House of Lords
SELECT COMMITTEE ON CHARITIES
Call for Evidence issued on 20 July 2016

Submission from the Institute of Risk Management (IRM)

Question 1: Purpose of Charities

1. Public perception of spending on income generation poses a significant risk to a charity's reputation; this in turn threatens the future sustainability of generating funds. Return on investment of fundraising misses the point that fundraising is more than just raising money, but is a critical part of raising awareness of the charity and its aims as well as customer engagement more generally. Increasing public awareness of the sector is, after all, crucial to its success.
2. The sector and Charity Commission should explain to the public that there are many different types of charities all doing their bit for the good of UK PLC and not all of these are providing frontline services. Some may be solely (or partly) engaged in policy making, lobbying and research to name a few of the exiting variations. Better promotion and publicity may help to remove some of the misconceptions that exist about the sector and how it spends its income.
3. Over the years governments have continued to shift more of the burden of service delivery to charities and in some cases charities are even viewed as the fourth Emergency Service. Some in the sector have an over-reliance on government grants and contracts. The main issue is that these are often short term in nature and create a volatile environment in which charities have to exist, and this can lead to this being conveyed onto the service users involved. This situation may have changed the public's perception of the sector as a whole and what it is there to deliver.
4. Charities should not be plugging the service gaps in statutory provision but this is often the case following the cut backs on local authorities in particular. An example of this is where charities plug the gap on employment support because the DWP offers no service for this any longer.
5. Medium sized charities can fall between two stalls. Small charities tend to be funded at a local level. Larger charities use their income and size to appeal to a wide audience. Those in between struggle accordingly.
6. Volunteering remains key to the sector and means the sector can extend to reach more beneficiaries. However, volunteering needs to be valuable for the volunteer as well as the charity for it to work best. This becomes problematical where volunteers effectively replace or do the job of paid staff, such as administration within offices. We believe that the sector needs to become more innovative and encourage more beneficiaries to become volunteers to increase the peer to peer support provided.
7. There needs to be more dynamism around volunteering opportunities such as internships for young people or specific project based volunteering to increase a sense of achievement. Charities need to invest in volunteer training, support and performance management as well as referring on volunteers to other charities where no realistic opportunity exists. The sector needs to move away from taking a paternalistic view of volunteering and move towards encouraging choice, engagement and innovation to keep up to date with the changing demographics of volunteering. The sector faces broad challenges around funding, capability, accountability and assurance having some sort of sector direction and guidance on how these can be managed would be useful and more likely to develop a sustainable sector.

8. Encouraging charities of all sizes to co-design services with service users should be encouraged so that services keep pace with the service user requirements and the way they live their lives. Each generation is different so a good representation of 'Members' should be canvassed and included in policy decision making of service.

Question 2: Pressures and opportunities

1. Charities have to balance expectations. For example, money has to be used to achieve charitable aims and the public perceive this as spending almost all of it on the good causes the charity was set up to action. But charities are also expected to behave in a business-like way and to stand above reproach. Not easy when there is little money perceived to be allocated for this.
2. There is a constant tension between 'being a business' and 'being a charity'. The two are not mutually exclusive but are not the same either.
3. Charities that have an over-reliance on a single income stream are especially vulnerable to a lack of financial stability and should be encouraged and supported to diversify within the remit of their charitable aims.
4. It should also be noted that certain Local Authority contracts are over onerous on risk transfer adding to the burden on charities who often cannot afford or do not recognise the need to obtain legal advice. The circumstances will vary but include some charities being afraid of losing the opportunity, whilst others lack the understanding of contract negotiations to recognise that 'pushing back' is a usual process to employ rather than just accepting all terms imposed.
5. More and more people now than ever before would consider suing a charity – including employees, volunteers and the general public. The Charity Commission could play an important role in sharing learning about why charities are being sued and could develop a lessons learned approach to enable the sector to learn how to avoid this happening.
6. Government grants are slowly increasing transparency and accountability within the sector. Whilst this is a good thing the problem is that the increased demands for governance and compliance results in charities spending money on governance and compliance that they cannot afford and that detracts from their services. The 'on-cost' of governance and compliance is not well understood across the sector and is often duplicated from organisation to organisation in their efforts to comply with requirements.
7. To be a well run organisation money does have to be expended on salaries, governance and leadership. Even a team of volunteers running a charity costs money. The general public don't always appreciate this. There is no such thing as an entirely free service.
8. The national media are generally unhelpful to the sector. They fail to explain the balance and different pressures on charities but are quick to exploit issues or perceived issues. For example, high paid staff are portrayed as being in some way unethical (taking that much money out of the charity!) and yet if such staff were paid at a lower level than their peers and as a consequence are a lower standard then when they fail to perform fierce criticism will follow. How can a charity win?
9. We should stop apologising for paying CEO's the market rate. If a CEO manages a £120 million charity made up of different 'businesses' it is reasonable that they are paid over £100,000 p.a. The sector needs strong leadership and these leaders needs to be motivated and remunerated accordingly. Government needs to support the sector and explain this to the public.
10. There is a lot of duplication across the sector. Thousands of small and medium sized charities exist in isolation despite delivering similar outcomes. This is not to say that all do not have an important part to play within their local communities – it is rather that we need to find a way to

