CANADA'S LARGE PERFORMING ARTS ORGANIZATIONS:

IMPROVING CONDITIONS
FOR THEIR VITALITY AND SUSTAINABILITY

Report of the Working Group on Large Performing Arts Organizations
Prepared for the Canada Council for the Arts

June 2001

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BACKGROUND

Origin of the Project

Canada's largest performing arts organizations - theatre and ballet companies, symphony orchestras and opera companies - have been part of the artistic life of Canada for 20 to over 50 years. They are major employers of Canadian artists and other artistic personnel and major producers and presenters, accounting for a significant percentage of all audiences for the performing arts in this country. Important civic institutions, many bearing the title of their city, province or country, they are household names across Canada, and some have achieved international renown.

Yet, as the analysis and data in this report will demonstrate, all is not well with Canada's large performing arts organizations. They were significantly affected by reductions in government funding during the 1990s. Provincial cutbacks were especially severe in Ontario and Alberta, where 15 of the 29 large performing arts companies funded by the Canada Council for the Arts ("the Big 29") are located. While private sector support for the large organizations grew substantially during the 1970s and 1980s (in the order of 600% to 3000% for individual companies), it plateaued and was insufficient to counterbalance the steep drop in public sector funding in the latter half of the 1990s. Furthermore, though substantial new financial resources have become available to the Canada Council in the last few years, the large companies, with the exception of orchestras, have not benefited.

Audiences for many of the large organizations have declined over the last decade, and engaging new audiences in a period marked by dramatic demographic changes in the Canadian population and strong competition for disposable income and leisure time is proving difficult. While the large companies have maintained their ticket revenues through price increases, the growing competition for leisure dollars and the audience's desire for smaller, more flexible series and single tickets have raised the costs of generating this income.

Many large performing arts companies have high fixed costs and limited ability to reduce expenses. Among the areas where they have some flexibility and have pared expenses are artistic/production costs and performances for young audiences, but these cuts meant scaling down programming and may have had the effect of reinforcing the decline in attendance.

Today many of the large companies are in critical financial shape, their fragility accentuated by a lack of working capital reserves and the existence of deficits (annual and/or accumulated). In 1998-99, the accumulated deficits of the Big 29 companies totalled $20 million.

Canada's large performing arts companies have been blessed over the years with excellent artistic and administrative leaders, but the strenuous demands on these organizations have taken their toll. Over the last decade and a half, Canada has lost a number of senior performing arts administrators to major arts organizations in Europe and the United States. The pool of people with the skills required to manage and direct complex organizations like these is not a large one, and some Canadian companies have had trouble attracting people to lead their organizations.

In March 2000, mindful of the critical importance of large performing arts organizations to Canada's artists and audiences and the serious threats to their financial sustainability, artistic vitality and service to their communities, the Board of the Canada Council for the Arts authorized an examination of these organizations and the effectiveness of Canada Council support for them. The Board's purpose was to solicit information, both quantitative and qualitative, on the present situation of the large organizations and the causes of the problems facing them, as well as recommendations to improve and strengthen Council grants and services for these organizations. The Council's Vice-Chairman, Professor François Colbert (Titulaire, Chaire des gestion des arts, École des hautes études commerciales de Montréal) was asked to represent the Board as adviser on the project.

The Research Study

In April 2000, a steering committee composed of Mr. Colbert, Brenda Gainer (Professor of Marketing, Schulich School of Business, York University), Jean-Louis Roux (the Chairman of the Canada Council), and members of the Council's senior management met to define a research plan for the study. The committee recommended that a trends analysis covering the last 30 years of financial and activity data be undertaken, using data from Canada Council files and Statistics Canada. The committee also recommended that a small working group of experts from the field be asked to advise the Council, examine the research data and non-empirical elements of the situation facing large performing arts organizations, and develop recommendations for the Council about how its funding programs and non-financial services can better serve these organizations.

For the purposes of the longitudinal research study, "large performing arts organizations" were defined as Council-funded companies in dance, theatre, music and opera with annual revenues in excess of $3 million in 1998-99 (the last year of the 30 years for which detailed comparable data were available).[1]

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[1] This working definition of a large performing arts organization is admittedly arbitrary. It leaves out some mature organizations which are deservedly considered "major" in their disciplines.

Over the summer and fall of 2000, Council research staff undertook two parallel investigations:

- a longitudinal analysis of trends in key financial and activity data for the "Big 29" and the "Big 17" large performing arts organizations[2] for the 30-year period (1968-1998) derived from the Council's own files stored at the National Archives of Canada and special data tabulations provided by Statistics Canada from its Survey of Performing Arts Companies (1986-87 to 1998-99); and

- a review and analysis of Statistics Canada data and other information bearing on the social, cultural, demographic and economic conditions that affect large performing arts organizations.

These materials were gathered in a Research Study, presented to the Working Group, which provides a portrait of representative large performing arts organizations over the 30-year period. This study is available as a companion document to this report. [3] Key data from the study are used in this report to illuminate the current challenges facing the large organizations.

The Working Group on Large Performing Arts Organizations

The mandate of the Working Group on Large Performing Arts Organizations was to provide advice and recommendations to the Canada Council on the conditions and needs of large performing arts organizations and how the Council's funding programs and non-financial services can better serve these organizations.

The Working Group was composed of:

François Colbert (Chair), adviser and representative of the Board of the Canada Council for the Arts,
Colleen Blake, Managing Director of the Shaw Festival,
John Hobday, Executive Director of The Samuel and Saidye Bronfman Family Foundation,
Bruno Jean, Senior Policy Analyst, Arts Financing and Legislation, Arts Policy Branch, Department of Canadian Heritage,
Julie-Anne Leclerc, Director of Finance and Administration, Orchestre symphonique de Montréal,
Joanne Morrow, Vice-President of the Banff Centre and Director of the Banff Centre for the Arts, and

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However, to undertake a fully consistent national longitudinal survey over a long time period, the Canada Council found it necessary to select an objective criterion.

