

Doing Good by Doing Risk Management

By Lee Coppack

There are nearly 170,000 registered charities in England and Wales, and they support every charitable object imaginable from the Essex Cavy & Rat Rescue to the Friends of Lime Trees. Two-thirds of them are very modest, with less than £10,000 income a year, although there is a small group – 440 in 2002 – whose average income is £30.6m a year.

No matter how large, voluntary bodies do not come under the Turnbull and combined codes on corporate governance but the Charity Commission, the statutory body that oversees the conduct and operation of charities, expects them to comply with the spirit of this corporate governance guidance in relation to risk management. A statement of recommended practice (SORP) issued in October 2000 sets out the principles.

Trustees of all charities with a gross income above £250,000 per year are required to make a statement in their annual report confirming that they have reviewed the major risks to which the charity is exposed and put in systems to mitigate those risks. The Charity Commission also encourages risk management as good practice for smaller charities.

To help charities respond to the SORP requirements, the Charities Commission published **Charities and Risk Management**, a clearly worded guidance document which is available on the commission's website. It outlines each stage of the risk management process and discusses systems to identify major risks and to help trustees to deal with them.

A spokesman for the commission explains that the areas of risk depend more on the type of activity charities undertake than their size. For example, charities that provide face to face services to

beneficiaries face different risks than those that simply make grants. The particular risks depend on each individual charity and its risk assessment.

For larger charities, there is often a greater degree of complexity in their operation, and more at stake should things go wrong, both in terms of finances and reputation, the Charity Commission believes. This increased scale of risk puts a particular onus on larger charities to ensure that they are robust in identifying risk and ensuring that processes and procedures are in place to effectively manage the risk, says the spokesman.

Large, complex and emotive

With an income in 2002 of just under £80m, the UK's pre-eminent animal charity, the Royal Society for the Prevention of Cruelty to Animals (RSPCA) fulfills the description of large and complex. And as the Charity Commission comments elsewhere, charities that "which rely on a strong emotive appeal involving vulnerable groups or animals." attract the most public attention.

This is something the RSPCA knows well for better and worse. As the world's oldest national animal welfare charity in a nation of animal lovers, it is a media magnet, and the RSPCA exploits that attraction to further its aims, reporting that in 2002 "opportunities to see" the society in the media had risen from 3.6bn from 3.3bn the previous year.

It also means there are strongly held views as to how such an institution - patron HM Queen – should behave. The decision by the RSPCA to oppose hunting with dogs and appointment of an anti-hunting director general, Jackie Ballard, have made it a quarry for media that believe it should "be saving animals, not hounding MPs," as the headline for an opinion piece in the *Daily Telegraph* read on 22 October 2002.

In its annual report for 2002, the RSPCA council of trustees reports on risks and opportunities for the society, stating that they “take seriously” the risks to which it is exposed. The council has reviewed these risks in light of SORP 2000 and is developing further mitigation systems. Accountants BDO Stoy Hayward have completed a study for the society on risk assessment and mitigation with special attention to

Protection of the society's reputation

Continuing availability of finance

Health, safety and welfare of volunteers and staff.

Dependent as it is on public donations and legacies, the society has devoted effort into developing accurate cash flow forecasts. Despite this systematic approach to risk management, the RSPCA has been forced to make a number of cutbacks as a result of previous expenditure decisions and depressed equity values.

Charity trustees are under a general legal duty to apply charity funds within a reasonable time of receiving them and only to hold reserves that are justified to secure its long term operations. When in 1999, its free reserves reached a high of nearly £60m, the RSPCA council decided on a policy of spending more than its receipts. However, the deficit on its revenue budget combined with a loss in investments of £25.6m over the three years from 1999-2002, means the trustees have been forced to reduce or postpone all capital projects, cut a number of jobs and freeze pay increases. It also had a shortfall in its pension fund of £21.3m in 2002 under FRS 17.

In its 2002 report, the council of trustees does not comment on what role its risk management systems and controls may have played in this series of decisions. They say only that no forecasting system “could have foreseen” the long fall in the world's equity markets, and it is, therefore, even more important to set out and establish the appropriate level of reserves for the society. In addition, the society has

continued to maintain relatively high cash levels to avoid the need to sell investments at low points in the market. The RSPCA said it was willing to discuss its risk management strategy, but in the end no one was available for interview, so this information comes from its published documents.

