



SOMA Position Paper on the Third MPAI Funding Model Review

Great cities have great orchestras

The arts complement formal education and life-long learning, providing access to new ideas and creative ways of thinking – vital elements in building an innovative and entrepreneurial culture.

In a global economy, world-class cultural organisations are critical to building regions as modern and sophisticated centres, ensuring that they remain competitive in attracting and retaining skilled labour and capital investment.

The Symphony Orchestra Musicians Association (SOMA)

The Symphony Orchestra Musicians Association (SOMA) represents the professional interests of the musicians of the West Australian Symphony Orchestra (WASO), Adelaide Symphony Orchestra (ASO), Tasmanian Symphony Orchestra (TSO), Orchestra Victoria (OV), Melbourne Symphony Orchestra (MSO), Australian Opera & Ballet Orchestra (AOBO), Sydney Symphony Orchestra (SSO) and The Queensland Orchestra (QO). SOMA forms part of the Media, Entertainment & Arts Alliance (MEAA).

All eight orchestras are the subject of the Third MPAI Funding Model Review. (MPAI Review)

Terms of reference and context

The terms of reference approved by Cultural Ministers Council make plain that the key task ahead is to *"make recommendations for the development of the MPA sector over the next decade"*. Changes to base grant funding will apply from 1 January 2011.

It is evident that this task must be approached with a clear vision of the sector's growth and potential beyond the current economic downturn. If a short-term recessionary mindset is allowed to frame future settings, the opportunities for the sector will be sabotaged as the economic cycle returns to growth.

It is also evident that the task is against a background where the stated objective of the Australian Government Orchestras Review (2005 Orchestras Review) to *"secure the long-term sustainability of the orchestral sector..."* was not realised.

As the Australia Council's consultants LECG make plain in the Evaluation of the Orchestras Review 2005, while the *"injection of government funding from 2006 relieved the immediate financial pressure ...the underlying economics and financial outlook for the individual orchestras has not significantly improved"*. Indeed, *"divestment increased the financial vulnerability of the separate independent orchestras"*.

Minister Garrett has indicated that the Evaluation's findings should inform the outcome of this review.

Artistic Vibrancy and Access

SOMA supports the MPAI Guiding Principles adopted by the Cultural Ministers Council:

Australia should have a vibrant major performing arts sector that enriches Australian life and builds its image as an innovative and sophisticated nation.

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

Australia should have a financially viable major performing arts sector that supports artistic vibrancy.

Indeed, as SOMA outlined to the 2005 Orchestras Review:

We also hold the view that access to world-class orchestral performances must be available not only to audiences in each of our major capital cities but delivered to all Australians through diverse regional programmes, live performance broadcasts and innovative educational activities.

The Issues Paper released by the Strong Inquiry characterised the relationship between artistic excellence, access and financial viability in the orchestral context as:

Audiences expect the highest standards of artistic quality from the orchestras and the sustainability of the orchestras is dependent upon achieving and maintaining those standards.

Audiences understand, recognise and demand world-class performances, and they expect to see them on the stage in Australia.

The achievement of artistic excellence by an orchestra is contingent upon:

- Attracting and retaining the best available musicians,
- Stable and consistent membership of the orchestra,
- Artistic leadership from the best available conductors and guest artists, and a
- Diverse and challenging repertoire.

Appendix A describes these elements in greater detail.

Investing in Artistic Standards

Attracting and retaining the best available musicians is fundamental to an orchestra's success.

While building a strong culture of high performance standards assists with a competitive recruitment and retention strategy, this must also be underpinned by competitive and equitable salaries.

As noted in the 2008 report to the Australia Council **"Anticipating Change in the Major Performing Arts:** *"Today, the movement of artistic, managerial and technical personnel is global, and companies must maintain competitive pay and opportunities to find and keep the best talent. Personnel costs make up the majority of the MPA companies expenses, and talented people are arguably the most important resource that the companies have".*

The salary levels for Australia's orchestras are set out in Appendix B.

It is evident that there is a significant disparity between many of the orchestras and the market leaders, SSO and MSO.