[2] The "Big 29" comprise the large performing arts organizations used in the 30-year trend analysis; in 1998-99, they collectively received 17% of Canada Council funding. The "Big 17" is a sub-group of the 29 for which consistent detailed data for the years from 1986-87 to 1998-99 were available. These organizations accounted for about 14% of Council funding in 1998-99. The companies in both groups are listed in Annex A.

[3] Research Study on Large Performing Arts Organizations, The Canada Council for the Arts, Planning and Research Section, June 2001.

Valerie Wilder, Executive Director of the National Ballet of Canada.

Having received the Research Study, the Working Group met by conference call in January 2001, had a face-to-face meeting in late February, and met again in conference calls in May and June to analyze the circumstances of the large organizations and develop and finalize this report and recommendations.

This report includes the Working Group's analysis of the particular challenges that face the large performing arts organizations in the current environment. The analysis draws on both the key findings from the research data and the professional experience of Working Group members. It is followed by conclusions which serve as the guiding principles for the final section of the report, the Working Group's recommendations to improve conditions for the vitality and sustainability of the large performing arts organizations.

The major recommendation is addressed to the Canada Council, and complementary recommendations are directed to other funders, organizations and government departments whose assistance is important to the future of the large companies.

Canada Council staff support was provided to the Working Group by Keith Kelly (Director of Public Affairs, Research and Communications), Claire McCaughey (Senior Research Officer), John Ruston (Financial Analyst), and Margot Gallant (Junior Research Officer). Arts consultant Jocelyn Harvey was engaged for the later stages of the project and to write this report.

Given the widespread interest in the subject of the large companies within the arts community and among funding bodies at various levels of government, the Working Group recommends to the Canada Council that it make the Research Study and the Report of the Working Group available publicly.

Contextual Factors

Three contextual factors bear mentioning at the outset. First, while the focus of this report is large performing arts organizations, a number of the conditions it describes also affect smaller and mid-sized performing companies and arts organizations in other disciplines. Decreased public sector support in the 1990s, increased competition for disposable income, and the growing diversity of the Canadian population are issues for many arts organizations. This report focuses on the particular difficulties faced by large performing arts companies but inevitably some factors apply more broadly.

Second, each organization in the Research Study is unique and over its history has manifested strengths and weaknesses in varying forms and proportions. The companies differ in matters such as artistic vibrancy, financial health, support from the community, and organizational stability. While this project stresses their common needs and challenges, their distinctiveness should be kept in mind.

Third, there are also differences among the large performing arts companies because of the particular requirements of their art form or type of operation. The degree to which the organization is unionized, the core number of artists its artistic program and repertoire require, and the length of time the organization needs for planning its program and engaging performers have a bearing on its fixed costs and flexibility. Similarly, there are geographic differences related to the market and audience expectations, pressures on wages and fees, and the availability of corporate support and provincial and municipal funding.

In the course of the report, the Working Group has attempted to keep these factors in mind while examining the condition of large performing arts companies and making recommendations on their support.

ANALYSIS

The Role and Importance of the Large Performing Arts Organizations in Canada

Canada's large performing arts organizations make a major contribution to Canadian artists, Canadian audiences, and the artistic life of Canada. In bringing the vivid, shared experience of the live arts directly to millions of individual Canadians, they embody and illuminate the value of the arts in human existence.

Some of these contributions are quantifiable:

- The large companies are major employers of Canadian artists, technical workers, and other artistic personnel. The Big 17 are responsible for 40% of all wages and salaries paid by the 625 not-for-profit performing arts companies surveyed by Statistics Canada. Artists aspire to work in the large companies because the jobs are visible and prestigious and they are generally paid decent fees and wages. Many of the companies are anchors in the performing arts community for training and professional development for young artists.

- The large companies make a strong contribution to Canadian audiences, reaching huge numbers of Canadians and providing widespread access to Canadian productions. The Big 17 account for almost one-quarter (24%) of the audience for performances by all not-for-profit performing arts companies in Canada.

- Over the years, the large companies have helped nourish other artistic activities, as their artists left to take up solo careers or establish their own groups and organizations.

Besides these measurable benefits, however, there is something more intangible which the large companies bring to our lives. Part of it is the sense of history they convey: we are proud that Canadians have created and over the decades sustained companies of such quality. Part of it is their scope and scale. A ballet company of 60 or more dancers, a full-scale orchestra, a theatre or opera company presenting the classical repertoire: when presented with skill and beauty, these performances have a grandeur which is awe-inspiring.

It takes nothing away from the many individual artists and smaller and mid-sized companies in all art forms whose work is of excellent quality to say that large arts organizations are the best-placed institutions in Canada to bring an understanding of the value of the arts to the Canadian public as a whole and to community and corporate leaders. Indeed, it can be argued that large companies have a responsibility to do just that. At their best, the large performing arts organizations are leaders and advocates for the arts locally, provincially and nationally, provide inspiring artistic models, and share their depth of experience and resources with their colleagues in smaller arts organizations.

For all these reasons, the Working Group believes it is vitally important that Canada have a diverse group of large performing arts organizations which:

- **bring vibrant artistic performances to substantial numbers of Canadians,**
- **are integral parts of supportive communities, and**
- **have healthy, stable finances and administrations capable of sustaining their artistic missions.**

Canada's Large Performing Arts Organizations: Their Institutional Realities and Complex Challenges

All arts organizations are driven by the creative imperative. Rarely does any arts organization in Canada have enough money – from governments, box-office or the private sector. Most are under-resourced and under-capitalized, with little or no financial cushion.

Furthermore, within the not-for-profit arts sector, performing arts organizations have a particularly high dependence on self-generated revenues, especially the box-office, and the loss of audiences can cause serious problems for any of them.

Beyond these common factors, however, Canada's large performing arts organizations share some distinct and fundamental institutional realities which differentiate them from smaller and mid-sized performing arts companies and arts organizations in other disciplines and make their current circumstances especially complex and difficult.

