RISK MANAGEMENT BY DANIELLE BIRD, FINANCE DIRECTOR AT UTILITY AID

utility aid

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The financial world is very volatile at the moment and what means is that a lot of decisions that I make along with the Board of Directors has an element of risk. One thing that I do not like is uncertainty. I sit with our Leadership Team every month to compare budget versus actual, to make sure we are meeting targets, and not overspending. I do this, not only because it's part of my job but also because I hate the unexpected. I take pride in accurate forecasting and feel responsible for it when it's not.

If the unbudgeted charge to the P&L is small, it might not matter too much. And to an extent, we could say things like these are simply a cost of doing business. But what happens when the unexpected charge is large? So large in fact, it could bring the organisation to its knees? This is what happened to one of our customers.

An organisation we have begun working with recently, came to us for help because they had entered into a flex contract thinking it was fixed, by not understanding the product they had procured the consequence was that at one point their exposure was over £1m due to the volatility of the market, and the fact they had not purchased their energy, if they had signed a fully fixed product their exposure would have been £172k.

The risk that was taken by this organisation was something that I would not have taken, had I been faced with the same decision.There is no question that the FD did what they believed to be right at the time. The price may have appeared to be attractive, and they may have even assumed a saving. Unfortunately, this organisation did not have Utility Aid at the time, available to advise them that flex, as a product, is hugely risky and to explain those risks so that they could make an informed decision.

I can only imagine that right now the FD feels sick to their stomach. My heart goes out to them. They cannot possibly have budgeted for such huge increases, as who in all fairness could have guessed that energy rates would have gone through the roof to the extent they have? The truth is, no one. But he could've budgeted for the risk, and de facto got approval at budget sign-off to have a plan of action should markets get out of control as they have done.

The moral of the story is that risk can be an unknown quantity and if a charitable organisation operates with a material element of risk in its day-to-day operations, then surely the Trustees/Board should be made aware of what that potential risk could be and then mitigate for it?

Products that are available across the energy market are named in a way that make it so unclear as to whether something is fixed, fully fixed, subject to pass-through or not fixed at all. Giving yourself time to read about the product or discuss with your trusted energy broker, is the best way to ensure that you are going into these energy contracts with all the information to make informed decisions. We are only a phone call away so feel free to get in touch;

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