for the following reasons.

- It creates a better understanding of the financial challenges facing each company;
- It provides a mechanism for working through budgets and financial outcomes;
- It creates a common language to facilitate dialogue; and
- It creates transparency for all parties.

Recommendation 10.12: Operating results should be separated out in internal and external reporting from Capital Fund results.

For a company that has a Foundation or Capital Fund, accounting standards require the consolidation of a company's results, assuming the Capital Fund does not stand apart from the Company. Under certain circumstances, creating a separate and independent legal and/or financial structure or a Capital Fund runs the risk of the loss of control of the funds. This would not be advisable.

However, greater transparency is required so that each board and the relevant stakeholders better understand the state of the underlying financial health of each company. Simply making statements in the accounts will not achieve the requisite level of financial transparency.

For this reason, it is strongly recommended that companies operating a Capital Fund provide a separate profit and loss and balance sheet statement that separates out the Capital Fund. If the auditors will not agree to this within the accounts themselves, directors should provide the information in their Annual Report in a quantitative way. In any case, it should be part of regular reporting by management to the board and part of the reporting to the relevant Government funding agencies. This is not currently the case.

This recommendation is supported for the following reasons.

- It significantly improves transparency for all stakeholders, including Government bodies;
- It is particularly appropriate when an organisation cannot access the funds (including the relevant cash flows) and use them for operations; and
- It shows the underlying financial health of the organisation.

Recommendation 10.13: Each company should ensure there is adequately balanced strength and respect in artistic and financial management.

Each of the companies has a different management structure. However, an underlying theme is the necessity to have appropriate strength in artistic leadership and general management so that individuals holding those roles act as a counterfoil to each other. Such an approach needs to be balanced with a high degree of mutual respect and an ability to work through difficult issues to find the appropriate balance between artistic vibrancy and financial sustainability.

This recommendation is supported for the following reasons.

- It provides a necessary juxtaposition in artistic and general management roles and responsibilities;
- It assists with providing a balance in relation to difficult issues;
- It ensures that all issues in relation to a specific course of action are aired; and
- It is invaluable from a Board's perspective.

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In summary, strong corporate governance and effective management are essential to maintaining the well-being of the Major Opera Companies. The challenges of doing so are significant. However, there is no alternative other than to rise to the challenge, more so when significant strategic responsibility has been devolved to each Major Opera Company.

11. Providing Government funding

Governments play a critical role in ensuring the viability of the Major Opera Companies, not just by providing funding, but also in overseeing and monitoring the performance of the companies.

In 2015, the Federal and State Governments provided a total of $36.7 million in funding for the Major Opera Companies. Core funding constituted $33.1 million or 90 percent of total funding. The balance was one-off project funding. Over and above that, Governments provided support for orchestral services to the symphony orchestras which perform with the Major Opera Companies in Queensland, South Australia and Western Australia, as well as for Orchestra Victoria via The Australian Ballet.

The largest recipient of funding was Opera Australia which received 75 percent of the total core and project funding. It received 74 percent of core funding and 80 percent of project funding.

Opera Queensland was the next largest recipient of overall funding, receiving 10.2 percent of the total, with all but $551,000 being core funding. SOSA received 8.2 percent of the total, with no project funding. WAO received 6.8 percent of the total, with all but $152,000 being core funding.

In 2015, the Federal Government via the Australia Council provided $22.8 million in core funding to the companies or 69 percent of the total. The balance was provided by the relevant State Governments, namely NSW, Victoria, Queensland, South Australia and Western Australia.[46]

This chapter should be read in conjunction with prior chapters of this Final Report. Recommendations in relation to Government funding are made in the following areas.

11.1 Define core funding for specified activities;
11.2 Lift funding to improve co-operation;
11.3 Provide funding to support innovation and artistic vitality;
11.4 Provide funding for structural adjustment;
11.5 Define overall funding requirements;
11.6 Define responsibility for funding; and
11.7 Refine operation of funding agreements.

11.1 Define core funding for specified activities

Currently, no basis exists for establishing the level of funding among the companies, other than it was a decision reached as part of the 1999 MPAI and subsequent Reviews, including decisions in relation to indexation.

As discussed in Chapter 3.2.2.1 of the Discussion Paper, agreed three year reviews of the funding model that underpinned those decisions were undertaken in 2002-03

[46] For additional information in relation to 2014, see Discussion Paper, 3.3.1.1, and specifically Exhibit 3.8.

2005-06 and 2008-09 as outlined in the MPAI recommendations. The original funding model was linked to the strategic categorisation of the companies.

In 2005-06, as a result of the 2005 Orchestras Review, a further adjustment removed the annual efficiency dividend. The Review also provided additional financial assistance to the orchestras.

In 2011, the CMC discontinued the three year review of the funding model. At the same time, the strategic categorisation of the major performing arts companies was abolished.

In so doing, any underpinning logic for the basis on which the companies were funded also disappeared. The current levels of funding are, therefore, a legacy of history, exacerbated by the fact, that as outlined in Chapter 3.2.3 of the Discussion Paper, subsequent to 2011, the New South Wales, Victorian and South Australian Governments have not provided indexation for all the relevant companies in all years.

Thus, there is no current basis on which the level of funds is allocated to the companies. This effectively returns the companies to the situation that existed in 1999 when no underlying logic existed for the allocation of funds, but was a relic of history.

Against this background, the following recommendations are made.

Recommendation 11.1: The level of funding for the Major Opera Companies should be based on activities supported by Government that, as far as possible, have been benchmarked to best practice. The funding model should be reviewed every five years.

Making decisions based on a funding model provides an underlying logic for funding the Major Opera Companies. That basis, as much as possible, should be linked to benchmarked best practice where Governments fund for efficient operations. It also allows for commercial operations to be excluded from the funding appraisal. This recommendation should be read in conjunction with Recommendations 5.3 to 5.11. It is recommended that the funding model be reviewed in five years time.

