

National Survey Report of Theatre Companies
Commissioned by the Australian Major Performing Arts Group

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1. Introduction

The eight AMPAG drama companies met in August this year to discuss issues of common concern. The major, overriding concern was that a marked decline in artistic vibrancy was occurring in theatre in Australia and that a financial crisis was unavoidable while companies continued to operate on funding models that were no longer sustainable.

With the forthcoming Australia Council review of the MPAB company funding models due for presentation to the Cultural Ministers Council in March 2006, it was timely to document the decline in artistic vibrancy and organisational sustainability.

This research project aims to provide a broad picture of the measurable factors that either impinge upon or relate to artistic vibrancy or which represent areas in which companies have experienced financial pressures since the initial "snapshot" undertaken by the Nugent Inquiry in 1997.

2. Issues

The Nugent Inquiry established funding levels for each of the MPAB companies based on agreed cost/ revenue dynamics required to fulfil their designated function and geographic location. Some funding increases in the core funding were granted to the theatre companies at the time (2000/2001) although for the majority, these were minimal.

Effects of environmental changes since the Nugent "snapshot" in 1997 and resultant cost pressures have been managed more effectively by theatre companies than by orchestras or opera companies due to their ability to reduce costs by reducing scale of production. This has masked or at least delayed the effects of the same core problems affecting performing arts companies with permanent ensembles or with a requirement to present "heritage" repertoire.

Analysis of the annual results of each of the theatre companies operating largely under the funding model established by the Nugent Inquiry has continued to focus on financial performance and attendances. Issues of quality (artistic vibrancy), sustainability and critical mass of the theatre sector have been less scrutinised.

The AMPAG theatre companies believe there is an impending crisis in the Australian theatre – a crisis of quality, one that in the mid term will lead to a financial crisis.

3. Funding Model Review

The 2005 review of the funding model is the second review since the release of the Nugent report but the first where companies are invited to make written submissions.

Companies are asked to argue the case for a new strategic role if desired and to present business plans in support of any change in categorisation. New growth opportunities should also be identified based upon established infrastructure. Fundamental changes in the business model that have occurred since the inquiry need to be documented so that the funding agreements may be re-worked to reflect changes in output in return for investment.

Companies are asked to comment on environmental factors and changes to their cost/revenue dynamics. There is a stated commitment to discovering what has changed and the implications of these changes.

This Review provides an opportunity for companies to review their artistic and financial strategy for the next 3 – 5 years.

In general, the major issues that have been identified by companies and the MPAB relate to long-term artistic sustainability. The Review needs to understand the budget decisions that have driven results that *to date* have shown an improved financial position across the MPAB companies.

4. Survey

The purpose of a national survey of the theatre companies commissioned by AMPAG was to collect and collate data from the eight MPAB theatre companies and Circus Oz relating to issues around artistic vibrancy and financial sustainability. Where appropriate, trend lines would be drawn reflecting average movement across all the companies.

Companies provided information for each year over the period 1996 to 2005 on the following:

- a. Number of new productions specifying Australian works, contemporary works, classic or period plays
- b. Average cast sizes, average salaries and total number of acting opportunities each year
- c. Number of play commissions and average fees paid
- d. Number of productions with live music
- e. Productions categorised as self-produced, co-productions or buy-ins
- f. Production budgets
- g. Venue charges
- h. Remuneration to creative staff - directors, designers and composers
- i. Expenditure on artform development
- j. Expenditure on education
- k. Wage and salary movements
- l. New areas of expenditure required to meet statutory or legislative requirements
- m. Broad financial trends in profit and loss
- n. Income streams and trends
- o. Core government grants in relation to turnover

The companies invited to take part in the survey were:

Sydney Theatre Company
Melbourne Theatre Company
Queensland Theatre Company
State Theatre Company of South Australia
Company B
Malthouse
Black Swan
Bell Shakespeare
Circus Oz

Black Swan was not able to participate as the staff were at a crucial stage in their involvement with the Perth Festival and had experienced a recent changeover in management. The management at STCSA had also recently changed and their responses were limited. Other companies had difficulties providing material as far back as 1996 in some cases without time to delve into their off-site archives. Where possible, data from all eight participating companies has been used in analysing trends. Where the sample is smaller, this is indicated on the graphs or in the accompanying comment. Circus Oz was included because its circus production has been included in several drama statistics in the performing arts sector.

The timeline was tight; companies had only ten days to provide the information requested so the results were available by mid-December. (Survey – Appendix A)

5. Key Findings

- Until recently, the theatre sector has remained relatively stable in financial terms. This has occurred at significant artistic cost however
- A severe financial crisis is likely in the short term because the companies are running out of options to cut or contain costs.
- Artistic vibrancy has been severely compromised: the number of acting roles has reduced, the diversity of plays and range of productions have narrowed and fees for directors, designers and composers can no longer provide a full-time living for Australia's freelance creative artists.

Commissions to Australian writers are static. All specify small casts (6-7 actors) while commissions fees have barely kept pace with inflation. The result has been fewer opportunities for new and emerging writers.

- Investment in artform development has declined although education investment has continued as programs have expanded. There is further demand from schools to develop education and youth work but this would require increased funding.
- Dependence on box office has increased over the period increasing the risk profile of each company and creating significant pressure towards less adventurous repertoire.
- The percentage of core subsidy to turnover is significantly less in seven of the eight companies over the period indicating that the funding model based on 1997 costs/revenue is no longer applicable. The reduction of total core funding as a percentage of total turnover is 3.85% less in 2005 than in 1997.
- Wages and salaries covered by certified agreements have increased above the CPI. There is little further opportunity to continue to meet this additional amount from increasing box office income at current attendance levels. Further increasing ticket prices beyond the CPI would risk reduction of existing audience numbers.
- Venue charges (rental and labour costs) have increased by more than 3% per annum in excess of inflation in the last six years.
- Despite this major efficiencies have occurred in production costs with the average cost of production decreasing in real terms. Companies have reported a consequent reduction in production values.
- Marketing spend as a percentage of box office income has improved (that is, reduced) in the six companies providing subscription seasons. The two non- subscription companies are experiencing the greatest audience volatility.
- Private sector income has grown significantly albeit from a small base but corporate support has reached a plateau. While companies are developing philanthropic programs, this is an area of slow growth and unlikely to reap significant benefits in the short to medium term. Additional costs in attracting staff and building skills capacity make this a less efficient income stream in the development phase.

- Five of the eight companies surveyed forecast a cumulative operating loss of \$1.5 million in 2005.

6. Results and Analysis

ARTISTIC

New productions

Measures of artistic vibrancy vary with each artform. Unlike opera and ballet companies, theatre companies present their audiences with a whole season of new productions each year. Even repeating the same play in a new production within a five-year period reduces audience attendance, particularly by subscribers.

