

Interim Report: Standards Australia's response to the global financial crisis

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Introduction

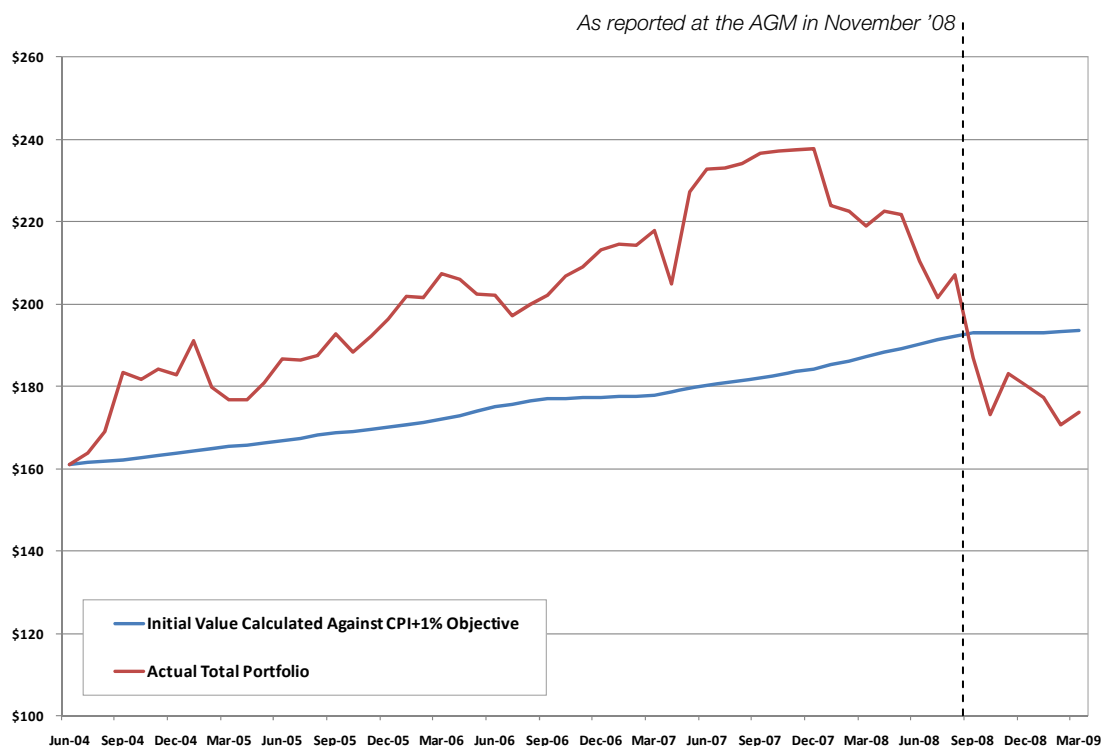
Disruption to Australian and international investment markets have had a profound impact on Standards Australia during the 2008-2009 financial year.

Standards Australia's strategy since the sale and float of SAI Global in 2003 has been to maintain a corpus of funds to generate investment returns sufficient to sustain standardisation and design promotion capabilities on behalf of the Australian community.

In June 2004, the corpus was valued at \$160 million as shown in the graph below. As funds invested rode the financial markets up, the value of the corpus increased to nearly \$240 million in November 2007.

Investment in transformational change has brought new functions, skills, pathways and processes into the organisation. However, the global financial crisis has had a negative impact on investment returns and, combined with the increased transformation spend, on the value of the corpus. The graph below shows how quickly the value of the corpus has deteriorated since last reported to you at our Annual General Meeting in November 2008.

March 2009 - Portfolio Value (Corpus) charted against CPI+ 1% investment return objective.



This financial year, for the first time since inception, reduced returns from our corpus investment failed to keep pace with the accumulated CPI + 1% benchmark required for corpus sustainability.

To appreciate the operational significance of the global financial crisis on Standards Australia, the falling value of the corpus, if realised on a long term basis, would reduce available operating expenditure to fund Standards Australia's activities by \$3M per annum.

Standards Australia's Financial Strategy

Standards Australia's financial model and long term financial viability are largely borne out of its considerable reliance on enduring returns from its investment portfolio. The fundamental principles are to:

- live within our means to ensure the organisation's survival in perpetuity;
- maximise long term investment returns by optimising the balance between risk and return;
- maintain the real value of the investment portfolio in perpetuity;
- acknowledge that investment returns will fluctuate from year to year however short term operating cost levels and performance targets should be aligned with average long term return expectations.

