A National Framework for Governments' Support of the

Major Performing Arts Sector

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Preamble

The existing framework for the funding of major performing arts (MPA) companies has served us well. As shown in the Australia Council's *Securing the Future 2002 –2009* report, implementation of the government-agreed recommendations of the Major Performing Arts Inquiry continued to result in a robust MPA sector. Over the last decade, the MPA companies have built financial reserves, increased audience numbers, commissioned and performed new works, toured nationally and internationally, provided far-reaching education programs and taken a leadership role in artist training and collaboration with the small to medium performing arts sector.

In 2010, the MPA sector provided annual employment to more than 2800 people, representing 60% of total employment in the Australian performing arts industry and generated earned income of $251million, a 58% increase since 2002. Access to MPA company programs remained at a high level in 2010, with 2.3 million attendances at capital city performances. The companies presented 217 seasons in 80 regional centres, and more than 5600 education performances were attended by 577,600 young Australians.

A decade of development in the MPA sector, under the current framework, is to be celebrated but as Australian society changes, as audiences change, as technology changes, so support structures need to change. Frameworks need to support, not constrain, the development and evolution of the MPAs.

It is now time to update the framework for MPA companies to ensure it continues encouraging and rewarding artistic achievement and best practice governance and management. The framework set out in this document reflects an alignment of aspiration—to support outstanding Australian performing arts organisations, and promote an ongoing focus on the attainment of world-class artistic standards. To enable the MPA companies' focus on excellence and the associated rewards to continue, the current core funding levels for each MPA will be maintained. A fundamental tenet of the new framework will be the collaboration between the MPAs, the State and Territory governments, and the Commonwealth Government in joint and equal partnership.

It is time to set the bar higher in the continuing pursuit of improvement. This framework allows company boards and management to think and act creatively in determining the best models for their organisations in terms of artistic achievement, financial sustainability and broad access, whilst providing security of funding and prestige. Being an MPA company brings with it advantages, relating both to financial security and prestige. Whilst MPAs have earned this status, governments believe that in return, it is reasonable the companies meet particular requirements to retain this status.

MPA companies' priorities will be aligned with the national priorities, which include:

- increased access (including to those in regional areas);
- increased audience numbers;
- artistic excellence;
- delivering innovative and new programming including Australian work;
- collaborating with the small to medium sector;
- delivering educational programs;
- nurturing young talent;
- securing revenue from a range of sources; and
- excellence in governance.

Those that attain these highest of standards will have increased autonomy—after all it is through their artistic and governance excellence they have reached this level. They have demonstrated they are worthy of greater autonomy.

Those that are currently under financial stress will be required to adjust their business model, secure funding from alternate sources, or look to efficiencies, including in the area of industrial reform. There will always be limits on the funding available and at times tough decisions will need to be made.

Into the future, the priority will be to reward those truly outstanding organisations—those that consistently exceed expectations and attain a level of excellence across all dimensions. Where new funding becomes available for MPA companies, the majority will be devoted to reward the very highest performers and provide the opportunity for further growth. There will be flexibility in how they apply any additional funding that comes their way, so they can continually grow and expand their reach, quality and level of activities.

Key elements of the national framework

- Base funding to MPA companies will be maintained (plus indexation) at current levels and at current ratios as between Commonwealth, State and Territory governments.
- The framework reinforces and strengthens the role of MPA companies as leaders in their artform, requiring relationships with the broader sector and a commitment to audience access and engagement.
- The new funding agreement between each MPA company, Commonwealth and the relevant State or Territory governments will include agreed service levels, providing clear articulation of governments' expectations of the MPA company in return for the funding it receives. These will include robust monitoring processes that will measure achievement and ensure accountability and comparability.
- The framework provides greater flexibility recognising that outputs of MPA companies will change over time and will be influenced by government objectives, community expectations and demand, artistic leadership and the wider economic climate.
- In a very small number of instances some minor rectifications may be made to an MPA company's funding to adjust it to the appropriate level, but otherwise there will be no increase to any MPA company. Those with forecast deficits will need to secure revenue from other sources, or identify efficiencies, including through industrial reform.
- The framework requires MPA companies to make ongoing improvements to their business which strengthen sustainability and offset rising expenditure, including through efficiency and productivity gains.
- The framework provides incentives that will encourage and reward financial and artistic success, and leverage business improvement.
- The framework articulates exit and entry requirements to the MPA group.
- The framework continues the guiding principles established through the *1999 Major Performing Arts Inquiry*.

