

# IMPACT SEP 2015: WHAT IS THE ROLE OF FINANCIAL GOVERNANCE



PERPETUAL IMPACT  
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“In a field with many myths, our commitment to truth and our straightforward, non-judgemental approach were viewed by staff and clients as integral facets of our identity,” explains Alice Evans, Chief Executive Officer of True.

“That’s why we settled on the name. The addition of Relationships & Reproductive Health then makes a more explicit reference to our work in relationships education and the growth of our clinic services,” she says.

## LOOKING TO THE FUTURE, RESPECTING THE PAST: WHAT IS THE ROLE OF FINANCIAL GOVERNANCE?

From a grass-roots organisation to a key health services delivery agency, True Relationships & Reproductive Health (True) demonstrates where and how conversations around legacy and financial governance cross paths.

As the services demanded from the health sector have evolved over the past 40 years, so too have the challenges. True’s commitment to delivering to mission in the face of these challenges has seen it transform itself to achieve financial sustainability.

Recently reborn as ‘True Relationships & Reproductive Health’, Family Planning Queensland started out in 1972 as a pioneer in addressing women’s reproductive health needs. The organisation is now a diversified health services delivery agency upon which the government relies extensively.

‘True’ was chosen for the rebrand as it better reflects the organisation’s commitment to accurate, evidence-based practice in varied areas, such as community gynaecology, child safety, disability education and sexual violence counselling.

Despite the fact that True is an established community health provider, charged with the administration of government services, it remains exposed to political forces in terms of funding support.

Setting up the next chapter in the organisation's journey also involved thinking seriously about how True could secure its financial future, which would help it to deliver to mission in perpetuity.

Divestment from real estate formed a key part of True's financial risk management strategy, developed in consultation with Perpetual.

"We had a disproportionate amount of our net worth tied up in an illiquid and single asset base with significant mortgages," explains Alice. "Further, the property did not meet our service delivery requirements. Essentially it was prudent to have a more balanced portfolio."

A major windfall event, such as a building sale, is often at the heart of a not-for-profit's strategy to balance out its investment portfolio and future-proof the organisation. In True's case, it enabled the establishment of an endowment fund, or "future fund" as Alice calls it.

The development of a framework for its financial decision-making processes became a crucial tool for the True board to assist in its deliberations.

At a board level, these financial governance conversations were designed to establish practices and formal structures, which would ensure that True's investment approach was transparent and suited to purpose.

The issue of being suited to purpose was a vital one, emphasises Alice, as "True's decision not to generate an immediate income stream set us apart from many other NFPs."

The question of who to work with to assist with the framework development and investment management was an important first consideration. Working with a trusted adviser like Perpetual, which has experience within the social sector and management of growth funds, can help boards bring together their fiduciary and mission related responsibilities.

"We worked with Perpetual to develop an investment policy based on a broad growth portfolio," tells Alice. "The decision to reinvest all income from the fund was based on a long-term outlook and may enable investment in social programs as well as allowing us to weather economic shock over the next 15-20 years. We intend to add to the initial capital through further fundraising in the coming years," she says.

**"One of our long-term objectives was to have a positive financial plan to help underpin our social purpose, so it was natural to reassess our portfolio and goals in this light."**

**Alice Evans - Chief Executive Officer, True.**

Clearly, the role of sound financial governance in protecting the future of NFPs and ensuring they are delivering to mission is immense; and building financial governance capacity is increasingly being embraced as a fundamental project across sectors.

"We're having many conversations with organisations, from schools to medical research centres, around the question of financial governance," says Scott Hawker, National Manager – Not-for-Profit Endowments at Perpetual. "These conversations tend to arise when NFPs are faced with different options – for example, whether to retain or divest a real estate asset. This willingness to seek guidance is generally a sign of maturity in the organisation," Scott says.

The benefits of rigorous financial governance to donor relationships are also coming to light, according to Scott.

“By formalising the decision-making processes around financial management, organisations are not only securing their ability to deliver to mission into the future, but also clearly communicating to donors that their philanthropic funds are in safe and strategic hands.”



With so many stakeholders, frameworks and checks and balances to negotiate, it may be difficult for an organization to envisage how the appropriate governance of their investment mandate is carried out and monitored day-to-day. A sound investment policy is again essential, emphasises Alice. “True’s fund management policy provides for overall day-to-day decisions to be made by our expert fund management partner within pre-approved criteria and limits,” she explains. “Re-investment decisions and changes to the portfolio mix require board approval. Likewise the board and executive team will monitor regular reporting.”

True’s experience clearly demonstrates how a well-managed windfall event or property divestment, framed within a strategic financial decision-making process, can help future-proof an organisation and allow it to focus on delivering to mission.

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