

Statement presented by UYCE Board Chair at a shareholders information session on Wednesday 14 August 2019

Good evening ladies and gentlemen and thank you for attending this Information session. Our company has been on an interesting journey over the last couple of years and as a relatively new board we thought it was appropriate for us to conduct an information session to introduce some new staff, new Directors and update you, our shareholders on progress. This is about being open and transparent to shareholders on where the business is at after nearly 20 years of operation.

Tonight we will be covering the following issues (Listed items 1 to 11). I would ask you to be patient with me as we go through each of these issues, after which there will be an opportunity for questions.

To assist I will quickly go through the various companies that make up our current organisation:

- Upper Yarra Community Enterprise - UYCE – Currently hold two Bendigo Bank Franchise, up to 10 Volunteer Community Directors.
- Upper Yarra Community Power – UYCP – Construction and operation of Mini Hydro at the Warburton Golf club, 4 Volunteer Directors, Currently 2 from UYCE and 2 Community.
- Warburton Waterwheel Ltd – Waterwheel – Operations of Warburton Information Centre under lease from Yarra Ranges Council, 4 Volunteer Directors – Currently 2 from UYCE & 2 from CEDA

It is now my pleasure to introduce 3 of our new senior staff:

**1. Introduction of Executive Officer – Suzanne Phoenix**

Suzanne comes with over 15 years experience in leadership roles in the Community, Not for Profit and Local Government sectors in the areas of social and community services and development. She grew up in the Yarra Valley and has lived back in the area for over 5 years after living overseas in England, Scotland and New Zealand. Suzanne is also the EO for Victorian Community Transport Association and a photographer.

**2. Introduction of Bank Relationship Manager – Aaron Hogan**

Aaron has been in the banking industry for nearly 17 years (4 of those with Bendigo Bank) and has done a mixture of branch, lending and business

banking roles during this time. Aaron enjoys the community engagement that UYCE and the bank promote and are involved in as this is close to his passion and values. He also enjoys the customer service side of his role assisting customers achieve their dreams and goals. He and his family grew up in Warburton and he went to primary school locally. He and his wife and 2 small children live in the Yarra Valley. Please make yourself known Aaron particularly if you have any new banking requirements.

### **3. Introduction of Banking Operations Manager – Kristy Sumner**

Kristy commenced working for the Bendigo Bank in 2010. Over the next 7 years Kristy worked across many positions within the bank including, Branch Manager and Sales & Capability Manager for the Yarra Ranges Region. For the past 2 years Kristy has been employed as a Sales Development Lead for IAG/CGU, assisting branch staff across Victoria with, training, coaching and compliance around insurance. Kristy, her Partner and two young boys live in Yarra Junction and are activity involved with several local sporting clubs. Kristy is passionate about developing engaged and educated teams who provide exceptional customer service and is excited to commence her new role with UYCE to assist in building strong and sustainable community partnerships.

We have also had a number of new staff at both of our Branch's and I hope you have all had the opportunity to meet them.

### **4. Introduction of Board Members**

I would like to introduce each of the directors, including new members. I will not provide an overview of their background this information is available on our website. All nine existing and newly inducted Board members were introduced.

We are truly blessed with the very broad range of skills, knowledge and expertise that they bring to the table. Over the last 18 month period we will have inducted 8 new Directors to the Board.

I would also like to take this opportunity to acknowledge former Directors and staff. Who are present here this evening.

## 5. Overview of status of Hydro Project

The **Warburton Community Hydro** is a project proudly undertaken by Upper Yarra Community Power Ltd, a solely owned subsidiary of Upper Yarra Community Enterprise . The Warburton Community Hydro is situated at the Warburton Golf Club and commenced operation in August 2018. It diverts water from the creek through a pipeline to a generator housed in an underground bunker just below the first green. Power generated is fed into the domestic electricity grid. It was officially launched on 31 October 2018.

Community support for this unique project has been positive, with appreciation for the use of natural assets, the positive impact on the environment and ideals for increased self-sufficiency and leadership in the sustainability sector of particular merit. It has been successful in winning a number of State based environmental and engineering awards and is a finalist in a number of national awards.

This was a joint project with Bendigo Bank®, Victorian State Government, Yarra Ranges Council, Powershop, RiverPower Tasmania and Warburton Golf Club. The project was initially funded through a \$450,000 grant from the Department of Environment, Land, Water and Planning's New Energy Jobs Fund, and a Bendigo Bank® loan for a further \$450,000 which has been guaranteed by UYCE.