This section of the report is devoted to analyzing the particular institutional realities and complex challenges which face the large companies. In seven issues, it describes the circumstances which have brought the large organizations to their current condition and the relationship between the companies and the wider world in which they operate. These seven issues are: the growth in artistic activity in Canada, the decline in the value of public sector and Canada Council funding, the under-capitalization of the large companies, the institutional constraints which limit the companies' options for further adaptations to under-funding, the declining audience, demographic changes in the population, and increased competition for disposable income and leisure time.

1) The Growth of Artistic Activity in Canada

In the 1950s, the Canada Council's first decade, Canada had only 27 professional performing arts organizations (some of whom are among the Big 29). By the early

1980s, the Council funded about 390 performing arts organizations and by 2000-01, 860. While the large performing arts companies supported by the Council made up about 17% of the Council's performing arts clients in 1960, today they represent 3%.

Over the last four decades, Canada has experienced an explosion in the number and variety of professional artistic activities available to the public. In addition to the burgeoning number of not-for-profit groups and companies, Canada is now home to hundreds of arts festivals, many of which attract large audiences, especially during the summer months. On almost any given night in any large Canadian city, the public has a cornucopia of artistic activities (often of very high quality) from which to choose.

The first consequence of this astonishing growth is intensified competition for audiences. The second is increased competition for public sector grants. **The large performing arts organizations, which were among the first recipients of public funding in Canada, now share this role with a hugely expanded clientele,** as the following résumé of the Canada Council's granting history indicates.[4]

It has long been a goal of the Canada Council to respond to growth and new development in the arts and provide access to emerging artists and organizations of quality, and several milestones in the Council's history can be identified:

- In the 1950s, the Council funded 29 arts organizations – 27 of them performing arts companies.
- By 1968-69, the first year of our 30-year research data, the Council had 178 organizational clients.
- In the 1970s, due in part to the huge number of arts organizations created through the manpower programs of that era, the Council funded 700 organizations. These included many new performing arts companies devoted to Canadian work as well as artist-run centres and other organizations in disciplines outside the performing arts.
- Growth in all disciplines continued in the 1980s, when the Council also added major new programs (and organizational clients) in writing and publishing and established a media arts section. In that decade, it funded 1,000 organizations.
- During the mid-1990s, when the federal program review took place, the Council maintained the level of its grants budget by absorbing government cutbacks through reductions in its administrative costs. When the Council published its first formal strategic plan in 1995, it declared its intent to provide access to previously excluded individuals and organizations, including Aboriginal and culturally diverse artists and arts organizations and interdisciplinary arts practitioners. These organizations and those involved in programming for children and youth are the most recent additions to the Council's organizational clients, which now number 1,700.

[4] Though this history concerns the Canada Council, provincial and municipal funding bodies have also greatly expanded the number of organizations receiving their grants.

2) Under-funding: The Decline in the Value of Public Sector and Canada Council Funding for the Large Performing Arts Organizations

Over the last three decades, there has been a dramatic decline in the value of public sector and Canada Council funding for the large performing arts organizations.

In 1968-69, public funding from all sources (Canada Council, provincial and municipal/regional) made up 38% of the revenues of the Big 29. Today, it accounts for less than 25%. For the Big 17, total government funding fell in current dollars by almost 10% between 1992-93 and 1998-99.

These changes have meant that the companies are increasingly reliant on self-generated revenues, including ticket sales and private sector donations and sponsorships. Private sector support is now more important as a source of income for the large organizations than all sources of public funding combined.

The Canada Council's participation in the financing of the large companies has shown a similar decline. In 1968-69, the Council provided an average of 23.2% of the budgets of the large companies. With each subsequent decade, this contribution decreased, and in 1998-99 it stood at 8.4%. As a share of the average budget, therefore, the Council's contribution is worth about one-third of what it was 30 years ago.

As Canada Council support declined, provincial funding and (to a lesser extent) municipal funding increased, and these two levels of government began playing a more important role in the financing of the large companies. Provincial and municipal grants reached their high points in the early 1990s, but from 1993-94 to 1998-99 declined respectively by 10% and 6%. Provincial cutbacks were most severe in Ontario and Alberta (amounting to 44 and 45% respectively), where over half (15) of the Big 29 are located. The provincial reductions hit large performing arts companies particularly hard, especially in Ontario, where one-third of them reside.[5]

In the latest year for which we have comparable information (1998-99), the provinces accounted for 11.7% and municipal sources 4.6% of the revenues of the Big 29, for a combined total of 16%, and the Canada Council contributed 8.4%.

While the decline in the percentage of the companies' budgets provided by the Canada Council can be explained in part by the Council's growing clientele, when new financial resources <u>have</u> become available to the Council (as has occurred recently), they have not, with the exception of orchestras, benefited the large performing arts organizations.

This development merits careful examination:

- Between 1993-94 and 2000-01, the total grants budget of the Canada Council increased by 29% (from $81.2 million to $105.1 million).

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[5] During this period, provincial funding for the performing arts fell in all provinces where companies in the Big 29 are located except Quebec, where seven of the companies reside and performing arts support grew modestly (by 5%).

- Of this increase, $2.5 million was dedicated to orchestras (of all sizes). As a result of these dedicated funds, Council support for orchestras in the Big 17 has grown since 1993-94.
- However, the large dance organizations received an extremely minimal increase of $22,358 in current dollars in this time period, and the large theatre and opera companies actually experienced a decline in current dollars.
- Even with the additional funding to orchestras, Canada Council support to the Big 17 as a whole has been stagnant during this period of increases to the Council's budget. It declined 0.4% in constant dollars between 1993-94 and 2000-01 (from $14,737,037 to $14,677,631).
- Excluding orchestras, the grants awarded to the other companies in the Big 17 (theatre, dance and opera) lost almost 10% (9.93%) of their actual value, going from $8,886,968 to $8,004,670 in constant dollars during this period.
- In terms of the constant dollar value of Canada Council grants, there was a 13.7% increase in real terms between 1968-69 and 2000-01 for the fifteen organizations in the Big 17 funded in both years, but this increase is due primarily to the recent money for orchestras. When that money is excluded, the remaining companies in the Big 17 experienced an 18.8% decline in the real value of their Council funding.

