PRINCE'S TRUST AUSTRALIA

Financial analysis for 2019-20 financial year

As at 2nd October 2019 (Patron update)

Purpose of this Analysis

This analysis is to provide Patrons with an understanding of how the financial structure of Prince's Trust Australia has changed, where and how the funds are being used for our new direction. It is designed to accompany the 2019 end of year audited financial report. The 2018-19 financial year was a nine-month period, to align our future financial reporting with The Prince's Trust group accounts in the UK.

Transition Strategy

In 2018 the Board of Prince's Trust Australia made a strategic decision to review the way the activities of the organisation would be carried out, following a review of His Royal Highness's work globally. As part of this global review, the Canadian and Australian charities became 'Prince's Trusts' to align with the United Kingdom and International Trusts. This also included the establishment of Trusts in New Zealand and America. Each organisation was asked to increase their impact and scale in their local countries.

The Board's Transition Strategy adopted in November 2018 has been designed to implement the headline goal of increasing our impact and scale. The three key priorities of the transition strategy were;

1. Programs: Deliver **tangible impact** through three program areas (Young People, Enterprise for Veterans, Sustainable Communities); and **operational sustainability** through an expanded staff team, high-quality delivery partners, impact measurement and safeguarding of participants.
2. Finances: Achieve **financial sustainability** through enhanced and rigorous budgeting and forecasting; and **significant new income generation** to support the Strategy and Business Plan.
3. Profile: Ensure that Prince's Trust Australia increases its **reputation and profile** during 2019-20, through the impact of its program delivery; and **promotion of our causes by the** staff team, Board of Trustees and The Prince's Trust Group.

To implement the strategy and these priorities, a deliberate decision was made to invest (and therefore decrease) organisational reserves across the 2018-19 and 2019-20 financial years. This included an investment in an enhanced staff team to build the capabilities of the organisation and generate new income.

Financial Position

The accumulation of funds over the previous years has built a level of reserves that provide the organisation the opportunity to make some investments (Figure 1), and subsequently over coming years with a balanced budget or planned deficit.

In 2018-19, the Transition Strategy mentioned above was introduced reflected by a **forecast $426,000 deficit for 2018-2019**. The final audited result for (the nine-month period) 2018-19 showed a better than expected **$255,033 deficit** and maintained a 'cash on hand' position similar to the beginning of the year. The $255,033 deficit in 2018-2019 resulted primarily from management controls (savings) on expenditure. Management and staff continue to be vigilant about expenditures. The 2019 financial report was submitted to the ACNC in September 2019. It will be accessible on the public portal of the ACNC (under "Financial Report 2018") within the next few weeks. (ACNC is currently experiencing technological issues.)

The green bar and line, in figure 1 (following) shows the effect of a '12-month year scenario' trajectory *(i.e. as if it had not been a nine-month year)* and demonstrates that revenue generation and 'profitability' for the year are still very strong. This trajectory also reinforces the importance of the Board's commitment to make financial investment this year (i.e. a planned deficit) to ensure the funds received are being used for charitable purposes and not just accumulating in retained earnings.