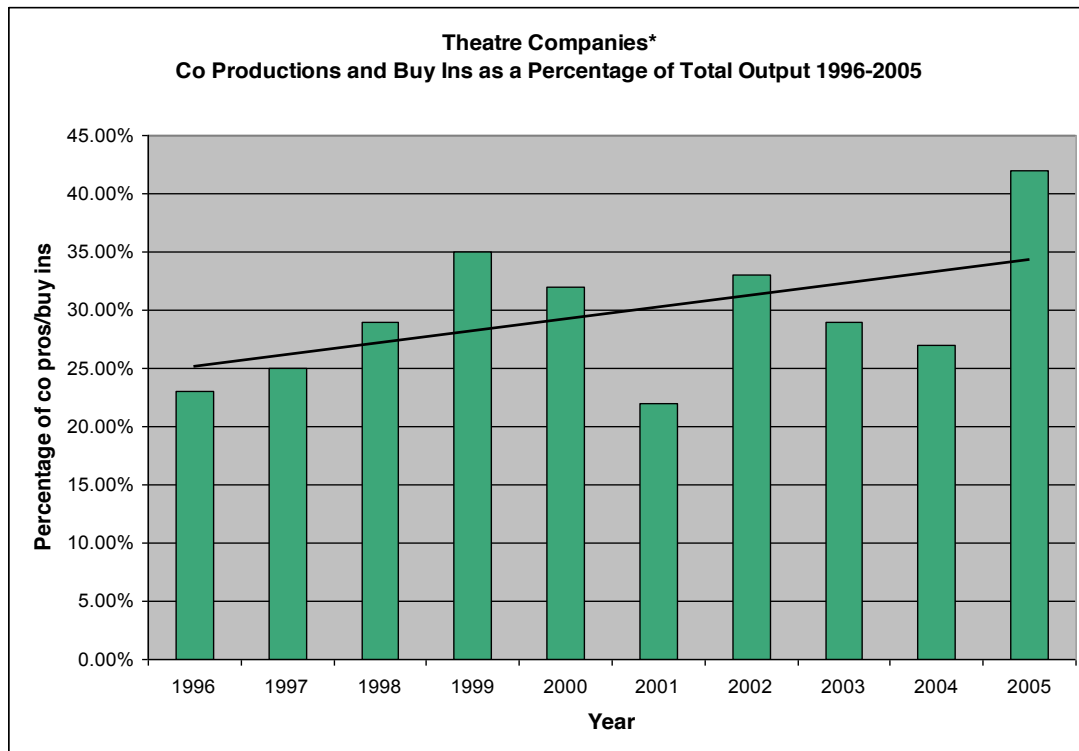
The number of new full-length productions presented across the drama companies has remained reasonably constant at around 60 per annum. In 2005, Malthouse radically revised their programming and presented a large number of short and small scale seasons taking the total to 70.

The number of productions of new Australian plays presented each year has remained constant at around 20 per annum across six drama companies. The number of extant Australian plays has varied from four to thirteen a year bringing the total output of Australian drama from 28 plays in 1996 to 29 in 2005.

This is not an indicator of success however if artistic vibrancy is measured by the growth in number of Australian plays produced each year. A change in repertoire direction at Malthouse will mean that this measure of vibrancy in the sector will further diminish in future years as fewer Australian works are produced.

Shared Productions

A major change in output relates to the change in the balance between co-productions or buy-ins as opposed to self-produced work between the six drama companies.



* Not applicable to Bell Shakespeare and Circus Oz

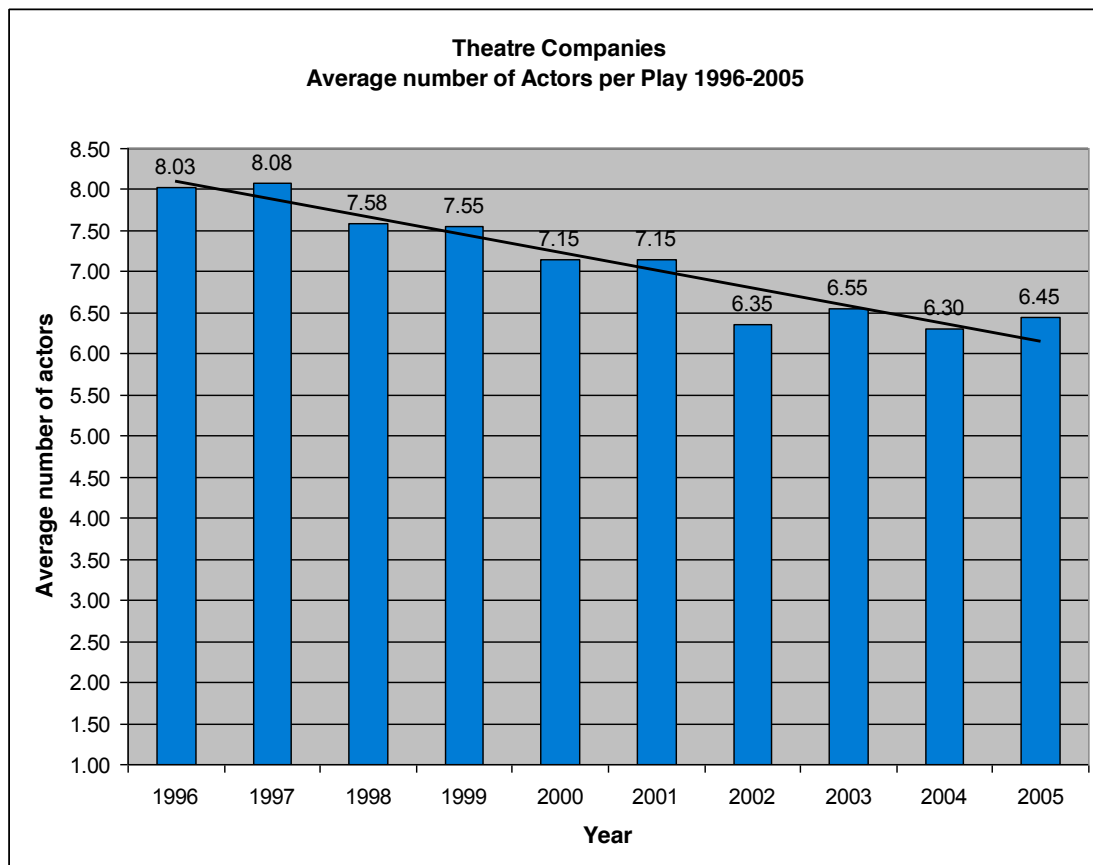
In 1996, twelve plays representing less than a quarter of the output of the six drama companies (excluding Bell) were co-productions (or buy-ins). In 2005, the number has more than doubled to twenty-seven.

The shift between the number of self-produced shows and the number of co-productions (or buy-ins) is an indicator of economic stress facing the companies. Savings occur by sharing the physical costs of a production between two or more companies and by amortising the cost of rehearsal period across seasons in two or more cities.

Less desirable consequences are the reduction in the number of opportunities for actors, directors, designers and composers that occur when productions are shared.

Actors

The average number of actors in a play has decreased significantly over the period.

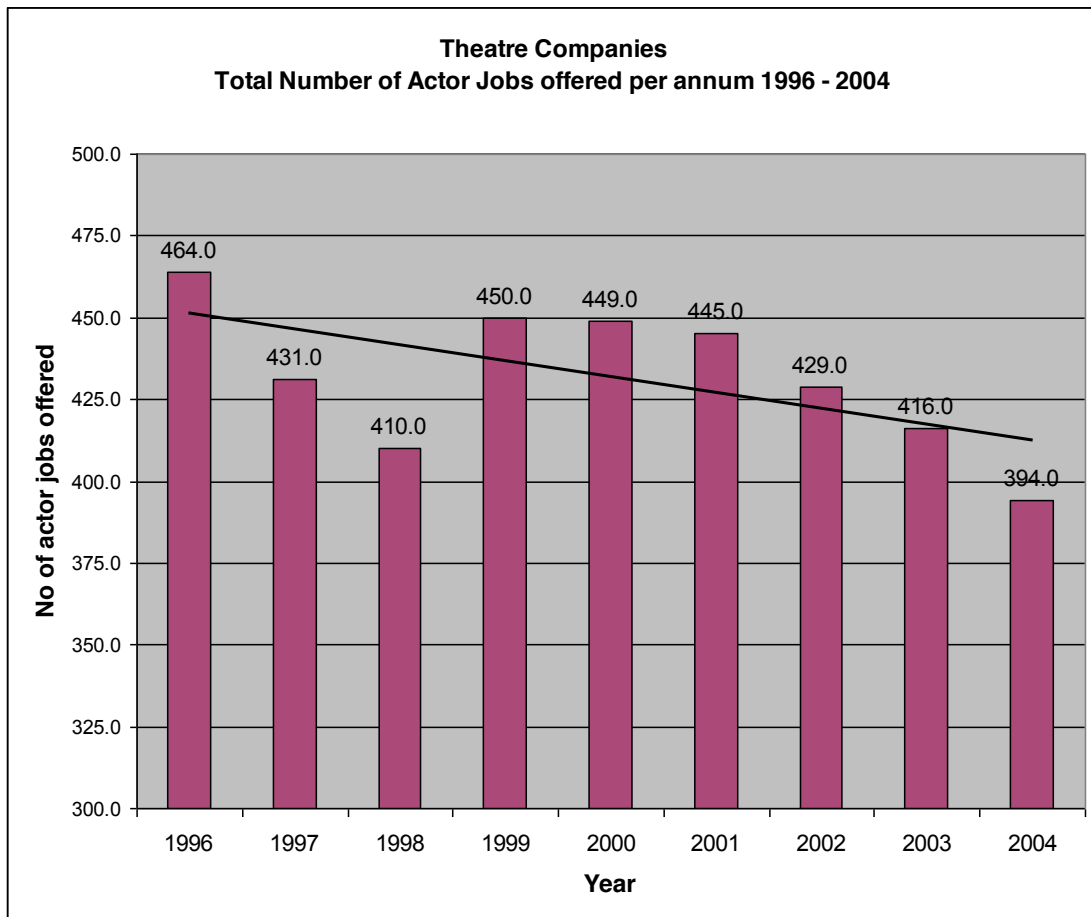


The production of classical or "period" works demands casts of more than 12 actors. Heritage repertoire including the plays by Chekhov, Shakespeare, Moliere, Webster, Brecht and Shaw cannot be produced in any meaningful way with artistic integrity in undersized versions. Yet the average cast size of the Australian drama companies (with the exception of Bell Shakespeare) is now 6 actors per play. This means that in order to perform one classic a year another three plays need to be two or four handers.