As a consequence of the declining value of public sector and Canada Council support and the growing reliance on private sector and box-office revenues,

- **The large performing arts organizations are increasingly caught in a Catch-22 relationship with the Canada Council, which wants them to undertake more adventurous programming, present more Canadian content, reach out to new audiences and youth, improve their financial health, and bring down accumulated deficits (all doubtless worthwhile expectations), while its declining contribution to their operations makes these outcomes less and less realistic.**

- **Most of the large companies, as the next two sections of the analysis suggest, have reached the stage at which further adaptations to the decline in the value of public funding are extremely unlikely and will yield, at best, marginal returns.**

3) Under-capitalization: The Lack of Working Capital Reserves

A major review of the English regional theatres prepared for the Arts Council of England in 1999 as part of the rethinking of national theatre policy found the theatre companies "under-capitalised for their task", "technically insolvent" and dependent on early payment of grants, bank overdrafts, and the use of advance box-office revenues to meet cash flow requirements. The review commented that "The maintaining of a financial even keel requires constant juggling. In many organizations financial fire fighting is the normal order of the day. It is not an ideal environment for creative work."[6] In its subsequent

[6] Roles and Functions of the English Regional Producing Theatres (The Boyden Report), prepared for the Arts Council of England, 1999, p. 30.

national policy document, the Arts Council of England noted that the lack of capital reserves makes it "much harder to take creative risks".[7]

The government of Australia recently concluded a comprehensive study of what it called the "major performing arts organizations" in that country. A principal finding was that these organizations had a chronic shortage of working capital reserves and few incentives to improve their balance sheets. As a result, they were in a state of almost perpetual financial instability and were inhibited from undertaking serious long-term organizational planning and new or innovative artistic programming.

Both the English and the Australian studies led to major decisions involving new policy directions and substantially increased funding for the companies.[8] One of the Australian policy changes, now being implemented in the new model for the large companies, is that government funders will no longer penalize but actively encourage organizations to create and maintain working capital reserves. The purpose of this policy shift is to provide both "an appropriate incentive for the companies to strengthen their balance sheets" and "security against a future change in policy". The Australia Council (the Canada Council's counterpart) and other public funding bodies will now allow the large performing arts organizations to develop reserves up to 20% of their annual revenues with assurances that their government grants will not be cut as a result.[9]

Canada's large performing arts organizations suffer from the same severe shortage of working capital reserves as their colleagues in England and Australia, and few of them have sufficient endowment reserves to weather difficult financial times. The results of under-capitalization include a lack of reserves for contending with temporary downturns in revenues and planning ahead, the expenditure of time and energy in crisis financial planning at the expense of the artistic mandate and program of the organization, and frequent financial instability. Without new reserves of capital, most large performing arts companies in Canada do not have the means to survive serious financial challenges.

The large companies are not alone in this dilemma: many Canadian arts organizations lack adequate working capital reserves and fear that, if they create a year-end surplus as a way of beginning to build a reserve, their government grants will be reduced as a consequence.

But the lack of working capital reserves is most serious for the large performing arts organizations. Their size, scope, and (in some art forms) contractual agreements mean that they have far less flexibility to adjust to financial setbacks than do most smaller and mid-sized companies. They can rarely scale back quickly (sometimes they cannot scale

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[7] The Arts Council of England's National Policy for Theatre in England, July 2000, p. 2.
[8] In Australia, an additional $72 million were committed by the federal and state governments to 31 companies ($43.3 million over four years at the federal level) (sources: media releases by the Minister for Communications, Information Technology and the Arts and the Australia Council, Dec.12, 2000). In England, funding was increased by 72% (£25 million) (source: Arts Council of England press release, March 8, 2001).
[9] Securing the Future: Major Performing Arts Inquiry Final Report, Department of Communications, Information Technology and the Arts (Australia), 1999, p. 35.

back at all, because of prior commitments), and their deficits can rapidly deepen and become accumulated debts.

Government policies to encourage the development of working capital reserves are therefore important for all arts organizations and for large performing arts companies they are crucial.

4) Institutional Constraints: High Fixed Costs and Limited Options

To cope with the decline in the value of their public sector funding and the need to expand self-generated revenues, the large performing arts companies have undertaken a number of major structural changes. They have:

- Increased fundraising and marketing expenditures:
  Over the 30-year period tracked by the research data, there was a clear shift in expenditures toward fundraising and marketing. For the Big 29, spending on marketing doubled in that period. The Big 17 doubled their fundraising expenditures in the 1990s alone.

- Expanded private sector fundraising:
  Over the 30-year period, the Big 29 doubled their private sector income (to the current 27% of budget), and the Big 17 increased this income by 82% between 1986-87 and 1998-99. Between 1968-69 and 1988-89, individual companies increased their private sector support 600-3000% (while inflation grew at about 300%).

- Cut artistic/production costs:
  In 1968-69, these costs represented on average 75% of the budgets of the Big 29, but by 1998-99, this had fallen to 65%. The decline was particularly significant for orchestras and opera companies, but it affected all types of organizations except ballet companies.

- Maintained box-office revenues:
  Despite declining audiences (discussed below), the Big 17 maintained box-office revenues at an average 48% of budget in the period from 1986-87 to 1998-99, mainly through price increases.

The Working Group believes that on the whole the large organizations have adapted to the changes in their environment with dexterity and effectiveness. But there are now signs that they have reached the limit of their options:

- In the last ten years, corporate sponsorships, which had grown strongly, levelled off, and further growth in this revenue source is unlikely. This development coincided with changes in corporate decision-making: as governments scaled back their expenditures on basic social services, education and health, many corporations decided to enter or expand their contributions to those fields. Competition for corporate donations and sponsorships from universities, hospitals and other social services is now extraordinarily strong. Arts organizations do not anticipate a major turn-around in this situation, and the imminent loss of tobacco sponsorships will deepen the problem.