The following observations are apparent:

The Experienced Ensemble musician rate in six of the eight orchestras is less than the Ensemble entry rate for the SSO. That is, in six of the eight orchestras, experienced musicians of 10 or more years earn less than a first year musician in the SSO.

The Experienced Section Leader rate in six of the eight orchestras is less than the Experienced Ensemble musician of the SSO. That is, in six of the eight orchestras, a rate paid to the supervisory position is less than paid to the supervised in the SSO. Indeed in three of the eight orchestras the Experienced Section Leader is paid less than the Ensemble entry rate in the SSO.

The Queensland Orchestra, the lowest paid of all orchestras, would need to increase its Experienced Ensemble musician rate by 65% to match the equivalent SSO rate.

The rates paid by the market leaders SSO and MSO are modest in the context of remuneration paid to experienced professionals in other occupations and the increasing global market for arts professionals.

The competitive gap between the professional rates paid by the market leaders and the others presents significant risks to the ability of the low-wage orchestras to attract and retain the best available musicians and consequently puts at risk their artistic standards.

Indeed, the size of the competitive gap between the market leaders and the low-wage orchestras raises serious questions about the delivery of the access objectives endorsed by Cultural Ministers if world-class orchestral performances are increasingly to be restricted to Melbourne and Sydney.

The professional levels of remuneration paid by the SSO and MSO to attract and retain the best available musicians reflects not just the larger markets of Melbourne and Sydney, but is only possible because of the deliberate additional investment in the artistic standards in those orchestras by respective Australian Governments.

Recognising the global context of classical music, an additional \$2m to strengthen artistic standards was provided to the SSO as part of the *Creative Nation* initiative in 1996. This additional investment now forms part of SSO base funding.

Similarly, and for the same purpose, an additional \$1.6m was provided to the MSO by the Coalition Government as part of its response to the Major Performing Arts Inquiry report of 1999, *Securing the Future*.

If the access objectives of Cultural Ministers are to be achieved, similar investment in the low-wage orchestras is required.

A principal recommendation arising from this review should be the implementation of an **Artistic Enhancement Package** targeted to the low-wage orchestras to ensure that audiences in each of our major capitals have access to world-class orchestral performances.

Application of the funding model to orchestras

The core objective of the MPFI funding model as set out in *Securing the Future* 1999, and endorsed by Cultural Ministers, is that *"the aggregate level of ongoing funding provided to companies should primarily reflect the cost of delivering the art form; the strategic role of the companies are expected to play; and the geographic access considerations"* (Recommendation 7.1.1)

In particular the formula has regard to reasonable or "normalised" costs, the art-form funding ratio (ensemble costs being the major cost centre for orchestras), access commitments, and the returns reasonably expected from the market (geographical adjustment factor).

Securing the Future advises that "to produce a **normalised** cost base, the actual costs should be adjusted to take account of **accepted industry benchmarks**."

However, when applied to orchestras the report of the 2005 Orchestras Review observes that: *"While some adjustments were made in the normalisation process to the actual costs incurred by different orchestras on marketing and administration, no similar adjustment were made in the area of artistic costs. Rather, there was a de facto acceptance that the large differentials in salaries between the more and less populous states were a reflection of market place realities"*

That is, while the stated criteria of "normalised" cost base *"to take account of accepted industry benchmarks"* was applied to some orchestral cost centres, an apparently different criteria of, *"market place realities"*, is applied to the orchestras single largest cost, ensemble costs.

For most orchestras, the level of wages paid are in reality a function of funding levels, not market forces or indeed *market place realities*. As the 2005 Orchestras Review noted government funding on average was 61% of total income. The other major components being, performance income at 28% and private sector income at 9%.

In wage negotiations with their musicians, the common position of managements across the low-wage orchestras is firstly, the acknowledgment that the wages levels offered are grossly inadequate, followed by the advice that further increases are not possible within existing funding levels and that the opportunities to raise significant additional revenue from box office and corporate support is extremely limited. Additionally, it is reasonably argued that funding increased fixed costs (ensemble wages) on revenues from increased corporate support and box office returns from artistically challenging repertoire presents significant risks to orchestras, particularly during times of economic downturn. It is also true that the opportunity for productivity improvements of any significance in the orchestral context is at best negligible.