share resources perhaps from larger charities out to smaller charities to reduce duplication of effort and expenditure. Perhaps some form of Grouping could be considered with a ‘Group’ having access to central services and looking towards more collaboration, consistency, knowledge sharing and funding to ensure money is not wasted. Government and the Charity Commission have a role to play in encouraging this – perhaps highlighting where this has worked within published case studies, and encouraging mergers and acquisitions where appropriate.

11. The new Telephone Preference Service (TPS) regime and regulator are also adding cost to charities. Money will flow away from the charity’s aims accordingly and again there has been little explanation of this to the public. Government should take this up perhaps through the Charity Commission and explain what is happening in response to calls for change from the public.
12. In addition the TPS regime will cut charities off from millions of donors who haven’t opted in as there was historically no need to do that. This will inevitably impact fundraising and/or increase costs as each donor has to be contacted in order for them to opt in. Whilst the vulnerable definitely require additional protection to match the additional duty of care owed to them perhaps a route like the Utility Companies might work whereby this is noted down and contact changed accordingly or desisted entirely. Given the severe impact of the new regime we believe that the bulk of customers should be able to self select whether they opt out rather than it being assumed that everyone wants to opt out.

Question 3: Innovation

1. The digital world offers great opportunities that are not based on a charity’s income size. For example, a small but digitally well connected charity can develop campaigns that go viral.
2. To date the most popular viral campaigns seem to be started by individual members of the public rather than the charity itself. Perhaps there is a link between the successful public initiatives and the way social media is largely about the individual?
3. When ideas do go viral it can lead to different risk exposures for the charity especially in terms of being deluged by donations and managing online income generation. The risk here is potentially huge as a significant rise in income can lead to strategic scope creep that in turn could lead to attention being diverted from core strategic aims and then criticism that the charity lacks focus.
4. Charities can lag behind on digital and this can lead to them missing the opportunities that exist. Often this is because when charities expand rapidly the IT infrastructure cannot keep pace and the further charities fall behind the bigger the cost and effort it appears to become ‘up to date’. This can lead to a lack of investment or reluctance to spend the charity’s income on IT. However, encouraging spending on this area is vital as not keeping pace could lead to being crippled in the future and being unable to sustain the charity.
5. Technology Companies should be encouraged to work pro bono (as part of their CSR as solicitors do) or to discount more digital infrastructure and software to the sector. The government could facilitate relations, offer tax incentives, and help charities to understand what is out there. An example of work that has been undertaken already would be the New Philanthropy Capital organisation under the Inspiring Impact programme.

