

## PRESIDENT'S REPORT 2011

### Part A

At the outset, I should advise that this Report is long, as there is much of which I, my colleagues on the Board and Management wish to advise you at this challenging time for the Trust.

The Trust and its members can feel justly proud of the many things which have been achieved in the past year. A comprehensive report on those matters appears in the Annual Review contained in the NSW Trust's November Magazine. I encourage you to read that Review if you have not already done so.

The Trust's achievements of the past year were made in an operating environment which is proving increasingly difficult and challenging for both the commercial and the not-for-profit sectors, but especially for the not-for-profit sector in which the Trust operates.

At past meetings and in visitations to Branches and Committees, I have spoken of the changed and changing operating environment of the Trust and of the challenges and opportunities presented by the change. I wish to address that issue again today, and hope that those of you who have previously heard some or all of what I am about to say will bear with me.

When the Trust was formed in 1945, Australia's population was approximately 71/2 million, and it was predominantly Anglo-Celtic in origin. Today, Australia's population is almost 23 million and multi-cultural in nature. Many of our newer arrivals neither understand nor share our passion for our early Australian heritage. The younger generation of Australians has a greater interest in and concern for the natural environment, and for issues such as climate change, sustainability and biodiversity, than in and for our historic built environment, with which the Trust is, in so many minds, almost exclusively identified.

In addition to these changes, the last half-century has witnessed technological change of a magnitude rivalling the magnitude of change associated with the industrial revolution of the mid-19<sup>th</sup> century. This new technological age presents both challenges and opportunities with its new media of communicating and transacting. The age is also witnessing increasing demands for greater accountability, including in the not-for-profit sector, requiring greater resources and professionalism in management. These pressures are unlikely to abate, given the Federal Government's current review of the not-for-profit sector and its foreshadowed reforms of it.

Lest it be thought that I am alone in these views, or that I am suggesting the Trust alone is affected by these forces, may I read to you an extract from a recent column entitled "A changing organization" written by the Chairman of another Australian not-for-profit:

*“,,we are looking at making the Association stronger, more relevant, and better*

*positioned to meet the challenges of this new century. There are many societal and other changes afoot in Australia: a growing level of ethnic diversity, changes in employment opportunities, demographic changes, increased levels of governance pressures at all levels of government and, perhaps most importantly, a realization that nothing can be taken for granted any more.....Pressure is on us to conform to significant changes in the way not-for-profit organisations...are being regulated.”*

Notwithstanding the stresses which these societal, demographic, technological and regulatory changes are placing on not-for-profits, including the Trust, far and away the greatest contemporary stress on the not-for-profit sector is the very significant reduction in traditional revenue streams, very much related to the onset and aftermath of the Global Financial Crisis. While the adverse impacts of the GFC are being reflected in many of the Trust’s traditional revenue streams, the adverse impacts are most starkly and disturbingly being reflected in the most significant downturn in the Trust’s revenue from corporate sponsorships and partnerships. This is said by some to also be attributable to the degree of Federal political uncertainty and volatility which has made many corporates wary of making charitable commitments. The more-recent European Debt Crisis has also added a further dimension to this problem.

To the extent that corporates are providing sponsorships and entering into partnerships, information within the not-for-profit sector indicates that the preferred charities are children’s charities and cancer-related charities. Our passion - heritage - is not a priority charity or charity of choice for many corporates or, indeed, for many members of the community.

Again, lest it be thought that this financial stress is unique to the Trust in New South Wales, let me assure you that it is not. Similar financial stress is being experienced widely across the not-for-profit sector, and widely across the Trust Movement, both in Australia and internationally.

In Australia, all of the State and Territory Trusts are currently experiencing financial stress, with the exception of the Western Australian Trust, and there are very good and obvious reasons why it is the exception. Some 6 or so years ago, the Western Australian Trust adopted a different business model to that which it and the other State and Territory Trusts had to that time used, and which the other Trusts basically still use. The Western Australian Trust now receives significant revenue from the Western Australian Government for the management of Government-owned heritage properties, which effectively funds approximately 20 full time employees for the Trust. In addition, with seed funding from the Western Australian Government, the Western Australian Trust, in essence, trades in heritage properties - it buys threatened heritage properties, restores them, imposes onerous conservation covenants on them and then on-sells them at a profit. But that is not all! It also receives regular financial support from the Western Australian Cultural Fund, which was established by the Western Australian Government and which, by law, receives annually a percentage of the mining royalties which the Western Australian Government derives from the mining industry in that State. Financially, this is a most beneficial model for the Trust in Western Australia, but it is

thought by some to have reduced the ability of the Western Australian Trust to advocate for heritage, from strong, confrontational advocacy to softer, representational advocacy. Others respond that this is, in any event, the way in which effective modern-day advocacy is evolving.

Internationally, the position is equally bleak. One of the State and Territory Trust CEO's, who attended the recent international Trusts conference in Canada, reported that Trusts across the world are under significant financial stress, in particular the American and Scottish Trusts. The exceptions he reported are the Trusts in England and New Zealand. While parallels are often drawn between the English Trust and the Trust in New South Wales, the comparison does not stand scrutiny but, in the time available, we cannot examine that matter. Suffice it to say that the English Trust is in a satisfactory condition largely because it receives huge financial support from the English Heritage Lottery. The other exception, the New Zealand Trust, receives Government funding, but is now effectively a Government Authority, which has a Government-appointed Board and has disbanded its network of regional branches and committees.