That is, rather than input ("normalised cost") determining output (funding level), the application of the funding model in the orchestral context, means for the most part, that the output of the previous funding round determines that the largest input, (ensemble costs) in the calculation of the new funding level.

That is, the current manner of application of the funding model to the orchestras has led to a circular outcome. The historical under-investment in the low-wage orchestras is mechanically reproduced as an outcome in the funding model.

SOMA Recommendation

SOMA proposes that for future funding model purposes, the “normalised” cost base for SSO and MSO be calculated on their current wage levels, indexed in the forward years by the ABS Wage Price Index. This approach reflects the professional salaries paid by those two orchestras and the clear guidance in MPAI *Securing the Future* that “...few productivity gains are available in artistic costs and it is not appropriate to apply an “efficiency” dividend in this area”

The wage cost of AOBO and OV should be calculated on the rates paid by SSO and MSO respectively as they are competing for musicians in the same city.

For the other orchestras, the cost of living equivalent of the MSO salary levels be used to calculate their “normalised” cost base. The MSO reasonably fits the descriptor set out by the *Securing the Future* report of an “acceptable industry benchmark in relation to costs”

As one measurement of cost of living, the Mercer Global Index July 2008 ranks Australian cities as follows; Melbourne 94.2, Perth 88.5, Brisbane 86.8, and Adelaide 82.8. SOMA acknowledges that there may be other measures of cost of living comparison between Australian cities and there will be variation over time.

Using the 2008 Mercer Index as a guide, for funding model purposes, the “normalised” cost base calculation of musician salaries for WASO would be calculated on 94% of MSO salaries, TQO 92% and ASO 88%. In the absence of comparator for Hobart in the Mercer index, SOMA proposes 88% for TSO.

SOMA’s proposal outlined above is for funding calculation purposes only and is not intended to fix a wage relationship between orchestras. SOMA recognises that centralised wage fixation is no longer a feature in the Australian industrial landscape and strongly supports each orchestral company negotiating with their musicians a collective agreement appropriate to the needs and priorities of each orchestra.

The Costs of Ownership Change

The Australian Government Orchestras Review (Orchestras Review) recommended that the six orchestras’ companies wholly owned by the ABC be divested, by transferring the shares to new holding companies. (WASO, ASO, TSO, MSO, SSO, TQO). The proposed change was underpinned by the two key supporting Recommendations that existing musicians maintain their continuing membership of the Australian Government superannuation schemes and the orchestras be supplemented for increases in their public sector superannuation costs on the same basis as Australian government departments and agencies.

The supporting Recommendations were rejected by the then Coalition Government and as a flow-on consequence, orchestras were also excluded from Comcare.

Despite the likely adverse impact of the Government's terms being vigorously flagged by the sector, the ownership change was forced through with the advice that an evaluation by Government would be conducted in 2008. The background to the Evaluation conducted by consultants LECG is as follows.

The Orchestras Review noted that over the preceding four years orchestras absorbed an increased superannuation cost of \$1.1m (21%).

Further compounding the escalating superannuation costs, orchestras have following divestment from the ABC also absorbed the additional cost of compensating musicians for the losses arising from their exclusion from continued participation in the Australian Government superannuation schemes.

As also noted by the Orchestras Review, historically the workers compensation premiums for the symphony orchestras were determined as part of the overall low risk of the largely administrative ABC workforce. The Government decision to corporatise the orchestras as wholly owned subsidiary companies of the ABC, commencing with the SSO in 1996 and followed by the other orchestras in subsequent years, resulted in the orchestras being treated as agencies within their own right and premiums rose significantly in line with the rate of injury incurred by physical workers in the performing arts. As a consequence expenditure on workers compensation increased steadily from more than \$0.75m in 2001 to an estimated \$1.7m in 2004.