Standards Australia remains as committed today to these principles as it was when they were first established. For budgeting purposes, our independent investment advisors have recommended a prudent deemed corpus value for the 2009-2010 financial year, having regard to average long term return expectations. However, given the severity of the current crisis, the need to prevent erosion of our capital base and the Board's vigilant approach to ensuring long term financial sustainability, a targeted response is timely and appropriate.

Impact on Standards Australia

Standards Australia needs to adjust its operating expenses to reduce drawings from the corpus, and as investment markets recover, work to rebuild the corpus to a sustainable long term position.

The company is well positioned to make the necessary adjustments. In recent years there has been significant investment in transformative change to make our business more efficient.

The Board has instructed Standards Australia to find operational savings in 2009-2010 and 2010-2011 to reduce drawings on investment income and stabilise the value of the corpus. These savings will need to be in the range of \$1 million to \$1.5 million per annum.

Further savings are required post the 2009-2010 year when the \$9M investment in transformation concludes its third and final year. Accordingly, additional revenue will be required to fund New Business Model projects. The New Business Model puts more emphasis on those seeking an Australian Standard to meet costs incurred through the chosen Development Pathway or, as an alternative, become accredited to develop their own Australian Standards in accordance with the Accreditation Board for Standards Development Organisations (ABSDO) criteria and requirements.

Implications for Stakeholders and SA funded projects

For active projects progressing under the Standards Australia Driven Pathway, where the real costs are incurred by Standards Australia, Standards Australia will apply its reduced funds and resources to complete as many of these as possible over the next 12 months.

At the completion of this 12 month period, the Standards Australia Driven Pathway will no longer be available for any projects. All remaining projects not completed under this Pathway will require full stakeholder funding in accordance with our pricing model.

At a future point in time, upon recovery of corpus value, consideration will be given to establishing a Standards Australia funded grant scheme to support co-funded project proposals, with emphasis upon national priorities and those projects addressing identified consumer, small business and major public policy issues for the Net Benefit of Australia.

All projects currently classified as provisional from the 2008 review, and those active projects that are not completed by the end of 30 June 2010, will need to be reviewed in light of tighter resources. For these projects to progress, a new Project Proposal Form will need to be completed and put forward to Standards Australia for consideration. These projects will have three Standards Australia Pathways available to them – Collaborative, Bureau and Committee Driven. Funding will be required for services beyond the minimum agreed project management package for the Pathway, project and resource usage. Costs will be negotiated at the outset of the agreement in alignment with Standards Australia's pricing model.

A further option available to stakeholders is to develop their own Australian Standards by becoming accredited through the Accreditation Board for Standards Development Organisations (ABSDO).

To assist stakeholders to access the skills and capacities of world leading Standards Developers, Standards Australia is enhancing harmonisation, recognition and usage of prevailing International Standards, in accordance with the spirit and intent of the World Trade Organization's Technical Barriers to Trade requirements for consensus Standards.

Implications for Staff

Through the implementation of the New Business Model, Standards Australia has made substantial investments in new skills, staff development, more efficient processes, improved technology and better engagement with industry.

Standards Australia now has the capability to support new Standards Development Pathways that provide greater flexibility around development timeframes, resources and project management. In particular Standards Australia is now able to deliver high value Standards solutions to agreed timeframes where funded by stakeholders.

As a result of the reduced investment income and underlying cost structures, however, Standards Australia does not have the resources available to continue its previous levels of support for Standards Development activities that are not funded or resourced by stakeholders.

From the Board and CEO down, there will be no general salary increases in 2009-2010. 2008-2009 performance bonuses for staff have also been cancelled. Effective immediately, Standards Australia has adjusted staff numbers in line with sustainability requirements through a round of redundancies. These redundancies will affect some Standards Development and Support Service staff and reallocation of projects will be required due to these staff changes.

Standards Australia recognises the enormous contribution these staff have made over a number of years to the organisation and to standardization. We will be working with affected staff to transition them with dignity and respect.

The Future

The Standards Australia Board and management have taken action to respond to changing external circumstances and to ensure a sustainable corpus, the viability of Standards Development, national and international coordination of standardisation activities, and design promotion in Australia well into the future.

As the Chairman has indicated, some real and immediate pain for both the Standards Community and Standards Australia staff is inevitable. These adjustments are not radical, but are necessary.

Through this measured response made possible by the foresight embedded in our recent change programmes, the Board has positioned Standards Australia to continue to deliver to its charter well into the future.