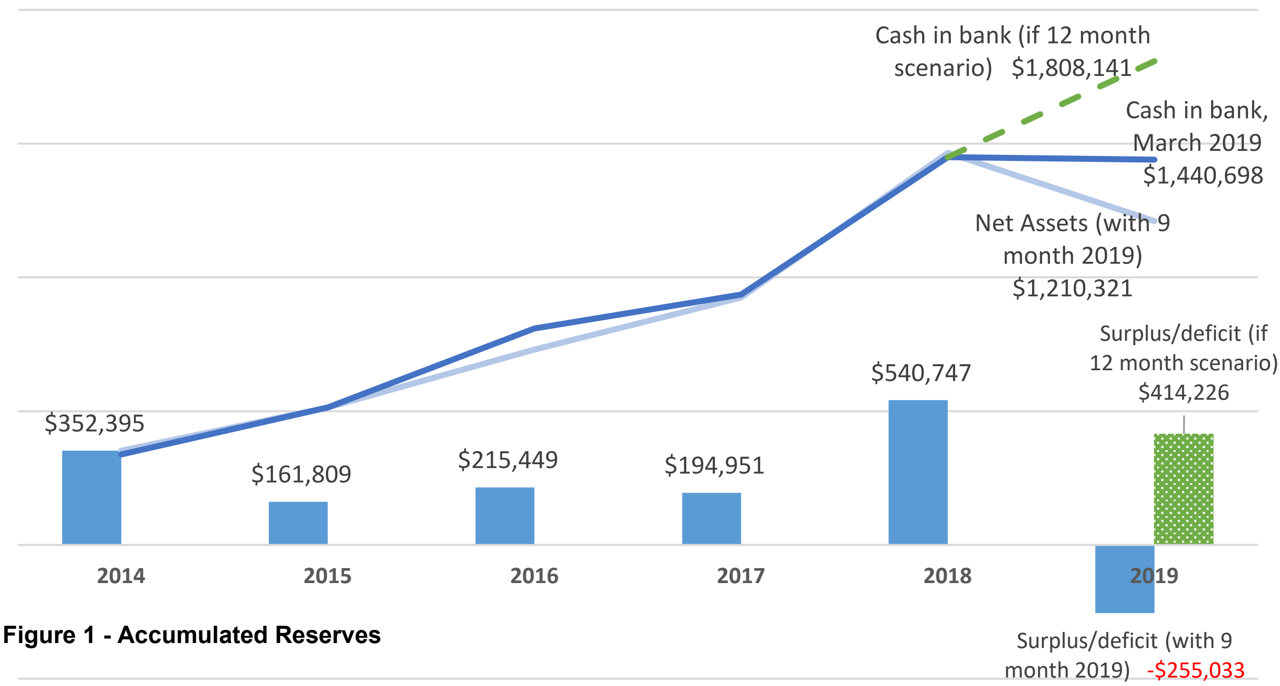

Figure 1 - Accumulated Reserves

Investment into Transition Strategy

As already outlined, investing our accumulated funds into the charitable purposes has resulted in the need to commit reserves for expenditure this year, should our growth target ($465,000 / unsecured) not be achieved. This growth target sets us on the path to increase our impact and a future basis for financial sustainability.

To understand where these investments are being made the following (Figure 2) explains the differences between the cost structures before and after the transition strategy by identifying the dollar differences between actual 2018 level expenses and budgeted 2020 expenditures. In 2018 the organisation's expenses were $1,100,000. The budgeted expenses for this 2020 financial year are $2,200,000, which are $1,100,000 above 2018 costs prior to implementing the Transition Strategy.

The investment of an additional $1,100,000 is largely in **salaries** for an enhanced staff team - as planned in the Transition Strategy. An investment in **program development** is also being made to design our new service models and programs (largely one-off). Finally, **marketing** and **travel** costs increase. The increased travel costs are due to more staff and changing our delivery model for Enterprise for Veterans by delivering our activities across the country, rather than just in Melbourne.

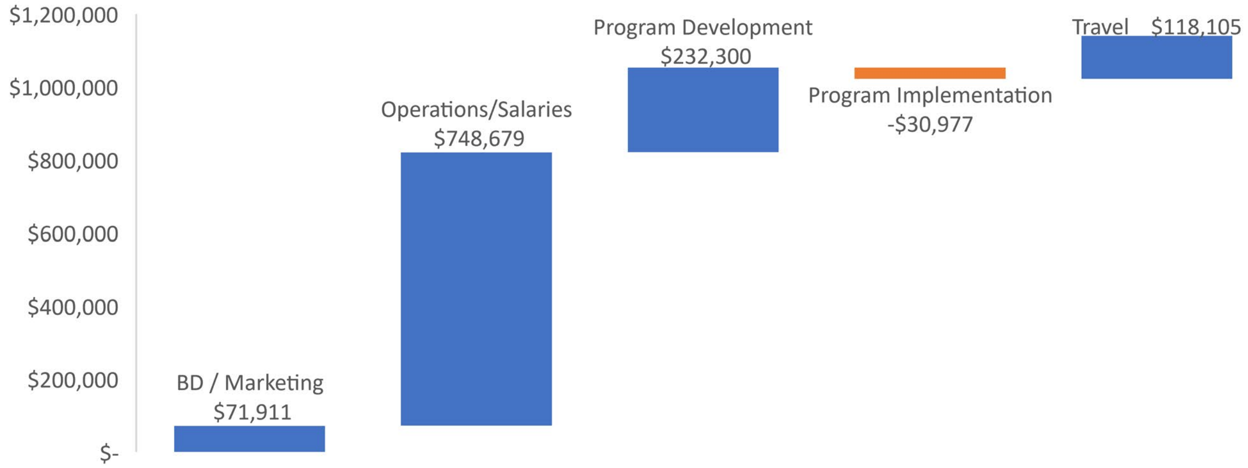

Figure 2 - Investment costs (i.e. new expenditures/savings over and above 'pre-transition strategy' 2018 expenditure)

Income sources

As noted above we have a growth target of $465,000 unsecured funds for this year which, if not achieved, will be covered by organisational reserves. This equates to 22% (Figure 3) of our planned revenue which the PTA Board accepted as a reasonable growth target when approving the 2019-20 budget in April 2019.

The remaining secured income for 2019-20 is based on renewed or existing Patron income and the Prince of Wales Charitable Fund (PWCF) grant, along with some small amounts in corporate sponsorships and fee for service activities.