While the Review recommended the allocation of \$0.5m to engage specialist services to develop and implement injury prevention strategies, it was anticipated that the symphony orchestras would remain within Comcare. Further compounding the increased workers compensation costs that arose from the earlier corporatisation, additional costs have been imposed on the orchestras with the forced movement to state systems reflecting on-average higher premiums compared to Comcare.

The SSO and MSO for example calculate that the total additional costs imposed on them as a direct consequence of the forced divestment is in excess of \$0.5m a year. Costs of the proportionate order were also imposed to the other formally owned ABC orchestras

As noted by the Orchestras Review the nature of symphonic music is such that it requires a large ensemble of musicians. In total, spending on salaries and performance fees made up almost 72% of total expenditure in 2003 and consequently this is the dominant driver of total orchestral costs. Significant changes in employment costs present challenging impacts on the orchestras' continued viability. As also noted by the Orchestras Review there is limited scope for significant productivity improvements or technological innovation in orchestras to offset cost increases.

It is worth noting, that the only other Recommendations not agreed by Government, downsizing of the ASO, TSO and QO resulted in additional funding by Government to cover the impact of higher costs than was anticipated by the Review. (\$9.9m to maintain current size).

No additional funds however were provided to cover the higher costs as a result of not adopting the superannuation Recommendations and the forced movement to State workers compensation jurisdictions.

Each of the Key Elements of the Funding package were allocated for a discrete purpose, many of them one off; none of the elements were intended to and do not compensate for the consequential costs of the divestment.

- The \$4.7m allocated to ensure ongoing sustainability in response to the Recommendation to provide full indexation was also agreed for the other companies of Major Organisations Board so that adjustment of funding over time more realistically reflected general cost increases.
- \$4.1m was principally to the pay off accumulated debts of QO, and ASO and was one off.
- \$9.9m was to cover the consequent cost of the Government decision to not downsize TSO, ASO, and QO.
- \$3.1m was a time specific programme to cover the cost of transitioning musicians out of the orchestras.
- \$0.4m was health and safety project specific.
- \$1.0m was for Symphony Australia

The adverse impact on the orchestras of not adopting the Review's full suite of recommendations, without full compensation as occurred to maintain current size, is unsurprising. As the Review noted *"The recommendations made are interlinked and mutually dependant. For this reason, they should be seen as an integrated package of proposals rather than as a set of separate outcomes."*

SOMA Recommendation

In calculating the "normalised" cost base in the funding model regard must be had to the increased costs imposed on six of the eight orchestras when ownership was transferred from the ABC.

Repairing the Crisis Model of Funding

The indexation rate (WCI6) currently used to adjust funding levels invariably leads orchestras to financial and artistic crisis.

The nature of orchestral music is such that it requires a large ensemble of musicians. As noted earlier, the Orchestra Review calculated that the orchestras' total spending on salaries and performance fees make up almost 72% of total expenditure. Consequently this is the dominant driver of total orchestral costs.

There is limited scope for significant productivity improvements or technological innovation in orchestras to offset cost increases. As concisely described in the MPAI Discussion Paper 1999 *"The challenge of covering increasing ... salary costs is made more difficult because few productivity gains can be realised in the performing arts. For example, it takes the same*

number of people as long to rehearse and perform Mozart's Eine Kleine Nachtmusik as it did when it was first performed over 200 years ago."

Additionally there are significant constraints on major increases on the revenue side to offset fixed cost increases, as such a high proportion of income is government funding. As calculated by the 2005 Orchestras Review, Government funding is on average 61%.

As noted by the 2005 Orchestra Review, even without the application of the efficiency dividend, if costs increase by 4%, the annual increase in non-government required to maintain neutrality would vary between 5.2% for an orchestra drawing 40% of its funding from government to 10.9% for an orchestra with 80% reliance on government funding.

Year-on-year this is unsustainable and inevitably leads to crisis with diminishing access and education programmes and significant threats to artistic standards.

The failure to fully adjust funding levels for reasonable cost increases has also resulted in many orchestras increasing the level of commercial work undertaken in addition to their artistic programmes to unsustainable levels. The increasing level of reliance presents not only significant financial risks to the organisation in the event of the projects box office failure but impacts on the range of challenging artistic work that can be programmed. This in turn impacts on artistic standards.