The number of classical works produced by Australian theatre companies has halved from 10 plays in 2000 to 5 in 2005. For the first time for many years, the MTC season in 2006 will not include a classic.

New writing is also constrained by limiting on cast size. It is more difficult for a less experienced writer to write a full-length play for two or three actors than for a larger group. Young writers are asked to constrain their vision in order for their works to have their works performed at the very time in their creative lives when they need to be able to explore the full palette of their imagination.

The reduction in the average cast sizes in the companies with greater flexibility of repertoire choice from 8 to 6 (excludes Bell and Circus Oz) has serious consequences for the theatre industry in Australia. The combination of reduced cast sizes with the increase in the number of shared productions has meant that the total number of opportunities for actors across the seven drama companies is 394 in 2005 compared with 464 in 1996.



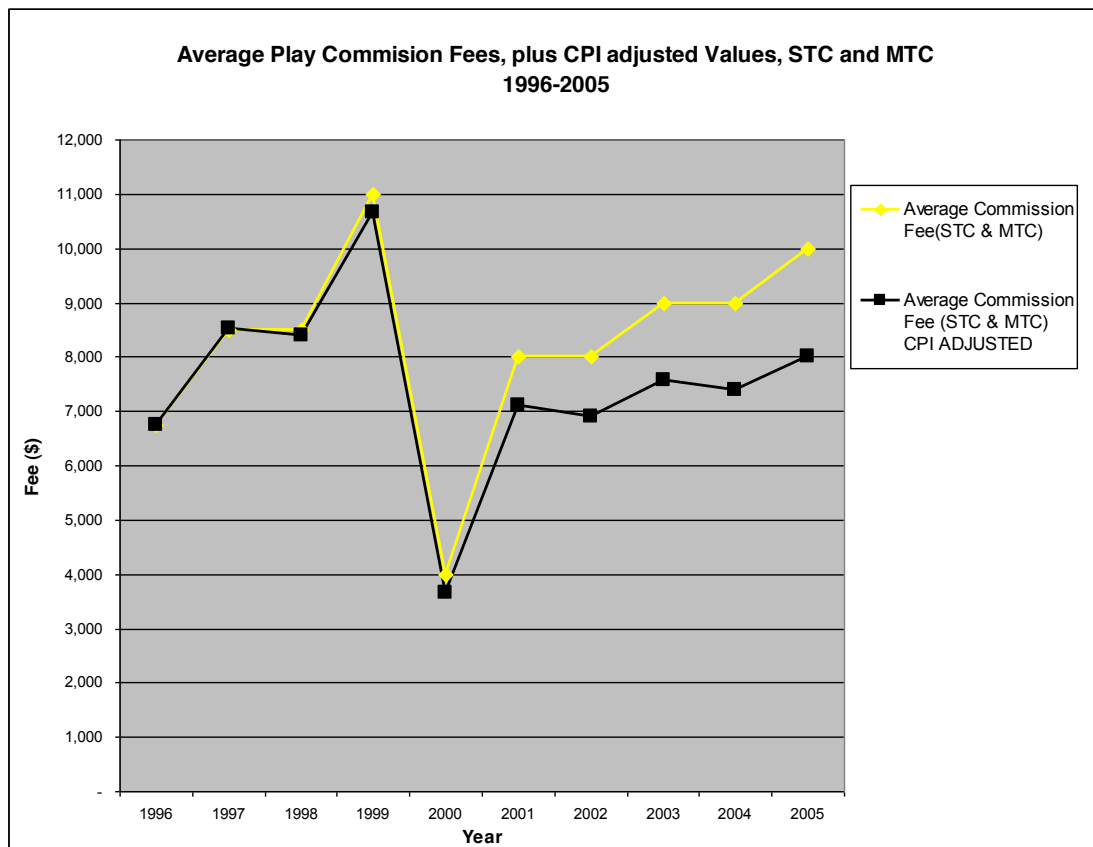
Opportunities for new, young actors are fewer and this reduces the potential field from which the next generation of internationally acclaimed actors can emerge. The strong theatre grounding of Australia's highly successful international actors came from the Australian subsidised, professional theatre.

Actors such as Cate Blanchett, Geoffrey Rush, Judy Davis, Richard Roxburgh, Guy Pearce, Miranda Otto, Hugo Weaving, Russell Crowe, Rachel Griffiths and Toni Colette all performed with these companies that provided them with the experience to develop their art. These performers regularly attribute much of their success to the experience gained working in the Australian theatre.

The reduction in opportunities for actors comes at the very time when our drama schools are graduating over 500 students a year. The graduates from NIDA, the Victorian College of the Arts and the West Australian Academy of Performing Arts are the cream and yet many of these young actors will not appear on the main stage unless we can restore performance opportunities.

Writers

Two of the companies that regularly commission plays are the Sydney Theatre Company and the Melbourne Theatre Company. A reflection of the pressures facing these companies when it comes to investing in the artform is evident by a review of commission fees.



In order to continue to offer 9 commissions a year, the companies have contained commission fees to the point where the average fee has risen in real terms by \$1,300 only since 1996.

The situation with new writing has become more serious with fewer opportunities for playwrights in the small to medium theatre sector. This sector of the industry has traditionally developed more than half of the writers of new Australian work performed by the MPAB companies. (Source "An Analysis of triennially funded theatre organisations of the Theatre Board of the Australia Council"). The demise of a number of these companies and the contraction in the programs of others leaves young playwrights without the sufficient skills and experience to adapt to the demands of writing for larger stages.

In 2005, the drama companies will complement the investment in commissions with a total of \$550k that relates to the development of new writing in workshops, readings and small-scale productions of new work.

Directors, Designers, Composers

The situation in Australia for freelance creative artists has reached a critical level.