In addition, our subcontracting agreement with PWCF requires an anticipated annual growth target of approximately 20-25% averaged over the next three years. These growth targets are estimates to provide for the increasing resources we will need to fund our 2019-2022 Strategic Plan.

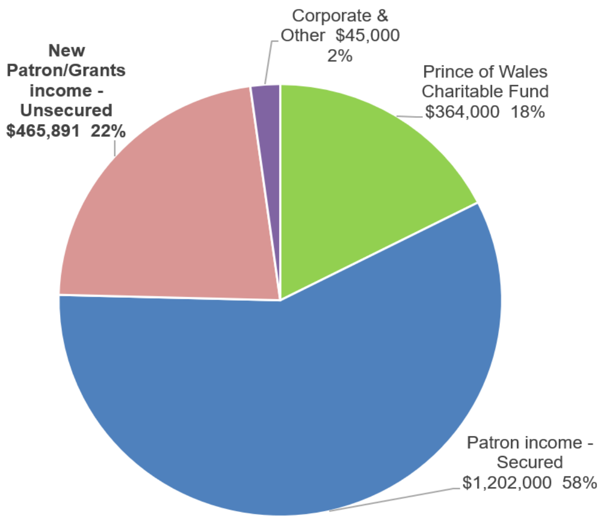

Figure 3 - Income sources

Costs breakdown

Based on the budgeted activity for 2019-20 year the budgeted cost allocation is 55% in **salaries** (Figure 2).

Our budgeted **program development** costs this year are higher than what would normally be allocated (with an investment for recruitment, consultancy for program development and management transition costs).

Our budgeted **program implementation** costs are slightly less compared to the 2018 expenses (see Figure 2), largely because we are delivering our activities 'in-house' (increasing the remuneration expense ratio), seeking pro-bono contributions and obtaining better value for money through delivering more activity with similar costs.

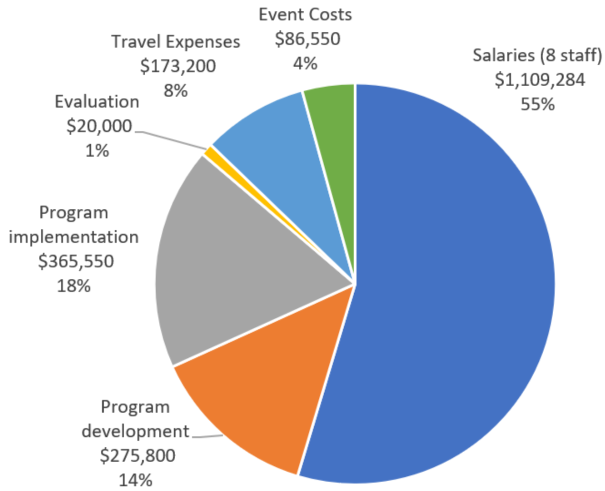

Figure 4 - Costs Breakdown

Scaling up

Based on the budgeted allocations for the 2019-20 financial year, the current proportions of expenses aligned to our activities are as outlined in Figure 5. This investment into the organisation's capability is fundamental to being able to deliver on our strategy to scale up, increase revenues and deliver tangible impact in our services over the coming years. As with any transition / capacity building strategy, the proportion of non-service delivery costs are going to be higher as part of the investment to build capacity. This capacity building is specifically focused on business development and marketing - our core two strategic priorities to increase our profile and secure new sources of funding.

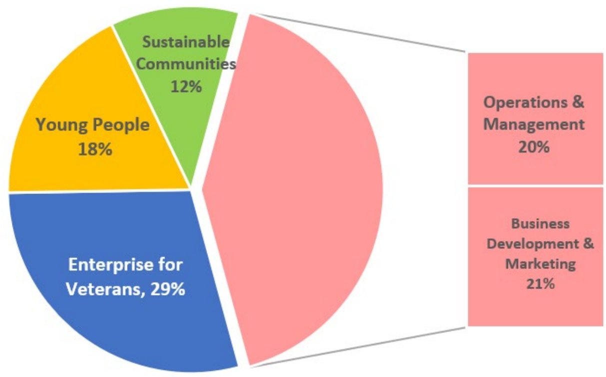

Figure 5 - Allocations 2019-20 Financial year

Over the next few years, we plan to grow the organisation's activities and will also require additional service delivery roles and resources. As this happens, we will see the economies of scale improve and the proportions of resources in Operations and Management reduce, currently 20%, to margins targeting 13-15% of overall costs.

The 2019-20-unit cost for our veterans and young people's programs are **160** Veteran participants **$3,678** *per participant* and **400** Young people participants **$919** *per participant* (pilot phase).

We are already planning for a notable improvement in these unit costs for 2020-21 and 2021-22.