- As suggested earlier, cuts in artistic/production expenditures are very much a double-edged sword, and further reductions in these costs are unlikely (as well as undesirable).

- It is probably unrealistic in Canada to expect that consumer revenues, which now cover nearly half the average budget of the large companies, can grow much further, and the public interest will not be served by more price hikes, which limit public accessibility and deepen audience disaffection.

In the implicit relationship between an arts organization and its community – a community which includes its audience, its artists, its board and other volunteers, donors, supporters, and the broader citizenry of the place in which it lives – an understanding or “pact” develops over the years about what the arts organization is and what it will offer to the public. In the case of mature, well-established, well-known arts institutions such as Canada’s large performing arts companies, this pact promises a certain level of performance, one marked by quality, scope, and scale of presentation.

Once a large company, facing extraordinary financial challenges, has accomplished the required financial and administrative changes - becoming less reliant on public subsidy, expanding private donations and sponsorships, entering co-productions and other partnerships, cutting costs where it can, and becoming more adept at marketing and promotion - there are few options left that will not break the promise it has made about its performance to its community.

Operating a large-scale performing arts organization involves inherent constraints:

- The large companies, especially ballet and opera companies and symphony orchestras, have high fixed costs which cannot be materially reduced without significant damage to their artistic quality and mandate.
- Wages and salaries make up about 2/3rds of the budgets of the large companies, and a major reduction in these costs would harm artistic performance. For some organizations, especially orchestras, union contracts add to the complexity of running large institutions.
- In ballet companies and symphony orchestras, a core number of artists are required to present the repertoire.
- The artistic development processes, especially in opera and ballet, are complex and there are long lead times and high production and artistic expenses.
- Options such as relocating venues, downsizing space, and smaller or leaner productions can discourage the loyal core audience without attracting sufficient numbers of replacement members. For some companies, the cost-revenue ratio does not significantly improve as productions are scaled down.

In view of these institutional constraints, further adaptations, where they are possible, are likely to have only a marginal impact on the bottom line. The Working Group therefore believes that, without a rebalancing of the companies’ revenue sources which involves a real increase in funding from the Canada

Council, the future for many of the large performing arts organizations will be continuing decline and deterioration.

These points underlie the major recommendation at the conclusion of this report for a substantial increase in Canada Council funding for the large performing arts organizations and a new approach to that funding.

5) Declining Audiences

In some ways, the current environment in Canada should be conducive to attracting larger audiences for the performing arts. In Canada, as in other industrialized countries, performing arts attendance has long been positively correlated with post-secondary graduation and higher income levels. Post-secondary education has increased dramatically in Canada since the 1960s, and there has been a modest increase in after-tax disposable income.

Since the 1960s, the percentage of Canadians with post-secondary education has risen significantly. In 1976, 1.1 million Canadians had completed a university degree; by 1996, this figure had more than doubled, with just over 3 million Canadians having finished their post-secondary education (an increase of 63%). Per capita personal disposable income increased slightly (by 0.7% in constant dollars) between 1990 and 2000.

Yet total attendance for the performing arts sector (companies of all sizes) fell almost 4% between 1992-93 and 1998-99.

Within the sector, the large organizations have experienced a significant drop in attendance:

- The Big 17 sold 3.2 million tickets in 1998-99, a figure substantially lower than its peak level of 4 million ten years earlier.
- Attendance per performance for the Big 17 plummeted by almost one-third (from 1,087 in 1986-87 to 764 ten years later). While the number of performances increased over this period, the increase was in second-stage and run-outs, performances at festivals, community outreach and workshop performances. Attendance fell for performances at home, on tour and for young audiences.
- Total young audience attendance dropped by about a quarter of a million tickets (from over 341,000 in 1992-93 to over 248,000 in 1998-99). In the same period, the number of performances for young audiences fell 64%.

On average, the Big 17 rely on box-office and other consumer revenues to cover almost half of their budgets (48%). **Hence, a significant decline in the audience has major consequences for these organizations. Maintaining and expanding their audience and strengthening their links to their communities are important goals for the large companies.**

6) Demographic Changes in the Population of Canada

Between 1951 and 1996, when most of the large performing arts companies in Canada developed and grew, the population of the country was doubling, rising from just over 14 million to 28.8 million. A growing population may have fuelled the growth in the scale of arts organizations and supported an increase in their number. But population growth has slowed down very significantly in Canada and is now about 1% a year.

More importantly, the demographic composition of the population has changed dramatically, becoming far more culturally diverse. In the 1996 Census of Canada, visible minorities made up 11.2% of the population, and current estimates place this figure at 13% (in 2000). The distribution of the culturally diverse population varies across the country, but representation is strongest in the metropolitan centres, where most of the large performing arts companies are located. Visible minorities currently account for 32% of the population of Toronto, 31% of Vancouver, 16% of Calgary, 14% of Edmonton, and12% of Montreal.

In addition, immigrants to Canada are increasingly coming from countries outside North America and Europe and thus from cultural traditions different from those of most large performing arts companies. Finally, it is important to note that many culturally diverse artists across the country are forming their own groups and organizations and finding audiences for their work.

Thus, the new demography of Canada presents the large performing arts companies, which have worked within European traditions and are dependent on audiences for a major part of their budgets, with a full set of challenges:

- **almost no growth in the overall population,**
- **strong growth in the culturally diverse populations of the metropolitan communities where many of the companies reside,**
- **increasing numbers of Canadians from cultural traditions that are non-European, and**
- **new organizations developing within culturally diverse communities and practices.**

Given the major shifts in the population, it is important that the large organizations are able to engage the increasingly diverse population within their communities.

Unfortunately, Canada lacks data that could tell us objectively and comprehensively what these companies are doing to engage the new audiences and how successful they are at that task. Anecdotal information on a company level suggests that over time some organizations are successfully attracting audiences from the culturally diverse communities, but this information is not available on a comprehensive or comparative basis.