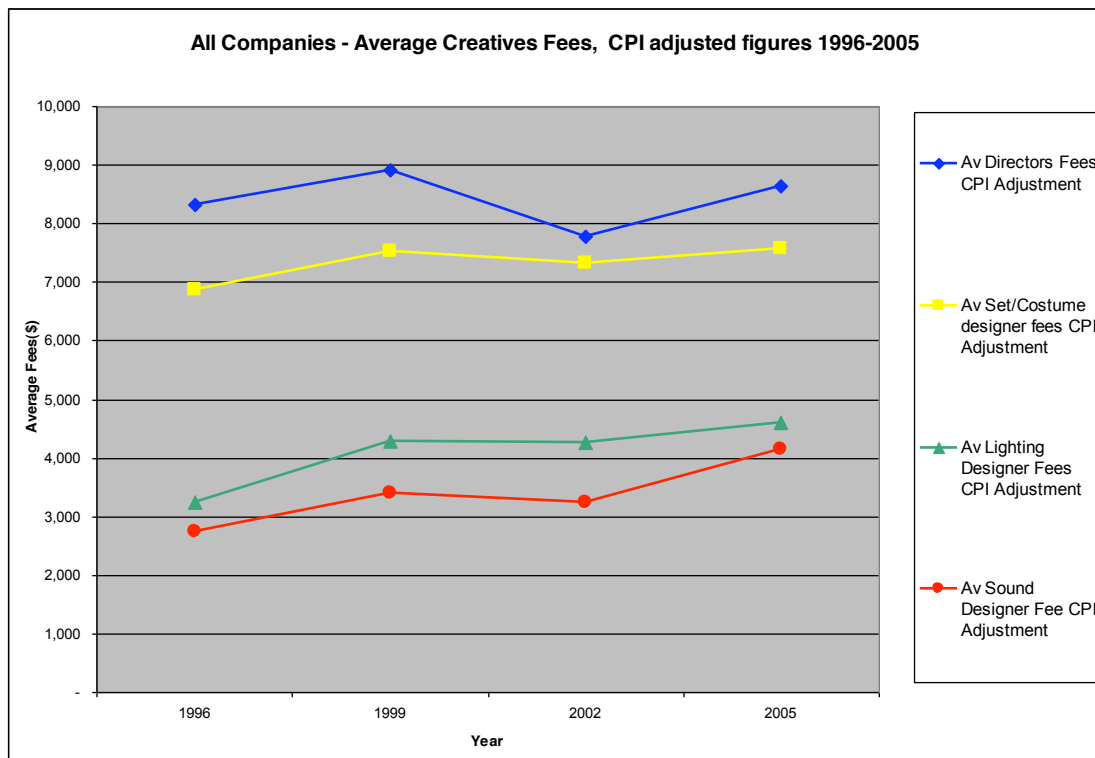
The decline in the number of opportunities for directors and designers has occurred in the non-profit theatre sector, opera, commercial theatre and in the film and television industry.

Ten years ago, it was possible for directors and designers to earn a living working in Australia as freelance artists. Directors such as Rodney Fisher, Richard Wherrett, Neil Armfield and designers including Brian Thomson, Jenny Tate, Stephen Curtis, Nigel Levings and Roger Kirk all were able maintain full-time professional careers in Australia, working in both theatre and opera.

Today, the situation is vastly different. Australian freelance directors, designers and composers need to work abroad for at least half the year in order to earn a living from their art. Directors Gail Edwards, Benedict Andrews, Barrie Kosky and George Ogilvie spend the significant part of their year living and working internationally. Designers Stephen Curtis, Michael Scott-Mitchell, Julie Lynch and Larry Eastwood have taken teaching positions in Australia in order to survive while Tony Award Winner Brian Thomson relies on overseas opera productions or designing Australian car shows to supplement the fees he earns from two theatre productions a year in Australia. Designer Roger Kirk works overseas for much of the year.

One of Australia's most talented and exciting young costume designers, Tess Schofield is about to relinquish her career as a designer because of the scarcity of work in Australia where she needs to remain to support a young child. While she would prefer not to abandon her career as a designer, she has had to retrain and now works as a health professional.

Not only have the number of opportunities diminished in Australia for freelance creative artists, but fees have not increased to any significant level. This is in indication of economic stress and the need to contain costs. Casual or contract employment offers the only area of flexibility in holding down labour costs.



The average fee paid to freelance directors in real terms has not changed by a significant amount since 1996.

The number of productions a director can reasonably commit to in a year in order to give the required time to each production, is four. This means that were a director fortunate enough to have four productions in a year, total income would be less than \$43k (average fee per production in 2005 is \$10.7k).

The only directors able to earn a full-time living in Australia are those engaged on full-time contracts as Artistic Directors of the theatre companies. Most companies can no longer afford to employ young directors in trainee or apprenticeship positions. MTC and STC have each cut one of their two Resident Director positions.

The situation for designers is not significantly better. It is possible however for designers to undertake 6 productions in a year and lighting designers can work on up to 8, if opportunities exist. Lighting designer Mark Truebridge works in Amsterdam for half the year and in Australia on two or three productions each year. Nigel Levings works at Welsh national Opera or English National Opera (with director Neil Armfield) at least once every two years. Nick Schlieper is obliged to split his career between Australia and Germany.

Composers or sound designers are in an equally parlous position. Alan John is possibly the most fully occupied composer working in the theatre. As a composer and a performer, he regularly works at Company B and the Sydney Theatre Company while fulfilling opera and musical commissions. His annual income in his busiest year is \$33k.

Composer and pianist Max Lambert works as a pianist accompanying cabaret artists in Australian holiday resorts between writing two commissioned musicals and designing the music for the opening and closing ceremonies of the Asian Games in Doha where he will live throughout 2006.

Repertoire and Artform Development

Choice of repertoire is influenced by various factors, cast size being one. The increasing absence of the classics from our theatrical heritage because of the cost of the number of actors required deprives new and young audiences of this great and inspirational body of work.

Box office potential plays an increasingly important role as companies place greater reliance on this source of income. Most companies have reported a move to safer, more conservative repertoire (light, unchallenging comedies or the latest Broadway hit) and several now rely on casting television or film identities to attract their audience. This may not altogether be detrimental to a company's artistic vibrancy providing that new Australian writing from younger writers (thoroughly workshopped) and new plays by our established playwrights are included in each season.

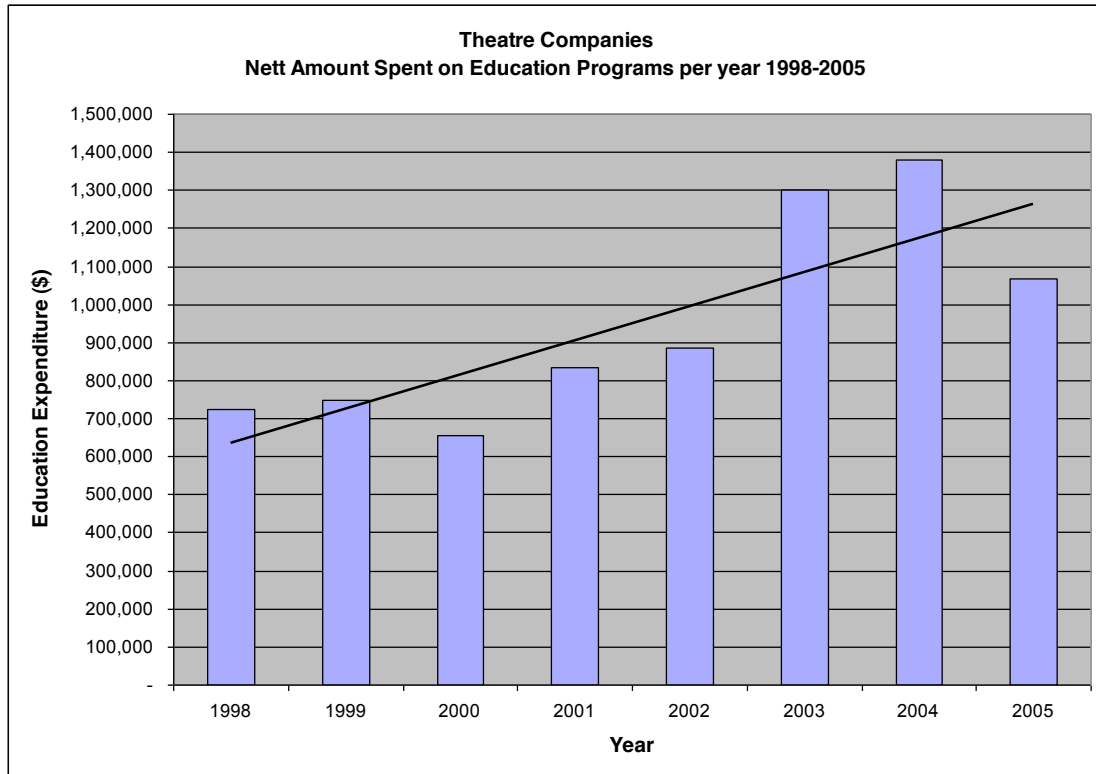
Theatre also needs to be revitalised by bold and innovative productions and this adds additional risk to a company's season. Several companies have reported resistance – particularly from their subscribers – to the work of some of our young, intelligent, talented directors whose productions are dark and difficult but also thoughtful and complex.

Companies must balance the need to develop the artform with productions that break new ground risking a decline in box office in the short term, in order to keep the theatre alive and attract new audiences in the longer term.