This approach is supported for the following reasons.

- It provides for greater transparency in relation to the way companies are funded;
- It allows for dynamic adjustments, where approved by Governments;
- It mitigates against perceived inequality among companies;
- It provides a clearer and more transparent framework for companies becoming a major performing arts company; and
- It should hopefully avoid companies going selectively to Governments with additional project funding requests, except in defined and agreed circumstances, such as HOSH, where there is a demonstrated rationale.

Recommendation 11.2: The parameters for the funding model should be clearly defined.

Those parameters should be as follows:

Funding to support mainstage activity:

- Identifies a defined number of mainstage opera productions in each capital city as follows:
  - 3 in Adelaide by SOSA;
  - 3 in Brisbane by Opera Queensland;
  - 3 in Perth by WAO;
  - 7 in Melbourne by Opera Australia. (Victorian Opera has not been included in this count as it is not yet a Major Opera Company, even though Recommendation 5.16 makes that proposal); and
  - 11 in Sydney by Opera Australia.
- Identifies mainstage deficits per production based on an activity based costing model and benchmarks those results, taking into account:
  - Anticipated average number of performances per production;
  - Anticipated, but not prescribed, mix of popular versus less familiar operas, recognising that the economics of each differ significantly;
  - Use of Australian Opera and Ballet Orchestra (AOBO) by Opera Australia in Sydney; and
  - Geographic factors, including the cost of Opera Australia delivering mainstage productions into Melbourne.

Funding to support regional touring, schools and communities:

- Benchmarked funding for regional touring, schools and community activities;
- Within the overall mix, recognises the complexities of diverse geographies; and
- Adjusts for SOSA to pay South Australian regional venues to ensure delivery of Opera Australia's regional tour into the state.

Funding for overheads:

- Benchmarked funding for a defined level of overhead costs; and
- In the case of Opera Australia, funding based on analysis of data.

Adjustments for other income and activities:

- Reductions from the recommended funding amounts above for a defined level of private sector support that is assessed on a benchmarked basis as able to be generated in a specific geography;
- Reductions for other income that can be generated through the investment of funds or other commercial activities;
- Exclusion of non-funded commercial activities, such as musicals; and
- Exclusion of HOSH because of the nature and source of its funding.

Timing of implementation:

- The funding model outcome and proposed level of Government funding to be indexed to 2017-18 to recognise that it is unlikely that a budget determination can be delivered by Governments until that period.

This approach is supported for the following reasons.

- It is based on data that recognises a reasonable level of costs, taking into account the need to realise efficiencies;
- It is realistic;
- It recognises the need to improve artistic vibrancy, while striking an appropriate balance with efficiency;
- It is an approach that can be replicated over time to allow adjustments where necessary;
- It is based on data benchmarked as far as possible, on a comparable basis; and
- It provides a basis against which the funding agencies can assess each company's performance moving forward.

Recommendation 11.3: Based on the funding model, an increase should be made to the overall level of core funding for the Major Opera Companies.

Detailed analysis has been undertaken, based on the methodology outlined in Recommendation 11.2 for the overall level of funding for each Major Opera Company, recognising that Victorian Opera might in future become a major performing arts company.[47]

In relation to existing funding, it is also proposed that some existing project funding be made core funding. In particular, this applies to regional touring funding from Opera Conference and Playing Australia for Opera Australia (Recommendation 6.8), as well as to other project funding for the Major Opera Companies. Government funding for HOSH is, however, specifically excluded as elaborated on in Recommendations 11.1, 11.2 and 11.4.

On the other hand, because of a specific proposal within Recommendation 6.7 that separate accounting should be maintained for Opera Conference productions (rather than being channelled through the accounts of each company), Opera Conference funding for mainstage productions is specifically excluded from the analysis.

Other proposed project funding as defined in Recommendations 11.11 and 11.12 are not included in the analysis.

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[47] It is also recognised that Victorian Opera has a far more extensive regional and community engagement programme that receives significant support from the Victorian Government.

Exhibit 11.1: Total core funding ($ million)

	2015 funding		*Proposed core funding****	
	Core funding*	Total funding (core and project)**	In 2015 $	In 2018 $****
All Companies	33.113	34.459	36.968	39.231

* Core funding provided by Federal and relevant State Governments, including Opera Conference funding but excluding current funding for Victorian Opera.
** Total funding includes core and project funding, including Opera Conference funding but excluding current funding for Victorian Opera and HOSH project funding.
*** Includes incremental funding for Victorian Opera, but does not include any of its existing funding.
**** 2015 numbers escalated at a compounding rate of 2 percent per annum on the basis that indexation is currently applied to core funding.

The proposed level of funding has been calculated after a detailed activity based analysis of each Company's finances, with the exception of Victorian Opera, where the analysis has not been as extensive because it was not within the Review's Terms of Reference. Following this process, which was significantly refined in the lead up to delivering the Final Report, robust analysis on a comparable basis has been undertaken of best practice in each area of the funding model.

This recommendation is supported for the following reasons.

- It provides an adequate level of funding;
- It is based on detailed analysis;
- It promotes efficiency and best practice;
- It should be sustainable from each Company's perspective provided the recommendations proposed in this Final Report are adopted in their entirety; and
- It is fiscally responsible and rewards efficiency.

Recommendation 11.4: Except as otherwise indicated, the companies should be discouraged from applying for project funding for defined core activities.

Core funding as defined in the funding model incorporates many activities that are currently project funded. This includes regional touring, schools and community activities among other activities. As a consequence, the Review recommends that the Major Opera Companies should not be eligible to seek project funding for those activities. It does not prevent the Major Opera Companies from applying for specific designated funding as proposed in this Final Report.