We can also only speculate about whether the decline in arts education in Canadian schools, which has been in evidence for more than a decade in some parts of the country, is contributing to an erosion of the audience. While studies have linked arts participation in childhood to arts attendance in adulthood, definitive Canadian information is not available. What we can say with some assurance is that the documented decrease in the Big 17's programming for young audiences and young audience attendance at their performances does not bode well.

7) Growing Competition for Leisure Time and Disposable Income

In the Working Group's opinion, another challenge to performing arts companies, particularly the large ones, is the growing competition for leisure time and disposable income:

- In the last decade and a half, the emergence of the commercial performing arts sector, including mega-musicals and other block-busters, critically affected the large not-for-profit companies - first through direct competition for audiences, second through effective promotional campaigns that were prohibitively expensive for the not-for-profit companies to match, and third by fuelling pressures to increase wages and salaries. The high price of tickets for commercial products represents a major investment of disposable income for many Canadians. While commercial productions no doubt offer competition to all not-for-profit performing companies in their vicinity, they compete in the very market occupied by the large companies, which are the most likely to employ the same artists and charge similar ticket prices.

- The profusion of home-based entertainment options is another major competitive factor. CDs, the Internet, DVD, satellite broadcasting, and pay-per-view TV provide moderately priced alternatives to attendance at live performing arts events. Competition from entertainment technologies in the home has steadily increased over the last decade, as the costs for such technologies became more and more reasonable. This trend is likely to continue as new products reach the market.

Finally, it deserves mention that modern audiences have high expectations about the comfort, safety, design and style of performing arts venues. Unfortunately, these are not met by the facilities in which many of the large not-for-profit companies perform, particularly the aging facilities built or renovated during the 1967 Centennial period when Canada made a large-scale investment in cultural infrastructure. Many of these older halls and theatres do not meet the reasonable expectations of contemporary audiences and are in urgent need of upgrading and renovation.

<u>Other Current Developments</u>

In addition to the challenges presented by the current environment, there are a number of positive developments that deserve careful consideration. In the Working Group's opinion, any proposed solutions to the difficulties the large companies are experiencing should take account of and, where possible, build on these developments.

1) The Federal Government's New Investments

While the Working Group was meeting, the federal government announced major new funding for the arts and culture totalling $560 million. The announcement contained three initiatives of potential importance to arts organizations, including large performing arts companies.

The most pertinent is an additional investment of $75 million over three years ($25 million a year beginning in fiscal year 2001-02) for the Canada Council for the Arts. With this addition, the Canada Council's total Parliamentary appropriation will come to $149.2 million, an increase of $60 million or 66% since 1996-97.

Two other initiatives may also be of assistance to the large performing arts companies as well as other Canadian arts organizations. These are an investment of $63 million over three years for a national strategy to support modern management and greater financial stability in arts and heritage organizations (based on the current arts stabilization models in Canada, discussed below), and $80 million over three years to improve cultural infrastructure, with a focus on repairing and upgrading arts and heritage facilities across Canada.

The availability of these new resources is reflected in the Working Group's recommendations at the conclusion of this report.

2) The Arts Stabilization Programs

There are currently four arts stabilization programs in full operation in Canada (Alberta, Vancouver, Nova Scotia and Quebec). Three more are at near-launch stage in Manitoba, Saskatchewan, and the Bay Area (Hamilton-Wentworth-Burlington), and feasibility studies are well under way in New Brunswick and Prince Edward Island. The programs involve an external evaluation of an organization, the provision of technical assistance, and the awarding of working capital grants, and are funded by federal, provincial, municipal, foundation and private sector sources. Recipients of these forms of assistance are determined by the terms of the particular municipal or provincial program and may include various disciplines and sizes of organization.

While it is too early to reach firm conclusions about the long-term impact of stabilization programs, preliminary indications from the Canadian arts organizations involved are positive.

3) Improved Tax Incentives and Other Fiscal Measures

In the late 1990s, the federal government made several improvements to enhance the attractiveness of donations to registered charities, which include organizations such as the large performing arts companies. Both the tax credit for donations and the percentage of income that individual and corporate donors can claim for contributions were increased. Recently tax benefits were extended to gifts of appreciated securities and stock options.

The Council for Business and the Arts in Canada (CBAC) and the large Canadian arts organizations which participate in the CBAC's annual Banff Cultural Summits have been at the forefront of advocating these measures. While the data compiled for our research study covered a period too early for definitive information on the impact of the tax improvements, anecdotal information suggests that they have helped arts organizations increase donations and gifts, especially from individuals.

CBAC and Banff participants are currently working to clarify the tax situation for membership benefits in arts organizations and to encourage the federal government to introduce matching incentive funds for business sponsorships.

CONCLUSIONS AND GUIDING PRINCIPLES

The following points summarize the Working Group's main conclusions based on the analysis above. These conclusions serve as guiding principles underlying the recommendations at the end of this report.

1. Canada's large performing arts organizations make a major contribution to Canadian artists, Canadian audiences, and the artistic life of Canada. In bringing the vivid, shared experience of the live arts directly to millions of individual Canadians, they embody and illuminate the value of the arts in human existence. It is vitally important that Canada have a diverse group of large performing arts organizations which:

- **bring vibrant artistic performances to substantial numbers of Canadians,**
- **are integral parts of supportive communities, and**
- **have healthy, stable finances and administrations capable of sustaining their artistic missions.**

2. Canada's large performing arts organizations share some distinct and fundamental institutional realities which differentiate them from smaller and mid-sized performing arts companies and arts organizations in other disciplines and make their current circumstances especially complex and difficult.

3. The first consequence of the astonishing growth in artistic activities in Canada is intensified competition for audiences. The second is increased competition for public sector grants. The large performing arts organizations, which were among the first recipients of public funding in Canada, now share this role with a hugely expanded clientele.

4. Over the last three decades, there has been a dramatic decline in the value of public sector and Canada Council funding for the large performing arts organizations.