The investment in artform development of \$500k in 2005 needs to increase if theatre companies are to mitigate the risks attached to presenting new writing and encourage directors to explore new theatrical forms.

Education

Investment in education by seven of the companies has grown from \$725k in 1998 to \$1.066 in 2005. There is a large and growing demand from schools and educators for education programs.

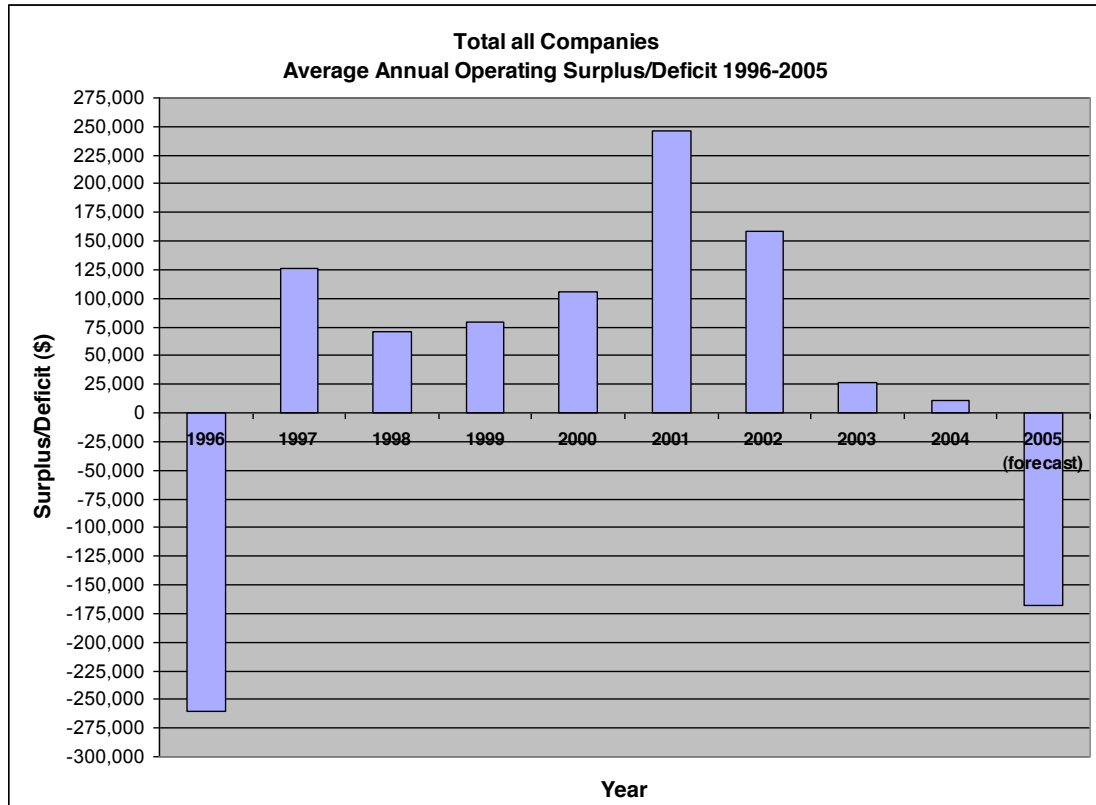


Footnote: *The average investment per child in 1998 was \$9, and in 2005, the figure is \$8.70.*

Each company has the capacity and interest in expanding its program to engage a wider community with theatre. There is a strong demand for educational activity from schools and tertiary institutions. While these programs will never be cost neutral, investment in education becomes even more important as the provision of drama in schools via theatre-in-education companies in most states has diminished or disappeared.

FINANCIAL

Profit and Loss



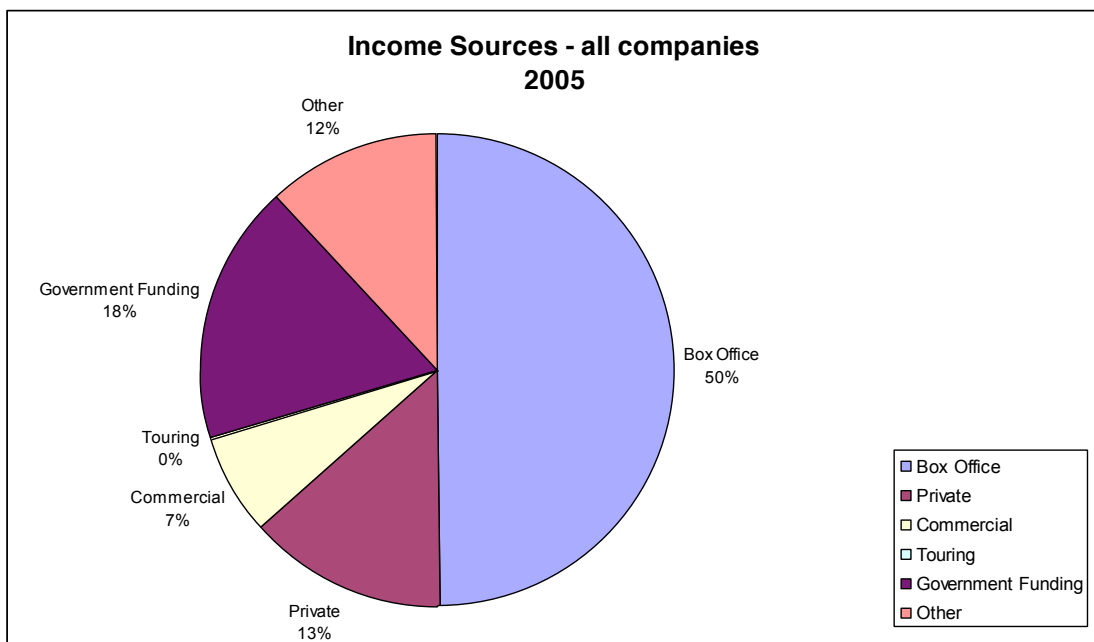
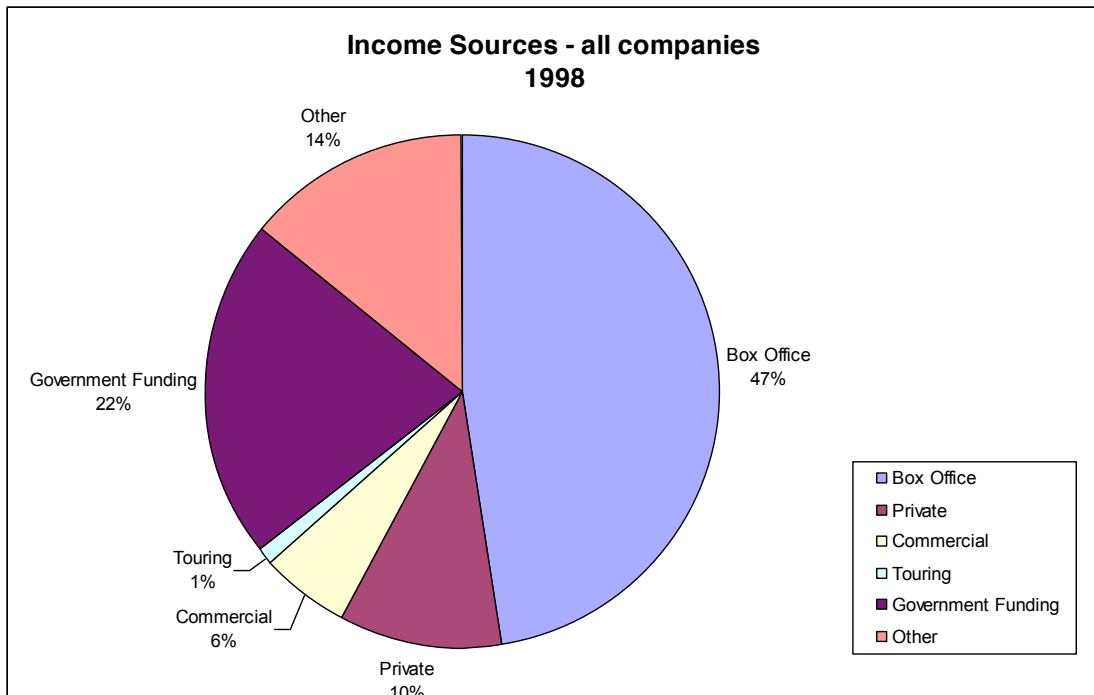
The best year for the theatre companies in terms of financial results during the period under review was 2001. In 2004, seven companies made modest profits but by late 2005, a serious situation is evident in that five companies anticipate deficits at year-end ranging from \$80k to \$507k. Three companies expect to make a surplus.