The specific exception is HOSH. HOSH has become an integral part of the delivery of opera in Australia, drawing an audience not only from interstate, but also internationally. However, it is currently funded in a very different way, which is difficult to translate into a core funding arrangement. For this reason it has been excluded from core funding. Future project funding for HOSH is strongly supported, as long as it receives significant private sector contributions.

Recognising the diverse and extensive activities undertaken by Victorian Opera, its funding approach might need to be treated in a different way.

Recommendation 11.5: Penalties should be applied if a programme, consistent with the activities proposed, is not delivered.

Faced with increased financial pressures, a number of the Major Opera Companies have reduced their level of activities. While this is financially prudent, it has not always been agreed or even syndicated with the relevant Government funding agencies before it was announced. This particularly applies to mainstage opera. It is also inconsistent with Governments' intentions.

Consistent with Recommendation 5.7, it is proposed that a penalty of $400,000 be applied for each mainstage production that a Major Opera Company does not deliver against the funded number of mainstage productions. This amount represents a portion of the contribution for a mainstage production implied in the funding model. The penalty would be imposed by withholding future grant payments.

The relevant funding agencies should have discretion in relation to the non-delivery of other activities as to the size of the penalty involved, with the exception of the ongoing commitment to the balanced use of Australian artists, where a penalty of up to $200,000 should potentially be applied through the future withholding of grants.

This approach is supported for the following reasons.

- It strikes an appropriate balance between the proposed strategic flexibility given to the companies, while ensuring the companies deliver against the obligations for which funding is provided;
- It reflects assumptions embedded in the funding model;
- It provides funding agencies with flexibility in relation to other items to pursue a measured yet rigorous course of action; and
- It is more rigorous than the current approach.

Recommendation 11.6: As outlined in Recommendation 5.3, the current overall core funding ratios between the Federal and the relevant State Governments should be maintained, recognising that the overall system for all major performing arts companies is not stable and is likely to need to be reviewed over time.

Exhibit 11.2: Proportion of core funding provided by Federal and State Governments: 2015 (percent)

Company	*Federal Government*	*Relevant State Government/s*
OA	82.5	17.5
OQ	20.1	79.9
SOSA	48.5	51.5
WAO	19.6	80.4
Total	**69.0**	**31.0**

This approach maintains the status quo in relation to the distribution of funding and does not intrude on the arrangements with the other major performing arts companies.[48] However, the Review flags the instability of the current approach and the need, over time, to find an alternate basis for the distribution of funding.

11.2 Lift funding to improve co-operation

As described in Chapter 6.2 of this Final Report, Opera Conference is a key mechanism that has been used over time to encourage co-operation among the companies.

Recommendations 6.4 to 6.8 described a significantly different approach for Opera Conference than has previously been proposed. This section of the Final Report provides the funding recommendations to support those recommendations.

Recommendation 11.7: The funding for Opera Conference should be $1.5 million per year, which should be adjusted for indexation.

In 2015, the level of funding for Opera Conference was $1.47 million per year, which is subject to indexation.

In line with Recommendation 6.8, it is proposed that the funding for regional touring, currently indirectly provided to Opera Australia via Opera Conference be direct line funded to Opera Australia. In 2015, those funds were $0.220 million per year.

Consistent with an ongoing commitment to Opera Conference, it is recommended that $1.5 million per year be provided, which would continue to be subject to indexation.

This recommendation is supported for the following reasons.

- It is consistent with an ongoing commitment to co-operation and gaining economies of scale in opera productions that has been integral to the history of Opera Conference throughout its history; and
- It clarifies the funding arrangements in relation to Opera Australia's regional touring activities, allowing them to be directly funded to Opera Australia.

Recommendation 11.8: Opera Conference funds that are not substantively utilised in any one year should revert to Government.

If a decision cannot be made among at least three of the Major Opera Companies in relation to the choice of repertoire, the funding provided should revert to the relevant Governments. However, if the substantive amount is assigned, but the total amount not spent, the remaining funds can be carried over to a future year.

This recommendation is supported for the following reasons:

- The funding is provided solely for the purpose of encouraging co-operation among the companies primarily to provide the physical build for mainstage opera; and

[48] The ratio includes the current distribution of Opera Conference funding.

- It is not envisaged that the funding should be used for a different purpose, given that separate core funding has been provided for the companies.

Recommendation 11.9: Opera Conference funding should be directed through a separate entity rather than flowing through the accounts of individual companies.

Currently, Opera Conference funding is allocated on an agreed proportion to each Major Opera Company as part of its core funding. Going forward, it is recommended that a separate legal entity be established to manage Opera Conference funding.

This recommendation is supported for the following reasons.

- Opera Conference funding distorts the interpretation of the accounts of a company, more so if they do not stage an Opera Conference production in a specific year;
- Removing Opera Conference funding from the accounts of the companies allows Recommendations 6.4 to 6.8 to more readily be put into practice;
- It increases transparency for all stakeholders; and
- It marks a clear delineation from the way Opera Conference has previously been administered, thereby helping build a more constructive working relationship in relation to the use of these funds.

Recommendation 11.10: Funding for the revised Opera Conference package should be redefined, with the Federal Government providing half of the funding, and the balance supplied equally by each of the five State Governments in which the Major Opera Companies present mainstage performances.

This represents a balanced approach between the Federal Government's desire to promote co-operation, while recognising that each state can benefit from Opera Conference productions.

11.3 Provide funding for innovation and artistic vitality

This Final Report outlines in Sections 7.3, 7.4 and 7.5 initiatives designed to support increased innovation by the Major Opera Companies, while encouraging them to work with smaller companies as well as with festivals.