Question 4: Governance and leadership

1. Risk management should be at the core of the operation and is not size dependent. When a charity sets strategy surely they should consider what could stop it achieving its objectives. Using the IRM Getting Started process (based on ISO31000) should provide the structure and logical thinking to foresee the majority of problems and to have contingency plans in place to cope with high severity, low likelihood risks.
2. For iNGOs and charities who work overseas trustees and senior managers are often selected for their specific technical skills and knowledge but who may have little or no practical experience of implementing programmes overseas and how the technical skills need to be adjusted due to the local culture and environment.
3. It is important that risk management is not pigeon holed into Health & Safety, Security or other operational risk silo but rather is considered from the strategic perspective initially. We are aware that some charities prioritise one operational aspect without having considered strategic risks first and this may lead to money being spent unnecessarily or not in line with the 'real' priorities.
4. Training is available from many sources to suit all pockets. These could be reading the Getting Started and CC26 information, through to Foundations of Risk Management (FORM) and other training available through the IRM. Professional Advisors to the sector also offer a full range some included within services and some requiring additional payments.
5. However, the IRM Charities SIG notes that it is unusual for risk to be practiced and embedded within the sector – and the same could be said of the private sector. The problem is caused by a number of factors including:
    - A perception that risk management is a separate discipline
    - Viewing risk management as a tick box exercise that once ticked can be set aside
    - Failing to appreciate that risk management = business management

    Small and medium sized charities in particular are especially vulnerable to these problems.

Question 5: Governance and leadership

1. Trustees and senior leadership teams need to have an understanding of risk management thinking and practices so that they can use it to gain assurance that it is undertaken within the organisation and to set the risk appetite for the organisation. Greater transparency about a trustee's role with regards to managing strategic and financial risk should be a part of sector regulation for medium and large charities at least. Many trustees are unaware of their liabilities – we appreciate that CC26 sets this out, but it has fallen on deaf ears and needs to be reinforced. We suggest this should be considered and consulted on as part of future sector regulation.
2. Whilst it's more likely that trustees of larger charities do understand risk management it could be difficult to build understanding amongst small to medium sized charities. These may have less time and appetite for training. We must remember that many trustees could be parents of or beneficiaries with little or no business acumen or training – just people with immense commitment and goodwill for the charity and its aims.
3. In addition there is the broader issue of merging robust strategic planning with risk management – this would help reduce scope creep, clarify objectives, and increase resilience and sustainability.
4. How this is achieved is the tricky part but needs to focus on charities of all sizes and especially the 95% of charities with an income below £500,000.

a. The Charity Commission could make certain reading compulsory and test understanding (as do many financial services firms as part of their FCA regulatory compliance). This would need to be repeated annually.
b. A specialist training programme could be developed by the IRM Charities SIG for the sector – which could address the need for risk management to be embedded within successful strategic planning. This could be aligned with CC26 and it is especially important that other documents such as the European Independent Security Forum's security audit which will all help organisations to manage specific risks within their risk management approach.
c. The latest SORP has increased the need for reporting on risk (for charities with an income of over £500,000) in terms of detailing key risks and what is being done to manage them in the annual report and accounts. Scrutiny of this is required.
d. The trustee board should delegate 'risk management' to one trustee irrespective of the size of the charity. This trustee will be responsible for understanding what risk management is all about, what exposures the charity faces to achieving its strategy, and who can then educate his fellow trustees from a position of knowledge and interest.
e. An internal risk structure needs to be established to facilitate risk management and ensure that risks and their management are kept up to date. This needs to be established so that information flows within the organisation both upwards and downwards as risks change and new risks emerge. If risk scores do not change then this may in itself be a cause for concern. The ideal is that this is real-time but if not (and perhaps to start with) it needs to be on a monthly basis.
f. Sector buddying/peer reviewing could support assurance potentially or even go wider to public sector/government buddying where there is a lack of expertise and capability. This could help build interest, capacity and understanding with smaller charities in particular.

5. Communication and internal training to increase understanding of the process and why it is so beneficial to the organisation need to be implemented for all trustees, staff and regular volunteers. This needs to be aligned to be relevant to those being educated.

Question 6: Accountability

1. A good risk management process is key for an organisation's accountability. To ensure funds are being sent appropriately organisations need to demonstrate which risks they are facing that may stop them achieving their objectives (as per ISO31000) such as staff safety and then decide which management measures to take and the associated costs.
2. Accountability can be achieved through better transparency across finances, service, outcomes and value for money. The current annual review generally skirts around these issues. A better approach could be case studies involving actual or anonymised beneficiaries.
3. Unethical practices do need to have strong consequences not only for the charity but potentially for individuals as well.
4. There also needs to be more clarification and accountability around the number of customers supported. An example of this is Kids Company who claimed to be working with 36,000 children but could only prove and evidence around 1,500. Maintaining robust records for assurance and maintaining quality of standards needs to be considered further in terms of accountability. This could be driven by government funding requirements or regulation. This is a particular area where left unaddressed erodes trust of the sector by the public.