SOMA Recommendation

Funding for orchestras be indexed at a rate that properly reflects the fixed labour component of the orchestra' cost structures and their limited ability to offset with productivity increases. SOMA proposes that government funding be adjusted annually by the periodic changes in the ABS Wage Price Index.

Appendix A

1. Artistic Standards: The Fundamentals

1.1 Ensemble

The achievement of artistic excellence by an orchestra is contingent on a stable and committed core group of the best available musicians. Such a full-time ensemble with a long-term commitment to the company is essential to the development and maintenance of artistic standards.

An orchestral performance of quality and distinction is achieved through a discernible ensemble sound. Over time, musicians develop a playing style that is both dependent on each other, and concordant. Ensemble style develops uniquely within an orchestra and may differ in subtle ways from other orchestras. It is the ability to develop this ensemble style, through familiarity and empathy between the musicians and the conductor that drives artistic excellence.

These processes may appear subtle or intangible to the audience, but all members of the ensemble have to be constantly aware of the conductor's musical direction while at the same time sensitive and responsive within the ensemble to variation in tempo, rhythmic pulse, adjustments to intonation, subtle changes of tone colour, variations of attack and the shape of particular notes. It is this highly disciplined approach to playing music that allows orchestras to achieve such a high standard of playing within such a short rehearsal time.

It is normal for a professional Australian orchestra to spend 2½ days in rehearsal in order to present a major concert programme involving international artists at an international standard. No other performing arts genre is able to achieve similar production values with such rapidity and efficiency. These artistic results are directly related to the ensemble style which in turn allows the orchestra to respond with the maximum sensitivity and flexibility to the direction of the conductor.

At the highest level, achievement of ensemble depends on two main factors. Firstly, musicians employed in the orchestra must be of the highest possible standard. In most orchestras including those in Australia this is achieved through comprehensive audition procedures and peer assessment. The ability to attract the best players to apply for positions is a significant issue in this regard. Secondly, orchestral membership must be both stable and consistent.

This is also why freelance orchestras rarely achieve a significant artistic result and why orchestras have permanent ensembles of players. As new players are appointed, the ensemble develops and grows. Audiences respond to the unique sound of great orchestras, for example: *the Philadelphia sound (Philadelphia Orchestra)*; *the Vienna sound (Vienna Philharmonic Orchestra)*. There is usually no mistaking an American brass section.

Ensemble governs and is affected by all rehearsal and performance activity of an orchestra. Orchestral musicians must learn to perform diverse repertoire together as a group. The experienced players, familiar with the orchestra's distinctive approach and proficient with the standard repertoire, support the new members. It is generally accepted that it takes up to eight years of full time playing to become familiar with the range of standard work performed by most orchestras.

To properly meet audience demand and box office imperatives Australian orchestras must present a diverse range of programs, from baroque and classical works through to the larger romantic and 20th century works.

The size of the full time ensemble is the critical factor in an orchestra's ability to play this range of repertoire at a high artistic standard.

Reliance on casual players for augmentation presents significant compromises.

The value given to the twin principles of artistic excellence and access is the principal determinant of appropriate ensemble size for an orchestra.

The further factor impacting on orchestra ensemble size is the requirement for simultaneous presentation of programmes to meet regional and educational access objectives and fulfilling the needs of opera and ballet companies while maintaining a concert schedule.

The size of any Australian orchestra depends on the diversity of repertoire the community they serve is judged entitled to hear and the standard at which it will be performed.

1.2 Artistic Leadership

The quality of conductors and guest artists chosen to lead and inspire orchestral players is also fundamental to achieving artistic excellence. The early success of professional music making in Australia stemmed from the visionary attitude of government and in particular the ABC, who over many decades engaged a list of outstanding international conductors and artists. Such an investment in quality is indeed the basis upon which we now stand.

To ensure continued growth and development this investment is an essential part of our future. For orchestras it is akin to *research and development* in the corporate world.