The message to be taken from this is that, where corporate support is absent or insufficient, and government support is required, changes to the frameworks, processes and procedures of a Trust which accepts that support may be required as a pre-condition to the provision of that support.

Thus far I have spoken of the Trust's revenue base. I now wish to speak of its cost base. The Treasurer will shortly speak further about both of these matters.

We are all aware, from our own life experiences, that living costs have been escalating significantly in recent years. When revenues decline and costs increase in parallel, the situation requires strong and considered action.

Let me recap briefly on recent years at the Trust.

Some 3 years ago, the then Chief Executive of the Trust developed, and the Board adopted, a new and exciting Strategic Plan for the Trust to 2020. It recognized the changing world of which I have spoken, and the need for the Trust to respond and adapt to the new and emerging reality.

It was acknowledged that the implementation and realization of the Plan and the future of the Trust required different and additional resources - both human and financial - if the Trust were to pursue all of its desired activities and to do so efficiently and effectively.

Accordingly, an enlarged delivery platform was put in place, premised upon the development of new and increased revenue streams to fund it in the longer term. Pending the development of those revenue streams, the costs were to be funded - on a one-off basis - from the proceeds of the sale of a non-core property owned by the Trust in Eastern Sydney. I say - on a one off basis - because the Board well recognized and

recognizes the undesirability, as a general proposition, of selling capital assets to fund recurring operating expenses.

What was not foreseen or anticipated, either by the Trust or the community generally, was the onset of the Global Financial Crisis and the ensuing significant downturn in the Trust's revenues.

In response, the Board addressed the then cost structure and, as reported in last year's President's Report, at the end of the first quarter of 2010 significant cost cutting measures were taken, involving staff reductions and the curtailment of some existing programmes. In the main, the principal burden of the cost cutting measures was borne by Observatory Hill, or Head Office as it is more commonly called, but the cost cutting did, regrettably, also see the elimination of the well-conceived and valuable roles of the Regional Managers.

Earlier this year, when revenue streams were still showing few or no signs of recovery,, and new revenue streams were developing more slowly than desired or expected, further cost-cutting measures were taken. Again these involved staff reductions with the principal burden of the reductions once more being borne by Head Office rather than the Regions.

I wish to now make some observations regarding Head Office.

As I have moved through the Trust Community, I am surprised and disappointed by the lack of understanding and appreciation of the vital role played by Head Office and by comments to the effect that – it is not responsive; it is overstaffed; it is too costly!

It is not possible in the time available to examine these issues in depth, but may I make the following brief observations:

- Head Office is not responsive :

If this is the case, then I am sure that the new Chief Executive will wish to change that, but please be aware that, as the number of staff at Head Office is reduced in response to cost-cutting measures, the capacity of Head Office to speedily carry out all the desirable tasks will be reduced, and the delivery of some services may need to be curtailed.

- Head Office is Over Staffed

This matter is constantly under review. It must be kept in mind, however, that there is a core of Head Office personnel which is indispensable for the Trust to be able to perform the tasks expected of it by members, or required of it by law or good governance. The roles performed by Head Office include Finance and Administration; Advocacy; Archives; Collections Management; Conservation; Communications and Community Engagement; Grants Management; Human Resources; Insurance; Magazine; Membership

Services; Property Administration; Public Relations; Risk Management; and a number of other services.

Some of these roles could be eliminated if the range of heritage-related activities of the Trust were reduced, but that is something which neither the Board nor members would wish to occur. Many of the other roles relate to activities which must be performed to enable the Trust to meet its legal obligations or to satisfy the requirements of good governance.

- Head Office Is Too Costly

This is also monitored constantly, but the cost of Head Office is directly related to the irreducible core of key personnel necessary to perform the essential services previously mentioned.

With regard to the cost of Head Office, may I make the following observations:

- The costs of Head Office are almost entirely financed from non-corporate and non-government moneys. As a general rule, corporates and governments will not fund administration costs. Moneys provided by them are, almost without exception, tied to a particular project. The Trust may only be entitled to deduct a small percentage for its administration of the project, which is frequently insufficient to cover the staff costs involved in delivering the project.

Herein lies one of the fundamental problems for the Trust, and other not-for-profits - funding essential and significant administration costs from untied revenue such as membership fees, donations, admission fees etc.

- None of the Trust's Properties is profitable, in the sense of being self-sustaining, which is consistent with the experience of many other Trusts, both in Australia and overseas. In saying this, I note that there is no attribution to the Properties of the costs of most of the services provided for or to them by Head Office. For example, there is no attribution to the Properties of the costs of insurance, development application assistance, project supervision, accountancy and so on. If an attribution of those costs were to be made, the losses of the Properties would be increased, and the costs of Head Office would be reduced accordingly. Unfortunately, the overall financial position of the Trust as a whole would not change, but the process of attribution of costs would lead to a greater understanding of the true financial positions of each of the Properties and a better understanding of the role, costs and value of Head Office.

I now invite the Treasurer, Mr Neil Wykes OAM to deliver the Treasurer's Report, after which I will return briefly to the rostrum to speak about the way forward and to introduce the new Chief Executive, Mr Brian Scarsbrick AM to deliver the Chief Executive's Report.