5. While the decline in the percentage of the large companies' budgets provided by the Canada Council can be explained in part by the Council's growing clientele, when new financial resources <u>have</u> become available to the Council (as has occurred recently), they have not, with the exception of orchestras, benefited the large performing arts organizations.

6. As a consequence of the declining value of public sector and Canada Council support and the growing reliance on private sector and box-office revenues, the large performing arts organizations are increasingly caught in a Catch-22 relationship with the Canada Council, which wants them to undertake more adventurous programming, present more Canadian content, reach out to new audiences and youth, improve their financial health, and bring down accumulated deficits (all doubtless worthwhile expectations) while its declining contribution to their operations makes these outcomes less and less realistic.

7. Canada's large performing arts organizations suffer from the same severe shortage of working capital reserves identified among their colleagues in England and Australia, where recent studies have led to major policy changes and substantially increased funding for the companies. The results of under-capitalization include a lack of reserves for contending with temporary downturns in revenues and planning ahead, the expenditure of time and energy in crisis financial planning at the expense of the artistic mandate and program of the organization, and frequent financial instability. Without new reserves of capital, most large performing arts companies in Canada do not have the means to survive serious financial challenges. Government policies to encourage the development of working capital reserves are important for all arts organizations and for large performing arts companies they are crucial.

8. In view of the institutional constraints of the large organizations, further adaptations to declining public funding, where they are possible, are likely to have only a marginal impact on the bottom line. The Working Group therefore believes that, without a rebalancing of the companies' revenue sources which involves a real increase in funding from the Canada Council, the future for many of the large performing arts organizations will be continuing decline and deterioration.

9. A significant decline in the audience has major consequences for the large performing arts organizations. Maintaining and expanding their audience and strengthening their links to their communities are important goals. The new demography of Canada presents the large companies, which have worked within European traditions and are dependent on audiences for a major part of their budgets, with a full set of challenges:

- **almost no growth in the overall population,**
- **strong growth in the culturally diverse populations of the metropolitan communities where many of the companies reside,**
- **increasing numbers of Canadians from cultural traditions that are non-European, and**
- **new organizations developing within culturally diverse communities and practices.**

Given the major shifts in the population, it is important that the large organizations are able to engage the increasingly diverse population within their communities.

10. In grant programs for arts organizations which are mature, fully developed and operate on a large scale, assessments should be based on a truly holistic understanding: a recognition that the organizational and financial health of these organizations, their artistic vitality, and their relevance to their communities are

integrally related and mutually reinforcing. Funding for these organizations should be provided on a long-term basis appropriate to their scale and planning cycles.

11. In providing increased funding to the large performing arts companies, the Canada Council should work in partnership with the arts organizations themselves and with the principal provincial and municipal funding bodies, arts stabilization programs (where they exist) and the Department of Canadian Heritage. Their common purposes should be to share information, develop complementary approaches, and work together to improve conditions for the vitality and sustainability of the large companies.

12. The Working Group is very supportive of the Canada Council's priorities for culturally diverse and Aboriginal artists and organizations and admires the Council's commitment to access and equity. This report in no way recommends a lessening of that commitment. Rather, the Council's important new financial resources provide it with the opportunity to rebalance its funding for the large performing arts companies, halting and reversing the decline in the value of its support, without reducing its commitment to access and equity.

RECOMMENDATIONS

Major Recommendation: To the Canada Council for the Arts

The Working Group recommends that the Canada Council for the Arts allocate not less than $10 million[10] per year of its new resources as an ongoing addition to its operating grants for the large performing arts organizations. The Council's objective in allocating these monies should be to improve conditions for the vitality and sustainability of the organizations.

- These additional funds and the current operating grants to the large companies should be combined in a single program for large performing arts organizations administered in each of the respective discipline sections of the Council (Music, Dance and Theatre). Maintaining the program as a discipline responsibility will mean that the large organizations continue to be seen within and as parts of their discipline community. Having a program specific to the large organizations will mean that the complex institutional realities of these organizations can be appropriately recognized and accommodated.

- The program should provide multi-year operating grants on a longer-than-three-year basis (possibly five years) to ensure the longer time horizon needed for organizational planning and artistic programming in mature, large-scale

[10] As the Vice-Chairman of the Board of the Canada Council, François Colbert abstained on the specific amount of money recommended.

performing arts institutions[11]. The funds should be provided for operations rather than tied to specific projects or activities.

- The purpose and design of the program, the program criteria, and the assessment process should be based on a holistic understanding of the organizations, i.e., the integral and mutually reinforcing relationships between their artistic vitality, organizational and financial stability, and relevance to the community.

- Applications for the program should be evaluated by means of a more comprehensive version of the Council's current peer assessment process. The evaluation should be directed to measuring the full range of the organization's impact in its community through an holistic assessment of its organizational and financial sustainability, its artistic vitality, and its community relevance.

- The peer assessment committee should comprise people with experience in managing large performing arts companies (in Canada and abroad) who can assess the full range of the companies' activities.

- Because other public sector bodies are very influential in the financing of the large performing arts organizations and because the sustainability of these organizations requires the will and cooperation of them all, the program should be developed in close consultation with the principal provincial and municipal funding bodies, arts stabilization programs, and the Department of Canadian Heritage. Representatives from these organizations should be invited to provide information and advice to the Council and the peer assessment committee: this could include information on their grants, services, approaches and plans as related to the large organizations and advice based on their knowledge of the companies. The purpose should be to share information, develop complementary approaches, and ensure that the principal public bodies are working together to improve conditions for the companies.

- Recognizing that it is good practice to encourage the development of working capital reserves and that such reserves provide stability and help sustain the company's artistic mission, the program should encourage the companies to develop working capital reserves, and these reserves should be allowed to reach as much as 25% of annual revenues without resulting in a reduction in the grant.

- Where the company and the Council identify a specific need, services (information, advice, technical assistance, etc.) supplementary to the multi-year operating grants should be provided to the company through the existing Canada Council Flying Squad program or other means.