Both audiences and orchestras benefit from this leadership. Audiences experience the best international and national artists without having to leave their city. The development in orchestral standards is also progressively felt by audiences and reflected at the box office and in the wider radio and CD audience. The market for solo artists and conductors is international. Financial pressures reduce the ability of our orchestras to engage artists and conductors of the highest quality. The continued development of musical culture in our society depends on ensuring that Australian orchestras are able to work with the best national and international conductors and soloists.

1.3 Diverse Programming

Undertaking artistically riskier and more challenging new work in ways that push the artistic envelope is the life-blood of ongoing artistic vitality.

- MPAAI Discussion Paper, July 1999

A diverse programming strategy ensures a stimulating and rewarding work environment for orchestra musicians. Australian orchestras must attract and retain musicians with a full range of repertoire from standard symphonic masterpieces to the most contemporary of new Australian and international works.

A high level of interaction with international conductors and soloists facilitates the opportunity to prepare repertoire with specialist artists. All the orchestras commission and perform new Australian works.

Under financial pressure, orchestras become more conservative in their programming. This compromises the company's artistic vitality. The variety of creative work and the guest artists involved with the company are reduced and hence the base of artistic innovation becomes impoverished. This in turn diminishes the orchestra's capacity to attract the highest quality musicians.

1.4 Education and Access

Education and community outreach programs conducted by orchestras are an important contribution to Australia's cultural and social development.

These activities include:

- schools performances at all education levels;
- special programs for senior secondary students studying music;
- opportunities for secondary and tertiary students to experience playing as soloists with orchestra;
- conductors' workshops;
- composers' workshops;
- mentoring projects with secondary and tertiary students; and
- activities in association with tertiary institutions and youth orchestras.

These programmes, often developed in association with State Education Authorities, reach children of all ages in our cities and regional centres. The Australian Bureau of Statistics records that 18% of students learnt a musical instrument outside of school hours (ABS 2000). The presence in our communities of professional orchestras supports and drives the creative ambition of these students and this influence continues beyond childhood into adulthood.

Education and outreach programs however are only truly valuable to the community when the professional musicians participating in the programs are of high artistic standard.

The ability of the Orchestras to sustain a core of musicians in every capital city has ensured that there is bedrock of talented professional musicians who teach and play in diverse

forums – in their homes, in community and rural centers. Most importantly, this contributes to the identification and development of the most talented students within our youth orchestras, universities and conservatoriums of music. Orchestras Taskforce Report 2003

Australia has an increasing level of community music activity with a broad network of community, youth and school orchestras. The level of musical activity currently seen throughout our society is underpinned by the presence of our elite professional orchestras; in much the same way as the community participation in cricket is underpinned by the presence of our elite professional state and national cricket teams.

Through their relationships with the ABC, and linkages with community broadcasters, orchestras provide access to a large and regular geographically dispersed national and international audience with regular broadcasts of live concerts, CDs and studio recordings on ABC FM and online and (to a degree), local FM radio stations. In recent years many orchestras have also sought to strengthen access programs with performance and training activities in suburban and regional venues.

Increasing financial pressure on orchestras put the delivery and development of these education and access programs at risk.

Appendix B

Orchestral Salary rates of pay as of June 2009

	Ensemble entry rate \$	Experienced Ensemble musician \$	Experienced Section Leader \$
Sydney Symphony Orchestra (SSO)	75,672	94,590	117,291
Melbourne Symphony Orchestra (MSO)	61,805	80,345	95,179
Australian Opera & Ballet Orchestra (AOBO)	56,324	70,405	84,486
Orchestra Victoria (OV)	51,778	67,778	80,222
Adelaide Symphony Orchestra (ASO)	48,987	61,920	75,609
West Australian Symphony Orchestra (WASO)	48,469	61,262	74,804
Tasmanian Symphony orchestra (TSO)	45,416	57,405	70,095
The Queensland Orchestra (TQO)	45,263	57,211	69,857

Note: Rates for Experienced Ensemble Musician and Experienced Section Leader are for musicians of 10 or more years of experience in the position.