5. There is often a lack of contingency planning (a natural part of risk management) undertaken which could be the difference between a charity surviving a shock and becoming more resilient.

Question 7: Resource Management

1. Probably requires a combination of stick and carrot. Regulation may be required to kick start the process whilst also highlighting the benefits to the organisation of undertaking risk management. Successes from the sector should be highlighted – including small successes that demonstrate a path is available irrespective of size and the immediate benefits to the organisation.
2. A significant challenge is where charities take on service delivery previously provided by local government at a rate below which it is possible to deliver the service. In effect there are undoubtedly situations where charities are not being paid enough to deliver the service. This is only tolerable where the charity is able to raise funds to cover the gap otherwise it puts itself and its employees in a precarious position. Government has to accept that overheads are part of full cost recovery. Equally providing some sustainability for the service (3 rather than 1 year contracts for example) and ensuring transition plans are in place within the charity for when the contract ends would also alleviate some of the challenges.
3. More training and information is probably needed for charities competing for tenders so the charity can accurately forecast financially and also examine the risks while evaluating whether to compete for a tender. This highlights the importance of encouraging pan-charity tendering so that holistic services can be provided more efficiently and the need to encourage more sector brokering where one charity sub contracts out to grass root charities that may not have the size or resources to actually respond to the tender.

Question 8: The role of Government

We repeat a number of previous points that also respond to this question.
2.5 More and more people now than ever before would consider suing a charity – including employees, volunteers and the general public. The Charity Commission could play an important role in sharing learning about why charities are being sued and could develop a lessons learned approach to enable the sector to learn how to avoid this happening.
2.6 Government grants are slowly increasing transparency and accountability within the sector. Whilst this is a good thing, the problem is that increased demands for governance and compliance results in charities spending money on governance and compliance that they cannot afford and that detracts from their services. The 'on-cost' of governance and compliance is not well understood and is often duplicated from organisation to organisation in their efforts to comply with requirements.
2.3 Charities that have an over-reliance on a single income stream are especially vulnerable to a lack of financial stability and should be encouraged and supported to diversify within the remit of their charitable aims.
2.4 It should also be noted that certain Local Authority contracts are over onerous on risk transfer adding to the burden on charities who often cannot afford or do not recognise the need to obtain legal advice. The circumstances will vary but include some charities being afraid of losing the opportunity, whilst others lack the understanding of contract negotiations to recognise that 'pushing back' is a usual process to employ rather than just accepting all terms imposed.