Those initiatives cover the development of new works; the presentation of innovative works in collaboration with festivals; and the increased use of digital technology for innovation.

Recommendation 11.11: An Innovation Funding package of $1.2 million is recommended to promote innovation and artistic vitality.

Exhibit 11.3: Innovation funding ($ million)

Fund	*Package*	*Level of funding*	
		In 2015 $	*In 2018 $*
Innovation	Co-operation with festivals	0.500	0.531
	Digital innovation	0.500	0.531
	Development of new works	0.200	0.212
Total		**1.200**	**1.274**

This should be funded and administered by the Australia Council for the Federal Government.

11.4 Provide funding for structural adjustment

Recommendation 5.12 proposes that Opera Queensland should be given a three year period in which to meet all the criteria to remain a major performing arts company. To that end, Recommendations 5.14 and 5.15 proposed an adjustment package to allow Opera Queensland to rebuild its reserves. Without that adjustment package, the Review considers it unlikely that Opera Queensland could be restored to financial health. Equally, it is proposed at Recommendation 5.15 that a matching scheme be put in place with the Federal and the Queensland Government each contributing a dollar for each dollar raised by Opera Queensland. The amount Opera Queensland raises could come from special fund raising initiatives or alternatively could come from generating an operating surplus.

It is estimated that Opera Queensland needs additional reserves of at least $1.5 million and up to $2 million to restore its balance sheet and to meet the proposed target for reserves of 30 percent of operating costs. To this end, it is proposed that over a three year period, Opera Queensland raises $0.5 million, which the Federal and Queensland Governments would equally match up to a total of $1 million. The matched funds, including Opera Queensland's contribution can only be used for reserves and should be put into an account that cannot be accessed other than with the express permission of the Australia Council and Arts Queensland.

The core funding for Opera Queensland recognises that Opera Queensland's overheads are high relative to WAO and SOSA and they need to be reduced. Initiatives are proposed in that regard. In addition, the companies' audiences need to be rebuilt so as to increase box office revenue, and private sector income needs to be regenerated.

The Review has carefully considered the financial situation of Opera Queensland. It has taken the view that maintaining benchmark positioning is important longer term, which is reflected in its core funding recommendations. However, to ensure that Opera Queensland can move forward and be put on a sustainable basis, it is proposed annually for three years to make reducing one-off grants which would be funded by the Federal and Queensland Governments in the same funding ratio as the current core funding arrangements. This will assist Opera Queensland make the necessary adjustments to its operations over time.

Recommendation 11.12: A one-off structural adjustment package, which would not be subject to indexation, should be put in place for Opera Queensland.

That funding package should be as follows.

Exhibit 11.4: Opera Queensland: Structural adjustment package

Fund	*Package*	*Terms of funding in 2018 $*
Opera Queensland adjustment fund	Balance sheet adjustment (Reserves Incentive Matching Scheme)	$1.0 million over three years: Year 1 - $0.333 million Year 2 - $0.333 million Year 3 - $0.334 million Year 4 – 0 (terminates) • Funded by the Federal and Queensland Governments • Each government equally matches funds raised by Opera Queensland • Cap of $1 million on government funding over three years • Can only be used to build balance sheet reserves • Cannot be released without prior agreement of both funding agencies
	Structural adjustment	$1.3 million over three years: Year 1 - $0.6 million Year 2 - $0.4 million Year 3 - $0.3 million Year 4 – 0 (terminates) • Funded by the Federal and Queensland Governments • Funded in same ratio as current core funding

Recommendation 11.13: Additional funding of $0.250 million should be provided to the MPAP of the Australia Council by the Federal Government to fund the provision of additional staff to implement and oversight the recommendations in this Final Report.

This recommendation is supported for the following reasons.

- The resources currently available within the Australia Council are not sufficient to ensure ongoing oversight and monitoring of the recommendations contained in this Review; and
- Additional skills need to be brought to bear to ensure the recommendations are appropriately implemented.

11.5 Define overall funding requirements

Recommendation 11.14 summarises the overall additional funding requirements outlined in Chapter 11.1 to 11.4 of this Final Report.

Recommendation 11.14: In summary, it is proposed that Governments should consider an incremental funding request of $24.136 million over four years in 2015 dollars.

Exhibit 11.5: Overall incremental funding package* ($ million)

Funding type	*Year 1*	*Year 2*	*Year 3*	*Year 4*
Core Funding	2.509	2.509	2.509	2.509
Opera Conference Funding	1.500	1.500	1.500	1.500
Innovation Fund	1.200	1.200	1.200	1.200
Opera Queensland Adjustment Package	0.933	0.733	0.634	0.000
Administrative support for MPAP	0.250	0.250	0.250	0.250
Total	**6.392**	**6.192**	**6.093**	**5.459**

***** In 2015 dollars. Core funding, Opera Conference and the Innovation Fund should be adjusted for indexation at the appropriate relevant rate.

This recommendation is supported based on detailed work undertaken by the Review. It imposes requirements on the companies, at the same time as providing a minimum Government funding package necessary to relieve the financial stress the companies face. Without this funding package, the artistic vibrancy, accessibility and financial viability of the companies will remain under threat.

Recommendation 11.15: New funding, rather than existing arts grants, should be used to implement the recommendations made by this Review.

The Review recognises the fiscal constraints under which Governments are currently operating. At the same time, taking funding from within existing arts grants funding would have serious implications for the rest of the sector.

11.6 Define responsibility for funding

After extensive consultation during the course of the Review, the following recommendations are made in relation to where Federal funding responsibility should reside.

Recommendation 11.16: Federal funding responsibility should continue to reside with the Australia Council's Major Performing Arts Panel (MPAP), although changes should be made in the way it operates.

This recommendation is made for the following reasons.