*One of the objectives of this meeting is to update shareholders on the financial status of Warburton Community Hydro project and implications for the current and future financial years.*

<b>Outcome</b>	
The Warburton Community Hydro is not delivering the expectations of the original business case. It is unlikely to provide any material return on our investment until the bank loan is paid off which is likely to be 15 to 20 years.	
<b>Development Projections</b>	<b>Current situation</b>
Rainfall and creek flow predictions were based on detailed analysis of historic data within the region	Rainfall and groundwater reserves are less than half business plan predictions – an unanticipated period of the lowest rainfall on record

A project build cost of \$900,000	Increased project build costs across the board to \$1.3 million
Business expectations provided for output from the plant based on an estimated 90 kwh	Average output from the plant since going live is 36 kwh
Renewal Energy Certificates (REC's), government payment set at \$80	Actual REC issued at approximately \$33
Feed-in tariff set by government	Actual Feed-in tariff for 2019/20 of 12.4 cents which is consistent with forecast

In relation to the increased construction costs, the current Board have not been able to definitively identify where all of the cost over-runs occurred. The major issues appear to be:

- There was no contingency provisions in the original budget, for a project of this complexity it would usually be in the vicinity of \$200k.
- Additional costs associated with the undergrounding and soundproofing of the power house which did not form part of the original costings
- Unanticipated costs from service authorities, such as re-establishment of the creek bank and costs associated with linking to the power grid.

### **Status**

We have adopted a position of transparency with shareholders on the financial status of UYCP. The current Board has conducted a thorough review of all income and expenditure and has implemented an action plan to minimise ongoing risks. The current position is as follows:

- a) UYCE equity in the project is \$285K;
- b) In addition to the Bendigo Bank Loan of \$450k there is an interest free loan to UYCP from UYCE of \$131K which will not be paid down until the Bendigo Bank loan is fully paid;
- c) All ongoing costs have been reviewed, and where possible renegotiated;
- d) There are ongoing negotiations with business partners to improve income returns;
- e) Any profits generated by UYCP will be applied in the first instance to the BB loan repayment, this is a clear strategy to reduce longer term exposure and/or risk to both companies;

- f) The goal is for UYCP is to continue to operate as a sustainable enterprise, in profit;
- g) There will be continued and close budget monitoring and financial control by both Boards; and
- h) We are developing a risk minimisation strategy which will be regularly reviewed and updated.

Whilst the accounts of UYCP must be consolidated with UYCE under ASIC requirements, we will provide as part of the annual report, separate financial statements on the performance of each company so that there is full transparency on the relative performance of each organisation.

In essence, the viability of the project is reliant on three key variable components which we will continue to monitor:

- Rainfall;
- The value of Renewable Energy Certificates; and the
- Feed in tariff.

## **6. Warburton Visitor Information Centre (Waterwheel)**

As a Board we remain committed to the oversight role that we currently provide in regards to day to day management and operation of the Waterwheel. I would like to take this opportunity to thank the volunteers who contribute significant volunteer hours into the operation of the centre, what a great job they do on behalf of our region. We are one of very few remaining Information Centres in the region with the move towards digitisation and reliance on social media.

We are currently undertaking an analysis of the operations at the Waterwheel to ensure the most cost effective delivery of the service. Whilst the centre operates at a marginal profit, this does not take into account the estimated \$30,000 of in-kind support provided by UYCE to it's operations. A more business-like approach needs to be applied which we are currently progressing. The Warburton Mountain Bike Destination Project provides an exciting opportunity in this space that we must plan to capitalise on.

## **7. Overview of current Banking operations**

The bank business continues to operate profitably although there are ongoing

challenges that we must regularly focus on. As reported last year the key factors are:

- a. Maturing of business, particularly at Warburton;
- b. Increased checks and balances within the banking system, since the royal commission;
- c. Historic Low interest rates;
- d. Funds Transfer Pricing, that is, a review of the profit share arrangement with Bendigo Bank.

Over 2018/19 we have experienced substantial changes and turnover of staff, both within UYCE and Bendigo Bank. This has been challenging and disruptive to services. I would like to acknowledge the fantastic effort of our great staff through this difficult time.

As projected in last years Annual Report these factors impact on our bottom line.

I can advise for the financial year just completed UYCE Net Profit (unaudited) is \$120k which is (7%) down on our 2017/18 performance. This included community contribution of \$160k.