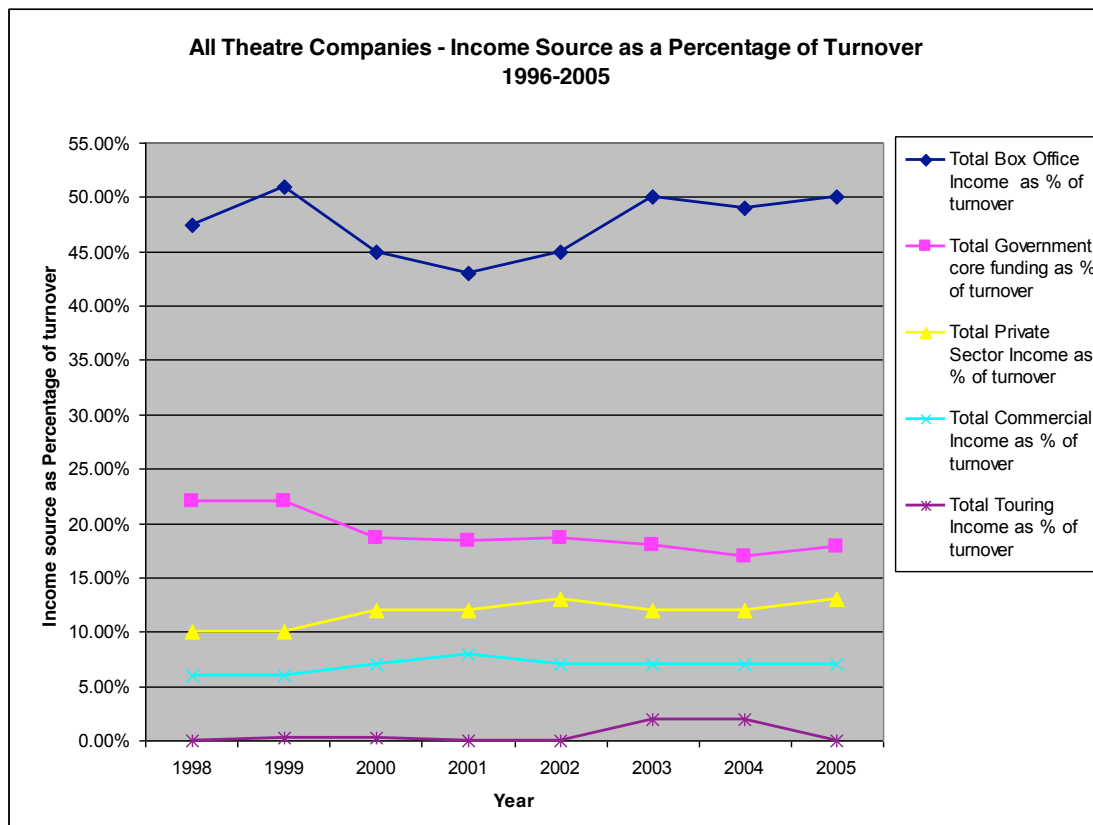
The cumulative operating loss projected by the five companies is \$1.5m.

Income

The eight companies provided data on income from five sources from 1998 to 2005:

- Box Office
- Private
- Commercial
- Touring
- Government (core)





Turnover has increased by 50% in seven years from \$44m to \$66m which is 28% greater than the CPI (22%) over the same period.

The major source of growth has occurred in **Box Office** income with an increase of 60% since 1998 from \$21m to \$33.2m. By far the major part of this growth (85% or \$10.37m) is the result of increased ticket prices. Increased attendances account for the balance (\$1.83m). Box office income as a percentage of turnover is 50% in 2005 as opposed to 47% in 1998. Consequently the risk profile for all companies has increased, and in some cases, significantly so.

Growth in **private sector** income since 1998 has been strong. In 2005, the companies attracted \$8.9m in sponsorship and donations representing an increase of 98% on the level of private sector income in 1998. Companies report a levelling of corporate sponsorship in the last two years although potential for growth in donations. Philanthropic support will take several years to develop to any significant level. (Bequest programs normally take ten years to produce results).

The Australia Council/AMPAG sponsorship survey ("Tracking Changes in Corporate Sponsorship and Private Donations 2005") found the following:

During this period the average corporate sponsorship increased 20.0% from \$731k in 2000 to \$878k in 2004. The average increase in 2003 of \$90k (11.7%) was the largest increase for the five-year period and was significantly higher than CPI (3.3%) for that year. It was this 2003 increase that drove the 20.0% percentage increase from 2000 to 2004 – an increase above CPI (15.2%) for the same period. In 2004, the increase in corporate sponsorship was 2.3% compared to CPI¹ of 3.7%. In 2004, Theatre companies reported a 2.7% increase in earnings – a marginal decline in real terms when considering CPI.

Theatre companies increased their earnings by 12.8% over the entire review period with the majority of this increase being generated in 2001.

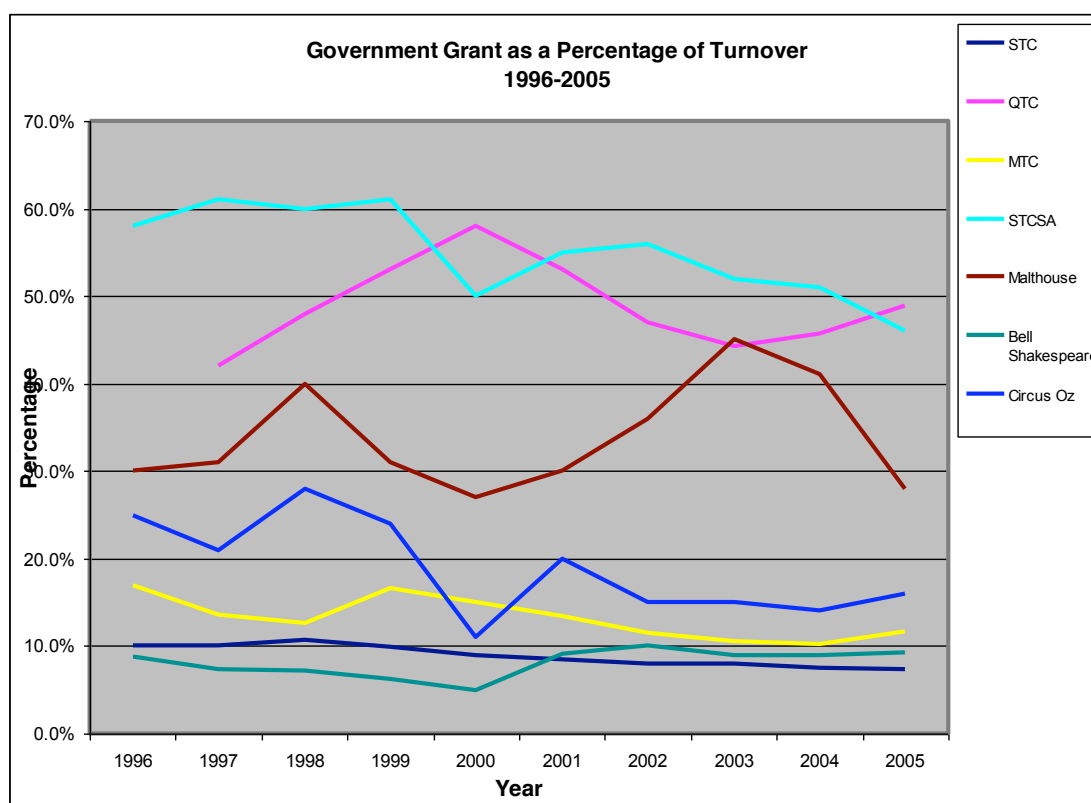
¹ Consumer Price Index – A measure of inflation calculated by the Australian Bureau of Statistics.