- The MPAP is the logical place for decision-making to reside;
- This view received widespread support in submissions, despite a minority of views to the contrary; and
- It is consistent with the funding arrangements and oversight of the other major performing arts companies.

Recommendation 11.17: Genuine joint decision-making should occur between the MPAP and the relevant State Government funding agencies in relation to each Major Opera Company, a process which desirably should be extended to the other major performing arts companies.

This recommendation is supported for the following reasons:

- The State Government funding agencies consider that the genuine partnership with the MPAP that hitherto existed is no longer in operation and the nature of decision-making needs to be revamped; and
- While they value the role of the MPAP, they consider that the current arrangements could be significantly improved.

Recommendation 11.18: The Australia Council needs to be funded to have additional, dedicated experienced staff with high level financial and analytic skills who can work on behalf of the Federal and State Governments. They also need to have the seniority and authority to engage independently with senior management in the companies and with senior officers in the relevant State Government funding agencies.

This recommendation is supported for the following reasons.

- This was the case in the past, but it has not been continued;
- Currently, there are not sufficient dedicated, skilled staffing resources to review, analyse or follow up on data;
- The relationships with the states is fraying because the time is not invested in joint problem solving and understanding; and
- The situation is fragile and the consequences of failure are high relative to the cost of investing in one or two more members of staff.

Recommendation 11.19: The MPAP must have an adequate balance of skills that allows it to take a proactive role in relation to the companies. This must include serious financial and corporate governance skills to allow adequate probing of the increasing complexity of the activities of the companies. Such members need to have inquiring and critical capabilities, while being supportive of the objectives of the companies.

This recommendation is supported for the following reasons.

- Financial skills and governance experience are critical to the role envisaged for the MPAP, not just artistic or community skills; and
- A very detailed understanding of the operations of the major performing arts companies is highly desirable to assist the companies to excel.

Recommendation 11.20: The MPAP needs to develop a comprehensive and systematic workplan to address the subtle but extensive changes envisaged by this Final Report. This should include a thorough handover by the Review's Secretariat to MPAP staff.

This recommendation is supported for the following reasons.

- A light touch approach, rigorously applied, is envisaged;
- MPAP members should receive a comprehensive briefing as to what will be expected of them;
- Significant staff work will be required to support their endeavours; and
- This package of reforms will not be successful unless MPAP is able to action the changes appropriately.

Recommendation 11.21: Because the major performing arts companies represent 55 percent of the Australia Council's arts funding, the MPAP Chair should have specific skills; sit on the Board of the Australia Council; and be appointed by the Federal Arts Minister to that role as well as to the Australia Council's governing body.

- The Chair of the MPAP should continue to have demonstrated high level governance and financial skills with an understanding of and empathy for the sector;
- Identifying an individual with such skills is critical to the MPAP's being able to effectively carry out its role; and
- Such choices are best made when considering the overall composition of the Australia Council Board, which is and should remain a matter for the Federal Arts Minister.

11.7 Refine operation of funding agreements

To improve the monitoring of the companies and to adopt the recommendations made in this Final Report, a number of other operating changes will be required.

Recommendation 11.22: A significant improvement is required in the quality of data provided by the Major Opera Companies to the funding agencies.

In the interests of being cost efficient, the Australia Council has required companies to input their own data into on-line reporting systems. This practice is to be applauded. However, the difficulty is that the quality of data is patchy and in part inadequate, particularly as it relates to costs. Indeed, part of the reason for the delay in the publication of this Report has been the Panel's need repeatedly to go back to the companies to clarify the material. The analysis for this Review was not possible just using data from the Australia Council, which was sometimes also found to be inconsistent. It has required deep and consistent input from the companies. That being the case, the Review strongly advocates that the quality of the data be improved.

Recommendation 11.23: The companies' financial data need to provide a basis for generating greater insight and judgement than is currently the case. This needs to be done on an activity basis with, at a minimum, mainstage, regional touring, educational and community activities being separately accounted for. Any commercially oriented activities need to be reported separately from activities that receive Government funding. Capital Fund operations need to be separately identified.

This is required to generate deeper insight from the data and to ensure that the financials are trending in an appropriate way, with the financial impact of all activities being well understood.

Recommendation 11.24: Dedicated MPAP staff, on behalf of the Federal and State Governments, need to maintain an activity-based funding model that is annually reconciled to the annual audited accounts. Genuine insight over time needs to be provided about emerging trends in each activity.

Recommendation 11.25: The MPAP staff need to engage more rigorously and regularly with the companies in relation to the other tasks which have been identified in this Final Report, including artistic matters and governance.

Recommendation 11.26: The MPAP should annually undertake a quantitative and qualitative stakeholder survey of the companies and other funding agencies to provide feedback on its performance and the ongoing strength of the relationships.

Recommendation 11.27: The MPAP and the relevant State Government funding agencies need to be provided with additional reserve powers in relation to the Major Opera Companies if they show signs of getting into financial difficulty. The default position should not be to provide them with a payment in advance to assist their cash flow.

These recommendations are supported to strengthen the hands of the relevant Government funding agencies in dealing with companies facing difficulties, given that they are the largest single stakeholders in the well-being of these companies, and the significant level of Government funding that is provided.

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In summary, providing an appropriate framework within which the companies and the relevant Governments can operate, which is well understood and transparent, is integral to the process of creating a vibrant ecology for the Major Opera Companies. Such an approach will contribute to their cycle of success. However, best Government practice and best governance practice, must go hand in hand. While there are undoubted challenges, they can and must be addressed.