Principles for a national approach

All governments recognise the significant contribution MPA companies make to the Australian arts sector. These companies are presenters and producers of large scale work, are considerable employers and contributors to their local economies and have an important role to play in the development of audiences and artists.

The *1999 Major Performing Arts Inquiry* and the subsequent reforms made by the *2005 Orchestras Review* have delivered long term benefits including:

- a stronger financial base for Australia's MPA companies;
- significant growth in artistic quality and access for Australian audiences; and
- more company certainty and enhanced Commonwealth and state government co-operation.

A revitalised framework is required to capture the true financial and artistic status of each MPA company and to clearly articulate governments' expectations for the significant support provided. This framework continues the guiding principles established through these reviews including:

- Australia having a vibrant MPA sector that enriches Australian life and builds its image as an innovative and sophisticated nation;
- Australia cost-effectively delivering broad access to the MPA;
- Australia having a financially viable MPA sector that supports artistic vibrancy; and
- Government support for the MPA being transparent and based on an understanding of the responsibilities of all parties.

Governments agree that a national approach is an important way of securing high level outcomes from the MPA sector. Governments also agree that they have a role to play in outlining the strategic role of the sector and the companies within it.

Through this national framework it is agreed that:

- the funding partnership between Commonwealth, State and Territory governments is based on a joint approach to the design and administration of funding, and collaborative development of new investment initiatives;
- all MPA companies will be jointly funded, in the proportions agreed between governments on a company by company basis;
- governments will not make unilateral decisions affecting the national framework. As a result, any funding increases which require funding from relevant governments will be agreed to and shared by these governments;
- governments will not engage in cost shifting; and
- flexibility is required with regard to MPA company outputs, recognising that these will change over time and will be influenced by government objectives, community expectations and demand, artistic leadership and the wider economic climate.

This framework does not preclude individual governments providing additional support to MPAs in their respective states as they see fit.

Provision of funding

It is acknowledged by governments that base funding amounts through the new national framework for MPA companies will be based on historical levels, except in a very small number of cases where it is agreed minor adjustments are required. From 1 January 2012, the total base funding amount received by companies will be in line with 2011 levels plus indexation. Governments agree that indexation will be applied to their future funding contributions subject to individual budget processes.

Definition of an MPA company

The MPA sector consists of 28 independent companies with highly individual artistic programs, audiences and service charters. Each MPA company is prominent and significant and has a proven track record of:

- presenting work of a high artistic quality;
- fostering 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;
- demonstrating 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 and artists with disabilities;
- demonstrating a leadership role in the development of audiences including young and disadvantaged audiences, multicultural audiences and more equal access for people with a disability;
- demonstrated commitment to engaging with audiences in regional communities;
- being 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;
- strong financial management which includes a mix of strong reserves, working capital and operating margin. (Fiscal performance benchmarks to be negotiated with companies and agreed to by governments (see below) and must be met within 5 years of 2012);
- making 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; and
- achieving earned (non-grant) income of a $1.6 million adjusted annually for CPI.

MPA companies are not subject to a competitive process through peer review for their base funding. They must, however, remain highly accountable for the significant public funding they receive and must continue to meet the definition of an MPA company as articulated above, and must meet KPIs in their service level agreement.

Funding and Service Level Agreements

Governments recognise that their funding will largely support core activities of each company. Core activities extend beyond mainstage productions to include, for example, the delivery of a reasonable level of education and outreach activities, having regard to organisational capacity.

Each MPA company will be provided with funding for a rolling three year period from 2012. Funding will be contracted in a 3 year, plain English tripartite or quadripartite funding agreement between the relevant funding governments and the MPA company.

To assist in measuring company achievement, the MPA Board of the Australia Council and state governments will develop a series of company specific performance benchmarks (financial, access and artistic). These requirements will be incorporated in service level agreements and negotiated with individual companies and agreed to by governments. Service level agreements will be individually tailored to each company.

The agreement will reflect activities undertaken by the company and will include agreed negotiated service levels and business plans to be reviewed annually, recognising the companies' needs for flexibility of outputs and that they will change over time to reflect community expectations and demand, artistic leadership and the wider economic climate.

