Risk Management for Trustees – What lessons can we learn from Personal Finance?

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Trustees will need no additional reminder of the weight and breadth of responsibility that they take on by acting in their respective roles. Whilst every charity is different in terms of the scope of their activities, size, structure and funding, recent events have focused attention on the sector like never before. Coming in an era when charitable organisations play a vital role fulfilling activities that successive governments have sought to withdraw from, there are indeed challenges aplenty.

The world has changed in fundamental ways with a speed that has no obvious historical precedent. If we reflect on the fact that the financial crisis only broke six years ago; that social media now offers immediate worldwide penetration; no area of a charity's operations are beyond potential public scrutiny. It may appear that complexity and risks have increased without an obvious link to greater opportunities. However, the need for clear goals and more transparency potentially offers Trustees greater certainty by managing risk in a manner that allows the organisation to meet the changing needs of beneficiaries, both now and in the future.

The Charity Commission's Guidance document *CC26 'Charities and Risk Management'*, identifies the multi-faceted nature of risks faced under five broad categories. The guidance is clear that effective risk management by Trustees is important in making informed decisions and obtaining the most of opportunities that exist. Risks can never be entirely eradicated; indeed this should not be the intention. Rather knowledge and the monitoring of risks should allow a level of confidence to be engendered.

If we focus on the financial risks highlighted by the Charity Commission, there are many who believe that managing key risks with investment management policies, reserves and cash flow policies could potentially benefit from the evolution currently taking place within the personal finance sector. In particular, we are seeing that 'financial planning' is replacing the traditional model of specific product advice (e.g. pensions or savings). The provision of full planning, encompassing all financial elements, which is built upon the creation, monitoring and review of a bespoke financial plan on behalf of a charity could potentially provide a greater degree of confidence around risk management.

The use of professional third parties to offer outsourced expertise is essential where the Trustees conclude that there is insufficient in-house experience. In the context of the specific needs of charities, a financial plan should encompass cash flow management and forecasting on a short, medium and long term basis.

For the short period, the plan should allow sufficient working capital and liquidity to dispatch near term obligations (typically falling within a 12 month period). For the medium term (potentially up to five years) suitable cash management advice could be valuable in ensuring the right levels of liquidity at the right times to ensure cash flows can be continued and flexibility of grants retained. Even with interest rates still at historic lows, there may be scope for better solutions from the Trustees' perspective.

Looking finally to the longer term, a financial plan could contain cash flow modelling to provide a roadmap to work from and continually update as circumstances change. For many Trustees getting an intuitive understanding of what funding is required in the longer term allows for greater clarity in the decision making process and forward planning to be more detailed in nature.

The underlying assumptions should be tailored to the charity's individual circumstances and will in most cases require interaction with the investment management as documented within the Investment Policy Statement (IPS). Trusted advisers will be able to advise upon and update an IPS, including the due diligence and ongoing monitoring of the select investment managers. A number of speakers at the CFG Investment Conference will be covering pertinent topics such as investment strategy, manager selection and performance evaluation.

Financial planning is distinct from investment management as it takes a wider view of the needs of the charity. Advisers of this nature act as the exclusive agent of the charity client and sit on the same side of the table, scrutinising and appraising investment managers at the regular review dates.

Many individual clients have seen financial planning as a revelation as they are more engaged with their bespoke plan and lifetime goals in a way they never were with product based advice. It will be interesting to observe developments within the charitable sector. Service and trusted advice should always be at the heart of any financial planning offering to this indispensable part of our national fabric.