List of exhibits

Implementation timetable

Chapter 5: Actions by Governments: Where the companies should head

Recommendation number	*Description*	*Key initial responsibility*	*Year of implementation* 1	2	3	4
	The strategic basis for Governments' support					
5.1	Guiding principles for the Major Opera Companies	MCM[49]	•			
	Designation as a major performing arts company					
5.2	Criteria for designation as a Major Opera Company	MCM	•			
	Governments' role in strategic direction					
5.3	Distribution of funding between Federal Government and State Governments	MCM	•			
5.4	Flexibility for companies to define artistic and strategic direction	All companies	•			
5.5	Funded activities clearly defined	All agencies	•			
5.6	Governments to monitor outcomes of activities	All agencies		→		
5.7	Consequences for not delivering funded activities	All agencies		→		
5.8	Basis for losing major performing arts company status	All agencies		→		
5.9	Financial and balance sheet requirements	All agencies	•			
	What type of activities should be supported					
5.10	Non-commercial (rather than commercial) activities should be supported by Governments	All agencies	•			
5.11	Separation of significant commercial activities	All companies		→		
	Which companies should be supported					
5.12	Opera Queensland given time to meet criteria as a major performing arts company	Australia Council, Arts Qld	•			
5.13	Opera Queensland to improve financial situation and consider shared services model	OQ	→			
5.14	Opera Queensland adjustment package	Australia Council, Arts Qld		•	•	•
5.15	Opera Queensland required to build reserves	Australia Council, Arts Qld		•	•	•

[49] Meeting of Cultural Ministers

Recommendation number	*Description*	*Key initial responsibility*	*Year of implementation* 1	2	3	4
5.16	Victorian Opera supported to become a major performing arts comany	MCM	•	•		
5.17	Other opera companies that meet criteria supported to become major performing arts companies	MCM	→			

Chapter 6: Actions by Governments: How the companies should operate

Recommendation number	*Description*	*Key initial responsibility*	*Year of implementation* 1	2	3	4
	Within the same geographies					
6.1	Opera Australia not to receive core funding to deliver mainstage performances in Brisbane (or Adelaide or Perth)	Federal Government, Australia Council, Arts Qld	•			
6.2	Opera Australia funded for mainstage in Melbourne and Sydney	Australia Council, Arts NSW, Creative Victoria	•			
6.3	Mainstage in Perth and Adelaide delivered by WAO and SOSA respectively	Australia Council, Arts SA, DCA[50]	•			
	With productions					
6.4	Opera Conference retained but modified	All companies	•			
6.5	Opera Conference governance arrangements	All companies	•			
6.6	Opera Conference production decision making	All companies	→			
6.7	Opera Conference to support Australian artistic vibrancy	All companies	→			
6.8	Opera Conference regional tour funding provided directly to Opera Australia	Australia Council	•			
6.9	Increased collaboration between companies encouraged	All companies	→			
	With venues					
6.10	Pending Her Majesty's Theatre redevelopment, SOSA and the Festival Theatre to co-operate on venue availability	Arts SA	→			
6.11	Opera Queensland to use appropriate venues	OQ		→		
6.12	Opera Queensland, SOSA and WAO to work to reduce dark nights in venues	OA, OQ, SOSA	→			

[50] Department of Culture and the Arts, Western Australia

			Year of implementation			
Recommendation number	***Description***	***Key initial responsibility***	***1***	***2***	***3***	***4***
	With regional touring					
6.13	Opera Australia regional touring activity	Australia Council, Arts NSW, Creative Victoria		→	→	→
6.14	Opera Queensland regional touring activity	Australia Council, Arts Qld		→	→	→
6.15	WAO community and outreach activity	Australia Council, DCA		→	→	→
6.16	SOSA community and outreach activity	Australia Council, Arts SA		→	→	→
6.17	Opera Australia direct funding for regional touring	Australia Council		→	→	→
6.18	Regional touring funding considered within the activity based funding model	All agencies		→	→	→

Chapter 7: Improving artistic vibrancy

			Year of implementation			
Recommendation number	***Description***	***Key initial responsibility***	***1***	***2***	***3***	***4***
	Increase number of mainstage productions					
7.1	Core funding targeted to increase mainstage productions	All agencies	•			
7.2	Minimum mainstage production requirements for Opera Queensland, SOSA and WAO	All agencies	•			
7.3	Opera Australia specified number of mainstage productions in Sydney and Melbourne	Australia Council, Arts NSW, Creative Victoria	•			
	Increase the variety of mainstage repertoire choice					
7.4	Companies to discuss repertoire selection with funding agencies	All companies / funding agencies	→	→	→	→
	Support the development of new Australian works					
7.5	Governments should support new works	All agencies	•			
7.6	Creation of an Innovation Fund including for new works	Federal Government	•			
	Support the presentation of innovative works in collaboration with festivals					
7.7	Creation of an Opera Festival Fund within the Innovation Fund	Federal Government	•			

Recommendation number	Description	Key initial responsibility	Year of implementation			
			1	2	3	4
	Increase the use of digital technology for innovation					
7.8	Innovation Fund to include digital technology initiative	Federal Government	•			
	Encourage the use of Australian artists					
7.9	Major Opera Companies reporting on the use of Australian and non-Australian artists	All companies	→			
7.10	Australia Council reporting on the use of Australian artists by the companies	All companies	→			
7.11	Funding agencies to assess the balance between the use of Australian and non-Australian artists	All agencies	→			
7.12	Funding agencies to engage with Major Opera Companies on the engagement of Australian artists	All agencies	→			
7.13	Penalties for imbalance in artist employment	All agencies		→		
	Optimise the use of the ensemble, chorus and orchestra					
7.14	Optimise opportunities for ongoing employment	OA	→			
	Enhance initiatives for young artists					
7.15	Encourage development of remunerated young artist programmes	All companies		→		