More specifically, the funding agreement with each MPA company will:

- articulate the deliverables and outcomes (financial, access and artistic) required for the funding, as set out in the body of the funding agreement and the agreed service levels (deliverables and outcomes will be agreed with the relevant states);
- reflect governments' expectations and set out the priority outcome areas for the base funding;
- set out the process for agreeing to strategic plans, business plans and budgets; and
- require accountability, including quarterly financial reporting, an annual report, acquittal and other specified statistical information.

Where the Commonwealth provides the majority funding there is an expectation that the MPA company will:

- have a national or artform leadership role;
- have a commitment to developing its artform encompassing the development of artists, the provision of education and/or access programs; and
- adapt its business model to address changes in the marketplace.

In return for their funding or reflecting their increased capacity, companies must also agree to implement governments' strategic priorities. It is anticipated that the strategic priorities of governments will evolve over time. Initially, they may include by way of example:

- delivering increased innovative and new programming including new Australian work;
- collaborating with the small to medium sector particularly with regard to increasing the quality and diversity of work in Australia and increasing the breadth and depth of Australian artists;
- delivering educational programs including through links with schools;
- extending programs into regional areas;
- diversifying the revenue base;
- increasing attendance levels;
- identifying and nurturing new talent; and
- using a diversity of delivery platforms.

Given the national importance of the MPA companies, governments will jointly agree on the strategic priorities across the sector. It is anticipated that these will be re-evaluated prior to each funding cycle.

Each MPA company will be required to submit an annual business plan that focuses on operating matters, as endorsed by the company Board. The plan must be submitted by 31 October each year for consideration by the MPA Board and relevant state funding agency. Approval of the plan will trigger the first grant payment the following year. Plans will not be accepted if they demonstrate poor risk management, a poor understanding of a company's audience and community, budget for deficits or that cannot reasonably be met while maintaining the benchmark for reserves, working capital and operating margin over the term of the business plan.

Each MPA company will also be required to submit a strategic plan that spans a five year horizon, every three years.

MPA company strategic plans will focus on the longer term strategic direction and goals of the company rather than annual operational matters. The Chair, Artistic Director and Chief Executive Officer of each company will be required to make a 30 minute presentation/discussion of the strategic plan to a panel comprising representatives of the MPA Board and relevant state funding agency once every three years.

The first five-year plan will be submitted in July 2012 for the period 2013 – 2017. The plans will be considered by the MPA Board, relevant state funding agency and inform the whole of sector scan (see below).

Access to competitive funding as an MPA company, above base level funding, will be subject to a company having met its agreed service levels.

Reformed monitoring processes

The funding provided to the MPA companies represents a significant investment for governments. As with all public money, this investment needs to be supported through strong monitoring processes. Reporting will be streamlined. Companies will not be subject to increased reporting under the new framework.

In line with the new national framework's focus on flexibility for governments and companies, triennial funding model reviews will no longer be conducted. However, to ensure that government objectives are being met, regular performance assessment of the MPA companies will be undertaken at a macro and micro level.

Whole of Sector Scan

To ensure that a whole of sector perspective informs the composition of companies that are funded through the MPA framework, a new cyclical environmental scanning process will be initiated.

Each Australia Council artform board has developed and currently implements a sector plan. Each artform board currently updates this plan on an annual basis. Artform sector plans, the rolling review of key organisations, as well as occasional and targeted issues-based analysis and reviews, will feed into the *whole of sector scan* that will be undertaken at least every six years.

The performing arts *whole of sector scan* will be led by the Australia Council in consultation with the state funding agencies and the arts sector. External consultants may be engaged to assist with this process.

The first whole of sector scan will be undertaken in 2012.

Categories

The *1999 Major Performing Arts Inquiry* established five categories: International; Australian Flagship – Touring; Australian Flagship – Resident; Specialist; and State Flagship. The categories largely determine the ratio of Commonwealth to state government funding and indicate, at a high level, the multi-laterally agreed expectations of a company including touring, education, artform development and leadership. The expectations of each company are further specified, at a relatively high level, in funding agreements and detailed in business plans.