For the RSPCA, one of the most important issues will be the extent to which publicity about the financial issues and the measures it has taken to balance its budget could affect its income adversely. In 2002, there was no evidence this had happened. Total incoming resources increased by £9.7m or 14%, including an increase in contributions and donations of £4.1m.

The Charity Commission, however, was very helpful and its statement shows that it monitors the risk management statements provided by charity trustees. Says the spokesman, "The Charities Commission reviews the reports and accounts of a large number of charities (including the largest 400) in detail each year and as part of this review it looks at the risk statements. Further, as part of its review visits programme, which involves one to one health checks with 600 charities a year, the commissioners discuss risk management issues with the trustees"

He adds, "If our review of any report and accounts indicates that risk management has not been properly undertaken we would contact the trustees and seek clarification."

Insurance

The hard insurance market has brought difficulties to many charities. Says Clive Moulson, a director of Zurich Municipal, "Many insurers are restricting their activity to those business or consumer sectors that they see as their core markets – and all too often it is the voluntary and charity sector that loses out."

The effect on some charities has been material. Britain's largest conservation charity, BTCV said its insurers effectively withdrew cover by changing the conditions so that the majority of its conversation groups were excluded. "The withdrawal of insurance cover caused a great deal of inconvenience and operational difficulties," explains Tom Flood, chief executive of BTCV. "Most groups had to stop their work entirely. Many of them work on urban and rural regeneration projects, and obtaining insurance elsewhere was not an economic option.

BTCV switched to Zurich Municipal which confirms it has provided cover for other charities in similar circumstances, for example, saving Youlgrave Waterworks in Derbyshire from closure after insurance cover was withdrawn on the 173 year old community water supply co-operative.

The Charity Commission acknowledges that many charities are facing increased insurance premiums, and it expects trustees to examine whether there are other ways of mitigating the insurable risks, such as better security measures, changed procedures, additional checks or halt to particular tasks.

"Where insurance is the only response possible, then we expect trustees to use it. Trustees should consider shopping around to test out insurance costs and should discuss with potential insurers what they can do to keep premiums down. Not taking out insurance where it is indicated by risk analysis work might be regarded as a breach of trust," says the spokesman.

Initiatives

Larger charities, some of whom have designated risk managers, are in a position to take more initiative. A group of them has commissioned a feasibility study into a charity mutual, opened discussions with brokers, major and smaller, to find viable insurance schemes and begun discussions with the Association of British Insurers

(ABI) which arranged a meeting with them on 11 July 2003 to consider the real issues that the insurers have with charities/voluntary sector and to resolve them.

John Barton, risk manager for Cancer Research UK and chairman of the voluntary sector special interest group of the UK risk management association AIRMIC, says there are groups working together such as the Charity Consortium, the Charity Finance Directors group (CFDG) and the Home Office (active community unit) insurance working group. They are addressing not just increased premiums, reductions in cover and limits and the few cases where insurance is no longer available at all, but also concentrating on the risk management processes and looking into ways of developing this where it is weakest.

What they hope to achieve, explains Barton, is acceptance by insurers of the sector as an acceptable risk through better communication of the identification and control of major risks that have been put into place and with that, stability of insurance pricing and cover

He says, "I would emphasise that there are a significant number of charities and voluntary sector organisations that have in place good risk management practises. The charity and voluntary sector has moved a long way forward in this area, helped by a willingness to share information on risk management processes, guidelines, checklists and so on."

Lee Coppack is a risk management and insurance writer. She is the editor of Strategic Risk's sister publication Catastrophe Risk Management. Email: lee@catrisk.net. This article originally appeared in Strategic Risk August 2003.

RSPCA History

In 1822, Richard Martin MP piloted the first anti-cruelty bill giving cattle, horses and sheep a degree of protection through Parliament.

'Humanity Dick' as he was known, was one of the 22 founders of the Society for the Prevention of Cruelty to Animals (SPCA) which was launched in London in 1824. The SPCA became the first national animal protection society in the world.

By 1840, the society's work was held in such high regard that Queen Victoria gave her permission for the SPCA to be called the Royal Society for the Prevention of Cruelty to Animals. Its practical welfare work developed quickly. The single inspector appointed in London to check on markets and slaughterhouses, was joined by others. Together they formed a law enforcement body that pre-dated the police force.