Chapter 8: Improving access

Recommendation number	Description	Key initial responsibility	Year of implementation			
			1	2	3	4
	Improve the quality of audience experience at venues					
8.1	Opera Queensland venues	OQ	→			
8.2	SOSA venues	SOSA	→			
8.3	WAO venues	WAO	→			
	Enhance engagement with subscribers					
8.4	Development of proposals to strengthen engagement with subscribers	All companies	→			
8.5	Engagement with older audiences	All companies	→			
8.6	Engagement with younger audiences	All companies	→			

Recommendation number	*Description*	*Key initial responsibility*	*Year of implementation* 1	2	3	4
	Broaden the market for single ticket sales					
8.7	Use of data analytics to target audiences	All companies	→			
8.8	Use diverse products to attract different demographic groups	All companies	→			
	Build audiences for the future through education programmes					
8.9	Music education programmes in schools	MCM	•	•		
8.10	Development of educational resources	All companies	•	•		
	Create a stronger emotional connection with each Major Opera Company					
8.11	Build connections between artists and audiences	All companies	→			
8.12	Target community education programmes	All companies	→			

Chapter 9: Addressing financial viability

Recommendation number	*Description*	*Key initial responsibility*	*Year of implementation* 1	2	3	4
	Address adverse cost-revenue dynamics					
9.1	Improve website and marketing capability	All companies	•	•		
9.2	Improve mainstage cost-revenue dynamics	All companies	→			
9.3	Reduce physical production costs	All companies	→			
9.4	Reduce artistic costs	All companies	→			
	Control costs of other activities					
9.5	Target regional touring, schools and community projects in a cost effective way	All companies	→			
	Control overheads					
9.6	Opera Australia to reduce overhead costs	OA	•	•		
9.7	SOSA to invest in infrastructure, including marketing, development and online engagement	SOSA, Australia Council, Arts SA	•	•		
9.8	Opera Queensland to reduce overhead costs	OQ	•	•	•	
	Generate additional private sector support					
9.9	Targets, linked to geography, for private sector income	All agencies	•			

Recommendation number	*Description*	*Key initial responsibility*	*Year of implementation* 1	2	3	4
9.10	Establishment of targets	All agencies	•			
9.11	Utilise board member skills to generate private sector income	All companies	→			
9.12	Secure bequests	All companies	→			
	Strengthen the balance sheet					
9.13	Opera Australia to revalue property assets	OA	•			
9.14	Use of proceeds of the sale of Opera Australia's Melbourne property	OA	•			
9.15	Opera Queensland to rebuild its balance sheet	Australia Council, Arts Qld		•	•	•
9.16	Minimum level of reserves set at 30 per cent of costs for each Major Opera Company	All companies		•		

Chapter 10: Providing strong governance and management

Recommendation number	*Description*	*Key initial responsibility*	*Year of implementation* 1	2	3	4
	Provide strong governance					
10.1	Skills and diversity mix of boards	All companies	→			
10.2	Provision of data to each Board of Directors	All companies	→			
10.3	Workshops for directors to understand cost-revenue dynamics	All companies	→			
10.4	Boards of Directors to establish protocols for managing artistic and financial tensions	All companies	→			
10.5	Culture of openness and debate on boards	All companies	→			
10.6	Annual board and director evaluations	All companies	→			
10.7	Tenure limits on directors	All companies	→			
10.8	South Australian Government to consider SOSA being governed by Corporations Law	Arts SA, SOSA	•	•		
10.9	Establish mechanisms for dialogue between boards and funding agencies	All companies	→			
	Provide strong management					
10.10	Strengthen management accounting	All companies	•	•		
10.11	Companies to improve understanding of cost-revenue dynamics	All companies	•	•		

Recommendation number	*Description*	*Key initial responsibility*	*Year of implementation* 1	2	3	4
10.12	Operating results to be separated from Capital Fund results	OA	—	—	—	→
10.13	Companies to balance strength of artistic and financial management	All companies	—	—	—	→

Chapter 11: Providing government funding

Recommendation number	*Description*	*Key initial responsibility*	*Year of implementation* 1	2	3	4
	Define core funding for specified activities					
11.1	Activity based funding model established, benchmarked to best practice and reviewed in five years	MCM	•			→
11.2	Parameters for the funding model	MCM	•			
11.3	Increase in core funding	MCM	•			
11.4	Limits on project funding applications	All agencies	•			
11.5	Penalties if activities not delivered	All agencies		—	—	→
11.6	Current distribution between Federal and State Governments maintained for incremental core funding	MCM	•			
	Lift funding to improve co-operation					
11.7	Increase Opera Conference funding	MCM	•			
11.8	Unused Opera Conference funds returned to Governments	MCM		—	—	→
11.9	Separate entity established for Opera Conference funding	MCM	•			
11.10	Revised distribution of Opera Conference funding between Federal Government and relevant State Governments	MCM	•			
	Provide funding for innovation and artistic vitality					
11.11	Innovation Funding package	Federal Government	•			
	Provide funding for structural adjustment					
11.12	Opera Queensland structural adjustment package	Australia Council, Arts Qld	•			

Recommendation number	*Description*	*Key initial responsibility*	*Year of implementation* 1	2	3	4
11.13	Additional support for the Australia Council's MPAP	Federal Government, Australia Council	•			
	Define overall funding requirements					
11.14	Overall additional funding requirement	MCM	•			
11.15	New arts funding to be appropriated to implement the recommendations	MCM	•			
	Define responsibility for funding					
11.16	Federal Government responsibility to remain with the Australia Council's MPAP and subject to changes	MPAP[51]	•			
11.17	Joint decision making between the MPAP and relevant State Governments	MPAP	•			
11.18	Funding to MPAP to improve its financial and analytical skills	Australia Council		→	→	→
11.19	Balance of skills on the MPAP	MPAP	→	→	→	→
11.20	MPAP to develop workplan to address changes envisaged by the Final Report with handover from Secretariat	MPAP	•			
11.21	MPAP Chair to sit on the Board of the Australia Council and be appointed by the Federal Arts Minister	Federal Government, Australia Council		•		
	Refine operation of funding agreements					
11.22	Improve quality of data provided to funding agencies	MPAP	•	•		
11.23	Financial data provided on an activity basis	MPAP	•	•		
11.24	MPAP to maintain an activity-based funding model reconciled to the audited accounts	Australia Council	•	•		
11.25	MPAP to increase engagement with the companies	Australia Council	→	→	→	→
11.26	MPAP to undertake annual stakeholder survey	MPAP, Australia Council	→	→	→	→
11.27	Additional reserves power to the MPAP and State Government funding agencies	All agencies	•			

51 Major Performing Arts Panel

Organisations and individuals consulted by the National Opera Review Panel

The following organisations have been consulted by the Review Panel.