Since the current categories were created, MPA companies have changed, resulting in weakened alignment between the categorisation and the activities of some companies. For example, some international companies have increased their national focus, and some Australian flagship companies have been pursuing international touring opportunities. Also, to some extent, the categorisation process (and expectations arising from categorisation) has limited the ability of companies to respond appropriately to changing circumstances. For example, international touring is still required in times of economic downturn, and many companies now produce substantial education programs despite not being required by all except one of the categories.

As outlined in this framework, government funding partners will negotiate with companies to determine the priority outcome areas for the base funding provided to companies. These will be clearly articulated in funding agreements. Accordingly, formal categories within the framework are no longer required.

This will allow greater flexibility to ensure companies remain vibrant, robust and are able to respond to community need and demand, artistic leadership and the wider economic climate. It will also allow governments to negotiate base funding outcomes annually according to current and changing strategic priorities without being restricted by set categories.

Introduction of an Excellence Funding Element

Governments agree that MPA companies should be recognised as leaders within the performing arts sector, and present work of a consistently high artistic standard and that the funding framework has a role in supporting this aim. These companies are also expected to meet the highest standards in terms of innovation, efficiency, financial management and governance.

To reward excellence and to encourage the continual strive for excellence, it is governments' aspiration to establish a funding element that will provide additional support to those MPA companies that exceed governments' expectations within existing core funding arrangements and demonstrate the hallmarks of a world class enterprise.

Establishment of the competitive funding element is subject to governments' capacity to jointly contribute new funding to the sector. However, a staged approach could be taken to establish and grow the competitive pool.

Access to the competitive funding element will be dependent upon companies having met agreed performance benchmarks, and funding will be available on a competitive basis determined by company performance, a record of continuous improvement, and the alignment of the project or activity with agreed priorities. It would not be based on a subjective assessment of each application against set criteria, but rather the provision of evidence in specific areas which might include:

- artistic excellence and leadership—possibly through the attraction of international collaborators and the highest level of recognition;
- best practice in governance;
- a track record in attracting revenue from a diverse range of sources;
- audience or subscription levels;
- support of national priorities including regional access, education and outreach, and the nurturing of young talent.

There will be flexibility in how the additional funds can be applied to achieve strategic outcomes, which might include:

- commissioning of new work (where this is outside of base funding requirements);
- touring of mainstage works, or remote touring;
- international touring;
- innovative program delivery (including through the use of digital technology and infrastructure);
- co-productions;
- matching of philanthropic revenue for education/outreach activities (such as training/mentoring);
- market development initiatives; and
- development of new business models.

Funding from the excellence pool cannot be used as a replacement for other Commonwealth/State funding, or for activities that have traditionally been supported outside of the MPA framework (such as touring infrastructure or intra-state touring).

Funding from the excellence pool will allow these organisations to grow and expand their reach, level of and quality of activity.

Entry and Exit Arrangements

It is not expected that the number of MPA companies will vary significantly. However, there may be new entrants and exits are conceivable, as set out below.

New MPA Entrants

Proposals for new entrants will be negotiated bilaterally in the first instance, having regard to the performance and mix of companies already supported within that jurisdiction and the availability of funds. However, given the national significance of MPA companies, all ministers will collectively approve the addition of any new MPA company.

For a company to be recommended to ministers as a MPA company, officials representing all relevant funding partners must agree that the company:

- has demonstrated its capacity to meet the agreed criteria that defines a MPA company;
- has been recognised and received funding from both levels of government for six continuous years;
- has complied with and met the terms and conditions of all previous and current funding agreements; and
- has a track record in attracting revenue from other sources.

Once ministers agree that a company should be granted MPA status, the current funding from the respective funding bodies will be transferred with it. There will be no increase in MPA funding provided to the company unless negotiated and agreed to by the relevant government funding partners.

MPA Exit Criteria

A company that has been identified by government funding partners as failing to demonstrate its capacity to meet one or more of the MPA company criteria, and has not complied with and met the terms and conditions of its funding agreement, will be placed on increased reporting requirements for a period of 12 months. The company will also be required to provide an agreed action plan that will outline the process and timeline to implement necessary reforms.

Should the company not meet its commitment to reform within this period, the company will be put on fair notice for 12 months.

If within this 12 months the company is unable to fulfil its role as a MPA company, the company will be excluded from the framework, but may be funded subject to meeting requirements of other funding processes. Normal corporate governance regulation would apply should liquidation occur.

As with entry criteria, all ministers would be consulted prior to a company being required to leave the MPA sector.