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[11] The Canada Council's current multi-year operating programs in music, theatre and dance provide operating grants for a three-year period to arts organizations (including organizations of various sizes) meeting certain requirements. Applications are assessed by the peer assessment committee for each program in a national competitive context. The introduction of multi-year funding has given arts organizations a degree of financial stability by providing security of funding for three years. The recommendation above builds on and expands this advantage.

The Working Group is confident that, with its decades of experience in administering granting programs, the Canada Council will develop an effective, efficient and accountable program model to meet the purposes and processes outlined above.

To address some of the specific information needs of performing arts organizations identified during the course of this project (including but not limited to the large companies), the Working Group suggests the following to the Canada Council:

- that it undertake research on the artistic interests and attendance at artistic and cultural events of the culturally diverse population of Canada and on the work being done by Canadian performing arts organizations to engage culturally diverse Canadians as audience members and supporters, make the research findings widely available to Canadian arts organizations, and, if the research results call for it, explore new approaches to help develop and strengthen links between the diverse population and performing arts companies;

- that it draw together existing Canadian performing arts audience research material, including practical information on audience development initiatives undertaken by Canadian performing arts organizations (both initiatives which were successful and initiatives which were not) and make the findings widely available to Canadian arts organizations; and

- that it draw together existing Canadian and international research on the impact of the decline in arts education on arts attendance and make this report widely available to Canadian arts organizations and educators.

Complementary Recommendations to Other Funders, Organizations, and Government Departments

Given the importance of a range of funding bodies, organizations and government departments to the health of the large performing arts companies, and the Working Group's belief that cooperation and coordination among them are vital, it addresses the following recommendations to other funders, organizations and departments:

Recommendation 1:
The Working Group recommends that, as major public sector partners in the support of the large performing arts companies, provincial governments which have significantly reduced their support reinstate it.

Recommendation 2:
The Working Group recommends to those provincial and municipal funding bodies which do not already have them that they introduce programs of multi-year operating grants to improve conditions for the vitality and sustainability of large performing arts companies, as is recommended above to the Canada Council.

Recommendation 3:
The Working Group recommends to provincial and municipal funding bodies that they adopt a positive attitude about the development of working capital reserves as is recommended above to the Canada Council.

Recommendation 4:
The Working Group recommends to provincial and municipal funding bodies, the arts stabilization programs, and the Department of Canadian Heritage that they provide information and advice to the Canada Council and participate in the consultations about the Canada Council program for large performing arts companies as outlined above.

Recommendation 5:
The Working Group commends the recent announcements by the federal government of new investments in the arts and urges the Department of Canadian Heritage to design and implement the programs for cultural infrastructure and sustainability as soon as possible, consulting with the arts and heritage community, the Canada Council, the provincial and municipal funding bodies, and arts stabilization programs.

Recommendation 6:
The Working Group commends the initiatives by the Council for Business and the Arts in Canada (CBAC) and the Banff Cultural Summit participants in advocating for further tax incentives for registered charities, seeking improvements in the provision of tax benefits for membership in arts organizations, and urging federal examination of the merit of matching grant schemes to encourage small, medium-sized and large-scale businesses to contribute to the arts. It recommends that the Department of Canadian Heritage examine these possibilities carefully and that the Canada Council for the Arts express its support for these efforts.

CONCLUDING OBSERVATIONS

The Working Group recognizes that, to ensure the implementation of the recommendations outlined in this report, a collective act of will and resolve is required. But the consequence of doing nothing – and simply continuing the steadily degenerating status quo is doing nothing – is inevitable decline. If action is not taken, Canada's large performing arts organizations will play less and less of a role in their art form; provide fewer jobs and career opportunities for Canadian artists; offer fewer, scantier, and less accomplished performances for Canadian communities; and cease to bring educational opportunities to Canadian schools. Over time, their deterioration will impoverish Canada's artistic life and the quality of our cities.

As we hope this report has demonstrated, the large companies have done their part in adjusting to the decline in their public sector funding. It is now time for the public sector to do its part. Arts organizations of the scale and longevity of Canada's large performing arts companies are not replaceable. If they disappear – or, what is more likely, are allowed to deteriorate and decay over time - we will not be able to create them anew. They will be gone forever.

The Working Group is confident that the Canada Council for the Arts and its partners in the work of supporting Canada's large performing arts companies will consider with utmost care its invitation to take leadership of this issue on behalf of Canadian art, artists and audiences.

ANNEX A

List of Two Groups of Large Arts Organizations Used in the Report	
« Big 29 » 1968-69 to 1998-99	**« Big 17 » 1986-87 to 1998-99**
Theatre	
Alberta Theatre Project	
Arts Club Theatre	
Canadian Stage	Canadian Stage
Citadel Theatre	Citadel Theatre
Compagnie Jean Duceppe	
Ex Machina	
Grand Theatre	
Manitoba Theatre Centre	Manitoba Theatre Centre
Shaw Festival	Shaw Festival
Stratford Festival	Stratford Festival
Theatre Calgary	
Théâtre du Nouveau Monde	
Vancouver Playhouse	
Music	
Calgary Philharmonic	Calgary Philharmonic
Edmonton Symphony	Edmonton Symphony
Kitchener-Waterloo Symphony	
Orchestre symphonique de Montréal	Orchestre symphonique de Montréal
Orchestre symphonique de Québec	Orchestre symphonique de Québec
Toronto Symphony	Toronto Symphony
Vancouver Symphony	Vancouver Symphony
Winnipeg Symphony	Winnipeg Symphony
Dance	
Alberta Ballet	
Les Grands Ballets Canadiens	Les Grands Ballets Canadiens
National Ballet of Canada	National Ballet of Canada
Royal Winnipeg Ballet	Royal Winnipeg Ballet
Opera	
Canadian Opera Company	Canadian Opera Company
Opéra de Montréal	Opéra de Montréal
Opera Ontario	
Vancouver Opera	