We have commenced a restructure of the organisation, you have already met Suzanne, Aaron and Kristy. We will now review the operations at each of the Branches. We have restructured our community investment program to better leverage business outcomes through this program. The budgeted Net Profit for the 2019/20 financial year is \$120k which includes a provision for Community Investment of \$150k down on previous years but still a significant contribution to the community.

It was interesting to note the results of the Bendigo Banks own performance for the past financial year as recently announced by Marnie Baker company CEO. Overall they reported a downturn in profit of 13.3%. If I may quote from Marnie

*“It has been a tough year to perform with the external demands on the industry in an environment of low-growth, political uncertainty, subdued consumer confidence, low interest rates and increasing competition.”*

Marnie goes on to say:

*“The year ahead will be a challenging one, with continued cost pressures in a low growth environment.”*

These challenges not dissimilar, of course, to our own business.

I would like to say, however, that our Yarra Junction branch was one of only 3 branches in our region that met it's performance target for the year, a great effort by Emily and the team.

## **8. Balance sheet status**

In terms of our balance sheet, it is not as strong as we would prefer. Our reserves have been depleted over recent years as a result of the share buyback and investment in the Hydro project. The Board has confirmed the previous commitment of \$300k towards the Warburton Mountain Bike Destination Project. For the 2018/19 financial year UYCE Total Equity has improved slightly to \$1.453M. We need to rebuild our cash reserves which will be a focus of the Board over the next couple of years.

## **9. Dividend for past year**

Unfortunately the issues that I have already outlined have impacted on our bottom line, and in turn will impact on the current year's dividend. The Board remains committed to the long term policy position of dividends reflecting 20% of operating profit, which was the basis of the Community Enterprise model. The potential for reduced dividends was highlighted in last years Annual Report. The estimated dividend that will apply for the financial year just completed is 3.64 cents per share, fully franked. I appreciate that this may not meet expectations of some shareholders but is necessary as part of our restructuring of the enterprise. 3.64% return compares favourably to current interest rates for term deposits of 1.6% to 1.75%. There will be a formal announcement in regards to the Dividend in due course.

## **10.Strategic business plan & where to from here**

Over the last 18 months, since I have returned to the Board in the role of Chair, we have undertaken a comprehensive Governance review of the Organisation. This was timely as the organisation has been running for over 20 years, and has changed substantially. The majority of the recommendations from this review have now been implemented. The next stage is to develop a new strategic plan which has also commenced.

The initial draft of the plan has identified the following as our core beliefs moving forward:

- Community good should be at the centre of all we do;
- Community banking is best for the community;
- We must effectively engage with our communities for them to better understand our story;
- We must be respectful and ethical in all our business and interpersonal dealings;
- All our activities are largely dependent on our successful banking business – we must ensure we are always working to best practice in this area;
- We are a business and as such there is always an obligation to maintain a strong and healthy balance sheet.

With the following aspirations over the next 5 years (BHAG):

- UYCE is recognised nationally as the leading example of what can be achieved in a community enterprise model. 80% of the UYV community now bank with our two BB branches, driving healthy growth;
- Hydro is paid off and running profitably;
- the Waterwheel, a national tourism award winner, has moved from a community development exercise to self-sustaining and fully commercially viable;
- The investment in the bike hub has been a winner, with it achieving its projected 160,000 extra people to the UYV which is driving substantial business and community improvement. UYCE is recognised as a core enabler in this international award-winning project;
- New, major business / community building projects are in development.
- Shareholders are proud of their investment, which has become a desirable one, and after the buyback, shares sit at \$1.10.

On the issue of shares, I can advise that we are currently in the process of undertaking a comprehensive review of the share trading process. We are aware that it has not been a simple or intuitive process. There are lots of rules and regulations in this space but we will simplify as best we can. If any shareholders would like to be consulted on the review please let me know, your input would be appreciated and very helpful.

Ladies and gentlemen I understand that some of this information may be new to you. There have been issues that have evolved over a number of years. Our intention here, as I said from the outset is to be open and transparent with you, our shareholders, and to reassure you that the current volunteer Board is working extremely hard on addressing the various issues and building the

business moving forward. I thank the current Board for their ongoing commitment and look forward to working with them into the future. We would appreciate your support as we continue on this journey.

Thank you all very much for your patience, I would be happy to respond to any questions.

## **11.Open Forum**