2.9 We should stop apologising for paying CEO's the market rate. If a CEO manages a £120 million charity made up of different 'businesses' it is reasonable that they are paid over £100,000 p.a. The sector needs strong leadership and these leaders needs to be motivated and remunerated accordingly. Government needs to support the sector and explain this to the public.
1.2 The sector and Charity Commission should explain to the public that there are many different types of charities all doing their bit for the good of UK PLC and not all of these are providing frontline services. Some may be solely (or partly) engaged in policy making, lobbying and research to name a few of the exiting variations. Better promotion and publicity may help to remove some of the misconceptions that exist about the sector and how it spends its income.
2.10 There is a lot of duplication across the sector. Thousands of small and medium sized charities exist in isolation despite delivering similar outcomes. This is not to say that all do not have an important part to play within their local communities – it is rather that we need to find a way to share resources perhaps from larger charities out to smaller charities to reduce duplication of effort and expenditure. Perhaps some form of Grouping could be considered with a 'Group' having access to central services and looking towards more collaboration, consistency, knowledge sharing and funding to ensure money is not wasted. Government and the Charity Commission have a role to play in encouraging this – perhaps highlighting where this has worked within published case studies, and encouraging mergers and acquisitions where appropriate.
2.11 The new Telephone Preference Service (TPS) regime and regulator are also adding cost to charities. Money will flow away from the charity's aims accordingly and again there has been little explanation of this to the public. Government should take this up perhaps through the Charity Commission and explain what is happening in response to calls for change from the public.
2.12 In addition the TPS regime will cut charities off from millions of donors who haven't opted in as there was historically no need to do that. This will inevitably impact fundraising and/or increase costs as each donor has to be contacted in order for them to opt in. Whilst the vulnerable definitely require additional protection to match the additional duty of care owed to them perhaps a route like the Utility Companies might work whereby this is noted down and contact changed accordingly or desisted entirely. Given the severe impact of the new regime we believe that the bulk of customers should be able to self select whether they opt out rather than it being assumed that everyone wants to opt out.
3.3 Charities can lag behind on digital and this can lead to them missing the opportunities that exist. Often this is because when charities expand rapidly the IT infrastructure cannot keep pace and the further charities fall behind the bigger the cost and effort it appears to become 'up to date'. This can lead to a lack of investment or reluctance to spend the charity's income on IT. However, encouraging spending on this area is vital as not keeping pace could lead to being crippled in the future and being unable to sustain the charity.
3.4 Technology Companies should be encouraged to work pro bono (as part of their CSR as solicitors do) or to discount more digital infrastructure and software to the sector. The government could facilitate relations, offer tax incentives, and help charities to understand what is out there. An example of work that has been undertaken already would be the New Philanthropy Capital organisation under the Inspiring Impact programme.
5.1 Trustees and senior leadership teams should all have to have an understanding of risk management thinking and practices so that they can use it to gain assurance that it is undertaken within the organisation and to set the risk appetite for the organisation. Greater transparency about a trustee's role with regards to managing strategic and financial risk should be a part of sector regulation for medium and large charities at least. Many trustees are unaware of what they are liable for – we appreciate that CC26 sets this out but it has fallen on deaf ears and needs to be reinforced. We suggest this should be considered and consulted on as part of future sector regulation.

5.2 Whilst it's more likely that trustees of larger charities do understand risk management it could be difficult to build understanding amongst small to medium sized charities. These may have less time and appetite for training. We must remember that many trustees could be parents of or beneficiaries with little or no business acumen or training – just people with immense commitment and goodwill for the charity and its aims.
6.4 There also needs to be more clarification and accountability around the number of customers supported. An example of this is Kids Company who claimed to be working with 36,000 children but could only prove and evidence around 1,500. Maintaining robust records for assurance and maintaining quality of standards need to be considered further in terms of accountability. This could be driven by government funding requirements or regulation. This is a particular area where left unaddressed erodes trust of the sector by the public.
7.1 Probably requires a combination of stick and carrot. Regulation may well be required to kick start the process whilst also highlighting the benefits to the organisation of undertaking risk management. Successes from the sector should be highlighted – including small successes that demonstrate a path is available irrespective of size and the immediate benefits to the organisation.
7.2 A significant challenge is where charities take on service delivery previously provided by local government at a rate below which it is possible to deliver the service. In effect there are undoubtedly situations where charities are not being paid enough to deliver the service. This is only tolerable where the charity is able to raise funds to cover the gap otherwise it puts itself and its employees in a precarious position. Government has to accept that overheads are part of full cost recovery. Equally providing some sustainability for the service (3 rather than 1 year contracts for example) and ensuring transition plans are in place within the charity for when the contract ends would also alleviate some of the challenges.
7.3 More training and information is probably needed for charities competing for tenders so the charity can accurately forecast financially and also examine the risks while evaluating whether to compete for a tender. This highlights the importance of encouraging pan-charity tendering so that holistic services can be provided more efficiently and the need to encourage more sector brokering where one charity sub contracts out to grass root charities that may not have the size or resources to actually respond to the tender.
And in addition we would like to add:

1. The Charity Commission should provide access to a raft of suitable and useful publications such as the various ISO standards, IRM Charities SIG, Charity Finance Group and others. If Charity Commission also show cases such work it is more likely to be picked up and used by charities.
2. The government needs to consider how best to flag that whilst potential reputation damage is an awful consequence for many charities, there remain legal exposures that risk management can help to reduce. For example, the breach of the Duty of Care owed by a charity to employees, volunteers, and others would cause legal problems as well as damaging reputation. We do not believe that trustees and management always understand how significant a risk the latter is.

Ian Livsey
Chief Executive
Institute of Risk Management
2nd Floor, Sackville House
143-149 Fenchurch Street
London EC3M 6BN

Ian.livsey@theirm.org