Additional resources are required to produce growth in private sector support. The cost of securing increased private sector income however is not included in the above figure. Most of the companies surveyed have engaged additional staff to manage the needs of sponsors and donors and to identify new prospects. In four companies, it has been necessary to pay substantially increased salaries to development and marketing managers to prevent their move to more highly paid positions in the state arts centres and of course, the private sector. (2005 Australia Council/AMPAG Survey shows average cost of 25 per cent of private sector income is spent on servicing with variations by state of between 20 and 37.4 per cent)

Commercial income has increased by 85% since 1998 to \$4.66m. The majority of this growth comes from companies that own or manage their own theatres that provide opportunities for rental, ticketing and catering income.

Net income from **touring** grew steadily until 2004 (from \$0.45m to \$1m) but in 2005, Circus Oz has lost \$200k bringing the overall result this year to a loss of \$80k.

Government funding (core) of \$9.53m represented 22% of turnover in the sector in 1998. In 2005, the percentage of funding to turnover has decreased to 17.8%. Over the period, the growth rate in government funding was on average 3.46% per annum.



Expenditure

In the last five years, costs have increased at a greater rate than has the CPI (by which ticket prices normally increase) and in the key areas such as labour and venue costs, have exceeded the rate at which government subsidy or CPI have increased by 5.61% in the case of labour, and 26% in the case of venue costs.

This has placed severe pressures on the companies who have responded by both reducing expenditure and driving more revenue principally from the box office but also the private sector. The reductions in expenditure that are feasible impact negatively on artistic quality

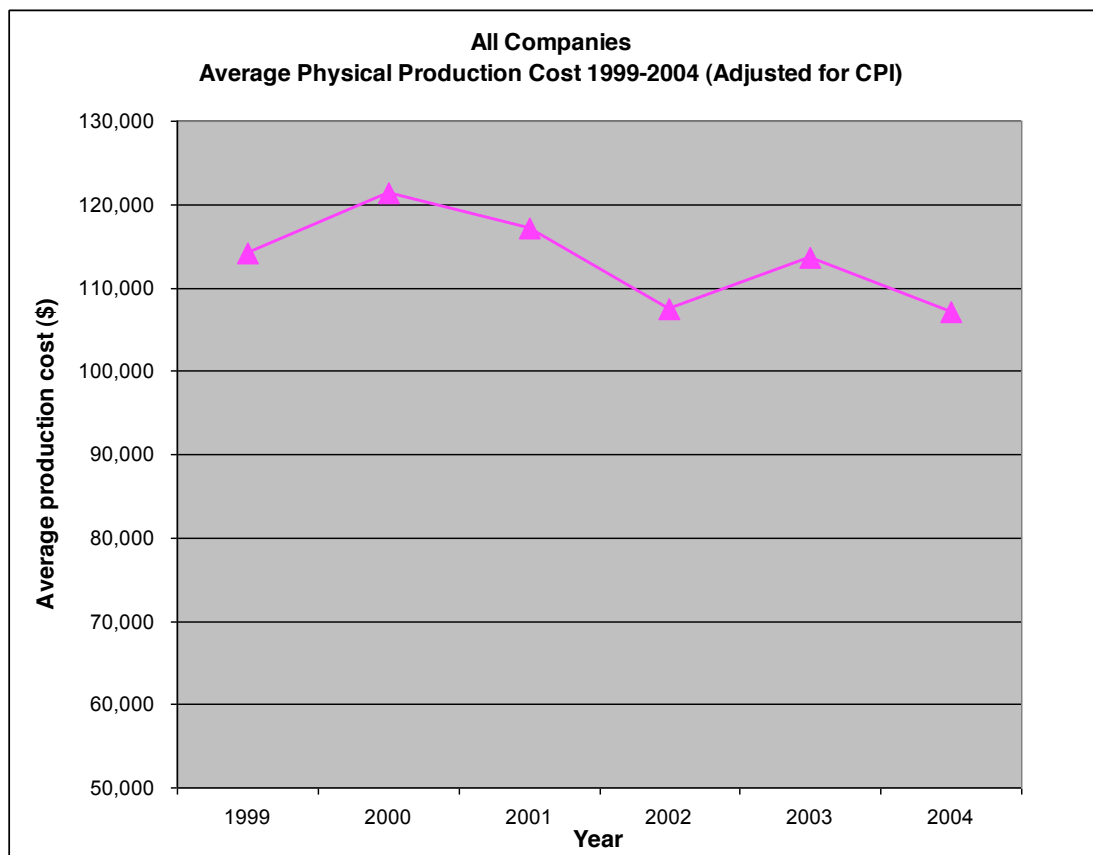
(cast sizes, creative artists' fees, production budgets, writers' commissions). The companies have had no choice but to absorb cost increases derived from salary movements and operating charges in the broader economy.

The drive to generate greater income produces a greater reliance on income from box office (and the private sector) that in turn increases the risk profile of the company. To mitigate risk, companies are forced into programming less challenging repertoire in less innovative productions - a further compromise in artistic vibrancy.

Areas where companies have been able to contain cost increases

Production

In order to contain costs, companies have cut production budgets and as a result have reduced the average cost per production by 9% in real terms in the last five years.



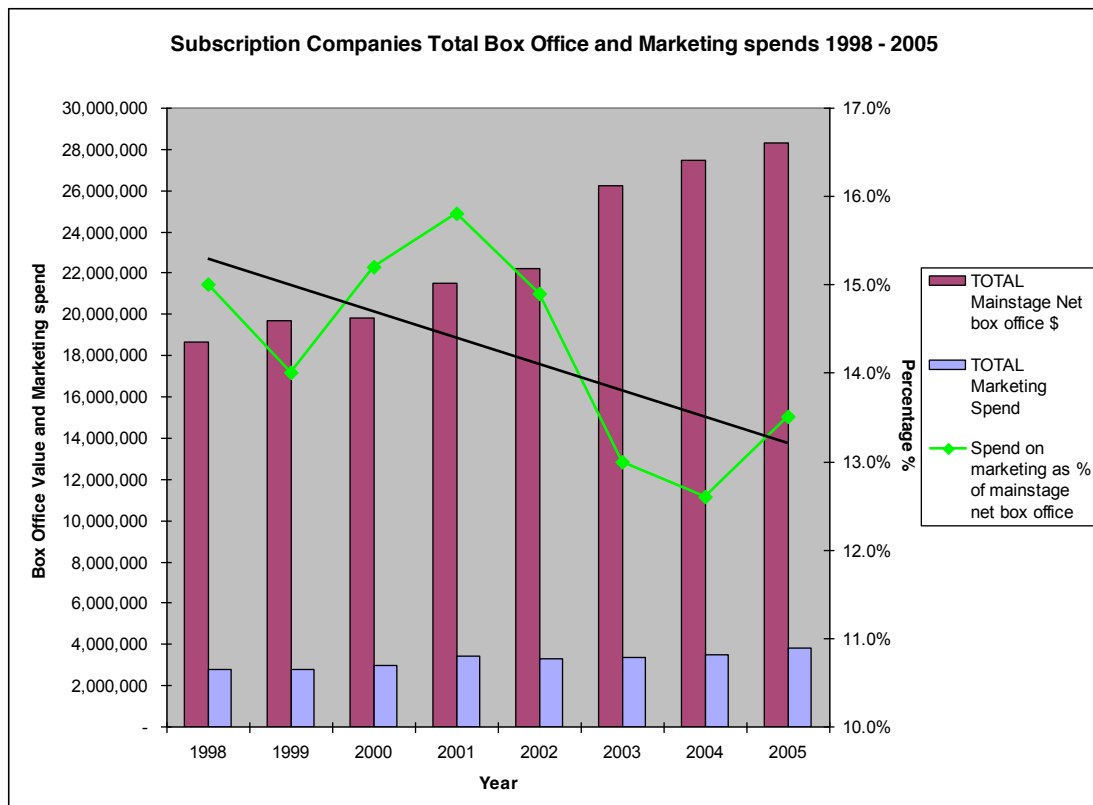
While a reduction in production budgets can be seen as a measure of efficiency, the concern expressed by the companies is that production budgets are now having a negative impact on production values. To date, there is no evidence of a consequent reduction in attendances.