Opera Companies

Opera Australia
Opera Queensland
State Opera of South Australia
West Australian Opera
Victorian Opera
New Zealand Opera

Federal Government

Australia Council, including the Major Performing Arts Panel

State and Territory Governments

artsACT
Arts NSW
Arts Queensland
Arts SA
Creative Victoria
Department of Culture and the Arts, Western Australia
Department of State Growth, Tasmania
Department of Arts and Museums, Northern Territory

Orchestras

Adelaide Symphony Orchestra
Queensland Symphony Orchestra
Tasmanian Symphony Orchestra
West Australian Symphony Orchestra
The Australian Ballet, which has ownership of Orchestra Victoria
Opera Australia, which has ownership of the Australian Opera and Ballet Orchestra

Venues

Adelaide Festival Centre
Arts Centre Melbourne
Griffith University Conservatorium of Music
Perth Theatre Trust
Queensland Performing Arts Centre
Sydney Opera House
Theatre Royal, Hobart

Festivals

Perth International Arts Festival
Ten Days, Tasmania

Training organisations

The Lisa Gasteen National Opera School
Tasmanian Conservatorium of Music

Artists' managers and representatives

Arts Management
Australasian Classical Music Managers Association
Media, Entertainment and Arts Alliance
Patrick Togher Artists' Management

Individuals

Mr Donald McDonald AC
Mr Noel Staunton

In addition to the organisations and individuals consulted, the National Opera Review Panel held Public Consultation sessions in Adelaide, Brisbane, Melbourne, Perth and Sydney in early 2015 with over 400 people attending. It also received 90 submissions in response to the Discussion Paper. The Panel would like to extend sincere thanks to all members of the public who attended one of the consultation sessions or provided a written submission to the Review.

National Opera Review Panel Members

Dr Helen Nugent AO, Chairman

Dr Nugent has been actively involved in the performing and visual arts. She is currently the Chairman of the National Portrait Gallery. She was previously Chairman of the Major Performing Arts Board of the Australia Council, Deputy Chairman of the Australia Council, Chairman of the Major Performing Arts Inquiry 1999, *Securing the Future,* and Deputy Chairman of Opera Australia.

She also makes a contribution to education. She has been Chancellor of Bond University and President of Cranbrook School. In 2008, she was a member of the Federal Government's Review of Australian Higher Education.

Dr Nugent has close to 30 years' experience in the financial services and resources sectors. She has been Chairman of Veda Group and Funds SA, as well as a Non-executive Director of Macquarie Group; Chairman of Swiss Re (Australia); and Director of Strategy at Westpac Banking Corporation. While a partner at McKinsey & Company, she worked in the financial services and resources sectors.

In 2004, Dr Nugent was made an Officer of the Order of Australia for services to the performing arts, to business and the financial services industry, particularly in the area of corporate governance, and the community.

Ms Kathryn Fagg

Ms Fagg is the current Chairman of the Melbourne Recital Centre and is a keen supporter of the arts alongside her business engagements. Ms Fagg brings to the Review significant experience in strategy, business leadership and change management. She has led businesses across sectors in Australia, New Zealand and Asia.

In 2013, she was appointed to the Reserve Bank of Australia Board. She is also a Non-executive Director of Boral, Djerriwarrh Investments and Incitec Pivot. Ms Fagg is also on the board of the Breast Cancer Network Australia. For the Academy of Technology and Engineering, she chairs the Industry and Innovation Forum.

Mr Andrew McKinnon

Mr McKinnon is an independent commercial impresario, touring local and international performing artists and productions in Australia and New Zealand. His presentations include concerts, recitals, operatic performances and musical theatre productions. This includes the recent sellout tour of *From Broadway to La Scala*.

Mr McKinnon has extensive experience as a producer in the performing arts sector across a broad range of artforms.

Mr Moffatt Oxenbould AM

Moffatt Oxenbould's work in opera in Australia spans more than 50 years.

Graduating from the National Institute of Dramatic Art (NIDA) in 1962 he became a stage manager with the Elizabethan Trust Opera Company. In 1965 he was stage manager for the Sutherland/Williamson Grand Opera Company and subsequently with Sadlers' Wells Opera in London, returning to the Elizabethan Trust Opera in 1967. With Australian Opera he worked as Co-ordinator of Planning and Artistic Administrator and from 1984 until 1999 he was Opera Australia's Artistic Director.

He has directed several works for Opera Australia and the state opera companies in Australia, Houston Grand Opera and Taiwan's National Symphony Orchestra.

In 1985 he was awarded an AM, in addition to many industry awards over the years. In 2001, to honour his dedication to developing young Australian artists, Opera Australia named its development programme The Moffatt Oxenbould Young Artist Program.

Since retiring he has been an occasional broadcaster on ABC Classic FM. In 2005 his memoir—*Timing Is Everything*—was published. He has served as Chairman of NIDA's Board of Studies and as a member of the Australia Council's Major Performing Arts Board.