Companies are concerned that this will inevitably occur unless they are able to restore cast numbers and production budgets to more realistic levels.

Marketing

The six companies presenting annual subscription seasons have made a cumulative improvement by containing marketing costs. As a percentage of box office income, marketing expenditure has reduced from 15% to 13.5% between 1998 and 2005.

The two non-subscription companies incur higher marketing costs without the economies of subscription selling. Nonetheless, as a percentage of box office income, the marketing spend in these two companies has reduced from 24.3% to 20% in the same period.

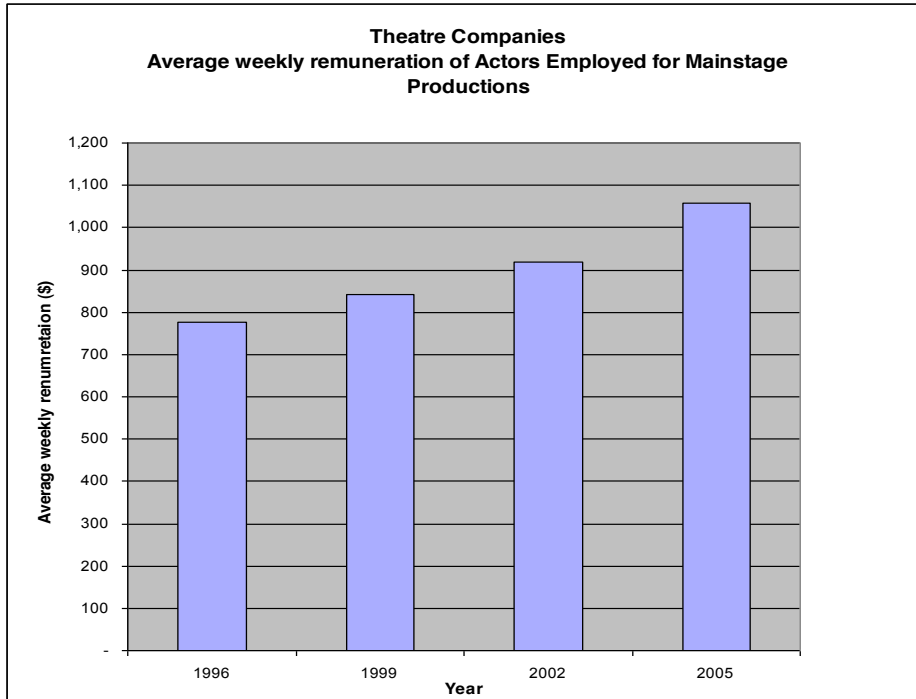


Areas where cost increases have been unavoidable

Labour costs

In general, wages of (non-performance) staff employed under a certified agreement have risen at a greater rate than CPI. Over the five years from 2000, increase in wages exceeded the CPI by 5.61%. On a rough estimate, this amounts to almost \$1 million a year across the sector.

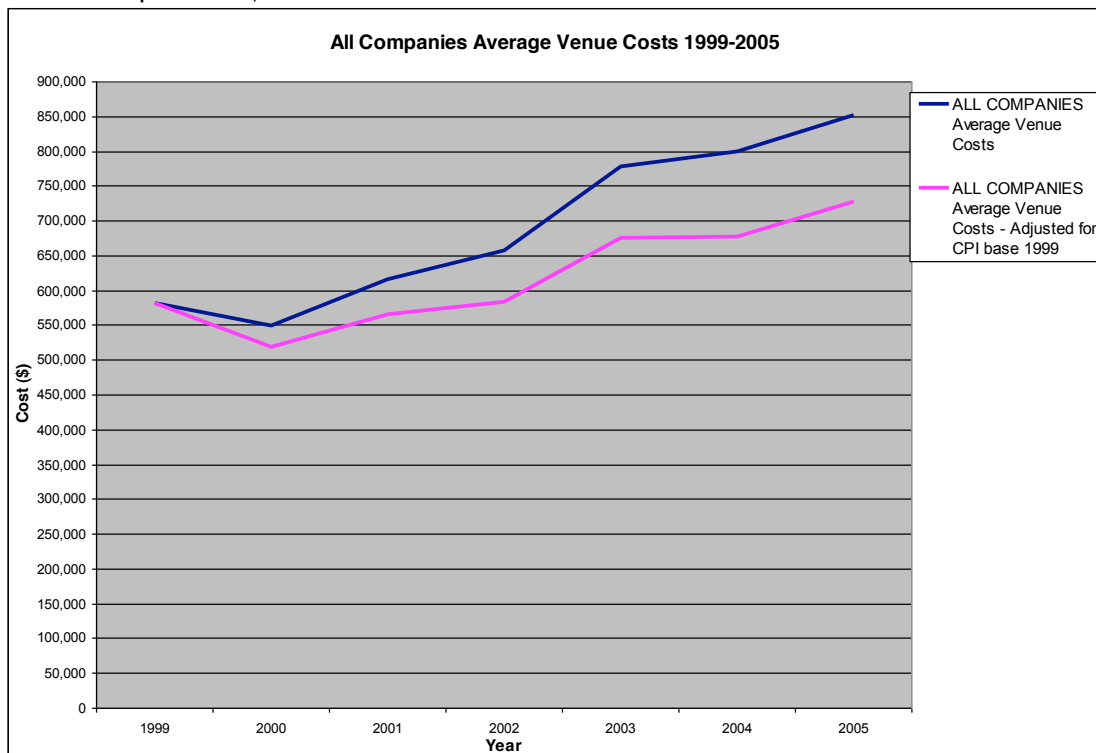
Actors' wages have risen on average by 3.6% per annum over the period 1996 to 2005. While some companies negotiate market rates, these have tended to move along the line of general increases of certified agreements, a factor that then contributes to the number of parts offered.



There has been a pressure on companies to increase salaries to finance, development and marketing managers beyond the CPI. Companies now require more highly skilled professionals in these areas. These positions translate to other industries however where they are more highly valued in terms of remuneration. In order to retain these key staff, companies are paying on average 25% more than these positions attracted in 2000, estimated at an additional \$200k per annum across the sector.

Venue costs

Venue costs form a substantial expenditure line in company budgets. Between 1999 and 2005, average theatre costs, including rental and venue labour have risen 26% above the CPI. This represents \$1.4m in 2005 across the sector.



Summary

- The theatre in Australia is facing a crisis of a kind that will gradually eat away at its vibrancy and diversity. Unaddressed, it will become increasingly irrelevant to its Australian audience and more like the commercial theatre in the United States and the UK. In comparison to other developed western nations, its quality will be inferior.
- This is not a crisis limited to the MPAB theatre companies. Opportunity in the small to medium theatre sector (Roberts Report "Analysis of the Triennially Funded Theatre Organisations") and in the Australian film and television industry is shrinking; production is at its lowest level for twenty years.
- Given funding constraints and accountability requirements, the theatre sector has traded artistic vitality for financial stability; cast numbers, creative artists' opportunities and production budgets have contracted while the balance between innovative and commercial work on our stages has significantly altered more towards the conservative and predictable.
- The demise of artistic vitality will become evident to audiences as they see less ambitious productions, fewer classics, less risky and therefore less innovative productions, fewer young and developing artists while at the same time, companies become less able to attract the very best artists. Unfavourable critical response will also contribute to a decline in audience numbers (which is likely to occur within the next three years) and the downward economic spiral is underway.
- The pride Australians feel for our outstanding internationally successful actors is a key part of our identity. Actors such as Cate Blanchett, Hugo Weaving, Rachel Griffiths and Geoffrey Rush return to work in the subsidised theatre for non-commercial rates as a reflection of their commitment to the theatre that gave them their opportunity to develop as artists. If the aspirations of the next generation of artists are unfulfilled because of lack of opportunity, they will simply leave never to return.
- Additional funding is urgently required to restore artistic vision, to enable Australia's creative artists to develop and through their art to live and work in Australia and challenge, entertain and inspire audiences.

Mary Vallentine AO
December 19, 2005